where changes in oil company imports of capital equipment have been an important source of variation; and Israel, faced with serious trade deficits and aided by capital inflows and a rapidly growing home market for import-substituting industry and agriculture.

Third, rapid import growth is not a necessary condition for rapid income growth, where the market is large enough to allow domestic industrialization, or substitution of domestic for imported commodities. Thus, between 1950–52 and 1961–64, Mexico's income grew at the annual rate of 5.6 percent, while imports increased at the rate of 4.7 percent. For the Philippines the comparable figures are 5.4 percent and 3.8 percent. In Brazil and Burma, imports actually declined over the period.

In sum, rapid peacetime growth of imports has been a sufficient condition for the growth of income in the South, but not a necessary one. The reasons for the association are clear. Steady growth of imports is financed either by an equivalent export growth or a capital transfer. In the latter case, the recipient benefits from increased investment without the immediate need for corresponding savings. The continuation of such a transfer normally means that private or public investors in the North are confident of the capital importer's economic potential.[2] If the import increase is largely export financed, as is the case for most of the fast-growing small countries, then it implies that the country is able to compete effectively in world markets, and is presumably in a favorable growth situation.

If, on the other hand, a developing country finds itself unable or unwilling to finance steady import increases by exports or borrowing, the record shows that rapid growth may still be possible if the domestic market is large enough and the resources and organization are present to permit large-scale import substituting investment. In such cases, the close relationship between trade and growth recently observed in the North no longer holds, and import substitution becomes the leading sector in growth.

TABLE 2A.—GNP GROWTH AND TRADE GROWTH, FAST-GROWING LDC'S, 1950–52 TO 1961–64

(Annual increases; countries listed in decreasing order of GNP growth)

| Country | GNP growth rate (percent) | Trade growth [a] (percent) | |
|---|---|---|---|
| | | Imports | Exports |
| Populations under 10 million: | | | |
| Israel | 10.0 | 6.0 | 17.0 |
| Jordan | [b] 9.8 | 10.5 | 13.1 |
| Iraq | 8.4 | 9.7 | 11.7 |
| Trinidad | [b] 7.6 | 9.2 | 9.6 |
| Jamaica | 7.0 | 9.4 | 12.3 |
| Venezuela | 6.7 | 1.4 | 4.2 |
| Puerto Rico | 5.6 | 9.1 | 10.0 |
| Nicaragua | 5.3 | 8.1 | 7.2 |
| Ghana | 5.3 | 7.6 | 3.0 |
| Populations over 20 million: | | | |
| Mexico | 5.6 | 4.7 | 3.7 |
| Brazil | 5.6 | 1.6 | −2.1 |
| Thailand | 5.4 | 12.6 | 4.9 |
| Philippines | 5.4 | 3.8 | 3.7 |
| Burma | 5.2 | −1.1 | 3.5 |
| Turkey | 4.9 | 2.9 | 3.6 |

[a] Corrected for terms of trade changes, 1962 equal 100.
[b] 1955–57 to 1961–64.
Source: Computed from U.N. data.

[2] Of course, the motive for the transfer may be political. In extreme cases (Vietnam, Korea), long-term potential is virtually irrelevant.