Development Issues

U.S. Actions Affecting the Development of Low-Income Countries

The Second Annual Report of The President Transmitted to The Congress May, 1976

Prepared under the Supervision of the Development Coordination Committee

THE DEVELOPMENT COORDINATION COMMITTEE
WASHINGTON, D.C. 20523

May, 1976

TO THE CONGRESS OF THE UNITED STATES:

I hereby transmit to the Congress the Second Annual Report on Development Coordination, in accordance with Section 640B (d) of the Foreign Assistance Act of 1961, as amended.

DANIEL PARKER
Chairman

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Explanation of Abbreviations

ACP	African, Caribbean, Pacific Countries (associated with the European Community)
ADB	Asian Development Bank
AfDB	African Development Bank
AfDF	African Development Fund
B/P	Balance of Payments
CCC	Commodity Credit Corporation
CERDS	Charter of Economic Rights and Duties of States
CIEC	Conference on International Economic Cooperation
CGIAR	Consultative Group on International Agriculture Research
DAC	Development Assistance Committee of the OECD
DCC	Development Coordination Committee
EC	European Community
EX-IM	Export-Import Bank of the United States
FAO	United Nations Food and Agriculture Organiaztion
GATT	General Agreement on Tariffs and Trade
GNP	Gross National Product
GSP	Generalized System of Preferences
IBRD	International Bank for Reconstruction and Development, (The World Bank)
IDA	International Development Association
IDB	Inter-American Development Bank
IDS	International Development Strategy
IFAD	International Fund for Agricultural Development
IFC	International Finance Corporation
IFI	International Financial Institution
IMF	International Monetary Fund
LDC	Less-Developed Country
MNC	Multinational Corporation
MSA	Most Seriously Affected (countries)
MTN	Multilateral Trade Negotiations
NIEO	New International Economic Order
NTIS	National Technical Information Service
NTM	Non-Tariff Measures

OAS	Organization of American States
ODA	Official Development Assistance
OECD	Organization for Economic Cooperation and Development
OPEC	Organization of Petroleum Exporting Countries
OPIC	Overseas Private Investment Corporation
PVO	Private Voluntary Organization
SDR	Special Drawing Rights
STABEX	Stabilization of Export Earnings Scheme of the EEC
UN	United Nations
UNCTAD	United Nations Conference on Trade and Development
UNDP	United Nations Development Program
UNGA	United Nations General Assembly
USDA	U.S. Department of Agriculture
WFP	World Food Program
WGA	Weekly Government Announcement Series
WIPO	World Intellectual Property Organization
XCSS	Executive Committee in Special Session (OECD)

CHAPTER I

Summary of Development Issues

Two policy issues in development stand out as the most significant in 1975:

(1) the serious balance of payments squeeze faced by most developing countries as a result of high petroleum prices and the recession in the developed countries, with the accompanying need for additional financial resources to support the development efforts of these countries in 1976;

(2) the need to provide realistic and responsive proposals for meeting less-developed country problems that would take the North-South dialogue off a confrontation course and set it in the direction of negotiation and cooperation.

Much progress was made in resolving both issues in 1975, particularly at the Seventh Special Session of the United Nations General Assembly in September, 1975. This report highlights these principal aspects but also discusses other development policies and issues. Before proceeding, however, a short review of the structure and complexity of the less-developed countries is provided to help clarify the context in which U.S. policy toward developing countries is formulated.

A. Profile of the Developing World

To give meaning to the phrase "the developing world" (or the third world or the less-developed countries), which will be discussed throughout this report, a brief look at its dimensions and distinguishing features is in order.

The world of 1976 consists of about 150 countries and a population of four billion, growing at an average rate of 2 percent annually (e.g., by about eighty million this year). Fifteen centrally planned (communist) countries, containing one-third of the world population, are excluded from consideration in this report because of their limited participation in international deliberations on most development issues and because of data difficulties.

The non-communist world in 1976 consists of about 135 countries, with a total population of 2.7 billion, growing at an average rate of 2.1 percent annually. Of this number, approximately 110 countries with a total population of 2.0 billion (75 percent of the total) are classified as developing. The single largest concentration is in South Asia with 850 million people or 42 percent of the developing world's population. Developing country population growth (averaging 2.5 percent yearly or almost three times the 0.9 percent rate in the developed countries) will add about 49 of the 55 million person increase in the non-communist world in 1976.

TABLE 1

Population
(millions)

	1972	1975*	1976*	Growth Rate (Percent)
Total	3,726	3,954	4,033	2.0
Communist	1,208	1,279	1,303	1.91
Developing	1,527	1,942	1,990	2.50
Developed	715	735	741	0.90

* Estimated from growth rates through 1973
Source: World Bank Atlas, 1974, Agency for International Development

The non-communist, developing country population (three-quarters of the non-communist total) accounts for only about 17 percent of the world's gross product. While such comparisons are imprecise, incomes in the developing countries averaged only about $340 per head in 1973, and incomes in the developed countries averaged almost fourteen times as much ($4,650). The developing countries, however, play a role in the world economy considerably greater than that measured by their relative product. Together they accounted for roughly 30 percent of world exports (including oil) in 1974 and about 21 percent of world imports. Their importance in the trade of the United States is substantially greater, as they currently take 37 percent of U.S. exports and supply over 40 percent of U.S. imports. However, the export share of non-oil exporting developing nations has, over time, fallen dramatically: from 27.8 percent in 1950 to 12.0 percent in 1974.

The developing world from 1968 through 1973 experienced a more rapid annual rate of GNP growth than the developed world—6.6 percent compared with 4.8 percent. Despite high population growth, income per capita also grew slightly faster in developing countries than in the developed nations—4.1 percent compared wtih 3.9 percent. While the rich grew richer, the relative gap between developed and developing countries did not widen uniformly across the spectrum of all countries. However, rapid growth in some large and relatively advanced developing countries such as Mexico, Brazil, Korea, and Taiwan raised the overall average, concealing the fact that most of the poorest countries achieved little or no increase in per capita income levels. Thus, for an important segment of humanity, the income gap became significantly greater.

Nor is the developed world a closed club. While many of the poorest countries face a future of continued stagnation without concessional assistance and strong self-help efforts, an impressive number of better-off developing countries has launched development efforts which are bringing them rapidly toward the developed category. Greece, Israel and Singapore exceeded or approached a $2,000 per capita income level in 1973, while Argentina, Barbados, Cyprus, Hong Kong, Jamaica, Mexico, Panama, Surinam, and Venezuela exceeded or approached $1,000 per capita. Iran, Korea, Taiwan, Greece, Brazil, the Dominican Republic, and Tunisia, in that order, all achieved economic growth rates exceeding 6 percent per capita per year from 1968-1973.

Within the developing nation category, great disparities exist. Some nations have an average per capita income less than one-tenth that of the more advanced less developed countries. Moreover, within even the poorest countries there are great discrepancies between the wealthy few and the great mass of poor. In many cases the development process has aggravated income disparities within countries. Interest in development as a process of achieving growth for impoverished nations also has a dimension of concern for the equitable distribution of growth benefits.

Despite their limitations, international organizations and donor countries often use per capita income measures to apportion aid among the poor nations. In the present state of the development art, such inadequate measures are perhaps unavoidable tools of the trade, but must be used with flexibility.

Differing needs have produced several systems of classifying developing nations according to degrees of poverty. The World Bank system is widely accepted, and most references in this report use IBRD classifications, under which low-income developing countries have per capita income of less than $200 (in 1973 prices), middle income countries between $200-500 per capita, and high income developing countries above $500 per capita (but less than something in the vicinity of $2,000). However, because data come from different sources in covering specialized topics, differing definitions sometimes appear. To facilitate comparisons, the Appendix summarizes the principal systems of classification used by major development institutions.

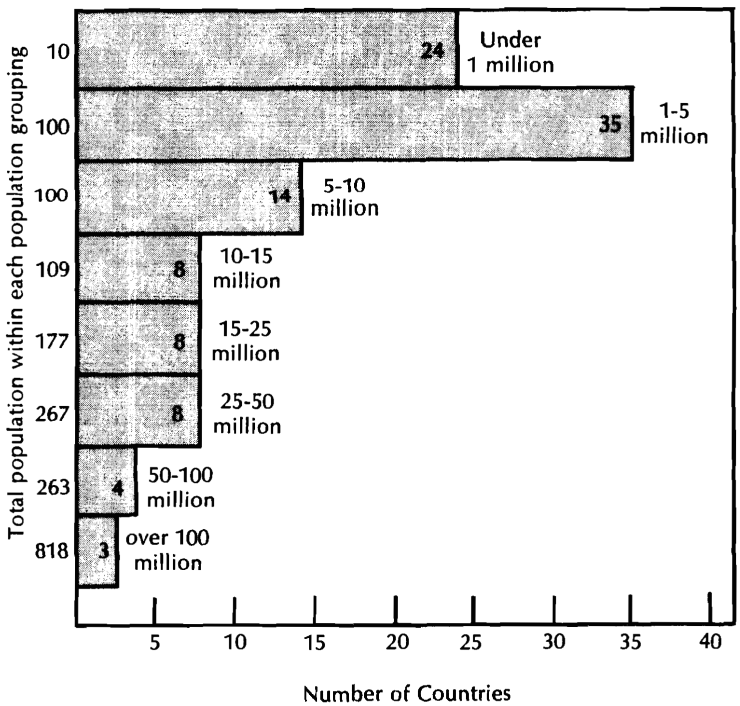
One further distinction in the current literature and data on developing nations is made between oil exporting and non-oil exporting developing nations. An interagency study by the Development Coordination Committee in September 1975 concluded that from a development viewpoint there is no basis for comparing a small group of oil exporting countries which range from the level of Indonesia, Ecuador and Nigeria (income levels between $150 and $250 per capita), to the wealth of Saudi Arabia, Kuwait and the United Arab Emirates with large per capita incomes ($2,000-$13,500) and huge current account surpluses. Ecuador, an oil exporter, really is more like Guatemala than like Kuwait. Their membership in the Organization of Petroleum Exporting Countries is their only common denominator—a commonality which is only useful in discussion of crude oil pricing and supply.

The International Monetary Fund (IMF), The International Bank for Reconstruction and Development (IBRD) and other institutions segregate data on "oil exporting countries" from data on "non-oil exporting developing nations." While this segregation can be useful, this report recommends that agencies making that distinction in their data not omit low income oil exporting developing nations from their treatment of developing nations. Nevertheless, because data are often presented in these categories, at times this report has had to distinguish between oil exporters and other developing countries.

Developing countries are generally highly dependent on international trade and financing for their economic growth. However, there are fewer financial options open to most developing countries, most of which lack sufficient export earnings to finance their development imports on a current basis, than exist for industrialized countries. Many developing countries rely heavily on international agencies and the private financial system to provide equity and loan capital to finance their development needs.

TABLE 2

Number of Developing Countries by Population Size



B. A Development Issue for 1976:
Foreign Exchange for Development

Developing nations faced unprecedented economic problems from 1973-1975. The most important of these was inadequacy of foreign exchange for development.

Forecasts of a reduced balance of payments deficit for 1976 for the developing world mask an underlying deterioration in developing nation economic conditions and prospects stemming from a buildup of debt. Consequently, there is a likelihood that future debt financing will become more difficult.

Over and above the current account deficit, there are the additional resource levels needed to support adequate growth. The World Bank originally projected a developing nation growth of 6 percent per annum for the second development decade ending in 1980, aimed at permitting roughly a 4 percent growth in per capita income. The Bank estimated that financing of this growth target would require annual additions of some $29 billion to the levels of assistance available in the early 1970s. Recently the Bank concluded that this goal is no longer realistic and that a 5.4 percent growth rate (2.7 percent per capita) is the best that can be hoped for. The Bank estimates some $12 billion annually in increased external financing will be needed even to achieve this reduced growth target.

The U.S. Congress and the bilateral assistance program have devoted increasing attention to measures for improving the quality of development and bringing its benefits to the poor majority in recent years, emphasizing the importance of programs in agriculture, education, population, health and employment creation. These remain matters of high priority and urgency, but progress is difficult where per capita growth rates have fallen to low or even negative levels, and governments are preoccupied with avoiding balance of payments and fiscal crises. Many developing nations have already made painful adjustments to reduce the cost of payments imbalances by slowing their rate of growth and spending their scarce reserves.

The carry over of heavy debt and postponement of development programs will substantially reduce and delay developing country efforts to concentrate on the kinds of issues which the Congress and donor governments would prefer to see emphasized in international deliberations and efforts.

The increased resource gap has also advanced the realization that means other than concessional aid and commercial finance must play an increasing role in obtaining resources for development. Developed country policy decisions on commodity measures, stabilization of export earnings, trade and tariff matters, measures improving access to capital markets, private technology and investment flows, and food reserve programs are important as means of easing the balance of payments and development obstacles of the developing nations.

Some areas involve difficult negotiations to resolve sharply differing objectives and viewpoints. Some involve areas of mutual interest and benefit. The most important immediate contribution the industrial nations can make to stem recent reverses in development momentum is to restore a high level of economic activity.

This report's emphasis on the resource gap is not one of preference—a focus on improving the quality of development should have equal priority—but of necessity.

The record of developed nation response to developing country needs has been creative. Creativeness will also be required in 1976 and the final years of this decade as the burdens of the oil crisis, recession and inflation of 1973-1975 are liquidated, and growth momentum restored.

C. *Issues in the North-South Dialogue*

1. *Recent Evolution of the Dialogue*

In recent years there has been an atmosphere of confrontation in international meetings between developed and less-developed countries. Such confrontation was not a new phenomenon, but its intensity was unprecedented. It probably reached a peak at the Sixth Special Session of the United Nations General Assembly (UNGA) in April 1974, which ended with a declaration and plan of action for a "new international economic order" (NIEO). Later in 1974 the UNGA, in regular session, approved a controversial Charter on Economic Rights and Duties of States (CERDS). The result in the United States was a reaction against the nonrepresentative nature of third world steamroller tactics in the U.N. and new calls for cooperation as opposed to confrontation among different groups of countries.

At the Seventh Special Session of the U.N. General Assembly in September 1975, the United States made an intense effort to transform the confrontational atmosphere into one of constructive negotiation. Secretary Kissinger's speech on "Global Consensus and Economic Development," which was delivered to the General Assembly by Ambassador Moynihan on September 1, 1975, was perhaps the most comprehensive statement in a decade or more on U.S. views of developed-developing country economic relationships. The speech contained a positive approach to these issues, an outline of U.S. policy positions, and a series of proposed initiatives. Most less-developed countries perceived this speech and our efforts at the Seventh Special Session as an indication that the U.S. was seriously seeking cooperation with them. As a result, the Seventh Special Session ended in an atmosphere of constructive mutual effort rather than confrontation.

2. The source of North-South Confrontation

Confrontation at international meetings may result from a perception of less-developed countries that this is an effective tactic at times in negotiations with developed countries, but it also results from different perceptions of the development process and of the role of governments in development.

U.S. development policy, as expressed by Congress in the International Development and Food Assistance Act of 1975 and in previous foreign assistance legislation, is focussed on efforts to assist the great majority of citizens of the developing countries who are poor and lacking in opportunities for a better life to improve their economic and social situation. The governments of developed and developing countries should cooperate in providing the resources and creating the conditions needed for this to happen. The amounts and distribution of aid should be influenced by their effectiveness in helping the ordinary citizen in the developing world. Based on its own experience in the past, the U.S. has a strong preference for relying as much as possible on private enterprise and on market mechanisms and on limiting governmental control and intervention in this effort. As countries grow and develop, their governments will become more important participants in decisions on the international economic system.

These views are not shared in many less-developed countries, where greater emphasis is put on the government as the basic element in the development process and in international economic decision-making. From these differences arise lack of agreement over important aspects of the international economy, such as:

—the degree of governmental intervention in international trade, particularly in trade in primary commodities;

—automatic versus discretionary resource transfers from richer to poorer countries;

—the amount of these resource transfers and their distribution;

—the role of multinational corporations (MNCs) in international investment, trade, and technology transfers;

—the responsibility of governments of less-developed countries to make the necessary internal efforts, particularly in such areas as population, income distribution, and incentives to agricultural production, to make resource transfers to them effective; and

—the decision-making process in international economic affairs and the extent to which this should be based on the concept of national sovereignty (one country, one vote) or financial contributions (weighted voting of the type which prevails in the World Bank, the regional development banks, and the International Monetary Fund).

3. *Issues under Current Debate*

a. Transfer of Real Resources

This is an umbrella economic issue, since many other issues relate in some way to techniques for resource transfers from richer to poorer countries, whether via straightforward aid mechanisms, through the monetary system, via the trading system or through the regulation of commodity prices, etc. Developing country demands, as articulated in recent international meetings, tend to stress automaticity of resource flows, government intervention in commodity markets and in international trade, and more non-reciprocal privileges for the poorer countries in the international monetary and trading system. Not all less-developed countries necessarily agree with all of these concepts, but these disagreements are muted in international forums, where the watchword tends to be solidarity.

Some of the ways in which developing country demands manifest themselves are the following:

—Aid: flows of official development assistance (ODA), should promptly reach the international target of 0.7% of GNP for each developed donor country;

—Monetary: there should be a link between the creation of international liquidity (the issuance of additional Special Drawing Rights (SDR) by the International Monetary Fund) and the provision of real resources to the countries most in need;

—Sea-beds: as deep sea-bed exploitation becomes a reality, many of the benefits should go automatically to developing countries;

—Commodities: prices of primary commodities exported by developing countries not only require stabilization by widespread use of commodity agreements and indexing to keep pace with inflation, but should be made more remunerative over time (i.e., their long-term price trend should be raised wherever possible);
—Imports: less-developed countries should not be required to give reciprocal concessions in trade negotiations with industrialized countries and should receive preferential treatment with respect to tariffs (which is being accomplished in the various developed country systems of generalized preferences) and non-tariff barriers, such as quotas, government procurement, standards, subsidies.
—Exports: total export earnings of developing countries should be protected against downswings, since these imperil development programs;
—Industry: labor intensive industries should be redeployed to developing nations and domestic processing of locally produced raw materials should be encouraged;
—Technology: means other than those which imply foreign ownership and/or control should be found to transfer technology.

The foregoing list is by no means exhaustive.

A brief examination of these issues follows. Chapter III of this report will contain a more detailed analysis of them and of how they relate to the umbrella problem of resource transfer.

Different developing countries stress different measures, depending on their particular situation and stage of development. Thus, relatively advanced developing countries, such as Mexico, Brazil, Korea, seek improved access to advanced countries' markets for finished and semi-finished goods; countries highly dependent on primary commodity exports for their foreign exchange look to commodity price stabilization and augmentation; the poorest countries stress primarily concessional official development assistance.

The U.S. supports many of the aims underlying these measures. In his speech to the Seventh Special Session, Secretary Kissinger proposed increased aid flows, especially for agricultural development; he envisaged creation of a comprehensive export earning stablization scheme through the IMF; he announced the U.S. would institute its generalized system of trade preferences as of January 1, 1976; he stated the U.S. willingness to examine temporary preferential treatment for developing countries in the area of non-tariff measures in the Multilateral Trade Negotiations; he said that the U.S. was prepared to discuss primary commodities on a case-by-case basis.

However, important philosophic differences remain. The U.S. traditionally looks at commodity price arrangements more as an aberration from primary reliance on market forces rather than as the norm; most developing country spokesmen start out with a bias in favor of regulation. The U.S. is not prepared to tranfser real resources on an automatic basis but prefers to choose its own techniques and recipients. The U.S. has not been willing to commit itself to aid targets. The U.S. is not prepared as a matter of conscious policy or negotiation to see particular industries redeployed to less-developed countries but rather supports the view that the international economy should adjust to underlying economic realities with lessened restrictions. Chapter III examines these U.S. proposals and the rationale for them, as well as the responses of multilateral international agencies to developing nation aspirations.

The international negotiations on resource transfers thus cover not only pragmatic issues but often involve some conflict of ideologies as well. The latter are unlikely to be resolved in the near future, but understandings on specific issues (e.g., trade preferences, particular commodity understanding, levels of aid) are possible.

b. Financing Current Deficits

Chapter II of this report contains an analysis of the present serious current account imbalance of the non-oil-producing developing countries, which increased from $9 billion in 1973, to $28 billion in 1974, and to an estimated $35-$40 billion in 1975. These increasing current account deficits have been due to increased oil prices, to increases in the prices of other imports such as food and manufactured goods, and to a slowdown in the import growth of the industrialized countries due to their own recessions. With the recovery of the world economy in 1976, these current account deficits are expected to shrink.

Additional means have been created to finance these deficits, but their burden persists. Many financing techniques have been used, such as drawdowns of reserves, borrowings from international organizations, bilateral governmental borrowings, and reliance on private markets, such as the Eurocurrency market. At this level of analysis, developed and less-developed countries tend to agree; namely, that the financing problem is serious, that its best longer term solutions are recovery in the developed countries and improved trade earnings, and that many of the techniques used so far, such as reserve drawdowns and short term commercial borrowing by many less-developed countries are temporary expedients which must ultimately be supplemented by fundamental policy adjustments.

On other aspects, there is disagreement. Thus, many less-developed countries suggest debt moratoria or even debt cancellation for the poorest and most seriously affected countries as one corrective device. There have been suggestions for a new issuance of Special Drawing Rights to deal with this problem.

The U.S., for its part, prefers to look at debt problems on a case-by-case basis, accepting rescheduling only if and when needed, and emphasizing efforts to increase the flow of new financing. Thus, creation of a Trust Fund in the IMF, using profits from the sale of IMF gold was proposed for lending to the poorest countries to tide them over present balance of payments and debt problems. The U.S. has supported the liberalization of other IMF facilities to provide balance of payments assistance.

Financing of current deficits is a major problem with which all members of the international community must concern themselves, although the recent measures have alleviated the problem for 1976.

c. Internal Effort by Developing Countries

On this issue less-developed countries often draft resolutions asserting that they are already making all possible efforts in behalf of their own development and that shortfalls in development performance must stem primarily from lack of sufficient external cooperation and assistance from developed countries. For their part, developed countries often cite the need for more self-help as a condition for providing more outside help.

In practice there are numerous cases where less-developed countries have adopted policies which deter effective use of resources. For example, they often do not give adequate incentives to agricultural production. A frequent practice is the holding down of farm prices in order to cater to politically potent urban dwellers, which then has a direct impact on food import needs and foreign exchange adequacy. Despite high population growth rates, in excess of 2½ and 3 percent annually, many countries resist attacking this problem or fail to give it adequate priority. These instances illustrate issues in development, which if not appropriately addressed internally, render external help at best a short term humanitarian palliative with little long term benefit. Conditions required by donors can sometimes help governments overcome internal resistance to policy changes.

In its bilateral development assistance programs, the United States increasingly is stressing the need to help directly the poor majority in developing countries, especially the rural poor. A corollary to this is that attention must be given in U.S. aid programs to more equitable income distribution in developing countries, and that this will work best when the developing country itself is concerned with its own income distribution.

These are often sensitive political issues i.e. dealing with relative benefits to urban and rural populations, facing population issues in a meaningful way, making decisions on who gets what benefits from growth. Yet, the U.S. argues that aid recipients must deal with these hard issues if they expect donor support for their aid requests.

Internal and external measures are complementary rather than competing, particularly if one accepts the concept of interdependence. Yet much of the debate goes on in a competitive sense of casting blame. The future agenda inevitably will include this debate.

d. Trade in Primary Commodities

This topic has dominated recent debate between developed and less-developed countries. The debate has its origins in the belief of many developing countries that the terms of trade (the relationship between the prices they receive for the goods they sell and the prices they pay for what they buy) have a tendency to move in favor of exporters of manufactured goods and against those countries exporting primary commodities. Despite the fact that developed countries export more primary commodities, by value, than do less-developed countries, this perception has tended to translate itself into the simple proposition that there is a tendency for the terms of trade of developing countries to deteriorate. In fact, using IMF data, the terms of trade of non-oil developing countries improved on an annual average basis between 1960 and 1970 by ½ percent, then deteriorated in 1970 and 1971, improved in 1972 and 1973, and then deteriorated again in 1974. There was a further deterioration in 1975.

TABLE 3

Terms of Trade, 1960-74
(Percentage changes)

	Annual Average	Change from Preceding Year				
	1960-70	1970	1971	1972	1973	1974
Industrial countries	½	½	—½	½	—2	—11½
Primary producing countries:						
More developed countries	½	—1	—1½	3½	12	—10½
Major oil exporters	—2	—2	17	5	16½	128
Non-oil developing countries	½	—1	—9	½	6½	—4

Sources: National economic reports, IMF Data Fund, and Fund staff estimates.

Compound annual rates of change.

The debate on terms of trade took on new life following the sudden and dramatic OPEC increases in oil prices at the end of 1973 and in 1974. Other primary product exporters wondered whether they could emulate the OPEC example. There was a good deal of talk about commodity power. Many producer associations for particular primary commodities now in existence were either formed or received new impetus in that period; e.g., iron ore, bauxite, and copper.

Less-developed country arguments, as they have been articulated in recent international meetings, include the following elements:

—the terms of trade can be manipulated to favor developing country exporters of primary commodities;

—the longer term relationship between prices of primary products and manufactured goods can be maintained by some form of indexing between the two;

—in any event, to sustain prices, there should be more regulation of primary product markets through buffer stocks and related devices;

—associations of primary product producers should be fostered;

—primary product issues should be looked at as an integrated whole involving the foregoing ideas, plus other elements of financing.

The U.S. approaches the problem differently. The U.S. does not consider that existing evidence supports the thesis that there is an inherent tendency for the terms of trade to inevitably work against developing countries. The U.S. opposes institutionalized market interference. It sees real risk to the world economy and little technical or substantive merit to various indexing schemes. And the U.S. doubts that much progress can be made by talking of "commodities" as an undifferentiated group of products.

More positively, the U.S. has proposed that each commodity be examined on its own merits, and that a consumer-producer forum be established for every key commodity. For some commodities, the U.S. has stated that formal agreements may be appropriate, such as for tin, coffee, cocoa, and sugar. The U.S. proposal for a liberalized export earning stabilization facility in the IMF was designed to deal not just with fluctuations in the prices of particular commodities (since these fluctuations may be appropriate in given market conditions), but to deal with total export earning shortfalls that could prejudice development programs.

e. Trade in Manufactured and Semi-manufactured Goods

A corollary to the proposition that the terms of trade tend to deteriorate for exporters of primary products is that less-developed countries should strive to increase their exports of manufactured and processed goods. This has been a persistent theme in modern economic history, including early U.S. history. It has had various manifestations in the recent international debate. Thus, less-developed countries have requested:

—alteration of tariff structures of developed countries which work against the import of processed and manufactured goods by having zero or low duties on raw materials and an escalating tariff level as the degree of processing increases;

—elimination by developed countries of non-tariff barriers, such as import quotas;

—specific incentives to help less-developed countries initiate and stimulate manufacturing and processing industries, such as by general systems of preference (GSP) for their products;

—toleration of fiscal incentives (subsidies) by which governments of less-developed countries try to foster industrialization.

These demands go well beyond those of the early 1960's, when the less-developed countries argued for non-reciprocal benefits in international trade negotiations. This was achieved, formally in Part IV of the GATT,[1] although probably at a price. When countries obtain non-reciprocal concessions they often obtain less than what they would have received in negotiations leading to mutual benefits. If less-developed countries in general have received less than they would have liked in past multilateral trade negotiations, their unwillingness to participate in mutual concessions may have been a major cause.

How does the U.S. look at these demands? Some have been accepted. The U.S. has instituted a generalized system of tariff preferences for imports from less-developed countries, although it is less comprehensive than was demanded. The U.S. has agreed to take up the issue of tariff escalation in the context of the current Multilateral Trade Negotiations (MTN). The U.S. is also prepared to negotiate on the basis of permitting certain subsidies to export industries by less-developed countries under prescribed conditions, without triggering countervailing duties, for a period geared to achieving particular development objectives.

[1] General Agreement on Tariffs and Trade. Contracting parties accepted that less-developed countries labored under special difficulties and should be accorded more latitude under the GATT rules than developed countries.

But there are still important divergences here between U.S. policy and recent less-developed country demands. The U.S. is not prepared to allow unlimited entry of foreign manufactured goods such as textiles, shoes, or various electronic items, which are sensitive for certain U.S. industries and U.S. labor. The U.S. accepts in MTN the principle of relative reciprocity based on the ability of developing countries to make concessions, but has not been willing to accept that less-developed countries need do nothing in return for the trade benefits they receive.

Negotiations will be particularly active in the trade field during the next several years.

f. Industrialization

The developing nations seek a specific share of world industrial production.

To achieve this goal, they call for assured and expanded future export markets. To achieve this expansion they seek the deliberate phasing out by developed countries of certain industries, usually the labor intensive ones, so that these can be shifted to less-developed countries thereby promoting a more efficient and equitable international division of labor.

The U.S. supports expansion of developing nation industrial production. U.S. efforts to liberalize world trade, and our generalized system of preferences, will improve access to U.S. markets for less-developed country exports. The U.S. has also strengthened its program of financial assistance to labor and industry to facilitate adjustment to the adverse impact of competition from imports so as to permit them to upgrade their skills and technology and to shift into more competitive, higher income industries. However, the U.S. opposes guidelines obliging industrial nations to shift out of or into particular industries, and does not support anticipatory adjustment assistance which would plan and facilitate such shifts.

g.- Multinational Corporations and Technology Transfer

Less-developed countries articulate their concerns about these corporations in many forms:

—they believe that control is needed over large companies whose economic power sometimes exceeds that of countries in which they are located and claim that the power *per se* is excessive in relation to national sovereignty and is often abused;

—many less-developed countries argue that multinational companies, by controlling transactions between parents and affiliates, can alter pricing patterns, choose where to take profits, unilaterally choose production locations (thereby affecting income and employment in countries without the latters' effective control), unilaterally choose the price and quality of technology which is transferred, limit places to which subsidiaries can export, and the like;

—but more broadly, the concern is that some aspects of national sovereignty are threatened by multinational corporations.

With increasing frequency, less-developed countries are seeking more indigenous equity participation, frequently a majority, in foreign investment ventures. This is particularly true in extractive industries, leading to nationalizations and expropriations, some partial, some total, often with conflicts over adequacy of compensation. Less-developed countries have sometimes argued that the expropriated company owes money to the country after its property was nationalized rather than being entitled to any compensation. Many less-developed countries have argued they have the sole right to determine what is just compensation; this position was included in the Charter of Economic Rights and Duties of States, adopted by the U.N. General Assembly over U.S. and other developed country opposition.

Less-developed countries want the expertise in production, management, technology, marketing, and training, that multinational companies have to offer, but they are fearful of excessive dependency. The corporations have adapted to a wide range of new conditions, but clearly canot meet all demands. They must earn a fair return on their investment to survive. They believe their power is often exaggerated and present controls limit the contribution they can make to the host countries. They seek equal treatment with national companies in application of local laws and rules.

Developing nations want not only investment but also technology, and they often want it on concessional terms. To protect themselves from the disadvantages they feel in relations with the corporations which control technology, they advocate codes of conduct for investment and for transfers of technology which would be legally binding and enforced by developed nations as well as themselves.

The U.S. Government favors the free flow of private investment to countries which welcome it. The U.S. believes strongly in the need for prompt, adequate and effective compensation, with recourse to international arbitration procedures when necessary. It also seeks equitable settlement of disputes without government-to-government confrontation. It favors efforts to facilitate public and private technology transfers.

The U.S. participates in many activities and negotiations on investment and technology matters in a number of U.N. and other international organizations. It is prepared to consider a voluntary code of conduct for multinational corporations which would include responsibilities of both enterprises and host governments. It also believes that a voluntary code of conduct for transfer of technology, reflecting responsibilities of all parties, might facilitate and increase such transfers to developing countries. It continues selectively to support and promote investment through the activities of the U.S. Overseas Private Investment Corporation (OPIC), which insures and finances developmental U.S. private investment projects abroad. The U.S. proposed a number of additional efforts to promote industrialization and technology transfer in Secretary Kissinger's U.N. Seventh Special Session address (see Chapter III D).

The many additional activities and negotiations going on include international information gathering on various types of multinational corporation activities, seeking multilateral understandings on transfer pricing between affiliates of the same company, seeking ways to promote mineral investment while minimizing later risks of expropriation, and various code formulation efforts in a number of different international fora. Primarily, however, the ultimate negotiation must be between the companies and governments concerned.

h. Decision-Making in International Institutions

Decisions now are made differently in different international institutions. In the United Nations General Assembly, the method used is one country, one vote, and voting is frequent. In the Organization for Economic Cooperation and Development (OECD) of twenty-four industrial nations, decision is by consensus (unanimity, unless some country chooses to opt out), and thus voting does not matter. In the GATT, voting, when it occurs, is by country, but this usually has little relevance in a trade negotiating context involving an exchange of benefits. In financial institutions, such as the World Bank, the regional development banks, and the IMF, voting is weighted by formulas combining financial contributions and importance of the country on the world economic scene.

There are various smaller *ad hoc* groups of nations whose decisions can have an important impact on other countries and on international institutions, e.g., OPEC decisions on oil pricing, various Latin American decisions on territorial waters, developed country decisions on gold and its role in the international monetary system.

What are the less-developed country grievances with respect to decision-making?

—decisions in the international financial institutions are weighted in favor of the donor countries and should be more balanced as between donor and recipient countries;

—too many key decisions, particularly of a financial and monetary nature, are made outside of any formal framework.

The U.S. response has been that the weighting of votes in financial institutions should reflect proportionately the financial contributions of each member country. As to decisions in smaller groups, the U.S. has long argued that this is needed, indeed will happen no matter what the formal rules, for reasons of efficiency of decision making.

This debate on the decision-making process will continue, probably with some heat, since it involves such elements as national sovereignty, legitimate concern about the impact of important decisions affecting many countries, and the distribution of resources through financial institutions.

3. *The Institutional Framework for International Decision Making.*

The follow-up to the Seventh Special Session is taking place in many international institutions, in some cases simultaneously. The U.S. suggestion for a development security facility (an export earning stabilization scheme) was reviewed and approved in the IMF; the tin agreement was negotiated in the Tin Council; the coffee agreement in the International Coffee Council; the cocoa agreement in the International Cocoa Council; and other commodity issues will be discussed in the appropriate commodity body. Proposals related to the multilateral trade negotiations are negotiated in the GATT; various overall commodity issues, plus a study of indexing, in the United Nations Conference on Trade and Development (UNCTAD); proposals related to expanding the capital of the International Finance Corporation in the IFC; replenishment of the capital of the International Development Association in IDA; and other financial institution replenishments in the respective bodies. Some proposals will be discussed in the U.N. General Assembly itself; others will go to the U.N. specialized agencies, and some will be discussed in new institutions. For example there are proposals to create an international energy body, an industrialization institute, and a new International Fund for Agricultural Development (IFAD).

The industrialized countries will discuss these issues mainly in the OECD. Less-developed countries will discuss them in the Group of 77, the non-aligned group, and in various other bodies of their own. The recently created Conference on International Economic Cooperation (CIEC) and its four commissions on energy, commodities, development, and finance, are considering these same issues in an international forum considerably smaller than the General Assembly.

The Development Assistance Committee (DAC) of the OECD is a forum for aid donor countries to discuss resource transfer issues. The joint IMF/IBRD Development Committee also discusses resource transfer issues, such as problems relating to less-developed country access to private capital markets, in a comprehensive twenty member forum made up of representatives of countries of multicountry constituencies of developed and less-developed countries.

The foregoing listing is only a partial one.

In this welter of forums, there will be overlap, repetition, competition, and picking and choosing by different countries depending on which forum each believes to be most congenial to its preferred outcome.

While discussions are taking place in a multiplicity of forums, the U.N. itself will be examining proposals to restructure its system to best promote international economic cooperation.

Forums for debating development issues have grown like Topsy, and institutional reform proposals are already being discussed. Much of the time of busy officials is now taken up in going to meeting after meeting to deal with the same issues under different auspices. Some of this is meaningful, but much of it is wasteful.

The 1976 agenda of international efforts following the events of 1973-1975, is one of the most intensive ever in the international economic sphere. A list of major events now in prospect follows.

TABLE 4

Selected List of 1976 Meetings Dealing With Development Issues

DATE	MEETING	AGENDA
Jan 7-8 (Jamaica)	IMF Interim Committee	Proposed development security facility and trust fund
Jan 9-10 (Jamaica)	IMF/IBRD Development Committee	Transfer of real resources to developing countries
Jan 26-Feb 6 (Rome)	International Fund for Agricultural Development Working Group	Drafting of articles and pledge prospects
Feb 11	Conference for International Economic Cooperation (CIEC) commissions (4) start sessions (periodically meeting throughout the year)	Energy, raw materials, development, and finance
March 1-12 (Lima)	UN Commission on Transnationals	Code of conduct for transnational corporations
March 8-19 (Geneva)	UNCTAD Trade & Development Board	Preparatory for UNCTAD IV
April 22-24 (Jakarta)	Asian Development Bank (ADB) Annual Meeting of the Board of Governors	Review of operations, lending, borrowing requirements, capital structure and direction of focus of programs
May 3-28 (Nairobi)	United Nations Committee on Trade and Development (UNCTAD IV)	Commodities, trade, financial transfers, technology, and institutional future of UNCTAD
May 17-19 (Cancun, Mexico)	Inter-American Development Bank Annual Meeting of the Board of Governors	Review of operations, lending, borrowing requirements, capital structure and the direction of focus of programs
Oct 4-8 (Manila)	IMF/IBRD Joint Annual Meeting of the Boards of Governors Development Committee and Interim Committee	Review of current monetary issues, operation of the fund, capital structure, and direction of development finance programs
Continuing	Multilateral Tariff Negotiations (MTN)	Special trade measures for developing nations
Continuing	OECD (Executive Session in Special Session; *ad hoc* high level groups on commodities, on economic relations with developing countries)	A wide range of development issues between member countries and developing countries

4. *The Role of the Development Coordination Committee*

What emerges from the foregoing is that:

—this is a time of great substantive and institutional agitation—the present system is altering, the real nature of change is not yet entirely clear, and the issues involved are substantial;

—the negotiations involve pragmatic differences, which presumably are amenable to resolution through debate and compromise, but also involve differing ideological and philosophic perceptions of how the world should be ordered, and these differences are likely to be hard to resolve;

—enough changes already have taken place recently in developed-developing country relationships (e.g., the emergence of a few rich oil exporting countries and of several less developed countries with sustained high rates of growth approaching developed country status) to create a feeling of dynamism and expectation of further change; and

—the United States continues to exercise what is in its interests in a future framework of its relations with less developed countries.

The major function which the Development Coordination Committee (DCC) can perform is to stimulate informed debate and judgments on these issues.

It is not the DCC's function to "coordinate" activities internal to a given agency, for which each agency has its own mandate. It is the DCC's function to analyze the inter-relationships among actions by different agencies thereby making the totality of U.S. policy toward less developed countries more effective.

During the past year, such examinations were made of U.S. policy towards less developed countries most seriously affected (MSAs) by oil and other price increases and U.S. economic interaction with certain OPEC countries whose development constraint is not now a shortage of capital.

The DCC was used to help the U.S. examine some of the issues which arose at the Seventh Special Session, and indeed, stimulated much of the basic analytical work for an export earning stabilization scheme. The DCC will be useful now as part of the follow-up process to the Seventh Special Session as well as the CIEC.

In 1976, the DCC plans to examine and make policy recommendations on the following issues:

—what measures can be developed to make U.S. food sales and donations under PL 480 more effective as a development tool without losing other PL 480 objectives in the process?

—how can U.S. bilateral and multilateral assistance programs be better coordinated as they affect particular countries?

—what are the best development relationships the U.S. can work out with less-developed countries which wish our help in their development processes and in which we wish to help, but which no longer require concessional capital and technical assistance from us?

Part of the DCC's legislative mandate is to report on the effects on "the national income, employment, wages, and working conditions in the United States" of the various undertakings of the United States affecting the development of low-income countries, and study of these questions is a continuing activity.

CHAPTER II

Balance of Payments—A Measure of Less-Developed Country Problems

A. Summary: Prospects for the Balance of Payments of Developing Nations

1. Recent Experience

The developing nations enjoyed unprecedented growth during the late stages of the 1973 world boom. They benefitted both from high demand levels for exports to industrial nations and from dramatic export price rises, bringing about, in 1973, roughly a seven percent improvement in the terms of exchange between their principal exports and their imports—primarily manufactured goods and capital equipment—from the industrial nations. In extreme cases prices for many developing country exports increased by fifty percent or more during the six months preceding the peak of the boom. As a result, developing country growth levels in real terms rose from an average of 6.6 percent for the period 1968-1973 to a peak of 8-9 percent. At this peak, on a per capita basis, developing nations averaged better than a five percent improvement.

Although the early 1970's were generally favorable for growth in the developing nations, the growth rate of low income countries (less than $200 per capita in 1973) was far below that of the middle-income countries.

TABLE 5

Growth Rate—Per Annum for the Oil Importing Less Developed Countries

(Percent)

	Low Income Countries	Other Developing Countries	Total Non-Oil Less-Developed Countries
1961-1970	4.4	5.7	5.2
1971-1974	1.6	6.9	5.3

SOURCE: IBRD

Expanding trade volume led to significant improvement in less-developed countries' balance of payments positions. Prior to 1973, the developing world was receiving a net transfer of real resources of about $10-12 billion per year. This is appropriate for nations attempting to accelerate development. Financing of these flows was roughly: 40 percent through concessional aid flows; 35 percent through non-concessional borowing, both private and official; and 25 percent through foreign investment and other sources.

1973 was an unusually good year and the current account deficit declined to around $9 billion. The lower deficit, combined with a healthy level of aid and other credits, permitted the addition of more than $5 billion to foreign exchange reserves.

In 1975 it is estimated that the non-oil less-developed country current account deficit tripled, to the vicinity of $39 billion. Recent estimates suggest that approximately one-third of this increase is attributable directly to the increased cost of oil imports and that several billion dollars additional resulted from pass-through of oil costs in oil-derivative manufactured products, such as fertilizer and chemicals. Both the world-wide recession and the inflation were undoubtably due, in part, to the effects of high energy prices. The combined impact of recession in the industrial nations and the inflation of their export prices account for the remainder—that is, roughly half—of the $30 billion deterioration in developing country balance of payments positions.

To appreciate fully the development issues facing the world in 1976 it is important to understand several more dimensions of the problem facing the developing nations at the end of 1975. The following table portrays some rough approximations of the means by which the developing nations were able to finance their tripled balance of payment deficits in 1974-75.

TABLE 6

Financing the Non-Oil Developing Country Deficits
(Billions of U.S. Dollars)

	1971	1972	1973	1974	1975	increases 1972-1975
Current Account Deficits						
Financing:	11.4	9.2	9.2	28	39	29.8
Grants	2.2	2.3	4.0	5	15.6	9.7
Official Credits	3.3	3.6	5.2	7		
IMF Resources		0.4	0.1	1.3	3.7	3.3
Private Borrowing	3.6	5.0	4.2	11.2	13	8.0
Direct Investment, Net	1.7	2.2	3.0	4.2	4	1.8
Foreign Exchange Reserve Levels	+1.3	+6.4	+8.3	+3	−2.7	

SOURCE: IBRD, USG

This table suggests that increased official aid and use of IMF facilities financed about $13 billion of the $30 billion increase in the deficit. Part of this increase represents transfers from major oil exporting nations, which contributed $2 billion in bilateral assistance and additional amounts to the special IMF oil import facility. Massive increases in private lending to the developing nations, which expanded roughly three-fold from 1973-1975, were a very important factor. A shift from net additions to net drawdowns of foreign exchange reserves financed most of the remainder.

This table omits an important aspect of the picture, however. The 1975 deficit would have been significantly greater but for financing difficulties which forced developing nations to cut imports and growth rates. From a fairly steady 7 percent annual rate of expansion in 1968-1972, import volume growth surged to 13 percent in 1973-1974. First half data show a 5 percent decline in 1975 from 1974 levels, to a level 12 percent below what would be expected from a continued 7 percent growth rate.

The $39 billion current account deficit understates the deterioration in the trade accounts of the developing countries. An additional $6-16 billion in imports would have been necessary in 1975 to achieve a level of imports consistent with the high growth rates of the 1970s. This means that the developing nations in effect financed betwen 15-30 percent of their potential deficit by cutbacks in their imports; for the poorest nations, the retrenchment was more severe. A recent study by Brookings Institution economists [1] estimates that the oil price increase alone cost the developing nations about 1.7 percentage points from their previous growth rates of about 5.2 percent—enough to turn per capita income increases into per capita declines for quite a number of countries.

This, then, is the situation which the non-oil developing nations faced at the beginning of 1976: They had just experienced a record-breaking balance of payments current account deficit of approximately $39 billion. Their foreign exchange reserves totaled less than $29 billion. Their imports, declining in volume, were running at approximately $125 billion per year, giving them a reserve coverage of imports of approximately 2.6 months. Their foreign debt position had deteriorated, with total outstanding disbursed public, long-term debt of approximately $100 billion, up 40 percent from 1973 levels. Current debt services is estimated at $16 bilion per year, or 17 percent of current export earnings. This represents a slight worsening from the debt servicing burden of 16 percent in 1973. The debt servicing burden may increase more rapidly than debt levels in 1976 and beyond as grace periods run out on the large increments of debt acquired in 1974-76.

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[1] *Higher Oil Prices and the World Economy*, E. R. Fried and C. L Schultze, EOS; The Brookings Institution, 1975

2. Prospects for the Developing Nations

Forecasts for 1976 are subject to great uncertainties. Predictions on the speed of recovery in developing nations differ considerably, as do those for commodity prices and trade volumes. Organizations providing estimates vary in comprehensiveness of their coverage. The following estimates are probably subject to margins of error and coverage differences of at least plus or minus 10 percent on the high numbers, and larger variations on the net figures and smaller components.

TABLE 7

Non-Oil Developing Countries:
Summary of Balance of Payments, 1973-76
(In billions of U.S. dollars)

	Actual 1973	Actual 1974	Actual 1975	Proj. 1976
Exports (f.o.b)	63.3	88.6	83.4	92.0
Imports (f.o.b.)	—69.7	—110.9	—116.4	—119.0
Balance on merchandise trade	— 6.4	— 22.4	— 33.0	— 27.0
Net services and private transfers	— 2.7	— 5.1	— 6.0	— 6.0
Balance on current account	— 9.1	— 27.5	— 39.0	— 33.0
Net inflow of capital and aid	17.5	29.0	36.3	33.0
Overall balance	8.4	1.5	— 2.7	—

SOURCE: IMF, IDC

This estimate projects a net improvement of about $6 billion in the balance of payments deficit of developing nations in 1976. Most of the $8 billion (10 percent) improvement in export earnings would result from recovery in OECD countries' economic activity which is expected to increase by nearly five to six percent. Additional moderation of the deficit will come from continued restraint in the growth of imports. The increase of about 2 percent in imports reflects a continued decline in real import volumes, since import price increases are projected at about 8 percent for 1976.

The data suggest reduced problems of financing the aggregate current account deficit of the oil-importing, developing countries in 1976. However, a major part of the improvement in 1976 comes from retrenchment in imports. A decline in real imports is normally associated with a decline in economic growth rates, since growth in the developing nations is highly dependent on capital goods imports. The desire for resource transfers in 1976 will therefore be significantly greater than that indicated by the current account deficit in the preceding table. An additional $6-$16 billion in imports would require financing, over and above the $35 billion current account deficit, in order to sustain growth rates equal to those of the early 1970's. Expectations for maximum LDC growth for the remainder of this decade have been reduced by nearly a fifth, since no reasonable possibility of financing the difference is foreseen.

In financing the 1976 current account deficit, little change is expected in available levels of bilateral and multilateral official aid and net foreign investment flows from 1975. The principal uncertainty hinges on prospects for continued high levels of bank credit. The heavy build-up in debt—particularly shorter term higher interest private borrowing from banks—gives cause for concern. The net yearly flow of bank lending is expected to be reduced by at least $1-3 billion. A few New York bank economists predict sharper reductions in bank flows to less-developed countries. An important factor will be the level of credit demand in the industrial countries as the recovery continues.

The 1974-75 recession reduced OECD country demand for imports and the twenty-four member industrial countries expanded their current account surpluses with non-oil less-developed countries from $7 billion in 1973 to an estimated $33 billion for 1975. With gradual acceleration of economic activity a modest reversal is expected. Trade account improvements for the developing countries are likely to be delayed largely until the second half of 1976. Industrial country recovery is expected to take place gradually with a 3+ percentage growth rate in the first half of 1976 and a 5 percent or better rate by the second half. Private and official financing could ease the 1976 problem, but will add a further $17+ billion to less-developed country debt burdens, with an accompanying annual increase in debt obligations. For 1977 and beyond, forecasters are optimistic that industrial nations will gain momentum to an annual growth rate matching or exceeding the 4.2 percent medium term target, so that the developing nations will be able to reduce the portion of the current account deficit ascribable to the recession.

As a general rule richer nations have greater flexibility for dealing with the impact of major world economic disturbances than the less-developed. The recent Brookings study mentioned above estimates that the developed nations by 1977 will have almost entirely adjusted to the continuing costs of the fourfold oil price increases of 1973-1974 through a combination of conservation and substitution of other energy sources and rapid expansion of exports to the oil exporting nations.

Most of the less-developed countries cannot reduce oil imports or finance existing import levels without sacrifice of other priority objectives. Consumption includes relatively few non-essential uses and they have little potential for further restraining imports. Only a few have potential for substituting domestic energy supplies or expanding exports in the near term to pay for imported energy. The ability of the poorest to obtain private or suppliers credits is minimal. The Brookings' study concludes that, as a whole, the developing nations can expect an average $10 billion increase in their trade deficit from higher energy costs and several billion dollars more of oil pass-through costs to continue virtually unabated.

3. *Hardship for the Poorest*

In 1974 the U.N. identified the group of developing countries (the MSAs) most seriously affected by the economic crisis. This list currently includes forty-two countries, including some of the largest (India, Pakistan, Bangladesh). (See list, Appendix D.) Together their population totals some 1 billion (half of the developing world) and their average per capita income (roughly $120 per capita in 1972) is one-fourth that of the other half of non-oil developing nations. An OECD Development Assistance Committee (DAC) study finds little margin for the MSAs to ride out the projected deficits for 1975 and 1976 by drawing down reserves which are already at "dangerously low levels—barely sufficient to finance two months of imports." Their economies are also more vulnerable to disturbances, such as poor harvests, than those of more developed nations. Many of their per capita incomes have been declining for several years so that further retrenchment of imports for consumption and development increases the risk of hardship and instability. On a brighter note, recent good harvests in India have, for this country—the largest MSA—considerably improved near-term prospects.

4. *Debt*

The trade deficit in oil importing developing countries amounted to about 3 percent of their GNP in 1974, up from 1.5 percent in the late sixties. In a sense the events of late 1973 and 1974 curtailed the progress developing countries had made toward reducing their reliance on external capital.

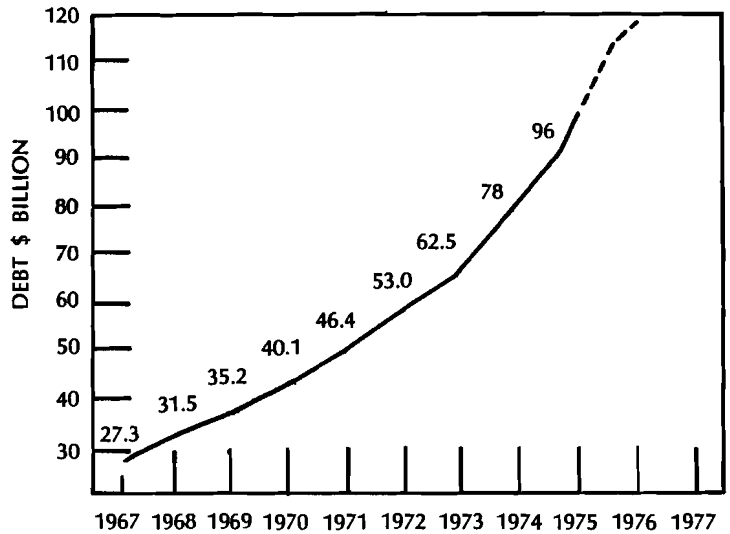
Recent developing nation borrowings above historical levels and on harder terms have served to intensify concern about their debt servicing capabilities. Massive balance of payments deficits resulted in approximately $21.5 billion in long term borrowing for 1974 as compared with $17 billion in 1973.

In 1973, twenty-eight high income less-developed countries accounted for 41.3 percent of the total debt, with the low income countries' share being 22.8 percent of the total, according to the World Bank.

TABLE 8

Disbursed External Public Debt of 86 Developing Nations

Year-Ends, 1967-75



Source: IBRD

The liquidity squeeze faced by the majority of oil-importing countries and, to a lesser extent, the favorable long term growth prospects for a few countries, resulted in increased borrowings on capital markets at commercial rates in 1974 and 1975. Brazil and Mexico alone accounted for over half of the total Eurocurrency borrowing. Among middle income and lower income countries, three countries received three fourths of private bank commitments: Zaïre, Korea, and the Ivory Coast. Private bank lending continued to grow in 1974. Publicized Eurocurrency credits to developing countries reached $9.6 billion. Of this $6.9 billion went to higher income countries $1.6 billion to middle income countries, and $291 million to lower income countries. Preliminary estimates for 1975 indicate a further increase in Eurocurrency lending, with total credits amounting to $13.0 billion (an estimated $11 billion netting out OPEC countries).

TABLE 9

Eurocurrency Credits and Reserves of Selected Less-Developed Countries

	Euro-currency ($ Millions)				Reserves (SDR Millions)		
	1972	1973	1974	1975[2]	1972	1973	1974
Non-OPEC							
Brazil	579	740	1,672	2,512	2,853	5,319	4,289
Mexico	197	1,588	948	1,929	1,072	1,123	1,137
Peru	139	434	442	374	446	471	791
Philippines	50	187	844	303	507	860	1,228
South Korea	100	205	134	342	681	907	862
Other[3]	497	1,443	2,290	2,784	12,762	15,533	17,510

Source: 1. Morgan Guaranty Trust, World Financial Markets, 12/6/75
2. IMF/IFS

[1] publicly announced
[2] provisional
[3] includes regional development organizations

The rapid expansion of private lending has gradually shifted the composition of external debt by type of creditor. Debt to private lenders increased between 1967 and 1973 from 28.9 percent to 32.4 percent of the total of public and private debt. Private flows accounted for less than one half of capital flows in 1974, and for nearly three fifths of capital flows in 1975. There also has been a shift among private sources of borrowing. Suppliers' credits—half the debt to private lenders in 1967—accounted for only one third in 1973. The share of private bank credits rose from about one fifth in 1967 to nearly one half in 1973.

Change in the weight of the debt structure from public toward private sources implies a shift from softer to harder terms. It suggests that the problem of debt management may become more acute unless the ability to service debt is also improving.

Non-oil developing countries borrowed $0.9 billion under the IMF Oil Facility in 1974 and an estimated $2.5 billion in 1975. These funds must be repaid in seven years (with a three year grace period) at 7¼ percent interest. Unless export growth picks up before these payments come due, many oil importing countries may face severe foreign exchange shortages and difficulty in financing debt service.

5. Debt Servicing

Debt servicing pressures are usually measured by examining trends in (1) the debt service ratio (total debt service payments as a percentage of exports of goods and non-factor service), which expresses debt service as a claim on foreign exchange earnings, and (2) ratio of foreign debt service to GNP, a proxy for debt service as a claim on current production.

Based on disbursed (as opposed to committed) credits, during the period 1967-1969, the average debt service ratio for the developing nations was 9.6 percent. The ratio is estimated at 17 percent in 1975.

The aggregate debt service burden (annual payment of principal and interest) for these non-oil developing nations grew from $11 billion in 1973 to $16 billion in 1975. Debt and debt service fell somewhat in relation to exports in 1974, but are estimated to have risen in 1975.

TABLE 10

Debt and Debt Service Burden of Non Oil Developing Nations
$ Billion

	1973	1974	1975
Exports	68	97	92
Debts (disbursed)	62.5	78	96
Debt Service	11	14	16
Debt ÷ Exports	.92	.80	1.04
Debt Service ÷ Exports	.16	.14	.17

SOURCE: U.S. Treasury IBRD

The above data demonstrate that while the world inflation of 1973-74 lessened the burden of existing debt on developing countries as a percentage of their income from exports, the recent need for extraordinary borrowing has rapidly brought the level of debt back to the pre-inflation level, and the hardened terms of debt are rapidly increasing debt servicing burdens above previous levels.

6. *Growth Prospects—1975-80*

To assess the full impact of recent events on future development prospects, one should distinguish between the poorest countries and other developing nations. World Bank analysis uses a $200 per capita income level in making this distinction (see Table 11 below). Other analysts use other threshold levels, but the results consistently show that the problems faced by the developing world are greatly compounded for the poorest. Although developing nations grew an average of 5.6 percent per year over the period 1971-74, this growth performance was very unevenly distributed. The per capita gross domestic product growth of countries with per capita incomes below $200 (accounting for two-thirds of the total developing country population) was *negative*, showing an average yearly decline of 0.8 percent over the period. On the other hand the per capita GDP growth rate of the higher income non-oil exporting countries reached 4.3 percent per annum.

The corresponding figures for total GDP are 1.6 percent and 6.9 percent. Therefore, only the higher income countries and, of course, the oil exporters have achieved, to date, the 6.0 percent target growth rate set for Development Decade II. Moreover, the share of total world trade of countries with per capita incomes below $200 is estimated at only 1.4 percent for 1974 compared with corresponding 12.9 percent share for those with per capita incomes over $200.

This disparity in development performance between the two groups has been in large part attributed to changes in the volume and purchasing power of exports, to differences in the quality of economic management, and to capital flows. The poorest countries benefitted little from the export boom of 1972-73 because many of their traditional exports experienced stagnant demand. Moreover, their terms of trade deteriorated more sharply than those of other developing nations following the rise in petroleum prices. This can be seen in the table below which summarizes the evolution of the terms of trade of developing countries over recent years.

TABLE 11

Terms of Trade of the Developing Countries
(index 1967-69 = 100)

	Income Per Capita above \$200	Income Per Capita below \$200	All LDCs
1972	96.5	100.5	97.2
1973	102.9	93.6	101.5
1974	93.8	80.2	91.8
1975	88.3	78.9	86.9

Source: IBRD

In addition, for the past five years, these countries have suffered from a stagnation of imports and, in some instances from crop failures. According to an IBRD review of their past performance, despite the fact that capital inflows to these countries increased at an average rate of 8 percent per year in real terms over the period 1971-74, this increase was not sufficient to offset the deterioration in their terms of trade.

Although some of the less-developed countries did benefit from the worldwide boom, at least until the end of 1973, the purchasing power of most of the better-off developing countries fell drastically in 1974-75 due to the combined effects of a noticeable slowdown in the rate of growth of their exports and the increase in their import bill (oil prices accounting for an important part of the increases).

To evaluate the longer term needs for external financing for development one must first determine the levels of imports needed to sustain future growth. Normally imports increase more rapidly than GNP in most developing countries, past experience suggests that in the long run a ratio of the import growth rate to the GNP growth rate of 1.0 to 1.2 is required.

Although developing country import volume fell slightly in 1975, the fall was cushioned by previous high levels of imports. In 1976, however, the import level is expected to drop below the long-run upward trend established in the early part of the decade. Import levels of the poorer countries have been squeezed more tightly than those of the richer countries.

Even with recovery of OECD economic activity, the growth prospects of countries with lowest incomes are poor. Their exports are highly concentrated in a small number of primary commodities which are subject to wide price fluctuations in world markets. These countries have little room to maneuver in the short run to compensate for shortfalls in export earnings. Many of these countries have high rates of population growth so that it is unlikely that this group of countries will be able to raise per capita incomes rapidly in the near future.

Under the assumption that capital flows to developing nations will continue their recent trends, and that OECD countries will gradually resume normal growth (4.2 percent per year), the IBRD has projected the growth rates over 1975-80 for these groups of countries. Their estimates indicate that the poorer countries may have an annual average GDP per capita growth rate of 0.7-2.4 percent while the higher income less-developed countries will probably have an average annual GDP per capita growth rate of at least 2.0 percent.

Achieving the higher growth rates for 1975-76 shown in the table would require additional capital flows beyond those now expected to be available. The World Bank estimates that average additional yearly flows for 1976-80 would have to be $12.3 billion of public capital, of which $2.0 billion per year would be needed by the low income countries. Alternately, the growth rates of 5 percent and 5.5 percent could be reached with only $4.3 billion per year additional public capital, $1.7 billion of it for the low income countries, if policies to increase exports, including development of export industries in the developing countries, liberalization of developed country trade policy, export stabilization measures, and penetration of the OPEC and centrally planned markets, are underaken. These estimates are based on some highly speculative assumptions, have a wide margin for error, and are indicative only.

TABLE 12

Past and Projected GDP Growth Rates by Groups of Developing Countries, 1960-1980
(In per cent per annum)

	Low income countries (below $200 per capita)	Other countries	Total (excl. OPEC)
Growth rates			
1961-1970	4.4	5.7	5.2
1971-1974	1.6	6.9	5.3
1975-1980	3.3-5.0	4.7-5.5	4.4-5.4
1971-1980	2.7-3.7	5.6-6.1	4.8-5.4
Per capita growth rates			
1961-1970	2.0	3.1	2.4
1971-1974	—0.8	4.3	2.7
1975-1980	0.7-2.4	2.0-2.8	1.8-2.7
1971-1980	0.2-1.2	2.8-3.4	2.1-2.9

SOURCE: IBRD

B. Outlook for the Developed Countries

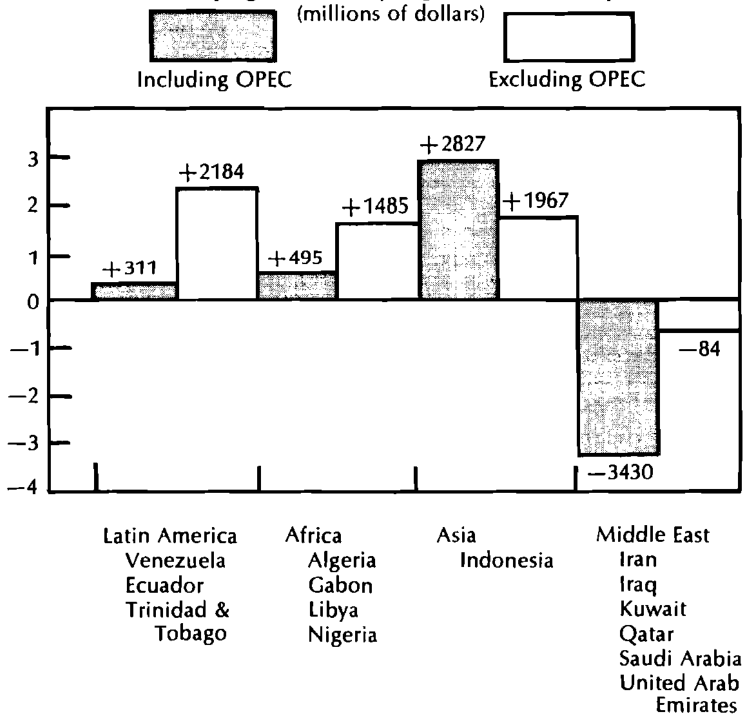
The ability of the less-developed countries to increase their export earnings, reduce unsustainable balance of payments deficits and finance their economic development programs will depend heavily on the strength of the economic recovery in the industrial countries.

In December, 1975 the OECD projected that the 4 percent rate of economic growth foreseen for its members in 1976 would lead to a 6 percent increase in its volume of non-oil imports. This rate of growth would not compensate even by half for the 1975 import decline of over 9.5 percent, and non-oil imports will still be below 1973-74 levels in volume terms. More rapid industrial recovery would favorably influence developing country growth; recently projections for the industrial nations have become somewhat more optimistic.

Prices for all OECD imports are also expected to have increased about 8 percent in 1975. This is partially reflective of the continuing effect of high energy prices which have contributed to inflation in the industrial countries, and forced price increases in industrial exports to the developing nations. The OECD projects that import prices for non-oil primary products probably will rise by only about 1 percent in 1976 (thus narrowing but not reversing the terms of trade deterioration for the developing nations to something under 5 percent in 1976). This follows a decline of non-oil commodity prices of 9.5 percent in 1975. (Independent U.S. analysis predicts a slight improvement in the developing countries' terms of trade in 1976.)

TABLE 13

U.S. Trade Balance with Developing Countries by Regions (1975 Jan.-Sept.)



Source: Direction of Trade, IMF/IBRD, Jan., 1976.

TABLE 14

World Current Account [1]
$ billion

	1973	1974	1975
Trade balance			
OECD	7.50	—27	6
OPEC	19.50	83	55
Non-oil developing countries	—2.50	—16.50	—21
Other [2]	—6	—11.50	—16
Discrepancy	18.50	28	22
Current balance (excluding official transfers)			
OECD	11	—22.50	7
OPEC	3.50	68.50	41
Non-oil developing countries	—9	—26	—34
Other [2]	—4	—10.50	—15
Discrepancy	1.50	9.50	1
Current balance (including official transfers)			
OECD	2.50	—33.25	— 5
OPEC	3.50	67	36
Non-oil developing countries	—2.50	—17.50	—23
Other [2]	—4	—10	—15
Discrepancy	— .50	6.25	7

[1] OECD estimates and forecasts, based as far as possible on data recorded by OECD countries.
[2] Sino-Soviet area, South Africa, Israel, Cyprus, Malta and Yugoslavia.
Source: OECD

The current account surplus of OECD countries with the non-oil developing countries rose from $7 billion in 1973 to $23.8 billion in 1974 and an estimated $33 billion in 1975. While the 1974 increase includes a 17 percent increase in the volume of exports to the less-developed countries, in 1975 there was a 3.5 percent decline in exports to the non-oil less-developed countries in volume terms.

In summary, acceleration of OECD economic activity should provide a badly needed boost to the export volume and price prospects of the developing nations, especially in the latter half of 1976. Assuming continuation of the recovery in 1977, the outlook should continue bright as OECD nations approach a more normal rate of expansion in the 4-5 percent range.

C. *Oil Exporting Countries*

The Organization of Petroleum Exporting Countries, (OPEC), has thirteen member nations. They are at widely different stages of economic development and have sharply divergent capacities to make productive use of their increased revenues from oil exports. These differences are reflected in the external accounts of the OPEC countries. Four, Saudi Arabia, Kuwait, Qatar and the United Arab Emirates, with low populations, high income per capita, and thin economic bases, have only limited capacities to spend their increased oil earnings on imports from the industrial and non-oil developing countries as fast as these earnings are received. Thus these countries will continue to experience large, though diminishing, current account surpluses over the next five years, and their reserves will continue to grow. As a group their reserves grew \$20+ billion, from \$3.5 billion at the end of 1972 to more than \$24 billion by late 1975.

A second group of countries (Iran, Nigeria, and Venezuela) are likely to reduce present current account surpluses and experience possible deficits in the next five years. These countries have larger populations and broader economic bases and they are increasing their imports rapidly. Their reserves increased from \$2.1 billion (end 1972) to a \$20.8 billion peak in June 1975.

At the other end of the scale are four OPEC countries (Algeria, Gabon, Ecuador, Indonesia) which are already spending their oil revenues on imports at a rate which leaves them in deficit on current account. (For example, Indonesia, the poorest of these, has a large population, a per capita income of less than \$200, and foreign exchange needs which far exceed export earnings of about \$55 per capita per year.) For these countries, reserves already show signs of decreasing.

As the industrial country recession abates, world demand for oil will increase and OPEC country revenues for 1976 are expected to rise to \$112 billion according to a recent USG estimate. In 1980 OPEC country revenues will increase to about \$121 billion. This general increase in 1975 OPEC country oil revenues will not, however, change the trend described above for both current account and reserve positions of the various OPEC countries.

Table 15 shows current account balance of payments positions of OPEC countries for the first half of 1975, and OPEC country reserve positions for 1973, 1974, and the first half of 1975.

TABLE 15

OPEC Reserves and Balances on Current Account
(millions of dollars)

	Reserves			Current Account	
	1973	1974	1975 (1st half)	1974	1975 (1st half)
Algeria	1,143	1,689	1,112	1,200	−845
Ecuador	241	350	258	200	−253
Indonesia	807	1,492	654	100	−152
Iran	1,236	8,384	9,685	14,400	3,328
Iraq	1,553	3,273	2,594	2,800	1,381
Kuwait	501	1,397	1,673	7,300	2,894
Libya	2,127	3,616	2,355	2,500	−281
Nigeria	583	5,626	6,197	6,300	812
Qatar	NA	NA	NA	1,600	603
Saudi Arabia	3,877	14,285	20,855	25,900	9,122
United Arab Emirates	NA	NA	NA	5,600	2,087
Venezuela	2,412	6,513	8,426	5,200	1,358
Total				73.0	20,053

Source: IFS, December, 1975

OPEC countries' roles in development finance significantly expanded in 1974 and 1975 although their geographic scope remained narrow. About 17 percent of global official development assistance to developing countries in 1974 came from official OPEC country transfers, a significant increase from 4 percent the previous year. A small increase is estimated for 1975.

As a group, the OPEC countries transferred amounts equal to about three percent of their GNP to the non-oil developing world in 1974: This was 13 percent of total flows to these countries. The vast differences between OPEC countries, and in particular the enormous financial accumulations of the surplus OPEC countries, must be taken into account when considering these figures.

Capital outflows from OPEC countries totaled about $30 billion in 1974. Of this, however, only about $4.7 billion went to developing countries and of this, $2.5 billion was concessional. The remainder went mainly to investment in both liquid and non liquid assets in industrial countries and into repayment of debt to industrial countries and to international institutions.

OPEC countries committed $8.6 billion (excluding the IMF Oil Facility) for bilateral and multilateral assistance in 1974. In 1975 OPEC country donors committed about $9.0 billion and began shifting to project assistance. OPEC country donor assistance is expected to continue; however, projections have been revised downward as a result of a reduction in expected surpluses.

Almost all of the 1974 bilateral grant total went for emergency use, both for balance of payments assistance and for war reconstruction by Arab belligerents of the 1973 Yom Kippur war. A very large part of OPEC country bilateral grant assistance was received by Moslem countries. Less than 10 percent went to non-Moslem developing countries in 1974.

The major OPEC bilateral grant donors were those with the largest surpluses from oil exports: Saudi Arabia, Kuwait and Iran.

In addition to the rapid rise of bilateral commitments and disbursements, additional OPEC assistance to developing countries in 1974 and 1975 came through increased transfers to multilateral lending institutions. In part this indicates a greater willingness by OPEC countries to expand their role in development assistance, but it also reflects the initiation of a new major multilateral IMF lending facility (the Oil Facility) which carried near prime rates of interest and IMF guarantees. OPEC countries transferred about $3.6 billion to multilateral facilities in 1974. Venezuela committed the major part of its development assistance through multilateral organizations, principally via a trust fund of $500 million administered by the Inter-American Development Bank.

Total OPEC disbursements in 1975, were approximately $5.6 billion of which $4.5 billion were credits and $2 billion grants. Concessional (ODA) disbursements were $2.6 billion.

The OPEC country finance ministers have recently approved a plan for a new OPEC aid and development fund which they have announced will amount to $800 million for 1976. The fund will make interest free loans to developing countries for balance of payments financing or for development projects. It is unclear yet, however, whether these contributions will be additional to present OPEC country assistance.

Saudi Arabia originally proposed the idea of the International Fund for Agricultural Development (IFAD), the establishment of which is now being deliberated (see IV A). It is expected that the new OPEC aid fund will become the channel for promised OPEC contributions for IFAD.

CHAPTER III

U. S. and Multilateral Responses

A. Multilateral Responses in Finance

1. Resources Available or under Consideration

Current deliberations on problems of developing nations are set in the context of the worldwide recession. Thus, while the industrialized countries are sympathetic to the needs of the less-developed countries, they are also concerned with the recessionary difficulties of their own slack economies and the dangers of renewed inflation. There is reluctance among the traditional donors to increasing budgetary expenditures to provide greater flows to the less-developed countries. Complicating the purely financial considerations is a certain ambivalence about less-developed country deficits since OPEC-increased petroleum prices were responsible for a major portion of the deficits. Traditional donors feel that oil exporters are not sufficiently offsetting the increased burdens on developing countries induced by OPEC's actions. In fact, many developing nations, while demanding transfers from the traditional donors to offset increased oil import costs, are vocal in their support of oil consortium policies.

Nevertheless, significant initiatives were undertaken in 1975 to provide additional credit or grant resources to less-developed countries. The new facilities suggested, created, extended or advanced, include the IMF Oil Facility and Oil Facility interest subsidy, the IBRD Third Window, the U.N. Emergency Fund, the IMF Trust Fund, the Development Security Facility (enhanced IMF Compensatory Financing Facility), the Lome convention, the International Fund for Agricultural Development, the OPEC Fund, and others.

Most of the foregoing have a reasonable prospect of implementation or continuance and will funnel increased financial resources to the less-developed countries. Some are already in operation. Traditional donors including the U.S. have been careful to limit increases in budgetary expenditures for foreign assistance. The major increases in resources available to the less-developed countries will therefore have to come from sources which do not directly affect traditional donor budgets, for example, the IMF Trust Fund and the expanded compensatory financing facility, and from the oil exporters which have financial surpluses. OPEC country support of multilateral efforts to increase resource flows in cooperation with the traditional donors has so far been limited.

The IMF Trust Fund

The U.S. initially proposed a concessional fund to be financed from "profit" from the sale of gold held in the IMF acounts and supplemented by contributions from developed and OPEC countries. This was seen as a method to provide increased financing quickly in response to current account deficit problems of the poorer less-developed countries. Following extended discussions, the IMF Interim Committee agreed in January 1976 to prompt creation of a Trust Fund to be financed from profits from the sale over a four year period of the developed countries' share of one-sixth of IMF gold. Details of the operation of the Trust Fund remain to be decided by the IMF Executive Board.

The Development Security Facility

The U.S. proposed a development security facility as an expansion of the resources available for compensatory financing from the IMF in order to assist countries in offsetting temporary shortfalls in export earnings. This was achieved by the Interim Committee in January, 1976. (although the term "Development Security Facility" has not been adopted). In addition to a major liberalization of the Fund's compensatory financing facility, permitting the proposed Trust Fund to undertake compensatory financing was also suggested. While it is not possible to quantify the impact precisely in terms of loans made, the maximum potential access to the facility by less-developed countries has been increased by $2.0 billion. If, however, annual drawings on the facility exceed $1.8 billion or outstanding aggregate drawings exceed $3.6 billion, the facility's lending program must be reviewed.

The IMF Oil Facility and Interest Subsidy

In January 1975 the Fund agreed to extend its Oil Facility for a second year and to authorize borrowings up to SDR five billion (about $6 billion) to finance medium term loans to countries with oil related current payments difficulties. The Fund also established an interest subsidy account to reduce interest costs for poorer countries borrowing from the facility. Approximately $180 million has been pledged to the subsidy account. The Oil Facility expired in March 1976.
The facility is available to all members and, in fact, developed countries made much greater use of its resources than did the less-developed countries. The U.S. has not participated in the Oil Facility or the subsidy account.

IBRD Third Window

The Third Window was established in July 1975 as a one-year facility to lend on terms intermediate between those of the IBRD and IDA. The U.S. did not contribute to the interest subsidy. This fund, financed by voluntary contributions from governments, will make it possible for the Bank to charge an interest rate of four percentage points lower than the prevailing IBRD interest rate. As of the end of 1975, $127 million had been pledged, which would support about $600 million of lending.

By the end of FY 76, negotiations for the fifth replenishment of IDA should be well underway, and the Third Window, conceived as an interim facility, should have served its purpose. Thereafter, the World Bank should be able to reply upon an appropriate blend of IBRD and IDA terms to achieve the same objective as sought under the Third Window.

IMF Quotas

Agreement has been reached on a one-third expansion of quotas (from about $35 billion to $47 billion), with developing countries' quota share rising from 27.8 percent to 32.2 percent (to a total of $15 billion of which approximately $5 billion are OPEC quotas). Implementation, i.e., adoption of the amendments to the Articles of Agreement, may require one to two years. In the interim, beginning immediately, member access to Fund credit tranche resources will be expanded by 45 percent. Members can now draw up to 145 percent of quota.

IFAD

On February 6, 1976, sponsoring nations agreed on the establishment of the International Fund for Agricultural Development (IFAD) and donors have been asked to pledge their initial contributions by April 15. IFAD was originally proposed by OPEC countries and was given strong support by Secretary Kissinger in his U.N. Seventh Special Session Speech. The U.S. is committed to furnish up to $200 million, contingent on a total world contribution of $1 billion with the U.S. share to fall proportionately if there is any shortfall; on Congressional approval of the IFAD agreement; and upon equitable burden-sharing. The latter condition will be fulfilled if, as now expected, OECD country contributions and OPEC country contributions are roughly equal in size. IFAD aid will be disbursed through existing multilateral aid institutions, using their regular project review procedures. The IFAD is expected to extend grants and concessional credits for agricultural development projects, most of which are to be administered or controlled through existing development assistance institutions, such as the World Bank.

Lomé Convention—Stabex

In March, 1975, the European Economic Community and a group of forty-six African, Caribbean and Pacific (ACP) countries initialed the Lomé Convention which in part provides for a scheme for export income stabilization based upon exports of twelve product groups (Stabex). If export earnings for these specified products are 7.5 percent or more below a reference level (2.5 percent for the least developed), the exporting ACP country is entitled to request a financial transfer as a credit to be repaid when export earnings from the product improve. The least developed are not obliged to repay. The funding will in part be revolving, at approximately $90 million per year for five years. Stabex has not yet been ratified by all members and is, therefore, not in effect at the time of this printing.

TABLE 16

Recent and Estimated Future Official Multilateral Financing (Gross Disbursements) to the Less-Developed Countries
($ millions)

Source	1974	1975*	1976*
IMF[2] (total)	2,865	4,000	4,800
Regular facilities	934	1,200	2,300
Compensatory Financing	250	300	
Oil Facility	1,681	2,500	2,400
Trust Fund	—	—	600
World Bank Group[1]			
IBRD	1,533	1,955	2,500
IDA	711	1,206	1,241
IFC	163	184	236
IDB	673	687	815
OC	336	na	na
FSO	324	na	na
Other	13	na	na
ADB	187	287	315
ADF	27	na	na
AfDB[4]	25	na	na
AfDF[4]		na	na
OPEC[3] (fund)	315	500	500
IFAD	—	—	100
STABEX	—	—	90
Grand Total	6,472	8,639	10,597

* Estimated or speculative
[1] The projections are IBRD suggestions which have not yet been confirmed by the membership.
[2] Fiscal year
[3] Estimated multilateral only not including Oil Facility
[4] Committed

Source: IFI Annual Reports and AID/IDC estimates

2 *Possible Means of Supplemental Financing*

Several possibilities for supplemental funding are receiving attention:

a. Debt Moratorium

Some countries have advocated widespread debt relief as a way of alleviating current balance of payments difficulties. The concept of generalized debt relief, such a debt moratoria, has severe disadvantages It involves a dangerous precedent for the traditional creditor-debtor relationship and could adversely affect the long-term flow of resources to the less-developed countries. A number of developing countries which have successfully borrowed on commercial markets have been reluctant to advocate a moratorium, in order to avoid negative impact upon their own creditworthiness.

For non-MSA countries, relief on official debt would be of limited value if, as often is the case, short term non-ODA loans are the immediate cause of debt service problems.

Even in the case of relief confined to MSAs, debt relief measures would be of limited utility. While the MSAs clearly confront serious balance of payments difficulties, few of them have a large accumulation of official debt, and most—particularly the smaller—would receive only marginal gain from debt relief. India and Pakistan would be the main beneficiaries of a debt moratorium since they account for more than 75 percent of the 1976 debt service (on ODA) owed by the MSAs. The debt problems of both these countries have been and are addressed in the traditional "case-by-case" procedure. Projections for both these countries for 1976 are optimistic; they may not require or seek debt relief this year. The diversity of current debt situations—even among the MSAs—calls for different types of remedial action, country by country, which is the basis for the traditional "case-by-case" approach.

For some donors, it is likely that debt relief would reduce other funds available for development assistance so that no net addition of aid would be forthcoming. Generalized debt rescheduling would neither reward those countries undertaking sound economic policies, nor discourage the practice of unsound economic policies. Moreover, debt relief may place the heaviest burden on those countries which have provided the most aid in the past and does not consider current giving capacity.

Legal and Congressional restraints require the U.S. to make a sharp distinction between debt relief and development assistance. The U.S. could not, therefore, readily participate in any such generalized debt relief without Congressional approval.

b. A Special Allocation of SDRs: the link

IMF member countries could, by an 85 percent weighted majority, decide to create Special Drawing Rights (SDRs), when there is need for increased international liquidity, as a source of concessional finance for the less-developed countries. It has been suggested that this be done, and that the Articles of Agreement be amended to allow the distribution of SDRs on the basis of developing country requirements rather than in proportion to IMF quotas. A special SDR allocation for the purpose of development assistance can be critized on a number of counts. The SDR would be diluted as a reserve asset if new SDRs were created even partially on development grounds. It would also probably be politically difficult to gear the distribution of the special SDRs solely to meet balance of payments needs rather than to satisfy world-wide liquidity requirements.

The U.S. has opposed the link for these reasons.

c. Guarantees of Less-Developed Country Bond Issues

Compared with bank credits, the generally longer maturities and fixed interest costs of bonds make them a good source of funds for long-term development finance. Developing countries, however, have been more successful in obtaining syndicated bank credits than in floating bond issues. One reason for this is that foreign banks often have a better knowledge of conditions in the less-developed countries than investors in the bond market.

In addition to programs of technical assistance, a program of bilateral or multilateral guarantees has been suggested in order to introduce creditworthy developing nations to the bond markets. The use of both full and partial guarantees for less-developed country bonds has been proposed, to be phased out after a developing country has passed a threshold and can float bond issues without special assistance. A Working Group of the IMF/IBRD Development Committee is considering various methods of increasing capital market access.

B. U.S. Policies Toward Multilateral Aid

1. Trends in Relative Importance of U.S. Contributions to Multilateral Programs

The U.S. has contributed an increasing share of its total official development assistance through multilateral assistance channels over recent years. Between 1965 and 1974 the percentage of our ODA contributions through multilateral institutions grew from 2 percent to 34 percent.

TABLE 17

The Pattern of U.S. Bilateral and Multilateral Assistance Net Disbursement (ODA)
(billions of dollars calendar year)

Loans and Grants	1965	1970	1971	1972	1973	1974
Bilateral	3.35	2.66	2.89	2.72	2.34	2.56
Multilateral	.07	.39	.43	.63	.63	.88
Multilateral as Proportion of total	2%	13%	13%	19%	21%	26%

Source: U.S. Department of Commerce, Bureau of Economic Analysis

This growth occurred because the United States found that multilateral assistance is an efficient mechanism which complements our bilateral aid program. The multilateral institutions have facilitated greater burden sharing by new donors. They have also helped the development effort by tapping resources, both official and from private capital markets, of other industrialized nations. The multilateral institutions are also able to provide technical assistance and policy advice to the less-developed countries without the political "strings" which bilateral assistance might involve.

The importance of U.S. contributions to multilateralism is further strengthened by the ability of the international finance institutions to use the U.S. capital market to provide private funds for their resources. For example, the IBRD, the largest borrower among multilateral institutions, has borrowed more from the U.S. market than any other, although in the recent past other sources have become increasingly important (see table).

TABLE 18

IBRD Borrowings by Country of Borrowing
($ millions)

Country	Public No. of Issues	Public Amt.	Private No. of Issues	Private Amt.	Total No. of Issues	Total Amt.	Outstanding End of FY 75[1] Amt.	Outstanding End of FY 75[1] (%)
U.S.	34	$5,435	1	$ 20	35	$ 5,455	2,984	24
Germany	15	1,266	79	4,075	94	5,341	2,858	23
Central Banks	—	—	30	4,515	30	4,515	na	na
Japan	6	324	11	1,603	17	1,927	1,501	12
Switzerland	21	600	12	581	33	1,181	na	na
OPEC Total	7	$ 463	13	$ 2,291	20	$ 2,754	2,706	22
Abu Dhabi	—	—	1	$ 76	1	$ 76		
Iran	—	—	2	350	2	350		
Kuwait	6	$ 440	—	—	6	440		
Libya	—	—	3	173	3	173		
Nigeria	—	—	1	240	1	240		
Oman	—	—	1	30	1	30		
Saudi Arabia	—	—	3	922	3	922		
Venezuela	1	23	2	500	3	523		
Others	28	523	17	394	45	917		19
Total	111	$8,611	163	$13,479	274	$22,090		100

[1] Includes exchange adjustments

Source: IBRD

2. *Problems of Multiplicity and Duplication*

Assistance through the IBRD, United Nations Development Program, and the Inter-American, African and Asian Development Banks complements our bilateral assistance, permits pooling of resources for funding of major projects, and encourages an exchange of information and analyses which strengthens the bilateral programs. Some degree of specialization has occurred, as each institution has developed a particular expertise. While considerable overlap among sectors exists, coordinating mechanisms have been developed to prevent wasteful competition for projects or duplication of effort. For many developing countries there are consortia or consultative groups in which both multilateral and bilateral donors coordinate their assistance plans. Regional organizations provide opportunities for cordination, as occurs in the country reviews held by the Permanent Executive Committee of the Inter-American Economic and Social Council.

a. Implications of Trend in U.S. Reliance on Multilateral Approaches

Multilateral assistance requires a large degree of consistency and continuity in USG policies. International agreements on multiyear financial commitments and policies of the institutions cannot be quickly or unilaterally changed. The U.S. voice in the policy making process of the multilateral institutions accurately reflects our relative share of contributions and consequently we have substantially less direct control over individual multilateral loans than we do over bilateral loans.

b. Use of Conditioned Participation

If any one member places conditions, earmarking, on its participation in a multilateral development bank, there is a strong danger that others may follow the precedent and add their own conditions on their contributions. The operations of the institutions could become hopelessly complicated if the management had to fulfill numerous sets of donor conditions.

C. *Current U.S. Trade and Commodity Policies*

1. *Trade*

Developing countries stand to gain improved access to developed country markets both through programs specifically designed to benefit them, and through liberalization of the world trading system, envisaged in the current Multilateral Trade Negotiations (MTN). While a trade negotiation must involve a *quid pro quo*. U.S. trade policy leaves room for special consideration of the needs of developing nations. The U.S. recognized these needs in its commitment to the concept of tariff preferences for developing nations, the Tokyo Declaration of September 1973 which opened the MTN. Secretary Kissinger's speech before the 1975 Seventh Special Session of the UNGA, and other policy statements. Legal authority for special consideration of developing nations' needs is included in the Trade Act of 1974. The U.S. Generalized System of Preferences (GSP) and the MTN have become the two major aspects of U.S. trade policy where these interests can be taken into account.

a. Generalized System of Preferences

The U.S. shares with other industrialized nations a commitment to the concept of non-reciprocal, non-discriminatory generalized tariff preferences for specified imports from developing countries. Such concessions are made to help broaden their manufacturing base, diversify production and exports, and lessen their dependence on raw materials exports.

The U.S. system of GSP entered into effect on January 1, 1976. Comparable schemes of preferences had previously been initiated by 22 other developed countries. The program is currently authorized to extend to January 4, 1985. Under the U.S. system 98 countries and 39 dependent territories have been designated as beneficiary countries and thus their exports will receive duty free entry to the US. market for most or all of the 2,724 tariff items in the system; duties on these items remain at previous levels for developed nations, most communist countries, and non-beneficiary developing countries (the legislation excludes countries in certain categories, such as: OPEC members, countries which maintain reverse preference arrangements which adversely affect U.S. commerce, and countries involved in investment disputes under certain conditions). In this way eligible countries obtain a competitive advantage vis-a-vis other countries. Since domestic markets for manufactures in most developing countries are limited, their ability to export largely determines prospects for broadening their industrial base. Improved access to developed country markets can assist their economic diversification, employment and income levels.

On the basis of 1974 trade data, eligible U.S. tariff items accounted for $2.6 billion dollars in trade from eligible countries or approximately 19 percent of U.S. dutiable non-petroleum imports from eligible developing countries. As in the GSP schemes of other countries, the U.S. product list concentrates on manufactures and semi-manufactures. However, it also gives duty free treatment to approximately 500 agricultural items. Many other agricultural and industrial items already entered at non-preferential zero duties, so that based on 1974 trade data 43 percent of U.S. imports from beneficiary developing countries now enter duty free.

Past trade data may be a poor measure of potential impact. To the extent that duties were an impediment, developing nations may now be able to export products in which they were heretofore not competitive and which are not reflected in existing trade figures. This dynamic element may be the most important, but is difficult to predict. On those products where duties were already low, the advantages from tariff preference are less.

Under the terms of the U.S. GSP provisions, "rules of origin" and "competitive need" criteria limit the eligibility of imports from beneficiary countries. Under the rules of origin regulations, the cost or value of materials produced in the beneficiary country, plus direct costs of processing operations, cannot be less than 35 percent for individual countries and 50 percent for groups of two or more countries which are members of the same association of countries and elect to be treated as one country.

The competitive need criteria require that if the imports of any eligible article from any one beneficiary country (or group of countries treated as one) in any one year exceeds $25 million (modified each year in proportion to increases in the U.S. GNP) or 50 percent of the total U.S. import of that article in that calendar year, duty free treatment for that article is automatically withdrawn from that country for the following year. Once these imports fall below these ceilings, their eligibility may be reinstated.

The competitive need criteria help ensure that preferential treatment is accorded to those developing countries which need it most. It is based on the rationale that developing countries which export more than a basic amount (e.g. $25 million in 1975) or 50 percent of a particular product in the U.S. market do not need the preferential advantage in that item. This provision may also help to avoid investment in inefficient industries which cannot ultimately compete when GSP ends. It does provide some degree of protection to domestic producers by limiting preferential access for more established industries in beneficiary developing countries.

Less-developed countries regard these criteria, plus other limitations of GSP designed to safeguard against domestic injury as restricting the value of GSP. Certain import sensitive products are excluded, domestic producers of eligible products may apply for relief when injury is shown, and regular countervailing duty or anti-dumping provisions apply. Nevertheless, GSP represents a substantial opening of the U.S. market to less-developed countries on a non-reciprocal basis. The dynamic element of encouraging industries to move into new areas of production is not easily calculable, but should provide considerable incentive to less-developed country industrialization, and expansion and diversification of exports.

b. Multilateral Trade Negotiations

The advantages of GSP to less-developed countries are necessarily limited. Preferences, having been extended on a non-reciprocal basis, can be unilaterally withdrawn. Eligibility criteria can be limiting. Thus such advantages are not as secure as a tariff reduction negotiated under GATT. The duration of GSP concessions will under present U.S. legislation be temporary while MTN tariff cuts are permanent. Non-tariff barriers to trade are not addressed by GSP. Finally, the advantage of duty free entry is apt to erode as industrialized nations negotiate tariff reductions among themselves on many of the same products. There are, therefore, many reasons for intense interest by developing countries in the Multilateral Trade Negotiations now underway in Geneva. Developing country objectives in the MTN include: (1) Maximizing trade concessions, if possible, on a preferential basis; (2) achievement of early results on products of major interest to developing countries (i.e., tropical products); (3) preserving and expanding concessions already gained outside of the MTN (i.e. GSP) and (4) reducing tariff escalation on processed goods.

Under MTN ground rules benefits negotiated among participating countries automatically are extended to all others which enjoy most-favored-nation status. While considerable potential therefore exists for less-developed countries to benefit from the MTN without making the concessions expected of other active participants, many less-developed countries are participating in order to ensure adequate attention to their special concerns.

In the Tokyo Declaration of September 1973 which launched the MTN, the U.S. and other developed countries recognize the need for special measures to be taken in the negotiations to assist the less-developed countries in their efforts to increase their export earnings and promote their economic development. They further recognize the importance of applying differential measures to developing countries in ways which provide special and more favorable treatment for them where it is feasible and appropriate. The Trade Act of 1974 provides the authority by which this special consideration to less-developed countries can be extended by the U.S.

Basic principles of the MTN are those of mutual advantage, mutual commitment and overall reciprocity in concessions while observing the most-favored-nation clause. Paralleling this, agreements once reached are binding and if breached require essentially equivalent compensation. The developed countries are unwilling to discard these basic principles in MTN, but did agree in the Tokyo Declaration that they do not expect less-developed country concessions inconsistent with their individual development, financial, and trade needs. The U.S. believes that less-developed countries should provide some measurable or calculable concessions for the benefits they receive in the MTN on products of interest to them. The less-developed countries might also contribute to the negotiations by supporting general solutions, such as codes, relating to the control of certain non-tariff measures (NTM) problems. The extent of concessions to be expected or requested of an individual less-developed country depends on (a) the apparent value of concessions accorded that country, and (b) the real ability of that less-developed country to provide these concessions under the constraints of its economic situation.

The negotiations are proceeding in various groups, and at different rates of progress. The issue of special less-developed country treatment will be taken up in parallel with work on the development of general negotiating formulas for non-tariff and tariff measures. In the area of tariffs:

—Less-developed countries are seeking to avoid the erosion of their GSP margin of preference: the U.S. is unwilling to exclude GSP items *per se* from MTN consideration but is willing to examine the extent to which this may be a problem.

—Less-developed countries are concerned about tariff escalation as the degree of processing of a product increases, and the disincentive this constitutes to the growth of their processing industries; the U.S. has agreed to examine ways to change this situation and announced at the Seventh Special Session that it will give a high priority to reducing these barriers.

—Tropical products of special interest to less-developed countries are to receive special and priority attention for potential trade liberalization in their raw, semi-processed and processed forms. The U.S. and most developed country initial offer lists were tabled in March, and the U.S. is giving priority treatment to this aspect of the negotiations.

In keeping with the Tokyo Declaration, the U.S. has indicated that it will work towards the establishment of new rules on the use of non-tariff measures. As these rules are formulated, we will explore possible areas for differential treatment for developing countries where feasible and appropriate. The U.S. also indicated that under prescribed conditions, differential treatment for less-developed countries will prove feasible in the areas of subsidies and countervailing duties.

Areas in which concessions may be forthcoming from less-developed countries have not been defined, but could include (1) commitment to general obligations such as adhering to the General Agreement on Tariffs and Trade (GATT) and/or to various NTM codes which will arise from the MTN, and (2) specific tariff and non-tariff concessions. Some developing nations are seeking differential application of the tariff reduction formula. However, many observers believe excessive tariff protection by developing nations has been a major impediment to their growth and development. Their average tariff levels far exceed those of the developed countries, which have negotiated successive rounds of tariff cuts over the past several decades. There may be room for considerable benefit to the developing world in terms of their economic development in making tariff cuts of their own.

2. *Commodities*

Since 1973, when the OPEC countries succeeded in dramatically raising the level of their export earnings by increasing the price of oil, less-developed country producers of other raw materials have redoubled their efforts to obtain more stable and higher prices for other less-developed country exports. (See discussion in I, C.) Consequently, much of the dialogue between the developing and the industrialized countries in international meetings has focused on commodity trade.

Primary commodities account for almost 70 percent of the value of total exports of developing countries, compared with only 25 percent for developed countries. Nearly half of the developing countries earn more than 50 percent of their export receipts from a single primary commodity, and three-quarters of them earn more than 60 percent from up to three primary products. Given this dependence, less-developed countries have long argued that wide fluctuations in commodity prices can seriously damage development progress. Instability has been especially apparent since the latter half of 1973 when commodity prices rose to unprecedented levels in an atmosphere of economic boom and fear of shortages, and then began to recede from their peaks in the latter half of 1974 as the worldwide recession prompted a decline in raw material consumption. In addition to the problems this instability in earnings poses for economic planning in developing countries, there is widespread concern about the possible impact of excessive price fluctuations on exploration and production of raw materials, and hence on the availability of supplies.

Where the U.S. differs with the developing countries, as well as with some industrialized countries, is in its conviction that the focus of concern in the less-developed countries should be on stability of export earnings rather than export prices, objectives which do not necessarily coincide. Moreover, the U.S. differs on the extent to which it is prepared to interfere with the operation of the market. The U.S. continues to believe that the market should perform the central role in allocating supply and demand and determining equilibrium prices. However, the U.S. is prepared to study the case for stabilizing specific commodities through internationally agreed measures, provided that the interests of consumers and producers are taken into account and that the relief provided can be directed primarily to the benefit of producers in the developing countries.

The U.S. emphasizes the necessity of a pragmatic approach, taking into account the differing characteristics of the trade in each commodity. Historically, the U.S. and domestic industries in general have been skeptical of the value of formal commodity agreements.

Nevertheless the U.S. has been, at one time or another, a formal member of operating agreements for coffee, sugar, and wheat (none of these at this time actually have operative provisions, although they exist as bodies and meet regularly). It also participated in the negotiation of the agreement on cocoa, coffee and tin in 1975. The Executive Branch announced in 1975 its intention of recommending to Congress membership in the recently revised Tin Agreement which has been signed and is awaiting Senate ratification. In addition, the U.S. is participating in numerous producer/consumer forums for individual commodities. It is prepared to examine proposals for agreements on a case-by-case basis. Its willingness to approach each case with an open mind was articulated in Secretary Kissinger's speech to the U.N. General Assembly Special Session (see below, Section E). In that address he also expressed U.S. support for the establishment of international producer/consumer forums for all key commodities—determined by their importance in international trade and to the trade of developing countries—where all major issues can be discussed. The Secretary made clear, however, that appropriate steps to deal with particular commodity problems need not take the form of commodity agreements and that for some commodities other techniques such as research on new uses or improved processing and marketing may be the critical need. In some countries, diversification of production and exports may be the most effective way to increase long-term earnings.

Consistent with the reservations regarding the value of widepsread intervention in the market, the U.S. favors measures to help developing countries weather overall export earnings shortfalls. This approach is more directly responsive to fears that commodity price fluctuations interfere with the process of development planning and growth while it avoids imposing arbitrary conditions and rigidities on world commodity production and trade. Consequently, at the U.N. Seventh Special Session the U.S. proposed a modification of the IMF's Compensatory Financing Facility to expand and liberalize its benefits for developing countries (see above, III A, discussion of the Development Security Facility).

U.S. industrial consumers have expressed growing concern over an apparent decline in raw materials investment in developing countries. While the data are incomplete, there is reason to believe that the record of expropriations and political instability in less-developed countries in recent years has discouraged foreign investment in extractive industries requiring high initial capital inputs. To help meet the need for capital to develop sufficient capacity in the mineral sector to keep pace with world requirements, a number of Secretary Kissinger's proposals at the Seventh Special Session were designed to increase the activities of the U.N. and the World Bank, especially those of its affiliate, the International Finance Corporation, in natural resource development. However, the enormous amounts of capital needed to develop the mineral resources of the less-developed countries so that they can benefit from the growing world market for raw materials will require the continued participation of foreign capital. The U.S., therefore, has stressed the need for the host developing countries to maintain a climate conducive to private investment.

The most striking feature of U.S. commodity policy in 1975 was, perhaps, the amount of high-level attention devoted to the subject. An interagency study of selected raw materials was undertaken by the Economic Policy Board and the National Security Council. A.I.D. prepared a study on the development implications of commodity export earnings which served as background for the Development Security Facility proposal. Numerous analyses were carried out in preparation for international meetings where the topic of commodities was featured. In the OECD context the subject was discussed in the Executive Committee in Special Session (XCSS) and in the *ad hoc* High Level Group on Commodities. It is the subject for one of the four commissions created by the Conference on International Economic Cooperation (originally the energy producer/consumer conference), reflecting the desire of the oil producing and non-oil producing less-developed countries to see all raw materials given attention along with the energy problem.

Commodity trade was highlighted at the Seventh Special Session. In the final resolution of the Special Session, numerous references were made to the fourth plenary meeting of the U.N. Conference on Trade and Development (UNCTAD) scheduled for May 1976, at which time commodities are expected to be the prime subject of discussion between developed and developing countries.

D. Technology and Investment Benefits

1. Introduction

The "transfer of technology" has become an important item on the development agenda of the less-developed countries. They most recently articulated this concern in the Resolutions of the U.N. General Assembly Seventh Special Session of September 19, 1975; two of the seven sections addressed science, technology and industrialization. These resolutions called, *inter alia,* for:

—industrial technology information banks
—an international center for exchange of technology information
—expanding bilateral assistance in science and technology
—research and development devoted to problems of developing countries
—an international energy institute
—an international code of conduct for transfer of technology under UNCTAD aegis
—revision of international conventions on patents and trademarks to meet developing country needs
—means to facilitate access to information on technology, particularly that held by governments
—improved "transparency" in the industrial property markets to facilitate choices of technology
—a U.N. conference on science and technology for development in 1978 or 1979
—enhanced U.N. agency attention to facilitating science and technology
—cooperation and diffusion for development
—policies to avoid the "brain drain" to the developed countries from the developing nations, which are less competitive internationally
—agreements on industrialization and redeployment

—dissemination of information about priority areas for industrial cooperation

—developed country encouragement of investor participation in support of development plans

Knowledge of technology and its applications to concrete problems is controlled primarily by companies in industrialized countries. Developing nations question the fairness of the current processes of technology transfer. They maintain that leaving the process to prevailing market forces accentuates their underdevelopment, aggravates social and economic inequality, and perpetuates their external dependence. Their major objectives are:

a. to increase their access to appropriate foreign technologies and to lower the cost of obtaining it;

b. to improve their national research and development capabilities in order better to develop, adapt, and apply technologies appropriate to their own development needs and objectives;

c. to redirect science and technology effort to support national development plans and to control the social effects of modern technology within the overall development of the country.

U.S. policy statements on this issue are forthcoming; the U.S. accepts the principle of increasing technology access. However, it is not yet clear how best to facilitate this access. The amount of available technology is vast and for the most part it is not controlled by the U.S. Government.

2. *Private Sector Transfers: Multinational Corporations*

Private direct foreign investment represents an important source of capital and technology for developing countries and plays a critical role in the development process of many of these countries, both in supplying scarce factors of production and in giving external stimulus to their economies. In particular, it is a major vehicle for the transfer of technology and managerial skills to developing countries; indeed, it may be the only means available for transferring certain types of technology which have been developed by private enterprises.

Some developing nations see multinationals mainly as a potential means for transferring technology and production capabilities to poorer nations with abundant labor resources and readily available raw materials. Others see them as a form of technological colonialism, exploiting poorer countries, mainly transferring wealth and resources from poorer to richer countries and increasing less-developed country dependence on industrial nations for technology and know-how.

Other concerns are varied, including fears that large multinationals:

—hold their technologies too closely to protect their competitive positions and do not share know-how adequately with developing nations;

—minimize or avoid research programs in developing nations;

—employ technologies inappropriate to labor and wage conditions in less-developed countries;

—disadvantage developing countries both in initial bargaining on terms of entry and in setting royalties, management fees and other terms of remuneration for technology employed or embodied in facilities established in developing nations.

Multinationals on the other hand reason that technology and management know-how are their most valuable assets. Accordingly their willingness to locate facilities or otherwise transfer technology and know-how depends on expectation of acceptable returns, improvement in market position or other considerations adequately rewarding their development of this technology and know-how.

One effort to analyze the effects of multinational enterprises on development—the U.N. "Report of the Group of Eminent Persons"—appeared in the spring of 1974. The report stated that developing countries should acquire the ability to determine "the most appropriate technology" and also should create the capacity to generate their own technology. It recommended that host countries should require multinational enterprises to make a reasonable effort to adapt products and processing to national or regional needs and that countries should also encourage these enterprises to undertake research to that end through their affiliates.

The U.S. Government is willing to consider formulation of codes of conduct as a means of encouraging private sector contributions to expanding the development benefits of technology transfer, but opposes any compulsory international transfer rules as impractical.

3. *International Efforts*

a. The U.N. Commission on Transnational Corporations

The U.N. Commission will soon attempt to formulate a code of conduct for the multinational corporations. It is now engaged in research on the political, economic, and social effects of the operations and practices of MNCs. An acceptable code of conduct will not be simple to negotiate. The less-developed countries want specific legal obligations to which the MNCs must conform while the U.S. insists that any code be voluntary. The U.S. also wants any code to include obligations of the developing countries towards MNCs. Most industrial nations take a position similar to that of the U.S.

b. UNCTAD Permanent Committee on Transfer of Technology

In 1974, UNCTAD formed a Permanent Committee on Transfer of Technology with two Groups of Experts, one on Transfer of Technology and the other on Patent Systems. The U.S. is represented on both groups. The committee held its first meeting, November 24-December 5, 1975, to receive reports from the Expert Groups and to undertake preparatory work based thereon for the meeting of UNCTAD IV in May, 1976.

(1) Technology Transfer

The primary objective of the Technology Transfer Group is to draw up an international code of conduct for the transfer of technology. While the developing nations favor a legally binding code, the U.S. supports, as an alternative, the establishment of voluntary general guidelines on technology transfer which recognize obligations by licensee and licensors to protect technical property rights. At the Permanent Committee meeting, both the industrialized nations, including the U.S., and the developing countries submitted their draft outlines of a Code of Conduct. Final recommendations by the committee have yet to be formulated by UNCTAD's Trade and Development Board for the UNCTAD IV meeting.

(2) Patent Systems

An UNCTAD report on "The Role of the Patent System in the Transfer of Technology to Developing Countries," dated April 23, 1974, concludes *inter alia* that a significant cause of developing countries' economic problems is that their patent and trademark systems foster import monopolies. The report recommends certain revisions of the "Paris Union" International Convention for the Protection of Industrial Property (Patents and Trademarks) to give developing countries preferential treatment. The U.S. questions the objectivity and the analytical quality of the report and the conclusiveness of the report's recommendations. By request of the Permanent Committee, the Group of Experts has reviewed the report and submitted its recommendations to that Committee. Based on these recommendations, the committee adopted a resolution at its first session urging UNCTAD to work closely with the World Intellectural Property Organization (WIPO) which administers the "Paris Union" Convention. The recommendations reflect the U.S. position that WIPO, as the Convention's administrative body, is the appropriate organization to undertake preparatory work for its revision.

c. World Intellectual Property Organization (WIPO)

(1) Governmental Experts Group on Revision of the "Paris Union" Convention

The Governmental Experts Group, on which the U.S. is represented, was organized in 1975 by WIPO to consider proposals by the developing countries to revise the Convention to accord them preferential treatment. The U.S. and other industrialized countries have taken the position at these meetings that the "Paris Union" Convention has played an important role in the transfer of technology. By providing an international set of standard ground rules for the eighty member countries in effecting patent and trademark protection in their jurisdictions, the Convention has served as a workable framework for international business activity. The U.S. believes that there are alternative ways of assisting developing countries in technology transfer within the framework of WIPO, rather than through revision of the

Convention. These include help in preparation of national laws on invention protection and utilization, promotion of technical assistance programs under the Patent Cooperation Treaty, and facilitation of technology licensing activities under the WIPO program of cooperative assistance to developing countries for acquisition of technology related to industrial property.

(2) WIPO Technical Assistance Program

In 1973 WIPO adopted a program to facilitate acquisitions by developing countries under fair and reasonable conditions of technology in patent and know-how rights. This includes assistance to these countries such as preparation of licensing guidelines and procedures manuals, improving less developed country access to published technical documentation, developing model patent and technology protection laws, and training of personnel in technology retrieval and licensing management. The Committee has already made considerable progress in carrying out these activities. It held its third meeting in March, 1976, to review the program's progress and plan future work. The U.S. is represented on this committee.

4. Regional and National Regulations

Since the early 1970's Latin American countries have taken a lead in seeking ways to regulate technology flows through national registry and control boards. In the Andean Pact of 1968, six nations—Peru, Chile, Ecuador, Bolivia, Colombia and Venezuela—adopted a common regime for treatment of foreign capital, trademarks, patents, licenses, and royalties. Articles 18 through 21 of the Agreement spell out contractual criteria which foreign owners must meet for the transfer of their technology and patents. Mexico, Brazil and Argentina have similar criteria and also require registration of agreements for the transfer of technology and licensing of patents and trademarks. All these examples contain strong statements on how participating countries intend to control and regulate the flow of technology. To some extent, other nations are selectively applying Andean Pact principles in their regulation of foreign investment.

The U.S. Government believes that foreign investment can be highly beneficial to developing nations in financing resource transfers and in providing technology and know-how. It favors investment by U.S. firms in countries which want and create an appropriate climate to attract and retrain it. It offers programs to facilitate U.S. investment in developing nations with which it has investment guarantee agreements—providing insurance, guarantee, and loan support through its Overseas Private Investment Corporation. The U.S. accepts that developing nations have the sovereign right to regulate foreign investors within their borders, but maintains that host governments have a responsibility to investors to make explicit their development priorities, provide clear ground rules, honor contractual agreements, treat U.S. investors no less favorably than other foreign or domestic enterprises, protect U.S. patent and trademark rights on a fair and reasonable basis, apply due process in settlement of investment disputes, and pay compensation promptly in nationalization or expropriation cases in accordance with international law.

5. Self-Regulation

Some investors see it in the interest of MNCs to support self-enforced codes of conduct. The International Chamber of Commerce has prepared such a code of conduct which provides, in part, that multinationals should charge reasonable fees for the transfer of technology and base the location of research and development facilities on the needs and capabilities of host countries.

6. Public Sector Technology Transfers

In voting for the Seventh Special Session resolution, the U.S. agreed that "developed countries should give developing countries the freest and fullest possible access to technologies whose transfer is not subject to private decision." The transfer of government-owned technology does not have some of the sensitive and emotional overtones that accompany private sector technology debates. Official development assistance programs now do transfer much technology.

a. Development Assistance

The U.S. Government makes know-how available extensively through A.I.D. technical and capital assistance programs in such basic fields as agriculture, health, family planning and engineering. Official A.I.D. policy for science and technology is to gear programs to: (1) improve abilities of less-developed country programs and institutions to make better technological choices and (2) assess potentials for technology applications in developing less-developed country natural resource and management capabilities. A.I.D. also acts as a broker between the U.S. private sector and host governments in contracting for technical assistance and purchasing capital goods for its projects.

b. U.S. Government Owned Patents

The U.S. Government owns only a small fraction of the patents issued in the United States each year. It generally permits the U.S. government patents to be used freely by all applicants resident in the United States including non-citizens. Where it owns foreign patents, the U.S. Government may grant licenses to foreign firms for use outside the U.S., after considering the effects on international and domestic commerce, and the U.S. balance of payments.

Since January, 1973 information on government-owned patent rights has been publicized by the National Technical Information Service (NTIS) of the Department of Commerce under the title: "Government Inventions Available for Licensing" in its *Weekly Government Abstract Series* (WGA). The number and title of these inventions, which appear in the WGA, are also published in the *Federal Register* and in the U.S. Patent and Trademark Office's *Official Gazette*. The NTIS is also compiling a report on 16,000 government-owned patents issued between 1966 and 1974 which are now available for licensing. The compilation entitled "U.S. Patent Portfolio Listing" is scheduled for publication in June, 1976.

CHAPTER IV

Development Assistance Programs

A. Central Issues

1. Development Priorities

This report focuses on less developed country resource requirements as one measure of the magnitude of issues under deliberation in 1975-1976. To a large extent, this emphasis reflects the attention given to quantitative issues in international forums. The dialogue between rich and poor has long centered upon the transfer of resources—through aid, trade, and private investment. A subsidiary but important consideration is the use and ultimate beneficiaries of the resources, a subject of increasing concern to developed country electorates and governments.

a. The Poor Majority

Distinctions between the poorest and better off developing countries are generally based on average per capita GNP measurements which tell little about income distribution or the incidence of poverty within the countries. The great majority of people living below the absolute poverty line, defined by the World Bank as annual income of $50 per capita or less (1972 U.S. dollars), do live in countries with low per capita incomes. But the poverty problem can be serious in countries with very different per capita income levels. For example, both Ecuador and Sri Lanka have about a third of their population below the $50 poverty line although Ecuador's average per capita income is three times as high as Sri Lanka's.

One U.S. assistance objective is to help developing countries alleviate mass poverty and provide an opportunity for the poor of all countries to achieve a respectable minimum standard of living. The transfer of resources from the rich nations can at best contribute to the development process. Without the necessary internal corollary conditions in the form of government policy, social change, and determination, external resources will fail to bring about the desired improvements in health, literacy, housing, nutrition, and general welfare.

The documentation prepared for the United Nations Mid-term Review and Appraisal of the International Development Strategy (IDS) for the Second Development Decade (1971-1980) paints a grim picture of the poor majority in the developing countries. For the period 1971-1974, two-thirds of the developing countries—accounting for a similar proportion of the combined population—failed to meet the IDS target of 6 percent annual growth in real GNP. Agricultural production in the developing countries as a whole increased but fell far short of the 4 percent IDS growth target. At an average 1.5 percent a year growth, agricultural production failed to keep pace with population growth of roughly 2 percent.

b. Income Distribution

During the early 1960s most development assistance focused increasing economic growth as the main approach to development in the belief that growth, particularly in the industrial sector, would eventually penetrate the entire society. Although a fortunate minority might gain relatively more in the beginning, in the longer run the entire country would benefit from economic development. U.S. policy did emphasize democratic participation and social development (the Charter of Punta del Este, the basis for the Alliance for Progress in Latin America, is replete with social and distributional goals), but this was often secondary to policies designed to foster economic growth. Toward the late 1960s empirical evidence appeared to call into question these priorities. In many countries, only a minority gained from rapid growth while the vast majority remained outside the mainstream of development, especially in the rural areas, and received little if any benefit. By the early 1970s the pendulum had swung to the point where some pessimistic observers wondered whether economic growth might not actually accentuate poverty in some cases.

Disagreement persists over whether and to what extent there is a trade-off between equity in income and growth of output and employment. Although time series data on the distribution of income are not available for most countries, there are some countries for which distribution data are available for two points in time. These data can be combined with national accounts data to give a rough estimate of the income accruing to the lowest 40 percent of the population at two points in time. When examined the aggregated evidence suggests that there is no strong pattern relating changes in the distribution of income to the rate of growth of GNP. Taiwan combined overall growth with a relative increase in the income of the lowest 40 percent of the population, while high growth in Brazil and Mexico was marked by less rapid growth in income for the lowest 40 percent. There is little evidence that high rates of growth need be accompanied by greater inequality. In other words, the objectives of growth and equity need not be in conflict.

In most countries rural inequality of income distribution is considerable, largely because of the pattern of land distribution. Research sponsored by A.I.D. suggests that redistribution of land, besides improving equity in most cases, can actually increase aggregate domestic saving as well as food output over time. World Bank studies indicate that small farmers, given appropriate price policies, are more efficient in the use of farm resources than are large farmers. These studies conclude that the single most powerful policy instrument for the combined objectives of rural equity and output growth is land reform.

The importance of land reform has long been recognized and most developing countries have had land reform programs on the books for much of the last decade, but the record of achievement has been mixed. Land reform in practice may not reallocate power and benefits among different groups in the society. In any event, measures which reduce the relative resources held by certain groups can be politically difficult to implement in the best of times. In times of adversity, they are even more difficult to undertake. During the past year increased oil import bills and reduced export earnings forced many developing countries to cut back on imports, including fertilizer, and reduce development and social welfare budget expenditures. The real earnings of both rural and urban workers have fallen in many of the poorest countries. The combined impact of these forces has probably made the distribution of wealth even worse in many developing countries and the incidence of absolute poverty even greater.

c. Population Growth

All other development issues are complicated by rapid population growth. There is sharp contrast between rich and poor countries—the former growing from zero to 1.5 percent annually; the latter at 2.0 to 3.5 percent. Moreover, even conservative UN projections foresee a world of six to eight billion in the year 2000—up from current population estimates of four billion.

Population growth rates rose sharply after World War II as death rates in most developing countries began to fall rapidly without offsetting declines in birth rates. Thus, many developing countries have grown at rates which, if maintained, would double their population every twenty or twenty-five years. Inevitably these high rates of growth threaten their development prospects and greatly strain their limited resources.

Under these circumstances, efforts to get ahead of the game and actually improve the quality of life for the poorest people are extremely difficult. In developing countries aggregate annual GNP growth rates of 6.6 percent in the 1968 to 1973 period were cut to 4.1 percent per capita by population growth, little enough for people averaging $340 in income in 1973. When disaggregated, and the vast disparities in income distribution which prevail in most countries are borne in mind, it is apparent the burden of excessive numbers of children falls most heavily on the poorest, who already suffer malnutrition, illness and inadequate services of all kinds.

In the late 1950s and early 1960s the increasingly serious population problem began to receive considerable attention. Congressional hearings, special commissions, and private groups and individuals called for action. At the same time, some private foundations and a few governments began to fund action programs. A.I.D. became interested in population problems in the mid 1960s and, beginning with FY 1968, Congress earmarked specific funds for population. U.S. financing in this field—bilaterally, multilaterally, through government and private intermediaries—has reached or exceeded $100 million annually since FY 1971 and had totalled about three-quarters of a billion dollars through FY 1975. An FY 1976 program of $135 million is projected.

While the population problem remains serious, progress has been made toward doing something about it. Thirty-four developing countries have adopted population policies which have a demographic goal, while twenty-nine others have adopted population policies which have some other stated goal (e.g., to improve health) but which call for the provision of family planning services and supplies.

Data on family planning practice for several countries point to increased use of family planning methods, and fertility data for a growing number of countries point to declines in birth rates. For example, demographic surveys in Thailand revealed a 13 percent decline in fertility between 1969 and 1972. Data for a small rural area in Mindanao recorded a decline in fertility of more than 30 percent over a similar period.

Other countries which have experienced declines in fertility include: Mauritius, which experienced a decline of 20 percent over the last decade; Costa Rica, where fertility declined by 32 percent over a decade; Hong Kong, a 34 percent decline; and Taiwan, a 27 percent decline.

However, population problems remain critical for most developing countries including some which are extremely poor and densely populated. High birth rates have resulted in very young populations, with perhaps half the populations of many countries under eighteen years of age. As these young people reach adulthood, the number of potential parents will increase sharply. As a result, even if the two-child norm is adopted by families in a typical developing country by the early 1980s and if fertility is stabilized at that level, the population will continue to grow until the middle of the next century. The population of such a country will double its present size due to the built-in momentum.

There is evidence that general economic development encourages declines in fertility rates. Improved socioeconomic opportunities together with some assurance that children will survive seem to encourage small families and promote famliy planning acceptance. Rising literacy rates and female employment outside the home in particular are strongly correlated with declining birth rates. For this reason the broader development efforts of developing countries and donor agencies and specific family planning programs can be seen as mutually reinforcing.

Some developing country leaders still resist direct attempts to limit population growth and argue that growth rates will naturally decline as development occurs. Increasingly, however, it becomes apparent not only that the problems in caring for growing numbers are so urgent as to require far faster declines in birth rates, but that growth at today's high rates jeopardizes the prospects for economic development itself. When individual and national resources must be concentrated on providing the most basic needs, the possibility for mobilizing savings for investment in activities with medium or long-term payout is greatly diminished. Rapid population growth, therefore, is one of the most critical constraints to economic growth.

It is also one of the most difficult for the United States to address. Since strong social, cultural, economic, political and legal factors are at work in the determination of fertility rates, U.S. assistance is not always desired and, where sought, must in all cases be carefully designed to respond to host government needs and preferences. Sometimes developed country advocacy of family planning programs in developing areas is viewed with suspicion or hostility. U.S. assistance efforts in other fields may at times have an effect contrary to that intended—as when concessional food aid enables governments to ignore the impact of growing population on the demand for increased food production.

Despite these complex problems, one clear indication of progress is the degree to which the implications of population growth are now recognized. The convening of the World Population Conference was an indication of heightened awareness and reduced sensitivity to discussion of this delicate issue. A.I.D. has been instrumental in bringing this recognition about and in spurring governments to action.

A.I.D. is helping host governments both to extend access to family planning services to a greater proportion of their people and to develop new means of delivery which will enhance the prospects that parents will choose to reduce family size. Most developing countries have family planning services available to only a very low proportion of fertile couples. Countries, such as Pakistan, which are engaged in major programs to expand access to services to most or all couples are testing the hypothesis that non-availability of modern contraceptive practices is the major constraint to reduced birth rates, and that rates will fall sharply when such services are widely available.

In other countries, family planning programs emphasize the need to motivate couples to reduce family size as well as to provide family planning services. Since expectations regarding child survival have an important bearing on desired family size, new types of delivery systems such as the integration of health, nutrition and family planning services are being explored and expanded.

As a complement to such efforts as these, safer, more acceptable and cheaper contraceptives need to be developed, and the determinants of fertility need to be further explored. In addition, developing countries must be assisted in analyzing the impact that population growth will have on the demand for services, facilities, resources and jobs. Since a major increase in most of these countries' populations is going to occur over the next decade or two regardless of the success of family planning programs, development programs must be designed to take this into account.

d. Policy on Assistance

In regard to the bilateral aid program, questions arise on U.S. assistance to governments which fail to undertake the necessary reforms or, for example, fail to institute purposeful population programs. The Congress and the Executive Branch share the objective of channeling U.S. assistance to the poor of the developing world. Although bilateral development aid goes to countries which are working to help their disadvantaged population, no country has perfect policies and difficult questions remain. What can be done in a country with millions of very poor people if government policies help perpetuate their situation? Should A.I.D. try to devise and seek government support for projects to reach the poor, rationalizing that such projects are better than nothing, but knowing that changes in government policy are critical to achieve broader objectives? Should the U.S. provide PL 480 food to countries which maintain food and fertilizer price structures which discourage increased domestic production? In providing food aid to keep people alive, should the U.S. insist on programs to stem population growth?

When it comes to multilateral assistance and other resource transfers the issues become even more complex. Moreover, since other transfers through trade, international monetary instruments and private technology have become increasingly important, the question of U.S. ability to influence the impact of these resource transfers is limited.

The developing countries resist donor influence on development. They advocate more "automatic" resource transfers, such as the SDR/aid link and IMF financing without conditions, precisely because these preclude most constraints upon their freedom of action.

Present influence of the international assistance institutions on less-developed country government policies is varied. The IMF, which is not intended to be a development assistance institution, has influence on recipient government macro-economic policy as part of the conditions for use of the various IMF facilities. Most IMF policy discussions, however, are aimed at the achievement of sound monetary and fiscal policy rather than equity of distribution of income.

The World Bank, both in its President's annual speeches and in various policy papers, has stressed its goal of abolishing absolute poverty. Although the Bank is moving in this direction, its portfolio still contains a minority of projects that will be of direct benefit to the absolute poor. The Bank has been encouraged by some donors to speak out more strongly in support of recipient country government reforms, both in the context of the Bank's programs and in its role as the chairman of various donor consortia.

In the UN and other international meetings, developing nations resist developed country attempts to discuss conditions within developing countries or possible policy reforms. The resolution of the World Food Conference called upon "governments to bring about appropriate progressive agrarian reforms in accordance with political objectives and administrative capabilities of each country. . . ." This reform received less emphasis for follow-up than the various agricultural assistance and food aid measures approved in the resolution. The UN Review and Appraisal of Progress in Development Decade II, did not entertain any serious discussion of modification of the International Development Strategy which might have been warranted on the basis of the Secretariat's documentation. The Group of 77, which represents almost all less-developed countries, sought, however, to hold the developed countries responsible for the ills of the developing countries and thus obliged to make amends by increased transfer of resources.

In forums less politicized than the General Assembly, in the more technical organs of the UN and in multilateral and bilateral settings, there is more discussion of the difficult policy choices the developing country governments must make. Many developing nation officials are concerned about just distribution, and some nations have designed their development programs with such ends in mind. There is some validity in the developing country complaint that outside interference has often served to concentrate wealth and aggravate unemployment. In many cases private investment and some aid projects have stressed capital accumulation and duplicated sophisticated western technology without sufficient regard to the employment implications for the developing countries.

The underlying issues which deal with the lives of many millions of people on the margin of human existence must be faced. How to incorporate the poorest in the development process is a central issue which must be given equal emphasis with the transfer of resources from rich to poor nations. The U.S. is keeping this issue at the forefront in its programs. The governments of developing countries for their part can demonstrate their commitment that development programs reach the poor in their countries. In this way they may convince the taxpayers of the developed countries that the aid provided to these countries is worth the cost and that additional assistance flows can be justified.

2. Issues in Traditional Aid Transfers

A number of traditional aid issues continue to be important in North-South deliberations. These include:

a. Growth Targets and Associated ODA Requirements

The World Bank had identified a 6 percent per year growth rate as a desirable developing country growth target through 1980. This would imply the necessity for DAC donor governments as a whole to reach the DAC target of 0.7 percent of GNP for ODA by 1980 or before. The World Bank has since acknowledged that this is no longer a realistic target for the decade. Unwillingness or inability of donor countries, including the U.S., to commit themselves to reaching this ODA target constitutes a source of contention in the North-South dialogue. In recognition of the fact that agreement on the ODA/GNP target is not susceptible to early resolution, the debate focuses on consideration of alternative means for providing necessary financing of resource transfers.

b. "Self-Help" by Aid Recipients

Some resistance to expansion of traditional aid levels to keep pace at least with inflation, if not as a percentage of GNP, arises from donor concern that governments of recipient countries are not doing enough to promote their own internal development, particularly for their poorer citizens. Issues on increasing food production, reducing population growth, increasing savings, promoting economic efficiency, and lessening restrictions on the advancement of the poorer classes persist. The issue is how to get aid directly to poor people and not to enrich the already privileged in poor countries. World Bank, U.S. and other bilateral efforts are now stressing programs which convey broad grass-roots benefits through concentration on agricultural, health, education and employment-creating programs. Future aid may incorporate more conditions for self-help, such as land reform and more equitable income distribution, to assure that aid benefits not just poor nations, but primarily poor people.

c. Infrastructure vs. Grass-roots Benefits

Broadening the development impact is not a simple matter of looking for programs to provide agricultural, health, education, and other direct benefits. Ultimately growth in production capability, employment and income depends on expanding capital, technology and land output per unit of available labor. Prerequisites frequently include developing infrastructure. Shifts of U.S. and other bilateral programs toward more visible direct benefits to the poorest people may depend upon the removal of power, transportation, communications, irrigation and other major infrastructure bottlenecks to growth in productivity. A number of developing nations have already evinced concern about adequate future funding for infrastructure. Some expansion of slightly concessional funding sources (e.g., regular IBRD and regional development bank loans, and even commercial funding) may ease this problem, particularly where projects increase export earning potential or permit import substitution, thus making projects "self-liquidating" from a foreign exchange viewpoint. This issue is likely to remain alive beyond 1976, and is relevant to consideration of role of multilateral agencies which have been instrumental in past infrastructure financing.

d. Bilateral vs. Multilateral Aid

Chapter III, Section B, contains a discussion of U.S. policies and attitudes on this matter. The multilateralists generally argue that their agencies minimize political frictions between donors and recipients. They also assert that an ability to conduct critiques of sectoral needs in terms devoid of bilateral political considerations gives multilateral agencies greater weight in conditioning their aid on reforms in recipient country sectoral policies. Bilateralists contend that bilateral aid volumes and terms reflect special relationships that exist between donor and recipient countries and permit conforming aid more closely to the interests and objectives of both parties. The major operational issue is what the appropriate mix between the two should be.

OPEC country decisions will be important to determining the mix in 1976 to the extent that the U.S. conditions its multilateral contributions upon oil exporter participation.

e. Tying

Tying aid—i.e., requiring that some or all of the funds must be used in donor or other designated countries—is a device of long standing by which donors attempt to attenuate the balance of payments costs of their aid contributions. Tying is usually used in bilateral aid programs and may, for some donors, indeed be necessary to obtain appropriations for these programs. The U.S. ties credits to procurement in the U.S. or less-developed countries and ties grants to U.S. procurement. There are also cases of tying contributions to multilateral agencies, but the more frequent practice is for donors to press multilateral agencies to conform to the geographic distribution of procurement with donor contributions.

f. Earmarking.

Contributions to multilateral institutions which are earmarked by the donor for specific uses, cannot generally be accepted by multilateral institutions without violating their charters. Earmarking is considered to be contrary to the principles of technical, economic and administrative efficiency upon which the multilateral banks are founded. It engenders divisiveness, partisan politics and mutually off-setting restrictions on the part of contributors. A recent attempt by the U.S. Congress to earmark funds for the Inter-American Development Bank has prevented use of the funds by the bank.

g. Aid Roles in Facilitating Developing Country Access to Private Capital Markets

Some donor countries have programs to encourage private capital flows to developing nations, such as the U.S. Overseas Private Investment Corporation. OPIC provides political risk insurance and financial assistance for selected new American investments in developing nations. Shortages of concessional finance have stimulated efforts to increase direct access by middle and upper income developing countries to private capital markets, for example, by means of bond flotation. The main issue involved is whether aid to this process should be limited to technical and informational assistance. More active alternatives would include official insurance or guaranty schemes and efforts to reduce current restrictive regulations in developed countries which limit access to their capital markets.

h. Special Relations with Selected Developing Countries

Some developing countries have developed to the stage where their needs no longer justify concessional aid. In others, such as many OPEC countries, foreign exchange availability is no longer an important constraint on development. Nevertheless, the U.S. may wish to help support the development of these countries. Bilateral joint commissions can be used to coordinate official activities having developmental implications, to catalyze and coordinate quasi-official activities and private activities, and in other ways to fill the void left by attrition of aid.

Joint commissions with Saudi Arabia and Iran have development as one of their goals. Currently there are also joint commissions with Egypt, India, Israel, Jordan and Tunisia. Similar arrangements are also being discussed with Brazil and Venezuela. In all cases, the U.S. is examining various techniques to promote development, such as reimbursable technical assistance, although some of the poorer countries obviously require continued assistance with capital imports.

i. Decision Making

Developing nations have been pressing steadily for a greater voice in various international organizations, particularly the financial bodies such as the World Bank and IMF. Where weighted voting prevails, these institutions are changing their voting weights (e.g., by giving OPEC countries a greater weight) but the issue remains alive. The issue revolves around differences of view about the nature and function of these organizations.

j. Graduation

Developing nations are granted various economic privileges, such as trade preferences and aid. As countries become more developed or as they acquire financial wealth these privileges should disappear and ultimately these countries may wish to be eligible for membership in developed country groupings. This whole question of how countries graduate, and how this will affect present institutional arrangements is important now and for the future.

k. Terms or Conditions for U.S. Assistance

There are always questions regarding the U.S. political or foreign policy objectives (which may be in conflict with economic objectives) which require review and consideration in any assistance program. A fundamental concern is to what extent issues should be interposed into development assistance deliberations.

B. Resource Transfers via Traditional Aid

1. Shortfalls in Expected Resource Transfers

If U.S. predictions are realized, there will be no overall resources gap for the developing nations in 1976; that is, the assumed modest levels of growth among the developing nations will be possible without additional extraordinary measures on the part of the industrial and oil-exporting nations, although a few nations may encounter difficulties that require special consideration.

TABLE 19

Non-Oil Developing Countries: Balance of Payments 1975 & 1976*
(billions of $)

	1975	1976
Current Account Balance (excluding grants)	−39.0	−34 to − 36
Official Flows (net)	19.3	20.7
Industrial Countries bilateral	9.0	9.0
OPEC bilateral	4.0	4.5
Multilateral	6.0	6.9
IMF Oil Facility	2.5	.3
IMF Drawings	1.2	2.2
Trust Fund	.0	.4
Other	2.3	4.0
Communist	.3	.3
Direct Investment	4.0	4.0
Other Private (Banks, Supplier Credits, Eurobonds, etc.)	13.0	9.5-11.5
Change in Reserves	−2.7	0.0

* Includes all IMF members of Asia, Africa, and the Western Hemisphere except OPEC and OECD countries, and South Africa. Assumptions include:
—developing countries will operate in a constrained economic framework.
—economic growth in developed countries will approximate 3 percent.

SOURCE: U.S. Department of State

Those developing countries which reach the limit of available financing could adjust by further restricting imports. Even if projected financing does become available, it is clear that additional flows from industrial countries would be useful, serving to reduce the uncertainty regarding commercial credit and private investment or, if completely additional, helping to increase rates of growth. For the longer term all donors would like to see the poorest countries resume and exceed their former rates of growth while the better off non-oil exporting developing countries restore former high growth rates.

Traditional donor nations have recently increased the relative share of aid directed to the poorer countries in response to their disproportionate needs. Overall official development assistance from DAC donors increased by $1.9 billion in 1974 and is expected to have increased by an additional $1.4 billion in 1975, and much of this is intended for the poorest. The U.S., pursuant to Congressional directive, more than doubled aid (including Food for Peace) to the group of forty-two most seriously affected countries in each of fiscal years 1974 and 1975.

2. ODA

Official Development Assistance is defined by the DAC as those regular flows from the official sector which are concessional in character—i.e., grants and loans with a grant element of at least 25 percent and which are undertaken primarily for the purpose of assisting development. The degree of concessionality of a loan is determined by the interest rate, length of repayment period, and grace period before payments commence. Table 20 illustrates the nature of the computation.

TABLE 20

Official Development Assistance (ODA)
Minimum Essential Terms for Meeting
25% Grant Element Requirement

Interest Rate %	W/No Grace	W/Maximum Grace Period
0	> 6 years	> 3 years w/2 year grace
2	> 8 years	> 4 years w/3 year grace
4	>12 years	> 6 years w/5 year grace
6	>24 years	>11 years w/9 year grace
7	>60 years	>22 years w/15 year grace
8 and above	beyond practical range	beyond practical range

Note: discount rate: 10%
Source: Agency for International Development

Because of the nature of ODA, mere quoting of dollar flows alone underestimates their importance to the development process. These funds are specifically targeted on development objectives—technical assistance—infrastructure—rural development—the poor, etc. ODA funds often perform functions for which there are no commercial or private charitable alternatives.

Thus, while ODA as a portion of total resource flows is declining somewhat and many would argue that in recent years trade has led development in providing financial and resource flows to developing countries, continuing ODA flows are indispensable as a practical matter if the reasonable aspirations of the least developed countries are to be attained. Official resource flows are tailored to the needs of the recipient, and therefore the grant element in development assistance flows will vary. Since the greatest need in terms of people is among the poorest countries, a fundamental measure of the development assistance effort is the quantity, grant element, and direction of ODA. Tables 21 and 22 indicate recent U.S. and total DAC performance in this regard.

TABLE 21

Financial Terms of ODA, U.S. and DAC
1973-1974

	U.S.		DAC (Total)	
	1973	1974	1973	1974
Grants as % of Commitments	68.7	71.6	66.2	64.9
Average Maturity (yrs.)	40.1	38.0	32.0	—
Average Interest	2.6	2.6	2.4*	—
Average Grace Period	10.7	9.7	8.4*	—
Grant Element (% of Total Loans)	68.2	65.7	63.0	60.1
Grant Element (% of Total Program)	90.1	90.2	87.5	86.0

* Provisional

Source: U.S. Annual Aid Review submission to DAC (data from U.S. Department of Commerce, Bureau of Economic Analysis); DAC Chairman's Report—1975, page 219.

Table 22 indicates a strong shift of emphasis to the MSAs and the poorer countries who received almost all of the increase of DAC ODA between 1971 and 1974. There were roughly equal dollar increases in bilateral and multilateral aid. But multilateral efforts grew 81 percent between 1971 and 1974 and increased their relative importance considerably, moving from 17 percent to 27 percent of total ODA.

TABLE 22

DAC ODA by Income Grouping of Recipients
(Million Current $ U.S.)

Country Category*	1971	1974
MSA[1]	6,242.41	8,660.87
Middle Income[2]	629.08	646.05
Upper Income[3]	124.83	168.76
Sub Total	6,996.32	9,475.68
Unspecified	452.58	822.11
Total	7,448.90	10,297.79

* Definitions; per capita income per annum, 1973 data, $ U.S.
[1] MSA and other <$400
[2] $400 <Middle Income <$1,000
[3] $1000 <Upper Income

Source: DAC

However, when ODA contributions are deflated to account for inflation (Table 23), erosion in the real value of ODA is apparent. From 1971-1974 the real value of ODA fell 19 percent. The decline for U.S. aid was far more pronounced than that of the DAC as a whole.

TABLE 23

Net ODA, 1971, 1974; World and U.S., Bilateral and Multilateral, 1974 in Both Current and 1971 Dollars, Percentage Change in Real Dollars
(Millions $ U.S.)

	1971	1974	74 in 71 $*	Percentage, Change 71-74 in 1971 $
World	7,660	11,316	6,215	−19
Bilateral	6,323	8,255	4,530	−28
Multilateral	1,338	3,060	1,679	+25
U.S. Total	3,324	3,439	1,889	−43
Bilateral	2,893	2,557	1,403	−52
Multilateral	431	882	484	+12

* Deflator: Cost of imports of LDCs, as calculated by IMF.

Source: U.S. Annual Aid Review submission to DAC (data from U.S. Department of Commerce, Bureau of Economic Analysis); DAC Chairman's Report—1975 Review, page 217.

For DAC country transfers an increase of 38 percent in current dollars in 1974 over 1971 was, in terms of developing country purchasing power, an erosion of 24 percent.

TABLE 24

Changes in DAC ODA Disbursals by Recipient Groups, Current Dollars, Constant Dollars, and Percentage Changes in Each, 1971, 1974*
(Millions $ U.S.)

	ODA Change (Current (Terms) 1971-74	ODA % Change (Current Terms) 1971-74	ODA Change (Constant Terms) 1971-74	% Change (Constant Terms) 1971-74
MSA	$2,419	39%	$−1,486	−24%
Middle Income	17	03	−291	−46
Upper Income	44	35	−32	−26
Not Specified	369	82	−1	0
All less-developed countries	$2,849	38%	$−1,794	−24%

* Deflated by import costs of developing countries.

SOURCE: Agency for International Development

Comparison of Donor Performance in ODA

ODA has declined in proportion to GNP for the United States more rapidly than for the DAC as a whole, as Table 25 indicates. For 1974, the U.S. improved its performance over 1973, both in terms of ODA and total resource transfers. The U.S. is, however, quite distant from the level of 0.7 percent of GNP for ODA which has been accepted by many DAC members. (The U.S. has agreed, in principle, to a total net flow target of 1 percent but has not accepted the 0.7 percent ODA level.) Since this goal would imply tripling U.S. ODA flows (that is, a U.S. concessional assistance budget of approximately $11.8 billion in 1976), attainment in the near future is improbable. The 1 percent of GNP goal for total resource transfers (that is, official flows plus private investment, loans and export credits) is also distant but has a better chance of attainment.

TABLE 25

Net Flows from DAC Members as Percentage of GNP; ODA as a Percentage of Total Flows—1964-1974

	Total Flows		ODA		ODA as a Percent of Total	
	U.S.	DAC	U.S.	DAC	U.S.	DAC
64/66	0.74	0.75	0.49	0.44	0.67	0.59
70	0.63	0.78	0.31	0.34	0.49	0.43
73	0.64	0.79	0.23	0.30	0.36	0.38
74	0.71	0.81	0.25	0.33	0.34	0.41

Source: U.S. Annual Aid Review submission to DAC (data from U.S. Department of Commerce, Bureau of Economic Analysis); DAC Chairman's Report—1975 Review, page 217.

The U.S. performance relative to other major donors within the DAC, in terms of ODA as a percentage of GNP, stands near the bottom. In 1974, ODA from the U.S. was 0.26 percent of GNP vs. the DAC average of 0.33 percent. Table 26 indicates the comparative performance of the leading donors from 1963 to 1974.

TABLE 26

ODA Disbursement as a Percentage of GNP
(Major Donors)

	1963	1967	1971	1974
Canada	0.15	0.32	0.42	0.50
France	0.98	0.71	0.66	0.60
Germany	0.41	0.41	0.34	0.37
Japan	0.20	0.32	0.23	0.25
Netherlands	0.26	0.49	0.58	0.62
Sweden	0.14	0.25	0.44	0.72
U.K.	0.48	0.44	0.41	0.38
U.S.	0.59	0.43	0.32	0.25
Total DAC	0.51	0.42	0.35	0.33

Source: DAC Chairman's Report—1973 Review, page 189; DAC Chairmans Report—1975 Review, page 217.

Admittedly, these comparisons can be misleading and the debates over which forms of financing should be comparable as ODA and which should be excluded would give delight to medieval theologians.

A troublesome problem is the direction of ODA flows. Several donors have special relationships with certain political entities, e.g., former colonies, sharing privileged trading and/or monetary relationships with them. These donors insist upon including flows to these clients as ODA. The result is that directions of ODA appear to be disproportionately directed toward such states to the effect that (1) other perhaps more needy development countries are slighted and (2) the quantity of development assistance credited to some countries may be overstated.

But aside from these problems, the real value of ODA and the percentage of GNP which some of the major donors devote to it have diminished. Global inflation and high energy costs have also substantially increased the need of the developing countries for development resources on a concessional basis. While some resources from OPEC donors have reduced the decline, adding about a fifth to current ODA, future amounts are uncertain.

C. *Current U.S. Development Assistance Levels and Plans*

Important changes were made in U.S. foreign assistance legislation in FY 1976. Development assistance was authorized in the International Development and Food Assistance Act of 1975, passed by voice vote in the Senate and by a vote of 265 to 150 in the House, the largest majority for a foreign assistance bill in fifteen years. The Act, which authorizes assistance for a two year period, strongly reaffirms the directives set in the Act of 1973: priorities for the poorest majority in the developing countries with precedence given projects in agriculture, education, health and population services. It provides for strengthening disaster relief efforts and population and health activities and provides a new mechanism for coordinating agricultural research, intensifying the role played by U.S. land-grant colleges and universities. It contains strong backing for the aims and institutions called for in the Rome World Food Conference last year, authorizing a U.S. commitment of up to $200 million for the International Fund for Agricultural Development (IFAD) as mentioned above.

The new Act amends PL 480 to tie it in more closely with other development efforts. Up to 15 percent of the total value of PL 480 agreements consummated each year may be considered advance payments against the agreements if their local currency equivalent is used for certain mutually agreed food and nutrition or population planning purposes. Not less than 75 percent of food aid (by tonnage) provided under Title I of PL 480 in each fiscal year is earmarked for those countries with a GNP per capita of $300 or less which are unable to secure sufficient food for their immediate requirements through their own production or commercial purchase from abroad. A minimum level of assistance is specified for Title II donations—1.3 million tons, one million of which is earmarked for U.S. private voluntary agencies (PVOs) and the World Food Program (WFP), permitting the PVOs greater advance knowledge of availabilities so that they may improve their planning processes.

1. Official Assistance

(In the following tables, amounts of development assistance for all three years are shown on a program, not appropriations basis. This change reflects a change in the legislation in FY 1976 in which A.I.D. no longer receives repayments of prior aid lending for its program budget. In FY 1974 and FY 1975 these were $168 million and $197 million, respectively.)

Amounts of development assistance have been as follows:

TABLE 27

U.S. Budget Resources Devoted to Development
($ millions)

	FY 1974	FY 1975	FY 1976 (Estimated)
A.I.D.	1,787.3	2,486.8	2,943.8
PL 480*	972.3	1,241.6	1,506.8
Peace Corps	77.2	82.4	80.8
International Financial Institutions	620.0	643.0	634.0
TOTAL	3,456.8	4,453.8	5,165.5
As percent of Federal Expenditures	1.21	1.17	1.36
As percent of GNP	0.26	0.31	0.33

* Value of shipments in FY's 1974 and 1975, planned in FY 1976

Source: DAC U.S. Annual Aid Review, A.I.D.

Amounts for A.I.D. were as follows:

TABLE 28

The A.I.D. Budget
($ millions, program)

	FY 1974	FY 1975	FY 1976 (Estimated)
Bilateral Development Assistance	877.6	886.8	863.0
Contributions to International Organizations	146.2	139.2	175.2
Other	130.2	252.0	138.2
Total Development Assistance	1,153.9	1,278.0	1,176.4
Security Supporting Assistance	633.2	1,208.8	1,767.5
TOTAL	1,787.3	2,486.8	2,943.9

Source: A.I.D.

A substantial shift in allocation of bilateral development resources has occurred as movement toward meeting the priorities laid down by the Congress in 1973 continues. Allocations to the three priority areas have grown from 69 percent of the total in FY 1974 to 92 percent in the current year. In the top priority, Food and Nutrition, allocations have advanced from 35 percent in FY 1974 to 61 percent today. Food and Nutrition programs command first priority on both humanitarian and economic grounds. One in every five children in developing countries dies before reaching the age of five; at least half the deaths are malnutrition related. Attitudes toward regulating family size, vital to slowing population growth, are related to this factor. And malnutrition in the survivors is related to their ability to function later as adults, able physically and mentally to be productive and to participate in the benefits of economic growth. Better nutrition for all is essential to prevent further bipolarization of developing country societies, as the healthy and strong grow stronger economically while the undernourished continue in poverty, growing only in numbers. Direct feeding, such as that carried on under the Food for Peace program, is needed in the short run, but essential in the long run are programs that enable the poor to feed themselves.

Concentrated rural development is also needed to provide employment for rapidly expanding labor forces. In typical poorer countries 75 percent of expected additions to the labor force in the next five years will have to find employment in agriculture, given the current pace of industrialization. Even in relatively advanced developing countries a large proportion of the increasing labor force must remain in rural employment. In Latin America, for example, it is estimated that one-third of the expected additional labor force must remain in agriculture. First priority in the U.S. bilateral program is given to creating more food production and more jobs in rural areas. A.I.D. lending now concentrates on agricultural sector development, on irrigation, rural electrification and farm-to-market roads. Technical assistance now concentrates on helping agricultural research institutions, extension and land and water resource management.

TABLE 29
A.I.D. Assistance in Functional Categories

	FY 1974		FY 1975		Estimated FY 1976	
	$ millions	%	$ millions	%	$ millions	%
Food and Nutrition	306.3	34.9	500.1	56.4	530.1	61.4
Population and Health	202.7	23.1	181.2	20.4	185.0	21.4
Education and Human Resources	101.2	11.5	93.4	10.5	76.0	8.8
Selected Development Problems	135.0	15.4	66.4	7.5	72.0	8.3
Selected Countries and Organizations	131.9	15.0	45.7	5.2		

Source: A.I.D.

U.S. contributions to multilateral organizations will increase only slightly in FY 1976 and may actually decrease if pending requests for authorizations for the InterAmerican Development Bank's ordinary capital and for the African Development Bank's Development Fund are reduced or denied. With greater strength in regional banks, regionally controlled, and with greater ability among other donors to provide aid, the U.S. has moved from a position of leadership in securing donations to a more subsidiary role. In the fourth International Development Association (IDA) replenishment (first U.S. payment will be made this year), the U.S. proportionate share falls from 40 percent to 33 percent, and our payments are stretched out over four years while most other donors make their contributions in three years. If this year's cut in the appropriation request for IDA, from $375 million to $320 million, is not made up in the next three years, the U.S. share will decline even further. Our share in contributions to the InterAmerican Development Bank (IDB) has also fallen as that institution has succeeded in attracting a larger group of contributors. The appropriation request for the ADB also suffered a major cut this year. However, even if the requests for the U.S. contribution to the Asian Development Bank, IDA and the IDB had been appropriated in full, the total amount available from these institutions would have continued to decline in real terms.

The share of multilateral assistance in U.S. aid programs will continue to be a major issue, with pressure mounting for contributions to catch up, in real terms, with world inflation of the past few years. A major issue in discussions now underway on IDA's fifth replenishment is, in fact, the extent to which IDA's resources should be increased in real terms.

TABLE 30
Multilateral Financing
($ millions, appropriations)

	FY 1974	FY 1975	FY 1976*
World Bank Group			
IBRD	—	—	—
IDA	320	320	320
Asian Development Bank			
Ordinary Capital[1]	—	24	24
Asian Development Fund	50	50	25
Inter-American Development Bank			
Ordinary Capital[1]	25	—	40
Fund for Special Operations	225	225	225
African Development Fund	—	—	15
United Nations, OAS, other			
Agencies	146	139	192
TOTAL	766	758	841

[1] Paid in capital only.
* tentative

Source: Treasury/A.I.D.

2. Other Official Flows

In this category are such programs as Export-Import Bank loans and Commodity Credit Corporation (CCC) export sales agreements. These loans assist U.S. exporters in financing exports to the developing countries. The Overseas Private Investment Corporation (OPIC) also provides credits to help fund productive enterprises in developing countries. The terms of these credits, especially those extended by the Export-Import Bank, are generally easier than those offered by the private sector, although they do not approach the degree of concessionality provided by ODA credits. Non-ODA official credits nevertheless play an important role in transferring a significant amount of real resources to IDCs.

The Export-Import Bank increased its loan disbursements in developing countries in CY 1974—$1,501 million as opposed to $1,108 million in 1973. Commodity Credit Corporation (CCC) export sales agreements were cut by nearly two-thirds, however, falling to $109 million after reaching their peak of $312 million in 1973. Both EXIM and CCC loans tend to go to better off developing countries qualifying for little or no development assistance on concessional terms. The six largest recipients of new equipment and service credits from EXIM in 1974, accounting for 44 percent of total 1974 authorizations, were Brazil, Taiwan, Yugoslavia, Mexico, Korea and Algeria.

3. *Private Flows*

U.S. private capital flows to developing countries totalled $4,180 million in 1974, down $422 million from 1973. The reduction was almost entirely due to a reversal in net portfolio investment and a decline in U.S. private voluntary agency contributions. The latter were down $170 million from $905 million in 1973. All but $77 million of the $3,276 million in 1974 U.S. net direct investment in developing countries went to Latin America. Much of the poor performance in Africa and Asia reflects disinvestment in petroleum, mining and smelting, an effect of the increasing trend toward nationalization in these sectors.

The amount of new Overseas Private Investment Corporation inconvertibility, expropriation and war risk insurance issued in FY 1975 rose to $1.2 billion from $1 billion the year before on roughly the same number of projects.

TABLE 31

U.S. Private Flows to Developing Countries
($ millions)

	1973	1974
Net direct investment	2,489	3,276
Of which: new investment, net	(921)	(1,718)
reinvested earnings	(1,568)	(1,558)
Bank and other monetary institutions, net	700	1,078
Net investment in securities	544	466
Grants by U.S. voluntary agencies	905	735
Total	4,638	5,555

Source: U.S. Annual Aid Review submission to DAC (data from U.S. Department of Commerce, Bureau of Economic Analysis)

TABLE 32

U.S. Net Flows of Resources to Developing Countries and Multilateral Agencies, 1973-1974
($ millions)

	1973	1974
Total net flows	8,083	9,817
Official Development Assistance	2,968	3,439
Other Official Flows	477	823
Private Flows	4,638	5,555

Source: U.S. Annual Aid Review submission to DAC (data from U.S. Department of Commerce, Bureau of Economic Analysis)

CHAPTER V

Impact on the U. S. Economy of U. S. Policies Toward Less-Developed Countries

This report has focused on the current state of the developing nations and on the U.S. involvement in the international response to current development issues. Another aspect of U.S.-developing country relationships is the impact they have on the U.S. economy. Trade, aid and investment flows abroad have impacts on U.S. employment levels, balance of payments position, and domestic income level, but while the nature of the impact has been studied, conclusions are few.

Congressional interest in both of these aspects of the development issue is expressed in Section 640B of the Foreign Assistance Act of 1973. In establishing the Development Coordination Committee, the Congress prescribed that:

> The President shall report to the Congress during the first quarter of each calendar year on United States actions affecting the development of the low income countries and on the impact of those undertakings upon the national income, employment, wages, and working conditions in the United States.

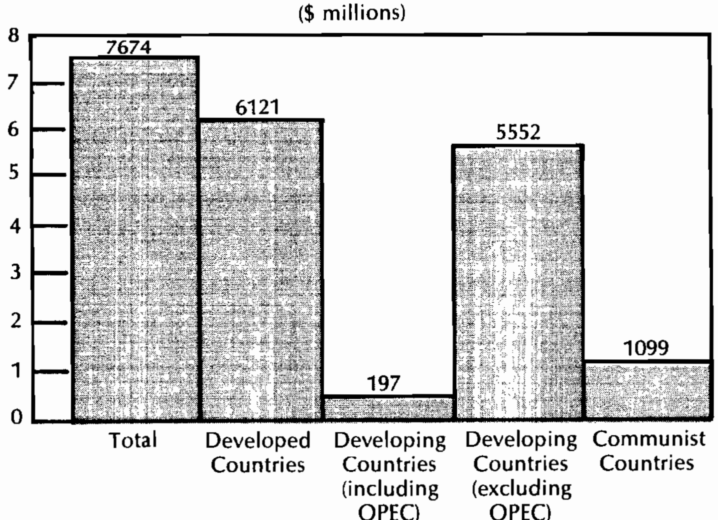
Concerns have been raised that trade concessions cost U.S. jobs and that low cost labor in developing countries constitutes a threatening form of competition to U.S. production. Similarly, assertions have been made that increased investment flows abroad constitute an export of jobs and a creation of production capacity which can compete with U.S. exports in their country markets.

Proponents of development assistance have long argued that the best markets for U.S. production are developed countries, and that the process of development will make more significant trading partners of less-developed countries, to both their own benefit and that of the U.S. Changes in the nature and extent of production carried out in developing countries which may be brought about by their development could indeed require adjustments for particular elements of U.S. labor and business; but increased opportunities will also result from the increased trade and income which accompanies development. Broad based benefits will accrue to U.S. consumers.

This chapter identifies and discusses briefly areas of U.S. developing country relations which affect U.S. national income, employment, wages, and working conditions, and the issues which arise in these areas. These include dependence on less-developed countries for essential commodities, general trade relations, and investment flows.

A. General U.S. Trade Relations with Less Developed Countries

TABLE 33
U.S. Trade Balance 1975 Jan.-Sept.
($ millions)



Source: IBRD—Direction of Trade

Trade with the developing world has broadened and grown as a proportion of total U.S. trade and, in most years, the U.S. has registered a surplus in the trade account with these nations. Total exports had risen to seven percent of U.S. GNP by 1974, up sharply from the four percent level which had prevailed through 1972, and imports rose by a similar amount. U.S. exports to less-developed countries grew to $32.1 billion between 1965 and 1974, more than tripling, while imports grew five-fold in the same period, from $7.2 to $39.5 billion. Imports from OPEC countries, principally oil, grew from $1.7 to $15.5 billion during this period.

A Commerce Department study ("U.S. Trade with the Developing Economies: The Growing Importance of Manufactured Goods," June 1975) indicates that over 90 percent of the cumulative U.S. trade surplus from 1965 to 1973 occurred in trade with the less-developed countries, much of this in agricultural products. The total surplus in the period was $17.3 billion; that with less-developed countries, $15.5 billion. This is an indication that these countries are important markets, contributing positively in their trade to the overall U.S. balance of payments.

While the U.S. trade balance with developed countries deteriorated in the late 1960s, a surplus in less-developed country trade cushioned the decline. The drastic petroleum price increase in 1973/74 resulted in a sharp turnaround in the 1974 trade figures. That year the U.S. experienced a $6.8 billion trade deficit with all developing countries including major oil exporters. This deficit would have been greater without the $2 billion surplus in trade with non-OPEC developing countries.

1975 quarterly trade data indicate a major improvement in the U.S. trade balance with both OPEC and non-OPEC developing countries, enough to give a modest overall surplus of $715 million in total trade with less-developed countries in the first three quarters:

TABLE 34
U.S. Trade with Developing Countries
(millions of dollars, FAS basis)

	1974				1975		
	1st Q	2nd Q	3rd Q	4th Q	1st Q	2nd Q	3rd Q
U.S. Exports	7,036	7,988	8,615	9,036	9,815	9,685	9,939
U.S. Imports	7,879	9,780	11,119	10,714	9,734	8,723	10,267
Balance	—843	—1,792	—2,504	—1,678	81	962	—328
Of which:							
Exports to OPEC	1,178	1,564	1,711	2,240	2,430	2,697	2,707
Imports from OPEC	1,599	4,899	4,705	4,300	4,381	3,804	4,385
Balance	—421	—3,334	—2,995	—2,060	—1,951	—1,107	—1,678
Exports to non-OPEC	5,858	6,424	6,904	6,810	7,385	6,988	7,232
Imports from non-OPEC	6,280	4,881	6,414	6,420	5,353	4,919	5,882
Balance	—422	1,542	491	390	2,032	2,069	1,350

Note: Balances may not add due to rounding.

Source: U.S. Department of Commerce

U.S. exports to OPEC members continued to rise in 1974 as oil exporters spent a portion of their increased revenues, while U.S. imports from oil exporters slowed under the impact of the recession. This reduced the trade deficit to $4.7 billion in the first three quarters compared to $6.8 billion in the same period of 1974. Non-OPEC developing country trade also showed an increase of U.S. exports and reduction of imports as the U.S. recession reduced the demand for developing country products. The $5.5 billion surplus in the first three quarters (compared to $1.6 billion in the comparable 1974 period) was enough to tip the total balance in developing country trade to a small surplus in the first three quarters.

The composition of U.S.-developing country trade has also broadened. These countries have long been important markets for U.S. manufactured goods and suppliers of raw materials, but as their economies progress they are becoming increasingly important as suppliers of manufactured products as well. Some less-developed countries seem to have improved their competitive position in trade in manufactures since the exchange rate adjustments which began in 1971. The developing countries' share of U.S. imports of manufactures moved from a fairly stable 12-13 percent prior to 1972 to over 19 percent in 1974, growing twice as fast as developed countries' exports of manufactured goods to the U.S. This growth appears to include considerable substitution for goods previously imported from such developed countries as Japan. In some categories, the shift of U.S. importers to developing country suppliers has been especially marked. In 1974 less-developed countries supplied the U.S. 36 percent of imported consumer goods and 22 percent of capital goods, primarily light items such as electronic equipment.

The relatively more developed developing countries have benefitted most. Four of the eleven largest suppliers of U.S. imported manufactures were less-developed countries in 1974—Mexico, Taiwan, Hong Kong, and Korea. Mexico and Taiwan, the fifth and sixth largest, provided more manufactures to the U.S. market in 1974 than such developed countries as France and Italy. These four developing countries provided over two-thirds of U.S. manufactured imports from less-developed countries. Nevertheless, other developing countries were also able to benefit; as a group, they expanded their exports of manufactures in the U.S. at the same rate as these four during the 1971-1974 period.

Developing countries have also increased in importance as markets for U.S. manufactures. For many years, less-developed countries accounted for about 30 percent of the export market, but less-developed countries increased their imports of U.S. manufactures from $13 billion in 1973 to $20.7 in 1974, the share attributable to less-developed countries increasing from 29.1 to 32.6 percent. Developing countries thus mitigated somewhat the employment and income effects of the developed countries' recession by taking up some of the slack, although factors affecting the level of domestic demand and trade among developed nations were of primary importance.

While OPEC imports of U.S. manufactures grew rapidly as a result of increased oil revenues, this growth was not the only or even the major factor in the growing importance of developing country markets. Three-quarters of the 1974 growth in these exports involved non-OPEC developing countries.

Developing countries spend a high proportion of increased income on imports of capital goods and intermediate products to finance development programs; thus, economic growth in developing countries normally is translated into increases in U.S. exports.

B. Essential Commodities—Access, Adequacy, and Stability

Rising oil and other commodity prices in the 1972-74 period raised concerns about scarcities, price gouging, and the potential for confrontation between developed and developing nations. The U.S., as a leading supplier and purchaser of traded raw materials, has a major interest in the functioning of an open international market and the adequacy and stability of its resource supply at reasonable prices. For most critical materials, the developing countries are not central to the problem of adequate access, but they are important:

—the largest portion of world trade in primary commodities, excluding oil, is among industrialized countries. Even including tropical products, developing countries contribute only about 30 percent of world exports of food, raw materials, and ores and minerals.

—the U.S. is a major producer of many primary products and a leading exporter of foodstuffs, to both developing and developed countries, playing the predominant role in grain and oilseed trade. It is also a net exporter of some industrial raw materials.

—U.S. sources of supply are highly concentrated. Canada supplies half the U.S. industrial raw material imports. Over two-thirds come from Canada, Australia, South Africa, and other developed countries.

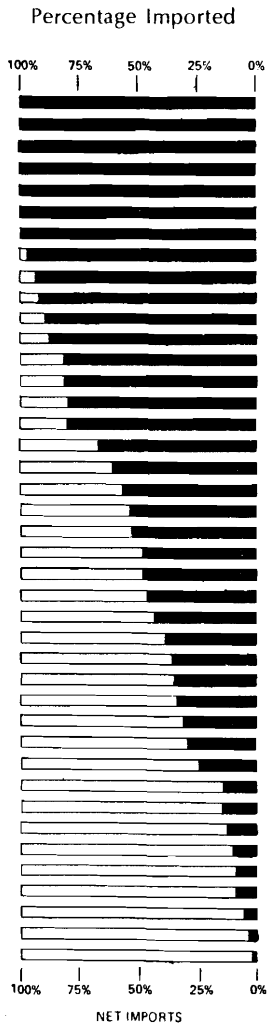
Nevertheless, developing countries are significant or critical suppliers of petroleum, bauxite, manganese, tin, cobalt, natural rubber, and tropical products like coffee, cocoa, and sugar.

Less Developed Countries as Suppliers

While trade with developing countries has accounted for roughly a third of total U.S. trade over the past decade, U.S. import dependence on them for particular essential commodities varies from zero to nearly 100 percent. The petroleum embargo and quadrupling of price has been the most publicized demonstration of the disruptive potential of such dependence. In 1973 total imported oil accounted for about 37 percent of U.S. petroleum consumption and 17 percent of total energy consumption. For 21 of 41 basic industrial raw materials, including 6 of the 13 considered most essential, the U.S. is dependent on foreign sources for over half its requirements; moreover, the trend over the past 25 years has been toward greater reliance on foreign sources. In the aggregate imports increased from 12 percent to 15 percent of raw material consumption between 1960 and 1970. Developing countries are important, but not exclusive suppliers of many of these commodities.

TABLE 35

Imports Supplied Significant Percentages of Total U.S. Demand in 1974



Mineral	Major Foreign Sources
PLATINUM GROUP METALS	UK, USSR, SOUTH AFRICA
MICA (sheet)	INDIA, BRAZIL, MALAGASY
CHROMIUM	USSR, SOUTH AFRICA, TURKEY, RHODESIA, PHIL.
STRONTIUM	MEXICO, UK, SPAIN
COBALT	ZAIRE, BELGIUM, LUXEMBOBRG, FINLAND, CANADA, NORWAY
TANTALUM	NIGERIA, CANADA, BRAZIL, ZAIRE
COLUMBIUM	BRAZIL, CANADA, NIGERIA
MANGANESE	BRAZIL, GABON, SOUTH AFRICA, ZAIRE
TITANIUM (rutile)	AUSTRALIA
ASBESTOS	CANADA, SOUTH AFRICA
TIN	MALAYSIA, THAILAND, BOLIVIA
ALUMINUM (ores & metal)	JAMAICA, SURINAM, CANADA, AUSTRALIA
MURCURY	CANADA, ALGERIA, MEXICO, SPAIN, ITALY
BISMUTH	CANADA, MEXICO, JAPAN, PERU, UK, KOREA
FLUORINE	MEXICO, SPAIN, ITALY, SOUTH AFRICA
NICKEL	CANADA, NORWAY
SILVER	MEXICO, CANADA, PERU, UK, HONDURAS, AUSTRALIA
POTASSIUM	CANADA
TUNGSTEN	CANADA, PERU
ZINC	CANADA, MEXICO, PERU, AUSTRALIA
GOLD	CANADA, SWITZERLAND, USSR, BURMA
TITANIUM (ilmenite)	CANADA, AUSTRALIA
ANTIMONY	SOUTH AFRICA, MEXICO, UK, BOLIVIA, P. R. CHINA
BARIUM	PERU, IRELAND, MEXICO, CANADA, GREECE
RHENIUM	WEST GERMANY, SWEDEN
SELENIUM	CANADA, JAPAN, MEXICO, UK
GYPSUM	CANADA, MEXICO, JAMAICA
PETROLEUM (inc. nat gas liq.)	CENTRAL & SOUTH AMERICA, CANADA, MIDDLE EAST
IRON	CANADA, VENEZUELA, JAPAN, COMMON MARKET (EEC)
CADMIUM	MEXICO, AUSTRALIA, CANADA, PERU, JAPAN
VANADIUM	SOUTH AFRICA, CHILE, NETH. ANTILLES, USSR
TELLURIUM	PERU, CANADA
LEAD	CANADA, AUSTRALIA, PERU, MEXICO
RARE EARTH	MALASIA, INDIA, AUSTRALIA, THAILAND
MAGNESIUM (nonmetallic)	GREECE, IRELAND, JAPAN, AUSTRIA
PUMICE	GREECE, ITALY
SALT	CANADA, MEXICO, BAHAMAS
CEMENT	CANADA, BAHAMAS, NORWAY, UK
NATURAL GAS	CANADA
COPPER	CANADA, PERU, CHILE
STONE	ITALY, CANADA, MEXICO, PORTUGAL

Source : Bureau of Mines.

The most important minerals for which the U.S. is significantly import-dependent are chromium, bauxite, manganese, tin, gold, zinc, potassium, silver, tungsten and iron ore. Developing countries are important suppliers of all but potassium.

Long Term Availabilities

Various studies, including the Council on International Economic Policy's *Critical Imported Materials,* indicate that exhaustion of the earth's physical resources is not a real constraint, at least through this century. Potentially available resources are more than adequate and proved world reserves are continually expanding. Dynamic factors such as price relationships and levels of technology are critical to the investment decisions which can make previously marginal mineral deposits economic, lead to substitution, increase efficiency of resource use, and intensify agricultural production. The most accessible sources of raw materials, especially in developed countries, have been most intensively exploited. Consequently, at current prices and levels of technology, it is likely that significant increases for many raw materials will come primarily from developing countries.

Although physical exhaustion of raw materials does not appear to be a problem during the next generation, adequate supplies at reasonable prices are not automatically assured. Vast new investments in raw materials production in developing nations will be necessary to provide for the future expanded raw materials requirements of the U.S., major industrial nations and increasingly of the developing nations themselves.

U.S. dependence on imports for most materials is not static, but is influenced by past price trends and political factors relating to access for foreign supplies. Low commodity prices have made it uneconomic to exploit secondary U.S. or other industrial countries' deposits when richer developing country deposits were available and foreign exploitation was welcomed on favorable terms.

Low prices have also minimized the incentive to recycle minerals or develop substitute products. A major change in one or more commodity price, such as occurred in petroleum, would alter these factors in the mid or long term, and, for many, domestic production would become relatively more important. Substantially increased prices could call forth substantial U.S. production increases of aluminum from ores other than bauxite, nickel, zinc, mercury, tungsten, lead, and copper, and could lead to substitution in the case of many other materials. The U.S. response would not be likely to fill expected supply gaps of chrome, platinum, tin, cobalt, columbium, vanadium or fluorspar, but availability of substitutes, U.S. stockpiles, or large worldwide reserves which could provide alternate sources, could mitigate any severe, widespread effect on the economy from major price increases.

Cartels

For most commodities the potential for supply manipulation and exorbitant price increases is limited. Cartel action is most apt to succeed with: 1) near monopoly position by a few participants, allowing supply to be controlled to support the high price; 2) price inelastic demand over at least the medium term; 3) an absence of easily developed substitute sources of supply or substitute products; 4) adequate foreign exchange reserves to permit withholding exports without damage to the national economy; and 5) agreements on objectives and policy by participants. Aside from some in OPEC, no developing nation can long afford to forego substantial export earnings; moreover, for most basic commodities, there are potential substitute suppliers, and an ability exists to substitute other products or develop synthetics. For many commodities, major suppliers include both developed and developing countries who lack sufficient common interest, and have differing vulnerabilities to consumer actions. The temptation to increase sales or make separate deals can be expected to break down attempted cartel actions.

Trade in no other commodity satisfies all the qualifications for a cartel to the extent of oil, nor is any other commodity as important in world trade. It is unlikely that other cartel attempts would meet with the kind of success which OPEC experienced. However, even aborted cartel attempts can have a disruptive short run impact. A commodity by commodity analysis to evaluate the potential impact on the U.S. of cartel attempts in critical materials has been done by the Council on International Economic Policy *(Critical Imported Materials,* December 1974), for nineteen non-fuel raw materials critical to national security or industrial processes.

The study concludes that: "Although few generalizations about these nineteen critical materials are possible, it is clear that none of them approaches petroleum in terms of its significance to the economy. Our petroleum imports amounted to $7.5 billion in 1973, or 11 percent of our total imports, compared to $0.7 billion (about one percent) for iron ore, our second ranking net import. (This includes the value of iron ore in our net steel imports.) The recent tripling of oil prices will increase our oil import bill by about $16 billion this year causing nearly a 25 percent hike in our overall import costs. A similar price increase for iron ore would raise our overall import costs by only two percent.

"The domestic impact of higher oil prices is also much greater than is the case of other commodities, in part because crude oil accounts for so large a share of the cost of petroleum products. The recent tripling of crude oil prices increased gasoline prices by about 40 percent and the price of less taxed petroleum products such as fuel by even more. By comparison, a similar increase in iron ore prices would result in a 13 percent increase in steel prices."

Issues in Commodity Agreements

The U.S., as the most important producer as well as consumer of raw materials and manufactured goods, has a great interest in the benefits of an open world economy with production and consumption optimized by an efficient allocation of resources.

Both producers and consumers have suffered from the recent boom-bust cycle in commodity prices, as prices for many commodities (e.g., copper) dropped in 1975 from the record levels of 1973/74. Widely fluctuating export prices have particularly wreaked havoc on the development plans of those less-developed countries whose foreign exchange earnings are highly dependent on exports of a few primary commodities. There may be some commodities for which producer-consumer arrangements can provide a degree of market stability beneficial to both consumers and producers without a major danger of misallocation of resources.

Interest in price stability by both consumers and producers has lead to various proposals to regulate trade in commodities. An integrated program has been proposed in UNCTAD for a comprehensive range of commodities of export interest to developing countries. Basic issues exist for the U.S. in considering the UNCTAD or any other form of international commodity agreements. The major one is the degree of market intervention and control the U.S. is willing to subscribe to. The financing mechanism which would be employed is another.

Commodity agreements generally seek to stabilize prices if not actually raise them over the long term. Less frequently, there may be some attempt to assure adequate supplies to consumers, but this has not functioned well during periods of high demand. To the extent that the administered price range departs from the long run equilibrium price trend which would have existed in a competitive market, major distortions can occur in the allocation of investment resources, including wasteful subsidy of high cost producers and unneeded expansion by efficient producers. A fair price is especially difficult to determine for a depleting raw material—as contrasted with a renewable agricultural product—as marginal cost pricing concepts are not relevant to such situations of finite supply.

Determination of the equilibrium price range, while critical to avoid these distortions, may be impossible for commodities which have experienced some kind of formal market intervention by governments or oligopolistic corporations for decades. Past prices have been influenced by formal multinational agreements in the case of coffee, sugar, tin, wheat, tea, cotton, textiles, and cocoa. Bilateral agreements or unilateral actions have limited competition for other products. Vertical integration of industries has enabled corporations to influence prices of petroleum, magnesium, copper, aluminum, lead, zinc, cobalt, iron ore, bananas, diamonds, quinine and phosphates.

In the absence of known equilibrium prices, producers and consumers have sought to negotiate price ranges which are both equitable to consumers and remunerative to producers, and which provide necessary incentives for adequate investment. However, they may instead merely reflect relative market powers and the negotiating abilities of the participants. If prices are set above the long run equilibrium level, surpluses will be produced, real costs will be distorted, inefficient producers will be encouraged and the substitution of other commodities will occur. On the other hand, if prices are set too low, inadequate investment will occur. To the extent demand is price inelastic, consumers will suffer a loss of real income and a transfer of that income to producers. If demand is elastic, producers may find a reduction in total income while consumers forego the benefits of some consumption. For many raw materials, short-run supply and demand conditions are inflexible, but longer run elasticities may be greater.

Experience with commodity agreements indicates they have been more successful at maintaining price floors than ceilings. Buffer stocks can be increased or export controls imposed to defend price floors, but once stocks are exhausted in times of excess demand, little can be done to hold down prices. It is often impossible to increase production in the short run in the case of agricultural products or of minerals when plants are operating at capacity. One objection, therefore, is that there is a bias in commodity agreements which may result in a higher average price than would obtain without the agreement. A major concern of the U.S. in any agreement would be that the criteria for determining price bands and the mechanism for supporting those prices be as minimally distortive as possible.

Another issue to consider is the economic development aspect of commodity agreements. Developing countries hope that if price stability is achieved, this may help them avoid periodic fiscal and foreign exchange crises, but some analysts dispute this. If higher average prices result over the long term through an agreement, as seems to be sought in the UNCTAD proposals, a transfer of real income from consumers to producers may occur, depending on price elasticity of demand. Developing countries as producers, may benefit, but developed countries may object to financing such assistance via higher domestic prices to consumers rather than directly through an appropriation process open to public scrutiny. Within the producer country, there may be no assurance that increased income will finance economic development or that the poorest people will be benefitted. Since the U.S. and other developed countries jointly export over two-thirds of all traded raw materials, some commodity agreements might benefit producers in the developed nations at the expense of consumers, including those in developing nations.

In general, the U.S. prefers measures which stabilize export earnings, such as compensatory financing programs, to commodity agreements, as a means of providing producer countries with the fundamental earnings stability they seek, since they have the advantage of not intervening in world commodity markets.

C. *Resource Financing Gap and U.S. Trade*

Previous chapters have discussed the resource financing gap of developing nations which results from the increase in prices for their food, manufactures, and most of all, petroleum imports. In 1974, non-OPEC developing nations paid the increased prices and even expanded imports of manufactures while increasing their external debt by $20 billion. Debt servicing requirements consequently increased to 17 percent of export earnings in 1974, as discussed in Chapter II. This willingness to increase debt (and ability to obtain financing) was in effect the financing mechanism for a substantial amount of U.S. and other developed countries' exports. Coming as it did at a time when the industrialized countries were experiencing a synchronous slide into recession, each reducing imports from the others or at least reducing its rate of growth of imports, the developing countries' ability to expand imports was a factor which lessened the employment and income loss of the recession.

Aggregate estimates of jobs attributable to exports cannot capture the employment effects which accompany changes in trade. A beneficial net source of demand for U.S. production is represented by surpluses in trade with non-OPEC developing countries. The growth of their manufactures imports ($5.8 billion in 1974 over 1973) is especially important.

The financial situation anticipated for 1976 indicates developing countries may not be able to continue their growth of imports. For the U.S., the impact of a decline would be marginal, but not unimportant to the sectors affected. The total number of jobs lost might be small in relation to the total work force, yet the impact in certain export-oriented industries could be more marked.

As has been previously discussed (III, A) various mechanisms have been proposed or put in place to provide financing for non-oil producing developing nations. From the viewpoint of the U.S. economy, such multilateral mechanisms as the various IMF facilities and the IMF Trust Fund have the advantage of requiring no direct budgetary outlay by the U.S. Government while providing an immediate source of financing, some of which would be used to purchase U.S. goods and services. A good proportion of official development assistance, which does involve budgetary outlays, also generally comes back fairly quickly in the form of purchases in the U.S.

D. Employment and Income Effects

Trade Liberalization

Trade relations with developing nations have some effects on U.S. income and employment levels, and proposed changes to liberalize trading conditions can therefore create both opportunities for expansion and threats of retrenchment for industry and labor.

The impact on job growth of export increases will differ in degree from the job loss associated with import increases depending on differences in labor intensity in the production of each. While several studies have been done of trade effects on jobs, industry by industry refinement would be required in order to draw conclusions about the likely employment effects of specific trade liberalization measures. The information available indicates there is likely to be great variability in effect even among industries which already face import competition. Different types of labor (skilled, semi-skilled etc.) also vary in vulnerability to import competition. Labor mobility may be high for some of the more skilled categories involving high technology and advanced education, but in other cases the highly specialized employee may be relatively immobile. Labor's overall ability to respond to new export opportunities and to find alternative employment if imports result in job loss is not easily predicted. Moreover, total employment levels in most industries will be determined primarily by levels of domestic demand and productivity changes, while trade-related changes have marginal effects. Under conditions of rapidly growing domestic demand, industries may well be able to expand production and employment even if tariff cuts lead to increased imports.

To the extent that U.S. imports from developing nations center on primary products, their job effects will differ greatly from that of an equivalent amount of manufactured imports from the European Community or Japan. But the trend of better off developing nations such as Mexico, Korea, or Hong Kong to improve their positions as suppliers of manufactures indicates that their exports to the U.S. may become more costly to U.S. labor. On the other hand, these developing nations are also important and growing markets for U.S. manufactures.

Analysis of the particular industries which are sensitive to imports from developing nations would help determine job and income vulnerability to trade changes, but the potential impact of such trade activities as GSP or the MTN will also depend on such factors as price elasticities of demand and the degree to which trade diversion results, rather than trade creation. A general model by which one could examine the multiple effects of changes in U.S.-developing country trade would be extremely useful in judging the costs relative to the benefits to be derived from trade measures.

Adjustment Assistance

Since specific industries and communities dependent on them can indeed suffer from import competition, U.S. trade policy includes the concept of adjustment assistance to injured parties. Provision of direct allowances to employed workers, retraining, payment of relocation costs, and aid to firms in moving to new uses of their assets can ease the transition which increased import competition will call for. Nevertheless, it is only realistic to expect that in industries where severe injuries may be anticipated, exceptions from the tariff cutting formula will be necessary.

In areas where injury is greatly outweighed by the benefits trade liberalization would bring, however, trade adjustment assistance can be used to provide relief for injury without resort to renewed protection. If significant new trade liberalization measures are undertaken, expansion of adjustment assistance programs may be necessary.

Benefits to Consumers

Reductions in barriers to trade yield benefits to U.S. consumers which must be weighed against the costs associated with trade liberalization. Costs of existing trade barriers are generally acknowledged to be substantial. These costs include higher consumer prices not only for imports whose tariffs are passed on in consumer prices, but the higher price of domestic products which are protected from competition. Consumers also forego some consumption as a result of higher prices. Protected industries often are less efficient than alternative sources; presumably their capital value could be applied to alternative, more efficient production uses resulting in an increase in total output and income.

Official Development Assistance

U.S. official assistance flows have a marginal effect on U.S. employment, income and balance of payments levels, not only because the total is small (about .25 percent of GNP) but also because a large proportion is spent on procurement of U.S. goods and services. For example, the A.I.D. program generates substantial U.S. exports. In FY 1975, $634 million of A.I.D. expenditures went to direct commodity procurement in the U.S. Of total FY 1975 A.I.D. expenditures of $2,166 million, an estimated $1,487 million, or 70 percent, was expended for U.S. goods and services. Offsetting the offshore expenditures of $672 million were receipts of interest and principal on previous loans of $387 million, for a net outflow of $284 million.

U.S. food exports generated by the PL 480 program are a major form of assistance involving 100 percent U.S. procurement; shipments totaled $1,241.6 million in FY 1975.

U.S. assistance through multilateral channels also results in a substantial generation of U.S. exports.

To the extent that assistance finances exports which could not otherwise have occurred, and that it stimulates growth with resulting increased demand for imports, it has a positive effect on U.S. employment. Familiarization with U.S. products leads to increased commercial demand for these products. Purchase of U.S. replacement parts and complementary equipment may also follow. The A.I.D. program also generates employment directly through provision of services, particularly technical assistance, but also shipping and related activities which flow from A.I.D. transactions. On the other hand, assistance can also lead to the growth of industries which compete with U.S. production.

E. Impact of U.S. Investment Abroad on the U.S. Economy

Scope

In 1974, U.S. direct investment abroad totaled nearly $119 billion, or more than three times the total of the early 1960s. Nearly 70 percent of this amount ($83 billion) was located in the developed countries. Of the $28 billion located in the developing countries more than $8 billion was in petroleum and another $2 billion was in mining and smelting. Only $9 billion, or less than eight percent, of total U.S. investment worldwide was in manufacturing in developing nations. This investment has played a major role in expanding the U.S. presence in markets abroad and has been an important supplement to U.S. Government aid in expanding transfers of resources to developing nations. Over time, however, U.S. foreign investments have generated growing concerns about possible adverse effects upon particular interest groups in the U.S. economy. Some segments of labor fear that foreign investments may cause the export of jobs and shift income from labor to foreign investors and lenders. Some U.S. labor unions fear that foreign investment may injure their interests by generating streams of low-cost imports into the American market; these usually have mixed impacts on interest groups—industry, labor, capital, and the consumer—favoring some groups or segments of groups and at the same time injuring others economically. To date most studies of this complex problem indicate net benefits to the United States from direct foreign investment.

Foreign investment also poses broader issues of national interest involving: (1) conflicting group interests; (2) balance of payments; (3) tax revenue losses or gains; and (4) U.S. foreign relations effects.

Balance of payments concerns, which were substantial under fixed exchange rates, primarily involved investments in foreign manufacturing and focused on such questions as whether the income flows from abroad were sufficient to offset outward flows. These concerns have largely disappeared with recent increases in exchange rate flexibility.

At a more general level, friends and critics variously push for broad policies to encourage or to restrict foreign investments—particularly those of multinational corporations (MNCs)—reflecting two conflicting beliefs. For its supporters, the MNC is an efficient means for transfers of resources and technology, and for accelerating world economic growth and welfare; for its detractors it is a vehicle for U.S. capital to gain dominion over markets, competitors and nations, for its own profit, to the disadvantage of host and home countries, and the world economy.

In considering options for balancing group, national and philosophical issues, governments have four broad categories of policy responses to choose from: (1) to prevent future injury through direct limits on investments or through countervailing taxes or subsidies; (2) to apportion costs or benefits between injured and advantaged groups; (3) to provide assistance to the injured, in order to facilitate necessary adjustment; and (4) to make the necessary adjustments in economic activity levels, in order to compensate for generalized employment, trade or balance of payments effects.

1. *Mechanisms of Impact*

Frequently data and conclusions on foreign investment impact take little account of the great diversity in the nature and motivation of investments. To illustrate: the same amount invested in a U.S.-owned trading facility abroad could have proportionately large but opposite effects on the U.S. depending on whether devoted to promotion of U.S. exports, or to import foreign goods into the U.S. Similarly, the impact of $1 million invested in building a new plant with U.S. equipment and production materials to compete against foreign plants in a competitive major market abroad would be very different from that of the same $1 million invested in acquisition of the same type of plant already operating with a dominant position in the same (foreign) market. In both cases the investments would be indistinguishable in investment data as now published.

An investment abroad may be beneficial for the U.S. if made to preempt investment by a foreign competitor, or if it were uneconomic to make the same investment in the U.S. By contrast, an investment abroad to benefit from tax advantages and tax deferral opportunities, displacing a comparably efficient investment in the U.S., is presumed detrimental to the U.S. economy, other considerations being equal. The fundamental question is whether the investment in question is a substitute for or a supplement to investment in the U.S.

Investments with common project characteristics may have similar economic impacts. For example, projects based on exploitation of host country resources will have certain characteristics which vary from those associated with investments in other sectors such as transportation, communications or finance. Impacts on the U.S. may vary accordingly. Investment in manufacturing for export may have very different implications for the U.S. than investment in manufacturing aimed at the host country market.

Geographic location also makes an important difference in impact of a given investment on the U.S. Manufacturing investments usually produce a stream of income to local employees and suppliers which annually is substantial relative to the initial investment. It makes a big difference over the life of a project how much of this income is spent on imports from the U.S. The same investment project will tend to have a much higher indirect export benefit to the U.S. if it is located in Mexico, where a high proportion of incremental income is estimated to flow into imports from the U.S., than if it were located in an area where little if any incremental income goes into U.S. exports. Generally, investments in the Western Hemisphere have considerably larger secondary export benefits for the U.S. than those in other areas where the U.S. share of the total import market is lower.

2. *Studies of Impact*

U.S. foreign direct investment has been the subject of considerable attention in recent years. Numerous studies have been conducted in an effort to account for this investment and to analyze its economic implications. These efforts have largely been directed towards investment in foreign manufacturing essentially because of concerns about its effect on domestic employment and because investment abroad in the extractive industries (i.e., oil, bauxite, etc.) and in agricultural products (i.e., bananas, coffee, etc.) was not considered a substitute for domestic investment.

Most studies focus on the totality of U.S. foreign direct investments with emphasis on the three-fourths (excluding "international and unallocated") located in developed nations. The many general studies of U.S. foreign investment impact have diverse and often conflicting conclusions.

We lack comprehensive examinations of the impact on the U.S. economy of our non-oil investments in the developing nations. Most studies that do target on this subject concentrate on special problems, such as the border processing plants in Mexico or electronics, footware and textile plants in Asia.

Can any conclusions be drawn from the overall studies of U.S. investment abroad? Section 3 below examines distinctive features of U.S. investments in developing nations which suggest the hazards of attempting to generalize from either the overall studies or assumptions one might make about the special character of U.S. investment in developing nations.

Overall one cannot be very optimistic about obtaining an unambiguous appraisal of foreign investment impact. Any conclusions must of necessity be tentative. All studies face the necessity of making assumptions about crucially important aspects of investment impact:

a) "What would have been?" It makes a considerable difference whether an investment abroad, if not made, would instead have been (1) made in the U.S.; (2) made abroad by a U.S. competitor, or (3) by a foreign competitor, or (4) not made.

b) Stabilization policies: If capital outflows and other balance of payments consequences of U.S. foreign investment should prove substantial enough to produce conspicuous reductions in employment and income in the U.S., they would normally call forth compensating U.S. fiscal and monetary policies to offset such adverse effects. In addition, existing programs provide some assistance to labor and industry so that they can more easily adjust to the effects of foreign competition. Thus, even if damage to particular interests from U.S. foreign investment can be established, it is necessary to consider the extent to which offsetting policies should be assumed in judging net impact.

c) Real transfers: Judgments concerned with foreign investment impact must consider whether investment fund outflows are followed by comparable transfers of physical resources—not on a project-by-project basis but on a country-wide aggregate. Country policies or developments can sometimes thwart the collective intention of investors, and cause the total transfer of resources from the U.S. to be less than the financial movement. Assumptions as to whether full transfer of real resources or something less than full transfer takes place are important in the conclusions reached.

So important are their consequences that some assumptions dominate the outcome of the evaluations.

Another difficulty in achieving meaningful results is the pace at which U.S. foreign direct investment changes. The sectoral, geographic and intrinsic characteristics of investments can produce dramatically different effects on home and host economies. Most studies use data which are several years old (a 1966 census is the latest available for really detailed data). The 1974 data show a 12.7 percent increase in U.S. direct investments in developing nations, but this greatly understates the change in composition because from the total of all new investments it deducts disinvestments. The latter are not always important, but in 1973 and 1974 they were. The following table shows how much change in investment *composition* is revealed by looking at gross rather than net investment figures. The table includes only the limited disinvestment figures provided in the broad categories available in published investment data:

TABLE 36
U.S. Investment: Changes in Composition

Book value of U.S. direct investment in developing nations, end of 1973: ($ billions)		$25.27
New net investment:	$3.21	
Measurable additional new investments offset in netting out of disinvestments	2.27	
Measurable extent of change in composition of investments:	5.48	

SOURCE: SCB, Oct. 1974.

Disinvestments during 1973 appear roughly comparable. The conclusion from even this incomplete attempt to look at total changes is that, from January 1, 1973 to the end of 1974, some 40-50 percent of U.S. direct investments in developing nations were new—possibly with a significantly different pattern of economic impact than previous investments. This point is made to illustrate the importance of considering the latest data, and the detailed information of the nature of investments if analysis of impact on home and host countries is to have current significance for policymaking.

The Senate Committee on Commerce is now considering a bill introduced by Senator Inouye (S2839) which will authorize the collection of information on foreign direct and portfolio investments in the United States and American investments abroad. The Administration has endorsed this bill. If the bill is enacted and implemented it should generate a wealth of data which will better enable us to analyze and understand the economic implications of international capital flows.

3. *Studies of U.S. Foreign Direct Investment Effects on the U.S. Economy*

A number of major studies attempt to estimate the net impact of U.S. foreign direct investment on the U.S. economy. Among these are:

Bureau of International Commerce, U.S. Department of Commerce, *The Multinational Corporation* (Washington, GPO, 1972).
Direct Investment Abroad and the Multinationals: Effects on the U.S. Economy, Paper for Senate Subcommittee on Multinational Corporations, U.S. Senate Committee on Foreign Relations, by Peggy B. Musgrave (Washington, GPO, August 1975). Robert Stobaugh, Peiro Taelesio and Jose de la Torre, Jr., *The Effect of U.S. Foreign Direct Investment in Manufacturing on the U.S. Balance of Payments, U.S. Employment and Changes in Skill Composition of Employment*, Occasional Paper No. 4 (Washington: Center for Multinational Studies, 1973).

In general, the judgments of these studies and others are heavily dependent on the assumptions made.

One of the most recent evaluations is a study entitled "American Multinationals and American Interests" by Fred Bergsten, Thomas Horst and Theodore Moran (Brookings Institution, 1976). Generally the study finds that U.S. investment abroad has little net effect—either positive or negative—on the U.S. balance of payments, employment levels, or the division of national income between labor and capital. It argues that developing countries are rapidly learning how to levy conditions on the entry and operations of foreign investors which turn investment benefits increasingly to the host country's advantage, at the expense of the home or third countries. The study emphasizes the advantage of selective means of encouraging only those U.S. foreign investments which have both development benefits and provide advantages for the U.S. economy. In case studies covering more major industry groups, Professor R. B. Stobaugh, (in *American Labor and the Multinational Corporations*, Praeger, 1973) found a high positive relationship between foreign investments and U.S. job creation.

Another author, following a different methodology, attempts to judge the net effect on jobs by analyzing changes in the market shares of U.S. parents and affiliates. Professor Robert Hawkins' recent study develops evidence which suggests that, in the overall results of a 19 sector industry breakdown covering 1966-70, parent company exports on balance gained relative to foreign affiliate sales. Net losses were recorded, however, in certain industries such as wood processing, industrial chemicals, plastics and textiles. The study estimated that on net some 260,000 jobs may have been gained in the period 1966-1970 in conjunction with U.S. foreign affiliate activities in manufacturing. The study concluded with a judgment that:

"While the data suggest that, overall, foreign operations of U.S. multinationals may create more jobs than they destroy, in particular cases U.S. jobs are destroyed which might have been retained had multinationals had less incentive to invest abroad or been barred from doing so. . . .

"The study does highlight two important points which are probably not affected in a major way by the changing economic conditions. First, the U.S. losses of jobs to foreign affiliates are relatively small compared to total U.S. unemployment or to the on-going structural shifts in employment occurring within the United States. More importantly, the loss of markets (and jobs) to foreign affiliates is quite minor as compared to the losses to *foreign* suppliers. To a major degree the competition from foreign suppliers for export markets and for the U.S. market represents the more important threat to U.S. production; the losses to foreign affiliates pale beside it."

None of the studies above limits its investigations to investments in the developing countries alone, but the Brookings book includes chapters on special factors involved in developing country relationships and their policy implications.

4. Selectivity in U.S. Investment in Developing Nations

U.S. Government policy generally neither encourages nor discourages U.S. private direct investments in developing countries which wish to encourage them. In its efforts to liberalize the framework for international investment the United States has formulated its policy in accordance with the following principles:

(a) Restraints should not be imposed on the entry of foreign investment; (b) foreign investors should be given national treatment (i.e., they should be treated no less favorably than domestic investors once they are operating in the host country); (c) investors should not be subject to special restraints or inducements as a result of actions taken by foreign governments; and (d) disputes which arise among governments with respect to particular cases should be settled in accordance with international law pursuant to agreed and fair procedures.

Exceptions to the above are provided through the Western Hemisphere Trade Corporation, the less-developed country corporation provisions in the Internal Revenue Code and the insurance provisions for new investments in friendly developing nations against losses arising from three forms of specific political risks (inconvertibility of currency, expropriation and damage resulting from war, revolution or insurrection) provided by the Overseas Private Investment Corporation (OPIC). OPIC seeks to encourage investments having developmental value to the host country while avoiding adverse effects on the U.S. The tax provisions have apparently not been effective in promoting investments, and the Administration has proposed that they all be eliminated.

More than $1.2 billion in insurance coverage was issued by OPIC in FY 1975. Expropriation coverage accounted for $499 million, inconvertibility for $398 million, and war risk for $334 million. These contracts covered investments in 148 projects located in thirty-five developing nations. An additional $36 million was committed to finance projects either through direct loans or loan guaranties.

5. *Patterns of U.S. Direct Investment in Developing Countries*

TABLE 37
U.S. Direct Investment Position at Year End—1974
(by Area)

	Book Value at Year End (millions of dollars)	Net Capital Outflows	Earnings
All Countries	118,613	7,455	25,141
Developed Countries	82,792	5,042	10,270
Developing Countries	28,479	1,718	14,089
Latin American Republics	14,704	375	2,069
Other Western Hemisphere	4,916	1,895	731
Other Africa	2,223	—364	1,010
Middle East	2,129	—487	8,512
Other Asia & Pacific	4,507	299	1,767
International and Unallocated	7,341	694	782

TABLE 38
U.S. Direct Investment Position at Year End—1974
(Less-developed Countries only, by Sector)

	Book Value at Year End (millions of dollars)	Net Capital Outflow	Earnings
Mining & Smelting	2,100	—148	376
Petroleum	8,261	—592	11,291
Manufacturing	9,122	609	1,078
Other	8,996	1,849	1,344
Total	28,479	1,718	14,089

Source: Survey of Current Business, October 1975, U.S. Dept. of Commerce

Figures in Table 39 show that U.S. direct investments in developing nations grew more slowly between 1970 and 1974 than those in developed nations. In fact, little or no real growth occurred since the price index for U.S. exports over the same period increased some 58 percent, compared with a 48 percent increase in the book value of U.S. investment.

TABLE 39
Growth of U.S. Foreign Investment (1970-1974)
($ US billions)

	1970	% of Total	1974	% of Total	Percentage Change	
					Ave.	Cum.
Total	75.46	100.0	118.61	100.0	12.0	57.2
Developed	51.82	68.7	82.79	69.8	12.4	
Developing	19.17	25.4	28.48[1]	24.0	10.4[1]	48.6
International and Unallocated	4.47	5.9	7.34	6.2	13.2	

[1] Adjustments to eliminate oil investment flows originating in OPEC countries would reduce this figure to roughly $27.88 billion, and the rate of growth to 9.8%.

Source: Survey of Current Business, October 1975.

Table 40 shows that manufacturing paced the field, with nearly a 14 percent growth rate, while petroleum investments increased little in current dollars. Despite the net increase there were important disinvestments in the Middle East and Africa in 1973 and 1974 which, contributed substantially to slowing the overall rate of direct investment flows to the developing world.

TABLE 40
Growth and Composition of U.S. Investment

	1970		1974		Change	
	Value	%	Value	%	Total %	Annual Rate %
Developing—Total	19.17	100.0	28.48	100.0	48.6	10.4
Petroleum	6.62	34.5	8.26	29.0	24.8	5.9
Manufacturing	5.48	28.6	9.12	32.0	66.6	13.7
Other	7.07	36.9	11.10	39.0	56.9	12.0

Source: Survey of Current Business, October 1975.

Of special note in Table 41 is (a) the much lower share of manufacturing (32.7% vs. 50.5%) and (b) the somewhat higher share of petroleum and mining compared to U.S. direct investments in developed nations.

TABLE 41
Sectoral Distributing of U.S. Direct Investments in Developing and Developed Nations, 1974
($ billions)

Sector	Developing Nations Value	Developing Nations % of Total	Developed Nations Value	Developed Nations % of Total
Manufacturing	9.12	32.7%	41.79	50.5%
Chemical	2.36	8.5	7.80	9.4
Machinery	1.95	7.0	11.80	14.3
Transport	1.06	3.8	6.66	8.0
Food	0.83	3.0	3.58	4.3
Metals	0.77	2.8	2.62	3.2
Other	2.15	7.7	9.33	11.3
Petroleum	8.26	29.6	18.35	22.2
Finance/Insurance	3.10	11.1	7.22	8.7
Trade	2.62	9.4	8.06	9.7
Mining	2.10	7.5	4.02	4.9
Transport & Utilities	0.69	2.5	0.90	1.1
Other	1.97	7.1	2.44	3.0
Total	27.86	100.0	82.79	100.0

Source: *Survey of Current Business*, October 1975

Table 42, however, indicates that most of these divergencies narrowed in 1973-1974, as the increments to investment were strikingly more similar to the sectoral distribution of investments in developed nations. Fastest growth appears in machinery and chemical manufacturing and trade, while mining investment declined and transportation, utilities and petroleum investments slowed significantly.

TABLE 42
Shifts in Sector Emphasis of U.S. Investments in Developing Nations 1973-74
($ billions and percentages)

Sector	Increase 1973-74 Value	%	1974 Cum.	%
Total	2.61	100.0	27.86	100.0
Manufacturing	1.30	49.8	9.12	32.7
Chemical	.43	16.5	2.36	8.5
Machinery	.40	15.3	1.95	7.0
Transport	—.01	—.4	1.06	3.8
Food	.09	3.5	0.83	3.0
Metals	.10	3.8	0.77	2.8
Other	.30	11.5	2.15	7.7
Petroleum	—.18	—6.9	8.26	29.6
Finance/Insurance	.79	30.3	3.10	11.1
Trade	.51	19.5	2.62	9.4
Mining	—.19	—2.3	2.10	7.5
Transport/Util.	.05	1.9	0.69	2.5
Other	.20	7.7	1.97	7.1

Source: *Survey of Current Business*, October 1975

Western hemisphere predominance (two-thirds of the total) emerges clearly in Table 43, but particularly in manufacturing. Petroleum investments are somewhat more evenly dispersed.

TABLE 43
Geographic Distribution by Sectors of U.S. Direct Investment in 1974
($ billions and percent)

	Total	%	Manufac-turing	%	Petro-leum	%	Other	%
Developing Countries	28,479	(100.0)	9,122	(100.0)	8,261	(100.0)	11,096	(100.0)
Western Hemi-sphere	19,620	(68.9)	7,487	(82.1)	3,557	(43.1)	8,576	(77.3)
Africa	2,223	(7.8)	160	(1.8)	1,340	(16.2)	723	(6.5)
Middle East	2,129	(7.5)	130	(1.4)	1,618	(19.6)	381	(3.4)
Asia	4,507	(15.8)	1,344	(14.7)	1,746	(21.1)	1,417	(12.8)

Source: *Survey of Current Business*, October 1975

Table 44 show the pre-eminence of petroleum in Mid-East and African investments and the relatively even dispersion of investments in Asia between petroleum, manufacturing and other (mainly service) industries.

TABLE 44
Sectoral Distribution by Geographic Region (%)

	Total	Manufacturing	Petroleum	Other
Latin America	100.0	38.2	18.1	43.7
Africa	100.0	7.2	60.3	32.5
Middle East	100.0	6.1	76.0	17.9
Asia	100.0	29.8	38.7	31.4

Source: *Survey of Current Business*, October 1975

In Table 45 the Latin American/Caribbean lead appears more clearly. The top six countries and ten of the top twelve are from this area. The first four—Brazil, Mexico, Venezuela and Panama—account for more than a third of the cumulative total. The first two further reinforced their lead in 1974, accounting for 45 percent of net increases worldwide in direct investment flows to developing nations.

TABLE 45

Rank Order of U.S. Direct Investment Concentration In Developing Countries In 1974

(billions $)

	Net Increase 1974 Value	%	Cumulative Investment	Percent of Total
Total All LDCs	2.68	100.0	28.48	100.0
Total Top 12	1.04	38.9	15.87	55.8
1. Brazil	.77	28.7	3.66	12.9
2. Mexico	.45	16.8	2.83	9.9
3. Venezuela	—.28	—10.4	1.77	6.2
4. Panama	0	0	1.55	5.4
5. Argentina	.01	0.4	1.16	4.1
6. Peru	.04	1.5	0.90	3.2
7. Philippines	.07	2.6	0.73	2.6
8. Bahamas	.09	3.4	0.72	2.5
9. Indonesia	—.09	—3.4	0.71	2.5
10. Colombia	.02	0.8	0.63	2.2
11. Jamaica	—	—	0.61	2.2
12. Chile	—.04	—1.5	0.60	2.1

Source: *Survey of Current Business*, October 1975

The final table shows the unique contribution of the oil sector to earnings on investment in 1973 and 1974—providing two-thirds and four-fifths of total earnings respectively from one-third of the book value of investment. Also worth note is the concentration of reinvestment of earnings in manufacturing.

TABLE 46

Returns on Foreign Investments in Developing Countries

	1973	1974	% of Total in Same Category[1] 1973	1974
Investment				
(end of preceeding year)	22.86	25.27	100.0	100.0
Earnings	6.34	14.09	100.0	100.0
Reinvested	1.57	1.56	100.0	100.0
Petroleum—Invested	7.97	8.44	34.8	33.4
Earnings	4.18	11.29	65.9	80.1
Reinvested	.49	.42	31.5	27.2
Manufacturing—Invested	6.77	7.82	29.6	31.0
Earnings	.98	1.08	15.5	7.7
Reinvested	.62	.70	39.5	45.2
Other—Invested	8.13	9.01	35.6	35.7
Earnings	1.18	1.72	18.6	12.2
Reinvested	.45	.43	29.0	27.6

[1] Percentage of same category—i.e. earnings as % of total earnings, reinvested earnings as % of total reinvested earnings.

Source: *Survey of Current Business*, October 1975

A complicating feature in comparing investment to other aspects of U.S. economic relations with developing nations is that data on OPEC countries is not broken out. As a result figures on petroleum investments play a larger role than if the country coverage corresponded to breakdowns in the IMF and IBRD data on non-oil developing countries.

CHAPTER VI

Food and Agriculture

Between 300 million and 500 million people in developing countries do not get enough to eat now and there may be as many as a billion malnourished people in the world by the year 2000, given current population trends, even if agricultural production doubles. A doubling of production is feasible—it implies a rate of increase of about 3 percent per year, roughly the rate at which developing country production has increased in the past two decades—but even more is possible. Per acre yields in many developing countries are less than a third those for similar crops in developed countries. And income equity goals need not be foregone in order to achieve more production. Small farm agriculture produces more per acre and uses more fertilizer and other inputs, when they are available, and more labor. The latter is plentiful in most developing countries. The requirements for achieving more production include greater investments in agriculture, more research and better ways of getting research results to small farmers, greater availability of farm inputs and credit, adequate prices and improved marketing. The U.S. bilateral and multilateral programs give first priority to solving these problems.

While the world food supply situation is improved somewhat this year and the sense of urgency has lessened, there has been no real change in the longer term outlook, and progress in fulfilling many of the goals set forth in the World Food Conference in Rome in November 1974 has been slight.

Total world grain production in 1974/75 fell for the second time in three years, the first significant declines in two decades. The 1974/75 decline of fifty-two million tons from the previous crop year topped by nearly twenty-two million tons the near disaster of 1972/73. Yet world production must increase twenty-four million tons a year just to keep pace with current population growth, that is, to preserve even the present levels of nutrition in a badly underfed world.

The outlook for grains, by far the major world food source, is improved this crop year though not enough to return production to long-term trend levels. The shortfall from trend was, however, caused almost entirely by weather conditions in the developed countries; U.S. production, although at record levels, was somewhat short of expectations, and production in the U.S.S.R. and Europe fell nearly seventy-five million tons. Record crops are expected in most developing countries, the exceptions confined to Latin America and parts of North Africa. In South Asia good weather and improvement in fertilizer production and distribution (which created serious problems in India and Pakistan in 1974) have brought excellent crops. Aggregate developing country grain production has returned to historic trends.

TABLE 47

World Grain Production [1]
(millions of metric tons)

	1960/61-1962/63	1969/70-1971/72	1973/74	1974/75	1975/76 (estimated
Developed Countries	314.7	399.2	448.6	414.2	454.4
US	168.2	208.7	236.1	203.2	246.3
Other	146.5	190.5	212.5	211.0	208.1
Centrally Planned	275.6	375.3	437.8	422.8	377.9
USSR	123.3	165.0	207.5	181.9	131.3
Other	152.3	210.3	230.3	240.9	246.6
Developing Countries	213.3	288.8	303.9	300.8	335.2
South Asia	82.5	108.2	117.6	110.4	120.4
Other	130.8	180.6	186.3	190.4	214.8
World Total	808.5	1068.6	1195.5	1143.9	1167.5

[1] Wheat, rice, barley, corn, oats, rye and sorghum.

Source: USDA/ERS

A clearer picture of the world food problem is emerging from the 1975 experience. On the plus side, the experience has shown that the momentum exists in developing countries on which to build more ample indigenous developing country supplies. However, some fears expressed in the World Food Conference have been confirmed and made more urgent. There will be no rebuilding of world grain stocks this year, so that the need for agreement on establishing a world grain reserve is increased. The 1975 experience demonstrated again that declines in grain production in developed countries fall first on livestock feeding whereas declines in the developing countries lead directly to human hunger. This has confirmed the need expressed in the World Food Conference for greater and more stable production in developing countries.

Not all of the gains of 1975/76 were due to favorable weather. Fertilizer prices have fallen over 50 percent since their peak in 1974 and are expected to fall further as new facilities come on stream, although not to their relative levels of the late 1960's, when a glut of facilities existed and prices of inputs (petroleum and phosphates) were one-fourth their current levels. There is, however, no current prospect of a repeat of the 1974 experience when high prices, abetted by production and distribution difficulties, caused fertilizer use to drop alarmingly in several of the more important developing countries. Investment in water control and land improvements is going forward at an accelerated pace, as are both basic and adaptive research to spread the benefits of new technology to new areas and provide better crop protection.

The importance of mounting an integrated attack on the food problems of the developing countries was recognized by Congress in 1975 with passage of the International Development and Food Assistance Act. This act provides authorization for bilateral assistance and amends both the basic Foreign Assistance Act and

Public Law 480. This integrated approach to changes in the two acts was facilitated by cooperation between the Foreign Relations and Agricultural Committees in the Senate and by close consultations between the House Committees on Agriculture and International Relations. The latter was given jurisdiction over certain international aspects of PL 480 in the House of Representatives by the 1974 Committee Reform Act.

The provisions of the new act cover short term food aid, medium term agricultural development, and longer term research efforts and provide for more detailed policy guidance and better coordination of U.S. assistance efforts in agricultural and rural development.

Higher priority is given to allocating PL 480 food aid to poor countries with food deficits and active domestic rural development programs for small family farm agriculture. The possibility of increased incentives for these nations to expand their agriculture and family planning efforts is also provided. Development Assistance provisions include:

—increased emphasis on projects which help the rural poor increase their incomes and productivity

—a new program to support the work of American land-grant and other universities in research and institutional development which bear on food and nutrition problems of the developing countries.

PL 480 food agreements have had multiple purposes: to expand international trade (i.e., surplus disposal); to develop and expand export markets; to combat hunger and malnutrition and encourage economic development in the developing countries; and to promote U.S. foreign policy. Congress has given priority to making available the maximum feasible volume of food commodities to countries most seriously affected by food shortages and unable to import food on commercial terms and has reiterated that this assistance be related to self-help efforts in agriculture by the recipient governments, while maintaining the market development and domestic agricultural objectives of PL 480. Setting a minimum annual level for Title II donations of 1.3 million tons, the Act, in effect, gives an absolute priority to food for famine and extraordinary relief requirements and for programs usually carried out by American voluntary agencies and the U.N. World Food Program.

At least 75 percent of the food sold under Title I agreements is to be provided to countries with an average per capita GNP of $300 or less, circumstances permitting. In negotiating Title I agreements, increased emphasis will be put on recipient country efforts to attain greater productivity in agricultural production and distribution, especially through small family farm agriculture. Increased emphasis may also be given to using the local currency proceeds from PL 480 commodity sales for agricultural and rural development, nutrition, and population planning. A new forgiveness clause allows up to 15 percent of the dollar value of the PL 480 Title I sales each year to be repaid by using the equivalent proceeds in local currency for approved development projects for the above purposes or for farmer-to-farmer assistance from the U.S. However, in agreeing to this provision, the Senate Foreign Relations Committee stated that it expects the Executive Branch to proceed cautiously in using this authority and to consult closely with the Congress in formulating an implementation policy.

The International Development and Food Assistance Act of 1975 also increases the authorization of funds for A.I.D. rural development programs and specifies that they shall be used primarily for activities designed to increase the productivity and income of the rural poor.

An appropriation of up to $200 million is authorized for the proposed International Fund for Agricultural Development, as described in Chapter III.

Finally, the Act establishes a new Title XII which sets forth a carefully developed plan to increase the participation of U.S. land and sea grant universities with universities and research institutions in the less-developed countries, and international agricultural research centers, in developing and carrying out research, teaching and extension activities concerned with agricultural and nutrition problems of these countries. A Board for International Food and Agricultural Development will assist in implementation of this program.

A. *Progress on the Targets of the World Food Conference*

1. *Food Aid*

At the World Food Conference the U.S. supported an annual ten million ton world food aid target. This target is a collective one, with no fixed country allocations, but last year's food aid from all donors was close to the target. In FY 1975 4.7 million tons of foodgrains were provided in the PL 480 program—a considerable increase over the 3.3 million tons shipped the previous year.

Because of further price declines and more timely program approvals, this year's food aid program should permit shipments of six million tons of foods from the U.S. This, with amounts of food aid indicated by other donors at the June 1975 meeting of the UN's World Food Council, will come close to the ten million ton world target. Indicated amounts, for foodgrains only, are shown in the following table:

TABLE 48
Food Aid in Cereals from all Sources
(thousands of tons)

	1969/ 1970	1970/ 1971	1971/ 1972	1972/ 1973	1973/ 1974	1974/ 1975 (preliminary)	1975/ 1976 (estimated)
U.S.A.	9,030	8,321	8,463	6,211	3,299	4,685	6,000
Argentina	23	23	23	23	23	23	23
Australia	212	226	240	225	225	320	400
Canada	663	1,608	605	712	499	516	1,000
EEC	1,287	1,287	1,035	1,161	1,287	1,287	1,287
Finland	14	14	14	14	14	14	14
Japan	395	729	603	442	298	225	225
Norway	14	14	—	—	—	10	—
Sweden	54	54	35	35	35	35	75
Switzerland	32	32	32	32	32	32	32
Iraq	—	—	—	—	—	283	—
Saudi Arabia	—	—	—	—	—	—	100
U.A. Emirates	—	—	—	—	—	83	4
Algeria	—	—	—	—	—	18	—
Others	78	364	615	103	51	350	—
Total	11,802	12,672	11,665	8,958	5,763	7,881	9,160

Source: FAO, USDA

2. Food Reserves

The U.S. has taken the lead in promoting a world foodgrain reserves system and has supported the FAO in improving its crop reporting system.

In his speech at the UN Seventh Special Session in September 1975 Secretary Kissinger issued a call for agreement on the prompt establishment of an internationally coordinated system of national foodgrain reserves, and a detailed U.S. plan was presented at a special meeting of the International Wheat Council later that month.

The U.S. plan would establish a reserve stock of approximately thirty million tons—twenty-five million tons of wheat and five million tons of rice. Reserves would be nationally held and financed, including cost of storage, although the poorer countries could expect help from aid donors, either through financial or commodity transfers. Reserves of the proposed size are sufficient to offset up to ninety percent of expected maximum world foodgrain production shortfalls from trends.

The International Wheat Council was chosen as the locus for introduction of the scheme for a number of reasons. Stocks will be mainly wheat since it is the most widely traded foodgrain and highly substitutable for more expensive rice. It also has storage advantages. Most importantly the Soviet Union is a member of the International Wheat Council and its participation, particularly on information exchanges, is important to smooth working of a grain reserve system. The U.S. proposal is under intensive review by a Working Group along with suggestions that emerged in the September meeting of the Council. The Working Group is expected to present its conclusions to the Council at the June 1976 meeting.

In mid-1975 the FAO put into effect a new series of reports designed to give better and more timely information on food production, stocks, and trade, as well as the supply situation for agricultural inputs, particularly fertilizer. With most of the principal food producing countries supplying data, the reports are a major improvement over what has hitherto been available.

However, the accuracy and timeliness of the data need considerable improvement. Furthermore, two of the world's principal food producing and consuming nations, the U.S.S.R. and China, are not participating. (The U.S.S.R. is not a member of the FAO).

3. Agricultural Investment

Food aid, grain reserves, and the establishment of a global early warning system on crop conditions are all measures dealing with food security in the short run. In the long run food security can be assured only if there is a faster rate of growth of food production to accommodate both population increases and the increases in per capita food consumption that accompanies general economic growth in developing countries. Faster growth in production depends on increasing the rate of investment in agriculture. Continuing efforts in research, wider distribution of the benefits of research and improved agricultural policies concerning land tenure, credit and pricing are also important.

The World Food Conference investment goal to increase aid flows to agricultural investment from $4 billion annually to $5 billion, is within reach. Between 1972 and 1974 the IBRD more than doubled its lending to the agricultural sector—from $435 million to $955 million—and plans to double lending to agriculture again by 1980. The regional development banks are also increasing agriculture's share in their lending, particularly from their soft loan windows. In 1974 the total of InterAmerican Development Bank, Asian Development Bank and African Development Bank loans to agriculture projects was $401 million, up significantly from previous years.

Bilateral donors are also changing their aid-giving patterns to favor agricultural and rural development. Germany, Japan and the United Kingdom have all announced first priority to agriculture in their future programs, and the U.S., under the Congressional mandate of 1973, has increased its emphasis on agriculture.

As discussed above, the International Fund for Agricultural Development is expected to serve as a major new funding source for agricultural development projects.

4. Research

Agricultural investment was the primary factor responsible for the major gains in food production in the 1950's, which resulted mainly from opening new land to cultivation through extension of irrigation and other land improvements. Although investment in agriculture has increased markedly in the past decade and a half, its place as primary cause of growth is now shared with agricultural research. Research has stimulated further investment, having made it both more profitable and more necessary in order to reap the full gains of the new knowledge.

Two organizations, the International Maize and Wheat Improvement Center (CIMMYT) in Mexico and the International Rice Research Institute (IRRI) in the Philippines made major research breakthroughs. These organizations developed dwarf varieties of wheat and rice that respond to larger fertilizer applications and better water management by producing more grain rather than taller stalks. Furthermore, unlike most earlier high-yielding seed discoveries, CIMMYT and IRRI seeds were able to maintain their advantages over an unusually wide geographic area.

Their effect on agriculture has been called the Green Revolution, and it is a revolution in more ways than a simple burgeoning of production. It has brought major agricultural areas in the developing countries into the modern world. Farmers involved have had to put aside traditional ways of thinking to purchase expensive inputs such as new seed, fertilizer and pesticides, and learn new water management practices.

Local adaptive research facilities have generally proven necessary to breed in qualities preferred in local markets.

The U.S. is committed to increase its support for agricultural research from about $45 million in FY 1975 to $100 million by 1980. The new Title XII of the International Development and Food Assistance Act of 1975 (H.R. 9005) will strengthen this goal and will provide a coordination mechanism for broader based U.S. university research on agricultural problems of developing nations. Title XII will also provide greater coordination of—and U.S. university involvement in—U.S. programs for assisting international and national research institutions. Joint land grant university-A.I.D. mechanisms will develop program criteria, recommend allocation of funds among agricultural activities and evaluate program effectiveness.

The immense returns to research at CIMMYT, IRRI and other institutions have spurred growth in international research organizations in other fields as well. The Consultative Group on International Agricultural Research (CGIAR) was established in 1972 under the sponsorship of the World Bank, UNDP, and FAO to coordinate research grants to international research institutions. The U.S. was a charter member and is a major donor. CGIAR supports a network of eight institutions, including CIMMYT and IRRI, three of which have been established in the last three years. Another, dealing with dry area farming, is being established in the Near East. These institutes specialize in major food sources of developing countries, foodgrains, legumes, root and tuber crops and livestock. The U.S. intends to raise its 25 percent contribution to the CGIAR from $10.7 million in 1975 to about $25 million in 1980.

TABLE 49
Research Institution in the CGIAR Network

Center	Location	Research	Coverage	Date of initiation	Proposed budget for 1975 ($000)
IRRI (International Rice Rice Institute	Los Banos, Philippines	Rice under irrigation; multiple cropping systems; upland rice	Worldwide, special emphasis in Asia	1959	8,520
CIMMYT International Center for the improvement of Maize and Wheat)	El Batan, Mexico	Wheat (also triticale, barley); maize	Worldwide	1964	6,834
CIAT (International Center for Tropical Agriculture)	Palmira, Colombia	Beef; cassava; field beans; farming systems; swine (minor); maize and rice (regional relay stations to CIMMYT and IRRI)	Worldwide in lowland tropics, special emphasis in Latin America	1968	5,828
IITA (International Institute of Tropical Agriculture)	Ibadan, Nigeria	Farming systems; cereals (rice and maize as regional relay stations for IRRI and CIMMYT); grain legume (cowpeas, soybeans, lima beans, pigeon peas); root and tuber crops (cassava, sweet potatoes, yams) .	Worldwide in lowland tropics, special emphasis in Africa	1965	7,746

Center	Location	Research	Coverage	Data of initia-tion	Proposed budget for 1975 ($000) (7)
CIP (International Potato Center)	Lima, Peru	Potatoes (for both tropics and temperate regions)	Worldwide including linkages with developed countries	1972	2,403
ICRISAT (International Crops Research Institute for the Semi-Arid Tropics)	Hyderabad, India	Sorghum; pearl millet; pigeon peas; chick-peas; farming systems; groundnuts	Worldwide, special emphasis on dry semi-arid tropics, nonirrigated farming. Special relay stations in Africa under negotiation	1972	10,250
ILRAD (International Labora-tory for Research on Animal Diseases)	Nairobi, Kenya	Trypanosomiasis; theileriasis (mainly east coast fever)	Africa	1974	2,170
ILCA (International Live-stock Center for Africa)	Addis Ababa, Ethiopia	Livestock production systems	Major ecological regions in tropical zones of Africa	1974	1,885
ICARDA (International Center for Agricultural Research in Dry Areas)	Lebanon, Syria and Iran	To be composed of several units for crop and mixed farming systems research, with a focus on sheep, barley, wheat, and lentils	Worldwide, emphasis on the semi-arid winter rainfall zone	1976 (likely)	

Source: Nicholas Wade, *Science*, May 9, 1975, updated by AID

As noted above, most observers agree that greater attention must now be directed to strengthening agricultural research capabilities in the developing countries themselves. There is still the need to develop new crop varieties and new techniques more suitable to local conditions. Dwarf rice, for example, is unsuited to much of Bangladesh where flood depths preclude its use. The Bangladesh Rice Research Institute, with help from IRRI, is working on new varieties whose stalks elongate as rapid flooding occurs. This and similar research efforts are facilitated by the extensive germ plasm collections and research results of the international centers.

Local adaptive research facilities have generally proven necessary to translate new agricultural techniques into terms suitable to local conditions (seed sowing rates, fertilizer mix and use rate, etc.) and to breed in seed qualities preferred in local markets. Improvement of local research capacity has long been a goal of A.I.D.'s bilateral programs, and this effort has resulted in large benefits in some countries. The process can now be speeded with the advent of greater U.S. university involvement through Title XII and the entry of the international research organizations into the technical assistance field. U.S. bilateral technical assistance to developing country research institutions is projected to increase from $11 million in FY 1975 to about $40 million in 1980 with priority to helping these institutions promote early dissemination of research results to small farmers and obtaining early warning of problems encountered in applying those results.

B. *Problems for the Future*

The advances in research that have brought great benefits to developing nations have also brought a new set of problems. Success in farming now depends not only on the vagaries of the weather and the market for farm products, but on the vagaries of the market for the inputs farmers must buy, on power needed to run irrigation systems and basic farm machinery, and on the information systems necessary to assure optimal use of the new techniques. Fertilizer is an example.

1. Fertilizer

A number of factors combined to cause extreme disruptions in world fertilizer markets in 1973 and 1974. Developing countries, which are more dependent as a group on fertilizer imports than are developed countries, suffered most. In many of the developing countries consumption rates had been growing markedly as the Green Revolution spread. Further progress in agricultural production depended on continued consumption growth. The price of fertilizer raw materials increased fourfold in 1973/74 but this alone could not account for the nearly fourfold increase in the price of the final product. The increase in foodgrain prices created a strong demand for fertilizer, and importers and farmers overbought against expectations of future price increases and shortages. Like a self-fulfilling prophecy, shortages did indeed develop. The movement of excess stocks to the market and emergence of new production capacity were principal factors in the sharp break in prices in the second quarter of 1975. Prices in the second half of 1975 were less than half those of late 1974:

TABLE 50

Fertilizer Price Development, 1972-1975

(Index: 1972 First 6 Months = 100[1])

	1972		1973		1974		1975	
	I	II	I	II	I	II	I	II
Urea	100	133	161	212	568	682	539	250
Ammonium Sulphate	100	111	118	148	360	574	439	234
TSP	100	125	140	192	433	583	505	238
DAP	100	119	127	160	337	469	384	206
KCl	—100—		—126—		162	197	246	242

[1] Except for KCl where the 1972 yearly average has been taken as base.

Prices used in computations:

Urea	bagged fob Western Europe
Amonium Sulphate	bulk fob Western Europe
Triple Superphosphate	bulk fob Florida
Diammonium Phosphate	bulk fob Florida
Potassium Chloride	bulk fob Vancouver

Source: British Sulphur Corporation Monthly Price Reports and IBRD projections

Only about 15 percent of world fertilizer production currently takes place in developing countries. Furthermore, at the height of the 1974 fertilizer shortage, average capacity utilization in developing country plants was estimated at only 70 percent. Much of this underutilization was caused by factors outside the individual firm's control, such as power failures and the diversion of imports from spare parts to the purchase of food and higher priced oil, but much of it was also due to mismanagement and poor worker training factors that will need considerable technical assistance to correct. The availability of technical services is likely to be a major problem.

New plants planned or under construction will increase nitrogen capacity nearly 50 percent by 1980 and will, if full capacity can be reached, permit plentiful supplies, according to World Bank estimates. Some 50 percent of the new plants will be in developing countries. While this will lessen dependence of these countries on imports, it will also increase the demand for limited technical assistance. Technical skills are mainly found in private firms in developed countries, firms that are now expanding their own production capacities. Half the new plants are in countries lacking such skills, and much of new developing country plant is in the public sector. One hopeful sign is that a large part of this new plant capacity is or will be financed by international and bilateral aid agencies in projects which carry with them the needed training skills—the World Bank Group alone has fifteen approved projects in various stages of completion and is considering sixteen more.

Production capacity expansion is a medium term effort. The U.S. assistance program has concentrated on both longer and shorter term efforts. The A.I.D. program provided $181 million (528,000 tons) of fertilizer for developing countries in FY 1975, most of the $230 million worth supplied by bilateral aid agencies that year. The U.S. also worked with the FAO's Fertilizer Commission and its emergency International Fertilizer Supply Scheme to get better supply and needs data to allocate existing supplies more equitably. The principal long term U.S. effort has been the launching of the International Fertilizer Development Center. It will conduct research on fertilizers more suitable for conditions in developing countries, on utilization of local raw materials and on simplifying production technology. The Center will also work on marketing and distribution problems and on improvement of world fertilizer data.

Problems of supply are now well on their way to solution. Problems of demand are more difficult and depend largely on the policies and programs of the governments of developing countries themselves. On-farm surveys in India and Pakistan have identified many of the factors inhibiting fertilizer use. Most often cited as reasons were the inadequacy of credit, lack of water and the ratio between the prices of fertilizer and the prices obtained for the increment in farm output due to fertilizer use. Fertilizer distribution problems and land tenure problems have also been cited. In most developing countries, imports and agricultural commodity prices are government controlled, and credit, land reform and irrigation facilities are government functions, so government policies are critical.

2. Government Policy

Bringing new lands into production does not appear promising. There are estimates that as much as 50 percent of the world's arable land lies uncultivated but most of it remains unused for the good reason that, under present conditions, it is uneconomic to do so. In the U.S., less than half the land removed from production in the land bank program returned to use when it ended. While there is much land that could, through irrigation, be economically brought into production or into multicropping, such opportunities are becoming more rare. Much greater gains could be obtained through government policy reform, particularly pricing, credit and land reform policies.

Land reform, over time, yields benefits in increased production, and has social benefits that elevate it to a primary policy question. However, land reform programs also place a major burden on countries short of administrative skills and more importantly place a severe political burden on governments. As a result, there are only a few major land reform efforts currently underway. Honduras and Peru are establishing asentamientos (collective government farms) on former estates, and El Salvador and the Philippines are transferring land directly to small farmers. A.I.D. is assisting these activities.

Many developing countries—almost all of the ones with the most mouths to feed—have food pricing policies designed to keep down the cost of food to their urban dwellers. The practice of forced government procurement at low prices was initially looked upon as a way of taxing otherwise untaxed farmers in order to finance the industrialization these countries once equated wtih development, and of subsidizing politically important urban dwellers. But it is a bad tax, for it means less production at home and more food imports. It was questionable even when U.S. farm surpluses were enormous and PL 480 assistance plentiful.

The fertilizer and food shortages of the 70's have convinced many developing country governments that they must increase farm prices to provide the incentive to increase agricultural production. With fertilizer prices spurting and product prices held low, the Green Revolution lost momentum in much of the developing world. In at least one country, Pakistan, fertilizer usage actually declined. Now Pakistan, India, Bangladesh, and a number of other countries have raised grain procurement prices and expect to raise them further. The process is slow, however. There are strong political pressures for holding down prices.

Credit policies also pose political issues in these countries, particularly when they must deal with credit for poorer farmers with small land holdings and for tenants. They are high risk borrowers and are often excluded, in fact, if not in law, from the political systems that govern them. A number of efforts to attack the problem directly have failed, co-ops have often become exclusive clubs for richer farmers and special credit institutions have often exhibited strong preferences for wealthier land holders.

A total approach to rural development requires an institutional framework for its implementation, building on existing institutions where they exist and creating them where there are none. The aim must be to increase the profitability of rural labor, both on farm and in small village industries. Target groups are small farmers, herdsmen, landless laborers, artisans and small businessmen. The effort must be supported by research, extension, seed multiplication, marketing, savings and credit institutions. Communication and transport infrastructure must be built. There are several such efforts in developing countries now. The future must bring more.

Appendix

Developing Country Classification Used by International Organizations

Different lists of developing countries are used by various international organizations. They are used for such purposes as the statistical recording of aid flows or for differentiation among developing countries, whether grouped regionally or by specific standards.

The four most commonly used lists of developing nations are those used by the Development Assistance Committee (DAC) of the Organization for Economic Cooperation and Development (OECD), the United Nations (UN), the International Bank for Reconstruction and Development (IBRD) and the International Monetary Fund (IMF).

Inclusion of a country in an organization's list will depend upon the purpose and definitional standards of the compiling institution and may be subject to political or other considerations.

DAC

The DAC list of developing countries, originally compiled in 1960 by the Development Assistance Group (DAG), has been revised periodically. The original list was drawn up on a broad basis to include all countries, territories, or other geographic designations which were receiving official development assistance or other resource flows from DAC members. The DAC list as currently used includes:

All countries in Africa except South Africa, in America, except the United States and Canada, in Asia except Japan and mainland China, in Oceania except Australia and New Zealand. In Europe, Cyprus, Gibraltar, Greece, Malta, Spain, Turkey, and Yugoslavia are on the list. Portugal has recently been added.

The DAC list:

Europe
Cyprus
Gibraltar
Greece
Malta
Spain
Turkey
Yugoslavia
Portugal

Africa
Algeria
Egypt
Libyan Arab Rep.
Morocco
Tunisia
Angola
Benin
Botswana
Burundi
Cameroon
Cape Verde Islands
Central African Rep.
Chad
Comoro Islands
Congo (People's R. of)
Equat. Guinea
Ethiopia
Gabon
Gambia
Ghana
Guinea
Guinea-Bissau
Ivory Coast
Kenya
Lesotho
Liberia
Malagasy Republic
Malawi
Mali
Mauritania
Mauritius
Mozambique
Niger
Nigeria
Reunion
Rhodesia
Rwanda
St. Helena
& dependents
Sao Tome
and Principe
Senegal
Seychelles
Sierra Leone
Somalia
Sudan
Swaziland
Terr. Afars & Issas
Togo
Uganda
Un. Rep. of Tanzania
Upper Volta
Zaire Rep.
Zambia

America
Bahamas
Barbados
Belize
Bermuda
Costa Rica
Cuba
Dominican Republic
El Salvador
Guadeloupe
Guatemala
Haiti
Honduras
Jamaica
Martinique
Mexico
Netherlands Antilles
Nicaragua
Panama
St-Pierre-et-Miquelon
Trinidad and Tobago
West Indies (Br.)
Argentina
Bolivia
Brazil
Chile
Colombia
Ecuador
Falkland Islands
Guiana (Fr.)
Guyana
Paraguay
Peru
Surinam
Uruguay
Venezuela

Asia
Bahrain
Iran
Iraq
Israel
Jordan
Kuwait
Lebanon
Oman
Qatar
Saudi Arabia
Syria (Arab. Rep.)
United Arab Emirates
Yemen (Arab. Rep.)
Yemen (People's DR)
Afghanistan
Bangladesh
Bhutan
Burma
India
Maldives
Nepal
Pakistan
Sri Lanka
Brunei
Hong-Kong
Indonesia
Khmer Rep.
Korea (Rep. of)
Laos
Macao
Malaysia
Philippines
Singapore
Taiwan
Thailand
Timor
Vietnam (Rep. of)

Oceania
Cook Islands
Fiji
Gilbert & Ellice Islands
French Polynesia
Nauru
New Caledonia
New Hebrides (Br. & Fr.)
Niue
Pacific Islands (US)
Papua-New Guinea
Solomon Islands (Br.)
Tonga
Wallis and Futuna
Western Samoa
Tokelau Isl.

Source: 1975 DAC Chairman's Report

NOTE: The above listed countries and territories have received ODA or other resource flows from one or more DAC members (who have included the individual recipient country or territory in their country submission to the DAC). While this is a credible representation of the developing world it does not include every country or territory that may be considered as less developed

The DAC list includes some territories although the table is presented under the title Developing Countries.

U.N.

The U.N. list of developing countries has evolved from designations made in Resolution 1975 of the 1205th plenary meeting of the General Assembly in June 1963 concerning the apportionment of the costs of the U.N. Emergency Force in Cyprus. The definition of an economically less-developed country was formulated in the resolution through the listing of all countries excluded from the less-developed category. This list is essentially the same as the DAC list. (Namibia, a U.N. mandated territory, is shown separately in the U.N. lists.) In practice, however, the UN and UNCTAD lists differ from the one which evolved out of Resolution 1975. Compared to the DAC list, the U.N. list—for purposes other than stating aid flows—excludes Israel and all Europe except Turkey. The UNCTAD list—for purposes other than starting aid flows—excludes all Europe except Gibraltar and Malta and includes the Faeroes.

When used for other than aid flow designations (and in comparison with the DAC list)

- —The U.N. list excludes Cyprus, Gibraltar, Greece, Malta, Spain, Turkey, Yugoslavia (listed as other market economies) as well as the Democratic Republics of Korea and Vietnam, (the latter two being listed among centrally planned economies). Namibia is listed separately,
- —The UNCTAD list excludes Greece, Spain, Turkey, and Yugoslavia (Cyprus may be listed in Europe or Asia, exculded or included depending on the context), Democratic Republic of Korea and Vietnam (considered centrally planned), the Falkland Islands, Nauru and Niue. It includes the Faeroe Islands, Greenland, the Panama Canal Zone, Puerto Rico, the U.S. Virgin Islands, American Samoa and Guam. Namibia is shown separately.

Working from its primary list of developing countries, the U.N. has instituted two smaller lists of those less-developed countries in special need of aid.

Those countries in special need of aid over the short and medium terms (a need growing out of the 1973 oil price rise and following world recession) are designated as the Most Seriously Affected (MSA). They are distinguished by their low per capita income (up to $400 but usually less than $200), the sharp deterioration in their current account balances, and their modest growth prospects. The original list consisted of thirty-three countries, but was expanded to forty-two in April 1975. Those currently specified as MSA countries are:

Bangladesh
Benin
Cameroon
Central African Rep.
Chad
El Salvador
Ethiopia
Ghana
Guinea
Guyana
Haiti
Honduras
India
Ivory Coast
Kenya
Khmer Rep.
Laos
Lesotho
Malagasy Rep.
Mali
Mauritania
Niger
Pakistan
Rwanda
Senegal
Sierra Leone
Somalia
Sri Lanka
Sudan
Tanzania
Upper Volta
Yemen, Arab. Rep.
Yemen, P.D. Rep.

April, 1975 additions:
Afghanistan
Burma
Burundi
Cape Verde Islands
Egypt
Guinea-Bissau
Mozambique
Uganda
Western Samoa

In addition to the MSA countries there is another group of less-developed countries whose present structural features qualify them for special assistance. The structural criteria for this UN list of least-developed countries (LLDC) (applied with flexibility in marginal cases) are: GDP per capita of $100 or less; share of manufacturing in GDP of 10 percent or less, and literacy rate of 20 percent or less of population aged fifteen years or more. This group of least developed countries is also referred to as the Relatively Less-Developed Countries (RLDCs). The list contains 28 countries. They are:

Afghanistan	Lesotho
Bangladesh	Malawi
Benin	Maldives
Bhutan	Mali
Botswana	Nepal
Burundi	Niger
Central African Rep.	Rwanda
Chad	Somalia
Democratic Yemen	Sudan
Ethiopia	Tanzania
Gambia	Uganda
Guinea	Upper Volta
Haiti	Western Samoa
Laos	Yemen Arab Republic

In preparatory meetings for UNCTAD IV consideration was given to assistance efforts directed toward the "hard core poor": this group evidently to be distinguished from the MSAs and the least developed. Such action is an example of growing attempts at listing the poorest of the developing countries most in need of aid.

IBRD

The World Bank refers to the DAC list when presenting statistics on financial resource flows and debt. However, in debt presentations, the Bank only includes statistics for those countries for which it feels there exists reliable reporting of debt outstanding and future service payments.

The Bank Group provides development assistance on varying terms depending on per capita income. For this purpose the Bank has subdivided its list of member developing countries into high, medium, and low income groupings.

High ($500-Above)[1]	*Middle* ($200-$500)[1]
Argentina	Bolivia
Botswana	Cameroon
Brazil	Congo (People's R. of)
Chile	Egypt (Arab R. of)
China (Republic of)	El Salvador
Colombia	Ghana
Costa Rica	Honduras
Cyprus	Ivory Coast
Dominican Republic	Jordan
Fiji	Korea (Republic of)
Greece	Liberia
Guatemala	Mauritius
Guyana	Morocco
Israel	Paraguay
Jamaica	Philippines
Malaysia	Senegal
Malta	Swaziland
Mexico	Syrian Arab Republic
Nicaragua	Thailand
Panama	Turkey
Peru	Vietnam
Singapore	
Spain	
Trinidad and Tobago	
Tunisia	
Uruguay	
Yugoslavia	
Zambia	

Low

(Less than $200)[1]

Afghanistan	Nepal
Bangladesh	Niger
Benin	Pakistan
Burma	Rwanda
Burundi	Sierra Leone
Central African Rep.	Somalia
Chad	Sri Lanka
Ethiopia	Sudan
Gambia (The)	Tanzania
India	Togo
Kenya	Uganda
Lesotho	Upper Volta
Malagasy Republic	Yemen Arab Rep.
Malawi	Yemen (People's DR)
Mali	Zaire
Mauritania	East African Com.

[1] Expressed as per capita GNP, 1973 data.

NOTE: 1973 IBRD per capita GNP data should not be compared with IBRD 1974 (or later) data due to a break in the time series used in their GNP estimates.

A fourth country grouping is made up of the member oil exporting countries of Algeria, Ecuador, Gabon, Indonesia, Iran, Iraq, Nigeria, and Venezuela.

IDA restricts its loans to developing country members with 1974 per capita incomes below $375. The Third Window chiefly benefits those countries with per capita incomes below $375 (though not necessarily restricting loans to this group).

IMF

The IMF prefers to deal with developing "areas" rather than developing countries. That is, the Fund will select an area such as Africa, exclude South Africa, designating it as more developed and list "other Africa" under the less-developed area heading. Then, as the particular presentation warrants, individual "other Africa" countries will be listed. While the Fund does not list the European countries accepted by the DAC as developing, they also do not list them as "industrial countries." Instead, the IMF follows much the same type of procedure as the U.N. and lists these European countries as "other Europe." (The U.N. lists them as "other market economies".) Finally, the Fund excludes all overseas territories and dependencies from its list used for IMF financial statistics.