

RICH AND POOR NATIONS

Lecture by Saburo OKITA
at the University of Michigan

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Ladies and Gentlemen

It is a great honor and privilege for me to receive the honorary degree of Doctor of Laws from the University of Michigan. I started as an electrical engineer, graduating from Tokyo University in 1937. During the war years and early post-war years I gradually changed from an engineer to an economist. I have been involved in the policy making process of various stages of Japan's post-war economic rehabilitation and development. In 1962 I received a Doctorate in economics from the Ministry of Education, actually the last degree awarded under the old nationwide doctorate system. My thesis at that time was "Planning in a Market Economy". Now I am adding a foreign Doctor of Laws degree, and this is my great joy.

Today the topic of my speech is on "Rich and Poor Nations". In the past twenty years I have worked in various capacities on the problems of rich and poor countries of the world, sometimes as a staff member of the United Nations secretariat, sometimes as a member of Government delegations, and sometimes as an expert on international study groups. The world has seen many events and changes in the past decades, particularly since the beginning of the 1970s. Among the developing countries some of the oil producing countries are getting richer, and some others as well have succeeded in accelerating their economic growth and attaining a higher per capita income approaching that of advanced industrial countries. However, about sixty per cent of the population of the developing world, totalling over one billion people, belong to the "low-income non-petroleum-exporting countries." These countries have not shown much improvement in the recent past. Their per capita

Gross Domestic Product, measured in terms of constant 1970 prices, rose only from 103 dollars in 1970 to 108 dollars in 1975. Agricultural production in developing countries rose 4 per cent and 3 per cent in 1975 and 1976 respectively, mostly because of improved climatic conditions. However, taking the six year period 1971-1976 as a whole, the annual agricultural growth rate in these countries was only 2.5 per cent, a figure which barely keeps pace with the population increase.

There is a kind of vicious circle between poverty and a high rate of population increase. Because of poverty, nutrition is inadequate. Because of mal-nutrition, infant mortality is high. Since several children may die young, parents must have a larger number of children to insure support in their old age. Therefore, improvement in nutrition and health standards may result in a steady decline in the birth rate, and thus contribute to stabilizing world population. In view of the recent experiences in some of the developing countries, achieving success in population policy depends on such factors as: first, determined government measures for encouraging family planning; second, the spread of education and literacy; and finally, improvements in income and nutrition. Very recently, there have been at least a few hopeful signs of declining birth rates in some of the poor countries.

Let me describe another type of vicious circle often found in poor countries. Because of mal-nutrition, people cannot work hard physically. Not working hard means low labor productivity. Low productivity means low income, income which could be used to buy food. Under these circumstances a supply of additional nutrition is immediately converted into additional work and improved productivity. In this case the additional food supply

should not be seen merely as consumption, but as a real investment in the human body for getting higher output. Moreover, if we look at the nutrition problem from a global viewpoint, we can see that the marginal utility, the actual increase in human welfare, brought about by a unit addition of food consumption, is much greater in poor countries than in rich countries. Therefore, it should be desirable to encourage increased food production in the poor countries. Agriculture absorbs the major part of the labor force in these countries, and the benefits of improving food production will reach the majority of the population. In this connection, in 1975 I and Dr. Kunio Takase of the Overseas Economic Cooperation Fund formulated the "Plan for Doubling Asian Rice Production." The basic idea of this plan is as follows:

In Asia, rice is the major staple food for the majority of people living in monsoon areas; the per acre yield of rice in south and south-east Asia is about one-third of Japan and one-half of Korea or Taiwan; for rice cultivation, a controlled water supply is essential. Since there is a close relationship between the rate of irrigation and the per acre yield of rice, use of fertilizers and high-yielding varieties of seed should be combined with a better irrigation system. Therefore, a substantial amount of investment is needed for irrigation, and both domestic and foreign resources should be made available for this purpose. This idea so far has brought positive responses from governments and international institutions. Even though the United States, Canada, and Australia may be able to produce enough surplus food to meet the world deficit, there is still the problem of financing transfers of food

from rich surplus countries to poor deficit countries. Moreover, increasing the production of food in poor countries themselves will provide employment and income for a majority of their people.

One of the ways for a poor nation to become rich is to industrialize its economy. The successful process of industrialization over several decades has enabled Japan to join the group of rich nations. Ten years ago I remember writing a paper called *"Causes and Problems of Rapid Growth in Postwar Japan and Their Implications for Newly Developing Economies". In this paper I pointed out that rapid economic growth was not a monopoly of Japan, and any country which could bring about a favourable combination of abundant labor supply and rapidly rising productivity should realize a high rate of economic growth. We see today that in East and Southeast Asia, in Southern Europe, and in Latin America, several countries are rapidly expanding their industries, and are now attaining high rates of economic growth.

When a poor and underdeveloped nation gradually succeeds in improving its quality of labor and absorbing foreign advanced technology, it can rapidly develop its industry. At the earlier stage of industrialization, labor-intensive industries such as textiles gain competitive strength, but then later these countries will move into more sophisticated areas. At the same time, in rich countries the general wage level is rising and some industries, particularly those with high labor inputs, gradually lose their competitiveness. Such changes in the comparative advantages among nations over time

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can be called a "dynamic process of the international division of labor". There are many such examples, including increased imports of shoes from Brazil into the American market. The fact that Japan is now one of the largest importers of textile goods, and actually the largest importer of raw silk, is another case in point. The United Nations Industrial Development Organization called UNIDO passed a Declaration at its Lima Session in March 1975 which established an ambitious target. It said that the developing countries should attain 25 per cent of total world industrial output by the year 2000. At present, developing countries represent 70 per cent of world population, but their share of industrial output is only 7 per cent. In order to attain this target, developing countries would have to expand their industrial output at a rate higher than 8 per cent annually. Looking at the current performance of the developing countries as a whole, this seems not quite likely. Although some countries, as I mentioned earlier, are achieving rapid industrial growth, other countries, in particular those with low per capita incomes, managed to expand their industrial production only at a rate of 4 per cent per year during 1971-1975. Nevertheless in the longer run poor countries with abundant labor supplies and low living standards may gain comparative advantages over the rich countries in various industrial fields. The rich countries are tending to move more and more toward a service-oriented society, where the relative importance of both production of and demand for physical goods is gradually declining. In the poorer countries additional physical production in terms of food, clothing, and other goods is the essential ingredient of a better life, and demand for

such goods is expected to be strong for years to come. Therefore, the UNIDO target for industrial production that I mentioned may not be so very unrealistic in the long run.

Such an increase in the share of industrial production occupied by the present poor countries will require a painful process of adjustment in the highly industrialized countries of today. Unless they move continuously ahead and produce technically more sophisticated products, they may suffer from a high level of unemployment and a chronic balance of payments deficit. It may also be true, however, that the present grouping of rich and poor nations will not stay as it is up until the year 2000. Some of the rapidly growing economies may change categories from poor to rich. By the year 2000 many of the Latin American and Middle Eastern countries, and some of the Southeast Asian countries, will not be poor countries any more. Poor countries in general are likely to be less poor in 2000 compared with the present. However, a large part of South Asia and Sahara Africa will have to be characterized as a "hard core of poverty" for years to come.

There has been a distinct trend in many countries of the world toward a more equitable distribution of income, toward a more egalitarian society. Almost every government is aiming at a welfare society. So far, this idea has stayed largely within the confines of national boundaries. There is no reason to believe, however, that the same idea may not gradually be extended internationally, aiming in the long run at the realization of a "welfare world". In view of the enormous technological possibilities and potential productive capacity of the world today, the resources needed for

guaranteeing the basic needs of the entire world population is well within reach of our economic capability.

Japan started as a poor agricultural nation one century ago. Now it has an industrial capacity next only to the United States and the Soviet Union. Dependence on imports of key commodities is very high. For cereals 60 per cent, and energy 90 per cent of domestic needs are met by imports. For other raw materials nearly one hundred per cent is imported. Japan's economic existence therefore depends heavily on the free flow of commodities, and we are keenly aware that we live in an interdependent world. So far, the Japanese people and the government have concentrated their attention and energy on problems of their own economy. But in the future, Japan will have to realize that her economic prosperity and security depends largely on attaining a prosperous world economy and peaceful international relations. We must make a positive contribution to the betterment of the world economy as a whole, and in particular, to the improvement of the economies of the poor nations of the world.