

the primary criterion. In that light, restriction is simply one aspect. It affects the degree of risk or the expected profit. Profitable foreign investment in the South has been largely limited to mining and refining, although in recent years there has been some investment in manufacturing.

In any event, looking at both trade and investment from the static viewpoint, the industrial countries taken together have a rather modest interest—although there are significant exceptions, such as Japan, which does half of its export trade with LDC's and could not readily shift these exports to markets in the North. The specter of a North deprived of vital raw materials by a hostile South owes more to imagination than to analysis. At most, if raw materials exporters insisted for political motives on denying themselves export earnings—an unlikely event—there would be an increase in raw material costs. This in turn would presumably be offset, at least in part, by induced technological changes in industrial countries.

DYNAMIC FACTORS IN TRADE AND INVESTMENT

Similar conclusions apply to the process of economic growth over time. Some economic theories of trade and development tend to support the view that trade is an agent of economic growth. Historically there is no doubt that it has operated to promote the interests of both advanced and underdeveloped countries. To the extent that trade now operates as an agent of growth for the Atlantic countries, however, the developing countries play a minor role in the process. Only one-fifth of Northern trade is with LDC's, and the proportion to total trade has been falling in the post-World War II period. It is the intra-Northern trade that has grown most rapidly among the market economies, particularly intra-European trade. Again, as in the case of static gains, there are exceptions. The remarkably rapid post-war growth of Japan must reflect in part the increased specialization and economies of scale made possible by the expansion of its exports to the South, and by the development of new raw material sources in underdeveloped countries.

Although the North's interest is less vital than the South's it is far from negligible. Furthermore, the process of growth in North and South alike may intensify the Northern interest. Northern growth will increase the demand for imported raw materials, including some in which it is now largely self-sufficient. Southern growth will increase its demand for Northern products. The South's population, even excluding China, is more than 1.5 billion, $2\frac{1}{2}$ times that of the North, so that the increase in demand could be substantial. At the same time, cost conditions in the two areas will change, and each may export goods it now imports. Each can benefit from trade under situations where comparative costs change. But this is far ahead, because the South's demand is now sharply constrained by the interacting effects of low income levels and foreign exchange restrictions. However, as the next section points out, taking a long view, we can foresee vast increases in LDC trade and income by the end of this century. In the past 150 years the United States has risen from an insignificant role in world trade to a major one. Over the generations to come, the underdeveloped regions may also play an increasingly important part.