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OPIC's capital may be used for extending direct dollar loans. For this purpose, an internal OPIC fund has been formed, known as the Direct Investment Fund<sup>9</sup>.

In 1970, Congress passed an initial \$40 mn appropriation for setting up this Fund, which are to be paid up, in equal halves, during the fiscal years 1970 and 1971. The appropriation was not for "new" funds but for repayments and interest flowing from development loans made previously by AID or by one of its predecessors.

The Fund will be credited with interest payments on direct loans and profits from sales to private investors of convertible debentures and other loan instruments in projects. The fund will be charged with realised losses on uncollected direct loans<sup>10</sup>.

<sup>9</sup> Cf. Foreign Assistance Act of 1969, loc. cit., Section 234 (e).

As already mentioned, direct dollar loans are to be issued only sparingly. The main impact of financial aid granted by OPIC is to be made through investment guarantees. Only if loans from private finance remain unobtainable even when guaranteed by OPIC and the relevant development project is deemed to be specially worthy of support, OPIC will bridge the gap by its own loans.

This OPIC programme, in addition to the ones discussed earlier on, show that US legislators are determined to increase both efficiency and flexibility of development aid mainly by channelling private capital into it. Whether and to what extent this aim will be achieved depends largely on the manner in which this tool of financing will be used by the OPIC corporation's management.

<sup>10</sup> Cf. U.S. Overseas Private Investment Incentive Programs in 1970, Washington, Nov. 1970, p. 31.

## Diversification as a Commodity Policy

by Dr Siegfried Böttcher, Bonn \*

**The disparities between the economies of developing countries and those of industrialised nations are still widening. How can the economic process in the developing countries be accelerated as soon as possible? The following article examines this decisive question.**

In 1969, the GNP of all developing countries with a population of 1.7 bn amounted to over \$300 bn (at current prices) whereas the GNP of the developed countries including socialist countries with a population of about 1.1 bn accounts for about \$2,400 bn. These disparities pose a great problem to the international community. Even though in 1968/69 the rate of growth of the developing countries' real GNP was 2.1 p.c. higher than in the developed market economy countries it is not easy to foresee when this gap between the two groups of countries can be closed. In view of the widely diverging income values of the two groups of countries the question of whether this gap will be closed in the foreseeable future seems to be rather unrealistic. For the time being it should be more important merely to try to improve the economic situation in the developing countries as soon as possible rather than to close this gap.

In this connexion it should be noted that the share of primary commodities, i.e. food, raw

materials, metals and fuels, in world trade has decreased continuously—in 1970 it amounted only to 38 p.c. of world trade—whereas the share of semi-finished and finished products continues to pick up. It is particularly the developing countries that are affected by this development because 85 p.c. of their exports still consist of primary commodities. The exports of commodities from developing countries now grow much more slowly than those of manufactured goods. Between 1960 and 1968 the developing countries' exports of food grew by 3.3 p.c., the exports of raw materials by a mere 1.4 p.c., those of non-ferrous metals by 9.7 p.c. and those of fuels by 8.5 p.c., coming up for all primary commodities to 4.7 p.c. on average (if fuels are excluded to 2.4 p.c. only). However, during the same period the growth rate of exports of manufactured goods from the developing countries being 11.6 p.c. on average was two-and-a-half times higher than that of all primary commodities (or about five times higher if fuels are excluded). In quoting these percentage figures one has to be aware of the fact of how misleading it can be to compare such figures;

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e.g. starting from a rather low absolute level it is rather easy to achieve a high growth rate. In this case, however, the high increment in the production of manufactures in the developing countries in recent years can be taken as a hopeful token of their further development.

### Unsufficient Export Earnings

These widely varying export growth rates in single economic branches of the developing countries are in the nature of economic development and can hardly be changed through economic measures. On the one hand, the demand for primary commodities is, generally speaking, rather limited in comparison with that for manufactured goods. On the other hand, the production of primary commodities has the tendency to surpass the demand resulting in heavy price fluctuations occurring time and again. These economic facts are to be considered the basic problem and disadvantage of the commodity sector in comparison with the manufactures' sector.

Even though in recent years the purchasing power (income terms of trade) of developing countries developed rather favourably—1960: 87 and 1969: 149—<sup>1</sup>it has to be stressed that in view of the great development tasks to be performed the export earnings of the developing countries are still far from sufficient. But this stems from the still limited economic and exporting power of these countries.

From this follows that a long-term solution to the international commodity problems, and this is tantamount to saying: development problems, must be found outside the commodity sector. This long-term solution can be sought only in an accelerated and a successful diversification of the economies in the developing countries. Before commenting on this, however, the short- and medium-term problems in the commodity sector cannot be overlooked and an improvement of the situation in the developing countries has to be aimed at.

### International Commodity Policy as such

In the short- and medium-run, efforts should be made to stabilise the fluctuating commodity markets as far as possible, thus improving the income situation of the developing countries. Experience, however, has shown how difficult it is to achieve this goal. In trying so two basic elements of an international commodity policy emerge: removing the barriers to trade and exercising other influences on the market.

Generally, all barriers to trade counteracting a substantial increase in the developing countries' commodity exports should be removed to the greatest extent possible. In this direction the Generalized Scheme of Preferences (GSP) is a promising vehicle in order to enhance the export chances of the developing countries mainly in the field of processed goods.

Furthermore, exercising other influences on the commodity markets is of crucial importance. In the main, the international commodity study groups who can make recommendations to producer and consumer countries are best qualified for engaging in such an activity. They are doing it by creating a better transparency of respective markets through their statistical surveys and in so far they have influenced the production and investment decision of the producers to a considerable extent. Besides that, the study groups are rendering good services to the producer countries in the field of commodity standardisation—especially important when natural products must compete with synthetic substitutes—and of improvement of productivity as well as of marketing. Finally, they contribute towards a greater stabilisation of some commodity markets via informal arrangements (indicative prices and informal export quotas such as in the case of jute and hard fibres). Since commodity agreements take a long time to be negotiated and have rather limited effects—as the existing few examples have shown—they should be considered only as a measure of last resort in cases of fundamental imbalances of the market.

### Examples for a Non-appropriate Policy

All measures taken in the commodity field should be as flexible as possible in order to be able to respond to economic changes and thereby make the necessary adaptation. It goes without saying that in the individual commodity markets the focal points requiring action vary greatly. Therefore, the measures to be applied depend on the conditions prevailing in the respective market (commodity-by-commodity approach). Facing the decreasing share of commodity exports in world trade it should not be the task of an international commodity policy to prolong somewhat artificially the dependence of developing countries on the exportation of a few commodities. On the contrary, one should aim at assisting the developing countries in bridging the time necessary to diversify their economies and actually integrate them into the world economy. This is the overriding guideline.

In this context two examples of a non-appropriate commodity policy should be mentioned which—if

<sup>1</sup> See S. Böttcher, Prices, Earnings and Terms of Trade, in: INTERECONOMICS, April 1971, pp. 111-113.

realised—would rather hinder the further development of the developing countries than accelerate it in the longer run. Thus, proposals to organise markets—for example for tropical products—would impose even greater problems on these markets as exist already. The increase in prices arising from such an organisation would stimulate production, hence enlarge the surpluses already threatening most of these markets, and aggravate the imbalances together with unforeseeable financial implications. Such a pricing policy would mean a transfer of the unsolved problems from the agricultural field of the developed countries to the developing areas — but on a much broader and more dangerous scale. And what is even more important: such price increases would weaken the necessity for restructuring these markets and taking up new lines of productions thus adversely affecting the development of these countries in the longer run.

Another example of a short-sighted commodity policy is the proposal of the FAO-Secretariat as put forward some time ago asking for a planned surplus production of agricultural foodstuff in the developed countries. It was proposed to transfer this surplus production to the developing countries in order to fill the huge food gap projected at a scale of \$8.5 bn per year for the mid-seventies in the developing countries. Such a voluminous food aid as suggested by the FAO would have been a great disincentive for the developing countries to produce more food for their own needs, let alone the high production costs involved for the developed countries. This policy approach was not in the right direction, the emphasis ought to have been placed a priori on production increase in the developing countries themselves.

Fortunately, due to the so-called "green revolution" the food production in the developing countries has meanwhile increased to such a considerable extent, mainly in the formerly highly deficient South East Asian area, as to have the developing countries gaining more and more self-sufficiency, at least for basic foodstuffs.

### **The Importance of Diversification**

The still existing separation of the two groups together with those great income disparities, i.e. developing countries as suppliers of commodities and developed countries as exporters of manufactured goods, cannot be eliminated until the diversification in the developing countries has been successful and a deeper integration of developing countries into world economy has been made possible. Fortunately, between 1960–70, the output of manufactures by developing countries

has, at 7.3 p.c., already increased more sharply than in the industrialised countries which recorded 5.6 p.c. in the same period.

Interventions in the commodity sector as such, e.g. commodity agreements, may at best be something like a palliative, but do bring about little change in the income gap between developing and developed countries. This is the decisive point. Further great efforts in the field of diversification are necessary to enhance the development of developing countries vis-à-vis the industrialised countries. Therefore diversification is to be considered the long-term solution to the international commodity problems.

Diversification can be horizontal (production of other primary commodities), vertical (processing of commodities) and punctual/lateral (development of other economic branches). No doubt, the possibilities for horizontal diversification are rather limited as the increase of demand will be generally slow. In this connexion some chances exist in the field of import substitution in developing countries, e.g. increased food production for home consumption instead of imports. It is obvious, however, that vertical and punctual/lateral diversification is much more promising in the longer run.

### **Promotion of Diversification**

In order to promote this diversification process greater efforts than hitherto are needed. The development efforts made so far in the developing countries have often been rather uncoordinated, i.e. they were made without taking much account of the production conditions of other developing countries in this sector or of world market conditions on the whole, so that one cannot speak of an optimum utilisation of funds and of an optimum diversification. In order to improve this in future, better surveys should be obtained on the possibilities of diversification through market and/or country related studies to be made by the respective international agencies. Such studies are undertaken by the World Bank. UNCTAD in cooperation with other international organisations will embark on such activities, too.

All this information available should be pooled and disseminated to everybody concerned with commodity questions. Furthermore, efforts should be made to enumerate certain criteria for the purpose of coordinating diversification measures. Such investment criteria could be included in internationally agreed guidelines for diversification thus setting certain priorities to be followed as far as possible multilaterally and bilaterally when planning diversification projects and extending assistance for that purpose.