

MIGRATION, URBANIZATION, INDUSTRIALIZATION, EXPORT PROMOTION AND ECONOMIC DEVELOPMENT

Mehdi Mahmud Chowdhury¹
Graduate School of Economics
Ritsumeikan University, Japan
Email mehdi.chowdhury@gmail.com

ABSTRACT

Import substitution was the main trend of industrial and trade policy after the World War Two. This policy is now disfavored and almost all developing countries are at present trying to increase exports to become developed. In this paper we discussed about this issue and linked it with the migration and urbanization problem of the developing world. Economic theory once viewed migration as a tool for economic development as it enables industrial sector to get additional labor. This view has changed but we argued that export promotion will encourage migration and urbanization as export sectors of developing countries are usually manufacture and urban based sectors. We discussed about the policy issues relevant in this situation.

Key words: Migration, Urbanization, Industrialization, Import substitution, Export Promotion

I. INTRODUCTION

As the title suggests this paper is devoted to discuss about the relationship between migration, urbanization, industrialization, export promotion and economic development policies of third world countries. Migration or movement of people from one place to another is one of the most common but important events of human civilization. There are many factors which can contribute together to induce migration but highest weight as a reason will go to the difference of earnings from one area to another area. This fact has been incorporated in the economic theory after Second World War as a tool of economic development by celebrated Lewis model [1] and its extensions by other economists. Economic development in Lewis type model is initiated by labor migration from agricultural to industrial sector. As industrialization in past was carried mainly through import substitution policy, in practice the relationship between migration and economic development was coming via import substituting industrialization.

Instead of import substitution, export promotion is now regarded as a better means of development. It

is thought that developing countries usually export agricultural products and import manufacturing products, therefore export promotion policy is thought to be more representative of the domestic economy of the less developed countries. But the statistics reveals something different. In reality the share of manufacturing exports to total exports in developing countries is very high. On the contrary, the share of agricultural exports to total exports is usually quite low. Given this observation we argue that promoting exports in developing countries will promote industrial sector, and therefore will induce rural-urban migration like import substitution regime. This paper discusses about the interrelationship of these issues and asked for more contemplation from the policy makers before committing to any specific policy.

II. INDUSTRIALIZATION AND MIGRATION

The interest for industrialization is somehow associated with the colonial experience of less developed countries. Gustav Ranis [2] mentioned that the rebirth of development economics as sub-discipline of economics coincides more or less

1. The author is currently studying as a Masters student. The paper has been rewritten from a part of Master's thesis. The author likes to thank Professor Masayuki Okawa and Professor Kazuo Inaba for supervising the thesis. Some ideas of the paper have been developed from a seminar at Ritsumeikan University presented by Peter Holmes of University of Sussex.

with the post Second World War era and associated with the endeavor of newly independent countries to break up the colonial ties. Bruton [3] also referred to the same by stating that after the Second World War, the world became acutely conscious about the fact that a small number of countries and population had control over vastly larger quantity of goods and services per person while the majority of the countries and population lived in severe poverty. The poor countries tried to find the way to become as developed as the rich countries and to do so; they tried to follow the path of developed countries to build themselves in the image of developed countries. As the rich countries were normally highly industrialized, the common path to be followed was the path of industrialization. Therefore after the Second World War many underdeveloped countries gave high priority to industrial development, tried to establish their own industries and used various measures to protect the new industries from outside competition.

The economic development theories at that time used to emphasize the issues more relevant with industrial development. Lewis model like other development theory prevailing at that time also focused on industrialization as the vehicle of development. Lewis's pioneering² contribution was to assume that the economic structure of the underdeveloped world is characterized by 'dualism' that is co-existence of two sectors within a single economy and to propose a mechanism of development of such an economy. Dualism or structural segmentation was by far unaddressed by the neoclassical economists at that time. Lewis postulated that the internal economic structure of an underdeveloped economy can be sub-divided into two sectors. One is a rural technologically backward agricultural sector and another is a technologically advanced urban manufacturing sector. The producers of manufacturing sector act as profit maximizers, that is employ labor up to the point where marginal product equates wage. The rural sector provides subsistence wage and there is excess supply of labor in that wage such that marginal productivity of labor is nearly zero. This labor has been termed by Lewis as surplus labor. As marginal product is almost zero this surplus

labor can be removed from agriculture without sacrificing the agricultural output. Lewis argued that the goal of economic development can be achieved by transferring the surplus labor to industrial sector, which will enable industrial sector to increase production. It is assumed that the wage rate in manufacturing sector is higher than the agricultural sector's wage rate and this wage difference can attract laborers of agricultural sector to migrate to industrial sector. With reinvestment of accumulated profit, manufacturing sector can uninterruptedly grow by using the surplus labor until all surplus labor of agriculture is fully exhausted. It is obvious that migration of labor from agriculture to manufacturing will bring structural changes not only in manufacturing but also in agricultural sector. With the migration of labor agricultural sector will also gradually become commercialized, the process of which has been described by Ranis and Fei [6].

Lewis model was a significant advancement in the field of development economics but we can note that, as mentioned earlier, after the World War Two, economic theory usually favored industrialization policy and Lewis model is not an exception in this ground³. When considered for an open economy the industrial sector of Lewis model should be an import substituting protected industrial sector therefore by means of labor transfer what is aimed is the development of the import substituting industries. Let us think that for some reasons the protected industrial sector failed to grow after a certain time period. If migration is initiated by higher wage in the earlier periods, the halt of growth of industrial sector will mean no economic development but only transfer of rural poverty to urban areas. The phenomenon described is common in many developing countries. Rural population of developing countries is coming in cities in large volume in search of better life and income, influenced by the urban and industrial bias in economic policies of those countries. But in reality the labor migration did almost nothing to

2. It should be noted that though Lewis is considered as the pioneer of modern analysis of dual economy many of his ideas can be found in the works of other economists. See Basu [4] and, Todaro and Smith [5]

3. Figueroa [7] stated that the Lewis actually advocated also for simultaneous development of agricultural sector as development can not move beyond a certain point unless agricultural sector makes progress. However as long as another sector has the role to absorb the labor of overpopulated agricultural sector we can not just deny that the other sector is the forerunner of the development process and agricultural sector is just the follower, though the goal is the overall development of the economy.

improve the economic condition, rather what we see is increase of urban population beyond a level which the cities are capable to accommodate.

Import substitution policy has lost its favor due to early experience of the countries that followed this policy. Krueger [8] discussed that in the 1950's all developing countries were highly specialized in exporting agricultural products and importing manufacturing products. Domestic industrial sector was small and confined to producing only a few products. It was widely believed that dependence on primary products was the cause of continuation of poverty in the underdeveloped world and many economists and policy makers found industrialization as the only path of development and modernization. As a result, rapid industrialization was encouraged by raising the rate of capital formation and allocating a large share of new capital stock to investment in import substituting industries. The new industries were protected from outside competition through tariff and other restrictions.

While imports of several goods was controlled or prohibited, imports of capital goods, intermediate goods and raw materials for import substituting industries were encouraged during this time. Initially the growth of industrial output was good but the demand for foreign currency also increased due to rapid raise of demand in import substituting industries. In contrast, export earnings failed to keep up with this demand as attention was not paid for export growth and incentives to import competing sector were diverting resources from export industries. To cope with the shortage of foreign exchange reserves, many countries imposed more restrictions on imports but such restrictions created further problem as it slowed down economic activity in a greater extent. By mid 1960 it was widely believed that chronic shortage of foreign currency was one of the major characteristics of developing countries. Like other developing countries, Korea and Taiwan also started with import substitution. But Taiwan in mid 50s and Korea in early 60s changed their policy, responding to the foreign currency crisis and inflation problem. The policy they took is now considered as more outer oriented as it gradually reduced bias in favor of import substitution and provided strong and stable incentive to producers of exportable. The success story of the countries with such policy is evident in the statistics. From 1960 to 1970 the exports of

Korea grew from \$ 31 million to \$ 882 million, registering an annual growth of more than 40 percent. Within this period annual real GDP growth was above 8 percent. The Taiwan case also showed similar result. Some other East Asian countries, for example Singapore and Hong Kong also showed good performance. With the success of these economies, the paradigm gradually shifted to export promotion and by 1980s other countries started to follow this path.

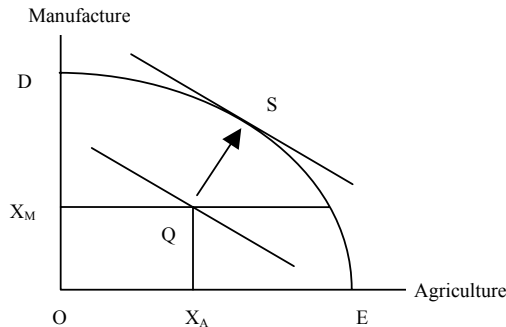
While import substitution has lost its support because of the early experiences, Lewis type wage differential based models has lost favor mainly because of arguments from Harris-Todaro [9] model. We will discuss it in the next section.

III. MIGRATION AND URBAN UNEMPLOYMENT

Around 1960s, simultaneous presence of rural-urban migration and urban unemployment became common in many developing countries. Rural-urban migration in excess of absorbing capacity was causing urban unemployment problem, but despite this, rural people was coming to urban areas in search of better life and income. Harris-Todaro model provided an influential explanation of the continuation of rural-urban migration in the presence of urban unemployment. Harris and Todaro assumed that migration from rural agricultural sector to urban manufacturing sector proceeds in response to expected wage differential, not the actual wage differential. Expected wage is defined as the probability of getting an urban job multiplied by urban actual wage, whereas the probability is defined as urban employed labor divided by the total urban labor. They stated that as long as urban expected wage is higher than the rural wage, migration from rural to urban area is a rational choice from the perspective of individual migrants despite the presence of urban unemployment. Harris-Todaro used mathematical formulations in the model but let us resort to a numerical example to explain it clearly. Assume urban actual wage is 100 Taka. Urban total labor and employed labor is respectively 100 and 80 person. Therefore probability of getting urban job is 0.80 and urban expected wage is 80 Taka. If rural actual wage is less than 80 Taka, for example 60 Taka, it is rational for rural laborers to migrate to urban area for getting higher urban expected wage though some people in urban area are already unemployed.

The outcome of the migration in Harris-Todaro model is equilibrium with urban unemployment, where the economy is producing and consuming less than the socially optimal output. This has been described by the Figure-1⁴.

Figure-1
Equilibrium in Harris-Todaro model



In Figure-1, horizontal axis shows agricultural output and vertical axis shows manufacturing output. Harris-Todaro model assumes that manufacturing wage is institutionally fixed at a higher level than the market clearing wage. As per the profit maximizing condition, the producers will employ labor up to the level where marginal product equates manufacturing wage. Therefore manufacturing output is always fixed at X_M . As labor migrates from agriculture to manufacture, agricultural output will settle to a point like X_A . The equilibrium of the economy is defined by Q , which is inside the Production Possibility Frontier DE . It is easy to see that production and consumption is lower at Q compared to the socially optimal level S .

In this way Harris-Todaro model shows that higher urban wage and consequent migration is the cause of low level equilibrium in the developing countries, which is just the opposite of Lewis type models. Bhattacharya [11] mentioned that in 1950s economists used to emphasize industrialization as such it will increase national welfare and relieve the pressure of overpopulated country side. But this view was challenged increasingly as it became apparent that poverty persisted even when GDP increased. Current orthodoxy views rural-urban

migration as a factor contributing to underdevelopment, in Bhattacharya's opinion which is mainly due to contribution of Harris-Todaro model. Krugman and Obstfeld [12] also maintained similar view by stating that Harris-Todaro model is one of the reasons for which economic development policy through wage differentials is now disfavored by economists.

What is the linkage of Harris-Todaro model with trade policy? The linkage is obvious. As mentioned earlier, in practice, manufacturing sector is an import substituting sector, therefore urban unemployment and low welfare equilibrium is created because to promoting import substitution policy. One concerning question is how the situation of the economy can be improved, for example, how the economy can move from a point like Q to a point like S as shown in the Figure-1. Such an analysis has been extensively done by Batra and Naqvi [13]. As usual, they assumed that manufacturing sector is the import substituting sector whereas agricultural sector is the export sector. They then showed that if manufacturing production is encouraged through tariff and subsidy, it will result in welfare loss for the economy. On the other hand, if export sector is encouraged through subsidy it will enhance the welfare of the economy. The lesson is that export and free trade is better than control and protection.

Thus Harris-Todaro model provided theoretical support in favor of export promotion policy and against import substitution policy besides the early experiences with import substitution as discussed in the previous section. The trade paradigm has now shifted from protectionism to liberalization; export promotion is currently accepted by almost all. But by looking at the trade statistics we find that export promotion may have drawbacks in the context of prevailing migration and urbanization problem of less developed countries, which will be discussed in the next section.

IV. EXPORT PROMOTION AND INDUSTRIALIZATION

Openness and trade liberalization is now a popular belief as like as import substitution in 50s. Alan Winters [14] stated that 'Openness and trade liberalization are now seen as almost universally as key component of the national policy cocktail required for economic growth and aggregate well being'. Though we need not be as cynical as the

4. This figure has been developed from the figures used by Bhagwati and Srinivasan [10]

above quotation about the regime of openness and liberalization, but what we want to note here is that import substitution policy and export promotion policy maintain almost similar relationship with migration and urbanization in less developed countries. The reason is that agricultural sector, in reality, is not the export sector in less developed countries

Table-1
Export and import share of agriculture and
manufacture in some Asian countries

(In billion dollars)

Country	Agriculture		Manufacture	
	Export	Import	Export	Import
Bangladesh	0.47 (6.8%) [†]	1.92 (20.3%)	17.21 (80.6%)	5.27 (66.5%)
China	22.16 (5.1%)	30.48 (7.4%)	397.00 (90.7%)	328.57 (79.5%)
India	7.03* (13.4%)	5.07* (8.3%)	37.32* (71.1%)	29.32* (48.0%)
Indonesia	9.94 (16.3%)	5.44 (16.7%)	31.62 (51.9%)	18.39 (56.5%)
Malaysia	11.06 (11.1%)	5.14 (6.3%)	77.28 (77.8%)	67.98 (83.0%)
Pakistan	1.47 (12.3%)	2.12 (16.2%)	10.14 (85.0%)	7.22 (55.4%)
Philippines	2.21 (6.1%)	3.37 (8.5%)	35.54 (88.5%)	32.38 (81.9%)
Sri Lanka	1.06* (22.6%)	0.92* (15.1%)	3.50* (74.5%)	4.08* (66.8%)
Thailand	15.08 (18.7%)	5.72 (7.5%)	60.08 (74.6%)	56.99 (75.2%)

Source: International Trade Statistics 2004, WTO

[†] Parenthesis indicates share in total exports of that country

* The statistics of 2002

In past it was commonly thought that developing countries has advantage to export primary goods or primary products based manufacturing goods. This proposition is no longer true for the developing countries of present world. Krueger [8] wrote that in the 1950s, primary products constituted 90% of exports of Korea. But we now see a completely reversed picture. Astonishingly, irrespective of whether the country is poor or rich, manufacturing sector dominates the export sector. In the Table-1 we have data on the share of agricultural and manufacturing exports to total exports of some South Asian and East Asian countries. The table has been prepared from the International Trade Statistics 2004 of WTO. Among the countries we can only consider Malaysia and Thailand and to some extent China and Philippines as relatively developed countries. Other countries are still

ranked as less developed countries by World Bank's criteria. It is evident from the table that manufacturing sector, not the agricultural sector, dominates the export earnings of these countries. In case of Bangladesh agricultural sector contributed only 6.8 percent of the total exports in 2003 while manufacturing sector contributed 80.6 percent. We can see more or less almost similar picture in other countries also. In China manufacturing sector contributed 90.7 percent of total export while agricultural sector contributed only 5.1 percent. In India agriculture and manufacturing sector's contribution were 13.4 percent and 71.1 percent respectively. In Sri Lanka 22.6 percent of export earnings comes from agriculture which is the highest among the countries in the table. In Indonesia manufacturing dependence is relatively low, even though it stands at 51.9%. It is evident from the table that primary commodities are no longer the major source of exports in the developing world.

Table-2
Export and import share of agriculture and
manufacture in upper income countries

(In billion dollars)

Country	Agriculture		Manufacture	
	Export	Import	Export	Import
Argentina	12.14* (47.2%) [†]	0.63* (7.0%)	7.82* (30.4%)	7.47* (83.0%)
Australia	17.06 (22.8%)	5.18 (6.1)	17.21 (24.1%)	69.14 (81.8%)
Brazil	24.21 (33.1%)	4.23 (8.3%)	37.19 (50.9%)	35.04 (69.2%)
Canada	33.69 (12.4%)	18.02 (7.5%)	164.77 (60.4%)	195.74 (81.7%)
EU	284.14 (9.8%)	308.87 (10.6%)	2358.44 (81.3%)	2183.10 (74.8%)
Japan	4.82 (1.0%)	58.46 (15.3%)	438.68 (93.0%)	218.47 (57.1%)
Korea	4.09 (2.1%)	15.56 (8.7%)	177.10 (91.4%)	111.92 (62.6%)
New Zealand	9.60 (58.2%)	..	5.11 (31.0%)	14.26 (76.9%)
United States	76.24 (10.5%)	77.27 (5.9%)	586.66 (81.1%)	989.97 (76.0%)
World total	673.89 (9.9%)		5437.00 (74.5%)	

Source: International Trade Statistics 2004, WTO

[†] Parenthesis indicates share in total exports of that country

* The statistics of 2002

Table-2 presents the same statistics of some upper and high income countries. We have selected some most developed countries and groups like United

States, Japan, EU with other countries like Argentina and Brazil. Among the countries Argentina, Australia, Brazil and New Zealand are well known for exports of primary commodities. This has been reflected also in the table. The share of agriculture to total exports in Argentina, Australia, Brazil and New Zealand was 47.2%, 22.8%, 33.1% and 58.2% respectively. But in other countries like United States, Canada, Japan, Korea and EU the share of agriculture was low. In Japan and Korea it was only 1% and 2.1% respectively. Manufacturing sector of the countries in Table-2 is not as dominant as it was in Table-1. In Argentina, Australia, Brazil and New Zealand the contribution of manufacture was quite low. A large share of export earnings of these countries comes from exports of natural resources which has not been shown in the table. The same is also true for Canada where manufacturing sector contributed only 60 percent of total exports. In the world level agricultural exports is only about 10 percent of total world exports whereas manufacturing exports is about 75 percent of total world exports. Coming again the example given by Krueger on Korea in 1950's we can see how drastically the situation has reversed. In 1950's 90 percent of exports of Korea was primary commodities, but now more than 90 percent of exports is manufacturing commodities.

What is revealed by the above tables is, the proposition that developing countries export primary products is no longer true. If export sector is encouraged it is going to encourage manufacturing production. Therefore we should see continuous shift of resources from agricultural sector to manufacturing sector in the developing countries as happened in import substituting regime. It should also be noted that present export sector of developing world is much dependent on the imports of capital goods and raw materials which is reflected in the higher share of manufacturing imports in Table-1. Besides the present export regime can no longer be said dependent on own technology. Often the technologies are imported from foreign countries. The developing countries are able to export as they can produce the goods in cheap price mainly because of low labor cost.

Thus for outward looking export oriented policy, the primary thrust is again to manufacturing sector like inward looking protection based policies, though the export industries at this time are likely to be more labor intensive compared to the import

substituting industries. Therefore the prospect of employment of labor is much higher in the export sector but the greater demand for labor and higher wage should mean increased flow of migration from rural to urban area. In the case when export sector is successful it is possible that migrant labors will find employment at higher wage which can contribute to eradicate of poverty, though the level of eradication will depend on as noted by Winters[14] how the benefit of export is transferred to household and individual units.

Therefore, in the present economic system urbanization will continue, and through this way we see that how present export oriented policy is linked with the migration and urbanization problem in less developed countries. Development of export sector depends on resource extraction from rural agricultural sector, therefore the benefit of increased of employment and increased production in urban sector will be offset by urban unemployment and production loss in rural sector. The argument from Harris-Todaro model which disfavored protectionism should therefore be equally applicable for the present export promotion regime. Nevertheless, this matter should be appropriately studied, as done in Batra and Naqvi [13], to see whether economic welfare actually increases or decreases in the situation described above.

Table-3
Urban Population in developed countries in 1999
(In Million)

Country	Population, total	Urban population	Urban population (% of total)
Japan	126.57	99.56	78.66
Australia	18.97	16.07	84.7
United Kingdom	59.50	53.22	89.44
Germany	82.10	71.67	87.3
France	58.62	44.21	75.42
United States	278.23	214.18	76.98
Canada	30.49	23.48	77.02

Source: World Development Indicators 2001, CD-ROM, World Bank

V. URBANIZATION: GOOD OR BAD?

At this stage we should deal with another question. Is industrialization and urbanization really

something bad? One of the early arguments which worked in favor of import substitution is the concept that, demand for primary commodities is inelastic. Whether this concept is true or not it is now obvious that developing countries can not depend on exports of primary commodities. Primary commodity markets in developed countries are very sophisticated as such the products of developing countries may not have any access to those high priced markets. Even the tariff barriers are reduced the developing countries may have to fulfill many non-tariff restrictions which can be very difficult and costly (Like certification to access EU market). Therefore at the initial stage of development, developing countries must only depend on the manufacturing sector and the advantage of manufacturing exports comes only from low labor cost.

Hence urbanization is coming as an upshot of the economic reality of the developing countries. But is it too bad? Indeed one characteristic of developed countries is that they are highly urbanized which can be seen from the data of Table-3 and Table-4. In Table-3 we have put data of some most developed countries. In all countries of the Table-3, urban population in 1999 was more than three quarter of total population. In United Kingdom 89.44 percent was living in urban area which was the highest in the table. The lowest was 75.42 percent, living in France. A contrasting picture is found in the Table-4 where we have put data of South Asian countries which belongs to one of the less developed regions of the world. In Bhutan and Nepal, urban population in 1999 was respectively 6.88% and 11.58% of total population. The urban population was highest in Pakistan, but only 36.46%. In other countries urban population was just one quarter of total population.

We could not put the data of the whole world in the above tables but usually majority of population in developed countries lives in urban areas⁵. One symptom of the stage of development of a country can be the level of urbanization of that country. But urbanization should not only mean the increase of urban population. Urban population

5. Reader may refer to figure 8.1 of the text book of Todaro and Smith [5]. It shows urbanization is high for the countries with higher income like Luxembourg and low for the countries with low income like Rwanda.

can be increased by transforming more and more rural areas into urban areas. When a rural area is reclassified as an urban area, the population of that area enters into urban population. One reasons of high percentage of urban population in developed countries can be urban area expansion in such a way. However, we should not overlook the fact that big cities offer more prospect of anything so that people will be willing to migrate to big cities from small urban towns.

Table-4
Urban Population in South Asian countries in 1999
(In Million)

Country	Population, total	Urban population	Urban population (% of total)
Afghanistan	25.87	5.56	21.50
Bhutan	0.78	0.05	6.88
India	997.52	280.10	28.08
Maldives	0.27	0.07	26.02
Nepal	23.38	2.71	11.58
Pakistan	134.79	49.14	36.46
Sri Lanka	18.99	4.42	23.30

Source: World Development Indicators 2001, CD-ROM, World Bank

The discussion of this section reveals the difficulty of commenting on urbanization problem. Most developed countries are urbanized thus urbanization can be a bliss, but for the poor countries urbanization does not reveal a good picture. As we saw in the Table-4, urbanization is still at a low level in poor countries. But the urban population of developing countries tends to concentrate in the major centers, which creates the problem of “urban giantism”. The growth of the population of these cities in excess of the absorbing capability resulted in urban surplus labor. The cities can not provide them with adequate job but they still prefer to stay in urban areas by involving into some low paid hazardous informal jobs. The majority of this population lives in slum areas in inhuman condition. Air pollution, water pollution, lack of sanitation is now common problem in urban cities of developing countries. Thus urbanization is not helping to improve the quality of life in developing countries. Yet we should not either undermine the importance of cities as the major economic centers. The economics of developed countries are also built around some major cities, therefore whether urbanization is good or bad, probably depends

more on the nature on urbanization rather than the urbanization itself.

VI. A NOTE ON POLICY FRAMEWORK

The above discussion has placed us into an indecisive situation. It is clear that manufacturing goods is the only source of exports in less developed countries, particularly in the short run. On the other hand the endeavor for export promotion can be proved harmful to domestic economy, especially to rural sectors. But this indecisiveness is not really unbeneficial when seen from the perspective of long term economic plan.

Winters [14] presented a check list for policy makers who are dealing with trade policy reforms. First question of the list is how the effects of change of border price are transmitted to the rest the economy. Both Protection and promotion works by changing border prices, and linked with internal economy through resource mobilization within the sectors of the economy. We may wonder whether the policy makers do contemplate about this matter. Present export based regime is often taken as granted and producers of export goods are given high status quo. This high priority to exporters is leading to the rent seeking behavior and corruption, which was once a characteristic of import substitution regime. It is likely that policy makers can identify some specific sectors as thrust sectors while some more or new prospective sectors remain unnoticed. There can be also some powerful special interest groups who may prevent any policy change once a policy is made.

The mistake of neglecting the domestic market can be big. Not only the agricultural but the manufacturing sector can also suffer. There can be many domestic market based firms which are good enough to run profitably in free economy but once special facilities are given to some other sectors, investors of these sectors suffer and shift resources to other more profitable sectors. Besides, a country's willingness to export does not necessarily imply a country's ability to export. At first, a country must produce the commodity at cheaper price. Along with this the buyers of the importing country should be willing to buy products of that country. Often the idiosyncrasies of buyers of a market can prevent the product from accessing the market. In addition, when export market is too narrow, any economic down fall of that market can hamper the prospect of exports.

With the above discussion we want to emphasis that policy makers should contemplate about many matters before adopting a specific policy. The external sector of an economy is linked with the internal economy through the allocation of resources. Any policy change implies movement of resources from one sector to another sector and consequent production changes. A policy which is good for development of one sector can be bad for another sector or for the whole economy. We should consider both the cost and benefit of a specific policy in designing our economic policies.

In import substitution regime domestic sector suffered and rapid migration and urbanization occurred in developing countries. This is likely to continue in the export promotion regime. If export industries are successful it will eventually bring good to the developing countries. We hope for the best in the future but at present seek more contemplation from the policy makers as export promotion has now become a popular belief rather than a carefully designed economic policy.

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