instability of export earnings—and to avoid the limitations of a single-commodity approach, several combinations of measures to guarantee exporting earnings have been discussed. A report by a U.N. committee[27] suggests the costs and returns of several levels of guarantees. More recently the World Bank and International Monetary Fund have been asked to evaluate alternative approaches.

Each of the approaches discussed so far in this chapter implies a continued emphasis on agricultural and raw material exports and ways to make this dependency supportive of stability and development. But most developing nations place substantial emphasis on industrialization and measures which increase exchange earnings. For this we turn to another area.

DISCRIMINATION AGAINST THE EXPORT OF PROCESSED AGRICULTURAL PRODUCTS

Developed nations often have tariffs in the following pattern: Unprocessed raw material, 5 percent of value; partially processed, 10 percent of value; fully processed, 15 percent of value.

A tariff at this level does not appear to be a serious hindrance to trade. And it is not for the unprocessed raw material. However, the second and third 5 percents become rather large tariffs in relation to value added by processing. Assume that processing adds 50 percent to value, so that the following values apply:

	Value	Tariff rate (percent)	Tariff charged	Marginal increment
Raw material (hundredweight)	10.00	5	0.50	5 percent.
Partially processed	11.50	10	1.15	43 percent (0.65÷1.50).
Fully processed	15.00	15	2.25	31 percent (1.10÷3.50).
Raw material to fully processed				35 percent (1.75÷5.00).

In this example the rate of protection against the raw material is a low 5 percent, but the rate of protection against processing is 43 and 31 percent. Against such tariff rates the developing nations have no choice; they export the raw material.

Yet, the natural and logical first steps toward industrializing a developing country would be factories to process the nation's major raw materials. While the labor costs of processing are likely to be smaller in a developing country, the capital costs are usually larger, so that the cost differentials normally would not counterbalance the differences in tariffs. For a plant to process their own raw materials the economies of scale are likely to be advantageous compared with a plant for an important substitution industry, since the size of the plant is limited only by the volume of raw materials, rather than by the size of the internal market. This statement is especially relevant for small economies.

The question now becomes, "How important is this type of discrimination?" Harry Johnson cites some unpublished computations by Padma Mallampally, as shown in table 15.

[27] United Nations, "International Compensation for Flucuations in Commodity Trade," E/3447, E/CN. 13/40, New York, 1961.