UNITED NATIONS CONFERENCE ON TRADE AND DEVELOPMENT

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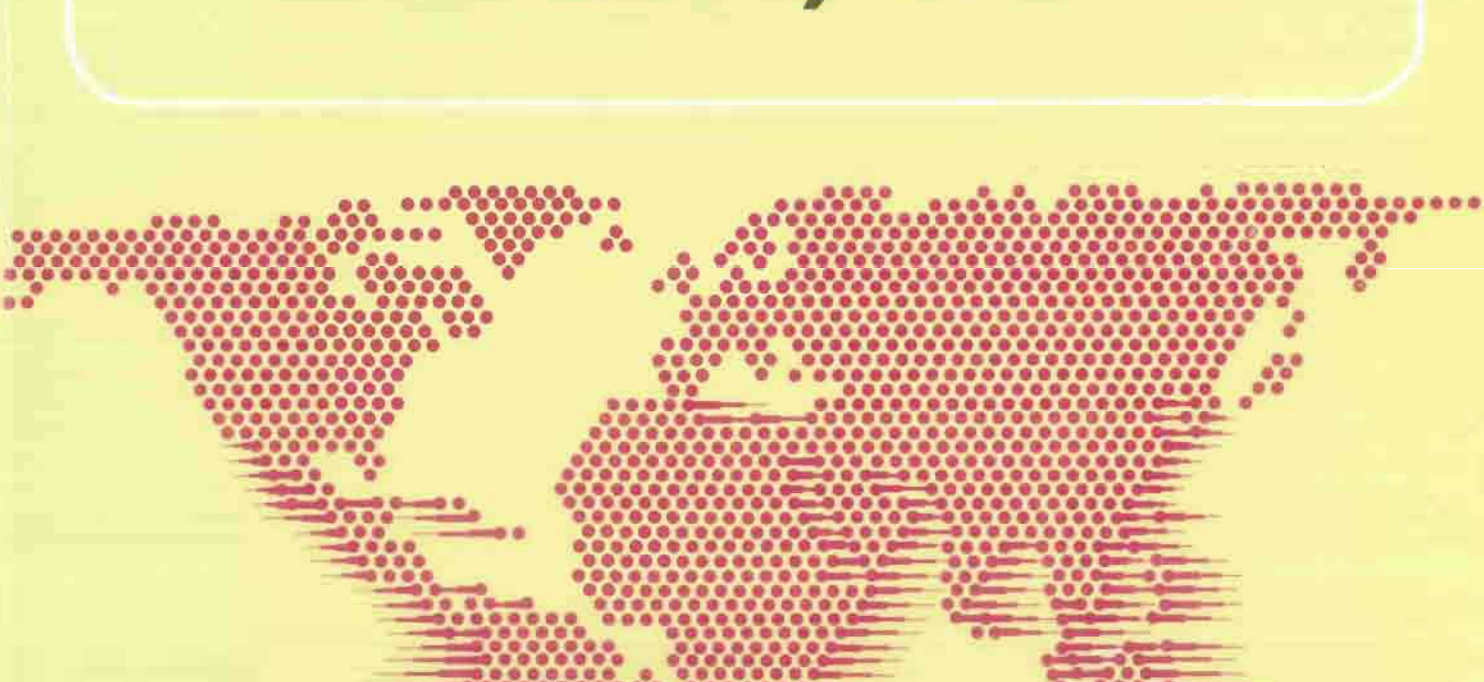

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Editorial note

A pre-publication text, subject to final revision, of part I of this report was issued early in September 1983 (UNCTAD/TDR/3 (part I)), and of part II (in English only) in early October 1983 (UNCTAD/TDR/3(part II)).

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The present text was finalized in November 1983 and is based on information and data available in June 1983.

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Abbreviations

ACU	- Asian Clearing Union
ADC	- Andean Development Corporation
AFESD	- Arab Fund for Economic and Social Development
AFTAAC	- Arab Fund for Technical Assistance to Arab and African Countries
ALADI	- Latin American Integration Association (Asociación Latinoamericana de Integración)
AMF	- Arab Monetary Fund
ASEAN	- Association of South East Asian Nations
BADEA	- Arab Bank for Economic Development in Africa (Banque arabe pour le développement économique en Afrique)
BIS	- Bank for International Settlements
BLADEX	- Latin American Export Bank (Banco Latinoamericano de Exportaciones)
CACH	- Central American Clearing House
CACM	- Central American Common Market
CAfCH	- Central African Clearing House
CARICOM	- Caribbean Common Market
CCCN	- Customs Co-operation Council Nomenclature
CCMPA	- Co-ordinating Committee of Multilateral Payments Arrangements
CEESTEM	- Centre for Economic and Social Studies of the Third World (Centro de Estudios Económicos y Sociales del Tercero Mundo)
CEPGL	- Economic Community of the Great Lakes Countries
CMCF	- CARICOM Multilateral Clearing Facility
CMEA	- Council for Mutual Economic Assistance
DAC	- Development Assistance Committee (of OECD)
ECDC	- economic co-operation among developing countries
ECE	- Economic Commission for Europe
EDF	- European Development Fund
ECOWAS	- Economic Community of West African States
EEC	- European Economic Community
EFTA	- European Free Trade Association
EIB	- European Investment Bank
FAR	- Andean Reserve Fund
FCDC	- financial co-operation among developing countries
FOCEM	- Central American Stabilization Fund (Fondo Centroamericano de Estabilisación Monetaria)
GATT	- General Agreement on Tariffs and Trade
GBSAG	- General Board for the South and Arabian Gulf (of Kuwait)
GDP	- gross domestic product
GNP	- gross national product
GODE	- Gulf Organization for the Development of Egypt
GSTP	- global system of trade preferences among developing countries
IECGF	- international export credit guarantee facility
IMF	International Monetary Fund
IsDB	- Islamic Development Bank
ISF	- Islamic Solidarity Fund
KFAED	- Kuwait Fund for Arab Economic Development
LAFTA	- Latin American Free Trade Association
LAS	- League of Arab States
LDCs	- least developed countries
LIBOR	- London Inter-bank Offered Rate
MARIUN	- Mano River Union
mb/d	- million barrels per day
MFIs	- multilateral financial institutions
NDAFs	- national development assistance funds

NECIs - national export credit institutions
NICs - newly industrialized countries
NMP - net material product
NPA - non-project assistance
NTBs - non-tariff barriers
OAPEC - Organization of Arab Petroleum Exporting Countries
ODA - official development assistance
OECD - Organisation for Economic Co-operation and Development
OFID - OPEC Fund for International Development
OPEC - Organization of the Petroleum Exporting Countries
RCCDC - Research Centre for Co-operation with Developing Countries
RCD - Regional Co-operation for Development
SAAFA - Special Arab Aid Fund for Africa
SAFICO - Andean Trade Financing System (Sistema andino de Financiamento del Comercio)
SDRs - special drawing rights
SELA - Latin American Economic System (Sistema Económico Latinoamericano)
SITC - Standard International Trade Classification (revision 1)
SPEC - South Pacific Bureau for Economic Co-operation
TCDC - technical co-operation among developing countries
UAE - United Arab Emirates
UDEAC - Central African Customs and Economic Union (Union douanière et économique de l'Afrique centrale)
UNCTAD - United Nations Conference on Trade and Development
UNDP - United Nations Development Programme
WACH - West African Clearing House

Explanatory notes

The term "dollars" ($) refers to United States dollars unless otherwise stated.
The term "billion" signifies 1,000 million.
Annual rates of growth and change refer to compound rates.
Exports are valued f.o.b. and imports c.i.f. unless otherwise specified.
Use of a hyphen (-) between dates representing years, e.g., 1965-1966, signifies the full period involved, including the initial and final years.
An oblique stroke (/) between two years, e.g., 1980/81, signifies a fiscal or crop year.

In the tables:

One dot (.) indicates that the data are not applicable.
Two dots (..) indicate that the data are not available, or are not separately reported.
A dash (-) indicates that the amount is nil or negligible.
A plus (+) before a figure indicates an increase; a minus sign (-) before a figure indicates a decrease. Details and percentages do not necessarily add to totals, because of rounding.
Except where otherwise specified, figures in brackets are estimates.

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FOREWORD

This is the third in the series of annual reports prepared by the UNCTAD secretariat on issues in the field of trade and development. The present report, in addition to analysing the world economic situation and examining the short-term world economic outlook, focuses on the topic of economic co-operation among developing countries, with particular reference to trade and and finance. It is the intention of the UNCTAD secretariat to expand the analysis in the future in order to cover other aspects of such co-operation.

The critical economic situation of the developing countries and the prospect of slower growth in the industrialized countries in the coming years have given an important and urgent dimension to economic co-operation among developing countries. Indeed, such co-operation - just as much as a better framework for international economic relations - has become an imperative if the developing countries are to achieve the necessary transformation of their economies.

The role of economic co-operation among developing countries in a new paradigm for world development was emphasized in the *Trade and Development Report, 1981*. The purpose of the present discussion is to explore trends and prospects in respect of such co-operation, particularly in the areas of trade and finance, and to present a factual and analytical background which could help in the consideration of relevant policy measures.

Gamani Corea
Secretary-General of UNCTAD

Part I

THE CURRENT WORLD ECONOMIC CRISIS

Chapter I

A FRAGILE RECOVERY FOR THE INDUSTRIALIZED COUNTRIES

A. An overview of the current situation

1. Despite unmistakable signs of the beginning of recovery in some major developed market-economy countries, the outlook for the world economy is uncertain at best, and the immediate outlook for the developing countries is grim. This assessment is based on three considerations. First, the persistence of high interest rates in the United States of America and their recent tendency to increase with an upturn in economic activity raises serious doubts about the durability of the recovery in that country. Secondly, the retrenchment of commercial bank lending in response to the difficulties of many developing countries in servicing their external debt and the inadequate volume of official balance-of-payments finance is forcing the majority of developing countries to adopt deflationary policies which can only dampen world recovery. Thirdly, the continued rise in the rate of exchange of the United States dollar is a source of imported inflation for other developed market-economy countries, inducing them to take cautious economic policy stances. Thus, there are grounds for fearing that the recovery under way in the United States will not spread rapidly either to other developed market-economy countries or to the developing countries. Moreover, the high real interest rates and slowly-rising capacity utilization rates may prevent investment from taking hold before the initial impulse to the economy from increased consumer spending has run its course, in which case the recovery currently under way could not be sustained. This pessimistic assessment would be rapidly altered if the members of the international community were to adopt and vigorously implement a set of policy measures intended to reinforce recovery in those countries where it has already begun and to reactivate the economies of the developing countries.

2. While the beginnings of recovery offer a glimmer of hope for the future, the world economy continues in crisis. The terms of trade of primary commodities remain depressed, prospects for the volume of traded goods remain highly uncertain, interest rates remain high compared to inflation rates, and the difficulties of managing external debt have increased as access to capital markets has worsened. Unemployment in the developed market-economy countries continued to increase in 1982 and in early 1983. The length and severity of the crisis have, moreover, engendered the emergence of pressure for increased protectionism and have strained government budgets, leading in several countries to retrenchment in the provision of official development assistance and in domestic social programmes. Another consequence of the recession was a sharp reduction in the rates of growth of capital formation in the developed market-economy countries which retarded the restructuring of their economies.

3. The developing countries continue to be seriously affected by the current worldwide recession which has brought growth to a standstill. The cessation of their growth, associated with a reduction in import demand, has in turn significantly reinforced deflationary pressures in the rest of the world. Country after country has been forced to reduce government outlays, including development spending, thus slowing the structural transformation of their economies. Over and above the changes in structure envisaged in their development plans, developing countries have been forced to attempt further restructuring in order to respond to

changed market incentives and to reduce their current-account deficits to levels which can be financed on a sustainable basis. Changes in relative prices of many traded goods opened new opportunities for export expansion and imposed the need for import substitution. In particular, the increase in the relative price of energy during the 1970s imposed the necessity to increase domestic supplies of energy, to economize on its use wherever possible, and to reduce the non-oil component of the trade deficit by increasing the production of tradeable goods. The growth of debt relative to export earnings, combined with high real interest rates, has progressively reduced the possibility of financing for any significant length of time the large deficits which have emerged. In fact, should high real interest rates in international capital markets become a more or less enduring feature of the world economy, the high levels of commercial debt already incurred would imply that interest payments have become a significant structural component of current-account deficits. Accordingly, developing countries have implemented policy measures intended to increase domestic savings rates, further diversify exports, increase the pace of import substitution, and increase intra-trade. Often, these policies have entailed significant increases in domestic inflation due to pressures on the domestic financial and monetary system and the currency devaluations to which many countries have had to resort.

4. Reducing these deficits while regaining more satisfactory rates of growth of output via export expansion would, of course, be facilitated by an acceleration of the growth of output in the developed market-economy countries accompanied by a roll-back of protectionist measures. Prospects for prices and volumes of primary commodity exports are heavily dependent on increased levels of demand, since the scope for their increased market penetration is rather limited. Exporters of manufactures, on the other hand, have been affected by the intensification of protectionism as well as by the sluggish demand in their export markets.

5. The prospects for only moderate recovery in the developed market-economy countries in the months ahead bode ill for the efforts of developing countries to regain the momentum of economic growth. For one thing, improvements in export earnings are likely to be quite modest at best. For another, a large part of the increment to export earnings will need to be used to restore international reserves to more adequate levels, which is a prerequisite for many countries to be able to return to international capital markets. Thus, the effect on imports and output of a recovery in developed market economies would be felt only with a considerable time lag. Finally, the incipient recovery might not be sustained beyond 12 - 18 months unless final demand increases enough to reduce excess capacity and thereby stimulate investment. In this context the persistence of high real interest rates is cause for concern since they will tend to dampen consumption spending, while causing investments to be postponed.

6. For these reasons, among others, immediate international measures are required to allow a prompt acceleration of growth in developing countries. The feedback effects from this process, together with additional measures in the developed market-economy countries designed in some cases to reduce fiscal deficits and in others to stimulate further demand, could together underpin the fragile world recovery which appears now to be under way.

7. The impact of the current crisis has not been confined to the developed market-economy countries and the developing countries. The slowdown in world import demand and the worsening of conditions on international capital markets have also compounded the problems of economic planning in the socialist countries of Eastern Europe. For some years these countries have lowered planned rates of increase in net material product for structural reasons. These included the slower growth of the labour force and some sectoral imbalances. For instance, heavy industry had grown too rapidly compared to light industry and agriculture. Also, growth in energy production began lagging behind growth in national income. Thus it was necessary to reallocate investment outlays and, since the incremental capital/output ratio would thereby be reduced, to reduce the share of investment in total

output.[1] These efforts to restructure were set back by the emergence of external financial constraints in a number of countries in this region which have had to reduce their demand for imports by constraining consumption or slowing investment while enlarging the share of investment allocated to export industries.

8. The analysis of the present world economic situation and short-term prospects contained in the remainder of Part I reflects the view that recovery in the developed market-economy countries will continue during 1984. No special measures on behalf of developing countries have been assumed beyond those already taken by IMF and the World Bank to ensure their ability to lend at current or somewhat higher levels in 1983 and 1984. Thus, the present assessment contains a large element of uncertainty. On the one hand, failure to buttress the incipient recovery could well reduce growth prospects for developed and developing countries alike, particularly towards the end of 1984. On the other hand, immediate measures in favour of developing countries could increase their growth rates and these measures, combined with additional domestic policy measures in the developed market-economy countries, could significantly accelerate growth in the latter countries as well. Subsequent sections of Part I explore ramifications of the present crisis for markets in goods and finance, for the development prospects of developing countries and China, for output and employment in developed market-economy countries and for national income in the socialist countries of Eastern Europe.

B. The operations of international markets

9. The international environment facing developing countries deteriorated steadily in 1981 and 1982 and early 1983. While an incipient recovery appears to have set in since the second quarter of 1983, it is unlikely to prove strong enough to provide a major boost to non-oil commodity prices, which fell precipitously from 1979 to 1982. The prices of crude oil, which were lowered in early 1983, appear to have stabilized in nominal terms. Meanwhile, interest rates on non-concessional loans, which rose to unprecedented levels in 1981, have fallen substantially in nominal terms. However, the decline in real terms was much less and in the past few months real interest rates have begun to increase again. At the same time, the growth in the supply of funds from international financial markets has been slowed in the wake of a series of commercial debt rescheduling involving several major borrowing countries, while concessional flows, which fluctuated markedly in 1980, 1981 and 1982, failed on average to expand to meet the greatly intensified needs of developing countries.

1. Developments in the prices and volumes of traded goods

10. Conditions in international commodity markets, which were unfavourable for developing countries in 1981, deteriorated still further in 1982. This was due primarily to the prolongation of worldwide economic recession and the concomitant weakening of demand for primary commodities with adverse effects on both the volume and prices of goods traded on the world market. The continued high level of interest rates also discouraged inventory accumulation, which would otherwise have tended to dampen the downward movement of prices. The UNCTAD combined index of non-oil primary commodities exported by developing countries, measured in current United States dollars, dropped by 16.1 per cent in 1982, following a decline of 15.6 per cent in 1981. This two-year fall of more than 30 per cent is the highest for over 20 years. Part of this decline was due to the strengthening of the dollar vis-a-vis other currencies. Even measured in terms of SDRs, however, prices fell by 7.5 per cent and by 10.5 per cent in

[1] On the one hand, increasing the share of investment allocated to the energy sector would tend to increase the incremental capital/output ratio. On the other hand, increasing the share of investment allocated to light industry rather than heavy industry would tend to reduce the ratio. On balance, the latter effect was expected to outweigh the former.

Table 1

Annual change in world market prices of primary commodities exported by developing countries

(Percentage)

	Actual				Estimate	Forecast	
	1970-1975*a/*	1975-1980*a/*	1980	1981	1982	1983	1984
Food and tropical beverages	15.7	11.1	21.2	-19.7	-18.2	-5.5	4.7
Vegetable oilseeds and oils	10.5	6.0	-14.9	-3.2	-23.0	-6.9	14.8
Agricultural raw materials	12.1	14.6	11.2	-13.0	-12.9	4.7	8.0
Minerals, ores and metals	6.4	10.6	13.3	-12.3	-12.7	3.0	9.3
Total primary commodities (excluding petroleum)							
Denominated in US dollars	11.9	11.3	14.8	-15.6	-16.1	-0.9	7.2
Denominated in SDRs	9.0	10.0	14.5	-7.5	-10.5	1.4	7.2
Crude petroleum	45.5	24.2	73.5	10.2	-4.3	-12.4	5.0
Manufactures	13.7	9.6	14.5	-5.0	-2.0	1.0	5.0

Source: UNCTAD, *Monthly Commodity Price Bulletin*; United Nations, *Monthly Bulletin of Statistics* (various issues); UNCTAD secretariat calculations.

a/ Average.

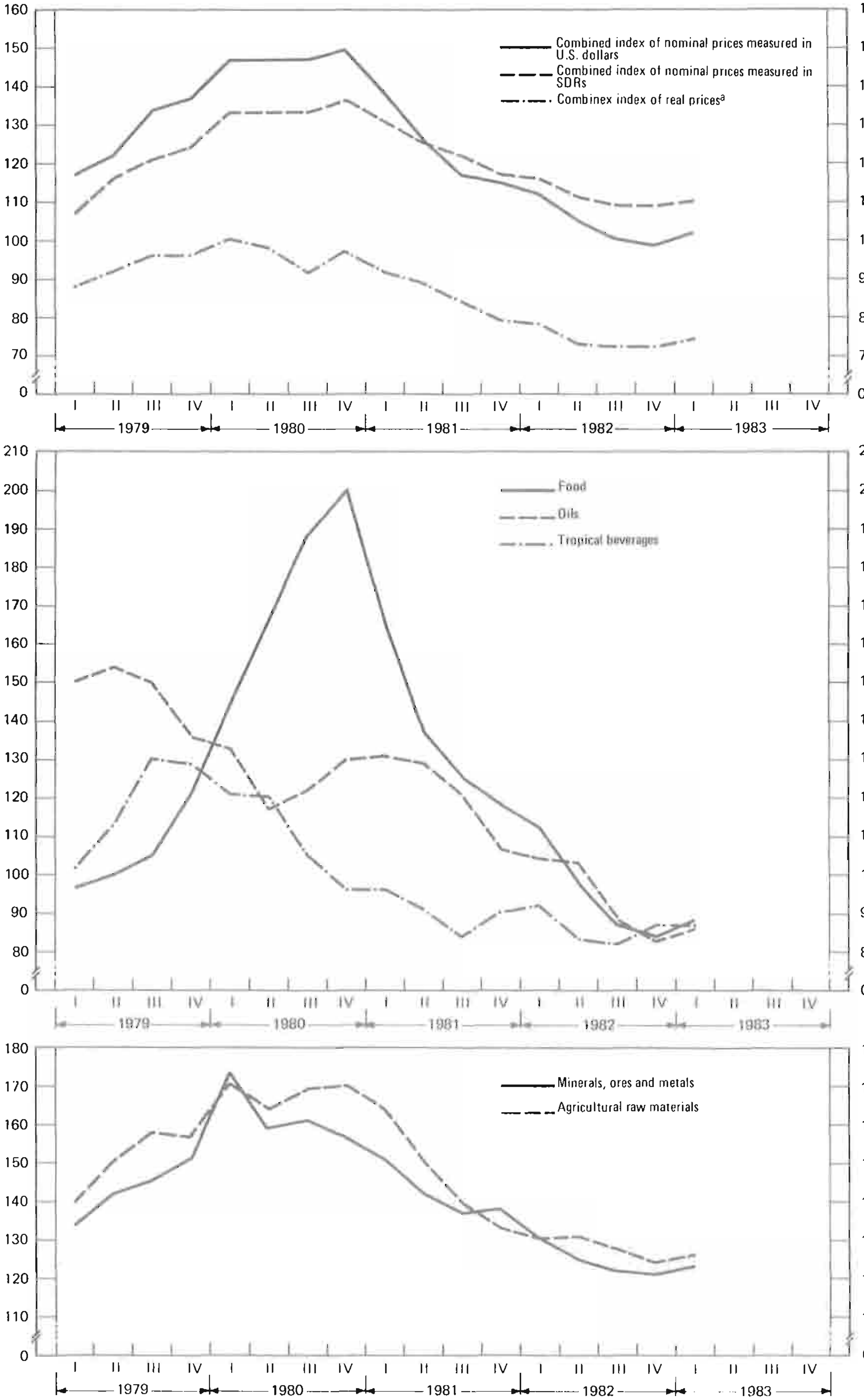
1981 and 1982, respectively. Despite the fall in the unit value of manufactured exports from the developed market-economy countries in 1982, the terms of trade of non-oil commodity prices fell further, by about 14 per cent, in 1982, when they were about 30 per cent lower than their 1975 average, representing their lowest level since 1960. (See table 1 and chart I.)

11. The fall in nominal prices in 1982 affected all major primary commodity groups, continuing a downward trend which began in the fourth quarter of 1980. In 1982 food prices experienced the largest percentage decrease, 30 per cent, followed by vegetable oils, prices of which declined by 23 per cent. Declines in the prices of agricultural raw materials, minerals and metals averaged about 13 per cent. A number of interrelated factors contributed to the steep decline of food prices. As is well known, relatively low income elasticities of demand make the prices of food especially sensitive to supply fluctuations. Above average harvests for most food items, when the carry-over from the previous year was already large, were also a factor in depressing prices. This phenomenon was particularly important for sugar, rice and cocoa. In the case of sugar, stocks of which had reached 32 million tonnes at the end of the 1981/82 season - the equivalent of more than 30 per cent of yearly world consumption - world market prices dropped by 50 per cent. The secretariat of the International Sugar Organization forecasts that the 1982/83 season will result in a further increase of world sugar stocks by some 5 - 7 million tonnes, implying continued downward pressure on sugar prices in 1983. Rice experienced the second largest percentage decline in prices, about 39 per cent. The market for rice is expected to improve somewhat in 1983. For one thing, the output of rice declined by 7 million tonnes in 1982. For another, the increase in production in importing countries was below the rate of population growth, so that import requirements for 1983 are expected to be higher than in 1982. Cocoa prices fell well below the cost of production owing to a build-up of surplus stocks as production outstripped consumption for the sixth consecutive year. A prolonged drought in the main cocoa-growing regions of Brazil and West Africa might reduce production in 1983 by enough to permit some

Chart I

Monthly indices of free market prices of selected primary commodities exported by developing countries

(1975-1977 = 100)



Source UNCTAD, *Monthly Commodity Price Bulletin*

[a] Combined index in U S dollars divided by the United Nations index of export unit values of manufactured goods.

increase in prices. The price of coffee was the only exception to the highly unsatisfactory picture for world commodity markets in general.[2] A potentially large excess supply of coffee was prevented by the 1982 frost which reduced the Brazilian crop and by the imposition of export quotas under the International Coffee Agreement. (It should be noted that coffee prices in countries that are not members of the Agreement are some 50 per cent below those in member countries.) Measures have been taken in a number of countries to prevent oversupply of food crops and further declines in their prices. Among them is a new programme in the United States to pay farmers with grain rather than cash in return for larger additional acreage reductions in 1983. Payments under this programme were to be in addition to the existing price support and acreage production programmes aimed at reducing the 1983 crops of wheat, maize, sorghum and rice.

12. The last two years of sluggish economic activity coincided with the cumulative effects since 1975 of economic policy aimed at the conservation of energy and the substitution of other energy sources for oil. The cumulative fall in world oil demand led to a reduction from 65 mb/d in 1979 to about 55 mb/d in 1982. The drop in production was entirely absorbed by countries members of the Organization of the Petroleum Exporting Countries (OPEC), whose production averaged 31 mb/d and 19 mb/d in 1979 and 1982, respectively. Between 1979 and 1980 increases in inventories of crude and refined petroleum offset to some extent the weakening of consumption while their drawdown, beginning in mid-1981, intensified downward pressure on prices in spot markets. These factors, together with efforts by OPEC to maintain official prices in line with the reference price of $34 a barrel for Saudi Arabian light, resulted 1982, following a decline of 16.8 per cent in 1981. The continued weakness of world demand for oil during the first quarter of 1983 led OPEC to reduce its reference price to $29 a barrel in March 1983 and to establish production quotas of 17.5 mb/d for the remainder of 1983. If there are no further changes in oil prices in 1983, the average price of oil for the members of OPEC would be about 13 per cent lower than its average level in 1982. In fact, average production of oil by OPEC countries for the first quarter of 1983 was only about 14 mb/d. Although an economic recovery would increase oil demand, many observers do not expect OPEC to reach the ceiling set until well into the second half of 1983. Thus, maintaining stable prices for oil will require considerable discipline among OPEC members.

13. Weakness in world demand was also reflected in the volume of traded goods, which fell in 1982 by about 2 per cent, after stagnating in 1981. While the greatest decline occurred in oil exports, the volume of exports of manufactured goods fell as well, although exports of agricultural commodities increased slightly.

14. For the first quarter of 1983, the UNCTAD index of non-oil primary products exported by developing countries, measured in United States dollars, was about 3 per cent higher than the average for the fourth quarter of 1982 but was nevertheless lower than the average for the whole of 1982. Prices of food and tropical beverages and those of agricultural and industrial materials increased by about 3.5 per cent and 2 per cent, respectively. The rise of prices was due mainly to purchases to rebuild inventories, perhaps in expectation of a strengthening of final demand, since the trend rate of growth of apparent consumption has not increased significantly. With the modest economic recovery now widely expected, the conditions in international commodity markets are likely to improve in 1983 and 1984. Although forecasting commodity prices is subject to a large margin of error, prices of most non-oil primary commodities are likely to increase during 1983, but the average for the year as a whole is expected to remain at about the same level as in 1982, owing to the declines in the prices of sugar and coffee registered during the first quarter of 1983. Further modest increases in commodity prices are expected in 1984.

[2] Coffee is one of the three commodities (coffee, cocoa and sugar) which together dominate the performance of the group of food and tropical beverages, accounting for about 40 per cent of developing countries' exports in this commodity group.

2. Payments imbalances and international capital markets

15. The principal changes in the pattern of current-account balances between 1981 and 1982 were the following: (i) an enlarged but relatively small deficit in the developed market-economy countries; (ii) a substantial contraction in the current-account deficits of the deficit developing countries; (iii) a sharp reduction in the current-account surpluses of the capital-surplus developing countries; and (iv) the emergence of current-account surpluses for the socialist countries of Eastern Europe. Changes in the current accounts of the surplus developing countries were due to the reduction in the export volumes and prices of oil-exporting developing countries. The contraction in the current-account deficits of the deficit developing countries was due to increased difficulties in obtaining funds on international capital markets despite declining terms of trade, to sluggish export volume growth, and to high interest rates which exerted pressure towards maintaining deficits at their 1981 levels (see table 2).

16. Partly as a consequence of the reductions in surpluses on the current account of major surplus countries, the dollar value of gross borrowing on international capital markets contracted in 1982, to $171 billion from $194 billion in the previous year. Since foreign bond sales increased, the contraction in the medium-term Eurocredits was even more severe, from $146 billion in 1981 to $99 billion in 1982. Although this contraction affected all country groups, non-oil exporting developing countries and the socialist countries of Eastern Europe were hardest hit. In fact, if allowance is made for the extraordinary financing of United States corporations in 1981 to the tune of $50.4 billion, developed market-economy countries' other borrowings in 1982 actually increased. With regard to non-oil exporting developing countries, the contraction in recorded medium-term Eurocredits was concentrated in the second half of 1982, when annualized flows averaged less than $26 billion compared with $39 billion during the first half of the year and $40 billion in 1981. Moreover, during the first two months of 1983 the annualized lending rate contracted further, to $4-$5 billion. Recent announcements of Eurocurrency credits suggest major increases above that level during the remainder of 1983, but it does seem likely that borrowings on international capital markets by non-oil exporting developing countries will be as much as $10-$15 billion less than in 1982. Countries members of OPEC meanwhile increased their borrowings in 1982 and will probably increase them still further in 1983 as many of them seek to finance emerging substantial current-account deficits.

17. Apart from the trends in the amounts of financing cited above, the terms facing developing countries hardened as well. During 1982 the average maturity was about one year less than in the fourth quarter of 1981, the average loan was smaller, and the average spread increased steadily from quarter to quarter throughout 1982 to reach 1.26 during the fourth quarter. To be sure, base interest rates fell in 1982 but inflation in developed market-economy countries and prices of non-oil primary commodities fell as well. Real interest rates thus remained very high and, in fact, may have increased for many developing countries. For example, the three-month LIBOR on United States dollar deposits fell from an average of 16.78 per cent in 1981 to 13.16 per cent in 1982 and has averaged about 10 per cent during the first four months of 1983. However, consumer price increases in the United States fell from 10.4 per cent to 6.2 per cent between 1981 and 1982 and appear to have declined to less than 4 per cent during the first four months of 1983. Thus, on that basis, real interest rates to United States lenders have remained at 6-7 per cent. Moreover, the burden of these interest rates on developing-country borrowers has been enormously amplified by the precipitous fall in the terms of trade of non-oil primary commodities described in the preceding section.

18. Trends in the amounts of net direct investment abroad may be gleaned from the balance of payments of developed market-economy countries. These flows reached a peak in 1979, when they amounted to $19 billion. After falling sharply in 1980, they regained

Table 2

Current-account balances: *a/*
major countries and country groups, 1980-1984
(Billions of dollars)

Country or country group	Actual 1981	Estimate 1982	Forecast 1983	Forecast 1984
Developed market-economy countries *b/*	-2.8	-12.4	2.9	2.8
North America	6.0	1.4	-14.5	-25.5
of which:				
United States	11.0	-0.3	-17.5	-30.0
Western Europe	-6.3	-12.2	6.5	13.6
of which:				
France	-2.8	-17.8	-6.1	-0.5
Germany, Fed.Rep.of	0.7	10.4	11.6	9.2
Italy	-8.0	-5.0	-1.0	-1.3
United Kingdom	16.0	10.2	5.4	5.5
Japan	6.2	8.2	19.8	23.5
Other countries	-8.7	-9.8	-8.9	-8.8
Developing countries and territories *c/*	-37.1	-53.2	-77.1	-70.5
Surplus countries *d/*	83.8	49.2	6.2	5.5
Countries with current-account deficits	-120.9	-102.4	-83.3	-76.0
of which:				
Net oil-importing countries *e/*	-73.3	-55.6	-39.5	-39.5
Exporters of manufactures *e/*	-23.0	-18.6	-8.4	-7.6
Least developed countries	-7.2	-8.3	-8.2	-8.4
Other countries and territories	-43.1	-28.7	-22.9	-23.5
China	3.3	5.1	2.5	1.0
Socialist countries of Eastern Europe	-6.0	5.3	2.0	1.0
Statistical discrepancy *f/*	-42.6	-55.2	-69.7	-67.5

Source: UNCTAD secretariat calculations, based on official national and international sources.

a/ Goods, services and private transfers.
b/ As defined in the *UNCTAD Handbook of International Trade and Development Statistics*, but excluding Yugoslavia.
c/ All countries and territories not included in other groups.
d/ Includes all countries with current-account surpluses in two of the four years shown.
e/ For definition see the note to annex table A.1.
f/ The total statistical discrepancy is composed of a positive discrepancy on merchandise trade due to timing asymmetries and a negative discrepancy on services reflecting, in the main, under-reporting of interest income, receipts from sale of transportation services, and remittances. While the latter discrepancy has been increasing systematically over time, the timing asymmetry has tended to increase during periods of accelerating inflation and to decline in periods of decelerating inflation. It is the declining rate of price increases of traded in the period 1982-1983 compared with 1980-1981 which accounts for a reduction in the timing asymmetry and consequently an increase in the overall statistical discrepancy in those years.

some ground in 1981, but partial data indicate a further small reduction in 1982.[3]

19. One large component of official government loans consists of official export credits, in respect of which terms recently hardened. The agreement reached among OECD Governments in June 1982 set new minimum interest rates for borrowing countries according to three categories: developed market-economy countries and the socialist countries of Eastern Europe (Category 1), middle-income developing countries (Category 2), and low-income developing countries (Category 3). For countries in Category 1, interest rates were increased from a range of 11 per cent to 11.25 per cent per annum to a range of 12.15 per cent to 12.4 per cent. For countries in Category 2, interest rates were increased by about one-half of a percentage point to a range of 10.85 to 11.35 per cent, while the rate of 10 per cent applicable to countries in Category 3 was not increased. At the same time a number of countries were reclassified from Category 2 to Category 3. For these countries, interest rates increased by at least a full percentage point. The current agreement was to expire at the end of April 1983 but has now been extended to June owing to difficulties arising from the fall in nominal interest rates on international markets since the 1982 agreement was reached, which has led some countries to propose a reduction in interest rates by as much as 2 percentage points.

20. Although at present interest rates on export credits are similar to those prevailing for international bank loans, even including a "spread" of one percentage point or more, overall terms and conditions of access remain highly attractive compared to bank loans. For one thing, access to this source of finance is more widely distributed than international bank credit because perceptions of credit-worthiness change more slowly and are considerably less important in the case of the former. Moreover, the maturities of 5, 8.5 and 10 years for Categories 1, 2 and 3, respectively, are longer on average than for international bank loans. While reduction of the present level of interest rates would certainly improve at the margin the debt situation of developing countries, it is a cause of concern that a new agreement may also entail a mechanism allowing for semi-automatic changes in interest rates to reflect changes in commercial market conditions. Such a change would be injurious to developing countries in the event of interest rates on financial markets increasing while commodity prices are falling, as was the case in 1981.

[3] While net direct investment abroad for the developed market-economy countries nets out their flows to each other, it also nets out direct investment from the rest of the world in the developed market-economy countries. These flows would have been primarily forthcoming from oil-exporting developing countries and would probably have been increasing from 1979 to 1981. However, their magnitude is not thought to be sufficient to alter the conclusion drawn regarding net flows from developed market-economy countries.

Chapter II

THE SHORT-TERM WORLD ECONOMIC OUTLOOK

A. Developing countries and China

1. Recent developments and prospects for economic growth in 1983-1984

21. Adjustment by oil-importing developing countries to the deterioration in their terms of trade which occurred in 1979-1980 has been frustrated by a prolonged world economic recession. Efficient adjustment would have meant maintaining high and growing investment levels directed increasingly to expanding export capacity and increasing the potential output of import substitutes, particularly with respect to food and energy, while maintaining reasonably high levels of capacity utilization. However, the slowdown in the growth of world output to an annual rate of less than 1 per cent (see table 3) during the three-year period 1980-1982 led to actual declines in the export volumes (estimated at about 1.4 per cent per year), compared with an annual increase of 5 per cent in the 1977-1979 period. At the same time, the terms of trade of oil-importing developing countries, which had already deteriorated in 1978 and 1979, continued to weaken throughout the three subsequent years. Their level in 1982 was, in fact, nearly 25 per cent below that of 1977 and 30 per cent below that of 1973.

22. As had been the case in the 1974-1975 period, the near stagnation in the purchasing power of exports entailed by the above-mentioned developments was initially met by recourse to external finance, flows of which increased by nearly 65 per cent between 1978 and 1980 and permitted substantial growth of import volumes in 1980. However, the sharp increase in interest rates in 1981 and their high average levels in 1982, years in which the purchasing power of exports continued to stagnate, left developing countries with no option but to curtail sharply growth in output and import volumes. Since official balance-of-payments facilities were inadequate to offset the retrenchment in lending by private banks, growth in capital flows slowed to 10 per cent in 1981, and their level fell by 27 per cent in 1982.

23. This pattern of adjustment was even imposed on the exporters of manufactures, who were in a better position than other developing countries to attempt the implementation of "supply-side" adjustment policies, as they had done with considerable success following the 1974-1975 recession. During the two years of the earlier recession, their export volumes stagnated, but thereafter grew at very high levels, exceeding 14 per cent per year in each year from 1976 to 1981. In 1982, when the current recession reached its nadir, their export volumes grew at a relatively low rate of 1.6 per cent, as was to be expected, but prospects for renewed relatively strong export volume growth were still providing grounds for further supply-side adjustment policies. However, in order to be successful, such policies would have required the support of the international environment, in particular as regards the availability of international finance. In fact, while international financial markets were initially willing and able to finance current-account deficits, whose percentage increases during the second crisis were similar to those which occurred during the first crisis, they became increasingly reluctant to do so for two reasons. The first was the high level of debt accumulated by these countries in the aftermath of the 1974-1975 recession. The second, and probably more important, was the weaker growth in the purchasing power of exports as prospects for recovery from the recession which began in 1979 continually receded. Concerns over countries' ability to service their external debt were aggravated by the increase in interest rates in 1981 and the high level at which they remained throughout most of 1982. Increasing difficulties in securing adequate external finance left even these countries with no alternative to reducing demand for imports by bringing GDP

Table 3

World output by major countries and country groups *a/*, **1975-1984**
(Percentage change)

Country or country groups	Actual: 1975-1980 (Annual average)	Actual: 1981	Estimate: 1982	Forecast b/: 1983	Forecast b/: 1984
World *c/*	3.9	1.1	-0.1	1.7	3.4
Developed market-economy countries *d/*	3.4	1.3	-0.2	2.0	3.2
North America	3.5	2.0	-2.1	2.9	4.5
Western Europe	2.9	-0.3	0.4	0.7	1.7
Japan	5.1	3.0	3.0	3.2	3.5
Others	2.6	4.0	0.0	-0.5	4.0
Developing countries and territories *e/*	5.3	0.3	0.5	0.2	4.0
Major oil-exporters	5.3	-2.1	-0.3	-1.8	3.6
Oil sector	1.5	-17.3	-8.8	-11.1	3.3
Non-oil sector	6.9	5.2	3.5	2.0	3.7
Other oil exporters	6.3	6.1	3.5	3.9	4.4
Net oil-importing countries	5.2	1.4	1.2	1.7	4.2
Of which					
Exporters of manufactures	6.3	-1.7	0.6	0.0	4.7
Least developed countries	3.5	2.3	2.9	3.0	3.5
China *f/*	4.9	3.0	7.4	4.5	4.9
Socialist countries of Eastern Europe *f/*	4.3	2.0	1.8	3.3	3.5

Source: UNCTAD secretariat calculations, based on official national and international sources.

a/ For definition of country groupings, see the explanatory notes at the beginning of this report and the note to annex table A.1.
b/ See note *c/* to annex table A.1.
c/ Excluding China and the socialist countries of Eastern Europe.
d/ Gross domestic product/gross national product.
e/ Gross domestic product.
f/ Net material product.

growth to a halt in 1981, with stagnation expected to continue throughout 1983 before modest growth can be resumed in 1984.

24. The economic crisis which was already widely felt in 1981 continued to spread in 1982, one indication of which was the growing number of countries taking deliberately restrictive policy measures in the face of already reduced and unsatisfactory rates of growth. Out of a sample of 25 developing countries for which data were readily available for the years 1980-1982, 17 reduced the amount of fiscal stimulus provided by the public sector in either 1981 or 1982. Moreover, six of them had already taken such measures in one of the two preceding years. In nearly all cases the reduction in stimulus took the form of expenditure reductions rather than increased revenues, which in all probability has

meant reduction in public investment programmes. Evidence of retrenchment in public investment programmes is provided by the number of countries publicly announcing cuts in such programmes in 1982. These included countries as diverse as Argentina, Brazil, Chile, Ivory Coast, Mexico, Nigeria, Pakistan, Republic of Korea, and United Republic of Tanzania, only two of which were included in the 25 countries mentioned above.

25. The crisis has also slowed the pace of economic development in oil-exporting developing countries. Many of these countries have experienced continued declines in their exports and production of petroleum since 1979, with particularly sharp declines in 1981 and 1982. A further decline is expected for 1983 as a whole, although during the year an end to the trend of absolute declines is expected as demand for oil increases, with the beginning of economic recovery, and the drawdown of excess inventories is completed. The level of OPEC production will, nevertheless, remain far below capacity for several years. Since, moreover, oil-exporting countries found it necessary to reduce oil prices to prevent an even larger decline in production, export earnings are expected to fall substantially in 1983 as compared to 1982. The moderate increases in export volume expected in 1984 will not entirely reverse the 1983 fall in export earnings. Consequently, virtually all major oil-exporting countries are expected to aim at considerably slower rates of growth in their non-oil sectors than in the late 1970s. In the aggregate this process is expected to bring the growth of import volumes to a halt in 1983 and 1984. Thus, the achievement of the developmental goals of these countries to diversify production by investing the earnings from petroleum in petrochemicals and other branches of the economy has been seriously set back by the dramatically reduced demand for crude oil exported by OPEC members.

26. The annual rate of GDP growth of the least developed countries, which during the 1970s barely kept up with population growth, slowed to 2.3 per cent in 1981, resulting in a decline in income per capita. In 1982, growth increased slightly, to about 3 per cent, but no significant further improvement is expected in 1983 or 1984. Since agriculture accounts for approximately one half of GDP in these countries, performance in that sector is an important determinant of overall GDP growth. Owing to adverse weather in many countries, particularly Africa, agricultural output increased by only 1.4 per cent in 1981, but with improved weather conditions agricultural output increased by 2.8 per cent in the following year. Nevertheless, overall conditions for food crop production remained below normal and abnormal food shortages were reported in many least developed countries.

27. GDP performance in major geographical regions in some cases largely reflects developments in the larger countries of the region and in other cases the composition of exports. Thus, developing countries in the western hemisphere marked decline in GDP growth in 1981 and absolute declines in 1982, due in part to the large weights of Argentina and Brazil (1981) and Mexico (1982). However, contractions in output were widespread in both years, with eight countries reporting declines in output in 1981 and 11 in 1982.[4] For countries in East Asia, of which a large number are exporters of manufactures, performance was much better than average. The combined GDP growth in this region in 1982, however, was less than 4 per cent, the lowest since 1974, when a similar growth slowdown occurred, and is only half of the average annual growth rate recorded during the 1970s. Sub-Saharan countries in Africa (excluding Nigeria) exhibited GDP growth of only about 1.5 per cent in 1982, markedly lower than the rate of population growth.

28. The constraints on GDP growth described above are expected to persist throughout 1983. Even in 1984, GDP growth for developing countries is unlikely to exceed 4 per cent since the modest improvement in export earnings associated with the upturn in economic activity foreseen in world demand will be used in large part to rebuild reserves and reduce short-term liabilities to commercial banks.

[4] Out of 19 countries reported upon by the Economic Commission for Latin America.

2. Trade balances and terms of trade

29. The export performance of most groups of developing countries deteriorated in 1982 as the world economic crisis deepened. Export performance also exhibited somewhat less divergence among groups of developing countries in 1982 than it had in 1981. Export volumes of oil-exporting developing countries, which had fallen sharply in 1981, declined further in 1982, and a smaller decline is expected in 1983. Net oil-importing countries as a group, which had increased their export volumes by more than 10 per cent per year from 1978 to 1981, managed to increase them by only 2.7 per cent in 1982.

30. As regards net oil-importing developing countries, there were major differences among countries in 1982. In contrast to their performance in 1981, exporters of manufactures achieved only a modest increase in export volumes in 1982. This reflected poor performances of both the Latin American countries and the East Asian countries. They are expected to achieve somewhat higher rates of growth of export volumes in 1983 and 1984 than other groups of developing countries but markedly lower than those attained during the 1970s.

31. In 1982, export volumes showed only a modest increase in the developing countries of the Western hemisphere. This reflected declines of over 10 per cent for a number of countries, including Argentina, Brazil, Guyana, Panama and Uruguay and nearly all of the Central American countries, which were nevertheless offset by increases in several other countries, including Barbados, Colombia, Chile, Paraguay and Peru. Moreover, the number of countries which actually registered declines in export volumes increased in 1982 as compared with 1981.

32. In South Asia export volumes declined in 1982 after two years of sluggish growth, the aggregate figures being dominated by the decline in the export volumes of large countries, i.e. India (1980 and 1981) and Pakistan (1982). In one or more of the past three years, however, few countries in this region experienced substantial rates of increase despite world market conditions.

33. Least developed countries, the majority of which are located in Sub-Saharan Africa, showed an absolute decline in their export volumes in 1982 after having experienced a stagnation in 1981. In 1983, a substantial increase is expected due mainly to the restoration of considerable export capacity in the Sudan. With the exclusion of that country, export volumes are expected to increase by about 3.5 per cent.

34. In 1982, supply conditions, such as weather, were less unfavourable than in 1981, although balance-of-payments difficulties led to shortages of intermediate goods needed by the export sector. By far the most important factor affecting the export performance of developing countries, oil and non-oil exporting countries alike, was the slow growth of their export markets.

35. Weak demand in export markets was reflected not only in export volumes but also in weaker export prices for developing countries. The terms of trade declined by about 2 per cent in 1982 for the net oil-importing developing countries, the fifth consecutive year of such declines. Cumulatively, the terms of trade of the net oil-importing developing countries fell by 21 per cent during the period 1978-1982. The cumulative increase of 2.9 per cent expected to occur over the period 1983-1984 will do little to redress the declines of the previous five years. Countries whose exports were essentially maize, rice, sugar, oils, rubber and lead experienced much greater than average terms-of-trade declines in 1982, since prices of those commodities in relation to prices of manufactured exports fell considerably. Among the net oil-importing developing countries, the terms of trade of the least developed countries declined at about the average rate in 1982, but their cumulative decline of about 31 per cent over the five-year period 1977-1982 was considerably greater. Countries for which sugar is a major export commodity and which did not themselves experience crop disasters, for example, saw the gains from the large price increases of 1979 and 1980 completely eliminated by the price declines experienced in 1981 and 1982.

36. The combination of continually deteriorating terms of trade and the

virtual cessation of export volume growth in 1982 resulted in extremely slow growth in the purchasing power of exports, which averaged less than 2.5 per cent in the period 1980-1981 and ceased to increase altogether in 1982.

37. Throughout the period 1975-1982, developing countries have intensified their efforts to adjust to balance-of-payments pressures resulting from external factors. They have done so by taking steps to increase the share of exports in GDP and to reduce the rate of growth of imports. For much of the period, many countries were able to increase their use of borrowed funds in order to finance the additional investments required to undertake structural adjustment and to sustain minimum import levels. Different patterns of adjustment can be seen in chart II, which depicts the interrelationships of growth in export volumes, import volumes and the purchasing power of exports for three groups of net oil-importing countries.

38. Major exporters of manufactures were able to rely mainly on an adjustment strategy aimed at increasing exports, thereby maintaining more satisfactory rates of growth of output and employment than most other developing countries, at least until 1980. During the 1960s, export volumes and GDP increased at about the same rate on average, exceeding the growth of imports by about 1 per cent. From 1975 to 1981, the growth of exports exceeded that of imports by more than 10 percentage points annually and in 1982, when export growth slowed down to about 1 per cent, imports declined, in absolute terms, by more than 6 per cent (see panel B of chart II). The rapid growth of exports of these countries enhanced market perceptions of their credit-worthiness, and enabled many of them to increase their borrowings from international capital markets. This facilitated maintaining or increasing the ratio of investment to GDP - a necessary ingredient of efficient adjustment.

39. The ability of these countries to sustain high rates of export growth while slowing the rate of growth of imports would have eliminated the trade gap by 1980 if prices had remained at 1975 levels. Even in current prices, the trade gap all but disappeared in 1977-1978 with momentary recovery in commodity prices. There is every reason to believe that the large trade gap which emerged in 1979-1980 owing to external factors could have been gradually reduced as well. However, the weight of debt service - swollen in 1981 and 1982 by high interest rates - the emphasis given to reducing inflation at the expense of recovery by developed market-economy countries which depressed export earnings, and the growing share of developing-country debt in bank balance sheets inhibited international capital markets from providing the finance required for gradual adjustment. Thus, even the major exporters of manufactures have had to restrain domestic demand in order to curtail demand for imports, which actually fell in volume terms in 1982 and is expected to exhibit only moderate growth in 1983 and 1984.

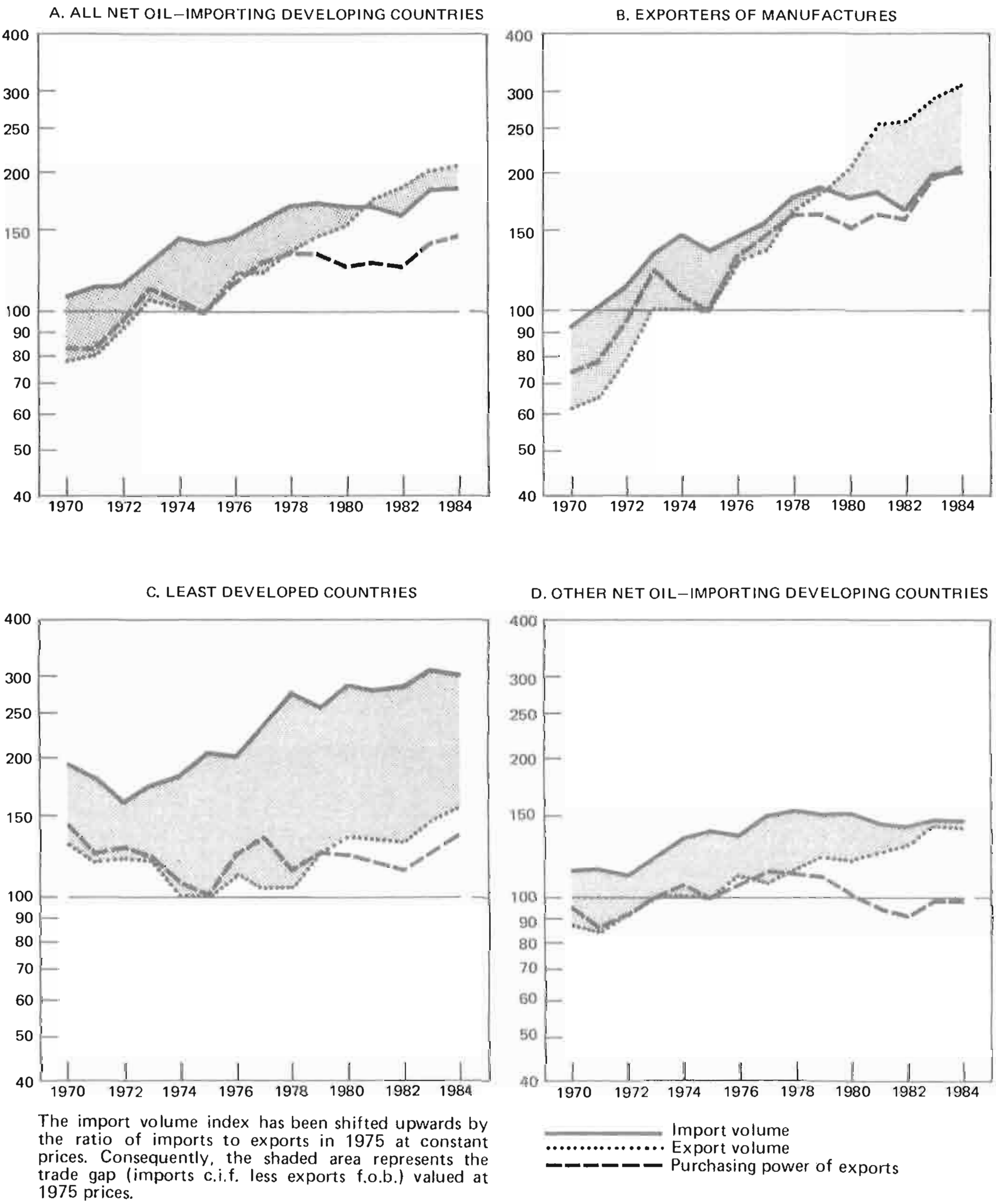
40. An adjustment strategy based on rapidly rising exports, particularly of manufactures, had become viable by the early 1970s for those countries which had built up a relatively large industrial base, a pool of skilled labour, and sizeable cadres of engineers and managers. Some countries had accomplished this mainly through the pursuit of export-oriented policies during the preceding two decades, others by emphasizing import substitution during at least part of that period. These conditions did not, however, apply to the majority of the developing countries facing severe balance-of-payments pressures in the mid-1970s. These countries were still largely dependent on primary commodity exports, whose trend rate of growth in volume terms during the second half of the 1970s and early 1980s, although remaining substantial, was lower than in the first half because of the generally weak state of demand in world commodity markets (see panel D of chart II). These countries had to reduce their current-account deficits none the less, but this has been accomplished by a substantial decline in import volumes since 1978, accompanied inevitably by a marked deceleration in their GDP growth rates.

41. Least developed countries have also made significant efforts to increase their export volumes, which had exhibited a downward trend during the first half of the 1970s. From 1975 to 1980 export volumes grew at an average rate of 6 per cent per year, which only sufficed to restore 1970 levels.

Chart II

ADJUSTMENT OF TRADE BALANCES: SELECTED GROUPS OF NET OIL-IMPORTING DEVELOPING COUNTRIES, 1970-1984

(Index numbers (1975 = 100), logarithmic scale)



The import volume index has been shifted upwards by the ratio of imports to exports in 1975 at constant prices. Consequently, the shaded area represents the trade gap (imports c.i.f. less exports f.o.b.) valued at 1975 prices.

In 1982, export volumes declined absolutely but prospects for a significant increase in 1983 appear good, although the overall outlook is dominated by a large expected increase in exports of cotton by the Sudan. Despite improved export performance since 1975, terms-of-trade losses have been so severe that the purchasing power of exports has stagnated. Their plight would have been even worse if increased amounts of external assistance had not financed import levels substantially above those that could have been sustained from export earnings alone.

42. The severity of the balance-of-payments constraint impinging on almost all groups of developing countries in 1981 and 1982 resulted in absolute declines in the level of import volumes in one or both years in nearly all groups of oil-importing developing countries. Rates of import volume growth of the major oil exporters and other net oil exporters slowed drastically in 1982 from the rather high rates of increase realized during the previous three years.

43. In 1983 and 1984, import volume growth rates are expected to average about 3.5 per cent for the net oil-importing countries, but there is likely to be considerable variation among country groups, as may be seen from annex table A.2. In the western hemisphere and Sub-Saharan Africa import volumes may, in fact, fall further in 1983, whereas in South Asia import volume growth is not expected to average more than 2 per cent per year over the two-year period. Only in East Asia, in fact, is import volume growth expected to be relatively buoyant, at more than 4 per cent per year, but even these rates would be far below the average realized during the decade of the 1970s as a whole. Least developed countries are expected to be able to increase their import volumes at very modest rates, but only if net capital flows maintain their 1982 value in real terms in 1983 and 1984.

3. The balance of payments

44. Developing countries as a whole registered current-account deficits in both 1981 and 1982 and this aggregate deficit is expected to increase again in 1983 but to decline somewhat in 1984. This overall movement is, of course, associated, on the one hand, with the virtual elimination of the current-account surpluses of several countries between 1980 and 1983. On the other hand, in 1982 other developing countries reduced their current-account deficits from the 1981 peak and are expected to reduce them still further in 1983 and 1984.

45. As already mentioned, the major oil exporters experienced substantial reductions in their current-account surpluses between 1980 and 1982. This was due to significant reductions in their export volumes and to the rapid growth in import volumes through 1981. The reduction in export volumes reflected the prolonged economic recession in the developed market-economy countries as well as the effects of conservation, inter-fuel substitution and increased production by countries outside of this group. Moreover, export prices fell slightly in nominal terms. These trends are likely to intensify in 1983, when export volumes are expected to fall further and export prices to decline by about 13 per cent for the year as a whole. Accordingly, the balance-of-payments surplus of the major oil-exporting countries as a whole, which amounted to $47 billion in 1981, fell to about $13 billion in 1982 and is expected to turn into a deficit of $28 billion in 1983 and $21 billion in 1984.

46. Net oil-importing developing countries as a whole had a deficit of about $74 billion in 1981, which fell to around $56 billion in 1982 and is expected to fall further to about $40 billion in 1983. Little change is expected in 1984. As may be seen from table 2, exporters of manufactures, which accounted for about one third of the aggregate deficit in 1981 and 1982, are expected to account for a considerably smaller share in 1983 and 1984. A number of net oil-exporting developing countries, including some of the major oil exporters, also recorded current-account deficits in 1982. The aggregate current-account deficits of developing countries thus amounted to about $37 billion in 1981 and $53 billion in 1982. These deficits are expected to increase to $77 billion in 1983, but they should be reduced somewhat in 1984.

47. Net investment income has figured as a large negative item in the current account of most groups of developing countries for several years, reflecting the accumulation of debt and the increasing share in total debt of debt incurred on commercial terms. The large increase in this item in 1981 and its subsequent high level in 1982 also reflected the increase in interest rates on debt subject to variable interest rates. The increase in LIBOR, on which most Eurocurrency lending is based, from 8.9 per cent in 1978 to 16.8 per cent in 1981 and 13.2 per cent in 1982, meant that interest payments on medium and long-term debt in 1981 and 1982 were respectively \$11.5 billion and \$6.7 billion higher than they would have been if interest rates had remained at the levels prevailing in 1978. By 1984, the deficit on net investment income account is expected to exceed \$37 billion, i.e. approximately half of the aggregate current-account deficits of developing countries.

4. Financing the current-account deficits of developing countries, 1980-1983

48. The principal means of financing the deficits of developing countries are shown in table 4. The contribution of international capital markets to the financing of these deficits contracted sharply in 1982 and further contraction is foreseen for 1983. The reduction in net lending meant that such flows fell below the payments of interest on the balance of such loans outstanding. Thus an amount exceeding the deficit on goods and non-factor services remained to be financed through private sector flows such as direct investment, export credits and short-term borrowing, and through official capital flows, including credits extended by the International Monetary Fund.

49. Owing to the retrenchment of commercial bank lending in 1982, reserves, IMF credit and short-term borrowings financed a large share of the current-account deficits of developing countries. However, further use of reserves and short-term borrowing is unlikely to continue in 1983 and 1984. For one thing, there is little scope for further large increases in the use of short-term financing. For another, the absence of large increases in medium and long-term flows and the necessity for many developing countries to restore badly-depleted international reserves will necessarily entail a fall in current-account deficits in 1983 to a level which is not likely to change significantly in 1984. IMF lending may, however, increase significantly in 1983. The flow of official development assistance in the form of concessional bilateral loans and grants would appear to have increased only marginally from 1981 to 1982, and maintaining these levels constant in real terms appears to be as much as can be expected on present policies, despite the efforts of some DAC donors to increase their ODA as a percentage of GNP. Moreover, the disappearance of the current-account surpluses of OPEC-member countries in 1982 and 1983 would seem to imply difficulties for them to increase significantly their net capital flows to other developing countries.

50. A sizable increase in donor disbursements to multilateral agencies in 1982 reversed the decline observed in 1981 and preserved the ability of these institutions to maintain the level of their aid disbursements. On the whole, flows from multilateral lending institutions have remained approximately constant in real terms from 1975 to 1982. Some acceleration is expected in 1983 and 1984 as a consequence of the recent decision taken by the World Bank to accelerate disbursements. The average rate of interest on loans, which was increased by most institutions until 1982, has shown little sign of falling back to earlier levels. The World Bank, for example, in its regular lending programme, while reducing in two steps front-end fees from 1.5 per cent to 0.25 per cent in 1983, in December 1982 was charging 11.3 per cent in fiscal year 1981/82 and 11.4 per cent during the first half of fiscal year 1982/83. Furthermore, the reduction in the ratio of IDA loans to regular loans from 40 per cent as recently as fiscal year 1981 to 25 per cent in fiscal year 1982 has meant that the rise in the average interest rates faced by many developing countries is expected to increase by even more than the rise in interest rates for loans from the Bank's regular resources would indicate.

51. In the late 1970s, the International Monetary Fund embarked upon a

Table 4

Developing countries with current-account deficits *a/*:
Sources of financing, 1981-1984
(Billions of dollars)

	1981	1982	1983	1984
Current-account deficit	120.9	102.4	83.3	76.0
Increase in official reserves	-19.1	-11.6	-1.2	6.0
Total net capital flows	101.0	90.8	82.1	82.0
Official bilateral flows on concessional terms	22.4	22.8	23.2	24.1
Grants *b/*	13.1	13.4	13.9	14.4
Medium and long-term loans	9.3	9.4	9.3	9.7
Other medium and long-term official bilateral loans	3.7	3.3	3.3	3.5
Multilateral institutions	9.8	11.8	14.2	15.0
Private medium and long-term flows	51.9	43.8	31.9	31.4
Direct investment	15.4	10.5	11.0	11.0
Export credits	10.2	9.1	10.0	9.5
Bilateral portfolio investment	3.0	3.2	3.0	3.0
Other international bank lending	23.3	21.0	7.9	7.9
IMF lending	5.7	6.5	9.5	8.0
Short-term capital, unrecorded flows and errors and omissions	8.3	2.6	0.0	0.0
Memo item:				
Total interest c/ and profit remittances (net)	65.1	65.0	72.4	78.6
Net transfer	55.0	25.8	9.7	3.4

Source: UNCTAD secretariat calculations, based on international sources.

a/ Excluding countries and areas in surplus in two of the four years shown. These are Angola, Bahrain, Brunei, Iran (Islamic Republic of), Kuwait, Libyan Arab Jamahiriya, Oman, Qatar, Saudi Arabia, Taiwan province of China, United Arab Emirates, Venezuela.

b/ Excluding technical assistance.

c/ Balance-of-payments basis; does not include interest on short-term debt or on IMF drawings.

substantial expansion of its lending activities in recognition of the urgent need for additional balance-of-payments finance, particularly for developing countries with only limited access to international financial markets. Thus, total drawings on the Fund increased from SDR 1.8 billion in 1979 and SDR 3.8 billion in 1980 to SDR 7.1 billion in 1981 and SDR 8.8 billion in 1982. Against these drawings must be offset repayments on earlier drawings which amounted to SDR 1.6 billion in 1982. Thus, net lending by the Fund in 1982, the bulk of which was provided to net oil-importing developing countries, SDR 7.2 billion. In view of the size of undrawn balances in connection with agreements under the upper credit tranche facilities, which stood at SDR 16.4 billion by 30 April 1983, net lending by the Fund in 1983 is expected to exceed 1982 levels.[5] Fund resources might sustain a similar amount of lending in 1984 in view of the agreement on a quota increase following the recently concluded eighth general review of quotas. However, actual disbursements of

[5] According to recent information, net drawings during the first half of 1983 would be more than twice net drawings during the same period in 1982.

such amounts can take place only if the conditions associated with present agreements or those which are likely to be reached in the remainder of 1983 and in 1984 can be met by developing countries.

52. Official and officially-guaranteed increase at about the same rate as the value of imports in 1983 and 1984, namely, about 6 per cent per year. As mentioned in chapter I, their terms have recently hardened and cannot be expected to soften significantly in 1983 and 1984.

53. Official flows with varying degrees of concessionality and conditionality are thus expected to account for an increased share of the financing of the total current-account deficits in 1983 and 1984 as compared with the two preceding years.

5. The evolution of debt and debt service, 1981-1984

54. One of the characteristics of the recent evolution of the debt structure of developing countries is the growing proportion of short-term debt in their total indebtedness, reflecting the increasing difficulties of a number of these countries to raise medium and long-term money on international financial markets. Unfortunately, data on short-term indebtedness of developing countries are scanty and not always reliable. For this reason, the analysis which follows concentrates on medium and long-term debt. The burden of servicing short-term debt should not be overlooked, however.

55. Table 5 depicts the evolution of medium and long-term external debt and related debt-service payments of all developing countries for which such debt significantly exceeds their external assets. It thus includes a slightly different group of countries than table 4, which analyses the financing of current-account deficits. This is because there are a significant number of developing countries which, although temporarily exhibiting balance-of-payments surpluses, have none the less substantial foreign debt. Conversely, a number of countries exhibiting deficits have, at present, levels of debt which are closely matched or exceeded by their official reserves and other external assets. The indebted developing countries thus include all but 12 developing countries or areas.[6]

56. Although the total outstanding and disbursed debt of developing countries is expected to increase, the rate of increase is expected gradually to slow and to be less than the rate of increase of export earnings in 1984. The impact of slightly lower interest rates expected in 1983, following their decline in 1982, is expected to be more than offset by an increase in debt, leading, for that year, to an increase in the ratio of interest on medium and long-term loans to exports. However, on the assumption of no further increases in interest rates, this ratio is expected to stabilize in 1984. At the same time, the impact of recent debt reschedulings is expected to reduce the rate of increase of amortization payments from what it otherwise would have been. Thus the ratio of debt service to export earnings is expected to exhibit little change in 1983 and 1984 compared with the last two years.

57. At the risk of over-simplification, of developing countries can be said to have evolved differently for two groups of developing countries. The first group comprises countries which have continued to depend mainly upon official sources of finance, whereas the second group comprises countries that have been major borrowers on international capital markets. Countries in the first group have encountered difficulties in servicing their external debt at much lower levels of debt-service ratios than those in the second group. This has been the case because official loan finance, whether in the form of bilateral or multilateral development finance or of official

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[6] The countries and areas excluded were those whose net foreign assets (external assets minus medium and long-term outstanding debt) were more than $1 billion for the most recently available year, namely Brunei, Hong Kong, Iraq, Iran (Islamic Republic of), Kuwait, Lebanon, Libyan Arab Jamahiriya, Saudi Arabia, Singapore, Taiwan province of China, Trinidad and Tobago and United Arab Emirates.

Table 5

Net debtor developing countries *a/*:
Net capital flows, debt service and debt-service ratios, 1981-1984
(Billions of dollars)

	1981	1982	1983	1984
Debt outstanding, end of period b/	456.8	523.2	580.4	637.0
Debt service				
Medium and long-term loans	84.3	95.4	112.5	123.2
IMF lending	2.1	2.2	2.7	3.4
Total loans	86.4	97.6	115.2	126.6
Profit remittances	14.8	14.0	14.0	14.5
Debt service plus profit remittances	101.2	111.6	129.2	141.1
of which: debt amortization	45.6	53.9	58.2	63.7
Ratios (percentages)				
Medium and long-term loans outstanding to exports *c/*	99.1	122.8	129.8	127.6
Interest on medium and long-term loans to exports	8.7	10.0	12.4	12.2
Debt service plus profit remittances to exports	21.9	26.2	28.9	28.3

Source: UNCTAD secretariat calculations, based on international sources.

a/ Excluding developing countries, territories or areas with net foreign assets greater than $1 billion in 1982. Those were Brunei, Hong Kong, Iraq, Iran (Islamic Republic of), Kuwait, Lebanon, Libyan Arab Jamahiriya, Saudi Arabia, Singapore, Taiwan province of China, Trinidad and Tobago and United Arab Emirates.

b/ Medium and long-term only, including IMF drawings outstanding.

c/ Goods and services.

or officially-guaranteed export credits, cannot be easily refinanced through international capital markets in the event of shortfalls in export earnings. The difficulty in "rolling over" debt of this sort arises from the tying of disbursements to actual purchases of imports. Thus, new official loans cannot easily be secured primarily for the purpose of financing the repayments arising from past debt accumulation. The only ready source of such finance is, of course, IMF. However, the level of balance-of-payments finance forthcoming from the Fund has often been insufficient to assure minimum import levels even when considerable contraction of domestic demand has been accepted as a condition for IMF credit. Thus, the rescheduling of official and officially-guaranteed export credits in the Paris Club and other similar forums has emerged as a form of "co-financing" of IMF balance-of-payments adjustment programmes. The pattern described above explains why the rescheduling of debt in the Paris Club from 1979 to mid-1983 has mainly involved low-income countries, whose export earnings have been chronically depressed as a result of the world economic recession while most of them have experienced concomitant increases in import prices.

58. The second group of countries, those which relied mainly on international capital markets, were able to refinance debt repayments falling due with the proceeds from new loans until the first half of 1982. Some of the proceeds were also used to partially finance payments of interest when interest rates increased dramatically in 1981. When the long-awaited recovery in developed market-economy coun-

tries failed to materialize in 1982, export earnings slumped even for countries having made strong efforts to maintain their growth, while interest rates remained high. These circumstances had eroded confidence in international capital markets, which received a further blow when an exodus of short-term capital forced one major debtor country to suspend debt-service payments during the second half of 1982. As roll-over finance became increasingly difficult to secure, several countries were forced to seek debt rescheduling, a condition of which proved to be reaching an agreement with IMF. Complex "rescue operations" ensued, involving IMF, Central Banks operating through the Bank for International Settlements (BIS), bilateral support of various types, and strong official pressure exerted on commercial banks to maintain or increase somewhat their net exposure. An international financial crisis was thus narrowly averted, but at the cost of economic contraction and sharp increases in unemployment in the debtor countries. Moreover, the reduction in their import demand imparted a further deflationary impulse to the world economy which may have in itself postponed the beginnings of recovery by three to six months.

59. The high levels of debt and debt service relative to export earnings will continue to render many developing countries highly vulnerable to sharp fluctuations in their export earnings or to abrupt changes in market perceptions of their credit-worthiness. The total outstanding medium and long-term debt of developing countries, excluding net creditor countries, is expected to reach $637 billion by the end of 1984, amounting to 128 per cent of export earnings, compared with 99 per cent in 1981. The inclusion of short-term debt, about which information is extremely tenuous, could add as much as $100 billion to this figure.

6. China

60. China's sixth five-year plan, covering the period 1981-1985, aims at achieving a significant break with previous economic trends in an effort to improve the structural balance of the economy. As compared with the results actually obtained during the previous planning period, it seeks to increase the rate of growth of agricultural output and light industry, to reduce the rate of growth of heavy industry, to reduce the share of investment in total output and to increase the share of energy and transport in total investment. Per capita consumption is targeted to increase at an annual average rate of 4.1 per cent, the gross value of agricultural output at 4-5 per cent, heavy industry at 3 per cent and light industry at 5 per cent. At the same time, public sector deficits are to be eliminated. These goals are to be achieved not only by reallocation of investment within the plan but also through administrative reforms. These include measures to increase the degree of enterprise autonomy, spreading more widely the use of cost-benefit analysis in the choice of investment projects, imposing user charges for capital and encouraging the use of material incentives.

61. During 1981 and 1982, the first two years of the planning period, significant progress was made towards the attainment of those objectives. Agricultural output increased at an average annual rate of 8.4 per cent, while industrial output increased at an average annual rate of 4.7 per cent. Within industry, light industry averaged growth of 9.9 per cent per year, compared to 2.6 per cent for heavy industry. The rate of growth of net material product increased significantly from 3 per cent in 1981 to 7.4 per cent in 1982; the average rate of increase of more than 5 per cent per year would thus appear to be somewhat above the annual rate implied by the plan.

62. Progress was also made in altering the composition of investment. Thus, the share of investment allocated to social infrastructure increased from 34 per cent in 1980 to nearly 46 per cent by 1982, while the share allocated to directly productive investment fell accordingly. However, despite an increase in the share of transportation investment in total investment from 9.1 per cent in 1981 to 10.3 per cent in 1982, outlays in this sector appear to be below planned levels.

63. In 1982 progress continued in reducing the rate of increase of consumer prices, reflecting better balance between money wages, which increased by only 3.4 per cent in 1982,

and the availability of consumer goods. Thus, inflation fell from 7.5 per cent in 1980 to 2.5 per cent in 1981 and to 2 per cent in 1982. Savings deposits increased by 29 per cent in 1981 and 1982, thus further relieving pressure on prices. Contributing to improved internal balance was the reduction in the government deficit from an average of 4.3 per cent of NMP in 1979 and 1980 to about 0.7 per cent in 1981. Efforts to eliminate the deficit in 1982, as was planned, were not completely successful.

64. The change in the composition of output as between heavy and light industry entailed significant changes in the demand for intermediate goods such as energy. Thus, production of primary energy increased only marginally in 1981, when output of heavy industry actually fell by 4.7 per cent, but increased by 5.7 per cent in 1982, when heavy industry expanded by 9.9 per cent. The average annual rate of increase of primary energy production of about 3 per cent was about the same as the average rate of growth of heavy industry during those two years, a relationship which has been fairly constant over the long run.

65. In 1982 China's export volumes increased by 6.5 per cent while import volumes remained at their 1981 levels. The trade balance (customs basis) improved from a position of balance in 1981 to register a surplus of $1.8 billion in 1982. Net receipts from tourism and other services apparently amounted to $3.3 billion in both 1981 and 1982. The current account is estimated to have exhibited a surplus of about $5 billion in 1982, compared with an estimated $3 billion in 1981.

66. Despite achieving notable gains in 1982, Chinese planners were dissatisfied for a number of reasons. The shift of investment from heavy industry to light industry was not great enough; many economic units had increased investment in plant and equipment by more than planned amounts and had consequently impeded the completion of projects listed in the State plan, owing to shortages of raw materials; and finally, many enterprises had failed to improve efficiency to the extent called for in the 1982 plan.

67. The progress made in the implementation of the five-year plan during the first two years would appear to offer a more than reasonable prospect for its successful implementation over the next three years. Certainly, it appears likely that the overall rate of growth of output will match or exceed the 4 per cent called for by the plan. Whether or not the shift in the composition of output will fully reflect the intentions of policy makers is somewhat more problematic. For 1983 and 1984 detailed planned figures are not available, but growth of NMP by 4.5 and 4.9 per cent, respectively, have been forecast by the econometric model of China incorporated in Project LINK.

B. The developed market-economy countries

1. Output, prices, and employment

68. Following two successive years of extremely slow growth in 1980-1981, the level of economic activity in the developed market-economy countries declined by about 0.2 per cent in 1982. This decline reflected a drop in output of 0.3 per cent in the seven major developed market-economy countries and a very weak rate of expansion of 0.4 per cent in the smaller countries. The fall in GDP was particularly marked in North America, with the United States recording a decline of 1.8 per cent and Canada one of 4.8 per cent. While growth rates of the major European countries were generally weak, the Federal Republic of Germany also recorded an actual drop in real GDP of 1.1 per cent. Japan continued to experience a higher-than-average GDP growth of 3 per cent in 1982, the same as in 1981.

69. The decline in real GDP of the OECD countries in 1982 was associated with an even sharper fall in their industrial production, estimated at 4 per cent, compared with the slight increase of 0.8 per cent recorded in 1981. As in the case of real GDP, reductions in industrial production were very pronounced in the case of North America in 1982 (United States: -7.8 per cent; Canada: -10.9 per cent). Nevertheless, they were also relatively steep in some major European countries (Italy: -3.2 per cent; France: -2.9 per cent; Federal Republic of Germany: -2.6 per cent). By way of contrast, Japan recorded a small increase, 1.4 per cent, in 1982.

70. Among the major components of aggregate demand, fixed capital formation was particularly weak in the OECD countries in 1982 and declines were estimated to have been widespread. Thus, the European Economic Community as a whole recorded an estimated rate of decline of 3 per cent in fixed capital formation in 1982, while private fixed investment in the United States declined by 5.8 per cent and fixed investment in Japan declined by somewhat less than 1 per cent.

71. The observed declines in fixed capital formation in the OECD countries were not particularly surprising in view of the unsatisfactory state of its principal determinants. Profit levels were low, interest rates high and low rates of capacity utilization widespread. For example, statistics compiled by the Commission of the European Communities show that the average rate of capacity utilization in the manufacturing industry of the member countries was only 77 per cent in 1982, lower than the levels of 81.3 per cent and 77.6 per cent observed in 1980 and 1981, respectively. The 1982 rate was thus only marginally higher than the low point of 76 per cent reached during the 1974-1975 recession. In the United States, data published by the Board of Governors of the Federal Reserve System indicate that the rate of capacity utilization in manufacturing was 67.6 per cent during the fourth quarter of 1982, a drop of four points from the first quarter, and was thus even below the low level of 69 per cent recorded during the 1974-1975 recession. The low rates of capacity utilization prevailing in the developed market-economy countries will very likely continue to affect investment activity in these countries adversely for some time. On the other hand, such figures suggest that there is ample room for stimulus to increase demand without again releasing significant inflationary pressure.

72. Responding to falling inflation rates and to measures taken by monetary authorities to reduce discount rates, short-term interest rates fell steadily during the second half of 1982. For example, as the discount rate in the United States fell from 12 to 9.5 per cent during the June-October period, the federal funds rate fell from an average of 14.5 per cent during the second quarter to 9.7 per cent in October (see table 6), while government bond yields dropped from 13.7 to around 11 per cent during the same period. Long-term bond yields in a number of countries had more or less followed the downward movements of those in the United States. Nevertheless, they still remained at high levels when compared to current inflation rates. For example, United States government long-term bond yields in December 1982 amounted to 6.7 per cent in real terms.[7] Corresponding real rates were 5.9 per cent in the United Kingdom, around 5.7 per cent in Japan and France, but considerably lower, 3.3 per cent, in the Federal Republic of Germany (see table 6). It seems probable that further falls in nominal interest rates would require enhanced confidence that inflation in the major countries will remain firmly under control. Falls in long-term real rates seem unlikely, however, unless prospective "high employment" or "structural" government budget deficits in major developed market-economy countries show signs of being significantly reduced. In this respect the large structural deficit of the United States is of special concern.[8] The consolidated budgets of the public sector in this country (which included substantial surpluses at the state and local levels) showed deficits averaging $100 billion (seasonally adjusted annual rates) during the first three quarters of 1982. This represented a substantial increase over the deficits of around $30 billion during 1980-1981. Expressed in relation to gross domestic saving, these combined deficits amounted first half of 1982 and more than 22 per cent during the third quarter of the year (see table 7). The threat posed by the financing of such large and increasing structural deficits is perceived to be either the need for excessive liquidity creation in the future, thereby rekindling inflationary pressures, or alternatively the crowding-out of competitive borrowers

[7] Deflating current yields by the increase in the consumer price index during the preceding 12 months.

[8] It has been estimated that the increase in the structural budget deficit accounted for one third of the change in the total US federal Government budget deficit in 1983 (see OECD, *Economic Outlook*, No. 33, July 1983).

Table 6

Interest rates in major OECD countries, 1981-1982

	1981	1982					
	1st quarter	1st quarter	2nd quarter	3rd quarter	October	November	December
	Nominal interest rates						
Short-term rates *a/*							
United States	13.59	14.23	14.51	11.01	9.71	9.20	8.95
United Kingdom	14.78	13.63	12.60	10.71	9.22	8.82	9.91
Germany, Fed.Rep.of	11.23	10.20	9.26	8.88	7.58	7.31	6.62
Japan	7.24	6.64	7.27	7.38	7.19	7.22	7.19
France	15.69	14.95	16.14	14.59	13.64	13.17	12.90
Long-term rates *b/*							
United States	14.14	14.27	13.74	12.94	10.97	10.57	10.62
United Kingdom	15.68	14.68	13.74	12.28	10.50	10.64	11.34
Germany, Fed.Rep.of	10.03	9.73	8.97	9.00	8.30	8.10	7.90
Japan	8.31	7.76	8.05	8.38	8.45	8.12	7.50
France	16.21	15.99	15.79	15.39	15.31	15.06	N.A.
	Real interest rates *c/*						
Short-term rates *a/*							
United States	3.99	6.63	7.71	5.21	4.61	4.60	5.05
United Kingdom	2.88	2.53	3.20	2.71	2.32	2.52	4.51
Germany, Fed.Rep.of	4.73	4.40	3.86	3.68	2.68	2.61	2.02
Japan	3.24	3.54	4.87	4.68	4.09	4.92	5.39
France	1.59	0.95	2.34	3.69	4.34	3.77	3.20
Long-term rates *b/*							
United States	4.54	6.67	6.94	7.14	5.87	5.97	6.72
United Kingdom	3.78	3.58	4.34	4.28	3.60	4.34	5.94
Germany, Fed.Rep.of	3.53	3.93	3.57	3.80	3.40	3.40	3.30
Japan	4.31	4.66	5.65	5.68	5.35	5.82	5.70
France	2.11	1.99	1.99	4.49	6.01	5.66	N.A.

Source: IMF, *International Financial Statistics*, various issues.

a/ Short-term rates: United States: federal Funds Rate; United Kingdom: Treasury Bill Rate; Federal Republic of Germany: Interbank Deposit rate; Japan: private bill Rate; France: Interbank money rate.

b/ Long-term rates: Government bond yield, except the Federal Republic of Germany (Public Authorities Bond Yield).

c/ Nominal interest rates deflated by percentage change in consumer prices.

by the federal Government, resulting in upward pressures on real interest rates.

73. Real private consumption was also sluggish in the developed market-economy countries in 1982. In the European Economic Community private consumption was estimated to have increased by only 0.1 per cent in 1982, compared with a similarly weak rate of 0.2 per cent in 1981, while in the United States the growth in this component of final demand fell from 1.8 per cent in 1981 to about 1 per cent in 1982. An exception to this trend was Japan, where private consumption grew at a relatively high rate of 4 per cent in 1982 after having registered an increase of only 0.7 per cent in 1981.

74. The contribution of government expenditure to economic activity also recorded a slower growth in 1982 than in 1981. Thus in real terms the rate of increase of government consumption in the European Economic Community slowed down from 1.5 per cent in 1981 to 0.8 per cent in 1982; in the United States, the growth rate of government expenditure dropped[9] from 0.9 to 0.5 per cent and in Japan government consumption grew at a rate of about 2.5 per cent in 1982 compared with 3.5 per cent in 1981. The fact that deficits grew as a percentage of GDP while government consumption slowed is due to the fact that in many countries GDP fell even faster than government expenditures and that growth in government revenues slowed with declining economic activity.

75. As discussed in more detail in previous sections, the financial difficulties confronting the developing countries seriously curtailed their imports, especially from the developed market-economy countries. The contribution of net exports to the GDP growth in the developed market-economy countries was considerably reduced and became negative in the fourth quarter of 1982. Their export volumes are estimated to have actually declined by about 0.7 per cent in 1982, after having registered an increase of about 1.5 per cent in 1981. Their imports, on the other hand, declined further in 1982, after having contracted by about 3 per cent in 1981.

76. The deepening recession entailed a worsening of the unemployment situation in the developed market-economy countries in 1982, when the number of unemployed exceeded 30 million, representing more than 8 per cent of the work force. Unemployment rates increased in all major developed market-economy countries in 1982. The increases were especially notable in North America (with Canada's rate rising from 7.6 per cent in 1981 to 11 per cent in 1982 and that of the United States from 7.6 to 9.5 per cent), in the Federal Republic of Germany (from 4.8 to 7 per cent) and in the United Kingdom (from 10.6 to 12.3 per cent). In France and Italy, the unemployment rates increased by about 1 percentage point in 1982, to reach 8.5 and 9.3 per cent, respectively. Japan's unemployment rate remained relatively low, at 2.3 per cent, in 1982.

77. On the whole, the situation appears to have deteriorated somewhat further during the first half of 1983, with a rate of unemployment for OECD countries as a whole reaching 9.3 per cent.

78. Weak labour markets, as exemplified by the record unemployment rates described above, contributed to continued moderation in demands for nominal wage increases in many developed market-economy countries in 1982. This factor, together with the dramatic falls in the nominal prices of a large number of primary commodities, contributed to the easing of inflationary pressures in most developed market-economy countries in 1982. The largest fall in inflation, as measured by private consumption deflators, occurred in the United States, which registered a decline from 8.6 per cent in 1981 to 6 per cent in 1982. Declines were substantial in the United Kingdom and Italy as well. Nevertheless, annual increases in consumer prices remained rapid in 1982 in some major countries, notably Canada and France, and especially Italy, in spite of the improvement noted earlier. The smaller countries as a group also recorded a two-digit inflation in 1982.

79. Barring unexpected developments, a mild recovery in GDP growth of developed market-economy countries is expected in 1983, but with quite diver-

[9] Figures for government consumption were not available.

Table 7

Government surplus or deficit and gross private saving in the United States, 1979-1982
(Billions of dollars; calendar years)

	1979	1980	1981	1st quarter 1982 *a/*	2nd quarter 1982 *a/*	3rd quarter 1982 *a/*
Government surplus or deficit (GSD)	11.9	-33.2	-28.2	-90.7	-87.5	-123.7
Gross private saving (GPS)	398.9	436.8	504.7	519.4	529.0	546.1
GSD/GPS (per cent)	3.0	-7.6	-5.6	-17.5	-16.5	-22.7
Memo items:						
GPS/GNP (per cent)	16.5	16.6	17.2	17.3	17.4	17.7
GDS/GNP (per cent)	0.5	-1.3	-1.0	-3.0	-2.9	-4.0

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

a/ Quarterly figures are seasonally-adjusted annual rates.

gent performances on the part of individual countries. In fact, the forecast growth rate of 2 per cent hinges very much on relatively rapid growth in the United States, since Japan's performance will probably not change from that observed in 1982 and growth in most European countries will probably remain quite slow.

80. Developments in the United States during the first quarter of 1983 have strengthened expectations of recovery and subsequent developments also have tended to reinforce these expectations. For example, there has been a revival of activity in the major interest-sensitive areas such as automobiles, other consumer durables and housing starts. There has also been evidence of inventory restocking by business. In general there has been a steady improvement in the rate of capacity utilization in the manufacturing sector and in consumer confidence indicators and employment situation. A better performance, however, is in the offing for 1984.

81. Moreover, there is as yet little evidence of increased investment activity. While this is to be expected in the early phase of a recovery cycle, there is reason to be concerned that an eventual increase in investment activity could well be "too little and too late" to sustain the momentum of recovery. For a given rental cost of capital, investment activity is expected to increase as the rate of capacity utilization rises. Rises in real interest rates which increase the cost of capital might, on the other hand, be expected to cause investment to be postponed until even higher capacity utilization levels are achieved. At the same time, the persistence of high real interest rates might well dampen and eventually halt the growth of expenditures on the output of interest-sensitive sectors of the economy such as durable consumer goods and housing.

82. The picture is also mixed in the case of Japan, where the outlook for business fixed investment is less than buoyant owing to low profits. Housing starts, however, have begun to rise after a protracted decline. On the other hand, Japan is likely to benefit from gains in net exports, assuming world trade will expand as expected in 1983 and that no additional measures

will be taken to restrict Japanese exports. Furthermore, the Government recently unveiled a package of measures to ensure that the official growth rate target of 3.4 per cent for fiscal 1983 will be reached. Economic activity in the European Economic Community has been sluggish as industrial production continued to fall to the end of 1982 and there may not be any significant upturn until the second half of 1983. On the whole, owing to the slow growth expected for real disposable income and relatively high personal savings rates, private consumption is likely to grow quite slowly. Moreover, no substantial stimulus is likely to come from either fixed investment or government consumption. The main contribution to a resumption of economic growth is expected to come from stockbuilding, which cannot be an enduring source of increased demand. GDP growth rates are expected to be quite weak in 1983, especially in France, the Federal Republic of Germany and Italy.

83. Sustained recovery in the developed market-economy countries will depend to some extent on whether the recent improvements on the inflationary fronts in some major countries are perceived to be long-lasting, since the demand for both goods and liquidity responds significantly to expectations as to future inflation rates. More importantly, it requires sufficiently strong increases in capacity utilization rates and lower real interest rates in order to induce a significant expansion of investment. In the absence of strong investment growth, GDP growth rates would most probably fail to accelerate in 1984.

84. In view of the continued weak growth performances expected of most developed market-economy countries in the near future, unemployment rates in most of these countries are expected to continue rising except, perhaps, in the United States, where the unemployment rate shows signs of falling slightly in 1984, but still remaining at a relatively high level by post-war standards. Given the soft labour markets, nominal wage increases are also expected to be moderate. In view of the weak price trends expected of primary commodities and the recent fall in petroleum prices, inflation in most OECD countries is expected to show further declines in the coming months.

2. Trade and current-account balances

85. The aggregate current account of the developed market-economy countries recorded a deficit of around $12.4 billion in 1982, a deterioration of $10 billion from the 1981 level. On the whole, the change in the current-account balance was relatively small compared with those of earlier years. For example, the negative swing in 1979, which amounted to around $40 billion, was followed by a further worsening of about $38 billion in 1980 and an improvement of around $41 billion in 1981. Taken together, the smaller OECD countries did not record any significant movement in their combined current-account balance, which recorded a deficit of about $25 billion in 1982 compared with $24 billion in 1981. Among the major countries the largest swing was observed in the case of the United States, where the current-account balance changed from a surplus of $11 billion in 1981 to a small deficit of $0.3 billion in 1982. Also noteworthy was the increase of almost $10 billion in the current-account surplus of the Federal Republic of Germany. The balances of both the United Kingdom and Japan exhibited surpluses of $10 and $8 billion, respectively, in 1982, the former representing a deterioration of around $6 billion and the latter an improvement of $2 billion from their respective levels in 1981.

86. The current-account balance of the developed market-economy countries is expected to show steady improvements during 1983 and 1984. The continued weakness of primary commodity prices is likely to improve the terms of trade of most OECD countries. Gains from improvements in the terms of trade, however, will probably be offset somewhat by higher import growth in conjunction with the expected rebound in economic activity. The performances of individual countries, however, are expected to exhibit considerable variation. In particular, the current account of the United States is expected to deteriorate further, especially in 1983, on account of an expected increase in domestic demand and a loss in export competitiveness due to the strength of the dollar. The current account of Japan, on the other

hand, is likely to record further substantial surpluses.

C. Trends and prospects in the socialist countries of Eastern Europe

87. Planned rates of growth of net material product for 1982 were reduced from the 1981 goals in all Eastern European countries except Poland. In that country planners aimed at a smaller absolute reduction in the NMP than had actually occurred in each of the preceding three years. The average planned rate of growth was 2.8 per cent, reflecting the constraints on more rapid growth imposed in part by the nature of the structural adjustment under way in all countries of the region, the unfavourable climate for trade prevailing in the world economy, and the need in a number of countries to reduce import demand with a view to reducing their dependence on international capital markets. In point of fact, actual output increased by 2.2 per cent, owing mainly to a decline in output by 8 per cent in Poland - far larger than had been planned. If Poland is excluded because of its specific economic situation, the average growth rate of the socialist countries of Eastern Europe, as a group, amounted to 3.3. per cent. Growth in the Soviet Union was also somewhat lower than planned, but the average NMP growth in the other five Eastern European countries (i.e., excluding Poland) was close to the planned figure.

88. Agricultural production increased significantly in Bulgaria, Hungary, Romania and the Soviet Union, in the case of the latter reversing the negative trend of the preceding three years. Agricultural production fell, however, in Poland. For the region as a whole the percentage increase in agricultural production was 0.1 per cent in 1981 and 2.8 per cent in 1982. Industrial output of the region grew by 2.2 per cent (or by 2.7 per cent if Poland is excluded).

89. While the current five-year plans (1981-1985) in general call for a reduction in the ratio of investment to NMP in order to redress the imbalance which had developed between investment goods and consumer goods, investment growth was expected to be positive. In point of fact, in both 1981 and 1982 the level of gross investment fell in most countries and was virtually stagnant in both years for the region as a whole. Despite these overall investment trends, investments in the energy sector increased in both 1981 and 1982.

90. The composition of industrial output during the first two years of the current plan period has reflected some success in a number of areas. In particular, research-intensive industries (machine building, electrical and electronic equipment, chemicals) increased their shares, while branches of industry relatively intensive in the use of energy, intermediate metal goods, and, for some countries, imported inputs have exhibited slower-than-average growth, and in some cases the level of output has fallen. At the same, time the share of consumer goods in total industrial output has remained roughly constant, arresting the tendency towards a declining share which characterized the preceding decade. Owing to the shift towards less energy-intensive production as well as efforts to reduce the energy intensity of output at the plant level, the overall consumption of energy per unit of output fell in 1982. Thus, the trends in investment and the composition of output, together with the general slowing of growth of NMP, explain the tendency towards reducing the imbalance between imports and exports which had been financed for many years by means of increasing indebtedness in convertible currencies.

91. In 1981 the rate of growth of both exports and imports of the socialist countries of Eastern Europe slowed in value terms, but import growth slowed more than export growth. These trends were strengthened in 1982, when exports increased by about 4.7 per cent, despite the stagnation of world trade in general, whereas the value of imports fell by 1.3 per cent (exports and imports being expressed in United States dollars).

92. This overall picture obscures highly divergent trends within the region. The smaller Eastern European countries (with the exception of Poland and Romania) experienced some growth in the value of their exports in 1981 and in 1982. The Soviet Union managed to achieve export growth of about 4 per cent in 1981 and 9.5 per cent in 1982. With respect to import values, their levels fell in 1982 for four Eastern

European countries (Czechoslovakia, Hungary, Poland and Romania) and in 1981 for three (Hungary, Poland and Romania). In the Soviet Union, imports increased in both 1981 and 1982.

93. Some of the divergence in export trends mentioned above was due to differences in the evolution of the terms of trade between the Soviet Union and other socialist countries of Eastern Europe, since energy products have a much higher weight in the exports of the Soviet Union. The fact that prices of energy products in trade among socialist countries is determined on the basis of a world price average over the five preceding years slowed the worsening of the terms of trade of Eastern European countries. Nevertheless, the terms of trade of these countries started to decline in 1981 and 1982. The trends in export volume show a slowdown to an average increase of 1 per cent per year during the three-year period 1979-1981 for the Soviet Union, followed by an increase of 5 per cent in 1982. For the other countries the slowdown was concentrated in 1980 and 1981, when export volume growth averaged about 2.5 per cent, and increased to 4 per cent in 1982. Import volume trends reflect the same pattern as their value trends for the Eastern European countries: first a reduction in their growth to 1.5 per cent in 1979 and 1980, followed by declines in their absolute levels by 5 per cent in 1981 and by 6 per cent in 1982. Meanwhile, the Soviet Union continued to increase its import volumes by about 7 per cent per year, with comparatively little variation in 1980-1982.

94. The trends in exports and imports described above led to substantial surpluses in trade with the developed market-economy countries for both the smaller countries of Eastern Europe and the Soviet Union in 1982, marking a sharp reversal of trends in the case of the former. A large negative balance on investment income, however, led to a current-account surplus which was considerably smaller than the surplus on merchandise account, but which was nevertheless substantial. Both the Soviet Union and the other Eastern European countries exhibited current-account surpluses in 1982 which amounted to \$3.3 and \$2.5 billion, respectively.

95. In 1982, the net debt of the socialist countries of Eastern Europe as a whole to the developed market-economy countries fell by about \$8 billion. During the 1970s and up to 1981, deficits in trade with developed market-economy countries had been financed by increased credits from them. In 1981, however, the rate of debt accumulation slowed considerably, entailing also some modest use of reserves for financing the current-account deficit. In that year, for example, net liabilities owed to commercial banks reporting to the Bank for International Settlements increased by only \$1.4 billion. Between end-1981 and end-1982, net liabilities vis-a-vis the same group of banks fell by \$8.6 billion. Thus, by the end of 1982, the net debt of the socialist countries of Eastern European is estimated to be about \$63 billion. Between end-1981 and end-1982, all seven countries had reduced their gross liabilities to the commercial banks, and three of them had increased their deposits at the same time. Total net liabilities to the commercial banks thus declined from \$45.5 billion at end-1981 to \$36.9 billion by end-1982. These may be broken down into liabilities of \$53.3 billion, offset by assets of \$16.4 billion. The balance of the net external liabilities consists mainly of net export credits, the cumulative volume of which is not thought to have changed much between 1981 and 1982. The high interest rates which prevailed in 1981 were largely responsible for a net outflow on investment income account of \$8.6 billion in that year, a figure which is estimated to have declined to \$6.5 billion in 1982.

96. The trade surplus of the socialist countries of Eastern Europe, which had decreased between 1979 and 1980, increased by \$2.3 billion and \$3.2 billion in 1981 and 1982, respectively. These trends were evident in the trade of both the smaller socialist countries of Eastern Europe and the Soviet Union, although the larger increase in the case of the former occurred in 1981, and in 1982 in the case of the latter.

97. Both the USSR and other countries expanded the value of their exports to developing countries in 1981 and 1982, with the exception of Czechoslovakia and Romania for the latter year. On the import side, some countries reduced the value of their imports from developing countries in both years, while the Soviet Union recorded a very large increase in 1981 - of 28.2 per cent - followed by a 3.9 per cent decrease in

1982. These surpluses were financed largely by credits extended on favourable terms by the socialist countries of Eastern Europe to the developing countries.

98. Plans for 1983 are for continued low growth in output and declines in investment in most countries. For the smaller countries of Eastern Europe as a whole gross investment is planned to decrease by 3.4 per cent, while in the Soviet Union an increase of 2.7 per cent is planned. Even for the three countries planning to increase investment (Poland, Romania and the Soviet Union) the planned rate of increase is considerably less than that of NMP. An increase of 3.3 per cent in NMP is planned in the Soviet Union; higher targets are set in Bulgaria, German Democratic Republic and Romania; lower targets (in the range of 0.5 - 2.5 per cent) in Czechoslovakia, Poland and Hungary.

Annex tables

Table A.1

World output *a/* summary: annual rates of change in volume, 1975-1984
(Percentage)

A. By main regions

Region	Period 1975-1980	1981	1982*	Forecast b/ 1983	1984
World	3.9	1.1	-0.1	1.7	3.4
Developed market-economy countries	3.4	1.3	-0.2	2.0	3.2
North America	3.5	2.0	-2.1	2.9	4.5
Canada	3.0	2.9	-4.8	1.8	4.7
United States	3.6	1.9	-1.8	3.0	4.5
Western Europe	2.9	-0.3	0.4	0.7	1.7
France	3.3	0.3	1.7	0.0	0.7
Germany, Fed.Rep.of	3.6	-0.2	-1.1	0.5	1.8
Italy	3.9	-0.2	-0.3	-0.3	2.0
United Kingdom	1.6	-2.2	1.2	1.8	2.0
Japan	5.1	3.0	3.0	3.2	3.5
Others	2.6	4.0	0.0	-0.5	4.0
Developing countries	5.3	0.3	0.5	0.2	4.0
Western hemisphere	5.3	0.7	-1.0	-1.6	3.3
North Africa	6.9	4.0	4.4	4.2	3.8
Other Africa	5.1	-0.7	1.2	0.8	2.5
Excluding Nigeria	2.0	2.9	1.4	1.5	3.7
West Asia	1.6	-11.3	-3.4	-5.2	4.9
South Asia	4.2	4.9	3.1	3.6	3.8
East Asia	8.0	6.9	3.6	4.7	5.8
China	4.9	3.0	7.4	4.5	4.9
Socialist countries of Eastern Europe	4.3	2.0	2.2	3.3	3.5
Memo item: Unemployment rates in OECD countries c/					
Canada	..	7.6	11.0	12.6	12.2
France	..	7.3	8.5	9.5	10.5
Germany, Fed.Rep.of	..	4.8	7.0	9.0	10.0
Italy	..	8.5	9.3	9.7	10.2
Japan	..	2.2	2.3	2.3	2.2
United Kingdom	..	10.6	12.3	12.5	12.5
United States	..	7.6	9.5	10.0	8.8

For sources and notes see end of table.

Table A.1 *(continued)*

World output *a/* summary: annual rates of change in volume, 1975-1984

B. Developing countries and territories by major analytical groups

Group	Period			Forecast *b/*	
	1975-1980	1981	1982*	1983	1984
Major oil-exporters	5.3	-2.1	-0.3	-1.8	3.6
Oil sector	1.5	-17.3	-8.8	-11.1	-3.3
Non-oil sector	6.9	5.2	3.5	2.0	3.7
Other oil exporters	6.3	6.1	3.5	3.9	4.4
Net oil-importing countries	5.2	1.4	1.2	1.7	4.2
Exporters of manufactures	6.3	-1.7	0.6	0.0	4.7
Least developed countries	3.5	2.3	2.9	3.0	3.5

Source: UNCTAD secretariat calculations, based on official national and international sources.

Note: *Major oil-exporting developing countries* are Algeria, Angola, Bahrain, Brunei, Congo, Ecuador, Gabon, Indonesia, Iran (Islamic Republic of), Iraq, Kuwait, Libyan Arab Jamahiriya, Mexico, Nigeria, Oman, Qatar, Saudi Arabia, Trinidad and Tobago, United Arab Emirates, and Venezuela.

Other oil-exporting developing countries are Bolivia, Egypt, Malaysia, Peru, Syrian Arab Republic, and Tunisia.

Net oil-importing developing countries are all developing countries excluding the major oil-exporters and other oil exporters.

Exporters of manufactures are Argentina, Brazil, Hong Kong, Republic of Korea, Singapore, and Taiwan province of China.

a/ Gross domestic product/gross national product.

b/ The forecasts have been prepared by the UNCTAD secretariat on the basis of recent forecasts of Project LINK and the econometric models covering 60 developing countries, and of consultations with experts. For a brief description of Project LINK and the econometric models, see TD/B/C.3/134/Add.1, sect. II. The UNCTAD secretariat contributes to the LINK econometric modelling system with regional models of developing countries and price forecasts for their principal export commodities.

c/ Total is weighted average of standardized unemployment rates in 15 OECD countries.

* Estimate.

Table A.2

World trade summary: annual rates of change in volume and prices, 1970-1984
(Percentage)

A. Developed market-economy countries by main regions

Country, region or group	Period				Forecast	
	1970-1980	1975-1980	1981	1982*	1983	1984
World exports						
Volume	5.8	6.0	-0.8	-2.0	0.2	4.5
Unit value	14.1	11.5	-2.3	-4.0	-2.5	4.0
Developed market-economy countries						
Export volume	6.4	6.5	1.5	-0.7	0.0	4.0
Terms of trade	-2.1	-2.1	-0.1	2.3	5.0	2.0
Purchasing power of exports	4.3	4.4	1.4	1.6	5.0	6.0
Import volume	4.9	5.7	-3.0	-0.8	0.8	5.0
North America						
Export volume	6.3	6.7	-2.2	-6.7	-5.0	4.0
Terms of trade	-2.7	-3.2	2.4	2.3	5.5	2.5
Purchasing power of exports	3.6	3.5	0.2	-4.4	0.5	6.5
Import volume	5.0	5.7	1.5	-6.7	5.0	9.0
Western Europe						
Export volume	5.9	6.2	1.5	0.7	0.5	3.5
Terms of trade	-1.1	-1.0	3.2	1.1	0.5	0.0
Purchasing power of exports	4.8	5.2	4.7	1.8	1.0	3.5
Import volume	4.9	6.0	-4.5	0.8	0.0	2.8
Japan						
Export volume	9.5	9.3	10.7	-1.8	4.3	5.8
Terms of trade	-5.7	-5.2	4.0	2.3	2.5	2.0
Purchasing power of exports	3.8	4.1	14.7	0.5	6.8	7.8
Import volume	4.3	4.5	-2.2	0.5	-2.0	6.0
Others						
Export volume	4.8	6.0	-5.4	10.6	1.0	4.0
Terms of trade	-2.1	-2.5	4.3	0.0	-1.0	0.0
Purchasing power of exports	2.7	3.5	-1.1	10.6	0.0	4.0
Import volume	2.0	2.7	10.6	14.7	-0.5	3.0

For sources and notes, see end of table.

Table A.2 *(continued)*

World trade summary: annual rates of change in volume and prices, 1970-1984
(Percentage)

B. Developing countries and territories by main regions

Region	Period				Forecast	
	1970-1980	1975-1980	1981	1982*	1983	1984
Developing countries						
Export volume	1.2	2.8	-8.7	-3.8	1.2	4.6
Terms of trade	8.3	4.9	8.7	-3.6	-7.0	0.1
Purchasing power of exports	10.5	7.7	0.0	-7.4	-5.9	4.7
Import volume	7.3	0.0	11.2	-3.4	0.6	3.1
Western hemisphere						
Export volume	2.9	6.5	15.1	2.8	3.0	3.9
Terms of trade	1.7	-1.8	-10.8	-6.9	3.2	0.6
Purchasing power of exports	4.6	4.7	4.3	-4.3	6.2	4.5
Import volume	4.5	2.7	3.3	-19.4	-1.4	2.3
North Africa						
Export volume	-0.2	9.6	-10.3	-3.1	-4.9	3.9
Terms of trade	8.7	-1.8	4.3	-4.9	-3.4	-0.5
Purchasing power of exports	8.5	7.8	6.0	-8.0	-8.3	3.4
Import volume	10.0	0.2	15.0	-20.0	3.7	2.9
Other Africa						
Export volume	-0.6	1.0	-10.0	1.4	-6.7	4.6
Terms of trade	4.5	2.8	-4.9	-3.0	0.2	0.4
Purchasing power of exports	3.9	3.8	-14.9	-1.7	-6.6	5.1
Import volume	5.2	2.5	2.0	-11.0	-1.7	3.0
West Asia						
Export volume	-1.7	-0.4	-12.6	-14.5	-15.6	1.7
Terms of trade	14.9	6.2	12.4	0.8	-3.7	-0.3
Purchasing power of exports	13.2	5.8	-0.2	-13.8	-18.8	1.4
Import volume	16.1	7.7	19.3	14.5	6.8	-0.5
South Asia						
Export volume	-0.7	5.2	3.6	-2.1	4.9	4.9
Terms of trade	-3.6	-4.4	-6.9	1.2	5.0	-0.2
Purchasing power of exports	-4.3	0.8	-3.3	-0.8	10.1	4.7
Import volume	3.1	4.8	-1.3	-1.8	1.6	3.1
East Asia						
Export volume	8.8	10.5	7.9	2.5	3.6	6.6
Terms of trade	1.2	-6.8	-6.1	-1.6	1.5	0.3
Purchasing power of exports	10.0	3.7	1.8	0.9	5.2	6.8
Import volume	7.4	7.9	7.9	-0.8	3.2	5.1

For sources and notes, see end of table.

Table A.2 *(continued)*

World trade summary: annual rates of change in volume and prices, 1970-1984
(Percentage)

C. Developing countries and territories by major analytical groups *a/*

Group	Period				Forecast	
	1970-1980	1975-1980	1981	1982*	1983	1984
Major oil exporters						
Export volume	-0.9	-0.6	-15.5	-12.2	-7.5	3.6
Terms of trade	8.3	4.9	15.2	-3.6	-14.7	0.0
Purchasing power of exports	7.4	4.3	-0.3	-15.8	-22.2	3.6
Import volume	7.3	6.0	20.8	-1.0	0.0	0.9
Other oil exporters						
Export volume	4.7	9.6	-6.2	11.5	5.0	5.4
Terms of trade	0.7	1.6	-2.7	-9.1	-1.6	1.4
Purchasing power of exports	5.4	11.2	-8.9	1.3	3.3	6.9
Import volume	7.3	3.0	21.4	2.6	-0.3	2.4
Net oil-importing countries						
Export volume	6.8	9.4	8.3	2.7	5.9	5.4
Terms of trade	-3.1	-4.1	-7.4	-2.1	2.7	0.2
Purchasing power of exports	3.7	5.3	0.9	0.5	8.8	5.6
Import volume	4.4	3.4	2.5	-7.8	2.2	5.0
Exporters of manufactures						
Export volume	11.8	14.4	28.1	1.6	7.2	6.9
Terms of trade	-4.6	-5.8	-16.2	-3.2	2.4	-0.5
Purchasing power of exports	7.2	8.6	11.9	-1.6	9.7	6.3
Import volume	6.2	5.4	2.3	-6.1	4.2	6.2
Least developed countries						
Export volume	0.2	6.2	0.0	-1.5	8.2	3.7
Terms of trade	-1.7	-1.4	-4.3	-2.2	-0.5	0.5
Purchasing power of exports	-1.4	4.8	-5.5	-3.7	7.7	4.2
Import volume	3.9	6.8	-2.9	3.0	2.0	1.1

Source: UNCTAD secretariat calculations, based on official national and international sources.

Note: The terms-of-trade calculations for groups of developing countries and territories have been made by the UNCTAD secretariat using a methodology briefly described in the UNCTAD *Handbook of International Trade and Development Statistics: Supplement 1981* (United Nations publication, Sales No. E/F.82.II.D.11), p.456.

a/ For definition of country groupings and description of forecasting techniques, see notes to table A.1.

* Estimate.

Table A.3

Annual rates of change of consumer prices, by main regions, 1970-1984
(Percentage)

Region	1970-1980	1975-1980	1981	1982*	Forecast 1983	Forecast 1984
Developed market-economy countries *a/*	9.6	10.6	9.7	7.7	6.8	6.5
North America	7.8	8.9	8.8	6.3	5.7	5.7
Western Europe	11.3	13.0	11.9	10.2	8.6	7.9
Japan	9.0	6.5	4.5	2.8	3.3	3.5
Others	10.7	11.2	9.9	11.1	9.9	9.9
Developing countries and territories *b/*	19.0	24.0	26.0	29.6	..	..
Western hemisphere	21.0	36.0	63.0	80.0	..	..
North Africa	3.0	8.0	11.9	13.5	..	..
Other Africa	5.0	13.0	20.4	11.6	..	..
West Asia	3.0	11.0	12.6	16.1	..	..
South Asia	6.0	7.0	11.9	7.6	..	..
East Asia	6.0	10.0	13.8	8.3	..	..

Source: UNCTAD secretariat calculations, based on official national and international sources.

a/ GDP private consumption deflator.

b/ Index of consumer prices.

* Estimate.

Table A.4

Balance of payments summary of developing countries and territories, 1981-1984

(Billions of current dollars)

A. BY MAIN REGIONS

Region / Item	Exports (f.o.b.)	Imports (f.o.b.)	Trade balance	Balance on non-factor services and private transfers	Investment income (net)	Current account balance	Total capital flows (net)	Changes in reserves (minus equals increase)
Total								
1981	541.0	488.6	52.4	-51.8	-37.7	-37.1	32.6	4.5
1982	481.2	444.6	36.7	-53.8	-36.0	-53.2	34.4	18.8
1983	452.8	447.0	5.8	-47.4	-35.6	-77.1	75.9	1.2
1984	498.0	484.3	13.7	-46.8	-37.4	-70.5	77.5	-7.0
Western hemisphere								
1981	112.1	116.4	-4.3	-7.6	-29.4	-41.2	40.4	0.8
1982	105.5	92.3	13.1	-4.2	-33.6	-24.6	12.3	12.3
1983	108.3	87.9	20.4	0.2	-32.5	-11.9	12.0	-0.1
1984	118.6	94.2	24.3	0.5	-32.2	-7.4	7.4	0.0
North Africa								
1981	36.1	42.0	-5.9	-2.0	-3.0	-10.9	4.1	6.8
1982	31.4	31.7	-0.2	-1.9	-2.2	-4.3	0.9	3.4
1983	28.6	32.6	-4.0	-1.9	-3.2	-9.0	9.6	-0.6
1984	31.3	35.5	-4.2	-1.9	-3.7	-9.8	10.5	-0.7
Other Africa								
1981	38.9	40.3	-1.4	-9.0	-4.2	-14.6	8.0	6.6
1982	36.1	34.5	1.6	-9.4	-4.9	-12.7	10.9	1.7
1983	33.1	33.3	-0.2	-8.5	-5.3	-14.1	14.0	0.0
1984	36.6	36.1	0.6	-8.9	-5.8	-14.2	14.5	-0.3
West Asia								
1981	192.3	105.7	86.6	-41.5	12.0	57.1	-53.8	-3.3
1982	155.1	113.2	41.9	-48.9	22.2	15.3	-14.8	0.5
1983	124.2	119.2	5.0	-50.2	25.5	-19.7	17.2	2.5
1984	133.3	125.5	7.8	-50.7	26.3	-16.6	23.0	-6.4
South Asia								
1981	12.9	25.2	-12.3	3.0	-0.6	-9.9	8.8	1.1
1982	12.2	23.6	-11.4	3.6	-1.2	-9.0	8.2	0.8
1983	13.0	23.2	-10.2	4.3	-1.4	-7.4	6.7	0.7
1984	14.4	25.3	-10.9	4.6	-1.6	-8.0	7.7	0.2
East Asia								
1981	137.9	144.8	-6.9	3.7	-11.5	-14.7	19.1	-4.4
1982	130.1	137.2	-7.2	5.4	-15.4	-17.1	18.1	-1.0
1983	134.1	138.8	-4.7	7.4	-17.4	-14.8	16.5	-1.7
1984	151.8	154.6	-2.8	8.1	-19.1	-13.8	13.7	0.1

For sources and notes, see end of table.

Table A.4 *(continued)*

Balance of payments summary of developing countries and territories, 1981-1984

(Billions of current dollars)

B. BY MAJOR ANALYTICAL GROUPS *a/*

Item / Region	Exports (f.o.b.)	Imports (f.o.b.)	Trade balance	Balance on non-factor services and private transfers	Investment income (net)	Current account balance	Total capital flows (net)	Changes in reserves (minus equals increase)
Major oil exporters								
1981	305.3	187.1	118.2	-69.7	-1.3	47.2	-46.5	-0.7
1982	254.9	175.6	79.3	-71.1	5.1	12.6	24.5	11.9
1983	214.0	179.4	34.5	-70.9	8.4	-27.9	26.9	1.0
1984	231.2	188.3	42.8	-72.4	8.2	-21.3	27.7	-6.4
Other oil exporters								
1981	23.5	31.8	-8.3	0.9	-2.7	-10.2	10.1	0.1
1982	22.7	31.1	-8.4	1.0	-2.9	-10.3	9.6	0.7
1983	23.3	30.8	-7.5	1.5	-3.7	-9.7	8.7	1.0
1984	26.3	33.3	-7.0	1.7	-4.3	-9.6	9.2	0.4
Net oil-importing countries								
1981	212.2	269.6	-57.5	17.1	-33.7	-74.1	66.5	7.6
1982	203.6	237.9	-34.2	16.8	-38.2	-55.6	49.4	6.1
1983	215.5	236.7	-21.3	22.0	-40.3	-39.5	40.3	-0.8
1984	240.5	262.7	-22.1	24.0	-41.4	-39.5	40.5	-1.0
Exporters of manufactures								
1981	117.2	125.5	-8.3	4.0	-18.7	-23.0	26.7	-3.7
1982	111.3	112.8	-1.5	6.6	-23.7	-18.6	16.8	1.8
1983	118.5	114.0	4.6	11.0	-24.0	-8.4	12.2	-3.8
1984	133.5	128.3	5.1	11.8	-24.6	-7.6	9.0	-1.3
Least developed countries								
1981	7.0	15.8	-8.8	1.2	-0.4	-8.0	7.2	0.8
1982	6.4	15.6	-9.2	1.5	-0.5	-8.3	7.8	0.5
1983	6.8	15.7	-8.9	1.5	-0.8	-8.2	8.2	0.0
1984	7.5	16.8	-9.3	1.8	-0.9	-8.4	8.5	-0.1
Other countries								
1981	88.0	128.3	-40.4	11.9	-14.6	-43.1	32.6	10.5
1982	85.9	109.4	-23.5	8.7	-13.9	-28.7	24.8	3.8
1983	90.1	107.1	-17.0	9.5	-15.5	-22.9	20.0	3.0
1984	99.6	117.6	-18.0	10.4	-15.9	-23.5	23.0	0.5

Source: UNCTAD secretariat calculations, based on IMF balance-of-payments tapes and official national and international sources. 1981 figures are preliminary; 1982-1983 figures are forecasts.

a/ For definition of country groupings, see notes to table A.1.

ANNEX TABLE A.5

Socialist countries of Eastern Europe: selected economic indicators, 1971-1985

(Percentage)

	Average annual rate *a/*				Change over preceding year				
		1976-1980					1982		1983
	1971-1975 Actual	Planned	Actual	1981-1985 Planned	1980	1981	Planned	Actual *c/*	Planned
Growth of national income *b/*									
Albania	6.6	6.6-7.0	..	..	..	5.6	..	..	..
Bulgaria	7.8	7.7	6.1	6.1	5.7	3.2	3.6	4.3	3.8
Czechoslovakia	5.7	4.9	3.7	2.0-2.6	3.0	0.1	0.5	-0.4	2.0
German Democratic Republic	5.4	4.2	4.1	5.1	4.2	5.0	4.8	3.0	4.2
Hungary	6.2	5.4-5.7	3.2	2.7-3.1	-0.8	1.8	1.0-1.5	2.0	0.5-1.0
Poland	9.8	7.0-7.3	1.2	5.1	-4.0	-13.0	-1.6	-8.0	2.0-2.5
Romania	11.3	10.0-11.0	7.2	7.1	2.5	2.2	5.5	2.6	5.0
USSR	5.7	4.7	4.2	3.7	3.5	3.2	3.0	3.4	3.3
Growth of industrial output									
Albania	8.7	7.1-7.6	6.1	..	7.1	6.5	..	..	..
Bulgaria	9.0	9.2	6.2	5.1	4.1	5.6	4.5	4.6	4.8
Czechoslovakia	6.7	5.7-6.0	4.5	2.7-3.4	3.3	2.0	0.6	1.0	2.4
German Democratic Republic	6.5	5.0	4.9	5.5	4.7	5.1	4.6	3.2	3.8
Hungary	6.4	6.0	3.4	3.5-4.1	-1.7	2.4	2.0-2.5	2.1	1.0-2.0
Poland	10.4	8.2-8.5	4.7	4.8	-1.0	-12.6	0.6	-2.0	4.0
Romania	12.9	10.2-11.2	9.5	7.6	6.5	4.0	4.7	1.1	6.6
USSR	7.4	6.3	4.5	4.7-5.1	3.6	3.4	4.7	2.8	3.2
Growth of gross agricultural output *d/*									
Albania	5.9	6.6-7.1	..	..	6.0	7.2	..	..	..
Bulgaria	2.1	3.7	2.1	3.4	-4.9	4.0	2.2	4.7	2.7
Czechoslovakia	2.9	2.7-2.8	1.8	1.4-1.9	4.8	-3.4	3.2	1.1	2.7
German Democratic Republic	2.1	3.0*e/*	1.1	0.7-0.9*e/*	0.0	3.0	0.2	-3.8	1.0*e/*
Hungary	3.5	3.2-3.4	2.9	2.3-2.8	4.3	0.0	4.0-4.5	5.0	1.0-2.0
Poland	3.2	3.0-3.5	0.3	3.2	-10.7	4.1	5.0	-4.0	1.5-2.4
Romania	4.7	5.1-7.6	4.9	4.5-5.0	-4.1	-0.9	6.0-7.9	7.5	5.1-5.6
USSR	2.5	3.0	1.7	2.3-2.8	-2.0	-2.0	10.2	4.0	10.5

Source: UNCTAD secretariat and the United Nations Economic Commission for Europe, based on national statistical publications, plans and plan fulfilment reports.

a/ Change in the five-year average output from the average of the preceding five years, expressed in annual compound rates.
b/ Net material product (NMP produced) or net value added of the material sectors of production.
c/ Preliminary.
d/ Gross value of output at constant prices, except for the German Democratic Republic, where the data refer to the value of commodity production (i.e., gross output less work in progress).
e/ Production and services of agricultural sector and food industry combined.

Table A.6

Socialist countries of Eastern Europe: growth rates of exports and imports (f.o.b.) by major area of destination and origin, 1981 and 1982

(Percentage increase over previous year, based on values in dollars)

Country	Exports		Imports	
	1981	1982	1981	1982
Bulgaria				
World	3.0	4.6	11.8	5.8
Developed market-economy countries	-12.4	-14.3	26.9	-11.7
Developing countries	28.1	2.2	30.3	14.0
Socialist countries *a/*	0.7	9.5	6.2	9.8
Czechoslovakia				
World	-0.1	5.2	-3.4	5.4
Developed market-economy countries	-9.2	-2.3	-13.7	-9.4
Developing countries	10.5	-1.9	3.6	5.5
Socialist countries *a/*	1.2	9.0	-0.5	10.2
German Democratic Republic				
World	14.7	8.3	5.8	1.3
Developed market-economy countries	30.5	6.8	2.4	-18.0
Developing countries	9.8	2.4	-17.1	9.0
Socialist countries *a/*	9.7	9.9	10.7	9.5
Hungary b/				
World	1.3	1.7	-0.3	-3.0
Developed market-economy countries	-12.9	1.1	0.5	-12.0
Developing countries	18.5	11.2	0.5	12.4
Socialist countries *a/*	6.5	-0.7	-0.4	0.5
Poland				
World	-21.9	-15.6	-18.8	-34.0
Developed market-economy countries	-32.5	-5.9	-33.4	-29.3
Developing countries	-9.3	1.2	-37.4	-34.0
Socialist countries *a/*	-17.6	-24.6	-5.5	-36.2
Romania				
World	-1.9	-9.8	-16.8	-23.9
Developed market-economy countries	-5.1	-14.5	-14.8	-45.3
Developing countries	46.3	-16.0	-17.2	-20.3
Socialist countries *a/*	-21.9	0.7	-18.1	-7.7
USSR				
World	3.8	9.5	6.8	6.2
Developed market-economy countries	-2.1	7.1	-4.3	11.9
Developing countries	10.4	16.2	28.8	-3.9
Socialist countries *a/*	4.9	7.8	-0.6	14.4
Total b/				
World	1.2	4.7	0.3	-1.3
Developed market-economy countries	-4.9	2.3	-3.6	-8.7
Developing countries	13.7	8.6	9.5	-5.1
Socialist countries *a/*	0.7	4.6	0.0	4.5

Source: Data provided by the secretariat of the United Nations Economic Commission for Europe and estimates by the UNCTAD secretariat.

a/ Socialist countries of Eastern Europe and Asia.
b/ Imports c.i.f. for Hungary only.

Part II

ECONOMIC CO-OPERATION AMONG DEVELOPING COUNTRIES

Chapter I

INTRODUCTION

1. The case for greater trade and economic co-operation among developing countries (ECDC) has long been recognized by the international community. The early efforts of developing countries to promote economic co-operation among themselves centred around the establishment of sub-regional and regional economic integration groupings to take advantage of critical minimum size and the economies of scale afforded by the removal of barriers to trade among partner countries. At a later stage, developing countries began to view co-operation among themselves as a form of collective self-reliance designed not only to enhance the opportunities for indigenous efforts at development, but also to improve their overall position in the world economy. Within recent years, the concept of collective self-reliance has been extended to embrace the notion of collective economic security, which emphasizes the importance of developing countries taking joint and concerted action to strengthen the resilience of their economies in the face of difficulties and constraints arising in the external environment.

2. The problems that have emerged in the world economy since the beginning of the 1980s and the prospect of slower growth in developed countries for the remainder of the decade underline the importance of ECDC becoming a major engine for growth and transformation in developing countries, opening up possibilities for positive effects on the expansion of the world economy as a whole. In this perspective, ECDC will increasingly become a complementary and reinforcing factor in the evolution of relations between developed and developing countries.

3. ECDC has been a major concern of UNCTAD virtually from its inception, starting with the technical work undertaken by the UNCTAD secretariat, from the latter part of the 1960s, on the feasibility and operational problems of a number of sub-regional and regional integration and co-operation schemes in Africa, Asia and Latin America. The scope of this work was subsequently widened to embrace co-operation at the interregional level, following upon a series of actions taken by the developing countries at Ministerial Meetings of the Group of 77 in Mexico City (1976), Arusha (1979), Caracas (1981) and Buenos Aires (1983). The major involvement of UNCTAD in this field was reflected in the decision taken at UNCTAD IV to establish a permanent Committee on Economic Co-operation among Developing Countries, in order to provide a regular forum for dealing with support by the international community for ECDC, and in the adoption of a series of subsequent UNCTAD resolutions on such support.

4. Part II of this report contains a preliminary analysis of recent trends in and prospects for trade among developing countries, as well as of financial flows. It is hoped to extend this analysis in future, and to take up other important aspects of ECDC, such as technology, transport and other services.

5. The present chapter serves as an introduction to part II. Chapter II starts with a brief reference to the theoretical basis for trade among developing countries, examines the recent record of this trade, and then looks at the various factors and policy instruments shaping it. Chapter III is devoted to the question of financial co-operation among developing countries. It provides a description of official assistance programmes, of existing payments arrangements among

developing countries, as well as of multilateral mechanisms such as export finance and trade credit. Possibilities for further action are also outlined briefly. Chapter IV, with the assistance of a model developed in co-operation between UNCTAD and UNIDO, provides an exploratory analysis of the vast growth potential that could be harnessed in the various developing regions through a significant intensification of South-South trade. It illustrates the major contribution that ECDC could make to the development of the capital goods industry and to the processing of raw materials in developing countries. Chapter V contains some brief policy conclusions arising from the analysis in the previous chapters.

Chapter II

TRADE AMONG DEVELOPING COUNTRIES

A. Trade among developing countries as a manifestation of collective self-reliance

6. Expansion of trade among developing countries as a manifestation of collective self-reliance is primarily a response to economic development needs, including the mobilization of resources for development. However, it has also been a response to difficulties encountered in exporting traditional as well as new products to their principal markets, the developed countries.

7. The principal constraint on the economic development process in developing countries is the size of their domestic markets. In many industries and/or in producing many specified products, most developing countries are unable to exploit the economies of scale to a point where they can operate the productive processes involved, even with protection, in such a way as to achieve acceptable quality at an acceptable level of unit costs. By opening up their markets to each other they can evolve a pattern of specialization among themselves and thereby have much greater access to economies of scale.

8. Making use of the possibilities of trade among them, developing countries are able to push an import substitution policy of development much farther collectively than each of them can do individually. Econometric studies,[1] including several published under United Nations auspices, have shown that the productive structure of a country bears a close relationship to its level of real income per head and to the size of its population. This is especially the case concerning the volume of output of various manufacturing industries and the percentage share contributed by each to total value added. By expanding their mutual trade, developing countries can move their productive structures closer to structures characteristic of much larger economic areas. This, in turn, can enable them to raise their levels of real income per head.

9. Typically, developing countries face balance-of-payments constraints which frequently result in unemployed or not fully employed productive resources - in the first place labour, but often installed capacity and sometimes agricultural capacity as well. In consequence, to increase the degree of utilization of productive resources and thereby the gross domestic product and its rate of growth, the economy must be able to finance a greater volume of indispensable imports, in particular of raw and energy materials, semi-manufactures and capital goods. The studies referred to in the preceding paragraph have also demonstrated that larger economic areas, having a more diversified pattern of domestic output, can survive and grow with lower levels of imports relative to their GDP.

10. Within the larger economic area, imports of each developing country

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[1] See, *inter alia*, *A Study of Industrial Growth* (ST/ECA/74), United Nations publication, Sales No.63.II.B.2; Hollis Chenery and Moises Syrquin, *Patterns of Development, 1950-1970*, published for the World Bank by Oxford University Press, London, 1975; Economic Commission for Europe, *Structure and Change in European Industry* (United Nations publication, Sales No.E.77.II.E.3): Hollis Chenery, *Structural Change and Development Policy* (New York: Oxford University Press for the World Bank, 1979); *World Industry Since 1960: Progress and Prospects*, Special issue of the *Industrial Development Survey* for the Third General Conference of UNIDO (United Nations publication, Sales No.E.79.II.B.3).

would increase, but a greater proportion of total imports than before would originate in other developing countries members of the area. If these imports were paid for by exports to the other members, they would put no net burden on the payments balances of the member countries, who would find that their individual balance-of-payments constraints eased. It is in this sense that trade among developing countries becomes significant as an engine of growth. It has been argued that in the current world economic situation the most promising prospect for developing countries to set this engine in motion is to boost trade with each other.[2]

11. The relationship between population size and real income level of an economic unit, on the one hand and the structure and volume of its output and of its imports, on the other, provides a possible way of assessing the degree to which trade among developing countries is fulfilling its potential. An attempt to quantify this criterion and to apply it to the production and trade data of some of the institutionally most evolved trade expansion groupings of developing countries has shown that even in those cases the potential was very far from being realized. It can be inferred that in the less closely knit groupings, and among developing countries as a whole, the gap between potential and achievement is much larger.[3]

12. Another approach to the quantitative assessment of trade potential is provided by the UNITAD model used in chapter IV below. From the findings there reported it seems clear, and it would appear even clearer if the model could be applied to the mutual relations not only of world regions but also of individual developing countries, that trade among developing countries is everywhere operating far below its potential.

B. A quantified survey of trade among developing countries

1. The relative size and growth of trade among developing countries up to 1980

13. Measured at current United States dollar values and calculated on the basis of two-year averages, the mutual trade of developing countries[4] increased at the rate of 1 per cent per year from 1950 to 1960, at 5 per cent from 1960 to 1965, and at 8.3 per cent from 1965 to 1970. Although these figures constitute a rising sequence, they were well below the growth rates recorded in the same periods by trade flows between and within other major country groups. As a result, and as annex D, table I, demonstrates, from 1955 to 1970 the share of trade among developing countries in world trade shrank from 6.2 per cent to 3.5 per

[2] W. Arthur Lewis, "The slowing down of the engine of growth", *The American Economic Review,* September 1980.

[3] See J. Sakamoto and J. Sommer, "Una propuesta para determinar la existencia de beneficios en una integracion industrial", *El Trimestre Economico,* July-September 1968; J. Sakamoto, "Industrial development and integration of underdeveloped countries", *Journal of Common Market Studies,* June 1969; P. G. Elkan, "Measuring the impact of economic integration among developing countries", *Journal of Common Market Studies,* September 1975.

[4] The coverage of the term "developing countries" varies even within the United Nations system. In this section the term generally means the Group of 77 and Hong Kong. The underlying data originate in special tabulations of the UNCTAD secretariat. However, tables based on the United Nations *Yearbook of International Trade Statistics*, the United Nations *Monthly Bulletin of Statistics* and the UNCTAD *Handbook of International Trade and Development Statistics* use the definition of developing countries applied by the United Nations Statistical Office; the main difference is that the latter excludes the European members of the Group of 77. Concerning regional classification, the practice of the United Nations Statistical Office is followed throughout, with the result that some percentage distributions do not quite add up to 100 owing to the omission of the share of the members of the Group of 77 situated in Europe (and, in some cases, in Oceania).

cent. In the five years from 1970 to 1975, however, trade among developing countries rose at an annual rate of almost 36 per cent, including an increase of 107 per cent between 1973 and 1974. This was faster growth than that registered by the trade between developing and developed countries. The rate declined in the five years from 1975 to 1980, but at 22.1 per cent it remained higher than that recorded by flows among and with the other major country groups. In consequence, the share of trade among developing countries in world trade rose gradually from 3.5 per cent in 1970 to 6.9 per cent in 1980. The fast rise in value of the 1970s reflected the acceleration of world inflation in dollar terms and, in particular, the substantial oil price increases. Nevertheless, even if trade in mineral fuels (SITC 3) is excluded, between 1970 and 1975 the mutual trade of the developing countries grew at an annual rate of 26.7 per cent and between 1975 and 1980 at 20.6 per cent, raising its share in world trade from 2.5 per cent in 1970 to 4.2 per cent in 1980.

Table 1

Annual growth rates of exports from developing countries by region, 1970-1980

(Percentage; trade measured at current dollar values)

To / From developing countries in:	World: Total	World: Excluding mineral fuels	All developing countries: Total	All developing countries: Excluding mineral fuels
Latin America	20.2	17.0	24.1	24.4
Africa	22.8	11.1	24.8	13.8
Western Asia	34.9	21.5	37.6	26.6
South and South-East Asia	25.8	23.8	27.3	26.1

Source: UNCTAD secretariat estimates, based on United Nations, *Monthly Bulletin of Statistics*, June 1983 and earlier issues.

14. From 1955 to 1970 the share of intra-trade in the total trade of developing countries decreased from 25 per cent to 19 per cent for imports and from 24 per cent to 20 per cent for exports, but by 1980 30 per cent of total imports and 25 per cent of total exports of the developing countries were accounted for by trade among themselves.

2. The developing regions in trade among developing countries

15. Annex D, table II, shows that in 1980 exports to other developing partners accounted for almost a third of the total exports of South and South-East Asia, followed by a little over one quarter in developing America, just under a quarter in Western Asia (the Middle East) and almost exactly an eighth in developing Africa. Excluding mineral fuels between 1970 and 1980, the exports absorbed by developing countries from each other rose for Western Asia from under a third to approaching half, for South and South-East Asia from over 28 per cent to a third, for developing America from over 14 per cent to above a quarter and for developing Africa from one-eighth to almost 16 per cent. The change in shares indicates that for each of the regions exports to developing countries increased faster than exports to the world. The relevant growth rates are shown in table 2.

Table 2

Annual growth rates of the trade of developing country groups and their export cover ratio with all developing countries, 1970-1980
(Percentage; trade measured at current dollar values)

	Growth rates		Exports as a proportion of imports	
	Exports	Imports	1970	1980
Major petroleum exporters *a/*	33.1	29.9	157.4	200.1
More industrialized developing countries *b/*	25.1	28.2	94.6	76.3
of which:				
Fast-growing exporters of manufactures	29.7	30.1	74.3	72.4
Least developed countries *c/*	12.9*d/*	24.4	72.6	26.7*e/*

Source: UNCTAD secretariat estimates.

a/ OPEC countries, plus Bahrain, Brunei, Oman and Trinidad and Tobago.

b/ The following 16 countries or areas have been included (the 6 italiziced are those in the sub-group): *Argentina*, *Brazil*, Colombia, Egypt, *Hong-Kong*, India, Indonesia, *Republic of Korea*, Malaysia, *Mexico*, Pakistan, Philippines, *Singapore*, Thailand, Tunisia, and Yugoslavia.

c/ The General Assembly has specified 36 countries as least developed. Of these, the UNCTAD secretariat tabulations include in principle the 31 countries placed on the list before the end of 1981, but for several of them no trade statistics are available. The data publ- ished by the United Nations Statistical Office cover only the 28 coun- tries recognized as least developed before 1977.

d/ 1970-1979.

e/ 1979.

16. In 1955 76 per cent and in 1970 69 per cent of all trade among the developing countries was within the region, but in 1980 this proportion was less than half of the total, at 48 per cent (see annex D, table II). The sharp fall in the proportion occurred between 1970 and 1975 and clearly reflects the increased weight of interregional trade in mineral oil in the totals. In 1980 reliance on the regional market was greatest for developing America, where 78 per cent of all exports to developing countries was directed to countries of the same region; the corresponding figure for South and South-East Asia was 65 per cent, for developing Africa 26 per cent and for Western Asia 21 per cent. If mineral fuels are excluded, the 1980 proportions were for Western Asia 81 per cent, for developing America 71 per cent, for South and South-East Asia 62 per cent and for developing Africa 50 per cent. It is evident that the exclusion of mineral fuels sharply reduces the extent of the variation among the proportions, even though the difference between the highest and the lowest still exceeds 30 percentage points. Analysis of the balances registered in interregional trade flows reveals an increasing deficit of all other developing regions in their relationship with Western Asia: this rose from $0.8 billion in 1970 to $33.5 billion in 1980.[5]

[5] In the calculation of all the trade balances mentioned in this section, imports from developing regions were estimated from the corresponding export values, through multiplication by 1.075 to take account of the c.i.f. - f.o.b. difference.

3. Trade among developing countries by income level and other economic characteristics

17. For the purpose of this analysis the developing countries have been classified into three groups according to their gross domestic product (GDP) per head in 1978: higher income group (over $1,000), medium income group ($500 to $1,000) and lower income group (below $500). Among other data, annex D, table III, contains the shares of these groups in the total as well as selected export flows of the developing countries to each other.

18. Whereas in 1970 exports from the higher income countries accounted for 58 per cent of all trade among developing countries, by 1980 this proportion had risen to 82 per cent. On the other hand, the share of the medium income group in the total mutual exports of the developing countries decreased over the decade from 18 to 9 per cent and that of the lower income group fell precipitately from 24 to 9 per cent. Even if mineral fuels are disregarded, the share of the higher income group rose from 53 to 72 per cent, that of the medium income group fell from 20 to 18 per cent, and that of the lower income group of countries from 28 to 10 per cent. The proportions in 1970 and 1980 which the three groups absorbed in exports from other developing countries were as follows: the higher income group took 62 per cent in 1970, changing to 66 per cent in 1980; the medium income group took 20 per cent, changing to 18 per cent in 1980; and for the lower income group the share of 18 per cent fell to 16 per cent in 1980. If mineral fuels are excluded, the shares are broadly the same.

19. In 1980, the major petroleum exporters supplied 50 per cent of all exports of developing countries to other developing countries. On the other hand, the least developed countries (in 1979) supplied less than 1.5 per cent.

20. Although the speed of the export expansion of the fast-growing exporters of manufactures to all developing countries came close to that of the major petroleum exporters, their absorption of exports from the developing countries rose faster and exceeded the growth rate of their own exports. As to the least developed countries, their balance of trade with all developing countries worsened to a point where not much more than a quarter of their imports were covered by exports, even though their absorption of exports from developing countries grew more slowly than that of any other group.

21. Concerning the least developed countries' trade with other developing countries, the 1970-1979 growth rates of their exports (the 1980 figures are incomplete) to the four groups reveals that to the major pertroleum exporters they grew by 21.2 per cent; to other least developed countries by 15.4 per cent; to the more industrialized developing countries by 8.0 per cent, and to the fast-growing exporters of manufactures by 6.5 per cent.

4. The product structure of trade among developing countries

22. Changes in the product structure of the developing countries' trade with each other are presented in annex D, table IV. They reflect to a certain extent the changes which have occurred in the total exports of the developing world. One common feature of the evolution of these structures from 1955 to 1980 was a substantial reduction in the share of food and agricultural raw materials and a proportionately even greater rise in the share of manufactures. The overall decrease in the share of food and agricultural raw materials in the world exports of the developing countries was from 76 per cent in 1955 to 39 per cent in 1980, and in their exports to developing countries from 70 per cent to 33 per cent over the same period. Within these proportions it was the share of agricultural raw materials that declined most in the total intra-trade of the developing countries, from 26 to 9 per cent, i.e. by almost two-thirds, whereas the share of food was not quite halved, from 44 to 24 per cent. In the exports of developing Africa to all developing countries the share of food taken by itself increased.

23. The counterpart of this reduction was a rise in the share of manufactured products in the exports of developing countries to the world from 10 to 45

per cent, and in their trade with each other from 25 to 56 per cent. The latter change included an increase in developing America from 9 to 48 per cent, in Western Asia from 31 to 65 per cent, in South and South-East Asia from 32 to 61 per cent and in developing Africa from 16 to 27 per cent. Within manufactures the share of machinery and transport equipment rose over the quarter century from 2.5 to 20 per cent of the mutual exports of all developing countries; in the relevant exports of each developing region the increase in percentage points was of the same order of magnitude in three of them but developing Africa achieved a rise of less than 2 percentage points. Another spectacular increase occurred in the share of chemicals in the intra-trade of developing countries, overall from 2 to 7 per cent, and in this product group developing Africa registered the largest percentage rise.

24. The years 1955-1980 also saw relative shifts in the product composition of the intra- and interregional export flows of developing countries to other developing countries. The share of food and agricultural raw materials fell more in trade within the regions than in trade among them, whereas in agricultural raw materials taken by themselves the trend was the opposite.

25. Table 3 shows that the increase in manufactured exports was appreciably greater for the fast-growing exporters of manufactures than for all developing countries taken together. From 1970 to 1979 the growth rate of manufactured exports from the least developed countries to other developing countries was virtually equal to the corresponding rate shown by the fast-growing exporters of manufactures, but it has not been possible to examine the country and product composition of this expansion. It should also be noted that its starting base was very low: even by 1979 these countries only supplied 1.2 per cent of all manufactured exports flowing among the developing countries. The proportion of manufactured exports of the least developed countries absorbed by developing countries in 1979 was still somewhat lower than the comparable figures registered for all developing countries and for the fast-growing exporters of manufactures.

26. Annex D, table V, shows, *inter alia,* the proportions of the imports of the developing countries in total trade and in specified product categories originating in developing countries and in various groups of them in 1970 and 1980. For all developing countries, when mineral fuels are excluded, the degree to which they supplied their aggregate import needs rose between 1970 and 1980 from 13 to only 14 per cent. 28 per cent of all food imported by developing countries came from developing countries in 1970 and and the share was virtually the same in 1980. In agricultural raw materials the proportion declined from 46 to 27 per cent, whereas for manufactures it rose over the decade from 8 to 26 per cent.

27. Table 4 shows the respective shares of the four developing world regions in total trade among developing countries excluding mineral fuels and in their mutual trade in three broad product groups. The most striking change revealed is a sharp decline in the proportion of interregional trade supplied by developing Africa in all non-fuel product categories.

28. The more industrialized developing countries increased their share in the total exports of manufactures from 64 to 77 per cent, and within this the fast-growing exporters of manufactures doubled their share, from 28 to 57 per cent. The latter achieved a proportionately greater increase in textiles and clothing (from 19 to 47 per cent) than in machinery and transport equipment (from 39 to 66 per cent), or in chemicals (from 37 to 42 per cent). Moreover, these countries also raised their share in the intra-trade of developing countries in food, and marginally even in agricultural raw materials. The share of the least developed countries was reduced in total trade, excluding fuels, from 4.3 per cent (in 1979) to 2.3 per cent, and within this it declined in every manufactured and primary product group, shown separately.

Table 3

Manufactured exports of developing countries, 1970-1980
(Percentage; trade measured at current dollar values)

From \ To	Annual growth rate		Share of developing country destinations	
	Developing countries	World	1970	1980
All developing countries	27.0	24.4	33.8	35.8
of which:				
Fast-growing exporters of manufactures	34.1	32.4	31.6	35.9
Least developed countries *a/*	34.0*a/*	25.1*a/*	17.6	32.9*b/*

Source: UNCTAD secretariat estimates.

a/ 1970-1979.
b/ 1979.

5. The record of the trade expansion groupings of developing countries

29. Annex D, table VI, traces the expansion of the trade conducted among members of trade expansion and/or integration groupings of developing countries over the two decades preceding 1980, and compares this trade with world trade and with the total trade of developing countries. The following points of interest may be mentioned.

30. From 1960 to 1970 the intra-trade of all groupings grew more than did total trade among developing countries. With the single exception of the Latin American Integration Association (ALADI) - which is, however, by far the largest grouping in the category - these flows also increased more than did world trade as a whole. With regard to the product composition of intra-trade, detailed evidence confirms that the period after the introduction of tariff preferences led to a substantial growth of mutual trade in manufactures; that for most member countries of the groupings, and in particular for the small and medium-sized ones, exports of manufactures within the groupings rose faster than total exports of manufactures; and that trade in manufactures within the groupings is more diversified than their manufactured exports to the world. Among those groupings which did not extend mutual tariff preferences the intra-trade of the two Asian ones virtually stagnated in current value, which implies that it declined in volume. The only African grouping which existed at the time, but did not introduce mutual preferences, did rather well.

31. In the 1970s, of the groupings which had previously introduced preferences, only ALADI, and within it the Andean Group, succeeded in surpassing the growth of world trade. The intra-trade of all groupings lagged far behind the increase in total trade among developing countries. In making this comparison, one has to bear in mind that oil and oil products have little weight in the intra-trade of the groupings and, in any case, they are not affected by trade preferences.

Table 4

Shares of developing countries by region in total trade among developing countries, 1970 and 1980
(Percentage of current dollar values)

	Latin America		Africa		Western Asia		South and South-East Asia	
	1970	1980	1970	1980	1970	1980	1970	1980
All goods (excluding mineral fuels)	28.9	33.5	16.4	4.9	5.2	7.7	35.4	49.2
Food and agricultural raw materials	31.0	33.0	19.3	6.9	4.0	2.9	45.0	55.1
Minerals and metals	38.6	36.6	16.6	8.3	3.1	7.5	37.5	45.3
Manufactures	31.0	33.8	16.4	3.1	8.2	11.5	36.3	44.5

Source: UNCTAD secretariat estimates, based on annex D, table III.

Among the groupings which had not introduced mutual preferences before 1970, three took off with expansion rates which in one case approached, and in two cases exceeded, that of total trade among developing countries. However, each of the three groupings contains an important petroleum-exporting country. It may be noted that whereas the Association of South-East Asian Nations (ASEAN) did extend some mutual trade preferences in 1977 and the Economic Community of West African States (ECOWAS) has been active in other fields, the third of the three groupings, Regional Co-operation for Development (RCD), is currently in abeyance.

32. Comparing the intra-trade of the groupings with the aggregate exports of their members to all developing countries and to the world, the performance of the Central American Common Market (CACM) stands out. The mutual trade of the five small countries involved represented by 1970, and still in 1980, an appreciably higher proportion of their exports to the world than was the case in any other grouping, including the much larger ALADI. This trade consistently represented more than 70 per cent of their total trade with developing countries, rising to over 90 per cent in 1970. Moreover, between 1972 and 1980 within the intra-trade of CACM the share of manufactures was somewhat higher than in the intra-trade of Western Europe (EEC and EFTA taken together.)[6]

33. In terms of the proportions mentioned, the second most closely knit grouping appears to be ASEAN, even though it made a start with the introduction of trade preferences only in 1977. Here, apart from crude oil and oil products, trade among the members in food (rice) also plays an important role. Nevertheless, the level of intra-trade recorded could not have been reached without significant flows of manufactures, and in the generation

[6] See ECE, "The trade relations of Western Europe with Latin America" (TRADE/R.443), 2 December 1982, tables 5 and 6.

of these the trade policies of the members have had an effect, even if the policies did not take the form of formalized mutual preferences.[7]

34. In comparison with CACM and ASEAN, the inference is inescapable that most trade expansion groupings of the developing countries are operating well below their potential.

6. Trade among developing countries in 1980-1982

35. The analysis presented so has been on the basis of the data up to and including 1980, the last year for which information comprising product detail was available at the time of writing. In annex D, tables VII and VIII, changes in the value of total trade for 1981 and 1982 are presented for various developing world regions and by half-yearly periods. These figures are bound to be revised and in consequence any conclusions drawn must be tentative.

36. Since the beginning of the 1980s, world trade has undergone a change of trend: having expanded vigorously for decades, in recent years the percentage changes in the current dollar value of world exports were as follows: 1978 to 1979: 26.3 per cent; 1979 to 1980: 21.6 per cent; 1980 to 1981: -1.7 per cent and 1981 to 1982: -6.7 per cent.[8]

37. The two tables show that, between the first half of 1981 and the first half of 1982, not only did the position of the developing countries in world trade deteriorate sharply, but also the contraction in their trade with each other was appreciably greater than in their trade with the rest of the world. Expressed in percentage of their exports to the world, their intra-trade fell from 27.5 per cent in the first half of 1981 to 25.5 per cent in the first half of 1982, and world exports to them declined from 31.3 per cent to 25.8 per cent. However, the second half of 1982 brought a strong rebound in these proportions, with intra-trade rising to 31.7 per cent of the exports of the developing countries to the world and to 33.9 per cent of world exports to them. Intra-trade grew faster than interregional trade - in part a reflection of lower oil prices.

38. From the second half of 1981 to the first half of 1982 the trade of Western Asia with all developing countries, both in exports and in imports, contracted by approximately 20 per cent. Between the same two periods the imports of developing America from all developing countries taken together also fell by about the same order, and its exports to all developing countries fell by 44 per cent, intra-regional trade declining by as much as 46 per cent. However, between the two halves of 1982 the exports of developing America to all developing countries almost doubled and those within the region rose by 114 per cent. This appears to reflect a strong export effort, but over and above this it may also reflect a more extensive and purposeful use of the preferential trade and payments arrangements existing in the region, in such a way that the increase in intra-trade should be largely balanced and thus put no additional burden on the national balance of payments.

39. The intra-trade of Western Asia performed in a fashion very similar to that of developing America, whereas in developing Africa intra-trade declined strongly from the first to the second half of 1981, rebounded from the second half of 1981 to the first half of 1982 and then fell again dramatically. Some of these fluctuations may be due to seasonal factors. In South and South-East Asia, after steady growth in the preceding periods, intra-regional trade contracted between the two halves of 1982 but the amplitude of the swing

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[7] Another consequence of these trade policies is that part of the intra-trade of ASEAN in manufactures is entrepot trade; this has been excluded from the totals shown in the table. Trade policies also account for the fact that another important part of the trade in question contains relatively little locally added value.

[8] United Nations, *Monthly Bulletin of Statistics*, April 1983. The volume index (1975=100) of world exports (excluding the centrally-planned economies) moved thus: 1978: 122; 1979: 131; 1980: 134; 1981: 133; 1982: 130.

was much smaller than in the other three areas.

C. The impact on the direction of trade of factors external to developing countries

40. There are strong factors at work, originating outside the developing countries, which tend to channel their international trade towards the maintenance and expansion of exchanges with the developed market-economy countries and, to a smaller but still important extent, with the socialist countries of Eastern Europe, rather than towards exchanges among themselves.

41. Various ties tend to persist between former colonies and their metropolitan centres, one of the most important being language and the educational and cultural impact transmitted by it. In a number of cases the trading enterprises are subsidiaries of firms established in the pre-independence period, and the international transport and communication network of many developing countries is often geared to the metropolitan centre rather than to trade with its neighbours or with other developing countries.

42. Under the impact of unemployment in the developed market-economy countries the proportion of official aid explicitly or implicitly tied to deliveries from the donor countries also appears to be growing. Particularly effective in determining procurement sources seems to be the tying of technical assistance; this is often practised even in conjunction with financial aid which is itself wholly or partly untied.[9]

43. Given their balance-of-payments problems, in placing orders for substantial packages of capital goods or for the bulk supply of staple food many developing countries assign decisive weight to the conditions of the credit the supplier is willing to provide. Suppliers located in other developing countries, even if they are competitive in terms of price and quality, are very seldom able to match the credit terms available from the developed market-economy countries.

44. Transnational enterprises centred in the developed market-economy countries exert a very significant influence on the trade orientation of many developing countries. Their subsidiaries or licencees in developing countries are frequently obliged to import products from particular sources in developed countries and to refrain from exporting to certain countries, including other developing countries. While there have been some changes in this respect, partially as a result of government intervention, it is essentially only subsidiaries located in the industrially more advanced developing countries that engage in exports on any significant scale, whether to developing or to developed markets. The foregoing remarks refer to trade in manufactured products. In respect of primary products transnational enterprises' activities have traditionally been oriented towards exporting to developed markets but they also engage in a certain amount of intra-trade among the developing countries.

45. Another aspect which has an influence on trade among developing countries is the procurement policies of the World Bank, the regional development banks and the United Nations Development Programme (UNDP). The projects financed by these institutions represent a market for capital goods which does not require export credit, eliminating one of the serious disadvantages facing developing country exporters. The share of developing country suppliers in total disbursements from World Bank credits more than doubled during the period 1978-1982, to almost 18 per cent. Financial co-operation among the developing countries themselves could clearly create

[9] For a review of the forms and impact of aid tying and for recommendations on how "to reduce or eliminate those conditions attached to external assistance tending to obstruct trade among developing countries", see "Official development assistance and economic co-operation among developing countries", report prepared at the request of the UNCTAD secretariat by Mr. R.S. Roberts, Jr. (TD/B/C.7/57).

Table 5

Shares of developing countries in exports of capital goods and in world bank disbursements, 1978-1982
(Percentage of current dollar values)

	1978	1979	1980	1981	1982
Share of developing countries in world exports of capital goods *a/*	4.6	5.2	5.9	6.4	..
Share of developing countries *b/* in disbursements from World Bank credits *c/*	8.8	10.1	13.6	15.5	17.9

Sources: United Nations, *Monthly Bulletin of Statistics*, May 1983; and communications from the World Bank.

a/ The data cover total exports of machinery and transport equipment (SITC 7).
b/ "Part II" countries in the classification of the World Bank plus Kuwait and the United Arab Emirates.
c/ Financial year ending with 30 June of the year shown. The disbursements are spent largely, but not entirely, on capital goods.

more favourable conditions for trade in capital goods among them.

46. In principle, developing countries' participation in disbursements by multilateral institutions could be strengthened if exporters from developing countries were given some preference in the tendering and purchasing process. The procurement guidelines of the World Bank state that, at the request of the borrowing country, "a limited margin of preference may be accepted for ... manufacturers in other member countries which have joined with the borrowing country in a regional preferential tariff arrangement among developing countries..."[10] This provision is little used, the frequency of applications seems to be decreasing and the preferences accorded have had virtually no effect on the outcome of awards.[11] The regional development banks have no similar facility; the Islamic Development Bank, however, expects its borrowing members to make procurement on a preferential basis in other member countries. The guidelines under which UNDP and other United Nations agencies operate name as the "overall objective" "the procurement of equipment at the lowest possible cost..." but mention as a "subsidiary objective" "to increase procurement from developing countries". Suppliers from developing countries are accorded no formal preference but, under instructions from the Governing Council of UNDP, the Inter-Agency Procurement Services Unit (IAPSU)[12] is making efforts to identify

[10] World Bank, *Guidelines for Procurement under World Bank Loans and IDA Credits* (Washington D.C., August 1975), point 3.8 and annex 2. The Bank recognizes six regional groupings for this purpose, *viz.* CACM, ALADI, the Andean Group, CARICOM, ECOWAS, and UDEAC. The preference is limited to 15 per cent of the c.i.f. price of non-regional goods or to the difference in tariffs, whichever is lower, and is allowed only if the borrower is liable to pay customs duty on the goods involved. The limit on the regional preference is the same as may be granted to domestic manufacturers in the borrowing country, also at the request of that country.

[11] Communication from the World Bank.

[12] UNDP Inter-Agency Procurement Services Unit (IAPSU), *General Business Guide for Suppliers of Goods and Services to the United Nations System*, 3rd edition, June 1983, p.6.

suitable sources of goods and services in developing countries. UNDP also attempts to select regional and inter-regional projects, but finds that the necessity of dealing with more than one government makes the formulation and implementation of such projects difficult.

D. The impact on the direction of trade of institutions and policy instruments of developing countries

1. The general trade policy framework of developing countries

47. The tariff structures in developing countries are very similar to those in the developed countries. Zero or low duty rates are applied to goods considered essential and not produced domestically, or not in sufficient quantities, for example: energy, raw materials and certain capital goods, and, in an increasing number of developing countries, staple food. In respect of other goods and to protect domestic industry, tariffs are levied, the incidence increasing with the degree of fabrication. Such a tariff structure necessarily inhibits trade among developing countries having broadly similar productive structures.

48. An important difference, however, in the role of tariffs in developing countries from that in developed nations is their significance as a source of government revenue. For example, the average share of customs duties in total central government revenue of developing countries was 13.2 per cent in 1979, compared with 1.7 per cent in developed market-economy countries: for countries with a per capita income level of $1,000 and over, this share was 9.6 per cent, while for countries with an income level lower than $1,000, as much as 21.3 per cent.[13] The above phenomenon has important implications for tariff liberalization in developing countries. While in developed countries cost-benefit analysis of tariff reductions can concentrate on trade and trade-related effects, in the case of developing countries account has to be taken of the loss of revenue and the effects of recourse to other means of raising revenue.

49. Another important dissimilarity is the significant difference between the average trade-weighted percentage rates of duty and the percentage of the value of imports constituted by the customs receipts actually collected (see annex D, table X). The main reason for this would seem to be duty exemptions, probably for imports for government use and for imports of an investment nature. Government imports are generally admitted free of duty. Although, in government procurement, preference is given to domestic suppliers where goods are produced locally, preferential treatment is rarely extended to imports from other developing countries. On the other hand, imports of investment goods from developed countries are frequently admitted duty-free and sometimes also final consumer goods.

50. In addition to tariffs, most developing countries also apply quantitative import restrictions, the principal aim of which is the allocation of available foreign exchange, in the light of balance-of-payments constraints. While developed market-economy countries revert to a wider variety of non-tariff barriers (NTBs), the import regimes of developing countries are on average slightly more restrictive. Thus volume-restraining measures (i.e., quotas and restrictive licences), while applied in developed market-economy countries to 16 per cent of product groups (defined at the 4-digit level of the Customs Co-operation Council Nomenclature (CCCN)), applied to 21 per cent of product groups imported by a representative group of developing countries.[14] This difference, while significant (and understandable given the balance-of-payments difficulties of developing countries) is surprisingly small and not in line with the popular belief

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[13] See the report by the UNCTAD secretariat, "Protectionism, trade relations and structural adjustment" (TD/274 and Corr.1), table 5.

[14] For detailed statistics, see the report by the UNCTAD secretariat, "Non-tariff barriers affecting the trade of developing countries and transparency in world trading conditions: the inventory of non-tariff barriers" (TD/B/940).

that the markets of developing countries are far more protected than those of developed market-economy countries. Indeed, the detailed data show that in the case of several product groups (i.e., various agricultural products, or textiles), the frequency indices of incidence of NTBs for individual developed market-economy countries are higher than those for developing countries.

51. When the structure of NTBs in developing countries is analysed, it is found that they more frequently affect the products that are of special export interest to other developing countries rather than to those of other groups of exporters. For example, the product groups which most frequently face volume restraint measures in developing countries include animal and vegetable products, resins and rubber, wood, precious stones and metals, etc.. The frequency indices do not, however, consistently increase with the level of fabrication of products, demonstrating the absence of the NTB escalation which in contrast is pronounced in the developed market-economy countries' NTB profiles. Thus, the developing countries tend to control the imports of primary rather than processed commodities.

52. Another point which should be mentioned in respect of the trade policy instruments used by the developing countries concerns the practical modalities for the application of protective measures. Some of these aspects seem to be biased against inputs from other developing countries. For example, the allocation of licences is often confined to established importing firms, who have their traditional supply lines, which tends to favour trade with the developed countries, rather than with prospective suppliers from other developing countries.

2. The policy instruments used by trade expansion groupings

53. The establishment of trade expansion groupings among developing countries began around 1960 with the intention of following the example of the groupings in Western Europe (the European Economic Community (EEC) and the European Free Trade Association (EFTA)). This meant choosing one of the two forms of integration envisaged in article XXIV of GATT, a customs union or a free-trade area, and then proceeding to its application within a predetermined time span by applying "a plan and a schedule" to eliminate gradually "the duties and other restrictive regulations of commerce"... "on substantially all the trade between the constituent territories in products originating in such territories". Experience has since shown that, in the circumstances of the developing countries, while this process could be started it could not be followed to anywhere near its conclusion.[15]

54. Several groupings of developing countries have introduced common external tariff schedules - usually, but not always, preceded by the

[15] On the experience of the trade expansion groupings see, *inter alia*, the following UNCTAD documents: "Preferential trade measures within the integration and co-operation schemes in the regions of ESCAP and ECWA", study prepared by Mr. Fasih Uddin (TD/B/C.7/19); "Review of experience to date with preferential measures in the context of Latin American integration schemes, in order to derive suggestions for a global system of trade preferences among developing countries", study prepared by Mr. Felix Pena (TD/B/C.7/22 and Add.1); "The trade preferences of the African economic co-operation and integration groupings", study prepared by Mr. Melchiade Yadi (TD/B/C.7/32); "Review of the preferential arrangements established under the GATT Protocol relating to Trade Negotiations among Developing Countries", study prepared by Mr. Mahmoud Abdel-Bari Hamza, (TD/B/C.7/49); "Measures for strengthening economic integration and co-operation among developing countries at the subregional, regional and interregional levels", note by the UNCTAD secretariat (UNCTAD/ST/ECDC/17); "A review of recent developments in subregional, regional and interregional organizations and arrangements", report by the UNCTAD secretariat (TD/B/C.7/51).

adoption of a common tariff nomenclature.[16] Although the implementation of automatic long-term programmes for the gradual elimination of customs duties encountered difficulties everywhere where it was attempted, in several groupings and on many goods appreciable progress has been achieved in reducing the level of tariffs applied in intra-trade. Empirical investigation of the Latin American experience has shown that tariff preferences have generally been significant in trade flows in manufactures and semi-manufactures.[17]

55. In the process of reducing tariffs on imports from each other the members of the groupings encountered a series of obstacles. Among countries at an early stage of industrial development, principally in Africa, a practical problem appears to be the finding of alternative sources of revenue for customs duties forgone. Among countries which had reached a moderately more advanced stage, as in Central America, far-reaching liberalization within a relatively short period proved possible, but the grouping soon came up against the issue of the uneven impact of this liberalization on trade balances and the production structures of member countries. Among the larger and more industrially advanced developing countries, as in LAFTA (later ALADI), pressures to maintain protection to established productive activities seems to have been paramount.

56. Since, beyond a certain point, the groupings met with increasing difficulty in trying to find scope for further tariff reductions of a general nature, the recent trend has been to adopt an approach consisting mainly of partial or bilateral negotiations and concessions. In Latin America the change was marked by the re-writing of the Montevideo treaty and the transformation of LAFTA into ALADI in 1981. A regional preference margin is envisaged, but it is expected to vary both according to the granting country and over time. The eventual convergence of the partial concessions toward a common market is desired, but no timetable to reach this goal has been set. Other groupings are also experimenting with more limited and flexible forms of tariff preferences. The linear duty cuts introduced by ASEAN are uniform in extent but on each tariff item each country grants them only to those other members from which imports of the items in a base period did not exceed a ceiling value. To channel the more substantial trade flows expected to be generated by its ASEAN Industrial Projects (AIP) and ASEAN Industrial Complementation agreements (AIC) schemes, ASEAN is planning to use "directional" preferences, accorded by a specified member country to another specified member on a specified product. These preferences, while constituting a negotiated package, would not be generalized or reciprocal.

57. The tariff preferences extended to each other by the members of the groupings are usually subject to safeguard clauses. With respect to non-tariff measures some preferences have been accorded, such as the establishment of minimum import quotas for other participating countries on otherwise prohibited products; quotas which are progressively enlarged in line with increasing consumption; compensatory quotas for specified products of the same industry moving in opposite directions between two member countries; the opening of preferential quotas for products of special export interest to less developed partners; and privileged exchange allocations for specified imports from other members of a grouping.

58. The problem of countries which have been at a disadvantage from the outset on account of small size, outly-

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[16] In Latin America the two groupings CACM and LAFTA jointly adopted the common customs nomenclature NABALALC; this was then modified for sub-regional purposes by the Andean group and given the name NABANDINA. CACM, the Andean group, CARICOM, UDEAC and MARIUN have common external tariffs.

[17] "Las exportaciones de manufacturas en America Latina: Informaciones estadisticas y algunas consideraciones generales" (E/CEPAL/L.128), and L.I. De Maria, "Las preferencias arancelerias y el comercio intra e interregional (de ALALC e ALADI)", paper presented at the UNCTAD-CEESTEM-RCCDC Round Table on Economic Co-operation among Developing Countries, Mexico City, 22-29 November 1982.

ing geographical location, lower level of economic development, etc., received legal recognition in all the trade expansion groupings. The Montevideo treaty, for example, distinguishes three categories of members. In the tariff field various devices have been tried to help disadvantaged member countries, such as grouping-wide special taxes or fiscal transfers to compensate them for the loss of customs revenue, deeper preferences and/or accelerated introduction of preferences in their favour, and the automatic extension to them of all concessions negotiated among the other members.[18] There is now general agreement that the solution of the problem also requires specific action in other areas.

59. The most popular action has been the negotiated allocation of new investments to the disadvantaged countries in the form of entire import-substituting industries, or of plants to complement the existing product range. Since the activities concerned are new to the groupings, established producers are not affected. The earliest attempt at such allocation was the "integration industries" system in CACM, and the most important ones currently pursued are the industrial complementarity agreements in LAFTA (renegotiated in ALADI), the scheme of the Andean group, and the two schemes of ASEAN, favouring the disadvantaged members.

60. The industrial complementarity agreements of LAFTA-ALADI were negotiated initially mainly among private firms and were then adopted by the governments. In the Andean Group, realization of the investments is sought through co-operation between States and enterprises, with the former guiding the latter by means of incentives and negotiated agreements. To help in the implementation of the programme, the member countries have harmonized their fiscal and legal treatment for foreign direct investment. In ASEAN, two industry allocation schemes have been launched, the ASEAN Industrial Projects (AIP), which are joint ventures of the member countries financed by public capital, and the ASEAN Industrial Complementation agreements (AIC) relying on private initiative and funds. All the industrial allocation schemes have encountered snags and delays but by now they also have a record of achievements.

61. Joint companies established within the Council of Arab Economic Unity have become a major vehicle of economic co-operation: they are organized as holding concerns with investments in firms engaged in direct production, and are operating in the fields of livestock development, mining, general industrial investment and medical supplies. In the Andean group, in CARICOM, and bilaterally between members of ALADI a number of jointly and publicly owned enterprises are engaged in industrial and energy production and in shipping.[19] The Andean Group has recently introduced a legal framework for the establishment of Global Development Projects (Proyectos Integrales de Desarrollo), public sector companies in which all the member countries participate.

62. Several groupings have developed special arrangements to promote trade in food among their members. CARICOM has adopted a Regional Food Plan and to implement it, it established in 1974 a Caribbean Food Corporation owned jointly by all the member governments. In 1981, SELA instituted an Action Committee on Latin American State Foreign Trade Corporations in the Food Sector (OECEG); in 1982 the Committee decided to create a Latin American Agency for the Marketing of Foodstuffs. ALADI is operating an information service on food prices and availabilities in its member countries. The Entente Council in West Africa is promoting intra-trade in livestock and meat and the extension of grain storage capacities. The Arab Authority for Agricultural Investment and Development (1976) is channelling capital into the Sudan with the aim of developing that country's agriculture as a supply base for the whole Arab

[18] One such country, Uruguay, has been granted quantitatively limited duty reductions (tariff quotas) on its exports to its industrially more advanced neighbours, Argentina and Brazil.

[19] "Latin American multinational enterprises: an analytical compendium", compiled by the UNCTAD secretariat (TD/B/C.7/50).

region. The members of ASEAN have agreed to give each other the right of first refusal in buying any available rice surpluses and in supplying rice import needs. SPEC (South Pacific Bureau for Economic Co-operation) sponsored the conclusion of a Long-term Sugar Agreement under which trade in sugar among its members is now proceeding.

63. In other areas of co-operation affecting trade the (small) preference the ASEAN countries are granting to each other in government procurement and the ECOWAS regional TIR convention can be mentioned; other instances are the LAFTA Water Transport Agreement (reservation of cargoes for vessels of the signatory countries) and an agreement in the Andean group on the unification of standards used in the automobile industry. Nevertheless, in the fields of transport, technical regulations and some others, economic co-operation among developing countries is proceeding mainly outside the framework of the trade expansion groupings.

64. Very substantial scope exists for the further expansion of trade among developing countries. Over recent years, these countries have expressed their political will to move ahead in this area in a series of high-level declarations.[20] Current efforts are directed mainly at getting the negotiations on a Global System of Trade Preferences (GSTP) among developing countries started, in accordance with the principles established.[21]

65. In so far as can be discerned at the present stage, the preparatory work accomplished seems to point to two parallel but distinct approaches in the GSTP negotiations. The first would rely principally on tariff preferences or concessions to generate more trade among developing countries. The second approach would attempt to mould the concepts of a sectoral approach, trade targets, tariff and non-tariff preferences, direct trade measures and long-term contracts into a coherent whole, with the matching of export surpluses and import requirements in agricultural commodities and co-operation among State trading organizations. Thus, this approach would try to work out a well-balanced package of world-wide trade among developing countries comprising various sectors. The package would consist, at least partly, of long-term supply and purchase commitments. The least developed countries might be given assurances for the absorption not only of their present but also of their future exportable surpluses. The assurances could be expected to generate investments aimed at producing such surpluses.

66. It is hoped that the joint impact of the GSTP and of other measures, and policies serving the same end, will result in significant advances towards closing the gap between the theoretical possibilities and the reality of trade among developing countries.

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[20] *Programme for Collective Self-Reliance,* adopted at the Fourth Ministerial Meeting of the Group of 77 in February 1979; the *Caracas Programme of Action* adopted at the High-level Conference on Economic Co-operation among Developing Countries, May 1981; the *Manila Follow-up Action for ECDC,* adopted at the first meeting of the Intergovernmental Follow-up and Co-ordination Committee for ECDC, August 1982; the *Ministerial Declaration on the Global System of Trade Preferences among Developing Countries (GSTP)* adopted by the Ministers for Foreign Affairs of the Group of 77, New York, October 1982 (also cited in the following footnote); the *Action Programme for Economic Co-operation* and the *Declaration on Collective Self-Reliance among Non-Aligned and other Developing Countries* adopted at the Seventh Conference of Heads of State or Government of Non-Aligned Countries, New Delhi, March 1983; and the *Economic Declaration* of the Fifth Ministerial Meeting of the Group of 77, Buenos Aires, March-April 1983. The international community pledged its support to these efforts in resolution 139 (VI) adopted by the United Nations Conference on Trade and Development on 2 July 1983.

[21] For these principles see, in particular, the Ministerial Declaration of 8 October 1982 of the Group of 77 on the GSTP (A/37/544, annex II).

Chapter III

FINANCIAL CO-OPERATION AMONG DEVELOPING COUNTRIES

A. Introduction

1. Coverage

67. Financial co-operation among developing countries (FCDC), as used in this chapter, will be defined as covering (a) official concessional programmes, both bilateral and multilateral, implemented essentially by OPEC countries and institutions financed by them; (b) payments arrangements among groups of developing countries, ranging from simple clearing arrangements containing only minimal technical credit lines to payments arrangements containing mutual trade credits or even overall balance-of-payments support mechanisms; and (c) multilateral mechanisms providing export finance or other forms of trade credit designed to stimulate trade among developing countries. While other financial links among developing countries - such as the recycling of funds from surplus to deficit developing countries via the commercial banking systems of the developed countries or multilateral financial institutions largely financed by the developed countries - are far more important in absolute terms than the channels of co-operation which are covered, they do not serve to counteract the North-South orientation of the financial flows on which developing countries have traditionally depended to cover their capital needs and balance-of-payments deficits.

2. The role of financial co-operation in the implementation of the principle of collective self-reliance

68. FCDC in the narrow sense of the term as used here is the result of deliberate governmental policies designed to give practical meaning to the concept of collective self-reliance. On the one hand, it involves the unrequited surrender of resources on the part of certain developing countries in favour of others, much as occurs within individual countries, when an economically more favoured region accepts the transfer of resources to a poorer and less developed region for the sake of equity, national cohesion and access to growing markets. But FCDC also requires the acceptance of a higher risk factor on the part of a surplus developing country in the formulation of its investment strategy, which is naturally associated with higher potential returns on such investments. An investment strategy geared to "blue-chip" equities and/or limited to debt instruments enjoying the highest ratings will necessarily reduce the potential ECDC gains to be derived from the temporary coincidence of capital surpluses in certain developing countries and the huge investment possibilities in others. Only a direct investment flow from one group to the other can reduce the extraordinary influence which the financial intermediaries can exercise on borrowing countries' economic policies through their power to determine the geographical and sectoral allocation, as well as the amounts over time, of recycled funds.

69. The need for institutionalized preferences in trade among developing countries has long been recognized and has been acted upon within the framework of several regional integration groupings, while the proposed global system of trade preferences (GSTP) is intended to give an interregional dimension to these endeavours. These positive measures in the trade field can easily be nullified in favour of traditional or even new North-South trade links by financial mechanisms such as export credits, or more subtle pressures exerted by financial intermediaries in the North having close links with export interests based in the same countries. In such circum-

stances, it stands to reason that countervailing financial mechanisms must be created to act as a necessary counterpart to the ECDC efforts being made in the trade field. Such countervailing mechanisms should not only enable developing countries exporters of manufactured goods to match export credit terms offered by their competitors from developed countries, but should also contain a reasonable margin of preference for procurement in developing countries (following the model set by the Islamic Development Bank's trade credits, which favour procurement in member countries). In this way, the principle of preferences, long accepted in the trade sphere, would find its logical counterpart in the trade-related financial sphere.

3. Relationship between FCDC and trade among developing countries

70. While recipient countries might be expected to take a pragmatic view of the origin of official loans or equity investments, judging each transaction on its merits or in comparison with alternative sources of funds, official investments and loans originating in other developing countries are normally associated with certain distinct advantages as compared with similar flows coming from industrial countries:

(a) Developing countries with substantial surpluses to lend or invest are essentially petroleum-exporting countries with low absorptive capacities who do not need to tie their loans or investments to their own exports. In what appears to be a sharp reversal of an earlier trend away from aid tying,[22] this practice characterized one-half of official development assistance (ODA) provided by members of the Development Assistance Committee (DAC) in 1981, and virtually all ODA coming from the countries members of the Council for Mutual Economic Assistance (CMEA). The advantage of untied aid lies not only in the recipient's ability to select the cheapest procurement source for aid-financed goods, thereby increasing the cost efficiency of each aid dollar, but - what is perhaps more important - in the possibility it affords for the diversification of sources of equipment and of the technological know-how that is furnished with it. Thus, FCDC in the form of untied ODA permits (i) turnkey projects to be unpackaged and adapted to the needs of the recipient, (ii) trade among developing countries to be promoted, and (iii) appropriate technologies from non-donor developed and from other developing countries to be used.

(b) Developing countries donors of ODA have on average been increasingly responsive to recipient countries' need for non-project assistance, i.e., financial flows which the latter can utilize to pay for pressing general import requirements, or for raw materials and spare parts to keep existing projects in operation and thereby to help repay earlier debts incurred in their construction. Whereas less than 45 per cent of DAC bilateral assistance was in the form of non-project aid in 1981, over 52 per cent of OPEC countries' bilateral aid was in that form in 1980/81.[23]

71. It has long been recognized that one of the principal factors impeding trade among developing countries in manufactured goods has been the advantage held by exporters in developed countries in providing export credits - usually subsidized - at interest rates far below those prevailing in capital-scarce developing countries, whose exporters might otherwise be in a position to compete in terms of both cost and quality. The lower interest costs not only serve to offset the competitive edge of the would-be developing country supplier; for a developing country suffering from balance-of-payments difficulties the very availability of long-term export credit can easily determine the choice of supplier. Thus, private export credits, which had come to represent

[22] *Development Co-operation - 1982 Review* (Paris: OECD, December 1982), table II.B.5 of the Statistical Annex.

[23] OECD, *op. cit.*, table IX-3; *Aid from OPEC Countries: Efforts and Policies of the Members of OPEC and of the Aid Institutions Established by OPEC Countries*(Paris: OECD, April 1983), table II.3.

little over 6 per cent of all external financial receipts of developing countries during the period 1972-1975, have provided nearly 12 per cent of such flows since 1976.

4. Global and interregional support measures

72. The principle of FCDC has found extensive political support not only on the part of the international community at large through innumerable resolutions on ECDC of the General Assembly and UNCTAD, but more pertinently, of the developing countries themselves in various resolutions of the Non-Aligned movement, the latest of which was issued in New Delhi at the summit level early in 1983, as well as in the Mexico City and Caracas action programmes of the Group of 77 agreed upon in 1976 and 1981, respectively.[24] While these resolutions are comprehensive enough in terms of specific FCDC proposals to be pursued, as well as of intergovernmental review procedures, they have been diffident in designating the agents of implementation, thus leaving the initiative (and the costs) to individual countries, supported on an *ad hoc* basis by international organizations.

73. Consequently, progress in the implementation of interregional FCDC proposals has been largely restricted to (i) the national and joint financial aid efforts of certain OPEC countries acting through multilateral institutions promoted, financed and controlled by them, which will be the subject of the subsequent section; (ii) the long-standing policy co-ordination among the Group of 24 acting within the framework of the governing bodies of IMF and the World Bank; and (iii) modest interregional co-ordination attempts among regional and subregional clearing and payments arrangements.

74. On a regional and subregional basis, the record has been considerably brighter, often as the by-product of parallel and more comprehensive economic integration institutions or by virtue of historical, political or cultural links. These arrangements will be the subject of the third section of this chapter. Lastly, the FCDC efforts in the field of trade have been scattered and limited to certain regional institutions, whereas the long-standing efforts within UNCTAD to create an international export credit guarantee facility (IECGF) have not yet borne any concrete results. These, along with the proposal for establishing a South-South Bank, will be treated in the fourth section of this chapter.

B. Aid efforts by OPEC and other developing countries

1. Overall trends

75. Aid from OPEC countries[25] has come to constitute a significant share of all official development assistance (ODA) flows to developing countries.[26] Whereas in 1970 OPEC flows amounted to less than 5 per cent of ODA receipts of developing countries, i.e., well below the aid receipts from the other two major donor groups,[27] OPEC aid came to represent as much as 29 per cent of all aid receipts by developing countries in

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[24] For a detailed list of the relevant documents see footnote 20 above.

[25] OPEC donors are defined as comprising Saudi Arabia, United Arab Emirates, Kuwait, Qatar, Nigeria, Iraq, Libyan Arab Jamahiriya, Venezuela, Algeria and the Islamic Republic of Iran.

[26] This section is largely based on statistics contained in OECD, *Aid from OPEC Countries... op. cit.* and *Development Co-operation - 1982 Review, op. cit.* These data differ to some extent from those contained in a forthcoming UNCTAD document entitled *Financial Solidarity for Development: Development Assistance from OPEC Member Countries and Institutions to Other Developing Countries, 1973-1981*, which was still under revision at the time of writing.

[27] The other major donor groups are the 17 countries members of the Development Assistance Committee (DAC) of OECD and the seven European countries members of the Council for Mutual Economic Assistance (CMEA).

Table 6

Developing countries: Net receipts of ODA from OPEC countries and OPEC-financed multilateral institutions, and from all sources, 1970-1981
(Billions of dollars at 1981 prices and percentage shares)

	1970	1971	1972	1973	1974	1975	1976	1977	1978	1979	1980	1981
OPEC	1.01	1.07	1.44	3.96	7.53	8.93	8.29	7.57	9.38	7.24	8.29	7.32
Total	20.83	22.72	21.96	24.23	29.03	30.72	29.15	27.97	32.49	32.37	35.27	35.51
OPEC share (%)	4.8	4.7	6.6	16.3	25.9	29.1	28.4	27.1	28.9	22.4	23.5	20.6

Source: OECD, *Development Co-operation: 1982 Review* (Paris, December 1982), table V-3.

Table 7

Selected developing countries *a/*: Net receipts of ODA from OPEC as a percentage of total ODA receipts, 1979-1981

Country	1979	1980	1981
Oman	98.1	96.6	97.6
Bahrain	96.8	97.8	97.4
Jordan	87.6	88.0	83.8
Syrian Arab Republic	91.9	93.5	82.6
Lebanon	64.9	83.7	82.5
Yemen	64.5	71.5	68.1
Morocco	63.9	62.5	50.8
Sudan	53.3	30.0	29.0
Turkey	1.2	27.4	26.1
Somalia	43.7	33.4	14.6
Pakistan	4.6	32.0	1.6
Egypt	14.4	0.9	*b/*
India	1.7	4.6	*b/*

Source: OECD, *Geographical Distribution of Financial Flows to Developing Countries, 1978/1981* (Paris, 1982) and other OECD sources.

a/ Countries whose receipts of OPEC bilateral ODA exceeded $100 million in any one of the years covered.

b/ Negative flow (i.e., debt repayments exceeded gross receipts).

1975 and 1978, the peak years of OPEC aid both in terms of real value and in terms of its importance vis-a-vis other donor groups (table 6). While overall aid flows have levelled off - the average flow in real terms[28] during 1978-1981 was virtually identical with the flow over the preceding four-year period - and have probably declined in the wake of the OPEC countries' falling current account surpluses,[29] OPEC aid will continue to represent a major, if not the preponderant factor in the development programmes of several developing countries, particularly the non-oil-exporting countries of West Asia and North Africa (table 7).

76. Measured in terms of their GNP, OPEC donors as a group have consistently exceeded the efforts of DAC member countries, even as early as 1970, i.e., before the rise of oil prices produced large export surpluses for several OPEC countries (table 8).[30] When attention is concentrated on those OPEC donor countries with low absorptive capacities (essentially the Gulf States, i.e., Saudi Arabia, Kuwait, United Arab Emirates and Qatar), which have consistently accounted for more than three-quarters of total OPEC disbursements and whose share had risen to 95 per cent in 1981, the difference between the aid efforts of the principal OPEC donors and the major DAC donors is particularly revealing.

77. Even in absolute amounts, the three largest OPEC donors - Saudi Arabia, United Arab Emirates and Kuwait - have been on the list of the world's eleven major ODA donors every year from 1974 to 1978 and again in 1981 (table 9). Along with Qatar, these countries supplied nearly 21 per cent of all ODA to developing countries and multilateral institutions, even though they only accounted for a little over 1 per cent of the world's gross domestic product.

2. Channels of aid

78. Although a simple comparison of the channels used by the three main donor groups for the implementation of their respective aid flows reveals a higher propensity to use multilateral channels on the part of DAC as compared with the two other donor groups,[31] OPEC donors raised the multilateral share of their flow in 1980 and 1981 to 12 and 26 per cent, respectively, i.e., well above the level of 7.2 and 7.9 per cent, respectively, that had prevailed in the preceding two years (table 10).[32] However, it is still too early to determine how far the most recent figures represent a trend towards greater multilateralism in

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[28] Deflated by the GNP deflator of DAC countries, where most OPEC aid is spent.

[29] According to estimates by the Bank of England, OPEC aid fell from \$7.2 billion in 1981 to \$3.9 billion in 1982, tapering off sharply since the middle of 1982 to an annual rate of \$2.6 billion (see *Bank of England Quarterly Bulletin*, March 1983).

[30] Comparison with the aid performance of socialist countries of Eastern Europe as a whole cannot be made for this period on the basis of official information from those countries. However, official reports from some of these countries for the latter part of the period suggest that the efforts of OPEC donors also surpassed the aid performance of socialist countries of Eastern Europe. For official information on the assistance programmes of Bulgaria, Czechoslovakia, the German Democratic Republic and the USSR, see the submissions of those countries to the sixth session of the Conference (TD/291, TD/301, TD/302 and TD/304, respectively).

[31] It should be noted, however, that OPEC countries have been important - and during the mid 1970s the dominant - providers of non-concessional funds for IMF, the World Bank and the regional development banks. The cumulative amounts of OPEC loans outstanding to these institutions at the end of 1981 exceeded \$8.2 billion, about one-half of which were made to the World Bank.

[32] In this connection it must be noted that in recent years OPEC aid commitments have been increasingly determined by Saudi Arabia, so that shifts in Saudi flows tend to swamp the entire OPEC aid structure. Thus, in the period 1978-1981 Saudi Arabia accounted for fully 60 per cent of all OPEC ODA commitments, and for nearly two-thirds of such disbursements.

OPEC aid. The degree of multilateralism is closely related to the geographical concentration of OPEC ODA, inasmuch as the large recipients of OPEC aid - Jordan, the Syrian Arab Republic and more recently Iraq - receive most of their assistance bilaterally. Therefore, if the growing share of multilateral commitments since 1979 is maintained, this portends a greater degree of geographical diversification in disbursements.

79. Most of the major OPEC Gulf States donors have created their own national development assistance funds (NDAFs) for channelling project aid. Their importance within their respective countries' aid programmes has depended on the relative weight given to project as distinct from non-project assistance (NPA), e.g., balance-of-payments support, financing of oil or other imports and disaster relief. Thus, Saudi Arabia has channelled no more than 10 per cent of its ODA disbursements through the Saudi Fund, while in the case of the United Arab Emirates the corresponding share has only once exceeded the 12 per cent figure registered in 1980 and 1981. However, the two NDAFs operating in Kuwait have channelled up to one-half of that country's ODA, a fact undoubtedly linked to the long experience of these funds, which can trace their existence respectively to the 1950s and 1960s.

3. Geographical composition of donors and recipients

80. If the nine-year period under review (1973-1981) is divided into three sub-periods of three years each, the distribution of ODA among OPEC donors shows a marked growth in the share of Saudi Arabia from 1973-1975 to the subsequent triennium, but a remarkable stability around the 65 per cent mark since then (table 11). The growth of the share of Saudi Arabia was at the expense of other major donors (particularly the Islamic Republic of Iran, whose flow turned negative in 1981), while the smaller donors' shares (Algeria, Nigeria and Venezuela) were all higher during the last sub-period than during the first, largely as the result of long-term commitments to multilateral institutions. Since the last sub-period of 1979-1981 includes the

Table 8

ODA disbursements to developing countries and multilateral agencies as a percentage of GNP in selected years, by members of DAC and OPEC *a/*

	1970	1975	1980	1981
DAC	0.34	0.36	0.38	0.35
OPEC	1.18	2.92	1.70	1.40
of which: Gulf States: *b/*	5.86	8.56	4.28	3.92

Sources: OECD, *Development Co-operation - 1982 Review*, *op. cit.*, and *Aid from OPEC Countries*, *op. cit.*

a/ See the footnote reference to paragraph 76 above.
b/ Kuwait, Qatar, Saudi Arabia, United Arab Emirates.

Table 9

Comparison of efforts by major ODA donors to developing countries and multilateral agencies *a/*: net disbursements, 1975 and 1981

	ODA ($ million)		Share in ODA from all sources (per cent)		ODA as share of GNP (per cent)		Per capita GNP (dollars)	
	1975	1981	1975	1981	1975	1981	1975	1981
United States	4 161	5 783	21.7	16.2	0.27	0.20	7 159	12 730
Saudi Arabia	2 756	5 658	14.4	15.8	7.76	4.66	4 582	13 040
France	2 093	4 177	10.9	11.7	0.62	0.73	6 418	10 560
Germany, Fed. Rep. of	1 689	3 181	8.8	8.9	0.40	0.47	6 765	11 130
Japan	1 148	3 171	6.0	8.9	0.23	0.28	4 389	9 580
United Kingdom	904	2 195	4.7	6.1	0.39	0.44	4 110	8 980
Canada	880	1 189	4.6	3.3	0.54	0.43	6 994	11 320
Netherlands	608	1 510	3.2	4.2	0.75	1.08	5 916	14 246
Sweden	566	916	2.9	2.6	0.82	0.83	8 439	13 320
United Arab Emirates	1 046	799	5.5	2.2	11.69	2.88	17 400	36 040
Kuwait	946	685	4.9	1.9	7.40	1.98	14 810	23 650
Sub-total	16 231	27 754	84.7	77.7	...	...		
Others donors *b/*	2 934	7 981	15.3	22.3	...	...		
Total	19 165	35 735	100.0	100.0				

Source: UNCTAD secretariat, based mainly on OECD, *Development Co-operation*, various issues.

a/ Listed in descending order of ODA in 1981.
b/ Other DAC members, other OPEC donors and CMEA donors.

Table 10

OPEC: Bilateral and multilateral assistance commitments and disbursements, 1974-1981

(Millions of dollars)

A. Commitments

	1974	1975	1976	1977	1978	1979	1980	1981
Bilateral	5 153	7 850	5 242	6 248	10 696	5 929	8 715	7 498
Multilateral	796	555	3 537	1 712	770	512	1 177	2 706
Total	5 949	8 405	8 780	7 960	11 467	6 441	9 891	10 204
Multilateral share (per cent)	13.4	7.1	40.3	21.5	7.2	7.9	11.9	26.5

B. Disbursements

	1974	1975	1976	1977	1978	1979	1980	1981
Bilateral	4 150	5 679	5 170	4 279	6 896	6 490	8 170	6 822
Multilateral	429	560	928	1 788	1 234	851	957	875
Total	4 579	6 239	6 098	6 067	8 130	7 341	9 127	7 696
Multilateral share (per cent)	9.4	9.0	15.2	29.1	15.2	11.6	10.5	11.4

Source: OECD, *Aid from OPEC Countries*, *op. cit.*, and *Development Co-operation*, various issues.

years of unusually large balance-of-payments surpluses for the OPEC countries following the major oil price increase of 1979, the composition of donor shares for 1981 gives a more accurate reflection of the most recent trends, when OPEC as a group was running current-account deficits and only a few Gulf States had maintained - albeit diminishing - surpluses, from which aid flows could be financed without drawing on accumulated savings abroad or increasing the donors' own international indebtedness. In these circumstances, it is likely that Saudi Arabia's share of OPEC commitments will remain above 70 per cent, as it already was in 1981, while the shares of Iraq, along with all the smaller donors, most of whom are experiencing more or less serious balance-of-payments problems in the wake of their reduced petroleum earnings, will become marginal.

81. The geographical pattern of OPEC's bilateral aid disbursements in recent years cannot be properly evaluated since the recipients of between one-fifth and three-fifths have not been identified, representing a large portion of disbursements from the major donor - Saudi Arabia.

82. As observed in paragraph 78 above, there has been a tendency for OPEC bilateral flows to become more concentrated on a few countries partly because of the virtual termination of bilateral disbursements by the Islamic Republic of Iran, the bulk of which had been directed to India and Pakistan (table 12). The share of certain Afri-

Table 11

Concessional disbursements from individual OPEC donor countries: *a/*
average annual values and shares, 1973-1981
(Millions of dollars and percentage shares)

Country	1973-1975		1976-1978		1979-1981		1981		1973-1981	
	Value	Share	Value	Share	Value	Share	Value	Share	Value	Share
Gulf States b/										
Saudi Arabia	2 009	46.5	3 859	65.0	5 279	65.6	5 658	73.5	3 716	58.4
United Arab Emirates	615	14.2	986	16.6	890	11.1	799	10.4	831	13.1
Kuwait	644	14.9	934	15.7	602	7.5	685	8.9	727	11.4
Qatar	206	4.8	161	2.4	246	3.1	175	2.2	204	3.2
Sub-total *c/*	3 474	80.5	5 940	87.8	7 017	87.1	7 317	95.1	5 477	86.1
Sub-total *d/*	5 964	80.9	7 888	87.4	7 056	87.1			6 969	87.0
Other donors										
Iraq	216	5.0	155	2.3	606	7.5	143	1.9	326	5.1
Iran (Islamic Rep. of)	334	7.7	387	5.7	-41	-0.5	-150	-1.9	227	3.6
Libyan Arab Jamahiriya	207	4.8	111	1.6	164	2.0	105	1.4	161	2.5
Algeria	38	0.9	46	0.7	133	1.7	65	0.8	72	1.1
Venezuela	36	0.8	73	1.1	100	1.2	67	0.9	70	1.1
Nigeria	11	0.3	53	0.8	73	0.9	149	1.9	29	0.5
Sub-total *c/*	842	19.5	825	12.2	1 035	12.9	379	4.9	885	13.9
Sub-total *d/*	1 413	19.2	1 140	12.6	1 049	12.9			1 201	13.0
TOTAL *c/*	4 316	100.0	6 765	100.0	8 053	100.0	7 696	100.0	6 362	100.0
TOTAL *d/*	7 377	100.0	9 028	100.0	8 105	100.0			8 171	100.0

Source: OECD, *Aid from OPEC Countries*, *op. cit.*

a/ Listed in descending order of average 1973-1981 flows within each sub-group.
b/ Members of the Gulf Co-operation Council.
c/ At current prices.
d/ At constant 1981 prices.

Table 12

ODA disbursements: Geographical distribution of flows from OPEC/bilateral and Arab/OPEC multilateral donors, 1971-1981

(Percentage) a/

Recipients	1971-1976		1977-1981		1981	
	Bilateral	Multilateral *b/*	Bilateral	Multilateral	Bilateral	Multilateral
Egypt, Jordan and Syrian Arab Republic	76.9	53.6	83.9	48.6	84.8	41.2
Africa	2.6	46.4	3.7	29.0	6.6	29.4
Asia	20.0	-	9.3	15.3	2.1	18.7
Europe	0.3	-	2.6	1.9	5.6	3.3
Latin America	0.2	-	2.4	4.7	1.0	6.8
Oceania	-	-	-	0.4	-	0.5
Total, allocated	100.0	100.0	100.0	100.0	100.0	100.0
of which:						
Least developed countries	11.4	52.9	17.5	42.9	19.0	54.4
Three largest recipients	55.8 *c/*	28.7 *d/*	43.9 *e/*	19.0 *f/*	45.9 *g/*	23.7 *h/*

Source: As for table 11.

a/ Shares are based on geographically identified flows. The Gulf Organization for the Development of Egypt (GODE) is excluded from the multilateral agencies, since its large flows, directed exclusively towards Egypt, during 1976-1978, would distort the overall picture.
b/ 1974-1976.
c/ Egypt, Jordan and the Syrian Arab Republic.
d/ Sudan, Yemen and the Syrian Arab Republic.
e/ Jordan, Morocco and the Syrian Arab Republic.
f/ Egypt, Yemen and Bangladesh.
g/ Jordan, Lebanon and the Syrian Arab Republic.
h/ Sudan, Bangladesh and Yemen.

can countries, on the other hand, grew markedly between the two sub-periods 1971-1976 and 1977-1981, albeit starting from a very low base. This tendency was also reflected in the growing share directed to the least developed countries, most of which are located in Africa. The Latin American share grew considerably between the two sub-periods, but again from a very low base. Within the group of Arab recipients there has been a certain diversification away from the three States that benefited under the terms of the 1967 and 1974 Arab Summit meetings (Egypt, Jordan and the Syrian Arab Republic), and in favour of least developed and low-income countries, such as Yemen, Sudan, Somalia and Mauritania, as well as countries affected by emergencies, such as Lebanon, which became the third largest recipient in 1981.

83. The geographical distribution of ODA dispensed by OPEC/Arab multilateral financial institutions (MFIs),[33] although barely 7 per cent of OPEC's bilateral disbursements, is characterized by a far greater dispersion and a particularly strong orientation towards the least developed countries, which received over one-half of these institutions' disbursements during the period 1974-1976 and just under 43 per cent in recent years. If GODE's sizable disbursements to Egypt during the relatively short period 1976-1978 are disregarded,[34] it becomes apparent that the concentration on Arab recipients has always been less than in the case of bilateral flows and that it has been diminishing over the period under review, having fallen from 54 per cent during 1974-1976 to 41 per cent of the geographically identified flows in 1981. The corresponding beneficiaries have been the non-Arab African countries, whose share of concessional disbursements by Arab/OPEC MFIs between 1977 and 1981 was as much as 29 per cent, as against less than 4 per cent in the case of OPEC's bilateral ODA flows. However, in view of the vastly larger base represented by bilateral flows, the share going to Africa south of the Sahara averaged almost $100 million per year over the period 1971-1981, whereas the average annual multilateral flow amounted to less than $80 million between 1974 and 1981.[35]

84. Conventional measurement of the grant element in official development assistance indicates that the grant element in commitments of multilateral Arab/OPEC agencies has been lower than those offered by OPEC's bilateral donors of ODA, even when non-concessional commitments have been abstracted[36] (table 13). This difference is due in large part to the fact that well over three-quarters of bilateral assistance given in recent years has been in the form of general support and other non-project aid, much of which is given in the form of grants, whereas the ratios are roughly inverse

[33] The institutions involved (in order of importance of cumulative ODA disbursements) are the Gulf Organization for the Development of Egypt (GODE), which operated only from 1976 to 1978; the OPEC Fund for International Development (OFID); the Arab Fund for Economic and Social Development (AFESD); the Special Arab Aid Fund for Africa (SAAFA), which was merged with BADEA in 1977; the Arab Bank for Economic Development in Africa (known under the French acronym BADEA); the Special Account of the Organization of Arab Oil Exporting Countries (OAPEC), which operated only from 1974 to 1976; the Islamic Development Bank (IsDB); the Islamic Solidarity Fund (ISF); and the Arab Fund for Technical Assistance to Arab and African Countries (AFTAAC).

[34] The distribution pattern of the MFIs was distorted during 1976-1978, due to the very large disbursements made by GODE exclusively to Egypt during that triennium.

[35] Since the mid-1970s OPEC's bilateral ODA flows have never exceeded 5 per cent of all bilateral ODA received by non-Arab Africa, whereas ODA disbursements by Arab/OPEC MFIs to non-Arab Africa have exceeded 5 per cent of all multilateral disbursements in every year since 1975 save two (1978 and 1979), and approached 9 per cent during the period 1975-1977.

[36] This discussion is limited to concessional flows by these institutions, i.e., those with a grant element of 25 per cent or more. Concessional commitments have accounted for 72 per cent of Arab/OPEC MFIs' overall commitments and for as much as 83 per cent of their disbursements.

Table 13

Grant element of concessional commitments by OPEC/bilateral and Arab/OPEC multilateral donors, 1975 and 1977-1981
(Percentage)

	1975	1977	1978	1979	1980	1981
Bilateral						
All receipients	70	74	79	68	77	73
Least developed countries	79	70	65	68	67	72
Multilateral						
All recipients	45	40	50	52	49	56
Least developed countries	51	54	57	55	45	49

Source: As for table 11.

in the case of commitments by Arab/OPEC multilateral agencies, within which the share of grants has never exceeded 10 per cent since 1977 and has usually been well below that figure. The cessation of GODE's operations in 1978, which were on fairly hard terms (35 per cent grant element), served to soften the overall terms performance of the MFIs. Except for the last two years, the grant component of multilateral assistance to the least developed countries has been higher than the average (table 13). Moreover, the growing importance of the OPEC Fund for International Development (OFID)[37] within the commitments of the six surviving multilateral financial institutions (MFIs), as against the diminishing importance of the Arab Fund for Economic and Social Development (AFESD)[38] and the Arab Bank for Economic Development in Africa (BADEA),[39] have further contributed to improve the terms structure of commitments by Arab/OPEC MFIs.

85. A comparative analysis of the commitments and disbursements of the eight Arab/OPEC MFIs (excluding the Gulf Organization for the Development of Egypt (GODE)) over the period 1974-1981 (table 14) shows that the OPEC Fund and AFESD, accounting for roughly a third each of the group's outflows, as well as the smaller BADEA, have had very similar cumulative disbursements/-commitments ratios, ranging from 55 to 58 per cent. In the case of the OFID and BADEA, this relatively high ratio for institutions with a history of barely five years behind them can be explained by a high degree of co-financing with older institutions having at their disposal a larger and more experienced project evaluation staff. In the case of OFID, the large share (57 per cent) committed in the form of balance-of-payments loans made for a high disbursement ratio. The Islamic Development Bank's disbursement ratio has been lower than that of the other MFIs due to the stringent restrictions governing that institution's financial policies.

86. If the commitments made by the various Arab/OPEC MFIs over the last four years under review (1978-1981) are considered separately, it is evident that the relative importance of OFID has grown considerably at the expense of AFESD, while the Islamic Development Bank and BADEA have remained marginal donors in terms of both commitments and disbursements.

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[37] Grant element ranging from 54 to 68 per cent during the period 1976-1981.
[38] Grant element of concessional commitments below 72 per cent in every year since 1973, except 1978, when commitments were limited to a minor grant.
[39] Grant element of concessional commitments ranging from 32 per cent to 51 per cent.

Table 14

Concessional commitments and disbursements of ARAB/OPEC multilateral agencies, 1974-1981 and 1978-1981

Donor agency	1974-1981				
	Commitments		Disbursements		
	Amount ($ million)	Share, excl. GODE (per cent)	Amount ($ million)	Share, excl. GODE (per cent)	Disbursements as share of commitments (per cent)
GODE *a/*	1 811	-	1 725	-	95.3
OFID	1 291	38.9	733	36.3	56.8
AFESD	1 121	33.8	649	32.1	57.9
BADEA	265	8.0	147	7.3	55.5
IsDB	223	6.7	74	3.7	33.2
SAAFA *b/*	222	6.7	221	10.9	99.5
OAPEC Special Account *c/*	116	3.5	116	5.7	100.0
ISF	(52)	1.6	(52)	2.6	(100.0)
AFTAAC	30	0.9	(29)	1.4	(100.0)
Total	5 131		3 746		73.0
Total, excl. GODE	3 320	100.0	2 021	100.0	60.9

Donor agency	1978-1981			
	Commitments		Disbursements	
	Amount ($ million)	Share, excl. GODE (per cent)	Amount ($ million)	Share, excl. GODE (per cent)
GODE *a/*	86	-	650	
OFID	991	63.1	571	44.1
AFESD	213	13.6	451	34.8
BADEA	138	8.7	137	10.6
IsDB	165	10.5	73	5.6
SAAFA *b/*	-	-	-	-
OAPEC Special Account *c/*	-	-	-	-
ISF	(39)	(2.5)	(39)	(3.0)
AFTAAC	24	1.5	(24)	1.9
Total	1 743	-	1 945	-
Total, excl. GODE	1 657	100.0	1 295	100.0

Source: UNCTAD secretariat, based on OECD, *Aid from OPEC Countries*, *op. cit.*

a/ Operational from 1976 to 1978.
b/ Operational from 1974 to 1977.
c/ Operational from 1974 to 1976.

Table 15

Composition of aid commitments of major donor groups in 1975, 1980 and 1981

(Percentage of total) a/

	OPEC			DAC			CMEA *b/*		
	1975	1980	1981	1975	1980	1981	1975	1980	1981
Bilateral aid	93	88	74	76	72	70	99	99	99
General support assistance	45	69	56	4	3	5	12	21	24
Other non-project assistance	11	6	3	24	14	14	4	5	8
Project assistance	37	13	15	48	55	51	83 *c/*	73 *c/*	67 *c/*
Multilateral contributions *of which to organizations with*:	7	12	26	24	28	30	1	1	1
Restricted membership *d/*	4	10	21	5	7	7	-	-	-
Broad membership	3	2	5	19	21	23	1	1	1

Source: As for table 11.

a/ Excluding debt reorganization; for DAC countries, project assistance also includes assistance allocable by sector.
b/ Partly estimated.
c/ Probably contains some current import financing.
d/ Arab/OPEC agencies for OPEC donors, European Development Fund (EDF) and European Investment Bank (EIB) for DAC donors.

4. Purposes

87. One of the most striking differences between OPEC and DAC bilateral aid has been the high weight attached by the former donor group to non-project as distinct from project aid (table 15). This feature of OPEC bilateral aid has not only served to reduce the "pipeline problem" (i.e., lags between aid commitments and actual disbursements and the even larger lag between project submission and project implementation), but also has given recipient countries flexibility in the use of aid resources. It was precisely the realization of this need which has impelled the World Bank in recent years to introduce its programme of structural adjustment lending.

88. Within OPEC aid flows, the sectoral allocation of bilateral aid differs considerably from that of the multilateral Arab/OPEC institutions (table 16). The broad distribution pattern of the latter as between project aid (including sector aid) and non-project aid (NPA) is highly skewed towards project aid, i.e., less than one-quarter of the Arab/OPEC MFIs' commitments were directed to non-project aid. In this respect, these institutions' preference for project aid resembles that of bilateral DAC donors, who devote about two-thirds of their aid flows to project aid. In fact, OFID is the only significant provider of NPA among OPEC MFIs. The pattern is quite different in the case of OPEC bilateral aid, 80 per cent of which was given in the form of NPA during the period 1978-1981, mostly as general

Table 16

Sectoral distribution of ODA commitments by OPEC bilateral and Arab/OPEC multilateral donors *a/*, **1975-1981**
(Percentage)

	1975		1977		1979		1980		1981	
	B	M	B	M	B	M	B	M	B	M
Programme assistance	60.8	27.7	56.1	77.2	76.4	21.4	84.9	16.2	79.8	25.0
of which:										
General support, including balance-of-payments assistance	48.7	27.7	49.2	76.6	65.4	21.4	78.5	13.5	75.2	73.1
Emergency relief	2.4	-	0.8	0.6	6.5	-	2.3	0.5	2.6	0.1
Oil credits	9.5	-	1.8	-	4.4	-	3.1	-	0.2	-
Other	0.2	-	4.3	-	0.1	-	1.0	2.2	1.8	1.8
Project assistance	39.2	72.3	43.9	22.8	23.6	78.6	15.1	83.8	20.2	75.0
of which:										
Agriculture	1.6	-	0.4	0.5	1.7	3.6	0.5	13.7	1.4	10.3
Extractive industries	8.2	-	1.2	-	2.3	10.4	-	-	0.8	5.5
Manufacturing	2.0	8.9	8.7	0.8	2.7	5.9	1.1	3.5	0.8	9.4
Energy	1.6	-	10.5	7.6	5.1	22.7	1.9	28.3	4.6	14.1
Transport, storage and communication	4.9	21.9	14.5	10.4	4.1	15.5	7.2	22.6	6.2	14.1
Education	1.5	-	1.0	0.6	1.2	3.0	1.0	4.0	0.5	2.7
Health	0.4	-	1.3	0.3	0.5	0.6	0.6	1.8	1.2	0.6
Other and unspecified	19.0	41.5	6.3	2.6	6.0	16.9	2.8	9.9	4.7	18.3
Total	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0

Source: As for table 11.

a/ B = Bilateral donors. M = Multilateral donors.

budgetary and/or balance-of-payments support and, to a decreasing extent, in the form of oil credits.

89. Within the project aid provided by OPEC donors, no clear sectoral pattern emerges over time, but capital-intensive projects in the fields of transport, storage, and communication have accounted for more than one-third of all project commitments since 1977, somewhat more in the case of bilateral donors and somewhat less in the case of the multilateral ones. The latter directed a somewhat larger share of their project commitments to the agricultural sector than the bilateral donors, but even there this share never exceeded one-sixth.[40]

90. No precise data exist for the total value of technical assistance provided by OPEC countries, but is is estimated that the technical assistance components of project loans (feasibility studies and supervision of project implementation) have amounted to $520 million.[41]

5. Co-ordination among OPEC donors

91. The need for co-ordination among Arab and OPEC donors was soon realized after the establishment of a large number of national and multilateral development assistance institutions in the wake of the first major oil price increase in 1973.[42] The first attempts at OPEC-wide co-ordination date back to March 1976, when OPEC established a Co-ordination Committee of National Funds and Similar Agencies in OPEC Member Countries, which originally met in conjunction with the OPEC Ministerial Committee on Financial and Monetary Matters and the Governing Committee of the OPEC Special Fund.[43] In August 1977, the latter formally assumed the functions of the Co-ordination Committee.

92. At the Arab level, co-ordination efforts began in 1975, when four Arab agencies met at the invitation of the Kuwait Fund, in pursuance of a recommendation of the League of Arab States. Co-ordination at the Arab level has come to comprise six national[44] and four multilateral agencies.[45] It involves semi-annual meetings of these agencies' directors of operations and less frequent meetings of their chief executives. Secretarial services are provided by AFESD, which also publishes quarterly surveys of the participating agencies' aid commitments.[46] The co-ordination includes a regular exchange of information and has led to a substantial increase in the number of co-financed projects combined with joint project identification, evaluation and supervision.

6. Co-financing with traditional donors

93. Due to insufficient staff resources, several OPEC agencies have not only co-financed projects with each other, but, more frequently, with older and more broadly-based aid agencies, such as the World Bank. By 1981, OPEC donors - multilateral and bilateral - had committed roughly $7.6 billion to 350 projects co-financed with non-OPEC institutions having an aggregate value

[40] By way of comparison, the share of DAC's sectorally-allocated bilateral ODA commitments directed to the agricultural sector amounted to 18.1 per cent in 1978-1979, while that of the international and regional financial institutions was 37.8 per cent during the same biennium (*Development Co-operation: 1981 Review* (Paris: OECD, November 1981), table X-3).

[41] UNCTAD, *Financial Solidarity for Development*, forthcoming (see footnote 26).

[42] Prior to 1973, only three Arab development assistance institutions existed, one multilateral (AFESD) and two national (Kuwait and Abu Dhabi Funds).

[43] The predecessor of the OPEC Fund for International Development (OFID).

[44] The Abu Dhabi, Iraq, Kuwait and Saudi Arabian Funds, the Libyan Foreign Trade Bank and the Ministry of Finance of Qatar.

[45] AFESD, BADEA, IsDB and OFID.

[46] These surveys do not cover disbursements (gross or net of repayments), and - more importantly - they leave out of account government-to-government flows.

of $23 billion. This represented over 40 per cent of all OPEC project commitments. In the case of certain agencies, such as OFID, virtually all project commitments were co-financed with other donors, while in the case of BADEA the bulk was committed in this manner. In absolute terms, the largest OPEC donors of co-financed projects were the Saudi Arabian and the Kuwait Funds, which had committed $2.1 billion and $1.6 billion respectively by the end of 1981.

7. Collection of data

94. Apart from the above-mentioned efforts undertaken by AFESD to collect and distribute consolidated data on commitments by the ten Arab national and multilateral donors, no OPEC or Arab donor group has so far undertaken comprehensive data collection along the lines of the DAC reporting system (which distinguishes not only between commitments and net disbursements, but also between concessional and non-concessional flows, and which includes government-to-government flows as well as flows to and from multilateral agencies). The two basic sources of data on OPEC flows have been OECD and UNCTAD, which are based on secondary sources. The collection of primary data could eliminate some anomalies under which disbursements of certain donors as reported by UNCTAD and OECD have differed by more than $2 billion, i.e., by almost 30 per cent of the entire OPEC outflow for a particular year.[47] Similarly, the adaptation of reporting procedures to the wishes of individual donor countries has resulted in an asymmetrical treatment of similar flows both over time and as between donors.

8. Aid flows from non-OPEC developing countries

95. Apart from the OPEC countries, certain other developing countries - particularly India and Yugoslavia - and also China, have undertaken regular, if modest, aid programmes, concentrating on technical rather than financial assistance. This emphasis is due to the vast store of applicable expertise these donor countries have accumulated in solving their own development problems, i.e., the underlying rationale for technical co-operation among developing countries (TCDC), an idea very actively promoted by various United Nations agencies since the Buenos Aires Plan of Action was agreed upon in 1978.

96. According to the latest information available,[48] net Chinese aid disbursements were below $100 million in both 1980 and 1981, i.e., representing a decline from the level reached in the early 1970s due to lower gross disbursements and larger amortizations. However, the fact that commitments have been increasing since 1977 to approach the $200 million mark both in 1980 and 1981, points to higher net disbursements in future years. Geographically Chinese aid is concentrated on sub-Saharan Africa, where about two-thirds of the 9,700 Chinese technical assistance personnel were employed, while the remainder was more or less evenly divided between South and South-East Asia (Bangladesh, Burma and Pakistan) and North Africa. Recently China has embarked on non-concessional forms of assistance, such as export credits, consultancy services, and joint ventures in the extractive and construction industries.

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[47] Such major discrepancies are eliminated sooner or later, but their very existence for a limited time tends to cast doubt on the reliability of both reporting systems.

[48] The systematic collection of data on these aid efforts has been virtually limited to the DAC secretariat, which publishes brief accounts thereon in its annual *Development Co-operation* reviews.

97. India's cumulative aid authorizations amounted to over $1.2 billion by 1981, of which nearly 90 per cent had been disbursed. However, the annual flow of disbursements, which had amounted to $140 million in each of the two fiscal years 1978/79 and 1979/80, declined to $84 million in 1980/81. Over one-half of the latter flow was in grant form, most of which was directed to Bhutan ($36 million). The major recipient of loans was Viet Nam, which received about one-half, the rest being divided between Bhutan, Mauritius and Sri Lanka. Technical assistance under the Indian Technical and Economic Co-peration Programme (ITEC) dropped from $5 million in fiscal year 1979/80 to $0.6 million in 1980/81. In earlier years, Bangladesh, Nepal and Bhutan had received about three-quarters of India's aid disbursements. India had established about 120 operational joint ventures in several Asian countries, while 80 others were at various stages of planning and implementation. India's equity participation in these ventures approached $100 million. India's multilateral contributions have fluctuated between $12 million and $20 million in recent years and have included nearly $10 million in subscriptions to the African Development Fund.

98. Yugoslavia's development assistance effort has fluctuated around the $40 million mark in recent years, about two-thirds of which is channelled through the Solidarity Fund for Developing Countries, most of which is given in grant form, the rest being in the form of concessional loans. Multilateral contributions have ranged between $10 million and $20 million per year, and have included contributions to the World Bank Group, the IMF Trust Fund, the African Development Fund and the Inter-American Development Bank. The number of Yugoslav technical assistance experts has fallen sharply in recent years (from about 3,000 in 1979 to less than 1,000 in 1981), most of whom were working in Arab countries. However, the number of scholarships granted to students in other developing countries has stabilized at above 1,100 since 1980.

C. Clearing and credit arrangements[49]

1. Clearing arrangements

(a) Objectives

99. The role of a multilateral clearing arrangement is to facilitate payments by clearing current transactions of the member countries without using convertible currencies, except for the purpose of settling net debtor's balances registered in the course of periodic settlements. The benefits are twofold: first, a reduction in the monetary reserves that must be held by the central banks members of the facility to meet regional payments; and secondly, a reduction in the working balances held with banks in major international financial markets by the commercial banks of the countries of the region and the possible use of those balances in trade transactions with third regions. The saving in foreign exchange will be significant if intraregional trade accounts for a high proportion of total trade. A regional clearing facility produces savings in trade transaction costs, since commissions and fees for effecting payments formerly made to foreign banks are retained in the region and exchange rate margins will be reduced or eliminated, to the direct benefit of the traders involved.

(b) Main features

100. The following eight clearing arrangements have been set up comprising 56 members: the Central American Clearing House (CACH) in 1961, the LAFTA[50] Payments and Reciprocal Credit

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[49] This section is based on earlier reports prepared by the UNCTAD secretariat on regional credit arrangements of developing countries for balance-of-payments support (UNCTAD/ECDC/127) and on the main features of clearing arrangements of developing countries (UNCTAD/ECDC/128).

[50] In 1981, the Association was succeeded by the Latin American Integration Association (ALADI).

System in 1965, the Union for Multilateral Payments Arrangements of Regional Co-operation for Development (RCD) in 1967, the Asian Clearing Union (ACU) in 1974, the West African Clearing House (WACH) in 1975, the CARICOM Multilateral Clearing Facility (CMCF) in 1977, the Monetary Arrangement of the Economic Community of the Great Lakes Countries (CEPGL) in 1978, and the Central African Clearing House (CAfCH) in 1979.[51]

101. Full multilateralization is a common characteristic of the clearing mechanisms in Asia, West Africa, Central Africa, Central America and the Caribbean in so far as the clearing of eligible transactions, the settlement of net balances and the credit margins granted to and received from the facilities are concerned. The ALADI mechanism is based instead on bilateral arrangements between pairs of central banks, which determine the level of their reciprocal credit and record the eligible transactions. Multilateral clearing takes place at the end of the settlement period when the individual net position of each participant is determined as a result of the combined clearance of the various bilateral arrangements. RCD is also an example of multilateral settlement after bilateral clearing. The CEPGL arrangement is limited in scope in that bilateral accounts are denominated in local currencies and no multilateral compensation of bilateral balances takes place.

102. There are several modalities in force for granting credit facilities to participants which are closely connected with the period to be covered between settlements. In the ALADI system, the credit margin is negotiated bilaterally for a four-month period by each pair of central banks in accordance with the level of their mutual trade, whereas in the case of the Central American Clearing House there is multilateral credit in the form of a six-month uniform line of credit granted by each participant to the group.[52] In the CARICOM facility, credit lines are established on the basis of reciprocal trade flows. The credit margin is a global amount ($100 million at present), which is granted to the facility without any allocation to individual partner countries. In the Central African Clearing House the level of interim credit to be received by each participant is limited to one-sixth of the annual value of imports plus exports recorded with the other partners, and the limit of credit granted by each central bank to the group is one-fifth of the combined value of imports and exports. Nevertheless, each partner may voluntarily increase the limit of the credit that it extends. The West African mechanism began operations by applying a similar criterion for credit and debit limits, but in order to avoid frequent transfers over and above credit margins, a new method of calculations was approved based on transactions cleared over the entire previous year.

103. In the clearing arrangements of the Asian region, two points should be noted. First, RCD provides that each participant undertake to grant to the other two partners an automatic credit up to $2 million during the period of settlement, which is one year. Secondly, the Asian Clearing Union (ACU), until 1981, limited the automatic net credit granted by each member to the facility to one-twelfth of annual visible exports to other participants, excluding petroleum, petroleum products and natural gas, while the automatic net debit limit was set at one-twenty-fourth of annual visible imports from the participating countries, excluding the same products. Since 1981, the prescribed debit and credit limits have been removed, and ACU members may now incur unlimited mutual trade imbalances without transfers in convertible currencies during the two-month settlement period.

104. The interest rate charged by the ALADI system is equivalent to 90 per cent of the daily average of the prime rate of the commercial bank in New York with the highest amount of assets, while the Asian Clearing Union calculates the interest rate on the basis of the rate offered by the Bank for International Settlements (BIS) for one-month Eurodollar deposits. In the West African Clearing House no interest is

[51] For a listing of countries participating in each arrangement, see annex B.
[52] The multilateral line of credit from each participant amounts to $12 million.

charged on outstanding debtor balances below the credit limits. A balance over the credit limit whose transfer is postponed until the end of the settlement period will bear interest equal to the arithmetic average of rediscount rates applied by central banks members. A similar criterion is followed by the Central African Clearing House (CACH). In the Central American mechanism the rate is a little lower than international rates. On the other hand, the modality applied by the CARICOM facility is based on a concessional and preferential criterion. Net debit balances bear interest on amounts exceeding 20 per cent of the global credit margin at the average rate for Treasury bonds issued within the region. The interest charged on debit balances of members classified as less developed is below the average rate. No interest or fees are payable on lines of credit granted within the RCD payments system.

105. The ALADI and CARICOM arrangements use the United States dollar for recording transactions. CACH has the "Central American peso" as a unit of account, which is equivalent to one dollar. The clearing houses of Asia, West Africa and Central Africa have established units of account equivalent to the SDR as defined by IMF, but their governing bodies may change the value of the units at any time.

106. A basic principle of the existing clearing arrangements is that participating central banks are committed to settle net balances in convertible currencies acceptable to the creditors. This commitment has been fulfilled within all arrangements in a manner consistent with the other obligations and responsibilities of central banks. Several currencies are used for settlements, mainly United States dollars, pounds sterling, deutsche mark and Swiss francs. Regulations normally establish a period of a certain number of days, which varies from one arrangement to another, for the effective payment of amounts due. However, apart from this general commitment, some clearing arrangements contain special clauses to facilitate the settlement of outstanding balances.

107. There is no uniformity of criteria among the various clearing arrangements in dealing with the eligibility of transactions. The majority of the criteria are voluntary in nature. This means that both the private and public sectors of the participating countries have the option of using the facilities available or of making foreign exchange payments through traditional international banking channels, except when exchange controls involving currency prescription are applied in the country of the individual or institution making the transfer. However, it is generally understood that all official transfers will be made through the multilateral clearing mechanisms and that private tranfers will be encouraged both by the cost differential between the two options and by the quicker service and the guarantee offered by regional clearings.

(c) Analysis of performance

108. Substantial progress has been achieved in recent years by regional and subregional groups of developing countries as regards the establishment and successful operation of clearing arrangements. No default has been recorded in any of the arrangements and member central banks have fulfilled all their obligations and requirements as established in the respective charters. They have operated smoothly and uninterruptedly and have proved to be flexible within the context of their established regulations. (It must be noted, however, that no recent information is available on the operations of the RCD Union for Multilateral Payments Arrangements.) Their improvement has been gradual; in fact, the participating central banks have preferred to gain more experience before introducing changes in the regulations. In some arrangements, however, progress has been rather slow in relation to the requirements of their growing trade flows. The various arrangements have carried out their operations strictly within their respective areas and no meaningful operational links have yet been established among them.

109. In terms of the payments for transactions channelled through clearing arrangements as a percentage of total trade within each region or subregion, there are substantial differences among the arrangements. In the case of ALADI, 85 - 90 per cent of payments related to trade are channelled

through the payments system. For the Central American Arrangement, the proportion is even higher, reaching 95 - 98 per cent, whereas in the CARICOM facility the proportion is around 80 per cent. The Asian Clearing Union, however, with an estimated proportion of 10 - 20 per cent, has not yet reached a significant ratio. The West African Clearing House has a very low ratio, equivalent to around 10 per cent of regional trade.

(d) Possibilities for action

110. With a view to achieving further and more rapid progress in the evolution of clearing arrangements, some priority areas have been identified for further action. To improve and strengthen existing arrangements, several among them have pursued a policy of gradual extension of the period of settlement established at their inception. Two clearing arrangements have set up *ad hoc* multilateral facilities to provide temporary liquidity to participating central banks in order to help them in settling net balances arising from the periodic multilateral clearing. The *ad hoc* facilities are: (i) the Santo Domingo Agreement established in 1969 in support of the ALADI Payments and Reciprocal Credit System; and (ii) the Special Fund of the Central American Common Market, amounting to $50 million, set up in 1981. In other clearing arrangements attention is also being focused on the need to seek ways of assisting participating countries to finance balances as part of the effort to strengthen the role of the clearing schemes.

111. Other possibilities of action include the establishment of new clearing arrangements. In this regard, various groups of countries, mainly in Africa, East Asia and the Arab world, have been studying the possibility of establishing multilateral settlement mechanisms.

112. The subject of linkages among clearing arrangements has been discussed extensively in various forums, in particular the Group of 77, which has underlined its importance on several occasions. Although no meaningful links exist as yet, negotiations are under way between ALADI's Council of Monetary Policy and the Central American countries to determine appropriate ways for the five Central American countries to join the Santo Domingo Agreement and ALADI's Payments System. Partial links have already been established between CACH and two ALADI's members (Mexico and Colombia) in the form of bilateral arrangements.

2. Credit arrangements

(a) Objectives

113. Credit arrangements are designed to provide short- or medium-term balance-of-payments financing to individual member countries. Such arrangements may take many forms, and may or may not be linked directly to clearing arrangements. The main differences among credit arrangements relate to four issues: (i) the automaticity or conditionality of credit facilities; (ii) the terms of such credit facilities; (iii) the form in which credits are furnished; and (iv) the sources of financing.[53]

114. Credit arrangements' lending operations for balances of payments may be designed to supplement financing provided by the International Monetary Fund. Other objectives, which differ from one arrangement to another, are: (i) to support economic integration programmes and the liberalization of regional or subregional trade; (ii) to preserve the real value of the financial resources of member countries and to promote their growth; (iii) to enhance the co-ordination of monetary and financial policies of member countries; (iv) to develop regional financial markets; (v) to co-ordinate member countries' views on international monetary issues.

[53] See *Payments arrangements among the developing countries for trade expansion. Report of the Group of Experts* (TD/B/80/Rev.1), United Nations publication Sales No.67.II.D.6.

(b) Main features

115. There are five credit arrangements currently operating in developing countries: the Central American Stabilization Fund (FOCEM, 1969); the Santo Domingo Agreement (1969, but radically revised in 1981); the Andean Reserve Fund (FAR, 1976); the Arab Monetary Fund (AMF, 1976); and the ASEAN Swap Arrangement (1977).[54] Two of them, AMF and FAR, are institutionally constructed as reserve funds, with capital contributions from member countries transferred from their official monetary reserves. FOCEM is financed by contributions from member central banks, but it has no legal status as an independent institution. The Santo Domingo Agreement consists of a set of credit lines which do not require paid-up capital contributions, while the ASEAN arrangement is a short-term swap facility with a simple structure. There are 47 members of these credit arrangements (including five countries that are members of more than one arrangement). The five existing arrangements have a potential lending capacity of over $2.0 billion. Although this is a modest amount compared with the aggregate monetary reserves of the participating countries or with the size of the balance-of-payments disequilibria of some of them, such potential resources could be a meaningful supplement to the IMF credit facilities as well as to other international sources.

116. Existing credit arrangements link their balance-of-payments support to the broader regional economic co-operation and integration objectives of the participants. This relationship reflects the developing countries' concept of interdependence between regional economic co-operation and integration processes and the balance of payments.

117. A common characteristic of the existing regional credit arrangements is the convertibility requirement for claims against borrowing members. Since lending is in international reserve assets, debtors are expected to reimburse the loans in freely convertible currencies. All the arrangements operate in United States dollars, with the exception of AMF, whose transactions are denominated in Arab accounting dinars, a unit of account equivalent to SDR3.00.

118. For the purpose of considering possible further collaboration between credit arrangements, differences among their structures in terms of their capital stock should be noted. AMF and FAR were established as "reserve funds" with an independent legal status which enables them to carry out, *inter alia*, borrowing operations from external sources, to issue guarantees in favour of member countries and to decide on investment policies for the resources entrusted to them by member States. FOCEM, a fund set up by contributions of monetary reserves from the central banks of Central America, has no legal personality and its administration is the responsibility of the Central American Monetary Council and of the Executive Secretariat of that body. Therefore, it has no capacity to borrow from external sources, its main role being to act as an intermediary and to negotiate with third parties, but each borrowing central bank bears the legal responsibility for its debt and the respective loan repayment.

119. The Santo Domingo Agreement was not structured as a formal fund with paid-up capital drawn from the official reserves of member central banks, but rather as a network of bilateral credit lines. Its first mechanism is basically a continuation of the agreement in force before 22 September 1981 and is designed to help participating countries to finance debit balances arising from the settlement of the ALADI clearing arrangement for a period of 4 to 12 months. This mechanism has resources of $263.3 million (table 17). The second mechanism is to be used for overall balance-of-payments deficits independently of participants' mutual trade balances and can be extended for a period of 2 to 3 years. The third mechanism was established to provide financial resources in the event of natural disasters and can be extended for a period of 2 to 5 years. The financial resources allocated to the second and third mechanisms amount to $263.3 million and $169.3 million, respectively.

[54] For a list of the members of each arrangement, see annex B.

Table 17

Over-all resources and quotas for the mechanisms of the 1981 Santo Domingo Agreement

Central bank of:	Percentage of total resources *a/*	Value of quotas (dollars)		
		First mechanism	Second mechanism	Third mechanism
Argentina	18	47 395 368	47 395 368	30 471 000
Brazil	18	47 395 368	47 395 368	30 471 000
Mexico	18	47 395 368	47 395 368	30 471 000
Venezuela	18	47 395 368	47 395 368	30 471 000
Colombia	6	15 798 456	15 798 456	10 157 000
Chile	6	15 798 456	15 798 456	10 157 000
Peru	6	15 798 456	15 798 456	10 157 000
Bolivia	2	5 266 152	5 266 152	3 385 000
Ecuador	2	5 266 152	5 266 152	3 385 000
Paraguay	2	5 266 152	5 266 152	3 385 000
Dominican Rep.	2	5 266 152	5 266 152	3 385 000
Uruguay	2	5 266 152	5 266 152	3 385 000
Total	100	263 307 600	263 307 600	169 280 000

Source: Secretariat of ALADI.

a/ The percentage share of each central bank in the over-all resources is the same for each of the three mechanisms.

120. The ASEAN Swap Arrangement is a different category of credit arrangement. Its present scope is very limited, and it may be viewed as the first step towards broader monetary co-operation among ASEAN countries. The maturity of automatic drawings is limited to one year, but it is possible to refinance drawings and thus to transform the financial assistance into a medium-term automatic facility for balance-of-payments purposes.

121. The Central American Stabilization Fund (FOCEM) was set up on the basis of contributions in convertible currencies made by member central banks. The amount of these contributions is at present $63 million. The total approved resources of the three credit mechanisms of the revised Santo Domingo Agreement amount to around $700 million. The capital of the Andean Reserve Fund (FAR) is equal to $240 million, Colombia, Peru and Venezuela being the major capital contributors. The authorized capital of the Arab Monetary Fund (AMF) is 263 million Arab accounting dinars[55], about 50 per cent of which is paid-up capital, 48 per cent in convertible currencies and 2 per cent in domestic currencies. The ASEAN Swap Arrangement's standby credit facility now amounts to $200 million (increased from $100 million), with each central bank providing $40 million.

122. The question of how to deal with the conditionality attached to the use of resources under credit arrangements was brought to the attention of the Co-ordination Committee on Multilateral Payments Arrangements (CCMPA)[56]

[55] Equivalent to about $840 million at the $US/SDR exchange rate prevailing in July 1983.

[56] This Co-ordination Committee is an informal grouping comprising all the clearing and credit arrangements described in this section. The UNCTAD secretariat acts as the Committee's technical secretariat.

at its last two meetings. The discussions were focused on the manner in which regional credit institutions should approach the question of conditionality and structural imbalances within a wider economic policy context and taking into consideration the varied nature of the problems encountered by countries members of the regional arrangements, their long-term development financing needs and their respective regional economic integration objectives. It was felt that any balance-of-payments support granted by credit institutions should take into account long-term development needs and should be considered within a programme of long-term economic development. It was emphasized that it was not possible or advisable to separate balance-of-payments disequilibria from development financing.

123. The basic condition for member countries of credit arrangements to use their drawing rights is the existence of a global balance-of-payments deficit. According to the respective regulations of AMF and FAR, a percentage of drawing rights can be drawn upon as automatic loans by member countries. A similar criterion is followed by FOCEM. The lending policies of these three funds stipulate that the drawing of additional tranches should be subject to a certain degree of conditionality which largely resembles that of IMF. The ASEAN agreement is entirely unconditional. In the case of the Santo Domingo Agreement as revised in 1981, the conditions for use of the first mechanism are: (i) the country must have an overall balance-of-payments deficit; (ii) it must have experienced a deficit or a decline in the clearing surplus during the settlement period immediately preceding the request; and (iii) its international reserves must be insufficient. For the second mechanism, a detailed presentation explaining the situation of illiquidity prompting the request must be made to the agent bank. The third mechanism is automatic, but the situation of illiquidity that gave rise to the request must be verifiable *ex post*.

(c) Analysis of performance

124. The demand for loans varies from one credit arrangement to another. In the case of AMF and FAR, the ratio between the use and the availability of the resources is rather low. This situation is reflected in the fact that substantial surplus funds are regularly invested in the international money market. FOCEM is passing through a critical period, owing to political conditions in the subregion. Its resources, which consist of contributions from central banks' official reserves and credit operations negotiated with institutions outside the subregion, are unable to meet the growing demand for loans from member central banks. Possibilities of gaining access to some external sources are hampered by FOCEM's lack of an independent legal status. As far as the Santo Domingo Agreement is concerned, the possibilities of increasing the availability of additional resources depend on: (i) the creditworthiness of individual central bank borrowers; (ii) the special resources that may be offered by any central bank member over and above its contributions or quotas to the three facilities; and (iii) the accession of new central banks to the Agreement.

(d) Possibilities for action

125. The question of establishing some kind of collaboration and co-ordination among existing regional credit arrangements has been raised on several occasions. In particular, an examination is needed of the terms and conditions to enable credit arrangements to negotiate mutual support schemes, *inter alia*, swap arrangements, mutual deposits and investment procedures. The issue at stake is how to safeguard and enhance the integrity of the credit arrangements concerned and to enable the authorities concerned to take the necessary steps to participate in the schemes.

126. The question has been discussed by representatives of the credit arrangements.[57] On the basis of the

[57] Meeting of CCMPA's Working Group on Payments Arrangements, Panama City, September 1981.

discussions, two basic procedures have been envisaged that seem to be the most suitable for initiating arrangements for mutual financing support among regional credit institutions: (i) direct bilateral deposits between such institutions and (ii) indirect financial support through investment with international banking entities which would, in turn, provide financial support to regional credit institutions in need of funds. It was felt, however, that the viability of the second procedure should be assessed in the light of market conditions and of the need to avoid collateral commitments and concessions.

127. As regards the terms and conditions likely to enhance the interest of potential lending institutions in mutual financial support schemes, it was considered that this might be achieved if the following conditions were fulfilled: (i) that the potential borrowers enjoy independent legal status that enables them to enter as principals in valid loan contract; (ii) that potential borrowers are in a position to issue negotiable money market instruments with maturities suited to the requirements of potential lenders; and (iii) that interest rates applicable to loans obtained under the mutual financial support schemes are in line with market rates for Euromarket loans with similar maturities.

128. The Co-ordination Committee on Multilateral Payments Arrangements, at its last meeting, took note of the preliminary conclusions reached by representatives of credit arrangements on the subject of mutual financial support. The Committee agreed that the application of the terms and conditions mentioned above was important for ensuring the viability of the proposed scheme as a first step towards broadening the scope of arrangements and strengthening their lending capacities, by means of operations undertaken between mechanisms of developing countries.

D. Trade finance

1. Problems

129. During the 1970s trade among developing countries was the most dynamic segment of world trade. This was caused partly by the marked slowdown in the growth rate of the industrialized countries and partly by the buoyancy of the developing countries' import demand despite the deteriorating balance-of-payments positions of the non-oil exporting ones among them. This apparent contradiction reflected the calculated risk accepted by several major developing countries to maintain overall growth rates ahead of population growth (i.e., avoid stagnating or declining per capita incomes) at the price of a sharp rise of their commercial indebtedness,[58] in the expectation that renewed growth of the industrialized countries, combined with high inflation rates, would reduce real indebtedness to manageable proportions. By the end of 1981 it had become evident that a renewed recession in the industrialized countries was under way and that monetary measures taken by them to fight inflationary pressures were producing historically high real interest rates, while reduced demand for raw materials brought real prices of non-oil commodities to their postwar low.[59] As prospects for a gradual return to a balanced external payments situation grew dimmer, commercial creditors sharply cut their flow of new funds,[60] thereby forcing non-oil exporting developing countries to reduce their trade deficits drastically, and in the case of some major

[58] Non-oil exporting developing countries' debt to private creditors multiplied four-and-a-half-fold between 1973 and 1981. Since much of this new debt was short-term, their debt service ratio (interest plus amortization as a share of exports of goods and services) rose from 14.4 per cent in 1974 to 23.9 per cent in 1982 (*World Economic Outlook, 1983*, IMF Occasional Paper 23, Washington, D.C., 1983, appendix B, table 35).

[59] The index of non-oil primary commodity prices deflated by the index of prices of manufactured exports from developed market-economy countries had fallen in 1982 by 25 per cent from its 1971-1980 average.

[60] Net borrowing from commercial banks (including short-term credits) by non-oil exporting developing countries amounted to more than $50 billion in 1981, but was cut in half in 1982, and is expected to fall to $15-$20 billion in 1983.

indebted countries actually to switch from trade deficits to trade surpluses[61] in order to service their accumulated debt. Since trade surpluses could not be achieved through export increases in the context of stagnating - and subsequently, shrinking - world trade, these surpluses had to be produced by a sharp curtailment of imports.[62]

130. In view of this sombre backdrop, several developing countries have reverted to various forms of open or concealed payments bilateralism (e.g., so-called "counter-trade") in their trading relationships with both developed and developing countries. While bilateralism may be a viable alternative in the short run for the major developing countries in a position to use their economic clout to force potential suppliers to market their otherwise unsaleable goods abroad, smaller developing countries (and even larger ones, whose governments do not actively intervene in the decision-making process of the commercial sector) may not be able to pursue similar policies and may in fact incur competitive losses on the markets affected by this neo-bilateralism. Moreover, one of the problems that led to the gradual dismantlement of most bilateral payments arrangements among developing countries in the 1950s and 1960s may well reappear, namely, the escalation and non-transparency of prices of goods bartered under such arrangements, which in turn requires the introduction of "shadow prices" to calculate the real economic return of any particular barter contract.

131. Another and considerably weightier problem, connected not only with bilateral payments arrangements, but also with national export credit facilities, is the sacrifice required of the exporting country in terms of involuntary capital exports taking the form of inconvertible balances, which constitute an inherent element of such arrangements. This is likely to be particularly onerous in a period when exchange reserves measured against their import requirements have reached historically low levels.[63]

132. The problem of financing trade among developing countries is chiefly related to exports of manufactured goods (particularly, but by no means only, capital goods) requiring credits of over six months' duration. For 1980 it has been estimated that 32 developing countries exported manufactured goods worth $21 billion which could have been eligible for export credits extending over more than six months.[64] While the commercial banking system readily provides trade credits up to 180 days for traditional exports of developing countries, medium and long-term credits (up to 10-12 years) require the services of specialized national export credit institutions (NECIs) or similar facilities, which already exist in several major developing countries exporting manufactured goods (e.g., Brazil, Colombia, India, Malaysia, Mexico, Peru, Republic of

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[61] Non-oil exporting developing countries as a group are expected to reduce their trade deficit from $79.6 billion in 1981 to $41.4 billion in 1983, while in the case of Latin America the trade deficit of $10 billion in 1981 is expected to turn to a surplus of $13.5 billion in 1983. For non-oil exporting developing countries as a group, over 80 per cent of the burden of adjustment is expected to be borne by the import side, and in the Latin American case exports are actually expected to decline, leaving more than the full burden of adjustment to fall on imports (see IMF, *World Economic Outlook*, *op. cit.*, appendix B, tables 19 and 20).

[62] After growing by an annual average of 23.5 per cent in value between 1976 and 1980, non-oil exporting developing countries' imports grew by only 5.6 per cent in 1981 and fell by 9.9 per cent in 1982. In volume terms the slowdown was somewhat less dramatic, but nevertheless real enough, with an average increase of 7.7 per cent between 1976 and 1980 being followed by an increase of 2.6 per cent and a decline of 7.7 per cent in 1981 and 1982, respectively.

[63] For non-oil exporting developing countries, the ratio of official reserves to imports of goods and services had fallen from 31.4 per cent in 1973 to 16.9 per cent in 1983, implying reserves equivalent to barely two months of imports (see IMF, *op. cit.*, appendix B, table 30).

[64] See the report by the UNCTAD secretariat, "Financial viability of an International Export Credit Guarantee Facility" (TD/B/C.3/183/Add.2 and Corr.1), para. 52.

Korea and Singapore).

133. For the reasons explained above, the NECIs have neither had sufficient resources to meet their exporters' needs, nor have their terms been competitive with similar institutions of competing developed countries. Therefore, not only has the need been identified by many third-world forums for supplementing the resources of NECIs through regional and interregional financing and refinancing facilities as a priority area for ECDC, but also a practical response has in fact been given by several regional institutions,[65] particularly in Latin America, which have recognized export credit refinancing to be a legitimate development objective meriting the allocation of subsidized regional capital resources. These regional export credit refinancing facilities, whose operations are summarized below, must be distinguished from the long-discussed, but as yet unimplemented International Export Credit Guarantee Facility (IECGF). The latter would be interregional in scope and would not refinance directly, but would guarantee export paper to ease its refinancing on capital markets at commercial rates.

2. Existing regional facilities[66]

(a) Inter-American Development Bank (IDB)

134. Through a decision taken in 1963 by its Board of Governors, IDB became the first MFI to institute an export credit refinancing facility for its members from the Bank's ordinary resources. However, this was originally limited to intraregional trade in capital goods. Since then the scope of this facility has been broadened to cover services related to capital goods as well as other non-traditional exports which help to stimulate production. Moreover, new resources provided in trust by Venezuela may be used to finance exports of capital goods sold outside the region. In general, finance from ordinary resources must be for a period in excess of 180 days, except for exports originating in specified countries at the stage of intermediate and lesser development, while the Venezuelan Trust Fund may be used for refinancing credits of less than 180 days, up to 10 per cent (exceptionally, 20 per cent) of the Fund's total resources, if not required for longer-term credits. Export credits of over 180 days financed by the NECIs are refinanced up to 85 per cent of their face value. In the case of short-term credits, this share is given only to the less developed countries and is reduced to 65 and 50 per cent for the intermediate and more developed countries, respectively.

135. During its first 17 years of operation, up to 31 December 1980, the IDB export credit refinancing facility had provided credits as seen in table 18. Most of these credits (77.5 per cent) financed intra-Latin American exports, 7.7 per cent was related to exports going to Africa, while the remainder financed exports to developed countries. Almost 92 per cent of the credits benefited the four largest Latin American exporters of manufactured goods - Argentina, Brazil, Mexico and Peru - while 93 per cent of the credits refinanced exports of transport equipment and machinery. The modest volume of business done by the facility can be explained by the inadequacy of national export credit, credit guarantee and/or insurance facilities, as well as by the insufficiency of capital resources for pre-shipment financing. However, in addition to its refinancing programme, IDB has also extended technical assistance to recently established Latin American NECIs and has been instrumental in promoting BLADEX, discussed in the following sub-section.

(b) Latin American Export Bank (BLADEX)

136. BLADEX was established in 1978 with headquarters in Panama upon the

[65] See the Caracas Programme of Action (A/36/333 and Corr.1, annex), para.66(b).
[66] The information contained in this section is largely drawn from the Report of the Working Group on the Financing of Exports from Developing Countries held in Madrid on 9 and 10 April and organized jointly by the UNCTAD secretariat and the Banco Exterior de Espana (UNCTAD/ECDC/65).

Table 18

Lending by the IDB export credit refinancing facility, 1964-1980
(Millions of dollars)

	Credits of 180 days or more	Credits of less than 180 days	Total
Ordinary resources	388.5	15.4	403.9 *a/*
Venezuelan Trust Fund	104.9	65.0	169.9
Total	493.4	80.4	573.8

Source: Data provided by IDB.
a/ According to the latest annual report of IDB, this figure rose to $474 million by 31 December 1982, but no breakdown as between short- and medium-term loans was available. See Inter-American Development Bank, *Annual Report 1982*, Washington D.C., 1983, p.31.

Table 19

BLADEX: Structure of capital stock, 31 December 1982

Class of stock-holders *a/*	Number of stockholders	Nominal value of issued stock ($ million)	Share (per cent)
A	20	17.3	38.9
B	189	12.2	27.4
C	25	11.7	26.4
D	1	3.3	7.3
Total	235	44.4	100.0

Source: BLADEX, *Memoria, 1982* (Panama City, 1983).
a/ See text, paragraph 138.

Table 20

BLADEX: Loans outstanding by category, 1979-1982
(Millions of dollars, end of year)

	1979	1980	1981	1982
Short-term loans	74.6	127.6	204.4	249.5
Acceptances	14.4	29.6	60.7	76.7
Medium-term loans	8.2	46.3	133.8	154.6
Total	97.2	203.5	398.9	480.7

Source: As for table 19.

initiative of the Governors of the Latin American central banks and began operations early in 1979. Its objectives are: (i) to provide an additional source of funds for financing exports from the region; (ii) to promote the development of a financial market for Latin American bank acceptances; (iii) to encourage the establishment of a regional export credit insurance system; and (iv) to constitute a centre for the systematic distribution of information concerning markets for and purchasers and sellers of Latin American products both inside and outside the region.

137. BLADEX supplements the refinancing resources available through the IDB scheme by giving Latin American commercial banks access to international financial markets for the refinancing of export credits on traditional as well as non-traditional exports, particularly those of medium and long duration.

138. As of the end of 1982 BLADEX's authorized capital was $110 million, of which $44.4 million had been issued to four categories of stockholders, as shown in table 19. Class A stock is distributed equally to member countries, represented by their central banks or other official institutions. Class B stock is reserved for Latin American commercial banks. Class C stock is intended for international commercial banks, while the sole Class D stockholder is the International Finance Corporation, an affiliate of the World Bank. In addition to its equity capital BLADEX had been able to mobilize time deposits amounting to $389.2 million by the end of 1982, both from central and from commercial banks. Additional sources of capital (certificates of deposit and notes at floating rates, short, medium and long-term loans, borrowings covered by acceptance facilities) amounted to more than $280 million as of end-1982.

139. During the first four years of operations (1979-1982), the cumulative amount of loans granted by BLADEX was $2.85 billion, of which $1.5 billion was granted in 1982 alone. As of the end of 1982 outstanding loans amounted to $480.7 million, representing a steady increase over the four years of operations, as shown in table 20. Most of the exports financed by BLADEX were directed towards developed countries and only a little over one-quarter was intra-regional, reflecting the greater operational flexibility enjoyed by this institution as compared to the IDB facility with its partially-surviving limitation on extra-regional trade. Non-traditional exports accounted for 60 per cent of BLADEX operations during its first two years of activity.

140. BLADEX's singular success in mobilizing sizable amounts of external funds is related to its policy of abiding by strict commercial criteria in its lending operations. Thus, both interest rates and durations of loans must be in line with the Bank's borrowing conditions. BLADEX is free to lend directly to a regional exporter or importer (which is not true of the IDB facility), but, in fact, most lending has been made to governments and commercial banks. As in the case of the IDB scheme, most borrowers in the first years of operation were located in countries with efficient banking systems having a good regional network of correspondents.

141. Having successfully filled a void which exists in other developing regions trying to compete on world markets with non-traditional exports, the BLADEX experience will undoubtedly be closely studied elsewhere and may serve as a model for groupings whose intentions for joint export promotion have not yet moved beyond the planning stage, such as the projected African-Caribbean-Pacific (ACP) Trade and Investment Bank,[67] (later named the "Trade Development Bank", to be devoted exclusively to trade finance.)[68]

(c) Islamic Development Bank (IsDB)

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[67] United Nations, *Report on the Establishment of an ACP Trade and Investment Bank*, New York, 1979 (TCD/INT.77.R07/1).

[68] Ray A. Jones, "Intra-ACP Co-operation - Supplementary Study on the Project for Establishing a Bank for ACP States", ACP Secretariat, Brussels, June 1981.

Table 21

IsDB Foreign Trade Financing (as of 27 October 1981)

Year	Number of borrowing countries	Number of operations	Amount ($ million)
1976/77	4	5	50.5
1977/78	9	15	155.8
1978/79	14	24	338.1
1979/80	21	36	476.0
1980/81	17	34	484.4
Cumulative	24	114	1 504.9

Source: IsDB, *Sixth Annual Report 1401 H (1981-1981)*, Jeddah, 1982, table 14.

Table 22

SAFICO: Cumulative value of credit operations, June 1974-April 1981
(Millions of dollars)

Bolivia	7.2
Colombia	22.8
Ecuador	14.4
Peru	32.1
Venezuela	16.9
Chile *a/*	6.1
Total	99.5

Source: Report of the Working Group on the Financing of Exports from Developing Countries, Madrid, 9-10 April 1981 (UNCTAD/ ECDC/65), annex IV.

a/ Before withdrawal from the Andean institutions in 1976.

142. The financing of foreign trade among its member countries, especially in capital goods, is laid down as one of the Bank's main objectives by its Articles of Agreement (article 2 (vii)). The Bank began such operations in 1977, when funds available largely exceeded the amounts required for project financing. Since then, foreign trade financing has come to occupy the leading place in the Bank's overall operations, absorbing 68.4 per cent of all operations effected between 1976 and 1981, with steadily increasing amounts from year to year, as shown in table 21.

143. Of the foreign trade operations financed so far, 77.7 per cent pertained to trade among IsDB member countries. In terms of commodities, 73 per cent of the loans involved trade in crude petroleum and petroleum products, while the rest was divided among fertilizers, jute products, cotton, cement, vegetable oils and lead ores. Only a tiny fraction (0.18 per cent) was intended for capital goods (generators) and consumer durables (bicycles). This distribution is due to the fact that IsDB has emphasized import credits for member countries with balance-of-payments difficulties, rather than export credits for goods whose saleability depends on extended credits. Credits are extended to governments of importing countries with the proviso that procurement must give preference to goods made in other member countries. The net effect of these policies is to provide balance-of-payments support to economically weaker member countries and to help in the promotion of mutual trade.

(d) Andean Trade Financing System (SAFICO)

144. At the request of its member countries[69] the Andean Development Corporation established the Andean Trade Financing System in 1974 to finance non-traditional exports from Andean countries as a complement to financing by the member countries' NECIs. Potential borrowers are trading and industrial firms as well as banks, both official and private, provided they are locally-owned as defined by decision 24 of the Commission of the Cartagena Agreement, the highest political body of the Andean Group. Eligible transactions cover not only the goods themselves but also ancillary technical, planning and supervisory services. Although preference is given to the intra-trade of the sub-region, other exports may also be financed. Credits are granted in United States dollars directly to the importers for terms ranging from one to five years at fixed interest rates which are market-related but nevertheless concessional. In the case of the more advanced member countries (Colombia, Peru and Venezuela), 85 per cent of the export operations may be financed, and in the case of the less advanced countries (Bolivia and Ecuador), the full amount may be financed.

145. The cumulative value of credit operations approved as of April 1981, by selected exporting country, may be found in table 22. The goods covered by SAFICO operations include consumer goods, raw materials, capital goods and entire projects.

146. The modest number of operations reflects the shortage of resources placed at the disposal of SAFICO, rather than a lack of demand. The striking contrast as against the BLADEX experience suggests that advantages could be achieved by gearing the interest rate of SAFICO's operations to market rates and by relaxing some of the other restrictions mentioned.

3. Interregional approaches

147. While the regional approaches described above have so far proved to be the only viable ones specifically geared towards trade finance co-operation[70] among developing countries, their geographical scope remains largely limited to Latin Ameri-

[69] Bolivia, Colombia, Ecuador, Peru, Venezuela and, until 1976, Chile.

[70] The recently-established ASEAN Finance Corporation may extend export credits, but this activity will compete with many others in which the Corporation plans to engage.

ca. Even where they operate, they tend to favour countries with a well-developed commercial banking system and with established NECIs. Moreover, it is clear that none of the regional arrangements can provide the substantial margins of interest subsidization which exporters in developed countries receive from their respective NECIs.

(a) International Export Credit Guarantee Facility

148. In order to alleviate the difficulties faced by exporting developing countries not covered by any regional facility in refinancing medium and long-term export credit paper on the international capital markets, UNCTAD has been studying and discussing for ten years the feasibility of establishing an international export credit guarantee facility (IECGF).

149. The Intergovernmental Group of Experts on an Export Credit Guarantee Facility, which met in January 1982, felt that the following would be some of the important operational features of such a facility:

> "(a) The facility's function would be to guarantee negotiable export credit paper arising from exports on credit of developing countries members of the facility.
>
> (b) The facility should cover products and related services normally requiring medium- to long-term export credit in international trade. Consideration should be given to the inclusion of maturities of six months and over.
>
> (c) Transactions presented for guarantee by the facility should conform to accepted international norms and guidelines, including the OECD consensus[71] and the Berne Union guidelines.[72]
>
> (d) The facility may, at an appropriate stage in its activities, provide technical assistance to developing countries on matters concerning trade financing. This activity could be financed primarily by *ad hoc* contributions.
>
> (e) The guarantee by the facility should represent its unconditional obligation to pay immediately the holder of the guaranteed paper the amount due if the drawee or the acceptor has not honoured the paper on presentation by the holder upon maturity. The national agency of the exporting country should unconditionally guarantee to reimburse the facility on recourse (see para.(h) below).
>
> (f) The evaluation of the creditworthiness of individual transactions should be undertaken by both the national agency and the facility. The facility should have a wide variety of information at its disposal, possibly including that exchanged in the Berne Union. The facility should also undertake evaluation of the importing and exporting countries' creditworthiness.
>
> (g) The facility may impose limits by exporting or importing country, by exporter, importer or financing bank, by transaction or by export credit paper or on any other basis that may be called for by the sound economic management of its resources.
>
> (h) Each developing country member of the facility should designate an agency acceptable for the facility to deal with the facility in its operations. An agency should also be empowered to commit its Government with respect to all financial obligations to the facility.
>
> (i) Whenever possible, the national agency should be the national export credit insurance organization in the exporting country. In any case, the national agency dealing with the facility should undertake examination and evaluation of relevant aspects of transactions in a manner satisfactory to the facility.

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[71] Arrangement on Guidelines for Officially Supported Export Credits.

[72] Guidelines on specific products issued by the International Union of Credit and Investment Insurers.

(j) The facility should have an adequate capital base. Because of the nature of the facility, outstanding liabilities could be a multiple of subscribed capital. The relationship between the facility's paid-in and callable capital and between its liabilities and total subscribed capital and reserves should be such as to enhance its standing in international capital markets. Capital and other contributions to the facility should be in freely convertible currencies.

(k) The facility should be empowered to borrow short-term funds in order to meet its needs for bridging finance.

(l) The facility's income should be derived from the fees associated with the provision of its guarantees and income from its investments. The basis for charging fees and the structure of such fees should reflect the requirement that the facility should reach the self-financing stage as quickly as possible.

(m) The currency in which the facility would accept obligations under its guarantee would generally be the currency in which the export credit paper was denominated. In other instances, the guarantee of the national agency should protect the facility from losses resulting from changes in exchange rates.

(n) Income in excess of operating costs should be initially used to build up reserves. After adequate reserves have been accumulated, net income could be distributed as dividends or used for any other purpose decided by the shareholders.

(o) While the users of the facility would be developing countries, membership in the facility should be as broad as possible. The participation of intergovernmental financial institutions would strengthen the facility's standing in international capital markets."[73]

150. While the IECGF would in principle help to refinance export credits for capital and other durable goods requiring medium to long-term finance for their marketability regardless of their destination, the trade flow most likely to benefit is the one among developing countries. This is so not only because developing countries are each others' best customers for the type of goods suitable for the IECGF,[74] but also because the guarantee that the IECGF could provide would have the greatest impact on the refinancing of credits extended to importing developing countries since it is here that the risk factor is perceived to be the greatest by potential purchasers of the export credit paper involved.[75]

151. The difficulties which the IECGF idea has met in UNCTAD suggest that the universal approach in handling a problem where competitive interests are clearly involved may not be the most appropriate one and that an initiative on the part of the countries that are to benefit from the IECGF might produce faster results. The success of the BLADEX model occurring during a period of serious economic dislocation in Latin America has shown that such an approach, under which a controlling share of the stock is held by official and private stockholders domiciled in developing countries, will ultimately attract not only equity and loan capital from international commercial banks, but even loan capital from official sources of developed countries. This is not surprising, in as much as foreign-trade financing involves

[73] Report of the Intergovernmental Group of Experts on an Export Credit Guarantee Facility, *Official Records of the Trade and Development Board, Twenty-fourth Session, Annexes*, agenda item 8, document TD/B/889, para.5.

[74] Among the 10 leading developing countries, exporters of such goods, the share going to other developing countries in 1978-1979 exceeded 30 per cent in all cases but one. (See the note by the UNCTAD secretariat, "Exports of goods and services from developing countries eligible for guarantee by the proposed Export Credit Guarantee Facility" (TD/B/AC.33/2/Add.2), tables 2 and 4).

[75] For a full discussion, see the report by the UNCTAD secretariat, "Operational features of an international export credit guarantee facility" (TD/B/C.3/183).

existing goods and is therefore inherently less risky than the financing of production ventures, assessing the cost and productivity of which necessarily involves margins of error.[76]

(b) Bank of Developing Countries (South Bank)

152. Even if the IECGF could be established on the sole initiative of a group of interested developing countries, it would not solve the problem of providing the actual export credit financing or refinancing, but only that of the guarantees designed to facilitate such refinancing. Moreover, an IECGF would not resolve the problems encountered by developing countries attempting to compete with exporters in developed countries enjoying access to subsidized sources of export credit. Therefore, the idea of creating a foreign trade bank for developing countries[77] was included in the Caracas Programme of Action of the Group of 77 (para. 66 (b)). However, at the meeting of the Intergovernmental Group of Experts of the Developing Countries (Kingston, Jamaica, March 1982), which was convened to consider detailed studies undertaken within UNCTAD on the FCDC proposals of the Caracas Programme, the idea of a specialized export credit finance institution was subsumed under the broader recommendation for the creation of a Bank of Developing Countries (South Bank).

153. In fact, the idea of such a bank was the only one among the wide panoply of financial co-operation proposals contained in the Caracas Programme of Action to which the Group of 77 accorded priority attention at their follow-up meeting held in Manila in August 1982. A further endorsement calling for a feasibility study of the proposal came from the Ministerial Meeting of the Group of 77 held at Buenos Aires in March 1983.

154. The draft proposals for the South Bank as currently conceived would earmark $6.7 billion to export credits out of a total proposed capital of $37.9 billion.[78] Whereas the regular resources of the Bank would be in the form of equity capital and non-concessional borrowings on the market, the need for a separate interest subsidization account to be fed by concessional funds, to be used, *inter alia*, for financing or refinancing export credits, is specifically recognized. The providers of such funds might be found both among the DAC and OPEC donor countries, as well as among certain MFIs, which would have to consider the distributional effects of such action as between the least developed or other low-income countries and the generally more advanced developing countries able to export capital and other durable goods, but unable to finance appropriate export credits.

E. Conclusions

155. Financial co-operation among developing countries (FCDC) constitutes a necessary - although not preclusive - area in which the principle of collective self-reliance can find effective expression. Although the vast potentialities in this field available in the past ten years have only been partially utilized, progress in FCDC appears to have been more impressive and widespread than in other areas of ECDC, such as preferential trade arrangements, joint production ventures and technological co-operation.

156. The major impetus to FCDC over the past decade was undoubtedly provided by the emergence of surplus liquid funds in certain oil-exporting countries with low absorptive capacities. The aid flows to other developing countries which they undertook to finance and the national and multilat-

[76] See "Report of the High-Level Consultants Meeting on Financial Co-operation among Developing Countries", Geneva, 8-10 February 1982, para.5 (mimeo).
[77] For another proposal along the same lines, see Rodrigo Llorente Martinez, "Monetary and financial co-operation to support the programme of preferences among developing countries", March 1979.
[78] For a fuller account of the proposed capital structure and operational features of the Bank, see *South - The Third World Magazine*, July 1983, pp.12-15.

eral institutions which they established to provide this aid, exceeded by far the corresponding efforts of the traditional aid donors, when measured against the respective national products, or - more appropriately, but less easy to quantify - against the respective volumes of national wealth.[79] However, the turnaround in the surplus countries' revenues combined with the continuing, if not rising, needs of their own development plans will necessarily reduce the long-term importance of these aid flows in absolute terms and restrict the group of countries in a position to dispense substantial concessional aid to a very small number.

157. In these circumstances, the remaining aid flows might well be reoriented in such a manner as to meet needs which cannot or will not be met by the traditional donors, rather than to working essentially along parallel lines. The provision of relatively modest sums of additional working capital to improve the functioning of existing clearing and payments arrangements among developing countries would constitute a major step towards using the instrument of FCDC to promote trade expansion among the developing countries. The highly successful precedent set by the United States in 1950 when it provided working capital to the then nascent European Payments Union demonstrates the high degree of leverage of this particular type of external assistance.

158. Similarly, the concept of collective self-reliance would be strengthened through the establishment of interest subsidization accounts with existing institutions (or with the proposed South Bank), earmarked to reduce the interest rate of export credits on trade in capital and other durable goods sold by developing countries to the subsidized level applied by the industrialized countries.

159. Last but not least, the concept of FCDC should be broadened to cover the immense stock of loanable funds currently invested in the international financial markets by official agencies and private residents of developing countries. It must not be overlooked that a considerable part of the debt burden under which so many developing countries are now struggling was in fact financed by other developing countries through the intermediation of the large commercial banks. It stands to reason that these ultimate creditors should participate more actively than heretofore in finding a solution to this pressing problem in a manner that meets the legitimate needs and possibilities of all the parties concerned - debtors, creditors and financial intermediaries.

[79] OPEC countries have always insisted that their liquid surpluses result from the depletion of their stock of non-renewable natural resources rather than from a renewable flow of production exceeding domestic consumption and investments needs, as is true of balance-of-payments surpluses earned by most developed countries.

Chapter IV

THE SCOPE FOR FASTER GROWTH BY INTENSIFIED CO-OPERATION AMONG DEVELOPING COUNTRIES

160. The dramatic impact of the recession 1980-1982 in the developed market-economy countries on the developing countries, slowing down their economic growth to an extent not experienced earlier, underlines the trade-growth dependence of these countries referred to in innumerable studies. The effect has been exacerbated by a debt service burden magnified by very high interest rates. This situation is contrary to the conditions of the mid-1970s, when easy access to the international capital market made the developing countries on the whole independent of downturns of the economies of developed countries.

A. The need for more dynamic markets

161. In view of the generally recognized likelihood of developed countries having shifted to a slower long-term growth trend compared with the 1960s and early 1970s, developing countries have to look for other markets for their exports to restore economic growth and the ability to service debt. The obvious markets to look for are, of course, amongst the developing countries themselves, markets which in a number of cases proved able to expand at high rates in the 1970s.

162. In effect, as discussed in chapter II, developing country intra-trade expanded faster than their trade with other country groups in this period. Four major factors affecting this performance can be indicated. The first stems from investments financed by higher domestic savings and from foreign borrowings which helped to keep up economic growth rates, thus creating more buoyant markets than in developed countries suffering a slow-down of growth. The second factor concerns the extraordinary boosting of the import demand of the oil-exporting countries. The third factor is the spin-off effect of the high growth in a certain number of developing countries, the so-called newly industrializing countries, achieved in the 1970s. In these countries, in addition to consumer manufactures and intermediate products, capital goods became a new export sector with target markets in other developing countries, while the market for commodity imports from these other developing countries expanded. The fourth factor is active export diversification policies undertaken by a number of developing countries in the face of sluggish and increasingly protected developed country markets.

163. The working of several of these factors was severely disturbed during the recession of 1980-1982, although in the second half of 1982 trade among the developing countries registered a rebound in some developing regions (see chapter II, section B.6). With recovery of the world economy and the return to more moderate interest rates, it can be expected that the intra-trade-creating factors will start working again. Their effects could be further enhanced by putting into place policies promoting economic co-operation among developing countries.

B. Developing country growth depressed by high dependence

164. This chapter aims to explore the scope for the resumption and acceleration of the economic growth of developing countries during the remainder of the 1980s through intensified co-operation among them. This co-operation will have its tangible outcome in larger flows of both trade and finance, but only the trade aspect and its effect on growth will be addressed here. The quantitative basis for the discussion is derived from the use of a global model with regional and sectoral breakdowns and with the regional economies interacting through

a matrix of bilateral trade flows.[80]

165. The question asked is: Suppose that through a policy package of trade and financial measures a restructuring of the bilateral trade flows takes place in favour of trade among developing countries, what are the possible repercussions on trade and GDP growth of these countries compared to a situation of unchanged trade dependence on the developed countries? Given that most developing countries have very open and export-dependent economies and that their exports to developed countries represent as much as 20 per cent of their GDP, low growth and, hence, low-import demand on the part of the developed countries will inevitably keep down the growth of the developing countries so long as the present trade structure prevails. If the developed market-economy countries were to grow on average by 2.4 per cent per year for the remainder of the decade, developing country average growth would be no higher than 3.7 per cent per year, far below the 5.6 per cent annual average for the 1970s and also below the average 4.4 per cent annually for the post 1974 period. (See scenario A-0 in table 23). On a per capita basis the income gap between developed and developing countries would widen. Certain regions, such as Latin America and sub-Saharan Africa, would experience stagnating or even falling per capita income.

166. In this gloomy dependence scenario not only would the actual growth rate decline, but in addition a lot of the potential for growth built up in the 1970s through expanded savings and investments would be lost. In fact, developing countries' average (and collective) savings rate in 1980 reached a level as high as 27 per cent of GNP, which at capital/output ratios attainable at normal management of the economy would support potential growth rates of 7-9 per cent per year. The problem is that this potential cannot be realized without an adequate supply of investment goods which, because the heavy industry base in developing countries is still weak, have to come largely from the developed countries. The foreign exchange constraint due to slow growth in earnings from exports to the developed markets will impede the procurement of the investment goods required for the full realization of the growth potential.

C. Higher growth by boosting intra-trade in manufactures

167. This constraint could be loosened if developing countries were to replace an increasing proportion of the imports from developed countries by trade amongst themselves. As the bulk of these imports consists of manufactures, the main emphasis of the trade diversion would be placed on such goods. The developing countries having concentrated in the past on production of consumer goods would in the first instance launch their trade diversion programme with these goods. However, they would also make efforts to expand intra-trade in other manufactures, including capital goods.[81]

168. Such a programme is illustrated by a scenario (A-1 in table 23), where the intra-trade shares of consumer goods are multiplied three times and

[80] The UNITAD model used here is described in detail in the "1981 report on the UNITAD system" (UNIDO/IS.337), 7 September 1982. See also G.A. Cornia, A. Duval and J. Royer, "The UNITAD Project: a model for exploring prospective long-term changes in the world economy", *Trade and Development. An UNCTAD Review*, No.3, Winter 1981 (United Nations publication, Sales No. E.82.II.D.3). The agreement by UNIDO to the use of this model for the purpose of this chapter is gratefully acknowledged.

[81] It is assumed that these efforts, to be successful, would have to be associated with higher domestic savings and adequate arrangements for financing the larger intra-trade. The trade expansion would also require a sufficient substitutability and cost efficiency of the goods produced by developing countries to be competitive with those exported from developed countries. In view of the time-lag involved in the scenarios, adjustments required to fulfil these conditions are assumed to be feasible.

Table 23

GNP growth rates, 1975-1982, and projections for 1982-1990, by major regions
(Percentage)

	1975-1982	Scenarios 1982-1990				
		Trend (A-0)	A-1	B-1	B-2	B-3
Developed market-economy countries	2.9	2.4	2.4	2.5	2.5	2.9
North America	2.7	2.3	2.3	2.3	2.3	2.8
Western Europe	2.2	2.7	2.7	3.0	3.0	3.2
Japan	4.3	3.1	3.1	3.4	3.4	3.6
Others	1.7	2.2	2.2	2.2	2.2	2.8
Developing countries *a/*	4.4	3.7	4.5	4.6	4.8	6.4
Latin America	4.0	2.8	3.6	3.8	4.1	6.5
Sub-Saharan Africa	3.4	1.8	1.9	2.0	2.0	2.3
West Asia and North Africa	2.6	7.4	7.8	8.0	8.1	9.0
South Asia	4.1	3.5	3.9	3.9	4.0	5.7
East and South-East Asia	7.8	4.1	5.5	5.6	5.9	6.4

Source: UNCTAD secretariat estimates based on UNITAD model simulations. Basic assumptions for the estimates are given in annex C.

a/ It should be noted that the model uses a regional classification of developing countries different from that applied in chapter II. The main divergences are these. First, in the model Africa is divided into two parts, the northern one integrated into the West Asia and North Africa region and the southern one constituting sub-Saharan Africa. Secondly, the region called "South and South-East Asia" in the United Nations statistics is here separated into "South Asia" and "East and South-East Asia".

those of other manufactures by a lower factor.[82] This intensification of intra-trade allows an improvement of developing country growth by as much as 20 per cent, restoring these countries' average growth performance to the levels reached in the period 1975-1982. As is to be expected, it is the industrially more developed regions which would benefit most, Latin America and East Asia improving their growth rates by around 30 per cent. However, the developed countries would also benefit because their loss of the trade share is more than offset by the resumed dynamism of developing countries. The associated higher demand for capital goods results in trade gains for goods in which developed countries have a comparative advantage. The gains would be important enough to affect the economic growth of the developed countries. This in turn would generate higher imports from developing countries, enhancing further their economic growth. The world economic system would enter into an interactive "feedback" process from which all countries would benefit. This case is illustrated by a scenario (B-1 in table 23)

[82] The multipliers chosen were 1.5 for capital goods (machinery and equipment) and 2.25 for intermediary products (primary processing of metals, basic chemistry and fertilizers).

taking into account these feedbacks.[83] Whereas the overall effects of these feedbacks are small, resulting in a higher growth of only 0.1 percentage point for the developed and developing country groups as a whole, some regions benefit more substantially. These cases cover Western Europe and Japan among developed countries and Latin America and West Asia among developing countries. For the first three regions these results can be explained by the relatively large role of manufactured exports in their economies, whereas for West Asia it is the newly established capacity in petrochemical exports which is more fully used.

D. The crucial role of capital goods in industry and trade

169. As the provision of capital goods from abroad is crucial to growth, additional boosting of the developing economies could be achieved if the industrial expansion of these economies were directed more towards capital goods. With certain countries having greater capacity to expand than others, these effects could be associated with accelerated intra-trade, increasing the supply of capital goods over and above that which could be afforded in terms of purchases from developed countries. In fact, during the 1970s the capital goods industry in developing countries had already grown 40 per cent faster than total manufacturing.[84] A continuation or even reinforcing of this trend would support accelerated intra-trade in capital goods.

170. To illustrate the possible effects of such a strategy, scenarios have been devised assuming the same expansion of intra-trade shares for capital goods as for consumer goods, i.e., a tripling. Taking into account feedback effects (scenario B-2 in table 23), overall growth rates could improve by 30 per cent for developing countries, the annual rates reaching 4.8 per cent on average for the period 1982-1990. Again, it would be Latin America and East Asia that would benefit the most, their growth rates rising by 45 per cent. The above-mentioned results confirm clearly the expectations that a loosening of the foreign constraint vis-a-vis the developed countries through expanded intra-developing country trade has important effects as far as the realizing of the growth potential is concerned. Although the loss of market shares in the first round seems negative to the developed countries, the end result, taking into account feedback effects, turns out positively. It would therefore be of economic interest to developed countries to support intensified co-operation among developing countries.

E. Import substitution of food by industrializing agriculture

171. One weakness of the co-operation scheme so far discussed is that low-income countries, particularly in sub-Saharan Africa and South Asia, would receive very little benefit. This is because of the large role agriculture plays in their economy and their dependence on agricultural exports to developed countries which face a slow-growing or even deteriorating demand. A trade-driven acceleration of agricultural growth could, however, be generated through import substitution, as a large number of developing countries over the last decade have faced growing deficits on the account of staple foods. The increase would embrace both national and collective import substitution, the latter implying more intra-trade in food.

172. The problem of such a strategy is that it requires considerable industrial and services input into agriculture in terms of fertilizers and other chemicals as well as agricultural machinery, whether for the purpose of

[83] The feedback elasticity of GDP growth for developed countries relative to that for developing countries has been set at 0.22, based on studies of the former United Nations Centre for Development Planning, Projections and Policies, carried out in 1978.

[84] See UNCTAD, *Trade and Development Report 1981* (TD/B/863/Rev.1), United Nations publication, Sales No. E.81.II.D.9, p.101.

increasing the yield or for investing in arable land expansion, irrigation and the shift of land use from commercial export crops to food. The use of these inputs is closely inter-linked with general economic development, expanding the domestic commercial market for food and promoting the transformation of subsistence agriculture to commercial farming, thus gaining the cash required to purchase industrial inputs. Hence, the import substitution of food is a viable strategy only when combined with economic development based on rapid growth of manufacturing production and trade.[85] To illustrate the possible effects of such a strategy the previously mentioned scenario (B-2) on strong reinforcement of intra-trade in manufactures has been combined with an assumption of higher propensity to use industrial inputs in agriculture.[86]

173. The effects of such a development are quite striking (see scenario B-3 in table 23). The overall growth rate of developing countries reaches 6.4 per cent per year, having an important feedback on the developed market-economy countries, enhancing their growth by half a percentage point per year compared to the base scenario. In addition to the regions already deriving advantage from an intensified intra-trade of manufactures the populous South Asian region would see a strong improvement in its growth, from 3.5 per cent to 5.7 per cent per year, when compared with the base scenario.

174. Sub-Saharan Africa, the other region where low-income and agriculturally oriented countries dominate, would, however, benefit very little even in this scenario, remaining with falling income per capita. The reason lies with the serious state of underdevelopment, requiring very rapid restructuring and industrialization over a long period of time before the economy becomes responsive to changes in the international environment. In these regions, agriculture is still essentially of a subsistence nature, and its commercial manifestations are still directed by the structures imposed by the earlier colonial rule, resulting in the main demand for the countries' principal products being tied to stagnating markets.

175. This contrasts sharply with the remarkable release of growth potential in Latin America, where the combined strategy of intra-trade in manufactures and collective import substitution in agriculture would more than double the growth rate compared with the base scenario. It proves the extraordinary extent to which the foreign exchange constraint vis-a-vis developed market-economy countries exacerbated by the debt service burden would, with continued heavy dependence on these countries, hold down the growth of a whole continent which domestically has reached a stage of a relatively mature and diversified economy of great potential.

176. As regards the effects on the developed market-economy countries, it is interesting to note that North America and Oceania would benefit as much as the other developed regions from this scenario. The primary reason is the general feedback effect of higher growth in developing countries. Another reason lies with higher cereal exports to developing regions. It seems contradictory that an improvement of agricultural growth in developing countries would call for additional food imports. The explanation is that the food demand generated by the higher overall growth associated with the better performance of agriculture outweighs the import substitution effect of this performance. Although agriculture is of limited importance in the West Asian region, the scenario nevertheless shows a substantial increase of the economic growth in this region. This is what could be called a third-round effect, the higher growth in developed countries generating additional demand for oil.[87] Also, some of

[85] The strategy could, however, in many cases be made more effective by institutional reforms, such as land reform, and appropriate market intervention.

[86] Technically, the input coefficient has been multiplied by 1.3.

[87] In the scenario all additional demand for oil is supposed to be met by larger exports of oil from the West Asian region. This might overstate the growth effect. As the rise of the oil price which would be expected with higher demand is not taken into account, the income effect is understated.

the growth would come from exports of fertilizers and other petro-chemically based inputs to agriculture.

177. The discussion has up to now centered on developed market-economy countries. Socialist countries would also be affected by the strategies analyzed above, although the small size of their trade sector would lead to much weaker growth effects. It is, for example, to be expected that socialist Asia (essentially China) would benefit substantially from participation in intensified economic co-operation among developing countries. Although there is some indication in this direction from the outcome of the scenarios, it has to be noted that it has not been possible to model the behaviour of the socialist countries in a way that gives reasonably reliable signals.

F. Implications of intensified economic co-operation for dependence structures

178. The main expression of intensified economic co-operation among developing countries is the re-orientation of exports towards intra-trade.

179. In the scenarios discussed above for 1990, the share of intra-trade in total exports of manufactures could practically double, increasing from 27 per cent to 52 per cent (see columns 1 and 2 in table 24). The movement is of similar magnitude for all regions, with increases in intra-trade shares of from 20 to 25 percentage points. For sub-Saharan Africa the expansion of intra-trade, however, does not bring the share higher than one-third - an expression of the undiversified condition from which the manufacturing industry in this region would still suffer even after a decade of intensive co-operation efforts.

180. The strong upsurge in intra-trade shifts the weight of this trade in the economy of the developing regions from a small fraction to an important factor. In terms of a "dependence" indicator relating the sum of intra-traded imports and exports to total output, the indicator for intra-trade in manufactures would increase for most regions by 2.5 times (see columns 3 and 4 in table 24). This dependence rises to as much as 41 per cent of total output in East and South-East Asia and 58 per cent for West Asia. For other regions the intra-trade dependence percentage attains a more modest level, ranging from 10 to 16 per cent.

181. The direction of the intensified intra-trade among developing countries would vary greatly between regions (see table 25). The trade expansion in manufactures would be particularly strong within the regions where a certain diversification has already been reached in the past. This would apply to Latin America, West Asia and East Asia. For Africa and South Asia the trade expansion would rather take the form of exports to other regions. For Africa the likely explanation is that the export capacity of the countries of this region would be limited to similar labour-intensive manufactures (such as textiles). For South Asia the large size of India relative to other countries in the region would require Indian exports to be directed largely outside the region.

182. As a corollary, the dependence on trade with the developed countries declines. However, it does not contract as much as the intra-trade dependence augments, for two reasons. First, faster growth enhances the overall openness of the regional economies. Secondly, the total of developing country exports of manufactures is only one-third of their imports of these goods. Hence, a diversion of exports has a correspondingly lower effect on import dependence. The reduction in dependence on trade with developed countries is therefore modest, of the order of 20 per cent; for developing countries as a group it declines from 48 per cent to 39 per cent (see columns 5 and 6 in table 24).

183. The differences between regions in trade dependence on developed countries are very great. Whereas the dependence rate in the high co-operation scenario would fall to 10-15 per cent for Latin America and South Asia (mainly because of the importance of one large country in each region, Brazil and India respectively), the rates for other regions would remain high, up to more than 150 per cent for West Asia. The latter regions would, hence, even after a decade of intensive economic co-operation efforts, remain heavily dependent on trade with the developed countries.

Table 24

Projected structure in 1990 of developing country trade dependence *a/* **in manufactures with and without intensified economic co-operation**

(Percentage)

	Inter-developing country export share in scenario *b/*		Dependence on trade with developing countries in scenario		Dependence on trade with developed countries in scenario		Collective self-sufficiency in scenario	
	A-O	B-2	A-O	B-2	A-O	B-2	A-O	B-2
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)
Developing countries in:	26.8	51.9	8.3	21.3	47.8	38.5	73.2	77.2
Latin America	28.6	54.4	4.2	11.0	19.5	15.2	87.4	89.9
Sub-Saharan Africa	15.7	33.5	6.0	15.8	63.5	54.9	63.7	64.9
West Asia and North Africa	61.7	81.8	21.7	57.8	184.0	157.5	34.9	36.0
South Asia	39.8	64.3	4.5	10.5	13.5	11.0	91.3	92.1
East and South-East Asia	20.4	43.5	16.7	40.7	84.7	64.0	65.0	69.7

Source: UNCTAD secretariat estimates, based on UNITAD model simulations. For the two scenarios, see annex C, sect.A.

a/ Denoting O for total regional output, M for imports, X for exports, and with subscripts s for intra-trade, n for trade with developed countries and e for extra-regional trade (all variables referring to manufactures only), the definitions are as follows:

(i) Dependence on trade with developing countries

$$ts = \frac{Ms+Xs}{O}$$

(ii) Dependence on trade with developed countries

$$tn = \frac{Mn+Xn}{O}$$

(iii) Collective self-sufficiency

$$te = \frac{O}{O+Me}$$

b/ I.e., the share of exports to developing countries in total exports of manufactures of the region.

Table 25

Trade of developing countries in manufactures: increases in shares by region for intra-regional, extra-regional and total trade, with and without intensified economic co-operation

(Percentage points)

	Increase in shares between scenarios A-0 and B-2		
	Intra-regional trade (1)	Extra-regional trade (2)	Inter-developing country trade (3)=(1)+(2)
Developing countries in:			
Latin America	22.1	3.7	25.8
Sub-Saharan Africa	7.5	10.3	17.8
West Asia and North Africa	15.8	4.3	20.1
South Asia	2.3	22.2	24.5
East and South-East Asia	15.8	7.3	23.1

Source: Derived from table 24, columns 1 and 2.

G. Collective self-reliance and increased self-sufficiency

184. One of the basic ideas motivating intensified economic co-operation among developing countries is to reach a high degree of self-reliance, in particular in the collective sense. As stated earlier, self-reliance means an autonomous capacity for self-sustaining growth, i.e. the absence of a balance-of-payments constraint. The indicator used here to illustrate the self-sufficiency level consists of the ratio of the manufactured output of all developing countries, or of each developing region, to its total supply of manufactures (the latter measured as output plus imports originating outside the group of countries considered). This indicator moves quite modestly upwards with intensified economic co-operation, by only 1 to 4 percentage points (see columns 7 and 8 of table 24).

185. This is because the boosting of intra-trade has very little impact on the imports of manufactures. Hence, the self-sufficiency level of manufactures for the developing countries as a group remains around three quarters of the total supply. For Latin America and South Asia the figure is around 90 per cent, for East Asia and sub-Saharan Africa around two-thirds and for West Asia close to one-third of the total supply to the region.

186. It may seem surprising that growth improvement could be so significant with very small shifts in the self-sufficiency ratios. To understand this one has to recall that the basic economic problem of the developing countries is the constraint on the release of a high growth potential caused by the lack of foreign exchange for the purchase of essential capital goods. It is the diversion of exports which lessens the foreign exchange constraint. However, as the additional exchange is used for imports of capital goods from developed countries, the manufactured imports not only remain high, but even expand considerably in absolute terms. The latter fact explains, in its turn, the feedback generating a noticeable enhancement of growth in the developed countries.

H. Dependence structures with industrialized agriculture

187. The higher growth following from intensified co-operation among developing countries in the field of manufactures has, as mentioned above, its price in terms of a greater need for food. Given the constraints on the agricultural output potential, this results in higher imports of agricultural commodities. Although part of these imports could be supplied through intra-trade, the comparative advantage of cereal production in certain developed regions, in particular North America and Oceania, would make these regions a more competitive source for food imports. According to the scenario estimates, two-thirds of the additional agricultural imports into developing countries would come from the developed regions. The foreign exchange to pay for these imports would, of course, encroach upon the gains acquired through intensified intra-trade in manufactures.

188. By industrializing agriculture in developing countries this loss of foreign exchange could be reduced. The impressive release of growth potential following such a policy which was shown earlier in the chapter can, accordingly, be more easily understood in the light of its foreign exchange implications.

189. The changes in trade structures are, however, less remarkable. For example, the proportion of agricultural exports from North America directed to developing countries, which would increase from 35 per cent to 44 per cent with intensified economic co-operation in manufactures among developing countries, would not decline to less than 39 per cent when developing country agriculture was being industrialized (compare the scenarios A-0, B-2 and B-3 in the first three columns of table 26). This is partly due to the fact that intra-trade shares of developing countries also fall with the industrialized agriculture scenario.

190. The question thus arises whether one could not combine the industrialization of agriculture with more intensive trade co-operation in these products, thus further reducing dependence on developed countries for food supplies. Although one should not exclude some scope for such a policy, the quantitative relationships involved in the scenario make it less likely to materialize. As has been said before, the scenario would result in an overall growth of developing countries of the order of 6.5 per cent per year. With the relative high income elasticity of basic food consumption in these countries and their desire to eradicate hunger and malnutrition, the increase in food demand associated with higher growth would put a considerable strain on the output growth of agriculture. The upper constraints which technical and developmental aspects impose on this growth would be felt in several regions, increasing rapidly the marginal costs of additional output.[88]

191. The situation for agriculture in a number of developed regions is rather the opposite. Stagnating population growth, low or even negative income elasticities with respect to staple foods and slow economic growth would make demands on very little of the expanded food supplies. The continued, albeit weakening, productivity trend of agriculture and in particular of cereals in these regions provides them with spare capacity for potential supplies to developing countries. This could well reinforce the tendency for a relative specialization towards agricultural products to take place in the export from more industrialized to less industrialized regions.

192. As a consequence of the interaction of the above-mentioned factors, the self-sufficiency ratios of developing countries would not move upwards very much with a scenario of industrialized agriculture. The estimates indicate that the loss of self-sufficiency levels which would occur with intensified economic co-operation in manufactures would be more or less made up for by the increase in agricultural output arising from the use of more industrial inputs (see the last

[88] In the model, these constraints have been expressed as maximum growth rates (based on expert judgements).

Table 26

Agricultural export and self-sufficiency structures by 1990, by major region, according to different scenarios
(Percentage)

Exporting region	Developing country share of agricultural exports in scenario			Agricultural self-sufficiency ratio a/ in scenario		
	A-0	B-2	B-3	A-0	B-2	B-3
Developed market-economy countries	27.3	33.7	30.1	91.5	99.1	91.2
North America	35.3	44.3	39.4	..	..	..
Western Europe	22.6	27.0	23.7	..	..	..
Japan	62.8	68.3	67.0	..	..	..
Other developed	30.9	37.2	35.1	..	..	..
Socialist countries of Eastern Europe	19.3	23.1	22.0	..	..	..
Developing countries	25.9	32.7	30.1	89.9	86.5	89.5
Latin America	15.3	22.0	16.4	95.0	90.6	95.3
Sub-Saharan Africa	20.4	24.1	21.3	78.4	76.4	78.8
West Asia and North Africa	43.6	50.2	48.1	75.3	72.5	77.3
South Asia	34.0	40.0	37.5	97.5	95.2	96.4
East and South-east Asia	34.8	42.5	41.2	90.1	86.0	85.6
Socialist countries of Asia	34.8	42.5	41.8	98.6	97.8	97.6

Source: UNCTAD secretariat estimates, based on UNITAD model simulations. For the scenarios, see annex C, sect.A.

a/ The self-sufficiency ratio is defined as

$$R = \frac{O-X}{O+M-X}$$

where O = output, X = exports and M = imports.

three columns in table 26). In some regions, however, in particular the populous ones in Asia, the response of agricultural output would not be sufficient to meet fully the higher food demand associated with faster growth. The self-sufficiency ratios would therefore fall rather than be restored.

193. The lower income elasticities for consumption of agricultural compared to manufactured goods, together with the constraints on output growth of agriculture, lead to a fall in the share of this sector in overall GDP (see table 27). The largest reductions in the shares concern Latin America and South Asia, where economic growth would improve most in relative terms. The decline of the share is less important for East and South-East Asia despite a considerable acceleration of growth.

Table 27

Shares of the agricultural and capital goods sectors in GDP in 1990 with *a/* and without *b/* intensified economic co-operation among developing countries
(Percentage)

Developing countries in:	Agriculture		Capital goods	
	A-0	B-3	A-0	B-3
Latin America	13.5	9.1	6.5	6.8
Sub-Saharan Africa	30.5	29.2	2.7	2.8
West Asia and North Africa	10.8	9.6	1.3	1.1
South Asia	39.2	33.0	3.1	4.0
East and South-East Asia	18.3	16.6	3.6	4.6

Source: UNCTAD secretariat estimates, based on UNITAD model simulations.

a/ Scenario B-3.
b/ Scenario A-0.

This is due to the expansion of food exports from this region which would take place with the scenario under discussion. The continued weak growth of sub-Saharan Africa is reflected in a small change of the sectoral share of agriculture.

194. As mentioned above, the expansion of the capital goods industry is crucial for the success of a self-reliance policy. The outcome of the scenarios indicates, however, that the relative importance of this sector would increase significantly only in the South Asian and in the East and South-East Asian regions (see the two last columns of table 27). It would therefore seem likely that further beneficial effects of intensified economic co-operation among developing countries could be obtained by efforts over and above those illustrated here to invest in the capital goods sector and develop intra-trade in these goods.

I. Conclusion

195. The analysis in this chapter demonstrates that there is a great scope for enhanced growth of developing countries deriving from intensified economic co-operation among them. It has shown that the surprisingly strong effect on growth works through the loosening of the foreign exchange constraint imposed by slow-growing demand from the developed countries. This allows developing countries to acquire the capital goods needed to realize their otherwise high growth potential. The overall economic effects of a co-operation policy are not only of great advantage for the developing countries themselves but also beneficial for developed countries and, hence, for the world economy as a whole. However, the mechanisms through which the favourable effects are transmitted are less efficient for countries at a low stage of development. For these countries other measures are required to accelerate their development.

Chapter V

SUMMARY AND CONCLUSIONS

196. Trade among developing countries during the 1970s was characterized by outstanding dynamism, which caused its share in world trade to double and which more than restored the share reductions incurred during the 1960s. The growing importance of this mutual trade to the overall export efforts of the developing countries is remarkable. It becomes particularly evident when trade in mineral fuels is excluded, the figures showing that intra-trade in other products grew from less than 20 per cent of world trade in 1970 to nearly 32 per cent in 1981.

197. External payments constraints placed serious restrictions on the ability of most developing countries to maintain the rhythm of their imports in 1982 and even more so during the early part of 1983.[89] This trend may have halted, if not reversed, the positive development towards greater economic interdependence which was registered during the 1970s. If such a trend reversal were to be confirmed, it would serve to emphasize the urgency of developing countries taking fresh initiatives to intensify the trade and economic links among themselves.

198. In the field of trade, initiatives are already under way to bring a scheme for a Global System of Trade Preferences among Developing Countries to the negotiating stage. This could usefully be complemented by fresh efforts in the field of financial co-operation, where surplus developing countries had already assumed during the latter part of the 1970s an important role in the direct and indirect financing of the balance-of-payments deficits of other developing countries. It is evident that considerable potential exists for taking further initiatives in the field of financial co-operation that could underpin future co-operation in the field of trade and in related areas, such as the establishment of joint ventures.

199. On the trade side, econometric models discussed in the preceding chapter show that a significant reorientation of imports of consumer and capital goods on the part of developing countries, along with various positive feedback effects of such a reorientation, could serve to accelerate the developing countries' aggregate growth rates in the period 1982-1990 from 3.7 per cent to 4.8 per cent per annum. A further reorientation towards greater collective self-reliance in the field of industrial inputs for the agricultural sector (appropriately spurred by an active agricultural development policy) would increase this growth rate to 6.4 per cent. However, this incremental growth would accrue mainly to those countries with a broad industrial base and would therefore require specific corrective measures for the others.

200. This report has concentrated on the direct benefits which increased mutual trade and financial co-operation would bestow on the economies of the developing countries. However, closer mutual trade and financial links could also yield indirect benefits in the form of increased bargaining strength vis-a-vis governments and enterprises in the developed countries. Thus, any developing country engaged in bilateral and multilateral trade negotiations would have alternative trading strategies to fall back on in case of inability to come to terms. Similar possibilities might also arise in the financial field.

201. These options towards effective collective self-reliance would need to

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[89] According to United Nations estimates, overall imports of developing countries fell by over 20 per cent between the first quarter of 1982 and the corresponding period of 1983, a decline affecting each one of the three major developing regions.

be complemented by far-reaching policy measures to be taken by the developing countries as a group to reinforce initiatives in the areas of trade and finance that have already been mentioned. In certain cases joint action in the fields of transport and communications are necessary before trade policy measures can become effective in stimulating mutual trade. Moreover, the potential for co-operation in the field of technology and technical co-operation, in the broader sense of the term, has only begun to be tapped and is still limited to a small number of developing countries. The goal of collective self-reliance notwithstanding, many of the co-operative measures outlined in this report require support from the international financial institutions and the developed countries, the latter standing to gain from such a strategy that could ultimately result in more dynamic markets and growth for their own export industries.

Annex A

Membership of economic co-operation and integration groupings of developing countries *

* As of January 1983. The inclusion in or exclusion from this annex of any particular country or grouping does not imply any judgement by the UNCTAD secretariat concerning its level of development.

For a description of the functions and activities of the groupings see the report by the UNCTAD secretariat, "Economic co-operation among developing countries: A review of recent developments in subregional, regional and interregional organizations and arrangements" (TD/B/C.7/51).

AFRICA

1. *Central African Customs and Economic Union (UDEAC)*
Central African Republic, Congo, Gabon, United Republic of Cameroon

2. *Comité permanent consultatif du Maghreb (CPCM)*
Algeria, Mauritania, Morocco, Tunisia

3. *Council of the Entente*
Benin, Ivory Coast, Niger, Togo, Upper Volta

4. *Economic Community of West African States (ECOWAS)*
Benin, Cape Verde, Gambia, Ghana, Guinea, Guinea-Bissau, Ivory Coast, Liberia, Mali, Mauritania, Niger, Nigeria, Senegal, Sierra Leone, Togo, Upper Volta

5. *Economic Community of the Great Lakes Countries (CEPGL)*
Burundi, Rwanda, Zaire

6. *Mano River Union (MARIUN)*
Guinea, Liberia, Sierra Leone

7. *Permanent Inter-State Committee on Drought Control in the Sahel (CILSS)*
Chad, Mali, Mauritania, Niger, Senegal, Upper Volta

8. *Preferential Trade Area for Eastern and Southern African States (ESAPTA)*[90]
Djibouti, Ethiopia, Kenya, Lesotho, Mauritius, Somalia, Uganda, Zambia, Zimbabwe

9. *West African Economic Community (CEAO)*
Ivory Coast, Mali, Mauritania, Niger, Senegal, Upper Volta

10. *Lake Chad Basin Commission (LCBC)*
Chad, Niger, Nigeria, United Republic of Cameroon

11. *Niger Basin Authority*
Benin, Chad, Guinea, Ivory Coast, Mali, Niger, Nigeria, United Republic of Cameroon, Upper Volta

12. *Organization of African Unity (OAU)*
Algeria, Angola, Benin, Botswana, Burundi, Cape Verde, Central African Republic, Chad, Comoros, Congo, Egypt, Equatorial Guinea, Ethiopia, Gabon, Gambia, Ghana, Guinea, Guinea-Bissau, Ivory Coast, Kenya, Lesotho, Liberia, Libyan Arab Jamahiriya, Madagascar, Malawi, Mali, Mauritania, Mauritius, Morocco, Mozambique, Niger, Nigeria, Rwanda, Sao Tome and Principe, Senegal, Seychelles, Sierra Leone, Somalia, Sudan, Swaziland, Togo, Tunisia, Uganda, United Republic of Cameroon, United Republic of Tanzania, Upper Volta, Zaire, Zambia, Zimbabwe

13. *African and Mauritian Common Organization (OCAM)*
Benin, Central African Republic,Gabon, Ivory Coast, Mauritius, Niger, Rwanda, Senegal, Togo, Upper Volta

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[90] Agreement open for ratification by Angola, Botswana, Burundi, Comoros, Madagascar, Malawi, Mozambique, Seychelles, Swaziland, United Republic of Tanzania.

14. *Organization for the Planning and Development of the Kagera River Basin (OKB)*
Burundi, Rwanda, Uganda, United Republic of Tanzania

15. *Gambia River Development Organization (OMVG)*
Gambia, Guinea, Senegal

16. *Organization for the Development of the Senegal River (OMVS)*
Mali, Mauritania, Senegal

17. *Southern African Economic Development Co-ordination Conference (SADCC)*
Angola, Botswana, Lesotho, Malawi, Mozambique, Swaziland, United Republic of Tanzania, Zambia, Zimbabwe

ASIA

1. *Association of South East Asian Nations (ASEAN)*
Indonesia, Malaysia, Philippines, Singapore, Thailand

2. *BANGKOK Agreement*
Bangladesh, India, Lao People's Democratic Republic, Republic of Korea Sri Lanka

3. *Gulf Co-operation Council*
Bahrain, Kuwait, Oman, Qatar, Saudi Arabia, United Arab Emirates

4. *South Asian Economic Co-operation Scheme*
Bangladesh,Bhutan, India, Maldives, Nepal, Pakistan, Sri Lanka

LATIN AMERICA AND THE CARIBBEAN

1. *Andean Group*
Bolivia, Colombia, Ecuador, Peru, Venezuela

2. *Caribbean Community (CARICOM)*
Antigua and Barbuda, Barbados, Belize, Dominica, Grenada, Guyana, Jamaica, Montserrat, Saint Christopher and Nevis, Saint Lucia, Saint Vincent and the Grenadines, Trinidad and Tobago

3. *Caribbean Development and Co-operation Committee (CDCC)*
Antigua and Barbuda, Bahamas, Barbados, Belize, Cuba, Dominica, Dominican Republic, Grenada, Guyana, Haiti, Jamaica, Saint Lucia, Saint Vincent and the Grenadines, Suriname, Trinidad and Tobago (associate member: Netherlands Antilles)

4. *Central American Common Market (CACM)*
Costa Rica, El Salvador, Guatemala, Honduras, Nicaragua

5. *Organization of Eastern Caribbean States (OECS)*
Antigua and Barbuda, Dominica, Grenada, Montserrat, Saint Christopher and Nevis, Saint Lucia, Saint Vincent and the Grenadines

6. *Latin American Economic System (SELA)*
Argentina, Barbados, Bolivia, Brazil, Chile, Colombia, Costa Rica, Cuba, Dominican Republic, Ecuador, El Salvador, Grenada, Guatemala, Guyana, Haiti, Honduras, Jamaica, Mexico, Nicaragua, Panama, Peru, Suriname, Trinidad and Tobago, Uruguay, Venezuela

7. *Latin American Energy Organization (OLADE)*
Barbados, Bolivia, Brazil, Chile, Colombia, Costa Rica, Cuba, Dominican Republic, Ecuador, El Salvador, Guatemala, Guyana, Haiti, Honduras, Jamaica, Mexico, Panama, Paraguay, Peru, Suriname, Trinidad and Tobago, Uruguay, Venezuela[91]

8. *Latin American Integration Association (ALADI)*
Argentina, Bolivia, Brazil, Chile, Colombia, Ecuador, Mexico, Paraguay, Peru, Uruguay, Venezuela

9. *River Plate Basin System*
Argentina, Bolivia, Brazil, Paraguay, Uruguay

10. *Treaty for Amazonian Co-operation*
Bolivia, Brazil, Colombia, Ecuador, Guyana, Peru, Suriname, Venezuela

INTERREGIONAL

1. *Action Programme on Economic Co-operation among Non-Aligned and other Developing Countries (APEC)*
Afghanistan, Algeria, Angola, Argentina, Bahrain, Bangladesh, Belize, Benin, Bhutan, Bolivia, Botswana, Burma, Burundi, Cape Verde, Central African Republic, Chad, Comoros, Congo, Cuba, Cyprus, Democratic People's Republic of Korea, Democratic Yemen, Djibouti, Ecuador, Egypt, Equatorial Guinea, Ethiopia, Gabon, Gambia, Ghana, Grenada, Guinea, Guinea-Bissau, Guyana, India, Indonesia, Iran (Islamic Republic of), Iraq, Ivory Coast, Jamaica, Jordan, Kenya, Kuwait, Lao People's Democratic Republic, Lebanon, Lesotho, Liberia, Libyan Arab Jamahiriya, Madagascar, Malawi, Malaysia, Maldives, Mali, Malta, Mauritania, Mauritius, Morocco, Mozambique, Nepal, Nicaragua, Niger, Nigeria, Oman, Pakistan, Palestine Liberation Organization, Panama, Peru, Qatar, Rwanda, Saint Lucia, Sao Tome and Principe, Saudi Arabia, Senegal, Seychelles, Sierra Leone, Singapore, Somalia, South West Africa People's Organization, Sri Lanka, Sudan, Suriname, Swaziland, Syrian Arab Republic, Togo, Trinidad and Tobago, Tunisia, Uganda, United Arab Emirates, United Republic of Cameroon, United Republic of Tanzania, Upper Volta, Viet Nam, Yemen, Yugoslavia, Zaire, Zambia, Zimbabwe

2. *African, Caribbean and Pacific Group of Countries (ACP)*
Antigua and Barbuda, Bahamas, Barbados, Belize, Benin, Botswana, Burundi, Cape Verde, Central African Republic, Chad, Comoros, Congo, Djibouti, Dominica, Equatorial Guinea, Ethiopia, Fiji, Gabon, Gambia, Ghana, Grenada, Guatemala, Guinea, Guinea-Bissau, Guyana, Ivory Coast, Jamaica, Kenya, Kiribati, Lesotho, Liberia, Madagascar, Malawi, Mali, Mauritania, Mauritius, Niger, Nigeria, Papua New Guinea, Rwanda, Saint Lucia, Saint Vincent and the Grenadines, Samoa, Sao Tome and Principe, Senegal, Seychelles, Sierra Leone, Solomon Islands, Somalia, Sudan, Suriname, Swaziland, Togo, Tonga, Trinidad and Tobago, Tuvalu, Uganda, United Republic of Cameroon, United Republic of Tanzania, Upper Volta, Vanuatu, Zaire, Zambia, Zimbabwe

[91] Argentina and Nicaragua have signed but not ratified the Agreement.

3. *Protocol Relating to Trade Negotiations among Developing Countries*
Bangladesh, Brazil, Chile, Egypt, India, Israel, Mexico, Pakistan, Paraguay, Peru, Philippines, Republic of Korea, Romania, Spain, Tunisia, Turkey, Uruguay, Yugoslavia

4. *Arab Common Market*
Egypt, Iraq, Jordan, Libyan Arab Jamahiriya, Mauritania, Syrian Arab Republic

5. *Organization of the Islamic Conference*
Afghanistan, Algeria, Bahrain, Bangladesh, Chad, Comoros, Democratic Yemen, Djibouti, Egypt, Gabon, Gambia, Guinea, Guinea-Bissau, Indonesia, Iran (Islamic Republic of), Iraq, Jordan, Kuwait, Lebanon, Libyan Arab Jamahiriya, Malaysia, Maldives, Mali, Mauritania, Morocco, Niger, Oman, Pakistan, Palestine Liberation Organization, Qatar, Saudi Arabia, Senegal, Somalia, Sudan, Syrian Arab Republic, Tunisia, Turkey, Uganda, United Arab Emirates, United Republic of Cameroon, Upper Volta, Yemen

6. *Council of Arab Economic Unity (CAEU)*
Democratic Yemen, Egypt, Iraq, Jordan, Kuwait, Libyan Arab Jamahiriya, Mauritania, Somalia, Sudan, Syrian Arab Republic, United Arab Emirates, Yemen

7. *League of Arab States*
Algeria, Bahrain, Democratic Yemen, Djibouti, Iraq, Jordan, Kuwait, Lebanon, Libyan Arab Jamahiriya, Mauritania, Morocco, Oman, Palestine Liberation Organization, Qatar, Saudi Arabia, Somalia, Sudan, Syrian Arab Republic, Tunisia, United Arab Emirates, Yemen

8. *Organization of Arab Petroleum Exporting Countries (OAPEC)*
Algeria, Bahrain, Iraq, Kuwait, Libyan Arab Jamahiriya, Qatar, Saudi Arabia, Syrian Arab Republic, United Arab Emirates

9. *Organization of the Petroleum Exporting Countries (OPEC)*
Algeria, Ecuador, Gabon, Indonesia, Iran (Islamic Republic of), Iraq, Kuwait, Libyan Arab Jamahiriya, Nigeria, Qatar, Saudi Arabia, United Arab Emirates, Venezuela

10. *Regional Co-operation for Development (RCD)*
Iran (Islamic Republic of), Pakistan, Turkey

11. *Tripartite Agreement*
Egypt, India, Yugoslavia

12. *Intergovernmental Follow-up and Co-ordination Committee (IFCC)*[92]

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[92] An intergovernmental co-ordination committee of the Group of 77 that deals with the question of the follow-up to the Caracas Programme of Action (see A/38/333 and Corr.1, annex, para. 89).

Annex B

Membership of multilateral clearing and
payments arrangements of developing countries *

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* As reported by the organizations concerned. Status as of June 1983.

Name	Year of establishment	Members
A. *Clearing arrangements*		
1. Central American Clearing House (CACH)	1961	Costa Rica, El Salvador, Guatemala, Honduras and Nicaragua
2. ALADI Payments and Reciprocal Credit System	1965	Argentina, Bolivia, Brazil, Colombia, Chile, Dominican Republic, Ecuador, Mexico, Paraguay, Peru, Uruguay and Venezuela
3. CARICOM Multilateral Clearing Facility	1977	Barbados, Belize, East Caribbean Currency Authority, Guyana, Jamaica and Trinidad and Tobago
4. West African Clearing House (WACH)	1975	Benin, Gambia, Ghana, Guinea, Guinea-Bissau, Ivory Coast, Liberia, Mali, Mauritania, Niger, Nigeria, Senegal, Sierra Leone, Togo, Upper Volta
5. Monetary Arrangement of the Economic Community of the Great Lakes Countries	1978	Burundi, Rwanda, Zaire
6. Central African Clearing House	1979	Central African Republic, Congo, Gabon, United Republic of Cameroon, Zaire
7. Regional Co-operation for Development (RCD) - Union for Multilateral Payments Arrangements	1967	Iran (Islamic Republic of), Pakistan, Turkey
8. Asian Clearing Union (ACU)	1974	Bangladesh, Burma, India, Iran (Islamic Republic of), Nepal, Pakistan, Sri Lanka
B. *Credit arrangements*		
1. Central American Stabilization Fund (FOCEM)	1969	Costa Rica, El Salvador, Guatemala, Honduras, Nicaragua
2. Santo Domingo Agreement	1969 (revised 1981)	Members of ALADI (formerly LAFTA) plus Dominican Republic (identical with A.2 above)
3. Andean Reserve Fund (FAR)	1976	Bolivia, Colombia, Ecuador, Peru, Venezuela

4. Arab Monetary Fund (AMF)	1976	Algeria, Bahrain, Democratic Yemen, Iraq, Jordan, Kuwait, Lebanon, Libyan Arab Jamahiriya, Mauritania, Morocco, Oman, Palestine, Qatar, Saudi Arabia, Somalia, Sudan, Syrian Arab Republic, Tunisia, United Arab Emirates, Yemen
5. ASEAN Swap Arrangement	1977	Indonesia, Malaysia, Philippines, Singapore, Thailand

Annex C

Note on the use of the UNITAD model

A. Scenario assumptions

A-0 - Trend scenario with exogenously introduced growth rates for developed countries.

A-1 - Multiplier applied to the bilateral trade flows in trade among developing countries: 2.25;3.0;1.5;3.03, the sequence referring to intermediary products (first processing of metals, basic chemistry, fertilizers), consumer non-durables (textiles, metal products), equipment and machinery, and consumer durables (including precision instruments).

B-1 - The same multipliers as in A-1. The growth of developed countries was computed by applying a feedback elasticity of 0.22 for GNP growth of developed countries relative to that of developing countries.

A-2 - Multipliers for trade among developing countries: 2.25; 3.0;3.0;3.0; growth of developed countries the same as in A-0.

B-2 - The same multipliers as in A-2 and applying the same feedback elasticity for the growth of developed countries as in B-1, taking A-2 as starting point.

A-3 - Multipliers for trade among developing countries the same as in A-2; growth of developed countries the same as in A-0; inputs to agriculture for developing market economies multiplied by 1.3.

B-3 - The same trade and agricultural input multipliers as in A-3; for the growth of developed countries applying the same feedback as in B-1, taking A-3 as starting point.

B. Geographical breakdown

Regions:

(1) North America
(2) Western Europe
(3) Socialist countries of Eastern Europe
(4) Japan
(5) Other developed
(6) Latin America
(7) Sub-Saharan Africa
(8) North Africa and West Asia
(9) South Asia
(10) East and South-East Asia
(11) Socialist countries of Asia

Regions are geographical entities. Turkey and Yugoslavia are included in Western Europe. The "Other developed" region consists of Australia, New Zealand and South Africa. East and South-East Asia includes Thailand, Malaysia, Singapore, Indonesia and the East Asian developing countries as well as the Pacific Islands except Hawaii. (See also the note to table 23 in the text.)

C. Trade sectors

	SITC (Rev.1)
1. Agricultural products	0, 1, 2 (excluding 251, 266, 27, 28), 4
2. Non-agricultural raw materials	27, 28 (excluding 286)
3. Energy	286, 3, 515, 688
4. Intermediate products	251, 266, 5 (excluding 515, 54, 55), 61, 621, 63, 541, 65, 66 (excluding 665, 666), 67, 68 (excluding 688), 691, 692, 693, 694, 698, 81
5. Consumer non-durables	54, 55, 62 (excluding 621), 642, 665, 666, 696, 84, 85, 89 (excluding 891, 896, 897)
6. Equipment	695, 71, 72 (excluding 724, 725), 73, 861
7. Consumer durables	667, 697, 724, 725, 82, 83, 86 (excluding 861), 896, 897, 9

D. Tables showing results of the model according to different scenarios

Table I

GNP growth rates in 1975-1982 and, according to different scenarios, for 1982-1990, by major regions

(Percentage)

		Scenarios for 1982-1990						
	1975-1982	Trend (A-0)	A-1	B-1	A-2	B-2	A-3	B-3
Developed market-economy countries	2.5	2.4	2.4	2.5	2.4	2.5	2.4	2.9
North America	2.7	2.3	2.3	2.3	2.3	2.3	2.3	2.8
Western Europe	2.2	2.7	2.7	3.0	2.7	3.0	2.7	3.2
Japan	4.3	3.1	3.1	3.4	3.1	3.4	3.1	3.6
Others	1.7	2.2	2.2	2.2	2.2	2.2	2.2	2.8
Socialist countries of Eastern Europe *a/*	3.6	3.6	3.6	3.6	3.6	3.6	3.6	3.6
Developing countries	4.4	3.7	4.5	4.6	4.7	4.8	5.7	6.4
Latin America	4.0	2.8	3.6	3.8	4.0	4.1	5.4	6.5
Sub-Saharan Africa	3.4	1.8	1.9	2.0	2.0	2.0	2.2	2.3
West Asia and North Africa	2.6	7.4	7.8	8.0	7.9	8.1	8.5	9.0
South Asia	4.1	3.5	3.9	3.9	4.0	4.0	5.6	5.7
East and South-East Asia	7.8	4.1	5.5	5.6	5.7	5.9	5.8	6.4
Socialist countries of Asia	4.5	6.0	9.5	9.5	9.5	9.6	9.5	9.7

Source: UNCTAD secretariat estimates, based on UNITAD model simulations.

Note: For a description of the regions and scenarios, see sections A and B of this annex.

a/ Growth rates refer to gross material product.

Table II

Population and GNP per capita growth rates in 1975-1982 and, according to different scenarios, for 1982-1990, by major regions
(Percentage)

		GNP per capita							
			Scenarios for 1982-1990						
	Population *a/*	1975-1982	Trend (A-0)	A-1	B-1	A-2	B-2	A-3	B-3
Developed market-economy countries	0.8	2.1	1.6	1.6	1.7	1.6	1.7	1.6	2.1
North America	0.9	1.8	1.4	1.4	1.4	1.4	1.4	1.4	1.9
Western Europe	0.5	1.7	2.2	2.2	2.5	2.2	2.5	2.2	2.7
Japan	1.2	3.1	1.9	1.9	2.2	1.9	2.2	1.9	2.4
Others	2.3	-0.6	-0.1	-0.1	-0.1	-0.1	-0.1	-0.1	0.5
Socialist countries of Eastern Europe *b/*	0.8	2.8	2.8	2.8	2.8	2.8	2.8	2.8	2.8
Developing countries	2.6	1.8	1.1	1.9	2.0	2.1	2.2	3.1	3.8
Latin America	2.7	1.3	0.1	0.9	1.1	1.3	1.4	2.7	3.8
Sub-Saharan Africa	2.8	0.6	-1.0	-0.9	-0.8	-0.8	-0.8	-0.6	-0.5
West Asia and North Africa	2.8	-0.2	4.6	5.0	5.2	5.1	5.3	5.7	6.2
South Asia	2.3	1.8	1.2	1.6	1.6	1.7	1.7	3.3	3.4
East and South-East Asia	2.4	5.4	1.7	3.1	3.2	3.3	3.5	3.4	4.0
Socialist countries of Asia	1.6	2.9	4.4	7.9	7.9	7.9	8.0	7.9	8.1

Source: UNCTAD secretariat estimates, based on UNITAD model simulations.

Note: For a description of the regions and scenarios, see sections A and B of this annex.

a/ The rates are based on data for the 1970s. Analysis of projections available for the 1980s indicates such stability in the growth rates that a differentiation of the rates between periods is not warranted.

b/ Growth rates refer to gross material product.

Table III

Trade in manufactures among developing countries: shares of developing countries in 1990, by region, in intra-regional and in total trade among developing countries according to different scenarios
(Percentage)

	Share of intra-regional trade in total exports of manufactures				Inter-developing country export share *a/*			
	Scenario				Scenario			
	A-0	B-1	B-2	B-3	A-0 *b/*	B-1	B-2	B-3
Developing countries in:	-	-	-	-	26.8	47.9	51.9	51.5
Latin America	24.5	40.4	46.6	47.4	28.6	47.6	54.4	54.7
Sub-Saharan Africa	6.0	10.0	13.5	13.4	15.7	30.0	33.5	34.8
West Asia and North Africa	47.1	59.3	62.9	63.7	61.7	79.5	81.8	82.7
South Asia	3.2	4.7	5.5	5.8	39.8	61.6	64.3	64.6
East and South-East Asia	12.7	25.2	28.5	27.5	20.4	40.0	43.5	42.3

Source: UNCTAD secretariat estimates, based on UNITAD model simulations.

Note: For a description of the regions and scenarios, see sections A and B of this annex.

a/ I.e., the share of exports to developing countries in total exports of manufactures of the region.

b/ Differences between shares for scenario A-0 in this table and the 1980 shares for manufactures shown in annex D, table III, are essentially due to the fact that estimates here are based on constant (1970) prices and, in contrast to annex D, table III, do not include petroleum products (SITC 33) in "manufactures" (see section C of this annex).

Table IV

Trade dependence of developing countries for manufactures in 1990, by region, according to different scenarios
(Percentage)

	Intra-trade dependence				Dependence on trade with developed countries			
	Scenario				Scenario			
	A-0	B-1	B-2	B-3	A-0	B-1	B-2	B-3
Developing countries in:	8.3	18.7	21.3	20.0	47.8	40.5	38.5	36.5
Latin America	4.2	8.7	11.0	10.4	19.5	16.5	15.2	14.1
Sub-Saharan Africa	6.0	13.2	15.8	16.2	63.5	57.9	54.9	55.4
West Asia and North Africa	21.7	38.9	57.8	56.8	184.0	157.1	157.5	166.3
South Asia	4.5	9.5	10.5	9.0	13.5	11.7	11.0	9.7
East and South-East Asia	16.7	36.8	40.7	40.3	84.7	67.9	64.0	65.1

Source: UNCTAD secretariat estimates, based on UNITAD model simulations.

Note: For the definition of dependence, see table 24 of the text; for a description of the regions and scenarios, see sections A and B of this annex.

Table V

Self-reliance of developing countries in 1990, by region, according to different scenarios
(Percentage)

	Scenario			
	A-0	B-1	B-2	B-3
Developing countries in:	72.6	74.3	75.3	76.4
Latin America	87.4	89.1	89.9	90.6
Sub-Saharan Africa	63.7	64.3	64.9	64.9
West Asia and North Africa	34.9	35.7	36.0	34.8
South Asia	91.3	92.0	82.1	92.8
East and South-East Asia	65.0	68.4	89.7	69.8

Source: UNCTAD secretariat estimates, based on UNITAD model simulations.

Note: For the definition of dependence, see table 24 of the text; for a description of regions and scenarios, see sections A and B of this annex.

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Annex D

Statistical tables relating to chapter II

Table I

Trade among developing countries (DCs) expressed as a proportion of various trade aggregates, 1955-1982

(Percentage of current dollar export values)

Year	World trade	World exports of DCs	World exports to DCs	World trade	World exports of DCs	World exports to DCs
	Including mineral fuels			*Excluding mineral fuels*		
1955	6.2	24.4	24.9	4.3	20.3	17.7
1960	4.8	22.3	20.8	3.3	19.4	14.5
1965	4.1	21.0	20.2	3.0	19.9	14.5
1966	3.9	20.6	19.4	2.8	19.4	13.8
1967	3.8	20.4	19.3	2.7	19.5	13.5
1968	3.7	20.4	19.2	2.6	19.3	13.1
1969	3.6	20.1	19.1	2.6	19.8	13.5
1970	3.5	19.8	18.9	2.5	19.4	13.4
1971	3.5	20.1	18.9	2.5	20.8	13.2
1972	3.7	20.9	24.4	2.6	21.6	14.2
1973	4.0	21.0	21.9	2.8	21.5	15.1
1974	5.7	21.3	27.7	3.2	23.9	14.8
1975	5.9	23.3	25.8	3.3	26.4	13.4
1976	5.9	22.8	26.5	3.3	24.7	14.2
1977	6.1	23.8	26.4	3.6	25.9	14.7
1978	5.6	23.6	25.5	3.5	26.4	14.4
1979	6.2	24.3	27.9	3.9	28.1	16.6
1980	6.9	24.8	29.9	4.2	30.0	16.8
1981	7.3	26.4	28.8	4.6	31.9	16.7
1982	7.5	28.6	29.8	..	..	..

Source: UNCTAD secretariat estimates, based on United Nations, *Monthly Bulletin of Statistics*, June 1983 and earlier issues.

Table II

Comparison of the exports of developing countries by region to the world, to all developing countries and to their own region, 1970, 1975 and 1978-1982
(Percentage of current dollar values)

Year	Including mineral fuels					Excluding mineral fuels				
	All developing countries					All developing countries				
	Total	Latin America	Africa	Western Asia	South and S.E. Asia	Total	Latin America	Africa	Western Asia	South and S.E. Asia
Share of exports to developing countries in total exports										
1970	19.8	19.1	10.7	20.2	28.5	19.4	14.4	12.5	31.3	27.7
1975	23.3	24.1	14.6	22.5	30.7	26.4	22.2	16.6	47.7	31.4
1978	23.6	23.9	10.6	23.7	30.3	26.4	22.3	12.5	44.6	31.0
1979	24.3	26.1	11.8	24.6	30.4	28.1	24.1	17.0	46.1	31.5
1980	24.8	26.1	12.5	24.7	32.2	30.0	26.5	15.9	47.2	33.4
1981	26.4	27.3	10.1	26.0	34.4	31.9	27.5	17.2	54.4	34.6
1982	28.6	26.3	13.2	31.1	34.4	..	..	..	..	..
Share of exports to own region in total exports to developing countries										
1970	68.9	90.7	46.5	36.5	73.2	74.1	86.3	60.0	77.6	71.2
1975	49.8	83.1	28.5	21.4	64.0	67.7	74.7	63.9	72.2	63.6
1978	50.7	78.8	36.3	22.5	63.2	66.5	74.7	54.4	78.3	62.2
1979	51.2	82.0	25.6	22.7	66.0	67.7	76.6	58.0	76.5	63.7
1980	48.0	78.2	25.6	21.2	65.4	65.4	71.2	50.1	80.9	62.2
1981	51.0	78.1	32.5	25.2	63.0	64.0	70.8	52.0	76.6	60.1
1982	52.7	81.7	23.6	28.3	65.5	..	..	..	..	..
Share of exports to own region in total exports										
1970	13.6	17.3	5.6	7.4	20.9	14.4	12.4	7.5	24.3	19.7
1975	11.6	20.1	5.7	4.8	19.6	17.9	16.6	10.6	34.5	20.0
1978	11.9	18.9	3.8	5.3	19.2	17.6	16.6	6.8	34.9	19.3
1979	12.5	21.4	4.0	5.6	20.1	19.0	18.4	9.8	35.3	20.0
1980	11.9	20.4	3.2	5.2	21.1	19.6	18.9	7.9	38.2	20.8
1981	13.5	21.3	3.3	6.6	21.7	20.4	19.5	9.0	41.7	20.8
1982	15.1	21.4	3.1	8.8	22.5	..	..	..	..	..

Source: UNCTAD secretariat estimates, based on United Nations, *Monthly Bulletin of Statistics*, June 1983 and earlier issues.

Table III

Shares of developing regions, by product group, in total trade among developing countries *a*/, 1970 and 1980

(Percentage of current dollar values)

A. By region

Product group *b*/	Latin America 1970	Latin America 1980	Africa 1970	Africa 1980	Western Asia 1970	Western Asia 1980	South and South-East Asia 1970	South and South-East Asia 1980
All food items	37.1	41.0	20.7	7.0	5.6	3.6	36.2	46.7
Agricultural raw materials	20.5	10.1	17.1	6.4	1.1	0.9	60.3	78.8
Food and agric. raw materials	31.0	33.0	19.3	6.9	4.0	2.9	45.0	55.1
Minerals and metals *c*/	38.6	36.6	16.6	8.3	3.1	7.5	37.5	45.3
Chemicals	51.9	40.5	9.6	12.3	9.3	9.4	24.2	30.0
Light manufactures	25.4	30.1	23.2	2.8	8.4	11.1	39.2	49.9
Textiles and clothing	22.7	24.9	25.3	7.8	6.5	6.7	44.1	56.4
Machinery and transport equipt.	27.9	36.2	5.2	0.4	7.1	14.7	37.1	40.2
Non-electrical machinery	46.7	51.8	3.3	0.2	4.8	7.5	36.7	34.8
Electrical machinery	35.0	17.4	3.8	0.5	7.1	8.0	30.7	67.1
Transport equipment	14.2	38.4	6.8	0.4	10.0	20.6	39.5	30.0
Manufactures	31.0	33.8	16.4	3.1	8.2	11.5	36.3	44.5
Total: including mineral fuels	31.0	21.8	16.5	4.0	16.8	40.1	32.9	31.8
excluding mineral fuels	28.9	33.5	16.4	4.9	5.2	7.7	35.4	49.2

B. By income level

Product group *b*/	GDP per capita in 1978 in the range: over $1000 1970	over $1000 1980	$500-1000 1970	$500-1000 1980	below $500 1970	below $500 1980
All food items	44.5	61.0	24.9	23.5	30.6	15.5
Agricultural raw materials	50.2	58.7	21.4	10.7	28.5	30.6
Food and agric. raw materials	46.6	60.4	23.6	20.2	29.8	19.4
Minerals and metals *c*/	37.4	66.0	33.2	26.4	29.3	7.6
Chemicals	58.4	69.5	25.1	25.6	16.5	4.9
Light manufactures	35.8	75.6	20.1	17.5	44.1	6.8
Textiles and clothing	28.8	62.9	28.8	23.1	42.4	14.0
Machinery and transport equipt.	73.1	93.7	7.3	4.6	19.6	1.6
Non-electrical machinery	79.3	95.6	4.2	3.9	16.5	0.5
Electrical machinery	71.4	85.3	11.3	11.1	17.2	3.6
Transport equipment	70.0	96.9	7.7	1.9	22.3	1.2
Manufactures	49.2	81.8	17.3	13.7	33.4	4.4
Total: including mineral fuels	58.1	81.6	17.6	9.4	24.3	9.0
excluding mineral fuels	52.7	71.8	19.5	17.8	27.8	10.4

For source and notes, see end of table.

Table III *(continued)*

Shares of developing regions, by product group, in total trade among developing countries *a*/, 1970 and 1980

(Percentage of current dollar values)

C. By economic category

Product group *b*/	Petroleum exporters 1970	Petroleum exporters 1980	More industrialized 1970	More industrialized 1980	Fast growing manuf. exporters 1970	Fast growing manuf. exporters 1980	Least developed 1970	Least developed 1980
All food items	7.1	5.4	59.7	79.3	29.5	42.0	10.2	3.6
Agricultural raw materials	17.0	25.5	79.3	90.9	21.0	21.7	7.2	2.6
Food and agric. raw materials	10.7	10.6	66.7	82.3	26.4	36.7	9.1	3.4
Minerals and metals *c*/	22.6	14.1	61.4	68.2	21.6	50.0	0.7	0.2
Chemicals	20.8	12.1	59.1	61.8	36.6	42.3	0.6	0.1
Light manufactures	9.1	10.1	55.7	75.0	19.9	52.4	0.8	0.4
Textiles and clothing	7.3	6.6	67.4	77.4	18.5	46.6	8.0	2.4
Machinery and transport equipt.	10.2	15.6	82.1	82.6	39.0	66.3	0.5	0.0
Non-electrical machinery	13.2	7.6	89.9	90.4	61.3	79.5	0.4	0.0
Electrical machinery	8.6	10.8	75.8	87.7	34.1	59.7	0.3	0.1
Transport equipment	8.9	21.0	79.5	77.1	27.2	64.0	0.6	0.0
Manufactures	11.1	11.9	63.5	77.1	28.4	57.1	0.7	0.2
Total: including mineral fuels	29.8	50.4	51.2	47.1	20.8	27.3	3.8	0.7
excluding mineral fuels	21.3	11.4	56.4	78.3	23.2	48.6	4.3	1.4

Source: UNCTAD secretariat estimates.

a/ Countries members of the Group of 77, plus Hong Kong.
b/ The SITC numbers of the product groups are given in table V.
c/ "Crude fertilizers and ores" plus "Iron and steel".

Table IV
Product structure of the exports of developing countries *a/*, 1955-1980
(Percentage of current dollar values)

Exports	Year	Food	Agricultural raw materials	Crude fertilizers	Chemicals	Iron and steel	Non-ferrous metals	Machinery and transport equipment	Light manufactures	All manufactures
From developing countries to the world	1955	48.8	27.2	6.3	1.3	0.2	6.8	0.7	8.0	10.0
	1960	45.5	24.7	7.6	1.5	0.4	6.7	0.9	9.6	12.0
	1970	39.5	14.9	8.9	2.3	1.5	9.6	3.8	18.7	24.9
	1978	34.8	10.1	5.3	3.4	1.8	4.4	11.1	28.1	42.6
	1980	29.8	9.5	6.1	4.7	2.1	5.0	12.9	27.6	45.2
From developing countries to developing countries	1955	43.8	25.8	1.7	2.2	0.3	1.3	2.5	20.5	25.2
	1960	43.2	22.9	1.8	2.7	0.9	2.0	3.6	20.5	26.9
	1970	32.5	15.2	2.2	6.2	3.6	3.4	8.9	27.1	42.2
	1978	26.2	10.1	2.1	6.7	3.2	3.6	18.1	29.5	54.3
	1980	24.3	9.0	2.3	7.2	3.6	3.2	19.6	28.9	55.6
of which: Intra-regional trade	1955	45.4	25.4	1.9	2.5	0.4	1.5	3.1	18.1	23.8
	1960	44.4	23.0	1.7	3.4	1.3	1.1	4.4	17.7	25.6
	1970	32.6	14.0	2.4	7.2	3.6	3.1	9.8	26.0	43.0
	1978	24.9	11.2	2.1	7.7	2.7	4.6	18.8	26.6	53.2
	1980	21.7	10.4	2.2	8.4	3.6	3.9	21.3	26.7	56.4
Inter-regional trade	1955	39.3	27.0	1.2	1.1	-	0.8	0.8	27.3	29.2
	1960	39.7	22.5	1.9	0.9	0.2	4.6	1.3	28.2	30.4
	1970	32.0	18.5	1.5	3.3	3.9	4.1	6.2	30.3	39.8
	1978	28.6	7.9	1.7	4.7	3.4	1.2	16.7	35.7	57.3
	1980	29.2	6.3	2.5	4.9	3.6	1.8	16.4	32.9	54.2
From developing America to developing countries	1955	64.4	20.3	1.5	2.0	0.7	3.0	1.0	6.1	9.2
	1960	64.6	16.0	2.2	3.5	2.0	2.4	1.4	7.0	11.9
	1970	45.4	13.8	2.1	8.9	5.3	6.0	9.4	17.2	35.5
	1978	31.3	6.3	2.4	11.2	1.8	5.1	16.8	15.6	40.1
	1980	32.0	4.9	3.5	10.0	3.2	7.2	19.5	18.9	48.3
From developing Africa to developing countries	1955	43.3	27.2	1.9	2.1	-	0.9	2.1	11.4	15.6
	1960	52.4	22.2	2.2	3.0	0.4	6.1	1.6	10.4	15.0
	1970	43.8	19.3	2.2	4.7	1.3	6.6	3.3	18.6	26.6
	1978	42.1	10.1	6.1	5.8	-	17.0	3.2	15.2	24.1
	1980	47.1	11.0	7.0	10.7	0.4	2.7	3.5	13.1	27.3
From Western Asia to developing countries	1955	47.4	16.4	-	2.5	-	-	2.5	26.5	31.5
	1960	38.5	14.5	1.5	2.0	-	-	5.0	31.0	38.0
	1970	40.4	10.7	3.9	4.7	2.1	1.5	9.0	24.1	37.8
	1978	22.7	5.1	2.5	10.7	n.a	n.a	20.9	34.8	66.4
	1980	21.9	3.7	2.7	9.3	3.8	2.5	24.5	31.4	65.2
From South and South-East Asia to developing countries	1955	34.8	28.0	1.9	2.2	0.3	0.9	3.2	26.9	32.3
	1960	36.5	25.6	1.5	2.5	0.9	0.9	4.6	26.2	33.3
	1970	26.8	15.3	2.0	4.9	3.6	1.4	10.1	34.7	49.7
	1978	21.1	12.8	n.a	5.4	3.7	1.7	15.0	35.0	55.8
	1980	18.9	11.3	1.2	5.4	4.0	1.5	20.6	34.5	60.5

Source: UNCTAD secretariat estimates.
a/ Excluding mineral fuels.

Table V

Shares of trade among developing countries in the total trade of developing countries, by product group, 1970 and 1980

(Percentage of current dollar values)

Product group (SITC)	Countries members of the Group of 77 and Hong Kong *a/*				Developing countries as defined by the Statistical Office of the United Nations *b/*			
	Exports		Imports		Exports		Imports	
	1970	1980	1970	1980	1970	1980	1970	1980
All food items (0+1+22+4)	16.0	25.0	28.3	28.5	15.0	24.5	27.8	27.8
Agricultural raw materials (2-(22+27+28))	19.4	17.9	45.5	26.8	21.4	28.3	48.6	42.4
Food and agricultural raw materials (0+1+2+4-(27+28))	..	..	..	..	16.8	25.4	32.6	30.7
Crude fertilizers and ores (27+28)	5.1	10.1	53.4	31.7	6.4	11.3	38.1	35.4
Non-ferrous metals (68)	6.5	12.0	23.2	20.5	6.1	18.9	23.1	32.2
Mineral fuels (3)	19.9	17.8	81.9	72.4	20.5	21.7	82.4	88.0
Chemicals (5)	32.8	36.2	4.6	6.8	40.2	45.8	8.1	11.9
Light manufactures (6+8-(67+68))	30.6	30.8	28.6	16.5	29.8	31.3	17.4	23.2
Iron and steel (67)	46.5	49.0	8.3	6.0	46.4	49.8	8.2	10.3
Machinery and transport equipment (7)	44.6	42.8	3.3	5.3	44.2	45.6	3.3	8.4
All manufactures (5+6+7+8-68)	33.8	35.8	8.3	26.1	34.0	37.5	9.2	13.1
Total (0 to 9)	19.8	23.2	18.9	28.0	19.8	24.8	19.0	29.9
Total less mineral fuels (0 to 9-3)	19.5	25.0	13.4	14.0	19.4	29.9	13.5	16.8

Sources: *a/*: UNCTAD secretariat estimates;
b/: UNCTAD, *Handbook of International Trade and Development Statistics, 1983* (United Nations publication, Sales No. E/F.83.II.D.2).

Table VI

Intra-trade of regional and subregional groupings of developing countries compared with world trade, 1960 and 1970

(Based on current dollar export values)

	Value of intra-trade ($ million)			Index numbers (10 years earlier = 100)		Intra-trade as percentage of exports to developing countries			Intra-trade as percentage of exports to the world		
	1960	1970	1980	1970	1980	1960	1970	1980	1960	1970	1980
World	127870	321000	1 993310	244	639	438.2	536.5	427.6	100.0	100.0	100.0
All developing countries	6100	11100	141180	182	1272	100.0	100.0	100.0	22.3	20.2	25.3
	Groupings which implemented mutual trade preferences before 1970										
ALADI *a/*	564	1290	10217	229	792	39.7	48.1	48.0	7.7	10.2	13.5
of which											
Andean Group *b/*	25	109	955	436	876	2.4	7.8	11.1	0.7	2.3	3.5
CACM *c/*	33	299	2242	906	382	75.0	90.5	71.4	7.5	26.8	22.0
CARICOM *d/*	27	73	354	270	485	36.9	44.0	32.0	4.5	7.3	6.4
UDEAC *e/*	3	33	200	1100	606	19.3	28.6	18.2	1.6	3.4	4.1
CEAO *f/*	6	73	296	1217	405	13.5	60.3	43.4	2.0	9.1	6.9
Total above	633	1768	12208	279	690	39.8	51.4	47.4	7.2	10.8	12.8
	Other groupings *g/*										
ECOWAS *h/*	17	61	1056	359	1731	17.9	24.4	62.9	1.2	2.1	3.9
MARIUN *i/*	-	-	2	-	-	-	2.3	1.1	0.0	0.1	0.1
CEPGL *j/*	-	2	5	-	250	-	3.1	0.4	0.0	0.2	0.2
RCD *k/*	36	43	500	119	1163	9.8	5.9	7.9	2.2	1.1	2.7
ASEAN *l/ m/*	839	860	11918	103	1386	66.2	46.4	50.0	21.7	14.7	17.8
Total above	892	966	13481	108	1396	51.3	32.7	40.4	11.9	6.4	11.5

Source: IMF/IBRD, *Direction of Trade*, various issues; United Nations, *Yearbook of International Trade Statistics*, various issues; Inter-American Development Bank, *Economic and Social Progress in Latin America*, various issues.

Note: Unless otherwise stated, the dates indicate the year in which the grouping was established.

a/ Latin American Integration Association, 1981 (formerly Latin American Free Trade Association, 1960).
b/ Andean Group (Cartagena Agreement), 1969.
c/ Central American Common Market, 1960.
d/ Caribbean Community, 1968; Eastern Caribbean Common Market is not included.
e/ Central African Customs and Economic Union, 1964.
f/ West African Economic Community, 1959 (initially West African Customs Union).
g/ Except for ASEAN, since 1977, and MARIUN, since 1976, none of the groupings listed below has extended *mutual* trade preferences.
h/ Economic Community of West African States, 1975.
i/ Mano River Union, 1973.
j/ Economic Community of the Great Lakes Countries, 1976.
k/ Regional Co-operation for Development, 1964.
l/ Association of South-East Asian Nations, 1967.
m/ Figures adjusted to exclude entrepot trade. Figures for exports from Singapore to Malaysia and Thailand are derived from import statistics of these two trading partners.

Table VII

Trends in the trade of developing countries since 1970
(Based on current dollar values)

	1970	1975	1979	1980	1981 1st half	1981 2nd half	1982 1st half	1982 2nd half
Index numbers (1975 =100)								
Exports of the world to developing countries	30.0	100.0	181.0	232.3	245.1	248.8	233.6	226.8
Exports of developing countries to:								
The world:								
Value	26.2	100.0	198.8	266.2	268.0	252.9	226.0	232.9
Volume	82	100	130	123	117	115	108	..
Each other:								
Inter-regional	13.8	100.0	200.0	297.3	323.3	282.5	235.4	294.5
Intra-regional	31.4	100.0	212.8	277.9	304.7	303.7	257.1	334.8
Percentage of exports of developing countries to the world								
Exports of the world to developing countries	105.8	95.8	87.2	83.6	87.6	94.3	99.0	93.3
Total trade among developing countries	20.2	23.4	24.3	25.3	27.5	27.2	25.5	31.7
Percentage of total trade among developing countries								
Exports of developing countries:								
Total intra-trade	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0
Inter-regional trade	30.6	50.1	48.5	51.7	51.5	48.2	47.8	46.8
Intra-regional trade	69.4	49.9	51.5	48.3	48.5	51.8	52.2	53.2

Source: UNCTAD secretariat estimates, based on United Nations, *Monthly Bulletin of Statistics*, June 1983 and earlier issues.

Table VIII

Recent changes in the trade of developing countries by region and economic category

(Percentage change over the preceding period, based on current dollar values)

	1981 1st half	1981 2nd half	1982 1st half	1982 2nd half
All developing countries				
Imports from the world	9.1	2.6	-3.5	-5.0
Exports to the world	0.1	-3.4	-10.6	-7.5
Exports to developing countries	9.2	-6.7	-16.0	27.8
Latin America				
Imports from the world	4.5	0.4	-12.1	-11.0
Exports to the world	0.3	7.3	-12.6	17.9
Imports from developing countries	11.3	-16.1	-22.4	38.9
Exports to developing countries	15.1	-0.7	-44.0	98.8
Exports to own region	12.1	3.5	-46.4	114.2
Africa				
Imports from the world	3.4	13.0	-15.3	-4.7
Exports to the world	-7.0	-28.3	-3.2	16.3
Imports from developing countries	14.3	-5.2	-17.1	15.2
Exports to developing countries	-6.2	-16.0	16.8	-53.4
Exports to own region	15.1	-41.6	74.7	-88.2
Western Asia				
Imports from the world	12.4	2.5	12.0	-4.6
Exports to the world	-1.8	-3.8	-16.2	-9.6
Imports from developing countries	4.7	1.1	-21.9	61.8
Exports to developing countries	18.2	-26.3	-18.9	60.6
Exports to own region	20.8	-23.6	-21.7	125.6
South and South-East Asia				
Imports from the world	13.9	-0.0	-1.1	-0.9
Exports to the world	8.0	3.4	-4.7	2.6
Imports from developing countries	7.5	-1.4	-10.1	13.8
Exports to developing countries	-1.1	19.2	-2.6	-3.5
Exports to own region	2.2	13.1	4.7	-13.3
OPEC members				
Imports from the world	9.2	9.3	2.4	-6.9
Exports to the world	-4.0	-9.8	-15.4	0.8
Least developed countries				
Imports from the world	-9.5	14.3	-10.2	-2.0
Exports to the world	7.0	-6.6	-2.1	7.3
Fast-growing manufactures exporters				
Imports from the world	10.6	-6.3	-6.0	..
Exports to the world	9.3	19.3	-15.8	..
of which: exports of:				
three Latin American countries	10.5	33.2	-29.2	..
three East Asian countries	8.5	8.3	-5.6	3.1

Source: United Nations, *Monthly Bulletin of Statistics*, June 1983 and earlier issues.

Table IX

Selected developing countries:
shares of selected trading partners in total imports, 1955 and 1980 *a/*

(Percentage of current dollar values)

Importing developing country	Belgium-Luxembourg		China		European CMEA		France		Federal Republic of Germany		Italy		Japan	
	1955	1980	1955	1980	1955	1980	1955	1980	1955	1980	1955	1980	1955	1980
Algeria	0.3	7.0	..	0.4	0.1	4.3	76.1	18.3	0.7	18.2	0.7	11.0	0.4	5.1
Argentina	2.0	1.3	..	..	9.8	1.9	5.8	3.9	5.9	11.8	5.6	7.7	6.4	7.0
Brazil	1.9	0.7	0.0	1.1	2.9	1.2	5.5	2.9	6.7	7.0	3.7	1.7	3.5	4.8
Cuba	2.1	0.8	..	2.4	0.2	68.3	0.8	1.0	2.6	1.9	0.8	0.7	0.7	3.8
India	1.6	5.2	0.6	..	22.1	6.0	1.1	3.2	10.1	8.9	1.6	1.7	0.0	7.6
Indonesia	3.1	0.5	1.6	1.8	3.2	0.6	2.0	2.2	9.8	6.3	1.7	0.7	13.7	21.5
Libyan Arab Jamahiriya	1.5	1.3	..	0.6	0.1	6.8	5.6	8.2	3.2	14.3	26.7	26.4	1.3	8.9
Madagascar	0.7	1.6	..	6.7	..	1.5	72.6	34.2	1.6	13.5	0.7	3.1	0.9	4.8
Mexico	0.6	0.8	0.0	0.3	0.0	0.4	1.0	2.6	3.9	5.0	2.1	1.6	0.6	5.1
Mozambique	2.0	1.8	..	..	..	0.9	2.3	2.5	13.9	14.9	1.8	2.8	0.7	5.3
Nigeria	1.4	2.0	..	1.6	1.7	1.9	1.2	7.4	7.2	15.4	2.8	6.7	12.2	10.7
Philippines	1.0	0.6	..	1.9	..	0.6	0.8	2.8	2.1	4.5	0.2	0.8	7.9	22.8
Republic of Korea	0.9	0.8	..	..	..	0.1	0.8	0.9	3.1	2.9	2.3	0.5	5.6	26.2
Sri Lanka	1.8	1.6	5.5	2.5	..	1.2	4.0	3.9	1.8	3.5	2.0	0.7	6.7	12.8
Thailand	1.1	1.0	0.0	3.4	0.2	1.2	1.2	1.7	6.0	5.2	1.0	1.5	18.9	25.8
Zaire *d/*	37.3	19.8	..	1.3	0.2	0.7	4.1	11.9	7.1	10.5	2.5	4.8	1.7	2.9

For source and notes see end of table.

Table IX *(continued)*

Selected developing countries:
shares of selected trading partners in total imports, 1955 and 1980 *a/*
(Percentage of current dollar values)

Importing developing country	Netherlands		Portugal		United Kingdom		United States		Developing countries: Oil exporters *b/*		Developing countries: Others	
	1955	1980	1955	1980	1955	1980	1955	1980	1955	1980	1955	1980
Algeria	0.8	2.4	0.1	..	0.9	3.1	2.7	6.5	..	..	6.9	6.3
Argentina	3.2	1.7	0.6	..	6.5	4.4	13.2	18.6	11.1	5.4	18.3	23.0
Brazil	2.6	1.1	0.3	..	1.4	1.9	23.6	18.5	17.1	36.5	15.0	13.4
Cuba	0.9	0.7	0.1	0.0	2.3	1.4	73.6	..	4.5	0.0	4.2	3.1
India	4.5	2.0	0.0	..	10.9	7.4	22.4	12.0	6.2	15.2	20.9	11.0
Indonesia	11.2	1.1	..	..	5.5	2.4	15.1	13.0	7.4	8.9	16.8	23.2
Libyan Arab Jamahiriya	4.8	1.7	..	..	25.1	6.9	1.7	5.3	..	..	..	8.2
Madagascar	1.4	3.2	..	..	1.7	2.1	4.0	3.7	5.7	13.0	3.2	8.8
Mexico	0.8	0.5	..	..	2.3	2.1	79.3	62.4	0.0	0.2	0.5	4.4
Mozambique	2.2	1.6	28.7	9.6	15.5	7.2	8.5	3.8	2.4	12.0	7.1	8.0
Nigeria	3.5	4.1	..	..	46.7	21.9	4.0	10.6	1.9	..	7.5	8.0
Philippines	1.7	1.6	..	..	2.3	3.2	65.0	22.9	5.6	18.8	6.8	11.7
Republic of Korea	0.2	0.4	..	..	1.7	1.4	22.8*c/*	2.19	0.0	25.0	7.3	9.1
Sri Lanka	1.7	2.3	..	..	21.0	9.5	3.2	4.4	3.1	23.6	29.8	24.8
Thailand	5.9	1.2	..	..	11.4	3.2	19.8	15.7	4.2	16.2	24.8	14.7
Zaire *d/*	3.4	1.7	0.8	1.0	7.2	4.4	18.4	11.6	1.3	0.3	5.0	12.3

Source: *Yearbook of International Trade Statistics, 1959* (United Nations publication, Sales No. 60.XVII.2), and *Ibid., 1980* (Sales No. E/F.81.XVII.13).

a/ Or latest year available.
b/ The OPEC countries plus Brunei and Trinidad and Tobago (and in 1955 the Netherland Antilles).
c/ Excluding aid deliveries.
d/ Including Burundi and Rwanda in 1955.

Table X

Comparison of nominal tariff rates with their ad valorem incidence for selected developing countries

(Percentage of c.i.f. import values)

Country	Year	Unweighted average tariff	Trade-weighted average tariff *a/*	*Ad valorem* incidence of customs receipts collected
Argentina	1977	27.0	19.8 - 24.3	8.2
Brazil	1978	40.3	26.5 - 28.2	8.8
Chile	1978	22.6	18.6 - 20.4	10.1
Colombia	1977	28.0	21.4 - 23.8	12.3
Indonesia	1976	29.4	20.2	7.9
Mexico	1977	22.3	16.8 - 19.2	7.2
Philippines	1976	44.2	23.0	12.7
Thailand	1976	29.4	30.4	12.4
Venezuela	1977	41.9	26.7 - 27.8	4.7
Unweighted arithmetic mean		31.7	22.6 - 24.1	9.4

Source: UNCTAD secretariat estimates.

a/ Preferences granted within trade expansion groupings are taken into account. For the Latin American countries included in this table trade statistics are not available at the level of the tariff line. A range is therefore given, corresponding to the lowest and the highest rates of the tariff heading, the trade weight used consisting of the value of all products falling within the heading.

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