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# ARTICLES

## Developing Countries

### Favourable Prospects despite Problems

#### A Balance of Development Aid in 1967 \*

by Dr Edgar Kröller, Paris

The year 1967 was one of the better years for the less-developed countries. They recorded impressive increases in their total output and received a record volume of external assistance.

Foreign aid from Western countries (i.e. the Members of the Development Assistance Committee of the OECD) rose by \$ 800 mn to \$ 11.3 billion in 1967—an all time high. This includes \$ 7 billion of official aid and \$ 4.3 billion of private flows; these figures are net of repayments received by donor countries on earlier lending. The evolution over the past three years is summarised below.

**The Flow of Financial Resources from DAC Countries to Developing Countries, 1965-1967**  
(in \$ billion)

	1965	1966	1967
Total Official, Net	6.2	6.5	7.0
— bilateral	5.8	6.0	6.2
— multilateral	0.4	0.5	0.8
Total Private, Net	4.3	4.0	4.3
— bilateral	4.0	4.0	4.0
— multilateral	0.3	—	0.3
Total Official and Private	10.5	10.5	11.3

#### Aid Composition and Terms

The terms of official aid showed some deterioration in 1967. On average, 55 per cent of total commitments were grants and the loans had an interest rate of 3.7 per cent and a repayment period of 23.4 years (including 5.3 years grace). This is equivalent to a grant element of total commitments of 75 per cent (using a discount rate of 10 per cent). About three-quarters of aid continued to be tied in one way or another

to purchases in donor countries. With respect to private capital, 53 per cent consisted of direct investment, 27 per cent of export credits and the remainder of portfolio investment and other lending.

In relative terms, Western countries provided as external resources in 1967 on average the equivalent of 0.94 per cent of their national income, (or 0.75 per cent of their gross national product), or \$ 18 per head of their population. The four major donors—the United States, France, Germany and the United Kingdom—made up 80 per cent of the total assistance flow. The German aid programme expanded by 50 per cent in 1967, mainly due to a substantial increase in private export credits. France retained its leading role with respect to relative aid efforts, providing 1.64 per cent of its national income as external resources.

#### Aid Receipts

The increase in the total aid volume in 1967 has been accompanied by some changes in the direction and emphasis of external assistance. There has been a notable recognition by donors of the special needs of developing countries for aid to agriculture and education. Hence growing resources—men, money and equipment—have been channelled to these sectors. Furthermore, aid to population control programmes of certain less-developed countries has been stepped up. The precarious indebtedness situation of an increasing number of developing countries has been a continuing concern of assistance-providers, with likely implications for their future terms policy. The issue of self-help performance on the part of developing countries is expected to become of growing importance in the context of new efforts to blend more aid and better performance into a mutually reinforcing growth pattern.

\* The factual information in this article is derived and largely condensed from: The DAC Chairman's Report for 1968, OECD, 1968; National Accounts of Less-Developed Countries, 1950-66, OECD Development Centre, 1968; UN World Economic Survey, 1967; My article on How Much Progress are the Developing Countries Making?, OECD Observer, October 1968.

The outflow of resources from DAC countries is not identical with the inflow of resources in recipient countries because multilateral agencies may disburse more or less than the amount they receive from their members, and developing countries obtain also some funds from non-DAC sources.

### Receipts of Net Financing Flows by Developing Countries, 1965-1967

(in \$ mn)

	1965	1966	1967
Western countries	9,742	10,008	10,250
East Bloc	325	350	350
Multilateral Agencies	899	929	1,000
Total Receipts	10,966	11,287	11,600

The total volume of receipts has grown by 50 per cent since 1960. In 1967 it amounted on average to \$ 7 per head in the less-developed countries. About 97 per cent of this flow came from Western sources (88 per cent bilaterally and 9 per cent multilaterally) and only 3 per cent from Communist countries. The East Bloc share has been rather stagnant in recent years, while the proportion of multilateral funds has been steadily rising.

The facts and figures on the 1967 aid record show that assistance providers have made sustained efforts to assure a growing transfer of resources from the rich to the poor countries. Still, external capital remains a scarce commodity, considering the enormous needs of the less-developed countries for external financial and technical assistance. It is clear that, notwithstanding further increases, available funds will always fall short of requirements. Hence, there will be a continuing process of aid rationing to rival claims by different countries and projects. To relate aid resources to aid needs through the process of aid allocation is therefore a crucial element in the attainment of a maximum effectiveness of external assistance.

### Criteria for Aid Distribution

Questions of the geographical allocation of assistance raise very subtle issues. While there is general agreement that aid distribution should be as efficient as possible in translating external resources into economic growth of the developing countries, this principle is of little operational help to aid administrators. They are confronted with such problems as how much weight should be given to sheer poverty and how much to the potential for growth, or whether massive aid should be concentrated on successive groups of few countries in order to bring them to "take-off" rather than to try to deal with all countries at the same time.

With respect to bilateral assistance, it is clear that the distribution of each programme is a balance between a number of different and often conflicting considerations. These include such factors as special links with certain recipient countries (in many cases, dependent or formerly-dependent territories), traditional trade patterns, political or strategic motivations, as well as humanitarian motives, and the "needs" of less-developed countries. Obviously, no objective criteria exist in weighing these aid motivations against each other. The ultimate choice by donors is essentially a political one, based on value judgements.

### The Allocation Pattern

Although the collective aid efforts of all donors taken together tend to iron out some of the erratic features in the distribution of individual bilateral programmes, there remain wide variations in the aid receipts of individual less-developed countries, which are difficult to explain by development considerations. Furthermore, while large differences in the absolute amounts of aid received by different countries would not be surprising—considering the great variations in their size and population—differences in the per capita aid receipts are more significant in demonstrating inequalities in the allocation process. The same is essentially true for multilateral assistance which, contrary to common belief, is just about as widely dispersed and erratic as bilateral assistance. There is also no evidence that recipient countries for which multilateral co-ordination arrangements have been set up in the form of consortia (India, Pakistan, Turkey, Greece) or consultative groups (Nigeria, Colombia, Sudan, Tunisia, Ecuador, Thailand, Malaysia, Ceylon, Peru, South Korea, Morocco, East Africa) have been particularly favoured in terms of aid receipts. Private flows have also not contributed towards making the allocation pattern of the total flow of resources more even or more equitable; a substantial proportion of private investment goes to the oil industries of a few less-developed countries.

Attempts to "explain" the geographic distribution of aid by finding significant correlations between aid receipts and such factors as the mobilisation of domestic resources (expressed by the savings rate), the efficiency of investment (expressed by the capital-output ratio), "need" (expressed by per capita income) and "absorptive capacity" (expressed by the rate of return on investment) have all been inconclusive. On the other hand, there does exist a significant tendency for a country to receive a minimum amount regardless of its size. In 1964-1966, every recipient country received per year a basic amount of about \$ 21 mn plus \$ 2 per head of population as official aid. This is due to the general tendency

to give aid to nations as a first consideration and only subsequently to take the size of population into account.

### Economic Growth of Developing Countries

Preliminary estimates suggest that in 1967 the developing countries as a group recorded a growth in total output of 5.5 per cent. This is one of the highest annual rates achieved in the current UN Development Decade and nearly twice as high as that attained in the developed countries. Hence, the Development Decade target of a minimum growth rate of 5 per cent per annum has been met, on average, for the first eight years.

This favourable evolution is tempered by the fact that the faster growth in output by the developing countries in 1967 was paralleled by a rapid growth in population, so that the per capita income of the developing countries, as a group grew by only around 3 per cent which, however, was still twice as fast as per capita income growth in developed countries. In absolute terms, on the other hand, the developed countries on average added about seven times as much to the income per head of their population as did the less-developed countries to theirs.

The general economic acceleration in less-developed countries in 1967 was largely due to the increased growth momentum in several large countries which account for a major part of their total population, e.g. India and Pakistan which recorded dramatic increases in total output. Moreover, a number of countries with less striking growth rates made considerable advances in certain sectors or in their export performance. Several countries also laid the basis for future growth through greater political stability, improvements in development planning, in the provision of the basic infrastructure or in the fields of health, education and family planning.

### Growth Rates of Total and per Capita Product of Developing Countries, by Regions, in 1960-1967

Regions	1967	1960-1967 per annum		
	GDP	GDP	Population	Per/Cap. GDP
Europe	3.4	7.1	1.4	5.6
Africa	.	3.1	2.3	0.9
North of Sahara	.	2.2	2.6	-0.3
South of Sahara	.	3.7	2.3	1.4
Latin America	4.4	4.7	2.9	1.7
North and Central	5.9	6.0	3.2	2.7
South	3.8	4.0	2.7	1.3
Asia	7.5	5.2	2.5	2.6
Middle East	6.8	7.2	2.8	4.4
South East	8.5	4.1	2.4	1.6
Far East	6.3	5.9	2.7	3.1
Total Developing Countries	5.5	5.0	2.5	2.4

On the other hand, in a number of countries and sectors, the signs of progress are still absent. Many less-developed countries have failed to

achieve an efficient mobilisation of their domestic resources; some have wasted their resources through foreign and civil wars, others have been affected by unfavourable world market conditions for their principal exports. The indebtedness situation has become increasingly serious for a growing number of less-developed countries.

### Scatter of Growth Rates

The degree of improvement in the growth performance in 1967 over 1966 differed considerably in the different regions. For the less-developed countries in Europe the average growth rate in total output dropped from 8.5 to 3.4 per cent. For Africa the 1966 rate of 1.8 per cent may have doubled. In Latin America, the growth rate of 4.5 per cent was about maintained. The most significant development took place in Asia, where total output grew by 7.5 per cent, as against 4.5 per cent in 1966.

Taking the period 1960-1967 as a whole, the average annual growth rate of the developing countries as a group was about 5 per cent. Africa, South America and South Asia were the regions which remained below the average while the other regions attained or exceeded 6 per cent. Per capita income of all the less-developed countries grew on average by 2.4 per cent per year during this period.

The above data on the global and regional growth performance of the third world hide large differences in the economic development among the individual countries. These differences result from a variety of factors, such as resource endowment, capital accumulation, weather conditions, development in international trade, the country's stage of economic development, popular commitment to development, the government's skill of economic management, and the volume of external aid.

In 1967, there continued to be a substantial degree of scatter in the growth rates of total output which the individual countries achieved, ranging from over 20 per cent per annum to an absolute decline. Particularly good growth was often associated with a successive export drive while low growth was often due to political disturbance, accompanied by capital flight.

During the 1960-1967 period, of the 80 countries for which data are available, 18 (accounting for 15 per cent of the total population) recorded an annual growth rate of their total output of 6 per cent or more, 25 countries (31 per cent of the total population) grew between 4 and 6 per cent, while 37 countries (48 per cent of the total population) registered growth rates of less than 4 per cent on average. Growth rates averaging 7 per cent or more per annum were achieved by Spain, Greece, Yugoslavia, Nicaragua, Panama, Iran,

Israel, Jordan, Syria, Taiwan, Hong Kong, South Korea and Thailand; Trinidad and Tobago, Iraq, El Salvador, Mexico and Peru attained growth rates of 6-7 per cent.

### **India and Pakistan**

The growth performance of India with its 500 million people is particularly noteworthy. After a significant decline in 1965 and a moderate recovery in 1966 total output increased by the record rate of 9.2 per cent in 1967, bringing the average annual growth rate of national income in the sixties close to 4 per cent. This acceleration was the result of a bumper crop, due to both good weather and a major reform of agricultural policy. Agricultural production grew by 18 per cent and total food grain production exceeds 97 million tons. On the other hand, India's export and savings performance left still much to be desired.

In Pakistan, too, the good growth record in 1967 was largely due to major changes in the development strategy with a higher priority given to agriculture and quick-yielding projects. Total output rose by 7 per cent in 1967 bringing the average annual growth rate over the past eight years close to 6 per cent. Total agricultural and especially food production grew substantially in 1967, due to favourable weather conditions as

well as to the use of new seeds, more fertilisers and more freedom for the farmers to respond to market incentives. There is a good prospect that wheat self-sufficiency will be realised by the earlier 1970s. The domestic contribution to the public development programme rose from one-third in 1960 to over one-half in 1967; the marginal savings rate increased to 28 per cent in the current year.

### **Growth Rates and Income Levels**

Development analysts have always been puzzled by the large disparity in the growth rates of different developing countries. Leaving aside more fundamental causes, one explanation may be found in the relationship between growth rates and income levels. It is an observed fact that relatively richer countries record more frequently higher growth rates. They can muster more resources for savings and investment whereas poorer countries usually lack adequate resources to build up an effective economic, social and political infrastructure which is an essential prerequisite for rapid economic advance.

It should be recalled in this context that a large, and widening, income gap exists not only between the developed and the developing countries but also within both of these groups. Per capita incomes vary as much as from about \$ 450 to \$ 4,000 among the developed and from \$ 50 to

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# **ECONOMIC INTEGRATION IN ASIA**

**by Shln Joe Kang**

During the last years, integration policy has become a central topic of economic policy in Asia. Under the impression of European and Latin American moves towards integration, several organisations were founded in the sixties, and plans were discussed, which aim at intensifying Asiatic integration. The present volume gives a comprehensive survey on the hitherto made integration efforts and their results. Moreover, the author develops concrete plans for creating an efficient Asiatic integration area.

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over \$1,200 among the developing countries (even excluding Kuwait with more than \$4,000).

### **Sectoral Growth**

The growth of total output naturally depends upon the growth of its main components, notably agriculture and industry. The most important development in 1967 was the recovery of agricultural production, after two years of stagnation caused by drought in South-East Asia and parts of Africa. The dramatic increase in several Asian countries reflects not only favourable weather conditions but also the result of new seed varieties used along with fertilisers. For all developing countries as a group, agricultural and food production rose by about 2.5 per cent per annum in recent years, i.e. by about the same rate as their population growth, but in 1967, 37 countries achieved a significant increase in their per capita food production.

Industrial production continued to decelerate in 1967, reaching the lowest growth rate in the 1960s—4 per cent. This was partly due to low agricultural output in Asia in 1965 and 1966 which limited agricultural inputs and caused high food prices with a negative effect on consumer demand for industrial products; another reason was the disruption by military conflicts in some of the African and Middle East countries.

### **Trade and Growth**

For most developing countries, exports are the motor of their economic growth and almost three-quarters of their exports are absorbed by the developed, industrialised countries. Hence, industrialised countries can contribute to the economic growth of less-developed countries in two major ways: by trade and external financing. Their possibilities on both fronts, and particularly in the field of trade, depend largely on the pace of their own economic growth. The higher the rate of economic expansion in the industrialised countries, the higher is likely to be their import demand for products from less-developed countries and the larger is the capacity to provide assistance.

The aid and trade performance of developed countries in 1967 has been influenced by their own economic difficulties. The balance-of-payments position of the United States and the United Kingdom continued to deteriorate in 1967, which, in turn, affected the economic activity of some of the European surplus countries. The output of Germany suffered an absolute decline in 1967 which again dampened the import demand from the other EEC countries.

In spite of these difficulties, the developing countries succeeded in achieving a modest increase in their external trade. Total exports merchandise grew from \$41.7 billion to \$43.1 billion, i.e. by

3.4 per cent, compared with 7 per cent in the previous year. Countries with large increases in export earnings include some of the oil producers (Iran, Libya, Saudi Arabia); exporters of manufactures (Hong Kong, Israel, Taiwan, South Korea); as well as exporters of cocoa (Ghana) and rice (Cambodia). On the other hand, reductions in exports affected countries which suffered from military disturbances (Nigeria, Egypt, Syria, South Vietnam); exporters of wool (Argentina, Uruguay), coffee (Brazil) and rubber (Malaysia); as well as countries with grave internal problems, such as Burma and Indonesia.

Merchandise imports by developing countries also rose by 3.4 per cent, i.e. from \$46.9 billion in 1966 to \$48.5 billion in 1967, hence by a rate much below that of the increase in their total output. Their import surplus grew from \$5.2 billion in 1966 to \$5.4 billion in 1967. Excluding oil producers, which continued to have an export surplus of around \$5 billion in 1967, the trade deficit of developing countries exceeded \$10 billion in both years.

### **Reserves and Indebtedness**

The year 1967 witnessed a further rise in the gross exchange reserves of the developing countries (gold, foreign exchange and IMF Reserve Position). Reserves rose by \$760 million to \$13.8 billion. The increase for the less-developed countries as a group affected only a few countries, e.g. Argentina (\$500 million), Taiwan, Thailand, the oil producing countries as well as Israel and Jordan. Most of the other countries experienced a further decline in their liquidity, often to precariously low levels.

There was a further increase in 1967 in the external indebtedness position of the less-developed countries. The World Bank's latest estimate suggests a figure of \$44 billion of outstanding public and publicly-guaranteed debts (of which some 70 per cent has been disbursed). Service payments on this debt rose to about \$4 billion—\$2.8 billion as amortisation and \$1.2 billion as interest. Perhaps more alarming than these figures are in themselves are the rates of increase in recent years—over 10 per cent per annum, i.e. significantly higher than the increase in export earnings of the developing countries.

### **Future Outlook**

The growth prospects of developing countries for the years ahead appear favourable. The breakthrough on the agricultural front in several large countries provides as much reason for optimism as indications of a pronounced upswing of economic activity and import demand in the developed countries. If accompanied by sound policies, both could have a mutually reinforcing impact on sustained advances towards a more promising pattern of the world economy.