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The Position of LDCs in Foreign Trade

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Recent negotiations about selling prices for crude oil have reflected an economic controversy between developing countries and the industrialised nations of the West. That, in this particular case, the demands raised by developing countries had to be accepted almost entirely was due to their strong position in the international market for oil. However, such strength in the market is not at all typical for most developing countries.

Complaints of less developed countries (LDCs) about being placed at a disadvantage in their trade with industrial nations, which are based on their experiences during the past decade, have not ceased. To put them in a perspective that is "just", it will be useful to examine overall trends in the LDCs' foreign trade, and especially those that have determined their economic relations with developed countries over the last ten years.

Shifts in Regional Structures

During the 'sixties, the importance of LDCs for world trade and of the share they contribute to it have steadily shrunk. Their share in total exports, which had been 21.5 p.c. in 1960, has gone down to 18.3 p.c. in 1969 whilst, of the import total, they took 22.3 p.c. in 1960 but only 19.0 p.c. in 1969[1]. But the rates of foreign trade growth by regions showed great differences from the one to the other. Thus, Africa (excluding the Union of South Africa) was able to more than double the value of its exports during the period under review, when the overall value of world trade went up by 114 p.c., whilst Latin America only managed to achieve a growth of 56.9 p.c.

Western industrial countries[2], during the past decade, have again slightly increased their importance for developing countries' exports in the last decade (see Table I). From 1960 to 1969, their share in exports of developing countries has risen from 72.3 to 73.1 p.c. The eastern socialist countries, likewise, have lifted their share from 3.5 to 4.4 p.c. As to imports, only the East European countries were able to raise their combined absorption of goods from developing areas. The likely cause for this, apart from the low level from which the socialist countries started, may be found largely in political trends. Contrariwise, exports channelled from western developed nations to developing countries have slightly lost in relative importance – they dropped from 74.5 to 72.5 p.c. of the whole.

Intra-area trade among the LDCs has also declined relatively both on the export and the import side. Looked at in greater detail, however, the trends are differing in different regions. Within single continents, continental exchanges of goods tended to grow: thus, trade within Africa went up by 131.0 p.c., and that within Latin America by 114.7 p.c. during the 1960-69 period, which means that growth in both cases was faster than that of world trade overall, – though it must not be forgotten that the initial level was extremely low. For Latin America, setting up the Latin American Free Trade Area may have contributed to this development to a certain extent. But without simultaneous and progressive industrialisation, even measures for promoting trade can only achieve a modest success in increasing exports and imports between developing countries.

There were great differences in the rates of export growth achieved by LDCs in the last decade in relations to the developed areas of the world. Notably North America and Western Europe recorded below-average growth rates for their purchases in 1960-69 from developing countries, the former 58.8 and the latter 79.2 p.c. As to Western Europe, the modest increase was mainly due to the shallow gradient of delivery growth in relation to the EFTA area. Notwithstanding its traditional economic ties with many LDCs, especially the UK raised the volume of its

[1] The source for the figures used here are UNO publications.

[2] To simplify matters, Australia, New Zealand, and the Union of South Africa are included among western industrial nations. Their combined share in developing countries' exports was 2.1 p.c., and in imports 2.4 p.c., in 1969.

purchases only mildly, because its requirements of raw materials went up only slowly, due to the sluggishness of its economic expansion.

Growing Importance of Japan as a Trade Partner

Exports from LDCs to Japan registered by far the biggest rate of increase – it was highly buoyant in 1960-69 with a growth of 262.1 p.c. This was, in part, due to the relatively low level of Japanese imports at the outset of the period under review, yet also their rise in absolute terms was considerable. Japan's industries which expanded phenomenally, have to rely almost exclusively on imported raw materials, which caused Japanese imports from LDCs to swell much more strongly than those of the USA, also in terms of actual volume.

But Japan is not only an important prime mover for helping exports of developing countries to grow. It has found, at the same time, that developing countries may be a highly "interesting" sellers' market. Japan has therefore almost doubled its share in total imports by developing countries. The disproportionate increase of its deliveries to these regions, however, was made possible only, at least in part, by Japan supplanting other western industrial countries for part of their traditional market shares there.

Main outlets for Japan's exports to the markets represented by LDCs have been Asian less developed nations in both the Middle and the Far East. Drawing up a combined balance of trade for this region in regard to Japan, we find for 1969 that the Japanese earned a big surplus there of altogether US$ 2.2 bn, whilst Japanese trade with all LDCs was, at the same time, in surplus only to the tune of $ 1.8 bn – the USA earning in the same year a combined surplus of trade with all LDCs of $ 2.1 bn. More than half of this deficit of all LDCs' foreign trade was offset by surplus earnings from trade with Western Europe, especially with the EEC. The biggest earners of such surpluses were Africa and the Middle East, due to their mineral oil products exports to Western Europe.

Improved Liquidity

The main reason for the LDCs' declining importance in world trade is their relatively low export. This, to a large extent, cuts down the availability of foreign currency to pay for their imports. The rule that "imports are limited by exports" has thus remained in force, in spite of all development aid. It is true that the strictness of its application was mitigated in the 'sixties through the accumulation of currency reserves during that decade: they rose from a total of US $ 9.5 bn at the beginning of 1960 to $ 15.4 bn at the end of 1969. Yet the liquid funds of developing countries assume a different significance when the observer, instead of simply totting up the growth of reserves in absolute terms, tries to see them in relation to their functions. It is a familiar method, though not without its pitfalls, to coordinate available reserves with current currency payments that will fall due when imports have to be paid for. If we compare, at the end of every year, the state of available currency reserves with the total value of imports received during the same year, we see that liquidity growth in LDCs has been much less spectacular. The extent to which imports were "covered" by existing currency reserves has increased only from 28.2 p.c. in 1962 to about 31.7 p.c. in 1969, after the "quota" had already reached 32.9 p.c. in 1960. It is, nonetheless, re-

Table 1
Regional Pattern of the LDCs' Foreign Trade
(in p.c.)

Trade Partners	Exports			Imports		
	Growth 1960–69	p.c. of Total		Growth 1960–69	p.c. of Total	
		1960	1969		1960	1969
Total Trade	82.0	100	100	81.8	100	100
of which:						
with developed western countries	84.0	72.3	73.1	76.8	74.5	72.5
North America	58.8	23.6	20.6	72.2	24.4	23.2
Western Europe	79.2	40.9	40.3	50.5	40.7	33.7
EEC	113.1	22.8	26.8	51.7	23.6	19.7
EFTA	38.1	16.2	12.3	39.9	15.9	12.2
Japan	262.1	5.1	10.2	231.1	7.2	13.2
East European countries	131.6	3.5	4.4	249.4	2.9	5.6
LDCs	70.9	22.0	20.6	70.9	21.1	19.9

Source: Author's estimates, based on UN figures.

markable that developing countries, taken as a whole, were better off in this respect in 1969 than the totality of all industrial nations, since their combined currency reserves, relative to their total imports, have declined continually from 1960, when they had been double as big as 1969, to fall to a mere 29.6 p.c. at the end of the latter year.

But such averages conceal big differences in individual countries' development. To quote a few examples: Argentine, Brazil, Chile, the Iraq, South Korea, Saudi Arabia and Taiwan—not to speak of Libya—had been able to double their reserves, or to raise them to a multiple of their original value, between 1962 and 1969, whilst those of Egypt, Ghana, Morocco, Nigeria, the Sudan, and Tunisia declined, even in absolute terms. Differences in trends will become more or less conspicuous, depending on the basis year chosen for comparison (low reserve levels were especially marked in Latin America in 1962), and on special influences, which were of decisive importance in some of the African and Middle Eastern countries named. As always, overall estimates will only disclose general trends, whose detailed effects in individual countries are heavily modified.

Unfavourable Pattern of Export Goods

Expansion of world trade is mainly caused by steady progress made by the substitutional exchanges of industrially manufactured goods. Relative to the total volume of world exports, exports of LDCs grow disproportionately sluggishly, largely because of the unfavourable pattern of the export goods they are able to supply. This can easily be seen when their export pattern is compared with the main components of world trade and its development. The combined value of all export commodities contributed 44.1 p.c. to world trade in 1960, but in 1969, their share had declined to a mere 33.6 p.c., whilst goods manufactured by industry at the same time climbed from a share of 54.7 p.c. to 64.5 p.c. (See Table 2.) The relative volumes, during the period under review, it is true, did not change so violently, because industrial manufactures entering world trade, during 1960—69, went up in price by an average of 12.2 p.c., whilst commodities appreciated only by 5.1 p.c. (in both cases relative to average prices of all exports). However, this change in the terms of trade is not big enough to affect the general picture of a highly differentiated world trade expansion.

More than three quarters of all exports of developing countries (76.0 p.c. in 1969) are commodities, and in 1960, their share was as high as 85.4 p.c. This means that the shift in LDCs' exports towards manufactured goods proceeds at a faster-than-average rate, compared with overall world exports, yet the change in structure is too slow for developing countries to approach, in the foreseeable future, the export patterns of industrial nations.

But, except in the case of fuels, export growth for commodities from LDCs was slower than the increase in corresponding world exports. This is probably not so much due to the fact that the developing countries' export supplies are not available in sufficient volume and/or quality to satisfy the requirements of industrial countries.

Table 2
Foreign Trade of LDCs' and World Trade by Types of Goods
(in p.c.)

SITC a)	Types of Goods	Growth 1960—69			Trade Patterns 1969			LDCs' Share in World Trade b)		
		World Trade	LDCs		World Trade	LDCs		World Trade	LDCs	
			Exports	Imports		Exports	Imports		Exports	Imports
0—9	All Type of Goods	114.1	82.0	81.8	100	100	100	100	18.3	19.0
0—4	Commodities	63.2	61.7	49.2	33.7	76.0	28.0	100	41.2	15.8
0.1	Foodstuffs	65.9	46.5	47.6	13.6	23.8	13.3	100	32.0	18.6
2.4	Industrial Raw Materials	40.3	27.0	51.4	11.0	19.5	6.3	100	32.4	10.8
3	Fuels	97.1	112.6	50.0	9.1	32.7	8.4	100	65.2	17.5
5—8	Finished and semi-finished manufactures	152.5	207.3	95.5	64.6	23.8	69.3	100	6.7	20.3
5	Chemicals	158.4	186.2	110.5	7.1	1.7	9.0	100	4.3	24.1
7	Machinery and Transport Equipment	178.6	468.4	116.2	28.3	2.2	33.6	100	1.4	22.5
6.8	Other Manufactures	130.2	194.4	70.8	29.2	19.9	26.7	100	12.4	17.3

a) Standard International Trade Classification.
b) Contribution of developing countries to World Trade 1969 in individual types of goods
Source: Author's estimates, based on UN figures.

The true cause for the poor showing they make is surely to be sought in widespread protectionism practised by industrial nations, especially for supporting their own farmers.

Industrial raw materials show conspicuously low growth rates and this, apart from price trends during 1960—69, has been caused mainly by the slow expansion of industrial countries' demand for imports. In addition to cyclical influences, low demand has been the effect of technological progress, coupled with increasing substitution of natural raw materials by industrially-produced ones.

A number of LDCs own ample oil reserves, which have become their principal source for earning foreign exchange. In 1969, almost two thirds of world fuel exports came from developing countries. Local fuel demand of LDCs is small, because of a low level of industrialisation and of motor traffic, which released the lion's share of crude production for exports. The main buyers (of 76.4 p.c. of all crude exports in 1969) are western industrial countries.

Reduced Ability to Import

Imports of LDCs have been growing at a slower speed than world imports as a whole, which reflects their reduced ability to import, caused by their lack of foreign exchange. On the other hand, actual local demand for foreign-produced goods is high, which impels governments to place all kinds of restrictions on imports.

Though LDCs earn foreign exchange mainly by supplying raw materials to industrial nations, the latter, at the same time, are the most important suppliers of raw materials to LDCs, with the exception of fuels. As to foodstuffs, through famine aid given by industrial nations, it is certainly true that these play a big part in contributing to the increase of imports from industrial countries by 33.5 p.c.

In the same way as with industrial countries, imports of raw materials to developing countries have been growing more slowly than industrial production. Index figures for industrial growth in LDCs have recorded an increase of 86 p.c. in 1960—69 (similar figures for industrial countries show a simultaneous step-up by 67 p.c.), whilst their imports of industrial raw materials rose by 51 p.c. only. However, this has been caused in developing countries largely by factors different from those active in developed countries. Perhaps the most important reason is that LDCs generally begin by building up and/or enlarging those branches of industry which draw most of their raw materials from local sources. On the other hand, many LDCs are obliged to import the complementary production factor energy. Because several LDCs have ample energy resources, notably oil, the trade with primary energy has led to forming the closest network of exchange of goods between less developed countries. In 1969, as much as 35.2 p.c. of all the goods exchanged between developing countries were fuels.

Importing industrial finished and semi-finished goods is particularly important for LDCs, as this is the basis for rapid industrialisation and for raising productivity. These imports rose more rapidly than those of other types of goods during the period under review. But still, this rise was much slower than the corresponding increase for industrial countries, and the developing countries' share in world imports of such goods declined considerably more rapidly than in the case of commodities. The biggest fall was registered by machinery and transport equipment, which are the most important means of production for building up industrial output. It is correct, however, to say that the shrinking of this share has been caused by an exceptionally high rise in the intra-area trade among LDCs in this sector. Imports of machinery and transport equipment by developing countries, coming from other LDCs, were the strongest single growth element among all types of goods.

That the share of finished and semi-finished industrial goods in total world imports has been declining, whilst developing countries themselves manufacture few of them, means that the economic gap between developed nations and LDCs has again become wider during the past ten years. To overcome this trend during the 'seventies, it is necessary to offer developing countries a chance to keep in step with the expansion of world trade, perhaps by granting them preferential treatment. It will not be sufficient for industrial countries to dismantle their protectionism in regard to commodities, because demand for these goods is growing too slowly. What is also needed is to make it easier for LDCs to export finished and semi-finished manufactures. To strengthen their participation in growing international exchange relations is not even an end in itself. If less developed countries become able to earn more foreign exchange, they may also find the wherewithal for boosting their own imports of finished and semi-finished goods, and this may enable them gradually to overcome, or at least to mitigate, the difficulties of faster growth, which are tied up with the problems of their foreign trade.