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O. N. E. MEMORANDUM

The Poor Countries: Shifting Strategy and Prospects for the Seventies

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THE POOR COUNTRIES: SHIFTING STRATEGY AND PROSPECTS FOR THE SEVENTIES

The poor countries' attitude toward the rich has been noticeably hardening. Far from seeing themselves and the rich as "partners in development", many poor nations have come to view the rich -- including the Communist rich -- as adversaries. This attitude is evident both in global and regional forums, like the Stockholm environmental meetings and UNCTAD sessions, and in bilateral relationships.

How far will these countries go in alienating themselves from their rich patrons? What will the impact be on longstanding global institutions which the poor see as instruments designed to serve the interests of the rich? The broad issues touched on in this paper are subject to diverse interpretation; indeed, many of them have yet to be analyzed systematically. Hence this memorandum is presented as an essay in the classical sense of the word -- an attempt to stimulate thinking, on relations between developed and less-developed countries in the seventies, particularly as they affect US interests.

This memorandum was prepared by the Office of National Estimates and discussed with appropriate offices in CIA, which are in general agreement with its judgments.

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I. WHEN THE POOR* CONFRONT THE RICH

1. As the world's poor countries play a more active and independent role in global commerce and finance, they find themselves dealing with an established international economic order which they had no part in making. The existing system was developed by nations that were rich, modern, and industrialized; it was not designed to meet the needs of countries that were underdeveloped, agricultural, and poor. In the years when the system was developed these areas -- including most of those that were nominally independent, like the Latin American states -- had been wards or clients of the industrial nations: any economic gains to the former were incidental and subordinate to those of the latter.

2. By 1960 the notion that every state should try to achieve rapid economic development was an idea whose time had come. A new academic field, the economics of development, gained public attention through such popularized publications as Walt W. Rostow's *Stages of Economic Growth* (1960), and seemed to point the way to growth and

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* *In this paper "poor", "less-developed", and "Third World" are used interchangeably to refer to the 90 nations included in the UN's list of developing countries, except that Israel has been dropped and Bangladesh added. All of them had a per capita GDP in 1965 of less than $1,000 (see Annex A for details). Because of the many differences among these countries, only a limited number of propositions apply to them as a group. Accordingly in Part II, the treatment is dis-aggregated.*

development for all. The UN declared the sixties the Development Decade, and existing international organizations created a number of special organs concerned with promoting development.[1/] The poor countries had reason to hope that the road to development was well-known and open to all; that the industrialized countries were committed to seeing that they acquired the means (read capital and technology) to develop; and that "the system" was accommodating itself to the needs and interests of the have-not nations.

3. In fact, the sixties did see substantial economic progress in the Third World. For the LDCs as a whole, GDP expanded by about 5 percent a year -- on target for the goals set for the Development Decade, during which it was hoped the well-publicized gap in incomes between rich and poor countries would be narrowed. Third World exports grew at an annual rate of over 6 percent during this period, while its exports of manufactures grew by 14 percent a year -- faster than those of the developed world.[2/] Gross official capital flows to

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1/ *Among the more important: International Development Association (of the World Bank) 1960; Development Advisory Committee (of the OECD) 1961; Development Program (of the UN) 1966; UNCTAD -- the UN Conference on Trade and Development (1964) discussed below.*

2/ *The International Development Strategy in Action: The Role of UNCTAD (TD/99-2972 UN- 15 February 1972).*

the poor countries averaged less than $3 billion annually in the 1954-1959 period, but rose to over $7 billion a year in the second half of the sixties.

4. Meanwhile, back at the UN, the poor countries succeeded in establishing an organ to represent their development interests: UNCTAD -- the UN Conference on Trade and Development -- a permanent body with all UN member states as members. UNCTAD has had relatively little impact on the course of economic development, but a review of its activities offers useful insights into shifting LDC views and priorities in their relations with the developed world. UNCTAD has met only three times -- in 1964, 1968, and 1972.* Size alone has made it something less than a model of parliamentary effectiveness. Its membership has grown from 119 to 140 countries, and participating delegates from fewer than 2,000 to more than 3,000. In trying to accommodate the many different local and regional interests represented, the agenda at each plenary has been far too heavy to be usefully dealt with. But a number of major proposals have nevertheless emerged from each session.

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* *UNCTAD's only permanent bodies are a secretariat and a Trade and Development Board which carry on planning and staff work between plenary sessions.*

5. These proposals reveal something of the poor countries' view of the international economy, and how they feel it should accommodate to their needs. Among the chief proposals of UNCTAD I, not surprisingly, were several urging the industrialized nations to expand their purchases of Third World primary products. It was suggested that ways be found to achieve a *steady growth* in these imports -- a proposal which seemed to ignore long-run trends in world demand for such products. The LDCs also sought preferred treatment, especially duty-free entry to developed countries' markets, for LDC exports of manufactures -- including textiles, which account for a large part of Third World exports of manufactures, as well as being a major industry in the industrialized countries. The advanced nations were further asked to increase foreign aid -- 1 percent of a donor's national income was set as the target -- and to ease the poor nations' debt burden.

6. The optimism of the poor countries at UNCTAD I was notably absent at the second plenary (1968). In large part this reflected the LDCs' frustration at the lack of any action on major UNCTAD I recommendations. The second plenary saw three separate blocs -- Western, Communist, and LDC -- with positions hardened in advance on all major issues -- a weakness of UNCTAD that has persisted ever since. In addition, many of the Third World representatives failed to perceive that UNCTAD

was at best a forum for publicizing the poor countries' economic problems and for exchanging views among all those concerned with particular problems of development. Some delegates expected UNCTAD resolutions to have a direct impact on developed countries' policies. Probably the most significant achievements at UNCTAD II were the identification of problems peculiar to the land-locked and *least* developed LDCs, and the outlining of special measures needed to improve their trading position with Communist countries. But its failure to elicit favorable responses from the developed countries on major issues led UNCTAD II to be judged a failure by almost all its participants.

II. THE DEVELOPMENT DECADE IN RETROSPECT

A. The Record

7. UNCTAD's lack of measurable progress during its first five years is only one aspect of the failures of the development experiment as a whole. By the end of Development Decade, rapid population increases had nullified much of the economic growth achieved in Third World countries, and the rich-poor gap was seen to have widened.* Even

* *The hope held out of "narrowing the income gap" was illusory. Because the industrialized nations have a vastly greater economic base than the LDCs, the gap was almost certain to widen, and will continue to do so.*

the favorable aggregative attainments in growth of income, trade, etc. reflected an extremely uneven record: some stunning success stories concealed a generally dismal record in most of the Third World.

8. *The Poor and the Poorest:* This disparity reflects the wide differences among the 90 states included in the UN's ranked list of "developing" countries (Annex A). In the top 30 are countries like Argentina and Mexico, with diversified economies, a large modern sector, developed infrastructure, high literacy rates -- in short, countries which already have reached a fairly advanced state of development and which possess the prerequisites for further rapid growth -- as well as such countries as Korea and Taiwan, which have recently registered extremely high growth rates based on specialized manufacturing for export. Among the upper and middle groups are countries which depend on exports of one or two major commodities to spur their economic growth: Ghana (cocoa), Zambia (copper), Liberia and Malaysia (rubber), etc.

9. With few exceptions, all the upper- and middle-group states have far more favorable development prospects than the 30 nations at the bottom of the list. These "least-developed" are the hard-core poor. Typically they are small, land-locked, and African,

and subsistence farming is the dominant economic activity. For most, *per capita* GNP is less than $90 a year.

10. In the Development Decade these 30 countries made no discernible economic progress. Indeed, a third of them have lower *per capita* GNP than they did at the start of the decade, and the majority grew by less than 1 percent a year. These countries, which would appear on the face of it to be the most desperately in need of outside help, also are the least able to make effective use of foreign aid (no infrastructure, no resources, etc.); accordingly, the *least*-developed received only something like 6 percent of total foreign aid disbursements during the decade.

11. *Economic Growth:* Thus, although the Third World as a whole achieved an average growth rate of 5 percent a year during the decade, this progress was extremely unevenly distributed. No more than 25 LDCs achieved this rate. At the lower end, the world's 50 poorest countries, with two-thirds of the Third World's population, grew by 3 1/2 percent or less. In *per capita* terms, the difference is even more critical: the 40 fastest-growing LDCs attained a *per capita* growth of about 3 percent. But the bottom 50 LDCs' *per capita* income grew by some 1.2 percent a year and some registered negative growth. Perhaps of greater concern, in terms of the human costs of underdevelopment, is the failure of economic growth

to touch the lives of many people in the LDCs, where most remain tied to subsistence agriculture, and the ever-growing ranks of unemployed during the past decade have been able to share only very marginally and infrequently, if at all, in the benefits of modernization.

12. *Exports, Debt, and Foreign Aid:* For almost every LDC, development plans in the sixties were predicated on a rapid and sustained expansion of exports. Yet, while world exports grew by 8 1/2 percent a year during the decade, LDC exports increased by only 6 1/2 percent. Even this is a respectable rate, but only some 40 LDCs -- i.e., well below half of them -- achieved it. Many failed to come anywhere near it.* At the same time, cumulative LDC foreign indebtedness rose 14 percent annually, and by 1969 amounted to almost $60 billion. Payments on this debt were rising by 9 percent a year, and debt service ratios -- the percentage of annual export earnings going to repay foreign debt -- reached 20 percent for several LDCs and was rising steadily toward this level in a dozen more. In addition, the growth of foreign aid was slowing during the latter half of the decade; hence a growing part

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* *Similarly, exports of manufactures from the developing to the developed nations rose fourfold in the 1960-1969 period, but almost 60 percent of these exports came from a half dozen countries.*

of the LDCs' debt was commercial, thus effectively raising the average cost of their imports.

B. What Went Wrong?

13. Had the results of the sixties been achieved without all the advance hoopla -- no din of slogans about development decade, narrowing the gap, five-percent-growth-for-all, one-percent-of-GNP-for-aid, etc. -- the period probably would have been seen for what it was: one of substantial economic progress for a limited number of the poorer states; and not as a development disaster. But this misses the main point. Expectations, in both the developed and undeveloped parts of the world, were initially high. The results, and their implications for future global "north-south" relations, must be assessed in the light of these expectations, rather than of actual achievements.

14. Basically too much was expected to happen too soon, and there was far too little general appreciation of the tremendous difficulties involved in trying to modernize traditional societies. Third W[illegible]aders, particularly those in the newly independent countries, [illegible] prey to their own illusions about colonialism: independence would spontaneously unleash their countries' natural economic potential from the strictures imposed by colonialism, and the ex-colonial powers

would be persuaded of their moral obligation to help the areas which they had previously exploited; hence, as they saw it, economic progress was virtually assured.

15. In the developed world those concerned with the poor countries' development promoted policies and programs based on the only development experience they knew. Previous Western development programs had taken place in modern, integrated industrial economies, where the impact of a given input of capital or technology could be predicted within reasonable limits of probability. For the Communist states, too, the development prototype was a modern European society, but one in which an educated ruling elite, with coercive power over the population, directed the allocation of resources from the center. In both cases, development was achieved primarily through heavy investments in industry. Where additional skilled labor, administrators, raw materials, and intermediate products were readily available, such investments had a fairly prompt impact on employment and incomes.

16. In most LDCs, however, none of these conditions existed. Hence there was much uncertainty and disagreement over the likely impact of traditional stimuli to development. In the event, such misgivings were well-founded. Social and institutional factors, in

particular, put a brake on Third World development. For example, the trickle-down benefits from a given capital investment were severely reduced by such factors as the separation of the economy into discrete modern and traditional sectors and the absence of large capital markets.

17. The Cold War also affected the course of Third World development, although its impact is more difficult to weigh. Global aid disbursements would have been substantially lower in the absence of East-West competition to woo the emerging nations. But cold war considerations also led to an eagerness on the part of donors to meet LDC requests for arms, which in some cases caused serious payments problems for the recipients and in others diverted foreign currency resources into uneconomic expenditures.* Similarly, economic aid projects were sometimes agreed to with more thought to pleasing particular LDC leaders, or pre-empting other prospective donors, than to likely economic benefits.

18. Often domestic LDC policies placed serious constraints on economic development. Every Third World leader is ideologically

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* *Not all military expenditures were without economic benefit, however. In some countries military aid programs have been a major contributor to local technical training (drivers, mechanics, etc.) and to raising literacy and sanitation standards.*

"committed" to development; but in the harsh light of local politics other, often conflicting claims come first -- particularly those of family, fellow tribesmen or fellow provincials, and the politically aware urban masses. Sometimes, to remain in power, an LDC leader has felt it necessary to placate a restless army by providing it with expensive new toys, or to buy the support of a particular region with low priority projects. Domestic political imperatives and the need for prompt and visible symbols of economic "independence" also have led to a preference for heavy industrial projects -- e.g., a dam or a steel mill, which typically require much capital and offer little employment -- rather than less spectacular investments in infrastructure or other areas offering potentially greater benefits per dollar spent. In a number of cases overriding LDC foreign policy objectives have channeled development funds into costly investments of questionable economic effectiveness. For example, Zambia launched the costly (over $70 million to date) Kafue hydro-electric project in an unsuccessful effort to free its copper industry from dependence on Rhodesian electric power.

19. In a larger sense, people in a traditional society attach relatively less importance to economic growth than those in a modern industrial society. The conflict between this and the evident "rising

expectations" in the Third World may not be apparent to the societies involved. A good part of the rising expectations in the sixties may have reflected a vague notion that "development" is something which can be conferred, like a degree or title, on deserving poor countries by the rich. A Western observer at early UNCTAD conferences might well have felt he was seeing a sophisticated revival of the cargo cult.*

20. Some of the chief Third World development goals of the sixties, particularly those concerned with enlarging export markets, called for major changes in developed countries' domestic and regional economic policies -- changes which were either politically or economically unacceptable. Protectionist policies in the developed countries have been extremely resistant to LDC pleas for preferential treatment. This especially applies to agricultural products and textiles: two of the Third World's leading exports. Even where preferences have been granted, they are frequently token gestures; for example, general preferences extended by the EEC leave room for the LDCs to expand

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* *A couple of years after the withdrawal of US forces from the southwest Pacific at the end of World War II, witch doctors in New Guinea predicted that great ships would soon arrive filled with goods for the local people. This led to a widespread work stoppage, and near famine, as large numbers of Papuans chose to await the arrival of the cargo ships rather than go about their usual planting.*

exports of such items as jet aircraft and computers -- hardly a meaningful concession.*

21. There were other problems as well. The collapse of the boom in the industrial countries in the mid-1960s led them to reduce their purchases of LDC raw materials (or depressed the prices paid for them, or both), and eroded support for foreign aid and tariff concessions -- neither of which has ever had terribly strong constituencies among the developed countries, Communist and non-Communist alike. In addition, the gradual winding down of East-West tensions weakened one of the leading inducements for both sides to provide foreign aid. There has also been a widespread feeling, among both the developed and undeveloped, that they were in some way euchered on the whole subject of development and foreign aid. Among major Western aid donors, particularly the US, this reaction is attributable in part to the earlier over-selling of foreign aid as something that would have an immediate impact on recipient countries. It was apparently often assumed that development would bring contentment and hence political stability, and ultimately reduce the attractions of communism.

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* *Although the US -- unlike the EEC countries -- has not as yet extended generalized preferences to LDC exports of manufactures, it nevertheless accounted for more than half of the total increase in Third World exports of manufactures in the sixties.*

22. By the end of the sixties, all groups of participants in the Development Decade had begun to reflect on its failures, and on the lessons to be drawn. The Pearson Report (undertaken for the World Bank in 1969), the Jackson Report (on the UN's Development Program), and the Peterson Report (on future US aid policy) addressed major aspects of the question. In the last analysis, no one has yet formulated a law of economic development, or even an adequate list of the essential criteria for economic growth. But there have been important shifts in thinking in the Third World, too, which have found their clearest expression in the meetings of UNCTAD III in April/May of 1972.

III. UNCTAD III AND BEYOND: PROBLEMS AND PROSPECTS FOR THE SEVENTIES

A. Third World Strategy Shifts at UNCTAD III

23. In many respects UNCTAD III was much like its predecessors. The meetings were big (3,000 delegates), disorganized, and confused: final wording on several resolutions was delayed until several days after the Conference had officially ended. Deadlocks in committee were "referred to the summit" -- appropriately enough located on the 22nd floor of the convention site -- where they were filed away to be forgotten. Regional differences among the LDCs continued to thwart

consensus on trade policy and other issues. For example, those enjoying preferred markets (in particular those associated with the EEC or Commonwealth) were unwilling to give them up in exchange for generalized preferences for all LDCs. In debating the proposal on "special measures to help the least-developed", each regional group -- the Asians, the Africans, and the Latin Americans -- wanted the criteria of "least-developed" altered in such a way as to favor admission of states from their particular region. A disgusted delegate summed up the meetings as being a place where "all were animals in a zoo, assigned to their own cages".

24. Yet, for all that, there were marked changes in the LDCs' priorities, and in their general posture toward the developed. Their main thrust was to insist on their right, as sovereign states, to participate in future decision-making on world monetary reform and in the multilateral trade negotiations scheduled for 1973. This demand is essentially conservative: it indicates that the LDCs, despite all the years of anti-colonialist rhetoric and their repeated failures to change the patterns of world economic activity to favor their interests, are not yet trying to sabotage existing global institutions, but rather are seeking a larger role for themselves within the established system.

25. But new, radical trends in Third World attitudes also have emerged. Indeed, UNCTAD III witnessed a new militancy -- an increasingly adversary posture on the part of many LDCs toward the developed world. There was less effort by the poor countries to reach consensus with the non-LDCs, or to seek compromise language in order to gain broad support for LDC proposals. This disdain for the developed countries' views resulted in a series of final resolutions, all but a few of which were unacceptable to the industrialized nations,and to a parochial, Third World focus in others.* Few of the LDCs seemed willing to go as far as Chile in declaring that the question of compensating foreign firms for nationalized properties was purely an internal matter for the nationalizing state. But there was for the first time general acknowledgement that countries have a right and duty to control their own natural resources, and that compensation for nationalized properties should not include any payment for the resources themselves.

26. There was a broad consensus among the Third World states that far more emphasis should be given to self-reliance, and to seeking

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* *The resolution on environment, to cite but one, recommended only that special attention be given to the possible effects of developed countries' environmental policies on LDCs' trade and development.*

ways to reduce dependence on foreign aid and capital, and on markets in developed countries. While it is doubtful that many LDCs will set out to make this a prime economic policy goal, they were encouraged in this direction by the Chinese Communist delegates, who quietly pushed the Chinese model as the most appropriate for poor countries valuing their independence.

27. In other recent Third World gatherings, both before and after UNCTAD III, radical minorities have advocated a policy of confrontation with the developed countries. At a meeting of distinguished development specialists,* a minority suggested that the poor should adopt a variety of punitive and disruptive measures against the rich to force concessions from them: debt repudiation, selective disruption of raw materials supply, coordinated expropriations, and switching LDC reserves from one currency to another were among the tactics proposed. The most recent Non-Aligned Foreign Ministers' Conference in Guyana was dominated by a handful of radical states, particularly Cuba, Chile, and Guinea. They were able to

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* *Columbia Conference on International Economic Development, February 1970.*

win support from a sizable minority of nations -- roughly a third of the 68 member countries -- for resolutions condemning the activities of multinational corporations and endorsing nationalization of foreign-owned properties, as well as anti-US resolutions on Vietnam and Puerto Rico.

28. One point to be drawn from this trend is the evident erosion of LDC expectations and fears of the great powers. Perhaps these are mutually reinforcing: if a country expects no US foreign aid, then its leaders feel freer to attack US policies. But there is more to it than this. In the past few years assertive small states have taken a number of tough measures against big powers -- e.g., nationalizing properties, throwing foreign patrons and advisors out -- and no terrible retribution has followed. This is not lost on other Third World leaders, who in many cases must demonstrate to their domestic supporters that they are both independent of foreign powers and politically progressive. Even where there are no foreign properties worth nationalizing, or where the undeveloped condition of the country's resources dictates a more prudent policy for the time being, a defiant pose at UNCTAD or an anti-imperialist speech at the UN will have some appeal for the home audience.

29. In addition there is China. Its influence is difficult to weigh; but the Chinese have been active recently in major world and

regional conferences -- even the Non-Aligned meetings, where they were much in evidence although not a member country. In spite of a growing foreign aid program (extensions of almost $500 million in 1972), the Chinese have declared that they have a very limited capability to provide material assistance, and should not be looked to as a source of large-scale capital aid. But they offer an alternative development model with some appeal: self-help, modest economic targets chosen for their broad social impact, and non-interference by other countries. They also encourage an anti-great power alignment among the poor countries. While few LDCs -- Tanzania being the outstanding exception -- have so far chosen to follow Chinese development methods, and though most LDCs (including Tanzania) seem to be leery of Chinese influence, Peking's recent outward policy no doubt has encouraged tendencies among the LDCs toward defiance of the industrial countries.

B. Major LDC Problems and Prospects in the Decade

30. Regardless of what policies are followed by the developed or undeveloped states, most of the chronic attributes of poor and traditional societies -- disease, ignorance, tribalism, and parochialism, and the vulnerability of large masses of people to economic disaster -- will yield slowly, at best, to the forces of modernization. These

problems will not be eliminated, or even seriously diminished, in this decade. Of course technological events, such as the development of "miracle" strains of rice, wheat, and most recently corn, can bring rapid change to large numbers of people; but such developments are not always predictable. Moreover technological advances commonly take a long time to be introduced and applied where traditional ways still predominate. Therefore, this paper has been limited to those problem areas where significant change is likely to occur in the present decade.

31. *Economic Growth:* Studies by the UN and other agencies suggest that national product for the Third World as a whole is likely to grow during the seventies at least as fast as in the 1960s (5 percent) and perhaps as high as 6 percent annually. East Asian LDCs (Korea, Taiwan, Hong Kong, Malaysia, and Singapore) are likely to continue to lead the rest. A couple of other countries may, like Libya in the sixties, move away from the ranks of the very poor through the discovery and exploitation of valuable mineral deposits. Some states will remain basket cases.

32. There are also a number of shifts in world production and distribution patterns, such as the growing practice by firms in the US and other high-labor-cost industrial nations to farm out the

manufacture of component parts and assembly operations in developing countries. Such shifts could significantly accelerate economic growth. But more important than the various efforts of Third World countries to raise their growth rates is a rather recent and dramatic shift in attitude away from the concept of growth as an end in itself. Many prominent LDC figures, economists[1/] as well as national leaders, now seriously question the value of a policy objective which, so far, has had such little impact on jobs and living standards for the masses of LDC citizens. Indeed, it now appears that more stress in the remainder of this decade will be not on growth of output for its own sake, but on the problems of how to provide more jobs.

33. *Unemployment and Urbanization:*[2/] Third World job prospects for the seventies are extremely bleak. The number of job-seekers in the LDCs is expected to increase by something like 3 percent a year, but there is nothing to indicate that employment will grow at anything near this rate: in the sixties, LDC employment grew at 1 percent or less. Proposed solutions suggest the need for a radical reordering of social and economic objectives to assure higher levels of domestic investment,

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1/ *Among others Raul Prebisch, well-known Argentine economist, and "father" of UNCTAD.*

2/ *See ONE Memorandum, "Urbanization, Unemployment, and Unrest in the Poor Countries", dated 14 November 1972, OFFICIAL USE ONLY.*

broader participation in production (through promoting labor-intensive enterprise, massive public works, etc.), and a re-distribution of income in favor of the poorest 40-50 percent of the society. There is much doubt, of course, whether such things can be done under *any* conditions. But there is little doubt that they could *not* be carried out without a high degree of coercion by the state. The alternative for many LDCs is a steep rise in unemployment during this decade.

34. The question is, what will high and growing levels of unemployment mean to the LDCs where they occur, and to other countries? In particular, what does it imply for political and social cohesion? If it meant only a few million unemployed city-dwellers returning to the villages, the problem would not necessarily be serious. But the projected growth of Third World unemployment in this decade coincides with the most rapid urbanization the world has ever seen. Throughout the Third World masses of people, most of them without any of the skills needed by the modern sector, are moving into the cities, where they are swelling the ranks of the jobless in slum and squatter settlements.

35. So far there is no demonstrated and consistent correlation between urban unemployment and violent political upheaval. But this is no cause for complacency. Most Third World cities already have large

numbers of uneducated and semi-educated youths who can find no jobs, and degree-holders who can find no work they consider suitable. There is no way to predict whether such groups will remain politically quiescent in the face of growing unemployment. As time goes on and jobs are not forthcoming, such people will have an ever-declining stake in the *status quo*, and a growing receptivity to advocates of radical change. It seems likely that, under these conditions, at least some LDCs will experience in the current decade increasing lawlessness and a bleak succession of government upheavals in which the disaffected urban unemployed play an active role; and as successor regimes fail to cope with unemployment and other urgent economic and social problems, the end result may be a much tougher kind of authoritarian rule.

36. *Trade and Aid:* It is beyond the scope of this paper to get into detailed projections of LDC exports. But some of the major factors likely to affect these exports during the rest of the decade can be identified and discussed.

37. There will probably be no dramatic departures from past patterns: the LDCs will continue to find their major export markets in the industrial West and Japan, and neither intra-Third World trade nor exports to Communist states are likely to take more than, say,

20 percent and 15 percent, respectively, of total LDC exports. In general, growth of trade among LDCs continues to be held back by the similarity of their import requirements and export offerings. This is true to a lesser degree of Third World trade with the Communist states, but the chief brakes here have to do with a marked preference, both in the LDCs and Communist countries, to use their hard currency earnings for the purchase of West European, US, or Japanese goods.[1/]

38. Even the non-Communist industrial countries will not offer rapidly growing markets for most Third World exports. According to a UN study,[2/] global demand for agricultural products, which still make up about 70 percent of LDC exports, and a somewhat larger share of their exports to industrial countries, will rise as follows during this decade:

Temperate Foods	4.3% per annum
Tropical Foods	2.4%
Agricultural Raw Materials	0.8%

Among the LDCs only Argentina, which normally exports substantial quantities of wheat, is likely to benefit much from the projected growth in

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1/ *Among the LDCs listed in Annex A, only Nigeria, Indonesia, and Portugal (i.e., its Angolan territory) have good prospects for continuing to expand petroleum exports. Some major Middle East producers have grown so wealthy that, even though none of them would be mistaken for a modern industrial state, they have nonetheless moved ahead of most other Third World states in income. See footnote "a" to Annex A.*

2/ *UNCTAD/TD-113, Supp. 2, 7 March 1972.*

demand for temperate foods. For the many LDCs which count on growing export earnings from rubber, wool, cotton, sisal, hemp, and other agricultural raw materials, the outlook for increased global demand is dim.

39. The growth of LDC exports of manufactures is threatened by the increasing protectionist sentiment in industrial countries; for example, in the US, organized labor's recent abandonment of its longstanding commitment to free trade. Offshore assembly of components, which has been an important factor in the booming export industries of Mexico, Korea, and Taiwan will come under increasing pressure for import restrictions in the industrial states.

40. On the import side, the rapidly rising prices of petroleum, stimulated by accelerating demand in the industrial countries, will worsen the balance of payments of petroleum-importing LDCs. Indeed, in some cases where industrial growth plans are based on a steep rise in energy imports, the plans may have to be scaled down or seriously altered. Similarly the costs of other imports needed for development -- capital equipment in particular -- have been rising rapidly. Prices for most LDC export products have not kept pace. If, as expected, this trend continues, the terms of trade for many LDCs will further deteriorate.

41. But some favorable influences are at work. The next allocation of IMF Special Drawing Rights (SDRs), for 1972-1975, probably will provide the LDCs with more than their 27 percent share of the first (1969-1971) allocation. New arrangements have still to be worked out; but, regardless of the particulars -- the result will be to increase the LDCs' international liquidity, and thus help them to finance their growing deficit with the developed countries.

42. Private direct investment by developed countries in LDCs has been growing rapidly and seems likely to continue doing so during the rest of the decade, in spite of the threat of nationalization. The annual (net) flow of such investments rose from $1.8 billion in 1960 to $3.4 billion in 1970. Moreover the share of investment in LDC manufacturing is large and growing. In 1968, to take only the US case, US subsidiaries accounted for 40 percent of all Latin American exports of manufactures. As in the past, private investments will tend toward concentration in countries with both a favorable investment climate and commercially exploitable resources, including skilled but cheap labor; hence private investment will not be of help to the very poorest LDCs, which are resource-deficient.*

NOTE: Data on private investment from UNCTAD/TD/122/Supp. 1, Jan. 72.

* *Except, that is, for the occasional Cinderella case: Botswana, one of the poorest of the lot, was recently found to have sizable reserves of copper, diamonds, and chemical fertilizers which should give it the means for its first significant economic progress.*

43. The future of foreign aid is uncertain, at best. Some new and imaginative plans have been suggested to render aid more useful to the recipient and less influenced by bilateral political considerations. But a general aid fatigue has set in among major donors, particularly the US. An IBRD study estimates that official development aid through 1975 will fall far short of the .7 percent of GNP which the developed countries themselves set as a target. And even this target is far below the volume of aid that could make a real difference to LDC growth. Development aid is currently running on the order of $7 billion, and is likely to grow at most by 5-6 percent a year; but a continuing flow four times that large would be needed (per a World Bank study) to have any discernible effect on LDC development within this decade. Even a flow this large would not, of course, assure rapid development for every recipient.

44. *Food:* Food production is getting more attention from Third World leaders in this decade than in the last. This reflects the growing desire for economic self-reliance, the recognized need to raise food output to take care of expanding urban populations, and the need to provide rural employment. It also reflects the high degree of success attained with new high yield and high-nutrient

grains. Even if, as some point out, the dramatic gains made to date reflect a sort of Stakhanovite air in the first experiments -- i.e., agricultural conditions generally are favorable in the areas where miracle seeds already have been introduced -- food output in the Third World might be increased by 3 percent, and perhaps as much as 4 percent, a year during the seventies.

45. Even if these rates are achieved, it would mean only that food production was keeping somewhat ahead of anticipated population increases, and -- for the Third World as a whole -- food would no longer be quite so critical a factor in economic life. But in any event there will still be chronic food deficit areas, and other regions where output depends heavily on the such fickle natural factors as the character and timing of monsoon rains. And for the long run, there are additional causes for concern: inadequate storage and distribution facilities and primitive farming techniques are likely to place serious constraints on the future expansion of agricultural output in much of the Third World.*

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* *In black Africa, for example, gains in food output have been achieved by expanding areas under cultivation, rather than improving yields. Future expansion of tilled areas is limited by the growing scarcity of any but marginal land; indeed in some African countries per capita food production has been declining in the past few years.*

46. *Military Expenditures:* The priority of survival of the state -- or the regime -- over economic development already has been mentioned. Already a number of LDCs are spending large sums of money on arms. So far such expenditures cannot be shown to have inhibited economic development, except in Nigeria. But arms expenditures by Third World countries are likely to grow during the seventies. Some countries, particularly Francophone states, may elect within the next couple of years to end their military dependence on foreign troops: and a modern army -- even a small one -- is costly. Some countries may decide suddenly, in the face of a crisis with a neighboring state, to buy modern arms; for example, should the guerrilla operations against white minority governments in southern Africa start to heat up tensions in that area, black African states bordering Rhodesia, South Africa, and the Portuguese territories could be expected to raise dramatically their arms purchases. In these, as in other cases of profligate arms spending by poor countries, there is usually a strong subjective element, involving national pride, the *machismo* of a national leader, or a drive to satisfy some exaggerated notion of "national security". Such concerns are unlikely to abate during the rest of this decade.

IV. IMPLICATIONS

A. Prospects for LDC Relations with Advanced Countries

47. For the poor countries generally, relations with the developed world in the past few years have not been moving favorably. The LDCs

have failed so far to win any but token concessions in global monetary and financial matters. There also has been a marked decline in foreign aid outlays by major donors, reflecting a diminished commitment to development assistance in principle. Moreover, because of the thaw in great power relations, East and West no longer can be played off against each other to raise foreign aid receipts. Nor is close identification with a powerful patron as attractive as it once was: it neither guarantees continuing economic support, nor is it likely to be popular at home.

48. These developments have prompted a number of Third World spokesmen to urge the poor countries to adopt new, tougher tactics vis-a-vis the rich. With little to gain from seeking the developed countries' approval for their actions -- and little to lose by opposing them -- the LDCs as a group have become more responsive to such suggestions. As many of the poor states fail to cope with their growing economic and social problems in the years ahead, it will be tempting for their leaders to blame their failures on the neglect and disinterest of the advanced countries, both non-Communist and Communist. There will, of course, be wide variations in the responses of particular LDCs. But as a general proposition the developed countries are likely to find the LDCs -- particularly in global and regional organs -- more independent, less cooperative, less tractable, and more inclined to

view their relations with the rich nations in an adversary context.

1. Implications for the US

49. A number of LDCs with which the US has had close economic and political ties -- South Korea and Taiwan, among others -- have been making substantial economic progress. As such countries move further away from a dependent relationship with the US, mutual ties are likely to be increasingly influenced by commercial and other pragmatic factors, and to be somewhat less subject to political frictions. This should make official relations less visible and, possibly, easier.

50. But only a small number of the 90-odd poor countries are likely to move in this direction. To many others the US, as the richest and most powerful nation, will be viewed as a political and economic adversary. This will be particularly true in areas where the US is seen as opposing regional political interests -- e.g., the Middle East and Southern Africa questions. In some cases an LDC will adopt a hard-line adversary posture to facilitate bargaining with the US. This has been a tactic of Latin American states in their efforts to win trade and other concessions. In other cases --

particularly those marked by despair, extreme frustration or quixotic leadership -- the adversary posture will be genuine, and may lead to acts which are consciously directed toward damaging US interests.

Denial of Access to Raw Materials

51. The most plausible US vulnerability is its increasing dependence on foreign sources of minerals, particularly energy supplies. By the early 1980s, the US will be spending many billions of dollars on oil imports alone. Meanwhile, oil import requirements of Western Europe and Japan also will grow rapidly. Already the existence of a seller's market has erabled producing countries to exact major concessions, in terms of prices and producer equity, from the international oil companies. The oil-rich Third World countries will strive to make oil an ever-dearer commodity to the industrial countries. Nor will they shy away from using economic pressures to gain concessions.

52. Although oil offers the best prospects for an embargo, this is not likely to occur. For one thing, to be effective an embargo

would have to involve at least one of the two top producers, Saudi Arabia or Iran. Short of some drastic heightening of Arab-Israeli tensions and the resulting emotional response by Arab states, the prospects for producer cooperation in an embargo are slight. Producer states are highly dependent on the flow of oil revenues, and seek above all to maximize in some sense their own national gains. It seems likely that they will continue to act as individual states, rather than a bloc; and hence they will be seeking to make their own best arrangements with individual oil companies and consumer states. The recent Iranian defection from OPEC ranks, as well as the Saudis' proposal to invest in oil refining and distributing facilities in the US, suggest that new consumer-producer arrangements will continue to develop.

53. There is even less likelihood of an effective embargo by LDC suppliers of other important raw materials, such as copper or bauxite. A major objective of the LDCs over the years has been to sell *more*, not *less*, of their few exportable products. Even in the case of copper, where production is centered in only 3-4 countries, the producers have so far been unable to agree on a policy of denial: Zambia, which gets some 90 percent of its export earnings from copper, seems in any event an unlikely prospect for joining an embargo. And the same is true of most other producers. Also, there are few if any

products of critical importance to US economic activity which are the monopoly of one or two countries and which have no reasonably good substitutes.

Other Forms of Economic Warfare

54. Nationalization or expropriation of US properties is another tactic open to LDCs. These are recognized, however, as drastic measures, which can be employed only once. In view of the LDCs' strong desire for foreign capital, most will carefully weigh the potential gains -- psychological as much as economic -- of nationalization against the almost certain risk that capital flows from abroad would drop sharply, at least for awhile. Nevertheless, the political urge to eliminate the more visible forms of foreign influence from LDC economies is unlikely to diminish; hence the trend toward nationalization seems certain to continue. But multinational business has shown the way to new solutions -- the post-nationalization relations between Algeria and industrial Western firms is a classic example -- and new forms of association between LDC enterprises and Western capital, technology, and management are likely to evolve.

55. The possibility of financial mischief-making, such as switching reserves from one currency to another, sounds far more

threatening than it probably is. Few Third World states other than the large oil producers will have large enough reserves to make a difference, and the chance of effective collaboration among several countries in such activities, while it cannot be ruled out, seems remote. Moreover, sudden withdrawals on a scale large enough to disrupt the global monetary system could be effectively countered by central bankers and international monetary authorities acting in concert. Indeed, the only situation in which such monetary warfare might have an impact would be against an already weak national currency. Even in a highly selective situation, however, the threat of such action would not be an effective bargaining weapon.

Other Adversary Reactions

56. In an adversary atmosphere, any US policy initiative where international cooperation is sought -- such as nuclear non-proliferation, environmental cooperation, Law of the Sea, and similar global issues -- will be suspected of being a self-serving developed country initiative with little or no potential benefit for the poor countries. Indeed, Western initiatives on programs for population control and for environmental protection have already been characterized by a number of influential LDC

leaders as phony issues dreamed up by the rich countries as a pretext for keeping the poor countries in economic thralldom. Such attitudes reflect an erosion of faith in established global institutions -- maritime rules, trade and banking practices, the World Court, diplomatic protocol, *et al* -- and may lead to refusal to play by the old rules.

57. There is also the usual range of directly punitive acts open to any state, including LDCs: denial of overflight or landing rights, withdrawal of access to ports, renunciation of space-track or other special bilateral agreements, etc. But it is generally recognized that such measures can do little more than salve a government's hurt feelings, and are likely to result in costly counteractions. Hence it is unlikely that many countries would resort to them. And, short of some regional rash of punitive measures, the US would probably be able to make alternative arrangements without serious difficulty or exorbitant cost.

Other Considerations

58. Beyond the possibilities of getting hurt, there is the larger issue of precisely what the US would like to achieve in its relations with Third World countries. There is the obvious

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goal of access -- access to the people, the raw materials, the markets, the culture, the government, etc. The US continues to enjoy a great deal of status in most countries of the Third World. Its culture, political institutions, technology, business management -- to mention a few areas -- have exerted much influence. Presumably it remains in the US interest to make its point of view known to Third World governments and peoples, particularly on such issues as the importance of the rule of law or of a government's obligation to safeguard its peoples' welfare and basic human freedoms. The large body of institutionalized experience and assumptions on which peaceful and orderly intercourse is conducted between nations is endangered to the extent that Third World states, most of which only recently have joined the community of independent nations, fail to understand or to feel a stake in those experiences and assumptions. If all this is true, then it would clearly be in the US interest not to become isolated from Third World developments or to be barred from a voice in major Third World deliberations.

59. Even a policy of maintaining peaceful engagement with the LDCs, however, will not result in a smooth path for US-LDC relations. In part this reflects the frequent and unavoidable

conflicts of US interests in a given area or country. We would like to see greater economic integration among Latin American states, but not at the expense of US exports. Nor does our interest in seeing Southeast Asian industry prosper mean that we would permit it to do so at serious cost to domestic US production. In addition, the extreme sensitivity of the poor states on matters of personal status and national pride often results in a different perception of events and priorities. A casual act by a powerful country, or its inattention to some small event of importance to a poor state, can have serious repercussions.* Particularly in a time of growing independence and self-assertiveness by Third World states, there is no policy that any developed nation could pursue that would be guaranteed failsafe or wrinkle-free. And there will probably be few instances where a Third World state could be induced to shift position on a gut issue because of anything the US might or would do. We could not offer a financial or economic inducement large enough to soften the Arab stand on Israel, or to cause the black African states to ease up on the southern Africa question.

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* *For example, when a Zairian emissary, who was sent to the UK to help negotiate the safe passage of Asians out of Uganda, found his London hotel suite too small for his liking, he took this as an official British slight, and abruptly called off his mission and returned to Zaire.*

60. In some areas US Government activity will form a considerably smaller share of the total US-LDC relationship than in the past. The decline in official aid funds and the expansion of trade with the Third World means that an ever larger part of LDCs' foreign economic and financial ties will be conducted with representatives of independent, often multinational firms, without the US as intermediary. The LDCs, themselves, are promoting new forms of relationships, such as technical aid contracts negotiated with US firms and personnel training programs contracted directly with US educational institutions. To the extent that the US channels economic development funds and technical assistance through multilateral agencies, this, too, will expand US-LDC links while reducing the area of friction between the US and Third World governments. All these developments should contribute to a broader base than the past one for US-LDC relations.

2. Implications for Other Advanced Countries

61. The factors affecting the LDCs' attitudes toward the US also affect their relations with other industrialized states. For example a number of ex-French colonies have demonstrated an increasing willingness to oppose the former Metropole in both their foreign and domestic policies, and many are pressing France to revise the independence accords under which it retained a large degree of influence

in their political, economic, and cultural activities. Similarly the USSR, despite almost two decades of effort to be identified as the leading champion of the less-developed countries, finds that these states generally regard it as just another big power looking after its own national interests: particularly since they have been disabused of earlier illusions that the USSR offered an alternative to the West as a market for LDC exports.

62. Finally, the obvious fact that none of the Third World nations has fallen under Soviet or Chinese hegemony means that we can look at the Third World for what it is -- a diverse group of states in various stages of movement toward modernization -- rather than seeing it as a board full of pieces to be won or lost in the Cold War. This more relaxed perspective should be an advantage in US approaches to Third World states as the decade goes on.

B. Implications for the LDCs

63. For the LDCs as a group, the winding down of the Cold War and the decline in big power patronage has brought opportunities as well as problems. Because of declining foreign aid prospects, a number of Third World countries have taken a harder, more realistic

look at their development prospects. They realize that they can no longer look to official aid flows to fill the gap between foreign currency outlays and receipts. This should lead, at least in some cases, to priority development of export industries and scaling down of development plans to more realistic goals.

64. Moreover the change in big power involvement in the LDCs has led them to turn more toward each other. In UNCTAD and the Stockholm Environmental Conference, as well as in such regional groupings as the Inter-American Economic and Social Conference and the Organization for African Unity, a number of issues have been found on which most members could take a common position. But personal and national rivalries, as well as conflict over substantive issues, have prevented such organs from being effective in bringing the LDCs lasting and meaningful unity. Moreover, there are limits on the extent to which mutual support could, in the best of conditions, help the LDCs meet their individual problems. Ultimately most poor states must accept the fact they are part of a global economic and financial system; that they must look to the advanced countries for the technology and capital -- and most of the financial aid -- that they need for economic development.

65. Most of the time most states will stop short of adopting measures which would threaten their own economic interests. There is always the possibility of a Soekarno or an Idi Amin twisting state policy to carry out his own fantasies of power. But many LDCs -- particularly those in East Asia and Latin America -- have a growing and politically powerful business elite whose economic interests depend on a stable government acting in conventional and predictable ways. The stronger this group, the less likely the state will adopt measures that would disrupt economic life and threaten access to export markets and sources of foreign capital. Indeed several such countries seem likely candidates to graduate from the ranks of the poor by the end of the decade.

66. Conversely, among the poorest LDCs are a large number* where tribal or regional interests dominate the society. These states seem unlikely -- short of a major mineral discovery -- to advance very far or very fast economically, and are likely to allow other priorities to take precedence over the economic. Most of the small, land-locked LDCs (indicated in Annex A) also are not expected to make significant economic gains in this decade.

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* *For example, Madagascar, Uganda, Sierra Leone, Dahomey, Burundi, Laos, Yemen, and Somalia.*

But a few of the latter at least have a growing national unity which should promote stable political conditions despite slow economic progress.

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In sum, while the present decade will see LDCs as a group make about the same sort of uneven economic progress as in the sixties, there will be differences. There will be few illusions about the likely volume or impact of foreign assistance, and Third World governments will assume more of the responsibility for their countries' economic progress or non-progress. Growing frustration over lack of forward movement will make poor states generally more truculent and less disposed to cooperate with the rich, except for their own obvious and direct benefit. And for the large number of LDCs which face serious and growing unemployment, social unrest in the seventies may make the sixties seem in retrospect a period of tranquility and ease. For most of the Third World's people, life in 1980 will be very much as it was in 1970 and 1960.

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ANNEX A a/

COMPARATIVE CLASSIFICATION OF 90 COUNTRIES, ACCORDING TO TWO INDICES OF DEVELOPMENT: (1) COMPOSITE b/ and (2) PER CAPITA INCOME

(1965 or nearest year)

COUNTRY	RANK OF COUNTRY: COMPOSITE INDEX	RANK OF COUNTRY: GROSS DOMESTIC PRODUCT *per capita*
Argentina	1	1
Yugoslavia	2	10
Spain	3	2
Malta	4	12
Portugal	5	14
Greece	6	4
Uruguay	7	5
Chile	8	7
Mexico	9	11
Cyprus	10	3
Cuba	11	18
Panama	12	8
Singapore	13	6
Jamaica	14	9
China, Rep. of	15	38
Lebanon	16	17
Korea, Rep. of	17	58
Peru	18	26

a/ *Source: UN, Trade and Development, TD/B/269, 11 July 1969. This list, and the ranking of individual states, is no more than a rough indicator of poverty. States like Argentina and Uruguay, which are not normally thought of as poor and underdeveloped, fell within the UN's definition. On the other hand such underdeveloped countries as Iraq, Iran, Saudi Arabia, and Algeria -- all with per capita GDPs ranging between $200 and $300 -- were excluded, because their skewed social and economic structures made a composite index of their development impossible. Moreover, the ranking is already somewhat out of date: Argentina is now well above the $1,000 per capita GDP cutoff, and Nigeria's rapidly rising oil revenues have probably raised its position considerably above 73rd place among the LDCs. The list nevertheless remains the most systematic identification of the world's poor countries.*

b/ *A weighted index, in which account was taken of degree of industrialization, school enrollment, energy consumption, export composition, availability of medical services, as well as per capita GDP at factor cost.*

ANNEX A

COUNTRY	RANK OF COUNTRY COMPOSITE INDEX	RANK OF COUNTRY GROSS DOMESTIC PRODUCT *per capita*
Costa Rica	19	13
Guyana	20	21
Philippines	21	28
Colombia	22	20
Barbados	23	15
Brazil	24	30
United Arab Republic	25	47
Paraguay a/	26	37
Ecuador	27	39
Turkey	28	25
El Salvador	29	27
Dominican Republic	30	29
India	31	64
Mauritius	32	31
Tunisia	33	42
Nicaragua	34	19
Jordan	35	34
Malaysia	36	22
Guatemala	37	23
Syria	38	46
Gabon	39	16
Western Samoa	40	40
Congo (Brazzaville)	41	45
Honduras	42	35
Bolivia a/	43	49
Ghana	44	33
Liberia	45	24
Pakistan	46	59
Ceylon	47	51
Zambia a/	48	36
Morocco	49	44
Zaire	50	72
Cameroon	51	53
Kenya	52	60
Swaziland a/	53	44
Viet-Nam, Rep. of	54	55
Thailand	55	56
Ivory Coast	56	32

a/ Land-locked countries.

ANNEX A

COUNTRY	RANK OF COUNTRY: COMPOSITE INDEX	RANK OF COUNTRY: GROSS DOMESTIC PRODUCT *per capita*
Indonesia	57	69
Equatorial Guinea	58	48
Cambodia	59	54
Senegal	60	41
Botswana a/	61	60
Haiti	62	68
Lesotho a/	63	79
Madagascar	64	62
Togo	65	63
Nepal a/	66	76
Central African Republic a/	67	57
Uganda a/	68	71
Mali a/	69	74
Afghanistan a/	70	83
Malawi a/	71	86
Sierra Leone	72	50
Ethiopia	73	82
Rwanda a/	74	89
Guinea	75	67
Nigeria	76	73
Laos a/	77	78
Tanzania	78	81
Burma	79	80
Gambia	80	65
Dahomey	81	75
Sudan	82	61
Burundi a/	83	87
Chad a/	84	77
Mauritania	85	52
Niger a/	86	70
Upper Volta a/	87	88
Somalia	88	84
Yemen	89	85
Bangladesh	n.a.	n.a. b/

a/ *Land-locked countries.*
b/ *Well below $100.*