

A PROPOSAL FOR INTERNATIONAL AID

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Introduction

WE are now well into the "development decade."¹ The outlook for the future is most promising but we must not forget that development in many countries is still in its primordial stage. Difficulties ahead may be much more serious and more imminent than wishful thinking allows. Developing countries must expand their exports of manufactures and semi-manufactures in order to overcome their balance-of-payments difficulties, to accelerate a steady economic development and diversification, and thus attain momentum for a self-sustained growth in the coming decade. To facilitate these, some initiative or "big push" should voluntarily be undertaken by the developed countries for mutual benefit and progress. It is to effect the adoption of efficient measures for expanding the trade of developing countries that the United Nations Conference on Trade and Development was held at Geneva during the period March-July 1964.

The present paper attempts to suggest that the most effective initiative—besides necessary measures—international economic aid be increasingly provided for the developing countries during the next ten years in the form of machinery, equipment, chemical fertilizers, and other capital goods for directly productive purposes. Our recommendations are ultimately aimed at improving the efficient use of world resources. Measures should be primarily beneficial to developing countries, and should also be effective in stimulating the growth of developed economies—otherwise proposals would be unacceptable—and would thus foster the prosperity of the world economy as a whole.

The present paper stresses the importance of reshuffling international aid from a humanitarian and infrastructural to a directly productive character. First, that the shuffling of international aid is shown to be needed to break a vicious circle in the world economy and to meet most effectively the urgent requirements for economic development

¹ See UN, *The United Nations Development Decade, Proposals for Action*, New York, 1962 (Sales No. 62. II. B. 2).

in developing countries (Sections I and II). Second, the paper endeavours to stress certain favourable effects of directly productive aid both on developed and developing countries and thus on the expansion of world trade as a whole (Section III). Third, a few problems with respect to implementing this proposed new aid policy are briefly discussed (Section IV).¹

I. THE VICIOUS CIRCLE OF THE WORLD ECONOMY

In order to establish new manufacturing industries successfully in developing countries and to promote exports of their products, two elements are essential. First, foreign capital and know-how has to be provided at the right time and in amounts large enough to set up an efficient infant industry. This is of the utmost importance, for many developing countries have not the means to establish infant industries large enough to be economical and to operate efficiently, mainly because of the balance-of-payments restraints on the importation of capital goods and maintenance materials. Second, market opportunities have to be provided by developed countries for infant export industries created in developing countries. These have been provided occasionally in the past during the great wars, but they should now be created by the voluntarily initiative of the more developed countries.

A "rule of the game" for adjusting the pattern of the international division of labour both in the developing and developed countries for their mutual benefit and development may be needed, as is the case in the adjustment of the balance of payments. Of the utmost importance is the necessity to recognize the following divergent results.

(1) If some initiative is not taken by the developed countries and centrally-planned economies, a *vicious circle* will occur in the world economy. Developing countries are suffering from serious balance-of-payments difficulties owing to the slow growth of primary exports and difficulties in developing exports of manufactured and semi-manufactured goods. Owing to this bottleneck, they cannot import sufficient capital goods and other maintenance materials to produce manufactured goods efficiently and cheaply. Even manufacturing industries which developing countries have established in past decades might be annih-

¹ The present paper aims mainly at finding measures for expanding exports of manufactures and semi-manufactures from developing countries, but the measures proposed will indirectly improve the unfavourable conditions for exporting primary products from developing countries. The present analysis covers developing countries as a whole, but it will be applied to the developing countries in the Pacific area.

lated by the superior power of developed countries.¹ This would be a waste of world resources. The suppression of industrial development in developing countries results in greater balance-of-payments difficulties because of the increasing and unquenchable demand for manufactures.

This, in turn, causes unfavourable repercussions in both developed countries and the world economy as a whole. International trade depends upon the wealth and prosperity of the trading partners. Developing countries offer a large market for the developed countries' commodities, markets even potentially larger than those of the developed countries themselves. The slow economic growth of the developing countries is attributable to this vicious circle, and this is not only a disquieting problem for the developed countries but is also a menace which might bring about a depression.

Owing to the slow growth of the developing economies, the developed countries cannot expand their exports of capital goods and other highly manufactured commodities. This creates unemployment and/or retards the transformation of the developed economies from agriculture and light manufacturing industries to heavy and chemical industries, or, in other words, from comparative disadvantage to comparative advantage industries. This in turn increases the difficulties of opening markets for the manufactured products of the developing countries.

Thus, the mechanism for improving the efficient use of world resources ceases to function because of the two vicious circles, one in the developing countries and a broader one in the developed economies. These vicious circles should be broken.

(2) A favourable situation might possibly be created, however, *if* some initiative was taken voluntarily by the developed countries. There is no possibility of the developing countries taking this initiative. Let

¹ According to our detailed study on recent trends in exports of manufactured and semi-manufactured goods from developing to developed countries, which is based upon trade matrices for 72 commodities for the year 1953-1954 average and 1961, it is shown that developing countries failed in general to diversify export destinations, but rather strengthened concentration. This was brought about by the fact that developed countries in non-dollar areas imported from many developing countries during the dollar shortage period up to 1958 even if products were expensive and of low quality, whereas in recent years they concentrated their imports from the cheapest sources of better quality, for the dollar shortage was overcome and price mechanism now works more effectively than before. This suggests to us that export expansion for developing countries is not an easy matter and improvement in efficiency and quality is of the utmost urgency for them. Otherwise their infant industries might be annihilated by the superior competitive power of developed countries or some of the stronger developing countries.

us suppose exports of capital goods expand on a large scale from developed to developing countries. Heavy and chemical industries in developed countries will expand rapidly and will absorb a great deal of capital and labour from comparative disadvantage industries, such as agriculture and light manufacturing. This creates an opportunity for importing those commodities from developing countries.

Thus an expanding circle of mutual benefit both for developed and developing countries will be established, as will be explained in detail later. The question still remains as to how the initial expansion of exports of capital goods to developing countries will be financed. It will be shown that this can be met by improvements in ways and means of international aid.

II. NEED FOR RESHUFFLING INTERNATIONAL AID

It is strongly recommended that international economic aid should be increasingly provided developing countries by developed economies in the form of machinery, equipment, fertilizer, and other capital goods for directly productive purposes in the coming decade.

A. Urgent requirements for capital goods in developing countries

Developing countries are earnestly and urgently in need of more capital goods than they can obtain from the proceeds of their exports. Table 1 indicates that the total imports of developing countries increased between 1955 and 1961 by 31%, which is lower than the corresponding increase of 45% in the imports of the more developed countries. This slow growth of imports in developing countries is itself a reflection of their balance-of-payments difficulties.

Among the imports of the developing countries during the period between 1955 and 1961, machinery and transport equipment not only increased more rapidly (by 60%) but accounted for the largest amount, i.e., \$8,560 million or 29% of total imports in 1961. Chemicals, the largest item of which is fertilizers, were the second in the rate of increase (45%) but still relatively unimportant (\$2,370 million or 8% of total imports in 1961). Other manufactured goods, which consist mainly of textiles and other labour-intensive consumer goods, are the second largest import item (\$3,170 million or 28% of total imports in 1961) but increased slowly (by 20%) during the period under review. This should be compared with the very rapid increase in imports of machinery, transport equipment, and chemicals.

This contrast indicates, first, that machinery and other capital goods (including fertilizers) are urgently needed in developing countries, and second, that imports of light manufactures diminished at the expense of increased imports of capital goods within the limit of available foreign exchange, and were partly substituted by increasing domestic production.

Attention should also be directed to the fact that imports of food increased relatively rapidly (by 31%) and accounted for a percentage as large as 16% of total imports (\$4,640 million) in 1961. This happened in spite of the fact that almost all the developing countries still have a comparative advantage in agriculture. This has been brought about by rapid increases in population; growth, though slow, of per capita income; and progress of industrialization; and it suggests the importance of improving agricultural production by each country or by regional co-operation in order to save foreign exchange.

Viewing in detail the developing countries' imports of machinery and transport equipment, as shown in Table 2, three outstanding trends may be stressed.

First, in the developing countries as a whole industrial heavy machinery, which is the sub-total of power-generating (except electric) machinery, metal-working machinery and mining, construction and other industrial machinery, increased rapidly (by 78%) between 1955 and 1961 and reached about \$2,500 million, which accounts for 41% of total imports of machinery and transport equipment as set out in Table 2. This indicates that developing countries are heavily engaged on construction works and in establishing and developing new manufacturing and mining industries.

Second, large items other than industrial heavy machinery are (a) electric machinery, apparatus and appliances and (b) road motor vehicles, the total of which amounts to \$2,466 million, or approximately the same as industrial heavy machinery. The rate of increase in developing countries as a whole (i.e., 55%) is not as rapid as in industrial heavy machinery, but in some areas it is greater than the average. It therefore becomes an important and pressing target for some relatively advanced developing countries to substitute domestic production for these imports of machinery, since this contributes to saving a great deal of foreign exchange.

Third, area-wise, Southeast Asia, Latin America, and the Middle East increased more rapidly than Africa not only their imports of industrial heavy machinery but also those of machinery and transport

equipment as a whole.¹ This may be a reflection of the difference in the stage of industrialization.

All the evidence clearly indicates that what has been and will be most needed for developing countries is capital goods for directly productive purposes. Owing to balance-of-payments difficulties, developing countries were not able to import sufficient capital goods to expedite industrialization as rapidly as they hoped for and planned, although they persistently endeavoured to acquire capital goods by relinquishing imports of consumer goods. In many developing countries, not only light manufactures of consumer goods and equipment for the infrastructure but also capital goods for directly productive purposes are required more urgently and in increasing amounts. Future years should bring clear evidence of the rapid industrialization of developing countries, which should be fully supported by the developed economies.

B. Humanitarian and infrastructural aid versus directly productive aid

How far and how effectively have economic development, industrialization and diversification of industries in developing countries been assisted by the developed and centrally-planned economies in the past decade? To analyse this, international economic aid in the broad sense may be reclassified into three categories.

Type A, *humanitarian aid*, i. e., aid given from humanitarian or philanthropic motives. Aid by means of food, medicines, second-hand clothing, etc., belong in this category.

Type B, aid for building the economic infrastructure and social overhead capital, or briefly, *infrastructural aid*. This consists of (a) public investments, such as roads, harbours, electricity undertakings, city construction, etc., and (b) education and technical training.

Type C, *directly productive aid* or aid with machinery, equipment, fertilizers, and other capital goods for directly productive purposes.

It is difficult to reclassify economic aid along these lines, and it is

¹ More detailed studies for each area which show the transference of imports from consumer goods toward capital goods are found in: UN, *Economic Survey of Latin America 1956*, New York, 1957, pp. 127-150; UN, *Economic Survey of Asia and the Far East 1962*, Bangkok, 1963, pp. 86-88; UN, Economic Commission for Africa, *Industrial Growth in Africa, A Survey and Outlook*, December, 1962, pp. 36-38 and pp. 131-143 (E/CN. 14/INR/1).

unfortunate that little time remains to carry this out.¹ According to an OECD report,² the total flow of financial resources to developing countries from all OECD countries and Japan amounted approximately to \$8,000 million in 1960 and \$9,300 million in 1961, as shown in Table 3.³ According to Table 3, in 1961 \$6,125 million is from official sources and \$3,175 million, or a third of the total, is private capital. The majority of private capital is directly productive aid. Almost all the official aid probably is either humanitarian aid or infrastructural aid, although a small portion—say, less than one-tenth—is directly productive aid. If such an approximate evaluation is not far from the truth, outright grants for directly productive purposes have so far been very limited,⁴ and directly productive aid has been provided mainly by private capital, which may not be correctly classified as aid within its original meaning.

Commitments of economic assistance to the developing countries by the centrally-planned economies⁵ approximate \$1,000 million a year since 1959, representing a substantial expansion since the mid-1950's. Data on disbursements are unavailable. The majority of assistance has been in the form of low-interest credits for periods of eight to twelve years, covering shipments of equipment and materials required for specific investment projects. This means that although the sum total of aid by centrally-planned economies is relatively small, it has been mainly directed to productive purposes.

Almost all developing countries, although varying from one country to another, have already passed the period of serious food shortages occurring immediately after the war, and are now able to overcome their food problems by their own efforts.

Take the example of Southeast Asia—the increase in the population and in consumption per capita will double the demand for rice during the next twenty years. The manner in which it should be procured, however, is a serious problem. Imports of staple foods in

¹ This should be done in the United Nations, although it needs time-consuming efforts.

² Organization for Economic Co-operation and Development, *The Flow of Financial Resources to Developing Countries in 1961*, Paris, 1963.

³ Compare this with UN estimate which is shown in *International Flow of Long-Term Capital and Official Donations 1959-61*, UN, 1963, Table 3, p. 10 (Sales No. 63. II. D. 2).

⁴ It is undeniable that such humanitarian aid as under the Food for Peace Programme (Public Law 480) contributes indirectly to productive purposes by using counterpart funds. Between this and directly productive grants, there still exist differences in efficiency of fund and difficulties of foreign exchange.

⁵ See UN, *World Economic Survey 1962*, Part I, p. 112.

Asian countries become increasingly burdensome and lead to serious balance-of-payments pressure, especially in India, Pakistan, Indonesia, Mainland China, and to some extent in the Republic of Korea. It is an unusual dilemma of Asia that agricultural countries have to import large amounts of staple foods. If Asian countries are to depend upon foreign aid for food, then aid must be continued in ever-increasing amounts corresponding to the growth of population.

Asian countries will have to develop their own productive power in foodstuffs. If they can save on imports of foodstuffs, they can increase the imports of machines, equipment, and other capital goods for industrialization. If the productivity of rice-farming is raised, the productivity of other primary exports will also be improved, and thus the per capita earnings will rise. If the productivity of rice production increases, then some surplus labour and capital are subsequently created, and these can be transferred to industrial sectors. The increase in the per capita income of the vast agricultural population, even if it is a low rate per capita, creates large demands for manufactured goods—one of the most important elements for successful industrialization. Sufficient food will also enhance the people's will to work and to improve their way of life.

In Southeast Asia, the increasing demand for rice should be met by the improvement of agricultural productivity through fertilization and irrigation. The yield of rice per hectare in Japan is equal to four tons or more, while in Korea and China (Taiwan) it is approximately three tons, and in other areas the yield is as low as one ton. The ranking of productivity is obviously correlated to the quantity of fertilizers used, and the low productivity is mainly due to their lack. Doubling the rice yield in twenty years is possible if chemical fertilizers are used.¹ Provision of chemical fertilizers and/or establishment of a fertilizer industry should be aided by international grants. This would reduce the cost of aid to less than one-tenth of the comparative cost in terms of food.

Comparatively speaking, food problems in other developing countries may not be as serious as in Southeast Asia, but the above reasoning would still apply.

In this connection, the food aid under United States Public Law 480 (the Food for Peace Program) should be considered. Food aid may play an important role in famine relief and as buffer stocks against

¹ This point is clearly illustrated in FAO, "Preliminary Report of the Survey of the Fertilizer Economy of the Asia and Far East Region," Rome, 1960.

changes in supply, but not beyond that, and cannot be a fundamental solution for the economic development of developing countries.¹ Food aid discourages the urgent drive needed to improve food production in developing countries themselves. Foods can be produced at lower comparative costs than manufactures in developing countries. Through regional co-operation, developing countries could produce enough food to dispense with imports. U. S. surplus disposal, on the other hand, has retarded the needed reallocation of resources in donor countries from agriculture towards more profitable industries.

Infrastructure in many developing countries has been fairly well developed in relation to their very low stage of industrialization, although it is insufficient in terms of advanced Western nations' standards. In many instances it is better developed than in Japan. Infrastructure and directly productive activity should develop simultaneously, or more probably in a seesaw manner. The next decade is the time in which developing countries should concentrate on expanding directly productive activities and utilizing infrastructure already available. In ten years' time the situation may change and infrastructure may become insufficient again. But if industrialization in the next decade is successful, the developing countries could then overcome the shortage by their own efforts.

The foregoing argument suggests that in the coming decade, international economic aid should be increasingly provided for the developing countries from developed economies as outright grants, in the form of machinery, equipment, fertilizers, and other capital goods for directly productive purposes. Since it is undeniable that both humanitarian and infrastructural aid make an important contribution to economic development, it is more desirable that directly productive aid should be increasingly provided as a net addition to previous aid. If this is difficult, however, international economic aid should transfer its emphasis from humanitarian and infrastructure aid towards directly productive purposes for the coming ten years.

¹ This is pointed out clearly by J. G. Crawford, "Using Surpluses for Economic Development," XI International Conference of Agricultural Economists, August 21-30, 1961. *Ditto*, "World Agriculture: Some Coming Issues in Trade and Development Policies," U.S. Department of Agriculture World Food Forum, Washington, May 15-17, 1962. The following should also be referred to: FAO, *Development Through Food*, Rome, 1962, and OECD, *Food Aid, its Role in Economic Development*, Paris, 1963.

III. EFFECTS OF DIRECTLY PRODUCTIVE AID ON DEVELOPED AND DEVELOPING ECONOMIES

It can be expected that an increase in directly productive aid will bring about several beneficial effects not only in the developing countries but also in the donor countries. These effects will contribute to the rapid expansion and prosperity of the world economy as a whole.

A. Expansion and structural adjustment in developed economies

First, the effects on the advanced donor countries may be analysed. Suppose an outright grant of \$2,500 million is provided developing countries for the purpose of importing machinery, equipment, fertilizers, and other capital goods. This would certainly stimulate advanced countries to expand heavy and chemical industries, and many additional indirect effects could be anticipated.

Private capital investment in developing countries should also increase, if the key portion of new manufacturing industries, which needs such large investments and is often so risky that private capital hesitates to venture, is provided with international grants. Private capital would assist in establishing a series of ancillary or interrelated industries. For example, a big cotton spinning mill could be established by international grants; then the weaving and clothing industries might be supplemented by foreign private as well as local capital. The mill would produce yarn cheaply, owing to low capital cost, and therefore ancillary and interrelated industries would be profitable. This could be applicable to steel mills and their related industries and to some chemical industries.

Increased private capital investment in developing countries would give further impetus to the expansion of heavy industries in advanced countries. It would reinforce the stimulus given by direct productive grants. Moreover, the expansion of the heavy and chemical industries would have multiplied income effects on light manufactures and agricultural and mining products. The total effect upon the expansion of heavy and chemical industries in advanced countries could be fairly large, say 10% of the present capacity.

A 10% expansion of heavy and chemical industries in advanced countries could be a stimulus large enough to reallocate resources in such a way as to expedite a rapid transfer of labour and capital from agriculture and light manufactures of a labour-intensive type to heavy and chemical industries, or, in other words, from comparatively disad-

vantageous to advantageous industries. Were the stimulus large enough, it would facilitate technical progress, the realization of larger scale production, and a further reduction of costs.

Since Western Europe and Japan have so far attained full employment and even overfull employment in some countries, although unemployment is prevalent in the United States, the 10% expansion in heavy and chemical industries, by stimulating the abolition of protection, might create sufficient economic space to increase imports of light manufactures of a labour-intensive type and certain kinds of agricultural products which developing countries are able to produce efficiently. Advanced countries then buy these at cheaper prices from abroad.

Even now, advanced countries have had to expand their heavy and chemical industries, for the rapid growth of international trade is one of the signs of essential expansion. Capital goods are in relatively short supply if we take into account the immense unsatisfied demand in developing countries. Why have the advanced countries hesitated to expand still further? They have feared over-production and keen competition. Moreover, they were not willing to take risks in selling enough capital goods to the developing countries because of their balance-of-payments difficulties, the uncertainty of returns, or the possibility of nationalization of their investments.

While hesitating to expand heavy and chemical industries, and keeping labour inefficiently employed in labour-intensive consumer goods industries and agriculture, they hoped to dispose of their surpluses in the name of aid. Thus their prospects of economic growth are more dismal than bright, and stagnation is feared. This policy is not the right one. Aid should be given to receiving countries in the form of what they need most. The change in aid from humanitarian and infrastructural to directly productive investment will create an unharzardous and profitable market for capital goods and will provide impetus for the rapid expansion of the world economy. Surely the present proposal would generate higher rates of growth for advanced countries.

B. Beneficial effects on developing economies

Developing countries should also benefit from a revised foreign aid policy. First and most important, provision of directly productive capital goods in more adequate amounts will remove the most important existing restraint on their growth. Moreover, reallocation of resources in the advanced countries to heavy industry will provide a market for the agriculture and the labour-intensive industries of the developing

countries.

If both the needed capital goods and markets are provided, the expansion of export-oriented manufacturing industries in developing countries will be assuredly successful, although there are many additional difficulties to be encountered, such as lack of technical skill, management and organization, the smallness of domestic markets, high costs in the early stages, etc., which should be and can be overcome through additional measures. This may be proved by past experience in such successfully industrialized countries as Japan, India, Hong Kong, Israel, Brazil, Mexico, etc.

It has been said somewhere that in developing countries import-substitution manufactures should be expanded first, and predominantly. In order to facilitate this, however, they need export-oriented manufactures to earn foreign exchange for importing capital goods. This is more urgent since the prospect of earning foreign exchange through exports of primary goods is not too promising. Now is the time when successful development of export-oriented manufacturing industries in developing countries is a most urgent task, in addition to the stabilization of the export earnings of primary goods.

Recommendations of this paper suggest that developing countries would do better in the coming ten years to strive to expand horizontal trade with developed countries mainly in the field of light manufactures, and with neighbouring developing countries in the field of a limited number of key heavy and chemical goods. This might be thought to be too modest, but it is a realistic and efficient programme of economic development for developing countries. More than that, if the efforts of developing countries during the next decade are successful, their prospects in the world economy will become very favourable.

Today, faced with declining terms of trade for primary products, and with the potential demand for manufactured goods in excess of capacity, developing countries are pushing industrialization. But this creates a strong demand for capital goods and aggravates their balance-of-payments problem. At the same time, rapid technological progress and economic growth in the developed economies have added largely to the demand for capital goods and thus to the supply shortage.

Were the recommendations presented here adopted, the situation could change greatly within ten years. Accelerated industrialization in the developing countries, together with further growth and specialization in the advanced economies, could so increase the demand for primary products as to reverse the present unfavourable situation.

Primary products might even become in short supply, and to function again as an "engine of growth" for the developing economies. Such a happy outcome would, of course, require not only further industrialization in the developing countries, but also greater diversification of their exports, including some expansion into the category of manufactured goods.

With the present supply situation with respect to primary products and capital goods reversed, and with light manufactures possibly in short supply, the income elasticity of demand could change substantially. This would tend to stabilize trade relations based on an exchange of light manufactures and agricultural products for heavy manufactures and chemicals.

C. As an anticyclical measure

Directly productive aid can also be used effectively as an anticyclical measure. A recession in the advanced countries reduces the demand for primary products and checks foreign investment. Developing countries experience balance-of-payments difficulties and cannot acquire the capital goods imports necessary to support their economic development. Expansion of aid above the normal amounts at such times would coincide with the cyclical needs of both the developed and the developing economies.

During boom periods, when the exports of the developing countries are high, a reduction of aid would be appropriate, and would serve as well to restrain excess demand and inflation in the developed countries.

D. A numerical illustration

A numerical illustration can make the above proposal more concrete.¹ Let us suppose directly productive outright grants are provided in the annual amount of \$2,500 million for the coming ten years. (This could increase gradually from, say, \$1,000 million.) Suppose private capital investment from advanced countries reaches \$5,000 million (this was \$3,200 million in 1961). The total financial resources from advanced countries are \$7,500 million,² which directly creates a new demand for heavy and chemical industries in advanced countries. Suppose the capital-output ratio in those heavy and chemical industries is 1 and an

¹ This should be done more carefully and accurately if time allows.

² This makes it possible for developing countries to approximately double the imports of machinery and transport equipment, which amounted to \$3,560 million in 1961.

additional demand is created through "acceleration effect" by the amount of \$7,500 million.¹ Thus, the total of demand for heavy and chemical goods amounts to \$15,000 million.

Suppose further the multiplier coefficient in advanced countries² is 4. The \$15,000 million creates national income in the amount of \$60,000 million, which is approximately 9% of the present national income in advanced countries as a whole. This increase in national income creates a further additional demand for heavy and chemical goods, say one-sixth of the incremental national income or \$10,000 million. The total of demand for those goods will be \$25,000 million, which means approximately 10% of the present production of heavy and chemical industries in advanced countries.

The increase in national income induces the expansion of imports of light manufactures of labour-intensive type and certain kinds of agricultural products in advanced countries, even if the production of those sectors remains unchanged. If labour and capital move from those comparatively disadvantageous sectors to heavy and chemical industries, then the space for importing those commodities is enlarged. It is not unreasonable to suppose that the exports of manufactures in which developing countries have an actual and/or potential comparative advantage will increase at more than 9% per year, or more than the national income grows.

Exports of manufactures (including processed metals) from developing countries amounted to \$4,000 million in 1961 (see Table 4), of which \$2,700 million³ were directed to developed and centrally-planned economies. New international grants and private capital are assumed to be provided to the amount of \$7,500 million. Investment of local capital, too, will certainly be stimulated, say to the amount of \$5,000 million. Thus the new financial resources amount to \$12,500 million available for establishing and expanding export-oriented manufacturing industries in developing countries.

Suppose the capital-output ratio is 1, as these industries are mainly labour-intensive type, though the capital-output ratio is generally higher in developing than in developed countries. Therefore, the \$12,500 million investment produces manufactures at the same amount, a tenth⁴

¹ If there exists excess capacity, the acceleration effect may be small in the beginning and will increase with time.

² In the case of the disposal of surplus agricultural products, the multiplier income effect may not be as anticipated, or may be very limited.

³ If base metals are excluded, this amounts to \$1,500 million.

⁴ This ratio of export for production will increase yearly according to the progress of

of which is supposed to be exported. This creates new manufactured exports of \$1,250 million annually or \$12,500 million in ten years' time. This means that in 1970 manufactured exports amounting to \$4,000 million would increase to \$16,250 million¹ or to 4 times, an annual compound rate of increase of 16%.

If the proportion of manufactured exports between advanced and developing countries remains unchanged, this requires that advanced countries should increase manufactured imports from developing countries at an annual rate of 16%, reaching \$10,800 million.² This would amount to 20% of the total manufactured imports of advanced countries in 1961 (i.e., \$51,100 million), or approximately 10% in 1970.

These are merely examples, but they serve to illustrate that the proposal would have beneficial effects on economic expansion and efficiency, both for developing and advanced countries.

E. Nucleus of our proposal

To sum up, our proposal for reorienting international economic aid towards the provision of directly productive capital goods would have three distinct advantages. (1) It would provide the developing countries with the means needed for their further industrialization, especially in the direction of export-oriented light manufactures. (2) In the advanced countries, it would lead to a reallocation of resources towards heavy and chemical industries, which possess a comparative advantage there. (3) The industrial expansion stimulated, in the advanced countries, by the release of demand for capital goods in the developing nations, would provide the markets needed for the growing export industries of the latter. Altogether, the international division of labour would move towards an optimum.

Although the crucial element in the proposal is the redirection of aid, many supplementary measures would still be needed. These would include provisions for retraining and transferring labour in the advanced

satisfaction in domestic demand.

¹ The balance-of-payments of developing countries in 1970 may also be projected. According to estimates made by the UN (*World Economic Survey*, Part I, 1962, p. 8), the magnitude of the hypothetical balance to be covered by policy measures would amount to \$11,000 million in 1970, which is required to support the target of 5% annual increase in gross domestic product of the developing countries at the end of the United Nations Developing Decade. These deficits will be met if manufactured exports of developing countries are successfully expanded according to our estimates.

² Since this includes base metals, imports which are competitive with advanced countries' production may be less than 70% of the \$10,800 million.

economies and for overcoming the shortage of competent management and skilled labour in the developing countries.

IV. PROBLEMS IN IMPLEMENTING DIRECTLY PRODUCTIVE AID

How to implement the proposal is another problem. Both financing and disbursement should be placed on a multilateral, international basis. The necessary funds might be raised through the agency of some international organization such as the OECD (Organization for Economic Co-operation and Development), while their allocation could be entrusted to another international body, the IBRD (International Bank for Reconstruction and Development) and its affiliates. The latter could also supervise procurement, render supplementary help, and scrutinize end uses.¹

To what promising directly productive activities in each developing country should international grants be provided? This is a distinct and vital problem. In view of the urgency in the next decade of increasing export earnings and improving agricultural productivity, international grants for directly productive purposes should be allocated according to the following priorities.

First, light manufacturing industries and industries processing agricultural products in which developing countries can attain a comparative advantage, and for which advanced countries will be able to create a great deal of import space. An increased supply of these commodities is urgently needed in the markets of developing countries in order to counter inflation and to raise the standard of living of the people.

Second, chemical fertilizers and/or construction of a fertilizer industry in developing countries. This is urgently needed for improving the productivity of agriculture, with its multiple favourable effects on economic development. This will contribute not only to saving foreign exchange but also to increasing exports of primary products. There still remains much room for expansion of primary exports from developing countries if they can reduce costs and improve quality. The rise in the purchasing power of vast numbers of farmers is also one of the fundamental conditions for successful industrialization.

¹ Repayments of interest and other charges on existing loans have become a great burden on the balances-of-payments of developing countries. Many private export credits are long-term, often more than ten years. This may be hazardous in view of changeable political and economic situations in the developing countries. Such credits would better be replaced by outright grants.

Third, in some developing countries which are relatively advanced industrially, development of a steel industry should be encouraged, for the steel industry is the key to further industrialization. Moreover, iron and steel will be one of the largest export items from certain developing countries in the near future.

Fourth, keen enthusiasm is rising in developing countries to produce consumer-durable goods and petrochemicals. Increasing demands for these have been generated by a limited number of the wealthier class. These industries should be developed primarily by the efforts of developing countries through regional economic co-operation. If these industries are really profitable, they can be developed by private capital. This consideration is also applicable to the development of base metals and their processed products, which will be encouraged by private capital and will not require international grants.

In summation, the primary aim of directly productive grants is to create momentum for automatic and cumulative development of developing countries which will make further aid unnecessary after ten years.

V. CONCLUSION

The time has come for a reallocation of productive resources among the advanced and the underdeveloped countries. Advanced countries with high wage levels should cease employing their labour inefficiently in labour-intensive industries and in agriculture, for this hinders both their growth and that of the underdeveloped countries. By redirecting international aid from humanitarian and infrastructural uses to the provision of capital goods, the developing countries could obtain what they really need for their development, while the stimulus thus given to capital goods industries in the advanced countries would create space for the importation of light manufactures and agricultural products from the developing countries. Thus a reallocation of aid would increase the momentum towards growth in both types of economies and also effect a more sensible allocation of world resources.

Table 1. IMPORTS OF DEVELOPING COUNTRIES

(million US\$, fob)

	1955	1956	1957	1958	1959	1960	1961
1. World total imports	92,770	102,700	111,480	107,510	114,940	127,400	133,040
(a)	100.0	110.7	120.2	115.9	123.9	137.3	143.4
2. Imports of developed countries	58,840	65,320	69,900	66,500	72,440	81,340	85,480
(a)	100.0	111.0	118.8	113.0	123.1	138.2	145.3
3. Total imports of developing countries (SITC 0-9)	22,400	24,720	27,870	26,450	26,040	28,440	29,360
(a)	100.0	110.4	124.4	118.1	116.3	127.0	131.1
(b)	100.0	100.0	100.0	100.0	100.0	100.0	100.0
4. Food, beverages, and tobacco (SITC 0 & 1)	3,550	3,930	4,380	4,330	4,280	4,660	4,640
(a)	100.0	110.7	123.4	122.0	120.6	131.3	130.7
(b)	15.8	15.9	15.7	16.4	16.4	16.4	15.8
5. Crude materials, excl. fuels; and oils and fats (SITC 2 & 4)	1,870	1,820	1,910	1,640	1,860	2,140	2,080
(a)	100.0	97.3	102.1	87.7	99.5	114.4	111.2
(b)	8.3	7.4	6.9	6.2	7.1	7.5	7.1
6. Mineral fuels and related materials (SITC 3)	2,730	2,940	3,140	3,020	2,870	2,910	3,010
(a)	100.0	107.7	115.0	110.6	105.1	106.6	110.3
(b)	12.2	11.9	11.3	11.4	11.0	10.2	10.3
7. Chemicals (SITC 5)	1,630	1,740	2,000	1,920	2,010	2,200	2,370
(a)	100.0	106.7	122.7	117.8	123.3	135.0	145.4
(b)	7.3	7.0	7.2	7.3	7.7	7.7	8.1
8. Machinery and transport equipment (SITC 7)	5,360	6,380	7,620	7,570	7,350	8,030	8,560
(a)	100.0	119.0	142.2	141.2	137.1	149.8	159.7
(b)	23.9	25.8	27.3	28.6	28.2	28.2	29.2
9. Other manufactured goods (SITC 6 & 8)	6,790	7,470	8,300	7,500	7,210	8,070	8,170
(a)	100.0	110.0	122.2	110.5	106.2	118.9	120.3
(b)	30.3	30.2	29.8	28.4	27.7	28.4	27.8

Source: 1955 and 1956: UN, *Monthly Bulletin of Statistics*, March, 1961.
1957-1961: *Idem*, March, 1963.

There is a small gap in figures between the two issues.

Notes: (a) Index of increase, 1955=100.
(b) Percentage share in the total imports.

Table 2. DEVELOPING COUNTRIES' IMPORTS OF MACHINERY AND TRANSPORT EQUIPMENT IN 1961 AND THE RATE OF GROWTH BETWEEN 1955 AND 1961

SITC Code No.	Commodity Group	Total ^(c) of the developing countries' imports ^(b)		Southeast Asia ⁽²⁾		Latin ⁽³⁾ America		Middle East ⁽⁴⁾		Africa ⁽⁵⁾	
		(a) In 1961 (million US\$)	(b) Rate of growth between 1955-1961 (%)	(a)	(b)	(a)	(b)	(a)	(b)	(a)	(b)
Section	Machinery and transport equipment	5,998	55	1,647	65	2,745	59	798	71	646	19
711	Power generating (except electric) machinery	433	83	134	85	182	105	63	88	42	26
712	Agricultural machinery and implements	246	-13	48	83	144	-8	28	38	24	-28
714	Office machinery	122	133	22	99	81	161	9	142	8	29
715	Metal working machinery	260	151	57	96	181	205	13	86	6	9
716	Mining construction and other industrial machinery	1,783	69	520	84	828	61	237	98	159	46
721	Electric machinery, apparatus and appliances	1,085	55	289	46	477	74	152	64	133	21
731	Railway vehicles	223	5	51	-49	103	67	43	173	18	-31
732	Road motor vehicles	1,381	55	315	89	648	55	162	29	205	17
733	Road vehicles other than motor vehicles	46	-39	15	-51	8	-21	6	-25	16	-33
734	Aircraft	165	93	48	109	51	50	44	94	22	173
735	Ships and boats	255	58	150	155	42	-42	43	136	15	24
Sub-total of 711, 715, 716	Industrial heavy machinery	2,476	78	712	85	1,191	79	313	96	207	40

Sources: UN, *Commodity Trade Statistic*.

- Notes:
1. Includes the following 37 developing countries: Burma, Ceylon, India, Pakistan, Malaya, Singapore, Hongkong, Indonesia, Philippines, Thailand, South Korea, China (Taiwan), Argentina, Brazil, Chile, Colombia, Costa Rica, Guatemala, Mexico, Panama, Peru, Uruguay, Venezuela (Panama's imports of ships are excluded).
 2. Southeast Asia, 12 countries: Israel, Iran, Iraq, Saudi-Arabia, Lebanon, Egypt, Sudan, Ghana, Nigeria, Rhodesia, Congo, Algeria, Morocco, Tunisia.
 3. Latin America, 11 countries: USA, Canada, Japan, Belgium-Luxemburg, Netherlands, France, Germany (R.F.), Italy, United Kingdom, Denmark, Norway, Austria, Sweden.
 4. Middle East, 7 countries:
 5. Africa, 7 countries:
 6. Developing countries' imports are calculated from the exports statistics of the following developed countries:

Table 3. THE FLOW OF FINANCIAL RESOURCES TO DEVELOPING COUNTRIES

—Disbursements 1960, 1961.—

	(millions US\$)	
	1960	1961
A. <u>Total official and private, net</u> (B+C)	7,942.9	9,300.0
B. <u>Total official, net</u> (I-VI)	4,933.9	6,124.8
Total official bilateral, net (I-V)	4,269.6	5,269.6
I. Grants	2,503.7	2,769.9
of which reparations, etc.	133.1	159.4
II. Loans repayable in recipients' currency, net	217.0	277.0
III. Transfer of resources through sales for recipients' currencies (net of resources realised by donor country by use of these currencies)	901.0	895.2
IV. Loans, net	638.5	1,346.6
1. Total loans extended	999.3	2,030.5
(a) Loans for 20 years or more	214.5	710.0
(b) Loans for more than 10, up to less than 20 years	412.1	576.3
(c) Loans for more than 5, up to 10 years	272.1	509.1
(d) Loans for more than 1, up to 5 years	100.8	235.1
2. Amortization received	-360.9	-683.9
V. Consolidation credits with maturities up to 5 years, net	9.4	-19.3
(a) Loans extended	72.8	12.6
(b) Amortization received	-63.4	-31.9
VI. Contributions to multilateral agencies, net	664.3	855.2
(a) Grants and capital subscription payments	598.0	624.3
(b) Purchases of bonds with maturities of more than 1 year	66.3	230.9
C. <u>Flow of private capital, net</u>	3,009.0	3,175.2
I. Direct investment and other new lending	2,341.6	2,624.6
1. Direct investment (including reinvested earnings)	1,875.2	2,156.5
2. Other private capital and portfolio investment	466.4	468.1
II. Contributions to multilateral agencies	205.0	108.0
III. Guaranteed private export credits	462.4	442.6
(a) Credits for more than 5 years	93.0	199.3
(b) Credits for more than 1 up to 5 years	369.4	251.3

Source: Organization for Economic Co-operation and Development, *The Flow of Financial Resources to Developing Countries in 1961*, Paris, 1963, pp. 53-53.

Table 4. EXPORTS FROM DEVELOPING COUNTRIES

	(million US\$, fob)						
	1955	1956	1957	1958	1959	1960	1961
1. World total exports	92,770	102,700	111,480	107,510	114,940	127,400	133,040
(a)	100.0	110.7	120.2	115.9	123.9	137.3	143.4
2. Exports from developed countries	59,660	67,640	74,730	70,670	74,990	85,040	89,800
(a)	100.0	113.4	125.3	118.5	125.7	142.5	150.5
3. Total exports from developing countries (SITC 0-9)	23,670	24,860	25,440	24,760	25,750	27,350	27,600
(a)	100.0	105.0	107.5	104.6	108.8	115.5	116.6
(b)	100.0	100.0	100.0	100.0	100.0	100.0	100.0
4. Total of primary goods (SITC 0, 1, 2, 3, 4)	20,540	21,440	22,140	21,830	22,370	23,350	23,470
(a)	100.0	104.4	107.8	106.3	108.9	113.7	114.3
(b)	86.7	86.3	87.0	88.2	86.9	85.4	85.0
5. Food, beverages, and tobacco (SITC 0 & 1)	7,680	8,000	8,250	8,160	7,830	8,070	8,010
(a)	100.0	104.2	107.4	106.3	102.0	105.1	104.3
(b)	32.4	32.2	32.4	33.0	30.4	29.5	29.0
6. Crude materials, excl. fuels: and oils & fats (SITC 2 and 4)	6,960	7,010	6,890	6,240	7,180	7,630	7,360
(a)	100.0	100.7	99.0	90.0	103.2	109.6	105.7
(b)	29.4	28.2	27.1	25.2	27.9	27.9	26.7
7. Mineral fuels and related materials (SITC 3)	5,900	6,430	7,000	7,430	7,360	7,650	8,100
(a)	100.0	109.0	118.6	125.9	124.7	229.7	137.3
(b)	24.9	25.9	27.5	30.0	28.6	28.0	29.3
8. Total of manufactured goods (SITC 5, 6, 7, 8)	3,030	3,290	3,155	2,780	3,235	3,840	3,975
(a)	100.0	108.6	104.1	91.7	106.8	126.7	131.2
(b)	12.8	13.1	12.4	11.2	12.6	14.1	14.4
9. Chemicals (SITC 5)	240	235	240	230	230	290	320
(a)	100.0	97.9	100.0	95.8	95.8	120.8	133.3
(b)	1.0	0.9	0.9	0.9	0.9	1.1	1.2
10. Machinery and transport equipment (SITC 7)	120	135	145	150	155	190	225
(a)	100.0	112.5	120.8	125.0	129.2	158.3	187.5
(b)	0.5	0.5	0.6	0.6	0.6	0.7	0.8
11. Base metals* (SITC 67, 68 less 681)	1,220	1,420	1,160	890	1,170	1,350	1,360
(a)	100.0	116.4	95.1	73.0	95.9	110.7	111.5
(b)	5.2	5.7	4.6	3.6	4.5	4.9	4.9
12. Light manufactures**	1,450	1,500	1,610	1,510	1,680	2,010	2,070
(a)	100.0	103.4	111.0	104.1	115.9	138.6	142.8
(b)	6.1	6.0	6.3	6.1	6.5	7.3	7.5
13. Textiles (SITC 65)	660	690	770	710	790	890	930
(a)	100.0	104.5	116.7	107.6	119.7	134.8	140.9
(b)	2.8	2.8	3.0	2.9	3.1	3.3	3.4

(a) Index of increase, 1955=100

(b) Percentage share in the total exports from developing countries

Source: 1955 and 1956, UN, *Monthly Bulletin of Statistics*, March, 1961.1957-1961: *Ditto*, March, 1963.

There is a small gap in figures between the two issues.

* *Ditto*, April, 1961 and April, 1963.

** Other manufacture goods (SITC 6 and 8) less base metals.