The International Economics of Development by G. M. Meier. Harper and Row, New York, 1968.

Surveys of the main corpus of trade theory are many. Yet a reader of these competent surveys may often be left with a feeling that the conclusions of trade theory may not be very dependable guides in matters of actual formulations of policy in the context of economic development. This is so because rather inadequate emphasis has been given in the existing surveys to dynamic changes in the basis of trade specialization and to historical experience and institutional arrangements governing the direction of trade and distribution of its benefits. Though the analyses of these aspects in the trade literature and in the writings on the problems of economic development are extensive.

The present work by Professor Meier is a very useful contribution in this respect. It brings together in a very lucid and coherent manner the impressive efforts of many trade theorists and writers on the problems of economic development to dynamize several aspects of the analysis of trade theory and to assess practical development policies with the help of the tools of trade theory. While basically he surveys the contribution of others, Professor Meier introduces much analytical originality and practical insights of his own to make the work more than a mere survey.

A nine-page introduction describing the nature and scheme of analysis in the book is followed by eight chapters. Chapters 2 and 3 analyze how the structure of comparative advantage, volume and composition of trade and the distribution of the gains from trade are affected as a result of changes in factor supplies, technology and the pattern of demand. It is shown that even in the two-country two-commodity model nothing definite can be said *a priori*. It all depends on how the alternative possibilities of consumption effects and production effects work out. The permutation and combination of several kinds of consumption effects with several other kinds of production effects produce a large number of theoretical outcomes. Using this framework of analysis it is shown that many implausible and restrictive assumptions need to be introduced to make the phenomenon of 'immiserizing growth' in the course of development a possibility.

Chapter 5 analyzes the problem of maintaining external balance in the process of development. The maximum rate of growth in investment that can be sustained without encountering balance-of-payments difficulties is shown to be equal to domestic rate of saving times the marginal output-capital ratio. Deterioration in external balance is said to basically emanate from inflationary financing, though this is qualified by referring to some unexplained phenomena of structural difficulties which lead to a foreign-exchange gap distinct from a saving gap. It is also posited that 'the absorption approach with its emphasis on the savings constraint — remains of general and fundamental importance for a majority of the less-developed countries', suggesting thereby that increased savings effort is the most general means of restoring external balance. This way of looking at the external balance problem of the developing economies seems to abstract uncomfortably from the problem of efficiency in resource allocation. While the absorption approach uses the assumption of full utilization of resources, many a less-developed country is suffering from unemployment and excess capacity. Domestic price distortions and nonequilibrium exchange rate badly allocate resources away from the underlying pattern of comparative advantage. Price adjustments leading to better allocation may help increase output and improve external balance without investment in such a situation.

Chapters 5 and 6 are devoted to analyzing the role of foreign capital in the development process. It is suggested that foreign capital has a dual role in enabling the recipient country to raise its level of investment and increase its imports. Accordingly the requirements of foreign capital are said to arise either to fill the 'saving gap' or to cover a 'foreign-exchange gap'. We feel that this dichotomy is fallacious and at its best covers up many nonoptimal policies which give rise to the appearance of the two gaps. If the savings and the investment resources are both valued at international prices, then there cannot be two gaps: foreign capital will serve the single role, namely, a supplement to domestic saving. Of course, inflow of private foreign capital has other major advantages to provide in terms of managerial services, technical knowhow and marketing facilities which have been noted in this section. The costs and benefits of using various incentives to attract foreign capital and their effectiveness are also analyzed at great depths.

The problem of debt servicing analyzed in this section, otherwise quite thorough, fails to explain why the inflow of foreign capital cannot lead to a pattern of investment which can be self-financing, *i.e.*, which can generate required foreign exchange through trade improvement to cover the debt-servicing liability. Again, we suspect, the factors which give rise to the two-gap situation are also at the root of the debt-servicing problems. It is also necessary to be clear that insofar as there is an element of aid in the international capital inflow, there is no problem of debt servicing with respect to that part. We have to separate out this part by considering how 'concessionary' the loans were compared to the terms in the international market. After this adjustment, the supply of foreign capital to the developing countries is by definition at rates competitive in the world market. Then the problem of debt servicing arises mainly because this capital is used often in lines where the *real* marginal productivity of capital is lower than the internationally competitive rates of return on long-term finance. If such low productivity use of investment is justifiable on some grounds, these projects should seek international aid, not international loan finance. Even from the national point of view of the recipient country such projects are justifiable only if there are no better projects in the known project universe of the country.

Chapter 7 examines the various economic arguments for protection available in the literature. It reaffirms the position that most of the economic arguments for protection lead to a case for subsidies, not tariffs. The only case for tariff protection is where there is an opportunity to reap the optimum tariff gain. But the relevance of this case for any developing country is heavily discounted. It also provides a penetrating analysis of the nonoptimal character of the trade policies pursued by the less developed countries in practice. However, the discussion on tariff policy in the presence of quantitative restrictions is somewhat confusing. For instance, when import quotas serve as the dominant protective device, the cascading in the structure of tariffs may not lead to the pattern of domestic allocation indicated here. In spite of low tariffs on *permitted* imports, there may be a high incentive for import substitution in the same commodities, since the permitted imports may be very insufficient to meet domestic demand.

'Can foreign trade have a propulsive role in the development of a country'? This is the question considered at length in Chapter 8. The resume of the arguments of the proponents and opponents of the debate and historical evidence lead to the conclusion that foreign trade is a help rather than a hindrance in the development process of a country and "the basic international trade problem for a poor country is not so much how to control its trade but rather how to achieve a more extensive carry-over from its export trade to its domestic economy". In our view, the question posed expects too much out of foreign trade. The process of initiating and sustaining economic development is too complicated a business to be automatically achieved by the propulsive impact of any sector. Many factors, political, social, psychological and economic, are involved in the process. The real question is whether when those other factors are favourable for development the availability of one more alternative of transformation through international trade is not a help to that economy ? The answer to such a question becomes much more obvious.

The final chapter of the book is devoted to an examination of the international economic reforms which the less-developed countries are currently pressing for. The author comes out against some of the proposals, such as the preferential entry of developing countries' exports in the markets of the developed countries. He shows the weakness of the economic arguments supporting such claims, the practical problems of implementing such plans and the departures from the general principle of nondiscrimination that these will lead to. He rightly favours removal of restrictions to trade in general by the developed countries and urges the developing countries to eliminate their costly policies of import substitution and reduce their own trade barriers. In fact the argument that countries stand to gain from unilateral reduction in trade barriers is more unequivocal in the case of a less-developed country, since the possibility of any offsetting terms-of-trade loss is generally absent in its case.

This review does little justice to the real content of this very stimulating book of Professor Meier. It has much more than what a reader of this review is likely to expect. The annotated bibliography appended at the end will be very helpful for the readers to check up further the various points discussed. We strongly recommend the book to students of international economic policy at all levels who are not intimately familiar with the literature on the various topics that form the subject matter of this book.

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