WESTERN REGIONALISM AND DEVELOPING COUNTRIES *

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I. Introduction:

The subject matter of this paper is to discuss the impact of Western Economic Regionalism on Developing Countries, with special reference to trade and development of Asian countries. Economic regionalism in the western world has been gathering strength for more than a decade. The famous "Treaty of Rome" and the subsequent steps taken toward economic integration by the Western European countries created important economic and political problems in Europe and in countries that have close relations with Western Europe.

Many of the developing countries of the free world have had to solve a host of new problems as a result of movement toward regional economic integration in Western Europe. International trade statistics show us that a high percentage of world trade takes place among industrialized contries, and that the share of developing countries in the world trade is quite small. It is also true that the growth of international trade since the end of the Second World War has been much greater in the case of industrialized countries than the growth of trade of the underdeveloped areas. But, in spite of these facts, western regionalism seems to have a strong adverse effect on the economic development of less developed areas and will soon create imbalances and instabilities in the world economy, as well as in world politics.

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The creation of the "Six" and the "Seven", as well as anxiety about the effects of European integration have already impelled some of the developing countries to reconsider the possibilities of greater economic cooperation in their own region. Hence many new and revised proposals of customs union and free trade areas concerning non-European countries of the free world.

The proposed "Latin American Common Market" is one of the most important of the movement towards economic regionalism outside of Europe. Argentina, Brazil, Mexico, Peru, Paraguay and Bolivia will be members of "The Latin American Common Market", and by 1972 a regional free trade area in many products will be established. This will be achieved by reducing the tariff for the products of the member countries by eight percent per year for twelve years. Agricultural commodities are generally excluded from the tariff reductions and no common tariff is envisaged yet [1].

On the other hand, Costa Rica, El Salvador, Quatemala, Hondoras, and Nicaragua signed a "Multilateral Treaty of Free Trade of the Central American Economic Integration", in June, 1958 with the hope that they could establish a customs union in ten years [2]. In addition, one can also refer to the efforts of economic and political integration among the members of "The Arab League" and to the plan, though somewhat different, for the North African Arab states (Algeria, Libya, Morocco, and Tunisia.)

In west Africa there is a "West African Economic Association" between Ghana, Guinea, Liberia, and Nigeria, and in Southeast Asia intergration project for Indonesia, Malaya, the Philippines, Singapore and Thailand is under consideration .Closer economic and political relations among the Middle Eastern members of CENTO may also one day lead to a discussion of the possibilities of forming a free trade area in this region.

Much of the force behind the above mentioned integration movements is political in character as it was in the Euro-

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1 "The Free Trade Area", Economic Bulletin for Latin America, Vol. V, No. 1, March 1960; "The Latin American Common Market" E.C.L.A. Secretariat, U,N, New York 1959.

2 Robert L. Allen, "Integration in Less Developed Areas, "*Kyklos*, vol. XIV, 1961, Fasc. 3, p. 316.

pean case. Economic motives for regional integration are less important in most cases than the political ones. It is further true that if we find a strong economic argument in favor of regional economic intergration among the less developed countries it is generally defensive in character.

If all, or most, of these regional integration movements become a success some day, whether it be political or economic reasons there shall be many island of free trade in a more disintegrated economy. Whether this will eventually lead to world-wide integration and to the ideals of free traders will depend upon a variety of factors, including the trade policies to be followed by the western countries.

II. Regional *Versus* Universal Free Trade.

There have been long discussions among economist about ways and means of achieving world-wide economic integration and about increasing the efficiency of resource allocation in the world through unrestricted and free international trade. Some believed, and still believe, that world-wide efficiency of resource allocation can be improved only by taking necessary measures to reduce and then, to abolish, existing trade and exchange restrictions on a world-wide basis, without any discrimination. Others, though believing that world-wide integration would be the best solution, produce arguments in favor of regional economic integration as a stepping stone or half-way house for complete integration.

In the eyes of the second group of economist "it is an illusion to believe that the system of general free trade such as existed in 1914" and which is still advocated by Wilhelm Röpke "can be easily restored by a turn of the hand"[3]; "in view of the present political situation, it would be irresponsible to direct all efforts exclusively to the re-establishment of universal free trade. It would be better to concentrate our efforts on a more intensive exchange of commodities between "those countries which are united by geographical situation, cultural relationships, and common interests."[4] Besides, the argument goes on, the negative act of laissez-faire would not be

3 R. F. Sannwald and J. Stohler, Economic Integration, Theoretical Assumptions and Consequences of European Integration, Translated by H. F. Karreman, 1959, Princeton Univ. Press. pp. 37.

4 op. cit., pp. 38

enough to reestablish a liberal economic order in the present world. For this we need a more positive approach which requires the development of an international, if not supranational, economic organization. World-wide coordination of economic policies and synchronization of actions among sovereign states which are necessary to keep the mechanism of free trade properly working could not be easily achieved under the present conditions. Therefore, regional economic integration would be the second-best solution for our present-day problems.

One can easily observe that most of the arguments put forward in favor of regional free trade arrangements are of a practical or of a political character.

No one will deny that from the point of view of practicability and feasibility regional economic integrations is more realistic than world-wide integration under the present conditions. Yet, if the final goal of our policy is to eventually achieve world-wide economic integration, forming customs unions or regional free trade areas in different parts of the world may not hasten or facilitate the establishment of the world-wide liberal economic order; on the contrary, it may even cause delays and create difficulties in the future.[5]

Those who defend regional economic integration base their judgment upon the assumption that regional liberation of trade would improve the efficiency of the world economic resource allocation. If the **best** allocation of resources cannot be achieved through regional integration, at least a **better** allocation of resources will surely be achieved.

This argument in favor of economic regionalism has not been unanimously accepted by those who advocate the universal approach. Trade diversions which might be caused by regional unifications and the resulting worsening of the world resource allocation have been explained by J. Viner, J.E. Meade, Dr.Makower and Morton.[6] Later on Dr. S.A. Ozga tri-

5 Those who know what kind of difficulties have been created in GATT, and on the establishment of the still-born İ.T.O., by the only U.S. we now have, would realize how much more difficulties we shall have to face when we have several U.S.s.

6 *J.Viner* - Customs union Issue, Carnegie Endowment for International Peace, New York, 1950.

J. E. Maade - The Theory of Customs Unions, North Holland, Amsterdam, 1955, "Problems of Economic Union, London, 1958.

Dr. H. Makower and Morton - "A Contribution Towards a Theory of Customs Unions," The Economic Journal, March 1953.

ed to show that even without any discrimination a unilateral reduction of trade restrictions might very well cause trade diversions and misallocation of world economic resources.[7]

After the major works of professors J. Viner and Meade on the conditions under which a regional economic integration would be more likely to have favorable effects on the allocation of world resources, the theory of international economic integration has been refined and improved by others.[8]

Besides these lively discussions on regional **versus** universal free trade at the theoretical level, there have been, since the end of Second World War, conflicting economic policies and practices in the western world. Right after the Second World War the GATT and the IMF were designed to follow a policy of reducing existing restrictions on international trade and payments, and of prohibiting the introduction of new restrictions. This universal but rather negative approach to economic integration through GATT and IMF seemed peculiarly ill-suited to the conditions of the post-war years. Because at that time the existence of divergent economic policies and heavy quantitative controls on trade and payments were the real impediments to economic integration rather then the high tariff walls. Under these conditions GATT had very little chance to succeed. Therefore, the only way of securing Wastern European political and economic stability in a reasonably short time seemed to be the support of the regional integration approach as a practical policy. Also, at that time Europe was suffering from structural difficulties which resulted in a chronic dollar shortage and which required restrictions on trade and payments. This tended to increase the degree of disintegration in Europe. Regional arrangements, under these conditions, were viewed as the only means of European economic recovery. Thus, was the intra-European liberalization program viewed, (E.P. U., OEEC and other regional set-ups) even though it would mean discrimination against dollar goods, or non-European trade and payments.

This movement toward regionalism in Europe was being supported by the U.S.A,. on political grounds and as the only

7 Dr. S.A. Ozga, "An Essay in the Theory of Tariffs," The Journal of Political Economy, December 1955.

8 Mention can be made of especially the works of Prof. Scitovsky, Harry Johnson, Tinbergen, R.G. Lipsey, Gehrels and Johnston, H.H. Liesner and others.

practical altarnative at that time. After a decade of struggle and discussion, the postwar European intergration movements culminated in a formal customs union among six European countries, and in a free trade area among seven others.

Strangely enough, all these regional arrangements in Europe were being formally based on the rules and regulations of GATT, a document which was originally designed to achieve economic integration on a world-wide basis. While opposing the establishment of new preferences and trying to reduce existing discriminations, GATT favors the formation of customs unions and free trade areas and therefore parmits, in these cases, the adoption of preferential tariffs and of new discriminations [9]. To make this regional approach to economic integration somewhat compatible with the universal approach, strict rules and criteria were stipulated for the GATT's customs union exception. The first criterion being that "substantially all" the trade between the member countries should be subjetc to the regional free trade arrangement; the exclusion of high-cost sectors or any selective exclusions would not be acceptable by the GATT. The second requirement is that common tariffs or other regulations to be applied to outside contries "shall not on the whole be higher or more restrictive than the general incidence of the duties and regulations of commerce applicable in the constituent territories" prior to the formation of the customs union [10].

Few would argue that the Treaty of Rome signed by the six countries of Western Europe, fulfills the above mentioned prerequisites of GATT for the formation of regional economic unions. With the exclusion of high-cost sectors of European agriculture from the Common Market, with the common agricultural policy to be discussed by the members of the EEC and with the inclusion of some non - European countries to the union under a special arrangement (by calling them European Overseas Territories) European goverments have distorded the GATT by stretching and changing the meanings of the articles (especially Article XXIV) and have possibly destroyed the spirit of GATT.

9 GATT, Basic Instruments.... Article XXIV.
10 GATT, Article XXIV, Paragraph 5.

These developments in Europe would prove once more that justs like most of the other international economic institutions, agencies and agreements, the GATT is essentially designed to serve for the good of industrialized contries, and not for the less developed members of the World Community.

III. The Impact of the European Economic Integration on Developing Nations.

Recent arrangements for economic integration of Western Europe, such as the European Economic Community (EEC) formed by the six countries of Little Europe, and the European Free Trade Association (EFTA), sometimes called "Outer Seven", and possible unification of these two groups will certainly have important consequences on the world economy. The impact of these unifications would not only be felt in the social, political and economic life of the Europeans, it will also have some important implications for the economic conditions and political relations of non-European countries with European countries.

Assuming that the social and the political impact of European integration can be treated separately from the economic ones, and also assuming that EFTA will, sooner or later, be integrated with the European Common Market, we may try to analyse the economic consequences of the European integration for developing countries, especially for the developing countries of Asia.

Much has already been said about the changes likely to be caused by the formation of a customs union in Western Europe on the economies of the member countries. The impact of a customs union on the economies of non-members has also been analysed in general, regardless of the degree of development of these countries [11]. But, here we have to deal with the problems to be created by the formation of a mixed customs union in Europe (with the inclusion of the overseas territories it becomes a mixed union) in the underdeveloped economies of Asia.

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11 Almost all of the literature concerning the economics of international integration deals with customs unions and other forms of regional cooperation among advanced countries, and their probable impacts on industrialized third countries.

The origin of almost all changes caused by a customs union is the new discriminations introduced by the formation of such a union. When a customs union is set up the member countries abolish all kinds of restrictions and tariffs on the imports from other member countries and introduce a common tariff for the whole region while maintaining restrictions on the imports from third countries.The application of a hundred per cent discrimination in favor of member countries suppliers as against foreign suppliers creates a series of changes in the economies of member countries, some of which also affect the non-member countries. Let me enumerate the main changes that are likely to occur when a customs union is set up:

1. Changes in **the location of production** are likely to occur as a result of the unification which would also change the size and / or the direction of the international trede [12].

2. Changes in the **consumption pattern** may take place as a result of the changes in the consumers' prices due to the abolition of tariffs and this may also increase the consumers' welfare [13] in member countries.

3. Changes in the terms of trade of the member countries vis-a-vis the other members, as well as changes in the **terms of trade** of the whole area vis-a-vis the third countries will take place as a result of (i) the changes of the bargaining power, (ii) improved balance of payments situation, and (iii) increased productivity caused by the formation of a common market [14].

4. Changes in **the rate of growth** of the member countries (and some of the non-members) may also be observed as the economic integration increases competition among the producers and forces them to apply better methods of production and organization, and opens up new investment opportuni-

12 This is what Prof. J. Viner calls "trade diversion" and "trade creation" effects of customs unions.

13 J.E Meade, the Theory of Customs Unions, Amsterdam, 1955, and his "Trade and Welfare", Oxford Univ. Press, 1955. R. G. Lipsey, "The Theory of Customs Unions; Trade Diversion and Welfare", Economica, Feb. 1957, pp. 40—46. F. Gehrels, "Customs Unions from a Single Country Viewpoint," The Rev. of Econ. Studies, No. 63, 1956-1957, pp. 61—64.

14 Tibor Scitovsky, Economic Theory and Western European Integration, (Stanford Univ. Press, 1958.

ties, which would also attract more foreign investment into the area[15].

Every one of these four groups of changes that a customs union can create is expected to take place in the case of the European integration. But some of these changes would be of little interest for us here; they would rather concern the members of the European Economic Community and not the developing countries of Asia. For instance, impacts of the European integration on the European consumers' welfare would not directly concern us here. What would concern us most here would be (i) the trade diversion effect to be caused by the changes in the location of production, (ii) the terms of trade effect which may be related to the changes in the price levels of imports and exports, and (iii) the expansionary effect of the European integration on member economies and their repercussions on the developing countries. Therefore, we can confine our discussions to the possible impacts of European integration on trade and economic development of the community of developing nations through the changes described in the three major groups above. No attempt will be made here however, to quantify these three types of effects for each member of the community.

1. **The Trade Diversion Effect:**

As we have explained above, part of the changes of the production centres due to the regional economic integrations may be of a "trade diversion" character. In that case the location of production will be shifting from a non-member country (**cheapest supplier**) into a member country (**cheaper supplier than the other members**), and this would, of course, hurt the non-member country and would mean a move away from the free trade ideals. How important this "trade diversion effect" will be in any economic integration case would depend on two major factors:

(i) the height of the common external tariff,

(ii) the cost differences between the member supplier and the non-member supplier.

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15 Harry Johnson, "The Criteria of Economic Advantage," Bulletin of the Oxford University Institute of Statistics, Volume XIX, (Freb. 1957). Tibor Scitovsky, op. cit.

If the cost differences are greater than the rate of the external tariff, there will be no trade diversion; but when the cost differences are smaller than the tariff rates the common external tariff will protect the producers of the member countries at the expense of the third country.

Generally speaking, in the case of the EEC the "trade diversion" effect may not be of great importance, especially when we consider the continental members of the community alone. The arguments supporting this view may be summarized as follows:

a. First of all, the height of the common external tariff of the six is low on the bulk of the imports of the community. The rate of the common tariff is zero on most of the raw materials, mine ores, fuels and foodstuffs; it veries from 2 to 10 per cent (ad valorem) on the imports of fruits and some agricultural products; it goes up to 20 or 30 per cent or even higher on certain tropical products, tobacco, sugar and others. The rates are more protective for manufactured products.

b. Composition of the trade of the six with the outside world is so that about 80 % of the annual trade is in primary products and only 20 % of it is in manufactured products. As the common tariff is either zero or very low on most of the primary products, and as the capacity of the continental members to supply these products is either limited or non-existent, it is very unlikely that there will be an important trade diversion effect for the exporters of the primary products as a result of the European economic integration.

c. Although the common external tariff accepted by the six is higher and more protective on most of the imports of manufactured industrial products, the shift of the location of production from non-member countries to member countries may not always mean a real trade diversion and a deterioration of the resource allocation of the world. Because of the expected dynamic changes in the community the existing comparative cost ratios may be altered when the economic integration is completed in Europe.Expected changes in the methods, scale and organization of production in response to enlarged markets may be so great in some sectors that the European producers can supply at a lower price than their foreign competitors. Therefore, where there will be opportunities for substantial economies of scale and increases of productivity due to dynamic forces of integration the trade diversion effect will be of the character of infant industry protection, and the efficiency of the allocation of world's economic resources will be improved in the long run[16].

This argument will not make much sense, however, for the agricultural products which might be affected by trade diversions of the European Common Market, as normally there will be no diminishing cost conditions in agricultural production. But, one can argue, in this case, that when there exists increasing cost conditions in any line of production then, the displacement effect of the regional unifications can not be very substantial, because of the low elasticity of supply of member producers. In other words, increasing production by member suppliers will soon increase their cost of production and this in turn will cause price rises that could easily offset the advantages of external tariffs for domestic producers.

All of these optimistic interpretations of the arguments about the impacts of the European Economic Community on the third countries in general, depend upon the assumptions that the Conmon Market consists of only six European countries, and that there will be no special arrangements concerning agricultural policies. But, unfortunately, this is not to be the case. The inclusion of the Overseas Territories of the Six in the Common Market as "associate members" of the union, the exclusion of agricultural products from the Common Market arrangements, and the new applications of other European countries for the membership, under a special regime, (such as Greece and Turkey) will change the picture somewhat for the non member countries, and especially for the Asian countries.

Of these new elements introduced into the system the most important one is the problem created by the inclusion of the Overseas Territories in the EEC. Whether these

16 Isaiah Frank, The European Common Market, An Analysis of Commercial Policy." New York, Frederick A. Praeger, Inc. Publisher, 1964, pp. 144. Unlike the theoretical infant industry case, however, the protection introduced by the Common Market arrangements will be of permanent and non-selective in character.

African territories will join the Common Market on a unilateral basis or not wouldn't make much difference for the countries of Asia producing similer raw materials, foodstuffs and tropical products. But if there are going to be quantitative restrictions on the imports of primary products into the EEC, resulting in discrimination between the suppliers of Asian and African countries, this will have an adverse effect on Asian producers, even if the rate of external tariff is zero on these particular products.

For countries that are heavily dependent on exports to Great Britain there will be another important source of economic loss due to the disappearance of the existing "imperial preferences", if Great Britain joins the EEC under the conditions set by the six in the Treaty of Rome. Even under these conditions European integration would not affect some of the Asian and Middle Eastern countries at all, whether or not they are a member of the Commonwealth. Countries like Egypt, Iraq, Kuwait or Iran would not suffer any significant trade diversion, since the common tariff for raw cotton (in the case of Egypt) and for the crude petroleum (in the cases of Iraq, Kuwait and Iran) will be zero. Assuming that it was not zero, still these countries could find other export markets for their products, without making much sacrifices in their terms of trade. Countries like Turkey, however, would not be in the same position vis-a-vis the European Common Market. Since a high percentage of her exports (about 35%) goes to the Six, (with the inclusion of U.K. this percentage will go up to about 50 %) and since the bulk of Turkey's exportables cannot find markets outside of Europe, because the elasticity of demand for most of these products (such as tobacco, raisins, figs and hazel nuts) is usually too small, Turkey will be hurt more severely. In addition, the common external tariff of the EEC sets very high rates for some of the Turkish export products, 30 % for tobacco (a product which earns one-third of Turkey's total foreign exchange proceeds), 15-20% for fresh fruits, 10% for dried fruits and nuts (a group of products which earns another one fifth of Turkey's total foreign exchange proceeds.) Looking at potential competitors among the member countries of the EEC one can easily predict that even from the continental members of the union- let alone the overseas territories -- there will be severe competition; as French, Italian and especially Greek producers can easily increase their output of similar products, and cause a substantial "trade diversion" for Turkey.

2. **Terms of Trade Effect:**

The impact of the European economic integration on Asian trade will not only be seen in the size and the direction of the Asian trade. Various factors may also have an adverse effect on the terms of trade of Asian countries. The external tariff of the European Economic Community will not only divert trade from outsiders to members, but, it will also cause a shift in the terms of trade for that portion of trade that survives the tariff.

Increased selling opportunities on the European markets will tend to increase the prices of exportables from the EEC, whereas the declining volume of imports from third countries will tend to decrease the import prices, and both of these changes would mean a shift in the terms of trade in favor of the European Community. This would also mean a shift of real income from third countries to members of the Community.

On the other hand, decreased dependence of the European Community on the world markets will also improve the bargaining position of the Europeans in their commercial and tariff dealings with the rest of the world, especially with the United States of America.

Another source of the shift in the terms of trade will be the changing positions of the balances of payments of the Community for better, and of the third countries, for worse. Changes in the volumes and prices of exports and imports will improve the balance of payments of the Community, which will also mean a balance of payments deterioration for the third countries. These disequilibrating forces would be eliminated, in the long run, either by an exchange rate depreciation, or a downward readjustment in wage and price levels in the third countries, or else, by an adjusment of the same magnitudes in the opposite direction in the European Community. In either case the balance of payments effect will become a terms of trade effect [17].

17 Scitovsky, op. cit., pp. 61. Isaiah Frank, op. cit. pp. 154.

Actual losses of each Asian country through these shifts in the terms of trade which will be created by the European regional integration, are difficult to estimate. Yet, their magnitudes would be dependent upon (i) the size of the original trade diversion, (ii) the elasticities of supply and demand of exports and imports both in Europe and in Asia, (iii) the economic policies to be followed by the EEC authorities, especially concerning the common trade policy, wage policy, agricultural policy and upon the special to be designed arrangements with the Overseas Territories.

On the other hand, some of the expected dynamic changes in the EEC will certainly mitigate the unfavorable resulte of the static changes which will effect both the size and the terms of the Asian trade with the Community.

3. The Expansion Effect:

Many of the European economists believe that dynamic factors of integration will increase the rate of economic growth of the Western European countries; and the economic expansion which will follow will offset at least part, if not all, of the unfavorable effects of the European integration on third countries. Part of the economic expansion will be realized, it is believed, through increased European productivity, mostly in the manufacturing industries, as a result of more advanced production techniques, better business organization, and a higher degree of specialization, which will create external and internal economies [18]. Assuming that these changes will actually increase the European productivity to a great extent, they will also affect the third countries.

If European productivity increases in the import competing sectors rather than the export industries this will affect the foreigners adversely. Because, in this case, both the trade diversion and terms of trade effects of the integration will be felt much more strongly in the third countries. If the produc-

18 As against the economists who argue that the European integration will create great opportunities for economies of scale and increases in productivity due to other changes, (Scitovsky, op.cit, Gehrels and Jonston, "The Economic Gains of European Integration," Journal of Political Economy, August 1955), there are some others who believe that this will not be the case in Europe (see: H. Johnson, op. cit., and S. Dell, ("Economic Integration and American Example", The Economic Journal, March 1959).

tivity increase will take place in export industries, then, some of the third countries will be able to get benefits out of the European economic expansion. Some others, especially those who compete with the European producers in the third markets, will still be on the loosing side.

Most of the Asian countries will derive benefits from the European economic expansion, as they usually are exporters of primary products. Economies of large scale production will not be realized in the production of primary products, nor will the other changes causing higher productivity be concentrated in the import competing sectors for Asian exports, unless important new synthetics are discovered. Therefore, this part of the economic expansion is not likely to cause new damages for the Asian economies; on the contrary, these expansionary changes may strengthen the import demand for Asian products, and may cause the prices of European exports of manufactured goods to fall. These favorable changes will offset part, if not all, of the adverse effects of the European integration on Asian countries [19].

When we analyse the other dynamic effects of the integration which are expected to cause an economic expansion in Europe the picture will be somewhat different, again, for the Asian countries. It has been argued that European integration will open new opportunities of investment in Europe and in the Overseas Territories. This would increase the level of investment of member countries, on the one hand, and attract more capital from the U.S.A., Canada and other countries.If these changes take place to a great extent in Europe, the developing countries will be adversely affected by the economic expansion in Europe for a certain period of time for the following reasons:

(i) Increased investment opportunities in Europe will keep European investable funds in Europe and will reduce the foreign private investment in developing countries.

(ii) For the same reasons the American firms will invest less in developing areas and more in Europe [20].

19 Even in this case some of the Asian countries like India and Japon, who export manufactured products to third countries, will be adversely affected from the increased productivity in export industries of Europe.

20 Increased capital movement from the U.S.A. *to E.E.C.* will also add up to the difficulties the U. S. economy will have to face because of the European economic integration; and this may aggravate her balance of payments position which would also result in a weakening in her willingness and capacity to give foreign aid to developing countries.

(iii) "Polarization effect" of the European unification will increase capital smuggling from developing countries to Europe, and create, therefore, a "back-wash" effect on the rate of growth of these economies [21].

It will be quite difficult for any particular country to estimate the impact of these dynamic forces on her economy. In some cases, however, the direction, if not the magnitude, of the overall economic expansion of Europe on the domestic economy of a third country can be forecast.

On the other hand, to make quantitative estimations on the overall, net, impact of the combined effects of "trade diversions", "terms-of-trade shifts" and "economic expansions" of the European Community on the GNP and the rate of growth of an underdeveloped country would be quite impossible [22].

IV. Concluding Remarks

The impact of the European integration on developing countries and on Asian trade as described above, will be of different orders of importance for each member of the community, under different conditions, and depending on trading relations with the European contries. But for the whole group of developing nations the importance of the European arrangements will very much depend on the policies to be followed by the industrialized countries of the Western World.

For the sake of the argument, let us assume that the European unification will so affect the Asian trade as to cause a decrease in the GNP of the area equivalent to 1%. Quite an optimistic assumption, I believe. But, what would this mean to the poor and underdeveloped countries of this area? This

21 A.O. Hirschman, The Strategy of Economic Development, New Haven, Yale University Press 1958. G. Myrdal, Economic Thory and Under-Developed Regions, London, 1957.

22 Harry Johnson tried to estimate what would be the loss of U. K. if she stays out of the European Common Market, and what would her maximum gain be in case she joins in. His estimates were based on certain assumptions and leaves out the implications of dynamic changes. His conclusion is that European Common Market would roughly change Britain's GNP by 1 % (See H. Johnson: "The Gains from Freer Trade with Europe: An Estimate" The Manchester Sch. 1958, No. 3, pp. 255) A similar "guesstimate" is done in Turkey by the author of this paper (See: The Impact of European Common Market on the Turkish Economy: A guantitative analysis, 1962 Ankara) The results of this study indicates that it is very likely that European economic integration will make a difference of about 1 % or so on the Gross National Product of Turkey.

would mean that, apart from the balance of payment problems to be created by these disturbances, the governments of this area will have to take necessary measures to increase the total investments by 3 or 4 percent (according to the capital output ratios) just to offset the impacts of the European economic integration on their level of the GNP. In an area where income per head varies from $60 to 200 per year, and where the population growth requires a 2 - 3% increase in national product, achieving an increase in domestic sevings equivalent to 3 - 4% of the GNP over and above what is already reguired, is hardly possible.

Foreign credits or grants by Europeans or by the U.S., just to make up the damage caused by the European integration, can hardly be called "foreign aid" or "development-aid". I would rather call it "compensation-payments". Yet even the payments to compensate the losses of underdeveloped countries will not be enough to solve the problems of these countries; nor will it be enough to solve the long-run problems of the developing countries. Having a huge group of countries with sluggish and passive economies, or with impaired economic development programs, asking for foreign aid all the time, is not something to be desired. The western Countries, therefore, must do something else besides giving aid to the less developed areas, to make them responsible and respectable members of the world community.

To achieve this they must radically change their economic policies towards the less privileged areas. They must follow a more liberal trade policy in regard to the exports of developing countries. Reducing tariffs and abolishing quota restrictions imposed on the primary products of underdeveloped countries by the U.S.A., the U.K. and the EEC will not only diminish the adverse effects of the western regionalism, it will also improve the terms of trade of the poor regions and help to increase the rate of growth in these areas. Yet, such a policy, which for some of us may be impractical, will not cause any serions damage for industrialized countries, but it will improve the efficiency of the allocation of the world's economic resources.

Steps must also be taken by western countries to change the present setup in the field of international economic cooperation[23]. Most of the existing international economic organizations or agreements are designed to solve the problems of developed countries, without due regard to the special characteristics and the needs of the less developed areas. Apart from reorganizing the existing institutions, we are, I believe, badly in need of a completely new international body to plan and reshape the economic future of the free world on a world-wide basis.

23 This paper prepared and discussed in the Asian Trade Seminar (December 1961) long before was the fomous Prebish Report of the U. N. was published (1964)and World Trade Conference took place where similar ideas were discussed, in a larger context and more precise form.