The First Half of the Development Decade: Growth, Trade and the Balance of Payments of the Developing Countries, 1960 65 (*)

The developing countries approached the Development Decade — the period 1960-1970 — with great expectations. While export prospects were viewed with some pessimism, a considerable increase in the rate of economic growth was forecast. Available data for the first half of the sixties permit us to appraise the extent to which these projections have been realized. The purpose of this paper is to provide such an evaluation. I will proceed by considering the growth performance of the developing countries, increases in their exports and in the inflow of foreign capital, the use of foreign exchange earnings, the main influences affecting their economic growth, and the prospects for the second half of the Development Decade.

I. Economic Growth

United Nations declarations on the Development Decade called for an annual rate of economic growth of 5 percent in the developing countries to be reached in the course of the nineteen-sixties (1). This target was not attained in the first half of the decade; in fact,

(*) This article is based on a study prepared for the World Bank group; it should not be presumed, however, to represent the Bank's views. The author, a Professor of Political Economy at the Johns Hopkins University, is Consultant to the Economics Department of the World Bank.

(1) The United Nations regards the countries of North America and Western Europe, as well as Japan, Australia, New Zealand and South Africa, as "developed" and all other countries outside the Sino-Soviet area as "developing" or "less developed". This definition will be adopted in the following pages, and we will further classify developing countries according to geographical groupings: Latin America (the countries of the Western Hemisphere less the United States and Canada), Africa (the continent of Africa less South Africa), Middle East (the countries of the Asian continent west of Afghanistan and Pakistan), Asia (the continent of Asia other than the countries of the Middle East, the Communist countries, and Japan, plus the islands of Oceania).

we observe a deceleration rather than an acceleration of economic growth. From Table 1 it appears that the average annual rate of increase of the gross domestic product in the developing countries declined from 4.6 percent in 1950-55 to 4.4 percent in 1955-60, and again to 4.2 percent in 1960-65.

TABLE 1

ECONOMIC GROWTH IN THE DEVELOPING COUNTRIES

	1950-60	1950-55	1955-60	1960-65
	Annual rate of growth			
Latin America				
Gross domestic product	4.9	5.1	4.8	4.6
Population	2.8	2.8	2.8	2.9
GDP per capita	2.0	2.2	1.9	1.7
Africa				
Gross domestic product	4.0	3.9	4.2	3.4
Population	2.1	2.1	2.2	2.3
GDP per capita	1.9	1.8	2.0	1.1
Middle East				
Gross domestic product	5.6	5.8	5.3	7.6
Population	2.8	2.7	2.8	3.1
GDP per capita	2.7	3.0	2.4	4.4
Asia				
Gross domestic product	4.0	4.1	4.0	3.7
Population	2.1	1.9	2.3	2.6
GDP per capita	1.9	2.2	1.7	1.1
Developing Countries				
Gross domestic product	4.5	4.6	4.4	4.2
Population	2.2	2.1	2.4	2.6
GDP per capita	2.2	2.5	2.0	1.6

Sources: IBRD and United Nations Statistical Office.

But estimates for the developing nations, taken together, conceal considerable variations among individual areas and countries. Among the major regions, during the period 1960-65, the Middle East leads with a growth rate of 7.6 percent; it is followed by Latin America, 4.6 percent; while the corresponding figures for Asia and Africa are 3.7 and 3.4 percent, respectively. In the Middle East, Israel and the oil-producing countries did equally well and most countries of the area surpassed the growth rates observed in the nineteen-fifties.

In Latin America, on the other hand, increases in the gross domestic product were held back by the relatively slow expansion of the national economies of Argentina and Brazil. Thus, despite the acceleration of economic growth in Chile, Colombia, Peru and the countries of Central America, the decline in the rate of growth of GDP in the area experienced between the first and the second half of the nineteen-fifties continued after 1960.

Average growth rates of the gross domestic product also continued to fall in Asia. This result is largely explained by the poor performance of India and Indonesia which account for one-half and one-tenth, respectively, of the total GDP of the area. The gross domestic product of India grew at an annual rate of 2.7 percent in the years 1960-65, that of Indonesia 2.0 percent, while the average for all other countries of the area, taken together, was 5.7 percent. If we separate South Asia and the Far East, the growth rates are 3.2 and 4.9 percent a year or — excluding India and Indonesia — 4.6 and 6.4 percent. Star performers were the Republic of China (Taiwan), Korea, Thailand, and Malaysia.

Among developing regions, the decline in the rate of growth of GDP was the most pronounced in Africa. Here again the poor performance of two large countries influenced the outcome. Available information indicates a decline of 3.9 percent a year in Algeria and an increase of 2.6 percent in the former Belgian Congo. By contrast, all other countries, taken together, averaged a rate of increase of GDP of 4.3 percent. Within the latter group, the rate of growth was 5 percent or higher in the United Arab Republic, Zambia, Tunisia, and Nigeria.

The rate of increase of the gross domestic product is customarily used to evaluate a country's growth performance. However, for gauging increases in living standards, data on per capita rather than total GDP are relevant. In this respect, the situation in the developing countries is even less favorable than the gross domestic product figures indicate. The growth of population accelerated during the period under consideration, thereby accentuating the decline in the rate of growth of per capita incomes. In the developing countries, taken together, population rose at an annual rate of 2.1 percent in 1950-55, 2.4 percent in 1955-60 and 2.6 percent in 1960-65. Correspondingly, the rate of growth of per capita incomes fell from 2.5 percent in the first period to 2.0 percent in the second, and again to 1.6 percent in the first half of the sixties. In the meantime, the

growth rate of per capita incomes in the developed nations accelerated: it was 2.2 percent in 1955-60 and 4.0 percent in 1960-65. Thus, income differences between the two groups of countries have increased in absolute as well as in relative terms.

II. Export Expansion

In discussions preceding and following the first UNCTAD conference, the sluggish expansion of demand on the part of the developed nations was said to be the single most important obstacle to economic growth in the developing countries. But while the rate of growth of GDP in these countries was below expectations, their exports rose at a rate far exceeding the projections. Thus, whereas the UN forecast exports to developed nations to rise at an annual rate of 3.7 percent between the sixties (2), actual growth was 6.3 percent a year (Table 2).

TABLE 2

VOLUME OF EXPORTS FROM DEVELOPING COUNTRIES TO DEVELOPED NATIONS 1955-60 AND 1960-65

	Volume, 1960 1955=100	*Ex post* income elasticity of import demand, (a) 1955-60	Volume, 1965 1960=100	*Ex post* income elasticity of import demand, (a) 1960-65
Temperate zone foods	122	1.1	120	0.7
Competing tropical foods	107	0.4	97	—0.1
Noncompeting tropical foods	125	1.3	115	0.6
Agricultural raw materials	106	0.3	114	0.5
Nonfuel minerals and metals	144	2.1	113	0.6
Primary products, excluding fuels	119	1.0	113	0.5
Fuels	154	2.6	172	2.2
Primary products, total	126	1.3	129	1.0
Manufactured goods	149	3.0	241	3.7
Exports to developed countries, total	127	1.4	136	1.2
Gross national product in developed countries	119	—	129	—

Sources: 1955-60. BELA BALASSA, *Trade Prospects for Developing Countries*, Homewood, Ill., Richard D. Irwin, 1966, Table 1.1.2.
1960-65. Table 1 and United Nations, *Commodity Trade Statistics*.

(a) The ratio of the growth rate of imports to that of GNP. As such, it is an ex-post concept rather than a " pure " income elasticity of import demand. Apart from incomes, the ratio also depends on substitution among sources of supply.

(2) United Nations, *World Economic Survey, 1963*, Part I, New York 1964, p. 31.

The rapid expansion of these exports is partly explained by the high rate of growth of national incomes in the developed nations. While the United Nations projections assumed a growth rate of GNP of 3.7 percent for the 1960-70 period, the actual figure for the years 1960-65 was 5.2 percent. Higher than average growth rates were experienced in Japan (9.6 percent), Oceania (3) (5.3 percent), and slightly below average in Western Europe (5.0 percent) and North America (4.8 percent).

But the expansion of exports exceeded anticipations even if we adjust for differences between actual and projected growth rates of GNP in the developed nations. In the period 1960-65 a one percent increase in their gross national product was associated with a 1.2 percent rise in importing from developing countries whereas the United Nations assumed a one-to-one relationship (4). These differences are largely explained by the faster than expected rise in imports of fuels and manufactured goods from the developing nations: while the UN assumed that a one percent increase in the gross national product of the latter would lead to a 1.4 percent increase in their imports of the two groups of commodities from less developed areas, the actual figures for 1960-65 were 2.2 for fuels and 3.7 for manufactured products.

The ratio of the increase of imports from developing countries to that of the gross national product in the developed nations fell, however, in comparison with the 1955-60 period. The decline was especially pronounced with respect to noncompeting tropical foods (tropical beverages, bananas, and spices) and nonfuel minerals and metals. In the first case, the rate of increase of consumption slackened after the rapid rise experienced during the nineteen-fifties; in the second, inventory decumulation and reductions in material requirements limited the growth of demand. These developments greatly contributed to the fall of the ratio for primary products other than fuels from 1.0 in 1955-60 to 0.5 in 1960-65. A slight decrease is also shown in the case of fuels while a one-fifth increase is indicated for manufactured goods. As a result, for all commodities, taken together, the ratio of the increase of imports from developing countries to that of GNP in the developed nations declined from 1.4 to 1.2 (Table 2).

(3) With some disregard to geography, Oceania is defined to include Australia, New Zealand and South Africa.

(4) Unless otherwise indicated, all data have been expressed in constant prices.

Nonetheless, the 1960-65 period was more favorable to the developing countries than the preceding five years. For one thing, the gross national product of the industrial countries rose by one-half more than beforehand; for another, the average export prices of the developing countries remained unchanged in 1960-65 as against a 9 percent decline in the previous five years. Correspondingly, while in the 1955-60 period the exports of developing countries to the developed nations increased 27 percent in volume and 16 percent in terms of current value, in 1960-65 increases of 36 percent are shown both in constant and in current prices.

In the absence of information on price changes, data on the exports of developing countries to Soviet-type economies can be given only in terms of current prices. These exports increased at an annual rate of 13.6 percent in the period 1960-65 as compared with a rate of 47.3 percent in the preceding five years. But the combined share of the Sino-Soviet countries in the exports of the developing economies has not reached 8 percent in 1965 as compared with a share of 84 percent of the Western developed nations. Should we disregard trade with Cuba, this share is reduced below 6 percent while the rate of growth of exports is estimated at 11.2 percent. The main factors contributing to this expansion have been the poor harvests necessitating the imports of cereals chiefly from Argentina; bilateral agreements providing for the imports of cotton from the UAR, Sudan, Syria and cotton textiles from the UAR and India; and the partial liberalization of the imports of bananas, coffee, cocoa, tea, and spices.

Comparisons between the developed nations and Sino-Soviet countries as regards the ratio of imports from less developed areas to their gross national product is of further interest. In 1965, these ratios were 1.9 in the case of the developed countries as against 0.6 for Soviet-type economies; the ratio for the latter group of countries is reduced to 0.5 if trade with Cuba is excluded (5). It may be argued, however, that since the imports of minerals and metals greatly depend on the availability of domestic sources of supply, the comparisons should be restricted to agricultural products and manufactured goods. The magnitude of the differences changes in this

(5) The relevant figures, with and without Cuban trade, are 0.6 and 0.5 for Eastern Europe as compared with 0.8 and 0.6 for Communist Asia. (Data on the national incomes of Soviet-type economies have been provided by the Comparative Data Division of the World Bank).

event, but the general conclusion is not affected. In proportion to their respective gross national products, developed countries import roughly twice as much agricultural products (6) and three-and-a-half times as much manufactured goods from less developed areas than Soviet-type economies do.

Taking account of trade among the developing regions, the combined extra-area exports of the developing countries (i.e. excluding intraregional trade) rose at an annual rate of 6.7 percent between 1960 and 1965. The largest increases were shown in the Middle East (10.1 percent) that benefited from the rapid expansion of the demand for petroleum. The exploitation of new sources of petroleum

TABLE 3

EXTRA-AREA EXPORTS OF DEVELOPING COUNTRIES, 1960 AND 1965
($ million, current prices)

From:	to:	Developed countries	Other developing regions	Soviet-type economies	Unallocated	Total extra-area exports
Latin America	1965	9,686	370	890	35	10,981
	1960	7,877	174	306	54	8,411
	index	122	212	291	65	131
Africa	1965	6,191	335	570	60	7,156
	1960	4,017	327	374	86	4,804
	index	154	102	153	70	149
Middle East	1965	4,945	810	135	205	6,095
	1960	3,040	570	74	67	3,751
	index	163	142	182	306	162
Asia	1965	5,613	680	745	10	7,048
	1960	4,593	539	487	69	5,598
	index	125	126	153	14	126
Developing Countries	1965	26,435	2,195	2,340	310	31,280
	1960	19,437	1,610	1,241	276	22,564
	index	136	136	189	112	139

Sources: 1960. BELA BALASSA, *Trade Prospects for Developing Countries*, Table 4.5.1. 1965. BELA BALASSA, *Economic Growth, Trade and the Balance of Payments in the Developing Countries, 1960-1965*, Washington: International Bank for Reconstruction and Development, 1968 (mimeo), Tables 2.2 to 2.5.

(6) The ratio falls to 1.5 if trade with Cuba is included.

helped African countries to achieve a growth rate of exports of 8.3 percent; excluding petroleum, the increase was only 3.7 percent a year. In turn, the growth rate of exports was 5.5 percent in Latin America and 4.7 percent in Asia; the former experienced an erosion in its market share in competing tropical foods and fuels, the latter in fuels and nonfuel minerals and metals. However, Latin American countries were helped by the rapid expansion of their exports to Soviet-type economies and the other developing regions (Table 3).

III. Official and Private Capital

According to the data of Table 4, the net flow of official capital to developing countries rose by nearly one-half, from $4.0 billion in 1960 to $5.9 billion in 1965 (7), whereas the net flow of private capital increased from $2.1 to $2.2 billion and guaranteed export credits from $0.3 to $0.5 billion. All in all, net capital flows to developing countries increased at an annual rate of 8.1 percent during this period, or against a rate of growth of 6.3 percent, derived on the basis of past trends by the United Nations in its projections for the Development Decade. In the following, I will deal with official flows (for short, foreign aid) and will subsequently consider private flows.

A. *Official Flows*

Data on official flows conceal considerable differences in regard to various groups of donors. Net official flows from the developed nations and multilateral institutions rose 45 percent in the first half of the sixties, and amounted to 95 percent of foreign aid received by developing countries. But bilateral and multilateral contributions by developed nations increased only one-fourth. The difference between the two figures is due to the fact that the net additional multilateral outflow (i.e. the difference between the disbursements and the receipts of multilateral) changed from −$550 million in 1960 to +$201 million in 1965. Aside from the use of the net

(7) The $5.9 billion figure has been derived from balance-of-payments statistics while OECD-DAC reports show $6.4 billion. In the Appendix an attempt is made to reconcile the two figures.

income of multilateral institutions for lending (about $60 million in 1965), this additional flow finds its origin in the lack of synchronization between their receipts and payments.

Correspondingly, in evaluating the donors' aid-giving " performance " and the trend in the availability of official capital to developing countries, we should restrict our attention to net official flows from the industrial nations. It appears, then, that almost the entire increase between 1960 and 1965 took place at the beginning of the period. Net official flows from developed nations rose from $4.9 billion in 1960 to $6.0 billion in 1961 (8). Aid declined in 1962 and again in 1964; it reached $6.2 billion only in 1965.

Comparisons should further be made with the national incomes of the donor countries. For the industrial nations, taken together, the proportion of aid to national income rose from 0.67 percent in 1960 to 0.78 percent in 1961. However, this proportion declined afterwards in each consecutive year and it was only 0.60 in 1965. Thus, instead of the increase called for in United Nations resolutions, the proportion of aid to national income in the developed nations fell by one-fourth from its peak level. Decreases were larger than the average in France, Belgium, and Portugal, which reduced the net flow of official capital to their former and present dependencies in absolute terms.

By comparison, the net flow of official capital from the Sino-Soviet countries increased by nearly two-thirds, from $205 million in 1960 to $333 million in 1965. But this flow does not even reach 0.1 percent of national income of the Sino-Soviet countries so that, in order to match the proportion of national income provided by the Western developed nations, they would have to increase their assistance to developing economies by about sixfold.

Among less developed areas, the largest increase in the inflow of official capital took place in Latin America where the Alliance for Progress program led to a tripling of this flow. By comparison, a rise of 40 percent is shown in Asia and the Middle East, and 20 percent in Africa. India and Pakistan shared much of the increase in Asia while the decline of French financial assistance limited the rise in the flow of official capital to Africa.

(8) The figures include bilateral aid to developing countries and Southern Europe as well as contributions to multilateral institutions.

B. *Private Flows*

On the basis of OECD-DAC statistics, the net bilateral private flow of capital (including guaranteed export credits) from the OECD countries and Switzerland to developing countries is estimated to have risen by roughly one-tenth, from $2.5 billion in 1960 to $2.8 billion in 1965. Of the 1965 total, direct investment, including reinvested earnings, accounted for 75 percent, other new lending 8 percent, and guaranteed export credits 19 percent. Increases in the inflow of private capital were concentrated in Asia and the Middle East while Latin America and Africa experienced a small decline.

Balance-of-payments statistics, however, show only a net inflow of private capital of $1.5 billion in 1965. Much of the discrepancy is likely to be due to the incomplete coverage of reverse flows in OECD-DAC statistics and the incomplete reporting of investments by foreigners (particularly of reinvested earnings) in the balance of payments of developing countries. I have accepted the OECD-DAC figures in estimating the foreign exchange availabilities of the developing nations, while the difference between the two sets of figures has been taken to equal the reverse flow of capital (9).

IV. Uses of Foreign Exchange

According to the data of Table 4, foreign exchange availabilities in the developing countries increased from $29.0 billion in 1960 to $39.9 billion in 1965, i.e. by 37.6 percent. In 1965, exports contributed 78 percent of the total, net official capital 15 percent, and net private flows (including guaranteed exports credits) 7 percent. The proportion for exports was the same as in 1960 while the share of official capital increased, and that of private capital declined, by one percentage point. But the aggregate figures conceal substantial differences among the individual regions.

The rise in foreign exchange availabilities far exceeded the average in the Middle East (59.8 percent) whereas below average

(9) For a comparison, see the Appendix.

TABLE 4

FOREIGN EXCHANGE AVAILABILITIES IN DEVELOPING REGIONS, 1960 AND 1965
($ billion)

	Extra-area exports		Official capital, net		Private investment, net		Guaranteed export credits, net		Foreign exchange availabilities	
	1960	1965	1960	1965	1960	1965	1960	1965	1960	1965
Latin America	8.41	10.98	0.33	1.03	0.91	0.97	0.25	−0.02	9.90	12.96
Africa . . .	4.80	7.16	1.43	1.70	0.70	0.47	0.06	0.25	6.99	9.58
Middle East .	3.75	6.09	0.29	0.35	0.20	0.40	0.04	—	4.28	6.84
Asia	5.60	7.05	1.95	2.80	0.32	0.39	−0.02	0.29	7.85	10.53
Developing countries .	22.56	31.28	4.00	5.88	2.13	2.23	0.33	0.52	29.02	39.91

Sources: 1960. BELA BALASSA, *Trade Prospects for Developing Countries*, Tables 4.5.2 and 5.2.2.
1965. Exports: Table 3.
Official capital, private investments and guaranteed export credits: Appendix Table 1.
Note: 1960 figures on exports have been slightly revised. The original total was $22.73 billion.

increases are shown in the other regions (Africa 37.1 percent; Asia 36.1 percent; and Latin America 30.9 percent). The rapid expansion in the Middle East has been due to the over 60 percent rise in exports which account for nearly nine-tenths of total foreign exchange availabilities in the area. Africa was also helped by above-average increases in exports but the inflow of official capital changed little and that of private capital remained constant. Finally, in Latin America and Asia, the relatively slow rise of exports was only partially offset by a rapid increase in the inflow of foreign capitals.

Data for foreign exchange availabilities should, however, be adjusted for investment income. Such adjustment is warranted because, on the one hand, interest on public debt reduces the amount of net official transfers; on the other, the reported value of exports includes the profits of foreign companies which do not accrue to the host country and hence do not contribute to foreign exchange receipts in the developing nations.

In conjunction with the increasing indebtedness of the developing countries, their interest payments on public debt roughly doubled between 1960 and 1965. In the same period, the profits of foreign

TABLE 5

THE USES OF FOREIGN EXCHANGE
($ billion)

	Latin America	Africa	Middle East	Asia	Developing Countries
Foreign exchange availabilities unadjusted:					
1960	9.90	6.99	4.28	7.85	29.02
1965	12.96	9.58	6.84	10.53	39.91
Investment Income:					
1960	1.39	0.19	1.13	0.34	3.05
1965	1.92	0.78	1.95	0.41	5.06
Foreign exchange availabilities adjusted:					
1960	8.51	6.80	3.15	7.51	25.97
1965	11.04	8.80	4.89	10.12	34.85
Imports in f.o.b. prices:					
1960	8.21	6.09	2.69	7.08	24.07
1965	9,34	6.91	4.15	9.66	30.06
Invisibles other than investment income:					
1960	0,39	0.49 (b)	0.08	0.19	1.15
1965	0,72	1.42	0.21	0.09	2.44
Other uses of foreign exchange:					
1960	− 0.09	0.22 (b)	0.38	0.24	0.75
1965 of which:	0.98	0.47	0.53	0.37	2.35
Reverse flow of private capital (a)	0.69	0.29	−0.11	0.43	1.30
Monetary balance	0.66	0.08	0.29	0.09	1.12
Errors and Omissions	− 0.37	0.10	0.35	− 0.15	− 0.07

Sources: 1960. *Trade Prospects for Developing Countries*, Tables 4.5.2, 5.2.1, and 5.2.2.
1965. Foreign exchange availabilities, unadjusted: Table 4.
Uses of foreign exchange: International Monetary Fund, *Balance of Payments Statistics* and IBRD estimates.

Note: (a) Estimated as a difference between net private capital flows reported in OECD-DAC statistics and in the balance-of-payments of the developing countries.

(b) For the sake of comparability, data for 1960 have been adjusted by deducting errors and omissions of $0.89 billion shown in the balance-of-payments of France with the overseas franc area for the service account.

companies and other forms of investment income payments (e.g. interest on private borrowing) are estimated to have increased from $2.6 billion to $4.3 billion. The income of oil companies accounts for about 60 percent of the total while much of the remainder accrues to producers of metal ores, concentrates and unwrought metal.

Investment income payments to foreigners approximately quadrupled in Africa. The major contributing factor was the nearly ninefold rise in fuel exports which raised the share of the oil companies in investment income payments by African countries from about 30 percent in 1960 to 70 percent in 1965. Correspondingly, the foreign exchange availabilities of Africa, adjusted for investment income, increased only 29 percent as compared to a 37 percent rise in their unadjusted value. A difference of nearly five percentage points is observed in the Middle East while the adjustment hardly affects the results shown for Latin America and Asia (Table 5).

Among the uses of foreign exchange in the developing countries, merchandise imports accounted for 86 percent in 1965, invisibles other than investment income for 7 percent and other uses (the reverse flow of private capital, changes in reserves and miscellaneous monetary items, as well as errors and omissions) for another 7 percent. Among these items invisibles were estimated to have risen, on a net basis, from $1.2 billion in 1960 to $2.4 billion in 1965. This change reflects in large part reductions in receipts on the government account, especially in the former French territories, and increases in the miscellaneous group of other services which includes payments for patents, managerial fees, and rentals. In the same period, spending on freight and insurance rose by-and-large parallel with imports and there was some increase in other transportation expenditures. Finally, net receipts on the travel account approximately doubled and surpassed $200 million in 1965.

In turn, the apparent increases in the reverse flow of capital and the accumulation of reserves by developing countries with a balance-of-payments surplus contributed to a tripling of the other uses of foreign exchange. In 1965, these included the reverse flow of private capital, $1.3 billion, increases in reserves and other monetary items $1.1 billion, and errors and omissions, −$0.1 billion. Increases in payments on invisibles and in other uses of foreign exchange limited the possibilities of increasing imports in the developing countries. As a result, imports rose by 24.9 percent between

1960 and 1965, as against a rise of 31.7 percent in foreign exchange availabilities adjusted for investment income (10).

In the period 1960-65, the ratio of the growth rate of imports to that of the gross domestic product was 1.1 in the developing countries, taken together, but there are considerable variations among the individual regions. The relevant figures are 0.6 for Latin America, 0.8 for Africa, 1.2 in the Middle East, and 1.6 in Asia. In Latin America, the ratio of 0.6 corresponds to the average for the nineteen-fifties while in Africa and the Middle East a slight decline is shown; in 1950-60, the relevant figures were 1.0 for the former and 1.4 for the latter. On the other hand, the ratio continued to rise in Asia where it was less than 1.0 in the first half and 1.4 in the second half of the fifties. In the latter case, increased reliance on food imports, in large part financed by the American P.L. 480 program, was the major contributing factor.

As regards the commodity composition of imports into the developing countries, we find that purchases of machinery and chemicals grew at a rate exceeding the average for all imports by about one-half. Despite the rise of food purchases from the United States, imports of foodstuffs rose at about the same rate as the gross domestic product of the developing countries; the same result is shown for the group of other manufactures, which includes intermediate products as well as consumer goods. Finally, with increased domestic selfsufficiency, a one percent increase in the gross domestic product of these countries was accompanied by an approximately 0.5 percent rise in their imports of raw materials and fuels.

Note should further be taken of changes in the terms of trade. While the average prices of the exports of developing nations to developed countries did not change during the period 1960-65, the prices of their imports were reported to have risen by 2 percent (11).

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(10) A larger increase in imports is shown in the trade matrixes published in the UN *Monthly Bulletin of Statistics*. While the export figures in the trade matrix are $0.2 billion less than in the balance-of-payments accounts, imports are $2.0 billion larger. The differences are concentrated in Africa and Asia (Oceania excluded) where the f.o.b. import values shown in the matrix are $8.1 billion and $12.9 billion, respectively, as compared to $7.4 billion and $11.9 billion in the balance-of-payments account. (Data refer to the sum of extra-area and intra-area imports). But the data of the trade matrix are open to question since, on the basis of the reports of the individual countries, the UN *Statistical Yearbook* puts the c.i.f. value of imports at $7.9 billion in Africa and $12.5 billion in Asia. Since differences between c.i.f. and f.o.b. prices average 8 to 10 per cent, these figures are compatible with the data of the balance-of-payments accounts but not with those of the UN trade matrix.

(11) United Nations, *Monthly Bulletin of Statistics*, November, 1966, p. xxii.

But the latter figure tends to overestimate increases in prices since it takes no account of improvements in the quality of machines imported from developed countries. At any rate, a 2 percent price change would hardly affect the results shown above.

V. Influences Affecting Economic Growth in Developing Countries

A discussion of the influences affecting economic growth may proceed from the supply or the demand side. Under the former approach, we attempt to indicate the effects of increases in the amount of labor and capital on the growth of GDP, and assign the unexplained residual to improvements in production methods. But the application of this method to developing countries holds little promise. For one thing, these countries rarely have reliable data on capital stock and employment over longer periods and the use of new investment as a proxy for capital is hardly satisfactory. For another, as in the case of the developed countries, a large part of economic growth may be left unexplained by changes in labor and capital — even if reliable data on these productive factors were available.

In turn, demand-oriented explanations emphasize the effects of exports and import-substitution on economic growth in the developing countries. Thus, increases in the growth rate of GDP in these countries may be triggered by an acceleration of exports or by the replacement of imports by domestic production. Import substitution is difficult to measure, especially for short periods, since changes in imports are affected to a considerable extent by the composition of the gross domestic product. In the following, my main emphasis will be on exports.

Aside from the difficulties of measuring import substitution, this choice reflects the importance that is customarily attached to the market limitations of export expansion for economic growth in less developed areas. As noted above, in recent discussions the sluggish growth of demand on the part of developed economies was said to be the single most important cause of slow growth in developing countries. However, in the period 1960 and 1965, the rise of exports greatly exceeded expectations and was a dynamic factor contributing to the growth of incomes in these countries. In fact, the rate of increase of the gross domestic product did not keep up with that of exports; the relevant growth rates are 4.2 for the former and

6.8 percent for the latter. In Latin America, the Middle East, and Asia, GDP grew at a rate roughly one-fifth lower than exports in this period. But the difference between the two growth rates was the largest in Africa, where exports grew 8.3 percent a year and the gross domestic product only 3.4 percent.

This apparent paradox can be resolved if we separate Algeria and Libya — two countries with a rather particular experience during the sixties — from the rest of Africa. In the period 1960-65, Algeria suffered a decline in GDP, estimated at 3.9 percent a year, while her exports grew at an annual rate of 13.7 percent. Apparently, the domestic economic difficulties in the period of conflict with the French and the subsequent years far outweighed in importance the rapid expansion of exports, chiefly petroleum and natural gas (12). The increase in the exports of petroleum was even more spectacular in Libya, where total exports rose from $11 million in 1960 to $787 million in 1965, i.e. at an annual rate of 135 percent. At the same time in the absence of data on gross domestic product for Libya, the growth rate of GDP for Africa was estimated without taking account of that country. Should we exclude both Libya and Algeria from the calculations, the growth of exports of African countries is reduced to 4.9 percent, as against a rate of increase of GDP of 4.1 percent. Thus, the growth experience of the rest of Africa differs little from that of the other developing regions.

The results show that the rate of increase of domestically-generated GDP fell behind that of exports in all the developing regions. But to indicate the relationship between exports and economic growth, country-by-country comparisons also need to be made. Using the 40-country sample employed in the 1967 Annual Report of the World Bank, we find a positive correlation between exports and economic growth (13). Aside from Argentina, only some relatively small countries, such as Bolivia, Cyprus, Honduras, Paraguay, Malawi and Tunisia do not fit the pattern. By contrast, there is no correlation between the inflow of official capital and guaranteed export credits, on the one hand, and economic growth, on the

(12) It may be added that export figures do not make allowance for the reverse flow of the investment income of foreign companies and for the decline in tourist expenditure and in spending by the French. Were we to consider increases in foreign exchange receipts on the current account instead of exports, there would seem to have been no increase at all.

(13) The rank correlation coefficient is 0.67.

other (14). Correspondingly, the relationship between total foreign exchange availabilities and economic growth appears to be weaker than between exports and growth.

This conclusion is supported by the observation that the rate of growth of GDP was higher in areas where exports account for the bulk of foreign exchange earnings. The relevant ratio approaches 90 percent in the Middle East and Latin America, it is three-fourths in Africa and slightly above two-thirds in Asia. At the same time, exports accounted for only slightly more than one-half of foreign exchange availabilities in the countries of South Asia which had the poorest growth performance.

The above considerations indicate the importance of exports in the growth process. They should not, however, lead us to belittle the contribution of capital inflow to economic growth, since aid is often given to countries that face difficulties in increasing, or maintaining, their growth rate due to the slow expansion of their exports. In fact, it would appear that the major aid recipients were countries that needed assistance because of their poor growth performance.

Along with exports, the inflow of capital also contributed to increases of foreign exchange availabilities in the developing countries. But, as noted above, a large part of this increase was taken up by the rise in investment income payments and other invisibles, and by the reverse flow of capital. Correspondingly, while total foreign exchange availabilities rose by over one-third, imports into the developing countries increased by only one-fourth in the 1960-65 period. Given the importance of raw material, fuel, and machinery imports in the developing countries, the limitations of foreign exchange available for importation may have contributed to the relatively slow expansion of domestically-generated GNP as compared to production for exports.

VI. The Outlook for 1965-1970

While forecasting falls outside the scope of this paper, it may be of interest to consider possible developments in the years 1965-1970. It is apparent that the growth of GNP in the developed

(14) Data on private investments are not available in a country-by-country breakdown.

nations will be slower during this period than in the previous five years, thereby reducing the rate of increase of their imports from the developing countries. Assuming a 4 percent growth rate and the maintenance of the existing relationship between imports and GNP, the sales of developing countries to the developed nations may rise by a little over one-fourth between 1965 and 1970 (15). Increases will be larger in exports to Sino-Soviet countries but a slowing down is expected here also, in part because the rapid growth of exports from Cuba can hardly be repeated and in part because with better harvests purchases of cereals are bound to fall. Taking account also of interregional trade, the extra-area exports of the developing countries may, then, reach $40 billion in 1970.

Further, indications are that the two-thirds increase in aid to developing countries in 1960-65 will not be obtained in the following five years. For one thing, the shift in the net additional flow from multilateral institutions cannot be repeated; for another, it appears questionable that the major donor countries would approach the 1 percent UN target. Accordingly, I have assumed that the net flow of official capital will increase at the same rate as the gross national product of the developed nations and that the flow of private capital will rise in conformity to past trends. Under these assumptions, the net flow of official and private capital would be $8 billion and $3 billion respectively in 1970, bringing total foreign exchange availabilities in that year to $51 billion.

These projections on foreign exchange availabilities exceed those of the United Nations by $8 billion (Table 6) (16). However, the UN calculates with somewhat lower payments on invisibles — $9 billion as against my estimate of $11 billion — and takes no account of the reverse flow of private capital which we put at $2 billion (17). Accordingly, we are left with foreign exchange of $38 billion for purposes of importation into the developing countries, while the

(15) This estimate assumes no change in prices of exports from the developing countries. The current value of exports may rise at a slower rate if a weakening of export prices, expected by some observers, materializes.

(16) United Nations, *World Economic Survey*, 1967, Part I, pp. 31-35. The UN trade projections exclude trade among the developing regions. I added $3 billion to both exports and imports to account for this trade.

(17) We have estimated invisibles on the basis of past trends while assuming that spending by foreign governments would not decline any more. It has further been assumed that reverse capital flows will be somewhat lower than in 1965.

TABLE 6

THE SOURCES AND USES OF FOREIGN EXCHANGE IN THE DEVELOPING COUNTRIES, 1960 TO 1970

($ billion)

	1960	1965	1970 our projections	1970 UN projections
	Actual			
Sources of foreign exchange				
Exports	22.56	31.28	40.0	34.0 (a)
Official capital	4.00	5.88	8.0	9.0
Private capital	2.46	2.75	3.0	
	29.02	39.91	51.0	43.0
Uses of foreign exchange				
Investment income	3.05	5.06	7.5	9.0
Other invisibles	0.26	2.44	3.5	
Other uses	1.64	2.35	2.0	—
	4.95	9.85	13.0	9.0
Foreign exchange available for imports	24.07	30.06	38.0	34.0 (ab)

Sources: 1960 and 1965: Tables 4 and 5.
1970: Text and United Nations, *World Economic Survey*, Part I, pp. 33-35.

Notes: (a) Adjusted for trade among the developing regions, estimated at $3 billion in 1970.

(b) Figure indicates the availability of foreign exchange for imports. The UN projection for import requirements is $45 billion, including trade among the developing regions.

residual in the UN projections was $34 billion. However, the United Nations calculated with import needs of $45 billion — the difference assumed to be financed as a result of policy measures undertaken by the developed and the developing countries.

The question arises, then, what rate of economic growth in developing countries would be made possible by the projected expansion of imports. As the data of Table 6 indicate, the rate of increase of imports would be approximately the same in the 1965-70 period as in the previous five years. Thus, if the income elasticity of import demand were to remain unchanged, developing countries could attain the growth rates experienced between 1960 and 1965. Putting it differently, in view of the limitations on imports, an improvement in the growth performance of the developing countries

assumes the adoption of economic policies that permit exports to rise faster than anticipated and/or contribute to an acceleration of domestically-generated output.

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APPENDIX

Balance-of-Payments and DAC Figures on Capital Flows to Developing Countries: an Attempted Reconciliation

OFFICIAL CAPITAL

DAC statistics on net official flows show disbursements of $7.0 billion, of which $6.4 billion was destined to developing countries as defined in this paper, $0.4 billion was for the countries of Southern Europe and $0.2 billion unallocated (1). Thus, on a comparable geographical basis, the DAC estimates exceed the $5.8 billion figure shown in the consolidated balance of payments of the developing countries (Cuba excluded) by $0.6 billion. The difference is even larger ($1.0 billion) if the balance-of-payments figures are taken without the unreported bilateral technical assistance and grants from UN agencies.

Since the geographical breakdown of net official flows from the Sino-Soviet countries and non-DAC industrial nations is not available, we can make detailed comparisons only between reported capital flows from DAC countries and multilateral institutions on the one hand and balance-of-payments data on the other. However, in connection with the discussion pertaining to particular areas, note will also be taken of the probable magnitude of assistance from Sino-Soviet countries.

The balance-of-payments figures shown in Appendix Table 1 comprise $255 million of technical assistance that has not been reported by the recipient countries. Following the definition used in OECD-DAC statistics, technical assistance includes the cost of training students and other persons from developing countries as well as the cost of sending experts and volunteers to them. In 1965, bilateral technical assistance extended by the DAC countries was valued at $1,049 million, to which an amount of $159 million for similar assistance by multilateral institutions should be added.

The balance-of-payments for the countries of the Franc area and the French overseas territories have been estimated to include technical assistance as a receipt

(1) Net bilateral flows from OECD-DAC countries and multilateral flows, taken together, amounted to $6,638 million in 1965 (Table 3.1), while aid by Sino-Soviet countries was estimated at $333 million and from non-DAC industrial countries $14 million.

Appendix TABLE I

PUBLIC CAPITAL FLOWS TO DEVELOPING COUNTRIES AS REPORTED IN THEIR BALANCE-OF-PAYMENTS AND IN OECD-DAC STATISTICS, 1965

($ million)

	Balance of Payments Data					OECD-DAC Figures (a)				
	Official transfers, net			Official lending, net	Official capital, net	Official transfers, net (b)	Official lending, net			Official capital, net
	reported flows	unreported technical assistance and UN grants	together				bilateral	multilateral	total	
Latin America (less Cuba)	291	150	441	492	933	526	350	114	464	990
Latin American republics	165	148	313	444	757	354	329	110	439	793
Other Western Hem.	126	2	128	48	176	147	39	4	43	190
Unspecified	—	—	—	—	—	25	−18	—	−18	7
Africa	981	120	1,101	597	1,698	1,285	362	72	434	1,719
Countries with balance-of-payments	391	120	511	518	1,029	662	283	48	332	994
French Franc Area	428	—	428	36	464	442	31	6	37	479
Others	162	—	162	43	205	161	43	17	60	221
Unspecified	—	—	—	—	—	20	5	—	5	25
Middle East	210	15	225	126	351	241	31	20	51	292
Asia	1,160	90	1,250	1,551	2,801	1,781	934	301	1,235	3,016
South Asia	381	20	401	1,399	1,800	850	789	254	1,043	1,893
Far East	666	70	736	152	888	770	133	47	180	950
Oceania	113	—	113	—	113	129	9	—	9	138
Unspecified	—	—	—	—	—	32	3	—	3	35
Developing Countries (less Cuba)	2,642	375	3,017	2,766	5,783	3,833	1,677	507	2,184	6,017
Southern Europe	71	—	71	224	295	62	295	66	361	423
Unallocated	—	—	—	—	—	172	4	21	25	197
Total	2,713	375	3,088	2,990	6,078	4,067	1,976	594	2,571	6,637

Sources: Balance-of-Payments data. International Monetary Fund, *Balance of Payments Statistics* and IBRD estimates OECD-DAC figures. Organisation for Economic Co-operation and Development, *The Flow of Financial Resources to Less-Developed Countries 1961-1965*, Paris, 1967, p. 24, Development Assistance Committee, *Development Assistance Efforts and Policy, 1967 Review*, Paris, 1967, pp. 1-5, and communications from international agencies.

Note: (a) Includes net bilateral official flows from DAC countries ($5,761 million) and net flows from multilateral institutions ($876 million).

(b) Includes $91 million of multilateral transfers from the European Economic Community and grants of $191 million from UN agencies.

under public transfers and as an expenditure on the service account. The same method is used in the case of countries whose balance-of-payments data have been derived on the basis of Bank reports. But since technical assistance does not entail a receipt of funds, a large number of countries do not report it in their balance-of-payments. In such instances we have made estimates by comparing data on official transfers in the individual countries' balance-of-payments with the OECD-DAC figures on official transfers and technical assistance.

The data of Appendix Table 1 also include technical assistance and other transfers by UN agencies that are often unreported in the recipient countries. On the basis of a comparison of balance-of-payments data on the flow of resources between developing countries and international agencies, these unreported flows have been estimated at $30 million in Latin America, $35 million in Africa, $15 million in the Middle East, and $40 million in Asia.

Taking account of unreported technical assistance and grants from UN agencies, for Latin America official transfers of $441 million are shown in the consolidated balance-of-payments and $526 million in the OECD-DAC statistics, while the relevant figures for official lending are $492 million and $464 million (Appendix Table 2). But, to achieve comparability, the balance-of-payments figures on public transfers should be adjusted for $10 million of transfer payments by Latin American countries (chiefly pensions paid to former civil servants of British nationality from Jamaica and Trinidad). Moreover, Latin American countries generally report loans repayable in local currencies ($56 million in 1965) as official lending, while OECD-DAC statistics show such loans under transfers (2). Adjusting for these differences in accounting procedures, the discrepancy on official transfers is reduced to $19 million and on net official lending to $28 million.

In Africa, official transfer receipts of $1,101 million are shown in the balance-of-payments and $1,285 million in the OECD-DAC statistics; the corresponding data for net official lending are $597 and $434 million. The balance-of-payments figures on official transfers should be adjusted for the pensions, indemnities, and compensation paid to British nationals that amounted to about $60 million in 1960. If we also consider that the UAR reports sales for domestic currencies of $61 million under loans rather than transfers, the discrepancy between the figures on official transfers is reduced to $62 million. However, the adjusted data on net official lending are still $190 million higher in the balance-of-payments statistics than according to OECD-DAC reports. These differences may in part be due to accounting differences in the reporting of transfers and lending which could not be ascertained. Soviet, Chinese, and Kuwait aid to the United Arab Republic, Sudan, and Guinea also contribute

(2) According to the OECD-DAC definitions, official transfers include net official grants, reparation aid, indemnification payments, loans repayable in recipients' currencies, and the net transfer of resources through sales for recipients' currencies.

Appendix Table 2

BALANCE-OF-PAYMENTS AND OECD-DAC FIGURES ON OFFICIAL CAPITAL FLOWS TO DEVELOPING COUNTRIES: A RECONCILIATION, 1965

($ million)

	Balance-of-Payments Data							OECD-DAC Figures			
	Official transfers, net				Official lending, net			Official capital, net	Official transfers, net	Official lending, net	Official capital, net
	unadjusted	out payments	accounting diff.	adjusted	unadjusted	accounting diff.	adjusted	adjusted			
Latin America (less Cuba)	441	10	+ 56	507	492	− 56	436	943	526	464	990
Africa	1,101	60	+ 61	1,222	597	− 61	536	1,758	1,285	434	1,719
Middle East	225	—	—	225	126	—	126	351	241	51	292
Asia	1,250	30	+431	1,711	1,551	−431	1,120	2,831	1,781	1,235	3,016
South Asia	401	20	+431	852	1,399	−431	968	1,820	850	1,043	1,893
Far East	736	10	—	746	152	—	152	898	770	180	950
Oceania	113	—	—	113	—	—	—	113	129	9	138
Unspecified	—	—	—	—	—	—	—	—	32	3	35
Developing Countries (less Cuba)	3,017	100	+548	3,665	2,766	−548	2,218	5,883	3,833	2,184	6,017

Sources: *Appendix* Table 1 and text.

to the excess of balance-of-payments figures over OECD-DAC data on official lending.

In the Middle East, official transfers appear to be $15 million lower in the balance-of-payments accounts than in OECD-DAC statistics while net official lending is $75 million higher in the former than in the latter. Aside from accounting differences, Soviet aid to Syria may explain part of the discrepancy. Note, however, that aid from Kuwait is not included either in the balance-of-payments or in OECD-DAC figures for the area.

In South Asia, official transfers of $401 million are shown in the balance-of-payments accounts and $850 million in the OECD-DAC statistics while the relevant figures for net official lending are $1,399 and $1,043 million. The transfers reported in the two sources become roughly identical, however, if the Indian balance-of-payments is adjusted for transfer payments of $20 million (mainly to British nationals) and for the inclusion of $431 million worth of U.S. sales for local currency under loans rather than official transfers. However, the OECD-DAC data now exceed the adjusted balance-of-payments figures on net official lending by $75 million. In effect, the discrepancy is larger, since India and Afghanistan also receive Soviet aid. While available data do not provide an explanation, it may be surmised that differences in the valuation of foreign loans and/or the lack of reporting of reverse flows have contributed to this difference.

In the Far East, both Vietnam and Korea underreport aid received from the United States. This may be related to military activities and it more than explains the excess of $60 million of official capital flows in OECD-DAC statistics over balance-of-payments data. In turn, the $25 million discrepancy shown for Oceania is due to the lack of data on the balance-of-payments of various trust territories in the area.

Private Capital

According to OECD-DAC statistics, the net bilateral private flow of capital from DAC countries to developing economies, Southern Europe, and unallocated increased from $2.8 billion in 1960 to $3.8 billion in 1965 (3). The figures comprise direct investment including reinvested earnings ($2.5 billion in 1965), other new lending ($0.5 billion), and private export credits ($0.8 billion). During the same period, private contributions to multilateral agencies increased from $174 to $233 million.

Comparisons with balance-of-payments data are difficult to make since the geographical breakdown of the OECD-DAC figures is incomplete. While a

(3) Private investment by non-DAC industrial countries amounted to $162 million in 1965. In the absence of information on the geographical breakdown of this investment, it will be disregarded in the following discussion.

regional breakdown for nearly nine-tenths of direct investments and export credits is available, no such data exist on other new lending. Moreover, with regard to much of direct investments, there is only a regional but not a country breakdown. Correspondingly, in Appendix Table 3 estimates for the major regions are shown without data on a subregional basis. In the table, the geographical composition of other new lending has been derived by assuming that one-half of this investment took place in Southern Europe and by dividing up the remainder in proportion to the breakdown of direct investments.

Appendix Table 3

BALANCE OF PAYMENTS AND OECD-DAC FIGURES ON PRIVATE CAPITAL FLOWS TO DEVELOPING COUNTRIES, 1965
($ million)

	Balance of Payments Data			OECD-DAC Figures	
	Net bilateral private investment total	Investment	Lending	Credits	Net bilateral private investment total
Latin America	259	878	(90)	− 24	944
Africa	436	417	(50)	254	721
Middle East	506	358	(40)	− 1	397
Asia	250	351	(40)	295	686
Developing Countries	1,451	2,004	(220)	524	2,748
Southern Europe	594	192	(260)	175	637
Unallocated	—	299	(40)	126	455
Total	2,045	2,495	(540)	825	3,840

Sources: OECD Development Assistance Committee, *Development Assistance Efforts and Policies*, 1967 Review, Paris, 1967, pp. 1-5 and special communication.
Note: On the method of estimation, see text.

With this adjustment, net bilateral private investment by DAC nations in the developing countries appears to have been $2,748 million in 1965 according to OECD-DAC statistics as compared to $1,451 million shown in the balance-of-payments data of the recipient countries. There are three major sources of the observed differences between the two sets of data. The OECD-DAC statistics do not include investments by the nationals of developing countries in foreign countries and they are likely to give an incomplete coverage of the repatriation of capital to developed nations. In turn, developing countries may underreport the inflow of private capital, especially the reinvestment of earnings by foreign companies. The respective magnitudes of these sources of error cannot be quantified, however.

We turn now to the regional differences between the balance-of-payments and the OECD-DAC figures on the net bilateral private flow of capital. As

Table 3 indicates, the 1965 balance-of-payments statistics show net private foreign investment of $259 million for Latin America while the OECD-DAC figure exceeds $0.9 billion. The discrepancies are large in all countries where foreign investment is of importance. OECD-DAC reports net direct investments and guaranteed export credits of $171 million in Mexico, $67 million in Argentina, $66 million in Peru, and $50 million in Chile (4). In the same countries, the corresponding balance-of-payments data are —$4 million, —$161 million, $18 million, and —$53 million. Smaller differences are shown in other countries while a discrepancy with the opposite sign is observed in Venezuela where the OECD-DAC figures are —$64 million and the balance-of-payments data $58 million.

Just as in Venezuela, OECD-DAC figures for the Middle East are somewhat lower than the amount of $0.5 billion shown in the balance-of-payments of the area. This similarity might lead one to suspect that oil companies report smaller investments to their own governments than shown in the statistics of the host country. But several important oil-producing countries do not prepare balance-of-payments and hence the regional accounts for the Middle East are incomplete. The observed discrepancy could be explained if the latter countries had a net outflow of private capital.

In Africa, net foreign private investment of $0.4 billion is shown in balance-of-payments statistics and over $0.7 billion in the OECD-DAC statistics. The discrepancy between the two figures is especially large in Algeria where net direct investments of $110 million and net guaranteed export credits of $23 million have been reported to the OECD while the balance-of-payments shows an outflow of $3 million. There is a difference of $50 million also in Libya, and a difference of $110 million with the opposite sign in Nigeria. For most other countries comparisons cannot be made because an appropriate breakdown of direct investments is not available.

The discrepancies between the two sets of figures are also large in Asia where net private foreign investments of $250 million are reported in the balance-of-payments and nearly $0.7 billion in the OECD-DAC statistics. At the same time, for this region the geographical breakdown of the OECD-DAC figures is especially incomplete. Still, two cases of large discrepancies can be indicated. In regard to India, the OECD-DAC figures on net direct investments and guaranteed export credits combined are $125 million and the corresponding balance-of-payments figures —$2 million; in turn, the relevant figures for the Philippines are $76 and —$161 million.

It would exceed the scope of this study to inquire into the causes of these differences. Neither is it possible to make a choice between the two sets of figures. In the following comparisons we will rely on OECD-DAC reports

(4) The figures do not include investments by Australia, Belgium, Canada, the Netherlands, Portugal, and Sweden for which a country-by-country breakdown of private foreign investments is not available.

because the same sources were used in the base year, 1960. It would appear, then, that between 1960 and 1965 net bilateral private foreign investment from developed to developing countries increased by roughly one-tenth, from $2.5 billion to $2.8 billion. A comparison with 1960 data also indicates that increases were concentrated in the Middle East and Asia, with little change shown for Africa, and a decline for Latin America.

As far as the countries of origin are concerned, bilateral private capital flows from DAC nations to developing countries, Southern Europe and unallocated, as well as private contributions to multilateral agencies should be considered together. This flow amounted to $4.1 billion in 1965 as against $3.0 billion in 1960. The United States accounted for nearly one-half of the total, with France ($0.6 billion) and the United Kingdom ($0.5 billion) following. Increases in the period 1960-65 were also the most pronounced in the United States (from $1.0 to $1.9 billion). But, in the following year, the flow of private capital declined to a considerable extent, with the U.S. being again largely responsible for the result. The relevant figures are $3.4 billion for the DAC countries as a whole and $1.3 billion for the United States.

B. B.