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A SUPPLEMENTARY PAYMENTS MECHANISM TO PROMOTE TRADE AMONG DEVELOPING COUNTRIES—A PROPOSAL*

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Expanding the trade among developing countries has long been thought of as a way of accelerating production and thus of badly needed development in these countries : this has in recent years been felt even more pressing because of their lagging exports to, and deteriorating terms of trade with, developed countries. Complicating this situation are the import curbing measures and growth stifling domestic credit policies occasionally pursued by the key reserve countries to defend their currencies. Mostly exchange starved, under-developed countries have been held back from importing more from each other, and have generally made use of bilateral trade and other soft currency transactions to gain whatever additional foreign trade could be obtained this way. Because such transactions, besides being frowned upon on account of their usually "exclusive" character, restrict opportunities for exchange to only two or at most a limited number of countries and could consequently only include commodities produced in the countries involved, their impact on trade has so far been relatively meagre. It is for the purpose of multilateralising them by linking them together in a clearing system—and consequently to increase their workability—that the scheme as outlined in this paper is presented for exploratory discussions.

To come back to the nature of trade between under-developed countries, most of it is currently carried along two general lines : (*i*) imports (exports) in convertible currencies, and (*ii*) soft currency and similar transactions, including barter. Under-developed countries with payment difficulties understandably prefer the latter arrangements to the former in such trade because of the priority accorded to the claims of imports for development purposes on their hard currency receipts and the necessity often faced by trading partners to equate exports with imports. Since most hard currency trade originates from industrialised countries and because their exports are in the main payable only in hard currencies, the bulk of the foreign exchange receipts of primary producing countries originating from these countries are returned back to them, thus restricting the use of hard currencies in the trade between primary producing countries. Faced with these necessities as well as troubled by lagging exports[1] to, and deteriorating terms of trade with,

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* This paper is a development of a scheme first explored in an article (by the same author) which appeared in the 1st September, 1961 issue of *The Eastern Economist* (India). It especially benefitted from the comments and suggestions of Messrs. R. Triffin and A. Shonfield who however are in no way responsible for any possible error in judgment.

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1. An increasing efficiency in the utilisation of raw materials, the discovery of substitutes, the growing ability to meet raw material requirements from local production on the part of industrial countries along with the low demand elasticity of raw materials, account for much of this lag. The picture would appear even more bleak when viewed against J. K. Galbraith's (in The Affluent Society) contention that no further substantial expansion in the production of traditional goods is likely to take place in affluent countries. The conclusion of a recent Indian report on the future of jute in international trade seems to sum up the position of most raw materials in international markets. ("Potentially the greatest increase in jute goods consumption in the next decade should be in the developing countries. . . ." quoted from a study by *The Economic Weekly*, 12 May, 1962, pp. 769-770).

industrialised countries (despite their rapidly rising production) and a mounting need for development imports, developing countries with payments problems have found resort to bilateral trade and limited multilateral payment arrangements (much used in post-war Europe, Far East, and Latin America). Their use in practice is, however, only limited because besides restricting trade to, at best, a limited number of countries they require individual and comprehensive negotiations, usually costly and time-consuming, to carry out to fruition. Thus a country burdened by a sporadic surplus, but unwilling to "shop" for commodities it is willing to take in exchange or to undertake comprehensive negotiations and to be encumbered with lasting obligations arising out of them would be prevented from taking advantage of the opportunities offered by such arrangements. The difficulties multiply in trading perishable commodities which must be quickly disposed of. To the extent that hard currencies have not been a completely satisfactory payment medium with respect to the trade between and among under-developed countries because hard currency receipts are necessarily linked to, and limited by the trade between primary producers (under-developed countries) on the one hand and industrialised countries on the other, and because of the intrinsic shortcomings of bilateral trading arrangements, trade, and consequently production, among under-developed countries with payments difficulties has been held back from expanding as much as might have been desirable, and perhaps possible.

THE SCHEME

A trade expanding scheme which would in effect bring together all bilateral trading arrangements into one multilateral system, and thus increase the latitude for exchange, is presented as follows :

Establishment of a clearing system and the supporting machinery wherein goods and services presumably unsaleable for hard currencies may be offered for sale by any country burdened by them : under the arrangement, a variety *of letters of credit,*[2] *warehouse receipts and irrevocable contracts to deliver specific goods and services on demand* (which shall from hereon be referred to as "commodity credit notes") may be offered for exchange in a clearing system, with each specific offer being accompanied by indications as to what other goods and services may be wanted in exchange. Quotations and other necessary trading procedures such as factoring, performance bonding, etc., may all be made in much the same way as they are now done in international trade. There may thus be offerings of so many dollars worth of Brand X Burmese rice, Philippine sugar, Indian bicycles, Egyptian cotton, Argentine corned beef, Chilean nitrate fertilizer, Liberian shipping services, and so forth, each of which being quoted at so many dollars per unit, as there are U.S. dollars and British pounds sterling, etc. From these advertised goods and services a trader or broker may try to fit offerings with needs, arranging as he sees fit a combination of exchanges acceptable to all

2. Expendable only in the issuing country. This might even be the preferred form of payment as against warehouse receipts and contracts to deliver in the case of national currencies whose buying power is stable because (*i*) of the ease of handling letters of credit, and (*ii*) it substitutes the usually more reliable word of the issuing bank for that of the trader. A recent example of this kind of trading operation is the drugs-for-prisoners exchange between the U.S.A. and Cuba whereby Fidel Castro insisted on covering the deal with letters of credit. This would amount to *currency clearing.*

the offering parties brought into the deal. In one *simultaneous* transaction he may then effect the exchange of many mutually wanted goods and services, titles to which (specific "commodity credit notes") would as a result change hands. *At no time is money ever exchanged—only in titles to goods and services :* money would in practice only be used as a *unit of account.* It is in this important respect wherein the scheme differs with the prevailing mechanisms of payments because while it is able to dispense with the use of hard currencies it is still capable of effecting the most economic of exchanges as can be obtained anywhere with equal facility and on comparable terms. Moreover, the "commodity credit notes" may be allowed to circulate for as long as no suitable exchanges are found. Actual delivery of a commodity may only be effected when a country in possession of the corresponding "credit notes" calls for it. The all-important feature is that all transactions can be made under one roof and need not be the subject of comprehensive and usually time-consuming negotiations.

Once bought—presumably at competitive prices—and transformed, "commodity credit notes" assume for the first time and only then the standing of a bona-fide international currency as defined above and may be made part of country's foreign exchange holding in much the same way as convertible currencies are regarded : this is possible because the "notes" could be resold for convertible currencies at competitive prices, and could be comparably used. As such they may be bought, sold or discounted as ordinary commercial bills ; also, they may be (*i*) claimed for physical delivery and consumed (demonetised), (*ii*) recirculated for further exchanges within or outside the scheme, and (*iii*) held in reserve for future payments. In the first two operations the exporting country will have been able to acquire highly desirable goods and services in exchange for its natural exports which it presumably has been unable to sell for hard currencies. In the absence of the scheme it might have been forced to curtail its production of the commodities used in payment and to finance the purchase of the imports with borrowed funds. What it amounts to in effect is that a special trading unit is created out of warehouse receipts with the result that there would only be as much of the resulting currency in circulation as there are acceptable goods and services. This makes for a self-adjusting and self-sustaining trading medium and it resembles the use of gold in a gold based currency except that instead of the metal, competitively acquired commodities are used in backing the currency. While possibly inferior to gold in performing this function because of the mystic that surrounds gold, competitive goods and services are better than little or no support at all as would be the case when only soft currencies are received in payment for exports.

The scheme, as is now apparent to the reader, is in reality intended to facilitate the meeting of needs which is handicapped in bilateral transactions because of the limited choice of commodities and consequently the difficulty of finding suitable exchanges. Thus a trader in Burma might offer to exchange a certain quantity of rice at some quoted price in dollars (which may vary from day to day) with the indication that he would like to have certain approximate amounts of meat and cacao similarly offered in the scheme along with a shipment of jute products, in return. An interested Indian trader might in turn ask for an option to deal on the offering terms—it does not have to be for the entire lot—and could in the scheme look for the commodities wanted in Burma. He might obtain a quantity of meat credit notes offered from Argentina in exchange for jute credit

notes and some cacao credit notes from Indonesia for a shipment of Indian bicycles (also obtained within the scheme) bearing in mind, for each intermediate transaction, the exchange value of his acquisitions in terms of Burmese rice : he would not, of course, involve himself in any transaction which will in the end, as he sells his acquisition of Burmese rice, net him less than the rupee equivalent of his original investment in jute products and bicycles (allowing for transportation and other expenses). The Indian trader may then turn around and offer his acquisition of the required meat and cacao credit notes along with the appropriate quantity of credit notes for jute products to finish off the deal with the rice trader in Burma. Commodity offerings may include indications as to what and how much of other commodities are desired in exchange to facilitate the matching of needs and offerings by traders. Thus, the Indian trader might, as soon as he knows of the Burmese offering and needs and after obtaining the option to deal with the Burmese trader, indicate his readiness to accept meat credit notes for jute products, etc., to raise the required meat and cacao asked for (which is also an offering of jute products and bicycles).

The exact terms of exchange may in all cases be negotiated individually between the parties concerned in much the same way as they are dealt with in ordinary trade. And all the traders concerned could buy their stocks in local currencies and at prices comparable with those paid by exporters to hard currency markets since they could sell their own acquisitions at prices comparable with those applied for goods acquired with hard currencies. The similarity, however, ends here because as has been noted before transactions within the scheme can be made *without* the use of hard currencies even though they are exchanges of *mutually wanted* commodities. Thus, in the model presented, the Indian trader might have wanted to sell only in convertible currency for his jute export to Argentina had he not known of the feasibility of converting his jute products into Argentine meat and then exchanging the latter with Burmese rice which he wanted in the first place. Enabling him to get what he wants (and so with the Burmese and Argentine traders) with equal facility and on comparable terms even without using hard currencies, makes him just as happy with the arrangement.

To expand the area of possible transactions, importing countries may be allowed to pay in their currencies (presumably soft) in the event that no commodity or commodities acceptable to the exporting country are immediately available in the scheme. Alternatively, the exporting country may accept credit within, for instance, a "swing" account in exchange for the commodity taken by the importing country. Soft currency or credit so acquired may, as with the "commodity credit notes," be circulated and discounted within the system and may be used by whichever country holds it last in paying for imports from the country of origin. The use of credit as a means of payment should, however, be limited as it would allow countries with no real export potential to import : this could fuel domestic inflation and lead to an undue accumulation of inconvertible foreign exchange in the exporting countries.[3] On the other hand, the use of "commodity

3. This problem, however, is self-correcting since traders would hesitate to accept credit not linked to commodities in countries where the domestic buying power of the local currency is continuously falling. They would prefer to accept payment in commodities or would, on being paid, immediately convert receipts into commodities (in terms of commodity credit notes) since goods retain their intrinsic value even under conditions of inflation.

credit notes" as against straight soft currency deals has the important advantage of restricting transactions to commodities already available but unsaleable on account of the absence of hard currency buyers and because of the impossibility of direct and quick exchanges between potential exporters and importers burdened by payments problems. This feature would have the effect of limiting the convertibility envisaged in the scheme to truly exportable surpluses.

Needs, will in any case, have plenty of time to meet, and the more commodities and countries are involved, the more chances there will be for needs to coincide.

ITS POSSIBLE FORM AND USE

The scheme might be established around a clearing house and might operate on more or less business lines. It may collect fees on transactions to cover its operational and maintenance expenses and it may work through the regular commercial and banking network at the national level. The issue about whether the volume of potential trade would warrant the establishment of the necessary machinery may be judged against the following points : on the one hand the annual trade among primary producing countries has in recent years been in the order of 7.6 thousand million dollars (U.S.)—roughly 6 per cent of the total international trade—and, with oil excluded, is increasing at nearly twice the rate of the trade between the primary producing countries on the one side and the developed countries on the other, again despite the peculiar difficulties attending the former trade.

TABLE I—EXPORTS (i) AMONG NON-INDUSTRIAL COUNTRIES ; AND (ii) BETWEEN NON-INDUSTRIAL AND INDUSTRIAL COUNTRIES

(Thousand million U.S. dollars *f.o.b.*)

Origin \ Destination	Non-Industrial Countries		Industrial Countries	
	1953	1960	1953	1960
Non-Industrial Countries				
Total Primary Products	4.78	5.88	15.73	19.01
Total Manufactures	1.28	1.61	1.70	2.67
Total	6.18*	7.61*	17.50*	21.77*
Fuels only	(2.04)	(2.62)	(2.46)	(4.86)

* Including residuals.

Source : GATT : *International Trade*, 1961.

Much of the trade among non-industrial countries can be brought into the proposed scheme, more feasible perhaps in the case of primary products than with manufactures. This, however, is only part of the potential trade visualised for the scheme because given a more suitable mechanism of exchange, primary

producing, and other countries with payments difficulties are likely to expand their trade. On the other hand, the machinery envisaged need not be anything big or expensive to operate since its function is merely to collect information on availabilities, advertise them, and keep track of transactions. On the whole, therefore, there seems sufficient ground to believe that it would pay its way through.

It should be possible for the arrangement to function alongside the payments system now in use[4] since trading terms and procedures will be much the same for both. Its first use, therefore, would be as a complement to the prevailing exchange mechanism. Because it has its own self-sustaining form of liquidity, no additional burden will be placed on conventional liquidity. To the extent that this is so and that some of the trade between exchange-short developing countries now serviced by hard currency would be transacted under the scheme, the pressure on international liquidity would indeed be reduced, thereby removing one of the major depressants of international commodity prices. Countries with strong currencies will still find many attractions in it even though they may have all the foreign exchange they need to support imports from everywhere and consequently may lack a strong desire to build up reserves further. There will in the first place be no longer any need for developing countries to set aside hard currencies to cover imports from other under-developed countries, thereby increasing their capacity to import from industrialised countries. Secondly, the creditor-countries among them would most certainly welcome the prospect of making debt collection much easier because debtor-countries once provided with "commodity credit notes" and able to export more and to import without resort to hard currencies, will find themselves less reluctant to part with hard currency reserves for debt servicing. Moreover any country among them occasioned by a need to conserve hard currency resources would find in the scheme a convenient alternative. Finally, it would reduce the pressure on the key reserve currencies since there will be less need to maintain stocks of them in the Central Bank portfolios as there is now : this would bring relief to the United States and British monetary authorities who, as a result of the function of the dollar and pound sterling as key reserve currencies, have been prevented from adopting essential domestic credi measures for fear of provoking runs on their gold and reserve holdings.

The benefits to developing countries with payments difficulties and lagging exports are even more clear-cut. They too will profit from the above advantages. Even more important, however, is that the scheme will permit developing countries with payments difficulties to expand their exports and consequently their imports without resort to hard currencies. In other words, they need no longer rely on exports to hard currency countries to raise the foreign exchange needed to service their imports from other soft currency countries. And because trading terms would be comparable in both the proposed scheme (save for the indeterminate though small clearing and brokerage fees already mentioned) and the hard currency market, transactions in the former need not suffer any disadvantage as regards prices. As a *means of payments* (*i.e.*, trading currency), therefore, "commodity credit notes" will be just as efficient as hard currencies since both mediums are able to effect the transfer of mutually wanted commodities with the same faci-

4. Including those proposed and under discussion, such as the proposals of Bernstein and Triffin, on reorganising the International Monetary Fund, and the bid of Professor F. Graham to create "international commodity units."

lity and on comparable terms. Under the proposed scheme two types of transactions would take place between raw material-producing countries, and first are exchanges in the natural exports of any two countries. This, however, offers only limited opportunities since such trade would be confined only to the produce of either country as could be absorbed by the other. Much more promise is offered by the second type of transaction which would have been difficult to carry out in the absence of the proposed scheme, and this involves the simultaneous mutilateral exchange of "commodity credit notes" needed to effect the most economic trading of mutually wanted commodities. Nowhere has this type of transaction been possible in the present scheme of things since hard currencies, even at their best, have only limited use in truly multilateral exchanges. A country importing in hard currency cannot for long tolerate an unfavourable trade balance with a trading partner and would sooner or later come up with the reminder that the prevailing imbalance be corrected by the other or else be faced with a cut in its exports.

To sum up, the present dilemma of exchange-short developing countries stems largely from their inability to increase exports because of the near saturated condition of their traditional markets (mostly industrialised countries) and of the difficulty, on account of the unsuitability of the prevailing exchange mechanism, to trade among themselves. It is indeed in its failure to promote trade between and among raw material-producing countries in which the present exchange mechanism can be faulted the most, for while it has permitted trade among industrialised countries, and between them on the one hand and raw material-producing countries on the other, at no time has it been nearly suitable in promoting trade between and among raw material-producing countries. The suggestion put forward for such countries to participate in an international production restriction programme[5] can only be rejected because while such a measure might be appropriate in affluent countries where a state of abundance has been achieved, it is scarcely so among under-developed raw material-supplying countries with whom underproduction in the global context is still the problem. To restrict production in these circumstances is rather like advising a needy farmer to cut down his production of highly saleable produce which he has been unable to market on account of his limited means of transport instead of telling him to augment his trucking capacity.

While the primary and predominating function of the envisaged "commodity credit notes" is as a means of payments, they may also be used as *exchange reserves* by reserve-short countries (including developed countries) since they have the intrinsic value of the competitively acquired, and, therefore saleable commodities behind them. There are to be sure certain drawbacks in their use as exchange reserves. Being bulky, and with a good part of them being perishable and of variable quality, commodities would probably be more expensive to service and handle than, say, gold and gold-backed foreign exchange. Moreover, because stability of value is often a desired feature with reserves, commodities suffer from the disadvantage of being subject to fluctuations in prices, which are now high and now low. An additional difficulty might arise in ascertaining the true worth of commodities behind a stock of "commodity credit notes" (as opposed to its face

5. See for instance the editorial of *The Observer* (London), 8 July, 1962.

value) for purposes of discounting and other commercial operations, and when determining its equivalent in local currencies if turned in as export proceeds to a Central Bank. On this, much will depend on the adequacy of the grades and standards used, the reliability of the inspection services and the dependability of the bonded warehouse employed. These should not, of course, disqualify them altogether from being used as exchange reserve because much leeway is afforded in choosing the countries and the types of "commodity credit notes." Moreover, a wide range of choice is offered by highly standardised and price stabilised manufactured goods and services. Finally with gold and gold-based foreign exchange being in such short supply, central banks are not left with much choice but to hold the proposed commodity currencies as supplementary exchange reserves if they are to maintain an adequate reserve position.

As a complement to the hard currency market, the proposed arrangement should include as many countries and commodities as possible to function effectively because if participation is reduced to a few countries and commodities, the choice of commodities for exchange will be so limited that it will be no more effective and economic than a bilateral or limited multilateral trading scheme. The eventual and ideal goal should, therefore, be to get it accepted as a complementary payments mechanism on a global scale. Establishing it as such, however, is likely to involve long drawn out and difficult negotiations and may thus be unnecessarily delayed. To avoid this and until it acquires universal acceptability it might be tried as a regional payments arrangement, to be worked out and operated under the sponsorship of existing regional economic integration schemes such as the Associated States of Asia and the Latin American Free Trade Area and similar arrangements being considered in Africa.[6] While it may as such be used as a tool in intra-regional payments, participation need not be restricted to the member countries of the sponsoring regional bloc: this should not be a problem since no special trading terms or procedures differentiate the proposed scheme from the prevailing exchange systems. Thus links between the countries forming the sponsoring regional bloc and outside countries may take place, as also trading links with other regional groups. The purpose of the exercise is really not so much to create an exclusive trading arrangement out of the proposed scheme (*although it can always be used as such*) as to get it underway without too much delay so as to test its soundness and workability.

If set up, the scheme might therefore initially aim at building up intra-regional trade, perhaps linking existing bilateral and limited multilateral trading arrangements, and possibly as no more than a pilot project. It may as such work its way through the difficult world of trade and the veritable jungle of monetary policies wherein it must somehow adapt itself, and overcome such obstacles and prejudices as may lay in the way. There are, for instance, all sorts of restrictions and limitations built into the monetary policies of individual countries against soft currency transactions—mostly measures inspired by the necessity of protecting their hard currency trade. This is a problem to overcome in countries where such measures consist of limitations on the kind and quantity of commodities eligible for soft

6. The immediate opportunities in this respect can be judged by the value of intra-regional trade which for Asia and the Far East, Latin America, and Africa amounts to 34 per cent, 9 per cent (1957-59) and 4 per cent (1961) respectively of their total international trade.

currency trade. Also "most-favoured nation" trade commitments might present some difficulties to countries wanting to trade within the scheme although this problem will be partly assuaged by the multilateral nature of the transactions envisaged for the scheme and by the similarity of trading terms in both the scheme and the hard currency market. In some cases, participation may require the modification or abrogation of existing bilateral trading arrangements particularly where they prohibit re-exports. Furthermore, movements between currency and economic blocs might call for special handling. Many of these problems would of course be the same as those that one normally encounters when building up new trade and are not therefore peculiar to the arrangement. An approach, for a beginning, might be for participating countries to exempt transactions destined for the scheme from all existing restrictions and limitations, while retaining the basic laws themselves and, further, to allow, say, not more than 5 or 10 per cent of exports for trade in the scheme. This will give the scheme authorities the opportunity to evaluate its working procedures while at the same time maintaining the existing framework of international trade. It is important to remember in all this that the scheme could only function effectively if participating countries and eligible commodities are many and varied. Consistent, therefore, with the requirements of trade stability as well as with the end-all aim of achieving universal convertibility the objective should be to broaden its operation and increase its competence.

SOME FURTHER IMPLICATIONS

Some additional issues need to be cleared up. A point that has been raised is that the proposal may disrupt hard currency trade and may, therefore, delay convertibility. The fact that trading terms will be the same for both and that it is open to all countries should dispel this fear. Indeed, it would tidy up the present unwieldy collection of commercially inspired bilateral trading arrangements and at the same time cleanse them of their most daming fault—their exclusiveness. No mass distortion in the overall trade picture nor a general movement to divert hard currency trade through the scheme is, in any case, visualised. As already stated, trading will be on the same terms in both the scheme and hard currency market. The scheme would merely provide a mechanism to permit exchanges between countries with soft currencies—particularly developing countries—not otherwise possible because of the restrictive peculiarities of the prevailing exchange systems. This should allay the fear that transactions within the scheme will somehow be more advantageous than, and therefore discriminatory to, imports made in hard currency. Given this assumption, along with the argument that the scheme will lead to the expansion of international trade, the cause of convertibility could indeed be advanced rather than weakened by the establishment of the scheme. Insistence on conventional means of payments, *i.e.*, hard currency, which orthodox monetary specialists would much rather do with is only likely to perpetuate the problem among under-developed countries of not being able to find markets for products they can in fact grow more of and can produce with traditional means since imports of developed countries (where hard currencies originate) have been lagging behind. This course can only lead to a continuance of the drift towards autarky—that anathema of free trade—flagging development and a needless protraction of the struggle with foreign exchange difficulties among developing countries as also to the unnecessary proliferation of uneconomic industries. It would be unrealistic to assume that the extension of credit and aid and a wholesale

realignment of national currencies[7] could by themselves turn the tide quickly. The debt servicing ability of under-developed countries is even now heavily compromised whereas the basic imbalance in the foreign trade of the same countries which is the root cause of inconvertibility, remains as strongly entrenched as ever. Evidence of the latter is seen in the history of currency readjustments that have taken place since the war. Franz Pick reports that 84 out of 92 currency units of the world have had to be officially devaluated, many for a number of times, with 25 of them having been devaluated only during the last two years. And yet, Pick reports further, about 60 of the same currency units are now due for far-reaching adjustments.[8]

It has also been argued that trade between under-developed countries will not prosper on the ground that there is very little complementarity between them, proof of this, as the argument runs, being that there is more trade between primary producers and industrialised countries than among primary producers themselves. This situation is in reality not so much the result of the absence of complementarity among under-developed countries as it is because of the unsuitability of normal international payment methods in the trade among them.[9] One need only look at the map to see that under-developed countries are found in all latitudes, producing a great variety of, not necessarily, competing products. Ceylon, Indonesia, and India are foodgrain importers with Burma, Thailand and Uruguay at the opposite end; the Philippines, Ghana as well as many other under-developed countries are meat-short countries and have their own commodity surpluses to exchange, whereas Argentina, Paraguay, Yugoslavia, etc., will be only too happy to find additional markets for their meat products. Moreover, many of the under-developed countries have their own industrialisation programmes which could use the same raw material presently exported mainly to the industrialised countries:

7. Those who offer convertibility as a panacea would do well to accept the reality of *in*convertibility in developing countries for many decades to come : They must develop their economies, and because (*i*) capital imports are a new and extra claim on the foreign exchange receipts of a developing economy, and thus an upsetting factor in the traditional balance of payments equilibrium, and (*ii*) the new income generated by development must somehow be barred from imported consumption goods but instead be directed to home-produced items and capital goods imports, foreign exchange restrictions and, therefore, currency inconvertibility will continue to characterise the economies of developing countries for some time to come. This problem becomes all the more serious when viewed in the perspective of their lagging exports to industrialised countries for which no immediate relief is in sight. As Professor Gunnar Myrdal said in a lecture delivered at the Columbia University Centennial—"There must be something wrong with an under-developed country which does not have foreign exchange difficulties." From this essentially true generalisation I might exclude under-developed economies with extra-ordinary endowments or circumstances as for instance Kuwait for its enormous oil wealth and Southern Italy for having the highly developed north and a thriving tourist trade to finance development. But such exceptions are very few indeed. I stress this point because some economists labour under the notion, with which I disagree, that convertibility will soon be within the grasp of under-developed countries if present trade trends and patterns are left undisturbed. There is even now a growing uneasiness on the state of international liquidity which puts to question any very substantial expansion in the present level of international trade carried on on the basis of conventional means of payments.

8. F. Pick: Pick's Currency Yearbook 1961, Pick Publishing Corporation, New York.

9. The resulting unfavourable trading climate has also hindered the development of the necessary trading skills and facilities in the trade between under-developed countries and it is partly for this reason that trade among under-developed countries has been slow to develop. This is, however, an in-between issue—a cause as well as a result of the unfavourable trading climate, so that once trade is made more feasible (*e.g.*, by multilateralising soft currency trade as suggested in this paper) in this sector, the required skills and facilities will be drawn into it, or be developed. Existing business firms will certainly not be last in taking advantage of the new trading opportunities that will arise.

indeed developing countries need as much raw materials as capital goods to establish and operate industries. Mineral oil products are welcome most anywhere, whereas Egyptian and Peruvian cotton could very well be used in the fledging textile industries in Spain, Indonesia, Taiwan and elsewhere. Finished products may also be exchanged where feasible: likewise with services. Finally, specific commodities need not be homogeneous; hard wheat may still be imported by countries where soft wheat is in surplus. Many types of minerals, cereals, fibres, fats and oils, and fruits and vegetables may be profitably exchanged between countries. The significant fact is that there is absolutely no raw material available in industrialised countries which is not at the same time obtainable on competitive terms in under-developed countries (although the opposite case is not true). To contend that trade between primary producing countries, which the scheme is designed to promote, will not prosper on the reasoning that there is little complementarity among them is to deny the reality of trade between industrialised countries; it is to deny the existence of the booming European intra-regional trade. And who is to say that the more diverse resources of South America are, potentially, less capable of exchange than those found in the much more narrowly confined limits of Europe. What is overlooked by those who hold the view that raw material producing countries have little to exchange among themselves is that complementarity is *manufactured* rather than the result of an accident of geography or history. The continuing recurrence of barter deals and similar arrangements in spite of their textbook deficiencies, not to mention abortive attempts to conclude such transactions for lack of suitable exchanges and because of the restrictions imposed by monetary authorities is indicative of the trading area unsatisfied by normal international payments methods. The tragedy is indeed that under-developed countries with surplus capabilities, in particular commodities, have been prevented from expanding production for fear of being unable to sell any surplus that may develop—needless distress in the midst of potential plenty—all on account of the unsuitability of prevailing payments methods.[10] Central banks still recoil from releasing foreign exchange for imports unless exchange receipts for replacements are assured. To be sure bilateral and limited multilateral trading arrangements as developed and practised in the past have provided additional, if limited, opportunities for trade. The total potential of such arrangements, however, has as yet to be tapped fully and it is by linking and modifying their workings as suggested in this paper that their full potential may yet be realised as never before.[11]

10. A. Shonfield in "The Attack on World Poverty" supports bilateral trading between under-developed countries because of the inadequacy of the mechanism of exchange.

11. The suggestion that this would constitute a reversion to barter cannot really be taken seriously because once multilateralised barter ceases to be barter. I submit instead that it is as much a sophistication of barter as the gold exchange standard. And because (*i*) it requires no special trading terms and procedures vis-a-vis the latter, and (*ii*) that it would in fact be more effective in carrying out truly multilateral exchanges it can be said to be an improvement over the gold exchange standard.