World Development Report, 1980

Part I Adjustment and growth in the 1980s
Part II Poverty and human development
Annex World Development Indicators

The World Bank

World Development Report 1980

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Foreword

This third *World Development Report* is published at a time of difficulty and uncertainty for the world economy—particularly for the developing countries. They must adjust to external payments imbalances, higher energy prices and slower growth in world trade. That adjustment will slow their growth for at least the next few years. There is much that they themselves can do to ease the slowdown and to speed the expected subsequent recovery. But the burden of adjustment must be shared: the industrialized and centrally planned countries and the principal oil exporters also have a major role to play.

The first part of this *Report* is primarily about the economic policy choices facing both developing and richer countries and about the implications of these choices for growth. The outlook for growth that it discusses is a cause for deep concern—particularly for low-income countries and, among them, for the countries of Sub-Saharan Africa. More generosity and initiative in the provision of concessional aid by richer countries is urgently needed.

It is vital, moreover, that successful adjustment should not unduly sacrifice either the current living standards of the poor or the measures needed now to reduce poverty in the future. Growth is vital for poverty reduction, but it is not enough. The second part of the *Report* reviews other ways to reduce poverty, focusing on human development, an important complement to the approaches to poverty alleviation emphasized in the two previous *World Development Reports.*

Human development—education and training, better health and nutrition, and fertility reduction—is shown to be important not only in alleviating poverty directly, but also in increasing the incomes of the poor, and GNP growth as well. The vital message is that some steps we all have long known to be morally right—primary education, for example—make good economic sense as well.

The laudable objectives of human development, though, are far from easy to achieve. Nor are they without cost. The *Report* draws on years of World Bank experience—in the analysis of projects, sectors and national economies, and in research—to examine the causes and effects of progress in human development and what it takes to implement successful programs in this area.

While there is now increasing recognition that growth does not obviate the need for human development and other steps to reduce poverty, it must be stressed that the converse is true as well—direct steps to reduce poverty do not obviate the need for growth. This *Report* emphasizes that the direct attack on poverty, if it is ultimately to be successful, must be combined with measures to ensure that the economies of the developing countries continue to expand. The active support of the richer nations is required to assist this process through the provision of capital and technical knowledge and through the opening of their markets to developing-country exports. There is a real risk that the domestic economic problems of these richer countries will cause them to give inadequate attention to the immense problems of the developing world, and to the hardships that narrow or short-sighted policies—in energy, trade and financial assistance—can inflict.

This *Report* reflects the work of many of my colleagues in the World Bank. The judgments expressed do not necessarily reflect the views of our Board of Directors or the governments they represent. As in previous years, the *Report* includes the World Development Indicators, which provides tables of social and economic data for more than 100 countries.

Robert S. McNamara

This report was prepared by a team led by Paul Isenman and comprising Nicholas Hope, Timothy King, Peter Knight, Akbar Noman, Rupert Pennant-Rea and Adrian Wood. The Economic Analysis and Projections Department prepared the data and projections used in Chapter 2 and in the World Development Indicators. The authors would like to acknowledge the substantial help received from many contributors, reviewers and support staff. The work was carried out under the general direction of Bevan Waide and Hollis Chenery.

Definitions

Country groups in the analytical framework of this *Report* are as follows:

- *Developing countries* are divided, on the basis of 1978 gross national product (GNP) per person, into: *low-income countries*, with a GNP per person of US$360 and below; and *middle-income countries*, with a GNP per person above US$360. The countries in each group are shown in the tables of the World Development Indicators beginning on page 105.
- *Oil-exporting developing countries* comprise Algeria, Angola, Bahrain, Bolivia, Brunei, Congo, Ecuador, Egypt, Gabon, Indonesia, Malaysia, Mexico, Nigeria, Oman, Syria, Trinidad and Tobago, Tunisia, Venezuela and Zaire.
- *Capital-surplus oil exporters* comprise Iran, Iraq, Kuwait, Libya, Qatar, Saudi Arabia and United Arab Emirates.
- *Oil-importing developing countries* comprise developing countries not classified as oil-exporting developing countries or capital-surplus oil exporters.
- *Industrialized countries* are the members of the Organisation for Economic Cooperation and Development, apart from Greece, Portugal, Spain and Turkey, which are included among the middle-income developing countries.
- *Centrally planned economies* comprise Albania, Bulgaria, China, Cuba, Czechoslovakia, the German Democratic Republic, Hungary, the Democratic Republic of Korea, Mongolia, Poland, Romania and the USSR.

Organisation for Economic Cooperation and Development (OECD) members are Australia, Austria, Belgium, Canada, Denmark, Finland, France, the Federal Republic of Germany, Greece, Iceland, Ireland, Italy, Japan, Luxembourg, the Netherlands, New Zealand, Norway, Portugal, Spain, Sweden, Switzerland, Turkey, the United Kingdom and the United States.

The OECD Development Assistance Committee (DAC) comprises Australia, Austria, Belgium, Canada, Denmark, Finland, France, the Federal Republic of Germany, Italy, Japan, the Netherlands, New Zealand, Norway, Sweden, Switzerland, the United Kingdom, the United States and the Commission of the European Community.

The Organization of Petroleum Exporting Countries (OPEC) comprises Algeria, Ecuador, Gabon, Indonesia, Iran, Iraq, Kuwait, Libya, Nigeria, Qatar, Saudi Arabia, the United Arab Emirates and Venezuela.

Economic and demographic terms are defined in the technical notes to the World Development Indicators on pages 158 through 165.

Billion is 1,000 million.

Tonnes are metric tons (1,000 kilograms).

Growth rates are in real terms unless otherwise stated.

Symbols used in the text tables are as follows:

.. Not available.
(.) Less than half the unit shown.
n.a. Not applicable.

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1 Introduction

Developing countries start the decade facing two major challenges. First, they must strive to continue their social and economic development in an international climate that looks less helpful than it did a decade—or even a year—ago. Second, they must tackle the plight of the 800 million people living in absolute poverty, who have benefited much too little from past progress. This *Report* examines some of the difficulties and prospects in both areas, looking as far ahead as 2000, but paying particular attention to the next 5 to 10 years.

One of its central themes is the importance of people in development. Adam Smith's observation that the prosperity of a nation is determined mainly "by the skill, dexterity, and judgment with which its labor is generally applied" has lost none of its truth. In the difficult economic conditions of the past six years, as in earlier years, most of the fastest-growing developing countries without oil have had well-educated populations. Better health and more education can also help the poorest people climb out of their poverty.

The economic outlook

As in the two previous *World Development Reports,* economic projections for the developing countries have been carried out, drawing on the World Bank's analysis of what determines country and regional growth. These projections are intended to illustrate the likely outcome of different policies, rather than to provide precise forecasts. Two sets of projections are presented in Chapter 2, based on differing growth rates in the industrial world and policy responses in developing countries. This year the analysis has been extended to provide separate estimates for oil-importing and oil-exporting developing countries, as well as by region and income level.

The analysis indicates that world economic growth will be sluggish during the next few years, as oil-importing countries reduce their current account deficits and adapt to higher energy costs. But the policies adopted during the adjustment period will have some effect on growth then—and even more on the recovery expected after 1985.

International finance will play a crucial role in the 1980s: unless the developing (and other oil-importing) countries can fund their large projected balance-of-payments deficits, output and growth will be seriously affected. The domestic policies of developing countries will also be crucial: the more efficiently they use their imports, their investments, and their energy supplies, and the more they increase their saving and investment, the faster will be their growth. The fate of poor people in developing countries will likewise be decided largely by domestic opportunities and policies.

None of this, though, detracts from the importance of the role of industrialized countries. Chapter 3 examines three of the economic links that bind the world together—trade, energy and capital flows—and analyzes the fundamental issues in these areas, issues that must be resolved chiefly by the industrialized countries. Because they take about 65 percent of developing country exports, their growth rates and trade policies largely determine how much the developing countries can export. Because they account for more than half of world energy consumption, it is their conservation (or lack of it) that has the biggest impact. And most of the foreign capital that the developing countries need must come through the industrial world's banks or directly from its aid programs.

The role of human development

The past three decades have seen some impressive changes in the lives of people in the developing world. Average incomes have doubled. Average life expectancy has increased from 42 to 54 years. The proportion of adults who are literate has risen from about 30 percent to more than 50 percent. There has been a significant closing of the gap between industrialized and developing countries in life expectancy, literacy and primary school enrollment.

But there is still a long way to go. More than three-quarters of a billion people have barely enough income to keep themselves alive from week to week. In the low-income countries people on average live 24 years less than they do in the industrialized countries. Some 600 million adults in developing countries are illiterate; a third of the primary school-age children (and nearly half of the girls) are not going to school.

This state of affairs is the starting point for Part II of the *Report*. Chapter 4 provides an overview of the various ways of attacking absolute poverty. The sources of growth, and policies to accelerate it, are examined, as are a wide range of measures—employment creation, land reform, schooling and so on—to raise the incomes specifically of poorer groups.

The rest of the *Report*, beginning with Chapter 5, singles out for closer examination one particular approach to poverty—human development—which epitomizes the familiar idea that poor people should be helped to help themselves. Better education, health and nutrition have long been considered important ends of development. They can also raise incomes and reduce fertility. Human development alone cannot overcome absolute poverty; but it is an essential complement to other steps to raise the productivity and incomes of the poor.

Chapter 5 provides a detailed look at education, health, nutrition and fertility. In each of these areas, it explains why the poor are deprived, and discusses the policies needed to overcome their deprivation. Special attention is given to the practical consensus that has recently emerged in several areas—including nutrition policy, primary health care and the role of family planning programs in reducing fertility. These different areas of human development influence each other; education is seen to be of central importance.

Chapters 6 and 7 draw conclusions from experience with human development programs. Chapter 6 shows how common financial, administrative and political constraints have been eased, and considers the role of foreign assistance. It also looks at ways of overcoming the cultural and economic barriers that stop poor people and their children—especially their daughters—from using human development services.

Chapter 7 focuses on broader planning issues—including the tradeoffs between growth and poverty reduction, and the allocation of resources between human development and other activities. It examines these and more specific human development issues as they apply to the different regions of the developing world. Chapter 8 contains a summary of the main arguments and conclusions of Parts I and II.

Part I Adjustment and growth in the 1980s

2 The outlook for developing countries

World economic prospects have deteriorated since last year's *World Development Report* was published.

- The real price of oil is likely to be at least 80 percent higher in 1980 than in 1978. As a result, capital-surplus oil-exporting nations will run current account surpluses of around $110 billion this year and oil-importing developing countries deficits of more than $60 billion.[1] This prospect revives questions about the international financial system's ability to recycle enough funds—to industrialized and developing countries—to maintain import levels and economic growth rates. Furthermore, the real price of energy can be expected to rise during the 1980s.
- For reasons only partly connected with higher oil prices, the outlook for growth in the industrialized countries and in world trade has worsened. The widespread resurgence of inflation in 1979 and 1980 has prompted governments to take strong deflationary measures; the industrial economies are expected to show only sluggish growth in 1980 and 1981. This inevitably slows their demand for developing countries' exports. The 1980s are thus off to a slower start than anticipated a year ago.

Given these two developments, the world faces the need to adjust—to payments imbalances and expensive energy—on a scale comparable to 1974–75. But the adjustment must take place at a time when the outlook for capital flows—especially aid for the poorest nations—is worse than before. This adjustment will be spread over several years; while it lasts, the world economy and most developing countries are likely to grow more slowly than in the 1970s. Provided the adjustment is successful, a significant recovery should be possible from the mid-1980s onward.

Higher oil prices have clearly improved the prospects of those developing countries with oil to export, where a fifth of the developing world's population lives. Their GNP per person grew 2.8 percent a year in the 1960s, compared with 3.1 percent for the oil-importing developing countries; but in the 1970s the oil exporters accelerated to an annual 3.5 percent growth, while the oil importers slowed to 2.7 percent. (The disparity was even larger when GNP is adjusted for changes in the purchasing power of their exports—see box overleaf). With much increased oil revenues, at least for the first half of the 1980s, the oil exporters' growth will be constrained more by the productivity of domestic investment than by their ability to borrow abroad.

Adjustment for oil-importing countries

All oil importers, developing and industrialized alike, face a central challenge over the next few years—to adjust to higher oil prices and sluggish world trade while minimizing their loss of growth. They are subject to a formidable constraint: their ability to import more has declined, both because imports (particularly of energy) are more expensive and because the export outlook has deteriorated. These countries went through a similar adjustment in 1974–78, and there is much that can be learned from this earlier experience.

The adjustment process has two stages. First, when there is a sudden increase in the cost of imports relative to export earnings, countries squeeze imports—and so growth slows sharply. Because too sharp a fall is disruptive, both economically and politically, countries accept large current account deficits and finance them from borrowing or aid. During the earlier adjustment period the current account deficit of oil-importing developing countries rose sharply—from 2.3 percent of their GNP in 1970 to 5.1 percent in 1975; from 1978 to 1980 it went from 2.3 percent to 3.9 percent. Growth is falling off in these countries in 1980, but less sharply than in 1975 (see Figure 2.1).

The second stage is to reduce these current account deficits to levels that can be financed over the medium term. At the same time output and trade must be restructured to meet the new circumstances. This structural change requires heavy investment. New

1. See page viii for definitions of country categories.

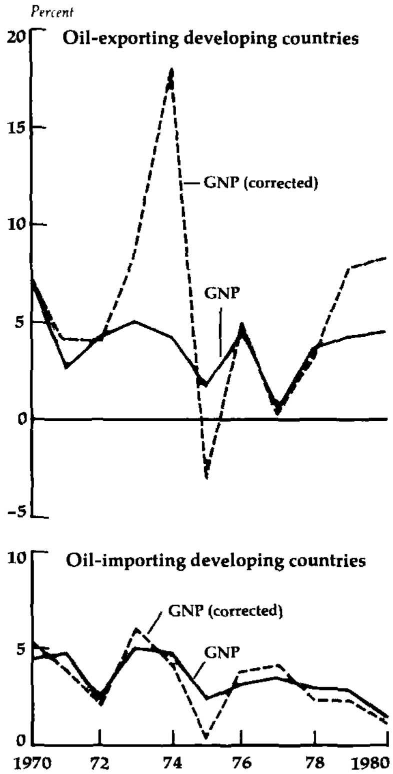
GNP and trade prices

When a country's terms of trade shift substantially, changes in national product in constant prices do not accurately reflect changes in its purchasing power. The volume of imports that can be bought with a given volume of exports will rise if the terms of trade improve, fall if they deteriorate. There is no generally accepted way of measuring these changes in purchasing power; but a rough measure is obtained if export earnings are expressed in terms of the imports that they will buy—and any gain or loss is added to GNP.

Among the developing countries, the oil exporters and oil importers provide a vivid example of the difference such an adjustment can make to the apparent benefits of GNP growth. In 1974, the year oil prices rose most sharply, the oil exporters' output (as measured by their GNP per person in constant prices) rose 4.4 percent; but their "corrected" GNP rose 18 percent (see figure). That was exceptional: gains and losses from terms-of-trade changes are typically much smaller. But for the 1970s, the adjusted annual average GNP growth of 11 major oil-exporting developing countries was 2.4 percentage points higher than for 25 major oil importers, compared with 0.2 percentage points if the adjustment is not made.

Terms-of-trade effects are caused by a variety of factors: with the correction, the GNP of oil importers grew significantly more slowly than without it—in 1971, for example, long before oil prices rose. The reason was that commodity prices were depressed; two years later they were booming, and the correction augmented the growth rate.

Terms-of-trade effects on growth of GNP per person, 1970–80
(1977 prices)



energy sources must be developed and energy conserved, and in industrialized and developing countries declining or inefficient industries have to be replaced by competitive ones. So growth can pick up during the second stage, but it is still slowed by the continuing need for adjustment.

Slower growth compounds the political difficulties that can arise when governments pass on world price increases to consumers, particularly to politically powerful urban consumers, or cut back on public services. No less important, governments are concerned that rapid increases in the price of basic imported goods can cause severe hardships for the poor. These constraints can prolong the adjustment period. And there is a need to strike a balance between investments with a short-term payoff and those, such as infrastructure or education, which are vital for longer-term growth.

Judged against initial pessimism about their ability to adjust, the developing countries generally confounded expectations in 1974–78. In 1974 and 1975 their growth rates fell less than those of industrialized countries (Figure 2.1), helping to moderate the slowdown in world trade growth. Their adjustment was helped by substantial increases in official aid and other capital and by borrowing a significant part of the oil producers' recycled surpluses. Nonetheless, the result of these efforts was slower growth: in 1975–78, GNP per person in the oil-importing developing countries grew 2.3 percent a year—above the 0.8 percent in the 1975 trough, but still well below the 3.7 percent average for 1965–73. And some countries experienced serious fiscal and external debt problems. The poorest African countries were the biggest cause for concern; their GNP per person grew 1.6 percent a year in the 1960s, but only 0.2 percent in the 1970s. On average their people are as badly off at the end of the decade as they were at the beginning.

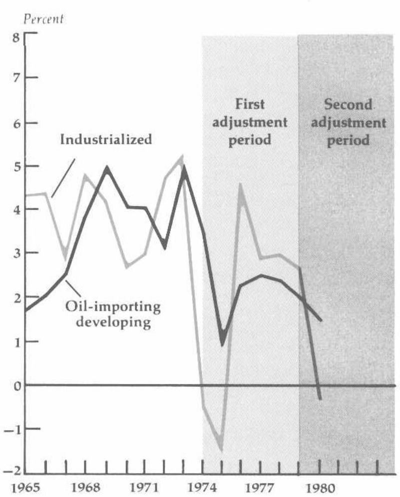
The oil-importing developing countries that coped best during the earlier adjustment period were:

- Those that reacted to the decline in their import capacity by a temporary slowdown in growth accompanied by a drive to expand exports. Import capacity (and hence output growth) was restored quickly. Most of these countries had grown rapidly and diversified their exports during the previous decade; a good example is Singapore.
- Those that, while maintaining import growth by foreign borrowing, used the borrowed funds mainly to sustain high levels of productive investment—including Brazil and South Korea.
- Those that benefited from good harvests resulting from improved agricultural policies and favorable weather (such as India) or rising migrant remittances (such as the Yemen Arab Republic).

Several of the developing countries that improved their economic policies and did well during six difficult years had previous records of slow growth and poor economic management: for them, improved domestic efficiency went a long way toward offsetting the effects

Figure 2.1 Growth of GNP per person: industrialized and oil-importing developing countries, 1965–80

(1977 prices)



of a deterioration in the world economy. And they are now much better placed to weather the current slowdown and recover in the 1980s.

The 1970s have shown that success in adjustment should be measured not just by the volume of recycling, or the share going to developing countries, or the reduction of developing-country deficits to affordable levels.These are all important, but they must be viewed in the context of the growth that the developing countries achieve. A key factor in that growth is the performance of the industrialized countries; in the 1970s their erratic growth and incomplete adjustment had a depressing effect on the oil-importing developing countries (Figure 2.1).

Adjustment in the 1980s

As in the 1970s, the adjustment required can be seen from both global and domestic viewpoints. Globally, the oil importers' deficits are the counterpart of the surpluses of the capital-surplus oil exporters. Although each oil-importing country has powerful reasons for wanting to expand exports and restrain imports, they cannot all succeed simultaneously while the oil surpluses persist. The attempt to do so through uncoordinated domestic deflationary policies (especially if augmented by protectionism) will slow world economic growth even more. Because of their weight in the world economy, the industrialized countries in particular should maintain import growth—recognizing that this may involve large payments deficits.

On the domestic front, adjustment in the 1980s should benefit from the knowledge gained from experience. Moreover, it is now apparent that higher real energy prices are here to stay; so there is more incentive to take the difficult steps necessary to conserve energy and to develop domestic energy production. A number of countries that were large oil importers in 1973 are now projected to come close to self-sufficiency in the 1980s (for example, Pakistan and Colombia) or be major exporters (such as Mexico).

Unfortunately, however, there are several reasons why this adjustment may prove more difficult for many countries than the 1974–78 adjustment was.

- Some developing countries did not adapt effectively during the 1970s, and ended up with high debt-service obligations or slower growth (and in some cases both). In addition, many countries now have less room than before to squeeze either energy consumption or imports without reducing growth. In some countries (India and Tanzania, for example) shortages of fuel have already impeded the transport of food and other key commodities.
- Oil surpluses could stay at a high level for longer—both because more conservative development programs among the oil producers may boost imports less rapidly than in the 1970s, and because the real price of oil is likely to rise, not fall as it did in 1974–78.
- The prospects for capital flows are less favorable. Official finance—including aid—which played an important role in 1974–75 is not yet responding to developing countries' needs; commercial borrowing is likely to cost more; and both borrowers and lenders are likely to be more cautious. In addition, more of what is borrowed will have to be used for repayments of principal and interest on old debt (see page 25).
- The industrialized economies face more serious difficulties than in the mid-1970s, when adjustment tended to be viewed as a phase from which they would quickly recover. But the growth of the 1960s and early 1970s has not been regained; and although their slowdown may not be as marked in 1980–81 as in 1974–75, no quick recovery can be expected.

The current economic malaise of the industrialized countries results from much more than higher energy prices. Inflation in some of them is running several percentage points above its peak in 1974; they have plainly decided that it must come down and stay down before rapid growth can be resumed, and that deflationary measures are the best way of achieving this. There are question marks, too, over their long-term growth potential. Productivity growth has slowed sharply: on average it increased 3.9 percent a year in 1963–73, but only 1.7 percent a year since 1973. This stems from a complex of factors—among them, incomplete adjustment to higher energy costs, sluggish investment and a mismatch of skills in the labor market—that cannot be rectified quickly or easily.

Overall, even with a well-directed policy response by all countries,

Table 2.1 Summary of prospects for growth
(average annual percentage growth, 1977 prices)

Country group	Population 1980 (millions)	GNP per person, 1980 (1977 dollars)	Growth of GNP (High case) 1980–85	Growth of GNP (High case) 1985–90	Growth of GNP per person 1970–80	Low case 1980–85	Low case 1985–90	High case 1980–85	High case 1985–90
Low-income oil importers	1,133	168	4.1	4.6	0.9	1.0	1.3	1.7	2.4
Sub-Saharan Africa	141	186	3.1	3.8	0.2	−0.3	0.1	0.1	1.1
Middle-income oil importers	701	1,275	4.9	5.7	3.1	2.0	2.4	2.6	3.5
Oil exporters	456	753	6.3	5.9	3.5	3.0	3.0	3.5	3.4
Industrialized countries	671	7,599	3.3	4.0	2.4	2.5	2.5	2.8	3.5

Note: For more detail, see Table 2.8 and Table SA.1 in the statistical appendix to Part I.

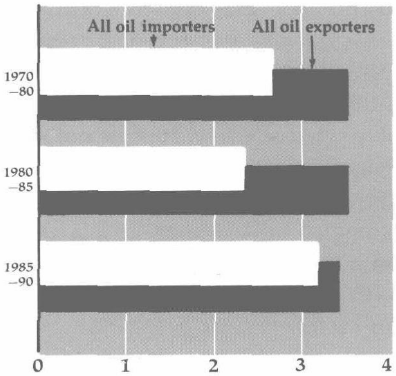
growth in the oil-importing developing countries is likely to be significantly slower in 1980–85 than in the 1970s—and still further below the average in the 1960s.

Key factors affecting growth: 1980–85 and 1985–90

To help analyze the outlook, two sets of illustrative projections have been prepared. Designated Low and High, they are based on alternative policy responses to current economic difficulties. Each scenario is internally consistent with respect to policies and outcomes. The Low case shows an unsuccessful adjustment in 1980–85; though payments imbalances are reduced, growth remains depressed, and inadequate foundations are laid for recovery after 1985. The High case represents a much more successful adjustment, with growth slowing less in 1980–85 and accelerating more thereafter (see Figure 2.2).

Figure 2.2 Developing countries' growth of GNP per person, 1970–90 (High case)

(average annual percentage growth, 1977 prices)



Because of the differences in growth rates between oil-importing and oil-exporting developing countries, estimates for them are shown separately (see Table 2.1). The projections of this *Report* are not directly comparable to those of last year's, but they represent a substantial fall in growth expectations for the oil importers over the next five years.[2]

The oil exporters have buoyant prospects throughout the decade (see Table 2.1). But the oil importers will grow more slowly in 1980–85 than in the 1970s, even in the High case; with a successful adjustment and a strong revival in world trade after 1985, their growth should accelerate in 1985–90. By contrast, their recovery would be weak in the Low case. Sub-Saharan Africa has the most disturbing outlook. Even in the High case, its growth in 1985–90 would be a meager 1 percent per person—far below the average for the oil importers; and in the Low case average incomes would actually be lower in 1990 than they were in 1980.

Whether the outcome will be closer to the High or the Low case will depend on the policies pursued by industrialized countries, the capital-surplus oil exporters and the developing countries themselves. At this early stage in the adjustment process, it is unclear how successful their policies will be in restoring growth, for the world as a whole or for developing countries. The estimates this year should therefore be treated with more than usual caution. But there are some disturbing signs that the seeds of the Low case are already being sown: on current prospects, aid for low-income countries is far from certain to meet the modest requirements of the High case, and some middle-income countries are experiencing both debt and political difficulties.

Thus, without a strong policy response during the adjustment period, the Low case is the likelier outcome. And a number of factors, including serious political instability, major problems in capital markets or a breakdown of world economic cooperation, could bring about a much worse outcome.

But the High case remains achievable—depending on policies in four key areas: the growth and structure of international trade; the changing pattern of energy

2. The projections of this *Report* differ from those of last year's for several reasons. For example, only two sets of projections have been prepared—a Low case, which is comparable to last year's Low case, and a High case, which is closer to last year's Base case than its High case. In addition, Iran and Iraq are now included among capital-surplus oil exporters; and improvements in data have led to revisions of some historical aggregates.

production and consumption; investment and productivity in the developing countries; and the inflow of capital. (A broader view of the determinants of economic growth —including the effects of human resources—is discussed in Chapter 4.) In each area, the emphasis is on what is required to increase growth; policy prescriptions are discussed in Chapter 3.

International trade

With slow growth expected in the industrialized countries in 1980-81 and with much larger current account deficits for all the oil-importing countries, world trade growth will slow from the 5.5 percent a year it averaged in the 1970s. But if, as the High case assumes, the industrialized economies are able to average GNP growth of 3.3 percent a year in 1980-85—see Table 2.1—and if further protectionism is avoided, world trade could rise by an averge of 5.2 percent a year in 1980-85 (see Table 2.2). Thereafter, with the industrialized countries' GNP projected to grow 4.0 percent a year in 1985-90, it should accelerate. Exports of developing countries could expand at 6.4 percent a year in 1985-90, compared with 5.5 percent in 1980-85.

As with growth, the trade outlook differs sharply between oil exporters and oil importers—underlining the important effects of terms-of-trade changes. In the 1970s export volume for oil-exporting developing countries grew at about two-thirds the rate of that of the oil importers; but because the price of their exports rose so much faster, their import volume was able to grow twice as fast. For the capital-surplus oil exporters, the terms-of-trade benefits were even greater.

Although the terms of trade of the oil-importing developing countries are not projected to deteriorate markedly in the 1980s, exports will still have to grow faster than imports in 1980-85 to reduce current account deficits. But for low-income oil importers, and especially Sub-Saharan Africa, exports could grow more slowly in 1980-85 than in the 1970s—underlining their need for foreign assistance to maintain their import capacity. With a strong recovery of world trade in 1985-90, their export prospects would improve and export growth could exceed that of imports.

If the High case is achieved, the share of developing countries in world trade would increase from 20.1 percent in 1977 to 21.3 percent in 1990 (see Table 2.3). The structure of their trade could change more dramatically, with exports of manufactures growing about two and a half times faster than nonfuel primary exports. As a result, developing countries' exports of manufactured goods would rise from 24 percent of their total exports in 1978 to 39 percent in 1990 and from 10 percent to 14 percent of world manufacturing trade.

The biggest gains are likely to be in machinery and transport equipment (from 6 to 16 percent of developing country exports), in which Brazil, India and South Korea, for example, have become increasingly competitive in international markets. The developing countries' importance as markets for the industrial world would also increase: in 1978 they and the capital-surplus oil exporters already accounted for

Table 2.2 Growth of exports and imports, 1970-90 (High case)
(average annual percentage growth rates, 1977 prices)

	Exports[a]			Imports[a]		
Country group	*1970-80*	*1980-85*	*1985-90*	*1970-80*	*1980-85*	*1985-90*
Oil-importing developing countries	5.6	5.7	6.8	4.6	4.7	6.3
Low-income	2.6	0.9	3.7	0.1	2.1	2.8
Middle-income	5.9	6.1	7.0	5.2	4.9	6.5
Oil-exporting developing countries	3.5	4.6	4.5	8.6	7.6	6.3
All developing countries	5.1	5.5	6.4	5.4	5.4	6.3
Industrialized countries	6.0	5.4	5.8	4.8	4.3	5.3
Capital-surplus oil exporters	2.7	1.8	2.0	21.1	10.9	7.3
Centrally planned economies	6.6	5.1	5.2	8.1	5.8	5.2
World	5.6	5.2	5.7	5.8	5.2	5.7

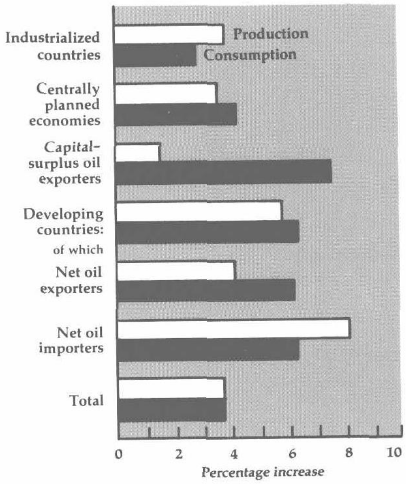
a. Goods and nonfactor services except for centrally planned economies, for which net nonfactor services are included as net exports.

Table 2.3 Percentage shares in world exports of goods and nonfactor services (High case)
(1977 prices)

	Primary commodities		Fuels		Manufactures		Nonfactor services		Total	
Country groups	*1977*	*1990*	*1977*	*1990*	*1977*	*1990*	*1977*	*1990*	*1977*	*1990*
Developing countries	35.0	34.0	24.2	28.2	10.1	14.3	28.8	30.6	20.1	21.3
Industrialized countries	55.6	56.5	16.0	19.3	79.6	76.3	67.7	65.6	62.9	65.6
Other countries	9.4	9.5	59.8	52.5	10.3	9.4	3.5	3.8	17.0	13.1
Total	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0

Figure 2.3 Energy production and consumption growth, by country group, 1980–90 (High case)

(average annual growth, million barrels of oil equivalent per day)



almost a third of North America's exports of manufactures, almost a half of Japan's and a fifth of Europe's.

Energy

Although uncertainty inevitably surrounds the prospects for new energy discoveries, the supply of energy is likely to remain tight during the 1980s. World production of primary energy from all (commercial) sources is projected to increase 3.8 percent a year over the decade (see Figure 2.3)—about the same as the industrialized countries' GNP growth in the High case, but considerably below that of the developing and centrally planned economies. As a result, real energy prices can be expected to rise further—though the rise is likely to be moderated and the energy constraint on growth eased if the industrialized countries achieve progress in both energy conservation and production (Figure 2.3 and Table SA.2 in the statistical appendix to Part I). The working assumption is that real oil prices will on average rise 3 percent a year.

For the industrialized countries, net energy imports (mainly oil, plus gas and coal) are projected to remain at some 20 million barrels a day of oil equivalent (*mbdoe*) throughout the 1980s. Among the developing countries, the oil exporters are expected to increase their energy exports by a third; some of today's oil importers either will be net energy exporters at some stage during the decade, or will have greatly reduced their energy imports by 1990.

But most developing countries will continue to import much of their energy needs. For all oil-importing developing countries, the "energy gap" under the High case is likely to widen from 5.6 *mbdoe* in 1980 to 6.3 *mbdoe* in 1985 (see Table SA.2). By 1990 the gap would have increased to 7.5 *mbdoe*, even if the countries succeed (as projected) in more than doubling production and restraining consumption growth. Their bill for imported oil for energy use (that is, excluding oil for such things as fertilizer production) would rise in nominal terms from $29 billion in 1978 to some $107 billion in 1985 and about $200 billion in 1990 (Table 2.4). Without a rapid expansion of exports and substantial financial support from abroad, they could find their growth severely constrained by the cost of energy imports. Individual country analysis suggests that oil imports as a percentage of export earnings will rise substantially for many countries from 1980–85, particularly among the low-income countries.

Figure 2.4 Developing countries' savings and investment rates, 1960, 1980 and 1990

(percentage of GDP, current prices)

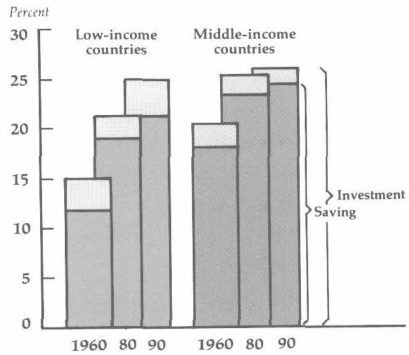


Table 2.4 Net imports of oil by oil-importing developing countries, 1975–90

Oil imports for energy use only	*1975*	*1978*	*1980*	*1985*	*1990*
Volume (millions of barrels of oil per day)	4.9	5.8	5.3	5.8	6.9
Low-income countries	0.4	0.4	0.3	0.3	0.4
Middle-income countries	4.5	5.4	5.0	5.5	6.5
Cost (billions of dollars)	22.1	29.2	57.8	107.2	198.0
Low-income countries	1.8	2.1	3.3	6.0	11.1
Middle-income countries	20.3	27.1	54.5	101.2	186.9
Price per barrel c.i.f.					
Current dollars	12.33	13.70	29.80	50.30	78.30
Constant 1980 dollars	19.60	17.13	29.80	35.10	40.85

Investment and efficiency

Developing countries have raised their savings and investment rates considerably in the past 20 years (see Figure 2.4). Further increases—and, still more important, improvements in the productivity of existing and new investment—can make a major contribution to adjustment and growth, as the experience of the 1970s has shown. Previous *World Development Reports* have discussed the importance of efficiency and policies for promoting it; Part II of this *Report* considers another important element in efficiency—the human factor.

The 1970s have shown which