Chapter 1: Introduction

The past quarter century has seen great progress in developing countries. In virtually all of them, income has risen faster than population, with a consequent rise in income per person. Economic growth has been accompanied by a rapid expansion of education systems, growing literacy, improvements in nutrition and health conditions, increasing technological sophistication, and structural changes, including a growing industrial base and greater urbanization. Progress on such a wide front and the steadily growing capacity of developing countries to manage their economies effectively are impressive achievements.

But much remains to be accomplished. Most countries have not yet completed the transition to modern economies and societies, and their growth is hindered by a variety of domestic and international factors. Moreover, about 800 million people still live in absolute poverty. These are people living at the very margin of existence—with inadequate food, shelter, education, and health care. For many of them, there has been little improvement in the standard of living, and for some, there may have been a deterioration. Added to the sense of frustration at the size of the task ahead is an increasing awareness of how difficult it is to alter traditions and social rigidities, which often impede efforts to accelerate growth and to raise the living standards of the poor.

Past experience has served to create a broad consensus about the goals for the future. The development effort should be directed toward the twin objectives of rapid growth and of reducing the numbers of people living in absolute poverty as rapidly as possible. Most developing countries have moved, or are moving, toward these objectives in designing their development strategies, and industrialized countries increasingly see them as the basis for defining their contribution.

Rapid growth and alleviating poverty are inextricably linked. Most of the absolute poor live in the poor countries of Asia and Africa, where economies have grown relatively slowly. In some of the more rapidly growing economies, the incomes of lower income groups have been raised substantially. Special action programs to improve the quality of life of the poor should be an integral part of a development strategy, but they need to be accompanied by growth in productivity and incomes to expand the resources available to raise living standards.

The obstacles that the developing countries face in accelerating progress are different in degree and in kind, as are the tools at their command. The differences reflect the enormous diversity in their resource availabilities, economic structure, social and political traditions, and management skills, and in their relationships to the international economy.

In the Low Income countries—countries with annual income per person up to US$250—poverty alleviation depends overwhelmingly on increasing agricultural productivity to raise the purchasing power of the small and marginal farmer and to create employment for the landless at higher wages. However, the Low Income countries in Asia and in Sub-Saharan Africa face very different problems in implementing such a strategy, reflecting differences in the scarcity of land, the availability of locally usable technology for achieving rapid increases in yields, the quality of economic infrastructure (such as transport and communications systems, water and electricity supply) and the numbers of people with industrial and managerial skills.

The Middle Income developing countries are a heterogeneous group in their economic structure, development experience, and level of income per person. In general, their economic growth depends more closely than that of the Low Income countries on international trade and capital markets. For them, the main strategic choices relate to how industrial and trade policy should respond to changes in the international environment. Progress in alleviating poverty in these countries is less hampered by the shortage of resources than in the Low Income countries, but nonetheless will require strenuous efforts.

Over the past twenty-five years, the international economy has been supportive of growth in the developing economies in many respects. The rapid growth of the industrialized countries fostered a major expansion of international trade. The growth of tourism and labor migration, the emergence of large-scale official capital transfers, and the more recent rebirth of the international capital markets also helped to supplement domestic savings and provide foreign exchange for development programs. As their economies have grown the developing countries have become a large market for the exports of the industrialized countries, suppliers of a wide range of manufactured goods, and significant borrowers in international capital markets. There is now a close interdependence between the economic policies and environment for growth in industrialized countries and the prospects of a large number of developing countries, affecting the development strategies which the latter can implement effectively.

This report is designed to help clarify some of the linkages between the international economy and domestic strategies in the developing countries against the background of changing patterns of interdependence and increasing complexity in the world economy. It assesses the prospects for progress in accelerating growth and alleviating poverty, and identifies some of the major policy issues that will affect these prospects. It is hoped that the report will help to illuminate the role of both the industrialized and the developing countries in dealing with these policy issues.