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Aid Policy of the Industrial Countries

by Professor A. Kruse-Rodenacker, Berlin *

Time and again, and in the more recent past during the UNCTAD III-Conference, the less developed countries (LDCs) have found fault with the industrial countries' declining contribution towards the economic development of the Third World. The question is now whether the future will bring a change of this tendency which has shown itself for a number of years.

Since the end of the Cold War in the early sixties the industrial countries' contribution towards the development of the Third World has been on the usual pattern. Already then the USA as well as the Soviet Union halted the escalation of their aid expenditure. They have since held the net transfer of financial means on about the same level. On the other hand both those super-powers have encouraged their bloc members towards greater efforts. The position of the western bloc of donors has become much more engaged financially. In both camps there has been a sort of consolidation of aid policy.

Increasing Private Performances

This does not only apply to the more or less constant net outflow of financial means but simultaneously also to the regional distribution of the means which has in recent years undergone no substantial changes. For a considerable time numerous receiving countries have become accustomed to the peaceful coexistence of capitalist and socialist donors. The comparatively favourable credit conditions of the socialist donor countries are no longer particularly attractive for many LDCs because of the creditors' hard negotiating position and unfavourable settlement prices

for commodity exports. Thereagainst the western industrial countries have gradually softened their originally hard conditions. In this way, the aid policy of both donor blocs has become somewhat more uniform also in the sphere of the conditions.

Last year the western donor countries again reached the sum of US\$ 15.5 bn for the net transfer to the Third World. Apart from the most important donor countries such as the USA, France and Great Britain, the Federal Republic of Germany and Japan have gained remarkable positions. But the long-prevailing tendency also of the smaller donor countries to step-up their share overproportionally has continued. The composition of public performances and those of the private sector has since the end of the Cold War been on usual patterns: the share of public performances in the total net transfer has been declining steadily whereas that of private performances has increased. Particularly direct investments, export credits and investments in equities have contributed to the relative increase of the latter. Similar to the trend of public aid there has also been a distinct concentration of transfers to a few countries in the case of private performances. As far as public performances are concerned the concentration has been on South-East Asia; in the private sector it is increasingly on Latin-America.

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The effects of total transfers on the balance of payments of LDCs, which still cause complex and unsolved problems, cannot be clearly assessed. But this is certain: the net performances affect, on average, only about 5 p.c. of the donor countries' export of goods; in the USA, France and Japan the percentage is higher. Furthermore, not all sums flowing to the LDCs are directly utilised by them for additional import of goods and, besides, the share of LDCs in the world's total export turnover is receding.

On the other hand, the share of the industrial countries' net aid in the import of goods by LDCs has for many years amounted to about 14 p.c. It must, however, be born in mind that there is by no means necessarily a direct causative inter-connexion between these two factors. The connexion between net capital transfers to the Third World and the development of the industrial nations' goods exports is far too complex as to assume simple causative interrelations. After all, the deciding circumstances are always likely to be the respective economic policy of the receiving country and the development of prices and demand on world markets. Recent statistical data moreover show that there is no clear connexion between trade balance and aid-import relation. The statistical data reveal, for instance, that countries with the highest share of public performances in their import of goods invariably have substantial trade deficits and that, thereagainst, most countries with a very small share of public performances in their import of goods show a trade surplus.

Widening Prosperity Differentials

Very often the still widening prosperity differentials between industrial countries and LDCs are the underlying argument in demands for greater development aid. The fact is that the real growth-rate in industrial countries was 3.8 p.c. and thus clearly higher than the 2.5 p.c. annually in the case of the Third World. The difference in per-head income between the USA and the LDCs alone widened during the period 1960 to 1970 by approximate US\$ 1,000. Besides, the prosperity differentials even within the Third World itself show a widening. While some LDCs as for example Brazil have achieved real growth-rates of 7 to 9 p.c., in others as for instance the East African countries the rates are only 1 to 3 p.c. Even within one single LDC it can be seen that there are only minor degrees of harmonisation of incomes between different social groups.

The share of the Third World in the volume of international trade, too, is still on the decline. At the beginning of the first decade, 1950-1960,

its share in world exports was 24 p.c., but today it is only 19 p.c. Over and above this, the hope that trade among LDCs themselves would grow has not been fulfilled. Also in this aspect there are therefore deplorable setbacks when comparing this trend with the development of world trade as a whole. The many attempts towards a gradual integration of the development markets have in their practical realisation met with distinct limits. This has been so not only in the Central American market and the Latin-American or the Caribbean Free Trade Areas but similarly also in the cases of the Central-African Customs and Economic Union, the West-African Economic Community, the East-African Community, the Union of South-East Asian countries as well as other Associations.

Demands of the Third World

In the course of the years and also during UNCTAD III at Santiago the LDCs have brought forward various reasons for these unfavourable tendencies. One of them was the chain of international currency crises which have led to provable substantial losses in the LDCs' international liquidity. It is on this fact that the Third World bases its demands for a stronger voice especially in the International Monetary Fund's Club of Ten.

As a further reason the periodically reoccurring export losses as a result of unforeseeable market changes are frequently given. To avoid this in future, the LDCs suggest the introduction of supplementary financing. But again at Santiago no headway was made on this score. A further cause was seen in the long-term worsening of the terms of trade for the LDCs. Here, the LDCs demand a compensatory financing, but no agreement was so far possible on its proportioning and allocation. As far as commodity agreements are concerned, those existing for coffee, wheat, sugar, tin and olive oil have only proved themselves to a limited extent useful towards stabilising the markets.

An important part of the LDCs' criticism of the industrial countries' trade policy is directed against the attitude of the EEC. It is true, the EEC's marked concessions towards the export interests of the LDCs are appreciated but nonetheless the LDCs maintain that the EEC's tariff-quotas-system would facilitate a far greater growth of the rich countries' export to the EEC than that of the whole of the Third World.

Criticism of the Socialist Countries

The LDCs now criticise increasingly also the trade policy of the socialist countries. They still trade predominantly within their own orbit, in fact to 63 p.c. of their entire trade volume. Second

place has the trade with the western industrial countries (22 p.c.), and only then follow the LDCs with 15 p.c. The regional distribution of the flows of trade has for years also shown the same picture: the Soviet Union, the German Democratic Republic and Czechoslovakia have remained the LDCs' main customers whereas the largest part of the socialist countries' exports to the Third World goes to Asiatic countries. Although the trade turnover between the Third World and the socialist countries is only small anyway, the latter export more to the LDCs than, in turn, they are prepared to import from them. For the first time, it seems, at Santiago the LDCs have therefore emphatically rejected the socialist countries' criticism of the Western trade obstacles and preferential systems by pointing at the trade structure of the socialist countries remaining inflexible and rigid for years.

The claims aim at an intensification of the industrial countries' development aid. The criticism is directed not only at the socialist countries because of their meagre donor performances, but one expects also from the Western world an uplift after years of a stagnating net transfer. After all the demands voiced in recent years for an early achievement of net transfers equal to one p.c. of the GNP—demands which have been fully endorsed by the Western countries themselves—, the fact remains that one is still far from this target. While during the first half of the last decade the share amounted to 0.84 p.c., it dropped to only 0.75 p.c. in the second half. As to the public performances, the claims—again uncontested by the Western countries—are for 0.7 p.c. of the GNP, but what has in effect been achieved amounts to no more than 0.34 p.c.

Growing Indebtedness

Without doubt, the political motivation of the extending of development aid continues to lose in weightiness. Also, the industrial countries face growing problems of their own stemming from their transition into the post-economic society. They are increasingly preoccupied with their monetary problems and the structural reorientation of their foreign trade in the wake of the enlarged EEC as well as with the growing internal demands on social and economic infrastructure at increasing rates of inflation.

It is however also necessary to draw the increasing indebtedness of the LDCs properly into the picture when surveying the present tendencies. The indebtedness of some 80 receiving countries has by now increased to more than US\$ 60 bn. The average rate of increase was about 14 p.c.

annually. For this reason alone the net transfer of the industrial countries to LDCs has remained constant in spite of greater gross performances. On the other hand, the LDCs' cost of the debt service has during the past decade increased from 39 p.c. to 49 p.c. of the inflow of new aid means. These basic tendencies come perhaps even more clearly to the fore when mentioning that the payments for serving the debt have in the past decade grown much faster than revenue from export, namely by 9 p.c. as against 6.6 p.c. annually in the case of export proceeds. Even when taking the distinct improvements of conditions in favour of the receiving countries into account, there have been no noticeable corrections of this trend. Among the countries with particularly high indebtedness (over 30 p.c. of export proceeds) only very few have meanwhile been able to achieve an economic growth on the strength of their own efforts. In other words, on the one hand the bulk of the receiving countries face a growing debt burden and are, on the other, still dependent on the current net transfer of financial means. It is well known that the reasons for these detrimental development tendencies are still to be found in numerous misjudgments in the Third World's development planning, the trade protectionism of the industrial nations, the population explosion in the Third World, the neglecting of the agricultural sector, the LDCs' lacking in export efforts, political improvisations, and so on.

Improvement of Conditions

To sum up, it can be said that the industrial countries' future contribution towards the development of the Third World will not dramatically change the tendencies to be observed for many years. All the same, though, quantitatively this contribution is not to be over-rated: brought into comparison with the LDCs' own revenue this contribution amounts to hardly more than 15 p.c. At the same time various calculations show that even this level of the transfer is quite clearly overshadowed by losses incurred by the LDCs on the world markets.

In spite of all this, the qualitative contribution of the industrial nations should not be esteemed to be meagre. The Third World's orientation on economic growth and the generally initiated changes of social structures are doubtless very largely due to this contribution. In fact, some countries no longer fall into the category of LDCs (for instance Thailand, Taiwan, Mexico, and some others). The western industrial countries are moreover inclined to improve further their transfer conditions. In this connection the undertaking of

the Federal Republic of Germany to gear future public credit aid generally to an interest rate of 2 p.c. over a period of 30 years, including 10 free years, was much noticed at Santiago; the share of (non-repayable) grants in public aid is to be stepped up further. The least advanced developing countries (25 of them) will get credits at 0.75 p.c. interest which run over 50 years including 10 interest-free years. At present Germany extends three-quarters of its public capital aid without any ties as regards supplies and is prepared to increase this proportion further.

Future Developments

All the same, though, one faces a sizeable bundle of demands from the LDCs for the improvement of this contribution. Among them is the realisation of the target of 1 p.c. of the GNP for total net aid as well as the 0.7 p.c. for public aid and credits at soft conditions. Also included are demands for the gradual and internationally coordinated abolition of all ties to public aid; a strong uplifting

of aid extended by multinational institutions; the introduction of a supplementary and a compensatory financing; the practising of additional and improved general preferential systems by all industrial countries; the link between Special Drawing Rights and development financing; more consideration of the Third World in the enlarged EEC; orientation of the industrial countries' agricultural and industrial policy towards a stronger integration of the Third World's exports; introduction of favourable freight rates for the shipment of LDCs' exports; mutual agreements about the steering and handling of private direct investments and the control of international concerns as well as stronger participation of the Third World in the solution of monetary problems. While demands of this nature will only partly become the subject of serious negotiations, particularly in respect of their realisation, there can yet be no doubt that especially the qualitative contribution of the industrial nations for the development of the Third World can be improved upon also in future.

New Approach to Development Aid

by Professor Tibor Mende, Geneva *

The prevailing disenchantment concerning the less developed countries (LDCs) has multiple roots. Two, however, are of particular importance. The first, symbolised by the report of the Club of Rome, is connected with the implications of the world's finite resources. The second, underlined by Mr McNamara, is in the obstinately and grossly unequal distribution of the benefits of whatever progress is being made.

To counter the discouraging picture produced by the projection of prevailing trends into the future, it is possible to construct a far more optimistic development scenario. Innovations in the petro-chemical field might multiply the Green Revolution's blessings without excessive ecological harm. New birth-control techniques may bring within sight stabilized population levels. Synthetic products and unsuspected reserves may replenish the world's stock of basic resources and the harnessing of the sun's heat or nuclear fusion might banish any foreseeable energy constraint. Computer-assisted audio-visual learning programmes might accelerate the dissemination of

knowledge, managerial and other skills. May be the fruits of such scientific achievements will be put at the disposal of the poor countries without asking for any onerous or political price. Meanwhile, in their continued progress towards ever more sophisticated technologies, the industrial powers may come to consider wasteful to freeze part of their work-force in the production of simple goods and transfer on a massive scale their labour-intensive industries to the low-income countries. Finally, while the multi-national corporations spread the material benefits of transnational production techniques, thanks to appropriate priorities and skillful planning, the new prosperity of the LDCs could be turned into self-sustaining growth and begin to modify the post-colonial division of labour.

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