Foreign Trade, Aid and Economic Growth in Less-Developed Countries

Gunnar Floystad’s *Foreign Trade, Aid and Economic Growth* is concerned with the interrelations between foreign trade, foreign aid and economic growth of a group of less developed countries (LDC) comprising all of Latin America, Africa, the Middle East and Asia, excluding USSR, Japan and Mainland China. The book is divided into two parts: Part One uses a model of trade, aid and growth to deduce a relationship between GNP, exports and net capital inflows of the LDC. Assuming exports to be given exogenously and net capital inflows to grow at a constant rate over time, growth of GNP is projected corresponding to alternative postulates about growth of exports and growth of net capital inflows via the simple exponential function, \( E(t) = M_0 [X(t) + B(t)]^B \), where \( E \), \( X \) and \( B \) stand for GNP, exports and net capital inflows respectively, and \( M_0 \) is a constant. Part Two analyses in some details the export prospects for a list of traditional products currently exported from LDC to developed countries.

The major result of Floystad’s study is that it should be difficult for LDC to sustain a respectable growth rate (viz., 5 per cent) for their combined GNP without significant increases in their export of manufactured (non-traditional) goods.

The above result is more or less well known as far as most individual countries in Floystad’s LDC group are concerned. The meaning of a growth rate for the combined GNP of LDC is somewhat difficult to see. So is the rationalisation of an assumption that plays a crucial role in making GNP of LDC a function of total imports alone: *i.e.*, the ratio between capital imports and imports of inputs for current production is given exogenously by government policy (irrespective of the magnitude of total foreign exchange available). Two other implicit assumptions, *i.e.*, (a) “domestic” saving always adjusts itself, in both directions, to the availability of foreign resources, and (b) “home” supply of importables cannot increase, severely restricts the predictive usefulness of Floystad’s model.

The author, in fact, does not offer any rationalization for most of the assumptions that make up his model in Part One. This makes his analysis a
purely mechanical one not in the better traditions of econometric analysis. The study of export possibilities in Part Two is generally interesting, but does not stand out as any significant contribution in view of numerous other studies available in this area.

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It is alleged that the agricultural output in poor countries responds very little to movements in prices and costs because of subsistence-oriented production and self-produced inputs. The work of Gupta and Majid is concerned with the empirical verification of the responsiveness of farmers to prices and marketing policies in a backward region. The authors’ analysis of the responsiveness of farmers to economic incentives is based on two sets of data (concerning sugarcane, cash crop, and paddy, subsistence crop) collected from the district of Deoria in Eastern U.P. (Uttar Pradesh) a chronically foodgrain deficit region in northern India. In one set, they have aggregate time-series data at district level and, in the other, they have obtained data from a survey of five villages selected from 170 villages around Padrauna town in Deoria.

The authors try to “find out how far prices influenced the decisions of farmers to grow sugarcane and paddy and to substitute one crop for the other”. Their method of analysis is, however, very elementary. No econometric model has been applied to find the magnitude of variation in supply as a result of the changes in prices. The acreage under rice and sugarcane is put against absolute and relative prices of the two crops to find the direction of variations in acreage as a result of the variation in absolute and relative prices. Since the price of sugarcane is fixed by the government well in advance of the sowing season and since the guaranteed price for sugarcane changed only four times during the thirteen years’ period of their study, “the district data for the last 13 years do not bring out much meaningful association between the raw prices of rice and sugarcane on the one hand and the acreage of the two crops on the other”. They, however, find some significant evidence of short-term response, i.e., year-to-year response of relative acreage to relative prices. The trend movement is approximately removed through the device of link relatives: “in 7 out of the 11 observations, the direction of change in both the variables has been found to be the same”.

In order to explain the lack of long-term changes in response price, the authors bring factors like the difference between the value of sugarcane and