

Chapter 8: Conclusions

The development progress of the past twenty-five years has exceeded early expectations in many respects. Nonetheless about 800 million people, more than one-third of the total population of the developing world, still live in absolute poverty. The central objectives of the international development task must be rapid economic growth and the reduction of poverty.

This report has discussed the policies and prospects for development progress in these main areas:

- *Sustaining rapid economic growth;*
- *Modifying the pattern of economic growth so as to raise the productivity and incomes of the poor;*
- *Improving the access of the poor to essential public services;*
- *Maintaining an international environment supportive of development by improving the framework for international trade, facilitating an expansion of lending at market terms, and expanding the volume of concessional assistance.*

Rapid growth is fundamental to any development strategy. In the Low Income countries, in particular, substantial and sustained progress in reducing poverty will be impossible without accelerating growth rates. But growth alone is not enough. Because the poor tend to share less than proportionately in growth, since they have only limited access to productive assets, education, and employment, deliberate action is necessary in areas that affect the distribution of increases in income. These include the structure of economic incentives, the allocation of investments, and the creation of special institutions and programs to increase the productivity of the poor and their opportunities for employment.

⁴ In the Low Income countries, with their large numbers of rural poor and heavy dependence on agriculture, the main emphasis must be placed on raising productivity in the rural economy, particularly the productivity of small farmers. In parts of Asia where a large potential for irrigation can be tapped, output can be increased rapidly by stepping up irrigation investments. Changes will be necessary in the administration and organization of agricultural support services, to assure that information is disseminated broadly and quickly and that the services are responsive to the special needs of small farm-

ers. In rainfed areas, too, there is considerable scope for progress with present knowledge. But in the drought prone areas of Sub-Saharan Africa and Asia, major technological problems remain to be resolved if long-term agricultural growth is to be achieved.

Measures to make crop cultivation more productive should be supplemented by dairy, poultry, and fisheries programs which are particularly important in raising the incomes of small and marginal farmers and the landless. But even on optimistic assumptions about the growth of agriculture, underemployment will be a growing problem in Low Income Asia, calling for greater emphasis on creating non-farm jobs in rural areas and systematic expansion of large-scale public works programs.

Strengthening rural and urban infrastructure to support these development efforts will be highly demanding of investment funds in industry as well as in agriculture. Capital needs to be used more efficiently, but rapid increases in investment rates will still be essential. To achieve the necessary levels of investment will require an increase in domestic savings, both public and private, supplemented by large inflows of concessional capital.

The uncertainty about international trade and capital movements in the next few years poses strategic choices for the Middle Income countries, which are more affected by changes in international economic conditions. In most of them, efforts to sustain the growth of export earnings will have to be supplemented by measures to achieve a more broadly based expansion of domestic demand. This will require a more balanced growth strategy, including the acceleration of agricultural development. Greater priority will need to be given to investments in the physical infrastructure supporting agriculture, the creation of a more satisfactory set of incentives and relative prices, and much improved support services. Measures to preserve the growth of foreign exchange earnings include raising export incentives; increasing the domestic value added in manufactured goods exports; and, particularly for the more advanced countries, exporting a more diverse range of manufactured goods. Measures to further the growth of trade among developing countries will also be important.

The poor in both the Middle Income and Low Income countries have very inadequate access to such public services as health facilities, potable water, sanitation, and education. Programs designed specifically to make these services accessible to the poor should be an important part of development. In nearly all countries, there is a good deal of scope for extending such services more widely within the same budgetary allocations, by adapting successful experiments in low cost delivery systems, by using suitable technologies and design standards, and by relying more heavily on the participation and self-help efforts of the communities who are to benefit. Nonetheless, extending the supply of public services to the full population will require substantial additional investments in all types of infrastructure, and large increases in public expenditures to operate and maintain these systems.

Measures to alleviate poverty will run into social, political, and administrative obstacles which must not be underestimated. The strength of deep-seated traditions, weaknesses in administration, and opposition from affected groups can make it formidably difficult for even the most dedicated governments to modify the patterns of economic growth or to alter the distribution of essential public services. These problems are even more severe when economic growth is slow and the resources available for investment and public services remain relatively stagnant.

Serious though these obstacles may be, they are no justification for inaction. Success is far more likely if governments set themselves explicit targets for the growth of incomes of the poorest groups and for the extension of basic public services, and then monitor progress regularly. The paucity of data on incomes, nutritional deficiencies, and access to public services reflects the absence until recently of policy concern with the poor and of anti-poverty programs with specific objectives. The collection of data on the conditions of the poor is within the capacity of most countries and will be vital to them in evaluating their policies, programs, and investments.

However, progress in the developing countries does not depend solely on domestic efforts. The latter must be reinforced by international action in a number of areas.

The most important of these areas is international trade. The scope for the growth of exports from developing to industrialized countries is likely to be much more limited for the next decade than it was in the last two. The main

reasons for this are the faltering pace of economic recovery in the industrialized countries and the rise of protectionist pressures. A coordinated approach to the demand management problems of industrialized countries is essential if they are to avoid a protracted period of slow growth, with its extremely adverse consequences for the growth of trade, including an increase in import barriers. The need for such an approach has been discussed in several forums, including the OECD and the Interim Committee of the International Monetary Fund, but progress has been modest so far.

In considering how to accelerate growth in industrialized countries, the importance of links with the developing countries should be recognized. Twenty-five years ago, these links were imperceptible; today they are significant. Import demand in developing countries has remained buoyant enough in recent years to help maintain production and employment levels in important export-oriented industries of the OECD countries. With more purchasing power, the developing countries can help to stimulate demand further.

The international community faces a long period of shifting comparative advantage, and it is essential that countries be ready to accept and facilitate the changes in industrial structures that this will involve. A few countries have undertaken studies of the direction these changes are likely to take over the longer run. Others should do the same since such information is necessary for framing and implementing appropriate adjustment policies. It would impart a desirable sense of urgency if governments were to commit themselves to formulating such policies and agree to consult on their implementation in an international forum such as the OECD.

The developing countries, too, face problems in adjusting to changing international trade patterns. The more advanced of them need to step up programs to diversify the product composition and markets of their manufactured exports: To promote trade among developing countries will require changes in industrial incentive structures, reduction of trade barriers, and strengthening of the institutional infrastructure in transport, communications, and credit.

In addition, countries must move jointly to strengthen the international framework governing trade relations so as to assure that the barriers to trade, which exist in both industrialized and developing countries, will be gradually dismantled, and that explicit criteria are established for those barriers which must be imposed

to deal with temporary difficulties. As international specialization increases, active participation by developing countries in international trade discussions will become more and more important to offset protectionist pressures and progressively reduce the impediments to the growth of trade. For countries that still depend heavily on exports of a few primary commodities, action to reduce fluctuations of prices and to improve the systems which compensate for temporary declines in earnings is of great importance.

Even with a steady expansion of earnings from trade, the resources available to the developing countries must be supplemented by an adequate inflow of external capital. In this area, too, there are uncertainties. They relate to the rate of growth of private lending, the expansion of the lending capacity of the multilateral financing institutions, and the increased availability of Official Development Assistance.

Net disbursements of Official Development Assistance are projected to rise from US\$19 billion in 1975 to US\$57 billion in 1985 (in current prices), with a gradually rising share of the total going to the Low Income countries. Official Development Assistance from members of the DAC is projected to rise from US\$14 billion in 1975 to US\$44 billion in 1985. Despite this increase, ODA as a share of their gross national product would rise only slightly—from 0.36 percent in 1975 to 0.39 percent in 1985. This still falls far short of internationally declared objectives. Even the projected availability of ODA is not likely to be realized unless three large contributors—the United States, Germany, and Japan—increase their commitments substantially. Statements have been made in all three countries in support of an enlarged aid effort, but they have yet to be translated into action.

Additional concessional resources would permit both a higher rate of growth and greater progress in dealing with poverty. The large investments necessary to accelerate growth in agriculture and expand public services require an increased flow of concessional capital to the Low Income and to the poorer of the Middle Income countries. Although at particular times, in individual countries, there may be temporary problems of absorptive capacity, there is no doubt that additional resources could be used effectively. Additional external resources cannot guarantee either accelerated growth or success in dealing with poverty, but the absence of adequate resources greatly increases the probability of failure.

The net flow of capital at market terms is of

special importance to the Middle Income countries. The projected increase from US\$25 billion in 1975 to US\$78 billion in 1985 (at current prices) assumes that lending by the private sector and multilateral lending institutions will grow at 12 percent a year. This involves a number of issues.

Much of the recent growth in private lending to developing countries has come from a relatively small number of large banks, mainly in the United States. Future lending from these banks to the developing countries may be limited by the growth of the banks' own capital and by internal considerations of appropriate balance in their portfolios. Other banks, including some in Europe and Japan, and non-bank private investors are increasing their share of developing country financing. If the projected increase in private lending is to materialize, it is important that this trend continues.

The projected growth of net lending from private banks to developing countries involves an even more rapid expansion of gross lending, due to the rather short average maturity of private financing in recent years. The high ratio of gross to net lending has the potential for serious instability. To reduce this will require measures which will extend the average maturity of private lending to the developing countries, including improved access to the long-term bond markets.

Whether the projected net flow of private lending to developing countries will be achieved depends on a fragile mixture of fact and psychology. The concentration of past lending in a relatively few large borrowing countries has made lenders sensitive to developments there. A debt management problem in any one major borrower could easily affect the willingness of private lenders to lend to other developing countries. Present prospects do not suggest a general problem of debt servicing capacity, but individual countries could encounter short-term liquidity problems. Expansion of the resources of the International Monetary Fund would augment the capacity to deal with such problems.

More general difficulties might arise if the trade regime were to deteriorate further, since this would affect countries' export earning capacity and hence their capacity to service debt. The willingness of private institutions to lend might also be affected by the regulatory environment in the capital exporting countries and by their governments' attitudes to lending to developing countries. Some actions designed to assure the stability of the banking system in the capital exporting countries could, by caus-

ing abrupt changes in the availability of finance to the developing countries, trigger the sort of debt crises that they are intended to prevent.

International lending institutions are the principal source of long-term capital for the developing countries. Their declining share in the total supply of capital is reflected in the deteriorating maturity profile of the debt of Middle Income countries. The achievement of a better balance between medium-term lending from private sources and long-term lending from the international institutions crucially depends on the capacity of the latter to increase their lending. This requires early agreement to expand the capital of these institutions. Action to do this is now under consideration. Increased lending by the international financial institutions not only helps to improve the maturity structure of debt but also provides assurance to private lenders—either through cofinancing activities or indirectly—about the quality of investment programs and debt management in the developing countries.

One special aspect of the availability of capital is the financing of energy development, particularly for oil and gas resources. Sometimes the known or suspected deposits of petroleum and gas in developing countries are too small to attract the major international companies even if they are of importance to the countries themselves; or the risk of exploration within the limited territory of a small country cannot be offset by exploration in adjoining tracts in neighboring countries; or the investment climate is too risky. To finance the development of energy resources in developing countries will demand substantial amounts of external capital and expertise. Private risk capital, which in the past has been a major source of finance, is now less readily available. The World Bank has begun to provide financing for this purpose, and plans to expand such operations in association with private capital. Other international institutions are considering similar programs. Such programs ought to be expanded rapidly and governments should consider whether expanded insurance and guarantee provisions could augment the flow of private capital.

The above discussion of the areas in which international action is needed has emphasized

their importance for the prospects of developing countries. But it should be obvious that the industrialized countries too have a large stake in the rapid growth of the volume of trade—in a liberal, nondiscriminatory trading environment—and in more stable commodity prices. While their rate of economic growth is not as sensitive to short-term changes in international trade, exports play a major role in their economies, and the developing countries are increasingly important markets for export industries. The maintenance of a liberal, non-discriminatory trading system facilitates the continued growth of labor productivity and helps to ease inflationary pressures. Increasing the supply of energy and food to meet growing demand from both industrialized and developing countries is of vital importance to both. The developing countries not only are important customers for the exports of industrialized countries; they are an important element in the world capital markets, and have helped to invest the vastly expanded supply of savings productively.

The interdependence between the developing and the industrialized countries is not a new phenomenon—it has been growing in importance for decades. But it is perhaps not yet fully understood how far the process has come, nor how much further it will go in the next decades. At present, there is concern with the short-term disruptions caused by shifts in trade patterns, rather than recognition of the vital contribution of trade to long-run growth in productivity; concern with the growing indebtedness of some developing countries, rather than emphasis on strengthening institutional capacity for financial intermediation in line with global needs; fear about the implications of shifting economic strengths, rather than acknowledgment of the benefits of accelerated progress in the developing countries. But the current need to adjust is not a transient problem: it reflects a continuing, long-term, structural shift. It is important, therefore, that the implications and benefits of global interdependence be fully recognized. It will be to the advantage of all countries to sustain an international environment that supports the efforts of developing countries to sustain rapid growth and alleviate poverty as rapidly as possible.