FOREIGN ECONOMIC DEVELOPMENT: THE NEED AND HOW WELL IT IS BEING MET

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THE WEALTH AND POVERTY OF NATIONS

Today, the need for economic development is self-evident to the millions of people in Asia, Africa and Latin America who suffer from malnutrition, are ill-housed, poorly educated, and either unemployed or grossly underemployed. The ultimate objective of economic development is to raise the standard of life – the quality of life – for the mass of the people, to widen their area of choice, to open up new opportunities for human well-being. The less developed countries have two-thirds of the 3.5 billion people but receive only 12.5 percent of the world's gross national product [14]. Life appears to be an economic treadmill with the future blighted by an excessive rate of population growth for millions of people. India provides a good illustration of the problem. With an estimated population of 525 million at mid-1968, India had 15 percent of the world's population, 2.4 percent of the world's land area, hardly 2 percent of the world's income, and an annual per capita income level of around $75 [16].

The issue is bluntly stated in the opening sentence of the Pearson Report, *Partners in Development:* "The widening gap between the developed and developing countries has become a central issue of our time" [14].

Is the future as bleak as these few statistics indicate? Is it inevitable that the rich countries will get richer and the poor remain at subsistence levels? The answer to these questions may well indicate the shape of the world for the future.

The division between a developed and a less developed country is taken arbitrarily at a per capita annual income of $500. This does leave a number of very similar countries just above or below the cut-off, and the dividing line could be shifted somewhat either way without materially altering the comparisons and trends.

Since 1950, the trend of economic growth has been steadily upward. When one compares the average annual rate of growth of gross domestic product for developing countries for the period 1950-67 with that of the industrialized countries, one is impressed when observing that the developing countries, as a group, were growing faster – 4.8 percent to 4.3 percent [16]. If we look only at the more recent period, 1960-67, the average annual rate of growth of gross domestic product is slightly larger for the group of developing countries – 5.0 percent to 4.8 percent [16]. However, when we make the comparison on a per capita basis, we see a reversal. The average annual rate of growth of per capita GDP was 3.6 percent for developed countries and 2.5 percent for the developing countries during the period 1960-67 [16]. These averages hide a great deal of diversity to which we shall return later, but it does emphasize one very important fact – the less developed countries do have the capacity for growth. The record is in balance better than is generally recognized, and we believe that Professor Albert O. Hirschman is unduly pessimistic in his judgment of the sixties: "So the sixties, which opened with very great hopes, came to very little. . . . Instead of it being a development decade, it was a period of realignment, churning about and even stagnation" [6]. As a whole, the record compares very favorably with the British experience during a comparable period of development. The beginning of sustained economic growth in Britain can be traced to the middle of the 18th century when the overall annual rate of growth seems to have risen to near 1 percent, and during the 19th century the per capita GNP was 1.5 percent per annum at the beginning of the century, dropped to 1 percent per annum at the middle,

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rose to 1.9 percent per annum and closed the 19th century and opened the 20th at 1.7 percent per annum [4].

THE LESS DEVELOPED COUNTRIES

Vast differences exist between the various so-called "less developed," "developing" or poor countries, in terms of social, cultural, political and economic backgrounds and organization. The group of approximately 100 developing countries has two-thirds of the world's population and receives one-eighth the world's GNP. Included in the group are such widely divergent countries as India, with 525 million people, and The Gambia, with a population of 300,000. In terms of political organization, the countries vary from dictatorship to one-party systems to multiple-party democracy. All profess a desire for faster economic growth to reduce poverty, provide more educational opportunities, better food and housing, to increase control over nature and broaden the range of choice for their citizens. There is a wide range of economic organization, from varieties of socialism to a heavy emphasis on private ownership and market allocation, but all rely increasingly on forms of economic planning to improve the allocation of resources. A few have substantial industrial sectors, but the great majority depend overwhelmingly on agriculture. Among the faster growing LDC's (that is, with growth rates of over 6 percent per annum GNP) are relatively well-off countries like Mexico, Panama, and Yugoslavia, with per capita incomes in 1968 of around $500 [14], and also such countries as South Korea and Thailand with per capita incomes in 1968 of between $150 and $200 [1]. At the other end of the growth scale was Uruguay with negative per capita growth rate in 1968 of 3.7 percent and a per capita GNP of $525 and Argentina with a growth rate of 1.6 percent and per capita GNP of $668 [1]. Strictly speaking, Argentina is not an underdeveloped country by our criteria. Among the slow-growing poorest countries are Mali and Burma with per capita GNP of under $100 [14].

AGRICULTURE AND INDUSTRY

Agriculture remains the largest sector in most developing countries, and what happens in that sector very substantially influences overall rates of growth as well as possibilities for industrial expansion. Until recently, slow growth in the agricultural sectors seemed to indicate a high priority for investment in industrial development, and that led many countries to seek the import-substitution route to stimulate domestic manufacturing, frequently at the expense of a balanced overall development.

The dramatic appearance and performance of high-yielding varieties of rice, wheat and maize, developed in Mexico and the Rice Research Institute in the Phillippines, with support from the Ford and Rockefeller Foundations, has been appropriately termed a Green Revolution. The most far-reaching results have been observed in Asia. In 1968-69, "India's food output was about 8 million tons larger than the previous record of 89 million in 1964-65. Pakistan increased its wheat production by 50 percent in two years. Ceylon's rice production has gone up by 34 percent between 1966 and 1968, and in the Phillippines two bumper rice harvests seem to have ended half a century of dependence on imported rice [14]. The dramatic story of the turn-around in Indian food production is reported by Carroll P. Streeter [12], "Given demonstratably superior seed and a price incentive to produce, they (India's farmers) are impressing the world with their enterprise. The result is that India approaches self-sufficiency" [12]. India's agricultural production is currently growing at 4 percent a year with 5 percent in sight [12]. The "dwarf" varieties of wheat and rice, with proper control of water and use of pesticides, can utilize four or more times as much fertilizer as the varieties traditionally planted, with a consequent doubling or tripling of yields. These gains in productivity were of decisive importance in Asia to meet food requirements and earn foreign exchange. The seed-fertilizer revolution has resulted both from profound changes in technology and in economic and political policy. Peasant farmers in Asia are not slow to change, nor bound by custom and habit, and do respond to price and cost incentives when the gains in income are substantial enough. The importance of the economic relationship is emphasized by Professor Yujiro Hayami in his paper, "Green Revolution in Historical Perspective: The Experience of Japan, Taiwan and Korea" [5].

Productivity gains in agriculture, based on the application of science and technology, offer tremendous opportunities for sustained rural development which could provide an expanding domestic market for consumer goods and services both in the small towns and urban centers as well as an expanding source of exports to earn the needed foreign exchange to pay for essential imports. A balanced expansion of the mutually interdependent agricultural, service and manufacturing sectors is needed. There is substantial agreement that the long run development process involves structural transformation of the total economy resulting from a more rapid industrial-urban growth and reduced labor force in agriculture. For many countries, however, such a development may not be approached until the next century, and the absolute size of the labor force in agriculture will continue to grow for several decades.

LABOR FORCE EXPLOSION

The very rapid population expansion, sometimes termed a population explosion, which has occurred in the LDC's [14], brings with it in due time a labor force explosion that will manifest itself during the seventies and eighties. President McNamara, in his address to the 1969 annual meeting of the Board of Governors of the World Bank, emphasizes the seriousness of the problem:

"It is estimated that the equivalent of 20 percent of the entire male labor force in the developing world is currently unemployed.

"The sobering fact is that the population explosion of the fifties and sixties is only now beginning to have an impact on the size of the labor force. Fully one-half of the total population in the emerging world is under 20 years of age. Population planning – even at a high degree of effectiveness – cannot make a decisive impact on the unemployment problem before the end of the century"[9].

A matter of greatest importance influencing a developing country's capacity to utilize its growing labor force productively is its strategy for developing its agricultural sector, with an appropriate emphasis on a labor-using capital-saving approach [2, 8]. Selective mechanization to meet peak labor requirements, and intensive cropping is indicated as essential to absorb the exploding labor force. Employment for the rapidly expanding labor force is essential if the people are to have sufficient income to purchase food requirements.

India, with an estimated population of 525 million (mid-1968) and increasing by 21 million a year, faces a very difficult future. As McNamara points out, "In India's Fourth Five-Year Plan, for example (the plan covering the years 1969-73), the estimate is that 19 million new jobs will be created, but that 23 million new workers will come into the labor force to compete for them" [9].

A study of progressive farmers in the Uttar Predesh region, an area where ample water and the services of an excellent agricultural university stimulated the adoption of new varieties, gives one indication that greatly increased farm income results in a substantial expansion of investment – improving buildings, adding and improving irrigation, electricity, and buying more animals and more land. Streeter writes, "Not only is the greatly increased income from new varieties and new farming methods giving farmers the means to farm still better, and to live better, but it is an incalculable stimulus to the businesses that supply their wants, and indeed to the whole economy of India" [12]. He also points out, however, that there are widely differing views as to what the consequences of mechanization might be.

A careful balance must be maintained between capital-intensive and labor-intensive development. Unemployment in many countries has been aggravated by policies which have stimulated investment in capital-intensive technology. Real interest rates have been kept down by inflation, and imported equipment has been underpriced because exchange rates have been overvalued. A recent study by Bose and Clark on "Some Basic Considerations on Agricultural Mechanization in West Pakistan" suggests that mechanization through tractors in West Pakistan would be privately profitable but socially very costly. They suggest "this divergence between the private and social net benefits arises mainly because the market prices are not appropriate to the economy's factor proportions. Capital and foreign exchange are clearly undervalued to farmers interested in mechanization" [2]. This divergence could be corrected by altering prices, the rate of exchange, and/or adding duties and taxes.

In his 1969 address to the Board of Directors of the World Bank, McNamara emphasized the potential dangers in three closely related problems of development – unemployment, urbanization, and industrialization [9]. The editors of The London Economist in their last issue of 1969 very graphically posed the problems: In essence, they suggested that the potential contribution to human welfare, based on the new agricultural technology, could be aborted in rising unemployment and urban mob revolution. "In the poor two-thirds of the world there is likely to be a sharp increase, both in the production of food and the number of unemployed farmers. In some of its overcrowded cities there may be mob-led revolution, as in France in 1789" [13]. The Economist sets forth its vision of a possible disastrous future as follows:

"The main economic facts about agriculture are: (a) over 60 percent of the labour force of the world is at present engaged in it, although with modern production methods an advanced country can more than feed itself with between 5 percent and 10 percent of its labour in agriculture; (b) the stage when agricultural supply becomes almost fantastically elastic – so that production expands and new methods of cultivation are adopted in response to greater price incentives – tends to come quite suddenly, at a particular point in a country's educational and economic and social development. European and North American agriculture reached this stage some time ago, which is why their ministries of agriculture – who originally thought that their job was to keep farm production up – have found themselves snowed under with gluts. . . .

"There are now strong signs that this point of 'green revolution' has been reached in many poor countries during the second half of the 1960's. The

trail was blazed by Mexico and the Phillippines early in the decade; but in the past few years, farmers in India, Pakistan, Ceylon, and parts of South America have shown a great new willingness to move to more productive methods if good prices give them an incentive. During the 1970s this process is likely to grow much stronger, and these countries will find that they do not need on the land more than a small proportion of those who work there now. And that, of course, is the problem. The flow to the towns is already a major trouble in the poor countries of the world. In the 1970s it is liable to become an uncontrollable flood, and threaten real, red, raw, urban revolution"[13].

This is a very grim potential facing the poor countries. It is, however, only a potential and need never become a reality if wise national and international economic and political policies are followed during the coming years. The high-yielding varieties, plus the necessary fertilizer, water control and other inputs, could be the base for sustained economic and social development with the agricultural sector being an engine of growth and a source of widely distributed income. Alternatively, with inadequate analysis, poor economic and political policy, and a slacking off of a will for development, the agricultural revolution could be overwhelmed by a continued population and labor force explosion.

GROWTH STRATEGY

Improvement in the lives and welfare of mankind is the ultimate purpose of development. The success in achieving this goal depends principally on the policies pursued by the low-income countries, but not solely. The crucial problem for development is to remove bottlenecks or to find substitutes for some of the missing ingredients or components of the growth process. The days when a single factor (capital, entrepreneurship, skills) was believed to be the key to economic development has long since disappeared. There is widespread agreement that development is a complex structural transformation of an economy. We have previously noted that the majority of the less developed countries are substantially agricultural, have very high rates of growth of population and labor force, which is combined with a substantial scarcity of capital. Unemployment is substantial and may be rising. Central to the complex of problems of growth will be the problem of jobs for the increasing number of working age population. The problems of jobs, food, housing, and health are closely interrelated and, in a sense, the employment problem is crucial in the configuration. The relative scarcity of capital suggests adoption of policies concerning taxes and prices that provide incentives in the economy to utilize labor-intensive, capital-saving production methods, and stimulate a broadly based income expansion, keyed to exports and import-substitution at internationally competitive prices. Foreign exchange is a crucial resource in development, and export earnings are by far the most important source. An overvalued rate of exchange will hold exports in check and reduce employment creation by overstimulation of capital-intensive and labor-saving technology. In countries where favorable conditions have existed for competitive and export-oriented industrialization, growth has been both rapid and beneficial to the economy as a whole.

The success of Japan, Taiwan, Hong Kong and South Korea have stimulated much discussion concerning the lessons that may be learned for other Asian countries. A recent study assesses the success of the Taiwan and South Korean cases in the context of parallel developments and policies in the Philippines [11]. Over the last decade Taiwan and South Korea have had rates of growth of real gross national product of around 10 percent per year. A number of significant points emerge. Before the recent expansion of their economies, both countries had achieved highly productive agricultural sectors [11]. Industrial exports led the rates of growth, with an expansion paced by penetration principally into the United States market [11]. The exports were from relatively labor-intensive industries. The new income streams originating from wage earners and entrepeneurs in the export industries increased the demand for consumer goods in the domestic markets [11]. Both countries have policies providing a favorable incentive and climate for foreign investment. Both countries used interest rate policies to stimulate savings and allocate resources to preferred areas. The economics of South Korea and Taiwan have flourished in recent years, possibly because of greater reliance on the use of correct pricing policies with respect to foreign exchange, interest rates, wages, and in addition, the use of liberal policies to attract investment from abroad [11]. It is well to remember that both have highly productive agricultural sectors and both received substantial aid from the United States [5]. The successes of Taiwan and South Korea, and the strategy used, would seem to be of great relevance for other Asian countries and possibly for Latin America and Africa as well.

A good part of the developing world is currently experiencing a major breakthrough in food production, triggered by the use of the high-yielding varieties of grain. In these countries, agriculture has the potential of being a major growth sector to initiate self-sustaining overall growth. But what of the various countries as yet untouched by the new varieties? The end of the civil war in Nigeria emphasizes the urgency of development for that nation. A three-year study of the Nigerian agricultural economy by an interdisciplinary team of researchers representing agricultural economics, economics, sociology, education, technical agriculture and communications, under the direction of Professor Glenn L. Johnson of Michigan State University [3], may well be relevant for other areas in Africa. The report declares:

"Rural transformation is the key to growth and development of Nigeria, 1970-85, and such a transformation is within Nigeria's grasp. Agricultural growth can also provide a substantial stimulus to nonfarm development, for the payoffs are high in agriculture, and agriculture can provide a rapidly expanding market for the products of new urban industry" [3]. However, a lack of effective domestic demand is a barrier to increased food production today. The 5 million small holders in Nigeria could be the instrument for transforming that nation. They have already demonstrated a willingness to accept new crops and new technologies and to respond positively to profitable income opportunities. The CSNRD report suggests that marketing board pricing, and government tax policies have held down product prices to farmers and restricted effective demand for foodstuffs and local products relative to productive capacity. "*. . . it is the imposition of market board taxes and pricing policies which deprives large numbers of poor, small holder producers of extra income. This extra income would generate extra demand directly from producers for foodstuffs. Further, an indirect effect of this extra income would be to increase the demand by Nigerian small holders for the simple products of Nigeria's growing indigenous industry. An increase in indigenous industrial employment and wages, in turn, increases the nonfarm demand for agricultural food and nonfood products" [3].*

The crucial element in stimulating the agricultural sector is clearly an elimination of adverse tax and price policies to provide large numbers of small farmers with an incentive to expand export crops, earn greater incomes, and thus expand effective demand for local food, local industrial products as well as for more nutritious but more costly locally produced foods. There are alternative taxes that do not have the same restrictive impact on the farmers. The strategy for Nigerian economic growth also includes an emphasis on production campaigns for the exports crops (cocoa, groundnuts, oil palm and rubber). Strong encouragement would be given to the private sector to provide needed nonfarm inputs, finance, credit and marketing services. In the longer run, a heavy emphasis is placed on biological research seeking major long-term reductions in the cost of producing export crops, staple food and feed crops [3]. Research holds the key to sustained development, supported by appropriate economic policies that stimulate the application of research results leading to widespread increased incomes which generates a more effective demand for better food as well as industrial products. Nigeria's population growth rate is such that an immediate effective family planning effort is essential if potential growth is to be realized in rising per capita real incomes.

TRADE ESSENTIAL

Many of the bottlenecks, as well as the incentives for growth, are within developing nations and subject to their control, but not all. We should also remember that economic objectives in some cases may be of secondary importance to the political party in power. Political goals may dominate economic goals. It is clear that much of the difficulty the less developed countries encounter in increasing their exports is of their own making, but it is also clear that many facets of the trade policies of the developed countries impose serious barriers to the development of the poor countries [7]. Of greatest importance to them is the opportunity for growing trade through access to the markets of the rich countries in an economic environment of rapid and steady growth. Developed countries, as a group, largely determine the economic environment within which the LDC's operate. Well over two-thirds of the total exports of the developing countries generally go to North America, Western Europe and Japan [16]. Therefore, the economic policy of these countries (tariffs on primary and semi-processed primary commodities, tariffs on manufactured goods, formal and informal quantitative restrictions) are of the greatest importance to the possibilities for developing countries to increase their exports, and to earn the foreign exchange they need for development. The ability of the less developed countries to transform their nations into modern societies capable of selfsustaining economic growth at a reasonable rate is constrained by the policies and actions of the developed countries. World trade continues to grow, fueled primarily by rising incomes in the developed countries. World trade expanded 133 percent between 1959 and 1969 and now totals $270 billion. Exports of developing countries, with the largest year-to-year growth in a decade, reached a level of $48 billion in 1969, showing an expansion of only 87 percent since 1959, compared to the 156 percent increase by developed countries [15]. Part of this result is a reflection that many developing countries still depend on the export of a few primary commodities in a world in which demand for raw materials has been held in check by competition from synthetics and technological progress has reduced the need for raw materials per unit of product. The developing countries need to diversify. Policies are needed within the developing countries to maintain the momentum of agricultural productivity and to stimulate exports, and policies are needed in the developed countries to provide greater market access for the exports of the developing countries. With appropriate domestic and international economic policies, trade can be a vital engine of growth for the poor countries.

FOREIGN AID

In the long history of world development, official aid from rich to poor countries is of very recent origin, growing as it did out of the original Point Four program in 1947. Aid, as one component of the flow of resources to the developing part of the world, has been of great importance in assisting development. Aid has facilitated investment, financed imports, assisted in developing such essential social infrastructure as roads, communications, education, helped spread agricultural innovations, introduced new management skills, and fostered more appropriate economic policies. Nevertheless, a spirit of disenchantment for foreign aid has developed in both rich and poor countries. The official flow of net financial resources to the less developed countries from the developed ones expanded slowly during the Sixties, from $6.17 billion in 1961 to $6.91 billion in 1968 [16]. The Pearson Commission was brought into being because of a widespread concern about the future of international cooperation for economic development. The report concludes that the contribution of aid to the development process has been substantial: "In addition to its more tangible contributions, in many countries, aid has made a critical difference, simply by directing so much new attention and energy and resources to the specific task of promoting economic and social development" [14]. The report also suggests that despite the very substantial achievements during the past two decades, the task facing the developing countries to assume effective and early modernization of their economies is greater than can be accomplished relying solely on their own resources [14]. Continued substantial and increased outside assistance is essential.

SUMMARY

The economic progress of the less developed part of the world has been substantial during the past two decades, with a few countries recording extraordinary progress while some have shown little or no growth. On the average, however, the absolute income gap has widened. Productivity gains in agriculture offer tremendous opportunities for sustained rural and urban development. But the rapid population and labor force explosion casts a specter of gloom across the future because of several problems associated with unemployment and too rapid urbanization. Many countries may be in a position where all the food produced is not consumed domestically at prevailing prices even though large numbers of people are ill-fed or hungry, because they lack the income needed to purchase the food. In the developing world, unemployment is a major social and political problem and one which may grow even more serious in the future.

There have been significant improvements in economic management in a number of the developing countries. Many of them have recognized that development efforts have been blunted by an overstimulation of capital-intensive and labor-saving technology under the influence of factor price distortions. Government tax and price policies, including the rate of exchange and interest rate, need to be adjusted to eliminate distortions, provide producer incentives and stimulate trade. Trade policies of developed countries need substantial revision to provide more opportunities for the developing countries to export and earn foreign exchange.

The fastest growing of the developing countries recognize that export earnings, not aid, must be the principal source of foreign exchange. The agriculture sector is capable of rapid growth, and growth in this sector is necessary to create demand for domestic industries to absorb the expanding labor force, to provide industrial raw materials, and to fuel the drive for greater exports.

In the long run, research is of vital importance to the development process to continually increase the productivitity of the resources in the developing countries. Rising productivitity, coupled with policies to slow down population growth and wise economic policies to promote maximum production through full utilization of the labor force, are essential components in a strategy to free mankind from the constraints and fears of economic need and to be able to concentrate on improving the quality of life.

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