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27 June 1974

World Economy Examined As U.S. Leadership Wanes

By HIROSHI YAMADA
Finance Critic

Since the outbreak of the oil crisis touched off by the fourth Middle East war in October 1973, the world economy has undergone such a structural upheaval that the international economic framework maintained for over a quarter century since the end of World War II must now be fundamentally re-examined. With the advent of the 1970's, the United States clearly began to lose its leadership among the advanced industrial states as its superiority of strength steadily weakened. As a consequence, the world started to grope for new ways to reorient the international monetary and trade setup, in keeping with the new multi-polar tendency in world politics. The world's economic upheaval since the oil crisis has brought home to the nations of the world that they must pursue a "total" relationship of co-operation, based on equality among all nations, both industrialized and developing, in all aspects of international economic activity, such as monetary issue, commerce and distribution of resources.

As for the direct impact of oil crisis, anxiety over the depletion of oil resources has lost its urgency in Japan, as in many other developed industrial nations. The focus of attention is now on the soaring prices of crude oil in the context of inflation in these countries. That is, crude oil prices have more than quadrupled this year over 1973, bringing further heavy pressure to bear upon advanced industrial nations, which are suffering from "stagflation."

From the latter half of 1972 to the first half of 1973, the economies of industrialized nations showed such a rapid, simultaneous advance as had rarely been witnessed in the postwar years. But their real growth pace markedly slackened in the latter half of 1973. Meanwhile, wholesale prices in these nations zoomed up in 1973. This brought about a clear concomitance of business stagnation and inflation—to wit, stagflation. Many economics analysts in industrialized nations predicted that the outbreak of the oil crisis would give added impetus to this stagflation tendency. This was also true of Japan. For example, the Economic Planning Agency in a report on foreign economies published in January 1974 forecast that "the soaring oil prices will confront the economies of the developed industrialized states with a 'triple hardship'—namely, business stagnation, inflation and worsening balance of payments—in 1974, affecting the economies of developing nations as well." Meanwhile, the Bank of Japan in its forecast of the world's economic trends said this year would turn out to be "a year of the greatest ordeal since the end of the war," pointing out the world would be compelled to face such difficult problems as a reform of the world monetary system and a new round of multilateral negotiations for expansion of world trade, in addition to the oil crisis.

In the spring of 1974, the sharp crude oil price hikes began to cast a shadow over the economies of the advanced industrialized nations in the form of accelerating inflation and the worsening of the balance of payments. The Organization for Economic Cooperation and Development (OECD) announced on May 16 that the consumer prices of its 24 member nations increased by an average of 12.1 per cent in the one-year period ending March 1974.

By country, sharp rises were registered by all major nations with Japan in the lead with 24 per cent, followed by Italy (14.3 per cent), Britain (13.5 per cent), France (12.2 per cent), Canada (10.4 per cent), the U.S. (10.2 per cent) and West Germany (7.2 per cent). The galloping inflation was due to steep price spirals against the background of a global excess liquidity with the advent of the 1970's, followed by the oil crisis, which pushed up the production costs of industrial manufacturers further. There is a large body of opinion that holds that the global inflation, accompanied by high money rates, has already taken firm root in the world economy to some extent. For example, the Sumitomo Bank said in a report on world inflation, released in April, that the acceleration rate of inflation in terms of the average increase rate of GNP deflator for OECD's 24 member countries stood at 5.7 per cent on the average from 1970 to 1973 or, two to three times as high as in the 1960's. As for the latter half of the 1970's, the bank forecast that the inflation rate would show no major drop because of world monetary instability and the mounting "resources nationalism" in developing nations. Therefore, it predicted, an annual inflation rate of 4 to 5 per cent would continue, keeping the world in a state of "high-pressure economy."

There seems to be an opinion in some quarters that in 1974, the economy would show an unexpectedly early recovery in such countries as Japan and the U.S. But the opinion continues predominant that a stagnant tendency would persist for the moment in both industrialized and developing nations. For instance, the World Bank said in a forecast of the world economy published in April that the real growth rate of developed industrialized nations in 1974 would average 1.3 to 2.4 per cent, falling far short of 6.6 per cent for 1973. It also said that the stagnation of developed countries' economies would deter the economic growth of developing nations, keeping the latter's real growth rate for 1974 to only 2.5 per cent on the average.

One of the burning issues in the context of the impact of the oil crisis is the balance of payments position of industrialized nations, which are major oil consumers. It is estimated that the increase in oil prices will boost the oil revenues of Middle-Eastern and North African oil-producing countries in 1974 as much as about four times over the previous year to $57,500 million. On the other hand, the sharp oil price spiral will produce an estimated total deficit of $35,000 million to $40,000 million in the current accounts of developed nations (24 members of OECD) because of increased costs of oil imports.

There is a possibility that such a huge current account deficit, if left unchecked, might cause the nations involved to step up their export drive, triggering a fierce export race and import curbs. In fact, Italy adopted an import deposit system in May, while Denmark also sharply raised domestic indirect taxes. In order to prevent such protectionism from spreading, to the detriment of the world economy, the Ministerial Council of the OECD, in a meeting in Paris May 29 and 30, adopted a declaration of the member Governments that restrictive measures regarding trade, such as import curbs, excessive export promoting measures and export curbs, would not be taken during the next year. Indications are, moreover, that a conference of the Committee of 20 finance ministers, to be held in Washington in mid-June by the International Monetary Fund (IMF), will also adopt a declaration calling for restraint on exchange restrictions, which might set off a currency devaluation race, in addition to trade restrictions.

Now that the oil crisis has resulted

in intensifying a conflict of interest between developed industrialized states, efforts are being made through such international bodies as the IMF and the OECD to take emergency self-restraint measures against trade and exchange curbs so that the conflict of interest may not bring about a diminution of the volume of world trade and a protracted stagnation of the world economy.

Of course, developed industrialized nations, with such self-restraint as a leverage, are hoping to translate into reality their long-cherished goal of putting on a smooth track the multilateral trade negotiations at GATT (General Agreement on Tariffs and Trade) and, at the same time, establishing a new international monetary system as "based on reliable, though adjustable, currency values." But the situation has become so serious as to make it hardly likely that such hope can be easily realized.

The "C-20" finance ministers' conference has been studying the reform of the international monetary system with the target of reaching broad agreement by July 1974. But, it appears, the work is about to be shelved with virtually no notable achievements. Indications point to the present controlled float system having to be maintained for at least the next two or three years. These circumstances are making the monetary unrest a "chronic" one, leading people to feel a sort of disillusionment about financial assets, as pointed out in the latest issue of International Finance Magazine.

If developed industrialized nations, in coping with the current account deficit brought about by the oil crisis, cannot hope to improve the situation through stepped-up export drives, what then should they do? Prof. H. S. Houthakker of Harvard University of the U.S., said in a lecture delivered in Japan in April regarding the world economy after the oil crisis: "What should be done is to cope with the situation through capital transactions rather than boosting exports in trade."

Needless to say, this has to do with how surplus foreign exchangge in the hands of oil-producing nations—that is, "oil dollars"—will be utilized. Industrialized states, suffering from their worsening current account balances, are meeting their emergency capital needs mainly through loans from the Eurodollar market. As for the recycling of "oil dollars," the money is now being chiefly channeled back into the Eurodollar market, and capital transactions for covering the current account deficits of developed countries are actually taking place mainly in the form of "oil dollar" recycling through the Eurodollar market.

Japanese banking sources, who have closely watched the investment attitude of Arab oil-producing states since the raising of crude oil prices, have said that they are unexpectedly cautious in their investment activity. For the present, they said, these nations will probably continue their investments in short-term fields as represented by bank deposits, and short-term government securities.

Nevertheless, the recycling routes of oil dollars are not necessarily restricted to international money markets, such as the Eurodollar market and the New York market. Another route is through international organizations, and this may be said to be desirable from a viewpoint of ensuring a balanced development of the world economy as a whole, because such recycling could lead to alleviating the balance of payments difficulties of nonoil-producing developing nations, which have been hit hard directly and indirectly by the oil crisis.

A typical example is the floating of a 5 million Kuwait-dinar (about $17 million) bond by the Asian Development Bank on May 1 for public subscription. Meanwhile, the World Bank signed an agreement in March to obtain a $200 million loan from the Iranian Government, and then concluded an agreement with the Abu Dhabi Government in May to issue a 300 million dirhams ($76 million) bond in the United Arab Emirates. In addition, Oman and Kuwait have agreed to provide the bank with $30 million and $206 million, respectively, in loans.

It is also worthy of note that Arab oil-producing states are displaying a growing desire to set up financial institutions of their own to furnish non-oil-producing developing countries with oil dollars by way of economic aid from the viewpoint of their common position as developing nations. As a harbinger of such moves, the Organization of Petroleum Exporting Countries (OPEC), at its ministerial session on April 7, formally decided to set up a "special development bank" for assistance to developing nations.

As may be seen from the above moves related to oil dollars, nonoil-producing developing countries are suffering from the oil crisis directly and indirectly to a far greater extent than are developed industrialized nations. For they are doubly hard hit by the crisis—that is, through not only the rising costs of crude oil imports, but also the soaring prices of such goods as chemical fertilizers and industrial manufactured goods vital to domestic economic advance, which are imported from industrialized states. The latest issue of The Economist magazine estimates that the current account deficits of nonoil-producing developing nations in 1974 would add up to $15,000 million to $22,000 million. And the soaring import prices of industrial goods are far more responsible for such huge deficits than the crude oil price hikes. On this score, Secretary General Gamani Corea of the United Nations Conference on Trade and Development (UNCTAD) said in a memorandum sent to the special U.N. General Assembly session on raw materials and development in April: "Prices of food and fertilizer imports by developing nations in 1974 will rise to $5,000 million over the previous year. Likewise, the import price increases of industrial manufactures will reach an estimated $7,000 million to $10,000 million. This would equal or exceed an estimated $7,000 million increase in their oil import prices."

Encouraged by the successful raising of crude oil prices in 1973, developing nations, both oil-producing and nonoil-producing, are showing a strong capacity for going into action for the purpose of virtually establishing their permanent sovereignty over their natural resources as a whole.

The first U.N. General Assembly session on raw materials and development, held in New York from April 9 at the request of a group of 77 non-aligned nations, adopted a declaration on the establishment of a "new international economic order" on May 1 after 23 days of debate.

A set of principles as mentioned by the declaration include the right to nationalize resources, the right to control the activities of multinational corporations in conformity with the economic interests of the host countries, and the establishment of a just relationship between the prices of primary products and other goods exported by developing nations and those of industrial goods imported by them in order to improve these nations' terms of trade.

Developing nations are finding it impossible to ignore such strong inclinations to promote their economic advance on the basis of self-reliance. The groping for a new framework of world economy, necessitated by the economic upheaval arising from the oil crisis, can produce fruitful results only through "cooperation through elimination of disequilibrium" between developed industrialized nations and developing nations as mentioned in the said declaration.

Surplus Oil Money Threatens Disruptions

By MASAO FUJIOKA
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The international monetary situation is undergoing the greatest trial since the end of the War, because of the so-called oil crisis which erupted late last year. It is said that due to the sharp rises in oil prices, the surplus in the current accounts of the oil-producing countries could run up to the huge sum of $50 or $60 million in 1974 alone.

The immensity of this surplus can be understood if we compare this with the world's total liquidity which now amounts to about $180 billion. In addition to having the growing effect of disrupting the international currency situation, this will pose a serious problem among countries on how to finance the large deficits in their international accounts.

As a consequence, the work on the reform of the international monetary system, which has been actively under way for the past two years, will be compelled to undergo a major revision. Thus, the effects of the oil crisis are widespread.

With the expansion of the Japanese economy and strengthening of Japan's balance of payments position, the internationalization of the Tokyo market has been called for during the past two or three years. However, it is necessary to consider this problem in a new light against the changes brought about by the oil crisis in Japan's internal and external situation.

Aside from the political aspect, the biggest task at present in the international monetary field is how to recycle the huge amount of oil dollars to the countries showing unfavorable balances of international payments.

It is well known that after the occurrence of the oil crisis, the Committee of Twenty held a meeting in Rome in January this year, where IMF Managing Director Witteveen proposed a new facility for the reflow of oil dollars. Subsequent to the Washington energy conference initiated by the United States, measures are now being studied to open a way for stable investment of oil dollars.

In April, working parts Number 3 of the EPC of the OECD held a meeting in Tokyo, and the recycling of oil dollars was taken up as an immediate problem. At that meeting, many of the various advanced countries which have recovered from the initial shock of the oil crisis recognized that so far, the international money markets, centering in Euro-dollars, had been doing a good job in financing the deficits stemming from the oil crisis.

At the end of April, however, Italy introduced the import deposit system, and this gave rise to a concern that financing of deficit countries cannot be completely taken care of through market channels alone.

On the other hand, the excess dollars held by oil-producing countries, amounting to tens of billion of dollars, will be placed in the Euro market chiefly in the form of short-term funds in the initial period. It does not seem to be always easy for them to find attractive long-term investment opportunities. To what extent the large international payments imbalance, which has arisen from the oil crisis, can be dealt with by the market mechanism, will need to be carefully watched in the future.

The balance of Japan's international payments was already in deficit since before the occurrence of the oil crisis, and the deficit in the basic account amounted to $10 billion during last year alone. This deficit was due largely to the government's policy of reducing Japan's large surplus since the so-called Nixon shock in the summer of 1971, taken from the standpoint of international cooperation.

This was coupled with the unfavorable situation created by the oil crisis, just at a time when the said policy was producing its full effects. As agreed upon at the meeting of the Committee of Twenty in Rome, our country does not intend to cope with the pressure on the balance of payments by resorting to a devaluation competition, protective trade measures such as import restrictions and export subsidy, or a contractionary policy for the sake of balance of payments. Nor does it intend to engage in a borrowing competition, under the present situation where it has sufficient foreign exchange reserves.

Since the oil crisis, our country's policy has been to reverse the former policy stance of curbing the inflow of capital and promoting its outflow was in the long-term capital account. Although we will not hold down the outflow of capital excessively, we will operate it somewhat restrictively.

[illegible] inflow of capital [illegible] liberalizing the inflow in such fields as nonresidents' acquisition of debentures and stocks in yen, borrowing of foreign currencies, namely impact loans, the issuance of foreign bonds, and banks' acceptance of free yen accounts and advance payments for export. As the inflation in Japan is progressing faster than in other advanced countries, the policy of tightening money supply within our country is being continued for the purpose of slowing it down. Therefore, we cannot allow an unlimited inflow of foreign funds.

We are being careful to hold down the total amount of inflow in keeping with domestic monetary policy, and at the same time to maintain a proper balance among the sectors which receive the inflow.

Let us turn to the role of the Tokyo market in the light of the above-noted international and domestic developments. For the past two or three years, international financial institutions, foreign Governments, etc., have been active on the issuance of yen-denominated bonds in Tokyo.

When Japan was a surplus country in the recent past, we wanted to prevent the yen assets acquired by nonresidents from being used for speculative purposes. Also, from the standpoint of capital exports, we encouraged the taking out of the yen currency proceeds from the flotation of yen bonds, in the form of foreign currency. However, at the present time when Japan has a large amount of deficit, we want to minimize the adverse effects on the balance of payments of the issuance of yen-denominated bonds, although this is no change in the basic policy of opening our market for foreigners' needs.

Before the turnaround of our balance of payments, we wanted to study the possibility of introducing trade finance by the yen, but we cannot but suspend it temporarily at this time when the deficit is too big.

We think that the increase in the amount of deficits due to the oil crisis is temporary. We believe that the tight-money policy, which is now being pursued as a measure to cope with the inflation, will in due time bring about favorable effects in our international accounts as well, and that the above-mentioned reversal in exchange policy also will produce satisfactory results. As the basic aim of our country's policy is to operate the domestic economy soundly and thus maintain the confidence of the yen, we believe that the large deficit of Japan, which has resulted from the effects of the surplus-reducing policy and the oil crisis combined, will be resolved in due course.

Taking advantage of the wave of internationalization, Japanese banks and securities companies have been carrying out large-scale activities during the past few years. Foreign banking organizations' advance into Japan has been conspicuous, too. At present, Japanese banks have 82 branch offices and 86 representative offices abroad. Also, foreign banks have 63 branch offices and 67 representative offices in Japan. We will continue close economic relations with other countries, and there is no change in our intention to internationalize the Tokyo market in the monetary field. The surplus and deficit in the balance of payments is subject to constant fluctuation, as has been the case with every advanced country. However, we earnestly hope and in fact are making efforts that international transactions may not be inconvenienced by a change in the international payments situation.

The work on the international monetary reform, which has been under way for the past two years, met with a by-blow from the oil crisis and have gone no further than deciding to work for mutual agreement on the outline of the reform, at the C-20 Ministers' meeting scheduled for June. Therefore, it seems likely that the inauguration of a new monetary system will be delayed for a considerably long time. At the Ministers' meeting, an agreement is expected to be reached to take such measures in the meantime as to re-organize the Committee of Twenty to watch the adjustment process, to adopt guidelines for the floating, in order to give order to the worldwide floating situation, to lay down the SDRs' transaction values, and to pledge not to resort to trade restrictions. At any rate, it now seems to be unrealistic to restore the monetary system which was wrecked by the Nixon shock, and the yen will come to bear a part of the role in the international monetary system. We are prepared to shoulder a part of the international responsibility in accordance with the wishes of the world. In this sense, we think that the Tokyo market also will move in the direction of internationalization, though gradually.

Lastly, I know that there are voices calling for the expansion of dollar transactions in Tokyo, in connection with the internationalization of the Tokyo market. This presumably means the nurturing of a Euro-dollar market on a small scale, like the Asian-dollar market in Singapore. If this is to be done, however, it will be necessary to take special measures in the fields of taxation and exchange controls, and we will also have to study the possible effects on the domestic monetary situation.

The development of the yen market will certainly be one of the tasks we have to face in view of the size of our economy. However, whether or not to create a market for dollar transactions in addition to the yen market is a policy choice which requires careful consideration. Of course, it is desirable to lift unnecessary restrictions on dollar transactions. In this sense, short-term dollar transactions among the residents were liberalized two years ago. In other words, what is called the dollar call market was born in Tokyo. As to whether or not to extend this liberalization to nonresidents and create something like the Euro-dollar market, we have not yet formed any conclusion. It is worthy of note, even under the existing regulations, that the Japanese banks' loans overseas already increased by $5,500 million in 1972 and by $6,100 million in 1973, with the balance of the loans at the end of that year amounting to $13,300 million, including $7,300 million in medium- and long-term loans, and that Euro-dollars are being freely introduced as funds for these loans.

Little Prospect of Export Increase

By HIROO SASAKI
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Let us show, in the first place, our view on the situation of the world economy. World economic expansion slowed down markedly in the second half of last year, mainly due to the prevalence of tight-money in most countries. The situation was further intensified by the oil crisis in October. As a result, business is now showing growing signs of stagnation. In the United States, industrial production has been falling off since the beginning of 1974. The cutback is accompanied by the extreme sluggishness of automobile sales as in other advanced countries. GNP in read terms for the January-March period was lower, by 6.3 per cent p.a., than in the preceding quarter. Moreover, the rate of unemployment has continued above 5 per cent since the beginning of this year.

Price indices are still continuing to rise throughout the world, under the impact of the steep increase in crude oil prices and such inflationary factors as the slow growth of supply, wage boosts and high international commodity prices. Thus recent wholesale prices in the major Western countries, except West Germany, are all around 20 per cent above those for the same period of last year.

Initially, the oil crisis was expected to have a strong deflationary influence, so some countries began to relax their credit squeeze. However, the oil crisis turned out to have relatively weak deflationary effects because measures to reduce the supply of oil were not strictly enforced by the Arab countries and strenuous efforts were exerted by the oil-consuming countries to secure adequate supplies. As a result, the countries which somewhat relaxed their credit controls had to revert to a tight money policy again in order to restrain inflation.

Thus, the world economy in 1974 is expected to confront a recession in the midst of continuing inflation, the now well-known condition of stagflation. Therefore, two seemingly contradictory policy objectives must be simultaneously pursued in delicate balance—the curbing of prices on the one hand and the stimulation of economic activity on the other. Policy management will have to be finely tuned to the barometers of prices and unemployment. In the latter half of 1974 business will probably begin to recover, though slowly, with rising prices as an inhibiting factor. As a result, the rate of growth of GNP for the year will slow down from the preceding year, showing hardly any growth in some countries, such as the United States. Reflecting this situation, growth in the volume of world trade, which was 14 per cent last year, is expected to decline this year to about 5 per cent. Nominally, however, it will continue to grow at a high annual rate of 30 per cent or more.

The major problem in the world economy in 1974 will be the big dents that the dearer oil will create in the international balance of payments of the nonoil-producing countries. Britain, Italy, France, Japan and some other advanced countries will suffer especially large deficits. In the industrial world, as a whole, they are expected to range from 30 to 40 billion dollars. Such deficits are already beginning to appear. To cover these deficits, borrowing on the Eurocredit market is actively taking place. In the January-March period alone, a total of $10.2 billion has been borrowed, an amount nearly equivalent to the entire 1973 amount obtained by the advanced countries. Especially conspicuous are $4 billion borrowed by Britain, $2.7 billion by France, and $1.9 billion by Italy.

There is probably a tacit understanding among the advanced countries that an attempt to solve the deficit problem by resorting to such measures as devaluation and import restrictions would prove mutually harmful in the long run to both their economies and the principle of international cooperation. Therefore their immediate measures to cope with the deficits will be centered on Euro-finance. Since the competition for loans on the Euro-market is severe, the problem is to what extent the demand for loans will be met in the future. According to the reports, such countries as Italy and Denmark, where the additional borrowing of Euro-dollars is becoming difficult, have decided to restrict imports effective from the beginning of May. It is therefore now feared that more and more countries may gradually turn to such means to escape the dilemma as their international payments situation worsens in the latter half of 1974.

Developing countries that have no oil of their own are expected to be put in serious plight. They will be greatly affected not only by the higher price of crude oil but also by the decline in the export of primary products resulting from the decline in world trade, a rise in the price of fertilizer, and a shortage of food. Under the present situation, it is extremely difficult for these countries to borrow funds from the Euro-market because of their low credit status. In addition, measures for the recycling of oil dollars are still in the planning stage, and the establishment of international channels for aid to these developing countries will be a task of top priority in the field of international finance in 1974.

Whether or not the world economy will improve at all in latter half of 1974 and go on to a definite turn toward recovery in 1975 can be said to depend largely upon the spread of protectionism (which has begun to appear among some countries in the form of import restrictions), the degree of progress in recycling of oil dollars, and the attitude of resources bearing countries toward the sharing of their natural wealth.

As for the Japanese economy, it is currently entering a recession. The reasons are many and complex. The government's tight-money measures for curbing the rapid rise in prices since the oil crisis are permeating the economy. The still uncertain prospects for oil supplies have weakened confidence in the future of business. In addition, the progress of inflation has noticeably affected the consumer behavior. With the increase in the basic expenses for food and clothing, etc., optional expenses for durable goods and services have to be curtailed because of the reduced discretionary income. Thus, the demands for such items as automobiles and color TV sets, which have a big inducing effect on industrial production, has rapidly declined, and this is undoubtedly one of the major factors in the business recession this time.

Under these circumstances, the economy will probably continue to slow down for some time. The rate of real growth in the first half of this year may well approach zero. As to business income, the profit of the companies for the first half of fiscal 1974 will again show a decrease. While we can expect that the prices, which have continued to rise, will gradually calm down, inflation is still expected to linger. So it will be necessary to keep an eye on trends in prices.

If growth in the first half will probably be almost zero, what about growth in the second half? The clue to the answer is that inflation in the second half may become severe again. Sharp increase in oil prices will further affect the relative price patterns. The revising of public utility rates (something that has so far been largely sidestepped) and the adjustment of steel prices will be unavoidable this time. This plus the 30 per cent increase in wages won this spring by labor will possibly further fuel the inflation. Moreover, because productive capacity of basic industries has not increased for some time, the supply of steel and petrochemical products, which caused a serious shortage of goods last year, will remain at about the same level in 1974 as in 1973.

In view of the above factors, adoption of positively expansive economic policies would not be feasible. Demand will have to be more or less restrained, though some easing of policies may be expected. With such a cautious management of the economy, however, mild economic recovery and checking of inflation can be foreseen in the second half of this year.

Finally, there remains the problem of our international balance of payments. Recently Japan's exports have climbed 50-60 per cent over the same period of the preceding year. This seems to have given the impression that an all out export drive was conducted. The Economist magazine of London, in its June 1 issue, argued "Mr. Fukuda, finance minister, presided over the much-disguised reactivation of the Japanese export drive." But we are afraid that this explanation is rather exaggerated. The recent increase in exports was due mainly to the heavy demand of basic materials such as steel, fertilizer and chemical products from developing countries. These materials are vital for their export industry and their domestic development. Our exports are not driven by internal depression, but pulled from abroad. Therefore, the growth in our exports will decline, when as mentioned earlier, the economy of the developing countries begins to slacken. Looking at the matter realistically, we can conclude that there is little prospect of our future exports showing a marked increase.

Business Finance Seen Stable by Late 1974

By TAKASHI NAKAMURA

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The triple dilemma—inflation, depression, and unfavorable balance of international payments—is a problem not limited to our country but common to the advanced OECD member nations. Because of this dilemma, the various countries are having difficulties in economic management. In other words, if they strengthen the tightening of the money supply for the purpose of curbing inflation, it may spark a depression, and if, conversely, they loosen the money supply to avoid a depression, this may rekindle inflation and an increase in the unfavorable balance of international payments.

In the case of our country, the overseas causes of inflation have generally calmed down with the recession of overseas business, except for the crude oil problem. As to the domestic scene, there remain the cost-push factors, backed by the sharp rise in the crude oil price, the resulting raises in the prices of oil-related products, the unprecedented wage increases brought by the spring labor offensive, etc. However, other problems appear to have been nearly resolved, at least for the time being, with the calming down of total demand. As a matter of fact, the rises in wholesale prices over the preceding months have been showing considerably stabilization, registering 0.7 per cent rise both in March and in April.

As to the balance of international payments, which was the cause of worry because of the sharp rise in the crude oil price, foreign currency reserves in February and March showed slight increases, for such reasons as the favorable tone of exports after that and the revision of exchange controls. Therefore, we think that there is no need for taking an overly pessimistic view of the future.

Furthermore, economic activities are steadily calming down because of the tight money policy which has now been continued for more than a year. Business liquidity on hand also has dropped to the lowest level in history.

In short, the tight money policy is bearing fruit, for the time being at least, and it will presumably be revised in some way or other in fiscal 1974, according to the trends in commodity prices.

Prospects of Economies

(1) Demand-supply relations

As to private inventory investments, there were rapid increases in unexpected investments at both the stages of production and of distribution during the January-March period of this year. It is therefore expected that they will be adjusted during the period of 1974 as a whole, and that inventory investments will be restored to normal in 1975, when prospects for business recovery will have become clear.

According to some opinion surveys, private equipment investments appear to be unsettled under the present situation. Partly because of investment restrictions and difficulty in the procurement of funds, it will be during the January-March period of 1975 that such investments will show activity. With regard to public investments, which are very effective in creating demand, drastic measures to postpone them have been taken since fiscal 1973, and these measures are expected to be implemented with considerable severity in the first half of this fiscal year, too. In the latter half, however, payments out of public funds will increase for such reasons as the wage increases for public service personnel and increased payments from the food control account as a result of the raising of the producer rice price. With this, public investments also are expected to move toward expansion, due also to growing requirements for avoiding a depression and improving social capital.

Let us take up personal consumption, which carries the greatest weight among the items of demand. Although the average rate of the basic pay increases through this year's spring offensive has reached 30 per cent, which is the highest in history, the growth in disposable personal income is less than this rate, in spite of the ¥1 trillion tax reduction (1st year), for such reasons as the difficulty in the expansion of bonuses, the decrease in indefinite incomes due to the slowing down of production activity, and the low growth rate of personal income from unincorporated enterprises, except agriculture. Moreover, a decline in the public trend toward consumer goods' purchases and a rise in that toward savings are expected because of the more frugal consumers' attitude of defending their livelihood, which attitude has been instilled by the inflation since the last fiscal year, and efforts to make up for the inflationary erosion of balance of their bank deposits. As a result, the growth in personal consumption will drop way below the average rate of the basic pay increase won through the spring offensive. It will account for 25 per cent annually, but the growth of real consumption will be only a few per cent, for it will be mostly eaten up by price rises.

Potential demand for housing will be strong, but because of the expected rises in land prices and construction expenses, the number of dwellings to be constructed from fiscal 1974 and the increase in the amount of money available for the construction will be less than in the preceding fiscal year. In the latter half, however, this trend will gradually change to an upward one, reflecting a revision of the tight-money policy, an increase in disposable personal income, etc.

From what has been mentioned above, it can be anticipated that the growth rate of total demand in fiscal 1974 will reach a high of 22 per cent (nominally), but that it will stop at only 2 per cent in real growth (after allowing for inflation).

Production, on the other hand, is already tending to show little expansion at present for such reasons as the sharp rise in the crude oil price and the stagnancy in total demand. In fiscal 1974, this tendency will smolder and the growth rate is expected to be as low as 2 per cent in comparison with the preceding fiscal year. Of course, it cannot be said that the gap between demand and supply is too wide, because the growth in capabilities in providing facilities has been small since 1971. If demand rises rapidly in the future, there will possibly arise an increasing imbalance between demand and supply. To acquire an equilibrium between them, therefore, policy implementation to restrain demand will be the keynote, even in the future.

(2) International balance of payments

The increase in crude oil imports will be limited to several per cent, but on the other hand, the payment for crude oil in fiscal 1974 is expected to show an increase of about $9 billion over the preceding fiscal year, because of the sharp rise in the crude oil price.

However, the prices of industrial raw materials, capital goods, consumer goods, etc., except that of crude oil, are already tending to reach the limits at present. Also the quantities of these goods are expected to increase only slightly, reflecting the stagnancy in production activities and calming down of business. Thus, the increase in the total amount of imports will conceivably stop

Outlook on Actual Economic Activities

[ ] Seasonally-adjusted rate of increase or decrease compared with previous period
( ) Comparison with previous fiscal year
In ¥100 million

	Fiscal 1973 Estimate	Fiscal 1974 Estimate	First Half-Year	Second Half-Year
Private consumer expenditure	605,000 (23.3%)	756,500 (25.0%)	710,500 [10.7%]	802,500 [12.9%]
Fiscal expenditure	216,500 (19.1%)	269,500 (24.5%)	252,500 [9.3%]	286,500 [13.5%]
Current expenditure	105,000 (23.1%)	135,500 (29.0%)	127,000 [12.4%]	144,000 [13.4%]
Capital expenditure	111,500 (15.6%)	134,000 (20.2%)	125,500 [6.4%]	142,500 [13.5%]
Private housing expenditure	97,000 (38.2%)	113,000 (16.5%)	104,000 [3.5%]	122,000 [17.3%]
Private corporate plant and equipment expenditure	233,000 (36.8%)	275,000 (18.0%)	271,000 [5.7%]	279,000 [3.0%]
Private inventory expenditure	48,000 (107.3%)	39,000 (18.7%)	45,000 [10.9%]	33,000 [26.7%]
Export, etc.	131,500 (22.6%)	193,500 (47.1%)	178,500 [21.8%]	208,500 [16.8%]
Import, etc.	142,000 (61.6%)	194,500 (37.0%)	186,000 [12.4%]	203,000 [9.1%]
Gross national expenditure	1,189,000 (24.4%)	1,452,000 (22.1%)	1,375,500 [9.0%]	1,528,500 [11.1%]
Real growth rate	725,591 (6.8%)	740,103 (2.0%)	716,245 [1.4%]	763,961 [6.7%]

at 28 per cent over the preceding fiscal year. As for exports, there is much latent overseas demand for iron and steel, chemical products, etc., and there is pressure to export textiles, automobiles, household electric appliances, etc., because of the inactive domestic demand. Therefore, there is a great possibility that exports on a nominal basis will increase by 36 per cent, exceeding the 32.4 per cent growth in the last fiscal year.

As a result, the trade balance will show a surplus of $4 billion. But the balance of invisible trade and that of capital account will still be unfavorable, although exchange controls have been revised to defend international accounts by such means as curbing the outflow of homeland capital. Thus, the general balance will register a $3,800 million deficit, showing a considerable decrease in comparison with the $13,400 million deficit in fiscal 1973.

(3) Trends of commodity prices

The biggest overseas factor of inflation is the average 62 per cent raise of the prices of oil products in March.

The overseas prices of industrial raw materials, excluding crude oil, following the sharp rises in the preceding fiscal year, are not expected to rise so sharply, with the calming down of world business. The import prices of capital and consumer goods have been tending to fall since the latter half of fiscal 1973, and therefore it is expected that they will level off or increase only slightly in fiscal 1974.

In short, the prices of imports, excepting crude oil, are generally going in the direction of stabilization, and the weight of overseas factors will dwindle considerably in 1974.

The next question is what the domestic factors of inflation will become. As to demand-supply factors, to begin with, the tightness of demand and supply will be nearly resolved in the first half of this fiscal year on account of the stagnation in demand, as mentioned above. However, in view of the present situation, where supply capacity is inflexible, there remains the fear that demand and supply will become tight again upon recovery of demand in the latter half. Of course, some measures for demand control are expected to be continued throughout this fiscal year, and therefore it will be possible to avoid such tightness as was seen in the last fiscal year.

The second problem is the cost factors. There are plans for raising the prices of various kinds of basic materials, in addition to the sharp increases in personnel expenses and the raising of public utility charges. However, in view of the trend of demand in this fiscal year, it will be impossible to shift them to prices easily. In the light of the degree of the rises in wholesale prices since the oil crisis, it is observed that there have already been considerable preemptive price raises. So there must be not a little room for enterprises to absorb the rises in cost through serious efforts for rationalization and for the improvement of productivity.

Also, there is a growing sense of tightness in the financing by enterprises. In the aspect of funds too, therefore, there is now little room for them to be able to take speculative actions, buy up goods, or hold back sales.

From what has been predicted above, it can be expected that the commodity prices in fiscal 1974, although leaving some problems in the cost-up factors in the future, will show a tendency toward being gradually stabilized, with the dissolution of the factors of overseas inflation and tight demand and supply, which caused the rapid rises in commodity prices in the last fiscal year. However, the "left-over" from the preceding fiscal year is so big that the annual average rises will be as high as in the preceding fiscal year, with the rise in wholesale prices accounting for 19.8 per cent and that in consumer prices 21.2 per cent.

(4) Business results

The business results in fiscal 1973 were generally favorable because of the sharp increases in sales on account of the rapid progress of inflation and the lag of the rises in costs, including personnel expenses. In the first half of fiscal 1974, however, business results are expected to be in bad shape because it is anticipated that the increases in sales will slow down on the one hand, while on the other, there will be a sharp increase in personnel expenses, an increase in the cost for reduced production, reflecting the stagnation in production activity, and a general rise in the prices of raw materials to be kept in stock. In the latter half, however, they will improve through business recovery, and the business results throughout the fiscal year will not drop below the level of fiscal 1973.

Prospects of Monetary Conditions

With regard to demand and supply of funds in this fiscal year, there will be an increased issue of Bank of Japan notes and a wide-scale issue of government bonds, with the expansion of nominal personal consumption. On the other hand, there will be an increased payment in the food control account due to the raising of the producer rice price and a sharp decrease in the excess of withdrawals over payments in the public-to-government balance of the foreign exchange account. As a result, the shortage of funds will show a decrease in comparison with the preceding year, amounting to ¥3,900 billion.

Business finance has already become considerably astringent because of the tight money since last year. During the April-June period, the same tightening line as hitherto is scheduled to be followed, and the peak will be reached in July, when demand for business funds is expected to be concentrated, although the lack of coordination among enterprises and among the types of industries will still remain.

From the July-September to the October-December period, however, the tight-money policy is expected to undergo some revision or other. About that time, demand for funds among enterprises will also show a declining tendency as a reaction to the stagnation in investment activities in the first half, and business finance will gradually become normal. We think that in easing this policy, it will be possible to answer the question of whether the Japanese economy should return to the high-rate growth policy line as of to date or move forward with a perspective for a welfare society.

Future World Economic Stability Depends on Recycling Oil Money

By ICHIRO TAKEUCHI
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Because of the sharp rises in oil prices, an imbalance in current transactions, amounting annually to a huge sum of about $50 billion, is expected to arise between the oil-producing and oil-consuming countries. If the consuming countries resort to competing in exchange rates or in import restrictions, in an effort to eliminate their deficits, this may cause the same confusion in the world economy as that in the 1930's. Among the major countries, therefore, there is already broad agreement not to appeal to such a beggar-my-neighbor policy, and also to make up the deficits in current transaction by the recycling of oil money.

It is expected that the greater part of the oil money flow into the politically neutral Euro-dollar market out of consideration of political and economic risks, and will be invested there in the form of short-term bank deposits which are of high liquidity. Thus oil money will be recycled chiefly through the Euro-dollar market. In expectation of this, various countries such as France, Italy, Britain, Spain, and Denmark have successively advanced into the Euro-dollar market, and are now engaged in operations for large-scale, syndicated bank loans.

If the recycling of oil money through the Euro-dollar market progresses smoothly, it will be possible to adjust the imbalance in international payments and maintain the stability of the world economy. However, this still leaves many problems unsolved.

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Italy, unable to withstand the pressure of its deteriorating foreign currency reserves, due to deficits, has recently decided to carry out import restrictions under an import deposit system. This action by Italy seems to suggest some of those pending problems.

The first problem is that even in such an advanced country as Italy, there is a limit to the recycling of oil money through the market. The international payments balance in Italy has been unfavorable since the year before last. To cover the deficits, that country depended heavily upon medium-term loans from the Euro-dollar market, and as a result, the loans from July in the year before last to April of this year were run up to a total of $7,500 million. Therefore, as to the recent $1,200 million syndicated loan designed for the recycling of oil money, one bank after another reportedly refused to participate in the syndicate.

In other words, the recycling of oil money, which goes through the market, is affected by the borrowers' credit risks. It can be thought that Italy's having resorted to the means of import restrictions may be due partly to its consideration of this effect. This is all the more so in the case of developing countries having few resources and less credit. Here is the reason why the recycling of oil money through such international organs as IMF and the World Bank is being studied.

Secondly, the problem of credit risks, which has come to the fore with the example of Italy, seems to suggest a new direction of the flow of oil money in the future. If there is a limit to the intermediation of Euro-banks in the market, in view of the risks in credit and liquidity, the recycling will not make progress unless the oil-producing countries themselves also share these risks. The development in this direction is seen in the establishment of investment or development finance institutions by various Arab nations, and the successive appearance of consortium-banking as joint ventures between Arab banks and those of advanced countries. This will lead to gradual expansion of the fields in which oil money will be recycled, on the initiative of Arab nations, for the development projects by Arabs themselves or for development aid to developing countries centering in Africa.

Thirdly, interest is being aroused also by the fact that Italy has preferred import restrictions to the floating down of the lira, as a means of adjustment. Under a situation where various countries are being plagued by such severe inflation as at present and pressed for measures to cope with it, they are unable to take the step of floating down the exchange rate as to conflict with their anti-inflation measures, even if they are designed to improve the balance of international payments. They will naturally come to choose import restrictions as a means of adjustment.

Thus, it can be said that new confusion due to a competitive revaluation race has come to be worried about, although the danger of devaluation, which was feared at one time, has become extinct. An attempt to maintain by import restrictions the exchange rate level, which has come to be overestimated, means nothing more than a revaluation race.

The danger of a competitive revaluation exists even in the relationship between the mark and the dollar. West Germany seems to have the idea that the floating up or revaluation of the mark is rather desirable as a measure to cope with inflation within that country. The United States also thinks that it must prevent the dollar exchange rate from falling, as an anti-inflation measure in that country. Therefore, the floating up of the mark is not desirable for the United States, for this will lead to the floating down of the dollar against all the currencies in Western Europe.

If the dollar quotation is not stabilized, in the foreign exchange market, oil money will flight from the dollar to a stronger currency, and this will bring the recycling through the Euro-dollar market to a standstill. Moreover, if a huge flow of oil money becomes speculation, the exchange market will be thrown into great confusion. The only way to prevent this is to strengthen exchange controls. In such a situation, however, oil-producing countries will feel uneasy about selling their oil in dollars, and they will turn to bilateral barters with consuming countries. Some of them may restrict the quantity of oil production. In any case, the economic order of the world will be thoroughly destroyed, and the resultant decline in trade will bring about strong deflationary pressure throughout the world.

Therefore, stabilization of the dollar is a matter of concern not only for the United States but also for the world as a whole. It is because of this necessity of stabilizing the dollar exchange rate that studies are being made on the establishment of some guideline or other for intervention under the floating system, in spite of the situation where chances of currency reform have receded to the background because of the occurrence of the oil crisis, and where there is no other way but to continue floating for some time in the future. Depending upon the way this guideline is decided, it is not inconceivable that the floating system will become in substance extremely close to the fixed rate type.

The general impression is that the possibility of monetary reform has considerably diminished because of the occurrence of the oil crisis. The operations at the 20-nation Finance Ministers Conference, for example, were initially aimed at laying down an outline plan for the reform by the end of July. However, this has been given up and a policy of leaving off the discussions to date, for the time being, has been adopted, with the operations divided into two parts—preparation of a blueprint for reform, which should be called an extension of the "Morse Report," and the formulation of immediate measures necessary to maintain the stability of the float.

It is reported that the immediate measures as the latter part of the operations include the establishment of a guideline for intervention, clarification of the values of the SDR's, and IMF's surveillance over the operations to be made by the member nations, and the strengthening of the IMF organization. Depending upon the future progress of negotiations among the Western countries, the role gold, which is the basic problem in monetary reform, may also be included among these measures.

What is common to these measures, which are requiring immediate attention at present, is that these have all come to the fore on account of the oil crisis, and that they are also chief points in question in regard to monetary reform. It has already been pointed out here that the problem of a guideline for intervention is being checked into, because it is necessary to maintain the stability of the dollar in coping with the oil crisis. This is a realistic approach to "the stable but adjustable exchange rate system" which is aimed at achieving monetary reform.

The problem of clarifying the values of the SDR's against currency has been brought into the limelight out of a need for utilizing the SDR's to make up oil deficits, or utilizing them as a means of guaranteeing exchange rate in cases of IMF's acting as an intermediary for the recycling of oil money. The problem of gold also has arisen out of the need for reinforcing preparations to be made in coping with the oil crisis. It can be said that if, as a result of this, mutual agreement is reached even provisionally on the roles of the SDR's and gold as primary reserve assets, this also will be a realistic approach to monetary reform.

Strengthening the functions and structure of IMF is also necessary to strengthen the controls over floating for the time being, and this will at the same time lead to the strengthening of IMF as a means of achieving monetary reform. In this light, it seems more pertinent to understand that the problem of monetary reform has not receded because of the oil crisis, but has been switched from the desk discussions to date to a realistic approach of gradually carrying it out through trial and error. What is essential in this regard is to stabilize oil money and guarantee its recycling.

Oil Seen Causing Conflicts of Interest

By HIROICHI NISHIYAMA
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The oil crisis, resulting from the Mideast War last October, has had a great effect on oil prices now soaring, though the worst case of a continued reduction of oil supply was avoided.

In the several years to come, interests will conflict between oil-producing countries which will have a surplus liquidity of "oil money," advanced industrial countries greatly affected by imports of high-priced crude oil, and developing countries that lack in resources and have a shortage of foreign currency reserves. Under these circumstances, the world needs wisdom and acting power to find cooperative and stable ways to solve problems concerning the international monetary system, trade and capital movement among these groups of countries.

In doing so, a clear division should be drawn between the short-range problem of finding a breakthrough in the present state of affairs and the long-range problem of ensuring a harmonious development in the future. In any case, matters may develop into more serious and almost insoluble problems if each country gives priority to the promotion of its national interests and attempts to solve its problems impetuously.

If advanced industrial countries try to promote exports by tacking soaring crude oil prices on to export prices within the limit of acceptable terms of trade and they try to improve their international payments through import restrictions, resources-supplying countries might again use restraints on exports of resources as a device to raise their prices as well as resort to retaliatory measures including nationalization of foreign enterprises.

On the part of developing nations that lack in resources, they might feel it meaningless to expect international organizations to help maintain the rules of a free-enterprise economy and might refuse to take part in international talks.

The world now faces serious problems: can worldwide cooperation be ensured on the basis of the rules of GATT without a setback in the promotion of the liberalization of trade and capital movements and can a feasible international monetary system be established without causing many nations to compete with each other in devaluing their currencies?

I would like to state my opinion concerning the future of the internationalization of Japanese banking institutions under such difficult and severe circumstances.

First is the question of banking business in connection with the expansion of Japanese enterprises abroad. In Japan, which successfully developed her economy in a short period, various difficult problems with respect to her industrial structure have come to the surface in the 1970s.

It can be said that the outbreak of the oil crisis has made some of these problems more acute for Japanese industries for which a solution is urgent.

Industries consuming much resources and energy face the strong need to expand themselves abroad in order to secure resources, while labor intensive industries are confronted with the same need in order to cope with rising labor costs at home.

But the result would be negative if these industries took an interest only in recovering invested capital in a short period without paying due consideration to the realities of the host countries.

Industry Should Adapt Locally

Efforts should be made to adapt such enterprises to the local communities so that the host countries may not accuse these enterprises of plundering resources, exporting pollution and exploiting local workers with low wages.

It is thus undesirable that industries competing with similar industries in the host countries should enter such countries. Industries, however, that not only supplement the local industries of the host country but also play a key role in the economic development of the host country, should expand themselves abroad.

As for banking institutions, they should so cooperate as to financially help Japanese enterprises adapt themselves to the local communities abroad.

The past internationalization of the Japanese banking business took the so-called "out to out" form of financing customers of various countries on a global basis using Euro-currencies.

It is a fact that Japanese banking institutions often neglected to follow up Japanese enterprises' direct investments abroad by supplying, through affiliation with local banking institutions, operating funds and funds for additional investments in order to help the activities of these enterprises, as local ones.

The pattern of banking business and enterprises entering foreign markets in the cooperative form of a three-legged race firmly assimilating themselves with local communities should become the main trend in future international financing. Not only enterprises but banking institutions also should seriously tackle the problem of assimilating themselves and helping the nurturing of local money markets.

Second is the need to establish long-term financing in the international banking business. As is well known, the international operations of Japanese banks have shifted from the foreign exchange business to the medium- and long-term financing business.

Medium- and long-term financing in the form of "borrowing short, lending long" in which Japanese banks have raised short-term funds from the Euro-currency markets and employed them on a medium- and long-term basis through such means as syndicated loans, however, has raised a great obstacle to the sound operations of banking institutions, although it has achieved rising popularity.

It is common knowledge in the banking industry that this form of business represents primarily an unstable way of raising funds and rarely leads to continuous and long-term investment and banking operations.

Absence of Capital Markets

The fact that this form of medium- and long-term banking business has become popular despite such a shortcoming is partly due to the absence of capital markets capable of supplying adequate medium- and long-term capital.

It was also due to the fact that there existed motives such as advantages in competition and merits in increasing returns, which were strong enough to make banking institutions engage in such a business at the sacrifice of sound management.

This trend has been common not only to Japanese banks but also to foreign banking institutions.

As the same time, however, efforts have been made to attain the long-term stabilization of Euro-currency markets as represented by the introduction of negotiable certificates of deposit (CD) and bonds. CD issues by Japanese banks in the Euro-currency markets since September 1972 is one example.

The need to establish long-term financing in the international banking business means the need to raise funds on a term long enough to achieve sound operations.

Transactions in the Euro-currency markets will hopefully be realized not only on a longer term by helping such medium- and long-term items as CD and bonds take firm root, but also by utilizing on a long-term basis the "oil money" which is expected to accumulate in the next few years.

Most of the "oil money" is expected to flow back to the Euro-currency markets and the United States, but it can well be expected that such funds will be used for portfolio investments in Japan as well as investments in Japanese real estate if the nation's foreign exchange controls are eased and also if the foreign exchange rate becomes stable.

Third is the question of investment and financing toward developing countries that do not have resources.

With a few exceptions, most advanced industrial nations have fallen to the position of capital-importing countries following the outbreak of the oil crisis, eagerly introducing Euro-currency as a means of covering payments deficits resulting from sharp increases in crude oil prices.

Countries that have been hit hardest under such circumstances are developing countries which do not produce oil. These nations have been suffering from a "triple punch." In addition to increased payments for crude oil imports, they face the problem of a decrease in aid from advanced industrial countries whose payments positions have shown a deficit, as well as having been driven out of the Euro-currency markets because of their low credit standing.

Balanced Economic Development

To achieve a balanced development of the world economy, it is essential that measures should be taken to ensure a flow of funds toward developing countries which do not produce oil or are lacking in resources. At the same time, advanced industrial countries should not compete in imposing import barriers or devaluing their currencies.

In particular, it is considered to be the responsibility of advanced countries to ensure the flowing back of funds, through the extension of credit, assistance, or by acting as intermediaries, toward these developing countries that are in the weakest economic position because of their lack of oil and other resources.

However, since the extension of credit and assistance to these developing nations involves highly political factors, international cooperation by both governments and private sectors is necessary.

Past international capital transactions, in which advanced industrial nations played a central role, centered on the flow of funds from countries with payment surpluses to those with payments deficits, or from advanced industrial countries to developing ones.

In the future, however, it is expected that the flow of funds will naturally be from oil-producing or resources-producing countries to oil-consuming or resources-consuming countries.

In this situation, it is one of the most important tasks to ensure a steady flow of money from oil-producing or resources-producing nations to developing nations that do not have resources.

Private banking institutions have already played a part in the financing of projects for developing nations through syndicated loans. Adequate measures should be taken to prevent this financing pipe from being closed abruptly on account of the nation's deterioration balance of international payments and foreign currency reserves.

It seems to me that the long process of sowing the seeds of a development project and having it later bear fruit should be the essential aim of international cooperation, independently of the position of one's balance of payments or of the level of one's foreign currency reserves.