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External Hazards for LDCs

The perilous events in the world economy have led to a disastrous situation in most of the developing countries. Their difficulties look even worse because in the majority of those countries which do not export oil the external economic strains had eased quite noticeably in the last few years. Big price advances for nearly all raw materials had enabled them to score export gains of 22 p.c. in 1972 and as much as 42 p.c. in 1973. For the first time since the fifties these developing countries were in a position to recoup a small portion of the previous decline of their share in the export turnover of the western world.

Until the middle of last year the developing countries had even managed to make substantial additions to their currency reserves, for their imports could not rise in step with the exceptionally large increase of exports. At the beginning of 1974 the currency reserves of the central banks of non-oil countries of the Third World therefore stood at \$ 44.7 bn. A few of them held enough dollars to cover their import needs for a full year. The question was asked at that time whether these countries could not put their foreign currency holdings to better use. Their situation has changed drastically since.

The cyclical downturn in the industrialised countries in 1973 led to a considerable slowing-down of the growth of exports from non-oil countries. Moreover in May 1974 the boom of commodity prices broke, except for sugar. Prices started coming down while the expenditure on imports at the same time rose by leaps and bounds. The worldwide price increases in the preceding years had made import goods more expensive, and the effects of the oil crisis aggravated the inflation. It is now becoming increasingly clear that the currency reserves of the developing countries which do not export oil were only sufficient to cope with the initial balance of payments shortfalls, which resulted from the changed situation in the world economy. In 1974 the foreign trade deficit of this group of countries has risen to at least \$ 45–50 bn.

A solution is not yet in sight for this dilemma, which affects the external trade and payments of

the non-oil developing countries. Deficits of this magnitude cannot be made good by capital inflows from western countries even if the amount of public funds provided until now is increased, for the total net public aid by OECD Development Assistance Committee countries amounted to no more than \$ 9.4 bn in 1973.

When figures of this size are involved, it is clear that the external payments problem of the developing countries cannot be solved by the industrialised states alone. The oil-exporting countries must make a substantial contribution, and they are well able to do so. In 1974 the ten leading oil countries may have achieved foreign trade surpluses of over \$ 70 bn. Particularly Libya, Saudi Arabia, Kuwait and several other Persian Gulf sheikhdoms have accumulated oil revenues, which are far in excess of their import capacities and – even on the basis of ambitious plans – development opportunities. These countries are either too small or too sparsely populated to spend all their revenues on themselves.

Part of this wealth at least ought to be used to support the poorer developing countries, which are now confronted by additional difficulties – either through the World Bank or through the United Nations, regional organisations or by way of direct investment. First steps have already been taken but they are – unfortunately – confined mainly to projects in Egypt and the Sudan for which the technical know-how is obtained from the industrialised countries. This is unfortunate because these countries are Islamic neighbours of the oil states. Other poor developing countries are in as great a need of such aid.

The industrialised countries of the West on their side should not rely on the excuse that it is now the turn of the rich oil countries to come to the aid of the poor developing countries. They should rather try to find ways and means for extending their development aid and especially their technical assistance, notwithstanding the balance of payments difficulties which are facing some of them.

Klaus Kwasniewski