PART I: DEVELOPMENT PROSPECTS AND INTERNATIONAL POLICY ISSUES

Chapter 2: Prospects for Development

A year ago, *World Development Report, 1978* put forward projections of developing countries' economic growth through 1985 on the basis of what was then viewed as a likely evolution of the international environment, together with assumptions about these countries' own performance. Gross domestic product (GDP) in the industrialized countries was projected to grow at 4.2 percent a year in 1975-85, significantly more slowly than in the 1960s (4.9 percent), in reflection of economic troubles since then. Protectionist restrictions against the developing countries' manufactured exports were judged likely to remain at much the same intensity as in early 1978. Thus, though exports of textiles and clothing would be severely affected by the tighter quotas introduced in 1977-78, and there would be a continuing threat of new nontariff barriers, further increases in protection would be held in check. An early slowdown was expected in the growth of private capital flows to developing countries. Private flows had accounted for nearly 90 percent of the increase in these countries' net capital inflows during 1970-75, mainly reflecting the rapid growth of commercial bank lending. Official Development Assistance (ODA) was projected to rise at 5 percent a year in real terms, reversing its earlier downward trend as a share of the GNP of the industrialized countries that make up the Development Assistance Committee (DAC) of the Organisation for Economic Co-operation and Development. This share was projected to rise from 0.36 percent of their GNP in 1975 to 0.39 percent in 1985.

Based on these and other assumptions about international economic conditions, Middle Income developing countries were expected to sustain GDP growth rates averaging 5.9 percent a year in 1975-85. Low Income Asia was expected to accelerate its growth to 5.1 percent a year, considerably better than its historical experience, in large measure through improving performance in agriculture. Slower growth at 4.1 percent was expected in Low Income Africa.

This chapter reassesses the growth prospects of the developing countries in the light of recent events and further perspectives on trends in the 1970s. The projections are extended to 1990, and the growth prospects of the Middle Income countries are disaggregated by region. Following the basic set of projections, alternative growth scenarios are analyzed more thoroughly and over a wider range of possibilities than could be done last year.

It needs to be emphasized that the projections presented are simply intended to provide illustrative frames of reference for the discussion of development issues in subsequent chapters. The projections themselves should not be viewed as targets for international decision making. Nor should they be seen as precise forecasts for the future. The prevailing uncertainties regarding growth in industrialized countries, international inflation, currency instability, trade and capital flows, and the institutional framework within which they occur, caution against that.

The assumptions underpinning this year's projections differ from those made last year only where recent developments clearly indicate that modifications are necessary. For the period 1975-85 the main changes as they affect the developing countries are slightly slower growth in industrialized countries, world trade and external concessional assistance, and a different trajectory of private commercial lending. The overall effect is to reduce the projected annual growth of gross domestic product in the developing countries in 1975-85 from 5.7 percent

1. Developing Countries: Growth of Gross Domestic Product, 1970-90
(Average annual percentage growth rates, at 1975 prices)

	1970-76	1977[a]	1978[a]	1975-85	1985-90
Low Income Countries	3.4	5.7	5.4	4.7	4.9
Africa	2.6	4.0	3.4	3.7	3.8
Asia	3.5	6.0	5.7	4.9	5.1
Middle Income Countries	6.2	4.6	5.0	5.3	5.8
All Developing Countries	5.7	4.8	5.1	5.2	5.6

[a]Estimates based on preliminary and incomplete data.

to 5.2 percent. The largest reduction comes in the Middle Income countries—from 5.9 percent to 5.3 percent a year. A sizable reduction is also indicated in Low Income Africa. However, these reductions stem less from changes in the assessment of the future and more from the fact that recovery from the economic difficulties of 1974-75 has been slower than anticipated.

Recent Trends and Implications for the Future

Growth of Industrialized Economies

The economic health of industrialized countries is a key determinant of the growth prospects of developing nations. Industrialized countries are the principal markets for exports from developing countries and their main suppliers of external capital and technology. In 1976 industrialized countries purchased two-thirds of all merchandise exports from developing countries; the share was 69 percent for fuel, 65 percent for other primary commodities and 61 percent for manufactures. The joint attainment of rapid growth, full employment and price stability has remained elusive in recent years in the industrialized economies. In several countries, strong inflationary pressures and volatile external payments situations have hampered sustained recovery from the recession of 1974-75. Projections for 1979 and 1980 do not indicate any significant improvement over the 3.4 percent annual growth recorded between 1970 and 1978, which itself was significantly below the 4.9 percent annual growth achieved in the previous decade. The outlook for the next decade is uncertain, but it seems reasonable to assume recovery to an average growth rate of 4.2 percent a year, with Japan's economy growing at nearly 6 percent a year while the economies of North America and Europe grow at or below the average rate for the group.

2. Industrialized Countries: Growth of Gross Domestic Product, 1960-90
(Average annual percentage growth rates, at 1975 prices)

	1960-70	1970-78[a]	1970-80	1980-90
North America	4.0	3.4	3.3	4.0
Japan and Oceania	9.4	5.1	5.1	5.9
Western and Northern Europe	4.7	2.8	2.9	3.8
All Industrialized Countries	4.9	3.4	3.4	4.2

[a]Estimates for 1978 are based on preliminary data.

Developments in World Trade

Slow and erratic growth in industrialized countries in recent years, combined with other disruptive influences, including increased protection, international inflation, and exchange rate instability, reduced the volume growth of world trade from about 9 percent a year between 1965 and 1973 to just over 4 percent a year between 1973 and 1977. In the same periods, the growth of developing country exports declined from 6.4 percent to 3.6 percent a year. Recent export price trends have been erratic and, on balance, unfavorable to developing countries. In 1978 adverse changes in export and import prices appear to have more than offset the growth in their export volume, resulting in a decline in the purchasing power of their exports.

Primary commodity exports of developing countries have grown little in volume since the boom year of 1973. Aside from the unfavorable international market conditions, noted above, this stagnation also reflects adverse weather conditions during the mid-1970s in key producers of agricultural exports, and other supply difficulties, including the inadequate incentives and low investment priorities that have frequently been accorded to primary production. With the recovery of growth momentum in the industrialized countries, improved weather conditions, and growing benefits from recent efforts to accelerate primary production, the rate of growth of developing countries' primary exports can be expected to return to historical levels. For the period 1976-90 the non-fuel primary commodity exports of developing nations are projected to grow at an average annual rate of 3.3 percent (Table 3).

Developing countries' manufactured exports have continued to show much greater dynamism, but their growth slowed from an average of about 15 percent a year in the period 1965-73 to about 11 percent a year in 1974-77. To a large extent, this slowdown was the result of slower economic growth and heightened protection in industrialized countries. After clothing and textiles, the major product categories most affected by increased protection have been footwear and steel. In 1977, in these four product groups together, the current US dollar value of developing countries' exports rose by only 7 percent—less than the average rise in prices of all traded manufactures (9 percent), reflecting an apparent decline in volume. By contrast, their exports of

3. Growth of Merchandise Exports, by Product Category and Country Group, 1960-76 and 1976-90

(Average annual percentage growth rates, at 1975 prices)

	1960-76			1976-90		
	World	Industrialized Countries	Developing Countries	World	Industrialized Countries	Developing Countries
Fuels and Energy	6.7	4.5	6.3	3.1	3.3	3.2
Other Primary Products	4.4	5.1	3.7	3.3	3.3	3.3
Food and Beverages	4.4	5.4	3.5	3.7	3.9	3.1
Non-food Agricultural Products	5.1	6.3	3.4	1.8	1.1	2.8
Minerals and Non-ferrous Metals	3.9	3.4	4.7	3.5	3.0	4.5
Manufactures	9.1	9.1	12.7	7.0	6.5	10.9
Machinery and Transport Equipment	9.9	10.0	17.5	7.6	7.1	15.3
Other Manufactures	8.5	8.3	11.8	6.5	6.0	9.0
Total Merchandise	7.4	7.8	6.3	5.7	5.9	6.1

Sources: World Bank; *United Nations Yearbook of International Trade Statistics*, various issues (New York: United Nations, UN Statistical Office); *Handbook of International Trade and Development Statistics*, various issues (Geneva: United Nations Conference on Trade and Development); and *Networks of World Trade, By Areas and Commodity Classes*, 1955-76 (Geneva: General Agreement on Tariffs and Trade, Studies in International Trade No. 7, 1978).

other manufactured goods rose in current value by 23 percent, resulting in a 16 percent increase in their total manufactured exports (about 9-10 percent in real terms since their export prices probably rose less than those of other countries). Preliminary information indicates that developing countries' manufactured exports grew somewhat faster in 1978 than in 1977.

The projections for manufactured exports in Table 3 assume that growth in industrialized countries will recover to an average rate of 4.2 percent a year in the 1980s, and that further increases in protection will be averted through improved economic policies and determined resistance to protectionist pressures. It is important to emphasize also that the attainment of the export growth rates projected here would require bold policy reforms and sustained effort on the part of developing countries.

The trade projections assume that the developing countries will continue their rapid expansion of trade with one another. In 1976 more than one-fourth of developing country merchandise exports went to other developing nations. This trade—analyzed further in the next chapter—appears to depend more on the developing countries' payments situations, economic growth and overall trade policies than on special

4. Developing Countries: Merchandise Exports, by Product Category and as a Share of World Merchandise Exports, 1960, 1976 and 1990

(Percentages, at 1975 prices)

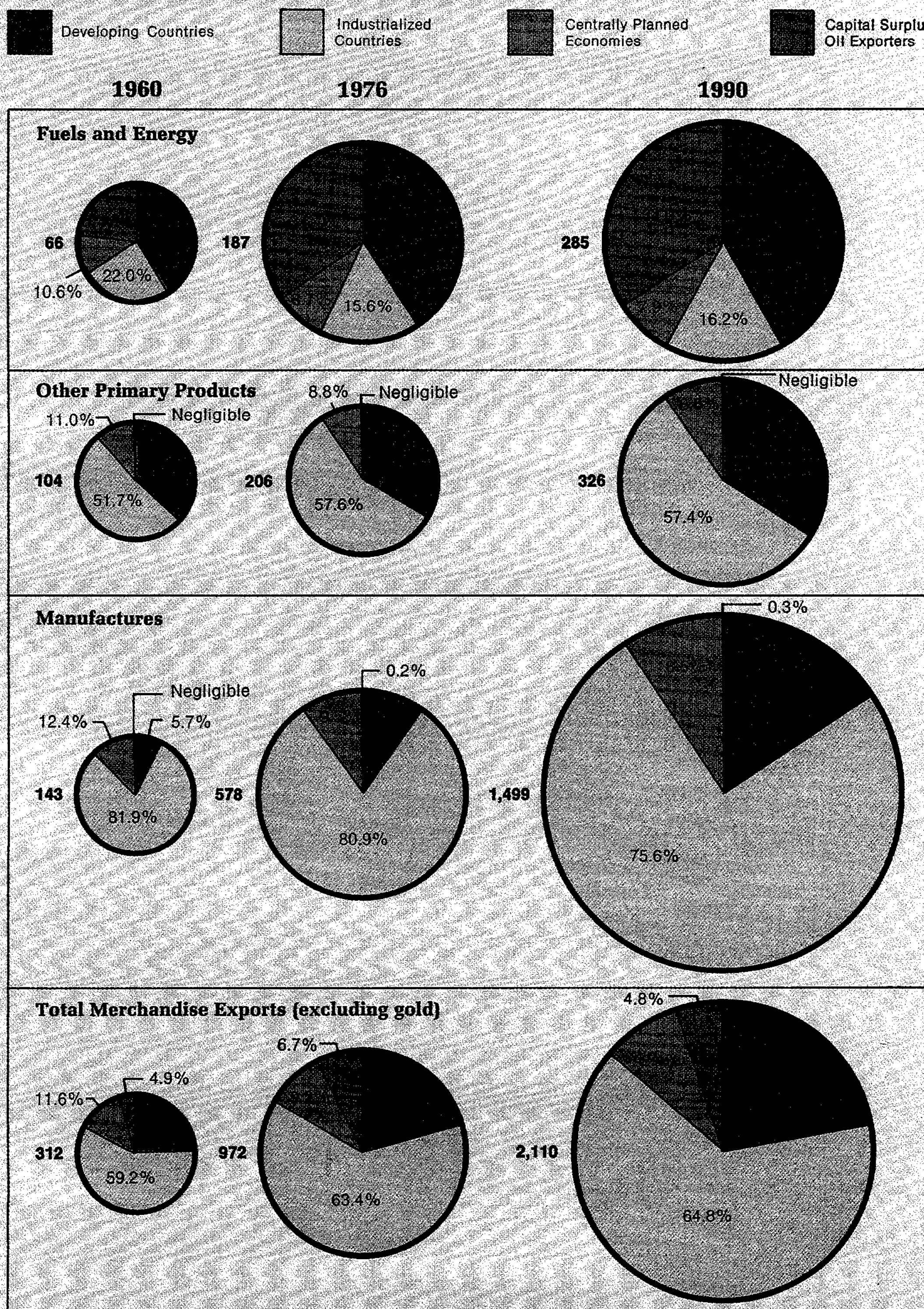
	Product Composition			Developing Countries' Exports as a Share of World Exports		
	1960	1976	1990	1960	1976	1990
Fuels and Energy	38	38	26	44	41	42
Other Primary Products	51	35	24	37	34	34
Food and Beverages	34	22	15	40	35	32
Non-food Agricultural Products	9	6	4	39	30	34
Minerals and Non-ferrous Metals	8	7	5	29	33	38
Manufactures	11	27	50	6	10	16
Machinery and Transport Equipment	1	6	20	2	5	12
Other Manufactures	10	21	30	9	14	19
Total Merchandise	100	100	100	24	21	22

Sources: As in Table 3.

Figure 1

Shares of Merchandise Exports, by Country Group, 1960, 1976, 1990

(Percentages, at 1975 prices)



Note: Numbers beside pies indicate the total values of world merchandise exports, in billion 1975 US dollars. Percentages may not add to 100, due to rounding.

Sources: As in Table 3.

5. Structure and Growth of Merchandise Exports, 1960-90
(Percentages, at 1975 prices)

	Country Composition			Average Annual Growth Rate	
	1960	1976	1990	1960-76	1976-90
Developing Countries	24	21	22	6.3	6.1
Industrialized Countries	59	63	65	7.8	5.9
Capital Surplus Oil Exporters	5	7	5	9.5	3.2
Centrally Planned Economies	12	9	8	5.8	5.1
World	100	100	100	7.4	5.7

Sources: As in Table 3.

arrangements among these nations. Setbacks in the expansion of trade with industrialized economies would adversely affect the overall export performance and balance of payments positions of developing countries, and hence would impede the growth of trade among them. No major change is projected in the trade orientation of the centrally planned economies, which purchased only 6 percent of developing country merchandise exports in 1976. The growing involvement of the People's Republic of China in international trade and capital flows could have significant implications for developing countries, but not enough is known to take this into account in the projections. The composition of developing countries' exports and their shares of world trade in principal product categories are shown in Table 4 and Figure 1.

If world trade evolves according to these projections, the relative importance of major country groupings would show little change by 1990 (Table 5).

6. Developing Countries: External Financing Requirements, 1976-90
(Billion current US dollars)

	Low Income Countries			Middle Income Countries			All Developing Countries		
	1976	1985	1990	1976	1985	1990	1976	1985	1990
Net Imports	3	19	29	24	75	91	26	94	119
(Imports of Goods and Non-factor Services)	(26)	(90)	(146)	(275)	(889)	(1,539)	(301)	(979)	(1,685)
Less: (Exports of Goods and Non-factor Services)	(24)	(71)	(118)	(251)	(814)	(1,448)	(275)	(885)	(1,566)
Interest on Medium- and Long-term Loans	1	4	6	9	40	73	10	44	79
Repayment of Principal	2	8	11	18	115	214	20	122	225
Increase in Reserves	3	2	4	5	21	42	8	23	46
Total to be Financed	8	32	50	56	251	419	64	283	469
Net Factor Income, excluding Interest on Medium- and Long-term Loans	(.)	1	2	5	21	32	5	21	33
Official Grants and Concessional Loans (gross)	5	19	32	9	23	33	15	42	65
Medium- and Long-term Loans at Market Terms (gross)	4	9	12	45	179	309	49	188	321
Direct Investment and Other Capital (net)	−1	2	3	−5	23	38	−6	25	41
Private Transfers (net)	(.)	1	1	2	5	8	3	7	9
Total Financing	8	32	50	56	251	419	64	283	469
At 1975 Prices	8	15	17	54	118	147	62	133	165

Note: Totals may not add due to rounding. The assumed average annual rate of inflation between 1975 and 1990 is 7.2 percent.

The Supply of External Capital

The external capital required by developing countries to sustain the growth projected in the basic scenario is outlined in Table 6.

Despite promises by donor governments and some recent actions on debt forgiveness, net flows of Official Development Assistance (ODA) from the industrialized countries that make up the Development Assistance Committee of the OECD fell in real terms between 1975 and 1977. As a proportion of their gross national product, ODA from these countries declined from 0.35 percent in 1975 to 0.31 percent in 1977 (Table 7). This was less than half the target of 0.7 percent endorsed by the United Nations General Assembly in 1970. Based on renewed commitments by donor governments and preliminary estimates for 1978, indicating a rise in the ODA share to 0.32 percent of donors' gross national product, ODA from DAC countries is projected to increase by nearly 5 percent a year in real terms from 1977, to reach a proportion of 0.35 percent of GNP by 1985, where it is assumed to remain through 1990. This reflects some reduction from last year's projection, in which Official Development Assistance from DAC countries was expected to reach 0.39 percent of GNP by 1985. Achieving even these modest increases will require renewed efforts by donor countries.

Net ODA flows from the Organization of Petroleum Exporting Countries, which had grown rapidly in the early 1970s, leveled off at an average of US$5.6 billion a year during 1975-77. This assistance, currently equivalent to about 2 percent of the donors' GNP, is projected to decline slowly in real terms, reflecting slower rates of economic growth than those experienced in recent years. However, if the real price of petroleum were to increase during the 1980s, net ODA flows from OPEC nations could be expected to rise. Flows of ODA are assumed to be progressively reallocated toward Low Income countries, so that their share of net ODA disbursements increases to 47 percent by 1985 and 51 percent by 1990. Concessional assistance will continue to be of crucial importance to Low Income countries: nearly two-thirds of the external financing requirements of these countries in 1990 is projected to be met by gross disbursements of concessional capital (Table 6).

7. Net Flows of Official Development Assistance From Donors, 1975-90

	Billion Current US Dollars				Average Annual Percentage Growth Rate (at 1975 prices)	
	1975	1977	1985	1990	1975-77	1977-90
Members of Development Assistance Committee of OECD	13.6	14.7	41.8	69.0	−1.9	4.8
Members of Organization of Petroleum Exporting Countries	5.5	5.7	9.4	12.4	−3.7	−1.2
Others	0.5	..	1.3	1.9		
Total	19.6	..	52.5	83.3		
At 1975 Prices	19.6	..	24.7	29.4		
Note:						
DAC Flows as a Percentage of Donors' GNP	0.35	0.31	0.35	0.35		
OPEC Flows as a Percentage of Donors' GNP	2.71	2.01	..	..		
Capital Surplus Oil Exporters' Flows as a Percentage of Donors' GNP	6.46	5.58	..	..		

Note: ODA flows in this table include contributions to multilateral agencies as well as to developing countries, and the value of technical assistance. The assumed average annual rate of inflation between 1975 and 1990 is 7.2 percent.

In marked contrast to the Low Income countries, about four-fifths of the external financing requirements of Middle Income countries in 1976 were met by loans at market terms, with private sources accounting for over 85 percent of this lending. In *World Development Report, 1978* it had been assumed that after the rapid growth between 1971 and 1976 the expansion of private lending would slow down sharply, so that over the period 1975 to 1985, net inflows of private loans to developing countries would grow at about 12 percent a year in current prices. In practice, continuing liquidity in international capital markets permitted a much more rapid expansion of private lending, mostly by banks, in 1977 and 1978. Liquidity in international mar-

8. Net Disbursements of Medium- and Long-term Capital to Developing Countries, 1975-90

	Billion Current US Dollars				Average Annual Percentage Growth Rate (at 1975 prices)	
	1976	1980	1985	1990	1975-85	1980-90
Private Direct Investment	2.4	8.7	14.0	22.5	0.3	3.3
Official Development Assistance	13.1	21.8	37.9	57.9	1.9	3.6
Grants	5.9	9.7	18.0	28.3	2.7	4.5
Bilateral Concessional Loans	5.4	9.4	15.3	23.5	0.5	2.9
Multilateral Concessional Loans	1.7	2.7	4.6	6.1	4.5	1.9
Medium- and Long-term Loans at Market Terms	30.3	39.4	69.8	103.1	2.9	3.4
Private	26.0	30.0	55.1	82.6	2.4	3.9
Multilateral	2.4	6.1	9.9	11.7	6.4	0.2
Official Export Credits	1.9	3.3	4.7	8.8	3.3	3.7
Total	45.8	69.8	121.7	183.5	2.3	3.4
At 1975 Prices	44.4	46.0	57.1	64.4		

Note: Totals may not add due to rounding. The data on official grants and concessional loans in this table are not comparable with those in Table 7. Table 7 shows disbursements by donor countries for all purposes; Table 8 shows receipts of medium- and long-term capital by developing countries. The principal differences are that Table 7 covers technical assistance and contributions to multilateral institutions, including paid-in capital. The latter is the basis of multilateral lending at market terms. The data on official grants and concessional loans in Table 8 do not include technical assistance, and they include the disbursements of concessional loans from multilateral institutions.

kets also helped to ease lending terms, to extend the availability of loans to a wider set of Middle Income countries, and to lengthen maturities. For example, nearly two-thirds of the publicized Eurocurrency credits negotiated by developing countries during 1978 carried maturities of over seven years; this was true of only about 13 percent of such loans in 1977.

However, the growth of private lending can be expected to slow in the 1980s as a result of rising debt service ratios in developing countries and increasing supply constraints on commer-

9. Net Disbursements of Medium- and Long-term Loans and Official Grants to Developing Countries, by Type of Capital and Country Group, 1976-90

(Percentages)

	Low Income Countries			Middle Income Countries			All Developing Countries		
	1976	1985	1990	1976	1985	1990	1976	1985	1990
Distribution of Capital by Category									
Official Grants	21	35	43	12	12	11	14	17	18
Concessional Loans	47	52	46	10	11	11	16	19	18
Loans at Market Terms	32	13	11	77	77	78	70	65	64
(Official)	(10)	(9)	(7)	(10)	(15)	(14)	(10)	(14)	(13)
(Private)	(23)	(4)	(4)	(67)	(62)	(64)	(60)	(51)	(51)
Total	100	100	100	100	100	100	100	100	100
Distribution of Capital by Income Group[a]									
Official Grants	25	40	50	75	60	50	100	100	100
Concessional Loans	47	53	51	53	47	49	100	100	100
Loans at Market Terms	8	4	4	92	96	97	100	100	100
Official	16	12	11	84	88	89	100	100	100
Private	6	2	2	94	98	99	100	100	100
Total	16	19	21	84	81	80	100	100	100

Note: Totals may not add due to rounding. The data on official grants and concessional loans in this table and Table 8 are not comparable with those in Table 7, as explained in the note to Table 8.

[a]The distribution of concessional capital by income group is highly sensitive to the criterion used in classifying countries into Low and Middle Income groups.

cial banks and other private lenders. Furthermore, the bunching of repayment obligations in the period 1978-82 would make net inflows much lower than the levels of gross lending. In the light of these considerations, net private lending to developing countries is now projected to grow at an average annual rate of about 10 percent in current prices—under 3 percent a year in real terms—for the period 1975-85. During the 1980s, the real growth rate is projected to be a little higher, at almost 4 percent, partly reflecting an expectation of slower world inflation in the later years. These and other assumptions about net capital flows to developing countries are summarized in Table 8 on page 9.

The composition of projected net disbursements of medium- and long-term loans and official grants and their distribution by country groups is shown in Table 9, while the debt service ratios associated with the projected capital flows, trade and economic growth are presented in Table 10. For the broad country groupings shown, these ratios are not unacceptably high and do not signal a general debt problem, though individual countries can be expected to encounter liquidity shortages from time to time. These issues are taken up in the next chapter.

10. Developing Countries: Debt Service Ratios, 1977-90

	As Percentage of Exports of Goods and Services			As Percentage of Gross National Product		
	1977[a]	1985	1990	1977[a]	1985	1990
Low Income Africa	9.6	11.6	9.8	2.6	3.4	3.1
Low Income Asia	13.5	17.0	16.0	1.7	1.8	1.6
Middle Income Countries	11.8	18.3	19.2	3.3	5.0	5.3
All Developing Countries	11.8	18.1	18.8	3.1	4.6	4.7

[a]Preliminary.

Energy

As recent events have demonstrated, the balance in world energy demand and supply hinges on what happens in a few key oil producing countries. Short-run supply bottlenecks and temporarily high oil prices can be precipitated by events in a single country even when global supply capacities exceed demand. In these circumstances, it is not easy to project price trends. World oil production is expected to peak around the end of the century, and over the next two decades the energy problem is essentially that of assuring gradual transition to higher-cost substitutes for oil. In the meantime, the intensified exploration and production in many countries, the growing use of non-oil energy sources, and the reduced energy intensity of economic growth in some important consuming nations, point to the adjustment already being made to the sharp oil price increases of 1973-74.

The behavior of petroleum prices in recent years is illustrated in Figure 2. They continued to rise in current terms after the massive increase of 1974, but declined in real terms, eroded by global inflation and the devaluation of the US dollar. The sharp oil price increases during the first half of 1979 more than compensated for the earlier decline in the real price of petroleum. By July 1, 1979 the average price of OPEC crude oil had risen from its 1978 level of nearly US$13 per barrel to about US$20 per barrel; it is expected to average just under US$18 per barrel in 1979 as a whole—a level about the same, in real terms, as in 1974.

If economies grow at the rates projected in the basic scenario, and if major oil consuming nations follow strong policies with respect to demand conservation, domestic pricing of energy and development of alternative energy sources, it is possible that a balance can be maintained between the global demand and supply of energy through the 1980s without major and sustained increases in the real price of oil from its level of July 1, 1979.[1] However, if energy policy in major consuming countries is weak, if oil production in key supplying nations suffers prolonged setbacks, or if the industrialized economies grow faster than projected above, then upward pressure on energy prices is likely to be exacerbated. These possibilities are explored further in Chapter 3.

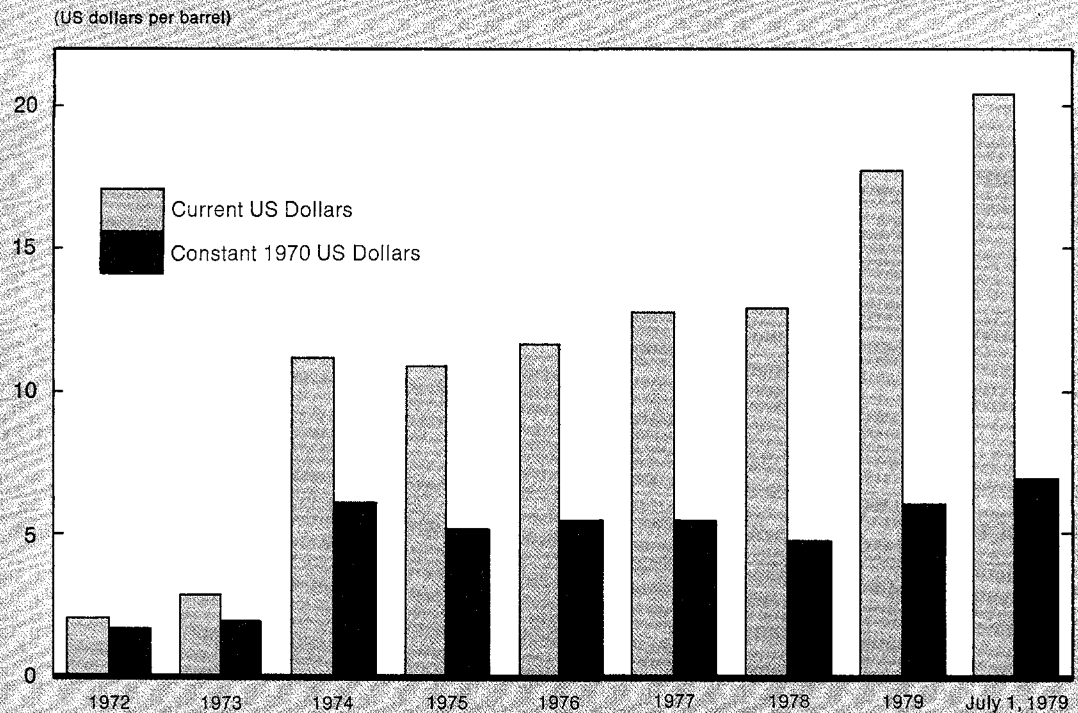
Recent Performance in Developing Countries

With the collapse of a sustained and simultaneous boom in industrialized countries, the peaking of major commodity prices and the sharp increase in the price of imported oil, 1974 marked a turning point in the economic per-

[1]The basic set of projections, made before the oil price increases of July 1, 1979, assume that petroleum prices would remain at their average level for the period 1975-78. Clearly, future projections will have to take account of the recent price increases and their repercussions.

Petroleum Prices, 1972-79

Figure 2



Note: The prices shown are average prices for each year. They refer to petroleum exports by the Organization of Petroleum Exporting Countries, and are based on estimates of realized export prices and government sale prices, weighted by countries' shares in total output. Realized and government sale prices are f.o.b. loading ports in OPEC countries. The prices in constant US dollars have been deflated using the Index of International Prices, which is an index of the c.i.f. prices of manufactured goods (SITC 5-8) exported by industrialized countries to all destinations. The prices shown for 1979 are estimates based on information available as of July 1, 1979. OPEC accounts for over four-fifths of world exports of petroleum.

formance and prospects of developing countries. Though external assistance and increased borrowing cushioned the effects of these changes in the international environment, the rate of growth of developing countries' merchandise imports was halved and there was an associated reduction in economic growth in the years 1974-77, compared to the period 1965-74 (Table 11). The sharpest declines in growth occurred in countries of Sub-Saharan Africa, partly because

11. Developing Countries: Growth of Gross Domestic Product and Merchandise Trade, 1965-74 and 1974-77

(Average annual percentage growth rates, at 1975 prices)

	GDP		Exports		Imports	
	1965-74	1974-77[a]	1965-74	1974-77[a]	1965-74	1974-77[a]
Low Income Countries	3.9	5.1	6.2	5.2	2.2	−0.9
Africa	4.1	2.4	5.5	2.3	4.9	−9.6
Asia	3.9	5.5	6.4	5.8	1.1	2.8
Middle Income Countries	6.8	4.8	6.0	4.0	8.7	4.3
East Asia and Pacific	8.3	8.0	11.9	13.2	11.0	5.3
Latin America and Caribbean	6.5	4.0	4.0	−0.9	8.8	−0.4
Middle East and North Africa	7.0	7.5	4.7	3.5	10.5	10.8
Sub-Saharan Africa	5.9	1.6	3.6	−0.7	5.8	2.7
Southern Europe	6.9	4.0	10.8	5.8	7.1	5.5
All Developing Countries	6.2	4.9	6.0	4.1	7.8	3.8

[a]The data for 1977 are preliminary.

Sources: World Bank; *UN Yearbook of International Trade Statistics (op. cit.)*, various issues.

of the additional burden of very unfavorable weather which afflicted many of these nations in 1974-75. The pace of development was also significantly reduced in Latin America and Southern Europe; in the latter, tourism, migrant workers and investment were adversely affected by depressed conditions in Western Europe.

Some countries have adjusted more successfully than others to the difficult external conditions: the Middle Income countries of East Asia have demonstrated a remarkable capacity to reduce their growth of imports, accelerate the expansion of exports and sustain extraordinarily high economic growth; many other developing nations have achieved less dramatic, but commendable, success in steering their way through a difficult period. Most developing countries increased their recourse to commercial and concessional external capital flows, and some of the more advanced Middle Income countries borrowed particularly heavily from private banks. While most nations used their borrowed resources effectively, a few, such as Peru, Turkey and Zaire, which borrowed heavily and sometimes imprudently to sustain the growth of imports and production, have been markedly less successful than others in carrying out the necessary economic adjustments, and continue to face severe short-term problems. In recent months, these countries have undertaken, with varying success, difficult programs for economic stabilization.

One of the brighter aspects of recent performance has been the acceleration in the growth of Low Income Asian countries, especially India. During 1977 and 1978, GDP growth in this region is estimated to have averaged over 5 percent a year, significantly faster than the 4 percent annual average of the previous 15 years. Much of this improvement in performance can

12. Structure of Population, Production and Exports, 1976 and 1990

	Population (millions)	Gross National Product Per Capita (US dollars)[a]	Percentage Shares of Country Groups in Developing Country Total: Population		Gross Domestic Product (at 1975 prices)		Exports of Goods and Nonfactor Services (at 1975 prices)	
	1976	1976	1976	1990	1976	1990	1976	1990
Developing Countries								
Low Income Countries	1,193	157	56.1	55.6	16.1	15.2	8.6	7.3
Africa	156	158	7.4	7.8	2.1	1.7	2.0	1.8
Asia	1,037	157	48.7	47.8	14.0	13.5	6.5	5.5
Middle Income Countries	936	1,022	43.9	44.4	83.9	84.8	91.4	92.7
East Asia and Pacific	162	671	7.6	7.3	9.3	13.2	19.1	27.1
Latin America and Caribbean	320	1,159	15.0	15.4	32.8	32.6	25.1	24.6
Middle East and North Africa	142	989	6.7	7.0	11.6	11.1	19.4	16.0
Sub-Saharan Africa	190	523	8.9	9.8	9.6	8.0	12.8	8.7
Southern Europe	122	1,948	5.7	4.9	20.6	19.9	15.0	16.4
Total	2,129	538	100.0	100.0	100.0	100.0	100.0	100.0

	Population (millions)	Gross National Product Per Capita (US dollars)[a]	Percentage Shares of Country Groups in World Total: Population		Gross Domestic Product (at 1975 prices)		Exports of Goods and Nonfactor Services (at 1975 prices)	
	1976	1976	1976	1990	1976	1990	1976	1990
World								
Developing Countries	2,129	538	52.2	56.8	15.3	20.2	22.6	23.2
Industrialized Countries	661	6,414	16.2	13.6	64.6	62.5	63.9	65.8
Capital Surplus Oil Exporters	12	6,691	0.3	0.4	1.1	1.4	5.7	4.0
Centrally Planned Economies	1,276	1,061	31.3	29.2	19.0[b]	15.9[b]	7.8	7.0
Total	4,078	1,673	100.0	100.0	100.0	100.0	100.0	100.0

Note: Totals may not add due to rounding.

[a]Calculated using *World Bank Atlas* methodology, as described in the Notes to Table 1 of *World Development Indicators.*

[b]East European centrally planned economies only.

be attributed to an acceleration of agricultural output growth to rates above 3 percent a year—over twice the rate recorded between 1970 and 1975. Part of the improvement in agriculture was due to better weather, but there is growing evidence that the expansion of irrigation and other investments in agriculture have increased productivity and enhanced the capacity to withstand fluctuations in weather.

Growth Prospects Until 1990

Based on the assumptions and recent trends outlined above, economic growth and accompanying changes have been projected through 1990 for regional groups of Middle Income countries and for the poor countries of Asia and Sub-Saharan Africa. In looking at the growth prospects that emerge from these projections it is important to keep in mind that population, output and trade are very unevenly distributed among developing countries (Table 12 and Figure 3). Aggregate trends in production, trade, capital flows and many other magnitudes disproportionately reflect what happens in the richer developing countries, even though population is concentrated in the poorer ones. For example, nearly half the population of developing countries lives in Low Income Asia, comprising the Indian subcontinent, Indonesia and a few smaller countries; yet this region accounted for only a seventh of developing countries' GDP, a fifteenth of their exports and a tenth of their net capital inflows in 1976. Nor are these shares expected to change significantly by 1990.

As Table 13 shows, wide contrasts in growth are expected across different regions of the world. In Low Income Asia, the projection of a 5 percent annual increase in output during the coming decade is based in part on the recent acceleration of agricultural production in India and the buoyancy of Indonesian oil revenues. Given the anticipated rate of growth of population in this region, GDP per person is projected to increase at nearly 3 percent a year during the 1980s. However, this outcome hinges on achieving the improvements in domestic savings effort indicated in Table 14. Furthermore, this region confronts a daunting employment challenge: despite the declines in fertility that have been achieved and are expected, the past growth of population is expected to expand the work force by over 120 million between 1977 and 1990. This will compound the enormous tasks these countries already face in reducing their present high levels of underemployment and unemployment.

Although optimistic assumptions have been made regarding foreign capital inflows and improvements in domestic savings, income per person in the Low and Middle Income countries of Sub-Saharan Africa is projected to increase at an average rate of less than 1.5 percent a year during the next decade. The principal factors underlying this dismal outlook were analyzed in last year's report. They include the expectations that population will continue to expand rapidly throughout this period; that the legacy of insufficient agricultural research and difficult

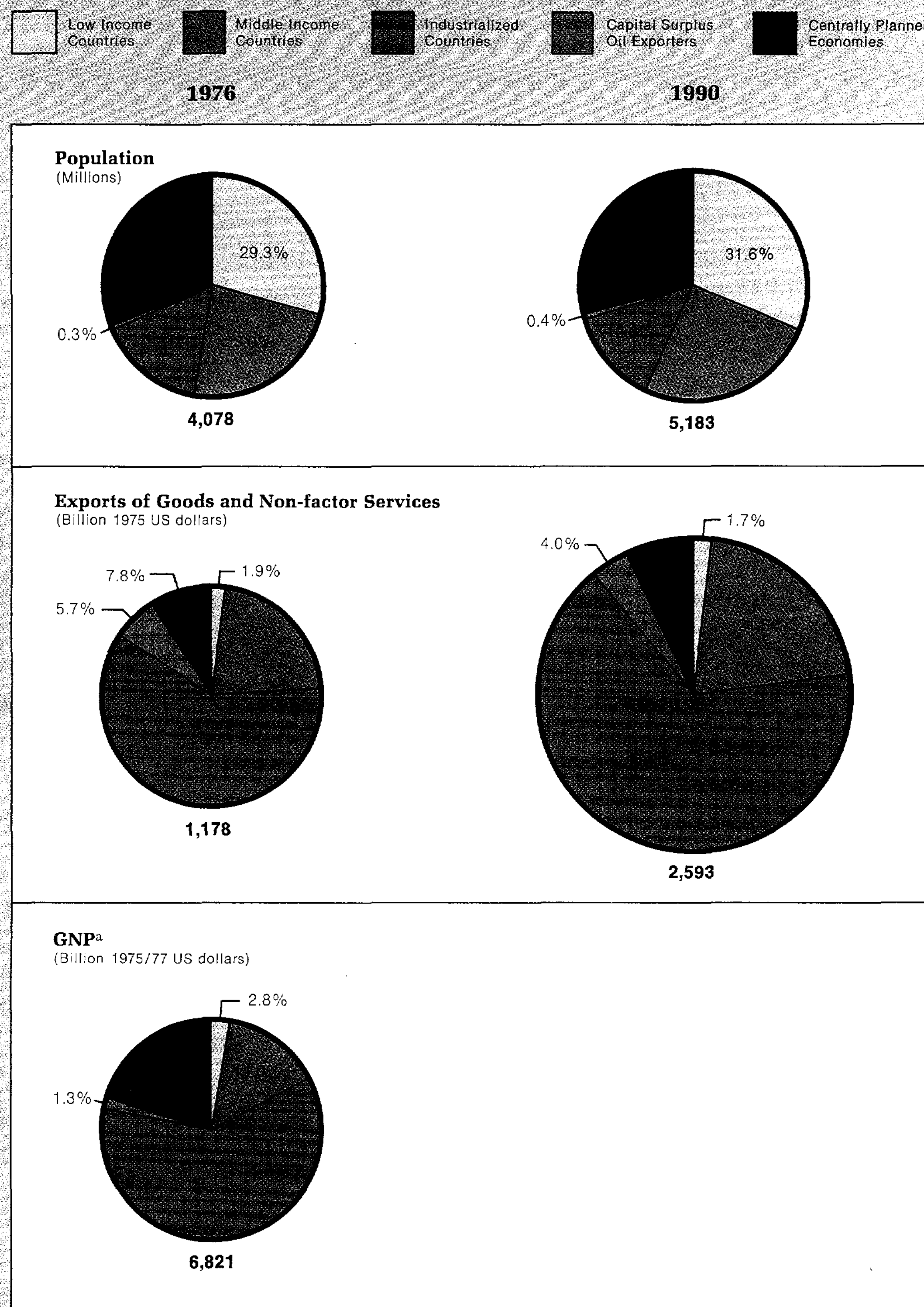
13. Growth of Population, Gross Domestic Product and Gross Domestic Product Per Capita, 1960-90
(Average annual percentage growth rates)

	Population			GDP (at 1975 prices)			GDP Per Capita (at 1975 prices)		
	1960-70	1970-80	1980-90	1960-70	1970-80	1980-90	1960-70	1970-80	1980-90
Low Income Countries	2.4	2.3	2.2	4.2	4.0	4.9	1.8	1.7	2.7
Africa	2.6	2.8	2.8	4.1	3.0	3.8	1.5	0.2	1.0
Asia	2.4	2.2	2.2	4.2	4.2	5.0	1.8	2.0	2.8
Middle Income Countries	2.5	2.5	2.4	6.4	5.5	5.8	3.9	2.9	3.4
East Asia and Pacific	2.8	2.3	2.0	7.7	8.5	7.6	4.9	6.2	5.6
Latin America and Caribbean	2.8	2.7	2.5	5.7	5.3	5.7	2.9	2.6	3.2
Middle East and North Africa	2.6	2.7	2.6	7.3	5.7	5.5	4.7	2.9	2.8
Sub-Saharan Africa	2.5	2.9	3.0	5.0	4.3	4.4	2.5	1.4	1.4
Southern Europe	1.4	1.5	1.2	7.2	4.9	5.4	5.8	3.4	4.2
All Developing Countries	2.5	2.4	2.3	5.9	5.2	5.6	3.4	2.8	3.3
Industrialized Countries	1.1	0.7	0.5	4.9	3.4	4.2	3.8	2.7	3.7
Capital Surplus Oil Exporters	3.5	3.7	2.8	11.7	5.6	5.0	8.2	1.8	2.2
Centrally Planned Economies	1.7	1.4	1.1	6.8[a]	5.5[a]	4.2[a]	5.7[a]	4.6[a]	3.4[a]

[a]East European centrally planned economies only.

Figure 3

Population, Exports and Gross National Product, by Country Group, 1976 and 1990



[a]See footnote a to Table 12.
Percentages may not add to 100, due to rounding.

14. Developing Countries: Investment and Savings Rates, 1976 and 1990
(Percentages of gross domestic product, at 1975 prices)

	Gross Domestic Investment		Gross Domestic Savings		Net Foreign Resource Inflows	
	1976	1990	1976	1990	1976	1990
Low Income Countries	17.8	25.0	15.7	21.2	2.1	3.8
Africa	16.0	22.1	8.8	11.4	7.2	10.7
Asia	18.0	25.3	16.7	22.4	1.3	3.0
Middle Income Countries	26.1	26.0	23.1	23.9	3.0	2.1
East Asia and Pacific	27.0	30.9	25.5	31.1	1.5	−0.2
Latin America and Caribbean	23.7	26.0	22.3	24.8	1.4	1.2
Middle East and North Africa	31.4	25.1	29.0	20.0	2.4	5.1
Sub-Saharan Africa	27.0	24.4	25.1	21.0	1.9	3.4
Southern Europe	26.2	23.8	19.0	21.1	7.2	2.7
All Developing Countries	24.8	25.8	21.9	23.5	2.9	2.3

ecological conditions will continue to limit improvements in farm productivity; and that deficiencies in physical and institutional infrastructure are likely to hamper rapid and efficient industrial development.

The development prospects of the Middle Income countries are closely linked with the evolution of the international environment. With continued access to international capital markets and a moderate recovery in their export performance, most of these countries are expected to improve on their somewhat sluggish growth performance during the latter half of the 1970s. The growth prospects of different Middle Income regions are likely to vary, depending on their future opportunities to benefit from international trade, and their ability to save, invest and use resources efficiently. In particular, the contrasts noted earlier between the projected growth rates of manufactured and primary exports imply significant differences in export performance and economic development across regions. With manufactures accounting for 60 percent of their merchandise exports in 1976, and given their demonstrated success in exploiting international market opportunities, the East Asian economies are expected to maintain rapid export growth. In contrast, the much higher share of slow growing primary products in the exports of Middle Income African nations will limit these countries' overall export expansion. In the East Asian economies, rapid economic growth and a reduced rate of population expansion combine to hold out particularly favorable prospects for per capita income increases which, in turn, can be expected to induce swifter structural change than in other countries.

The population of Middle Income countries

15. Developing Countries: Structure of Production, 1975 and 1990
(Percentages of gross domestic product, at 1975 prices)

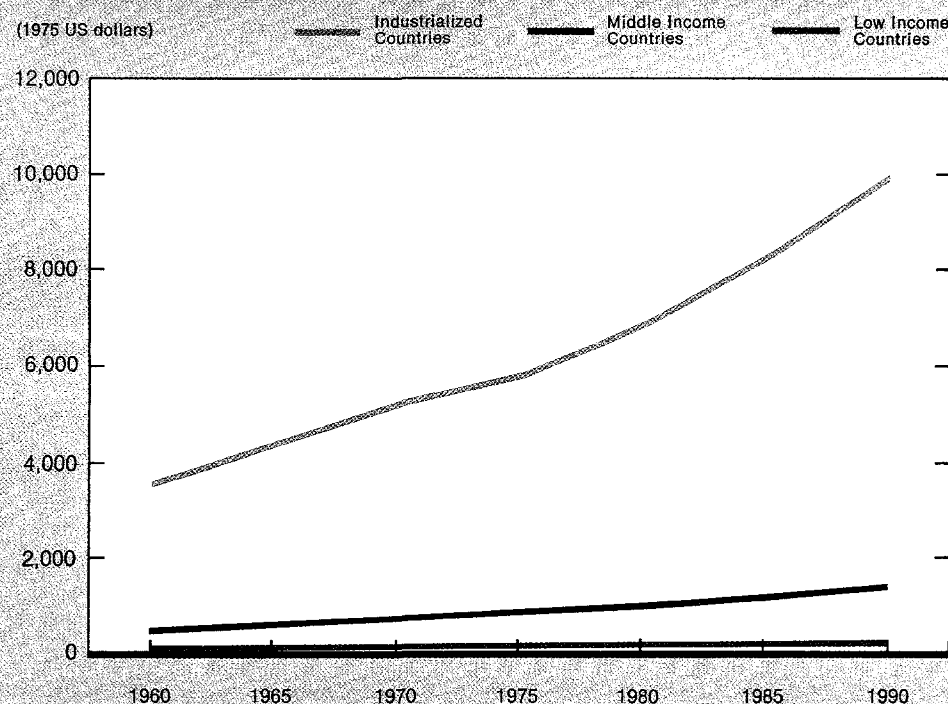
	Agriculture		Industry[a]		Services	
	1975	1990	1975	1990	1975	1990
Low Income Countries	41	30	23	28	36	42
Africa	41	33	17	20	42	47
Asia	41	30	24	29	35	41
Middle Income Countries	15	10	38	41	48	49
East Asia and Pacific	22	12	31	39	47	49
Latin America and Caribbean	12	9	36	40	52	51
Middle East and North Africa	12	8	51	50	37	42
Sub-Saharan Africa	22	17	37	37	41	46
Southern Europe	15	11	36	39	49	50
All Developing Countries	19	14	35	39	46	47

Note: Sectoral shares may not add to 100 percent, due to rounding.

[a]Industrial production in all tables in this report refers to value added in manufacturing, mining, construction and public utilities.

Figure 4

Trends in Gross National Product Per Capita, By Country Group, 1960-90



has been growing at an average annual rate of 2.5 percent since 1960, with rates higher than this in Africa, the Middle East and Latin America. This is in sharp contrast to the 1.4 percent rate in Southern Europe. Variations in population growth among Middle Income countries lead to significant differences in development prospects and problems. Thus Southern Europe is projected to enjoy substantially higher increases in per capita output during the next decade than Latin America, the Middle East, or North Africa, even though the expected differences in aggregate economic growth performance are minimal. The higher rates of population growth in the latter regions over the past twenty years also pose commensurately greater challenges of job-creation, to absorb the sizable increments in the labor force that will occur in these countries. For those Mediterranean countries that have thus far used the safety valve of labor migration to Western Europe and capital surplus oil exporting countries, the outlook is complicated by slower growth and changing attitudes to international migration in these host countries. For most Middle Income countries the projections emphasize the need to improve investment choice and productivity in the industrial sector in order to accelerate the absorption of labor, realize the potential for increased manufactured exports and enhance the efficiency of industrial units producing for growing domestic markets.

Alternative Scenarios

It is not difficult to conceive of many different ways in which the evolution of world economic conditions could depart from that outlined above. To provide some indication of the sensitivity of developing country prospects to conditions in the international economy, two alternative scenarios have been explored in some detail. In the High case the assumptions with respect to the growth of industrialized countries, world trade and capital flows are more favorable than in the Base scenario, while the converse is true of the Low scenario. In both

16. Alternative Assumptions for Base, High and Low Growth Scenarios, 1980-90, and Historical Growth, 1960-75

(Average annual percentage growth rates, at 1975 prices)

	1960-75	1980-90		
		Base	High	Low
GDP of Industrialized Countries	4.2	4.2	4.9	3.5
Net Official Development Assistance	4.1[a]	3.6	6.7	3.1
Net Private Medium- and Long-term Loans	..	3.9	6.3	−1.0
World Merchandise Trade	7.1	6.0	7.3	5.0
Developing Countries' Merchandise Exports	5.8	6.5	7.6	5.2
(Primary Products)	(4.5)	(3.3)	(3.5)	(2.8)
(Manufactures)	(12.3)	(11.1)	(13.1)	(8.8)
Real Price of Traded Energy	7.7[b]	0.0	2.0	0.0

[a]The data underlying this growth rate exclude OPEC flows of Official Development Assistance in 1960, on which information is not available, but include these flows in 1975.

[b]On the basis of end-point comparisons, the real price of petroleum remained approximately constant between 1960 and 1973, and rose sharply between 1973 and 1975.

cases, the variation in underlying premises is limited to the 1980s, and moderately optimistic assumptions are made regarding the capacity of developing countries to undertake difficult but desirable domestic policy adjustments to changing international circumstances. The principal assumptions distinguishing each scenario are outlined in Table 16.

The High scenario assumes that economic growth in the industrialized countries will recover to the 4.9 percent annual rate recorded in the 1960s. This would fuel a strong expansion of world trade at the rate of 7.3 percent a year, including a more rapid growth of developing country exports. The faster expansion of developing country exports would stem from two sources: the buoyant world market conditions, and a substantial relaxation in trade barriers which should be facilitated in the industrialized countries in conditions of rapid growth and declining unemployment. Faster growth in industrialized countries should also make it possible to accelerate the expansion of Official Development Assistance, which is assumed to reach 0.45 percent of the gross national product of DAC countries by 1990. Swifter growth of world output will inevitably increase the demand for energy and exacerbate pressures for higher prices. The High scenario assumes an increase in the real price of internationally traded energy of 2 percent a year during the 1980s.

The world view projected in the Low scenario is strikingly different. The growth of industrialized economies does not recover from the undistinguished performance of the present decade. As a result world trade growth is held back to 5 percent a year. The implied continuation of high unemployment and business distress in industrialized countries is likely to weaken resistance to demands for protection against developing country exports, especially of manufactures. As a consequence of these factors, developing country exports of manufactures are projected to grow at less than 9 percent a year, compared with rates of 13 percent in the High case and 11 percent in the Base scenario. Even if the same shares of donor GNP were allocated to ODA as in the Base case, slower economic growth would entail slower expansion of ODA from industrialized countries. With dimmer export prospects, developing countries' capacity to service debt would be restricted, leading to a likely reduction in their net receipts of private capital inflows. Since the slower expansion of global output can be expected to check the growth in demand for energy, sustained increases in the real price of energy are deemed unlikely in the Low scenario.

The implications for developing country growth of these different assumptions are outlined in Table 17. The projections indicate the sensitivity of developing country prospects to conditions in the world economy. They are, in substantial measure, consistent with historical experience during the past 15 years: the 4.8 percent annual growth of developing countries in the Low scenario is similar to the experience of 1974 to 1978, while the 6.6 percent a year growth projected in the High case is not unlike the record of 1965 to 1974.

In the High scenario the main impetus for the faster growth of Middle Income countries comes from the postulated improvement in the international trade environment, while the larger flows of concessional assistance assumed in this case would have a strong positive impact on the growth of Low Income countries. The variation in growth increments across Middle Income

17. Growth and Levels of Gross Domestic Product Under Alternative Scenarios

	Average Annual Growth Rates, 1980-90 (percent, at 1975 prices)						Gross Domestic Product Per Capita (1975 US dollars)			
	Gross Domestic Product			Gross Domestic Product Per Capita			1975	1990		
	Base	High	Low	Base	High	Low		Base	High	Low
Low Income Countries	4.9	5.9	4.3	2.7	3.5	2.0	147	211	232	200
Africa	3.8	4.8	3.6	1.0	1.9	0.7	146	165	181	160
Asia	5.0	6.0	4.4	2.8	3.8	2.2	148	219	240	206
Middle Income Countries	5.8	6.8	4.9	3.4	4.3	2.4	950	1,476	1,622	1,354
East Asia and Pacific	7.6	9.3	6.4	5.6	7.1	4.3	582	1,399	1,638	1,258
Latin America and Caribbean	5.7	6.5	4.6	3.2	3.9	2.1	1,103	1,632	1,756	1,471
Middle East and North Africa	5.5	6.3	5.0	2.9	3.6	2.4	823	1,234	1,325	1,173
Sub-Saharan Africa	4.4	5.3	3.7	1.4	2.2	0.7	544	630	683	586
Southern Europe	5.4	6.5	4.7	4.2	5.2	3.4	1,808	3,122	3,463	2,907
All Developing Countries	5.6	6.6	4.8	3.3	4.2	2.4	499	773	849	712
Industrialized Countries	4.2	4.9	3.5	3.7	4.5	3.1	5,865	9,999	10,747	9,381
Capital Surplus Oil Exporters	5.0	6.1	4.6	2.2	3.2	1.7	6,192	8,439	9,332	8,049
Centrally Planned Economies[a]	4.2	..	..	3.4	..	..	2,560	4,351	..	..

[a]East European centrally planned economies only.

regions reflects differences in their export prospects and capabilities and in the extent to which their debt situations at the beginning of the projection period permit additional borrowing to facilitate import growth. Under the Low scenario, the outlook would be particularly bleak for the Middle and Low Income countries of Sub-Saharan Africa: per capita output would increase by less than 1 percent a year. In all developing countries the contrasts between the High and Low scenarios are particularly strong in regard to the growth of industry, since the availability of imported inputs and the fast growth of demand are crucial to the growth of this sector.

Table 17 also shows the effects that the different growth paths would have on GDP per person in 1990. It is sobering to note that even in the High scenario, after ten years of vigorous economic expansion in developing countries, average income per person in these countries would be less than a twelfth of that in industrialized countries; in Low Income countries the proportion would be less than a fortieth. Even making necessary allowances for differences in consumption patterns and purchasing power, it is clear that massive disparities in living standards will persist among the nations of the world. Even with substantial external assistance and a favorable international environment, the 1980s will only be one decade in the long process of development that will lift only a few of today's developing nations into the ranks of industrialized countries by the end of this century. Furthermore, the projections suggest that the present diversity in income levels among developing countries will continue: all three scenarios project a widening gap between the average incomes of Low and Middle Income countries.

Though the disparities among groups of nations are unlikely to be changed in a matter of a few decades, the welfare of millions of people in developing countries nonetheless depends on choices to be taken now. By 1990, the outcomes of the High and Low scenarios represent very substantial differences in living standards. These differences underline the urgency of international and domestic policy actions to improve the environment for international trade and capital flows. Without such action, it is not difficult to foresee conditions in developing countries that are even worse than those projected here. Slow growth and protectionism in industrialized countries could compound one another and have even worse effects on these countries' economic health than in the Low scenario. The more dismal trends in world trade and exports from developing countries would imply correspondingly worse consequences for these nations' debt servicing capacity and capital inflows, thus reducing imports and economic growth to levels below those projected in the Low case. Such a deterioration in the international environment could trigger inappropriate policy actions or delay reform in developing countries, causing further setbacks in their development. The resulting stagnation in developing countries could limit the growth of a particularly buoyant market for exports from industrialized countries, and aggravate recessionary conditions and low productivity growth in these countries. The maintenance of a liberal international environment is a need shared by all countries. This need emerges even more clearly from an assessment of the effects of different growth paths on the dimensions of absolute poverty in the world.

Implications for the Alleviation of Poverty

Last year the *World Development Report* estimated that 600 million people could be living in absolute poverty at the end of the century if growth in developing countries continued at the rates envisaged in the Base scenario. Table 18 presents estimates of the numbers of people in absolute poverty in the year 2000 if the developing economies grow at the rates envisaged in the three scenarios. Estimates of the future extent of poverty are even more impressionistic and subject to error than the projections that were outlined above, but the variations that would be associated with differences in economic growth rates can be projected with somewhat greater confidence. These variations are substantial: the projections indicate that there would be over 700 million people living in absolute poverty in 2000 if developing countries were to grow at the rates projected in the Low case, whereas their numbers would be approximately 240 million fewer if growth were to be accelerated in line with the High scenario.

Improvements in the distribution of income could make a further significant contribution to the alleviation of absolute poverty. The above projections assume that, in line with past trends, approximately three-fourths of the increase in aggregate income would accrue to the top 40 percent of income recipients. With very strong redistributive policies in developing nations, the share of this group in increments in national income might be reduced to about 60 percent. If such improvements in income distribution were achieved together with the rapid growth rates of the High scenario, the number of people remaining in absolute poverty by the year 2000 could be reduced to between 300 and 350 million, or less than 10 percent of the total population of developing countries. Such favorable conditions could also help to lower fertility rates more rapidly than otherwise, and this should lower the numbers in absolute poverty somewhat further.

Absolute poverty is not likely to be eliminated by the year 2000. Nonetheless, substantial progress could be achieved through a combination of higher growth, improved income distribution, and reduced fertility. These projections emphasize the need to seek every possible means to support the future growth of developing countries. The international and domestic policy issues that merit attention in pursuit of this task are the subject of ensuing chapters of this report.

18. Levels of Absolute Poverty Under Alternative Scenarios, Year 2000

	Base Scenario		High Scenario		Low Scenario	
	Percentage of Population	Millions of Absolute Poor	Percentage of Population	Millions of Absolute Poor	Percentage of Population	Millions of Absolute Poor
Low Income Countries	22	440	17	340	26	520
Middle Income Countries	10	160	8	130	12	190
All Developing Countries	17	600	13	470	20	710