Chapter 2: The Development Experience, 1950-75

The effort at systematic, accelerated development can be dated to the middle of this century for most developing countries. For processes of fundamental social change, twenty-five years is short; and for many countries, especially those in Africa that gained independence only in the early 1960s, the relevant experience is even shorter. Nevertheless, it is useful to explore the problems of today in the light of the experience of the past quarter century.[1]

The record is both encouraging and sobering. Economic growth in the developing countries has exceeded original expectations, and their economic, managerial, and physical capacity for further development has been greatly strengthened. But, despite the successes, about 800 million people in the developing world still live in absolute poverty, with incomes too low to ensure adequate nutrition, and without access to essential public services. Many of these people have experienced no improvement in their living standards; and in countries where economic growth has been slow, the living standards of the poor may even have deteriorated. The numbers in poverty alone are a stark measure of how much remains to be done.

The Record of Developing Countries

Economic Growth and Structure

The developing countries have grown impressively over the past twenty-five years: income per person has increased by almost 3 percent a year, with the annual growth rate accelerating from about 2 percent in the 1950s to 3.4 percent in the 1960s. Contrasted with what little can be gleaned of the experience of these countries before 1950, this is a substantial improvement over the historical record. Moreover, it compares extremely favorably with the growth rates achieved by the now developed countries over the period of their industrialization: income per person grew by less than 2 percent a year in most of the industrialized nations of the West over the 100 years of industrialization beginning in the mid-nineteenth century. Even in Japan, which has been one of the most rapidly growing of the industrialized countries, the long-term rate of growth in income per person is estimated at less than 2.5 percent a year.

There have, of course, been marked differences in the performance of individual developing countries in this period. Growth rates have generally been lower in the Low Income countries of Africa and Asia, where the majority of the world's poor live. In countries accounting for half the population of the developing world, income per person has risen by less than 2 percent a year.

1. Developing Countries: Growth of Gross National Product per Person, 1950-75

Average Annual Growth Rate (percent)	Number of Countries	Percentage of Population[a]
Less than 0	3	1
0-2	25	48
2-4	33	35
Above 4	11	15

[a]Share of the total population in the 72 developing countries covered. These 72 countries accounted for 88 percent of the total population of developing countries in 1976.

As output and income grow, there are generally substantial changes in economic structure, with industry increasing its share of total output at the expense of the agricultural sector, even if the latter grows rapidly. Industry has been the fastest growing sector in virtually all the developing economies, although it grew at more than 10 percent a year only in a few of them.

2. Developing Countries: Growth of Production, 1960-75
(Median values, at 1975 prices)

	Average Annual Growth Rates (percent)			
	Gross Domestic Product	Agriculture	Industry	Services
Low Income Countries	3.1	2.1	5.4	3.7
Middle Income Countries	6.0	3.5	7.9	6.7

In the poorer and slower growing countries, the share of agriculture in total production has

[1]Of special interest is the experience of a few countries whose development strategies have centered around strong measures to improve the living standards of Low Income groups. Among these countries are the People's Republic of China and Cuba. Our direct knowledge of their experience is extremely limited, neither being members of the World Bank; data are scarce; and discussions in the literature are generally based on partial information. There are many areas where the measures adopted by these countries are of immense interest, but there is still uncertainty about their applicability in social environments or political systems that have not been transformed as they have been in these countries. They and other centrally planned economies are not included in the references to developing countries in this report.

declined only slightly and is still large. The rapid growth of the services sector is ambiguous. In the industrialized countries, the share of the services sector in total output is high and rising, in response to changes in the pattern of demand. While part of the growth of services in developing countries is in response to growth in demand, it also reflects the inability of the industrial sector to absorb fully the additions to the urban labor force. People who do not find employment in organized industry may eke out a meager living in occupations with low productivity or find employment in a burgeoning government sector.

3. Developing Countries: Structure of Production, 1960 and 1975
(Median values, at current prices)

	Distribution of Gross Domestic Product (percent)					
	Agriculture		Industry		Services	
	1960	1975	1960	1975	1960	1975
Low Income Countries	52	43	12	23	35	45
Middle Income Countries	26	15	23	38	46	47

Note: Sectoral shares do not add to 100 percent because median values have been derived separately for each sector.

These broad changes in the sectoral composition of production do not convey the full character of changes in the economy. They do not, for instance, depict the large improvements in the availability of transportation, communications, and electric power, nor the great expansion in the capacity to borrow and adapt technology that is vital to the expansion and diversification of the economy's productive capacity. Nor do they suggest the gains in human skills, both of industrial labor and of management, that play a crucial role in modern economic growth. Such developments are difficult to quantify and, in any event, data on social factors are scarce in developing countries. Available indicators such as literacy rates and school enrollment ratios, shown in Table 4, reflect very imperfectly some of the changes that have taken place.

The scope of the economic changes of the past twenty-five years is perhaps suggested better by the fact that many developing countries have modernized their agriculture and sustained high rates of growth in agricultural production, while a number of them now manufacture technologically sophisticated equipment (electric power generators, for example). Many have sizable capacities in engineering industries; and some now compete effectively for turnkey projects internationally.

4. Developing Countries: Growth of Education, 1960-75
(Median values)

	Percentage of Primary School Age Children Attending School		Percentage of Secondary School Age Children Attending School		Percentage of Adults Who Are Literate	
	1960	1975	1960	1975	1960	1974
Low Income Countries	30	52	2	8	10	23
Middle Income Countries	79	97	12	35	61	63

Source: *World Development Indicators*, Table 18.

The growing sophistication of developing economies is marked by large and modern institutions of increasing complexity, ranging from major industrial corporations to first-rate universities. Institutions, both public and private, whose main business is economic development, have proliferated. They include industrial development banks, agricultural credit institutions, extension agencies, vocational training institutes, research centers, central banks, and economic planning agencies. Not all of these institutions function satisfactorily and serious gaps remain in the institutional development of many countries. One of the most important shortcomings is in agricultural research, specifically in the common failure to build up sufficient national capacity for the adaptive research suited to local agroclimatic conditions that is fundamental to achieving sustained gains in agricultural productivity.

Developing countries demonstrated their proficiency in economic management through their adjustment to a series of external shocks in recent years, including wide fluctuations in international commodity prices, the sudden increase in oil prices, the prolonged recession in industrialized countries, and the unpredictable gyrations of international exchange rates. Through measures affecting the structure of domestic production and prices, as well as external trade and borrowing, they have been able to withstand these external shocks, maintain their growth, and control inflation. Those following export-oriented policies have generally fared better than others.

Population

The progress made by developing countries is the more impressive considering that their populations have been growing at historically unprecedented rates. During 1950-75, their total population increased at 2.4 percent a year. This is substantially faster than the population growth rates—typically about 1 percent a year —that the now developed countries had to contend with during the period of their industrialization.

5. Developing Countries: Birth and Death Rates, 1960 and 1975
(Median values)

	Crude Birth Rate per Thousand Population		Crude Death Rate per Thousand Population	
	1960	1975	1960	1975
Low Income Countries	48	47	26	20
Middle Income Countries	45	40	17	12

Source: *World Development Indicators*, Table 15.

The growth of population in developing countries over the past twenty-five years illustrates how complex are the interactions among various factors in development. The decline in mortality that was a prime cause of the acceleration in population growth was the result of the earliest efforts at improving living standards, including the establishment of public health systems and mass eradication campaigns against such major diseases as malaria, smallpox, and cholera. But the increase in life expectancy was not accompanied by a decline in fertility, for a variety of reasons. Indeed, in some countries, the improvements in public health and nutrition led to an increase in birth rates, since they reduced the infertility in women caused by ill-health.

Declines in fertility associated with economic development have been documented in developing countries, especially in East Asia and parts of South Asia. Nevertheless, total fertility rates[2] are still over 6 in developing countries, compared with about 2.3 in industrialized countries, the latter being close to the levels associated with a stationary population. Even on optimistic assumptions about how fast fertility will decline in the developing countries, their population will continue to expand well into the twenty-first century. An estimate of their total population in the year 2000 is shown in Table 6.

6. Developing Countries: Population, 1950-2000
(Billions)

	1950	1975	2000[a]
Low Income Countries	0.7	1.2	2.0
Middle Income Countries	0.5	0.9	1.5

[a]The assumptions on which these projections are based are described in the Notes to Table 16 in *World Development Indicators*.

[2]For a definition of this term, see the Notes to Table 15 in *World Development Indicators*.

Eventually, the process of development is likely to reduce fertility and slow down the pace of population growth, working through such forces as the education and employment of women; the desire that children should be educated, and hence the wish to limit family size to ensure better provision for each child; and the perception that children have a better chance of surviving, leading to a willingness to limit the number of births. But, particularly in the poorest countries, these forces are insufficient. The pressure that rapid population growth exerts on resources, and the difficulties it imposes for raising income and employment levels, make the spread of effective family planning programs an urgent matter.

Even with effective programs to reduce population growth rates, the dynamism of the present demographic structure means that population will continue to increase for several decades. Many countries still have grossly inadequate programs and some, particularly in Africa, have not yet taken account of the problems that the present demographic situation implies for the future. Though the population in developing countries will continue to grow for decades ahead, effective action now can shorten the time required to achieve a stationary population and reduce its ultimate size.

Urbanization

Rapid urbanization has been one of the major features of the past twenty-five years, as the difference in economic opportunities between urban and rural areas has widened. Urban populations in most developing countries have expanded far more rapidly than total population. This is only partly because of the increase in industrial activity: many biases in policy have created strong incentives to expand economic activity in urban rather than rural areas, and have thus encouraged people to move to urban areas in the expectation of higher paid jobs and better access to services. Far more people have migrated to urban areas than could be absorbed, and despite large investments in urban infrastructure, the result has been a severe strain on urban services and labor markets.

In most developing countries, this strain is reflected in highly dualistic urban systems, where islands of high income "modernity" coexist with shanty towns and slums. The permanence of the new peripheral urban settlements has not been adequately recognized, and municipal financing and management have not received the attention they need. As a result, little has been done either to deal with the appalling inadequacy of essential services, such as sanitation, in these settlements, or to assist the large part of the urban economy that consists of small-scale and informal production activities, which operate at low levels of productivity.

7. Developing Countries: Urban Population, 1960-75

	Percentage of Total Population		Average Annual Growth Rate
	1960	1975	1960-75
Sub-Saharan Africa	14	19	5.0
North Africa and Middle East	32	44	5.0
Latin America	49	61	4.3
Asia	17	22	4.0
Southern Europe	40	51	3.2

Source: *Selected World Demographic Indicators by Countries, 1950-2000* (New York: United Nations, 1975)

While the problems are easily apparent, solutions are not. Urban growth requires large investments in infrastructure and these compete with alternative uses of scarce investable resources.

Investment and Savings

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The development strategies of most countries have laid considerable stress on expanding investment in order to accelerate economic growth. Efforts have been made to raise the rates of gross domestic investment through public investment and through measures to encourage private investment, although the relative proportions of public and private investment have varied, reflecting different views on the role of the public sector.

8. Developing Countries: Investment and Savings Rates, 1960 and 1975
(Percentages of gross domestic product, at current prices)

	Low Income Countries		Middle Income Countries	
	1960	1975	1960	1975
Gross Domestic Investment	14.7	19.1	20.2	26.4
Financed by:				
Gross Domestic Savings	11.6	15.6	17.8	22.1
Net Foreign Resource Inflows	3.1	3.5	2.4	4.3
Note:				
Net Foreign Resource Inflows as a Percentage of Investment	21	18	12	16

Generally, the developing countries have been successful in raising investment and savings rates. In the Middle Income countries, inflows of external capital have increased as a percentage of both gross domestic product and investment, playing a major role in financing the increase in investment. The Low Income countries have been remarkably successful in raising their domestic savings, although their investment rates in 1975 were only comparable to those achieved by the Middle Income countries fifteen years earlier. In part, this is because foreign resource inflows have supplied a decreasing share of investment, reflecting the relatively slow growth of concessional capital and the limited access of these countries to the rapidly expanding sources of commercial capital. Their domestic savings rates have also been lower than those of the Middle Income countries, because of their lower income levels. The wide difference in investment rates, especially when allowance is made for depreciation, has certainly been an important reason for differences in the growth rates of the Low and Middle Income countries. There have also been major policy differences among countries, affecting the efficiency of investment. As a result, some countries with similar rates of investment have achieved very different rates of growth of output.

The types of difficulties in raising investment levels differ among individual Low Income countries, but they essentially reflect the shortage of entrepreneurial and managerial talent and the difficulties of increasing savings at low levels of income. In some countries which are still at an early stage of development, especially those in Sub-Saharan Africa, there have been serious difficulties in identifying profitable investment opportunities. Efficient investment requires a dynamic entrepreneurial class and public institutions sufficiently well manned and established to identify and implement a broad range of productive projects. Many countries are meeting these conditions only gradually; indeed, the creation of an entrepreneurial class and of appropriate public institutions was precisely their first task of development.

In many countries an important reason for the difficulty in raising savings rates is a continued reliance on commodity taxation, which makes the revenues generated less sensitive to increases in incomes than if progressive income taxes and taxes on value added were used. In some countries, it was hoped that government enterprises would generate surpluses for investment. This has often proved unrealistic, primarily because such enterprises have been burdened with the task of meeting other social objectives, such as employment creation and maintaining low prices for key products, and also because they lacked the management cadres needed to run them efficiently.

Moreover, governments have found it extremely hard to restrain the growth of their consumption expenditure enough to bring about the anticipated increase in public savings. The high level and rapid growth of government consumption in the poorest countries illustrates the dilemma they face in seeking to meet urgent needs in the face of rising expectations, and simultaneously raising savings to finance increases in production for the future. The changes in the ratios of current government consumption to total output are shown below:

9. Developing Countries: Government Consumption Expenditure as a Percentage of Gross Domestic Product, 1960-75
(At current prices)

	1960	1970	1975
Low Income Countries	8.8	10.4	13.9
Middle Income Countries	11.0	12.2	13.1
All Developing Countries	10.5	11.9	13.2

By 1975, the poorest countries assigned a slightly higher share of gross domestic product to government consumption than the richer countries, and certainly a much higher share than the latter did at a comparable stage of development. The share of government consumption expenditure in the Low Income countries rose by almost 58 percent between 1960 and 1975. The reasons for this growth are not hard to find. The past twenty-five years have seen a tremendous expansion in the development role of governments in developing countries, and a great deal is expected from governments even in relatively poor countries. Fulfilling this role by providing such services as health and education, which are important for development and politically compelling, requires a substantial allocation of resources.

The Impact on Poverty

Economic development has brought improvements in the quality of life, but progress has been slow and uneven. Better nutrition and health have raised life expectancy, and infant mortality has been brought down, though it is still at alarmingly high levels (see Table 10).

About 40 percent of the population of developing countries, nearly 800 million people, are still living in absolute poverty. The majority of them are in rural areas, with the greatest concentration in South Asia and Indonesia. Sub-Saharan Africa also has a high proportion of its population in absolute poverty, although the total number of poor people is much smaller, because of Africa's much smaller population. In addition to the absolute poor, many more people have inadequate access to essential public services, such as health care, safe drinking water, and sanitation. As Figure 1 shows, they include substantial proportions of the population in the Middle Income countries.

10. Life Expectancy and Infant Mortality, 1960 and 1975
(Median values)

	Life Expectancy at Birth (years)		Infant Mortality per Thousand	
	1960	1975	1960	1975
Low Income Countries	36	44	142	122
Middle Income Countries	49	58	72	46
Industrialized Countries	70	72	25	15
Centrally Planned Economies	66	70	..	..

.. Not available.
Source: *World Development Indicators*, Table 17.

Historical experience suggests that the poorer members of the population are unlikely to share equitably in economic growth, mainly because they have less access to the productive assets needed to generate incomes—land, credit, education, and jobs in the modern sector. In the poorest countries, with their slow average rate of growth, the incomes and consumption levels of the poorer half of the population have stagnated. Worse, in countries where agriculture has expanded more slowly than population (parts of South Asia and Sub-Saharan Africa), the incomes of some of the rural population have probably declined.

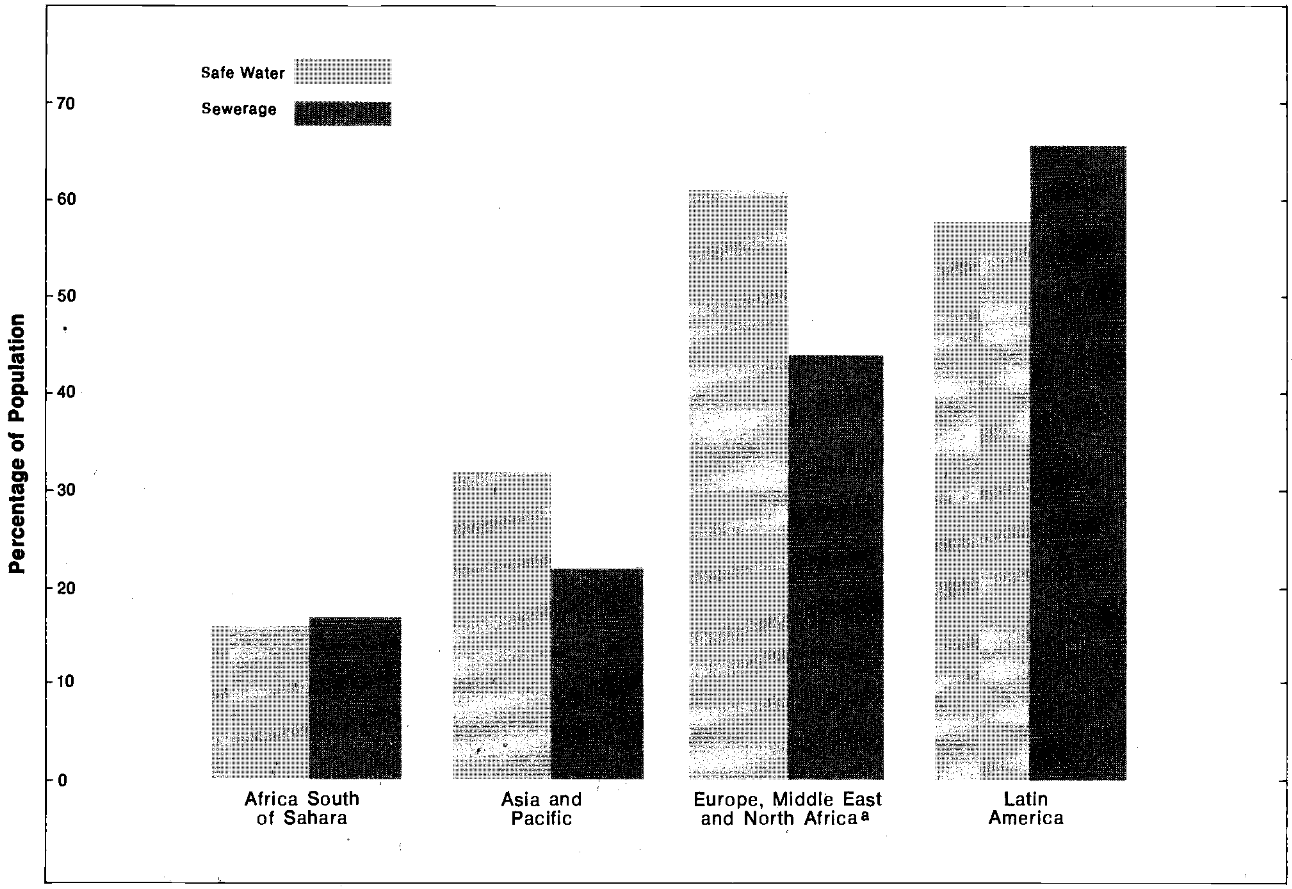
In some fast growing countries, notably the Republic of China (Taiwan), the Republic of Korea, and Yugoslavia, the benefits of growth appear to have been fairly equally distributed. This may be explained by an important characteristic that these three countries have shared: prior to their rapid growth, they had a wide dispersion of skills and an equitable distribution of assets, including land, as a result of the land reforms in the Republic of Korea and the Republic of China, and the extensive reform of property relations, involving social ownership and worker management, in Yugoslavia. These initial conditions, however, are not characteristic of most developing countries.

In general, experience suggests that the distribution of income is likely to worsen in the course of economic growth. However, even if income disparities increase, the incomes of the poor can rise. Particularly where people are at the margin of survival, it is their income levels, rather than their relative position in the distribution of income, that require the most urgent attention.

The International Environment

The expansion in the international economy over most of the 1950-75 period has contributed to rapid economic growth in many developing countries, as trade has been liberalized and capital flows have expanded. Nonetheless, the economies of the developing countries are still small, relative to those of the industrialized countries, despite the significant rise in their share of total GNP since 1960.

Figure 1: Access to Safe Water and Sewerage: Developing Countries, 1975



[a]In this figure, "Europe" refers to Greece, Portugal, Spain, Turkey, and Yugoslavia.
Source: *World Health Statistics Report*, Vol. 29, No. 10 (Geneva: World Health Organization, 1976).

11. Developing Countries: Relative Size, 1960 and 1975

	Developing Countries (billions)		Industrialized Countries (billions)		Percentage Share of Developing Countries in Total[a]	
	1960	1975	1960	1975	1960	1975
Population	1.4	2.1	0.6	0.7	70	75
GNP[b]	460	1,048	2,071	3,841	18	21
Value Added in Industry[b]	120	350	745	1,483	14	19

[a]Share in the total of developing and industrialized countries.
[b]These data are in 1975 US dollars, using official exchange rates between national currencies which may not properly reflect differences between countries in purchasing power. For a further discussion of this problem, see the Notes to Table 1 in *World Development Indicators*.

Growth of World Trade

In the industrialized countries, the years of reconstruction after World War II were followed by a long period of rapid economic growth, averaging 4 percent a year from 1950 to 1975. The growth was particularly fast, averaging 5 percent a year, in the decade prior to the increase in oil prices in 1973.

With this rapid expansion of the OECD economies and sustained progress in the liberalization of international trade through successive rounds of negotiations under the auspices of the General Agreement on Tariffs and Trade, there was a tremendous increase in world trade. This was led by trade among industrialized countries, boosted by regional integration in Western Europe. The volume of industrialized countries' exports increased by 7 percent a year in the decade of the 1950s, and the increase accelerated to 8.5 percent a year between 1960 and 1975. The volume of their imports rose by 7.5 percent and 8.5 percent a year, respectively.

Over the past twenty-five years, developing countries have emerged as a major market for the manufactured exports of the industrialized countries. Apart from trade within Western Europe, the growth of those exports has been led by exports to developing countries.

12. Increase in Industrialized Countries' Trade in Manufactures, by Country Groups, 1960-75
(At current prices)

	Share of Increase in Industrialized Countries' Imports of Manufactures (percent)	Share of Increase in Industrialized Countries' Exports of Manufactures (percent)
Trade within Western Europe	55	38
Other Trade among Industrialized Countries	34	24
Trade with Developing Countries	9	29
Trade with Capital Surplus Oil Exporting Countries	—	3
Trade with Centrally Planned Economies	2	6
World	100	100

— Negligible.
Sources: United Nations *Yearbook of International Trade Statistics* (New York: United Nations, UN Statistical Office, 1976); and *Handbook of International Trade and Development Statistics* (Geneva: United Nations Conference on Trade and Development, 1976).

Growth and Diversification of Developing Countries' Exports

The developing countries' exports have increased more slowly than those of the industrialized countries over the last twenty-five years, although there have been very important differences in growth rates among countries.

13. Growth of Merchandise Exports, 1960-75
(Average annual percentage growth rates, at 1975 prices)

	Total World Trade	Industrialized Countries	Developing Countries
Food and Beverages	4.1	5.2	2.8
Non-food Agricultural Products	4.5	5.6	2.6
Non-fuel Minerals and Metals	3.9	3.1	4.8
Fuel and Energy	6.3	4.2	6.2
Manufactures	8.9	8.8	12.3
Total Merchandise	7.1	7.5	5.9

Sources: World Bank; United Nations *Yearbook of International Trade Statistics*, 1960, 1976; and *Handbook of International Trade and Development Statistics*, 1976 (op. cit.).

One of the reasons why developing countries' exports have increased more slowly than those of industrialized countries is their greater concentration in primary commodities. During 1960-75, developing countries' exports of manufactures, fuels, minerals, and metals rose faster than those of industrialized countries. In the agricultural commodities, in which developing countries have a large share of world trade, their exports grew more slowly than those of the world as a whole. In part, this is because of the slow growth in world demand for tropical beverages and hard fibers, which are among the major exports of developing countries. But inadequate attention to raising agricultural production has also been an important reason. Growth of population and incomes have raised domestic demand while the incentives for raising productivity have often been insufficient, and hence developing countries' exports have failed to keep pace with the growth of world demand for agricultural products.

These factors also largely explain the differences in the growth of exports of different developing countries. The exports of Low Income countries, which depend heavily on primary commodities, generally rose by less than 5 percent a year during 1960-75. At the other extreme, where manufactures have accounted for a large share of exports and policies have not been biased against exports, growth has been much more rapid. Eight countries had exports increasing faster than 10 percent a year.

14. Developing Countries: Growth of Exports of Goods and Non-factor Services, 1960-75
(At 1975 prices)

Average Annual Growth Rate (percent)	Number of Countries
Less than 0	3
0-5	26
5-10	30
10-15	4
Above 15	4

Fuel contributed about 40 percent of the increase in developing countries' exports in real terms during 1960-75. Manufactures contributed more than a third of the increase, and now amount to about a quarter of total merchandise exports. More countries have shared in the rapid growth of manufactured exports, making this one of the most significant aspects of the developing countries' performance in the past twenty-five years.

Three features of the growth of manufactured exports are noteworthy. First, they come from a rather small number of countries and territories, all of them industrially advanced compared with most other developing countries. About 45 percent come from the Republic of Korea, the Republic of China, Spain, and Hong Kong. Adding Yugoslavia, Brazil, India, Mexico, Israel, Portugal, Singapore, and Greece raises the proportion to around 80 percent. Second, since 1965, not only the majority of these countries but also several others, such as Malaysia, Colombia, Turkey, and Thailand, have achieved a spectacular expansion of their manufactured exports. Third, growing numbers of developing countries are exporting manufactures.

15. Numbers of Developing Countries with Exports of Manufactures over Selected Values, 1965-75
(At 1975 prices)

Manufactured Exports Over	1965	1970	1975
US$2 billion	0	2	9
US$1 billion	3	6	12
US$500 million	7	11	15
US$200 million	12	15	25
US$100 million	18	22	40

Note: The numbers of countries in each category are cumulative. For example, in 1975, nine countries had exports over US$2 billion; a further three had exports over US$1 billion, making a total of twelve countries in this category.

Two groups of countries have fared poorly. Some of the older established exporters of manufactures such as India have increased their exports relatively slowly, and their share in the total manufactured exports of developing countries has declined substantially. Industrialization policies in these countries have relied heavily upon import substitution, with attendant disincentives to exports. Most of the Sub-Saharan African countries' manufacturing sectors are still quite small and unsophisticated, and their manufactured exports have risen much more slowly than those of other developing countries.

The growth of manufactured exports has helped many developing countries to diversify the composition of their exports, reducing their dependence on primary commodities. Within the category of manufactured exports, the expansion has been accompanied by further diversification out of textiles and into clothing, electronics, and machinery. Furthermore, developing countries have also been able to diversify their primary commodity exports: while in 1960 nearly half of the developing countries depended on a single product for 50 percent or more of their total export earnings, by 1975 less than a fifth of them did so.

The growth in export volumes of the developing countries has been accompanied by changes in their terms of trade that have eroded the import purchasing power of their export earnings.[3] The prices of agricultural commodities (especially tropical beverages and agricultural raw materials) declined through the 1950s and early 1960s relative to the prices of manufactured exports of industrialized countries. The relative prices of minerals and metals have fluctuated widely, with no clear trend. The quadrupling of oil prices in 1973 produced a sharp improvement in the terms of trade for net exporters of oil, while it worsened the terms of trade for all other developing countries. The net effect of these factors was that the terms of trade for many developing countries deteriorated not only during the 1950s but also in the early 1970s. The deterioration was particularly severe for the poorest countries, further limiting the benefits they have derived from the expansion of world trade.

16. Developing Countries: Changes in the Purchasing Power of Exports, 1960-75
(Percent per year)

	Changes in Terms of Trade	Growth of Purchasing Power
Low Income Countries	−0.2	0.7
Middle Income Countries	1.9	7.0

[3]Movements in the terms of trade have long been the subject of controversy. It is widely recognized that generalizations about long-term declines using the early 1950s as the base period are potentially misleading, since the terms of trade facing developing countries were abnormally favorable in those years, partly because of the commodity boom associated with the Korean War.

Capital Flows

Flows of capital to the developing countries on both concessional and market terms have played a crucial role in supplementing their import and investment capacity. The past twenty-five years have seen the establishment of bilateral aid programs in virtually all industrialized countries and a growing volume of increasingly concessional assistance. The number of international agencies concerned with various aspects of development has increased, as have the resources channeled through them to the developing countries.

However, despite the growth of institutions and the rapid expansion of aid flows in the 1950s and early 1960s, resource transfers on concessional terms have fallen considerably short of expectations, of need, and of the capacity to use them effectively. The target for the United Nations' First Development Decade was to transfer 1 percent of the GNP of industrialized countries in the form of aid and private investment. Subsequently, a target of 0.7 percent of GNP was accepted for aid flows only. While Official Development Assistance (ODA) to developing countries from members of the Development Assistance Committee of the OECD increased rapidly in the 1950s from its low initial levels, in the 1960-75 period its real growth was only 1.4 percent a year. Aid flows as a percentage of donors' GNP declined to less than half of the target of 0.7 percent by 1975. The poorest developing countries, particularly the large South Asian countries, were the ones worst affected by the slow growth of these flows.

International lending at market terms, from private and public sources, has evolved quite differently. It grew quickly in the late 1960s but expanded dramatically after 1973, as the surpluses of OPEC countries were channeled to developing countries to sustain investment levels and finance balance of payments deficits.

Because of the more rapid growth of lending from private sources than from official sources, the maturity structure of the developing countries' debt has deteriorated. Most of the increase in private lending has gone to the Middle Income countries and has consisted of medium-term Eurocurrency loans. The access of the developing countries to the international bond market has remained extremely limited.

Private direct investment in developing countries has grown at an annual rate of about 6.5 percent in real terms since 1960, and has accounted for a significant share of the total capital flows to many countries. However, it has mainly been directed to manufacturing industries in Middle Income countries and to mineral development. Almost half has gone to Latin America. Private direct investment has also been an important channel for the transfer of technology and the introduction of more modern management techniques.

Tourism and Remittances

A by-product of the growing prosperity in the industrialized countries has been the growth of tourism and the temporary migration of workers from developing to more developed countries, yielding substantial remittances of foreign exchange. Revenues from tourism reached almost 1 percent of the aggregate income of developing countries in 1975. For some countries, tourism revenues are a very important source of income and foreign exchange: they amounted to over 3 percent of GNP in 16 countries in 1975, including Egypt, Jamaica, Jordan, Kenya, Mexico, Morocco, Trinidad and Tobago, and Tunisia. In over 20 countries, they were equivalent to over 10 percent of the earnings from exports of merchandise.

The net flow of workers' remittances was of about the same magnitude as tourism receipts. Remittances received by six major exporters of labor to Western Europe (Algeria, Greece, Morocco, Tunisia, Turkey, and Yugoslavia) reached an estimated US$5 billion in 1975, the equivalent of a quarter of the total exports from these countries. Remittances to countries that are the major suppliers of workers to the Middle East (Egypt, Jordan, India, Pakistan, Syria, Yemen Arab Republic, and the People's Democratic Republic of Yemen) have been growing very rapidly in recent years. By 1975, they had already reached US$1.5 billion and are estimated at US$2.8 billion in 1976.

Conclusions

In the face of rapidly growing populations, the substantial progress of the past twenty-five years in accelerating growth, modernizing economies, and raising living standards has been neither sufficiently fast nor sufficiently broad-based to reduce the numbers in absolute poverty. This is despite the fact that during this period some of the easier opportunities for increasing output have been used up. For example, part of the agricultural growth in the past has been based on bringing unused land into production and drawing on the existing stock of technical knowledge in agriculture. Furthermore, even if trends in reducing fertility remain favorable, the population in developing countries is likely to reach 3.5 billion by the year 2000, compared with 2.1 billion in 1975.

The most important requirement for progress in alleviating poverty is the acceleration of growth in the Low Income countries, which in the past have grown only half as fast as the Middle Income countries. In both groups, it will be necessary to maintain high levels of saving and investment. The scarcity of resources to deal with the most urgent problems of poverty, malnutrition, and disease is most acute in the Low Income countries, where there is constantly a difficult choice between investment to increase future production capacity and expenditures to meet urgent consumption needs.

The past, of course, is not a clear guide to future development strategies. The successes and failures have occurred in a wide variety of physical settings, initial conditions, and policy environments. While some general lessons stand out, many of the interactions between growth and poverty, between income and population growth, and between incentive systems for producers and increases in output, remain unclear. Even more uncertain is the possible nature and rate of change of social structures, and the impact of social change on output and its distribution.

With their expanding industrial capacity, the developing economies can no longer be viewed as simple suppliers of primary products. The growth of modern industry has been accompanied by an increasing capability for product design and development. The developing countries are now a substantial market for exports from the industrialized countries. The growth of this market has been sustained by the developing countries' ability to borrow in international capital markets; and their capacity to service their debt depends on the foreign exchange generated by their exports, most of which are still sent to the industrialized countries. These structural relations are as important for their future prospects as the changes which have occurred in their domestic economies.

The rapid growth of international trade and capital flows has made a vital contribution to the substantial achievements of developing countries. However, not all countries have benefited equally. Those with trade-oriented economies have been able to exploit the favorable opportunities for expanding exports, and a growing number of Middle Income countries have gained access to international capital markets. But in the poorer countries, which depend on Official Development Assistance for all or most of their capital requirements, the very slow rise in the supply of these funds has seriously hampered their growth.

The issue for the future is whether the international environment will continue to be as supportive of development as in the past twenty-five years. The following chapters explore the prospects for the developing countries, beginning with a discussion of the fundamental policies affecting the evolution of the world economy.