ECONOMIC GROWTH:
THE RECORD AND THE PROSPECTS

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Economic Growth: The Record and the Prospects

CONTENTS

I. Introduction

1. A number of studies are available on the economic performance of both developed and developing countries during the post-war period. The OECD and national agencies (such as the NIESR in Britain) also provide periodic quantitative projections of growth prospects in certain countries. For the longer-term, in addition to the work of Leontief on the "Future of the World Economy" and a number of independent studies (e.g. the work of the Meadows team on "The Limits to Growth"), the OECD recently carried out an elaborate study of the likely growth scenarios in OECD countries on alternative assumptions (commonly referred to as the "Interfutures" Report). For the developing countries, several UN agencies, particularly the World Bank, make periodic projections of likely growth rates in GNP and in particular sectors until 1990 or 2000. The projections for developing countries are often based on some simple relationships that are assumed to exist between their growth rates and those in advanced countries, and the availability of foreign capital for investment.

2. The purpose of this note is modest. It does not attempt to survey or critically examine the vast literature that exists on the subject. It is merely an attempt to recapitulate the highlights of the post-war economic performance in the developed and developing economies, and to provide a short summary of the main alternative growth scenarios for the future. An Annex on the impact of oil on the balance of payments of developing countries provides information on the share of oil in total imports, the financing of current account deficits, the debt servicing implications, the adjustment experience of the 1970s, and projections of the aggregate oil import bill and current account deficit.

II. The Past Record

3. The twenty-five years from 1948 to 1973 was a period of unprecedented economic growth. World production grew at an average annual rate of 5 per cent, an all-time record, and resulted in an average annual growth in per capita incomes of approximately 3 - 3.2 per cent in the OECD countries and 3.1 per cent in the developing countries. During the same period the value-added in world industry increased from $ 234 billion to $ 1,023 billion at 1970 prices, i.e. at an annual rate of more than 6 per cent (1), while agricultural production almost doubled in the developed market-economy countries and grew by 130 per cent in the developing countries. Table 1 shows the post-war record of growth in world trade and industrial production in relation to previous periods.

4. The high rates of growth until 1973 were accompanied by an absence of major depressions in the advanced economies. As Rostow has noted, "cycles became primarily systematic fluctuations in the rate of growth, rarely broken by the absolute declines in the output which marked-off the classical cycles of the past"(2). Although experience with trade cycles varied considerably

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1. Unless otherwise stated, all values are in 1970 United States dollars.

2. W.W. Rostow, The World Economy: History and Prospect, page 338.

among different economies, by and large their duration was shorter than in previous periods and fluctuations in income and employment were notably less. There was no cyclical period when GNP actually declined; the only difference between the upswing and the downswing phases was the rate at which GNP was expanding. The period until 1973 was also marked by the relatively low level of unemployment in most industrialised economies, and the comparatively low sensitivity of employment levels to changes in output.

5. For the Western economies and Japan, the period until the early 1970s was characterised by relative price stability (see Table 2). Up to 1971, the annual rates of increase in consumer price indices in most of the economies were less than 6 per cent. They accelerated, however, during 1972-74.

6. The performance of the developing countries as a group was also impressive. The average annual growth rate in the 1950s had been about 2 per cent and in the 1960s it accelerated to 3.4 per cent. On average, per capita income increased by almost 3 per cent annually during 1950-1975. Although comparable historical data are not available, partial evidence suggests that these rates were higher than previously. They also compared favourably with the experience of industrialised countries during the early phase of their industrialisation. In most of the presently industrialised countries, income per capita had grown by less than 2 per cent annually for the hundred years beginning in the mid-19th century. Even in Japan, the longer-run rate of growth in income per capita had been less than 2.5 per cent per year.(1).

7. With the increase in output, there were significant changes in the economic structure of the developing countries. Industry was the fastest growing sector, and during 1960-75 its contribution to total output increased from 17 per cent to 23 per cent in low-income countries and from 32 per cent to 38 per cent in middle-income countries. The structure of production is shown in Table 3 and the sectoral growth in Table 4.

8. Aggregate figures on the growth of developing countries as a group, of course, disguise wide differences in the performance of particular regions or countries. The most striking difference is that between the low-income and the middle-income countries(2). Growth rates were significantly lower than elsewhere in the low-income countries of Africa and Asia where the majority of the world's poor live. In countries accounting for half the population of the developing world, the income per person increased by less than 2 per cent per year. The growth rate in the low-income countries was only 3.1 per cent compared with 6 per cent in the middle-income countries. Growth of agricultural production for low-income countries was 2.1 per cent and that of industrial production 5.4 per cent, as compared with 3.5 per cent and 7.9 per cent respectively for the middle-income countries (all figures are average annual rates for the period 1960-75).

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1. World Development Report 1978, IBRD. The subsequent paragraphs draw heavily on this Report, particularly Chapter II.

2. Low-income countries are defined as those with per capita incomes of US $ 300 and below; middle-income countries are those with per capita incomes above US$ 300 among the developing countries (all data on the basis of 1977 GNP per capita).

9. The poor performance of the low-income countries reflects the lower rates of growth in the large poor countries of Asia (viz. India, Pakistan, Indonesia, and Bangladesh). The large Latin American countries, with the exception of Brazil, have also grown relatively slowly. The same is true of many African countries south of the Sahara. Among the fastest growing developing countries have been four countries in East and South-east Asia (viz. South Korea, Hong Kong, Taiwan and Singapore), countries in the Middle East and North Africa, and those of Southern Europe.

10. Although precise figures are not available, the record on redistribution, institutional reform, the reduction in poverty levels was (with a few exceptions) far from satisfactory. According to World Bank estimates, about 40 per cent of the population of developing countries is still living in 'absolute poverty'. The majority of them are in rural areas in the countries of South Asia, Indonesia, and Sub-Saharan Africa. In addition to the 'absolute poverty', many more people have inadequate access to essential public services, such as health-care, safe drinking water, and sanitation. These people include substantial proportions of the populations of middle-income countries. In the poorest countries, the incomes and consumption levels of the poorer half of the population have stagnated, and in countries where agriculture has expanded more slowly than population (parts of South Asia and Sub-Saharan Africa) the incomes of some of the rural population probably declined.

11. Unemployment and underemployment have continued to be acute in much of the developing world. Rapid urbanization has created a variety of strains and social costs which have been evident in the growth of slums and shanty towns, in the pressing demand for schools and hospitals, and in the overloading of transportation facilities. Some progress has been made in respect of education and health, but the deficiencies are many and the gaps in the availability of basic facilities are still very wide, both among and within countries.

12. On the whole, however, there is little doubt that by historical standards, the post-war period (until the early 1970s) was one of significant economic advance for both the industrialised and the developing countries. Although the period is too recent to permit an authoritative analysis of the factors responsible for the sustained growth performance of the 1950s and the 1960s, among the factors that have been noted in the literature as having contributed to the expansion of the world economy are: the primacy attached to economic growth as an objective of government policy; expansion in investment in European economies due to United States' assistance under the Marshall Plan; the growth in trade facilitated by a stable international monetary environment and reduction in tariff barriers; relatively cheap energy, cheap raw materials and cheap food; labour migration into economies facing labour shortages; and substantial acceleration in the flow of capital, both governmental and private, from the developed to the developing countries.(1)

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1. See, for example, Rostow, op. cit.: OECD Interfutures: Facing the Future; H.W. Arndt, The Rise and Fall of Economic Growth; C.P. Kindleberger, Europe's Postwar Growth; World Bank, World Development Reports; and W. Kasper, "Some Broad Perspectives of World Economic Growth", in W. Kasper and T.G. Parry, Growth, Trade and Structural Change in an Open Australian Economy.

III. Recent Developments

13. The sustained growth in the industrialised countries came to a halt in 1974-75 when there were actual declines in GDP. Although there was some recovery late in 1975 and in 1976, rates of growth in the industrialised countries continued to be substantially lower than in the corresponding periods of the 1960s. For the 1970s as a whole, the growth in output of the industrialised countries averaged about 3.4 per cent, as against almost 4.8 per cent during the previous decade. The events which led to this lowering of growth are well known, and some of them go back to the 1960s. The breakdown of the Bretton Woods monetary system in 1971 was a direct result of the loss of confidence in the dollar against the background of continuing massive US external payments deficits. A high rate of monetary expansion in 1972-73 (facilitated by the absence of the usual balance of payments constraints) fed a commodity boom on which was superimposed a series of agricultural harvest failures. The 1972-73 boom was exacerbated by the supply bottlenecks which appeared in response to rapidly rising inflation in many parts of the world. Prices of food, raw materials and industrial products all increased disproportionately compared with earlier upswings. The world was already beginning to adopt restrictive policies in 1973 when the oil crisis came.

14. As a result of these developments the combined current account position of the OECD area, which had been in surplus in the 1960s and early 1970s, swung into a $ 33 billion deficit in 1974. The deficit nearly vanished in the first half of 1975, as the severe recession brought a fall in imports while exports to OPEC countries rose sharply, but it subsequently widened as OECD economic activity picked up and demand from the developing countries slackened.

15. Inflation rose sharply in 1972-73 in response to the very rapid increase in demand and to the rise in food, energy and other commodity prices. Fifteen years of relative price stability came to an end; Europe moved from inflation rates of under 5 per cent per year to over 10 per cent. The average rate of inflation in OECD countries more than doubled between the 1960s and 1970s. Unemployment rates also increased throughout the OECD area to levels unprecedented since the second world war. The OECD Secretariat has computed a crude "discomfort index" (the sum of the rates of inflation and of unemployment). This index (see Table 5) rose from around five and a half percentage points in the 1960s to 17 percentage points in 1974-75. As Rostow puts it, there was a "convergence of stagnation and inflation unique in modern economic history".

16. As noted by the World Bank, "with the collapse of a sustained and simultaneous boom in the industrialised countries, the peaking of major commodity prices and the sharp increase in imported oil, 1974 marked a turning point in the economic performance and prospects of developing countries".(1) The immediate effect of recession in the industrialised countries, on top of the balance of payments constraints due to the energy crisis, was reflected in the lower growth rates of imports in the developing countries. The average annual rate of growth of imports during 1974-77 declined to 3.8 per cent, which was almost half that of the previous ten years. Similarly, the growth of exports also declined, to a little over 4 per cent, and that of GDP to less than 5 per cent. The period subsequent to the first

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1. World Development Report, 1979.

oil crisis saw a significant reduction in growth rates of middle-income countries, particularly those which had relied on trade as the primary engine of growth. Middle-income countries in all regions (except the Middle East and North Africa) showed a reduction in growth rates by about 2 percentage points compared with those registered in the previous ten years. A surprising development, however, was the acceleration of growth in the low-income Asian countries, particularly India. Despite severe balance of payments problems, the average annual rate of growth of GDP in these countries was over 5 per cent. Much of the improvement was attributable to an expansion in agricultural output to above 3 per cent, which was substantially higher than the average for the previous ten years. Part of this improvement was due to better weather but there is some evidence that substantial investments made in the agricultural sector were beginning to yield results by the mid-1970s. The slow expansion in international trade and import capacity, however, affected the growth of industrial output in almost all developing countries, including the low-income countries of South Asia. By the end of the decade, it was becoming clear that the prospects for industrial growth in these economies were likely to be severely affected by increasing balance of payments problems.

IV. Short-term Forecasts

17. The economic outlook for 1980 suggests that little progress has been made so far in solving the problems of the 1970s; indeed, countries are finding it increasingly difficult to deal with some of them. (1) As a result of the steep oil price increase in 1979 and anti-inflation policies of certain governments, growth in the OECD area is expected to decline from over 3 per cent in 1979 to 0.3 per cent in 1980.(2) The out-turn could be much worse, particularly if the industrialised countries are not better prepared than they were in 1979 to deal with short-term energy supply problems which might arise and/or if the poorer oil-importing countries are forced to curtail further their imports from the OECD countries in order to cope with higher oil prices. Although no estimates are available for developing countries, their growth will almost certainly be damaged further by the increases in oil prices and the recession in the industrialised countries.

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1. For instance, the OECD Secretariat estimates that an increase of 10 per cent in oil prices in 1980 would affect the OECD's real output almost twice as much as an equivalent rise in 1979. This is mainly because (a) the net import bill of OECD area is now larger, both in absolute terms and in relation to GNP; and (b) only about 15 per cent of any further increase in OPEC oil revenue, compared with about half of any such increase in early 1975, is likely to be spent within 12 months, as OPEC import volumes had already grown at a very rapid rate.

2. On the assumption that OPEC oil prices would remain unchanged in real terms after the increases announced up to November 1979, the OECD forecasts were for an overall 1 per cent growth rate in 1980; these were revised downward to virtual stagnation after the increases announced towards the end of 1979.

18. Since the Caracas meeting of OPEC in December 1979, estimates of the combined current account deficit of the OECD countries have been revised upwards to more than $75 billion, compared with $30 billion in 1979. Oil price rises, coupled with the effects of recession in the industrialised economies, will continue to aggravate the balance of payments problems of the net oil-importing developing countries. Towards the end of 1980, their combined current account deficit could be running at an annual average rate of $60-70 billion, equivalent to almost a third of their expected export earnings, compared with a quarter on average during 1975-78(1). The average rate of inflation in the OECD countries is not expected to fall below the present level of 10 per cent, while unemployment is likely to rise from about 17 million to more than 20 million.

19. The short-term problems could also complicate further the longer-term prospects. The OECD Secretariat has pointed out the danger of a 'low-growth trap', in which future recovery would be increasingly hampered by the lack of past investment at a time of monetary stringency and higher interest rates. It stresses that positive help on the supply side involves encouraging structural change and concentrating state aid on industries with fair medium-term prospects. Effective energy policies remain, however, a key element in this structural/investment approach; lower demand for energy during the recession will not minimise the urgency with which these policies need to be pursued.

V. Longer-term Prospects

20. Apart from the more than usual uncertainty surrounding the world economy at present, longer-term prospects can only be assessed on the basis of a number of assumptions, all of which are liable to important changes. A number of alternative 'scenarios' is available which throw some light on possible trends, though these are not meant to be forecasts in the sense of probable results. The outcome is dependent on assumptions regarding factors such as technological change, the price of conventional energy, the development of alternative energy sources, and the policies pursued by industrialised and developing countries. However, it is worth noting that most scenarios are pessimistic, and indicate that unless there is a substantial change in technological possibilities and/or government policies, the rest of this century will be characterised by low growth rates, high inflation and high poverty levels.

(a) GDP growth and production patterns

21. For example, the global average economic growth of 5 per cent per annum, achieved during 1948-1973, is postulated up to the year 2000 by the *Interfutures* Report in a 'high growth' scenario ('Scenario A' in Table 6) (2) which is critically dependent on the developed societies maintaining a consensus in favour of high growth and bringing about important changes in energy consumption levels, further trade liberalisation and considerable improvements in resource transfers to the developing countries. All other scenarios investigated in the *Interfutures* Report indicate lower growth rates, compared with the previous quarter century. Even the 'high-growth' scenario for the world economy suggests a somewhat lower growth (4.3 per cent per annum), than in the 1950s and 1960s for the OECD countries, compensated by an acceleration in the developing economies.

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1. Further notes on the impact of the oil price rises on the balance of payments of developing countries are given in the Annex to this Paper.
2. This scenario assumes that productivity losses incurred during the recession will be recovered and the long-term productivity in the USA will grow at an annual rate of 1.84 per cent per annum, with productivity in other OECD countries converging towards the US trend. See *Interfutures*, op.cit.

22. It is perhaps important to note that the developed countries could still hope to sustain reasonably high (1) rates of growth up to the year 2000, provided that a consensus in favour of 'high growth' was maintained and the necessary policy changes and structural adjustments were effected. Two important policy assumptions of the 'high-growth' scenario in the Interfutures Report are: (a) that energy policies would make it possible to reduce the income elasticity of demand for energy from 0.8 to 0.6 in OECD countries (2), and (b) that further trade liberalisation would take place with regular and more rapid reductions (5 per cent annually) in the trade bias for manufactures.

23. But if conflicts between social groups in the OECD countries and resistance to policy changes were to hold up structural adjustments, the economic prospects of these countries would worsen considerably, and their average growth, under this 'moderate growth' scenario ('Scenario B2' in Table 6) would drop to 3.5 per cent. (3) In fact, it seems that the failure of the industrialised countries to make structural adjustments, apart from adversely affecting the developing countries, would damage their own economic growth more severely.

24. In either of the scenarios considered, the prospects for the developed countries remain far from satisfactory. While slower growth in the OECD countries means that the share of the developing countries in world income would improve (to 32 per cent in the year 2000), more than 600 million of their people would still live in absolute poverty even if the 'high growth/ structural changes' scenario of the Interfutures Report could be realised for the OECD countries. In spite of significant increases in food production, which are far from assured, malnutrition would remain widespread, particularly in South Asia and Sub-Saharan Africa; it would be much worse if the growth in the OECD countries were to be lower and their aid flows to the developing countries remained at about present levels.

25. The share of developing countries (excluding China) in world industrial production would be around 16.5 per cent under both the 'high' and 'moderate' growth rate scenarios for the world economy (Table 7). Structural rigidities in the OECD countries, if not overcome, would reduce the annual growth in their industrial production from 4.0 per cent (which is itself lower than the rate achieved in 1960s) of the 'high growth' scenario to 3.4 per cent in the 'moderate growth' one (Table 7). The growth in developing countries' industrial production would also be adversely affected in this latter scenario, even though their share in a smaller aggregate would be higher.

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1. While lower than the average growth rate of 1948-73, a 4.3 per cent growth rate, if achieved, will be significantly higher than the average of 3.4 per cent registered during 1973-78.
2. The income elasticity of demand for energy in the developing countries will also need to be reduced, from 1.6 to 1.0.
3. The World Bank's assumptions for alternative scenarios for developing countries include GDP growth in industrialised countries of 3.5 per cent (low), 4.2 per cent (base) and 4.9 per cent (high).

(b) International trade

26. Under the 'high growth' scenario, world trade is expected to continue to grow at around 7 per cent per annum, about the same as during 1948-1971, reflecting relatively high rates of growth in GDP and further trade liberalisation. Growth in exports of capital goods from the OECD countries and of manufactures from the developing countries (9.5 per cent per annum) would compensate for a slowing down in trade in oil and food products. But a slower growth in the world economy, resulting from a failure to deal with structural rigidities, could reduce the growth in world trade to 6.5 per cent per annum, with a steep reduction in intra-OECD trade and a smaller one in the growth of exports of developing countries.

27. The relative share of developing countries (excluding China) in world exports of manufactures would increase under the 'high growth' scenario ('Scenario A') to 18.2 per cent from 10.3 per cent in 1970 (Table 8). It would be even high under other scenarios but that would be of smaller world totals, reflecting much slower growth in exports of manufactures from the OECD countries.

(c) The effect of a breakdown in North/South relations

28. The adverse effects of a slower growth in world production and trade, resulting from structural rigidities, could be further aggravated by a worsening of economic relationships between major groups of countries. If this were to happen, both the developed and developing countries would suffer a further loss in the growth of their incomes, even though the developing countries' relative share in the more slowly growing aggregates could be expected to be larger.

29. One of the Interfutures scenarios ('Scenario C') examines the effect of a hypothetical breakdown in relations between the North and South which might result from an increasing disillusionment of the developing countries with progress towards the establishment of a new international economic order. Such a breakdown would lead to collective self-reliance among developing countries, an intensification of intra-OECD co-operation centred around the USA, and the reduction of their ODA to 0.1 per cent of GDP, concentrated in Sub-Saharan Africa and South Asia. (OPEC countries could only partially compensate for this reduction in aid by tripling their own aid.)

30. Both the developed and developing countries would be adversely affected by such a breakdown. World production would increase by a factor of only 2.4, compared with 2.9 in the 'moderate growth' scenario, and the average per capita income would increase to US $1,530 at the end of the century, compared with US $1,920 in the 'moderate growth' scenario (Table 6). Although the developing countries' share in world income would be 33 per cent, their per capita income would be only US $656 against US $790 in the 'moderate growth' scenario.(1) It is interesting to note that the adverse effect of a breakdown in North/South relations on the growth of income of developed countries would be relatively greater than on that of developing countries.

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1. The comparable figures under the 'high growth' scenario are: world per capita income US$2,210; developing countries' per capita income US$860.

(d) Effect of increased protectionism

31. Another Interfutures scenario ('Scenario D') explores the effect of increased protectionism between the three major poles (USA, EEC and Japan) of the OECD, which might be a response by the advanced societies to pressures for structural adjustment in a situation of slower growth and social conflicts. At the same time, it is assumed that the trade rivalry between the OECD partners would lead the three poles to develop preferential links with specific regions in the Third World, which become their partners. The combined effect would be a further reduction in the growth of income, compared with the 'moderate growth' scenario, for both the developed and developing countries, though the relative share of the latter in world income would be larger. The adverse effect is, however, only slight, though increased protectionism would presumably have a much more severe effect if it were not accompanied by preferential arrangements with developing countries. Moreover, the effect of increased protectionism is condsidered here in relation to the'moderate growth' scenario, which is itself more adversely affected by the absence of structural adjustments and trade liberalisation required under the 'high growth' scenario. The differences in incomes between the 'high growth' scenario and the 'protectionist' scenario are indeed very considerable for both the developed and developing countries.

Table 1

Growth in World Trade and Industrial Production, 1720-1971
(average annual percentage rates of increase)

Period	World trade	World industry
1720-1780	1.10	1.5*
1780-1830	1.37	2.6
1820-1840	2.81	2.9
1840-1860	4.84	3.5
1860-1870	5.53	2.9
1870-1900	3.24	3.7
1900-1913	3.75	4.2
1913-1929	0.72	2.7
1929-1938	-1.15	2.0
1938-1948	0.00	4.1
1948-1971	7.27	5.6

*1705-1785.

Source: W.W. Rostow, The World Economy: History & Prospect, page 67.

Table 2

Consumer Price Indexes in the United States and Other Major Industrial Countries, 1955-74

(1970 = 100)

	United States	Average annual rate of increase (%)	Canada	Average annual rate of increase(%)	Japan	Average annual rate of increase(%)	France	Average annual rate of increase(%)
1955	69.0		69.9		52.6		50.4	
1956	70.0		70.9		52.8		51.4	
1957	72.5		73.2		54.4		53.2	
1958	74.5		75.0		54.2		61.2	
1959	75.1		75.9		54.7		65.0	
1960	76.3	1.5	76.7	1.7	56.7	3.8	67.3	4.9
1961	77.0		77.1		59.7		69.5	
1962	77.9		78.0		63.8		72.9	
1963	78.8		79.4		69.2		76.1	
1964	79.9		80.8		71.9		79.0	
1965	81.3		82.8		76.7		81.0	
1966	83.6		85.9		80.6		83.2	
1967	86.0		88.9		83.8		85.4	
1968	89.6	4.1	92.6	3.8	88.3	5.5	89.3	4.7
1969	94.4		96.8		92.9		95.0	
1970	100.0		100.0		100.0		100.0	
1971	104.3		102.9		106.3		105.5	
1972	107.7		107.8		111.5		111.7	
1973	114.4	8.6	116.0	8.9	124.5	16.9	119.9	10.4
1974	127.0		127.9		152.4		135.5	

	Germany	Average annual rate of increase(%)	Italy	Average annual rate of increase(%)	Netherlands	Average annual rate of increase(%)	United Kingdom	Average annual rate of increase(%)
1955	70.1		62.2		57.8		59.0	
1956	71.9		64.3		58.9		61.9	
1957	73.3		65.2		62.7		64.2	
1958	75.0		67.0		63.8		66.2	
1959	75.7		66.7		64.3		66.5	
1960	76.7	2.3	68.2	3.4	66.4	3.1	67.2	3.1
1961	78.5		69.7		67.0		69.5	
1962	80.9		72.9		68.3		72.5	
1963	83.3		78.3		70.9		73.9	
1964	85.2		83.0		74.8		76.3	
1965	88.1		86.7		78.7		80.0	
1966	91.2		88.8		83.3		83.1	
1967	92.5		91.6		86.0		85.2	
1968	93.9	3.4	92.8	3.6	89.1	5.7	89.2	5.6
1969	96.4		95.2		95.8		94.0	
1970	100.0		100.0		100.0		100.0	
1971	105.3		105.0		107.5		109.5	
1972	111.1		110.9		115.9		117.0	
1973	118.8	6.8	122.4	12.4	125.2	8.6	126.7	11.7
1974	126.8		140.0		136.6		145.9	

Source: Rostow, op.cit. pages 351-352 (quoting Economic Report of the President (February 1975), p.359).

Table 3

Developing Countries: Distribution of Gross Domestic Product, 1960 and 1975a

(per cent)

	Agriculture		Industry		Services	
	1960	1975	1960	1975	1960	1975
Low Income Countries	50	41.	17	23	33	36
Middle Income Countries	22	15	32	38	46	48

a Median values, at current prices.

Source: World Bank, World Development Report 1979, pages 15 and 130.

Table 4

Developing Countries: Growth of Production, 1960-75

(average annual rates, per cent)

	Gross Domestic Product	Agriculture	Industry	Services
Low Income Countries	3.1	2.1	5.4	3.7
Middle Income Countries	6.0	3.5	7.9	6.7

a Median values, at 1975 prices.

Sources: World Bank, World Development Report 1978, page 4.

Table 5

"Discomfort Index" for Seven Major Countries, 1959-76

Year	Unemployment rate (%) (1)	Increase in consumer prices (%) (2)	"Discomfort Index" (1+2)
1959	3.8	1.2	5.0
1960	3.4	1.7	5.1
1961	3.6	1.6	5.2
1962	3.1	2.1	5.2
1963	3.2	2.3	5.5
1964	2.9	2.0	4.9
1965	2.7	2.6	5.3
1966	2.5	3.2	5.7
1967	2.8	2.8	5.6
1968	2.7	4.0	6.7
1969	2.6	4.9	7.5
1970	3.1	5.6	8.7
1971	3.7	5.0	8.7
1972	3.7	4.4	8.1
1973	3.2	7.7	10.9
1974	3.7	13.4	17.1
1975	5.4	11.1	16.5
1976	5.3	8.1	13.4

Source: OECD.

Table 6

Gross domestic product and per capita GDP, 1975 and 2000: Comparisons for selected scenarios

	Growth of GDP (per cent per annum)				Proportion of world GDP (per cent)					GDP per capita (1970 US $)					Growth of GDP per capita (per cent per annum)			
Period	1975-2000				1975	2000				1975	2000				1975-2000			
Scenario	A	B2	C	D		A	B2	C	D		A	B2	C	D	A	B2	C	D
1. United States	3.2	2.4	2.4	2.7	28.7	19	18	24	21	5132	9870	8130	7780	8450	2.7	1.9		
2. Canada	3.8	2.9			2.7	2	2			4531	8730	7020			2.7	1.8		
3. Japan	6.9	6.0	2.5	5.6	6.8	10	10	5	9	2371	10260	8230	3590	7560	6.0	5.1	1.7	4.7
4. EEC	4.4	3.3	2.0	3.0	18.5	16	14	13	14	2752	7960	6110	4450	5680	4.3	3.2	1.9	2.9
5. Western Europe other than EEC	6.0	5.4	2.7	4.6	4.0	5	5	3	4	1049	3950	3420	1790	2800	5.4	4.8	2.2	4.0
6. Australia and New Zealand	3.8	3.2	2.4	3.7	1.3	1	1	1	1	2568	5600	4910	4020	5490	3.2	2.6	1.8	3.1
Total OECD	4.4	3.5	2.3	3.4	62.0	53	50	47	49	3044	8000	6470	4880	6270	3.9	3.1	1.9	2.9
7. Eastern Europe	5.0	4.8	4.2	4.8	15.9	16	18	20	18	1700	5330	5080	4730	5080	4.7	4.5	4.2	4.5
8. Latin America	7.0	6.5	5.3	6.3	6.2	10	10	11	10	745	2300	2040	1730	1950	4.6	4.1	3.4	3.9
9. South Asia	5.0	4.5	3.9	4.0	2.2	2	2	2	2	101	210	184	148	160	3.0	2.4	1.5	1.9
10. South East Asia	7.0	6.3	5.6	6.1	2.2	4	4	4	3	224	720	620	510	580	4.8	4.2	3.3	3.9
11. China	6.0	6.0	5.5	6.0	5.6	7	8	9	8	256	800	800	710	800	4.7	4.7	4.2	4.7
12. North Africa and Western Asia	7.0	6.0	5.4	6.0	3.9	6	6	6	6	845	2450	1940	1680	1940	4.3	3.4	2.8	3.4
13. Sub-Saharan Africa	5.9	4.4	3.6	5.7	1.3	2	1	1	2	164	380	266	223	360	3.4	2.0	1.2	3.2
Total, Third World	6.5	6.0	5.3	5.9	21.6	31	32	33	32	290	860	790	656	750	4.4	4.1	3.3	3.9
World total	5.0	4.4	3.5	4.3	100	100	100	100	100	960	2210	1920	1530	1850	3.4	2.8	1.9	2.7

Note: South Africa is not included among regions 1 to 13 but is included in the world total. Value data in terms of 1970 US$.

Source: OECD Interfutures, page 89; growth rates calculated by Commonwealth Secretariat from Interfutures, page 89.

Table 7

Trends in World Industrial Production, 1970 and 2000

Growth of world value-added in industry, 1970-2000 (per cent per annum)

Product	Machinery		Other Products		Total			
Scenarios	A	B2	A	B2	A	B2	C	D
OECD	4.6	3.7	3.9	3.2	4.0	3.4	2.3	3.3
United States	3.5	2.6	3.0	2.2	3.1	2.3	2.3	2.4
Canada	4.1	3.2	3.8	2.9	4.0	2.9		
Japan	6.3	6.0	6.0	5.6	6.0	5.7	2.6	5.0
EEC	4.4	3.5	3.7	3.1	3.8	3.2	2.1	3.1
Other countries	6.4	4.8	5.4	4.4	5.5	4.4	2.8	4.4
Eastern Europe	6.4	5.6	5.2	4.9	5.4	5.0	4.4	5.0
China	8.1	8.0	7.3	7.3	7.4	7.3	5.9	7.3
Third World	9.0	8.3	7.5	6.9	7.6	7.1	6.4	7.3
Latin America	9.2	8.7	7.9	7.4	8.1	7.6	7.1	7.8
East and South-East Asia	8.4	7.8	8.3	7.5	7.2	6.5	7.5	7.2
South Asia			5.5	4.6			4.1	4.5
North Africa/Middle East	10.0	7.5	7.3	6.4	7.5	6.4	7.0	7.0
Black Africa	5.5	4.6	5.4	4.6	5.4	4.6	3.4	4.7
World	5.4	4.6	5.0	4.3	5.0	4.4	3.2	4.4

Regional distribution of value-added in industry (per cent)

Product	Machinery			Other Products			Total				
	1970	2000		1970	2000		1970	2000			
Scenarios		A	B2		A	B2		A	B2	C	D
OECD	75.4	61.6	59.4	67.1	49.2	48.6	68.5	51.4	50.5	48.7	49.6
United States	31.1	18.7	17.0	30.4	17.2	16.4	30.3	17.3	16.5	23.1	18.7
Canada	2.9	2.2	1.9	2.7	2.0	1.8	2.7	2.0	1.8		
Japan	10.6	13.5	15.0	6.5	8.4	9.2	7.1	9.0	10.2	5.8	8.5
EEC	26.4	22.0	21.0	21.3	14.5	14.8	22.4	15.8	15.9	14.9	15.7
Other countries	4.5	5.8	4.4	6.5	7.2	6.3	6.2	7.0	6.1	4.9	6.6
Eastern Europe	17.2	21.8	21.5	19.9	21.0	23.6	19.3	21.0	23.2	24.0	23.0
China	2.7	4.3	6.3	4.5	8.8	10.2	4.2	8.0	9.6	8.2	9.6
Third World	4.6	12.3	12.6	8.4	17.2	17.9	7.7	16.4	16.7	19.1	17.7
Latin America	3.0	8.2	8.9	4.2	9.7	10.0	4.0	9.4	9.9	11.0	10.7
East and South-East Asia	1.3	1.7	1.8	1.2	3.1	3.1	2.4	3.0	2.9	3.6	2.7
South Asia		1.2	1.1	1.3	1.5	1.6		1.5	1.5	1.4	1.4
North Africa/Middle East	0.3	1.1	0.6	0.9	1.9	1.8	0.8	1.7	1.6	2.4	2.0
Black Africa	0.1	0.1	0.1	0.7	1.0	1.0	0.5	0.8	0.8	0.7	0.9
World	100	100	100	100	100 a	100	100	100 b	100	100	100

a Adds to 96.2 in original source.

b Adds to 96.8 in original source.

Source: OECD Interfutures, pages 330-1.

Table 8

The pattern of trade in manufactures, 1970 and 2000

(percentages)

Initial situation

Importing areas (columns); Exporting areas (rows)

1970	A	B	C	Total
A	51.8	5.3	25.8	82.9
B	3.4	0.9	2.5	6.8
C	8.3	0.9	1.1	10.3
Total	63.5	7.1	29.4	100.0

Scenario A

Importing areas (columns); Exporting areas (rows)

2000	A	B	C	Total
A	40.8	7.4	19.6	67.8
B	6.4	1.6	6.0	14.0
C	9.7	2.8	5.7	18.2
Total	56.9	11.8	31.2	100.0

Scenario B2

Importing areas (columns); Exporting areas (rows)

2000	A	B	C	Total
A	36.2	8.7	20.1	65.1
B	6.5	1.5	6.0	14.0
C	11.8	3.3	5.8	20.9
Total	54.5	13.5	31.9	100.0

Scenario C

Importing areas (columns); Exporting areas (rows)

2000	A	B	C	Total
A	45.2	8.3	10.1	63.6
B	6.9	1.3	6.5	14.7
C	5.3	3.4	12.9	21.7
Total	57.5	13.0	29.5	100.0

Scenario D

Importing areas (columns); Exporting areas (rows)

2000	A	B	C	Total
A	23.8	8.4	33.6	65.8
B	6.2	0.6	3.8	10.6
C	15.9	2.7	5.0	23.6
Total	45.9	11.7	42.4	100.0

Note: A = Developed market economy countries.
B = Centrally planned economy countries (including China).
C = Developing countries (excluding China).

Source: OECD *Interfutures*, page 332

IMPACT OF OIL ON THE BALANCE OF PAYMENTS OF DEVELOPING COUNTRIES

The following brief notes provide information on:

I. the share of oil in the total imports of net oil-importing developing countries;

II. the financing of current account deficits;

III. debt service implications of external borrowing;

IV. the adjustment experience of developing countries to the external shocks of the 1970s; and

V. projections of the short-term increase in the oil import bill and the current account deficit.

I. Share of oil in total imports

2. Available data on crude petroleum imports suggest that the gross oil import bill for net oil importing developing countries increased from $4.4 billion in 1973 to $18.9 billion in 1978. This increase of 330 per cent reflects almost entirely the oil price increases, since the quantities imported changed little over the period – 3.7 million barrels per day in 1973 to 4.4 million barrels per day in 1978 or an increase of less than 20 per cent. (Nine countries[1] feature prominently as net importers of crude; these nine countries accounted for 72 per cent of all net oil imports of developing countries between 1973 and 1978).

1. These nine countries are: Singapore, Cuba, Thailand, Philippines, India, Taiwan, Turkey, Republic of Korea and Brazil.

3. While the oil imports of the majority of net oil-importing developing countries may not be large in absolute terms and the quantities may have even declined in some cases, their values increased sharply as a proportion of the total imports of these countries. On average, the available data for 36 net oil-importing developing countries suggest that oil imports as a proportion of total imports rose from 7 per cent to nearly 14 per cent between 1973 and 1978, with the proportions being considerably higher in a number of cases (see Table 1)[1].

II. Financing of current account deficits

4. Owing to a combination of the oil price increases, the rise in the prices of traded goods, and general global recession, the combined current account deficit of net oil-importing developing countries almost quadrupled between 1973 ($8.7 billion) and 1974 ($31.8 billion). The deficit reached $36.3 billion in 1975 and, after some improvement in 1976 and 1977, it was estimated to be $29 billion in 1978 and over $46 billion in 1979.

5. There was considerable variation among groups of net oil-importing developing countries with regard to the size and financing of their deficits. Low-income countries' deficits are estimated to have increased 2.7 times between 1973 and 1979, compared with 5.3 times for all net oil-importing developing countries and 4.5 times for major exporters of manufactures.

6. Taking the larger grouping of all non-oil developing countries (data for net oil-importing countries are not available), in 1973 the whole of the current account deficit was less than the total of official unrequited transfers, direct investment inflows and long-term official loans to these countries. Since then, with the exception of 1977, increased flows from these sources have not been able to match the tremendous increases in the current account deficits. These countries therefore had to resort to large-scale short- and long-term private borrowing (see Table 2). As regards private borrowing, countries such as Brazil, Mexico, the Philippines, Korea and Argentina, with access to international capital markets, were at opposite ends of the spectrum from Kenya, Tanzania and Sri Lanka. Low-income countries have had to rely to a far greater extent on officially provided long-term capital to finance their deficits[2]. Those countries better able to borrow internationally were able to sustain relatively high import growth and increased current account deficits.

7. A notable feature of international lending during the period since 1973 has been the rapid increase in commercial bank lending - this grew by 43 per cent on average. Relatively little use was made of IMF credit to finance deficits. Even when there was recourse to Fund resources, drawings were primarily from the compensatory financing facility and the oil facility, both of which sources carry low levels of conditionality.

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1. Data for these 36 countries include oil imports other than crude petroleum.
2. Eighty-three per cent of current account deficits of low-income countries was financed by official transfers between 1973 and 1978 compared with 36% in the case of the middle-income countries.

III. Debt service implications

8. Increased borrowing left many non-oil developing countries with greatly increased debt service commitments. The growth of external debt, the heavy reliance on bank financing, and the shortening of loan maturities resulted in a $16 billion increase in debt service payments from developing countries between 1973 and 1978, or an increase of 2½ times over the period. Interest payments rose proportionately more than amortization, reflecting greater use of relatively expensive commercial bank credits and the postponement of amortization payments. While the debt service commitments for future years were increasing even more rapidly, a significant number of countries were already faced with debt servicing difficulties in 1978. As at end 1978, eighteen countries were classified by the IMF as having debt servicing problems[1]. (The IMF classifies countries as having debt servicing problems if current account payment arrears that constitute an exchange restriction are reported as of the end of a given year, or if a multilateral debt renegotiation has recently been conducted or requested.)

9. To get some idea of the combined burden of financing oil imports and meeting debt service commitments in relation to countries' (merchandise) export earnings, illustrative country data are included in Table 3. For a number of countries, oil imports and debt service absorbed between 31 and 60 per cent of their merchandise export earnings in 1978.

IV. Adjustment experience of developing countries in the 1970s

10. While some countries were able successfully to finance their much enlarged deficits, net oil-importing countries as a group were forced to implement strenuous and sometimes painful policies of adjustment. In fact, there is considerable evidence to suggest that the combined annual deficits of net oil-importing countries in real terms (i.e. after taking into account inflation and growth) during 1974-78 were not significantly larger than in 1973. Thus adjustment often involved serious compression of imports and curtailment of economic activity and growth.

11. Detailed information on the economic impact on individual developing countries of the international economic situation of the early to mid-1970s is available in a UNDP/UNCTAD study of a sample of thirteen developing countries.[2]

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1. These countries were Congo, Dominican Rep., Gabon, Ghana, Guinea, Guinea Bissau, Guyana, Jamaica, Madagascar, Nicaragua, Pakistan, Peru, Sierra Leone, Sudan, Togo, Uganda, Zaire and Zambia.

2. The countries in the sample are Brazil, India, Indonesia, Ivory Coast, Jamaica, Kenya, Republic of Korea, Peru, Philippines, Sri Lanka, Tanzania, Uruguay and Zambia. See UNDP/UNCTAD, The balance of payments adjustment process in developing countries. Report to Group of Twenty-four, 1979.

It was expected that there would be variation between the experiences of individual countries, depending on their "initial conditions", objective capacity to adjust, subjective assessments of duration and severity of external disequilibrating forces, etc., but certain common threads do emerge from the study. These are set below:

(i) during 1974-1976 all the countries experienced at least one year of sharp deterioration in their current accounts; for most of the countries, greatly increased current account deficits characterized the whole period;

(ii) while this current account deterioration was accompanied by increased long-term capital inflows, basic balances for most of the countries swung into deficit during one or more years after 1973, leading to recourse to payments finance and reserve drawings;

(iii) over the same period (1974-76) overall economic performance deteriorated in most of the countries - most of them recorded a slow-down in growth compared with 1971-73; at the same time price inflation accelerated in all the countries;

(iv) price effects (movements in the prices of internationally traded goods) may have been the dominant source of change in trade accounts - negative price effects in particular, were directly associated with deteriorations in the trade accounts;

(v) changes in terms of trade had a discernible impact on countries' national incomes - rough estimates by UNDP/UNCTAD show that nine of the thirteen countries in their sample suffered once-for-all losses in national income of between 4 and 20 per cent, (five of them of more than 10 per cent) due to adverse movements in their terms of trade;

(vi) only a small number of countries (such as Brazil, Ivory Coast and Korea) was able to adjust trade balances while increasing their command, in real terms, over goods and services from abroad, i.e. increasing their import capacity; some countries suffered deterioration in both trade balance and import capacity;[1]

(vii) there was some evidence of a direct relationship between the level of imports (particularly 'developmental' imports) and GDP growth - those countries in which there was no significant compression of imports during 1974-76 recorded increases in output and investment which were significantly higher than in those where significant import compression took place;

1. Data in Table 4 give some idea of the relationship between trade balances and import capacities for individual countries, and of the influence of terms of trade changes on national income.

(viii) governments of non-oil developing countries employed the full range of trade, exchange-rate and other macro-economic policies in their attempt to counter the effects of the international economic situation of the 1970s. Some of them consciously attempted to marry short- and long-run planning; but they faced severe problems and had few successes; and

(ix) very little of the international adjustment took the form of an increase in exports from the non-oil developing world - a fact which is probably a major shortcoming of the process of international adjustment.

V. Oil import bills and current account deficits in the short-term

12. With aggregate net imports of crude petroleum estimated at approximately 4 million barrels per day in 1980, and given the increase in prices since 1978, net oil-importing developing countries face an incremental oil bill of about $24 billion in 1980.

13. After taking account of other likely direct and indirect influences on their balance of payments, the current account deficits of net oil-importing developing countries may exceed $60 billion by end-1980.[1] With increasing doubts about the capacity of the international banking system to continue to provide increasing amounts of finance to these countries, and with the grave economic and social difficulties that could result from even further adjustment, the already grim prospects facing non-oil developing countries are likely to be aggravated. The international community will have to set in motion significant remedial action if the worst fears are not to be realised.

1. A 1980 deficit of $62 billion has been projected by the IMF for net oil-importing developing countries.

Annex table 1

Oil importing developing countries: oil imports

Country	Oil imports 1973	Oil imports 1978	As percent of total imports 1973	As percent of total imports 1978
	$ million			
Bangladesh	92	167	10.5	12.2
Barbados	4	11	2.4	3.5
Burundi	2	7	6.5	7.1
China (Taiwan)	99	1,586	2.6	14.4
Costa Rica	17	45	3.7	3.8
Cyprus	24	80	5.3	10.6
El Salvador	19	73	5.1	7.1
Ethiopia	20	63	9.3	13.8
Fiji	20	42	9.1	11.8
Gambia, The	2	10	6.3	9.9
Guatemala	27	69	6.3	6.4
Honduras	21	57	8.0	8.2
India	308	1,060	9.6	14.3
Ivory Coast	26	170	3.7	9.7
Jamaica	71	242	10.5	26.0
Kenya	47	239	7.6	14.1
Korea, Rep. of	277	2,210	6.5	14.8
Madagascar	15	52	7.4	15.0
Malawi	7	30	5.0	8.8
Mauritius	12	46	7.1	9.2
Morocco	55	301	4.8	10.1
Nicaragua	17	78	5.2	13.1
Niger	7	15	8.1	11.8
Pakistan	55	408	5.6	12.3
Panama	88	208	17.5	24.2
Paraguay	6	43	4.9	11.2
Philippines	166	907	9.2	17.7
Senegal	21	71	5.8	11.4
Sierra Leone	6	33	3.8	18.2
Sudan	25	89	5.7	9.1
Thailand	172	813	8.4	15.2
Togo	5	20	5.0	7.0
Upper Volta	9	18	11.4	8.6
Uruguay	51	33	17.9	4.4
Yemen P.D. Rep.	68	220	39.8	65.7
Zambia	32	104	4.8	12.5
TOTAL	1,893	9,620	7.1	13.9

Source: Commonwealth Secretariat estimates based on IMF, International Financial Statistics.

Annex table 2

Non-oil developing countries: current account financing, 1973-79

(billion US dollars)

	1973	1974	1975	1976	1977	1978	1979
Current account deficit	11.3	30.6	38.2	25.5	21.0	31.9	42.0
Financing through transactions that do not affect net debt positions	8.4	10.9	11.3	10.6	11.9	12.8	16.7
of which: Net unrequited transfers received by governments of non-oil developing countries	4.2	6.2	6.3	5.8	6.7	6.9	9.0
Net external borrowing	10.6	22.6	27.5	26.1	20.7	32.4	31.3
of which: Long-term from official sources, net	4.6	6.9	10.7	9.4	11.1	12.4	13.4
Other long-term borrowing from non-residents, net	5.9	9.5	11.0	12.9	11.8	17.9	16.7
Use of reserve-related credit facilities, net	0.1	1.4	1.7	3.4	0.4	0.3	0.1
Other short-term borrowing, net	0.9	4.6	6.3	4.2	-1.8	-0.9	n.a.

Source: IMF.

Annex table 3

Ratios of oil imports and debt servicing to exports [a]

1973 and 1978

(per cent)

	oil imports / exports		debt servicing / exports		oil & debt / exports	
	1973	1978	1973	1978	1973	1978
I. All non-oil developing countries [b]	7.5	14.9	14.7	20.8	22.2	35.7
II. Selected non-oil developing countries [c]						
Korea, Republic of	8.6	17.4	19.3	14.1	27.9	31.5
Bangladesh	25.7	30.4	2.8	17.1	28.6	47.5
Barbados	7.4	8.5	6.7	5.7	14.1	14.2
Cyprus	13.9	23.5	4.8	7.6	18.7	31.1
Fiji	21.3	20.7	1.8	4.6	23.1	25.3
Gambia, The	9.1	25.6	1.4	1.3	10.5	26.9
India	10.6	16.5	22.3	14.7	32.9	31.2
Jamaica	18.2	31.9	9.6	27.9	27.8	59.8
Kenya	9.8	23.4	6.2	11.8	16.0	35.2
Malawi	7.1	16.0	11.2	11.1	18.3	27.1
Mauritius	8.8	14.4	1.8	3.3	10.6	17.7
Sierra Leone	4.7	27.0	10.0	28.3	14.7	55.3
Zambia	2.8	11.6	31.6	27.8	34.4	39.4

a Merchandise exports only.

b Aggregate oil imports for all non-oil developing countries include crude petroleum only.

c Oil imports for individual countries are based on IMF sources which in some cases include refined as well as crude petroleum.

Source : IMF; *World Debt Tables* (IBRD); and Secretariat estimates based on UN *World Energy Supplies*, Series J, 1979.

Annex table 4

Changes in trade balances and in import capacity, 1974-77 and the effect of terms of trade on gross national income

	Change in trade balance[a] (millions of dollars)	Change in import capacity (per cent)	Change in trade balance[a] (millions of dollars)	Change in import capacity (per cent)	The influence of terms of trade changes on national income[d] (per cent)
	1974 to 1976		1976 to 1977		
Brazil	2,641	-25	2,487	30	-4.5
India	1,039	25[c]	-107	10[c]	-4.2
Indonesia	-710	19	1,749	6	49.3
Ivory Coast	90	24	311	8	17.5
Jamaica	-75	-5	162	-30	-16.5
Kenya	240	-13	79	-4	-13.0
Korea, Rep. of	1,333	36	295	24	-19.5
Peru	-724	15	419	-2	2.7
Philippines	-669	30	252	1	-4.6
Sri Lanka	183	-8	66	-1	-11.3
Tanzania	203	-20	-70	-5	-11.6
Uruguay	63	48	-28	-24	-7.7
Zambia	-180	-27	-162	-22	13.3

Source: UNDP/UNCTAD, op. cit. ppII -39 and II-43.

a Minus sign indicates increase in deficit or reduction in surplus.

b The sum of earnings from exports of goods and services, net receipts of transfers and long-term capital and changes in reserves and related items less gross payments on account of investment income. This sum is then deflated by changes in import prices.

c Merchandise export earnings deflated by import prices.

d Calculated from the formula: $dY/Y=-(P_m M/Y)(dP_m/P_m - adP_x/P_x)$, where $a=P_x X/P_m M$. and where Y=real gross national income, E=real domestic expenditure, P_x and P_m =prices of exports and imports, respectively and X and M = quantum of exports and imports, respectively. Minus sign indicates decline in real gross national income.