CHATRATHI P. RAO

EXPORT TRADE AND ECONOMIC DEVELOPMENT: THE MARKETING DIMENSION

INTRODUCTION

WHILE it is recognised that export trade is singularly important for economic development, the nature of mechanism through which trade imparts development cannot be generalised for all countries and times.[1] Professor Kindleberger after an extensive discussion of the trade and development relationship comes to the following conclusion:

> The impact of foreign trade on growth is then indeterminate over a wide range. Trade can stimulate growth, when demand is right abroad and the supply is right at home. In the two intermediate cases, we do not know.[2]

Despite the indeterminate effects of two-way trade on development, the benefits of export trade raises less controversy. It is recognised as an essential part of the total process of economic development.

Exports provide both direct and indirect benefits to a developing economy. One of these arises from the interrelationship between export and domestic trade which reduces the 'marketing lag', one of the hurdles in the way of economic development.

FOREIGN TRADE AND ECONOMIC DEVELOPMENT

Historically, foreign trade helped both industrialised and underdeveloped countries to expand and diversify their economic activity. Studies relating to the British and French experience in the second half of the nineteenth century, the U.S., the Soviet Union and the Japanese clearly indicate such economic growth through export trade.[3] Alfred Maizels concluded from his study of this relationship that:

A general hypothesis advanced is that long term shifts in relative competitive power in the widest sense may reflect changes in the rates of economic growth of the various industrial countries. Since exports are also an important part of the total demand for final output, in most industrial countries, a change in competitive power—which implies a change in export sales—will itself affect the rate of growth in industrial production. Thus, exports interact in a dynamic way with the growth of the whole economy. There has, in fact, been a remarkably close relationship over the past 60 years in the relative growth rates of the main industrial countries, and their shares of the world export market in manufactures.[4]

Similarly the studies of Newmark and Leven indicate the close relationship between foreign trade and economic development of the less developed countries. While Newmark emphasises the positive benefits from foreign trade, Leven suggests that foreign trade development through foreign capital has led to the development of 'dual economy'.[5] Doubts among the economists as to benefits from trade do not arise from doubts about the contribution of exports to development, but about the distribution of benefits because of the way in which the mechanism of international trade works, that is, largely in favour of industrialised countries.[6] On the other hand, writers like Gotfried Haberler and A. K. Cairncross argue on the positive side of the contribution of-trade to economic development.[7]

BENEFITS OF EXPORT TRADE

The classical and neo-classical economists held the view that trade was not only a "device for achieving productive efficiency; it was also an engine of growth."[8] Thus, according to J.S. Mill: "A country which produces for a larger market than its own, can introduce a more extended division of labour, can make greater use of machinery and is more likely to make invention and improvements in the process of production."[9] J. S. Mill refers to both direct and indirect beneficial effects of trade. The direct benefits refer to the additions to national income directly derived from exports. But the 'indirect' beneficial effects are still more important to the developing countries. Prof. Haberler lists such benefits as below which he calls as 'dynamic benefits', First trade provides material means (capital goods, machinery and raw and semifinished materials) indispensable for economic development. Secondly, even more important trade is the means and vehicle for dissemination of technical knowledge, the transmission of ideas, for the importation of know-how, skills, managerial talents and entrepreneurship. Thirdly, trade is also the vehicle for the international movement of capital especially, from the developed to the underdeveloped countries. Fourthly, free international trade is the best antimonopoly policy and the best guarantee for the maintenance of a healthy degree of free competition.[10]

Historically, the economic modernisation of many of the present day developing countries is closely associated with their export trade. Export trade of raw materials has stimulated increased economic activity, helped the development of exchange economy and also provided the necessary foreign exchange to purchase both capital and consumer goods. In many cases the development of industrial and commercial facilities such as electricity, transportation, banking and insurance services, can be directly attributed to the following export trade. Thus, Newmark remarks that:

> Foreign trade in Africa has been the decisive factor in the emergence of an exchange economy, in the growth of an urban population and consequent development of local market for goods and services which, in turn, has given rise to conditions favourable to the development of agriculture and local industries.[11]

Such historical significance of export trade to the developing countries and its impact on their economies is aptly queried by Prof. Haberler when he says:

> How much poorer would Brazil be without coffee, Venezuela, Iran and Iraq without oil, Bolivia without tin, Malaya without rubber and tin, Ghana without cocoa, and I dare say Egypt without cotton.[12]

1. *Market Expansion*

In contemporary times export trade still plays an important role in the economic development of the less developed countries. All these countries are struggling hard to achieve high rates of economic growth in as short a period as possible. In the process of such economic developmental efforts, if the production (both agricultural and industrial) is increased through changes in technology and increases in productivity beyond the domestic requirements, export trade can provide a convenient outlet for such surpluses. In this connection export trade has an important role to play both in the case of traditional agricultural and non-agricultural commodities as well as new manufactures. With regard to the former, initially comparative cost and factor endowment advantages facilitate the exporting of such goods. Additionally, the changes in technology and the consequent increase in productivity, which are integral parts of any economic development process, bring about increased surpluses which may not be absorbed by the domestic market at economic prices. Then export markets can come to their rescue.

With regard to the new manufactures, one of the often repeated limiting factor in these countries is the limited size of the domestic market. This demand limitation problems is stressed by Prof. Nurkse when he says that:

> The existing volume of demand must be adequate to make the introduction of factory methods profitable; and in low-income areas this is not always the case. In the face of technical discontinuities such as the one represented by a transition from handcrafts to factories, out-put expansion elsewhere—implying demand expansion for the given product—may therefore be essential even for cost reducing as distinct from output increasing investment in the manufacturing field.[13]

The domestic market size often makes it uneconomical and goods cannot be continuously produced on an uneconomical scale except at a great social cost. This market size limitation is considered as an universal feature of all the developing countries hindering the growth of manufacturing industries. If, on the other hand, the country under consideration could develop the necessary export markets in addition to its domestic markets for its new manufactures, it could ease this market limitation obstacle. Such a development could benefit the new industries to derive the scale economies. The importance of cultivating export markets for the development of efficient industrial systems has been clearly stressed by the economists. Thus Nurkse says:

> The minimum size of efficient plant is an important practical consideration which often limits the diversification of industry in any single country. This leads us at once to the crucial point that the case for diversified output growth for domestic consumption cannot be confined to national limits. Manufacturing for home markets in the less developed countries must include also production in these countries for export to each others' markets.[14]

Although Prof. Nurkse essentially refers to the export trade among the developing countries, by the same token, at least for the semi-industrial countries, export-orientation on a global level will be more desirable.

Such scale expansion in export-oriented industries could as well impart economies of scale directly to the immediate supply industries and indirectly to other industries. However, this is not to imply that export markets are readily available, but only to suggest the potentialities of export-trade for industrial development of the developing countries. At the same time it can be maintained that export orientation of new-industries could hasten their development and increase their efficiency much quicker than when industries are only domestically oriented, with strong protection.

2. *Production* vs. *Marketing Affects*:

Export trade has two-fold beneficial affects—one on production side and the other on marketing side of the business enterprise. In the conventional approach usually the benefits on the production side are stressed. It is often considered that export trade leads to improvement in technical know-how and skills. This advancement on the production front is to a large extent tied with the developing country's ability to sell the products abroad. This latter aspect can be called as the "marketing-spread" affects of export trade. Production technology and scale economics can accrue only if the products so produced can be sold either in the domestic market or in overseas markets. This marketing aspect of export trade and benefits accruing to a given country from such export marketing experience have not been given enough attention in the literature dealing with trade and development in economics. It can be suggested that export experience on the part of the manufacturers of a developing country will have very important beneficial affects.

In the first place such experience will enable the entrepreneur to expand both his domestic and export markets which can lead to increased production. The lack of such export-marketing ability could be a great hindrance in the way of developing export-oriented industries. For example, the inability of most of the developing countries, to sell even their traditional products in the form of processed and branded products instead of in the form of raw materials could be cited as an indication of general inadequacy of marketing ability on the part of these countries. In the conventional discussions about export trade and related matters, attention, is usually drawn to the problems of terms of trade, tariffs, trade agreements etc., to the total exclusion of marketing aspects of export trade. In view of the importance of marketing to export trade, I contend that the marketing beneficial affects are as important as the beneficial affects on the production side. This significance of marketing in export trade and its interrelationship with domestic trade will be developed later. Such educative affects of export marketing experience may be more intangible and more in the form of ideas. But as Meier observes: "A deficiency of knowledge is a more pervasive handicap to the development than is scarcity of any other factor."[15] Haberler stresses the spread of ideas through export experience. According to him : "Trade serves as transmission belt for the dissimination of ideas, technological know-how, skills, managerial and entrepreneurial services."[16]

3. *Developing Needs and Export Trade*

The importance of export trade becomes all the more clear in the wake of the development aspirations of the developing countries. Economic development program of any significance will invariably involve large scale importation of capital goods and to a certain extent industrial raw materials. The volume and value of such development and maintenance imports will be increasing from time to time in the development process. This is not a special feature of the present-day developing countries alone. Historical experience also shows high import consumption ratios and considerable import-dependence in the case of U.S., U.S.S.R., and Japan during their periods of 'Sustained growth.'[17]

To such increased import requirements we have to add the serving charges on capital inflows in the form of either public loans or private investments from the developed countries. The net effect will be ever increasing foreign exchange requirements. Hence export trade has to become an essential part of any developmental program, if the goals of such program have to be realised without causing external imbalance of the country's economy. Because no developing country can go on importing goods or capital without compensatory increase in exports of goods or capital, at least in the long run. This need for increased exports on the part of developing countries has been brought home to all the interested groups and at the end of the so called 'development decade' the dominant concern of many of the developing countries is how to increase their exports. On this issue of export trade and development of the developing countries the U.N. Conference on Trade and Development (1964) considers that : "The development of exports has a dual function, one of which is related to the structure and the other to the general level of industrial development—both being, of course, closely interrelated."[18]

4. *Trade and Business Dynamism*

Another important beneficial affect of export trade is that it makes the business firms more dynamic and progressive both in production and marketing. This business dynamism will be imparted especially in the case of developing countries. Because most of the industries are developed in these countries on 'infant industry protection' basis. The consequential monopoly or semi-monopoly status of the firms with a protected domestic market will infuse a complacency of a static nature. In such circumstances, export orientation of such industrial firms would make them to face intensely competitive world markets. Such competing in the World markets will have several beneficial effects. The firms have to keep up with changing technology, improved quality and latest designs on the production side. On the marketing side the firms have to adapt their marketing technique and methods to suit the requirements of heterogenous external markets. If an industry is competing in world markets, the chances are that it will produce more up-to-date and quality products than otherwise.

Similarly, the firms which are engaged in export trade can as well expand their domestic market spheres, their improved products and marketing experience as a result of their participation in export trade. It is possible that even non-exporting firms have to improve their production and marketing methods so as to successfully compete with exporting firms. The extent to which these benefits could be derived is, of course, conditioned by the extent of export participation, awareness and adaptability of the business firms to make use of their export experience for domestic market expansion and improvement. However, there may be various external constraints within the domestic market such as income levels, physical distribution system, governmental policies, etc., which might inhibit the domestic market expansion and improvement.

Such export generated benefits both on production and marketing side are of great significance in the process of economic development of the developing countries. In the absence of import-competition due to restrictive import policies in almost all the developing countries on 'infant industry grounds', the export-orientation can be expected to provide the much needed competitive dynamism, at least partially. In developing countries as Haberler says :

> The problem will always remain how to prevent the permanent establishment of inefficient exploitative monopolies even after an industry has taken root and has become able to hold its ground without the crutches of import restrictions.[19]

This is particularly so as the possibility of import-generated competition will be virtually ruled out either due to limited import capacity or perennial demand for protection from the industries concerned.

All these considerations clearly suggest that export-orientation should be a integral part of industrial development of the developing countries. Such export-orientation will become necessary on the grounds of the need to earn progressively increasing amounts of foreign exchange requirements as well as to import competitive dynamism to the industrial structure in general. The latter aspect will become more compelling for developing countries as the import generated competition is usually ruled out.

SOME EXPORT TRADE PROBLEMS OF DEVELOPING COUNTRIES

In the previous pages it is indicated that export trade is both beneficial and essential to the developing countries on several counts. However, the trade performance of these countries in the post-war years is disappointing. In any case it is not expanding at a desirable rate which can facilitate the speedier development of these countries. While the export trade of developing countries is certainly expanding both in volume and value terms ever these years, such expansion and the resultant foreign exchange earnings are falling far short of the import and external debt servicing requirements of these countries. For example, in the case of India, ever since the country launched on a planned economic development (1951), her balance of trade is perpetually in the negative. This resulted in a continuous drain on the foreign exchange reserves of the country. Such continuous external imbalance forced the country finally to devalue the currency (1966) and along with other factors raised serious doubts about the prospects for future economic development.

In recent times such a situation led to great international concern. Prominent economists tried to explain the sluggishness of the export of these developing countries through rival theories. One school of thought led by Ragnar Nurkse holds that such sluggishness is mainly from the 'demand deficiency' in world markets for the commodities exported by these countries. On the other hand, another school of thought led by A. K. Cairncross considers 'supply-deficiency' and increased export-prices as the explanation for the same phenomena. Some economists hypothesised that there is a secular deterioration in the terms of trade of the developing countries which is one of the major hindrances in their attempts to achieve self-sustained economic growth. However, the 'secular deterioration' hypothesis has been seriously challenged by some economists.[20] In the wake of such rival theories and controversies, several empirial studies have been carried out in support of the above mentioned theories.

From all such economic literature, some basic export trade problems of the developing countries can be observed. These problems are significant from the view point of development.

One of such problems is trade restrictions by the developed countries, The trade restrictions have been there in the form of tariffs and quota restrictions. But in the post-war years the trend is more towards freer international trade. The Kennedy round trade talks and the efforts of the United Nations Conference, on trade and development are aimed at reducing these trade barriers. As a result, some of the developed countries have begun to liberalise imports from less-developed countries. It is reported that Australia has liberalised imports from developing countries to a considerable extent. "In 1963-64 Australia imported goods from less-developed countries at Rs. 13.8 (millions). The same commodities under the present tariff preference can be imported to the value of Rs. 70.9 (millions)."[31] In the wake of such examples and with growing international concern to improve the trade prospects of developing countries more and more such opportunities will show up. But it is only those countries which can rise to the occasion through proper trade policies, efficient export marketing and organisation; can take advantage of the situation.

In view of generally expanding international trade and growing trade liberalisation movement among the developed countries, the trade restrictions as an argument for the export sluggishness of the developing countries will be of limited validity. While removal of any such trade restrictions is a necessary condition, it cannot be considered as a sufficient condition to assure successful exporting by the developing countries. The developing countries have to promote exportability of their goods and services through their production and marketing capabilities. On this matter the U.N. Conference on Trade and Development comes to the following conclusion:

> An attempt is made to show that, while removal of trade restrictions is an essential pre-condition for the development export-oriented industries in the developing countries, this is a necessary but not sufficient condition, Liberalisation of trade in manufacturers through the granting of preferences, while indispensable, does not by itself assure that manufactures for exports will be developed nor that they will be competitive in the world markets. The major burden of carrying out the necessary development

effort will fall upon the developing countries themselves, although they will not be able to do so without far-reaching international collaboration and assistance.[22]

I. TYPES OF EXPORT TRADE

Historically, export trade of the developing countries is mainly confined to agriculture-based food stuffs and industrial raw materials and mineral ores and fuels of extractive type. These exports can be termed as 'traditional commodity' exports. In all the developing countries these traditional exports form a major proportion of their total export trade. In some cases the export trade predominantly depends on one or two commodities *e.g.*, cocoa for Ghana, Coffee for Brazil, Tin and Rubber for Malaya, etc. Even in the case of other developing countries such as India whose export trade is more diversified, such traditional exports form 50 to 60 per cent of the total export trade.

In the case of the semi-industrialised countries like India, there is another type of traditional exports which are simple manufactures such as cotton, jute, silk textiles and coir manufactures in which the country, concerned has certain amount of natural advantage in the form of raw material supply and/or low-cost labour supply. The export trade of these traditional manufactures is further facilitated by relative simplicity of technology to be adapted by these countries. These 'traditional manufactured exports' are of great importance in the export trade of countries like India, Pakistan, Hong-Kong, etc. Taking these traditional manufactured exports into account Cairncross notes that India, a developing nation, has a higher proportion manufactured goods among its total exports than a developed nation like Canada. Thus historically and even at present times, the 'traditional raw materials' foods stuffs and manufactures' predominate the export-trade of the developing countries.

There is another type of exports, particularly in the case of semi-industrialised developing countries, which can be termed as exports of 'new-manufactures'. In the course of their industrial development these countries could successfully develop certain light engineering and chemical industries and, to a certain extent, capital goods industries. In recent years such 'new manufactures' of these countries are being increasingly sold in the export markets. These 'new manufactured exports' include a wide array of products depending upon the developing of those industries in the respective countries and their ability to compete successfully in the world markets.

2. EXPORT PROBLEMS OF 'TRADITIONAL EXPORTS'

Export problems cover a wide range of issue. The export ability of a country depends on, among other factors, the internal cost structure, external prices, tariffs in export-markets, government's policy, development of marketing organisation to facilitate export trade and the business community's willingness to go abroad, etc. All these elements constituting the 'export problems' should be viewed in a dynamic setting. Because all these variables keep changing and new countries enter world markets whereas old countries with long-established export tradition may lose their markets to new countries. In other words, the export problems are very much akin to the changing competitive environment in a market place. Just as a company's success depends on marketability of its products or services in a competitive market place, so mush so the country's success in export trade depends on exportability of its products. Although I use country as a unit for convenience in discussing the export-problems, in effect a country for purposes of its export trade is represented by a conglomeration of manufacturers, producers and exporters who make the products available for export trade. In other words, the competitive strength of these multiple units in a country in the arena of world markets directly reflects in the country's export performance. In view of such complex nature of export problems, I will attempt to indicate the export market accessibility problems of the three types of exports from the developing countries.

The first type of exports termed as 'traditional commodity exports' constitute the agricultural raw materials, food stuffs, mineral ores and fuels. The demand for the first two categories (agricultural raw materials and food stuffs) of traditional commodity epxorts is generally considered to be sluggish in the world markets. These products are mainly exported to the industrially advanced countries. Hence any and all demand restricting developments in the developed countries will seriously affect the market prospects of these commodities. These developments may be due to changing technology or merely due to changing consumption pattern as a result of growing income levels in the developed countries. The following technological and non-technological reasons are given by Nurkse for the sluggishness in the export demand growth for these types of commodities:[23]

1. Production in advanced economics is shifting away from light industries in favour of heavy industries with low raw material content.
2. The low income-elasticity of demand for agricultural products in advanced countries, *i.e.*, in consonance with Engel's law of consumption.
3. Agricultural protectionist policies of industrial countries.
4. New economies in the use of natural materials,
5. The displacement of raw materials by synthetics.

The above explanations are disputed by other economists like Haberler[24] and counter arguments are put forward by A. K. Cairncross saying that sluggishness of export demand is due to high cost of these commodities or what generally is known as 'supply deficiency' theory. These counter arguments are supported by Maizel's findings.[25]

With regard to 'traditional manufactures' of semi-industrialised developing countries, the prospects for expansion of exports do not seem to be very encouraging. Some of the arguments of the previous group of exports also apply to this type of exports. On the demand side Engel's law and development of synthetics in the advanced countries will be applicable to simple manufactures like textiles, processed foods, etc. In the case of certain other goods like jute and coir manufactures, the development of synthetics and other substitute in the developed countries will have adverse affect on the export-prospects of these manufactures. Secondly, the ability of the country of export to adapt to the changing requirements of the importing countries will also be crucial. Thus, for example the Indian textile industry's inability to export finer cotton fabrics at competitive prices rather than the traditional course varieties, is partially responsible for its losing the export markets in recent years. Thirdly, even in such simple manufactures changing technology and mass production methods of the advanced countries may affect the export ability of the developing countries. Finally, as far as the semi-industrialised countries are concerned the competition in the international markets will be ever increasing. This is due to the fact that the traditional exporting countries of these commodities have to constantly compete not only with the domestic industries of the developed countries but also with the new entrants into the world market from time to time. For example, the phenomenal rise of textile exports of Hong Kong as against the traditional leading exporters like India and Japan is a case in point. Similarly, in the case of Jute manufactures the rise of Pakistan as an exporter has seriously threatened the almost monopoly position of India in the world markets. With regard to export possibilities to other developing countries also, the prospects may not be very encouraging. Because as each developing country progressively industrialises, the immediate result will be to replace these previously imported simple manufactures through domestic production. It is said that:

> The general tendency for the developing countries is to take first step on the road to industrialisation through import substitution. With rising incomes and standards of living, demand expands rapidly first for those commodities which are basic necessities. The high-income elasticity of demand in the home market causes at first a high elasticity of import demand and thereby provides a strong stimulous to the substitution of domestic production for imports.[26]

Before I proceed to discuss the export problems of new manufactures, some discussion about the possibilities to improve the export trade prospects of thse traditional exports will be in order. In the first place, the world demand for these traditional exports may not be increasing at a desirable rate, but it certainly is not falling. For some of the primary commodities such as food stuffs, the more increase in world population should increase the demand for them. Similarly, as economic standards increase in the developing countries, the people of these countries should be demanding more and more of the imported goods which are not available in their respective countries. With regard to traditional manufactures also there will be considerable scope to increase the demand through more efficient product adaptation and marketing methods on the part of the exporting countries. As the substitutes and synthetics replace the traditional uses of these products, it calls for greater production and marketing, ingenuity on the part of exporting countries so as to find new uses and new markets for these products. It is a combination of natural increase in demand (*e.g.*, in response to increase in world population) and intensified market-efforts on the part of the exporters which can maintain or even increase the demand prospects for these commodities. Often times even in traditional commodities it is unsuitability of a given products rather than lack of demand which seriously affects the export prospects. As Nurkse says: "to the extent that external demand for such commodities is growing there is even a *prima facie* case for expanding the traditional exports."[27]

Another way of increasing the export earnings from the traditional commodities exports is through exporting the commodities in processed form rather than in crude form. For example, processed foods fall under this category. But once goods are processed and branded the export-marketing problems become much more rigorous than when selling in the crude form. These considerations plint out first that export prospects to a large extent depend upon the country's ability to create or maintain primary demand for their exportable products. Second the 'traditional exports' need to be converted into 'processed or manufactured' exports so as to earn more foreign exchange and create increased industrial activity at home. This would require greater marketing ability on the part of the exporters of those countries.

3. EXPORT PROBLEMS OF 'NEW MANUFACTURES'

Finally, there is the third type of exports which are called as 'new manufactures'. These new manufactures as export items are of significance mainly to the semi-industrialised developing countries. These exports mostly consist of light engineering consumer durable like electrical appliances, chemicals, pharmaceuticals and to a limited extent, machinery and transportation equipment. In these products usually the manufacturers of advanced countries have their stronghold in the world markets. Besides, there will be fierce competition among the developed countries themselves as their relative competitive position in world markets keeps changing. Therefore, the 'new manufactures' of the semi-industrialised countries have to face serious obstacles to obtain market entry, market acceptance and finally export-scales success.

These obstacles to market accesibility arise due to several factors. In the first place, the long-established manufacturers of advanced countries have built up their markets and reputation over a period of decades. This makes it more difficult to the new entrants to gain the necessary market access. Secondly, new entrants with limited experience may suffer certain disabilities on the production side. These production disabilities may refer to the uneconomical scale and consequent high cost, quality, design and performance factors. However, from the limited experience in this field of exports the major problems seem to be on the marketing side rather than on the production side. These marketing disabilities arise from the fact that most of these industries have domestic orientation where sellers' market conditions often prevail. Unlike in the case of traditional exports (especially commodity type) which are sold in bulk and through well-established international trade channels, the manufactures have to be sold by developing consumer acceptance on a brand preference basis. This is, in the nature of things, a long drawn process calling for initial market development expenditure and efficient marketing methods on the part of manufacturers.

The significance of these marketing problems *vis-a-vis* the production problems can be clearly seen from the following statement made by the U.N. Conference on Trade and Development (1964):

> . . . in the semi-industrialised countries the expansion of exports is inhibited not so much by the absence of ability to undertake relatively sophisticated manufacturing operations as by lack of access to markets, together with a non-competitive cost. This is perhaps best illustrated by the changes which occurred in a number of countries during second world war. When the level of costs was not a decisive factor and markets were available, India began to produce goods which had to meet strict specifications, such as aircraft components, armaments and munitions, automotive and railway equipment as well as many other manufactures for military and civilian use which has not been produced before.[28]

Thus it becomes clear that one of the major problems in the export of manufactures is the problem of marketing rather than the ability to produce. Even the cost disability to which mention is made above could certainly be overcome through government subsidies which is usually done by many developing countries. Additionally, if marketing problems are solved successfully in the export markets, a part of the cost disability will disappear due to reduced costs occasioned by increases in the scale of production facilitated by net addition of export demand to the total demand.

In view of the limited prospects to increase the traditional exports, especially to meet the growing foreign exchange requirements of developing countries, often economists and international organisations recommend vigorious efforts to increase the exports of manufactures. It is even recommended that these countries should develop labour-intensive export industries.[29] These economists and organisations are, of course, fully aware of the problems, especially the marketing problems, involved in carrying out such a recommendation. On the general issue of export problems of manufactures from the developing countries the U.N. Conference on Trade and Development makes the following recommendation which is significant in the present context:

> In view of the need of the developing countries for an expanding flow of foreign exchange to support their development programs and of the limited prospects for a sufficient expansion of trade in primary commodities, it is apparent that vigorous efforts should be made to achieve substantial increase in exports of manufactures. It is also necessary that they adapt their products to the specifications demanded in foreign markets, that they increase their industrial efficiency in order to bring their costs and prices more into line with those in developed countries, and that they establish effective commercial channels for their products in importing countries. For countries with only brief past experience in industrial production and in the external marketing of manufactures, these are formidable requirements.[30]

Such recommendation for increased exports of manufactures from developing countries can also be supported from the point of view of comparative advantage they enjoy with regard to tariff rates in the developed countries when compared to agricultural commodities.

These tariff rates of developed countries are more meaningful for our present purpose. Regarding the need for trade overtures of developing countries to the advanced countries, one author aptly says:

> This, after all, where the buying power is, and it is where the LDC's (less developed countries) will have to obtain most of the capital equipment and much of the materials and even some of the food needed by their growing economics and growing populations. It is also where their debts have to be paid.[31]

Hence, let us consider the average tariff rates on manufactured imports as compared to imports of agricultural products into the developed countries.

It is reported that, in a recent study made by the Joint Economic Committee of the Congress of the United States, the average tariff rates on selected agricultural products are found to be substantially more than the tariff rates on industrial goods imports. Table-I gives summary of the above mentioned study.

In addition to usually high tariff rates, if we take other trade obstacles to agricultural products such as domestic subsidies and quota restrictions in the developed countries, the need for increasing exports of manufactures by the developing countries will be very clear. Such demand and tariff policy obstacles for agricultural exports have a special significance for the semi-industrialised countries. Whereas other developing countries have yet to predominantly depend on their agricultural exports, the semi-industrialised countries, by virtue of their ability to produce manufactured goods, have to concentrate more on the latter to increase their export earnings in the future. Such efforts will bring greater diversification in their exports and contribute substantially to stabilise their export earnings.

Besides, for semi-industrialised and densely populated countries like India there is additional domestic angle which needs to be considered in this connection. One of the immediate affects of population pressure coupled with improvement in living standards will be increased demand for agricultural products, especially food stuffs. This type of phenomena affects the traditional exports in two ways. In the first place, those agricultural product exports which compete with domestic demand will suffer progressively, as less and less quantities are made available for exports because of domestic demand, pressures. Secondly, in the agricultural sector the pressure of domestic demand may bring about a type of factor shift which favor the production of domestically consumed food crops rather than the production of export-oriented commercial crops. These types of phenomena are feasible especially in the face of unfavourable export demand conditions, restrictive policies of the importing countries and increasing competition from other developing countries.

Factor shifts in agriculture may affect the exports of the predominantly export-oriented industries by bringing about reduced raw material supply. For example, this interrelationship can be seen particularly in the case of jute industry in India. Jute industry in India exports nearly 75% of its production. Although raw material prices account for about 50 to 60% of the total costs, they are directly not affected by internal inflationary pressures. But the supply of raw jute will be influenced by the acreage sown under jute crop from year to year. Considering that the land used for jute cultivation (in Bengal and Bihar states) is easily interchangeable with rice, the prices of rice, which are directly related to domestic inflationary pressures, will greatly influence the acreage sown under jute and thereby production of raw jute.

Despite such limitation in the way of traditional exports, a shift to exports of manufactures on a substantial scale to make any significant contribution to the export earnings of semi-industrialised countries is beset with serious problems. It is already indicated that these semi-industrialised countries are or will be capable of producing such manufactures. But the single major problem in the way of such exports as indicated earlier seems to be how to develop export markets for such manufactures.

INTERRELATIONSHIP BETWEEN EXPORT TRADE AND DOMESTIC TRADE

In the previous section it is generally concluded that there is a pressing need to expand the exports of manufactures from the developing countries, especially the semi-industrial countries, so as to increase their foreign exchange earnings. Secondly, it is also pointed out that the problem of exporting manufactures among other things, depends mainly on the marketability of such manufactures. Marketability in other words requires the existence of suitable product at competitive price as well as the ability of the exporters to develop efficiency marketing methods and export channels. However, it is common experience that manufacturers in any country find it relatively easier to market their products in the domestic markets than in export markets. This is understandable as the manufactures can be expected to have better understanding of domestic marketing conditions than the export market conditions. Hence, barring a few exceptions, the normal development is that an industry predominantly catering to the domestic market can more easily be established than one largely dependent on export-demand. The latter would be possible only when there is a clear factor endowment advantage which confers some degree of monopoly in the world markets. Although some leading economists suggested the establishment of export industries, by and large the experience of the semi-industrial countries seems to be from domestic market to export markets especially in manufactured goods. This is also due to the fact that most of the industrial development programs start from the view-point of import replacement. However, there may be certain exceptions such as jute or tea whose development is essentially export-oriented. But in the case of such industries, the natural advantage of raw material availability is the more crucial factor than either domestic or export demand. Even in the case of developed countries, a superficial overview will indicate that industries originally develop on the domestic market basis, than they develop export trade and finally leading to the development of 'international corporations' in each industrial field. Thus according to Nurkse: "When industrialisation for the home market has taken root, it becomes easier to increase exports of manufactured goods to advanced economies."[32] He also goes on to say that, "Japan is often thought of as having developed her industry for export markets from the start—Recent research has made it clear, however, that the first stage of Japan's industrialisation, in the latter part of the 19th century, was mainly based on production for domestic consumption."[33]

Such interrelationship between domestic market development for industrialisation to be followed by export expansion seems to be more feasible at present times for the semi-industrial countries. This then would indicate that in the semi-industrialised countries a simultaneous development of domestic and export trade should be the desirable goal. Hence, in this section I will attempt to discuss the nature of such interrelationship between domestic trade and export trade with special reference to semi-industrialised countries. This interrelationship can be postulated at three levels—for the economy as a whole, for each industry and for the business firm.

1. FOR THE ECONOMY

W. W. Rostow observes: "that the expansion of domestic market which is required to produce a modernisation of rural life and an ample market for domestic industry is also the proper base for the development of diversified exports."[34] Let us now consider the implications of such an assertion.

In the first place it is generally considered that market size limitation is one of the major hurdles in the way of industrial growth of the developing countries. Hence, if the domestic market for various factory produced goods can be expanded, that will automatically provide the market base for the development of new manufacturing industries. Once such manufacturing industries are well established and their competitive strength is enhanced, then they may be able to embark upon exports. However, the exportability of such products is conditioned by comparability of price and quality with the international standards and the exporter's marketing abilities.

Secondly, it is often mentioned in the economic literature that one of the inhibiting factors in the way of increasing the productivity in rural area is that the peasant-farmers lack incentive to produce more as his needs are limited. It is even suggested that there is a negative correlation between rise in agricultural prices and the marketable surplus sold for each in agricultural product markets of these countries. This is because of the fact that the rural people in these countries are not exposed to the use of many factory produced goods. Only the demand for such manufactured goods would create the need for cash income. Unless the desire for such manufactured goods is induced through systematic marketing, the agriculturists' need for cash income will be limited. While there are other factors such as tenacy practices, inefficient agricultural marketing etc., it can still be contended that if the farmers demand for cash income is increased by stimulating his purchases of factory made goods it could certainly act as an incentive to improve this productivity. Such a solution means creation of markets for manufactured goods at the rural and small town sectors of a developing country. Perhaps, such incentive-oriented productivity rise might as well help to reduce the cost of agricultural crops in general, increase their production and thereby facilitate increased exports of agriculture based raw materials, food stuffs and manufactures. In this connection the following remarks are worth noting.

> The farmer can be induced to produce more only if he can be induced first to spend a part of the extra production and then save the rest, but to ask him only to produce more—not consume more—but to save all or most of the extra income generated through higher production will not work. In short people will not produce more only to save more. After all, saving is deferred spending and only an inducement if some of it can be spent later. Hence, effective marketing and advertising provide the avenues to spend the increased incomes in such a way as to derive the maximum satisfaction.[35]

Even if we assume that extra production in rural areas of these countries, results in additional cash savings, given the nature of investment habits and lack of institutional setup to channel the savings into productive investment, the rural savings will usually result in increased land prices or demand for gold which are the two main forms of investment for the villager. On the other hand, increase in consumption level in rural areas through systematic cultivation of markets for factory produced goods, will channel such surplus funds into corporate sector which is best suited to utilise them for productive purposes.

Thirdly, considering the fact that the exports of manufactures from develpoing countries may have to be subsidised initially, an industry's growth based on domestic market facilitates such subsidisation by its contribution to government income through corporate and other taxes. In any case, the exports of such industries can be affected at less social cost.

2. FOR AN INDUSTRY

From an industry's point of view availability of domestic market makes it much easier for the industry to get started, to mature and to face competition in the export markets more successfully. A predominantly export-oriented industry, unless it enjoys some distinct natural advantage which confers on it a monopoly or near monopoly position in the world markets, becomes susceptible to changing world demand conditions. Even which a particular industry enjoys such a monopoly power still it suffers from the onslaughts of new substitutes. This is happening in the case of many industries based on natural raw materials with the development of synthetic products. Thus, the international shifts in technological development will seriously affect such export dependent industries. This is particularly true with regard to industries in the developing countries whose factor-transfer flexibility with changing technology is not comparable to that of advanced countries. Hence, for an export dependent industry with a falling world demand, a growing domestic market can compensate for such loss of demand. Alternately, the industry concerned has to find out new product uses so that it can adjust to the changing consumption patterns followed by falling demand trends. Another and more useful form of competition is from the development of similar industry in other countries. Here the coir manufactures can be cited as an example. Coir ropes, coir mats and floor coverings used to be imported into Europe due to their inexpensiveness. But as the living standards are progressively improving in the post-war years in Europe, the inexpensive mats and floor coverings are being replaced either by expensive woollen or synthetic carpets or other more attractive but less expensive mill-made fibre products.

Under such circumstances even if coir industry is progressively mechanised and new designs are adapted to suit the changing consumer tastes, the industry may have to look more and more towards the domestic market for selling its products. For a predominantly export-depending industry like coir products the domestic market may not completely compensate for any substantial loss of export markets. But a progressive development of domestic market, can, at least, partially reduce the hazards caused by export demand variations.

Particularly in the case of developing countries such combination of domestic and export markets seems to be all the more important as they cannot afford the diminution of the limited industrial activity caused by the possible decline of predominantly export dependent industries.

3. FOR THE FIRM

For manufactured products, export markets are characterised by intense competition. This is mainly due to the fact that there is practically no country in the world which does not seek to sell manufactures in the world markets if it can produce them at economical prices. Many countries even sell at subsidised prices. The net result of such fierce competition would be that from a single firm's point of view export sales will be risky, less profitable and involve selling in unknown lands with all the attendant complications. Hence, the normal propensity for many business enterprises is to seek success in the domestic markets as a first step and then look outward in search of more profits. Unlike in the case of raw materials, unprocessed food stuffs or minerals, a firm cannot sell its products (manufactured) in the export markets without certain amount of marketing sophistication. Because in the case of former types of products whether sold in domestic or export markets, the competition is essentially of the pure competition type. The individual firm can always sell at the going price. At the most competition may take the form of price competition. These characteristics of the pure competitive situation prevail mainly because of undifferentiated nature of the product.

But for manufactures, which are mainly differentiated products non-price competition assumes greater importance. Manufactures usually have a number of competitors in the same product line as well as in products which are close substitutes. The problem of creating a market for a firm's manufactures assumes greater importance. As each manufacturer will be interested in selling his *brand* of product the importance of modern marketing in its full scope comes into picture. Development of a marketing plan, a strategy and an organisation assume overwhelming importance. Of course, the sophistication of such marketing approach depends upon the firms experience, and acquaintance with modern marketing methods.

Such need for modern marketing approach, especially in their export markets, might create a conflicting type of situation for manufacturing enterprises of developing countries. The markets in these countries are usually sheltered and manufacturers generally enjoy a sellers' market conditions. But when they want to enter export markets, they will be confronted with highly competitive buyers' markets. However, depending upon the receptivity and marketing ability of the individual firms concerned, the export experience possibly sharpen their marketing skills and may lead to gainful results both in export and domestic markets. For manufacturing firms of developing countries, we can generally state that those firms which are successful in domestic markets can also be expected to show a better export performance than otherwise. The strong home base built on success in domestic markets will enable such firms to withstand the exacting production and marketing requirements of export markets. Ample resources, long experience and efficient organisation of such domestically successful firms will enable them to launch successful export drives for their products. Success in domestic markets and export marketing experience can be expected to mutually interact for the overall benefit of the firms in developing countries.

MARKETING LAG—DOMESTIC AND EXPORT MARKETS

In the literature dealing with development and underdevelopment, attention is often drawn to certain lags which cause the difference. Thus, the 'technical lag' refers to the technological backwardness of the developing countries. Similarly, the 'cultural lag' refers to the attitudinal aspects of economic development about which much work is being carried out by sociologists and anthropologists. I suggest that there is another important lag which we can be termed as 'marketing lag'. Marketing lag, just like the other two, refers to the differences in the marketing efficiency of individual units and the system as a whole in the developing countries when compared to those of advanced countries. From the previous discussions of the nature of export problems (particularly of manufactures) facing the developing countries and the need to develop their domestic markets, the importance of closing such 'marketing lag' will become clear. This then suggests that for purposes of export promotion, domestic market expansion and efficiency of manufacturing industries; this 'marketing lag' needs to be closed as fast as possible.

One way, perhaps, the most important way of closing this marketing gap is for the manufacturers in the developing countries to apply their export marketing experience to improve the performance in the domestic markets. One may pose the question how the manufacturers of these countries can enter export markets in the first place, if they lack the necessary marketing experience and sophistication? Given the developmental aspirations and the need to expand the exports of manufactures one can postulate that these countries have reached a stage of export-inevitability in recent years. Hence, willingly or unwillingly the manufacturers will have to develop greater export orientation. Already semi-industrial countries are intensifying their export promotion measures and are hoping to increase their respective shares of world exports of manufactures. Such export promotion measures are being followed by all means and at all costs. Besides, the general international concern to facilitate the development of these countries through increased trade flows from these countries will increase and diversify their exports. Given this type of environment which is bound to continue for several years to come, there is ample opportunity for the manufacturers to extend their export marketing experience into their domestic markets. This may take several forms—quality and design improvements, efficient packaging, a scientific approach to marketing problems—all resulting in better business performance, increased profits and improved products and services to the consumers. Such developments leading to the emergence of successful business enterprises and satisfied consuming public can certainly be considered as economic development under any economic system with a semblance of freedom.

In this process of closing the 'marketing lag' with all its beneficial connotations for economic development, the manufacturers are singled out to carry out the task. This is due to several considerations. Firstly, it becomes imperative in exporting manufactures that the manufacturers have to take a more active role. Because, given the competitive nature of export markets, the need to adapt the products and marketing organisation and methods to the peculiar requirements of each export market become imperative. Longer the gap between the manufacturer and the ultimate consumer abroad leading to an information gap, smaller the chances for any sustained export success. Considering that exports of manufactures need to be developed preferably on brand preference basis, this manufacturers' direct participation becomes all the more inevitable. The types of adjustments and adaptations required for success in export trade are very succinctly expressed by Kindleberger when he says:

> Capacity to transform is capacity to react to change, originating at home or abroad, by adapting the structures of foreign trade to the new situation in an economic fashion. Capacity to expand exports in new lines that are the results of domestic innovation and growth goes without saying and present no problems. The difficulty arises when change abroad is of a negative character—a change in taste away from a country's exports. a discovery of competitive sources of supply, a technological change which replaces the natural product previously exported or reduces the demand for it. There is also the question of whether a country can take advantage of favourable change, but not overdo its response.[36]

From the view point of domestic market in semi-industrialised countries, manufacturers are relatively more sophisticated economic units in the total market system. Expansion and diversification of markets or introduction of new products and services, delivering consumer satisfation or implementation of more efficient marketing methods which are some of the essential elements of marketing change in any country, can be brought about more conveniently by the manufacturers whose resources and organisation are far superior to those of other economic units.

However, this is not to say that the path of such a change is smooth and they can bring the marketing change as and when they like. In semi-industrialised countries there are and continue to exist some constraints which hinder such marketing change, even if the manufacturers wanted to. Some of these constraints are considered below.

1. PREOCCUPATION WITH PRODUCTION

In the first place, the production bottlenecks under which the manufacturing operations are undertaken are so grave that production and associated problems become the main preoccupation of the manufacturing units. Part of the reason for such phenomena may be due to the manner in which 'modern marketing' is interpreted, often as mere selling. But even in a so-called 'production-oriented' economy there is a need for certain minimum critical level of marketing efficiency generating from physical distribution problems. Besides, along with the economy the industries will also be growing. This means that competition in individual industries will be growing. Such growing competition will also be due to the nature of anti-monopoly policies actively pursued in these countries.

Under such circumstances marketing orientation assumes progressively increasing significance. Further marketing assumes greater significance when new products have to be manufactured for which there is no existing market as such.

Several example can be cited in support of the above argument that marketing has a vital role to play in the industrialisation of a country. To think that the problem is only one of production amounts to recognising a partial truth. During the course of my business case research in India, I have come across a number of business situations involving serious marketing problems confronting the management. These situation often arise from the problems of growing competition, new technology, government policy, etc. In conclusions, it can be stated that to ignore marketing is like ignoring one blade of production-marketing scissors which only can cut through the problems of economic development.

2. GOVERNMENT POLICY

Governmental policy could be and often is a big hurdle in the way of closing such a marketing gap. Apart from generally restrictive conditions created by governmental controls and regulations, sometimes governments follow conflicting policies by maintaining a distinction between export trade and domestic trade. Thus, for example, the usual governmental policy is to provide all incentives and remove all barriers in order to promote the country's exports as quickly and as much as possible. In this regard the governmental and non-governmental bodies enthusiastically stress the need to adapt 'modern marketing' methods for success in export markets. But on the other hand when it comes to domestic markets not only the same enthusiasm is not shown but often government places several obstacles in the way of market expansion activities of the manufacturers. This can be attributed to the general investment bias of economic development efforts. Often consumption is given a low priority and even considered as an obstacle to economic development. In this connection Ezekiel's remarks on the neglect of consumption in the development strategies of developing countries are worth noting. He generally advocates consumer goods cum exports oriented pattern of investment. He says :

> Unfortunately, the role of consumption in economic development has generally been sadly neglected in economic theory. It is, of course, generally agreed that the principal object of economic development is to bring about an increase in levels of consumption. However, from the viewpoint of process of economic development consumption is generally considered as an obstacle, since on the usual simplifying assumption an increase in investment is possible only at the expense of consumption.[37]

It is already pointed out that success in domestic markets will enthuse the manufacturers and provide them with the necessary resources and organisational experience to go abroad. Given such interrelationship between domestic and export marketing, the net effect of the above mentioned policies will be not only to restrict domestically-generated business growth but also to reduce the effectiveness of other export-incentive scheme initiated by the government. Export promotion policies cannot be followed in isolation without being related to the domestic trade policies. The following remarks relating to the Indian situation, reiterate the above mentioned interrelationship.

> The Japanese miracle is often upheld as a shining example worthy of emulation; yet the wherewithal to achieve anything even distatntly resembling this miracle is denied to the Indian entrepreneurial class. Indian industry comparatively small by world standards is unable to offer the advantages flowing from mass production and goods cannot help being priced out in world markets. The mere relaxation of trade barriers and expanded

access to world markets cannot make any significant difference in industrial or agricultural output is barely sufficient to cater to the domestic demand.... There must be recognition of the economic advantage of an efficient use of corporate resources and improved competitive capacity and an appreciation of the virtue of large-scale operation particularly in the context of the country's export drive.[38]

Besides the psychological preoccupation with only production problems and the restrictive governmental policies, there may be other constraints which may inhibit the manufacturers ability to close the marketing gap. Some of these are: the inadequacy of marketing service institutions, consumer psychology, the long established distribution system. etc. But many of these obstacles have the tendency to disappear in the process of change initiated by such activities which have to be carried out by the business community in the country to close the marketing gap. This then leaves us with two significant factors *viz.*, the willingness and awareness of manufacturers about the beneficial aspects (both in domestic and export trades) of such marketing orientation and the governmental policy.

TABLE I

AVERAGE TARIFF RATES IN THE DEVELOPED COUNTRIES

High		Medium		Low	
1. *For Agricultural Products* :					
Japan	54	Australia	12	U.S.A.	8
Austria	42	Canada	12	Denmark	7
Italy	29	U.K.	10	Norway	6
Germany	23	Benelux	10	Sweden	2
France	22				
Switzerland	19				
New Zealand	18				
2. *For Industrial Goods* :					
Japan	19	Australia	12	Germany	9
Austria	19	U.S.	11	Sweden	8
U.K.	17	Norway	11	Switzerland	8
New Zealand	17	Benelux	11	Denmark	6
Italy	16				
Canada	16				
France	15				
EEC	14				

SOURCE : *Columbia Journal of World Business*, Vol. 1, No. 3, Summer, 1966, p. 53.

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