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ECONOMIC DEVELOPMENT OF UNDER-DEVELOPED COUNTRIES

International flow of long-term capital and
official donations, 1959-1961

Report of the Secretary-General

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FOREWORD

The present report is the second in the new series of annual reviews of the international flow of long-term capital and official donations. Part I examines the flow of funds from the developed countries, the flow of funds to the under-developed countries and the international economic assistance of the centrally planned economies during the years 1959-1961. This part is prepared in response to General Assembly resolutions 1522 (XV) of 15 December 1960 and 1711 (XVI) of 19 December 1961, and to Economic and Social Council resolution 780 (XXX) of 3 August 1960. In resolutions 1522 (XV) and 1711 (XVI), the Assembly requested the Secretary-General to prepare an annual report on the extent of progress towards increasing the flow of international assistance and capital to under-developed countries so as to reach, as soon as possible, an amount approximately equivalent to 1 per cent of the combined national incomes of the economically advanced countries. In resolution 780 (XXX) the Council requested the Secretary-General to assemble data and related information which would facilitate the study of the international flow of public and private capital, particularly to the under-developed countries.

Part II of the report reviews the international flow of private capital during 1959-1961. This represents the second triennial survey on the international flow of private capital as requested by the General Assembly in its resolution 1035 (XI) of 26 February 1957; the preceding survey was published under the title of The International Flow of Private Capital, 1956-1958.

For the international flows relating to the developed and under-developed countries based on private enterprise, estimates have been derived mainly from balance of payments statements as published in the Balance of Payments Yearbook of the International Monetary Fund. For the centrally planned economies, since balance-of-payments data are not available, estimates have been based on reports of the contributing countries on the volume of their economic assistance, supplemented by similar reports from recipient countries. However, such estimates generally represent commitments rather than actual flows in a given year. The estimates for both groups of countries from these sources are supplemented by the replies of Governments to the special questionnaire on the international flow of

long-term capital and central government transfer payments, issued jointly by the United Nations Secretariat and the International Monetary Fund in 1962.

Definitions in this report differ in some respects from those in the first issue in this series owing to revisions in data and in the system of classification and presentation introduced by the International Monetary Fund in the Balance of Payments Yearbook.

EXPLANATORY NOTES

The following symbols have been used in the tables throughout the report:

Three dots (...) indicate that data are not available or are not separately reported.

A dash (-) indicates that the amount is nil or negligible.

A full stop (.) is used to indicate decimals.

A comma (,) is used to distinguish thousands and millions.

Use of a hyphen (-) between dates representing years - e.g., 1956-1959 - signifies the full period involved, including the beginning and end years.

References to "dollars" (\$) indicate United States dollars.

The term "billion" signifies a thousand million.

Details and percentages in tables do not necessarily add to totals, because of rounding.

Certain abbreviations have been used: IBRD for International Bank for Reconstruction and Development; IFC for International Finance Corporation; IMF for International Monetary Fund; EEC for European Economic Community; OECD for Organization for Economic Co-operation and Development. "Rhodesia and Nyasaland" stands for the Federation of Rhodesia and Nyasaland. Unless otherwise indicated, the classification and definition of capital flows conform to those employed in the Balance of Payments Manual (third edition) of the International Monetary Fund.

The designations employed and the presentation of material in this publication do not imply the expression of any opinion whatsoever on the part of the Secretariat of the United Nations concerning the legal status of any country or territory or of its authorities, or concerning the delimitation of its frontiers.

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Chapter 1

THE FLOW OF FUNDS FROM DEVELOPED COUNTRIES

1. The years 1959 to 1961 were characterized by uneven economic progress in the major industrially developed areas which account for the bulk of the international flow of long-term capital and official donations. In Western Europe and Japan a setback to domestic expansion in 1958 was followed by sustained growth in the subsequent years. In North America, on the other hand, high rates of expansion in 1959 were subsequently curtailed by a recession which extended from the middle of 1960 into the early months of 1961. Developments with respect to external balances also varied considerably. Continental Western European countries generally experienced no significant deterioration in their external payments position in spite of rising imports in 1960 and 1961, while the external balance of the United Kingdom worsened in the early part of 1961, and the United States' international reserves declined rapidly in 1960 and to a lesser extent in 1961.
2. Despite the North American recession, the outflow of gold from the United States, and the high returns on capital obtainable in Western Europe and Japan, the net flow of long-term capital and official donations from the developed countries as a group to the rest of the world rose substantially, both in 1960 and in 1961, the rate of increase exceeding that of the domestic product of developed countries. The uneven pace of the domestic expansion in North America and Western Europe, and the imbalance in the United States external transactions had, however, a significant impact on the pattern of long-term capital transactions between the various groups of developed countries, and they also affected the composition of capital flows to the rest of the world.
3. The net flow of long-term capital and official donations from developed capital-exporting countries rose from \$7.6 billion in 1959 to \$8.1 billion in 1960 and to \$9.2 billion in 1961 (see table 1). At the same time, net flows into developed capital-importing countries declined to some extent; the net flow of funds to the rest of the world consequently rose from \$5.3 billion in 1959 to a new peak, of \$7.2 billion in 1961. The average annual flow for the

three-year period of \$6.2 billion represents a very substantial increase over the levels attained during the decade of the nineteen fifties. Data presented in an earlier report^{1/} show annual flows to the rest of the world to have amounted on the average to \$3.3 billion during the years 1951-1955, and to \$5.9 billion in 1956-1959. The average for the latter period includes, however, the additional capital subscription of the developed countries to the International Monetary Fund in 1959, amounting to \$3.9 billion, which is excluded from the revised data for 1959 shown in table 1 below.^{2/} If this special transaction is excluded, the average annual net outflow for 1956-1959 would be approximately \$4.9 billion.

1/ United Nations, International Flow of Long-term Capital and Official Donations, 1951-1959 (United Nations publication, Sales No.: 62.II.D.1).

2/ The data for 1959-1961 shown in table 1 also differ in some other respects from those which had been used in the computations of the 1956-1959 average. The third edition of the Balance of Payments Manual of the International Monetary Fund which was issued in 1961 includes a number of revisions with respect to the definition of flows, and the balance-of-payments statistics for the years since 1959 were revised to conform with the changed definitions. The data presented in the present report are consequently based on these revised definitions, while those shown in the United Nations report on International Flows of Long-term Capital and Official Donations, 1951-1959 conform to the definitions previously applied.

Revisions affect primarily the treatment of flows of official and banking funds, which were previously combined under one heading. Under the revised definitions, capital transactions of the Government are separated from those of central and private monetary institutions. Consequently the capital subscription to the International Monetary Fund in 1959, which was a Central Bank transaction, is no longer included in the flow of official capital as it is currently defined. As indicated in footnote a to table 1, the data in the present study exclude all transactions of monetary institutions. Consequently flows of official capital (termed "official and banking" capital in the earlier report) exclude, in addition to the transaction with the International Monetary Fund mentioned above, also some long-term transactions of the private banking sector, which had previously been included. This omission from totals shown in the present report was necessitated by the unavailability of data for several of the major countries. Other revisions affecting the comparability of the data in the present report with those for 1951-1959 include a broadening of the definition of "official donations" to include annual contributions to meet operating expenses of international agencies and certain other transfer payments, which are not of major significance. A comparison of data for 1959 classified according to both definitions shows the net flow from developed countries to the rest of the world to have been larger by \$4.1 billion under the earlier classification; of this amount \$3.9 million is accounted for by the capital

4. Among capital-exporting countries the United States predominated as in the past. For the entire three-year period, its share in the total net flow from the group averaged about two-thirds, which was similar to that of the second half of the nineteen fifties. However, apart from 1960, which was a peak year for United States capital outflows, the proportion of capital supplied by the United States was well below the three-year average. France, the Federal Republic of Germany and the United Kingdom accounted for the major part of the remaining outflow.

5. Canada retained its position as the largest single net recipient of capital among the developed capital-importing countries, but the inflow into this country was halved between 1959 and 1961. Australia, which had long held second place among developed capital-importing countries, appears to have been displaced in 1961 by Italy, a country that recorded exceptionally large gains in the inflow of capital both in 1960 and 1961. As net flows into some of the smaller capital-importing countries also increased during the period under review, the share of Canada fell from over two-thirds of the total in 1959 to less than 40 per cent in 1961.

6. In 1960, the considerable recovery of private long-term capital flows from the low level to which they had dropped in 1959 contributed to the acceleration of international capital flows.^{3/} The expansion had its origin in the United States, where the net outflow of long-term private funds increased by close to one-third and in a shift in the position of France from net importer to net exporter of private capital. The recovery in the outflow from the United States erased the loss of the preceding year. Although a large part of the rise was absorbed by other developed countries, chiefly in Western Europe, the net flow of all developed countries to the rest of the world registered a substantial advance over 1959. The development was reversed in 1961, when a sharp contraction in the net outflow of United States private capital reduced,

(Foot-note 2/ continued from previous page)

subscription to the International Monetary Fund. The remaining difference, which also includes revisions in the basic data reported by individual countries, is thus of the order of \$200 million, or less than 4 per cent of the net flow in 1959 excluding the subscription to the International Monetary Fund.

3/ Private capital flow is singled out for detailed consideration in part II of the present report.

/...

Table 1. Developed countries: Net international flows of long-term capital and official donations,
by country, 1959-1961 a/
(Millions of dollars)

Country	Official donations			Total			Long-term capital					
	1959 1960 1961			1959 1960 1961			Official			Private		
	1959	1960	1961	1959	1960	1961	1959	1960	1961	1959	1960	1961
Capital-exporting countries												
Belgium-Luxembourg	-104	-6	-54	-16	-50	-16	-88	44	-38	-8	-54	88
France b/	-601	-948	-1,108	-667	-654	-665	66	-244	-443	349	-47	76
Germany (Federal Republic) c/	-1,191	-517	-1,026	-144	-85	-193	-1,047	-232	-853	-226	30	203
Japan	-37	-136	-106	-70	-80	-98	33	-56	-8	-20	-83	-35
Netherlands	-133	29	-197	-21	-25	-41	-112	54	-156	-97	95	-67
Switzerland	-114	-211	-289	-	-	-	-114	-211	-289	9	-152	-211
United Kingdom e/	-75	-386	-689	-193	-227	-344	-602	-159	-409	-115	90	-230
United States	-4,647	-6,142	-5,721	-1,849	-1,856	-2,056	-2,798	-4,286	-3,665	-353	-3,177	-2,739
Total	-7,622	-8,187	-9,190	-2,960	-2,977	-3,413	-4,662	-5,140	-5,777	-1,765	-2,897	-2,915
Capital-importing countries												
Australia	313	487	---	-9	-9	-11	322	496	...	75	247	412
Austria	3	47	70	-38	-31	-23	41	-16	93	-22	63	61
Canada f/	1,562	1,240	784	-75	-62	-53	1,637	1,302	837	517	1,120	793
Denmark	26	61	---	-	3	1	26	58	-1	26	-	51
Finland	-1	14	52	-	-	-	-1	14	52	-17	16	46
Italy	267	309	534	-27	-37	-12	294	346	546	32	262	496
New Zealand	-27	-12	78	-2	-12	-3	-25	-12	81	48	23	10
Norway	148	66	178	-2	-5	-6	150	71	184	-5	155	159
Sweden	-6	-2	14	-	-	-	-6	-2	14	-2	-3	12
Total	2,285	2,117	1,994	-153	-141	-107	2,438	2,258	2,101	556	1,882	1,865
New flow of funds to rest of world	-5,337	-6,000	-7,196	-3,113	-3,118	-3,520	-2,224	-2,882	-3,675	-1,209	-1,014	-1,050

Source: Bureau of General Economic Research and Policies of the United Nations Secretariat, based on data from International Monetary Fund, Balance of Payments Yearbook (Washington, D.C.); and from the special questionnaire jointly issued by the United Nations Secretariat and the International Monetary Fund.

a/ Flows of long-term capital exclude all transactions of central banks and of private monetary institutions. Data on long-term transactions of private monetary institutions are available only for a small number of countries. The term "long-term" generally refers to loans and investments for periods exceeding one year. However, in the case of official capital short-term flows are included. These are generally not significant except in the case of the accumulated local currency proceeds from the sale of United States surplus agricultural products.

No sign indicates net inflow of funds; minus sign indicates net outflow.

b/ Data refer to the sum of net long-term transactions with non-franc area countries settled through metropolitan France, official loans and donations of metropolitan France to franc area countries and rough estimates of flows of private long-term capital to the overseas franc area. However, data for 1961 are estimates based upon the special questionnaire.

c/ Official donations and totals exclude restitution payments to private residents of foreign countries.

d/ Direct investment only.

e/ Private capital flow in 1960 and 1961 adjusted by shifting the amount of one major transaction with United States, which was reported in 1961, to 1960 when it was completed and reported in United States balance of payments.

f/ Including estimates of reinvested earnings of foreign subsidiaries in Canada.

g/ Including private long-term capital.

h/ To international institutions only.

i/ Including also estimate of net flow of private long-term capital into Australia.

on balance, the total amount of such funds flowing from capital-exporting countries. Although the net flow into the developed capital-importing countries also declined, net receipts of private capital by the rest of the world nonetheless fell off substantially. Thus, in 1961, it was the Governments of the capital-exporting countries rather than private capital that bore the brunt of the burden of expanding the flow of long-term funds to the rest of the world.

7. The net outflow of official capital from capital-exporting countries, which had increased by less than \$100 million from 1959 to 1960, rose from \$1.8 billion in 1960 to \$2.9 billion in 1961. This rise originated exclusively in Western Europe since the net outflow of official capital from the United States declined. Nevertheless, the increase of \$1.1 billion in the net flow from developed countries as a group to the rest of the world was in fact not primarily directly attributable to the Western European countries. The pattern of transactions in 1961 involved large dollar transfers by individual countries in Western Europe to the United States in connexion with advance repayments of official loans, a measure which was designed to reduce the pressure on the United States' reserves. At the same time, the United States Government accelerated the flow of official capital to the under-developed countries, partly in the form of local currency loans, and it also subscribed capital to the newly-established multilateral lending agencies.

8. Changes in total official donations paralleled those of official capital; there was a substantial rise in official donations in 1961, after a year in which such donations had tended to level off. The Western European countries and Japan accounted for the larger part of this increase, and by 1961 their combined donations were equal to three-quarters of those of the United States.

9. The sharp recovery in flows from the private sector in the capital-exporting countries in 1960 and the rise from the public sector in 1961 resulted in shifts in the composition of international capital flows, which are indicated in table 2. The share of private capital in the net outflow from the capital-exporting countries rose in 1960, but it subsequently declined below that of 1959; official capital gained new prominence in 1961 when its share probably exceeded that of any period since the beginning of the nineteen fifties. Official donations remained the largest component throughout the three-year period, their share recording only minor fluctuation. Flows into developed capital-importing

countries became increasingly concentrated in the private sector, as the relative share of flows into the public sector declined sharply both in 1960 and 1961. As can be seen in table 1, the decline in the relative share of official capital was attributable to a sharp contraction of new foreign borrowing by the Canadian authorities, which was only partially offset by increases in other countries. Changes in the pattern of net flows to the rest of the world reflected the growing emphasis in developed countries on official lending. Although the relative share of private capital increased temporarily in 1960, that of official capital rose both in 1960 and 1961, while the relative share of official donations to the total flow declined in both years.

Table 2. Developed countries: Percentage distribution of net international flows of long-term capital and official donations by type, 1959-1961

Item and year	Total	Official donations	Net long-term capital	
			Official	Private
<u>Net flow from capital-</u> <u>exporting countries</u>				
1959	100	39	23	38
1960	100	37	22	41
1961	100	37	31	32
<u>Net flow into capital-</u> <u>importing countries</u>				
1959	100	-7	24	82
1960	100	-7	16	91
1961	100	-5	12	94
<u>Combined net flow to</u> <u>rest of the world</u>				
1959	100	58	23	19
1960	100	52	25	23
1961	100	49	36	15

Source: Table 1.

10. On the basis of the replies of Governments to a special questionnaire issued jointly by the United Nations Secretariat and the International Monetary Fund, it is now possible for the first time to describe in quantitative terms the changes in the direction of flows from or into the major developed countries in 1960 and 1961. As may be seen from table 3, the United States total net outflow to other developed countries declined from 1960 to 1961 by close to \$1 billion, as a result primarily of increased official debt repayments by the western European countries and of reduced private long-term investment in Canada and in the United Kingdom. At the same time, the major Western European capital-exporting countries as a group shifted their position from that of net recipients of long-term funds from other developed countries in 1960 to that of net exporters in 1961. This shift occurred in the Federal Republic of Germany and the Netherlands, while the large net inflow into the United Kingdom in 1960 was sharply reduced in 1961.^{4/} On the other hand, there were increases in net flows from the United States to the under-developed countries and international institutions, the increase to the under-developed countries amounting to about \$700 million. Net flows from the capital-exporting countries in Western Europe to these destinations also rose, though less rapidly than those from the United States. The combined rise in the net flow of long-term capital and official donations from the major capital exporting countries to the under-developed countries was thus of the order of \$900 million as table 3 indicates.

11. The data for the major developed capital-importing countries, though incomplete, indicate a rise from 1960 to 1961 in the net flow into the Western European countries and New Zealand from developed countries. In several cases, the contribution of developed capital-importing countries to the supply of capital and donations flowing to the under-developed countries increased, but the amount of such transactions remained small. A few countries also reduced their net receipts or increased their net contributions of long-term funds to international institutions, and the group as a whole, which had been a net recipient of funds from these sources in 1960, probably became a net contributor in 1961.

^{4/} Data for the United Kingdom have been adjusted to include receipts from one large transaction (\$367 million) with the United States in the totals for 1960 instead of those for 1961 as reported in the United Kingdom balance of payments. This transaction was reported by the United States in 1960, the year of its completion.

Table 3. Developed countries: Net international flows^{a/} of long-term capital and official donations by areas of destination or origin, 1960 and 1961
(Millions of dollars)

Country	1960			1961		
	Total	Developed countries	Under- developed countries	Inter- national institutions	Centrally planned economies	Centrally planned economies
Capital-exporting countries:						
United States	-6,142	-2,112	-3,449	-345	-1,263	-4,101
Western European countries						
France b/	-1,214	-55 d/	-1,154	-18	-13	-1,212
United Kingdom c/	-414	344	-659	-86	224	-800
Switzerland e/	-230	-192	-41	-20	-39	-39
Germany (Federal Republic)	-218	159	-246	-124	-587	-319
Belgium-Luxembourg f/	-100	-54	-56	...	104	108
Netherlands	-27	48	-54	-8	-117	-97
Total, Western European countries	-2,803	230	-2,210	-236	-709	-2,359
Japan	-125	9	-196	63	172	-309
Total, capital-exporting countries	-8,470	-1,813	-5,855	-538	-1,800	-6,769
Capital-importing countries:						
Canada g/	1,207	1,298	-80	-10	...	...
Australia h/	430	499	-53	-17	367	-52
New Zealand	26	25	-	-	80	-1
Western European countries						
Denmark	58	65	-7	-1	...	...
Norway	58	7	48	4	179	-1
Finland	25	11	-3	16	22	12
Sweden	5	5	-	-4	17	-6
Austria	-3	-8	-1	8	76	10
Total, above Western European countries	143	80	37	23	...	...
Total, above capital-importing countries	1,806	1,902	-96	-4	...	...
Total, above developed countries	-6,664	89	-5,951	-542	...	...

Source: Bureau of General Economic Research and Policies of the United Nations Secretariat, based on special questionnaire issued jointly by the United Nations Secretariat and the International Monetary Fund.

- a/ Owing to differences in the types of flows included, totals for individual countries differ in a number of cases from those shown in table 1. The main source of disparities is the exclusion in table 1 of all identifiable transactions of the private monetary sector, some of which are included in the present table. No sign indicates net inflow of funds; minus sign indicates net outflow.
- b/ Data for 1961 are preliminary estimates.
- c/ Distribution of flows in 1961 partly estimated on basis of balance of payments data.
- d/ Adjusted to include in 1960 and exclude in 1961 receipts from the United States of \$367 million in connexion with a single private transaction which is included in United States data for 1960.
- e/ Excluding private direct investment capital flows; loan repayments received and other inflows of private long-term capital are incompletely covered.
- f/ Net flows to or from under-developed countries include unallocated items; data on transactions with international institutions cannot be identified in source.
- g/ Adjusted to include estimate of reinvested earnings of Canadian subsidiaries of foreign companies.
- h/ Private capital component in 1960 data represents transactions of the 1960/61 fiscal year; private capital component in 1961 data is partially estimated. Excluding net deliveries to the Soviet Union in connexion with the State aty, which amounted to \$31 million in 1960 and \$23 million in 1961.

12. The transactions of all developed countries with the centrally planned economies were characterized by some advance in the net outflow of long-term funds. Net loans and grants by the United States increased moderately while the Western European countries as a group recorded a reduction in net receipts chiefly from credit repayments by the various Eastern European countries.

13. The rise in the net flow of funds to the under-developed countries reflected increases in official donations and in new lending and investment, as well as a slight decline in repayments received from them. Data on gross and net flows of long-term capital from some of the major capital-exporting countries, which are shown in table 4 indicate a rise in the ratio of net to gross outflows to under-developed countries. These data may not be entirely representative of all transactions with under-developed countries, as they do not include flows from Belgium, where capital repatriation was substantial in 1961, nor those from France. But the experience of the other capital-exporting countries was sufficiently consistent to be indicative of the prevailing pattern in 1960-1961. The ratio of net to gross outflows increased in the case of the Netherlands, the United Kingdom and the United States. In the case of the Federal Republic of Germany, the ratio declined as a result of a sharp rise in repayments of private capital, while the ratio for official capital remained unchanged. The rise in the ratio of net to gross outflows applied to both official and private capital flows, though there were some inter-country variations in this respect. Perhaps a more significant fact than these short-run changes in ratios, which is revealed by the data on table 4, is the difference between the ratios for official and private capital respectively. It appears that gross inflows have tended to absorb a higher proportion of new outflows of official funds than of private capital. This probably reflects the fact that contractual obligations relating to official loans involve a steady flow of repayments, while flows of private capital to the extent that they take the form of direct investment do not give rise to such repayments.

14. It has been pointed out that contributions by the developed countries to multilateral agencies rose substantially during the period under review. To the

Table 4. Selected capital-exporting countries: Gross^{a/} and net outflows of long-term capital to under-developed countries, 1960 and 1961

Country and year	Total capital			Official capital			Private capital		
	Gross flow (millions of dollars)	Net flow as percentage of gross flow	Net flow as percentage of gross flow	Gross flow (millions of dollars)	Net flow as percentage of gross flow	Net flow as percentage of gross flow	Gross flow (millions of dollars)	Net flow as percentage of gross flow	Net flow as percentage of gross flow
<u>Germany (Federal Republic)</u>									
1960	-247	75	75	-155	-122	79	-92	-63	68
1961	-371	65	65	-271	-213	79	-100	-27	27
<u>Netherlands</u>									
1960	-72	42	42	-5	1	...	-67	-31	46
1961	-91	70	70	-5	1	...	-86	-65	76
<u>United Kingdom</u>									
1960	-597	81	81	-190	-161	85	-407	-325	80
1961	-687	87	87	-237	-209	88	-450	-391	87
<u>United States</u>									
1960	-2,459	82	82	-1,375	-1,071	78	-1,084	-941	87
1961	-2,914	86	86	-1,744	-1,422	82	-1,170	-1,075	92
<u>Total, above countries</u>									
1960	-3,375	80	80	-1,725	-1,353	78	-1,650	-1,360	82
1961	-4,063	84	84	-2,257	-1,843	82	-1,806	-1,558	86

Source: See table 3.

a/ The quality of data on gross flows varies considerably as between the countries included in this table. Gross outflows include loan disbursements, private direct investment by the countries listed and repayments of capital made by them. While data on gross outflows of official capital generally conform to this definition, those on gross outflows of private capital also include some transactions reported only on a net basis. Minus sign indicates gross or net outflow of funds; no sign indicates net inflow.

extent that such contributions were in the nature of capital subscriptions to newly established multilateral lending agencies, they represent non-recurrent transactions, which will benefit the under-developed countries in future years as additional loans are made rather than at the time the funds were transferred by the developed countries. Moreover, while new agencies were established or started operations, the gross flow of loans from the International Bank for Reconstruction and Development tapered off. At the same time, receipts on account of repayments of earlier loans rose sharply. Consequently, the net disbursements to the under-developed countries declined from 1959 to 1961 as table 5 shows.

15. The recent advances in the net flow of long-term capital and official donations from the developed capital-exporting countries proceeded at a rate well in excess of that of the combined domestic product and domestic fixed capital formation of the countries concerned. This was notably the case in 1961, when growth rates in western Europe slackened to some extent and gross output in the United States recorded, on the average, only a small advance owing to the recession. Thus, the net outflow from capital-exporting countries as a group rose from somewhat more than 1.1 per cent of their combined gross domestic product in 1960 to 1.2 per cent in 1961 (see table 6). In relation to gross domestic fixed capital formation the total net outflow rose from 5.9 to 6.5 per cent. In the developed capital-importing countries the contribution of foreign capital to total resources and to investment declined appreciably. In 1960 net capital receipts were equivalent to about 1.7 per cent of their combined gross domestic product and to 7.3 per cent of domestic capital formation. In 1961 the inflow of such funds declined to the equivalent of 1.5 per cent of the group's total domestic product and to 6.6 per cent of its gross capital formation.

16. The expansion between 1960 and 1961 of the net flow from all developed countries to the rest of the world raised the share of their combined product which they devoted to this purpose in a single year by one-tenth of one per cent, from 0.7 per cent to 0.8 per cent. Part of this increase went to international institutions but the bulk of it appears to have represented transfers to the under-developed countries. Thus, by 1961, net flows to under-developed countries were equivalent to 0.72 per cent of the combined gross domestic product of the

Table 5. International Bank for Reconstruction and Development: Gross and net loan disbursements to under-developed countries, 1959-1961
(Millions of dollars)

Region and year	Gross disbursements	Repayments	Net disbursements	
			Total	Percentage of gross disbursements
<u>Africa</u>				
1959	112	18	94	84
1960	109	23	86	79
1961	60	48	12	20
Total, excluding South Africa				
1959	79	6	73	92
1960	105	7	98	93
1961	60	18	42	70
<u>Latin America</u>				
1959	69	35	34	49
1960	67	34	33	49
1961	96	42	54	56
<u>Middle East</u>				
1959	17	12	5	29
1960	59	24	35	59
1961	46	29	17	37
<u>South-East Asia</u>				
1959	147	17	130	88
1960	110	25	85	77
1961	112	36	76	68
<u>All under-developed countries</u>				
1959	345	82	263	76
1960	345	106	239	69
1961	314	155	159	51

Source: International Monetary Fund, International Financial Statistics (Washington, D.C.).

Table 6. Developed countries: Net international flows^{a/} of long-term capital and official donations in relation to selected variables, 1960 and 1961

Item	Net long-term capital and official donations as a percentage of:			
	Gross domestic product		Gross domestic capital formation	
	1960	1961	1960	1961
Developed capital-exporting countries ..	-1.1	-1.2	-5.9	-6.5
Developed capital-importing countries ..	1.7	1.5	7.3	6.6
Net flow from developing countries:				
Total	-0.7	-0.8	-3.6	-4.2
To international institutions	-0.06	-0.07	-0.31	-0.38
To rest of the world	-0.62	-0.72	-3.33	-3.83
Official capital and donations	-0.48	-0.60	-2.52	-3.23
Private capital	-0.15	-0.11	-0.81	-0.50

Source: Bureau of General Economic Research and Policies of the United Nations Secretariat, based on data from tables 1 and 3, and from Statistical Office of the United Nations, Yearbook of National Accounts Statistics.

a/ No sign indicates net inflow of funds; minus sign indicates net outflow.

developed countries, compared to an average of less than 0.6 per cent for the years 1956-1959.^{5/} The rise from 1960 to 1961 was fully accounted for by the net outflow of official capital and donations to the rest of the world while the proportion of resources absorbed by net private capital transfers declined substantially.

^{5/} United Nations, International Flow of Long-term Capital and Official Donations 1951-1959 (Sales No. 62.II.D.1).

Chapter 2

THE FLOW OF FUNDS TO UNDER-DEVELOPED COUNTRIES

17. At the time of writing of this report, data on the net international flow of long-term capital and official donations to the under-developed countries were generally available only up to 1960. The recorded net inflow into the under-developed countries for which comparable data are available increased from somewhat less than \$4.7 billion in 1959 to over \$5 billion in 1960, or by about 8 per cent (see table 7). After allowing, however, for the rise in the prices of internationally traded manufactured goods by nearly 3 per cent during the same period, the increase in real terms amounts to only 5 per cent.

18. The estimate of \$5 billion does not, of course, provide a full indication of the public and private funds received by the under-developed countries. This estimate, for example, does not include data for such countries as the Congo (Leopoldville), Cuba, Liberia and Saudi Arabia since, as is evident from table 7, the balance of payments returns of these countries did not, at the time of writing, extend beyond 1959.^{6/} And for a number of other countries, the estimates cover only official bilateral assistance provided by the developed private enterprise economies and multilateral assistance provided through international financial organizations. Such bilateral and multilateral assistance, moreover, does not include loans with a schedule of repayments of less than five years. Also, the records of several countries do not cover reinvested earnings of private capital. If rough adjustments for these omissions are included and if, in addition, allowance is made for the net flow of capital and official donations received by the under-developed countries from the centrally planned economies and international agencies in 1960, these data would appear not to be inconsistent with the estimate of \$6 billion, shown earlier as the net outflow from the developed to the under-developed countries.

6/ A comparison of data for 1959-1960 with those shown for earlier periods in International Flow of Long-term Capital and Official Donations, 1951-1959 is thus affected not only by the revisions in the classification of flows noted in foot-note 2, page 2, but to some extent also by differences in the country coverage.

Table 7. Under-developed Countries: Net international flows of long-term capital and official donations by country, 1959 and 1960 a,b/
(Millions of dollars)

Country	Total		Official donations		Total		Long-term capital			
			1959	1960	1959	1960	Official		Private	
	1959	1960	1959	1960	1959	1960	1959	1960	1959	1960
<u>Africa</u>										
Congo (Leopoldville) . .	-28	...	10	...	-38	...	51	...	-89	...
Ethiopia	26	27	19	8	7	19	5	9	1	10
Ghana	29	84	1	1	28	83	37	78	-9	5
Liberia	14	...	-	...	14	...	6	...	9	...
Libya	42	38	41	39	1	1	-1	4	-	-5
Morocco	45	59	8	18	36	41	32	40	4	1
Rhodesia and Nyasaland .	90	35	1	2	89	33	29	11	61	22
South Africa	35	-210	27	25	8	-235	36	-31	-28	-204
Sudan	36	44	9	20	27	23	27	21	-	2
Tunisia	33	59	32	45	1	15	-	-1	1	15
Other c/	(693)	(734)	(637)	(610)	(56)	(125)	(56)	(125)	(-)	(-)
Total, excluding Congo (Leopoldville) and Liberia	1,029	870	775	768	254	102	224	256	30	-154

(Table continued on following page)

Table 7 (continued)

Country	Long-term capital					
	Official donations		Total		Official	
	1959	1960	1959	1960	1959	1960
Latin America						
Argentina	110	403	1	1	14	8
Bolivia	39	31	13	-1	-6	-1
Brazil	274	135	5	8	-42	-8
Chile	51	67	26	33	-29	-11
Colombia	-2	33	2	5	-9	-13
Costa Rica	15	5	6	3	1	1
Cuba	-9	...	-	...	-87	...
Dominican Republic	7	-5	-	-	-	-
Ecuador	18	27	5	6	-	10
El Salvador	-4	5	-	1	-2	-1
Guatemala	32	31	11	15	-1	-
Haiti	13	11	11	6	1	1
Honduras	5	-2	3	3	5	2
Mexico	121	125	-1	-2	8	145
Nicaragua	4	3	3	3	-	-1
Panama	24	44	8	8	1	6
Paraguay	9	10	2	3	1	1
Peru	51	-3	3	3	-19	-14
Puerto Rico	277	297	100	102	53	84
Surinam	19	17	3	3	4	4
Uruguay	19	18	2	1	11	15
Venezuela	-247	-96	-	-	-291	53
Total, excluding Cuba	832	1,157	212	215	-300	280
Cuba					920	663

(Table continued on following page)

Table 7 (continued)

Country	Total		Official donations		Long-term capital			
					Total		Official	
	1959	1960	1959	1960	1959	1960	1959	1960
Middle East								
Iran	63	45	43	33	21	12	25	2
Iraq	12	-2	-4	-5	15	3	-5	-12
Israel	167	206	76	90	91	117	50	51
Jordan <u>d/</u>	74	76	72	73	2	3	1	1
Saudi Arabia	9	...	28	...	-19	...	-7	...
Syria <u>d/</u>	29	33	26	35	3	-1	-	2
Turkey	186	122	88	77	98	45	85	30
United Arab Republic	45	49	5	-1	40	50	115	18
Other <u>c/</u>	(22)	(18)	(20)	(14)	(2)	(4)	(2)	(4)
Total, excluding Saudi Arabia . . .	597	547	326	315	271	232	273	96
South-East Asia								
Burma	41	20	20	22	21	-2	17	-3
Ceylon	27	14	9	11	18	3	20	3
China (Taiwan) . . .	81	121	66	83	15	39	9	13
Federation of Malaya and Singapore . . .	45	55	13	5	32	50	13	4
India	438	504	67	69	371	435	389	440
Indonesia	140	161	17	37	123	124	122	104
Pakistan	184	249	100	134	84	115	76	90
Philippines	131	132	50	60	82	72	18	-7
Republic of Korea . .	215	246	227	256	-13	-10	-13	-13
Republic of Viet-Nam	180	190	169	185	11	6	11	3
Thailand	61	46	40	32	21	14	1	-6
Total	1,542	1,738	779	893	764	846	663	628
							101	218

(Table continued on following page)

Table 7 (continued)

Country	Total		Official donations		Long-term capital			
	Total		Official donations		Total		Official	
	1959	1960	1959	1960	1959	1960	1959	1960
Other								
Greece d/	104	93	39	29	65	65	22	25
Iceland	6	11	-	-	5	11	4	5
Ireland	19	10	-	-	19	10	-14	13
Portugal	3	4	-	-	3	4	1	-
Spain	128	155	33	33	95	123	53	17
United Kingdom Colonial Territories	403	459	109	118	294	342	56	104
Total	663	734	182	179	480	555	122	164
Grand total, excluding Congo (Leopoldville), Cuba, Liberia and Saudi Arabia	4,663	5,045	2,273	2,369	2,390	2,676	981	1,422
								1,408 1,254

Source: Bureau of General Economic Research and Policies of the United Nations Secretariat, based on data from United Nations, Statistical Yearbook, 1961 (Sales No.: 62.XVII.1), and International Economic Assistance to the Less Developed Countries (Sales No.: 61.II.B.2) and from International Monetary Fund, Balance of Payments Yearbook (Washington, D.C.).

a/ See foot-note a/ to table 1.

b/ Data for Haiti refer to fiscal years ending in September; for Iran and Puerto Rico, they refer to fiscal years beginning in March and July, respectively.

c/ Includes only bilateral assistance from the developed private enterprise countries and multilateral assistance through international organizations.

d/ Including short-term capital.

19. The bulk of the increased flow of funds received by the under-developed countries in 1960 originated as bilateral assistance from the developed countries. There were, however, several significant developments concerning multilateral assistance which may well lead to a greater quantitative impact in the years to come. For example, a new affiliate of the International Bank for Reconstruction and Development (IBRD), the International Development Association, was set up to provide loans on liberal terms of repayment. Further, the International Finance Corporation, another affiliate of the IBRD, whose object is to invest in private enterprises with private capital and management but without any governmental guarantee, increased its disbursements to the under-developed countries by two-thirds between 1959 and 1960.^{7/} The United Nations Special Fund, established to assist in pre-investment activity also made its initial allocation of funds in 1960.^{8/}

20. Of the components of foreign funds received by the under-developed countries, the largest, absolute as well as proportional, increase was shown in the net flow of official capital,^{9/} which increased its share in total receipts as table 8 shows. A major gain was notably recorded by Latin America,

^{7/} International Monetary Fund, International Financial Statistics, April 1962.

^{8/} For a brief review of the impact of existing international institutions in fulfilling the external financial needs of the under-developed countries, see United Nations, The Capital Development Needs of the Less Developed Countries (United Nations publication, Sales No.: 62.II.D.3).

^{9/} The fact that recipient under-developed countries recorded a shift in the composition of inflows towards official capital in 1960, when the pattern of net outflows from developed countries to the rest of the world changed in favour of private capital, as noted in chapter 1, can be explained by several factors. These include differences in the attribution of flows by sectors, where transactions occurred between the private sector of developed countries and the official sector of under-developed countries; incomplete coverage of private flows into the under-developed countries, and the inclusion in the flows into under-developed countries of receipts of official capital from multilateral lending agencies and centrally planned economies. Time lags in the recording of transactions by capital exporting and recipient countries respectively may also occasionally account for inconsistencies.

Table 8. Under-developed Countries:^{a/} Percentage distribution of net inflows of long-term capital and official donations by type and by recipient region, 1959 and 1960

Region	1959				1960			
	Total	Official donations	Official capital	Private capital	Total	Official donations	Official capital	Private capital
<u>Distribution by type</u>								
Africa	100	75	22	3	100	88	29	-18
Latin America. .	100	25	-36	111	100	18	24	57
Middle East . .	100	54	46	-	100	58	17	25
South-East Asia	100	50	43	6	100	51	36	12
Other	100	27	18	54	100	24	22	53
Total, under-developed countries . . .	100	49	21	30	100	47	28	25
<u>Distribution by region</u>								
Africa	22	34	23	2	17	32	18	-12
Latin America .	18	9	-31	65	23	9	20	53
Middle East . .	13	14	28	-	11	13	7	11
South-East Asia	33	34	67	7	34	38	44	17
Other	14	8	12	25	14	8	12	31
Total, under-developed countries . . .	100	100	100	100	100	100	100	100

Source: Table 7.

^{a/} For country coverage, see table 7.

where the net outflow in 1959 gave place to net inflow in 1960. This large increase was compounded in the main of an expansion in the official loans received by Mexico, a shift in the position of Venezuela to net recipient of loans, and reductions in the net outflow of official capital from several other countries in the area. African countries, and the group consisting of the under-developed countries in Europe and the United Kingdom Colonial Territories also received a larger amount of official loans in 1960. On the other hand, the net flow of official loans to the Middle East contracted sharply, and that to South-East Asia recorded some decline.

21. The net flow of official donations increased in the aggregate by about \$100 million between 1959 and 1960, compared with a decline in the preceding year. By far the largest increase occurred in South-East Asia, particularly in China (Taiwan), Pakistan, the Republic of Korea and the Republic of Viet-Nam.

22. The recorded inflow of long-term capital into the private sector (excluding banks) declined to some extent. It should, however, be noted that the coverage of flows in this sector is less complete than that of official flows. Moreover, the decline was largely confined to two countries, South Africa and Venezuela, which recorded large increases in the outflow of private capital. All other under-developed countries taken together experienced a substantial increase in the net inflow of private long-term capital, which amounted in the aggregate to over \$350 million. The large changes in the case of South Africa and Venezuela affected the totals for their respective areas. In the case of Africa there was a shift from the inflow of private long-term funds in 1959 to net outflow in 1960, while in the case of Latin America the net inflow declined from 1959 to 1960. In the Middle East a small net outflow in 1959 was replaced in 1960 by a substantial net inflow. The net flow of private capital into South-East Asia more than doubled and substantial increases were recorded in some of the under-developed countries in Western Europe.

23. In 1960, by and large, official donations continued to figure prominently in the flow of funds received by Africa, the Middle East and South-East Asia. A significant part was also played by official loans, particularly in South-East Asia. In Latin America, in marked contrast, private capital continued to constitute more than half of the net flow of foreign funds.

24. Though the trends in individual components differed among countries, the total flow of foreign funds increased in most cases. It is true that as a region Africa appears to have received a substantially smaller aggregate flow and hence a smaller share of the total inflow into under-developed countries in 1960 than in the preceding year. But even in this case, if South Africa - where international financial transactions in 1960 were profoundly influenced by the establishment of the Republic outside the British Commonwealth of Nations - were excluded, the net flow to the region would appear to have risen. It should also be mentioned that the data for a number of territories in Africa which have not yet attained self-government are not available separately and cannot therefore be included in the African total; they are instead included along with the sums for other territories in the group of other countries. The coverage for Africa, thus, is not as complete or as precise as, say, for Latin America.

25. The distribution of net flows of long-term capital and official donations according to source, shown in table 9, reflects the importance of the United States as a source of economic and private investment funds. In 1960 that country accounted for over two-thirds of the total capital and donations received by thirty-five under-developed countries for which such data are available. The share of the United States was largest in the case of official donations and of private capital. The contribution of the Western European countries amounted to 18 per cent of the total net inflow into under-developed countries. The centrally planned economies supplied 4 per cent of the total net receipts of long-term funds reported by the thirty-five countries included in the table; for official capital alone their share constituted 12 per cent.

26. The orientation towards the United States as a source of foreign funds was greatest in Latin America and South-East Asia. Western Europe predominated in the supply of capital and official donations to Africa, and it also accounted for a relatively large share of the net flow of funds into the Middle-Eastern countries.

27. While the share of international institutions in the total flow of funds into the under-developed countries was only 5 per cent, their contribution to the flow of official capital at 18 per cent was almost as large as that of Western Europe, which amounted to 20 per cent. Africa, Latin America and the Middle East in particular obtained a relatively high proportion of official loans from international agencies. In the under-developed countries of Western Europe

Table 9. Under-developed Countries: Percentage distribution^{a/} of net inflows of long-term capital and official donations, by source, 1960

Region and type of inflow	Source of inflow				Centrally planned economies
	World	United States	Western Europe	International institutions	
<u>Africa b/</u>					
Official donations	100	61	34	2	1
Official capital	100	14	53	26	-2
Private capital	100	-	39	16	3
Total	100	17	46	19	-
<u>Latin America c/</u>					
Official donations	100	84	2	3	-
Official capital	-100	-69	-53	37	-23
Private capital	100	83	12	1	-1
Total	100	85	10	3	-1
<u>Middle East d/</u>					
Official donations	100	47	48	4	3
Official capital	100	55	10	33	-
Private capital	100	56	7	6	-
Total	100	50	32	13	-
<u>South-East Asia e/</u>					
Official donations	100	88	1	-3	6
Official capital	100	60	7	-6	37
Private capital	100	37	31	-	1
Total	100	77	5	-1	12
<u>Other countries f/</u>					
Official donations	100	100	-	-	-
Official capital	100	93	244	-170	-7
Private capital	100	89	34	-	-
Total	100	95	33	-14	-1
Total, above countries . .	100	68	18	5	4
Official donations	100	73	18	1	3
Official capital	100	51	20	18	12
Private capital	100	68	16	2	-

Source: See table 3.

- a/ Totals include unallocated flows and transactions with other under-developed countries. Percentage shares shown therefore do not add to 100 per cent. No sign indicates net inflow of funds; minus sign indicates net outflow.
- b/ Ethiopia, Ghana, Nigeria, Rhodesia and Nyasaland, Somalia and Sudan.
- c/ Argentina, Bolivia, Brazil, Costa Rica, Ecuador, El Salvador, Guatemala, Mexico, Nicaragua, Panama, Puerto Rico and Surinam.
- d/ Iran, Israel, Jordan and Turkey.
- e/ Burma, Ceylon, China (Taiwan), Federation of Malaya, Indonesia, Philippines, Republic of Korea, Republic of Viet-Nam and Thailand.
- f/ Greece, Iceland, Ireland and Portugal.

as well as of South-East Asia, on the other hand, loan repayments together with contributions to international institutions exceeded gross receipts from them.

28. The centrally planned economies accounted for 12 per cent of the total net inflow into South-East Asian countries, and their share in net official loans to countries in that area amounted to as much as 37 per cent. They also contributed 6 per cent of all official donations to South East Asia. In Latin America and in the under-developed countries of Western Europe loan repayments to the centrally-planned economies appear to have exceeded new capital receipts.

29. The share of the net inflow of capital and official donations in the total supply of foreign exchange increased relatively little in 1960 (see table 10), particularly since export earnings, the largest contributor to the supply of foreign exchange of the under-developed countries, also rose moderately in 1960. The increase in the share in South-East Asia was as much a result of the decline in export earnings as of the expansion in the net flow of foreign funds. In Latin America, the rise in the share was likewise partly attributable to the fact that export earnings rose more slowly than the average for all under-developed countries. The sharp decline in the share of foreign capital and official donations in the total supply of foreign exchange in Africa reflects the large net outflow of funds from South Africa.

30. The burden of foreign indebtedness on the total supply of foreign exchange increased to some extent. As is evident from table 11 the net interest and dividend payments by those under-developed countries for which such data are available amounted to 10.7 per cent of their total supply of foreign exchange in 1960. The under-developed countries of Western Europe have remained on balance net recipients of interest and dividends from abroad, while the level of such payments by South-East Asia, despite some increase in recent years has been comparatively low.

Table 10. Under-developed Countries: Percentage share of net inflow of capital and official donations in total supply a/ of foreign exchange, 1959 and 1960

Region	1959	1960
Africa <u>b/</u>	9.6	4.0
Latin America <u>c/</u>	10.8	13.9
Middle East	17.4	18.0
South-East Asia	22.5	26.1
Other <u>d/</u>	14.5	14.1
Total	15.6	16.2

Source: Bureau of General Economic Research and Policies of the United Nations Secretariat.

a/ No sign indicates net inflow of funds; minus sign indicates net outflow. Total supply of foreign exchange refers to the algebraic sum of merchandise exports, net services, net private and official donations and net private and official capital; it does not include changes in reserves or transactions with the International Monetary Fund. For differences in time period and concepts, see foot-notes to table 2.

b/ Excluding Congo (Leopoldville) and Liberia.

c/ Excluding Cuba.

d/ Including Greece, Iceland, Ireland, Portugal, Spain and United Kingdom Colonial Territories.

Table 11. Net interest and dividend payments as percentage of total supply of foreign exchange, a/ 1959 and 1960

Region	1959	1960
Africa <u>b/</u>	9.5	11.0
Latin America <u>c/</u>	15.2	15.6
Middle East <u>d/</u>	21.4	22.7
South-East Asia	3.8	4.8
Other <u>e/</u>	-1.1	-1.0
Total	10.1	10.7

Source: Bureau of General Economic Research and Policies of the United Nations Secretariat.

a/ See foot-note a/, table 10.

b/ Excluding Congo (Leopoldville), Liberia and Libya.

c/ Excluding Cuba.

d/ Excluding Syria.

e/ Including Greece, Iceland, Ireland, Portugal and Spain. This group recorded net receipts of interest and dividends.

Chapter 3

INTERNATIONAL ECONOMIC ASSISTANCE BY CENTRALLY PLANNED ECONOMIES

31. Data available for the centrally planned economies refer to new commitments which are generally utilized over a number of years; they do not therefore provide an indication of either the changes in annual flows of economic assistance from these countries or of repayments on past credits. Furthermore, owing to the incompleteness of the data, the totals of aid actually extended may differ substantially from those which can be accounted for on the basis of specific information on credits and grants provided to individual countries. In consequence, the data in tables 12 and 13, which relate only to amounts of aid granted under agreements known to have been concluded, should be considered as no more than broad approximations of actual commitments.^{10/}

32. The available information presented in table 12 indicates that in each of the years 1959 and 1960 the sum of recorded credit and grant commitments of the centrally planned economies to under-developed countries outside the group came close to the cumulative total of such commitments for the years preceding 1959. In 1961 new commitments declined^{11/} owing to a reduction of new aid commitments by the USSR.^{12/} At the same time, commitments for economic assistance from Mainland China continued to rise in 1961 despite the economic difficulties besetting that country. In addition, Bulgaria and Romania, which had not been major sources of assistance to under-developed countries outside the group in the past, made substantial credit commitments in 1961.

^{10/} The following studies provide a review of international economic assistance by centrally planned economies from the end of the war through 1960; World Economic Survey 1960 (Sales No.: 61.II.C.1) chapter 3, and International Flow of Long-term Capital and Official Donations 1951-1959 (Sales No.: 62.II.D.1) page 33 and following.

^{11/} It should be noted, however, that in some cases the available information was not sufficient to determine the year during which a given loan was granted.

^{12/} The share of the USSR in the total commitments of the centrally planned economies to the under-developed countries appears to have fallen from 87 per cent in 1957 to 60 per cent in 1960, and to only 33 per cent in 1961.

Table 12. Centrally planned economies: Commitments of bilateral economic assistance to under-developed countries a/
(Millions of dollars) b/

Country	Total before 1959 ^{c/}	1959	1960	1961
By donor:				
Bulgaria	-	-	1	10
China (mainland)	113	30	106	158
Czechoslovakia	146	76	151	146
Eastern Germany	29	60	22	56
Hungary	-	-	46	111
Poland	39	6	72	78
Romania	11	-	-	65
Union of Soviet Socialist Republics	1,061	907	680	304
Yugoslavia	10	67	58	5
Total, all donor countries	1,409	1,146	1,136	933
By recipient:				
<u>Africa</u>				
Ethiopia	2	125	2	-
Ghana	-	-	40	106
Guinea	-	41	30	15
Liberia	-	-	3	-
Mali	-	-	-	55
Morocco	-	-	5	-
Somalia	-	-	-	82
Sudan	-	15	-	22
Tunisia	-	-	15	39
Total	2	181	95	319
<u>Latin America</u>				
Argentina	106	6	-	-
Brazil	2	8	-	200
Cuba	-	-	216	30 ^{c/}
Total	108	14	216	230
<u>Middle East</u>				
Iraq	-	138	79	-
United Arab Republic	333	160	298	6
Syria	179	12	22	-
Yemen	57	-	-	-
Total	569	310	399	6
<u>South-East Asia</u>				
Afghanistan	125	-	22	-
Burma	26	-	-	86
Cambodia	30	-	-	11
Ceylon	59	15	17	-
India	291	468	69	143
Indonesia	186	152	297	108
Nepal	13	7	21	-
Pakistan	-	-	-	30
Total	730	642	426	378
Total, all recipient countries	1,409	1,146	1,136	933

(Source and foot-notes to table 12)

Source: Bureau of General Economic Research and Policies, based upon data from Vneshnyaya Torgovlya, Nos. 3, 4, 6-10, 1961 (Moscow); from Dengi i Kredit, No. 6, 1962 (Moscow); and from other official and unofficial sources.

- a/ The data in this table and in table 13 are rough estimates based upon incomplete information. The figures for individual donor and recipient countries refer only to the amounts of credits and grants reported in special announcements; they may therefore differ from data relating to total aid extended to, or received by, each country from other centrally planned economies. They differ to some extent from those shown in tables 16 and 17 of International Flow of Long-term Capital and Official Donations, 1951-1959. Data for the years up to 1960 were revised in the light of additional and more precise information that has become available since the publication of the earlier report. Such additional information relates to both the total volume of commitments by each donor country and to the dates at which individual agreements were concluded. Thus, in some instances commitments attributed to one year in the earlier report are now included in the totals for the preceding or subsequent year.
- b/ National currencies converted into dollars at official rates of exchange.
- c/ Cumulative total since the end of the Second World War, excluding credits and grants extended but known to have been subsequently cancelled or allowed to expire.

Table 13. Centrally planned economies: Gross commitments of assistance granted and received, 1958-1961 ^{a/}
(Millions of dollars) ^{b/}

Country	1958	1959	1960	1961
By donor:				
China (Mainland)	50	116	155	282
Czechoslovakia	115	75	...	133
Eastern Germany	10	...	...	64
Union of Soviet Socialist Republics	399 ^{c/}	142	517	175 ^{d/}
Others .....	...	5	...	69
Total, donor countries	574	338	672	723
By recipient:				
<u>Eastern Europe</u>				
Albania	52 ^{c/}	89	...	129
Bulgaria	44	15	163	...
Czechoslovakia .....	...	...	...	...
Eastern Germany	262	...	...	...
Hungary	36	...	...	...
Poland	62	...	...	189
Romania	68	60	...	...
<u>Other</u>				
China (Mainland) .....	...	...	...	40
Mongolian People's Republic, North Viet-Nam, North Korea	50	174	509	365
Total, recipient countries	574	338	672	723

Source: See table 12; Vneshnyaya Torgovlya, No. 3, 1962 (Moscow); and Dengi i Kredit, No. 9, 1961 (Moscow).

- ^{a/} See footnote a to table 12. Credits granted to and received from Yugoslavia and credits received from developed private enterprise economies are excluded from all totals. So far as is known, credits received by Yugoslavia from the developed private enterprise economies amounted to \$169 million in 1961; and credits received by Poland from the United States amounted to \$100 million in 1958, \$62 million in 1959, \$171 million in 1960 and \$60.4 million in 1961.
- ^{b/} National currencies converted into dollars at official rates of exchange.
- ^{c/} Excluding \$75 million loan to Albania under an agreement which is reported to have been suspended in 1960.
- ^{d/} Credit granted by the Soviet Union to Eastern Germany not included. The amount of this credit has not been officially stated.

33. There were several significant changes in the distribution of economic assistance to under-developed countries. While total aid commitments to Africa and Latin America increased, notably as a result of agreements with Ghana, Mali and Somalia, and of large credits granted to Brazil, new commitments to the Middle East seem to have been almost insignificant in 1961. The amount of long-term credits and grants extended to South East Asia was also lower than in the preceding year, although Burma and Pakistan were added to the countries receiving aid.

34. By the end of 1961, the cumulative total of economic assistance granted to the under-developed countries, covered in table 12, amounted to about \$4.6 billion of which the USSR had contributed close to \$3 billion. The bulk of this aid was in the form of credits. Only around 4 per cent of the total consisted of grants.^{13/} Credits, as a rule, were granted at an interest rate of 2.5 per cent and were repayable over eight to twelve years. In most cases the debtor country was entitled to repay the loans by means of shipments of its usual export products. In general, credits took the form of materials needed for specific undertakings, which have varied widely in character. Thus, among the projects receiving assistance were such undertakings as the Bhilai metallurgical factory and oil fields at Ankleshwar in India, Aswan High Dam in the United Arab Republic, broadcasting stations in Iraq and Guinea, a technological institute and a hospital in Burma, the establishment of sugar and textile plants in several countries, as well as road building and irrigation projects.^{14/} In addition to providing financial aid the centrally planned economies have contributed technical and training assistance in the establishment of technical institutes, schools, and other educational centres.

^{13/} This figure may understate, however, the relative importance of grants as in some cases it was not possible to derive a value estimate of grants given in kind.

^{14/} According to the reply of the Government of the Soviet Union to the special questionnaire, prepared jointly by the United Nations Secretariat and the International Monetary Fund, over 30 per cent of Soviet economic aid to under-developed countries relates to the development of ferrous and non-ferrous metallurgy, engineering and metal working industries, and over 20 per cent to power plants and waterworks.

35. The available information on aid granted by the centrally planned economies to each other is presented in table 13. According to these data intra-group credits rose only slightly in 1961 but the figures do not include credits granted by the Soviet Union to Eastern Germany, the amount of which has not been officially stated.^{15/} The other Eastern European countries receiving substantial economic assistance in 1961 were Albania and Poland. The former country received a Chinese credit of \$125 million to be used for the implementation of its Third Five-Year Plan (1961-1965). Poland received credits amounting to \$125 million from Czechoslovakia for the development of the copper industry, and a credit of \$64 million from Eastern Germany toward the construction cost of a section of the oil-pipeline from the Soviet Union to Eastern Germany.^{16/}

36. The total of commitments for economic assistance to the Asian centrally planned economies, other than Mainland China, was lower in 1961 than in 1960, though still considerably higher than in any previous year. Mainland China continued to be a major source of assistance to this area, in particular by the provision of a credit of \$157 million to North Viet-Nam in connexion with its First Five-Year Plan (1961-1965). North Viet-Nam also received assistance from several Eastern European centrally planned economies, including a credit from Romania of \$37.5 million for the expansion of apatite mining and railroad transportation.^{17/} The Mongolian People's Republic received a credit commitment of \$135 million from the Soviet Union at the initiation of its Third Five-Year Plan (1961-1965); this was additional to the credit of \$154 million which it obtained in 1960.

^{15/} According to some unconfirmed information this credit which is to be utilized during 1961-1965, amounted to DM 2 billion.

^{16/} It should be added that an agreement covering one of the largest single credits granted by the Soviet Union in recent years was signed with Bulgaria on 31 December 1960. This agreement provides for the financing of shipments to Bulgaria of equipment and installations for a metallurgical complex and a power plant to be constructed with Soviet technical assistance.

^{17/} According to *Dengi i Kredit*, No. 9, 1961 (Moscow), credit commitments extended to North Viet-Nam by all centrally planned economies in the beginning of 1961 amounted to \$327 million. The sum of exported credits for the individual lending countries amounts to \$220 million. It is not clear whether the difference of \$107 million represents a Soviet loan additional to the \$200 million extended in 1960.

37. Mainland China continued to be a net lender in 1961. The only assistance obtained by this country seems to have been a loan of 500,000 tons of sugar from the Soviet Union which is to be repaid in kind without interest in the period 1964-1967.^{18/} In addition, an agreement was signed with the Soviet Union in April 1961, providing for the repayment by China of its previously accumulated debt, without interest, in instalments over the next five years.^{19/} The Soviet Union had previously, in October 1960, concluded an agreement with North Korea, under which the repayment of a credit of \$35 million to that country was postponed, while its accumulated debt to the Soviet Union of \$190 million was cancelled.

38. As in the preceding years, the bulk of credit commitments to other centrally planned economies was given to countries initiating new long-term plans of economic development, or to countries which had encountered difficulties in the process of fulfilment of their plans which could not be solved without external assistance. These credits were largely granted by economically stronger countries to weaker members of the group, namely, by the Soviet Union to Eastern European and Asian centrally planned economies and by Mainland China to other Asian centrally planned countries.

39. More recently, however, the direction of credit commitments and the resulting capital flow has been considerably influenced by the requirements arising from the greater specialization and co-ordination of plans of economic development. In many instances this closer integration entailed an expansion of output for export in sectors with relatively high capital-output ratios. In order to reduce the burden of such investments on the economies of the prospective exporting countries, and to spread it more evenly, the prospective importing countries participate in construction of new capacities by providing credits. Under these credit agreements the ownership of the plants remains with the country in which they are located, but the latter is committed to set aside a proportion of the output of such plants for exports to the lending country in repayment of the credits and for a specified period following the completion of repayment. Several bilateral credit agreements

^{18/} Estimated to be worth about \$40 million.

^{19/} Most of the amount probably represented refinancing of old loans, repayments of which had fallen behind schedule.

of this kind were signed during recent years by Bulgaria, Hungary, Poland, Romania, Czechoslovakia, Eastern Germany and the USSR, providing for the common financing of copper, sulphur and coal mines, electric power plants, pulp and paper factories and other projects. Significantly, arrangements of this type included credits granted by Czechoslovakia to the USSR in the form of shipments of machinery and equipment for certain ferrous and non-ferrous metallurgy plants which will export a considerable proportion of their output to Czechoslovakia.

40. A significant development which may influence the pattern of capital flows of the centrally planned economies is the emergence of direct state investment by one country in plants constructed in other countries. Thus, for instance, Poland and Hungary have organized, for the processing of mining waste in Poland, a mixed corporation which is based on equal participation of the two countries in fixed and working capital.^{20/} The agreement provides for equal sharing of profits and for exports of 50 per cent of output to Hungary.

41. The recent decisions of the Council of Mutual Economic Assistance and authoritative statements made in this connexion indicate a tendency to expand the new forms of capital flow among the centrally planned economies. The Council of Mutual Economic Assistance in its statement of basic principles of "International Socialist Division of Labour" adopted in June 1962, lists among the recommendations for securing the most rational division of labour "co-operation in the expansion of raw material producing industries particularly through financial participation of countries interested in obtaining the products of these industries". Of even greater significance in the long run may be the tendency towards multilateralization of capital flows, in the form of joint international financing

^{20/} These mixed corporations differ from those established by the USSR in some centrally planned economies during the years following the Second World War, which were dissolved in 1954-1956. In most instances the Soviet participation in the fixed capital of these corporations was based on assets owned by former enemy countries which it had appropriated after the end of the war.

of investment and of participation in the operation of industrial facilities. This form of international co-operation may be considerably enhanced by the recently expressed interest in the creation of an international credit and investment bank of centrally planned economies.^{21/}

^{21/} See N.S. Khrushchev, "Vital Question of the Development of the Socialist World System", Problems of Peace and Socialism, Vol. 5, No. 9, September 1962 (Prague).

CONCLUSION

42. Recent years have seen a number of encouraging developments in the flow of long-term funds to under-developed countries. The net flow from the developed private enterprise countries to the rest of the world, which had amounted to \$5.3 billion in 1959 rose to \$6.0 billion in 1960 and to a new peak of \$7.2 billion in 1961.

43. While the major part of this increase was accounted for by bilateral transactions with under-developed countries, some part of it represented increased contributions to international institutions - notably capital subscriptions to a number of newly-established multilateral lending agencies. These contributions will also benefit primarily the under-developed countries as the new institutions expand their lending operations in the years to come.

44. Aid commitments by the centrally planned economies were substantially higher during the years 1959 to 1961 than in the earlier post-war years. In 1961, however, the volume of new commitments declined below the 1960 level, though the flow of funds under existing agreements can be expected to remain substantial for some years to come.

45. The public sector has become increasingly important as a source of developmental funds for under-developed countries. The share of official donations, capital subscriptions and loans by official agencies in the net flows from developed private enterprise countries to the rest of the world averaged over 80 per cent during the years 1959-1961. Official donations alone accounted for well over half of the total outflow for 1959-1961, but their share has tended to decline during the three-year period in favour of that of official capital.

46. The share of private long-term capital in the net flow of funds from developed countries to the rest of the world fluctuated widely during the years 1959 to 1961, and the average share for the three years was well below that of the nineteen fifties. Private long-term lending and investment was also very unevenly distributed among the various under-developed regions and individual recipient countries. Thus, the growing importance of the public sector in developed countries as a source of developmental funds has not only had a stabilizing effect on total flows, but it has also contributed towards a lessening of inequalities in their distribution.

47. Though the available data are sufficient to support these broad conclusions, they are still far from adequate for comprehensive study. For a number of under-developed countries balance-of-payments data are incomplete or not sufficiently up-to-date to permit inclusion in the tables in the present report. Many countries report the bulk of capital transactions only on a net basis, and it is therefore impossible to show gross flows in a meaningful manner. Difficulties also arise in connexion with the terms "private" and "official". As indicated earlier, transactions are attributed to different sectors in the balance of payments statements of participating countries; totals reported by sectors in capital-exporting and -importing countries therefore do not agree.

48. Some of these difficulties cannot readily be eliminated owing to the nature of the reporting of basic data. It is, however, hoped that a special questionnaire on the flow of long-term capital and official donations which was prepared jointly by the United Nations Secretariat and the International Monetary Fund early in 1962 will result in greater uniformity in the reporting of the relevant data. Replies obtained thus far form the basis of tables 3 and 9 of this report. If this source of information is to be more extensively used in the preparation of future reports on international capital flows it is essential to obtain the widest and earliest possible response to this questionnaire, which in the future will be issued annually.

Chapter 4

NET AND GROSS FLOWS

Net long-term flow

49. The period from the end of the Second World War up to 1958 had witnessed a considerable rise in the net flow of private long-term capital from the traditional capital-exporting countries.^{22/} For the five years immediately following the War, the combined net flow from the United States, the United Kingdom, Switzerland, Belgium-Luxembourg, the Federal Republic of Germany and Sweden had amounted to only about \$1.8 billion annually.^{22a/} The pace of the net flow from these countries accelerated during the nineteen fifties, reaching a peak of around \$3.6 billion in 1958; and the annual average for the entire decade amounted to about \$2.9 billion, representing an increase of nearly two-fifths over the average for the preceding five-year period (see table 14).

50. Of the six countries, the United States was by far the most important supplier of long-term private capital. Its share in the rising total net outflow amounted to about two-thirds for the whole period. However, the direction of the net flow from the United States appears to have undergone significant changes during the years 1951 to 1959. Data on direct investment, which constituted on the average about 90 per cent of total United States private long-term investment abroad, indicate a tendency for the flows to Western Europe, Australia, Canada

^{22/} In the present section countries are classified according to their position as net exporters or net importers of private long-term capital only. It will be noted that the grouping of developed countries differs from that employed in chapter 1, which is based on the position of each country as a net exporter or net importer of long-term official and private funds taken together. The difference in the criteria of classification affects notably the position of France and the Netherlands which are net exporters of total long-term funds but net importers of private capital.

^{22a/} During this and subsequent periods up to 1959 the balance of payments data for France do not include private long-term capital flows to franc area countries. Beginning with the year 1959 rough estimates for such flows are included in the totals shown in the tables in the present chapter.

Table 14. Selected developed countries: Net outflows of private long-term capital, averages for 1946-1950 and for 1951-1959 ^{a/}

Country	Annual average		Relative share	
	1946-1950 (millions of dollars)	1951-1959	1946-1950 (percentage)	1951-1959
United States	-1,085	-2,011	59	70
United Kingdom	-600 ^{b/}	-530 ^{c/}	33	18
Switzerland	-77 ^{d/}	-197	4	7
Belgium-Luxembourg	-67 ^{e/}	-89 ^{f/}	4	3
Germany (Federal Republic) .	...	-49	...	2
Sweden . . . . .	...	-2	...	-
Total	-1,829 ^{g/}	-2,878	100 ^{g/}	100

Source: United Nations, International Flow of Private Capital, 1946-1952 (United Nations publication, Sales No.: 54.II.D.1) and International Flow of Long-term Capital and Official Donations, 1951-1959 (Sales No.: 62.II.D.1); International Monetary Fund, Balance of Payments Yearbook (Washington, D.C.); Australia, Commonwealth Bureau of Census and Statistics, Annual Bulletin of Oversea Investment: Australia, 1959-1960 (Canberra); India, Reserve Bank of India, Survey of India's Foreign Liabilities and Assets (Bombay, 1955); and A.R. Conan, Capital Imports into Sterling Countries (London, 1960).

- ^{a/} Including reported reinvested earnings.
- ^{b/} Rough estimate based upon data of recipient countries in the British Commonwealth, namely Australia, Ceylon, India, New Zealand, Pakistan, South Africa, Southern Rhodesia and Colonial Territories. Converted into dollars at pre-1949 rate of exchange.
- ^{c/} For 1951, short-term private capital included with long-term private capital.
- ^{d/} Average for 1947-1950.
- ^{e/} Average for 1947-1952.
- ^{f/} Including short-term private capital.
- ^{g/} Total for four countries only.

and New Zealand to increase at a substantially higher rate than those to the under-developed countries. Thus, while United States direct investment assets in the under-developed countries doubled during the nine-year period, assets in developed countries almost trebled.^{23/}

51. The United Kingdom was the second largest exporter of private long-term capital, contributing about one-fourth of the total net flow during the years 1946 to 1959. The funds supplied by the United Kingdom consisted largely of reinvested earnings. The sterling area countries, where United Kingdom assets were primarily located, were consequently the chief recipients. The orientation of United Kingdom investments towards the sterling area was also enhanced during the early post-war years by the effect of exchange restrictions on capital flows to non-sterling countries. According to official estimates^{24/} sterling area countries accounted for about nine-tenths of the total net flow of private long-term capital from the United Kingdom during the years 1952-1957. This concentration of net private long-term capital flows from the United Kingdom persisted also in more recent years, when the balance of such capital transactions with non-sterling countries showed consistently an excess of receipts over payments.

52. The remaining capital-exporting countries played a relatively minor role as suppliers of private long-term capital, as their combined contribution probably amounted to less than 10 per cent of the total net outflow since the end of the War. While Switzerland, like the United States, appears to have been consistently an exporter of private long-term capital during the post-war period, it should be borne in mind that the figures for net flows from Switzerland may overstate net outflows owing to the incomplete recording of the inflows into Switzerland during these years.

53. During the years 1958-1961 the net annual flow of private long-term capital from the United States, Japan and the private capital-exporting countries of Western Europe averaged \$3.3 billion. While it thus exceeded the average for the

^{23/} United States Department of Commerce, United States Business Investment in Foreign Countries, 1960 (Washington, D.C.).

^{24/} United Kingdom Treasury, Bulletin for Industry (London), August 1959.

decade of the 1950's, the flow showed substantial year-to-year fluctuations as well as a distinct tendency to decline in the course of the period. In 1959 it fell by more than 10 per cent from its 1958 peak, and although it recovered partially in 1960, a further reduction in 1961 brought it close to the annual average for 1951-1959. The decline in the flow from 1958 to 1959 was mainly the result of a reduction of 23 per cent, or about \$700 million, of the net flow from the United States, while relatively large increases were recorded by net flows from the Federal Republic of Germany and Switzerland (see table 15). The reduction in the outflow from the United States resulted partly from a decline in foreign security issues in the United States capital market, which had been unusually large in 1958 when an IBRD bond flotation took place. It also reflected a sharp rise in the inflow of foreign capital into United States corporate securities. The combined net flow from the exporters of private capital showed some recovery in 1960 and, in addition, the position of France shifted from that of net importer of private capital in 1959 to net exporter in 1960. The net flow from the United States regained in 1960 its level of 1958; at the same time, however, both the Federal Republic of Germany and the United Kingdom became net importers of long-term private capital mainly as a result of increased inflows of capital from the United States. In the case of the United Kingdom, this was partly due to special circumstances, arising from the purchase by the Ford Motor Company of the shares of its United Kingdom subsidiary in the amount of \$367 million.^{25/}

54. The preliminary data for 1961 indicate a renewed decline in the total net flow from capital-exporting countries. As compared with 1960, the flow was about 13 per cent lower and, thus, reached the lowest level for the four years under review. While the United Kingdom resumed its traditional role as an important net exporter of private long-term capital, the net flow from the United States declined sharply. The downturn in the total was accentuated by a large inflow of private capital into the Federal Republic of Germany and by a substantial repatriation of Belgian private long-term funds from abroad.

^{25/} As noted earlier (see paragraph 10) the transaction was included in the United States balance of payments in 1960, the year of its execution, while United Kingdom statistics originally included it in long-term capital flows in 1961. In order to make the data for the two partner countries consistent, United Kingdom receipts were adjusted to include the transaction in 1960 totals and exclude it from those for 1961.

Table 15. Developed countries: Net flow of private long-term capital,
by country, 1958-1961 ^{a/}
(Millions of dollars)

Country	1958	1959	1960	1961
<u>Countries exporting private capital</u>				
Belgium-Luxembourg ^{b/}	-74	-8	-54	88
Germany (Federal Republic)	-16	-226	30	203
Japan	40	-20	-83	-35
Sweden	-4	-3	-15	12
Switzerland	-26	-123	-152	-211
United Kingdom	-384	-409	90 ^{c/}	-230 ^{c/}
United States	-3,161	-2,445	-3,177	-2,739
Total	-3,625	-3,234	-3,361	-2,912
<u>Countries importing private capital</u>				
Australia ^{d/}	209	247	412	...
Austria	78	63	2	61
Canada ^{e/}	1,095	1,120	1,084	793
Denmark	14	-	51	-
Finland	15	16	37	46
France ^{f/}	151	349	-47	76
Italy	174	262	321	496
Netherlands	123	-15	95	-67
New Zealand	6	23	8	10
Norway	112	155	31	159
Total	1,977	2,220	1,994	1,862 ^{g/}
<u>Net flow to rest of the world:</u>				
In millions of dollars	-1,648	-1,014	-1,367	-1,050
As percentage of net aggregate flow from countries exporting private capital	45	31	41	36

Source: See table 1 and national sources.

^{a/} No sign indicates net inflow of funds; minus sign indicates net outflow. Data include reported reinvested earnings. The classification of countries in this table on the basis of their net position as exporters or importers of private capital differs from that in table 1 where countries are classified as exporters or importers on the basis of their net position on all transactions in long-term capital and official donations.

(Foot-notes continued on following page)

/...

(Foot-notes continued from preceding page)

- b/ Including loans floated in the Belgian capital market by the Government of the Congo (Leopoldville) and repatriation of capital from the Congo (Leopoldville). The entry for 1960 is not strictly comparable with those for earlier years as certain transactions not related to private capital flows are included in the entries for 1958-1959 but excluded in 1960.
- c/ Adjusted to include in 1960 and exclude in 1961 \$367 million, representing proceeds from the purchase in 1960 by the Ford Motor Company of shares of its United Kingdom subsidiary. This adjustment was necessary in order to render the data consistent with those for the United States.
- d/ Fiscal year beginning 1 July.
- e/ Adjusted to include estimates for reinvested earnings.
- f/ Data for 1958-1960 refer to the sum of net private long-term transactions with non-franc area countries settled through metropolitan France and, except in 1958, estimates of flows of private long-term capital from France to the overseas franc area. Total for 1961 is estimated on basis of special questionnaire.
- g/ Including estimate of net flow of private long-term capital into Australia not shown separately.

55. Except for 1961, investment of private long-term funds in developed capital-importing countries moved in the opposite direction of the flow from the United States and the exporters of private capital in Western Europe. In 1959 the flow into the importing countries increased by about \$240 million while the net outflow from the group of capital-exporters was reduced by \$400 million. In 1960, when the net outflow from the latter group recovered, the flow into the capital-importing countries declined, largely as a result of a shift in the position of France from net importer to net exporter of private long-term capital. Preliminary data for 1961 indicate a further decline which was probably much smaller than that of the combined net outflow from the capital-exporting countries. Canada, Australia, Italy and in 1958 and 1959 also France accounted for the bulk of the net inflow of the group, while the remaining six capital-importing countries included in table 15 obtained during the period as a whole only somewhat more than one-tenth of the total.

56. As a consequence, the net flow from the developed countries as a group to the rest of the world fell in 1959, recovered in 1960 and fell again in 1961. Its average level for the period 1959-1961 was below that of 1958, however. The share of the under-developed countries and international institutions in the net outflow from the capital-exporting countries averaged 36 per cent in 1959-1961 as compared with 45 per cent in 1958.

57. The under-developed countries were affected not only by the instability of the total outflow from developed countries, but also by the uneven distribution

of changes among the various recipients. Data based on inflows^{26/} into individual under-developed countries, which were shown in table 7 above, indicate significant shifts between 1958 and 1960 in the relative shares of the various geographic areas in their combined net receipts of long term private capital.

58. While the aggregate net flow into the group of under-developed countries, for which data are available - and it should be noted that the country coverage is far from complete - declined both in 1959 and 1960, net flows into some individual areas rose significantly (see table 16). This was notably the case in South-East Asia, which recorded a four-fold increase from 1958 to 1960 in the net inflow. Net inflows into the Middle East and into the group of countries composed of the under-developed countries in Western Europe and of the United Kingdom Colonial Territories also advanced from 1958 to 1960, though to a lesser extent. At the same time, the net inflow into Latin America declined, while the position of African countries as a group shifted from that of net recipient in 1958 and 1959 to that of net exporter of private capital in 1960.

^{26/} Data on net outflows from the developed countries to the rest of the world shown in table 15 are not identical with those for net inflows of private capital into under-developed countries, which are presented in table 7. Some part of the difference is accounted for by the fact that the total net outflow from developed countries includes not only flows to under-developed countries, but also flows to international institutions - notably private purchases of IBRD bonds, and some small commercial credit transactions with centrally planned economies. Net inflows into under-developed countries similarly include net capital receipts of the private sector from sources other than developed countries. Other factors which account for differences between the two sets of figures are: transactions involving the private sector in one group of countries and the public sector in the other, which would be included in private capital flows only in one group; time lags in the recording of transactions; incomplete country coverage for under-developed countries; incomplete recording of certain transactions - notably of reinvested earnings - in the statistics of under-developed countries. In addition, aggregate net flows from or into the private sector in each group of countries also include statistical discrepancies which may arise from the inconsistent recording of transactions between the members of each group.

Table 16. Under-developed countries: Net inflow of private long-term capital by region, 1958-1960

Region ^{a/}	1958	1959	1960
Index (1958 = 100)			
Africa	100	18	b/
Latin America	100	98	71
Middle East	100	-	103
South-East Asia	100	189	404
Other	100	109	119
Total	100	87	78
Percentage distribution			
Africa	10	2	-12
Latin America	58	65	53
Middle East	8	-	11
South-East Asia	3	7	17
Other	20	26	31
Total	100	100	100

Source: See table 7.

^{a/} Regional totals include only those countries for which data are available for all three years. The countries included are as follows: Africa: Ethiopia, Ghana, Libya, Morocco, Rhodesia and Nyasaland, South Africa, Sudan and Tunisia; Latin America: Argentina, Bolivia, Brazil, Chile, Colombia, Costa Rica, Dominican Republic, Ecuador, El Salvador, Guatemala, Haiti, Honduras, Mexico, Netherlands Antilles, Nicaragua, Panama, Paraguay, Peru, Puerto Rico, Surinam, Uruguay and Venezuela; Middle East: Iran, Iraq, Israel, Jordan, Syria, Turkey and United Arab Republic; South-East Asia: Burma, Ceylon, China (Taiwan), Federation of Malaya, India, Indonesia, Pakistan, the Philippines, Republic of Korea, Republic of Viet-Nam and Thailand; Other: Greece, Ireland, Iceland, Portugal, Spain, and United Kingdom Colonial Territories.

^{b/} Net outflow.

59. In South-East Asia, China (Taiwan), Indonesia, the Federation of Malaya, Pakistan and the Philippines shared in the increase of the area's net inflow, which was also enhanced by a sharp reduction in the net outflow from India; changes in the remaining countries involved only small amounts. In the Middle East, relatively large increases occurred in the net receipts of Israel and the United Arab Republic. Among the under-developed countries of Western Europe, Spain stood out as the only country which received a large absolute increase in net receipts of private long-term capital. The reduction in the flow into Latin America reflected largely a decline in the net receipts of Brazil and Peru, a large outflow of funds from Venezuela in 1960, and a shift in the balance of private capital transactions of Mexico from net receipts in 1958 and 1959 to net payments in 1960. The sharp rise in the net flow of funds into Argentina partially offset the effect of these shifts on the total for the area. The emergence of Africa as an exporter of private capital was attributable to capital repatriation from South Africa. It should, however, be added that repatriation of funds from the Congo (Leopoldville) was probably also significant in 1960, but owing to the unavailability of data for that year, that country is not included in the area totals for 1958-1960.

60. This experience was reflected in changes in the respective shares of the various under-developed regions in the combined inflow of private long-term capital.^{27/} Although Latin America remained the largest recipient, its share fell from close to two-thirds in 1959 to little more than one-half in 1960. The share of South-East Asia, on the other hand, rose from only 3 per cent in 1958 to 17 per cent in 1960, and that of the group of "other countries" from 20 per cent to over 30 per cent during the same period.

61. Of the fifty-three countries and the group of United Kingdom Colonial Territories which are included in table 16, one-sixth recorded net outflows of

^{27/} It should be noted, however, that while the country coverage for each area is identical for each year, so that year-to-year comparisons are meaningful, it is more complete in some regions than in others; consequently, the level of the shares in any one year, which is shown in table 16, may not reflect accurately the relative importance of the various regions as recipients of private capital.

private long-term capital. The proportion of countries recording such outflows was fairly stable from year to year, though the composition of the group of net exporters changed. Only two countries, India and the Netherlands Antilles, recorded net outflows in each of the three years, while twelve countries became net exporters only in a single year. Net outflows totalled some \$500 million during the three-year period 1958-1960, or less than one-tenth of the total net receipts. Moreover, a major part of the aggregate outflow was accounted for by the repatriation of funds from only two countries, South Africa and Venezuela.

62. The distribution of net inflows among individual countries was very uneven. In each of the three years, the combined net inflows of more than half of all recipient countries amounted to less than 10 per cent of total inflows, while four or five large recipients absorbed half of the total. Moreover, the flow into individual countries fluctuated widely from year to year. In 1959 over one-third of the countries which had been net recipients in 1958 recorded increases exceeding 50 per cent, while over one-fifth experienced declines of that magnitude or shifts from net inflows to net outflows. In 1960 the proportion of net recipients obtaining increases of 50 per cent or more rose, but at the same time that of countries experiencing similarly large declines or shifts to net exports of funds advanced sharply (see table 17).

Table 17. Under-developed countries: Percentage distribution of countries according to rates of change of net receipts of private long-term capital, 1958-1959 and 1959-1960

Category	1958 to 1959	1959 to 1960
<u>Increase in receipts in per cent</u>		
Less than 25	17	7
25 to 50	9	5
51 to 100	11	5
100 and more	24	37
<u>Decrease in receipts in per cent</u>		
Less than 25	9	14
26 to 50	9	5
51 to 100	13	16
<u>Change from net inflow to net outflow</u> .	9	12
Total	100	100

Source: See table 7.

/...

Gross long-term flow

63. So far private long-term flows have been reviewed only in net terms. This procedure is necessary mainly because data on private capital flows are available for most countries only on a net basis. However, in the aggregate, gross flows reflect better than net flows the volume of international transactions and the scope of the international capital market. Moreover, gross flows in the case of individual countries are more meaningful as indicators of investment patterns.

64. Table 18 attempts to measure gross flows^{28/} in relation to net flows in the selected developed countries, for which such data are available.^{29/} It is clear that the volume of international capital transactions, as reflected in the sum of gross outflows, rose steadily from 1958 to 1960. Thus, the decline in the net flow from capital-exporting countries in 1959, which was noted earlier, did not result from a decline in the volume of international private capital transactions, but rather from an increased concentration on the part of the countries concerned on transactions with each other, or from increased gross receipts from sources outside the group, or from both factors. As may be seen in table 18, the combined gross outflow from the selected capital-exporting countries rose from \$4.5 billion in 1958 to \$4.8 billion in 1959 and \$5.2 billion in 1960, while the group's net outflow fell by \$420 million in 1959 and recovered only very slightly in 1960. In the selected developed capital-importing countries, gross inflows increased over the period as a whole by a larger amount than did net inflows, owing to a relatively large increase in gross outflows. The combined gross outflow from the developed countries included in table 18 rose from \$4.9 billion in 1958 to \$5.5 billion in 1959 and \$5.9 billion in 1960.

^{28/} As foot-note a on table 18 indicates the terms "gross inflow" and "gross outflow" are here used to denote the sum of receipts and of payments, respectively.

^{29/} Major developed countries not included in this table owing to lack of complete data are Belgium-Luxembourg, France and Switzerland. The coverage and figures thus differ from those in table 15.

Table 18. Selected developed countries: Relation between gross and net flows of private long-term capital, 1958-1960 ^{a/}
(Millions of dollars)

Country	1958			1959			1960		
	Gross inflow	Gross outflow	Net flow	Gross inflow	Gross outflow	Net flow	Gross inflow	Gross outflow	Net flow
<u>Countries exporting private capital</u>									
Germany (Federal Republic)	209	-225	-16	253	-479	-226	373	-343	30
Japan	84	-44	40	98	-119	-20	61	-145	-83
Sweden	2	-5	-4	5	-8	-3	- ^{b/}	-15	-15
United Kingdom . . .	540	-924	-384	554	-963	-409	1,030 ^{b/}	-940	90
United States . . .	134	-3,295	-3,161	751	-3,196	-2,445	565	-3,742	-3,177
Total	969	-4,493	-3,524	1,661	-4,765	-3,104	2,029	-5,185	-3,155
<u>Countries importing private capital</u>									
Australia	237	-28	209	284	-36	247	435 ^{c/}	-23	412
Austria	82	-4	78	63	-	63	6	-4	2
Canada	1,205	-109	1,095	1,316	-196	1,120	1,303	-220	1,084
Denmark	18	-4	14	9	-9	-	60	-9	51
Finland	33	-18	15	37	-21	16	60	-24	36
Italy	203	-28	174	338	-76	262	493	-171	321
Netherlands	373	-251	123	379	-394	-15	341	-246	95
New Zealand	7	-	6	25	-2	23	13	-6	8
Norway	118	-6	112	155	-1	155	34	-3	31
Total	2,276	-448	1,826	2,606	-735	1,871	2,745	-706	2,040
Total, selected developed countries . .	3,245	-4,941	-1,696	4,267	-5,500	-1,233	4,774	-5,891	-1,115

Source: See table 1.

^{a/} Gross inflow equals the sum of all receipts from new long-term borrowing, direct investment and the repayment of loans extended. Gross outflow equals the sum of new lending, direct investment and the repayment of loans received.

^{b/} Including \$367 million purchase by Ford Motor Company of shares of United Kingdom subsidiary.

^{c/} Including short-term capital inflow and unrecorded transactions.

65. The increasing concentration of flows in transactions among developed countries is illustrated by the following figures which are derived from table 18.

	1958		1959		1960	
	<u>Billion</u> <u>dollars</u>	<u>Percent-</u> <u>age</u>	<u>Billion</u> <u>dollars</u>	<u>Percent-</u> <u>age</u>	<u>Billion</u> <u>dollars</u>	<u>Percent-</u> <u>age</u>
Sum of gross outflows from major developed private capital-export- ing and importing countries	4.9	100	5.5	100	5.9	100
Sum of gross inflows into private capital- exporting countries . .	1.0	20	1.7	30	2.0	34
Sum of gross inflows into developed private capital-importing countries	2.3	46	2.6	47	2.7	47
Net flow to rest of world	1.7	34	1.2	22	1.1	19

66. It is clear from the above that a growing proportion of funds flowing from developed countries was absorbed by other developed countries, especially by the net exporters of private capital, while net extra-group transactions diminished in relative importance. However, it should be noted that, in view of the incomplete coverage of gross flows, the figure for the net flow to the rest of the world shown in the table includes the balance of transactions not only with under-developed countries but also with those developed countries which have been excluded from the table because no complete data on gross flows are available. In particular, transactions with France and Switzerland would tend to affect the annual figures for net flows to the rest of the world, although they are unlikely to change the basic pattern indicated by these data.

The direction of flows

67. Detailed information on the direction of gross flows, which is available for several countries,^{30/} confirms what was suggested by the relative changes in the broad aggregate flows shown above. In recent years private long-term capital has indeed tended to flow among the developed countries rather than to the under-developed areas. Such information with respect to capital-exporting countries is available only in the case of the United States, the United Kingdom, Switzerland and the Federal Republic of Germany.

68. Table 19 presents data on the geographic pattern of the gross flow from the United States based upon figures for net changes in United States direct and portfolio investment assets abroad.^{31/} The share of developed countries in the gross flow from the United States has clearly tended to rise during the period 1958 to 1960. At the same time Western Europe has displaced Canada as the main recipient of gross United States private investment. However, the rise in the share of Western Europe in 1960 was in large part accounted for by the special transaction with the United Kingdom, which was noted earlier. During this period the share of under-developed countries in the gross flow of United States private capital appears to have been rather stable. It would, however, have shown a decline from 1958 to 1959, had it not been for a large issue of IBRD bonds in the United States capital market in 1958, which accounted for 13 per cent of the gross outflow and which correspondingly reduced the shares of all other flows in the United States total for that year. Such large-scale operations of international institutions occur only at infrequent intervals, and in fact the gross flow to such institutions in 1959 and 1960 became small or negligible.

^{30/} It should be noted that the terms "gross outflow" and "gross inflow" in the present context denote net changes in assets and liabilities respectively. It is necessitated by the nature of the basic data on direction and composition of gross flows as reported by the individual countries. This definition of "gross flows" thus differs from that indicated in foot-note ^{28/} to paragraph 64.

^{31/} It should be noted that the distribution between the developed and under-developed countries is slightly biased in favour of developed countries, because all unallocated United States portfolio investment has been attributed to developed countries. Since portfolio investment is, in fact, largely undertaken in developed countries, as indicated later in this chapter, this imperfection of classification is unlikely to cause any serious distortion of the general pattern of distribution as between the two country groups.

Table 19. United States of America: Percentage distribution of gross outflow of private long-term capital, a/ by recipient region, 1958-1960

Recipient region	1958	1959	1960
<u>Developed countries</u>			
Canada	33	36	27
Western Europe	17	27	37
Oceania and Japan ^{b/}	9	10	9
Total	60	73	73
<u>Under-developed countries</u>			
Latin America	14	17	15
Asia, excluding Japan ^{c/}	5	1	1
Africa ^{c/}	2	3	3
Western Hemisphere dependencies ^{c/}	2	2	3
Total	23	22	22
<u>International shipping</u>	4	5	2
<u>International institutions</u>	13	-	3
Total	100	100	100

Source: United States Department of Commerce, Survey of Current Business.

- a/ Combined total of the United States direct and portfolio investment abroad. This includes only net changes in long-term foreign assets.
- b/ Including also portfolio investments in all under-developed countries except Latin America.
- c/ Direct investment only.

69. Preliminary figures for 1961 show that this general pattern remained unchanged except for some slight shift among the developed countries in favour of Oceania and Japan, and among under-developed countries in favour of Latin America.^{32/}

70. Data on the geographic pattern of the gross flows from the United Kingdom are now available for direct investment assets for the years since 1958, but it should be noted that the coverage for the years 1959 and 1960 is less complete than that for 1958. Moreover, the United Kingdom statistics do not include investment in the petroleum industry and in insurance. The available data, which are presented in table 20, show a slight shift in the pattern of United Kingdom flows away from the under-developed countries. This shift was largely confined to South Africa, however, where United Kingdom investments may have been affected by political as well as by economic considerations. The rise in the share of developed countries was similarly localized as it resulted exclusively from the growing outflow of British capital to Australia.

71. The overseas sterling area has clearly continued to predominate in British investments. Despite a liberalization of capital transactions with the rest of the world, non-sterling countries - both developed and under-developed - have failed to gain ground as outlets for United Kingdom private capital during the years included in table 20.

72. The gross flow of private capital from the Federal Republic of Germany was also mainly directed towards the developed countries of Western Europe and North America. The restoration of convertibility of Western European currencies, and especially the development of the Common Market inevitably attracted a large and growing share of private capital from the Federal Republic of Germany to Western European countries (see table 21).

73. Information regarding the gross flows from Switzerland is confined to data on loan flotations in the Swiss capital market. Since such flotations are almost exclusively undertaken by developed or the more industrialized under-developed countries, they give no indication of the general distribution of gross flows. The most striking feature of table 22, which presents new loan issues in Switzerland, is the shift in the respective shares of Western Europe and the United States. The rising tendency of the share of Western Europe reflected the intensification of capital flows within Western Europe which was

^{32/} United States Department of Commerce, Survey of Current Business, March 1962, pp. 22-23.

Table 20. United Kingdom of Great Britain and Northern Ireland: Percentage distribution of gross outflow of private long-term capital, ^{a/} by recipient region, 1958-1960

Recipient region	1958	1959	1960
<u>Developed countries</u>			
Canada	19	19	12
Australia and New Zealand	17	16	27
Western Europe	10	11	10
United States	7	8	6
Total	52	55	55
<u>Under-developed countries</u>			
South Africa	14	5	7
India	4	7	5
Rhodesia and Nyasaland	-	7	5
Other sterling countries	20	17	19
Non-sterling countries	5	3	3
Total	44	39	39
Unclassified	4	6	6
Total	100	100	100

Source: United Kingdom Board of Trade, Board of Trade Journal (London), 30 March 1962, p. 677.

^{a/} This refers to net changes in long-term foreign assets of the United Kingdom, excluding assets in petroleum industry and insurance.

Table 21. Federal Republic of Germany: Percentage distribution of gross outflow of private long-term capital, a/ by recipient region, 1958-1960

Recipient region	1958	1959	1960
Western Europe	48	63	69
United States and Canada	11	20	16
Other countries	41	17	15
Total	100	100	100

Source: Deutsche Bundesbank, Monthly Report (Frankfurt), January 1962.

a/ This refers to net changes in long-term foreign assets of the Federal Republic of Germany.

Table 22. Switzerland: New issues on foreign account, 1958-1961

Country and region	1959		1960		1961	
	Million dollars	Percent-age	Million dollars	Percent-age	Million dollars	Percent-age
Australia	-	-	13.7	11	13.8	6
Canada	5.7	5	13.8	11	-	-
United States	11.5	10	21.8	17	13.8	6
Western Europe	58.5	53	51.5	40	163.3	74
Argentina	-	-	-	-	7.0	3
South Africa	11.5	10	-	-	-	-
International Bank for Reconstruction and Development	23.0	21	27.6	22	23.0	10
Total	110.3	100	128.3	100	220.8	100

Source: Banque Nationale Suisse, Bulletin Mensuel (Zurich).

noted earlier. The share of the International Bank for Reconstruction and Development declined sharply in 1961 when the amount of capital raised by Western European countries recorded a particularly large increase. The under-developed countries are represented only by South Africa in 1959 and Argentina in 1961 with shares of 10 and 3 per cent respectively.

74. The above analysis related to gross flows of private capital from developed countries. But, as indicated earlier, the major exporters of private capital are also important importers of such funds. The distribution of gross inflows, that is, net changes in liabilities, in selected capital-exporting and importing countries is shown in table 23. In the case of the United States, Western Europe accounted for the major part of the gross inflow of foreign capital except in 1958, when repayments to that area exceeded new receipts from it. In the United Kingdom and Canada, the major part of receipts of foreign capital represented United States investments, although capital from Continental Western European countries made a growing contribution to the flow into Canada. The United Kingdom, in turn, was the largest single source of foreign private capital for Australia, India, Pakistan and South Africa, which are members of the sterling area. However, in the first three countries the share of the United Kingdom tended to decline in the course of the three-year period. In Australia and India, this reflected primarily rising United States investments, although in the case of India, as well as in Pakistan, the share of Continental Western European countries and of Japan (included in "other") increased substantially.

Table 23. Selected countries: Percentage distribution of gross inflow of private long-term capital, a/ by source, 1958-1961

Country of destination and year	Total	Source of inflow				
		United States	Canada	United Kingdom	Continental Western Europe	Other
<u>United States</u>						
1958	100	-	-100	b/	-25	225
1959	100	-	-1	b/	82	19
1960	100	-	-14	b/	89	25
1961	100	-	6	b/	69	25
<u>United Kingdom</u> ^{c/}						
1958	100	82	a/	-	7	11
1959	100	83	a/	-	13	5
1960	100	78	a/	-	11	11
<u>Canada</u>						
1958	100	81	-	12	7	-
1959	100	77	-	9	13	-
1960	100	74	-	10	15	1
<u>Australia</u> ^{e/}						
1958	100	26	a/	58	f/	16
1959	100	38	a/	54	f/	9
1960	100	32	a/	55	f/	13
<u>India</u>						
1958	100	18	f/	75	f/	7
1959	100	30	f/	57	f/	13
<u>Pakistan</u>						
1958	100	18	-	70	-	11
1959	100	-	9	86	-	5
1960	100	4	-	65	2	30
<u>South Africa</u>						
Average, 1957-1960 .	100	5	g/	66	18	7

Source: Australia, Commonwealth Bureau of Census and Statistics, Annual Bulletin of Oversea Investment, 1959-1960 (Canberra); Canada, Dominion Bureau of Statistics, Canadian Balance of International Payments, 1960 (Ottawa); India, Reserve Bank of India Bulletin (Bombay); Pakistan, Ministry of Finance, The Budget, 1960-61 and 1961-62 and Economic Survey and Statistics (Karachi); South Africa,

(Source and foot-notes continued from preceding page)

Reserve Bank, Quarterly Bulletin of Statistics (Pretoria); United Kingdom Board of Trade, Board of Trade Journal (London); and United States Department of Commerce, Survey of Current Business (Washington, D.C.).

- a/ Data on which percentages are based generally represent net changes in long-term liabilities; thus, minus signs indicate a net reduction in such liabilities.
- b/ Included in Western Europe.
- c/ Including only direct investment in the United Kingdom. Because of the nature of the basic data in this table, no adjustment was attempted for the 1960 figure to include the transaction of the Ford Motor Company, which was noted earlier. If this transaction were included, the share of the United States in the flow into the United Kingdom would have also risen in 1960.
- d/ Included in the inflow from the United States.
- e/ Fiscal years ending 30 June of the year indicated.
- f/ Included in the inflow from "Other".
- g/ Including also the inflow from dollar area countries other than the United States.

Chapter 5

COMPOSITION OF FOREIGN INVESTMENT

Direct Investment and Other Long-term Flows

75. The long-term international capital transactions of the private sector fall into two main categories: direct investment which involves control of the foreign enterprise to which the capital is supplied, and other long-term capital transactions which consist, broadly speaking, of lending or borrowing in various forms. Within the latter category of transactions a distinction is usually made between security issues by one country in the capital market of another (or the purchase and sale by residents of one country of outstanding foreign securities) and international credits granted to or by private firms or individuals for a period exceeding one year. In practice the distinction between these categories is not always clear-cut. Moreover, some types of transactions, notably direct investment financed out of re-invested earnings, and dealings in outstanding foreign securities are frequently difficult to identify, and they consequently tend to be inadequately covered in balance of payments statistics.

76. From the replies by Governments to the special questionnaire jointly issued by the United Nations Secretariat and the International Monetary Fund, to which reference was made earlier, comparable data on the types of investment for certain countries can be obtained for a single year, 1960. In table 24, data for a few selected developed countries are shown. Generally speaking, gross capital outflows for direct investment and the re-investment of earnings were the largest components of the private capital transactions of the capital-exporting countries in 1960; in fact, in the case of the United Kingdom and the United States, these accounted for 73 per cent and 81 per cent of the total outflow respectively.

77. In the Federal Republic of Germany and in Japan long-term export credits and other loans were also of considerable importance, particularly in transactions with under-developed countries. It should, however, be noted that in the case of the Federal Republic of Germany the share of such flows is to some extent overstated owing to the inclusion of unidentified direct investment flows. In the Netherlands the purchase by residents of foreign securities was the largest component in 1960.

Table 24. Selected developed countries: Percentage distribution of flow of private long-term capital a/ to regions of destination by type of investment, 1960

Country of origin of capital outflow and type of investment	Region of destination		
	All countries	Developed countries	Under-developed countries
<u>Germany (Federal Republic)</u>			
Direct investment <u>b,c/</u>	47	47	46
Foreign securities	31	40	1
Other assets	22	13	53
Total	100	100	100
<u>Japan</u>			
Direct investment	55	100	43
Foreign securities	1	-	1
Other assets	44	-	56
Total	100	100	100
<u>Netherlands</u>			
Direct investment <u>b/</u>	40	35	76
Foreign securities	45	52	-
Other assets	15	13	24
Total	100	100	100
<u>United Kingdom</u>			
Direct investment	73	75	72
Other assets <u>d/</u>	27	25	28
Total	100	100	100
<u>United States</u>			
Direct investment	81	86	75
Foreign securities	18	13	21
Other assets	1	1	4
Total	100	100	100

Source: Bureau of General Economic Research and Policies, based upon data from special questionnaire issued jointly by the United Nations Secretariat and the International Monetary Fund.

- a/ Representing net changes in long-term assets of private sector excluding banks. The term "other assets" in this table refers to long-term commercial credits and other long-term capital transactions.
- b/ Excluding reinvested earnings.
- c/ Excluding some direct investment flows which cannot be identified; these are included in "other assets".
- d/ Including transactions in foreign securities.

/...

78. In the United Kingdom and the United States the composition of flows to developed and under-developed countries, respectively, did not differ significantly: direct investment predominated in flows to each of the two regions. In the Federal Republic of Germany, Japan and the Netherlands, on the other hand, the pattern of flows varied according to recipient regions. The first two countries supplied an important share of the capital flowing to under-developed countries in the form of credits. Such credits, however, played a much smaller or even negligible part in their transactions with developed countries, where direct investment predominated instead. In the case of the Netherlands, security issues and transactions in foreign securities accounted for over half of the gross flow to developed countries, while three-quarters of the capital supplied to under-developed countries was in the form of direct investment funds.

79. With a few exceptions the entire inflows of foreign capital into the private sector in under-developed countries originated in the developed private enterprise economies, and the pattern of inflows into these countries in 1960 can therefore be expected to be similar to that of the outflows to them which was examined above.

80. Data on gross inflows as reported by under-developed countries generally distinguish only between direct investment and other receipts of private long-term capital. The available information on the composition of inflows in twenty-eight under-developed countries is presented in table 25. It can be seen that in the majority of recipient countries direct investment predominated. This is readily explained by the fact that this form of investment accounted for three-quarters of the outflow from the United Kingdom and United States, which supply the bulk of private capital flowing to under-developed countries. While a number of countries had obtained in 1960 substantial amounts of long-term credits or other loans from abroad, credit repayments exceeded new receipts in many instances. In Mexico and China (Taiwan), however, the inflows of private capital were largely in the form of loans rather than of direct investment, a pattern which reflected partly the effect of government policies of controlling the foreign direct participation in domestic industries.

Table 25. Selected under-developed countries: Gross inflow
of private long-term capital by type, a/ 1960
(Percentage)

Country	Direct investment	Other	Total
<u>Africa</u>			
Ethiopia	124	-24	100
Nigeria	100	-	100
Rhodesia and Nyasaland	102	-2	100
Sudan	-	-100	-100
<u>Latin America</u>			
Argentina	84	16	100
Bolivia	100	-	100
Brazil	107	-7	100
Costa Rica	120	-20	100
Ecuador	77	23	100
Mexico	29	71	100
Panama	106	-6	100
Puerto Rico b/	34	66	100
Surinam	123	-23	100
<u>Middle East</u>			
Iran	-33	133	100
Israel	73	27	100
Jordan	47	53	100
Turkey	100	-	100
<u>South-East Asia</u>			
Burma	639	-539	100
Ceylon	-72	-28	-100
China (Taiwan)	27	73	100
Indonesia	98	2	100
Philippines	78	22	100
Republic of Korea	-	100	100
Republic of Viet-Nam	-	100	100
Thailand	15	85	100
<u>Other</u>			
Greece	-57	157	100
Iceland	-	100	100
Ireland	114	-214	-100

Source: See table 24.

a/ Representing net changes in long-term liabilities of private sector excluding banks. "Other" includes transactions in foreign securities, long-term commercial credits and other long-term capital transactions.

b/ Transactions with developed countries only.

Industrial distribution of direct investment

81. From the point of view of the economic impact of the international flow of private capital upon the world economy, it is not only the size of the flow that matters, but also the distribution of inflows among economic sectors and industries in the individual recipient countries. Data on industrial distribution of foreign capital inflows are generally lacking in the recipient countries. It is, however, possible to make some generalizations on the basis of the experience of the capital-exporting countries.

82. Data on capital flows for direct investment by industry are available for the two largest exporters of private long-term capital, namely, the United States and the United Kingdom. As shown in table 26, the flow of United States direct investment capital during 1958-1961 was, as in the earlier years, concentrated in manufacturing and petroleum industries. The shares of these sectors in the total outflow amounted to 38 per cent and 33 per cent, respectively. However, the distribution of the flows to individual countries or regions by sectors varied considerably. In the developed countries as a group, the pattern of investment strongly favoured the manufacturing sector. Manufacturing alone absorbed almost half of the total flow of United States direct investment capital to this group of countries, while petroleum accounted for around 30 per cent, the remainder being distributed among mining and smelting, public utilities, trade and other industries. The predominance of investment in manufacturing was greatest in western Europe and Oceania.

83. The pattern of United States direct investment flows to under-developed countries was in most respects the reverse of that prevailing in developed countries. The petroleum industry together with mining and smelting accounted for well over half of the total, while the share of manufacturing was only one-fifth. In fact, outside Latin America, where the share of manufacturing investment was relatively large, United States investment in that sector amounted to less than one-tenth of the total. The large share of manufacturing in United States direct investment in Latin America reflected the tapering-off of investment in the petroleum industry in recent years. Hence, the relatively small share of United States funds flowing into the petroleum sector was not representative of the

Table 26. United States of America: Percentage distribution of gross outflow of private capital for direct investment, a/ by industry and by region, average for 1958-1961

Country	Total	Manufac- turing	Petroleum	Mining and smelting	Other ^{b/}
Distribution by industry:					
<u>Developed countries</u>					
Canada	100	44	28	11	17
Western Europe	100	51	29	-	19
Oceania	100	50	33	5	13
Japan	100	43	... <u>c/</u>	-	57
Total	100	48	29	6	18
<u>Under-developed countries</u>					
Latin America	100	30	27	13	30
Western hemisphere dependencies	100	7	21	7	65
Other <u>d/</u>	100	8	67	15	10
Total	100	20	41	13	26
Total, all regions ^{e/}	100	38	33	8	22
Distribution by region:					
Developed countries	66	83	57	47	55
Under-developed countries . . .	31	17	39	53	38
International shipping	3	-	4	-	7
Total	100	100	100	100	100

Source: United States Department of Commerce, Survey of Current Business.

a/ This refers to net changes in foreign direct investment assets of the United States.

b/ Including public utilities, trade and other unspecified investments.

c/ Included in "other".

d/ Including Africa, Asia (excluding Japan) and other countries not specified.

e/ Including international shipping.

post-war pattern of United States investment in that region. In under-developed countries outside the Western Hemisphere the petroleum industry absorbed two-thirds and mining close to one-sixth of total United States direct investment flows.

84. During the years 1958-1961 the developed countries accounted on the average for two-thirds of all direct investment undertaken by United States firms. Although the concentration on developed countries was greatest in the case of manufacturing investment, it was also evident in investment in the petroleum industry, and in trade and miscellaneous service industries, as table 26 shows. The relatively large share of developed countries in the flow of United States capital into the petroleum sector is in large part explained by the fact that recent cutbacks affected primarily investment in production facilities, which are chiefly located in under-developed countries, while the expansion of refining capacity and distribution networks in developed countries continued.

85. The data on the industrial pattern of United Kingdom private direct investment abroad during 1958-1960 are presented in table 27. The average outflow for these years amounted to about \$530 million, but this total did not include the outflow for investment in the petroleum industry and in insurance. According to one estimate, investment by United Kingdom petroleum companies abroad exceeded an annual rate of \$840 million in 1960-1961.^{33/} If such investment is taken into consideration, petroleum would appear to have been the largest component of the total outflow of United Kingdom private direct investment capital. Excluding investment in petroleum and insurance, more than one-half of the total outflow in 1958-1960 went into manufacturing industries. Agriculture absorbed only 7 per cent of the total and the rest was accounted for by mining, construction, distribution, transport and communications, and banking.

86. In contrast to the experience of the United States, manufacturing investment was the largest single component of the outflow of United Kingdom direct investment capital not only to developed areas but also to Latin America. However, the exclusion from the United Kingdom totals of investment in the petroleum industry, which is primarily located in under-developed countries, is likely to account in large part for any differences between the pattern of United Kingdom investment as shown in table 27, and that of the United States.

^{33/} See Petroleum Press Service (London), June 1962.

Table 27. United Kingdom of Great Britain and Northern Ireland:
Percentage distribution of gross outflow of private
capital for direct investment, a/ by industry and by
region, average for 1958-1960

Region	Total ^{b/}	Manufacturing	Agriculture	Other ^{c/}
<u>Distribution by industry</u>				
North America	100	67	-	33
Western Europe	100	76	-	24
Latin America	100	81	-	19
Rest of sterling area . . .	100	43	10	47
Other non-sterling area . .	100	22	39	39
Total . .	100	53	7	40
<u>Distribution by region</u>				
North America	23	29	-	19
Western Europe	10	15	-	6
Latin America	5	8	-	3
Rest of sterling area . . .	58	47	81	68
Other non-sterling area . .	3	1	19	3
Total . .	100	100	100	100

Source: See table 20.

a/ Based on data relating to net changes in foreign direct investment assets of the United Kingdom.

b/ Excluding investment in the petroleum industry and insurance.

c/ Including mining, construction, distribution, transport and communications and banking.

87. During this period as in earlier years, the direct investment flow from the United Kingdom was oriented toward the sterling area countries. As can be seen from the table, about three-fifths of the total went to these countries, among which Australia was the largest single recipient. While the developed countries of North America and Western Europe received one-third of the total outflow, their shares in the flow into manufacturing investment was considerably larger. Investment in Latin America, although rising steadily during this period, was still relatively unimportant in the total direct investment of the United Kingdom as well as in the region's total receipts of private capital.^{34/} The under-developed countries within and outside the sterling area received the bulk of the flow of British capital into agriculture and other sectors.

88. In the recipient countries, the industrial pattern of foreign direct investment reflects chiefly the natural resource endowment, although the inflows are also influenced by factors such as the size of the domestic market and the world demand for a country's export products. The large flow of foreign capital into the development of the petroleum industry, especially in some of the under-developed countries, is a case in point. Among the major recipient countries, data on the industrial distribution of foreign direct investment are available only for Australia, Canada, India, South Africa and Venezuela (see table 28). In Canada and India, a substantial proportion of inflows of foreign private capital during the years under review went to the petroleum industry for the development of domestic production or of refining capacity to meet the rising domestic requirements. The situation was even more striking in the case of Venezuela, where the expansion of petroleum production - mainly for export - absorbed no less than nine-tenths of the total inflow of foreign private capital.^{35/}

^{34/} United Kingdom investment in the petroleum industry in Latin America, which is excluded from total flows to the region, is, however, known to be large.

^{35/} Data relating to the industrial distribution of foreign capital flows into Venezuela are not available for 1960. In view of the large outflow of United States capital chiefly from the petroleum industry in that country in 1960, the inclusion of data for that year would have changed significantly the pattern shown in table 28.

89. In countries with a broader base of resource endowment and a larger domestic market, inflows of foreign private capital tended to be more evenly distributed among domestic industries. In Canada, for example, manufacturing industries accounted for the largest single share of the total inflow of private capital in 1958-1960. Next in importance was investment in the petroleum and natural gas industry and in the development of the country's rich mineral deposits. During these years, as before, United States capital occupied a dominant position, accounting for two-thirds of the total inflow of private capital. A relatively large proportion of United States investment represented the acquisition of existing Canadian enterprises by United States nationals. The importance of investment in manufacturing was also evident in the case of Australia where its share in total direct investment amounted to almost three-fifths. In both Canada and Australia, the amount of private capital flowing into commerce, banking and insurance was also relatively large. In recent years, the pattern of foreign direct investment in South Africa was distorted by the repatriation of United Kingdom private capital from the mining sector. The largest part of the total inflow of private capital during 1957-1959 was devoted to the expansion of trade and banking facilities.

Table 28. Selected countries: Percentage distribution of private capital inflow for direct investment by industry, average for 1958-1960 a/

Country	Total	Manufac- turing	Petroleum	Mining and smelting	Agricul- ture	Other ^{b/}
Australia ^{c/}	100	59	-	— 7 —	—	34
Canada	100	36	31	10	-	23
India ^{d/}	100	38	48	-	-	14
South Africa	100	45	-	-17	-	72
Venezuela	100	-	90	7	-	4

Source: See table 23, and for Venezuela, Banco Central de Venezuela, Memoria, Correspondiente al Ejercicio Annual, 1960 (Caracas).

a/ Annual averages for India, South Africa and Venezuela refer to the years 1957-1959.

b/ Mainly commerce, banking and insurance.

c/ Fiscal years ending 30 June of the year indicated.

d/ Excluding IBRD loans to the private sector.

The share of reinvested earnings

90. While investors in capital-exporting countries generally devote a proportion of the earnings of foreign direct investment enterprises to the financing of further investment, data on the contribution of such reinvested earnings to the expansion of foreign assets are lacking in most countries. In fact, the inadequate coverage of this type of transaction in the balance-of-payments statistics of all but a handful of countries precludes a complete assessment of the significance of private capital in the foreign financing of investment in the various under-developed regions, as well as in some developed countries.

91. Among capital-exporting countries, complete information on reinvested earnings is, however, available for the United States and, on a more limited scale, also for the United Kingdom. Since these two countries are the major

sources of international flows of private long-term capital, their experience provides an indication of the respective contributions of new funds and reinvested earnings to the financing of direct investment.

92. In the case of the United States reinvested earnings accounted on the average for over two-fifths of all direct investment during the years 1958-1961 (see table 29). While the flow of new funds to the under-developed countries declined from 1958 to 1960, the reinvestment of earnings increased, and consequently this form of financing contributed a rising share of investment in that group of countries. In developed countries, on the other hand, the establishment of new enterprises especially in the western European countries and Japan, required a relatively large increase in the flow of fresh capital from the United States, and the proportion of such funds in the total direct investment advanced both in 1959 and 1960. In 1961, however, there was a substantial decline in the share of new funds in investment in Western Europe and a rise in the share of such funds in virtually all under-developed regions. In the case of the United Kingdom, reinvested earnings accounted on the average for a similar proportion of the total direct investment as in the United States (see table 30). But though the average share was similar in the two countries, changes during the period were strikingly different. Whereas the share of new funds was fairly stable in the United States, in the United Kingdom it rose sharply from 1958 to 1960 although it stabilized in 1961. The distribution of investment as between new funds and reinvested earnings does not seem to have varied as much according to recipient areas as in the case of the United States direct investment, but it should be noted that the United Kingdom data do not make it possible to single out under-developed countries and examine them as a group. Nor do they include investment in the petroleum industry, which accounted partly for inter-area differences in the financing pattern of United States direct investment.

Table 29. United States of America: Share of reinvested earnings and new funds in direct investment in developed and under-developed countries, 1958-1961
(Percentage)

Country	Reinvested earnings				New funds			
	1958	1959	1960	1961	1958	1959	1960	1961
<u>Developed countries</u>								
Canada	40	49	45	49	60	51	55	51
Japan	175	4	49	34	-275	52	51	66
Oceania	60	70	64	19	40	30	36	81
Western Europe	56	35	25	32	44	65	75	58
Total	48	44	35	37	52	56	65	63
<u>Under-developed countries</u>								
Africa	54	55	38	29	46	45	62	71
Asia (excluding Japan)	36	139	215	33	64	-39	-115	67
Latin America	32	48	69	61	68	52	31	39
Western Hemisphere dependencies	62	33	54	53	38	67	46	47
Total	38	52	68	48	62	48	32	52
Total, all countries	44	46	42	40	56	54	58	60

Source: United States Department of Commerce, Survey of Current Business.

Table 30. United Kingdom of Great Britain and Northern Ireland:
Share of reinvested earnings and new funds in direct
investment, a/ in various regions, 1958-1961
(Percentage)

Country	Reinvested earnings ^{b/}				New funds ^{c/}			
	1958	1959	1960	1961	1958	1959	1960	1961
North America	62	46	41	54	38	54	59	46
Western Europe	50	58	25	31	50	42	75	69
Latin America	115	50	55	31	-15	50	45	69
Rest of sterling area . . .	47	44	33	53	53	56	67	47
Other non-sterling area . .	8	75	29	28	92	25	71	72
Total	52	48	35	33	48	52	65	67

Source: United Kingdom Board of Trade, Board of Trade Journal.

a/ Excluding investment in the petroleum industry and insurance.

b/ Corresponding to the item "unremitted profits" in the Board of Trade inquiry.

c/ Representing other increases in assets.

Short-term capital movements

93. Since the restoration of convertibility of Western European currencies, the flow of short-term capital has been greatly intensified, and such movements have frequently overshadowed changes in the basic external balances of both the countries of origin and destination of the flows. This was notably the case in the United States in 1960, when the balance of current and long-term capital transactions improved, while the outflow of short-term funds accelerated the loss of reserves. At the same time the large inflow of funds into the United Kingdom temporarily offset the deterioration of the balance of all other external transactions.

94. Large short-term movements of funds generally occur only between a few developed countries possessing a highly developed money market to accommodate such funds. Data on the short-term transactions of the private sector (which

exclude changes in the international assets and liabilities of banks) do not reflect adequately the magnitude of short-term flows during the period under review, as the private banking sector was primarily involved in these operations. Table 31, therefore, combines short-term flows from or into the private sector with flows of banking funds and it also shows changes in the errors and omissions item of balances of payments which tend to reflect movements of short-term funds. The data on table 31 clearly show the growing volume of international transactions in short-term funds during the period under review; gross receipts of the countries included in the table rose from under \$600 million in 1958 to \$1.3 billion in 1959 and \$2.4 billion in 1960. The rise reached its climax in 1960, when a large volume of funds moved from the United States to Western European financial centres, notably the United Kingdom, the Federal Republic of Germany, the Netherlands and Switzerland. To some extent, Japan also participated in this development as a recipient.

95. The re-emergence of movements of "hot money" since the latter part of the nineteen fifties has occurred partly in response to interest-rate differences between the major financial centres on both sides of the Atlantic. It has led to a reassessment of policies with respect to the use of monetary measures as a means of controlling cyclical fluctuations in economic activity. It has also resulted in increased co-operation between central monetary institutions for the purpose of protecting the international payments system against a recurrence of disturbances of the magnitude of those of 1960.

96. For the purpose of the present study, which is primarily concerned with the private long-term foreign financing of economic development in less developed countries, the flow of short-term funds among developed countries may not appear to be of much relevance. Its significance lies primarily in its destabilizing effect on external balances which does affect to some extent the ability of the various developed countries to provide a stable and rising volume of long-term capital to the under-developed countries.

Table 31. Selected developed countries: Flows of short-term private capital,^{a/} 1958-1960
(Millions of dollars)

Country	Short-term capital				Net errors and omissions ^{b/}			
	1958		1959		1958		1959	
	Credits	Debits	Credits	Debits	Credits	Debits	Credits	Debits
Canada	42	6	349	40	583	309	b/	b/
France	4	138	386	164	216	17	-16	108
Germany (Federal Republic)	11	233	67	352	440	17	-99	57
Japan	7	86	216	180	598	220	72	57
Netherlands	78	14	34	321	141	5	23	-60
Switzerland	-	54	-	19	-	69	170	-23
United Kingdom ^{c/}	48	17	8	11	403	-	185	-59
United States ^{d/}	394	351	249	77	-	1,429	380	528
Total, above countries	584	899	1,309	1,164	2,381	2,061	...	...

Source: See table 1.

- ^{a/} Identifiable short-term transactions of private sector and commercial banks.
^{b/} Refers to the difference between all recorded credits and debits in balance of payments accounts. No sign indicates credit balance; minus sign indicates debit balance.
^{c/} Excluding changes in overseas sterling holdings.
^{d/} Excluding changes in short-term liabilities of United States banks to foreign official institutions and banks.

SUMMARY AND CONCLUSIONS

97. Although the average annual net flow of private long-term capital from the major capital-exporting countries in 1958-1961 was larger than the average for the nineteen-fifties, it declined sharply after 1958 and remained well below the 1958 level in the subsequent years. By 1961 its level was virtually the same as the average for the decade of the nineteen-fifties.

98. While the net outflow thus declined during the three years reviewed in the present study, the gross outflow from capital-exporting, as well as from the developed capital-importing, countries rose, but an increasing proportion of the long-term private capital entering international transactions was absorbed by the developed countries themselves. Consequently the share available for financing development in the rest of the world was diminished.

99. The United States maintained its dominant position as the largest single net exporter of private capital, followed by the United Kingdom. Together these two countries accounted for over 90 per cent of the total net outflow. Changes in the pattern of investment were consequently in large part determined by the investment behaviour of these two countries. In both countries the emphasis in investment shifted from the under-developed to the developed countries - to Western Europe in the case of the United States, and to Oceania in the case of the United Kingdom. The industrial distribution of investment by both countries showed a strong emphasis on the manufacturing sector in developed countries, while primary production including petroleum predominated in the flows of United States private capital to under-developed areas. A similar tendency was probably also present in the case of United Kingdom investments.

100. From 1958 to 1960 an increasing proportion of private investment by the United States in under-developed countries was financed out of reinvested earnings, and the share of these areas in the flow of new capital consequently declined even more than their share in total United States investment. The development was to some extent reversed in 1961. On the basis of United Kingdom data no clear-cut distinction between the pattern of financing in developed and under-developed regions is discernible.

101. The diminishing flow of private capital to under-developed countries during 1959-1961 had an uneven impact on the various recipient regions. Flows to South-East Asia and the Middle East increased, while net receipts by Latin American countries as a group declined, and Africa became a net exporter of funds owing to capital repatriation from several countries, particularly from South Africa. Latin America none the less remained the largest recipient area. Within the various regions the distribution of inflows among individual countries was very uneven. For under-developed countries as a group half of total net inflows in each year was absorbed by four or five countries, while more than half of the under-developed countries included in this study shared less than one-tenth of the total.

102. During the years 1958-1960, as in earlier years, the net flows of private long-term capital into individual under-developed countries fluctuated widely. While this was also true of gross inflows into individual developed capital-exporting and importing countries, the economic impact on under-developed countries was inevitably greater in view of their greater dependence on this source for the financing of domestic investment.

103. The declining importance of the contribution of private capital to the financing of investment in under-developed countries during 1959-1961 is in large part attributable to the traditional concentration of such capital on primary production chiefly for export. Investment in these sectors, where individual projects usually require relatively large capital outlays, tends to be discontinuous. The period examined in the present study was preceded by a number of years during which large capital expenditures were undertaken by the developed countries for the expansion of petroleum production and mining and smelting facilities in under-developed countries. The completion of such projects, together with the relatively slow increase in world demand for petroleum and other mineral products in more recent years, no doubt contributed to the decline in the flow of private long-term capital to under-developed countries. Manufacturing industries in some of the larger under-developed countries have been attracting a growing volume of foreign capital, but in most cases the amounts involved have been relatively small, and insufficient in the aggregate to compensate for the shortfall of foreign

investment in the petroleum industry and in mining and smelting. In some countries, restrictions on foreign capital, which Governments had imposed in the past as a protection against excessive foreign influence on the domestic economy, may still have operated as a disincentive to foreign investment. There have also been cases where political instability and uncertainties regarding capital repatriation and the transfer of earnings have tended to discourage the inflow of funds.

104. Some of these problems are increasingly being met through a reassessment of attitudes on the part of investors in the capital-exporting countries as well as by the competent authorities in recipient countries. Others will eventually disappear as the rising import demand for primary products in developed countries stimulates a renewed expansion of productive facilities in under-developed countries. Furthermore, as the growth of domestic markets in under-developed countries accelerates, opportunities for foreign private investment of mutual benefit to the developed and the under-developed countries will undoubtedly multiply.
