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The Changing Composition of Developing Country Exports

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The role of exports from developing countries has been at the center of postwar discussions of the world economic order. This paper explores the influences that have shaped export growth since 1960 and the prospects for their further expansion. Particular emphasis is given to manufactured exports, which grew more than twice as fast as total LDC exports from 1960-75.

If the momentum of manufactured export growth can be continued as the World Bank has recently projected, LDC export growth in the period 1975-85 could exceed 6% per year despite slow growth (probably no better than 3-4% per year) of primary exports. Manufactured export composition and prospects in four groups of LDCs are analyzed. A majority of these exports come from a small number of countries that have specialized in manufactures starting in labor-intensive, technologically stable ("older") products, using cost-cutting strategy based on low wages, while relying heavily on foreign buyers for marketing and product design. These countries are now trying to diversify into more complex and skill-intensive products. Meanwhile, increasing numbers of LDCs not in this group have shifted their policies at least part way in an export-oriented direction.

The rapid increase in manufactures exported from LDCs interacting with developed countries' own poor economic performance have combined to trigger rising protectionism, adding to uncertainties about markets. An especially serious aspect of the problem is the effect on export prospects of those LDCs that are not yet successful exporters of manufactures, but will need to be so to facilitate their growth. Special measures to give the poorer and less successful LDCs special export opportunities may have to be considered.

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The role of exports from developing countries has been at the center of postwar discussions of the world economic order. Until the mid-1960s the developing countries (LDCs) had a steadily declining share of world exports, and manufactured goods provided only about 10% of their export earnings. Slow export growth was correctly perceived as a major obstacle to accelerated development.

This picture has changed dramatically over the past fifteen years without any drastic change in the policies of industrialized countries toward the LDCs. The sustained growth of the world economy up to 1974 and the shift toward more export-oriented strategies by a large number of developing countries have accelerated the growth of LDC exports, primarily from those countries in a position to export manufactures. For developing countries as a group, the export lag appears to have been overcome, and nearly half of the increase in earnings now derives from manufactures.^{1/}

^{1/} Although the rise in the price of oil contributed enormously to the increased export revenues of a few developing countries--notably Iran, Venezuela, Nigeria, Indonesia, Algeria and Iraq--supply as well as demand limitations make a continuation of these increases unlikely. (Throughout this paper, the capital surplus oil countries--Kuwait, Libya, Oman, Qatar, Saudi Arabia and United Arab Emirates--are treated as a separate group so as not to distort the analysis of other developing countries.)

When we take a less aggregated view of recent performance, major features of the earlier picture reemerge. Export expansion has been a major contributor to the growth of a number of countries, whose incomes have risen substantially over the past twenty years. However, both export expansion and GNP growth have been concentrated in countries containing only a third of the population of the developing countries. The poorer LDCs, concentrated in South Asia and sub-Saharan Africa, supply only 10% of LDC exports and still have most of the features that characterized the third world in the 1950s.

The purpose of this paper is to assess the main factors causing this transformation of LDC exports and to consider the contribution that they may make to the future growth of different groups of countries.^{1/} Since the bulk of export growth is expected to take place in manufactured goods, we focus mainly on this category. The first section of the paper examines the changing composition of exports since 1960 and its association with the emergence of a small number of successful LDC exporters of manufactures. The second section relates this performance to the development strategies and changing comparative advantage of different groups of countries. The final section takes up growth prospects and some of the policy issues raised.^{2/}

1/ For simplicity, only merchandise exports will be considered; henceforth, exports means merchandise exports except where specifically noted.

2/ This study is an outgrowth of continuing work in the World Bank on the prospects for developing countries in relation to the future evolution of the world economy. It makes use of two recent reports, Prospects for Developing Countries, 1978-1985 (World Bank, Development Policy Staff, 1977) and World Development Report, 1978 (WDR).

I. EXPORT TRENDS IN DEVELOPING COUNTRIES

Since at least the 1950s, LDC exports have grown in volume more slowly than those of industrialized countries (MDCs) and those of the world as a whole, largely because they have been concentrated in primary products, where the growth of demand and world trade has been relatively slow. This situation is now changing rapidly as increasing numbers of LDCs shift toward manufactures. The share of manufactures in exports has risen rapidly, and they will soon comprise over half of LDC merchandise exports other than oil.^{1/} If this expansion continues as expected, it will lead over the next few years to an export growth rate roughly equal to that of the rest of the world. These trends for major commodity groups are summarized in Table 1.^{2/}

A. Export Trends by Region

Growth of exports and output has been generally fastest in regions, such as East Asia, that have been most successful in exporting manufactures, while low growth performance has been especially characteristic in low-income countries (those with GNP at or below \$250 in 1976). If Indonesia is excluded, the low-income countries have experienced very little growth in their exports since 1965. GNP increased in the low-income countries at only 3.1% per year from 1960-75 compared to

^{1/} Even if Southern Europe is excluded, this share is now close to 40%.

^{2/} This is the "base" or middle case in which GNP in MDCs is projected to grow at 4.2% per year. (Cf. Table 10 below.)

Table 1: PAST AND PROJECTED RATES OF EXPORT GROWTH BY BROAD PRODUCT GROUPS

(In Constant 1975 Prices)

	<u>World 1960-75</u>	<u>LDCs 1960-75</u>	<u>World 1975-85</u>	<u>LDCs 1975-85</u>	<u>Percent of LDC Exports</u>			<u>Percent Share of Increase</u>	
					<u>1960</u>	<u>1975</u>	<u>1985</u>	<u>1960-75</u>	<u>1975-85</u>
Fuel and Energy	6.3	6.2	3.6	3.4	39	40	30	42	18
Agricultural Products	4.2	2.6	4.4	3.1	43	27	20	16	12
Non-fuel Minerals	3.9	4.8	4.2	5.8	7	7	7	6	6
Manufactures	<u>8.9</u>	<u>12.3</u>	<u>7.8</u>	<u>12.2</u>	<u>11</u>	<u>26</u>	<u>43</u>	<u>36</u>	<u>64</u>
TOTAL MERCHANDISE	7.1	5.9	6.4	6.4	100	100	100	100	100

Sources: World Bank, World Development Report, 1978, Tables 13 and 25 and unpublished projections for WDR.

6% in the other ("middle-income") LDCs. Exports per head are 12 times higher in this second group. Broad differences in the composition of exports between these and other groups of countries are summarized in Table 2.^{1/}

In coming years, much as in the recent past, export growth is expected to be fastest in regions with a high proportion of manufactures in their exports. This is illustrated by Table 3, which shows projected growth rates of LDC exports by region in 1980-85 (a choice of years which allows us to exclude complications associated with the post-1975 recovery) compared to 1965-76. Export growth is expected to be fastest in the middle-income countries of East Asia and the Pacific followed by Southern Europe; these are the regions most successful (and most specialized) in manufactures. Sub-Saharan Africa is expected to have the slowest export growth followed by North Africa and the Middle East; these are the regions most dependent on primary commodities.

B. Trends in Primary Exports

1. Fuel. In contrast to the slow growth in most other primary exports, there has been a bonanza in LDC oil exports, thanks to the four-fold rise in price in 1973-74, following a sustained growth of volume at rates of 6-7% per year. As a result, even with capital-surplus oil exporters excluded, fuel has come to outweigh all other primary exports combined.

^{1/} Apparent similarities between low- and middle-income LDCs in the composition of exports disappear in a disaggregation by regions.

Table 2: WORLD EXPORTS BY MAJOR GROUPS OF COUNTRIES, 1975

	<u>Low Income Africa and Asia</u>	<u>Other Developing</u>	<u>Industrialized</u>	<u>Centrally Planned</u>	<u>Capital Surplus Oil Exporters</u>	<u>World</u>
Value of Exports (US\$ bils.)	18	162	551	82	52	865
<u>Percent Share of:</u>						
World Population	30	22	17	30	0.3	100
World Exports	2	19	64	9	6	100
<u>Export Composition (%)</u>						
Fuel and Energy	33	41	3	18	100	19
Agricultural Products	36	26	16	16	-	17
Non-fuel Minerals	9	7	5	6	-	5
Manufactures	<u>23</u>	<u>26</u>	<u>76</u>	<u>60</u>	<u>-</u>	<u>59</u>
Total	100	100	100	100	100	100

Sources: World Bank background data for World Development Report 1978 based on UN trade statistics; populations from World Bank Atlas, 1977.

**Table 3: PROJECTED GROWTH RATES OF DEVELOPING COUNTRIES' EXPORTS
BY REGION, 1980-85, COMPARED TO ACTUAL RATES FOR 1965-1976**

(Percent Per Annum)

Region	<u>1965-76</u>	<u>1980-85</u>
Sub-Saharan Africa	4.3 ^{a/}	3.4
Low-Income Asia	3.8 ^{b/}	5.7
Middle-Income Asia and Pacific	12.2	10.0
North Africa and Middle East	12.8 ^{c/}	4.1
Latin America and Caribbean	4.7	5.6
Southern Europe	9.2	8.4
All Developing Countries	8.3 ^{c/}	6.6

a/ With Nigeria and Gabon excluded this becomes 2.6.

b/ With Indonesia excluded this becomes 1.1

c/ This is biased upward by the deflators used (see note below), as a result of rising oil prices.

Note: 1965-76 rates are not in constant prices but are deflated by unit value indexes taken from UN Yearbook of International Trade Statistics 1976, Vol. I, p. 81, and UN Monthly Bulletin of Statistics, July 1978, p. xx. These show unit value of LDC exports for all LDCs (1970=100) increasing from 93 in 1965 to 331 in 1976, and for importers of petroleum, from 89 in 1965 to 196 in 1976. Oil exporters' nominal export growth was deflated by the first and that of other LDCs by the second index.

Sources: 1965-1976 estimated based on export statistics from IMF International Financial Statistics and Direction of Trade, UNCTAD Handbook of International Trade and Development Statistics, June 1978; 1980-85 projections based on projections based on background studies for WDR.

Benefits from this windfall have been concentrated in a small set of oil-exporting countries. It includes two large, poor countries--Indonesia and Nigeria--whose growth has been substantially accelerated in the past five years. The other OPEC members have benefitted even more, but their total population is less than 100 million people.

Prior to the oil price rise, world demand for fuel exports rose faster than world income, but since then it has been expanding more slowly. The greatly increased incentives to expand domestic fuel supplies and to economize on energy use are helping to turn up new sources in LDCs while slowing the growth of world trade and consumption. On balance, the prospect seems to be for growth in export volumes at rates of 3-4% per year with a possibility of future price increases in real terms.

2. Agricultural Products. Table 1 shows that agriculture, livestock, forestry, fishing and food processing together supplied 43% of LDC exports in 1960,^{1/} but this share fell to 27% in 1975 and is trending downward. World demand for exports of agricultural products nearly keeps pace with world income, growing at rates over 4% per year. Expansion of export demand reflects not only rising incomes but also growing food deficits in many centrally planned economies (CPEs) and LDCs. While the LDCs as a group were virtually self-sufficient in food in the 1950s, by 1975 their net imports exceeded 30 million tons. Present estimates point to a food deficit of some 45 million tons by 1985.

^{1/} Or 52% in current prices.

The LDC share of world exports of agricultural products has fallen over time; their growth rate of 2.6% from 1960-75 was less than half that achieved in MDCs. This weak performance has been due, first, to an initial concentration in tropical products such as coffee, cocoa, tea and bananas, in which world demand has expanded only slowly. Second, trade and tax regimes in many LDCs have discouraged agricultural production and exports in favor of other activities, notably manufacturing for the home market. Third, world efforts to raise farm output through agricultural research and extension, investments and improved inputs are largely concentrated in temperate zones and richer countries, where LDC exports are also held back by MDC protection. However, despite these handicaps, agricultural output in LDCs has actually grown faster than in MDCs, but has been offset by rising home demand due to population and income growth.

Increasing the growth rate of agricultural exports from LDCs hinges on accelerating supply in the face of fast-growing domestic demand. In a number of agricultural products (grain, meat, timber, rubber, etc.), the potential export market is favorable, even though food products face widespread protection, particularly from nontariff barriers in OECD countries designed to give better prices to farmers. Policies toward agriculture have been improving in some of the major developing countries. As a result, both production and export growth are expected to rise, the latter to over 3% a year through 1985. Efforts to stabilize prices and earnings in agricultural commodities, to the extent they are successful, could contribute to export expansion by reducing uncertainties that discourage investment. Projected

growth rates of LDC exports in leading agricultural products, together with those in leading minerals are shown in Table 4.

3. Non-fuel Minerals. In this category (which includes nonferrous metals), LDCs have achieved export growth rates close to 5%. While world demand expands more slowly than world income, the LDC share of total supply is growing, thanks to untapped supplies and less exploitation than in more industrialized countries. These resource advantages are partly offset by the reactions of MDC investors to increased taxation and the political uncertainties in LDCs. Here, as in oil, the diffusion of technology has improved the bargaining position of host countries, which increasingly have the options of national ownership or joint ventures as alternatives to foreign-owned mining operations. (Domestic demand beyond the processing stage is usually a negligible influence on export availability.)

Growth of LDC mineral exports is projected to accelerate somewhat and to continue to outpace world demand, with export growth rates approaching 6% per year. To a somewhat lesser extent than in fuel, these exports come mainly from a small set of LDCs. The mineral exporters rarely have high GNP per capita compared to the general range for middle-income countries, and in sub-Saharan Africa most of these would be classed as low-income or even "least developed" countries were it not for their mineral exports.

4. Diversification. A notable trend in primary exports has been product diversification at the country level, outside the oil-exporting countries. Our colleague, Martin Wolf, has compared the concentration of primary commodity exports in 1960

**Table 4: HISTORICAL AND PROJECTED GROWTH RATES OF LDC EXPORTS
BY VOLUME IN LEADING AGRICULTURAL AND MINERAL PRODUCTS**

	Value in 1974 (US\$ mil.) ^{a/}	Volume Growth Rate of LDC Exports (% p.a.)	
		1960-1976 ^{b/}	1974/76-1990
Copper	5,320	3.7	3.3
Sugar	5,083	2.8	2.7
Coffee	3,984	1.7 ^{c/}	2.6
Fats and Oils	3,877	5.7 ^{c/}	5.2
Timber Logs } Sawnwood }	2,747	8.6 ^{c/} 8.8 ^{c/}	2.2 8.0
Cotton	2,291	-0.2 ^{c/}	-0.3
Rubber	2,212	3.6	3.6
Iron Ore	1,693	6.9	3.9
Phosphate Rock	1,692	5.2	5.1
Cocoa	1,555	2.2 ^{d/}	2.5
Tin	1,256	0.9	1.5
Maize	1,153	5.4 ^{e/}	3.6 ^{e/}
Rice	1,094	-0.7	0.0
Tobacco	691	3.9 ^{c/}	5.3
Tea	672	1.8 ^{c/}	2.3
Beef	609	-1.7 ^{f/}	5.4
Bananas	602	3.3	2.1

^{a/} No one year is entirely representative because of price fluctuations; for example, in 1974 prices were exceptionally high in copper and phosphate rock.

^{b/} Trend growth rates.

^{c/} 1961-1976.

^{d/} 1955-1976.

^{e/} Growth rates are for all coarse grains.

^{f/} 1961/63 - 1974/76.

Source: Commodities and Export Projections Division, World Bank.

to that in 1974 for fifty-five non-OPEC LDCs.^{1/} The proportion of these countries dependent on one commodity for more than half of their primary export earnings fell from 49% in 1960 to 18% in 1974. The mean share of the leading single primary commodity fell from 47% to 35%, but there was no tendency for the second and third exports to decrease in relative importance. This diversification seems to be largely a result of deliberate efforts by LDCs to escape from dependence on a single commodity by building up exports of other products.

C. Trends in Manufactured Exports

The most basic change in the pattern of LDC exports has been the spectacular growth in manufactures. From 1960 to 1975 these exports expanded at rates of over 12% per year. This growth accelerated in the late 1960s and early 1970s and has continued strongly despite the setbacks suffered by the world economy since 1973. During the world recession of 1975 the volume of LDC manufactured exports seems to have risen in volume by at least 6-7% even though output and consumption of manufactures fell sharply in MDCs.^{2/} In the 1976 recovery, LDC manufactured exports leaped forward by over 20%; and in the slow growth conditions of 1977, they appear to have expanded once again in real terms by over 10%, despite a decline in clothing and textiles, although world trade increased only 4%.^{3/}

^{1/} In unpublished research for World Development Report.

^{2/} This export growth was largely masked by a shift in the terms of trade against these exports.

^{3/} These estimates are all preliminary.

1. Country Concentration. The bulk of manufactured exports come from a small number of industrially relatively advanced LDCs, as shown in Table 7 below. The Republic of Korea, Taiwan (Republic of China), Spain and Hong Kong together supply close to 45% of the total. Next come Yugoslavia, Brazil and Mexico. However, the growth in these exports has been widely shared, as illustrated by Table 5. More than forty LDCs now have exports worth over \$100 million, compared to 22 in 1970 and fewer earlier. Although the scale and pace of this growth have varied from one country to another, in many the upsurge has been persistent and powerful.

At a product level, the breadth of this advance is impressive. From almost any year in the 1960s through 1976, real growth rates have been over 10%, not only in clothing and electronic assembly (which have made striking gains), but also in machinery, transport equipment, textile yarn and fabrics, steel, chemicals, and almost every other major group. Growth of 10% per year or more seems to be the rule rather than the exception even at the level of individual products.^{1/} However, most of these strong performances started from a low base in the 1960s, particularly in products that are technically complex, skill-intensive and/or subject to strong economies of scale.

Looked at slightly differently, the steady advance of manufactured exports has been accompanied by an equally persistent diversification, with successful export breakthroughs being widespread. In practically every case the more complex and

^{1/} A detailed analysis of LDC produce performance is given in Donges and Riedel (1977).

Table 5: INCREASING NUMBERS OF LDCS EXPORTING MANUFACTURES,
1965-1975

(Cumulative, at 1975 Prices)

<u>Exports of Manufactures Over:</u>	<u>1965</u>	<u>1970</u>	<u>1975</u>
US\$2 Billion	0	2	9
US\$1 Billion	3	6	12
US\$500 Million	7	11	15
US\$200 Million	12	15	25
US\$100 Million	18	22	40
US\$50 Million	27	37	46

Source: WDR Table 15 and UN trade data; price index from UN Monthly Bulletin of Statistics,

difficult-to-produce of these products come initially from one or two of the most industrialized LDCs. Among less industrialized LDCs, one finds the same sort of process going on at a smaller scale and in simpler products.

2. Exports by Destination. Strong growth taken place in manufactured exports in all major markets. Especially rapid expansion has occurred in LDC exports to MDCs, which have outpaced the rest. Those going to other LDCs and to CPEs have also increased in 1960-75 at annual rates above 10%.

Table 6 illustrates the compositional differences between manufactures exported to MDCs and to other LDCs in 1975. In the aggregate, nearly two-thirds of LDC manufactured exports go to MDCs, nearly one-third to other LDCs, and limited amounts to CPEs. There is considerable variation by product: products such as clothing and electronic products go mainly to MDCs, while products such as textiles and chemicals are traded more among LDCs. This is also true of some types of machinery and transport equipment. However, trade in capital goods among LDCs is quite limited: nine leading exporters reported only \$587 million in exports of non-electrical machinery to other LDCs in 1974.^{1/}

The table also shows the composition of LDC imports from MDCs, which outweighed trade in the opposite direction by \$123 billion to \$26 billion, or more than 4 to 1, along with the

^{1/} Based on an unpublished World Bank study by Yoriko Kawaguchi; the nine LDC exporters are Brazil, Argentina, India, Yugoslavia, Malaysia, Mexico, Hong Kong, Korea and Colombia. In machinery and transport equipment, U.N. trade statistics appear to be inflated by reexports among LDCs and to understate exports to MDCs.

Table 6: COMPOSITION OF LDC TRADE IN MANUFACTURES BY DESTINATION, 1975

(Percent)

	<u>Trade Among LDCs^{a/}</u>	<u>LDC Exports to MDCs</u>	<u>LDC Imports from MDCs</u>	<u>Share of Inter-LDC Trade in Total LDC Imports</u>
Machinery and transport equipment	31	18	55	6
Textiles	14	10	4	28
Clothing	5	19	1	39
Chemicals	13	7	12	11
Iron and steel	6	5	10	7
Other manufactures	<u>31</u>	<u>41</u>	<u>19</u>	<u>15</u>
TOTAL	100	100	100	10

a/ Includes significant reexports, notably in machinery and transport equipment.

Source: UN Yearbook of International Trade Statistics, various issues.

share of trade among LDCs in total LDC imports of manufactures in each broad product group.

3. Overview. In summary, the rapid growth of manufactured exports appears to have been mainly the result of a supply breakthrough. Demand growth has played only a secondary role, especially since LDC shares of most markets were initially quite small. Substantial growth has taken place even in products in which aggregate demand grew only slowly: in clothing, consumption appears to have grown in MDCs at about 3% per year while LDC exports to MDCs grew at over 20% a year.

LDC success in exporting manufactures seems to have four main explanations, all but one of them on the supply side:

(1) Rapid overall development has increased the industrial capabilities of the leading exporters of manufactures and contributed to their ability to move into related export products.

(2) There has been a widespread shift in LDC policies away from inward-looking industrialization around the home market, toward a systematic effort to export industrial products.

(3) Improvements in transport and communications have facilitated growth of trade and an international division of labor even over long distances.

(4) International trade policies of the industrial countries have maintained access to their markets and, at least until recently, continued the postwar trend toward trade liberalization in industrial products. LDC exports have benefitted from Dillon and Kennedy round tariff cuts, offshore assembly

provisions in tariffs, preferences from the European Community, Generalized System of Preferences (GSP) schemes in various MDCs, and resistance to pressures for more restrictive nontariff barriers.^{1/}

For the last two reasons, trade in manufactures has grown faster than output in both MDCs and LDCs. The faster export growth in developing countries is attributable to the first two influences--rapid industrial development and a shift toward outward-looking policies.^{2/}

It is not widely appreciated how many developing countries have been changing their policies to promote manufactured exports. This shift began around 1960 and went further later in Spain, Taiwan (Republic of China), Republic of Korea, Yugoslavia, Greece, Israel and Portugal.^{3/} In the course of the 1960s, Brazil, Mexico and Singapore and to a lesser extent others (e.g., Pakistan) shifted policies in the same direction. More recently export promotion measures have become a significant component of industrialization policies in many other countries, notably Colombia, Argentina, Uruguay, Chile, Sri Lanka, Tunisia, Morocco, Haiti, Dominican Republic, some of the Central American republics, Cyprus,

^{1/} However, trade liberalization has favored MDC industrial exports over LDC specialties, which tend to be exempted from tariff cuts and GSP schemes.

^{2/} The initial composition of these exports would almost certainly have led to a slower growth rate in LDCs than MDCs, if both groups of countries had maintained their market shares.

^{3/} In Hong Kong export promotion efforts began by the late 1940s, while various industrial countries (and Puerto Rico) set examples in the 1950s.

Malta and Mauritius. 1/

1/ Still others have begun to experiment with export processing zones (e.g., Indonesia, Syria), export-oriented investments (e.g., Venezuela, Iran) or regional common markets of various kinds (in Africa, Latin America and the Caribbean).

II. CHANGING COMPARATIVE ADVANTAGE AND LDC GROWTH

A number of studies have shown a strong relation between export expansion and the growth of GNP.^{1/} It is fairly well established that countries cannot continue to grow rapidly by steadily reducing the share of imports in GNP and that expanding the share of imports and exports in GNP permits more efficient allocation of resources and more rapid growth. At least over an extended period, export growth seems to be a necessary though not a sufficient condition for rapid GNP growth.^{2/}

The previous discussion shows that in order to accelerate the growth of exports the developing countries have in recent years changed their export composition substantially, shifting away from the slower-growing primary products toward manufactures, and within manufactures, diversifying into new commodities as skills and experience are acquired. We will now examine this process in somewhat more detail for groups of countries that differ in their initial income levels, resources and trade policies.

Recent empirical studies have had considerable success in explaining the composition of manufactured exports from LDCs in terms of both the Heckscher-Ohlin approach (including skills

1/ See, for example, Maizels (1968), Chenery (1971), Balassa (1977a) and Michaely (1977). The last allows for the fact that exports are a component of GNP by relating GNP growth to the increase in the share of exports in GNP, with highly significant results.

2/ For limited periods, capital inflows can replace exports as a source of foreign exchange, but in cases of successful development this has only deferred the need to expand exports by a decade or so.

as a factor of production) and more recent technological explanations based on the product cycle, technical progress and scale economies.^{1/} There have been fewer explorations of other influences such as learning processes in marketing and product design, that contribute to success in exporting manufactured goods. These influences appear to be part of a cumulative process that has produced a relatively small number of very successful LDC exporters.

A. Comparative Advantage by Country Groups

To illuminate the relationships among initial economic structure, trade policies and export performance, we shall use a modified version of the classification of trade and production patterns proposed by Chenery and Syrquin (1975). Table 7 classifies selected developing countries (including all those having more than \$150 million worth of manufactured exports in 1977)^{2/} into four groups. The first three contain countries with a per capita income (in \$1976) of more than \$300, which are well along in the process of development; the fourth consists of poorer countries.

I. Countries that specialized relatively early in exports of manufactures and have followed generally outward-looking policies.

^{1/} See, for example, Hufbauer (1970), Hirsch (1974), Stern (1975), Helleiner (1976), and Balassa (1977b). A number of regional applications are given in Giersch, ed. (1974).

^{2/} Except Jamaica, whose exports of manufactures consist almost entirely of aluminum oxide, and New Caledonia, which exports ferrous nickel.

Table 7: EXPORTS OF MANUFACTURES AND COUNTRY CHARACTERISTICS OF SELECTED LDCs

Country	Population (mill; 1976)	GNP Per Capita		Manufactures as % of Goods Exports		Exports of Manufactured Goods			Real Average Growth (% p.a.) 1965-75
		(US\$ 1976)	Avg. Growth (% p.a.) 1960-1976	1960		Total (US\$ million) 1976	Per Capita (US\$) 1976	Textiles, Clothing, Footwear and Leather Products (% of Total)	
				1960	1975				
I. Specialized Exports of Manufactures									
Israel	3.6	3,920	4.3	61	83	1,850	514	10	11.1
Singapore	2.3	2,700	7.5	26	43	1,790	778	13a/	15.0a/
Greece	9.1	2,590	6.1	9	48	1,252	138	45	28.7
Hong Kong	4.5	2,110	6.5	80	97	6,480	1,440	58	11.9a/
Portugal	9.7	1,690	6.5	55	71	1,198	124	44	7.8
Taiwan (Rep. of China)	16.3	1,070	6.3	14	81	6,921	425	44	28.8
Korea, Rep. of	36.0	670	7.3	14	82	6,675	188	50	36.0
II. Large Semi-Industrial Countries									
Spain	35.7	2,920	5.5	12	70	6,025	169	19	22.6
Yugoslavia	21.5	1,680	5.6	44	72	3,383	157	21	9.9
Argentina	25.7	1,550	2.8	4	25	972	38	23	16.7
Brazil	110.0	1,140	4.8	3	27	2,332	21	29	25.4
Mexico	62.0	1,090	3.0	12	52	2,327b/	38	15b/	21.2
Turkey	41.2	990	4.2	25	36	466	11	70	32.2
III. Emerging from Primary Specialization									
Venezuela	12.4	2,570	2.6	0	1	115c/	8c/	2c/	20.1
Iran	34.3	1,930	8.2	3	1	208c/	6c/	71c/	8.9
Chile	10.5	1,050	0.9	4	8	109d/	11d/	0	n.a.
Malaysia	12.7	860	3.9	6	18	667e/	54e/	14e/	18.2
Tunisia	5.7	840	4.1	10	20	203	36	49	15.0
Colombia	24.2	630	2.8	2	21	306e/	13e/	39e/	17.3
Ivory Coast	7.0	610	3.4	1	12	117	17	27	17.4
Morocco	17.2	540	2.1	8	13	197e/	12e/	61e/	16.6
Philippines	43.3	410	2.4	7	17	255e/	6e/	27e/	7.8
Thailand	43.0	380	4.5	2	23	305e/	7e/	28e/	30.0
IV. Large Poor Countries									
Egypt	38.1	280	1.9	10	34	386	10	73	7.8
Indonesia	135.2	240	3.4	0	1	119	1	(low)	14.1
Pakistan	71.3	170	3.1	22	55	589e/	9e/	79e/	a/
India	620.4	150	1.3	44	45	1,961e/	3e/	52e/	2.8
Bangladesh	80.4	110	-0.4	..	63	220	3	97	e/

a/ Including reexports.

b/ Estimated including border zone, with help of U.S. as well as Mexican data.

c/ 1975

d/ 1974

e/ For Pakistan and Bangladesh together, exports of manufactures grew at 8.5 percent.

Sources: First five columns from World Bank, World Development Report, statistical annex; other trade data from UN Yearbook of International Trade Statistics and other UN sources, plus national statistics for Taiwan (Republic of China) and Mexico; populations for 1975 and 1976 from World Bank Atlas; real export growth 1965-75 computed using UN unit value index for SITC 5-8 for developing countries as a deflator.

II. Large semi-industrial countries, with relatively low export shares in GNP, that have achieved considerable success in industrialization based mainly on the home market, but in recent years have also tried to promote exports of manufactures.

III. Countries now shifting part way from specialization in primary exports in an effort to diversify their exports and accelerate development.

IV. Large poor countries with significant exports of manufactures.

These groupings are meant to illustrate the main policies and countries involved, without being exhaustive.^{1/} Brief comments follow on each group.

Group I: Early Specialization in Manufactures

This group contains four East Asian countries (Hong Kong, Singapore, Taiwan and Korea) and three Mediterranean countries (Israel, Portugal and Greece). Although wage levels were somewhat higher in the Mediterranean group in 1960, they are all characterized by limited natural resources, relatively educated labor, and the need to export manufactures (or services) in order to develop. The composition of their exports generally corresponds to expectations based on trade theories of both factor-proportions and product-cycle types. With local variations, their exports have been built initially around

^{1/} A classification of all transitional countries is given in Chenery (1977), which also traces the past growth of each of the main groups. In addition to the countries shown in Table 7, there are many smaller exporters of manufactures.

labor-intensive, technologically stable ("older") products such as textiles, clothing, footwear, assembled electronic components, toys, etc. ^{1/}

In these footloose industries, the role of policy is substantial in determining the location of particular products. For example, over 90% of LDC clothing exports and almost all the electronic products come from locations where imported inputs are given virtual free-trade treatment by one means or another. The electronics exports come from places with favorable treatment of "multinational" corporations (MNCs) as well. ^{2/}

More than trade theory has emphasized to date, LDCs' limited capabilities in marketing and related aspects of design appear to restrict their capacity to export even labor-intensive consumer and capital goods. ^{3/} LDCs depend heavily on outsiders to market exports of these products even where production is in local hands (as is typical, for instance, in footwear and

^{1/} Natural resource processing has also played a role in several cases.

^{2/} Although a few products such as radios are largely produced by locally-owned firms.

^{3/} Marketing and related aspects of design are defined here to include almost all nonproduction activities required to adjust a product to the tastes of the customer, to profit from product differentiation, to find buyers and "sell" them on the product, and to test, package, ship, distribute and service the product so as to meet the special needs of the customer. We would exclude from "design", and treat as a separate activity, as well as technology transfer, adaptation, and research having to do with production.

clothing). Tailoring production to what the customer needs, and marketing suitably differentiated products, involves experience, skills, information and organization that are difficult for newcomers to achieve. As a rule LDC firms compete mainly in markets for consumer goods where a cost-cutting strategy can be effective, for example, in selling to wholesalers for distribution to people (in LDCs or MDCs) too poor to be concerned with brand names. They may also furnish production capacity to MDC firms that know how to compete in markets characterized by brands and administered prices. Even marketing consumer goods exports with help from MDC buyers involves a learning process that is not easy. It is striking that a large majority of LDC exports of clothing come from just three countries in this group--Hong Kong, Republic of Korea and Taiwan--perhaps because they have accumulated the necessary information links and experience in getting the product together and delivering reliably on time, even though several of the other LDCs that are trying to export clothing have lower wages and all have fewer problems with quotas.

Group II: Large Semi-Industrial Countries

The countries in Group II have developed a substantial industrial structure based on import substitution and protection and have gradually dismantled at least some of these policies over the past ten to twenty years. Spain and Yugoslavia were the earliest to undertake this shift and have reached per capita levels of manufactured exports that are comparable to Group I. However, the share of exports in GNP for these large countries is considerably below that of most of the smaller, more specialized economies in Group I.

Most of these countries began to expand manufactured exports when afflicted with shortages of foreign exchange: in some cases the benefits of increasing imports may have outweighed considerations of efficiency in the choice of export sectors. Over time these countries have managed to develop export markets for the capital goods, chemicals and other intermediate goods for which their domestic markets, augmented by exports, provide sufficient economies of scale. As a result, Spain, Yugoslavia and Brazil have become the leading LDC exporters of capital goods.^{1/} This is a logical direction for the evolution of comparative advantage in large middle-income countries, but success depends to an even greater degree than in consumer goods on design, marketing and technical services.

Although the present diversified export pattern of the Group II countries (which is discussed further in the next section) is largely the result of protection and import substitution, it is still a matter of dispute as to whether the earlier, inefficient policy was a precondition for the present degree of success in building up exports based on scale economies. This issue--which is discussed for the Latin American countries by Diaz-Alejandro (1974)--is of mainly historical interest for the present members of this group, and for India, which now has a long history of inefficient import substitution. However, it is central to the future policies of prospective members of the Group, such as Egypt, Pakistan and Indonesia.

^{1/} Followed by Taiwan, Republic of Korea, Argentina and India. The role of market size is evident.

The continued success of the Group II countries depends on a set of cumulative processes somewhat different from those in the smaller, more specialized economies of Group I. The potential advantages of large countries lie in their ability to develop economies of scale based on their home markets, leading over time to production and exports of machinery and transport equipment along with standardized intermediate goods such as chemicals and basic metals. This sequence has been followed most successfully by Spain, Yugoslavia and Brazil.

Another reason for this pattern of specialization is that several of the Group II countries have considerable export earnings from natural resources, contributing to relatively high wage levels.^{1/} This may mean that like other resource-rich countries before them (the United States, Canada, Sweden, and Australia) they will be forced to build their industrial exports around relatively skill-, capital- and natural-resource-intensive products, where their wage levels will not be a serious handicap.

Group III: Countries Emerging from Primary Specialization

The countries shown in Group III all exported relatively insignificant amounts of manufactures in 1960 but have achieved significant increases in the past fifteen years. This has helped to diversify their exports and as a rule has improved their prospects for more rapid export growth. The optimal timing of such a shift into manufactured exports depends in part on the prospects of (and effects on) primary exports. To accomplish

^{1/} This is particularly true in Argentina, Spain and Brazil, and is becoming true of Mexico, as a result of new oil discoveries.

this shift through the market mechanism has proved difficult for countries rich in natural resources whose current exchange rates are based on this pattern of specialization. Conversely, countries in this group that still have rather low wage levels by comparative standards, such as Colombia, the Philippines and Thailand, find this shift easier.

Within Group III, Malaysia, Colombia and Thailand have managed to stimulate the growth of manufactured exports without excessive interference with markets, through subsidies or otherwise. The Philippines and Chile have shifted policies sharply in recent years in pursuit of this goal.

In Iran and Venezuela industrial exports are almost inevitably energy- or capital-intensive, while the poorest Group III countries are pushed more in a labor-intensive direction. In between, there is not a compelling need to stress labor-intensive exports.

Group IV: Large Poor Countries

This group includes the principal countries with income levels below \$300 per capita that have achieved a significant volume of manufactured exports or have the industrial base to do so in the near future.^{1/} They also include 75% of the population of all countries with per capita incomes of \$280 or less in 1976, and the possibility of their benefitting more fully from

^{1/} Haiti, Kenya, Sri Lanka and Vietnam have some potential but their actual exports of manufactures are still very small.

international trade is therefore of great concern to world development. This is a heterogeneous group. At one extreme, India has a long history of industrial development and a diversified production capability; at the other, Bangladesh has little industrial capability beyond processing of jute, and its manufactured exports are almost wholly jute textiles. Limited supplies of foreign exchange have hampered the growth of India, Pakistan and Egypt over most of the past fifteen years, while Bangladesh is heavily dependent on external aid.

The industrial base for exporting a variety of manufactured goods has already been established in India, Egypt and Pakistan, but these countries have only followed policies favoring manufactured exports for brief periods (Pakistan in the late 1960s, India in the last several years). In addition to the comparative advantage deriving from low wages, all three (and particularly India) are in a position to benefit from the economies of scale inherent in a large domestic market. As shown in the next section, the composition of Indian exports shows some changes in this direction in recent years.

B. Changing Composition of Manufactured Exports

Compared to manufactured exports from industrial countries, those from LDCs contain a much smaller share of capital goods and consumer engineering products, and a larger share of clothing, footwear and textiles. This is a familiar reflection of differences in skilled vs. unskilled labor requirements and the technical complexity of the goods involved. However, only a small number of LDCs in Groups I and II have been particularly

successful in exporting finished consumer goods, including clothing and footwear, let alone capital goods.

Table 8 shows the product composition of manufactures in seven main categories, chosen on the basis of marketing characteristics as well as technological and factor requirements. Only in the principal countries in Group II ^{1/}--Spain, Yugoslavia, Brazil and Argentina--do capital goods comprise more than 12% of manufactured exports, compared to the 32% average in MDCs. Capital and consumer goods ^{2/} together comprise over 40% of exports only in Hong Kong, Taiwan, Korea, Spain, Yugoslavia and Brazil, which are also the six largest LDC exporters of manufactures. In almost all leading MDCs, this share is over 40%.

In countries with limited exporting experience--particularly those of Groups III and IV--exports of manufactures consist largely of textile yarn and fabrics and other standardized intermediate goods, such as leather, plywood, cement, steel and assorted chemicals. These products have widely recognized objective standards and descriptions and can be marketed through existing channels of trade not unlike standardized primary

1/ Apart from Ivory Coast, which assembles trucks and heavy construction equipment for partners in a regional customs union. In this table, capital goods are defined as Standard International Trade Classification (SITC) categories 71 (less 714-9), 722.1, 723.2, 724.9, 726, 731, 732.3, 734.1 and 735; consumer engineering goods include SITC 724.1, 724.2, 725, 732.1, 864 and 891; clothing and footwear, SITC 84 and 85; textiles, SITC 65; other clearcut consumer goods, SITC 696, 82, 83 and 89 (less 891); standardized intermediate goods, SITC 5 (less 541, 553, 554 and 571), 611, 631, 641, 661, 662, 664 and 67.

2/ Consumer goods here are the sum of three categories in the table: consumer engineering, clothing and footwear, and other clearcut consumer goods.

**Table 8: PERCENT COMPOSITION OF MANUFACTURES EXPORTED FROM SELECTED LDCS
AND DEVELOPED COUNTRIES IN 1975**

<u>Country</u>	<u>Capital Goods</u>	<u>Consumer Engineering</u>	<u>Clothing & Footwear</u>	<u>Other Clearcut Consumer Goods</u>	<u>Textiles incl. rugs</u>	<u>Standardized Intermediate excl. Textiles</u>	<u>Other and Miscellaneous</u>
Developed Countries	31.8	9.4	2.7	4.0	4.6	24.1	23.3
Developing Countries ^{a/}	12.5	5.8	21.8	9.8	14.9	16.2	19.0
Group I							
Israel	8.9	1.7	6.9	4.1	3.2	6.4	68.8
Greece	5.2	1.3	17.8	3.1	17.3	40.1	15.2
Hong Kong	2.8	11.3	45.7	19.7	9.7	0.7	10.0
Portugal	9.0	5.9	18.4	2.5	23.0	15.2	25.9
Taiwan	9.5	9.8	27.8	14.9	15.1	8.5	14.4
Korea	7.0	5.2	32.4	12.3	15.7	14.7	12.7
Group II							
Spain	23.5	5.6	11.4	8.4	4.6	22.3	24.2
Yugoslavia	25.4	3.1	13.2	5.5	6.1	21.1	25.5
Argentina	18.0	7.8	2.8	4.3	0.3	24.9	41.9
Brazil	25.4	6.1	12.2	5.0	12.4	21.1	17.8
Turkey	2.8	0.5	25.2	2.0	33.6	22.6	13.4
Group III							
Venezuela	0.3	-	-	0.7	2.1	40.3	56.6
Iran	0.7	0.5	10.9	1.0	60.1	6.5	20.3
Malaysia	11.4	4.5	8.5	3.4	5.1	16.6	50.5
Tunisia	1.1	0.4	26.7	1.4	11.5	51.8	7.1
Colombia	6.7	1.2	11.4	12.1	21.9	25.7	20.9
Ivory Coast	20.2	0.9	2.1	-	20.5	26.4	29.9
Morocco	2.4	0.2	26.6	6.4	29.2	20.9	14.4
Philippines	-	0.4	14.1	25.5	8.7	22.2	29.1
Thailand	0.9	2.9	16.2	7.4	24.5	16.5	31.6
Group IV							
Egypt	1.0	0.3	22.0	6.5	47.7	13.6	8.9
India	9.3	1.2	11.2	4.4	30.6	21.0	22.3
Pakistan	2.0	-	7.2	6.4	66.1	13.1	5.2
Bangladesh	-	0.4	-	0.3	88.2	9.5	1.6

a/ Countries listed only.

Sources: Computed from data in UN Yearbook of International Trade Statistics, 1976, based on classifications explained in text footnote.

commodities. Many resource-rich LDCs export relatively capital-intensive standardized goods. One also finds exports of less standardized intermediate goods--for example, electronic components--and trade in household articles and equipment, building materials, etc., in which transport costs and proximity play an evident role.^{1/}

Table 9 shows changes in the composition of exports in leading countries from 1965 to 1975, illustrating the rising share of capital goods and consumer goods in almost all cases. This trend helps to confirm that export success has been based in part on learning special skills involved in marketing and producing for customer specifications.^{2/}

Two other points deserve some comment. First, a few leading Group I and II countries are now exporting technically complex products, such as supertankers, aircraft and heavy machinery. Second, in regard to the product cycle, there seems to have been, if not a shortening of this cycle, a moving up in

^{1/} LDCs close to MDC markets, such as Mexico or Yugoslavia, emphasize labor-intensive products in which transport costs and delivery time afford them an advantage. Transport costs are also important in trade among LDCs.

^{2/} The requisite management, marketing and design capabilities appear to be areas where LDCs are weak compared to MDCs and MNCs, and may be profitable areas for LDC development efforts.

**Table 9: EXPORTS OF CAPITAL GOODS AND CLEARCUT CONSUMER GOODS
AS A PERCENT OF MANUFACTURES EXPORTED FROM LEADING DEVELOPING
COUNTRIES IN 1975 COMPARED TO 1965**

<u>Country</u>	<u>Capital Goods</u>		<u>Consumer Goods</u>		<u>Combined Total</u>	
	<u>1965</u>	<u>1975</u>	<u>1965</u>	<u>1975</u>	<u>1965</u>	<u>1975</u>
Group I						
Israel	2.0	8.9	8.5	12.7	10.5	21.6
Greece	7.1	5.2	11.5	22.2	16.6	27.4
Hong Kong ^{a/}	1.5	2.8	57.3	76.7	58.8	79.5
Portugal	3.5	9.0	12.8	26.8	16.3	35.8
Taiwan	3.4	9.5	19.4	52.5	22.8	62.0
Korea	2.5	7.0	34.0	49.9	36.5	56.9
Group II						
Spain	20.4	23.5	21.2	25.4	41.6	48.9
Yugoslavia ^{b/}	29.9	25.4	19.9	21.8	49.8	47.2
Argentina	14.7	18.0	13.3	14.9	28.0	32.9
Brazil	16.8	25.4	-	23.3	16.8(+)	48.7
Group III						
Malaysia	12.9	11.4	15.8	16.4	28.7	27.8
Colombia	5.3	6.7	4.5	24.5	9.8	31.2
Group IV						
Egypt ^{b/}	0.3	1.0	5.8	28.8	6.1	29.8
India	1.3	9.3	5.5	16.8	6.8	26.1

a/ Reexports are included in 1965 but not 1975.

b/ Exports to centrally planned economies (where marketing is quite different) were important in Yugoslavia in both years and in Egypt's consumer goods exports in 1975.

Source: Computed from data in UN Yearbook of Industrial Statistics.

it on the part of some LDCs, as reflected in exports by some of the Group I countries of such products as "citizens' band" radios, TV games and pocket calculators, and the latest types of digital watches, as well as "knockoff" copies of fashion designers' latest popular clothing styles.^{1/} One may also view color television, steel, petrochemicals and even large ships as "older products" in which leading LDCs have started to compete successfully; and they have already taken over much of the export market for radios and monochrome TV sets. Large-scale exports of passenger cars from Brazil and Korea may soon materialize on the same basis.

1/ Regarding the product cycle as a general phenomenon, see especially Vernon (1966) and Wells (1972).

III. FUTURE PROSPECTS

Although the recent trends in LDC exports have been quite encouraging, the question remains whether world markets for manufactures will support the export needs of the LDCs in the future. This question leads to such matters as economic management and protectionism in MDCs, LDC policies and supply potentials, and the country distribution of increases in exports. We will comment selectively on these issues in the general context of the World Development Report.

A. Effects of World Growth

To illustrate the sensitivity of LDC exports to growth in the advanced countries, the World Development Report makes alternative assumptions about the rate of the advanced (MDC) countries' growth varying from 3.7% to 4.7% a year for the period 1975-1985, with the midpoint (4.2%) as the base case. The corresponding variations in world trade and in LDC exports are shown in Table 10. In the aggregate, the latter vary from 5.4% to 7.4%, proportionately more than the variation in world growth.

The breakdown indicated for major categories of exports depends largely on the supply response of producers, which is taken up below. Overall it is assumed that manufactured exports are highly responsive to demand conditions while primary exports are assumed to be limited more by supply conditions over this period.

**Table 10: IMPLICATIONS OF ALTERNATIVE ECONOMIC GROWTH ASSUMPTIONS
FOR LDC EXPORTS, IMPORTS AND OUTPUT GROWTH**

(Average Annual Percentage Growth Rates, 1975-85)

	<u>Base Scenario</u>	<u>Low Growth Scenario</u>	<u>High Growth Scenario</u>
GDP in MDCs	4.2	3.7	4.7
GDP in LDCs	5.7	5.2	6.1
World Trade	6.4	5.7	7.4
LDC Imports	5.6	4.8	6.5
LDC Exports ^{a/}	6.3	5.4	7.4
Fuel	3.4	3.1	3.4
Agricultural Products	3.1	2.7	3.2
Nonfuel Minerals	5.8	5.3	6.6
Manufactures	12.2	10.2	14.2

a/ Including services.

Source: WDR Tables 32 and 33 and background projections.

B. Supply vs Demand Constraints

As a result of LDC successes, market penetration and employment effects have reached a sufficient level in many products so that protectionist responses have been triggered in MDCs. MDC demand growth has therefore become a major concern, and demand limitations along with supply will shape LDC performance in the future. The seriousness of protective pressures and of MDC demand constraints will depend to some extent on how many LDCs are highly successful at the same time. Nevertheless, growth of LDC exports of manufactures will continue to depend heavily on supply performance almost regardless of the treatment of these exports or the economic situation in MDCs.

1. Supply Potential. In the long run, policies will be decisive in shaping LDC export performance: not just trade and exchange rate policies but how well development is managed on all fronts, how fast industrialization moves forward, and whether countries become internationally competitive. Since it takes time for better policies to produce these effects, there are only a few candidates to add to the successful manufacturing exporters in Groups I and II within the next decade.

In terms of our previous classification, only one or two Group III countries (notably the Philippines at this moment) and perhaps India in Group IV now pursue policies that might increase their manufactured goods exports to the higher levels of Groups I and II.

There is also uncertainty in regard to what products LDCs can develop next. The Republic of Korea and Taiwan are making an intensive effort to build up exports of capital goods and other complex products, spurred by restrictions imposed on their simpler exports. As our earlier comments suggest, this will be a difficult shift. Another question is, how fast can Brazil, India, Mexico, Argentina, etc., expand their manufactured exports, if they tilt policies further in this direction, given the domestic orientation of their production capacity, infrastructure, and experience? A third question is, how fast can exporting and marketing know-how be built up in LDCs that are now only minor exporters?

More generally, LDC exports are no longer expanding from such a low base, so high growth rates may be difficult to maintain in the countries that have already reached relatively high levels.

2. Market Penetration. LDCs now have a substantial share in MDC markets for manufactured imports, as Table 11 illustrates. In relation to MDCs' total consumption of manufactures, the LDC market share remains small except in a few narrow product categories. Nevertheless, at the margin LDCs are making a significant impact on MDC demand for manufactures. Table 12 shows that from 1970-75--partly as a result of the recession at the end of the period--increased imports from LDCs supplied about 7% of the increase in MDC consumption of manufactures. This marginal share is projected to remain over 5%

Table 11: IMPORTS FROM LDGS AS A PERCENT OF DEVELOPED COUNTRY IMPORTS IN
SELECTED MANUFACTURES, 1975

	<u>U.S.</u>	<u>Japan</u>	<u>EEC (excluding inter-trade)</u>	<u>All Developed (incl. inter-trade)</u>
Clothing	81.0	65.3	74.1	44.6
Footwear	61.5	53.1	61.7	34.5
Textiles	43.3	42.0	50.5	18.9
Electrical Machinery	42.4	23.8	15.8	12.0
Nonelectrical Machinery	6.5	7.1	7.9	3.0
Transport Equipment	1.7	2.4	12.3	2.3
All Manufactures	19.9	20.1	21.4	9.4

Source: OECD, Trade by Commodities, Market Summaries: Imports, Vol. I, 1975.

**Table 12: LDC EXPORTS OF MANUFACTURED PRODUCTS AS A SHARE OF MARKETS
IN INDUSTRIALIZED COUNTRIES IN SELECTED YEARS FROM 1960 to 1985**

(Percent)

	<u>1960</u>	<u>1970</u>	<u>1975</u>	<u>1985</u>	<u>Share in Market Growth</u>		
					<u>1960-70</u>	<u>1970-75</u>	<u>1975-85</u>
In Imports	5.9	5.8	8.9	13.6	5.8	18.6	17.5
In Consumption	0.4	0.7	1.2	2.7	1.0	7.1	5.4

Source: WDR Table 26.

through 1985. The total share in consumption is projected to rise from 1.2% in 1975 to 2.7% in 1985.

In particular products, market penetration is considerably higher. For example, in textiles and clothing together, by 1975 the share of consumption reached 5%, varying in the largest MDCs from 8% in the Federal Republic of Germany to 2% in France. In the European Community as a whole, imports from LDCs supplied 55% of the market for men's woven shirts and 45% for women's blouses, as well as 22-26% in five other major products.^{1/} In the U.S. in the same year, imports from all sources (mainly from LDCs) supplied 56% of the market in women's sweaters and over one-fourth in a number of other types of clothing.^{2/} Imports from LDCs also supplied roughly half the radios and monochrome television sets purchased by U.S. consumers.

3. Effects of Protection. This successful market penetration has contributed to the steady decline of some of the industries most affected, particularly those in which demand is growing slowly (clothing and footwear). Repercussions on prices, profits, and employment have hurt all the more because of depressed business conditions and high unemployment in MDCs. Imports from

^{1/} Based on unpublished EEC data.

^{2/} Gloves and mittens, men's woven shirts, and knit blouses, woven shirts and blouses, trousers and slacks, coats, and body support garments for women. Based on data from U.S. Department of Commerce.

LDCs (and Japan and CPEs) have become a lightning rod for feelings caused by other factors--automation, technical progress, ^{1/} competition among MDCs, etc.

One result has been greatly intensified pressure for protection. In some industries--clothing, textiles, footwear, steel--these pressures have succeeded in creating new protective measures across a wide front. In others the pressures have been generally resisted so far, but scattered inroads have been made. The overall outcome still hangs in the balance, with efforts being made to stem the tide and add new international agreements, as a result of the Tokyo Round.

Alongside protection, subsidies to industry have reached unprecedented proportions in MDCs and are now a major obstacle to LDC exports, especially in Western Europe. Shipbuilding, steel and textile products are among the sectors most affected.

The direct impact of recent increases in protection on LDC exports of manufactures will be greatest in clothing, textiles and footwear. These products comprised over one-fourth of LDC manufactured exports to MDCs in 1975, and (as Table 7 shows) they are especially important for the poorer and less industrialized LDCs.

The most severe new restrictions have come in textile products, with the European Community leading the way. Principal

^{1/} Actual labor displacement by LDC imports appears small compared to that resulting from these other influences, based for example on estimates in Wolter (1977), Frank (1977) and other objective studies.

suppliers have been forced to accept quotas for 1978 in some products that are below 1976 levels, and most of the new quotas grow through 1982 at low rates in the range from 0.5 to 4% per year. Not only have all the significant LDC suppliers in each product been hit by quotas but very low "trigger levels" have been set for adding quotas against other suppliers if they start to be successful.^{1/} New, more severe import restrictions have also been created in Canada, Australia, Sweden and Norway. The United States, which has had an effective system of quotas up to now, has imposed a one-year standstill in its quotas on Hong Kong, Taiwan and Korea, holding them in 1978 at 1977 levels; their aggregate quotas through 1982 will allow for a combined growth rate of just 4.5% per year over 1971 levels in their textile product exports to the U.S.^{2/} The combined result will be to slow sharply the growth of LDC textile and clothing exports, which had kept pace with the overall growth of LDC manufactured exports up to 1976.

To determine the net effect of these changes, the World Development Report makes illustrative projections of what

^{1/} For example, in each of eight "sensitive" products of Group I, which account for over 60% of EEC imports from LDCs by weight, a quota will be created against any supplier whose exports come to exceed 0.2% of EEC imports from LDCs and CPEs combined. In Group II (most other major products) this threshold share is 1.2% to 1.5%.

^{2/} Based on recent agreements and data in U.S. International Trade Commission (1978).

1975-1985 growth of manufactured exports might be like. This growth pattern is compared to 1970-1975 in Table 13. Growth of clothing exports is projected conservatively at 5.5% past 1976 and textiles at 4.5%, as a result of recent increases in protection in MDCs.

Using these projections as a starting point, we get a sense of the quantitative importance of protection, at least in clothing and textiles. If trade barriers in textile products were eased to the point where exports of clothing grew at 15% and those of textiles at 12% from 1975-1985, the overall growth rate of LDC exports would increase from 6.4% to 6.9% and that for exports of manufactures, from 12.2% to 13.5%.

4. Prospects for Trade Among LDCs. The upsurge of protectionist pressures in MDCs intensifies interest in the possibilities for accelerated growth of trade among LDCs.

This trade is already growing at well over 10% per year, and the politically realistic possibilities for regional common markets, shared industrial plants, etc., are largely being exploited. The only way that countries that are far apart are likely to open their markets to one another further is through reductions of protection in major LDCs on a most-favored-nation basis. This could come about through unilateral shifts in policies or through reciprocal concessions in future negotiations with MDCs, for example in exchange for reduced NTBs. Moderated protection in major LDCs and reduced NTBs in MDCs both

Table 13: PROJECTED GROWTH AND CHANGING COMPOSITION OF LDC EXPORTS OF MANUFACTURES BY BROAD PRODUCT GROUPS, 1975-85

<u>Product Group</u>	<u>Average Growth Rates</u> (% p.a. in 1975 prices)		<u>Percent of Total</u>	
	<u>1970-75</u>	<u>1975-85</u>	<u>1975</u>	<u>1985</u>
Clothing	20.3	8.3	13	9
Textiles	17.8	6.2	12	7
Chemicals	16.5	13.0	10	11
Iron & Steel	10.7	14.5	6	7
Machinery & Transport Eqt.	20.3	17.3	23	36
Other	10.2	10.0	36	30
All Manufactures	14.9	12.2	100	100

Source: WDR Table 27 and background estimates.

appear highly desirable for LDC growth over the long run, and would help MDCs as well.

Along with trade liberalization, expansion of trade among LDCs depends also on continuing progress in particular markets, for example in making LDCs more competitive in capital goods. For the latter purpose, better financing of supplier credits and improved information and marketing are examples of matters deserving attention. However, it would be unreasonable to expect a rapid acceleration of the growth of trade among LDCs except as a result of a general liberalization of their import restrictions.

C. The Changing Role of Manufactured Exports

In the postwar period the possibility of exporting manufactured goods to the more advanced countries has done much to make possible the emergence of a number of transitional countries that are now approaching the status of mature industrial economies. Although many of them are small, the group also includes several large countries--Spain, Yugoslavia, Brazil, Mexico, Korea. Their graduation into the ranks of the MDCs could potentially make a substantial change in the world trade outlook for the remaining LDCs, yet most of them will still have incomes and wages below the MDC average for a long time to come. In this concluding section we will speculate on the likelihood that manufactured exports can facilitate the growth of poor countries and the changes in international policy that may be required if this is to take place.

Success in exporting manufactures--unlike minerals--has come largely from a skilled and hard working labor force and efficient development policies. There appears to be a strong element of learning by doing, which underlies the concentration of manufactured exports in a small number of countries. Once countries have acquired this ability, it seems to offset rising wages for a considerable period and makes it possible to retain their shares of markets in which they would otherwise be losing their comparative advantage.

This cumulative aspect of export performance and the increasing number of successful competitors may make it increasingly difficult for newcomers to get established in the sectors in which they have a comparative advantage. Even if transitional countries make room, expansion of exports from a few successful LDCs could swallow up most of the opportunities, leaving too little for the rest of the LDCs.

If we assume a second-best world in which the advanced countries are only willing to move away from unprofitable types of manufacturing rather slowly, there is a strong argument for favoring the poorest countries in the limited number of sectors where they are likely to become efficient exporters. Where the export market is already being parceled out by quotas--which cannot be avoided in textiles and some agricultural products--it may be necessary to redesign quotas to discriminate systematically in favor of the least developed and poorest LDCs, if not others

that need exports most.^{1/}

However, there are also potential dangers for LDCs in a systematic attempt to regulate the pattern of trade:

(1) Competition to export successfully, under the present system, stimulates LDCs to higher standards in their policies and economic management, both at the national level and at the level of the firm. Would a less competitive approach do this and lead to desirable learning effects?

(2) Any change away from a system of buying goods abroad wherever they are most satisfactory seems certain to diminish the benefits from trade and make buyers less satisfied with imports from LDCs. Is this cost worth the gain to poor countries?

Since the existing trading system has managed to accommodate the rapid growth of LDC manufactured exports up to now, it may not be easy to strike a balance of these issues. However, these are questions that should be of great concern to the developing countries in discussing a New International Economic Order.

^{1/} To some extent "textile" quotas already operate in the direction suggested, but they strongly discourage new exporters from getting started, no matter how badly the exports are needed. In the aid field, donor policy has already been moving in this direction, but there has been less evolution of trade criteria appropriate to the transitional status of the middle income countries.

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