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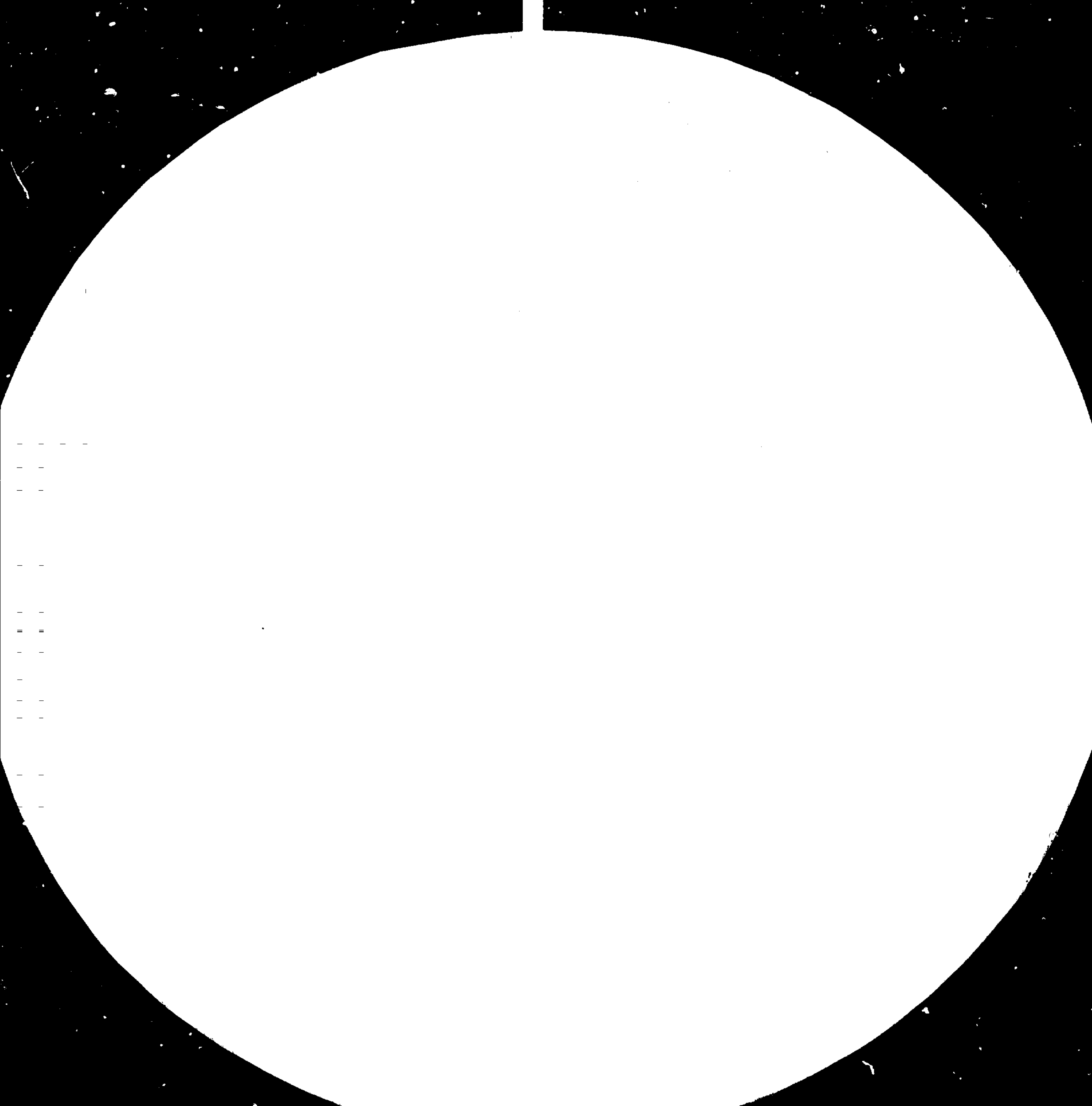

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INFORMATION PAPER

THE EFFECT OF THE NEW MACROECONOMIC POLICIES OF THE INDUSTRIAL COUNTRIES ON DEVELOPMENT PROSPECTS *

by

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* The opinions expressed in this document are those of the authors and do not necessarily reflect the views of the UNIDO secretariat. This document has been translated from an unedited original text.

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INTRODUCTION

In the liberal approach to development the opening of frontiers and the expansion of international trade were seen as the means of ensuring rapid world growth and of enabling other countries to catch up with the most advanced. This approach is now in crisis.

Since the end of the Second World War the growth of the world economy has in fact been based upon the liberalization of trade, with the result that international trade has grown at a faster rate than production. The attempt made, over a long period, to expand world trade at a faster rate than production had the effect of making the economies of the different groups of countries increasingly interdependent. This development, whose repercussions on the relative situations of different countries were very unequally distributed, has long caused the liberal approach to development to be contested by certain developing countries which, seeing their dependence in terms of their imports of essential products (food, energy etc.) increase, wished to re-establish a certain degree of national or regional autonomy.

The present crisis raises issues not so much in respect of the harmful effects of the previous approach to development but in so far as it calls into question the very conditions on which such development is to be continued. The development process - particularly in industry - which was pursued more or less successfully almost up to the end of the 1970s was based on three essential conditions which are now being simultaneously challenged.

The first was rapid growth in the industrialized countries, including the East bloc countries, which are the principal importers of the products offered by the developing countries.

The second was a progressive restructuring of international trade enabling the developing countries to obtain a growing share in the production and export of industrial products. This modification of the international division of labour was to accompany a development of the comparative advantages of the different groups of producers and was not to be impeded by the adoption of protectionist measures in the most advanced countries.

The third condition was the development of an international financial system capable of managing, under satisfactory conditions, the settlement of positive and negative balance of payments accounts and international monetary constraint procedures.

Since the end of the Second World War important qualitative changes have taken place in the relationships between the conditions of growth obtaining in the industrial countries, trends in the international division of labour, and forms of international monetary constraint. 1/ These changes are at the root of both the crisis in the liberal approach to development and the very high vulnerability of industrial development strategies to the macroeconomic policies pursued by the industrialized countries, the United States of America being the most important among them.

Up to the mid-1960s the world economy was dominated by the United States. The international currency, the dollar, was that of a dominant economy characterized by a structurally positive balance of payments. Balance of payments deficits appeared in countries experiencing rapid growth and were compensated by the flow of capital from the United States. Fluctuations in the internal economic situation in the United States could cause a deceleration in outflows of capital and could, with a certain time lag, impose a brake on the growth of the deficit countries.

In addition, in the EEC countries the healthy circles of deflation and slow growth (in the Federal Republic of Germany) and the healthy circles of high growth and rampant inflation (in France and Italy) coexisted and mutually reinforced one another.

A very important feature of this mode of functioning of the world economy is that it was accompanied by a situation in which the economic circumstances obtaining in the dominant countries were not synchronized, with the result that cumulative deflation could not act as a brake on the growth of the developing countries.

Several interdependent factors were to cause the progressive deterioration of this system. The position of hegemony enjoyed by the United States and the role of the dollar as an international reserve currency were contested as a result of the inflationary expansion which the United States economy experienced as from the mid-1960s and of the increase in competition on the international markets for industrial products. Owing to the recurrent deficits in the United States balance of payments, the currencies of countries which had large foreign trade surpluses (Federal Republic of Germany, Japan) rivalled the dollar in its function as an international

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1/ See M. Aglietta "Les configurations de l'économie mondiale", CEPII working paper, January 1982.

reserve currency: the possibility of engaging in arbitrage operations in several strong currencies was conducive to speculation and to the instability of foreign exchange markets.

After the abandonment of the Bretton Woods system the complexity of the relations between the internal economic situation and the rate of exchange in an administered floating exchange rate system favoured the degeneration of the healthy circles into vicious circles of over-valued currency and stagflation on the one hand and of a falling exchange rate and open inflation on the other.

In addition, in the absence of an adequate differentiation between the international specializations of the major industrial countries, except in the case of Japan, the economic circumstances of these countries tended to be synchronized through their foreign trade. This trend was to be reinforced and aggravated by the deflationary impact of the oil crises on the world economy.

Finally, the progressive development of the Eurocurrency markets, which operate mainly in dollars but on which the volume of funds offered is increasingly independent of the external payments situation of the United States, made it possible to meet the massive demand for international financing induced by the increasingly extensive world integration of trade and production. It also met the need for the recycling of capital made necessary by the polarization of very large balance-of-payment surpluses and deficits. This greatly contributed to the development of the economy of international indebtedness which we know today.

In this context the foreign exchange crisis of 1978, followed shortly afterwards by the second oil shock, marked a decisive turning point for the world economy by directing the macroeconomic policies of the dominant countries into deflationary paths and by increasing the pressure on them to pass the balance-of-payments deficits generated by the oil shock onto the developing countries.

In the first chapter we shall examine the ambiguities and difficulties involved in these macroeconomic policies. In the following two chapters we shall then bring out their harmful implications for industrial development - the contraction of world trade and revival of protectionism and the increasing fragility of the international financial system and the relative eviction of the developing countries from the capital markets.

I. THE UNCERTAINTIES AND HARMFUL EFFECTS OF THE MACROECONOMIC STABILIZATION POLICIES PURSUED BY THE INDUSTRIALIZED COUNTRIES

Ordinary solutions to the problem of shaping macroeconomic policies adapted to the circumstances of the world economy at the turn of the 1980s are far from being found in most industrialized countries, since in those countries macroeconomic policies have to contend with a combination of high rates of inflation and high levels of unemployment while current manifestations of international monetary constraints induce governments to make maintenance of the rate of exchange a major objective in economic policy.

These difficulties are compounded by the evident disarray of economic thinking. The neo-Keynesian macroeconomic synthesis which had made the heady days of economic policy in the 1960s is being increasingly contested because of its incapacity to provide ways of escaping from stagflation. On the other hand there is a flowering of often contradictory and ephemeral theories which neither governments nor governed know how to choose between.

This impotence of economic theory has a foreseeable but dangerous consequence: it increases the extent to which ideology influences economic policy at the very time when the gulf between the dominant ideologies of the industrial countries is being widened. In ideological debates nobody convinces anyone. While at the end of the 1970s the economic policies of the major countries were converging into monetary gradualism, at the present time diagnoses and policies are diverging greatly. It is permissible to ask how, in fact, a highly integrated world economy will be able to cope with the implementation of policies of socialist inspiration geared to public interventionism and the revival of demand in France, for example, at a time when the spectacular return of the United Kingdom and the United States to a "laissez-faire" policy whose ruthlessness naturally conjures up memories of nineteenth century capitalism is being confirmed.

We are, it seems, witnessing either a paralysis of economic policy or its utilization in a deflationary direction. This is due both to the nature of the constraints with which it has to contend and to the triumph of theories highly hostile to State intervention in countries which occupy a dominant position in international macroeconomic relations.

I.1. The essential constraints which weigh upon the macroeconomic policy of the industrial countries and which give it a deflationary orientation arise from the limits imposed on the accumulation of budgetary deficits in a climate of inflationary recession and from the dominating effects of the monetary policy of the United States induced by the exchange rate constraint.

The structural differences and asymmetrical positions of the different groups of industrial countries explain why their degree of autonomy with regard to these constraints is not identical.

The position of Japan is quite unique, since its balance of payments is closely dependent on variables affecting its internal absorption capacity and on the terms of trade between the primary products which it imports and the industrial products which constitute most of its exports. Japanese industry is characterized by high fixed costs and by very substantial increasing returns. Japanese markets are open to foreign products only to a small extent. Bearing in mind the method of formation of primary incomes which characterizes Japanese society, the internal absorption capacity of industrial production depends, through a number of channels, on the level of budget deficits. The efforts of the Japanese Government to reduce the extent of these deficits (efforts which are apparently justified by the high share of gross national product which the borrowing requirements of public administrations have represented in recent years - see Table 1) have resulted in an increase of the pressure exerted by Japanese products on foreign markets and in an improvement in the balance of trade. 1/

This special position of Japan could favour cumulative deflation processes in the world economy. It also helps to explain the relative autonomy enjoyed by Japan with regard to the monetary policy of the United States. This is not the case with the EEC countries. 2/

1/ Although the general orientation of recent budgetary policy has been deflationary, since the 1981-1982 budget provided for a further reduction in the deficit in terms of GNP, some flexibility has been introduced over the years in order to make it easier for the growth target to be attained.

2/ See W.D. Nordhaus: Chaos and Confusion: The international economy today, Seminar on the World Economy, Paris, May 1982.

Table 1 unambiguously shows that the principal countries of the EEC resorted very unequally to the budgetary weapon over the period 1973-1980. It follows that the burden of internal debt and the margins of indebtedness of each of these countries are extremely heterogeneous.

Table 1. Net borrowing requirements of public administrations 1/

Countries	1970-1973	1974-1976	1977	1978	1979	1980
	Annual averages in percentage of gross national product					
United States	0.2	- 1.5	- 1.0	- 0.0	0.5	- 1.2
Japan	1.0	- 2.0	- 3.8	- 5.5	- 4.7	- 4.0
Federal Republic of Germany	0.2	- 3.6	- 2.4	- 2.7	- 2.9	- 3.5
France	0.8	- 0.7	- 0.8	- 1.8	- 0.6	0.3
United Kingdom	- 0.3	- 4.6	- 3.4	- 4.3	- 3.3	- 3.7
Italy	- 7.4	- 9.6	- 7.9	- 9.7	- 9.4	- 7.9
Canada	0.5	- 0.8	- 2.6	- 3.1	- 1.8	- 2.3
Belgium	- 2.2	- 4.2	- 5.7	- 6.2	- 6.7	- 8.8
Netherlands	- 0.1	- 1.7	- 1.5	- 2.1	- 3.0	- 3.3
Sweden 2/	4.9	3.0	2.0	- 0.1	- 2.8	- 3.5
Denmark	3.7	0.7	- 1.7	- 2.2	- 3.3	- 3.3
Norway	4.4	3.9	1.7	0.6	1.7	5.1

1/ A negative figure indicates net borrowing requirements, i.e. a deficit, Public administrations comprise the central government, local authorities, including social security funds, but do not include nationalized enterprises. Net borrowing requirements do not include the purely financial transactions of the public sector and in some countries they are substantially lower than the (gross) borrowing requirements of the public sector.

2/ Includes the national pension fund.

Rates of monetary expansion

Money supply	Years	United States A	United States B	Japan	Federal Republic of Germany	France	United Kingdom	Italy	Canada
		From one fourth quarter to another, per cent							
In the broad sense 1/	average 1971-1975	9.6	10.9	17.1	10.3	16.8	17.7	19.7	17.3
	average 1976-1980	9.7	10.9	10.3	8.3	12.4	13.0	18.9	14.7
	1975	12.3	9.4	14.5	9.1	17.7	8.6	22.3	17.5
	1980	9.8	9.9	7.7	5.9	10.4	18.5	11.4	10.9
In the narrow sense 2/	average 1971-1975	5.9	6.0	16.2	10.2	12.4	12.2	15.7	13.4
	average 1976-1980	6.3	7.8	5.4	8.1	10.2	12.2	20.5	8.8
	1975	4.8	5.0	10.9	15.4	15.3	22.0	10.3	21.1
	1980	5.0	7.3	- 1.8	4.5	8.7	4.0	11.9	9.5

1/ For the United States, M_2 (column A) and M_1 (column B); for Japan M_1 - CD (certificates of deposit). for Germany M_2; for France, Italy and Canada M_2; for United Kingdom M_2 in sterling.

2/ For the United States M_{1A} (column A) and M_{1B} (column B); for other countries M_1.

Source: Fifty-first Annual Report of the Bank for International Settlements (April 1980-March 1981).

This situation is in part the result of the different approaches which the EEC countries have had in the past, and still have, to the inflation-unemployment dilemma and in part the consequence of the lack of any real mechanism for co-ordinating budgetary policies within the European Economic Community. It constitutes in itself an obstacle to the concerted adoption of budgetary measures to reactivate the European economies and to check the process of de-industrialization by which they are in varying degrees threatened. This obstacle is additional to that represented by the very extensive opening of EEC markets to foreign products.

Although the prospects of budgetary revival in Europe are poor, account must also be taken of the deflationary pressure exercised by the European Monetary System on the monetary policies of member countries. In order to maintain the parity of their currency within the monetary snake, the latter are led to practise monetary policies which prevent their respective interest rates from diverging to too great an extent. Furthermore, in the absence of a really concerted management of the parity between the dollar and the currencies of the European snake, the EEC economies are very much affected by trends in monetary policy in the United States (see Table 1).

Despite the relative loss of hegemony by the United States economy which was caused by adverse modifications in the conditions of its internal growth, the United States still retains an asymmetrical position in the world macroeconomy. This is essentially due to the dominant role which the dollar plays on the international capital markets, despite the competitive pressures to which it is periodically subjected by a few strong currencies. Dollar operations represent from 60 to 70 per cent of total operations on the Eurocurrency markets. This being so, the exchange rate constraint is transforming these markets into a real conveyor belt along which the impulses generated by monetary policy in the United States are transmitted to the rest of the world.

This fact confers particular importance on the change in United States monetary policy since October 1979 and on the difficulties and uncertainties caused by what is called "Reaganomics".

I.2. The economic policy of the Reagan administration has two components of different theoretical inspiration - monetarism and the supply-side doctrine, whose contradictions are not without danger for the world economic situation. They have, however, one point in common: the priority given to the control of inflation and the disengagement of the State. 3/

Monetary policy is part of the mainstream of the progressive rise of monetarism in the United States as United States society became increasingly intolerant of the very high inflation of the late 1970s.

The most important change in monetary policy dates from October 1979, when the Federal Reserve Bank decided to substitute the quantitative control of monetary aggregates for traditional action through interest rates. Since then monetary options are fixed in the medium-term with a view to the gradual discouragement of inflationary expectations: the rate of expansion in the money supply should fall by one-half between now and 1985 as compared with its 1981 level.

Difficulties soon appeared in the implementation of this policy. The first is connected with the choice of the aggregates over which control is to be exercised: financial innovations, encouraged by the easing of regulations, increase the possibilities of asset substitution and arbitrage, enabling economic units to escape from this form of control. In the context of the United States financial and banking set-up, whose evolution towards a competitive system weakly regulated by the central bank was accentuated by the banking law of March 1980, the Federal Reserve Bank can control an expansion of the money supply only at the cost of extremely high and unstable interest rates. The second difficulty results from the combination of this policy with the implementation of the principles of supply-side economics.

The supply-side doctrine is based on the idea that the level of public expenditure, or at least its rate of increase, must be reduced in order to promote an expansion of activity in the private sector of the economy and consequently of employment. Such an expansion should also be encouraged by the removal of regulations hampering the free development of private initiative.

3/ See "La Reaganomie: Fondements doctrinaux et dimension internationale", Economie Prospective Internationale, 1982, and in particular the contributions by C. Stoffaes, R. Holler and M. Aglietta.

This supply-side doctrine is presented both in theory and in economic policy as a Keynesian counter-evolution. Belief in market mechanisms is vigorously reaffirmed: prices spontaneously generate a balance of macro-economic factors, while the classical doctrine that production is anterior to incomes and expenditure replaces the Keynesian principle of active management by demand.

From this point of view the Economic Recovery Tax Act, voted in July 1981, is presented as a five-year plan f r the simultaneous reduction of revenues and expenditures with the aim of decreasing the proportion of gross national product absorbed by the Federal Budget from 21 to approximately 19 per cent, while permitting a rapid return to a balanced budget. The reduction of expenditure affects a number of social welfare programmes for the disadvantaged but it also affects economic aid, including aid for exports and foreign aid.

Reaganomics contains two essential contradictions which can engender a vicious circle with deflationary implications.

The first concerns the budget deficit: this is much higher than had been initially expected, since the stimulating effect which the reduction in the rate of taxation was supposed to have on the level of activity and consequently on government revenue has been greatly over-estimated. In the meantime the rise in interest rates has increased net interest payments by the Federal Government from $US 50 billion two years ago to $US 85 billion in the current fiscal year. [4/]

The deficit should therefore reach $US 110-120 billion in 1982. Private operators' expectations of high Treasury financing requirements for the years to come are exercising an upward pressure on long-term interest rates at a time when savings are scarce. (The savings rate of the private sector is in fact falling.) [5/] Many sectors are experiencing serious financial difficulties on account of the crowding-out effect and the rise in interest rates. Their dependence on bank credit is increasing.

Hence the second contradiction: a rigorous monetary policy accompanied by high interest rates to control inflation might counteract the effects of the supply-side policy by acting as a brake on the economic activity of the private sector.

4/ BIS, Fifty-second Annual Report.

5/ Ibid., p. 36.

What provisional evaluation can be made of the consequences of this policy?

For the United States economy they are satisfactory with regard to inflation, which has declined very rapidly. They are, however, disturbing as far as the level of economic activity is concerned: the production growth rate has fallen from 2 to 0 per cent in one year of implementation of the new policy; more and more workers are being laid off, with the result that the unemployment rate has increased sharply from 7 to 9.5 per cent: industrial output is falling and, contrary to the forecasts of the supply-side theoreticians, investment has not picked up. 6/ The financial position of enterprises is very difficult, bankruptcies are increasing and affecting powerful corporations: this is probably not unconnected with the slight relaxation of interest rates.

For the international economy, the policy pursued by the United States entails even greater risks, since the United States refuses to consider taking concerted action on international monetary policy. In the logic of the United States leaders, dealers' expectations on the exchange markets will progressively integrate the new facts of economic policy, so that in the long term the markets will themselves find their equilibrium with a stable and strong dollar. In terms of the same logic, if the Europeans do not wish to follow United States interest rates they can free themselves from them by adopting economic policies leading to an appreciation of their currencies in terms of the dollar. In other words, they are invited to participate in an exchange rate competition, with very clear deflationary implications.

In the name of a return to long-term equilibrium - which the internal contradictions of Reagan's policy make very hypothetical - the international economy is now undergoing serious disturbances which bear the seeds of a generalized deflation.

The very high instability of exchange rates is disturbing the conditions of international competition and furnishing supplementary arguments in favour of a return to protectionism. Although in foreign trade matters Reaganomics is in favour of free trade, the difficulties of adaptation

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6/ 18.1 per cent GNP in 1973-1979, 17.7 per cent in 1980, 17.5 per cent in 1981.

experienced by many sectors threatened by imports are increasing the pressures of protectionist lobbies and exacerbating trade conflicts between the United States, the EEC and Japan.

In addition, the substantial revaluation of the dollar and the observable generalization of positive real interest rates might jeopardize the conditions in which the economy of international indebtedness functions. A strong dollar and high interest rates introduce inflationary tendencies, given the conditions of production obtaining in the EEC countries, and endanger their external equilibrium. As far as the developing countries are concerned, a strong appreciation of the dollar leads to a revaluation of their outstanding debt, while the refinancing of the latter has to be made at very high real interest rates. However, as one of the conditions for a dynamic balance of the world economy in recent years it was intended that, while the industrial countries exported their balance of payments deficits to the developing countries, they should also agree to finance those deficits on terms permitting real transfers of resources in favour of the latter.

The macroeconomic policies of the dominant countries therefore seem to us to contribute greatly to the instability in the world macroeconomic equilibrium and to reinforce trends likely to engender, in the future, cumulative processes of contraction in world production and trade: a very high instability of exchange rates, rising interest rates, a shrinkage in world liquidity, and a weakening of the international banking system. They already have very unfavourable implications for the developing countries and might jeopardize the development strategies of a number of them.

The decline or levelling-off of public development aid associated with the efforts being made to reduce the budget deficit in many countries particularly affects the developing countries, whose external financing is largely dependent on such aid. Measures to limit the immigration of foreign workers, as well as the stagnation of real wages in many host countries which employ immigrant labour, are having serious effects on the balance of payments of countries such as India and Turkey. In addition, the tendency to reduce expenditure on the admission and training of students from the developing countries cannot fail to harm the development capacity of those countries in the course of time.

Budgetary austerity, which is now the fashion in most industrial countries, therefore has clear negative effects on the developing countries. However, they appear to be less extensive in scope than those engendered by the dominant macroeconomic policies through the two processes entailed in the contraction of world trade and the rise of protectionism on the one hand and trends in interest rates and the worsening of the external financial situation of the developing countries on the other.

II. NEW THREATS TO DEVELOPMENT: THE CONTRACTION OF INTERNATIONAL TRADE AND THE RISE OF PROTECTIONISM

A preliminary assessment of the economic performance of the developing countries which import oil will reveal an average annual growth rate of 5.5 per cent in the gross domestic product of these countries for the period 1963-1973, and 5 per cent for the period 1973-1980; this is very creditable performance indeed when compared with that of the developed countries over the same period - 5 and 2.5 per cent, respectively. Although there are substantial differences from one country to another, it may be argued that one of the driving forces behind this growth was the opening of the economies of the developing countries to international trade: average annual growth rates for exports and imports remained at 6-7 per cent in volume during this entire period. The fact is that many of these countries deliberately chose to follow an export-oriented strategy, as reflected:

- Domestically, in policies aimed at reducing internal demand, accelerating industrial investment, and limiting import substitution strategies to the bare essentials;

- Externally, in the recourse to very heavy borrowing in the international money markets so as to be able to sustain their investment programmes, and in a policy of rapid adaptation to foreign market conditions.

These characteristics are particularly evident in the so-called semi-industrial countries. 1/

To these supply-side factors one has also to add the favourable developments in the factors of demand. As indicated by a recent IMF study, 2/ the proportion of imports in the visible consumption of manufactured goods in the industrial nations rose from 11 per cent in 1970 to 17 per cent in 1979. In particular, these countries' imports of industrial goods from the developing world increased during this same time from 1.4 to 3.4 per cent, representing an average annual rate of growth of 8.1 per cent over the period.

1/ Also known as the newly industrialized countries. By themselves, these countries account for 40-50 per cent of the total exports of the oil-importing developing countries (70 per cent if the export of manufactured goods is considered). Strictly speaking, this group includes Brazil, Hong Kong, South Korea, Singapore and Taiwan. Under other, broader, definitions, the following countries would be added: Argentina, China, Greece, India, Israel, Portugal and occasionally Mexico, Chile and Uruguay.

2/ Trade Policy Developments in Developing Countries. Occasional paper, 1981, July.

At the same time, the developing countries provided substantial markets for producers in the industrialized nations. During the period 1973-1980, the rate of growth in the import activity of the developing countries was about 6.5 per cent annually in volume, whereby the industrially advanced countries accounted for nearly 80 per cent of the total imports.

It is important to note, in this connection, that the situation today is one of growing economic interdependence between the industrial and the developing countries in the form of expanding international trade and specifically, as we shall be discussing in greater detail, trade in manufactured goods.

In an analytical sense, this interdependence and its evolution have provided the basis for one of the possible explanations of the relationship that may be developing between the industrial world and the developing countries namely, the concept of a positive linkage between growth and an opening to international trade, and the idea of a process leading to the gradual application of the comparative-advantage principle. 3/ According to this thesis, the developing countries specialize in labour-intensive export products, while the industrial countries concentrate on high-technology capital-intensive products; both groups, in this model, are clearly expected to abandon their policies of import substitution. The result of this relationship would be a North-South trade pattern leading to a redistribution of production activities internationally.

Nevertheless, the deflationary policies pursued by certain developed countries threaten to jeopardize this process. The fact is that there is clear evidence of a definite decline in the volume of the industrial countr[illegible]s' international trade and in their production volume in 1980, a decl[illegible]h grew even deeper in 1981. 4/ To the degree that this slowdown i[illegible]t to any transient economic considerations but is structural in nature, it would be well to inquire into the repercussions it is certain to have on trade between

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3/ In this connection, see B. Belassa, "Evolution de la structure des échanges de produits manufacturés entre pays industriels et pays en développement", Revue Economique, Vol. 32, No. 4, July 1981.

4/ It would appear, in this connection, that the predictions contained in the GATT report for 1980-1981 have been realized. A recent note by that organization, carried in the IMF Bulletin of 26 April 1982, points out that, according to preliminary estimates, world commodity trading totalled 2,000 billion dollars in 1981; this amount was 1 per cent below the 1980 level and represents the first decrease in the value of international trade from one year to the next since 1958.

the developing and developed countries. High among these likely repercussions is the impact of deflation policies on the demand for imported goods from both the industrialized and the developing countries. The following section of this paper will deal essentially with this problem, but before going on to this discussion, it is necessary to recall the major structural characteristics typical of trade between the developing and industrialized countries over the period 1973-1981.

II.1. THE STRUCTURE OF INTERNATIONAL TRADE FROM 1973 TO THE PRESENT: THE PARTICULAR FEATURES OF NORTH-SOUTH TRADE 5/

The first point revealed by a long-term over-all analysis of the evolution of international trade is that, with the exception of the increasing share of the market which has gone to the petroleum-exporting countries in comparison with other groups, the variations in trade structure have been relatively minor. On the average, the industrial countries account for 65 per cent of world commerce, the share of the developing countries having remained fairly constant at 10-11 per cent. 6/ Within this latter group, the extremely modest opening of the least advanced developing countries to international trade is manifest; these countries account for only 0.5-1.0 per cent of total trade volume. 7/

In terms of changing economic conditions, three major developments stand out:

- The sharp decline in 1980 in the foreign trade of the industrialized countries, on both the export and the import side;

- The stabilization in the exports of the petroleum-importing developing countries;

- Increasingly higher import levels in this last group of countries.

The composition of international trade by products 8/ confirms the assumption of relative stability in trade from 1979 to 1980, if one disregards the effect of the petroleum market. Still, 1980 was marked by a significant reduction in the share of manufactured products and by an opposite trend in primary products. When the traditional distinction between the three major

5/ Except where otherwise indicated, the statistics used refer to value. In calculating the various proportions involved in the international trade flow, we have generally excluded trading in petroleum products.

6/ See Table 1, Statistical Annex.

7/ These countries include: Afghanistan, Bangladesh, the Central African Republic, Chad, Mali, Niger, Somalia, the Sudan, the Upper Volta and the Yemen Arab Republic.

8/ See Table 2, Statistical Annex.

groups of countries is applied, 9/ the first thing that can be seen is that, at about 81 per cent between 1973 and 1980, there has been hardly any change in the industrialized countries' share in the total export volume for manufactured goods. Conversely, the oil-importing developing countries have seen an improvement in their position as their share rose from 7 to 9 per cent during the same period.

Further, it is possible to shed light on the structure of exports in the case of each group of countries. 10/ A preliminary observation is in order at this point: the specialization of the industrialized countries in the area of manufactured products is far greater than the specialization of the petroleum-importing developing countries in the area of primary commodities. For the first group, the export of manufactured products accounts on average for 75 per cent of the total export volume, whereas for the second group primary commodities represent only 62 per cent of the total. What this trend reveals is a desire on the part of the developing countries to reduce their reliance on the export of primary products and, consequently, to redirect their export policies towards manufactured goods (whose share in total exports was nearly 40 per cent in 1980). Against this, we have the extreme specialization of the petroleum-exporting countries in the production of primary products. In this connection, it would appear that petroleum profits have not been found to provide an effective foundation for industrial development.

The extent of interdependence in non-petroleum trading and in value between developed and developing countries can be gauged in two ways:

- First, in terms of the structure of exports. 11/ Nearly 80 per cent of exports from the developed to the developing countries are manufactured products; the figure is as high as 85 per cent in the case of the petroleum-exporting countries. This is a considerably higher proportion than that observed in the intra-zonal exports of the developed countries (on average 73 per cent). There was, however, a clear decline in the export of manufactures in 1980. In terms of the trade flow from the developing countries to the other groups, the trend is towards an increasing proportion of manufactured products, although, as in the previous case, these exports fell off in 1980. These countries' exports to the industrial countries, the traditional petroleum-exporting countries, and the remaining developing countries represent 38, 57 and 50 per cent of the total, respectively.

9/ See Table 3, Statistical Annex.

10/ See Table 4, Statistical Annex.

11/ See Table 5, Statistical Annex.

- Next, in terms of the geographical distribution of the exports. 12/ The first significant fact in this connection is that the industrialized countries still conduct more than two-thirds of their trading among themselves. Nevertheless, the proportion of manufactures in intra-group export activity exceeded 75 per cent in the 1970s and 67 per cent in 1980. This decrease was compensated in part by a sharp rise in the export of manufactured products to the oil-exporting countries (up to 11 per cent in 1978 from 5 per cent in 1973), accompanied by a steady increase in the same category of exports to the remaining developing countries (from 14 per cent in 1973 to 16 per cent in 1980). The result is that the markets of the developing countries appear to have counterbalanced the decline in trade among the industrialized countries themselves. Considering now the principal markets for the oil-importing developing countries, one finds that 65 per cent of their exports go to the developed industrialized countries. Still, the kind of "balance wheel effect" which has come to characterize the market structure should be particularly noted: the steady decline in the share of the industrialized countries (from 70 per cent in 1973 to 63 per cent in 1980) to the advantage of the developing countries (oil exporters: 3.5 per cent in 1973 and 7 per cent in 1980; other developing countries: 13 per cent in 1973 and 23 per cent in 1980). This trend will be seen to be even more pronounced if exports of manufactured products are considered.

In conclusion then, the principal features which characterized the evolution of international trade in the 1970s may be summarized as follows: 13/

12/ See Table 6, Statistical Annex.

13/ These conclusions are confirmed by the GATT Secretariat's preliminary estimates for 1981, the over-all data for which are not yet available:

	Imports	Exports
- Variations by comparison with 1980 (in percentage and value):		
Industrialized countries	-5	-1
OPEC countries	15	-9
Other developing countries	7	6

- Contribution of the principal trade flows to the over-all increase in the volume of trade in manufactured products, according to values expressed in constant prices (percentage):	1980	1981
Trade among industrialized countries	20	-10
Exports from industrialized countries to OPEC	25	45
Exports from industrialized countries to other developing countries	30	30
Trade originating from the developing countries with the industrialized countries	5	10
Trade among the developing countries	10	15
TOTAL	100	100

- Despite a decline in trade, and particularly in manufactured products, the degree of interdependence between developed and developing countries continues to be great. Specifically, there is a structural imbalance in the developed countries' intra-zonal trade flows to the markets of the developing countries.

II.2. PRINCIPAL EFFECTS OF DEFLATIONARY POLICIES ON TRADE BETWEEN DEVELOPING AND INDUSTRIAL COUNTRIES

We shall begin by describing the effect of deflationary policies on the demand for industrial products in the industrialized countries. The fact is that one result of the recession which has occurred in these countries is inevitably a decline in imports from the developing nations. Following this, it will be necessary to inquire into the possible repercussions of this situation on the volume of exports from the industrial countries. [14/] There is a risk that the gaping trade imbalance created as a result of these factors will in turn result in changes in the behaviour of the developing countries.

II.2.1. Impact on the demand for industrial products

In this analysis, we shall be concerned primarily with the "quantity" effect and only secondarily with the "price" effect. [15/] Also, we shall limit our considerations to the two major types of direct links between deflationary policies and the external demand for goods: economic growth and the trade balance.

The tangible effects of a slowdown in the growth of the GDP on the external demand of the industrial countries may be analysed on two levels:

- First, on the level of industrial production. Slower growth in this sector is accompanied by a lowering in the level of investment and thus curbs the demand for industrial or semi-finished products. In a parallel effect, there is a flattening out in raw material requirements;

- Secondly, on the level of private consumption. Deflationary policies trigger a stagnation or decline in the purchasing power of the economic agents, which in turn has a direct impact on the demand for manufactured goods.

14/ This process is theoretically described by the international trade multiplier.

15/ The analysis of the "price" effect is far more difficult since the statistics are not always reliable, but mainly because changes in the exchange rates must be taken into account. As it happens, major fluctuations in the US dollar over the period in question add to the difficulty of this analysis.

By way of illustrating these two points and their potential consequences for imports from the developing countries, in the discussion that follows we shall approach the problem first from a microeconomic and then from a macroeconomic perspective.

The first, or microeconomic, approach introduces the concept of what might be called "sensitive products" - that is, products which may well become the focus of a contracting demand situation. These are for the most part raw materials other than petroleum, semi-finished products, manufactures, textiles and clothing. [16/] An analysis of the trade balances and export "mix" of the non-petroleum-exporting developing countries [17/] will quickly reveal the possible implications for these countries of a drop in demand. With regard to the primary products for which the balance is positive, in 1979 raw materials and ore accounted for nearly 32 per cent of total exports, the former category having increased during the period 1973-1979 at an average annual rate of 12.75 per cent, and the second at 11.53 per cent; with respect to the exports of manufactures (40 per cent of total exports), the growth rates for the same period were 22 per cent for semi-finished products, 29 per cent for manufactured products, 16 per cent for textiles, and 22 per cent for clothing. Accordingly, any reduction in the export of these products not only means a significant contribution to more trade balance deficits on the part of the developing countries, but also threatens the disruption of the growth process in their most dynamic economic sectors, particularly in the recently industrialized nations.

This view, however, requires some adjustment for geographic regions. An indirect measure of the differentiation which exists in this regard can be found by considering the structure of the trade balances of the developed countries vis-à-vis the main groups of petroleum-importing developing countries. [18/] The Latin American nations and, to a lesser degree, the African countries are especially affected by economic conditions in the industrial countries, whereas the countries of South-East Asia and the Far East appear to be more autonomous in this regard.

16/ See Occasional Paper No. 5, op. cit.

17/ See Tables 8 and 9, Statistical Annex.

18/ See Table 10, Statistical Annex.

In an analysis of the importance of imports, the macroeconomic approach 19/ takes account, on the one hand, of the flexibilities in the industrial countries' demand (in value terms) for the import of the various products and, on the other, of the growth rates for the principal components of these countries' internal demand. If the import flexibilities remain constant, as was the case in 1980 despite a general decline in trade, 20/ there must inevitably be a lowering of imports whenever there is a reduction in the factors of demand, considering the multiplier effect of these factors. In point of fact, the major demand components of the industrialized countries all show a decline. 21/ To use a long-term example, the GDP growth rate fell from 5 per cent over the period 1963-1973 to 2 per cent over the period 1973-1980, while over the short term its value decreased from 4.5 per cent in 1978 to 1 per cent in 1980. This trend continued in 1981, with recent GATT studies 22/ indicating that, as in 1980, the total gross domestic product of the industrialized countries increased by only 1 per cent in 1981 while world-wide growth in the volume of production remained below 1 per cent.

Under these conditions, we must inevitably expect a drop in demand on the part of the industrialized countries vis-à-vis the developing countries. In the light of this fact, the various trade development scenarios based on the assumption of higher growth rates for the factors of demand are seriously called into question.

The second way in which deflationary policies may have a substantial effect on demand in the industrialized countries is related to the determination of the governments of these countries to restore economic equilibrium in major areas, and particularly in the balance of trade. One specific consequence of this determination is the increasing resort to protectionist measures. In this connection, two kinds of protectionism should be distinguished: on the one hand, tariff-related measures and, on the other, the non-tariff barriers. 23/ While there has been a distinct relaxation of the first following the two major

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19/ For a description of this method see Bela Balassa, op. cit.

20/ See GATT report Le commerce international en 1981-1982, p. 22.

21/ See Table 11, Statistical Annex.

22/ See IMF Bulletin of 26 April 1982.

23/ These non-tariff barriers may occur in many different forms: the fixing of quotas for products, anti-dumping laws, licensing arrangements, "voluntary" controls imposed by exporters on suppliers, the introduction of product standardization, certificates of origin etc.

series of negotiations on multilateral trade (the Kennedy Round and the Tokyo Round), 24/ the second variety, on the contrary, have rapidly expanded in the last few years. These non-tariff barriers are leading to an expansion of what might be called an "administered" international trade sector. 25/

As in the previous case, there are two levels on which the effect of protectionist measures may be measured:

- As for the non-tariff barriers which have been erected, the effect on trade in sensitive goods has been fairly substantial. The products most affected by the introduction of protectionist measures are: agricultural products, primary products, semi-finished products (especially steel), certain manufactured products (the automotive and shipbuilding sectors), textiles, clothing and the maritime transport sector. More recently, this list has grown to include certain consumer items, such as electric home appliances and audio-visual devices, mainly from Singapore and South Korea. Wherever non-tariff barriers are introduced the effect is a very definite decline in trade. 26/ It goes without saying that it is the developing countries which are hardest hit by this situation.

- In a broader framework, another factor corroborating this phenomenon becomes evident when one looks at the differences in the treatment accorded to the industrialized and the developing countries. An analysis of the relative proportion of trade subject to restrictions leaves no doubt as to the discrimination which the developing countries are facing. 27/ In 1979, for example, the OECD countries subjected only 24 per cent of their import volume

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24/ It is fair to say that the end effect of the Kennedy Round has been a one-third reduction in customs duties, staggered over five years. The Tokyo Round appears to have had the same over-all effect. Still, a certain degree of discrimination between groups of countries is evident: the average reduction in duties was about 38 per cent among the industrial countries, whereas duties on products originating in developing countries were reduced by only 25 per cent.

25/ The term "administered sector" refers to trade resulting from bilateral barter agreements, the internal transactions of the multinational corporations, or to trade which is subject to non-tariff barriers. According to some estimates, the administered sector accounts for as much as three-fourths of international commerce. On this subject, see The Economist, "The First Trade Lesson", 3 April 1982.

26/ On this subject the reader is referred to the IMF study on sensitive products (Occasional Paper No. 5, Appendix IV).

27/ SAB Page. "The Revival of Protectionism and its Consequences for Europe", Journal of Common Market Studies, September 1981.

within the zone to controls, whereas the figure was 62 per cent for imports from non-oil-producing developing countries. The corresponding figures for the EEC are 20 and 63 per cent, respectively. We might note, in the same connection, that in 1974 the OECD countries applied controls to only 54 per cent of the imports originating in developing countries.

In conclusion, attention should be drawn to a particular form of non-tariff barrier which is related to import substitution policies. This form involves a policy of systematic subsidization by governments of those sectors of their economies which have to contend with competition from the newly industrialized countries (textiles, synthetic fibres, iron and steel, etc.). 28/

The conclusion to be drawn from these facts is inescapable: the rise in protectionism and the introduction by the industrial countries of restrictive policies in sensitive sectors, which are the result of the deflationary measures adopted by their governments, represent a grave danger to the developing countries and, in particular, to the recently industrialized nations. They penalize those countries which have opted for strategies centred on foreign trade and thus discourage others which might be tempted to adopt similar policies.

There is a final argument in support of the view that the position of the developing countries in international markets is worsening, namely the evolution in the prices paid for the main export products. Two characteristic trends may be observed in this connection:

- A pronounced deceleration in the price rise for the products exported by the developed countries. As opposed to a rate of increase of 10 per cent from 1979 to 1980, the rate from the first quarter of 1980 to the first quarter of 1981 was in the neighbourhood of only 2.5 per cent. 29/ Logically, this drop in the rate of inflation, which is the result of the deflationary measures introduced by the governments of these countries, could favourably alter the terms of trade between the developing and the industrialized countries to the advantage of the former.

- A significant drop in the prices charged for the primary products exported by the developing countries. 30/ Over-all, there was a 4 per cent reduction in these prices from the first quarter of 1980 to the first quarter of 1981, accompanied by a drop of 25 per cent in the price of non-ferrous metals during the same period.

28/ See, for example, the measures adopted within the EEC.

29/ See Table 13, Statistical Annex.

30/ See Table 14, Statistical Annex.

In the final analysis, this dual trend makes any assessment of the net effect on the terms of trade very difficult. 31/

II.2.2. Impact on demand in developing countries

The slowdown in their exports to the industrialized countries must inevitably have implications for the way the import activity of the developing countries evolves. The reduction in the volume of exports from these countries threatens not only their investment programmes, but also their policy of an opening to foreign markets. Although it would be possible to discuss in detail the full range of consequences of this development, we shall limit ourselves here to a review of the essential points:

- The contraction of potential markets for the industrial nations. 32/ As a group, the industrialized countries account for 78 per cent of all the products imported by the developing countries which import oil. The export growth rate, from the industrial to the developing countries, has averaged 15 per cent for semi-finished products and 22 per cent for industrial products. For the obvious purpose of rebalancing their trade balances, the developing countries could limit their imports of capital goods to the levels strictly required or else introduce import substitution policies in this area.

- The fall-off in demand in the other developing countries vis-à-vis the newly industrialized countries. As we have indicated, there is today increasing international trade within the group of developing countries; this trend explains the continued high growth rates in exports inside this group. For the same reasons as before, the question arises as to whether this trend will be self-sustaining when each individual country begins cutting back its industrial development programmes.

This last observation brings us directly to the argument advanced in this section regarding the effect of deflationary policies on international trade - the evidence is that these policies do in fact threaten to trigger a cumulative regressive process in trade between both groups of countries, the result of which would be the emergence of a kind of vicious circle in international commercial relations. Such a process has important implications in the financial area in that:

31/ See Tables 8 and 10, Statistical Annex.

32/ See Table 8, Statistical Annex.

- There is no assurance that the developing countries can maintain, through their exports, the influx of foreign currency which they need to pay for their imports and meet their current debt servicing liabilities;

- A deterioration in the profitability of trading - the basis on which loans in the international capital markets have been secured - may lead to reluctance on the part of financial circles to finance the investments needed for the growth of the developing countries. This threat is all the more serious in that there has been a marked deterioration in international financial arrangements at the same time. In this way, the conjunction of a steadily rising indebtedness to the private banks, on the one hand, with extremely high interest rates, on the other, is bringing an increasing number of countries close to the limits of their debt servicing capacity. It is no wonder then that in recent months debt rescheduling has become one of the major concerns of the international banking community. In addition, the various shock waves which, external to the international financial system, have originated of late in the area of international political relations cannot but damage, if only a little, the climate of confidence that is essential if there is to be an uninterrupted flow of international money to developing countries in difficulty.

IV. INTEREST RATES, INDEBTEDNESS, AND GROWTH IN DEVELOPING COUNTRIES: RISING DIFFICULTIES AND CONTRADICTIONS

One consequence of the new objectives and levers of the monetarist financial policies pursued by the United States Government has been a general, if highly unsteady, rise in interest rates, as shown in Table 15.

Through the arbitrage channels, specifically the major international banks, these movements in United States interest rates have been transmitted to rates in the Euro-dollar market, and in particular to the LIBOR, 1/ which provides the basis for the indexing of the majority of medium-term Euro-credits negotiated by the developing countries. Again, this can be easily seen in Table 15. Principally out of the need, on the part of a number of industrialized countries, to protect their external trade balance (expressed in terms of the rate of exchange of their own currency vis-à-vis the US dollar) and to combat inflation, these countries have no choice but to link their interest rates to those of the United States. Of course, even this linkage has not always prevented the dollar from appreciating, with unwelcome effects on the oil bills of these countries. At most, inflation throughout the industrialized world has begun to recede. 2/

Against this background, real interest rates became positive beginning as from 1979 and have continued to increase since then as nominal rates have been held to very high levels. It would appear that this represents one of the major differences between the first and second "oil shock" - in most countries interest rates were negative during the period 1974-1976.

These developments have had profound implications for the developing countries' efforts to repay their debts and for the net flow of financial resources which they have been able to obtain over the last two years from the international capital markets. Coupled with the repercussions, analysed

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1/ LIBOR = London Inter-Bank Offered Rate - the interest rate applied to inter-bank transactions on the London Euro-currency market.

2/ In the United States, where the mean annual rate of inflation during the period 1980-1981 was 11.9 per cent, it declined at an annual rate to 6.6 per cent during the 12-month period ending in April 1982 and to 1.9 per cent during the three-month period ending in the same month. In Western Europe the same three figures were 12.2, 10.9 and 9.9 per cent, respectively. In some countries performance has been far more dramatic, as in Great Britain with rates of 14.9, 9.4 and 7.8 per cent, respectively (according to World Financial Markets, May 1982).

above, of the world-wide deflationary trends on their international trade balances, these developments threaten, in the case of certain of the developing countries, to cut them off from regular access to private sources of capital, at least in the amounts required for sustained economic growth.

Having empirically confirmed the existence of the situation which has come about because of high interest rates, the next step is to analyse it in simple theoretical terms.

4.1. Interest payments by developing countries on their medium- and long-term external debts, 3/ which rose from 3.1 to 12.3 billion dollars between 1971 and 1977, totalled 24.1 billion dollars in 1979 and, according to one OECD estimate, vaulted to 45.6 billion in 1981. This is shown in Table 16, which also reveals that the respective situations of the low per capita income countries and the 13 major borrowing countries, as identified by the World Bank, differ substantially. While it is true that the first group has not escaped the effects of the general trend, it is precisely the second group of countries which has had to bear the heaviest part of this burden, a burden which, in any case (for all the developing nations) was additional to the 65.2 billion dollars owed in repayment of principal in 1981. 4/

Given this situation, it is not surprising that, in the case of some large borrowers, the debt servicing obligation has reached amounts comparable with these same countries' oil bills, to the point where it represents a critical item in their current payments balance. More specifically, the response of the balance of payments in these countries shows the same degree of sensitivity to changes in the LIBOR as to fluctuations in the price of a barrel of oil. The models prepared by the Morgan Bank, the results of which may be seen in Table 17, require no commentary in illustration of this point. In addition, unpredictable interest rates complicate the task of evaluating the profit margins of investment projects, thereby introducing a factor of uncertainty very likely to prove detrimental by reducing the actual volume of money invested. 5/ Further, since the rates for oil and other raw materials are

3/ As defined by the World Bank, this refers to the country's external indebtedness, whether public or guaranteed by a public authority; to this is added, in the case of those countries which provide information of this kind, the private, unguaranteed external debt.

4/ According to OECD estimates. These repayments on the principal, which amounted to only 6.5 billion dollars in 1971, totalled 25.3 billion in 1977 and 44 billion in 1979.

5/ On this point, see J.M. Parly, E. Cohen, M. Poix: L'influence de la variabilité des taux de change et d'interêt sur le développement industriel. UNIDO, Vienna, 10 December 1980.

also unpredictable, for many countries the management of the external public debt becomes substantially more complicated. [6,7]

These phenomena are in large measure the result of the increase in interest rates which has been mentioned. Specifically, Table 18 shows that this increase has left unaffected none of the channels for the financing sought by the developing countries, with the exception of public aid to development, although here too it is true that this privileged flow of financial assistance has not grown at a sufficient rate in recent years to cushion the impact of interest rate hikes on the servicing of these countries' external debts. The consequence of this insufficiency in public aid is to be found in the much analysed fact that, for the last ten years, the developing countries have been increasingly turning to the private international capital markets in an effort to bridge their growing external financing requirements. The indexing characteristic of medium-term Euro-credits - to say nothing of the natural indexing of the short-term debt [8] - has led to a situation in which a rising external debt has become synonymous with indebtedness indexed to international interest rate variations. Because of this, our current world-wide deficit economy only becomes more difficult to manage, as we shall see later on. For the time being, it will be observed, referring to Table 19, that the situation differs widely from one country to another in terms of the sensitivity of their foreign debt to interest rate fluctuations. To be sure, it is the countries sometimes referred to as the newly industrialized nations that, because of their more frequent demands on the international banking community, are today most exposed to the consequences of these fluctuations. In this connection, Table 19 confirms the findings already shown in Tables 16 and 18.

Obviously, this pessimistic view requires some tempering by taking into account the favourable effect which, conversely, rising interest rates exert on the reserve assets - frequently, as it happens, obtained through borrowing on the international capital market - which certain developing countries make available in liquid form to the international banking system and on some other short-term assets. For example, the World Bank has been able to show that, at

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6/ By way of example, on 15 March 1982 the Financial Times reported that Brazilian officials had optimistically estimated that country's debt service obligation at 6.7 billion dollars in 1981; the actual total was in fact 8.7 billion dollars.

7/ In the face of these problems, a number of countries have already turned to certain British merchant banks for advice.

8/ As, for example, in the case of Venezuela, this short-term debt may be very sizeable.

the end of 1979, a number of countries, including certain ones classified among the 13 major borrowing nations, were to some degree successful in balancing their rate-indexed debts and assets (e.g., Argentina, the Philippines, South Korea), and some (Spain and Colombia, for example) had even profited from the rise in interest rates. In any case, this is what follows from Table 20. Still, for reasons which will be analysed in detail in section 4.3, the exchange reserves of certain major borrowing countries have declined somewhat or, at least, stagnated since 1978-1979, as reflected in the changing pattern of their assets with the international banking system (cf. the cases of Brazil, Argentina, South Korea and the Philippines in Table 21).

4.2. There is a simple theoretical explanation for the variations recorded in the interest payments of the developing countries. If one accepts that nominal interest rates faithfully reflect the inflationary expectations of the economic agents, then the following equation may be written:

$$i = r + p^* + rp^*,$$

where: i is the nominal interest rate;
r is the real interest rate;
p is the price level;
t is time;
$p^* = \frac{1}{p}\frac{dp}{dt}$ is the anticipated rate of inflation.

Assume, at the moment t, a loan L_t at a periodically adjustable nominal interest rate i. It is well known that inflation depreciates the value of money lent and the interest it bears, but if this inflation is accurately anticipated, this will be reflected in the variations of i so that the interest received compensates the creditor - through p^*L_t and rp^*L_t - for the depreciation of the money he has lent and the variations in its interest, respectively. The effect exerted by inflation on debt servicing through higher nominal interest rates is equivalent to faster repayment of the real value of the amount lent. This is illustrated in Table 22 for a loan valued at 100 extending over a five-year period and repayable in five equal payments of the principal at a real interest rate of zero (whence the nominal interest rate and the anticipated rate of inflation p^* coincide).

The effect of inflation therefore is to distort the repayment of the real value of the loan: the higher the inflation, the more rapid the repayment; and for a given rate of inflation, the shorter the original due date of the loan, the closer will be the average life-time of the real loan to that date.

This has one significant consequence for the debtor: the higher the inflation, the more he must borrow in gross terms if he wishes to hold the real net transfer of resources from which he benefits at a constant level. 9/

The baneful effects flowing from this analysis for the developing countries will be immediately evident. If they are to continue to pursue their industrialization plans, they must at least maintain their net transfers of capital in real terms. What has been the situation in recent years? Table 23, which is concerned with the same groups of countries as Table 16 and supplements it, provides information on this subject.

What we find is a coupling of the increase in the interest burden with an increase in the repayment of the principal, occasionally deferred - in the case of loans negotiated at the time of the first oil shock - by grace periods, the result being the reversal, from 1979, of the continuous rise in net transfers of resources to the developing countries, transfers which had grown uninterruptedly during the period 1971-1978. True, the low-income countries were not affected by these developments, but unfortunately this is merely a reflection of the simple fact that these countries in any event receive only very limited resources from private sources. As it happens, those most directly responsible for this turn-around in the trend are the private providers of funds; since 1980, their new net contributions to the major borrowing countries have been practically nil. The situation, however, is incomparably more dramatic when certain of these countries are considered individually. There is, for example, the case of Brazil, which in the 1970s became increasingly dependent on the international banking system, only to suffer a severe shock in 1980 when its net transfers from the system turned heavily negative.

Although no data for 1981 are available, there is every reason to believe that the trend begun in 1979 has, if anything, strengthened; there has been no decline whatsoever in interest rates. It is mainly the developing countries which appear to have been unable to achieve any substantial increase in assistance from the international capital market, at least if we are to judge by the admittedly imperfect indicator provided by medium-term Euro-credits and by the Euro-bond loans recorded by the World Bank and the Morgan Bank.

9/ The net transfer of resources equals the new loans actually received less the repayment of the principal and the interest payments on the outstanding amount of the existing debt.

4.3. This reduction in net transfers to the major borrowers among the developing countries 10/ is occurring right at the time when these countries, which are among those whose growth rates were relatively high during the decade of the 1970s, are unable, all other factors being equal, to sustain these rates except to the degree that the gap between savings and investment inside the country is bridged by net contributions of external savings in increasing absolute amounts. Without this ability, these countries are forced to readjust their policies in the direction of lower growth rates. For example, IMF estimates indicate that the developing countries which are net importers of petroleum and exporters of industrial goods (in the case in question, newly industrialized countries like Brazil and South Korea) have recorded the following pattern in the rate of growth of their real GDP: 1976 - 6.1 per cent, 1977 - 5.1 per cent, 1978 - 5.2 per cent, 1979 - 6.5 per cent, 1980 - 4.7 per cent, 1981 - 4.6 per cent. The country in which this process of downward adjustment has been most spectacular is Brazil, which has seen its real rate of growth plummet to just above positive values in 1981.

Up to this point the discussion has been concerned with nominal interest rates. The deceleration in inflation, unaccompanied by any corresponding reduction in these nominal rates, has led to an increase in real interest rates. 11/ Coupled with the general appreciation of the dollar, these real rates are in fact resulting in a heavier drain on the real resources of the developing countries in the form of debt repayments from their net export revenue. This is because, in the case of the major borrowing countries, the indebtedness to the private banking system is largely in dollars; a US Federal Reserve System study (published in the Federal Reserve Bulletin of September 1981) cites a dollar indebtedness ratio of 4:5 for the ten countries which have borrowed most. In essence, the aggregate of the problems we have so far been analysing are not affected by this in any way; at most, they are accentuated by it.

10/ We might note that we have not considered here the net flows of direct investment. This investment, which at 1.1 billion dollars had reached a low in 1974, rose again strongly in 1975 to 10.5 billion dollars and reached 13.5 billion in 1979. However, the relative short-term stagnation in direct investment has prevented this source from compensating in any significant way for the effects of the sharp fluctuations in net transfers which we have noted in our discussion.

11/ Although, in the circumstances, it is a complicated matter to determine which price indicator may represent the appropriate deflator, all the same one is inclined to take the export unit price index for the developing countries or the wholesale price index in the industrialized countries. The fact is, the developing countries repay their debts out of their export revenue and purchase their capital equipment from the industrialized nations using borrowed money.

Since, as everyone is aware, a country's ability to pay the interest on its debts without being forced into still further indebtedness precisely for the purpose of meeting this obligation requires that the rate of growth of its GDP (whether in nominal or real terms) be at least equal to the interest rate (nominal or real) on its debt, the contradictory situation in which these countries risk becoming enmeshed is evident.

By shortening the real average life-time of their indebtedness, nominal interest rates driven upward by the recent inflation are placing these countries in a situation wherein they are increasingly forced to turn to the international capital market. 12/ And they are having to face this need precisely at a time when a number of the indicators of their economic soundness, already skewed by the high nominal interest rates (in particular, the interest burden/GDP ratio), will deteriorate even further if there is a slowdown in the growth of the GDP and in export activity.

In these circumstances, the international banks, already concerned over the weakening of their own financial position as a result of the erosion in the ratio of bank-owned funds, may well become far more reluctant to increase their assistance to these countries. 13/ This is, in fact, a response which undoubtedly began to emerge in 1980, as indicated by the trend in the granting of medium-term Euro-credits: in 1978, developing countries not members of the OPEC mobilized 27 billion dollars in this way; in 1979 and 1980 the figures were 35.5 and 24 billion dollars, respectively; and in 1981, only 15 billion. And, with the sole exception of the Mexican loans, the same trend can also be seen in the international bond markets as well. By forcing a reduction in the real growth rates of the developing countries, this development can only widen the gap between their revenue and the real interest rate burden they face. While for the countries involved this means the need to seek additional funds with which to pay this interest, it is likely that the banks, for their part, will see in this an added reason to turn down their requests. The end result is to create a cumulative process which will inhibit the growth of these countries as long as interest rates remain as high as they are.

12/ Recent estimates by the Morgan Bank indicate that, in the case of 21 developing countries which are heavy borrowers, 47 per cent or 127 billion dollars of their outstanding indebtedness to foreign banks of 271 billion dollars was due in less than one year. World Financial Markets, May, 1982.

13/ And with good reason. The extent of the risk associated with loans to States can be gauged by the number of countries which are behind on the payment of their foreign debt. At the beginning of 1982, the Amrobank of the Netherlands estimated this number at 26! (According to the Financial Times, 4 May 1982).

STATISTICAL ANNEXES

Table 1. Regional composition of world trade

(Percentage shares in world exports(X) and imports(M))

		1963	1973	1976	1978	1979	1980
Industrial regions	X	64	68	63	65	63	61.5
	M	64.5	69.5	66.5	65.5	67	66
Traditional oil-exporting developing countries	X	6	7.5	13.5	11	13	15
	M	3	3.5	6.5	7.5	6	6.5
Developing countries which have recently become oil exporters	X	2	1.5	2	1.5	2	2.5
	M	2.5	1.5	2	2	2	2
Other developing countries	X	13	10.5	10.5	10.5	10.5	10
	M	15.5	13	12.5	13.5	14.5	15
Least advanced among the developing countries	X		1.5	1.5	1.5	1.5	1.5
	M		1.5	1.5	1	1	1

Source: GATT report: International Trade 1980/1981, Appendix Table A3.

Table 2. Commodity composition of world trade

(Percentage shares)

	1963	1973	1976	1978	1979	1980
Primary commodities	45	38	41	37	40	44
including fuels	10	11	20	17	20	24
Manufactured goods	52	61	57	60	58	55

Source: Network of World Trade.

Table 3. Percentage share of major regions in world exports of primary products and manufactured goods

	Primary Commodities			Manufactured Goods		
	1973	1978	1980	1973	1978	1980
Industrialized regions	46	39	36	82	81	81
Traditional oil-exporting developing countries	19	30	34	1	0.3	0.5
Other developing countries	9	19	17	7	8	9

Sources: GATT Report: International Trade 1980/1981.
Network of World Trade.

Table 4. Proportion of manufactured goods and primary commodities in total exports of the major regions (Percentages)

Year	Industrialized regions		Traditional oil-exporting developing countries			Other developing countries	
	Primary Commodities	Manufactured Goods	Primary Commodities	(Fuels)	Manufactured Goods	Primary Commodities	Manufactured Goods
1973	25	73	98	89	2	65	34
1978	22	76	98	93	2	58	40
1980	26	73	98	94	2	61	39

Source: GATT. International Trade 1980/1981. Appendix Table A22.

Table 5. Structure of exports from major groups of countries by product (Percentages) */

Destination / Origin	Industrialized regions			Traditional oil-exporting developing countries			Other developing countries		
	1973	1978	1980	1973	1978	1980	1970	1978	1980
Industrialized regions									
Primary commodities	28	26	29	15	9	15	21	18	19
Manufactured goods	72	74	71	83	85	83	75.61	79.5	78
Traditional oil-exporting developing countries									
Primary commodities	98	99	99	60	35	57	99	97	96
	90	95	96	30	18	45	89	93	92
Manufactured goods	2	1	1	40	59	43	1	2	3
Other developing countries									
Primary commodities	67	60	63	40	42	46	56	50	54
Manufactured goods	32	38	37	58	57	51	42	50	46

*/ For example, manufactured goods represent 78 per cent of total exportc from the industrialized countries to the developing countries.

Source: GATT: International Trade 1980/1981. Appendix Table A22

Table 6. Geographical export trends of major groups of countries by commodity

(Percentages of total exports)

	Industrialized regions			Traditional oil-exporting developing countries			Other developing countries		
	1973	1978	1980	1973	1978	1980	1973	1978	1980
Industrialized regions									
Primary commodities	80	79	78	2	5	5	11	11	11
Manufactured goods	73	67	67	5	11	9	14	15	16
Total	75	70	70	4	9	8	14	14	15
Traditional oil-exporting developing countries									
Primary commodities	78	76	75	0.2	0.4	0.8	19	20	22
Manufactured goods	-	22	33	-	34	32	-	22	32
Total	77	75	74	0.2	1	1.5	19	20	22
Other developing countries									
Primary commodities	73	68	65	2	5	5	16	16	19
Manufactured goods	65	62	59	6	10	9	22	24	26
Total	70	66	63	3.5	7	7	18	19	23

Source: GATT International Trade 1980/81. Appendix Table A22.

Table 8. Trade balances of non-oil-exporting developing countries by major product categories (in billions of dollars)

	1973			1978			1979			1980		
	Exports	Imports	Balance	Exports	Imports	Balance	Exports	Imports	Balance	Exports	Imports	Balance
Primary commodities	44.25	29.3	14.95	92.8	73.6	19.2	119.75	102.9	16.85	149	139.6	9.4
Food	22.05	13.05	9	46.15	24.9	21.25	54.05	31.5	22.55			
Raw materials	7.69	4.40	3.29	11.40	7.9	3.5	15.8	10.1	5.70			
Fuels	5.98	9.51	-3.53	23.15	36.75	-13.6	33.5	54.45	-20.95			
Other commodities	8.52	2.32	6.20	12.10	4.7	7.4	16.4	6.85	9.55			
Manufactured goods	23.15	50.05	-26.90	63.2	121.10	-57.9	81.6	153.8	-72.2	95	186.2	-91.2
Semi-manufactures	6.17	16	-9.83	15.5	36.75	-21.25	20.35	47.75	-27.40			
Finished products	5.91	27.04	-21.13	20.30	69.35	-49.05	27.20	87.10	-59.90			
Textiles	4.05	3.92	0.13	7.65	7.30	0.35	9.90	9.05	0.85			
Clothing	3.82	0.89	2.93	10.45	1.95	8.50	12.6	2.45	10.15			
Other consumer goods	3.18	2.21	0.97	9.3	5.80	3.50	11.55	7.4	4.15			
Unclassified trade	0.90	3.55	-2.65	2.20	7.20	-5	4.35	8.70	-4.35			
TOTAL trade	68.30	82.90	-14.60	158.7	201.90	-43.2	205.7	265.4	-59.7	245	335	-90

Source: GATT: International Trade 1980/81. Appendix, Table A22.

Table 9. Composition of non-oil-exporting developing countries' exports (percentages)

Products	1973	1978	1979	1980
Primary commodities	64.8	58	58.22	60.8
Food	32.3	28.1	26.3	
Raw materials	11.3	7.1	7.7	
Other products	21.2	26.5	24	
Manufactured goods	33.9	40.0	40	38.8
Semi-manufactures	9	9.6	9.9	
Finished products	8.7	12.9	13.2	
Textiles	5.9	4.8	49	
Clothing	5.6	6.8	6.1	
Other consumer goods	4.7	5.9	5.6	
Other products	1.3	2.0	2.1	
TOTAL	100	100	100	100

Source: International Trade 1980/81. GATT. Appendix, Table A22.

Table 10. Industrialized countries' trade balance with oil-importing developing countries
(in billions of dollars)

	Oil-importing developing countries as a whole		Latin America		South-East Asia		Far East		Africa	
	1973	1980	1973	1980	1973	1980	1973	1980	1973	1980
Primary commodities	-20.7	-48.2	-10.0	-23.6	-0.4	-0.5	-2.9	-9.5	-7.0	-13.6
Manufactured goods	23.7	60.4	9.3	26.2	0.8	4.5	3.2	6.7	7.7	16.5
TOTAL	3.1	12.3	-0.6	2.9	-0.4	4.0	0.3	-2.7	0.6	2.3

Source: GATT: International Trade 1980/81.

Table 11. Imports of oil-importing developing countries by product groups and areas (percentages of total imports)

Origin	Industrial countries		Oil-importing developing countries	
Product groups	1973	1980	1973	1980
Primary commodities	38	25	24	21
including food	57	55	25	27
Manufactured goods	80	78	10	13
including steel	83	80	6	10
Chemicals	83	82	10	10
Electromechanical industry products	83	83	7	9
TOTAL	64	65	15	16

Source: GATT: International Trade 1980/81.

Table 12. Changes in the main components of demand in the industrialized countries 1963-1980

(Percentage annual variation in volume)

	1963-73	1973-1980	1978	1979	1980	1981	1981 IV
GNP or GDP	5	2	3.8	3.4	1.2	1.1	1.0
Private sector consumption	5	2.50	3.9	3.30	1.1	1.0	1.0
Gross fixed capital investment	6	1.50	6	4.50	0.50	-	-
Non-residential investment	6	2.50	6.50	6.50	2	-0.5	-2.5

Source: OECD National Accounts of OECD member countries, reproduced in the Fifty-second Annual Report of the Bank for International Settlements (1 April 1981-31 March 1982).

Table 13. Export prices of primary commodities 1973-1981 (Index 1975 = 100)

	1973	1977	1979	1980	1980				1981	
					Q_1	Q_2	Q_3	Q_4	Q_1	Q_2
Total manufactured goods	72	109	142	157	154	157	163	160	157	(150)

Source: UN Monthly Bulletin of Statistics.

Table 14. Export prices of primary commodities 1973-1981 (Index 1975 = 100)

	1973	1978	1979	1980	1980 Q_1	1980 Q_2	1980 Q_3	1980 Q_4	1981 Q_1	1981 Q_2
Food	88	122	137	156	149	154	160	161	151	141
Minerals and non-ferrous metals excluding oil	69	109	127	151	151	148	153	151	149	150
Total products	85	120	139	159	155	156	162	162	154	148
Oil	30	117	170	295	279	293	301	306	326	326
Primary commodities total	62	119	152	217	208	215	222	224	228	225

Table 15. Trends in United States 1/ and Euro-dollar interest rates at six months (Percentages)

	Dec.75	Dec.76	Dec.77	June 78	Dec.78	June 79	Sept.79	Dec.79	Jan.80	Feb.80	March 80	Apr.80
US rates	5.91	4.75	6.84	7.88	10.57	9.94	11.95	13.70	13.49	15.45	18.44	13.70
Euro-dollar rates	6.63	5.38	7.50	9.19	12.31	10.50	12.75	14.44	14.37	17.00	19.56	13.69

	May 80	June 80	July 80	Aug.80	Sept.80	Oct.80	Nov.80	Dec.80	Jan.81	Feb.81	March 81	Apr.81
US rates	7.90	8.03	8.82	10.91	12.24	14.24	17.15	17.62	16.67	15.48	14.25	16.80
Euro-dollar rates	10.25	9.94	10.06	12.50	13.94	14.87	16.87	16.75	16.75	16.75	14.81	17.00

	May 81	June 81	July 81	Aug.81	Sept.81	Oct.81	Nov.81	Dec.81	Jan.82	Feb.82	March 82	Apr.82
US rates	16.94	17.07	17.62	17.48	16.80	14.91	11.31	12.78	14.11	13.96	14.24	14.24
Euro-dollar rates	16.94	17.25	18.68	18.56	18.06	16.00	12.62	14.81	15.00	15.06	15.44	14.87

Source: World Financial Markets. Morgan Guaranty Trust Company. Various numbers.

1/ Interest rates on money market paper, at 3 or 4 months' maturity other than Treasury Bonds, at end of period.

Table 16. Interest on developing countries' medium-term and long-term debts

(in billions of US dollars)

	1971	1973	1975	1976	1977	1978	1979	1980	1981
Developing countries as a whole	3.1	5.2	9.0	10.1	12.3	17.2	24.1	34.1	46.5(e)
- interest on debts from private sources	1.9	3.5	6.6	7.2	8.7	12.7	19.1	27.8	
Major borrowing countries 1/	1.2	2.1	6.0	6.6	8.1	11.5	16.7	24.0	
- interest on debts from private sources	0.6	1.2	4.7	5.0	6.1	9.0	14.0	20.5	
Low-income oil-importing countries 2/	0.4	0.5	0.6	0.6	0.7	0.9	1.0	1.2	
- interest on debts from private sources	0.1	0.1	0.1	0.1	0.1	0.2	0.2	0.4	

Sources: World Debt Tables. World Bank. Washington, Dec. 1981.
External Debt of Developing Countries. OECD. Paris, Oct. 1981.

Notes:

e: estimated value.

1/ Algeria, Argentina, Brazil, Egypt, India, Indonesia, Israel, Mexico, Republic of Korea, Spain, Turkey, Venezuela and Yugoslavia. In 1980 these countries all had medium-term and long-term external debts (public and private) of more than $12 billion.

2/ Countries with per capita GNP of less than $370 in 1979.

Table 17. Effect of price changes per barrel of oil and of LIBOR on current balance of payments of 12 non-oil-producing developing countries. 1/ 1982 projections

	Brazil	Republic of Korea	Turkey	India	12 developing countries
Net oil imports in billions of dollars 2/	8.2	6.1	3.1	5.3	35.7
Gross interest on external debt in millions of dollars 2/	9.0	3.5	1.4	0.8	27.8
Effect of oil price change of $5 per barrel	1.4	1.0	0.5	0.7	5.8
Effect of 2 per cent variation in LIBOR	1.3	0.5	0.2	0.1	4.0

Source: World Financial Markets. Morgan Guaranty Trust Co. of New York. March 1982, p. 7.

Notes:

LIBOR (London Inter-Bank Offered Rate): Interest rate for medium-term Euro-credit indexation.

1/ Argentina, Brazil, Chile, Colombia, India, Israel, Ivory Coast, Philippines, Republic of Korea, Taiwan, Thailand, Turkey.

2/ On the basis of an average OPEC oil export price of $29-30 per barrel and 13% LIBOR.

Table 18. Average interest costs (in percentages) for different types of credit to developing countries 1/

	1972	1973	1974	1975	1976	1977	1978	1979	1980	1981
Fixed interest debts	4.2	4.5	4.6	4.8	4.8	5.0	5.2	5.5	5.7	6.2
DAC Official Development Assistance	2.5	2.5	2.4	2.4	2.4	2.2	2.3	2.2	1.9	1.8
DAC official export credits	-	6.0	6.0	6.3	6.3	6.0	6.2	6.3	6.8	7.3
DAC private export credits	-	6.6	6.8	7.5	7.6	7.9	8.1	8.3	8.6	8.9
Support from international organizations	5.2	5.5	5.5	5.4	5.5	5.6	6.2	6.2	6.6	7.3
Liabilities	4.9	5.5	5.2	5.5	5.0	5.6	7.0	7.3	8.3	9.0
Other private debts	-	8.5	9.0	8.6	8.5	8.4	8.6	9.2	9.8	10.5
Bilateral aid other than DAC	2.6	2.7	2.8	3.0	3.0	3.0	3.3	4.0	4.5	5.0
Debt at variable interest rates 2/	7.9	9.0	10.0	11.0	8.5	7.8	9.0	12.0	15.3	18.0
Total debt	4.6	5.4	6.1	6.6	6.6	6.6	7.5	7.7	8.8	10.2

Source: External Debt of Developing Countries. OECD Paris, Oct. 1981.

Notes: DAC = Development Assistance Committee.

1/ Annual interest payments and other expenses, in percentages of debt outstanding at the start of the year and adjusted to take account of exchange rate variations.

2/ Annual average weighted cost to borrowers - including spread and commission - on the basis of average LIBOR between 1 July and 30 June, and quarterly renewal of credits.

Table 19. Proportion of medium-term and long-term debt at variable interest rates in 1980 (in percentages)

Country	%	Country	%
Argentina	57.7	Nicaragua 1/	36.0
Bolivia	32.1	Peru	25.2
Brazil	62.6	Philippines	30.1
Chile	51.8	Sudan	3.7
Costa Rica	48.1	Turkey	23.0
Jamaica	27.5	Venezuela	77.9
Mexico	70.6	Zaire	11.6

Source: The Economist, 20 March 1982.

1/ 1979 value.

Table 20. Debts and assets in sundry currencies at variable interest rates. End of 1979. Billions of dollars

	Total debt 1/ at variable rates	Currency assets
Argentina	9.6	8.9
Brazil	39.0	10.2
Chile	4.1	2.2
Republic of Korea	9.9	5.6
Spain	11.5	23.3
Turkey	4.2	0.8
Colombia	2.8	3.8
Ivory Coast	1.5	0.2
Morocco	2.4	0.8
Philippines	5.4	3.7

Source: World Development Report, 1981.

1/ Including short-term liabilities.

Table 21. Assets held in the international banking system by major developing country borrowers

(End of current quarter. In millions of dollars)

	1975 IV	1976 IV	1977 IV	1978 II	1978 IV	1979 II	1979 IV	1980 I	1980 II	1980 III	1980 IV	1981 I	1981 II	1981 III	1981 IV
Argentina	2060	3138	4335	4464	4704	6750	7690	7525	6988	7816	6616	5340	5576	5840	6574
Brazil	4061	6780	6308	7698	10716	9511	8075	5535	4772	4418	4729	4264	4156	4612	4822
Mexico	3385	4400	5254	5550	6443	6571	8224	8343	8494	7959	9438	9439	9125	9969	12144
Republic of Korea	1182	2150	3030	2685	2496	2475	3090	2700	2459	3342	3262	2813	2493	2714	3154
Taiwan	1525	2330	3504	3871	4596	4769	4779	4424	4723	4936	4766	4683	5256	5581	5963
Chile	515	718	798	1226	1638	1772	2235	2594	3011	3264	3372	3440	3497	3407	3573
Turkey	773	545	584	684	807	917	902	1034	1031	1111	1231	1127	1078	1251	1558
Philippines	1702	1836	1827	2116	2226	2442	2734	2789	3085	3050	3497	3511	2970	3185	2944

Source: International Banking Activity. Quarterly. Bank for International Settlements, Basel.

Table 22. Effects of inflation on real value of loans

	1	2	3	4	5
No inflation					
Amount of loan still available at beginning of period	1 000	800	600	400	200
Repayment of principal	200	200	200	200	200
Interest	0	0	0	0	0
Debt servicing	200	200	200	200	200
10% per annum inflation					
Amount of loan still available at beginning of period	1 000	800	600	400	200
Repayment of principal	200	200	200	200	200
Interest	100	80	60	40	20
Debt servicing	300	280	260	240	220

Source: External Indebtedness of Developing Countries. Occasional Paper 3. IMF. Washington, May 1981.

Table 23. Net transfers of resources to developing countries (in billions of dollars)

	1971	1973	1975	1976	1977	1978	1979	1980
Developing countries as a whole								
Net transfers	7.4	13.0	23.6	27.0	32.6	36.7	31.0	22.7
Debts to private sources	4.0	8.0	13.7	18.3	23.1	26.7	20.3	8.6
13 major borrowing countries								
Net transfers	3.1	6.5	15.5	18.4	19.8	22.8	16.0	7.7
Debts to private sources	1.4	4.0	10.2	14.1	15.8	18.7	13.5	1.7
Low per capita income countries								
Net transfers	1.4	1.5	3.4	2.8	2.6	3.0	3.4	4.6
Debts to private sources	0.2	0.3	0.2	0.3	0.4	0.6	0.4	0.6
	(in millions of dollars)							
Brazil 1/								
Net transfers	545.5	1271.0	2787.0	3838.3	3640.6	6912.2	580.7	-3082.9
Debts to private sources	417.6	1055.5	1670.3	2583.2	2671.2	6776.7	519.0	-3088.3
Mexico								
Net transfers	64.9	1171.2	2480.5	3262.5	3181.7	2333.7	708.4	659.2
Debts to private sources	47.7	1095.8	2228.6	3151.7	3071.7	2339.1	689.5	223.4

Source: World Debt Tables. World Bank. Washington, December 1981.

1/ Including unguaranteed private debts as from 1975. No information available on contribution of private sources to net transfers relating to this part of the debt prior to 1978.

Annex

The 13 major borrowing countries on the World Bank's list:

Algeria	Indonesia	Turkey
Argentina	Israel	Venezuela
Brazil	Mexico	Yugoslavia
Egypt	Republic of Korea	
India	Spain	

The 12 major borrowing countries on the list of the Morgan Bank:

Argentina	India	Republic of Korea
Brazil	Israel	Taiwan
Chile	Ivory	Thailand
Colombia	Philippines	Turkey

The differences between the two lists are due to the fact that the Morgan Bank considers only non-oil-exporting countries.