

Report No. 802

# Prospects for Developing Countries: 1976-1980

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Prepared by the Development Policy Staff  
International Bank for Reconstruction and Development  
International Development Association

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INTERNATIONAL BANK FOR  
RECONSTRUCTION AND DEVELOPMENT  
WASHINGTON, D. C. 20433, U.S.A

OFFICE OF THE PRESIDENT

July 7, 1975

Memorandum to the Executive Directors

Subject: Prospects for Developing Countries: 1976-1980

1. The purpose of this study is to make available to the members of the World Bank and the international organizations that comprise the Development Community, the Bank's findings concerning the prospects for the developing countries in the period 1976-80. It is a more detailed statement of the analysis and conclusions presented to the Development Committee of the Governors of the Bank and Fund at its meeting in Paris in June 1975. The study is designed to contribute to the discussion on issues of trade, development policies, and capital flows that is taking place in many international forums.
2. The international economy continues to be dominated by the need to adjust to the changes in relative prices of 1973-74 and the effects of the associated inflation and recession. The developing countries have already taken significant steps to adjust to this changing environment, and the report covers some of the principal elements of this internal adjustment as well as the evolving patterns of trade and capital flows.
3. This analysis focuses on the policy measures needed to restore the growth of the developing countries--and particularly the poorest among them--to something like the United Nations targets that were set out at the beginning of the decade. Since no single set of measures in the field of trade, aid or internal development policy can achieve these objectives, alternative policy mixes that are more likely to produce the desired result are presented.
4. Although the present report stops short of making specific recommendations for the volume and allocation of the resources of the World Bank, it provides a background for the recommendations that I will make to the Governors later in the year.

*Robert S. McNamara*



PROSPECTS FOR DEVELOPING COUNTRIES: 1976-1980

Table of Contents

	<u>Page No</u>
I. <u>CHANGES IN THE WORLD ECONOMY</u> .....	1
A. The External Impact on Development .....	2
B. The Process of Adjustment .....	9
II. <u>PROSPECTS OF THE OIL EXPORTING COUNTRIES</u> .....	13
A. Recent Developments .....	13
B. Domestic Development Prospects in OPEC Countries .....	15
C. Balance of Payments Prospects .....	20
III. <u>THE ADJUSTMENT PROCESS IN DEVELOPING COUNTRIES</u> ...	24
A. The Adjustment Process, 1974-1976 .....	24
B. Policies for the Remainder of the Decade .....	42
IV. <u>PROSPECTS FOR EXTERNAL TRADE</u> .....	46
A. Background: Principal Trends in World Trade .....	46
B. External Factors Affecting Trade of Developing Countries .....	50
C. Potential for Enhancing Developing Countries' Trade Prospects .....	52
D. Summary and Conclusions: The Prospects for Trade .....	59
V. <u>FLOWS OF EXTERNAL CAPITAL</u> .....	61
A. Official Flows from Oil Producing Countries ..	64
B. Official Flows from the DAC Countries .....	66
C. Allocation of Official Capital Flows .....	67
D. Private Capital Flows .....	69
E. Debt Service and Creditworthiness .....	70
F. Possibilities for Increased Capital Flows ....	72
VI. <u>DEVELOPMENT POLICIES FOR 1976-1980</u> .....	
A. The Restoration of Growth .....	75
B. Policy Alternatives .....	77
C. Requirements for Additional Capital .....	82
ANNEX A: PROSPECTS FOR THE INDUSTRIAL COUNTRIES	
ANNEX B: ENERGY PROSPECTS	
ANNEX C: INFLATION THE TERMS OF TRADE AND DEBT SERVICING COSTS	
ANNEX D: THE ANALYTICAL BASIS FOR THE PROJECTIONS	
ANNEX E: TABLES	



PROSPECTS FOR DEVELOPING COUNTRIES: 1976-1980

I. CHANGES IN THE WORLD ECONOMY

1.01 The world economy is now in its second year of reacting to the economic crisis provoked by the inflationary boom of 1972-73, the large rise in petroleum prices, and the intensification of the recession in the industrial countries. The prospects for developing countries continue to be dominated by adjustments to these events. By 1975 their external purchasing power had declined, as a result of rising import costs and declining export prices, by some \$14 billion per year from the level of the early 1970s. This loss is larger than the aggregate annual transfer of real resources that they received in those years. For the majority of developing countries, this deterioration in the terms of trade was initially caused by the sharp increase in the cost of petroleum in 1973, together with the continued rise in the prices of goods and services imported from industrial countries. The recession of 1974-75 compounded these effects by lowering the prices of primary commodities, as well as the volume of exports.

1.02 A year ago, when the impact of these major events was only beginning to be felt, the Bank's analysis of developing countries' prospects<sup>1/</sup> focused primarily on the first phase of this adjustment process, in which increased foreign borrowing and the use of reserves (including access to IMF resources) were the only ways of offsetting the immediate impact of the worsened terms of trade. Now that the adjustment process is under way, it is possible to assess in more detail the structural changes that are necessary for different groups of countries in the longer term, and the relative importance of the several policy instruments that can bring them about. These include increased exports, import substitution, and changes in consumption patterns as well as inflows of public and private capital.

1.03 To maintain the momentum of growth in many of the developing countries--and to improve growth performance in

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<sup>1/</sup> Prospects for the Developing Countries, July 1974 (Report No. 477).

the poorest among them--will now require more than changes in domestic policy: substantial changes in the pattern of international trade as well as increased transfers of real resources from economically stronger countries are needed. In reviewing the prospects for development and the policy changes needed to achieve more satisfactory performance, it is necessary to concentrate to a large extent on the means of restoring a greater degree of equilibrium to the international system of trade and capital flows, since foreign exchange shortages have again become a major constraint on growth in a large part of the developing world. This by no means implies that external factors are the only source of these countries' adjustment difficulties. Until the current external problems are more satisfactorily resolved, however, they are likely to hamper the internal processes of economic and social change that are the focus of development policy in the longer run.

1.04 Many of the issues addressed here are being considered in international discussions of the possibilities of a New International Economic Order. The purpose of this study is to provide a quantitative framework for the analysis of policy which will take account of the main factors limiting development in different groups of countries, and to give estimates of the effects of specific policy alternatives. This quantitative framework makes it possible to evaluate different means of achieving development objectives.

#### A. The External Impact on Development

1.05 The rise in petroleum prices late in 1973 created a large imbalance in the trade between the principal oil exporting countries--all of which are members of the Organization of Petroleum Exporting Countries (OPEC)--and the rest of the world. Their substantial foreign exchange earnings and opportunities for accelerated growth make it useful to treat the major oil exporters as a separate group of developing countries, both from the standpoint of their development prospects and of their impact on the growth of oil importing countries. The analysis of the processes of adjustment through which this disequilibrium is being reduced requires explicit consideration of the interaction among the OPEC countries, the industrialized countries of OECD, and the other developing countries (LDCs).<sup>1/</sup>

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<sup>1/</sup> In this study the term "OECD countries" denotes the more industrialized members of the Organization for Economic Cooperation and Development, omitting Greece, Turkey, Spain and Portugal. The term "LDCs" refers to all developing countries except for OPEC and the centrally planned economies.

1.06 The present study is based on historical analysis and projections for a panel of forty countries. It takes account of the effects of changes in commodity prices and export earnings on the availability of the imports required for growth.<sup>1/</sup> The results are summarized in the following tables and charts for three groups of developing countries: (i) the OPEC countries, which contain 14% of the population of the developing world; (ii) the middle income developing countries (defined as those non-OPEC countries with per capita GDP above \$200), which account for 36% of that population; and (iii) the low income oil importing countries, which have nearly one billion people, or half the population of the developing world.

1.07 The full effects on developing countries of the boom and recession of 1972-74, and of the more permanent shift in the relative price of oil, are only now becoming clear. Although the national product of the developing countries as a whole grew at 5.6% per year over the period 1971-74, which was somewhat above the average of the previous decade, this growth was distributed even more unevenly among the three main groups than in the past (see Table I.1).<sup>2/</sup> In large part these differences in development performance can be attributed to changes in the volume and purchasing power of exports and capital flows and the import levels that they support, which are shown separately in Figures 1 and 2 for the middle and low income countries. In this context, the main differences among the three groups of developing countries are as follows.

1.08 Although the capacity for growth of the oil exporting countries was greatly increased by the rise in oil prices during 1973, this capability is only now being realized. The annual growth rate of the OPEC countries increased from 6.6% in the decade of the sixties to 7.7% in 1971-1974; further increases are in prospect for the rest of the decade. These prospects, and their effect on the adjustment problems of other developing countries, will be discussed in Chapter II.

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<sup>1/</sup> All of these elements are included in the Bank's "SIMLINK" model of the external impacts on development, which is summarized in Annex D. This model distinguishes seven groups of developing countries, which are aggregated into three for purposes of discussion.

<sup>2/</sup> The evolution of the world economy for the period 1955-1980 is described in similar terms in Annex Table 1, which gives data for the OECD countries, centrally planned economies, OPEC, and other developing countries.

Table I.1: PAST AND PROJECTED GDP GROWTH RATES BY GROUPS OF DEVELOPING COUNTRIES

Average Annual Percentage Growth Rate <sup>a/</sup>

	1961-70	1971-74	Projected 1975-80		Projected 1971-80		Population in 1970 (millions)
			Case I	Case II	Case I	Case II	
<u>Total GDP</u>							
Low Income Countries	4.4	1.6	3.3	5.0	2.7	3.7	908
Middle Income Countries	5.7	6.9	4.7	5.5	5.6	6.1	640
Sub-total (excl. OPEC)	5.2	5.3	4.4	5.4	4.8	5.5	1548
OPEC Members	6.6	7.7	8.3	8.3	8.1	8.1	251
Total Developing	5.4	5.6	5.0	5.8	5.3	5.8	1799
<u>Per Capita GDP</u>							
							(% of total)
Low Income Countries	2.0	-0.8	0.7	2.4	0.2	1.2	50.5
Middle Income Countries	3.1	4.3	2.0	2.8	2.8	3.4	35.6
Sub-total (excl. OPEC)	2.4	2.7	1.8	2.7	2.1	2.9	86.1
OPEC Members	4.0	5.0	5.4	5.4	5.2	5.2	13.9
Total Developing	2.8	3.0	2.3	3.2	2.7	3.2	100.0

<sup>a/</sup> Throughout this paper period growth rates are measured from the year preceding the initial year of the period.

Note: GDP data refer to 40-country panel; population data refer to all developing countries.

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Table I.2 : ALTERNATIVE PROJECTIONS OF TRADE, GROWTH AND CAPITAL FLOWS, 1974-80  
(For 40-Country Panel; Amounts in Billions of 1974 Dollars)

	1974	Projection for 1980			1975-80 Growth Rate (% per annum)	
		Present Policies (Case I)	Improved Policies (Case II)	Increase	Case I	Case II
<u>Middle Income Countries</u>						
GDP	473.3	623.0	653.9	30.9	4.7	5.5
Imports Required	80.5	107.9	116.5	8.6	5.0	6.4
Financed by:						
Exports	63.3	96.4	102.8	6.4	7.3	8.4
Capital Flows:						
Real Resource Transfer	17.2	11.5	13.7	2.2	-6.5	-3.7
M&LT Financial Transfer	16.5	17.2	19.5	2.3	0.7	2.8
<u>Low Income Countries</u>						
GDP	188.8	229.0	252.7	23.7	3.3	5.0
Imports Required	15.8	19.8	21.7	1.9	3.8	5.4
Financed by:						
Exports	11.0	15.3	15.6	0.3	5.6	6.0
Capital Flows:						
Real Resource Transfer	4.8	4.5	6.1	1.6	-1.2	4.1
M&LT Financial Transfer	4.9	5.6	7.3	1.7	2.3	6.9
<u>Total 40-Country Panel</u>						
GDP	662.1	852.0	906.6	54.6	4.4	5.4
Imports Required	96.3	127.7	138.2	10.5	4.9	6.2
Financed by:						
Exports	74.3	111.7	118.4	6.7	7.1	8.1
Capital Flows:						
Real Resource Transfer	22.0	16.0	19.8	3.8	-5.4	-2.0
M&LT Financial Transfer	21.4	22.8	26.8	4.0	1.1	3.8

Note: Converted to 1974 dollars from data originally in 1967-69 prices. "Exports" are the purchasing power of exports; they thus reflect the trend in the terms of trade as well as export volume. The financial transfer of medium and long-term resources is generally greater than the real resource transfer (the balance on goods and non-factor services) because of interest payments and normal growth in international reserves; the reserve drawdown in 1974 reversed this relationship in that year.

1.09 The middle income countries also benefited from the worldwide boom, at least through early 1974. While they suffered a net worsening in their terms of trade by \$6 billion over this period, they were able to offset that loss by increases in public and private borrowing. As a result, it was only in 1975 that their imports declined and growth was sharply reduced. However, in order to sustain their present income levels the middle income countries are now financing an import surplus of more than 3% of GNP, twice the proportion of the previous decade.

1.10 The low income countries as a group benefited little from the export boom of 1972-1973, and their terms of trade have deteriorated more than those of the other developing countries.<sup>1/</sup> For the past five years they have suffered from stagnation of imports and, in several cases, from a series of crop failures. Even though capital inflows to these countries increased at 8% per year in real terms over the period 1971-1974, this increase did not offset the worsening in their terms of trade. As a result of these factors, and of less than effective economic management, the growth of GDP has not kept up with that of population. This experience contrasts sharply with that of the other half of the developing world, in which income growth accelerated significantly between the sixties and the first half of the seventies.

1.11 In summary, the main changes in their external position to which the oil-importing developing countries must adjust over the next few years are three: (i) the loss of more than 10% of the purchasing power of their exports since the beginning of the decade--a loss that is not likely to be reversed in the near future; (ii) the effects of world recession on their major export markets, the industrial countries; and (iii) uncertainty as to the availability of increased flows of capital over the transitional period during which the developing countries will have to restructure their economies.

1.12 The main effect on development of the changes in the world economy in the first half of this decade has been to widen existing disparities between the growth rates of different groups of countries rather than to slow down the aggregate rate of advance. Though some of the poor countries have benefited from these changes, on balance the distribution of income and, particularly, the prospects for future growth, have become more unequal. This growing inequality was an unplanned by-product of the strong cyclical movements and the shift in relative prices of this period. The main question that it raises is whether a combination of external and internal policies can be devised to reverse this trend.

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<sup>1/</sup> These movements in the terms of trade are analyzed in Chapter IV.

Figure 1

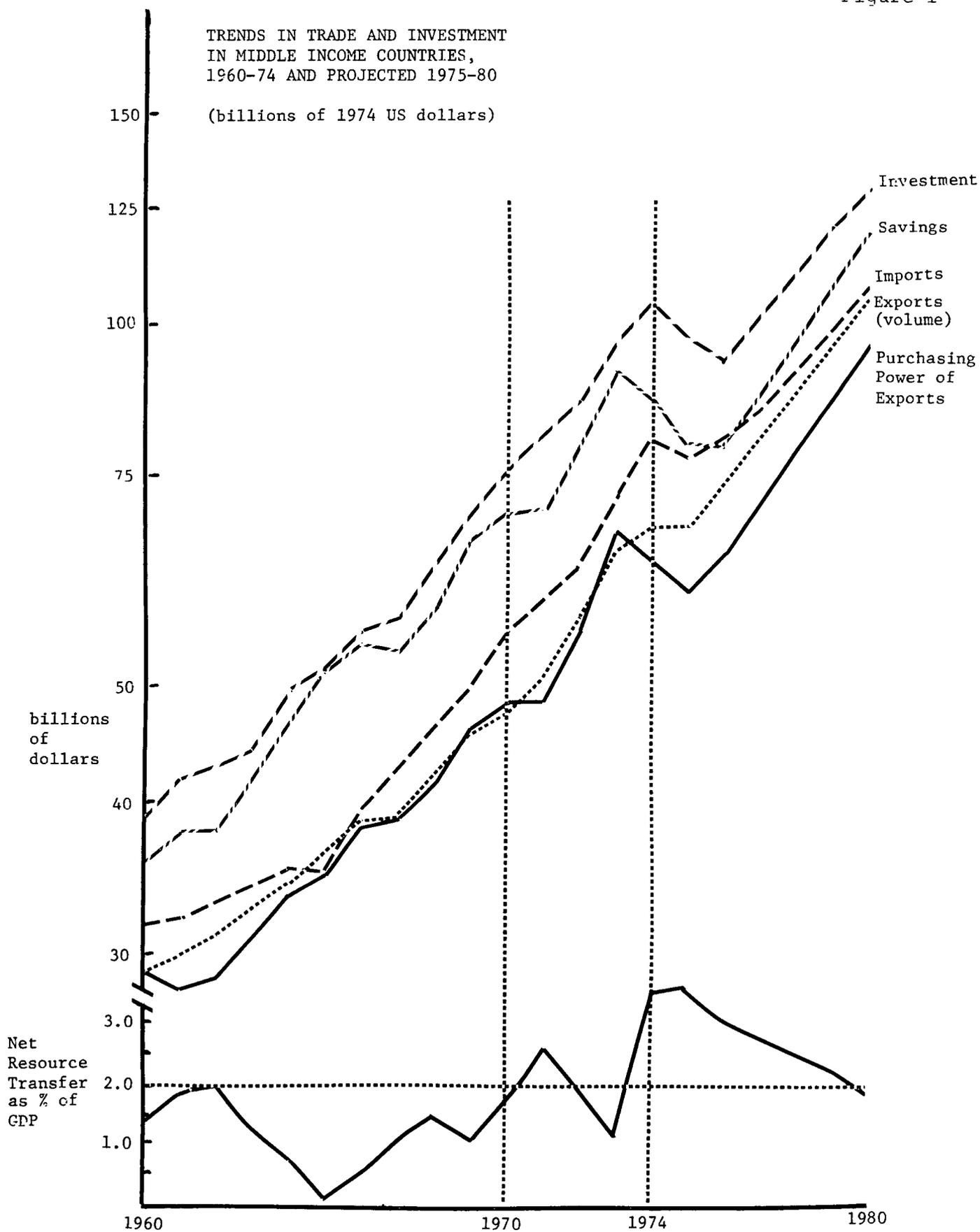
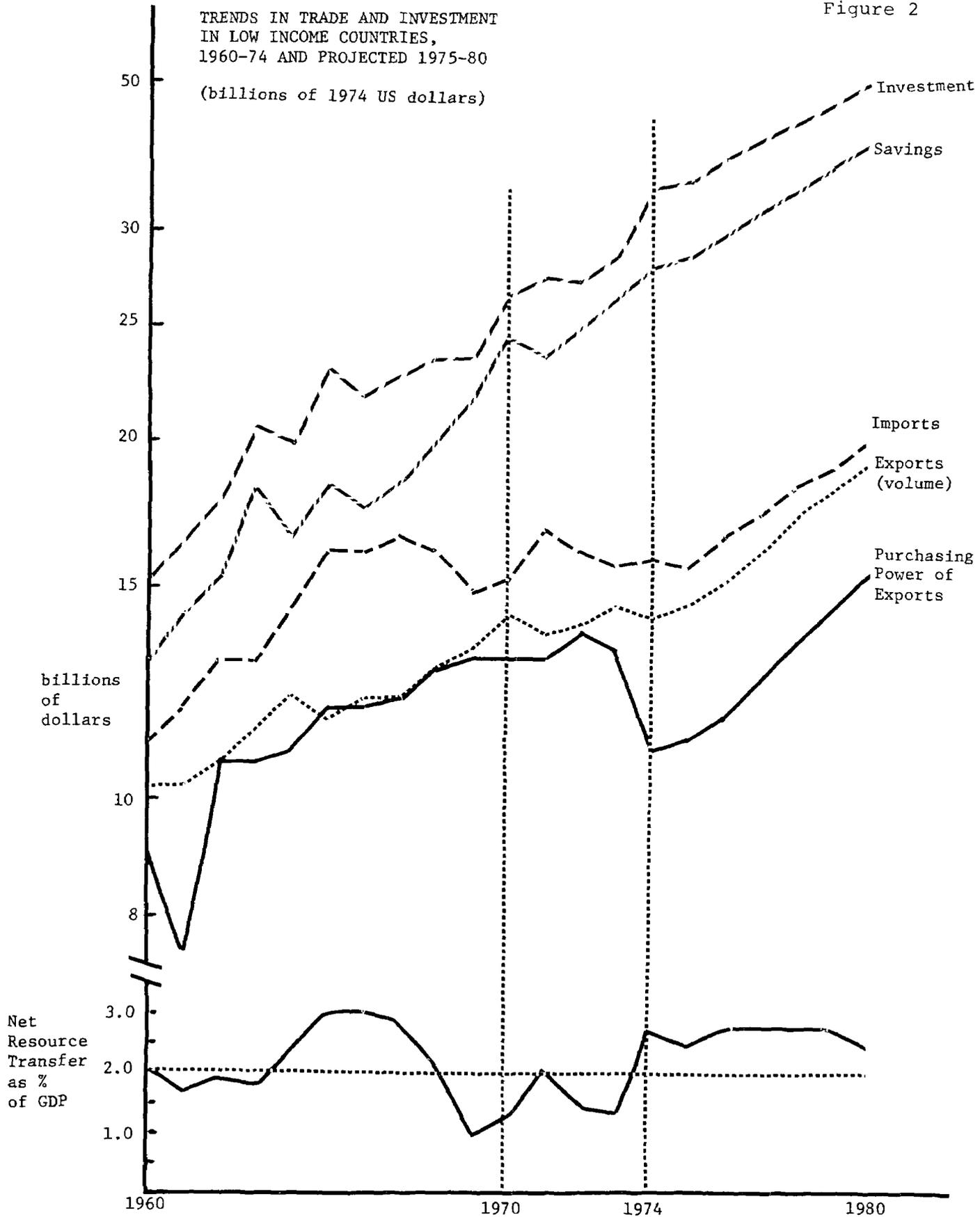


Figure 2



## B. The Process of Adjustment

1.13 This study is concerned with the ways in which adjustment to the present disequilibrium is likely to take place in the world economy, and with the special measures needed to restore the growth of those developing countries that have been most affected by recent events. For the world as a whole, the major structural adjustment is that taking place between oil exporters and oil importers. The pace of the reduction in the present balance of payments disequilibrium --some \$50 billion--between these two groups will be determined mainly by (a) the expansion of imports by the OPEC countries, making use of their earnings for the development of their own economies and (b) the limitation of oil imports by the rest of the world through demand reduction and increased use of non-OPEC sources of energy. Both adjustment processes have been proceeding more rapidly than was anticipated by most observers a year ago, for reasons to be discussed in Chapters II and IV.

1.14 For the non-OPEC developing countries, the process of adjustment is more complex. Only 14% of OPEC imports come from other developing countries, and maintaining even this share will be difficult. The major part of the LDC adjustment process will thus involve trade with the OECD countries. Moreover, although OPEC has been rapidly increasing the flow of capital to other developing countries and in 1974 supplied a quarter of their total receipts, increased flows from the OECD countries are a necessary ingredient in any solution to the LDC adjustment problem. Changes in trade and aid relations between OECD and the developing countries are in turn highly dependent on the rate of recovery of the industrial countries from the present recession.

1.15 This complex set of interactions can only be analyzed by means of a set of models in which interactions among the major variables and regions are taken into account. The principal model underlying the present study traces the effects on trade, growth of GDP, and capital requirements of assumptions concerning the following sets of variables for each major country group:

- OECD: (1) Rate of recovery from the recession  
(2) Trade policies  
(3) Aid policies
- OPEC: (1) Future oil prices  
(2) Import absorption  
(3) Aid policies
- LDCs: (1) Import substitution  
(2) Borrowing capacity (public and private)  
(3) Export possibilities.

These variables can be affected to differing degrees by changes in government policies. The effects of possible policy changes, as well as of uncertainty as to the outcome of present policies, are brought out by testing the consequences of alternative assumptions.

1.16 To define the magnitude of the adjustment problem, the consequences of a continuation of present trends are projected as a point of departure. This "Base Case" is derived from the behavior of national economies and commodity markets in the past few years. External capital flows to LDCs are based on estimates of probable supplies from OECD and OPEC, taking account of recent trends in their commitments. Since the rate of recovery of the industrial countries cannot be projected with accuracy, two alternative rates of growth for the period 1975 to 1980 are analyzed.<sup>1/</sup> For factors that are largely affected by government policy--the rate of OECD growth, the future price of oil, and the volume of public capital flows--the "Base Case" assumptions are as follows:

- OECD Growth: A medium growth rate of 4.2% for the period 1975-1980, midway between the high alternative (4.9%) and the low alternative (3.6%);
- Petroleum Price: approximately constant at \$9.40 per barrel (in 1974 prices);
- Official Capital Flows: approximately constant at 1974 levels (in 1974 prices).

1.17 The consequences of these assumptions for the period 1975-1980 are shown as Case I in Table I.2 and are also depicted in Figures 1 and 2. For the middle income countries, the anticipated recovery of the industrial economies is expected to yield a growth of export earnings of 7.3% (corrected for changes in the terms of trade). However, the expectation of relatively constant inflows of medium and long-term capital (in constant dollars) leads to a substantial reduction in the transfer of real resources because of the growing burden of interest payments. As a result, these countries' import growth is cut to 5% a year for the remainder of the decade, considerably below its trend of the past fifteen years, and the annual growth of GDP falls to 4.7%.

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<sup>1/</sup> These alternatives are discussed in Annex A.

1.18 In the Case I projection the low income countries achieve an accelerated growth of exports of more than 5% per annum in both volume and value for the rest of the decade, as a result of recovery in the OECD countries and of rapid growth in the OPEC market. While this growth rate is well above the trend of the past twenty years, the purchasing power of these countries' exports has declined so much in the past two years that it will not return to the levels of the mid-sixties before 1977. Further, the assumed stagnation of capital inflows has particularly large repercussions for the poor countries. As explained in Chapter III, the low income countries generally have less flexible economies than the middle income countries and less scope for policies to offset the effects of a severe import shortage. In consequence, the growth of GDP will probably be held to less than 3.5%, less than the growth of imports.

1.19 The "Base Case" in these two projections defines the magnitude of the adjustment problem facing the international community. To achieve more satisfactory rates of growth, the two groups of developing countries must ease the balance of payments constraint which this projection discloses, either through additional exports, through import substitution or through additional inflows of capital. Furthermore, concessionary capital must be allocated in adequate amounts to the poor countries.

1.20 To illustrate what might be accomplished under plausible alternative assumptions, the Case II projection of Table I.2 indicates the changes in the external environment required to raise the average GDP growth rate of the oil-importing developing countries from the 4.4% in Case I (the Base Case) to 5.4%; this includes a proportionately larger increase for the low income group (from 3.3% to 5%). While these are modest objectives, the lack of growth in 1975 implies substantially higher growth targets for the remaining five years of the decade. For the 40 sample panel countries, GDP would by 1980 have to be some 6% larger in the Case II than in the Case I projection, and imports would accordingly have to be \$10.5 billion higher. Extending the sample results to all developing countries, the import shortfall becomes \$14 billion (in 1974 prices). This shortfall measures what must be financed, by some combination of increased exports and increased capital flows, to raise GDP to the Case II target.

1.21 The analysis that follows examines ways in which changes of these magnitudes might be accomplished so as to restore the import capacity and hence the growth of developing countries to more satisfactory levels.

- Chapter II analyzes the prospects for the OPEC countries and their effects on other developing countries.
- Chapter III focuses on the measures other developing countries are taking to adjust to the changes in their external position, and analyzes the scope for future adjustment policies in countries with different degrees of flexibility. The success of these countries' adjustment policies will depend critically on future changes in the world economy.
- Chapter IV examines the effects on developing countries' growth prospects of changes in the volume and direction of international trade, considering alternative assumptions as to future oil prices and rates of growth in the OECD countries. Even under optimistic assumptions as to international economic policies and the expansion of exports, the resource gaps of most of the developing countries are likely to remain large in the years ahead if they return to more adequate rates of growth.
- Chapter V considers the possibilities for increased flows of official and private capital from both OECD and OPEC sources. The analysis implies that a restoration of reasonable growth rates in the developing countries can only be brought about by some reallocation of official flows to favor the lower income countries.
- Chapter VI provides a synthesis of the discussion of alternative external policies and shows the interconnections between trade and aid policies, both for donors and recipients. Although neither increased capital flows nor trade adjustments alone is likely to restore satisfactory growth rates in the developing countries, combinations of these policies can be devised that make the restoration of the targets of the Second Development Decade a feasible objective of international action.

## II. PROSPECTS OF THE OIL EXPORTING COUNTRIES\*

2.01 The major oil exporting countries are associated through the Organization of Petroleum Exporting Countries.<sup>1/</sup> Their development prospects improved dramatically with the increase in the price of oil in the latter part of 1973, as reflected in the large rise in their export earnings, which has considerably augmented their national incomes, foreign exchange reserves and savings.

2.02 Though the increase in their oil revenues reduces the financial and foreign exchange constraints on development, it cannot by itself solve the development problems of the OPEC countries. The relative abundance of financial resources has meant that domestic policy choices have become more complex than hitherto, and that strategies for development will require increasing sophistication in economic and social planning. Since, in most OPEC countries, oil revenues flow directly to government agencies and raise disposable incomes only insofar as they are spent domestically, the role of governments, and their expenditure decisions, take on greatly increased importance. The particular policy measures that different OPEC members adopt in response to their increased oil revenues depend in large part upon the expected life of their oil reserves, upon their absorptive capacity in relation to the projected volume of these revenues in future, and on their ability to diversify their economies. While a number of common characteristics can be observed, an analysis of these countries' development prospects and problems cannot usefully treat the major oil exporters as a homogeneous group. After a brief review of recent developments, this chapter discusses their domestic policy options taking these variations into account, and finally assesses their balance of payments prospects.

### A. Recent Developments

2.03 As a result of the increases in the price of oil from \$1.90 per barrel in 1972 to \$9.77 during 1974, the OPEC countries' share of world exports rose from 6.3% in 1970 to 16.1%<sup>2/</sup> in 1974 and now surpasses that of all other developing

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<sup>1/</sup> The discussion in this chapter relates to 11 of the 13 OPEC members: it excludes Ecuador and Gabon.

<sup>2/</sup> This compares with 16.8% for the total exports of all oil-exporting developing countries, as shown in Table IV.1.

\*This chapter was prepared by the Europe, Middle East and North Africa Regional Office.

countries combined. The nominal value of their oil exports rose from \$36 billion in 1973 to some \$113 billion in 1974, and despite an estimated 90% rise in imports, they showed a current account surplus of \$66 billion, which compares with \$7.4 billion in 1973.<sup>1/</sup> The OPEC countries account for 7% of the world population. Their share of world income stood at an estimated 5% in 1974, compared with about 3% a year earlier, and in the course of 1974 their gold and foreign exchange reserves rose from 8% to about 23% of the world total.

2.04 Although the disposal of OPEC's current surpluses through the capital account cannot be fully described, it appears that a major part has been held in the form of short-term assets abroad. Some long-term investments have been made in developed and other developing countries. In 1974, the OPEC countries' commitments of financial assistance to developing countries amounted to some \$16 billion, of which \$5.6 billion was disbursed. They also received net disbursements of external capital from commitments in previous years, amounting to \$2.2 billion in 1974.<sup>2/</sup>

2.05 Domestically, their increased resource inflows have allowed the OPEC countries to plan expanded development programs, and most are presently engaged in substantial revisions of their expenditure plans. Iran, for example, has increased its investment program for the Fifth Plan period (1973-77) from the previous level of \$36 billion to \$70 billion, 65% of which is allocated to the public sector. Early in 1975 Iran also lowered interest rates and legal reserve requirements in order to stimulate private investment. Nigeria's Third Plan (1976-80) foresees public investment allocations of some \$53 billion, about ten times higher than those in the previous plan. Although details are not yet available, allocations under Saudi Arabia's next plan (1975-80) are on the order of \$140 billion: this is fifteen times the amount allocated in the 1970-75 plan.

2.06 While there has been a rush of investment proposals, from both within and outside the OPEC countries, these have not yet been fully reflected in recorded investment expenditures. The increase in available resources has so far made itself felt more in higher consumption and transfer expenditures. Substantial wage and salary increases have been announced in many countries--for example, Saudi Arabia and Kuwait--and Nigeria has increased civil service salaries by about 60%; similar increases have been given in the private sector. Many of the

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<sup>1/</sup> Measured on an accruals basis. On a cash basis, oil exports rose to \$32 billion in 1973 and to \$97 billion in 1974; the corresponding "cash" surpluses on current account are thus \$3.4 billion in 1973 and about \$50 billion in 1974.

<sup>2/</sup> Major recipients were Indonesia, Iran and Nigeria.

countries have increased social security payments, and have expanded the scope of subsidies on basic consumption items, and of free or subsidized social services. Algeria, for example, introduced free medical services for the entire population in 1974.

2.07 Most of the OPEC countries experienced strong inflationary pressures in 1974. The wage and salary increases, expanded social benefits and rising government expenditures generated large increases in domestic demand that could not be satisfied by domestic production or by imports. Some countries introduced measures to protect lower income groups against price increases, which also helped to reduce internal income disparities. Inflation generated in the foreign sector was alleviated to some extent by reductions in import taxes and in some countries by exchange rate changes.

2.08 In 1975 the volume of oil exports from OPEC countries is expected to be somewhat lower than in 1974, as a result of the recession in the developed countries, the mild 1974/75 winter, oil conservation measures and the availability of large stocks of oil, accumulated in 1974. Consequently, their oil export receipts may be of the order of \$105 billion in 1975, or \$8 billion less than in 1974. As a result of this expected drop in earnings and of rising domestic expenditures, some OPEC countries are beginning to reevaluate their financial policies, including their commitments to developing countries. Nevertheless, demand for OPEC oil is likely to increase again with the recovery expected in 1976.

2.09 Even with slightly lower export earnings, 1975 is likely to see further substantial growth in domestic income and expenditures, generated by increased budgetary allocations, higher wages and subsidies, and by the substantial rise in investment outlays. Given the constraints on the rapid development of import substituting industries that are posed by limited executive capacity, and the limited transport infrastructure, which already seems to be delaying import growth in some OPEC countries, it is likely that inflationary pressures will still be considerable.

#### B. Domestic Development Prospects in OPEC Countries

2.10 In assessing their medium and long term development prospects, the members of OPEC cannot be treated as a homogeneous group. There are important differences among them in their

capacity to raise domestic demand and the level of imports, and their approaches to development planning differ accordingly. The following analysis distinguishes two groups within OPEC, primarily on the basis of expected surpluses in the current account of the balance of payments over the period 1975-80.

2.11 Group I comprises Saudi Arabia, Kuwait, Qatar, and the United Arab Emirates. These countries are likely to run surpluses on the current accounts of their balances of payments even beyond 1980, since their domestic absorptive capacities are limited in relation to their expected oil revenues. Their populations and domestic markets are small, they have few natural resources apart from hydrocarbons, and they at present have limited skilled manpower. Their proven reserves of oil are vast -- almost 60% of total OPEC reserves -- so that production could, on average, continue at 1974 rates for some 60 years. This average conceals considerable differences among countries.

2.12 There is greater diversity among the countries in Group II -- Algeria, Iran, Iraq, Indonesia, Libya, Nigeria and Venezuela. The current account balances of these countries are likely to turn to deficits around 1980 or earlier, since their absorptive capacities will rise in the next few years to the level of their expected oil revenues. After 1980, their rates of growth will increasingly depend on their ability to maintain high levels of domestic savings and investment, and to mobilize external capital. Libya is difficult to classify in either group: it resembles Group I countries in its resource endowments, and in the small size of its population relative to its oil reserves, but since it is following strict conservation policies its balance of payments prospects more closely resemble those of Group II.

2.13 Nigeria and Indonesia, which have only 7.5% of OPEC's proven oil reserves, account for 72% of its population, and in per capita terms the receipts these reserves can yield are relatively small. Their present per capita income levels place them in the lower income group of developing countries, and large parts of their population have been unaffected by their oil revenues. Their imports will soon rise to the level of their projected export earnings.

#### Manpower Development

2.14 In the immediate years ahead OPEC countries will need to draw on foreign manpower to prepare and execute projects. Manpower development is thus likely to receive

high priority in the policies of all the OPEC countries. In many of them, shortages of managerial and technical manpower are already a major constraint on new investment. Several reflect this in their development programs: Saudi Arabia, for example, has undertaken a major study of the manpower requirements for its substantial planned increase in expenditures, and intends to reorganize and expand its educational facilities. Iran has also undertaken a review of its manpower needs, both foreign and domestic, to define appropriate manpower policies, including those to attract home the Iranians presently living abroad. Algeria intends to continue its past emphasis on education, and the next three years will see the beginnings of a complete reform of its educational system.

2.15 Group I countries, with their small populations, will need to import unskilled or semi-skilled labor, in addition to more highly trained personnel. In such countries as Kuwait, Qatar and the United Arab Emirates, as much as half the population, or more, is already immigrant, and further substantial immigration may give rise to social and political difficulties. Increasing demand for imported labor may also raise the cost of their wages and salaries.

2.16 Some Group II countries face shortages of high level manpower while simultaneously experiencing high unemployment of unskilled labor and substantial rural-urban migration. Incentives will be necessary not only to promote the training of unskilled workers, but to encourage research on, and adoption of, technologies which are suitable to the factor endowments of each country. Labor subsidies could be of help in offsetting tendencies towards more capital intensive investment in these countries, and could assist in absorbing unemployment and improving the distribution of income.

#### Investment

2.17 In planning for development, most of the OPEC countries are likely to put strong emphasis on investments in physical infrastructure to alleviate existing bottlenecks in their economies. All of them, though to differing degrees, are likely to foster diversification of their economies, reducing dependence on crude oil production by investing in both oil-related and other activities. Group I countries are likely to emphasize oil-related activities, such as refining, shipping and petrochemical production. Because of their limited domestic markets, and the scarcity of domestic labor, such expansion of non-oil manufacturing activities as occurs, apart from consumer goods and a few intermediate goods such as cement, is likely

to be capital intensive and aimed at foreign markets. Group II countries are, by contrast, likely to undertake investments in much more diversified activities.

2.18 As investments are rapidly increased, they are likely to decline in economic efficiency, particularly in the short-term, because the needed skills are in short supply. Higher capital output ratios may also be the necessary result of policy decisions to accelerate the diversification process, taking advantage of the current abundance of capital. Deliberate planning for excess capacity, to be increasingly utilized over time, can be expected. If investments are undertaken on a large scale, they may allow external economies, depending on the growth of domestic and foreign demand and on the rate of capacity utilization.

2.19 Based on these considerations, investment expenditures have been projected for each OPEC group (see Annex Table 6). Despite the differences in investment possibilities, the growth rates of investment in Groups I and II are similar between 1975 and 1980, i.e. about 13% per annum in real terms, but starting from a much lower investment base in 1974 in Group I countries. By 1980 the ratio of investment expenditures to GNP rises to 28% in Group II, compared with only 13% in Group I.

#### Consumption Patterns

2.20 In Group I countries, investment expenditures are likely to play a less important role in raising the disposable incomes of the population than are increases in government consumption and transfer expenditures: consumption expenditures can be raised much more easily than investment expenditures in these countries, given the present constraints on their capacity to plan and implement new projects. The differences in absorptive capacity between Group I and Group II emerge clearly in projections when their consumption expenditures are compared as percentages of GNP (see Annex Table 6). By 1980, the consumption to GNP ratio rises to 73% in Group II, compared with only 37% in Group I. For Group I, the likely ratio to GNP of investment and consumption expenditures combined is only 50% in 1980. This illustrates the difficulty in fully using their oil revenues internally.

2.21 In all OPEC countries, there are limits to which growing demand for consumption goods can be satisfied, because the supply of domestically produced goods and services is limited in the short-term, and the growth of imports is limited by domestic handling and transport facilities. Equally important in its policy implications is the fact that to develop diversified domestic production (to the extent that is feasible)

will require some control on import growth. Group II countries, where per capita oil revenues are much smaller than in Group I, and financial surpluses may be exhausted in the next few years, may see a need to limit consumption growth to levels which can be sustained over the long term, and to design their fiscal policies to preserve adequate investment resources. 1/

### Control of Inflation

2.22 Domestic needs for manpower development and investment, and potentially strong demand for consumption goods, are sources of demand-generated inflation in these countries. Domestic supplies of goods are likely to remain limited while efforts to relieve physical, institutional and manpower constraints are underway, and much will therefore have to be imported. Yet international inflationary pressures are also strong. In consequence of all this, it is likely that the considerable inflationary pressures already noted in 1974 and 1975 within the OPEC countries will still be difficult to contain.

2.23 The OPEC countries' anti-inflationary policies will need to maintain a carefully designed balance between controls on the expansion of domestic expenditure and on import growth, although in the short term, particularly in Group II countries, controls on the latter may play a greater role. Moreover, the choice between fiscal policy -- particularly taxes and subsidies -- and exchange-rate revaluation, as policy instruments to encourage imports, will have to be made with care. Revaluation will alter the competitiveness of all non-oil activities; tax-subsidy schemes can, by contrast, be used selectively to mobilize resources in desired directions. These considerations are especially relevant in Group II countries, where the potential for diversification into non-oil activities is greater.

2.24 The role of fiscal policy in Group I countries is likely to differ from that in other developing countries. With their abundant financial resources, the resource mobilization aspects will be minimal, but the allocation of expenditures (including transfer expenditures) to meet desired objectives will be very significant. Nevertheless, tax policy may remain important for other objectives: for example, to prevent income

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1/ Venezuela provides an interesting example of a conservationist approach to oil revenues in its establishment of the Venezuelan Investment Fund, to finance major investment projects, and, until enough of these have been prepared, to invest most of its resources abroad.

distribution from becoming more skewed and to prevent land values from increasing too fast, so that land will be used for productive purposes and not merely as a hedge against inflation.

2.25 Determining a desirable rate of import growth -- as well as a desirable composition of imports -- and implementing a policy to achieve those ends over time are major tasks. Once import costs reach the same level as export earnings, the growth rates of imports and exports will have to be kept nearly equal. This may necessitate a sharp reduction in import growth if plans for the future are not made appropriately: at a time when the Group II countries' investment programs are likely to be expanding rapidly, and to have a high import content, the expansion of imports for other purposes may have to be curtailed or halted in order to maintain investment growth. If import-substituting production capacity (particularly for basic foods) has not been sufficiently developed, these countries will face a need either to curb consumer demand, or to accept renewed inflationary pressures, or to increase external borrowing.

C. Balance of Payments Prospects

2.26 The balance of payments prospects for the OPEC countries depend on their oil receipts and on their capacity to use these revenues to develop and diversify their economies. The volume of world demand for OPEC oil is largely determined by the growth prospects of the OECD countries, the extent to which these countries develop substitute sources of energy, and the oil production policies followed by OPEC countries. <sup>1/</sup> OPEC's receipts depend importantly on oil price developments.

2.27 Projections of total demand for OPEC oil are based on two alternative assumptions as to OECD growth rates, and two

Table II.1 ALTERNATIVE OIL PRICE PROJECTIONS

(US dollars per barrel; Saudi-Arabian Light f.o.b. Ras Tanura)

	<u>1973</u>	<u>1974</u>	<u>1975</u>	<u>1980</u>
<u>Case I: "Constant" Price</u>				
In current dollars	2.70	9.77	10.46	15.20
In 1974 dollars	3.27	9.77	9.40	9.40
<u>Case II: Declining Price</u>				
In current dollars	2.70	9.77	10.46	12.00
In 1974 dollars	3.27	9.77	9.40	7.50

<sup>1/</sup> Annex B discusses energy prospects over the projection period.

alternative oil price patterns. 1/ In Case I, oil prices remain at \$9.40 per barrel in constant 1974 dollars; in Case II, oil prices decline gradually to \$7.50 per barrel in constant 1974 dollars. The price of oil postulated in Case II is within the range estimated in a number of recent studies 2/; it is presumed to be indicative of the cost of alternative energy sources in the long run. For example, the price range considered in the U.S. report, Project Independence 3/, is \$6 to \$9 per barrel in constant 1973 prices; the "Long-Term Energy Assessment" of the OECD considers a similar range (in end-1974 prices) of \$7.20 to \$10.80. 4/

2.28 On the basis of proven oil reserves, production capacity and known production plans, Table II.2 shows estimates of total OPEC oil output, indicating how the OPEC market is shared.

Table II.2 OPEC OIL OUTPUT

(million barrels per day)

	<u>1974</u>	<u>1975</u>	<u>1980</u>			
			<u>High OECD Growth</u>		<u>Low OECD Growth</u>	
			<u>Case I</u>	<u>Case II</u>	<u>Case I</u>	<u>Case II</u>
Group I	13.2	11.5	13.5	14.6	9.2	9.8
Group II	<u>17.0</u>	<u>16.0</u>	<u>20.0</u>	<u>21.3</u>	<u>17.3</u>	<u>18.4</u>
Total	30.2	27.5	33.5	35.9	26.5	28.2

These imply a likely range of oil export receipts for all OPEC countries in 1980, depending on the assumptions used, of between \$120 and \$185 billion in current prices, compared with \$113 billion in 1974. (See Annex Table 7).

2.29. Projections of accumulated current account surpluses of these countries are sensitive to alternative assumptions as

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- 1/ The OECD growth assumptions are discussed in Chapter IV and Annex A. Oil prices are discussed further in Annex B.
  - 2/ Analyses made a year ago by the Bank staff considered alternatives analogous to those postulated here; the differences in the specific prices used are negligible, reflecting a shift from early 1974 prices to average 1974 prices.
  - 3/ Prices are f.o.b. Persian Gulf; U.S. Federal Energy Administration, Project Independence (November 1974).
  - 4/ OECD, Energy Prospects to 1985 (December 1974); the corresponding prices in 1972 constant dollars are \$6 and \$9, respectively.

to oil export receipts, country shares in the market for OPEC oil, and the growth of their own imports. The likely range of accumulated current account surpluses under different assumptions is shown in Table II.3:

Table II.3 ACCUMULATED CURRENT ACCOUNT SURPLUSES (1973-80)

(in billions of current US dollars)

<u>1980 Oil Price</u>	<u>High OECD Growth</u>		<u>Low OECD Growth</u>	
	Case I	Case II	Case I	Case II
Group I	347.7	298.1	245.2	207.7
Group II	<u>55.4</u>	<u>9.9</u>	<u>22.1</u>	<u>-5.4</u>
Total Surplus	403.1	308.0	267.3	202.3
Memorandum: Total Surplus in 1974 US dollars <u>a/</u>	244.0	186.4	161.8	122.5

a/ Surplus figures in current dollars deflated by a general index of the prices of manufactured goods exported by industrial countries (see Annex A); individual OPEC countries may experience somewhat different trends in import prices.

Source: Annex Table 7.

Projections of import growth are based on an assessment of the absorptive capacity in each group. In Case I with high OECD growth, OPEC imports of goods are projected to increase through 1980 by about 13.1% per annum in constant 1974 prices (24.5% in current prices) over their already high 1974 levels: this is comprised of nominal annual increases of 31.5% per annum in Group I, and of 22.5% per annum in Group II. Under the other three sets of assumptions, Group II countries are projected to reduce the growth of their imports, reflecting balance of payments difficulties. However, even with a reduction in import growth, Group II countries taken together have a current account deficit in 1980 regardless of which assumptions are used; 1/ Indonesia's current account was in deficit in 1974, despite its increased oil receipts. Due to their more limited absorptive capacity, Group I countries are likely to hold between 85-100% of the total OPEC accumulated surpluses, depending on the assumptions used.

2.30 These projections are subject to large uncertainties. They should therefore be considered as conjectural and interpreted with caution. If, for example, the market shares of Group II countries were to be larger than assumed here, given the same

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1/ See Annex Table 7.

total demand for oil, the total imports of OPEC countries could be much greater, because of the higher absorptive capacity of these countries. The total accumulated current surpluses would then be much lower.

2.31        These estimates are much lower than those made by Bank staff a year ago, when the accumulated current account surplus of OPEC countries was projected to be \$653 billion in current dollars by the end of 1980. A major reason for this difference is that the value of OPEC imports has grown more rapidly during 1974 than was expected because of price increases in international trade, which were significantly higher than foreseen, and also because of greater than anticipated increases in import volumes. Neither did last year's projection foresee the depth of the recession in OECD countries, and its consequences for oil revenues in 1975 and 1976.



### III. THE ADJUSTMENT PROCESS IN DEVELOPING COUNTRIES

3.01 Practically all of the oil importing developing countries have been adversely affected to some extent by the rise in the prices of petroleum and of some other essential imports, such as foodgrains, fertilizers and manufactured goods, and by the subsequent decline in demand for many of the products they export. In some countries, the effects of recent changes in the international economy have been compounded by unfavorable internal developments, some the result of natural causes, and some of inadequate economic management. The adjustment problem for the developing countries has two main aspects: the temporary deterioration in their export earnings which results from the recession in the OECD countries, and what may prove to be a more sustained terms of trade loss resulting from higher petroleum prices, at a time when most other prices are returning to more normal levels. This chapter analyzes the kinds of adjustments the developing countries are making, and can make in the future, to mitigate the effects of changes in the world economy and to maintain their rates of progress.

3.02 The present situation places an especially heavy burden on developing countries' capacity to design and carry through appropriate economic policies. Even under more normal conditions, the objectives of rapid growth, greater social equity and reasonable financial stability frequently seem to conflict, though they appear to be complementary and interdependent in the long run. In the complex and demanding circumstances of the present, those countries which have been most successful in raising the aspirations and mobilizing the energies of their populations may find it particularly difficult to implement the restrictive measures that are at least temporarily necessary.

3.03 The generally adverse movements in their terms of trade and their stagnating export volumes are increasingly affecting the capacity of most developing countries to invest and to utilize existing production capacities. In many cases, whether investment levels are sustained or not, serious external debt problems have been or are being created. Adjustments to this new situation require that pressures on the balance of payments be reduced. The second section of this chapter discusses the scope for domestic measures to effect such a reduction; the trade and aid measures which other countries can take to assist the oil importing developing countries will be analyzed respectively in Chapters IV and V.

#### A. The Adjustment Process, 1974-1976

3.04 Although in 1975 the export volumes of most developing countries declined, as a result of the reduced economic activity in the OECD countries, the trends in their

terms of trade differ between countries according to the commodity mix of their exports and imports.

3.05 To allow for this diversity, an account of the adjustment measures presently being taken needs to distinguish between countries according to the nature and magnitude of the impact which recent changes in the international environment have had on their economies, and also according to the range of policy options available to them to deal with the situation. The net effect of external factors is represented in the following analysis by the changes in each country's import capacity (in real terms), since this concept subsumes changes in export volumes, in the terms of trade and in net medium and long-term capital flows.<sup>1/</sup> The range of policy options to counteract a reduction in import capacity tends to grow as national income grows and as diversification increases, and moreover, such policies can usually be implemented more effectively at higher income levels. Many of these policy instruments can have only a limited impact on the present situation where the modern sector of the economy is small, administrative capacity is limited, or where these have already been relied upon heavily in the past. For example, a policy to restrict imports will have little scope for manoeuvre if imports have already been kept at austerity levels for several years.

3.06 The following analysis uses the sample panel of forty countries described in Annex D. The recent developments in the world economy have had adverse effects on thirty of these forty countries which face reduced export volumes, worsening terms of trade, and inadequate net capital flows.<sup>2/</sup> As a

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<sup>1/</sup> This does not imply that the scarcity of foreign exchange is necessarily a dominant constraint on the rate at which development can proceed. Particularly in the poorest countries, the savings constraint may often be more dominant. Nevertheless, the international developments currently affecting the developing countries are, at least initially, reducing the capacity to import, and thus tend to make the foreign exchange constraint more severe.

<sup>2/</sup> In order to preserve a uniform basis, one period (1974-76) is selected. It extends from the boom of 1973 to the expected economic recovery of 1976. Import levels were high in 1973, and judgments about the **adequacy** of access to imports through 1976 need to take account of that factor. The percentage increases given refer to the three year period as a whole, not increases per annum.

Table III.1 PROJECTED GROWTH OF IMPORT VOLUMES FROM 1973 TO 1976  
IN 40 SELECTED OIL-IMPORTING DEVELOPING COUNTRIES,  
BY INCOME GROUPS

<u>Per Capita Income: 1/</u>	Lower Income Countries (Less than \$200)	<u>Middle Income Countries</u> (\$200-375) (Above 375)	
	<u>Imports Stagnating or Declining</u>	India Mali Sierra Leone Sudan Tanzania Uganda Zaire	Cameroon Liberia Senegal Thailand
<u>Imports Rising by less than 15%</u>	Bangladesh Ethiopia Kenya Pakistan Sri Lanka	Egypt Ghana	Zambia
<u>Imports Rising by 15-25%</u>		Ivory Coast Korea Turkey	Brazil Jamaica Malaysia Yugoslavia
<u>Imports Rising by more than 25%</u>		Bolivia Morocco Philippines Syria	Argentina Dominican Rep. Guatemala Mexico Peru Tunisia

1/ Based on 1974 World Bank Atlas; GNP at market prices for 1973.

consequence, in the period 1974-76 import volumes will stagnate or decline in fifteen countries; increase by less than 15% in eight; and grow by 15% to 25% in another seven. The remaining ten countries of the sample panel will achieve import growth rates of more than 25% over this period, and some may be net beneficiaries of the present state of the world economy. Table III.1 arrays these four country groups, ranked by import growth and by income category.

3.07 It can be seen that the poorer countries are almost exclusively clustered toward the lower end of the import-growth scale. The problems of adjustment are clearly greatest for lower income countries whose capacity to import will stagnate or decline. The deterioration in some of these countries' terms of trade is less a reflection of the increase in petroleum prices than of their increased foodgrain imports, at record prices, for which needs were exacerbated by drought.<sup>1/</sup> At the high end of the import-growth scale are several countries which are either minor exporters of petroleum or are largely self-sufficient in this respect. Exporters of commodities such as sugar, fats and oils, some metals and minerals also appear to have done well during 1974, but the prices of these products began to decline before the end of the year.

3.08 For purposes of discussion, the forty sample panel countries are grouped according to the severity of their adjustment problems (as shown in the frames in Table III.1):

- (i) Sixteen lower and middle income countries with the severest adjustment problems;
- (ii) seven middle income countries with serious balance of payments problems;
- (iii) seven middle income countries which appear able to adjust at present but may face problems in the long run;
- (iv) ten middle income countries which have few or no adjustment problems.

Reference will also be made to some other countries not in the sample panel but for which relevant information is available.

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<sup>1/</sup> See Table IV.2 for these price developments.

### Countries with Severest Adjustment Problems

3.09 The sixteen countries in this group have a limited capacity to adjust through domestic policy measures, and will have a large residual need for external assistance. Especially since the group includes India, it represents a majority of the population of developing countries.

3.10 India accounts for 62% of population of this group. It is not only much larger than the other fifteen countries, but also has a far more diversified economy, a sizeable modern sector and substantial infrastructure. Most of the smaller countries are characterized by the large share of their subsistence sector in GDP and the virtual absence of a modern sector. India's slow rates of growth in the past (at some 3.5% per year during the 1960s) reflect a concern primarily with balanced internal growth, rather than external trade, the value of which has declined to 4-5% of the country's national product. Nevertheless, India relies on imports for two-thirds of its oil requirements, one-half of its fertilizer requirements, and sometimes as much as 5-10% of its foodgrain requirements. Since other imports have long been held at austerity levels, India is quite vulnerable to changes in export earnings and in its terms of trade.

3.11 The volume of India's imports grew by only 3% per year from 1950 to 1968, and has stagnated since then. Crops in two out of the last three years were well below their 1970/71 peak, and this aggravated the impact of external factors on the economy. The repercussions on India's balance of payments have been serious, inflation rates have risen, and the level of foreign reserves (net of IMF borrowing) has fallen dramatically, with the result that investment has taken a setback. The problems of formulating a realistic development strategy have become much more difficult.

3.12 The composition of India's imports has been such that no significant reduction can be made without directly affecting domestic production levels and capacity utilization, or the supply of basic commodities. Nonetheless, the volume of non-food imports was reduced by 8% in 1973/74; consumption of petroleum products decreased by 3%, which was equivalent to a 20% reduction in private final consumption of petroleum products.

3.13 Some further small reductions in imports may be possible, but efforts to adjust must clearly be focused on increasing export earnings. Although the short term prospects for a major improvement in export performance are limited, some gains have been realized through restricting domestic consumption of sugar and premium quality rice and exporting

larger quantities. At the same time the domestic recession in the modern sector has increased the incentives for producers of certain industrial goods to seek markets abroad.

3.14 The policy focus on exports needs to be much sharpened. It also needs to be complemented by measures to generate investment resources for development, which have long been a major constraint on accelerated growth. With a more vigorous effort at export promotion, the underutilized capacity which exists in the Indian economy could be put to use and oriented towards export markets. For example, India has been unable in the past to fully use its quota under the international textile agreements; neither have existing incentives for export oriented manufacturing been effective. Although many of the earlier policy decisions which have hampered the acceleration of export growth are presently under review, it would be overly optimistic to assume that expanding exports will quickly bring relief from the present adverse circumstances: it will take several years of consistently favorable policies to set a process of increased international marketing in full motion.

3.15 It is likely that a considerable increase in projected net capital inflows, from \$450 million per year in 1970-72 to around \$2.2 billion in 1975 and 1976, will make it possible to avert an actual decline of import volumes. However, this increase in external capital availabilities only partly recovers ground that has been lost since 1965, and has been achieved at the expense of harder lending terms. Rapidly rising debt service liabilities, and the time required to increase exports, make it unlikely that, after 1975, India's import volumes can rise by more than 4% per year. GDP growth between 1970 and 1974 was only 1.3% per annum, and it is therefore unlikely that, for the current decade, the national product could grow by more than an average of 3% per year. Real income (taking terms of trade losses into account) would rise by 2.9% per year, and, taking account of a modestly increased savings effort, per capita consumption would stagnate throughout the ten years from 1970 to 1980.

3.16 The economy of Pakistan, which somewhat resembles India's in terms of its diversification, was greatly affected by developments in the world economy when the country was recovering from serious internal setbacks. The impact on the balance of payments was considerable, but because of the government's policy of protecting consumers from increases in import prices, particularly for basic items, consumption has remained higher than is consistent with the country's underlying resource position. Efforts to stimulate increased production for export have also been insufficient. Domestic savings declined considerably and the government registers deficits on its current account. Investment levels have

declined much less than savings, but have been buoyed up by sharply increased foreign borrowing, part of which has been on relatively hard terms. This causes concern with regard to future debt service burdens and to the future growth of the economy, as Pakistan's basic foreign resource needs for development purposes are unlikely to diminish significantly in the coming years. The full impact of inadequate fiscal restraint, heavy external borrowing and the effects of the completion of Tarbela Dam in the course of 1975 have not as yet been fully evaluated, and must await a more complete review later in the year.

3.17 Nonetheless, if future growth is to be maintained, the need to generate greater export earnings and domestic savings is inescapable. The adjustments required now are much greater than before the sharp rise in import prices. In the spring of 1975, important measures were taken to reduce the fiscal burden of subsidies by increasing the prices paid by consumers. It is not yet clear how much more needs to be done to increase domestic savings.

3.18 Sri Lanka's adjustment problems are among the most intractable as its economy was already in difficulty before the massive deterioration of its external position in 1974. Export volume has been stagnant for many years, and changes in the terms of trade have been heavily against the country. The government's commitment to a substantial program of social welfare measures has raised taxes to a high level without generating public savings. Inefficiencies in public corporations, a deteriorating world market for the country's traditional exports and low returns to domestic food production have been disincentives to investment; foreign exchange has become increasingly scarce and has precluded the importation of spares and raw materials, and even in early 1974 capacity utilization in industry was only between one-third to one-half. Food, petroleum and fertilizers accounted in 1974 for two-thirds of imports. Suppliers' credits and short-term finance, which were negligible in 1971 and 1972, financed about 10% of imports in 1974.

3.19 The government has taken impressive measures to adjust, at some political cost. Rations of basic foods were reduced and their prices substantially increased; increases in oil prices have been passed on to the consumers; and various production incentives for non-traditional exports have been introduced. These measures nevertheless fall far short of what is needed. Subsidy costs to the budget are still high and preclude public savings. The decisions that need to be taken are of a more fundamental nature and concern the balance between investment and consumption, the role of the private sector, management of the public sector, and the

choice between direct intervention and the use of price mechanisms. These issues are not as yet receiving the attention which they require.

3.20 Thailand. As a major exporter of rice and maize, Thailand has benefited from high foodgrain prices. Additional costs of oil were largely offset by favorable export earnings; and in 1973 and 1974 a large inflow of foreign private capital made possible high levels of investment. The ratio of foreign exchange reserves to imports therefore declined only marginally in 1974. However, in 1975 and beyond, it is likely that the declining terms of trade of Thailand's agriculture could cause very serious problems, and future external capital requirements are very sensitive to commodity prices. Though the reserve position and present debt burden make it possible to finance balance of payments deficits for some time without unduly reducing growth, a stagnant income and employment situation in agriculture, which engages 75% of Thailand's labor force, is a serious long-term problem, to be dealt with in the next medium-term plan.

3.21 A group of mostly small countries in West Africa, represented by Cameroon, Senegal, Sierra Leone, and Liberia present a complex picture, both in terms of their short-term adjustment capacity and in terms of their longer term outlook. In the case of Liberia, stagnating imports are not a sign of balance of payments distress but rather reflect deliberate development policy choices in a country which continues to show significant trade surpluses. The country depends on only a few export products, but the renegotiation of mining contracts, an open policy towards foreign investment and large untapped mineral resources point to a considerable capacity to adjust, without reducing growth.

3.22 Sierra Leone and Senegal have more substantial problems to face as their import levels were high in the base year, 1973. Policies which in the past were not conducive to agricultural growth led to growing import demand, followed by heavy subsidization of rice and gasoline in Sierra Leone, and of rice, sugar and groundnut oil in Senegal. In both countries the burden on the budget became too heavy to sustain in 1974. In Sierra Leone, lack of expenditure control has resulted in considerable short-term borrowing to meet both balance of payments and budget deficits. The expansion of internal credit, followed by rapid inflation, has caused a most difficult adjustment problem, requiring retrenchment of imports and a reduction of the public investment program. The debt service burden has risen rapidly and future growth prospects appear to be seriously impaired. In Senegal, the government took steps in the fall of 1974 to

raise producer prices of groundnuts and domestically consumed grains, and eliminated subsidies on imported rice. Financial difficulties were averted as a result, but real growth prospects are only marginally better, owing to the country's continuing dependence on one crop.

3.23 Because of Cameroon's more diversified economy, the country experienced less severe difficulties than Senegal in 1974. Nevertheless, deteriorating terms of trade and limited capacity to expand exports in the medium term are likely to constrain imports severely in the next few years.

3.24 The situation of Zaire is determined by the market prospects for copper, the price of which has fallen rapidly but is expected to return to higher levels in 1976 and thereafter. During the period of high copper prices, in 1973 and 1974, Zaire's imports increased very rapidly, supported to a large extent by considerable foreign borrowing. The situation in 1975 is one of severe retrenchment as debt service is now rather high, export earnings are lower than previously, and imports of non-essential goods need to be curtailed. This retrenchment does not necessarily impede long-term growth prospects, as Zaire's balance of payments position is likely to improve from 1976 onwards with higher copper prices. The main difference for the future is that the country can now no longer afford another period of unrestricted import flows and external borrowing without severe costs to its long-term growth.

3.25 The next group of countries who are worst affected by recent international developments--Kenya, Tanzania, Uganda, Ethiopia and Sudan--not only have less diversified economies than those discussed above, but are also more vulnerable to the vagaries of nature. In some years the effects of droughts and floods are as important as external trade for these countries' development prospects. Nonetheless, their economies show a fair degree of flexibility and capacity to respond to balance of payments disturbances.

3.26 Kenya's pattern of development during the 1960s reinforced its dependence on imports. The worsening in its balance of payments position in 1974 hastened the need to slow the growth of imports: in that year, Kenya's GDP grew by only 3.6%, compared with roughly 7% in earlier years, and net external capital flows increased substantially. Kenya's external position is worsening further in 1975 and the cushioning effect of foreign exchange reserves will no longer be there.

3.27 The terms of trade changes imply a major fall in real incomes between 1973 and 1976. As the bulk of its exports are agricultural products, the supply of many of which is price

inelastic, Kenya will have no choice but to borrow externally in order to maintain the volume of essential imports. Reduced resources for development are blunting the attack on poverty and unemployment. Moreover, as the population grows at 3.5% per year and past development success has led people to anticipate a further rise in the levels of living, there are political as well as humanitarian limits to restraint on consumption.

3.28 The government has reacted to the balance of payments crisis by formulating an action program to restructure the economic growth pattern in the medium term, so as to allow Kenya to resume a rapid rate of growth in the long term with a greater degree of self-reliance. The action program relies mainly on global credit and fiscal policies; the government had already increased interest rates in 1974 and is now attempting to keep wage increases (except for the lowest wage earners) below the rate of domestic inflation. Thus, the market prices of factors of production are being brought closer to their real scarcity values, in order to induce a more efficient use of scarce resources. In the agricultural sector in particular, the government is increasing its development outlays, intends to strengthen the Ministry of Agriculture's planning and implementation capabilities so as to improve absorptive capacity, and has already raised farm gate prices for major crops. These measures are designed to increase domestic food production, to contribute to import substitution, to stimulate new exports and to absorb labor and help maintain incomes, while growth in the urban sector slows down. The action program seeks to distribute the unavoidable economic hardship of a stagnation or fall in real per capita income equitably and to minimize its impact on the poorer members of society by placing emphasis on smallholder agriculture, a shift towards labor-intensive road construction, wage guidelines and increased taxes on luxuries.

3.29 In addition to the domestic policy measures, the government needs to secure additional commitments of external capital from official and commercial sources to finance the residual balance of payments gap.

3.30 Tanzania was hard hit by the deterioration of its terms of trade in 1974; its situation was exacerbated by drought which resulted both in unprecedented levels of cereal imports and lower agricultural export volumes. The country's terms of trade are expected to deteriorate further between 1974-1980. The government has moved energetically to adjust to these problems in ways that it is hoped will do least harm to the growth prospects of the economy. Consumption is being restrained through the imposition of a ceiling on recurrent budget expenditures; by a wage freeze, except for the very lowest level wage earners; by passing on the increased prices

of petroleum and cereals to the consumers; and by further reductions in imports of consumption goods, already stringently limited. Steps have been taken to increase output that will benefit the balance of payments. Producer prices were increased to world parity levels, and special food production programs mounted. Public sector investment has been reallocated, with more resources going into agriculture, industry and mining.

3.31 It will take time for the new investments to bear fruit, and the government has sought with some success to mobilize additional balance of payments financing to support a moderately increasing capacity to import. It is still true, however, that an unusually high per capita inflow of external capital will be required to sustain this adjustment process.

3.32 The present crisis has raised with increased urgency the question of Tanzania's development priorities, particularly between social goals and the need for directly productive investments. The government takes the position that major productivity gains in agriculture and industry are unlikely to be realized without provisions for better health and education. Although the country has the potential for rapid growth combined with an improved income distribution, the problem of timing the components of the development effort has lately acquired even more importance.

3.33 The economy of Sudan, although affected seriously, has benefited from significant capital flows originating in the oil-exporting countries. Otherwise its capacity to import would have seriously deteriorated. Large capital inflows are also projected for the years ahead, of which a substantial part may be invested in agriculture and could increase exports. The terms on which capital is presently available raise the specter of heavy debt service burdens in future, particularly if exports do not accelerate in the medium term.

3.34 The central African countries and Bangladesh form a category by themselves; they have for long been characterized by their extreme poverty and their economies are affected more by natural disasters and--in the case of several--by lack of adequate economic management than by international developments. Foreign trade only accounts for a small part of total GDP in largely subsistence economies such as Mali and Chad, and thus even major changes in the terms of trade do not affect them as much as a season of poor rainfall.

3.35 The major response of countries in this group has been to organize emergency food relief programs drawing on external aid, which has been substantially augmented because of the threat of widespread famine. In spite of extreme

poverty and hardship, their governments have, in some cases, taken a number of harsh measures to meet the crisis. The increase in oil prices in drought stricken Chad caused the government to take selective conservation measures. Thus electricity for household consumption was cut for several hours a day, the supply of gasoline for private vehicles was restricted and the prices of most petroleum products were increased. After a long period of hardship, Bangladesh has recently announced a series of steps to stem the economic drift; these measures include demonetization of all high denomination notes and a currency devaluation of 58%.

3.36 Their poverty and slender resources leave these economies with very little flexibility. The government of Mali realizes that, in the long-run, low farm gate prices are a serious disincentive and only tempt farmers to smuggle their produce out of the country. However, the immediate hardships of consumers, mainly wage earners in urban areas, are so great that it desists from raising food prices to the extent that it would be consistent with remunerative producer prices and distribution costs.

3.37 This last group of countries faces the most difficult development problems. The solutions will depend heavily upon factors beyond their control: the rains, availability of external aid and international prices for their exports and imports. For this reason and because these economies operate with such slender margins, with millions already at a bare subsistence level, the costs of poor economic management become very high indeed. While it is imperative that further aid be provided to them on the softest possible terms, those countries which have suffered from inadequate economic management in the recent past need urgently to make the necessary reforms.

#### The Middle Income Countries with Serious Adjustment Tasks

3.38 Most of the countries in this group are characterized by the relatively large proportion of primary commodities in their exports. The income levels of several of them depend directly on one or more major export activities. The clearest examples are Chile and Zambia, which both depend heavily on the production and export of copper. Colombia's exports are more diversified, but primary products are still dominant. A number of special problems, some dating back to years before 1973, have aggravated the impact of international economic events in Greece, Egypt and Uruguay.

3.39 The two major copper producers, Chile and Zambia, face a situation similar to Zaire's. Zambia has been able to finance rising imports by large earnings from copper, but

reserves fell rapidly in the second half of 1974, and now give the government little room for manoeuvre. Import licenses were restricted, but this did not forestall a large gap in the balance of payments which had to be financed by external borrowing. Domestic oil prices have been fully adjusted to the higher import costs, and will provide a slight addition to government revenues. However, if the growth of current expenditures continues unabated, including the substantial subsidies on a number of consumer goods, the need for overall demand restraint will fall most heavily on public investment. A failure to adjust domestic demand and a major decline of real incomes would lead to accelerated inflation, reduced growth and a rapid worsening of the country's creditworthiness, even if the expected improvement of copper prices takes place.

3.40 The situation in Chile differs to the extent that the country already carries a heavy debt burden from the past, and the scope for external borrowing is limited. The mostly urban population has become accustomed to relatively high consumption levels, made possible through imports. Even if imports were cut back by 15% in 1975-76 from their previous levels, a net capital inflow of about \$600 million would be necessary in 1975 alone, much of it through debt rescheduling.

3.41 After September 1973, the government's measures have focused on reinstating the price mechanism by liberalizing imports and devaluing the currency roughly in line with domestic inflation. Food imports (one-third of Chile's total imports in 1973) are being reduced as domestic food production increases, stimulated by higher producer prices. With the sharp drop in Chile's foreign exchange earnings between 1973 and 1975, urban unemployment has risen rapidly. New policies, including a major tax reform, have been introduced in recent months to stabilize real wages, further reduce fiscal deficits to bring inflation under control, to slow the expansion of credit, and limit medium term external borrowing. All of these measures have the long term objective of stimulating non-traditional exports. Though a recovery of export prices is expected to make a resumption of growth possible after 1976, without a recovery in copper prices, incomes in 1980 might not be higher than they were between 1970 and 1972. The burden of debt service will remain heavy, notwithstanding rapidly declining net capital flows.

3.42 Colombia appears to have sufficient resilience to adjust to the present conditions, though its past high GNP growth rate may be marginally reduced in the long term. But although it has so far escaped the costs of oil price increases, as its production of oil has roughly balanced its consumption, the country is rapidly becoming a net importer

and may thus face an increasing burden of import costs. Colombia maintained a high rate of growth of output in 1974, but in the second half of the year its balance of payments came under pressure. For the present, reserves are still having a cushioning effect. The government has taken measures to reduce imports and to maintain or improve the competitive position of exports, and despite the more difficult inflationary conditions is thus maintaining the rapid diversification of exports as a major policy objective. There is a need to raise the domestic savings level substantially in the coming years, if investments are to be sufficient for a 7% rate of economic growth, without excessive external borrowing. Recognizing this, in late 1974 the government implemented (not without political costs) a major tax reform as part of a comprehensive set of stabilization measures, under economic emergency authority. Although these measures augur well, Colombia's deteriorating oil balance is of major concern, and its reversal will require higher domestic prices to curb consumption and to stimulate domestic production.

3.43 Egypt has only begun to take the adjustment measures required to cope with the effects of international price developments, notwithstanding its vulnerability in this regard. There is a slow process of reorienting the economy to the new international environment, including the changed economic prospects in the Arab oil-exporting countries. The adverse effects of terms of trade changes have been cushioned to a large extent by financial support from those countries, combined with resort to very expensive short term borrowing.

3.44 Ghana's need to adjust to change in the international economy was delayed because in 1974 its export earnings were high, reflecting the high price of cocoa. Though its imports had increased substantially in the course of 1973--partly reflecting the inadequate attention given in the past to domestic food production--the proceeds from cocoa exports increased even faster, and external reserves increased to a reasonably comfortable level. 1974 witnessed a dramatic reversal of Ghana's external position. A relaxation of import controls coincided with the substantial rise in oil import prices, and a current account deficit of unprecedented size resulted. Severe import restrictions have been re-imposed, but adjustments are likely to entail lower rates of growth which are consistent with lower import levels.

3.45 Since 1973, after nearly a decade of sustained rapid growth and price stability, Greece has experienced a sharp increase in the rate of inflation and in its balance of payments deficit. Despite the government's success in curbing aggregate demand, inflationary pressures intensified in 1974. Higher import prices, combined with stagnation of earnings

from shipping, tourism and workers' remittances, have caused a large increase in current account deficits. The adjustment measures taken so far and those contemplated for 1975 imply virtually no growth of real incomes between 1973 and 1976, compared with 7.5% a year during the period 1960-1972. Even so, Greece's external borrowing needs, for which it has the requisite creditworthiness, will remain large and may increase further in the medium term.

3.46 For the past 20 years Uruguay has shown almost classic symptoms of an economy suffering from balance of payments-constrained growth: a low and uneven rate of GDP growth, persistent inflation and periodic balance of payments crises. In 1973 its external position was considerably strengthened, largely as a result of improved terms of trade. Nonetheless, Uruguay is almost entirely dependent on imported oil and has been strongly affected by the oil price increase, while its exports have suffered from import restrictions on meat in European markets. The total deterioration of the terms of trade is equivalent to 3% of gross domestic income, and has resulted in accelerated inflation and a significant deterioration in public finances. A substantial balance of payments deficit in 1974 and 1975 will have to be financed from reserves and external borrowing, but this can only be a temporary expedient, pending a substantial shift in development strategy which would open the economy to the outside world.

#### Countries with Flexibility to Adjust in the Short Run

3.47 The countries in this category can expand their imports by 15-25% between 1973 and 1976. Though they are all in the middle income group, and have substantial participation in international trade and financial flows, there are considerable differences between them. The only African country in this group, the Ivory Coast, is dependent on agricultural primary products exports, whereas the other six are major exporters also of minerals and manufactures.

3.48 In the Ivory Coast, where quantitative controls on imports have never been applied, import capacity increased in 1974 and there was greater recourse to foreign borrowing; net foreign reserves doubled over 1973. During 1974, the government reacted rapidly to higher commodity prices by increasing consumer prices, avoiding costly subsidies, and salaries were moderately increased (the earnings of all but the lowest paid decreased in real terms). Producer prices were increased in line with domestic inflation. This country faces serious problems for the longer term, as the effects of terms of trade changes on savings may require reductions in the government's investment program. Nevertheless, its natural resources, its export oriented industry, and its

record of responsive and flexible economic policies suggest that it has sufficient potential for adjustment even if its future long term growth rates are lower.

3.49 Brazil, Korea, Malaysia, Turkey, Yugoslavia, have experienced vigorous and diversified growth, achieved in close partnership with the OECD countries--in that they have sought investments from, have borrowed heavily from, and have traded substantially with these countries. Their economies are sufficiently modern and integrated to allow their governments a wide range of economic policy options to counteract a deterioration in their external position; this again sets them apart from most of the lower and middle income countries in which the scope and range of effective policy instruments are much more limited.

3.50 The problem in these countries has been that adverse international developments hit them at a time when their economies were "over-heated". It has become clear over the past year that they cannot now sustain the very impressive rates of growth of the recent past without running into balance of payments constraints and inflationary pressures. Their immediate objective has thus been to slow down judiciously. Their role as exporters of manufactured goods to the OECD countries has made their exports especially sensitive to recession in the industrialized countries.

3.51 The long-term economic prospects of these economies are promising. Some have substantial natural resources, and the complementary resources to exploit them. Pending the renewal of growth in the industrialized countries--when their own exports to these areas are expected to recover--these countries are relying upon a combination of high levels of external borrowing to maintain some economic momentum in the short run and a series of restrictive measures to slow the growth of their economies enough to keep this borrowing to manageable levels.

3.52 Korea recently has been faced not only with a deterioration in its terms of trade equivalent to about 5% of GNP, but also with a marked decline in real export growth, from the average of over 50% per annum in 1972-73 to 6% per annum in 1974-75. Its current account deficit, which was around \$300 million in 1973, will average nearly \$2 billion during 1974-75, despite government efforts to improve the foreign exchange position. These large deficits have sharply increased Korea's immediate requirements for external assistance and have resulted in a substantial drop in its net international reserves.

3.53 The Malaysian economy has shown rapid and stable growth rates in the past and is fundamentally strong. High rates of investment have been maintained through incentives in the fiscal system, sound monetary and credit policies and receptivity to foreign private investment. At present its production and consumption of oil are about in balance, and it is likely to increase its oil exports in coming years. The country's major problem at present--inflation--is being vigorously tackled through floating of the currency, lifting of import controls and increasing interest rates. A package of fiscal and monetary measures to restrain domestic demand was introduced in April 1974.

3.54 In 1974 Turkey suffered a record current account deficit, due to substantial import growth; a decline in export volumes, due to recession in the OECD countries; and a decline in its terms of trade. It was able to pass through 1974 relatively easily by drawing on reserves accumulated since 1970, and could maintain high rates of growth for the rest of the decade through substantially increased external capital inflows (part of which would need to be on commercial terms) since the debt service burden is likely to remain at reasonable levels.

3.55 Jamaica's position is unlike that of the other countries in this category. Though its export volumes stagnated between 1972 and 1974, the adverse effects on the economy were short-lived. After reaching their lowest point in 1973, the prices of Jamaica's main exports have increased and the terms of trade are rapidly improving. The country's prospects for adjustment appear reasonably good: it has the resources to re-establish an import growth rate of 6-7% per year. After a period of little growth in 1973 and 1974, a GNP growth rate of 5-6% is again expected after 1975, which is at least equal to growth performance in the period 1967-1973, if not somewhat better.

#### Middle Income Countries with Few or No Adjustment Problems

3.56 Although these countries' export volumes have declined with the recession in the OECD, their exports are diversified and the recent changes in the terms of trade have in general affected them favorably. Some of them, Bolivia, Argentina, Mexico and Tunisia, are not dependent on imported oil, and some are net exporters. Peru may become independent in oil production by the end of 1976, or shortly thereafter. Morocco benefits from the higher price of phosphates, and Syria from its increased oil production and the large current transfers it receives from Arab oil exporting countries. The Dominican

Republic gained from high sugar prices in 1974<sup>1/</sup>, but may face more serious adjustment problems in 1975 and beyond. The Philippines benefited from high sugar and copra prices in 1974. In 1975 a very serious terms of trade loss is expected, but its large overall balance of payments surplus in the base year (1973) and increases in foreign capital inflows will allow a substantial increase in imports over the reference period.

3.57 The improvement in their terms of trade and relatively favorable export prospects will enable several countries in this group to grow more rapidly than in the past. Syria, Morocco, Argentina and Tunisia will be able to do so without a major increase of their debt burdens; the latter will probably decline temporarily, expressed as a percentage of export earnings. Bolivia can also raise its rate of growth, if it maintains large external capital inflows, which may take the form of foreign private capital associated with large natural resource development projects. Its debt service burdens will as a consequence stay about the same over time. The Philippines will, with considerably increased borrowing, be able to accelerate present growth rates, whereas Mexico can maintain or slightly increase its rate of growth only at the cost of an increasing burden of debt service. The Dominican Republic may not be able to maintain past high growth rates, even though additional borrowing is possible without unduly burdening the balance of payments.

3.58 Developments during the past two years suggest that managing sudden prosperity can present its problems too. A number of African countries and economies such as Bolivia that have benefited from the boom in commodity prices have been confronted with the problem of using their increased earnings for development in the absence of complementary resources such as skilled and unskilled labor, strong political and administrative organizations and a tradition of purposeful economic management. The experience of several countries also suggests that sudden prosperity can well be a source of severe economic difficulties. Without careful management of demand and judicious price policies, increased foreign exchange resources may be absorbed without any improvement either in the pace or content of economic growth. It is entirely possible that such increases will have no effect but to fuel inflation, and ultimately force a government to borrow large amounts of short-term funds.

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<sup>1/</sup> In this respect its position bears some similarity to Ghana's. However, it has at present a larger borrowing margin than the latter country.

3.59 In 1975 the majority of countries in this group will only be able to sustain the momentum of growth by sharp increases in external borrowing. Borrowing at such levels will be difficult to maintain over the long run, and thus these countries' growth prospects will depend on the recovery of their export earnings. Their long term growth rates may need to be adjusted downwards if future growth in the OECD countries is slow.

#### B. Policies for the Remainder of the Decade

3.60 The preceding discussion suggests three overall generalizations about the prospects of developing countries-- apart, of course, from the obvious one that the prospects differ according to such domestic factors as natural resource endowments. First, a number of economies appear to have succeeded in controlling national expenditure levels, thus lowering their rates of inflation. They should, therefore, now be in a position to pay greater attention to longer term development objectives. Second, a number of countries which have had to borrow substantial amounts of capital, on harder terms than in the past, will face debt servicing difficulties unless they can rapidly increase their export earnings and lengthen the maturities of their borrowings in the next few years. Finally, the principal determinant of developing countries' longer-term prospects will be the domestic economic policies they pursue. The current state of many economies owes itself more to the domestic policies they have been following than to international developments.

3.61 The short term adjustment measures many developing countries adopted in 1974 and 1975 will be inappropriate or inadequate to deal with the deterioration in their external position on a long term basis. Restrictive policies which slow growth, or recourse to extensive foreign borrowing on hard terms, cannot provide permanent solutions. Moreover, the nature of the problem will change over time. As the OECD countries recover, the adjustment problems of the developing countries will be dominated by the need to overcome the decline in their import capacity caused by the 1973-74 change in relative prices.

3.62 Countries can adopt three broad approaches to restore the import capacity that would permit accelerated growth rates: they may seek more external finance; they may seek to earn additional foreign exchange by increasing exports; and they may limit their import expenditures through import substitution. There are wide variations in the extent to which different countries can adopt these approaches, or if they do not, will have to accept lower rates of growth.

3.63 Among the lower income group of developing countries are several small, largely subsistence, economies which have little flexibility. Although their low levels of development tend to limit the impact of external events on these economies, they also pose constraints on their ability to adjust either by rapidly expanding exports or promoting import substitution. For the medium term this group of countries can be expected to achieve only modest growth targets. Their prospects could be much improved by changes in the volume and use of aid; firstly, by an increase in the real level of external assistance. Since these countries are small, the increased costs to donor countries would not be very substantial. Secondly, aid to these countries could be made more effective if the additional capital inflows were complemented by more adequate overall policies, particularly with regard to incentives in agriculture. Thirdly, concerted efforts by governments and aid donors to widen and diversify the exploitation of natural resources, particularly untapped mineral resources, or the development of river basins for irrigation and power generation, could significantly increase these countries' long term prospects.

3.64 The larger low income countries face a very different set of problems. Most of them have more diverse natural resources, a considerable industrial infrastructure and a better organized institutional structure, at least in the modern sector. These economies are in a better position to expand exports (often of both primary commodities and manufactured goods) and to promote efficient import substitution, including increased production of foodgrains. However, in the past these countries' export volumes have been comparatively stagnant, and their import substitution activities have often been very inefficient.

3.65 Even before 1973, many of the poorer countries had already restricted their imports to austerity levels. The social and economic costs of further restrictions are correspondingly high. With one or two exceptions, they also lack the creditworthiness to mobilize long term private capital. It will take some time for these economies to make the investments and to effect the structural reforms that are necessary for the more open approach to development that seems to hold most promise for raising their incomes and accelerating their growth. Provision of the additional concessionary resources needed to support such an economic program is of the highest priority.

3.66 Import substitution in foodgrains is the most urgent problem faced by these countries. In South Asia, it is estimated that a rise in the growth rate of foodgrain production of half of 1% could increase the growth rate of per capita income by roughly the same amount, primarily through freeing limited import capacity for other uses. To

expand foodgrain production at the necessary rate will require both changes in institutional structure (often affecting land tenure patterns, as well as price and credit policies, technical assistance and marketing organization) as well as major investments in infrastructure. In their industrial sectors, efficient import substitution and export expansion depend upon the same general set of policies--particularly those that will lead to more open economies. Import, price and investment policies will all need to be reviewed and revised if this approach is to be adopted.

3.67 The middle income countries have greater potential to raise their import capacities through accelerating the expansion of exports, once recovery in the OECD countries is underway. Efforts will have to be made to increase access to markets in the industrialized countries, but these will be of no avail unless the developing countries can produce the additional goods.

3.68 A number of developing countries have managed to sustain high rates of economic growth through diversifying their exports into minor agricultural products and laying stress on exports of manufactured goods. Analysis of their experience suggests some clear policy implications. The developing countries which have succeeded in penetrating international markets for manufactures have followed fiscal, monetary, price and exchange rate policies which enabled them to compete internationally. Since these economies are diversified they are less vulnerable to the vicissitudes of terms of trade changes for individual commodities. Their external orientation, backed by well designed policies, enables them to withstand the impact even of major recession in the developed world better than countries which have adhered to inward-oriented policies.

3.69 The scope for further diversification of exports is generally greater in middle income developing countries, but it exists as well in certain of the lower income countries, particularly India and Pakistan. For many countries, credit-worthiness limitations on further foreign borrowing, compounded by high costs of essential imports for which in the short term there appear to be no substitution possibilities, make expansion of manufactured exports the only feasible solution to balance of payments problems.

3.70 New measures to promote exports (and measures to replace borrowing in international capital markets as a means of supporting import capacity) need not wait for recovery in the OECD countries. In addition to the lag between investments and additional output, there is likely to be a longer lag between the institutional or policy changes and actual investment expenditures.

3.71 In implementing an economic development strategy based on a relatively open economy, probably the most important factor is a realistic exchange rate policy. Almost as necessary are policies to stimulate effective competition within the domestic market, as well as from imports, which will depend not only on adequate domestic capital markets, but on the availability of productive inputs, some of which may still have to be imported. Smaller firms, particularly, may need assistance, for instance in the provision of information as to foreign market opportunities and requirements. Specific incentives, such as rebates of indirect taxes on non-traditional exports, have a role to play too.

3.72 It is now urgent that developing countries review the adequacy of their institutions and policies in the light of their long term needs for export promotion and efficient import substitution. However, the scope for improvements in domestic economic management within the developing countries will be critically affected by future developments in the international economy: particularly by the rates of growth in the OECD countries, and their trade policies, by the policies of the OPEC countries, and by the volume and direction of capital flows. We turn to these issues in Chapters IV and V.

#### IV. PROSPECTS FOR EXTERNAL TRADE

4.01 Developing countries are concerned not only with their immediate adjustment problems, but also, collectively as well as individually, with their longer term future.<sup>1/</sup> Changes in these countries' market shares and in the volume and the composition of their exports, even though small when compared to the growth of world trade, can be of major significance to them in easing their external positions and providing a firmer basis for development. To bring about these changes will require major efforts by both the developing and the developed countries, and thus they can only be considered as an option for the longer term. In the next few years, only a few developing countries will have the capacity to raise their export volumes above the levels planned or projected before the major changes in the world economy took place. In all of the developing countries, long term progress will depend on stable and continuing policies of export promotion.

4.02 In the context of the historical trends which are outlined in Section A below, the present chapter examines two broad areas which affect developing countries' trade prospects. Section B considers the impact on those prospects of changes in external factors--the price of oil and the rate of growth in the OECD. In Section C, the discussion turns to areas in which all groups of countries could take action to enhance developing countries' trade prospects.

##### A. Background: Principal Trends in World Trade

##### Shares in World Trade

4.03 Although between 1950 and 1970 the value of developing countries' exports increased at an annual rate of 6%, their share of world trade fell, from 35% to 22%. As Table IV.1 indicates, this share continued to decline between 1970 and 1974.

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<sup>1/</sup> See for example, United Nations, Resolutions Adopted by the General Assembly during its Sixth Special Session, 9 April - 2 May, 1974, General Assembly, Official Records, Sixth Special Session, Supplement No. 1, (A/ 9559), New York, 1974, and United Nations, General Assembly, "Programme of Action on the Establishment of a New International Economic Order", Note by the Secretariat, 7 December 1974, A/C.2/294.

Table IV.1 SHARES OF DEVELOPING COUNTRIES IN WORLD TRADE  
1950-1970

(in %; based on current US dollar values of goods exports)

	<u>1950</u>	<u>1960</u>	<u>1970</u>	<u>1974<sup>a/</sup></u>
All developing countries	35.4	26.2	22.2	31.4
of which:				
1. Oil-exporting countries <sup>b/</sup>	7.0	7.0	6.3	16.8
2. Middle Income countries	22.4	15.1	13.2	12.9
3. Lower Income countries	5.4	3.6	2.3	1.4

a/ Preliminary estimates.

b/ Includes Ecuador and Gabon, as well as several smaller oil exporters which are not OPEC members.

The increase in the export volumes of certain countries in the middle income group--those which have pursued export-oriented development strategies to break the balance of payments constraint--has slowed the rate of decline in that group's share of world trade. Meanwhile the small share of the lower income group has declined at an accelerating rate.

4.04 The background of the broad decline in developing countries' share of world trade is extremely complex. Their poor performance in the post-war period cannot be ascribed entirely to the high proportion of primary commodities in their exports: for all major categories of commodities except fuel, the developing countries' exports increased less rapidly than the developed countries' exports of the same goods. Thus the developing countries, as a group, lost shares of the markets for their traditional exports without compensatory gains from other exports. This is a fortiori the case when account is taken of the rapid rise of manufactured substitutes for primary materials, particularly rubber and fibers.

4.05 In many developing countries food production has expanded only slowly, and in some has barely kept pace with population growth. As a consequence, many have grown increasingly dependent on imported food. Until the early 1970s surplus food from the developed countries was often made available to developing countries at subsidized prices. The international prices of foodgrains thus remained low, and the policies of many developing countries favored cheap imported food over the provision of incentives for domestic food production.

4.06 Further, because developed countries have promoted domestic production of agricultural raw materials and of some foods, notably sugar, through protective measures, the largely "residual" international markets have contracted. As a result, international prices of the protected commodities are subject to severe fluctuations and often fall below the long run marginal costs of production. This has inhibited new investments in the developing countries for the international markets, and has caused a further decline in their market shares.

4.07 In some developing countries, expansion of export supplies has been hampered by domestic policies. In several, undue protection for the manufacturing sector has created a bias against agricultural production. Frequently, some activities continue to be protected, even when new policies have been introduced to encourage the diversification of exports or, particularly, the development of manufactured exports. Domestic price policies have often focused more on containing the cost of living in urban areas than on giving farmers incentives to increase their output.

#### The Terms of Trade

4.08 As is illustrated in Table IV.2, the oil importing developing countries' terms of trade have continued to deteriorate significantly since 1973, reflecting continuing increases in import prices, particularly those of manufactured goods, and the decline in the prices of most primary products, following the peak reached in early 1974. The slow recovery that is expected after 1975 will not be sufficient to restore the position that prevailed in the 1960s.

Table IV.2 TERMS OF TRADE OF THE DEVELOPING COUNTRIES

(Indices; 1967-69 = 100)

	Middle Income Countries	Low Income Countries	All Sample Panel Countries
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
1980a/	91.6	82.7	90.4

a/ Assumes medium OECD growth of 4.2% per year, 1975-80; oil price constant at \$9.40 per barrel, 1974 dollars.

4.09 The main components of the import prices of developing countries, each taken relative to the prices of primary commodities, excluding petroleum, are set out in Table IV.3.

Table IV.3 DEVELOPING COUNTRIES' IMPORT PRICES BY COMMODITY GROUPS RELATIVE TO PRIMARY PRODUCT EXPORT PRICES: 1960-69 to 1980

(Indices, 1967-69 = 100)

	Food Products	Oil <sup>a/</sup> and Oil Products	Inter- mediate Goods, Raw Materials	Finished Manufac- tured Goods
Shares (%) <sup>b/</sup> in imports				
in 1972	10.0	5.1	30.1	36.2
in 1974	13.4	16.4	28.9	28.1
Average 1960-1969	100	111	101	103
1972	105	135	105	120
1973	121	140	96	106
1974	143	385	103	101
1975	140	434	114	118
1980	107	406	107	111

<sup>a/</sup> Assumes oil price constant at \$9.40 per barrel, 1974 dollars.

<sup>b/</sup> As the indices have 1967-69 as their base, the shares shown for 1972 and 1974 cannot be used for the construction of a composite index.

The increases between 1972 and 1975 in the relative costs of imported oil in particular, but also of food, are apparent. The rise in the relative import prices of intermediate goods and finished manufactures is particularly strong in 1975.

4.10 In the projection to 1980, all these relative import prices decline. The terms of trade for these other commodities are expected to recover much of the ground lost during 1974 and 1975.

B. External Factors Affecting Trade  
of Developing Countries

4.11 The oil importing developing countries can do little about either the future price of oil or the rate of recovery in the OECD countries, but both these factors critically determine the conditions under which they must pursue their own economic objectives.

Effects of Alternative Oil Prices

4.12 The increased price of oil has been a major element in the deterioration of oil importing developing countries' terms of trade. If the oil price were to be progressively lowered, to 80% of its present level in real terms, their future would be markedly affected: by 1980, their terms of trade indices would rise by nearly three percentage points,<sup>1/</sup> and the annual growth rate of their import capacity would rise by almost half a percentage point. The lower income countries

Table IV.4 PROJECTED EFFECTS OF ALTERNATIVE OIL PRICE ASSUMPTIONS  
ON THE DEVELOPING COUNTRIES: 1975-1980<sup>a/</sup>

( % per annum)

	Lower Income Countries		Middle Income Countries		All Sample Panel Countries	
	<u>9.40</u>	<u>7.50</u>	<u>9.40</u>	<u>7.50</u>	<u>9.40</u>	<u>7.50</u>
Oil Price <sup>b/</sup>						
<u>Developing Countries'</u> <u>Growth Rates</u>						
Volume of Exports	5.2	4.9	7.6	7.5	7.3	7.2
Exports, Capacity to Import	5.6	6.0	7.3	7.6	7.1	7.5
Volume of Imports	3.8	4.3	5.0	5.4	4.9	5.3
Gross Domestic Product	3.3	3.8	4.7	5.0	4.4	4.7
GDP per capita	0.7	1.2	2.0	2.3	1.8	2.1

<sup>a/</sup> Assumes medium OECD growth of 4.2% per year.

<sup>b/</sup> Dollars per barrel (constant 1974 prices).

<sup>1/</sup> See Table IV.2 above.

would show a more marked gain than those in the middle income group, for whom oil represents a smaller proportion of total import costs.

Effects of Alternative OECD Growth Rates<sup>1/</sup>

4.13 The OECD countries are the principal market for developing countries' exports, and OECD growth rates have a critical effect on developing countries' export prospects. Poorer growth performance in the OECD countries significantly reduces the developing countries' capacity to import, both through slower growth in demand for their exports and through worsening terms of trade. It thus also increases the developing countries' debt burden, relative to available foreign exchange.

4.14 Table IV.5 compares projections as to the performance of developing countries under alternative OECD growth assumptions.

Table IV.5 PROJECTED EFFECTS OF ALTERNATIVE OECD GROWTH ASSUMPTIONS ON THE DEVELOPING COUNTRIES: 1975-1980<sup>a/</sup>

(% per annum)

	<u>Lower Income Countries</u>		<u>Middle Income Countries</u>		<u>All Sample Panel Countries</u>	
<u>OECD Growth</u>	4.9	3.5	4.9	3.5	4.9	3.5
<u>Developing Countries' Growth Rates</u>						
Volume of Exports	5.8	4.6	8.6	6.6	8.2	6.4
Exports, Capacity to Import	6.5	4.8	8.4	6.1	8.1	5.9
Volume of Imports	4.4	3.2	6.0	4.0	5.8	3.9
Gross Domestic Product	3.8	2.8	5.3	4.1	4.9	3.8
GDP per capita	1.2	0.2	2.6	1.4	2.3	1.2

<sup>a/</sup> Assumes oil price constant at \$9.40 per barrel in 1974 dollars.

Even if the OECD countries recover rapidly in the years to 1980, with an average annual growth rate of 4.9% (compared to the 4.2% assumed in the "base case"), the developing countries are likely to see a further decline in their share of world exports

<sup>1/</sup> Projections of growth in the OECD countries are described in more detail in Annex A.

of primary commodities--from 46% in 1960 and 43% in 1972, to about 40% in 1980. Over the period 1975-80, the volume of exports of goods and services from developing countries would rise by more than eight percent per year. Manufactured goods exports, increasing by 15% annually as in the recent past, would account for a high proportion of this growth in volume.

4.15 If a lower OECD growth rate, of 3.6% per annum, is assumed, the projected volume of developing countries' exports of primary commodities is not markedly affected: its annual growth rate is only 0.2% lower than under the "high" OECD growth alternative. However, the rate of growth of manufactured exports would be reduced to 11% per year. The effects of this lower OECD growth rate do not appear to vary substantially between the two income groups of developing countries. The bulk of developing countries' exports are primary products, and the supply of agricultural products, particularly, is not easily reduced in response to a decline in demand. Thus, under the lower OECD growth assumption, developing countries terms of trade are expected to worsen by 0.4% per year through 1980.

#### C. Potential for Enhancing Developing Countries' Trade Prospects

4.16 Developing countries are aware that while in the short run many of them will have to rely heavily on inflows of concessionary capital, in the longer run an increase in their export earnings could have a substantial impact on their growth prospects. Export earnings not only provide the capacity to import, but also enhance the ability to borrow by underwriting creditworthiness. Yet, even if developments in their terms of trade were to be more favorable than projected in this study, developing countries' long-term export prospects will remain relatively limited unless they reduce their dependence on exports of primary commodities. Any substantial acceleration of these countries' export growth must be led by manufactured goods.

4.17 The discussion that follows gives the reasoning behind this rather firm conclusion. It first considers the prospects for trade in primary commodities, then those for manufactured goods, and subsequently analyzes possible modifications in the direction of existing trade flows. The scope for, and effects of, relevant policy changes in the OECD and in the OPEC countries are taken into account; but, as was argued in Chapter III, if the developing countries wish to affect their balances of payments through increased exports before 1980, they need to begin now to adjust their own policies accordingly.

### Primary Commodities

4.18 Growth in exports of primary commodities will, for the most part, be slow. It is unlikely that increases in demand for them will generate a major increase in developing countries' total export receipts. However, with international cooperation, two other problematic aspects of trade in primary commodities appear amenable to solution: exporters seek to reduce the instability of their earnings,<sup>1/</sup> and importers seek greater assurance of supply. The ways of approaching these ends differ among commodities.

### Foodgrains and Other Temperate Zone Commodities

4.19 Foodgrains comprise a major part of imports for many developing countries, particularly those in the lower income group. Over the coming years, the scope for major increases in domestic foodgrain production in these cases is quite limited. Substitution for imported foodgrains depends in large measure on investments in the agricultural sector; these have a long gestation period, making it unlikely that projects undertaken after 1975 will have much impact on foodgrains output before 1980.

4.20 Whether policies and programs to increase agricultural productivity can have a major effect on domestic supply in the short run will depend importantly on marketing and price policies. The magnitude of the policy changes which some of the major foodgrain deficit countries would have to make in this area suggests that they will continue to depend heavily on imported foodgrains, at least until 1980. Indeed, some governments may see the continuity of their existing price policies as more important than the benefits to producers accruing from higher farm-gate prices.

4.21 At present, many OECD countries protect their own exports of agricultural and forestry products quite heavily through subsidies, tariffs and non-tariff barriers. The dismantling of such protective barriers could raise the export earnings of developing countries by as much as \$12 billion by 1980.<sup>2/</sup> Most of this increase would accrue to the exporters (mainly countries of the middle income group) of a small group of large volume commodities, such as sugar and forestry products.

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<sup>1/</sup> Instability of export earnings has not in the past prevented developing countries with rapidly growing exports from accelerating their overall rates of growth. It has, however, caused considerable short-term adjustment problems; without them, their growth rates could have been even higher.

<sup>2/</sup> See IBRD Staff Working Paper No. 193, January 1975.

4.22 Efforts to reach international commodity agreements which contain provisions for the regulation of prices, and for some control of production, are highly deserving of attention. Though such arrangements are unlikely to raise developing countries' long term earnings to a great extent, the benefits they could yield in reducing price and supply fluctuations would be highly significant for developing country importers of these commodities. The multi-commodity approach recently adopted by UNCTAD promises considerable benefits to developing as well as developed countries, both being consumers of some and producers of other commodities included in the same package.

#### Tropical Commodities

4.23 Countries which are highly dependent on exports of tropical commodities could gain substantially from measures to stabilize international prices and export availabilities of these products, through buffer stock operations and marketing schemes. Such measures could modify fluctuations in these countries' balances of payments, and might have a favorable long term effect on their export earnings: in the past, fluctuations in supply have tended to encourage investments in synthetic substitutes.

#### Non-fuel Minerals

4.24 Non-fuel minerals account for some 20% of developing countries' total exports. Though mineral exporters benefited from the boom of 1973 and 1974, future increases in demand are likely to be modest though steady, depending on long run growth trends. In the remaining years of this decade, these countries' terms of trade are not expected to differ markedly from those of the 1960s. However, mineral producers have recently been gaining higher shares of the rents inherent in these exhaustible natural resources by renegotiating existing contracts and by a greatly improved negotiating capacity in signing new contracts. As a consequence, their balances of payments have somewhat improved. This trend is expected to continue in the period under review, but its overall impact will be small. One possible development in the area of minerals trade is the creation of international buffer stocks, along the lines of that managed by the International Tin Council, to limit price fluctuations.

#### Stabilization Measures

4.25 Schemes such as this would help to mitigate producers' balance of payments difficulties in the short run, and would reduce the need to hold large foreign exchange reserves. More importantly, they could provide a better climate for investment

in the producing countries, which would enhance the latter's market position in the long term. In the years through 1980, however, their effect on export earnings would not be significant.

4.26 Put generally, improved international mechanisms to compensate for shortfalls in primary commodity exports might be a viable solution to the problems that derive from volatility in commodity export receipts. These could well complement buffer stock arrangements. In any event, funds used for such purposes are likely to demonstrably improve resource mobilization and resource use in the recipient countries.

4.27 The financing of arrangements of this type would be an effective supplement to "traditional" development aid, and might justifiably claim a larger share of the total resources available for development assistance than at present. The conclusion of wide-ranging preferential arrangements--such as the Lome Convention and, in particular, the mechanism for stabilization of export earnings included in that Convention--holds promise for the improvement of a large number of developing countries' trade prospects. Although reaching world-wide agreements on the stabilization of earnings from commodity exports, and on access to markets, is difficult, this need not hamper progress within a regional framework or for a limited number of commodities.

#### Manufactured Goods

4.28 Starting from a very low base, the share of manufactured goods in developing countries' total exports of goods and services has risen rapidly over the past twenty years, to slightly less than 20%. However, developing countries account for only 6% of world trade in manufactured goods, and between 1960 and 1972 the value of their manufactured exports grew only marginally faster than did world trade in manufactures. If these trends continue, as has been assumed to this point, developing countries will increase their share in total manufactures trade to about 7.5% by 1980.

4.29 As was noted in Chapter III, a more rapid expansion of manufacturing for export is within the capacity not only of those countries already pursuing export promotion policies but also of those which have yet to make the necessary policy changes. Nonetheless, even if it is--optimistically--assumed that developing countries' manufactured exports will grow annually by 20%, instead of 15%, their share in world manufactures trade would only reach 10.5% in 1980. If world demand for manufactured goods were to remain the same over the

projection period, this would only entail a 0.5% decline in the growth rate of developed countries' manufactured exports-- from 12% to 11.5% per annum.<sup>1/</sup>

Table IV.6 PROJECTED EFFECTS OF ALTERNATIVE MANUFACTURED EXPORT GROWTH ASSUMPTIONS ON THE DEVELOPING COUNTRIES: 1975-1980 a/

(% per annum)

	<u>Lower Income Countries</u>		<u>Middle Income Countries</u>		<u>All Sample Panel Countries</u>	
<u>Manufactured Export Growth</u>	15.0	20.0	15.0	20.0	15.0	20.0
<u>Developing Countries' Growth Rates</u>						
Volume of Exports	5.2	5.5	7.6	8.9	7.3	8.4
Exports, Capacity to Import	5.6	6.0	7.3	8.4	7.1	8.1
Volume of Imports	3.8	4.1	5.0	6.0	4.9	5.8
Gross Domestic Product	3.3	3.6	4.7	5.3	4.4	4.9
GDP per capita	0.7	1.0	2.0	2.6	1.8	2.3

a/ Assumes mid-point OECD growth rate at 4.2% per annum; constant oil price at \$9.40 per barrel in 1974 dollars.

4.30 This possibility has implications for developing countries' export composition. At present, the majority of their manufactured exports absorb more labor in production than do the manufactures they import. Because the developed countries which import these goods also produce them, or close substitutes, domestically, an attempt by the developing countries to increase their shares of the market for these commodities may be thought to have labor displacing effects in the developed countries. Even now, countervailing duties, quantitative restrictions, and voluntary but negotiated restraints on exports of certain commodities (such as textiles and shoes) are of some importance. This suggests that if developing countries are to seek more rapid expansion of manufactured exports, they need to plan for an accelerated diversification of those exports as well as for an increase in their volume.

1/ This assumption is conservative. World demand is thought likely to increase through 1980, reflecting an increase in demand in developing countries for manufactured exports from OECD countries.

### Direction of Trade

4.31 The developed countries will continue as the main markets for developing countries' exports, and there is still great potential for increased access to those markets. Nonetheless, developing countries' trade policy planning needs to be wider in scope. The following discussion considers the scope for changes in present directions of trade that could increase developing countries' export outlets.

### Policies of the OECD Countries

4.32 The oil-importing developing countries account for only a small proportion of OECD countries' total imports, with the exception of some minerals, tropical agricultural products and textiles. Developing countries' export patterns can therefore be markedly affected by the accessibility of the OECD market which depends not only on the supplies of exports, but also on the policies adopted toward them in the OECD countries.

4.33 If developing countries' efforts to increase their exports (particularly those of manufactured goods) are not to be thwarted by protectionist obstacles, the OECD countries need to make considerable changes in their own policies with regard to imports from developing countries, both of agricultural goods and of manufactures. The tariffs of most developed countries still discriminate against primary products that have been processed. Although tariff levels on manufactured goods are relatively low, and tariff and preference issues are not very significant, the OECD countries still impose substantial non-tariff quantitative restrictions (particularly on textiles).

4.34 Such restrictions will be the central issue in forthcoming trade negotiations, and they are of particular importance to developing countries. This is an area in which new international conventions and agreements are needed: both export subsidy and import restriction policies merit reconsideration.

4.35 The main long-term beneficiaries of an improved international division of resources and labor, which is the basis of growing international trade, are the consumers in importing countries, but they are generally poorly organized and do not carry much political weight. The immediate impact of a shift in trade patterns is on producers; and as farmers, manufactures and trade unionists they are usually well organized. Hence, the removal of subsidies to agriculture and of import barriers to agricultural goods is likely to face strong opposition in developed countries. Protectionist measures are unlikely to be reduced, and new political pressures are unlikely to be avoided, unless these countries markedly improve adjustment

assistance policies toward their own nationals affected by a shift in trade in favor of developing countries. With appropriate and adequate adjustment assistance policies, the prospects for increased access for developing countries will improve.

#### Exports to Oil-Exporting Countries

4.36 The OPEC countries are projected to increase their imports by 25% per year, in nominal terms, between 1975 and 1980 and will be the most rapidly growing market for other developing as well as for developed countries' exports in this period. The other developing countries have in the past decade supplied only 14% of this market, on average; even if this share remained constant, their export earnings would rise by some \$16 billion (in current dollars) by 1980.

4.37 They could substantially increase their share in the markets of almost all the goods imported by OPEC countries, and could in addition benefit from the export of labor services. Developing countries in Latin America, Asia, and Africa are well situated geographically to compete in supplying food and other primary commodities, as well as manufactured goods, to the OPEC countries. Some of the middle income countries have already taken advantage of these opportunities. To assure future supplies, some of the oil exporters are investing in joint-venture primary-product development in developing countries. There is room for further activity along these lines.

4.38 The Group II OPEC countries may find the other developing countries' growing capacity in producer goods exports particularly attractive: the latter could supply equipment suitable for a labor intensive strategy of infrastructure development. There are also opportunities for these countries to act as sub-contractors, supplying equipment to both Group I and Group II oil-exporting countries. The construction of ports, transport systems and sophisticated manufacturing plants involves a large volume of design and engineering services; countries such as Pakistan, India, Korea and Singapore can compete in a wide range of such services with long-term benefit to their own manufacturing export capacities. As was noted in Chapter II, certain oil exporting countries are providing opportunities for migrant workers, mainly lower level skilled, but to some extent unskilled. While such movements of labor on a large scale undoubtedly pose social and political difficulties, they can yield substantial benefits to both the host and the home countries.

### Trade with Centrally Planned Economies

4.39 In the 1950s and 1960s, developing countries exported less to the centrally planned economies than to the OPEC countries. Though those exports grew slowly, they have nevertheless been important, particularly to developing countries in the low income group. In the past, trade between developing countries and centrally planned economies was often hampered by difficulties of determining barter conditions.

4.40 However, present conditions suggest that there are now opportunities for expanding conventional trade at international prices. The increase in oil prices has favorably affected the centrally planned economies' balances of payments. Their per capita consumption of such primary products as coffee and cocoa (in which the developing countries have a comparative advantage) is still low, and their markets for manufactured goods are expanding.

### Trade Among Developing Countries

4.41 Trade among oil-importing developing countries expanded relatively slowly in the 1960s, but began to accelerate late in the 1960s, both generally and in areas which had formal preferential agreements, such as the Latin American Free Trade Association. Only in Africa has intra-regional trade tended to decline. In recent years, the share of manufactures in trade among the developed countries has been growing quite rapidly. The nominal value of trade in manufactures within the Latin American and Caribbean region rose from \$60 million in 1960 to \$1,080 million in 1972. Trade within Asia (including the Middle East) in manufactures rose from \$570 million in 1960 to \$2,040 million in 1972.

4.42 Developing countries could benefit greatly from further expansion of trade among themselves. The consumption goods they manufacture are often more appropriate to the needs of the majority of their consumers than are "high technology" goods. Especially for smaller countries, such trade expansion offers the possibility of achieving economies of scale without exposure to the more severe competition of worldwide trade. But many developing countries still impose high tariffs and quantitative import restrictions. The introduction of preferential agreements among the developing countries, whether through regional arrangements or on a wider basis, holds promise for stimulating export growth.

### D. Summary and Conclusions: The Prospects for Trade

4.43 To make major and lasting improvements in their trade performance, oil importing developing countries need to make fuller use of their capacity to reduce their dependence on

exports of primary products, and in particular on the major agricultural commodities, and to diversify their exports into the minor agricultural products and manufactures. Growth in exports of the major agricultural commodities will be slow, even if trade liberalization were to make the markets for them more attractive for some time. Yet there is a need for producers and consumers of these commodities to agree on measures which will stabilize the export earnings and market shares of the developing countries. The market prospects for non-fuel mineral exporters are somewhat better, and there appears to be scope for increasing their shares in the rent inherent in these commodities. However, the benefits to the developing countries as a group would be small, as in the long run export earnings from minerals will grow only slowly. The potential for expansion of manufactured goods is greater, and would benefit a wider group of developing countries.

4.44 In the near term, the developing countries' export prospects will depend more upon the rate of economic recovery in the OECD countries than on any policy alternatives they choose to adopt. In the longer term, too, the trade policies that the OECD countries pursue will be crucial to the success of developing countries' export promotion efforts. But despite the significance of the OECD countries, theirs are not the only markets to which the developing countries should seek greater access: trade with centrally planned economies and among developing countries can play an increasing role. While the new element here is the rapid growth of markets in the OPEC countries, other trade links among developing countries can significantly enhance their mutual prospects.



## V. FLOWS OF EXTERNAL CAPITAL

5.01 If they are to maintain reasonable rates of growth, the developing countries now require substantially larger flows of external capital than would have been necessary prior to the change in their terms of trade and in their export earnings. Rapid recovery in the OECD countries and measures in the developing countries to promote trade can reduce developing countries' dependence on external capital flows, but in the next few years the resource gaps of most of these countries will remain large.

5.02 The present chapter outlines present and projected capital flows to the developing countries, and compares estimates of their capital requirements to expected availabilities, by types and sources. The projections are then taken as the starting point for a discussion of the aid policies of the major donor groups, and of the creditworthiness of the recipient countries.

5.03 In 1973, the total net flow of medium and long term capital to developing countries<sup>1/</sup> is estimated to have been \$30.8 billion (see Annex Table 8). Part of that total consists of technical assistance, which cannot be taken into account in a discussion of financial requirements associated with growth objectives. Neither can flows to unspecified destinations be meaningfully included in the analysis. These two elements accounted for \$5.6 billion in 1973. The remaining \$25.2 billion, as shown in Table V.1, is taken as the basis for discussion. However, in comparisons of donor countries' disbursements as a proportion of GNP, technical assistance flows and flows to unspecified destinations are both included. The two sets of figures are reconciled in Annex Table 10.

5.04 Although no firm estimates are yet available for the total net flow of capital to developing countries in 1974, it is clear that major changes occurred, which will become more pronounced in 1975 and later years: preliminary estimates for 1974 indicate that total net capital flows were increased in nominal terms by about 52%. This apparently massive increase

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<sup>1/</sup> Total capital flows, net of amortization, are of two kinds-- Private flows and Official flows. Private capital flows consist of direct foreign investment and private lending. Official capital flows comprise Official Development Assistance (ODA), which meets established concessionality criteria, and Other Official Capital (OOF), which is made available on less concessionary or market terms by official institutions. Detailed capital flow data are available only through 1973; that year is therefore taken as the base for analysis and projections.

raised net capital flows in real terms by only 9%, because import prices for the developing countries rose by about 40%. Official capital flows in 1974 rose by 42% in nominal terms, and by 1% in real terms. This nominal increase largely reflects the OPEC countries' emergence as sources of medium and long-term capital, and the utilization of the IMF Oil Facility.

Table V.1 NET CAPITAL FLOWS TO DEVELOPING COUNTRIES, 1973-1975<sup>a/</sup>

(in billions of US dollars)

	Recipient Country Groups			Total	Total in 1974- <sup>b/</sup>
	Low Income Countries	Middle Income Countries	Oil-Exporting Countries		
1973 Official Capital	3.59	6.84	0.95	11.38	16.01
Private Capital	0.79	11.12	1.95	12.78	17.92
Total	4.38	17.96	2.90	24.16	33.98
1974 Official Capital	5.55	9.48	1.14	16.17	16.17
Private Capital	1.42	17.98	1.04	20.44	20.44
Total	6.97	27.47	2.18	36.61	36.61
1975 Official Capital	7.43	12.41	1.43	21.27	20.07
Private Capital	0.94	21.95	1.75	24.64	23.24
Total	8.37	34.36	3.18	45.91	43.31

<sup>a/</sup> Flows to all developing countries, received from bilateral and multilateral sources, but excluding technical assistance and flows without specified destinations.

<sup>b/</sup> Deflated by the index of developing countries' import prices.

5.05 Projections of net official capital flows to developing countries over the period 1975-1980 are dependent on many factors which themselves are uncertain.<sup>1/</sup> In the immediate future--in 1975 and 1976--plausible estimates of disbursements can be derived from known commitments. On the basis of these and of known amounts undisbursed, it is likely that net official capital flows in 1975 will increase further, probably by over 31% in nominal terms, or by some 24% in 1974 dollars. This again reflects the rapid increase of flows originating in OPEC countries (even if their commitments in 1975 were not to exceed the 1974 level) and, to a lesser extent, from the multilateral agencies.

5.06 The increase in private flows to developing countries during 1974 was large--60% in nominal and 20% in real terms. Nearly all of these flows were directed to countries in the middle income group.<sup>2/</sup> Lenders undoubtedly felt that, notwithstanding indications of decline during the year, high commodity prices and the ample reserves of these countries made them creditworthy. However, inflation has eroded foreign exchange reserves, and new debt service liabilities associated with borrowing on increasingly hard terms, may discourage new borrowers and lenders. Hence, a more modest rate of increase in private flows is projected for 1975, reflecting the already high level of these flows and its implication for indebtedness.

5.07 To project capital flows for years after 1976, the level of official capital commitments--which essentially reflects political decisions--from 1975 on must first be estimated by source and type. The terms of those commitments and their distribution among recipients influences the creditworthiness of developing countries, and consequently affects their access to capital on terms at or near market rates.

5.08 Projections indicate that flows from all sources of net official capital will rise from \$20 billion in 1974 to about \$32 billion in 1980, in current prices.<sup>3/</sup> However, as a share of GNP, net official capital flows will decline over this period for both DAC and OPEC countries--from 0.40% to 0.30% for the DAC, and from 3.40% to 1.28% for the OPEC.<sup>4/</sup> The

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1/ Unless otherwise stated, the projections outlined in this chapter assume the mid-point OECD growth rate of 4.2% per year.

2/ See Annex Table 11.

3/ See Annex Tables 9 and 10; these figures include both technical assistance and amounts for which country destinations are not specified, and thus measure the total contribution of their donor groups to development financing.

4/ DAC countries are the members of the Development Assistance Committee of the OECD. OPEC countries here exclude Indonesia and Nigeria.

projections suggest only modest increases in official capital flows between 1975 and 1980 in real terms, and some decline towards the end of the decade.<sup>1/</sup> The assumptions as to donor policies and creditworthiness on which these estimates are based are discussed below.

A. Official Flows from Oil Producing Countries

5.09 At present there is insufficient information available on the development assistance policies of the oil-exporting countries, particularly for the medium and long term. These countries--particularly those of Group II--have large development needs of their own which can be expected to take priority as long as their per capita income levels remain low. Their capacity to provide capital to other countries consequently depends on their own development expenditures and on their own balance of payments and international liquidity positions.

5.10 The duration of the current account surpluses of the oil-exporting countries and the factors on which these surpluses depend were discussed in Chapter II.<sup>2/</sup> On a cash basis the OPEC current account surplus in 1974 amounted to some \$50 billion. The OPEC countries increased their official foreign exchange reserves in 1974 by about \$35 billion, leaving about \$15 billion of surpluses which were used for medium and long term investment. More than one-third of this amount (an estimated \$5.6 billion) was disbursed to developing countries and multilateral agencies, including amounts which reached the developing countries through the IMF Oil Facility. The commitments made in 1974 were considerably larger, probably of the order of \$16 billion, but most of this will be disbursed in 1975 and later years.

5.11 The high degree of uncertainty that surrounds the projection of OPEC surpluses is itself a factor which may induce a cautious attitude in the OPEC countries towards development assistance. Clearly, their commitments of 1974 cannot be taken as a guide to the future: their use of foreign exchange will change over time, with increasing shares being claimed by rising imports, by medium and long-term investments in the industrial countries, and by the international capital markets. Commitments of the Group I countries have been assumed to continue at about the same level as in 1974; but

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<sup>1/</sup> See Annex Table 12.

<sup>2/</sup> See Table II.3 and Annex Table 7 for, respectively, summary and more detailed balance of payments projections for the two OPEC groups.

the countries in Group II, which provided about 54% of total OPEC commitments in 1974, are not expected to maintain that level as their own balances of payments will show a deficit on current account by 1980.

5.12 Under these assumptions, the total commitments by oil-exporting countries are likely to decline: compared to \$16 billion in 1974, the average in the years 1975-1980 may be about \$10 billion per year, declining to \$8 billion by 1980 (in current prices). This still constitutes a major contribution to assistance flows. It represents about 18% of the OPEC current account surpluses between 1975 and 1980 (compared to 25% in 1974) and 2.5% of the OPEC GNP in those years.

Table V.2 PROJECTED DEVELOPMENT CAPITAL COMMITMENTS  
OF OPEC COUNTRIES<sup>a/</sup>

		<u>Commitments</u> (in billions US\$)	<u>Commitments as % of</u> Current Account Surplus	<u>GNP</u>
<u>Group I</u>	1974	9.0	23.0	15.8
	1980	7.7	13.5	6.3
	Average 1975-80	8.0	15.8	8.7
<u>Group II</u>	1974	7.1	26.8	4.7
	1980	0.7	-	0.2
	Average 1975-80	1.7	38.6	0.6
<u>Total OPEC</u>	1974	16.1	24.5	7.7
	1980	8.4	17.5	1.5
	Average 1975-80	9.7	17.6	2.5

<sup>a/</sup> Assumes high OECD growth rate of 4.9% per annum, 1975-80. If the OECD countries were to grow by only 3.6% per year between 1975 and 1980, the accumulated surpluses of OPEC countries would be reduced by about one-third, and as a consequence the commitments that are shown in column 1 would represent a higher proportion of these surpluses--27% on average, compared to the 17.6% shown as the average for 1975-80.

5.13 Disbursements and debt service associated with these commitments can be estimated only crudely, as the types of lending and their terms are not adequately reported. Net disbursements seem likely to reach about \$9.8 billion in 1975, rising slightly in 1976 and 1977 and then declining in 1980 to the same level estimated for 1974--around \$5.6 billion (in current prices.)

#### B. Official Flows from the DAC Countries

5.14 More than 85% of official capital from DAC member countries qualifies under the concessionality requirements of Official Development Assistance (ODA); the rest is classified as Other Official Flows (OOF). At present, statements of future intentions and announcements by these countries imply a continuing decline of ODA flows as a percentage of their aggregate GNP: after an increase from 0.30% in 1973 to 0.32% in 1975<sup>1/</sup>, the share of GNP may decline to 0.24% in 1980. Assuming no substantial change in donors' policies, ODA flows from these countries will, between 1975 and 1980, barely maintain their value in real terms.

5.15 This prospect subsumes divergent movements over time in individual countries' aid efforts. Some are expected to reach the target for the Second Development Decade of 0.70% of their GNP around 1980. Others are expected to maintain relatively high GNP percentages over the remainder of the decade. But the largest countries within the DAC now exhibit a downward trend that, if continued, would reduce the size of their aid programs in relation to their national product (see Table V.3). The weight of these countries in the total DAC flows brings the average down substantially.

5.16 Changes in DAC countries' policies so as to increase development assistance commitments cannot influence actual flows of capital very much over the five-year time span of these projections unless there are also measures to accelerate disbursements. The budgetary process in these countries, and the usual lag between commitments and disbursements, make it unlikely that even with changed policies, net flows could increase much above the present share of GNP before 1980.<sup>2/</sup>

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<sup>1/</sup> Preliminary ODA figures for 1974 suggest an increase to 0.33% in that year. Flows of ODA and OOF together were 0.38% of DAC GNP in 1973. They increased to 0.40% in 1974 and declined to 0.38% in 1975.

<sup>2/</sup> Large food deficits in developing countries coinciding with surpluses in the grain-producing countries of OECD would accelerate disbursements, but such aid would meet a need additional to the estimates of aid requirements described below.

Table V.3 FLOW OF OFFICIAL DEVELOPMENT ASSISTANCE  
(ODA) BY GROUPS OF DONOR COUNTRIES, 1973-1980

(in %)

	<u>Countries'</u> <u>Share in</u> <u>Total GNP<sup>a/</sup></u>	<u>Share in ODA</u>		<u>Share of ODA</u> <u>in GNP, 1980</u>		
		<u>1970</u>	<u>1980</u>	<u>1970</u>	<u>1975</u>	<u>1980</u>
<u>DAC Countries</u>						
(a) Reaching 0.70% by 1980	6.1	7.1	18.7	0.47	0.65	0.70
(b) Between 0.35% and 0.70%	16.0	23.0	31.9	0.56	0.52	0.44
(c) Stable, below 0.35%	2.8	0.9	1.8	0.15	0.15	0.15
(d) Declining	<u>75.1</u>	<u>68.9</u>	<u>47.8</u>	<u>0.29</u>	<u>0.22</u>	<u>0.15</u>
Total/Average	100.0	100.0	100.0	0.34	0.32	0.24

a/ Average 1973-1980.

5.17 In the short-term, the projected stagnation of DAC countries' official capital flows will be offset by rising flows from OPEC countries. In later years, towards 1980, a decline in real terms of official flows from both these sources is quite possible.

### C. Allocation of Official Capital Flows

5.18 Other official flows (OOF), on harder terms, are less constrained by donor considerations, but are suitable only for countries without severe creditworthiness problems. The poorest countries depend most heavily on flows of official capital, particularly on concessionary terms. An increase in the flow of official capital, especially that satisfying the criteria for Official Development Assistance (ODA), to these

countries could either be achieved through an increase of total flows by the donor countries, or by reallocation of present amounts between recipient countries. On average in the years 1973-1975, the lower income countries receive about 41% of total ODA flows and the middle income countries 52%. Oil-exporting countries, particularly Indonesia and Nigeria, receive the remaining 7%.

Table V.4 NET FLOWS OF OFFICIAL DEVELOPMENT ASSISTANCE BY DONOR AND RECIPIENT COUNTRY GROUPS

(as percentages of 1973-75 estimated totals)

	Share in ODA Flows	Oil Exporting Countries	Recipient Countries		Total
			Middle Income Countries	Lower Income Countries	
Net Flows of Bilateral ODA from:					
(a) DAC countries	62	11	52	37	100
(b) OPEC countries	26	-	77	23	100
(c) Other <sup>a/</sup> countries	<u>12</u>	<u>-</u>	<u>-</u>	<u>100</u>	<u>100</u>
Total	100	7	52	41	100

<sup>a/</sup> Mainly centrally planned economies.

5.19 The decline in real official flows which is foreseen through 1980, and the urgent need for additional external resources in the lower income countries, suggest that an evaluation of present aid allocations by country is necessary. Such an evaluation should take account of the changes in the creditworthiness position of the oil-exporting aid recipients. It should also recognize the fact that, at present, a substantial proportion of the total flows of ODA to middle income countries is directed to countries with small populations which have either already reached high per capita income levels, or which

receive relatively large inflows of concessionary capital in per capita terms.

5.20 A redirection of official concessionary flows could well increase the total volume of capital available to the developing countries, as creditworthy countries have the ability to attract private capital to offset a reduction in concessionary inflows. The need for donors to consider reallocation applies to the DAC countries as well as to the OPEC countries: together, they could probably increase the supply of net official capital to the lower income countries by \$2-3 billion, which would considerably affect the growth prospects of those countries.

#### D. Private Capital Flows

5.21 An increasing number of developing countries have in the past been able to borrow regularly from private sources in the industrial countries and, particularly in the last three years, from the international capital market. This group includes no lower income countries, except those which possess substantial natural resources with good export prospects. For those countries which have had regular access to private markets, the amounts they can borrow in any particular year tend to be limited, and the terms on which they can borrow tend to harden when it is felt that the assumption of additional debt might endanger their capacity to meet future servicing obligations. In addition, the availability and cost of capital in both national and international markets is variable and unpredictable.

5.22 The projections of private capital flows to developing countries reflect these considerations. They are based on assessments of the creditworthiness of individual borrowing countries and take into account the supply constraints discussed above. The flows to lower income countries will remain small, and those to middle and high income countries will virtually stagnate in real terms.

5.23 Access to capital markets is not determined by any precise set of criteria applicable to all countries at all times. The performance of each country in managing its economy is a major consideration, particularly with respect to its international reserves, balance of payments and public finance. Countries which have in the past successfully diversified and increased their production and exports are in a favorable position to obtain private capital: the profitability of investment there is more certain, and payments of debt service or investment incomes are more likely to be accommodated as export earnings grow. Those countries which are most successful in adjusting to the disturbances in the international economy may gain further from easier access to private capital.

5.24 Among the policies of developing countries with which lenders are concerned are international reserve and debt management. A country's past record in servicing its debt obligations ranks high in assessing creditworthiness and investment risk, together with the usual indicators of debt servicing capacity and service burdens. Improvements in debt management have in the past been introduced in many countries. Many have gained increased access to capital markets, notwithstanding increasing indebtedness and servicing liabilities, by demonstrating their ability to manage both. Consequently, it may be too conservative to retain all of the present criteria of creditworthiness in judging future capacity to borrow.

5.25 For countries to manage their debt efficiently, and for lenders to make sound judgments as to their creditworthiness, there is a need for increased and improved flows of information on borrowing activities and government policies. The rapid diversification of sources of borrowing, terms of lending and the complexity of new international financial arrangements have been beneficial to many developing countries, but have increased the likelihood of information being incomplete or out of date. Timely analysis and monitoring of financial flows greatly helps the borrowing country as well as potential lenders. For example, the rapid growth of borrowing by developing countries in the Euro-currency markets has not yet been fully and systematically documented, and capital flows from OPEC countries are not reported at present. This lack of information, and the possibilities for misinformation in the absence of authoritative sources of data, deters new lenders, and indeed may seriously restrict potential capital flows.

#### E. Debt Service and Creditworthiness

5.26 Public debt outstanding and disbursed of the oil importing developing countries at the end of 1974 probably amounted to about \$85 billion; this excludes private, non-guaranteed borrowing. Projected borrowing by these countries could raise this figure to some \$230 billion by the end of 1980 (in current dollars). The implied average increase, 18% per year, is slightly faster than the projected growth of their nominal export earnings over the same period. If the terms of lending were to remain the same through 1980, the ratio of debt service payments to exports would rise somewhat.

5.27 However, lending terms have been changing significantly in the past few years, and ratios of debt service to exports are poor indicators of the burden of debt and of countries'

capacity to service debt, although they are commonly used as such. During the period 1972-1974 the nominal growth rate of export earnings increased, reflecting rapid inflation in the world economy, and particularly the considerable increase in the prices of primary commodities. Debt service due in those years reflected borrowing in previous years, much of it on favorable terms, and as a result, the ratio of debt service to export earnings decreased in many countries.<sup>1/</sup> Much of current and more of projected borrowing is on less favorable terms. The impact of this hardening of terms on debt service costs will become apparent only after some years, when grace periods on new borrowing come to an end and that borrowing starts to be a higher proportion of the total outstanding debt. Thus, while in the short-run the effect of inflation is to reduce the debt service burden, debt service costs will increase in more distant years.

5.28 It is not always appropriate to interpret a decreasing ratio of debt service to exports as an increase in a country's capacity to attract external capital: the impact of inflation on export values and on the debt service ratio must be compared with its effect on a country's capacity to import.<sup>2/</sup> If import prices rise as fast as export prices, leaving the terms of trade unchanged, then the reduction of the service burden on outstanding debt is indeed a net benefit which increases the capacity to import. However, if import prices rise faster than export prices, the gain, measured by the reduced cost in real terms of servicing debt, is offset by a terms of trade loss. Of course, the decline in the capacity to import that results from the adverse movement in the terms of trade (even if that movement is small in percentage terms), may more than offset any increase in the capacity to import that had resulted from the lower real cost of a servicing debt. In fact, 1974 and 1975 have been characterized by a significant deterioration of the terms of trade, far larger than the gains from reduced debt service burdens.

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<sup>1/</sup> Some of these effects can be clearly seen from the data available on debt service liabilities as a percentage of export earnings, over the period 1967-1973. Until 1970 or 1971, these percentages were rising for most countries, but thereafter substantial declines are evident. Other countries have experienced stable ratios of debt service to exports, notwithstanding considerably augmented borrowing on increasingly harder terms. (See World Bank, Annual Report 1975--forthcoming--Statistical Annex, Table 6).

<sup>2/</sup> See Annex C.

5.29 Clearly, debt service liabilities cannot justifiably be considered in isolation, but must rather be analyzed in the context of the terms of trade, and indeed of the entire balance of payments. The likelihood of a country being able to meet its debt obligations depends to a great extent on the growth of its capacity to import (i.e. the purchasing power of its exports) in relation to its import and other foreign exchange requirements, and, for borrowing from private sources, on the state of the capital markets themselves. Thus although the assessment of countries' prospects shows none as having unacceptable increases in their ratios of debt service to exports, this does not mean that no problems of creditworthiness will arise in the allocation of projected available capital. In fact, if recovery in the OECD countries is slow, the lower than historical rates of GNP growth in the oil-importing developing countries will mean an increase in competition for foreign exchange between the need to service outstanding debt and demand for imports. In the long run, that conflict can be resolved only through increased exports.

5.30 It is highly desirable that capital be made available to the developing countries on terms and in amounts which keep their debt service burdens within limits which permit reasonable import growth. This applies for the middle income countries which have the capacity to assume additional debt. It applies with greater force to the lower income countries with less favorable export prospects and without good prospects for borrowing at market terms.

#### F. Possibilities for Increased Capital Flows

5.31 The difficulties of maintaining reasonable rates of growth in the developing countries in the years ahead have been well documented. Assuming that no other means were available, the amounts of capital that would be needed to restore their growth rates to the Second Development Decade target of 6% per year on average for the current decade are clearly outside the range of feasible objectives. The shortfall of foreign exchange to meet this 6% growth target, given the capital availabilities projected in this chapter, would amount to some \$21 billion in 1980.<sup>1/</sup> Flows to make up this shortfall would need to consist almost wholly of official capital on concessionary terms, since private flows have been projected on the assumption that virtually all of the major borrowers make full use of their capacity to carry and service debt contracted on market terms. Further, the major portion of the additional flows would need to originate with the DAC members, as the OPEC countries are already making a major effort to assist other developing countries. The level of net Official Development Assistance

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<sup>1/</sup> This is equivalent to the additional imports required in Case II, compared to Case I, increased by 30% to allow for countries outside the sample panel. See Annex Table 16-A and 16-B.

from DAC countries required to restore the 6% growth target would, by 1980, approach 0.70% of their aggregate GNP. As noted above, the estimated flows in 1975 correspond to only 0.32%, and if present policies are maintained, are likely to decline to 0.24% by 1980.

5.32 If, instead, that proportion of GNP were to increase slightly--to 0.35%--in the years 1977-1980<sup>1/</sup>, and if growth rates in these countries were high, about \$20.3 billion of additional concessionary capital would be generated in those four remaining years, or an average of about \$5 billion per year.

Table V.5 PROJECTED CAPITAL FLOWS (ODA) TO DEVELOPING COUNTRIES (EXCLUDING OPEC) UNDER ALTERNATIVE ASSUMPTIONS

	Average 1970-73 <sup>a/</sup>	1974	1975	1976	Alternatives 1977-80 Annual Average	
<u>Assumptions for ODA</u> as % of GNP						
(a) DAC	0.34	0.33	0.32	0.30	0.27	0.35
(b) OPEC	n.a.	1.41	2.57	2.29	1.56	1.56
(in billions of current US\$)						
<u>Capital Flows (Net):</u>						
Official	9.82	15.03	19.84	22.26	23.06	28.14
Private	8.66	19.40	22.89	21.85	27.67	27.67
Total	18.48	34.43	42.73	44.11	50.73	55.81

<sup>a/</sup> Estimates are derived from DAC statistics, and are not strictly comparable to estimated receipts by developing countries.

<sup>1/</sup> It is unrealistic to assume changes in projected net disbursements in 1976 as these are determined almost entirely by commitments already made.

5.33 The effects of an increase in flows of concessionary capital depend, in part, on how it is allocated among countries. Here, all of it is assumed to be directed towards countries of the lower and middle income groups which are not initially receiving disproportionate amounts of assistance, thus bringing about some redistribution among recipients. This distribution pattern slightly increases the share of the lower income countries in total flows of ODA, and adds about 8% to their foreign exchange resources over the projection period. The larger absolute amount allocated to the middle income countries adds only 2% to the total foreign exchange availabilities for that group. The allocation of \$2 billion per year, on average, to the lower income countries would, together with some additional export earnings, permit them to raise their growth rates to what is considered the feasible maximum within the next five years. This leaves about \$3 billion per year for those of the middle income countries which have limited access to private capital and could accelerate their growth significantly with such additional resources.

5.34 Chapter VI will analyze the effect of this larger flow of capital on economic growth in the developing countries together with the effects of adjustment measures taken by the developing countries themselves, and of improved conditions for trade stabilization and expansion.

## VI. DEVELOPMENT POLICIES FOR 1976-1980

6.01 Although the economic events of the past two years have disrupted the world economy and set back the development of most countries, they have also created a greater willingness to re-examine some of the basic aspects of economic interdependence and to consider new solutions. The overriding problems in the short run are recovery from the current recession and supplementary assistance to the lower income countries. In the longer run the structure of world production and trade must be adjusted to meet changed supply conditions for energy and foodstuffs and to open up new export opportunities for the developing countries.

6.02 The present study has analyzed both the extent of the present disequilibrium in world trade and payments as they affect the developing countries and the limits to what can be achieved by various adjustment mechanisms. These analyses provide a basis for reconsidering policy alternatives and the relative emphasis that should be given to each.

6.03 The present debate over the design of a New International Economic Order is hampered by a failure to distinguish between measures that may be desirable in the longer run and those that are required to restore development in the medium term. For longer term objectives to be accomplished, it will be necessary to achieve more satisfactory growth in the poorest countries before the end of the present decade. The present study focuses on this immediate objective.

### A. The Restoration of Growth

6.04 Since economic growth in the OECD countries is expected to return to annual rates of 5-6%, beginning in 1976, and the oil exporting countries will continue to grow at rates exceeding 8%, external conditions will soon be more conducive in a restoration of the growth of the other developing countries. Up to now, the poor countries have carried the heaviest burden of the adjustment to international price developments and to the recession. The OECD countries offset part of the impact of higher costs of imported petroleum by reducing their imports from the developing countries, and thus increased the developing countries' deficits more substantially than did higher oil prices. The financing of these deficits has been eased by the readiness of the OECD capital markets to absorb short-term surpluses from the OPEC countries, and to transform part of them into medium term capital for development, but at the cost of a growing burden of debt service.

6.05 Although the developing countries were able to maintain their growth fairly successfully through 1974, only a fraction of the required financing for the increased deficits of the past several years has come from official sources of capital (see Table VI.3 below). The remainder has come from two sources--private borrowing and use of reserves--that can no longer be expanded. In 1975 the LDC deficit has in all probability reached the maximum that can be financed in this way, and it may have to be reduced from these levels unless more official capital is forthcoming.<sup>1/</sup>

6.06 Increased borrowing has enabled the developing countries to postpone the transfer of real resources that is required to meet the higher costs of petroleum, machinery and foodstuffs. Although some improvement in the terms of trade of LDCs is predicted for the rest of the decade as OECD demand is restored, all or most of the rise in petroleum prices relative to other commodities is likely to persist. Since the developing countries cannot delay indefinitely the transfer of resources that is necessitated by this higher price, if they are to return to more normal rates of growth they must plan to pay for the higher cost of essential imports by a corresponding expansion of the volume of exports. As was argued in Chapter IV, most developing countries will have to rely primarily on the markets of the industrial countries for this expansion.

6.07 In order to restore growth in the next five years to the levels that were established for the Second Development Decade, the developing countries must secure additional sources of foreign exchange on a continuing basis, either through export expansion or long-term capital inflows. For the forty countries in our panel, the shortfall in foreign exchange earnings by the end of the decade under present policies is estimated in Table VI.3 below at about \$10 billion (1974 prices). The different types of policies that might be followed in the lower and middle income countries to bring about a change of this magnitude in their trade structures are evaluated in the following section in the light of overall constraints on capital supplies and export markets.

6.08 Although there are other factors hampering the growth of developing countries besides the prospective shortage of imported goods--particularly the factors limiting increased agricultural production in the poorest countries--the overall balance of payments disequilibrium is both the most pervasive problem and the one most susceptible to international action. The policy recommendations of this study therefore focus on the means for reducing this problem to manageable proportions by 1980.

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<sup>1/</sup> See Annex Tables 15 and 16.

## B. Policy Alternatives

6.09 The separate effects of major policy changes by the OECD, by OPEC and by the developing countries themselves have been discussed in previous chapters. It is clear from this analysis that the restoration of better growth prospects for the developing countries will require a set of actions by all three groups.

6.10 As was noted above, the effects of alternative trade, aid and growth policies vary according to the economic structure of the countries concerned. For example, higher OECD growth rates or lower oil prices will affect both middle and low income countries fairly equally. In other areas of policy, such as aid allocation or foodgrain production, the impact on the poor countries can be increased by focusing specifically on them.

### Effects on Poor Countries

6.11 For the remainder of the decade, growth rates in the low income countries have been projected at between 2.8% and 3.8%, depending on the rate of OECD recovery. For the past four years their average growth--which is heavily influenced by India--has been little more than 1%. After this poor start, a decade growth rate of even 4.5% for the low income countries appears to be out of reach, since it would require GDP growth of 6.4% per annum from 1976 onwards. Although this very high rate might be attainable if agricultural production could be accelerated and presently idle industrial capacity put to use, it is unlikely that exports and external capital would also rise fast enough to permit imports to increase at the required rate of 6.6%. It is therefore assumed in Table VI.1 that the maximum feasible rate of growth of the low income countries between 1975 and 1980 is 5% per year: the achievement of this modest increase is given first call on additional official capital.

6.12 Although in general the low income countries' lack of flexibility makes the expansion of their exports difficult in the near term, they have a major new opportunity in the rapidly expanding OPEC market, which is particularly accessible to South Asia and East Africa. India and Pakistan in particular have sufficient industrial capacity to expand their supplies to this market, but more effective export promotion policies will be required on their part to be successful. The export strategies of the low income countries will need to be carefully interwoven with domestic priorities for agricultural growth, employment intensive investments and better income distribution.

Given reasonable economic performance on their part, the poor countries should have a strong claim on additional flows of concessionary capital. Even under the most advantageous trade conditions, they will need to rely on such assistance to meet their limited growth objectives.

6.13 The projections for Case II are based on these assumptions for the lower income countries. Since Case I already assumes a substantial increase in their export growth, more favorable policies are not likely to augment their foreign exchange supplies significantly by 1980. For the low income countries of the sample panel, the additional foreign exchange requirement is estimated at \$2 billion (in 1974 prices). As summarized in Table VI.1, over 80% of this requirement would have to be met by official capital on concessionary terms, which would represent a 40% increase in disbursements over Case I.

Table VI.1 COMPARISON OF ALTERNATIVE PROJECTIONS FOR 1975-80 LOW INCOME COUNTRIES<sup>a/</sup> (Billions of 1974 dollars)

	<u>Case I</u>	<u>Case II</u>	<u>Increase</u>
<u>External Assumptions for 1980</u>			
Exports	15.3	15.6	.3
Official Capital	4.3	6.0	1.7
Private Capital	<u>1.3</u>	<u>1.3</u>	<u>-</u>
Total Foreign Exchange Supply	20.9	22.9	2.0
<u>GDP Growth</u>			
Import Requirements	19.8	21.7	1.9
GDP	229.0	252.7	33.7
GDP Growth Rate, 1975-80	3.3%	5.0%	1.7%

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<sup>a/</sup> Source: Tables I.2 and VI.3. As explained in Table VI.3, foreign exchange supply exceeds imports by the amount required for interest payments, reserve changes and capital account transactions n.e.i.

6.14 Results similar to these could in fact be obtained through a number of alternative combinations of policies. With more optimistic assumptions regarding the recovery in OECD countries, penetration into OPEC markets or growth of manufactured exports, the balance of payments situation could be eased, though the likelihood of these assumptions must be doubted over the next five years. With higher export growth, the savings constraint might become more important and still limit growth to the modest rates projected.

#### The Middle Income Countries

6.15 For the middle income developing countries the most important question is the timing and speed of recovery in the OECD countries. Assuming the midpoint projection for OECD growth in 1975-80 of 4.2%, the middle income countries may be expected to grow at 4.7%, as shown in Case I of Table VI.2 below. With more rapid OECD recovery (4.9%), the growth rate of the middle income group would rise to 5.3%. Given their very low growth in 1975, this would imply 6% for the period 1975-80. Even the latter is well below the rates realized in earlier years, and furthermore, it conceals the considerably less favorable prospects of certain countries. It has been assumed that these countries continue to have access to private capital markets; this may in some cases be over-optimistic.

6.16 Even on the midpoint assumption regarding OECD growth, it appears feasible for the middle income countries to achieve a growth of GDP of 6% or more from 1976 onwards. Case II in Table VI.2 and VI.3 illustrates the external requirements for a return to such a growth rate, which would bring the 1975-80 average up to 5.5%. Additional imports amounting to \$8.6 billion (in 1974 prices) would be required above those of Case I for the sample panel countries.

6.17 The proportion of this increase that can be financed by external capital is determined from the analysis of supplies of public and private capital in Chapter V. It was indicated in Table V.5 that an increase in the share of OECD GNP devoted to Official Development Assistance to 0.35% for the period 1977-80 is as much as would be feasible. On this basis it is assumed in Case II of Table VI.2 that an additional \$2.3 billion in official capital would be available for those middle income countries that cannot expand exports to meet their added import requirements. The remainder of the additional foreign exchange needed by 1980--\$6.4 billion--would need to come from further expansion of export earnings.

6.18 Chapter IV has indicated the scope for expanding exports of primary products and manufactured goods to the OECD countries as well as the new opportunities in the growing OPEC market. These possibilities imply a total increase in foreign exchange earnings of \$20 billion or more in 1980

Table VI.2 COMPARISON OF ALTERNATIVE  
PROJECTIONS FOR 1975-80  
MIDDLE INCOME COUNTRIES<sup>a/</sup>  
(Billions of 1974 dollars)

	<u>Case I</u>	<u>Case II</u>	<u>Increase</u>
<u>External Assumptions for 1980</u>			
Exports	96.4	102.8	6.4
Official Capital	4.2	6.5	2.3
Private Capital	<u>13.0</u>	<u>13.0</u>	<u>-</u>
Total Foreign Exchange Supply	113.6	122.3	8.7
<u>GDP Growth</u>			
Import Requirements	107.9	116.5	8.6
GDP	623.0	633.9	30.9
GDP Growth Rate, 1975-80	4.7%	5.5%	

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<sup>a/</sup> Source: Table I.2 and VI.3. As explained in Table VI.3, foreign exchange supply exceeds imports by the amount required for interest payments, reserve changes and capital account transactions n.e.i.

(in 1974 prices), the great bulk of which would accrue to the middle income countries. Although it is impossible to determine the likelihood of policy measures being taken to achieve these increases, the potential for export expansion greatly exceeds the required \$6.4 billion assumed in Case II.

6.19 In summary, while most of the increased foreign exchange required by the middle income countries is assumed to come from additional exports, provision is also made for the countries in this group that do not have adequate export opportunities and are still dependent on substantial resource transfers to finance their investment programs. If the OECD countries recover more rapidly than the midpoint prediction of 4.2%, the growth of the middle income countries could readily exceed the 6.1% that is posited for the decade as a whole.

#### Alternative Policy Combinations

6.20 The set of policies outlined in the foregoing sections is not exhaustive, and the analytical framework adopted for this study could be used to derive a much more elaborate set of alternatives. Nevertheless, the choices outlined here represent a realistic combination of policy alternatives, involving efforts on the part of each of the three country groups, but without excessive costs in terms of any group's resources. At the same time, these proposals take account of the specific situations in each group of developing countries, both in terms of the type of external assistance they need and their own capacity to adjust their economic structures.

6.21 Taken together, the suggested trade and aid policies do not offer the prospect of achieving the growth targets set for the whole of the Second Development Decade: they would raise developing countries' projected annual rate of growth from the 4.8% in the base case to 5.4% for this decade, and 6.2% for 1976-80. A higher growth target than this could only be brought within reach by a higher rate of recovery in the OECD countries.

6.22 For developing countries taken together, the higher rate of 5.4% per year depends more on a further expansion of trade than on additional aid. About two-thirds of the necessary additional foreign exchange represents additions to exports and requires a return to higher levels of domestic savings; the other one-third represents additional aid for countries which have major resource mobilization problems in addition to their balance of payments difficulties.

### C. Requirements for Additional Capital

6.23 Because of the present disequilibrium in world trade, aid and trade policies are more closely interrelated than is normally the case. Since the basic disequilibrium is between the oil importing and oil exporting countries, reduction of developing countries' deficits to more manageable proportions will depend on the way the oil deficit of the OECD countries is managed and on their willingness to increase imports from the developing countries. These considerations suggest that a cooperative effort involving OPEC and OECD countries and covering both trade and aid measures would be much more effective than the present piecemeal approach. However, the trade policies considered here will take time to become fully effective in reducing the resource gap to the level--2% of GNP or less--which prevailed in the late 1960s. Initially, the additional requirements for real resource transfers are large, and to meet them will entail a major aid effort in the immediate years ahead, but they will diminish over time as the effects of trade policies are realized. In this situation, the OECD and OPEC countries would make their most effective initial contributions to the restoration of LDC growth by providing additional capital flows on terms that are appropriate to the recipient countries. At the same time measures should be taken by all three groups to change patterns of trade and production in order to sustain LDC growth in the longer term. Trade and aid policies should therefore be considered together and their objectives established jointly.

6.24 In this broader framework the distribution of the burden of concessionary assistance among donor countries might be more manageable than in the traditional DAC context of setting targets in relation to GNP. The traditional approach of fixing trade possibilities and determining the capital inflow required to achieve specified targets yields estimates of requirements that are unattainable in the present situation. Instead of treating the trading structure as fixed, it is necessary to examine how rapidly it might be changed so as to reduce the required capital inflows to a sustainable level. On this premise, extraordinary capital flows might be continued for several years so long as the need for them is reduced to manageable proportions within a reasonable period. This pattern has been incorporated in the projections made above.

6.25 Given existing disbursement patterns for official capital, the need to commit additional resources arises in 1975 and 1976. Additional commitments of \$4 billion in 1975 and \$6 billion in 1976 (in current prices) would be a reasonable order of magnitude to reach the disbursement levels assumed in Case II in subsequent years. Although data on commitments of concessionary assistance are weak, in 1974 the total commitments of ODA by OECD and OPEC countries together may have been some \$16-17 billion. Thus this figure would need to rise to about \$21 billion in 1975, and further to \$23-24 billion in 1976.

However, as was noted in Chapter V, part of these additional requirements could be met through reallocation among recipient countries. For the immediate years this may be the only feasible approach to the provision of adequate concessionary flows to countries most in need.

**Table VI.3** ALTERNATIVE GROWTH AND EXTERNAL CAPITAL INFLOW PROJECTIONS  
FOR 40 NON-OIL EXPORTING DEVELOPING COUNTRIES /1

(amounts in billions of 1974 dollars)

	1970	1974	1975	1980 Projection		Growth Rates (Annual Average Percent Per Annum)				
				Case I	Case II	Case I		Case II		
				1971-74	1975-80	1971-80	1975-80	1971-80		
<b>Middle and High Income Group</b>										
1. Gross Domestic Product	362.0	473.3	479.1	623.0	653.9	6.9	4.7	5.6	5.5	6.1
2. Imports	54.9	80.5	77.0	107.9	116.5	10.0	5.0	7.0	6.4	7.8
3. Capacity to Import	48.4	63.3	59.7	96.4	102.8	6.9	7.3	7.1	8.4	7.8
(a. export volume)	(47.4)	(67.8)	(67.7)	(105.1)	(112.8)	(9.4)	(7.6)	(8.3)	(8.9)	(9.1)
(b. terms of trade effect)	(1.0)	(-4.4)	(-8.0)	(-8.7)	(-10.0)	..	..	..	..	..
4. Real Resource Transfer	6.5	17.2	17.3	11.5	13.7	28.0	-6.5	6.0	-3.7	7.9
5. Interest, Reserves, etc.	2.3	-0.7	1.5	5.7	5.8	..	..	..	..	..
6. M&LT Financial Transfer	8.8	16.5	18.8	17.2	19.5	17.0	0.7	6.9	2.8	8.3
7. Official M&LT Capital (net)	4.1	3.5	4.1	4.2	6.5	-3.9	3.1	0.2	10.9	4.7
8. Private M&LT Capital (net)	4.7	13.0	14.7	13.0	13.0	29.0	0.0	10.7	0.0	10.7
9. Total M&LT Capital (net)	8.8	16.5	18.8	17.2	19.5	17.0	0.7	6.9	2.8	8.3
<b>Low Income Group</b>										
1. Gross Domestic Product	177.2	188.8	192.0	229.0	252.7	1.6	3.3	2.6	5.0	3.6
2. Imports	15.4	15.8	15.6	19.8	21.7	0.6	3.8	2.5	5.4	3.5
3. Capacity to Import	13.3	11.0	11.2	15.3	15.6	-4.6	5.6	1.4	6.0	1.6
(a. export volume)	(14.5)	(14.1)	(14.4)	(19.0)	(19.4)	(-0.7)	(5.2)	(2.8)	(5.5)	(3.0)
(b. terms of trade effect)	(-1.2)	(-3.1)	(-3.2)	(-3.7)	(-3.8)	..	..	..	..	..
4. Real Resource Transfer	2.1	4.8	4.4	4.5	6.1	23.0	-1.2	7.8	4.1	11.3
5. Interest, Reserves, etc.	1.3	0.1	0.3	1.1	1.2	..	..	..	..	..
6. M&LT Financial Transfer	3.4	4.9	4.7	5.6	7.3	9.6	2.3	5.1	6.9	7.9
7. Official M&LT Capital (net)	3.2	3.9	4.1	4.3	6.0	5.1	1.6	3.0	7.4	6.5
8. Private M&LT Capital (net)	0.2	1.0	0.6	1.3	1.3	..	..	..	..	..
9. Total M&LT Capital (net)	3.4	4.9	4.7	5.6	7.3	9.6	2.3	5.1	6.9	7.9
<b>Total for 40 Countries</b>										
1. Gross Domestic Product	539.2	662.1	671.1	852.0	906.6	5.3	4.4	4.8	5.4	5.4
2. Imports	70.3	96.3	92.6	127.7	138.2	8.2	4.9	6.2	6.2	7.0
3. Capacity to Import	61.7	74.3	70.9	111.7	118.4	4.8	7.1	6.2	8.1	6.8
(a. export volume)	(61.9)	(81.9)	(82.1)	(124.1)	(132.2)	(7.3)	(7.3)	(7.3)	(8.4)	(8.0)
(b. terms of trade effect)	(-0.2)	(-7.6)	(-11.2)	(-12.4)	(-13.8)	..	..	..	..	..
4. Real Resource Transfer	8.6	22.0	21.7	16.0	19.8	26.0	-5.4	6.1	-2.0	8.4
5. Interest, Reserves, etc.	3.6	-0.6	1.8	6.8	7.0	..	..	..	..	..
6. M&LT Financial Transfer	12.2	21.4	23.5	22.8	26.8	15.1	1.1	6.5	3.8	8.2
7. Official M&LT Capital (net)	7.3	7.4	8.2	8.5	12.5	0.3	2.3	1.5	9.1	5.5
8. Private M&LT Capital (net)	4.9	14.0	15.3	14.3	14.3	30.0	0.4	11.3	0.4	11.3
9. Total M&LT Capital (net)	12.2	21.4	23.5	22.8	26.8	15.1	1.1	6.5	3.8	8.2

.. indicates no meaningful figure.

/1 Case I is based upon the midpoint OECD growth rate, no change in the real price of petroleum and no changes in policies with respect to exports of the developing countries and official capital flows. Case II assumes improved policies regarding both exports and official capital flows. Projections were originally made in 1967-69 prices and converted to 1974 prices by use of indices of the implicit deflator for the real resource transfer. The terms of trade effect measures the gain or loss in the purchasing power of exports due to changes from the 1967-69 base. "Interest, Reserves, etc." includes other factor payments, private transfers, short-term capital movements and capital account transactions not elsewhere included. Details are given in Annex Tables 13, 14, 15 and 16.

PROSPECTS FOR REAL GROWTH AND INFLATION IN THE INDUSTRIAL COUNTRIES 1/: UNDERLYING ASSUMPTIONS

1. Real Growth in OECD Countries. Given the severity of the recession and the possible patterns of subsequent recovery, the present analysis of real growth in the OECD distinguishes between the current situation (1974-1975) and the medium-term (1976-1980) prospects. The estimated real growth of GNP for 1974 and the projected growth for 1975 reflect the assessments made earlier this year by the OECD Secretariat. The projections for 1975 now appear to be somewhat optimistic as they imply rather strong recovery in the second half of the year. 2/
2. For the medium-term, 1976-1980, two alternative projections are considered. Both are based on the assumption that the real price of oil will remain constant at US\$9.40 per barrel in 1974 dollars. 3/ They differ in the view taken of the pattern of OECD countries' recovery from the recession.
3. A number of strong forces exist which together could bring about a sharp recovery from the present recession: the instruments of public finance introduced by several governments and the rapid increase in the imports of OPEC countries, as well as expansion of domestic production of primary energy and energy conservation plans all have the potential to expand demand.
4. Nevertheless, if the OECD countries recover rapidly, the recession will have left its mark on the attainable level of

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1/ "Industrial countries" or the OECD, refers to the member countries of that organization, except for Greece, Turkey, Spain and Portugal.

2/ More recent, though still provisional, estimates made by the OECD indicate that the Japanese economy performed markedly better in 1974 than was projected earlier, slightly ameliorating the decline in aggregate OECD growth in that year. In comparison to those incorporated in the present study, the later OECD estimates for 1975 imply weaker performance in Western Europe and Japan-Oceania, and somewhat stronger performance in North America. In consequence, they imply a decline in total OECD GNP during 1975 that is about half a percentage point greater than assumed in this study.

3/ I.e. the Case I assumption used in this study. The impact on OECD growth of a decline in the real price of oil to \$7.50 in 1974 dollars by 1980 (the Case II assumption) has not been subjected to analysis.

output. Throughout the OECD, investment levels will be lower than otherwise. In Western Europe, unemployment will reduce the opportunities for migrant labor from developing countries in the Mediterranean area. Experience shows that labor-force participation rates tend to fall during recession and do not recover rapidly afterwards. Also, given the sharp inflation of recent years, governments will tend to follow more cautious demand policies than in the past, and unemployment is not likely to return to the very low levels of the early 1970s.

5. The "high" growth alternative projected for Western Europe and North America between 1976 and 1980, shown in Table A.1 below, is derived from detailed country-by-country projections which reflect the scenario described above. This alternative implies a very sharp recovery of potential output, beginning in 1976, at rates corresponding to the recovery rates attained by OECD countries at the end of other postwar recessions.

6. However, the possibility of a less favorable course of events cannot be precluded, since policy makers in those countries are facing problems of unprecedented complexity. Among these is the persistence of high rates of inflation in a period of prolonged and high unemployment: even now, when OECD countries are in the grip of the worst recession since World War II, price increases remain in the double-digit range in a number of major countries. The very large predominantly short-term balances accumulated by members of OPEC may also cause difficulties in the future, although up to now their owners have not shifted them in such a way as to cause sudden balance of payments crises.

7. The "low" OECD growth alternative is based on the assumption that member countries are unable to reestablish high levels of production capacity utilization. On this assumption real growth in North America and Western Europe after 1976 is projected at rates which were experienced, on average, in the 1960s. Such rates would be insufficiently rapid to reduce unemployment rates substantially.

8. Projecting the growth of GNP of the Japanese economy is particularly difficult. Plans approved by the Japanese Cabinet in early 1973 emphasize preservation of the environment and improvement of the social infrastructure; real growth of the economy was seen as declining to an annual rate of 6 - 8% near the end of the current plan period (1973-1977). Because of this major shift in policy focus, past experience is not a good guide in forecasting the future increase in Japanese output. Moreover, the Japanese Government is at present revising its medium-term plans. In this analysis, the "high" growth alternative takes as its basis the 1973 plan.

9. Even on this assumption the aggregate GNP projection for Japan is markedly below historical trends in that country. Strictly, the change in policy focus could lead to sharper changes in, for example, the growth rates of individual sectors of the economy, and these could in turn affect the demand for imports, whether from developed or developing countries. However, such implications have not been incorporated into the analysis at this stage. Nor has the possibility that other OECD countries might change their economic strategies in ways which would affect not only their aggregate rates of GNP growth, but the composition of that growth and the resultant impact on their import demand.

Table A.1: RATES OF REAL GROWTH OF GROSS NATIONAL PRODUCT IN OECD COUNTRIES

( % per annum )

	<u>North America</u>	<u>Japan, Oceania</u>	<u>Western Europe</u>	<u>OECD Total</u>
1960-1972	4.1	9.8	4.7	4.9
1973	6.0	9.5	5.3	6.3
1974 (estimated)	-1.7	-3.0	2.2	-0.4
1975 (projected)	-4.0	1.2	1.3	-1.1
1976-1980 Average				
High Growth Alternative	6.3	7.5	5.3	6.1
Low Growth Alternative	4.5	6.3	3.9	4.6
Memorandum: a/				
1975-80 Average				
High Growth Alternative	4.5	6.4	4.6	4.9
Low Growth Alternative	3.0	5.4	3.5	3.6

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a/ As discussed in Chapter IV, Section B.2.

10. The "high" and "low" alternatives nonetheless appear to bracket a feasible range of OECD prospects in the medium term. The coexistence of inflation and large balance of payments deficits in the OECD countries has discouraged many member

governments from adopting the full array of expansionary measures ordinarily prescribed to combat recession. The implications for developing countries of OECD countries' rates of recovery leave no doubt of the importance--for all nations--of OECD countries' speedy adoption of appropriate policies to achieve potential growth rates in the latter half of the decade.

11. Inflation in OECD Countries. Inflation of recent magnitudes is in itself a new experience for the OECD countries and has cast considerable doubt on the effectiveness of existing tools for reducing inflation. The fact that inflation rates have continued high despite strong downturns in economic activity has added to this uncertainty. Table A.2 shows the assumptions used with respect to domestic inflation in the OECD countries. 1/

Table A.2 SELECTED INDICATORS OF PRICE MOVEMENTS IN THE OECD COUNTRIES: 1973-80

(Indices and annual percentage changes)

	GNP Deflators <sup>a/</sup>		Prices of Manufactured Exports <sup>c/</sup>			
	Index (1967-69=100)	Percentage Change	f.o.b.		Including Freight <sup>d/</sup>	
			Index (1967-69=100)	Percentage Change	Index (1967-69=100)	Percentage Change
1973 (actual)	149.2	13.5	144.6	16.8	149.6	18.2
1974 (estimate)	164.0	9.9 <u>b/</u>	172.8	19.5	182.2	21.8
Projected:						
1975	183.7	12.0	193.7	12.0	202.0	10.8
1976	201.7	9.8	212.7	9.8	219.9	8.8
1977	218.8	8.5	230.8	8.5	237.5	8.0
1978	263.4	8.0	249.2	8.0	255.4	7.5
1979	254.1	7.5	267.9	7.5	274.6	7.5
1980	271.9	7.0	286.7	7.0	293.8	7.0

a/ GNP weighted average of indices, converted to U.S. dollars, of six countries: U.S., Japan, France, Germany Italy and U.K.

b/ In national currencies, GNP deflators rose 7.2 percent in 1973 and an estimated 12.6 percent in 1974.

c/ Standard International Trade Classification (SITC) categories 5 through 8.

d/ f.o.b. prices adjusted for freight-component of c.i.f. costs. Available data suggest that, for all manufactures, freight added 10 percent to the f.o.b. prices in 1967-69; that factor rose during the early seventies. Freight shares in costs are assumed to have peaked in 1974, at 17.2 percent, and by 1979, are expected to have declined to 14.0 percent, remaining stable thereafter.

Sources: 1973-75 from OECD statistics and projections; 1976-80 IBRD staff estimates.

A rather marked diminution of inflation is anticipated in 1976, reflecting the projected declines in the relative prices of primary commodities acting in tandem with recession-reduced demand. Thereafter, inflation is assumed to decline gradually to a rate of 7% per annum by 1980. 2/

1/ The underlying general inflation indices are derived from national currency data converted to US dollars.

2/ Given the existing uncertainties, the inflation rates shown represent the mid-point of what could be a rather wide range.

12. Historically, the prices of OECD countries' manufactured exports, 1/ which comprised some 69% of the import bills of oil importing developing countries in 1970-1972, have risen broadly in line with OECD GNP deflators. However, in 1973-1974, as a continuing reflection of the economic boom, prices of manufactured exports rose more sharply than GNP deflators. As shown in Table A.2, the rates of change in the f.o.b. prices of manufactured exports are assumed, from 1975 on, to equal those in the GNP deflators of the OECD countries.

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1/ Corresponding to categories 5-8 in the Standard International Trade Classification (SITC).



ENERGY PROSPECTS

I. Trends in the Industrialized Countries 1/

1. In 1973, the OECD countries accounted for about 87% of the primary energy consumption of the world (excluding the centrally planned economies). Although energy consumption in the OECD has moved roughly in proportion to the growth of GNP, the relation between these magnitudes has been irregular, and during 1970-1973, energy consumption in these countries increased less rapidly than the gross national product.

2. Energy Consumption: 1973-80. Over the period 1973-1980, the growth of energy consumption in the OECD will be reduced both by the drop in the growth rate of OECD output, and by the impact of higher energy prices on demand. The first part of this period has seen a substantial reduction of energy consumption, due to both these factors and accentuated by the mild winters of 1974 and 1975. In 1974 the reduction in demand was partially masked by accumulation of inventories, estimated at approximately 2 million barrels a day over the year; stocks are now being sharply run down from recent very high levels, but they may start to be reconstituted before October 1975 when some anticipate another increase in international oil prices.

3. The sharp recovery assumed in the high OECD growth projection would induce a reversal of the downward trend in energy consumption, which would be followed by significant expansion starting in 1976. These trends are represented in Table B1.

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1/ In this Annex, "industrialized countries" and OECD denotes all OECD members and Yugoslavia.

Table B1: OECD COUNTRIES' ENERGY CONSUMPTION  
PRODUCTION, AND IMPORTS, 1973-80 a/

(in millions of b/d of oil equivalent)

	<u>1973</u>	<u>1974</u> <u>Estimated</u>	<u>1975</u> <u>Forecast</u>	<u>1976</u> <u>Forecast</u>	<u>1980</u> <u>Forecast</u>
Energy Consumption	71.1	69.8	69.6	71.5	85.5
Oil	39.9	38.2	37.6	38.8	46.6
Non-Oil	31.2	31.6	32.0	32.7	38.9
Energy Production	44.1	44.3	44.4	45.1	55.6
Oil	13.4	13.4	13.0	12.9	18.1
Non-Oil	30.4	30.9	31.4	32.2	37.7
Net Oil Imports	26.2	24.8	24.6	25.9	28.5

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a/ Assumes high OECD growth at 4.9% p.a.; and an oil price of \$9.40 in 1974 dollars, from 1975-80.

4. Any projection of the demand for energy very much depends on the income and price elasticities assumed. The price elasticity used here is -0.25, which corresponds roughly to the level assumed in the recent OECD long-term energy study. 1/ It has also been assumed that higher energy prices will induce energy conservation, causing numerous changes in the design of capital goods, transport equipment, buildings, etc. This has roughly been taken into account by using an income elasticity of demand of 0.9, instead of the 1960-1973 value of approximately unity. 2/

5. Production. Primary energy production within the OECD rose from 30 million b/d of oil equivalent in 1960 to 44.1 million b/d in 1973. Oil production, including natural gas liquids, rose from 8.8 million b/d to 13.7 million b/d despite a decline in US output during the last three years of this period. The increase in non-oil energy output was essentially in natural gas and, to a lesser extent, in primary electricity; coal output changed relatively little.

6. Major investment projects to increase production of primary energy were in progress before the oil price increase took

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1/ OECD, Energy Prospects to 1985, December 1974.

2/ This implies that capital goods constructed in future would on average have 17% better energy efficiency than those in use in 1973.

place. Their purpose was to develop oil and gas in the North Sea and oil in the Alaskan North Slope and to create a substantial production capacity of nuclear energy. Although these activities have been accelerated, given the long lead times required to bring new energy sources into commercial production, it does not seem possible to accelerate the increase in OECD energy production significantly until after 1980. There is somewhat greater scope for increased coal production in the US, but even this is limited by disputes about the environmental impact of open-cast mining, and by the fact that, at present prices, consumers outside the steel and electric power industries continue to find it more attractive to use oil, rather than coal, as a source of energy. There is a substantial amount of oil prospecting in progress which could lead to major discoveries, but again, the long lead times in developing new energy deposits imply that these discoveries would come too late to influence 1980 output.

7. At present oil prices, it does not seem advantageous for OECD countries to develop sources of energy other than oil, natural gas, and US coal: the costs of expanding output of shale oil and tar sands, gas from coal, and European coal appear to be too high to attract substantial investment. The delivered cost of nuclear energy, Alaskan and North Sea oil and gas, and US coal from existing sources is competitive with imported oil, but the expansion of these energy sources is sharply limited by shortages of equipment, and their profitability has been reduced by the price controls and the taxes imposed by governments to skim off the excess profits resulting from the increase in oil prices.

8. Imports. At the present high oil price level, it will be possible to absorb any additional output of primary energy which might be forthcoming in OECD countries. The oil import forecast for the OECD countries, shown in Table B.2, is therefore obtained as a residual. Projections suggest that OECD imports of all forms of primary energy, which have expanded rapidly from about 6.5 million b/d in 1960 to about 25.2 million b/d in 1975, could rise to 29.9 million b/d in 1980. The level of these imports would, however, vary substantially over the period: first dropping as a result of the recession and of the impact on demand of higher energy prices, and then increasing rapidly as OECD GNP returns to a level corresponding to a full employment of the productive capacity of the economy.

Table B2: WORLD TRADE IN OIL

( in million b/d )

	<u>1973</u>	<u>1974</u>	<u>1975</u>	<u>1976</u>	<u>1977</u>	<u>1980</u>
<u>World Net Imports</u>						
OECD Countries <sup>a/</sup>	26.2	24.8	24.6	25.9	27.3	28.5
Other developed	0.6	0.6	0.6	0.7	0.7	0.8
Developing non-OPEC	2.4	2.3	2.3	2.4	2.4	2.4
Increase in Stocks	1.3	2.2	-0.7	0.8	1.0	0.5
	<u>30.5</u>	<u>30.0</u>	<u>26.8</u>	<u>29.8</u>	<u>31.4</u>	<u>32.2</u>
<u>World Net Exports</u>						
Centrally Planned Economies	0.9	0.8	0.7	0.8	0.9	1.2
OPEC Countries <sup>b/</sup>	29.6	29.2	26.1	29.0	30.5	31.0
	<u>30.5</u>	<u>30.0</u>	<u>26.8</u>	<u>29.8</u>	<u>31.4</u>	<u>32.2</u>
<u>OPEC Countries' Output <sup>b/</sup></u>						
Exports	29.6	29.2	26.1	29.0	30.5	31.0
Domestic Consumption	0.9	1.0	1.4	1.6	1.8	2.5
	<u>30.5</u>	<u>30.2</u>	<u>27.5</u>	<u>30.6</u>	<u>32.3</u>	<u>33.5</u>

a/ All member countries and Yugoslavia.

b/ Excluding Ecuador and Gabon.

## II. Trends in Developing Countries

9. The non-OPEC developing countries' energy resources are substantial, though they are unevenly distributed among countries and in some cases are only partly developed. These countries were less dependent on energy imports than OECD countries in 1973--imports, some 2.5 million b/d, accounted for only 10% of their energy consumption--and unlike the OECD countries they have been able to expand their domestic production of primary energy sufficiently rapidly to prevent an increase in the volume of their net energy imports. This situation is expected to continue until 1980.

10. There have been numerous oil discoveries in developing countries, including a major one in Mexico, which has already reversed the decline in Mexico's output. India and Brazil have found oil fields which may enable them to substantially reduce

their dependence on oil imports by 1980. India has also had some success in increasing coal output. Oil production in developing countries is likely to reach a level in 1980 nearly double that of 1973: some 6.2 million b/d compared to 3.5 million b/d in 1973.

### III. Trends in the Centrally Planned Economies

11. The centrally planned economies are expected to continue to play only a marginal role in the oil market, with their net oil exports continuing at about 1 million b/d in future years. This is the combined effect of three distinct movements. First, Eastern European imports may rise. Second, though oil production in the USSR has increased rapidly, so has internal consumption, and moreover, the recently discovered oil fields in this country are situated far inland. Hence exports from the USSR are likely to decline. Finally, there are reports that large oil fields are being developed in China; but, there too, increasing domestic consumption makes it unlikely that large additional flows of exports could be forthcoming before 1980, though exports may rise somewhat in the interim.

### IV. Petroleum Prices

12. The analysis of primary commodity prices in this study--including that of petroleum--is based on the present and prospective structure of each commodity market. Market analysis includes estimates of the prospective reserves of the relevant natural resources, the willingness of their owners to develop them for export, the elasticity of demand, and the nature of any producer agreements to restrict supplies. In the case of petroleum, the demand analysis in the preceding sections combined with uncertainty about future producer behavior has led to the adoption of a range of prices to represent the likely outcomes in 1980. The higher price--\$9.40 per barrel in 1974 prices (\$10.46 in 1975 prices)--represents a continuation of the present market price in real terms and is taken to represent the present policy of the OPEC countries. The lower price--\$7.50 in 1974 prices--is taken as the longer term cost of non-OPEC sources of energy developed in sufficient quantity to affect the market.<sup>1/</sup> In the longer run, this price would put a ceiling on the market value of OPEC supplies. The producing countries might allow the price to fall to this level by 1980 to protect their share of the energy market and forestall the development of higher cost alternatives.

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<sup>1/</sup> These estimates are quite similar to those made a year ago in "Prospects for the Developing Countries", July 1974.

13. An alternative to the analysis of actual markets for oil or other commodities is derived from the theory of optimal resource allocation. It assumes that owners of the lowest cost types of energy are willing to allow the world to exhaust rapidly their reserves before turning to more expensive sources of energy. Optimal prices can be deduced from this type of analysis, which rise gradually over time as the world is forced to turn to less and less favorable sources of energy. It can be shown that under ideal conditions these "optimal prices" would correspond to those which would prevail under perfect competition.

14. A few analysts--notably Nordhaus<sup>1/</sup>--have attempted to determine the optimal prices of petroleum and other energy sources that would result from assumptions that are the equivalent of perfect competition in all markets in the long run. While these particular studies are based on somewhat obsolete technological information and cost estimates, analyses of this sort will almost certainly yield an equilibrium price of petroleum in the 1980s considerably lower than the price of \$7.50 used here--which assumes that producers exercise the right to withhold supplies from the market--although probably somewhat above the level of \$3.00 that prevailed in 1973. However, economic theory gives no reason to believe that the prices determined under perfect competition are socially just--in fact governments of all countries use taxes, price controls and other measures to modify the income distribution determined by market competition.

15. Like most commodity markets, the oil market has never been governed by perfect competition, so that studies of optimal allocation do not describe how prices were or might in future be determined in the world oil industry. Apart from the insight that it provides into interfuel competition, this type of analysis has therefore not been used in the present study.

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<sup>1/</sup> W.D. Nordhaus, The Allocation of Energy Resources, Brookings Papers on Economic Activity, 3:1973.

INFLATION, TERMS OF TRADE AND DEBT SERVICING COSTS

1. This Annex illustrates how some of the complex relationships between international prices, inflation, the terms of trade, the terms of lending and debt service evolve over time. Major changes in international prices and the terms of borrowing, especially the borrowing from private sources at market terms described in Chapter V above, greatly affect the service liabilities of most developing countries. In what follows, a highly simplified model is used which abstracts from most of the secondary effects on economic growth of inflation and changes in terms of trade.

2. Simulations with alternative rates of inflation and different consequences for the terms of trade are made for a hypothetical country in the middle income group. The characteristics of that country's base-year economic situation and its projected growth path are shown below:

	Year "t"	Year "t+5"	Year "t+10"	Rate of Growth(%p.a t to t+10
1. Gross Domestic Product (in base-year prices)	10,130	13,780	18,730	6.3
2. Exports	1,540	2,320	3,490	8.5
3. Imports	1,560	2,380	3,650	8.9
4. Resource Balance	- 20	- 60	- 160	..
(ibid, as % of GDP)	(0.2)	(0.5)	(1.0)	..
5. Debt Service on Debt Outstanding as at end of year t-1	260	250	160	
6. (ibid, as % of Exports)	(17.1)	(10.7)	(4.6)	
7. Required Net Capital Transfer (4+5)	280	310	320	
8. Financed by:				
(a) Changes in reserves, grants	210	50	30	
(b) New borrowing	70	260	290	

3. The projections postulate a target GDP volume growth rate of 6.3% in all cases, whatever inflation and terms of trade assumptions are made. Similarly, the volume growth rates of imports and exports are the same throughout. In the case where there is no inflation, and no change in terms of trade, the projection shown above is the same for values and for volumes. The resource gap and the debt service together indicate under

those conditions a virtually constant requirement for net external transfers of financial resources of about 300 units. Part of this is assumed to be financed from reserves (particularly in the base-year) and a predetermined declining inflow of grants. If the remaining requirement for net transfers from new borrowing were also met by grants, the debt service ratio to exports would decline from 17.1% in the base year to 4.6% after a decade.

4. Throughout the projections it is assumed that rates of interest on new borrowing exceed rates of inflation by 2.0%. Though in the past there appear to have been some lags, at least in periods of rising inflation, any assumptions about lags would be difficult to specify because past experience is very varied, and wide differences exist between financial markets. (It also adds unnecessary technical detail to the projections and renders their interpretation more difficult.) Borrowing is all assumed to be of 8 years maturity including two years of grace.

5. If these terms of borrowing are applied to the base projection, (still assuming no inflation and stable terms of trade), the amounts of gross borrowing would exceed the net required transfer (after grants and reserve changes) by the amounts of debt service. The debt service profile will then look as follows:

	<u>Debt Service as % of Exports</u>		
	<u>t</u>	<u>t+5</u>	<u>t+10</u>
Service on existing debt	17.1	10.7	4.6
Service on new borrowing	-	3.8	9.8
Total debt service	<u>17.1</u>	<u>14.5</u>	<u>14.4</u>

In what follows, these debt service liabilities are compared with patterns that emerge when inflation and terms of trade changes affect the balance of payments.

6. Inflation. The first alternative assumes 5% inflation per year, and equal increases in import and export prices; consequently the terms of trade are unchanged. However, the resource gap in nominal terms is widened as a consequence of inflation, and larger nominal inflows of capital are required. If these amounts are borrowed at a real rate of interest of 2.0% (a nominal rate of 7.0%) then the amounts of borrowing are considerably larger in nominal terms than in the case where prices are stable:

	<u>t</u>	<u>t+5</u>	<u>t+10</u>
Gross borrowing, no inflation	70	350	630
Gross borrowing, 5% inflation	70	430	1,010

In each year the ratio between amounts of gross borrowing with and without inflation is approximately the same as the ratio between the price indices for that year. Export values are inflated in the alternative by 5% per year; the service on existing debt, which is fixed in nominal terms, is therefore reduced as a percentage of exports. However, larger new borrowing is required with inflation, thus increasing the nominal debt service liabilities. The results, expressed as a percentage of exports, are as follows:

	<u>Debt Service as % of Exports</u>		
	<u>t</u>	<u>t+5</u>	<u>t+10</u>
<u>No inflation:</u>			
Service on existing debt	17.1	10.7	4.6
Service on new borrowing	-	<u>3.8</u>	<u>9.8</u>
Total	17.1	14.5	14.4
<u>5% inflation:</u>			
Service on existing debt	14.8	7.3	2.5
Service on new borrowing	-	<u>3.9</u>	<u>8.7</u>
Total	14.8	11.2	11.2

7. The illustration above demonstrates that inflation reduces the burden of debt service. This is most easily seen for existing debt where fixed nominal amounts of liabilities become smaller percentages of (inflated) export values. But it also reduces the burden of new debt service if real lending terms remain unchanged, as the service on new debt is paid only with a time-lag and export values keep rising with inflation. Other things being equal, the higher the rate of inflation, the lower the debt service ratio.

8. These effects are even stronger if it is assumed that inflation accelerates over time. For example, if inflation rates increase from 5.0% in the base year by 0.2% per year, debt service ratios decline even further:

	<u>Debt Service as % of Exports</u>		
	<u>t</u>	<u>t+5</u>	<u>t+10</u>
<u>Inflation Rising by 0.2% p.a.:</u>			
Service on existing debt	14.7	6.9	2.1
Service on new borrowing	-	<u>3.8</u>	<u>7.7</u>
Total(% of exports)	14.7	10.7	9.8

9. Terms of Trade. In this example changes in the terms of trade are assumed to come about because export prices lag behind inflation by 1% per year. Thus the value of exports rises somewhat more slowly, and, other things unchanged, debt service ratios are somewhat higher. However, the main impact is felt through the widening of the resource gap, the consequent need for additional borrowing and the debt service associated with that additional borrowing. The comparison below shows the major impact of terms of trade changes on debt service burdens, if growth is to be maintained through as much additional borrowing as is necessary to maintain real levels of imports.

		<u>Debt Service as % of Exports</u>		
		<u>t</u>	<u>t+5</u>	<u>t+10</u>
(a)	5% inflation, stable terms of trade	14.8	11.2	11.2
(b)	5% inflation, terms of trade deteriorating by 1% p.a.	15.3	15.1	21.5

10. A combination of patterns of inflation and terms of trade changes which comes close to a stylized version of the actual developments in the 1970s incorporates the following assumptions:

- (a) Rapid and accelerating inflation in the initial years, which declines to a stable rate of 7% per year;
- (b) A real rate of interest of 2.0% in all years; and
- (c) A deterioration of the terms of trade in the initial years, stabilizing at the lower level thereafter.

11. The amounts of borrowing are initially determined to a large extent by the much increased resource gap, but in later years the need to finance debt service liabilities becomes dominant. The debt service ratios in this case are found to be:

	<u>t</u>	<u>t+5</u>	<u>t+10</u>
Debt Service Ratio as % of Exports	19.7	43.5	71.0

This sample demonstrates that it is not realistic to assume the same growth of the economy under these conditions, as the burden of debt servicing becomes excessive within a few years. It also raises, by implication, the very serious problems of continuous access to capital and of lenders' perception of exposure which

are discussed in Chapter V above.

12. Summarising, it appears that inflation as such has a positive effect on the debt service burden of a debtor country, at least if the rate of inflation is stable or rising. This conclusion is only valid when the terms of trade are unaffected and the real terms of borrowing do not change. The terms of trade have a much larger impact through the widening of the resource gap and the additional borrowing requirements which this necessitates. Small changes in the terms of trade, particularly when those show a secular pattern, can easily offset the positive effects of inflation on a country's debt service burden.



THE ANALYTICAL BASIS FOR THE PROJECTIONS

1. The projections of output, savings, investment, etc., contained in this study depend heavily upon two analytical tools the Bank is developing--the "sample panel" of developing countries and the SIMLINK model. These two tools, in turn, rely upon the IBRD Data Bank to provide the requisite historical information. Neither the sample panel nor the SIMLINK model is in its final form; they are better looked upon as tools which the Bank is continually improving. This note outlines their present status and, in addition, discusses some of the problems encountered in the analysis done for this report. A detailed description of the SIMLINK model is now being prepared and will be distributed, upon request, by the Economic Analysis and Projections Department of the IBRD.

2. As part of its routine country economic work the Bank makes economic projections for most of its borrowing members. In the case of countries in the sample panel, a special effort is made to prepare national accounts and balance of payments projections which follow a standard format, use common definitions and concepts, and are based on a specified set of assumptions with respect to factors that are exogenous to the particular economies (e.g., commodity prices, general world economic conditions, loan terms, etc.). The sample panel comprises 40 oil-importing countries for which such projections have been prepared. Our projections of trends in the oil importing countries are based upon these forty countries; sample panel data are "blown-up" to the total on the basis of past relationships.

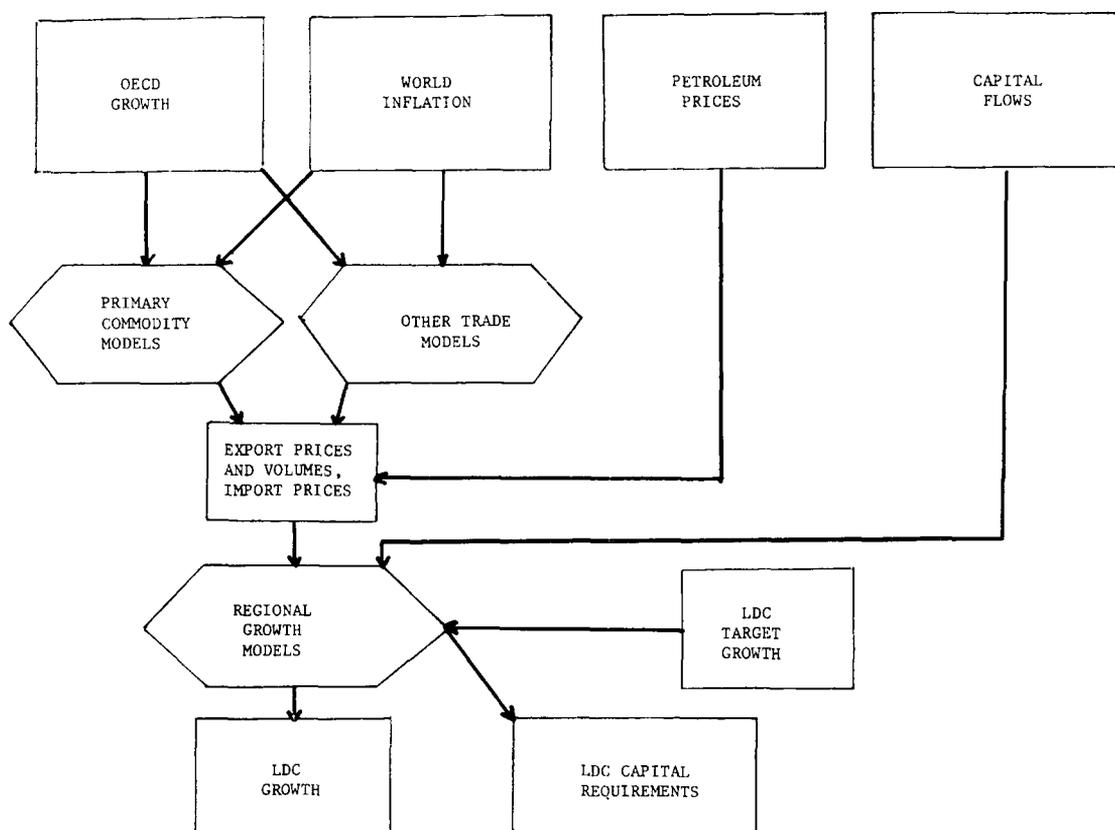
3. The sample panel countries have about 85% of the population of the developing market economies excluding the oil producers. Based on data for 1973, the panel receives over 80% of the net disbursements on public loans and account for over 80% of the external public debt (outstanding and disbursed). Their share in the aggregate GNP for the oil-importing developing countries is slightly smaller--76% in 1973. The sample panel accounts for 70% of the exports of the group in all regions except East Asia and the Mediterranean; the trading role of a relatively few non-sample countries in these two regions (notably Hong Kong, Singapore and Spain) lowers the panel's coverage to, on average, 61% (based upon 1973 data). Table D.1 shows the panel's coverage, by region, in respect of these factors.

Table D1: COVERAGE OF SAMPLE PANEL OF 40 NON-OIL EXPORTING DEVELOPING COUNTRIES

	Middle Income Countries					Low Income Countries			Total Developing (excluding Oil Exporters)
	Latin America	Mediterranean	West Africa	East Asia	Sub-total	East Africa	South Asia	Sub-total	
<u>Number of Countries</u>									
Sample Panel	11	7	7	4	29	7	4	11	40
Total	22	17	18	14	71	17	6	23	94
Percent in Sample	50.0	41.2	38.9	28.6	40.8	41.2	66.7	47.8	42.6
<u>GNP (billion US\$ in 1973)</u>									
Sample Panel	180.3	68.4	9.6	37.2	295.5	12.6	85.5	98.1	393.6
Total	190.0	140.1	15.1	62.8	408.0	20.0	87.9	107.9	515.9
Percent in Sample	94.9	48.8	63.6	59.2	72.4	63.0	97.3	90.9	76.3
<u>Populations (millions in 1973)</u>									
Sample Panel	249.7	132.1	34.1	124.3	540.2	105.4	734.1	839.5	1379.7
Total	271.4	193.2	67.7	209.5	741.8	144.5	761.0	905.5	1647.3
Percent in Sample	92.0	68.4	50.4	59.3	72.8	72.9	96.5	92.7	83.8
<u>Exports (incl. NFS; billion US\$ in 1973)</u>									
Sample Panel	22.1	13.9	4.2	11.8	52.0	3.8	4.5	8.3	60.3
Total	25.6	31.7	5.8	25.8	88.9	5.3	4.7	10.0	98.9
Percent in Sample	86.3	43.8	72.4	45.7	58.5	71.7	95.7	83.0	61.0
<u>Net Public Loans (million US\$ in 1973)</u>									
Sample Panel	4569	797	293	582	6240	582	1371	1952	8192
Total	4900	1833	428	846	8007	700	1418	2117	10124
Percent in Sample	93.2	43.5	68.5	68.8	77.9	83.1	96.7	92.2	80.9
<u>External Debt (Public loans outstanding &amp; disbursed at 12/31/73; million US\$)</u>									
Sample Panel	23017	9946	2321	5127	40408	2863	15358	18221	58629
Total	24743	16585	2934	6672	50933	3479	16098	19577	70510
Percent in Sample	93.0	60.0	79.1	76.8	79.3	82.3	95.4	93.1	83.1

Source: IBRD Data Bank.

FLOW DIAGRAM - SIMLINK III



4. The IBRD Data Bank contains historical information which is consistent with the projected data. National accounts estimates are prepared in 1967-69 prices and converted to U.S. dollars at 1967-69 exchange rates. Balance of payments estimates are made in current dollars, but are linked to the national accounts data by price indices for exports and imports; the capital accounts of the balance of payments estimates are adapted to the format of the Bank's Debtor Reporting System, and thus permit full use of this extensive source of information on external financing. Both the historical and the projected data are suitable for aggregation to obtain regional or global totals.
5. Simple aggregations of country projections, however, do not meet the Bank's analytical requirements. Even though the assumptions behind the projections are the same, the process of making individual country projections provides no assurance that the results will be consistent in two respects: first, total projected exports must be consistent with anticipated world demand, and second, the total demand for official--especially concessionary--external assistance must be consistent with the supply. (This problem does not arise in the case of borrowing from private financial institutions; loans from these sources are limited by the individual borrowing country's creditworthiness more than by any fixed total supply of such financing.) In addition, the models of individual countries take as given some factors which it would be desirable to vary--particularly the level of economic activity in the industrialized countries and its influence upon commodity trade volumes and prices.
6. The SIMLINK model has been designed to overcome these difficulties. In this model exports of the developing countries are related to the level of economic activity in the industrialized countries through a series of individual commodity models. Growth in the developing countries is linked to investment levels and imports; the latter, in turn, is tied to export earnings and the external capital inflow (as indicated by the real resource transfer or balance on merchandise and non-factor services). The model may be run to determine the import and growth levels to be anticipated given a particular capital inflow and set of OECD country growth rates; it may also be run to determine the real resource transfer required to support a specified target growth rate given the expected developments in the industrialized countries.
7. SIMLINK thus combines elements of country models, commodity models and international trade models, while keeping the level of disaggregation both meaningful and computable. Country details are sacrificed in the sense that the 40 countries in the sample panel are consolidated into seven groups (six regional groups and one of mineral producers). SIMLINK lacks the factor

services and capital account details in its balance of payments, but these items can be provided by the aggregations of the individual country projections. The model might be thought of as being block recursive in the following steps:

- (a) The rate of growth of output and prices in the developed world (largely the OECD countries) are taken to be exogenously determined. Since the developing world has little feedback effect on the developed world (with notable exceptions such as petroleum policies) this is felt to be a reasonable assumption.
- (b) Commodity models are developed or adapted for the major primary exports of the developing world to project prices and volumes for these products. While varying in complexity, emphasis has been placed on models for the commodities of greatest importance to the developing countries; oil prices are, however, treated exogenously.
- (c) Exports of manufactures and services are projected on the basis of historically estimated elasticities with respect to OECD growth. Prices for these items are projected on the basis of exogenously forecasted inflation rates in the OECD.
- (d) The trade volumes and prices so calculated are then translated into export volumes and both import and export prices, for the seven developing country groups.
- (e) A simple growth model is developed for each country group which relates growth of imports to growth of output and investment. These models are then solved for the level of growth which equates total imports with the capacity to import based upon exports, the terms of trade, and exogenously specified levels of capital inflow.

8. At present, the model contains 14 commodity models with a total of about 84 structural equations; 11 equations for estimating manufactures and services; and seven regional models

with eight equations each. Ignoring definitional equations and identities, the model has about 151 structural equations. (This making it easily computable and capable of producing alternative views of the developing world on a rapid basis. The model is estimated generally using ordinary least squares techniques. The span of data used depends largely on data availability; the estimated coefficients are based on data ranging from the past six to twenty years. The model is largely recursive in nature, although there is some simultaneity in certain parts, mainly related to the individual commodity models. Diagram 1 gives a rough idea of the nature of the flow from the exogenous input to the output.

9. The sample panel projections in this report represent a combination of the results from the 40 country aggregations and from the SIMLINK model. Put in a highly summarized fashion, the external resource inflow projections from the aggregations are fed into SIMLINK, which then recalculates exports, imports, investment and growth taking into account the specified set of assumptions regarding the world economic environment. Thus SIMLINK is particularly useful in studying the effects on the growth of the sample panel countries of changes in the assumptions regarding key elements in the world economic environment.

10. SIMLINK overcomes two of the three inadequacies of the country models mentioned above: it assures consistency between aggregate developing country export projections and world demand, and it provides an efficient means of analyzing the effects of changes in the general world economy. It does not, however, help with the third problem; this is the consistency between the demand for external capital from official sources (largely concessionary) as it appears in the country models and the supply of such capital as independently projected (or specified as a policy variable).

11. This process is complicated by the differences in concepts and definitions between the supply of official capital (which is generally measured in accordance with DAC definitions) and the demand for such capital as it appears in individual country balance of payments projections (which follow IBRD Debtor Reporting System definitions). DAC definitions include substantial amounts of external assistance (denoted as "technical assistance and flows to unspecified destinations" in Annex Tables 8-12) which, because of the nature of the assistance, are apparently never recorded in country balance of payments data. The DAC figures concern flows from donors to multilateral agencies rather than flows from the latter to the developing countries. These complexities are illustrated by the presentation of the capital

flow data in Annex Table 8. In addition, there is a difference in the definition of "official" between the DAC and the country balance of payments data; in the DAC data all bilateral loans are considered "official" if they come from official creditors while in the country data loans are considered "official" only if they both come from official sources and either go to the public sector or are guaranteed by the government in the debtor country.

12. In the present analysis we use the DAC definitions of official and private in the "supply" tables (Annex Tables 8-12) and use the more restricted Debtor Reporting System concept of "official" in the sample panel projections (see Annex Tables 13-16). For the sample panel countries, the supply and demand sides of the external assistance flows seem reasonably in balance. For official flows going outside the 40 country panel, we have only an estimate of the supply side. Implicitly, we assume no change in the allocation between sample panel and other developing countries.

13. The estimation of private flows going outside the sample panel countries is particularly difficult and uncertain. The likely volume of such flows cannot be analyzed apart from an examination of the balance of payments prospects and creditworthiness of the countries concerned--which has not been done for countries outside the sample panel. For the projections in Annex Tables 11 and 12 we have adopted the assumption that the relevant ratio (net private flows to all non-oil exporting developing countries over such flows to sample panel countries) will be unchanged from the 1973 level. This ratio was calculated from private flows as they appear in the DAC data shown in Annex Table 8 and then applied to the slightly different concept of net private flows as estimated in the country projections. The slight bias introduced is thought generally to be offset by a bias resulting from the use of 1973 data. However, that part of the capital flows projection which relates to net flows from private sources to countries outside the sample panel is particularly uncertain. It also should be noted that the policy suggestions resulting from the analysis do not depend upon this particular aspect of the work.

ANNEX TABLES

1. The Evolution of the World Economy.
2. Reserve Movements in Developing Countries.
3. Commodity Price Indices, 1950-74 and Projected 1975-80.
4. The Pattern of Developing Country Imports.
5. The Pattern of Developing Country Exports.
6. National Product, Investment and Consumption Estimates for OPEC Members.
7. Current Account Balance of Payments Estimates for OPEC Members.
8. Total Net Capital Flows by Type and Destination (by Developing Country Groups), 1973.
9. Net Official Capital Flows to Developing Countries and to Multi-lateral Agencies, 1973-80.
10. Net Official Capital Flows to Developing Countries, Including and Excluding Technical Assistance Flows and Flows to Unspecified Destinations, 1973-80.
11. Net Official and Private Capital Flows, by Developing Country Groups, 1973-80.
12. Net Official and Private Capital Flows, in Current and Constant Prices, 1973-80.
13. Resource Availabilities and Uses for Non-Oil Exporting Developing Countries in Sample Panel, 1967-73.
14. Projected Resource Availabilities and Uses for Non-Oil Exporting Developing Countries in Sample Panel, Estimated 1974 and Projected 1975-80:
  - Part A: Case I Projection
  - Part B: Case II Projection.
15. Summary Consolidated Balance of Payments Statement for Non-Oil Exporting Developing Countries in Sample Panel, 1967-73.
16. Summary Consolidated Balance of Payments Statement for Non-Oil Exporting Developing Countries in Sample Panel, Estimated 1974 and Projected 1975-80:
  - Part A: Case I Projection.
  - Part B: Case II Projection.

Annex Table 1: THE EVOLUTION OF THE WORLD ECONOMY

		OECD <sup>a/</sup> Countries	Centrally Planned Economies	Developing Market Economies		Global Total
				OPEC Members	Other Countries	
<b>POPULATION</b>						
a. millions	1955	546	913	184	1,051	2,694
	1960	582	989	205	1,182	2,958
	1970	650	1,158	261	1,508	3,577
	1980	704	1,361	339	1,930	4,334
b. shares	1955	.203	.339	.068	.390	
	1960	.197	.334	.069	.400	
	1970	.182	.324	.073	.421	
	1980	.163	.314	.078	.445	
<b>GROSS NATIONAL INCOME</b>						
a. billions of 1967-69 US\$	1955	965	218	24	173	1,380
	1960	1,153	310	31	209	1,703
	1970	1,869	587	53	357	2,866
	1973	2,142	699	73	427	3,341
	1974	2,133	741	114	450	3,438
	1980	2,800	1,051	172	584	4,607
b. shares	1955	.699	.158	.017	.125	
	1960	.677	.182	.018	.123	
	1970	.652	.205	.018	.125	
	1973	.641	.209	.022	.128	
	1974	.620	.216	.033	.131	
	1980	.608	.228	.037	.127	
c. growth rates (% p.a.)	1955-60	3.6	7.3	5.8	3.9	4.3
	1960-70	4.9	6.6	5.2	5.5	5.3
	1970-73	4.7	6.0	11.3	6.3	5.2
	1970-74	3.4	6.0	21.1	6.0	4.7
	1973-80	3.9	6.0	13.3	4.5	4.7
	1974-80	4.6	6.0	7.1	4.4	5.0
<b>EXPORTS (including non-factor services)</b>						
a. billions of current US\$	1955	74	6	10	23	113
	1960	105	10	13	26	154
	1970	272	31	21	54	378
	1974	640	52	136	128	956
	1980	1,536	140	237	291	2,204
b. shares	1955	.655	.053	.088	.204	
	1960	.682	.065	.084	.169	
	1970	.719	.082	.056	.143	
	1974	.670	.054	.142	.134	
	1980	.697	.063	.108	.132	
c. growth rates (in constant prices)	1955-60	6.8	10.7	5.8	4.7	6.6
	1960-70	8.6	7.9	4.1	6.4	7.9
	1970-74	8.6	8.0	5.8	5.2	7.8
	1974-80	6.5	9.0	2.0	6.9	6.1

a/ Excludes Greece, Portugal, Turkey and Spain.

Notes: Gross national income (GNY) indicates gross national product adjusted for the effects of changes in the terms of trade from the 1967-69 base period. OECD countries are projected on the basis of the midpoint of the high and low rates discussed in Annex A. Figures for the OPEC members are shown in greater detail in Annex Tables 6 and 7; the 1973-80 GNY growth rate shown for the OPEC group is based on 1974 rather than 1967-69 prices. The projections for other developing countries are based on Case I assumptions; see Annex Tables 14-A and 16-A for details.

Annex Table 2: RESERVE MOVEMENTS IN DEVELOPING COUNTRIES

(in millions of US dollars)

	December 1973	Changes During the Year		Reserves as per- cent of Imports /a	
		1973	1974	1973	1974
<u>Sample Panel Low Income</u>					
<u>Countries</u>					
of which:					
Bangladesh	134.6	-111.4	2.1	18.2	12.0
India	1142.0	-38.0	183.0	29.4	22.1
Kenya	233.0	31.0	-41.2	32.0	18.8
Pakistan	479.0	198.0	-19.0	43.8	35.0
Sri Lanka	87.0	27.0	-9.0	19.2	9.0
Zaire	234.6	56.2	-94.4	15.8	8.0
Sub-Total	<u>2310.2</u>	<u>162.8</u>	<u>21.5</u>	<u>27.6</u>	<u>19.4</u>
Total: Low Income /b	<u>2697.1</u>	<u>297.0</u>	<u>90.6</u>	<u>27.5</u>	<u>20.2</u>
<u>Sample Panel Middle/High</u>					
<u>Income Countries</u>					
of which:					
Argentina	1323.0	858.0	-8.0	49.4	32.7
Brazil	6417.0	2234.0	-1165.0	88.4	41.9
Colombia	534.0	209.0	-85.0	36.2	22.1
Egypt	391.0	242.0	-49.0	21.2	11.7
Jamaica	127.4	-32.3	63.0	16.5	18.6
Korea	1094.4	354.7	-38.7	24.8	12.8
Malaysia	1342.0	361.0	276.0	46.9	41.9
Mexico	1356.0	192.0	39.0	26.6	19.1
Morocco	267.0	30.0	150.0	19.3	16.9
Thailand	1296.0	244.0	559.0	56.9	54.8
Turkey	2120.0	719.0	-259.0	88.9	52.9
Yugoslavia	1484.0	751.0	-345.0	28.7	14.8
Sub-Total	<u>17751.8</u>	<u>6162.4</u>	<u>-862.7</u>	<u>47.2</u>	<u>28.6</u>
Total: Middle/High Income /c	<u>22364.7</u>	<u>7436.0</u>	<u>204.9</u>	<u>43.2</u>	<u>28.3</u>
Total: Sample Panel Countries /b, /c	<u>25061.8</u>	<u>7733.0</u>	<u>295.5</u>	<u>40.7</u>	<u>27.2</u>
Total: Developing Coun- tries (excl. OPEC) /e	<u>42209.8</u>	<u>11316.6</u>	<u>-460.1</u>	<u>41.9</u>	<u>/d</u>

/a Import figures from IBRD country statistics.

/b Excluding Uganda.

/c Excluding Chile and Liberia.

/d Import data for 1974 not available for countries outside Sample Panel and OPEC.

/e Includes Greece, Portugal, Spain, Turkey and Yugoslavia.

Source: IMF, International Financial Statistics (IFS) and IBRD country statistics.

Annex Table 3: COMMODITY PRICE INDICES, 1950-74 AND PROJECTED 1975-80

("Constant Dollar" indices; 1973=100)

	34 Commodities (excl. petroleum) Weights:	Total Agricultural 72.8%	Agricultural Products				Metals, Minerals and Ores 27.2%	"Constant Dollar" Index <sup>a</sup>
			Total Food 50.4%	Beverages 21.6%	Other Food 28.8%	Non-Food 22.4%		
1950	121	129	126	157	106	137	93	49.4
1951	123	130	119	148	100	153	97	59.2
1952	111	111	109	141	89	117	108	59.7
1953	107	109	115	150	94	98	100	57.4
1954	121	127	138	213	91	107	98	56.3
1955	114	114	114	163	84	114	112	57.3
1956	112	111	116	166	84	101	114	59.2
1957	104	105	111	151	85	95	97	61.2
1958	97	98	103	139	81	89	92	59.9
1959	96	97	98	122	84	96	89	59.2
1960	93	93	92	113	80	97	89	60.7
1961	86	85	86	99	77	84	86	62.0
1962	86	86	85	96	79	86	84	62.1
1963	89	91	95	95	95	83	82	62.5
1964	96	93	98	114	88	85	102	63.3
1965	95	87	91	106	82	90	118	64.4
1966	94	84	88	101	80	77	124	65.7
1967	88	82	88	98	80	74	101	66.4
1968	89	84	89	99	82	76	104	65.7
1969	92	86	90	101	84	77	111	68.2
1970	89	84	92	108	82	68	106	73.1
1971	79	76	82	89	79	66	85	77.8
1972	79	78	84	90	80	67	79	84.6
1973	100	100	100	100	100	100	100	100.0
1974	114	114	129	98	148	86	115	121.7
1975	90	89	101	78	115	67	93	134.9
1976	91	89	100	86	108	68	98	146.9
1977	89	85	92	92	92	70	102	158.7
1978	88	84	90	94	89	72	100	170.6
1979	88	84	89	93	87	73	97	183.4
1980	88	84	89	92	87	74	97	196.3
1985	91	87	93	94	93	74	103	275.3

<sup>a</sup> This is an index of the prices of developed country exports of goods in SITC groups 5-8 adjusted to a developing country CIF imports basis using an index of ocean freight rates. The constant dollar indices in this table are linked to the corresponding data in current prices by the use of this index. The "constant dollar" index is thus used as one measure of the general level of prices; the indices for the specific commodity groups show commodity prices relative to this more general price index.

Notes: Projections prepared in May 1975 by the Commodities and Export Projections Division of the IBRD. All indices are weighted by 1967-69 export values. The commodities included in each group are: beverages--cocoa, coffee and tea; other foods--sugar, oranges/tangerines, lemons/limes, bananas, beef, wheat, rice, maize, sorghum, coconut oil, copra, groundnut oil, groundnuts, palm oil, fishmeal and soybean meal; non-foods--cotton, jute, sisal, wool, rubber, tobacco, and logs; metals, minerals and ores--copper, lead, tin, zinc, bauxite, iron ore, manganese ore and phosphate rock.

Annex Table 4: THE PATTERN OF DEVELOPING COUNTRY IMPORTS  
(WITH COMPARABLE DATA FOR DEVELOPED COUNTRIES)

	Imports, fob (billion US dollars)			Percentage of Total Imports		
	1960	1970	1973	1960	1970	1973
<u>DEVELOPING COUNTRIES</u>						
<u>Primary Commodities</u> /a						
America	3.2	5.4	9.3	32.6	29.0	30.8
Africa	1.9	2.9	4.9	29.7	24.4	24.2
Asia	4.9	8.1	16.5	38.6	31.3	32.8
Others /b	0.1	0.2	0.4	-	-	-
Total	10.1	16.7	31.1	34.4	28.7	30.0
(of which: petroleum) /c	(2.9)	(4.6)	(8.7)	(9.9)	(7.9)	(8.4)
<u>Manufactures</u> /d						
America	6.4	12.9	20.1	64.6	68.8	66.5
Africa	4.3	8.8	15.1	67.0	73.6	74.6
Asia	7.1	16.9	32.4	56.5	65.3	64.6
Others /b	0.1	0.5	0.6	-	-	-
Total	17.9	39.1	68.3	61.3	67.2	65.7
<u>Miscellaneous</u> /e						
America	0.3	0.4	0.8	2.7	2.2	2.6
Africa	0.2	0.2	0.2	3.3	2.0	1.1
Asia	0.6	0.9	1.3	4.9	3.4	2.6
Others /b	0.2	0.8	2.2	-	-	-
Total	1.3	2.4	4.5	4.4	4.1	4.3
<u>Total Imports</u>						
America	9.9	18.7	30.3	100.0	100.0	100.0
Africa	6.5	12.0	20.2	100.0	100.0	100.0
Asia	12.6	25.9	50.3	100.0	100.0	100.0
Others /b	0.3	1.5	3.2	-	-	-
Total	29.3	58.1	103.9	100.0	100.0	100.0
<u>DEVELOPED COUNTRIES</u>						
Primary Commodities /a	39.9	87.3	163.5	48.2	39.5	40.0
(of which: petroleum) /c	(8.3)	(21.6)	(50.6)	(10.0)	(9.8)	(12.4)
Manufactures /d	37.4	130.1	240.2	45.1	59.0	58.8
Miscellaneous /e	5.5	3.2	4.8	6.7	1.5	1.2
Total Imports	82.8	220.6	408.6	100.0	100.0	100.0

/a SITC 0 to 4 and 68 (includes non-ferrous metals).

/b United Nations data for other LDCs is obtained as a residual figure (total LDCs less specified regions), and does not necessarily reflect the actual import performance of the countries/areas involved.

/c SITC 3.

/d SITC 5 to 8, excluding 68 (excludes non-ferrous metals).

/e SITC 9.

Annex Table 5: THE PATTERN OF DEVELOPING COUNTRY EXPORTS  
(WITH COMPARABLE DATA FOR DEVELOPED COUNTRIES)

	Exports, fob (billion US dollars)			Percentage of Total Exports		
	1960	1970	1973	1960	1970	1973
<u>DEVELOPING COUNTRIES</u>						
<u>Primary Commodities</u> /a						
America	9.6	15.4	24.2	96.6	88.6	83.3
Africa	4.9	11.4	19.0	92.8	92.4	93.5
Asia	10.0	17.7	41.0	84.2	71.6	70.2
Others /b	0.2	0.4	0.8	-	-	-
Total	24.7	44.9	85.0	90.3	81.7	78.1
(of which: petroleum) /c	(7.6)	(18.1)	(43.3)	(27.9)	(32.9)	(39.8)
<u>Manufactures</u> /d						
America	0.3	1.9	4.4	3.1	11.1	15.0
Africa	0.3	0.9	1.2	6.3	7.3	6.1
Asia	1.9	6.8	17.0	15.6	27.6	29.1
Others /b	-	0.1	0.1	-	-	-
Total	2.5	9.7	22.7	9.1	17.7	20.9
<u>Miscellaneous</u> /e						
America	-	0.1	0.5	0.3	0.3	1.7
Africa	-	-	0.1	0.9	0.3	0.4
Asia	-	0.2	0.4	0.2	0.8	0.7
Others /b	-	-	0.1	-	-	-
Total	0.2	0.3	1.1	0.6	0.6	1.0
<u>Total Exports</u>						
America	9.9	17.4	29.1	100.0	100.0	100.0
Africa	5.3	12.3	20.4	100.0	100.0	100.0
Asia	11.9	24.8	58.4	100.0	100.0	100.0
Others /b	0.3	0.5	1.0	-	-	-
Total	27.4	55.0	108.8	100.0	100.0	100.0
<u>DEVELOPED COUNTRIES</u>						
Primary Commodities /a	29.3	59.1	110.5	34.3	26.3	27.2
Manufactures /d	54.9	161.3	290.9	64.3	72.0	71.5
Miscellaneous /e	1.2	3.8	5.3	1.4	1.7	1.3
Total Exports	85.4	224.2	406.7	100.0	100.0	100.0

/a SITC 0 to 4 and 68 (includes non-ferrous metals).

/b United Nations data for other LDCs is obtained as a residual figure (total LDCs less specified regions), and does not necessarily reflect the actual import performance of the countries/areas involved.

/c SITC 3.

/d SITC 5 to 8, excluding 68 (excludes non-ferrous metals).

/e SITC 9.

Annex Table 6: NATIONAL PRODUCT, INVESTMENT AND  
CONSUMPTION ESTIMATES FOR OPEC MEMBERS

(Amounts in billions of dollars except where indicated)

	Actual 1973	Prelim. 1974	Est. 1975	Proj. 1980	Growth Rates (% per annum)	
					1974	1975-80
<u>Group I</u>						
GNP, current prices	18.0	57.0	57.8	122.9	216.7	13.6
GNP, 1974 prices	50.2	57.0	51.5	71.0	13.5	3.7
GNY, 1974 prices	25.4	57.0	50.8	64.9	124.4	2.2
Investment, 1974 prices	3.4	4.4	5.3	8.9	29.4	12.5
Consumption, 1974 prices	10.3	13.0	14.6	26.4	26.2	12.6
Population (millions)	7.2	7.5	7.8	9.0	4.2	3.1
Per Capita Data (in \$):						
GNP, current prices	2500	7600	7410	13655	204.0	10.2
GNY, 1974 prices	3528	7600	6513	7211	115.4	-0.9
Consumption, 1974 prices	1430	1733	1872	2933	21.2	9.2
<u>Group II</u>						
GNP, current prices	89.6	150.8	177.2	436.2	68.3	19.4
GNP, 1974 prices	140.3	150.8	163.6	264.7	7.5	9.8
GNY, 1974 prices	107.6	150.8	161.3	253.7	40.1	9.1
Investment, 1974 prices	26.7	35.0	40.0	73.1	31.1	13.0
Consumption, 1974 prices	75.7	89.9	111.4	193.0	18.8	13.6
Population (millions)	271.9	279.3	287.9	329.8	2.7	2.8
Per Capita Data (in \$):						
GNP, current prices	330	540	615	1322	63.6	16.1
GNY, 1974 prices	396	540	560	769	36.4	6.1
Consumption, 1974 prices	278	322	387	585	15.8	10.4
<u>Total OPEC</u>						
GNP, current prices	107.6	207.8	235.0	559.1	93.1	17.9
GNP, 1974 prices	190.5	207.8	215.1	335.7	9.1	8.3
GNY, 1974 prices	133.0	207.8	212.1	318.6	56.2	7.4
Investment, 1974 prices	30.1	39.4	45.3	82.0	30.9	13.0
Consumption, 1974 prices	86.0	102.9	126.0	219.4	19.7	13.4
Population (millions)	279.1	286.8	295.7	338.8	2.8	2.8
Per Capita Data (in \$):						
GNP, current prices	386	725	795	1650	87.8	14.7
GNY, 1974 prices	477	725	717	940	52.0	4.4
Consumption, 1974 prices	308	359	426	647	16.6	10.3

Notes: Projections are based upon the high OECD growth alternative. Group I includes Kuwait, Qatar, Saudi Arabia and United Arab Emirates (UAE). Group II includes Algeria, Indonesia, Iran, Iraq, Libya, Nigeria and Venezuela. Ecuador and Gabon are excluded. GNY (gross national income) equals GNP adjusted for changes in the terms of trade from the 1974 base year.

Annex Table 7: CURRENT ACCOUNT BALANCE OF PAYMENTS  
ESTIMATES FOR OPEC MEMBERS

(billions of US dollars)

	Actual	Prelim.	Est.	Proj.	Growth Rates	
	1973	1974	1975	1980	(% per annum) 1974	1975-80
<b>A. Projection with High OECD Growth and Constant Oil Price (Case 1)</b>						
<u>Group I</u>						
Exports of goods	13.9	49.4	45.7	81.5	255.4	8.7
of which: oil <u>a/</u>	12.8	48.1	43.6	73.9	275.8	7.4
Imports of goods	4.0	7.2	10.3	37.1	80.0	31.5
Non-Factor service receipts (net)	- .8	-1.3	-1.5	-2.6		
Factor service receipts (net)	-4.4	-1.6	1.1	15.4		
<u>Current Account Surplus</u>	4.8	39.2	34.9	57.2		
<u>Group II</u>						
Exports of goods	26.6	69.1	66.0	124.5	159.8	10.3
of which: oil <u>a/</u>	23.0	64.8	61.5	111.2	181.7	9.4
Imports of goods	18.8	36.3	48.1	123.5	93.1	22.5
Non-Factor service receipts (net)	-1.9	-2.7	-3.7	- 8.0		
Factor service receipts (net)	-3.3	-3.7	-2.0	- 2.3		
<u>Current Account Surplus</u>	2.6	26.5	12.3	- 9.3		
<u>Total OPEC</u>						
Exports of goods	40.5	118.6	111.7	206.0	192.8	9.6
of which: oil <u>a/</u>	35.8	112.9	105.1	185.1	215.4	8.6
Imports of goods	22.8	43.5	58.4	160.6	90.8	24.5
Non-Factor service receipts (net)	-2.7	-4.0	-5.2	-10.6		
Factor service receipts (net)	-7.6	-5.4	-0.9	13.1		
<u>Current Account Surplus</u>	7.4	65.7	47.2	47.9		
<b>B. Comparison of Current Account Surpluses and Oil Exports Under Alternative Assumptions</b>						
	<u>Exports of Oil <u>a/</u></u>			<u>Current Account Surpluses</u>		
	<u>Group I</u>	<u>Group II</u>	<u>Total</u>	<u>Group I</u>	<u>Group II</u>	<u>Total</u>
High OECD Growth and Constant Oil Price (Case I)						
In 1980	73.9	111.2	185.1	57.2	- 9.3	47.9
Accumulated 1973-80	437.3	614.4	1,051.7	347.7	55.4	403.1
High OECD Growth and Declining Oil Price (Case II)						
In 1980	60.0	91.8	151.8	40.1	-21.9	18.2
Accumulated 1973-80	394.9	552.9	947.8	298.1	9.9	308.0
Low OECD Growth and Constant Oil Price (Case I)						
In 1980	50.2	95.4	145.6	28.5	-17.7	10.8
Accumulated 1973-80	344.5	563.6	908.1	245.2	22.1	267.3
Low OECD Growth and Declining Oil Price (Case II)						
In 1980	40.1	79.0	119.1	16.3	-27.3	-11.0
Accumulated 1973-80	311.0	513.7	824.7	207.7	- 5.4	202.3

a/ Includes crude petroleum, oil products, and gas. Exports are shown on an accruals basis. Particularly in 1974 this overstates actual (cash) receipts which lag behind accruals.

Notes: Data for 1974 are preliminary.

Annex Table 8: TOTAL NET CAPITAL FLOWS BY TYPE AND DESTINATION  
(BY DEVELOPING COUNTRY GROUPS), 1973  
(in billions of current US dollars)

	<u>Directly to Developing Countries</u>			Total <u>a/</u>	To Multi- lateral Agencies	To Unspecified Destina- tions	Technical Assistance	Total Net Flows
	<u>With income per capita</u>							
	below \$200	\$200 and above	Oil Exporting Countries					
<u>Capital Flows by Type:</u>								
a. Official Develop- ment Assistance	2.72	3.25	0.52	6.49	2.29	0.26	2.28	11.32
b. Other Official Flows	0.06	1.93	0.20	2.19	0.70	0.56	-	3.45
c. Multilateral Flows	<u>0.81</u>	<u>1.66</u>	<u>0.23</u>	<u>2.70</u>	-	-	<u>0.47</u>	<u>3.17</u> <u>a/</u>
d. Total Official Capital (a+b+c)	<u>3.59</u>	<u>6.84</u>	<u>0.95</u>	<u>11.38</u>	(2.99) <u>a/</u>	0.82	2.75	14.95
e. Net Private Loans and Credits	0.26	3.02	0.76	4.04	0.25	0.12	-	4.41
f. Net Borrowing in International Capital Markets	0.35	3.70	0.98	5.03	-	-	-	5.03
g. Direct Private Foreign Invest- ment (net)	<u>0.06</u>	<u>3.50</u>	<u>0.15</u>	<u>3.71</u>	-	<u>2.95</u> <u>b/</u>	-	<u>6.66</u>
h. Total Private Capital (e+f+g)	<u>0.67</u>	<u>10.22</u>	<u>1.89</u>	<u>12.78</u>	(0.25) <u>a/</u>	3.07	-	15.85
i. Total Net Capital Flows (d+h)	<u><u>4.26</u></u>	<u><u>17.06</u></u>	<u><u>2.84</u></u>	<u><u>24.16</u></u>	<u><u>(3.24)</u></u> <u>a/</u>	<u><u>3.89</u></u>	<u><u>2.75</u></u>	<u><u>30.80</u></u>

a/ To avoid double counting flows from donor countries and private capital sources to multilateral agencies are not included in the totals of lines d, h and i; the flows from multilateral agencies to developing countries, shown in line c, are included in the totals. Flows to multilateral agencies (\$3.24 billion) slightly exceed the net flows from multilateral agencies to developing countries (\$3.17 billion, total of line c); in most other years this difference has been significantly larger.

b/ The amount of unspecified flows probably represents in large part investments in the form of reinvested profits (which are frequently excluded from the balance of payments statements of the developing countries), particularly investments by international oil companies in the oil exporting countries.

Source: OECD Development Assistance Committee (DAC) for official flows and direct foreign private investment. Net private loans and credits and borrowing in international capital markets from IBRD debtor reporting system.

Annex Table 9: NET OFFICIAL CAPITAL FLOWS TO DEVELOPING COUNTRIES AND TO MULTILATERAL AGENCIES a/  
(in billions of US dollars)

	Actual 1973	Estimated 1974	1975	1976	Projected		1979	1980
					1977	1978		
<b>1. Official Development Assistance (ODA)</b>								
a. Bilateral Flows from:								
i. DAC countries	7.14	8.73	9.35	10.26	11.25	12.03	13.32	14.69
ii. OPEC countries	.86	2.11	3.90	4.68	5.24	4.95	2.51	1.71
iii. Other countries	1.03	1.05	1.07	1.15	1.15	1.25	1.30	1.35
iv. Total	<u>9.03</u>	<u>11.89</u>	<u>14.32</u>	<u>16.09</u>	<u>17.64</u>	<u>18.23</u>	<u>17.13</u>	<u>17.75</u>
b. Flows to Multilateral Agencies from:								
i. DAC countries	2.25	2.55	2.71	2.85	2.92	3.10	3.25	3.38
ii. OPEC countries	.04	.22	.80	.60	.99	1.09	.85	.75
iii. Other countries	-	-	-	-	-	-	-	-
iv. Total	<u>2.29</u>	<u>2.77</u>	<u>3.51</u>	<u>3.45</u>	<u>3.91</u>	<u>4.19</u>	<u>4.10</u>	<u>4.13</u>
c. Total ODA from donor countries	<u>11.32</u>	<u>14.66</u>	<u>17.83</u>	<u>19.54</u>	<u>21.55</u>	<u>22.42</u>	<u>21.23</u>	<u>21.88</u>
d. ODA as a percent of GNP								
i. DAC countries <sup>a/</sup>	0.30	0.33	0.32	0.30	0.28	0.26	0.25	0.24
ii. OPEC countries <sup>b/</sup>	1.12	1.41	2.57	2.29	2.24	1.84	0.88	0.56
<b>2. Other Official Flows (OOF)</b>								
a. Bilateral Flows from:								
i. DAC countries	2.19	2.21	2.28	2.70	3.13	3.60	3.90	4.32
ii. OPEC countries	.03	.28	.48	.56	.77	.86	.44	.30
iii. Other countries	.53	.54	.55	.58	.60	.68	.68	.70
iv. Total	<u>2.75</u>	<u>3.03</u>	<u>3.31</u>	<u>3.84</u>	<u>4.50</u>	<u>5.14</u>	<u>5.02</u>	<u>5.32</u>
b. Flows to Multilateral Agencies from:								
i. DAC countries	.40	.05	.04	.05	.06	.07	.08	.09
ii. OPEC countries	.30	2.98	4.58	4.74	3.74	2.95	2.85	2.85
iii. Total	<u>.70</u>	<u>3.03</u>	<u>4.62</u>	<u>4.79</u>	<u>3.80</u>	<u>3.02</u>	<u>2.92</u>	<u>2.94</u>
c. Total OOF from donor countries	<u>3.45</u>	<u>6.06</u>	<u>7.93</u>	<u>8.63</u>	<u>8.30</u>	<u>8.16</u>	<u>7.95</u>	<u>8.26</u>
<b>3. Net Private Flows to Multilateral Agencies</b>	<u>.25</u>	<u>.45</u>	<u>.46</u>	<u>.50</u>	<u>.65</u>	<u>.90</u>	<u>1.40</u>	<u>1.90</u>
<b>4. Total Official Flows to Countries and Total Flows to Multilateral Agencies</b>								
a. Total Flows:								
i. DAC countries	12.23	13.99	14.84	16.36	18.01	19.70	21.95	24.38
ii. OPEC countries	1.23	5.59	9.76	10.58	10.74	9.85	6.65	5.61
iii. Other countries	1.56	1.59	1.62	1.73	1.75	1.93	1.98	2.05
iv. Total	<u>15.02</u>	<u>21.17</u>	<u>26.22</u>	<u>28.67</u>	<u>30.50</u>	<u>31.48</u>	<u>30.58</u>	<u>32.04</u>
b. Totals as percent of GNP:								
i. DAC countries								
Official flows	.38	.40	.38	.36	.34	.32	.31	.30
Official flows plus private flows to multilateral agencies	.39	.41	.39	.37	.36	.34	.33	.32
ii. OPEC countries <sup>b/</sup>	1.53	3.40	5.33	4.59	3.87	3.00	1.75	1.28

a/ Includes Technical Assistance and Capital Flows to Unspecified Destinations. Totals 4a(i) and 4a(iv) include net private flows to multilateral agencies as shown in line 3.

b/ Excluding Indonesia and Nigeria.

Source: Figures for 1973 were compiled by IBRD Staff from OECD and other sources; figures for 1974-80 are IBRD Staff estimates and projections. Flows from DAC countries were calculated by assuming (a) what would be the ratio of total financial flows and ODA flows to GNP of all DAC countries combined (based on assumptions of DAC members' foreign aid policies) and (b) by projecting total DAC GNP. The "high growth" variant of projected DAC GNP was used. Total projected OOF flows were assumed to bear roughly the same proportion to total flows as in 1973. Official flows to multilateral agencies were estimated, and the difference from total flows were assumed to be bilateral ODA and bilateral OOF. Technical assistance and flows to unspecified areas were assumed to be in proportion to such flows in 1973, and were subtracted to get flows excluding technical assistance and unspecified flows (see Part 2 of Annex Table 10). Bilateral flows from OPEC countries were estimated on the basis of assumptions regarding their available funds and policies regarding foreign assistance. Flows from other areas were assumed to be little changed from 1973.

Annex Table 10: NET OFFICIAL CAPITAL FLOWS TO DEVELOPING COUNTRIES, INCLUDING AND EXCLUDING TECHNICAL ASSISTANCE FLOWS AND FLOWS TO UNSPECIFIED DESTINATIONS: 1973-1980

(In billions of current US dollars)

	Actual	Estimated	Projected					
	1973	1974	1975	1976	1977	1978	1979	1980
<b>1. Net Flows as Recorded by Donors</b>								
a. Bilateral ODA	9.03	11.89	14.32	16.09	17.64	18.23	17.13	17.75
b. Bilateral OOF	2.75	3.03	3.31	3.84	4.50	5.14	5.02	5.32
c. Multilateral flows	3.17	5.43	8.14	9.00	8.52	8.89	8.42	9.06
d. Total	14.95	20.35	25.77	28.93	30.66	32.26	30.57	32.13
<b>2. Net Flows excluding Technical Assistance and Flows Unspecified by Destination</b>								
a. Bilateral ODA	6.49	8.77	10.99	12.43	13.63	13.95	12.39	12.52
b. Bilateral OOF	2.19	2.46	2.73	3.15	3.70	4.21	4.01	4.21
c. Multilateral flows	2.70	4.93	7.55	8.40	7.82	8.07	7.82	8.46
d. Total	11.38	16.17	21.27	23.98	25.15	26.23	24.22	25.19

Source: Lines 1(a) and 1(b) from Annex Table 9; 1973 figures compiled by IBRD staff; 1974-80 figures IBRD staff estimates. See note to Annex Table 9 for the methodology of estimating bilateral ODA and OOF flows. Flows from multilateral agencies consist of the World Bank's own estimates of disbursements of IDA and IBRD loans, estimates of utilization of the IMF oil facility, and an estimate for other multilateral agencies based on the estimates of official and private flows to multilateral agencies. Technical assistance flows from multilateral agencies were estimated to provide figures including and excluding technical assistance. Bilateral official and multilateral flows (excluding technical assistance and flows to unspecified areas) were distributed among income groups of developing countries in proportion to flows recorded in 1973. These flows differ from flows to multilateral agencies by amounts reflecting the reserves and liquidity of these agencies.

Annex Table 11: NET CAPITAL FLOWS BY DEVELOPING COUNTRY GROUPS, 1973-1980

(In billions of current US dollars)

		Lower Income	Middle Income	Total (ex OPEC)	OPEC	All LDCs
<u>1973</u>	Official	3.59	6.84	10.43	0.95	11.38
	Private	<u>0.67</u>	<u>10.22</u>	<u>10.89</u>	<u>1.89</u>	<u>12.78</u>
	Total	4.26	17.06	21.32	2.84	24.16
<u>1974</u>	Official	5.55	9.48	15.03	1.14	16.17
	Private	<u>1.42</u>	<u>17.98</u>	<u>19.40</u>	<u>1.04</u>	<u>20.44</u>
	Total	6.97	27.46	34.43	2.18	36.61
<u>1975</u>	Official	7.43	12.41	19.84	1.43	21.27
	Private	<u>0.94</u>	<u>21.95</u>	<u>22.89</u>	<u>1.75</u>	<u>24.64</u>
	Total	8.37	34.36	42.73	3.18	45.91
<u>1976</u>	Official	8.17	14.09	22.26	1.72	23.98
	Private	<u>1.05</u>	<u>20.80</u>	<u>21.85</u>	<u>1.95</u>	<u>23.80</u>
	Total	9.22	34.89	44.11	3.67	47.78
<u>1977</u>	Official	8.07	15.16	23.23	1.92	25.15
	Private	<u>0.61</u>	<u>23.77</u>	<u>24.38</u>	<u>2.20</u>	<u>26.58</u>
	Total	8.68	38.93	47.61	4.12	51.73
<u>1978</u>	Official	8.24	15.93	24.17	2.06	26.23
	Private	<u>0.92</u>	<u>26.10</u>	<u>27.02</u>	<u>2.55</u>	<u>29.57</u>
	Total	9.16	42.03	51.19	4.61	55.80
<u>1979</u>	Official	7.78	14.23	22.01	2.21	24.22
	Private	<u>1.39</u>	<u>27.45</u>	<u>28.84</u>	<u>3.00</u>	<u>31.84</u>
	Total	9.17	41.68	50.85	5.21	56.06
<u>1980</u>	Official	8.11	14.71	22.82	2.37	25.19
	Private	<u>2.22</u>	<u>28.23</u>	<u>30.45</u>	<u>3.60</u>	<u>34.05</u>
	Total	10.33	42.94	53.27	5.97	59.24

Source: The method for calculating official flows is described in the note to Annex Table 9. Private capital flows were projected on the basis of private inflows to a sample panel of 40 developing countries relative to projections of private inflows to all developing countries other than OPEC members. The projection of private capital flows to the sample panel countries was raised by a proportionality factor (1.384) relating the actual 1973 flows to all developing countries other than OPEC members. These flows were attributed to income groups of developing countries as in the proportion of flows to the sample panel to total flows for each projected year. Private flows to oil exporting countries were estimated independently.

Annex Table 12: NET OFFICIAL AND PRIVATE CAPITAL FLOWS, IN  
CURRENT AND CONSTANT PRICES, 1973-1980 a/

(In billions of current US dollars)

		Current Prices	Year-to-year Percent Change	1974 Prices	Year-to-year Percent Change	Price Index (1974=100)
<u>1973</u>	Official	11.38	-	16.01	-	
	Private	12.78	-	17.97	-	
	Total	24.16	-	33.98	-	71.1
<u>1974</u>	Official	16.17	42.1	16.17	1.0	
	Private	20.44	59.9	20.44	13.7	
	Total	36.61	51.5	36.61	7.7	100.0
<u>1975</u>	Official	21.27	31.5	20.07	24.1	
	Private	24.64	20.5	23.24	13.7	
	Total	45.91	25.4	43.31	18.3	106.0
<u>1976</u>	Official	23.98	12.7	21.02	4.7	
	Private	23.80	-3.4	20.86	-10.2	
	Total	47.78	4.1	41.88	- 3.3	114.1
<u>1977</u>	Official	25.15	4.9	20.38	- 3.0	
	Private	26.58	11.7	21.54	3.3	
	Total	51.73	8.3	41.92	.1	123.4
<u>1978</u>	Official	26.23	4.3	19.86	- 2.6	
	Private	29.57	11.2	22.38	3.9	
	Total	55.80	7.9	42.24	.8	132.1
<u>1979</u>	Official	24.22	-7.7	17.13	-13.7	
	Private	31.84	7.7	22.52	.6	
	Total	56.06	.5	39.65	- 6.1	141.4
<u>1980</u>	Official	25.19	4.0	16.62	- 3.0	
	Private	34.05	6.9	22.46	- .3	
	Total	59.24	5.7	39.08	- 1.5	151.6

a/ Estimates include flows to all developing countries from all sources, but exclude technical assistance and flows without specified destinations. The price index used to obtain the data in 1974 prices is shown in the right hand column; this is an index of import prices for non-oil exporting developing countries. Figures for 1973 are recorded and those for 1974 are provisional estimates; projections for 1975-80 are Bank staff estimates consistent with the Case I or "base case" projections shown elsewhere in this study. See notes to Annex Tables 9 and 11 for description of estimating procedures. The increase in private flows from 1973 to 1974 reflects the use of values recorded, largely by the DAC, for 1973 and of estimates and projections for recipient countries in 1974 and subsequent years.

Annex Table 13: RESOURCE AVAILABILITIES AND USES FOR NON-OIL EXPORTING  
DEVELOPING COUNTRIES IN SAMPLE PANEL, 1967-73

(millions of US dollars at 1967-69 prices)

	1967	1968	1969	1970	1971	1972	1973
<u>Middle Income Group</u>							
1. Gross Domestic Product	162203	172590	185198	197589	211308	225749	242600
2. Imports	23076	25106	27038	29962	32039	34390	39349
3. Capacity to Import	21226	22434	24978	26423	26466	30336	36703
(a. export volume)	(21256)	(22653)	(24740)	(25880)	(27539)	(31222)	(35441)
(b. terms of trade effect)	(-30)	(-219)	(238)	(543)	(-1073)	(-886)	(1262)
4. Real Resource Transfer	1850	2672	2060	3539	5573	4054	2645
5. Interest, Reserves, etc.	2206	1421	2842	1278	-912	2407	5186
6. M&LT Financial Transfer	4056	4093	4902	4817	4661	6461	7831
7. Official M&LT Capital (net)	1930	2058	2254	2233	2188	2543	2941
8. Private M&LT Capital (net)	2126	2035	2648	2584	2473	3918	4890
9. Total M&LT Capital (net)	4056	4093	4902	4817	4661	6461	7831
<u>Low Income Group</u>							
1. Gross Domestic Product	65763	68989	72387	76188	77013	75787	79651
2. Imports	7161	6964	6503	6650	7287	6900	6711
3. Capacity to Import	5299	5548	5760	5730	5735	5873	5660
(a. export volume)	(5199)	(5608)	(5798)	(6222)	(6028)	(5984)	(6212)
(b. terms of trade effect)	(100)	(-60)	(-38)	(-492)	(-293)	(-111)	(-552)
4. Real Resource Transfer	1862	1416	743	920	1552	1026	1051
5. Interest, Reserves, etc.	709	681	1211	550	102	402	555
6. M&LT Financial Transfer	2571	2097	1954	1470	1654	1428	1606
7. Official M&LT Capital (net)	2318	1823	1725	1387	1433	1181	1172
8. Private M&LT Capital (net)	253	274	229	83	221	247	434
9. Total M&LT Capital (net)	2571	2097	1954	1470	1654	1428	1606
<u>Total Sample Panel</u>							
1. Gross Domestic Product	227966	241579	257585	273777	288321	301536	322251
2. Imports	30237	32070	33541	36612	39326	41290	46059
3. Capacity to Import	26525	27982	30738	32153	32201	36210	42363
(a. export volume)	(26455)	(28261)	(30538)	(32102)	(33567)	(37206)	(41653)
(b. terms of trade effect)	(70)	(-279)	(200)	(51)	(-1366)	(-996)	(710)
4. Real Resource Transfer	3712	4088	2803	4459	7125	5080	3696
5. Interest, Reserves, etc.	2915	2102	4053	1828	-810	2809	5741
6. M&LT Financial Transfer	6627	6190	6856	6287	6315	7889	9437
7. Official M&LT Capital (net)	4248	3881	3979	3620	3621	3724	4113
8. Private M&LT Capital (net)	2379	2309	2877	2667	2694	4165	5324
9. Total M&LT Capital (net)	6627	6190	6856	6287	6315	7889	9437

Notes: Data in lines 1 through 4 are from the aggregations of national accounts data for sample panel countries; see Annex D for a discussion of the sample panel. All national accounts data are in 1967-69 prices and were converted at 1967-69 exchange rates. Lines 5 through 9 are based on the data shown in current prices in Annex Table 15. The latter have, however, been deflated by the implicit deflator for the real resource transfer ("resource balance" in Annex Table 15). This gives approximately the same result as would have been obtained by deflating by an index of import prices; differences arise because exchange rates have not maintained the 1967-69 import purchasing power parity relationship. Line 5 ("Interest, Reserves, etc.") includes interest and other factor payments (net), current transfers except those from official sources, changes in international reserves, short-term capital flows and capital flows n.e.i. (including errors and omissions). Large year-to-year changes in line 5 values are generally due to changes in reserves. Greater details are given in Annex Tables 15 and 16.

Annex Table 14: PROJECTED RESOURCE AVAILABILITIES AND USES FOR NON-OIL  
EXPORTING DEVELOPING COUNTRIES IN SAMPLE PANEL, 1974-80

## Part A: Case I Projections (the "base case")

(millions of US dollars at 1967-69 prices)

	1974	1975	1976	1977	1978	1979	1980
<u>Middle Income Countries</u>							
1. Gross Domestic Product	258321	261540	267362	282332	300582	319392	339980
2. Imports	43943	42052	43535	46702	50647	54623	58892
3. Capacity to Import	34566	32595	35322	38896	43193	47690	52623
(a. export volume)	(36990)	(36971)	(40293)	(43729)	(48026)	(52389)	(57397)
(b. terms of trade effect)	(-2424)	(-4376)	(-4971)	(-4833)	(-4833)	(-4699)	(-4774)
4. Real Resource Transfer	9377	9456	8213	7807	7454	6933	6269
5. Interest, Reserves, etc.	-356	790	1259	1959	2493	2851	3112
6. M&LT Financial Transfer	9021	10246	9472	9766	9947	9784	9381
7. Official M&LT Capital (net)	1930	2244	2400	2377	2425	2420	2286
8. Private M&LT Capital (net)	7091	8002	7072	7389	7522	7364	7095
9. Total M&LT Capital (net)	9021	10246	9472	9766	9947	9784	9381
<u>Low Income Group</u>							
1. Gross Domestic Product	81159	82566	86418	88627	91443	95149	98486
2. Imports	6795	6695	7069	7418	7756	8123	8503
3. Capacity to Import	4735	4794	5047	5429	5847	6229	6582
(a. export volume)	(6053)	(6211)	(6531)	(6948)	(7391)	(7796)	(8189)
(b. terms of trade effect)	(-1318)	(-1417)	(-1484)	(-1519)	(-1544)	(-1567)	(-1607)
4. Real Resource Transfer	2060	1901	2022	1988	1908	1894	1922
5. Interest, Reserves, etc.	68	118	311	390	592	649	466
6. M&LT Financial Transfer	2128	2019	2333	2378	2500	2543	2388
7. Official M&LT Capital (net)	1689	1769	2035	2191	2248	2173	1861
8. Private M&LT Capital (net)	439	250	298	187	252	370	527
9. Total M&LT Capital (net)	2128	2019	2333	2378	2500	2543	2388
<u>Total Sample Panel</u>							
1. Gross Domestic Product	339480	344106	353780	370959	392025	414541	438466
2. Imports	50738	48747	50604	54120	58402	62746	67395
3. Capacity to Import	39300	37390	40369	44325	49040	53919	59205
(a. export volume)	(43043)	(43182)	(46824)	(50676)	(55417)	(60186)	(65585)
(b. terms of trade effect)	(-3743)	(-5792)	(-6455)	(-6351)	(-6377)	(-6267)	(-6380)
4. Real Resource Transfer	11437	11357	10235	9795	9362	8827	8191
5. Interest, Reserves, etc.	-288	908	1570	2349	3085	3500	3578
6. M&LT Financial Transfer	11149	12265	11805	12144	12447	12327	11769
7. Official M&LT Capital (net)	3619	4013	4435	4568	4673	4593	4147
8. Private M&LT Capital (net)	7530	8252	7370	7576	7774	7734	7622
9. Total M&LT Capital (net)	11149	12265	11805	12144	12447	12327	11769

Notes: Data in lines 1 through 4 are from aggregations of the national accounts projections for sample panel countries. Lines 5 through 9 are based upon balance of payments projections shown in Annex Table 16 (Part A); see note to Annex Table 13 for details on deflation method. Values in line 5 in this table tend to rise mainly because of increasing interest payments on the growing volume of external debt.

Annex Table 14: PROJECTED RESOURCE AVAILABILITIES AND USES FOR NON-OIL  
EXPORTING DEVELOPING COUNTRIES IN SAMPLE PANEL, 1976-80

## Part B: Case II Projections (better trade and aid policies)

(millions of US dollars at 1967-69 prices)

	1976	1977	1978	1979	1980
<u>Middle Income Group</u>					
1. Gross Domestic Product	267725	285092	307019	330328	356854
2. Imports	43660	47551	52547	57759	63593
3. Capacity to Import	35446	39468	44430	49872	56097
(a. export volume)	(40451)	(44425)	(49515)	(55003)	(61568)
(b. terms of trade effect)	(-5005)	(-4957)	(-5085)	(-5131)	(-5471)
4. Real Resource Transfer	8213	8083	8117	7887	7496
5. Interest, Reserves, etc.	1259	1959	2500	2876	3158
6. M&LT Financial Transfer	9472	10042	10617	10763	10654
7. Official M&LT Capital (net)	2400	2670	3128	3446	3624
8. Private M&LT Capital (net)	7072	7372	7489	7317	7030
9. Total M&LT Capital (net)	9472	10042	10617	10763	10654
<u>Low Income Group</u>					
1. Gross Domestic Product	86566	92101	97333	102811	108669
2. Imports	7078	7778	8277	8771	9334
3. Capacity to Import	5056	5462	5907	6320	6706
(a. export volume)	(6543)	(6986)	(7461)	(7902)	(8335)
(b. terms of trade effect)	(-1487)	(-1524)	(-1554)	(-1582)	(-1629)
4. Real Resource Transfer	2022	2316	2370	2451	2628
5. Interest, Reserves, etc.	311	397	609	678	515
6. M&LT Financial Transfer	2333	2713	2979	3129	3143
7. Official M&LT Capital (net)	2035	2525	2727	2761	2615
8. Private M&LT Capital (net)	298	188	252	368	528
9. Total M&LT Capital (net)	2333	2713	2979	3129	3143
<u>Total Sample Panel</u>					
1. Gross Domestic Product	354292	377193	404353	433138	465523
2. Imports	50738	55328	60824	66530	72927
3. Capacity to Import	40503	44929	50337	56192	62804
(a. export volume)	(46993)	(51411)	(56976)	(62905)	(69903)
(b. terms of trade effect)	(-6490)	(-6482)	(-6639)	(-6713)	(-7099)
4. Real Resource Transfer	10235	10399	10487	10338	10124
5. Interest, Reserves, etc.	1570	2356	3109	3554	3673
6. M&LT Financial Transfer	11805	12755	13596	13892	13797
7. Official M&LT Capital (net)	4435	5195	5855	6207	6239
8. Private M&LT Capital (net)	7370	7560	7741	7685	7558
9. Total M&LT Capital (net)	11805	12755	13596	13892	13797

Notes: The Case II projection differs from Case I (see Part A of Annex Table 14) in that (a) ODA from DAC countries is assumed to be .35 of 1% of the GNP (based upon the high OECD growth alternative) and (b) exports rise somewhat more rapidly. See notes to Annex Tables 13, 14 (Part A) and 16 (Part B) for additional comments.

Annex Table 15: SUMMARY CONSOLIDATED BALANCE OF PAYMENTS STATEMENT FOR NON-OIL  
EXPORTING DEVELOPING COUNTRIES IN SAMPLE PANEL, 1967-73

(millions of US dollars)

	1967	1968	1969	1970	1971	1972	1973
<u>Middle Income Group</u>							
1. Exports (incl. NFS)	20787	22254	25608	28106	29148	34872	49208
2. Imports (incl. NFS)	<u>22630</u>	<u>24912</u>	<u>27680</u>	<u>31962</u>	<u>35298</u>	<u>39595</u>	<u>52777</u>
3. Resource Balance	-1843	-2658	-2072	-3856	-6150	-4723	-3569
4. Factor Income (net)	-1495	-1613	-1575	-1538	-1184	-1009	-667
5. Current Transfers (net)	<u>94</u>	<u>165</u>	<u>195</u>	<u>99</u>	<u>136</u>	<u>279</u>	<u>386</u>
6. Current Account Balance	-3244	-4106	-3452	-5295	-7198	-5453	-3850
7. Official M&LT Capital (net)	1923	2047	2267	2433	2415	2963	3968
8. Private M&LT Capital (net)	<u>2118</u>	<u>2024</u>	<u>2663</u>	<u>2815</u>	<u>2729</u>	<u>4565</u>	<u>6598</u>
9. Total M&LT Capital (net)	4041	4071	4930	5248	5144	7528	10566
10. Reserves and Capital n.e.i.	-797	35	-1478	47	2054	-2075	-6716
<u>Low Income Group</u>							
1. Exports (incl. NFS)	5130	5570	5904	6338	6476	6982	8661
2. Imports (incl. NFS)	<u>6984</u>	<u>6989</u>	<u>6655</u>	<u>7396</u>	<u>8303</u>	<u>8488</u>	<u>10347</u>
3. Resource Balance	-1854	-1419	-751	-1058	-1827	-1506	-1686
4. Factor Income (net)	-417	-430	-426	-363	-456	-444	-472
5. Current Transfers (net)	<u>-102</u>	<u>-31</u>	<u>-9</u>	<u>5</u>	<u>279</u>	<u>-101</u>	<u>116</u>
6. Current Account Balance	-2373	-1880	-1186	-1416	-2004	-2051	-2042
7. Official M&LT Capital (net)	2308	1827	1744	1595	1687	1733	1880
8. Private M&LT Capital (net)	<u>252</u>	<u>275</u>	<u>231</u>	<u>95</u>	<u>260</u>	<u>362</u>	<u>697</u>
9. Total M&LT Capital (net)	2560	2102	1975	1690	1947	2095	2577
10. Reserves and Capital n.e.i.	-187	-222	-789	-274	57	-44	-535
<u>Total Sample Panel</u>							
1. Exports (incl. NFS)	25917	27824	31512	34444	35624	41854	57869
2. Imports (incl. NFS)	<u>29614</u>	<u>31901</u>	<u>34335</u>	<u>39358</u>	<u>43601</u>	<u>48083</u>	<u>63124</u>
3. Resource Balance	-3697	-4077	-2823	-4914	-7977	-6229	-5255
4. Factor Income (net)	-1912	-2043	-2001	-1901	-1640	-1453	-1139
5. Current Transfers (net)	<u>-8</u>	<u>134</u>	<u>186</u>	<u>104</u>	<u>415</u>	<u>178</u>	<u>502</u>
6. Current Account Balance	-5617	-5986	-4638	-6711	-9202	-7504	-5892
7. Official M&LT Capital (net)	4231	3874	4011	4028	4102	4696	5848
8. Private M&LT Capital (net)	<u>2370</u>	<u>2299</u>	<u>2894</u>	<u>2910</u>	<u>2989</u>	<u>4927</u>	<u>7295</u>
9. Total M&LT Capital (net)	6601	6173	6905	6938	7091	9623	13143
10. Reserves and Capital n.e.i.	-984	-187	-2267	-227	2111	-2119	-7251

Notes: All data were obtained by aggregating balance of payments statements for sample panel countries; see Annex D for a discussion of the sample panel. Some adjustments from the concepts and definitions normally used were made for this analysis. Current transfers in line 5 exclude those received from official sources; the latter are included in line 7 as part of official medium and long-term capital. The current account balance is thus the balance before any transfers from official donors. The capital accounts of the country balance of payments projections are linked to the Bank's Debtor Reporting System for "public loans" (loans either to or guaranteed by the government). Consequently the definitions of "official" and "private" in Annex Tables 13 - 16 differ from those used in Annex Tables 8 - 12. The latter use DAC concepts, where a loan is considered official if it comes from an official source. In Tables 13 - 16, however, a loan is official only if it comes from an official source and also is a public loan--i.e., goes to or is guaranteed by a government agency. Loans from official creditors, but going to private borrowers and not having a government guarantee in the debtor country, are classified as "official" in Tables 8 - 12 and as "private" in Tables 13 - 16.

Annex Table 16: SUMMARY CONSOLIDATED BALANCE OF PAYMENTS  
PROJECTION FOR NON-OIL EXPORTING DEVELOPING COUNTRIES  
IN SAMPLE PANEL, 1974-80

## Part A: Case I Projections (the "base case")

(millions of US dollars)

	1974	1975	1976	1977	1978	1979	1980
<u>Middle Income Group</u>							
1. Exports (incl. NFS)	66471	66363	77483	92224	109787	129768	153537
2. Imports (incl. NFS)	83653	85097	94932	110334	128485	148450	171565
3. Resource Balance	-17182	-18734	-17449	-18110	-18698	-18682	-18028
4. Factor Income (net)	-1425	-2673	-3939	-5126	-6419	-7912	-9494
5. Current Transfers (net)	1190	1357	1288	1353	1410	1473	1540
6. Current Account Balance	-17417	-20050	-20100	-21883	-23707	-25121	-25982
7. Official M&LT Capital (net)	3537	4445	5099	5514	6082	6520	6573
8. Private M&LT Capital (net)	12993	15853	15024	17141	18869	19843	20404
9. Total M&LT Capital (net)	16530	20298	20123	22655	24951	26363	26977
10. Reserves and Capital n.e.i.	887	-248	-23	-772	-1244	-1242	-995
<u>Low Income Group</u>							
1. Exports (incl. NFS)	10708	11354	12807	14903	17147	19498	22102
2. Imports (incl. NFS)	15499	16548	17969	19965	22103	24703	27938
3. Resource Balance	-4791	-5194	-5162	-5062	-4956	-5205	-5836
4. Factor Income (net)	-539	-631	-781	-962	-1195	-1459	-1615
5. Current Transfers (net)	220	273	300	326	349	376	404
6. Current Account Balance	-5110	-5552	-5643	-5698	-5802	-6288	-7047
7. Official M&LT Capital (net)	3929	4833	5194	5580	5840	5973	5650
8. Private M&LT Capital (net)	1021	683	762	477	655	1016	1600
9. Total M&LT Capital (net)	4950	5516	5956	6057	6495	6989	7250
10. Reserves and Capital n.e.i.	160	36	-313	-359	-693	-701	-203
<u>Total Sample Panel</u>							
1. Exports (incl. NFS)	77179	77717	90290	107127	126934	149266	175639
2. Imports (incl. NFS)	99152	101645	112901	130299	150588	173153	199503
3. Resource Balance	-21973	-23928	-22611	-23172	-23654	-23887	-23864
4. Factor Income (net)	-1964	-3304	-4720	-6088	-7614	-9371	-11109
5. Current Transfers (net)	1410	1630	1588	1679	1759	1849	1944
6. Current Account Balance	-22527	-25602	-25743	-27581	-29509	-31409	-33029
7. Official M&LT Capital (net)	7466	9277	10293	11093	11922	12492	12223
8. Private M&LT Capital (net)	14015	16536	15786	17618	19524	20859	22004
9. Total M&LT Capital (net)	21481	25813	26079	28711	31446	33351	34227
10. Reserves and Capital n.e.i.	1046	-211	-336	-1130	-1937	-1942	-1198

Notes: Data in lines 3-10 were obtained by aggregating balance of payments projections for countries in the sample panel (adjusted as indicated below). In the case of exports, the estimates from Simlink were substituted for those from the aggregated country projections; the latter did not sufficiently take into account the constraint on total developing country exports from the demand side. The resulting lowering of projected export earnings was, to the extent consistent with country credit-worthiness judgements, offset by increasing net medium and long-term private borrowing. An adjustment to net Factor Income was made assuming an average interest rate of 8 percent on the additional borrowing. See notes to Annex Table 15 regarding balance of payments definitions and concepts.

Annex Table 16: SUMMARY CONSOLIDATED BALANCE OF PAYMENTS PROJECTION  
FOR NON-OIL EXPORTING DEVELOPING COUNTRIES IN SAMPLE PANEL,  
1974-80

Part B: Case II Projections (better trade and aid policies)

(in millions of current US dollars)

	1976	1977	1978	1979	1980
<u>Middle Income Group</u>					
1. Exports (incl. NFS)	77747	93603	112894	135747	163709
2. Imports (incl. NFS)	95196	112396	133345	157136	185466
3. Resource Balance	-17449	-18793	-20451	-21389	-21757
4. Factor Income (net)	-3939	-5137	-6466	-8029	-9710
5. Current Transfers (net)	1288	1353	1410	1473	1540
6. Current Account Balance	-20100	-22577	-25507	-27945	-29927
7. Official M&LT Capital (net)	5099	6208	7882	9344	10518
8. Private M&LT Capital (net)	15024	17141	18869	19843	20404
9. Total M&LT Capital (net)	20123	23349	26751	29187	30922
10. Reserves and Capital n.e.i.	-23	-772	-1244	-1242	-995
<u>Low Income Group</u>					
1. Exports (incl. NFS)	12831	14992	17324	19787	22521
2. Imports (incl. NFS)	17993	20866	23492	26556	30478
3. Resource Balance	-5162	-5874	-6168	-6769	-7957
4. Factor Income (net)	-781	-974	-1239	-1546	-1761
5. Current Transfers (net)	300	326	349	376	404
6. Current Account Balance	5643	-6522	-7058	-7939	-9314
7. Official M&LT Capital (net)	5194	6404	7096	7624	7917
8. Private M&LT Capital (net)	762	477	655	1016	1600
9. Total M&LT Capital (net)	5956	6881	7751	8640	9517
10. Reserves and Capital n.e.i.	-313	-359	-693	-701	-203
<u>Total Sample Panel</u>					
1. Exports (incl. NFS)	90578	108595	130218	155534	186230
2. Imports (incl. NFS)	113189	133262	156837	183692	215944
3. Resource Balance	-22611	-24667	-26619	-28158	-29714
4. Factor Income (net)	-4720	-6111	-7705	-9575	-11471
5. Current Transfers (net)	1588	1679	1759	1849	1944
6. Current Account Balance	-25743	-29099	-32565	35884	-39241
7. Official M&LT Capital (net)	10293	12611	14978	16967	18435
8. Private M&LT Capital (net)	15786	17618	19524	20859	22004
9. Total M&LT Capital (net)	26079	30229	34502	37826	40439
10. Reserves and Capital n.e.i.	-336	-1130	-1937	-1942	-1198

Notes: Case II differs from Case I (see Part A of Annex Table 16) in that (a) ODA from DAC countries is assumed to be a constant .35 of 1% of the GNP (based upon the high OECD growth alternative) and (b) exports rise somewhat more rapidly. The additional ODA has been allocated to the countries in the low income group to the extent necessary to raise their imports to a level consistent with a GDP growth rate of 5 percent in 1974-80 (assumed to be the maximum feasible given their absorptive capacity). See notes to Annex Tables 12 and 15 (Part A) for additional comments.