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THE ROLE OF INTERNATIONAL LENDING IN DEVELOPING ECONOMIES

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A consideration of *International Lending: The Case of Developing Nations* is timely not only because of the forces that are propelling the Third World into a position of increasing strategic and political importance but also as a recognition of the importance of credit to development and of the fact that loans and self-help, rather than massive infusions of outside assistance, are the key to real development.

It is not this writer's intention to discuss different forms of credit or the many practical, technical and legal hurdles to mobilizing and delivering loans to the Third World on a fair basis to both creditor and borrower. Instead, this paper will sketch the background of world forces that must be carefully considered if the availability and effective use of credit in less developed countries (LDC's) is to be accomplished. Seven basic factors are of primary importance in outlining this background:

(1) the massiveness of the problem of human misery in the Third World—representing the principal moral challenge of the second half of this century;
(2) the paradox and the dilemma of development programs that have reached their target in growth terms, but have failed to reach the most underprivileged;
(3) the reappraisal of assistance programs and the repudiation of gross national product as a standard of measurement;
(4) the growing power of the Third World;
(5) the failure of leadership by the "developed world," particularly by the United States, to mobilize the necessary support and resources to give the Third World hope for the future;
(6) the challenge to the private sector to provide leadership and resources at a time when multinational corporations are viewed with increasing suspicion and harassed by growing barriers abroad; and
(7) the importance of providing credit to small producers.

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It is not necessary to spend very much time spelling out the miserable circumstances under which at least one billion people live. It is bad enough that idleness, undernourishment, disease and hunger are the lot of one-third of the world's people, but even worse is that there has been little improvement, and perhaps even retrogression, for the great masses of the less developed world in the last twenty years. There are 100 million more illiterates today than there were twenty years ago; one of five in the less developed world is unemployed or underemployed; in two decades, two-thirds of the world population has improved its per capita income less than one dollar a year. A billion people are hungry today; abject poverty is a traumatic human reality, not an abstraction. Such poverty is a daily pain, a weekly grief, a year-round despair. That a billion people suffer abject poverty is morally intolerable and represents the great moral issue of the second half of this century, supplanting the colonial issue of the first half of the century.

The paradox, and at the same time the dilemma confronting us, is that development programs in the last twenty years, particularly in the last ten years, have been very successful by traditional standards. Many avowed program targets have been met. For example, the target rate of five per cent economic growth per year in the less developed countries has been reached and the six per cent increase in trade exceeded every expectation. Further, the speed with which the "Green Revolution" spread new agricultural technology was sensational. For example, the output of wheat in Pakistan increased 40 per cent in four years; it took ten years to reach a comparable level in the use of hybrid corn in the midwest of the United States.

Thus, in macro-economic terms, the decade of the 1960's was an outstanding developmental success in the Third World. But upon taking a harder, closer look, it was a grim failure. The improved conditions did not reach down to the lower 40 per cent of the people, those on the lower rungs of the economic scale. In modern parlance, the trickle-down theory fizzled. In most of the less developed countries there has been little improvement and perhaps retrogression for the great mass of people, resulting in some worldwide soulsearching. Where have we gone wrong? Why has official development assistance of 7.7 billion dollars annually provided by the sixteen developed countries that comprise the Development Assistance Committee of the Organization for Economic Cooperation and Development (OECD) produced such limited results?

Nobody really knows exactly where aid assistance and economic development efforts fell down. In the 1960's as United States Secretary of Agriculture, this writer worked closely with the LDC's all over the world. What was accomplished fell far short of our hopes and plans. Nonetheless, a great deal has been learned, and that know-how must be put to work in the interest of peace, world stability and moral decency.

The essence of the problem is that the outside assistance programs and the economic development efforts of the LDC's themselves have, for the most part, not reached the needs of the subsistence level—the 40 per cent of the population that has never entered the cash economy. To state the problem in the parlance of planning, a workable model needs to be developed so that the neglected 40 per cent will be reached. Clearly the old model of concentrating on economic growth and measuring results by GNP, has not worked. The people most in need have not been brought into the cash economy and have not been given a stake in the future.

Two models exist in the world today that seem to be working. The first model is The People's Republic of China. The thrust of the China model is to satisfy minimum human needs on a mass basis; its method is based on problem-solving rather than increasing the gross national product. Its underlying philosophy—religion, if you will—is egalitarian in nature, saying in effect: We don't need all these material goods and all the luxury that we see in the world outside. We are going to focus on the minimum needs of the mass of our people and forget about the individualistic aspirations of a materialistic society. If to do this requires a regimented society with dictatorial power for the government, relentlessly carrying forward its decisions, so be it.

From all indications, Communist China is following this model with substantial success. The people this writer has talked to who have been to China, including skeptical, trained reporters, have without exception reported that the Chinese people are decently clothed, that minimum medical care is available, that there is full, if not efficient, employment, and that the people have plenty to eat. Apparently, China is taking care of the basic needs of her own people. Without question, the Chinese have repudiated the theory that traditional economic growth is the only model to follow, *i.e.* prosperity on top will trickle down to the masses.

The apparent success of the Chinese problem-solving model is going to have a major impact on the world. China's success has become very visible these days, and impoverished people throughout the world are asking: "If it works in China, won't it work for us, too?" After all, in today's world everybody quickly learns what is going on elsewhere. In the absence of a real alternative that promises progress in alleviating the misery of one billion people in the noncommunist, less developed world, the political thrust of Maoist communism will spread like wildfire.

There is no comparably successful model of economic progress in a large noncommunist, less developed country. Brazil is in the running, with a record of steady appreciable economic growth under a stable noncommunist government, but there is still a considerable debate whether the undoubted economic progress has been effectively distributed, whether, in fact, the "trickle-down" theory is working out for the long pull. There are, however, some models of very impressive success in smaller countries; Taiwan, Korea, Singapore, Israel and Hong Kong have made striking progress. The difference between these smaller countries and larger LDC's, such as Pakistan, India and Mexico, is that very definite structural changes have taken place. The goal of economic planning in these countries has not been quick, overall economic growth; instead, economic planning has followed certain basic development principles: (1) There must be a realistic balance between capital investment and employment—employment must be maximized, rather than single-minded application of capital-intensive practices. (2) Pricing must be such that it will create demand and take advantage of improved technology. (3) There must be effective land reform, making possible ownership of the land for those who work it. There must be access to credit so farmers can procure the imputs they need on reasonable terms. Further, there must be access to markets so the small farmer can benefit from the results of his labor and investment. For the small farmer, this usually means the existence of marketing cooperatives. Taiwan is probably the outstanding example of this model, where as a result of governmental policies—making basic structural changes, carrying through land reform, expanding education, organizing cooperatives, and revising the credit structure—the economy has prospered.

In contrast to Taiwan is Mexico where the lowest twenty per cent of the population gets four per cent of the total income; in Taiwan, it gets eight per cent. An interesting by-product, incidentally, of Taiwanese progress is that the birthrate in Taiwan is much lower than in Mexico.

The Third World has had relatively little power during the decades of the 1950's and 1960's. Now in the fourth year of the 1970's, this is changing. Almost monthly, the less developed world is acquiring power on the world scene. First of all, the moral setting is incendiary, giving the Third World increasing leverage. In this modern world of communications where the degradation of people can be brought dramatically into the living room of the affluent by radio and television and be spread within hours over the world's newspapers, the misery of a billion people cannot be ignored. Such abject conditions are not only intolerable morally, but impossible politically. Not only might these countries erupt in desperation and protest, but the young who constitute half of the Third World have too much resilience to accept forever the combined miseries of shantytown life, idleness, undernourishment and disease. Even if the poverty-stricken Third World does not revolt, it is very likely that the young of the Third World will be led in their revolt by the youth of the developed nations, who increasingly find such conditions intolerable.

The growing control over natural resources by less developed countries in a world increasingly resource-short is another factor to be reckoned with as tensions grow between the "have" one-third of the world and the "have not" two-thirds. It comes as a shock to most of us in the industrialized countries to discover that: three LDC's control 70 per cent of the world's tin; three LDC's control 60 percent of the world's lead; two LDC's control 50 per cent of the world's nickel; four LDC's control most of the world's copper; three LDC's control most of the world's cobalt; and one LDC controls most of the world's fish meal.

One can be sure that these resource-rich LDC's are watching with great interest the success of the Arab nations as they carry forward, with increasing effect, their "oil blackmail." Already discussions are underway between political leaders in the mineral-rich Third World, examining how they can apply similar pressures. They are aware that exponential growth in the industrial nations is gobbling up more and more raw materials and that their bargaining position is strengthening constantly.

In addition to a more convincing moral position and an improved raw material resource bargaining position, the Third World is becoming a much more potent force in the politics of maneuvering within world organizations. Recently, the Third World held a Nonaligned Conference where, heartened by the addition of the

Latin American countries, they excoriated the more developed world for the failure of assistance, restrictions on trade and the growing gap between rich and poor nations. The United Nations Conference on Trade and Development (UNCTAD) has now held three global conferences. Differences between the less developed countries in UNCTAD continue deep, and competition is acute. Nonetheless, UNCTAD is creating a higher degree of unity, a capacity to speak eloquently and effectively and a level of expertise in international maneuvering that makes it an increasingly potent force.

In the United Nations General Assembly, the Third World has a majority vote and, increasingly, the ability to mobilize it. It is also well to keep in mind that the United States needs help from the Third World on a number of issues.

One such issue is the effort to achieve and maintain an effective international monetary system, which is critical to United States economic and foreign policy. Although an agreement among the industrialized countries is primary in achieving such a system, a majority of the Third World nations must also agree to any changes in the Articles of Agreement of the International Monetary Fund, since amendments to the Articles require a weighted majority vote of 80 per cent and the support of 60 per cent of all member countries. The Third World holds about 27 per cent of the weighted vote and well over one-half of the total membership, thereby having an effective veto power over any proposal to resolve the world's monetary problems. Finally, the growing position of strength of Third World countries vis-à-vis the United States is enhanced because United States direct investment in the LDC's has reached a book value in excess of 23 billion dollars (about 14 billion dollars excluding oil), with a real market value of at least twice this amount. Approximately five per cent of United States corporate profits are derived from this investment, and many jobs are directly related to it. Further, this investment contributes over one billion dollars annually to the United States balance of payments.

The LDC's have another financial hold on the United States—an estimated 25 billion dollars of loans by the United States Government, plus private claims, other than direct investments, of nearly fifteen billion dollars. Foreign payments of principal and interest on these United States assets were well over two billion dollars in 1971. Should less developed countries expropriate investments and repudiate debts, the effect on individual United

States financial institutions, on money markets and on the United States balance of payments would be severe.

It follows, then, that the power position of the LDC's is growing rapidly, and self-interest along dictates that the United States and the more developed world pay more serious attention to the needs and demands of the less developed world as it moves from the position of supplicant to a position of power.

At the same time, the United States is the least responsive of any industrialized country to Third World needs. United States aid is small in quantity and getting smaller; its quality is declining and it lags far behind the policies of Europe and Japan. United States development aid as a percentage of national GNP is now next to last of the industrialized countries. The United States delayed its latest contributions to the International Development Association and the Inter-American Development Bank for over a year. Furthermore, the United States failed to contribute to the soft-loan window of the Asian Development Bank, and at the Stockholm Environment Conference in May 1971, the United States was the only major country that opposed additional assistance to the LDC's to finance the cost of antipollution equipment. Europe and Japan have been extending tariff preference to the LDC's since 1971, but the United States has yet to make good on its commitment to do so—the present Administration and Congress must share this indictment. These shortcomings by the United States have not come about because this Administration, or the one that preceeded it, wished to default on this country's moral commitments, but because intellectual and political energy was not channeled toward organizing reconstruction and development in the Third World. Unfortunately, there is little likelihood of a significant change in the foreseeable future.

It is perhaps accurate to say, that the world is at one of the most important crossroads in history. The United States, still the leader of the noncommunist world, must exercise its responsibilities if the promise of the future is to be realized and the pitfalls that threaten are to be avoided.

We hear and read much these days about detente. It is well that we do, for the possibility of defusing emotional, political issues and historic, geopolitical confrontations is greater than it has been for a generation. The nuclear standoff, the split between Russia and China, which makes it clear that communism is not monolithic, and the complementation of needs among resource- and energy-hungry United States, Japan and Western Europe, and food- and technology-hungry Soviet Union and China—all open the door to detente and the probability of world peace for the foreseeable future. One highly emotional issue, which could trigger a nuclear confrontation, remains: the Middle East. If the current impasse can be shaped into a political solution, resolving the differences among the antagonists providing settled and secure boundaries, it might be possible to look forward, for the balance of this century, to a world in which competition among nations will be economic rather than military and political.

Second only to the questions of peace and war have been the demands on United States leadership triggered by a rapidly changing world economy. Major new economic alignments are taking place, escalating a confrontation between an open world of trade and investment and a closed world of mercantilism and protectionism.

The post-World War II era, which drew to a close as the decade of the 1970's dawned, was the period of the greatest economic advance in the history of mankind. Gross national product growth averaged five per cent a year, trade increased six per cent, climbing from 119 billion dollars in 1950 to well over 300 billion dollars in 1970. As a result, more people work less, eat better, live longer, healthier lives with more recreation and free time and with less stultifying, heavy physical labor than ever before. From 1945 to 1970, the United States dominated world economic affairs—the rules of Bretton Wood were supreme and the dollar was king. It was an open, relatively free investing and trading world, and under these conditions, trade flourished, investment multiplied, multinational companies grew, people prospered and the world economy became increasingly interdependent. At the same time, science, technology, modern transportation and communications have drawn the world closer together.

The decade of the 1970's, however, threatens a radical change—a reversion to a highly nationalistic, jingoistic, nation-state, sovereignty-conscious mercantilist world. In the last few years only one major country, Japan, has moved in the direction of an open world with a liberal economic policy on both trade and investment. Most other countries have curtailed, or are threatening to curtail, investment, restrict the freedom of international companies and restrict trade. The reasons for this change are familiar. United States dominance and a world with rather clear and simple rules of conduct no longer exist. The European Community and Japan have become strong economic competitors, reawakening old jealousies, fears and restrictions. The growing power of multinational enterprises has frightened political leaders everywhere, and the question of national sovereignty and control over the multinational enterprise has come swiftly to the fore as a major political issue throughout the world.

Therefore, a great confrontation has evolved. On the one side are the forces that would withdraw from the liberal initiatives of the last 25 years and emphasize protection from trade and investment rather than their expansion. On the other side are those who support an open world policy encouraging a maximum of trade, investment and economic intercourse among nations.

Will nations move to a closed world of mercantilism and protectionism or continue on the path of the last 25 years to an open world of free trade and investment? Much will turn on the result of the international trade negotiations that were initiated in Tokyo in September 1973. If these negotiations fail, prospects for the future are grim. On the other hand, if Japan, the United States and the European Economic Community (EEC) can formulate new rules as economic equals, the world's problems are manageable. The critical question is: How will the European Economic Community, Japan and the United States interrelate in the years ahead? These struggles and problems on the international economic front have drawn heavily on the leadership resources of the United States.

Moreover, there is "Watergate." In terms of the time and energy of our nation's leadership "Watergate" has been most demanding. No President in modern history has suffered such a domestic, political crisis as Richard Nixon, with the threat of impeachment hanging over his head. The drain on the time and energy of the President and his staff and on the Congress and leadership of the country is immeasurable.

For all these reasons, then it must be recognized that the neglect of the Third World by the Government of the United States is likely to continue. This means that this symposium and other efforts in the private sector to mobilize more effectively the resources of our economy to help meet the needs of the LDC's become of extraordinary importance. The private sector of the economy must fill the gap without expecting much support from the United States Government for some time to come.

The challenge to the private sector to lead the way in assisting the Third World comes at a time when international corporations and financial institutions are under attack. It has been said that the multinational enterprise has replaced the Jews and the Catholics as the "Number One Whipping Boy" throughout the world. There is more than a little truth in this. Recently, two countries, heretofore open to outside investment, passed laws strictly regulating entrance to their economy. In both Canada and Australia a crescendo of criticism of the multinational corporation forced restrictive legislation. This criticism of the multinational corporation rages worldwide despite the fact that outside investment by the private sector has already made a significant contribution to most less developed countries and can potentially make a much greater impact.

The distinctive contribution that the multinational corporation can make is not so much the transfer of resources, but rather the impact of moving those resources of capital, technology and management skills as a package of productive factors tailored to the needs of a given opportunity or project. This is quite different from the employment of experts and technicians in purely technical assistance programs. The complementary capability of efficient utilization that comes with the complete package of productive factors geared to the competitive needs of a given opportunity or project is crucial. The support service of head office staffs and laboratories, of access to procurement channels, financing and marketing outlets, and the ability to mobilize and deploy around the world are also important characteristics of the package that make possible a unique contribution by the multinational corporation. Also, the multinational corporation makes it possible for host country nationals to learn through experience in the crucible of the competitive market place.

It is this author's observation that the growing barriers, the occasional harassment and the vituperative attacks on the multinational corporation need not deter investment and financing in the LDC's. Most of the political leadership in the Third World recognize that LDC's need help. The political framework varies from country to country, but experience has shown that there are many ways to work out arrangements satisfactory to both borrower and creditor, and to investor and state, if the will to do so and the need are there. Multinational enterprises, in manufacturing, service and finance, have shown extraordinary adaptability and resourcefulness. With few exceptions, political leadership, vociferous in its public condemnation of outside investment and domination, is quite flexible when credit, technology, and know-how can be made available to meet local needs in a politically defused package.

Finally, this writer wants to highlight the importance of credit to small producers: primarily farmers and small enterpreneurs. In the last analysis, no less developed country can progress without a solid economic base in agriculture. The overwhelming majority of people in the Third World are farmers, who are mostly left out of the world cash economy and who comprise an enormous potential market barely existing on a subsistence level. The need for structural reform cries out for finance and leadership. Not only is it important for moral and idealistic reasons that the human needs of the small cultivators around the world be considered and major efforts made to help them become efficient producers, but also the increased production that could result will increasingly be needed by a world that almost certainly faces a food-short future.

Americans tend to think that our agricultural system is the most efficient in the world. In terms of per capita output that is true; American agriculture is the most capital-intensive in the world. However, in many parts of the world—Japan and Taiwan, for example—output per acre far exceeds that of the United States. The potential of tropical agriculture is enormous if water is available and modern agricultural technology is applied. This author has stood on test plots in Asia and Latin America that produce five and six times as much as the best land in the United States. In the absence of a worldwide recession or a major technological breakthrough in agriculture, not now foreseen, it is this writer's considered judgment that the world will face serious food shortages in the last part of this decade. Thus every bit of productive capacity needs to be harnessed.

The great unused potential is in tropical agriculture and an important instrument to bring it to fruition is the small cultivator using modern seed and technology. But to get the necessary inputs, holding capacity and marketing position and to get him to shoulder the hazard of employing new technology, requires credit. Taiwan provides an outstanding example of harnessing the dynamics of credit to sharply increase agricultural production. In other places around the world, faulty conception and bad management have frustrated well-motivated efforts to bring credit to small cultivators. A great deal of experience, however, has been accumulated. Such experience should be carefully reviewed by potential lenders as they shape their policies.

The record of the world Bank is worth studying. In the Bank's early years the emphasis was on basic irrigation infrastructure, such as dams and canals, but over the years there has been a shift to financing on-farm activities, providing credit and technical services. This shift has accelerated in the last five years. Between 1968 and 1972, the proportion of agricultural projects in which participating farmers owned less than five hectares of land has risen from 17 per cent to 50 per cent.

An interesting venture in international lending to small cultivators has been carried forward by the Pan American Development Foundation. Recognizing that small loans (often at murderously usurious interest rates, as high as 25 per cent, with crops often mortgaged before they were planted) were the rule rather than the exception in Latin America, this Foundation has established separate national development foundations in most of the countries of Latin America. These foundations, in turn, worked with the *campesinos,* helping them to form small cooperative agriculture associations, which received loans from the foundation. For the first time, small farmers could get the loans previously denied them because they had no assets to serve as collateral. Now, in many places, with improved seed, fertilizer and water pumps for irrigation, these farmers are harvesting three crops a year. Food production has expanded, the people live better, work harder and soon become small-scale entrepreneurs.

It has been this writer's purpose to identify and briefly examine seven major forces in the world that are significant for international lending in developing economies. Collectively, they add up to a picture of great urgency, challenge and promise. Investing and lending in the less developed countries of the world is probably the most exciting challenge ever faced by United States management.