

Economic Development in the Third World and International Economic Cooperation*

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Looking out over the international situation today, the horizon is a mix of dark clouds and brighter prospects. Among the darkest clouds is the global economy, especially the recession in the advanced industrial countries. The United States alone now has 10 million unemployed, and the European Community another 12 million. This recession in the industrialized countries has heightened economic friction and strengthened protectionist trade tendencies in these countries. At the same time, the global recession has resulted in lower prices for many commodities exported by the developing countries and has thus been a major blow to those countries which rely heavily upon exports of primary commodities. Even the OPEC nations have been thrust from a position of foreign capital surplus to one of shortfall by the reduced demand and lower prices for their oil. The countries of Eastern Europe and many developing countries have been forced to curtail their imports sharply in the face of burgeoning debts and high interest rates. As a result of this global recession, world trade volume, both in 1981 and in 1982, has shown a decline from the year before. Some countries are having difficulty repaying their external debts, and this is raising questions about the viability of international finance mechanisms. These are all very pressing, very disconcerting problems.

In the longer term, it should also be noted that little progress has been made in narrowing the gap between the affluent North and the impoverished South, and that poverty and starvation are widespread in the least developed countries. According to one FAO study,¹ there are 450 million people worldwide who are deprived of the minimum nutritional levels necessary for sustenance. In a ghastly contrast, \$600 billion is spent every year on armaments and the military, and the threat of nuclear war continues to haunt mankind's future.

The North-South Roundtable, which was held in Tokyo and Oiso in October 1982, described the nature of the crisis in the Oiso Declaration (Summary Report of the Fourth Annual Session of the NSRT):

There are many different, though overlapping, perceptions of the real nature of the present crisis. There are some who dread an imminent breakdown of present structures, whether through banking failures or rising unemployment. There are others who fear the creeping, strangulating trend in economic, social, and political fields to enslave human energies and potential. There are yet others who are worried about the poverty of our response and who are really concerned that the rapidity of economic, social, and political change has

vastly outpaced the growth in the capacity of our governments and international institutions to manage such change.

There is seemingly no end to the gloom clouding our horizons, but despair should not be allowed to obscure the positive elements of hope. First is the fact that the world has generally managed to live in peace for the last 37 years. Although there have been a number of local conflicts, there has been no large scale war since the end of World War II. The threat of nuclear war remains, but there is increasing awareness worldwide of the urgent need to somehow stave off this disaster. The global recession, serious as it is, has not yet sparked social and economic breakdown. At the same time, there is hope that the declining inflation rates and consequently lower interest rates in the industrial nations will lend themselves to a measure of economic recovery starting sometime in the near future. If this happens, it is not unreasonable to expect recovery in commodity prices and expansion in world trade volume.

While most of the developing countries remain poor, a number of them have graduated to the ranks of the newly industrializing countries (NICs), and these NICs are achieving very rapid economic growth to narrow the gap with the advanced industrial countries. Also, even as rapidly expanding populations impose new economic burdens on the developing countries, many of these same countries have made rapid progress in expanding food production. India, for example, has doubled its production of foodstuffs over the last quarter-century. Rice production is up in the Southeast Asian countries, and some countries have been able to move from being rice-importers to being rice-exporters. The developing countries are also making rapid strides in nutrition, public health, and the diffusion of education, and steady progress is being made in prolonging life expectancies, lowering infant mortality rates, and reducing illiteracy. The development of modern transport and communications has drastically reduced time-distances around the globe, and technological innovation has engendered conveniences which were unimaginable only a few decades ago. Microelectronics technology, for example, can open up new possibilities for both the developed and the developing countries.

In looking toward the future, it seems to me that we should work to diminish the darker aspects and enhance the brighter prospects. Conscious efforts will be needed, for example, in order to recover from the current recession in the world economy. The developed countries have so far been putting their emphasis on the fight against inflation, but it seems necessary now to introduce fiscal and monetary measures for stimulating economic activity in order to prevent a spiraling-down of the world economy.

Twenty-five economists from 14 countries recently held a meeting at the Institute of International Economics in Washington, D.C. and produced a report *Promoting World Recovery* (December 1982). The group emphasized the need for conscious efforts to promote economic recovery. The report started with the following paragraphs:

The decline in inflation does not itself promise to produce a re-

covery, but it does provide scope for policy to be shifted in an expansionary direction so as to promote recovery. Such a policy adjustment should be undertaken promptly. It should be internationally coordinated for there is little prospect that an adequate global stimulus could result from a series of isolated national actions, and considerable risk that isolated "locomotives" might find themselves subject to excessive depreciation that rekindled inflation. In particular, neither can the world simply wait for the United States, nor can the United States be certain of achieving adequate recovery on its own.

In recent years Keynesian policies for stimulating demand have been unpopular in most industrial countries because they were interpreted as one major cause of the prolonged stagflation. In the face of serious recession and very high levels of unemployment, however, the economic policy emphasis is likely to shift from fighting inflation to fighting recession, although the fears of renewed inflation will be kept very much in mind by policymakers.

The nations of the South have an almost endless list of areas requiring development, including expanding food production, developing energy resources, building improved infrastructures for transport and communications, and halting the erosion of tropical forests. Promoting these ends will require both capital and technology. In the nations of the North, labor and production facilities are operating at far less than capacity, and there has been a noticeable fall-off of effective demand. Yet both the developing countries and the industrialized countries need to raise their domestic savings rates and to direct the capital to productive investment. Moreover, the balanced development of the world economy demands that as much of this investment as possible be directed to expanding production and income in the developing countries.

Food

A number of developing countries have recently had remarkable success in expanding foodstuff production. Several years ago, Dr. Kunio Takase and I co-authored a report on a plan for doubling rice production in Asia.² In this report, we pointed out that a controlled water supply for paddy fields was one of the key factors for raising the rice yield in the monsoon areas. High-yield varieties of rice and the use of fertilizer are more effective if water supplies can be properly controlled. There has been a remarkable increase in rice yields in some countries, including Indonesia and the Philippines, who are moving from being rice-importing to being rice-exporting nations. Technical progress and infrastructure investment, partly assisted by the World Bank and by bilateral aid programs, have enabled India to double food production in a quarter-century as mentioned earlier. Yet the increasing population and rising income will add to the demand for grain for both human and animal consumption. It has been Japan's historical experience that demand for animal feed grains can

increase almost explosively as people start consuming animal protein. In fact, Japanese imports of such feed grains increased from practically nothing twenty years ago to 16 million tons per annum today. On the other hand, many of the poorer countries, particularly in Africa, are suffering from food shortages. The apparent surplus or self-sufficiency in some Asian countries may partly be due to lack of effective demand because of the low average income. Recent improvements in food supply in some countries may, therefore, be temporary, and continuing efforts for increased food production in the developing countries will be required. Even if the developed countries are able to expand their food production, the food-needy countries lack the necessary foreign exchange to import this food. What matters most is that the developing countries strengthen their own food production capability.

Forests and the Environment

As for the forestry problem, rapidly diminishing tropical forest areas are a matter of serious concern. Although there are differences among the various estimates, such as the United States Government's 1979 "Global 2000," the FAO's 1981 "Assessment of Tropical Forest Resources," and ESCAP's 1981 Environment Study, they all agree that the tropical forests will quickly be depleted if current trends continue. The increasing demand for food makes it necessary to cut trees and convert forests into farm land. The high cost of energy makes people dependent on fuel wood and charcoal. Timber exports to earn foreign exchange are another reason for cutting trees. The tradition of migratory cultivation in some of the developing countries is another factor reducing forest area. Moreover, in many of the developing countries, the current laws and regulations on forest management are those of a colonial era and not sufficiently adjusted to local conditions and needs. Rapidly diminishing tropical forests will result in eroding fertile soil, damaging water conservation, reducing the absorption of carbon dioxide by trees, rapidly reducing the number of animal and plant species, and so forth. The consequences will not be confined to the tropical countries alone, but will have global climatic and other far-reaching effects on the countries of the North as well. Global cooperation to prevent the further diminishing of tropical forests is called for.

A Japanese Government Ad Hoc Group on Global Environmental Problems produced a report entitled *Basic Directions in Coping with Global Environmental Problems* in December 1980. It contains the following paragraph:

Although it is, of course, necessary that each country steadily implement its domestic environmental policies, it must be recognized that problems of a global scale cannot be solved by the mere accumulation of domestic environmental policies by individual countries. In addition, since global environmental problems have an impact on the great majority of the world's people, it ultimately is in the interests of

all countries albeit differently situated to preserve the earth's environment. In view of these considerations as well as the urgency of the problems already mentioned, it is necessary to cope with these problems as soon as possible on a global scale. This will involve international understanding and cooperation.

This report also recommended, among other items, that "Development aid programs should be reviewed from the viewpoint of global environmental preservation, and adjustments be made where necessary."

Finance

There must be a complementary relationship to mobilize the under-used labor and equipment of the North for meeting the development needs of the South. When the developing countries seek to procure the capital necessary for development, there is a gap between the terms demanded by the lending countries and the terms acceptable to the borrowing countries. Part of the resource transfer from the North to the South can be purely commercial loans or investments. But a large number of developing countries want concessional loans or grants. Loans for infrastructure building such as irrigation, afforestation, and road and harbor construction would require long term, low interest finance. Although there are good possibilities of effective lending and investment through private channels, there is an undeniable need for concessional transfers. These could be supplied in the form of mixed or blended loans, and terms of lending could be differentiated according to the borrowers' repayment ability. It has been recognized that together with the bilateral transfers through private channels, the essential role of international financial institutions like the International Monetary Fund and World Bank is to deal with short, medium, and long-term financial requirements of developing countries.

The IIE report *Promoting World Recovery* recommended that "A reasonable level of commercial bank lending to developing countries needs to be sustained, and part of the remaining gap should be filled by increased lending by the International Monetary Fund and the World Bank."

If the present stagnation of the world economy continues with no recovery in sight for some time to come, the need may arise for convening a "Second Bretton Woods Conference" to confer on basic policies for the revitalization of the world economy. The summary report of the NSRT (North-South Round Table) quoted earlier recommended reforms in the IMF and World Bank, and called for the convening of a Second Bretton Woods Conference after the intellectual spadework is done by experts.

One of Japan's business leaders, Mr. Masaki Nakajima, President of Mitsubishi Research Institute, has proposed that a Global Infrastructure Fund (GIF) be set up to spur the world economy out of its present stagnation through long-term, large-

scale infrastructure construction projects. Global projects Mr. Nakajima has proposed include a second Panama Canal, the greening of the Sahara desert, and massive hydroelectric and irrigation projects in the Indian subcontinent, Africa, and Latin America. He estimates the total cost of such projects over 20 years would be about \$500 billion, which is less than the world's current annual military expenditures. This GIF idea may sound somewhat unrealistic given the pessimistic mood of the world, but such a scheme would address itself as a challenge to mankind to overcome this deep recession and achieve worldwide prosperity.

Trade

The world economy is now undergoing a far-reaching and dynamic process of international division of labor. Comparative advantages in world trade are changing rapidly and demanding structural adjustments in both developed and developing economies. Some older industrial countries want to maintain their status quo, while others welcome change. This causes trade friction among industrial countries themselves and between developed and developing countries—particularly the NICs. With the continuing recession and very high unemployment, protectionism is gaining strength in many of the developed countries. Such friction and protectionism can be mitigated if reasonable growth is restored to the world economy. A mixed policy of free competition based on market mechanisms and structural adjustment based on some sort of global planning may be called for in light of the lower rate of growth of the industrial economies and the developing economies need for accelerating growth.

Technology

Technology is the basis for economic progress. It is also a basic factor for reducing a nation's dependence on countries which possess advanced technology. Technological progress cannot be attained overnight. It is a result of patient efforts in education, training, and research. Countries can import a factory or equipment incorporating modern technology, but unless they develop an indigenous capability in the equipment's maintenance, repair, and improvement, this technology will never become their own.

The history of Japan's economic modernization and development of technology clearly indicates the importance of the human factor. In order to avoid creating foreign enclaves by importing plant and equipment, it is sometimes desirable to "depack" technology. This will enable the imported technology to spread widely into the national economy. The development of small industry is an essential factor for sound industrialization. Japanese industry's current strength depends very much on the numerous small enterprises which work as sub-contractors for large companies or compete independently in the marketplace.

One crucially important factor for the future world economy is the development

of microelectronics. While extensive automation may compete with cheap and abundant labor in the developing countries, microelectronics may nonetheless create various possibilities for the developing countries to facilitate the transfer of technology by providing inexpensive audio-visual education and training facilities. Software technology may also be furthered in developing countries because of their potentially large number of "good brains." It is probably necessary for experts from both developed and developing countries to cooperate in microelectronics research in order to work out a prognosis for making this new technology beneficial to developing nations.

Differentiated Strategy for Development

Growing diversity among the developing countries is another important aspect of the world economy. The United Nations Committee for Development Planning (UNCDP) discussed this topic in preparing proposals for the Development Decade of the 1980s. A UN publication *Development in the 1980s: Approach to a New Strategy* published in 1978 contains the UNCDP's conclusions. The chapter entitled "Strategies Specific to Different Groups of Countries" listed the following four groups of countries.

- a. oil-exporting countries,
- b. countries depending heavily on exports of other primary products,
- c. rapidly industrializing countries, and
- d. low-income developing countries.

These groups, while to some extent overlapping, nevertheless permit tentative approaches to a differentiated strategy. As they are likely to introduce some realism in the debate of North-South problems, I am quoting here at some length the differentiated strategies for each of the above four groups from the UN report.

The oil-exporting countries, because they still have underdeveloped aspects, need inputs of technology and expertise from the advanced economies and from other developing economies with such resources. As for the oil-exporting countries with substantial surpluses, one will need to explore how their accumulated capital can be better used for the sake of world development, particularly of the economies of developing countries. Since their capital represents a conversion of non-renewable resources into long-term investment, it is obviously vital for these countries to have hedges against the depreciation of currencies and to use most of their capital profitably. One of the desirable directions for the employment of oil capital—in addition to supplementing the flow of concessional assistance—may be to use more of it for financing the development of rapidly industrializing developing countries at commercial or near-commercial rates.

For other developing countries highly dependent on the exports of primary commodities, commodity agreements and other related measures are desirable in order to stabilize their economy. There will also be a possibility of transfer of resources through improving the terms of trade in favor of exporting countries. But in the latter case it is easy to oversimplify the resulting benefits and costs for (a) resource-rich rich countries, (b) resource-rich poor countries, (c) resource-poor rich countries, and (d) resource-poor poor countries. In order to avoid an arbitrary transfer of resources from relatively poor to relatively rich groups of countries, the selection of commodities which are candidates for commodity stabilization requires careful consideration. Accordingly, along with the conclusion of commodity agreements, a wider use of compensatory financing mechanisms deserves attention. To assist their processing of raw materials before export, producing countries particularly need modification in the escalating tariff structures still found in many importing countries.

As regards the rapidly industrializing developing countries with high rates of economic growth and export expansion, the conditions necessary for their further economic progress are: (a) continuation of a liberal world trade system; (b) access to the markets of both developed and developing countries; and (c) access to the world capital markets on commercial or better than commercial terms. Developed countries are increasingly feeling the pressure of exports from these developing countries as well as the exports of more sophisticated industrial products from some of their own newer members. The older industrial countries have been slow to make changes. Adjustment is difficult because of their domestic political and social problems. However, if these countries move towards a hardened stand of protectionism, the result could be a stagnation of the world economy, with adverse impacts on the developing countries as well. As a matter of practical concern the countries exporting manufactures may at times be obliged to accept export restraints. But this can only be justified as a temporary solution and if it is used to make adjustment policy more feasible for the developed industrial countries.

As for the low-income countries, their problems are central to a global endeavour for accelerated progress. The elimination of mass poverty from the face of the earth is the joint responsibility of all nations, rich and poor alike. This is implicit in giving the highest priority to the satisfaction of basic human needs, such as adequate nutrition, health services and basic education, by both domestic and

international measures. But international aid to the poor countries should also aim at making them self-sustained by helping to finance major improvements in economic infrastructure which are a precondition of rapid agricultural and industrial expansion in such countries. Poverty is not confined to low-income countries but international efforts will have to be very largely concentrated on the problems of low *per capita* income countries. Developing countries with higher *per capita* incomes should be able to go further towards meeting such needs from domestic resources. Although the content of basic human needs will differ from country to country, there should be an effort towards quantifying such needs.

The above ideas discussed at the UNCDP sessions were not readily welcomed by the government-based preparatory committee for the International Development Strategy on the ground that such a grouping or differentiation of the developing countries would undermine the solidarity of developing countries as a whole. Consequently, the idea of grouping was not incorporated explicitly in the Development Strategy for the 1980s adopted by the UN General Assembly.

Slow Growth of Developed Economies

Although the recovery of the world economy will come sooner or later, the growth rate of the developed economies is likely to be lower than in the past because of structural factors. Therefore, it will be necessary to search for a set of policies which will make it possible to maintain a reasonable level of employment with a slower rate of economic growth. Otherwise there will be a continuing danger of protectionist trade policies being adopted in the industrial economies.

On the other hand, the developing countries will have to make their economies more resistant to the slower rate of growth in the industrial economies through strengthening self-generated growth. This will require structural changes of their economies and with closer cooperation among developing countries.

There are various factors behind the slowdown of the industrial economies. Some of the salient factors are: (a) as income rises demand for goods tends to diminish while demand for services increases, and this leads to a slower growth rate for material production; (b) as income rises there seems to be a diminishing return of additional production on welfare; (c) progress in social security measures tends to increase consumption and reduce savings with the result of a lower rate of investment and growth; (d) affluence tends to weaken social discipline and work ethic; (e) the changing age structure of the population towards a larger share of the elderly leads to a less dynamic society and a slower rate of productivity growth; and (f) growing awareness of the "limits to growth" weakens the incentive for economic growth.

The Limits to Growth: Report for the Club of Rome's Project on the Predicament

of *Mankind*, prepared by Dr. Dennis Meadows and his group and published in 1971, contains as an annex a commentary by the Club of Rome's Executive Committee that includes the following paragraphs:

We unequivocally support the contention that a brake imposed on world demographic and economic growth spirals must not lead to a freezing of the status quo of economic development of the world's nations.

If such a proposal were advanced by the rich nations, it would be taken as a final act of neocolonialism. The achievement of a harmonious state of global economic, social, and ecological equilibrium must be a joint venture based on joint conviction, with benefits for all. The greatest leadership will be demanded from the economically developed countries, for the first step toward such a goal would be for them to encourage a deceleration in the growth of their own material output while, at the same time, assisting the developing nations in their efforts to advance their economies more rapidly.

Conclusion

Human society as a whole is moving toward progress. There are many dangers, however, in the coming decades. The most serious is the danger of global war involving the super powers. This must be prevented at all cost. The non-aligned world has a crucial role to play in staving off such a catastrophe by exerting influence on both of the super powers.

The world economy is undergoing far-reaching structural change. Some countries may gradually lose their shares of world economic output while others may gain. This is part of the process of the historical evolution of the world economy. Yet the progress of modern technology brings countries closer and closer, and all nations have come to realize that we live on a small planet. Economic progress can benefit all peoples in this interdependent world if properly shared among nations. A cooperative approach to global issues will also gain in importance in the course of time, although the basic foundation for economic progress is the national determination to develop the economy. At the same time, the regional approach, particularly cooperation among the countries of the South, will enhance their economic viability even when growth slows in the North. Here again the role of the non-aligned nations will be crucial.

NOTES

- * This paper was originally prepared for the Non-Aligned Conference held in March 1983 and revised for this Bulletin.

- 1) *Agriculture : Toward 2000*. FAO, 1981.
- 2) "Doubling Rice Production in Asia" In Saburo Okita, *The Developing Economies and Japan*. Tokyo University Press, 1980.

要 約

第3世界の経済発展と国際経済協力

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現在の国際情勢は、明暗が複雑に交錯している。先進国経済は、不況のため高い失業率に悩まされ、保護貿易的傾向や自閉症状を呈している。このような傾向は世界貿易を停滞させ、第1次産品の値段を極度に低下させ、その結果、発展途上国経済を窮地に追いやっている。資本余剰国であったOPEC諸国においてさえも、赤字財政の問題が起り、また、数多くの発展途上国は累積債務の問題に悩まされている。

このような憂うべき国際情勢の中においても、NICsの急激な経済成長、インドや他の諸国の食糧増産計画の成功、教育・医療面における発展等の発展途上国の将来に期待を抱かせる極面も多くあらわれている。

現在の国際経済危機を脱するには、勿論、各国が経済回復に全力を注ぐ必要があるが、それとともに国際経済協力体制を強化することにより、より早くスムーズに国際経済が回復するように思われる。

特に発展途上国においては、先進国の経済回復だけではなく、食糧、森林、金融、貿易等のあらゆる問題において国際経済協力を必要としている。

食糧問題においては、各国の食糧増産能力を培うためにも、世界銀行や2国間援助による農業技術の改良、灌漑等のプロジェクトを続行する必要がある。熱帯林の消滅は、気候や酸素供給量等の世界に影響を及ぼす問題である。すなわち、森林・環境問題においては国際協力は必須の要素なのである。現在の国

際経済危機を脱するに不可欠と考えられているのが金融面における国際協力である。先進国から発展途上国への特別な条件での長期融資は、発展途上国経済の活性化を促すものである。しかしながら、このような国際協力も効をなさず不況が長びいた場合には、国際金融協力体制を根本的に改革するために第2回ブレトンウッズ会議を招集することも必要となってくる。貿易においては、産業構造の違いによる対立や保護主義的傾向を是正するために、自由貿易を推進するとともに投資におけるグローバルなプランニングをすることが必要である。産業構造の是正には技術移転がなされなければならない。発展途上国は長期的なビジョンを持ち忍耐強くこの問題に対処しなければならず、技術移転をより広い層に浸透させるためにも中小企業を育成する必要がある。また、将来の技術革新の鍵をにぎるマイクロエレクトロニクスの発展途上国への影響も吟味されなければならない。

このような国際経済協力体制は、先進国主導型であってはならず、各々の国が平等の立場で参加し協力しあえる体制でなければならない。すなわち先進国にとっては、相手国の発展段階や属性に応じて多種多様に対処していかなければならず、低成長時代において先進国が経済水準を維持するためには高度の政策技術が必要とされるのと同じく、国際経済協力にも高度な政策技術が必要となってきた。

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