



3rd Raúl Prebisch Lecture

**THE EMERGING PROSPECTS
FOR DEVELOPMENT
AND THE WORLD ECONOMY**

By

Dr. Saburo Okita

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Mr. Secretary-General, Your Excellencies, Ladies and Gentlemen,

It is a great honour for me to be able to present my views on development and the world economy from this platform. I still remember vividly the long and trying months from March to June in 1964 when the first session of UNCTAD was held here in Geneva. I was a member of the Japanese Delegation to the Conference. The first Conference had some elements of creative confusion, trying to elaborate a mechanism where Western countries, socialist states and developing countries could jointly endeavour to consider ways to promote trade and development. Since then, I have participated in the activities of UNCTAD in various capacities. In the course of these years of my involvement in UNCTAD as well as in various activities in other places, I had the privilege and the pleasure to work with Dr. Prebisch. The many and varying virtues he had are well known. Among these, his quality which impressed me most was his ability to combine deep ethical commitments and the rigorous scientific analysis of economic issues in considering complicated questions of development. Based on these two major concerns, Dr. Prebisch's approaches to development and the world economy appear to have evolved pragmatically, addressing key issues of the day. I would also like to attempt to present my views in the same spirit. I would, firstly identify briefly key issues which face us now; secondly, present a historical retrospect from the viewpoint of dynamism of the North-South dialogue, and, lastly, offer my thoughts on areas where actions are possible and useful.

I. Present issues in North-South relations

The global economy is now faced with dangerous possibilities of a recession, after several years of a growth path, however feeble it has occasionally been. The imminence of it originates in adjustment requirements of an enormous proportion. The United States Government is trying to reduce its huge budget deficit and has to find ways to reduce the trade deficit. Indebted developing countries have to reduce their domestic demands and to export as much as possible. While some countries, such as Japan, have decided to expand government spending, the gap in the global context between demand-generating efforts and demand-reduction requirements points to a recession.

I would now like to quote some parts of the Economic Declaration of the recently held Summit at Venice. "We can look back on a number of positive developments since we met a year ago. Growth is continuing into its fifth consecutive year, albeit at lower rates. Average inflation rates have come down. Interest rates have generally declined. Changes have occurred in relationships among leading currencies which over time will contribute to a more sustainable pattern of current account positions and have brought exchange rates within ranges broadly

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consistent with economic fundamentals. In volume terms the adjustment of trade flows is underway, although in nominal terms imbalances so far remain too large.

How would Dr. Prebisch see the global situation where we are in? He might see some similarities of the problems we are facing with those he encountered in the 1930s as a young economist and a high government official in his country, Argentina. But, I suppose, he might also look at the issues before us in the light of his own experiences of the whole of the past half century. I also would like to present my views on those issues briefly, based on the experiences I have gone through in the past several decades.

A. Diversification of the interests of countries

The first issue which comes to my mind is the diversification of the interests and developmental stages of countries. Of course, the differences of the interests and perceptions among developing countries were already significant in 1964 when the first session took place. However, the degree of these divergences has increased in the past 15 years to such a level that it has become impossible to consider just a set of policies which are equally effective in all developing countries. Beyond some simple typologies of development policies, we now need to consider various elements in elaborating policies in individual developing countries. Upon my insistence, the Report of the Committee for Development Planning elaborated this point somewhat in 1979. I suggested four categories of developing countries then; OPEC and other oil-exporting countries, newly industrialised countries, poorer developing countries, and others. While it is essential for developing countries to maintain political solidarity, it is increasingly important for the world community to recognize different categories of countries which can benefit from and contribute to the world economy in different ways. It seems that there is now clearer recognition of this point. In the course of the intervening eight years, the global economic situation has again changed dramatically. The major impacts of the this alternation on the divergencies of developing countries are two-fold. Firstly, the salience of oil-producing countries in the world economy has diminished considerably. While there may be some possibilities that these countries might again become an important group in the world in the 1990s, they cannot be conceived of as a category of countries in the present world economy. Secondly, some countries in addition to the newly industrialized countries have emerged in the course of the past 10 to 15 years as major forces in the world economy. This emergence is due, to a large extent, to the successful management of their economic policies in their struggles with the turbulence of the world economy. In the present situation, it appears, therefore, that there are three categories of countries which need to pursue different policy objectives in the world economy.

The first category of countries can be called major emerging economies which comprise newly industrialized countries and several other countries whose economic performances in the past fifteen years of turbulence have been significantly better than others (such as China, India and Thailand). These countries can benefit more by integrating themselves progressively into the international economic system which is now dominantly market oriented.

The second category of countries consists of poorer developing countries which include not only the least developed countries as recognized by the United Nations but also 20 or 30 other developing countries whose economic performances have been stagnant. The viability of the national entities of these countries is increasingly becoming a global issue. While national efforts to combine attempts at revitalizing national economies and a fresh look at nation-building requirements are essential, it is also important for industrialized countries to respond more positively to these double efforts of poorer developing countries, as promised at, for example, the Special Session of the United Nations on Africa last year.

All other countries will need to learn from the experiences of themselves and of others, in particular those in the emerging country category during the past two to three decades. Rich experiences of the developing countries themselves will be the biggest source of inspiration for these countries. Some devices to make this mutual learning possible may have to be considered. Industrialized countries will have to listen to the presentation of these countries more attentively once these countries will have learned from the experience of each other.

B. Relative roles of the government and the market in the development process

The second issue is related to the roles to be played by the government and the market in the development process. This question was a highly ideological issue 20 years ago. The discussion of this subject was largely rhetorical. However, it appears that this issue has now acquired a measure of pragmatism and seems amenable to useful discussion. The following three considerations are of particular importance:

In broad terms, it is important to liberalize microeconomic areas, whereas it should be essential to articulate broad guidelines within which macroeconomic policies are to be established.

Another factor is related mainly to developing countries. It appears that stronger government intervention is more effective for those countries which attempt to catch up with more developed countries than for those countries which are already at the forefront of the world economy.

The third dimension is the requirement for planners to read the market signals carefully and to incorporate them in their planning work. This means planning with market forces rather than planning against market forces.

C. Low prices of commodities

The third issue is the question of low prices of commodities. Some observers even suggest de-linkage between economic performances and commodity prices. While prices of commodities are indeed low on practically all fronts, it is particularly important to differentiate between commodities in analysing even the current situation. For

example, in examining agricultural commodities in Africa, it is essential to differentiate between cash crops and food crops. Considering that there is a relatively easy changeability between the two, this rather banal distinction can have important policy implications. For the purpose of enhancing the capacity of individual countries to maximize this flexibility, it is important to examine positive contributions that various technologies can make through such a mechanism as the Consultative Group on International Agricultural Research. In other commodity areas as well, differentiation between commodities should be able to elaborate approaches to break out of the present situation. Thus, while there is certainly a structural element in the present situation of low prices of commodities, there are ways to improve the supply and demand equilibrium.

D. Indebtedness of developing countries

The next issue which characterizes the current situation of development and the world economy is the gravity of the indebtedness question of developing countries. The interdependent nature of this issue is now well known. The one trillion dollar debt of developing countries has a significantly depressive impact on the world economy. In the face of the slow growth of the world economy, in spite of the efforts at the Western Economic Summit and other places, the export prospects of indebted countries are not bright. With regard to the problems which Latin American indebted countries are facing, we are now forced to learn three lessons.

The first lesson is that recycling of surplus savings practically only through commercial banks is a vulnerable endeavour. In the course of the latter half of the 1970s, there were many proposals for recycling OPEC money, including some which could have combined private channels and the official interventions. I, myself, proposed an idea jointly with Bob Roosa, Armin Gutowski and others in Foreign Affairs in the January 1975 issue. However, what in fact happened was the recycling of most of those OPEC surplus savings through commercial banks, an action which at that time was praised as being very efficient. This efficiency, however, was achieved, in some cases, by sacrificing rigorous observance of bankability tests.

The second lesson is that it requires tremendous efforts on the part of the Latin American leaders to persuade their people to reduce their high propensity to consume. This is one of the major points which Dr. Prebisch stressed just before his passing away. Unless external financing is invested in activities which are likely to develop into areas of comparative advantage, the debt burden originating in that external financing will inevitably become impossible to bear.

The third lesson is the increased need for improved capacity of the world community in economic forecasting or prediction of likely development. This exercise comprises not only pure economic analysis but also examination of political economy. The second oil shock of 1979, combined with staunch non-accommodating policies of the OECD countries, led the world economy into the recession of the early 1980s which triggered Latin American debt problems. In the

late 1970s, real interest rates reached zero, or even negative, and the dollar exchange rates were very low. Awash with liquidity, international banks resorted to considerable levels of salesmanship, in particular, in Latin American countries. This situation changed dramatically in a few years' time as we all know very well. Living in a world where uncertainty is prevailing, improved capacity for forecasting political economy, though not easy, will contribute significantly to avoiding the repetition of the Latin American type of indebtedness problems.

With regard to the indebtedness problems of sub-Saharan countries, we have learned three lessons in hard ways:

The first lesson is that the official development aid increased significantly in the wake of the famine in these countries in the early 1970s without carefully measuring the impact of the aid. Action was seen to be more important than its effect. The external aid, in the form of lending, led to unbearable debts in recipient countries.

The second lesson is that without appropriate policy mixes in the medium- to long-term context in individual recipient countries, no amount of aid will be able to surmount the problems of hunger, but will lead only to burdens of indebtedness.

The third lesson is that it is essential for donors to respond more positively to the adjustment policy efforts of individual African countries as agreed at last year's Special Session of the United Nations General Assembly on the critical economic situation of Africa.

The focal point for considering the debt of these countries is the Paris Club. There have been improvements in the functions of this forum. The recent meeting of the Western Summit agreed on this point as follows:

"For those of the poorest countries that are undertaking adjustment effort, consideration should be given to the possibility of applying lower interest rates to the existing debt and agreement should be reached, especially in the Paris Club, on longer repayment and grace periods to ease the debt-service burden."

To the extent that these various elements which led developing countries into the indebtedness trap exist, some Asian countries are also suffering, though to a lesser extent, from the same problems.

Given these lessons which we have been compelled to learn, it is important to recognize that all the relevant parties, such as the governments of creditor countries and of debtor countries, the IMF, the World Bank and the commercial banks, will have to be involved in attempting to solve the problems of indebtedness.

E. Relations between domestic policies and the international environment

The next issue is related to the linkages between domestic policies and the international environment. One important aspect of this recurrent issue is the question of broad policy choices between export-oriented growth and import substitution. While there are different mixes of the two ingredients which should be appropriate for individual countries, it is, in principle, desirable to increase export orientation as much as possible. There has been a broad understanding of this effect in recent years. However, import substitution policies are gaining ground again in some policy circles. This new trend is apparently related to protectionist tendencies in the industrialized countries. When it is difficult to increase exports due to the unfavourable international environment, it is natural for some people to begin to think about going back to import substitution policies. This resembles ominously the climate of the 1930s when, according to Dr. Prebisch, Latin American countries had nowhere else to go but to domestic markets, owing to increasing protectionism in the developed centre countries. This is a typical case of a vicious cycle. He observed it as follows:

"When did import substitution begin in Latin America? During the great world depression, when the monetary policy of the United States and the enormous rise in customs duties shattered the whole system of bilateral trade and payments that had been working very well. The slump in our countries' exports was formidable. And import substitution was the only way out. I had an active part to play at that time, and I do not remember that in the existing situation there was anyone crazy enough to say 'The thing is not to substitute domestic production for imports but to export manufactures'. Export manufactures where? To a world that was out of joint and where protectionism was a normal way of safeguarding economies? Import substitution was the only solution possible. It was not a doctrinaire imposition. It was imposed by force of circumstances."

In the face of the slow growth of the world economy, it is, in general, necessary to attempt to generate domestic demands in developing countries. As one might say, "growth begins at home". This may, in some circumstances, include import substitution to some extent. This approach can be valid in the current circumstances for medium to large developing economies. With regard to smaller countries, expansion of intra-regional trade and investment should be able to optimise growth gains in the generally unfavourable international climate. More broadly, South-South trade is becoming increasingly important due to slow growth in industrialized countries. With increasing differentiation among developing countries, South-South trade, in fact, should become more productive if trade liberalization among developing countries is achieved. These efforts should be pursued as an integral part of the global endeavour to liberalize the trading environment as much as possible.

The roles of industrial countries and developing countries are becoming only relative in producing a trading climate. In the current situation where there are certain signs of increasing protectionism in some industrial countries, it is for developing countries, in particular those which are more industrialized than others, to attempt to improve the international climate by maximizing openness in the international environment.

F. Weakening multilateralism

The last current issue, as I look at development and the world economy, is the question of weakening multilateralism. Despite the difficulties multilateralism is facing now, the broad trend toward increasing multilateralism is a natural historical tendency. Given increasing economic interdependence, as well as technological developments in, in particular, transport and communications, which make it easier to get together, multilateralism will become an increasingly important element in international life. In considering this issue, it is essential to differentiate between forum organizations and operational bodies at all levels of multilateral endeavours (sub-regional, regional, inter-regional and global). The major objective of forum organizations such as this body, UNCTAD, is to build up elements of legitimacy in the international community. Understandings arrived at in multilateralism are seen to constitute "common goods". To put it differently, the weakening multilateralism in forum organizations means decreasing elements of legitimacy in the world community. Unfortunately, we are witnessing this tendency.

The major objective of operational bodies such as the World Bank is to de-politicise the actions. For instance, aid policies, which tend to become highly political instruments in the bilateral context, can be de-politicised by such bodies as UNDP and the World Bank. Weakening multilateralism in operational bodies tends to generate an increase in politicization of the relevant actions.

Among various issues which the world community faces in the field of development and the world economy, these six are the ones that I see as the present major questions.

II. The dialogue in retrospect

Let us now review the broad context of the North-South dialogue in which these issues have been dealt with. The major objectives of the North-South dialogue being to enhance development of developing countries, and to gradually integrate developing countries into the international economic system. It is important to examine the dynamism of the dialogue in order to look into prospects for development and the world economy.

Among various facets the North-South dialogue has, it is particularly important to consider it as a political movement of the developing countries. Like any other political movements such as labour movements and student movements, the North-South dialogue has three phases: mobilization, peak and decline. The major factors which cause

this dynamism are leadership, organization and ideology, while the economic environment in which the dialogue is carried out is not negligible. Reflecting the wax and wane of these factors, two cycles of the North-South dialogue appear to have been completed. The first cycle harvested such fruits as global systems of preferences for trade and the 0.7 per cent of GNP target for ODA. This cycle began with the preparatory meetings in 1963 for the first session of the Conference and ended in the early 1970s. The leadership of this period was marked by the activities of Dr. Prebisch. Organizationally, this body, UNCTAD, was created, and the Group of 77 was formed.

The second cycle began immediately after the end of the first cycle in the early 1970s. Its ideological focal point was the New International Economic Order. The real forces behind the NIEO movement was the oil power of OPEC. In contrast to the emphasis on trade (GSP) and aid (0.7 per cent target) in the first cycle, it was the area of commodities which became the major focal point among various activities which were dealt with in several North-South fora. However, given the broad nature of the NIEO, the focus tended to be lost, and with it, the power of the developing countries. Therefore, while the major fruit of the second cycle was the Common Fund, the forces behind it were not strong enough to implement it. At the same time, the recession of the early 1980s set in. The declining phase of the second cycle has been continuing in the course of the 1980s.

The industrialized countries maintained reactive attitudes throughout these two cycles of the North-South dialogue. They have been institutionalizing themselves, partly owing to the pressures of the developing countries throughout these years. These have taken various forms, including the Western Summit and various new committees at the OECD. The major drawback of institutionalization of the Western countries has been to encourage these countries to consider ways to re-establish some equilibria, mainly among themselves. In a way, pressures of the developing countries in the North-South dialogue have encouraged this tendency. This is not a particularly healthy trend. For example, the balance of trade disequilibria between, on the one hand, the United States, and, on the other hand, Japan and the Federal Republic of Germany could be approached from the viewpoint of global balances including the developing countries. However, this question tends now to be treated as an issue between the United States and the surplus countries in such fora as the Western Summit and the OECD. Instead, recycling of part of the surplus into developing countries would enable them to increase their imports from the United States, thus reducing the trade gap of the United States.

III. Prospects for development and the world economy and some suggestions with regard to the evolving role of UNCTAD

Enormous amounts of effort, both political and intellectual, have been devoted to maximizing prospects for development and the world economy in recent years. The World Commission on Environment and Development, of which I was a member, chaired by Mrs. Gro Bruntland of Norway, has also attempted to examine these aspects considerably in the past three years. In its report, entitled Our Common Future, we have pointed out as follows:

"Humanity has the ability to make development sustainable - to ensure that it meets the need of the present without compromising the ability of future generations to meet their own needs. The concept of sustainable development does imply limits - not absolute limits but limitations imposed by the present state of technology and social organization on environmental resources and by the ability of the biosphere to absorb the efforts of human activities. But technology and social organization can be both managed and improved to make way for a new era of economic growth. The Commission believes that widespread poverty is no longer inevitable. Poverty is not only an evil in itself, but sustainable development requires meeting the basic needs of all and extending to all the opportunity to fulfill their aspirations for a better life. A world in which poverty is endemic will always be prone to ecological and other catastrophes."

Thus, the issue of sustainable development has to be considered from a global perspective. The major task of enhancing prospects for development and the growth of the world economy, then, is to break out of the North-South bind. Major disequilibria in trade and finance need to be addressed not only between key industrialized countries, but in a broader context where developing countries should be involved. It is important at this juncture to aim for building up policy approaches to address the complicated tasks by producing creative patchworks, rather than to aim for an ambitious comprehensive package. The major elements of these patchworks should be as follows:

A. Surplus savings to be transferred to developing countries

As we observed in a recent report of the WIDER (a recently established institution in Helsinki under the United Nations University), where I serve as Chairman of the Governing Board, 'the complementarity between the urgent resource requirements of developing countries for increased investment and growth, and the availability of capacity in developed countries which may otherwise become idle on an unprecedented scale has never been as striking as it is today'. However, as I pointed out earlier, we have learned from the experiences of the recycling of the oil dollars that channeling surplus savings to developing countries only through private routes tends to invite indebtedness problems. Government actions on the part of surplus countries are required. The Japanese Government has recently announced specific actions for recycling \$20 billion or more toward developing countries.

Surplus savings do exist almost always in some economies in the world community. In the 1940s and the 1950s, the surplus savings of the United States were a main feature in the world economy, in the 1970s those in OPEC countries, and in recent years those in Japan and the Federal Republic of Germany. While each surplus economy has its own constraints, it should be useful to consider the policy options available for it to rechannel its surplus savings to developing countries. It would be important to examine this from a global perspective as well and it would be for UNCTAD to play a constructive role in this context.

B. Global indicative guidelines

A related activity that would be useful is to attempt to arrive at some broad indications of development and the world economy for the coming years. Some good works exist already. They have been done by a few international organizations, including UNCTAD, and by some private forecasting groups. Based on these, it would be possible to elaborate broad indicative guidelines for development and the world economy. Strengthening the exercise of the annual Trade and Development Report, UNCTAD could attempt to perform this function. For individual countries, particularly for developing countries, these indicative guidelines will be useful in considering their own policy options.

C. Strengthening governmental capacity in economic policy-making and implementation of policies

To advance this logic a step further, it is essential for individual developing countries to have stronger capacities in making policies and in implementation of the policies. Based on some major studies, there are indications that the strongest correlation exists between development and the quality of government. It appears that various relevant factors such as capital and raw materials are not by themselves the determining forces for development, but that the capacity of government to organize available resources for productive purposes is the most crucial factor which makes a difference in development.

There are two ways to strengthen the government's capacity in this respect. The first approach is a rather traditional one, namely technical assistance. This is, in fact, pursued by various international bodies, bilateral donors and some professional associations. It should be useful to do research on what is being done in this area and to map it out. Perhaps, UNCTAD might consider doing it. Then, it should be possible to identify gaps. Consideration should be given to filling these gaps by multilateral and bilateral agencies.

The second approach is to devise a mechanism through which individual developing countries can learn from the experiences of each other. Perhaps the richest potential resources developing countries have are their own experiences of both successes and failures in the past two to three decades. It is important for the world community to make arrangements for turning these potentials into real resources. One way to do so might be to establish a forum where interested developing countries could learn from the experiences of each other. UNCTAD may be able to undertake such a function.

D. Strengthening commodity markets

There is no magic in attempting to deal with the current situation of commodity markets. As I suggested in a session of the Committee for Development Planning in the late 1970s, it is essential to distinguish four categories of countries in considering commodity issues. They consist of the following: resource rich-rich countries, resource rich-poor countries, resource poor-rich countries, and resource poor-poor countries. The impact of the price behaviour of commodities are

different, depending on these categories of countries. The first task of the international community must be to enhance the analytical capacity of the prospects of the commodity markets. Considerable efforts have already been made to comprehend these markets by various bodies, notably by UNCTAD. It should be possible to enhance this capacity of UNCTAD significantly. UNCTAD should continue to play a major role in the commodities field, particularly in analysis of their prospects. A good and reliable analysis in this area is bound to affect both multilateral and bilateral donors and other investors, including developing country governments and private entrepreneurs.

The major new demand generators of commodities should be the emerging countries which I referred to earlier. These are the countries which are rapidly increasing manufacturing capacities, in particular in highly commodity-consuming product lines. Enhanced analytical capacity should be able to make it possible for the international community to have a better grasp of this new trend.

At the same time, high technologies, in particular, new materials and biotechnology might make it possible for commodity-producing countries to control production better than before. This might become a new weapon against the formidable factors of the structural elements.

E. The debt problem

The problem of indebtedness of developing countries is deteriorating, slowly, but, unfortunately steadily. In order to tackle this problem, an approach based on inter-linkages among debt, trade, finance and growth has been discussed in various fora in recent years. Indications of recent months point to a need to emphasize growth in this list. Reflecting the concerns over indebtedness questions in the context of inter-linkages among these policy elements, a number of broad agreements have emerged recently. The policy packages addressed to the so-called 'Baker countries' and some sets of understandings with regard to poorer countries, least developed countries and African countries, which have been formulated by UNCTAD and the United Nations General Assembly, have been pursued. These would have been correct approaches. But, in reality, the partial implementation of them on the part of all relevant parties is bringing about the current difficult situation. What we are seeing is a series of sporadic and unilateral decisions on the part of some indebted countries as well as on the part of some banks.

The policy approaches to be taken are, therefore, either to confirm the existing Baker packages and UNCTAD/United Nations 'understandings' more strongly and to try to implement them, or in addition, to attempt something more. My assessment of the situation is tilting toward the latter, namely, to try to do something more.

Broad approaches toward policies on indebtedness in addition to these past commitments are twofold. With regard to bank loans, broadly speaking, additional actions should be based on the indications coming from the secondary markets of these loans. Individual banks are already taking some measures, and they need to be encouraged to elaborate their schemes further which should be aimed at ensuring steady flows of capital into developing countries. As mentioned earlier, a large-scale recycling of savings from surplus countries to developing countries will be

required for the fundamental solution of debt problems. Because surplus savings are mostly accumulated in the private sector, government or multilateral financial institutions should provide measures for reducing investment risks by strengthening guarantee, insurance, tax incentives or subsidies.

With regard to indebtedness originating in official development assistance, consideration should be given to strengthening the commitments made in this Organization in 1978 and thereafter. Further actions on the part of donors with regard to the coverage of countries as well as to the terms and amount of the commitments could be sought. They, however, should be accompanied by an improvement of the policies of indebted governments.

These additions will contribute significantly to the improvement of the climate of the international community. Given the uncertainty prevailing over the financial markets, this psychological dimension is of particular importance.

The patchwork of these policy actions will need to be elaborated in various fora, some of which will be existing multilateral institutions, while others will be more flexible arrangements but of a multilateral character. This policy-making process in the area of development and the world economy will gradually build up a sense of legitimacy in the international community, a factor which is sorely needed now. Thus as I see it, we stand now at the starting-point of the third phase of the North-South dialogue. This phase, however, is significantly different from the previous two phases. This time, it is not the Southern countries only which set the tone of the dialogue. It has to be the joint task of both the North and the South. Individual countries will, at the same time, need to break out of the bounds of the North and of the South. They will need to form various patterns of partnership depending on the issues involved while political solidarity of developing countries may need to be maintained. It is going to be a complicated endeavour, requiring enormous capacity for intellectual insight and imagination on the part of the global community. Overlooking the progress on various fronts of discussion and negotiation will be of particular importance. I believe it is the biggest challenge for UNCTAD to perform this task in the third cycle of the North-South dialogue.