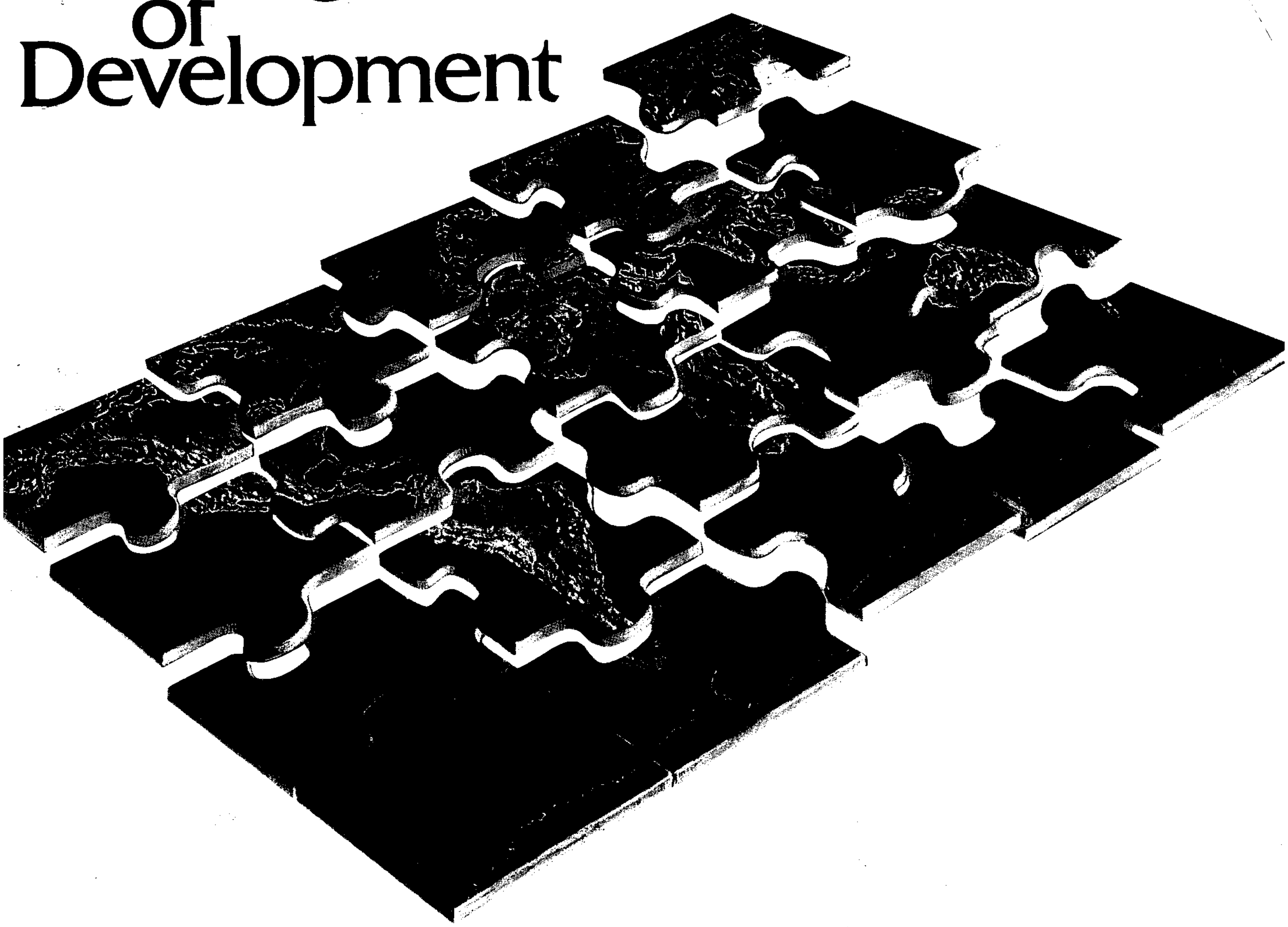
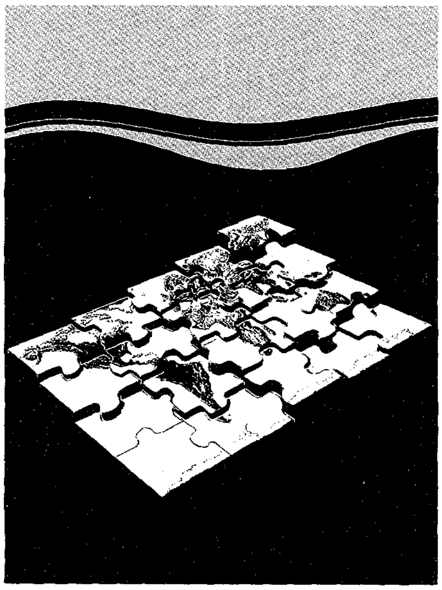
World Development Report 1991

9696

The Challenge of Development





World Development Report 1991

The Challenge of Development

Published for the World Bank
Oxford University Press

Oxford University Press
OXFORD NEW YORK TORONTO DELHI
BOMBAY CALCUTTA MADRAS KARACHI
PETALING JAYA SINGAPORE HONG KONG
TOKYO NAIROBI DAR ES SALAAM
CAPE TOWN MELBOURNE AUCKLAND
and associated companies in
BERLIN IBADAN

First printing June 1991

The denominations, the classifications, the boundaries, and the colors used in maps in World Development Report *do not imply on the part of The World Bank and its affiliates any judgment on the legal or other status of any territory, or any endorsement or acceptance of any boundary.*

ISBN 0-19-520869-2 clothbound
ISBN 0-19-520868-4 paperback
ISSN 0163-5085

The Library of Congress has cataloged this serial publication as follows:
World development report. 1978–
[New York] Oxford University Press.
v. 27 cm. annual.
Published for The World Bank.
1. Underdeveloped areas—Periodicals. 2. Economic development—Periodicals. I. International Bank for Reconstruction and Development.

HC59.7.W659 330.9'172'4 78-67086

This book is printed on paper that adheres to the American National Standard for Permanence of Paper for Printed Library Materials, Z39.48-1984.

Foreword

World Development Report 1991, the fourteenth in this annual series, synthesizes and interprets the lessons of more than forty years of development experience. This Report, together with last year's on poverty and next year's on the environment, seeks to provide a comprehensive overview of the development agenda.

The 1990s began with dramatic changes. Many countries in Eastern Europe and elsewhere initiated ambitious reforms of their economic and political systems. These reforms reflect both the accumulated evidence on economic policies and fundamental changes in the political environment. Not only in Eastern Europe, but also in Africa, Asia, Latin America, and the Middle East, people are seeking escape from poverty and oppression to gain control over their own destinies and find better lives for themselves and their families. Against the backdrop of these transitions, this year's Report links the historical debates that counseled policymakers in their past decisions, the lessons of experience, and the evolving thought on how best to proceed.

One of the most valuable lessons relates to the interaction between the state and the market in fostering development. Experience shows that success in promoting economic growth and poverty reduction is most likely when governments complement markets; dramatic failures result when they conflict. The Report describes a market-friendly approach in which governments allow markets to function well, and in which governments concentrate their interventions on areas in which markets prove inadequate.

The Report looks at four main aspects of the relationship between governments and markets. First, investing in people requires an efficient public role. Markets alone generally do not ensure that people, especially the poorest, receive adequate education, health care, nutrition, and access to family planning. Second, essential for enterprises to flourish is an enabling climate—one that includes competition, adequate infrastructure, and institutions. Competition fosters innovation, the diffusion of technology, and the efficient use of resources. Third, successful economic development requires the integration of countries with the global economy. Openness to international flows of goods, services, capital, labor, technology, and ideas spurs economic growth. Fourth, a stable macroeconomic foundation is essential to sustained progress. Restoring the confidence of the private sector is now a major challenge for several countries with a long history of macroeconomic instability.

What are the prospects for rapid development in the years ahead? The Report notes that a favorable international climate is critical for future development. The effects of the policies of industrial countries on development grow, as more developing countries turn outward and the world becomes more and more interdependent. But the Report stresses that, above all, the future of developing countries is in their own hands. Domestic policies and institutions hold the key to successful development. With strong and sustained reforms at home, the Report concludes, the pace of development can be substantially increased—to lift millions of people out of poverty by the end of the decade.

Like its predecessors, *World Development Report 1991* includes the World Development Indicators, which offer selected social and economic statistics on 124 countries. The Report is a study by the staff of the World Bank, and the judgments made herein do not necessarily reflect the views of the Board of Directors or the governments they represent.

Barber Conable

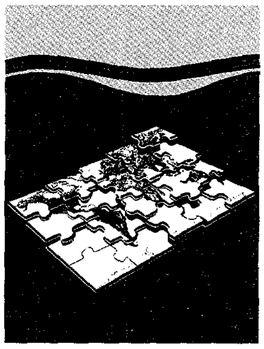
Barber B. Conable
President
The World Bank

May 31, 1991

This Report has been prepared by a team led by Vinod Thomas and comprising Surjit S. Bhalla, Rui Coutinho, Shahrokh Fardoust, Ann E. Harrison, Daniel Kaufmann, Elizabeth M. King, Kenneth K. Meyers, Peter A. Petri, and N. Roberto Zagha. T. N. Srinivasan, Mark Rosenzweig, and Francisco Sagasti collaborated closely and provided extensive advice. The team was assisted by Sushenjit Bandyopadhyay, Fernando J. Batista, Marianne Fay, Jon Isham, Kali Kondury, Stefan Krieger, and Yan Wang. Stanley Fischer played a principal role in the initial stages of the Report's preparation. The work was carried out under the general direction of Lawrence H. Summers.

Many others in and outside the Bank provided helpful comments and contributions (see the bibliographical note). The International Economics Department prepared the data and projections presented in Chapter 1 and the statistical appendix. It is also responsible for the World Development Indicators. The production staff of the Report included Kathryn Kline Dahl, Connie Eysenck, Alfred F. Imhoff, Hugh Nees, Kathy Rosen, Walton Rosenquist, and Brian J. Svikhart. Cartographic services were provided by Jeffrey N. Lecksell, Gregory George Prakas, and Eric M. Saks. Library assistance was provided by Iris Anderson and Jane Keneshea. The support staff was headed by Rhoda Blade-Charest and included Laitan Alli, Trinidad S. Angeles, and Lupita Mattheisen. Clive Crook was the principal editor.

The advice and support of Professor Bela Balassa (1928–1991) are respectfully acknowledged. His contributions to this and past *World Development Reports* were valuable in understanding development. The core team remembers fondly David A. Renelt (1964–1991), who contributed to the Report.



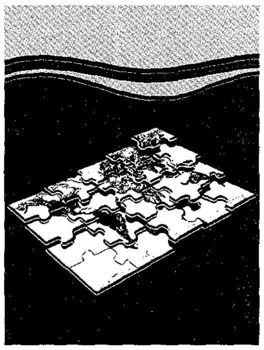
Contents

Boxes

Text figures

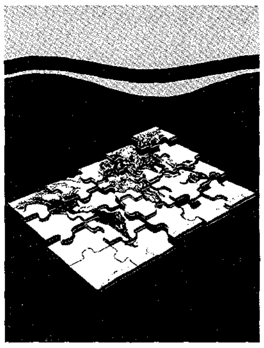
Text tables

Statistical appendix tables



Acronyms and initials

DAC	Development Assistance Committee of the Organisation for Economic Co-operation and Development
EC	The European Community (Belgium, Denmark, Germany, France, Greece, Ireland, Italy, Luxembourg, Netherlands, Portugal, Spain, and United Kingdom)
ERR	Economic rate of return
DFI	Direct foreign investment
GATT	General Agreement on Tariffs and Trade
GDP	Gross domestic product
GNP	Gross national product
G-7	Group of Seven (Canada, France, Germany, Italy, Japan, United Kingdom, and United States)
IBRD	International Bank for Reconstruction and Development
IDA	International Development Association
IFC	International Finance Corporation
IMF	International Monetary Fund
LIBOR	London interbank offered rate
NGOs	Nongovernmental organizations
NIEs	Newly industrializing economies
ODA	Official development assistance
OECD	Organisation for Economic Co-operation and Development (Australia, Austria, Belgium, Canada, Denmark, Finland, France, Germany, Greece, Iceland, Ireland, Italy, Japan, Luxembourg, Netherlands, New Zealand, Norway, Portugal, Spain, Sweden, Switzerland, Turkey, United Kingdom, and United States)
PPP	Purchasing power parity
TFP	Total factor productivity
UNDP	United Nations Development Programme
Unesco	United Nations Educational, Scientific, and Cultural Organization
UNICEF	United Nations Children's Fund
WHO	World Health Organization



Definitions and data notes

A note on data selection

The data used in this *World Development Report* cover a range of time periods and are from more than 100 countries (both industrial and developing). Data availability was the primary criterion for usage; other criteria varied from chapter to chapter. For details, see the technical note at the end of the main text.

Country groups

For operational and analytical purposes the World Bank's main criterion for classifying economies is according to their gross national product (GNP) per capita. Every economy is classified as low-income, middle-income (subdivided into lower-middle and upper-middle), or high-income. In addition to classification by income, other analytical groups are based on regions, exports, and levels of external debt.

In this edition of *World Development Report* and its statistical annex, the World Development Indicators (WDI), minor changes to country classification have been introduced. The changes are: (a) the ''nonreporting nonmembers'' group is now ''other economies'' and includes only Albania, Cuba, Democratic People's Republic of Korea, and the Union of Soviet Socialist Republics (USSR); (b) ''total reporting economies'' is replaced by ''world.'' Note that the definition of ''oil exporters'' has been changed (see the definition in the analytical groups below). As in previous editions, this Report uses the latest GNP per capita estimates to classify countries. The country composition of each income group may therefore change from one edition to the next. Once the classification is fixed for any edition, all the historical data presented are based on the same country grouping. The country groups used in this Report are defined as follows.

- *Low-income economies* are those with a GNP per capita of $580 or less in 1989.
- *Middle-income economies* are those with a GNP per capita of more than $580 but less than $6,000 in 1989. A further division, at GNP per capita of $2,335 in 1989, is made between lower-middle-income and upper-middle-income economies.
- *High-income economies* are those with a GNP per capita of $6,000 or more in 1989.

Low-income and middle-income economies are sometimes referred to as developing economies. The use of the term is convenient; it is not intended to imply that all economies in the group are experiencing similar development or that other economies have reached a preferred or final stage of development. Classification by income does not necessarily reflect development status. (In the World Development Indicators, high-income economies classified by the United Nations or otherwise regarded by their authorities as developing are identified by the symbol †). The use of the term ''countries'' to refer to economies implies no judgment by the Bank about the legal or other status of a territory.

- *''Other economies''* are Albania, Cuba, Democratic People's Republic of Korea, and the Union of Soviet Socialist Republics (USSR). In the main tables of the World Development Indicators, only aggregates are shown for this group, but Box A.2 in the technical notes to the WDI contains key indicators reported for each of these countries.

• *"World"* comprises all economies, including economies with less than 1 million population, which are not shown separately in the main tables. See the technical notes to the WDI for aggregation methods used to retain the same country group across time.

Analytical groups

For analytical purposes, other overlapping classifications based predominantly on exports or external debt are used in addition to geographic country groups. The lists provided below are of economies in these groups that have populations of more than 1 million. Countries with less than 1 million population, although not shown separately, are included in group aggregates.

• *Oil exporters* are countries for which exports of petroleum and gas, including reexports, account for at least 50 percent of exports of goods and services. They are People's Republic of the Congo, Islamic Republic of Iran, Iraq, Libya, Nigeria, Oman, Saudi Arabia, Trinidad and Tobago, United Arab Emirates, and Venezuela. Although the USSR meets the established criterion, because of data limitations it is excluded from this group measure.

• *Severely indebted middle-income countries* (abbreviated to "severely indebted" in the World Development Indicators) are twenty countries that are deemed to have encountered severe debt-servicing difficulties. These are defined as countries in which three of the four key ratios are above critical levels: debt to GNP (50 percent), debt to exports of goods and all services (275 percent), accrued debt service to exports (30 percent), and accrued interest to exports (20 percent). The twenty countries are Argentina, Bolivia, Brazil, Chile, People's Republic of the Congo, Costa Rica, Côte d'Ivoire, Ecuador, Arab Republic of Egypt, Honduras, Hungary, Mexico, Morocco, Nicaragua, Peru, Philippines, Poland, Senegal, Uruguay, and Venezuela.

• *OECD members*, a subgroup of "high-income economies," comprises the members of the Organisation for Economic Co-operation and Development except for Greece, Portugal, and Turkey, which are included among the middle-income economies.

Geographic regions (low-income and middle-income economies)

• *Sub-Saharan Africa* comprises all countries south of the Sahara except South Africa.

• *Europe, Middle East, and North Africa* comprises the middle-income European countries of Bulgaria, Czechoslovakia, Greece, Hungary, Poland, Portugal, Romania, Turkey, and Yugoslavia, and all the economies of North Africa and the Middle East, and Afghanistan. For some analyses in *World Development Report*, Eastern Europe (Hungary, Poland, Romania, and Yugoslavia) is treated separately.

• *East Asia* comprises all the low- and middle-income economies of East and Southeast Asia and the Pacific, east of and including China and Thailand.

• *South Asia* comprises Bangladesh, Bhutan, India, Myanmar, Nepal, Pakistan, and Sri Lanka.

• *Latin America and the Caribbean* comprises all American and Caribbean economies south of the United States.

Data notes

- *Billion* is 1,000 million.
- *Trillion* is 1,000 billion.
- *Tons* are metric tons equal to 1,000 kilograms, or 2,204.6 pounds.
- *Dollars* are current U.S. dollars unless otherwise specified.
- *Growth rates* are based on constant price data and, unless otherwise noted, have been computed with the use of the least-squares method. See the technical note to the World Development Indicators for details of this method.
- *The symbol /* in dates, as in "1988/89," means that the period of time may be less than two years but straddles two calendar years and refers to a crop year, a survey year, or a fiscal year.
- *The symbol ..* in tables means not available.
- *The symbol —* in tables means not applicable.
- *The number* 0 or 0.0 in tables and figures means zero or a quantity less than half the unit shown and not known more precisely.

The cutoff date for all data in the World Development Indicators is April 30, 1991.

Historical data in this Report may differ from those in previous editions because of continuous updating as better data become available, because of a change to a new base year for constant price data, and because of changes in country composition in income and analytical groups.

Economic and demographic terms are defined in the technical note to the World Development Indicators.