higher stages of development. They must broaden their export base, and if their exports of raw materials are not expanding fast enough to cover their import and other foreign exchange needs, they must turn to exports of manufactures. Because of low labor costs, many developing countries—particularly with the aid of advanced technology and skills from abroad—have made significant inroads on world markets for particular products, and we may expect this trend to continue in the future. Moreover, U.S. private enterprise operating abroad will hasten this process, and in doing so will make an important contribution to economic growth in the host countries by helping them to find additional sources of foreign exchange income to meet their growing needs. Unless their balance of payments problem is solved in this way, they will never achieve a condition of self-sustaining growth; economic progress will depend upon a continuing flow of financial assistance from the United States and other countries to meet their balance of payments deficits. Thus the long run objective of achieving a condition of self-generating growth in the developing countries is incompatible with efforts to limit their ability to sell manufactures on the world market. For example, countries like India with a large population pressing against limited land and natural resources must achieve economic salvation through a very substantial increase in exports of manufactures. In other words, India must turn more and more to the economic pattern of Japan.

We should not blind ourselves to the fact that this is going to retard the development of certain manufacturing industries in the United States that will be unable to compete with products produced at lower costs abroad, and in some cases firms in these industries will fail unless they turn to the production of other commodities. On the other hand, the demand on the part of the developing countries for the products of many other U.S. industries, particularly capital goods and high-technology products, as well as for our agricultural commodities, will continue to rise. While these structural adjustments are inevitable, with few exceptions their impact will not be so sharp as to cause an undue hardship. Moreover, firms producing for world markets in competition with certain rapidly growing industries in the less developed areas simply must look forward to making adjustments. In some cases the answer will be found in producing certain components or product lines abroad, while specializing in other components or product lines in the United States.

If the United States adopts a policy of shutting out imports of manufactures from developing countries or of discouraging the flow of U.S. capital to these countries for the production of commodities in which they may be competitive, we are indeed following contradictory policies. Unless we are willing to permit developing countries to trade, we must either give up, or greatly alter, our aims in the field of development aid. Trade and aid are not alternatives; they are closely related aspects of development assistance.

3. Impact on the U.S. balance of payments

Much of what has been said regarding the impact of U.S. private investment in developing countries on competition with U.S. products applies to the impact on our balance of payments. Assuming that our exports are reasonably competitive in world markets with the exports of other developed countries, there is no reason why increased production of manufactures and other competing products both for local