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TRADE IN LABOR-INTENSIVE MANUFACTURES

Selection of Labor-Intensive Items

Application of Value-Added Criterion

Judged by the criterion of value added per employee, both in the United States and in other countries, a number of industries have been found to be clearly capital-intensive and a number of others clearly labor-intensive. This is true of such major industry groups as chemicals and petroleum products on the one hand and textiles and wood products on the other. It is true also of many of the component industries of other major groups. As always, the problem of classification concerns mainly the observations in an intermediate position—in this instance, those industries which, at the finest level of industrial detail given, are near the national average on the value-added scale.[1]

The general rule followed in this study has been to count as labor-intensive all manufactures which meet both of two conditions. The first is that, in value added per employee in the United States, they do not exceed the national average for all manufacturing by more than 10 per cent. The second is that, in total imports by developed from less developed countries in 1965, they add up to at least $100,000 at the three-digit level of the Standard International Trade Classification (SITC). This approach, while tending to exclude the most clearly capital-intensive items, applies the test of the market (as reflected in imports) to items at or near the over-all national average in recognition that

[1] If all four-digit items from the *Census of Manufactures* are arrayed in ascending order of value added per employee, they present a continuum with no sharp breaks such as those suggested by the arrangement of two-digit major industry groups according to wage and nonwage value added in Chart 1, above. It may be noted that in this chapter the value-added criterion is applied without the distinction between the wage and nonwage components made in Chapters 2 and 3, which were concerned with testing the variable as a guide to the intensities of different industries in human and physical capital.

value added per employee in the United States is not an infallible guide to factor intensity. It also recognizes that close comparability between industrial and trade classifications is hard, and sometimes impossible, to achieve. The case for some additional flexibility in applying the value-added criterion is strengthened by several instances noted where the averages derived from the U.S. censuses of manufactures may overstate the relative capital intensity of the imported items.[2]

Setting some minimum level such as $100,000 as a cutoff point helps to eliminate small, erratic elements from the trade statistics, but does not avert the need to detect and exclude irrelevant elements at still higher values of trade. Returned merchandise seems to be the chief offender, notably various kinds of machinery and equipment brought back from use in oil exploration and development, and is sometimes reported in a manner indistinguishable from regular imports. The principal problems of this nature seem to be found in the United Kingdom's statistics.[3]

Unfortunately, other imperfections in the trade statistics require the omission of two items which rank as labor-intensive by the value-added criterion and hold a certain actual or potential export interest for some of the less developed countries. One of these is cut diamonds, now coming only from Israel among the less developed countries, but expected to come eventually from Sierra Leone and other diamond-producing countries which are endeavoring to establish their own diamond-cutting industries. The other item is yachts and other small craft built in Hong Kong and Singapore and exported chiefly to the United States. The trouble is that the Standard International Trade Classification (the basis for the trade statistics assembled by the United Nations) does not distinguish cut from uncut diamonds nor small craft from larger vessels (the latter including, in some cases, mere changes of registry).[4]

[2] Thus a lower capital intensity by the value-added test has been found for electric lamps, batteries, and cameras in the Japanese census and for perfume and flat glass in the Indian census.

[3] See Appendix D.

[4] The United States does distinguish cut from uncut diamonds in its import statistics, and these imports from Israel amounted to $42,134,000 in 1965. Other developed countries' imports of diamonds from Israel (doubtless consisting mainly, if not entirely, of cut diamonds) as reported to the U.N. Statistical Office were as follows in 1965: United Kingdom, $11,504,000; Switzerland, $4,123,000; Germany, $8,574,000; France, $2,892,000; Belgium, $14,642,000; Japan, $7,384,000; Canada, $1,982,000; other developed countries, $470,000. It is uncertain, however, how much of these imports in each case—notably in Belgium —ends up as domestic sales and how much is re-exported. For instance, U.S. imports of cut diamonds from Belgium—$73,923,000 in 1965—may have in-

Summary Statement of Items Selected

Table 8 gives a summary list of the manufactures selected as labor-intensive, condensed into twenty-four subgroups and four main groups, together with matching data on imports in 1965 by the United States and by other developed countries from all sources and from the less developed countries. As will be clear from the much fuller presentation in Appendix C, the selection and matching have been carried out in considerable detail, so that, as far as possible, imports from the less developed countries might be set against total imports, or against United States production, of similar items. Assume, for instance, that imports of "transportation equipment" (SITC 73) from the less developed countries consist in fact of bicycles (7331), or that imports of "domestic electrical equipment" (725) consist only of space-heating equipment (72505). In these cases, it should be more meaningful with respect to market shares or market potentials to make the comparison at the more disaggregated levels.

Appendix C also indicates, however, the difficulties encountered in matching the U.S. Standard Industrial Classification with the Standard International Trade Classification and the lack of complete success in doing so. Problems of comparability arise throughout the list, but are likely to be most serious with respect to the last four subgroups of Group 2 in the table—various metal products, scientific instruments and the like, electrical apparatus, and nonelectrical machinery and equipment. The products included in these subgroups are of marginal labor intensity, judged by their relatively high average value added per employee, and imports from the less developed countries are very small compared with total imports and with U.S. production. The chances are that imports from the less developed countries in these subgroups are, in fact, much more limited in range than total imports or domestic production, despite the elimination of items not meeting the criteria previously indicated and other efforts to ensure comparability. The four subgroups (to be referred to for convenience as "marginally labor-intensive") will accordingly be excluded from some of the comparisons

cluded stones originally imported from Israel. Even this uncertainty (further complicated by doubts regarding the accuracy of some of the figures) does not reveal the real problem of dealing meaningfully with the trade in cut diamonds, which lies in the fact that they are, presumably, almost as "fungible" as gold.

With respect to yachts, and other pleasure boats and small craft (U.S. Schedule A, Nos. 7350020 and 7350040), the United States imported $2,941,000 of these items from Hong Kong and $260,000 from Singapore, Taiwan, and the Philippines in 1965. Export figures of these countries indicate that sales to developed countries other than the United States were negligible.

TABLE 8

Condensed List of Manufactures Selected as Labor-Intensive: U.S. Production and Imports and Imports of Other Developed Countries, 1965

Product Group and Subgroup	United States Production			Value of Imports			
				United States		Other Developed Countries	
	Value Added by Manufacture ($ million)	Value of Shipments ($ million)	Value Added per Employee (index)[a]	Total ($ million, f.o.b.)	From LDC's ($ million, f.o.b.)	Total ($ million, c.i.f.)[b]	From LDC's ($ million, c.i.f.)[b]
Labor-intensive manufactures, total	72,593	140,841	75.0	5,696.6	1,009.8	27,558.9	1,571.8
Total, excluding marginal items (*)	42,679	89,541	64.8	3,655.0	942.5	14,392.8	1,517.0
1. Textiles, clothing, and accessories	14,758	33,945	53.7	1,052.9	286.3	5,316.5	534.0
Yarn and thread	865	2,405	60.0	63.6	5.9	1,035.1	31.1
Cotton fabrics, woven	1,967	4,219	61.2	134.5	61.5	642.0	122.2
Other woven fabrics, excl. jute products	1,866	4,862	71.9	236.0	9.2	1,244.8	12.4
Textile small wares and specialties	1,772	4,363	63.2	67.3	12.9	563.7	35.8
Carpets and other floor covering	133	331	74.4	54.3	15.7	415.1	120.7
Clothing and accessories, excl. goods of leather, rubber, and plastic	8,155	17,765	47.4	497.1	181.1	1,415.8	211.7
2. Other light manufactures, excl. food	48,424	86,076	86.0	3,281.8	269.4	16,845.6	250.9
Footwear and other leather rubber, and plastic goods	3,169	5,813	57.6	337.2	54.2	913.7	43.5
Glassware, china, and pottery	1,307	1,962	81.4	111.7	3.1	324.6	2.0
Furniture	3,051	5,923	64.3	59.9	6.8	338.1	4.1
Books and other printed matter	3,954	6,569	78.5	58.5	4.2	436.8	2.7
Games, toys, sporting goods, and musical instruments	1,563	2,941	77.6	368.5	25.8	650.3	40.9
Jewelry and silverware	500	971	81.6	61.8	17.6	233.0	42.2

(continued)

TABLE 8 (concluded)

Product Group and Subgroup	United States Production			Value of Imports			
				United States		Other Developed Countries	
	Value Added by Manufacture ($ million)	Value of Shipments ($ million)	Value Added per Employee (index)[a]	Total ($ million,	From LDC's f.o.b.)	Total ($ million,	From LDC's c.i.f.)[b]
Costume jewelry and notions	4,966	10,597	79.3	242.6	90.3	783.2	60.7
Optical goods, cameras, watches and instruments*	1,289	2,062	92.9	200.9	3.0	658.9	5.8
Cutlery, hardware, and other metal products*	3,507	6,341	91.3	340.4	14.1	1,466.3	12.1
Electrical apparatus and appliances*	14,666	24,100	91.5	703.5	46.3	3,600.1	27.0
Nonelectrical machinery and equipment*	10,452	18,797	102.0	796.8	3.9	7,440.8	9.9
3. *Labor-intensive food manufactures*	2,748	6,674	89.7	268.3	112.4	1,773.2	380.0
Fish and fish products	221	574	95.5	124.4	44.6	705.5	193.4
Fruit and vegetables	1,303	3,332	90.5	117.4	65.3	884.5	175.0
Miscellaneous food products and cigars	1,224	2,768	87.8	26.5	2.5	183.2	11.5
4. *Labor-intensive industrial materials*	6,663	14,146	66.4	1,093.6	341.7	3,623.6	406.9
Products of jute and other coarse fibers	142	406	58.5	238.2	194.6	228.2	122.0
Leather and tanned or dressed furs	363	892	80.6	78.7	20.5	539.0	77.7
Lumber, plywood, and other simple wood products	3,802	8,948	58.3	648.8	115.8	2,019.9	204.4
Building materials of clay, stone, etc.	2,356	3,900	83.8	128.0	10.8	836.4	2.9

Source: Appendix C.
[a]All U.S. manufacturing = 100.
[b]Includes Canadian and Australian imports on f.o.b. basis.

made below, which would otherwise be unduly influenced by the high values which these subgroups have in total imports and in domestic production.

Valuation of Imports C.I.F. and F.O.B.

A quite different problem of comparability of the data arises from the fact that U.S. import statistics generally reflect values at the principal markets in the exporting country and do not include the freight and insurance charges required to bring the merchandise to the United States, whereas these charges are typically included in the import values recorded by other countries (the first method of valuation being usually described as "f.o.b." and the second as "c.i.f."). Canada and Australia along with the United States are the principal exceptions to the general rule and the only ones of interest for present purposes.

How much difference freight and insurance charges may make in recorded import values under the two systems has long been the subject of more or less informed guesses and of a few detailed studies.[5] Recently, intensive inquiries have been undertaken both by the Tariff Commission and by the Bureau of the Census. On the basis of the Tariff Commission's report,[6] covering imports in 1965 distributed among 190 items, it may be estimated that these charges would add about 11 per cent to the reported values given in Table 8 for U.S. imports of labor-intensive manufactures from the less developed countries. The differentials for the four main product groups would be as follows: group 1, 7.0 per cent; group 2, 11.6 per cent; group 3, 9.2 per cent; group 4, 15.5 per cent. (See Appendix E.)

Given the size of these differentials, it is scarcely possible to continue to combine f.o.b. figures for some countries and c.i.f. figures for others in the same tables without attempting to achieve closer comparability. In principle, the adjustment might be made in either direction —that is, by applying appropriate adjustment factors either to increase the recorded import values of the United States, Canada, and Australia

[5] Probably the most careful study was that undertaken by Carmellah Moneta for the National Bureau and reported on in her article, "The Estimation of Transportation Costs in International Trade," *Journal of Political Economy*, February 1959, pp. 41–58.

[6] The Tariff Commission's report is in the form of an attachment to a press release of February 7, 1967, entitled "C.I.F. Value of U.S. Imports" (mimeographed). The Commerce Department issued a release on December 20, 1966, with findings of the Bureau of the Census based on imports in the first six months of 1966 grouped in twenty-one categories (too broadly defined to be directly applied to the data examined in the present study).

to an approximate c.i.f. basis or to reduce those of other countries to an approximate f.o.b. basis.

The first course would have the advantage of making U.S. import figures more comparable with domestic production and consumption data, if that were the main purpose to be served. But such an adjustment would compound the error already present in the statistics insofar as the trade figures are taken as a measure of the foreign exchange earnings of the less-developed countries, since only a negligible part of the freight and insurance charges accrues to them.

From this point of view, the alternative course of reducing the recorded import values of other countries is clearly preferable. In the absence, however, of adjustment factors directly relevant to the body of trade data collected here for foreign countries, this course entails the use of the differentials found for the United States and raises questions as to their applicability to other countries whose imports from the less developed countries differ in greater or less degree from those of the United States in composition by product and origin. This doubt may be relieved in some measure by the use of the separate adjustment factors for each of the four main groups of products, though much the same results would be obtained, both over all and for individual importing countries, by the application of a uniform 10 per cent reduction throughout (as is, in fact, done in adjusting the historical series in Chart 14, below).[7]

No high degree of accuracy can therefore be claimed for the adjusted data presented in this chapter[8]—only that, as long as the direction of the difference between U.S. and foreign recorded import values is as clear as it is, the revised figures are probably superior to the unrevised ones both for comparisons with the United States and

[7] That the revisions made are not exaggerated is suggested by the c.i.f./f.o.b. adjustment of 14.6 per cent for 1965 and 16.3 per cent for 1964 made in the German balance-of-payments estimates with respect to imports from non-European developing countries. (See *Monthly Report of the Deutsche Bundesbank,* June 1966, pp. 54–55.) This figure applies, of course, to an assortment of goods heavily weighted with unmanufactured or processed materials, but it does not seem out of line with the differential of 15.5 per cent reported above for labor-intensive industrial materials (group 4), the over-all German adjustment factor expressed on the same basis (i.e., as a percentage of the f.o.b. value of imports from non-European developing countries) being 17.2 per cent for 1965 and 19.3 per cent for 1964.

[8] The figures given in Table 8 and in the basic tables in Appendixes C and D are, however, as recorded and are therefore a mixture of f.o.b. import values for the United States, Canada, and Australia and c.i.f. import values for other developed countries.

for measuring the foreign exchange receipts of the less developed countries. There is indeed reason to think that these adjustments err on the side of caution. The Tariff Commission's release observes that an allowance for freight and insurance would not alone provide comparability and adds: "The value used by most foreign countries for duty and statistical purposes includes not only freight and insurance charges, but additional costs (such as buying commissions), which are not ordinarily included in U.S. values.[9] It is not feasible to collect reliable statistics on these additional costs on imports into the United States, but they are known to range from an insignificant amount to as much as the charges for freight and insurance, or even more."

Characteristics of the Trade

Probably the most important generalizations that can be made about imports of labor-intensive manufactures by developed from less developed countries are, first, that these imports are small and, second, that they have been growing rapidly in recent years.

Another broad generalization is that the trade is rather uneven in its composition by products and in its distribution by both exporting and importing countries. By product, textiles and clothing make up a particularly large share of the total, though some other light manufactures have recently been rising more rapidly. Among the countries of origin, Hong Kong holds an extraordinary position, and, all together, the less developed countries of the Far East are paramount over other areas as suppliers of labor-intensive manufactures to developed countries. Among the latter, the United States, the United Kingdom, and West Germany account for by far the greater part of these imports, and they also take the greater part of imports of labor-intensive manufactures from Japan and other low-wage countries.

These characteristics will first be examined on the basis of detailed trade statistics for 1964 and 1965 [10] and then, in the section "Market Potentials," below, the growth of the trade since 1953 will be considered on the basis of more summary data.

[9] The additional costs referred to are, however, generally paid to parties in the exporting country. It could be held that such costs should properly be included in f.o.b. valuations and that, if the information needed were available, any further adjustment for these costs undertaken in the interest of comparability should take the form of an addition to U.S. recorded import values rather than that of a subtraction from the c.i.f. import values of other countries.

[10] Compiled for this project by the Statistical Office of the United Nations.

Relative Size of Imports

A noteworthy feature of Table 8 is the small size of U.S. imports of labor-intensive manufactures from the less developed countries in relation to U.S. production of similar goods. The value of U.S. output (or "value of shipments") in 1965 of all the items listed in the table was $141 billion. Imports of these items from all sources in 1965 were equal to only about 4 per cent, and those from less developed countries only 0.7 per cent, of that amount. The ratio of imports from less developed countries was particularly low for the last four items of group 2 in the table (marked by asterisks). Exclusive of these items, identified above as marginally labor-intensive, total imports were about 4.1 per cent, and imports from the less developed countries about 1 per cent, of domestic output. Products of jute and other coarse fibers were exceptional in that imports from the less developed countries were almost half as large as domestic manufacturing production. The corresponding ratio was about 8 per cent for fish products, 4.7 per cent for carpets, and 2.3 per cent for leather and tanned or dressed furs. It was between 1 and 2 per cent for a few other items—cotton fabrics, clothing, jewelry and silverware, canned fruit and vegetables, and lumber, plywood, and other simple wood products. Otherwise, the ratios for individual items imported from the less developed countries were below, in most cases far below, 1 per cent of domestic output.

The foregoing comparisons are possible for the United States as a by-product of the selection method followed. A similar comparison, if it could be made, would probably yield a slightly higher ratio of imports from the less developed countries to the domestic production of other developed countries considered as an entity, but with sharp contrasts among the members of the group. This is suggested by Table 9 (derived from the OECD report on cotton textiles cited in Chapter 3) relating 1963 imports of textile products from Asian countries other than Japan to consumer expenditures on clothing in individual developed countries.

Looked at in relation to total imports of labor-intensive manufactures, the share supplied by the less developed countries is much larger in this country than in other developed countries—about 18 per cent for the United States in 1965 versus 6 per cent for other developed countries taken as a whole, or 25.8 per cent and 10.5 per cent, respectively, exclusive of the four marginal items in group 2. This observation has to be set against the much more limited role which imports in general play in the U.S. economy than in most other countries. Even

TABLE 9

Imports of Textiles, Clothing, and Accessories (Including Jute Products) by Developed Countries of the OECD from Asian Countries Other Than Japan, 1963

Importing Country	Value of Imports (million dollars) (1)	Amount per Capita (dollars) (2)	Consumer Expenditure on Clothing (million dollars) (3)	Col. 1 as Per Cent of Col. 3 (4)
United States	332.8	1.757	32,945[a]	1.0[a]
EFTA, total, excl. Portugal	295.7	3.5846	7,871[b]	3.5[b]
United Kingdom	228.5	4.246	5,180	4.4
Sweden	20.6	2.708	1,115	1.8
Norway	7.0	1.908	479	1.5
Denmark	15.0	3.200	443	3.4
Switzerland	17.8	3.064	n.a.	n.a.
Austria	6.8	0.948	654	1.0
EEC, total	141.3	0.800	17,943	0.8
West Germany	94.2	1.635	6,445	1.5
France	8.0	0.167	6,482	0.1
Italy	11.5	0.228	2,686	0.4
Netherlands	19.1	1.598	1,364	1.4
Belgium-Luxembourg	8.5	0.885	966	0.9
Japan	3.6	0.037	2,748	0.1
Canada	38.5	2.034	2,161	1.8

Source: *Modern Cotton Industry*, Organization for Economic Co-operation and Development, Paris, 1965, pp. 68-70.

Note: Products included are those in SITC items 65 and 841. Countries of origin include Mainland China (not included in other tables in this analysis).

[a]Including footwear and jewelry.

[b]Excluding Switzerland.

TABLE 10

Imports of Labor-Intensive Manufactures, Other Manufactures, and Unmanufactured Commodities by Developed From Less Developed Countries, 1965

Product Group	Value, f.o.b.[a] ($ million)
Imports from less developed countries, total	25,600
Labor-intensive manufactures, total	2,438
Other manufactures, total	5,537
Sugar, meat, other food products, beverages, and tobacco	1,200
Animal and vegetable oils and fats	680
Petroleum products	1,600
Nonferrous metals	1,700
Chemical elements and compounds	251
Pig iron, iron and steel powders, sponge iron, ferro-alloys, etc.	55
Other iron and steel products	19
Pulp and paper	22
Cement and lime	7
Other manufactures	3
Unmanufactured commodities, total	17,625
Coffee, cocoa, and tea	2,825
Cereals, live animals, other foods and feeding stuffs, and tobacco	2,600
Cotton, wool, and other textile fibers	1,300
Crude petroleum, coal, and coke	6,525
Metalliferous ores	1,800
Hides and skins, oilseeds, lumber, rubber, and other crude materials[b]	2,575

Source: Derived from tabulations prepared by United Nations Statistical Office.

[a]Imports of countries reporting on a c.i.f. basis have been adjusted to an approximate f.o.b. basis by use of differentials given in Tariff Commission's release of February 7, 1967, "C.I.F. Value of U.S. Imports."

[b]Includes gem diamonds both uncut and cut (no distinction being made in the Standard International Trade Classification).

so, the ratios (again exclusive of the four marginal items) seem very small in most cases—between 3 and 8 per cent in all of the smaller European countries and Canada. In France, despite its long-standing economic ties with African countries and the tariff preferences extended to them, the 1965 ratio is only 12.3 per cent, or slightly larger than in West Germany with 11.1 per cent and much less than in the United Kingdom with 19.4 per cent. These ratios will be further considered in connection with Table 12, below.

As a final comparison, on the basis of the 1965 trade returns, labor-intensive manufactures make up less than one-tenth of total imports of the developed countries from less-developed countries. Coffee, cocoa, and tea alone bulk larger in the total, and crude petroleum 2.7 times larger, as may be seen in Table 10. Labor-intensive manufactures are less than half as large as other products classed in the table as "manufactures," the latter being more capital-intensive and generally having an evident natural-resource orientation. The only items of which the latter is not true are of negligible consequence in the trade.

It is noteworthy, however, that developed countries' imports of labor-intensive manufactures from the less developed countries rose by almost 11 per cent from 1964 to 1965 in contrast to an increase of less than 4 per cent in all other products. This relative gain was achieved despite the fact that the defensive balance-of-payments measures taken by the United Kingdom toward the end of 1964 and, more particularly, the tightening of restrictions on textiles seem to have fallen with special severity on its imports of labor-intensive manufactures from some of the Commonwealth countries (Table 11).[11] Developed countries other than the United Kingdom raised their imports of labor-intensive manufactures from less-developed countries by 17.5 per cent in 1965.

Product Composition of the Trade

Textiles, clothing, and accessories included in group 1 made up about one-third of 1965 imports of labor-intensive manufactures by developed from less developed countries. If burlap and other coarse fiber products from group 3 are also counted in the textile group, the latter accounted for some 44 per cent of the total.

The concentration of the trade by product is therefore pronounced, but it is perhaps less extreme than sometimes suggested by the attention given to textile imports from low-wage countries. Comparison of the

[11] In contrast to the decline of more than 10 per cent from 1964 to 1965 in the United Kingdom's imports of labor-intensive manufactures from less developed countries, its imports of these goods from all other sources, excluding the marginal items, were virtually unchanged.

TABLE 11

Imports of Labor-Intensive Manufactures by Developed from Less Developed Countries: Distribution Among Four Main Groups of Products in 1965 and Increase from 1964
(per cent)

Importing Country	All Items	Group 1 Textiles, Clothing, and Accessories	Group 2 Other Light Manufactures, Except Food	Group 3 Labor-Intensive Food Manufactures	Group 4 Labor-Intensive Industrial Materials
		Imports in 1965 ($ million, f.o.b.)			
Developed countries, total	2,438	787	495	459	698
United Kingdom	429	180	73	54	121
Total, excl. U.K.	2,009	607	421	404	577
United States	1,010	286	269	112	342
Other developed countries	1,000	320	152	292	236
		Increase from 1964 (per cent)			
Developed countries, total	11.3	10.4	26.8	4.6	7.7
United Kingdom	-10.7	-20.8	-11.1	6.0	1.6
Total, excl. U.K.	17.5	24.9	36.9	4.4	9.0
United States	21.5	34.0	44.3	-3.0	8.6
Other developed countries	13.7	17.8	25.6	7.6	9.6

Source: Appendixes D and E.

1965 results with those for 1964 indicates, moreover, that the concentration may be diminishing, the textile items in group 1 having increased by 10.4 per cent compared with an over-all increase close to 27 per cent by the wide assortment of light manufactures included in group 2. Both figures are strongly influenced by the British measures noted above. Developed countries other than the United Kingdom increased their imports in group 1 by about 25 per cent and those in group 2 by 37 per cent from 1964 to 1965. The corresponding increases for the United States alone were 34 per cent and 44 per cent, respectively.

The increase in 1965 was much more modest, however, in labor-intensive food manufactures and industrial materials, groups 3 and 4. The very low rate of increase in the food group reflects the poor anchovy catch by Peru during the 1965 season, which interrupted the rapid growth of its fish meal exports in recent years.

Distribution by Importing Countries

Of total imports of labor-intensive manufactures by developed from less developed countries in 1965, the United States accounted for 41.4 per cent (Table 12). The United Kingdom was next with 17.6 per cent, and West Germany third with 12.7 per cent. Together, these three countries took almost 72 per cent of the total. The United Kingdom's share had been as high as 22 per cent in 1964, but was reduced in 1965 with the absolute decline in its imports from the less developed countries, while those of the United States and West Germany continued to rise.

Rapid increases are also indicated in Table 12 for several countries —Sweden, Austria, Japan, Australia, and New Zealand—whose imports are relatively small. Others, including the European Common Market members except West Germany, show small shares in total imports of labor-intensive manufactures from the less developed countries, small ratios to their own imports of like products from all sources, and low rates of increase.

Table 13 points to considerable differences in the distribution of the main product groups among importing countries. The share of the United States is particularly high—more than half of the total—in the rapid-growth items included in group 2. The Common Market countries take a relatively large part—twice as much as the United States—of the food products in group 3. The United States, the United Kingdom, and West Germany account for three-quarters of total imports of textiles, clothing, and accessories, group 1, from the less developed countries. All three show considerable variety in the product compo-

TABLE 12

Imports of Labor-Intensive Manufactures by Individual Developed Countries from Less Developed Countries in 1965: Ratio to Imports of Similar Items from All Sources, Percentage Distribution Among Importing Countries, and Increase from 1964

Importing Country	Imports in 1965 from LDC's ($ million, f.o.b.) (1)	Percentage of Imports from All Sources, Excluding Marginal Items[a] (2)	Percentage Distribution Among Importing Countries (3)	Percentage Increase over 1964 Imports from LDC's (4)
Developed countries, total	2,438	13.9	100.0	11.3
United States	1,010	25.8	41.4	21.5
EFTA, total, excl. Portugal	574	11.9	23.6	-5.8
United Kingdom	429	19.4	17.6	-10.7
Sweden	44	5.8	1.8	23.9
Norway	13	4.3	.5	2.1
Denmark	32	6.4	1.3	9.4
Switzerland	43	6.2	1.8	7.5
Austria	14	4.0	.6	16.5
EEC, total	580	8.9	23.8	13.0
West Germany	309	11.2	12.7	24.2
France	127	12.3	5.2	4.8
Italy	47	8.3	1.9	2.0
Netherlands	65	5.8	2.7	1.8
Belgium-Luxembourg	32	3.0	1.3	-4.1
Japan	66	22.6	2.7	19.2
Canada	87	7.6	3.6	9.9
Australia	94	18.3	3.8	18.4
New Zealand	27	15.8	1.1	19.9

Source: Appendixes D and E.

[a]The items excluded (from both numerator and denominator) in computing the percentages in column 2 are those marked by an asterisk in Table 8.

TABLE 13

Imports of Labor-Intensive Manufactures by Developed from Less Developed Countries in 1965: Percentage Distribution Among Importing Countries by Four Main Groups of Products

Importing Country	All Items	Group 1 Textiles, Clothing, and Accessories	Group 2 Other Light Manufactures, Except Food	Group 3 Labor-Intensive Food Manufactures	Group 4 Labor-Intensive Industrial Materials
United States	41.4	36.4	54.5	24.5	48.9
United Kingdom	17.6	22.9	14.8	11.8	17.3
Other EFTA	6.0	8.7	5.9	5.2	3.6
West Germany	12.7	16.8	5.9	22.5	6.4
Other EEC	11.1	5.1	9.1	26.0	9.4
Canada, Australia, and New Zealand	8.5	9.5	6.1	3.1	12.7
Japan	2.7	.6	3.7	7.0	1.6

Source: Appendixes D and E.

sition of their imports from the less developed countries. The United Kingdom's imports are, however, more concentrated on Commonwealth countries, which enjoy preferential entry to the British market, than those of the United States and West Germany. The much smaller total of French imports of labor-intensive manufactures from the less developed countries is composed to the extent of two-thirds of food products, leather, and lumber, chiefly from Africa. Japan's imports of labor-intensive manufactures from the less developed countries are extraordinarily small by almost any standard and, in conjunction with the data in Table 15, below, indicate that in these products Japan's role vis-à-vis the less developed countries is, at least for the time being, far more that of a competitor than that of a customer.

Distribution by Exporting Countries

Hong Kong alone supplied 28 per cent of total imports of labor-intensive manufactures by developed from less developed countries in 1965, outranking India and the whole of Latin America with less than one-fifth each (Table 14). The extraordinary role of Hong Kong is not sufficiently indicated by the over-all percentage just cited: Its share in labor-intensive food products and industrial materials (groups 3 and 4) was negligible, reflecting its lack of land and other natural resources, but it supplied half of the textile group and more than half of other light manufactures (groups 1 and 2).

Other less developed countries of the Far East brought the combined share of that area to two-thirds of the total. Extraordinarily rapid rates of increase from 1964 to 1965 were shown by several of these countries, notably South Korea and Taiwan. It may be noted that their highest rates of increase were in the miscellaneous light manufactures included in group 2, and this was generally true of the less developed countries in other regions as well.

No less remarkable than the vigor shown by the exports of some of the small Far Eastern countries is the failure of some of the larger less developed countries, with an earlier beginning of industry, to compete on a significant scale in the markets of the developed countries for labor-intensive manufactures. These countries include Argentina, Brazil, Chile, Mexico, the Philippines, Egypt, Algeria, and Morocco.[12] With

[12] Peru forms a striking contrast because of the rapid development of its production and exports of fish meal in recent years (though, as noted above, temporarily interrupted by the poor anchovy catch in 1965).

It is also relevant to the discussion of policies in Chapter 5 to note that several of these countries have had the advantage of preferential entry to markets in developed countries—the Philippines in the United States and Algeria and

TABLE 14

Imports of Labor-Intensive Manufactures by Developed from Less Developed Countries by Four Main Groups of Products and by Countries of Origin: Value in 1965 and Increase from 1964

(value in 1965 in $ million, f.o.b.; increase from 1964 in percentages)

Country of Origin	Groups 1–4, Total		Group 1 Textiles, Clothing, and Accessories		Group 2 Other Light Manufactures, Except Food		Group 3 Labor-Intensive Food Manufactures		Group 4 Labor-Intensive Industrial Materials	
	Value in 1965	Rise from 1964	Value in 1965	Rise from 1964	Value in 1965	Rise from 1964	Value in 1965	Rise from 1964	Value in 1965	Rise from 1964
Less developed countries, total	2,438	11.4%	787	10.4%	495	27.1%	458	4.6%	698	7.6%
Far East, excl. Japan, total	1,644	15.0	629	9.5	391	29.6	124	24.2	500	10.3
India	443	7.8	101	-7.0	38	20.4	6	26.1	298	12.1
Pakistan	68	17.1	20	6.7	5	3.3	1	33.4	41	24.6
Hong Kong	690	18.1	391	13.6	285	25.0	6	14.4	8	19.1
Taiwan	137	34.1	29	23.1	24	80.7	52	51.3	32	3.4
Philippine Islands	85	-4.1	25	-9.8	10	22.5	14	8.5	37	-9.4
South Korea	58	91.6	31	87.9	10	268.2	2	131.3	15	47.1
Other Far East	164	4.8	33	-8.6	19	45.0	43	4.5	70	4.6
Western Hemisphere, total	451	2.6	34	24.1	68	17.3	236	–	113	-4.5
Mexico	91	-1.1	5	13.2	24	12.5	24	6.3	37	-13.4
Brazil	70	30.8	7	188.6	14	30.5	11	58.7	37	13.1
Argentina	16	-30.3	–	-95.2	5	30.1	6	-34.5	4	-31.4
Chile	17	-7.1	–	–	–	-38.5	15	-13.0	2	225.9
Peru	147	-1.3	–	-25.3	1	-17.0	145	-1.4	1	40.4

(continued)

TABLE 14 (concluded)

Country of Origin	Groups 1–4, Total		Group 1 Textiles, Clothing, and Accessories		Group 2 Other Light Manufactures, Except Food		Group 3 Labor-Intensive Food Manufactures		Group 4 Labor-Intensive Industrial Materials	
	Value in 1965	Rise from 1964	Value in 1965	Rise from 1964	Value fn 1965	Rise from 1964	Value in 1965	Rise from 1964	Value in 1965	Rise from 1964
Western Hemisphere (cont.)										
Colombia	18	36.4%	5	53.4%	6	50.8%	–	-60.7%	6	24.8%
Jamaica	19	1.1	8	-6.7	3	18.5	7	5.9	2	-5.7
Other Western Hemisphere	74	1.6	9	54.1	14	3.9	27	7.8	24	-15.3
Africa, excl. South Africa and Egypt	167	6.6	7	32.9	23	21.1	62	-4.4	75	11.1
Morocco, Algeria, and Tunisia	59	-2.5	6	41.3	8	-1.0	40	-8.1	5	7.0
Countries associated with EEC	53	18.3	1	16.9	7	55.7	13	0.2	32	20.5
Other Africa	55	7.2	–	-22.5	8	25.0	10	6.8	37	4.7
Middle East, total	175	7.7	117	10.3	13	22.3	36	-3.1	9	5.1
Iran	92	15.1	82	20.8	1	65.1	9	-20.7	–	-100.0
Israel	50	6.2	16	1.6	7	7.7	19	7.0	8	12.9
Egypt	22	-9.5	17	-16.3	3	71.7	2	-5.0	–	-100.0
Other Middle East	11	-1.3	2	-16.8	2	18.9	6	1.4	1	-22.3

Source: From basic tabulations prepared by United Nations Statistical Office; see Appendix D, below.

the exception of Brazil, whose exports in 1965 gave some promise of renewed growth, these countries also failed to share in the general rise in exports of labor-intensive manufactures from the less developed countries in 1965. Their participation is especially weak in group 2, which includes some of the more rapidly growing items. Nor should it be supposed that the minor role played by these countries as exporters of labor-intensive manufactures to the developed countries is to be explained by a more impressive performance in capital-intensive manufactures. As previously noted in connection with Table 10, exports of such manufactures by the less developed countries, apart from strongly resource-based products, are exceptional. Some of the exceptions are, however, of possible interest in the present connection. They include $15,758,000 of iron and steel exported by Mexico to the United States; $1,002,000 of tires and tubes exported by Israel to Western European countries as well as smaller amounts from Morocco, India, and the Philippines; $363,000 of trucks from Morocco to France; and $90,000 of insulated wire and cable exported by Argentina to the United States.

Imports from Other Low-Wage Countries

The major role of Hong Kong in the trade highlights the problem of defining just what is a "less developed" or "developing" country and, in particular, whether or not Hong Kong should be considered as belonging to the group. Undoubtedly, its circumstances have been unusual in several key respects, though the point loses in relevance as some of the other less developed countries begin to make headway in exporting manufactures.

The problem of definition may be simpler if one speaks instead of "low-wage countries." In this event a number of other countries would need to be brought into the analysis as exporters. They would include, as a minimum, the whole of Southern Europe with the exception of Italy—that is, Portugal, Spain, Yugoslavia, Greece, and Turkey. And it is probably appropriate to include also Japan, which, though certainly not an undeveloped country and perhaps no longer a low-wage country compared with many others, still shows some of the same attributes and faces some of the same export problems and opportunities as countries in the less developed and low-wage categories.[13]

Table 15 shows that imports of labor-intensive manufactures from

Morocco in France. Their poor performance in exporting manufactures either to these countries or elsewhere sugggests that other influences may be more important than preferences.

[13] See Leon Hollerman, "Japan's Place in the Scale of Economic Development," *Economic Development and Cultural Change*, January 1964, pp. 139–157.

TABLE 15

Imports of Labor-Intensive Manufactures by Developed Countries from Less Developed Countries and from Other Low-Wage Countries, 1965
($ million, f.o.b.)

	From Less Developed Countries	From Other Low-Wage Countries		
		Total	Japan	Southern Europe, excluding Italy
Developed countries, total, excluding Japan	2,372	2,979	2,347	633
By Product Group				
1. Textiles, clothing, and accessories	782	710	566	144
2. Other light manufactures, except food	477	1,587	1,429	158
3. Labor-intensive food manufactures	427	386	185	201
4. Labor-intensive industrial materials	687	296	166	131
By Importing Country				
United States	1,010	1,648	1,523	125
EFTA, total, excl. Portugal	574	440	249	192
United Kingdom	429	252	145	107
Sweden	44	65	37	28
Norway	13	18	10	7
Denmark	32	34	21	14
Switzerland	43	49	29	20
Austria	14	22	7	14
EEC, total	580	548	254	294
West Germany	309	290	143	146
France	127	82	34	48
Italy	47	61	15	45
Netherlands	65	68	37	31
Belgium-Luxembourg	32	47	23	24
Canada	87	166	149	16
Australia	94	147	143	5
New Zealand	27	30	29	1

Note: In this table Japan is included with "other low-wage countries" and excluded from "developed countries."

these other low-wage countries by developed countries other than Japan were somewhat larger in 1965 than imports of corresponding items from the less developed countries; that, by product, these imports from the other low-wage countries were much more heavily concentrated in group 2; and that, by importing country, they were much more heavily concentrated in the U.S. market.

These characteristics are, however, largely determined by Japan, which supplies by far the greater part of the goods covered by Table 15, especially those in group 2, and sells more to the United States than to all other developed countries combined. Exports of labor-intensive manufactures by the Southern European countries are rather differently made up by product groups and go chiefly to other European countries. A relevant question is whether the small part of labor-intensive imports from the less developed countries, or from Japan, taken by the countries of Western Europe other than the United Kingdom and West Germany is to be explained by the intensity of their trade relations with their low-wage neighbors of Southern Europe. The size of the trade flows mirrored in Table 15 is clearly too small to support such an explanation.

Market Potentials

Past Growth, 1953–65

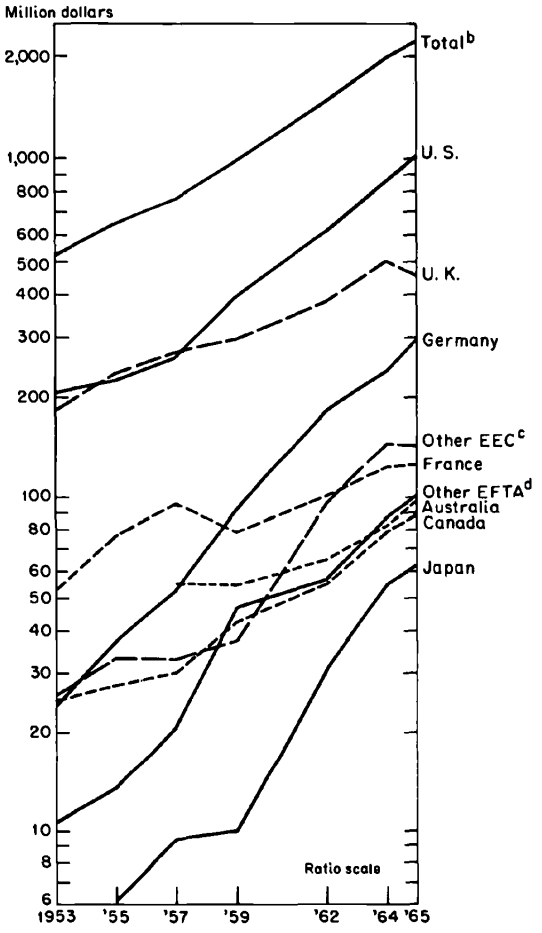
The rate of growth in imports of labor-intensive manufactures by developed from less developed countries in recent years has probably been much faster than had been expected. For instance, in a study published in 1964, Bela Balassa projected an annual rate of increase of 5.5 per cent in exports of manufactures by less developed to developed countries over the period from 1960 to 1975, prices being assumed to remain constant.[14] By contrast, the total of the labor-intensive items plotted in Chart 14 (slightly less comprehensive in coverage than Tables 11–15) shows imports in 1965 four and one-third times as large as in 1953, an increase of about 13 per cent per annum compounded. This is at current prices, and the annual rate of increase might be one or two percentage points less at constant prices.[15] Balassa's group of manufactures

[14] Bela Balassa, *Trade Prospects for Developing Countries,* Homewood, Illinois, 1964, p. 66 and Tables A3.1.1 and A12.

[15] There is no price index ready to hand for this small segment of world trade, and it would be difficult to construct a meaningful one (even if the necessary price information were available) in view of the considerable changes in composition and quality of the items over the period. The *Monthly Bulletin of Statistics of the United Nations* (issues of December 1966 for the period 1957–65 and December 1960 for the period 1953–57) indicates a rise of some

CHART 14

Imports of Labor-Intensive Manufactures by Developed from Less Developed Countries, 1953–65



Source: Compiled from publications of U.N. Statistical Office.

[a] Imports of countries reporting on a c.i.f. basis have been adjusted to an approximate f.o.b. basis by a uniform reduction of 10 per cent.

[b] Excluding Australia, Japan, and Switzerland.

[c] Belgium-Luxembourg, Italy, and the Netherlands.

[d] Austria, Denmark, Norway, and Sweden (Switzerland and Portugal not included).

is somewhat broader than that given by the criterion of labor intensity employed here, but that does not seem to be the reason for the difference between projected and actual results. If one takes his list of items and adjusts the reported trade figures in the manner indicated in his study,[16] actual imports of manufactures by developed from less developed countries in 1965 equaled the mean of his higher and lower projections for 1975 and were almost 2.3 times actual imports in 1960 (unadjusted for price changes). In other words, the increase foreseen for 15 years was approximately realized in 5 years. As Table 16 shows, the strength of actual performance in relation to the projections was pervasive, extending to most product groups and geographic areas.

Structure of Wages in Less Developed Countries

One of the conditions for a continued rapid growth of the trade is that the structure of wages in less developed countries not be such as to nullify their comparative advantage in labor-intensive products. A few years ago Lloyd Reynolds suggested that "interindustry wage dispersion tends to reach a maximum some time during the early stages of industrialization and to diminish gradually after that point." [17] This is what one would expect under free-market conditions, assuming that skills are relatively short and unskilled labor abundant in newly developing countries, and that these disparities in supply are gradually overcome.

Recently, however, a growing literature indicates that interferences of one kind or another tend to narrow wage differentials between industries or occupations in many of the less developed countries and so to raise costs in their more labor-intensive manufacturing branches. And it has already been observed in Chapter 3 that in several of these coun-

11 per cent in prices of *world* exports of manufactures, but this index is, of course, dominated by the exports of the industrially developed countries. If one assumes that, at constant prices, the 1965 total in Chart 14 would be, say three and three-quarters times higher than that for 1953, the annual rate of increase would be about 11.6 per cent compounded.

[16] The most important of these adjustments are (1) the rough conversion of imports where reported c.i.f. to an f.o.b. basis and (2) the exclusion of certain spurious elements in the reported import data such as returned construction equipment. See note to Table 16 and Appendix D. Balassa's projections are, however, in 1960 prices, whereas the 1965 actual values shown in Table 16 are in current prices. The U.N. *Monthly Bulletin of Statistics* for December 1966 indicates a rise of about 5.5 per cent in the unit value of world exports of manufactures from 1960 to 1965, but, for reasons stated in the preceding footnote, this index is not necessarily relevant to exports of manufactures by the less developed countries.

[17] L. G. Reynolds and C. H. Taft, *The Evolution of Wage Structure,* New Haven, 1956, p. 356.

TABLE 16

Imports of Manufactures by Developed from Less Developed Countries: Imports in 1960 and 1965 and Balassa's Projections for 1975

($ million)

Product Group	Imports in 1960 (current prices)					Imports in 1965 (current prices)				
	All Developed Countries	North America	Western Europe	Japan	Oceania	All Developed Countries	North America	Western Europe	Japan	Oceania
Chemicals	119	54	59	5	1	267	109	131	22	5
Leather and footwear	81	14	64	2	1	132	36	90	5	1
Veneer, plywood, wood and cork manufactures, and paper	50	25	23	–	2	140	97	39	1	3
Textile yarn, cotton fabrics, and clothing	316	145	151	–	20	622	285	297	2	38
Jute manufactures	175	103	34	1	37	279	192	46	–	42
Floor coverings and other textile products	102	39	59	1	3	217	65	142	3	7
Silver, precious stones, pearls, and jewelry	94	28	64	2	–	277	95	161	20	1
Machinery and metal manufactures	42	20	21	–	1	252	117	108	25	2
Other manufactured goods	96	53	37	1	5	284	173	89	10	12
Total	1,075	481	512	12	70	2,470	1,169	1,103	87	111

(continued)

TABLE 16 (concluded)

Product Group	Balassa's Projections for 1975 – Average of High and Low (1960 prices)				
	All Developed Countries	North America	Western Europe	Japan	Oceania
Chemicals	227	100	111	15	1
Leather and footwear	154	36	106	10	3
Veneer, plywood, wood and cork manufactures, and paper	268	179	84	–	5
Textile yarn, cotton fabrics, and clothing	658	281	332	–	45
Jute manufactures	217	121	50	1	45
Floor coverings and other textile products	246	79	156	4	7
Silver, precious stones, pearls, and jewelry	291	88	190	9	4
Machinery and metal manufactures	132	62	66	–	3
Other manufactured goods	253	138	97	4	14
Total	2,446	1,084	1,192	43	127

Notes to Table 16

Source: 1960 imports and 1975 projections from Bela Balassa, *Trade Prospects for Developing Countries*, Homewood, Ill., 1964; 1965 imports from United Nations, *Commodity Trade Statistics, 1965*, New York, 1966.

Note: See Balassa, *Trade Prospects*, p. 368, for definition of product groups in terms of the SITC and p. 338 for explanation of items deleted or adjusted because of their questionable content. In addition to the items specifically mentioned by Balassa, a number of other items in the import data reported for 1965 have been eliminated or adjusted for similar reasons, i.e., in an effort to minimize risk of overstatement in the 1965 results given above. The most important deletion is imports of cut and uncut diamonds (SITC No. 667) by the United Kingdom in 1965; these imports were not reported by the United Kingdom prior to that year and, presumably, could not be included in Balassa's figures of imports in 1960 or in his projections for 1975. Other important items deleted or adjusted downward in addition to those mentioned by Balassa are as follows (SITC numbers): 7143, 7184, 7191, 7192, 7193, 7196, 7198, 7199, 7249, 7295, 7299. On the other hand, rather than omit the whole of SITC 735 (ships and boats), the data for 1965 given above include imports within this group from Hong Kong where they can be identified as yachts and other small craft.

Imports of areas other than North America in 1965 have been reduced by 8 per cent, i.e., the figure indicated by Balassa for converting from a c.i.f. to an f.o.b. basis.

tries the differentials appear very small in the three broad groups of industries distinguished in Chart 7, particularly between the first and second of these groups. Frequently the stress is placed on labor unions as the main force underlying the development of wages.[18] Legal minimum wages may, however, be a more general and powerful influence on the level and structure of wages in less developed countries to a degree not matched in more developed countries.[19] An authoritative analy-

[18] See particularly W. Arthur Lewis, "A Review of Economic Development," *American Economic Review*, May 1965, pp. 1–16, and Raymond F. Mikesell, "Inflation and Growth: Observations from Latin America," in Paul L. Kleinsorge, ed., *Public Finance and Welfare Essays in Honor of C. Ward Macy*, Eugene, Ore., 1966.

[19] In a study of Puerto Rico, Lloyd Reynolds notes that, as contrasted with the U.S. mainland, "Most workers in each industry earn very close to the minimum rate; and as the minimum is raised, which happens every year or two, the industry level is forced up by a proportionate amount" (minimum wages being set at different levels for each industry). Reynolds also holds that the decisive influence in pushing up wages is exercised by manufacturers and union leaders on the U.S. mainland (represented on the committees recommending minimum wages in each industry). See Lloyd G. Reynolds, "Wages and Employment in a Labor-Surplus Economy," *American Economic Review*, March 1965, pp. 19–39.

sis in the organ of the International Labour Office,[20] in discussing changes in wage differentials by skill in the less developed countries, attributes minimum-wage policies to widespread disapproval of the wage levels of unskilled workers that would otherwise obtain. But he adds that "if governments insist that unskilled wages should increase independently of the forces of demand for and supply of unskilled labour, there is a likelihood that unskilled wages may increase faster than skilled wages." The author then quotes an earlier article in the same review (1959), finding "an extreme uniformity of wage rates in Brazil" attributable to public intervention, particularly the minimum wage, and cites other evidence of a tendency for the skilled-unskilled wage differential to narrow in "many African countries" and "some Asian countries." "This," he explains, " is because legal minimum wages are relatively high in these countries and are raised from time to time irrespective of the underlying conditions." [21]

Several unfavorable economic consequences are associated with tendencies toward uniformity of wage rates irrespective of skills. One (noted in the ILO article cited above) is the discouragement of effort by workers to acquire higher skills. Another (stressed by Lewis) is the inducement to entrepreneurs to adopt more capital-intensive methods of production than they otherwise would or (according to Reynolds' observations of Puerto Rico) to save on labor in other ways, thus inhibiting the growth of employment. A third effect of particular relevance here is the brake on the diversification of exports: A country unable to compete abroad in capital-intensive manufactures may also find itself priced out of the market in more labor-intensive manufactures and thus forced to continue to rely on exports of primary products.

These considerations may help to explain why it is that some of the less developed countries, notably those with an earlier start on industrialization, have fared so poorly in exporting manufactures and why, in contrast, some others, particularly some of the countries of Southeast Asia, have made such rapid headway.

[20] "Wage Differentials in Developing Countries: A Survey of Findings," by Koji Taira, *International Labour Review*, March 1966, pp. 281–301. With respect to *interindustry* wage differentials, Taira says that it is impossible to say, at the present state of research, whether these differentials are or should be wider in developing than in developed countries, "Though there is some evidence that they have been narrowing in both groups of countries over time" (p. 284). Moreover, given the different skill requirements of different industries, one would expect his findings with regard to skilled-unskilled wage differentials to be reflected in interindustry differentials.

[21] P. 287.

Possible Areas of Rapid Growth

At least for those less developed countries which do strengthen their comparative advantage in labor-intensive manufactures, the very unevenness of the trade hitherto may provide a key to future growth sectors. Imports from less developed countries of many of the light consumer manufactures listed in Table 8, above, have scarcely scratched the surface of the market. This certainly seems true of the United States on even a rough comparison of domestic production and imports from the less developed countries. There are, indeed, very few manufactured products of which *total* U.S. imports from all sources make up a significant part of supply.[22] It seems plausible to expect that a growing, adaptable economy will absorb increasing amounts of these miscellaneous consumer goods from the less developed countries.

This may be true also of many other developed countries, in some of which imports of consumer manufactures from the less developed countries have scarcely begun to play a role. Restrictive import policies and practices are doubtless one explanation. But perhaps also a learning period is required, and the experience gained by some of the less developed countries in exporting to the larger and higher-cost U.S. market, and by those of the Commonwealth with their privileged access to the British market, may now be applied to the conquest of still other markets.

Some of the greatest opportunities for expansion may be offered by the marginally labor-intensive manufactures included in group 2 of Table 8. The field of components and parts for use in electronic products and perhaps also in machinery, automobiles, and other transportation equipment seems particularly interesting. American manufacturers of electronic goods have reached out not only to Japan and Puerto Rico but also to Hong Kong, Taiwan, and Korea for components or even complete products. One analysis of this development runs in terms of a "product cycle" and finds that, as an invention passes from the early development and growth phases on into a "mature stage," the production process becomes more standardized, requiring less of skilled management and of scientific and engineering know-how and making more use of relatively unskilled labor.[23] Growing competition among producers may then lead them to site procurement where labor costs

[22] See Tables 8 and C-1 of this study and, for more detailed comparisons, see *U.S. Commodity Exports and Imports as Related to Output, 1963 and 1964,* U.S. Bureau of the Census, 1966 (Tables 1C and 4B).

[23] Seev Hirsch, "The United States Electronic Industry in International Trade," *Economic Review* (London), November 1965.

are lower and, where necessary, to help start production by providing capital, technical advice, and orders.

If these gains are realized, they will entail at least a relative displacement of domestic production in the importing countries, but they will be partly also at the expense of imports from other developed countries. Japan can be expected to face a particularly sharp dual adjustment in low-wage manufactures—that is, a loss to the less developed countries in its sales of light consumer goods both in its own market and in other developed countries. The word "loss" is, however, ill chosen, since a shift in employment may be a precondition for the further growth of Japan's production and exports of more sophisticated goods, and also for the strengthening of its important trade relations with the less developed countries.[24] The minute amount of Japan's imports of manufactures from these countries at present probably gives little hint of what they may be five or ten years hence. Such a development appears to be heralded by current changes in productivity and labor costs in Japan, which have been described as follows:

> Industries where possibilities for increasing productivity of labour are limited are being more adversely affected by increased labour costs and consequently are becoming less resistant to competition from abroad, in particular from developing countries. A movement of labour to economic sectors with high labour productivity is expected to continue at a rapid pace, thus leading to adjustment in the economic structure. It is a well-known fact that economic adjustment and economic growth are closely related. A smoother economic adjustment which facilitates better use of resources will bring about a faster economic growth and vice versa. Entrepreneurs and workers in a rapidly growing economy are quick to switch from relatively stagnant or deteriorating sectors to those that offer more favourable prospects. Japan's economy has proved to be highly capable of adjustment under its free market system and from all indications will continue to be so.[25]

[24] For an illuminating account of Japan's rather unhappy middle position at the United Nations Conference on Trade and Development, see Saburo Okita, "Japan and the Developing Nations," in *Contemporary Japan,* Vol. XXVIII, No. 2, 1965. Some idea of the pressures on Japan by its neighbors may be seen in the following excerpt from the joint communiqué issued after the Ministerial Conference for Economic Development of Southeast Asia, which met in Tokyo in April 1966: "It was also suggested that the limitation of market opportunities for the simpler manufactures of countries concerned was a handicap, and it was recognized that developed countries in the region as well as those outside, in addition to assisting in making capital and know-how available, should offer increased market accessibility" (from *Japan Report* [New York], April 15, 1966, p. 7).

[25] Tamotsu Takase, "Japan—A Market for Developing Countries—A Survey," *International Trade Forum* (GATT, Geneva), December 1965, p. 13.