The Balance of Payments of Developing Countries (*)

In spite of the large literature on development and the growing number of estimates of future trade or savings "gaps" there are no acceptable or consistent estimates showing the past history or existing state of the balance of payments of the developing countries as a group. If we remain ignorant of the present situation it is difficult to assess the likely impact of changes in trade or aid policies designed to help the developing world. Our paper therefore tries to fill this statistical gap which is so important for policy discussions in UNCTAD and elsewhere. The present estimates are crude, but they throw new light on the magnitude and interrelations of important problems, and we can only hope that those who challenge the figures will also endeavour to improve them (1).

What are the Developing Countries?

One fundamental need is for geographic consistency in the treatment of trade, invisibles, and capital movements. Any definition of developing countries will be somewhat arbitrary. Our definition is the same as that which OECD uses in its analysis of foreign aid flows. This is the most comprehensive one, as it includes all countries except Australia, New Zealand, South Africa, Finland,

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(*) I am indebted to Ernest Lamers and Panayotis Thomopoulos who helped prepare the statistical material on trade, invisibles, and reserves.

(1) Our presentation is intended to show the major trends and magnitudes in the international transactions of developing countries, using what appeared to be the best sources available, but filling gaps with rough estimates where necessary. A respectable balance of payments statistician could well challenge the lack of finesse on several counts. In particular he could contest the validity of compounding such a table from disparate sources, without detailed adjustment, e.g. for timing differences between trade recorded on a trade basis and on a payments basis.

Puerto Rico, the Communist countries (except Cuba and Yugoslavia) and OECD Members (except Greece, Spain and Turkey). U.N. trade statistics usually treat Greece, Spain, Turkey and Yugoslavia as part of the developed world. The G.A.T.T. concept of "non-industrial areas" excludes Southern Europe but includes Australia, New Zealand, and South Africa. The I.M.F. publishes figures on the liquidity and trade of the "less developed countries" as a group, but excludes Southern Europe.

I. M. F. Figures

The I.M.F. now publishes balance of payments figures for 58 individual developing countries, covering perhaps three-quarters of the transactions of the developing world. For the UNCTAD meeting it produced estimates for invisibles and trade balances (2). These were not comprehensive but simply aggregated information for those countries where it was available. Rather summary payments data for "primary producing countries" for 1963 and 1964 are contained in the 1965 *Annual Report* of the I.M.F. (3).

U. N. Estimates

The 1964 UNCTAD meetings gave rise to many papers on development problems. The conference issued eight volumes of these. There were papers on trade, service payments and capital movements, but no integrated view of the payments picture of the developing world. The nearest approach to this was in Volume I of the *World Economic Survey* for 1962 — itself a preparatory paper for the conference. This analysis was largely concerned with trade. There was a chapter on aid, but almost nothing on invisibles. The definition of the developing world excluded Southern Europe. The basic payments table is given below (table 1).

This is a very simplified statement showing both services and capital on a net basis with no entry for reserve changes or errors and omissions. No explanation of the estimates was given. It is

(2) See *Trade and Development*, Vol. V, U.N., pp. 119-122.
(3) See p. 76.

not quite clear what purpose these estimates served in the preparation for the Conference, for Mr. Prebisch forecast a 1970 trade deficit of $20 billion (4) as compared with the *World Economic Survey* figure of $12 billion.

Table 1

U.N. ESTIMATES OF DEVELOPING COUNTRIES' BALANCE OF PAYMENTS
$ billion

	1959 observed	1970 hypothetical
Imports (excluding trade between developing countries)	21	41
Exports (excluding trade between developing countries)	20	29
Trade balance	− 1	−12
Net Service Balance	− 4	− 8
Current Balance	− 5	−20
Net Flow of Capital and Grants	5	9
Gap to be filled by various policy adjustments	0	11

Source: *World Economic Survey* 1962, Vol. I, p. 6.

OECD Estimates

The OECD also prepared a report on trade and aid for the UNCTAD meetings (5). This also excluded Southern Europe from its definition of the developing world, which makes it difficult to reconcile with other OECD material on capital flows.

It showed the balance of payments of OECD countries (including Southern Europe) with the developing world (table 2). This provides a reverse image of a good many payments transactions of developing countries but excludes transactions within the developing world and with the Sino-Soviet bloc.

The OECD figures show trends for 1950-62. Some important changes emerge very clearly, particularly the big increase in the current deficit of developing countries since 1950, and the large increase in their capital receipts. However, the table probably mis-

(4) *Towards a New Trade Policy for Development*, Report by the Secretary General of UNCTAD, U.N., New York, 1964, p. 5.
(5) *The Problem of Growth in Less Developed Countries and its Significance for OECD Policy*, January 1964 (mimeographed).

represents the change in the service balance which has certainly deteriorated considerably for the developing countries. This is probably one of the reasons why the errors and omissions figure is very large and shows a big upward trend. In some circles these large errors and omissions figures have been interpreted to represent unrecorded capital flows from the developing world, but they are also an indication of the difficulty of keeping accurate regional balance of payments data (particularly for service transactions) in an era of convertibility.

TABLE 2

BALANCE OF PAYMENTS OF OECD COUNTRIES (a) WITH LESS-DEVELOPED COUNTRIES

$ billion

	1950 (b)	1955 (b)	1960	1961	1962
Trade Balance	−1.3	−0.5	2.5	3.4	1.6
Service Balance	1.0	1.1	1.2	1.2	1.5
Net Recorded Capital and Grants	−1.2	−3.7	−6.3	−7.1	−7.2
Change in Liquid Assets	1.8	1.0	−0.9	−0.4	−0.5
Errors, Omissions and Multilateral Settlements	−0.5	2.1	3.5	2.9	4.6

(a) Japan included.
(b) Estimates for 1950 and 1955 are subject to considerable margins of error; they were included only to give orders of magnitude of changes over time.

Source: *The Problem of Growth in Less Developed Countries and its Significance for OECD Policy*; this was largely based on OECD statistics and estimates from returns from Member governments.

Professor Balassa's Estimates

Professor Balassa has also prepared estimates of the payments position and prospects for developing countries (6). As he was concerned mainly with trade, he did not present a detailed set of payments estimates but he did show the trade and invisibles picture in more detail than the *World Economic Survey*. We show (table 3) his figures for 1960 as well as the larger of his estimates for 1970, which forecasts a current deficit of $10.5 billion, or half the level forecast by the *World Economic Survey*.

(6) In fact Professor Balassa originally prepared some of these estimates for OECD and they are included in the OECD document already cited.

Balassa has a 1960 current deficit of $4.6 billion rising to $10.5 billion in 1970. Balassa's 1960 figure for intra-developing area trade is smaller than ours ($1.6 billion as opposed to $6.7 billion) largely because he excludes trade within the four areas into which he divides the developing world, i.e. he excludes trade within Latin America but includes trade between Latin America and Africa. His figures also differ from ours because they exclude Southern Europe.

TABLE 3

BALASSA'S ESTIMATES OF THE BALANCE OF PAYMENTS OF DEVELOPING COUNTRIES 1960 AND 1970

$ billion

	1960	1970
Exports (including some intra-trade)	22.7	33.0
Imports (excluding some intra-trade)	24.0	38.0
Trade balance	− 1.3	− 5.0
Service payments	9.3	
Service receipts	6.0	
Service balance	− 3.3	− 5.5
Current balance	−4.6	−10.5

Source: B. BALASSA, *Trade Prospects for Developing Countries*, Irwin, Illinois, 1964, pp. 95, 103, 393.

Balassa has no estimate of the capital flow to developing countries but he refers to the DAC estimates of a $6.7 billion capital flow in 1960 and draws attention to the large errors and omissions figure which this implies (7). In fact these DAC financial flow estimates need considerable adjustment (as we shall see later) before being used in the context of payments analysis. They include Southern Europe (which Balassa excludes from his current balance), and they do not cover all capital flows to developing countries. They also include payments to multilateral organisations by developed countries, rather than disbursements by these agencies.

In spite of the big difference in their forecasts the basic picture presented by Professor Balassa and the U.N. for 1960 and 1959 respectively was not very different. Our estimates for 1963 show much bigger deficits. The current balance was then already in deficit by $9.1 billion, and the net flow of capital and grants was already well

(7) See B. BALASSA, *Op. cit.*, pp. 105-6.

above what the U.N. forecast for 1970. Furthermore, our estimates are on as gross a basis as possible, and show transactions of much larger dimensions than those of the U.N. and Balassa.

Our Estimates

Trade

Our trade figures are nearly all taken from figures regularly published by the U.N. All the figures are on an f.o.b. basis (8). The detailed trade figures are shown in the annex tables I and II, the summary figures in table 4.

TABLE 4

MERCHANDISE TRADE OF DEVELOPING COUNTRIES 1953-63
$ billion

	1953	1956	1959	1960	1961	1962	1963
Exports f.o.b.	21.8	25.9	27.0	28.8	29.1	30.7	33.2
Imports f.o.b.	21.2	26.9	28.4	31.0	32.5	33.1	35.6
Balance	+ 0.7	− 1.0	− 1.4	− 2.2	− 3.4	− 2.4	− 2.4

Source: The figures are derived from various issues of the U.N. *Yearbook of International Trade Statistics*, adjusted with OECD figures for trade of Greece, Turkey, Spain and Yugoslavia which the U.N. does not include in the developing world. The U.N. figures are all based on export statistics, so that imports f.o.b. are derived in large part from the export figures of developed countries.

The trade of the developing countries has been in deficit since 1956, with a peak of $3.4 billion in 1961. These figures do not include all trade. They make no allowance for smuggling, under- or over-invoicing or errors in recording, and military items imported from France, Germany (probably the U.S.S.R.), the U.S.A. and some other countries are not included. We can make a rough estimate for imports of military commodities financed by military aid but not included in the trade statistics. These were about $1.6 billion in 1963. However, there were also other substantial military purchases which we cannot estimate. We have not felt able to estimate the figure for smuggling, but this is important in the trade between African countries as well as in Iran, Iraq, Afghanistan, Pakistan, the Philippines, Indonesia, Malaya, Mexico, and several South American countries. It may well amount to more than 5 per cent of the recorded trade of the developing world.

(8) The I.M.F. *Balance of Payments Yearbooks* contain trade figures for many developing countries (on a payments basis) but these are incomplete. They only cover 58 developing countries for recent years and the coverage is smaller for earlier years.

It is interesting to note that developing country exports rose much more slowly than world trade from 1953-63. Their exports rose in value by only 4.3 per cent a year compared with 7.1 per cent for other countries. This slower growth was due to three main reasons: (a) greater inflationary pressure and overvaluation of currencies which weakened export incentives in developing countries; (b) their very heavy dependence on primary commodities for which the market is weak. Food and raw materials other than fuels represented 52 per cent (9) of their exports in 1963 compared with 26 per cent for developed countries; (c) developed countries have greatly reduced trade barriers between each other, whilst they have raised new barriers against imports from developing countries, such as the U.S. quotas on imports of oil, copper, lead and zinc, and the restrictions on textile imports in most developed countries. In a recent study, Professor Harry G. Johnson has suggested that existing trade barriers in Western developed countries block about $4.4 billion of potential exports of agricultural and mineral products from developing countries (10). There is little doubt that the Communist countries could also make a major contribution to the exports of developing countries by further liberalising (11) their imports — which have already risen more than fivefold since 1953.

Invisibles

Table 5 shows the total invisibles transactions of developing countries in 1963. A fairly comprehensive picture can be derived from figures published by the I.M.F., France, and the U.K. and

(9) See *Monthly Bulletin of Statistics*, U.N., New York, November 1965, p. xxiv.

(10) See HARRY G. JOHNSON, *U.S. Economic Policy Towards the Less-Developed Countries: A Survey of Major Issues*, The Brookings Institution, Washington, D.C., 1965, mimeographed.

(11) According to the *World Economic Survey 1962*, U.N., New York, p. 106, Soviet per capita imports of coffee were only 0.1 Kg. a year compared with 3.6 Kg. in Germany (F.R.) and 0.3 Kg. for cocoa compared with 2.0 Kg. in Germany.

TABLE 5

RECEIPTS AND PAYMENTS OF DEVELOPING COUNTRIES ON SERVICE ACCOUNT, 1963

$ million

	Latin (b) America	Africa (c)	Middle (d) East	Asia (e)	Europe (f)	Franc (g) Area	Sterling (h) n.i.e.	Other (i) Countries	Total
Freight, insurance and other transportation (a):									
Receipts	297	69	406	328	373	135	413	91	2112
Payments	995	245	353	878	409	330	542	169	3921
Balance	— 698	— 176	53	— 550	— 36	— 195	— 129	— 78	—1809
Travel:									
Receipts	854	31	180	63	839	84	380	109	2540
Payments	669	125	178	151	127	109	60	63	1482
Balance	185	— 94	2	— 88	712	— 25	320	46	1058
Investment Income:									
Receipts	38	60	78	143	69	12	160	25	585
Payments	1453	290	1254	549	124	237	1293	234	5434
Balance	—1415	— 230	—1176	— 406	— 55	— 225	—1133	— 209	—4849
Government:									
Receipts	120	71	101	600	188	767	107	88	2042
Payments	157	75	325	216	77	72	38	43	1003
Balance	— 37	— 4	— 224	384	111	695	69	45	1039
Private transfers and remittances:									
Receipts	94	42	345	329	426	282 (j)	200	77	1795
Payments	169	108	57	158	6	4	181	31	714
Balance	— 75	— 66	288	171	420	278	19	46	1081
Miscellaneous:									
Receipts	350	39	247	368	247	130	158	69	1608
Payments	450	246	231	374	171	479	204	97	2252
Total services:									
Receipts	1753	312	1357	1831	2142	1410	1418	459	10682
Payments	3893	1089	2398	2326	914	1231	2318	637	14806
Balance	—2140	— 777	—1041	— 495	1228	179	— 900	— 178	—4124

Detail may not add to total because of rounding.

Source:

The first five columns (56 countries) were derived from the I.M.F. *Balance of Payments Yearbooks*, Vols. 15, 16 and 17; the figures for Lebanon are from the A.I.D. *Economic Data Book*. *Balance des Paiements entre la zone franc et les pays étrangers 1963*, Ministère des Finances, for transactions of French Franc Area developing countries with the outside world excluding France; the figures for their transactions with France are given by the I.M.F. for 1962. These were extrapolated to 1963 with the help of *Les Comptes de la Nation de l'Année 1963*, Ministère des Finances, Paris, 1965; *U.K. Balance of Payments* 1965, Central Statistical Office, London, gives figures for the sterling area.

(a) The following countries reported their imports c.i.f.: Argentina, Burma, Ceylon, Chile, Egypt, El Salvador, Greece, India, Iran, Iraq, Jordan, Libya, Malta, Mexico, Nigeria, Somalia, Sudan, Surinam, Syria, Taiwan, Thailand, Vietnam and Yugoslavia. It was assumed that their payments for freight and insurance were understated by an amount equal to 10 per cent of their imports f.o.b.; except for Argentina, Chile, Greece, Taiwan and Yugoslavia, whose payments were assumed to be understated by a smaller amount because of the availability of domestic freight lines.

(b) Comprises Argentina, Bolivia, Brazil, Chile, Colombia, Costa Rica, Dominican Republic, Ecuador, El Salvador, Guatemala, Haiti, Honduras, Mexico, Netherlands Antilles, Nicaragua, Panama, Paraguay, Peru, Surinam, Uruguay, Venezuela (21 countries).

(c) Comprises Ethiopia, Ghana, Libya, Malawi, Nigeria, Rhodesia, Somalia, Sudan, Zambia (9 countries).

(d) Comprises Egypt, Iran, Iraq, Israel, Jordan, Lebanon, Saudi Arabia, Syria (8 countries).

(e) Comprises Burma, Cambodia, Ceylon, Cyprus, India, Indonesia, Korea, Malaysia, Pakistan, Philippines, Taiwan, Thailand, Vietnam (13 countries).

(f) Comprises Greece, Malta, Spain, Turkey and Yugoslavia (5 countries).

(g) Comprises Algeria, Cameroun, Central African Republic, Chad, Congo (Brazzaville), Dahomey, Gabon, Upper Volta, Ivory Coast, Madagascar, Mali, Mauritania, Morocco, Niger, Senegal, Togo, Tunisia; the French territories of Comores, New Caledonia, French Polynesia, St. Pierre and Miquelon, Wallis and Futuna; and the French departments of Guadeloupe, Guiana, Martinique and Reunion (26 countries, territories and departments).

(h) Comprises Gambia, Jamaica, Kenya, Kuwait, Sierra Leone, Tanzania, Trinidad and Tobago, Uganda; British protected states of Bahrain, Qatar, Tonga, Trucial states; British Protectorates of Aden States, Bechuanaland, British Solomon Isles, Swaziland; and British colonies of Aden, Anguilla-Nevis, Antigua, Ascension, Bahamas, Barbados, Basutoland, Bermudas, British Guiana, British Honduras, Cayman Islands, Dominica, Falkland Isles, Fiji, Gilbert and Ellis Islands, Gibraltar, Grenada, Hong Kong, Mauritius, Montserrat, New Hebrides, Pitcairn, Seychelles, St. Christopher, St. Helena, St. Lucia, St. Vincent, Tristan da Cunha, Tusks and Caicos Islands, W. Samoa (47 countries, protected states, protectorates and colonies). This was obtained as a residual taking figures for the sterling area published by the U.K. and deducting the figures for countries specified in the I.M.F.

(i) The preceding columns for developing countries are incomplete. They cover countries whose trade f.o.b. amounted to 95.7 per cent of that of the developing world. This penultimate column was therefore added in which all items are 4.3 per cent of the total. This is intended to represent the transactions of Afghanistan, Angola, Cuba, Guinea, Liberia, Mozambique and Congo (Leo) (7 countries), i.e. we assumed that their share of total trade provides a rough guide to their payments situation.

(j) Part of these are on a net basis, i.e. the transactions between the developing franc area and France.

we have adjusted them upwards slightly for incomplete coverage. The estimates cover 136 countries or territories.

It can easily be seen that the invisibles transactions of developing countries are of major significance. Any "gap" or payments analysis which ignores these items is bound to be seriously misleading. The total payments for services in 1963 were $14.8 billion, and the deficit on services was $4.1 billion, i.e. bigger than the recorded commodity deficit. Most other estimates of this item are seriously incomplete, e.g. the recent U.K. white paper suggested a deficit of only $2.2 billion (12).

The overall picture is strongly affected by the specially favoured and untypical position of Southern Europe which has a large surplus because of big receipts from tourism and migrant workers' remittances. If Southern Europe were excluded the invisibles deficit of the developing world would rise from $4.1 to $5.4 billion.

The biggest individual deficit item is in respect of payments of dividends and interest of $5.4 billion. This interest and dividend flow represents payments (probably about $1.5 billion) on publicly guaranteed loans of about $30 billion (13), and on private investment. Payments to private investors were about $4 billion a year and represent a return on capital with a book value of about $40 billion in 1963. More than half the return to private capital consisted of earnings on oil investment and presented no particular payments problem for oil producers who have received a growing proportion of the proceeds of the rapidly growing oil exports. However, interest payments on government debt are inflexible and were a substantial burden for several countries.

The favourable balance of developing countries on governmental invisibles is due to the fact that France, the U.K. and the U.S.A. had large local outlays for their military personnel. There have usually been several hundred thousand of these troops and their dependents in developing countries in recent years.

Table 5 is incomplete as regards payments for experts' services and study abroad. I have examined these costs in some detail elsewhere (14). The remuneration of experts and arrangements for study

(12) See *Overseas Development; The Work of the New Ministry*, Cmnd. 2736, p. 19.

(13) At the end of 1962, external public debt of 74 countries was about $27.5 billion, see *Economic Growth and External Debt*, Johns Hopkins, 1964, p. 112.

(14) See *Foreign Skills and Technical Assistance in Economic Development* (chapter V), OECD Development Centre, Paris, 1965.

abroad are often handled directly by aid donors, and it seems likely that developing countries do not enter some of these service imports in their balance of payments, nor do they always include the corresponding financial grants in their capital balance. Even where foreign personnel are paid from local government resources, some countries do not treat their services as an invisible import, for a good deal of their remuneration is spent on local commodities. The remittance of their savings does affect the balance of payments but this flow may often not be entered in the accounts as a service item but included under errors and omissions. This may also happen with illegal remittances of savings by foreign personnel working in private enterprises in countries where legal transfers are hindered by exchange control. It seems likely therefore that the invisibles deficit of developing countries is understated for these reasons. Our own estimate of the cost of expert services and scholarships provided for developing countries is about $4.5 billion for 1963, but in table 5 the total payments recorded for all government and miscellaneous service imports are only about $3.3 billion. We have therefore assumed that invisible imports were understated by about $1 billion in 1963.

Capital items

Between 1956 and 1964 the total net flow of aid from OECD countries and multilateral agencies was over $44 billion, or about three times the size of the Marshall Aid programme. In addition there was about $25 billion of private capital and $19 billion of other funds. The total flow of capital to developing countries increased by almost half between 1956 and 1964 but the bulk of the increase took place between 1959 and 1961. Table 6 shows these flows of financial resources from the outside world. It is more complete than the figures normally published by OECD, which usually include only the first eight items (15). The other items we have added amounted to $1.9 billion in 1963. These consist of military aid and drawings on the I.M.F. These military figures could well be refined by further study.

(15) See *The Flow of Financial Resources to Less-Developed Countries 1956-1963*, OECD, 1964. The OECD total flow figure is also sometimes differently stated by showing payments to multilateral agencies instead of their disbursements.

TABLE 6

GRANTS AND NET LENDING (a) FROM DEVELOPED COUNTRIES AND MULTILATERAL AGENCIES TO DEVELOPING COUNTRIES 1956-64

disbursements $ million

	1956	1957	1958	1959	1960	1961	1962	1963	1964
Official grants from OECD countries	2592	3022	3196	3124	3662	3973	4030	3958	3810
Official net lending by OECD countries	457	422	820	878	648	1361	1402	1708	1695
Official grants and net lending by communist countries	107	87	205	161	186	294	391	425	(525)
Official grants and net lending by other developed countries	(30)	(30)	(30)	38	36	49	59	92	113
Grants from multilateral agencies	58	80	75	72	113	198	217	271	325
Net lending by multilateral agencies	147	230	277	217	170	55	195	383	465
Net guaranteed export credit	395	430	170	316	463	493	549	556	(816)
Other net private capital from OECD countries (b)	2553	3030	2276	2231	2354	2479	1685	1841	2284
Net drawings from I.M.F.	63	384	95	4	137	492	64	174	—12
MILITARY ITEMS									
Military grants from the U.S.	1163	1025	1355	1193	1007	900	978	1165	(960)
Military grants from the U.K.			14	17	34	42	36	56	92
Military grants from other OECD countries	(120)	(130)	(140)	(150)	(160)	(170)	(180)	(190)	(200)
Military grants from communist countries	(150)	(150)	(150)	(150)	(150)	(150)	(150)	(150)	(150)
U.S. military credits (c)	8	7	39	50	15	16	8	8	43
Other OECD military credits	(5)	(5)	(5)	(5)	(5)	(5)	(5)	(5)	(5)
Military credits from communist countries	(150)	(150)	(150)	(150)	(150)	(150)	(150)	(150)	(150)
Total	7998	9182	8997	8756	9290	10827	10099	11132	11621

(a) Includes maturities of 1 year or more.
(b) Excludes French reinvested earnings outside petroleum.
(c) These figures represent gross lending.

Source: The first eight items are derived from *The Flow of Financial Resources to Less-Developed Countries, 1956-1963*, OECD, Paris, 1964; Table II-5, IV-4 (p. 134), IV-13, IV-16 and revisions supplied by the OECD Development Department. Net drawings from the I.M.F. are derived from *International Financial Statistics*. U.S. military figures 1956-57 (which represent deliveries and are for U.S. fiscal years) from *U.S. Foreign Assistance and Assistance from International Organizations, Obligations and Loan Authorizations, July 1, 1945-June 30, 1962 (Revised)*, A.I.D., Statistics and Reports Division, Washington. 1958-1964 from *U.S. Overseas Loans and Grants and Assistance from International Organizations, Obligations and Loan Authorizations July 1, 1945-June 30, 1964*, A.I.D. Special Report for the House Foreign Affairs Committee. The figures for the U.K. are from *United Kingdom Balance of Payments 1965*, London, H.M.S.O., 1965, p. 6, which refers to "other grants" which are mainly of a military nature. In addition the U.K. has made some small loans for military purposes. For Germany an article in the *Economist*, February 20th, 1965, p. 785, reported German military aid to developing countries in 1965 as £45 million (including £30 million for Israel). According to A.I.D., cumulative Soviet bloc military aid amounted to $3.5 billion from 1955 to 1964, the bulk of which was disbursed. We have assumed half of this to be credits, and half to be grants. Figures in brackets are estimates.

Our figures do not include short-term commercial credit or multilateral military aid, and they exclude a few minor items, e.g. E.M.A. lending to Turkey, private investment by non-OECD developed countries, and the small technical assistance programmes of multilateral agencies other than the U.N. We have not included private donations which probably amounted to about $300 million in 1963, or German Government reparations to individuals in Israel, as these are already included in the invisibles balance. The figures on Sino-Soviet aid are also incomplete as they exclude aid received by Cuba from communist countries. The cumulative total of this aid amounted to more than $2 billion by the end of 1964, and for 1963 we should therefore add about $300 million for aid to Cuba.

Government transactions dominate the flow of finance to developing countries. Of the total $11.1 billion in 1963, $8.7 billion were government funds (two-thirds in the form of grants) and only $2.4 billion were private. Even within this private flow, $556 million were government guaranteed export credits, and some of the other private capital flow was influenced by government guarantee, subsidy or tax favour. Only about a tenth of the flow was therefore private capital responding to traditional incentives. The private capital flow has stagnated over the past ten years and has been adversely affected by nationalisation which has taken place in Algeria, Burma, Ceylon, Egypt, Indonesia and Cuba. As a result the supply of investment by the private sector in the developed world has been only a little more than half of the dividends and interest it has received from the developing world. This is in glaring contrast to the upsurge in private capital flows which has taken place within the developed world since 1958 when convertibility was generally established and the Common Market created.

These external funds have made a great contribution to the balance of payments and the investment of developing countries. Usually attention is concentrated on the fact that aid represents less than 1 per cent of the G.N.P. of the developed world but the 1963 net flow (including Sino-Soviet aid to Cuba) was $11.4 billion or about 4.8 per cent of the G.N.P. of developing countries (16). For

(16) The total GNP of developing countries in 1963 was about $240 billion at current prices and exchange rates. This estimate was built up from figures in the annex to Escott Reid, *The Future of the World Bank*, I.B.R.D., Washington, and from A.I.D. sources, as the U.N. *Yearbook of National Accounts Statistics*, 1964, pp. 389-91, has complete aggregative figures in dollars only for 1958.

many countries, particularly in Africa, the contribution is much bigger than this as can be seen from annex table III. However, there are several major problems deriving from the heavy reliance on foreign capital:

(a) the motivation of a good deal of these funds is political rather than developmental and their disbursement has to be in forms which can be closely scrutinised by the donor because of political and budgetary constraints at home. This involves close surveillance of and occasional intervention in the policies of other countries, the presence of large numbers of foreign advisers, and the embarrassment of large counterpart funds. On the other hand, developed countries which give aid are often reluctant to exercise enough pressure to change bad policies in recipient countries. These problems are, of course, recognised by aid donors, and since 1960 the Western countries have been trying to ensure that aid funds have the maximum developmental impact whatever their motivation (17). This political problem will remain a major drawback of bilateral aid, and it is highly desirable that a larger proportion be given via multilateral bodies which are subject to many fewer political handicaps and can more justifiably exert pressure to ensure that economic policy is efficient. In 1963, multilateral funds supplied only 7 per cent of the total flow. This, however, understates the role of multilateral organisations who have played a growing part in influencing the spending of bilateral funds;

(b) a good deal of aid is tied, either to purchases in the donor country or to particular projects. This often reduces its value to the recipient (18), tends to distort resource allocation by over-emphasis on large or demonstrative projects, or fosters capital-intensive methods which may be inappropriate for a labour surplus country. They may neglect agriculture because of the availability of surplus food (e.g. India), or foster uneconomic industrialisation because aid is tied to prestige projects (e.g. Guinea). Although there has been much

(17) See A. Maddison, "Coordination of Foreign Aid through OECD", in *Motivations and Methods in Development and Foreign Aid*, S.I.D., Washington, 1964, for an account of the origins of the OECD Development Assistance Committee and of its progress in coordinating policies.

(18) See J. A. Pincus, "The Cost of Foreign Aid", *The Review of Economics and Statistics*, November 1963, and Mahbub ul Haq, "Tied Credits - A Quantitative Analysis", paper presented to the International Economic Association, July 1965, Washington D.C.

discussion of this problem, the situation has, in fact, got considerably worse in the past few years. The weakness of the U.S. and U.K. balance of payments has led these countries to tie their aid, and other countries have done little to untie aid;

(c) most of the increase in aid has taken the form of loans, which has pushed many countries into indebtedness which they cannot honour except by more aid. This increases their political dependency. It is not possible to give the full picture of the debt burden of developing countries but we know from the IBRD that annual interest obligations on government debt were about $1 billion and annual amortisation on publicly guaranteed debt was about $2.0 billion in 1963. This annual debt burden more than trebled between 1956 and 1963 (19). If commercial arrears and debt to the I.M.F. were included, the total 1963 burden on fixed interest account would be about $4.5 billion, of which about $3 billion was for amortisation (20). There has been some progress in meeting this problem in the past couple of years, as lenders have softened the terms of their aid and lengthened the maturity of loans. Furthermore, there has been some rescheduling of existing debt in important cases such as Brazil and Turkey.

A special word might be added about finance for military transactions which is usually ignored in statistics or discussions of the development problem. Our coverage of these is not complete, e.g. multilateral military aid and bilateral military technical assistance are left completely out of account. Developing country military expenditure is probably of the order of $7 billion, or about 3 per cent of their G.N.P. (21). About a third of this is probably devoted to importing military hardware from the developed world. These expenditures seem likely to expand as military regimes increase in number. The U.S. and U.K. are now actively promoting military exports to help solve their balance of payments problem, and recently sold a very modern defence system to Saudi Arabia. It would seem desirable to cut down these military shipments, and encourage developing countries to use obsolete military technologies. Part of the

(19) See D. Avramovic et al., *Economic Growth and External Debt*, I.B.R.D., Johns Hopkins, Baltimore, 1964, pp. 110 and 112.

(20) Se *Op. cit.*, p. 114.

(21) See the estimates of Emile Benoit and Harold Lubell in *Disarmament and the International Economy*, Peace Research Institute, Oslo, forthcoming.

problem in reducing military trade and aid to developing countries is the political conflict within the developed world, but this is not always the obstacle. Progress in this field is likely to be slow, but it would seem useful to introduce a greater element of development thinking into the disarmament problem.

Capital exports from developing countries

Our estimates of capital flows in table 6 are incomplete in that they show lending on a net basis, whereas the amortisation of government guaranteed debt is about $3 billion a year. They also omit an estimate for capital exports from developing countries. In our final summary (table 8) we have included a figure of $1.5 billion for this item. This is much lower than some other estimates. I. M. D. Little and J. M. Clifford estimate an outflow of $2.5 billion for 1962(22). It seems doubtful that the flow can have been on this scale for any considerable period. The flow was exceptionally high in 1962, because there was an outflow of several hundred thousand French settlers from Algeria, all of them trying to transfer their assets. The large outflow from Africa has been a once-for-all affair. The steady outflow from developing countries is from Latin America and the Middle East. Part of the apparent capital flight probably consists of savings remitted by the 250,000 foreign experts working in developing countries or payment of fees for some of the 250,000 students studying abroad. Part is illegal tourist spending of people from developing countries. These items should be attributed to the services rather than the capital balance and we have already adjusted the service balance by $1 billion for these reasons. In Asia most of the speculation against local economic difficulties or political risks has its counterpart in smuggled gold imports rather than holdings of foreign assets.

Our estimate of capital exports is somewhat higher than the estimates of the I.M.F. The I.M.F. have not put a figure on the total outflow from developing countries, but the 1963 I.M.F. annual report suggested that the problem was largely confined to the overseas franc area and Latin America. It put forward a figure of about $300 million a year for the Latin American outflow in the 1950s. It seems likely that there is now also a steady outflow to developed countries from oil producers in the Middle East though surplus Kuwaiti funds are now being redirected to developing countries.

A deal of the flow of private capital from developing countries is capital flight by people who are hedging against political uncertainty and risks of devaluation. Given the nature of these countries it is likely that the flow will continue to be substantial. However, this outflow could be reduced somewhat and foreign capital attracted by more efficient policy — e.g. a simplification and rationalisation of exchange rates, better exchange controls, less inflation, or simply by better organised capital markets.

Reserves

In 1953 the official reserves of developing countries (including I.M.F. gold tranche positions) were about $12.5 billion. In 1962 they were about $13.1 billion and in 1963 they rose to $14.2 billion. In this decade the number of independent developing countries increased greatly, and this in itself could be expected to increase their reserve needs. It is clear therefore that as a group they could hardly be accused of holding excess liquidity. The bulk of their holdings was in dollars and sterling.

TABLE 7

RESERVES (a) OF DEVELOPING COUNTRIES
End of period - $ million

	1953	1956	1957	1958	1959 (b)	1960	1961	1962	1963	1964
Total	12464	14313	13505	12209	12367	12711	12452	13121	14151	14417
Change over previous year	+352	+413	−808	−1296	+158	+344	−259	+669	+1030	+266

Source: 1953-57, *International Financial Statistics*, February 1964; 1958-64, *International Financial Statistics*, March 1965.
(a) Gold, Fund gold tranche positions and foreign exchange.
(b) Beginning 1959 when most of the major currencies became convertible, the data exclude holdings of inconvertible currencies and balances under payments agreements.

(22) This consisted of $1.5 billion for Africa, $400 million for Latin America, $600 million for Asia and zero for Europe. Little and Clifford do not estimate the balance of payments of developing areas but refer to Balassa's estimates. See *International Aid*, Allen and Unwin, London, 1965, pp. 217-8.

Errors and Omissions

We remain with a small figure of $200 million for errors and omissions. This should not be taken to imply that we consider our figures free from error. This is a net figure and does not exclude substantial gross errors of an offsetting character.

Summary Balance for 1963

It can be seen that the current account deficit is $9.1 billion, which is about twice as large as the U.N. estimate for 1959 or the Balassa estimate for 1960. More than half of this deficit is on service account, and the biggest deficit item there is the burden of interest and dividend payments. The total gross flow of capital to developing countries was probably about $14.4 billion.

TABLE 8

OUR ESTIMATE OF THE BALANCE OF PAYMENTS OF DEVELOPING COUNTRIES IN 1963

	$ billion
Recorded commodity exports f.o.b.	33.2
Recorded commodity imports f.o.b.	35.6
Unrecorded military imports (financed by military aid)	1.6
Total trade balance	− 4.0
Recorded service payments	14.8
Unrecorded service payments	1.0
Recorded service receipts	10.7
Total service balance	− 5.1
Total current balance	− 9.1
Gross financial receipts from developed countries (a)	14.4
Capital outflow to developed countries (including amortisation)	4.5
Change in reserves	+ 1.0
Errors and omissions	+ 0.2

(a) Includes $3 billion of amortisation, and $300 million of Sino-Soviet aid to Cuba.

Conclusions

The first obvious conclusion is that previous estimates of the payments of developing countries have seriously understated the magnitude of the total transactions, the size of the current deficit, and the magnitude of capital receipts. It is also clearly desirable that the payments figures should be available regularly in a form which permits the situation to be followed from year to year without a lot of detective work. The biggest need for improvement is in the figures on service transactions and here the main onus rests on the U.K. and France which should supply the I.M.F. with more detailed figures on transactions of countries in their monetary areas. It would also be helpful to have a regular summary presentation from the I.M.F. The OECD figures on capital flows should be expanded to include military transactions. This area is virtually unknown territory and ought to be more closely scrutinised for its development implications. As far as trade is concerned the figures published by the U.N. are quite satisfactory, but aggregative estimates might well be published with greater topicality.

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Annex Table I

EXPORTS F.O.B. OF DEVELOPING COUNTRIES BY AREA OF DESTINATION

$ million

	1953	1956	1959	1960	1961	1962	1963
Total OECD Developed Countries	15,423	18,178	18,631	19,761	19,771	20,843	22,616
Sino-Soviet Group	357	717	1,226	1,502	1,747	1,773	1,994
Other Developed Countries	555	799	754	834	786	790	874
Total Trade with Developed Countries	16,335	19,694	20,611	22,097	22,304	23,406	25,484
Trade between Developing Countries	5,509	6,163	6,419	6,747	6,845	7,271	7,711
World Total	21,844	25,857	27,030	28,844	29,149	30,677	33,195

Source:

Yearbook of International Trade, various issues, U.N., New York, 1963, 1961, 1959, 1956, 1954, 1953. OECD *Statistical Series A. Overall Trade by Countries.*

Annex Table II

IMPORTS F.O.B. OF DEVELOPING COUNTRIES BY AREA OF ORIGIN

$ million

	1953	1956	1959	1960	1961	1962	1963
Total OECD Developed Countries	14,676	19,060	19,946	21,981	22,809	22,650	24,123
Sino-Soviet Group	445	1,001	1,318	1,550	2,112	2,396	2,871
Other Developed Countries	535	668	705	753	779	794	867
Total Trade with Developed Countries	15,656	20,729	21,969	24,284	25,700	25,840	27,861
Trade between Developing Countries	5,509	6,163	6,419	6,747	6,845	7,271	7,711
World Total	21,165	26,892	28,388	31,031	32,545	33,111	35,572

Source:

Yearbook of International Trade, various issues, U.N., New York, 1963, 1961, 1959, 1956, 1954, 1953. OECD *Statistical Series A. Overall Trade by Countries.*

Annex TABLE III

AVERAGE 1960-62 TOTAL NET FLOW OF CAPITAL FROM OECD COUNTRIES AND MULTILATERAL AGENCIES AS A PERCENT OF:

	G.N.P.	Gross Fixed Capital Formation	Gross Government Revenue	Exports	Imports
Venezuela	− 5.0	−27.1	−22.6	− 10.5	−13.3
Philippines	1.2	11.8	12.0	7.0	5.7
Mexico	1.4	9.7	20.1	12.8	11.8
Spain	1.9	11.2	16.0	15.2	18.3
Iran	2.0	n.a.	13.6	9.2	8.6
Colombia	2.1	11.6	24.9	13.9	11.6
India	2.1	n.a.	15.9	43.8	29.0
Argentina	2.5	11.8	17.9	20.6	16.0
Yugoslavia	2.7	7.7	n.a.	17.0	13.6
Turkey	3.1	21.0	22.8	39.3	29.3
Brazil	3.2	14.5	24.8	29.7	22.8
Greece	3.2	13.3	19.7	25.1	17.0
Thailand	3.3	19.2	28.2	18.1	16.8
Nigeria	3.3	n.a.	33.7	44.4	33.3
Chile	3.5	27.7	23.4	28.8	20.2
Pakistan	3.8	35.7	40.3	53.9	34.9
Egypt	6.1	n.a.	24.9	25.5	20.0
Taiwan	7.8	44.8	72.6	57.7	36.5
South Korea	8.9	70.6	62.7	171.9	61.4
Israel	9.4	34.0	39.5	51.2	25.5
Algeria	12.1	n.a.	n.a.	n.a.	n.a.
French franc area countries south of the Sahara	14.0	n.a.	n.a.	n.a.	n.a.

Source:

Total net flow of capital from OECD countries and multilateral agencies: *The Flow of Financial Resources to Less Developed* Countries 1956-1963, OECD, 1964, Table V-3 for official capital; for private capital, I.M.F. *Balance of Payments Yearbook*, Vol. 15, country tables. G.N.P.: *Yearbook of National Accounts Statistics 1963*, U.N., New York, country tables. Figures for Iran, India, Nigeria, from A.I.D., *Economic Data Book*. French Franc area from *Planification en Afrique*, Tome IV, Ministère de la Coopération, Paris, January 1963, tableau 6.4 (adjusted). Gross fixed capital formation: *Yearbook of National Accounts Statistics 1963*, U.N., New York, country tables; figure for Pakistan, *Preliminary Evaluation of Progress During the Second Five Year Plan*, Karachi, March 1965, Table 2.2. Gross government revenue: *Statistical Yearbook, 1963*, U.N., New York, 1964, Table 181; figure for Nigeria from A.I.D., *Economic Data Book*, country table. Exports and imports: I.M.F., *Balance of Payments Yearbook*, Vol. 15, country tables.