

# Highlights of 1991 White Paper on Economic Cooperation

By Toshio Nakamura

The annual government report, or white paper, on economic cooperation for 1991 describes three important situations in which the developing countries are likely to find themselves in the 1990s. The white paper then details possible applications and directions for Japan's economic cooperation in the decade ahead.

In the 1980s the developing world was polarized, so to speak, between countries which achieved relatively rapid economic growth and those which did not. Countries in the former group followed the basic policy of promoting exports and improved economic efficiency through stepped-up industrialization. In contrast, countries in the latter group—which did not pursue these policy lines—were unable to achieve rapid development.

In the 1990s, however, the developing countries generally, including those which developed rapidly in the 1980s, will face three difficult situations. These are:

(1) Tightening of the capital supply-demand balance due to increasing demand;

Capital demand remains strong in Asia and Latin America. In addition, reconstruction in the former East Germany and the transition to market economies in the Soviet Union and East European countries are creating a huge demand for funds. The same is true of the Middle East, where large infusions of funds for Gulf War reconstruction and other purposes are required. These new demands for money, though partly latent, are likely to apply upward pressure on world capital demand. This would push up fund-raising costs on the part of developing countries, which would find it difficult to obtain needed development funds.

(2) Likely decline in developed-country purchasing power (absorber's function) for developing-country exports;

The United States, which is still the largest market for exports from developing countries, is likely to reduce its function as the major "absorber" of developing-country export demand (Fig. 1),

because the country is plagued by large budget and trade deficits. The twin deficits are adding fuel to protectionist sentiment in the United States.

Moreover, a collapse of the Uruguay Round of global trade liberalization negotiations could prompt not only the United States but also the European Community, now seeking to create a single market in 1992, to form inward-looking economic blocs. If this happens, the number of countries and areas serving as absorbers will drop sharply.

(3) Concern about worsening environmental problems;

Environmental problems are reaching serious proportions in the developing countries for a variety of reasons, including the increasing energy demand arising from industrialization. These problems are no longer confined to local ones. They are also affecting the entire world in various forms such as global warming and acid rain. The developing countries will find it increasingly important to strike a balance between economic development and environmental protection.

## Three priority tasks

(1) Dealing with tightening capital supply:

With the capital supply expected to tighten globally, Japan should contribute, first and foremost, to recycling private funds which comprise most of the fund flows to the developing countries.

To this end, Japan should take appropriate measures, such as providing yen loans, financing through the Export-Import Bank of Japan, and trade insurance, by taking into account the economic and social situations in the developing countries concerned, their capital demand and other relevant factors. It is also important that Japan play an effective role in inducing the recycling of private funds. Japan will be required to strive to reduce developing-country risks by making effective use of the trade insurance system.

Fig. 1 Countries to Which Developing-Country Products Are Exported (1989) (%)

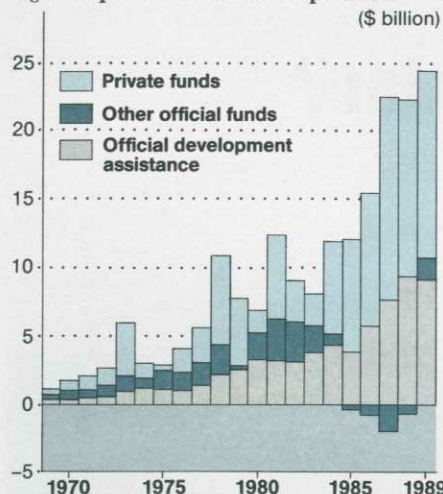


Source: Direction of Trade Statistics 1990, IMF

In the case of heavily indebted countries unable to incur any more foreign debts, it is essential that creditor countries implement debt-reduction measures, such as rescheduling of debt repayments. These measures would alleviate capital shortages in the debtor countries and, in this sense, would constitute a form of development financing. Such financial support would contribute positively to sound economic management in the developing countries concerned and could therefore be considered a form of economic cooperation if they were to make consistent efforts for structural adjustment.

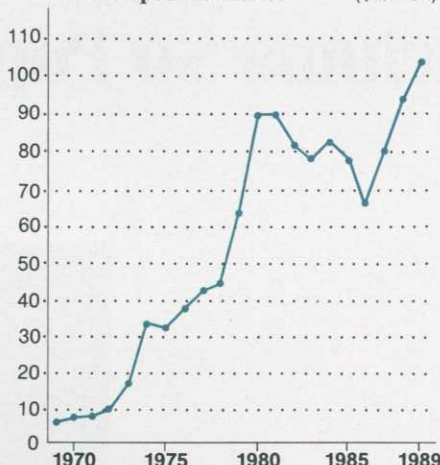
However, caution needs to be exercised when debt reduction measures are taken, as these measures would drastically reduce the international credit standing of the debtor countries concerned and make them unable to secure new fund inflows. What is more, debt reduction involves problems central to the basic principles governing the methods of resolving the developing-country debt problem, such as a decline in the willingness to repay debts on the part of debtor countries. For these reasons, these measures should be implemented only under

Fig. 2 Japan's Economic Cooperation



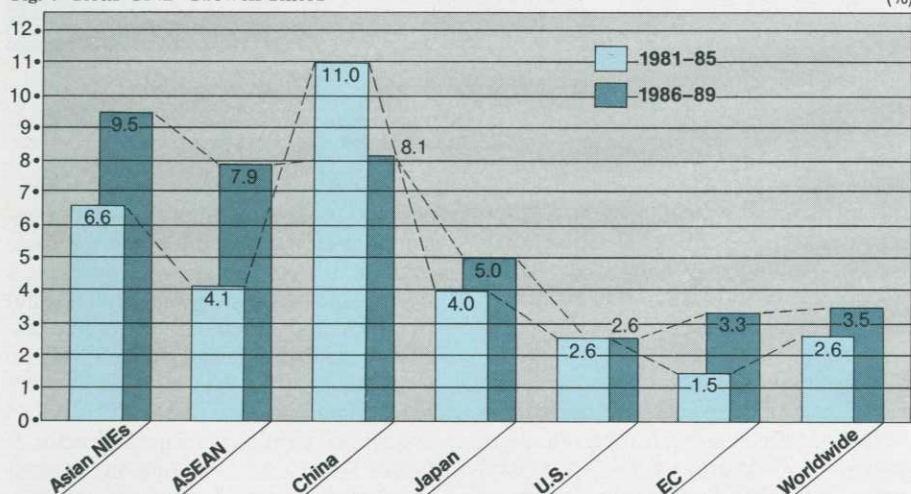
Source: Development Cooperation, DAC

Fig. 3 Japan's Imports from Less Developed Countries (\$ billion)



Source: Development Cooperation, DAC

Fig. 4 Real GNP Growth Rates (%)



Note: Figure for ASEAN does not include Singapore.  
Sources: National Accounts, OECD; national statistics

special circumstances and only for selected countries.

(2) Assistance for developing-country efforts to secure export markets:

In 1989, total flows of funds from Japan to the less developed countries (LDCs)—the sum of official development assistance (ODA), other official flows of funds such as loans from the Export-Import Bank of Japan, and private flows of funds—reached a little more than \$20 billion (Fig. 2).

By contrast, LDC imports into Japan totaled about \$100 billion (Fig. 3). This shows that developed countries can play a large role in expanding the flows of funds to the LDCs by taking in more imports from the LDCs. Japan will thus find it essential to make further efforts to increase imports, particularly manufac-

tured goods, from the LDCs. Indeed, such efforts represent a vitally important form of international contribution.

Moreover, at a time when there is growing concern about the possible formation of economic blocs and the spread of trade protectionism, Japan needs to promote economic cooperation in the Asia-Pacific region as a model for open regional economic cooperation. Japan also needs to make further efforts to bring the Uruguay Round to a successful conclusion, and it should thus play a leading role in maintaining and strengthening the free trade system with a view to expanding world trade, including trade with developing countries.

(3) Support for developing-country efforts to combat environmental problems:

It is essential that Japan make positive

efforts, at both government and private levels, to transfer environment-related and energy-related technologies to developing countries. In promoting such technology transfer, it is necessary to apply flexibly the so-called "request first" principle that obligates prospective recipient countries to make formal requests for cooperation prior to the start of projects.

It is also necessary to ensure that aid is disbursed and used effectively through the integrated use of grants, loans and technical assistance. In taking such supportive measures, Japan needs to give developing countries incentives for domestic environmental measures.

## A hub of growth

The Asia-Pacific region is expected to remain the world's growth center and thereby contribute further to world economic development (Fig. 4). At the same time, economic interdependence among countries in the region is continuing to deepen.

Under these circumstances, Japan is expected to play an increasing role in the development of this region. It is highly important, therefore, that Japan promote economic cooperation with Asian countries through such measures as promoting the activities of the Asia-Pacific Economic Cooperation (APEC) group and the New Aid Plan for the industrialization of Asia.

Furthermore, Japan should contribute to maintaining and promoting the dynamism of economic growth in the Asia-Pacific region. It should also make positive efforts to promote environmental protection in the region. Such contributions should be aimed at having the entire region, including Japan, contribute collectively to economic development and environmental protection in the world as a whole. In short, the basic task in Japan's economic cooperation is to make international contributions that are both efficient and effective.

*Toshio Nakamura is director of the Economic Cooperation Division at the International Trade Policy Bureau, MITI.*