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DEVELOPMENT PERSPECTIVES

Agency for International Development Washington, D.C.

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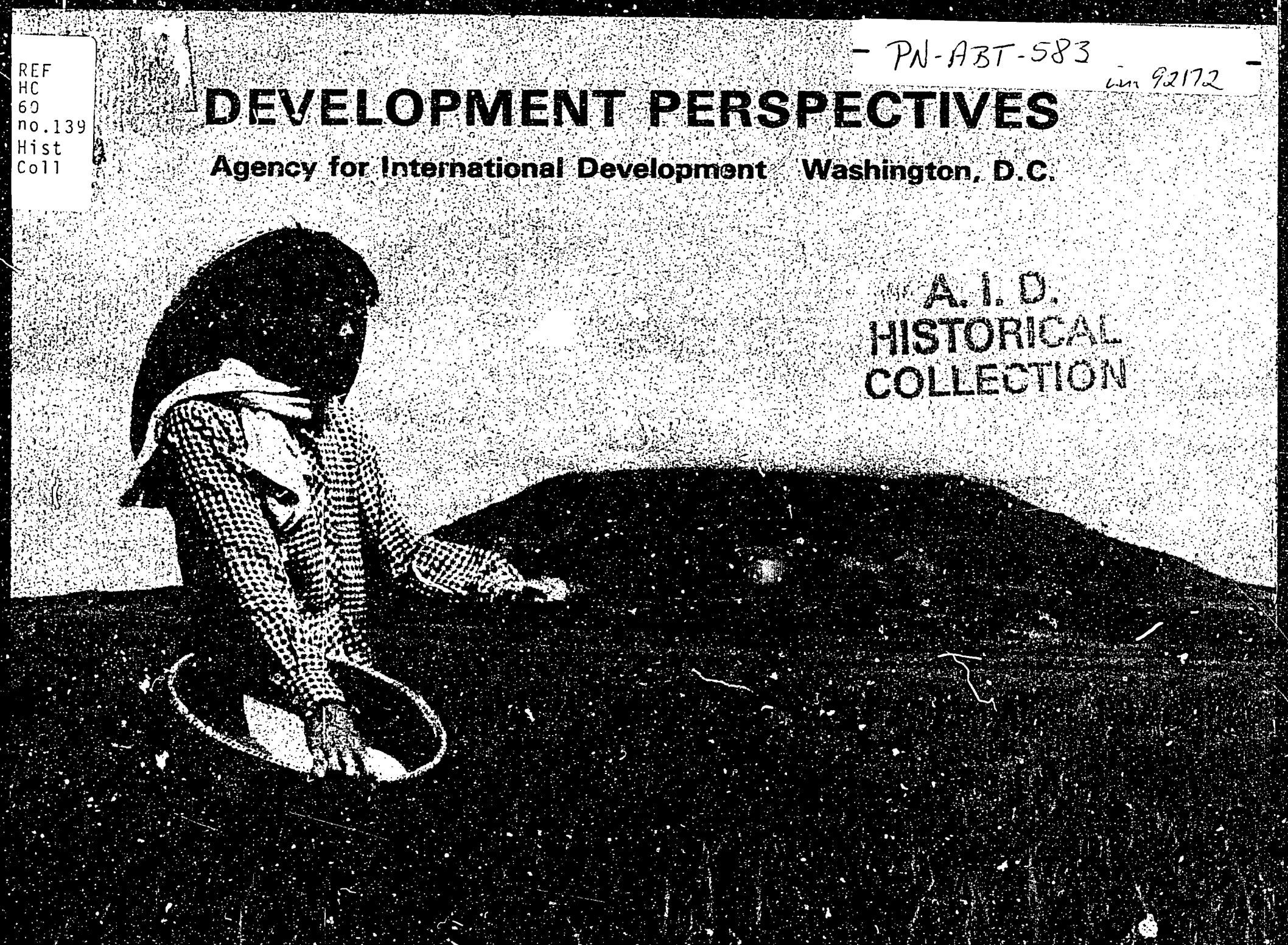

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Glossary of Abbreviations and Terms

ACDA	Arms Control & Disarmament Agency
ADB	Asian Development Bank
AID	Agency for International Development
DAC	Development Advisory Committee (OECD)
FAO	Food and Agricultural Organization
GDP	Gross Domestic Product
GNP	Gross National Product
IBRD	International Bank for Reconstruction and Development
IDA	International Development Agency
IDB	Interamerican Development Bank
ILO	International Labor Office
LDC	Less-developed Countries
M	Imports
NESA	Near East South Asia
OECD	Organization for Economic Cooperation and Development
SCB	Survey of Current Business
S&R	Statistics and Reports
S&SE	Asia-South and South East Asia
UNCTAD	United Nations Conference on Trade and Development
UNESCO	United Nations Educational, Scientific and Cultural Organization
USDA	United States Department of Agriculture
X	Exports
Index of Tax Effort -	the deviation of a country's actual tax to GNP ratio from its predicted tax to GNP ratio. The predicted value for tax to GNP ratio is derived from multiple regression analysis with per capita income, export to GNP ratio and urban population as explanatory variables.

Development Perspectives

1. Introduction

The purpose of this document is to provide an overview of certain major trends in developing countries, both to identify the considerable progress made in the 1960's and some of the many problems, but both the charts and the accompanying narrative are designed to explain some of the basic features of the development process.

The objective of development is to meet the universal objectives of all people--adequate nourishment, shelter and health care; educational facilities which prepare children for a better life than their parents have lived and an economic and social structure which provides individuals with employment opportunities and mobility. Not all of these objectives are quantifiable--in some cases because of the nature of the objective, in some because of the lack of adequate data. The material presented here is therefore only a partial picture of the progress that has been made and of the problems the poor countries still face.

The most important point is that much of this progress has been achieved by the efforts of the developing countries themselves. Foreign aid and foreign investment are important contributors, but for each dollar of foreign capital the developing countries invest almost nine of their own; for each trainee financed by an aid program the developing countries finance several themselves.

Information on aid flows are presented, but they should not obscure the fact that development is overwhelmingly an indigenous effort of the developing countries.

A statistical note--The material necessarily is aggregated by region or on a worldwide basis and, as always averages hide a great diversity of performance. In some countries there is outstanding progress, in others progress has been poor. One could hardly expect anything else with so many different countries--of different sizes, with different resource endowments, a wide variety of political systems and cultural backgrounds and facing different problems. Moreover, even where progress occurs it is often agonizingly slow in view of the many basic needs which remain unmet. Yet, in a historical sense, progress and change have been startling, and there is ample evidence that the developing countries, assisted by the richer nations, can and will create a better life for their people.

Dr. Ernest Stern, former Assistant Administrator for Program and Policy of A.I.D. was responsible for the organization and preparation of this material, with the assistance of members of his staff, particularly Ms. Jayetta Zimmerman and Dr. Keith Jay.

What is Underdevelopment? (Chart 1)

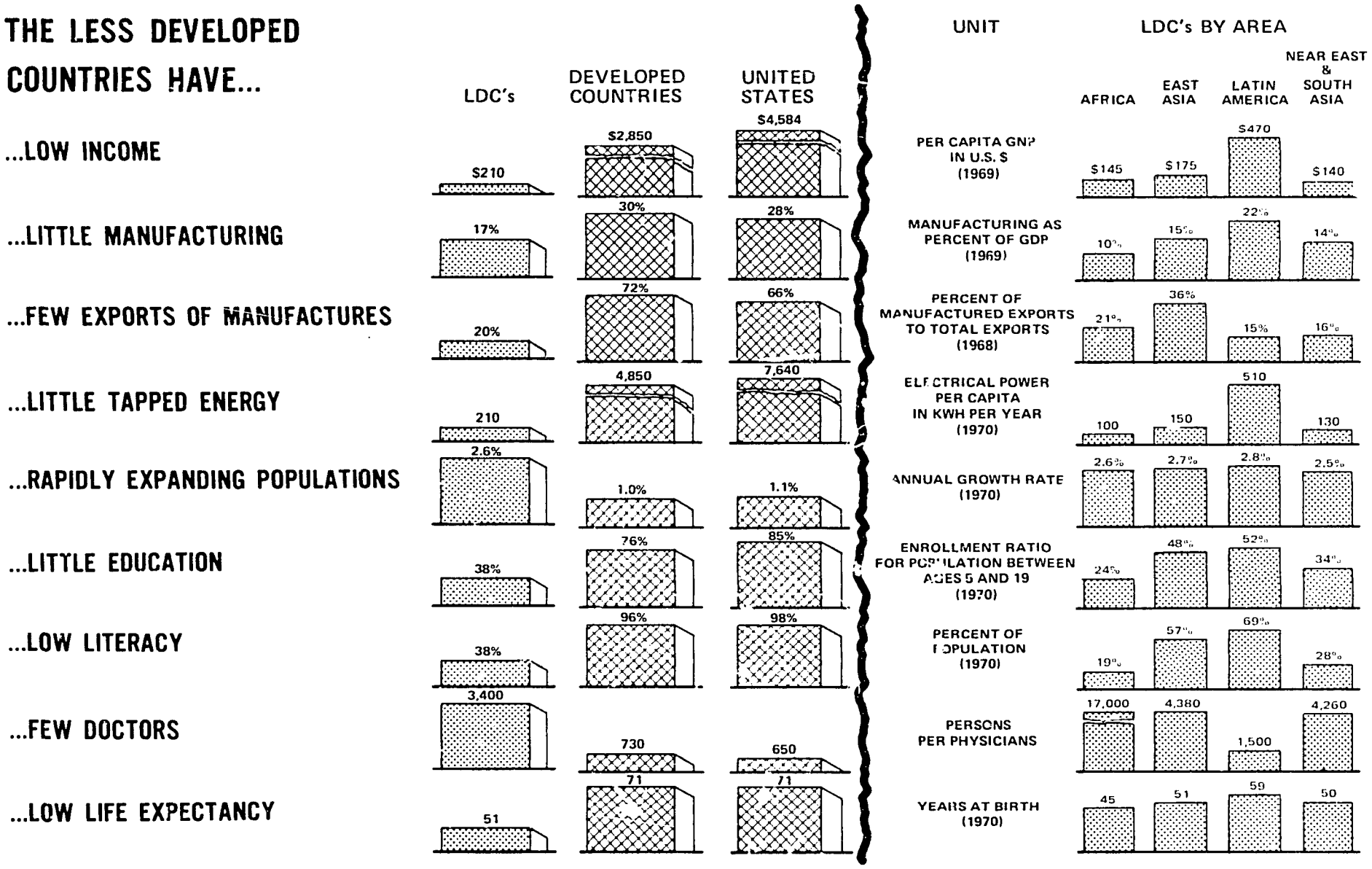
Underdevelopment is not a cultural phenomenon; it is a problem of poverty which affects all aspects of life. Not only is the income of the developing countries low; life expectancy is much below that of the industrialized countries, health services are poor, the population is badly educated and substantially illiterate, and population growth is rapid. The economic indicators, such as energy consumed or production of manufactures show a level of economic activity well below that of industrialized countries.

The category "developing countries" hides major differences since it includes countries

- -- with per capita incomes ranging from a low of $50 per year to $1,000;
- -- with population ranging from less than 500,000 to over 560 million;
- -- with all kinds of cultural backgrounds, racial and tribal compositions, religions, ideologies and historical associations with industrialized countries.

The diversity within the LDCs has helped to shape a wide variety of political outlooks and ideologies. While each country poses unique development problems, even on a regional basis major differences emerge. For instance, Latin America is by far the most affluent and this is reflected in the numbers of doctors per thousand people, the high percentage of literacy of the population, the school enrollment ratios and the relatively high life expectancy. The African development process, of course, is more recent than in other areas and started from an exceptionally low base. Africa still has relatively little in either industrial capacity or public facilities. The Near East and South Asia area is heavily weighted by the subcontinent where poverty is still the overriding factor.

THE DEVELOPMENT GAP

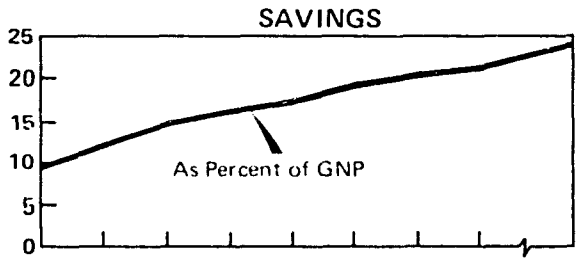


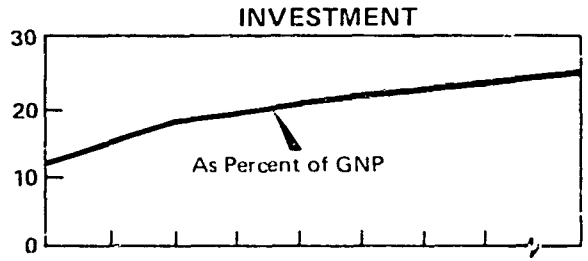
Impact of Growth (Chart 2)

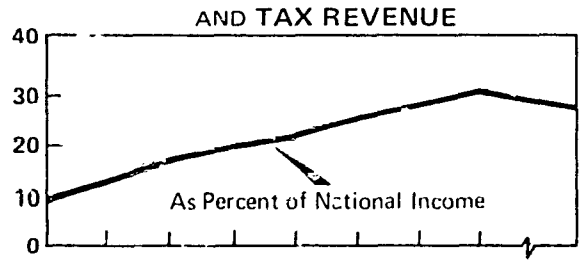
The growth of income reflects only partially the elements of development. Among development practitioners it has become a shorthand symbol which sometimes obscures the fact that it stands for many changes throughout the society. Experience in many countries demonstrates a close relationship between the growth of income and every other aspect of life. With growing income urbanization, school enrollment and literacy increase; savings and investment rise; manufacturing becomes more important and agriculture relatively less so. The process is neither smooth nor uniform in all countries--but it is a process.

WITH THE PROGRESS OF DEVELOPMENT...

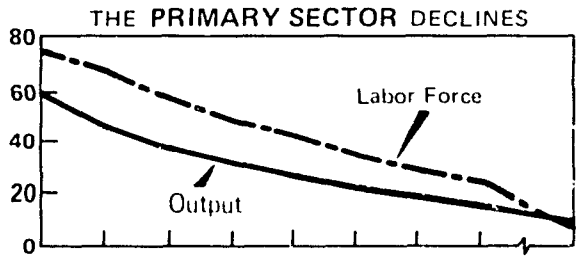
THERE ARE RISES IN

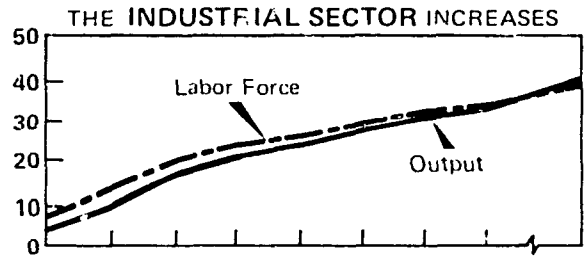


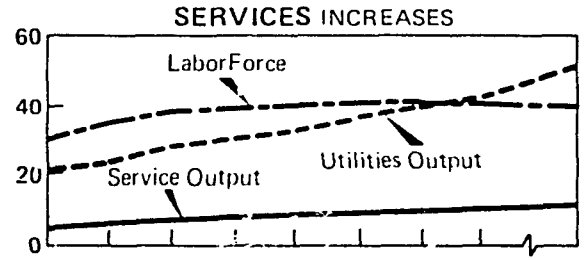




THE IMPORTANCE OF

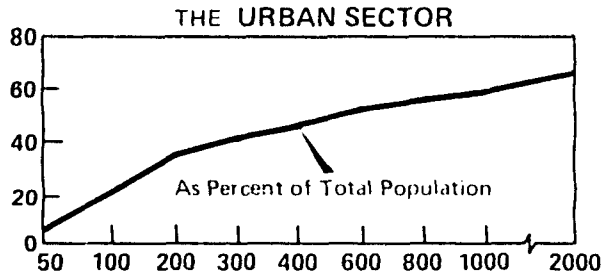


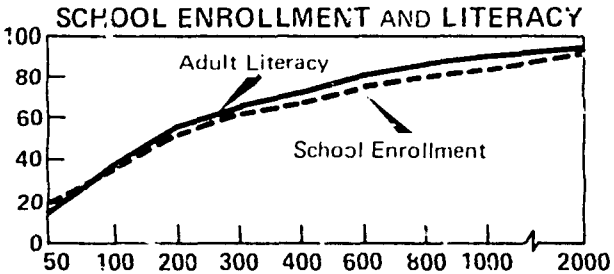


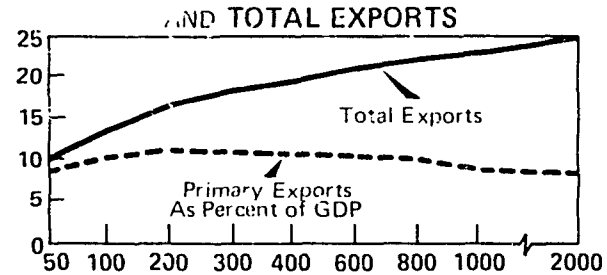


OUTPUT—As percent of GDP LABOR FORCE—As percent of Total Labor Force

AND THERE IS SUBSTANTIAL GROWTH IN







SOURCE: H. Chenery, Finance and Development, September 1971

PER CAPITA INCOME

The Developing Countries (Chart 3)

The developing countries are in the southern half of the globe; exceptions are the settlements from Europe such as in South Africa, Australia and New Zealand, and China--clearly also a developing country. The world political system is dominated by the developing countries. Of the 130 members of the United Nations, 100 are developing countries. Any international political structure, which works on a one country, one vote principle, will be dominated by the developing countries--which, of course, also represent over three-quarters of the world's population.

DEVELOPED COUNTRIES
LESS DEVELOPED COUNTRIES
COMMUNIST COUNTRIES

GDP Growth Rates (Chart 4)

The performance during the past decade, in terms of growth rates of gross domestic product, has been mixed. Gross domestic product is by no means the totality of the development problem, but it is a handy and relevant, if limited, indicator.

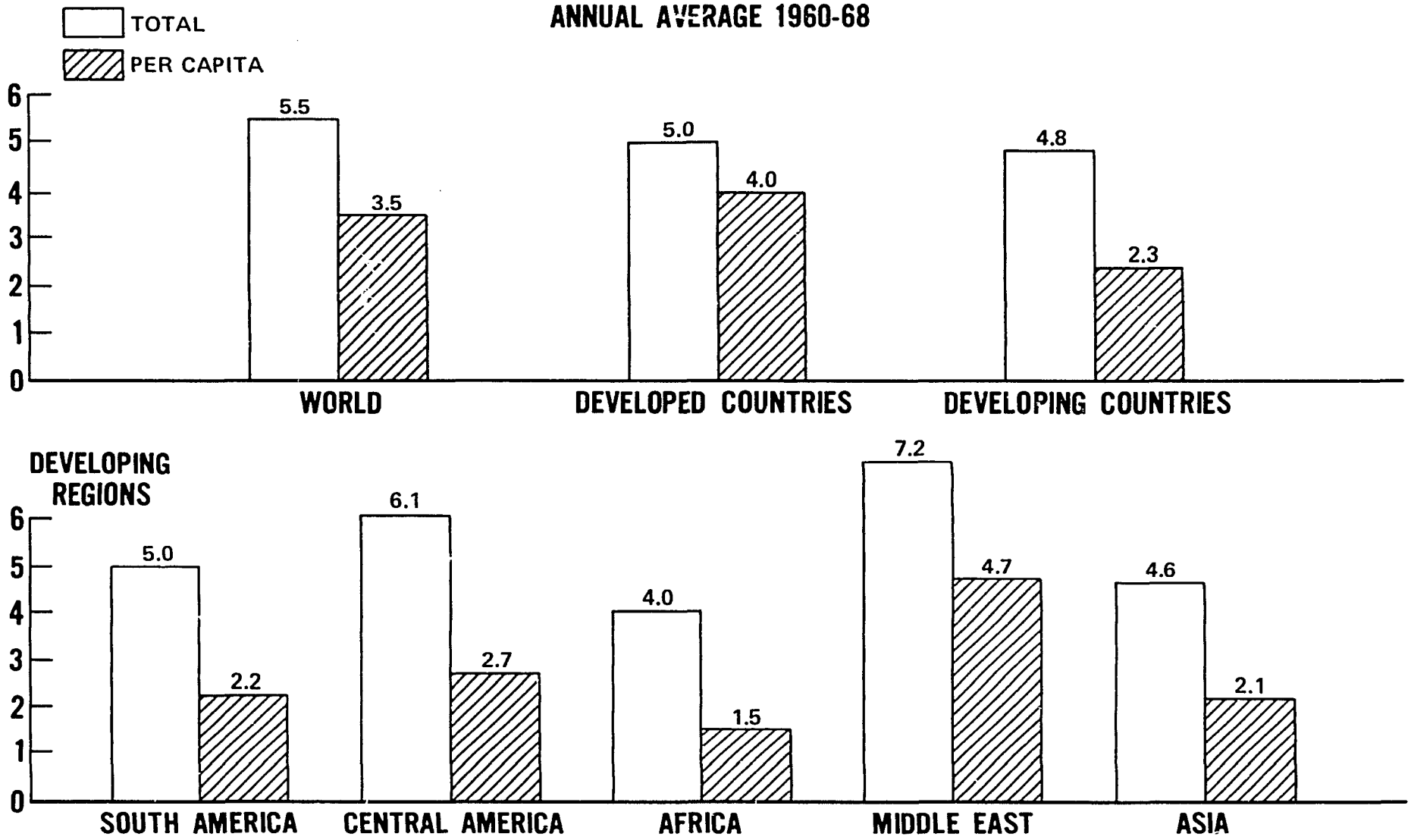
On an aggregate basis, the growth of GDP in the developing countries was very close to that of the industrial countries. Within the less developed countries, however, there were significant differences with the Middle East growing at a rate of 7.2 % per year as a result of their oil production while Africa was able to sustain only a 4.0 % growth rate.

However, over-all growth in production is not as meaningful as the growth in product per person. For the industrialized countries population growth reduced the over-all GDP growth rate of 5.0 per cent to a per capita growth of 4 per cent. However, for the developing countries population growth rates were sufficiently high to reduce the GDP growth on a per capita basis to 2.3 per cent. Africa, in fact, experienced only a 1.5 per cent growth rate in per capita GDP.

GDP GROWTH RATES

TOTAL AND PER CAPITA

ANNUAL AVERAGE 1960-68



SOURCE: UNCTAD, HANDBOOK OF INTERNATIONAL TRADE AND DEVELOPMENT STATISTICS, SUPPLEMENT 1970

The Income Gaps between Rich and Poor

There are three aspects to the income difference between rich and poor countries--the distribution of present income, differences in growth of income and the comparison with historical patterns of development.

The Distribution of World Income (Chart 5)

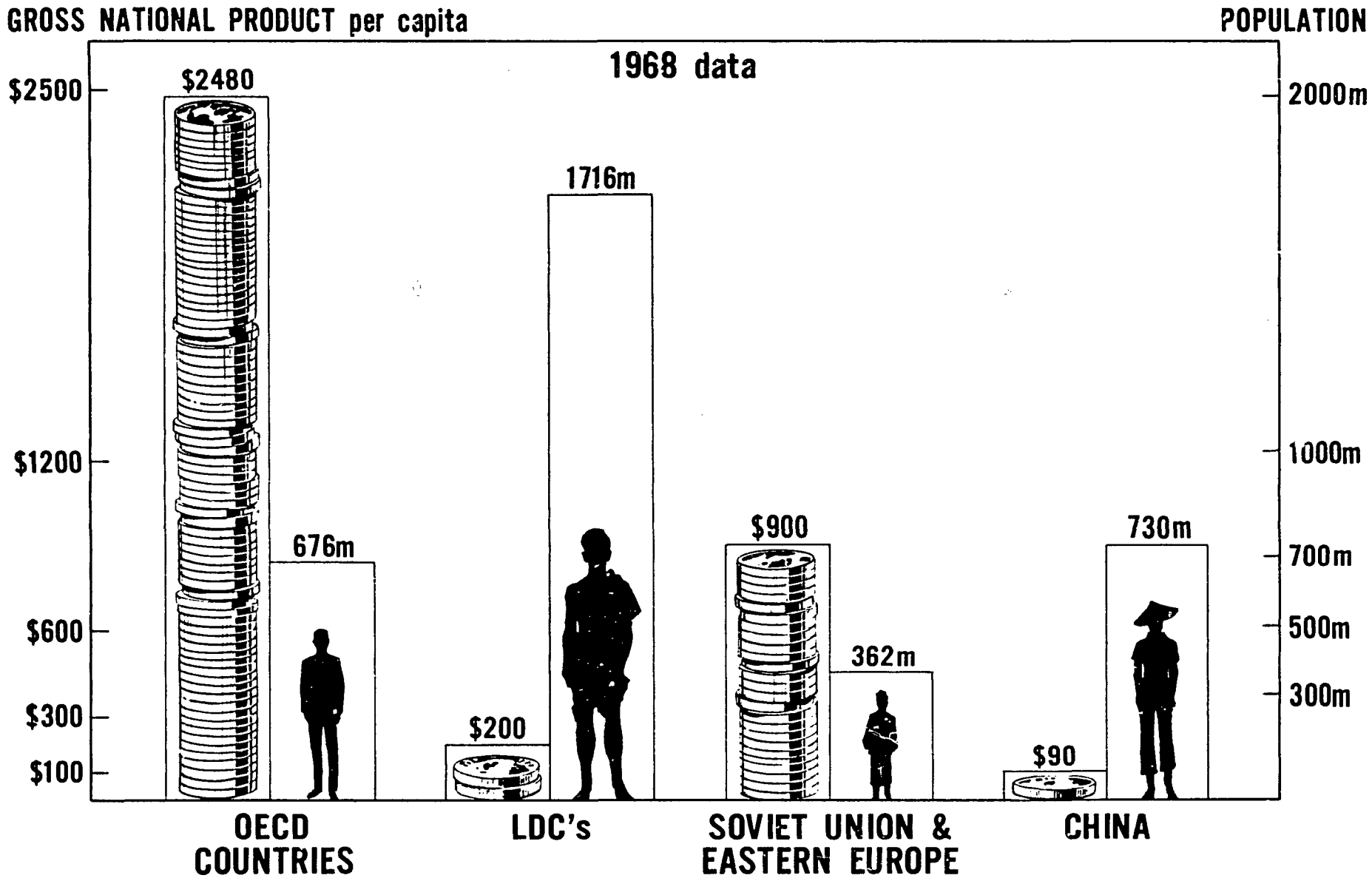
A quarter of the world's population of 3.3 billion people has an average per capita income of almost $2,500; 1.7 billion people have a per capita income of only $200. Developing countries, excluding China, account for half of the world population but only have 14% of world GNP; the industrialized countries have 19% of population and 70% of world GNP.

The Growth of Income (Chart 6)

Not only is present income distribution skewed; the growth in per capita income is not evenly distributed. Of the 1.7 billion people in the developing countries, 1.1 billion lived in countries where per capita income grew at less than 2% per year and only 200 million lived in countries with an annual growth rate in income of over 4% per person.

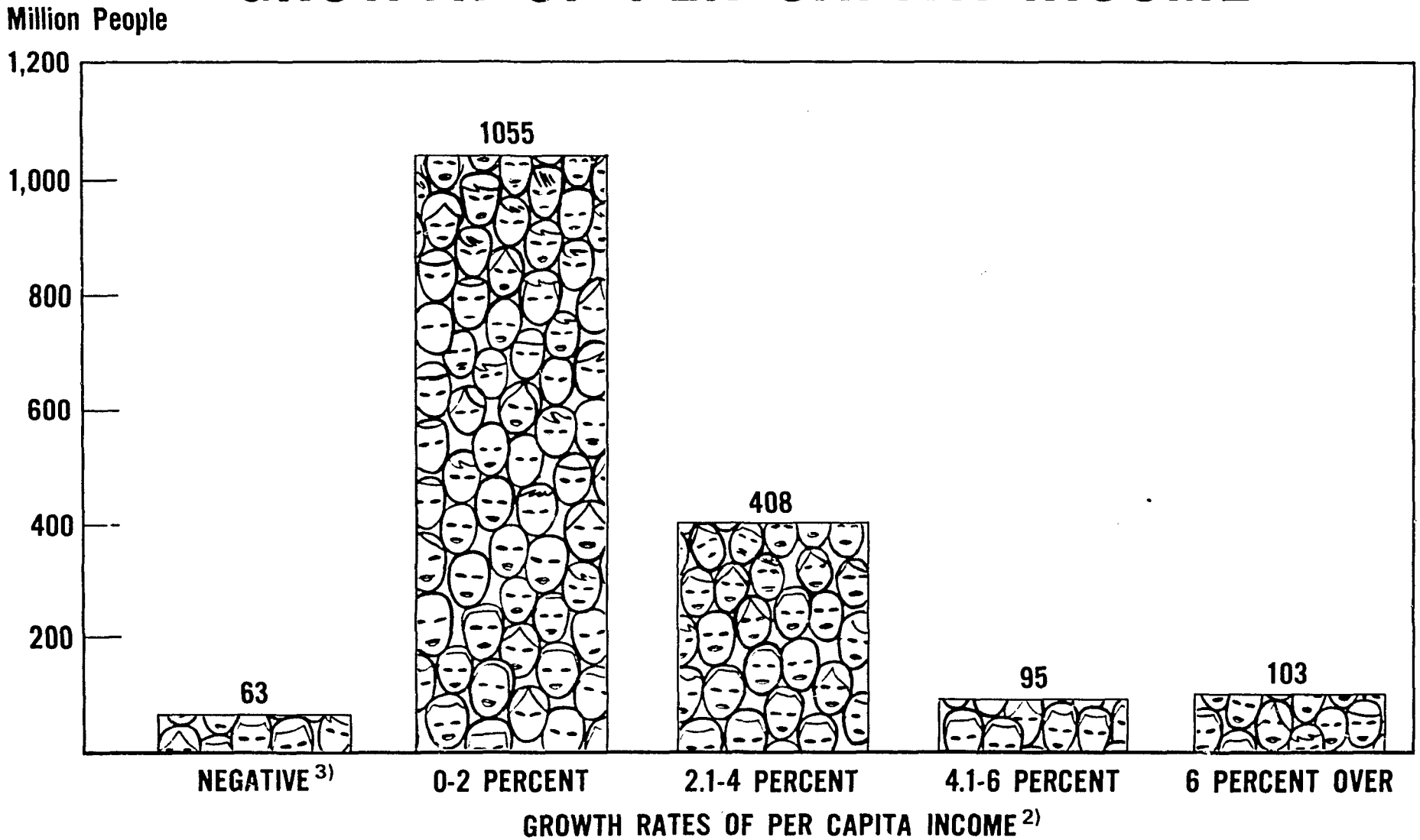
While the total product (Chart 7) of the developing countries grew slightly more rapidly than that of the industrialized countries in the 1960s--an impressive achievement--population growth was so high that on a per capita basis the developing countries grew much more slowly. The effective income gap thus continued to grow in the 1960s and this may continue in the 1970s. This performance highlights again the urgent need to moderate population growth in the developing countries.

POPULATION AND GNP PER CAPITA



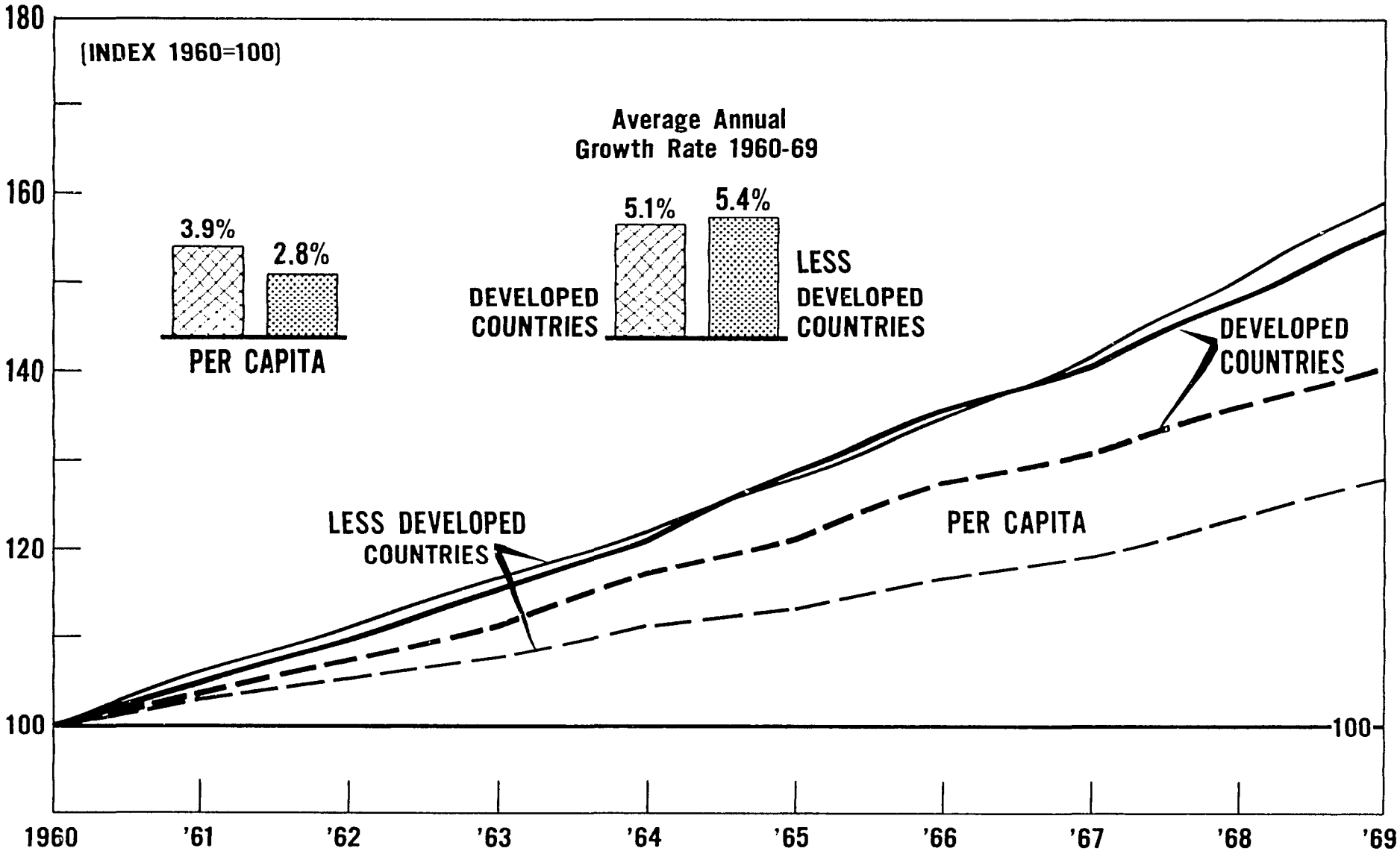
Source: World Bank Atlas 1970

LDC POPULATION[1] AND GROWTH OF PER CAPITA INCOME



SOURCE: IBRD WORLD TABLES and WORLD ATLAS, 1970, and 1968;
(1) Excludes Mainland China (2) Average Annual Change 1960–1970 (3) Nineteen Countries

GROWTH OF FREE WORLD GNP IN CONSTANT 1968 PRICES



SOURCE: AID, S&R, GROSS NATIONAL PRODUCT, GROWTH RATES AND TREND DATA.

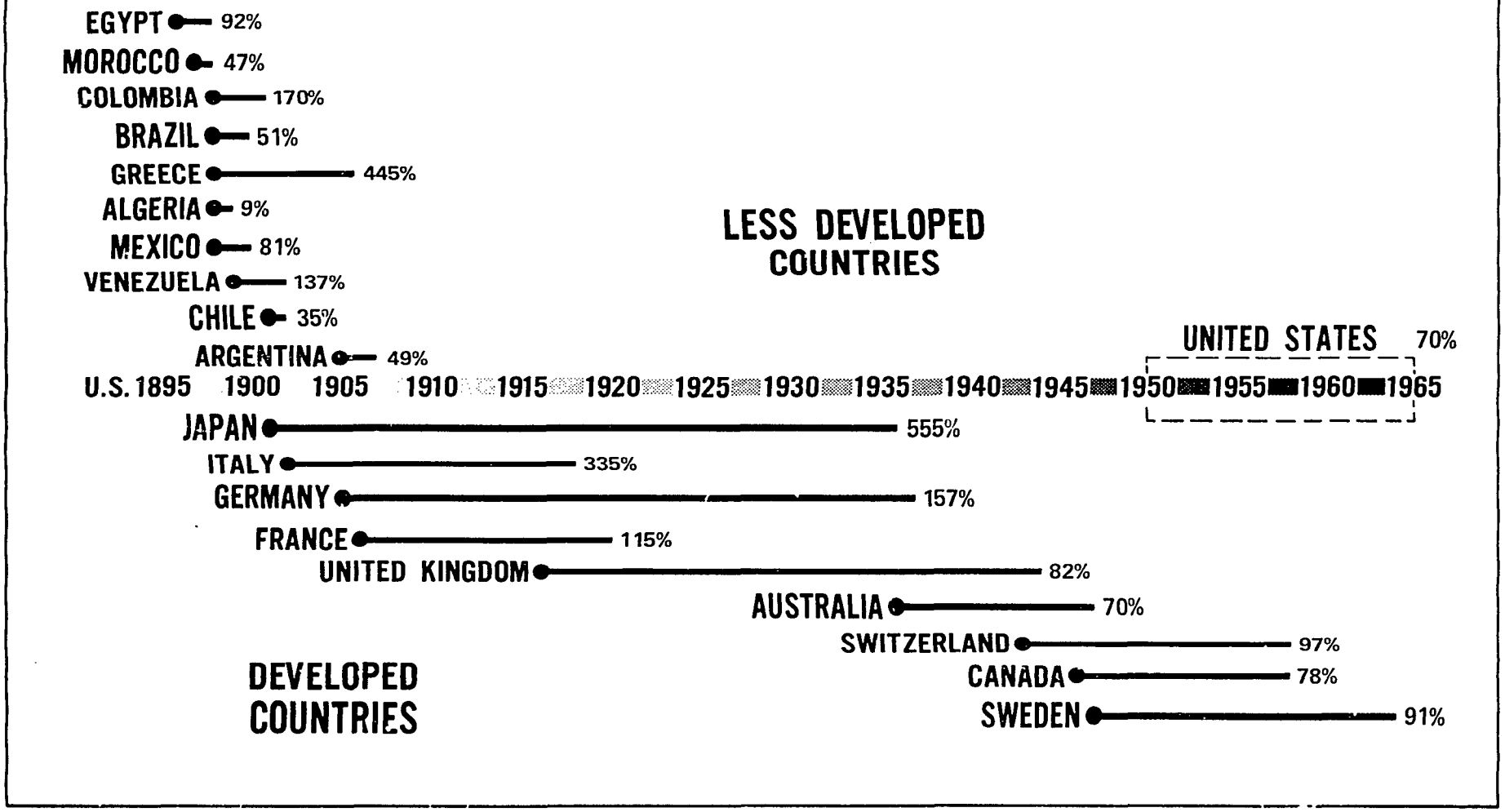
The Time Gap (Chart 8)

Using telephones per capita as a measure demonstrates some of the difficulties involved in catching up. The center bar in the chart shows the per capita availability of telephones in the United States since 1895. The starting point for all other countries is 1950. Between 1950 and 1965 the United States increased telephones per capita by some 70% which is a modest rate of annual growth of about 3.6% per year. Yet this growth rate, on the large initial base, meant that other countries which grew as rapidly fell further behind. For instance, in 1950 Japan had a per capita telephone availability which equaled that of the United States in 1900, i.e. Japan was 50 years behind. The availability of telephones in Japan grew by 555% between 1950 and 1965 and at the end of the period Japan had reached the U.S. 1935 level; i.e. Japan still was 30 years behind despite growing eight times as fast.

A similar relationship exists between the relative income levels of the developing countries and their ability to close the income gap between themselves and the developed countries. Despite growth rates which in most cases equalled or exceeded those of the United States, the income gap between developed and developing widened.

THE TIME LAG IN "CLOSING" THE DEVELOPMENT GAP

TELEPHONES PER CAPITA (1950-1965) PLOTTED IN RELATION TO YEAR OF CORRESPONDING U.S. LEVEL-PERCENTAGES INDICATE GROWTH RATES OF TELEPHONES PER CAPITA 1950-1965



Source: Theodore Caplow, Foreign Policy, 1971

II. Some Major Aspects of Development

Agriculture (Chart 9)

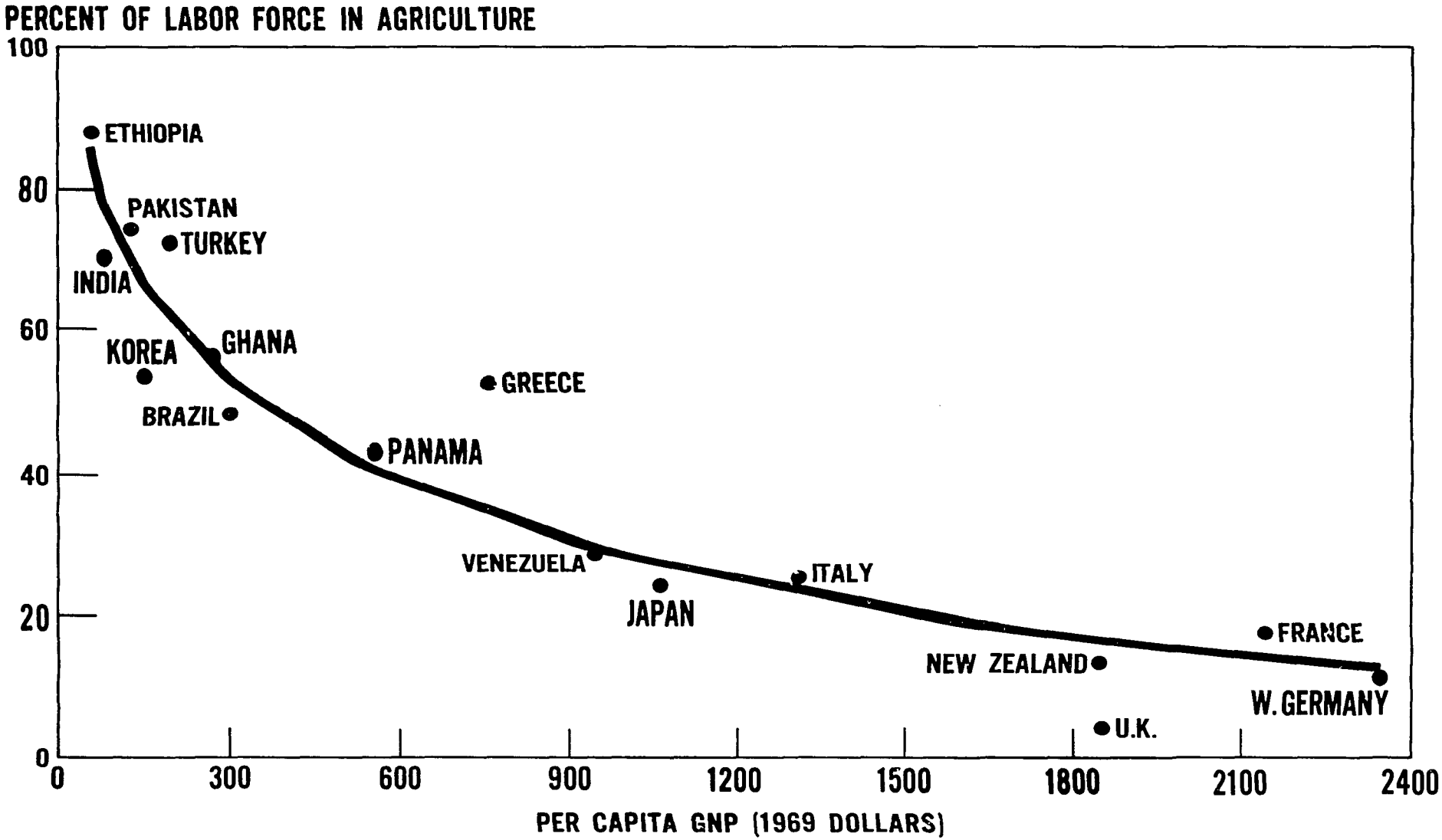
Let us now turn to a review of some of the major components of the economies of the less developed countries, starting with agriculture because of its great importance in most developing countries. Historical experience demonstrates that as per capita GNP grows the percentage of the labor force engaged in agriculture declines. It is of interest to note that even such agriculturally oriented economies as New Zealand have only a relatively small proportion of their labor force in agriculture. The large percentage of the labor force in agriculture in the developing countries is directly related to the high level of illiteracy, child mortality, and pervasive low productivity because

> The bulk of the agricultural labor force is not easily reached by public services, such as education, health and extension

> The bulk of the agricultural labor force is not easily affected by governmental policies aimed at improving working conditions.

The high percent of the labor force in agriculture exists despite massive shifts of population to urban areas during the past decade.

GNP AND AGRICULTURAL LABOR FORCE*



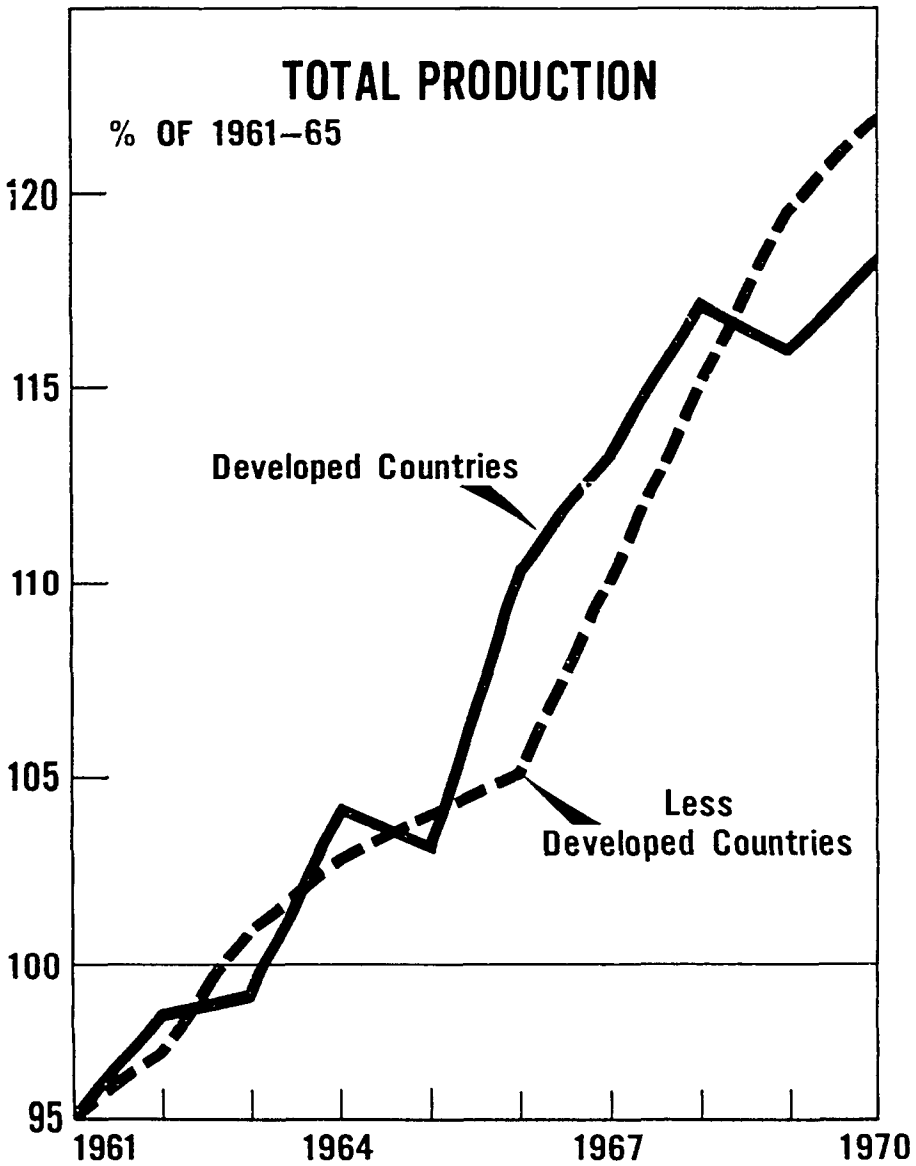
SOURCES: FAO PRODUCTION YEAR BOOK, 1969; AID, S&R GNP TREND DATA, 1971.
GNP AND LABOR DATA ARE FOR 1965.
*ACCORDING TO UN DEFINITION OF ECONOMICALLY ACTIVE POPULATION.

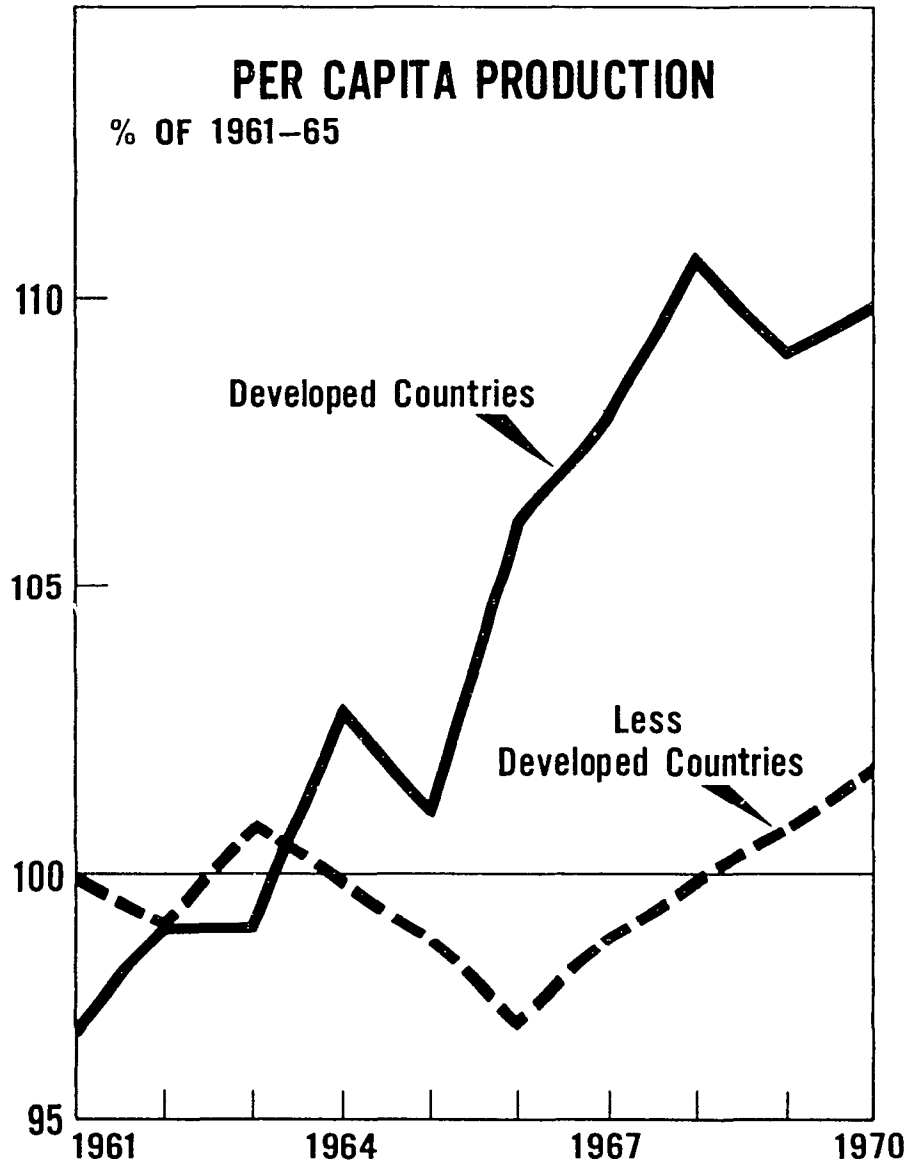
Agricultural Production (Chart 10)

Substantial progress has been made in agriculture since the great drought in India in the mid-1960s, which gave a tremendous boost to innovative agricultural techniques there and in many other countries. The focus shifted rapidly from emphasis on traditional methods of extension to rapid increases in production through price incentives and increased availability of inputs. Since then a number of countries have become relatively independent of imported cereal requirements. Less developed countries have increased their agricultural production since 1964 by about 25%. This is an average increase of over 4% a year which is extraordinary historically. However, the impact of population growth is even more dramatic on agricultural production than on gross national product. Despite the rapid increase in production, production per capita in 1970 was barely 2% above the average level of 1961-1965.

The over-all average hides quite substantial differences in the four major areas of the world (Chart 11). In East Asia there has been a steady increase in per capita production, while in Latin America and Africa, assistance in increasing agricultural productivity and/or in moderating the population growth rate would clearly seem to be a high priority objective. The dramatic drop in South Asia is related to the two years of drought in the Indian subcontinent. Since then per capita production has recovered and 1970 and 1971 data will show further significant improvement.

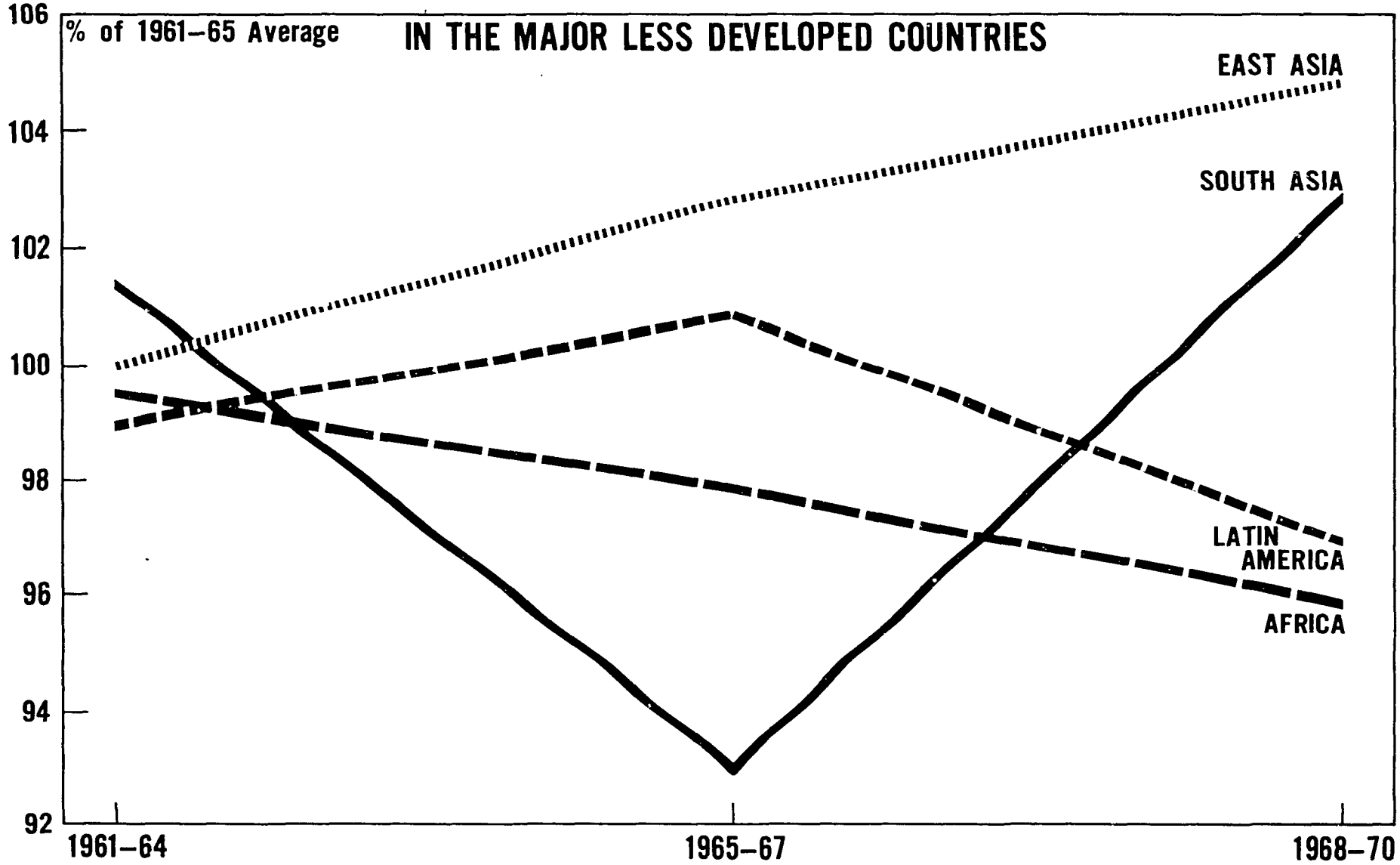
INDEXES OF AGRICULTURAL PRODUCTION





SOURCE: Indexes of Agricultural Development, Less Developed Countries, 1970
Foreign Economic Development Report 9, U.S. Department of Agriculture

INDEXES OF PER CAPITA AGRICULTURAL PRODUCTION



SOURCE: Indexes of Agricultural Development, Less Developed Countries, 1970. Foreign Economic Development Report 9 U.S. Department of Agriculture.

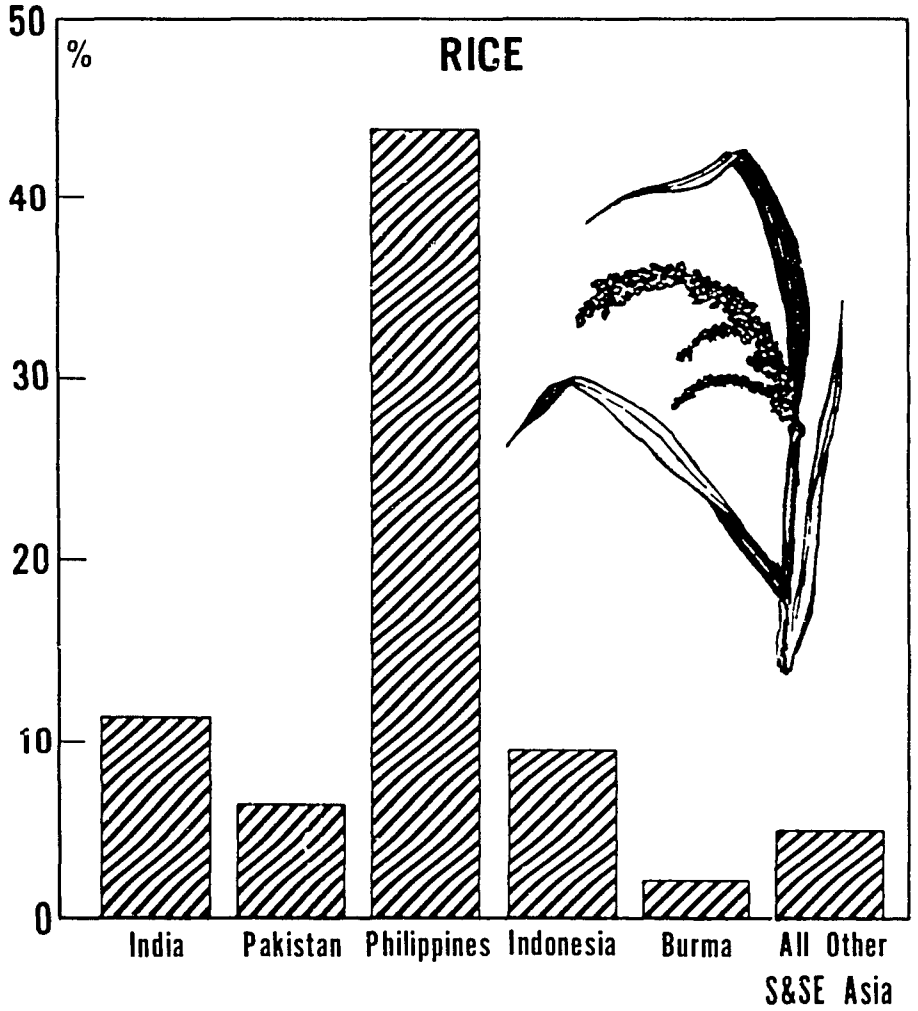
The New Technology (Chart 12)

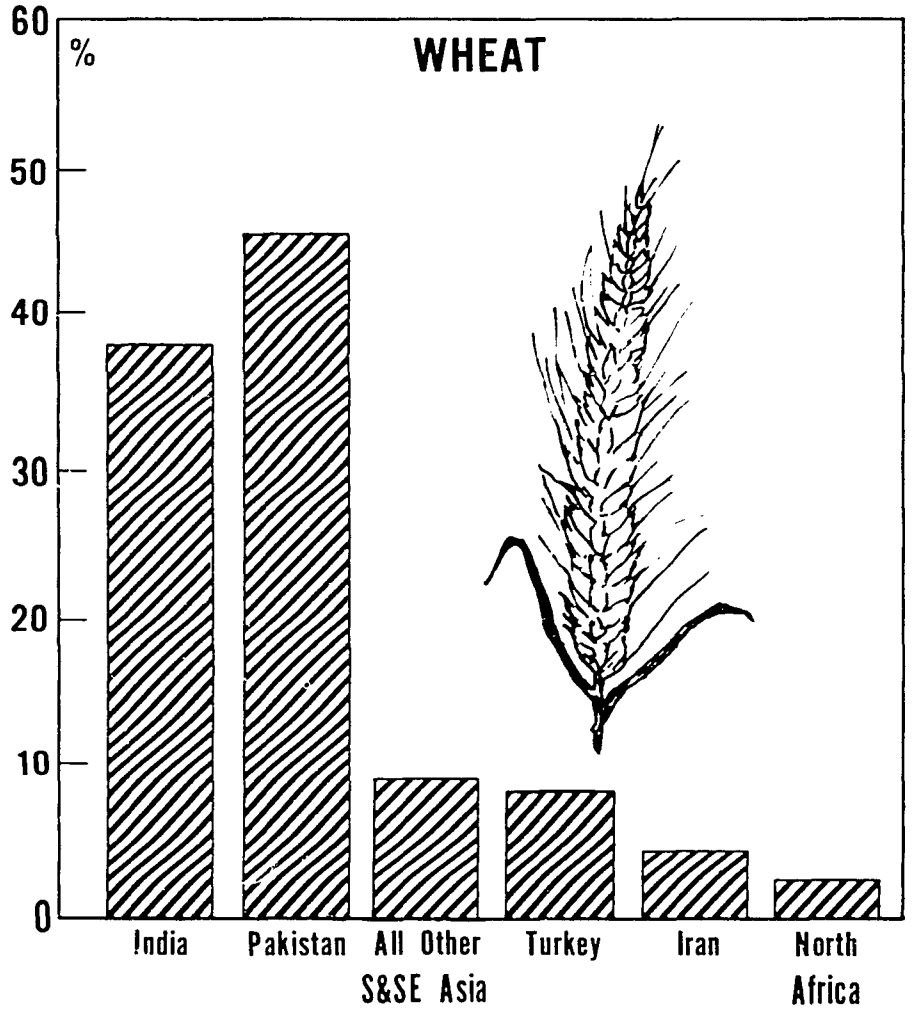
The increases in agricultural production are largely the results of improvements in productivity, to which the high-yielding varieties of rice and wheat have contributed heavily. Inevitably there are also problems associated with the new varieties. The high-yielding varieties need careful adaptation lest they become unduly susceptible to local diseases; there have been problems of consumer acceptability of the new varieties which generally have both different texture and different taste, and greater care must be taken in the control of weeds and pests. Nonetheless, the technological breakthrough of these new varieties is the basis for substantial growth in agricultural production in the 1970s.

In some countries significant amounts of acreage have already been transferred to high-yielding varieties, particularly where there is adequate irrigation and a good extension service. Acceptance has been slower elsewhere. This is not surprising. It took many years in the United States to achieve widespread adoption of hybrid corn even though its superior productivity was established.

The availability of the high-yielding varieties should not lead to the complacent belief that the agricultural problem in the developing countries has been solved. Extensive research will continue to be necessary to produce new varieties, to breed the new varieties to disease resistant strains, to educate farmers to adopt new varieties as they become available and to expand the facilities which will provide the necessary inputs such as fertilizer, credit and water.

PERCENT OF TOTAL CROP ACREAGE PLANTED IN HIGH YIELDING VARIETIES–1969/70





SOURCE: Special Report Prepared by ACC on the Implications of the "Green Revolution" UN Economic and Social Council

Factors in Increasing Production (Chart 13)

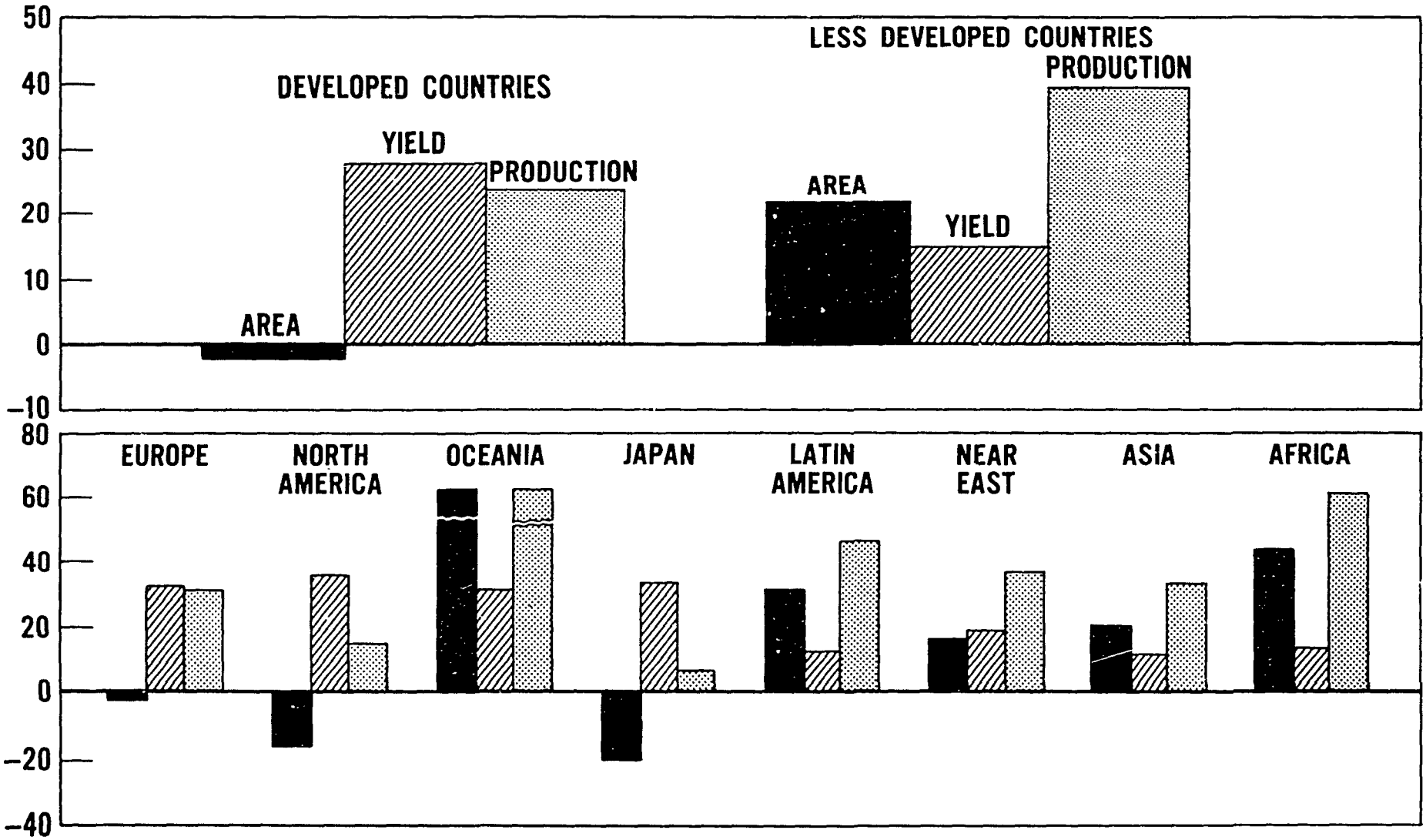
The improved technology came at a time when the possibility of increasing production through expanding acreage has been exhausted in many countries or is available only at high cost. A substantial portion of increased production in the developing countries since 1960 was due to increased acreage. In some instances there was unutilized fertile land, but in many cases this reflects the pressure of population on land which pushes farming further and further into marginal areas. In a number of countries such as Turkey for instance, the utilization of marginal land already has led to massive problems of erosion. Growth in the 1970s will depend alsomt exclusively on increases in productivity per acre.

Productivity per Acre (Chart 14)

A comparison of productivity per acre demonstrates that there is ample room for improvement--even if the LDCs do not seek to reach Japan's performance. If the developing countries could reach the level of production per acre which exists in Western Europe, which is not particularly labor intensive when compared to Japan or capital intensive compared to the United States, they would more than double their food production.

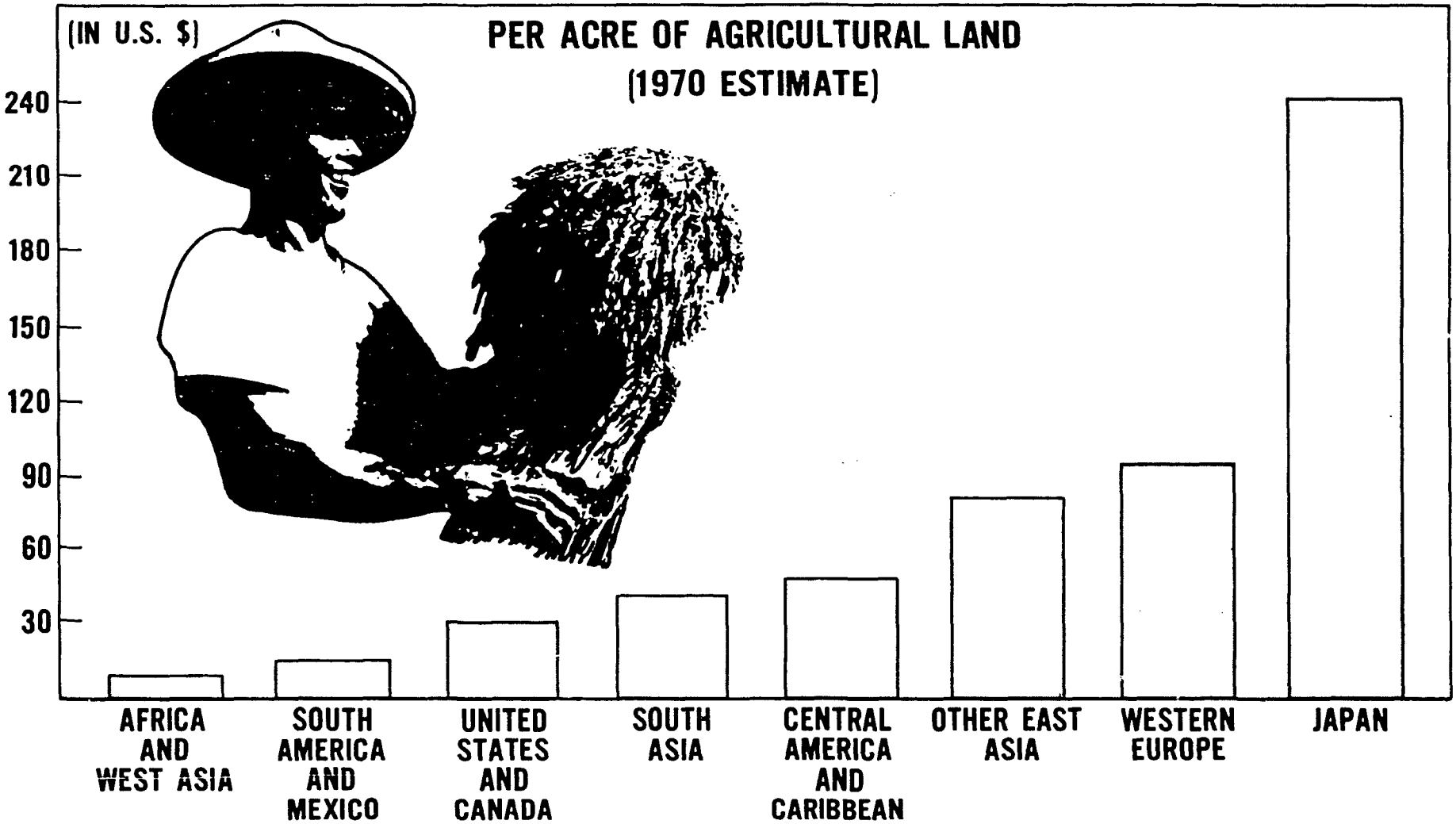
PROGRESS IN CEREAL PRODUCTION

Percent Increase 1960-1968



Source: FAO Production Yearbook, 1960, 1969.

VALUE OF FOOD PRODUCTION

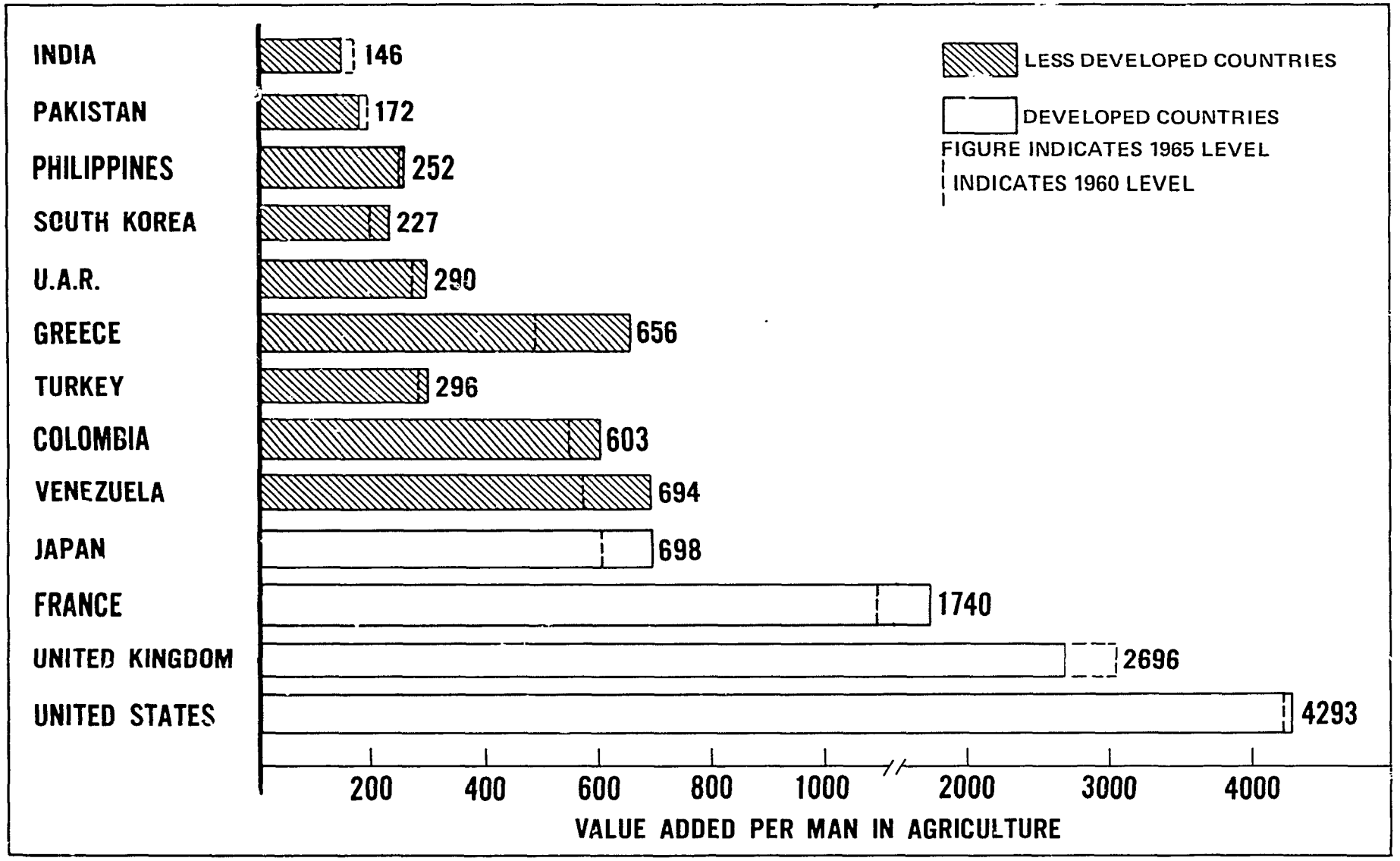


SOURCE: The World Food Budget 1970 Foreign Agricultural Economic Report No. 19 U.S. Department of Agriculture, 1970

Productivity per Man (Chart 15)

While productivity per acre is one measure, productivity per person is another. This measure is heavily dependent on the level of technology and the amount of capital invested in agriculture. For both reasons, developing countries rank low--suggestive of the considerable scope for improvement.

VALUE ADDED PER MAN IN AGRICULTURE



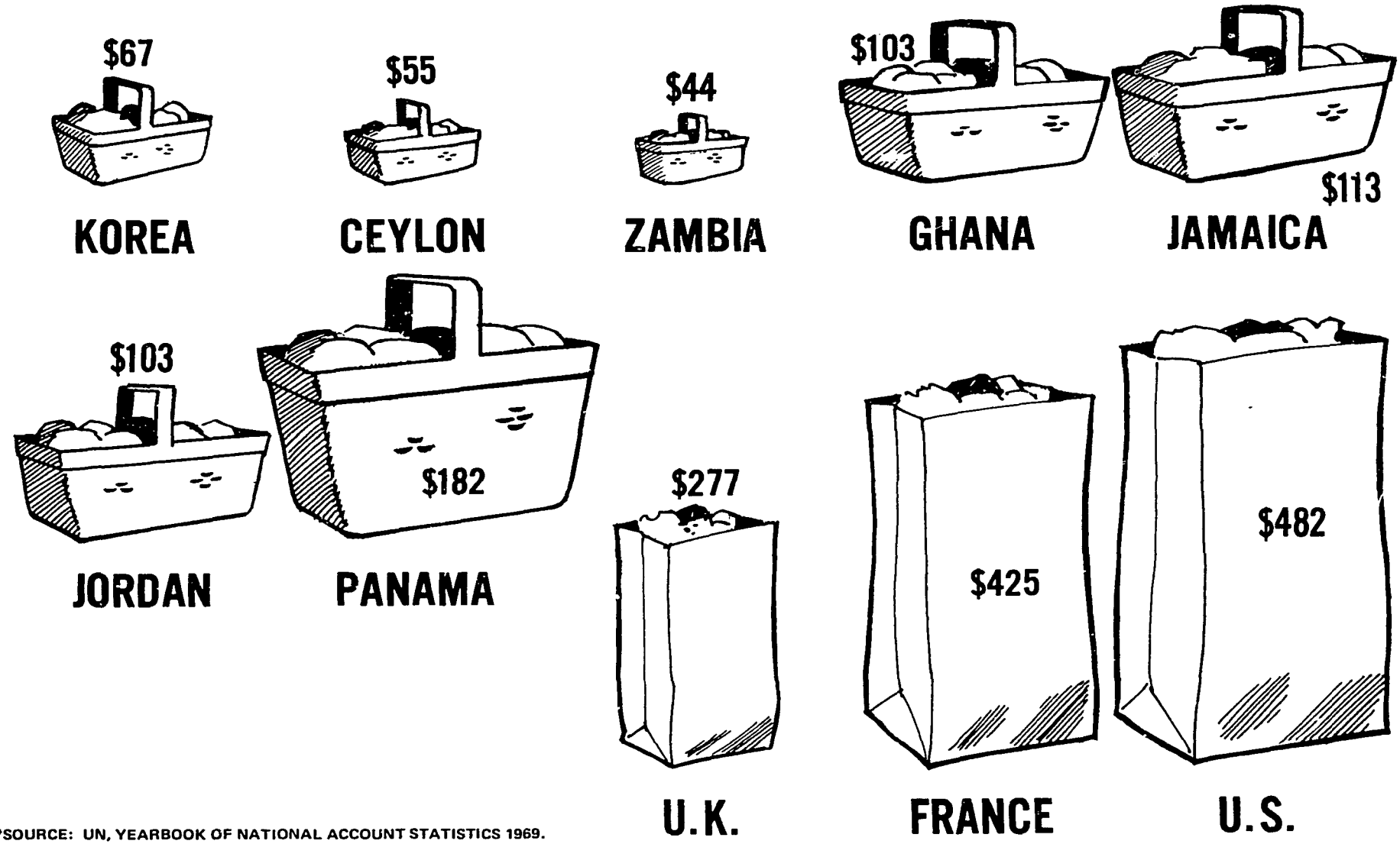
SOURCE: OECD, NATIONAL ACCOUNTS OF OECD COUNTRIES; OECD, NATIONAL ACCOUNTS OF LESS DEVELOPED COUNTRIES.

Food Consumption and Nutrition (Chart 16)

While the world can take satisfaction in the progress which has been made in the developing countries in food production, the increases have been concentrated quite heavily in cereals. Very much more needs to be done if the problem of hunger and malnutrition is to be ameliorated in the developing countries. A comparison of per capita food expenditure gives some indication of the size of the problem. Even in a relatively affluent country such as Korea the per capita expenditure on food is only a fraction of that spent in the industrialized countries. To be sure, the cost of food in the United States includes a high proportion of service costs for packaging, processing and freezing which generally is not present in the food products in the less developed countries. Nonetheless, the fact remains that the per capita availability of food still widely differs between the industrialized countries and the developing countries and differences are perhaps as great within the developing countries themselves. The simple availability of a nutritious diet remains a major problem.

Even the average food package levels in the developing countries imply nutritional deficiencies (Chart 17). With few exceptions there is a deficiency in the average caloric intake. In many parts of the developing countries, including India and Central Africa, there is a significant deficiency in animal protein intake. In the case of India this is partially a reflection of religious values and the failure to develop acceptable alternative sources of animal protein. Even where animal protein intake is adequate, the total protein standard remains deficient. The research in process in many countries on ways to increase the protein contribution of cereals is therefore urgent as is other research to find products which can deliver protein cheaply to the lower income groups.

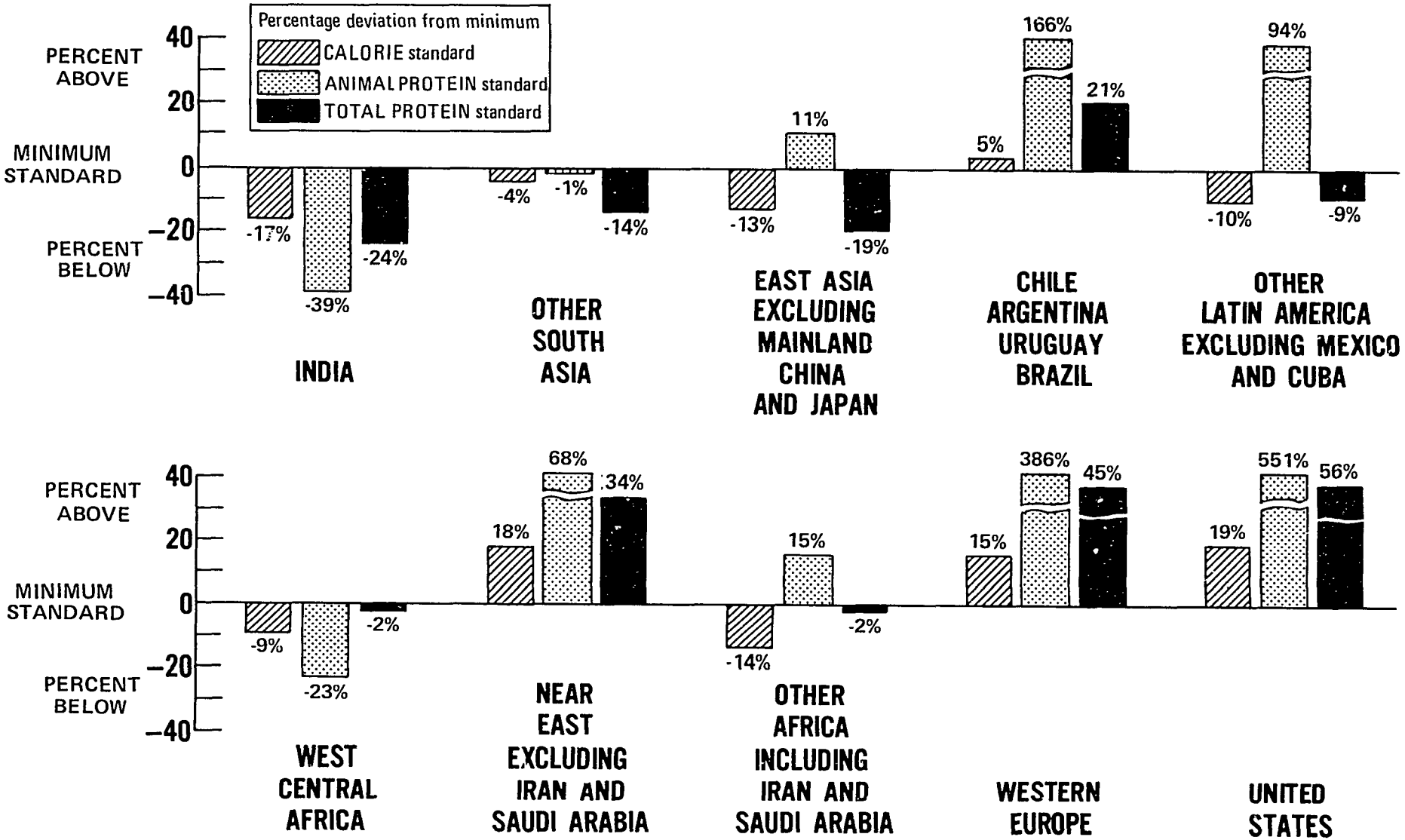
PER CAPITA FOOD EXPENDITURES*



*SOURCE: UN, YEARBOOK OF NATIONAL ACCOUNT STATISTICS 1969.
1968 Data in U.S. Dollars

NUTRITIONAL LEVELS-1967

CALORIES & PROTEIN



SOURCE: FAO, USDA

III. Resource Mobilization

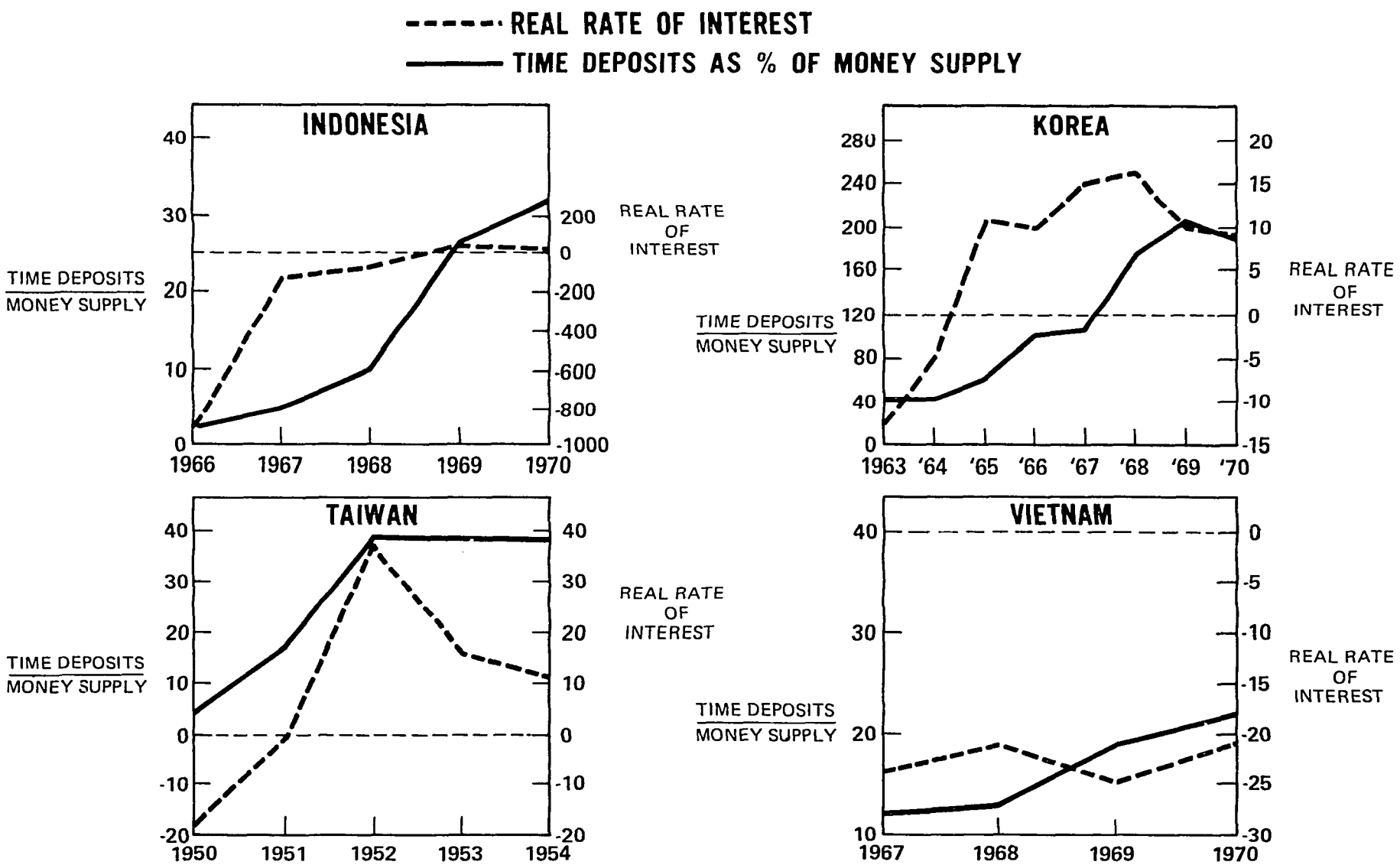
The agricultural sector affects a large part of the population but there are, of course, other basic elements. One such is the question of resource mobilization. It is clear that progress in development will require substantial additional investments each year for which resources must be raised in large measure from the savings of the developing countries themselves. Resource mobilization has, therefore, been a key phrase in all prescriptions for development policy. The mobilization of resources has several aspects--raising public revenues, the mobilization of private resources for investment, and the efficiency with which these resources are used.

Private Savings (Chart 18)

In many of the developing countries the private sector is both small and immature. Investment is funded largely through the savings of existing industrial enterprises or through family connections. The commercial banking system and the capital markets are not designed to generate substantial amounts of capital. It has been believed that it is not possible to raise private savings because of the poverty of the large majority of the people and because they distrust financial institutions.

Recent experience has suggested, however, that such is not the case. Progress in mobilizing private savings is heavily dependent on the rate of return to the investor. There is an analogy here to agriculture. Prior to the Green Revolution great emphasis was placed on extension services which taught a technology which, while sound, had a high risk for those who had little resources with which to gamble. It was only when a new technology emerged which promised very large returns, that there was a breakthrough in productivity. Similarly, in the banking system. Past efforts to establish an investment orientation in the commercial banking system, to have banks expand services and branch out into rural areas and small cities to attract savings, and to raise the interest rates paid on deposits have been disappointing. But where a reform of the interest rate structure has taken place, there has been a dramatic impact in the percentage of money deposited on a long-term basis in financial institutions. With reasonable returns, even people with little money will deposit their savings and thus help to finance development investment.

INTEREST RATE REFORMS



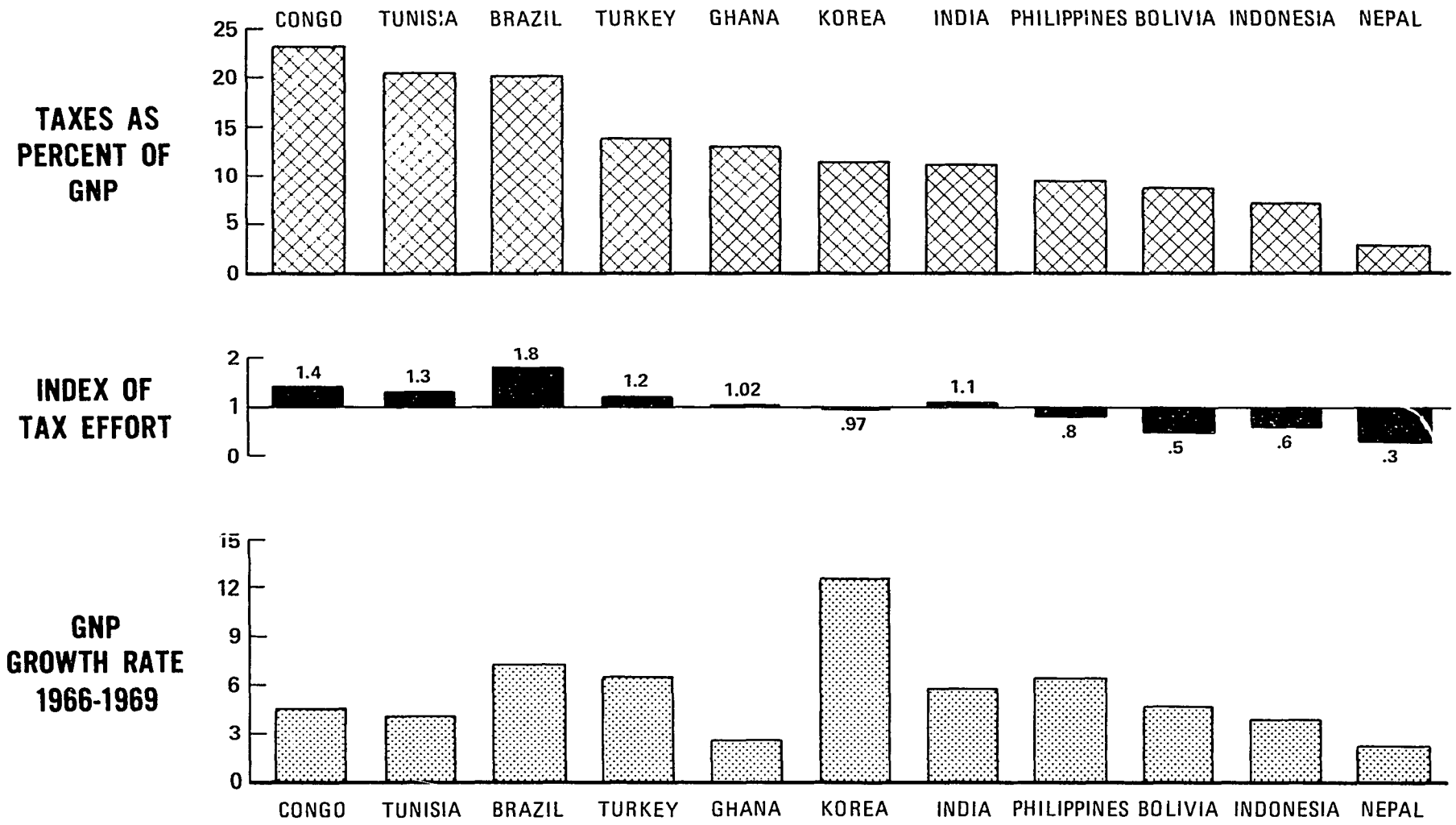
SOURCE: R.E. EMERY "INTEREST RATE POLICY, RESOURCE ALLOCATION AND THE MOBILIZATION OF DOMESTIC SAVING". PAPER PREPARED FOR CENTO SYMPOSIUM 1971.

Taxation (Chart 19)

There has been much exhortation to increase taxation to provide more public resources for development. Results have been good in the sense that taxes have increased more rapidly (1.4 times) than GNP so that an increasing share of the country's resources becomes available for development. As the chart indicates, however, tax collections vary greatly from country to country, from over 30% of GNP to less than 5%. In many countries shortage of public resources is still a serious impediment to carrying out growth policies.

Comparing the tax performance with growth rates suggests that there is no obvious link between the tax effort and GNP growth--in part of course because growth is determined by the amount of resources available and how these resources are used.

TAX RATIOS, TAX EFFORT AND GNP GROWTH

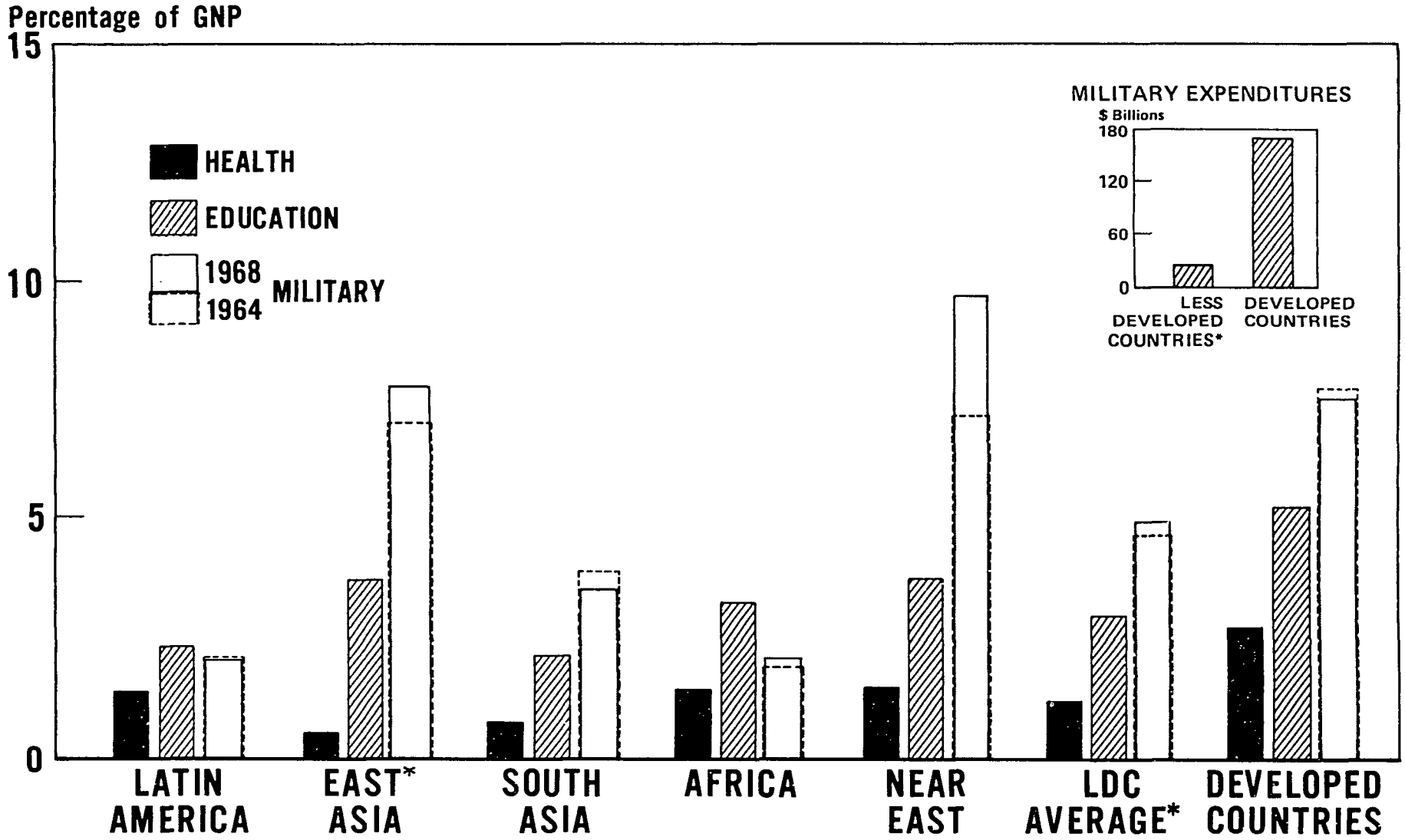


Source: Fiscal Research Summary, PPC, 1971

Public Expenditure (Chart 20)

Raising revenue is the first step; the next question is how wisely is the revenue spent, and for what purpose. Comparable data are hard to come by, but a quick and limited summary of relative priorities is interesting. With the exception of Latin America, military expenditures constitute a larger share of GNP than outlays on health or education. However, they remain insignificant compared to the military expenditures in the developed countries which totaled almost $170 billion in 1968, a figure which more than dwarfs their expenditures on development assistance. The comparable expenditures in the developing countries were about $18 billion.

COMPARISON OF PUBLIC EXPENDITURES, 1968

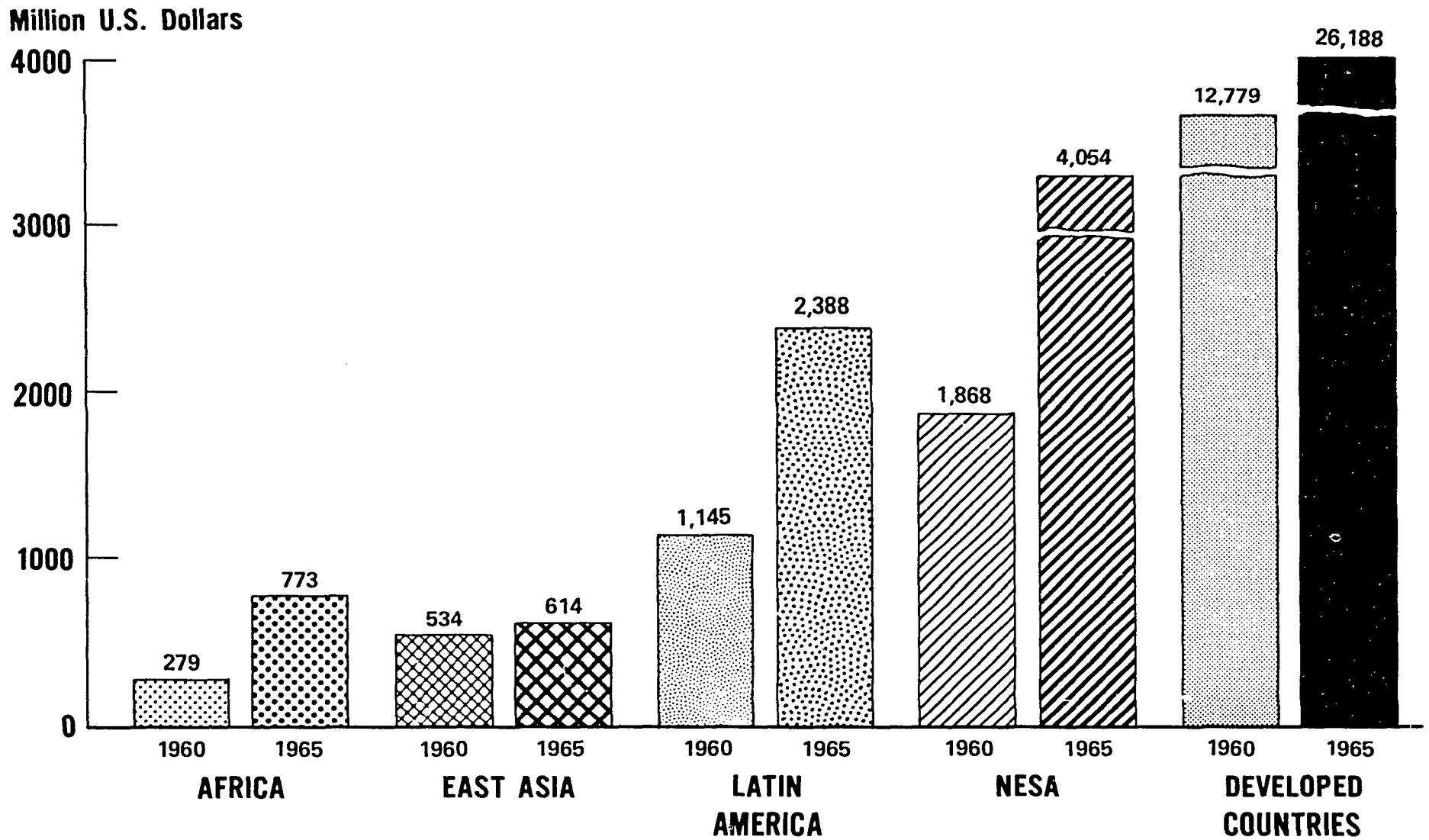


Source: ACDA, 1970
*Includes Mainland China

Education Expenditures (Chart 21)

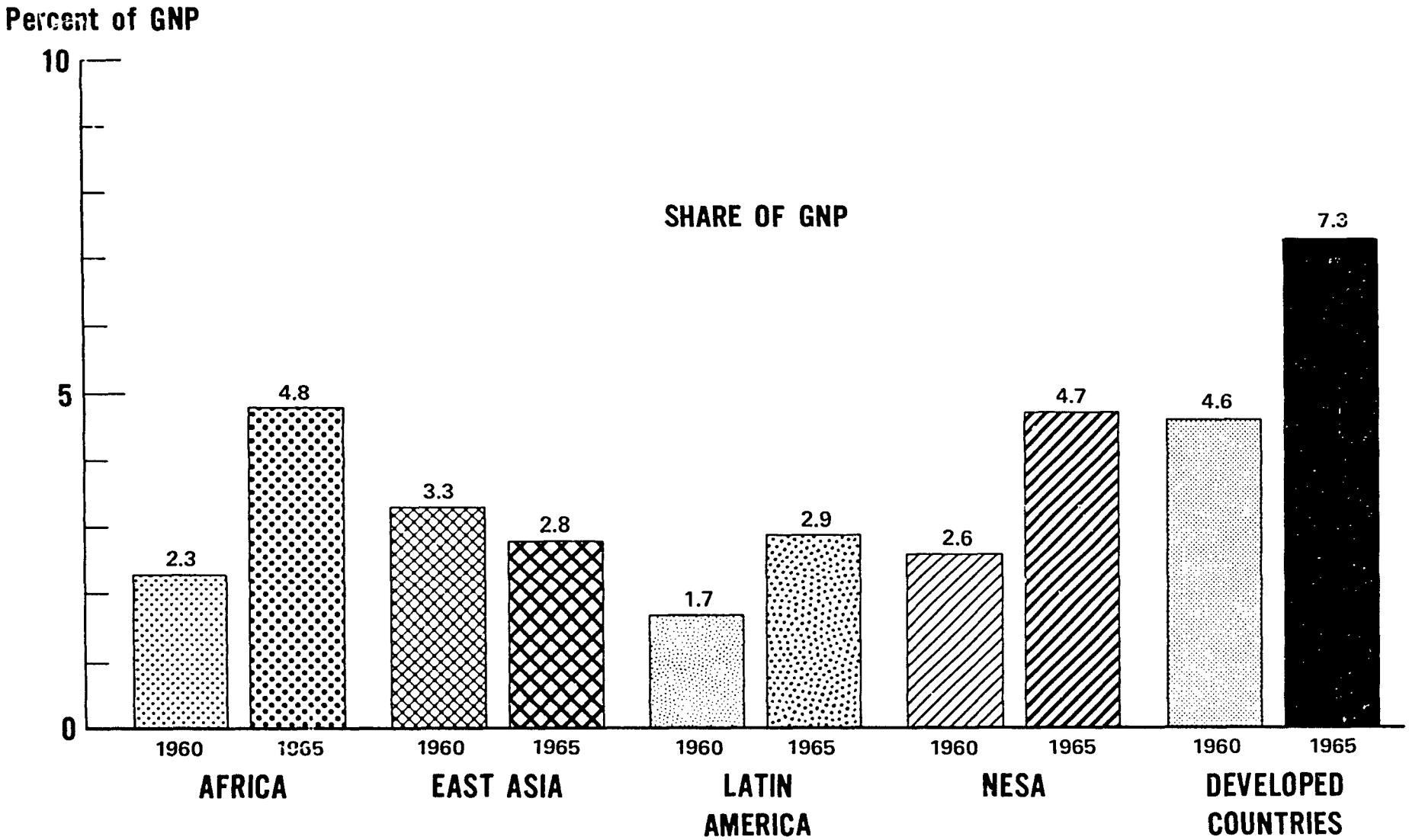
Expenditure on education is an investment as surely as the building of new factories--and more important. Expenditure on education has grown rapidly, more than doubling between 1960-1965 in most areas. It also absorbs a growing share of total resources (GNP). (Chart 22). In Africa, major emphasis has been placed on expenditures for education, and it devotes a greater share of its resources to education than the other regions. However, expenditures per pupil in Africa are only slightly less than that in the industrialized countries at the higher education level (Chart 23). These expenditures seem disproportionate given the much lower per capita income.

PUBLIC EDUCATION EXPENDITURES



Source: Education Expenditures, UNESCO

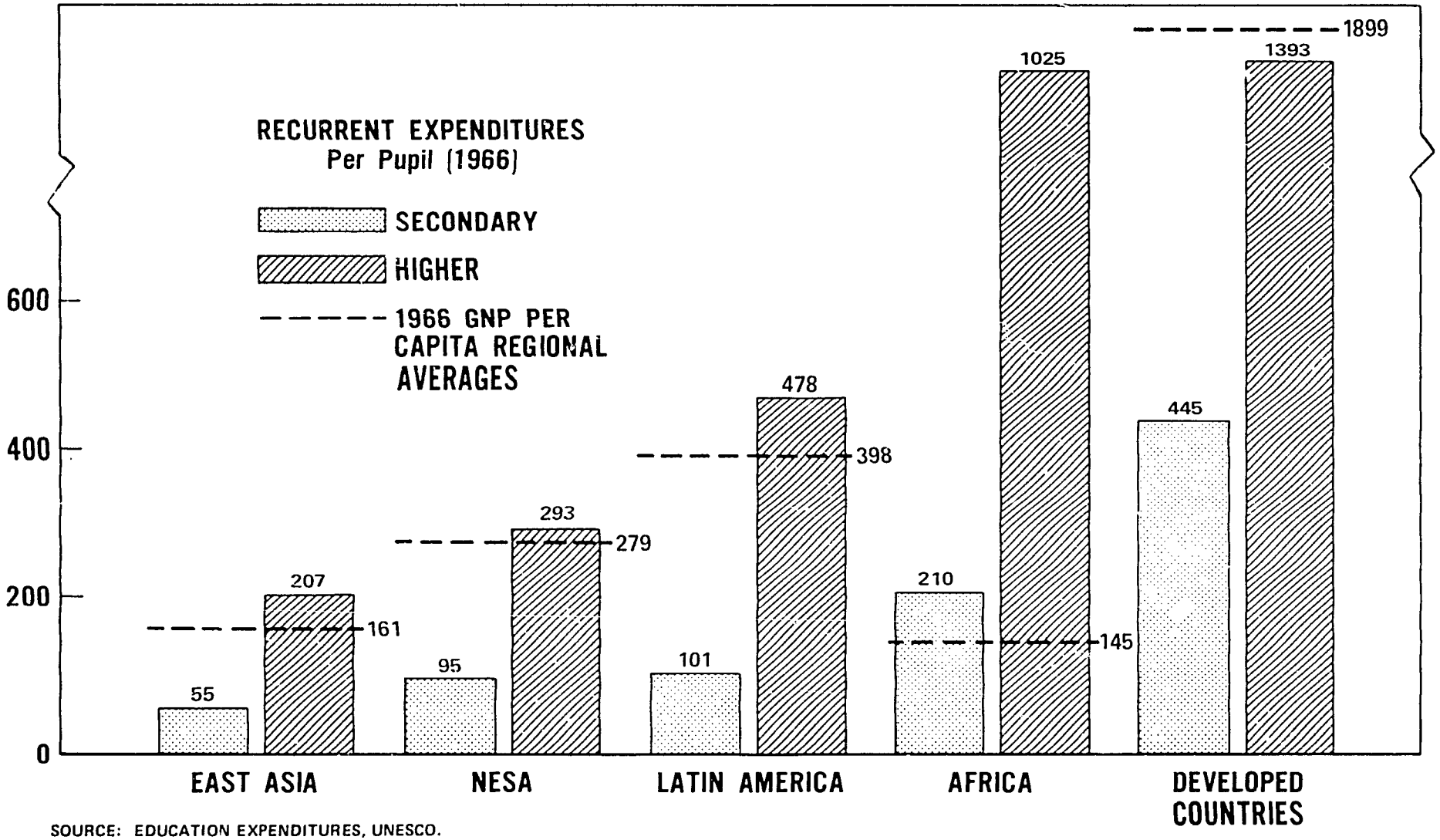
PUBLIC EDUCATION EXPENDITURES



Source: Education Expenditures, UNESCO

EXPENDITURES PER PUPIL AND GNP PER CAPITA

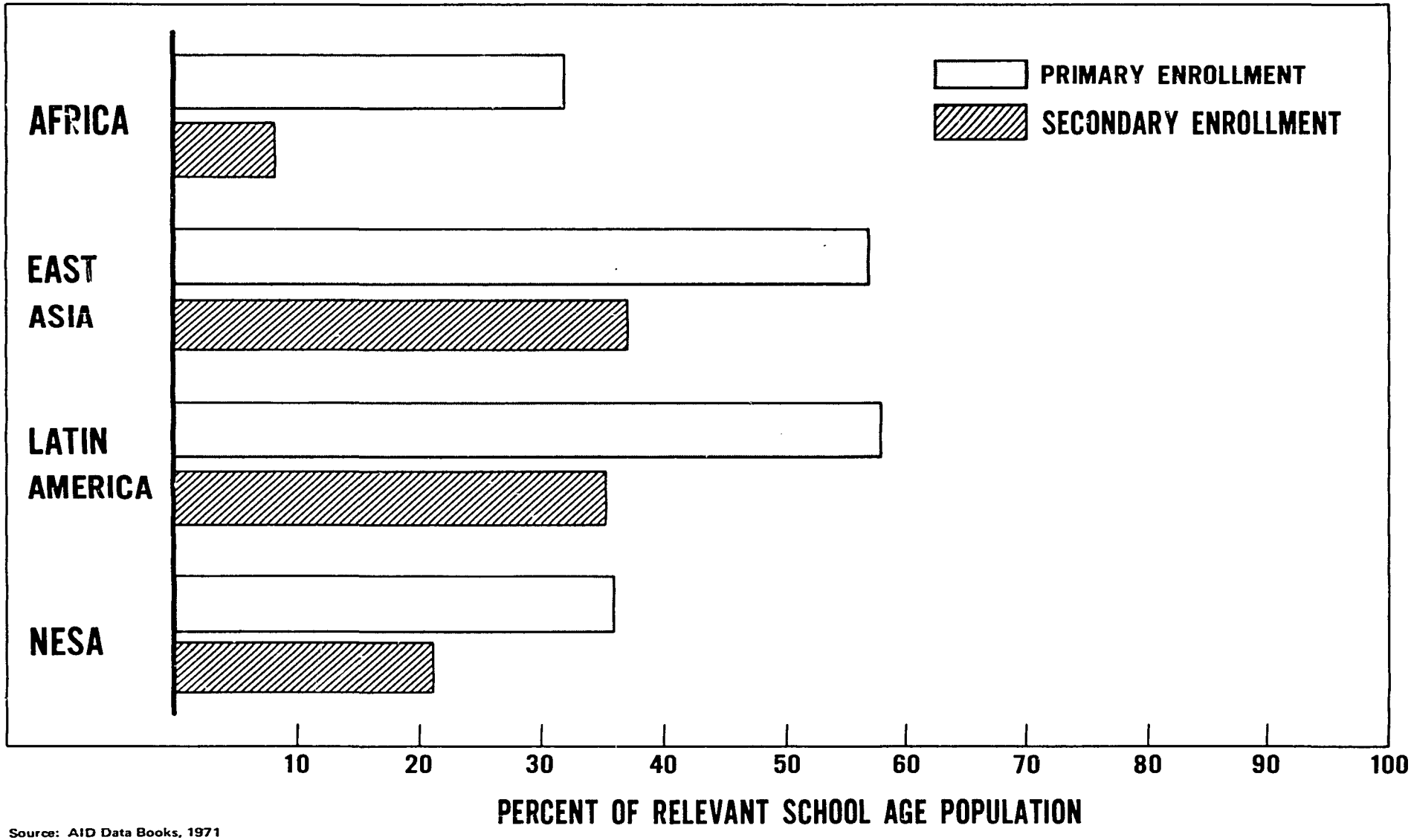
U.S. Dollars



SOURCE: EDUCATION EXPENDITURES, UNESCO.

The tremendous increase in education expenditures still only manages to affect a minority of the eligible population. While there has been a steady growth in the enrollment ratio (Chart 24), it is still only about 45% at the primary school level, leaving the developing countries far short of their general education objectives. An educated population is necessary for an effective political system as well as for future development. The imbalance between the effort and the results demonstrates the need for a high priority on research designed to increase the efficiency of educational expenditures.

ENROLLMENT RATIOS



Source: AID Data Books, 1971

IV. Population and Employment

Unemployment is of major concern in most developing countries. The issue is complex and our knowledge about the problem and possible policy remedies still scant. The rapid growth of the labor force is, of course, a reflection of rapid population growth in an earlier period.

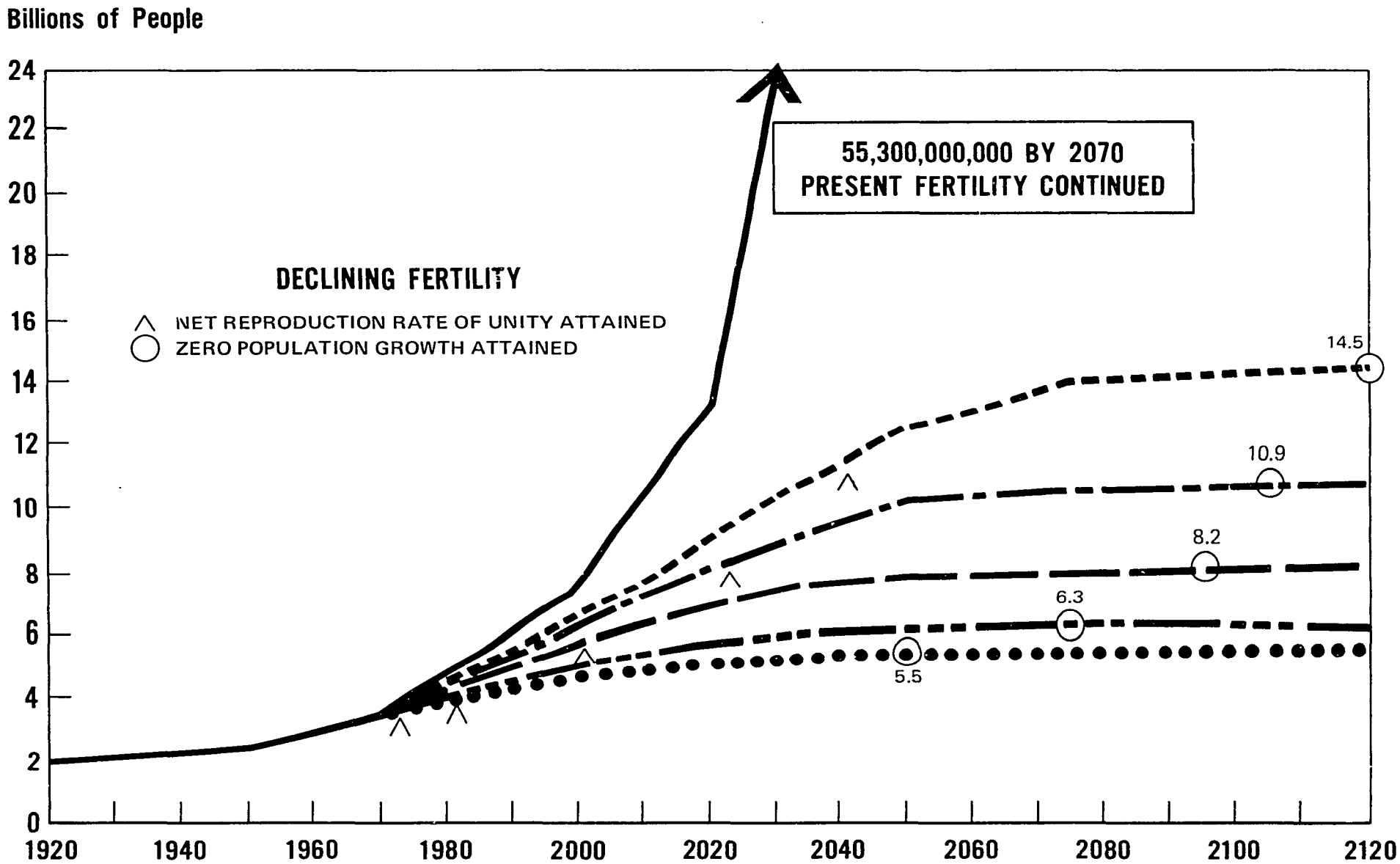
Population (Chart 25)

The population problem is, by now, familiar. There are many programs to limit population growth but, unless they can be greatly expanded and broadened in scope, development efforts will have to accommodate increasing population pressure for a very long time.

The principal determinant of future population growth is the fertile age group and its behavior. If the present level of fertility continues, we reach an obviously untenable situation toward the end of the 21st century--a world population of over 55 billion. Even if efforts to reduce fertility are successful, a further growth in world population is inevitable. If a net reproduction rate of unity is attained in 1973, population would continue to grow until it had reached the level of 5.5 billion by the middle of the 21st century and then it would stabilize. But, of course, we are nowhere near achieving a net reproduction rate of unity. If we are successful in achieving that by the year 2040, then population growth will level out at 14.5 billion shortly after year 2100. That means four times as many people as are in the world today. It obviously is urgent to bring fertility down as rapidly as possible.

Population growth does not mean only that there are more people to feed, house, clothe and educate; it also means an increasing need for employment opportunities so that people have a chance to earn a decent living. The rapid rates of population growth in the past mean rapid increases in the labor force in this decade; the people entering the labor market between now and 1980 are already born.

MOMENTUM OF WORLD POPULATION GROWTH



Source: The Population Council

Unemployment (Chart 26)

Data on unemployment in the developing countries are poor and the current interest in the subject has not yet led to a systematic and global attempt to define the scope of the problem. This is a matter of urgency. A few country examples can illustrate the problem however. The increase in the labor force will result in growing unemployment everywhere if the relationships between increased production and the demand for labor remain unchanged from the 1960s. In some countries unemployment may be contained with appropriate policy and investment decisions.

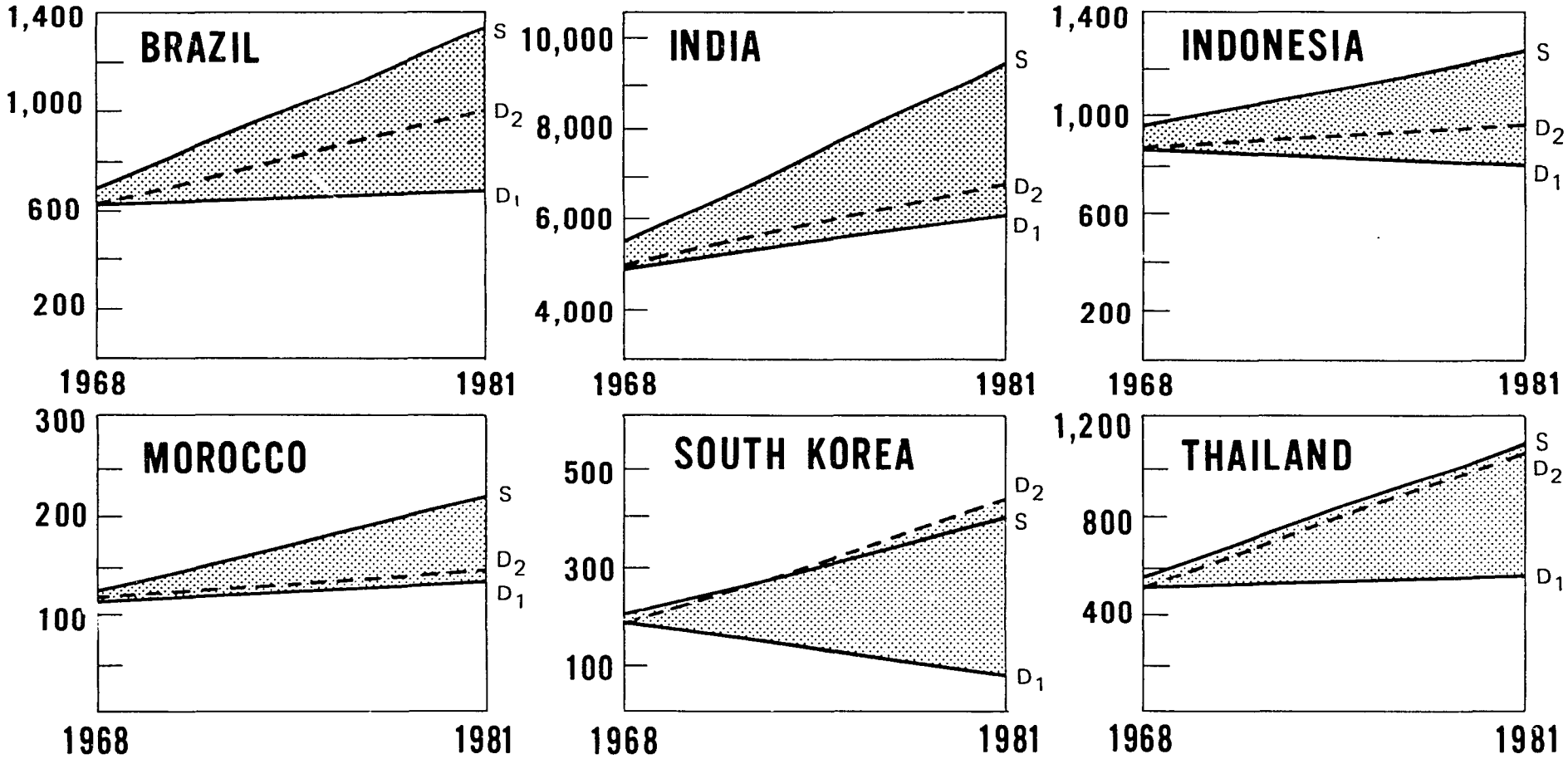
If the growth in investment capital per job can be kept down to 2% a year, then Korea and Thailand--of our sample countries--can probably contain unemployment with their current investment rates. In other countries such an effort will make a significant difference, but it will not be enough.

Unfortunately, past policies--of the developing countries and aid donors alike--have contributed to rising capital costs per employee in many countries. It is therefore urgent that the developing countries, international agencies and bilateral aid donors, explore means to alter the incentives for employing labor and accelerate efforts to adapt technology to local conditions.

SUPPLY AND DEMAND FOR LABOR

PROJECTED INCREMENTS 1968 - 1981

Incremental Change in Labor Force (thousands)



S - Projected Annual Increment to Supply of Labor

D_1 - Projected Annual Increment to Demand for Labor Based on Experience of 1960's

D_2 - Projected Annual Increment to Demand for Labor Based on Assumption of 2% Annual Growth in Incremental Capital-Labor Ratio

SOURCES: I.L.D., YEARBOOK OF LABOR STATISTICS; AID, ADMINISTOR'S REVIEW OF DEVELOPMENT PERFORMANCE, 1970.

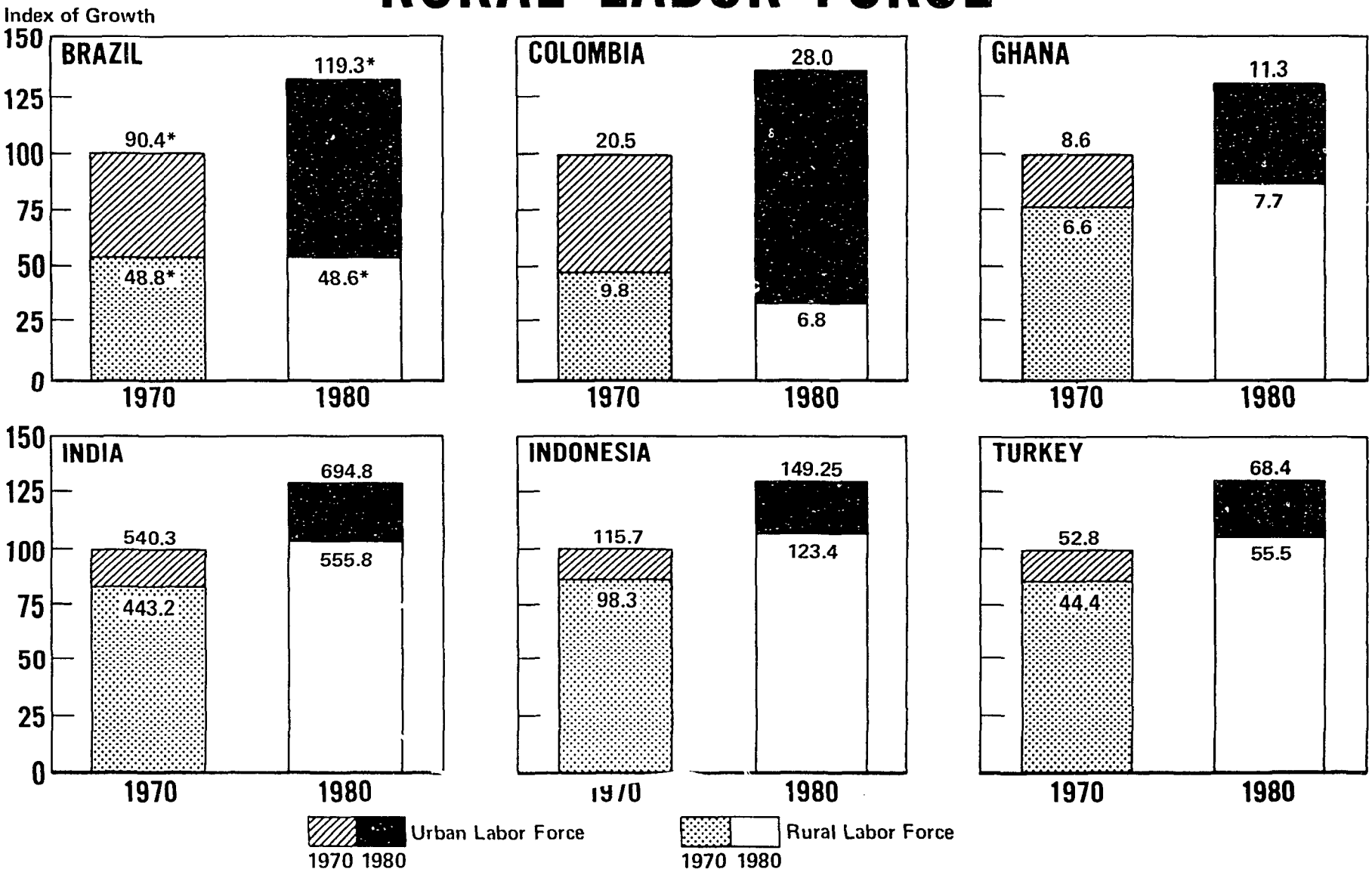
Rural and Urban Labor (Chart 27)

Unemployment in the developing countries has two distinct components--rural and urban labor. In many cases, migration to the cities aggravates the unemployment problem while, simultaneously, placing impossible burdens on urban facilities. Innovative ways of changing the ratio between capital and labor, methods to decentralize production, spatial planning and improved governmental services in rural areas are all necessary if the burden imposed by this inflow of labor into urban areas is to be dampened. It is important to try to limit the influx of labor into urban areas because:

- the expansion of facilities in urban areas to accommodate population is expensive;
- it seriously strains the management capacity of municipal institutions;
- employment creation in urban areas usually means either manufacturing with a relatively high capital labor ratio or services with low income and productivity.

It is unrealistic to expect that urban migration can be shut off completely. Together with measures to reduce the flow, ways must be found to increase generation of productive employment in urban areas to provide jobs for the existing unemployed and for migrants who will come in any event.

GROWTH PROJECTIONS OF URBAN & RURAL LABOR FORCE



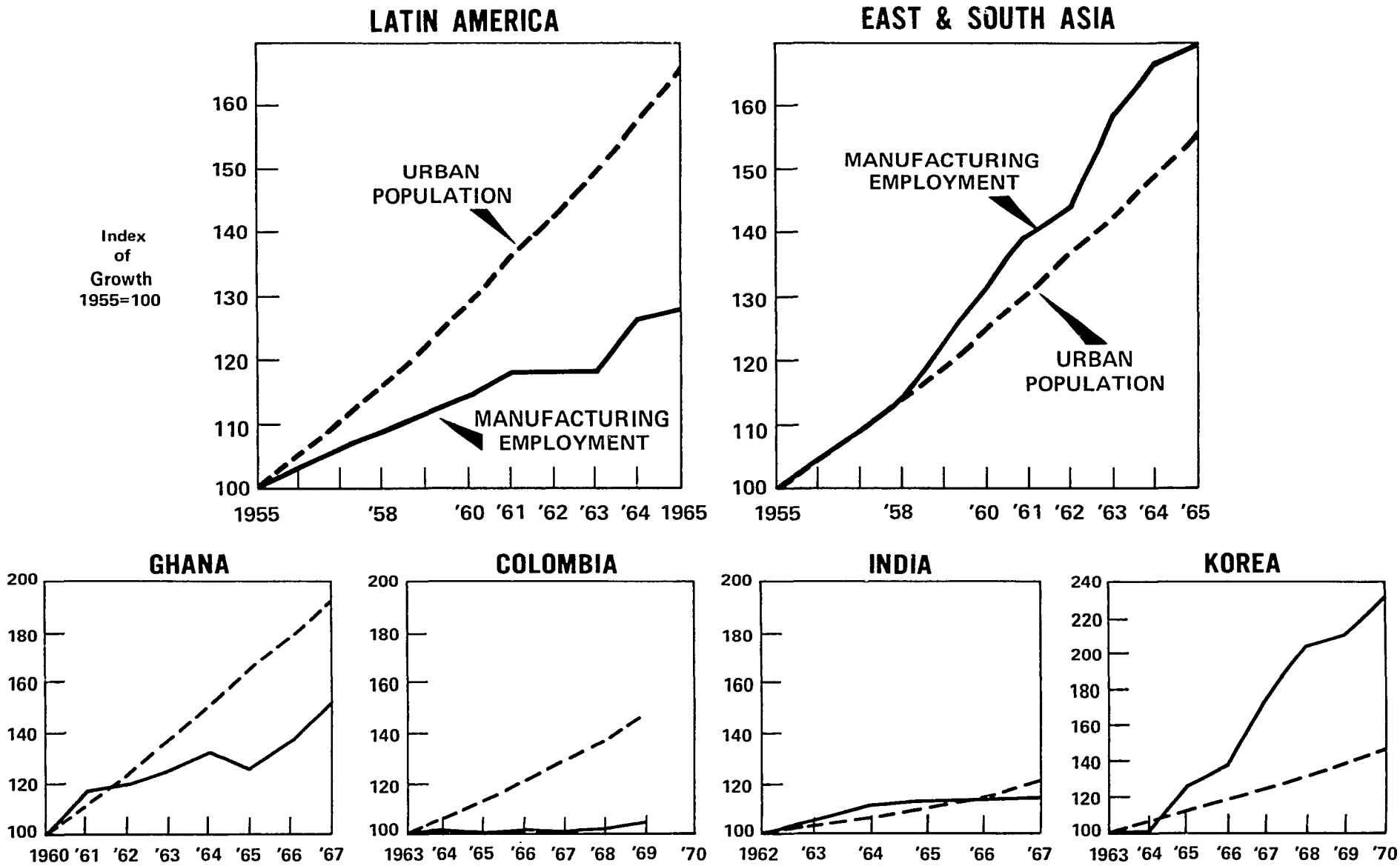
*Absolute Amount in Millions

SOURCE: DAVID TURNHAM, THE EMPLOYMENT PROBLEM IN LESS DEVELOPED COUNTRIES: A REVIEW OF EVIDENCE (OECD 1970)

Manufacturing Employment (Chart 28)

The problem is not insoluble. In the case of Latin America, manufacturing employment has been growing very much more slowly than urban population, but in East Asia, manufacturing employment has absorbed an increasing share of the urban labor force. The relatively slow growth of manufacturing employment in Latin America reflects the capital intensive approach to industrialization undertaken by Latin America since the 1930s, including a heavily protected domestic industry, and the relative failure to spread governmental services beyond urban areas. The Latin American problem is further aggravated by both the relatively rapid growth of urban population and the fact that the ratio of urban to rural population already exceeds fifty percent in many Latin American countries in contrast to those of Africa and Asia.

GROWTH OF URBAN POPULATION & MANUFACTURING EMPLOYMENT



SOURCE: I.L.O. = YEARBOOK OF LABOR STATISTICS; UN, COMPENDIUM OF SOCIAL STATISTICS.

V. Foreign Exchange and Development

Some of the problems of development are internal; others depend on external factors, particularly those that determine how much foreign exchange is available.

Exports (Chart 29)

Clearly the most important source of foreign exchange for the developing countries is exports. Total export earnings on commodities alone totaled $48.7 billion in 1969, an increase of approximately 11% over the previous year. It represents 75% of foreign exchange availability.

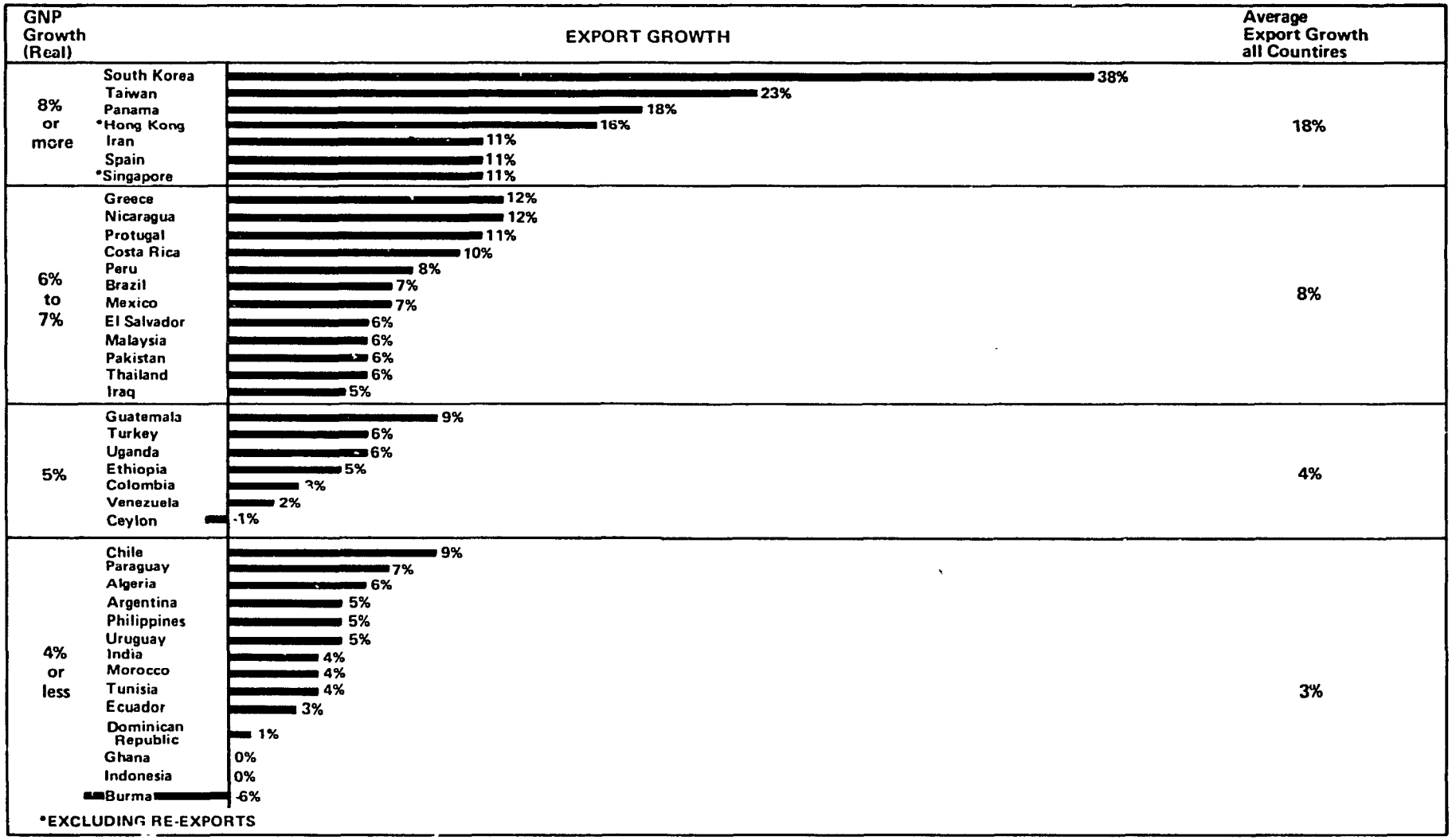
Contrary to the general view a number of the less developed countries have made substantial progress in developing their export trade during the past decade. It is interesting to note that those countries which grew most rapidly in total GNP also had the most rapid rate of export growth. We are not quite sure which way the causality runs. That is, it may be that a high growth rate of GNP leads to a high rate of export growth or it may be the other way around. We suspect the latter and believe that the set of policies which permit an open and competitive system to function, a prerequisite for competing in the international market, is also a prescription for effective utilization of domestic resources. The principal problems that developing countries face in increasing their exports include:

-- the need for structural changes in industrialized countries to absorb imports from the poor countries. Such changes only come about gradually and, in part, reflect negotiating power. Developing countries have little leverage in trade negotiations.

-- declining share of markets (Chart 30). In the three major industrialized markets, the United States, the Common Market and Japan, the share of imports from the developing countries has been either stagnant or dropping. This reflects the decreasing input of raw materials per unit of finished product; the relatively less sophisticated manufacturing industries of the developing countries; and import restrictions. The decline is seen most clearly if we look at the U.S. market for raw materials (Chart 31). Raw material imports from the developing countries, excluding petroleum, have dropped from 10% of total U.S. imports to only about 5% a decade later.

EXPORT GROWTH

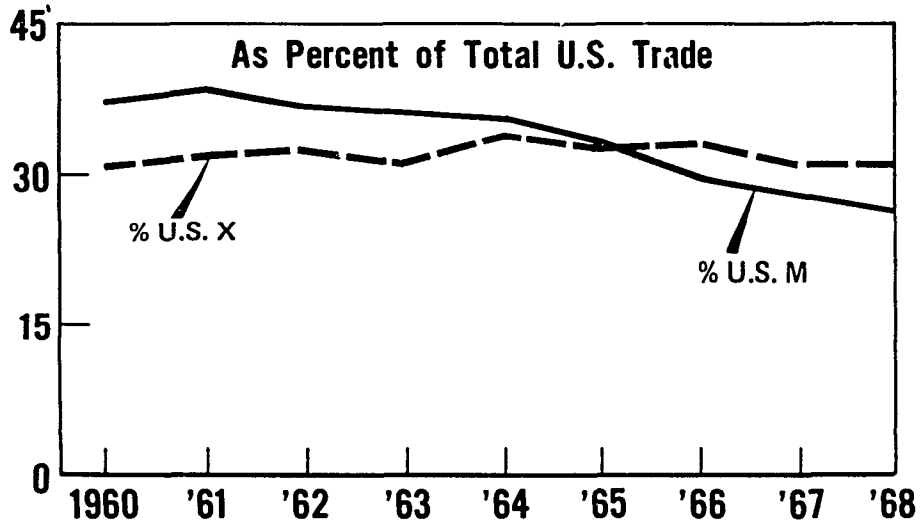
AVERAGE ANNUAL GROWTH 1960–1969



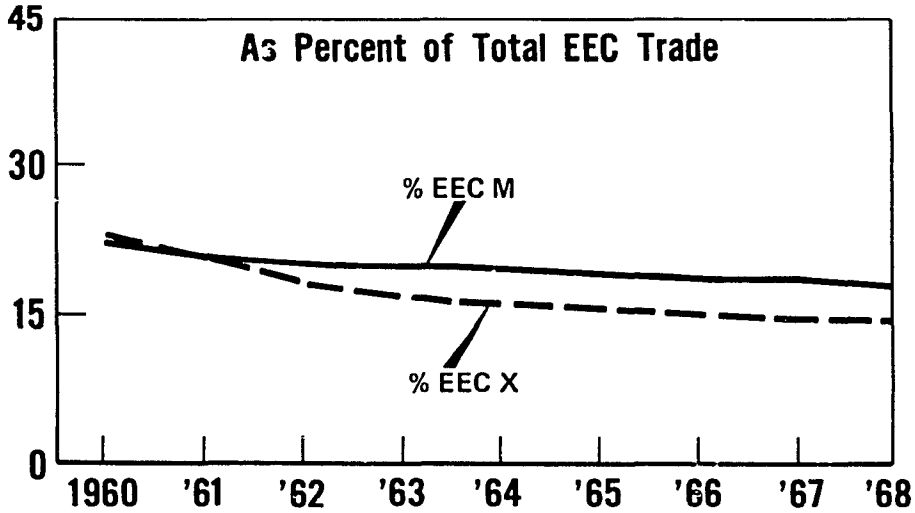
SOURCE: JBRD WORLD TABLES, 1971

LDC TRADE WITH...

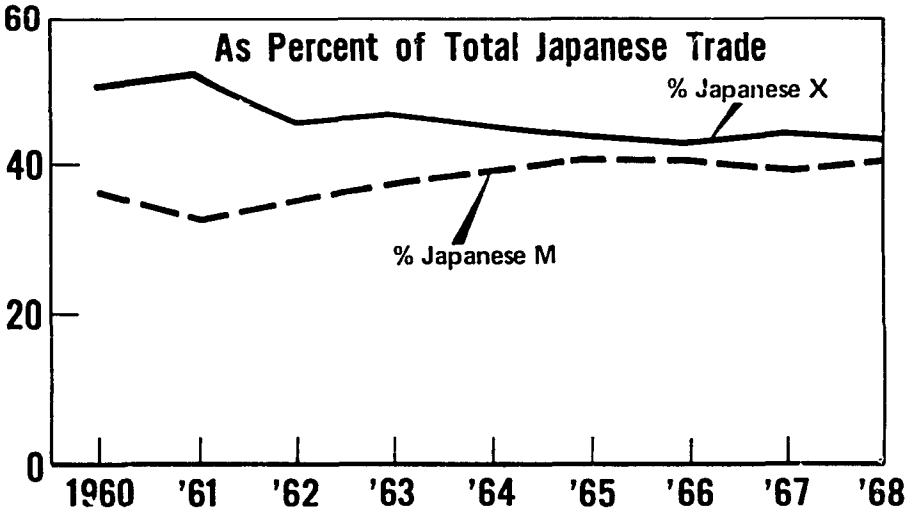
U.S.



EEC

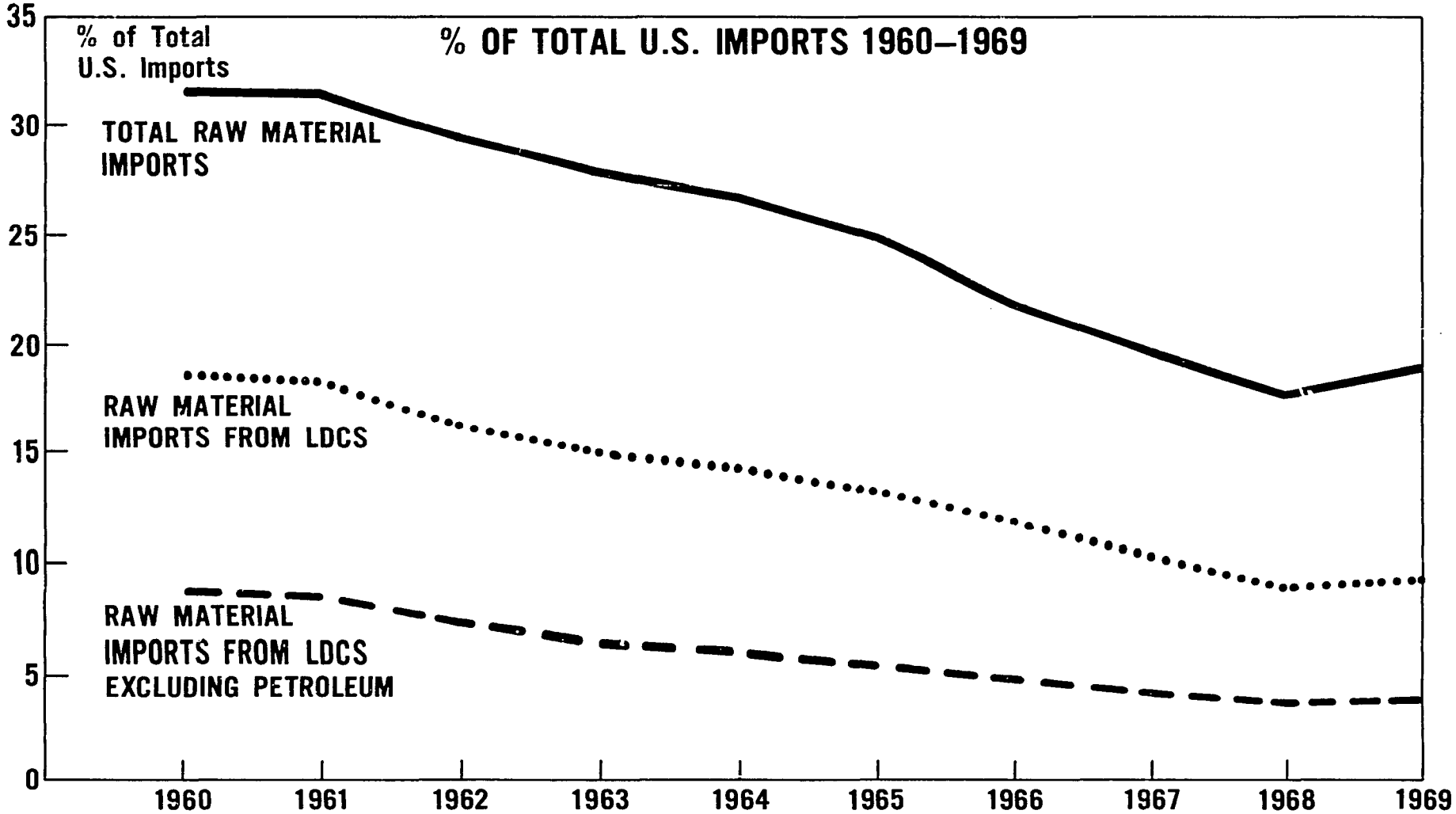


JAPAN



Source: Directions of Trade 1960–1968 and Handbook of International Trade & Development Statistics, UNCTAD, 1969

U.S. IMPORTS OF PRIMARY PRODUCTS



SOURCE: Handbook of International Trade and Development Statistics, 1969 & Supplement 1970 UNCTAD

(Chart 31) - cont.

--inadequate attention to the need for exports, pricing policies which make products non-competitive, and inadequate technical know-how on export development and promotion.

-- heavy dependence on one, or a few, primary products.

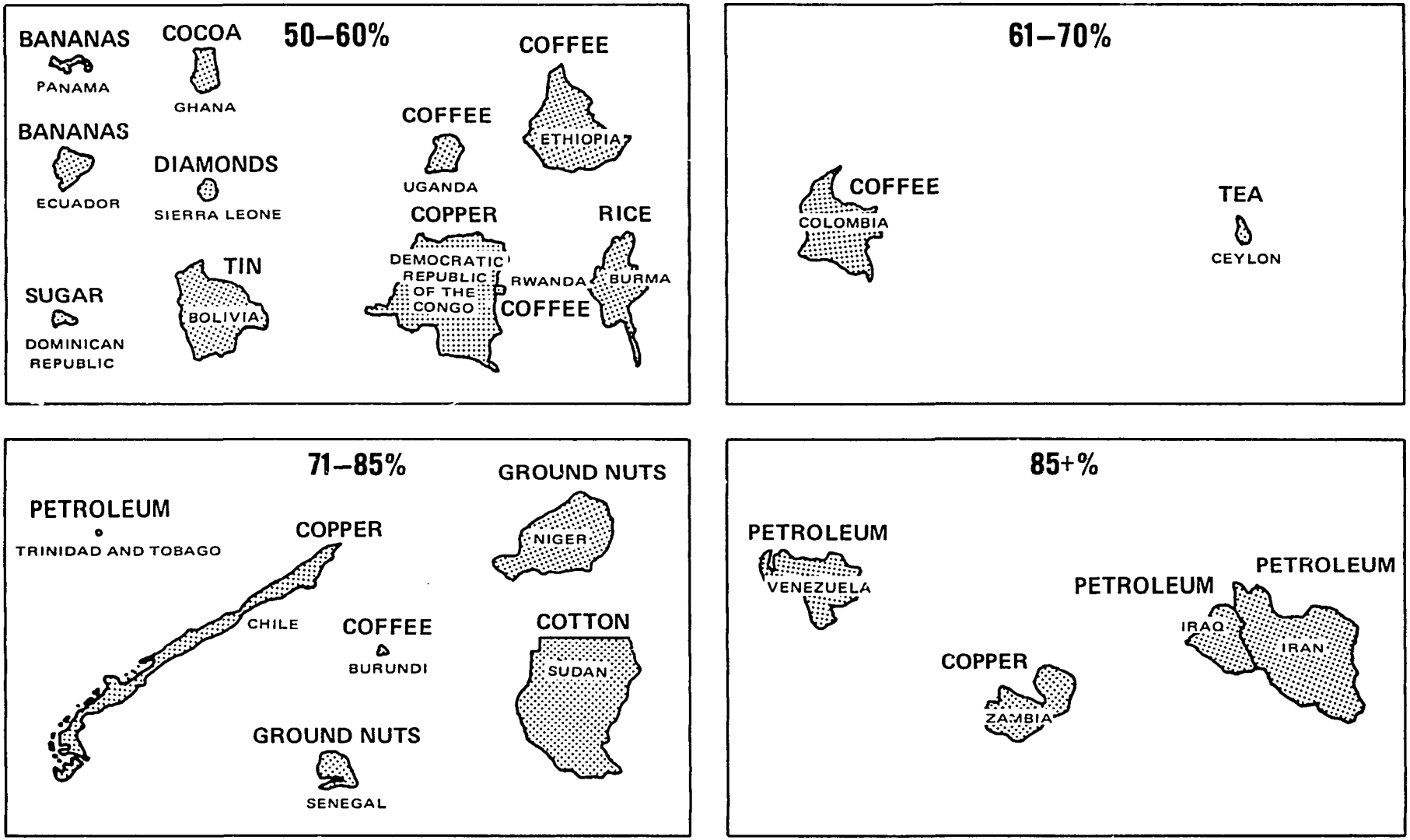
Despite efforts at diversification, a large number of countries are still extraordinarily dependent on one commodity (Chart 32). This makes them subject to major price fluctuations and severely limits their ability to increase exports. In countries like Senegal, Niger, Sudan, Zambia and even Venezuela, it is urgent that export diversification programs be undertaken; it is also important for those countries which have a 50-60% dependence on one commodity.

OECD Imports from LDCs

The major markets reflect some of these issues (Chart 33). Despite difficulties, the import of manufactured goods by OECD countries 1/ from the developing countries during the past decade has increased more than fourfold. Nonetheless, they represent only 14% of total OECD imports. The rest consists of petroleum and petroleum products, raw materials, minerals and agricultural products. The United States (Chart 34), which is part of the OECD total, has followed roughly a similar pattern. Imports of manufactured goods increase about fourfold over the decade; but in the U.S. they represent one-third of total imports from developing countries.

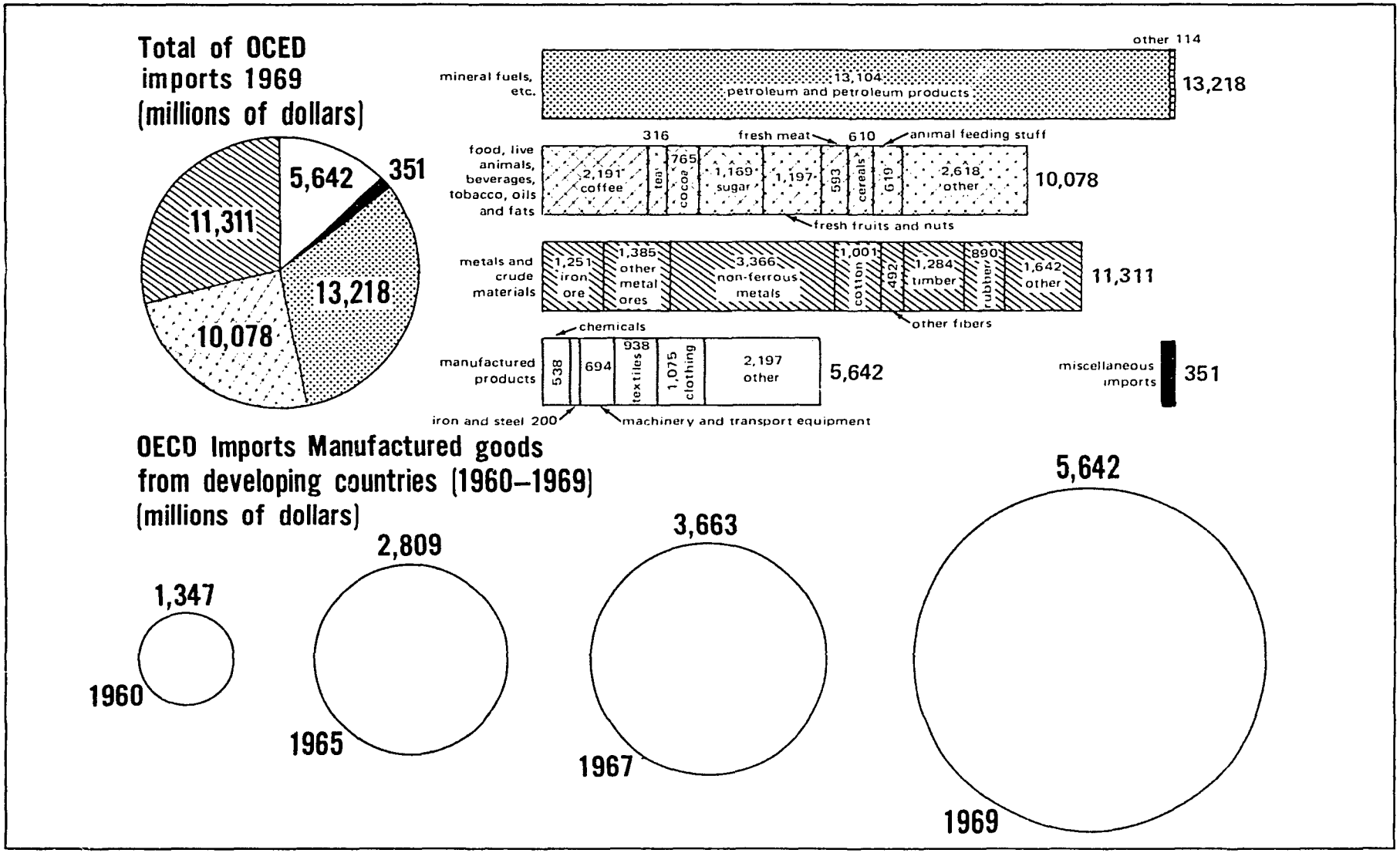
1/ Members of the OECD are: Austria, Belgium, Canada, Denmark, Finland, France, Germany, Greece, Iceland, Ireland, Italy, Japan, Luxembourg, Netherlands, Norway, Portugal, Spain, Sweden, Switzerland, Turkey, United Kingdom, United States.

COUNTRIES WITH HIGH PRIMARY COMMODITY SHARE OF TOTAL EXPORT REVENUE



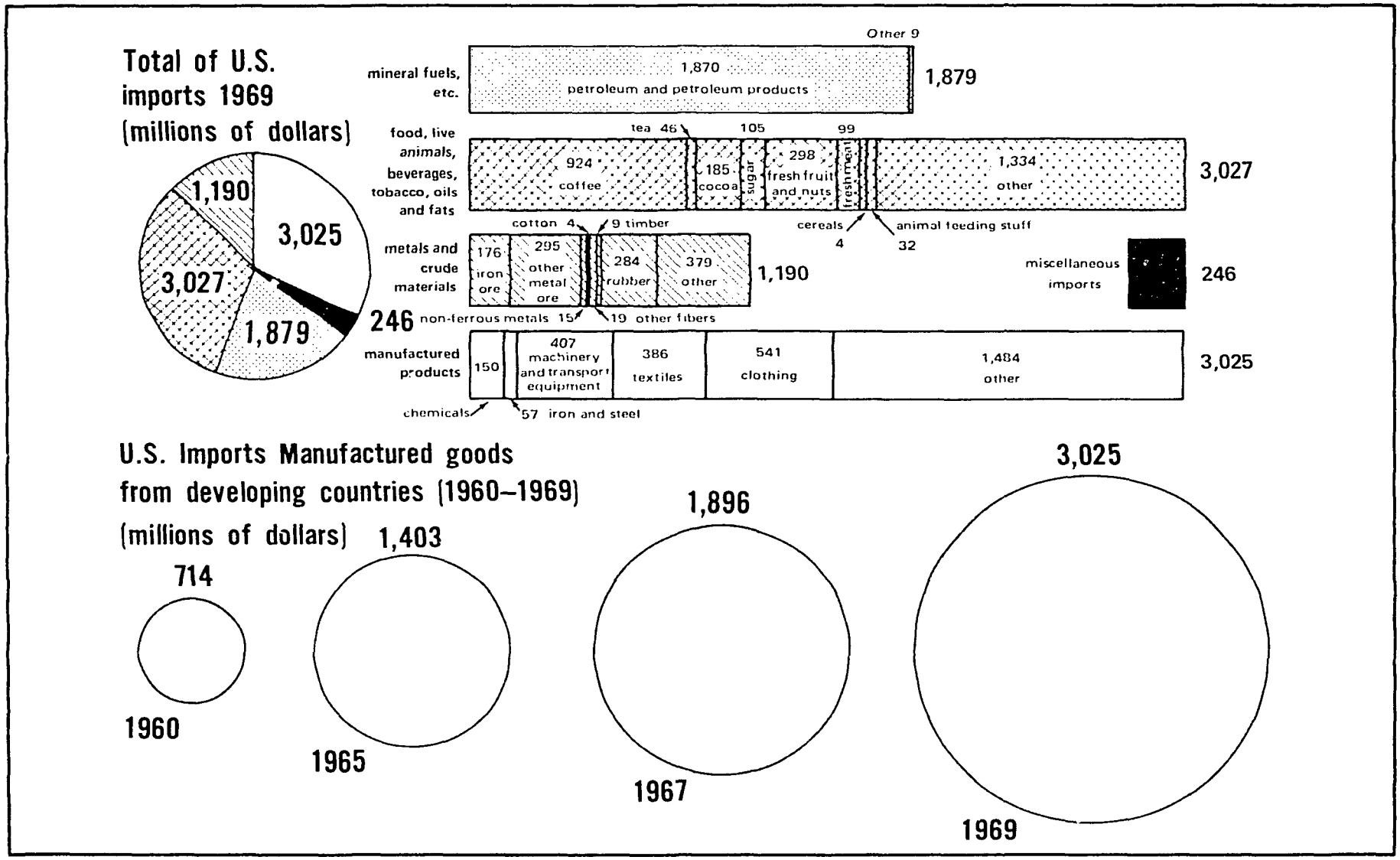
SOURCE: AID, TRADE & DEVELOPMENT: TRADE PERFORMANCE AND PROSPECT OF DEVELOPING COUNTRIES. 1972

OECD AS A MARKET FOR DEVELOPING COUNTRIES



SOURCE: OECD, FOREIGN TRADE STATISTICS

U.S. AS A MARKET FOR DEVELOPING COUNTRIES



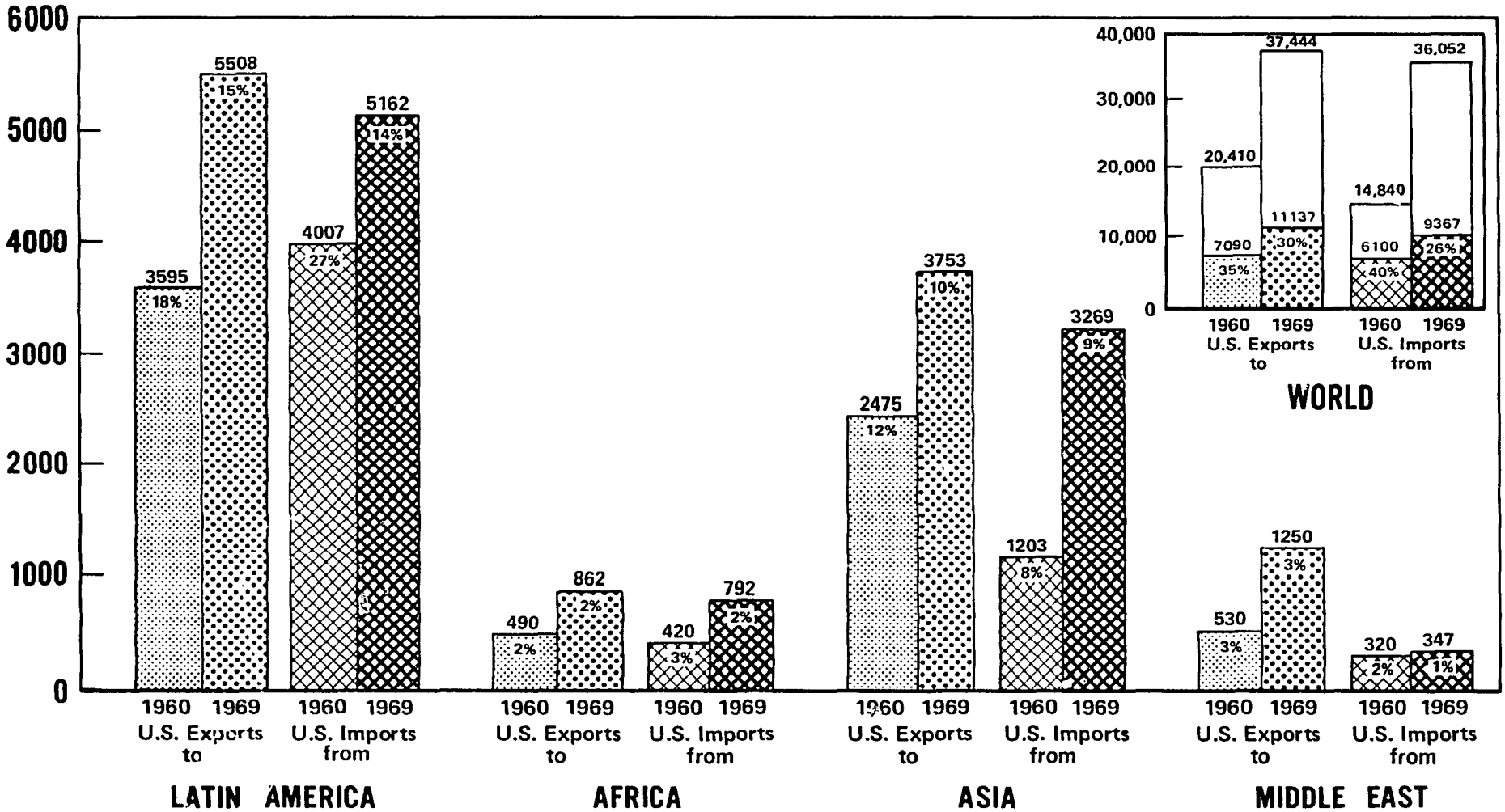
SOURCE: OECD, FOREIGN TRADE STATISTICS.

U.S. Trade with LDCs (Chart 35) Trade is an important element in U.S. relations with the developing countries. In Latin America we have a consistent trade surplus although a small one in recent year. Total trade (imports plus exports) with Latin America in 1969 totaled over $10 billion. Total U.S. trade, exports plus imports, with developing countries totaled over $21 billion--affecting many aspects of our economy.

Trade is one element in determining foreign exchange availability; private investment and aid are the other two components.

U.S. TRADE WITH LDC's BY REGION

INCLUDING PERCENTAGES OF TOTAL U.S. TRADE



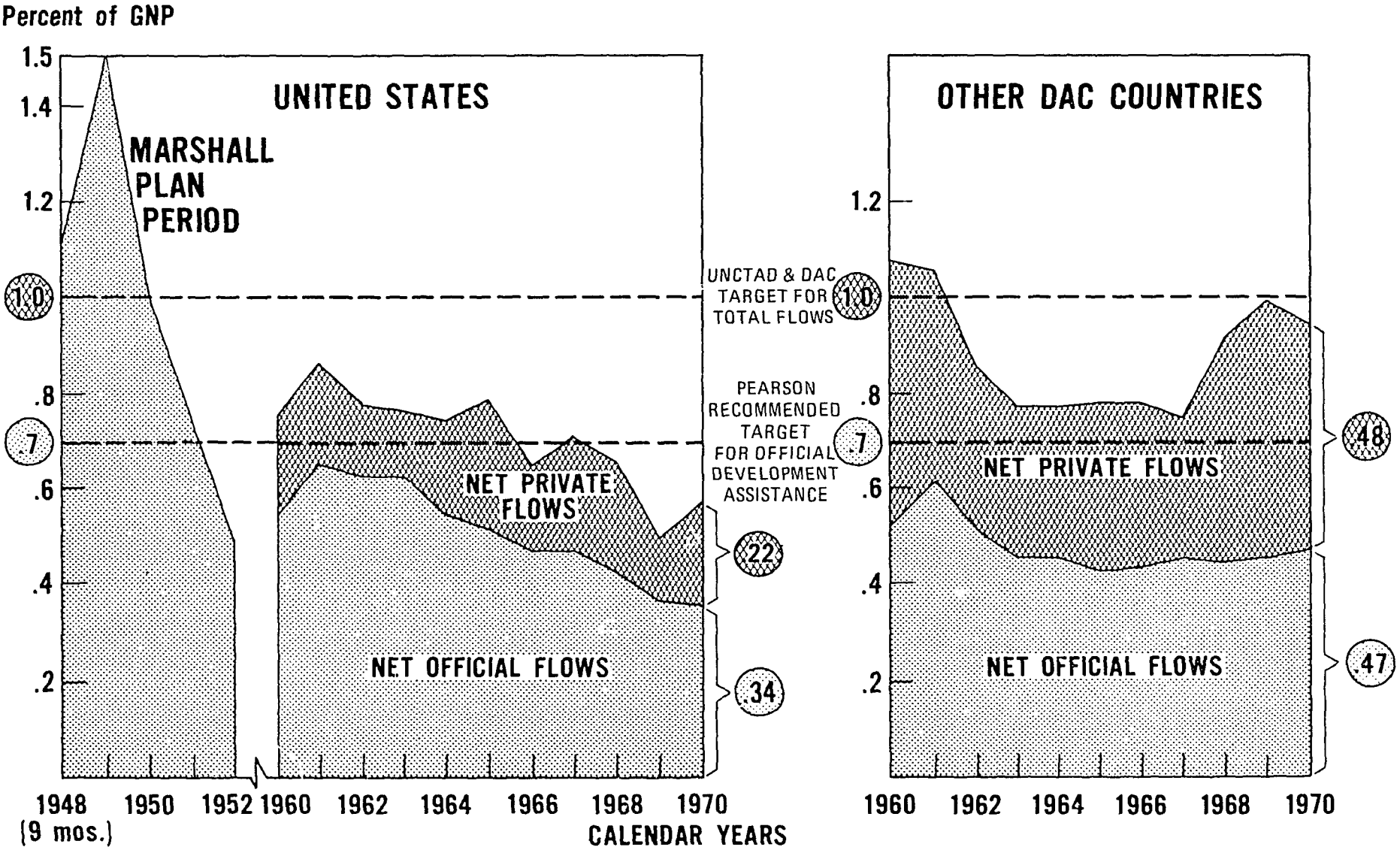
Source: 1960—Trade & Development Statistics UNCTAD 1969
1969—Commodity Trade Statistics

Private Investment and Aid (Chart 36)

The developing countries receive capital in the form of private investment, export credits, and foreign assistance. The UN target for the Second Development Decade is that such resource flows should equal at least 1% of the GNP of industrialized countries.

For the U.S., resource flows to the LDCs dropped from a high of almost 1.5% of GNP during the Marshall Plan period to 0.56% of GNP in 1970--despite a growth in private foreign investment. The principal factor has been a steady decline in aid. By contrast, the other members of the DAC 2/ now transfer almost 1% of their combined GNP in private and official flows to the developing countries.

NET FLOW OF RESOURCES IN RELATION TO GNP

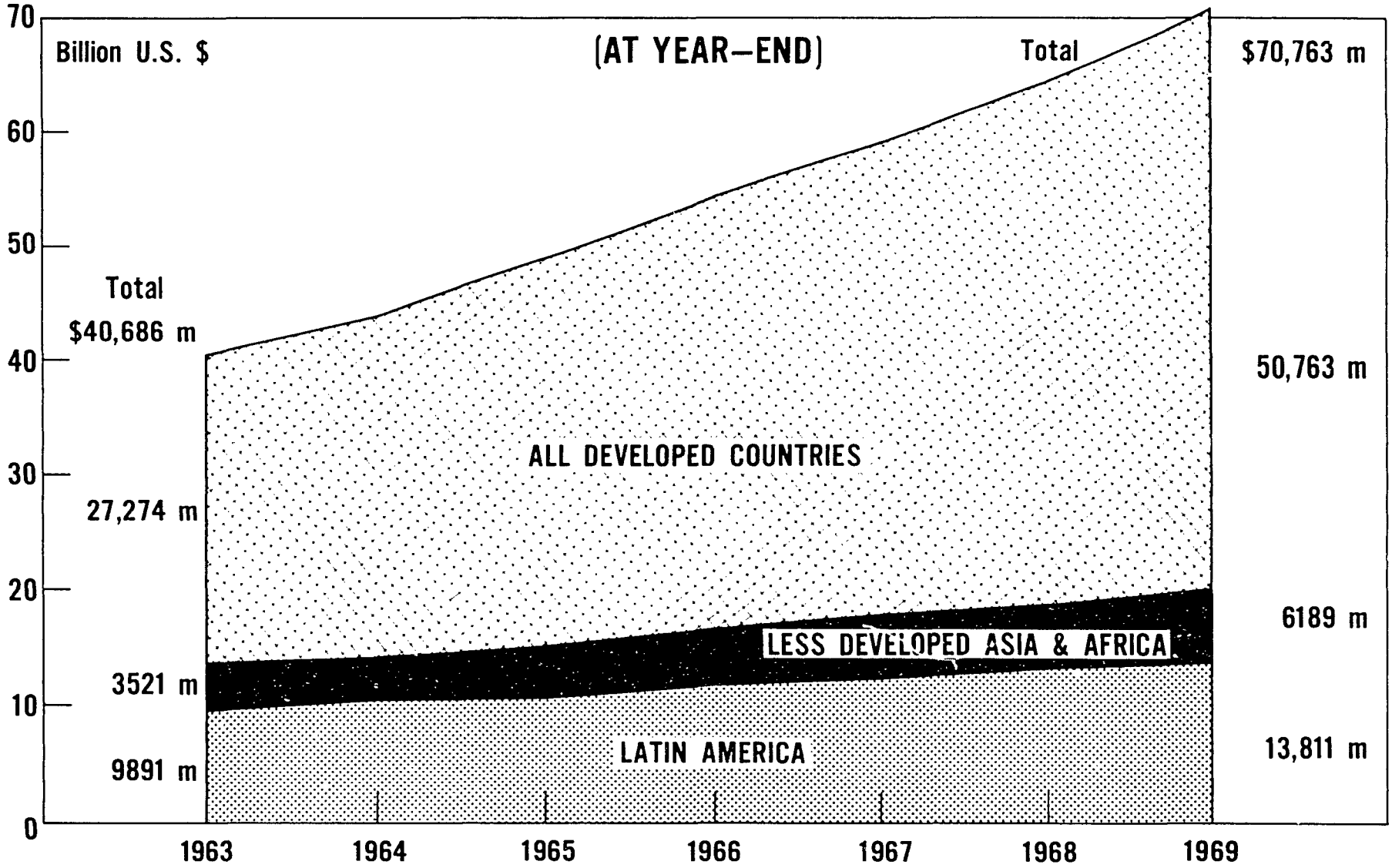


SOURCE: Data 1960–1969: *Development Assistance 1970 Review OECD*,
1970 data: OECD Press Release 15 June, 1971

U.S. Private Direct Investment (Chart 37)

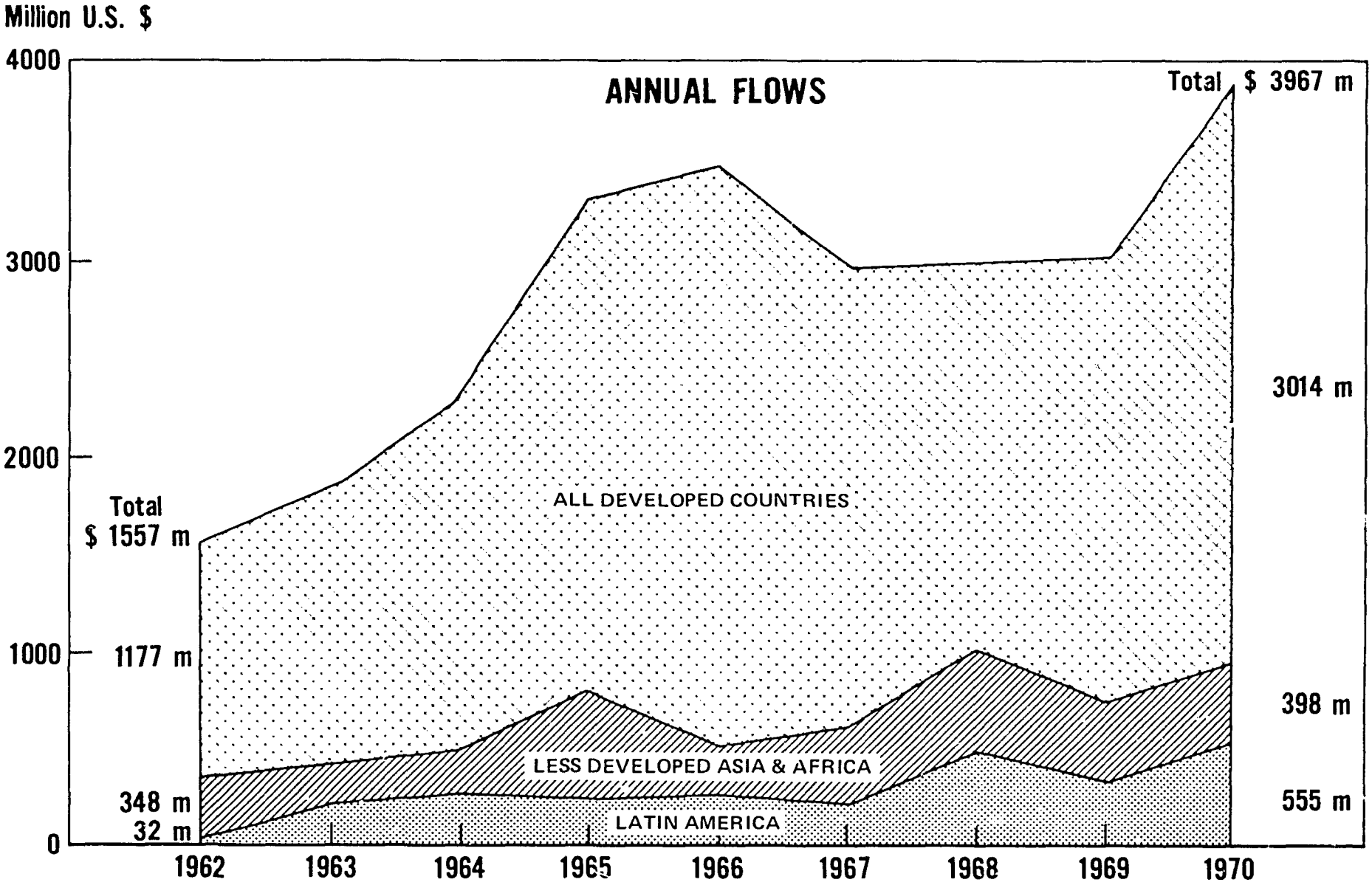
The book value of U.S. private investment has almost doubled between 1963 and 1969, but the bulk of the investment is in other industrialized countries. Annual investment levels are now almost $4 billion (Chart 38); of which $3 billion goes to industrialized countries. Investment in the developing countries is modest and given the recent wave of nationalization and/or expropriation in Latin America and elsewhere, this flow is not expected to grow rapidly. The distribution of U.S. direct investment by region and by type of investment (Chart 39) reflects the same special relationship with Latin America as we saw in trade. Out of the total of approximately $17 billion of U.S. direct investment, over $11 billion is in Latin America. While petroleum and other extractive industries are important in Latin America, investments in manufacturing, services and utilities is also substantial. This pattern is very different from that prevailing in the other regions, except East Asia with its growth areas for manufacturing investment in Korea, Taiwan and Indonesia.

BOOK VALUE OF DIRECT INVESTMENT



SOURCE: Survey of Current Business

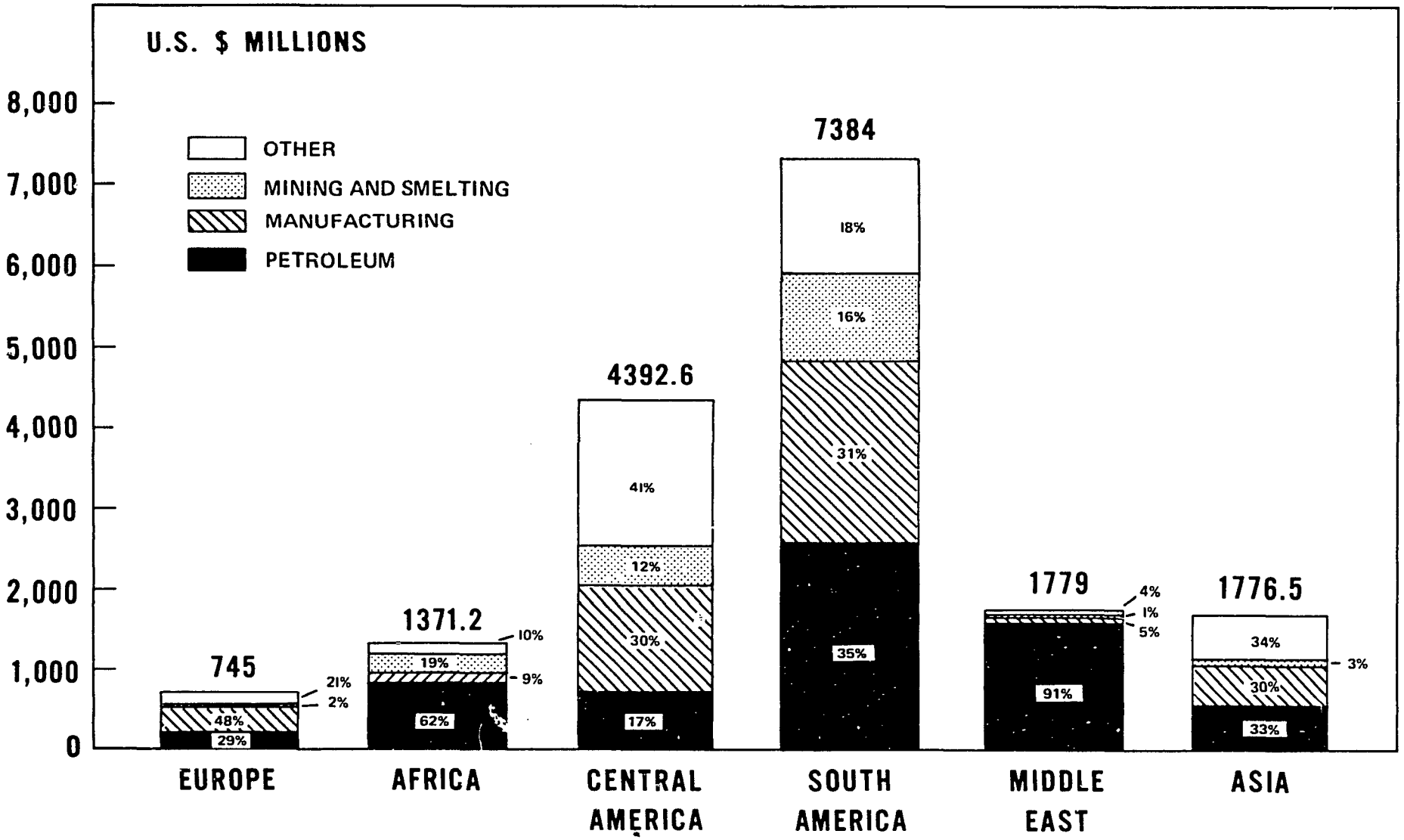
FLOW OF U.S. DIRECT INVESTMENT



SOURCE: Survey of Current Business

1967 BOOK VALUE OF U.S. DIRECT INVESTMENT

IN THE LDC's BY AREA AND SECTOR

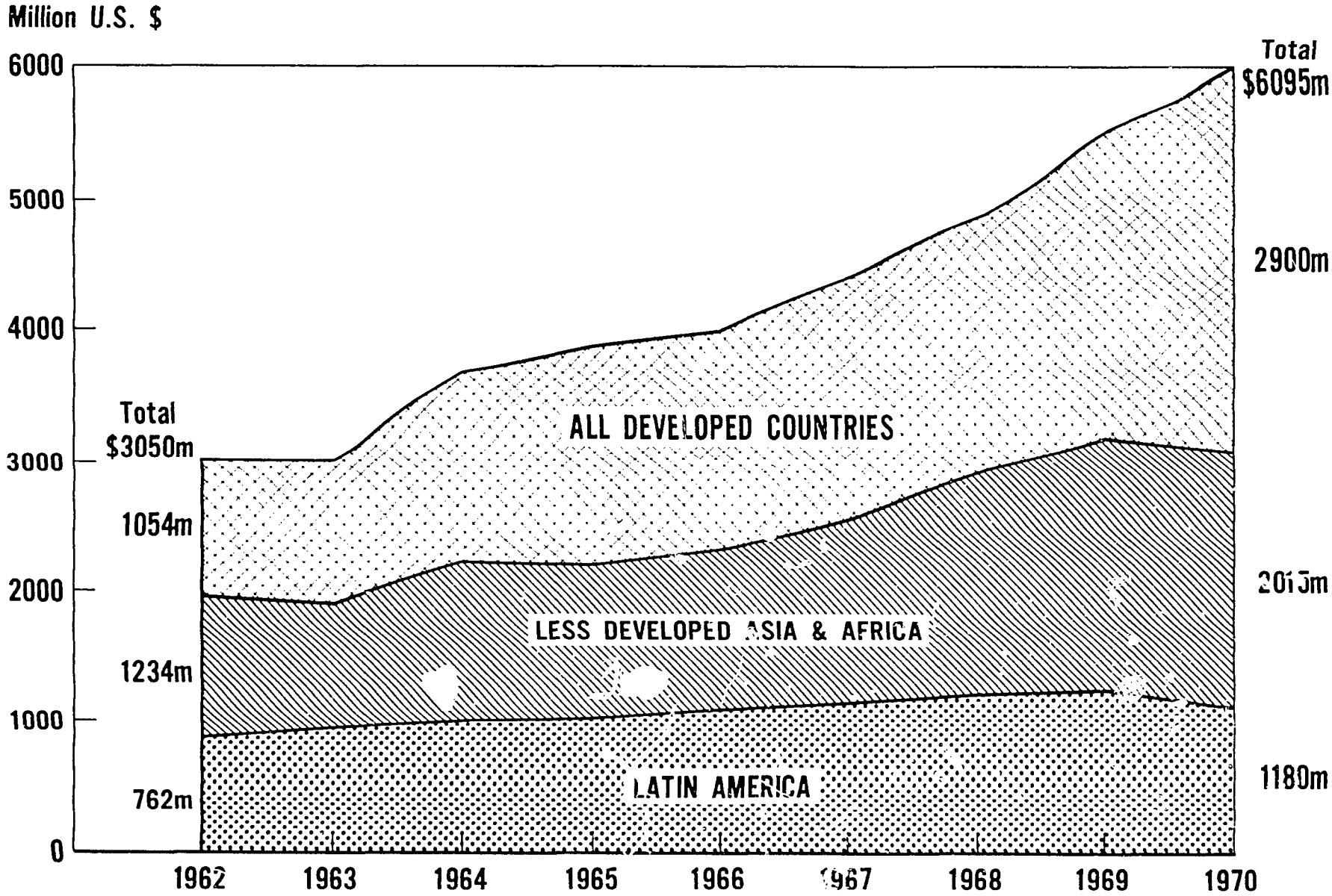


SOURCE: PRIVATE DIRECT INVESTMENTS BY DAC COUNTRIES IN DEVELOPING COUNTRIES (OECD), 1971.

While private investment is important to the development process by providing both capital and technical/managerial know-how, repatriated income is an important element in the balance of payments of many countries (Chart 40). Repatriated direct investment income (i.e., only the repatriated portion of income) from the developing countries totaled over $3.1 billion in 1970, almost a 50% increase over that of eight years ago. This amount compares to the new investment flow of $900 million in 1970. This comparison is no basis for judging the value of private investment. Private investment, like other forms of capital, create jobs, exports and other income and in addition to new investment, some income is reinvested.

2/ Australia, Austria, Belgium, Canada, Denmark, EEC, France, Germany, Italy, Japan, Netherlands, Norway, Portugal, United Kingdom, United States, Sweden, Switzerland

REPATRIATED DIRECT INVESTMENT INCOME



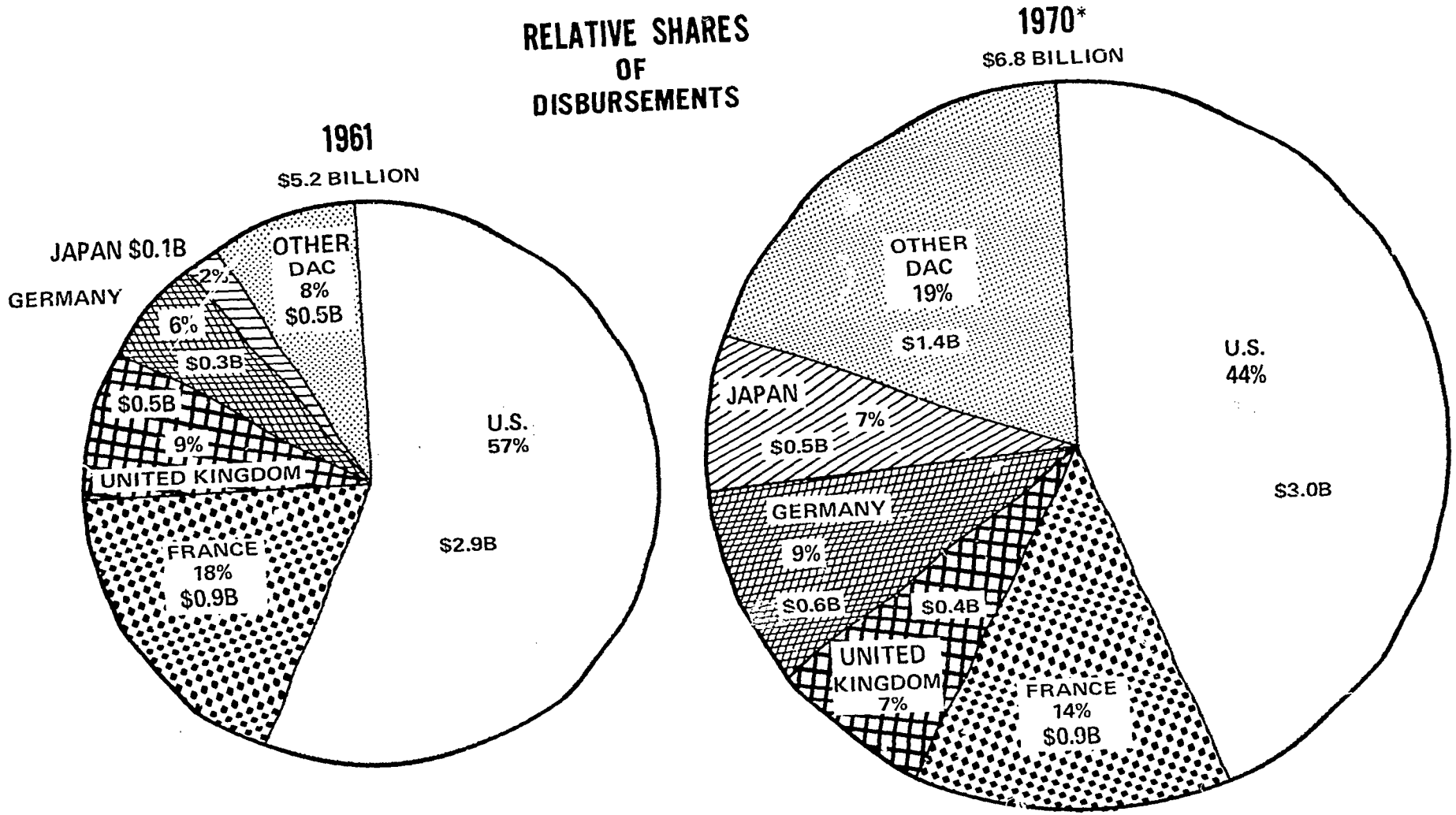
SOURCE: Survey of Current Business

Aid Flows (Chart 41)

Total official development assistance, that portion of resource flows which are given on concessional terms specifically in support of development, has risen from $5.2 billion in 1961 to $6.8 billion in 1970. This is an increase of 30% over nine years; or only slightly better than keeping pace with increased prices. The U.S. share of the total has dropped from 57% to 44%. U.S. aid disbursements, including loans, grants and PL 480, but excluding Export-Import Bank loans and military assistance, have risen by only $100 million in a decade. The shares of the United Kingdom and France have also dropped, but there has been a major expansion of aid programs in Japan, Germany, Canada, the Scandinavian countries, the Netherlands and Belgium.

OFFICIAL DEVELOPMENT ASSISTANCE

RELATIVE SHARES OF DISBURSEMENTS



SOURCE: Development Assistance, 1970 Review, OECD

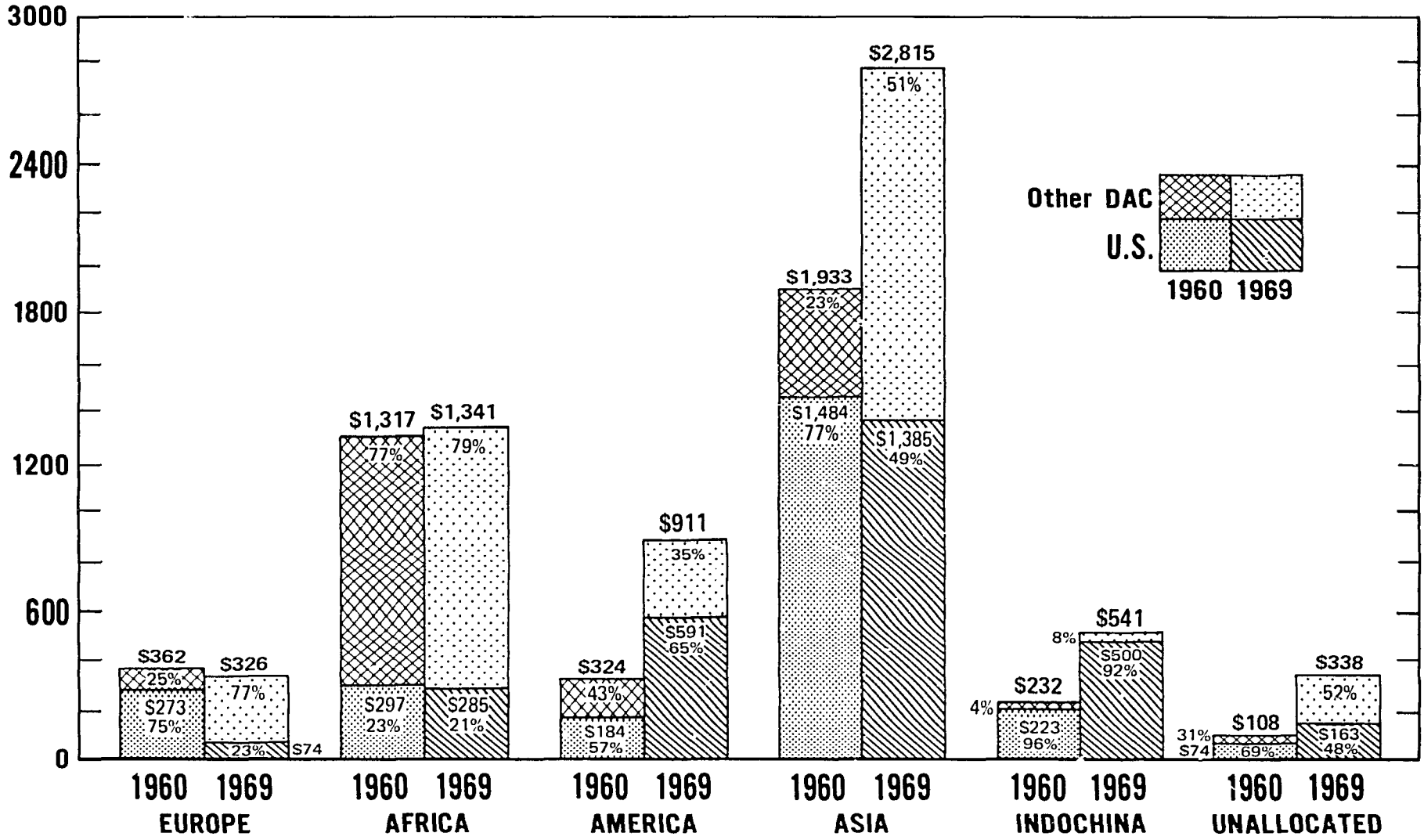
*1970 Data Source: OECD Press Release 15 June 1971

Aid Distribution (Chart 42)

The disbursement of aid funds from DAC countries, of course, do not affect all countries or all regions of the world equally. For most donors Asia has been the principal recipient. The U.S. has large development lending recipients in Asia--India, Pakistan and Indonesia--but also has large security interests in countries such as Korea and Thailand. In addition, Indochina is a major U.S. aid recipient. It is interesting to note that the U.S. share of disbursements in Asia has declined dramatically from 77% in 1960 to 49% in 1969, whereas in Latin America it has risen both in absolute amounts and as a percent of the total.

DAC TOTAL OFFICIAL NET DISBURSEMENTS

1960 & 1969 BY REGION



SOURCES: THE FLOW OF FINANCIAL RESOURCES TO LDC'S 1956–63 (OECD, PARIS); DAC 1970

U.S. Economic Assistance (Chart 43)

The details of the U.S. assistance programs present a picture of relative stability during much of the decade of the 1960's with a decline at the end of the period. The largest single change has been that of the falling off of the development lending which the increase in contributions to international organizations has offset only in part. A second significant decline has been in the food aid category, a change which reflects the success of the green revolution and smaller requirements of the developing countries. Supporting Assistance is now at a level of commitments not much below that of a decade earlier while technical assistance has also declined.

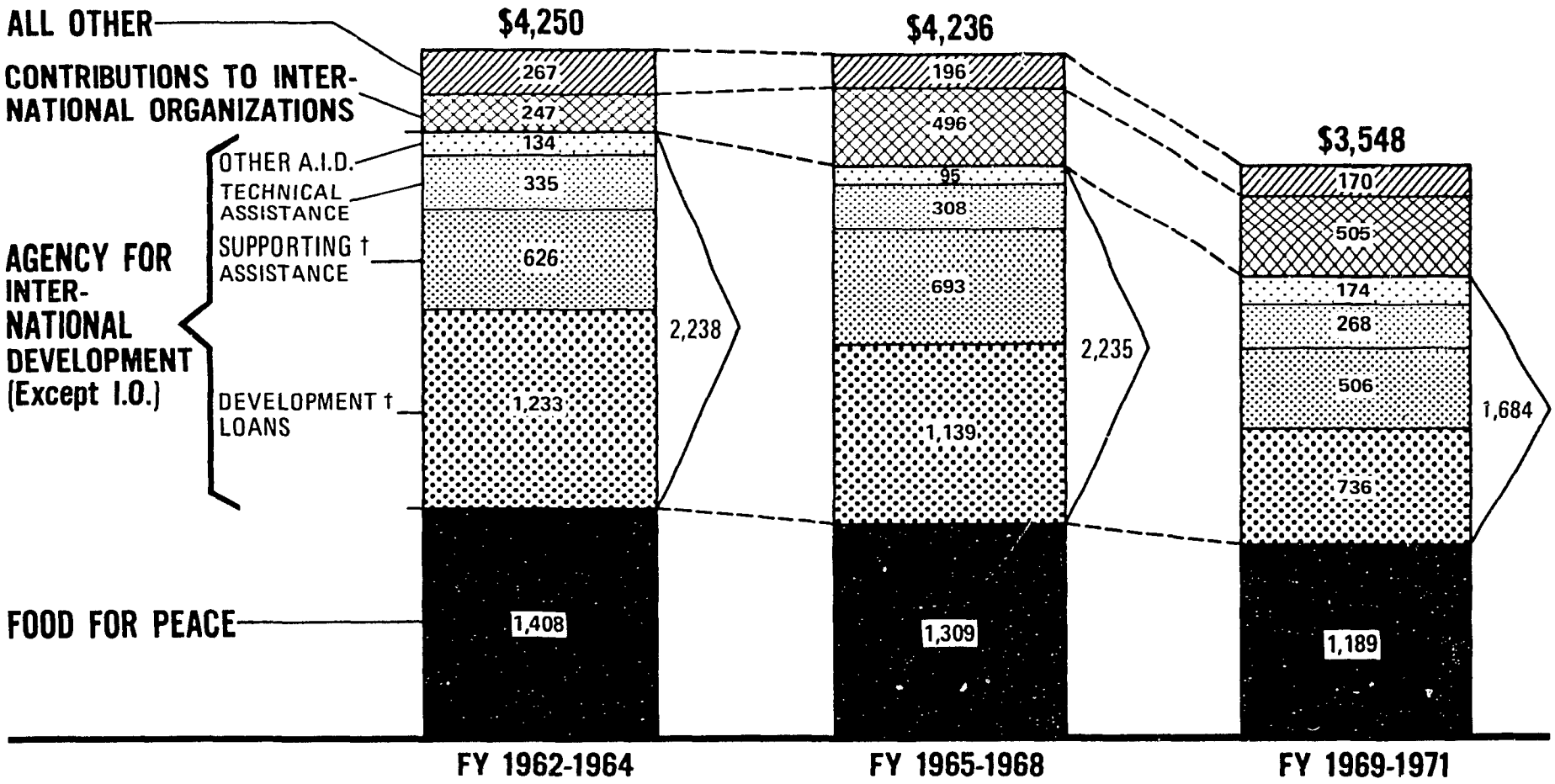
The figures are, to be sure, no cause for complacency since the need is great and our contribution to development has declined despite a vast increase in our wealth.

U.S. ECONOMIC ASSISTANCE* TO LESS DEVELOPED COUNTRIES

ANNUAL AVERAGES BY PROGRAM

GROSS COMMITMENTS

(Millions of Dollars)



Source: U.S. Overseas Loans and Grants and Operations Report.

*Official Development Assistance (ODA); Excludes Ex-Im Bank Loans.

†Excluding small amounts of DL and SA funds used for population programs beginning with FY 1968 - shown in "Other A.I.D."

Debt

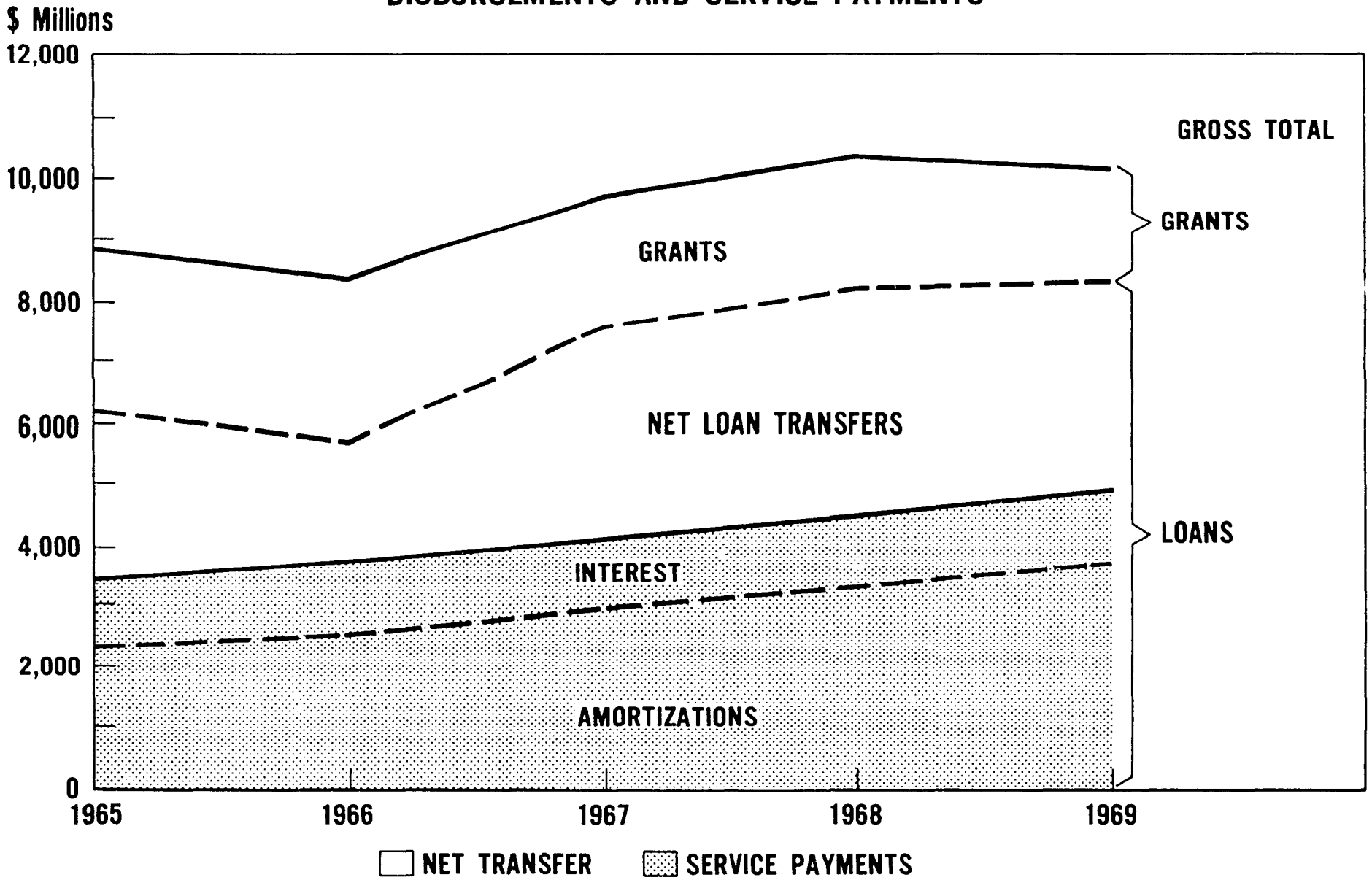
We mentioned the foreign exchange cost of private investment. Cost is also a major factor in export credits and in development assistance (Chart 44). Despite the growth in gross public capital outflows from the industrialized countries to the developing countries during the period 1965 to 1969, the net transfer of public resources has actually declined slightly. 3/ In 1965, $8.8 billion of gross disbursements were offset by interest and amortization payments of $3.4 billion; net transfers were $5.4 billion. In 1969, total disbursements increased to $10.2 billion while service payments increased at a faster rate to $5.0 billion, thus cutting net resource transfers to $5.2 billion. Net loan transfers did rise during the past five-year period reflecting increasing disbursements from IDA, regional banks and the growth in some bilateral donor loan programs.

The debt problem which faces the developing countries is very serious--and growing (Chart 45). External public debt outstanding has grown rapidly during the decade, rising from slightly over $20 billion in 1961 to almost $60 billion at the end of 1969. With the exception of Southern Europe all regions shared in the increase in public debt. The growth of debt has, of course, increased the burden of debt service payments. They rose from slightly over $2 billion in 1961 to more than $5 billion at the end of 1969. Unless gross aid flows increase (and the trend is the other way) or export earnings increase at a faster rate than in immediate past (the prospects for that are limited), debt payments will continue to absorb a large and probably increasing share of total export earnings and the net transfers of resources to the developing countries will decrease.

3/ Data included publicly guaranteed loans as well as total public loans and grants received by 80 LDCs.

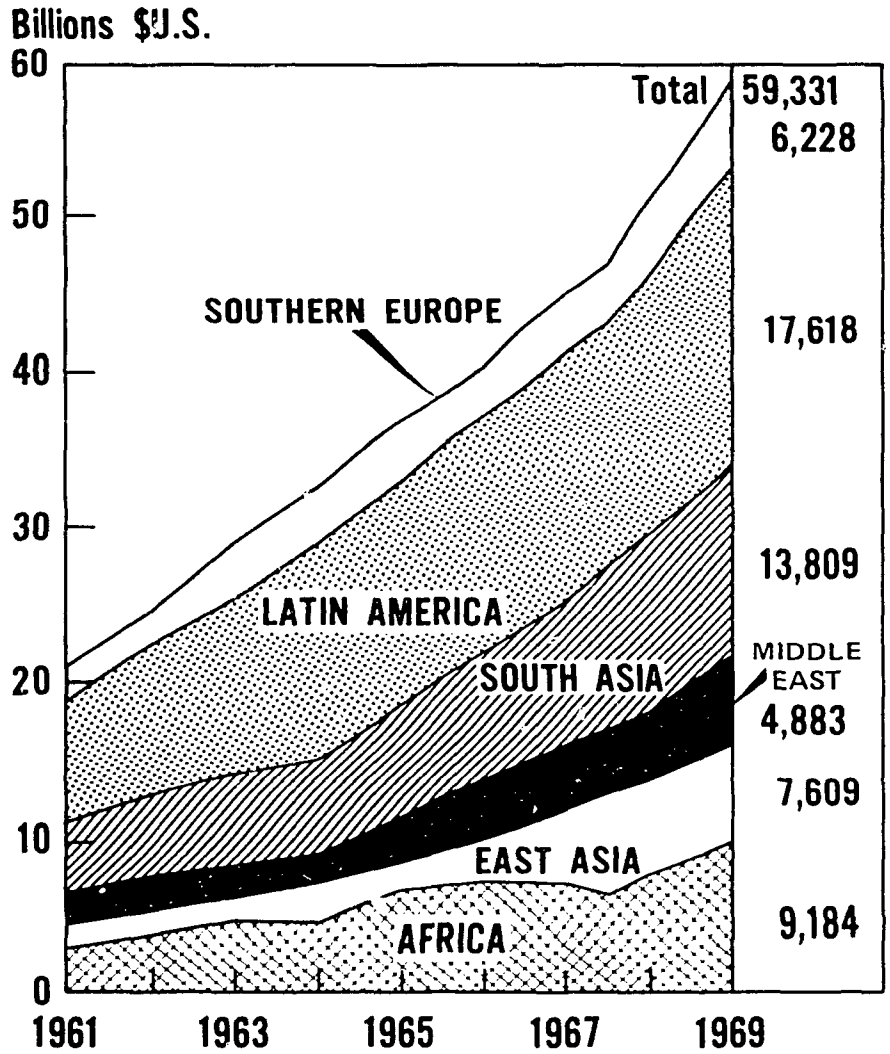
PUBLIC CAPITAL FLOWS

DISBURSEMENTS AND SERVICE PAYMENTS



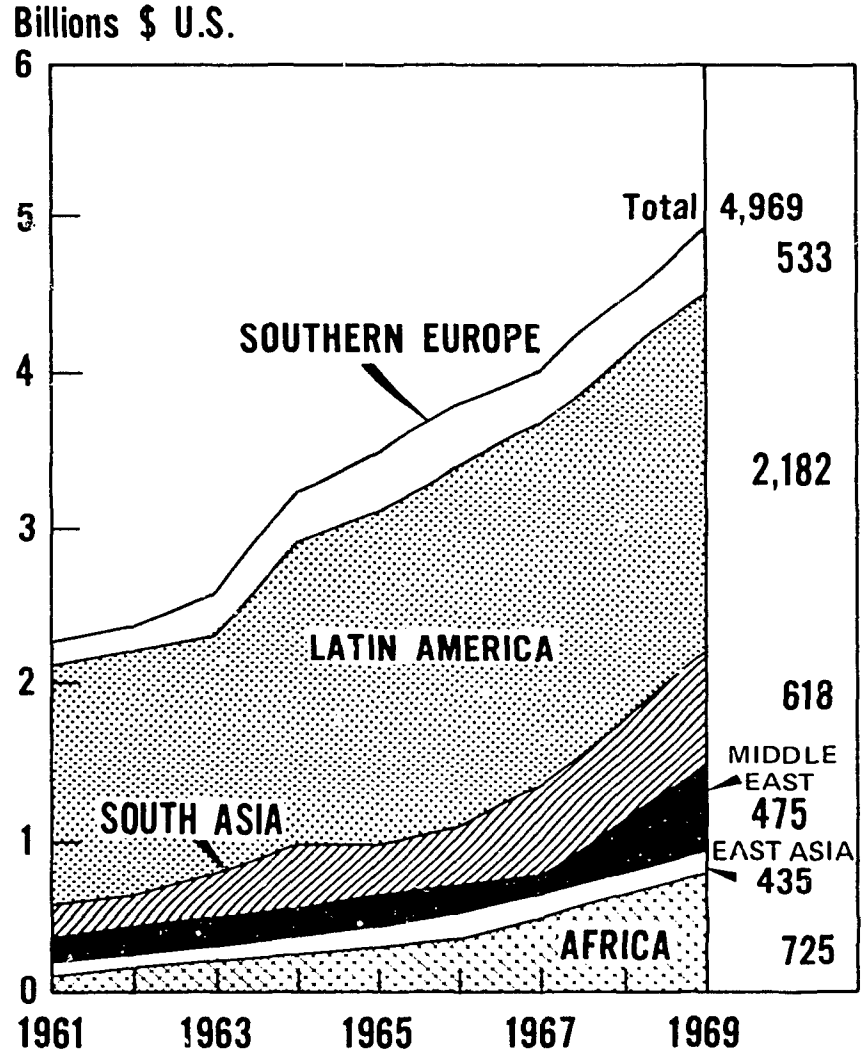
SOURCE: IBRD, ANNUAL REPORTS
*80 SELECTED DEVELOPING COUNTRIES

EXTERNAL PUBLIC DEBT OF DEVELOPING COUNTRIES



Source: PEARSON, PARTNERS IN DEVELOPMENT; IBRD

DEBT SERVICE PAYMENTS OF DEVELOPING COUNTRIES



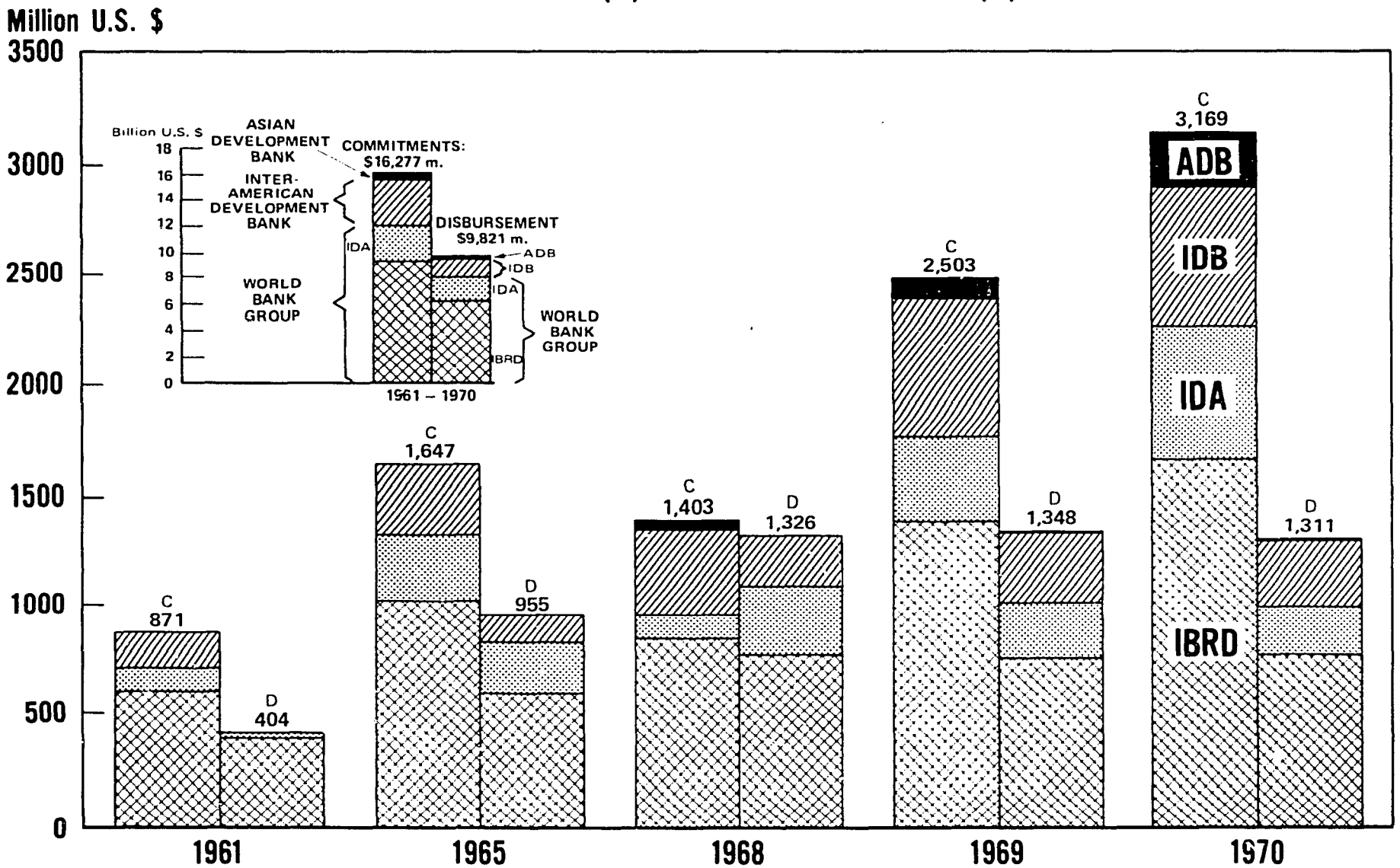
Source: IBRD

International Development Lending (Chart 46)

One important element in providing financing for development on acceptable terms has been the growth of the international financial institutions. A substantial portion of their capital is made available at market or near market terms, but all of them also provide long-term low-interest funds. The growth of commitments, including soft loans, during the past decade has been dramatic, rising from $871 million to $3.2 billion, an almost fourfold increase. However, the growth in disbursements has been more than modest, rising only from $400 million to $1.3 billion. This reflects the inevitable lag in the process and we can expect disbursements to rise more rapidly in future years. However, the present net transfers from the World Bank (Chart 47) remain modest, below $400 million, even though gross disbursements have reached $800 million.

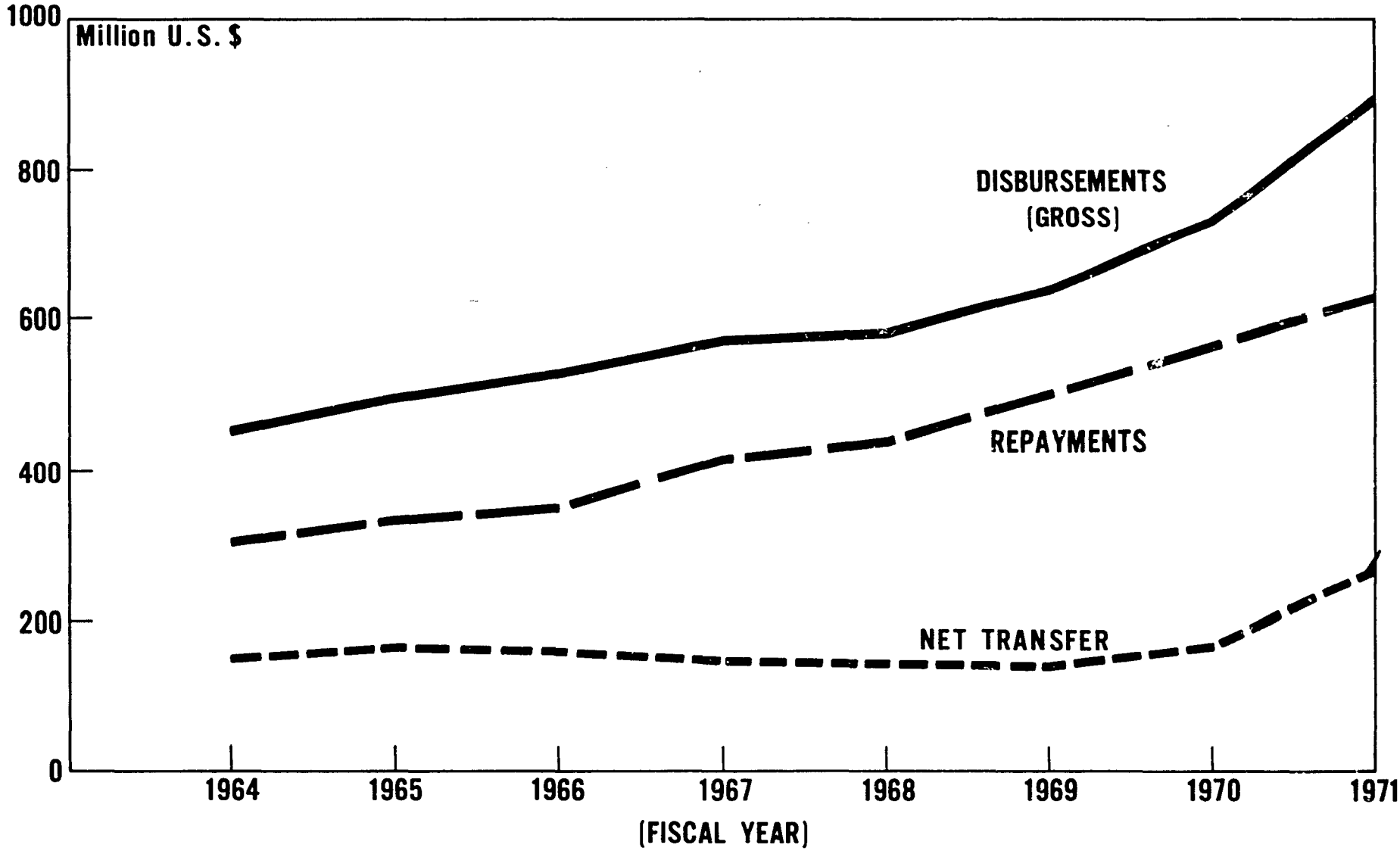
INTERNATIONAL FINANCIAL INSTITUTIONS

COMMITMENTS (C) AND DISBURSEMENTS (D)



SOURCE: Annual Reports of IBRD, IDB and ADB, 1970

NET TRANSFERS FROM IBRD TO LDC's



SOURCE: WORLD BANK ANNUAL REPORTS, 1964-71

VI. Conclusion

No summary view can do justice to the complexity of the development process, the diversity of the developing countries or the many changes which have taken place in the cultures, economies and societies of the developing countries. Yet, sometimes a surfeit of specific obscures the basic event. While a great deal more can be said, this presentation has sought to demonstrate that:

-- The developing countries are moving. While averages often hide as much as they reveal, many countries are making substantial progress in almost all fields.

-- The income gap between the rich and the poor will continue to grow. But to be relevant we must focus not on closing of the gap but on assisting the developing countries in their efforts to provide adequate food, housing, education and health facilities for their people and employment opportunities which assure a reasonable income.

-- The principal responsibility for development rests with the developing countries, and they have provided the bulk of the effort and resources. Foreign assistance is an important, but relatively small, supplement.

-- While encouraging progress has taken place, we are obviously only at the beginning of a very long term effort. Major problems remain to be faced in the 1970s--the Second Development Decade--and beyond. The principal lesson of the 1960s is not that problems have been solved but that there is evidence that life in the developing countries can be improved, step by halting step.