

**CURRENT
ECONOMIC DEVELOPMENTS**



**World Economic Survey
1966 — Part Two**

UNITED NATIONS

Department of Economic and Social Affairs

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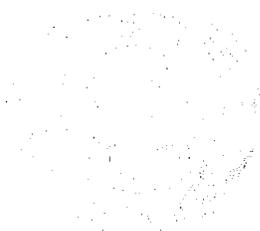
**UNITED NATIONS
New York, 1967**

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E/4396/Rev.1
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FOREWORD

Part Two of the *World Economic Survey, 1966* deals with the salient features of the current situation of the world economy. It covers the events of 1966 and early 1967, and summarizes the principal developments in the three major groups of countries of the world—the developed market economies, the centrally planned economies and the developing countries. A broad review of world trade and production is presented in the first chapter. In the second chapter, the major developments in the industrially advanced market economies are discussed. The third chapter discusses current developments, the balance between demand and supply of consumer goods, and institutional changes in the centrally planned countries. In the fourth chapter, the economic progress recently made by the developing countries and the difficulties they are currently facing are described.

The survey of the current situation of the world economy incorporates information provided by Governments in response to the Secretary-General's ques-

tionnaire on economic trends, problems and policies circulated in November 1966. The data presented in the *Survey* are those available to the Secretariat in May 1967.

For purposes of this report, the developed market economies comprise North America, western Europe, Oceania, Japan and South Africa; the centrally planned economies comprise eastern Europe, the Union of Soviet Socialist Republics and mainland China, and the developing countries comprise Latin America, the West Indies, Africa, West Asia and southern and south-eastern Asia. Where, because of statistical exigencies, it has been necessary to depart from these definitions of coverage, the nature of the deviation has been noted.

The *World Economic Survey* is prepared in the Centre for Development Planning, Projections and Policies of the Department of Economic and Social Affairs of the United Nations Secretariat.

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Explanatory notes

The following symbols have been used in the tables throughout the report:

Three dots (...) indicate that data are not available or are not separately reported.

A dash (—) indicates that the amount is nil or negligible

A blank in a table indicates that the item is not applicable

A minus sign (—) indicates a deficit or decrease, except as indicated

A full stop (.) is used to indicate decimals

A comma (,) is used to distinguish thousands and millions

A slash (/) indicates a crop year or financial year, e.g., 1960/61

Use of a hyphen (-) between dates representing years, e.g., 1961-1963, signifies the full period involved, including the beginning and end years.

Reference to "tons" indicates metric tons, and to "dollars" (\$) United States dollars, unless otherwise stated.

Annual rates of growth or change, unless otherwise stated, refer to annual compound rates.

Details and percentages in tables do not necessarily add to totals, because of rounding.

The following abbreviations have been used:

CMEA Council for Mutual Economic Assistance

EEC European Economic Community

EFTA European Free Trade Association

GATT General Agreement on Tariffs and Trade

Where statistical presentation has rendered it necessary, the term "South Africa" has been used to designate the Republic of South Africa, South West Africa, Lesotho and Botswana (the former High Commission territories of Basutoland and Bechuanaland), and the High Commission territory of Swaziland.

The designations employed and the presentation of the material in this publication do not imply the expression of any opinion whatsoever on the part of the Secretariat of the United Nations concerning the legal status of any country or territory or of its authorities, or concerning the delimitation of its frontiers.

Chapter I

RECENT TRENDS IN WORLD PRODUCTION AND TRADE

The world economy grew in 1966 at a more satisfactory pace than at one stage seemed likely. Many of the sources of stress remained, however, a few were accentuated in the course of the year's developments, and 1967 opened with many countries—including a number of important trading countries—under the influence of imbalances of various kinds. In some, the pressure of demand on domestic resources was still excessive; in others the external deficit remained embarrassingly large; in some—including many of the developing countries—both forms of disequilibrium threatened.

The disinflationary measures adopted by many of the developed market economies in 1966 had generally succeeded in reducing the rise in demand but not always in eliminating the unwanted consequences of earlier strains. Thus some countries found themselves with higher and rising unit costs even with capacity less than fully employed. Others were left with depressed sectors on which the impact of tighter monetary conditions had been particularly heavy. The question of applying new stimuli was especially difficult to decide in countries in which defence expenditure was likely to rise as well as in countries still facing significant actual or potential external deficits.

In the centrally planned economies a combination of favourable weather and policies designed to favour agriculture, both in access to resources and in cost-price relationships, had succeeded in improving the food supply situation. There was a slowdown in the group's external trade—reflecting a smaller increase in trade with the developing countries and hardly any increase in intra-trade. Within each country the search for ways and means of increasing the efficiency of resource utilization was continuing. In the field of investment, efforts were concentrated on reducing costs and the undue growth of unfinished construction.

In the developing countries, the year contributed relatively little to the solution of most of the long-term problems. Though trade expanded satisfactorily by past standards, the rate of increase in exports was inadequate to sustain a rise in investment (import-intensive as this continues to be in most countries) in the face of the rapid increase in indebtedness with its implied drain on foreign exchange for servicing. And most critical of all in several countries, agricul-

ture again lagged in 1966, making it necessary not only to arrange for larger imports of essential food-stuffs, but also to reorient development strategies so as to apply a greater share of resources to easing what has now become a critical obstacle to accelerated growth.

PRODUCTION

The output at the disposal of the world economy in 1966 was about 5 per cent above the 1965 level. The rate of growth between 1965 and 1966 was fractionally below that achieved in the preceding interval and that in turn was below the rate recorded between 1963 and 1964 (see table 1). The slowing down reflects two independent forces. On the one hand the upswing of activity in the developed market economies, under way since 1961, was running into resource limitations, and on the other hand there was a distinct faltering in the growth of agricultural production in the developing countries. In the centrally planned economies, largely as a result of a much better harvest, the net material product increased slightly more between 1965 and 1966 than between 1964 and 1965.

The output of those items for which data are available for all countries other than mainland China was generally higher in 1966 than in 1965, though in most cases the increase was somewhat less than between 1964 and 1965. The increase in coal production was limited to the developing countries; for the world as a whole, output has barely kept pace with population in the 1960's (see table 2). The growth of iron and steel production was sustained in the centrally planned economies (with an increase of about 6 per cent) and the developing countries (about 4 per cent) but declined to below 2 per cent in the developed market economies. At about 6 per cent for the world as a whole, the rate of increase in electricity production was measurably below the average for the first half of the 1960's in all three groups of countries. And after its record expansion in 1965, the output of motor-cars dropped by almost an eighth to below its 1964 total of about 17 million. The output of commercial vehicles also receded, though only by about 2 per cent from the 1965 level.

Outside the centrally planned economies, copper and tin production increased by less than 4 per cent between 1965 and 1966, compared with 5 per cent

Table 1. World production: Annual growth rates, by major region, 1963-1966
(Percentage change from preceding year)

Item and region	1963	1964	1965 ^a	1966 ^a
<i>Gross domestic product at constant prices</i>				
Developed market economies ^b	5	6	5	5
Centrally planned economies ^{c, d}	5	8	7	7
Developing countries ^e	4	5	4	3
<i>Industrial production</i>				
Developed market economies ^b	5	8	6	7
Centrally planned economies ^{c, d, f}	7	8	9	8
Developing countries ^e	6	8	7	8
<i>Agricultural production</i>				
Developed market economies ^b	2	3	—	5
Centrally planned economies ^{c, d, f}	—4	11	2	9
Developing countries ^e	4	2	1	—1

Source: Centre for Development Planning, Projections and Policies of the United Nations Secretariat, based on estimates of the Statistical Office of the United Nations and United States Department of Agriculture, and national sources.

^a Preliminary, based on incomplete coverage.

^b North America, western Europe, Australia, Japan, New Zealand and South Africa.

^c Net material product.

^d Eastern Europe (other than Yugoslavia) and Soviet Union.

^e Latin America and the Caribbean, Africa (other than South Africa), Asia (other than mainland China, Cyprus, Japan, Mongolia, North Korea, North Viet-Nam and Turkey).

^f Based on gross values.

in the preceding interval. There was also a decline in the high rate of increase in the tonnage of new merchant shipping launched—from 18 per cent in 1965 to 15 per cent in 1966. On the other hand, the output of lead and aluminium increased rather more in 1966—4 per cent and 7 per cent, respectively—than in 1965. There was also an acceleration in the rate of production of petroleum and cement not only in the market economies but also in the centrally planned economies. The production of natural gas also continued at the high rate that has been characteristic of the 1960's, not least in the developing countries where output has doubled since the beginning of the decade.

Industrial production in the market economies in 1966 was about 7 per cent above the 1965 level. This rate of growth was much the same as in the previous interval; the rise was slightly higher than between 1964 and 1965 in the case of mining, some of the lighter manufacturing industries (including food and textiles) and the chemical industry, but somewhat lower in the basic metals industry—reflecting the slackening in iron and steel production. The acceleration in the chemical industry and the deceleration in the basic metals industry were both concentrated in the more industrialized countries. The chemical industry and the metal products industry again registered the highest rate of expansion—10 per cent and 9 per cent, respectively (see table 3)—notwithstanding the sharp reduction in automobile output.

With the notable exception of the textile and chemical industries, the less developed countries

registered a higher rate of expansion than did the developed market economies in most industrial categories in 1966. Particularly high rates were achieved in the basic metals industry despite the lag in iron and steel output, in the paper industry (12 per cent) and in the non-metallic minerals industries (10 per cent)—in line with the acceleration in cement output. An expansion of just under 10 per cent was registered in mining, the highest since 1962, reflecting in large measure the growth of petroleum and natural gas operations.

While many of the annual averages thus indicate the concentration of a satisfactory rate of industrial growth in the developed market economies, signs of a slowdown became evident in several branches as the year advanced. In North America the slackening was confined very largely to the industries serving essentially the civilian sector. It was very noticeable in the textile industry, for example, where the rate of expansion (relative to the corresponding period in the previous year) fell away steadily from over 10 per cent in the second quarter of 1965 to about 2 per cent in the last quarter of 1966 (see table 4). Motor-car production in the fourth quarter of 1966 was 8 per cent below the corresponding 1965 figure. Housing starts were almost a third lower, and output of the wood products and furniture industry showed a distinct levelling off: the rate of increase declined from about 9 per cent in the first quarter of 1966 to a bare one per cent in the last quarter. Though other industries were generally more buoyant, the increase in total manufacturing in the last quarter of 1966 was at its lowest level since the end of 1964.

Table 2. World production of selected commodities, 1960-1966

Item and region	Amount in 1960 (millions of tons)	Index (1960 = 100)					
		1961	1962	1963	1964	1965	1966
<i>Coal^a</i>							
World ^b	1,823	100	103	107	110	112	113
Developed market economies ^c	1,009	99	101	104	108	108	108
Centrally planned economies ^d	738	102	105	108	113	116	116
Developing countries ^e	76	106	116	125	122	131	136
<i>Petroleum, crude</i>							
World ^b	1,048	106	115	124	134	143	156
Developed market economies ^c	389	103	106	109	112	115	124
Centrally planned economies ^d	163	112	124	137	148	160	176
Developing countries ^e	497	107	120	131	146	160	175
<i>Natural gas (thousands of millions of cubic metres)</i>							
World ^b	467	108	118	129	141	151	163
Developed market economies ^c	387	105	112	120	128	134	142
Centrally planned economies ^d	38	125	154	185	221	258	290
Developing countries ^e	22	112	125	136	157	172	195
<i>Electricity (thousands of millions of kWh)</i>							
World ^b	2,241	107	116	125	137	147	156
Developed market economies ^c	1,689	106	114	122	132	141	150
Centrally planned economies ^d	425	111	124	137	151	166	179
Developing countries ^e	127	112	124	131	149	161	170
<i>Pig iron^f</i>							
World ^b	231	104	108	114	129	137	140
Developed market economies ^c	161	102	103	109	127	134	136
Centrally planned economies ^d	62	108	117	124	132	139	147
Developing countries ^e	8	120	137	156	162	164	168
<i>Steel, crude</i>							
World ^b	328	104	106	114	129	135	140
Developed market economies ^c	231	102	101	110	128	133	135
Centrally planned economies ^d	89	108	117	122	130	138	147
Developing countries ^e	8	117	138	164	178	187	195
<i>Cement</i>							
World ^b	303	107	115	122	133	139	149
Developed market economies ^c	189	107	114	121	132	134	141
Centrally planned economies ^d	73	110	120	127	137	150	165
Developing countries ^e	41	107	113	120	129	139	154

Source: Centre for Development Planning, Projections and Policies of the United Nations Secretariat, based on United Nations, *Monthly Bulletin of Statistics and Statistical Yearbook*.

^a Including lignite (as coal equivalent).

^b Sum of regions shown.

^c North America, western Europe (including Turkey),

Australia, Japan, New Zealand and South Africa.

^d Eastern Europe, Soviet Union, North Korea and North Viet-Nam.

^e Latin America, Africa (excluding South Africa) and Asia (other than mainland China, Cyprus, Japan, Mongolia, North Korea, North Viet-Nam and Turkey).

^f Including ferro-alloys.

The deceleration was even more in evidence in western Europe where not only was there a rapid decline in the rate of growth in the textile industry—to zero by the final quarter of 1966—but there was also a gradual slackening in the metal products industry: this had begun in mid-1965 and by the end of 1966 it had brought the expansion in production almost to a halt. The main foci of this slowdown were the Federal Republic of Germany and the United Kingdom, where, by the first quarter of 1967, industrial production was well below the corresponding level of a year earlier (see table 5). A similar

slackening was also discernible in a number of other European countries, notably Norway, Portugal, Spain and Yugoslavia. By this stage the deceleration in North America had also become plainer: in both Canada and the United States the rate of increase in industrial production had declined to 3 per cent.

This slowdown in industrial activity has led most of the developed market economies to forecast a smaller increase in total production between 1966 and 1967 than was registered between 1965 and 1966. For the less industrialized members of the

Table 3. Market economies: Changes in the industrial production of major regions, 1962-1966

(Percentage change from preceding year)

Region ^a and year	Mining	Manufacturing									
		Total	Light	Heavy	Food	Textiles	Paper	Chemicals	Non-metallic minerals	Basic metals	Metal products
<i>All market economies</i>											
1962	5	7	5	9	4	4	5	10	6	4	10
1963	4	5	4	6	3	5	6	9	5	5	6
1964	5	8	5	10	4	5	7	10	11	14	8
1965	4	7	5	8	3	4	6	9	4	6	9
1966 ^b	5	7	5	8	4	4	7	10	5	4	9
<i>Industrialized countries</i>											
1962	4	7	4	8	4	5	4	10	6	2	9
1963	2	5	4	6	4	4	6	9	5	6	6
1964	4	8	6	9	3	5	7	10	10	13	7
1965	3	7	4	8	2	4	6	9	4	7	9
1966 ^b	3	7	5	8	4	5	7	10	4	2	9
<i>Less industrialized countries</i>											
1962	10	6	4	9	3	3	11	8	7	9	9
1963	8	8	6	9	4	6	11	10	9	6	10
1964	8	10	8	13	6	7	11	10	13	10	15
1965	6	8	6	9	6	3	15	8	8	5	11
1966 ^b	10	8	5	10	6	4	12	8	10	12	...

Source: United Nations, *Monthly Bulletin of Statistics*, May 1967.

^a The regional divisions are those made in the source. The classification of countries as "industrialized" or "less industrialized" is made according to whether *per capita* value added in manufacturing during 1958 was above or below \$125. The regions correspond broadly to those used elsewhere in the *Survey*: "industrialized countries" comprise

all the countries classified as developed market economies, plus Israel, minus Greece, Portugal, Spain and Turkey; correspondingly, "less industrialized countries" comprise all the countries classified as developing market economies, plus Greece, Portugal, Spain, Turkey and Yugoslavia, minus Israel.

^b Preliminary.

Table 4. Western Europe and North America: Changes in production in selected manufacturing industries, 1962-1966

(Percentage change from corresponding period in preceding year)

Period	Western Europe ^a					North America				
	All manufacturing	Food	Textiles	Chemicals	Metal products	All manufacturing	Food	Textiles	Chemicals	Metal products
1962	5	4	3	11	5	9	3	7	10	13
1963	5	4	5	10	5	6	4	2	8	6
1964	7	5	2	13	6	7	3	6	7	6
1965	5	3	-1	8	5	9	2	10	8	13
1966 ^b	4	3	4	11	3	9	3	5	10	13
1965:										
First quarter	6	5	-3	10	5	9	5	10	7	12
Second quarter	4	4	-3	7	5	8	2	10	6	11
Third quarter	5	4	-1	8	5	8	2	9	8	12
Fourth quarter	4	3	2	8	4	10	2	10	8	10
1966: ^b										
First quarter	5	4	7	10	5	9	3	8	10	14
Second quarter	5	3	6	12	4	10	3	8	11	14
Third quarter	4	2	4	11	3	9	4	4	9	14
Fourth quarter	2	3	-	11	1	8	4	2	10	11

Source: United Nations, *Monthly Bulletin of Statistics*, November 1966 and May 1967.

^a Including Yugoslavia.

^b Preliminary.

Table 5. Selected countries: Recent growth in industrial production, 1966-1967

(Percentage change from corresponding period in preceding year)

Country ^a	1966				1967, first quarter
	First quarter	Second quarter	Third quarter	Fourth quarter	
Austria	4	4	3	5	—
Belgium	3	2	2	-1	1
Bulgaria	17	16	8	9	12
Canada	10	9	6	6	3
Finland	4	6	2	7	5
France	8	8	8	5	5
Germany (Eastern)	8	5	5	8	5
Germany (Federal Republic of)	3	3	1	-1	-6
Greece	13	20	15	16	13
Hungary	6	7	7	7	6
Italy	9	11	10	9	11
Japan	6	10	14	19	20
Luxembourg	-4	-4	-2	-3	—
Netherlands	6	9	6	4	6
Norway	6	5	4	7	2
Poland	6	8	8	7	10
Portugal	8	9	3	-1	-3 ^b
Romania	10	11	13	14	14
Senegal	13	11	12	15	—
Spain	19	16	10	10	3
Sweden	4	5	2	2	2
Switzerland	3	5	3	5	3
USSR ^c	6	8	8	9	10
United Kingdom ^d	2	2	2	-2	-3
United States	9	9	9	8	3
Yugoslavia	5	5	5	3	2
Zambia	2	-8	-14	-18	-25

Source: Centre for Development Planning, Projections and Policies of the United Nations Secretariat, based on Statistical Office of the United Nations, *Monthly Bulletin of Statistics*.

^a Including only countries for which data are

available for the first quarter of 1967.

^b Based on two months' data.

^c Including fishing, logging, waterworks, steam heat and power; excluding publishing.

^d Also including construction.

group, as for the centrally planned economies and the developing countries, the out-turn in 1967 is more dependent on results in the agricultural sector.

On a global basis, 1966 was a relatively satisfactory agricultural year. With a sizable increase in the wheat crop and a modest recovery in rice from the poor 1965 out-turn, the world's basic food supplies even improved. There were gains in the production of most other items (see table 6), and in general the declines were limited to the less important crops (rye and oats, for example) or to crops troubled by surpluses (such as coffee, the 1966 output of which was a fifth below the record of the previous year) or capable of being replaced (as in the case of several of the vegetable oils and natural fibres). Though the sugar output was about 5 per cent above the 1965 level, it was no higher than in 1964 so that a further addition to excess stocks seems less likely, especially as more sugar is finding its way into industrial uses. The cocoa crop

was also higher, but well below the record 1964 out-turn which had precipitated a steep decline in price; here, too, stocks are likely to have been drawn down.

Beneath these generally satisfactory global developments, however, were a number of much less favourable features. One is the continued high level of beet production in Europe: compared with the output before the price upswing of 1963, the 1966 output was up by a half in eastern Europe and the Soviet Union and a third in western Europe. Imports into the latter region having declined from over \$1,000 million in 1963 to about \$0.6 thousand million in 1965, probably receded further in 1966, accentuating the difficulties of the sugar cane producers among the developing countries. Another problem feature of the 1966 crop out-turn was the failure of some of the developing countries with food deficits to participate in the over-all expansion. In Latin America, the 1966 rice and potato crops were below

Table 6. World^a production of major agricultural commodities, 1962-1966

Item	Production (millions of tons)		Index, 1966 (1965 = 100)
	1962-1964	1965	
Wheat	239.4	247.0	111
Rice (unmilled)	152.2	160.0	102
Maize ^b	245.3	258.3	105
Barley	88.9	92.1	109
Oats	45.8	43.9	100
Sugar ^c	58.0	63.7	105
Coffee	3.9 ^d	4.9	78
Cocoa	1.3 ^d	1.2	108
Tea	0.96 ^d	0.93	104
Vegetable fats and oils	32.0	33.7	101
Cotton	10.9	11.5	89
Wool	2.6	2.6	101
Jute	2.3	2.2	111
Hard fibres ^e	0.9	0.9	101
Rubber:			
Natural	2.2 ^d	2.4	102
Synthetic	2.4 ^d	3.1	110

Source: Food and Agriculture Organization of the United Nations, *Monthly Bulletin of Agricultural Economics and Statistics*, April 1967; United States Department of Agriculture, *World Agricultural Production and Trade* (Washington, D.C.); International Rubber Study Group, *Rubber Statistical Bulletin* (London), April 1967; Gill and Duffus, Ltd., *Cocoa Market Report* (London), June 1967; F. O. Licht, *International Sugar Report* (Ratzeburg).

^a Data refer to world production except for the following: rice excludes centrally planned countries of Asia (mainland China, North Korea and North Viet-Nam); tea excludes mainland China; synthetic rubber excludes centrally planned economies other than Czechoslovakia and Hungary.

^b Bushels converted to metric tons at the rate of 31.75 kilogrammes per bushel (United States husked equivalent).

^c Centrifugal only, raw value.

^d 1961-1964 average.

^e Sisal, abaca and henequen.

the previous year's and the output of wheat and beans was barely up to the 1960-1964 average (see table 7). In India, the 1966 wheat crop was below the average for the first half of the decade, and though more rice was produced in 1966 than in 1965, the total was less than what was being harvested at the end of the 1950's. Food-grain imports have climbed steadily from less than a million tons in the mid-1950's to over 10 million tons in 1966. By the standards of earlier crops and present needs, the food-grain output was also inadequate in Ceylon and Pakistan and much of North Africa.

Thus the vigorous recovery in agriculture in 1966 was confined very largely to the more advanced countries—particularly Canada and the Soviet Union where gains of 10 per cent were recorded. In the countries in which the problem of financing imports is particularly acute, the agricultural out-turn was far from satisfactory. And for the developing countries as a group, total farm production in 1966 was probably below the 1965 level.

USE OF RESOURCES

In the aggregate, there would seem to have been little change between 1965 and 1966 in the disposition of resources: after a sizable switch to investment in 1964, the expansion of consumption and investment in 1965 and 1966 was broadly in line with the growth of the world economy. The rise in consumption decelerated from rather more than 5 per cent between 1964 and 1965 to rather less than 5 per cent between 1965 and 1966. There was a similar deceleration in the rate of increase in investment—from just over 6 per cent to just over 5 per cent.

In the developed market economies the most notable feature was a decline in the relative importance of capital formation: while in the three years 1964-1966 the rate of growth in personal consumption was fairly steady at around 5 per cent a year, the rate of increase in fixed investment was more or less halved, falling to parity with consumption in the 1965 to 1966 period (see table 8). A number of countries registered reductions in fixed investment between 1965 and 1966 and several more are expecting reductions between 1966 and 1967.

In a majority of developed market economies the public authorities claimed an increasing share of output during this period. This was particularly noticeable in Australia, Italy and Sweden and, in 1966, in the United States where the rate of increase in personal consumption receded to about 5 per cent while public consumption rose sharply to 8 per cent above the 1965 level.

In the centrally planned economies of eastern Europe and in the Soviet Union the rate of increase in retail sales and fixed investment declined slightly in the aggregate between 1964 and 1965 and between 1965 and 1966. In the Soviet Union, however, there was a discernible shift towards consumption: between 1965 and 1966 the volume of retail sales expanded half as much again as gross fixed investment.

In the developing countries the outcome for the year varied greatly from one to another. Particularly large increases in consumption appear to have taken place in the Sudan, where there had been a sharp set-back in 1965, and also in Jordan and in a number of Latin American countries—Colombia, Mexico, Nicaragua, Panama and Peru, for example—based in part on a greater inflow of imports. On the other hand, preliminary estimates suggest that in a number of countries—including Argentina, Ceylon, Ethiopia, Honduras, India, Israel, Philippines, Rhodesia and Tunisia—consumption failed to keep pace with population growth.

Changes in fixed capital formation were even more varied. Some of the countries which had cut back in 1965 registered a recovery in 1966: sizable in the

Table 7. Major food crops: Production in selected developing countries, 1963/64-1966/67

(Millions of tons)

<i>Crop and country</i>	1963/64	1964/65	1965/66	1966/67 ^a
<i>Wheat</i>				
Algeria	1.6	1.1	1.3	0.7
Argentina	7.9	11.3	6.2	6.7
Chile	1.3	1.2	1.2	1.1
India	9.9	12.3	10.7	12.4
Mexico	1.7	1.8	2.0	1.6
Morocco	1.2	1.2	1.3	0.8
Pakistan	4.2	4.6	4.0	...
Tunisia	0.7	0.4	0.5	0.4
United Arab Republic	1.5	1.5	1.6	1.6
<i>Rice (unmilled)</i>				
Brazil	5.8	7.0	6.8	...
Burma	8.2	8.1	8.2	8.2
Ceylon	1.0	1.1	0.7	1.0
China (Taiwan)	2.8	2.9	3.1	3.2
Colombia	0.6	0.6	0.7	0.6
India	55.4	58.6	46.0	46.2
Indonesia	13.2	13.5	14.9	15.5
Pakistan	17.7	17.8	17.8	17.8
Philippines	3.8	4.0	4.2	4.3
Republic of Korea	5.1	5.4	4.8	5.6
Thailand	10.2	9.6	9.6	10.5
United Arab Republic	2.2	2.0	1.9	2.0
<i>Barley</i>				
Latin America	1.6	1.1	1.2	...
North Africa	2.8	1.8	1.9	0.8
India	2.0	2.5	2.3	2.5
Republic of Korea	1.1	1.4	2.0	...
<i>Other grains and pulses</i>				
India	31.5	35.1	28.6	33.3

Source: Centre for Development Planning, Projections and Policies of the United Nations Secretariat, based on United States Department of Agriculture, *World Agricultural Production and Trade* (Washington, D.C.), March

and April 1967; *The Far East and Oceania Agricultural Data Book* (Washington, D.C.), May 1967.

^a Preliminary, partly estimated.

case of Colombia, Ethiopia and the Philippines, more modest in the case of Ceylon and Pakistan. Relatively high rates of increase in investment were achieved by Bolivia, Chile, Panama, Peru, Republic of Korea and Thailand. But there were reductions in Argentina, Guatemala, Sudan and Tunisia and virtually no expansion in India.

On the basis of these rather sketchy data, it would appear that there was a further decline in the rate of increase in personal consumption in southern and south-eastern Asia while in Latin America consumption again increased fractionally faster than population. Stocks were drawn down in both regions, but there was an acceleration in fixed investment in Latin America as against a slightly lower rate of increase in southern and south-eastern Asia. In Africa and West Asia, the rates of increase of both personal consumption and fixed investment were probably lower between 1965 and 1966 than in the previous interval. In the aggregate, therefore, there

may have been a slight tendency for resources to move from consumption to fixed capital formation. This process cannot proceed far, however, in view of the generally low rates of increase in consumption relative to the growth in population in developing countries in recent years.

TRADE

International trade continued to be a dynamic factor in world economic growth in 1966. At about 9 per cent, the expansion in value between 1965 and 1966 was well up to the average of the 1960's. For the first time world exports exceeded \$200,000 million in total value. Most of the 1966 increase was in volume, though prices also continued their slow upward movement and on the average were about one per cent above the 1965 level.

The bulk of world exports (about 70 per cent in 1966) came from the developed market economies and this group of countries registered the highest

Table 8. Annual changes in consumption and investment, by country group, 1964-1966
(Percentage change over preceding year)

Country group	Personal consumption			Fixed investment		
	1964	1965	1966 ^a	1964	1965	1966 ^a
Developed market economies ^b	4	5	5	9	6	5
Centrally planned economies ^c	5	9	8	9	8	7
Developing countries ^d	5	3	3	10	4	5

Source: Centre for Development Planning, Projections and Policies of the United Nations Secretariat, based on United Nations, *Yearbook of National Accounts Statistics*; replies of Governments to the United Nations questionnaire of November 1966 on economic trends, problems and policies; reports on plan fulfilment, and other national sources.

^a Preliminary; based, in the case of the developing countries, on partial data, estimates and indicators.

^b North America, western Europe, Australia, Japan, New Zealand and South Africa.

^c Eastern Europe and the Soviet Union; personal consumption is based on retail sales;

country indices have been combined by weighting them by coefficients derived from estimates of relative value of retail sales and gross fixed investment, respectively, as indicated in *Sopostavlenie urovnia ekonomicheskovo rasvitiia socialisticheskikh stran* (Moscow, 1965).

^d Thirty countries in Latin America, Africa and Asia: Argentina, Bolivia, Brazil, Burma, Ceylon, Chile, China (Taiwan), Colombia, El Salvador, Ethiopia, Ghana, Guatemala, Honduras, India, Israel, Jordan, Kenya, Mexico, Morocco, Nicaragua, Nigeria, Pakistan, Panama, Peru, Philippines, Republic of Korea, Sudan, Thailand, Tunisia, Venezuela.

rate of increase, for the fourth consecutive year. Three fourths of the exports of the developed market economies goes to other countries in the group. But the highest rate of growth, both in 1966 (about 16 per cent) and in the first six years of the decade (about 12 per cent a year), was in the small flow of exports to the centrally planned economies. Exports to the developing countries increased by about 9 per cent—a much sharper gain than in most earlier years in the 1960's (see table 9).

The expansion of trade among the developed market economies was surprisingly widespread: only in the case of the southern hemisphere members of the group—Australia, New Zealand and South Africa—did import demand recede from the record levels of 1965 in response to stabilization measures and a sharp decline in the prices of such key exports as butter, sugar, meat, cross-bred wool, lead and zinc. Exports from North America (particularly the United States) to the European Economic Community, the European Free Trade Association and Japan rose more than in 1965: the increase to western Europe between 1965 and 1966 was over 5 per cent (compared with less than 2 per cent in the previous interval) and to Japan almost 15 per cent (as against 3 per cent in 1965). And there was a notable expansion (of about a fifth) in trade between Canada and the United States, reflecting in part the movement of motor-cars and components under the new free trade arrangement.

The flow of goods to North America from western Europe and Japan also registered a considerable increase (about a fifth in each case), fully comparable with the expansion that had taken place between

1964 and 1965. This flow exceeded \$12,000 million in 1966, 50 per cent more than two years earlier.

The great bulk of the exports from the developed market economies to the centrally planned economies moved within Europe. North American shipments to eastern Europe and the Soviet Union were well above the 1965 figure but far short of that of 1964 when wheat sales were at their peak. Canadian shipments to mainland China in 1966 were substantially greater than in 1964 or 1965, as were those from western Europe: the combined flow, indeed, at about \$0.7 thousand million was twice as large as in 1964. Japan also doubled its exports to mainland China between 1964 and 1966. Australian shipments on the other hand fell away sharply between 1965 and 1966.

Most of the export flows from the developed market economies to the developing countries registered a sizable increase between 1965 and 1966. The flow to Latin America expanded by about an eighth, in marked contrast to the lack of growth between 1964 and 1965 (see table 10). The flow to southern and south-eastern Asia rose by a similar proportion (and also much more than in the previous interval, when the gain was about 9 per cent) but the increment of about \$1,000 million came largely from Japan and the United States (about \$0.4 thousand million each); shipments from the United Kingdom were actually below the 1964 and 1965 levels. The flow to West Asia was about 9 per cent above the 1965 level; all the regions participated in this increase but, in contrast to the exports to Latin America and southern and south-eastern Asia, it was only half of the rate of growth in the previous in-

Table 9. World trade in 1966 and rate of increase, 1961-1966

(Thousands of millions of dollars; percentage)

Region of origin	Exports to			World ^{d, e}
	Developed market economies ^a	Centrally planned economies ^b	Developing countries ^c	
<i>Developed market economies^a</i>				
Value in 1966	106	6	30	141
Percentage increase from previous year:				
1961	7	10	2	6
1962	7	6	-2	5
1963	11	10	5	9
1964	16	23	13	14
1965	10	8	7	9
1966	10	16	9	10
<i>Centrally planned economies^b</i>				
Value in 1966	5	14	3	23
Percentage increase from previous year:				
1961	5	-1	5	4
1962	4	9	19	11
1963	15	6	17	7
1964	16	7	7	8
1965	14	4	11	7
1966	17	1	9	6
<i>Developing market economies^c</i>				
Value in 1966	28	2	8	39
Percentage increase from previous year:				
1961	—	19	1	1
1962	5	4	4	5
1963	10	7	7	9
1964	9	16	9	9
1965	5	23	4	6
1966	6	3	6	6
<i>World^d</i>				
Value in 1966	139	22	41	203
Percentage increase from previous year:				
1961	5	3	3	4
1962	7	8	1	6
1963	11	7	6	9
1964	15	11	12	12
1965	9	7	6	8
1966	10	4	9	9

Source: Statistical Office of the United Nations.

Note: Because of lack of information on origin and destination of all trade, and minor differences in geographical coverage, the figures in this table do not always conform precisely with those indicated in subsequent chapters.

^a North America, western Europe (including Turkey and Yugoslavia, excluding Cyprus), Australia, Japan, New Zealand and South Africa.

^b Soviet Union and eastern Europe (excluding Yugoslavia), plus trade of mainland

China, Mongolia, North Korea and North Viet-Nam with rest of the world.

^c Latin America, Africa (other than South Africa) and Asia (other than mainland China, Japan, Mongolia, North Korea, North Viet-Nam and Turkey).

^d Excluding trade among mainland China, Mongolia, North Korea and North Viet-Nam.

^e Special category exports from the United States are included in exports to the world, but are not included in exports to any of the regions.

terval. A much greater deceleration occurred in the flow of goods to developing countries in Africa: this increased by over 9 per cent between 1964 and 1965 but by not much more than one per cent between 1965 and 1966; Canada, Japan, Oceania and western Europe actually shipped less to Africa than in 1965.

The slowing down in the rate of expansion of the international trade of the centrally planned economies

is almost entirely an intra-group phenomenon: in the 1960's the annual increase in trade among these countries has declined from a peak of 9 per cent in 1962 to a mere one per cent in 1966. The growth in exports to developed market economies in this period rose from 4 per cent to 17 per cent.

Shipments from eastern Europe to mainland China were about a fourth higher in 1966 than in 1965 but

Table 10. World exports, by provenance and destination: Value, 1964 and percentage change, 1965 and 1966

(Millions of dollars; percentage)

Exporting region and item	World ^a	North America	Western Europe ^b	Other developed market economies ^c	USSR and eastern Europe ^d	China (mainland) ^e	Latin America ^f	Africa ^g	West Asia ^h	Southern and south-eastern Asia	Other developing countries ⁱ
<i>World^a</i>											
Value in 1964	172,200	25,140	78,290	12,500	18,100	1,640	9,170	7,390	3,980	12,120	2,610
Percentage change from previous year:											
1965	8.2	14.4	8.0	5.8	5.1	28.7	1.6	10.3	12.1	6.1	6.1
1966	9.1	17.1	7.9	5.9	3.5	11.4	11.2	1.2	11.4	10.6	8.3
<i>North America</i>											
Value in 1964	33,960	8,950	10,850	3,725	780	125	4,080	877	711	3,230	584
Percentage change from previous year:											
1965	3.9	14.3	1.8	6.5	-46.2	-22.4	-1.2	-7.3	18.7	0.2	4.1
1966	12.1	20.4	5.4	3.8	34.5	75.3	11.9	17.7	11.8	13.8	2.0
<i>Western Europe^b</i>											
Value in 1964	71,180	6,210	46,070	3,510	2,760	210	2,610	4,130	1,840	2,720	750
Percentage change from previous year:											
1965	11.0	19.2	10.4	5.4	20.3	76.2	3.1	9.2	17.4	8.5	9.3
1966	9.3	19.7	8.9	1.4	12.3	35.1	13.8	-0.9	6.9	2.7	14.6
<i>Other developed market economies^c</i>											
Value in 1964	12,120	2,749	3,470	1,356	398	335	435	680	297	2,085	242
Percentage change from previous year:											
1965	13.7	24.9	3.7	7.2	-14.1	32.8	4.1	31.2	15.5	20.8	5.0
1966	12.2	20.8	7.2	8.3	7.3	-6.1	11.5	-4.1	19.8	19.5	12.6
<i>USSR and eastern Europe^d</i>											
Value in 1964	18,400	134	3,310	213	11,960	560	610	440	230	610	1
Percentage change from previous year:											
1965	7.1	38.1	11.5	9.9	4.2	25.0	-3.3	38.6	2.2	6.6	600.0
1966	6.0	24.9	14.4	26.5	0.9	8.6	20.3	—	23.4	-1.5	—
<i>China (mainland)^e</i>											
Value in 1964	1,870	12	230	193	680	—	97	58	40	560	—
Percentage change from previous year:											
1965	7.0	25.0	32.6	21.8	-11.8	—	28.9	10.3	-25.0	10.7	—
1966	8.0	40.0	19.7	38.3	-13.3	—	-36.0	6.3	66.7	16.1	—
<i>Latin America^f</i>											
Value in 1964	10,600	3,715	3,560	542	530	180	970	140	37	66	790
Percentage change from previous year:											
1965	4.3	4.0	1.7	-5.4	37.7	13.9	11.3	-35.0	37.8	—	6.3
1966	4.6	6.7	3.3	11.7	1.4	4.9	5.6	-29.7	35.3	13.6	-2.4

<i>Africa</i> ^g												
Value in 1964	7,280	660	4,940	277	360	66	44	550	115	200	7	
Percentage change from previous year:												
1965	6.7	-3.8	6.9	4.7	26.4	74.2	-20.5	9.1	4.3	-20.0	-14.3	
1966	7.2	13.2	6.4	16.6	5.5	-31.3	37.1	5.0	16.7	25.0	83.3	
<i>West Asia</i> ^h												
Value in 1964	6,060	414	2,900	1,110	115	33	83	210	480	430	71	
Percentage change from previous year:												
1965	7.3	12.1	8.6	7.7	—	-33.3	19.3	11.9	12.5	-5.8	-8.5	
1966	9.1	3.4	9.2	8.8	8.7	9.1	11.1	14.9	-3.7	13.6	-1.5	
<i>Southern and south-eastern Asia</i>												
Value in 1964	8,870	1,575	2,280	1,439	520	140	130	255	330	2,200	50	
Percentage change from previous year:												
1965	4.8	13.7	—	5.6	11.5	14.3	-7.7	19.6	-2.2	1.8	6.0	
1966	5.3	8.1	—	5.8	5.2	12.5	-12.5	—	8.9	5.8	66.0	
<i>Other developing countries</i> ⁱ												
Value in 1964	1,860	730	670	112	1	—	110	44	4	17	115	
Percentage change from previous year:												
1965	1.1	3.4	6.0	-15.2	—	—	-10.0	-15.9	—	17.6	—	
1966	4.8	11.3	-2.8	15.8	—	—	-11.1	-35.1	-25.0	50.0	34.8	

Source: Centre for Development Planning, Projections and Policies of the United Nations Secretariat, based on United Nations, *Monthly Bulletin of Statistics*.

^a The figures for total exports include certain exports which are not included elsewhere in the table because their regions of destination could not be determined.

^b Including Turkey and Yugoslavia.

^c Australia, Japan, New Zealand and South Africa.

^d Albania, Bulgaria, Czechoslovakia, Eastern Germany, Hungary, Poland and Romania.

^e Estimates are based in part on import data of trade partners. Where exports to China (Taiwan) could not be distinguished from exports to mainland China, they are shown as exports to mainland China. Exports of and to Mongolia, North Korea and North Viet-Nam are included under the heading. The intertrade of these countries and their trade with mainland China are excluded.

^f Twenty republics.

^g Continental Africa and associated islands, excluding South Africa.

^h Middle East countries in Asia, including Cyprus and Iran.

ⁱ Chiefly islands in the Caribbean and Pacific areas.

those from the Soviet Union remained at the 1965 level of about \$0.5 thousand million. The flow of goods from mainland China to the Soviet Union, however, declined further in 1966 to below \$0.4 thousand million. There was a further though smaller (5 per cent) expansion in trade among the eastern European countries and a comparable increase (of about 3 per cent) in exports from the Soviet Union to eastern Europe. The latter's shipments to the Soviet Union, however, dropped back below the 1964 level of about \$4.5 thousand million, so that the net gain in exports within the region was less than one per cent.

The main increases in the flow of exports from the centrally planned economies to developing countries were from the Soviet Union to Latin America (up 22 per cent to over \$0.5 thousand million), from both eastern Europe and the Soviet Union to West Asia (up 23 per cent to almost \$0.3 thousand million) and from mainland China to southern and south-eastern Asia (up 16 per cent to over \$0.7 thousand million). On the other hand, there was a decline in Soviet exports to the developing countries in Africa and southern and south-eastern Asia, not fully offset by an increase in shipments from eastern Europe.

As in the case of the other groups, the most dynamic export flow from the developing countries in 1966 was that directed to the developed market economies; its increase over 1965, however, was only 6 per cent—well below the increase registered by the centrally planned economies and the developed market economies in their intra-trade. The main drag on the rate of expansion was a decline, for the second successive year, in exports to the United Kingdom: shipments to the European Economic Community were up 7 per cent, to North America 8 per cent and to Japan over 13 per cent. Nevertheless, in the aggregate each of the developing regions achieved a higher rate of increase in exports between 1965 and 1966 than between 1964 and 1965.

The most significant gain in exports from Latin America was in the flow to the United States: this increased by almost 7 per cent between 1965 and 1966, appreciably more than in the previous interval. There was also an acceleration in the flow of exports to western Europe, but even so the increase between 1965 and 1966 was not much above 3 per cent. On a much smaller scale, exports to Japan, which had declined in 1965, rose by about an eighth in 1966. Shipments to the Soviet Union were below the 1965 level but there was an offsetting expansion in exports to eastern Europe and mainland China. Most disappointing was the smallness of the increase in trade within the region—among the twenty republics and with the Caribbean area: this had risen by about 9 per cent in 1965 but it rose by

only 2 per cent in 1966, and the rate of growth of intra-trade in Latin America proper, at under 6 per cent, was less than half that recorded between 1964 and 1965.

The principal flow of exports from developing countries in Africa, namely to western Europe, increased only fractionally less between 1965 and 1966 than in the previous period: a 10 per cent rise in shipments to the EEC almost neutralized the effect of a reduction in shipments to the United Kingdom. Exports to North America rose by about an eighth and those to Japan by almost a fourth. Exports to the Soviet Union registered a small (7 per cent) increase, following their 50 per cent expansion in 1965; and there was a further but smaller gain in shipments to eastern Europe. Exports to southern and south-eastern Asia recovered from the setback of 1965, while there was a sharp acceleration in the flow to West Asia. As in the case of Latin America, intra-trade expanded at not much more than half of the 1965 rate, the main influence in Africa being the falling off of trade with Rhodesia.

Exports from West Asia, in which petroleum preponderates, generally expanded more vigorously in 1966 than in 1965: the increase was about 9 per cent to most regions. The exceptions were the flows to the United States (which remained at the 1965 level), to the industrial economies of the southern hemisphere (which again dropped back in value with the further growth of local refining capacity) and those within the region itself (which declined in 1966 after increasing an eighth in 1965). Most notable among the increases were the expansion in shipments to Japan (by about a seventh to over \$1,000 million) and the recovery in shipments to southern and south-eastern Asia.

Notwithstanding a further decline in exports to the United Kingdom (which held the flow of goods to western Europe at its 1964 level), to Latin America and to the industrial economies of the southern hemisphere, a failure of exports to Africa to rise above the 1965 level, and a reduction in the rate of increase of exports to mainland China, the Soviet Union and the United States, the developing countries of southern and south-eastern Asia managed to achieve a fractional acceleration in the over-all flow of exports. This reflects a sharp increase in shipments to Japan (up 11 per cent to a total of about \$1.3 thousand million) and in trade within the region as well as a recovery in exports to West Asia.

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Though in a number of important trading countries rates of economic growth began to show signs

of faltering as 1966 advanced and imbalances were impelling Governments towards various measures of restraint, the flow of exports was well maintained. Preliminary data for the first quarter of 1967 show only the most tentative signs of a slowing down. The combined exports of the developed market economies were about 9 per cent above the corresponding figure for 1966, only a fraction below

the increase between the first quarters of 1965 and 1966 and in the increase for 1966 as a whole. There was only a fractional decline in the rate of expansion of exports from North America and western Europe, and some levelling off in the high rate of growth in exports from Japan was largely offset by a recovery in the trading activities of the southern hemisphere countries (see table 11).

Table 11. World trade: Recent changes in exports and imports, 1966-1967

(Value in thousands of millions of dollars)

Region	Exports, f.o.b.			Imports, c.i.f.		
	Value in 1966	Index (corresponding period in previous year=100)		Value in 1966	Index (corresponding period in previous year=100)	
		1966	1967, first quarter		1966	1967, first quarter
North America ^a	40	112	111	38	118	113
Western Europe ^b	85	109	108	95	108	103
Japan	10	116	109	10	117	122
Australia, New Zealand and South Africa	6	108	111	7	97	113
Developed market economies ^c ...	141	110	109	149	110	107
Selected developing countries ^d ...	16	108	101	18	105	103
Total, above	157	110	108	167	110	106

Source: Centre for Development Planning, Projections and Policies of the United Nations Secretariat, based on International Monetary Fund, *International Financial Statistics* (Washington, D.C.), July 1967.

Note: The table is based on all the countries for which data are available for the first quarter of 1967. Data are all preliminary.

^a United States and Canada.

^b Austria, Belgium-Luxembourg, Denmark, Finland, Federal Republic of Germany, France, Iceland, Ireland, Italy, Netherlands, Norway,

Portugal, Spain, Sweden, Switzerland, Turkey and United Kingdom.

^c Total of the preceding countries.

^d Argentina, Brazil, Ceylon, Cyprus, Dominican Republic, Guadeloupe, Hong Kong, India, Israel, Madagascar, Martinique, Mexico, Nigeria, Pakistan, Paraguay, Peru, Philippines, Réunion, Saudi Arabia (exports only), Singapore, Syria, Trinidad and Tobago, Tunisia, United Arab Republic and Uruguay. These countries accounted for over 40 per cent of the trade of all developing countries in 1966.

These early returns suggest that the imports of the developed market economies from the rest of the world were increasing at a lower rate in the first quarter of 1967 than in the corresponding period in 1966. The rates of growth of imports into North America and western Europe and of exports from the small group of reporting developing countries—accounting for over two fifths of total developing country exports—were all below the corresponding figures for the first quarter of 1966. This would be consistent with the slowing down in industrial activity in the developed market economies referred to above and also with the reported decline in the prices of primary commodities exported by the developing countries. In the first quarter of 1967 the price index of such commodities was 2 per cent below the corresponding 1966 figure, at the lowest level since 1962. A further decline in the rate at which the more advanced economies absorbed the export products of the less advanced could turn 1967 into an extremely difficult year for the develop-

ing countries. Their import needs, the prices of capital goods and basic food-stuffs and their debt-service burden are all likely to be higher than in 1966. Aid transfers (including private direct investment) were lower in 1966 than in 1965, and, with the resources of major lending countries still under pressure, show little sign of expanding in 1967. This is a bad time for export earnings to falter.

The continued dynamism of international trade as a whole suggests that it has been solidly based on long-term economic and technical considerations rather than on a series of ephemeral factors operating from year to year. The underlying impetus has been the growth in demand in the more advanced countries: this has been well maintained in the aggregate even though individual countries have encountered occasional difficulties. From time to time and in different ways the barriers to trade have been lowered: successive tariff reductions have been negotiated under GATT; the restoration of convertibility for the principal currencies facilitated not only

current payments but also the movement of capital and people, each in its own way conducive of subsequent trade flows; regional integration schemes, most notably the EEC, have furnished a major stimulus to trade; relaxation of political tensions have begun to open up new trading possibilities, particularly between the countries of eastern and western Europe. Aid policies, whatever their adequacy for promoting development, have helped to keep up the imports of developing countries in the face of unfavourable earnings or debt situations. And the quickened pace of technological change has made available a steady stream of new products—for the use of the producer no less than the consumer—which has served to increase the complementarity of industrial economies and made for a more rapid expansion in the interchange of manufactured goods.

Compared with earlier periods, the years since the Second World War have been singularly free of trade-restricting measures. There have been restraints on the movement of strategic goods, added protection for the occasional item unable to stand up to the competition of imports, a surcharge on a range of imports imposed in defence of the balance of payments, a textile agreement to regulate the growth of exports of cotton goods from Asia into North America and western Europe, a tendency for an excise tax to be levied on goods for which tariff concessions have been made. But, by and large, the amount of trade affected by such measures has been relatively small, and they have not led to retaliation and the cumulative destruction of trading

opportunities; they have been exceptions to the general liberalization movement.

This liberalization movement is about to enter a new phase with the termination of the Kennedy round of tariff negotiations. A sizable cut—between 30 and 40 per cent in many cases—is now pending in the tariffs that remain on an extensive range of manufactured goods. Over a considerable area of international trade, tariffs will cease to constitute a serious barrier to entry into most of the developed market economies. The scene will be set for a continuation of the expansion of a large segment of trade.

It would be a pity if the policies chosen to correct the economic disequilibria that trouble some of the major trading countries are unnecessarily restrictive or deflationary. The choice is not entirely a unilateral one and the challenge to prevent it from giving rise to trade-destructive measures is one that lies before partner countries also, particularly countries that are in surplus with the rest of the world or have strong reserve positions. It would also be a pity if ways are not found to extend the trade-promoting influences of the tariff cuts to those developing countries which otherwise are likely to gain little from the Kennedy round achievement. With the second United Nations Conference on Trade and Development now being prepared, it would be timely to review trade and aid policies in the light of the prospective development and payments problems that are now emerging.

Chapter II

RECENT TRENDS IN DEVELOPED MARKET ECONOMIES

On the basis of year-to-year changes for the developed market economies as a group, 1966 was very similar to 1965. The increase in the combined output of goods and services was again about 5 per cent, and personal consumption again rose by about 5 per cent. Although the rise in public consumption (about 6 per cent) was significantly higher than in the previous interval, the rise in fixed investment (about 5 per cent) was fractionally lower. The increase in the external sector—both the exports and the imports of goods and services—was somewhat greater than that between 1964 and 1965, as was the relative expansion in inventories.

These group averages conceal significant differences, however, both in respect of the annual out-turn of the various countries and in respect of their evolution during 1966. Thus, among the countries registering a reduction in the rate of growth were several that occupy a strategic place in international economic relations, and even among those whose annual growth rate was maintained, there were some in which deceleration set in as the year progressed. It is probable, indeed, that the over-all growth of the developed market economies was well over 5 per cent in the first half of the year but well below 5

per cent in the second half, and that this deceleration continued into 1967.

The most notable decline in annual growth rates occurred in the EFTA countries, with the smaller economies following the United Kingdom down from a high 6 per cent expansion between 1963 and 1964 to a bare 2 per cent between 1965 and 1966 (see tables 12 and 13). In the EEC there were offsetting tendencies, with a marked deceleration in the Federal Republic of Germany and Luxembourg more than counterbalanced by recovery in France and Italy. No less pronounced was the recovery in Japan. In North America, on the other hand, the remarkably strong and steady upswing that had commenced in 1961 showed signs of faltering in the second half of 1966 as domestic resources came under pressure from rising defence expenditures as well as increased civilian demand. Thus, notwithstanding the generally satisfactory out-turn for 1966 as a whole, 1967 began with economic trends more varied than they had been for several years.

In most developed market economies the dominant policy measures in operation in 1966 were restrictive, designed to bring the rate of increase in demand into line with the growth of resources. In a number of

Table 12. Developed market economies: Industrial production and gross national product, by region, 1964-1966

(Percentage change from preceding year)

Region	Percentage share in combined gross national product, 1965	Industrial production			Gross national product ^a		
		1964	1965	1966	1964	1965	1966
Developed market economies ^b	100	8	6	7	6	5	5
North America	54	7	8	9	5	6	5
EEC	22	7	5	5	6	4	4
EFTA	12	8	4	2	6	3	2
Other western Europe	3	9	7	8	7	7	7
Japan	6	17	5	12	14	4	10 ^c
Oceania ^d and South Africa	3	9	7	2	7	6	3

Source: Centre for Development Planning, Projections and Policies of the United Nations Secretariat, based on data from United Nations, *Yearbook of National Accounts Statistics*; Organisation for Economic Co-operation and Development, *Main Economic Indicators* (Paris), and official national sources.

^a At constant prices and 1965 exchange rates.

^b For country coverage see table 14.

^c Fiscal year beginning 1 April of year indicated.

^d For Australia, fiscal years ending 30 June, and for New Zealand, fiscal years beginning 1 April of years indicated.

Table 13. Developed market economies: Gross national product and its main components, by region, 1964-1966

(At constant prices and 1965 exchange rates; percentage change from preceding year)

Region and year	Gross national product	Personal consumption	Public consumption	Fixed investment	Foreign trade in goods and services		Change in inventories ^a
					Exports	Imports	
<i>Developed market economies^b</i>							
1964	6	6	3	9	13	8	1.1
1965	5	5	3	6	6	10	1.3
1966	5	5	6	5	9	13	1.5
<i>North America</i>							
1964	5	6	2	7	14	6	0.6
1965	6	6	2	8	3	11	1.2
1966	5	5	8	6	9	18	1.6
<i>EEC</i>							
1964	6	5	2	9	10	9	1.2
1965	4	4	4	3	11	8	0.8
1966	4	4	3	4	9	8	1.1
<i>EFTA</i>							
1964	6	4	3	14	7	10	1.6
1965	3	3	4	4	6	5	1.2
1966	2	2	4	2	4	3	0.9
<i>Other western Europe</i>							
1964	7	4	8	16	16	7	3.7
1965	7	7	7	13	8	20	3.6
1966	7	7	7	5	12	10	...
<i>Japan</i>							
1964	14	10	10	15	22	14	4.0
1965	4	6	2	2	24	7	2.0
1966 ^c	10	8	8	10	16	19	2.8
<i>Oceania^d and South Africa</i>							
1964	7	7	6	13	10	12	1.7
1965	6	5	9	13	1	16	3.6
1966	3	3	8	4	3	—	1.4

Source: See table 12.

^a At current prices, as percentage of gross national product at current prices.

^b For country coverage, see table 14.

^c Fiscal year beginning 1 April of year indicated.

^d For Australia, fiscal years ending 30 June, and for New Zealand, fiscal years beginning 1 April of years indicated.

cases the need for restraint was made more urgent by the impact of internal demand pressures on the external balance. On the whole, the changes that were brought about in the internal balance helped to improve the external account. But the problems facing the reserve currency countries were by no means solved: a rise in overseas military outlays was largely responsible for preventing any reduction in the United States deficit, and though the United Kingdom deficit was virtually halved, sterling remained under pressure. The continued lack of confidence in the international monetary system did not stand in the way of the vigorous growth in trade described in the previous chapter, but it is significant that no newly mined gold found its way into official reserves in 1966.

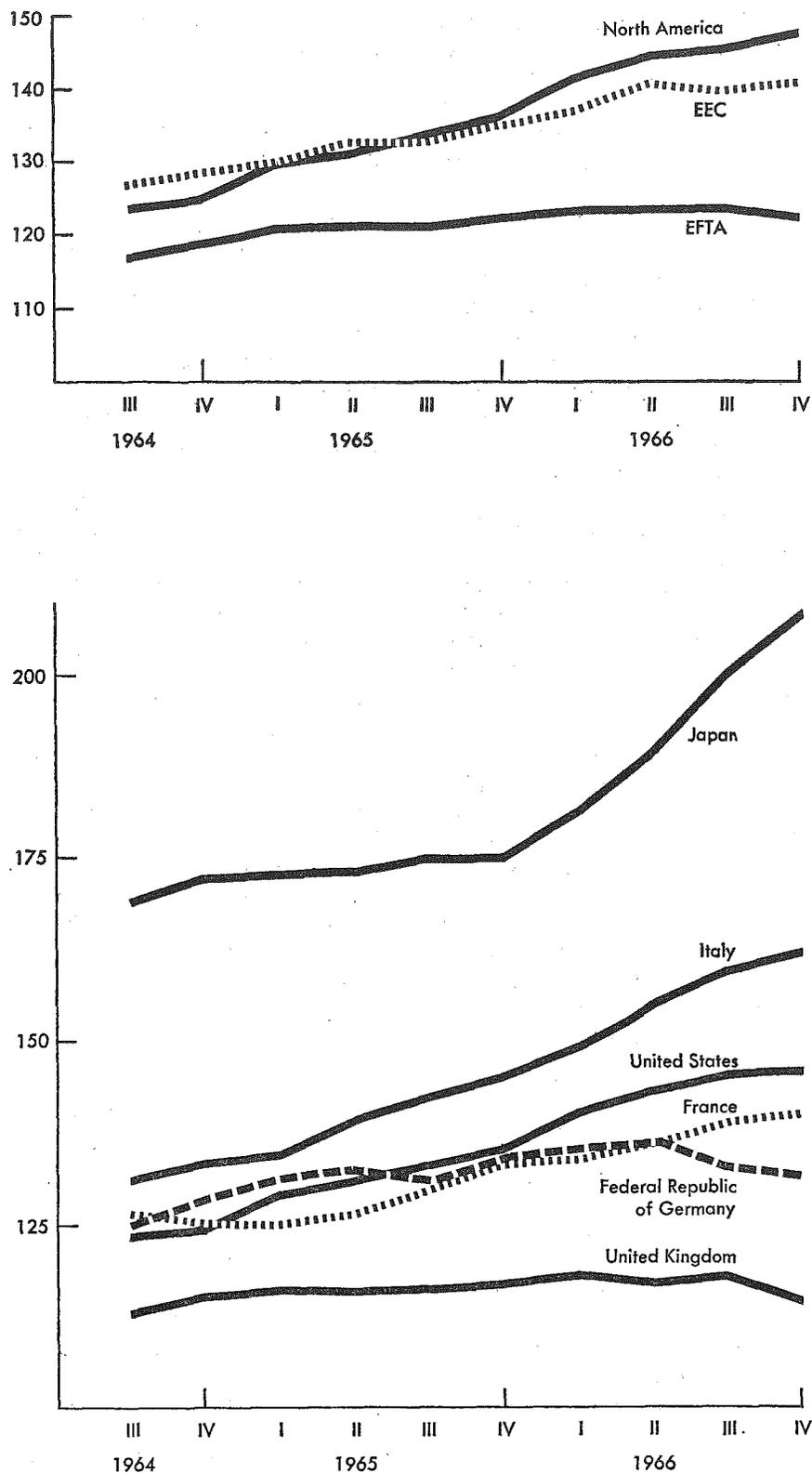
INTERNAL BALANCE

The major influences operating in the developed market economies in 1966 were located in France, Italy and Japan on the one hand, where expansionary

policies were the rule, and in the Federal Republic of Germany and the United Kingdom on the other hand, where restraints of varying severity were in force. Between these extremes was the United States where the economic upswing continued, though against an increasing resistance stemming mostly from resource limitations but also from policy measures of an anti-inflationary nature. There was a marked acceleration in growth rates in the first group of countries, a decline in the second group and a distinct levelling off in the United States (see figure I).

In France, Italy and Japan, the expansion in 1966 followed a period of official restraint. The rate of increase in both consumption and capital formation was sharply higher than between 1964 and 1965; it was sustained by an acceleration in both domestic production and imports, and price rises were in general less than in 1965. There was a marked increase in fixed investment (which in Italy had declined between 1963 and 1965), and also in motor-

Figure I. Developed market economies: Quarterly indices of industrial production, 1964-1966
(Seasonally adjusted; 1960 = 100)



Source: Organisation for Economic Co-operation and Development, *Main Economic Indicators* (Paris), April 1967.

car registrations (which in France had remained virtually constant between 1963 and 1965). In Japan, however, the gain in investment was confined to the public sector (including State-owned enterprises), private manufacturing investment remained at the lower level to which it had declined in 1965. In France and Italy, it was housing investment that tended to lag: in the former country it increased less than total investment and also less than it had in 1964 or 1965, while in Italy it did not recover from the reduction registered in 1965 (see tables 14, 15, 16 and 17 in the annex to this chapter).

In Italy the economy continued to have a certain amount of slack in it. Employment was fractionally below the 1964 and 1965 average and unemployment rates somewhat higher (see table 18 in the annex). As industrial output was up 11 per cent and gross national product about 6 per cent, the result was a notable rise in productivity and a sharp reduction in unit labour costs. Wholesale prices were more or less stabilized and retail prices rose very little compared with their movement in 1964 and 1965. France also enjoyed a rise in labour productivity and, with unit costs more or less unchanged, prices advanced no more than they had in each of the previous two years. In Japan, however, the upsurge in public investment and exports which sparked the recovery early in 1966 set off a steep rise in wholesale prices—particularly of producer goods—which had been stable for a number of years.

Among the other developed market economies which expanded their total production more rapidly between 1965 and 1966 than in the previous interval were Austria and Turkey. In the former the main stimulus was a higher rate of investment in manufacturing facilities, inventories and housing. There was a rise in productivity and in wage earnings and consumer expenditures (including a major increase in motor-car registrations) but supplies were available and the rise in prices was appreciably less than in 1964 or 1965. The acceleration in Turkey was based partly on a rise in investment and partly on a much improved agricultural out-turn. Despite the latter, however, consumer prices rose to a much greater extent than between 1964 and 1965.

At the other end of the scale, among the countries that grew less between 1965 and 1966 than in the preceding interval, the most significant were the Federal Republic of Germany and the United Kingdom. In the former, restrictive monetary policies had been imposed in 1965 in the face of what was considered over-full employment, an abnormally large (11 per cent) rise in manufacturing wages, a sharp rise in prices, wholesale and retail, and a switch to deficit in the external balance. The result was a sharp cut-back in manufacturing investment and a much smaller increase in wage earnings and in

consumer spending, particularly in clothing and on motor-cars, registrations of which were actually below the 1965 level. By mid-1966 the current external account had swung back into surplus, and by the last quarter of the year production was rising by a mere one per cent *per annum*, and the rate of resource utilization had fallen away: unemployment was approaching one per cent of the working force and factory capacity was being used to the extent of less than 85 per cent.

Restrictive policies were also pursued in the United Kingdom, though here the need to reduce demand pressures was accentuated by the deterioration that had taken place in the external balance. The mildly deflationary budget of March 1966 was followed by sterner measures in mid-year: the bank rate was raised to 7 per cent, instalment credit was severely curtailed and wages and prices were temporarily frozen. The main impact was on investment, particularly in housing which in 1966 was 3 per cent below the 1965 level and in manufacturing where fixed investment also declined. Personal consumption barely kept pace with the growth in population and there was a decline in expenditure on consumer durables, including motor-cars (for the second year in a row).

The slow-down in the Federal Republic of Germany and the United Kingdom exerted a generally negative effect on their trading partners, especially the Netherlands and the members of EFTA. In the Netherlands, notwithstanding a further sharp rise in wage rates, the increase in personal consumption between 1965 and 1966 was only half the high figure of the previous interval and motor-car registrations fell off by more than a fifth. Here and in the Scandinavian countries, demand pressures remained strong so that the difficulties in their main export markets were aggravated by rising domestic costs and prices. Credit was kept in tight supply in most of the countries concerned; Norway and Sweden imposed sizable increases in indirect taxation and the Netherlands postponed certain public sector investments. In Switzerland there was a further decline in fixed investment—particularly in construction—and in employment in manufacturing in line with current policy of reducing the country's dependence on external capital and manpower. The resultant cut in the rate of growth, however, did not prevent an acceleration in the upward movement of prices.

In some countries—Denmark, Finland and Iceland and also in Australia—the economic situation was adversely affected by poor agricultural crops. Total production increased significantly less between 1965 and 1966 than in the preceding interval and there was a marked deceleration in capital formation. In Ireland, indeed, the bad 1965/66 cattle season and the deterioration in the United Kingdom market

combined to reduce fixed investment and hold personal consumption virtually constant. In New Zealand, with almost no unemployment and a high propensity to import, it was a deterioration in terms of trade that again impelled restrictive measures to dampen domestic demand and protect the balance of payments. All these countries pursued stabilization policies in 1966—tight money and in most cases more stringent fiscal measures—with the object of reducing the pace at which prices had been advancing and of protecting their external balance.

Between the group of countries whose growth accelerated between 1965 and 1966 and the group in which there was a definite deceleration is a third group whose expansion was more or less maintained, at least on the basis of annual averages. Preponderant in this group is the United States, but it also includes Belgium, Greece, Spain and South Africa as well as Canada where trends closely followed those of the United States. Though all these countries maintained their growth rates between 1965 and 1966, all were under serious economic strain of one kind or another and the significance of this is revealed more clearly by developments during the year than by year-to-year changes in annual totals.

After its long and steady upswing, the United States economy reached a critical stage in 1966: demand was beginning to press on resources at points of potential supply difficulty such as particular skills and raw materials and, as a result, prices which had held remarkably stable up to then turned upwards. Despite the high rates of manufacturing investment that had been registered in previous years, capacity utilization was running above preferred rates in several industries. With public expenditure rising sharply in the wake of military commitments—at about \$2,000 million per quarter at annual rates—the rise in imports was also accelerating, thus threatening the Government's efforts to reduce the external deficit. A number of excise taxes which had been cut in 1965 were restored and later in 1966 the rapid depreciation allowance for new business investment was withdrawn. A rise in required social security contributions also served a disinflationary purpose. But the main reliance was placed on a tightening of credit conditions: the central bank discount rate was raised for the third time in three years and the capital market was kept very short of funds. One consequence of this was a further and larger decline in investment in housing. Though consumer spending on durable goods continued to rise, over the year as a whole there was a reduction in the number of motor-cars registered from the record level of 1965.

Much the same course was followed by the Canadian economy, though the steps taken during the year also included a rise in tax rates and a

scaling down of government expenditure. The situation was complicated by labour unrest, serious work stoppages and a sharp rise in wage rates and unit labour costs. The rise in output slackened as the year progressed; the decline in unemployment and the rise in prices both tended to level off and at the end of 1966 plant operating rates were generally below those at the beginning of the year. In this respect Canadian experience was running ahead of events in the United States.

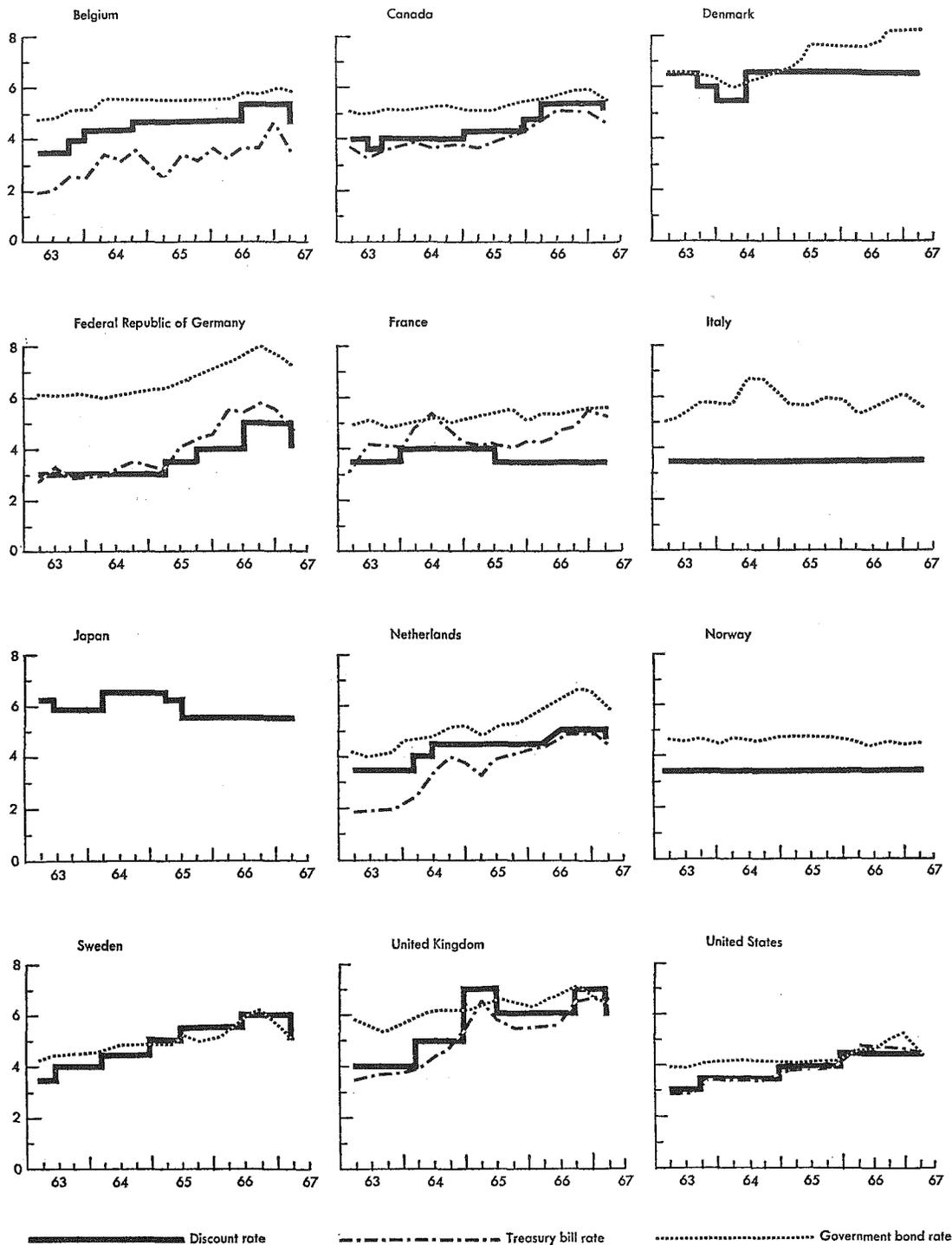
In Belgium a deceleration in the expansion of exports was offset by a recovery in investment, which had declined sharply in 1965, so that total output rose modestly between 1965 and 1966 as it had between 1964 and 1965. In Greece, exports constituted a strong expansionary force and along with public investment helped to maintain a high rate of increase in total production. Exports were also an expansionary force in Spain in 1966 (in contrast to 1965) but this was moderated by a deceleration in investment (especially housing) following the imposition of severe credit restraints at the end of 1965. In South Africa, on the other hand, exports lagged but, as the external reserve position was relatively strong, a relaxation of control over imports was one of the weapons used to try to contain the pressure of domestic demand, following four years of increasing private and public consumption and capital formation. A tightening of monetary conditions and a rise in the discount rate in 1965 brought private investment down sharply in the first half of 1966, but outlays turned upwards in the second half both for fixed investment and for inventory accumulation, and further restraining steps were taken—through the credit system in July and December 1966 and by fiscal means in August 1966 and March 1967.

EXTERNAL BALANCE

Many of the restraining measures enacted in 1966 were designed as much for the protection of the balance of payments as for the stabilization of internal prices. As liquidity declined, the efforts being made by the United States to curb the outflow of capital exercised a more direct effect on financing operations in other countries, particularly where the overseas subsidiaries of United States companies began to increase their borrowing on local markets. Part of the rise in interest rates during the year (see figure II) thus contained a competitive element intended to offset the attraction to local funds of higher rates obtainable elsewhere.¹

¹ This competitive phase weakened as demand pressures abated, and it was terminated, in effect, by a decision of the financial authorities of the Federal Republic of Germany, France, Italy, United Kingdom and United States taken at a conference early in 1967 to co-operate in reducing interest rates below what "they would otherwise be".

Figure II. Selected developed market economies: Interest rates, 1963-1967, quarterly
(Percentage, per annum)



Source: International Monetary Fund, *International Financial Statistics* (Washington, D.C.), December 1966 and June 1967.

Note: Discount rates are end-of-period figures; other rates are averages.

The countries whose economic policy was most strongly influenced by the state of external accounts were the United Kingdom and the United States whose currencies form a vital part of the international monetary system. Neither country achieved the improvement in external balance that it had intended, but the outcome for 1966 as a whole and the posture at the end of the year were both somewhat better than at one stage had seemed likely.

In the United States the high level of internal demand kept imports up and the annual increase of almost one fifth over 1965 meant a smaller trade surplus, despite buoyant exports. Rising expenditure in south-eastern Asia also contributed to a decline in the current account surplus that was virtually continuous from the second quarter of 1965 to the third quarter of 1966 (see figure III). The curbs that had been placed on the outflow of capital helped to improve the balance on long-term capital accounts; there was some loss of short-term funds, however, and measured on a liquidity basis,² the over-all payments deficit increased again in the second half of 1966 and for the year as a whole it was slightly greater than in 1965.

In the United Kingdom the deflationary measures that had been adopted in 1965 did not restrain imports as much as had been expected and the trade balance deteriorated sharply in the first half of 1966. A lengthy work stoppage by seamen and the impact of the trade break with Rhodesia aggravated the situation and sterling again came under attack. It was only after the imposition of the further and more stringent deflationary measures referred to in the previous section that the external balance began to improve. The gain in the latter part of the year was sufficient to reduce the deficit on the basic balance for 1966 as a whole to half its 1965 figure.

Among the other major trading countries that experienced wide swings in external balance largely in response to changes in domestic policy, the Federal Republic of Germany and France illustrate opposite processes. The expansionary policies followed in France were reflected in an increase in imports between 1965 and 1966 about twice that registered by exports (reversing the change between 1964 and 1965). The current account moved sharply into deficit in the second half of 1966, though the effect of the deterioration was mitigated by an increase in capital receipts. In the Federal Republic of Germany, by contrast, the restraints on demand reduced the rate of growth of imports from about 15 per cent between 1964 and 1965 to about 2 per cent between

² Taking into account changes in liquid liabilities to foreign official holders and other foreign holders, and changes in official reserve assets consisting of gold, convertible currencies and the United States gold tranche position in the International Monetary Fund.

1965 and 1966, while exports accelerated slightly to an increase of about 10 per cent between 1965 and 1966. The result was a massive switch from deficit to surplus for both the current account balance and the basic balance (including long-term capital).

The domestic expansion in Italy was achieved with only a slight worsening of external balance. In Japan, as indicated above, exports constituted one of the economy's chief stimuli, but as there was also a larger outflow of long-term capital, the external surplus was somewhat smaller in 1966 than in 1965 when the country was deflating.

Among the smaller countries that were restraining domestic demand, there was a significant reduction in the current external deficit of Ireland and Sweden, while Switzerland realized a small surplus. Canada also moved into current account surplus in 1966 and as there was a large inflow of direct investment, the basic balance was also in surplus. The over-all balance, however, was affected by a large-scale return and redeployment in the United States and the Euro-dollar market of short-term funds which had been transferred in 1965 from the United Kingdom and elsewhere, largely by Canadian banks. In Denmark and New Zealand there was a small reduction in the expansion of imports but the balance of trade remained passive (exports being measured f.o.b. and imports c.i.f.). This left the external reserves of New Zealand at the low level—equivalent to little more than one month's imports—to which they had been drawn down in 1965. In South Africa, on the other hand, reserves were at a relatively high level when the current account moved into surplus early in 1966; it was not until the last quarter that imports, which were being encouraged as an anti-inflationary measure, increased enough to return the current account to deficit.

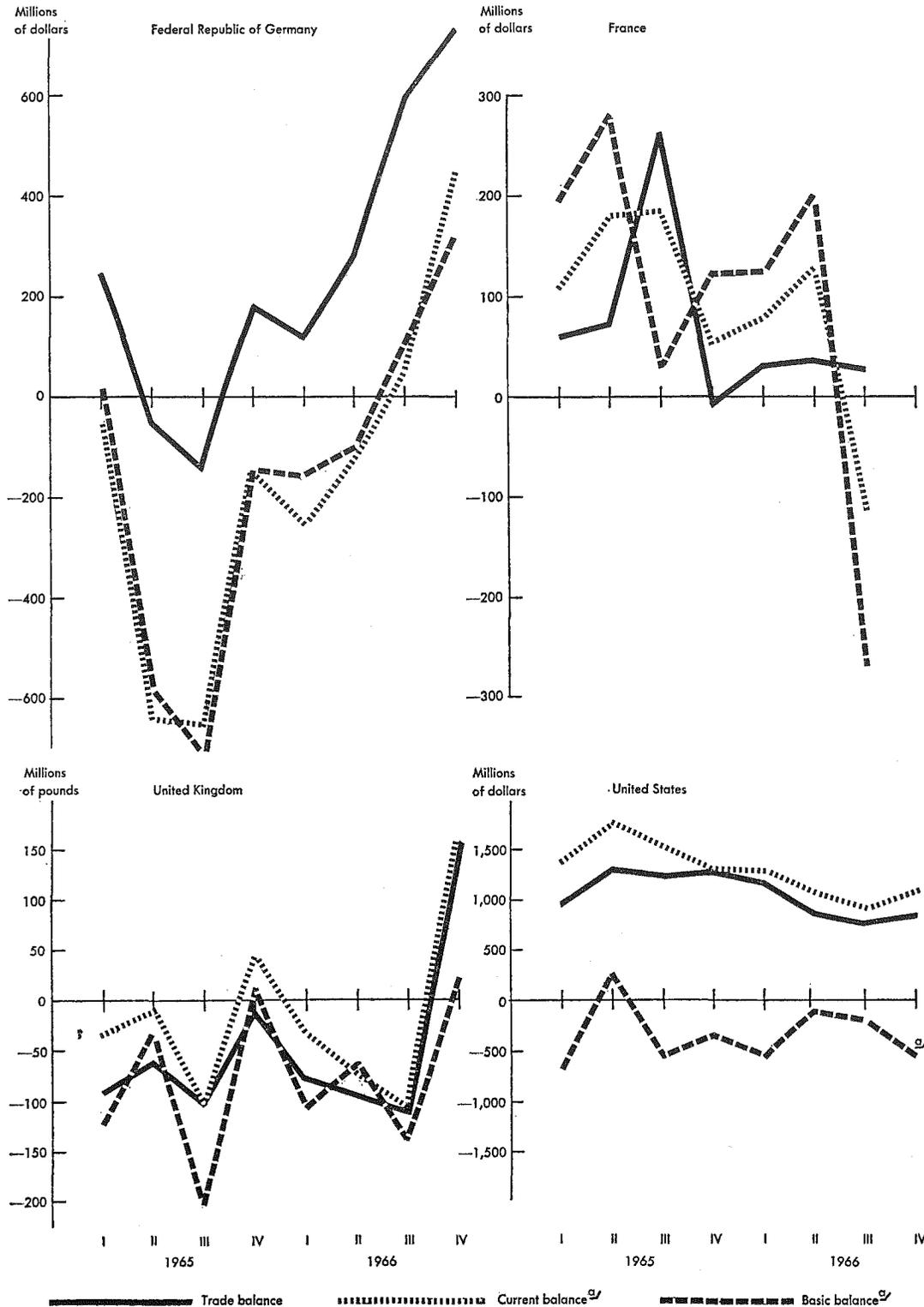
THE 1967 OUTLOOK³

Most of the developed market economies entered 1967 with their resources under less strain than had been the case a year earlier. Indeed, in many the centre of concern had shifted to some of the unwanted or excessive consequences of the monetary measures on which reliance had largely been placed for damping demand pressures in 1966. Two difficulties had proved particularly troublesome.

One reflects the problem of using interest rates to influence decisions in an economy which has close monetary relations with others. Capital movements are now extremely sensitive to interest differentials so that not only can the purpose of a rate adjustment be frustrated by the inflow or outflow of funds but

³ This section is based in part on replies received from Governments to the United Nations questionnaire of December 1966 on economic trends, problems and policies.

Figure III. Selected developed market economies: International payments, 1965-1966
(Seasonally adjusted)



Source: Centre for Development Planning, Projections and Policies of the United Nations Secretariat, based on data from various issues of International Monetary Fund, *Balance of Payments Yearbook* and United States Department of Commerce, *Survey of Current Business* (Washington, D.C.).

^a Current balance refers to balance on goods, services and transfer payments. Basic balance refers to balance on current and long-term capital accounts, except for the United States, for which the figure refers to balance on liquidity basis.

other countries may find themselves having to make interest adjustments not because of domestic needs but because of external changes. It is significant that a reversal of the build-up of rates that occurred in 1965 and 1966 was set in motion as a concerted action agreed to by the finance ministers of the principal countries involved.

The other difficulty that the use of monetary restraints revealed in 1966 is their tendency to discourage capital-intensive investment in a rather indiscriminate manner. This created special problems for the construction industry which in several countries entered 1967 in a rather depressed state. It also served to deter fixed investment in manufacturing in a way that brought short-term relief in resource utilization at the expense of a longer-term handicap in industrial structure and capacity.

The first few months of 1967 saw a series of cuts in the central bank discount rate in most of the countries in which this had been used as restraint in 1966. There were three cuts in Belgium to bring the rate down from 5.25 per cent to 4.50 per cent; there were two cuts (from 5.25 to 4.5 per cent) in Canada; four cuts (from 5 per cent to 3 per cent) in the Federal Republic of Germany; a single cut in March in the Netherlands, reducing the rate from 5 per cent to 4.5 per cent; two cuts (from 6 per cent to 5 per cent) in Sweden; three cuts (from 7 per cent to 5.5 per cent) in the United Kingdom; and there was a cut in April in the United States (from 4.5 per cent to 4 per cent).

In Belgium, where the rate of growth is expected to fall somewhat below the 3 per cent recorded in 1966, the easing of monetary restraints was followed by a more active fiscal policy. Certain indirect taxes have been raised to provide the Government with funds for specified capital projects, while tax relief has been granted to new private investment in "development" areas.

Canada also expects its 1967 growth to be less than that achieved in 1966 (about 6 per cent). The easing of monetary conditions has been accompanied by certain tax concessions—a termination of the refundable tax on corporate profits and a restoration of the depreciation allowances (which had been cut in 1966). The 1967/68 budget provides for a substantially larger deficit than was realized in 1966/67 and the 6 per cent sales tax on machinery and equipment was removed. The policy of restraining fixed investment has thus been modified but this may not prevent a decline from the 1966 level: residential construction has been appreciably lower in the first half of 1967 and the stimulus of investment for Expo 67 has ceased. The Exposition, however, is expected to have a beneficial effect on the country's invisible earnings.

In the Federal Republic of Germany the easing of monetary conditions was also accompanied by fiscal measures. More liberal depreciation allowances were offered in respect of private fixed investment undertaken before the end of October 1967 and plans were made for a substantial increase in public investment. This reflects the forecast that fixed capital formation would probably fall short of the 1966 figure in 1967 and that the rate of growth of the economy as a whole would drop below the 3 per cent registered between 1965 and 1966.

In the Netherlands, where similar reductions in investment and over-all growth have been forecast, fiscal stimuli have also complemented the relaxation of credit. Cash grants were offered early in 1967 to attract industry to areas with high rates of unemployment and arrangements were made for a mid-1967 tax change—involving lower income-taxes and higher turnover taxes—intended to favour investment and increase the flexibility of fiscal policy.

Sweden has also taken steps to use fiscal means of stabilizing an economy in which wages and costs were rising unduly fast during the recent upswing (about 10 per cent a year in the case of manufacturing wages between 1964 and 1966). Sales and excise taxes were increased early in 1967 while releases were made from certain of the industrial investment accounts at the Riksbank for the purpose of encouraging selective expansion in building and in plant and equipment in the period ending with the first quarter of 1968.

In the United Kingdom, where the deflationary measures adopted in 1966 included not only fiscal and credit restraints but also a wage and price freeze, a process of gradual relaxation began around the turn of the year. Monetary conditions were eased by successive measures affecting interest rates and the volume of bank lending, and incentives to new investment—especially in areas of high unemployment—were increased. In order not to jeopardize the improvement taking place in the critical external balance, however, the 1967/68 budget was intended to be neutral in its impact on demand. The swing of the current account into surplus in the last quarter of 1966 made it possible for repayments to be resumed on earlier North America loans and a continued surplus on basic balance permitted the liquidation of some of the credits and swap arrangements made during the 1964-1966 sterling crisis. The country's external balance in 1967 is predicated on a 6 per cent increase in export volume. Along with an 8.5 per cent increase in public investment, this is expected to offset the effect of a 10 per cent cut in private investment, resulting in an over-all growth rate fractionally above the 2 per cent recorded between 1965 and 1966. This implies the holding

down of imports to the 1965-1966 rate of increase, and the continuation of the higher rate of unemployment (near 2 per cent of the labour force) registered at the end of 1966.

In the United States, the levelling off in the growth of industrial production as 1966 advanced was followed by a sharp cut-back in inventory accumulation in the first quarter of 1967 which was largely responsible for holding the gross national product virtually constant. Fixed capital formation by business and residential construction both remained at the level of the previous quarter. In the meantime some cautious steps of an expansionary nature were taken, reflecting in part a change in the "mix" of monetary and fiscal policy. Interest rates were lowered and the supply of credit increased, but the Administration has proposed increases in individual and corporate income taxes. At the same time, in view of the slow-down in fixed investment, the special depreciation allowances that were suspended in 1966 were restored. Economic developments—and the policies they call forth—depend in large measure on the course of military outlays. Even if these rise more slowly than expected, however, or a tax increase is enacted, it is likely that the budgetary deficit will widen considerably and that on an annual basis personal consumption and imports will increase less than they did between 1965 and 1966.

With the ending in November 1966 of the 10 per cent surcharge on imports into the United Kingdom, some of that country's smaller and closer trading partners may be expected to gain. Both Denmark and Ireland have forecast a somewhat higher rate of growth in 1967 than in 1966. Finland also expects an increase stemming largely from an improvement in the external balance. In Norway, on the other hand, a deceleration in the rate of increase in private expenditure (both consumption and investment) is expected to offset expansion in other items and hold the rate of over-all growth to about 5 per cent.

Austria forecasts a slight deceleration in all sectors of final demand, reducing the over-all rate of growth to about 3 per cent. This may also occur in Switzerland which is one of the few countries to tighten monetary restraints in the opening months of 1967 as part of a continuing anti-inflationary policy.

Greece expects an increase in its import deficit, associated with higher personal consumption. Luxembourg looks forward to the end of two years' decline in steel investment with a consequent benefit to total production. In Spain, by contrast, the efforts made to control inflation in 1966 are expected to exercise a negative effect on consumption in 1967; this is unlikely to be offset by a recovery in investment, so the rate of over-all growth is forecast at well below the high figure achieved be-

tween 1965 and 1966. Turkey is also expecting a somewhat lower rate of growth, in the wake of a poorer agricultural out-turn.

Among the few countries whose economic policies were expansionary in 1966, France seems likely to continue to furnish at least a mild official stimulus in 1967. Credit conditions were eased slightly early in the year, the 1967 budget is intended to be moderately expansionary, and structural reforms of the banking system and the capital markets should facilitate the investment process. An increase in investment is expected to offset a reduction in the export surplus and help to hold the growth rate to about 5 per cent.

Much the same course of events may unfold in Italy, though here—to judge by the 1966 trend—the decline in the export surplus and the acceleration in fixed investment are both likely to be greater. Domestic borrowing increased perceptibly in the early months of 1967 and there was a reversal of the flow of capital which had been attracted abroad by higher interest rates in 1966.

In Japan the 1966 upswing was more vigorous than in the case of France or Italy, and its continuation may bring the economy up against labour and balance of payments limitations. Even in 1966 there was a 12 per cent rise in wages in manufacturing, symptomatic of a tight labour market. While rising costs will react unfavourably on exports, a further acceleration in investment will tend to draw in more imports. Imports may also be stimulated by the rise in wage incomes and by an increase recently granted in the producer price of rice. The deteriorating trade balance prompted the Government to cut the 1967/68 budget deficit. Official expectations are for an increase in gross national product slightly below the 10 per cent achieved in 1966.

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In view of the relatively low rates of growth registered in the major developed market economies in the early part of 1967, it seems most unlikely that the increase in production for the year as a whole will reach the average of 5 per cent recorded in 1966. Despite the easing of pressures as 1966 progressed, the prevailing conditions in most countries are unlikely to permit the rapid upsurge in demand that would be required to regain earlier rates of expansion in 1967. A number of countries continue to have to contend with precarious external balances, moreover, and any expansion that raised their import requirements out of line with demand for their exports would soon end in a payments crisis. As indicated by the widespread repercussions of the slow-down in the Federal Republic of Germany and the

United Kingdom in 1966, an upswing would need to be a concerted one in which at least the major trading countries participated.

Nor can a prompt recovery be counted on in those economies in which a better internal balance was sought in 1966 by a cut-back in fixed investment by business. The monetary policies that were largely responsible for the reduction in investment are not likely to operate as effectively in reverse. The experience of France and Italy in 1965-1966 suggests that the process of restoring confidence and inducing new capital formation is sometimes a slow one.

Moreover, in some of the countries which improved their internal balance chiefly by reducing investment, the problems of productivity and costs were aggra-

vated rather than ameliorated. The resultant latent pressures are likely to inhibit Governments from pursuing as expansionary a policy as might otherwise be thought desirable, especially if the external balance is still precarious and the higher cost structure that emerged from the inflation is regarded as a serious handicap in export markets.

In general, therefore, the lowering of pressure on resources that was achieved in 1966 seems unlikely to open the way to a sharp upswing in the months immediately ahead. A more moderate rate of growth seems in prospect for the developed market economies as a group for 1967, along with more experimentation with incomes policies that were disrupted so seriously towards the end of the previous upswing.

Annex

Table 14. Developed market economies: Gross national product and its main components, by country; actual 1964-1966 and forecast for 1967

(At constant prices; percentage change from preceding year)

Country ^a and year	Gross national product	Personal consumption	Public consumption	Fixed investment	Foreign trade in goods and services		Change in inventories ^b
					Exports	Imports	
<i>Japan</i>							
1964	14	10	10	15	22	14	4.0
1965	4	6	2	2	24	7	2.0
1966 ^c	10	8	8	10	16	19	2.8
1967 ^c	9	8.5	8	15	10	14	...
<i>Turkey</i>							
1964	5	2	22	15	9	-23	...
1965	5	2	5	11	7	2	...
1966	8	...	12	14	-1	15	...
1967	7	...	5	1	...	...	...
<i>Italy</i>							
1964	3	2	4	-7	12	-5	0.7
1965	3	2	4	-8	20	1	0.8
1966	6	6	5	6	13	14	1.9
1967	6	6	5	9.5	7	13	...
<i>France</i>							
1964	6	5	5	12	8	12	1.5
1965	4	3	2	5	11	4	0.2
1966	5	5	5	6	6	13	1.1
1967	5	5	5.5	7.5	5	8.5	...
<i>Austria</i>							
1964	7	4	5	8	8	9	1.1
1965	3	4	4	5	7	10	1.0
1966	4	5	4	7	6	10	2.1
1967	3	4.5	3	2	4	7	...
<i>Spain</i>							
1964	7	2	5.1	22	28	10	0.2
1965	8	9	...	19	-7	37	...
1966	8	9	...	3	21	14	...
1967	6	5.5	...	9	10	9	...
<i>Luxembourg</i>							
1964	7	6	3	2	13	10	...
1965	2	3	-	-18	5	-1	...
1966	2	3	3	-7	4	2	...
1967	2.5	2.5	2	-0.5	4	2.5	...

Table 14. Developed market economies: Gross national product and its main components, by country; actual 1964-1966 and forecast for 1967 (*continued*)*(At constant prices; percentage change from preceding year)*

Country ^a and year	Gross national product	Personal consumption	Public consumption	Fixed investment	Foreign trade in goods and services		Change in inventories ^b
					Exports	Imports	
<i>South Africa</i>							
1964	7	10	9	19	5	20	3.0
1965	6	5	10	17	—	11	4.6
1966	6	5	2	—2	5	—11	2.2
<i>Belgium</i>							
1964	7	4	4	13	13	11	0.6
1965	3	3	5	1	9	8	0.2
1966	3	3	4	4	5	9	1.5
1967	2.5	3	3	4.5	6	6.5	...
<i>Canada</i>							
1964	6	6	6	12	13	12	0.7
1965	7	6	1	11	5	12	1.8
1966	6	5	9	10	12	12	1.7
1967	5	...	...	—3	...	...	...
<i>Greece</i>							
1964	9	9	8	23	5	20	2.9
1965	8	8	17	11	10	21	3.7
1966	8	8	9	11	15	7	...
1967	8.5	8.5	5.5	5.5	13	9	...
<i>United States</i>							
1964	5	6	2	6	14	5	0.6
1965	6	6	2	8	3	11	1.2
1966	5	5	8	5	9	18	1.6
1967	4	4	9	—	1	—2	...
<i>Sweden</i>							
1964	8	5	5	7	10	9	1.3
1965	4	4	7	5	4	12	1.8
1966	3	2	6	4	6	2	0.9
1967	4	3	6	4	5	4.5	...
<i>United Kingdom</i>							
1964	6	4	2	17	4	9	1.9
1965	2	2	3	4	6	2	1.1
1966	2	2	3	1	4	2	0.7
1967	3	2	2.5	—2	6	2	...
<i>Norway</i>							
1964	7	4	6	4	11	8	0.2
1965	5	3	10	6	7	9	1.9
1966	5	5	4	7	7	8	2.1
1967	5	4	4	9	9	10	...
<i>Netherlands</i>							
1964	9	6	3	17	12	15	2.8
1965	5	8	2	5	9	7	1.3
1966	5	4	3	8	6	7	3.1
1967	3.5	3	1.5	—	6.5	3	...
<i>Portugal</i>							
1964	7	3	9	5	41	30	1.0
1965	7	8	7	3	12	11	1.4
1966	6	5	4	...	3	6	...
1967	6	5	6	...	...	...	...
<i>New Zealand^c</i>							
1964	6	4	7	8	—3	6	2.5
1965	6	6	4	11	2	14	3.6
1966	5	6	4	5	...	...	1.8
<i>Germany (Federal Republic of)</i>							
1964	7	5	—1	12	10	11	1.1
1965	5	6	7	7	7	15	1.2

Table 14. Developed market economies: Gross national product and its main components, by country; actual 1964-1966 and forecast for 1967 (*continued*)*(At constant prices; percentage change from preceding year)*

Country ^a and year	Gross national product	Personal consumption	Public consumption	Fixed investment	Foreign trade in goods and services		Change in inventories ^b
					Exports	Imports	
1966	3	4	1	1	10	2	0.2
1967	2.5	2	2.5	-3	9	5	...
<i>Denmark</i>							
1964	8	7	6	20	9	20	2.1
1965	5	4	5	6	9	7	1.6
1966	3	4	6	5	5	5	1.3
1967	3.5	5.5	5.5	...	6	...	...
<i>Ireland</i>							
1964	4	6	5	9	7	13	1.9
1965	3	2	4	8	1	5	2.5
1966	1	—	1	-6	7	1	1.5
1967	2.5	3	4	4	8	9	...
<i>Iceland</i>							
1964	5	3	5	18	6	13	0.3
1965	6	6	5	-2	7	7	2.0
1966	4	7	5	11	8	12	—
<i>Switzerland</i>							
1964	5	5	4	9	7	9	1.4
1965	4	3	1	-1	12	3	0.8
1966	2	2	6	-1	5	4	0.7
<i>Finland</i>							
1964	7	6	5	3	6	19	5.1
1965	6	5	4	9	5	9	4.0
1966	2	5	4	2	4	3	1.6
1967	3	3	3	—	6	2.5	...
<i>Australia^d</i>							
1964	7	6	4	11	16	10	0.8
1965	7	4	9	12	1	18	3.2
1966	1	2	12	6	2	2	0.9

Source: Centre for Development Planning, Projections and Policies of the United Nations Secretariat, based on data from United Nations, *Yearbook of National Accounts Statistics*, and official national sources.

^a Countries are arranged in a descending order according to the changes in the rate of

growth of gross national product between 1965 and 1966.

^b At current prices as percentage of gross national product at current prices.

^c Fiscal years beginning 1 April of years indicated.

^d Fiscal years ending 30 June of years indicated.

Table 15. Developed market economies: Personal consumption and its main components, 1964-1966

(At constant prices; percentage change from preceding year)

Country ^a and year	Total	Food, drink, tobacco	Clothing	Dwelling	Durables	
					Household goods	Passenger cars ^b
<i>Japan</i>						
1964	10	9	6	3	12	105
1965	6	3	5	3	9	9
1966	8	8	7	3	10	10
<i>Italy</i>						
1964	2	2	—	4	3	-7
1965	2	3	1	3	-11	10
1966	6	5	7	3	6	10
<i>France</i>						
1964	5	3	2	5	7	—
1965	3	3	1	4	-2	1
1966	5	3	4	4	...	14
<i>Austria</i>						
1964	4	4	4	5	6	7
1965	4	2	4	2	6	16
1966	5	3	1	...	6	10

Table 15. Developed market economies: Personal consumption and its main components, 1964-1966 (*continued*)*(At constant prices; percentage change from preceding year)*

Country ^a and year	Total	Food, drink, tobacco	Clothing	Dwelling	Durables	
					Household goods	Passenger cars ^b
<i>South Africa</i>						
1964	10	4	12	2	3	34
1965	5	7	7	4	9	10
1966	5	6	2	3	3	-6
<i>Belgium</i>						
1964	4	3	3	2	13	16
1965	3	2	2	2	4	18
1966	3	...	...	...	...	-1
<i>Canada</i>						
1964	6	3	3	6	8	11
1965	6	4	4	6	8	15
1966	5	3	2	5	7	-2
<i>United States</i>						
1964	6	4	9	5	14	7
1965	6	5	5	5	6	15
1966	5	4	9	4	8	-3
<i>Sweden</i>						
1964	5	4	4	5	9	7
1965	4	2	2	5	3	17
1966	2	2	—	3	-2	-25
<i>United Kingdom</i>						
1964	4	2	4	2	4	18
1965	2	-1	4	4	1	-6
1966	2	1	—	3	-3	-5
<i>Norway</i>						
1964	4	1	2	4	8	15
1965	3	5	-2	3	-3	2
1966	5	4	3	6	7	7
<i>Netherlands</i>						
1964	6	3	5	3	15	22
1965	8	7	6	3	14	27
1966	4	...	...	...	...	-21
<i>Germany (Federal Republic of)</i>						
1964	5	3	6	5	9	6
1965	6	5	8	5	5	13
1966	4	3	3	9	...	-1
<i>Denmark</i>						
1964	7	4	6	4	11	31
1965	4	3	8	5	9	-15
1966	4	5	3	5	—	19
<i>Ireland</i>						
1964	6	4	6	3	10	12
1965	2	2	4	4	—	4
1966 .....	—	...	...	...	...	-9
<i>Finland</i>						
1964	6	1	1	5	8	57
1965	5	3	-2	4	4	22
1966	5	4	2	4	3	-22
<i>Australia^c</i>						
1964	6	3	8	3	10	16
1965	4	3	4	4	7	6
1966	2	2	2	4	-1	-11

Source: Centre for Development Planning, Projections and Policies of the United Nations Secretariat, based on data from United Nations, *Yearbook of National Accounts Statistics*, and official national sources.

^a Countries are arranged in a descending order according to changes in the rate of

growth of gross national product between 1965 and 1966.

^b Registration of new passenger cars.

^c Fiscal years ending 30 June of years indicated.

Table 16. Developed market economies: Gross domestic fixed investment and its main components, 1964-1966

(At constant prices; percentage change from preceding year)

Country ^a and year	Total	Housing	Manufacturing	General government ^b
<i>Japan</i>				
1964	15	18	18	7 ^c
1965	2	14	-4	10 ^c
1966	10	14	—	15 ^c
<i>Italy</i>				
1964	-7	6	-20 ^d	16
1965	-8	-6	-20 ^d	1
1966	6	—	10 ^d	5
<i>France</i>				
1964	12	25	12 ^e	10
1965	5	9	2 ^e	13
1966	6	3	6 ^e	9
<i>Austria</i>				
1964	8	7	-5 ^f	11
1965	5	4	5 ^f	1
1966	7	6	8 ^f	...
<i>South Africa</i>				
1964	19	17	23	9
1965	17	18	18	18
1966	-2	3	-6	...
<i>Belgium</i>				
1964	13	46	-1	27
1965	1	—	6	-10 ^g
1966	4	...	...	...
<i>Canada</i>				
1964	12	12	18	10
1965	11	—	14	17
1966	10	-1	17	7
<i>Greece</i>				
1964	23	21	21	6
1965	11	14	34	7
1966	11	13	29	9
<i>United States</i>				
1964	6	-1	18	3
1965	8	-2	20	5
1966	5	-11	18	7
<i>Sweden</i>				
1964	7	11	-7	13
1965	5	3	13	11
1966	4	-2	...	19
<i>United Kingdom</i>				
1964	17	27	12	22
1965	4	3	9	5
1966	1	-3	-1	6
<i>Norway</i>				
1964	4	2	6	17
1965	6	4	8	2
1966	7	4	12	10
<i>Netherlands</i>				
1964	17	29	18 ^d	17
1965	5	12	3 ^d	2
1966	8	8	...	5
<i>Portugal</i>				
1964	5	16	10	—
1965	3	14	-4	-9
1966 .....	...	...	...	...

Table 16. Developed market economies: Gross domestic fixed investment and its main components, 1964-1966 (continued)

(At constant prices; percentage change from preceding year)

Country ^a and year	Total	Housing	Manufacturing	General government ^b
<i>Germany (Federal Republic of)</i>				
1964	12	13	9	14
1965	7	3	15	4
1966	1	4	1	5
<i>Denmark</i>				
1964	20	28	15	21
1965	6	10	5	30
1966	5	2	—	7
<i>Ireland</i>				
1964	9	23	1	9
1965	8	15	4	11
1966	—6	7	...	—1
<i>Iceland</i>				
1964	18	11	22	14
1965	—2	5	—10	10
1966	11	...	...	...
<i>Finland</i>				
1964	3	—9	12	1
1965	9	9	5	13
1966	2	3	—9	3

Source: Centre for Development Planning, Projections and Policies of the United Nations Secretariat, based on data from United Nations, *Yearbook of National Accounts Statistics*, and official national sources.

^a Countries are arranged in a descending order according to changes in the rate of growth of gross national product between 1965 and 1966.

^b Excluding government enterprises.

^c Including public corporations and government enterprises.

^d Including mining, quarrying, construction, electricity, gas and water.

^e Private enterprises.

^f Including mining and quarrying.

Table 17. Developed market economies: Prices and earnings, 1964-1966

(Annual average; percentage change from preceding year)

Country ^a and year	Whole-sale prices	Consumer prices	Export unit value	Import unit value	Implicit deflator of gross national product	Wage-earnings in manufacturing
<i>Japan</i>						
1964	—	4	1	1	3.9 ^b	10
1965	1	8	—1	—2	5.5 ^b	9
1966	4	5	1	4	4.4 ^b	12
<i>Turkey</i>						
1964	—1	3	...	...	2.3	...
1965	8	4	...	...	3.0	...
1966	5	9	...	...	0.4	...
<i>Italy</i>						
1964	4	6	3	3	6.8	11
1965	2	4	—3	—1	3.5	8
1966	1	2	—1	2	2.4	3
<i>France</i>						
1964	2	3	3	2	3.8	7 ^c
1965	2	3	1	2	2.5	6 ^c
1966	2	3	4	1	2.8	7 ^c
<i>Austria</i>						
1964	6	4	2	—2	2.9	9
1965	4	5	3	1	4.8	5
1966	2	2	—2	1	3.3	12
<i>Spain</i>						
1964	3	7	—3	6	6.4	...
1965	10	13	7	—2	11.3	...
1966	2	6	7	4	2.1	...

Table 17. Developed market economies: Prices and earnings, 1964-1966 (*continued*)
(Annual average; percentage change from preceding year)

Country ^a and year	Whole-sale prices	Consumer prices	Export unit value	Import unit value	Implicit deflator of gross national product	Wage earnings in manufacturing
<i>South Africa</i>						
1964	2	3	3	1	4.5	...
1965	4	4	—	2	3.3	...
1966	4	4	4	4	3.1	...
<i>Belgium</i>						
1964	5	5	3	2	4.3	11
1965	1	4	—	—1	4.8	9
1966	2	4	2	2	4.3	9
<i>Canada</i>						
1964	1	2	2	1	2.5	4
1965	2	3	1	1	2.9	5
1966	4	4	4	1	4.6	6
<i>Greece</i>						
1964	4	1	—1	3	3.5	11
1965	4	3	—2	1	4.0	9
1966	3	5	2	2	4.1	9
<i>United States</i>						
1964	—	1	1	3	1.6	3
1965	2	2	3	—	1.8	3
1966	3	3	1	2	3.0	4
<i>Sweden</i>						
1964	5	3	4	5	3.2	9
1965	4	5	3	2	6.3	11
1966	3	7	—	1	5.5	8
<i>United Kingdom</i>						
1964	4	3	2	4	2.2	4 ^c
1965	1	5	2	—	4.7	4 ^c
1966	2	4	4	2	2.7	5 ^c
<i>Norway</i>						
1964	5	5	3	1	4.0	6
1965	3	4	5	—	3.6	9
1966	2	3	—	1	3.4	7
<i>Netherlands</i>						
1964	7	5	3	3	7.6	14 ^c
1965	3	6	1	—	5.4	11 ^c
1966	5	6	—1	1	5.7	12 ^c
<i>Portugal</i>						
1964	1	4	...	2	2.0	...
1965	4	3	...	1	3.0	...
1966	4	5	...	4	...	...
<i>New Zealand</i>						
1964	5	4	9	1	3.2 ^b	5
1965	1	3	—2	—	3.0 ^b	6
1966	1	3	—2	1	5.4 ^b	5
<i>Germany (Federal Republic of)</i>						
1964	—	3	1	1	2.8	8
1965	3	4	2	3	3.8	11
1966	2	3	2	1	2.7	7
<i>Denmark</i>						
1964	3	3	3	1	4.8	9
1965	4	7	1	1	7.5	12
1966	3	7	4	1	7.7	13
<i>Ireland</i>						
1964	7	6	6	1	11.2	13
1965	4	5	1	3	3.1	4
1966	3	3	1	1	3.7	10
<i>Iceland</i>						
1964	...	20	...	...	19.7	23 ^c
1965	...	7	...	...	12.7	16 ^c
1966	...	11	...	...	...	20 ^c

Table 17. Developed market economies: Prices and earnings, 1964-1966 (continued)
(Annual average; percentage change from preceding year)

Country ^a and year	Whole-sale prices	Consumer prices	Export unit value	Import unit value	Implicit deflator of gross national product	Wage earnings in manufacturing
<i>Switzerland</i>						
1964	1	3	4	2	4.1	9
1965	1	4	2	1	3.5	7
1966	2	5	4	3	4.9	...
<i>Finland</i>						
1964	8	10	6	2	7.8	14
1965	4	5	4	1	2.6	9
1966	2	4	—	5	3.9	8
<i>Australia</i>						
1964	3	2	3	1	3.8 ^d	3 ^c
1965	3	5	—7	2	2.5 ^d	4 ^c
1966	5	3	5	2	3.5 ^d	3 ^c

Source: Centre for Development Planning, Projections and Policies of the United Nations Secretariat, based on data from Statistical Office of the United Nations, *Monthly Bulletin of Statistics*; International Monetary Fund, *International Financial Statistics*, and official national sources.

^a Countries are arranged in a descending order according to changes in the rate of

growth of gross national product between 1965 and 1966.

^b Fiscal years beginning 1 April of years indicated.

^c Wage rates.

^d Fiscal years ending 30 June of years indicated.

Table 18. Developed market economies: Employment and unemployment, 1964-1966

Country ^a	Estimated civilian labour force in 1965 (millions)	Percentage change from preceding year in total civilian employment			Percentage unemployed ^b		
		1964	1965	1966	1964	1965	1966
Japan	49.0	1	2	1	0.8	0.8	0.9
Italy	19.9	—	—2	—1	2.7	3.6	3.9
France	20.2 ^c	1	—	—	1.1	1.4	...
Austria	3.4 ^d	1	1	—	2.7	2.7	2.5
South Africa	5.7 ^d	11 ^e	11 ^e	5 ^e	...	...	...
Belgium	3.7 ^f	1	1	...	2.2	2.4	2.7
Canada	7.1	4	4	4	4.7	3.9	3.6
United States	78.4	2	3	3	5.2	4.6	3.9
Sweden	3.2 ^d	1 ^g	4 ^g	—3 ^g	1.1	1.1	1.4
United Kingdom	25.1	1	1	1	1.7	1.5	1.6
Norway	1.5	1	1	1	1.4	1.2	1.1
Netherlands	4.2 ^d	1 ^e	— ^e	—2 ^e	0.8	0.9	1.2
New Zealand	1.0	3	3	3	0.1	0.1	—
Germany (Federal Republic of)	27.2	—	1	—	0.7	0.6	0.7
Denmark	2.1 ^d	3	2	...	2.9	2.4	2.7
Ireland	1.1 ^f	—	—1	...	5.7	5.6	6.1
Switzerland	2.5 ^d	1 ^e	—2 ^e	—2 ^e	—	...	...
Finland	2.2	1	1	1	1.5	1.4	1.5
Australia	4.2 ^h	4	4	3	0.7	0.4	0.4

Source: Centre for Development Planning, Projections and Policies of the United Nations Secretariat, based on Statistical Office of the United Nations, *Monthly Bulletin of Statistics*; International Labour Office, *Yearbook of Labour Statistics, 1966* (Geneva), and official national sources.

^a Countries are arranged in a descending order according to changes in the rate of growth of gross national product between 1965 and 1966.

^b Annual figures are generally computed as arithmetic averages of the twelve monthly figures. Figures are not necessarily comparable between countries.

^c 1966.

^d 1960.

^e Manufacturing only.

^f 1964.

^g Mining and manufacturing.

^h 1961.

Chapter III

RECENT TRENDS IN THE CENTRALLY PLANNED ECONOMIES

OUTPUT

The total production of the eastern European centrally planned economies¹ continued to expand at a high rate in 1966. For the group as a whole,

national income increased by more than 7 per cent, that is, at a higher rate than during any year of the current decade with the exception of 1964 (see table 19). This acceleration of growth over the preceding year occurred in most countries, with par-

Table 19. Centrally planned economies: Changes in national income,^a 1963-1967
(Percentage change over preceding year)

Country	1963	1964	1965	1966		1967, planned
				Actual	Planned	
Bulgaria	7.8	9.6	7.1	11.0	9.5	8.6
Czechoslovakia	-2.2	0.6	3.7	7.0	3.8	6.0
Eastern Germany	3.2	4.5	4.6	4.5	5.0	5.0
Hungary	6.0	5.0	1.0	6.0	3.0	4.0
Poland	7.0	7.0	7.0	6.9	3.7	3.4
Romania	9.7	11.5	9.5	7.9	...	...
USSR	4.1	9.4	7.2	7.5	6.4	6.6
Total, above countries ^b	4.5	8.4	6.8	7.2	...	...

Source: Centre for Development Planning, Projections and Policies of the United Nations Secretariat, based on reports on fulfilment of plans; national statistical yearbooks and statistical bulletins, and replies of Governments to the United Nations questionnaire of November 1966 on economic trends, problems and policies.

^a Net material product at constant prices.

^b Weighted by coefficients derived from the estimates of relative value of net material product of various centrally planned economies, as indicated in *Sopostavlenie urovnia ekonomicheskovo razvitiia socialisticheskikh stran* (Moscow, 1965).

ticularly significant improvement in Czechoslovakia and Hungary. In two countries only, Poland and Romania, did the national income grow more slowly in 1966 than in 1965. In all these countries, with the exception of Eastern Germany, the growth rates achieved in 1966 were considerably higher than the rate of expansion planned for that year.

This acceleration of growth, and even more the fact that the actual rates substantially exceeded the planned rates, was largely the effect of the considerable improvement which took place in agricultural production. For the group taken as a whole, agricultural production increased in 1966 by about 9 per cent (see table 20). In Poland and Eastern Germany alone, agricultural production increased more slowly than during the preceding year. In Poland, in view of the exceptionally high rate of

growth achieved in agricultural output in 1965, the 1966 plan provided for a 3 per cent decline for the year, but in fact agricultural output rose in 1966 by 5.5 per cent. The growth of agricultural output was largely the effect of a considerable rise in crop production. In most countries, the contribution of the rise in livestock production to the total growth of agriculture was relatively small.²

Although improvements in agriculture in 1966 were mostly due to very favourable weather in all the eastern European countries, with the exception of Eastern Germany, another important contributing

¹In the context of this chapter, the term eastern European countries covers Bulgaria, Czechoslovakia, Eastern Germany, Hungary, Poland, Romania and the Soviet Union.

² Thus, in Bulgaria crop output increased by 20 per cent and animal production by 5 per cent, and in Hungary about 6 and 2 per cent, respectively. Only in Poland was the difference between the rates of increase achieved in these two fields of agricultural activities small: crops increased in 1966 by 5.8 per cent and animal production by 5.2 per cent. In other countries, for which no aggregate data on crops and animal production are available, the information concerning output of individual commodities indicates a much faster growth in crops than in animal products.

Table 20. Centrally planned economies: Changes in gross agricultural output, 1963-1967
(Percentage change over preceding year)

Country	1963	1964	1965	1966		1967, planned
				Actual	Planned	
Bulgaria	2.6	11.4	1.8	15.0	10.0	5.0
Czechoslovakia	7.3	2.5	-3.9	10.0	7.9	2.9
Hungary	5.0	4.7	-5.3	6.0	5.0	3.0
Poland	4.1	1.3	7.7	5.5	-3.3	4.2
Romania	3.3	6.3	6.7	11.2	5.0	5.8
USSR	-7.5	14.4	2.0	10.0	9.0	4.0
Total, above countries ^a	-4.2	11.0	2.3	9.4	...	...

Source: See table 19.

^a Weights are derived from data on the relative value of agricultural production in

various centrally planned economies given in the source quoted in table 19, foot-note b.

factor was the intensive efforts made to raise the efficiency of the agricultural sector through improvements in the supply of machinery and equipment, fertilizer and seeds, and to increase incentives for the agricultural producers. In the Soviet Union, for instance, the amount of fertilizer used per hectare of arable land, which had risen by 25 per cent between 1964 and 1965, was again increased by 12 per cent between 1965 and 1966. A similar rate of increase was achieved in 1966 by other eastern European countries as a group.

The number of tractors and other agricultural machines delivered to agriculture continued to rise in 1966, and the share of agriculture in the total consumption of electric power also rose. There was also an improvement in the quality and quantity of seeds delivered to agriculture, and in irrigation, drainage and other works.

Improved incentives for more effective work took the form of increases in the prices paid to agricultural producers by the state purchasing agencies, the lowering of prices for agricultural implements, and other measures to raise the income of the rural population.

Apart from its direct effect on the growth of national income, the rise in agricultural output in 1966 also influenced industrial production by increasing the supply of materials for food-processing and other industries using agricultural raw materials. In addition, the improvement in agriculture resulted in an absolute or relative reduction of the need for agricultural imports or in an increase in agricultural exports, and therefore increased the amount of export earnings available for purchases of raw materials or equipment for industrial use. In consequence, the indirect as well as the direct impact of improvements in agriculture was considerable in the centrally planned economies in 1966.

Industrial production increased somewhat less than in 1965 and this slowing down was the result of a slight deceleration in the Soviet Union and Czechoslovakia and a much greater deceleration in Bulgaria, Poland and Romania (see table 21). As in the past, the highest rates of industrial growth were achieved by Bulgaria and Romania, the least developed countries of the group. The actual growth rates of industrial production in all countries were higher than those provided in the plans for 1966.

The rise in industrial production was largely achieved through increases in output per man which, in most countries, increased much faster than employment. In Poland, however, employment and labour productivity rose at about the same rate, while in Bulgaria employment increased much faster than output per man.

In most of the centrally planned economies, 1966 was the first year of the new medium-term plans, and the pattern of changes during that year was generally in line with the main objectives of these plans. Particular stress was placed on the acceleration of growth in the most productive branches, the expansion of which would have the most beneficial effect on the rise in over-all efficiency of the economies and especially on export earnings. Thus, priority was given to the expansion of the production of oil and natural gas within the energy sector, the production of electrical energy, and to the optical instrument, metal-working and chemical industries. In most countries, considerable efforts were made to accelerate the growth of light industries with a view to improving consumer supplies in accordance with the medium-term plans.

Certain improvements were achieved in several countries in the composition of output, in the quality of the goods produced, and in the direction of reducing raw material input per unit of output. There

Table 21. Centrally planned economies: Changes in industrial production, 1963-1967^a

(Percentage change over preceding year)

Country	1963	1964	1965	1966		1967, planned
				Actual	Planned	
Bulgaria	10.0	10.0	15.0	12.2	10.2	11.3
Czechoslovakia	-0.6	4.1	7.9	7.4	5.5	5.3
Eastern Germany	4.2	6.7	6.3	6.5 ^b	5.0 ^b	6.0 ^b
Hungary	7.0	9.0	5.0	7.0	5.0	6.0
Poland	5.4	9.4	9.0	7.4	6.5	6.2
Romania	12.0	14.0	13.0	11.7	10.5	11.3
USSR	8.1	7.3	8.7	8.6	6.7	7.3
Total, above countries ^c	7.3	7.6	8.7	8.4	6.6	7.3

Source: See table 19.

^a Gross value of output, unless otherwise stated.^b "Commodity production" equivalent to gross output less work in progress. During recent years, the differences between the rates of change of commodity production and of gross

output were insignificant.

^c Weights are derived from data on the relative value of industrial production in various centrally planned economies given in the source quoted in table 19, foot-note b.

were also improvements in the degree of utilization of existing capacity, and production costs were reduced for various commodities. In Czechoslovakia, for instance, where in earlier years a higher rate of growth for gross value of output than for net value had indicated an increase in input per unit of output, the reverse was true in 1966. The need for improvements in these fields, repeatedly indicated in most of the centrally planned economies, was particularly stressed in 1966 by Romania where recent analysis of these problems³ disclosed the existence of important shortcomings which had previously been overshadowed by the extremely high rates of economic development achieved by this country. The most important of these shortcomings were: an excessive increase in the volume of stocks, high production costs owing among other things to overstaffing in individual enterprises, and poor quality products, especially in heavy industry, which created difficulties in other sectors of the economy.

The excessive accumulation of stocks has also continued in Hungary, although at a much slower rate than in previous years, and in some other eastern European countries. In Czechoslovakia, stocks increased more slowly than output, but one third of the annual increment of stocks consisted mainly of materials and semi-finished goods regarded as unnecessary from the point of view of current needs of manufacturing industry.

In mainland China, for which no official data are available on total production, the information on the growth of industrial output and output of the main crops seems to indicate an increase in the total output of industry and agriculture of the order of 5 to 10 per cent in 1966. This increase was largely

the effect of an officially reported rise of 20 per cent in industrial production which, according to the same sources, had risen by 12 per cent in 1965 and 15 per cent in 1964.⁴ The fastest rate of growth, about 40 per cent, was attained by the machine-building industry. The output of steel also increased substantially, without, however, reaching the peak achieved in 1960. The output of oil in 1966, estimated at 10 million tons, and that of chemical fertilizers, estimated at 5 million tons, exceeded all previous levels.

Agricultural production in mainland China was influenced by favourable weather in the rice-growing areas and by drought in the wheat-growing areas in the north. In consequence, the rice harvest increased substantially while the wheat harvest declined, and the total output of grain seems to have remained at the level of 1965, which was higher than in 1957 but below the exceptionally high level achieved in 1958. The cotton crop was relatively favourable, exceeding the record level of 1965. The volume of cotton delivered to the state purchasing agencies was 34 per cent higher than in 1965. The considerable efforts to improve agriculture were reflected in the expansion of irrigation work, larger supplies of fertilizers and pesticides and of agricultural machinery and equipment and an increased number of agronomists and scientific workers sent to the countryside.

INVESTMENT

The growth of investment accelerated in 1966 in Bulgaria, Czechoslovakia, Hungary and Romania, and slowed down in the other eastern European countries (table 22). Particularly significant in-

³ Carried out at the meeting of the Central Committee of the Romanian Communist Party held in December 1966.

⁴ See *New China News Agency*, 20 December 1966 (Peking) and *Far East Trade and Development*, No. 4, April 1967 (London).

Table 22. Centrally planned economies: Changes in gross fixed investment, 1963-1967^a

(Percentage change over preceding year)

Country	1963	1964	1965	1966		1967, planned
				Actual	Planned	
Bulgaria ^b	14.4	10.2	8.1	24.0	16.2	13.9
Czechoslovakia	-11.0	11.9	7.8	8.9	7.9	4.2
Eastern Germany ^b	5.4	8.7	7.7	7.0 ^c	10.0 ^c	9.0 ^c
Hungary	15.1	4.2	0.8	6.0	5.0	4.7
Poland	2.8	3.6	10.4	7.6	5.2	8.1
Romania	8.8	10.7	8.7	10.2 ^d	14.0 ^d	17.0 ^d
USSR	5.1	9.0	8.2	6.0	6.4	7.9

Source: See table 19.

^a Unless otherwise stated, the data are expressed in constant prices and refer to total investment in the case of Czechoslovakia, Eastern Germany and the Soviet Union, and to the socialized sector only in the case of

Bulgaria, Hungary, Poland and Romania.

^b In current prices.

^c Not including capital repairs.

^d State only. In 1965, the increase in this sector amounted to 9.9 per cent.

creases in the rate of growth of gross fixed investment occurred in Bulgaria, where investment rose in 1966 by 24 per cent as compared with an 8 per cent rise in 1965, and in Hungary where the corresponding figures were 6 per cent and less than one per cent, respectively.

In these two countries as well as in Czechoslovakia and Poland investment outlays were higher than planned, while in other countries the reverse was true. Poland, however, reported that while its investment expenditure in 1966 was higher than planned, this was in part the result of higher costs. The volume of the construction component of investment fell short of planned quotas by about 6 per cent.

In most of the centrally planned economies, some success was achieved in improving the ratio of outlay on machinery and equipment to that on construction work. The relatively low share of machinery and equipment in total investment outlays has been one of the factors tending to increase the capital-output ratio in these countries. However, other factors acting in this direction continued to be apparent in 1966. The volume of unfinished construction continued to increase over and above the amount warranted by the growth and timing of investment projects, and the commissioning of new capacities was slower than anticipated. In several countries, in particular the Soviet Union, these delays were largely the effect of the dispersion of construction work among an excessive number of projects. Shortcomings in investment activities were not limited to the productive sector but were also reflected in the underfulfilment of plans for housing construction.

As in previous years, efforts to eliminate shortcomings in investment activities continued to be

made in all the eastern European countries.⁵ In Eastern Germany, Hungary and the Soviet Union, as well as in other countries, various measures were introduced for the purpose of creating inducements for the accelerated completion of investment projects and checking the increase in unfinished construction.

RETAIL SALES

Retail sales increased in 1966 at a higher rate than provided in the annual plans in all countries except Romania (table 23). In some cases, however, the rates of growth of retail sales were smaller than those achieved in 1965. This slowing down occurred in Poland and in the Soviet Union, from about 8 and 10 per cent respectively in 1965 to about 6 and 9 per cent in 1966, and to a less extent in Eastern Germany. In other countries, retail sales in 1966 increased faster than during the preceding year, with particularly great acceleration in Hungary, from 4 per cent in 1965 to 7 per cent in 1966.

Changes in the allocation of resources

Between 1965 and 1966, the volume of retail sales increased more slowly than national income in Bulgaria, Czechoslovakia and Eastern Germany, while gross fixed investment in these countries as well as in Poland rose faster than national income. Although the rate of change in gross fixed investment need not correspond to that of accumulation, and the rate of change in retail sales is not always similar to that of total consumption, some conclusions can be drawn from a comparison of the data shown in tables 19, 22 and 23, with respect to changes in the allocation of national income between consumption and accumula-

⁵ See "Some aspects of plan implementation in the centrally planned economies" in Part One of *World Economic Survey, 1966* and the section on institutional changes in the present chapter.

Table 23. Centrally planned economies: Changes in volume of retail trade, 1963-1967

(Percentage change over preceding year)

Country	1963	1964	1965	1966		1967, planned
				Actual	Planned	
Bulgaria	9.3	5.8	7.8	8.4	...	9.0
Czechoslovakia	1.4	2.8	5.6	5.2 ^a	4.5	...
Eastern Germany ^a	0.3	3.3	4.3	4.1	3.0	4.5
Hungary	8.6	7.5	3.7	8.0	...	3.4
Poland	3.8	4.7	8.6	6.4	5.8	7.4
Romania	8.4	7.8	7.9	9.9	...	9.0
USSR	4.7	5.3	10.1	8.7	...	7.4

Source: See table 19.

^a In current prices.

tion. In the case of the first three countries mentioned above, the differences in the rates of growth of retail sales, investment and national income are sufficiently large to indicate a shift in the allocation of resources towards accumulation.⁶

These conclusions are confirmed by data which are available for some countries regarding changes in certain components of national income. Thus, according to the report on the fulfilment of the 1966 plan in Bulgaria, consumption increased that year by about 8 per cent, in other words, less than the 11 per cent increase in national income. In Czechoslovakia, the corresponding 1966 figures were 4 per cent and 7 per cent, respectively. In Poland, for which country more detailed information is available, data on changes in net domestic expenditure, consumption and net fixed investment shown in the report on the fulfilment of the plan for 1966 indicate that while national income rose by 6 per cent, total accumulation increased by 7.9 per cent and consumption by 6.5 per cent. The increase in the sum of consumption and accumulation over and above that of national income was made possible by a decline in net exports between 1965 and 1966.⁷

While in Poland accumulation increased faster than consumption, in Hungary the rate of growth of each of these components increased at the same rate of 5 per cent, that is, less than national income. In

⁶ This is indicated by the following figures: in Bulgaria, national income rose by 11 per cent, gross fixed investment by 24 per cent and retail sales by 8.4 per cent; in Czechoslovakia, the corresponding figures are: national income 7 per cent, investment 9 per cent, retail sales 5.2 per cent; in Eastern Germany, national income 4.5 per cent, investment 7 per cent, retail sales 4 per cent; and in Poland national income 6.9 per cent, investment 7.9 per cent, retail sales 6.3 per cent.

⁷ In domestic prices. Data on foreign trade in actual prices used in international transactions indicate an increase in net imports between 1965 and 1966. The difference between national income and net domestic expenditure in Polish statistics includes, in addition to the balance of foreign trade, statistical discrepancies and losses in national income.

Hungary, however, the decline in the share of consumption in national income was in favour not of accumulation but of net exports, which more than doubled in 1966.⁸

The developments in Romania are more difficult to assess. While gross fixed investment and retail sales increased in 1966 at approximately the same rate of about 10 per cent, national income rose by about 8 per cent. Although the fact that retail sales rose faster than national income could be interpreted as indicating a shift towards consumption, the changes in gross fixed investment in relation to the growth of national income do not support this assumption. In view of the lack of any corroborating evidence, no conclusions can be drawn from these data with respect to the changes in the allocation of national income in 1966. It is in fact possible that total consumption increased less than retail sales, owing to a rise in the share of goods purchased from the retail trade network in the total consumption of peasants. Similarly, total accumulation could have risen faster than gross fixed investment under the impact of such factors as faster growth of inventories.

The Soviet Union appears to be the only country in the group where consumption increased faster than national income in 1966. This seems to be indicated by the fact that while national income increased by 7.5 per cent, retail sales rose by about 9 per cent and gross fixed investment by only 6 per cent.

The increase in the share of accumulation in national income in Czechoslovakia in 1966 represents

⁸ According to the reply of the Hungarian Government to the United Nations questionnaire, both consumption and accumulation increased in 1966 by 5 per cent, and national income by 6 per cent. The conclusions concerning foreign trade are derived from estimates of various components of national income in absolute terms obtained by the application of the above-mentioned percentage changes to the data for 1965 as given in *Magyar Statisztikai Zsebkönyv, 1967* (Budapest).

a turning point in the developments of the past four years in this country when the rate of accumulation was declining. Since the continuation of such a trend would obviously lead to a slowing down of economic growth, considerable efforts have been made to increase investment rates to the required level. In 1966, accumulation stood at about 14.5 per cent of net domestic expenditure, and this was regarded as an optimum rate for the current five-year plan which began in 1966.

In Eastern Germany, the trend towards raising the share of investment in national income continued in 1966,⁹ and a similar policy is envisaged for the next few years. In most of the other countries, the general tendency is either to reduce differences between the rate of growth of consumption and that of accumulation in favour of the former, or to achieve a certain stability in their relationship.

BALANCE BETWEEN DEMAND AND SUPPLY OF CONSUMER GOODS

The shift in the allocation of resources in favour of accumulation which seems to have taken place in most of the eastern European countries in 1966 required a corresponding readjustment in income distribution. The available information indicates that in most cases this was achieved by keeping wage increases below the rates of growth of labour productivity, and that the impact of these measures was sufficient to offset, at least in part, the effect of a growth of income payments to agricultural producers that was higher than the rates achieved in output and sales of agricultural commodities. These developments in the agricultural sector were mainly the effect of higher prices paid for deliveries of various commodities by the state purchasing agencies, and of reductions in prices charged for agricultural implements, fertilizers and other inputs. These divergent changes in the non-agricultural sectors and in agriculture have resulted in a certain shift in the distribution of income in favour of agricultural producers. They were the result of deliberate policies designed to narrow gradually the differences between *per capita* income in agriculture and that in non-agricultural occupations.

In Bulgaria, the money income of the population has increased as a result of substantial wage increases for about one quarter of the non-agricultural labour force, increases in the prices paid to agricultural producers by the state purchasing agencies, and a reduction of the prices charged for certain agricultural implements and fertilizers. In consequence, the money income of the peasants rose faster than their sales, and this tended to increase the pres-

sure of demand upon supply. The impact of changes in wages in relation to changes in labour productivity cannot be ascertained because data on average wages in 1966 are lacking. Indirect evidence, however, seems to indicate that the 8 per cent increase in retail sales was generally sufficient to meet the increase in effective demand.

In Czechoslovakia, the growth of money income of the population in relation to the supply of consumer goods was influenced by the following factors. Output per man increased almost twice as much as average wages. The difference between the growth of labour productivity and average wages seems to have been sufficiently large to offset the effect on the supply-demand situation of the rise in the share of resources allocated to accumulation. The distributed money income of the members of collective farms has also increased less than output and sales. The total money income of the population rose by about 5 per cent in 1966, that is, somewhat less than retail sales. Retail prices remained stable during the first three quarters of the year but during the last quarter, prices of meat and of certain other foodstuffs were increased, while prices of some other goods were reduced. The effect of these changes on the cost of living was relatively small, taken on an annual basis, and, consequently, the increase in real wages was only slightly smaller than that of money wages. While average money wages in 1966 were 2.4 per cent above the 1965 level, real wages were up 2.1 per cent, that is, almost twice as much as in 1965.

In Hungary, the money income of the population was 7 per cent higher in 1966 than in 1965. Not all this increase was the effect of rising output. Thus, in the industrial sectors output per man increased by about 6 per cent, that is, faster than the 5 per cent rise of average wages. In agriculture, however, money receipts increased faster than output and sales because of increases in delivery prices. Although retail sales increased by 8 per cent, that is, faster than the money income of the population, shortages, chiefly of durable goods but also of certain foodstuffs, were apparent in 1966. Prices of meat and other livestock products in the state and co-operative trade were raised, while prices of some other commodities were reduced with the intention of bringing the pattern of demand into line with the structure of supply. The effect of these changes was a 2 per cent increase in the cost of living. Real wages rose in 1966 by about 2 to 3 per cent, whereas in 1965 the one per cent rise in average money wages was entirely wiped out by price increases. Real *per capita* income of the peasants seems to have increased faster than that of wage earners.

In Poland, the wages bill increased in 1966 by 8 per cent, that is, somewhat more than in 1965, and payments for deliveries of agricultural com-

⁹ According to an official statement (*Neues Deutschland*, 17 April 1967 (Berlin)), accumulation rose by 23 per cent between 1962 and 1966, while consumption increased by 14 per cent.

modities rose by 9 per cent as compared with a 12 per cent increase in the previous year. The total money income of the population rose by about 9 per cent, that is, faster than the volume of retail sales, which increased by 6.4 per cent. These differences in the growth of money income and in retail sales did not, however, result in any significant increase in the pressure of demand upon the supply of consumer goods, partly because an increased proportion of the increment of income was directed towards purchases of services, which rose by 19 per cent in 1966, and partly because of a 23 per cent increase in savings deposits.¹⁰ While the rise in supply was generally commensurate with increases in demand, certain semi-durable commodities were in short supply. The demand for certain kinds of foot-wear, clothing and furniture increased faster than the supply. These disproportions were the result of a shift in demand towards higher-quality goods as well as of inadequate adjustment of the composition of the supply of consumer goods to the structure of consumer demand. The cost of living rose in 1966 by 1.3 per cent, a reflection chiefly of increases in rent and in the prices of fish and fish products, cigarettes and pharmaceutical products. The prices of lard and of certain types of television receivers and refrigerators were reduced. While average wages rose by 4.5 per cent, real wages rose by about 3.2 per cent as compared to a one third of one per cent increase in 1965.

In Romania, the wages bill rose by 11 per cent and the money receipts of the peasants by 8 per cent. These increases seem to have been commensurate with the 10 per cent rise in retail sales. Average money wages rose by about 6.5 per cent, and real wages by 6 per cent, indicating a slight increase in the cost of living in 1966. The growth of real wages was fractionally slower than in 1965.

In the Soviet Union, the wages bill increased by about 7 per cent and the money income paid to the members of collective farms increased probably twice to three times as much.¹¹ But since in 1965 the money income of the peasants represented only about 10 per cent of the total revenue from these two sources, the total money income of the population seems to have increased to a somewhat smaller extent than the 8.7 per cent increase in retail sales. In 1966, the money receipts of agricultural producers in-

¹⁰ This figure relates to savings deposited with "P.K.O.", the largest savings institution in the country, accounting for by far the greater part of total savings deposits in Poland.

¹¹ Total income in money and in kind paid to the peasants for work on collective farms increased by 16 per cent. As deliveries increased more than output, it is probable that money income payments increased faster than total remuneration of the members of collective farms. A rough evaluation of the rise in the sales of agricultural commodities to the purchasing agencies by the State as well as by collective farms indicates an increase in the order of 20 per cent (expressed in 1965 prices).

creased to a greater extent than output or than the volume of their sales to the state and co-operative purchasing agencies. This was largely the effect of higher prices paid to the peasants by these agencies, of increases in payments out of various social funds, and a reduction in income-tax and in the prices paid by the peasants for certain producer goods and for electric power.¹² The benefits derived by the collective and state farms from the increase in prices received and from the reduction in taxes and prices paid by agricultural producers amounted, according to official estimates, to 6.5 thousand million roubles in 1966, equivalent to about 20 per cent of the value of their receipts from sales to the state and co-operative agencies in 1965.

While in the agricultural sector income payments increased faster than output and sales, the reverse was true in the industrial sector, as indicated by the fact that in 1966 money wages increased much less than output per man. As in most of the other centrally planned economies, the changes in the distribution of income which occurred in the Soviet Union in 1966 were definitely in favour of agricultural producers.

Although the supply of consumer goods generally increased in line with the rising demand, certain types of clothing, foot-wear, chemical products for household use, furniture and refrigerators were in short supply in 1966. Average money wages increased in 1966 by 3.6 per cent and real wages seem to have increased at the same rate.¹³ In the previous year, money wages rose by 5.8 per cent. Real *per capita* income of the population, which includes income in money and in kind, pensions and other payments from social funds, and the value of free services, increased by 6 per cent in 1966 as compared with a 7.4 per cent increase in 1965.

In mainland China, the supply situation improved considerably in 1966. Although data on sales of consumer goods are not available, indirect information indicates that the supply of rice, vegetable oil and meat in the main cities increased in 1966 in line with demand.

FOREIGN TRADE

The foreign trade of the eastern European centrally planned economies (exports plus imports), which in 1965 increased by about 6.4 per cent, rose in 1966 by only 5.4 per cent, that is, slower than the national income. The deceleration was largely ac-

¹² The effect of these changes was somewhat reduced by a fall in prices on the collective farm markets: in the first half of 1966, these were 3 per cent lower than in the corresponding period of 1965.

¹³ Although prices in the state and co-operative trade remained unchanged, during the first half of 1966, prices for agricultural commodities sold on collective farm markets were 3 per cent below the corresponding figure for the previous year. In 1965, these prices declined by about 5 per cent.

counted for by the slower growth of the trade of the Soviet Union—by far the largest trading country in the group—and a much sharper deceleration in Czechoslovakia, Hungary and Poland as well as in mainland China. In other centrally planned econo-

mies, the growth of trade was greater between 1965 and 1966 than during the previous year. The highest rates of expansion were again achieved by Bulgaria and Romania, 18 and 10 per cent, respectively (see table 24).

Table 24. Centrally planned economies: External trade, 1963-1966

(Millions of dollars)

Country	1963	1964	1965	1966
<i>Bulgaria</i>				
Exports	834	980	1,176	1,305
Imports	933	1,062	1,178	1,474
Balance	-99	-82	-2	-169
<i>Czechoslovakia</i>				
Exports	2,462	2,576	2,689	2,745
Imports	2,160	2,429	2,672	2,729
Balance	302	147	17	16
<i>Eastern Germany</i>				
Exports	2,713	2,930	3,067	} 6,397
Imports	2,325	2,630	2,802	
Balance	388	300	265	
<i>Hungary</i>				
Exports	1,206	1,352	1,510	1,594
Imports	1,306	1,496	1,521	1,568
Balance	-100	-144	-11	26
<i>Poland</i>				
Exports	1,770	2,097	2,228	2,272
Imports	1,979	2,072	2,340	2,494
Balance	-209	25	-112	-222
<i>Romania</i>				
Exports	915	1,000	1,102	1,186
Imports	1,022	1,168	1,077	1,214
Balance	-107	-168	25	-28
<i>USSR</i>				
Exports	7,272	7,683	8,166	8,832
Imports	7,059	7,736	8,051	7,902
Balance	213	-53	115	930

Source: See table 19 and United Nations, *Monthly Bulletin of Statistics*, June 1967.

A significant feature of the changes in the geographical distribution of trade was that trade within the group increased again less than trade with the rest of the world.¹⁴ This tendency was much more pronounced in 1966, when the trade of the centrally planned economies with one another increased by less than one per cent above the 1965 level, while trade with the developing countries increased by 6 per cent and trade with developed market economies by 16.5 per cent. The result of these developments was a decline in the share of intra-trade of the centrally planned economies from about 63 per cent of total trade in 1965 to 60 per cent in 1966. The share of developed countries in the total trade of the centrally planned economies increased from 23

per cent to 26 per cent while the share of developing countries remained virtually unchanged.

The trade of mainland China and other Asian centrally planned economies with other centrally planned economies declined in 1966 by 1.5 per cent, as a result of a 13 per cent decline in exports, while mainland China's imports from these countries rose by about 9 per cent.¹⁴

The changes in net trade balances differed considerably among the countries of this group. Thus, in Bulgaria, mainland China and Poland, net imports increased substantially, while in Hungary and the Soviet Union the trade balance improved in 1966. In other countries for which data are available, the changes in the trade balances were relatively small. The change in the balance of foreign trade of the Soviet Union was incomparably greater than in any

¹⁴ Based on data from United Nations, *Monthly Bulletin of Statistics*, June 1967, special table B, "World exports by provenance and destination, 1964-1966", pages xii-xv.

other centrally planned economy.¹⁵ While in 1965 net exports of the Soviet Union were equivalent to \$115 million, in 1966 they rose to \$930 million, of which \$609 million was in trade with other centrally planned economies and \$321 million in trade with the rest of the world.

INSTITUTIONAL CHANGES

The changes initiated earlier in the methods of planning and management continued in most of the centrally planned economies in 1966. In some countries, such as Bulgaria, Eastern Germany and the Soviet Union, the progress of the reforms was reflected mainly in the gradual increase in the number of enterprises subject to the new regulations and in the introduction of additional measures for further improvement in work incentives and greater freedom of decision for management. In Czechoslovakia, a much more comprehensive reform was introduced at the beginning of 1967 and a similar reform is to be initiated by Hungary on 1 January 1968.

The main aspects of the Czechoslovak and Hungarian reforms are reviewed in Part One of this *Survey*. Some of the measures included in the reforms were already introduced on an experimental basis in 1966 and their effect was regarded as one of the factors accounting for the improved performance of the economy during that year.

In Czechoslovakia, particular attention was devoted to the price reform regarded as essential for the effective operation of the new system in view of its increasing reliance on market relations. The purpose of the reform prepared in 1966 and put into effect as of 1 January 1967 was to ensure that the profit rate in all branches of industry corresponds to the requirements of the new system governing the allocation of the income of enterprises to various enterprise funds and the payment of taxes. In the second stage of the reform, prices of individual commodities are to be adjusted to the conditions of demand and supply. The attempt to co-ordinate the changes in the price system with other requirements of the general reform proved quite intricate and encountered considerable difficulties. The general level of prices of industrial commodities increased much more than was anticipated. Wholesale prices of some consumer goods exceeded the retail prices, which were not affected by the reform. Since the Government does not intend to raise retail prices, some consumer goods will have to be subsidized out of the budget. The introduction of these subsidies reduces the influence of the market on industrial production and thereby

prevents the full realization of one of the most important goals of the reform. Moreover, the introduction of the new prices has resulted in higher than expected profitability in several branches and in a greater than expected differentiation in profit rates among branches. Since this has changed the premises underlying the income, budgetary and credit policies formulated in the context of the general economic reform, it is likely that the application of these indirect methods of influencing the activities of enterprises will have to be complemented temporarily by a greater use of direct controls than was originally intended.

The difficulties that were encountered in the transition to a less centralized system were also reflected in problems arising in connexion with the preparation of the budget and the annual plan for 1967. Neither the enterprises nor the central authorities were able to assess in time the impact of the changes in the price system on the financial situation. This, together with the fact that indices expressed in value terms ceased to be comparable, made it necessary to postpone the preparation of the budget and the annual plan for 1967.

In Hungary, the general outlines of the planning and management reform were adopted in 1966. The reform, to be introduced on 1 January 1968, provides for the replacement of directives given to enterprises by a system of indirect means of influencing them to act in conformity with the main objectives of the plan. Specific regulations concerning the implementation of the reform are being elaborated in 1967. Certain changes in methods of planning and management were already introduced in 1966, however. The number of obligatory targets in the central plans as well as in the enterprise plans was reduced. Among the targets that ceased to be obligatory the most important were: gross value of industrial production, volume of retail sales, composition of exports, several targets in the field of housing, cultural and health services, detailed breakdown of the wages fund and renovation work in state enterprises. The number of targets relating to the production of specific commodities was also reduced. Some of these targets, such as gross value of industrial production, remained in the central plan but were no longer translated into obligatory directives to enterprises. Obligatory production targets previously expressed in gross value of output were replaced by sales targets assigned to enterprises. An important aspect of this change is that the sales targets are to be based on freely concluded agreements with the purchasers, whose decisions are less dependent than in the past on the approval of the allocation agencies. Further steps taken in this direction in the preparation of the 1967 plan are reflected in the abolition of the targets for gross value of construction and the elimination of several other global or specific targets as

¹⁵ In 1966, total exports of the Soviet Union increased approximately by 8 per cent over 1965, while imports fell by about 2 per cent.

well as the central allocation of certain groups of commodities.¹⁶

In contrast to Czechoslovakia and Hungary, which are in favour of a comprehensive reform altering all the essential aspects of the system of planning and management, most of the other eastern European countries seem to lean towards bringing about the desired changes by the successive introduction of partial measures, the cumulative effect of which is expected to result ultimately in the emergence of a new system similar in many respects to that being introduced in Czechoslovakia and Hungary.

In Eastern Germany, a very general outline of the new system was formulated in 1963, but the reforms initiated during that year consisted in the introduction of much more carefully elaborated specific measures, first on an experimental basis in a limited number of enterprises, followed by gradual extension. As in other countries, particular attention was devoted to the revaluation of fixed assets and to the rationalization of the price system. The last phase of the price reform dealing with manufacturing industries was completed on 1 January 1967. The main goal of the reform was to eliminate the need for state subsidies, bringing relative prices of various commodities closer to the relative cost of production, and to introduce greater uniformity in the profitability of various industrial branches.

Although the system of directives as a means of plan implementation has been retained, the number of obligatory targets has been reduced, and the influence of enterprises and associations of enterprises on the formulation of plans has been substantially increased. The increased emphasis placed on fiscal and financial means of plan implementation was reflected, *inter alia*, in the introduction of a levy on capital, which is intended to induce a more rational utilization of fixed assets by enterprises. The implementation of these measures was regarded in Eastern Germany as a pre-condition for the introduction of a new system of financing and remuneration for the purpose of improving incentives for more efficient work by the productive units.¹⁷

Under this system, profit will become the main indicator of the success of enterprises. The investment and premium funds of enterprises will be linked with net profits, that is with the amount left over after deduction of the capital levy. The purpose of

¹⁶ The number of targets for the output of specific commodities was reduced from 363 in the 1966 plan to 160 in the 1967 plan. The number of targets for purchases of specific agricultural commodities fell from 65 in 1966 to 21 in 1967. The corresponding figures in the field of domestic trade were 141 and 78, and in foreign trade 226 and 155, respectively. The number of commodities subject to central allocations was reduced from 410 items in 1965 to 378 in 1966 and to only 112 in 1967.

¹⁷ The principles of this system were submitted for discussion in 1967 (see *Die Wirtschaft*, No. 12, 1967 (Berlin)). Its introduction is scheduled for 1968.

this levy is to induce a more economical use of fixed assets. According to preliminary evaluation, this levy will absorb about 40 per cent of gross profits. A part of the net profit, stipulated in absolute amounts in the annual plans of enterprises, will be transferred to the budget. Another portion of net profits, also stipulated in the plan, will be used for the premium fund, and the remainder will be used for the investment funds of enterprises. The estimated average contribution to the budget will account for about one third, and that of the enterprise funds for about two thirds, of net profits. One of the most important features of the new system is a shift from the budgetary financing of investment towards self-financing, using money accumulated by the enterprises and bank credits. With the exception of some industrial branches of low profitability, almost all the investment expenditure of enterprises is to be financed out of three sources: depreciation funds, which are expected to cover about 40 per cent of these outlays, profits earmarked for investment, and bank loans, each accounting for about 30 per cent.

It is important to notice that, at the present stage at least, the introduction of these measures does not aim at the complete elimination of the directive method of plan implementation but rather at providing additional inducements for implementation of directive targets. In consequence, the proportion of net profits left at the disposal of individual enterprises will depend on the degree of fulfilment of the profit plan and other main targets.¹⁸ It will be seen that these provisions differ considerably from those in some other countries, such as Czechoslovakia, where the allocation of profits is not subject to the fulfilment by enterprises of their directive targets, which in that country were almost entirely eliminated.

In the Soviet Union, the reform of the system of management of enterprises was gradually extended to an increasing number of enterprises. At the end of 1966, about 700 industrial enterprises were working under the new conditions. At the end of the first quarter of 1967 this number was increased to 2,500 enterprises, accounting for about 20 per cent of total industrial production. It is expected that by the end of 1967, this share will be increased to about 50 per cent of industrial output. Price reform which, as in other countries, is regarded as a pre-condition for the greater autonomy of enterprises, is being introduced by stages. In October 1966, a new price system was introduced in some branches of light industry, and on 1 January 1967 the reform was extended to the rest of this industry. New prices for heavy industry are to be introduced in mid-1967. It is ex-

¹⁸ In order to induce enterprises to maximize their targets at the preparatory stages of plan implementation, the share of profits left at the disposal of enterprises as a result of fulfilment of the plan is greater than the additional share allocated to them for the part of profit and output that is in excess of planned quotas.

pected that these reforms will result in a considerable reduction in the number of enterprises which incur losses or in which profits are not high enough to create adequate investment and premium funds.

The changes in planning and management now being introduced consist of the reduction in the number of directive targets handed down to enterprises, of new methods of financing investment and of new types of incentives. As in several other countries, targets for gross value of output were replaced by targets for sales, and the volume and rates of profits are becoming increasingly important in evaluating the performance of enterprises. The proportion of profits left at the disposal of enterprises is closely related to the fulfilment of the sales and profit targets as well as of the more detailed targets covering the output of a certain number of the most important commodities.¹⁹

The profits left at the disposal of enterprises are to be paid into the premium fund, a fund for social and cultural purposes, and an investment fund. Contributions to these funds are to be determined by a system of norms and regulations, fixed for several years, relating the amounts of these payments to annual increases in sales or profits and to the profitability rate.²⁰ The investment fund is to be financed, in addition, by a certain proportion of the depreciation allowances. The investment fund, supplemented by bank loans, can be used to finance capital repairs, renovation, modernization and other investment not subject to central control.

The norms set for the transfer of profits to enterprise funds are made dependent on the degree of fulfilment of the plan. If the relevant plan targets are not implemented, the planned contributions to these funds are reduced. If the plan targets are exceeded, the total amount of payments will increase over and above the planned quotas, but the norms used for the calculation of these additional payments will be lower than those used for payments related to the fulfilment of the plan. As in the case of Eastern Germany, mentioned above, the purpose of this differentiation

¹⁹ In addition to these targets, the following targets have retained their obligatory character: the amount of profits to be transferred to the budget, the wages bill, the volume of centrally allocated investments, the completion of investment projects financed out of centralized funds, the output of new products and the introduction of new technology. The central allocation of important commodities has also been retained although its scope has been reduced. Targets given to enterprises for employment, average wages and wages of individual categories of workers have been eliminated, together with the gross output targets.

²⁰ The norms used in the calculation of these payments are presented in the form of a certain percentage of the wages bill in the case of the premium fund and the fund for social and cultural purposes, and as a certain percentage of the value of fixed assets in the case of the investment fund. These norms determine the amount of payments for each one per cent of the planned increase in sales (or in profits, in cases where this indicator is considered to be more important) and for each one per cent of the planned profitability rate.

is to induce enterprises to maximize their targets at the stage of the preparation of the plan.

Among other features of the Soviet reform, the most significant has been the introduction of a capital levy and changes in the method of financing centralized investment. The capital levy was fixed at the rate of 6 per cent of productive assets, and it is to be applied uniformly to most industries. In industrial branches with particularly low profitability, the capital levy will amount to only 3 per cent of the value of fixed assets. Centrally controlled investment earmarked for reconstruction, the expansion of existing enterprises and the construction of new plant²¹ is as a rule to be financed either out of profits left after the payments of capital levies, as well as of contributions to the various enterprise funds, or by bank loans.

The foregoing review indicates clearly that the measures introduced so far in the Soviet Union are mainly directed towards improving incentives for the more efficient formulation and implementation of targets handed down to enterprises by the supervising authorities. Although the number of obligatory targets has been reduced, and the character of many targets altered, the implementation of plans continues to be largely dependent, at the present stage, on directives.

In Bulgaria, the changes in methods of planning and management initiated in 1964 on an experimental basis in a limited number of enterprises were gradually extended during the following years. In 1966, most of Bulgarian industry was working under the new conditions and by 1968 the new methods of management are to be applied in all productive undertakings.

The general trend of the Bulgarian reform is towards increased emphasis on indirect methods of plan implementation, although the retention of a certain number of directives is considered to be necessary. At the present stage, the following obligatory targets continue to be given to enterprises: output of most important commodities, investment limits, the commissioning of new productive capacities, input limits for certain raw materials and intermediate products, and targets in the field of foreign trade. Other aspects of the activity of enterprises are to be guided by certain long-term norms covering, in particular, the growth of wages and the formation of various enterprise funds. The former practice of transferring to the state budget the predominant part of the profits stipulated in absolute amounts in the enterprise plans was abandoned in favour of a system of levies, including a tax on capital, a turn-

²¹ Provided that the cost can be recovered within a period of five years following completion. Investments requiring a longer recuperation period are to be financed out of the budget.

over tax and a profit tax. Investment is to be financed, as a rule, out of enterprises' own funds (or those of their associations) and by bank loans. Budgetary financing of productive investment is to be considerably restricted, and will be used mainly in heavy industry.

The results of the changes already introduced are regarded as favourable. According to official evaluations, the general efficiency of enterprises working under the new system was considerably better than that of other undertakings. Notwithstanding these improvements, however, the increase in the scope of autonomous decisions by enterprises without an adequate adaptation of planning methods to the new requirements, and without a more rational price system, has resulted in certain undesirable tendencies in various fields. Thus, numerous enterprises have tended to concentrate on the production of more profitable commodities and to reduce or stop altogether the production of less profitable goods, regardless of the fact that they may be in high demand. Furthermore, in many instances, enterprises tended to obtain approval for raising prices on the grounds of a deliberately exaggerated evaluation of costs, or by insignificant alterations in their products for the purpose of presenting them as belonging to higher-priced categories of goods.

The existence of these shortcomings clearly indicates the need for significant alterations in the present price system with a view to bringing relative prices of various commodities closer to their relative costs, and to adapting prices to the existing conditions of supply and demand.

Poland continued in 1966 to introduce specific measures in various fields of economic activity with the idea of improving the general efficiency of the economy. Particular attention was devoted to the improvement of the system of incentives for better performance of enterprises engaged in foreign trade. The tax on fixed assets recently introduced provided for different tax rates for various industries. The scope of autonomous decision making by the management of enterprises and associations of enterprises was enlarged. The obligatory limits covering employment which until recently were handed down to enterprises by their supervising authorities were abolished, and new incentives for saving on wages expenditure were introduced at the same time.

Although the general trend of the changes in methods of planning and management being introduced in Poland is the same as in other eastern European countries, most of the measures introduced thus far differ considerably from the reforms in countries such as Czechoslovakia and Hungary owing to the fact that at the present stage they are con-

centrated on eliminating specific shortcomings rather than on a more fundamental alteration of the system.

PLANS FOR 1967

The plans for 1967 provide for lower rates of growth of national income than those achieved in 1966.²² A certain deceleration of growth is planned for industry, but the slowing down anticipated for agriculture is quite considerable. In fact, the rates of increase of agricultural production planned for 1967 are in most countries equivalent to about one third to one half of the rates achieved in 1966, which in several cases exceeded the rates of expansion planned for that year. The planned deceleration of growth in agriculture reflects the fact that none of the countries which achieved exceptionally high rates of growth in agriculture in 1966, owing largely to highly favourable weather, could expect any comparable developments in 1967.

Industrial employment is planned to increase more slowly than in 1966, and an increasing proportion of the growth of output is planned to be accounted for by a rise in labour productivity.

The general pattern of industrial growth is planned to remain basically unchanged in most countries, although the growth of food-processing industries in relation to other branches is to increase faster than in 1966. In Romania, the total output of consumer goods is planned to increase in 1967 at a higher rate than that of producer goods.

No significant changes are planned for the allocation of national income between consumption and accumulation.

Investment activity is planned to accelerate in Eastern Germany, Romania and the Soviet Union, and to decelerate in all the other countries listed in table 22. The fastest rates of increase in fixed investment are, as in the preceding years, planned by Bulgaria and Romania: 14 and 17 per cent, respectively. Retail sales are to increase faster than in 1966 only in Bulgaria and Poland, and at about the same rate as during the previous year in Eastern Germany. In other countries, a certain deceleration is anticipated for 1967. Among countries for which data on planned growth of *per capita* income are available, the fastest increases are scheduled by the Soviet Union, where real *per capita* income of wage earners is to increase by 5.5 per cent in 1967. The total income in money and kind paid for work on

²² Data relating to the 1967 plan are indicated in tables 19, 20, 21, 22 and 23. The planned rates of growth of national income range from 3.4 per cent in Poland to 8.6 per cent in Bulgaria. Those for agricultural production from 2.9 per cent in Czechoslovakia to 5.8 per cent in Romania. The planned growth targets for industrial production are 5.3 per cent for Czechoslovakia, 6 per cent for Eastern Germany, Hungary and Poland, 7.3 per cent for the USSR and 11.3 per cent for Bulgaria and Romania.

the collective farms is planned to increase by 8.7 per cent in 1967. In Bulgaria, real *per capita* income of the population is to rise by 5.2 per cent, and in Hungary by about 3 per cent.

In Eastern Germany, measures relating to the reduction of the work week are to be further extended and by September 1967 the five-day week will be universally applied. Minimum wages are to be increased by 36 per cent and minimum pensions by 16 per cent.²³

As in the previous year, considerable emphasis is to be placed in 1967 on the greater adaptation of output and supply to domestic and foreign demand. This is to be achieved not only by decisions relating to the production of various commodities but also, in some countries, by changes in relative prices designed to promote the desired adjustment of output by indirect means.

The degree of emphasis placed on various policy measures differed among the eastern European countries in accordance with the importance attached to specific problems in each country. The most common preoccupation was the urgent need for improvements in the field of investment and in foreign trade.

In the field of investment, in almost all countries, efforts to reduce the growth of unfinished construction are to be continued in 1967.

In the field of foreign trade, in Poland for example, one of the major objectives of the 1967 plan is to replace the deficit in the balance of payments by a surplus to be achieved through an increase in the revenue from services and through a reduction in the trade deficit. This is to be achieved by a

²³ The changes in pensions are to be completed in 1968.

12 per cent rise in exports as compared to a 4 per cent increase in imports. Total foreign trade is planned to increase in 1967 by 8 per cent.

The foreign trade of Czechoslovakia and Hungary is planned to increase in 1967 by 4 and 6 per cent, respectively. In both countries, a considerable effort is to be made to increase the supply of goods for export by special measures in the field of investment and credit policies.

The Hungarian foreign trade plan for 1967 provides for a much faster growth of imports than of exports, accompanied by a shift in the allocation of exports in favour of the developed and developing countries, and of imports in favour of the centrally planned economies.²⁴ These divergent changes in the balance of trade with the centrally planned economies and with other countries will obviously result in an improvement in the balance with the latter and a deterioration in the balance with the former. The combined effect of these changes is a substantial increase in the planned trade deficit for 1967.

Among the countries for which data are available, the highest rate of increase in foreign trade is planned by Romania, where the 1967 plan provides for a 20 per cent rise in total foreign trade turnover, that is, about twice that of 1966. Exports are to increase faster than imports.

²⁴ According to the reply of the Hungarian Government to the United Nations questionnaire of November 1966 on economic trends, problems and policies, total exports are planned to expand by 3 per cent, those to the centrally planned economies are to rise by 2 per cent, and exports to the rest of the world are to increase by 6 per cent. Total imports are to increase in 1967 by 10 per cent, but imports from the centrally planned economies are to rise by 13 per cent, while imports from other countries will rise by only 4 per cent.

Chapter IV

RECENT TRENDS IN THE DEVELOPING COUNTRIES

In some respects 1966 was a fairly satisfactory year for most of the developing countries: industrial production was well up on 1965 levels, export earnings increased to a somewhat greater extent than in earlier years in the decade; the increase in imports was also rather higher and, with a more adequate flow of supplies, internal pressures were held in check in a number of countries rather more effectively than before. Offsetting these gains, however, and in some cases overshadowing them, were several less favourable developments—a further increase in the burden of debt service, the inability of some countries to reduce instability without at the same time reducing production and, most disconcerting of all, the failure of agriculture in a number of countries to maintain earlier rates of growth, which in the face of an accelerating increase in population has necessitated larger imports of food.

Many of the developing countries thus entered 1967 in a vulnerable position. To sustain consumption at not much more than the 1965 *per capita* level and to maintain the rate of expansion in exports, stocks had been drawn down. In the aggregate, with the output of local heavy industry and the volume of imports both higher than in 1965, fixed investment had increased somewhat in 1966, but to maintain this upward trend a further expansion in imports of the appropriate sort is necessary. And the faltering of industrial production in some of the more advanced countries, the rising claim of food imports in some of the developing countries and of debt-service payments in most of them, the inching up of the price of manufactured goods entering international trade and the lack of any sign that the flow of loans and grants will accelerate, combine to cast doubt on the ability of the developing countries to finance a greater volume of imports.

THE OUTPUT OF INDUSTRY AND AGRICULTURE

The rate of growth in the developing countries as a group receded again in 1966, and for the same reason as in 1965, namely, the failure of agriculture to increase its output. In contrast to the continuing rapid growth in industry, which raised production in 1966 to about 50 per cent above the level at the beginning of the decade, agriculture has thus levelled

off at about 10 per cent above the 1960 level. Population has been increasing more rapidly than this, so that on a *per capita* basis, there has been an alarming reduction in output (see figure IV). As agriculture bulks large in most of these economies, the recent faltering has been affecting over-all rates of growth. Preliminary estimates indicate that after rising by well over 5 per cent between 1963 and 1964, the combined gross domestic product of the developing countries increased by something nearer 4 per cent in 1965 and by between 3 and 4 per cent in 1966.

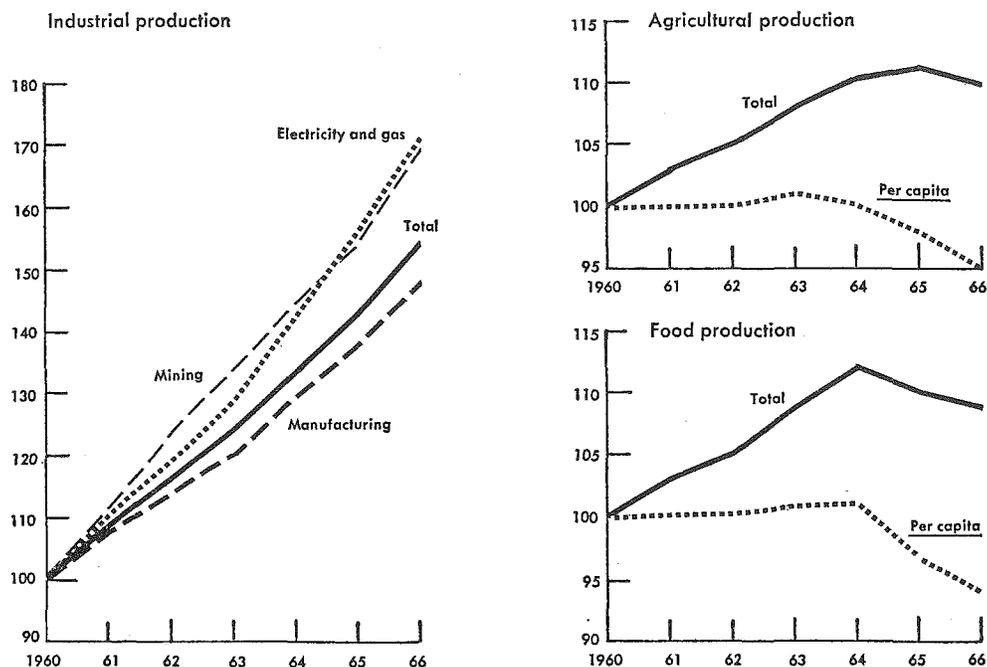
The information available in May 1967 suggests that total agricultural production in the developing countries has remained virtually static since 1964. The average rate of increase in the 1960's has been less than 2 per cent a year. It has been highest in West Asia and Latin America where, on the average, it has kept pace with the growth of population. In Africa and southern and south-eastern Asia, however, the average rate of increase in agricultural output has been about one per cent a year (see table 25).

The most disturbing aspect of this slow growth in agriculture is the lag in the food component. On a *per capita* basis, food production has not advanced since 1963 in Africa, since 1962 in West Asia, and since 1961 in southern and south-eastern Asia. In Latin America it was no higher in 1966 than at the end of the 1950's and in the other regions it was appreciably lower.

In Latin America the decline in *per capita* food production between 1965 and 1966 was widespread: only in the Central American area were conditions favourable; in the Caribbean islands, hurricanes and drought were responsible for a sharp reduction in output—by as much as one eighth according to some estimates—while in South America only Argentina and Guyana improved on their 1965 results. In Argentina these had been particularly poor and the 1966 out-turn represented a recovery to little more than the average *per capita* figure registered towards the end of the 1950's (see table 26). Among the major food-deficit countries, Brazil's *per capita* out-turn in 1966 was below the 1960-1964 average. The decline in 1966 reflects poor harvests of rice, maize,

Figure IV. Developing countries: Indices of industrial, agricultural and food production, 1960-1966

(1960 = 100)



Source: See tables 25 and 27.

Table 25. Developing countries: Indices of agricultural and food production, 1960-1966^a

(1957-1959 = 100)

Item and region	1960	1961	1962	1963	1964	1965	1966 ^b
<i>Agricultural production</i>							
Developing countries combined..	108	111	113	117	119	120	119
Latin America ^c	104	110	112	116	115	126	121
Africa ^d	109	104	114	115	118	119	118
West Asia ^e	95	109	116	119	121	127	124
Southern and south-eastern Asia ^f	110	114	112	118	122	116	117
<i>Total food production^g</i>							
Developing countries combined..	108	111	113	118	121	119	118
Latin America ^c	105	109	113	118	122	128	126
West Asia ^e	96	110	118	120	121	126	123
Southern and south-eastern Asia ^f	110	114	112	118	122	115	116
<i>Per capita food production</i>							
Developing countries combined..	103	103	103	104	104	100	97
Latin America ^c	99	100	101	103	103	105	100
Africa ^d	102	97	102	103	101	100	96
West Asia ^e	91	102	106	104	102	103	98
Southern and south-eastern Asia ^f	105	106	102	105	106	97	96

Source: Communication from the Foreign Regional Analysis Division, United States Department of Agriculture (Washington, D. C.).

^a Calendar years; production is credited to the year in which the bulk of the crop is harvested.

^b Preliminary.

^c Twenty-three countries.

^d Continent, excluding South Africa.

^e Iran, Iraq, Israel, Jordan, Lebanon and Syrian Arab Republic.

^f Burma, Cambodia, Ceylon, China (Taiwan), India, Indonesia, Malaysia (West), Pakistan, Philippines, Republic of Korea, Republic of Viet-Nam and Thailand.

^g Cereals, pulses, root-crops, fruit, vegetables, sugar, oil-seeds and cocoa (but not coffee or tea).

Table 26. Selected developing countries: Indices of per capita food production, 1964-1966
(1957-1959 = 100)

Country	1964	1965	1966 ^a
<i>Food exporters</i>			
Argentina	104	94	102
Burma	104	101	101
Cambodia	103	93	91
China (Taiwan)	102	107	106
Mexico	108	112	113
Thailand	124	119	126
Uruguay	118	115	111
<i>Food importers</i>			
Brazil	108	117	105
Ceylon	121	97	107
Chile	99	96	93
Colombia	99	102	100
India	104	92	88
Indonesia	99	106	106
Malaysia ^b	112	124	125
Pakistan	109	108	105
Philippines	103	104	107

Source: Centre for Development Planning, Projections and Policies, based on United States Department of Agriculture, *The Western Hemisphere Agricultural Situation* (ERS-Foreign 187); *The Far East and Oceania Agricultural Data Book* (ERS-Foreign 189).

^a Preliminary.

^b Federation of Malaya.

manioc and beans, chiefly the result of excessive moisture at critical times. There were various market shortages and food prices rose by 50 per cent during the year, leading the retail price index upwards. Not included in the food index but contributing in a large measure to the one-eighth reduction in total agricultural output in Brazil was a 44 per cent decline in the coffee crop.

In Africa the decline in total agricultural production between 1965 and 1966 was concentrated in North Africa where drought seriously affected the entire area except the United Arab Republic. For the region as a whole the wheat crop was a fourth and the barley crop over a half below the 1965 level, with the largest declines taking place in Algeria, Morocco and Tunisia. A substantial reduction was also registered in the output of olives. In the United Arab Republic the 1965/66 cotton crop was well above the 1960-1964 average, but largely as a result of a leaf-worm infestation, the 1966/67 crop is reported to be about 10 per cent below the previous one. The 1966/67 crop, affected by an insufficiency of moisture, is also a smaller one in Uganda. Elsewhere in East Africa, as a result of the long rains during the spring of 1966, crops were on the whole better than in 1965. Timely rains also improved the agricultural situation for most developing countries in southern Africa.

In West Asia, exceptionally unfavourable weather adversely affected the out-turn of most food crops.

The sharpest declines were in wheat and barley, particularly in Jordan and Syria, but production was also smaller in Iraq and Israel. The tobacco crop was also smaller, reflecting the incidence of drought in Iran. The good cotton crop of 1965/66 was followed by a very poor one, boll worms in Iran and drought in Syria being chiefly responsible for reducing the output of the region below the 1960-1964 average.

In southern and south-eastern Asia, agricultural production and food production were fractionally above the 1965 level but well below the peak of 1964, and on a *per capita* basis output was at its lowest level for ten years. Part of this decline is accounted for by Cambodia and the Republic of Viet-Nam where production has declined steeply since 1963. But the major difficulty has been in India where two unfavourable seasons brought agricultural and food production down to the lowest level in the 1960's. The first monsoon failure reduced the crucial food-grains harvest by a fifth, from 89 million tons in 1964/65 (rice being measured milled) to 72 million tons. The 1966/67 harvest was better than this: in the review of the food situation presented to Parliament at the end of March 1967, it was estimated at 76 million tons.¹ Even this figure is no better than the low out-turn of 1962/63 when the population was between 40 and 50 million smaller.

With the exception of the Republic of Viet-Nam, most of the other countries in the region registered some improvement in agricultural production between 1965 and 1966, though it was a significant one only in Malaysia, the Philippines, the Republic of Korea and Thailand, where new peaks were achieved. There was also a sizable increase in Ceylon but this failed to restore food production to levels attained earlier in the decade: on a *per capita* basis, indeed, production in 1966 was barely up to the level of the mid-1950's.

The lag in *per capita* food production in so many developing countries would be less serious if local standards of nutrition were adequate. Evidence continues to indicate, however, that diets are far from satisfactory in many areas, not only in southern and south-eastern Asia but also in parts of Africa, and in the Andean highlands in Latin America as well as in urban and peri-urban areas throughout the developing countries, where the problems of supply are complicated by problems of income distribution.

In contrast to the lag in agriculture, industrial production increased by about 8 per cent between 1965 and 1966. This was fractionally higher than the rate of growth in the previous interval and about

¹ Based on estimates of wheat, barley and pulse crops generally harvested in the first four months of the year.

equal to the average for the first half of the 1960's. The source of the acceleration was mining, the output of which was 10 per cent above the 1965 level (see table 27). This reflects the continuing high growth of petroleum production and a marked increase in the rate of utilization of natural gas. The gains in mining were concentrated in Africa and West Asia; the expansion in southern and south-eastern Asia was not much more than 2 per cent, and in Latin America production in 1966 was fractionally below the 1965 level.

Though manufacturing again increased by 7 per cent, there was a notable difference, absent in 1965, between the light and heavy industries. Held down by the slow growth of the textile industry—production of which actually declined in southern and south-eastern Asia in 1966—the output of light industries rose by not much more than half the amount registered by the heavy industries. Among the latter, there was a sharp recovery in the basic metals industry, which had lagged in 1965 (and in 1964 in southern and south-eastern Asia), and further rapid growth in the paper industry.

In southern and south-eastern Asia the chemical industry also recovered something of its previous high rate of growth. In sharp contrast, there was a marked deceleration in the metal products industry, which had been expanding faster than any other group in the 1960's, doubling its output in the first five years of the decade. Another feature of recent industrial growth in this region has been the expansion of the food, beverage and tobacco group in the wake of increased investment in milling, canning and processing—in China (Taiwan), Hong Kong and the Philippines, for example. Expansion of the food industry has averaged just under 7 per cent a year in the 1960's, 8 per cent between 1964 and 1965 and 9 per cent between 1965 and 1966. This was not sufficient to offset the loss of momentum in the metal products industry and the reduction in textile production; in the aggregate the expansion in manufacturing output between 1965 and 1966 was not much more than half that recorded in the preceding interval. The slackening was concentrated largely in India where the 1965 failure of agriculture and a continuing foreign exchange stringency combined to slow down the flow of raw materials and other factory inputs. There was a slight deceleration in manufacturing in the Republic of Korea from the rapid expansion registered in 1965 (see table 28). There was a recovery in industrial growth in the Philippines and continuing expansion at high rates in China (Taiwan) and Pakistan.

Incomplete returns indicate that the rate of industrial growth in Latin America was just about maintained at the 1963-1965 average. Production

appears to have declined between 1965 and 1966 in Argentina, Ecuador and Venezuela, and the increase in Guatemala was less than in the previous interval. But in Brazil, manufacturing seems to have recovered (motor-car production was almost a fifth higher than in 1965, for example) while the expansion in Colombia and Mexico was greater than between 1964 and 1965.

Among the most notable developments elsewhere was a sharp deceleration in the rate of growth in industrial production in Israel: after rising at about 15 per cent a year in the first half of the decade, mining and manufacturing output barely increased between 1965 and 1966. Against this, there was a marked recovery in manufacturing in Ghana and Senegal, where production had declined in 1965. In Zambia, the process of breaking economic ties with Rhodesia was the chief factor behind a 14 per cent reduction in mining production and a related deceleration in the rate of growth in manufacturing.

FOREIGN TRADE

The quantum of goods exported by the developing countries increased by rather less than 5 per cent between 1965 and 1966. The deceleration which started in 1965 thus continued: the expansion between 1965 and 1966 was not much more than half of the rate achieved between 1963 and 1964 and well below the average for the first six years of the decade (see table 29).

The slackening in 1966 was confined to Africa and Latin America where the rate of increase dropped to about 3 per cent. Exports from southern and south-eastern Asia, which had remained virtually static between 1964 and 1965, rose by about 5 per cent in 1966, regaining the average rate of growth in the 1960's. With a 9 per cent expansion, exports from West Asia were also not far off the longer-term average.

Export prices were generally higher in 1966 than in 1965. The most significant increases were in respect of cereals (about 7 per cent), cocoa (about 40 per cent), hides and skins (33 per cent) and copper (25 per cent)—all of which feature chiefly in the exports of Africa and Latin America. As a result, the average unit value of exports from Africa was about 4 per cent above the 1965 figure, and from Latin America about 2 per cent. Though the average price of tea was also higher (about 8 per cent) in 1966 than in 1965, as were prices of rice (7 per cent) and jute (10 per cent), the effect of these gains on the unit value of exports from southern and south-eastern Asia was to a large extent neutralized by declines in the prices of other commodities coming pre-eminently from that region—palm kernels and coconut oil and copra (all down about 16 per cent), rubber (between 4 and 5 per cent) and tin (about 8 per cent); thus the average unit value of exports

Table 27. Developing countries: Indices of industrial production, 1963-1966

Item	Developing countries ^a					Southern and south-eastern Asia ^b				
	1963	1964 (previous year = 100)	1965	1966 ^c	1966 ^c (1960 = 100)	1963	1964 (previous year = 100)	1965	1966 ^d	1966 ^e (1960 = 100)
Total industrial production ^d	106	108	107	108	154	110	110	109	105	161
Mining	108	109	106	110	169	107	112	110	103	156
Manufacturing	105	108	107	107	146	110	108	109	105	160
Light ^e	104	106	106	105	135	108	106	108	104	147
Heavy ^f	107	110	107	109	161	114	111	110	106	182
Food, beverages, tobacco	103	104	107	107	130	103	107	108	109	144
Textiles	104	107	102	102	123	107	108	104	99	129
Paper and paper products	108	106	110	109	172	114	108	109	108	170
Chemicals, petroleum and coal products	108	108	107	106	152	116	112	107	109	174
Non-metallic mineral products	105	110	107	106	145	109	110	111	105	168
Basic metals	106	108	102	110	149	112	102	103	112	164
Metal products	...	...	...	...	...	114	116	114	104	203
Electricity and gas	108	111	109	109	171	115	113	111	111	204

Source: Centre for Development Planning, Projections and Policies of the United Nations Secretariat, based on data supplied by the Statistical Office of the United Nations.

^a Latin America, Honduras, the Guianas, Surinam and a number of Caribbean countries and territories; Africa, excluding South Africa; West Asia, excluding Israel; and southern and south-eastern Asia as defined in foot-note b.

^b Afghanistan, Brunei, Burma, Ceylon, China (Taiwan), Hong Kong, India,

Indonesia, Iran, Malaysia (excluding Sabah), Pakistan, Republic of Korea, Republic of Viet-Nam, Singapore and Thailand.

^c Preliminary.

^d Mining, manufacturing, electricity and gas.

^e Food, beverages and tobacco; textiles and clothing; wood products; leather, rubber and related products, and printing and publishing.

^f Paper, chemicals, non-metallic mineral and metal products.

Table 28. Selected developing countries: Index numbers of industrial production, 1963-1966^a

Country	Industrial production					Mining					Manufacturing					Electricity				
	1963	1964	1965	1966	1966 (1960 = 100)	1963	1964	1965	1966	1966 (1960 = 100)	1963	1964	1965	1966	1966 (1960 = 100)	1963	1964	1965	1966	1966 (1960 = 100)
Algeria	...	...	...	...	...	91	116	112	110	91	...	...	...	...	...	93 ^b	103 ^b	98 ^b	100 ^b	83 ^b
Chile	...	...	...	...	...	103	106	98	102	127	106	105	105	107	146	...	...	...	...	...
El Salvador	...	...	...	...	...	...	...	...	...	...	118	130	123	107	227	...	...	...	...	...
Ghana	114	104	99	132	...	102	98	101	108	98	123	108	96	145	...	116	116	116	152	320
Guatemala	114	106	111	105	145	...	...	...	...	...	112	104	109	103	134	114	114	117	114	223
India	109	107	106	103	146	109	96	109	103	139	109	107	105	103	144	115	115	110	109	208
Israel	114 ^c	114 ^c	110 ^c	101 ^c	190 ^c	114	120	124	101	204	114	114	110	101	189	...	...	...	...	...
Mexico	109	113	106	109	156	105	104	100	103	116	109	113	107	110	162	110	115	110	109	176
Morocco	...	...	...	...	...	96	113	101	96	108	...	...	...	...	...	...	...	...	...	...
Philippines	...	...	...	...	...	101	102	108	108	131	106	108	103	108	144	...	...	...	...	...
Republic of Korea	114	108	117	118	209	114	110	104	111	195	113	107	120	118	209	111	123	120	120	229
Senegal	99	106	102	113	137	92	125	126	113	471	99	103	98	114	121	102	113	103	109	172
Tunisia	...	...	...	...	...	111	111	114	106	133	...	...	...	...	...	...	...	...	...	...
Venezuela	103	109	106	99	127	99	108	103	98	113	108	113	110	100	158	117	112	109	115	225
Zambia	106	112	109	90	...	106	111	107	86	105	107	117	131	117	...	116 ^b	95 ^b	93 ^b	92 ^b	...

Source: Statistical Office of the United Nations, *Monthly Bulletin of Statistics*.

^a The coverage of industries varies widely from country to country. For 1966,

based on data covering less than twelve months in some cases.

^b Including manufactured gas.

^c Excluding electricity and manufactured gas.

Table 29. Developing countries: Indices of export and import quantum, 1961-1966
(1960 = 100)

Region	Export quantum						Import quantum					
	1961	1962	1963	1964	1965	1966 ^a	1961	1962	1963	1964	1965	1966 ^a
Developing countries	105	112	119	128	135	141	104	106	109	119	124	130
Latin America ^b	103	113	118	118	124	128	103	104	102	111	113	120
Africa ^c	106	111	119	137	148	153	101	96	99	109	116	118
West Asia ^d	106	119	127	146	156	171	107	106	109	124	137	148
Southern and south-eastern Asia ^e	105	110	121	126	127	133	105	110	117	125	127	137

Source: Centre for Development Planning, Projections and Policies of the United Nations Secretariat, based on data from the Statistical Office of the United Nations.

^a Preliminary; based for most countries on less than twelve months' returns.

^b Nineteen republics (Cuba is not included).

^c Continental Africa (other than South Africa).

^d Aden, Bahrain, Iran, Iraq, Israel, Jordan, Kuwait, Lebanon, Qatar, Saudi Arabia and Syria.

^e Rest of Asia (other than mainland China, Japan, Mongolia, North Korea, North Viet-Nam and Turkey).

increased only slightly. The unit value of exports from West Asia, influenced chiefly by the unchanged posted price of crude petroleum, remained more or less at the level of earlier years of the decade (see table 30).

The price index of manufactured goods entering international trade increased by about 2 per cent between 1965 and 1966 as it had in the previous interval. This was the major element in a corresponding rise in the unit value of imports into the developing countries. Except in southern and south-eastern Asia, where import prices changed very little, all the regions were affected by an increase of this order.

As a result of the rise in import prices there was a slight deterioration in the terms of trade in West Asia, while in Latin America the rise in import prices just about neutralized the gain in export prices. In Africa and southern and south-eastern Asia the terms of trade improved, but only to the extent of making good the loss experienced since 1961. Indeed, for the developing countries as a group, the outstanding feature of the first half of the Development Decade has been the relative stability of the terms of trade: after declining about 2 per cent between 1960 and 1961 the index has moved within very narrow limits compared with those characterizing the 1950's.

The combination of increases in volume and price meant a slight acceleration in the growth of export earnings: the gain between 1965 and 1966 was about 7 per cent which is just about the average for the 1960's (see table 31). The highest rate—about 9 per cent—was again recorded in West Asia. The developing countries of Africa earned about 7 per cent more than in 1965; the earnings of southern and south-eastern Asia were again up 5 per cent (somewhat more than the six-year average growth rate), while those of Latin America rose by about 5 per cent (somewhat less than the six-year average).

Though the proportion of countries earning less than in the previous year was much lower in 1966 than in 1965—27 per cent as against 37 per cent—the results for the year were more widely dispersed than usual. There were more countries achieving increases in excess of 10 per cent and also more (the highest proportion since 1962) registering reductions of over 10 per cent (see table 32).

Among the countries registering particularly large increases in exports in 1966 were some whose exports had declined between 1964 and 1965 (Costa Rica, for example, and a number of African countries, including the Central African Republic, Kenya, Togo, Tunisia and United Republic of Tanzania) or had risen only slightly, between 1964 and 1965, such as China (Taiwan), Peru and Thailand. There were also some in which a high rate of expansion had characterized the previous period: these include some mineral exporters such as Chile, Libya, Saudi

Arabia and Surinam, but also a number of smaller countries—Guatemala, Israel, Jordan and Niger—as well as Hong Kong and, most notable of all, the Republic of Korea whose earnings have risen almost tenfold during the 1960's.

Most of the countries registering a reduction in exports between 1965 and 1966 were those in which exports had lagged in the previous period—Burma, Ceylon, Chad, Colombia, Congo (Brazzaville), Dahomey, Ghana, Haiti, India, Mozambique, Netherlands Antilles, Sierra Leone, Venezuela and Republic of Viet-Nam. But there were a few countries for which the decline in 1966 represented a reversal from an earlier expansion—Cambodia, Ethiopia, Nicaragua, Paraguay and Uruguay, for example.

In the first group are some of the developing countries with serious structural problems. Burma, for example, has been exporting a steadily declining volume of goods: in 1966 it exported about 40 per cent less rice than in 1960, and its export earnings were the lowest recorded in the 1960's. In Ceylon the volume of exports has been rising only slowly and realizations in 1966 were also the lowest of the decade. The volume of exports from Colombia in 1966 was the lowest since 1961 and the expansion in proceeds between 1960 and 1966 represents an average growth rate of a mere one per cent a year. Ghana has never regained the amount realized by exports in 1960; proceeds in 1966 fell about a sixth short of that figure. Indian export earnings have remained virtually static since 1963 and in 1966 they were only a fifth above the 1960 level, representing an average growth rate of barely 3 per cent a year. In Sierra Leone, export earnings have fluctuated erratically with diamond shipments, but in 1966, after two successive declines they were just about at the 1960 level. The volume of petroleum exported by Venezuela in 1966 was less than 15 per cent above the 1960 level, and petroleum continued to account for about 90 per cent of export earnings.

On the import side, 1966 brought a slight increase from the low rate of growth recorded in the preceding period. This reflects the fact that the volume of imports into Latin America and southern and south-eastern Asia, which had increased by barely 2 per cent between 1964 and 1965, rose by 6 and 8 per cent, respectively, in 1966. This more than counter-balanced sharp reductions in the rate of expansion in imports into West Asia (from the high figure of 10 per cent between 1964 and 1965 to the more normal figure of 8 per cent between 1965 and 1966) and into the developing countries of Africa, where, at 2 per cent, the rate of increase was only about one third of that registered between 1964 and 1965 (see table 29). In the aggregate, the import quantum rose by just under 5 per cent, which is more or less in line with the average for the 1960's.

Table 30. Developing countries: Changes in unit values of exports and imports, 1961-1966

(1960 = 100)

Region ^a	Unit value of exports (dollars)						Unit value of imports (dollars)						Terms of trade ^b					
	1961	1962	1963	1964	1965	1966 ^c	1961	1962	1963	1964	1965	1966 ^c	1961	1962	1963	1964	1965	1966 ^c
Developing countries	97	95	97	99	99	101	99	98	99	100	101	103	98	97	98	99	98	98
Latin America	99	96	98	105	105	107	100	100	99	100	101	103	99	96	99	105	104	104
Africa	97	95	98	100	99	103	101	102	103	104	105	107	96	93	95	96	94	97
West Asia	98	98	98	98	98	98	99	100	101	103	102	103	99	98	97	95	96	95
Southern and south-eastern Asia ..	94	91	91	92	96	97	98	97	98	100	101	101	96	94	93	92	94	96

Source: Centre for Development Planning, Projections and Policies of the United Nations Secretariat, based on United Nations, *Monthly Bulletin of Statistics*.

^a As defined in table 29.

^b Unit value of exports divided by unit value of imports.

^c Preliminary; based for some countries on less than twelve months' returns.

Table 31. Developing countries: Indices of value of exports and imports, 1960-1966

(Value, 1960 in thousands of millions of dollars)

Region ^a	Exports, f.o.b.							Imports, c.i.f.						
	Value, 1960	Index of value (1960 = 100)						Value, 1960	Index of value (1960 = 100)					
		1961	1962	1963	1964	1965	1966 ^b		1961	1962	1963	1964	1965	1966 ^b
Developing countries	26.7	101	106	115	126	134	143	29.6	103	104	108	119	125	133
Latin America	7.9	102	109	116	124	131	137	7.8	103	104	101	111	115	124
West Indies ^c	1.4	111	111	114	115	116	121	1.9	107	109	111	120	126	129
Africa	5.3	102	105	117	137	147	158	6.6	102	98	102	114	122	127
West Asia	4.2	104	116	124	143	153	167	3.2	106	106	110	128	140	153
Southern and south-eastern Asia	7.6	99	100	110	116	122	128	9.8	102	107	114	124	129	139

Source: Centre for Development Planning, Projections and Policies of the United Nations Secretariat, based on United Nations, *Monthly Bulletin of Statistics*, and International Monetary Fund, *International Financial Statistics* (Washington, D.C.).

^a As defined in table 29.

^b Preliminary; based for some countries on less than twelve months' returns.

^c Consisting mainly of Barbados, British Honduras, Guadeloupe, Guyana, Jamaica, Martinique, Netherlands Antilles, Surinam and Trinidad and Tobago.

Table 32. Developing countries: Distribution of changes in exports and imports, 1961-1966

(Thousands of millions of dollars: exports, f.o.b.; imports, c.i.f.)

Index (preceding year = 100)	Exports												Imports											
	Number of countries						Export receipts						Number of countries						Import expenditures					
	1961	1962	1963	1964	1965	1966 ^a	1961	1962	1963	1964	1965	1966 ^a	1961	1962	1963	1964	1965	1966 ^a	1961	1962	1963	1964	1965	1966 ^a
<i>Less than</i>																								
90	9	9	2	7	6	9	3.4	2.0	0.2	1.5	0.6	1.4	8	5	6	4	6	3	1.3	1.4	2.8	2.9	2.3	1.4
95	15	10	4	10	12	14	4.5	2.0	1.4	1.8	1.4	2.2	13	10	8	8	12	11	3.6	3.8	3.3	4.2	3.0	7.8
100	28	17	8	14	27	20	11.1	4.4	3.1	2.6	6.7	7.5	26	17	13	13	20	16	11.4	6.5	5.4	6.5	7.0	9.6
100 or more ...	45	56	65	59	46	53	11.3	19.2	22.8	25.4	22.8	23.9	47	56	60	60	53	57	14.0	19.6	21.7	23.1	24.0	23.6
<i>More than</i>																								
105	31	39	53	47	31	40	6.4	12.8	15.5	16.9	13.2	17.7	31	38	43	50	43	44	8.7	9.3	13.7	20.4	14.0	18.8
110	23	26	41	33	21	28	4.3	7.8	12.0	9.2	7.8	10.0	18	24	23	40	33	30	4.8	5.5	7.0	17.7	10.7	13.9
120	12	12	21	17	8	9	1.1	2.3	3.5	5.2	2.1	2.1	7	7	9	19	10	15	1.2	1.0	3.0	8.4	3.3	7.3
130	5	7	13	9	3	5	0.3	0.5	2.2	2.6	0.4	0.6	5	5	1	6	1	7	0.6	0.9	0.6	2.1	0.4	4.9
Total	73	73	73	73	73	73	22.4	23.7	25.9	28.1	29.5	31.3	73	73	73	73	73	73	25.4	26.1	27.1	29.6	31.0	33.2

Source: Centre for Development Planning, Projections and Policies of the United Nations Secretariat, based on International Monetary Fund, *International*

Financial Statistics, July 1967.

^a Preliminary, based for some countries on less than twelve months' returns.

With import unit values generally between one and 2 per cent higher than in 1965, expenditure on imports rose from about 5 per cent between 1964 and 1965 to about 7 per cent between 1965 and 1966. There were particularly sharp increases in Latin America and southern and south-eastern Asia (about 8 per cent)—both well above the previous increase and the average for the 1960's. On the other hand, the expansion in West Asia and in the developing countries of Africa—at 9 and 4 per cent, respectively, was more or less in line with the trend rate (see table 31).

Only about a fifth of the developing countries failed to increase their import expenditure between 1965 and 1966, while a fifth increased their imports by over 20 per cent, and about a tenth—the highest proportion recorded in the 1960's—raised their import expenditure by more than 30 per cent.

As in the case of exports, the countries registering particularly large increases in imports between 1965 and 1966 were more or less equally divided between those experiencing a recovery or a reversal of an earlier decline and those continuing previous high rates of growth. Among the former were several Latin American countries—notably Brazil, Chile, Colombia and the Dominican Republic—and also the Central African Republic, Ceylon, Morocco and Syria. Among the latter were some of the countries whose exports had also been rising rapidly—Honduras, Jordan, Libya, Niger, Republic of Korea and Thailand, for example—as well as Kenya and the United Republic of Tanzania (whose exports recovered in 1966), Kuwait (whose exports, though rising only moderately, have yielded large surpluses) and the Republic of Viet-Nam, where military operations greatly stimulated import demand.

Most of the reductions in imports between 1965 and 1966 followed a marked expansion in the previous interval: this was the case in Argentina, Ghana, Guatemala, Nigeria, Pakistan, Sierra Leone, Surinam, Trinidad and Venezuela. In some of the countries whose exports have been languishing, a reduction of imports in 1965 and 1966 was registered, as in the case of Burma and the Netherlands Antilles. In Aden and India a cut-back in 1966 followed a year in which imports were virtually unchanged from the 1964 level. In Mauritius and Senegal, there were two successive reductions.

INTERNAL BALANCE

With industrial production about 8 per cent above the 1965 level, foreign trade about 5 per cent higher and agricultural output virtually unchanged, the over-all increase in gross domestic product between 1965 and 1966 was probably between 3 and 4 per cent. This represents a further slowing down from the growth rate achieved between 1963 and 1964 and, as in 1965, it was the faltering of agriculture that was largely responsible. The decline in the average rate

also reflects the poor performance of a few major countries—particularly Argentina, Brazil and India—that account for a large proportion of the combined production of the developing countries. Indeed, if these three countries were omitted from the reckoning, the average growth rate of the other forty-three developing countries for which tentative estimates can be made would be about 5 per cent, approximately the same as that achieved between 1964 and 1965.

Of the forty-six countries listed in table 33 more than half increased their total production by 5 per cent or more between 1965 and 1966. The proportion registering a lower rate of growth between 1965 and 1966 than in the previous interval was only slightly larger than the proportion in which there was some acceleration. In rather more than a fourth of the countries, however, production failed to keep up with population growth.

In Latin America the over-all growth rate was lower in 1966 than in any earlier year in the present decade, with the exception of 1963. Argentina, which had achieved an 8 per cent expansion between 1964 and 1965, experienced a slight decline in total production in 1966 and, together with a sharp deceleration in Brazil, this was largely responsible for depressing the regional aggregate. The rate of expansion in the other countries in Latin America averaged close to 5 per cent, more or less the same as that between 1964 and 1965.

The effect of the deceleration in the growth rate of the combined gross domestic product of the region was largely offset by the increase in imports. At between 4 and 5 per cent, therefore, the expansion in total supplies was much the same in 1966 as it had been in 1965 when the increment had come mainly from internal sources. The favourable harvests of 1965—especially in Argentina and Brazil—went into consumption and exports, and inventories were drawn down. It is probable that personal consumption again increased a little more than population, though the increase in exports was fractionally less than between 1964 and 1965. While the change from accumulation to reduction of stocks affected the rate of increase in total investment—probably reducing it to half the 7 per cent recorded between 1964 and 1965—the upswing in imports provided the means for a greater increase in fixed investment.

In Africa, fluctuations in agriculture also played a major role in changing growth rates. There was an impressive recovery in East Africa but this was more than offset by a decline in production in North Africa and also in Ghana and Rhodesia. With the contribution of imports smaller than it had been between 1964 and 1965, there was a significant decline in the rate of increase in total supplies. It is doubtful whether personal consumption kept pace with the growth of population. There appears to have

Table 33. Developing countries: indicated change between 1965 and 1966 in gross domestic product, volume of imports and total supplies^a

Country ^b	Gross domestic product	Imports ^c	Total supplies ^d
Republic of Korea	D	G	E
Singapore	C	C	C
Panama	C	E	D
China (Taiwan)	C	D	C
Thailand	C	G	D
Dominican Republic	C	G	E
United Republic of Tanzania	C	F	D
Costa Rica	C	A	B
Mexico	C	B	C
Kenya	C	F	C
Kuwait	C	F	C
Malaysia	C	—C	B
Peru	C	D	C
Guatemala	C	—C	B
Bolivia	C	C	C
Chile	C	G	C
El Salvador	C	D	C
Trinidad and Tobago	C	—C	A
Iraq	B	C	C
Jamaica	B	C	C
Nigeria	B	—C	B
Pakistan ^e	B	—D	B
Philippines	B	B	B
Sudan ^e	B	B	B
Colombia	B	G	C
Venezuela	B	—D	B
Ethiopia	B	—B	B
Nicaragua	B	A	B
Ecuador	B	—C	B
Honduras	B	E	C
Uganda	B	B	B
Zambia	B	D	B
Uruguay	B	—B	B
Brazil	B	G	B
India	B	—C	A
Jordan	B	E	C
Tunisia	B	—B	A
Ceylon	B	B	C
Paraguay	B	D	B
Ghana	A	—E	—B
Israel	A	A	A
Burma ^e	A	—G	—C
Argentina	A	—C	—B
Morocco	—B	E	B
Haiti	—B	—B	—B
Rhodesia	—C	—F	—D
All developing countries	3	5	4

Source: Centre for Development Planning, Projections and Policies of the United Nations Secretariat, based on data from United Nations, *Monthly Bulletin of Statistics*, *Yearbook of National Accounts Statistics* and *Economic Survey of Latin America, 1966* (Sales No.: 68.II.G.1); International Monetary Fund, *International Financial Statistics*; United States Department of State, *Agency for International Development Data Book* (Washington, D.C.); replies of Governments to the United Nations questionnaire on economic trends, problems and policies, and national sources.

^a Based on preliminary official estimates of the national accounts of "indicators" derived from official or semi-

been recovery in investment in Ethiopia and a larger increase than in 1965 in Kenya and the United Republic of Tanzania. But investment declined in a number of other countries—Ghana, Rhodesia, Sudan and Tunisia, for example—and it is probable that in the aggregate it increased less than in 1965.

There was also a deceleration in West Asia, induced in part by the poor agricultural out-turn referred to earlier in this chapter and in part by a sharp cut-back in demand in Israel. Gross domestic product probably increased less than between 1964 and 1965 in several other countries—Iraq and Jordan, for example—and though imports expanded more than domestic production, the growth in supplies was also smaller.

In southern and south-eastern Asia there appears to have been a modest expansion in total production in 1966 after a year in which the steep decline in agriculture in India had served to hold the region's output at virtually the 1964 level. This gain was augmented by a larger inflow of imports (which had failed to rise significantly in 1965) but exports also absorbed a relatively larger amount. In a majority of countries there was a modest increase in consumption, rather greater than between 1964 and 1965 and also in excess of the increase in population. In India, consumption seems to have been held more or less at the 1965 level, hence there was probably a further reduction in the *per capita* intake. With one or two exceptions—Burma, for example—fixed investment was generally higher in 1966 than in 1965: it recovered in Ceylon, Pakistan and the Philippines, where 1965 had seen a decline, and rose to a somewhat greater extent than in 1965 in the Republic of Korea and Thailand.

In India the set-back of the previous year had repercussions throughout the economy in 1966. Agricultural raw materials were in short supply, the availability of imported inputs was more limited than ever, farm incomes were reduced, higher food prices tended to erode urban demand for other consumer goods and, with inflationary pressures mounting, the

official statistics of production, trade and transport. Where indicators were used, changes in gross domestic product reflect changes, in real terms, in the output of all the items of goods and services for which data were obtainable, combined in accordance with weights derived from national accounts of 1964. The indicated changes are necessarily tentative, being based in some cases on less than a full year's figures for some of the components of the gross domestic product. The symbols indicate the percentage range of increase or decrease (—): A = -1 to 1; B = 2 to 5; C = 6 to 10; D = 11 to 15; E = 16 to 20; F = 21 to 30; G = 31 or over.

^b Countries are arranged in descending order of change in gross domestic product between 1965 and 1966.

^c Quantum index of imported goods; in some cases it refers to goods and services.

^d Weighted aggregate of gross domestic product and imports; the weight attached to imports was derived from national accounts for 1964.

^e Change between fiscal years (July/June for Pakistan and the Sudan, and October/September for Burma).

Government curtailed certain of its investment outlays. The result was a further reduction in the rate of plant utilization, and it is unlikely that fixed capital formation rose much above its 1965 level.

For the developing countries as a group, the main changes in the pattern of resource availability stemmed from the relative decline in the supply of domestic agricultural commodities and the relative increase in the supply of imported goods. Stocks of agricultural commodities, which had been drawn down slightly in 1965 (when substantial increases in production in Latin America offset much of the reduction in Asia), were further reduced in order to sustain exports and internal consumption, both of which increased somewhat less than in 1965. The larger volume of imports along with a larger output from local heavy industries—which, as indicated above, increased almost twice as much as the output of light (generally consumer-oriented) industries—made possible an expansion in fixed investment rather greater than that in 1965. In the aggregate, however, the rate of increase in gross capital formation was probably lower, as were the rates of increase in both consumption and net exports.

Though changes in the supply situation were not such as to alter the over-all balance in the developing countries, there were a few significant cases of improvement and some in which demand pressures became relatively more intense.

Among the countries that had experienced a high and accelerating rate of price increase in 1965, there were signs of some slackening in Argentina and Uruguay, though in both cases the rise in retail prices in 1966 was extremely high (30 per cent and 50 per cent, respectively). More striking was the deceleration in Ghana where strenuous efforts were made to stabilize the economy. In the Republic of Vietnam, on the other hand, inflationary pressures continued to build up.

In Brazil, where the rate of price increase had been halved between 1964 and 1965, no further improvement was effected: retail prices rose by almost 50 per cent in 1966. At a lower level, this was true of Colombia, too. In Chile, by contrast, with production and imports both substantially greater than in 1965, the supply position continued to improve and there was a further deceleration in the price rise. On a more modest scale, price rises were also curbed in Kenya, Uganda and the United Republic of Tanzania, in the wake of the better harvests in the region.

Among the other countries in which retail prices had increased by more than 10 per cent in 1965, there was a slight improvement in the internal balance in Peru, the United Arab Republic and Zambia, but in the Republic of Korea demand rose vigorously and the cost of living responded with an upward acceleration. With the food situation still critical, the price

rise accelerated in India, too: the cost of living increased by about a sixth in the course of 1966. There was also a marked deterioration in price stability in Bolivia, the Democratic Republic of the Congo, Haiti, Pakistan and the Sudan.

Although, compared with 1965, there were fewer countries with extremely high (over 20 per cent) rates of price increase in 1966, and rather more recording price reductions, there were also more in which prices were rising at a disturbingly high rate (see table 34). Acceleration of price increases was significantly less frequent and deceleration rather more frequent in 1966 than in 1965. But among the countries registering high rates of increase (over 10 per cent), the proportion in which the rise accelerated or continued undiminished was somewhat greater in 1966 (18 per cent) than in 1965 (16 per cent).

Table 34. Developing countries: Change in cost of living,^a 1965-1966

Item	1965	1966
<i>Percentage of countries in which the rise in the cost of living index was:</i>		
1 per cent or less	20	23
2 to 5 per cent	43	38
6 to 9 per cent	16	16
10 to 20 per cent	11	16
21 per cent or over	10	7
Total	100	100
<i>Percentage of countries in which, in relation to the preceding year, the upward movement:</i>		
Continued	20	31
Accelerated ^b	43	29
Decelerated ^c	26	33
Was negligible ^d	11	7
Total	100	100

Source: Centre for Development Planning, Projections and Policies of the United Nations Secretariat, based on United Nations, *Monthly Bulletin of Statistics*.

^a Based on sixty-one countries; changes are measured from December to December.

^b Including countries in which the movement of the index changed from downward to upward.

^c Including countries in which the movement of the index changed from upward to downward.

^d Including countries in which the index declined at a slower pace.

Money supply expanded more or less in line with production, trade and incomes in most developing countries in 1966, as in 1965. The proportion of countries in which the money supply increased by less than 4 per cent (or contracted) remained at about a fourth (see table 35). The proportion with an expansion of between 4 and 10 per cent was somewhat greater than in 1965, the proportion with higher rates somewhat smaller, but the differences in the distribution pattern were not very large. Perhaps more significant was a sharp increase in the proportion of countries in which there was a discernible

Table 35. Developing countries: Changes in the supply of money,^a 1965-1966

Item	1965	1966
<i>Percentage of countries in which the rise in the money supply index was:</i>		
3 per cent or less	24	22
4 to 10 per cent	32	37
11 to 17 per cent	24	19
18 per cent or over	20	22
Total	100	100
<i>Percentage of countries in which, in relation to the preceding year, expansion of money supply:</i>		
Continued	24	20
Accelerated ^b	32	32
Decelerated ^c	31	44
Was negligible ^d	13	3
Total	100	100

Source: Centre for Development Planning, Projections and Policies of the United Nations Secretariat, based on International Monetary Fund, *International Financial Statistics*.

^a Based on fifty-nine countries; changes are measured from December to December.

^b Including countries in which the movement of the index changed from downward to upward.

^c Including countries in which the movement of the index changed from upward to downward.

^d Including countries in which the index declined at a slower pace.

deceleration in the rate of increase. This category included Bolivia, Brazil, Chile, Israel, Uruguay, Republic of Viet-Nam and other countries in which stabilization policies were in force.

In some of these countries—Brazil, Chile and Uruguay, for example—the rise in the Government's indebtedness to the banking system, relative to its total expenditure, increased much less in 1966 than it had in 1965. Nevertheless, the proportion of countries registering such a reduction declined between 1965 and 1966 while the proportion registering an increase rose (see table 36). Here again, however, the outcome was far from clear-cut: there was a sizable increase in the proportion of countries in which the budgetary deficit widened to a moderate degree (6-15 per cent) and a corresponding reduction in both the proportion with very small increases (or even declines) in the deficit and the proportion with relatively large increases.

On the whole the budget deficit was a less expansionary factor in 1966 than in 1965. It was actually a contractionary factor in about 28 per cent of the fifty-three countries for which data are available (compared with less than 21 per cent in 1965). In half the countries, as in 1965, the principal component in the increase in money supply was the growth of private credit; in both periods this was contractionary in only about a fifth of the cases. As in 1965, the change most often contractionary was that in foreign assets: this tended to reduce the money sup-

Table 36. Developing countries: Changes in government budgetary position,^a 1965-1966

Item	1965	1966
<i>Percentage of countries in which the change in government indebtedness during the indicated year as percentage of government expenditure in the preceding year was:</i>		
5 per cent or less	55	50
6 to 10 per cent	9	14
11 to 15 per cent	12	19
16 per cent or over	24	17
Total	100	100
<i>Percentage of countries in which, in relation to the preceding year, the rise in government indebtedness:</i>		
Continued	17	10
Accelerated ^b	26	40
Decelerated ^c	45	36
Was negligible ^d	12	14
Total	100	100

Source: Centre for Development Planning, Projections and Policies of the United Nations Secretariat, based on United Nations, *Statistical Yearbook*; International Monetary Fund, *International Financial Statistics*, and national sources.

^a As measured by net change—claims minus deposits—in government dealings with the banking system; based on forty-two countries.

^b Including countries in which the movement changed from fall to rise.

^c Including countries in which the movement changed from rise to fall.

^d Including countries in which the movement was downward in the two successive years.

ply in about 40 per cent of the countries, while it was the leading expansionary influence in only about a fourth (compared with a fifth in 1965).

EXTERNAL BALANCE

The combined trade deficit of the developing countries in 1966—at \$1.1 thousand million—was at virtually the same level as that of the preceding year and the 1963-1965 average.² There was a deterioration in southern and south-eastern Asia where the deficit rose slightly to \$3.5 thousand million in 1966; in Africa, on the other hand, there was a change from deficit to a slight surplus; in West Asia the trade surplus was somewhat larger and in Latin America, it was somewhat smaller.

In southern and south-eastern Asia only Burma and Malaysia had active trade balances in 1966; Cambodia and Ceylon moved into deficit and in Hong Kong, the Republic of Korea, the Republic of Viet-Nam and Thailand the deficits were greater than in 1965. There was a slight reduction in the Indian deficit, but for the third successive year it was well over \$1,000 million.

² Imports, c.i.f. minus exports, f.o.b.

In Latin America the dominant feature was again the large surplus of Venezuela (about \$1.4 thousand million), but there were also active trade balances in Argentina, Chile and Honduras (all greater than in 1965), in Brazil and Uruguay (smaller than in 1965) and in Guatemala which moved from deficit to surplus. The most notable change was the sharp worsening of the balance in Colombia where a decline in exports and a major increase in imports resulted in a record deficit. The trade balance was also more passive in Panama and, on a smaller scale, in the Dominican Republic, El Salvador, Nicaragua and Peru.

In Africa there were sizable increases in the surpluses registered by Libya and Zambia and a swing from deficit to surplus in Mauritius, Nigeria and Senegal. These changes more than offset the widening of the passive balance of Kenya, Morocco, Mozambique and, most markedly, the United Arab Republic. By expanding their exports, Ghana and Tunisia reduced their deficits somewhat but they remained large by earlier standards.

In West Asia there was a further growth in petroleum exports, especially from Saudi Arabia, increasing the over-all surplus of the region. An increase in exports also resulted in a further reduction

in the passive trade balance of Israel from the high figure of 1964. In Iran and Syria, on the other hand, the balance was moved in the opposite direction by a sizable increase in imports in the face of export earnings that remained more or less at the 1965 level.

In the aggregate, it is probable that the current account deficit of the developing countries other than the major petroleum exporters was somewhat greater in 1966 than in 1965. It was more than met by the transfer of resources from the rest of the world, so that the developing countries were again able to add to their external reserves (see table 37). Though firm data are not yet available, the evidence suggests that less private capital moved to the developing countries in 1966 than in 1965, but that there was more official lending, both bilateral and by the international institutions. If the average relationship over the preceding five years between the net flow of loans and grants reported by the developed market economies and the institutions on the one hand and the balance on the combined current account of the developing countries (including changes in international liquidity) on the other is applied to the available data for 1966, it would suggest that the flow of resources from the developed market economies and the institutions was of the order of \$9.4

Table 37. Developing countries: Balance of trade and changes in liquidity, 1961-1966

(Millions of dollars)

Item	1961	1962	1963	1964	1965	1966 ^a
<i>Developing countries^b</i>						
Balance of trade ^c	-3,337	-2,329	-926	-1,149	-1,125	-1,119
Change in total reserves ^d ..	-600	-201	919	182	1,215	668
Net change in other balance of payments items	2,737	2,128	1,845	1,331	2,340	1,787
<i>Selected petroleum-exporting developing countries^e</i>						
Balance of trade ^c	2,787	3,515	4,114	4,342	4,391	4,794
Change in total reserves ^d ..	-18	-6	464	129	262	178
Net change in other balance of payments items	-2,805	-3,521	-3,650	-4,213	-4,129	-4,616
<i>Developing countries excluding selected petroleum-exporting countries</i>						
Balance of trade ^c	-6,124	-5,844	-5,040	-5,491	-5,516	-5,913
Change in total reserves ^d ..	-582	-195	455	53	953	490
Net change in other balance of payments items	5,542	5,649	5,495	5,544	6,469	6,403

Source: Centre for Development Planning, Projections and Policies of the United Nations Secretariat, based on International Monetary Fund, *International Financial Statistics*.

^a Preliminary; including estimates based on less than twelve months' returns for some countries.

^b Latin America (excluding Cuba), Africa (other than South Africa), and Asia (other

than Japan, mainland China, Mongolia, North Korea and North Viet-Nam).

^c Exports, f.o.b. minus imports, c.i.f.

^d Gold, convertible foreign exchange and reserve position in the International Monetary Fund.

^e Iran, Iraq, Kuwait, Libya, Nigeria, Saudi Arabia and Venezuela.

thousand million. Of this, approximately \$0.9 thousand million is likely to have come from the institutions.

For the fourth year in succession, the developing countries were able to increase their total liquidity. The 1966 increment, however, was only half of that achieved in 1965 and the bulk of it was concentrated in a small number of countries. The major gains were recorded in Thailand (about \$185 million) and the Republic of Viet-Nam (\$128 million) and were closely connected with military operations in that area. Sizable gains were also made in the Republic of Korea (almost \$100 million), Malaysia (\$40 million) and China (Taiwan) (\$37 million). Though there was a serious loss of reserves in Ceylon as the country swung into deficit (\$30 million, or about 40 per cent of its 1965 holdings) and a smaller loss (\$21 million or 10 per cent) in Pakistan, the region as a whole added almost \$0.5 thousand million (or about 14 per cent) to its over-all liquidity.

There was also a gain in West Asia. Most of this accrued to the petroleum exporters but other countries also increased their reserves, with the notable exception of Israel (where there was a 3 per cent contraction) and Syria where the loss of \$15 million represented about a third of its international liquidity.

In Africa the gains were even more concentrated. Libya increased its reserves by a further 38 per cent (\$93 million) and there was a sharp recovery in East Africa where reserves had been drawn down in 1965. Against these, most other countries lost reserves in 1966, the decline being most serious in North Africa: Morocco lost \$12 million (12 per cent), Tunisia \$8 million (21 per cent) and the United Arab Republic \$37 million (19 per cent).

While on balance all these regions registered an increase in reserves, in Latin America there was an over-all reduction. The major losses were in Brazil (\$95 million or 19 per cent) and Venezuela (\$67 million or 8 per cent) but they were shared by several other countries, the principal exceptions being Chile, Ecuador and Mexico.

That the trading results were not all satisfactory in 1966 was reflected in an increase in the activity of the International Monetary Fund. Net borrowings by African countries—chiefly Ghana and the Sudan—were almost twice as large as in 1965. A large amount (\$100 million, net of repayments) was advanced to India. A number of countries in Latin America called on the Fund, but the region as a whole recorded a net repayment of earlier advances. In the aggregate, the net amount advanced to the developing countries in 1966 was about \$145 million, rather more than in 1965, and some thirteen stand-by agreements were concluded, against which a number of countries—not only Afghanistan, Ghana and the

Sudan but also Ceylon, Ecuador, Haiti, Liberia, Sierra Leone—have already drawn.

While the 1966 trade deficit of the developing countries as a group was less than half of that registered at the beginning of the 1960's, in this period the trade surplus of the major petroleum exporters virtually doubled. The removal of these countries from the total reveals the extent to which the trade gap widened in 1966 in the case of the rest of the developing world: it was about \$0.4 thousand million more than in 1965 and at the highest level since 1961 (see figure V).

The rise in reserves was proportionately less than the rise in imports, so that the ratio of reserves to imports declined slightly. With the burden of debt service rising and the flow of resources from the more advanced countries showing little disposition to increase, the developing countries at the end of 1966 were not in a strong position to sustain the rate of increase in imports just achieved.

OUTLOOK³

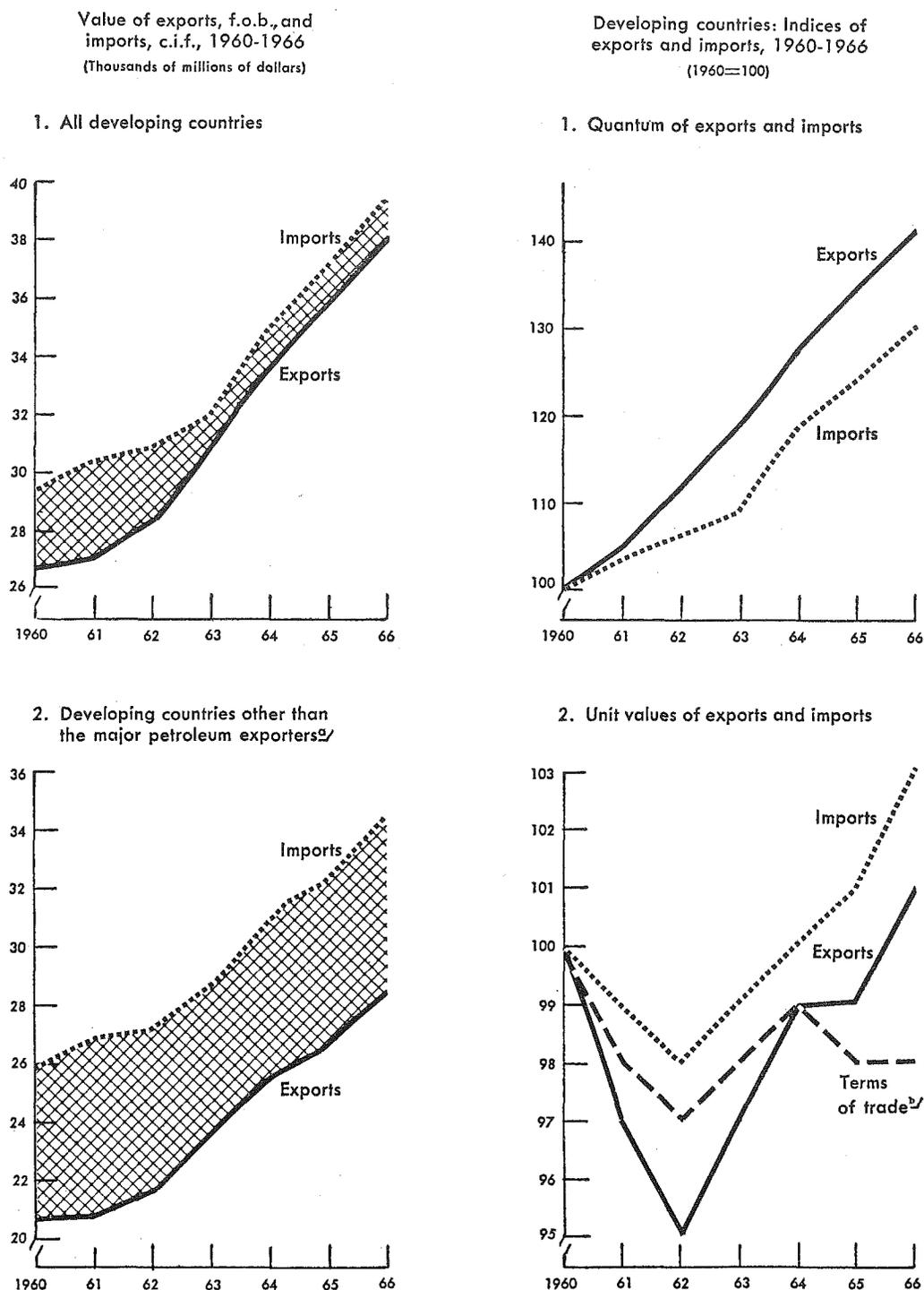
By and large the developing countries entered 1967 more vulnerable than at the outset of the three previous years. The principal cause for this was the poor agricultural performance of 1965 and 1966. In a number of countries, stocks have been depleted and foreign exchange earnings have had to be pre-empted in order to purchase the supplies needed to maintain even low levels of *per capita* food consumption. Nor, now that there are no longer any surplus stocks in major exporting countries, can such food supplies be expected to be as freely available as aid as they were in earlier years.⁴ Food imports thus have a much more competitive relationship to other imports than has been common since the mid-1950's. The resources available for acquiring development goods depend on the extent to which food needs can be met from domestic production. This is particularly true in 1967 when inventories also need to be rebuilt. More than ever, therefore, the prospects for the period immediately ahead depend on the effort put into agriculture and its associated industrial and transport activities and on the weather which is still the main arbiter of success in most developing countries.

The capacity of the developing countries to import the goods required for their development also depends on their export earnings and the price of the imports in question. On neither score is the outlook reassuring. The average price of manufactures entering international trade rose by 2 per cent in 1965 and by a further 2 per cent in 1966, and in the first quarter

³ This section is based in part on the replies received from Governments to the United Nations questionnaire on economic trends, problems and policies, November 1966.

⁴ For a discussion of the change that has taken place in the food situation, see "Multilateral food aid" (E/4352).

Figure V. Developing countries: Trade, trade balance and unit value indices, 1960-1966



of 1967 it was one per cent above the corresponding 1966 figure; the domestic wage-price situation in the countries from which most of the supplies of the developing countries are obtained points to a continued upward creep in unit values. Moreover, those

countries that need to import basic food-stuffs are faced by cereal prices that are substantially above the corresponding 1966 level—in the first quarter they averaged 21 per cent higher in the case of rice, 7 per cent higher in the case of wheat (see table 38).

Table 38. Export price index of primary commodities, 1961-1966 and first quarter, 1967

Commodity	Index (1960 = 100)						Index (corresponding quarter of previous year = 100), first quarter	
	1961	1962	1963	1964	1965	1966	1966	1967
Wheat	102	107	105	109	100	110	100	107
Rice	103	109	109	109	107	115	104	121
Maize	97	98	108	109	113	114	96	99
Coffee	95	92	95	126	118	114	100	90
Tea	96	98	96	96	96	104	100	95
Cocoa	79	75	94	86	62	87	113	127
Beef	97	94	97	124	131	129	99	95
Mutton and lamb	90	94	98	115	124	115	89	94
Sugar	96	99	204	156	86	82	99	86
Olive oil	97	113	158	101	113	113	98	104
Copra	81	78	88	93	104	88	90	89
Coconut oil	80	79	89	94	112	95	97	85
Ground-nuts	100	93	92	99	106	100	96	96
Ground-nut oil	100	94	94	99	100	97	93	101
Palm kernels	83	84	95	94	116	99	94	85
Palm kernel oil	78	75	88	94	123	124	121	77
Palm oil	101	95	99	105	113	106	97	92
Linseed oil	108	98	82	92	82	74	89	92
Linseed	104	104	94	93	91	86	94	97
Soya beans	122	111	121	121	127	138	98	97
Soya bean oil	131	106	107	107	129	131	99	84
Cotton-seed oil	127	114	102	105	116	139	101	104
Wool	99	98	118	121	102	107	107	91
Cotton	100	98	99	102	100	97	95	90
Jute	126	86	85	90	95	104	99	107
Sisal	91	99	145	129	91	83	87	93
Tobacco	102	103	110	111	110	107	103	96
Rubber	76	72	67	64	66	63	98	82
Hides and skins	97	89	74	76	84	112	152	91
Iron ore	103	102	97	94	94	95	103	96
Bauxite	103	105	101	100	101	101	100	100
Copper ore	97	97	98	139	180	226	177	67
Lead ore	90	78	88	142	153	129	83	77
Zinc ore	88	77	86	127	124	111	94	94
Tin ore	113	113	115	153	176	162	111	87
Nickel ore	105	108	107	107	106	107	98	110
Manganese ore	97	94	85	88	97	99	100	100
Chrome ore	100	100	90	90	90	90	100	100
Petroleum	98	98	98	98	98	98	100	100
Coal	102	103	108	109	113	114	101	100

Source: Centre for Development Planning, Projections and Policies of the United Nations Secretariat, based on information provided by the Statistical Office of the United Nations and on International Tin Council, *Statistical Bulletin* (The Hague); International Monetary Fund, *International*

By the same token, developing countries exporting cereals can look forward to an increase in earnings, unless their harvests are particularly poor. In this respect Argentina and Thailand seem to be better placed than Burma and Cambodia where the 1966/67 crops suggest that production is still lagging. For the other developing countries, export prospects, though mixed, are generally less favourable than in recent years.

For the producers of other consumer commodities, for which world demand is rising rather slowly, the

Financial Statistics, July 1967; Commonwealth Secretariat, Commodities Division, *Tropical Products Quarterly* (London), June 1966 and June 1967, and *Rice Bulletin* (London), May 1967.

main determinant is the inventory and crop position. In the case of coffee, this continues to be difficult: large stocks still exercise a depressing influence even though supplies are governed by an export quota system and efforts are being made to turn coffee acreage in Brazil over to other purposes.⁵ On the whole, *robusta* prices have been standing up better than those of *arabica* coffees, but the over-all decline

⁵ A diversification fund, financed by a levy on exports, has been set up within the framework of the International Coffee Agreement to facilitate a more broadly based effort to bring production into better balance with demand.

that started in 1965 had not been reversed by mid-1967.

Tea prices are also down on 1966 levels and with demand hardly increasing at all, the outlook for tea earnings is far from bright. The volume of tea exported from Ceylon and India in 1966 was the lowest for many years. Ceylon looks forward to a better out-turn and higher export earnings in 1967. In the case of India, two poor agricultural seasons have seriously reduced export availabilities not only of tea but of other products, too: one of the objectives behind the selective liberalization of imports in 1967 is to provide needed inputs for priority activities, including in particular those producing for export.

In the case of cocoa, the effects of the record 1964/65 crop seem to have worn off and consumption is running ahead of current supplies: prices in the first four months of 1967 were well above the corresponding 1966 figures. The 1967 earnings of the cocoa exporters depend on the mid-year and 1967/68 crops but, on the basis of realizations in the earlier months, they should be appreciably higher than in 1966. In Nigeria, however, more favourable cocoa results may be offset by the effect of lower prices for palm products and of the disruption of production and trade by internal political difficulties.

It is not clear whether sugar has yet recovered from the situation of serious imbalance that has prevailed in recent years: while there are signs that consumption rates are beginning to catch up with production, at least on a global basis, a reduction in the very large stocks which have overhung the market is not yet in sight. In 1965/66, a further 3 million tons—about 4 per cent of world centrifugal production—was added to stocks already regarded as excessive. On the free market, prices continue to be extremely low by earlier standards, and in the first quarter of 1967 the average was well below the corresponding 1966 level. With production in the more advanced countries significantly higher than it was in the early years of the decade,⁶ moreover, it may be some time before the sugar earnings of those developing countries that sell largely on the free market—China (Taiwan) and India, for example—take a decisive turn upwards.

Some advantage may accrue to other producers of tobacco from the absence of supplies from Rhodesia, but the developing countries are unlikely to benefit greatly: few of them produce the light Virginia-type flue-cured varieties which manufacturers require to replace their previous purchases. There has been little indication of any rise in the prices obtained

⁶ Relative to the average in the first half of the decade (1960/61 to 1964/65), 1966/67 production is estimated to be about 6 per cent higher in western Europe, about an eighth higher in North America and almost half as much again in the Soviet Union.

by other developing country exporters; these are influenced more by the quantity and quality of their own harvests.

For the producers of raw materials, the most disturbing feature of the 1967 situation has been the slackening in industrial production in a number of developed market economies. The average prices of textile fibres, palm products, rubber, hides and skins and ferrous and non-ferrous metals have been declining and all were lower in the early months of 1967 than in the corresponding period in 1966.

The price index of fibres in international trade was about 3 per cent lower in the first quarter of 1967 than in the first quarter of 1966. The largest decline was in cross-bred wools, but sisal was being quoted much below earlier levels on the London market and, although Pakistan jute was fetching more, burlap prices were less than in 1965 or 1966 on the New York market. The decline in the prices of hard fibres is expected to have an adverse effect on the export earnings of the Philippines (where a lower copra price is also likely to depress receipts) and of the United Republic of Tanzania (where a reduction from the record 1966 level of coffee earnings is also thought likely).

Lower price supports for United States cotton may well exert a downward pull on other markets, especially as the carry over into the 1966/67 season was the highest on record. The cotton earnings of some developing countries—Brazil, El Salvador, Guatemala and Mexico as well as Iran and Syria, for example—are likely to be reduced by the relative size of the 1966/67 crop. The poor United Arab Republic out-turn of extra-long-staple cottons, however, has induced a compensating rise in price which may also benefit other producers of these varieties—Peru and the Sudan, for example.

The rubber market has been affected chiefly by the decline in motor-car production but its recovery is likely to be limited by the large capacity now available to produce various synthetic types. The emergence of unused capacity in this sector could exercise a very depressing effect on the demand for natural rubber, even if the prices of major synthetic types are held. Prices in the first quarter of 1967 were almost an eighth below the corresponding 1966 level. Lower prices may discourage production by small holders in some developing countries, particularly Indonesia, but Malaysia is likely to have more rubber to market as its earlier efforts to raise yields and quality are coming to fruition.

Excess capacity in the steel industry, especially in western Europe, has tended to depress the market for iron ore, while the average price of the major non-ferrous metals, which has drifted downwards since mid-1966, was 8 per cent below the correspond-

ing 1966 level in the first quarter of 1967, copper, lead, zinc and tin all participating in the decline. The metal earnings of developing countries in the period immediately ahead depend not only on the rate at which industrial demand picks up in the Federal Republic of Germany and the United Kingdom but also on military procurement and stockpile policies in the United States. Some strategic stocks, notably of copper and tin, have been drawn down in recent years and this process may cease and even be reversed. Copper production is expanding in Chile but world supplies in 1967 may be affected by repercussions of wage negotiations (particularly in the United States), disputes between mining companies and the host Government (such as interrupted exports from the Democratic Republic of the Congo early in the year) and political and logistical difficulties (such as those still troubling mining activities in Zambia). Chile expects its copper earnings to be below the high 1966 level.

The implications of these price changes—whether recorded in the early part of 1967 or still imminent—obviously differ from one developing country to another, depending on market arrangements and specific production achievements. In a general way, however, it is clear that with the faltering in the upswing

in industrial countries, the prospects for export earnings in developing countries are much more clouded than they have been for several years. Nor is this uncertainty lessened by the promise of a greater flow of resources either by way of invisible earnings or by way of capital. Political developments in several parts of the world are likely to have an adverse effect on receipts from tourism and transit dues and hence on the import capacity of the developing countries concerned. And, partly as a result of these political difficulties, the underlying forces influencing the flow of loans and grants—whether from the point of view of the external balance of the donor countries or from the point of view of their budgetary situations—have not noticeably improved. And while conditions on some capital markets have eased slightly from the worst of the credit squeeze of 1966, this has little relevance to developing countries that lack the credit standing necessary to borrow. In the meantime, moreover, the claims on earnings arising from debt servicing are on the increase as the grace periods on older loans come to an end. The need for greater export receipts is rising just as the outlook for achieving an increase is tending to darken. After four successive years of increase, the international liquidity of the developing countries may be facing a period of strain.

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