International Development and Trade

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ONE of the happier legacies of World War II is a considerably increased interest in international affairs. It is a mark of progress in our thinking that this widening horizon should to a great extent be taken for granted. During the war we became accustomed to hearing about events in the far corners of the earth, and developments in the postwar world have continued to make global geography part of the daily news. Much of the current discussion is naturally concerned with the economic aspects of international relations, for events such as exchange crises, currency devaluation, and changes in overseas markets have immediate and visible effects on everyday life, making it increasingly obvious that domestic and international economics are two sides of the same coin. Canadians are especially conscious of the intimate relation between external trade and the domestic economy. In the last five years, the day-to-day conduct of international trade has raised many urgent problems, and there is some danger that the important long-range task of rebuilding the basic structure of the international trading world may be somewhat overshadowed. It must nevertheless be recognized that specific problems can be most adequately handled within the framework of the whole world economy. International trade and international development are complementary aspects of a single process.

Historically, what has been the relation between international development and trade? Why should the trading world be concerned with this long-run relationship at the present time? What progress has already been made in promoting the overall development of the world economy?

I

THE century preceding World War I demonstrated the close association of international development and international trade. In the 18th century, the undeveloped areas of the world were significant only as colonies of European powers. Early 19th century Europe still regarded its overseas possessions chiefly as sources of raw materials and as guaranteed markets. Industrial development of a colonial economy was a thing to be discouraged, even forbidden. Had not the American Revolution demonstrated what would happen if a colony were permitted substantial economic progress? Prestige would be lost, markets might be reduced through the erection of trade barriers, and raw materials would have to be bargained for instead of being obtained as of right on the mother country's own terms. There was even some danger that the colony itself would aspire to political independence.

During the course of the century, significant economic and political changes occurred. Rapid improvements in manufacturing techniques resulted in a tremendous increase in output and productivity in Western Europe. With the development of cheap transportation, the advantages of specialization, both domestic and international, became more obvious. Rising standards of living accompanied the spread of the Industrial Revolution. Wealth accumulated and began to seek opportunities for profitable overseas investment on an increasing scale. These opportunities were readily available in setting up communications and transportation systems, and in exploiting new sources of raw materials. Investment abroad, and in particular the development of the western hemisphere, opened up vast markets for both consumers goods and capital goods. Not only was economic development taking place in the colonial areas, but the character of the European economy was also changing. Industrialization in England was soon paralleled by a somewhat similar process on the Continent of Europe, as France, Germany and other European powers profited by the new commercial practices and production techniques. From being a convenient outlet for surplus products, the overseas areas became markets to be cultivated in order to permit the advantages of large scale production and to provide increasingly large amounts and diverse types of raw materials. As a result, the nature of international trade underwent a gradual change. Higher standards of living and increased purchasing power among the developing countries stimulated the demand for manufactured and partly processed goods, and these products came to make up an increasing proportion of total international trade. To their own surprise, countries with new and growing industries found themselves becoming one another's best customers.

Both new and mature economies benefitted from this threefold international process of industrialization, trade and investment. For the already industrialized countries of Europe, the expansion of the market area permitted larger-scale production with its attendant economies. Foreign lending and the provision of transportation, communication and financial services for the rest of the world were profitable outlets for accumulating capital, and at the same time made supplies of raw materials more abundant and more easily obtainable. Higher domestic standards of living resulted as goods and services in larger quantity and greater variety came within the reach of increasing numbers. Living standards also rose in the developing area overseas. There, too, consumer goods came within the reach of more people because part of increasing production in Europe could be traded for the growing output of raw materials overseas. Conversely, the expanding market for the products of the new economies, and their increased volume of exports permitted more imports of consumer goods and also of capital goods to be used in developing production.

An important result of the economic growth of the overseas areas was the promotion of social and political development. The evolution of separate states has been facilitated by their growing ability to function as independent members of the world trading system, a process perhaps best illustrated by the gradual change in the status of the countries making up the British Commonwealth.

IT is not, of course, sufficient to attribute all the above benefits solely to international trade as such, for trade was only one aspect of the development that took place. But there is little doubt that such development would have been incalculably slower, if not impossible, without the growth in international trade. Certainly without the continuous expansion of trade the new countries would have been unable to attain the degree of economic, political and social progress they had reached by the outbreak of World War I.

Neither should it be supposed that the countries involved proceeded at a uniform or co-ordinated pace along the road of economic development. All through the century preceding World War I military conflicts of limited geographical extent flared sporadically in one country or another or in the overseas empires. To name only a few, there were the partitions of mid-19th century in central Europe, the Franco-Prussian War of the early seventies and the Balkan wars at the beginning of the 20th century, as well as overseas campaigns such as the Indian Mutiny and the Boer War. Economic depressions also occurred with varying severity in different countries. Major crop failures, such as the Irish potato famine, brought about basic changes in the life of individual nations. Political and social upheavals accompanied the changes brought about by industrialization. Progress was by no means uniform, for the Industrial Revolution came at different times and in different ways to the various countries.

Throughout the period, however, the essential aspects of the process of international development and trade were preserved. Wars were usually geographically limited. Blockades were incomplete and could be circumvented. The trade continued by neutral countries, which maintained their economic relations with one another and with the belligerents, was often highly profitable. Again, movements not only of goods and services, but also of capital and of people continued to be possible, and dislocations in trade arising out of economic factors or for other reasons, could usually be offset to some extent by changes in the direction of capital movements or by migration. Thus an industry interfered with in one place could frequently be re-established elsewhere, thereby contributing to the spread of technical knowledge and economic development. The increasing political consciousness of states and the growth of their domestic economies frequently resulted in the creation of tariff barriers, but these normally served to divert trade rather than seriously to impede its growth. In spite of scattered setbacks, therefore, industrialization, trade, and international investment continued to expand up to the outbreak of World War I. Both random and cyclical fluctuations were superimposed on an upward secular trend, and specific adjustments made easier in a period of expansion.

IN the 20th century the three decades which included two World Wars brought about a complete change in the character of international economics. It is significant that the war of 1914-18 was called the World War. The area affected was larger than ever before; there was a smaller number of neutrals important in the trading world; trade routes came under direct and intensified attack; mobilization of industry for war was more widespread and more complete than ever before.

At the end of the war economics was overshadowed by politics. The aspirations of new states fostered the growth of a nationalism which was both political and economic. The rehabilitation of the trading world was undertaken without clear awareness of the economic implications of the war or the peace, with the result that attention was directed to the restoration of the institutional mechanism, and particularly to the gold standard. But the era of comparatively free movement of people, goods and capital, and of growing international specialization had vanished: nations had developed a strongly individualistic outlook, and no longer regarded themselves as parts of a world economy.

By the early 'thirties even the institutional machinery could no longer be maintained. Faced with the failure of the familiar methods of adjustment, nations increasingly tried to meet pressing economic problems by their own individual efforts or by special arrangements such as the Imperial Trade Agreements program. These circumstances in some cases aided the growth of political tensions and hindered co-operative efforts to recover from the Great Depression. For this reason, rebuilding of domestic economies in the late 'thirties was undertaken in piecemeal fashion with considerable emphasis on political and strategic factors. The re-establishment of a system of international specialization and interdependence became impossible in such an atmosphere, and the greatest possible measure of self-sufficiency became the common goal. With the actual outbreak of World War II, of course, a degree of autarchy became a practical necessity. Although trade on a commercial basis continued, there was also a considerable volume based on military needs or economic warfare and financed in many cases by the liquidation of foreign investments. In addition to destroying some of the unifying features of the trading world, six years of total war directly affected the domestic development of many countries. Some, like the United Kingdom, lost a century's accumulation of capital equipment. Others, of which Canada is an example, telescoped a tremendous industrial development into the space of a few years.

II

THE restoration of an expanding world trade is a prerequisite to improving living standards. Restoring trade calls on the one hand for a direct attack on trade barriers and the problem of maldistribution of the means of payment, and on the other hand for establishment of the basic conditions that make trade possible. In the long run this latter problem becomes one of resuming the process of international development.

In considering this question in more specific terms two groups of countries should be distinguished. Both of these require assistance in the further development of their economies, but for different reasons. Western Europe, normally an industrialized and highly productive area, comprises the first group of countries. It is important for the recovery of world trade that European productive capacity should be not only restored but expanded, for history shows that countries with high living standards can buy the produce of modern industrial society. Standards of living are highest in those countries which employ modern methods of production. In other words, standards of living everywhere can be maintained and increased by the fullest and most efficient utilization of the world's resources. Among these resources is the manpower of western Europe, with its tradition of industrial skill, and it is by means of trade that these human resources can be most effectively combined with the material resources of the rest of the world. Quite apart from humanitarian considerations, it is therefore to the advantage of the entire trading world to have Europe prosperous and productive.

A detailed consideration of the problems of European recovery is unnecessary here. It is sufficient to note that Europe is normally a heavy importer of good, raw materials and some manufactured goods. These import demands are currently increased by the need to import to replace and modernize the productive facilities destroyed, worn out, or rendered obsolete during the last two decades. Europe's dependence on North America as a source of capital imports has been increased by the disruption of formerly complementary of alternative sources of supply. At the same time the ability of Europe to pay for imports from North America has been diminished by inability to produce suitable import surpluses and by liquidation of income-producing foreign investments.

Europe's ability to utilize foreign aid effectively is itself dependent on the restoration of international trade. In this respect intra-European trade is as important as trade with other continents, for the re-establishment of a measure of specialization among European countries themselves will ensure the most effective utilization of that continent's own resources. This step is a pre-requisite to the effective use of imported resources. But the countries of Europe can hardly be expected to balance their trade with one another even assuming a large degree of freedom of trade within that continent. Too many of them produce similar commodities for export and too many of them have similar import requirements. To facilitate intra-European trade as well as European trade with North America, there is an obvious need to include these and other areas of the world in the development of a wider trading system, thereby multiplying the opportunities for indirect balancing of accounts.

The second group of countries can make a definite contribution in this respect. These are the areas which are usually called "undeveloped" or "under-industrialized".[1] They comprise a varied group in widely differing stages of development, and include the more primitive economies of certain tropical areas in Africa and South America, the slightly more productive economies of South-eastern Asia largely devoted to subsistence agriculture, and the countries of eastern Europe whose commercialized agriculture is the preponderant element in the national economy. Despite their many individual characteristics, these areas have a common threefold problem. Their standard of living is far below that of the more industrialized countries; they are unable to produce the amounts or types of exports necessary to purchase imports required to raise domestic living standards; and their external trade is inadequate in both volume and variety as a basis for economic development. In short, their resources are inadequate or undeveloped.

At present the technical and commercial standards in these areas, together with the nature of the commodities produced, are such that any further development without outside assistance is likely to be slow indeed. An economy operating near the subsistence level has little in the way of domestic resources to devote to building up its productive facilities. For this reason both financial and material assistance is required before such an economy can undertake large-scale industrialization. Depending on its present economic structure and on the nature and extent on its own resources, an area can be aided by imported primary products as well as manufactured goods, and by capital equipment as well as consumption goods. If these imports can be obtained as a result of foreign borrowing, exports to pay for them can be postponed until the borrower's productive capacity has been increased.

What advantages to the industrialized world will result from this process? Three benefits, among others, are evident. First, investment in the underdeveloped areas will open up new markets for many types of products. Foreign investment is essentially a means of providing additional goods and services to augment the resources of the areas being developed, and the purchasing power placed at the borrower's disposal, when used to buy food or capital equipment, creates additional demand for these products.

Secondly, trade resulting from the systematic development of the world's resources, and being therefore founded on the distribution of resources and the growth of the domestic economies concerned, would be likely to become a permanent feature of international economics. This point is of particular significance if painful adjustments are to be avoided later. For example, as an economic unit progresses a smaller proportion of its resources is required to provide food and other basic products, while an ever-increasing proportion is devoted to the more advanced productive processes. The necessary change in the proportions of an economy's resources used for these two types of production can take place without the hardships of absolute contractions if both sectors can expand, but at different rates. In other words, to attract resources into the more advanced processes is less difficult than to shift resources out of primary production. The former can be accomplished by the working of long-run economic forces in an expanding economy.

The third benefit is the promotion of political and social stability. This applies to the undeveloped, the under-industrialized, and the devastated areas alike, and is a goal to be actively sought after. It is important both immediately and in the long run, for without stability, trade relations and patterns of development are subject to political, military and strategic considerations. International interdependence is a condition to be avoided in such circumstances, and financial reserves must be maintained against all contingencies. Far from being integral parts of a world economy, nations must under these conditions consider themselves primarily as self-contained units which agree only to a necessary minimum of co-operation in economic affairs.

III

WHAT progress has been made in promoting the development of those areas whose economic potential has thus far been realized to a limited extent? The importance of this task and the need for international co-operation in carrying it out were given specific recognition by the creation at Bretton Woods of the International Bank for Reconstruction and Development. From the point of view of countries wishing to expand their productive capacity, one of the most valuable services rendered by this institution has been the provision of technical assistance in the analysis of their problems of development. Both the more advanced countries of Europe and less industrialized countries of Africa, Asia and Latin America have availed themselves of this service.[2]

Before investment capital can be provided by either private investors or the International Bank, certain background conditions must be satisfied. A country with poor standards of education and health, for example, cannot absorb the technical instruction nor provide the type of manpower necessary to benefit by modern methods of production.[3] The problem has been recognized by the Economic and Social Council of the United Nations, and by the other specialized agencies—the International Bank, FAO, ILO, UNESCO, WHO—most concerned with specific aspects of economic development and its social ramifications. The Economic and Social Council initiated a study of means of expanding the scope of technical aid for economic development, and of financing and executing such an enlarged program. Supplementary to this study, the specialized agencies presented more detailed proposals outlining what they consider to be their own contribution to economic development.[4]

In addition to steps taken as members of the United Nations, two countries, the United Kingdom and the United States, have initiated development programs of their own. On October 1, 1948, the United Kingdom government submitted its long-term recovery program to the Organization for European Economic Co-operation, at the request of the Economic Co-operation Administration[5]. A comprehensive program of colonial development, based on the Colonial Development and Welfare Act of 1945 and the Overseas Resources Development Act of 1948, plays a significant role in the United Kingdom's recovery plans, emphasizing the importance of such development to the reconstruction of world trade.

THE prospective role of the United States in the development of less industrialized economies was stated by President Truman in his Inaugural Address of January 20, 1949.[6] By what is now popularly known as the Point Four Program, the President expressed the hope that participation in economic development could be made an integral part of his country's foreign policy. While it is yet too early for the details and the practical implications of Point Four to be clear, three principles in the formal announcement are of interest.

In the first place emphasis is placed on the preparatory or background aspects of industrial development, at least for the present. Mention was made of the diffusion of technical information and training which is an obvious prerequisite to building and operating a more industrialized economy in any country. Secondly, it was emphasized that international development will involve a measure of assistance to countries in their own efforts to expand productive facilities. It is important for the long-run stability of world trade, for the welfare and for the political and social stability of the areas concerned that a program of international development should be directed primarily to the development of a country's indigenous resources. Thirdly, the President invited other countries to share in the investment the United States hopes to promote in undeveloped areas.

The evolution of the world economy over the last century and the fortunes of war in the last decade have left the United States with the world's most productive economy. Since the accumulation of capital requires a surplus of production over current consumption needs, the United States is probably in a good position to engage in international investment. But the United States is not the only potential investor. International investment has always been an integral part of the external trade relations of industrialized Europe, and this remains true even though Europe's productivity has been only partially restored since World War II. From the point of view of the promotion of trade, which is one of the objectives of a program of international development, investment in the less industrialized regions will be more successful if shared in by all industrial nations.

Multi-national participation in international development is desirable also because of its effect on the delicate question of concomitant political influence. Rightly or wrongly, and whether acknowledged or not in specific cases, the fear of economic imperialism is a potent deterrent to fully realizing the potentialities of international investment. This has become one of the most difficult aspects of postwar international economic relations. To some extent the problem must be handled outside the sphere of economics, by concrete manifestations of good faith in other aspects of international relations. As a practical step, however, the inhibiting effect of this fear on international development might be diminished by wide participation in investment in undeveloped areas.[7]

What conclusions can be drawn regarding the progress of international development in this postwar era? After a period of necessary preoccupation with urgent immediate problems, further consideration can now be given to the long-run question of establishing a firm basis for foreign trade and foreign lending. The importance of the task and some of the issues involved are becoming clearer, but a great deal more study is needed before all the objectives can be translated into practical details and specific projects. It is important for the foundation of a workable and prosperous world economy that the relation between international development and international trade should be kept constantly in mind, for long range principles are established, not only by formal negotiation, but also by the precedent of day-to-day practice.

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1. These two popular expressions are inadequate descriptions of the areas in question. Actually the countries usually referred to in this way are in widely varying stages of economic development.

2. cf. International Bank for Reconstruction and Developmənt, *Fourth Annual Report* 1948-1949, Washington, D. C., 1949, p. 7-14.

3. This is being vividly illustrated at present by British experience in Africa. cf. Elspeth Huxley, "British Aims in Africa", *Foreign Affairs*, Vol. 28, No. 1, October, 1949, p. 43-55.

4. United Nations, *Technical Assistance for Economic Development*, Lake Success, N. Y., May 1949; also *Economic Development of Underdeveloped Countries*, Lake Success, N. Y., August 1949. For illustration of the attitude and problems of specific countries, cf. the discussions in the Economic and Social Council, e.g. *Official Records*, Fourth Year, Ninth Session, Geneva, Switzerland, p. 324-435.

5. *Memoranda submitted to the Organization for European Economic Co-Operation relating to Economic Affairs in the period* 1949 *to* 1935, London, H. M. Stationery Office (CMD. 7572) p. 35-39. See also Chapter VII of *Memorandum etc.*, relating to 1950-51-52 (CMD. 7682) p.33-37.

6. "Inaugural Address of the President", United States Department of State, *Bulletin*, Vol. XX, No. 500, Washington, D.C., January 30, 1949. p. 125.

7. For analysis of political and other obstacles to private foreign investment see William Harvey Reeves and Paul D. Dickens, "Private Foreign Investments: A Means of World Economic Development", *Political Science Quarterly*, Vol. LXIV, No. 2, June 1949, esp. p. 226-241. An excellent brief study of the problems of private foreign investment is to be found in League of Nations Report by the Special Joint Committee, *Conditions of Private Foreign Investment*, printed in the United States at Princeton, N. J., by the Princeton University Press, 1949.