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SOME NOTES ON GREECE'S DEVELOPMENT AND TRADE, DURING 50s AND EARLY 60s

By

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*"The causes which determine the economic progress
of nations belong to the study of International Trade",
A. Marshall, "Principles"...*

I. Introduction

This paper is intended to record some notes in the history of economic development and trade of Greece during the fifties and early sixties. It draws on my research and ideas in that period regarding the significance of the size of countries and the exportability of economies.

It is intended neither to give full details of the trade problem of Greece, nor to discuss relationships between trade variables and variables of income and development. In the following pages some selected statistics of Greece and other countries are given, as well as some descriptive lines on the problem of trade and development of Greece.

II. The Problem

The main objective of any policy - making decision or planning is the rise of the general welfare of the country. This is feasible if the overall economy works in an economically efficient way, regardless of nationalistic ideas or prestige attitudes understood in a wrong way.

EVELXOZ

The above extract from Marshall's «Principles» gives the entire problem of the development or progress of a country which participates in the free world market.

It is still true that "economists are still a long way from knowing all that needs to be known about the connections running between trade and growth"¹, but this also forces us to explore the problem through some statistical and historical evidence.

Economic development and progress takes place in a frame of international, more or less, complex and in this respect trade and development are parts of the same process. The significance of international trade in relation to development is more understandable in the case of small countries. Small countries, whether rich or poor, are lacking, in most cases, natural resources to a sufficient extent to be able to produce a large variety of food and manufactures in order to meet their requirements. Their area is not large enough to include a variety of natural resources, various climatic conditions, or their population, regardless of per capita income, cannot support the requirements of the optimum size of some plants. Therefore, we can imagine a large country without external trade, but it is difficult to do so for a small one. For studying the foreign trade of a country we take account of factor endowments, because according to the principle of Heckscher-Ohlin, this factor endowment determines the structure of imports and exports. From a dynamic point of view, however, structure may be changed by technological innovations².

The consideration of the possible effects of economic development on trade and economic integration as a means of overcoming the disadvantages of smallness take the greatest share in a study of this kind. The increase of Greece's national income has exerted a continuous increase on imports after the import liberalization in 1953, in spite of the fact that after the devaluation of the drachma many established industries were import-substituting because of their orientation to the domestic market. Capital goods requirements are very strong during the first stages of development, especially in a country which lost so much during the Second World War, and they continue to be significant at fairly advanced stages, whereas the country

1. C. P. Kindleberger, *Foreign Trade and the National Economy*, A Yale Paperbound, 1963, p. 209.

2. H. G. Johnson, 'Effects of changes in comparative costs as influenced by technical change', in R. Harrod and D. C. Hague (Eds) *International Trade Theory in a developing world*, London 1963, pp. 96 - 112.

cannot produce at all or all the variety of capital goods necessary for establishing or replacing plants.

Because of limited natural resources the necessary raw materials to be manufactured must be imported from abroad and as industrialization proceeds new requirements of raw material are created. High income elasticities of demand for imports of consumer's goods, autonomous and induced demand for imports of producer's goods and requirements for raw materials create a heavy payments problem, which must be solved not by checking the economic progress but by increasing the "*exportability*" of the economy. Transports of foreign capital, though a significant source of financing, creates also purchasing power, a part of which spills into imports.

The exportability of Greek agriculture is given and determined by the small cultivable area. Some agricultural products do not meet a favourable world demand and some others, which may be on demand to an increasing rate, can be produced in a larger quantity by intensive cultivation. But in general, Greece's agriculture cannot be a large one. On the other hand there is also the increasing demand of the population.

So, we have to rely on a larger and larger export industry. The branches which must be established or promoted is a problem of investigation.

For the process of economic development of Greece, relations with the E.E.C. countries possess a crucial part. After her integration into the Common Market area neither protective tariffs nor nationalist economic policy can be exercised. Development must take place in a regional frame.

III. Greece's foreign trade and balance of payments

The foreign sector of the Greek economy has been the most vulnerable showing a permanent trade deficit. This deficit from £ 102 million in 1953 climbed to \$ 523 million in 1964, that is, a fivefold increase in a period of twelve years.

Imports after a decline in 1953 were increased at a fast rate. From \$ 277 million in 1952 they totalled \$ 831 million in 1964. In 1953, because of the devaluation of the drachma, and again in 1959, because of the restrictive measures taken, imports were reduced temporarily.

The currency devaluation and the liberalisation of imports in 1953 exerted a favourable effect on the psychological climate of the economy. However, the increase in prices of imports expressed in drachmae did not check imports growth, although a limited import substitution had taken place. This is because of (a) the insufficiency of the home production to meet the increasing demand for consumption goods, (b) the increasing requi-

rements of raw materials and capital goods which have to be imported, and (c) the high income elasticity of demand for consumer's goods and the low price-elasticities ^{2a}.

The effects of devaluation were weak in the long-run because of the structural deficiencies of the Greek economy³. However the devaluation was at the same time a necessary move to remove the existing inequality between internal and external level of prices. The drachma was up to 1953 much overvaluated against foreign currencies, because of the different rates of inflation between home and foreign economies⁴.

Exports from a level of \$ 134 million in 1953 rose up to \$ 206 million in 1955 and after some fluctuations in the following years (with a peak in 1958, because of the wine exports to France), they showed again an increase in 1963 and 1964.

Increasing imports is not the real problem of the trade balance of Greece but the fact that exports are not enough to finance imports to a larger extent.

After 1953 other items of exchange sources came to help the situation. First of all, invisible receipts have been increasing since 1953 and they have been the most significant equilibrating factor of the balance of payments. The level and the composition of invisibles are shown in Table 1.

The balance on current account was fluctuating between \$ 17.6 million and \$ 87,9 million (deficit) during the period 1953 - 1963. For 1964 the deficit on current account reached its highest peak because of a 17% increase in imports and a check in the invisible receipts. (See Table 2).

2a. S. Sarantides, Import demand functions for Greece, 1953 - 64, *Economia Internazionale*, Febr. 1972, N. 1.

3. Discussions on the effects of currency devaluation on a country's balance of trade led to the so-called *Marshall-Lerner condition*, which says that the sum of the demand elasticities has to exceed unity, if a small depreciation should be successful. That is,

$$\varepsilon_x + e_m > 1,$$

where ε_x demand elasticity for exports

e_m » » » imports

In the case of Greek imports and exports there was an estimation of price elasticities during the years 1950 - 1960, the sum of which was found to be about -1.

4. In order to find the under- or over-valuation of a currency of country A against country B, we take the index number of prices of A, divided by the index number of exchange rate and so we have the index number of prices of A expressed in the currency of B. By dividing this index number by the index number of prices of B we get the ratio of index numbers of prices of the two countries, which tells us the under-valuation (if below 100), or overvaluation (if above 100) of the currency of country A.

TABLE 1

Simplified Presentation of Balance of Payments (million \$)

	1958	1959	1960	1961	1962	1963	1964
Imports CIF (Payments)	491.5	454.8	497.1	561.2	608.5	708.4	831.3
Exports FOB (Receipts)	242.8	212.5	208.6	234.3	-242.6	295.9	308.4
Trade Balance	-248.7	-242.3	-288.5	-326.9	-365.9	-412.5	-522.9
Invisible Receipts	217.6	237.2	273.2	319.6	379.6	454.3	479.5
Foreign Travel	36.2	41.7	49.3	62.5	76.0	95.4	90.9
Transportation	60.3	60.3	76.5	102.0	108.7	125.3	147.2
Emigrant Remittance	76.7	88.6	90.4	98.3	117.2	128.5	116.4
NATO infrastructure	13.4	10.8	15.5	9.3	10.0	7.8	—
Fees-wages-salaries	1.3	1.3	4.1	12.6	24.3	41.6	63.1
Other	29.7	34.5	37.4	34.9	43.4	55.7	61.9
Invisible Payments	47.7	54.9	65.5	76.1	87.6	99.0	129.3
Travel	15.3	15.4	18.8	19.3	21.8	27.5	38.6
Government	8.1	10.3	12.3	12.4	13.0	13.0	25.4
Other	24.3	29.2	34.4	44.4	52.8	58.5	65.3
Balance on Invisibles	169.9	182.3	207.7	243.5	292.0	355.3	350.2
Balance on Current A/C	-78.8	-60.0	-80.8	-83.4	-73.9	-57.2	-172.7
Net Inflow of Capital	36.8	58.0	48.5	84.6	71.1	75.2	140.2
Balance before aid	-42.0	-2.0	-32.3	1.2	-2.8	18.0	-32.5
Aid and Reparations	23.1	41.1	42.6	37.6	55.7	42.9	37.9
Errors and Omissions	-1.8	-2.2	4.2	-12.4	-4.7	-53.0 ¹	-17.0
Changes in foreign exchange	-20.7	36.9	-34.5	16.2	29.1	7.8	-11.6
Changes in gold ²	3.5	9.0	50.4	10.8	-9.7	0.1	—

Notes : (1) Including foreign exchange transferred to commercial banks after the reformation of the E.M.A. system of payments.

(2) Domestic transactions in gold sovereigns.

Source : Bank of Greece, Economic Research Department.

TABLE 2

Major items of Greece's Balance of Payments, 1952 - 64
(in million U.S. \$)

Year	Imports (1)	Exports (2)	Invisible Receipts Payments (3) (4)	Trade Balance (5)	Balance on current account (6)	Used Aid (7)	Exchange Reserves (8)	Suppliers Credits (9)	Net reserves Liquidity (10) (8-9)
1952	277.1	115.0	74.4	-162.1	-113.3	100.2	71.9	—	71.9
1953	236.1	134.1	107.8	-102.0	-17.6	58.8	120.6	7.2	113.4
1954	319.6	161.0	124.2	-158.6	-64.5	51.0	131.5	16.1	115.4
1955	352.0	206.5	153.8	-145.5	-27.7	59.8	186.8	28.9	157.9
1956	440.7	209.6	182.6	-231.1	-87.9	69.8	190.1	53.5	136.6
1957	475.1	222.8	235.7	-252.3	-66.3	22.7	178.9	87.3	91.6
1958	491.5	242.8	217.6	-248.7	-78.8	22.8	161.9	105.6	56.1
1959	454.8	212.5	237.2	-242.3	-60.0	31.8	207.6	101.1	106.5
1960	497.1	208.6	273.2	-288.5	-80.8	39.4	223.5	108.9	114.6
1961	561.2	234.3	319.6	-326.9	-83.4	36.0	250.5	114.9	135.6
1962	608.5	242.6	379.6	-365.9	-73.9	16.6	269.9	146.7	123.2
1963	708.4	295.9	454.3	-412.5	-57.2	29.7	277.9	169.9	108.0
1964	831.3	308.4	479.5	-522.9	-172.7	16.9	266.3	202.0	64.3

Source : Bank of the Greece, Economic Research Department.

TABLE 3

Percentage distribution of the financing sources of imports

	1934/38	1952	1955	1958	1959	1960	1961	1962	1963	1964
Exports of goods	63.1	41.5	58.6	49.4	46.7	41.9	41.7	39.9	41.8	37.0
Net invisible Receipts	28.9	17.6	33.4	34.6	40.1	41.7	43.4	48.0	50.1	42.1
Net inflow of capital	-1.5	3.5	6.1	7.1	12.3	10.6	12.9	10.9	10.6	16.9
Aid and Reparations	—	45.7	17.2	4.7	9.0	8.6	6.7	9.1	6.0	4.6
Changes in the foreign exchange ^{1, 2}	9.5	-8.3	-15.3	4.2	-8.1	-2.8	-4.9	-7.9	-8.5	-0.6
Total	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0

1. (—) = increase of the foreign exchange.

2. including also changes in the outstanding balance of clearing accounts for the year 1952 and 1955.

Sources : 1. UNRRA, Plan for the exploitation of economic resources of Greece, Athens 1947 (for the years 1934/38).

2. Bank of Greece, Economic Research Department.

The percentage of imports which was financed by exports declined in the recent years and the first place was taken by net invisible receipts, which financed imports by 17.6% in 1952, 50% in 1963 and 42% in 1964. (See Table 3).

Up to 1952 the American economic aid was the main equilibrating factor of the Greek external accounts. Because of a substantial improvement in the foreign exchange position of Greece, American aid was drastically reduced after 1952 and finally stopped after 1962.

Now, net inflow of capital started to be a significant extra source of foreign exchange in the last ten years following the L. D. 2687/53 which anticipates the attraction of foreign capital (Table 1 and Table 4). Credits from foreign suppliers were effected after 1953 and since then they have been increasing until reaching \$ 202 million in 1964 (Table 2).

Foreign exchange reserves were increased from \$ 71.9 million in 1953

TABLE 4
Inflow of Capital and Aid (million U. S. \$)

	1960	1961	1962	1963	1964	annual average 1960-1964
1. Nonr e-exportable	34.8	39.3	43.3	48.4	58.5	44.5
2. Grants and loans not repayable in foreign exchange	57.2	55.2	75.6	58.0	49.8	59.2
3. Development loans repayable in exchange but in favourable terms	11.1	24.4	1.2	1.1	19.8	11.5
4. Loans under usual terms (not above 15 years)	17.4	24.6	36.1	39.2	81.0	39.7
5. Loans, deposits in foreign ex- change and foreign suppliers' cre- dits (not above 3 years)	16.8	16.3	44.4	47.9	37.7	32.7
6. Private entrepreneurs' capital (participation in enterprises)	2.7	4.3	6.5	10.9	12.5	7.4
TOTAL	140.0	164.1	207.1	205.5	259.3	195.0

Notes : (1) Mainly investments in real estate, (2) mainly American aid and loans repayable in Drachmas, (3) mainly German loans (1960 - 61), Consortium (1963 - 64) and European Investment Bank, (4) mainly capital under L. 2687/53 and other State Capital, (5) deposits under L. 2687/53 and suppliers' credits.

Source : Bank of Greece, Economic Research Department.

to \$ 277.9 million in 1963, but they declined in 1964 to \$ 266.3 million (excluding I.M.F. position). If we subtract suppliers' credits from the total exchange reserves we get the net reserve liquidity (See Table 2).

Finally, we should stress the favourable effect of the terms of trade on the balance of payments from which a sum of \$ 38 million was gained cumulatively during the period 1954 - 1964. Without this effect foreign

exchange reserves would be less by this sum, or the trade deficit would be larger by this very sum⁵. (See Table 5).

IV. Imports and economic development

Under free trade conditions import restrictions in a direct way are not legitimate. Indirect measures are possible, but they have been proved of no result in the case of Greece. The continuous increase in imports is a result of the process of the economic development, taking into consideration the following: (a) Greece is a small country and she cannot deal with all lines of production because of the limited physical resources⁶. (b) Raw materials and capital goods are necessary for industrialization. (c) Greece's national income has been increasing and the income elasticity of demand for imports is more than unity. (d) The standard of living is not satisfactory so that imports might have been cut down. (e) Inflationary pressures which are unavoidable in the process of development gave a spillover into imports and drained abroad⁷. So, monetary stability was helped much because of that fact.

The per capita imports are not high and we cannot expect a decline in them because of industrialization. Other highly industrialized countries, but smaller in size, have much more per capita imports. This is shown in the following table (p. 435):

5. The calculations were made in a paper of mine published in the Bank of Greece's annual survey "The Greek Economy in 1964" (Athens, 1965), entitled "The evolution of the terms of trade", (in Greek), and the findings were based on the formula :

$$\left(V_e - \frac{V_e}{P_e} \right) - \left(V_i - \frac{V_i}{P_i} \right)$$

where : V_e =value of exports, V_i =value of imports

P_e =unit value index of exports

P_i =unit value index of imports

6. S. K u z n e t s, "Economic Growth of Small Nations", in E. A. Robinson (Ed.), Economic consequences of the size of nations, London 1960, (pp. 14 et. seq.)

7. In order to show the relationship between the total expenditure and expenditure for imports take the well known equation:

$$Y_n = C_n + I_n + X_n - M_n$$

where, Y_n =G. N. P. at current market prices

TABLE 5

Exports, Imports and Terms of Trade Effect on the Trade Balance

Year	Exports	Imports	Deficits	Unit value indices		Price Effect on the trade Balance ²	Trade Defect without price effect
	million \$ (current value)			(chain series)			
	Ve	V ¹ m	Ve-Vm	Exports(Pe)	Imports(Pm)	in millions á	
1953	113	230	117	—		—	—
1954	152	323	171	121.0	118.0	-23	148
1955	183	370	187	109.7	100.5	14	201
1956	190	438	248	107.8	104.7	-6	242
1957	220	501	281	97.4	102.0	-16	265
1958	232	525	293	97.9	91.7	43	336
1959	204	473	269	91.3	99.2	-15	254
1960	203	514	311	97.9	97.3	10	321
1961	223	577	354	100.5	98.2	12	366
1962	250	625	375	102.1	99.1	11	386
1963	290	735	445	114.4	99.8	38	483
1964	309	838	529	99.0	103.3	-30	499

Notes : (1) Excluding value of ships entering the Greek Registry.

(2) Minus sign indicates unfavourable effect.

Source : National Statistical Service of Greece.

C_n =total consumption

I_n =total investments

X_n =exports of goods and services

M_n =imports " " " "

n =current year

Countries	Per capita imports in U. S. \$ (average 1958-62)	Population (in thousands)
Ireland	232	2,824
Norway	411	3,639
Finland	226	4,505
Denmark	382	4,654
Switzerland	428	5,660
Austria	189	7,128
Sweden	367	7,562
GREECE	63	8,451
Portugal	62	8,971
Belgium-Lux.	408	9,543
Netherlands	391	11,797
Turkey	17	29,418
Spain	33	30,817
France	136	46,998
Italy	91	50,170
U.K.	225	53,441
Germany F.R.	183	54,767

Sources : U. N., Monthly Bulletin of Statistics (for population)
I.M.F., International Financial Statistics (for imports)

$$\text{then, } Z_n = Y_n + (M_n - X_n) \dots\dots\dots (1)$$

where, $Z_n = C_n + I_n = \text{total expenditure of the economy}$

$$Y_n = Y_{n-1} + \Delta Y_n \dots\dots\dots (2)$$

we put (2) in (1), and we take,

$$\begin{aligned} Z_n &= Y_{n-1} + \Delta Y_n + (M_n - X_n) \\ Z_n - Y_{n-1} &= \Delta Y_n + (M_n - X_n) \dots\dots\dots (3) \end{aligned}$$

but ΔY_n is analysed in : (a) change in quantity $\left(Y_n : \frac{P_n}{P_{n-1}} - Y_{n-1} \right)$

$$\text{(b) change in prices } \left[\left(Y_n \frac{P}{P_{n-1}} - Y_{n-1} \frac{P}{P_{n-1}} \right) \right]$$

where $P = \text{prices.}$
so we have,

From inspection of the above table we conclude that Greece's per capita imports are not high and consequently a substitution cannot do much. But if such a policy is supported for the sake of closing the trade gap, there is a better medicine, that is, export promotion.

Various measures can be taken by the Government to affect the structure of imports according to desirable objectives. By commodities and geographical distribution of imports are shown in Tables 6 and 7.

On the other hand, the rate of growth of imports of consumer's goods and capital goods and of the corresponding items of national accounts are shown in the following table :

Year	Indices 1954=100			
	National Consumption	Imports of consumer's goods (a)	Gross Investment	Capital goods imports (a),(b)
1954	100.0	100.0	100.0	100.0
1955	104.1	111.6	114.8	120.4
1956	112.2	124.0	132.3	146.2
1957	120.4	135.2	134.7	178.5
1958	123.4	147.4	178.0	232.7
1959	127.1	133.6	178.3	211.5
1960	132.9	179.6	204.7	234.4
1961	144.5	169.4	232.9	275.0
1962	152.7	180.7	252.9	318.1
1963	163.0	225.6	268.7	324.1

Sources : Ministry of Coordination (for national accounts)

National Statistical Service (for imports)

(a) Arrivals basis

(b) Excluding ships transferred to the Greek Registry.

$$Z_n - Y_{n-1} = (Y_n : \left(\frac{P_n}{P_{n-1}} - Y_{n-1} \right)) + \left(Y_n - Y_n : \frac{P_n}{P_{n-1}} \right) + (M_n - X_n)$$

which tells us that the effective expansionary impulse ($Z_n - Y_{n-1}$) was realized by an increase in the volume of production, an increase in market prices and an increase in imports of goods and services. (See O.E.E.C., Statistics of Sources and uses of Finance 1948-1958, Paris 1959 (provisional), and R. Eleftheriades, Distribution of Income, Productivity, and Prices, Bank of Greece, Athens 1964 (in Greek).

TABLE 6
Percentage distribution of imports
(on payment basis)

	1952	1957	1958	1959	1960	1961	1962	1963	1964
1. Foodstuffs	21.3	19.4	16.0	15.6	18.8	17.8	14.0	18.6	16.8
2. Raw Materials	28.0	27.0	25.9	25.5	26.5	25.0	24.9	23.4	24.0
3. Fuel-Lubricants	14.3	12.7	9.5	11.3	9.6	8.4	7.9	7.3	6.7
4. Capital Goods	12.6	11.2	18.0	18.2	15.7	17.8	22.3	18.9	21.7
5. Manufacturing consumers' goods	19.7	27.3	28.6	29.1	29.4	31.0	30.9	31.6	30.0
6. Freight (unallocated)	4.1	2.4	2.0	0.3	—	—	—	0.2	0.8
TOTAL	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0

Percentage distribution of Exports by Commodities

	1952	1954	1957	1958	1959	1960	1961	1962	1963	1964
Tobacco	46.1	37.6	39.3	37.9	33.1	34.7	34.4	28.0	43.2	38.1
Cotton	3.0	6.6	6.6	9.5	12.4	9.2	11.7	16.1	11.5	11.1
Raisins-Currants	17.7	14.9	14.2	14.4	14.1	13.1	12.5	11.7	11.1	11.7
Olives-Olive oil	2.5	8.1	5.3	4.4	3.1	5.4	2.2	4.3	3.2	3.0
Fruits	1.2	1.9	5.1	3.5	5.6	5.1	6.7	7.8	5.6	5.6
Wine and Beverages	—	2.2	1.6	8.7	1.1	1.1	1.4	1.1	1.3	1.7
Resin and Terpentine	2.8	2.7	1.3	1.6	2.4	3.5	3.4	2.0	0.8	1.3
Hides and Skins	2.5	2.2	2.6	2.7	4.2	4.5	4.6	4.1	3.3	3.7
Minerals and Ores	9.0	5.2	7.2	6.1	6.8	8.6	6.7	6.4	5.3	6.9
Manufactures & Handicrafts	4.6	1.9	3.2	2.1	3.1	3.7	3.4	4.5	3.3	5.6
NATO procurements	—	5.2	2.6	1.9	2.7	2.3	3.3	2.4	0.4	1.1
Other	—	11.5	11.0	7.2	11.4	8.8	9.7	11.6	11.0	10.2
TOTAL	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0

Source: Bank of Greece, (foreign exchange statistics)

TABLE 7

Percentage geographical distribution

	Imports				Exports			
	1958	1960	1962	1964	1958	1960	1962	1964
U.S.A.	13.2	17.2	12.4	18.0	15.1	15.6	11.3	19.1
U.K.	13.3	10.3	10.5	12.9	9.3	9.7	8.9	7.2
E.E.C. ¹	42.8	39.6	46.5	40.4	41.7	32.5	34.7	33.3
Other countries of E.M. A. ²	9.8	8.9	9.6	9.1	5.5	6.1	7.8	6.6
Other Europe ³	3.7	4.6	3.3	3.3	5.9	6.2	8.3	5.5
Eastern Europe	7.5	11.6	10.0	9.6	15.6	21.8	22.1	21.5
Middle East	1.5	2.1	2.0	2.1	4.0	3.2	3.0	3.3
Far East	0.8	1.0	1.1	0.7	1.4	0.8	1.0	0.8
Other	7.4	4.7	4.4	3.9	1.5	4.1	2.9	2.7
Total	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0

Source : Bank of Greece, (Foreign Exchange Statistics)

(1) Belgium, France, Germany, Italy, Netherlands.

(2) Austria, Denmark, Switzerland, Norway, Sweden, Portugal, Turkey, Spain.

(3) Yugoslavia, Finland.

V. Exports and economic development

The reasons given above justify a continuous increase in imports. Industrialization is connected with this increase. So, industrialization should take an outward-looking orientation in order for an efficient overall operation of the economy to be realized on the one hand, and for a larger proportion of imports to be financed by exports.

Exportability of the home output must be pursued because otherwise heavy pressures on the balance of payments will result⁸. The present structure of Greek exports is not favourable for this purpose. The majority of exports consists of agricultural products and raw materials. (See Table 6) The production of these products is exported to a large extent and the possibility of further increase in production and exports depend on foreign demand. But prospects for demand are not so favourable.

On the contrary, the exports of manufactures is a small percentage in the total exports. The exportable quantity of these products is a very small percentage in the corresponding production. Moreover, most of the manufactures produced in Greece do not appear in the list of exports.

From data we collected for this purpose we find that small nations export a good deal of manufacturing production and their industrialization was based more or less on the exports as a leading sector of the economy.

The following data are percentages of exports in total production for selected countries in 1959 :

Exportability of production in selected countries

A u s t r i a

Paper pulp 35 %
Machinery other
 than electric 57 %
Nitrogenous fertilisers 76 %
Manufactures of Metal 82 %

B e l g i u m

Cement 32 %
Plastic materials 38 %
Petroleum products 43 %
Woollen fabrics and yarns 43 %
Zinc 59 %
Nitrogenous fertilisers 67 %

D e n m a r k

Cement 31 %
Manufactures of Metal 39 %
Pharmaceutical products 42 %
Furniture 40 %
Machines other than electric 57 %

S w i t z e r l a n d

Woolen fabrics and yarns 21 %
Manufactures of metal 44 %
Electric machinery 44 %
Machinery other than electric 66 %
Watches-Instruments 89 %

Source : Calculated from O.E.E.C., Industrial Statistics 1900 - 1959, Paris 1960.

8. A. O. H i r s h m a n, The Strategy of Economic Development, A Yale Paper-bound, 1964, p. 169.

In the process of economic growth and development exports have been a dynamic factor reflecting the world demand and especially in cases where foreign markets are a necessary extent of home market.

The present rate of export growth of Greece is also not satisfactory. This is revealed from the following data which are a simple average rate of increase in percentages for selected countries during the period 1959 - 1964: (in current prices)

Export rate of growth, 1959-64

Austria	7.9	Italy	9.7	Portugal	10.4
Belgium	10.7	Ireland	9.5	Spain	13.1
Denmark	9.0	Israel	17.7	Turkey	10.0
Finland	8.9	Netherlands	10.4	Yugoslavia	12.7
GREECE	4.6	Norway	9.7		

Source : Calculated from I.M.F., International Financial Statistics.

Moreover, the import-capacity of exports is low in Greece against other countries. The ratio of exports to imports in 1962 for selected countries is as follows :

Ratios of Exports to Imports (1962)

GREECE	0.40	Yugoslavia	0.78
Israel	0.44	Mexico	0.80
Spain	0.47	Austria	0.81
Turkey	0.61	Netherlands	0.86
Ireland	0.63	Finland	0.90
Portugal	0.63	Belgium	0.97
Italy	0.77	Bulgaria	1.00

The incapability of exports to finance a high proportion of imports and to be a dynamic factor in accelerating the growth rate derives from the structural deficiencies of the economy. The percentage of exports on gross domestic products in current prices for selected countries has as follows (1962):

Ratios of Exports to G.D.P. (1962)

Turkey	6.1 %	Austria	20.3
Mexico	7.2 %	Finland	25.4
GREECE	7.4 %	Ireland	26.9
Spain	7.8 % (1960)	Belgium	37.3
Israel	10.0 %	Netherlands	38.5
Italy	13.5 %		
Portugal	14.8 %		

Source : Calculated from U.N., Yearbook of National Accounts Statistics, 1963 and Yearbook of International Trade Statistics.

Table 8 shows the composition of gross domestic product by industrial origin; comparing this table with Table 9 we see that the contribution of manufacturing to the total product is not significant in Greece.

In the roots of this unfavourable structure of the economy there is the undesirable distribution of investments in the various sectors and branches. Table 10 shows the gross domestic asset formation by branch of industry from which we inspect a low percentage of capital formation in manufacturing on which the economic development of the country should be based. The small size of the market, the limited national wealth and the home-market orientation deprived Greek industries of the advantages of large-scale operation and hence investments projects not significant. Invisible receipts might be a significant source of financing home investment if they were not drained more or less into consumption demand and hence into imports.

VI. Greece's association with E.E.C.

After a transition period of twelve years for the non-produced in Greece manufactured products and twenty-two years for those manufactured in Greece, Greek industries will meet the competition of the Common Market⁹. During this transition period Greek industries should prepare themselves in a competitive basis. In order to be successful a policy of industrialization during this time incentives must be given to outward looking industries; otherwise, industries which are highly protected or home orientated have to collapse, which means a high loss of social capital.

9. Already Greece assumes a full membership effected from January 1st 1981 becoming the 10th member of the E.E.C.

Industrialization in a country which belongs to an integrated economic area must rely on specialization on a regional basis. The necessary conditions for a full efficient overall operation of the economy are secured by the enlargement of the market. Each participating country must be considered as a part of the whole region and a general regional plan must include all countries.

The scope of Greece's association with the Common Market, as described by article 2 of the agreement of the association, is the continuous and balanced development of economic relations taking into consideration the need for accelerating the economic development of Greece and for raising the standard of living.

TABLE 8

Composition of Gross Domestic Product by Industrial Origin in Greece (at constant factor cost, 1954)
(Percentage distribution)

	1950	1955	1960	1962	1963
1. Agriculture etc.	32.3	34.8	28.8	28.8	29.2
2. Mining and Quarrying	0.6	1.1	1.4	1.3	1.3
3. Manufacturing	16.9	18.2	19.6	19.5	19.6
(a) Food, Beverages, Tobacco	3.8	4.1	4.0	3.7	3.7
(b) Textiles	3.1	2.8	2.7	2.6	2.5
(c) Clothing	3.1	2.9	2.9	2.7	2.5
(d) Wood	1.3	1.4	1.4	1.4	1.4
(e) Paper	0.6	0.7	1.1	1.1	1.1
(f) Chemicals	1.9	2.1	2.7	2.7	3.0
(g) Construction	0.6	1.0	1.0	1.1	1.1
(h) Metallurgical	0.2	0.3	0.4	0.5	0.5
(i) Engineering and metal-working	1.6	1.9	2.3	2.4	2.3
(j) Transport equipment	0.1	0.4	0.6	0.8	0.7
(k) Other	0.6	0.6	0.5	0.5	0.8
4. Electricity-Gas-Water	1.0	1.3	1.8	1.9	2.0
5. Construction	3.8	3.7	5.8	5.8	5.8
6. Transportation-Communication	8.3	7.9	8.2	8.2	8.1
7. Wholesale and Retail Trade	13.1	11.6	11.8	11.9	11.9
8. Banking, Insurance, Real Estate	2.1	1.9	2.1	2.1	2.2
9. Dwellings	4.8	5.4	7.0	7.3	7.5
10. Public Administration Defence	8.5	6.5	5.8	5.1	4.8
11. Other services	8.6	7.6	7.7	8.0	7.6
Total	100.0	100.0	100.0	100.0	100.0

Source: Ministry of Coordination, National Accounts of Greece

TABLE 9

Percentage Proportion of Manufacturing to the Total Gross Domestic Product at Factor Cost
(current prices)

	1950	1953	1958	1963
Austria ¹	40	41	39	39
Belgium ²	—	29	28	30
Denmark	28	26	28	30
Finland ³	32	32	32	33
France ⁴	38	38	37	36
Germany F.R. ⁵	39	40	40	40
GREECE	19	17	19	18
Ireland ⁶	28	27	29	33
Israel	—	23	22	24
Italy	31	31	31	33
Norway	28	27	26	26
Portugal ⁷	33	34	37	40
Spain	—	(1954) 23	24	(1962) 25
Turkey	11	11	14	14

Notes : (1) including mining, (2) including gas, (3) including mining and electricity, (4) including fishing, quarrying, building material, (5) including quarrying, (6) including mining and construction, (7) including construction.

Source : U. N., Yearbook of National Account Statistics, 1964.

There are provisions in the agreement of the association of Greece regarding (a) the helping of new industrial activities by imposing tariffs on imports (in this provision the theory of infant industry protection is materialised to some extent), and (b) the possibility for financial resources from the European Investment Bank which up to the present time has done much in Southern Italy.

VII. Conclusions

After what was said above there arises the question of which must be the proper orientation of the Greek industrialization. Import-substitution policy, which means inward looking development, cannot be of much effect, provided that the small size of the home market and the limited natural resources do not admit the creation of large industries home oriented. Moreover, such a policy will give strong protection which is not realized after the association of Greece with E.E.C. and/or under the conditions of free

TABLE 10

Gross Domestic Asset Formation by Branch of Industry (in million Drs. at constant prices, 1954)

	1948 - 52		1953 - 57		1958 - 62	
	Value	%	Value	%	Value	%
1. Agriculture etc.	3,773	11.4	3,956	9.0	12,389	15.4
2. Mining and Quarrying	684	2.1	624	1.4	589	0.7
3. Manufacturing	6,072	18.4	5,411	12.3	8,554	10.6
4. Power, Water	2,242	6.8	4,749	10.8	6,282	7.8
5. Transport, Communication	6,957	21.1	5,386	12.2	17,776	22.0
6. Housing, Dwellings	8,754	26.5	17,485	39.7	25,042	31.1
7. Public Administration	1,545	4.7	1,190	2.7	855	1.1
8. Other activities	2,976	9.0	5,215	11.9	9,129	11.3
Total	33,003	100.0	44,016	100.0	80,616	100.0
in million dollars	1,100		1,467		2,687	

Source : Ministry of Coordination, National Accounts Department, The evolution of investments in Greece, 1948 - 62, Athens 1964, (in Greek)

trade prevailing all over the free world. Furthermore, an import-substitution policy will not help much the balance of payments, because of the heavy requirements in raw material and capital goods and of the unavoidable inflationary pressures which will result. It should be stressed, however, that import-substitution takes place always as a physical process in the course of economic development, because of increases in the population and in the per capita incomes.

There is no antithesis between export promotion policy and physical process of substitution. The problem arises when a conscious policy has to be formed and some economic incentives are to be given to industries. If incentives are granted to outward looking industries, efficiency is also secured because this presupposes low costs and high quality of goods. But which industrial branches must be developed is a big question to answer in such a limited space.