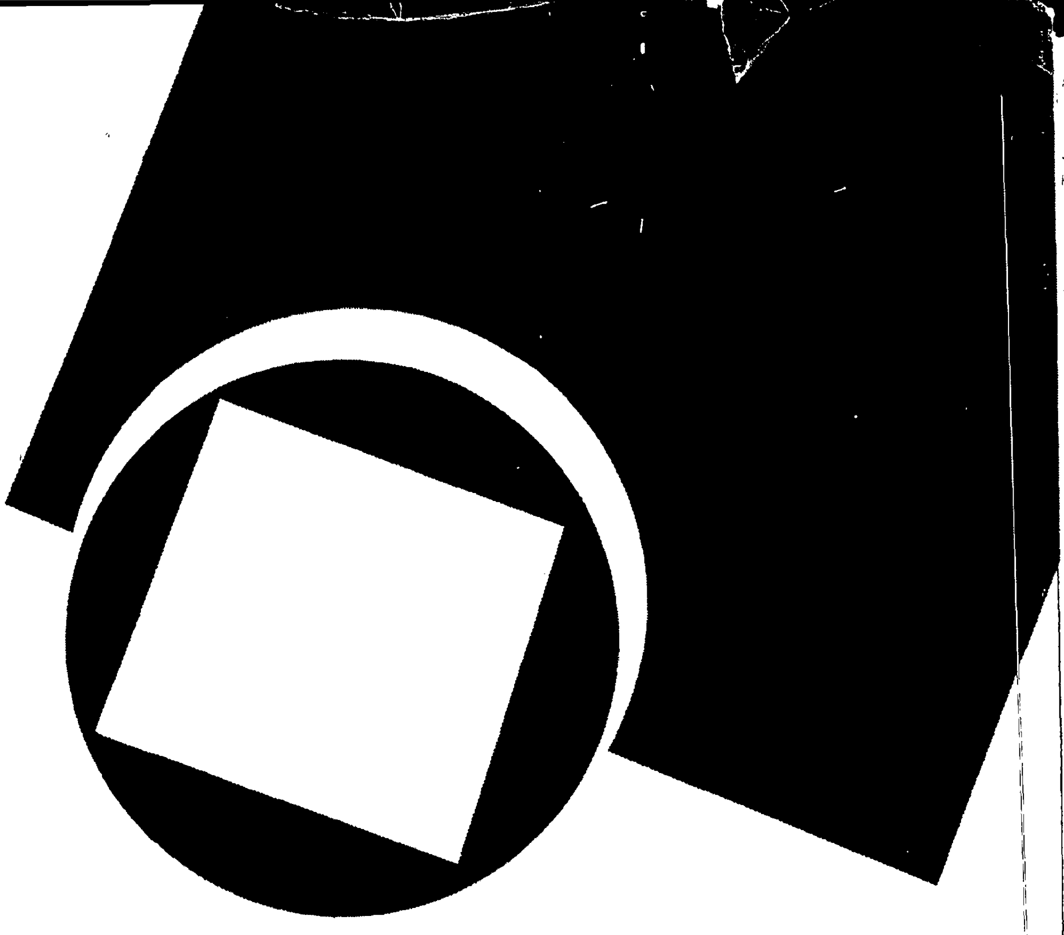

# IMPORTS OF MANUFACTURES FROM LESS DEVELOPED COUNTRIES

## HAL B. LARY

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**IMPORTS OF MANUFACTURES FROM LESS DEVELOPED COUNTRIES**

HAL B. LARY

Mr. Lary's study takes as its point of departure the assumption that, if the less developed countries are to earn foreign exchange in amounts commensurate with their needs for growth, they will have to achieve a rapid increase in exports of manufactures to the developed countries. By definition, the less developed countries have little accumulated capital or technical skill. Any comparative advantage they may attain in manufacturing for export, apart from strongly resource-based industries, is therefore likely to be in "labor-intensive manufactures"—i.e., those which require large inputs of unskilled labor compared with both human capital (or skills) and physical capital.

The author distinguishes between labor-intensive and capital-intensive industries on the basis of value added by manufacture per employee. Thus, the higher the value added per employee, the more intensive the industry in human and physical capital combined; the lower the value added per employee, the more labor-intensive the industry. The pattern of industry on this basis proves to be very similar from country to country, even from the richest to the poorest.

Imports of labor-intensive manufactures from less developed countries are found to have the following characteristics: (1) The trade is relatively small, accounting in 1965 for less than 10 per cent of total imports by developed from less developed countries. (2) It is highly concentrated by origin, destination, and product. (3) It has grown very rapidly in recent years,

*(Continued on back flap)*

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*(Resolution adopted October 25, 1926,*
*as revised February 6, 1933, and February 24, 1941)*

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# PREFACE

This study stems from my participation in one of the consultative groups preceding the United Nations Conference on Trade and Development in 1964 and, more specifically, from Geoffrey H. Moore's suggestion that I explore further some of the impressions which I then formed with regard to exports of manufactures by less developed countries. The task has lasted longer than either of us foresaw, largely because it has taken on a dual nature, being not only an analysis of trends in the trade but also an empirical investigation, across industries and countries, of factor intensities in manufacturing.

The work on factor intensities may be the more interesting, and no doubt the more debatable, part of the study with respect to its implications for economic theory and also with respect to the tools of analysis employed. The use of value added by manufacture per employee as a guide to relative inputs of labor and capital permits a unified treatment of both physical and human capital and exploits a rich body of data from the various national censuses of manufacture, the potentialities of which for research on this topic have, to the best of my knowledge, largely passed unnoticed.

The analysis of past trends and other features of the trade leads, I believe, to more hopeful conclusions than most other studies regarding the potentialities of exports of manufactures by less developed to developed countries. In accord with the National Bureau's research objectives, the study seeks to illuminate but not to espouse policies. It will be evident, I trust, that the basic conditions for the successful growth of the trade include a receptive and cooperative attitude on the part of the importing countries and "outward-looking" policies on the part of the less developed countries—that is, a readiness on both sides to share in the international division of labor among countries at varying levels of economic development. If these conditions are not met, only meager results could be expected from various policy prescriptions now in the limelight, notably the extension of tariff preferences by developed countries to less developed countries or the formation among the latter of regional common markets.

It is hoped that this study will be useful to the United States and other countries in evaluating their past performance as importers and exporters and in developing policies conducive to the future growth of a segment of world trade which, though still small, is of considerable importance to the economic prospects of the larger and poorer part of the world's population.

Various members of the National Bureau's staff have been most helpful in reviewing drafts of the study and in advising on specific questions. They include in particular members of the staff reading committee for the project—Victor R. Fuchs, Robert E. Lipsey, and Ilse Mintz—and also Irving B. Kravis and H. G. Georgiadis. My thanks for valuable criticism and suggestions are also due to Joseph A. Beirne, Gottfried Haberler, Boris Shishkin, and Willard L. Thorp of the National Bureau's Board of Directors. Among those who assisted in the project, Peter Lao and Ludmila Monkevic demonstrated skill and perseverance in extracting and coordinating production and trade data from disparate sources. Stephen Pappayliou and Nadeschda Bohsack assisted in this work during part of the time. Merle Yahr joined the project at a late stage, but still in time to make a much appreciated contribution in evaluating the statistical results and in improving the analysis. Irving Leveson, in connection with his participation in the National Bureau's study of the service industries, prepared the correlations of "expected" and actual earnings in Chapter 2.

Among those outside the National Bureau to whom thanks are due for comments and suggestions, I should particularly mention Maxwell R. Conklin, Chief of the Industry Division, Bureau of the Census, and Edward A. Robinson and Willis K. Jordan, members of that Division, though they may consider that my response to some of their criticisms of Chapters 2 and 3 has been defensive rather than positive. The same general absolution from responsibility for the final results needs to be made in recording my thanks to various other readers of an early draft of the report, including Robert E. Asher, Brookings Institution; Don Daly, Economic Council of Canada; William Diebold, Jr., Council on Foreign Relations; Francesco Forte, University of Turin; Finn Gundelach, General Agreement on Tariffs and Trade; Gary Hufbauer, University of New Mexico; Jacob J. Kaplan, Consultant; Hirotaka Kato, Kanagawa University; Julius L. Katz, U.S. Department of State; Charles P. Kindleberger, M.I.T.; Ian M. D. Little, OECD; Gardner Patterson,

General Agreement on Tariffs and Trade; Walter S. Salant, Brookings Institution; David J. Steinberg, Committee for a National Trade Policy; Robert W. Stevens, Indiana University; Raymond Vernon, Harvard University; and Helen Waehrer, New York University.

We were fortunate in entering into an arrangement with the Statistical Office of the United Nations for processing the import statistics of the developed countries in form suitable for our research needs. I want to thank Patrick J. Loftus, Director of that office, and Sidney Cashton and Bipin L. Amrute, members of his staff, for delivering the data according to our specifications.

I am grateful to James F. McRee, Jr., for preparing the text for publication; H. Irving Forman for his usual skill in drawing the charts; and Mildred E. Courtney for her help in preparing the manuscript and in keeping track of work in progress.

Finally, I wish to acknowledge with thanks the financial support which the Rockefeller Foundation and the Ford Foundation have provided for the National Bureau's program of international studies, of which this project forms a part.

*August 1967* HAL B. LARY