This conclusion that the North has a relatively minor interest in trade with the South applies a fortiori to some of the dynamic aspects of gains from trade. The transmission of technology and skills through trade and investment is predominantly from North to South. The economic reorganization and market expansion the South seeks will utilize the experience, products, and markets of industrial countries. In general, the industrial countries' dynamic gains from trade—those that result in expanding markets and in lowering costs by increasing scale or output or introducing new techniques, thereby raising productivity—stem primarily from trade with each other. However, their dynamic gains are probably relatively smaller per unit value of trade anyway, because the state of the arts varies less among them than between them and LDC's. New technique (more specifically, embedding technological progress and productivity growth in the economy) is probably a central element in the dynamic gains from trade, although it is evidently linked in practice to cost reductions stemming from economies of scale.

INVESTMENT INTERESTS

Turning from trade to investment, the relative stakes change somewhat. Northern annual net private investment, including portfolio investment, in underdeveloped countries averaged about $2.5 billion during the decade ending in 1964, and showed no particular trend. In 1964, the value of U.S. private capital invested in the South was estimated at about $13 billion. LDC investment in industrial countries is small, although much of it is presumably unrecorded and no reliable figures exist. Of course, Northern and Southern stakes in private foreign investment are not adequately measured by the value of sunk capital. In the long run the dominant issue is the potential returns on investment, both to private individuals and to society as a whole.

It is commonly stated that private investment benefits the host country by providing capital, transferring technology, increasing the productivity of labor and thereby allowing increases in domestic savings and investment, further stimulating growth. No a priori judgment is possible, however, as to whether the rich countries or the poorer ones have a greater economic stake in protecting existing investments and promoting new ones. As an extreme example, some poor countries might gain more from confiscating existing Northern investments than from encouraging new ones. It is rather difficult to speak in quantitative terms of Northern or Southern stakes in liberalizing or restricting investment, because each country is sui generis.

The issue, moreover, is primarily not economic but political. The economic loss of new investment arising from restrictions is largely the host country's because the investing country's capital can go elsewhere. For existing investment, restriction generally takes the form of control over repatriation of capital and profits, and of requirements for domestic participation. The net effect on capital availability depends on whether discouragement of new investment exceeds gains resulting from controls.

Obviously, the decision to invest or not is ultimately a question of profit. From the viewpoint of the foreign investor, his return (including discounts for unusual risks arising from investment in LDC's) is