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Indebtedness prevents industrialisation

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Training outside Industry

This paper has concentrated on training in industry so far, because it is there that the need for additional training is felt most acutely. It appears also that industry (including small-scale industry) will provide most of the new jobs which must be created to give employment to the rising population. This must not lead, however, to neglect the other sectors of the economy especially artisan trades and agriculture. For artisans not many attempts have been made, and the results are not very encouraging. Perhaps the most successful model is the foundation of regional co-operatives which do not restrict themselves to purchasing raw material and selling finished products. Many co-operatives have organised productivity departments which offer technical services such as information about new tools, better raw materials,

simple work methods, and calculation of costs. These services are, where they exist, frequently supported financially from government funds. In the absence of industrial organisations, such as craft chambers, guilds and trade unions, co-operatives might also issue minimum training standards and organise courses for theoretical instruction.

In the long run a certain standardisation by special apprenticeship laws for crafts and agriculture, or by extending the application of existing industrial training acts seems highly desirable. Such laws, where they have already been promulgated, seem to have little effect at present. They must be preceded by much greater efforts to sell the idea and concept of training to the general public and by building up an organisation which ensures a minimum of uniformity in applying training standards and supervision.

DEVELOPMENT FINANCE

Indebtedness Prevents Industrialisation

by Dr Hans-Joachim Hartmann, Hamburg

For their balance of payment to be in equilibrium is equally important for either industrialised or developing countries. It is true that scarcity of foreign currencies may constitute a much worse bottleneck for an underdeveloped nation's overall expansion of its economy than for a highly developed industrialised country. It is certain that, contrary to an opinion widespread in overseas countries, economic development, and especially employment for a rapidly growing population can also be achieved through the expansion and improvement of farm production. However, the most important chances for an economic evolution of the young states in Africa and Asia, as well as for the Latin American republics, seem to be offered by industrialisation. But this requires steady investments in machines and industrial plant, which can only be bought abroad. Independently of internal capital accumulation, which is indispensable for industrialisation, such necessary imports can only be paid for by an existing currency fund or by a steady influx of foreign funds, lest severe imbalances of foreign payments be produced.

There are only a few developing countries—most of them the oil-producing countries—that own a sufficiently well-filled foreign currency cashbox, and therefore no artifice or expedient, of which even the strangest are always forming the subject of hopeful experiments, will be able to assist developing countries in keeping their balance of payments in good order, unless they use two obvious methods, either separately or in combination: they must raise foreign credit, either in the form of bond loans or through export credits granted by their suppliers, or by increasing

their income from exports. These rules form an "iron law", whose immutability now serves as the background of all the international discussions that are conducted with developing countries.

Increasing Debt Service

Developing countries, after the second world war, have chosen, with much fervour, the path of contracting more and more foreign debts, and for many of them, this has now become an impasse. Accumulated foreign debts have reached dimensions that make it more and more questionable in the interests of both creditors and debtors whether further debts should be amassed. In 1955, the total of foreign indebtedness of the developing countries had reached about 10 billion dollars, but by 1965, it had grown to \$ 36.4 billion. In the autumn of 1967, the publication of last year's statistical returns are expected, and they very probably will show a continued rise of the foreign debt burden. Indebtedness of this size produces the obligation to pay such high interest and amortisation as to cause the economists and currency specialists in the developing countries some severe headaches. There is a great number of states which are forced to use a disproportionately high part of their annual export earnings for paying interest on their foreign debts and for meeting their current repayment obligations. These sums are thereby automatically withdrawn from planned development projects. The World Bank has produced a special study on conditions in 36 selected developing countries, in which it is stated that Brazil, for example, had to use, in 1955, 31.7 per cent of its export earnings for servicing its

foreign debts. The corresponding shares were 18.9 per cent in Chile, 24.7 per cent in Israel, 39.5 per cent in Mexico, and 22.6 per cent in the United Arab Republic, in order to name only the most prominent examples. For all the 36 countries under review, the average rate was 13.4 per cent. It is true that there were also countries with an extremely low debt service burden, e.g. Ceylon with 2.4 per cent, and Honduras with 2.2 per cent, and this underlines the truth of the warning against facile generalisations about developing countries as a group. Nevertheless, it does not detract from the risks implied by the situation of a growing number of states.

Longer Credit Terms—A Specious Solution

Particularly during the next four or five years, redemption dates for many loans and credits raised by developing countries will coincide, because during recent years they have accumulated more and more credits granted by suppliers and industrial exporters, and these credits have usually been granted for between five and eight years. In 1960, all the developing countries taken together took up delivery credits of \$ 463 million. In 1965, the corresponding new debts were \$ 741 million. It is true that industrial countries are competing internationally for providing finance for their own export, in a much deplored "credit race", and thus make it very easy for developing countries to accept such credits. It is much simpler for developing countries to borrow from supplying countries than to raise a World Bank loan, as the Bank will always make it a condition that the applicant country submits to a thorough project evaluation and balance of payments analysis. In view of this situation it is easy to understand why developing countries prefer, in the first instance, the way of least resistance to their requests. However, though they may have skipped an initial analysis of their balance of payments, this is carried out in retrospect, in a certain way, when repayment obligations start to accumulate. That is one of the reasons why developing countries grow more and more insistent on later and later redemption dates. Though suppliers in the industrialised countries have their great difficulties—for reasons internal to their own home states—when they try to meet such requests, an "escalation" of due redemption dates for development credits is undeniable. In certain precarious cases, it is well known that the World Bank practises evasion by passing on needy applicants to its own subsidiary, IDA (International Development Agency), whose credits, in most cases, are redeemable after fifty years only, with repayments not starting before the first ten years have passed. But this "escape" into far-away repayment dates and low interest rates provides no final solution to the problem for the developing countries, for even if future annual repayment instalments be small and may start in the distant future, there will always be a day when they add up with other due payments to a big accumulation that weighs down the expenditure side of the balance

of payments. The degree of foreign indebtedness which many states have reached today therefore makes extreme caution and reticence imperative.

Large Deficits in the Trade Balance

If they can no longer be sure of imports on credit, the young nations will at last learn that their development, meaning the chances of importing capital goods for their industrialisation, depends decisively on the quantity of foreign currency earned through their own exports. A review of the balance of trade development tells an interesting story about the relations between exports and imports. It is true that, taking all the developing countries together, the deficit on their combined balance of trade has gone down considerably during recent years in their relationship with the industrialised countries. In 1960, this deficit had still been of the order of \$ 4,000 million, and at the end of 1966, it had dropped to \$ 1,000 million. But if we eliminate from this review the typical oil countries (Iran, Iraq, Kuwait, Libya, Saudi-Arabia, and Venezuela), we find that the current trade deficit of the other developing countries has remained virtually unchanged: from having been \$ 7,000 million in 1960, it only went down to \$ 6,300 million in 1966. In spite of the justice of great reservations against economic prophecy, especially when it is used for arguing in favour of certain political demands, scepticism falters when GATT experts estimate the "trade gap", i.e. the difference between exports that can be expected and imports that would be required, at altogether \$ 15,400 million by 1975, to be composed of \$ 0,800 million for Latin America, \$ 6,600 million for Africa, and \$ 8,000 million for Asia.

Is There a Way Out through Preferential Treatment?

In the foreseeable future, what are the chances for developing countries to increase their export earnings? In attempting such an analysis, the first observation has to be that of the developing countries' total exports, 85 per cent still consist of commodities and raw materials, and only 15 per cent of manufactured goods. The efforts made to increase the share of industrial output are formidable. They found their most visible expression to date during the World Trade Conference at Geneva, when the developing countries for the first time raised their demands to be accorded import preferences by the industrialised countries' tariff policies. As the representatives of developing countries have invested a good deal of political prestige in these demands, and as industrialised countries' governments seem to have found a field here where they believe most conveniently to be able to make concessions to underdeveloped nations' ambitious requirements, it may be taken for granted that the next World Trade Conference will end on preferences of some kind being accorded to those who demand them. But on a sober appraisal of the facts, it can hardly be denied that preferences alone do not yet guarantee sales successes in the internal markets of industrial countries. In the developing countries

themselves, a great number of other conditions would have to be met before success could be certain. It is therefore undeniable that visible commercial results cannot be expected before a lengthy period has passed, or in other words: a decisive shift in the above-mentioned ratio between raw materials and industrial products for the composition of the developing countries' exports in favour of manufactured goods cannot be expected as rapidly as it would be required. This is a process that needs several decades for its completion.

The Chances of Commodity Exports

Whether they like it or not, the main burden of earning foreign currencies for the developing countries, in the foreseeable future, will still have to be borne by their raw material production. The chances of their developing increased exports are very varied, according to the nature of the individual commodity. A most favourable future seems to be indicated for minerals and oil, but even in their case it must never be overlooked that their outlets are heavily dependent on the general business climate in the industrialised countries. Economic growth rates in the most important developed countries which were sensationally high after the second world war, at least in Europe, will now probably become much more sedate for the next few years, according to all the available predictions. Moreover, it must also be acknowledged that this type of commodity is always threatened by substitution competition. Agricultural commodities produced by tropical and subtropical farms, including coffee, cocoa, tea, cotton, etc., unfortunately are often being produced in great and worldwide surpluses, which reduce prices in the long term. If one of the developing countries succeeds in increasing its sales, in a largely saturated market that exists in the industrialised countries, this unfortunately will only hurt a competing producer country. The situation is different in the case of temperate zone commodities, e.g. meat and bread grains. The main obstacle in the path of higher sales by the developing countries is agricultural protectionism in which most industrial countries indulge, which makes them subsidise their own farmers who do not produce at world market prices, and thus these countries prevent the growth in sales of developing countries' products. Apart from this, it seems to be evident that "Engel's Law" has started to operate in the industrialised countries, and the developing countries' own requirements are mounting steeply in view of the population explosion.

Stable Prices by Agreement?

It is not a surprise that developing countries, faced by not very promising chances of selling their commodities, attempt at least to obtain stable prices for their goods, to enable them to plan their development work without hitches and gaps. These efforts are reflected in the continued attempts to conclude international commodity agreements. As long as such agreements try to counter a general production surplus

by cutting off world market supplies, which means manipulating exports without at the same time trying to fit production to prospective demand, unsold inventories which accumulate behind the barriers of export quotas will continue to depress prices. The suggestion to concentrate the entire supply in the hands of a quasi-monopolistic world super-authority is so unrealistic and impracticable that it is not worthwhile to continue the discussion of it.

Finally, a proposal was mooted at the Geneva World Trade Conference for setting up a system affording the developing countries, in cases of unexpected reductions in foreign currency income, which would endanger their development planning, additional foreign currency credits. Even assuming that it would be possible to clothe such a proposal in generally acceptable forms (the World Bank has produced, since the Geneva conference has ended, a plan to such an end), such a new credit instrument would not be able to transcend the limits of debt servicing capacities of the individual debtor countries, which have been discussed in the beginning. Such credits have also to be repaid one future day.

Both Sides Adjust Their Thinking

To sum up, two conclusions emerge from the discussion: Firstly, in view of the high degree of foreign indebtedness that has been reached now, it is highly advisable to approach new credit requirements with extreme caution; secondly, highly optimistic export expectations, unfortunately, are to be subjected to severe questioning. As development prospects depend to a large extent on the possibility of buying capital goods abroad, and these have to be paid for with foreign currency, the future does not look too rosy. But on the other hand, the situation is not as hopeless as some observers believe it to be. It will only be necessary that both sides, the developing countries and the industrialised nations, look at things with clearer eyes and take a more sober view of practicable approaches. Not one of the attempts already made has proved to be a patent solution for the undoubtedly crucial problem in world economics for the next few decades. It is virtually certain that the developing countries cannot reach all their farflung aims and objectives. The earlier they reduce their expectations to realistic dimensions, the easier it will be to arrive at the attainable. And it will be even more necessary than in the past to see that precious foreign currency is applied to the best economical effect. Industrialised countries will have to ponder carefully the question whether they can both stick to the principles of the free market and absorb additional products of the developing countries. The question will have to be studied whether capital aid, as it is practised today, is the best form of assistance for developing countries from the point of view of heavy foreign indebtedness. At any rate, the foreign trade relations of the young African, Asian, and Latin American nations are the fulcrum upon which their economic development must be founded.