For about the last ten years governments and international institutions have been studying the problem of economic development and have given it an increasingly high priority. It is not my intention to analyse the social and humanitarian aspects of this pressing evolution, which affects most of the countries in the world whose economy had not gone beyond the production of raw materials or of agricultural products, either because they were dependent on highly industrialized countries - being, so to speak, complementary to them - or because, despite their political independence, they had not felt the necessity of diversifying their economies; I shall restrict myself to an outline of the strictly economic conditions necessary for such a development of "new" countries.

As to the necessity of such an economic development, there is complete agreement; it is on the question of how to achieve it that opinions differ. It would seem, however, that all those who have written or spoken on the subject, no matter how divergent their viewpoints in other respects, are unanimous in their judgment that the key to these problems is to be found in the extension of financial assistance by the wealthy countries to the poor countries. No matter whether they contend that this assistance should have an international or a bilateral character, or that it should be extended as a loan or as a donation, they all believe that such assistance provides the solution to all the essential problems of economic development. Faced with this unanimity, I hesitate to express a contradictory opinion, but it seems to me that it is essential, if disappointing mistakes are to be avoided, to examine objectively whether the industrial countries can achieve this end with such comparative ease. There is no doubt that international financial aid, in all its forms, is highly beneficial, but I fear that it may not suffice. I shall attempt to establish a comparison between the extent of the probable needs of the under-developed countries and the present limits of the financial contributions from the industrial nations; anyone will then arrive at his own conclusions as to whether the gap between these two quantities can be filled through an additional financial effort and whether public opinion, in the industrial countries, will consent to their governments committing themselves to a solution of this development problem which is bound to entail heavy fiscal burdens for the citizens of those countries.
Before engaging in this debate, it is in order to present the facts. What happens when a country which hitherto was engaged principally in primary production endeavours to diversify its economy? In nearly all cases, the diversifying effort will be directed to the sector of secondary output: which means that the country concerned will attempt to create more and more new industries, either in the field of light industry (goods for current consumption) or in heavy industry (capital goods). It will, henceforth, find it necessary to import equipment to erect plants, spare parts to ensure the proper operation of these plants, raw materials, fuel products (coal, oil); then, before these industries can provide sufficient output to supply the market, this very same country will be compelled to import essential consumer goods in order to cater for the increased purchasing power of the population engaged in the new production. This phenomenon is one which has been observed for over twenty years in all countries in process of becoming industrialized; the proportion of their imports representing equipment goods and raw materials has considerably increased; being unable indefinitely to augment the overall volume of their imports, they have to restrict their traditional imports of textiles and other consumer goods even before their newly introduced industries can supply the inland market. Industrialization and the contraction of imports of manufactured products for current consumption result in an important substitution, and the composition of the imports of the countries in course of development is thus very different today from what it was scarcely twenty years ago.

Let us mention a few figures to crystallize our thinking; let us take a look at the pattern of trade of eight countries which may be considered as semi-industrialized countries and which represent the bulk of the industrial production outside of the countries of Europe, North America and Japan. Those countries have on the average trebled their imports as compared with the pre-war period; incidentally this figure is not exceptional, since it corresponds to the increase in world imports since 1928. But, whereas before the war these countries' imports of consumer goods amounted to 25 per cent of the total, today only 13 per cent of their imports consist of consumer goods. On the other hand, equipment goods which before the war accounted for 20 per cent of their imports represented in 1954-55 no less than 28 per cent of the total. There was also a marked increase in imports of raw materials and fuel products, whilst imports of semi-manufactured products remained unchanged.

Such is the normal consequence of economic development from the standpoint of external trade. There is a considerable increase in import requirements, which the countries concerned have tried to compensate by a corresponding decrease of normal imports of manufactured products for current consumption. But this compensation cannot be maintained indefinitely; even by using administrative methods to restrict imports, it soon becomes evident that it is

---

These countries are: Argentina, Brazil, Mexico, India, Australia, the Union of South Africa, Finland and Yugoslavia.
impossible to curtail imports of consumer products beyond a certain point without running the risk of very rapid inflation. Last year, when the "new" countries were faced with a decline in the prices of raw materials and of agricultural products exported by them, they were already compelled to slow down quite appreciably their imports of badly needed equipment goods, machinery and raw materials; in some countries, plants which had been newly established were forced to operate at only half or three-quarters capacity, due to inability to purchase from abroad their indispensable requirements of fuel and raw materials.

Before the second world war, the under-developed countries, taken as a whole, found it very easy to balance their trade; they had available, in 1928, an overall trade balance surplus amounting to approximately 1,800 million dollars (1928 dollars), which today is equivalent to 3 billion dollars. Then, the 1930-1938 depression cut down this surplus to about 450 million dollars. After the war, thanks to the rise in the prices of raw materials and primary products in general, the non-industrialized countries netted a commercial surplus of approximately 800 million dollars; but after the Korean war, the situation became gradually less favourable, to the extent that in 1957 the trade deficit of all the under-developed countries combined represented about 3,600 million dollars. During the first half of 1958, this deficit amounted to 1 billion 900 million, or nearly 4 billion dollars on an annual basis.

Thus, from 1928 to 1958, that is, in thirty years, the trade balance of the non-industrialized countries has changed from a surplus of 3 billion dollars (present value) to a deficit of about 4 billion dollars.

In addition to the trade balance, consideration should be given to the balance of invisible payments (invisible imports), i.e. services, tourist trade, transportation costs, private transfers and repatriation of capital in the shape of dividends or interests. In 1956-57, the overall burden of the non-industrialized countries, under the heading of invisibles, was in the neighbourhood of 3 billion dollars. During recent years, these charges were compensated by military transactions, such as building and construction work carried out in connexion with military aid in the countries concerned (cost of infra-structures, etc.), as well as off-shore procurement and, most importantly, expenditures incurred in these countries by armed forces of foreign powers, in particular the United States. These so-called military transactions were of the order of 2,500 to 2,600 million dollars in recent years, resulting in a net deficit under the heading of invisibles amounting to 400 to 500 million dollars. Thus, last year, the under-developed countries were faced with an overall deficit of the current balance of payments representing approximately 4½ billion dollars. If these countries were nevertheless able to maintain their import volume without going into bankruptcy, it is because they had the benefit of a very substantial foreign aid, and also because some of them drew from their exchange reserves, which have considerably dwindled as a result.
The figures I have just mentioned seem to prove without possible doubt that the trade exchanges between the non-industrialized countries, on the one hand, and the industrial countries, on the other, show an increasingly adverse balance for the "new" countries, at a time when the needs of their process of industrialization require increasingly costlier imports. What are the reasons for this growing deficit? In a series of reports published by the secretariat of GATT, the various causes of this phenomenon have been analysed in detail and I shall therefore only briefly review the conclusions of these reports.

The trend towards a disequilibrium of the trade exchanges between the two groups of countries is due to the fact that exports from the non-industrialized countries to the industrial countries have expanded less rapidly than have the overall world exports, whereas the imports of these countries have developed at the same rhythm as world imports. A new current of trade exchanges has emerged out of the process of industrialization of the "new" countries, and since the war the industrial countries have been able to sell ever increasing quantities of manufacturing equipment and machinery to erect and equip plants and to build roads, bridges and dams in most of the "new" countries. This factor is one which is well-known everywhere, and which provides, at the present time, one of the largest outlets for French exports, as well as for exports from other industrial countries. As a result, the import volume of the "new" countries represented in 1957 203 per cent of their 1928 imports, whereas, for reasons to which we will presently refer, their exports amounted to only 158 per cent of the 1928 volume. These two diverging trends of imports and exports are bound to lead to an ever worsening imbalance in the foreign trade of the non-industrialized countries.

What are the causes of this relative decline in the exports from underdeveloped countries? There seem to be three principal causes which have affected the demand, and another which has influenced the supply of exportable primary products.

As regards the demand, there is no doubt that the industrial countries purchase a smaller volume of raw materials from under-developed countries, because they require less raw materials to produce the same quantity of manufactured commodities. The same volume of raw material today produces more finished articles than before the war. This result is primarily due to the advance in technology; it takes less tin today, for instance, to manufacture containers for the canning industry. But one must also take into account the structural changes in the secondary production occurring in the industrialized countries; the trend is more and more in the direction of the more highly developed products: it steers away, for instance, from textile manufacture toward the chemical, steel, mechanical and electrical industries. The products of present-day industry have a smaller content of raw material, or, in other words, the proportion of raw materials in the price of a manufactured article is smaller nowadays than it was formerly. In a cotton fabric, the raw material then represented a substantial value; now, the cost of raw material utilized in a motor car, for instance, is low compared to the selling price; and in a radio cabinet or a television set, the raw material content of the price is almost negligible in relation to the value of the other items entering into the total cost.
A second factor which plays an important part is the development of synthetic materials. The competition to which natural raw materials are subjected on the part of products of the chemical industry is very keen: cotton is widely replaced with rayon; silk with either orlon, nylon, perlon or terylene; natural rubber with synthetic rubber. Even in the case of metals, copper is being replaced by aluminium, which in many respects may be considered as a synthetic metal, its value having a larger content of labour and electrical energy than of raw material: in fact, bauxite represents a smaller portion of the price of the finished metal than is the case with the ore in copper and lead.

Thirdly, the industrial countries have developed their own production of raw materials and, in particular, of agricultural produce; when they do not themselves produce these commodities, they purchase them more and more from other industrial countries. This is the case with wheat, with cotton, with vegetable oils and fats. In order to come to a proper realization of the magnitude of the changes which have occurred, it is again necessary to present some figures. Taking the principal primary products which enter into world trade, it will be noted that, in 1938, North America's exports of agricultural produce represented 3 per cent of the internal consumption of that region, whilst in 1956 they made up 6 per cent of its consumption. In the case of raw materials, the export volume of these countries constituted 18.5 per cent of their consumption in 1938 and 22 per cent in 1956. As for Europe, imports of agricultural produce in 1938 represented 26 per cent of the internal consumption; in 1956, this ratio had dropped to 19 per cent. Furthermore, whilst in 1938 Western Europe imported 77 per cent of the raw materials which it consumed, it was only importing 70 per cent of its consumption in 1956.

Those are the main factors which have caused the industrial countries to purchase relatively smaller quantities of raw materials from non-industrialized countries which formerly were their natural and traditional suppliers.

The downward trend in the exports of the non-industrial countries is apparent from the following figures: in 1928, those countries together exported 37 per cent of total world exports; this percentage remained almost the same in 1938, despite the variations in prices; in 1950, thanks to the upward movement of raw material prices, this proportion rose to nearly 40 per cent, dropping thereafter down to 33.5 per cent in 1957. As for their exports to the industrial countries alone - this being the item of chief interest to us - they represented 28 per cent of total world exports in 1928; this percentage did not change perceptibly until 1950, but it decreased in the following years until in 1957 it only reached 22 per cent.

The evolution is even more significant if, instead of considering the general position of that entire group of countries, we exclude the Communist countries, whose trade exchanges have been influenced by quite different factors, and also the oil exporting countries, whose trade does not respond to the usual trends. There then remain two groups of countries: one, the eight semi-industrialized countries to which I referred earlier in my talk, and two, the countries which have not yet reached beyond the first stages of economic development.
As regards the semi-industrialized countries, their overall exports amounted to approximately 12 per cent of total world exports in 1928; in 1957 they represented only 8 per cent of these exports. Their exports to industrial countries, which in 1928 made up 10 per cent of world exports, dropped to 6 per cent in 1957. As for the other still less-developed countries, their overall exports were 17 per cent of total world exports in 1928 and 15 per cent in 1957, whilst their exports to the industrial countries came down from 12 per cent of total world exports in 1928 to 10 per cent in 1957.

Although the downward trend is general, it is more accentuated in the case of the semi-industrialized countries than in that of the under-developed countries. We have seen that three main factors were responsible for the drop in the relative demand for products exported by the non-industrialized countries; the fall in the demand should have brought about a disequilibrium in the prices of these products. But, in 1957, the terms of exchange between primary products and industrial products were approximately at the same level as in 1928; it may be deduced therefrom that the drop in demand from the industrial countries was compensated by an equivalent decline in the supply from the exporting countries. This decline in the supply is without doubt to be ascribed to inadequate efforts on the part of semi-industrialized countries to expand their primary production. Whereas the other under-developed countries have gradually raised their production of primary commodities by 53 per cent above pre-war level and have nearly maintained their export volume of these commodities, those countries which have progressed most rapidly in promoting their economic development and have attained a fairly high degree of industrialization have allowed the rate of increase of their primary production to slow down (it is now only 10 per cent above the pre-war level) and as a result have exported relatively less to the industrial countries. This does not mean that industrialization invariably brings about a decline in exports of traditional products, but the conditions inherent to industrialization and the methods used up to now do not favour agricultural or mining production: working conditions in manufacturing plants are such as to draw labour away from agriculture; the yield is higher in industry, and governments are inclined to favour industry to the prejudice of agriculture. Finally, industrialization has the effect of absorbing greater quantities of raw materials and agricultural commodities on the spot, to the detriment of traditional exports. Although efforts are being made to correct these failings of industrialization through a balanced economic development and through a systematic promotion of agriculture, the fact remains that industrialization, instead of providing a rapid increase of export possibilities, has the result of relatively reducing traditional exports of primary products, and, consequently, of making the financing of imports more difficult.

The effect which the agricultural policy adopted by a large number of industrial countries has had on national production is such as to have strongly influenced the trade exchange movements. Whereas formerly the under-developed countries were net sellers of agricultural commodities, they are now acquiring more and more of these products from industrial countries. A case in point: the United States, since the war, has been selling on particularly attractive terms enormous quantities of wheat, cotton, butter, oil seeds, etc. And the
United States is not the only country competing in this sector with the under-developed countries - several European countries have lately increased their exports of flour to Asia and Africa. This competition which traditionally exporting countries have had to face has been especially keen in the case of grain, oil seeds, oils and fats, and tobacco; on the other hand, in the case of cotton, contrary to what might be assumed, exports from under-developed countries are greater now than before the war, both in relative and in absolute value. Before the war, the share of non-industrialized countries in world exports of wheat and flour amounted to 57 per cent: it has dropped to 31 per cent between 1954 and 1958. On the other hand, in the case of cotton, their share of exports rose in the same period from 55 to 67 per cent. It must be noted, however, that in recent years, exports of cotton from the United States, which are partly financed by Government, have shown an upward trend.

As we have seen, the trade position of the under-developed countries is on the down-grade: their exports encounter increasing resistance and their trade deficit is steadily growing. Up to now, there has been no catastrophe, for the reason that these countries have been enabled, through aid measures, to maintain a volume of imports without exhausting their reserves of foreign exchange. But is it reasonable to hope that this precariously balanced position will be maintained in the future?

Forecasting the future is admittedly risky; but by relying purely on comparative figures, one can at least come to very instructive conclusions. I shall, therefore, attempt to arrive at an estimate of the probable import requirements of non-industrialized countries in 1973/75 and of their export potential for the same period; the difference between these two figures will indicate the amount of the deficit which it will be necessary to offset through other means.

In order to ascertain the export possibilities of these countries, we have tried to determine what would be, in relation to the forecasts of production in Western Europe and in North America, the net overall demand from those countries in food products and raw materials originating from the non-industrial countries. These calculations will be found in our most recent reports on International Trade and in the report written by four eminent experts on the subject of Trends in International Trade.

Taking the most favourable hypothesis, namely the assumption that the agricultural policy of the industrial countries will become somewhat more liberal than it is at present, we estimate that, in the period 1973/75, the industrial countries will import approximately 50 to 60 per cent more from the under-developed countries than they have during the period 1953/55. On this basis, the non-industrialized countries, collectively, could export to the industrial countries primary products to the approximate value of 30 billion dollars (1953-55 value).

1 If the agricultural policy of the industrial countries were to remain as restrictive as it has been lately, the increase in imports would not exceed 15 per cent.
Let us now examine what would be the probable demand for imports on the part of non-industrialized countries during the same period; I shall take the most prudent hypothesis. During the past few years, these countries have registered an increase in their import requirements in approximately the same proportion as the increase in world imports and exports. The experts whom we asked last year to analyse the trends of world trade estimated that, in order to maintain a reasonable rhythm in economic development, in other words a rate which would avoid a worsening of the gap between the standard of living of the under-developed and the developed countries, the non-industrialized countries should increase their imports at a rhythm about twice the rate of the recent increase in world imports. I shall assume a more conservative figure, corresponding to that of the last few years, namely the same rate of increase as that of world imports. Even on the basis of this conservative assumption, the import requirements of these countries in 1973-75 would figure at about 42 billion dollars. The trade deficit of these countries, which amounted to 400 million in 1953-55 and which reached about 4 billion in 1958, would reach a level of approximately 12 billion in 1973-75 (in terms of 1953-55 value).

How is this deficit to be offset? What are the solutions which can be envisaged to ensure the minimum of economic development that appears to be economically and humanly necessary without driving the countries in process of development to bankruptcy and ruin?

Let us examine one by one the solutions which have been propounded. In the first place, action bearing on the terms of trade might be contemplated. Certainly, if it were possible to avoid violent fluctuations in market prices for raw materials, it would be a great help to the under-developed countries: by granting them regular and stable prices, by regulating the world markets, by avoiding the cyclical fluctuations in demand, it would be possible to improve the situation of producing countries and to preclude fluctuations such as occurred, for instance, in 1958. Whilst I consider that it is the duty of Governments to co-operate in these efforts, I do not think that one should harbour illusions regarding the possibilities of effective and durable action on the terms of trade. Even though governments might agree to regulate market quotations on raw materials, they would come up against extremely delicate technical problems, even more difficult than when it is simply a matter of stabilizing market rates at a normal level. Three important stabilizing agreements have been successfully concluded, on wheat, sugar and tin; there exists also an agreement between the Latin American coffee producers, which, however, has not yet assumed the character of an international agreement. The agreement on wheat has operated fairly satisfactorily since the war, but it should be borne in mind that the wheat market is somewhat artificial, as long as the export prices of the main supplier, the United States, are supported by Government. The agreement on sugar is based on a system of export restrictions; despite this method of control, market rates for sugar rose beyond the ceiling price when the USSR came into the market as buyer, and then fell again to a very low point. Even with a control system as rigid as that of the sugar agreement, fluctuations remain substantial. They can be mitigated, but a true stability cannot be guaranteed. As for the tin agreement, it seems to have been more effective: the fall in tin prices has been much
less marked than in the case of the other non-ferrous metals which are sold on the free market. But this result has only been achieved by dint of drastic export restrictions which were accepted by the producing countries. The latter had the satisfaction of experiencing more stable prices, but their foreign exchange returns nevertheless registered a drop. In fact, it was sufficient for the Russians to throw 10 to 12,000 tons of tin on the market last year to paralyse the system. Fortunately the Russians could be induced to limit their exports and the agreement could again start to function; the rate for tin is now above the floor-price and the export restrictions have been relaxed.

My only purpose in citing these instances is to show that stabilization agreements and other international measures undertaken with a view to stabilizing market prices of raw materials, - valuable as they may be - do not justify the expectation that they can provide sufficient means to offset a deficit of 12 billion dollars.

I am aware of the fact that there was a time when consideration was given to organizing the world markets in such a manner as to fix the prices of raw materials and of agricultural commodities at a level appreciably lower than the market rates. Taking as an example the agricultural policies of several countries which guarantee to the farmers prices which obviously are substantially higher than they would obtain under conditions of free competition, some experts had thought that it would also be possible to guarantee, on the international level, the rates for primary products. In my opinion, this solution is illusory, and in fact it has been dropped. Even though the governments of the industrial countries might agree to finance economic development in this manner, they could not prevent their manufacturers from purchasing synthetic products, which would then be at lower cost than the natural products. If attempts were made to maintain the prices of raw materials such as rubber and cotton at artificial levels, the demand would immediately drop and the exporting countries would lose in volume what they could hope to gain in the shape of enhanced prices.

The second solution which might be considered is the industrialization of under-developed countries, and in the last analysis, an integration of these countries into geographical regions.

We have seen that, in the case of the eight countries which have done the most to promote their economic development since the war, their industrialization did not result in increasing their foreign sales; their exports of raw materials and farm products were insufficient; the increase in their exports of manufactured products was low and certainly does not offset the losses which they suffered from other quarters. Industrialization makes it possible to replace certain imports of manufactured products with domestic products, but in most cases the saving thus effected is more than offset by the increased import requirements resulting, at least for a number of years, from the process of industrialization in itself.
Regional integration appears to offer a brighter outlook. The Latin American countries are studying at present the feasibility of realizing one, and even two, regional integration agreements, of which one would establish a free-trade zone between the four most developed countries of South America, whilst the other would apply, under conditions yet to be defined, to the whole of Latin America. In the course of preliminary investigations, it was found that there were relatively few possibilities of expanding, within the immediate future, exports of products of current consumption between countries of the zone. In nearly all those countries, development has already advanced to such a point that the manufacturers of commodities of current consumption, such as the textile industry, have an excess capacity in these countries, while the other countries which have not yet reached that stage of development want to promote these industries within their own territory. During the war, some of these countries, such as Argentina and Brazil, had an appreciable volume of exports of industrial products to their neighbours, but after the end of the war, faced with the competition from industrial countries, most of these exports ceased. There was, for instance, an elevator factory established in Brazil which, during the war, was supplying Argentina and Chile; after the war, this plant could not continue to export, and the South American countries are buying their elevators now from Europe or the United States.

On the other hand, the South American countries are hoping that regional integration will place them in a position to export equipment goods if they can avail themselves of favoured treatment. It is mainly in the sector of petrochemistry and in the mechanical and heavy electrical equipment industries that they hope to increase their trade. In order to facilitate these possibilities of expanding trade, it will be necessary, of course, to protect the regional exporters against competition from industrial countries, since the South American production will doubtless be more costly than in Europe or the United States. Thanks to a fairly high customs tariff, the Latin American manufacturers will be in a position to quote higher prices than their European or American competitors. Many American and European manufacturers, if they want to continue to sell in those countries, will have to establish themselves within the South American Common Market.

There is no doubt that, to a certain extent, regional integration, where it can be realized, will mitigate the difficulties of under-developed countries, by reason of the fact that they will have less to buy from the industrial countries and will be able to pay for their purchases from their neighbours with products of their heavy industry. It also provides an interesting solution for manufacturers who can shift their production facilities. I am not sure, on the other hand, that this solution would be well received by countries which hitherto were exporting such equipment goods and which would thus see their markets for these goods shrink and even disappear. It is difficult to foresee the consequences of a regional market of the kind outlined, but it appears unlikely that integration could bring about an increase of imports from industrial countries; it would be safer to expect purely and simply a substitution; should the industrial countries be unable to ensure a volume necessary to balance the trade between the two groups of countries, they will run the risk of losing the markets thus integrated.
I am now coming to the third solution, namely economic and financial assistance. This term needs to be defined; it is being used almost regardless, whether it is a matter of donations, of subsidies on a non-reimbursable basis, of short or long term loans, or of commercial credits. Loans are extremely desirable for the borrowing countries: it would be practically impossible for these countries to purchase equipment goods in sufficient quantities were not the sellers, with the assistance of their governments, willing to extend credit for five years or more. But the granting of these loans only postpones the difficulty to a later date. The loans will have to be repaid in goods; if the equipment goods purchased justified the expectation of a net reduction in imports or of an increase in exports, loans would be the solution of the problem. On the contrary, the figures and the data which have been reviewed seem to indicate that industrialization is not likely to correct, at least within a comparatively short time, a disequilibrium which grows worse from year to year. For the purpose of our discussion, it would seem preferable, therefore, to consider solely, as effective financial aid, donations and subsidies on a non-reimbursable basis.

At the present time, the under-developed countries have succeeded in maintaining their trade balance and their balance of payments thanks to foreign assistance. I must again bring forward a few figures: in 1955-56, the under-developed countries received approximately 2½ billion dollars - about 260 million through the intervention of international institutions and 2 billion 200 million through bilateral agreements. In this figure, the United States is represented to the tune of 1 billion 160 million, France with 780 million and the United Kingdom with 150 million. These figures are overall totals and it is possible that they include not only donations, but also loans; I can accurately state, however, that in the course of the last few years, the economic aid extended by the United States consisted on the average of 80 per cent donations and 20 per cent loans.

Without wanting to go into details, it may be deduced that, at the present time, the financial aid to under-developed countries, in the true sense of the term, that is to say aid in the shape of donations, does not exceed 3 billion dollars per annum. Let us now place side by side this figure of 3 billion dollars and the figure of 12 billion dollars to which we referred earlier as representing the minimum requirements of those countries for 1973-75.

It is reasonable to believe that industrial countries which have made a considerable effort since the war will be able in future to multiply by 3 or by 4 the aid to be extended on a non-reimbursable basis to the under-developed countries? In the United States, the Government is each year fighting a harder battle to secure from Congress the renewal of foreign aid; so far the American Government has been successful in preventing the amount of financial aid from being curtailed, but, despite the pressure exerted by the Government, it has not been possible to increase the amount of that aid, as desired by the President. It is our impression that the American tax-payer considers that the assistance extended by his Government to foreign countries, and principally to under-developed countries - which, it must be admitted, represents a considerable amount - has reached a maximum.
At any rate, even at the present level, public opinion in the United States only accepts the foreign aid programme because, in a fairly large measure, it takes the form of deliveries of surplus stocks of wheat, cotton and other commodities which the United States Government prefers to give away or sell at low prices rather than having to destroy them or store them indefinitely in warehouses, laid-up ships, caves and caverns at considerable cost. The United States Government thus kills two birds with one stone: it cuts down its surplus inventories of wheat, cotton etc., and performs a good deed at the same time.

Whilst it is to be hoped that these farm surpluses will not accumulate indefinitely, it is also to be feared that, as a result of the American agricultural sector being restored to a healthier state, it may become more difficult to maintain foreign aid at its present figure. Besides, the surrender of farm surpluses is not always a happy solution, as it amounts to "robbing Peter to pay Paul". When the United States gives away wheat to India, they certainly help India, but then Australia, which was selling wheat to India, will lose that market, and the American aid organization will have difficulties with Australia. It might be argued that Australia is a sufficiently wealthy country to accept this sacrifice; on the other hand, when the United States doles out rice to Japan, which was buying its rice from Burma, it means a market lost to Burma and if the world market cannot absorb additional supplies, as was the case in 1954, Burma's plight will run the risk of becoming catastrophic: being unable to sell its rice, it cannot buy its requirements of food products (other than rice), of textiles and other commodities for essential consumption needs.

The difficulties which stand in the way of an increase in American aid apply likewise to the other industrial countries, which also seem to be rapidly reaching the maximum of their capacity, even as regards the granting of credits. Without showing untoward pessimism, one may wonder where the 8 or 9 billion dollars are to be found each year which will soon be needed to finance economic aid - and we are here referring solely to financial aid. Will public opinion be sufficiently conditioned to be willing to bear, for the benefit of underdeveloped countries, such a heavy burden at a time when the needs of the industrial countries will still be far from being met?

Besides, even though it were possible to provide sufficient funds to solve the problem of development by means of financial aid, it is questionable whether this is the best method. In the first place, from the psychological viewpoint, there is something unpleasant in the idea of the industrial countries having to act as "Lady Bountiful", distributing alms to the deserving poor, - and to them only - and making a show of peevishness if other "Lady Bountifuls" happen to want to lavish their bounty on the same destitutes. The European countries have known how humiliating it can be to receive alms, and the under-developed countries are just as proud as the European nations; that is why they are interested in the offers made by the Communist countries, which cleverly emphasize that, in their case, far from bestowing alms, they allow their partners to exchange, at remunerative prices, the product of their work against equipment goods which they require.
Moreover, the yield of economic aid is not always fully productive; administrative expenditure must be deducted from it, and that is often far from being a negligible quantity; then also, a portion of this aid, instead of replenishing the State Treasury, finds its way into the pockets of politicians, who hasten to invest these illicit gains abroad. The man in the street, in the beneficiary country, very often sees only the worst side of foreign aid; when this aid entails delegating to his country a flock of foreign experts, accustomed to different ways of life, the contact between two such distinct communities engenders frequent frictions. The presence of foreigners brings on an increase in rent of living quarters, a rise in the cost of living; it often elicits a bitterness of feeling on the part of the indigenous population who have no direct insight into the advantages benefiting their country, whilst being conscious of the practical difficulties which affect them personally.

If it is true that financial aid, valuable as it may be, cannot alone solve the problem of the under-developed countries, and if it cannot be expected that industrialization, regional integration or the stabilization of raw material prices will be sufficient to restore the balance of payments, is it to be concluded that the problem is insoluble and that the under-developed countries must continue to live as they have been living for centuries and go about developing their economy slowly, but only gradually as foreign exchange may become available to them? Such a conclusion, which would condemn a vast segment of humanity to live in misery for an indefinite period, would be humanely unacceptable. Besides, even though the industrial countries were to adopt this conclusion, it would not be accepted by the under-developed countries, which today have other possibilities.

Indeed, those countries are no longer dependent on the Western countries; other countries are prepared to intervene in the trade field, namely the Communist nations: USSR, Czechoslovakia, Poland, Eastern Germany, Hungary and mainland China. In 1954, when Burma was unable to sell its rice to Japan and to other traditional customers, it received offers from the USSR, mainland China, Czechoslovakia, and even from Yugoslavia to purchase its unsaleable rice at prices higher than world prices. Likewise, at about the same time, Communist China offered to buy from Ceylon approximately half of its export volume of rubber to be delivered in exchange for rice; the price ratio of this transaction was such as to provide Ceylon with a very handsome benefit in relation to world prices. Since then, agreements of this nature have become increasingly frequent and both the technique of these trade exchanges and the method of financing them appear now to operate effectively.

In 1954, the USSR and the other Communist countries allotted to foreign aid the modest sum of 11 million dollars; in 1955, this aid had risen to 339 million dollars, and in 1958 it amounted to 1,029 million dollars. During this period of five years, the economic aid contributed by the Communist countries totalled close to 2,400 million dollars. The economic aid granted by the United States during the post-war period, that is to say from 1948 to 1958, to all under-developed countries together, amounted to a total of 16 billion dollars.
The aid provided by the Communist countries is still, therefore, much below that supplied by the United States; but gradually the yearly amount of Communist aid is coming closer to the American figure. On the other hand, Communist aid is concentrated on a smaller number of countries in Asia and the Near East, and in several of these countries, it is substantially in excess of the American figure.

Trade exchanges with the East have followed the same ascending curve as economic aid. In 1953, the Communist countries were exporting to under-developed countries 34 million dollars' worth of machinery and transportation equipment; in 1958, these exports reached 173 million. In the case of chemicals, the figure rose from 16 to 37 million; for other manufactured products, from 125 to 172 million. These figures clearly show that nothing prevents under-developed countries from finding in Communist countries the equipment goods they require to pursue their economic development, and that they can do without the West if the West does not find a solution to the problem of economic imbalance. It may seem astonishing that the Russians and other Communist countries are able to establish trade exchanges where the West is encountering difficulties. But this is easily explained when one studies the development of Soviet economy.

It would be wrong to think that Soviet penetration is the result of some Machiavellian scheme. Communist countries have simply put more effort behind heavy industry and have purposely neglected light industry; they have imposed upon their farmers regulations which do not put a premium on production. This policy, at great variance with ours, enables them at present to develop a large export capacity for equipment goods which find ready outlets in countries in process of development. These equipment goods are of such good quality that American manufacturers are contemplating ordering machine-tools from the USSR, and that Great Britain has included, in the trade agreement which she has just signed with the USSR, a substantial item for imports of machine-tools and other equipment. It may no longer be assumed that the economic penetration of Communist countries will end in failure because of the Eastern countries' inability to supply, in sufficient quantities, the items of equipment needed by countries in process of development. Another important factor which facilitates those trade exchanges is the fact that Communist countries, because of the considerable volume of their own requirements in agricultural products, raw materials and manufactured goods for current consumption, are in a position to absorb almost unlimited quantities of primary or manufactured commodities from countries having an export surplus of those commodities. By reason of the fact that they do not have to protect their agriculture, and since they are short of farm products, they can buy any quantity of these products. As they have not expanded their light industry but are nevertheless anxious to raise the standard of living of their population, they offset their deficit by purchasing textiles, shoes, etc. from India or from any country prepared to sell such products. The trade pattern which is now being established between under-developed countries and Communist countries is very similar to the trade pattern which developed between Great Britain and the colonial countries when the British Government decided, at the beginning of the nineteenth century, to give up production of cereals and to sacrifice their agriculture in favour of their exports of industrial products. This simple division of labour, which was so to speak the architect
Europe's fortune in the nineteenth century, is coming into its own again, but this time for the economic and political benefit of the Communist countries. The West would make a bad mistake if it were to ascribe Communist penetration to a political motive which another political motive could neutralize. In effect it is, so to speak, a natural and normal movement of trade which is progressively growing, and which can only be met with another natural movement of trade. The trade methods of Communist countries are comparatively simple and standardized. They consist in offering to negotiate long-term contracts with the under-developed countries. They offer to deliver to them all the material they desire, to build all the plants they ask for, repayable in rice, wheat, cotton or any exportable commodities over a period of five years, and even up to ten years; the interest is generally fixed at 2½ per cent. The Western technique is different. The Western manufacturers are likewise prepared to supply all the desired material and to erect all the plants required; they are likewise willing to grant five years' credit at a rate generally higher than 2½ per cent, but they ask for payment in cash; they do not accept payment in raw materials, agricultural produce or textiles. Moreover, whilst the Communist countries often guarantee purchase prices for a fairly long period, the Western countries will not commit themselves beyond current market prices.

If the West does not solve the problem of the trade disequilibrium of under-developed countries, the latter will attempt to solve it by adjusting their exchanges with the West to the level of the financial aid received from the West, and by relying, for the balance of their requirements, on expanding their trade with the East. Is this what the Western countries wish to see happen? I have often heard it said that one should resign oneself to the obvious; let the Russians set up steel works in India or in Ceylon, let the Poles or the Czechs build sugar mills in India, Indonesia or elsewhere, and give up promoting western exports of equipment goods if financial aid cannot be increased. Whilst intending to revert to this economic and commercial aspect, it may be in order to ask oneself whether this policy of surrender is not incompatible with the military policies of the West. The Western countries are at the present time spending millions of dollars in order to prevent the Communist countries from increasing their influence and particularly to prevent the great masses in the under-developed countries from going over to the other camp. If the West is satisfied to let the under-developed countries have their plants built and equipped by the Communist countries, to be at the mercy of the Communist countries for their supplies of spare parts, is there not a risk of losing all the benefit from the billions spent for the defence of the West? The events in Finland a few months ago, and in Yugoslavia not very long before, show that, for the Communist countries, there is hardly any distinction between trade policies and plain politics. The West runs the risk of seeing the under-developed nations fall under the domination of the Communist countries through the mere play of economic dependence. As long as purchases are restricted to products of current consumption, as is the case in Iran for instance, where the bazaar in Teheran is overfilled with textiles bearing the trade-mark of the hammer and sickel, it is easy to switch to other suppliers, but when the heavy industry is equipped by a country which may later refuse to supply spare parts for that equipment, the problem becomes very much more difficult. In fact, the under-developed countries are conscious of the risks
they incur and they try to limit them. For example, India had only one of her three steel works built by Russian engineers; the other two were entrusted, one to a British group and one to a group in Western Germany; the order for a fourth steel plant for the production of special steels, will be placed with either a British or a French group. But this facility of selection will become more and more precarious if, on the one hand, the outlets grow narrower and if, on the other, the sales possibilities are almost unlimited, if all the exportable goods be they farm products, raw materials, textiles, shoes, or any other manufactured products - are eagerly accepted, if selling prices are guaranteed for several years, and if - as was the case with the China-Ceylon agreement - all prices are appreciably higher than world prices.

If the Western countries come to the conclusion that the political risk of such a policy of abdication is too heavy, there remains only one solution: restore the balance of trade exchanges between the industrial nations and the under-developed countries by increasing purchases from under-developed countries to a level corresponding to the minimum import requirements of those countries, taking into account the potential amount of financial aid. Unfortunately, this is easier said than done; a policy of this kind will necessarily entail structural changes in the economy of industrial countries and will require heavy sacrifices on the part of certain agricultural and industrial sectors. True, the change of structure will be beneficial to all, including the industrial countries which will derive the benefits of international divisions of labour, but there is no doubt that the measures to be taken will be very unpopular and will strike at interests which are strongly entrenched. In effect, what are the commodities which can be bought from these countries? - raw materials, farm products and manufactured products of current consumption. As regards raw materials, they are allowed by all governments, with rare exceptions, to come in freely; manufacturers can buy where they like, and beyond this no further action can be expected from governments, which could not possibly, for instance, block the advance of chemistry for the sake of curbing the competition of synthetic products. On the other hand, governments are still strenuously protecting their agricultural population. A mitigation of the restrictive policies in the agricultural sector would have far-reaching effects. We have calculated that, if the present rate of increase in the agricultural production of the industrial countries, in Europe and in North America, were to be cut down by 1 per cent, exports from producing countries could be increased by several billions of dollars. True, this would not be sufficient to offset the deficit in its entirety, but it would result in reducing it to a point where a solution would be much closer at hand.

Finally, the countries in process of development have a surplus production of manufactured commodities available for export. Several of them can supply these products at very reasonable prices - in fact too reasonable from the point of view of competing interests. The reaction from European and American circles has been to turn down these advantageously priced articles and to secure protection against this so-called social dumping by getting their governments to restrict or even prohibit such imports. But which is better, to shut the door to these goods, to let them find their way to the Communist countries who will
gladly buy them, and to go on pouring financial aid into a barrel of the Danaids, or to favour a change in the structure of our economy? If it is true that financial aid will be inadequate to solve the problem, do we not run the risk of seeing money being squandered to no avail, without a hope of fighting victoriously against the economic penetration of the Communist countries, which is based on perfectly logical trade exchange movements? Have we weighed the advantages versus the drawbacks of a change of structure which will favour heavy industry at the expense of a fraction of light industry? There is no question of sacrificing the whole of the textile industry or of closing down all the shoe factories or of putting all the manufacturers of consumer goods for current consumption out of business; it is more a matter of examining whether there is not a way of finding room for the exports of manufactured products from underdeveloped countries in order to maintain and expand exports of equipment goods from Western countries.

England was faced with a similar case in her textile industry after the end of the war. After years of hesitation the Government finally took a drastic decision; it offered important financial contributions to the Lancashire textile industry to induce it to reduce its production capacity by nearly half and to modernize the remaining factories with a view to meeting foreign competition without undue protection, by concentrating on the manufacture of quality fabrics.

This decision was not received with much enthusiasm on the Continent, where it was viewed as a breach in the western front facing Asia. The British Government certainly had to take into account political factors and the necessity of safeguarding the unity of the Commonwealth; for political reasons, Great Britain levies no customs duties on products originating from her colonies and from the Commonwealth. She accepted the industrialization of India, of Pakistan, of Hong Kong, and now she is drawing the logical inference. Whilst the British Government's decision was motivated by reasons peculiar to the Commonwealth, it is nevertheless in line with the policy which appears to be imperative for the industrial nations if they earnestly wish to further the development of underdeveloped countries without driving them into the arms of the Russians and the Chinese. We are still far indeed, in Continental Europe, from basing ourselves on the example of England in this respect: we are rather inclined to give more thought to devising ways and means of preventing Asiatic textiles from entering our markets. Is it altogether unwarranted to hope that the light of reason will prevail some day, when the nations concerned bethink themselves of really going into the crux of the problem, as we have been doing today?

It should also be pointed out that it is in the power of the governments of European countries to further the sale of tea, coffee, cocoa, thereby extending valuable assistance to the countries producing these commodities, if the authorities in charge of finance in those governments would only come off the idea of considering them as luxury articles, liable to merciless duties and super-taxes — commodities which constitute vital exports for countries such as Brazil, India, Ceylon and others. It is one thing to respect traditions, but the financial authorities should have sufficient imagination to find other sources of revenue rather than being implacably bent on levying excessive taxes on coffee, cocoa, tea and spices. Limit agrarian protectionism, facilitate
the importation of textile and other non-durable consumer goods, reduce taxation on tropical products — such are some of the policies which would make it possible to solve the problem of economic development over the long pull and in a manner beneficial to all.

We are now about to conclude. The problem has been presented in its full scope and in all objectivity; the various solutions available have been analysed. It is now up to the West to chose. The choice, admittedly, is not an easy one. It is first and foremost a choice between two economic policies. The Western countries should decide whether they are willing to check or stop the expansion of their machinery, chemical and other heavy industries which are assured steady and growing outlets in all under-developed countries, or whether they would rather maintain the present structure of their economy, which may not be the means of ensuring the highest standard of living in the industrial countries and which undoubtedly will preclude the attainment of the international objectives which the Western nations have assigned to themselves. Secondly, it is a political choice. The question here is whether the West will merely abandon the under-developed countries or whether it wants to make the necessary effort to retain them in the Western community. The United States has made its choice, but it considers, perhaps wrongly, that it has done all that is necessary to solve the problem; the United States is giving away great sums, enormous sums, rather than getting into trouble with their producers or purchasing foreign products. It is very doubtful whether the United States can increase this financial effort in proportion to the needs as they grow larger. Moreover, this solution is not within the means of Europe. Therefore, the choice must be based on the question whether the West is willing to make the commercial effort necessary to avoid the risk that the countries in process of development may give up their attempts to escape misery or try to find a solution in closer co-operation with the Communist countries which, technically, economically and politically, have all the necessary capacity to substitute themselves for the Western countries as suppliers of the equipment goods required by the under-developed countries, and also have sufficient capacity of absorption to purchase at profitable prices any products which those countries can produce and export. Whatever difficulties governments may encounter in the search for a solution, those difficulties cannot justify an attitude of indifference or inaction. The problem is urgent, and if the Western countries do not get together to solve it, they run the risk of jeopardizing the future of the Free World and perhaps even of endangering its very existence.