

that specialization according to comparative advantage will be likely to promote rapid growth.

The principle of comparative advantage states in effect that to maximize world output at any point in time, each country should export those goods it produces relatively cheaply and import those it produces relatively dearly. The total world output from a fixed quantity of resources is thereby increased compared with production without trade.

The static gains from trade are presumably greater as the differences between trading partners' resource endowments and production and demand conditions are greater. It is difficult to measure the actual value of these gains, however; in the absence of data on prices and costs, we must resort to gross measures. The combined national products of the Northern countries were about \$1,165 billion U.S. dollars at official exchange rates (1964 estimates). Their total exports in 1964 were about \$118 billion, of which one-fifth went to underdeveloped countries. In other words, exports to underdeveloped countries are equivalent to only 2 percent of Atlantic Community production. Therefore, gains from trade with the South are less than vital to Northern prosperity. For the South, trade with rich countries accounts for at least one-tenth of total output. Small wonder, therefore, that the future of North-South trade is a perpetual concern of developing countries, while the North tends to look upon such issues as somewhat secondary. Table 1 shows the relevant trade and income estimates for 1964.

Table 1 probably gives a slightly misleading impression of the North's trade stake in the South. Although North-North trade is much larger, the gains per dollar of trade are probably greater in North-South trade. Gains from trade are presumably greater when countries differ widely in resource endowments and demand patterns.

TABLE 1.—FREE WORLD EXPORTS AND PRODUCT, 1964

A. TOTAL TRADE, 1964^a

[Dollars in billions]

Region	1964 combined GNP	1964 exports (f.o.b.)	1964 imports (c.i.f.)	Exports, as percent of GNP
Industrial countries.....	\$1,165	\$118	\$125	10
Underdeveloped countries.....	240	35	35	15
Total.....	1,405	153	160	11

B. NORTH-SOUTH TRADE, 1964

Exports	Amount	Percent of 1964 GNP
From industrial countries to industrial countries.....	\$85	7
From industrial countries to underdeveloped countries.....	25	2
From underdeveloped countries to industrial countries.....	25	10
From underdeveloped countries to underdeveloped countries.....	7	3

^a Includes free world imports from and exports to Communist countries; excludes trade between Communist countries.

^b The United Nations has estimated LDC exports as amounting to 18 percent of combined domestic product in 1951. "The Growth of World Industry 1938-61: International Analyses and Tables," New York, 1965, p. 33. The estimate in the table may therefore be too low.

Source: United Nations, Monthly Bulletin of Statistics, March 1966.