

RELAXATION OF TENSIONS THROUGH THE  
INDUSTRIALIZATION OF THE UNDER-  
DEVELOPMENT COUNTRIES

BY

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## I

1.1 The world population was estimated at 2700 million in 1956. About 450 million in the highly industrialised countries of Europe and Australasia (that is, the NATO Powers) together with roughly another 150 million in Sweden, Switzerland, Europeans in Africa, and Japan or about 600 million altogether have a high or fairly high level of living; the average income is perhaps \$800 or \$900 per head per year with, however, large differences among the countries within the group. The USSR and other socialised countries of East Europe with a population of about 300 million (that is, the Warsaw Pact Powers) have adopted a planned economy have a rapid rate of industrialization and also have a rising income with, again, large differences in the level of living among the countries within the group. China with a population of 600 million has also adopted a policy of vigorous industrialization and is making rapid progress.

1.2 The remaining 1200 or 1300 million persons are living in countries which are underdeveloped with an average income of perhaps one-twentieth of that of the highly industrialized countries. There are, of course, large differences also among the underdeveloped countries; most of them are agricultural and have no manufacturing industries while some others have appreciable sectors of modern manufactures.

1.3 The underdeveloped countries generally have large natural resources in the form of minerals and land (which is being or can be used to produce agricultural crops of various kinds and) which offer

great possibilities of economic exploitation. The more highly industrialized countries already have (and naturally desire to increase) opportunities of exploiting these resources to their own advantage; and there is conflict of interests between the two Power Blocs. The existence of unexploited resources in the underdeveloped countries is therefore an important factor in East-West tension.

## II

2.1 The scientific and industrial revolution of the last two centuries was brought about almost entirely by the Western countries, and led to a position of indisputable and undisputed military supremacy of the Western Powers. The earlier form of exploitation of the resources of the underdeveloped countries was military and political occupation, that is, by the building up of large colonial empires. In some countries, for example, in China there was no direct political occupation but the foreign powers established advantageous economic controls. This indirect form of economic influence, backed invariably by military sanctions, became increasingly more important during the present century so that many underdeveloped countries are politically independent but are dominated in economic affairs by one or other of the highly industrialised countries.

2.2 In this connexion I may also refer briefly to the impact of the characteristically Western doctrine of *laissez-faire* and division of labour at the international level. To put it crudely, there has been a tendency for at least one school of western economists to assert that it is proper and wise for the underdeveloped countries to specialise in the production of agricultural crops; and to continue to export agricultural products and minerals to be processed by industrially advanced countries which are in a

position to utilise these resources with greater efficiency. Experience, however, has shown that it is not possible to improve the level of living beyond a certain limit on the basis of agricultural production alone. The USA supplies a very instructive example. Agriculture is very highly developed but has to be supported by perpetual subsidies. This being the position in the USA, it would seem practically impossible for any underdeveloped country to attain a high level of living through the export of agricultural products alone. In recent years there has been some recognition of the need of economic development through industrialization of the underdeveloped countries. It has been generally assumed, however, that such economic development would broadly follow the pattern of industrialisation in the West which has been essentially a slow process extending over a century or more.

2.3 Since the second world war attempts have also been made through the United Nations Technical Assistance Programme, USA "Point Four", Colombo Plan etc. to help the underdeveloped countries in economic affairs. The experience of the last twelve years, however, has shown that there has been very little general improvement in the level of living in the underdeveloped countries. It is also being gradually conceded that disparities in the level of living, both relative and absolute, between the highly industrialised and the pre-industrial countries have been steadily increasing since the second world war.

III

3.1 It would be useful briefly to note some general characteristics of underdeveloped countries. The level of living is extremely low (average income of \$40 or \$50 per person or less compared to \$800 or \$900 per head per year in the highly industrialised countries). The distribution of income is extremely concentrated, with a very small number of persons having a very large income, and a very large number having a low income. For example, in India (which is relatively an advanced country in the underdeveloped group) half the population live on less than 10 (US) cents a day, and only 10 per cent of the population have more than 20 (US) cents per day.

3.2 Most of the people depend on agriculture or on indirect income derived from the export of minerals. There is very little of modern manufacturing industries. Unemployment, or rather underemployment, is widespread and universal for lack of capital and modern tools of production. Facilities for education and medical care are extremely meagre and sometimes almost non-existent. Naturally, there is also a great scarcity of scientific and technical personnel.

3.3 A very small group of families or persons have the largest share of wealth, income, and political and economic influence. In fact, the greater the lack of economic development the fewer would be the number of persons who <sup>have</sup> ~~would possess~~ the effective power of making political and economic decisions. This makes it possible for a foreign power to exert <sup>pressure</sup> ~~influence~~ on a small group of <sup>powerful</sup> persons to give concessions in favour of the foreign power. Such arrangements, because they depend on the will of

only a small group of persons, are necessarily subject to violent changes from time to time. ~~so that~~ Relations between foreign powers and underdeveloped countries are, therefore, continually subject to counter-pressures and remain basically unstable.

#### IV

4.1 The world situation has changed in a most significant way with the emergence of USSR and other socialised economies. It is now accepted that economic planning in USSR (and more recently in other socialized countries) has led to a far more rapid rate of industrialization than that had been achieved in West Europe and North America in the past. Also, the Western Powers do not any longer have a monopoly of ability to supply capital goods and technical know-how. *In addition there is* ~~there is also~~ a growing belief among underdeveloped countries that the only way of achieving a rapid rate of industrialization is through economic planning.

4.2 Very recently, the monopolistic superiority of the West in atomic and nuclear weapons and ballistic missiles has also gone. In this situation, it is inevitable that the conflict of interests between East and West in regard to spheres of influence in the underdeveloped countries would become more and more sharp. This, in brief, is the present position. Recent events in the Middle East, for example, corroborate the above analysis, and it is not necessary to go into further details.

V

5.1 With the progress of industrialisation of a country it would automatically follow that its own natural resources would be increasingly exploited by itself. In fact, economic development consists of increasing exploitation of a country's own natural resources. With increasing industrialisation it is also inescapable that commercial and economic relations with other countries would increasingly tend to become as between equals.

5.2 It is generally agreed that the very process of economic development would broaden the base of social and political decisions. That is, with the progress of economic development a larger and larger number of persons would become involved in making economic and political decisions. External economic and political relations with other countries would, therefore, tend to become more stable.

5.3 A quick transformation of the underdeveloped countries into industrialised economies would, therefore, reduce the sphere of conflicting interests; and hence decrease the tension between East and West.

VI

6.1 ~~Since World War II, some attention is being given to the problem of underdeveloped countries.~~ The General Assembly of the United Nations passed a Resolution No. 400 (V) on 20 November 1950 "recognizing that a more rapid economic development of underdeveloped countries is essential for raising the level of productive employment and the living standards of their populations, for the growth of the world economy as a whole, and for the maintenance of international peace and security"; and also that there



was need of "an increased flow of international public funds" for this purpose. A Committee of Experts was appointed by United Nations in 1951 "to prepare a report ... on unemployment and underemployment in underdeveloped countries, and the national and international measures to reduce such unemployment and underemployment" UN Publications No.1951.II.B.27.

2. This Committee made a valuable review of the position and reached the conclusion that economic development was the only radical solution of underemployment; and that external assistance, in the form of capital and technical knowledge, was essential for this purpose. The Committee also made a very tentative estimate, on a per capita basis, of capital requirements and came to the conclusion that for about 1500 million persons in underdeveloped countries (including China) the external capital required would be about \$ 14 billion U.S. dollars per year and expected that this would lead to a rise of income of 2 per cent per capita allowing for growth of population.

6.3 In recent years efforts are also being made to give economic and technical aid to the underdeveloped countries through the United Nations Technical Assistance Board, the World Bank, International Monetary Fund, USA "Point Four" (under various names), the Colombo Plan etc. It is, however, generally agreed that such efforts have not been adequate and very little improvement has occurred in the level of living of underdeveloped countries. Mention may be made, for example, of Gunnar Myrdal's recent essays and articles in which he has stressed the fact that rich nations are getting richer more and more rapidly while poor nations are not showing any improvement or are sometimes even getting poorer.

6.4 It is also being increasingly appreciated that special efforts have to be made in the initial stage of industrialization which Rostow has called the period of "taking off". P.M.S. Blackett in his presidential address to the British Association for the Advancement of Science in 1957 stressed the importance of giving external assistance, in the form of capital and technical knowledge, during this initial stage which he called "assisted take off". He also made some rough estimates of requirements, again, on a per capita basis, and thought that about £1 (one pound sterling) per head per year or about £1000 million<sup>or # 2.8 billion US dollars</sup> per year of external aid would be required for 1000 million inhabitants for 8 or 10 years for effective industrialization of the group of underdeveloped countries under consideration. This estimate of requirement of external aid at the rate of \$2.8 US dollars per head per year is less than one-third of the earlier estimate of \$9.3 US dollars per head per year made in 1951 by the UN Committee of Experts. This wide divergence shows that these estimates are very tentative; and that much detailed studies would be required at a concrete level to supply more realistic figures.

## VII

7.1 Unfortunately, no economic theory of development is at present available to guide our thinking in this matter. It, therefore, seems urgently necessary to start serious and systematic studies to build up a general conceptual frame-work to handle questions of economic development, and more particularly, to formulate a programme of action (including the supply of external capital and technical aid) to assist the underdeveloped countries to "take off" on the way to industrialization.

7.2 It is not possible to subsidize the underdeveloped countries indefinitely. The aim must be to make each country sufficiently developed to reach some kind of a steady state or a balanced economy in the course of say 10 years (or 15 years at the most) so that the inflow of external aid would gradually decrease and, preferably, cease after 5 or 10 years. That is, it is necessary to make some realistic estimate of the total external aid required for this purpose so that the industrially advanced countries can get some idea of the magnitude of the task.

8.1 Estimates prepared by the <sup>VII</sup>UN Committee of Experts in 1951 and by P.M.S. Blackett in 1957 were both on a per capita basis. Some broad general considerations would, however, show that capital requirements per head would differ from one country to another. The bigger a country (as measured by its geographical area, unexploited natural resources, and population) the greater would be the possibility of achieving its industrial development out of its own resources. In a big country it is possible and desirable to push back the manufacturing process to the utmost limit in order to expand continually its capacity to make investments increasingly out of its own domestic resources.

8.2 We may consider the case of India as an example. In India it would be economical to establish a heavy machine building industry which would manufacture heavy machines and equipment required for the installation of factories for the production of steel, fertilizers, aluminium, etc., or for the production of heavy electrical equipment like big generators, transformers, switchgear etc. It would be also economical gradually to establish large scale industries for the manufacture of synthetic raw materials of many kinds (including the production of petrol from coal

in case an adequate supply of oil is not discovered). Once such basic industries are established it would be possible to expand ~~both~~ the production of electricity, coal, steel, aluminium, fertilisers, mining and transport equipment etc.; and then, with the help of <sup>such</sup> heavy machinery, producer goods and energy, to manufacture machinery for the increasing production of consumer goods. It follows that a big country would require a comparatively small amount, on a population basis, of capital from outside. It is of interest to note that in the case of China, with a population of roughly 600 million, the Soviet loan of roughly \$1.25 billion U.S. dollars, given for economic development during the first Five Year Plan (from 1953 to 1957), represented only about 2 U.S. dollars per head spread over 5 years or 40 U.S. cents per head per year. This seems to have been quite enough to make China "take off" on its way to rapid industrialisation, but is clearly a lower limit of external capital requirement per head.

8.4 ~~See~~ For a big country external economic transactions (of which foreign trade is a most important form) would be comparatively small in relation to the magnitude of its internal economy. In the USA, for example, external trade is only about 5 or 6 per cent and in USSR only about 2.5 per cent of the total national product. It should not be very difficult, therefore, for a big country to attain a fairly stable balance of payment with other countries.

8.5 It is ~~also~~ clear that planning must have a fairly long perspective of time. Factories can be established for the production of consumer goods in 2 or 3 years; large scale production of steel and other metals, electricity, fertilisers etc., would take at least 7 to 10 years; heavy

machine building and heavy electricals would take from 10 to 15 years. The most slowly maturing sector would be that of scientific and technical manpower which would require planning over a period of at least 25 or 30 years.

### VIX

¶.1 In the case of a small country (as measured by its area, natural resources, or population) the problem is more difficult. There is a limit beyond which the manufacturing processes cannot be pushed back because there is a minimum size of a factory below which production is uneconomic in the case of many important commodities like heavy machines, steel etc. In the case of a small country, it may not be economical to establish a heavy machine manufacturing industry because it would not be possible for the country itself to utilize the output every year. There is also a limit below which it may be difficult to undertake in small countries the economic production of steel and other metals on a large scale. A small country, therefore, would have to depend, to a larger measure than a big country, on the import of capital goods as well as of many producer or consumer goods. The industrialisation of a small country (unless it has large natural resources like oil or other minerals which it can export on profitable terms) would presumably require comparatively more external aid on a population basis.

¶.2 Also, the smaller a country the greater is likely to be the magnitude of its foreign trade in relation to its whole economy. In the case of a small country it is, therefore, of great importance to consider the expansion of foreign trade in desirable directions. In a paper

prepared for the Bandung Conference of Afro-Asian countries in April 1955 I had given some preliminary consideration to this problem (copy attached). Gunnar Myrdal in a lecture given in India this year has stressed this point and has suggested that for a group of underdeveloped countries it would be most desirable to create a "regional common market" protected from outside but with a free flow of commodities and specialisation of manufactures within the protected area.

9.3 The pattern of development is likely to be more or less similar for big countries. But it is not possible to reduce the same pattern mechanically to scale to suit the needs of small countries. The developmental plan for a small country must have a specific relation to its own natural resources and also to possibilities of expanding its foreign trade in cooperation with other countries of the same region.

X

10.1 It is suggested that attempts should be made to set up as soon as possible, small groups of experts to study the problem of industrialisation, at a concrete level, for the underdeveloped countries. The aim would be to formulate the broad strategy of planning for economic development over a period of 15 or 20 or 25 years. This would imply preparing a rough time programme for the development of agriculture and the establishment of modern industries with appropriate priorities. Special attention will have to be given to health, education, and the supply of scientific and technical manpower.

§.2 Consideration will have to be given to the expansion of foreign trade not merely as an extrapolation of current trends but with a changing pattern over time which would be in keeping with and would also promote rapid economic development. Naturally, economic relations with other countries, especially the underdeveloped countries in the same region, will have to be considered; and economic measures will have to be devised which would promote both the expansion of trade and the economic development of the countries concerned in the regional group. Gunnar Myrdal, for example, in a recent lecture in India (1958) has pointed out the advantage of a group of underdeveloped countries in a particular region forming, by mutual agreement, a "common market" protected from outside with, however, a free flow of trade and specialization of manufactures within the protected area.

10.3 Studies will also have to be made of not only the amount but also of the pattern of external aid, in the form of capital and technical knowledge, which would have to be supplied by the more highly industrialised countries to start the process of industrialization and to carry it through until some kind of a balanced economy has been established when no further special subsidies or long-term developmental loans would be required. Formulation of even rough estimates would be of great value in supplying a starting point for further thinking on the subject.

10.4 It is believed that enough information is available at least for a good number of countries to enable studies being immediately initiated on the above lines. It would be necessary, of course, for experts from the advanced countries to supply the leadership. At the same time, it would be

essential to associate with these studies, as early as possible, technical personnel from the underdeveloped countries. In fact, one important aim of such studies would be to provide opportunities to personnel from underdeveloped countries to acquire knowledge and experience of ~~making such studies~~ *planning for economic development*

10.5 The task proposed in this section would not be easy and would call for patient study and the collection of much essential information. It may indeed be necessary to carry out special surveys for this purpose. The formulation of a programme of surveys with indication of priorities would indeed be a most useful piece of work as a first step for development. The approach will have to be of a "spiral" type. Attempts would be made to make rough estimates on the basis of available data. This very process would indicate gaps in information. As these gaps are filled up, the first estimates would be revised; and the process of revision would disclose the need of further information; and so on. It is necessary to begin serious studies as early as possible.

X|

10.1 It is true that ~~the~~ mere formulation of even a sound technical plan for development would not be of any use until social and institutional conditions within a country become favourable to industrialization. But the very formulation of a general conceptual framework for economic development would serve as a powerful stimulus to set social forces in motion in favour of industrialization.

10.2 A number of countries in Afro-Asia, such as India, Pakistan, Burma, Ceylon, Indonesia, Egypt and Syria (United Arab Republic), <sup>etc.</sup> have already started planning for economic development and would welcome and



greatly profit by the studies of the type discussed in this note.

In fact, these countries would probably agree to help and gladly ~~would be seriously interested~~ participate in such studies. *There are many other countries which*

10.3 There are other countries in which there is as yet no definite movement for economic development. But, in such countries also, individuals here and there may have already started thinking or may soon begin to think on this subject. The proposed studies would give them encouragement and guidance and thus help in the creation of favourable conditions for industrialization.

10.4 <sup>XI</sup> With the progress of industrialization, disparities, both absolute and relative, between the highly industrialized countries and those which are at present underdeveloped, would decrease. Also, some of the advantages which the highly industrialized colonial powers (in either the political or the economic sense) now enjoy in having preferential access to sources of cheap raw materials or of markets would, ~~also~~, no doubt, decrease, but this does not mean that there would be any worsening of their absolute level of living. On the contrary, with fuller and better exploitation of the resources of all the countries of the world it should be possible to reconcile conflicting interests in such a way as to safeguard the level of living of all <sup>the</sup> countries of the world.

12.2 Once it is realized that the industrialization of the underdeveloped countries is inescapable, and also that any country which actively helps in the process of transformation would steadily gain in political and economic influence, it is inevitable that both blocs would try to assist in the process. The advantage will lie with that bloc which approaches this task with greater intellectual honesty, emotional sincerity, and practical efficiency.

12.3 In any case, the proposed studies would be of help to all industrialized countries in giving them guidance in the efficient utilization of their economic and technical aid to underdeveloped countries. With the progress of industrialization, rolling adjustments would tend to be made in areas of conflicting interests. Gradually, it may be hoped, both blocs would begin to appreciate the advantages of co-operative efforts in the industrialization of underdeveloped countries as an indispensable condition for world stability and peace.

Calcutta : August 1958

## ECONOMIC DEVELOPMENT OF AFRO-ASIAN COUNTRIES

(Paper prepared for the Bandung Conference, April 1955)

1. The enduring basis of Afro-Asian understanding must be ultimately established on mutual cooperation to bring about a steady increase in the level of living through economic, social, and cultural development in the Asian and African countries. Anti-colonial and peace movements must be looked upon as essentially attempts to secure favourable conditions for such developments.

2. The aim must be to promote the exploitation of all available natural and human resources for the national development of each individual country. The Afro-Asian region or even South-East Asia as a whole has such large resources that there is not the slightest difficulty, at the technological and economic level, to attain a rapid rate of growth of all the national economies. A great deal of capital goods and technical aid from the more advanced countries would be required in the beginning. Fortunately, with the improvement of international relations, such aid is likely to become increasingly available from different parts of the world. It would be of advantage if such aid can be channeled through the United Nations or similar international agencies.

3. It is, however, not necessary to wait for U.N. to take action. It is possible and, indeed, desirable to initiate action at the level of the countries concerned. For example, a Standing Technical Committee (with a small permanent secretariat) may be appointed to study possibilities of fostering economic, social and cultural cooperation among the Bandung countries. The work of the proposed Committee would be mainly concerned with the study of problems of long range development. This would not duplicate but would be complementary to activities which are directed to solving more

urgent problems in the Economic Commission for Asia and the Far East (ECAFE) and the Colombo Plan.

4. The proposed Committee may, for example, examine possibilities of long term industrial developments in the countries concerned, and possibilities of expansion of international trade not on the basis primarily of the current pattern of imports and exports but from the point of view of promoting a changing pattern of international trade deliberately directed to the national development of all the countries concerned. India at present has a good export market for cloth and some other manufactured products. In a static approach, the current pattern of trade would be sought to be maintained which would retard industrial development in the importing countries (as had happened in India in relation to the United Kingdom). In a dynamic approach, India would actively promote a rapid industrialization of the more backward countries fully recognising that the pattern of Indian exports much change thereby but also appreciating the possibilities of a steady expansion of the foreign trade of all the countries concerned at increasing levels of manufactures.

5. The dynamic approach necessarily calls for a wide horizon of time. Trade agreements and understandings have to be visualised as extending over a period of 5 or 10 years or even more. Prices and terms and conditions must have much greater flexibility than short period trade contracts. The aim would be to maintain at an agreed level or expand in a suitable way, over a number of years, the total volume of imports and exports (measured, say, at constant real prices); and, at the same time, to try to change the pattern of trade in such a way as to promote increasing industrialization of the countries concerned. For example, if India can be assured of a steady supply of, say, rice from Burma over a number of years (preferably at constant real price), then India may undertake to

supply not only manufactured consumer goods but also to help in the industrial development of Burma through the supply of minerals, raw materials, capital goods, and technical assistance. In this approach India must give up the idea of earning large profits through the continuing export of particular types of products; and adopt the policy of mutual help and benefit to attain increasing levels of industrial development of both Burma and India.

6. A dynamic policy of mutual development over a number of years can be promoted most effectively at Government level with, however, the fullest participation of the private sector which would be entirely in keeping with the economic policy of India.

7. As already mentioned, a first step may be to set up a small Working Group or Technical Committee to initiate economic, social and cultural studies to supply a scientific basis for preparing long term developmental schemes on a regional scale. A large membership is not essential; and work can be started with a small group of countries or even on a bilateral basis by agreement between two countries.

8. To make a beginning, India may offer certain physical facilities like accommodation, library, a small professional and office staff to serve as the nucleus of a secretariat. It would be desirable to have a Director from outside India; and the professional staff must come chiefly from the participating countries.