
DEBATES

Trade Balances and the Third World; a Commentary on Paul Bairoch

Andre Gunder Frank

Max Planck Institute, Starnberg, Germany

The preceding essay is intended to complement the important and excellent study by Paul Bairoch on « Geographical Structure and Trade Balance of European Foreign Trade from 1800 to 1970 » in *The Journal of European Economic History* (Vol. 3, No. 3, Winter 1974). There are, however, two notable differences between the two studies: Mr Bairoch's is much longer in range (170 years), broader in scope (exports, imports and balance of trade), and more detailed in terms of countries and of decennial breakdown of the data for Europe, whereas the following study concentrates on the trade balances between 1880 and 1928 and examines the participation of the now underdeveloped Third World in greater detail. The second notable difference between the two studies is that, for the period in which they overlap, they come to diametrically different conclusions about the role and importance of the Third World and its trade balances with Europe and North America — and this despite using essentially the same data on trade balances! We can here only inquire briefly why this should be.

Mr Bairoch writes, « the observation of the relatively restricted role played, in general, by the Third World, leads one to wonder why there is a tendency to overestimate this role in so many theoretical analyses » (p. 568). « Between 1880 and 1910, the volume of Europe's imports from temperate overseas countries (North America, Oceania, South Africa, and the temperate zones of South America) was much greater than that of imports from tropical and semi-tropical countries: 22% of total imports for temperate countries and 15% for tropical countries. Thus, on the whole, the supplier role of the Third World in the 19th century was relatively limited » (p. 580). « The most significant conclusion to be drawn from an analysis of the geographical structure of European foreign trade would be the preponderance of inter-European trade and trade between developed regions... This has meant that trade with what is today called the Third World was relatively marginal, i.e., about 20% of Europe's foreign trade in the 19th century » (p. 592).

The preceding study on « Multilateral Merchandise Trade Imbalances and Uneven Economic Development » — written in 1970 and revised in

1973, long before Mr Bairoch's came to our attention — comes to the opposite conclusion: « To summarize the discussion that follows, the secular excess of the underdeveloped countries' exports over imports has throughout this period made a fundamental contribution to the accumulation of capital, technological progress and economic development of the now developed countries; and the generation of this export surplus from the now underdeveloped Asia, Africa and Latin America » (p. 1). « . . . the underdeveloped part of the world through its excess merchandise exports over merchandise imports really finances all the rest of the world both directly and indirectly. Specifically, the export surplus of the underdeveloped countries (1) supplied much of the excess merchandise consumption of Europe represented by the latter's merchandise export deficit or import surplus (2), helped finance the export surplus of the United States and Dominions to Europe (3), helped domestic investment and development in Europe, and/or (4) helped Europe finance its foreign investment in the United States and Dominions, whose development was thereby accelerated, while the underdeveloped countries also financed much of the "foreign" investment in themselves, which however accelerated their underdevelopment » (p. 18).

The diametrically different conclusions about the role and importance of the Third World in the capitalist development of the world as a whole — at least during this classical imperialist period covering the end of the XIXth and the beginning of the XXth centuries — seem to turn on the different evaluation of the role and importance of its trade balances with Europe *and* with the temperate newly-settled regions of the world (that is, the excess of merchandise exports from the Third World and of merchandise imports by *both* of the latter from the Third World), as well as the assignment to one or other category of the significant wheat—and meat-exporting temperate regions of Latin America. As to the latter, relatively minor point, Mr Bairoch's data naturally include them in Latin America; but in his evaluation (e.g., cited above page 580) he excludes them from the Third World, while my essay exerts considerable statistical effort to include them where they belong!

Regarding the fact of Third World excess (i.e., unrequited) merchandise exports and European — especially British — excess (i.e., unpaid for in merchandise) imports, the two studies are in essential agreement. Thus, in his long Section (C) on Trade Balance, Mr. Bairoch notes Europe's « trade deficit » which for 1880 exceeded 20% of imports. « After having slightly regressed, the deficit in European foreign trade in merchandise once again exceeded 20% in 1900, then fell below 16% in 1913. After the first World War, the disequilibrium of the European trade balance was aggravated and the deficit was at its maximum during the crisis of the 1930's » (p. 583). « The second phase — from the 1880's to the eve of World War II — was characterized by a quasi-stagnation of the relative size of the deficit which

fluctuated between 9-12% of imports in real terms, and in preadjustment terms 20% . . . in absolute terms, this deficit reached \$ 1000 million for the adjusted balance and \$ 900 million for the gross balance in 1913 (for 1928, 2400 and 4000 million respectively) » (p. 594). Mr. Bairoch's Tables 11 and 13 on pp. 585 and 587, respectively, clearly show the emergence and level of Europe's excess merchandise imports over exports by decennial dates for this period of classical imperialism. Hardly a marginal contribution to Europe's consumption or investment, considering that these were real imports in excess of real exports! (The reasons, for, and the calculations of, the "adjustment" of balances for transport and other costs by Mr. Bairoch — also undertaken in my own study — are less clear, despite his statistical appendix; and the reasons for his statement on p. 584 that «Europe's adjusted trade balance . . . was gradually replaced by a 12-13% import deficit [does he mean "trade deficit"?] around 1900 when his tables seem to show the contrary, is still less clear).

Mr Bairoch also writes « as regards differences between the countries, the most worthy of note is the very different geographical structure of foreign trade of the United Kingdom » (p. 592), but he fails to note that this difference meant that the UK — which had an excess and ever-growing "deficit" of total merchandise imports exceeding exports for over a century from Waterloo to Versailles — also had a surplus of merchandise imports over merchandise exports with each of the other regions of the world, except the Third World, with which it had about an even balance because of the latter's absorption of British manufactures. Nor does Mr. Bairoch note, as the preceding study has stressed, that the working of the global system of multilateral merchandise imbalances and Britain's most privileged position in it — most particularly with respect to India, but also relative to Continental Europe — permitted Britain to continue its own accumulation of capital while investing in North America, Oceania and South Africa. For in these regions of new European settlement Britain invested capital that it received from the now underdeveloped Third World, directly particularly from India, and indirectly through Continental Europe's import surplus from the Third World and Britain's import surplus in turn from the Continent. Moreover — as the preceding study also shows — Britain effected these transfers of capital and the regions of new settlement amortized their debts partly by relying on the inter-regional imbalances in the global system of multilateral trade and settlements.

On the other hand, the argument of the preceding essay with regard to Europe is further strengthened by the details of Mr Bairoch's data for European trade balances by country, which permit us to point out neatly — as our essay's cruder classification unfortunately does not — that « of the [European] countries which during the XIXth century generally had a favourable [that is, in standard parlance, more exports than imports!] trade

balance, all were countries exporting agricultural products. These were Austria-Hungary (at any rate, until 1890), Romania, Russia, Spain and Serbia. However, this is not a determining factor, since a number of other agricultural-exporting countries had severe deficits. These were Bulgaria, Denmark, Finland, Italy, Norway and Portugal. Portugal had the largest deficit with export earnings not covering even half its import expenses around 1910. This heavy deficit was covered mostly by transfer of wages of Portuguese labour working in Brazil » (pp. 586-7). Not determinant, indeed! Not determinant or significant if, like Mr. Bairoch, one wishes to conclude that the importance of the Third World was relatively "marginal" and has been "overestimated". But very determinant if one analyzes the data — the *same* data — to look for the real role, significance and importance of the agricultural and mineral raw materials-exporting countries of the now underdeveloped Third World (or of the then "Central", now "Eastern" European countries that thereby were underdeveloping and since have gone on to industrial development under socialism). For then it becomes clear that these underdeveloping countries of Europe, just like those of the Third World in Asia, Africa and Latin America, suffered from an excess of (raw) merchandise exports relative to their (processed) merchandise imports — even at market prices, let alone when notionally calculated at values that would eliminate the decline in their terms of trade and the unequal exchange at even the most favourable of their terms of trade — and that the now developed countries of Europe and North America, Oceania benefited importantly through their bilateral excess of merchandise imports from the underdeveloping countries and from the multilateral transfer of trade balances among major world regions. The balance of *payments* (as distinct from merchandise trade) deficit of underdeveloping countries is largely — as the preceding study suggests — the counterpart of financial and other "service" account of the Third World's excess of merchandise exports over merchandise (albeit not "service") imports, and may help to explain the apparent paradox of Mr Bairoch's "favourable" and "deficit" countries in Europe. Certainly Mr Bairoch's observation of how Portugal covered its deficit with transfers from Brazil (as it has since from there, Africa and more recently from its workers in Western Europe) supports our argument in this particular case.

In short, the data and its analysis in the preceding essay, but also the data of Mr Bairoch's own study, suggest that, far from being "marginal" and subject to "overestimate" in many theoretical analyses, the role of the Third World and the underdeveloped agricultural-exporting countries of Eastern and Southern Europe has, through their excess of merchandise exports over real imports and through the multilateral (im)balance of the world capitalist system of trade and payments, made a determinant contribution to European and North American development, which has been vastly underestimated by most theoretical analysis, including Mr Bairoch's own.