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THE THIRD WORLD TODAY

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PROFILE OF THE THIRD WORLD

THREE QUARTERS OF THE WORLD'S POPULATION LIVES IN COUNTRIES WHOSE LEVEL OF MATERIAL AND SOCIAL WELL-BEING FALLS FAR SHORT OF THAT ENJOYED BY THE INDUSTRIALISED NATIONS. THESE COUNTRIES ARE VARIOUSLY DESCRIBED AS THE "DEVELOPING" OR "LESS DEVELOPED" GROUP OF NATIONS. THEY ARE SAID TO BELONG TO THE "THIRD WORLD" OR THE "SOUTH" OF THE PLANET (AS DISTINCT FROM THE INDUSTRIALISED "NORTH"). TOGETHER THEY PRESENT A VAST MOSAIC PATTERN OF VARYING DEGREES OF UNDERDEVELOPMENT. AS THEY ADVANCE AT VERY DIFFERENT SPEEDS DOWN THE DEVELOPMENT ROAD, THE ECONOMIC SITUATIONS OF INDIVIDUAL THIRD WORLD COUNTRIES ARE BECOMING INCREASINGLY DISPARATE.

IN PARTICULAR, THE GAP IS WIDENING FAST BETWEEN THE DEVELOPING COUNTRIES WHICH HAVE PASSED THE POINT OF ECONOMIC TAKE-OFF AND CAN NOW PRODUCE CERTAIN MANUFACTURED GOODS MORE COMPETITIVELY THAN THE ADVANCED NATIONS AND THE POOREST MEMBERS OF THE THIRD WORLD, WHERE CLOSE ON ONE BILLION PEOPLE ARE STILL UNDERFED. SOME INDUSTRIALISED NATIONS FEEL THE NEWLY INDUSTRIALISING COUNTRIES (NIC'S) OR CERTAIN ARAB MEMBERS OF THE ORGANISATION OF PETROLEUM EXPORTING COUNTRIES (OPEC) SHOULD NO LONGER BE CONSIDERED AS PART OF THE DEVELOPING WORLD. THE THIRD WORLD COUNTRIES THINK OTHERWISE. DESPITE THEIR DISPARITIES, THEY CONSIDER THEMSELVES AS SHARING THE SAME UNEQUAL RELATIONSHIP WITH THE ADVANCED WORLD OF THE NORTH OF THE PLANET. THEY SEEK A MORE BALANCED WORLD ECONOMIC SYSTEM. FOR THEM, DIFFERENCES IN THEIR INDIVIDUAL SITUATIONS ARE ONLY NORMAL IN A GROUPING THAT COVERS NEARLY 120 COUNTRIES SUBJECT TO VARYING ECONOMIC, GEOGRAPHIC, CLIMATIC, SOCIAL AND CULTURAL FACTORS.

THIS CHAPTER ENDEVOURS TO DRAW THE PROFILE OF THE THIRD WORLD AND ITS COMPONENT PARTS : THEIR SIMILARITIES AND THEIR DIFFERENCES. IT SHOWS THE NEED TO DEVISE WITHIN THE OVERALL BI-POLAR NORTH-SOUTH FRAMEWORK TO WHICH THE THIRD WORLD REMAINS ATTACHED DEVELOPMENT STRATEGIES MORE ATTUNED TO DIFFERENT REGIONS AND DIFFERENT COUNTRIES.

The North-South Gap...

Despite their increasing diversity, the nations of the world can still be put into two broad categories : developed and developing. The contrast between the industrialised countries, generally located in the temperate zones of the Northern hemisphere, and the poorer countries situated in the sub-tropical and tropical regions to the south remains the main justification for considering the challenge of development in a North-South context.

The North, including the eastern countries, accounts for 25% of the world's population but 80% of its income. The industrialised countries control the world trading and payments systems. They are also largely responsible for the production system which still condemns many Third World nations to the role of exporters of untreated primary products. These structures were put in place when most developing countries were still under colonial domination. Although they have subsequently gained their political independence, they are still (albeit to very different degrees) in a state of economic bondage.

A look at basic development or economic indicators confirms the persistence of a North-South gap. Taken as a whole, the average per capita income of the Third World is still about 800 Dollars a year, only 8% of the average level in the industrialised countries. Adult literacy and life expectancy levels are considerably lower than in the advanced nations (see Table I). Fewer than 50% of the population of developing countries (only an estimated 29% in the poorest among them) have access to safe drinking water compared with the virtual totality of the population of the North.

TABLE I

SELECTED BASIC INDICATORS

	GNP per capita: Dollars 1980	GNP per capita: Average annual growth (percent) 1960–80	Export dependence on primary products (%)	Population per Doctor	Adult literacy (percent) 1977	Life expectancy at birth (years) 1980
Low-income economies	260	1.2	56	5 810	50	57
China and India	270	..	47	2 130	54	59
Other low-income	230	1.0	71	19 460	34	48
Middle-income economies	1,400	3.8	26	5 840	65	60
Oil exporters	1,160	3.3	19	8 020	57	56
Oil importers	1,580	4.1	30	4 010	73	63
High-income oil exporters	12,630	6.3	99	1 380	25	57
Non-market industrial economies	4,640	4.2	37	340	100	71
Industrial market economies	10,320	3.6	25	620	99	74
Ireland	4,880	3.1	43	830	98	73
Italy	6,480	3.6	17	490	98	73
United Kingdom	7,920	2.2	23	750	99	73
Netherlands	11,470	3.2	46	580	99	75
France	11,730	3.9	25	610	99	74
Belgium	12,180	3.8	23	440	99	73
Denmark	12,950	3.3	45	510	99	75
Germany Fed. Rep.	13,590	3.3	13	490	99	73

Source : World Bank, World Development Report 1982.

... and the South-South Gap

Yet the gulf between North and South should not be overdrawn; another gap, this time a South-South one, is widening. This is essentially due to two phenomena - the concentration of vast financial resources in a small number of Arab oil exporting nations and the emergence of another small group of countries, which are on the threshold of industrialisation, the Newly Industrialising Countries (NIC's). The experience of the Arab oil exporters, whose wealth per capita now exceeds that of the majority of industrialised states, is a unique one.

They represent only a fraction of the Third World population : Libya, Saudi Arabia, Kuwait and the United Arab Emirates have 14 million inhabitants between them. Moreover, apart from their high per capita income the other basic indicators of these countries (life expectancy, literacy levels,excessive dependence on raw materials) confirm their place among the less advanced nations.

Much more relevant in development terms is the widening gap between more successful Third World nations, symbolised by the NIC's, and a core group of the poorest countries seemingly held fast in the permanent grip of poverty and backwardness. The NIC's, the early starters in the development process, already play a significant role in the worldwide production of and trade in manufactured goods. They are being followed - at a considerable distance - by some other so-called "middle income" members of the Third World. As of 1981, according to UNCTAD estimates, no fewer than 30 developing countries posessed manufacturing sectors whose annual exports exceeded $100 million. Table II shows how, even in a relatively short space of time, the gap between the poorest nations and the NIC's is increasing, while the latter, in spite of a higher population growth, still keep pace in terms of GNP per head with industrialised nations such as the members of the European Community.

TABLE II

GNP per capita 1977-1980
(selected countries)
LLDC's, NIC's & EEC

	In US Dollars 1977	In US Dollars 1980	% rise
Bhutan	80	80	0%
Chad	130	120	- 8%
Bangladesh	110	130	18%
Ethiopia	110	140	27%
Mali	110	190	73%
Burundi	130	200	54%
Rwanda	130	200	54%
Upper Volta	130	210	62%
AVERAGE	116	159	35%
S. Korea	820	1.520	85%
Brazil	1.360	2.050	51%
Hongkong	2.590	4.240	64%
Singapore	2.880	4.430	54%
AVERAGE	1.912	3.060	64%
Greece	2.810	4.380	56%
Ireland	2.880	4.880	69%
Italy	3.440	6.480	88%
United Kingdom	4.420	7.920	79%
Netherlands	7.150	11.470	60%
France	7.290	11.730	61%
Belgium/Lux.	7.590	12.180	60%
Denmark	8.040	12.950	61%
Germany	8.160	13.590	67%
EEC AVERAGE	5.753	9.507	67%

Source : World Bank, World Development Report (various issues).

Although the majority of developing countries fall between the extremes of the least developed nations on the one hand and the NIC's on the other, the fact that a certain polarisation is occuring is of capital importance for North-South relations and for world development strategies for the rest of this century. The issues involved are dealt with in detail in the subsequent sections of this document. The fundamental conclusion to be drawn from this trend is that many developing countries are not well enough endowed with resources - natural, human or financial - to benefit from international development strategies as currently applied. For them, the idea that the transfer of capital, skills and technology from the rich countries will lead to "self-sustained" growth is already in the process of being modified.

Political solidarity of Third World

In spite of the increase of centrifugal forces, the countries of the South have maintained a high degree of political cohesion and a common perception of the need to bring world economic structures into better balance. They have a strong feeling of common identity towards the advanced industrialised nations of either East or West. In this respect the term "Third World" is a misnomer. It was coined (by the West) at a time when East-West rivalries dominated worldwide geopolitical relations. The developing countries, the majority of whom were just emerging from colonial domination in the late 1950's and early 1960's, belonged to neither camp. Their leaders recognised this themselves by refusing to be drawn into the rich world's ideological confrontation and creating the non-aligned movement of which the overwhelming majority of developing countries still form part.

Attempts to launch a global North-South dialogue to prepare for the creation of a New International Economic Order (NIEO) sought by the Third World has not been frustrated by conflicts of interest among the developing nations themselves. The principal problem has been posed by hesitations by the western industrialised nations as to how far they should go towards meeting Third World demands. A secondary problem has been the absence of the Soviet Union and its eastern European allies from the dialogue. The North-South dialogue is in fact a West-South one. The communist states have refused to participate ostensibly because they reject any post-colonial responsibility for the predicament of the developing countries. To this must be added the fact that the Soviet Union and its partners are less dependent on the energy and other raw material resources of the Third World than the West, particularly the countries of western Europe and Japan.

Third World solidarity, although subject to its own internal strains and tensions, has been maintained through the successive North-South negotiations in recent years in virtually all the forums where they have taken place. It has been reaffirmed at successive meetings of the UN Conference on Trade and Development (UNCTAD) and conferences of the non-aligned movement. It is based - for the NIC's, the oil exporting countries of OPEC and the poorest nations alike - on the awareness of their unequal relationship with the industrialised world.

Group of 77 - The voice of the Third World

The aspirations of the Third World have cristallised around the so-called Group of 77. These were the number of developing countries which attended the first session of the UN Conference on Trade and Development in Geneva in 1964. It has kept its name although the number of its members now exceeds 115. But the roots of the Third World go back further.

A group of 29 developing countries from Africa and Asia, including China, got together for the first time in 1955 in the Indonesian city of Bandung. In their final declaration, the 29 listed their demands for accelerating development of the poor countries. These include the need for a UN fund for economic development, the stabilisation of trade flows and raw material prices through international agreements, the organisation of cooperation between developing and industrialised nations as well as among Third World states themselves. More than a quarter of a century later, many of these demands are still on the table.

The Group of 77 is not a formal organisation. Its function is to coordinate Third World strategy in international negotiations. It is of necessity the sum of its parts. Yet its cohesion in the North-South context has been greater than that of the industrialised countries themselves where differences have persisted particularly between the European Community and the United States. The Group of 77 has remained united even to the extent of reconciling clear conflicts of interest over energy policy between OPEC countries and the oil-importing countries of the Third World. Tensions within the 77 hover below the surface.

The NIC's and other middle income countries, particularly in Latin America, appear to be the most conciliatory members of the group in its relations with the industrialised countries.

The industrialised countries have so far refrained from exploiting to any major extent the divergences within the Group of 77. In the early stages of the North-South dialogue after the 1973-74 oil price explosion, efforts were made to drive a wedge between the OPEC countries and the rest of the Third World, but these proved unsuccessful and were soon abandoned.

Regional organisations

While the Group of 77 is the global umbrella for the whole of the Third World, the developing countries are also divided into subgroups on a geographic, political or economic basis. Thus, the developing countries of Latin American and the Caribbean are grouped in the Organisation of American States (OAS), while at sub-regional level, there is a fledgling Caribbean Common Market (Caricom) and, further south, the Andean Pact. African nations have grouped themselves in the Organisation of African Unity (OAU), while the Arab States of North Africa and the Middle East all belong to the Arab League.

Asia has no continental organisation, but the world's two most populous nations, China and India belong to this region. These countries, of sub-continental dimensions themselves, account for more than 50% of the total population of the developing world. Although ranged among the low income developing countries (see Table I) each has a broadly-based industrial sector including textiles, heavy and light engineering as well as a nuclear sector and a fledgling space exploration programme. Despite their immense populations (China 1 billion, India 700 million), their per capita GNP is higher than the average for the rest of the low income group and their export dependence on primary products considerably lower.

China's development policy has been one of self-reliance with little help from outside. It has received credits in recent years from industrialised countries to finance imports from them but is still cautious about borrowing from abroad on a large scale. In receives virtually no official development aid. According to OECD figures it received 17 million Dollars of foreign aid a year between 1976 and 1980 (see Table III).

TABLE III

POPULATION AND NET RECEIPTS OF ODA FROM ALL SOURCES FOR SELECTED COUNTRIES

(1976-1980 annual averages)

	Population	Net receipts	
		Total	Per head
	millions	$ millions	$
China	965	17	..
India	658	1,530	2
Bangladesh	87	1,156	13
Pakistan	79	605	8
Egypt	41	1,433	35
Tanzania	18	587	33
Kenya	16	351	23
Ivory Coast	8	139	17
French Polynesia	0.2	144	959

Source : OECD, Development Cooperation (several issues).

India receives much more official foreign aid but even this, given the size of the population is a mere drop in the ocean. It received an average of 1.53 billion Dollars in the 1976-1980 period, the equivalent of $2 per head of the population. Although it receives little aid from the European Community as such (less than 100 million Dollars for the 1976-80 period) India is one of the major beneficiaries of financial assistance from individual governments, particularly Britain and the Netherlands. One of India's chronic problems has been its inability to feed itself. This is changing and the country is for instance approaching self-sufficiency in food grains. Another major concern, the gap between rich and poor within the country, is not narrowing. In Indian states accounting for about one third of the total population, there has been virtually no per capita income growth for the past 20 years.

Both India and China represent large markets for capital goods from the developed countries as they continue their industrialisation. Their potential as markets for consumer goods as their living standards rise is also enormous.

The only sub-regional grouping in Asia is ASEAN - the Association of South-East Asian Nations. Founded in 1967 as a vaguely anti-Communist grouping at the time of the Vietnam conflict, it includes OPEC member Indonesia, a NIC in the form of Singapore, plus Thailand, Malaysia and the Philippines who are often considered as NIC's-to-be. The ASEAN countries are considered potentially important trading partners by European countries and the United States, although they are geographically closer to Japan. Among the Europeans, the Germans have been particularly strong supporters of ASEAN and were largely instrumental in securing the EEC-ASEAN cooperation agreement which was concluded in 1980. However, the impact of the current recession has slowed the progress of the member states of the group. Regional integration among the ASEAN states has been modest. They do less than 10% of their trade with each other (Singapore, with a figure of nearly 20%, because of its entrepot trade, is the exception).

OPEC

OPEC is the single most powerful Third World organisation. It is not organised along regional lines, although the majority of its members come from the oil-rich regions of the Middle East and North Africa. Although it produces less than one-third of world output, OPEC still dominates world trade in oil. This position enables the organisation to maintain its determining role as price leader. As Table IV shows, OPEC is no longer the biggest supplier of oil to the non-Communist world. Non-OPEC supplies are expected to cover an even larger share in the years to come. Although there is a relative decline in OPEC's importance, it remains certain that at any time in the foreseeable future, a major disruption of OPEC shipments could have very serious consequences on the industrialised countries and the developing nations which depend on them for their supplies.

TABLE IV

OIL DEMAND AND SUPPLY

millions of barrels per day

	1981	1982	1983
Non-OPEC consumption	45.2	43.5	43.9
Industrial countries	36.2	34.3	34.4
Non-OPEC LDC's	9.0	9.2	9.4
Non-OPEC supply *	23.3	23.9	24.6
OPEC exports	21.2	17.5	19.5

* Includes Communist countries' net oil exports to the West.

Source : Morgan Guaranty, World Financial Markets (September 1982.

OPEC, which was founded in 1960 essentially as a coalition of producer countries to counter-balance the power of the multinational petroleum corporations, is far from being a homogeneous group.

"Politically", the OPEC members are sometimes regarded as falling into two groups, progressive and conservative. Algeria, Nigeria, Libya, Iraq and Iran can be considered as belonging to the progressive group. Saudi Arabia, the Gulf States, Venezuela and Indonesia are in the latter group.
"Economically", the OPEC members with large populations require their oil revenues to finance their own internal development, while those with a relatively small population can use their surplus revenue in investments, loans and grants outside their frontiers. Generally speaking, "progressive" OPEC states and those with large populations have tended to favour strategies which bring in maximum oil revenues while the others have backed policies which stabilise prices and earnings.

The OPEC members (each with its 1982 quotas and population) are :

TABLE V

	'000 barrels/ day	Population (millions)
Saudi Arabia	7,000	9.0
Libya	1,300	3.0
Kuwait	650	1.4
United Arab Emirates	1,000	1.0
Qatar	300	
Iran	1,200	38.8
Iraq	1,200	13.1
Nigeria	1,300	84.7
Algeria	750	18.9
Gabon	150	0.7
Venezuela	1,500	14.9
Ecuador	200	8.0
Indonesia	1,300	146.6

Source : Petroleum Intelligence Weekly and World Bank.

The Newly Industrialising Countries (NIC's)

The NIC's are a small number of Third World countries whose export-oriented economies have achieved very rapid growth rates in recent years. They are not a formal grouping and the term "NIC" is not necessarily one they would accept. In UNCTAD terminology, they are described as the "Fast-growing exporters of manufactures". UNCTAD defines them as developing countries with a per capita income in 1977 greater than $1,000 and whose exports of manufactured goods exceeded 20% of their total exports. UNCTAD lists these countries as Argentina, Brazil, South Korea, Singapore, Uruguay, Yugoslavia and Hong Kong. Other organisations give other definitions and other lists of NIC's. The OECD, for instance, includes several of its own members from Southern Europe among the NIC's. The common core to most lists of newly industrialising countries would be Brazil, South Korea, Singapore, Hong Kong and Taiwan. Taiwan does not figure on the UNCTAD list since it left the UN after its former seat was given to the Chinese People's Republic.

Despite their diversity in size and population (Brazil is a vast country of 118 million people while Singapore and Hong Kong are little more than city-states), the NIC's have one factor in common : their reliance on export promotion and access to world markets as a major source of expansion for their manufacturing and industrial sectors. The NIC's account for 75% of the total manufactured exports of the Third World as a whole. Although labour-intensive products in which they have a comparative advantage, such as clothing, footwear and electronics, were at the heart of their industrialisation process, they have started to penetrate markets of more capital intensive industries such as shipbuilding, machinery and basic chemicals. The NIC's also take 65% of manufactured imports of the developing countries as they buy in the capital goods needed to develop their industrial sectors.

But as they began to penetrate the markets of the industrialised countries on a major scale, the latter reacted against the too great success of the NIC's in emulating their own economic development pattern. The industrialised countries increasingly forced the NIC's to accept "voluntary" limits on their shipments of manufactured goods to "Northern" markets or imposed unilateral restrictions on imports of these products.

At the same time, the industrialised countries are urging the NIC's to open up their own markets to imports from the industrialised nations. They increasingly argue that the NIC's have progressed far enough in their development to "graduate" to the same status as the advanced countries and respect the same rules as the OECD countries for their foreign trade. Already the NIC's are benefitting less from the provisions of the

Generalised System of Preferences (GSP) operated by developed countries in favour of manufactured imports from the developing world. The industrialised countries are urging them to end their system of export subsidies and other aids used to boost sales to foreign markets.

The NIC's have run up surpluses in their trade with many industrialised countries (see Table VI for EEC figures) but these have not been growing so fast in recent years under the combined impact of the world recession and the protectionist action taken against them by the advanced nations.

The dynamic development of the NIC's is held out by one school of development strategists, particularly strong in the United States as proof that self-reliance and the harnessing of market forces offer the best development formula for the Third World as a whole.

TABLE VI

NIC's TRADING BALANCE WITH EEC
(1978-80)
(in billions of Ecus)

	1978	1979	1980
Brazil	0.92	1.23	1.59
Hong Kong	0.59	1.00	1.47
Taiwan	0.54	0.81	1.30
S. Korea	0.42	0.44	1.03
Singapore	- 0.42	- 0.37	0.15

Source : Eurostat.

The Least Developed Countries (LLDC's)

At the other end of the development spectrum from the NIC's are the group of 31 Least Developed Countries. Two-thirds of them are in Africa. Food production per capita in most of the Least Developed Countries has fallen by 10% over the past ten years and an estimated 25% to 30% of their population is hungry or undernourished for the greater part of the year. Their real per capita income has also decreased over the past decade (see Table VII). These countries are poorly equipped to absorb external shocks and to adjust their economies to changing world conditions. They are so poorly endowed with natural resources and human skills that there is no foundation on which a self-help development strategy can be based.

> "To expect their salvation as a result of the benevolent working of market mechanisms or commercial activity is to be utopian or fraudulent". (1)

The LLDC's, having failed to benefit from the favourable growth climate of the 1960's and early 1970's, are clearly threatened with further impovrishment during the recession of the 1980's. Official development assistance (ODA) is therefore ofcrucial importance for them. At the Paris conference on the problems of the LLDC's in October 1981, a number of industrialised countries, including the members of the European Community,agreed to set aside 20% of their public aid to the Third World for the LLDC's. This is the equivalent of 0.15% of the advanced countries' GDP. Ofthe EEC countries, only the Netherlands (0.23) and Denmark (0.22) had previously reached this level.

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(1) EEC Development Commisioner Edgard Pisani at the Conference on the LLDC's (Paris, September 1981).

The 31 LLDC's, whose total population is about 250 million, are : Afghanistan, Bangladesh, Benin, Bhutan, Botswana, Burundi, Cape Verde, Central African Republic, Chad, Comoros, Ethiopia, Gambia, Guinea, Guinea-Bisseau, Haiti, Laos, Lesotho, Malawi, Maldives, Mali, Nepal, Niger, Rwanda, Samoa, Somalia, Sudan, Uganda, Tanzania, Upper Volta, North Yemen, South Yemen.

TABLE VII

GROWTH RATES OF REAL INCOME OF DEVELOPING COUNTRIES

(per cent per annum)

	1960-1970	1970-1980
REAL INCOME		
Total developing countries	5.0	7.1
Major oil-exporting countries	3.6	14.0
Fast-growing exporters of manuf.	6.3	6.6
Least developed countries	2.6	2.3
PER CAPITA REAL INCOME		
Total developing countries	2.4	4.5
Major oil-exporting countries	0.9	11.1
Fast-growing exporters of manuf.	3.5	4.0
Least developed countries	0.0	- 0.3

Source : UNCTAD secretariat estimates.

The Table reveals inadequately the overall poverty of these nations. The economic plight of the least developed countries is reinforced by other, notably social, factors. Life expectancy is still less than 48 years in most of them, and can be as low as 39 years in Upper Volta and 40 in Ethiopia. Yet their populations are growing faster than any other group of countries. Their average adult literacy is 33%

with lows of 5% in Niger and Upper Volta and 9% in Mali. In Guinea and Mali, only 10% of the population has access to safe drinking water, while ther is only one doctor for 75,000 people in Ethiopia.

International strategies for the advancement of the NIC's are clearly unsuited for the poorest developing nations. While it is true that the majority of the Third World countries belong to neither group, the bulk of them have more in common with the LLDC's, many of whose problems they share in more attenuated form, than with the NIC's.

DEVELOPMENT IN CRISIS

WORLD DEVELOPMENT IS IN CRISIS. SEVERAL FACTORS HAVE HOW COME TOGETHER TO EXPOSE THE LIMITATIONS OF THE DEVELOPMENT STRATEGY DEVISED AND IMPLEMENTED DURING THE FIRST TWO DEVELOPMENT DECADES OF THE 1960'S AND 1970'S. THIS STRATEGY WAS BASED ON THE PRINCIPLE THAT THIRD WORLD COUNTRIES SHOULD INTEGRATE THEIR ECONOMIES RAPIDLY INTO THE WORLD MARKET NETWORK. THE WINNING FORMULA, WHICH COULD ENABLE THE DEVELOPING COUNTRIES TO "CATCH UP" WITH THE ADVANCED NATIONS, WAS BASED ON GOVERNMENT-LED EXPORT-ORIENTED INDUSTRIALISATION, COUPLED WITH TRADE, AID AND PRIVATE INVESTMENT COMMITMENTS FROM THE INDUSTRIALISED COUNTRIES.

THIS STRATEGY WAS STRONGLY BACKED BY THE WESTERN INDUSTRIALISED COUNTRIES WHO COULD POINT TO THE LARGE-SCALE BENEFITS THEY HAD DERIVED FROM THE POST-WAR FREE-MARKET ENVIRONMENT AND THE STRUCTURES (GATT, IMF, ETC) THEY HAD SET UP TO SUPPORT IT. DEVELOPING COUNTRIES HAD NO CHOICE BUT TO ACCEPT THIS APPROACH, ALTHOUGH MANY OF THEIR EXPERTS FELT STRONGLY THAT THIS "LINEAR" VIEW OF PROGRESS AND GROWTH BEGGED A SERIES OF FUNDAMENTAL QUESTIONS AS TO THE NATURE AND CAUSES OF UNDERDEVELOPMENT.

BY THE LATE 1970'S, IT WAS CLEAR THAT THE STRATEGY WAS NO LONGER WORKING. THE WORLDWIDE RECESSION WAS UNDOUBTEDLY A MAJOR REASON. BUT IT ALSO SERVED TO HIGHLIGHT ALREADY EXISTING PROBLEMS.

IN MANY INSTANCES, THE WRONG PRIORITIES WERE CHOSEN BY THE DEVELOPING COUNTRIES THEMSELVES. RURAL DEVELOPMENT AND FOOD PRODUCTION WERE OFTEN NEGLECTED; "PRESTIGE" PROJECTS, INAPPROPRIATE FOR THIRD WORLD

COUNTRIES, WERE UNDERTAKEN; FINANCIAL AID WAS MISUSED. GOVERNMENTS, PARTICULARLY IN THE POOREST COUNTRIES, WERE TOO ENMESHED IN THE PROBLEMS OF DAY-TO-DAY ECONOMIC SURVIVAL TO BE ABLE TO DEVISE LONGER-TERM STRATEGIES. FOR THEIR PART, INDUSTRIALISED COUNTRIES HAVE FOUND IT INCREASINGLY DIFFICULT TO MEET PREVIOUSLY DECLARED COMMITMENTS ON TRADE, AID, CREDITS AND INVESTMENTS.

THE EUROPEAN COMMUNITY IS IN THE FOREFRONT OF EFFORTS TO CONSTRUCT A MORE RELEVANT DEVELOPMENT STRATEGY FOR THE 1980'S AND BEYOND.

The shortcomings of previous strategies

The political emancipation of the Third World by the early 1960's gave rise to expectations that economic advancement would quickly follow. The eradication of poverty, the improvement in the quality of life, a rise in living standards were accepted by the world community as legitimate aspirations for the newly independent majority of less developed nations. The development strategy focussed on what were seen as the constraints on development, particularly the lack of capital, whose removal would set free the "natural" forces latent in the poorer countries that would facilitate their economic advancement. This approach called on the rich countries to supply the missing elements to the developing countries which would enable them to remove the main obstacles to development or at least break the bottlenecks that had built up. Financial aid, technical assistance, trade concessions, direct investments were to be the principal instruments. This strategy has, until recently, worked for the more advanced developing countries - the NIC's and their closest emulators - but it has been less successful in improving the lot of the majority of developing nations.

The reasons for the crisis

There is no shortage of reasons for explaining why development is in crisis. Although the world recession is the most convenient scapegoat, the industrialised nations and the developing countries themselves must bear their share of responsibility for the disappoining record of 20 years of world development. It is true that the slowdown of demand in the rich countries has reduced the export outlets for the Third World and depressed the prices of their raw materials. It is also true that the unexpected duration of the recession has brought some heavily indebted developing countries to the brink of bankruptcy, while it has slowed the flow of official aid from rich to poor countries. The recession has also increased the South-South gap.

But many problems are rooted in the complexity of the process of development itself. Mistakes and errors have been made at a number of levels by the North and the South, separately and together. To take just one example, the industrialised countries have consistently urged the Third World to integrate into the existing world economic order. For them, the road to development lay through a much improved Old Order rather than the creation of the New International Economic Order (NIEO) that had become one of the Third World's main slogans. Yet the North has long since stopped playing by its own rules. As one development economist put it as early as 1976 :

> the rich... are drawing a protective wall around their lifestyles, telling the poor nations that they can compete neither with their labour nor with their goods but paying handsome tributes at the same time to the "free" working of the international market mechanism. (1)

(1) M.Ul-Haq, The Poverty Curtain (Columbia University Press), 1976.

At another level, the advanced nations have not been able to reconcile the conflicting interests of their commitment to meaningful Third World development with their national economic priorities. This split has manifested itself in their readiness to provide sophisticated capital equipment for grandiose projects beyond the requirements of many of the developing countries which have asked for them and in their readiness to sell arms to the Third World.

But the responsibility of the developing countries is equally great. In many cases, they have neglected food production, used external finance for encouraging consumption instead of productive investment, failed to distribute what benefits that have materialised among the different sections of their population. The following pages look briefly at some of the areas where development has gone wrong.

a) Food production

With the notable exceptions of Latin America, China, India and a few others, Third World food production has been totally inadequate. More and more developing countries are dependent on food imports.

The reasons for declining food production are several. Climatic conditions such as periodic droughts in the Sahel region of Africa or inadequate monsoon rains in Asia can provoke serious shortages. But most other problem are man-made. Economic policies pursued by a number of developing countries either deliberately or unwittingly operate against the interests of the farming population in rural areas. These governments, more conscious of the consumer needs of the more volatile urban masses (and of the military), have tended to keep food prices low but in so doing have discouraged local food production. In some cases, developing countries cling to overvalued exchange rates which make imports of capital goods for industrialisation and food for the cities cheaper than home-produced items. This trend can lead to permanent changes in eating habits in favour of imported items. The problems related to Third World agriculture and food production are examined in more detail in the following chapter.

b) Rural depopulation

One of the consequence of the stagnation or decline in rural earnings has been to encourage the population exodus towards the cities. This rapid and uncontrolled urban growth is putting extreme pressure on sanitation facilities, water supplies, health, food, shelter and jobs. Its impact is exacerbated by the population explosion (a higher birthrate, but essentialy a lower death rate) in the Third World. Sprawling urbanisation and its attendant miseries are characteristics of most developing countries, NIC's and LLDC's alike.

Table I shows that if present trends were to continue, Mexico City's population would exceed 31 million people by the year 2000. Calcutta, Bombay, Seoul, Jakarta, Cairo and Karachi would have populations in the 16-20 million range. The figures are taken from a report "Global 2000" issued by the United States government in 1980.
At least a quarter of the population of these cities is already living in slums and shanty towns. Even if these forecasts are exaggerated, and there are signs that lack of food for the urban poor, lack of jobs, increasing illness and injury may alter the trend, the situation will nonetheless remain critical for a long time to come.

TABLE I

ESTIMATES AND ROUGH PROJECTIONS OF SELECTED URBAN AGGLOMERATIONS IN DEVELOPING COUNTRIES

	Millions of persons			
	1960	1970	1975	2000
Calcutta	5.5	6.9	8.1	19.7
Mexico City	4.9	8.6	10.9	31.6
Greater Bombay	4.1	5.8	7.1	19.1
Greater Cairo	3.7	5.7	6.9	16.4
Jakarta	2.7	4.3	5.6	16.9
Seoul	2.4	5.4	7.3	18.7
Delhi	2.3	3.5	4.5	13.2
Manila	2.2	3.5	4.4	12.7
Tehran	1.9	3.4	4.4	13.8
Karachi	1.8	3.3	4.5	15.9
Bogota	1.7	2.6	3.4	9.5
Lagos	0.8	1.4	2.1	9.4

Source : The Global 2000 report to the President (US State Dept, 1980)..

Excessive urban populations is part of the overall problem of population growth in the Third World in the coming 20 years. From the 1980 figure of around 4.5 billion, the world population may rise to 5.5-6 billion by the year 2000. At the end of the century, 70% of the Third World's population will probably be concentrated in only eight countries : China, India, Indonesia, Brazil, Bangladesh, Pakistan, Nigeria and Mexico.
The implications for these countries and other developing nations, for whom the problem exists in less acute form, are clear : it requires large investments just to maintain per capita infrastructure at present levels; it swells the labour force and depresses wages; it speeds migration to urban areas; it makes it more difficult to combat malnutrition and poverty; it tends to produce an age structure where each worker supports a large number of non-working persons.

c) Uneven benefits within individual countries

Poverty therefore is not just a problem for the least developed countries. It must be remembered that there are more poor people outside the LLDC's than within this group of countries. Many other Third World states have considerable pockets of absolute poverty in their midst. For instance, the FAO singles out 12 countries that suffer from undernourishment on a vast scale. (1) These are India (with 201 million underfed), Indonesia (33), Bangladesh (27), Nigeria (14), Brazil, Ethiopia and Pakistan (12 each), the Philippines (10), Afghanistan (6), and Burma, Colombia and Thailand (5 each). These are in addition to some of the LLDC's, notably Chad, Ethiopia and Haiti, where more than 40% of the population does not get enough to eat.

The process of development has in fact often been accompanied by growing income disparities in individual countries. The classic school of Third World development strategists set great importance on economic growth as the main criterion of advancement, not because growth was the most suitable goal in itself, but because its fruits would "trickle down" naturally to the poorest sections of the population or else governments would intervene to make sure they were redistributed fairly. Others considered that inequalities and the temporary concentration of wealth in a few hands were also a precondition for growth.

None of these assumptions stands up to examination. In many countries, growth is concentrated on a small modern industrial sector grafted onto a predominantly underdeveloped basic structure. In addition, governments have proved unwilling or unable to use taxation and social services to offset the impact of growing internal

(1) FAO, The Dimensions of Needs (Rome 1981).

inequalities. Finally, the concentration of income in the hands of the rich has rarely proved a prerequisite of rapid development. It has only served to reinforce the growing gap between the ruling elites and the broad mass of their populations.

d) The arms trade

The accentuation of such inequalities has caused social tension and conflict, leading to the overthrow of governments, civil wars and other upheavals. The need to avoid, or repress, such happenings is a contributory factor to the large-scale arms purchases by Third World governments. The other, main, factor is intra-regional rivalries between neighbouring states.

Governments around the world spend 450 billion Dollars annually on armaments. Third World states are in fact major clients for arms sales by the advanced countries of both East and West. They spend four times the amount they receive in aid on military hardware. The west sells more weapons to developing countries than does the eastern bloc, although estimates vary. According to the latest US figures, nearly 70 billion Dollars worth of arms were sold to developing countries by industrialised nations in the period 1977-1980.
The Americans and their allies accounted for more than 37 billion Dollars (Table II).

TABLE II

ARMS DELIVERIES TO THE THIRD WORLD
(in US $ millions)

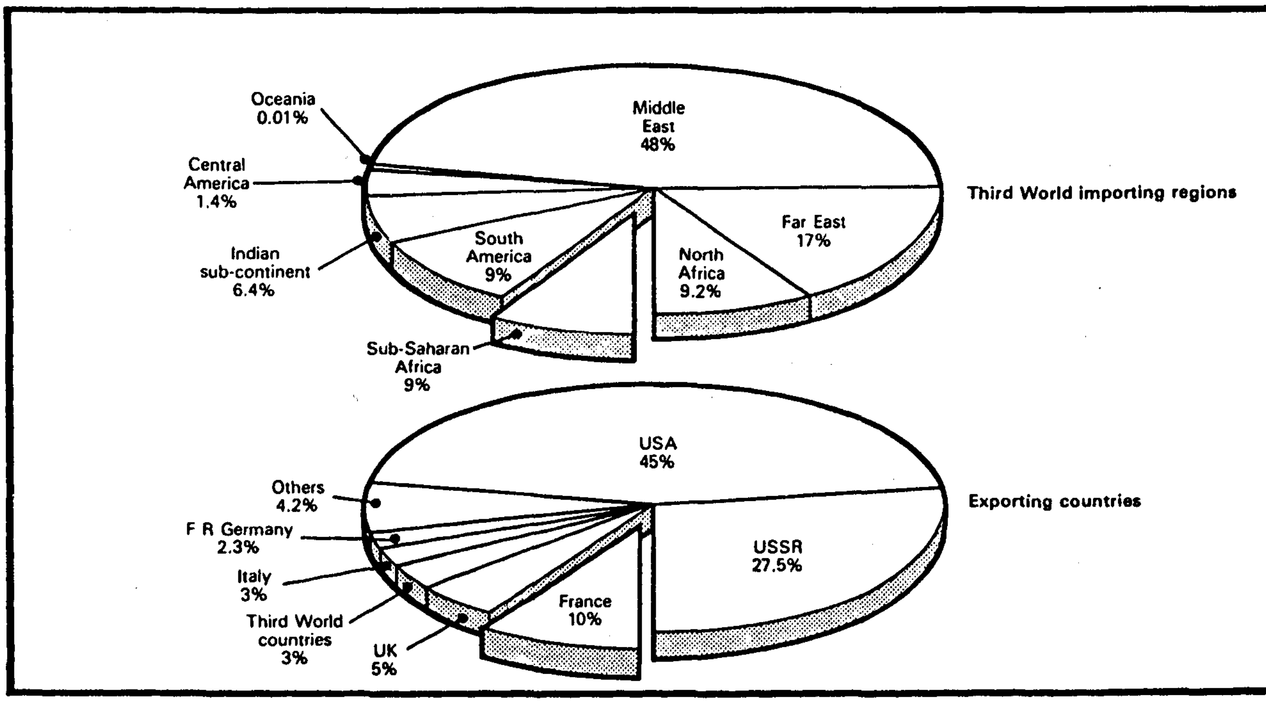
	1977-1980
Soviet Union	27,529
United States	17,260
France	6,805
United Kingdom	3,353
West Germany	2,861
Italy	1,971
Other Free World	4,891
Other Communist	3,738
TOTAL	69,508

Source : US Arms control and disarmament agency, World Military expenditures and arms transfers, March 1982.

The source and destination of arms sold to the developing countries are given in Table III which is published in the Yearbook of the Stockholm International Peace Research Institute (SIPRI). It identifies the share of arms sold by the United States as considerably larger than that of the Soviet Union, contrary to the American figures.

TABLE III

THE IMPORTERS' AND EXPORTERS' SHARES OF MAJOR-WEAPON SUPPLIES TO THE THIRD WORLD, 1970 - 79



Source : SIPRI Yearbook 1980, Stockholm.

According to World Bank statistics, several of the least developed countries spend more on defence (as a percentage of GNP) than the average of the western industrialised nations which is 3.8%. Among the biggest LLDC spenders are Tanzania 9.4%, Somalia 6.8% and Pakistan 5.0%. Amongst the Third World countries themselves, the biggest arms sellers in South-South trade are Israel (26% of total Third World arms exports), followed by Brazil (21%)and Iran and Jordan with 9% each. (1)

(1) These figures comes from SIPRI, op.cit.

e) The oil bill

Arms trade is only one element of their external trade in which the vast majority of developing countries are in deficit. The principal deficit sector is in oil. The oil bill of the oil-importing developing countries stood at 35 billion Dollars in 1981. Many of these countries must now use between 30% and 50% of their export earnings to pay for their oil. This proportion will decline very slowly even if oil prices remain stable.

However, the propensity for developing countries to import oil will also be influenced by the level of their indebtedness and therefore their ability to finance their purchases from abroad. A number of them are already having to choose between food imports and imports of petroleum. They cannot afford both. For many non-oil developing nations, their debt servicing commitments are the equivalent of their oil bill. They have had a "debt shock" coming on top of the successive oil shocks of 1973-74 and 1979-80. Debt and aid problems are dealt with more extensively in Chapter VII of this document.

f) Energy and the fuelwood crisis

The prohibitive cost of imported energy for many developing countries have led them to seek alternative sources. But with few exceptions these have so far found only limited applications.
Instead many people, particularly in rural areas, have increased their use of animal dung and, more especially, fuelwood to meet their energy needs.

Fuelwood supplies 60% of Africa's energy requirements, and some countries, such as those of the Sahel zone are 95% dependent on this energy source.
India, the world's 11th industrial power, depends on wood for 53% of its energy and in some rural areas wood dependence is as high as 93%. Cooking and heating account for 90% of the wood used in developing countries. Whereas forestry resources are expected to remain stable in the industrialised regions they may fall by 40% in the developing countries by the year 2000 (Table V).

TABLE V

ESTIMATES OF FORESTRY RESOURCES IN 1978/2000

Region	1978 million ha	2000 million ha	Variation in %
USSR	785	785	-
Europe	140	150	+ 7.1
North America	470	464	- 1.3
Japan, Australia, New Zealand	69	68	- 1.5
SUBTOTAL	1.464	1.437	- 1.8
Latin America	550	329	-40.0
Africa	188	150	-20.0
Asia	316	181	-43.0
SUBTOTAL	1.099	660	-40.0
TOTAL	2.563	2.097	-18.2

Source : Global 2000 Report.

According to the FAO, about 100 million inhabitants of the Third World are already unable to satisfy their minimum energy requirements. The shortage of fuelwood affects 1,100 million people in developing countries, about one third of their total population or nearly one-quarter of the people on the earth. Wood is becoming expensive in towns and even in villages, as a result of its growing scarcity and the distances involved in collecting it. Prices in some areas are rising at the rate of 30% a year. The purchase of fuelwood places a serious strain on household budgets, accounting for as much as 50% of a family's total expenditure. A coherent policy of reafforestation and more rational use of wood (improved stoves, etc) coupled with the development of alternative energy are needed to save the Third World's forests and avoid the ecological disaster that would accompany their disappearance.

g) Environmental damage

The excessive use of wood and animal dung as well as other agricultural residues for fuel adds to the serious environmental damage being caused in the Third World. The animal dung used as fuel is no longer available as natural fertiliser for soils in farming areas. The deforestation because of fuelwood needs adds to the increasing desertification in areas where the clearing of forests or overgrazing has already brought about a serious deterioration in the physical environment.

Forests retain rainwater and regulate the pace at which it runs off, they prevent soil erosion, replenish certain nutrients and influence the local climate. The problem is most severe in densely populated hill areas (as in Latin America and the Himalayas) or in arid areas of Africa and Asia where the desert advances as the forests retreat.

Future priorities

What therefore should be the development priorities for the rest of the 1980's ? Many development experts, particularly in Europe, would probably list at least five :

1. Efforts must be strengthened to meet the basic needs of those people in the Third World who are very poor. These needs are for more and better food, access to safe water nearby, health, sanitation, decent shelter, education and the chance to work. Only when such needs are met will the least developed countries be in a position to pursue a development policy based on self-reliance.

2. A new emphasis must be placed on rural development and the encouragement of local food production. Agriculture has been lagging, even in middle income countries, slowing down the development process. This entails concentration on facilities to encourage rural populations to expand food production and to improve the quality of rural life. Regional and local structures - commercial, financial, social, administrative - need to be put in place.

3. Industrialised countries must indicate clearly where they stand on industrialisation and trade. Despite official pronouncements to the contrary, the rich countries will have only limited scope for pursuing trade liberalisation as long as the current recession lasts. But having entered into commitments, they should respect them. They may have to say no to unrestricted or unconditional access for certain items, but they cannot encourage, often directly, a Third World industry to start up, only to bar its access to their markets once it begins exporting.

4. The rich countries should seek to extend cooperation with the Third World oil importing countries in the energy sector. This should aim at energy planning and prospecting, and the development of alternative sources where appropriate. The same kind of cooperation could also be extended to the development of other mineral resources.

5. The industrialised countries must help stop the gradual destruction of the natural environment in some parts of the developing world.

There is, however, no international consensus for implementing these priorities as part of a new updated global strategy. The North-South dialogue is at a standstill. What little hope was generated at the Cancun summit in 1981 has long since evaporated. This is why the European Community recognises that with its special responsibilities, particularly concerning the African-Caribbean-Pacific (ACP) countries of the Lomé Convention and its Mediterranean neighbours, it will have to concentrate on its own direct relations with the Third World.

FOOD AND AGRICULTURE

COLLECTIVELY, THE NATIONS OF THE WORLD HAVE MADE CONSIDERABLE PROGRESS OVER THE PAST 30 YEARS TOWARDS GROWING ENOUGH FOOD TO FEED THE PLANET. BUT THIS PROGRESS HAS BEEN UNEVENLY SPREAD. A LARGE AND INCREASING MINORITY OF PEOPLE IN THE DEVELOPING COUNTRIES SUBSIST ON A DIET THAT PREVENTS THEM FROM LEADING A NORMALLY ACTIVE AND HEALTHY LIFE. OF THE ONE BILLION OR SO VERY POOR PEOPLE IN THE WORLD, ABOUT 450 MILLION CAN BE CONSIDERED AS SERIOUSLY UNDERNOURISHED.

IN WESTERN EUROPE AND NORTH AMERICA (PROGRESS IN THE SOVIET UNION AND PARTS OF EASTERN EUROPE HAS BEEN LESS IMPRESSIVE), AGRICULTURAL OUTPUT AND PRODUCTIVITY HAVE MORE THAN KEPT PACE WITH THE OVERALL MATERIAL ADVANCEMENT OF THESE NATIONS. THE DEVELOPING COUNTRIES PRESENT A VERY DIFFERENT PICTURE. ONLY ABOUT ONE THIRD OF THEIR POPULATION LIVE IN COUNTRIES WITH A FULLY SATISFACTORY PERFORMANCE IN AGRICULTURAL PRODUCTION. LATIN AMERICA IS, FOR INSTANCE, THE ONLY LESS DEVELOPED REGION WHERE FOOD INTAKE, MEASURED IN CALORIES, IS EXPECTED TO BE AT AN ADEQUATE LEVEL IN THE YEAR 2000.

ELSEWHERE, PRODUCTION IS RISING MORE OR LESS AT THE SAME RATE AS THE POPULATION INCREASE, LEAVING LITTLE ROOM FOR REAL IMPROVEMENT, WHILE IN A TRAGICALLY LARGE NUMBER OF CASES IT IS FAILING EVEN TO KEEP UP WITH THE GROWTH IN POPULATION. AFRICA HAS BECOME THE MOST STRIKING EXAMPLE OF THIS KIND OF PRODUCTION INSUFFICIENCY. MOST OF THE 52 DEVELOPING COUNTRIES WHERE PER CAPITA FOOD PRODUCTION HAS ACTUALLY FALLEN IN THE PAST TEN YEARS ARE TO BE FOUND IN AFRICA.

IN A NUMBER OF THIRD WORLD COUNTRIES, IN ASIA AS WELL AS IN LATIN AMERICA, AGRICULTURAL PRODUCTION DID RISE STRONGLY THANKS TO THE "GREEN REVOLUTION". THIS HAS HELPED TO BOOST OUTPUT, ESPECIALLY OF CEREALS. YET OVERALL, THE THIRD WORLD HAS MORE THAN DOUBLED ITS CEREALS IMPORTS SINCE 1970. THESE ARE NOW RUNNING AT NEARLY 100 MILLION TONNES ANNUALLY. FUTURE PRIORITY MUST BE GIVEN TO RAISING FOOD OUTPUT IN THE POOREST DEVELOPING COUNTRIES. FOR THIS, THEY WILL REQUIRE THE ASSISTANCE OF THE EEC AND OTHER INDUSTRIALISED NATIONS TO HELP PROVIDE MANY OF THE BASIC INPUTS - FINANCE, FERTILISERS, SCIENTIFIC KNOWHOW, MANAGEMENT AND MARKETING SKILLS, IMPROVED TRANSPORT AND STORAGE FACILITIES, ETC.

More food available, but not for everybody

Pessimistic development planners in the 1960's predicted a world famine by 1980. This has not occured, but there is no cause for complacency. Although the world presently produces enough food to give everybody enough to eat, it is badly distributed. This uneven share-out of available resources occurs at three levels : between the industrialised countries and the Third World, among the developing countries themselves, and among the different population and income groups within them.

It is the poorest countries that have fared worst. Although per capita food production has fallen in more than 50 developing countries in the past decade, some of the middle income countries among them have been able to increase their imports to make up the shortfall. This has not been possible for most of the least developed countries where available hard currency resources have to be split up between competing claims of imported energy, capital goods and food. Food aid continues to play an important role for these countries, but the proportion of their needs covered by this source has actually fallen. According to FAO statistics, cereals food aid to the Least Developed Countries has remained stagnant at about 7.5 million tonnes since 1978/79. The share of their needs covered by this amount fell from 23% in 1978/79 to 18% in 1981/82.

This imbalance in food production and distribution should not be allowed to mask the considerable progress made in recent years. Output has increased at an unprecedented rate, thanks to expanded capacity in the industrialised countries, but also as a result of the Green Revolution in certain regions of the Third World. It has been of most benefit to Latin American and South-East Asian countries. It has enabled the countries of the Indian sub-Continent just about to match food output to population growth. Africa, is however, at present losing this race. While per capita food production in Africa was growing at a modest 0.1% a year during the 1960's, it actually declined by 1.1% a year during the 1970's. (See Table I)

TABLE I

GROWTH RATES OF FOOD OUTPUT BY MAJOR WORLD REGIONS

(EXCLUDING CHINA), 1960-80

Region and country group	Food output: Total 1960-70	Food output: Total 1970-80	Food output: Per capita 1960-70	Food output: Per capita 1970-80
Developing countries	2.9	2.8	0.4	0.4
Low-income	2.6	2.2	0.2	- 0.3
Middle-income	3.2	3.3	0.7	0.9
Africa	2.6	1.6	0.1	- 1.1
Middle East	2.6	2.9	0.1	0.2
Latin America	3.6	3.3	0.1	0.6
Southeast Asia	2.8	3.8	0.3	1.4
South Asia	2.6	2.2	0.1	0.0
Southern Europe	3.2	3.5	1.8	1.9
Industrial market economies	2.3	2.0	1.3	1.1
Nonmarket industrial economies	3.2	1.7	2.2	0.9
Total world	2.7	2.3	0.8	0.5

Source : FAO, Agriculture : Towards 2000.

The table confirms that the biggest improvements in per capita production between 1960/70 and 1970/80 were achieved by South-East Asia and Latin America. Only in South America and Southern Europe, where some countries can scarcely nowadays be considered as developing did per capita output in the 1970/80 period exceed that of the advanced market-economy countries.

The Green Revolution has transformed Third World farming, particularly in wheat and rice growing areas. Within little more than 10 years, nearly half the world's wheat and rice growing areas have been converted to new high-yield varieties. Coupled with adequate fertilisers and sufficient irrigation, their yields can be double or triple that of traditional varieties. Progress for coarse grains and maize have been considerable but less spectacular.

However, while the Green Revolution has benefitted millions of people in some rural areas of the Third World, it has failed to bring any noteworthy advantages to an even larger number of the developing world's population. There are a number of reasons for this :

- the new improved technology was inappropriate for local conditions. This is particularly true for Africa.
- prices and other incentives offered to farmers were inadequate
- transport or marketing structures were deficient
- natural rainfall, irrigation or flood control was not available
- there were inadequate resources for research and training.

In more general terms, agriculture suffered because development priorities were placed elsewhere. Industrialisation and large-scale infrastructure projects were often preferred over food production schemes. Even within the agricultural sector, governments often concentrated on export crops which earned hard currency rather than boosting food production for local consumption.

This approach, widely backed by development strategists in the 1960's, has recently come in for considerable criticism. It is now generally accepted that Third World governments have no real choice between industrialisation and the expansion of the agricultural sector. The two must grow in parallel. The principal activity of two thirds of the population of the Third World (agriculture) cannot be neglected if anything approaching balanced development is to be attained. Yet this is often what has happened. The balance of interests between producers and consumers is the central issue of agricultural policy. But Third World planners have often, in the interests of industrialisation or of their urban consumers, or both, applied economic, fiscal and monetary policies that discriminated against domestic farmers and encouraged cheap imports from outside, even at the expense of long-term changes in consumers eating habits.

Keeping food cheap for consumers, through inadequate prices paid to domestic producers or through cheap imports via an overvalued currency, has proved a short-sighted policy. Incentives to farmers to invest and produce is the prime and universal stimulus for agricultural growth.

The effects of the poor response of food production in many developing countries shows up clearly in international trade in agricultural products. Developed countries have become more dominant in exports while the positive trade balance in agriculture of developing countries has been eroded as imports rose more rapidly than exports. At the same time, international assistance for agricultural development in the Third World has remained inadequate.

The overall picture of world food and agricultural production and consumption is summed up in Table II. The advanced countries dominate world agricultural output, their workers are ten times more productive than those of the Third World, they have seven times more land than their counterparts in the developing countries and they use 4.5 times more fertiliser. The result is that people in the industrialised countries have a daily food intake, measured in calories, which is 50% higher than the Third World average.

TABLE II

NORTH-SOUTH AGRICULTURAL COMPARISON

	Developing countries	Developed countries
Percent of world population	67	33
Percent of world agricultural production	38	62
production per agricultural worker ($ 1975)	550	5 220
Arable land per agricultural worker (ha)	1,3	8,9
Fertilizer use (kg/ha) of agricultural land	9	40
Total daily food consumption (calories)	2 180	3 315
Numbers of seriously undernourished (millions)	435	...

Source : FAO, Agriculture : Towards 2000.

Food trade : The Third World at a disadvantage

Although the Third World is increasingly dependent on the industrialised countries to make up the shortfall in their own food production, developing countries remain important exporters of agricultural products. They export bananas, beef, coffee, cocoa, citrus fruits, sugar, tea, cotton, jute, rubber, etc. Their share of world exports exceeds 90% for cocoa, coffee, tea, rubber and tropical timber.
Yet their overall food balance has been in deficit since 1974. There are two reasons for this. This first is the production shortfall in the majority of countries already discussed above. The second is the fact that the price paid on world markets for their export items has actually fallen, while the cost of the basic cereals which they import has continued to rise.

Table III shows that without exception there were sharp falls in the prices paid for all agricultural export products from the Third World in 1981 as compared with 1980. These ranged from 10% for tea to just over 40% for sugar. So long as world demand remains depressed, there is little prospect of a durable turnround in most of these prices. The situation is quite different for basic cereals, whose prices have remained steady or have actually increased (as in the case of rice).

TABLE III

PRICE VARIATIONS AND OTHER DATA ON SELECTED PRIMARY COMMODITIES

(1981)

	Price variation in 1981 compared to previous year (%)	Dev. countr. share in exports and imports in 1980 (%)	Total world exports in 1980 (in billions of US $)
Main exports of primary products by developing countries			
Cocoa	- 20.1	100	3.0
Coffee	- 17.4	95	12.6
Rubber	- 22.9	97	4.4
Sugar	- 40.8	45	14.4
Tea	- 9.6	92	1.9
Tobacco	- 11.0	58	3.9
Copper	- 20.2	64	11.2
Tin	- 15.6	85	3.1
Wood (Tropical)	- 25.1	93	4.0
Main imports of primary products by developing countries			
Maize	4.4	38	13.4
Rice	11.3	77	5.4
Wheat	2.9	56	18.7

Source : World Bank, Annual Report 1982.

In 1982, cereals prices also began to fall, but in much smaller proportions compared with the continued slide in tropical agricultural products. World production for coffee is currently running 12% ahead of demand, while the corresponding surplus for sugar is 9% and for cocoa 6%. The world surplus for cereals in 1982 was little more than 2% of consumption.

The effects of the recession and of the fall in food commodity prices are reflected in Table IV. It shows clearly that while industrialised countries were able to cut their food bill in 1981 (by 5%) those of the developing countries and the centrally planned economies continued to rise.

TABLE IV

IMPORTS OF FOODSTUFFS BY MAIN AREAS, 1979-1981
(Billion Dollars and percentages)

Destination	1979 Billion Dollars	Percentage change over previous year	
		1980	1981
Industrial countries	127	+ 7	- 5
Developing countries	44	+29	+ 7
Eastern trading area	22	+25	+12

Source : GATT, International Trade - 1981-1982.

Another negative aspect of trade in agricultural raw materials for the developing countries is that their exports are handled by a very small number of multi-national corporations, headquartered in the United States or Western Europe. These groups can often exercise significant market power due to the sheer size of their operations. These firms are organised in such a way that little data is available to quantify the extent of this power. But they clearly have an important role to play in determining prices and trade flows.

Table V presents estimates of the concentration of world trade in a number of commodities in the hands of a very small number of transnational corporations in the late 1970's. In most cases, three or four firms accounted for more that 75% of international trade in several individual commodities. Often individual firms were involved in trading several of the commodities listed on the table.

TABLE V

CONCENTRATION OF TRADE BY TRANSNATIONAL FIRMS DURING THE LATE-1970's

Commodity	Share of world Trade % (volume)	Number of firms involved
Cereals/soybeans	85 - 90	6
Sugar	60 - 65	4
Molasses	95	3
Bananas	80	3
Coffee	85 - 90	6
Cocoa	85	5
Tea	85	3
Tobacco	85 - 90	4
Cotton	85 - 90	8

Source : OECD Study on Problems of Agricultural Trade (Paris, 1982).

The question may also be asked as to whether these firms, together with agro-business multinationals installed in the developing countries, are not also contributing to the food supply problems for these very countries. By concentrating their activities on export crops, do they encourage the neglect of the production of foodstuffs for the local market ?

Another aspect of world trade in foodstuffs needs closer analysis. It is the increasingly dominant position occupied by the industrialised countries, particularly the United States and the EEC. Between them, these two now provide 40% of food products imported by the Third World, with the US accounting for 24% and the Community 16%. The proportion of the EEC's agricultural exports going to the Third World increased from 31% to 42% in the five years from 1973 to 1978. The biggest expansion was to the Middle East.

Whilst the United States and the Community have expanded their food sales to the Third World, they are accused of being protectionist against agricultural goods exported by the developing countries. In particular, the EEC is charged with maintaining a Common Agricultural Policy (CAP) aimed at high-cost self-sufficiency at the expense of cheaper imports from outside. Its subsidised surplus disposal operations are said to depress world market prices.

In its defense, the Community argues (1) that 78% of its agricultural exports to the Third World are of products for which the developing countries are in deficit. The Community helps to offset the food shortfall in these countries resulting from increased demand, especially in the middle income countries, the rapid pace of urbanisation in all developing countries and the deterioration of the environment. The remaining 22% of the Community's agricultural exports consists of products for which the developing countries are net exporters. There is therefore direct competition between EEC products and those of the Third World. The main products concerned are sugar, for which the Community has been a traditional net exporter, and beef and veal, for which it has been a net exporter

(1) In a study by the EEC Commission on the impact of the CAP on the Third World (Sec (82) 1223), 14 July 1982.

since 1979/80. The Community has tried to respond to some of the criticisms leveled against its sugar export policy by stockpiling several million tonnes instead of unloading them on the world market.

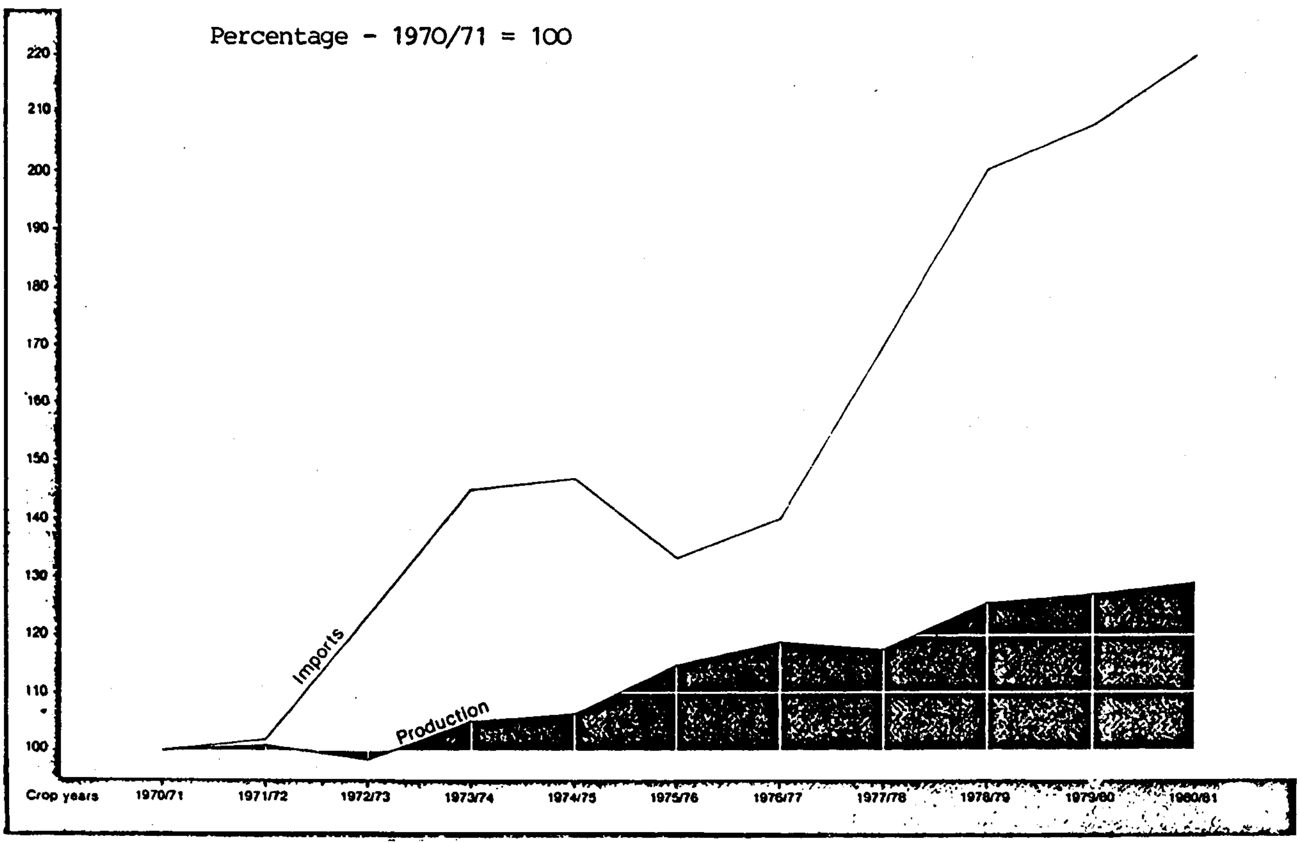
While there is little doubt that subsidised EEC exports of cereals, dairy products and meat help cover the immediate food shortages of the developing countries, their longer term effects are less positive. By offering these products at cheap (subsidised) prices, the Community risks in the recipient country removing the vital element of incentive necessary to stimulate local production as well as bringing about lasting changes in preferences for foods which cannot be locally produced.

Cereals are a special case

Cereals are the basic food for most of mankind. As such, they may hold the key to world food security. But the slow growth of Third World cereals production and their rapidly expanding imports is creating a situation of excessive dependence. As can be seen from Table VI, output in the developing countries has risen by 20% in the past ten years, while imports are up by 120% during the same period. EEC experts estimate that if present trends continue, Third World cereals imports are set to double again from the present level of nearly 100 million tonnes a year to 200 million by the year 2000.

TABLE VI

CEREAL PRODUCTION AND IMPORTS OF DEVELOPING COUNTRIES[1]



(1) Cereals comprise wheat, rice in milled equivalent and coarse grains.

Source : FAO, The Dimension of Needs.

Besides the growing degree of import dependence, the present situation gives several causes for concern :

1. While some Third World countries, such as the oil exporters, can pay for large cereals imports, most of the rest have serious balance of payments problems wich limit their capacity to import in order to satisfy needs.
2. As the amount of imports has risen the proportion represented by food aid shipments has fallen considerably. In 1970/71 when developing countries imported 43 million tonnes of cereals, food aid accounted for 30% of the total. Now that imports are running at nearly 100 million tonnes food aid makes up only 10% of the overall total, although the figure is higher (18%) for the least developed countries.
3. The poorest countries are among those where the increase in imports has shown the steepest rise.
4. The cereals bill of the developing countries is now the equivalent of two-thirds of the official development assistance from all sources.

Although they have increased imports, the developing countries have not increased their share of world cereal stocks, a vital element in world food security. These are heavily concentrated in North America and several other developed countries. Too few Third World states have developed food security policies and external financial assistance for the creation of stocks has been inadequate. This is an important aspect of the problem since the effectiveness of stocks depends not only on their volume but also on their availability at the right time in the right place.

The FAO considers a minimum security level of cereals stocks to be 17% of annual world consumption. This proportion fell to 13% during the shortage years of 1973/74.

Although since then it has largely been above the minimum level (see Table VII), it fell to 15% in 1980/81 and may well drop below the critical 17% level again during the present decade.

TABLE VII

WORLD CEREALS STOCKS

	1978/79	1979/80	1980/81	1981/82 estim.	1982/83 forecast
	(...............		millions tons		............)
Rice (milled)	43	42	41	43	42
Wheat	117	103	95	101	109
Coarse grains	114	110	93	128	149
All cereals	274	255	229	271	300
Developing countries	96	97	96	96	98
Developed countries	177	158	134	175	202
Stocks as % of world cereal consumption	(.................		percent		................)
	19	18	15	18	19

Source : FAO, Food Outlook (September 1982).

Why should world cereals trade be increasingly dominated by the western industrialised countries, particularly the United States and Canada ?
One reason is of course that the advanced countries, where much of the research was carried out, were among the first to benefit from the Green Revolution.

These countries were also the ones best able to invest in new varieties, in modern production methods and in more intensive use of fertilisers and other inputs. But they were also able to respond quickly to changing food consumption patterns. Cereals production was stimulated less by the demand for direct human consumption but rather by the need for feed grains for livestock. This reflected the rising demand, particularly in the industrialised countries for high value products such as meat, poultry and dairy produce. More than 600 million tonnes of cereals are fed to animals every year.

Although it is sometimes argued that this amount of grain could feed 2.5 billion people, more than twice the number of the world's population who do not get enough to eat, the problem is not a simple one. For the Third World to be able to buy these cereals would require a massive transfer of purchasing power from the rich to the poor countries. In addition, as we have seen, the long term effects of imports on this scale would certainly put paid to efforts by the poor countries to develop their own food production.

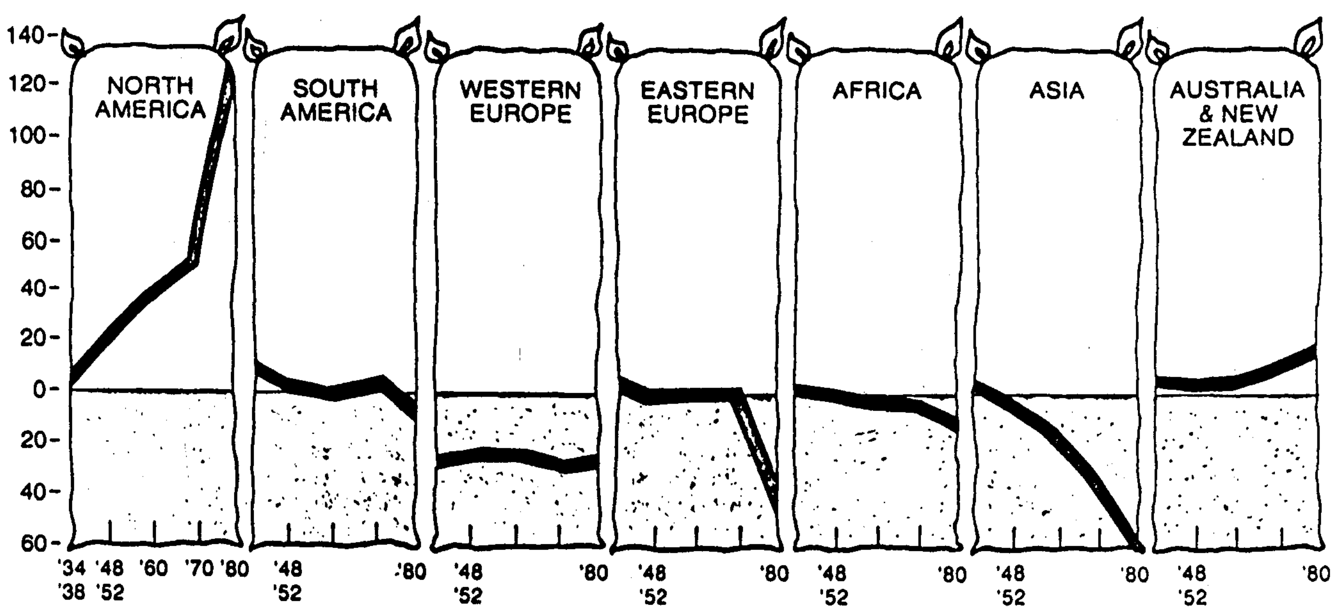
At the beginning of the 1970's, the western industrialised countries accounted for 70% of world cereals exports; by 1980 the figure had risen to 80% (90% for wheat, 80% for coarse grains and 33% for rice). There was an increasing concentration in North America although the EEC became a significant exporter at the end of the 1970's.

Table VIII shows the spectacular rise in net exports of the United States and Canada. Despite rising exports, the European Community remained a net importer because of its need for feed grains from abroad (particularly from the US).

TABLE VIII

HOW THE PATTERN OF GRAIN EXPORTS AND IMPORTS HAS CHANGED

Net exports in millions of metric tons, white area;
Net imports, shaded area.



Source : Lester Brown, Building a Sustainable Society.

Food aid

Given the growing needs of the poorest countries who cannot pay for food, energy and other essential imports, food aid will continue to be an essential facet of world development strategies for a long time to come. It has come under fire because of its demobilising effect on governments and farmers in recipient countries and because it is sometimes subject to "political" conditions imposed by the donor country. But provided governments receiving food aid make it available locally at reasonable prices and ensure its fair distribution its disruptive effects can be kept to a minimum.

There is no feasable alternative at the moment. Given rising food import requirements among the developing countries and their limited capacity to import it on commercial terms, food aid needs will rise considerably in the 1980's. This will be the case even if there are considerable improvements in Third World production levels. But food aid in cereals, for instance, has been stagnant for the past five years, fluctuating between 8.5 million tonnes and 9.5 million tonnes annually. Three quarters of this amount goes to the least developed countries, but as their needs rise, the proportion of their imports covered by food aid has fallen (from 24% in 1977/78 to 18% in 1981/82). The European Community is the second biggest donor of cereals after the United States. The EEC is also a major donor of food aid in the form of dairy products (skimmed milk powder and butter). In 1980 it granted 150,000 tonnes of milk powder and 45,000 tonnes of butteroil in aid. India and Egypt were among the principal beneficiaries.

Food aid is however at best a palliative. The industrialised countries need to maintain and increase their overall financial support aimed at boosting Third World agricultural production. In real terms official assistance to agriculture doubled in the period 1973/78 but has not moved up significantly from the annual rate of 10 billion Dollars reached at the end of this period.

The improvement in local food production requires a collective effort. Third World governments should through policy measures redress the imbalance between industrialisation on the one hand and agricultural and rural development on the other. They should also provide the necessary incentives to farmers in the form of adequate prices for their products while ensuring the availability of vital inputs as well as improving irrigation,transport, storage and marketing facilities.

A growing number of developing countries are trying to bring these elements together in a national food strategy.

Industrialised countries can support these efforts a number of ways :

-- by helping to adapt their own advances in research and technology to local conditions. This has been a particular problem for Africa.
-- by contributing to investments in machinery and agricultural infrastructure.
-- by training programmes to increase the level of human skills.
-- by providing food aid on terms that would permit recipient countries to integrate it into their national strategies.
-- by cooperating directly with countries in the implementation of their national strategies. The EEC is already doing this with several African states, such as Mali, Zambia, Kenya and Rwanda.

INTERDEPENDENCE

THE NORTH AND THE SOUTH OF THE PLANET HAVE LONG BEEN INTERDEPENDENT. RAW MATERIALS OF THE SOUTH WERE NEEDED BY THE INDUSTRIES OF THE NORTH. THE ECONOMIC DEVELOPMENT OF THE SOUTH REQUIRED MANUFACTURED PRODUCTS, CAPITAL AND KNOW-HOW FROM THE ADVANCED COUNTRIES. BUT THIS STATE OF INTERDEPENDENCE HAS BEEN CONTAINED IN THE GLOBAL ECONOMIC FRAMEWORK SET BY THE INDUSTRIALISED COUNTRIES.
IT TOOK THE FIRST OIL SHOCK OF 1973/74 TO PROVOKE A BREACH IN THIS ONE-SIDED DOMINATION.

THE RESULT WAS THE FIRST SERIOUS ATTEMPT TO SEE WHETHER NORTH-SOUTH RELATIONS COULD BE PUT ON A MORE STABLE AND EQUITABLE BASIS. PROGRESS TO DATE HAS BEEN DISAPPOINTING. YET, FOR INSTANCE, BOTH SIDES HAVE A COMMON INTEREST IN OBTAINING, AND SUPPLYING, ENERGY AND RAW MATERIALS IN SUFFICIENT QUANTITIES AND AT REASONABLE PRICES. BUT THIS KIND OF STABILITY ENTAILS FAIR DEALS FOR BOTH CONSUMERS AND PRODUCERS OF THESE PRIMARY PRODUCTS WHICH ARE AT THE HEART OF NORTH-SOUTH INTERDEPENDENCE. EXPORTERS AND INVESTORS NEED STABLE PRICES, OR AT LEAST STABLE INCOMES. THE INDUSTRIALISED COUNTRIES HAVE A DIRECT INTEREST IN RAISING THE PURCHASING POWER OF THE THIRD WORLD. THESE NATIONS ARE ALREADY THE BIGGEST MARKET FOR CAPITAL GOODS AND FOOD PRODUCTS EXPORTED BY THE EUROPEAN COMMUNITY.

INTERDEPENDENCE CAN MEAN COOPERATION, BUT IT CAN ALSO MEAN RIVALRY. IF THE FRUITS OF INTERNATIONAL ECONOMIC COOPERATION CANNOT BE SHARED EACH SIDE WILL TEND TO TURN AWAY FROM THE OTHER. INDUSTRIALISED COUNTRIES HAVE CUT INVESTMENTS IN THE THIRD WORLD BECAUSE OF A CONFLICT OVER HOW PROFITS SHOULD BE SHARED. IN OTHER SECTORS, IT IS THE THIRD WORLD THAT FEELS UNFAIRLY TREATED BY THE ADVANCED NATIONS. IT IS DISSATISFIED

WITH THE TERMS OF TECHNOLOGY TRANSFERS AND THE CONTINUED DOMINATION BY THE NORTH OF TRADING AND RAW MATERIAL ARRANGEMENTS.

THIS IS NOT TO SAY THAT INTERDEPENDENCE SHOULD BE REGARDED AS A SUBSTITUTE FOR SELF-RELIANCE. THE TWO ARE COMPLEMENTARY. MORE RELIANCE ON ONE'S OWN RESOURCES REDUCES EXCESSIVE DEPENDENCE. THUS, THE DEVELOPMENT OF TECHNOLOGICAL EXCHANGES AND PREFERENTIAL TRADING ARRANGEMENTS WITHIN THE THIRD WORLD (SOUTH-SOUTH COOPERATION) ARE POSITIVE STEPS TOWARDS A WIDER AND MORE UNIVERSAL SYSTEM OF COOPERATION. IT IS WHEN NORTH AND SOUTH FOLLOW POLICIES THAT ARE TOO INWARD-LOOKING THAT THE RISK OF THE FURTHER WASTE OF ALREADY SCARCE RESOURCES INCREASES. TRANSACTIONS BETWEEN THE TWO GROUPS WOULD THEN BECOME MORE COSTLY AND LESS RELIABLE.

SUCH A TREND WOULD UNDERMINE THE BASIS FOR LONG-TERM COOPERATION TO SOLVE THE WORLD'S BIGGEST PROBLEMS - POVERTY, HUNGER, THE DESTRUCTION OF THE ENVIRONMENT. UNTIL NOW, THE MAJORITY OF PROPOSALS THE THIRD WORLD HAS PUT FORWARD, WHATEVER THEIR TECHNICAL MERITS, HAVE HAD ONE THING IN COMMON : A COMMITMENT TO INTERNATIONAL COOPERATION. INEVITABLY THE CURRENT RECESSION HAS LOWERED EXPECTATIONS. BUT THE CASE FOR WORKING TOGETHER TO SEEK A MORE REALISTIC BASIS FOR COOPERATION IN LINE WITH THE MORE DIFFICULT WORLD ENVIRONMENT OF THE 1980'S REMAINS A STRONG ONE.

Interdependence and the North-South Dialogue

Reduced to its simplest expression, interdependence means that the industrialised countries need the raw materials found in the Third World, which, in turn, needs the technical products, human skills and financial resources concentrated in the advanced countries. But interdependence also means much more. In a world where the economy has been internationalised, where communications have shrunk distances, developments in one region have an impact on the rest. Although self-reliance is a healthy instinct, purely local solutions are sometimes difficult to apply. Increasingly, the issues of energy, trade, finance, the protection of the environement have to be handled in a global context. Economic growth in one country or region is partly dependent on the performance of others. The South cannot grow without the North, while the North depends on a more developed South if it is to continue to prosper. Each is now feeling the impact of the current recession (see Table I).

TABLE I

NORTH & SOUTH GNP GROWTH 1970-1981

	1970/77	1978	1979	1980	1981
All developing countries					
GNP total	5.8	5.9	4.8	5.0	2.2
(per capita)	(3.5)	(3.8)	(2.8)	(3.0)	(0.2)
Industrialised countries					
GNP total	3.4	4.0	3.3	1.2	1.3
(per capita)	(2.5)	(3.4)	(2.6)	(0.6)	(0.7)

Source : World Bank, Annual Report 1982.

While this state of interdependence has existed since colonial times, awareness of it has increased since the 1960's. There is now a clearer realisation of these common problems and common constraints. The world's resources are, after all, finite. Scarce resources, be they of energy, food, minerals or just breatheable air and drinkable water, need to be managed in common.

But interdependence is sometimes misunderstood. The term has come to be treated by some as shorthand for unilateral concessions by the North in favour of the Third World. Some developing countries have tended to consider part of their developmental problems as solvable only in the North-South framework rather than first applying internal adjustment measures at home. As world trade slows down, the rate of integration of the developing countries, particularly the poorest among them, into the global economy will also slow. International efforts must also aim therefore at reinforcing the self-reliance of developing countries - individually and collectively - in the difficult years ahead.

It took the first oil price rises imposed by the OPEC members in 1973/74 to bring the concept of interdependence into sharp focus. Whereas previously the industrialised countries that controlled the world trading and production system had been reluctant to recognise the extent of world interdependence, the oil shock gave them no choice. For the first time, a group a Third World countries succeeded in breaking their domination.

As a direct result, the mechanism was created for a global North-South dialogue which culminated in the unsuccessful Conference on International Economic Cooperation (CIEC) which took place in Paris between December 1975 and June 1977. The oil weapon was used to force the industrialised countries to the negotiating table to examine the demands of the Third World, some of which had been formulated 20 years previously at the Bandung Conference. At the conference, the North wanted assurances on energy supplies and prices, the South trading mechanisms that took account of their raw material exports, the cancellation or rescheduling of debts and access to industrialised countries' technology.

Neither side got much of what it wanted. The main reason for the failure of the dialogue has been the ambiguity on the part of North and South, but particularly by the industrialised countries, as to whether the dialogue should be approached in a spirit of confrontation or cooperation. Interdependence does not automatically point to solidarity; it can sometimes have the opposite effect as each side tries to maximise its advantages over the other.

Efforts to restart the global North-South dialogue in recent years have yielded nothing. One cause has been the attitude of the United States. The Reagan administration considers the best policy for the developing countries is still to follow the pattern of progressive integration into the world market. In addition, if energy problems are a barometer of North-South relations, pressure has fallen considerably. Energy-saving measures in the industrialised countries, coupled with the drop in demand resulting from the recession, and the development of non-OPEC sources have combined to change the balance on the world energy market. While OPEC production still represented 51% of output in 1977, this figure had fallen to 36% of a smaller total output by 1982. The risk of a third oil shock, though still possible, seems to have receded for the time being.

However, not all industrialised countries share the U.S. approach. The European Community is far more dependent on outside sources of energy products and other raw materials than the United States. It also retains an element of post-colonial responsibilities (and privileged trade relations) with regard to former dependent territories of member states. It tends, therefore, to give a higher priority than the Americans to relaunching negotiations with the developing countries. Failing agreement among the advanced nations as a group, the Community may move ahead on its own to consolidate links in those areas of North-South cooperation in which it is particularly interested.

The dynamic elements of interdependence as they manifest themselves in trade between North and South, in the industrialisation process of the Third World and in the financial relations between rich and poor are each dealt with separately in the following chapters of this document. Here we will look at the fundamental determining factors in North-South relations, energy and raw materials.

Energy

Energy is a problem for rich and poor alike. The majority of the world's nations, be they to the North or South of the planet, depend on imports to cover part (very often the major part) of their energy requirements. The principal energy source is oil, although its proportion in total consumption is scheduled to diminish as consumers increase conservation measures and diversify to other sources. But oil is still set to dominate the energy market for the foreseeable future.

Although the advanced countries account for 85% of world oil consumption and the Third World only 15%, oil represents two-thirds of primary energy used by the developing countries, a higher proportion than in the industrialised countries. Although starting from a much lower base, developing countries have been increasing their imports of oil at a faster pace in recent years than the advanced countries. Needless to say they still have a long way to go. One American uses as much commercial energy as two Germans, three Swiss or Japanese, six Yugoslavs, nine Mexicans or Cubans, 16 Chinese, 19 Malaysians, 53 Indians or Indonesians, 109 Sri Lankans, 438 Malians, or 1072 Nepalese. (1)

In many ways, oil is the ideal fuel for the developing countries. In traditional on-shore areas it is cheap to produce, relatively cheap to transport and extremely simple to utilise. But it is also by far the most internationally traded energy source and as such highly sensitive to global imbalances in supply and demand. However, high oil prices have helped choke off demand while encouraging the development of oil fields in hitherto unexploited regions. Since the second oil shock of 1979/80 which followed the revolution in Iran, the balance in the oil market has started to swing back in favour of consumers. The turn-round has helped essentially the industrialised countries who have been able to maintain their exports of manufactured goods and thereby reduce their oil deficits. The oil deficits of the three main industrialised regions, the United States, the EEC and Japan totalled 220 billion Dollars in 1980, but this was nearly offset by their combined surplus in manufactured goods of about 210 billion Dollars. The EEC alone had a manufacturing surplus with the OPEC countries of 40 billion.

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(1) Figures taken from : North-South : A Programme for Survival ("The Brandt Report");Pan Books (London, 1980).

The oil-importing developing countries, apart from a handful of NIC's, do not have this possibility of paying their oil bill with exports of manufactures. In fact, as Table II shows, their oil deficit is in fact less than 20% of their deficit in manufactured goods. They are ill equipped, with only their raw materials as principal resource, to offset the cost of imported oil and manufactured goods, many of them capital equipment for their development programmes. Their payments surpluses on foodstuffs and industrial raw materials have increased far more slowly than their deficits for the other two categories. For over 20 developing countries, energy imports now account for more than 30% of the value of their overall exports.

TABLE II

TRADE BALANCES OF NON-OIL DEVELOPING COUNTRIES, BY COMMODITY GROUP

(In billions of US Dollars)

	1965	1970	1975	1979
TOTAL	- 6.3	-11.7	-45.7	-66.6
Primary commodities, excl.				
Fuels	10.0	14.5	22.6	35.8
Foodstuffs	4.5	6.2	10.8	18.9
Industrial raw materials	5.5	8.3	11.8	16.9
Fuels	- 1.0	- 1.8	-10.4	-19.1
Manufactures	-15.3	-24.4	-57.9	-83.3

Source : UNCTAD, Trade and Development Report, 1981.

Whenever the oil market is in a period of oversupply, efforts by industrialised countries to diversify out of oil into other, basically more expensive and less flexible sources, ease up. Yet, contrary to the developing countries, the North, particularly the western industrialised countries, have good long-term reasons for reducing their dependence on a technically-cheap energy source like oil. As Table III shows, the present proven oil reserves are heavily concentrated in the Third World, where just over 70% of them are located. Western industrialised countries hold less than 10% of oil reserves, yet account for 60% of current consumption.

Although at present rates of consumption, the proven oil reserves provide only another 30 years guaranteed supply, there is about twice as much again (180-200 billion tonnes) already identified as additional recoverable resources and new discoveries can be expected as current exploration efforts yeild their results.

TABLE III

OIL : WHERE IT COMES FROM... AND WHERE IT GOES...

	Proven reserves (bn tonnes)	%	Consumption (mn b/d)	%
North America	5.0	(5.5)	17	(28.6)
Latin America	11.4	(12.7)	4	(6.7)
Middle East	48.7	(54.1)	2	(3.4)
W. Europe	3.3	(3.7)	14	(23.5)
Africa	7.5	(8.3)	1.5	(2.6)
E. Europe & Soviet Union	11.5	(12.8)	11.5	(19.3)
Japan	-	-	4.5	(7.5)
Asia/Pacific	2.6	(2.9)	5	(8.4)
	90	(100%)	59.5	(100%)

Source : Oil & Gas Journal, International Energy Agency (IEA).

The huge increases in oil prices imposed by the OPEC countries have, as has been seen, caused major difficulties for many oil importers in the Third World. However, despite their apparently contradictory interests, the developing countries have maintained more solidarity among each other during North-South negotiations than the industrialised nations. Third World solidarity has been possible for two reasons. The first is that the OPEC countries have used the oil weapon on behalf of the developing countries as a whole in order to push the industrialised states into a meaningful global dialogue on the whole range of issues the Third World wanted to negotiate in the framework of their New International Economic Order (NIEO). The second reason is that the OPEC countries have accepted considerable responsibilities for granting financial aid to other developing countries as a result of their higher oil revenues. If one leaves aside the poorer OPEC countries like Indonesia, Nigeria, Venezuela and Iran, the Arab oil exporters give eight times more official development aid than the western industrialised countries as measured as a proportion of Gross National Product (GNP) and massively more than the Soviet Union and its East European partners.

Raw materials

Even before North-South divergences cristallised around energy, food products and raw materials in general were already the key element in the global rich-poor relationship. This is true even if primary products (excluding energy) represent a relatively small share of industrialised countries' imports. The proportion of these items in the European Community's imports is about 15%. This is also true although raw materials represent the declining rather than the dynamic sector of Third World development.

Why should this be ? For one thing, because they form the oldest economic link between South and North, they carry the weight of historic injustices. Since raw materials, until very recently were the only goods exported by developing countries, their demands for a change in the world economic order grew up around raw materials-related issues. Finally, raw materials nearly always involved land resources, particularly in the cases of minerals and metal ores, which raised questions of national sovereignty. The exploitation of their human resources by using them as cheap labour in plants set up by foreign investors has always been a less sensitive issue with Third World governments than exploiting subsoil resources constituted millions of years ago.

World raw material reserves are concentrated in the large continental land masses of North and South America, the Soviet Union, Australia and Africa. Of these regions, Africa's riches are the least charted and the least developed. With certain exceptions, the territory of the European Community is poorly endowed with mineral resources. It is therefore heavily dependent on imported minerals and metals. These can come from other advanced countries or from the Third World. Developing countries reserves are crucial for certain materials in particular : tin, bauxite, nickel, cobalt, etc. The same is also true for certain tropical agricultural products such as cocoa, coffee, tea, palm oil and bananas.

Table IV indicates the level of import dependence of the EEC for certain key mineral products, compared with that of Japan and the United States. While Japan is even more poorly endowed that the Community, the American level of external dependence is considerably lower than the other two. Hence its interest in direct producer-consumer cooperation is less marked.

TABLE IV

LEVEL OF IMPORT DEPENDENCE OF THE EC, UNITED STATES AND JAPAN

imports as a percentage of consumption

	EC	USA	JAPAN
Aluminium	61	85	100
Copper	81	-	90
Lead	53	4	76
Nickel	100	71	100
Tin	87	75	97
Zinc	68	64	80
Iron ores	79	29	94
Manganese	100	99	90
Chromium	100	91	100
Tungsten	99	54	
Uranium	59		
Phosphates	99	-	100
Asbestos	100	83	100

Source : EEC Commission and World Bank.

But this level of import dependence has a mirror-image of export dependence which is much more crucial for many Third World countries, whose export earnings depend on sales of a very small range of primary products.
For seven among them, more than 75% of their export earnings come from mineral products : Chile, Mauritania, Namibia, Surinam, Togo, Zaire and Zambia.
For a further seven the export dependence is 50-75% : Bolivia, Jamaica, Jordan, Liberia, Morocco, Niger and Papua-New Guinea.
It is between 25% and 50% for a further two : Guyana and Peru.

As has been seen, the price of non-fuel raw materials, the principal exports of a large number of developing countries outside the small group of major oil exporters or NIC's, has risen more slowly than the energy products and manufactured items they have to import. Many of these countries are members of the low income group and falling revenues from raw materials partly explain why this group's share of world exports has fallen from 3.5% in 1965 to 1.9% in 1980. With more than 60% of their food and agricultural materials and 80% of their mineral exports going to western industrialised countries, the commodity trade of the developing nations is acutely sensitive to economic conditions in these countries. Instability has been a permanent feature of raw material prices.

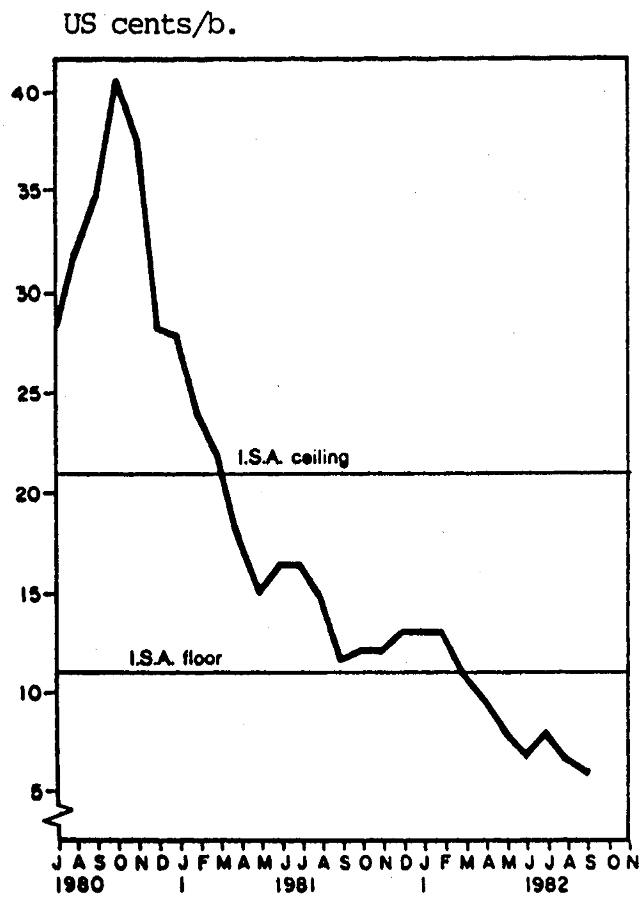
As we have seen, this trade is largely controlled by multinational corporations based in the industrialised countries who have traditionally shipped commodities in raw form from the developing countries for processing and marketing in the consumer countries. For a wide range of commodities, over 90% of developing countries' exports are in raw form. Vested interests have therefore prevented major progress towards local processing from taking place.

Raw materials, have thus become the object of bargaining at two levels. One concerns the producer countries' demand for new trade mechanisms to replace current arrangements which, although perceived as free by the industrialised consumers, are perceived as managed - to their disadvantage - by the developing countries. Individual commodity agreements have had only limited success. One of the most comprehensive, that for sugar, has been unable to contain the irresistable pressures of market forces, when they force prices below the floor level set by the International Agreement (Table V).

Recent efforts have centred round the integrated programme on commodity agreements set up by UNCTAD in 1976 and the subsequent decision to create a common fund to finance commodity agreements. But these initiatives have made only limited headway.

TABLE V

INTERNATIONAL SUGAR PRICE



Source : FAO, Food Outlook, (October 1982).

The difficulties in organising international schemes for stabilising raw material prices have encouraged efforts to devise other stabilisation measures, such as compensation for export shortfalls rather than trying to regulate the market itself. The European Community, through its Stabex scheme for agricultural commodities and its Sysmin arrangement for minerals, has made a considerable effort to stabilise export earnings of the developing countries of the African-Pacific-Caribbean (ACP) group associated with it in the Lome convention. Despite this effort by the Community, and the more wide-ranging scheme operated by the International Monetary Fund (IMF) through its compensatory financing arrangements, only a fraction of Third World export shortfalls are being compensated.

The second level of bargaining concerns essentially a redistribution of benefits between the host country in the Third World and the foreign investor in a mining or agricultural enterprise operating on its territory. In their desire to redress previous imbalances, host governments have resorted to nationalisation and expropriation, often without adequate compensation. The result is that much new investment in raw materials and mining has been transferred, where this is possible, to industrialised raw material producing countries. As can be seen from Table VI, the European Community has for one reduced its dependence on imports of primary products from the Third World, especially for agricultural raw materials and non-ferrous metals in favour of other industrialised countries. This import trend reflects a similar diversion of investment flows.

TABLE VI

ORIGIN OF PRIMARY PRODUCTS IMPORTED BY THE EEC : 1973-1980

(in %)

	Food products		Non-food agricultural raw materials		Mineral products		Fuels		Non-ferrous metals	
	1973	1980	1973	1980	1973	1980	1973	1980	1973	1980
IMPORTS EXTRA-EC	100	100	100	100	100	100	100	100	100	100
-INDUSTRIALISED COUNT	41.8	42.0	45.8	52.6	43.8	46.8	4.5	9.7	38.5	50.8
North America	25.8	26.7	14.3	20.7	25.0	32.5	2.5	2.1	19.2	22.7
SOUTH AFRICA,AUSTRALIA,N.ZEALAND	8.0	5.1	13.1	9.6	8.3	12.8	0.5	1.0	9.6	9.2
-STATE TRADING COUNTRIES	7.5	4.8	11.2	11.0	6.3	4.4	6.6	10.9	9.6	6.8
-DEVELOPING COUNTRIES	42.7	49.1	29.0	26.5	37.5	37.9	88.5	77.9	42.3	33.0
Oil-exporting develop. countries	3.3	3.5	3.7	2.8	4.2	2.6	85.7	71.0	1.9	4.1
Non-oil develop. countries	39.4	44.6	25.2	23.7	33.3	32.3	2.8	6.9	40.4	28.9

Source : GATT - International trade 1980/81.

But beyond the desire for internationally agreed investment codes for host countries and codes of conduct for multinational corporations, the essential interest of both producers and consumers is in stable and remunerative prices. Past efforts, where each side has tried to make the most of the advantages it enjoyed at a given time, have failed to grasp the need for long-term mutually-acceptable arrangements. Nationalisation of resources by a developing country can lead to their sterilisation. The lack of adequate Third World investments by industrialised countries will make sure that when the next commodity crisis occurs its effect will be more harmful than it would otherwise be.

TRADE

FOR THE DEVELOPMENT STRATEGISTS OF THE 1960'S, TRADE WAS TO BE THE VERY STUFF OF ECONOMIC AND SOCIAL PROGRESS IN THE THIRD WORLD. PREFERENTIAL ACCESS TO THE MARKETS OF THE INDUSTRIALISED COUNTRIES WOULD ENSURE THE EXPORT GROWTH WHICH PROVIDED THE REVENUES FOR IMPORTING GOODS AND SERVICES VITAL FOR THEIR OVERALL DEVELOPMENT. THE ABILITY OF INDIVIDUAL DEVELOPING COUNTRIES TO FINANCE A GREAT PART OF THEIR ECONOMIC ADVANCEMENT THROUGH EXPORT EARNINGS ALSO DETERMINED THEIR ABILITY TO SERVICE THEIR DEBTS AND THEREFORE TO BORROW MONEY FROM INTERNATIONAL BANKS. BESIDES EXPORTING THEIR PRIMARY PRODUCTS, THE DEVELOPING COUNTRIES WOULD GRADUALLY BE ABLE TO DEVELOP LABOUR-INTENSIVE MANUFACTURED PRODUCTS FOR WHICH THEIR CONSIDERABLY LOWER LABOUR COSTS GAVE THEM A COMPARATIVE ADVANTAGE OVER THE ADVANCED COUNTRIES. AS TIME WORE ON, THEY WOULD MOVE UP-MARKET INTO QUALITY PRODUCTS AND HIGHER TECHNOLOGY SECTORS.

THIS STRATEGY HAS WORKED FOR THE NIC'S. THEY HAVE FOLLOWED POLICIES OF EXPORT-LED GROWTH, CONCENTRATING FIRST ON TEXTILES, CLOTHING AND FOOTWEAR, AND THEN MOVING INTO THE PRODUCTION OF ELECTRONIC COMPONENTS AND BASIC SECTORS OF HEAVY INDUSTRY SUCH AS STEEL AND SHIPBUILDING. THANKS TO SUCCESSIVE OIL PRICE INCREASES, THE PETROLEUM EXPORTING COUNTRIES HAVE ALSO SUCCEEDED IN ATTAINING HIGH LEVELS OF EXPORT-INDUCED GROWTH.

BY CONTRAST, MOST LOW-INCOME THIRD WORLD COUNTRIES AND MANY PRIMARY-PRODUCING MIDDLE INCOME ONES DID NOT HAVE THE ECONOMIC STRUCTURES OR HUMAN SKILLS TO ALLOW THEM TO TAKE PART IN THE BOOMING WORLD MARKET FOR MANUFACTURES THAT LASTED THROUGHOUT THE 1960'S AND MOST OF THE 1970'S.

THEY ALSO SUFFERED AN ADDITIONAL DISADVANTAGE IN THAT THE PRICES OF MOST OF THEIR RAW MATERIALS HAVE EITHER DECLINED OR INCREASED MORE SLOWLY THAN THOSE OF OIL OR MANUFACTURED GOODS.

BUT EVEN THE NIC'S AND THE OPEC COUNTRIES HAVE BEEN HIT BY THE WORLDWIDE RECESSION OF THE EARLY 1980'S. DEMAND FOR THEIR EXPORTS IS EASING, AND THIS TREND IS BEING REINFORCED BY PROTECTIONIST MEASURES BEING TAKEN BY INDUSTRIALISED COUNTRIES. THE MULTI-FIBRE ARRANGEMENT WHICH LIMITS TRADE IN TEXTILES AND CLOTHING IS A STRIKING EXAMPLE. TRADE HAS VIRTUALLY STOPPED GROWING. SHOULD GROWTH RATES PICK UP AGAIN IN THE FUTURE IT WILL PROBABLY BE AT A SLOWER RHYTHM THAN PREVIOUSLY. IN SUCH CIRCUMSTANCES, THERE IS LITTLE CHANCE THAT THE ADVANCED NATIONS WILL PERMIT A RETURN TO THE FREE MARKET CONDITIONS THAT CHARACTERISED THE PREVIOUS 20 YEARS. IT IS THEREFORE UNLIKELY THAT THE MODEL OF GROWTH BASED ON THE PRODUCTION OF EXPORTABLE GOODS THAT HAS PROVED VALID FOR THE PRESENT NIC'S WILL BE AVAILABLE TO THE NEXT GENERATION OF COUNTRIES STRIVING TO ATTAIN THE POINT OF ECONOMIC TAKE-OFF. TRADE WILL REMAIN IMPORTANT, BUT ITS DIMINSHED ROLE IN DEVELOPMENT TERMS WILL HAVE TO BE COMPLEMENTED IN OTHER WAYS. THE ALTERNATIVES HOWEVER APPEAR LIMITED.

Trade is vital for development

Trade plays a double role in the development process. At the basic level, exports of primary products by developing countries have generated revenues that have enabled them to import some of the capital and consumer goods required for their economic and social advancement. At a second stage in the development process, the vast markets of the industrialised countries provide the outlets for the first and second generation of manufactured goods produced by Third World nations.

This textbook approach to trade and industrialisation has been at the centre of two decades of Third World development. Until the mid-1970's, while world trade as a whole was still expanding rapidly, there was room for everybody. The advanced countries positively encouraged the industrialisation of the Third World through investments, credits and assured access to their markets for their export-oriented industries. In fact, world trade as a whole was expanding in this period much faster than that of the developing countries.

Exports of manufactures were the fastest growing sector. Worldwide, a doubling in the growth rate of trade in manufactured goods more than made up for slower expansion of trade in food and other (non-fuel) raw materials. Among the developing countries, the principal beneficiaries of this trend were the NIC's who, by active export promotion policies and diversifying into a wider range of industrial products, were able to expand their markets well into the post-1973 recession period. Globally, the Third World raised its share of the manufactured goods imported by the industrialised countries from 7% in 1970 to 13% ten years later.

But closer analysis of these figures reveal how much of this growth was concentrated in the hands of a very small number of NIC's. According to UNCTAD figures, the eight or so fast growing NIC's in its classification accounted for 62% of all manufactured goods exported by the Third World by 1977. More recent figures, show that for example only three developing countries - Hong Kong, South Korea and Taiwan - accounted for not less than 42.6% of all manufactured items from the Third World imported by the European Community in 1980. These three countries were the only group, with which the Community has a deficit in manufactured goods (Table I). The table also shows the concentration of imports from other NIC's and middle income countries such as Brazil, Mexico and the members of ASEAN. The poorer developing nations such as the ACP group, despite their preferential trade links with the Community, supplied less than 6% of EEC imports of Third World manufactures.

For countries that have remained largely dependent on exports of primary commodities, the trade environment has been less favorable. For one thing, prices of non-oil primary products rose less fast than for fuels and manufactured items. For another, price movements from year to year were erratic, preventing the implementation of coherent development policies. Many countries were reduced to a short-term hand-to-mouth approach to economic planning. A third factor was the protectionist attitude of industrialised countries concerning imports of certain agricultural raw materials from the Third World. World trade in manufactures was fostered by the successive rounds of tariff-cutting negotiations with the framework of the General Agreement on Tariffs and Trade (GATT) as well as by the Generalised Systems of Preferences (GSP's) in favour of manufactured and semi-processed goods from the Third World applied by the main industrialised countries.

TABLE 1

GEOGRAPHIC BREAK-DOWN OF EEC TRADE IN MANUFACTURED PRODUCTS WITH DEVELOPING COUNTRIES

1980

	IMPORTS			EXPORTS			BALANCE
	ECU'S millions	% of Extra-EEC total	% of Third World	ECU'S millions	% of Extra-EEC total	% of Third World	ECU'S millions
THIRD WORLD TOTAL	16,378	16.5	100.-	65,144	38.3	100.-	+ 48,766
. ACP (59 countries)	942	0.9	5.8	11,539	6.8	17.7	+ 10,597
. South Mediterranean (without Libya)	1,781	1.8	10.9	11,777	6.9	18.1	+ 9,996
. GULF + Libya	624	0.6	3.8	18,748	11.0	28.8	+ 18,124
. Other Countries of Asia	10,481	10.5	64.0	10,716	6.3	16.4	+ 235
of which : Indian Sub-Continent	1,531	1.5	9.4	2,925	1.7	4.5	+ 1,394
of which : ASEAN	1,970	2.0	12.0	4,451	2.6	6.8	+ 2,481
of which : Hong-Kong, South Korea & Taiwan	6,980	7.0	42.6	3,340	2.0	5.1	- 3,640
. LATIN AMERICA	1,862	1.9	11.4	11,381	6.7	17.5	+ 9,519
of which : Brazil & Mexico	1,091	1.1	6.7	4,112	2.4	6.3	+ 3,021

Source : Eurostat & Monthly Foreign Trade Bulletins.

Agriculture was largely excluded from these efforts, particularly as far as goods from the Third World which competed with temperate products from the industrialised North were concerned. This partly explains why trade in agricultural products has consistently grown more slowly than trade in manufactures, even in the period preceding the onset of the current recession (Table II).

TABLE II

GROWTH OF WORLD EXPORTS, 1963-1981

(Average annual rate of change in volume, percentages)

	1963-73	1973-81	1974	1975	1976	1977	1978	1979	1980	1981
Total	8½	3½	3½	-3	11	4½	5½	5½	1½	0
Agricultural products	4	4½	-3½	5	9½	2	9	7	3	3
Minerals*	7	-2½	-2½	-7½	4½	2	1½	5	-8	-12
Manufactures	11	5	8½	-4½	13	5	5	5	4½	4½

* Including fuels and non-ferrous metals.

Source : Gatt - International Trade 1981/82.

As can be seen from the table, the overall level of world trade has increased more slowly since 1973 with an average growth rate of 3.5% for the period 1973-1981 as against 8.5% between 1963 and 1973. Only once since 1973 has the volume of world trade expanded at a level higher than the average for the previous decade.

The end of a period of steady expansion

The recession provoked by the two oil shocks of the 1970's has affected world trade in a number of ways. First of all it has brought to an end the period where the relatively open trading system was able to accelerate the integration of developing countries into the world economy.

The industrialised countries and their markets were ascribed the role of a "locomotive" that would pull the developing countries behind it towards higher levels of economic and industrial development. But demand (and imports) in the industrialised countries have been most affected by the recession. As Table III indicates, the industrialised countries' imports actually fell in volume in 1980 and 1981. The performance of the advanced nations is determining for the Third World as the former still account for nearly two-thirds of world imports.

TABLE III

WORLD TRADE SUMMARY, 1963-82

(Percentage changes in volume)

	Average 1963-72	Change from Preceding Year						
		1973	1975	1977	1979	1980	1981	1982
Exports								
Industrial countries	9.0	13.2	-4.6	5.1	6.7	4.6	2.6	2.0
Developing countries								
Oil exporting countries	9.1	14.8	-11.5	0.6	3.0	-12.8	-16.3	-9.0
Non-oil developing countries	6.7	8.9	-0.5	4.7	9.4	5.6	3.9	6.5
Imports								
Industrial countries	9.0	12.1	-8.1	4.2	8.4	-1.3	-2.3	2.0
Developing countries								
Oil exporting countries	8.3	20.3	41.4	15.2	-12.3	14.9	19.8	5.0
Non-oil developing countries	6.2	11.6	-4.4	6.7	11.0	3.9	2.2	3.0

Note : 1982 figures are estimates

Source : IMF, World Economic Outlook, 1982.

Depressed demand in the industrialised countries has reduced the amount of goods they buy from the developing countries. But their imports have also been cut back in another way : through protectionism.

Protectionism

World trade attained its most open phase in the late 1960's and early 1970's after the Kennedy Round of Tariff cutting negotiations had brought about reductions of one-third in the level of duties applied by advanced nations to their imports of manufactured goods. This movement did not, as we have seen, extend to trade in agriculture products which is much less liberalised. The openness of industrial countries's markets during this period was reinforced by the introduction of the Generalised System of Preferences (GSP) which they accorded to imports from the Third World. The GSP gave duty-free access to manufactured and semi-processed goods from developing nations and was also in some cases extended to certain agricultural products as well. The European Community was the first major trading power to introduce a GSP (in 1971). The GSP is a unilateral system applied by the importing country which can change the rules without consulting its Third World suppliers.

As the recession has worsened and as competition from the Third World, particularly the NIC's, has sharpened, the industrialised countries have made their GSP's more restrictive for those developing countries that have drawn most benefits from the system. This trend has been paralleled by a similar development in the Multi-Fibre Arrangement (MFA) which has controlled world trade in textiles and clothing since 1973. The rate at which Third World suppliers are permitted to expand exports to the industrialised countries has been cut back with each successive renegotiation of the MFA.

For instance, the EEC's so-called dominant suppliers have even had to accept actual reductions in their shipments of certain sensitive items in the 1982-86 MFA.

But the MFA is only the tip of the protectionist iceberg. Devices to limit imports of manufactured goods have sprung up, often in the twilight zone outside the control of GATT, in a number of sectors. These measures take the form of voluntary restraint agreements, orderly marketing arrangements, the obligatory respect of minimum import prices, the application of countervailing or anti-dumping duties. They have been imposed by industrialised countries on imports from the developing nations of a wide range of products, including footwear, cutlery, bicycles, tv sets, electrical and electronic components, steel. (1)

It is difficult to calculate the extent of the negative effect on Third World exports of these protectionist measures. For if one can monitor the flow of goods subject to restrictive barriers, it is virtually impossible to assess what their volume would have been had the limitations not been put into place. Given the persistence of the recession and the relentless rise in unemployment levels in the advanced nations, it is unlikely that protectionist pressures will abate during the foreseeable future.

But the recession has also affected the Third World's ability to import products from the industrialised countries. Many non-oil developing nations have had to cut back on other imports in order to set aside enough hard currency to pay for their steeply mounting oil bills. Even the oil exporting countries themselves are importing less. The recession has cut demand for oil even further following on efforts by consumer countries to save energy and develop alternative sources.

(1) According to UNCTAD's Trade and Development Report 1981, industrialised countries restrict imports on at least 280 manufactured items from the NIC's.

In such circumstances, prices eased in real terms between 1980 and 1982. With lower oil revenues, petroleum exporting countries sharply reduced their import growth rate. From nearly 15% in 1980 and 20% in 1981 (see Table III), it had fallen to an estimated 5% in 1982.

The acute level of indebtedness of some developing countries had by 1982 led to a refusal by the international banking system to lend them more money. A number of debtor countries experienced difficulties in earning enough from their exports in order to service their debts. Massive rescheduling operations to postpone debt repayments were improvised. As a first step towards trying to restore a sounder financial situation, many debtor countries have tried to eliminate all but the most essential imports.

The degree of indebtedness of some newly industrialising countries has delayed or at least muted calls by the industrialised countries for the NIC's to open their markets and accept the full impact of GATT free-trade rules.

South-South trade

The exports from the developing countries are largely, but not totally, dependent on access to the markets of the industrialised countries. Trade among the developing countries themselves, "South-South" trade, is growing. According to estimates from the World Bank, (see Table IV) trade between developing countries will rise from 7% of world trade in 1980 to 9% in 1990. The share of Third World exports going to other developing countries is forecast to rise from 27% to 32% during the same period. Most of this growth is likely to be the supply of primary products to oil exporting countries and NIC's. South-South trade in raw materials is expected to rise from 8% to 11% of world trade in these commodities during the 1980's while intra-Third World trade in manufactures will remain unchanged at 5% of the world total. These figures would be higher, of course, if developing countries could agree to liberalise their trade with each other.

TABLE IV

TRADE FLOWS

as a percentage of world trade

Year	Origin \ Destination	North	South	Total
1980	North	50	24	74
	South	19	7	26
1990	North	51	21	72
	South	19	9	28

Source : World Bank, World Development Report 1981.

While the World Bank figures give some cause for optimism, South-South trade is no substitute for South-North export flows. Although increased trade among the members of the Third World boosts their collective self-reliance it is unlikely that its growth will alter the under-privileged status of the least advanced countries or middle income nations still dependent on raw material exports. As Table V indicates, their share of world trade fell from 5.6% to under 2% in the 25 years to 1980.

TABLE V

SHARES OF WORLD MERCHANDISE EXPORTS, 1955-1980

(percent)

Country group	1955	1965	1970	1980
All developing countries	27.3	20.2	18.4	21.4
Low-income	(5.6)	(3.4)	(2.5)	(1.9)
Middle-income	(21.7)	(16.8)	(19.5)	(19.5)
High-income oil exporters	2.1	2.5	2.4	10.2
Centrally-planned economies	8.5	10.9	10.1	7.9
Industrial market economies	62.1	66.5	69.0	60.5
World	100.0	100.0	100.0	100.0

Source : World Bank, World Development Report 1982.

This contrasts sharply with the performance of the major exporters of manufactures (the NIC's) who alone among the world's nations except for oil exporters and Japan were able to raise their share of world exports in significant fashion between 1970 and 1980 (from 6.2% to 8%). The least developed countries risk being left further behind in future. In addition to the slow-down of world trade growth patterns, most forecasters expect prices of their principal raw materials exports to decline further during the 1980's.

Notions about what can be done in the hard times ahead for these countries centre on fostering self-help measures such as assisting them to process some of their raw materials locally, aiding them acquire better commercial and marketing structures in order to profit more from their own domestic and neighbouring markets.

To implement such policies the poorest countries will continue to need large amounts of financial support from outside. It is not clear where this will come from; official development assistance (ODA) from the industrialised countries is not expected to increase signficantly in terms of share of Gross National Product (GNP) over the next few years. If this is the case, donors must concentrate on priority countries even where they feel that their own commercial interests might be better served by granting their aid to other candidates. Given that the advanced nations are no longer ready to allow Third World countries to trade their way forward in the same way as before, they will have to bear a considerable part of the responsibility for devising alternative ways of helping them move ahead.

INDUSTRIALISATION AND TECHNOLOGY TRANSFER

INDUSTRIALISATION OF THE THIRD WORLD AND THE NORTH-SOUTH TRANSFER OF TECHNOLOGY WERE CONSIDERED TO BE A VITAL SHORT-CUT TO ENABLE THE DEVELOPING COUNTRIES TO CATCH UP WITH SOME THE MATERIAL AND SOCIAL WELL-BEING ENJOYED BY THE POPULATIONS OF THE INDUSTRIALISED NATIONS. AS WITH OTHER ASPECTS OF DEVELOPMENT STRATEGY IT HAS WORKED IMPERFECTLY. FOR ONE THING, IT HAS BENEFITTED MAINLY THE MORE ADVANCED OF THE DEVELOPING COUNTRIES OR THOSE WHERE HUMAN SKILLS AND CAPITAL (OR ACCESS TO CAPITAL) COULD BE ADDED TO TRADITIONAL RAW MATERIAL RESOURCES. FOR ANOTHER IT HAS NOT CREATED MORE EGALITARIAN SOCIETIES FOR IN MOST INSTANCES THE ADVANTAGES OF INDUSTRIALISATION HAVE BEEN RESERVED LARGELY FOR THE RULING ADMINISTRATIVE AND BUSINESS CLASS AND TO A LESSER EXTENT THE URBAN WORKFORCE. RURAL ZONES HAVE BEEN NEGLECTED AND DIFFERENCES WITHIN AS WELL AS BETWEEN COUNTRIES ACCENTUATED.

INDUSTRIALISATION AND TECHNOLOGY TRANSFER HAVE ENABLED SOME THIRD WORLD COUNTRIES TO MAKE UP PART OF THE GAP WITH THE ADVANCED NATIONS AND TO PARTICIPATE IN THE WORLD TRADING SYSTEM. IT HAS ALSO IN RECENT YEARS AIDED THE ECONOMIES OF THE INDUSTRIALISED NATIONS BY PROVIDING THEM WITH MARKETS FOR CAPITAL GOODS TO OFFSET THE EFFECTS OF LOWER DOMESTIC DEMAND. BUT INCREASINGLY THE DYNAMIC NIC'S ARE FACING PROTECTIONIST BARRIERS FOR THEIR MANUFACTURED EXPORTS ON THE MARKETS OF THE INDUSTRIALISED COUNTRIES. INDUSTRIALISATION IS LIKELY THEREFORE TO BE A SLOWER AND MORE DIFFICULT PROCESS FOR SECOND-GENERATION NIC'S THAN FOR THEIR HANDFULL OF PREDECESSORS.

THE POOREST DEVELOPING COUNTRIES ARE THE ONES THAT HAVE BENEFITTED LEAST FROM INDUSTRIALISATION. IN 1981, HONG KONG ALONE EXPORTED TWICE AS MUCH CAPITAL GOODS TO THE EUROPEAN COMMUNITY AS ALL THE 63 COUNTRIES OF THE LOME CONVENTION PUT TOGETHER.

Industrialisation works for some...

The industrial and technological superiority of the North is one of the most visible aspects of the North-South gap. The industrialisation of the Third World and the transfer of manufacturing technology from North to South were perceived by the developing countries as the essential means of narrowing the gap and of breaking the domination of the world production and trading structures by the advanced nations. Industrialisation has come to be synonymous with development. It was assumed that it would gradually bestow on the developing countries the same benefits, not only in terms of growth and prosperity but also in terms of job creation, as it had over the years on the industrialised world.

This model of industrialisation based on the Western pattern has worked for a limited group of developing countries who geared their output almost exclusively to the markets of the advanced countries and whose level of human skills and access to sources of financing were better than that of the majority of developing countries.

Besides increasing their export capacities, the NIC's, together with several larger semi-industrialised developing countries such as India, Mexico and Argentina, have absorbed and adapted western technologies, and have themselves established capacities for industrial training and research. But it is far from likely that the factors that have helped them achieve their present positions such as market size, resource endowment, human skills (in terms of education, entrepreneurship and marketing) will be repeated in the case of the majority of Third World countries. Even within this small group progress has been uneven. Internal income disparities remain large, industrial zones are poorly integrated into national structures, social progress is often limited. India, for instance, has provinces as industrialised as any of the NIC's, but also regions of extreme poverty.

A group of 30 or so developing countries mainly in Asia, Latin America and the Mediterranean area are trying to follow in the footsteps of the NIC's. But their chances of rapid success in the present world recession are limited : their main export markets are not expanding fast enough; their capacity to borrow and to expand and improve their productive capacities is restricted by the huge problems posed by overall Third World indebtedness. Their principal exports are of the labour intensive manufactures such as textiles, clothing, and leather goods, which were at the root of the industrialisation process of the NIC's.

World markets for these products are particularly clogged. The very success of the original NIC's themselves is going to make it difficult for the second-generation NIC's to emulate them. Alternative strategies and alternative outlets, especially in the South-South framework,will have to be developed alongside more traditional but slow-growing South-North manufactured trade flows.

The industrialisation and technology transfer process is bound to be affected by the worldwide recession and the increasing problem of Third World debt. Developing countries are going to find it increasingly hard to secure financing for the acquisition of capital goods and technology.

... but less well for others

Despite its clear benefits for the NIC's it must be recognised that industrialisation on the Western model has worked much less well for the majority of developing countries. The shortcomings of the system can too easily outweigh the narrow economic advantages. Plants producing the same type of products using the same techniques as the North are not always competitive. This strategy also discriminates against the rural sector and against small-scale traditional industries. It accelerates the influx of people from the countryside to the cities, creating an urban sub-proletariat.

While the gross national product per capita has risen in the developing countries thanks to industrialisation, the other adjustments which were expected to follow did not occur. The implantation of western production techniques did not create enough jobs relative to population growth,nor did it eradicate poverty. In fact, there is considerable evidence, particularly in the low-income countries, that income distribution became even worse. The fruits of what growth that occured through industrialisation were largely reserved for urban areas and more especially for the small ruling administrative and business class.

Most industrial production in the modern sectors created in the developing countries has been aimed first and foremost at meeting existing patterns of demand for final consumer goods, whether for domestic or world markets. Since the poor have little purchasing power, their needs have not been reflected to any marked degree in the demand structure of the manufacturing sector. This is much more determined by the preferences of higher income groups whose demand for industrial consumer goods takes its lead from the tastes and values of their peers in the industrialised countries.

The purpose of Industrialisation

The record of Third World industrialisation to date raises the question as to the aims of industrialisation and the transfer of technology. Broadly speaking it can serve overall developmental goals in any or all of three ways :

- -- by meeting domestic and/or regional needs for manufactured products,
- -- by processing raw materials locally rather than ship them untreated to the processing industries of the North,
- -- by producing manufactured goods for export to world markets by exploiting the local advantage of cheap labour.

Emphasis so far has been principally on the third of these alternatives since access to the markets of the advanced nations was seen as an essential element in the industrialisation process. There are two reasons for this. Firstly, precisely because the developing countries are poor, they lack initially the home market to absorb the large amounts of goods produced with modern methods; exports must make up the difference. Secondly, these countries need the capital goods sold by the North to equip their industries and acquire the technology needed for their industrialisation. To pay for these, again, exports are essential.
But this kind of off-shore manufacturing for the markets of the industrialised countries has created modern enclaves inside their territory that have served to polarise rather than integrate national societies and to increase social conflict.

The transfer of technology involved - making products for the North using machines imported from the North - is fairly limited. For these, and other, reasons more stress is now being put on the first two purposes as well.

Producing manufactures for the domestic market has long been an aim of the developing countries. Previously, this has taken the form of import substitution. The idea was to create local capacities to make items for which technology or know-how were available or could be acquired relatively easily instead of using scarce hard currency to import them from the industrialised countries. In many instances, these infant industries turned out to be inefficient and uncompetitive, able to survive only behind high walls of tariff and fiscal protection. Their justification was that they saved hard currency and created some local jobs.

Now the idea is gaining ground that local production should be directly linked to the effective transfer of technology, from the advanced countries. Hence the insistance by a number of developing nations on at least local assembly of certain products, or in some cases requirements to use a set percentage of local components or materials in the item being manufactured. By setting specific local content requirements, governments feel international corporations will be forced to subcontract to local firms thereby broadening their technological scope and experience. In addition, by thinking in terms not only of national but of regional markets, economies of scale and large-scale production units could be viable without dependence on Northern markets for survival.

The other option - the local processing of raw materials - is a logical sequel to present North-South economic relations. It transfers to the producer country

the considerable extra value added to its raw material in the transformation process. It can then sell its own dearer processed items on international markets (North or South) without handing over the most profitable operations to firms in the industrialised countries while at the same time adding to its own national technological base. Here too of course capital goods imported from the North are required to start the process.
Petrochemicals is an obvious example, particularly as the developing countries that wish to create a petrochemical capacity are those with the raw materials - oil and natural gas - which assure them adequate revenues to buy in turn-key plants and equipment from the industrialised countries. The OPEC countries plus countries like India and South Korea in Asia, and Brazil and Mexico in Latin America plan a major expansion of their output of basic petrochemicals. Although the recession may force a downward adjustment in these forecasts, recent projections expect the developing countries' share in world production of these items to rise from 9% in 1979 to 15% by the mid-1980's and possibly 20-25% by 1990.

The processing of iron-ore into steel is another area where Third World output has risen sharply in recent years and according to OECD estimates (see Table I) is going to go on rising at nearly the same level over the next few years, despite the less favourable worldwide economic environment. The biggest growth will be in Latin America followed by South East Asia; the highest level of relative expansion will be Africa - but only because its starting point is so low. Already a number of industrialised countries, including the members of the European Community, limit their imports of steel products from NIC's like South Korea and Brazil.

TABLE I

ESTIMATED EXPANSION IN CRUDE STEEL-MAKING CAPACITY

IN NON-OECD COUNTRIES

(million tonnes)

	1978 Nominal capacity	1985 Nominal capacity	Increase 1985/ 1978	Annual rate of growth in prod.	
				1980/1974 %	1985/1978 %
Total Non-OECD Countries	65.8	107.5	+ 41.7	+ 10.2	+ 9.1
Latin America	31.7	51.4	+ 19.7	+ 8.4	+ 7.7
Africa (excluding South Africa)	2.0	4.5	+ 2.5	+ 7.7	+ 17.9
Middle East	3.6	6.7	+ 3.1	+ 13.9	+ 12.3
S.E. Asia	28.5	44.9	+ 16.4	+ 13.7	+ 8.8
OECD Countries	566.0			- 2.3	

Source : OECD Steel Committee Working Paper (June 1982).

The means of transferring technology

The transfer of technology has been a decisive factor for growth throughout the world's history. In earlier times, technology spread from China and the Arab world to Europe and then from Europe to America. In more recent times, technical innovation was centred in the United States and has spread outwards, in two directions : back across the Atlantic to Europe and across the Pacific to Japan. Historically, technology was transferred by skilled persons moving from advanced to less advanced countries or acquired by people from the latter who were schooled during long visits to the former.

Nowadays, technology is transferred in many different ways. For the developing countries it originates largely in the industrialised countries of the North.

The latter account for more than 95% of world spending on research and development. The channels of technology transmission include :

-- capital goods imported by developing countries to equip their own manufacturing industries. Textile machinery from the North for the textile and clothing industries of the South is an obvious example,

-- direct investments by multinational corporations in manufacturing facilities in developing countries, particularly those with strong domestic or regional growth market potential or which can serve as "off-shore" manufacturing centres for the world market,

-- education and training of workers, technicians and managers from developing countries,

-- turnkey projects. These are complete installations such as steel plants or petrochemical complexes that enable Third World countries to process raw materials locally,

-- licencing agreements enabling developing countries to use manufacturing processes and technology developed by private corporations in the industrialised countries,

-- management contracts where the developing country calls in expatriate specialists to run a project until such time as its nationals have acquired the training and skills to manage it themselves.

Countries at an early stage of industrialisation generally rely more heavily on direct foreign investment by international corporations (alone or in association with local joint venture partners). This transfer mechanism combines in one package technology, capital, production skills, marketing and management. Third World nations with more complex and developed industrial structures are better able to choose the kind of arrangements best suited to their specific needs and which will dovetail with those aspects of technology and human skills already present within their borders. This unpackaged form of technology transfer has increased over time as buyers become more sophisticated and as competition among suppliers and therefore their willingness to meet the client's specific needs has intensified. This trend is less marked however, in high technology sectors where buyer countries lack much of the necessary expertise and suppliers are relatively few. Nonetheless, developing nations, particularly those with a large potential domestic market, can demand that effective technology transfer take place by setting requirements for the incorporation of local components and materials in the product being manufactured. Sometimes, they try to make these products artificially competitive by giving them massive tariff and fiscal protection against imports.

<u>Where it originates and where it goes</u>

Of the different types of transmission channels, exports of capital goods and complete industrial plants showed the strongest growth during the past decade of about 10% a year in real terms. This rise has flattened off as a result of the recession, especially in the oil-exporting countries whose demand helped push exports of capital equipments to the Third World to over 40% of total exports of these goods by the industrialised nations. Capital goods exports to the Third World have also been stimulated by generous export financing and credit provided by the supplier country. Payments for licences and technical and commercial services have been growing at about 4% a year. A similar rhythm of expansion has been recorded for foreign direct investment.

The major suppliers of technology have been the United States, Germany and Japan followed by Britain and France. Between them, they account for about 70% of the total technology transfer from the industrialised to the developing countries. The principal recipient areas were Latin America, Asia (where Japan is particularly active as a foreign investor) and the Middle East. Foreign investments in particular can be analysed on a regional basis. Investments in Latin America and Africa tend to be geared to supplying domestic or regional markets, whereas those in Asian countries see a larger share of their output exported to the world market or the markets of industrialised countries. This is partly determined by the industry where the investments are made. In Latin America, investments have centred on heavy and basic industries aimed at import-substitution and raw material processing, whereas investments in Asian exporting countries were initially in textiles and light manufacturing for export.

The emergence of Third World technology

In recent years, a small number of Third World countries such as Brazil, Taiwan, South Korea, India, Argentina and Mexico have graduated to the rank of suppliers of technology. Part of their success is due to their ability to absorb Northern technologies and adapt them to specific Third World conditions and requirements. They are also able to offer highly skilled manpower at relatively low costs. This group of countries can now offer capital equipment, turnkey plants, engineering consultancy services, etc and have begun direct investments in other developing countries. India has developed the greatest range of activities including management services and the supply and construction of turnkey industrial plants. It has secured in the last few years contracts for more than 150 complete industrial complexes in Asia, the Middle East as well as North and East Africa. Brazil is a supplier of management services and turnkey plants, notably (but not only) in the steel sector, while the importance of South Korean firms in the Middle East construction market is well known. Such technology exports are still small in global terms, accounting for only 2.6% of world exports of capital goods in 1981. But they are forerunners of significant and growing opportunities for trade and technological links among developing countries.

At present, the mainstream of Third World industrialisation remains in the low to medium technology sectors. Textiles and clothing (see Table II) still account for nearly 30% of their exports of manufactures, while their import dependence on capital goods actually increased (from 53% to 57%) in the 1973-1981 period.

TABLE II

TRADE IN MANUFACTURES BETWEEN NON-OIL DEVELOPING COUNTRIES AND WESTERN INDUSTRIALISED NATIONS

in billion US $

	THIRD WORLD EXPORTS				THIRD WORLD IMPORTS			
	1973	%	1981	%	1973	%	1981	%
Total Manufactures	15.1	100	62.0	100	40.15	100	151.0	100
Capital goods	2.31	15.3	15.4	23.8	21.42	53.3	86.85	57.5
Textiles & Clothing	5.33	35.3	17.8	28.7	2.86	7.1	6.95	4.6

Source : GATT, International Trade 1981/82.

As we have seen, the manufacturing potential of the Third World is concentrated in a small number of countries and this concentration is even greater for capital goods than for other manufactures. Five countries - Brazil, South Korea, Taiwan, Hong Kong and Singapore - account for 48% of all EEC imports of manufactures from the Third World but this figure rises to 63% in the capital goods sector. Table III shows that Third World manufactures have reached significant market penetration levels in western industrialised markets only in sectors such as textiles, clothing, footwear and electrical appliances.

TABLE III

SHARE OF IMPORTS FROM DEVELOPING COUNTRIES IN TOTAL OECD IMPORTS OF MANUFACTURES (%)

	1970	1979
Chemicals	4.5	4.1
Iron & Steel	2.9	5.5
Textiles	13.0	20.5
Clothing	27.4	44.7
Footwear, leather goods & furs	16.4	33.9
Non-electrical machinery	0.8	2.9
Electrical machinery & appliances	5.3	17.2
Road motor vehicles	0.2	1.1
Other transport equipment	2.0	5.5
Other manufactures	6.8	11.1
ALL MANUFACTURES	5.3	10.1

Source : North/South Technology Transfer - The Adjustments Ahead. OECD - Paris 1981.

The growth sectors of the 1980's will be capital goods. The Third World still has a long way to go to meet the challenge or to meet its target of supplying 25% of world manufactures by the year 2000. This had risen to 13% by 1980 from 7% ten years earlier. For instance machinery firms in developing countries undertake little research and development and they lack local facilities such as long-term export credit and insurance and access to international marketing information.

Is there an "appropriate" Third World technology ?

Third World industrialisation is, as we have seen, lopsided. It has benefitted essentially a small group of relatively well endowed countries - in terms of human skills or revenue-generating raw materials - and has been concentrated on industrial consumer goods rather than on capital equipment. Although a group of second generation NIC's have also climbed onto the industrialisation ladder their progress is going to be more difficult than that of their predecessors. Industrialisation has still scarcely started in a large number of the poorest developing countries.

One of the problems raised by development experts is that of the "appropriate" technology for the Third World. Often the industrial processes designed and developed in the rich countries are too capital-intensive for developing nations. Their adoption by poorer countries can aggravate unemployment and underemployment.

It is argued by many that more appropriate technologies should be developed that take account of the relatively low cost of skilled and semi-skilled labour. As it is, the competitiveness of such Third World technology as exists is based on a process of learning and adapting techniques imported from industrialised countries and rendering them more suitable to Third World conditions.

Other development strategists argue that developing countries should try to acquire the most advanced technology available, even if it means depending on direct investments by multinational corporations and expatriate management skills in the short term.
They consider that a technology "appropriate" to the underdeveloped countries would be an underdeveloped technology, in other words, one which perpetuates the gap between them and the industrialised countries and which should therefore be avoided.
This school seems to beg such fundamental questions as whether the developing countries are likely, even by using the most advanced technologies, to reach the level of industrialisation of the advanced western nations in the foreseeable future, or more basic still, whether these countries actually want to become latter-day Americas or Germanies.

FINANCE, DEBT AND AID

NOWHERE IS THE DEVELOPMENT CRISIS REFERRED TO IN CHAPTER II MORE EVIDENT THAN IN THE PROBLEMS OF THIRD WORLD FINANCE. ALL DEVELOPING COUNTRIES, SAVE THE HANDFUL OF RICH ARAB OIL EXPORTERS, NEED TO SUPPLEMENT THEIR INTERNAL RESOURCES THROUGH EXTERNAL SUPPORT IF SOUND GROWTH IS TO BE ATTAINED. BUT ALL THE MAJOR SOURCES OF FOREIGN FINANCING HAVE STOPPED GROWING. IN A NUMBER OF CASES THEY ARE ACTUALLY FALLING BACK IN REAL TERMS. IF WE CONSIDER THE THREE PRINCIPAL SOURCES - EARNINGS FROM EXPORTS, COMMERCIAL LOANS FROM BANKS AND OFFICIAL AID - IT IS EASY TO SEE WHY. IT IS ON THE OTHER HAND MUCH MORE DIFFICULT TO SEE HOW THESE PROBLEMS ARE TO BE OVERCOME.

EARNINGS FROM EXPORTS BY DEVELOPING COUNTRIES HAVE FALLEN FOR SEVERAL REASONS. THE BIGGEST SINGLE FACTOR IS THE WORLDWIDE RECESSION,ESPECIALLY ITS IMPACT ON THE INDUSTRIALISED COUNTRIES. THEIR DEMAND FOR IMPORTS HAS FALLEN OR IN SOME CASES BEEN HELD DOWN ARTIFICIALLY. AS GLOBAL DEMAND FOR OIL REMAINS DEPRESSED, SURPLUS OIL EXPORTING COUNTRIES, RELATIVELY RECESSION-PROOF UNTIL 1981, ARE NOW ALSO CUTTING BACK ON IMPORTS. ASSOCIATED WITH THE RECESSION, PRICES FOR THIRD WORLD EXPORTS OF PRIMARY PRODUCTS HAVE FALLEN.

THE DEBT CRISIS OF A NUMBER OF THIRD WORLD COUNTRIES, PARTICULARLY THE NIC'S, HAS BROUGHT LENDING BY COMMERCIAL BANKS TO A WATERSHED. DURING THE PAST DECADE, PARTLY AS A CONSEQUENCE OF RECYCLING MASSIVE OPEC SURPLUSES, BANKS OVERLENT AND WILLING THIRD WORLD COUNTRIES OVERBORROWED. IT TOOK THE NEAR BANKRUPTING OF MEXICO, ARGENTINA AND BRAZIL TO BRING HOME TO BANKS THE NEED TO RESPECT SOUND PRUDENTIAL LIMITS.

BECAUSE OF THE RECESSION, BUT ALSO PARTLY BECAUSE OF A CERTAIN UNEASE AS TO HOW THEIR MONEY WAS BEING USED, INDUSTRIALISED COUNTRIES ARE NO LONGER INCREASING THEIR OFFICIAL DEVELOPMENT ASSISTANCE (ODA) TO THE THIRD WORLD. OFFICIAL AID IS PARTICULARLY IMPORTANT FOR THE POOREST DEVELOPING COUNTRIES WHOSE LOW DEGREE OF CREDITWORTHINESS EXCLUDES THEM FROM ACCESS TO COMMERCIAL FINANCING. ODA FROM THE OECD COUNTRIES FELL TO 25.5 BILLION DOLLARS IN 1981 FROM 27.3 BILLION IN 1980. IT IS UNLIKELY TO GROW IN REAL TERMS IN THE FORESEEABLE FUTURE.

WAYS DO EXIST TO REMEDY THE PRESENT SITUATION. THE DEBTS OF NIC'S AND MIDDLE INCOME DEVELOPING COUNTRIES TO COMMERCIAL BANKS SHOULD BE RESCHEDULED (IN OTHER WORDS, REPAYMENT SHOULD BE POSTPONED), THE DEVELOPING COUNTRIES THEMSELVES SHOULD APPLY CONFIDENCE-BUILDING ECONOMIC POLICIES, NEW CREDITS SHOULD BE MADE AVAILABLE TO PREVENT SEVERE DEFLATION IN THE THIRD WORLD AND/OR THE COLLAPSE OF THE WORLD BANKING SYSTEM, AND FINALLY INDUSTRIALISED COUNTRIES SHOULD MAKE AN EFFORT TO INCREASE THEIR OFFICIAL AID AGAIN, ESPECIALLY IN FAVOUR OF THE LEAST DEVELOPED NATIONS.

THE REAL QUESTION IS WHETHER THE REMEDIES CAN BE ADMINISTRED OVER THE SHORT AND MEDIUM TERM FUTURE.

How Third World Capital needs are met

The capital requirements of the Third World to finance its development are enormous. Developing countries'own internal resources and the external revenues generated by their exports are totally inadequate. In addition, an increasing share of their export earnings are having to be used to pay for dearer oil imports without serving any additional economic function. External sources of capital have therefore played and will continue to play a key role in Third World financing, but they are subject to more and more constraints. While net North-South financial flows have increased from 12.8 billion dollars in 1970 to 110.4 billion in 1982, the rate of increase has slowed considerably in recent years. According to projections from the World Bank (see Table I), the growth in capital flows during the 1980's, even under favourable conditions, will be less than one-third of the rate achieved during the 1970-80 period. Under less favourable conditions (the low-case scenario), there will in fact be virtually no growth at all in real terms.

TABLE I

NET FINANCING FLOWS, ALL DEVELOPING COUNTRIES, 1970-90

(billions of current dollars)

Net financing					Projected, 1990	
	1970	1980	1981	1982	Low case	High case
Official transfers	1.2	12.1	12.8	13.6	28.3	32.7
Private direct investment	2.5	11.8	15.3	15.8	19.4	24.4
Medium- and long-term loans,						
net disbursements	9.1	57.3	71.4	81.0	99.2	151.1
Official	4.1	20.4	23.4	25.0	44.0	54.9
Commercial banks	5.0	36.9	48.0	56.0	55.2	96.7
Total	12.8	81.2	99.5	110.4	146.9	208.2
Total (1980 prices)	32.7	81.2	89.5	102.5	82.1	116.3

Source : World Bank, World Development Report, 1982.

Not only have overall financial flows been expanding less fast; their nature has also changed markedly. Concessional flows in the form of grants and soft loans have fallen in percentage terms while the proportion of capital flows at (considerably stricter) market conditions has increased significantly. Table I shows that while official loans and transfers have risen by 15% since 1980, commercial bank lending to developing countries has expanded by 55%. Private direct investment, which rose fourfold during the 1970's will, at best, increase at half this rate during the current decade.

Over the past 10 years or so, there has been a clear differentiation between the kinds of capital flows going to the NIC's and the middle income developing countries on the one hand and the poorest Third World nations on the other. The latter group have been unable to attract private investments or loans on commercially acceptable risk terms. They have therefore come to depend to a large extent on official development assistance. In fact, 55% of ODA from the OECD countries in 1981 went to the least developed countries and other low-income developing nations. A further 43% went to middle-income countries and only 2% to the NIC's.

The NIC's and the middle-income countries have come to rely excessively on non-concessional financial flows. They were able to maintain above-average growth rates during the 1970's principally because they could finance their development by massive credits at market conditions from commercial banks. At end-1981, 60% of debt owed to commercial banks by Third World countries was accounted for by 10 NIC's and middle income countries. Low income countries as a whole accounted for 17% of outstanding debt, while within this group the least developed nations were responsible for only 3% of Third World commercial debt.

But irrespective of the different methods of external financing, all the developing nations - NIC's and LLDC's alike - are finding that the flow of funds is slowing up. Heavily indebted countries are finding commercial banks reluctant to advance them further credits. Many banks, in the wake of the debt crises of a number of developing countries, realise they have overcommitted themselves in granting credits to these nations. The poorest developing countries are also feeling the pinch as industrialised aid donors, hit by the recession, reduce the rate at which their aid is growing. To a certain extent, they are turning away from the poorest countries. They are increasingly tempted to link what aid resources they have to their own export interests by using ODA as an additional inducement to a Third World country to which it is trying to sell capital goods. Such recipients tend to be larger middle-income countries with a greater capacity for absorbing imports of western capital goods than the poorest nations.

Export earnings decline

Before looking more closely at the difficulties for the Third World caused by the drying up of credits or the slow-down in official aid, it is necessary to examine an equally crucial aspect of the financial difficulties of the developing countries - the fall in their export earnings.

The fall in revenues accruing to developing countries because they can no longer expand exports as before is important in itself as well as for the bearing it has on the problems of debt and aid. The less developing countries earn directly from exports, the more they have to rely on other external sources of financing. Their export growth has been decelerating at a sharp pace in recent years. According to the IMF, real export growth of the non-oil developing countries fell from an annual rate of 9-10% in 1978 to 5-6% in 1980 and 3% in 1982. There is little liklihood of this rate picking up again as long as the recession in their major markets, particularly those of the industrialised countries, persists.

Because of the drop in demand for their products, coupled with protectionism by industrialised countries, and the combined effect of dearer oil and falling prices for their own primary products, the overall trade deficit of the developing countries which stood at less than nine billion dollars in 1970 had risen to 59 billion in 1980 and 89 billion in 1981. There are few bright spots in this sombre picture. The recession has now hit the surplus oil exporting countries who have begun the cut back on imports in line with other markets for developing countries' exports. Since the 1979-80 boom, prices for non-oil primary products sold by the Third World have fallen by an average of about 30%. In 1982, they reached the lowest level in more than 25 years relative to the price of manufactured imports. The net result of all these trends has been to throw developing countries back on loans and aid to finance their deficits. Already many of them have taken action to cut back imports. While this may reduce their deficits, it also cuts global demand for exports, thereby contributing to deepening the recession even more. This pressure on external sources of financing has come on top of "normal" demands for development finance in the past few years.

Third World Debt

Thanks to an attitude of benign neglect on the part of the industrialised countries and one of active encouragement by their commercial bankers, Third World indebtedness has been allowed to reach disturbing proportions. It represents a long term mortgage for the future growth of the developing countries and a dangerous risk for the worldwide banking system. The total outstanding developing countries' debt is given in Table II. In some cases, annual debt servicing - interest charges and the repayment of principle as it falls due - absorb the vast bulk of a country's export earnings. About 60% of the total debt is owed to commercial banks and other private sources of credit.

TABLE II

THIRD WORLD DEBT 1971-1982

(In billions of Dollars)

	1971	1975	1980	1981	1982
Total Debt	70	180	465	530	626
Annual Debt servicing	11	25	87	109	131

Source : OECD, External Debt of Developing Countries (December 1982).

And yet until 1980, the international capital market, the so-called Eurocurrency market, was a borrowers' market. International banks were inundated with funds, largely as a result of the first oil shock of 1973-74. Banks found insufficient clients for their deposits among the recession-hit economies of the industrialised world. In consequence, they actively wooed capital -hungry NIC's and middle-income countries with mounting oil bills to borrow from them. Governments in the industrialised countries and the international monetary authorities were only too happy to see the marketplace assume the strain of the recycling process with only minimal interference on their part.

Since 1980, the situation has changed radically. There are a number of reasons for this in addition to the obvious one that many developing countries had borrowed to their limits. These include :

-- the persistence of the recession that followed the 1979-80 oil price rises. The world economic slowdown has been deeper and more lasting than expected. Low growth in the world economy will restrict the exports of developing countries and therefore impair their debt-servicing capacities. In many cases, credits were given before the recession set in or on the assumption that it would be short-lived, like the one that followed the first oil shock.

-- the high level of interest rates. These are determined by the industrialised countries, particularly the United States. American monetary policy pushed up interest rates, radically affecting the amount of debt a borrowing country can afford to incur. Although these have declined somewhat since mid-1982, they are still high in real terms, since the downturn in interest rates has been paralleled by a fall in inflation levels. In addition, Third World borrowers have had to pay a higher "premium" in terms of a higher interest rate on new loans because of the greater risks stemming from their already high debt level.

-- the increase in the proportion of short term debt. Because of current high rates of interest, some Third World countries have preferred to borrow short-term. This desire has been matched by one by banks not to commit long-term funds to borrowers whose long-term prospects are not bright.

Average maturities for credits to developing countriés have fallen to one-to-four years from seven years previously. Table III shows that at end-1981 the major borrowing countries had a large proportion of their debt falling due in one year or less.

TABLE III

DEBT OWED TO BANKS AT END-1981

	Total $ billions	% of total	% of 1982 exports
Mexico	56.9	49	85
Brazil	52.7	35	67
Venezuela	26.2	61	79
Argentina	24.8	47	100
South Korea	19.9	58	37
Chile	10.5	40	78
Philippines	10.2	56	63
Indonesia	7.2	41	14
Taiwan	6.6	62	14
Nigeria	6.0	34	12
Colombia	5.4	49	53
Thailand	5.1	60	29
Malaysia	4.4	31	10
Peru	4.4	60	62
Turkey	4.2	25	10

Source : Morgan Guaranty, World Financial Markets, August 1982.

-- oil price developments. The second oil price increase of 1979-80 affected in significant fashion the external payments position of many non-oil developing countries. While the subsequent weakening of oil prices has provided some relief, it has posed serious problems for oil exporting countries such as Mexico and Nigeria.

-- earlier credits were utilised badly by some recipient countries. Instead of being invested to boost productive capacities or to facilitate economic adjustment processes, borrowing was often used to sustain consumption. Banks were once bitten, twice shy. They were reluctant to renew such credits when they matured, without at least a considerable hardening of the terms. The geographic breakdown of Third World debt and its evolution since the 1973 oil price rises are given in Table IV.

TABLE IV

NON-OIL DEVELOPING COUNTRIES : LONG-TERM EXTERNAL DEBT, 1973-81

(In billions of Dollars)

	1973	1975	1977	1979	1981
Total outstanding debt of non-oil developing countries	96.8	146.8	221.8	324.4	436.9
By area					
Africa	13.1	19.9	31.7	44.7	56.0
Asia	27.0	36.7	53.0	71.6	102.8
Europe	11.6	16.2	25.4	44.0	60.2
Middle East	8.5	13.1	20.3	28.3	36.7
Western Hemisphere	36.6	60.9	91.4	135.8	181.2

Source : IMF, Annual Report, 1982.

As a result of the debt crisis of a few developing countries - in particular Mexico, Brazil and Argentina - the perception of the risks in lending to all developing countries has been heightened. Although the debt problems of African countries such as Zaire and Sudan are small in comparison they are just as important in relative terms. Borrowing, even if the world economy were to recover in the near term, would not be as easy as before. Higher risk premiums will be required, especially from those countries that are similarly situated - economically, politically and even geographically - as those in difficulty. In short, the debt option of economic development will be restricted to fewer developing countries, principally in South East Asia.

Official Development Assistance

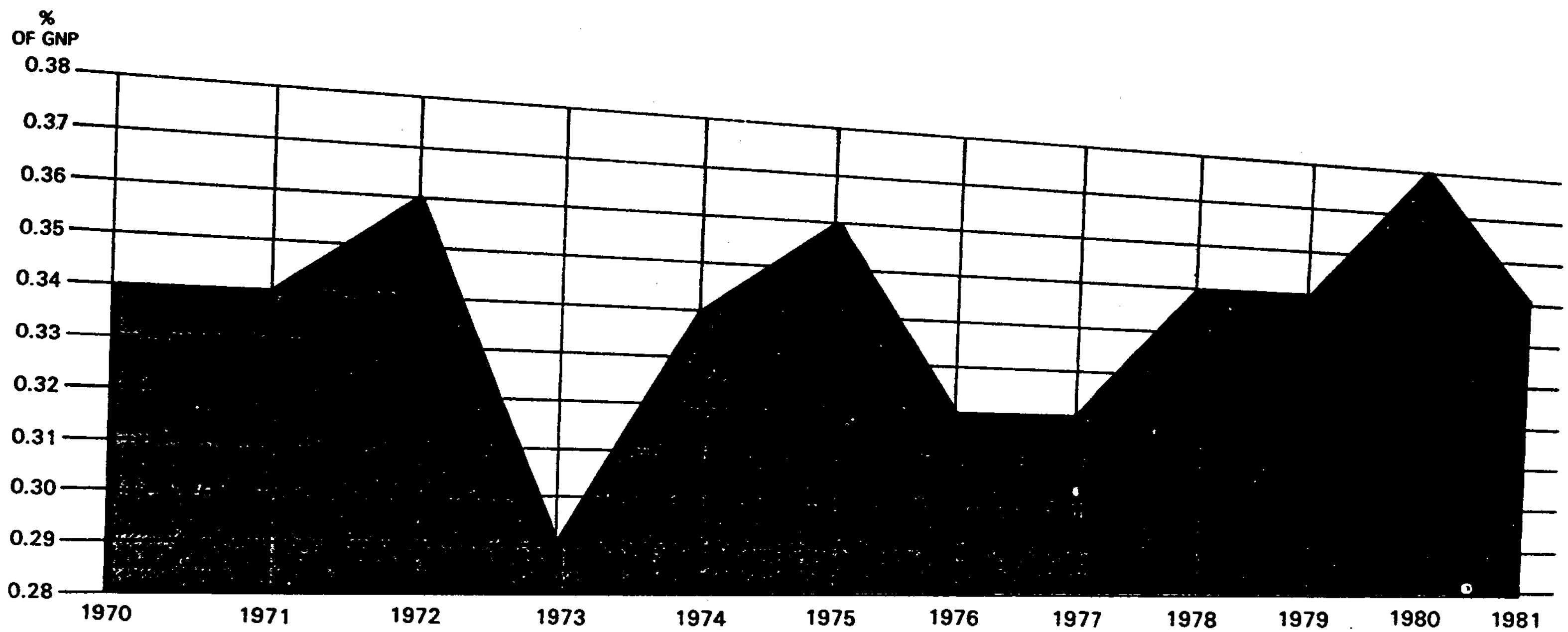
As has been seen, official development aid by governments is a vital source of financing for the poorest developing countries. According to World Bank estimates, about 40 countries will continue to rely almost entirely on official development assistance during the 1980's to supplement domestic resources for physical and human development. Most of these countries are in sub-Saharan Africa. The Bank believes another 50 developing countries could reduce their dependence on ODA provided they adopt appropriate policies to foster self-sustaining growth, replace official aid with non-concessional assistance and meet their debt-service obligations.

The chances of official aid growing enough to increase its effectiveness, especially in the least developed nations are not especially good. At most, aid from OECD countries is expected to remain around present levels for the next three years.(see Table V). Several members among the majority who have not yet done so are committed to reaching the United Nations target of giving 0.7% of GNP in aid in 1990. Besides the OECD countries, the members of OPEC are the other main official aid donors. Their share of aid has been much higher in relation to GNP than that of the western industrialised countries. They are expected to maintain relatively high levels of aid in the future despite an expected reduction in the size of their payments surplus.

TABLE V

ODA AS PERCENTAGE OF GNP 1970 - 1981

TOTAL OECD DEVELOPMENT ASSISTANCE COMMITTE (DAC)



Source : OECD Observer N°117 (July 1982).

The Arab members account for 97% of OPEC aid. Their 1981 aid as a percentage of GNP totals 2.80 %. Figures for individual OECD countries, including European Community members, as well as comparative figures for OPEC and Comecon countries are given in Table VI. The Soviet Union and its East European partners are small providers of development aid.

TABLE VI

OECD MEMBERS OFFICIAL DEVELOPMENT ASSISTANCE 1981

	ODA net disbursements			Grant element of ODA commitments (%)
	$ m.	% of GNP	% of DAC total	
Australia	649	0.41	2.5	100.0
Austria	314	0.48	1.2	55.1
Belgium	575	0.59	2.2	97.7
Canada	1189	0.43	4.6	97.3
Denmark	403	0.73	1.6	95.6
Finland	135	0.28	0.5	95.6
France	4177	0.73	16.3	89.6
Germany	3181	0.47	12.4	85.9
Italy	665	0.19	2.6	91.3
Japan	3171	0.28	12.4	75.6
Netherlands	1510	1.08	5.9	95.2
New Zealand	68	0.29	0.3	100.0
Norway	467	0.82	1.8	100.0
Sweden	916	0.83	3.6	99.9
Switzerland	237	0.24	0.9	97.0
United Kingdom	2195	0.44	8.6	96.8
United States	5783	0.20	22.6	94.0
TOTAL OECD	25635	0.35	100.0	90.0
TOTAL OPEC	7836	1.46	-	-
COMECON	2129	0.14	-	-

Source : OECD, Development Cooperation (1982 Review).

The biggest part of ODA, 31%, goes on health, education and other services, while 16% is devoted to agricultural projects, 8% to energy and 7% to industry and commerce. The volume of aid received by the least developed countries, because they receive little from other sources, largely determines their level of imports, their investments and indirectly their growth levels. This is why the poorest countries stand to suffer most from the present tendency among donor countries to ease up on their aid effort. OECD members aid to the least developed countries is still only 0.075% of GNP; many of them pledged at the 1981 Paris conference on the problems of the LLDC's to double this proportion to 0.15%.

Pointers to the future

The key to overcoming the current obstacles in providing adequate financing for Third World development is the extent to which the world economy will recover during the present decade. But even if the recovery is slow or partial, there are a number of flanking measures which need to be taken. One of the most central of these is to avoid actions that will force the Third World, and with it the global economy, on a further deflationary spiral through the large-scale reduction of credits or inadequate public aid flows.

Already the International Monetary Fund is playing a leading role in edging the biggest debtor countries back from the brink of bankruptcy. Most countries, developing or developed, dislike going to the IMF for help because of the conditions attached to its loans, which require recepient governments to apply strict economic recovery programmes under IMF surveillance. However, a number of developing countries now have no alternative but to go to the Fund as the lender of last resort and accept its loan conditions. At the end of 1982, more than 30 developing countries were using Fund resources in support of tough programmes to overcome acute balance of payments problems. The IMF has taken the lead in organising rescue operations for major debtors like Mexico, and it insists that commercial banks, who bear their share of responsibility for what has happened, participate with it in these operations.

The calls being made on the Fund has given urgency to the need to increase its resources from its present quota total of 65 billion dollars. An increase of about 50% of quotas was expected to be approved in 1983 for implementation in 1984.

However, the role of the Fund should not replace that of commercial banks in rescheduling Third World debts and maintaining the necessary level of credits to those countries. Nor should borrower governments await the moment where they have to appeal for IMF support before implementing the necessary economic policies that will cut external deficits, speed internal adjustment, stimulate self-sustaining growth : in short, apply the type of confidence-building policies that will maintain their access to external sources of financing, be they in the form of credits or direct investments. Already there are signs that some developing nations who had not encouraged private investment in the past are now making particular efforts in this direction.

Individual donor countries will also have to try to maintain official aid levels, despite the impact of the recession. Their help is vital for the poorest countries in that it helps to provide them with the basic tools for growth in terms of education, infrastructure, agricultural production. In recessions, donor governments are under pressure to cut back further on development aid in favour of domestic priorities or are tempted to use it more specifically as an instrument of economic diplomacy, in order to obtain the highest return. To neglect the poorest countries of the world in this way would be to condemn them to dropping even further behind the rest of the Third World than they are already.

G L O S S A R Y

A

A.C.P. (63) : (African, Caribbean and Pacific States) : Antigua and Barbuda, Bahamas, Barbados, Belize, Benin, Botswana, Burundi, Cameroon, Cape Verde, Central African Republic, Chad, Comoros, Congo, Djibouti, Dominica, Equatorial Guinea, Ethiopia; Fiji, Gabon, Gambia, Ghana, Grenada, Guinea, Guinea Bissau, Guyana, Ivory Coast, Jamaica, Kenya, Kiribati, Lesotho, Liberia, Madagascar, Malawi, Mali, Mauritania, Mauritius, Niger, Nigeria, Papua-New Guinea, Rwanda, St Lucia, St Vincent and Grenadines, Sao Tome and Principe, Senegal, Seychelles, Sierra Leone, Salomon Islands, Somalia, Sudan, Surinam, Swaziland, Tanzania, Togo, Tonga, Trinidad & Tobago, Tuvalu, Uganda, Upper Volta, Vanuatu, Western Samoa, Zaïre, Zambia, Zimbabwe.

ARAB LEAGUE :
Morocco, Algeria, Tunisia, Libya, (Egypt), Sudan, Mauritania, Somalia, Lebanon, Syria, Iraq, Jordan, Saudi Arabia, Kuwait, Bahrain, Qatar, United Arab Emirates, Omar, North Yemen, South Yemen, PLO.

ASEAN : (The Association of South-East Asian Nations) : Indonesia, Malaysia, Philippines, Thailand and Singapore.

B

BILLION :
One thousand million.

C

COMECON or CMEA : (Council for Mutual Economic Assistance) : Members are the Soviet Union, Bulgaria, Czechoslovakia, German Democratic Republic, Hungary, Poland, Rumania and Mongolia. Comecon countries (less Mongolia) are sometimes referred to as the non-market industrialised countries.

D

D.A.C. : (Development Assistance Committee of the OECD) : Australia, Austria, Belgium, Canada, Commission of the European Communities, Denmark, Finland, France, Federal Republic of Germany, Italy, Japan, Netherlands, New Zealand, Norway, Sweden, Switzerland, United Kingdom, USA.

E

E.E.C. : European Economic Community.
E.F.T.A. : European Free Trade Association.
E.I.B. : European Investment Bank.
E.C.U. : European Currency Unit.
EUROSTAT : Statistical Office of European Communities.

F

F.A.O. : Food and Agricultural Organisation.

G

G.A.T.T. : General Agreement on Tariffs and Trade. The object of this agreement, signed in 1947, is to reduce barriers to international trade.

G.N.P. : Gross National Product.

GROUP OF 77 : Group of Developing Countries established at the United Nations Conference on Trade and Development. This group, which often acts as a spokesman for the Third World, originally had 77 members and now has 115.

G.S.P. : Generalised System of Preferences : This is the system of preferential tariffs applied by industrialised countries to manufactured imports from LDC's. The tariff reductions are accompagnied by quotas for some products but apply without quantitative restrictions for others.

I

I.D.A. : International Development Association (World Bank).

I.M.F. : International Monetary Fund.

L

L.L.D.C.'s : Least Developed Countries.

N

N.I.C.'s : Newly Industrialising Countries. There is no set list of these countries. For the purposes of this present document, these include Brazil, Taiwan, South Korea, Hong Kong and Singapore.

O

O.D.A. : Official Development Assistance.

<u>O.E.C.D.</u> : (Organisation for Economic Cooperation and Development) : Member countries :
E.E.C. : Belgium, Denmark, Federal Republic of Germany, France, Ireland, Italy, Luxembourg, Netherlands, United Kingdom. E.F.T.A : Austria, Finland, Iceland, Norway, Portugal, Sweden, Switzerland. Others : Australia, Canada, Greece, Japan, New Zealand, Spain, Turkey, USA.

<u>O.P.E.C.</u> : (Organisation of Petroleum Exporting Countries) : Member countries :
Algeria, Ecuador, Gabon, Indonesia, Iraq, Iran, Kuwait, Libya, Nigeria, Qatar, Saudi Arabia, United Arab Emirates, Venezuela.

S

<u>STABEX</u> : This is the scheme for stabilising export earnings applied by the E.E.C. to its A.C.P. partners in the Lome Convention. It offsets losses in revenue suffered by ACP countries on their exports of primary products, acting as a kind of insurance policy against bad years.

U

<u>UNCTAD</u> : United Nations Conference on Trade and Development.

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