

# Development and the National Interest:

U.S. Economic Assistance into the 21st Century



A Report by the  
Administrator,  
Agency for  
International Development



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# *Introduction*

This report appears at a time of transition — between Administrations here in Washington, D.C. and between economic eras for much of the rest of the world. From Turkey to the Philippines, Canada to Guinea, New Zealand to Peru, policy makers are reducing trade barriers, selling off state-owned enterprises, repealing government regulations, and otherwise opening their societies to increased opportunities for material and social progress. Even in Communist Bloc countries, some policy makers are acknowledging the failure of central planning and are attempting to work reforms that will allow an increasing role for market forces.

Among the most dramatic developments:

- China has launched massive reforms for freer markets and greater individual opportunity affecting one fifth of the world's population;
- Mexico, so crucial to America's strategic interests, has begun a drive for market-oriented economic growth and privatization;
- The Baker Plan has set a course for tackling the looming problem of developing nation debt through economic reform leading to growth;
- After 30 years of economic disruption and declining living standards, Ghana has launched an enterprise-oriented economic revival.

Underlying this change in thinking is an emerging consensus: the realization that real development must come from the bottom up, not the top down. Earlier ideas that cast governments or ruling elites as the chief source of human progress are being challenged and sometimes even cast aside. In their place, we see a new understanding of "development" — one focused on the efforts of individuals working for their own economic and social improvement, with governments expanding their opportunities, investing in people, and encouraging human development that ensures participation by all economic and social classes.

With this change of ideas comes a corresponding change in our picture of the world's poor. These people are coming to be seen not as trapped, faceless proletarians, but as inspired builders and entrepreneurs, who work to make development happen, often in the face of active policy discrimination against them. This vision of the poor and minorities as "developmentalists" — frequently as a country's truest entrepreneurs and most valuable human capital — has gained great force from studies such as those of Hernando de Soto of Peru,

and the reform-minded initiatives they have generated. It foresees a future which, with suitable policy reforms, may hold the key to sustained progress for even the most hard pressed developing countries.

Against this backdrop of change, this report examines the origins, evolution, successes, and failures of America's contribution to global development as a new Administration enters office, and as a new world of ideas is shaping the future of development.

A few qualifications about scope may be in order here. Our purpose is to focus on emerging issues of development and their impact on American interests. We set out to examine some of the things that work — and some of the things that do not — in the quest for development. Above all, we have asked a number of serious questions about the future, questions that America must answer if we are to continue to be a crucial engine for progress and economic betterment in today's world and tomorrow's. We recognize that the so-called "developing world" is actually a vast array of individual nations, cultures, and people; that both problems and solutions are diverse, must be approached on a case by case basis, and cannot be mastered, single-handedly, by even the most benevolent superpower. We acknowledge the limits of donor nation resources and recognize the impossibility of pursuing a multitude of developmental goals in the same place at the same time. This document seeks to evaluate what has been achieved, and to envision what can best be done to assist millions of men and women around the world who are already dedicating themselves to building better lives. We have written it in a spirit of open-mindedness, following the path where the facts have led, and asking the questions that the facts have raised.

The questions raised here are important ones. Continuing to answer them will require more than the information provided here — it will require a national dialogue involving the legislative and executive branches of government and, ultimately, the American people themselves. We hope this report will provide a basis for such a dialogue.

Answers will not come easily. They will mean rethinking an increasingly outdated conventional wisdom about development. Fostering future development, and making future American development assistance more effective, will require a broad view that is not restricted by factional or bureaucratic interests.

Most of all, it will require a spirit of honest, unbiased inquiry. It is in this spirit that we now offer *Development and the National Interest* to all those who share our commitment to ongoing human development.



Alan Woods, Administrator  
Agency for International Development  
Washington, D.C.

February 17, 1989

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# Development: An Overview

*Develop*, v. To expand or realize the potentialities of; bring gradually to a fuller, greater, or better state.

*The American Heritage Dictionary*

The U.S. has a vital set of political, economic, and humanitarian interests in the so-called developing countries of Latin America, Sub-Saharan Africa, the Middle East, and Asia. Because of this, the U.S. Government has, since World War II, engaged in a series of efforts to promote progress around the world. Such efforts have been justified by geo-political and military considerations. Commercial advantage is another long-standing objective for U.S. Government efforts to promote economic growth abroad. Helping individuals at risk, either from exceptional calamities or from chronic problems of disease or poverty, has also generated U.S. Government activity.

In recent years, a number of new factors have entered the development equation:

- The debt crisis has emphasized anew the need for economic development as both a remedy to LDC indebtedness and the key to improving LDC living standards;
- Threats to the environment in developing countries have become a cause of major concern not only to citizens of LDCs, but to all concerned with the future quality of life;
- The communications revolution has “internationalized” the suffering of famine victims in disparate afflicted regions by heightening global awareness and stirring humanitarian impulses with a speed and intensity impossible in the past; and

- America’s fiscal deficit has brought home the issue of limited resources, even among the world’s wealthiest nations, while stressing the link between economic health at home and economic growth in developing countries.

Before trying to assess whether American efforts on behalf of development elsewhere have been successful, it is important to elaborate on what development is all about.

## Development: A Long-Term Effort

The most striking and sustained case of successful development to date is that of the industrial West. As Nathan Rosenberg and L.E. Birdzell, Jr. point out in *How the West Grew Rich*:

The advanced Western countries completed their escape from poverty to relative wealth during the nineteenth and twentieth centuries. There was no sudden change in their economic output, but only a continuation of year-to-year growth at a rate that somewhat exceeded the rate of population growth... Over a year, or even over a decade, the economic gains, after allowing for the rise in population, were so little noticed that it was widely believed that the gains were experienced only by the rich, and not by the poor. Only as the West’s compounded growth continued through the twentieth century did its breadth become clear. It became obvious that Western working classes were increasingly well off and that the Western middle classes were prospering and growing as a proportion of the whole population.

**Figure 1 - Growth: A Slow, Long-Term Process**

1870-1985, Average Annual Real GDP Per Capita Growth Rate



Source: Fischer (1987)

Development, then, is the process every healthy country, community, and individual undergoes throughout its productive lifetime. The history of each is no more and no less than the charted course of its development. Development is an evolutionary process rather than an overnight metamorphosis, which is why so many forced attempts at great leaps forward have ended in economic and social failure. Demographic realities — accelerated population growth, longer life expectancy, and population aging in most developing countries — in modern times have, however, increased both the rate of change and the pressure for quick solutions.

To understand development — and to understand how better to foster it — a long-term focus is essential. Figure 1 shows that the U.S., Japan, and other countries became developed only by sustaining relatively modest growth rates over the long-term. And Figure 2 shows that this process included short-term downturns as well as equally short-lived spurts of growth.

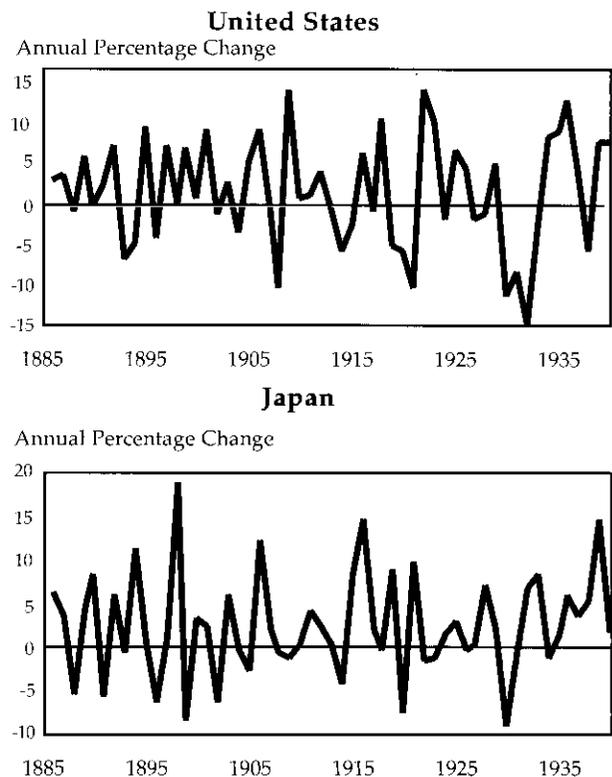
In the short-term, a country's economy can grow by cutting down forests without re-foresta-

tion, farming by denuding the land of topsoil, and mining fixed reserves of oil; economic policies can promote short-term consumption at the expense of productive investments that build a base for future growth. Similarly, a particular project or institution supported by economic assistance can appear to work wonderfully so long as external support lasts, but still leave little trace once aid is ended. A long-term perspective is therefore essential to determining whether apparent development is sustainable or whether in fact some of today's growth undermines tomorrow's prosperity.

Among developing countries, yesterday's success story is often today's problem country — and today's success story may have been yesterday's slow starter. Unexpected fluctuations in the world economy and economic policies have both promoted, and stymied, growth. Two important examples of fluctuating fortunes:

**Figure 2 - Ups and Downs of Growth Process**

Annual Real GDP Per Capita



Source: Mitchell (1983); Ohkawa and Shinohara (1979)

- **1950/60s South America versus East Asian Tigers.** Economic output grew rapidly in the largest South American economies through most of the 1950s and early 1960s. Rapid industrialization was based on high levels of protectionism in countries like Argentina, Brazil, Colombia, Mexico, and Venezuela, where industrial output grew an average of eight percent each year from 1955 to 1965. During this period, economic performance in Korea, Hong Kong, Singapore, and Taiwan was lackluster by comparison; overall economic output per capita started at a far lower base and grew more slowly. At the outset, as Alvin Rabushka has written, the "international community regarded South Korea as the world's foremost 'economic basket case,' with dim prospects for its future." According to the then conventional wisdom, a country like Korea could never hope to match an industrialized Latin American nation like Argentina. By 1985, however, Korean industrial output was more than five times that of Argentina and average

incomes were higher, 1960s predictions notwithstanding. Meanwhile, much of Latin America had become mired in debt and financial crisis, with economic and social indicators slowed, stalled, or actually regressing.

- **Sub-Saharan Africa.** The 1950s and 1960s were a period of rapid economic and social progress in much of Sub-Saharan Africa. This region had the developing world's highest growth rate in per capita food output. Its share of agricultural commodity markets was expanding at the expense of East Asian and South American exporters. Social indicators also registered unprecedented gains. In Ghana and Zambia, for example, infant mortality rates were halved between 1950 and 1970; per capita income tripled. Since then, economic and social problems have destroyed the earlier progress. Average incomes today are actually lower than they were in the 1960s, and social indicators have deteriorated.



**Sustainability: One Island, Two Stories.** An aerial view of the island of Hispaniola taken along the border between Haiti and the Dominican Republic. The Haitian hills (left) have been stripped bare, while farming has taken a more sustainable course in the less densely populated Dominican Republic (right).

Western economic progress did not eliminate poverty, but it was substantially reduced from 90 percent of the population to 20 percent, or less, depending on the country and one's definition of poverty. Precise definitions of poverty are hard to arrive at. Progress feeds expectations; perceptions of poverty depend on who you are and where you live. Most statistically poor American families own cars and televisions, live in heated homes with indoor plumbing, and have access to schools and health care facilities. All these things would be the envy of many rural or periurban citizens in developing countries who would not consider themselves paupers by local standards. In any case, western economic and social development has transformed the way societies perceive poverty. Poverty is no longer viewed as inevitable; it is now seen as correctable.

In the West, economic progress proved a necessary pre-condition to concerns about how resources were distributed. Even more important, growth made it possible for countries actually to do something about poverty. As Samuel Johnson declared in the wake of Britain's 18th century commercial and industrial revolution:

A decent provision for the poor is the true test of civilization...The condition of...the poor...was the true mark of national discrimination (Johnson, 1983).

As will be seen, countries where poverty and Johnson's "decent provision for the poor" have not been successfully addressed are often those where overall economic progress has proven unsustainable. The difference is perhaps most evident in policies towards rural areas in general and small farmers in particular. Countries which have actively discriminated against their farming sectors, or which have merely ignored them, have not fared well. This is most obvious in Sub-Saharan Africa and much of Latin America. Long-term growth successes elsewhere have usually been preceded by major rural development successes; Korea, Taiwan, and more recently, China, are all examples of countries where broad-based economic progress came on the heels of a small farmer-oriented turn-around in the countryside.

Is there a universal definition of progress — one that strikes a common response from citizens

of countries in Latin America, the Near East, Africa, Asia, and, for that matter, the United States? If there is, it is not based on a single elemental value but on an amalgam of social, political, and economic standards. Progress means improvement in one's life and expectations, whether one happens to be a Ghanaian cocoa farmer or a computer programmer in upstate New York.

### **Accelerating Pace of Change**

Today, the global clock is ticking faster than ever before. Technological innovation has created opportunities as well as serious institutional problems and, as will be shown in greater detail in Chapter 2, it has dramatically compressed the time frame needed for some aspects of progress:

- In the West, it took 50 years to halve infant mortality rates in the 19th century. In 20th century Africa, where infant mortality rates were equal to those of the 19th century West, this same improvement took only 20 years.
- Science-based industrial or agricultural technology has increased growth opportunities, as we have seen in agriculture in the Punjab and in the gradual but accelerating rise in productivity — and resulting prosperity — in industries such as textiles and electronics in the Far East.
- The U.S., along with many other land abundant developing countries, sustained economic growth for almost 100 years before the environmental consequences were understood. The first systematic efforts by government to promote sustainable forest and watershed management came 40 years after the beginning of the industrial revolution. Today, many pre-industrial countries already face environmental crises that cannot wait 40 years for solutions.
- One of the reasons for today's environmental problems is that social or political progress has often failed to match the pace of economic or technological growth. Urban-

## Box 1 - Rural Transformation and Human Development

If sustainable economic growth is the true yardstick of development, the desired results of development should be measured in human benefits. The fundamental reference point must be individual quality of life and expanded opportunity and choice. One of the most revolutionary developments in this sense has been the advent of science-based farming in many parts of rural Asia. The Green Revolution technologies — combined with a sound private agricultural sector and supportive government policies — propelled unprecedented rates of economic growth among formerly isolated village communities.

The development success story of one Punjabi farmer and his family is the story of many. After the 1947 partition of India, thousands of refugee families from Pakistan had to be resettled in India. The family of Gurcharan Singh was one of them. Gurcharan Singh, known as Charan to his friends, made the journey to the new Indian frontier as a boy of 16. As the sole provider of his family which included both parents and three sisters, he worked for years with the Harijans (Untouchables) as a daily-wage laborer, farming his own rented land at night. When Charan's father was allocated 15 acres of land under a refugee resettlement program, the family moved to the village of Ghungrali.

Soon after Charan had acquired his farm, modernization of agriculture in Ghungrali and the Punjab arrived, predating the Green Revolution by a decade. In 1953, the first tube well was installed, a number which increased to 46 in 1957; in 1960, the first farmer used chemical fertilizer; in 1962, the first tractor was purchased and in 1970 the village's first combine. In 1965, the new Mexican-bred wheat was planted on one small seed plot in Ghungrali. The very next year, the Green Revolution took root when Charan and the other 64 families in the village planted the new dwarf wheat in seed plots. By 1967, every single acre of wheat land in the village (1,400 acres) had been planted with

the new seeds. In that same year, credit was first provided by the Indian government, and by 1968, a state land-mortgage bank was issuing loans, and a village cooperative credit society was started.

By the 1980s, the benefits of technology and the Green Revolution were evident to Charan and the other farmers in the village. Over 100 electrified tube wells and 40 tractors were in use; fertilizer consumption had risen from nothing in the 1950s to 800 tons a year; sophisticated piped irrigation, to prevent evaporation, and bio-gas plants to supply both fuel and fertilizer had been introduced. Rice, grown for the first time in 1977, had replaced wheat — still grown in the winter — as the village's largest cash crop. In addition, old dirt roads had been paved, express bus service to larger cities had been instituted, medical care was available on a daily basis, and almost all of the families had children in universities, with some emigrating and sending remittances from Europe and the Near East.

Charan's life seems to have changed even more than the village. A medium-size farm of 15 acres such as Charan's — land, house, machinery and all — was easily worth \$50,000 to \$60,000 at 1970 Indian prices. In 1978, Charan arranged marriages for his two oldest sons, one a police officer and the other who had taken over much of the farming. A third son went to college, as did Charan's only daughter. The former field laborer, and tens of thousands like him in the Punjab, are now proud, prosperous farmers in a flourishing, modern agricultural economy. These gains, while impressive, did not occur overnight, and they were not the result of any single government policy, foreign aid program, or doctrinaire development philosophy. They happened because aid, technology, and the eagerness of individual men and women to work hard to better their lot all combined and were not hindered by misguided state policies.

*Source: Critchfield (1973; 1981)*

ization, while it often reflects economic opportunities, is another case where technical progress can create new sets of political or social challenges, as is witnessed by the teeming slums and squalid squatter settlements surrounding cities as disparate and far apart as Nairobi, Casablanca, Calcutta, and Mexico City.

## Institutions and Growth

Most ordinary people seem to understand that economic progress is necessary but not, in itself, sufficient for a freer society. A freer society brings with it wider opportunities for individual improvement — more time and means to study and acquire new skills, more resources to expand

## Box 2 - How Should Country Performance be Measured?

What is a reasonable way of comparing developing country performance? This is not an easy undertaking, the ready availability of seemingly precise statistical economic, health, or social indicators notwithstanding. Much of the data reported by developing country governments is unreliable and not really comparable (over time or between countries). As a result, this Report is selective about the data it uses and provides detailed explanatory annexes which, among other things, grade the numbers being used.

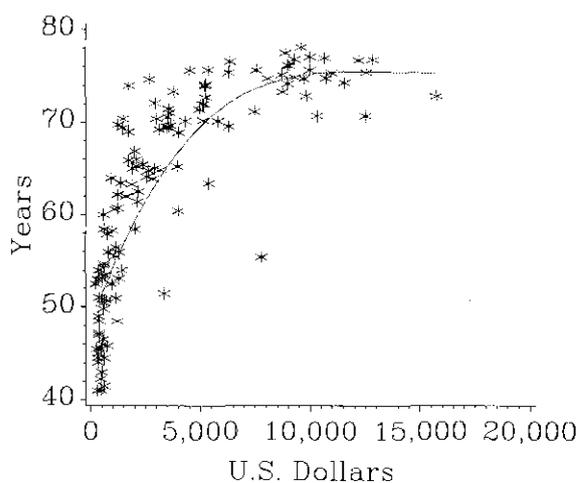
The point of these caveats is that there is no single statistical measure of development. One measure is real economic output expressed in terms of international purchasing power (the standard approach for developed countries which has not, until now, been applied to developing countries). The table below presents the data which were used for Figure 3.

But other measures are often more useful than raw economic output. Another approach is to look at living standards. Indicators of education, employment, consumption, access to services, and health, broken down for specific groups within a country, are all necessary inputs for an assessment of human development. It is worth noting, however, that most of these indicators do move in parallel with economic growth, as shown in the figure above.

Official statistics, as opposed to independent and scientific field surveys, also miss a great deal of what is actually happening in a country. In Peru, detailed work has shown that the underground economy generates as much as 60 percent of total growth and that the country was 29 percent richer than official statistics indicated. The situation in many other developing countries is com-

### Individual Longevity and Income

1985, Life Expectancy and Income



Source: World Bank and A.I.D. (see Annex Tale I technical note)

parable. Official statistics miss the most vibrant part of the economy — the one that provides the bulk of new jobs and opportunities for the poor. Indeed, the poor are often statistically invisible, and available data can give extremely misleading impressions about living standards or economic opportunities for those at the margins of the development process.

### Country Typology

(Average Annual Growth Rates, Real GDP Per Capita)

Category	Number of Countries	1950-72	1972-79	1979-87	1986 Population (thousands)
Consistent Growth	19	3.10	4.99	3.21	504,022
Recent Problems	46	3.12	2.30	-1.74	737,580
Long-Term Problems	24	0.44	0.57	-1.36	188,564
Recent Recovery	4	-0.22	2.68	3.22	131,504
India		1.40	1.40	4.05	781,034
China		2.62	3.65	6.20	1,093,517
All LDCs	95	2.68	2.69	2.97	3,436,221

Source: World Bank and A.I.D. (see Annex Table I technical note)

one's enterprise and invest in the future. The link between development and human rights has been underscored by Irving Kristol who wrote that:

it is the diffusion of wealth and power and status in a market economy that creates the 'social space' within which civil and political liberty can flower, or at least be preserved to some degree (Kristol, 1978).

For the good life to be good, for the quality of life to progress, prosperity is sought not only for its own sake but because of the expanded freedom to choose that it brings with it. Progress, or development, means wider horizons of choice in everything from where you live, how you earn your livelihood, and how many healthy children you have, to how much wider the panorama of choice and opportunity will be for those children.

Human development, social progress, and economic growth, therefore, go together. All prosper within a stable framework of personal and property rights to protect the fruits of one's labor. Two of the leading historians of U.S. economic progress have noted that:

Sustained economic growth in the Western World required the creation of institutions and property rights that served to bring...the individual's perception of his own gains from undertaking an activity [to]...closely approximate the benefits that society would receive from that activity. This necessitates a set of property rights and institutions that ensures the factors of production directly receive their economic value (North and Thomas, 1970).

Beyond a certain point, only stable societies with a sustained commitment to personal and property rights can make sustained economic progress. At the same time, long-term growth-oriented policy is often bad short-term politics — particularly in countries with fragile or non-existent democratic institutions whose political leaders lack a solid, legitimate base of popular support.

## Individuals and Growth

The same economic and development policies that benefit developing nations as a whole also benefit individuals. At base, development means choice; the greater the range of choice, the greater

the degree of development. Thus, the first step in individual development is rising above the subsistence level — a level at which the risk of any sort of change is seen to outweigh its rewards. Each minute of the day that does not have to be devoted to survival is a minute that can be "invested" in learning, playing, earning disposable income, or improving one's home or community. True individual development is the key to evolving greater freedom and progress, and to strengthening civilized values and social institutions.

## Variety of Country Experience

While certain general principles of economic behavior, like basic elements of human nature, apply almost universally, it is important to remember that every country is unique. Each has its own special blend of institutions, culture, and historical experience. What may be a realistic pace for development in Country A may be totally unrealistic for Country B.

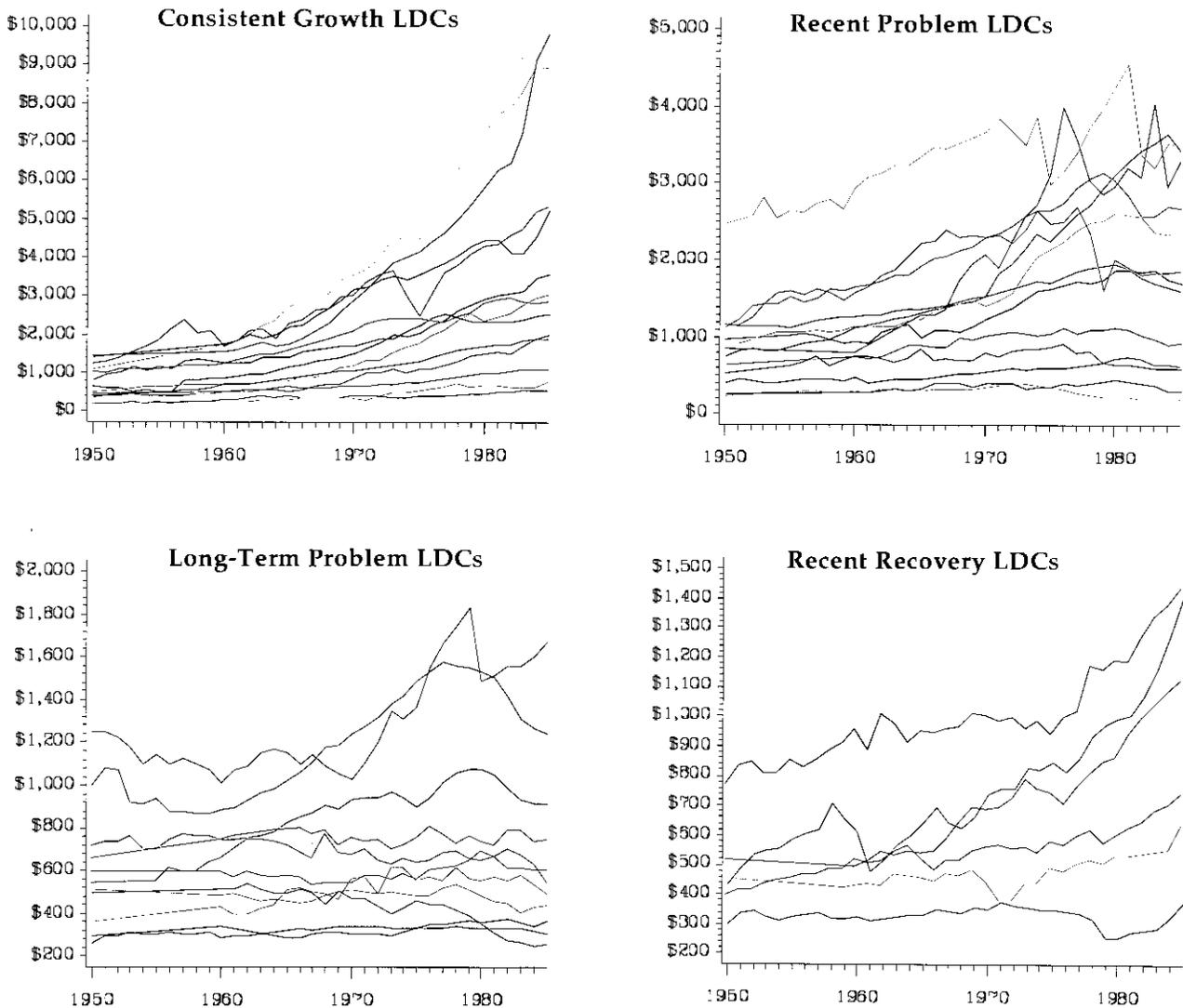
Nations can, and do, change. But the process is a slow one. Trying to graft a single development model onto widely differing local cultures with their own traditions and value systems does not always work. Figure 3 shows just how varied, and not easily summarized, the growth experience has been. Because of the many individual national variables, some initially poor countries have excelled and are now on the brink of developed status, while some countries with a comparatively wealthy starting base have not fared as well, or have actually deteriorated. And a number of countries appear to have achieved relatively little growth.

The recent growth experiences of developing countries fall into four basic varieties:

- **Consistent Growth** countries that have maintained healthy growth in the face of adverse changes in the world economy and widespread LDC stagnation or decline;
- **Recent Problem** countries that are currently undergoing difficulties after having logged economic gains;
- **Long-Term Problem** countries where growth has remained stalled; and

**Figure 3 - Variety of Country Experience**

Real GDP Per Capita



Note: Each line represents the growth of an individual LDC. Country typology is defined in Box 2, and actual growth rates can be found in Summary Table A.1.

Source: World Bank and A.I.D. (see Annex Table I technical note)

- **Recent Recovery** countries that appear to have begun to overcome longstanding problems and are growing. While this last category numbers only six countries, it is particularly important since it includes both China and India and, in total, accounts for more population than all other developing countries combined.

## Report Structure

**Chapter 1, The National Interest and the National Role in Development**, discusses America's national interest, and the evolving U.S. Government role in LDC development.

In the years since the triumphant reconstruction of post-World War II Japan and Western

Europe, the objectives of official U.S. foreign assistance have gradually blurred. Is it really valid to compare the early economic assistance successes, which dealt with reconstructing rather than creating highly-developed economies, with today's challenge in most LDCs?

Is it possible to even talk about a unified development strategy when assistance is routed through so many independent, and often competing, government departments and agencies? This chapter summarizes the assistance-related activities of ten major parts of the U.S. Government:

- The Agency for International Development
- The Export-Import Bank
- The Overseas Private Investment Corporation
- The Trade Development Program
- The Department of Agriculture
- The Department of Commerce
- The United States Information Agency
- The Office of the U.S. Trade Representative
- The Treasury Department
- The Department of State

Can a common thread of national interest hold together so many different bureaucracies, each with its own agenda, priorities, and constituencies?

And can Congressional and public opinion, in the absence of a unified, coherent assistance policy, be expected to maintain open-ended, uncritical support of an increasingly nebulous, undefined development assistance package?

**Chapter 2, Getting Down to Cases: Growth and Social Progress**, addresses the basic "human face" of development. What is the nature of social progress, and how can we measure the quality of life? While progress in lowering infant mortality and extending life expectancy, for example, has been dramatic in this century, it varies widely from country to country.

- What is the link between the creation of productive jobs and social progress? Where have jobs been created?
- How have new technologies and basic infrastructure affected individual opportunities?

- What is the role of education in development? Is progress in health, population, or economic terms possible without greater development of human resources?
- Does the increased consumption that comes with economic growth demonstrably improve the quality of life for the general population in developing countries?
- What is causing the evident slowdown (and, occasionally, even a regression) in health improvement in many LDCs with static or shrinking economies?
- What impact has development had on the environment?

The arsenal of inexpensive health interventions (vaccines, malaria control, child rehydration, and other major early contributions to infant mortality and life expectancy progress) may be nearing exhaustion. Will further improvements that involve far more costly treatment, infrastructure, and trained personnel be affordable at current LDC rates of economic growth, and given the limits of foreign assistance resources?

**Chapter 3, Getting Down to Cases: Economic Performance**, considers the crucial element of economic performance in developing countries and draws comparisons between failed and successful policies on the only really meaningful basis: country-by-country specifics.

Why have some developing countries grown faster than others? And why, in recent times, has the pace of development diverged so widely, with some projected "winners" faring badly, and some LDC "slow starters" turning into sustained success stories? Three basic factors are examined in detail:

- The internal policy framework adopted by individual countries;
- The political/institutional milieu within which policies are chosen; and
- Factors beyond the control of LDCs such as natural disasters, world price and demand fluctuations for their exports, the prices they must pay for their imports, and economic expansion or contraction in developed country economies.



**Developing New Relationships.** An American rescue worker takes time out to offer an Armenian youngster a soft drink. Americans were among the first disaster assistance teams on the scene of the 1988 Soviet earthquake, as they are to most disasters around the world.

What is the relative importance of the global economic environment, as opposed to direct development assistance? Why have some countries shown a greater aptitude for developing institutions that promote growth-oriented policies and actual economic growth — and why have others failed to do so? And what are the lessons of both the economic successes and failures of developing countries over the past 30 years?

**Chapter 4, Nonprofit Assistance to Development**, describes the enormous contributions to development made by private American voluntary, charitable, religious, and educational organizations. Individual Americans donate an estimated \$12 to \$15 billion a year in time and money to people and causes in the developing world. Private-based religious organizations, non-religious private voluntary groups, philanthropic foundations, and U.S. universities spend far more than all forms of U.S. Government economic assistance combined.

In education alone, the private, nonprofit role is staggering:

- Some two million people now living in developing countries have benefited from American educations;
- 300,000 citizens of developing countries are currently attending schools in the U.S.; and
- While the U.S. Government spends about \$200 million a year on developing country students studying in America, American universities provided an estimated \$1.5 billion in scholarships and subsidies.

What is the proper role for government in encouraging private nonprofit development initiatives? Are there risks from the increasing dependence of some private institutions on U.S. Government funding?

**Chapter 5, Trade, Investment, and Development**, details the massive developmental role played by profit-based American enterprises and trade. Overseas corporate giants such as Ford, Citibank, IBM, AT&T, and Merck have generated businesses which are now more important to

many developing countries than U.S. development assistance:

- The flow of direct foreign investment to developing countries (excluding commercial bank credit) is now larger than bilateral U.S. economic assistance;
- Subsidiaries of U.S. businesses abroad have created over two million jobs in developing countries in the last decade;
- They also produced \$15 billion worth of LDC manufactured exports in 1986 alone;
- U.S. multinationals have been the key agents for technology transfer in the manufacturing, communications, and transportation sectors of many developing countries; and
- U.S. financial services and capital markets have been critical to the dramatic growth in developing country trade flows, and training a cadre of skilled financial management specialists in countries that previously lacked a native pool of management talent.

The U.S. domestic market is another major engine for developing country economic growth. Between 1980 and 1987, the U.S. absorbed 74 percent of the OECD's total incremental imports of manufactured products from developing countries. In the past, every one percent increase in real U.S. GDP has been linked to a 1.5 percent increase in overall developing country GDP; a one percent fall in U.S. GDP is tied to a two percent fall in developing country economic output.

If economic growth is the key to future development, what American contribution is more crucial than that of the private sector? And isn't the prosperity of the U.S. itself increasingly tied to LDC growth?

**Chapter 6, Prospects into the 21st Century**, attempts to outline development prospects in the decades ahead. What do current developing country trends imply about their future? Among the most important challenges and variables:

- Success will require coping with change and making the most of technological innovations;
- The acid test of any developing country's development strategy will be job creation;
- Sustained improvement in living standards will be increasingly expensive and dependent on new sorts of institutions; and
- External economic developments including developed country growth, international trade, and possible new shocks will condition the economic prospects of all developing countries.

What are the alternatives facing different sets of countries with different levels and paces of development? What potential health breakthroughs and pitfalls lie ahead in the quest for higher living standards? How will changing age structures and population patterns shape economies? Will improvements in educational and economic opportunities for women prove a major asset to development? And how will these and other future changes affect America's vital interests and development policy?

**Chapter 7, Seven Basic Questions About the Future**, reviews key findings of the Report and poses a number of pivotal questions about the future of LDC development assistance and the role America — and U.S. interests — will play in it. How must American policies, attitudes, and political practices adapt to the future? Can working relationships between American institutions, public and private, be reshaped to meet the challenge of change?

Is there a workable global agenda for development in the 21st century, and, if so, how can we best accommodate it to America's own pressing national priorities? What are the costs of continuing to take a short-term approach to development? How can programs partly designed to help U.S. domestic constituencies reflect country-specific development requirements and serve the true national interest?



# Chapter 1

## *The National Interest and the National Role in Development*

*In the field of world policy I would dedicate this Nation to the policy of the good neighbor.*

*Our foreign policy is . . . to defend the honor, the freedom, the rights, the interests, and the well-being of the American people.*

*Franklin D. Roosevelt*

These two quotes, coming from the same American President, underscore the historical ambiguity of American foreign policy: the national interest, be it military, diplomatic, or economic, is paramount, but it is also presumed to be in harmony with good neighborliness. National idealism also makes us want to volunteer ourselves as a virtuous example for the rest of the world to follow. Pure humanitarianism, the kind of material generosity that individual Americans have always demonstrated when catastrophe strikes, has also played a major role in shaping attitudes toward U.S. foreign assistance programs. To understand the evolution of American development aid, and to measure its effectiveness, we need to consider all of these factors.

Since the Marshall Plan, which declared — and achieved — a clearly defined economic objective, definitions of U.S. aid have become less focused. Humanitarian aid for its own sake is championed by some, political and national security considerations are held to be paramount by others, and still others make the case for commer-

cial advantage. Various special interest groups advocate particular nations or programs.

These often conflicting rationales for A.I.D. programs and objectives muddle the debate over the effectiveness of U.S. foreign aid. A background paper prepared for the 1983 Commission on Security and Economic Assistance observed that:

A major deficiency of the entire process of foreign assistance is that its multidimensional quality is not systematically addressed at any stage — in project selection, design, implementation, or evaluation. [As a result] it is not possible to assign success or failure to foreign assistance interventions with any degree of intellectual rigor (Wilhelm and Feinstein, 1984).

Thus the very nature of our present assistance efforts raises something of a conundrum: how to evaluate results when there is no clear agreement on which objective should be met in any particular program or project?

## Humanitarian Motives

America's record of assistance to international victims of disaster goes back some 200 years before the institution of formal U.S. foreign aid. Cotton Mather (1663-1728), an early New England religious and civic leader, proposed even before the nation was born that men and women, acting individually or as members of voluntary associations, should engage in "a perpetual endeavor to do good in the world."

In 1793, Americans aided refugees in Santo Domingo; during the Greek struggle for independence in the 1820s, they provided relief to Greece; in the 1840s, they provided more than \$1 million to famine struck Ireland. They sent food relief to Russia, India, China, and Cuba, and refugee relief

to Armenians, Greeks, and Jews. All of these efforts were private in nature, based on concepts which had evolved as our nation evolved — compassion for others, concern for the dignity of the individual, and voluntarism. It is also worth noting that during this period there was a general belief that the U.S. Constitution did not give Congress the power to use public funds for foreign relief. In fact, opposition to the use of public funds for such purposes continued until long after World War I.

With World War II, however, the U.S. Government became deeply involved in public relief assistance. In 1954, a standing provision in the Mutual Security Act was made to use funds for foreign disasters. The enactment of Public Law 480 in that year made it possible to send U.S.

### Box 1.1 - Food Aid

The Food for Peace program allows for the U.S. Government sale and donation of surplus agricultural commodities to aid recipient countries. Since 1954, the program has exported over \$35 billion in agricultural products.

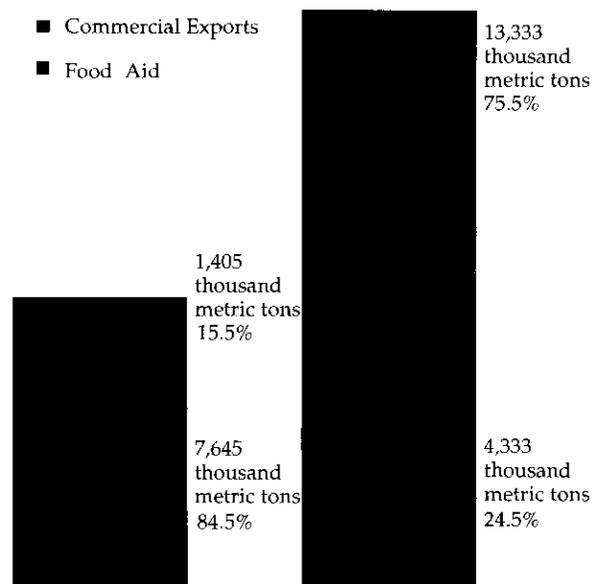
Although the public impetus for the program has been humanitarian, it has also benefited U.S. farmers. During the 1950s and 1960s, food aid accounted for the lion's share of U.S. agricultural exports to LDCs. Wheat was the dominant PL 480 export during this period (see figure), accounting for more than one-half of all food aid exports. Many countries eventually graduated from the food aid program as their own production enabled them to feed their people. Still, some products like rice remain important U.S. surplus exports to many developing countries.

Another benefit of the PL 480 program has been the local currency generated by the sale of agricultural surplus commodities in developing countries. This currency has been used by developing countries to pursue many other development projects.

At the same time, the program has sometimes created distortions in developing country economies. Both proponents and critics agree that food aid can create disincentives for local producers of food aid commodities by dampening demand and undercutting prices.

### Food Exports: Increasingly Commercial

1962 and 1987, U.S. Wheat Exports to LDCs



Source: U.S. Department of Agriculture

**Table 1.1 - Disasters: Largely Man-Made**

Selected 20th Century Catastrophes

Year	Place	Catastrophe	Millions of Deaths
1975-79	Kampuchea	Pol Pot Regime	2
1967	Nigeria	Biafra Civil War	1
1958-61	China	Great Leap Forward/Famine	30
1947	India	Independence	1
1937-45	Worldwide	World War II	15
1943	Bangladesh	Famine	2
1942	India	Famine	2
1939	China	Flood	1
1932-34	Soviet Union	Forced Collectivization/Famine	5
1928	China	Drought	3
1921	Soviet Union	Drought	1
1920	India	Bubonic Plague	2
1918-19	Worldwide	Spanish Influenza	20
1914-18	Worldwide	World War I	9
1914	East Europe	Typhus	3

Primary Source: A.I.D. Office of Foreign Disaster Assistance

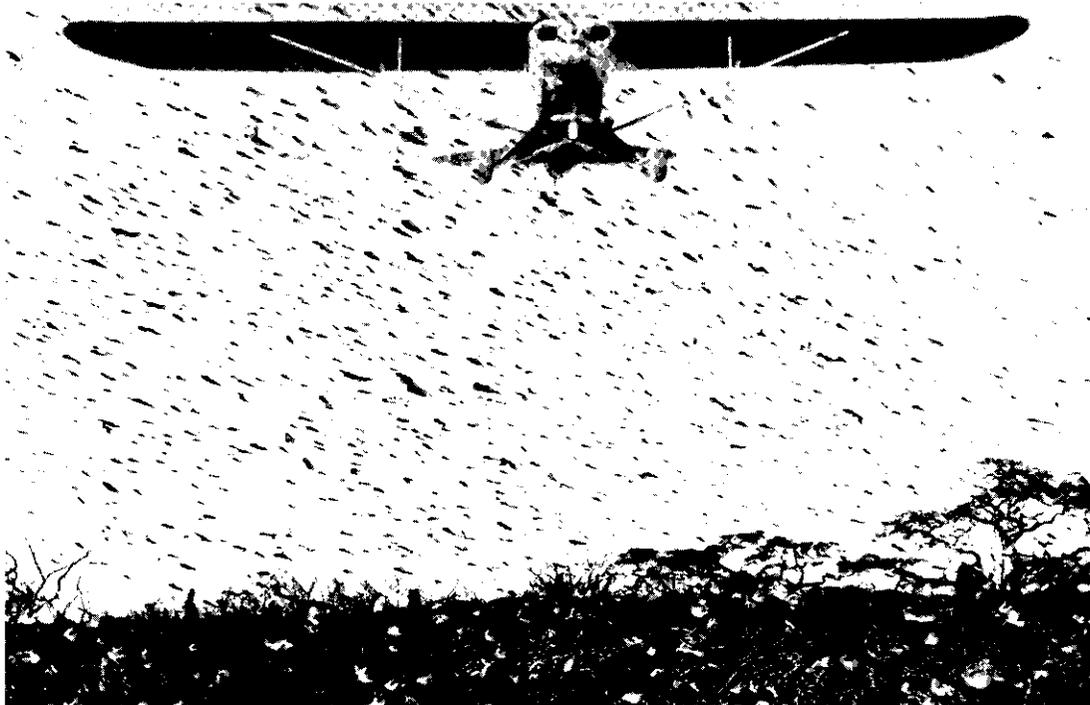
excess food supplies to assist the needy peoples of the world (see Box 1.1). However, international assistance remained basically private. Between 1953 and 1957, only 15 percent of U.S.

disaster assistance to victims overseas came from the U.S. Government and 85 percent from private U.S. sources.

Today, even with the best will in the world, the U.S. can only play a marginal official role in fighting poverty and disasters. Table 1.1 gives a chronological table of major 20th century catastrophes. As will be seen, many of the worst disasters have been man-made ones. Even where the proximate cause was "natural," as in the case of the Ethiopian droughts of the 1970s and 1980s, man-made factors were required for the disaster to have its full devastating effects.

When things have gone dreadfully wrong, the U.S. and others have always stood ready to help minimize the human cost.

American famine relief to the Soviet Union under Herbert Hoover in the 1920s, and earthquake relief under Ronald Reagan in the 1980s, are proof of our continuous commitment to humanitarian help. But what about chronic and often government-imposed poverty, such as that suffered in many of the world's unfree states? Some favor an entitlement approach premised on a fundamental U.S. obligation to provide basic human needs to the vulnerable peoples of the world. Universal rights to health and education



**Responding to Disasters.** In 1988, the U.S. provided ecologically safe pesticides and airplanes to prevent massive agricultural losses to locusts in North Africa.

## Box 1.2 - What is the Agency for International Development?

On November 3, 1961, President Kennedy created the Agency for International Development (A.I.D.) by an Executive Order to implement the Foreign Assistance Act of 1961. Previous organizations were disbanded, and an entirely new structure was created, with major personnel changes, to focus American assistance on the specific needs of recipient countries.

A.I.D.'s resources and manpower peaked in 1969, coinciding with its maximum presence in Vietnam. In the years that followed, reduced resources, an escalating number of Congressionally-mandated objectives, earmarked funds, and reporting requirements — and a growing reliance on outside contractors — have often limited A.I.D.'s ability to use its field presence to best advantage in the face of changing LDC conditions and national priorities.

*A.I.D. Today.* A.I.D.'s most important resource is its people. It is unique among development assistance agencies in its concentration of staff in LDCs. For fiscal year 1987, these missions implemented 1,750 projects (each of which involves host-country institutions) in 83 countries representing a total multi-year obligation of over \$25 billion (only a portion of which is spent in any one fiscal year). A.I.D. bases about 1,200 Americans in LDCs — supported by local hires and contractors — and another 2,000 are based in Washington, D.C. Its operating expenses totalled about \$427 million in fiscal year 1988.

A.I.D. administers two basic types of assistance. First is the Economic Support Fund (ESF) of \$3.3 billion in fiscal year 1989 which is designed to assist politically important LDCs through direct cash transfers, commodity import programs, or specific development projects. Israel and Egypt account for over 60 percent of all ESF (18 other countries receive ESF).

The second major type of aid is called Development Assistance (DA) and totalled \$1.75 billion in 1988. Except for Sub-Saharan Africa, DA is allocated by Congress to sectors (such as agriculture, population, and health), as well as even more specific activities. It is used mainly to fund multi-year projects. A special type of DA is the Development Fund for Africa (\$500 million in fiscal year 1988) which Congress appropriates without functional accounts. This has permitted A.I.D. to concentrate DA resources on the most receptive Sub-Saharan African countries, often in conjunction with major policy reform programs (and in parallel to funding

from other bilateral aid programs as well as the World Bank and the IMF).

A.I.D. also programs and administers Housing Guarantee Programs, the sale and donation of agricultural commodities under P.L. 480, and Foreign Disaster Assistance.

*Aid and Development.* Early A.I.D. assistance concentrated on developing infrastructure and institutions in LDCs, often in collaboration with the private sector. The Agency was instrumental in changing LDC policies that encouraged unsustainable population growth and which were biased against small-farmer agriculture. More recently, the emphasis has been on new technologies and technology transfers, particularly in health and agriculture. Over the long-term, perhaps the most productive aspect of A.I.D.'s development effort has come through training, technical advice, and other sorts of support, often informal, of policy makers in LDC governments.

*Accountability.* USAID Missions have a wide range of fiduciary and oversight responsibilities for foreign assistance programs which they do not directly control. Much time in field missions is spent working with host governments on how they use the local currency generated by the sale of P.L. 480 agricultural commodities or ESF funds.

*Congressional Development Priorities.* A.I.D. has increasingly come under close Congressional scrutiny. Congress is concerned both with how A.I.D. spends money and how it manages resources. Congressional directives, whether they stem from broadly supported development objectives or simply from individual Congress members responding to constituent concerns, increasingly drive the allocation of A.I.D. resources (see table below on ESF).

### Economic Support Funds

Fiscal Years 1985-1989 Budget

	<i>In Millions of U.S. Dollars</i>				
	FY 85	FY 86	FY 87	FY 88	FY 89
ESF Total	3,826	3,547	3,550	3,188	3,259
Unrestricted	1,690	1,012	571	102	59
%Unrestricted	44	28	16	3	2

Source: A.I.D.

have become a byword in these circles, the implication being that the U.S., as the world's wealthiest nation, should be the provider of last resort. But if a sovereign country fails in its most elementary responsibilities, is it the automatic responsibility of outsiders to make good these self-inflicted losses?

Historian Paul Johnson has estimated that, since 1900, political and military actions executed by nation states have set new records in atrocity, responsible by the 1980s "for the violent or unnatural deaths of over 100 million people." During the 1970s alone, he maintains, it is "a dismal numerical fact that...the policies followed by Soviet Russia and its Cuban, Ethiopian, and Indo-Chinese satellites added about nine million to the world total of displaced persons..." How open-ended is the commitment of the U.S., or any other non-predator state, to rush assistance to regimes that have inflicted the damage on their own people in the first place?

And does provision of temporary U.S. aid make us responsible for all subsequent problems in the recipient country? Americans like to see progress around the world, but our commitment to doing anything about it falls far short of any consensus on global entitlements to automatic U.S. aid.

These questions are not meant to suggest that the U.S. should be unconcerned about the fate of the vulnerable in developing countries. Nor do they impugn the ethical motivation of entitlement advocates. As we will describe in Chapter 4, the private impulse toward humanitarian works is one of the great strengths of the American character and an essential way in which the American people promote progress around the world.

However, there are limits to our means, and we must decide on what assistance is affordable, and where and how it can best be delivered.

### Political Security Motives

The Marshall Plan, coming as it did on the heels of the Cold War, was sold to an initially wary Congress on the basis of national security and anti-communism. By any standards, it was the high water mark of U.S. foreign assistance. While its primary motivation was strategic, its

popularity was reinforced by humanitarian considerations. Never again would the program be so popular with the general public or enjoy such solid, bi-partisan support in the Congress. The Marshall Plan was primarily a recovery program; it provided aid to developed countries so that they could reconstruct long-established, sophisticated, and productive economies. Management, skilled labor, and the ingrained market instincts that had evolved over centuries were all in place at the outset. All that was needed was material and capital assistance — an altogether different world from the development picture of today. European reconstruction was always seen as a finite, short-term exercise that would end upon the attainment of a clearly defined goal. And, from the beginning, the reconstruction was an obvious success. It did, in fact, end.

Through the 1950s and 1960s, foreign aid was extended to less familiar, less developed parts of the world, and in 1961, the Foreign Assistance Act institutionalized U.S. development efforts.



**Reconstruction versus Development.** While Secretary of State George C. Marshall is generally credited with creating modern U.S. overseas assistance, the plan that bore his name was aimed at reconstructing the already developed economies of Western Europe, a far cry from today's development challenges.

At the same time, an Executive Order created a single agency to conduct development programs, the Agency for International Development (A.I.D.). The departure from the past was abrupt. Some existing staff were fired en masse, and the remainder were completely re-organized. Such a massive overhaul was made possible by the close personal involvement of the President himself.

The major motive of United States development forays into these uncharted waters in the 1950s and 1960s remained anti-communism, a belief that if standards of living were improved in Asia and Latin America, communism would be a less attractive alternative.

There was also an assumption that American aid should be contingent upon the recipient countries' own good faith efforts to foster economic development. In his 1961 Foreign Aid Message, President Kennedy declared that:

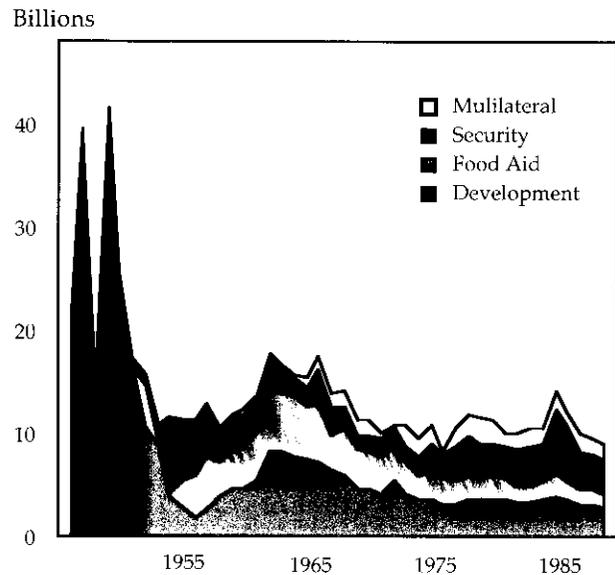
It is essential that the developing nations set for themselves sensible targets; that these targets be based on balanced programs which use their own resources to the maximum...The first requirement is that each recipient government seriously undertake to the best of its ability on its own those efforts of resource mobilization, self-help, and internal reform...which its own development requires and which would increase its capacity to absorb external capital productively.

The results of the new developmentalism were mixed. In Latin America, the Alliance for Progress scored some successes, but perceptions of a growing gap between rich and poor, as well as political turmoil, were taken by contemporaries as evidence of its limited impact. On the other hand, large funding, well-applied resources, and the ability of recipient states to profit from them led to major development successes in Asia, most notably in Korea and Taiwan.

But it was the largest single aid recipient in Asia, South Vietnam, that shed most light on the strengths and limitations of U.S. foreign aid. The material aspects of aid to South Vietnam were surprisingly successful. Standards of living were preserved and, in the short-term, economic opportunities grew. But, in the heat of war, economic progress alone did not provide a sufficient base for building a politically self-sustaining country. And the seeds of distrust sewn between

**Figure 1.1 - Composition of Economic Aid**

U.S. Assistance in 1989 Dollars



Source: Congressional Research Service (1988)

the executive and legislative branches continue to create problems to this day.

Economic assistance has continued to be used explicitly for political/strategic purposes (see Figure 1.1). The share of the U.S. Government aid budget supporting military base rights has, for example, tripled since 1980. Since the late 1970s, the U.S. has expanded political justifications for increased aid flows: first in support of the Camp David accords and later in response to the Kissinger Commission Report on Central America. Many of the aid recipients, particularly base right and ESF earmarked countries, view such aid flows as payments for political or military favors.

#### *The Emergence of Aid Advocates*

With the creation of A.I.D., a cadre of development professionals was built up in the United States consisting of A.I.D. employees themselves, Private Voluntary Organizations, and contractors who were ready to assist in carrying out bilateral U.S. Government efforts. The first wave

of former Peace Corps volunteers returned to the United States in the mid-1960s, full of enthusiasm for development work and anxious to replicate village-level experiences on larger national scales.

By the early 1970s, for the first time, there was an active and growing group of professional development advocates in the United States that looked upon economic development, both on a regional basis and as a world objective, as a real possibility. They also looked at foreign assistance in a very different way from the general American public, whose support was based on dwindling humanitarianism and anti-communist sentiment. It was the advocates' urging of a "basic human needs" agenda of assistance that largely shaped the *New Directions* initiative of 1972.

## Economic Motives

Economic self-interest has become an increasingly prominent rationale for U.S. development assistance efforts, though the great bulk of existing program resources are oriented toward essentially political or humanitarian objectives. However, since the 1950s, U.S. policy statements about LDC development have emphasized the need to support private sector trade, investment, and technology transfer. The Kennedy Administration's overhaul of the development assistance agency and legislative mandate included an emphasis on investment promotion and trade, as did the 1970s overhaul of the Foreign Assistance Act.

Until relatively recently, U.S. Government development assistance was viewed as a transitory part of the evolving relationship with any LDC.

### Box 1.3 - Developing the World of Ideas: The USIA and the National Endowment for Democracy

The U.S. Information Agency (USIA) is responsible for all international communication, educational, cultural, and exchange programs. It operates in 127 countries abroad with a total staff of 974 U.S. employees and a staff of over 600 U.S. information officers in 85 developing countries. The overseas missions administer the exchange programs and conduct other programs prepared by media services in Washington. USIA operates several programs that directly benefit developing countries:

- **Voice of America (VOA):** VOA produces radio broadcasts to over 120 developing countries about U.S. and world events as well as U.S. culture.
- **Worldnet:** Worldnet is the first worldwide television broadcast network. It broadcasts important policy statements by U.S. Government officials, news, and U.S. cultural programs to over 70 developing countries.
- **Exchange Programs:** Through its Hubert Humphrey fellowship program, USIA provides over \$4 million in scholarships to de-

veloping country students for one year of graduate training. It also assists academic, business, and political leaders in visiting the U.S. Many of these exchange operations are accomplished by outside organizations with USIA support.

Created in 1983, the National Endowment for Democracy (NED) is charged with globally encouraging autonomous economic, political, social, and cultural institutions as foundations for the democratic process and guarantors of individual rights and freedoms. In fiscal year 1989, the NED's core appropriation from Congress is \$15.8 million.

Part of this funding will further the work the NED began last year in Chile, which sought to strengthen opportunities for a peaceful transition to democracy. The NED funded a number of activities leading up to the plebiscite, including support for voter registration cards for the poor, encouraging political participation, and publishing manuals on the plebiscite process. All these efforts contributed to wide-spread public participation in the plebiscite, thereby strengthening basic democratic institutions in a key Latin American LDC.

Aid would lay the groundwork for sustained domestic growth as well as U.S. private investment and trade flows. During the 1950s and 1960s, U.S. foreign aid and government-financed exports were larger than private trade with LDCs. Private bank credit and direct foreign investment were also smaller than official flows.

But private trade and investment relationships with many LDCs had begun to take off by the early 1970s. Today, such business relationships are more important to many LDCs than U.S. Government assistance. Four years of private bank lending to Latin America between 1975 and 1979 exceeded, for example, the total value of U.S. assistance to Latin America between 1945 and 1988. Annual direct foreign investment by American businesses became larger than U.S. development assistance by the 1970s. And U.S. imports from LDCs reached roughly \$150 billion in 1988 compared with economic assistance flows of about six billion.

A view of assistance as a temporary tool whose success would lead to LDCs "graduating" from aid relationships lay behind U.S. decisions in the 1960s and 1970s to end major U.S. assistance programs in then high-growth countries. These countries included Korea, which had in fact embraced a trade and private investment oriented growth strategy, as well as other LDCs which have been less successful since U.S. assistance programs ended (including most of the high debt Latin American countries). At the same time, bilateral U.S. aid programs were re-focused on LDCs that were economically less important to the U.S. As a result, development assistance flows remain larger than commercial transactions for a number of countries with large aid programs, and for low-income Africa as a whole.

### **Economic Interdependence**

The deterioration of the U.S. trade balance in the early 1980s has helped focus attention on the importance of international trade and financial flows to the American economy. Over the longer term, international trade has become much more important to the U.S. economy. The proportion of the GNP generated by trade doubled between the 1960s and 1980s and now represents almost 20 percent of the total. Prospects for future do-

mestic prosperity are increasingly dependent on questions such as the competitiveness of U.S. exports or the stability of international financial markets.

U.S. economic interdependence with LDCs has also become an increasingly important focal point for policy debates. The emergence of an international debt crisis in the 1980s has posed serious threats to U.S. financial sector stability as well as affecting trade flows (see Box 1.4). The repercussions of the fall in U.S. exports to LDCs from over \$110 billion in 1981 to less than \$70 billion in 1984 (in constant 1984 dollars) have included acute problems for particular sectors such as agriculture which are particularly dependent on LDC trade. This, in turn, has contributed to the overall trade deficit.

It is important, however, to see the role of LDC trade in perspective. First, while U.S. LDC trade flows have increased in absolute terms over the past decade, their share of total trade has declined. In 1980, 47 percent of total U.S. imports were from LDCs versus less than 25 percent in 1988 (reflecting in part the change in oil prices). U.S. exports show a similar pattern with LDCs becoming less important. Further, LDCs receiving U.S. development assistance are an even more modest part of the overall trade picture, accounting for about ten percent of total exports and imports (down from about 13 percent in the late 1970s).

At the same time, U.S. trade and investment policies have obviously become more important to LDCs. As Chapter 6 will detail, decisions about protectionism and trade promotion have had a huge impact on many LDCs. For example, the World Bank (1988a) has estimated that the cost to LDCs of current developed country protectionism exceeds the total value of all development assistance flows. On the positive side, U.S. Government leadership on international debt has been equally important to the high debt countries, many of whom are past and current recipients of U.S. assistance.

### **Commercial Programs**

While there has been a growing realization of the importance of trade-oriented U.S. Government programs affecting developing countries, the result has been the creation or expansion of

### Box 1.4 - U.S. Response to the Debt Crisis

Then-Secretary of the Treasury James A. Baker presented his plan for returning highly indebted developing countries to economic health at the International Monetary Fund/World Bank meeting in Seoul, South Korea in October 1985. The plan, also known as the "Program for Sustained Growth," has three goals: to encourage debtor countries to adopt market oriented policy reforms, to stimulate economic growth, and to foster the flow of new credits from multilateral and commercial banking institutions.

Countries adopting market oriented reforms such as Chile and Mexico have begun the process of establishing sustainable broad based economic growth. New credits from commercial banks have been small, especially to the smaller debtors, but many new options such as debt-to-equity swaps, debt buy backs, and others have allowed countries to reduce their stock of debt and attract new capital flows.

The Baker Plan was premised on mobilizing an array of public and private resources: U.S. bilateral economic assistance has been important in a few countries; aid flows to Costa Rica, Ecuador, Jamaica and the Philippines have been \$1.3 billion since 1985 or 22 percent of the total capital transfer.

For the largest Latin debtors, the International Financial Institutions and banks have played the leading role. Credits from the World Bank to high debt LDCs increased from \$13.5 billion during 1982-84 to \$23.8 billion in 1985-87. Commercial banks committed \$20.3 billion in new money as part of their support for multiyear rescheduling agreements between September, 1985 and June, 1988. Also, short-term support from the U.S. Treasury has provided over \$5 billion in bridge financing which helps mobilize multiyear rescheduling packages with commercial banks.

U.S. trade policy has been more important. Between 1981 and 1987, the U.S. trade deficit with high debt countries increased from \$1 billion to \$17 billion. A combination of increased debtor exports and falling U.S. exports allowed debtor countries to post strong trade surpluses with the U.S. Most of the growth in exports from high debt countries has come from non-oil exports. Non-oil exports from high debt LDCs to the U.S. increased from \$17 billion to \$33 billion between 1981 and 1987. At the same time, lower U.S. export volumes to these countries allowed them to move a trade deficit with the U.S. to an annual surplus in 1987 of \$17 billion.

separate agencies rather than the building of an integral commercial or economic self-interest element into the development program itself. Today's major players, and the scope of their efforts, include:

- **Export-Import Bank of the United States:** Ex-Im is an independent U.S. Government agency that facilitates the export financing of U.S. goods and services. It has played a critical role in the financing of U.S. exports, especially for major projects in developing countries and sales of big ticket items such as aircraft. In 1987, it supported \$4 billion in exports to developing countries compared to about \$1.8 billion in exports supported to developing countries in 1970. Since 1960, the amount of Ex-Im financing to developing countries has gradually surpassed A.I.D.'s development assistance outlays.
- **Overseas Private Investment Corporation:** OPIC was originally part of A.I.D. and began separate operations in 1971. It provides insurance against political risks for U.S. private direct investments in more than 100 developing countries, and it finances projects sponsored by U.S. investors in those countries. OPIC has grown considerably since its early years, from \$1.6 billion in insurance and \$10 million in financed projects during 1971 to over \$8 billion in insurance and \$230 million in directly financed projects in 1987. It has helped create over 160,000 U.S. jobs and \$12 billion in U.S. exports between 1981 and 1987.
- **Trade and Development Program:** TDP was established in 1980 to increase U.S. exports of goods and services to developing countries by financing feasibility stud-

ies for projects in them. Since 1980, it has financed the planning of 480 projects in 91 countries. It estimates that over the next decade, an additional \$7 billion in U.S. exports will be generated by activities it has financed so far.

In addition, several U.S. Government departments play a major role in policies that affect developing countries.

The **Agriculture Department** is responsible for promoting and financing U.S. agricultural products, collecting data on foreign production and consumption, and coordinating U.S. agricultural trade policy with other U.S. Government agencies. The **Foreign Agricultural Service** has representatives in 40 developing countries, and USDA has over 600 persons conducting technical cooperation projects in more than 50 developing countries. The **Commodity Credit Corporation** of USDA helped finance \$2.6 billion of agricultural exports to 23 LDCs in 1987 (or 17 percent of total agricultural exports to LDCs). Also, the **Office of International Cooperation and Development** spent \$20 million in LDCs on agricultural export promotion programs run by groups like U.S. Wheat Associates or the American Soybean Association.

The **Commerce Department** coordinates issues relating to trade administration, trade policy, and trade promotion. Domestically, it maintains 48 district offices and 19 branch offices nationwide, staffed by trade specialists supported by 125 developing country desk officers based in Washington. The **Foreign Commercial Service** has 86 U.S. officers in 49 developing countries. They promote U.S. exports overseas, collect and disseminate commercial information, represent U.S. commercial interests to host-country governments, and support other U.S. agencies overseas programs including the Ex-Im Bank, OPIC, and TDP.

The **National Technical Information Service** is a \$30 million a year self-supporting U.S. Government agency that provides information to national and international users. Its primary purpose is to collect, codify, disseminate, and archive information produced by U.S. Government agencies along with U.S. Government patents and foreign technical data. It also licenses U.S. Government patents to both domestic and

foreign businesses and purchases technical information from many developing countries in Latin America, Asia, and the Middle East.

The **Office of the United States Trade Representative (USTR)** is a cabinet level agency responsible for formulation of overall trade policy and bilateral and multilateral trade negotiations. With a small staff, it negotiates comprehensive trade agreements as well as bilateral investment treaties.

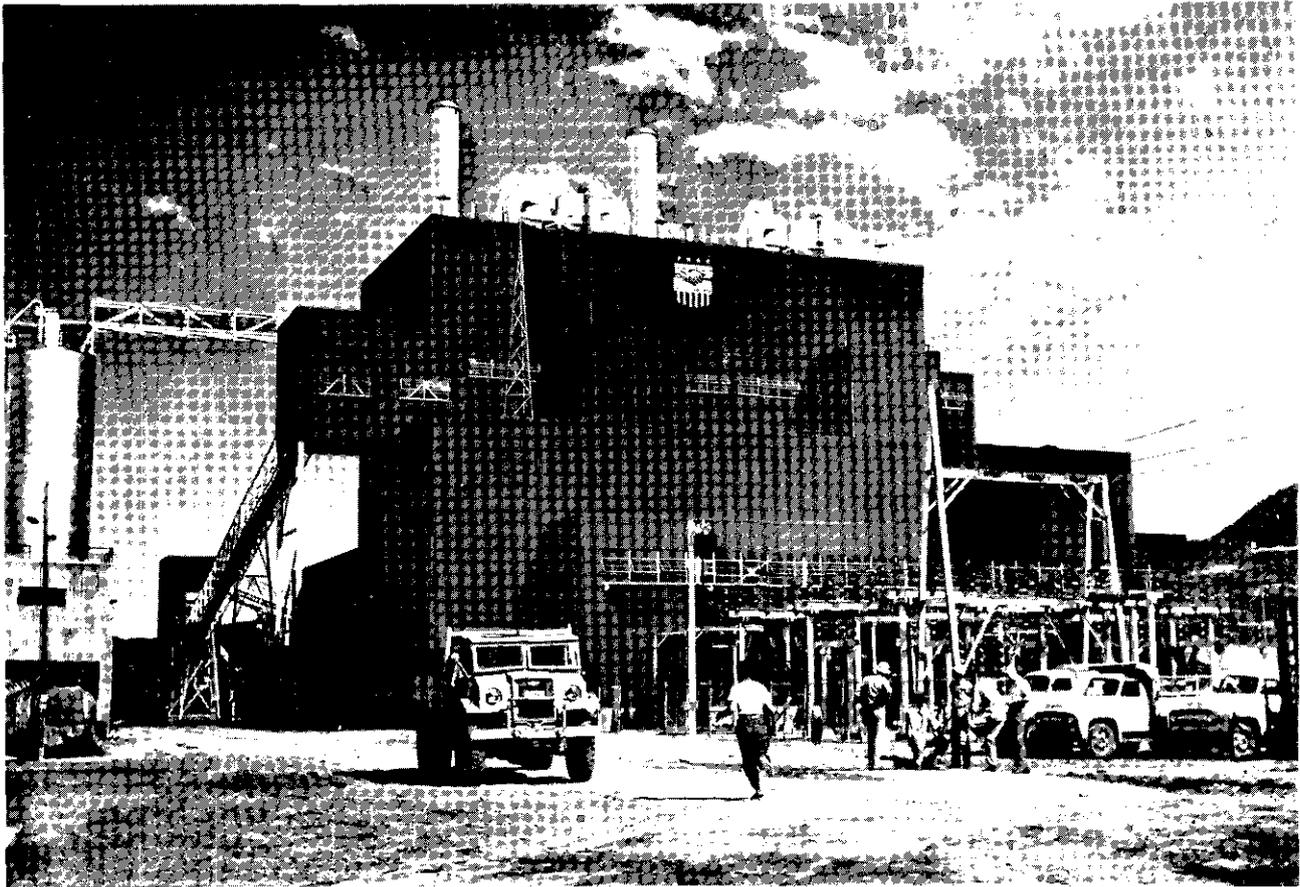
The **Treasury Department** has primary responsibility for U.S. financial policies affecting developing countries and international financial institutions like the World Bank and IMF. It has taken the lead on the debt crisis facing many developing countries (see Box 1.4).

The **State Department** is charged with the overall conduct of U.S. foreign policy. U.S. Ambassadors are responsible for all aspects of U.S. policy in their assigned countries, including foreign aid. The USAID mission director, as well as Commerce, Agriculture, or Treasury Department in-country representatives all report to the Ambassador.

Every embassy has an economic office, and some have science offices. Some embassies have large staffs working in these areas. There are about 500 economic/commercial officers in U.S. Embassies in developing countries abroad. In addition, the **Economic Bureau** negotiates civil aviation treaties and maritime agreements and participates in all other trade and investment negotiations. The **Bureau of Oceans and International Environmental and Scientific Affairs** negotiates bilateral science and technology treaties with developing countries. It has 16 science officers in 14 developing countries.

## **International Financial Institutions**

U.S. leadership at the Bretton Woods Conference of 1946 led to the creation of two international agencies. The International Monetary Fund was to serve as a short-term lender of last resort to countries with balance of payments difficulties but sustainable economic policies. The International Bank for Reconstruction and Development (World Bank) was to facilitate the flow of private long-term capital for specific projects. Its initial focus was on reconstructing Europe. Since the 1950s, both the World Bank and IMF have become heavily involved in developing coun-



**High-Powered Development.** This compact power plant in Masan is part of a U.S.-funded project that doubled power output in South Korea. Korea's successful transformation to a modern industrial society did not come cheaply; American assistance totaled \$50 billion in constant 1987 dollars.

tries, a move strongly supported by the U.S. In addition, the U.S. has helped create new regional international financial institutions, including the Inter-American Development Bank, the Asian Development Bank, and the African Development Bank.

These international financial institutions, led by the World Bank, have become increasingly important sources of development assistance. In the early 1960s, for example, the World Bank's operations were a quarter the size of A.I.D.'s operations. By 1988, World Bank commitments were four times larger than total A.I.D. commitments (for both Development Assistance and Economic Support Fund); the total for all international financial institution commitments was about eight times the size of A.I.D.'s operations. The U.S. bears only part of the burden for funding the international financial institutions, although an increasing proportion of the total U.S. foreign

aid budget goes for programs run by such agencies. Outlays for international financial institutions represented less than ten percent of the 1970 Development Assistance budget, compared to 80 percent in 1988.

The roles of the World Bank and IMF have evolved in line with their growing financial importance. By the early 1970s, U.S. decision makers looked to the World Bank for financing of large capital works and infrastructure projects that had once been the focal points for U.S. bilateral programs. In the 1980s, first the IMF and then the World Bank were called upon to help implement the Baker Plan. Their funding for economic analysis and country studies dwarfed outlays by the U.S. Government agencies involved. In 1988, the World Bank spent about 30 times more on economic development research than A.I.D. While the World Bank has 760 economist positions, A.I.D. has just 92.

## Rise of Other Bilateral Donors

As the U.S. was taking the lead in building up the international financial institutions, it also was putting pressure on other developed countries to expand their own foreign aid efforts. In 1960, the U.S. provided 85 percent of the total amount of bilateral assistance going for development. Its 1970 share was 45 percent, and by 1988, the U.S. was providing less than 20 percent of the total — less, in absolute amounts, than Japan. And unlike the U.S. development assistance program, many other donors have continued to emphasize commercial advantage in their aid efforts. For example, almost 80 percent of the Japanese aid program goes directly to funding the importation of Japanese manufactured exports, compared to about 20 percent for the U.S. program. Even more potentially important is the fact that other donors target foreign aid to promote commercial connections in key sectors such as telecommunications.

## New Challenges and Public Opinion

America's development assistance programs have traditionally been disconnected from short-term U.S. international economic interests. This is particularly ironic given the increasing importance of growth in the developing world to America's own economic well-being. The U.S. vitally needs expanded foreign markets for its exports. We face an array of competitive challenges that go far beyond the East-West rivalry of recent years. For the first time, our intellectual and technical leadership faces serious competition from abroad.

Most Americans still recognize economic self interest, security considerations, and genuine humanitarian concerns as valid grounds for development assistance. Indeed, a recent survey conducted by the Overseas Development Council found that one in five Americans had made at least one charitable contribution over the past year to organizations that work on international issues including so-called Third World development. The same study found that 54 percent of Americans favored U.S. economic assistance to other countries, "a level of support which has remained fairly steady for over three decades." Seventy-five percent of Americans agreed that

"helping the Third World will also benefit the United States in the long-run," and a majority "consider economic assistance a legitimate tool to use in pursuing U.S. political or strategic objectives."

On the other hand, according to the same study, 88 percent of the public believes that aid is frequently misused by foreign governments, and 85 percent believes that "a large part of aid is wasted by the U.S. bureaucracy."

Public objections to U.S. Government development aid are due to doubts about its effectiveness, not about the pragmatic and humanitarian goals it seeks. Aid supporters' constant complaint is that if only the public could be better educated, greater popular support for development assistance could be rallied. Clearly, however, the public already has a fairly realistic understanding of the basic situation. Its support is based on both pragmatism and generosity, its doubts on the inherent complexity of the issues as well as on the failure of many aid undertakings. Americans want to see the world make economic and social progress; they are not so sure that U.S. aid does a good job of forwarding this goal.

## Conclusion

Criticism of U.S. development efforts comes from many directions and many perspectives. Neo-isolationists and some academic economists flatly reject the entire notion of foreign aid; critics on the left would sever all military, economic, and strategic linkage; others argue that, far from being over-done, such linkage is sadly neglected. Some argue that U.S. development efforts are scattered among too many different government departments and agencies, sometimes falling victim to conflicting institutional interests. Congressional critics demand tighter legislative oversight; critics of the Congress maintain that it is already over-involved in inappropriate micromanagement of the program. And no one seems to be really sure of exactly what the program is supposed to do, much less how well it is doing it.

Increasingly, the major role of the U.S. foreign aid program is limited to smaller, strategically less significant program countries, or to playing

the part of disbursement agent in strategically important countries. The bulk of U.S. assistance today goes for strategic programs that support political allies. A large proportion of these resources are being programmed for balance of payments and budget support in the Middle East. Israel and Egypt account for approximately 40 percent of total aid outlays.

Economic growth oriented development objectives have to function in uneasy tandem with other U.S. Government objectives with their own, distinctly separate targets in the host country. While foreign aid is supposed to both influence policy and move money within a fixed time limit, the reality is that the latter consideration generally drives the program.

Meanwhile, succeeding Congresses and Administrations, prodded by the dominant crises — and interest groups — of the moment, have piled differing and often conflicting foreign assistance objectives on top of each other.

Even an incomplete list of these myriad objectives is dizzying. At one time or another, foreign aid has been enjoined to:

- Win friends for the U.S. among governments of developing countries
- Win friends among their people
- Build democratic institutions
- Feed the hungry
- Alleviate poverty
- Cut infant mortality
- Achieve health for all by the year 2000
- Reduce population growth rates
- Fight poverty in poor countries
- Help Africa
- Counter diplomatic initiatives of the Soviet Union
- Promote agrarian reform
- Improve housing and urban infrastructure
- Upgrade nutrition
- Improve access to and efficiency of education
- Promote economic growth
- Dispose of U.S. agricultural surpluses
- Find markets for American farm products

- Promote micro-enterprises
- Strengthen host country institutions
- Improve policy environments in host countries
- Create non-existent and unnecessary institutions in host countries to satisfy the development notions, and sometimes the self-interest, of groups within the U.S.
- Promote private sector growth in host countries
- Strengthen the American land grant college system
- Support historically black colleges and universities
- Develop commercial trade in farm products
- Modernize agricultural policies in developing countries
- Promote science and technology transfer to developing countries
- Promote trade between the U.S. and developing countries
- Protect wildlife
- Promote biological diversity

This list could go on for pages. Each year sees an addition or two; there are never any deletions. In the absence of an overarching Congressional consensus on aid and development based on the national interest, the strategy has become one of banding enough specific interests together to keep an ever more encumbered and untargeted program alive.

While some U.S. development efforts have, either by design or as a side-effect, served the national interest, some have not. Indeed, many were never even geared to do so. As the resources available contract, the need for a tighter cause-and-effect link between development assistance and the national interest will grow.

The chapters that follow attempt to sift the evidence and relate present and potential U.S. development policy to the larger issues of global development itself, and how they affect America's own vital interests. We will begin by examining some specific cases of success — and failure — in the effort to foster social progress through development.



# Chapter 2

## *Getting Down to Cases: Growth and Social Progress*

*The advantage of economic growth is not that wealth increases happiness, but that it increases the range of human choice...The case for economic growth is that it gives man greater control over his environment, and thereby increases his freedom.*

*Sir W. Arthur Lewis,  
Theory of Economic Growth*

Observing how standards of living have changed provides a way of comparing performance over time and between countries. This in turn requires looking at a mosaic of indicators rather than relying on any single measure of development. Broad-based and sustainable development has involved simultaneous progress on various fronts: Life expectancy, income, education, natural resource management, and health are all important but interdependent indicators. Indeed, the point of the following analysis is to demonstrate the close connection between the various specific measures of social development.

### **Material Progress**

#### *Income and Life Expectancy*

Is income growth needed for social progress? Higher income countries do tend to have longer lived citizens (see Figure 2.1). However, life expectancy has also lengthened in countries with low incomes because of historical social investment in such things as education, water supply

and sanitation, or control of tropical diseases such as malaria (see Box 2.7). Evidence shows that countries starting at low levels of life expectancy have been able, through public health programs described below, to lengthen life expectancy irrespective of economic progress. At higher starting points, progress is more closely tied to growing incomes.

#### *Individual Income and Choice*

But living longer is not the only way of measuring the quality of life. Indeed, a longer life in the face of miserable or demoralizing living conditions is certainly not meaningful "development." As *How the West Grew Rich* pointed out:

The move from poverty to wealth is, in a social sense, an advance in material well-being. It is not adequately captured in statistics of gross national product, national income, or real wages...A life of poverty is a life in which survival is the first and almost the only order of business (Rosenberg and Birdzell, 1986).

### Box 2.1 - Measuring Standards of Living

Any particular quantitative indicator of social progress is subject to wide margins of error, particularly when used to describe the condition of the poor and vulnerable whose well-being is a focal point for many concerned with development. The errors and omissions in many commonly used data sets are often larger than the changes they are being used to measure.

The choice of indicator can pre-determine the conclusion reached. The answer to whether or not living standards improved in low income Africa depends on the data used. Per capita consumption of food and other resources appears to have fallen over the past 30 years; at the same time, life expectancy has increased, infant mortality has fallen, and educational achievement has improved. In short, some indicators show dramatic improvement, others do not. This is why no single measurement, particularly when accuracy is so

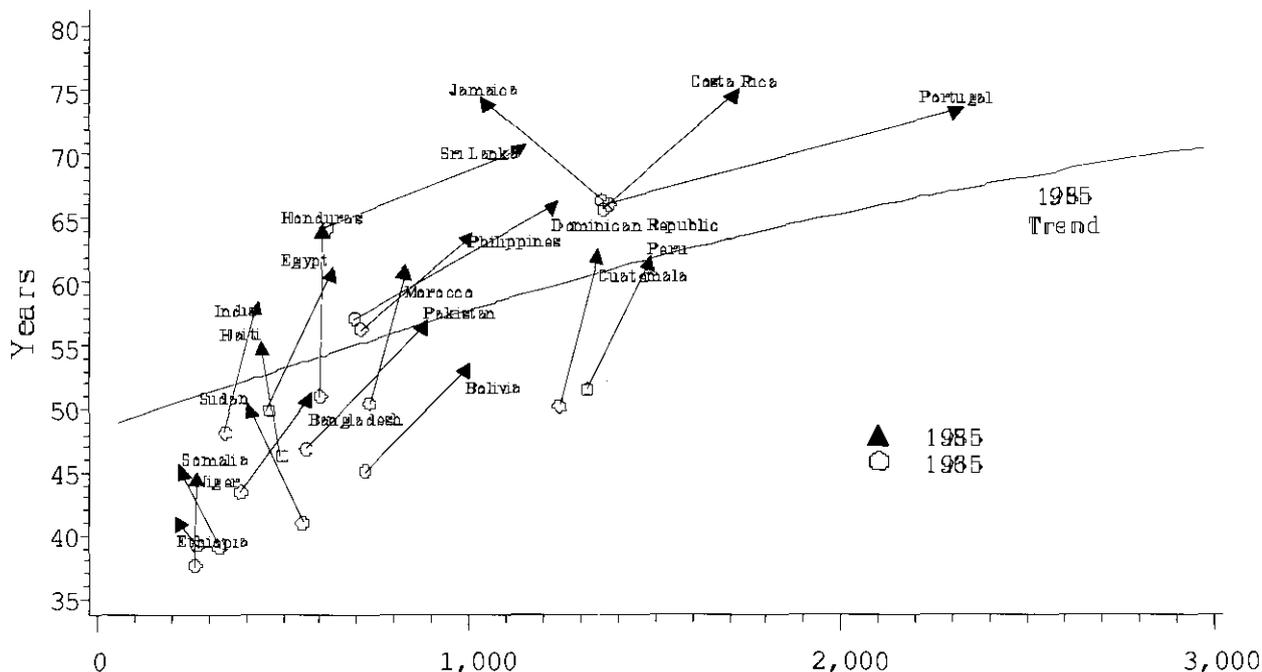
doubtful, should be relied on as a universally applicable gauge of development.

Most LDCs lack the institutional capacity for collecting accurate information on the condition of their citizens. Indeed, many developing country governments are unable to keep an accurate or timely accounting of their own activities. Notwithstanding this, most governments will report on a wide range of economic and social variables, regardless of the accuracy of the data.

There are few totally objective standards of what constitutes an "adequate" standard of living. Expectations and other subjective factors affect the way people perceive their standard of living. Even seemingly objective measures of well being, such as nutrition, involve psychology: an affluent person may be malnourished, obesity being a major health problem in many developing countries, while a low-income family whose diet is healthy may feel hungry.

**Figure 2.1 - Change in Individual Longevity and Disposable Income**

1965-1985, Life Expectancy and Income



Source: World Bank and A.I.D.; United Nations (1988)

Being able to afford more than just the necessities of life such as food and shelter is the beginning of broad-based development. More purchasing power increases the ability of individuals to control their own future as well as improve the material quality of their life. It is an indication of how the range for individual choices increases. Figure 2.2 shows that there are big differences in the growth, or lack of it, in private consumption over the last 30 years.

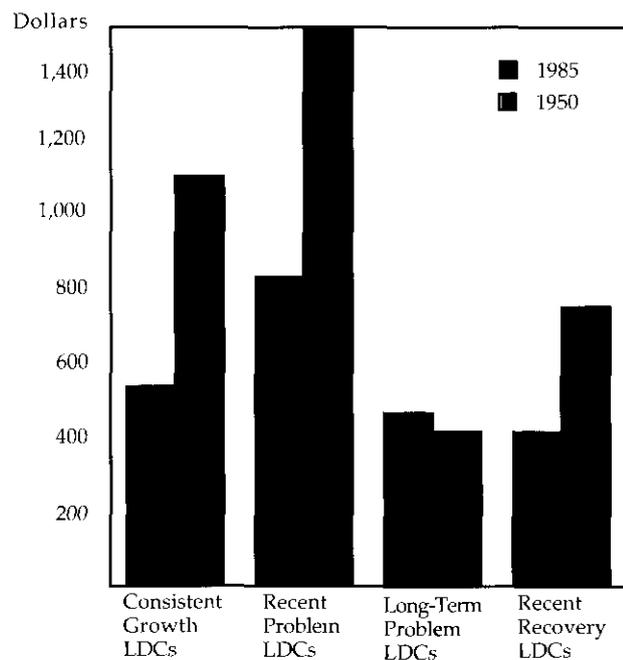
Where general economic activity increased rapidly, individuals were able to improve their standard of living. Growth helps promote a cycle of increased productivity, employment, and consumption.



**People Choosing What Development Means.** This bicycling villager is part of an expanding LDC market for electronic consumer items.

**Figure 2.2 - LDCs: Contrasting Performance**

1950 vs. 1985 Individual Consumption



Note: Country typology is defined in Box 2 of the Overview.  
Source: World Bank and A.I.D. (see Annex Table 1 technical note)

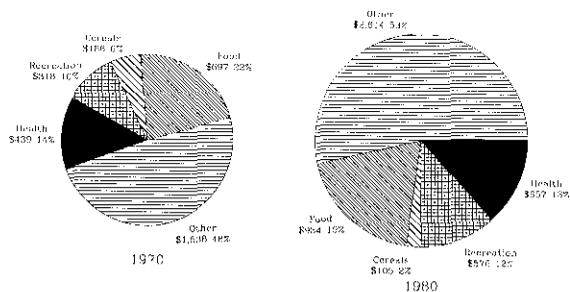
Poverty, on the other hand, has its own self-perpetuating cycle. Low incomes limit effective demand for goods or services; this reduces the scope for employment and this, in turn, promotes poverty. This is why low growth countries had the least increase in consumption choices.

Growth and government policies affect the structure of individual consumption. In some countries, investment has been kept high at the expense of private consumption. Price policies can make some items cheap and others expensive, in effect limiting the range of consumer choices. Government controls sometimes replace price mechanisms as a means for allocating goods or services. If government policy decides that only the politically influential have access to products, that obviously narrows the range of consumer freedom.

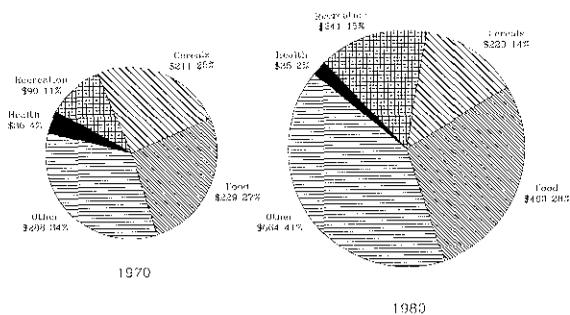
The level of real income also affects the pattern of consumption. Figure 2.3 shows how growth affected the way people allocate their income. Lower levels of economic activity and poverty are characterized by little flexibility. Consumers must spend their income on necessities like food. As growth takes place, consumers are free to broaden their diets and spend more on

**Figure 2.3 - How People Spend**  
 Disposable Income Patterns and Growth,  
 Constant 1980 Dollars

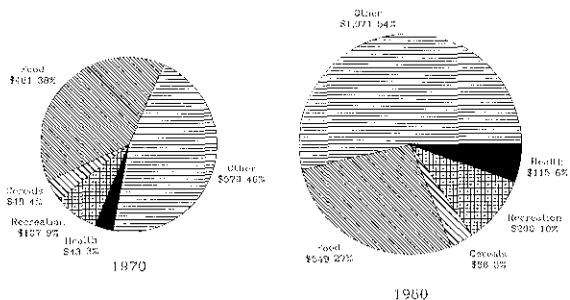
**Japan**



**Korea**



**Colombia**



Source: World Bank and A.I.D. (see Annex Table I technical note)

other items. For example, in Korea 52 percent of all income went for food in 1970 versus 42 percent in 1980 (and perhaps 30 percent in 1988). At the same time, expenditures for recreation and education grew sharply: threefold in absolute terms. Increased expenditures on recreation and education are, in fact, what development is all about.

Higher incomes permit higher outlays on recreation, reflecting the importance that individuals attach to the enjoyment of leisure time. Indeed, even in the poorest countries, increased outlays on recreation and education are an indication that the transition out of poverty has begun.

*Technology and New Choices*

Numbers about per capita consumption miss the emergence of new products and opportunities previously unavailable to most people in developing countries. The impact of technical innovation has been greatest for those of modest means. As Joseph Schumpeter observed in *Capitalism, Socialism, and Democracy*:

There are no doubt some things available to the modern workman that Louis XIV himself would have been delighted to have yet was unable to have — modern dentistry for instance. On the whole, however, a budget on that level had little that really mattered to gain from [development]. Even speed of travelling may be assumed to have been a minor consideration for so very dignified a gentleman. Electric lighting is no great boon to anyone who has money enough to buy a sufficient number of candles and to pay servants to attend to them. It is the cheap cloth, the cheap cotton and rayon fabric, boots, motorcars and so on that...permanently deepens and widens the stream of real income...and progressively raises the standard of life of the masses.

The physical availability and falling price of basic consumer goods have transformed living standards. Falling real food prices have characterized virtually all developing and developed countries and expanded the opportunity for consuming other products as well as for a more varied diet. Other basic commodities are also cheaper today than in the past: clothing, footwear, watches, and radios cost less in real terms

in low income countries today than they did 30 years ago.

Communications and transportation have had pervasive effects on living standards in developing countries. Before World War II, the great

majority of the developing world's population lived in relatively isolated rural villages. They had little contact with the outside world or its opportunities for economic improvement or intellectual stimulation. Commercial transactions were limited by the high cost of transport and lack of competition in trading. This is why the development of modern infrastructure has been so important.

### Box 2.2 - Economic Value of Living Longer

Economic indicators of consumption or income overlook some of the most critical "consumption" goods in countries making the transition out of chronic poverty. Any individual attaches value to his health. It is particularly perverse to ignore the value of longer life and better health — or education — in the lowest income countries. Doing so understates the amount of progress made over the past 30 years and exaggerates the differences between relatively less monetized and more rural low income economies and more urban and industrialized middle income (or developed) countries. The following table was prepared to show how per capita economic growth rates would rise if the value of health improvements were included.

The failure to adjust economic measures for health improvements can give the impression that social gains are unrelated to economic output. In fact, just the opposite has been true for the countries with lowest growth rates. It is in these countries, which began at low economic social levels, where the bulk of economic growth has been realized through health improvements.

#### A Better Measure

Different Growth Rates of GNP

Country	Date	Standard Method	Valuing Life
Chile	1931-71	2.00	3.29
Costa Rica	1950-73	3.13	4.41
France	1911-72	1.97	2.95
Mauritius	1952-71	-0.31	1.42
Japan	1930-74	3.99	5.45
Singapore	1957-74	6.27	7.19
Sri Lanka	1946-68	1.43	3.70
Thailand	1956-70	4.07	5.21
USA	1930-74	3.88	4.63

Source: Usher (1980)

- The road network in developing countries has increased roughly eight-fold since 1950. The expansion of roads and availability of relatively cheap truck transport opened up rural areas to commercial development and helped spark the growth of regional market centers.
- Over 700 million radios have been purchased in developing countries in the last 20 years. Virtually every villager in even the poorest and most isolated areas of Asia, Africa, the Near East, or Latin America, now has an electronic link to the outside world and can listen to broadcasts of cultural, political, or commercial interest.
- The "information revolution" sparked by radio and highway communications changed traditional world views and opened a range of possibilities not previously dreamed of. It triggered a revolution of rising expectations.
- Access to private communications channels like telephones has increased exponentially. In the developing world as a whole, the number of telephone access lines has increased by almost 700 percent since 1982.
- In South Asia farmer marketing was limited to the distance that could be covered by a one day round-trip by bullock cart. All-weather roads, tractors, small trucks, and even public buses now allow farmers to cover much greater distances.
- The numbers of private cars and trucks have increased dramatically. In the developing world as a whole, the sales of cars have risen from 10,000 annually in the 1950s to over ten million by the early 1980s.

### Box 2.3 - Poverty and Income Distribution

The level and distribution of income, consumption, and the gains from growth determine the level of poverty in a given economy. Even in a country where average incomes had risen, poverty might also, in theory, rise if income distribution were to become more unequal. Questions about people who are unable to afford a minimum basket of consumption items add an important dimension to an assessment of changes in living standards.

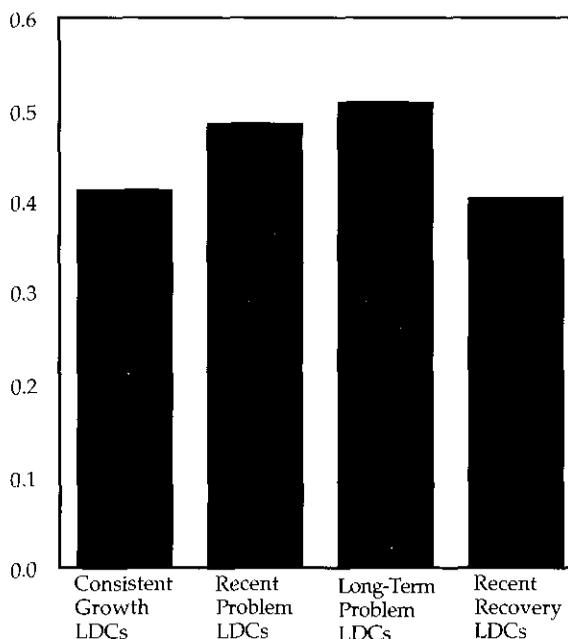
Do the poor benefit from economic growth? Like most important social questions the answer varies among countries and over time. There is some evidence that income inequality may rise when economic growth begins, but this has not necessarily meant that the poor are worse off in absolute terms. Indeed, the available evidence showing falling death rates would suggest that the poor are almost certainly better off even if their "share" of total national income has in fact fallen (which appears to have happened in a number of Latin American countries). Further, the fact that fewer of the poor die means that income inequality appears to rise as there are more people. To measure progress out of poverty, we must first understand the characteristics of the poor in developing countries.

- First, there is a good deal of movement into and out of poverty. In rural areas, poverty is often an occasional or "hungry season" phenomenon.
- Second, the distribution of consumption within families is an important determinant of who is affected by poverty. In many areas, children and women are particularly vulnerable to nutritional or health problems.
- Third, at early stages of development most of the poor, and most of the population as a whole, lives in relatively isolated rural communities.

There is also increasing evidence that countries with rapid economic growth have also been far more successful at reducing poverty and income inequality, two quite different objectives, than slow or negative growth countries. The figure below shows that the consistent growth countries have a more equal income distribution than the long-term or recent problem categories.

#### More Growth, Less Inequality

Index of Income Distribution



Note: Higher Gini coefficients mean more inequality; country typology is defined in Box 2 of the Overview.

Source: World Bank and A.I.D. (see Annex Table I technical note)

#### Education and Self-Improvement

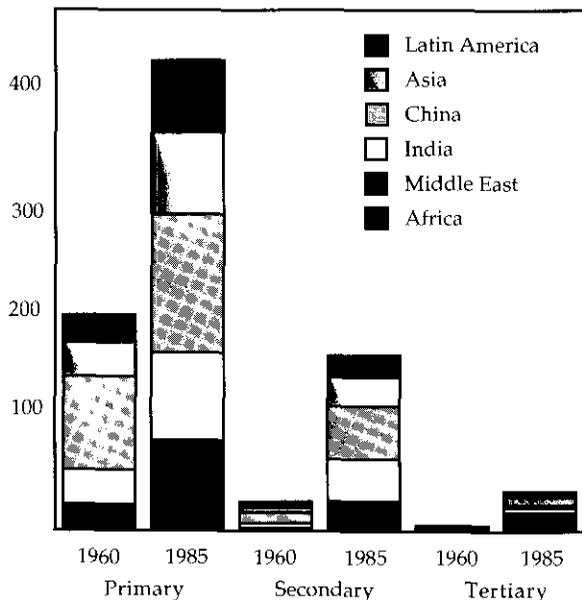
Progress requires that individuals accept and be able to cope with change. Attitudes as well as skills are critical to mastering the techniques required for more productive farming or industrial

employment. In this sense, the development of people is both a boon to and an indicator of higher living standards. The Nobel laureate T.W. Schultz, who helped focus development economics on the role of human capital, has noted that:

**Figure 2.4a - More Students in LDCs**

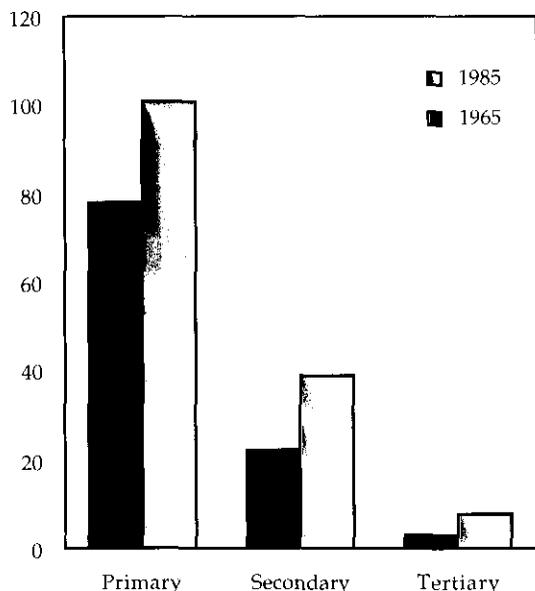
1960 vs. 1985 Enrollments

Enrollment in millions



**Figure 2.4b - Greater Access to Schools**

Percentage of Age Group Enrolled



Note: Enrollment at the primary and secondary levels include pupils of all ages. Therefore, countries with almost universal education among school-aged population at the primary level will exceed 100 percent due to the addition of pupils outside the official school ages.

Source: UNESCO (various years); World Bank (1987b)

The wealth of nations [has] come to be predominantly the acquired abilities of people — their education, experience, skills and health (Schultz, 1981).

Education in the sense that Schultz uses the word is far broader than what happens in a schoolroom. Indeed, his earliest work looked at how education and new technology helped break the lock of tradition on farming practices. Modernizing agriculture has, in turn, provided the starting point for sustained economic growth in most developed and developing countries. From 18th century Britain to 20th century Asia, the willingness and ability of farmers to apply science to agriculture provided a base for development.

If education is about increasing an individual's competence, then it can come from on-the-job as well as classroom experience, including things as basic as learning to work regular hours. Indeed, the introduction of watches and a more precise notion of time-keeping is a social transformation that has only recently taken place in many developing countries.

The experience of attending a primary school, the social discipline and formal training it imposes, affects attitudes as well as provides skills like literacy. Schools are often used to inculcate a sense of national identity as well as to build basic skills in reading or mathematics. Thus, it is important to recognize the scale of the schooling effort going on in developing countries where, today, almost 700 million children and young adults are students. Figure 2.4a provides a breakdown on the number of developing country students in primary, secondary, tertiary, and overseas schools.

Access to schools has increased in every developing country. In the 1950s, less than 40 percent of all school-aged children were enrolled in primary school; the enrollment rate is now about 70 percent, although far fewer are able to complete primary school (see Figure 2.4b).

Again, the global averages hide the wide variety of experience at the country level. While some 35 countries have achieved universal primary education, a comparable number have been unable to prevent a fall in primary education participation rates and, though more difficult to quantify, even sharper declines in the quality of schooling.

Female access to educational opportunities, either formal schooling or on-the-job training, is another, more specific indicator of and contributor to improved living standards. The gap between male and female school participation rates has, in general, narrowed for primary education. But for secondary education and literacy, the gap has actually increased in the majority of countries. The implications of this trend are far reaching because female education has been linked to fertility decline, child survival rates, and family welfare.

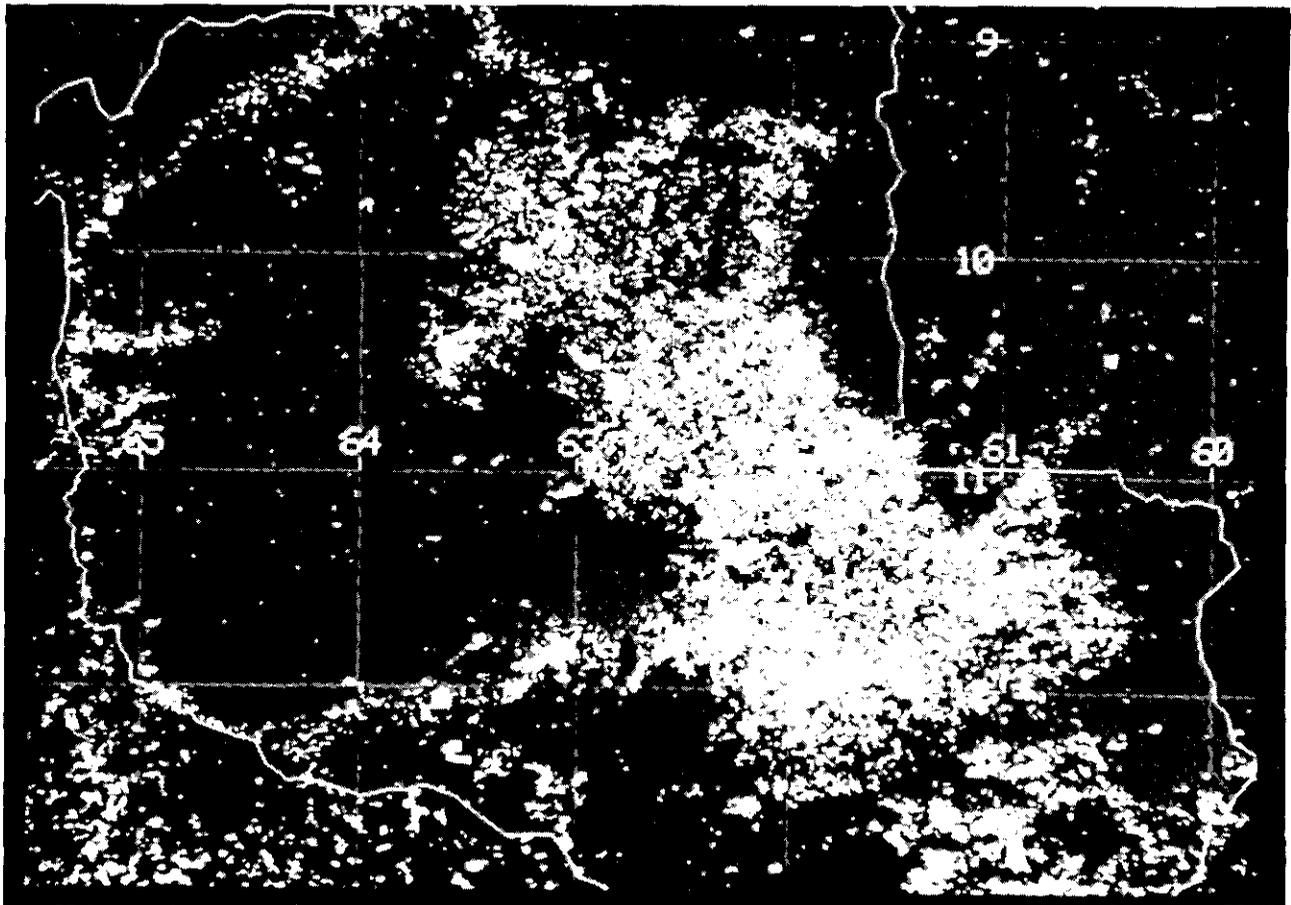
#### *Environmental Quality*

Like health or educational improvements, environmental quality is not well accounted for in national income statistics. The Western experience could be taken as evidence that improved living standards generally bring serious environmental problems — but also new means of solving them. Industrialization, urbanization, and the expansion of fossil-fuel powered transporta-

tion will, other things being equal, increase pollution. The effects on health and economics can be dramatic. In Mexico City, for example, upper respiratory infections related to air pollution account for a disproportionate amount of mortality. Also, recent studies have suggested a link between environmental degradation in the tropics and long-term changes in the global climate.

But ecological balance in the absence of human development is also precarious. Indeed, the lack of sustained economic progress has, in many areas, contributed to environmental problems. Slash and burn agriculture in the Amazon rain forest of Brazil is a by-product of inadequate employment opportunities elsewhere, the desire to own land, and government subsidies that encourage unsustainable farming.

Deforestation in Nepal is another example of rapid population increase and a lack of alternative employment opportunity leading to over-exploitation of forest resources. Because there were no individually-owned forest lands, there was no



**Going up in Smoke.** An aerial view of Rondonia State, Brazil, an area the size of Texas. The light areas mark fires set to clear tropical rainforests, the loss of which could mean ecological disaster for Brazil and, perhaps, the world as a whole.

incentive for individuals to adopt sustainable forestry technologies. An ecological disaster of epic proportions is the result. One of Nepal's major exports is now topsoil. Among other things, this has created a catastrophic flood problem for Bangladesh where most of the country was literally underwater in 1988.

### Employment and Productivity

The ability of an economy to create productive jobs propels increases in people's incomes and living standards. Population growth has made job creation a staggering challenge in developing countries. Each year, over 50 million new jobs have had to be created in developing countries as a whole. Table 2.1 shows that almost one billion people have had to find jobs since 1950.

Most new jobs have come from family farming, small scale enterprises, and part-time work. The fastest growing countries are countries where the bulk of new jobs have been created in industrial and service sectors; lower growth countries have had to absorb increased numbers in agriculture (see Figure 2.5). Available surveys suggest that small and medium enterprises, where total employment is less than 50 and often less than ten, provide well over 50 percent of all industrial sector employment. Such enterprises are even more important in service sectors. Family owned farms dominate agricultural sector employment, although working on a family owned farm may be a part-time occupation for many. It is also worth noting that government employment has remained marginal in terms of overall employment (although specific industries or cities often depend on public sector payrolls).

#### Food and Agriculture

A dynamic farming sector has proven a hallmark of successful economic and social progress. Affordable food is a starting point for improving the quality of life. Agriculture is important not only in providing employment, but also in generating an essential output which everyone must consume. The real cost of food is therefore a dominant factor in whether overall disposable income can grow.

Higher standards of living have been tied to falling real food prices around the world. Figure

**Table 2.1 - Creating 800 Million Jobs**

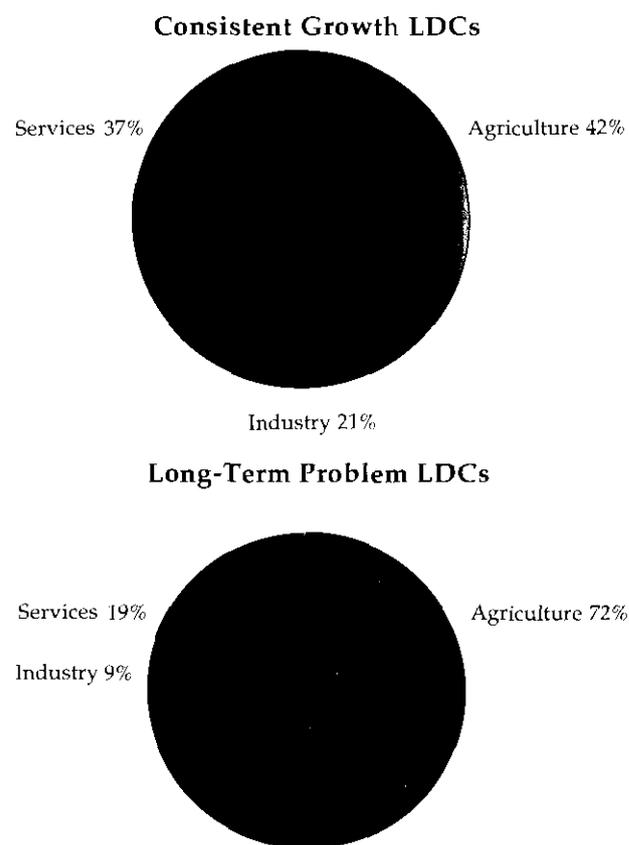
Expanding LDC Labor Force (in millions)

	Labor Force		New Jobs
	1950	1985	
All LDCs	770	1,539	769
Sub-Saharan Africa	85	184	99
Middle East and North Africa	35	78	43
India	165	293	128
China	317	618	301
East Asia	73	156	83
South Asia	40	76	36
Central America and Caribbean	16	40	24
South America	39	94	55

Source: ILO (1986)

**Figure 2.5 - Growth and Employment Patterns**

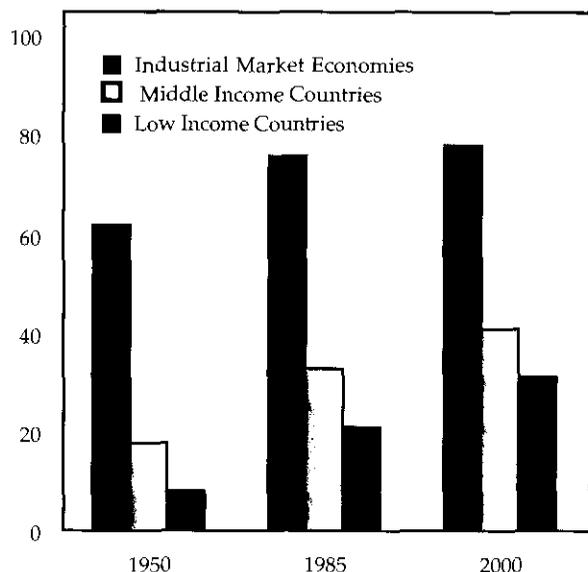
1985, New Jobs by Sector



Note: Country typology is defined in Box 2 of the Overview  
Source: World Bank (1987c)

## Figure 2.6 - Growing Urbanization

Percentage of Total Population in Cities



Source: United Nations (1988)

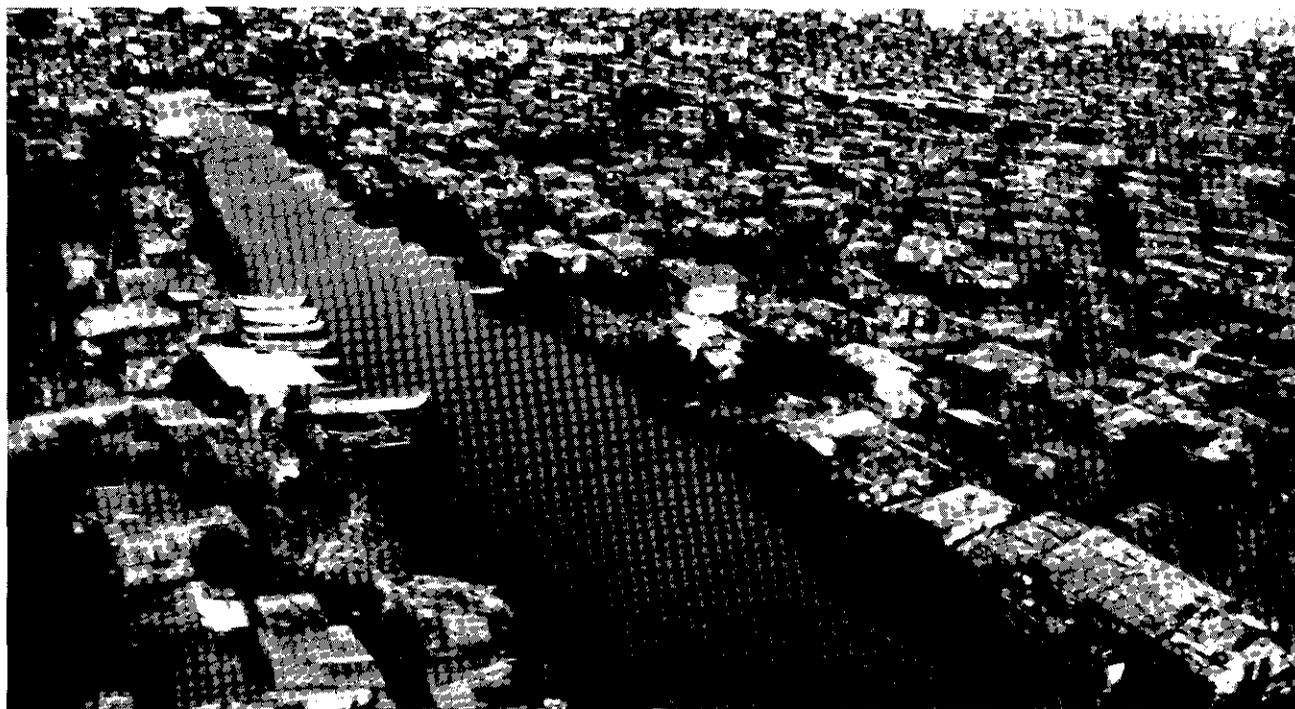
2.6 shows the trend in real wheat prices since the 19th century. Reconciling higher farmer incomes with lower food prices requires more productive farming. In general, this has meant more intensive farming with greater technological inputs and higher yields.

### *Urbanization and Industrialization*

Throughout history, cities have been centers of economic, political, and cultural development. Higher levels of urbanization are closely related to higher levels of economic output (See Figure 2.7).

Urban centers within developing countries generate a disproportionate amount of total economic activity. For the developing world as a whole, 60 percent of total economic output and over 80 percent of incremental economic output come from cities. A few country examples:

- Abidjan is home to more than 70 percent of Cote d'Ivoire's total economic activity but only about 15 percent of the population, and the country's agricultural sector is one of the healthiest in Africa.



**Changing Landscape of Development.** Urbanization has generally involved unplanned and spontaneous settlement as in this district of Manila.

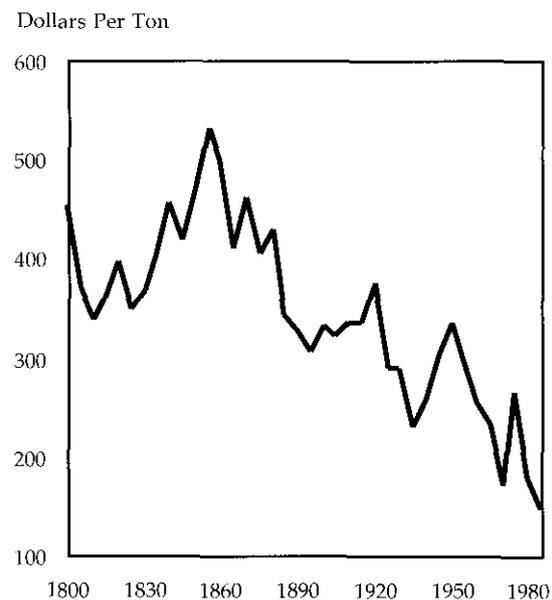
- Greater metropolitan Manila accounts for 80 percent of total Philippines manufacturing employment, notwithstanding the fact that rural small scale industries form the fastest growing sector of the economy.
- South Korea's two biggest cities provided 60 percent of the country's total education services, notwithstanding one of the world's best rural school systems.

The rapid increase in urban population reflects the overall increase in both population in and migration from the countryside. The relative importance of migration varies from country to country. For the developing world as a whole, a little less than half of the 1950 to 1980 growth in cities is related to migration. Migration is relatively less important in South America and more important in Africa, reflecting the difference in urbanization starting points.

The general flow of people from the countryside to urban areas shows that migrants think a move to the city will improve their quality of life. Their intuitive judgment is borne out by a range of supporting data. Health standards tend to be higher in cities than in the countryside. While

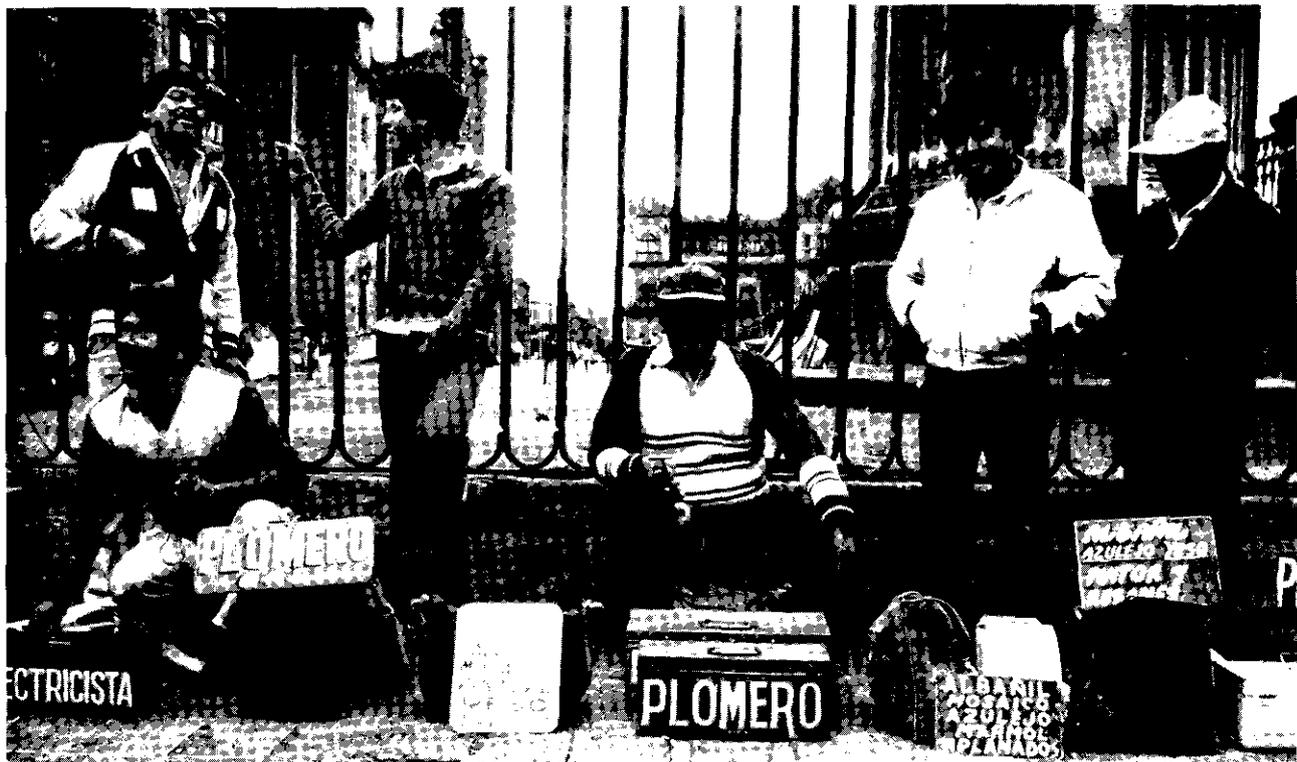
**Figure 2.7 - Food is Getting Cheaper**

Real International Price of Wheat  
(Dollars per Ton)



Note: Deflated by wholesale price index (1985=100).

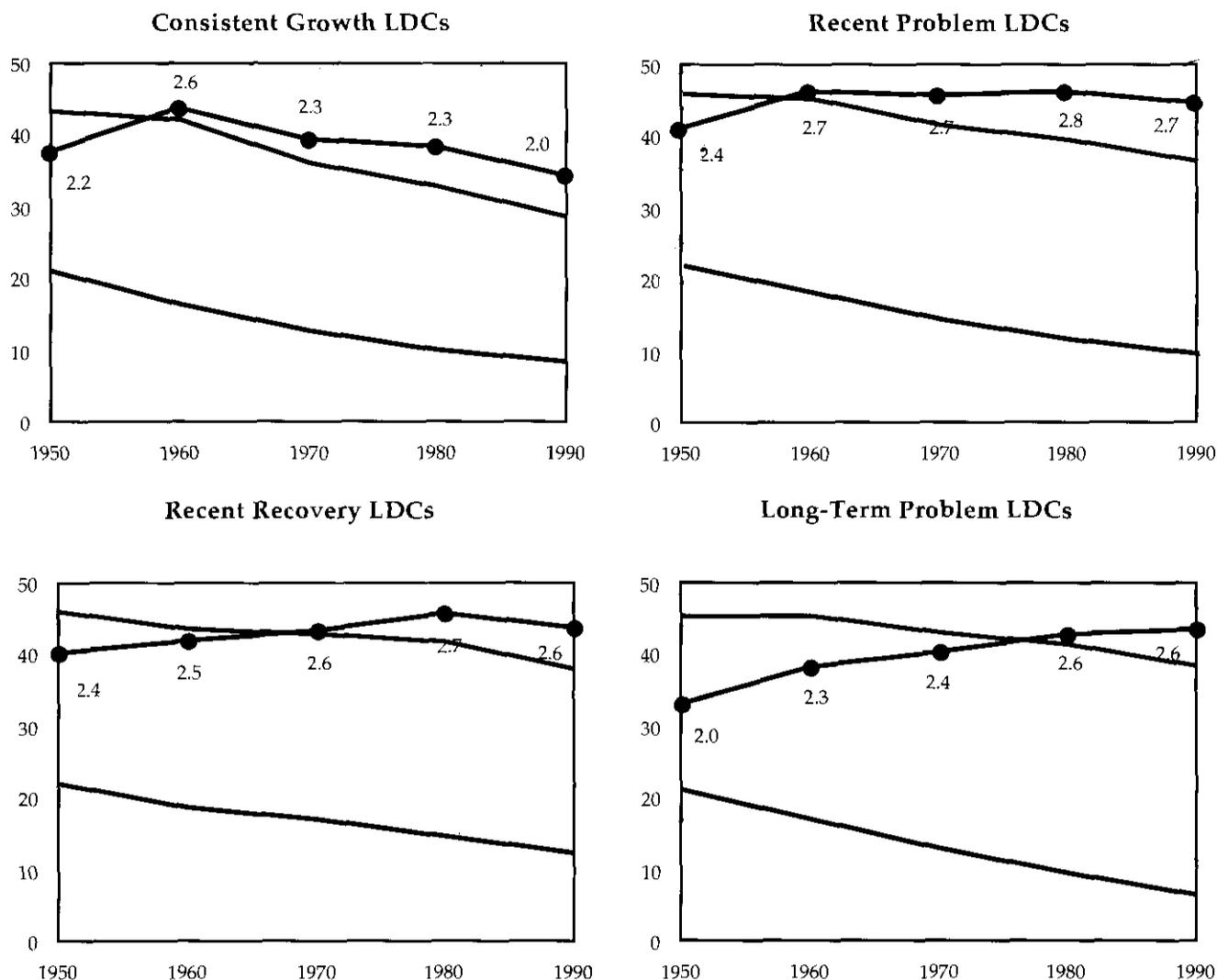
Source: U.S. Bureau of the Census (1975; 1982; 1984)



**Looking for Work.** Generating jobs for growing LDC populations is a major development challenge. Unemployed Mexicans advertise their skills at an unofficial sidewalk job exchange.

**Figure 2.8 - Patterns of Life and Death in LDCs**

1950-1990 Rates of Birth, Death, and Natural Increase (Per Thousand)



Green line = crude birth rate per thousand; blue line = crude death rate per thousand; red line = rate of natural increase.

Note: Country typology is defined in Box 2 of the Overview.

Source: United Nations (1988)

there are often large differences between the health of the middle classes and the poor in urban areas, the gap between urban and rural health, even for the poor, is still larger.

Economic productivity is what urban centers are all about. From an individual's perspective this is translated into higher urban wages and consumption opportunities that help pull labor from the countryside. From an economy-wide perspective the gains come from tangible eco-

nomics benefits. There are many economies of scale in industrial output and services. Economies of aggregation are also important and reflect the advantages of having a critical mass of industries located near one another. In fact, the most beneficial aspect of aggregation is reflected in the concentrated size and relatively higher skill and entrepreneurial orientation of urban labor markets.

Manufacturing and services are the economic engines of the city. The importance of the industrial sector is widely accepted. Industrial value added has been growing at roughly double the increase in agriculture in the developing world (excluding China). And the fastest growing economies have had, on average, industrial value added growth rates three to five times those of agriculture. Productivity, output, and employment have likewise grown impressively in the service sector.

Urban growth also has important positive side effects for the surrounding countryside. First and most important, demand for agricultural products rises. As incomes grow, consumption shifts to more expensive, and often labor intensive, food products such as perishable fruits, vegetables, poultry, or pork. Second, urban areas produce goods that people in the countryside want, including agricultural products like fertilizer and pesticides, machinery, and consumer goods. In fact, the lack of urban produced consumption items has reduced the incentives for growing more even when governments have attempted to raise nominal crop prices, particularly in some African countries.

## Health and Population

Improved health has affected population growth in virtually every developing country. The population "problem" actually reflects the progress made in keeping people alive throughout the world. Figure 2.8 shows the trends in mortality, births, and the rate of overall population increase for country groups organized by economic performance.

The data show that population growth has been triggered by falling death rates for LDCs as a whole as well as by country groups (or India and China). However, population growth rates vary considerably.

- For LDCs as a whole (excluding India and China), death rates fell by roughly 50 percent between 1950 and 1970; birth rates also fell and, by the 1980s, the rate of overall population increase slowed.

- For Consistent Growth LDCs, there has been greater progress in cutting death rates, and population growth has also slowed the most.
- For Long-term Problem LDCs, the death rate declines are plateauing at levels well above those of other LDCs, and population growth has not yet slowed.

### *Reasons for Lower Mortality*

Science-based public health programs have historically helped lower death rates in developing countries. Particularly at high levels of mortality, targeted interventions with new technologies have reduced mortality independent of concurrent change in living conditions or economic circumstances. According to one recent study, malaria control alone accounted for between 13 and 33 percent of the mortality decline in developing countries from 1940 to 1970. Table 2.2 shows the diseases which account for developing country mortality declines.

Public health campaigns such as those against malaria and small pox have succeeded in developing countries for a number of reasons. At the time, they were cheap, although costs have since

**Table 2.2 - Better Health: Not Just Technology**

Cause of Mortality Declines		
<i>Diseases</i>	<i>Mortality Decline Accounted for by Disease</i>	<i>Reason for Decline</i>
Influenza, Pneumonia, Bronchitis	30-33%	improved standards of living due to economic development
Diahrreal Diseases	7%	
Typhoid, Cholera	2%	
Malaria	13-33%	
Respiratory Tuberculosis	10%	preventative and therapeutic medical technologies
Small Pox	2%	
Measles, Diphtheria, Whooping Cough	5%	
Typhus		
Plague		

Source: Preston (1980)

## Box 2.4 - Health and Economic Development

**Worldwide:** Cause-of-death analysis for 1940-70 attributes approximately 50 percent of mortality decline to changing living conditions; analysis of life expectancy increases confirms that income, literacy, and daily calorie consumption changes account for approximately 50 percent of life expectancy increases (Samuel H. Preston, 1980).

**Worldwide:** Regression analysis of life expectancy relationship to income growth 1940-70 indicates that fully one third of the increase can be attributed to per capita income growth alone (Victor Fuchs, 1980).

**Latin America:** Reduction in infant and child mortality has been discontinuous and reversible, with the pattern of mortality related not to medical intervention but to standards of living and education. Eighty-six percent of variability in risks of dying before age two are accounted for by the mother's level of education (Alberto Palloni, 1981).

**South and East Asia:** From the 1950s to the mid-1960s, decline in mortality was due to vertical disease control programs, primarily malaria. From the mid-1960s onward, the slowing of mortality declines paralleled declines in economic growth (Lado Ruzicka and Harald Hansluwka, 1982).

**Latin America :** Cause-of-death and regression analysis for 1955-73 mortality data indicates 45 to 50 percent of mortality decline was directly attributable to rising standards of living (Alberto Palloni and Randy Wyrick, 1982).

**Worldwide:** For LDCs, there is a strong set of direct and indirect relationships between indicators of socioeconomic development and mortality. Crude death rates are associated directly with educational level, health services, living standard, and nutritional diet. Infant mortality and life expectancy are influenced directly by living standards and education (Shu-O W. Yang and Brian F. Pendleton, 1980).

risen sharply. The malaria control program in Sri Lanka cut the number of malaria cases from over one million in 1948 to less than 100 between 1948 and 1970 at an average annual cost of less than \$20 million over the 22 year period. Vaccines against smallpox cost less than ten cents per beneficiary in the 1960s. The cost required, including operation and maintenance, to improve urban water systems is also cheap at between \$5 and \$10 per beneficiary and easily managed, with foreign aid financing often available for design and construction. And once this kind of structural improvement is made and maintained, the health benefits are permanent.

These sorts of public health improvements were also consistent with the institutional capacity in developing countries. Centrally controlled programs that were simple to administer, or which could be run by expatriates, proved successful. Short-term crash campaigns that could draw on the military or other reasonably well organized cadres also worked. This is why health indicators registered gains even in countries where there was little or no economic growth, a point taken up again below.

But public health technology accounts for only part of the decline in mortality: higher living standards, including intangibles like education, appear to have been equally important. Here, the link to economic growth is fundamental. Detailed worldwide and regional studies show that roughly half of the decline in mortality has been associated with general improvements in living standards, rather than with any identifiable specific technical advances (see Box 2.4).

### *Child Survival*

Reduced child death rates have played a major role in the overall improvement in developing country death rates. Improved child survival rates are at once the most intimate and far-reaching measure of development. Given the social consequences of lower child death rates in Europe, it is useful to put these numbers into some historical perspective. Twenty years ago, a child born in a rural African family had about the same chance of surviving as a baby born in medieval Europe. A generation later, those children who survived are now parents: their own children are

surviving at rates comparable to those of 1930s Europe, a leap of centuries in a single generation.

Recent histories of the family have emphasized the impact of falling child death rates on value systems. The very prospect of healthy, surviving children allows parents to invest more in terms of emotional attachments as well as economic resources in raising their young. The modern nuclear family really emerged from a social transformation that started with falling child death rates. As Philippe Aries observed in *Centuries of Childhood: A Social History of the Family*:

Nobody would now dare to seek consolation for losing a child in the hope of having another, as parents could have admitted doing only a century before... Here we see the connection between the progress of the concept of childhood and the progress of hygiene, between concern for the child and concern for his health, another form of the link between attitudes to life and attitudes to death.

### A Recent Slowdown?

Given the unparalleled improvement in developing country health, concerns about sustaining the rate of progress are only natural. And there is growing but far from overwhelming evidence that the rate of improvement has indeed slowed in some countries.

Recent improvements in health have proven more difficult, and expensive, because of past successes. Part of the problem is fewer cheap and easy short-cuts to improving health standards. The rapid expansion of modern infrastructure in such areas as basic transportation and communication has already made its contribution. So have the cheap and easily administered public health technologies such as those that controlled malaria and eliminated small pox. Whereas the 1960s smallpox vaccine programs cost ten cents per beneficiary, current vaccination programs cost as much as \$10 to \$20 per beneficiary.

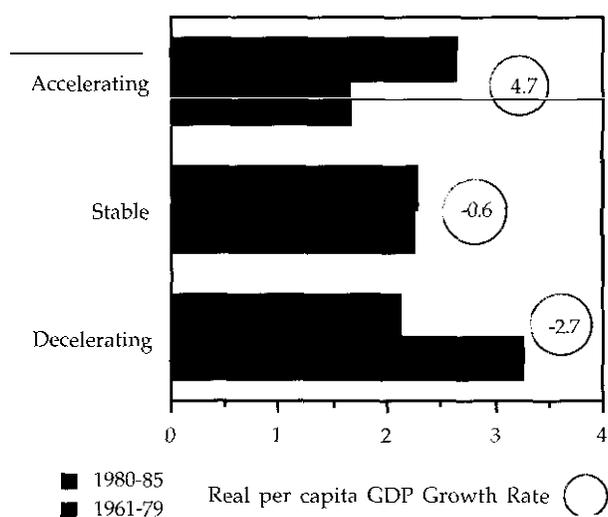
Long-term trends of slow or negative economic growth have also been a problem. Figure 2.9 shows the link between the rate of improvement for infant mortality and overall economic growth rates. The data show that, on average, economic growth countries had steady or accelerated rates of progress; countries with negative economic growth showed a decline in the rate of progress.

Indeed, the 32 countries with accelerating progress in infant mortality had the highest economic growth and went from the lowest infant mortality rate of progress in 1961-79 to the highest rate in 1980-85. In direct contrast, the 25 decelerating countries had the lowest economic growth and went from the highest infant mortality progress rate in 1961-79 to the lowest in 1980-85.

The slowdown in health improvement actually started before international economic condition worsened in the 1970s. Yet countries like Brazil coped with dramatic economic declines in the 1980s while simultaneously showing improvements in some health indicators, which is all the more remarkable considering that the country's poorest region was suffering from drought for much of the 1980s as well. Of course,

**Figure 2.9 - Higher Growth, Better Social Progress**

Rate of Improvement in Infant Mortality and Real GDP Per Capita Growth



Source: World Bank (1987c) and A.I.D. staff estimates

there are also countries where economic decline, particularly over the long-term, has been associated with declining social indicators (see Box 2.5).

The more general point is that future health improvements will require approaches and technologies quite different from those that worked in the past. Medical technology alone is not likely to have as large an effect on mortality decline as in the past. The indirect effects of general improvements in living conditions and education will be proportionately more important. As one of the leading scholars on this issue has observed:

Suggestions that the pace of mortality decline in LDCs has slowed in the past decade imply that the shift in the mortality/development relation may have essentially ended in the early 1960s, while gains in living standards continue to exert an influence on mortality (Preston, 1980).

### Political Freedom and Social Pluralism

Social and economic change — urbanization, increases in literacy and education, industrialization, mass media expansion — extend political consciousness, multiply political demands, broaden political participation. . . . modernity breeds stability, but modernization breeds instability (Huntington, 1968).

The rewards of modernity, then, can only be reaped after experiencing the risks of modernization, just as it is necessary to undergo the stress of adolescence before achieving adulthood. The ever-compressing time frame of change in this century has proved to be both a blessing and a curse in this respect. Millions of people in developing countries have experienced improvements in life expectancy, health, nutrition, and mobility by the rapid application of modern technology, mostly developed far beyond their borders.

Their lives — sometimes the very fibre of their societies — have been altered beyond recognition in a single generation in ways that used to take centuries. Often, the result has been improvement in the physical quality of life without a comparable improvement in the political and social quality of life. This is the exact opposite of the developmental history of a country like the U.S., where a basic series of rights and guarantees

was devised and institutionalized at the outset of the nation's history, and at a time when the physical quality of life for the average American was far worse than for the citizens of most of today's developing countries.

Many inhabitants of Africa, Asia, and Latin America live in material conditions far superior to America's early settlers without having progressed as far in terms of political freedom and

#### Box 2.5 - Historical Perspective on LDC Health

The speed of developing country health improvements is unprecedented in human history. U.S. life expectancy went from 48 years in 1900 to 61 by 1940. The same ground was covered in half the time or less by Egypt (1965 to 1985) and Jordan (1963 to 1980). Similar comparisons can be made for other health indicators. Western infant mortality rates took between 50 and 70 years to halve, while the same improvement took 25 years in developing countries. Even more important, this pace of developing country progress applies irrespective of the initial state of health in a given country.

Rapid improvements in tropical life expectancy are all the more impressive when the special health risks of these areas are considered. The key difference between the tropics and temperate areas is the greater prevalence of insects and other vectors that transmit diseases. In temperate areas, winter freezes play a crucial role in limiting insect populations. In contrast, the climate and ecology in most tropical areas promote large populations of disease vectors which speed the process of disease transmission.

There are, however, some public health problems common to temperate and tropical areas. An example of historical relevance in the U.S. and Europe but one of continuing immediate concern in developing countries is unsanitary drinking water. Contaminated water systems were the vehicle for transmitting pandemics such as cholera in 19th century U.S. and British cities. They remain the primary cause of gastro-intestinal infections that are the second leading reason for child death in developing countries.

### Box 2.6 - Health is Declining in Some LDCs

Not all health news emanating from the developing world has been good. Statistical analysis of the widespread reversal of social indicators such as child mortality and life expectancy can mask the seriousness of the trend in human terms. In many countries, the reversal is so serious that death rates have returned to levels not seen in the last ten, 15, or even 20 years. The path to the future has turned back on itself, and the terrain of death can be strikingly familiar.

In Madagascar, child mortality more than doubled between 1982 and 1985. By 1985, child mortality rates were higher than they had been in 1960.

In Mali, the 1984 child mortality rate was higher than it was in 1970. In Haiti and the Dominican Republic, child mortality rates by 1985 had reverted to their 1978 levels. In places as different as Peru and Papua New Guinea, but with shared economic experience of significant 1980s decline, 1985 child mortality rates equaled those for 1977.

Life expectancy reversals can be equally startling. In Guyana, for example, the 1985 life expectancy had reverted to its 1975 level. Between 1982 and 1985, places as different as Togo, Uganda, Haiti, and Western Samoa had lost ground, and 1985 life expectancy was back at its 1982 level.

social pluralism. The discrepancy may be explained in part by the fact that the gradual material progress made by 18th and 19th century Americans was largely self-developed. In the absence of international development agencies or charitable organizations, the material quality of life — like the social and political quality of life — improved only as fast as Americans them-

selves were capable of making it. Today, vaccines and fertilizers can be successfully applied on short notice anywhere in the world; the development of a sound, democratically-oriented social infrastructure is work of an altogether different magnitude.

Levels of individual freedom vary around the world. Figure 2.10 shows how countries cur-

Figure 2.10 - Levels of Freedom in Developing Countries



Source: Freedom House

## Box 2.7 - Exceptions that Prove the Rule: Health in Sri Lanka and Kerala

The problem of poverty is so acute in much of the developing world that the debate over development strategies has often focused on it. A number of developing country politicians, academic experts, and officials of private voluntary agencies have suggested that resources should be targeted directly on poverty alleviation. If the choice were between general economic growth and poverty reduction, some would argue for the latter alone.

The advocates of direct action on poverty often point to a number of places where quality of life appears high despite low levels of economic output or growth. Sri Lanka and Kerala state in India were often cited as examples which showed that social progress could be de-coupled from economic growth if social programs were only given sufficient budgets and attention.

The lessons, however, are actually quite different. Careful examination of Sri Lankan experience has been carried out by both the World Bank (Bhalla and Glewwe, 1986) and distinguished Indian economist, Jagdish Bhagwati (1988). Between 1960 and 1978, the Sri Lankan government increased its spending on social programs from 8 to 15.2 percent of GNP. But, in that same period, based on World Bank time series data, Sri Lankan rates of infant mortality decline were no better than the likes of Madagascar and Zambia, and were actually worse than those of economies growing at rates similar to that of Sri Lanka (just under 2 percent). During the same period, Sri Lanka made slower progress in increasing its life expectancy than did most of its economic growth equivalents and even slower progress than countries which actually lost economic ground in the period. Apparently, expenditures couldn't speed up social progress. So why does the Sri Lankan level of achievement seem to coincide with increased expenditures?

The answer, as in so many things, lies in history. Sri Lanka's biggest social gains were made not during its heyday of social expenditures, but long before. Infant mortality declined by 3.1 percent per year between 1940 and 1960, but only by 1.9 percent per year between 1960 and 1978. The 1940s gains were due to malaria control, and those in the 1950s and 1960s to water supply and sanitation expansion. Sri Lanka's life expectancy of 67 years at the end of its social expenditure expansion is impressive. But most of the gain was made not between 1960 and 1978, but in the 1940s. Already in 1948, Sri Lanka had a life expectancy (54 years) greater than most developing countries and on a par with

Japan (57.5 years). The rate of progress in extending life expectancy actually declined in the 1960-78 period.

The lessons from the Sri Lankan experience were recently summarized in an essay on poverty and public policy by Jagdish Bhagwati. His essay included a review of experience in India and suggested that Sri Lankan social indicators including life expectancy, infant mortality, and literacy

...were already remarkably high by 1948 itself...When changes in these indices are considered for 1960-78 it turns out that Sri Lanka's performance on these criteria shrinks into mediocrity...Can it be that the diversion of expenditures away from growth to (*social*) direct expenditures affected growth adversely and hence impacted on the poor more than the direct expenditures helped them?...[experience] only sustain[s] the advisability of assigning primacy to the growth-oriented route to ameliorating poverty (Bhagwati, 1988).

Much of the admired social indicator status of Kerala can also be laid at the feet of history. The first school for girls was established in Kerala in 1819 and the first female teachers college in 1887. By 1981, Kerala's literacy rate was 70.4 percent compared to 36 percent for India, and the male/female gap in literacy was a third that of India (9 percentage points compared to 28 in India).

Medical infrastructure also shows deep historical patterns unique to much of the developing world. The first hospitals were established in the mid-1800s, and by 1900, Kerala could boast 22 hospitals and 20 dispensaries. Indeed, between 1900 and 1904 alone, the number of hospital beds in the state increased by 40 percent. This combination of extensive medical infrastructure and a well-educated maternal population has led to extremely low rates of infant death from neonatal causes (tetanus and birth injury) which prove the most intractable in other countries.

While it is true that Kerala is poorer on a per capita basis than India, it actually has a lower percentage of its population below the poverty line than does India. Thus, though poor, Kerala's history and its breadth of economic distribution seem to set an entirely different stage for social indicator progress than is present in those countries to which it is normally compared.

rently stand on an absolute scale of freedom as prepared by Freedom House (an independent, non-profit think tank). Based on this data, political rights increased in 56 LDCs between 1973 and 1987. During this same time period, 33 LDCs witnessed a decline in political rights. Nowhere has the increase in political freedom been more dramatic than in Latin America where 16 countries have experienced increases in political rights and only eight have registered declines.

Is there a link between development, or growth, and political freedom? There is no apparent relationship between the level of economic output per capita and political rights. A few very poor countries are quite free, and a number of well-off countries are not. There is a tendency, however, for countries which are growing economically to show improvement in the level of political rights — a link between civil liberties and economic growth which we will explore in the next chapter. Whether economic progress assists political liberalization, or the other way around, is obviously the unanswered question.

If lower infant mortality, better food, and longer life expectancy are no guarantee of democratic pluralism, and if some of the more economically successful developing nations have not yet

achieved textbook democracy, economic growth does appear to be a necessary pre-condition for long-term political liberalization and stability. Economic growth does not assure democracy, but its absence makes the survival of democracy a risky proposition at best.

## Conclusion

General improvements in living standards have become more expensive: higher quality education, improved housing, and better urban services all require effective institutions as well as capital. They also generally require that individuals have more income and the ability to choose how to spend it. The stage of development is also important. Moving out of abject poverty is seldom expensive in absolute terms (although the human impact of that change is obviously great). But once that initial step is taken, future progress becomes more costly. This is why economic growth becomes increasingly important to sustaining improved living standards.

In the next chapter, we will consider the critical interrelationship of economic growth and politics and the need for sustaining economic growth to improve the quality of life.



# Chapter 3

## *Getting Down to Cases: Economic Performance*

*...the ideas of economists and political philosophers, both when they are right and when they are wrong, are more powerful than is commonly understood. Indeed, the world is ruled by little else. Practical men, who believe themselves to be quite exempt from any intellectual influences, are usually the slaves of some defunct economist.*

*John Maynard Keynes, 1936*

Given the importance of economic progress for social and political development, the question is: Why have some developing countries grown faster than others? And why, in recent times, has the pace of development diverged so widely among LDCs? These are complicated questions. The answers appear to lie in three areas:

- the internal policy framework adopted by individual countries,
- the political/institutional milieu within which policies are chosen, and
- factors outside the control of LDCs such as world prices for their exports, capital flows, and interest rates.

If a criterion for good policy is to encourage economic growth and human development — growth in which all sectors of society participate — the challenge for policy makers is both economic and political. The connection between the economic and the political is important because

getting policies right will depend on overcoming political and institutional constraints that affect the choices policy makers feel free to make. This chapter will analyze why, for almost two decades, external shocks appear to have increased the variability of development rates and consider the impact of economic policy and institutions on economic performance.

### **The Real Economy**

Do we really know what a particular LDC economy is like? The answer in a large number of countries is no. Our ability to analyze country-specific trends or broad global trends is weakest for those countries where such information is potentially the most useful: where poverty is currently pervasive or where there is little apparent economic progress. The economic contribution of largely subsistence agriculture is easily missed — an important oversight in countries where over half the work force relies in part on subsistence agriculture.

In a large number of LDCs, the human base for development is already in place. Millions of hard working men and women throughout the developing world are committed to building a better life. Unfortunately, in too many cases, the formal government-dominated economy discourages initiatives, is prone to graft, and seems more bent on appropriating wealth than increasing it. As a result, two quite different but connected economies often exist in the same country:

- The official economy for which data are published and whose poor performance has made it the focus of traditional policy reform efforts, and



**The State as Enemy of Development.** Official authority collides with the "informal" economy in this Lima street scene.

- the informal or underground economy where, in some countries, as much as half the total labor force works illegally and where many of the most important financial markets and even social services operate quite independently of official regulation.

In the past, many would have viewed the underground economy as part of the set of problems inhibiting economic growth. But the comparison of failure in the official economy with sustained vitality in the underground economy has led some, including Mario Vargas Llosa, a popular Latin American author, to suggest that:

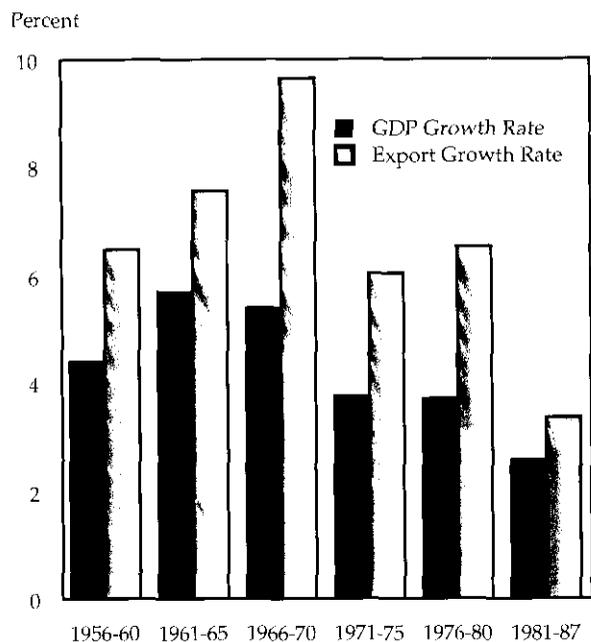
the informal market is actually the solution to the problem: the spontaneous and creative response of the impoverished masses to the state's inability to satisfy their basic needs (de Soto, 1989).

Hernando de Soto's path-breaking work in Peru documents the formerly invisible underground economy. He shows that almost one third of total economic activity goes unreported. (Unpublished work underway in other countries suggests similar sized underground economies.) He explains the size of the informal sector in his country in a very vivid way — by researching the difficulties of gaining certification to legalize a small business. He found that it took 289 work-days and several bribes to secure certification of a small garment factory (with perhaps two sewing machines) in Lima. The same process took half a day in Tampa, Florida and four days in New York City. Facing such obstacles, it is little wonder that so many of the poorest people in Peru elect to work outside the formal sector of the economy.

The reasons for large underground economies, as well as a lack of growth in the official one, are the same: economic and political. Enormous informal sectors exist because institutions fail to represent all sectors of society and to respond to their needs. Along the way, political power gets distributed in these countries in a way that often precludes policies that promote sustainable economic progress. This political failure has dangerous implications in promoting social alienation and political radicalism that can destabilize democratic institutions.

### Figure 3.1 - Exports Lead Growth

1955-1987, Annual Rate of Increase in Real GDP and Exports in OECD Countries



Source: World Bank and A.I.D. (see Annex Table 1 technical note); IMF (1988a)

The forces behind this political failure are not difficult to comprehend. The failure to adjust to changing global economic conditions, for example, often reflects the unwillingness of tenured civil servants or industrialists operating behind protective tariffs to give up their privileged status. They promote policies that will insulate them from economic downturns, frequently in the sincere belief that they are acting in the best interests of their countries. And there is often no one in the body politic to promote the other side of the case — particularly if a third to a half or more of GDP is “off the books” and conveniently invisible to policy makers. As a result, the full burdens of adjustment — or rather the costs of failing to adjust earlier — are borne by the least influential and generally poorest groups.

If the right economic policies are often relatively clear, the dilemma is developing good government — government incentives that

encourage policy makers to respond to popular will, expand opportunities, and support good economic policies. Even the best economic program will not work (at least, past the short-term) if it cannot be implemented because of unresponsive governmental processes and their supporting institutions.

### Global Economic Environment

#### What Changed

Compared to the 1955-71 period, developing countries have had to cope with often difficult and always variable external economic factors. The stability of the 1950s and 1960s contributed to produce annual economic growth rates in developed countries that averaged about five percent and international trade growth that averaged eight percent (see Figure 3.1). Real interest rates were low and stable. Fixed exchange rates worked, and flexible exchange rates were a topic of academic study of little apparent relevance to policy makers or businessmen.

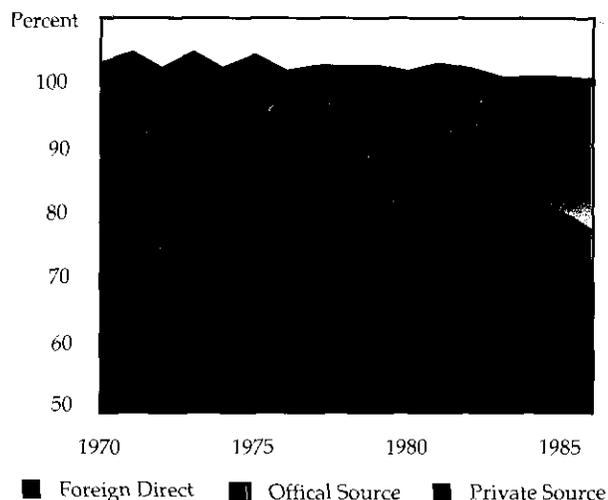
The first shock was the breakdown of fixed foreign exchange rates and concurrent realignment of industrial country currency values. This shift was forced by a series of events including large U.S. balance of payments deficits and growing inflationary pressure. An unprecedented peacetime commodity price boom was then capped by a fourfold increase in oil prices, beginning in late 1973.

A sharp but brief recession, which slowed world trade and helped lower non-oil commodity prices, followed during 1974-75. Inflation and sluggish growth — “stagflation” — were problems in most OECD countries between the 1973-74 and 1980-83 recessions. In contrast, growth in many developing countries remained relatively robust (a generalization that does not apply to all countries, especially in Africa). How did some LDCs escape the weak economic performance in the OECD region?

Initially in the 1970s, external capital inflows more than offset slower growth in export earnings (for non-oil exporters). The large trade surpluses were recycled through U.S. and OECD commercial banks to many developing countries. This dramatically increased the supply of capital, albeit for the short-term and at variable interest

**Figure 3.2 - Rise and Fall of Bank Lending**

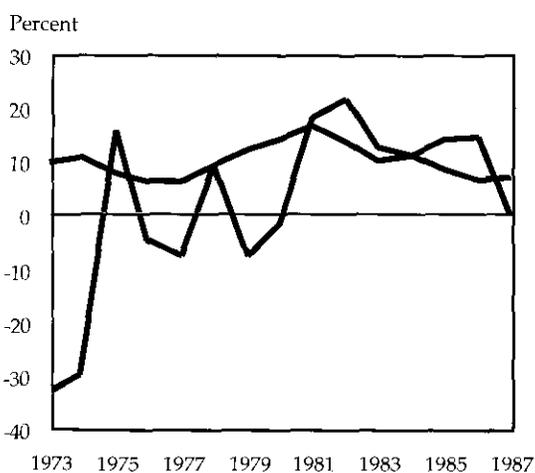
1970-1988, Sources of Capital Flows to LDCs



Source: World Bank (1987c)

**Figure 3.3 - Money: From Cheap to Dear**

1973-1987, Real Interest Rates



Red line = London Interbank Offered Rates (LIBOR);  
blue line = LIBOR deflated by the change in the export price  
index for developing countries.

Source: IMF (1988a)

rates. As Figure 3.2 shows, fixed interest long-term debt and direct investment became less important than commercial debt. Figure 3.3 shows that during much of this period real interest rates were low and often negative. This increased demand and lowered the supply of long-term investment capital.

The inflationary international environment changed abruptly in 1979 with a wrenching shift in U.S. Federal Reserve policy. As a result, the real interest rate on Latin America's foreign debt jumped from an average of -3.4 percent during the 1970s to an average of 23.4 percent in 1981-83. Net interest payments by Latin American debtors in turn rose from \$10.2 billion in 1978 to \$38.7 billion in 1983. The same pressures also affected the purchasing power of LDC exports, particularly commodities. The price of developing country exports eroded by almost 20 percent during 1979-86 (see Figure 3.4a).

During the last decade, external shocks such as changes in the prices for exports, imports, or debt have become more important for most developing countries and more difficult to predict. Commodity price swings are larger than in the 1960s or, excepting only the inflationary surge of 1972-74, the 1970s as well. Export price surges brought short-lived but substantial windfall gains to a few producers. Price declines were similarly large. And the variability in financial prices for foreign exchange or debt has continued to loom large.

Most important of all, LDCs were no longer able to rely on capital transfers. In response to various factors, LDCs as a group began to transfer more capital than they received in the 1980s (see Figure 3.4b). This was a particularly serious problem for the high debt countries who were transferring over \$30 billion to the rest of the world in 1988, as compared to receiving net transfers of almost \$20 billion in 1981.

### Growth and the Ability to Adjust

In this volatile setting, coping with change has become the most important characteristic of growing economies. The pace of international economic change has made statistics about trade balances, inflation, or economic output that cover only a few years, increasingly unreliable mea-

asures of successful performance. Today's success story has frequently proven to be tomorrow's problem country.

Experience shows that the course of economic adjustment is seldom smooth. Neither private businessmen nor government planners know what is going to happen in the future. Most economic decision therefore involves a good deal of risk. The key question is how economies react when perfectly reasonable decisions are overtaken by events. Even in the most obviously successful developing countries, the ability to change course has been essential. Professor Anne Krueger, formerly Chief Economist of the World Bank, has observed that:

...it is important to note that there were significant mistakes made by Korean policy makers. It is not that economic policy in one country was "right," and the other "wrong." If there was a difference in policy formulation itself, it rather lay in the speed with which policy makers recognized their mistakes and dealt with them (Krueger, 1987).

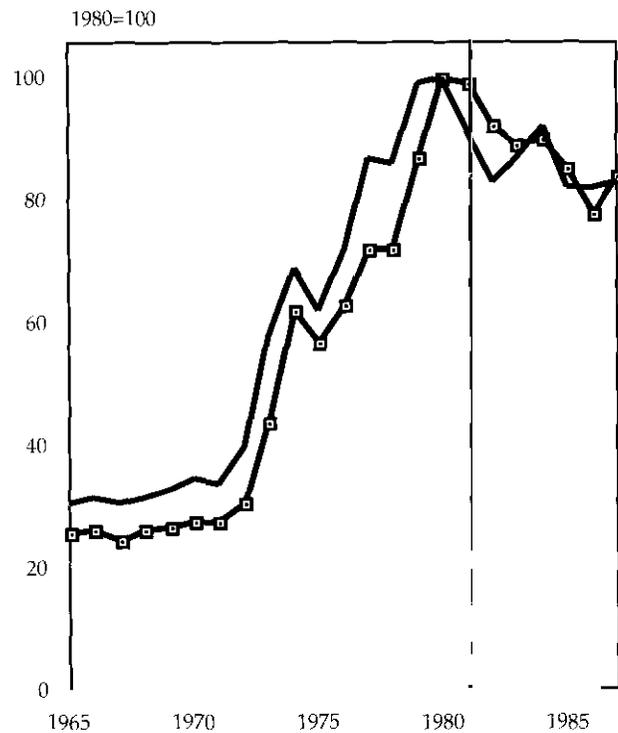
The extent to which people believe that a process of adjustment will continue is essential to its success. Government efforts to stabilize foreign exchange rates can prove fruitless and even counterproductive if local exporters, importers, and investors do not believe that the rate will hold. Speculative attacks are the almost inevitable result of such efforts, whether they are made by central banks in developed or developing countries. In one African country, a 60 percent devaluation in the 1980s had no effect on the gap between the official and black market exchange rate because no one believed that the new official rate could be maintained.

The public's perception that any particular policy, no matter how economically desirable, will not last undermines its impact. In effect, the lack of credibility can become a self-fulfilling prophecy. Because no one acts on the basis of the policy, it is as if there had been no policy change at all — no effort to adjust.

Politics is an important part of this. Professor Jeffrey Sachs, who heads the National Bureau of Economic Research's international debt project, and Andrew Berg have noted that:

**Figure 3.4a - LDC Exports Less Valuable**

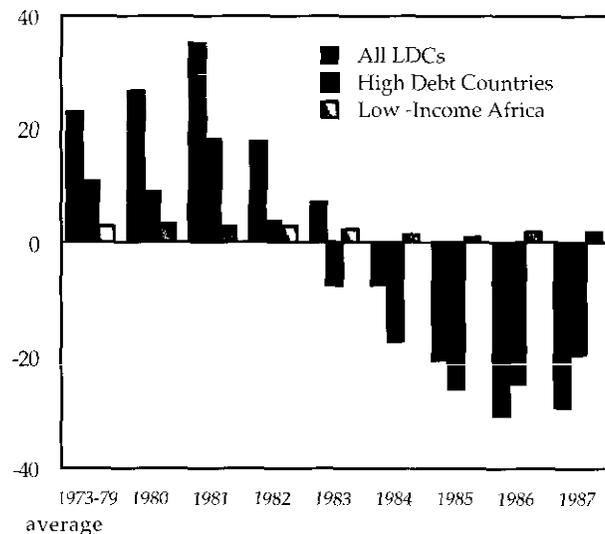
1965-1986, Export Price Index



Red line = all exports; blue line = non-fuel exports.  
Source: World Bank (1987c)

**Figure 3.4b - LDCs Become Capital Exporters**

1973-1987, Net Transfer of Resources



Note: Net resource transfers are defined as disbursements of medium and long-term loans minus interest and amortization payments on medium and long-term external debt.

Source: World Bank (1988a)

### Box 3.1 - An Economic Opportunity Index and LDC Performance

A.I.D. economists have made a preliminary effort at developing a policy matrix that permits comparisons of overall economic policy in specific LDCs (and over time). The initial 42-country survey shows the impact of policies that promote competition and individual opportunity. It is based on country specific rankings of:

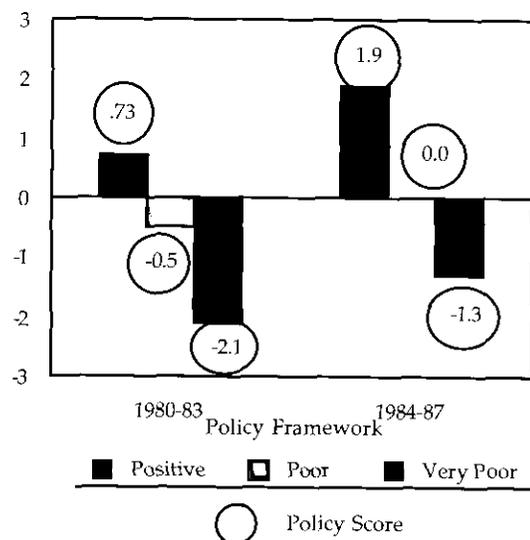
- property rights including broad-based and reliable land tenure arrangements, official corruption, and the effectiveness of legal remedies to enforce contracts
- the consistency and credibility of past government policy and regulations, including the ability to adjust to external shocks
- credit and monetary policy: the extent of directed credit, and whether deposit rates are higher than inflation
- taxation: whether there are preferences to inefficient industries, and the incentive effects of marginal tax rates
- other controls over markets for food, shelter, and labor
- foreign exchange controls and the size of black markets

The opportunity level indices had a range of possible scores from 0 to 100. For comparison, Singapore and the U.S. had average scores in the 90s, and the lowest LDC scores were in the 20s and 30s. The scores were done for two periods: 1980-83 and 1984-87.

Empirical results, shown in the figure below, indicate that countries with more opportunity oriented policies have had, on average, better growth rates. The gap in real annual per capita growth between the countries with the highest policy framework scores and the countries with the lowest scores was almost three percent.

#### Good Policies, Good Growth

Real Per Capita GDP Growth and Policy Orientation



Source: A.I.D. staff estimates

For many countries, the debt crisis reflects a political crisis as well as an economic crisis...In some cases the regime is so narrowly based and so precarious that it chooses to use the public purse to enrich a small part of the population, aware that political power may slip away at any time...In yet other cases, the political process is paralyzed, because power is too widely dispersed among various groups who hold a veto over economic policy, but who cannot coalesce around a consistent economic program (Berg and Sachs, 1988).

#### Policies and Growth

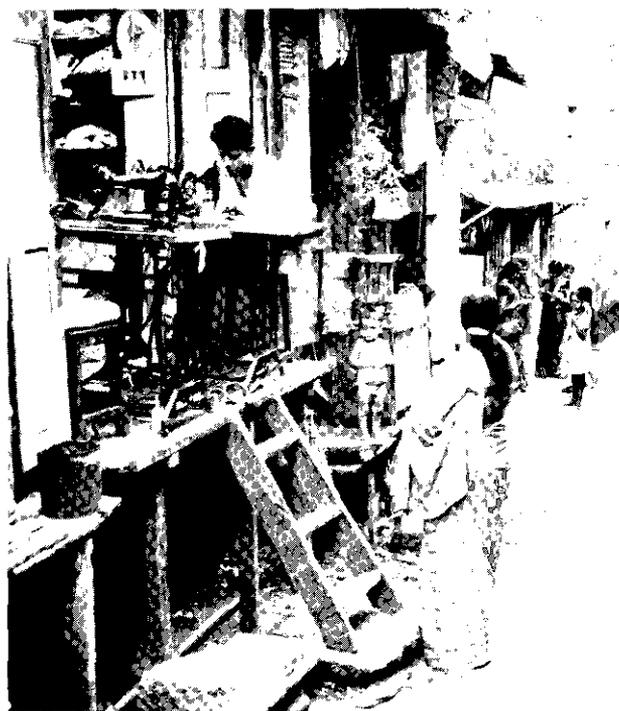
Given that external shocks can counteract the favorable impact on growth of even the best economic policies and growth-oriented institutions, what role do domestic policies play in long-term economic performance? It is important to analyze this question not only theoretically and globally, but also empirically, and on a country-specific basis. As we see in the recent history of the Eastern Bloc countries' shift toward allocating more resources through markets, there is

much to be gained by introducing market-oriented economic policies. The more interesting and important question is how certain countries have developed institutions that have been able to promote the right sorts of policies.

Economic growth is intimately linked to the institutional and policy framework which decision-makers, public and private, adopt to allocate resources. However, there is no one indicator for precise comparisons of how economic policies promote growth. For example, the degree of openness is not a perfect yardstick for good economic policy. Some commodities that are heavily subsidized by developed economies find their way on to world markets, driving prices dramatically below what they would otherwise be. Indeed, one country's government failure is another country's market failure. Hence, the correspondence between domestic and international prices, the degree of openness, and the quality of economic policy are not always direct.

#### Openness

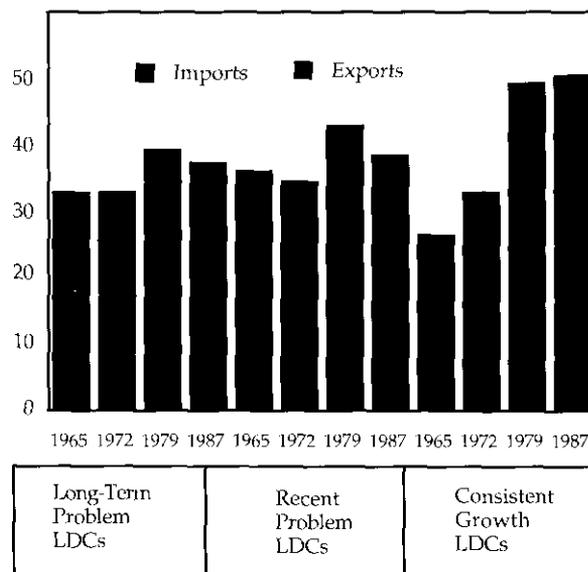
On the other hand, recent academic and policy experience has shown a linkage between international trade policy and overall economic prog-



**Policies Mean Job Opportunities.** A micro-entrepreneur whose investment consists of two 30-year old Singer sewing machines.

**Figure 3.5 - Growing Trade, Growing Economy**

1965-1987 Exports and Imports as Percentage of GDP



Note: Country typology is defined in Box 2 of the Overview.

Source: World Bank (1987c)

ress. In particular, trade policies that are "open" — i.e., that do not discriminate on the basis of the origin and destination of production — contribute to favorable economic performance. This is suggested by Figure 3.5 which shows that the fastest growing countries also experienced the most rapid rise in the ratio of international trade's size relative to GDP. Trade outpaced overall economic growth for the most successful economies.

Trade policies, including foreign exchange and commercial controls, have had a major impact on economic growth. Recent country experience has demonstrated the benefits of open trade strategies where government policy incentives do not artificially favor production for either domestic consumption or export. By contrast, the costs of inward-oriented strategies that protect domestic industries from international competition and discourage exports are extremely high in terms of lower growth and unemployment.

The World Bank recently classified 48 developing countries as ranging from highly "outward" (or export-oriented) to highly "inward" (or import substitution-oriented) depending on

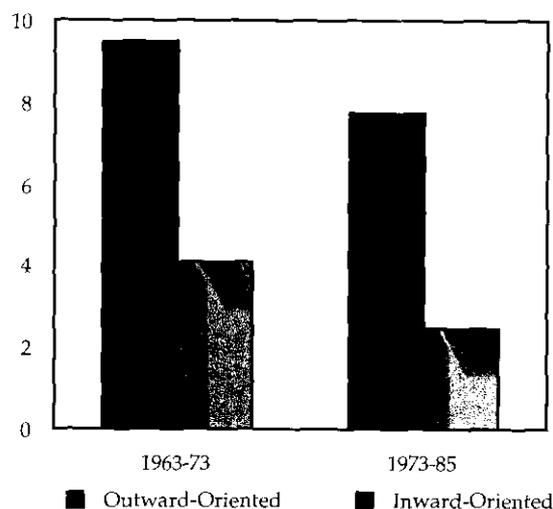
level of protectionism, administrative trade controls, explicit export incentives, and exchange rate distortions. Performances and policies were analyzed over two periods, 1963-73 and 1973-85. The results showed that economic growth rates in both periods were higher in the strongly outward-oriented economies than in the strongly inward-oriented ones (see Figure 3.6).

The key issue in the success of an outward-over inward-oriented trade regime, according to the World Bank study, is the efficiency of resource allocation. A more competitive market, free of bureaucratic regulation of both imports and exports, is more attractive to foreign investors.

UNCTAD recently reviewed the trade controls of LDCs. A checklist of trade controls was prepared, including customs duty rates, service charges, VAT, quantitative restrictions on imports, import quotas, import prohibitions, foreign exchange availability, export taxes, restrictive export practices, and export incentives. By associating greater import controls

**Figure 3.6 - Open Economy, Higher Growth**

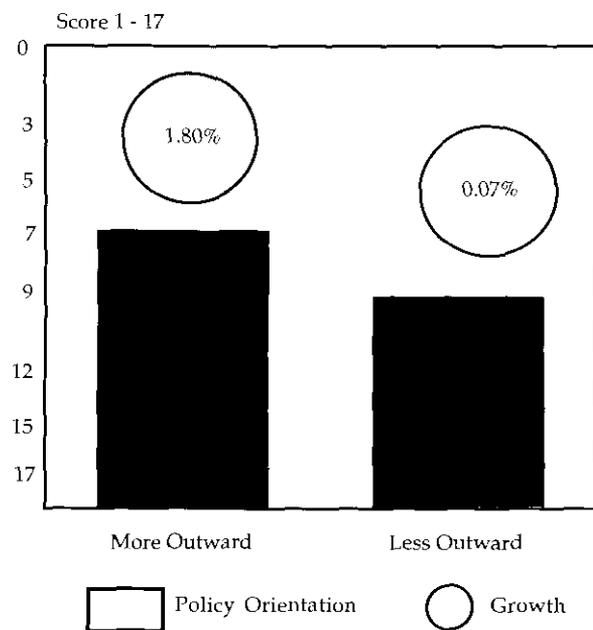
1963-1985 Trade Orientation and Real GDP Growth: Average Annual Percentage Change



Source: World Bank (1987a)

**Figure 3.7 - Less Protectionism, Higher Growth**

Growth and Restrictions on Free Trade



\*GDP per capita growth in 1987

Source: Havrylyshyn (1988)

with "inwardness" and fewer controls and export incentives with "outwardness," we can use UNCTAD's checklist as a proxy measure for trade openness. As with the World Bank study, outward-oriented policy regimes grew, on average, far faster than less open economies (see Figure 3.7).

Another indicator of openness is the extent to which domestic prices reflect their international equivalents. Distortions can come through protectionist tariffs or other barriers such as foreign exchange controls or subsidies to domestic producers. An extreme example is Saudi wheat production where the government support price is eight times the cost of imports, and non-renewable irrigation water is provided free.

Industrial sector protectionism is generally a drag on overall economic productivity and growth. It keeps the cost of capital goods and manufacturing equipment high and, therefore, industrial productivity low. In the mid-1980s, the Philippines' aggregate investment rate appeared higher than Korea's. This reflected the fact that protectionism kept the price of Philippine capital goods roughly twice as expensive as similarly

**Table 3.1 - Less Price Distortions, Higher Growth**

1980-1986, GDP Per Capita vs. the Ratio of Domestic Goods to Overall Prices

	Number of Countries	Price Ratios	Growth
Low Prices (under 1)	15	0.90	1.42
Slightly High Prices (between 1-1.5)	6	1.38	1.07
High Prices (over 1.5)			
Total	75	1.59	-0.10
Africa	36	1.68	-2.09
East Asia	8	1.45	2.32
Central America and Caribbean	9	1.31	-1.68
Near East	11	1.59	-0.01
South America	6	1.34	-0.75
South East Asia	5	1.75	2.57
High Debt Countries	12	1.54	-2.19
Low Income	31	1.73	-0.94
Middle Income	44	1.47	0.62

Source: World Bank and A.I.D. (see Annex Table I technical note)

productive imports. The difference between international and domestic prices lowered the rate of economic growth well below its potential.

The level of distortion between domestic and international prices is, therefore, another good aggregate indicator of economic policy. Table 3.1 gives a breakdown using 1986 data for a range of countries. It shows that the East Asian countries, where growth has been sustained, have the closest fit between domestic and international prices. The distortions are greatest for those countries with the most serious long-term economic growth problems, particularly in Africa.

#### Investment Climate

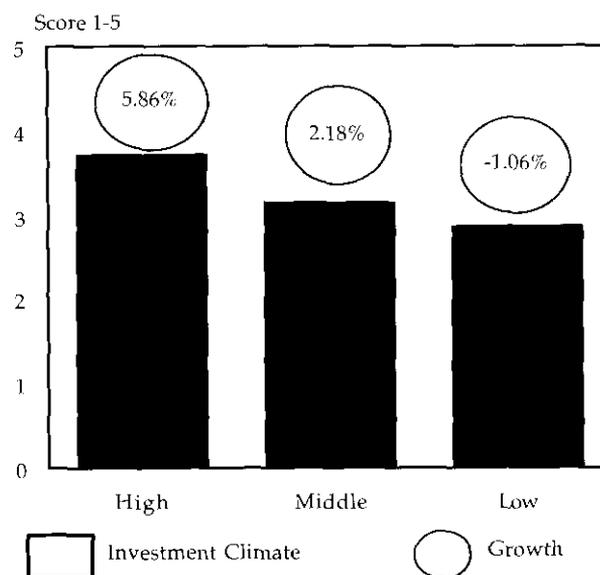
Given the need to expand LDC investment, another important dimension for assessing domestic policies is to view them from the perspective of international investors. The investment climate, in this sense, reflects the private assessment of the riskiness of direct foreign investment, whether equity- or debt-creating. Factors used in the rating include controls on ownership, bureau-

cratic delays and corruption, exchange controls, taxation, and political security, among others.

The Frost and Sullivan investment climate survey shows a close link between investment climate and growth (see Figure 3.8). This probably reflects the fact that policies which are good for international investors are also good for local entrepreneurs. It further shows that many developing countries are making their investment climates more attractive in response to difficult economic circumstances and the fall in international capital flows.

The role of domestic business as an engine of growth is difficult to overstate. The local investment climate must be viewed from the perspective of small businesses which provide the bulk of new jobs and overall growth in most developing countries (and the U.S. as well). Unlike the U.S., however, economic and financial policies in many developing countries are skewed against the small scale entrepreneur. The reasons for this common bias will be detailed below.

**Figure 3.8 - Investment Climate and Growth**



\*GDP per capita growth in 1987

Note: Frost and Sullivan investment climate survey score is broken into three groups (high, middle, and low) representing the range from good to poor investment climate.

Source: Frost and Sullivan (1988)

Despite the adverse international economic circumstances already described, some countries have been able to turn their economic performance around. Recent policy reform has been particularly noteworthy in China and India, which account for about half of the developing world's population and a third of its total economic output. Taken together, their economies grew over five percent in real per capita terms during 1979-87 compared to an annual rate of less than one percent between 1955-79.

The China reform is probably the world's most dramatic demonstration that policy reforms can unleash rapid growth in an environment that previously suppressed it. Recent growth also highlights the economic and social destructiveness of earlier policies. This was clearly demonstrated in agriculture, where, beginning in 1979, reforms emphasized individual initiative and the introduction of some markets rather than central planning and collective farms. As a result, 1986 per capita food production was 55 percent higher than the 1976-78 average. Over the same period, trade had become more important, with exports rising more than 50 percent, from less than seven percent to over 11 percent of GDP — comparable to Brazil's level and higher than India's.

China also illustrates that the policies introduced to foster market-oriented growth can create serious second generation problems, particularly when price controls and other interventions are left in place that run counter to the reform process. China's problem is now to reconcile decontrolling agriculture with continued urban price controls, labor market rigidities, and a dearth of commercial or financial institutions. Not surprisingly, the result has been inflation, reaching perhaps a 50 percent annual rate in early 1988 in some of the major cities. Political cadres who were long accustomed to exercising tight control over economic activity have used the current inflation and other problems, such as corruption, to successfully advocate a roll-back of some of the reforms. China's policy cycle of incomplete reform, short-term difficulties, and a return to greater central controls has proven distressingly common to developing countries.

Adjustment can also take time to generate benefits. Political problems often emerge when needed reforms fail to bring immediate improvements. And politically advantageous tinkering with reform packages has undermined their overall economic effectiveness. In Brazil, the political popularity of the *Plan Cruzado* stabilization rested partly on the fact that it started with a large wage increase. As time went on, this wage increase contributed to an inflationary surge in consumer spending that ultimately undermined the whole package.

*Good Policies, No Growth*

Even the best economic policies cannot deliver growth in all circumstances; successful policy reform hinges on the sequence of internal reforms as well as the effects of things like low export prices or domestic crop failures. Malawi is an African example of a common problem. While its government has pursued outward-oriented trade policies, a series of exogenous shocks reduced its potential for growth. First, Mozambique's internal political difficulties cut Malawi's access to export corridors for its products. Second, the international prices for products eventually shipped at much greater cost were falling. Third, low rainfall cut into the 1987 harvest of local food staples even as an influx of refugees from war-torn Mozambique increased demand.

*Bad Policies, Adverse Shocks*

The fact that shocks beyond a government's control can preclude growth does not make domestic policies any less important. On the contrary, realistic decisions and efficient allocation of scarce resources become even more critical in adverse circumstances. Ghana and Zambia in the late 1970s and early 1980s show how some policies can make bad exogenous shocks worse. In both cases, falling prices for exports were the equivalent of major cuts in GDP: Falling copper prices cut 18 percent of Zambia's GDP in the early 1980s; falling cocoa prices cut Ghana's GDP by ten percent in the same period. Notwithstanding resource transfers from bilateral donors (the IMF and the World Bank) large enough to offset the terms of trade shock, both countries continued an economic and social slide.



**Politics and Sustaining Economic Policy Reform.** Short-term public opinion sometimes overturns long-term reform. Here, Mexican trade unionists demonstrate against paying foreign debt and in favor of higher salaries.

It is worth noting that both countries attempted fundamental economic reforms in the mid-1980s. Ghana's are only now beginning to pay off in terms of increased economic activity. Zambia, on the other hand, abandoned reforms in 1987. Despite a major windfall from higher copper prices, shocks can work both ways; the Zambian economy remains in the doldrums and faces extremely bleak prospects.

#### *Bad Policies, Good Growth*

Why do some countries with bad policies grow? Like many of the high debt or recent problem countries discussed earlier that used debt to live beyond their means, a few countries have been able to continue relying on foreign capital (including remittances).

There are a number of common characteristics of countries with institutional arrangements inimical to sustainable growth:

- Subsidies for politically important urban food consumers are a major drag on government resources and total economic output. In some of the Middle Eastern countries, urban subsidies represent more than ten percent of total GDP (and 20 percent of urban income).

- Government attempts to direct capital to preferred private sector enterprises or state-owned enterprises divert investment from more valuable and productive uses. This practice normally allocates capital to large, inefficient firms and industries, thereby starving smaller, more efficient firms of capital that could make much greater contributions to employment and growth.
- Foreign exchange controls and other import barriers create relatively large distortions between domestic and international prices.
- The economic windfall of continued access to foreign investment capital, mainly foreign aid, at levels well above those available to other countries in similar economic circumstances is the key to keeping incomes high in the face of anti-growth policies.

#### **Invisible Costs**

Why do so many governments maintain policies inimical to the efficient use of their countries' resources? Ideology is becoming less important.

Unlike earlier periods, when centrally planned economies were held up as success stories to developing countries, few suggest that such approaches work today. The fact that China and, more recently, the Soviet Union have been expanding individual opportunities has not been lost on most developing country policy makers.

More important than ideology is the fact that long-term costs of policies that stifle competition or efficiency are often politically invisible. The short-term political costs of change, however, are often too obvious and close to home. That has been one reason for the past popularity of state-owned enterprises in many countries. Budgets are nominally separate from the government, but benefits like patronage jobs or subsidized sales can be financed through "invisible" credits at the central bank. Similarly, price controls show forceful government action against "speculators," "profiteers," or "hoarders." The longer-term disruption of commercial institutions and distribution is much less obvious, or merely the next Minister's problem.

Inflation is a common example of how concealed costs help promote perverse incentives for governments. Inflation is made possible by government creation of money. Printing money is generally more politically convenient than raising taxes, rationalizing state-owned enterprises, or cutting direct subsidies. In fact, inflation taxes have proven a major source of invisible revenue for many governments; Argentina covered 20 percent of its government outlays this way in the early 1980s.

The consequences of inflation for those who must operate in a competitive environment, without access to special credit or the central bank's printing presses, are profound. Inflation raises the level of uncertainty surrounding any investments and, thereby, discourages long-term investment. Politically expedient policies to combat inflation can be even worse, with policy lurching from one extreme to another, with the result that any government action becomes increasingly less credible.

Another direct effect of inflation and the uncertainty it creates (or is part of) is the fact that many individuals and firms elect to shift their financial assets out of currencies managed by fiscally unrestrained governments. This is why parallel foreign exchange markets are a

characteristic of most developing countries without some independent brake on government money creation. The speed with which investors can move out of a particular currency disconcerts even the Federal Reserve Board. It can completely destabilize most developing countries.

Private off-shore savings are sometimes surprisingly broad-based and large. According to Morgan Guaranty, flight capital invested by citizens of the 15 LDCs covered by the Baker Plan was worth \$295 billion in 1987. This is actually larger than the total private debt burden of \$287 billion owed by the Baker 15 countries to commercial banks and other private creditors. And for a few countries, with Mexico and Argentina as examples, overseas bank accounts are not the preserve of the rich alone but are also a mainstay of the middle classes.

#### *Market or Government Failures?*

Economists have long recognized that markets do not always operate efficiently. To achieve efficiency and improve resource allocation, all players must have access to reasonably good information. Competitive forces must be fostered and encouraged to prevent monopolistic exploitation. Market failures, according to conventional welfare economics, require action by disinterested government decision-makers.

But public institutions in most developing countries have proven every bit as self-interested as the most exploitative private monopolist. While governments could provide checks and balances on private initiative or individual opportunity, effective checks on government abuses have been less common.

#### *Good Politics, Good Economics*

Too much emphasis is often placed on the "dismal aspects" of economics and too little on the positive interplay between politics and sound economic policy. Following Taiwan's shift a decade earlier, Korea's shift toward a more open economy beginning in the 1960s disenfranchised many politically influential groups. There were widespread business failures as the private sector struggled with a less protected environment, but a healthier, more competitive economy resulted. This contrasts with attempts in many countries to minimize the risks faced by favored groups, par-

ticularly large businesses that live off protectionism.

The lessons of successful economic policy adjustment are largely ones of knowing the right policies to put into place and success in using political processes and institutions to make them work. They are, naturally, country-specific, but there are also common themes. The following admittedly simplified observations are based on the experience of a diverse group of countries whose policies rate high on the opportunity and openness indices reviewed above.

#### *Promote Small Farmer Prosperity*

Chapter 2 emphasized the importance of rural development and increased food supply for social well-being. Prosperous family farms have helped lay the base for subsequent industrial and urban oriented economic growth. Land-owning farmers have helped keep policies on track by acting as political counter-weights to urban interests. The lesson that emerges from these experiences is the importance of organizing constituencies supporting good policies.

#### *Running out of Alternatives*

Few people, least of all politicians, embark on a deliberate course of change without being motivated by some significant political or economic crisis. The simple fact behind most subsequently successful economic policy is the failure of the one that preceded it. This was as true in 1790s America as it was for most of the countries — most recently, for some of the Eastern Bloc countries — that have attempted serious reform programs. The same situation also faces a wide range of Latin American and African countries today.

#### *Working a Public Process*

Sustaining reforms is generally a public process. Even where the initiative is taken by extremely centralized and autocratic regimes, staying the course involves efforts to influence popular opinion. It then extends to other sectors, as an increasingly large and diverse number of people come to have a stake in continuing the reform process. As the process gains momentum, the separation between the formal and informal economies declines. As the “informals” begin to participate in official economic and legal institutions, alienation and a sense of exclusion disap-

pear — leaving both a healthier economy and healthier political institutions.

#### *Equity and Burden Sharing*

Whether people think an economic or political system is fair affects its sustainability. A sense that an often informal set of rules of the game is applicable to everyone helps promote social cohesion and political stability. This is not to say that everyone is treated equally. Rather, there needs to be wide-spread consensus that everyone is sharing in the suffering, at least a little, during a period of economic retrenchment.

The politics of economic decline, of societies being forced to cope with falling standards of living, is the litmus test of sustainable economic institutions. It is also an area where the lack of transparency about social conditions or economic decisions looms large. Because reforms seldom generate instant growth and are generally undertaken only in the face of problems, conditions often worsen before improving. The willingness to wait for beneficial results is the dominant difference between long-term policy success and failure. Thus, the resilience of societies in the face of adversity is often the underpinning of economic growth.

## **Conclusion**

The lesson of both economic success and failure in developing countries over the past 30 years is that, while some factors contributing to economic development cannot be controlled by man (natural disasters and drastic commodity price swings, for example), there is one part of the remedy which can only be affected by the developing country itself: responsible, growth oriented economic policies that encourage competitive market forces rather than hinder the productive energies of citizens and foreign investors alike. In times of misfortune, such policies minimize the damage and speed recovery; in times of prosperity, they maximize the benefits and help clear the way for sustained economic growth and freer, more stable social institutions.

In the next two chapters, we will examine two critical — but non-governmental — American contributions to global development: private voluntary and education efforts, and profit-based activities that foster development and economic growth.



# Chapter 4

## *Nonprofit Assistance to Development*

*...in country after country, private sector initiatives are teaching children, caring for the sick, helping the poor build better lives for themselves, and searching for ways to cure disease. Whether people are in sickness, sorrow, or in need, private sector initiatives have been created to answer the call.*

*Ronald Reagan, June 1987*

Individual Americans have proven extremely generous in donating their money and time to people and causes in the developing world. Their giving totals approximately \$12 billion a year (including donations to churches and religious affiliates), more than double the amount the U.S. Government spends on total Official Development Assistance (ODA). It is conservatively estimated that private American-based religious organizations spend about \$6 billion per year in overseas missionary work, church-sponsored social work, direct cash payments, and through Private Voluntary Organizations (PVOs) associated with different denominations. Non-religious affiliated PVOs, some of them working closely with A.I.D. and others working on their own, spend another \$4 billion a year in overseas operations. Philanthropic foundations, several with names synonymous with overseas development efforts, contribute another \$500 million a year. U.S. universities provide an estimated \$1.5 billion for the education of citizens of developing countries.

The generosity of individual Americans in helping people in developing countries far ex-

ceeds that of some other countries whose governments may provide proportionately larger amounts of foreign aid. This is important to emphasize, for the U.S. is frequently criticized for being a comparative laggard when it comes to the amount of aid provided to developing countries. Official U.S. Government statistics on aid fail to reflect the scope of nongovernmental help provided by individual Americans.

While development assistance is a relatively new and still debated activity for the U.S. Government, humanitarian help is a traditional and widely accepted activity for Americans as a people. Not only does American private assistance abroad pre-date government development assistance programs; it remains a larger effort. Private humanitarian development efforts involve more resources than the government's and touch many more individuals one-on-one. Universities and private corporations provide more technical assistance than do government-supported training programs or scholarships. Any report on the way in which the U.S. as a country influences development in Latin America, Africa, the Near East, and Asia must, therefore, address the work

### **Box 4.1 - Denominational Development**

Where the Money Comes From

#### *Development without Government Money*

In 1920, the Mennonites in the Ukraine were the victims of war, famine, and revolution. In response to their needs, U.S. Mennonites sent food to alleviate their suffering. Two years later, they sent tractors. This was the beginning of the Mennonite Central Committee as a relief and development organization. Operating today on a budget of \$28 million, the Committee accepts no support from the U.S. Government (although it is reimbursed for ocean freight on shipments). Its focus is on relief and development, particularly agriculture and water resources.

#### *Development with Government Money*

Catholic Relief Services (CRS) is the world's largest recipient and distributor of P.L. 480 food. Founded in 1943 by U.S. Catholic bishops to help refugees and displaced persons in Europe and North Africa, CRS soon expanded to the Near East and Asia. In the mid-1950s, emphasis shifted from refugees to development. Like most of the traditional voluntary agencies, CRS now spends less than half its resources on disaster relief, with 55 percent going for development projects.

Over the past 40 years, CRS has established and strengthened local counterpart organizations in 74 countries. For instance, in Ethiopia, where CRS has provided support for more than 30 years, the local voluntary agency runs all operations. CRS is directly responsible only for oversight and technical assistance.

of private institutions and individuals. This chapter focuses on the nonprofit sector, while the next looks at for-profit institutions.

### **Religious Assistance for Progress**

Today's private American missionaries, some 40,000 strong, are increasingly development technocrats. Roughly 20 percent of religiously affiliated Americans abroad are health care workers — physicians, nurses, dentists, hospital administrators, laboratory technicians. Another 35 percent

of today's missionaries work in education as teachers, administrators, or curriculum advisors. Yet another 30 percent of mission workers are engaged in more loosely-defined community development activities, combining these efforts with religious activities. The remainder work as more traditional evangelists, preaching to local Christian groups or foreign residents. Box 4.1 gives two examples of major denominational development assistance.

Just as the early missionaries helped shape health and education in many of the world's developing countries, so they also shaped much of American public opinion about foreign assistance. Box 4.2 provides an example of religious-linked assistance involving Korea.

The Maryknoll priest who has just returned from 15 years in Southeast Asia working with adult literacy groups, the Presbyterian missionary who has spent 20 years as an X-ray technician in a small village outside of Lahore, and the Mennonite lay worker who has spent a decade introducing new agricultural techniques to farmers in Bolivia are credible American witnesses to the progress and continuing needs of developing countries and regions.

### **The Peace Corps**

Though the Peace Corps is a U.S. federally-funded agency without religious influence, it nevertheless owes much of its inspiration and many of its methods to private religious missionaries. One early Peace Corps official suggested that Peace Corps Volunteers only carried out "in greater numbers and without religious connotations much of the same work which church and church-inspired groups have done for many years."

When President Kennedy established the Peace Corps in 1961, PVOs, missionary groups, and foundations engaged in overseas work contributed advice, experience, and in many cases, individuals who played important roles in the new agency. (At the time, interestingly, most U.S. diplomats were at best indifferent, and at worst opposed, to the idea of the Peace Corps.)

More than 120,000 Peace Corps Volunteers (PCVs) have completed up to two or more years of service and returned to the United States. Their one-on-one village level efforts have

#### Box 4.2 - Christian Missionaries in Korea

Common education is often cited as a major factor in promoting national development efforts. In Korea, prior to the mid-1960s, this commonality was lacking. What was present in Korea, however, was a cultural and spiritual influence at once more profound and lasting — the Christian missionaries.

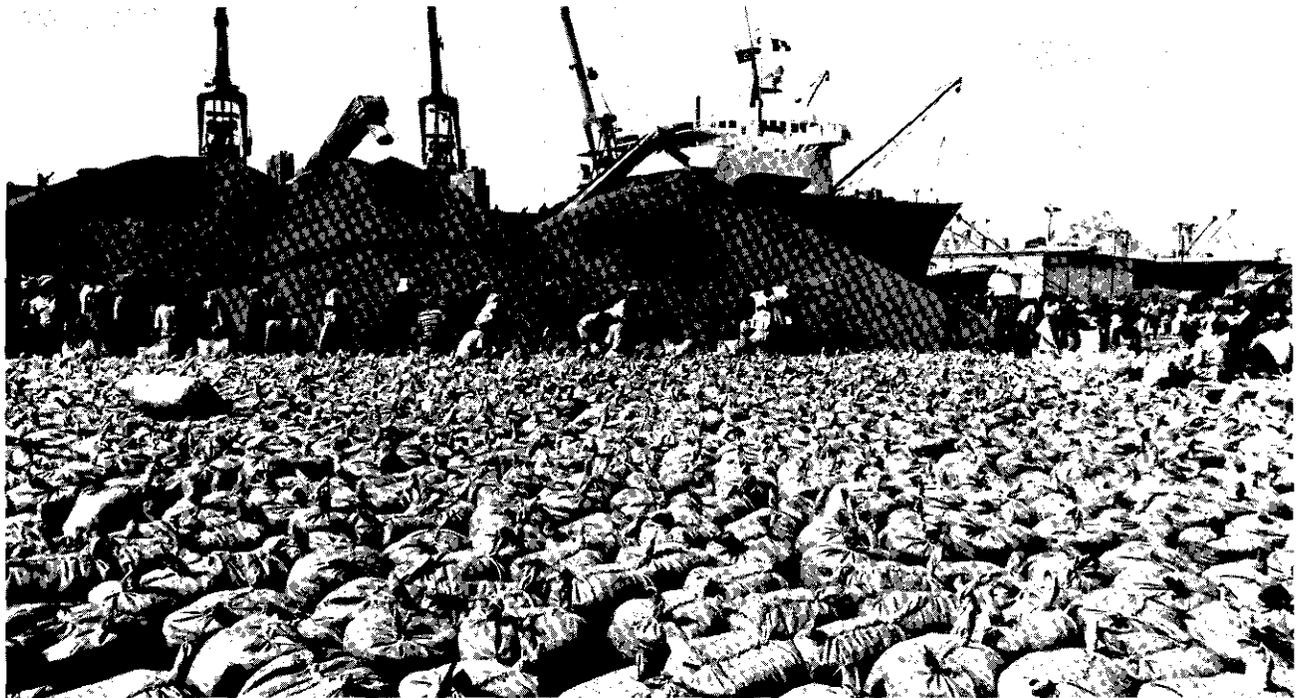
The Korean Christian churches and American missionaries kept alive the flame of Korean nationalism during the half-century of Japanese occupation. As the major non-Japanese external influence, they had a profound effect on the traditional cultural and political relationships of Korea. Between 1952 and 1962, 41 percent of the members of the Korean cabinet came from the eight percent of the population which was Christian.

The churches did more than provide food, clothing, medical services, and religious consolation to people in need. They were responsible for a substantial amount of grade school and high school education and for much of the university education. The first modern university in Korea was founded by Underwood, the missionary who is still revered as a national figure in Korea.

brought positive advantages to tens of millions in developing countries. Volunteers typically work as teachers and teacher trainers, agricultural workers such as foresters, irrigation technicians, or extension agents, health practitioners and promoters, and community development facilitators.

One of the least expensive U.S. Government development agencies (its 1989 appropriation is \$153.5 million), the Peace Corps is unique as a government institution. Volunteers who serve in 62 countries and number nearly 5,000 receive no salary, only a small living allowance. The direct Volunteer cost, including air fare, training, settling-in, monthly living, and readjustment allowances, totals \$16,000 per Volunteer per year. The total cost per Volunteer, including staff and overhead costs, is \$26,000 per year. By comparison, the direct cost of an A.I.D. employee in the field is \$150,000.

Most Volunteers do not see themselves as representing the U.S. Government or being instruments of U.S. foreign policy; they usually spend their time in their assigned villages, far from U.S. officialdom in the host country. To most, being a Volunteer means a personal experience within the context of a federally funded program.



**Organization on the Ground.** PVOs help guarantee that U.S. food aid, like this grain shipment to West Africa, will get to the people who need it even when a country's distribution infrastructure is weak.

If Volunteers stay away from officialdom during their PCV years, however, they flock to A.I.D. and other development agencies, including PVOs, afterwards. Former Volunteers have increasingly involved themselves in international development. Since the late 1970s, 45-50 percent of each A.I.D. new-entry training class has consisted of former PCVs. A.I.D. personnel rolls show almost 600 ex-Volunteers as direct hire employees, including 12 Mission Directors, 13 deputy directors, and 46 program officers. Many hundreds more work as contractors or with A.I.D.-supported PVOs. Large numbers have also gone to careers with the United Nations development agencies and with the State Department. Today, three former PCVs are serving as Ambassadors, and one as a Deputy Chief of Mission.

Former Volunteers can be found in almost all fields of endeavor. Seven Congressmen, two Senators, and 41 Congressional staffers are former Volunteers. Paul Theroux, author; Taylor Hackford, film producer; Donna Shalala, chancellor of the University of Wisconsin; Henry Muller, editor of *Time* magazine; Robert Haas, president

of Levi Strauss; and Michael MacCaskey, president of the Chicago Bears — all served as Peace Corps Volunteers.

### The Rise of Secular Assistance

Americans instantly recognize the names of some of the PVOs — CARE, Foster Parents Plan, and Save the Children Federation, for example. Less well known, but equally important, are such organizations as International Voluntary Service, Partners of the Americas, and Africare. Some long-established organizations, such as the YMCA and the YWCA, are also engaged in assisting the people of developing countries.

In the years since World War II, PVO activities on several continents and in a range of program areas have shown a marked upswing. Until 1972, PVOs, utilizing A.I.D. funds, were primarily engaged in relief and rehabilitation work following disasters. Their efforts included setting up tent cities, providing food, and caring for the injured. At the same time, there was a growing realization among the PVOs that there was a direct link between the general level of development and the

#### Box 4.3 - Private Voluntary Organizations and U.S. Funding

Top Ten Recipients of Government Support in 1986\*

<i>PVO Name</i>	<i>Total Support and Revenue</i>	<i>Total U.S. Government Support and Revenue</i>	<i>Percentage of U.S. Government to Total Support and Revenue</i>
Catholic Relief Services	\$329,276,000	\$236,423,000	71.80%
Cooperative for American Relief Everywhere (CARE)	\$397,426,000	\$216,741,000	54.54%
World Vision Relief Organization	\$116,219,678	\$101,690,905	87.50%
Institute of International Education	\$108,999,225	\$39,972,928	36.67%
Save the Children Federation	\$80,052,100	\$37,799,544	47.22%
Adventist Development and Relief Agency	\$48,844,766	\$34,558,753	70.75%
United Israel Appeal	\$325,115,000	\$27,701,000	8.52%
Planned Parenthood Federation of America	\$44,752,391	\$27,306,057	61.02%
American-Mideast Education and Training Services, Inc. (AMIDEAST)	\$29,527,055	\$17,902,635	60.63%
San Diego State University Foundation	\$44,300,480	\$17,309,840	39.07%

\*Computation of top ten PVOs is based on the largest dollar amount of U.S. Government support in aggregate, including P.L. 480 donated food, P.L. 480 freight, A.I.D. freight, U.S. Government excess property, and A.I.D. and other U.S. Government contracts and grants.

Source: A.I.D. Office of Private and Voluntary Cooperation

ability to cope with disaster. More developed societies were better able to respond to, and recover from, natural disasters. Hence a rationale was in the making for PVOs to begin directing efforts away from humanitarian assistance and toward the wider aspects of what we now call development assistance.

In the 1960s and 1970s, a number of new organizations were created which focused almost entirely in the Third World...they sought to attack the root problems of Third World poverty, rather than attack its symptoms...Along with the older social service and relief organizations like the Salvation Army, the YMCA, and many of the church-based assistance programs, all of whom are now more committed to development than previously, these PVOs form the nucleus of the US NGO's nongovernment organizations movement today: a rich diversity of organizations with varying histories of involvement in the Third World and with dramatically different program orientations and focus (Fox, 1987).

This move by the older voluntary agencies from their traditional base coincided with the New Directions legislation, which mandated A.I.D. to move into the same areas. The PVOs were organized, ready, and willing to assist A.I.D. in carrying out new programs. In order to ensure that PVOs were able to better carry out these new objectives, A.I.D. spent significant sums to expand the headquarters and field capabilities of PVOs and otherwise to help these groups plan, design, manage, and implement development activities.

Since 1981, Congress has also expanded funding for PVOs. Current legislation directs that at least 12 percent, and up to 16 percent, of the U.S. development and disaster assistance budget go to PVOs. As a result, PVOs have become increasingly more dependent on U.S. Government funding. Ten now receive 90 percent of their funding from the government. Most are required to raise a minimum (called the "privateness percentage") of their total funding from non-U.S. Government sources; the present minimum figure is 20 percent. Most PVOs have been able to meet the 20 percent requirement, though a few have not (and some have relied on foreign government funding to do so). The privateness percentage acts like something of a market test. Some PVOs, unable

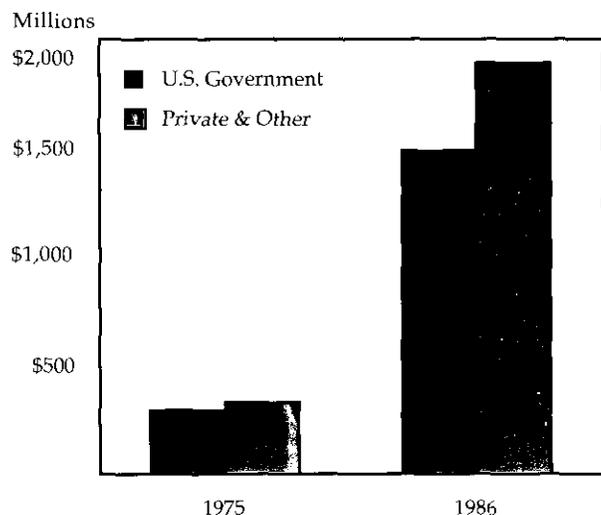
to raise the 20 percent, do not re-apply for funds. Others have simply de-registered or been absorbed by larger development organizations.

More than 500 Private Voluntary Organizations help meet the needs of people overseas. Of these, 240 are currently registered with A.I.D. In 1986, PVOs received \$1.05 billion, the largest amount ever given to PVOs by A.I.D.; the bulk of this went to humanitarian assistance in the African countries affected by drought and famine. Figure 4.1 shows the trend and breakdown of U.S. Government and non-U.S. Government funding.

The number of A.I.D.-registered PVOs has tripled since 1973, and overall funding to them will have increased 17-fold by the end of fiscal year 1989. This reflects various factors. First, A.I.D. has encouraged the creation of special purpose PVOs to implement Congressional earmarks. Second, former Peace Corps Volunteers have helped create and manage many of the new

**Figure 4.1 - Growing Support for PVOs**

Funding for Non-Profit Agencies Registered with A.I.D.



Note: "Other" includes other governments and international organizations.

Source: A.I.D. Office of Private and Voluntary Cooperation

PVOs. Third, formerly domestic PVOs have begun to broaden their agendas to include international activities. For example, domestic PVOs with an environmental focus became aware that such problems as pollution, acid rain, and the greenhouse effect were not limited to the United States (see Box 4.4).

#### *PVO Advantages*

The PVO community is diverse and tends to work overseas on behalf of a U.S. constituency which represents the American values of pluralism and humanitarianism. The PVO approach is people-to-people, focusing on achieving results at the village and community level.

The better-run PVOs can provide a cost-efficient vehicle for providing long-term development assistance. (See Table 4.1 for some cost comparisons.) In general, salaries and overhead are lower in PVOs than they are in the U.S. Government (although some pay executive salaries well above those of government employees). PVOs also tend to have internal procedures free

of cumbersome bureaucratic inefficiencies. Perhaps most critical is the fact that PVOs compete among themselves for private contributions. This brings a market test to the nonprofit organizations that government agencies lack.

The ability to focus on a single technical specialty is another advantage of PVOs. These groups recruit specialists and develop unique technical expertise in their areas. Examples include Accion International/AITEC, which pioneered micro-enterprise development in the 1970s, and the Caribbean Conservation Corporation. Thus too, the African Medical Research Foundation established the Flying Doctors Program in East Africa strictly with its own funds, and Project HOPE's community health programs pre-date A.I.D.

Another PVO advantage is that by their nature, PVOs can often work in situations too politically charged for governmental assistance. An example is Afghan refugee assistance, where U.S. PVOs have supplied relief including medical assistance. They can also work at the grass roots level with hands-on programs to help the vulnerable.

Possibly the greatest advantage of PVOs is their collaboration with indigenous PVOs in the countries in which they work. Indigenous PVOs are uniquely placed to operate at the grass roots level and to help individuals left out of current large-scale programs. By definition, most local PVOs are small and lack solid management practices. U.S. PVOs have assumed the role of whole-

#### **Box 4.4 - Rising Environmental Concerns**

PVO field workers have become vocal about the environmental crisis and have brought their concerns to the attention of Congress. Environmentally oriented PVOs are therefore a fast growing part of the development oriented community. They took the lead in forcing the World Bank and A.I.D. to pay more attention to protecting tropical rain forests and protecting biological diversity. Today, there are almost 20 environmentally oriented PVOs registered with A.I.D. Their objectives are to:

- ensure that development is sustainable,
- ensure that resources are managed so that species and varieties of plants and animals can persist in adequate numbers, and
- protect areas of land and water which contain representatives or exceptional communities of plants and animals.

**Table 4.1 - Cost of Field Operations**

<i>Development Assistance Worker</i>	<i>Dollar Amount per Month (Includes All Direct and Indirect Costs)</i>
Peace Corps Volunteers	2,167
A.I.D. Funded PVO (Brazil)	
Registered Nurse	5,400
Medical Doctor	8,200
OxFam Staff (non-A.I.D. Funded)	5,500
A.I.D. Funded Cooperative	
Development Organizations	13,876
Private Non-Profit Development Firm	10,833
A.I.D. Direct-Hire Employee (LAC) (Includes Salary, Benefits, Housing)	12,500

*Source:* Administrative Offices of selected organizations

salers of assistance that can be retailed by the small local PVOs.

U.S. PVOs have made impressive gains in institution building, training and staff development, and formulation of program and policy. They have often helped build small organizations into ones which have achieved prominence at the national level. An outstanding example is CRS, which has developed Caritas Internacionales into strong, self-sustaining entities through the world.

#### *PVO Disadvantages*

By their very nature, PVOs tend to focus on development problems and opportunities at the micro rather than the macro level. Well-run PVO health and education projects can, and do, save the lives of thousands of babies and teach thousands of children and parents ways of improving their daily lives. Yet however worthy, such contributions necessarily fall short of permanently improving opportunities and the quality of life for millions of ordinary people.

#### **Box 4.5 - A PVO Dilemma**

"One issue of concern has been the dilemma that is involved in becoming more professional — there is a plus and minus in this. The presumption is that we will become more effective as we improve our management practices.

But the risk in becoming more savvy and sophisticated is that we may lose the sense of spirit and energy which has propelled PVOs from the beginning. In a growing industry, which is what we are, there is the danger that we will become more competitive, at a time when we need to become more collaborative."

Thomas W. Dichter  
Vice-President, Policy Analysis  
Technoserve

As Chapters 2 and 3 indicate, sustained development can only come when LDC governments commit themselves to sound social and economic



**Volunteers Beget Volunteers.** An American Red Cross worker trains African members of the Red Crescent. One of the most important contributions of U.S. PVOs is helping to strengthen indigenous volunteer organizations in LDCs.

policies — policies aimed at building an indigenous institutional infrastructure of economic and social opportunity that looks to expanded human choice.

For LDCs, true development means making gradual progress toward self-supporting health, education, and market institutions. A “developed” government is one that provides its people with the means to meet their human needs without a permanent reliance on outside donors. In this context, foreign PVOs represent a bridge toward development, but not a permanent fixture. Indeed, as macro development moves forward in a country, the need for foreign PVO assistance should progressively diminish, and as indigenous PVOs improve their institutional and financial capacities, the role of foreign PVOs probably will decline.

Fund raising can also create problems for PVOs. There is a temptation to attract private contributors by emphasizing dramatic “instant successes,” even though the strong point of most PVOs is their focus on long-term efforts.

The political clout of PVOs has also been used to promote Congressional earmarks. While many important and worthwhile objectives may be embodied in specialized PVOs, the process of

seeking earmarks for special interests undermines the need to focus on country-specific priorities. Obtaining funding on the basis of often emotive appeals, rather than performance or country need, promotes an unhealthy budget process. Further, the success of past efforts to obtain earmarks has encouraged a potentially counter-productive reliance on U.S. Government resources and Congressional lobbying, rather than grass roots performance. Finally, many PVO activities abroad are beyond the arm of official evaluations, which makes it difficult to assess program claims of success.

### **The Philanthropic Foundations**

In both their scale and range, America’s private philanthropic foundations are unique in the world. There are hundreds of them, some with total assets of only a few thousand dollars, many more with assets totalling over \$100 million, and two giants whose names are known around the world — the Ford Foundation and the Rockefeller Foundation — with total assets of over \$1 billion. Twenty-three American-based foundations spend about \$500 million annually on programs which touch on development problems in coun-

#### **Box 4.6 - International Executive Service Corps (IESC)**

Since 1964, when President Johnson launched the IESC, retired executives unwilling to be relegated to the rocking chair have contributed their management know-how to businesses in developing countries. The retired executives represent all areas of business expertise from finance to manufacturing and agriculture. IESC receives support from over 200 U.S. private companies and the Agency for International Development. Retired executives volunteer their time, and IESC passes on the travel and administrative costs to developing country businesses on a reimbursable basis.

From its base in Stamford, Connecticut, IESC matches candidates with opportunities which are identified by 32 overseas offices. Its services are custom tailored to the needs of developing country firms. Help may range from ways to increase

manufacturing productivity to marketing and financial strategies that often increase both efficiency and profits. Since 1983, IESC has completed 2,700 projects in developing countries.

Recently, A.I.D. and IESC developed Trade and Investment Services (TIS) to provide special trade and investment promotion programs. These programs bring U.S. firms together with foreign firms to develop new joint-ventures, collaborative technology programs, and other ventures to benefit small and medium sized U.S. and developing country firms. Through its existing and expanding network of business executives both here and in developing countries, IESC seeks to link opportunities and investors to promote economic growth in LDCs.

tries of Asia, Latin America, Africa, and the Near East. Probably half of this amount is spent on American researchers or developing country nationals carrying out work in the U.S.

Foundations pioneered the effort to apply scientific advances to development. Their work literally transformed tropical health and agriculture, and their seed money often laid the groundwork for much larger investments by LDC governments and other donors. Their achievements can be seen in the following partial list.

- The Rockefeller Foundation established the China Medical Board that introduced a modern system of medicine in China. It financed Peking Union Medical College, which pioneered the use of "barefoot doctors" who were subsequently used to take health care to the country as a whole.
- Foundations funded much of the medical research that helped revolutionize health in the tropics. The control of Yellow Fever is an early example.
- The Green Revolution technology that sparked agricultural productivity throughout much of Asia was another result of American foundation investments. In 1960, foundation funds created the International Rice Research Institute (IRRI), which was the first of a system of 13 international agricultural research centers.
- The Ford Foundation helped create many important local universities. Equally significant, it has given talented foreign students the chance to study at the finest U.S. universities. These students often have become key policy makers on their return home. In Argentina, to cite but one example, the democratic government of President Alfonsín relied on ex-Ford Foundation fellows for its economic policy. In fact, 15 members of the Alfonsín cabinet are former Ford Foundation scholars.
- A new foundation, the John D. and Catherine T. MacArthur Foundation, took the lead in bringing environmental sustainability into the mainstream of development work. They did so with a \$15 million

#### **Box 4.7 - American Schools and Hospitals Abroad (ASHA)**

...privately operated American-sponsored universities abroad ...play an important part in assisting in the training of teachers, technicians, and others who are so desperately needed in under-developed countries. Also, these institutions abroad play an important role in disseminating American ideas and culture in their respective areas...It is evident that the activities of these institutions are beneficial to the interest of the United States and the free world.

Report accompanying  
Mutual Security Act of 1957  
(U.S. House of Representatives, 1957)

The U.S. Government, as part of its A.I.D. budget, helps fund schools and hospitals located in developing countries. In 1988, 80 American-sponsored schools and hospitals were using ASHA assistance in 43 countries to improve educational and health services. Each year, these private institutions enroll more than 200,000 students and provide medical services to four million persons. More than 1,200 U.S. citizens serve on their staff.

ASHA's budget for FY 1988 was \$40 million, which has been reduced to \$35 million for FY 1989.

During 1988, ASHA provided an agricultural college in Honduras with dairy science and horticulture laboratories. The new facilities help implement the school's plan to improve programs, expand enrollment, and provide the agribusiness skills necessary to meet the food needs of a Central American population which is doubling in one generation.

In south central Zaire, ASHA helped a hospital that serves 110,000 patients annually to acquire electric power facilities. In addition to providing reliable power for the hospital, this improvement permits the hospital to expand its nursing school and to construct a continuing medical education center.

institution building grant to World Resources Institute (WRI), a center of research whose long-term impact could rival that of the Green Revolution in international agricultural research centers. The five year grant was given in declining increments while WRI developed its own financial resources. Today, the institute operates on an annual budget of \$5.4 million.

Foundations provide much of the financial backing for scholars seeking to re-invigorate development economics and development strategies. They have nurtured a world-wide cadre of intellectual leaders devoted to developmental science, sociology, economics, health, and political science. Virtually all of the seminal intellectual works that have redirected development were supported by U.S. foundations. Examples include emphasizing the productive potential of peasant agriculture and showing the economic value of education.

## America as University to the World

For the next generation at least, the leading universities in this country will have an exceptional ability to attract outstanding applicants from nations around the world. Neither academic leaders nor government officials have fully appreciated what an opportunity this creates to promote greater international understanding and to help underdeveloped countries as well as to enrich the education of American students. To make the most of these possibilities, universities need to find adequate methods and resources to reach unusually talented students abroad who lack the funds or the connections to come to the United States.

Derek Bok, President  
Harvard University

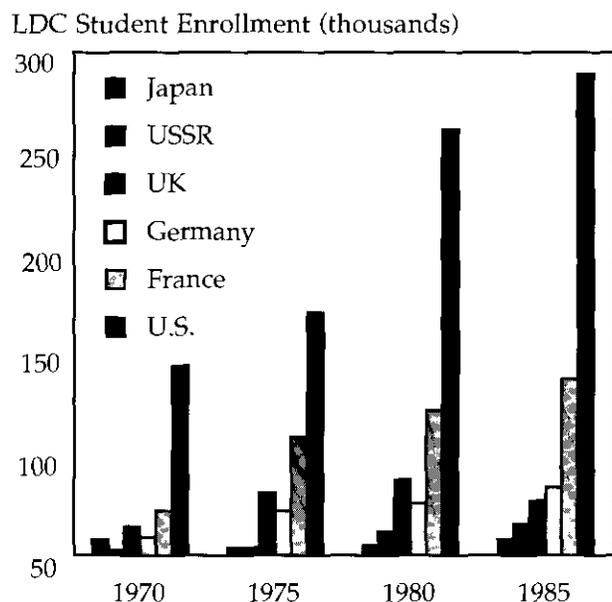
As American universities of all sizes have grown into global institutions, they have become increasingly important agents of change for developing countries. Today, over two million individuals living in developing countries have benefited from American educations. Recent reports indicate that almost 300,000 students from developing countries are currently attending school in the U.S. Figure 4.2 shows that an increasing proportion of all developing country students studying abroad choose American universities.

U.S. Government funding covers a declining and marginal proportion of those who come here to study. But, while the U.S. Government currently spends somewhere around \$200 million annually on supporting developing country students studying here, American universities provide an estimated \$1.5 billion each year in scholarships and subsidies from their own resources. Even more money is spent by the developing country students themselves, with support from their families and governments — so much so that education has become an increasingly important foreign exchange earner for the U.S.

Foreign student enrollments, most of which are fully funded, are also key to the economic health of a growing number of American colleges and universities. International students studying in technical fields, particularly engineering, keep many U.S. universities' graduate engineering schools alive, since there is a reduced demand among U.S. corporations for PhD level engineers.

**Figure 4.2 - U.S. Leads the World in Training**

LDC Students at University Level



Source: UNESCO (various years); Central Intelligence Agency (1987)



**Educational Development.** Along with hundreds of thousands like them from all over the world, these Caribbean students have arrived in the U.S. for higher education.

In a recent study of doctorate-granting institutions, it was found that over 25 percent of all science and engineering graduate students are international students. Table 4.2 shows that foreign students are important in a surprisingly wide range of U.S. universities.

While developing countries have received immense benefits from their cadres of U.S. trained technicians and managers, many also are quick to point to the problem known as "brain drain." This means that large numbers of the American-educated elite either remain in or elect to return to the United States.

Even taking such problems into account, however, the importance of American colleges and universities remains plain. From agriculture to sports, from economics to engineering, the single greatest educational asset to global development is the American system of higher education. The United States has truly become the "University to the World." Directly or indirectly, it is shaping millions of the future leaders of the developing world.

## Conclusion

As we have seen, Americans were wholeheartedly engaged in private and voluntary humanitarian work abroad long before the establishment of the Agency for International Development. This centuries-old missionary and charitable spirit still shapes many popular attitudes toward development and adds elements of both idealism and practical experience to programs that might otherwise be driven strictly by economic and strategic considerations. While this gives some aspects of U.S. development efforts a commendable moral underpinning, it can also blur the distinction between the virtues of private charity and the imperatives of national interests.

In a country where seven out of ten households make charitable donations each year, it is not surprising that private American giving for overseas development is more than double the amount of official U.S. development assistance. Even more impressive is the depth and range of the impact of private giving and the lasting contributions and impressions it has made in developing nations, sometimes on a scale far more

**Table 4.2 - Foreign Students at U.S. Universities**

1986/87, Foreign Students as a Percentage of Total Enrollment

	Total Number of Students	Number of Foreign Students	Percentage of Foreign Students
Massachusetts Institute of Technology	9,391	1,837	19.6
Howard University	11,053	1,993	18.0
Stanford University	12,333	2,187	17.7
State University of New York at Buffalo	12,007	2,041	17.0
Florida Institute of Technology	6,497	1,031	15.9
Southern University A&M College, Main Campus, LA	9,550	1,500	15.7
American University	9,552	1,404	14.7
George Washington University	14,889	2,163	14.5
New Jersey Institute of Technology	7,591	1,076	14.2
University of Miami, FL	13,383	1,873	14.0

Source: Institute of International Education (1987)

#### **Box 4.8 - Land Grant Universities and LDCs**

The Board for International Food and Agricultural Development (BIFAD) links A.I.D. to the agricultural complex in U.S. universities. Created by Title XII of the Foreign Assistance Act enacted in 1975, the BIFAD is composed of seven persons appointed by the President who serve in an advisory capacity to the Administrator of A.I.D. The BIFAD's fundamental charge is to bring to bear the expertise of the academic agricultural community in the support of A.I.D. programs on a global basis. World hunger is a special focus of the legislation.

Title XII has helped A.I.D. to provide scientific expertise and institution-building capacity in agriculture. The land-grant Universities and the national agricultural research and extension systems developed around the world, along with the international agricultural research centers, were the building blocks upon which the Green Revolution was constructed. The "human resource" capability that came from U.S. Title XII institutions was also noteworthy and helped to form the basic leadership structure for the agricultural institutions built by A.I.D. and other donors.

More institution-building remains to be done, however. The job of nurturing fledgling institutions through technical assistance projects is not yet complete. There is still a strong need for basic institutional development work in Africa. The more mature institutions, developed in an earlier

era, are having "second generation" problems. Beyond that, the leadership, largely U.S. trained, is now reaching retirement age. The second generation, mostly locally trained, is inbred and not up-to-date on the latest in science and technology. Thus, a new kind of need is emerging to link local groups into the world-wide scientific community.

There are 140 Title XII universities, so designated by the BIFAD. The combined capacity of these institutions is enormous. In 1988, 62 held contracts or sub-contracts for technical assistance in 57 different countries. The dollar value (life of project) of these contracts was \$582 million, and the average life of the contracts was 5.6 years. The scale of activity is down, having peaked in 1982 (the same year A.I.D. contract authority also peaked).

Beyond that, there are eight world-wide collaborative research support networks (CRSNs) involving leading U.S. scientists from 38 universities with LDC scientists around the globe. The total dollar value (life of project) of these contracts was \$108 million, and the average life of the contracts was 8.1 years. The budget squeeze has not reduced the number of projects, but it has scaled back their scope. Some research sites have been shut down, and technology transfer activity has been curtailed substantially.

#### **Box 4.9 - LSU and Malaysia**

An example of how American universities, working with foundations, can affect development is the Louisiana State University experience with the Malaysian College of Agriculture. In 1967, the Ford Foundation funded a Louisiana State University technical assistance team of five professors for five years. The team taught classes and planned the college's curriculum, research, extension facilities, college farm, and the faculty development program. When the team began its work, the institution had 240 students and was in the process of expanding to an enrollment of 540. It had four academic buildings, a college farm, and 12-person faculty. There was only one PhD, the newly ap-

pointed principal who had just returned from graduate school in England.

Today, an expanded University of Agriculture, Malaysia, has a student body of over 8,000 and a faculty which approaches 1,000. In addition, it operates a large Continuing Education Center. Its physical plant and library compare with the best in the developing world. And while the Malaysian institution was being developed, there was a huge influx of Malaysian students to American agricultural universities. The total number of Malaysian students in the U.S. rose from three in 1965 to 14,000 in 1978.

#### **Box 4.10 - The Sports Ambassadors**

Americans watching the 1988 Seoul Olympics may have marvelled at the outstanding performances of numerous athletes from developing countries which have neither official government nor privately-sponsored sports development programs. The fact is that many of these athletes attend American universities on scholarships or train with American sports clubs (which also sponsor them).

significant than official foreign assistance efforts. Clearly, successful development in any country consists of far more than governmental and inter-governmental programs. In large — perhaps in largest — measure, it consists of economic, political, social, and cultural activities by individuals acting alone or in voluntary groups.

Sustaining a domestic climate that continues to encourage private altruism — and pursuing economic policies that will keep the American economy strong enough to support it — are two of the most important contributions the U.S. Government can make to global development.



# Chapter 5

## *Trade, Investment, and Development*

*To continue to grow as a company, we had to look beyond Europe and North America. The developing nations of the world have become a strategic part of Heinz's future as a global enterprise.*

*Anthony J. F. O'Reilly  
Chairman, H.J. Heinz Company, 1988*

As the world economy grows more competitive and interdependent, development is increasingly affected by private sector activities and the government policies that concern them.

This chapter surveys the impact of U.S. trade, investment, and economic policy, and of the U.S. business community on developing countries.

### **The World Market**

#### *Economic Interdependence*

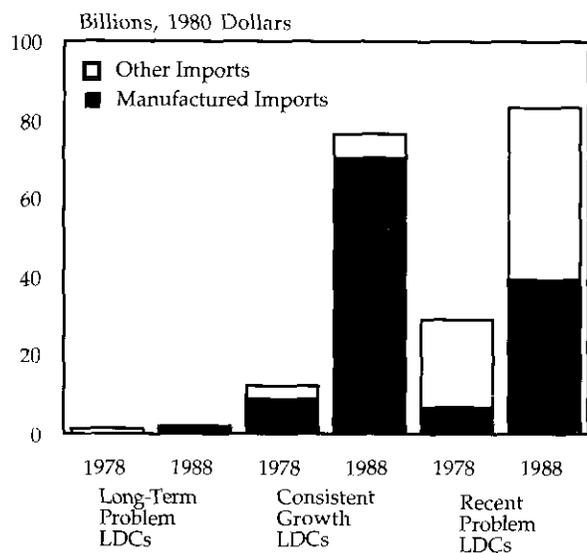
The most important contribution the U.S. makes to economic progress in developing countries is its own growth. U.S. economic growth has generated increased markets for developing country exports and more robust prices for many primary commodities, as well as favorable financial conditions. Wharton Econometrics has estimated that in the past, every one percent increase in real U.S. GDP was linked to a 1.5 percent increase in overall developing country GDP. Even more important, U.S. recessions are linked to recessions in developing countries; a one percent fall in U.S. output is tied to a two percent fall in developing country economic output.

Trade directly connects U.S. economic fortunes to developing countries. In 1987, U.S. imports from developing countries totalled \$149 billion, 35 percent of their total (see Figures 5.1 and 5.2 for a breakdown of U.S.-developing country trade flows).

Figure 5.1 gives a better indication of the role of U.S. imports by comparing overall economic performance with the growth of exports to the U.S. It shows that the countries which have sustained high economic growth rates have also shown the fastest rate of growth for both their exports to and imports from the U.S. Indeed, since 1980, the U.S. has absorbed the great bulk of incremental developing country manufactured exports (see Figure 5.3). The U.S. accounted for 74 percent of OECD's total incremental imports of manufactured products from developing countries, compared to less than eight percent for Japan.

The fastest-growing countries have also proven to be the best market for U.S. exports. As Figure 5.2 shows, exports to the Consistent Growth countries increased by 278 percent between 1978 and 1988 compared to much lower

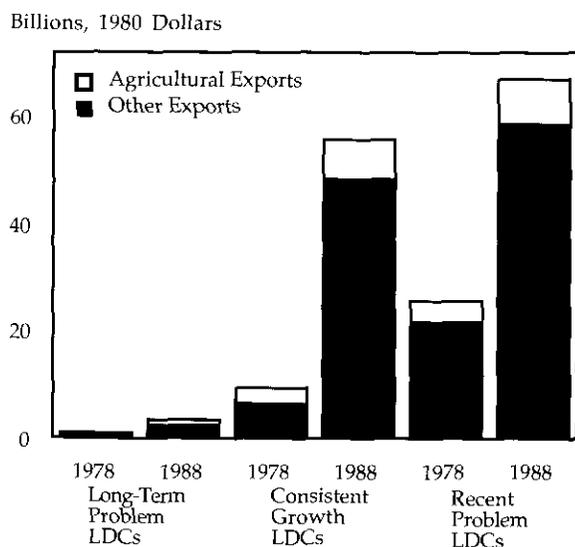
**Figure 5.1 - U.S. Imports from LDCs**



Note: Estimates based on 1988 year-to-date growth over the same period in 1987.

Source: U.S. Department of Commerce (1988)

**Figure 5.2 - U.S. Exports to LDCs**



Source: U.S. Department of Commerce (1988)

rates for other categories. The Recent Problem group imports from the U.S. actually peaked in 1981 at about \$59 billion and had not recovered seven years later.

### Services

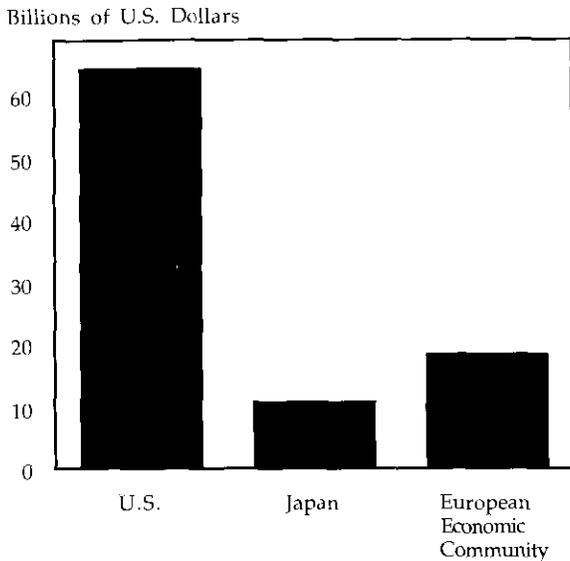
Commercial and financial institutions centered in the U.S. service the world as a whole. In 1987, U.S.-based enterprises earned over \$18 billion for services exported to developing countries; sales of services by U.S. multinationals operating in developing countries totalled another \$17 billion. The range and sophistication of this technical assistance far exceeds that available from bilateral development assistance agencies.

Indonesia, for example, has a contract with a consortium of merchant banks. They provide the same level of financial advice given to their multinational clients: Indonesia pays the going Wall Street price for the service. In fact, the Indonesian government is able to hire superior quality technical assistance on finance to that available to most U.S. Government agencies, including A.I.D. Another example can be found in Gabon, where Bechtel has provided consulting services over the past six years for planning infrastructure and maintenance as well as support for capital financing requirements. Developing countries are willing to pay the going rate when the task to be done requires the best.

U.S. services help cut the transaction costs involved in international trade. This is particularly important to developing countries for a number of reasons. First, such countries are more dependent on commodity exports and imports. The margin between buyers and sellers in products like petroleum or coffee is small because of institutions like U.S. futures exchanges, as well as multinational trading firms like Cargill (which competes against other American firms as well as Japanese, European, and other foreign enterprises). A particularly vivid example of this close relationship has occurred in the oil markets. The spread between buyer and seller in the cash oil market fell from eight percent in the early 1970s to less than 0.2 percent in the late 1980s due to commercial innovations based on American institutions and commodity trading practices.

International commodity prices are determined on American commodity exchanges. Brazilian soybeans, for example, are priced on the basis of the Chicago Board of Trade with con-

**Figure 5.3 - LDCs Depend on U.S.**  
1980 vs. 1987 Increase in LDC Origin  
Manufactured Imports



Source: United Nations trade tapes

tracts specifying X cents per bushel above or below the Chicago Board of Trade quotation. The prices for over \$120 billion worth of developing country commodity exports are based largely on U.S. exchanges, and developing country institutions, public and private, are becoming increasingly sophisticated users of techniques like futures and options. Developing country users of American commodity and financial markets are estimated to have spent more than \$1 billion on U.S. brokerage and other services in 1987.

Marketing expertise and access are among the key services provided by Americans to developing countries. The automobile industry is a good example. First Japanese and then Korean manufacturers have relied on U.S. owned car dealerships developed by U.S. manufacturers who, since 1962, could not legally discourage their dealers from also selling imported cars.

Another example is Sears, which has transformed the textile and light manufacturing industries of East Asia and Latin America through its purchasing of imported products sold over its brand labels. Sears' impact on the consumer durables manufacturing sector has led to the development of many industries in developing

### Box 5.1 - IBM in Singapore: An Example of Corporate Transfer of Technical Skills

**IBM** In 1980, at the request of Singapore's Committee on National Computerization, IBM agreed to help set up a special computer training center. The IBM project, one of several similar efforts commissioned by the Singapore Government to prepare the country for leadership in the Information Age, is considered by most observers to be the leading such institution in the country today.

IBM signed a four-year partnership with the National University of Singapore (NUS) to set up Singapore's Institute of Systems Science (ISS). IBM agreed to supply expertise, course material, software, and an IBM 3033. In addition, five teachers were seconded from IBM to teach both faculty and students and to provide leadership until the center could be fully operated by locals.

The courses taught at the Institute are aimed at improving the skills of Singapore businessmen

and data processing teachers. Most students in the nine month program receive sponsorship from their employers to train at the center, alternating their course work with on-the-job experience in data processing.

Ralph Eikenberry, an IBMer and former director of ISS, attributes parts of the center's success to Singapore's government. The "government is prepared to put its money where its mouth is...If you send your employee to this course, 71 percent of the tuition cost and 50 percent of the employee's salary can be given back to you through the Skills Development Fund." IBM has an outstanding record in setting up computer training institutes tailored to the needs of many developing countries (for example, Thailand, Indonesia, Taiwan). IBM's contribution to both technology transfer and the knowledge and skills to implement computer technology will have a lasting impact in developing countries.

### Box 5.2 - Caterpillar Plows Ahead

Some U.S. exports have literally changed the face of many developing countries. Caterpillar bulldozers and heavy machinery are an example. Since 1950, more than 50,000 units of Caterpillar machinery have helped to build most of the road, dam, and other major infrastructure projects in developing countries.



A large part of Caterpillar's success in developing countries has been due not only to the durability of its product but also to Caterpillar's worldwide dealer and service network. This network is typically made up of independently owned businesses run by local managers who know the local markets and speak the language. The relationship between Caterpillar's overseas dealer and the buyer does not end when the machinery is purchased.

Caterpillar provides comprehensive operating and maintenance training to new purchasers, as well as lifelong servicing for the machinery. Due to Cat's durability and servicing network, some developing countries have gone so far as to name Caterpillar as the make of equipment they want to purchase when posting a public works tender. It is this type of product reputation that has made Caterpillar a major force in developing countries.



countries. Its system of linking consumer demands to product improvements could only be accomplished through direct cooperation with local manufacturers. Sears brought in industrial engineers to advise local companies on production planning, purchase of tools, and quality control. In many instances, Sears ensured that a local firm could receive financing for an expansion of its manufacturing operation. A good example is the largest Peruvian textile manufacturer, which began as a small family-owned tailor shop. Sears provided the firm with technical assistance and the backing to assure bank financing which helped the firm grow to its present size with over 600 employees.

The Sears experience demonstrates that a multinational can not only create new industries, but can also help form a basic domestic private sector that is missing in many developing countries. The development of a local private sector which allocates resources efficiently, as opposed to state run industry rife with bureaucratic impediments, can make the difference between countries that grow over the long-term and those that stagnate.

#### *Technology*

In 1986 alone, American businesses applied for 15,000 individual patents in developing countries. Royalty payments for such technology transfers have grown tenfold in the last two decades and now total \$1.2 billion. From an economic perspective, licenses for process technologies have had the biggest impact. Examples range from textile machinery that was used to establish local manufacturing industries (this being one of the first industries for many developing countries) to high-tech products like semi-conductors or electronics.

Technologies pioneered and deployed in the U.S. — such as modern telecommunications and computerized design and manufacture processes — have been critical to the expansion and modernization of both the service and manufacturing sectors of developing nation economies.

#### *Freedom to Fail*

The risks associated with the private sector can actually provide a salutary antidote to misguided government economic policies in many developing countries. Not every private investment pays off, but when it does not, the investor

### **Box 5.3 - AT&T Moves Phone Plant to Singapore**

In 1986, AT&T made a \$70 million investment in Singapore to produce residential phones formerly produced at its plant in Shreveport, Louisiana. Employment at Shreveport, which continues to make business terminals and systems, dropped from more than 7,000 to under 4,000.

The savings generated by the lower costs of the Singapore operation are helping AT&T meet foreign competition head on, and, in the long run, preserving many of its U.S. jobs. AT&T's Singapore operation depends on U.S.-based Research and Development and on many U.S. components. And the success of AT&T's Consumer Products unit in the marketplace generates U.S. jobs in marketing, sales, and customer service. Without the cost savings from the move to Singapore, AT&T would not have been competitive in the consumer market, and most likely would have had to exit it.



either shuts down the faulty operation or goes broke. This is in stark contrast to many failed government-run or state-owned enterprises that are kept going for political reasons at an increasingly high cost by revenue-strapped LDCs. When private sector investments in high cost natural resource projects such as offshore oil and mining turn sour, losses are absorbed by shareholders rather than taxpayers. But when parastatal monopolies like Mexico's PEMEX and Zambia's ZNCC gambled and lost on a crippling scale, they were bailed out by their governments. The private sector's "freedom to fail" makes it a force for efficiency and productivity in developing countries where every dollar of investment resources must be spent wisely if human and economic progress are to be made.

### **Government Policy Impact**

U.S. Government policies and decisions, compared to direct government aid to developing nations, have a more critical impact on develop-

ing countries through their effect on private business decisions. Trade and investment do not just happen; government policies, both U.S. and foreign, have had an enormous impact on helping or hindering increased trade with LDCs.

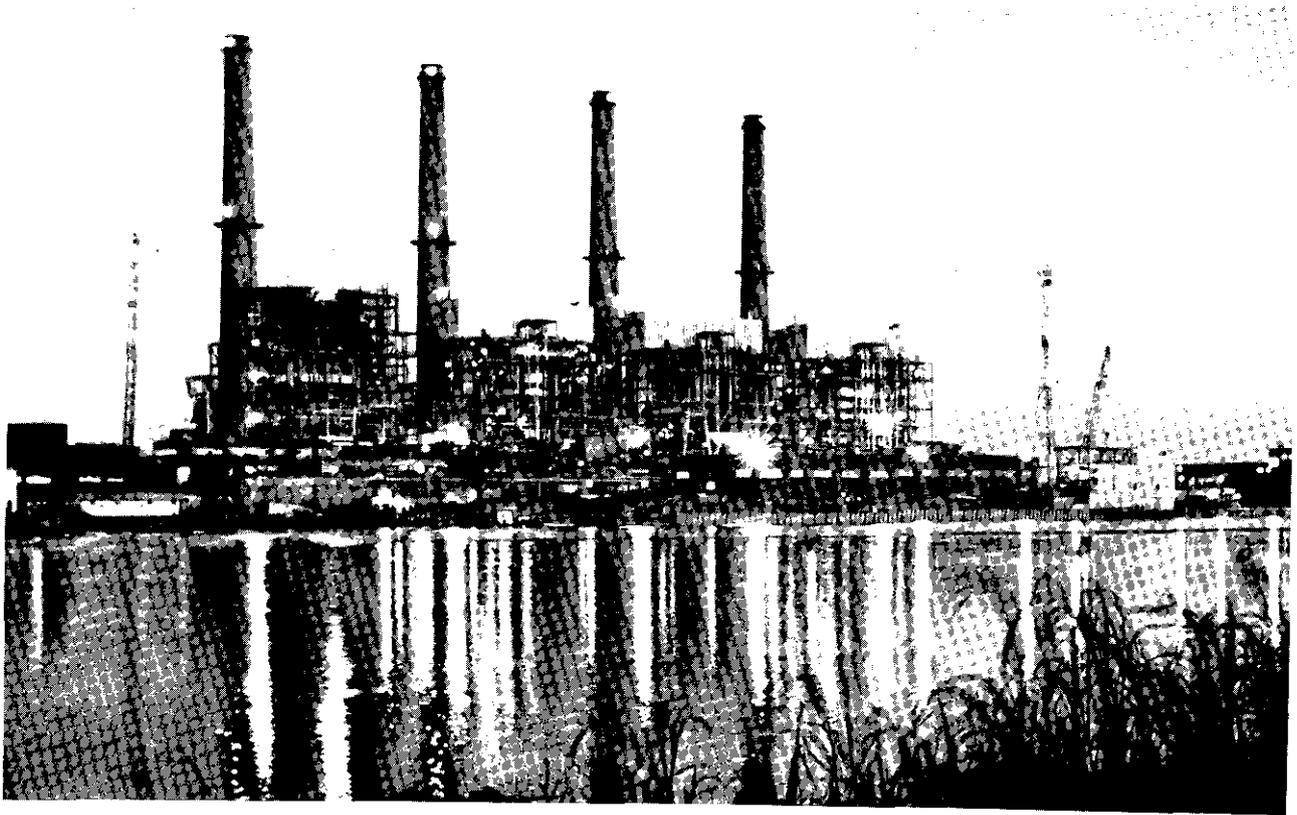
### *Global and Regional Promotion*

The Generalized System of Preferences (GSP) was begun in 1976 to provide duty-free access for some developing country exports to the U.S. In 1987, \$16.3 billion worth of imports benefited from this program. The major beneficiaries have been the high growth East Asian exporters who have accounted for 60 percent of total GSP imports (their participation in the program will end in 1989). The 1984 Caribbean Basin Initiative is basically an enhanced GSP for a particular region of importance to the U.S. This trade incentive has, in turn, helped attract about \$1.5 billion in new investments, creating 116,000 jobs and \$648 million in export sales.

### **Box 5.4 - Teknamed Invests in the Dominican Republic**

Teknamed, a small U.S. manufacturer of surgical products, moved some of its manufacturing operations to the Dominican Republic to lower costs and meet Far Eastern competition challenging their U.S. market position. Instead of losing a substantial number of jobs, Teknamed shifted some production offshore to a free zone in the D.R. and has managed to save 100 U.S. jobs and project a total increase in U.S. employment of about 20 percent.

Taking advantage of special trade benefits under the 807 program, Teknamed exports U.S. raw materials to the D.R. plant to produce its main product, woven cotton gauze, and then returns the gauze for sterilization and further processing in the U.S. Teknamed is another good example of how a foreign investment by a U.S. company preserves and increases U.S. jobs while bringing benefits to the host country simultaneously.



**U.S.-Generated Development.** This Bechtel-contracted electric power plant in Shoubra El Kheima, Egypt, has a 1,260 megawatt capacity; it has also provided training for 300 Egyptian technicians.

### *Trade and Investment Promotion*

A striking example of complementary government policies generating private sector investment and economic growth in a developing country — and, ultimately, human development in the form of more jobs, better wages, and improved living conditions — is the link between the U.S. tariff and Mexico's Maquiladora program.

The Maquiladora program allows U.S. inputs to be processed in special border manufacturing zones and imported into the U.S. duty-free. Between 1975 and 1986, employment in Maquiladora companies increased from 67,000 to 250,000. This amounts to 1.2 percent of total Mexican employment, and more than twice as many new jobs as have been created, for example, by the entire Caribbean Basin Initiative (Maquiladora output also accounts for two thirds of all Mexican manufactured exports). This is a

classic case of developmental goals that almost certainly could not have been achieved through direct government development aid. Development came about as the by-product of enlightened government trade and investment policies on both sides of the Mexican-American border — and the free market's successful response to the profitable opportunities that resulted. Not all government actions achieve the same positive results, nor do all trade and investment promotion programs.

Some of the most impressive non-traditional import success stories have been largely independent of any special U.S. Government promotional efforts. Chilean exports of grapes to the U.S. have increased almost tenfold in the last ten years — without the need of any direct government support by either Chile or the U.S. Tuna exports from Thailand also have experienced rapid growth as a non-traditional product with little benefit from any special U.S. program.

### *Development Needs versus Political Priorities*

Not all U.S. policies have had salutary effects. Too often, what the government gives with one hand it takes away with the other. U.S. constituency and interest group-based politics frequently guarantee that the least domestic political consideration will outweigh the greatest developmental consideration. Thus, while the Caribbean Basin Initiative has generated an estimated \$648 million in export sales from the region since 1984, the impact of reduced sugar quotas will mean a loss of \$275 million in exports in 1988 alone.

Protectionism in another field has effectively stifled desperately needed export growth in one of the hardest-pressed developing nations of Southern Asia. In the late 1970s, Bangladesh began to build up its textile industry. By 1985, it had 450 producers with 140,000 employees. Although its share of industrial country markets for textile imports was less than one half of one percent, it soon became a target of protectionist forces and their political allies. Thus, by 1986, despite the fact that the Multi-Fiber Arrangement (MFA) agreed to in 1974 was supposed to give preference to "small suppliers, new entrants, and the least industrialized countries," bilateral negotiations between Bangladesh and Britain, France, and the U.S. severely limited future export growth of Bangladeshi textiles. Ironically, the hobbling of LDC export earners like Bangladesh's textile industry could cost the U.S. more in new demands for foreign economic assistance than it will save domestic interests such as the highly-automated U.S. textile industry — and will have penalized a developing country that was making a good faith effort to produce, export, and earn hard currency.

### *Taxation*

U.S. Government tax laws and foreign exchange regulations have dictated the pace of direct foreign investment. From 1960 through 1970, Federal Reserve regulations governing the foreign exchange market precluded American multinationals from tapping the U.S. capital markets for their overseas investments. Lifting this constraint helped increase average U.S. direct investment in Latin America from less than \$100 million a year (funding coming from the unregulated Euro-market) to over \$1 billion a year.

U.S. multinationals have, however, seen taxes increase since the 1950s. Before 1963, U.S. foreign affiliates were insulated from U.S. taxation. Under the old system, income earned by the affiliate remained immune from U.S. taxation until it was remitted as dividends to the U.S. parent. But *Subpart F* of the 1962 Revenue Act changed the old rule by taxing foreign affiliates' profits regardless of repatriation to the parent company. Subsequent changes to the tax code have tightened the exemptions U.S. foreign affiliates could claim against earnings, making taxable income rise. Consequently, U.S. tax policy has frustrated more rapid growth of multinational operations.

Similarly, U.S. taxation of citizens working for multinationals abroad has increased. Prior to 1963, U.S. expatriates paid no income tax. Various changes in the tax treatment of expatriates have occurred since then, including the 1986 tax law which has tightened exclusions from income, thereby raising taxable income. The increased tax burden on U.S. expatriate employees of multinationals has discouraged them from placing more line managers in overseas operations.

### *Financial Regulation*

The U.S. Government's banking and financial market regulators were intimately involved in the events that led to a massive rise in commercial bank lending to developing countries in the 1970s, the subsequent crisis of the 1980s when many of these countries found themselves unable to service their external liabilities, and the ongoing process of working out the debt burden.

The Baker Plan, introduced in 1985, drove a wedge between the financial sustainability of U.S. banks and the debt service difficulties of the high debt developing countries. By 1988, the U.S. financial system was no longer at immediate risk, although the debtor countries continued to face serious economic difficulties. And recent changes in the way banks are allowed to account for loans to developing countries have led to a menu of options for debtor countries, including debt-equity conversions. In Chile, this alternative has allowed the government to extinguish 20 percent of its total foreign debt.

## Corporate Impact on Development

Multinational corporations such as Ford, Citibank, IBM, AT&T, Merck Pharmaceutical, and Caltex Petroleum have made an enormous contribution to development in many LDCs. In contrast to the institutions discussed in the previous chapters, altruism has played little role in the globalization of particular businesses. Expansion overseas, as at home, has been motivated by profits and, increasingly, by competitive necessity: Failure to invest abroad would mean losing domestic U.S. markets. Overseas expansion triggered by the profit motive has, however, generated many businesses which are now much more important to many developing countries than U.S. Government foreign aid flows. The following are but a few examples of private business contributions to development.

- The flow of direct foreign investment to developing countries, which excludes commercial bank credit, is now larger than bilateral U.S. economic assistance (\$9.4 billion in 1987). The outstanding stock of direct foreign investment is almost \$84 billion and is evenly divided between extractive sectors such as mining or oil and manufacturing and services.
- For decades, U.S. firms operating in developing countries have provided extensive training of host country nationals. Over the past 40 years just one services and construction firm has provided 15,000 person-years of management and industrial training.
- American multinationals bring 40,000 citizens from developing countries to the U.S. for training each year.
- Subsidiaries of U.S. businesses have created over two million jobs in developing countries in the last decade. In 1986, they produced \$15 billion worth of manufactured exports. Viewed the other way around, about 20 percent of all manufactured goods imported from developing countries by the U.S. comes from the subsidiaries of American businesses operating abroad.
- U.S. multinationals have accounted for an increasing share of developing country manufactured exports. In 1960, about four percent were built by local subsidiaries of U.S. firms. By 1986, fully ten percent of the very much larger total industrial export volume had been produced at American-owned plants.
- U.S. multinationals have been the key agents for technology transfer in the manufacturing, communications, and transportation sectors in many developing countries. For example, the automobile business, now the largest industrial sector in Latin America, was built around U.S. technology, largely by the subsidiaries of U.S. firms. More generally, over 40 percent of the patents registered in all developing countries were owned by U.S. multinationals.

### Box 5.5 - Telecommunications in Mauritius: An Example of "Leap Frog" Technology

Mauritius recently expanded its telecommunications network. Thanks to that expansion, foreign investors now find it more profitable to locate in Mauritius' growing export processing zones. The availability of reliable satellite communications with the United States and the Far East has attracted investors to the export processing zones which employ about 50,000 people in 250 enter-

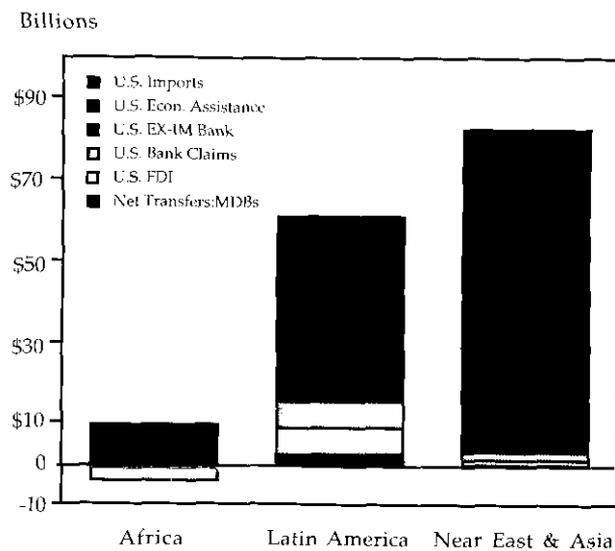
prises today. One sweater factory in Mauritius has become a major employer and exporter as a result of links to a computer-aided design system in New York. These links allow the factory to keep up with the changing fashion trends thousands of miles away, thereby keeping Mauritian exports competitive.

- U.S.-pioneered financial services and capital markets have been critical to the dramatic growth in developing country trade flows. Despite growing competition in services, particularly from Japanese banks, virtually all developing country trade remains denominated in U.S. dollars. Most short-term trade finance, including that for transactions unrelated to the U.S., remains tied to U.S. capital markets and banking regulations.

## U.S. Multinationals

U.S. commercial ties to developing countries vary considerably, country by country and region by region. In Africa, U.S. Government flows are larger than trade, credit, or direct foreign investment flows. In East Asia, trade now dwarfs U.S. Government development assistance or Ex-Im activity, although direct foreign investment remains modest compared to Latin America (see Figure 5.4).

**Figure 5.4 - Sources of LDC Foreign Exchange**  
Private vs. Official Resource Flows



Source: DAC (1987); World Bank (1987c); Federal Reserve Board (various years); Department of Commerce (various years)

Multinationals can prove to be a mixed blessing for LDCs if monopolistic, or protectionist policies are pursued. But their collective impact is positive and provides an economic base for grass roots development that, over the long-run, can lead to more prosperous, evolved economies in the host countries.

## Extractive Industries

U.S. multinationals' investments in extractive industries such as mining or petroleum were their first major commitments to developing countries. Despite a conventional view that populations derive few benefits from their presence,

### Box 5.6 - Corporate Philanthropy



The line between for-profit and philanthropic assistance to development sometimes merges, as these two cases illustrate:

For 18 million people in West and Central Africa, the Middle East, and Central and South America, the "river blindness" disease endangers both health and livelihood. Spread by flies which breed near fast flowing rivers, it has forced farmers to move away from some of the most fertile land in developing countries. In 1987, Merck & Co. announced it would donate a new drug to treat river blindness in developing countries. Originally developed as an animal health product for sale, the drug is now distributed free to countries that need it.

In 1987, Caltex Petroleum was awarded the President's End Hunger Award for corporations for its work in setting up a Save the Children operation in the Philippines. Ray Johnson, Caltex's chairman, has been active in development work in the Philippines since 1948 and became involved with the Save the Children Foundation in 1980. Johnson organized an Advisory Council for the program. Chaired by a senior Caltex executive and composed of key Filipino government and private sector leaders, it raises funds and support for Save the Children Philippine programs. Caltex itself has also provided communication services, transportation, office space, and other resources.



the economic and social experience throughout the world suggests otherwise (see Box 5.6).

The biggest development success story in the Arab world was largely managed by an extractive company, the Arabian American Oil Company (ARAMCO). Although something of a special case because of the vast profits involved and the special U.S.-Saudi relationship, the accomplishment nevertheless remains an impressive one. Since 1938, ARAMCO has been responsible for nearly \$50 billion worth of non-oil development in Saudi Arabia. ARAMCO's original development effort came to provide better living conditions for its employees. But the positive spin-off of benefits to the host population was almost as immediate. The primitive environment in the Eastern Province of Saudi Arabia ensured that ARAMCO's efforts would go well beyond the precincts of the oil workers and their families. There were no paved roads, no port facilities to handle anything much bigger than a dhow, no renewable water supplies, no electricity, no medical facilities, and no one with either the capability or the means of repairing anything in any area of modern technology.

Along with the accoutrements of the oil industry, ARAMCO built up every aspect of the Eastern Province's infrastructure and tied its development there into parallel efforts both in Riyadh and in the Hejaz adjacent to the Red Sea.

#### *Professional Management*

The positive impact of U.S. business investment in developing countries has gone far beyond the immediate jobs, earnings, and products generated. U.S. management practices, particularly organizational expertise, have had a marked impact on local businesses in host countries. Introduction of American management skills has shaped the way many developing countries do business. The American practice of creating line managers responsible for discrete business areas such as marketing and finance has broken down the restrictive traditional pattern of consensual family ownership and decision making and introduced more professional, competitive business leadership. In many developing nations, the oligarchy has begun to give way to the publicly held and professionally managed enterprise.

#### *Financial Practice*

The spin-off benefits of the transfer of management and managerial skills may be even greater when local personnel who are trained for managerial, financial, and technical posts in multinational firms or banking institutions later leave and help stimulate indigenous enterprises.

Spin-offs in business practices can be as important as personnel spin-offs. In *Citibank, 1812-1970*, Cleveland and Huertas describe how this phenomenon worked to the ultimate benefit of developing economies in Latin America and Asia:

Traditionally, the bank has confined its local business lending to self-liquidating loans to prime names. In the 1960s, the bank began making term loans and soliciting customers whose credit standing was less than prime. To do so without heavy losses, the bank introduced into its Latin American and Far Eastern operations techniques of credit analysis and account management that had worked successfully in the Specialized Industries Group in the United States. Frequently, they required the customer to adapt his own accounting and management to the requirements of modern banking, U.S. style.

#### *Global Manufacturing*

Why have U.S. manufacturing firms invested in developing countries? Henry Ford II declared in the spring of 1961:

Whether we like it or not, Africa, Asia, and Latin America are going all-out into the industrial age...It does no good to tell them this is all very unsound, that they ought not to try to do so much so fast, that they should relax and buy from us a lot cheaper than they can make it. They just won't go along; they are deeply committed to fast industrialization.

If we want to share in those markets, rich and vast as they will some day surely be...we are going to have to go in with our capital and tools and know-how and help them get the things they want.

Henry Ford's observation was put into practice by his company in Brazil. Government pressure and tariffs on imported automobiles led Ford to set up Brazil's first factory in the 1950s. Initially oriented towards assembling imported

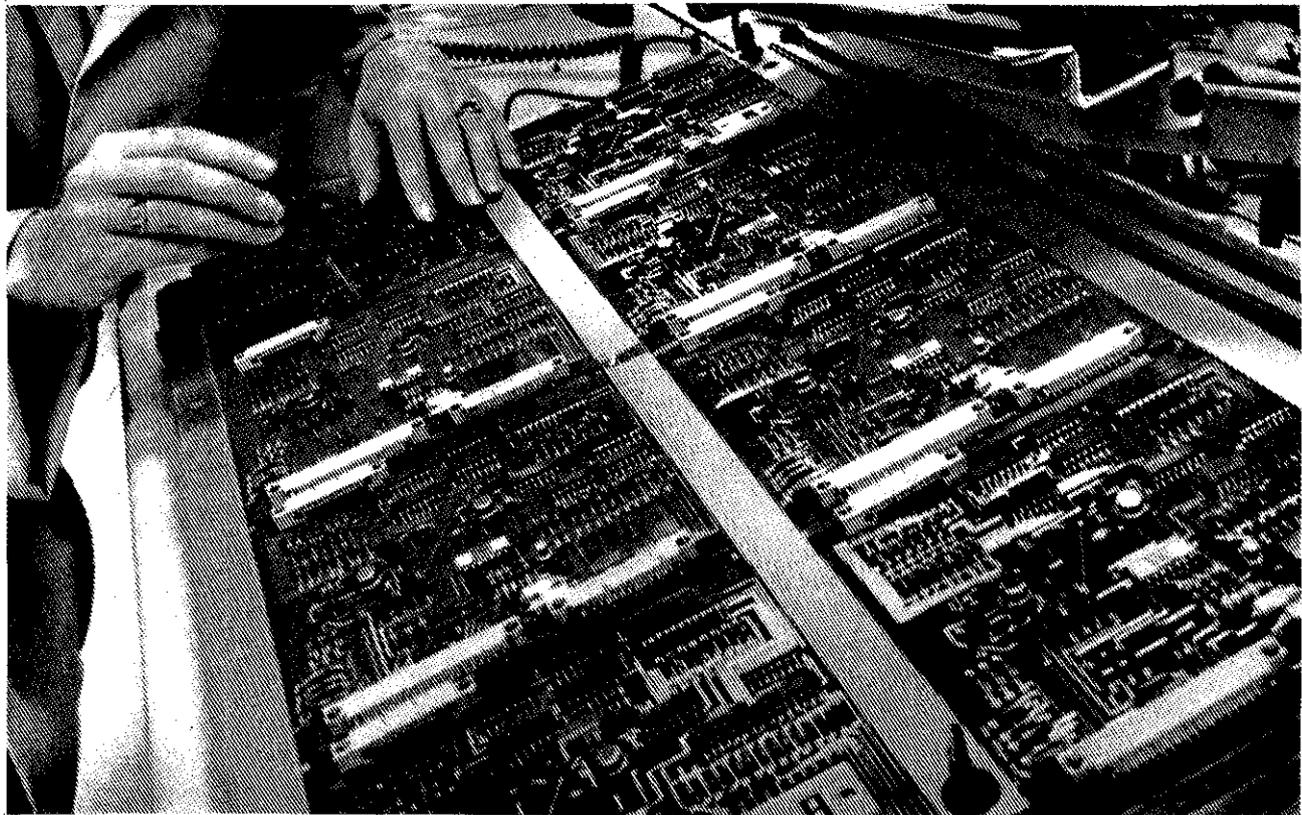
parts, Ford's Brazilian factories soon became sites of more and more value-added work. By the mid-1980s, Ford was producing 90 percent of the inputs needed for a working car within Brazil. Its factories were also big exporters of components used by other overseas affiliates of Ford and even by its U.S. operations.

Ford's experience in Brazil has come to serve as a model of why U.S. multinationals invest in developing countries. This "product cycle" explanation focuses on the changing but mutually beneficial relationship between the U.S. parent manufacturing enterprise and its developing country affiliates.

The process starts with a new product developed initially for the U.S. domestic market being exported. Assembly or production plants are then set up in a few of the largest developed country importers. As time goes on, there is increasing competitive pressure. More labor intensive aspects of manufacturing are then gradually relocated in low labor cost developing countries. At the same time, however, research and new product development for the world as a whole are kept in the U.S.

Ford's experience with the product life cycle evolved considerably between the 1950s and 1980s. In the 1950s, Ford designs and technologies were shipped out to Latin America to produce outdated U.S. car models. Now production in Latin America has shortened the product life cycle as new products begin to be produced while they are still sold in developed country markets. For example, the Ford Escort was introduced in the U.S. and Europe in 1980. It was being produced and sold in Brazil by 1983. The competitive international market and the maturity of developing country markets have shortened, but not eliminated, the product life cycle.

Overseas investment has permitted U.S. multinationals to maintain their share of world trade in increasingly competitive markets by producing overseas. Research and development (R&D) and new production plants have remained open to the service component of assembly operations abroad. The U.S. multinationals' product, including overseas inputs, has thus stayed competitive even when U.S. based manufacturing alone has become uneconomic.



**U.S. Jobs and LDCs.** America's ability to compete for world markets requires worldwide sourcing of components for products like this computer being prepared for export to East Asia.

As international trade in components has grown, so has investment in developing countries. A survey of high-tech U.S. industries undertaken for this report showed that American business is looking for skills, albeit at lower wages, that are difficult to find in the U.S. The semi-conductor industry is an example. The basic manufacturing job is semi-skilled, but quality control is all-important; lack of the latter has already put some U.S. suppliers at a competitive disadvantage.

Do American workers lose jobs because of the product cycle? It is certainly true that individual workers and local areas can be hard hit by U.S. multinationals deciding to relocate manufacturing jobs overseas. But are the ultimate results harmful or beneficial? The product cycle, despite the temporary disruptions it may cause, is a symptom of economic activity and market efficiency. In the long-run, it facilitates growing world trade, interdependence, and progress.

The bulk of domestic U.S. job losses linked to trade with developing countries is not caused by increased imports, which have grown proportionately with the U.S. GNP. Rather, America's serious trade deficit is attributable to the relative decline of our own exports. In the case of LDCs, this decline in exports is often linked to weakening or static developing country economies. In the case of major Latin American trading partners, it is also aggravated by the debt crisis. It is estimated that between 1980 and 1985, lowered U.S. exports to Mexico alone cost the United States close to 300,000 jobs. Far from weakening the case for overseas American operations, the trade deficit only makes them all the more important as a means of keeping American businesses competitive.

## Conclusion

Just as the profit-driven American private sector has proven to be an unequalled engine for human progress on the national level, profit-based American activity in developing countries has been a powerful spur to development. As Chapter 2 illustrated, healthy economic policies are a prerequisite to sustained LDC progress in the whole range of social indicators. Those developing countries that have charted sound economic courses tend to be the ones with the best

sustainable records in health, education, and, over the long-term, individual opportunity and choice, the heart of what development is all about.

Good results can be more valuable than good intentions. While it is understood that American investments overseas are made on the basis of sound business principles, not charity, the spin-off benefits they engender in their host countries include important developmental assets on a scale, and sometimes of a class, that government-to-government development assistance is incapable of achieving. One of the cases we have cited in this chapter, the experience of ARAMCO in Saudi Arabia, is an example of an American corporation single-handedly creating a national infrastructure from scratch without an extant trained, indigenous cadre or any pre-existing economic foundation to build upon. This is something no government development program has ever achieved.

While less dramatic, thousands of typical American investments in developing countries have generated much-needed jobs, upgraded both on-the-job skill training and higher educational opportunities, created modern health care systems that sometimes serve as a model for later host efforts, and facilitated technology transfer and the creation over time of a highly trained native cadre of managers and technicians. Few, if any, of these achievements could be equalled by government-to-government programs. The same economic policies that attract foreign investment also create a friendlier climate for domestic savings and investment, and those developing countries which pursue such policies tend to fare better than countries in comparable circumstances that do not. The U.S. Government can make a substantial, and cost-free, contribution to development simply by encouraging A.I.D. recipients to foster an investment-friendly economic climate. These efforts abroad should be supplemented at home with trade and assistance policies that put major development needs ahead of short-term domestic political considerations.

Having considered the evolution and current state of development, and America's official, private voluntary and profit-based assistance to development, the next chapter looks ahead to the 21st century.

# Chapter 6

## *Prospects into the 21st Century*

*The future productivity of an economy is not foreordained by space, energy and cropland. It will be determined by the abilities of human beings. It has been so in the past and there are no compelling reasons why it will not be so in the years to come.*

T. W. Shultz

This chapter suggests what developing country trends imply about their future. As in the past, successful economic, social, and political development will hinge on specific decisions taken in specific countries, not on some immutable set of worldwide trends. However, some of the most important challenges and variables can be described:

- Success will require coping with change and making the most of technological innovations.
- The acid test of any developing country's development strategy will be job creation.
- Future improvement in living standards will be increasingly expensive.
- Sustainability, of natural resources or institutional approaches, will become increasingly important.
- External economic developments including developed country growth, international trade, and possible new shocks will condition the economic prospects of any developing country.

The final section of this chapter looks at the alternatives facing different sets of countries. For this reason, much of the forward-looking analysis is organized around illustrative "what if" scenarios as they apply to particular groups of countries. This approach allows us to emphasize that the future depends on how different countries respond to the challenges of the coming decade.

### **What We Know is Going to Happen**

#### *Risks*

It is worth stressing that development will always involve risk-taking. Farmers, entrepreneurs, and even government policy makers are all in the business of dealing with risk. Not every good idea pans out; a recent study of why African farmers do not adopt "improved" farming technologies concluded that many are actually worse than traditional methods under adverse conditions like drought. The possibility of a better than average return is not always worth the risk.

Risk is never eliminated, but it can be divided and exchanged efficiently so that it is shared among those best able to handle it. As a result,

### Box 6.1 - Possible Health Breakthroughs

Advances in bio-medical research could have major benefits in cutting developing country death rates. New vaccines that could successfully be applied to a range of developing country killers might be introduced.

Areas of viral disease breakthrough are likely to include:

- Edmonston-Zagheb vaccine for measles, allowing vaccination before age nine months
- Vaccines for non-A non-B hepatitis and for hepatitis A
- Vaccines for those diarrheas caused by rotavirus

Bacterial diseases likely to be subject to new vaccine development include:

- Effective *pneumococcus* vaccines for children under two years of age
- For diarrhea, vaccines against *Salmonella typhi*, enterotoxigenic *Escherichia coli*, and *Shigella*

- Meningococcal, Group B Streptococcal, and H. influenza type B vaccines

Other breakthroughs will be targeted at multi-cellular parasites and at increasing the efficiency of vaccine delivery. Among these innovations may be:

- Vaccines against complex helminth organisms like schistosomiasis and filariasis
- Polyvalent vaccines developed by vaccinia virus recombinants or other vectors allowing single vaccines to be effective against multiple diseases

Some of these breakthroughs, such as that for measles, may be available within the next three years. For others, the future is more speculative and certainly longer-term. In all cases, effectiveness of the technology itself will be completely dependent on in-country capacity for its application. Given that these breakthroughs will probably be far more costly than past vaccines, the burden will be heaviest on institutions competent to manage the logistics and on those capable of the necessary financing.

financial mechanisms for risk management are extremely important determinants of investment and commerce.

High levels of risk and uncertainty about sudden political or economic policy changes increase the probability that growth opportunities will be missed at every level, from small farmers trying to decide what to plant, to industrialists considering a new factory. Indeed, the high levels of risk and uncertainty that characterize many developing countries hinder the overall efficiency of local markets and the effectiveness of even the best-intended government policy measures.

Risk and high levels of uncertainty also hamper long-term planning. Immediate emergencies will always take priority over worries about the distant future. As a matter of political and bureaucratic reality, most developing country decision makers lack the luxury of worrying about even the mid-term consequences of their actions. Such obstacles create a bias against long-term sustainable growth in favor of high return, but often short-lived, investments or policies.

### Coping with Technological Change

Future economic and social progress will continue to require a process of technological innovation. As in the past, basic scientific or engineering breakthroughs will be of long-term importance. For developing countries in particular, however, the application and improvement of available innovations will be critical to employment and living standards. The potential productivity of a new technology will be realized gradually through the tinkering of individual farmers operating in the varied circumstances — ecological, economic, and social — of specific developing countries.

Future technological progress, while continuous, will be far from smooth or painless. Technical advances will continue to displace some workers. But competitive pressure will mean that individuals, or countries, that make the most of what is available will outperform everyone

## Box 6.2 - Environment, Future Growth and a Long-Term Perspective

Larger populations, economic growth, or industrialization are not necessarily bad for the environment. Land values will rise, particularly in the rural areas suitable for truck farms growing produce for the cities. This, in turn, increases the individual farmer's incentive to adopt sustainable soil and water management practices. More concentrated populations will introduce economies of scale in the production and distribution of fuels. This could help reduce the incentives for over-exploitation of timberlands.

Reducing poverty is a necessary precondition to solving some of the most pressing ecological problems in the tropics. The lack of alternative employment opportunities is what drives people into slash-and-burn agriculture in the Amazon rain for-

est of Brazil. Eliminating government subsidies that promote settlement will not eliminate the problem; nor are coercive measures to keep the poor out of these ecologically fragile areas politically or administratively viable.

At the same time, economic growth or free markets will not solve all environmental problems. Incentives that preclude long-term decisions have had serious environmental consequences in the past and could become even more harmful in the future. Past exploitation of trees, soil, and water resources obviously limits the resource base available to future generations. And without some change in the way people value natural resources like biological diversity or rain forests, degradation will likely continue.

else. And this applies as much to technical advances that promote health or social innovations as to direct economic output (see Box 6.1).

The capacity for identifying, obtaining, and applying available technologies that best meet domestic requirements will be critical to most developing countries. Doing so will hinge on institutions and economic incentives as well as human expertise.

In the most advanced LDCs, a strong in-country science base of research institutions and trained scientists may become important. The availability of technically skilled labor and engineers will also affect investment decisions by multinationals building new, often high-tech, production facilities for their global operations (see Chapter 5).

But for most LDCs, acquisition and adaptation of technical innovations will be managed by private entrepreneurs and businesses, including the mostly "medium tech" subsidiaries of multinational corporations. This suggests that regulation of patents or financial markets that provide risk capital, rather than outlays on government scientific establishments, will determine the pace of technological progress in most LDCs.

It is also important to note that new technologies could help remove some of the biggest bot-

tlenecks limiting potential growth in particular LDCs. Better and lower cost communications will make it easier for local entrepreneurs to market their products and manage factories. Computerization has already begun to improve financial accounting standards and reduce the scope for corruption by government regulatory agencies. And the small size of many new electronic products, particularly micro-computers and their software, facilitates legal international trade, because of low transportation costs, and makes any government restrictions on trade difficult to enforce.

### *Developing Country Demographics*

Demographics trends have obvious effects on social and economic development. The long lead-times involved in population changes make them relatively predictable. Even worst-case increases in mortality, which will be discussed below, would take decades to affect the structure of populations in developing countries. Prospective changes in developed country populations also have economic implications for developing countries. The following is a brief survey of the most important demographic changes that will affect developing countries.



**Institutional Development.** A local "Big Board" will have to become a familiar sight in Latin America if local capital is to be mobilized for development.

### Employment Challenge

The most basic challenge of the coming decades in developing countries will be to create productive new jobs. Between 1987 and 2010, almost a billion new jobs will be needed in developing countries. Each year in the 1990s, developing countries will have to generate 36 million new jobs. By way of comparison, the current workforce in West Germany totals 29 million. Table 6.1 gives a regional breakdown of employment requirements.

Given current trends, which match the historical experience of developed countries, most of these new jobs will be found in cities. Urban population for the developing world as a whole should exceed that in the countryside by the year 2005. In the 1970s and 1980s, roughly 70 percent of incremental employment was in urban sectors; that percentage should be even higher in the 1990s and beyond for most countries.

### Local Financial Markets

The capital required for a new job ranges from less than \$100 to finance a street peddler's inventory to hundreds of thousands of dollars per employee in some heavy industries. In either case, the brunt of the financing effort will continue to be borne by local financial markets. Private investment will remain important in a few sectors, and economic assistance can play a supporting and essentially catalytic role, but local markets must mobilize trillions of dollars to employ, house, and provide services for tomorrow's populations.

The efficiency of local financial markets will therefore help determine the rate at which new jobs are created. Most new jobs will come in small and medium sized enterprises, and family operated farms will make most agricultural investments. Housing will also be an area where most investments will be small-scale and private (see Box 6.3). All of this suggests that credit institutions must be able to reach out to large numbers of small investors.

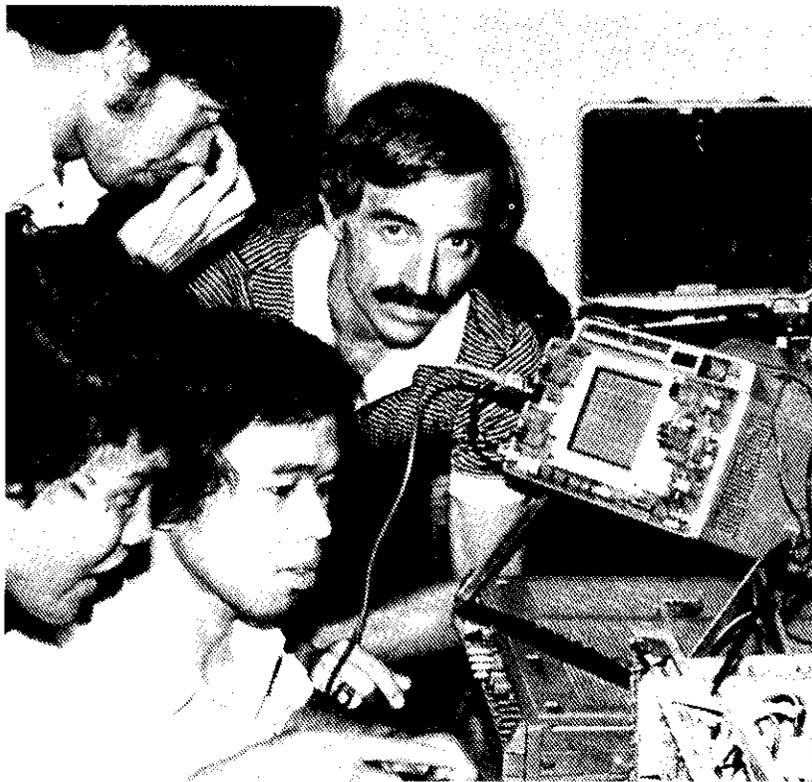
The reverse side of investment is savings which must be collected, aggregated, and then invested in productive projects. A variety of different institutions will be required. Savings banks or credit unions catering to small savers are needed as are markets that generate risk capital for entrepreneurs. Financial markets must also deal with mundane commercial concerns

**Table 6.1 - The Employment Challenge**

LDC Labor Force Projections (in millions)

	Labor Force		New Jobs
	1985	2025	Needed
All LDCs	1,539	2,892	1,353
Sub-Saharan Africa	184	571	387
Middle East and North Africa	78	215	137
India	293	508	215
China	618	807	189
East Asia	156	289	133
South Asia	76	204	128
Central America and Caribbean	40	105	65
South America	94	193	99

Source: ILO (1986)



**Investing in People.** Indonesian technicians and an A.I.D.-contracted instructor test video equipment used for educational programming — a major development tool in most LDCs.

### **Box 6.3 - Costs of Urban Infrastructure**

Building the infrastructure and housing required for growing cities will be an immense undertaking. The World Bank has estimated that \$100 to \$150 billion each year is currently invested in urban housing and supporting transport, water, and communication infrastructure. This represents between 15 and 25 percent of total domestic investment in developing countries. Assuming increased standards of living and larger urban populations, \$200 to \$300 billion a year in urban investment will be taking place by the year 2000. Foreign capital today accounts for less than 5 percent of total urban investment in developing countries, and local capital markets will remain the overwhelming source of funds for urban development in the future.

like reliable ways of effecting payment, guaranteeing contract performance, and insuring against risk.

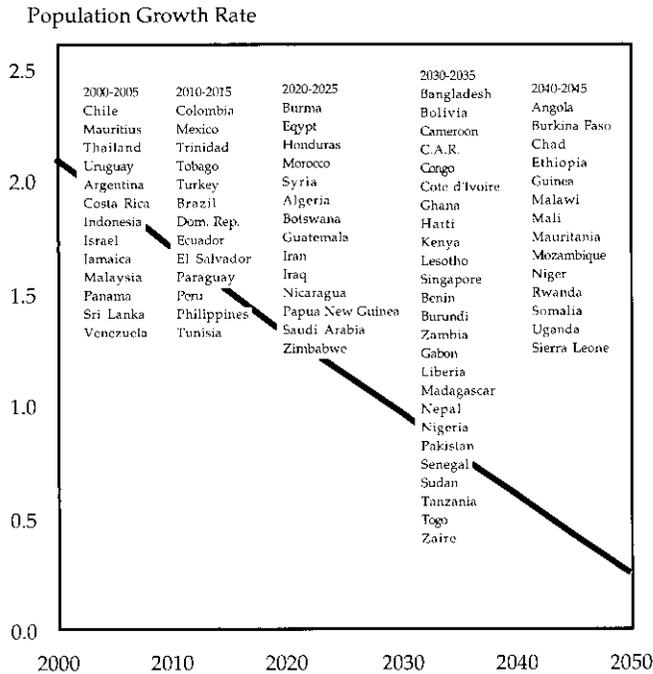
### *Agriculture*

The growth of non-agricultural employment will also transform farming and rural areas. If urban incomes rise, consumption should shift to higher value foods. Demand for livestock and more expensive vegetables, considered luxury items in subsistence economies, should grow faster than basic staples. More generally, the post-farm segment of the agricultural sector will grow. Marketing and food processing will ultimately generate more value-added than farming itself.

Cost-reducing technical improvements will be as critical in the future as they have been in the past. The best guess about future prices for cereals, and for other internationally traded commodities as well, is a continued downward trend in real prices. Reconciling that trend with high output and a farming population that will continue

**Figure 6.1 - When Populations Stabilize**

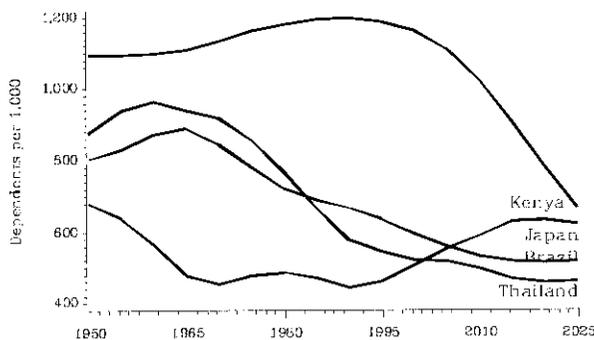
Estimated Year of Zero Net Increase



Source: World Bank (1988a); United Nations (1988); A.I.D. staff estimates

**Figure 6.2 - Workers vs. Dependents**

1950-2025, Dependency Ratios



Note: The dependency ratio is the combined population under 15 and over 65 as a percentage of the population between those ages.

Source: United Nations (1988)

growing in absolute terms will make agricultural productivity a top priority.

### Population Size

Current fertility and mortality trends imply that all developing countries will be reaching steady-state population between years 2000 and 2050 (see Figure 6.1). The economic effect of changes over time in the rate of population increase comes in part from changes in a country's age structure.

### Population Structure

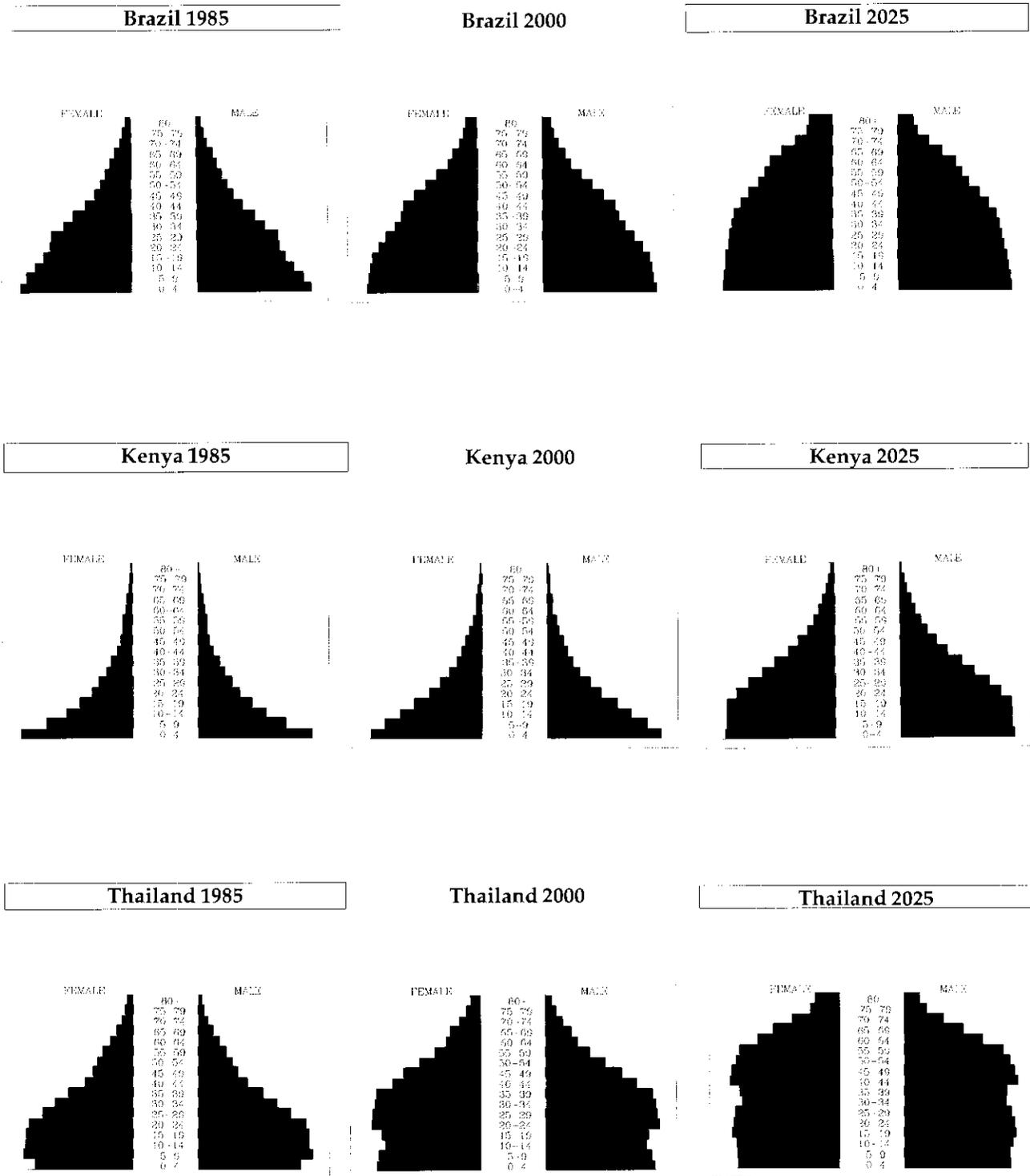
Historically, a higher proportion of working age citizens has promoted economic growth; conversely, a higher dependency ratio (of under 15s and over 65s) has been costly. A steep fall in dependency ratios was a factor in Japan's extremely impressive growth rates between 1950 and 1970 and appears to have been important in Western Europe and North America as well.

Since the 1950s, developing country dependency ratios have, in general, been growing and remain far larger than for developed countries. Figures 6.2 and 6.3 show how this will change over the coming decades for Latin America, East Asia, and Africa. The data show that:

- East Asian economies are now poised for a lowering of dependency ratios comparable to Japan's in the 1950s and 1960s.
- Latin American countries should also benefit from shifts similar to, if less dramatic than, those of Asia.
- Africa is an exception to this trend. For most African countries, the number of children and teenagers will continue growing: Given the generally lackluster economic performance to date, how will they be provided for?

A population's age structure also affects financial requirements, as well as demand for social services including health and education. The far-from-scientific life cycle approach to finance starts with the notion that younger households starting a family tend to borrow from older households saving for retirement. Lower dependency ratios should therefore contribute to deeper capital markets which have, judging from

Figure 6.3 - Changing Age Pyramids: 1985, 2000, 2025



Source: United Nations (1988)

## Box 6.4 - The Health Finance Challenge

The biggest challenge facing the health sectors of most developing countries in the next century will be finance. Easy solutions to isolated health problems, which have dominated donor assistance programs for the past ten years, have run their course. As people in developing countries live longer, reduce their family size, and become more urban, their needs will change. And those needs will be more costly than in the past.

The first pressing need is for expanded investment in the infrastructure. The most important objectives here are clean water supply and sanitation. Without these two essential components, human resource development will always be prey to debilitating and rapidly communicable diseases. Cures for these diseases (for example, diarrheas) are essential but inadequate, for they cannot prevent repeated infections. Only vigorous efforts to improve living conditions will lead to prevention.

Second, costs of providing health services will also rise. In most countries, the next 25 years will witness a changing epidemiology, with chronic and degenerative diseases rising in importance. This transformation, already underway in many countries, will mean a transition from emphasizing public health to emphasizing individual medicine for continued health improvements. At the same time, consumers with growing experience and urban exposure will demand higher quality services. Both the realities of the mix of medical problems and the expectations of consumers will create pressures for more sophisticated, costly services.

Third, the rising age structure of populations in developing countries will also affect costs. Older age groups can consume health services in excess of their numbers. In 1986, for example, an extensive actuarial examination of health services of the Pertamina Corporation of Indonesia, the country's petroleum producer, revealed that retirees (55 years of age or older), who represent only 12 percent of all recipients of corporate health care benefits, account for 35 percent of total Pertamina health expenditures.

Even in countries where such aging and epidemiological trends are slowest, cost issues will dominate basic public health programs. The sustainability of mass health campaigns and/or donor-sponsored health programs is even now of growing concern to Ministers of Health, as public resources for such programs fail to keep pace with the demands of each new international initiative.

These trends suggest at least two points about health priorities in developing countries.

First, the ability to consume health care is almost infinite. Thus cost containment will be essential, both in public and in private sectors, if health services are to remain affordable to public budgets and private consumers.

But costs per se will not be the only problem of the future. The real issue will be finance (and questions of cost must not be confused with questions of finance). The higher costs or investments in water supply and sanitation relative to recurrent costs of therapies such as oral rehydration salts (ORS), for example, do not imply concomitant problems with financing. Indeed, major investments and/or more comprehensive medical services often bring with them more extensive options for finance than do simple therapies. Developing pluralism in financial participation in the health sector will thus be both crucial and advantageous in the future.

Though some observers remain skeptical, there is growing evidence that moving beyond public budgets to establish financial pluralism to pay for health services can and should be done. A review of country studies revealed that 50 percent or more of all health expenditures in developing countries are from the private sector. Indeed, some of the poorest countries, e.g., Bangladesh, have the highest proportions of private expenditures. In Belize, banana farmers have undertaken their own investments in health care facilities in areas poorly served by government infrastructure, and have done so without the financial participation of either donors or government. Plantation workers, too, have agreed to payroll deductions to finance the operating costs of the services.

In Morocco, the social security system financed by employers and employees has more health finance available than the Ministry of Health. In Ghana, a local pharmaceutical company, using a small loan from a U.S. non-profit, is producing ORS for the public and private market. In so doing, it has not only expanded ORS availability, but also created new asset value in the private economy and increased its workforce by more than 10 percent. The list of such examples is extensive, as is their contribution to both health services and to national economic and employment growth.

The future will see such pluralism in finance, both for investments and for operating costs, become a dominant priority. Without it, the gains of the past will fall prey to the limits of public budgets.

the developed world's experience, helped raise investment rates and growth. In the past, changing dependency ratios have also appeared linked to less demand for foreign capital (this was the U.S. experience).

The social service implications of shifting dependency ratios are even more straightforward. In countries like those of Sub-Saharan Africa, the large number of children will burden existing educational systems. The increasing number of older people in Asia and Latin America (and, in absolute terms, in Africa as well) will require increasingly expensive and technically demanding health sector services. Indeed, the aging of the developing world's population is likely to have profound consequences.

### Higher Living Standard, Higher Cost

Past successes in raising living standards will make some future gains much more demanding and costly. In most social services areas, the challenge for coming decades will be to improve on existing levels of performance. A number of the higher income developing countries are positioned to become developed countries in terms of education and health, while access to basic services is still far from universal and even declining in some of the low income, low growth countries.

Virtually every country has expanded access to primary and higher education. But this does not necessarily mean that these countries have developed efficient educational systems or the institutions or trained cadre of teachers needed to improve quality. The growing gap between male and female access to secondary education and literacy may also prove deleterious. In many countries, far fewer students complete primary school than attend it; in Bangladesh only one quarter of all students finish fourth grade, while in Peru over one third of children repeat the first grade. When students require ten or even, as in Haiti, 15 years to complete the six years of primary school, there is obviously scope for improved efficiency.

The quality of schooling is a problem in many developing countries just as it is in many parts of the U.S. In a cross-country study of school achievement, developing country students scored 50 percent lower than students in developed countries in reading, math, and science

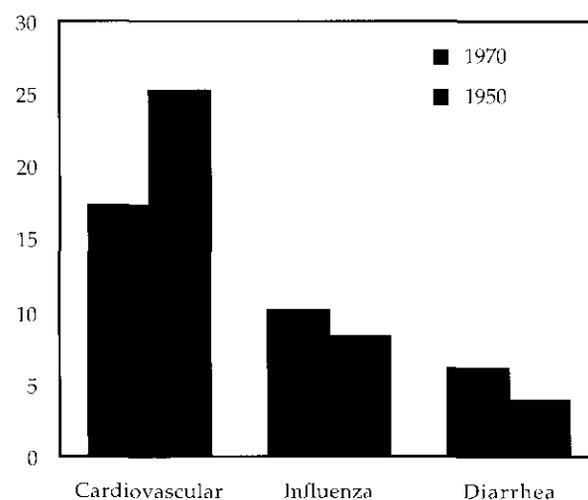
skills. Available studies suggest that in-school constraints such as poor teacher quality and ineffective instructional methods limit productivity — as opposed to developed countries where social background and family support seem to be the most important factors affecting the impact of schooling.

The financial costs and institutional requirements of continuing health gains will be equally large. As noted in Chapter 2, the easiest and cheapest public health measures are already in place for most countries. Most developing countries now must deal with new sorts of health problems. There is less need for public health-style measures that address the spread of infectious diseases like tuberculosis and a corresponding increase in the incidence of "modern" chronic degenerative diseases that require costly cures.

Figure 6.4 shows the trend between the 1950s and 1970s for Latin America, where difficult-to-treat cardiovascular diseases became more im-

**Figure 6.4 - Changing Causes of Death**

1970 vs. 1950 Latin America, Percentage of Total Deaths



Source: Palloni and Wyrick (1981)

### Box 6.5 - Child Survival Through 2000

Sustained reductions in the level of child mortality will require action on a much different set of problems than those which were addressed by the first generation child survival efforts led by UNICEF, WHO, and A.I.D. The box figure shows that the causes of infant mortality vary depending on the overall level of child mortality (although the data do not account for multiple causes of death that are most prevalent in developing countries, such as a child dying of diarrhea because he or she suffered from malnutrition and an earlier case of measles). At high levels of mortality there are diseases such as tetanus which can be handled with available vaccines, while child saving interventions for the problems at lower rates are far more complex.

The change in infant death rates for a specific country, Ecuador, indicate more specifically how the challenge of child survival is likely to evolve. The following table shows that over the past decade diseases that can be prevented or treated at low cost have become less important, while high-cost problems such as perinatal causes including low birth weights, maternal health, or injury at birth, as well as congenital problems, loom larger.

Obviously, higher rates of child survival in turn will mean other costs to come. Children surviving to age two cannot be abandoned at age four. The health and development of children into productive adults is one of the most fundamental bases for economic growth. Indeed, it is perhaps the most basic measure of a country's true priorities.

But responding to those needs will be costly. Today's infant rescued from any number of life-threatening health conditions is tomorrow's

youngster, requiring continued health services as well as housing, food, and a quality education. And the adult emerging from the youth, while a productive member of society, also requires continued human services, food, housing, and, equally important, employment.

Providing for all the needs of those saved by donor program intervention will require significant financial resources, both public and private. And creating those resources within developing nations will require not continued dependence on donor programs, but the sustained and sustainable economic growth that will allow private individuals and public institutions to provide for their own personal and social welfare. Economic growth is the only basis for ensuring that those surviving today will live until tomorrow, and will then have the opportunity to contribute to productive and stable societies.

#### Changing Causes of Infant Mortality

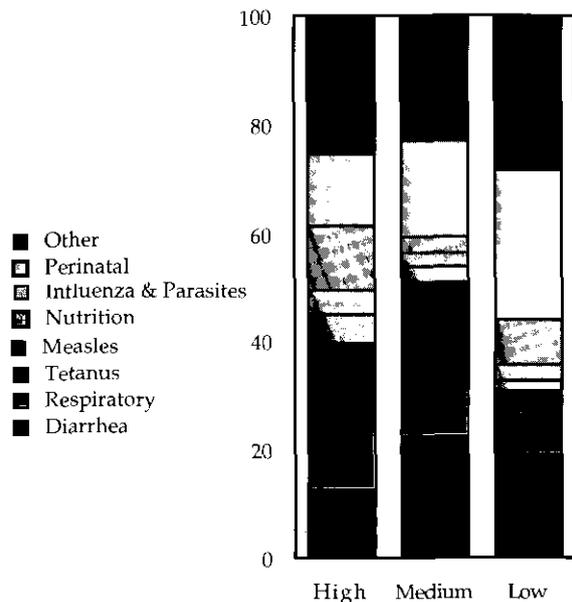
As Infant Mortality Rates Decline

	1976	1986
Immunizable Diseases	10%	2%
Diarrheas	24%	19%
Perinatal Conditions	12%	29%
Congenital Conditions	2%	5%
Acute Respiratory Infections	30%	21%
Other	11%	14%

Source: A.I.D. (1987)

#### Infant Mortality Profiles: Causes of Death by Level of Infant Mortality Rates

Level of Infant Mortality (Average per 1,000 Live Births)

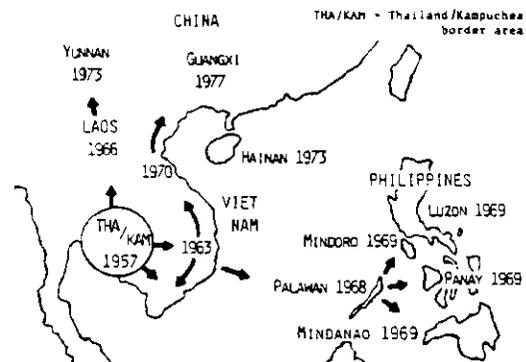


Source: Hirschhorn, Grabowsky, and Houston (1988)

portant while more easily, and cheaply, treated diseases like influenza, pneumonia, bronchitis, and diarrheas became less important. Prevention of remaining infectious disease problems like diarrheas will be a function of expanded availability of water supply and sanitation — which will require major investments.

Another problem is going to come from the resurgence of previously controlled diseases like malaria. The mosquitos that carry malaria are now resistant to DDT, and the chemical alternatives cost over 20 times as much. In many parts of the world, chloroquine is no longer an effective treatment against infections from new, generally more deadly, strains of the disease that spread rapidly around the world (see Figure 6.5). As a

**Figure 6.5 - Global Spread of Chloroquine-Resistant Malaria**

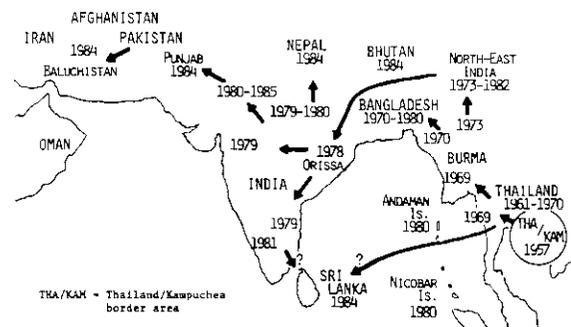
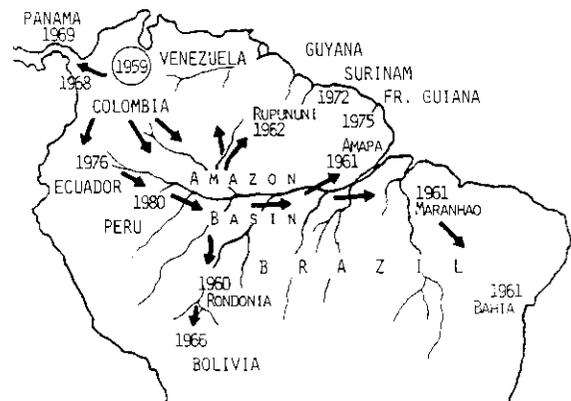


**Box 6.6 - Aging Developed Countries**

The aging of developed country populations, particularly in Western Europe and Japan, should create new economic opportunities for LDCs (as well as the U.S.). In West Germany and Switzerland, the absolute number of working age people is already declining; after 2000, this will happen to most other European countries as well as Japan (where increased female labor market participation could compensate).

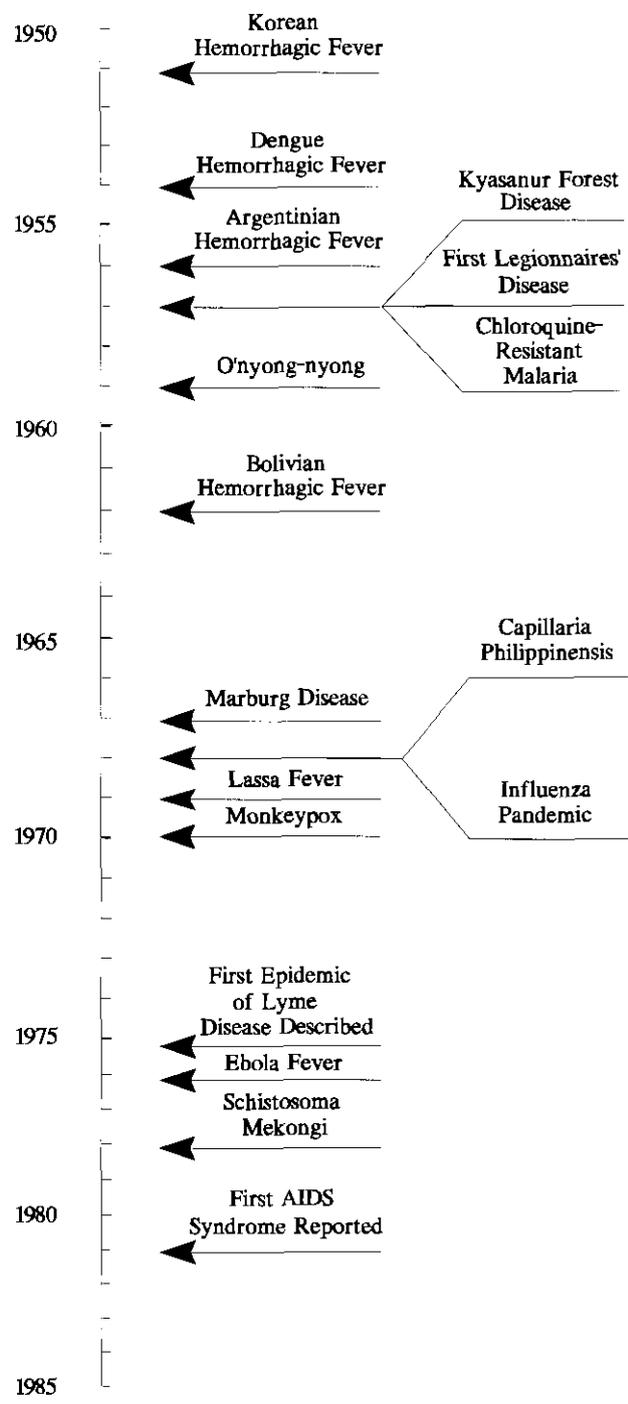
The facts of the demographic life cycle facing the two most important developed country exporters, Japan and Germany, are particularly relevant. Today these two countries export more than all LDCs combined (\$454 billion versus \$426 billion in 1986). Between 1979 and 1987, they increased exports faster than LDCs, and in 1987, their net earnings from trade were larger than the value of all imports by high debt LDCs.

Over the coming decades, however, the global economic role of Germany and Japan may change in line with the fact that more of their workers will be retiring than entering the work force. Between 1987 and 2000, there will be roughly 30 million more pensioners in Japan and Germany. By 2020, the over-65 population will actually exceed the working-age population in these two economic powerhouses. From this perspective, current trade balances could be seen as a form of national retirement savings that could, given the right host country policies, be a major source of investment capital in LDCs.



Source: Clyde (1987a; 1987b)

**Figure 6.6 - Expanding Problems with Endemic and Epidemic Diseases**



Source: A.I.D. staff and Vector-Borne Disease Control Project

result, some countries which had virtually eliminated malaria-related deaths are now worse off than they were in the 1950s. In fact, there is a possibility that malaria may actually end up a bigger killer than it was prior to the post-war technical breakthroughs that led to its temporary control and treatment.

AIDS may prove to be the first of a series of new diseases emerging from tropical areas and becoming world-wide health problems. As urban areas expand, and as development claims new land, viruses that formerly existed in monkeys or birds living in tropical forests are being introduced to previously unexposed populations where they can spread rapidly.

Indeed, the last 30 years have witnessed the emergence of a new disease every other year (see Figure 6.6). An example of new disease is Lassa Fever, which was first identified in West Africa in 1969. Today it causes almost two percent of all deaths in Sierra Leone; and over one quarter of all hospitalized patients in Liberia carry Lassa Fever antibodies. Unlike most tropical diseases, Lassa Fever is directly communicable between individuals, so it is likely to spread rapidly.

Evolving diseases can also become major killers. Two forms of Dengue Fever, first observed ten years ago, are spreading rapidly, particularly among children. It is currently thought that these new strains most frequently affect populations which have previously experienced another variety of Dengue Fever, and that current immunization efforts may actually increase the risk of infection. The pace at which this disease has spread, as well as its seriousness, was brought home in 1981 when almost one percent of the total Cuban population had to be hospitalized during a three month outbreak (with 116,000 people needing care in a country with 47,000 hospital beds).

### The World Economy: Opportunity and Threats

The policies and economic performance of developed countries will condition the economic growth of developing countries. This reflects the close historical link between growth and international trade. In the past, developed country economic growth, relatively free trade, a willingness to transfer technology, and a dynamic private

capital market made rapid growth feasible in a wide number of developing countries. Will these traits persist?

### Box 6.7 - The Trouble with Forecasts

Many forecasts of social or economic prospects are based on existing trends or relationships. As a result, many econometric models are best used to explain and understand the past, focusing on the impact of local or marginal changes rather than global changes. Without incorporating non-historical data in the analysis, big changes in prices, technologies, or institutions are not accommodated by such models. Historical-based models are most useful, therefore, not for predictions, but to show the effects of alternative sets of assumptions on economic growth.

#### *Investment Gaps*

The earliest models of economic growth in developing countries assumed that investment and foreign exchange determined growth. Prices, policies, or the efficiency of investments did not figure in these exercises which are still being used (in somewhat more refined forms). While such models proved to be terrible at predicting the future or helping policy makers, they had one advantage: They quantified in a seemingly rigorous way the foreign aid gap which had to be filled by donors.

#### *Doom and Gloom*

Beginning in the 1970s, a series of studies purported to prove that limits on natural resources and environmental problems would inevitably lead to economic and social disaster. The *Global 2000* study prepared in the Carter Administration, at a cost of over \$3 million, is an example. Among other things, global food and energy shortages were predicted. According to the detailed forecasts, 1988 oil prices would be \$50 a barrel (they are really \$15 a barrel), and wheat would cost about \$400 a ton (versus the actual \$150 a ton). Such errors might be humorous except for the fact that many policy makers, in both developed and developing countries, made decisions about investments and prices on the basis that the *Global 2000* report would be right.

#### *Continued Volatility*

Prices in financial and commodity markets are likely to remain as variable as they have been in the 1980s. Developing countries will continue facing variable foreign exchange values, interest rates, and commodity prices. Such variability, of course, brings financial risks with it. These will require developing country institutions, private and public, to use state of the art risk management services.

#### *Developed Country Imports*

Developed country demand for imports will remain critical to developing country growth. Manufactured products will continue to dominate the trade flows between developed and developing countries. Developing country exports of manufactures to developed countries grew by almost ten percent each year in the 1970-87 period. Their economic prospects hinge on continuing this level of growth. Is this likely?

- Developed country protectionism is the most serious threat to the prolonged growth of exports. Estimates of the current cost that protectionism imposes on developing countries range from 2.5 to nine percent of developing country GNP. A rise in American protectionism, or even a failure to roll back current barriers, would devastate most developing country economies (some of the possible costs are spelled out below).
- Automated production processes could reduce the absolute cost advantage enjoyed by low labor cost developing countries. In the long-term, robots could help keep factories open in developed countries whose labor forces are shrinking. However, there is little reason to expect that future changes in process technologies will eliminate the benefits from international trade. While specific comparative advantages will shift, developing countries should remain competitive in various traditional and new product markets.
- World manufactured trade is increasingly in the form of often small and standardized components rather than finished products. Economies of scale may dictate that a single

**Table 6.2 - Historical Impact of Recession on LDCs**

	<i>Average</i> 1970-79	1980	1981	1982	1983	
<b>GNP (real, per capita)</b>						
OECD	3.0	1.7	0.7	0.6	1.9	
USA	1.7	-1.3	0.9	-3.5	2.6	
LDCs	3.1	0.6	-0.8	-0.9	-0.4	
17 High Debt Countries	2.8	1.3	-1.8	-2.7	-3.7	
<b>Trade</b>						
OECD						
Import Value	19.5	19.8	-4.1	-6.2	-1.0	
Export Value	18.7	17.5	-0.8	-5.9	-1.1	
LDCs						
Import Value	22.0	31.8	-1.7	-11.9	-4.7	
Export Value	22.9	31.8	-1.6	-11.7	-4.7	
<b>Finance</b>						
LIBOR (Real)	-	-0.6	4.6	7.9	6.4	4.9

Note: London Interbank Offered Rates (LIBOR) real interest rates begin in 1973.

Source: IMF (1988a)

factory supply a particular component to assembly plants around the world. The trend towards miniaturization in electronics and consumer goods contributes to this tendency.

- Marketing expertise and the ability to compete in specialty niche markets will become increasingly important. This is another reason why multinational corporations, including a rising number of developing-country origin, will continue to loom large in world trade.

Primary products will also remain important. While commodity prices are virtually certain to continue the century-old pattern of secular decline in real terms, it does not necessarily follow that commodity exporters will suffer. Technical improvements will reduce the cost of producing most agricultural commodities. Available improvements will transform the efficiency in producing high value products, including tree crops like coffee or palm oil, as well as in livestock and vegetable sub-sectors. And exports of non-traditional fresh foods are likely to remain a major growth sector for developing countries.

#### *Investment Flows*

All trends point to massive amounts of international capital available for investment. Yet there remains the question of whether investors will want developing country assets. The attractiveness of developing country investments will determine the amount of capital made available to them. The adequacy of overall flows is shown by a number of indicators.

The international capital market, including all cross-border lending by banks and through securities, grew by \$315 billion in 1987 alone (more than the total debt of Latin America). Germany and Japan alone accumulated net foreign assets totalling almost \$300 billion in the last decade, more than the rise in debt of the high debt developing countries over the same period. But most of this surplus was invested in developed country assets.

New net flows of private capital are not likely to take the form of commercial bank loans. Even without recent changes by regulators, most of the world's largest commercial banks are less keen than in the 1970s on new voluntary loans to developing country governments (although they

continue to participate in new money packages tied to policy reforms as part of the Baker Plan).

This suggests that direct foreign investment, not commercial bank credit, will be the conduit for capital flows in the 1990s and beyond. Official creditors lack the resources to fill this role, notwithstanding the World Bank's recent capital increase. Only in low income Africa, where the absolute amount of funds needed is relatively small, will official agencies have the resources needed to play a relatively large role.

#### *Likely Shocks*

Most forecasts are concerned with average years and trends. In the real world, however, there is no such thing as an "average" year. Trends are less important than occasional but often dramatic deviations from trends. Cocoa prices may be falling in real terms over the next 30 years, but there will be sharp market upturns, as well as equally sharp market downturns. A cocoa producer's success lies in taking advantage of those shifts.

A developed country recession is one shock that will affect developed country import volumes, import values, and interest rates. Table 6.2 traces the effect of the 1980-82 recession on developing countries. It shows that a modest but relatively long-lived fall in industrial country growth, as well as concurrent changes in developed country economic policies, sharply reduced developing country export earnings and real per capita GNP.

Any future recession would obviously differ from the one of 1980-82, but its consequences for developing countries would be equally significant. Key variables are the severity of the economic downturn, its duration, and inflation rates. Whatever the specific characteristics of a developed country economic slowdown — and a wide range of alternatives exists — all developing countries are going to have to cope with its consequences.

#### *Possible Shocks*

Eventually, some sort of recession is a certainty, and other sorts of shocks are possible, as well. Some could benefit particular countries. An example would be a sustained upturn in international oil prices that would help oil export-

ers and, conversely, hinder growth in developing countries that are importers.

Perhaps the most important change could come from the prospective global economic adjustments that would accompany a narrowing of the U.S. current account deficit. As noted in Chapter 4, the U.S. has provided developing countries with their most important market for manufactured exports. While the U.S. deficit was growing, the U.S. absorbed almost 80 percent of all incremental developing country manufactured exports (while Japan's share actually declined). A more internationally competitive U.S. economy would certainly limit the scope for anywhere near the past rate of growth in developing country imports. U.S. exports might also compete with those of some developing countries in other foreign markets.

The key question is how the Japanese and Western European economies will evolve if the U.S. trade deficit closes. As already noted, Japan and Germany will largely decide the level of capital flows to developing countries when they decide where to invest their net financial assets. Openness to developing country exports will be equally important to economic growth in many developing countries.

The IMF recently estimated the possible growth impact of alternative developed country scenarios. Table 6.3 summarizes the indicative short-term results of three sets of assumptions. Scenario I assumes a mini-recession and sharp fall in the U.S. dollar exchange rate. Scenario II assumes an upsurge in developed country protectionism (equivalent to a ten percent increase in

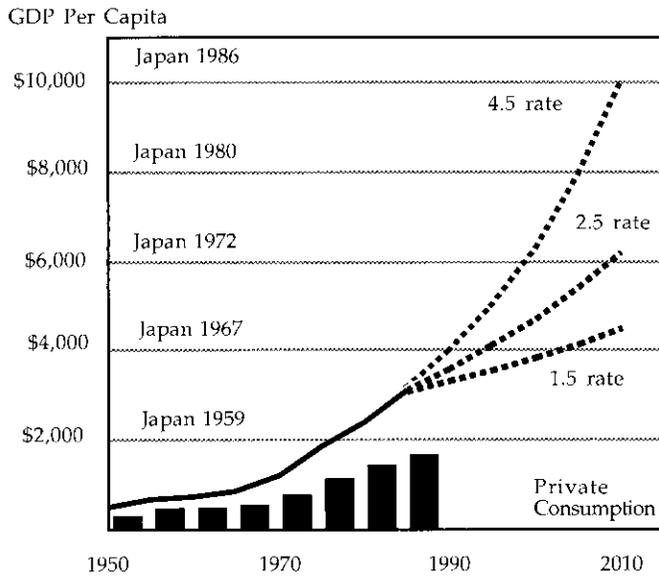
**Table 6.3 - Future Shocks and LDC Growth**

	Impact of Mini-Recession, Protectionism, Progress and Trends (Difference from Baseline in Percent)			
	I	II	III	Base
Real LDC GDP	-0.6	-3.3	0.3	4.8
Real OECD GNP	-1.3	-0.5	0.5	2.8
LDC External Debt	3.5	33.2	-5.3	2.8
LDC Export Volumes	-2.5	-6.9	1.2	6.4
LDC Imports Volumes	0.2	-6.4	1.2	6.6

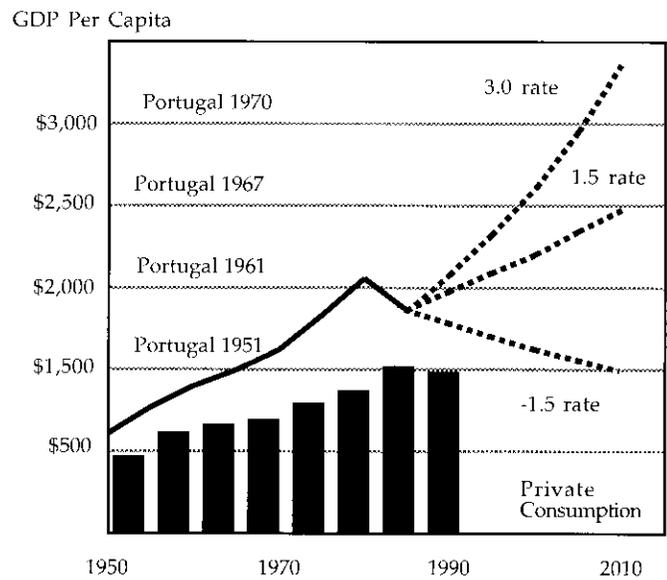
Source : IMF (1988c)

**Figure 6.7 - Projecting Income and Growth**

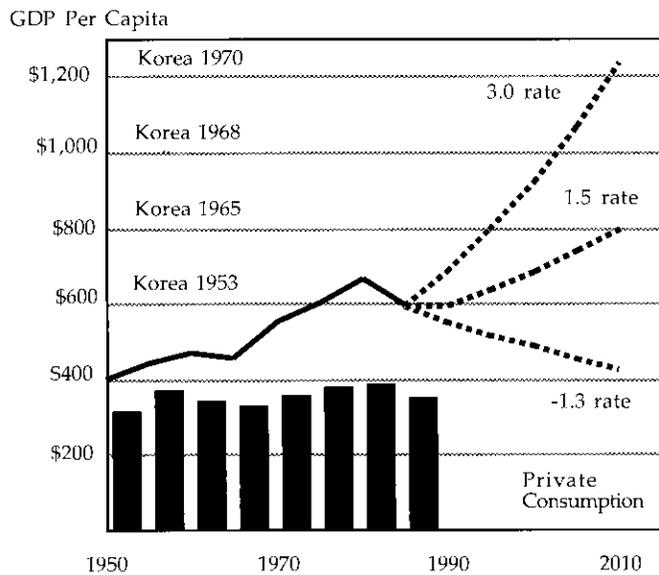
**Consistent Growth LDCs**



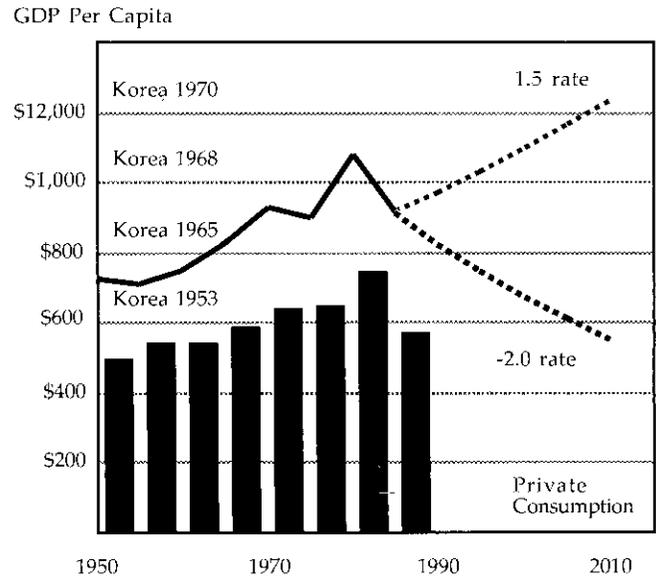
**Recent Problem, Middle Income LDCs**



**Recent Problem, Low Income LDCs**



**Long-Term Problem, Middle Income LDCs**



Note: Country typology is defined in Box 2 of the Overview.

Source: World Bank and A.I.D. (see Annex Table I technical note); A.I.D. staff estimates

tariffs across the board). And Scenario III shows the effects of steady progress in reducing U.S. fiscal and Japanese trade imbalances.

## Developing Country Futures

The international setting for developing country decisions about economic and social policies will remain far less important than those decisions themselves. As in the past, economic policies and a capacity for adjusting them in the face of changes will determine comparative economic performance. The ability to create jobs will remain both the best measure of economic vitality and the necessary condition for social progress.

- For the countries that had been growing at satisfactory rates up until the 1979-87 period, the question is how to return to the 1950/60s pattern of success.
- For the countries with long-term problems, the question is how to effect a basic turn-around in performance and prevent a major decline in living standards.
- For the countries with consistent high growth, the question is how to maintain success and, even more important, the economic, social, and political repercussions of becoming largely developed countries.

## Growth Prospects

Figure 6.7 shows a reasonable range of economic growth for four types of developing countries. These trends are based on representative countries rather than country aggregates. The results are summarized below.

### *Consistent Growth*

If growth rates of the last decade continue, countries like Korea or Taiwan will achieve levels of economic development comparable to those of the most advanced developed countries today. Even more modest growth rates would lead to developed country status.

### *Recent Problems, Middle Income*

This type of developing country, which includes the large Latin American economies, faces the widest range of alternative futures. At one

extreme, economies in this group could continue their 1979-87 decline. This would mean that per capita income in the year 2010 would be comparable to the level of late 1970's Nigeria. Alternatively, re-accelerated growth rates comparable to those achieved in the 1970s by consistent growth countries would propel these countries to income levels comparable to some developed countries.

### *Recent Problems, Low Income*

Countries in this group must either obtain a rate of growth sufficient to become middle income or endure continued slide which would lead them to the ranks of the poorest developing countries. In terms of living standards, the range would be between an early 1970's Korea (where life expectancy was in the high 60s and infant mortality in the low 50s per 1,000), versus 1980's Zambia (where health indicators were slipping with life expectancy in the late 50s and infant mortality in the high 80s per 1,000).

### *Long-Term Problems*

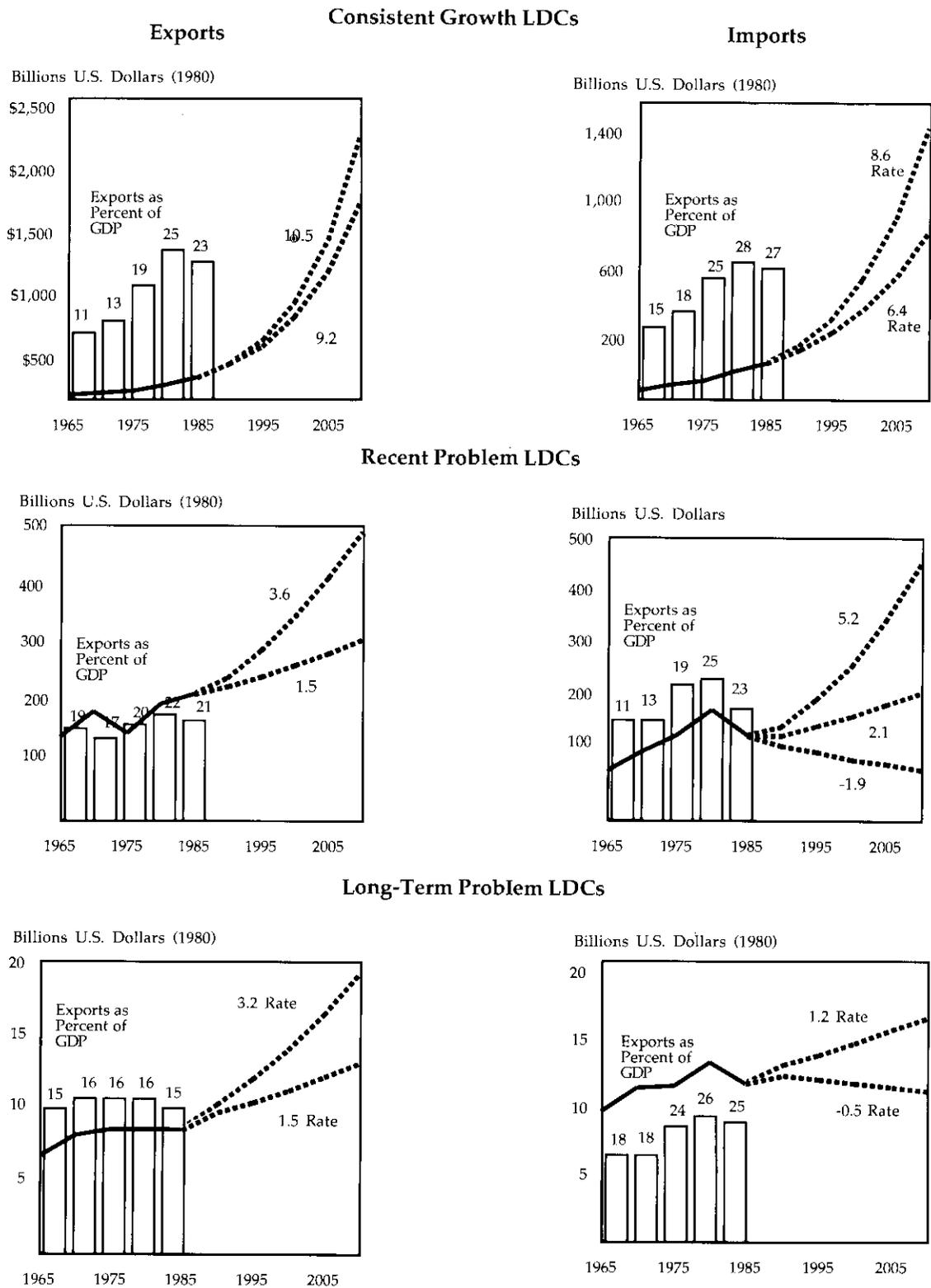
The range of alternative trends gives little comfort to these countries. At the high extreme, the growth rate achieved by turn-around countries would raise real incomes by over 50 percent by 2010. But the low starting base would mean that this high growth rate would be the equivalent of moving from the level of 1980's Ghana to 1980's Bolivia or Honduras. And less modest growth rates would mean that economic output per capita would not reach the levels of the 1960s until the 21st century. In short, even the best economic forecast implies a grim future for these countries.

## International Trade Implications

Figure 6.8 shows the international trade implications of different growth rates. These are expressed in aggregate terms to give an order of magnitude estimated on overall trade flows; in all probability, actual results would reflect wide country by country differences.

- The "high growth" and "recent problem" countries are likely to be, in aggregate, large players in world markets. If historical rates of trade growth continue, the exports and imports of high growth countries could each exceed \$1,500 billion.

Figure 6.8 - Projecting Trade and Growth



Note: Country typology is defined in Box 2 of the Overview.

Source: World Bank (1987c); A.I.D. staff estimates

**Table 6.4 - Infant Mortality Costs of No Growth**

LDCs	Infant Mortality Deceleration						Life Expectancy at Birth		
	Total	Death Scenarios					Total	Loss of Expected	
	Population	(thousands)					Newborns	Life Span	
	Age 0-1	Best	Worst	Excess Death	Year 2000	Affected	(millions of years)		
Affected	Progress	Progress	(thousands)	Year 2000	Year 2000	I vs. II	II vs. III		
(thousands)	I	II	III	III vs. I	II vs. I	(millions)			
Recent Problems	11,082.2	651.9	673.4	695.9	44.0	22.5	17.4	41.0	19.5
Long-Term Problems	1,886.8	175.3	179.4	183.6	8.3	4.2	6.0	13.1	5.1
Total	12,969.0	827.2	852.8	879.5	52.3	26.7	23.4	54.1	24.6

Note: Country typology is defined in Box 2 of the Overview.

Source: A.I.D. staff

- The range of possible trade flows is far larger for the "recent problem" countries. High growth would result in exports and imports approaching \$500 billion. Low growth would have the most dramatic impact on imports, which would fall to less than \$100 billion (from a high of over \$200 billion in the late 1970s).
- Any realistic growth scenario suggests that the long-term problem countries would remain marginal in world trade flows. The difference between high and low export or import levels is \$6.0 to \$8.0 billion, critical to the countries concerned but an insignificant percentage of total world trade. Indeed, these countries' share of world trade is likely to fall under any scenario.

#### *Possible Costs of No Growth*

The human costs of not returning to the 1950-70s rate of social progress are massive. Many countries risk a slide which would undo much of the steady progress made over three decades. Table 6.4 presents three scenarios for changes in life expectancy and child survival. The base case scenario assumes a return to the pre-1979 rate of progress. Scenario II assumes that each country will improve its rate of progress approximately midway between the pre-1979 rate and that of the past-1979 period. Scenario III assumes that the 1979-87 trend will continue.

#### *Growth and Sustainable Social Outlays*

Limits on the amount of money available for public sector social programs are going to loom large in the future. Government's share of overall consumption has grown steadily for most developing countries. Trying to raise it still further would obviously affect private consumption or run up against real administrative or economic bottlenecks. In much of Sub-Saharan Africa, for example, governments lack the institutional capacity for collecting efficient and broad-based taxes on consumption, income, or even land values. In many countries, increased taxation would merely result in a corresponding increase in the size of informal sectors. This would reduce the overall tax base and could very well cut existing tax revenues.

At the same time, the cost of social services is likely to be rising in line with demographic and health variables. The simple fact is that a government needs a growing economic pie to afford expanded or higher quality education. This is particularly true where the number of school children is continuing to rise steeply, as in Sub-Saharan Africa. As mentioned earlier, it will take greater expenses just to sustain past progress in health, especially where populations are aging.

Greater efficiency and new institutional arrangements would obviously reduce the burden on government. Where growth is likely to be inadequate or where private resources are growing rapidly, as in the high growth countries, private provision of services is likely to emerge as

### Box 6.8 - Women in Development and Growth Prospects

A major policy variable that will affect developing country growth is the labor force and its access to services like education and health. The economic contribution of increased female participation in formal labor markets has proven massive. In the U.S. female labor force, participation rose from 20 percent in 1890 to 60 percent in 1980, parallel to rapid urbanization. Without this expansion in the female labor force, national income per capita would probably have been at least 14 percent lower.

High-growth developing countries share an experience similar to that of the U.S. In fastest-growing Hong Kong and South Korea, women were fully 50 and 43 percent, respectively, of paid employees in manufacturing. Women were 27 percent of the industrial labor force developing worldwide.

Future investments in female education could also prove the most successful public sector program for sustaining health standards and fertility declines. This reflects the fact that the level of a mother's education is closely linked to her children's health and family size.

an alternative to the public sector. Field studies already document the willingness of even the poor to pay for health, family planning, or education — provided the services are of sufficient quality. Indeed, the low quality of government

services and the difficulty in getting access to them is already driving many to private suppliers. Nominally free medicine is of little use if it is seldom available at the government clinic.



**Women in Development.** In many developing countries, women like these Ghanaian "Market Mamas" are the backbone of the domestic economy.

## Domestic Policies and Foreign Assistance

### Official Aid

Could foreign assistance, from either government or private sources, compensate for a lack of domestic resources? Figure 6.9 gives a global picture of the proportion of current government expenditures already coming from official development assistance. For many of the relatively small, low income, and low growth countries of Sub-Saharan Africa or Latin America, aid already represents upwards of 20 percent of government revenue; in equally poor but large economies like India or China, foreign aid is marginal. Aid is also marginal in most other countries including recent problem, middle income countries. The prospective impact of foreign aid depends on recipient country circumstances.

- For the small long-term problem countries, aid levels are already large, far larger relative to the local economy than those pro-

vided to past foreign aid success stories in Europe or Asia. To absorb additional resources will require a major long-term effort to build up institutional capacity and local skills.

- For the larger or middle income economies, past social and economic progress have already made foreign aid a marginal factor relative to the resources coming from the local government, the domestic private sector, or the international private sector.

### Future Impact on U.S. National Interest

America's interest in global development falls generally into three categories: political/strategic, economic, and humanitarian. In best-case scenarios, with countries of all categories performing up to maximum expectations, the cost of direct U.S. assistance would be reduced as the yield of good policies resulted in a politically more stable and strategically less volatile world.

**Figure 6.9 - LDC Dependence on Foreign Assistance**

1985, Official Development Assistance as a Percentage of Government Expenditure



Source: World Bank and A.I.D. (see Annex Table I technical note)

At the same time, the world economy would evolve upward with expanded U.S. trade opportunities — and, in some cases increased competition from developing and newly-developed countries. If there is a “rosy scenario” in global development, this is it. Even in this best of all possible worlds, however, a strong need for U.S. and other international humanitarian assistance would remain for those small countries with intractable long-term problems.

A middle-of-the-road prognosis — with stronger economy LDCs still approaching developed status, most middle category countries making modest headway or remaining above water, and the poorest of the poor barely hanging on — would mean continued strong demands on U.S. aid for political/strategic recipients. Some potential for increased trade and non-gov-

ernmental development through investment would mean that America’s economic interest, while not ideally served, at least would not deteriorate. Humanitarian assistance would be in somewhat greater demand from a larger number of marginal countries since, with less economic growth, more of them would be vulnerable to problems that stronger domestic economies could attend to with less outside help.

The worst scenario prospect is one in which the demand for assistance among most developing nations would grow at a rate beyond realistic fulfillment, given the limited means of the relatively small number of aid-providing developed nations. In this worst of all possible worlds, America would face even stronger pressure to concentrate most of its aid on strategically important countries, while focusing the balance of its

### Box 6.9 - Growth, Aid and Domestic Policies

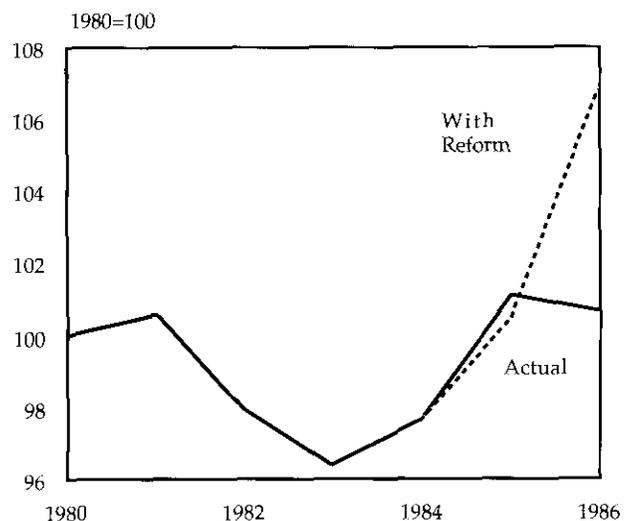
Economic growth, and related living standard improvements, have not necessarily required growth-oriented economic policies. On the contrary, Chapter 3 explained that external windfalls such as foreign aid receipts could more than compensate for policies that would otherwise undermine economic performance. Absent policy reforms, however, sustaining such growth would require an ever-increasing flow of concessional assistance.

The trade-off between domestic policy reform and the growth impact of foreign assistance is shown graphically in the figure to the right, which reflects the actual circumstances of a middle income, secular problem country with aid receipts equal to almost 20 percent of GDP (and which generated perhaps one third of total domestic consumption).

First, large aid flows converted what would otherwise have been negative growth to an upturn in 1983 and 1984. Combining aid with policy reform would have meant continued growth in 1985, even without additional aid. Absent policy reform, economic output fell despite large aid levels in year two without offsetting aid flows. And obviously the absolute level of aid needed to ignite growth will increase unless policy reforms are undertaken.

### Impact of Reform

Growth of Real GDP with and without Policy Reform



Source: A.I.D. staff estimates

resources on assistance geared to generating trade and investment in a wider range of non-strategic LDCs. The demand for humanitarian aid would probably increase drastically in economically stagnant or backsliding countries not now in the long-term problem category. Indeed, lack of economic growth would transform cur-

rently or potentially manageable problems into chronic ones in many LDCs.

Clearly, it is in the interest of the U.S. to aim as much as possible of its current and pending assistance in growth-oriented directions, and to encourage growth-oriented policies among recipient states to prevent the darker possibilities from happening.



# Chapter 7

## *Seven Basic Questions About the Future*

*By its very nature, this is not, and never will be, a big-money enterprise. It is cooperative, which means that a considerable part of the expense should be borne by the countries with which we work...Its objective is to show other people how to meet their own needs, not to attempt to meet those needs ourselves.*

*Secretary of State Dean Acheson, 1949*

Somewhere between 1949 and the present, the original concept of development assistance as a transitional means of helping developing countries “meet their own needs” has been lost. This has happened despite the fact that most of the major shapers of modern American development assistance have always stressed that it should be a temporary course of instruction. In his 1963 Foreign Aid Message, President Kennedy stressed this when he declared that a major aid objective should be to:

...achieve a reduction and ultimate elimination of United States assistance by enabling nations to stand on their own as rapidly as possible. Both this nation and the countries we help have a stake in their reaching the point of self-sustaining growth — the point where they no longer require external aid to maintain their independence. Our goal is not an arbitrary cutoff date but the earliest possible “takeoff” date — the date when their economies will have been launched with sufficient momentum to enable them to become self-supporting, requiring only the same normal sources of external financing to meet expanding capital needs that this country required for many decades...

### **Development or Dependence?**

A quarter of a century has passed since John Kennedy defined this clear, sensible objective for U.S. overseas assistance. Has America applied the dynamism and realism to its official development programs that have been the keys to development success for ourselves and other individual nations? Is today’s U.S. foreign aid fostering healthy development towards independent prosperity — or simply postponing the day of reckoning for governments unwilling or unable to take the politically painful steps needed for their own development?

All too often, dependency seems to have won out over development. In the 1960s, as the roll call of newly-independent countries mounted, the desirability of helping these infant nations reach their individual “takeoff” points was obvious, and America, as the towering western super power, seemed to possess the means to underwrite the mission. Times have changed. Though there is no steady stream of new nations coming on line, demands for development assistance

seem only to increase; certainly they show no signs of abating.

Meanwhile, only a handful of countries that started receiving U.S. assistance in the 1950s and 1960s has ever graduated from dependent status. Not since the 1970s has there been a major overhaul of America's development assistance program with a comprehensive review of existing A.I.D. missions.

America simply does not occupy the same unchallenged position of economic and military preeminence as it did in the 1960s. The luxury of an open-ended maintenance program for developing countries — something never envisioned by the pioneers of development policy — makes no sense. Even if it did, we can no longer afford it.

Where development has worked, and is working, the key has been economic growth. And this

### Box 7.1 - America and the World: Growing Closer

In large ways and small, from popular culture to high technology, the people of the world are drawing closer together despite drastic differences in systems of government, traditional folkways, and levels of learning and affluence.

If the fundamental truths of development remain the same, the face of America, and the world, is changing faster than ever before. In recent years, the changing mix of immigrants to the United States has put a new perspective on our views towards — and interests in — countries of the developing world. Since the 1950s, the U.S. has welcomed an increasingly diverse set of new Americans. Before World War II, 90 percent of all immigrants came from Europe. The first year in which there were more immigrants from Latin America and Asia than from Western Europe was 1964. Today, about 90 percent of all immigrants come from developing countries; 518,000 people arrived in the U.S. from Latin America, Africa, and Asia in 1987 alone. If current trends continue, U.S. citizens descended from European immigrants will be a minority by the year 2010.

Modern air transportation, telecommunications, and financial services have permitted the new wave of immigrants to keep in much closer contact with their former homes. They are aware of what is happening in their countries of origin and are eager to respond to their needs. Following Hurricane Gilbert in 1988, for example, thousands of Jamaican-Americans in the states of New York and New Jersey alone collected some 250 to 300 tons of emergency supplies, food, and clothing for relief efforts to the devastated island.

Low-cost transportation has also made it possible for millions of Americans and citizens from

developing countries to travel abroad for the first time. This traffic speaks volumes about how the world is changing: In 1986, almost nine million Americans visited a developing country. Over 231 million phone calls take place each year between Americans and people in developing countries.

Television is another important dimension of the new connection between ordinary Americans and developing countries. On the evening television news in the U.S., what was once abstract African famine is translated into gripping, personal scenes of dying children. While Americans have always responded with private charity to overseas disasters, the new electronic "global village" has forged a much stronger appreciation of what can go wrong in developing countries.

And the media link works both ways. Citizens of developing countries are increasingly exposed to U.S. commercial television. Worldwide coverage of the 1984 Los Angeles Olympics gave the world a close-up living room look at what many would argue is the best of America — private enterprise working with promising young athletes in a spectacle of colorful pageantry. Every day almost one billion individuals in developing countries watch at least one U.S. television show, a staggering example of how we reach out to the world.

The immense popularity of American music and films has touched the lives of countless people in the developing nations. Villages high in the Himalayas which are still a generation away from electrification now have video parlors, powered by diesel generators, and the faces of Bruce Lee and Michael Jackson are more familiar than those of local politicians.

is largely the result of individual nations making the right policy choices and making the most of their internal human and material resources. A strong, expanding American economy, a healthy trade climate, and the development assistance provided by profit-based and nonprofit private organizations are also critical elements. Direct U.S. development assistance, overall, has played a secondary role and has not always succeeded in fostering growth-oriented policies among recipient states.

The reason is political, and may be intractable. Economic growth-oriented development objectives have to function in uneasy tandem with other U.S. Government objectives and with their own, distinctly separate targets in host countries. While foreign aid is supposed to both influence policy and move money within a fixed time limit, in reality, the latter consideration generally drives the program.

As the world enters the 21st century, the traditional U.S. reliance on project-oriented programs will become irrelevant. To be effective in the 1990s and beyond, American development policy must:

- be catalytic, leveraging funds and resources from private sources and international financial institutions, as well as other bilateral assistance budgets;
- aim at country-specific targets of opportunity where returns are likely to be high, instead of attempting to meet an immense array of global “needs” beyond the capability of any one nation or group of nations; and
- coordinate all U.S. Government policies — trade, investment, debt, and others — that affect development.

In country after country we have seen that, however advantageous or disadvantageous the external or inherited conditions, those countries that have embraced growth-oriented policies have best coped with the challenges of development. Whatever their starting points, countries that have allowed their people wider economic, political, and social choices have performed bet-

ter, both in meeting adverse conditions and in taking advantage of economic windfalls.

Long-term evaluation of not only purely economic yardsticks such as GDPs and per capita income, but quality of life indices such as infant mortality, life expectancy, and educational progress support this conclusion. Every country is, of course, different. There is no one indelible blueprint for success. Political, cultural, and material environments vary. But growth-oriented policies are a constant among success cases, regardless of the levels of aid they have received — which are sometimes greater and sometimes less than the levels received by developmental laggards.

If we can agree on objectives, models exist for achieving them. There have been development success stories as well as failures involving strategic and friendly nations.

- The impressive development of first Japan and later Taiwan and South Korea in East Asia is proof positive that the right donor program and guidance, when matched by the right recipient policies, can result in a smoothly phased transition from dependency to self-sufficiency. In the case of Japan, a former aid recipient of assistance has reached the point where, beyond self-reliance, it is now a larger provider of direct foreign aid to developing countries than the U.S. Government. Taiwan and South Korea also play an important developmental role as aid donors, investors, and providers of technical expertise to less developed countries.
- The emergence of a world capital market, a more liberal trading system, multinational corporations, private voluntary organizations, and U.S. universities as global institutions, has made a massive contribution to development, often far beyond that of direct U.S. Government programs. Shaping government policies and programs to enhance and complement their role in development is both a challenge and an opportunity for future government policy makers.

- America's intellectual leadership role can be even more important than its dollar contribution to development. In the 1950s and 1960s, the U.S. led the way in recognizing the costs of unsustainable population growth. Similarly, in the 1980s America has led the way on a fundamental re-thinking about environmental issues.
- U.S. initiative led to the creation of the Development Assistance Committee of the OECD to coordinate the bilateral aid programs of its 18 donor members. The U.S. now provides less than a fifth of total bilateral assistance, as opposed to 60 percent in 1960. Similarly, the expansion of multilateral development agencies such as the World Bank has allowed us to leverage our contributions. For example, every dollar appropriated for the World Bank generates \$200 of program assistance to LDCs.
- Since its establishment in 1971, the Consultative Group on International Agricultural Research (CGIAR), chaired by the World Bank and primarily supported by the U.S., Japan, Canada, and Western European countries, has made an impressive contri-

### Box 7.2 - Assessing A.I.D.'s Effectiveness

*A.I.D. spends too much time planning and justifying what it has done and not enough time on implementing projects and determining their impact.*

*Representative Lee Hamilton (D-Ind.)*

A.I.D. is basically its field presence, resident missions in 79 countries, and four regional offices in Africa, the Caribbean, and Central America. A.I.D.'s field presence is its eyes, ears and, we hope, its brain — our link to development reality, country by country, region by region. But is it being used to full advantage? Increasingly, it is yielding its technical expertise and turning over many of its functions to contractors. It is also weak in the very areas that can be most important: political development analysis and economic policy.

Legislative earmarking and regulatory snarls make even the delivery of A.I.D. funds an increasing problem. The Agency recently estimated that the level of efforts and costs for annual statutory reports to the Congress alone amount to 140 work-years. One respected Congressional leader has remarked that A.I.D.'s Congressional Presentation was too heavy to lift, much less to read.

Evaluation and reporting requirements are swallowing more and more man hours of A.I.D.'s mission personnel.

But how effective is evaluation? Part of the problem is the difficulty in defining what success or failure means in the context of development

programs. Project evaluation as currently practiced by most donors is a fairly straight-forward exercise of looking at what was intended when the project was initiated and then measuring accomplishments against stated goals and purposes. For example, if a project to improve access to primary education had an original target of increasing enrollments in a given country by 10 percent, it is fairly easy to determine the extent to which the project was nominally successful. But what about the sustainability of the donor-assisted program itself — will it continue once assistance is ended? And did the project cause higher school enrollment or merely take credit for something that would have resulted without assistance?

Evaluation of donor programs is also complicated by the fact that such efforts are inevitably collaborative undertakings involving local governments and institutions. A well designed, well implemented program could fail for want of action on the part of local government (although such contingencies should, in principle, be provided for by the donor). Similarly, a project could succeed despite the way a donor agency handled it.

bution to nutritional progress in developing countries. By 1983, high yielding varieties of wheat and rice based on CGIAR research were being used on half of the wheat land and more than half of the rice land of developing countries and were providing an estimated 40 million tons of production per year over traditional crop yields. The increased production was enough to feed half a billion people.

- OFDA (the Office of U.S. Foreign Disaster Assistance) is an example of how the U.S. Government can run an efficient and popular assistance program. Its work, coordinating with PVOs and other government and nongovernment participants in disaster relief, has succeeded in providing a maximum of disaster relief with a minimum of bureaucratic waste and distract-

tion. By their very nature, however, disaster assistance projects are short-lived and may only be marginally related to long-term development efforts.

The very notion of assistance as permanent creates a built-in treadmill effect. Can the concept of aid as a course to be undertaken — and graduated from — be instilled again? At the very least, can aid become a feasible, evolving program that can lead to a mutual gain by fostering economic growth and mutually profitable political and commercial partnerships?

Ironically, some of the least strategically important countries offer the greatest opportunities for aid as a tool for real development. A decision must be made on how much emphasis is to be placed on non-strategic but truly developmental aid in allocating resources.



**Democratic Development.** For stable, well-balanced development, economic progress must lead to political reform. Chilean demonstrators celebrate the results of the October 1988 plebescite calling for an end to military rule.



## Seven Basic Questions about Development

Much has changed since President Kennedy's clear-cut 1963 definition of U.S. foreign aid as a phased, finite means of helping countries to achieve self-reliance. As we saw in Chapter 1, layer upon layer of new objectives — often unrelated or conflicting — have been piled onto American foreign assistance by succeeding Congresses and Administrations.

Even if such a wide range of competing objectives could be pursued indefinitely — and growing fiscal constraints combined with domestic and defense priorities make this increasingly unlikely — does the scatter-gun assistance policy that results truly serve America's national interests and the interests of mankind? And what new demands are likely to be made on our already strained official development resources?

In the end, making America's contribution to global development work — and making it better serve our own vital interests — means answering seven bottom-line questions:

### 1. *How do we define success?*

Who is responsible and how can we measure success? With so many different objectives, every program is a success by someone's standards, a failure by another's. Good short-term economic growth can be successfully implemented by pumping aid into a small country's malfunctioning economy. But is it a real long-term solution?

Low or negative growth may, in turn, have nothing to do with the basic soundness of either a country's long-term policies or the aid it is receiving.

How can global assistance objectives be reconciled with the need to focus on country-specific requirements and the comparative advantage of different development institutions? Clearly, no single government agency can be made responsible for working on every development priority in every country. The fact that a particular issue is important does not necessarily indicate which particular agency — domestic or foreign, private or governmental — is best suited to work on it. What are the limits on government initiative, particularly in the face of increasingly important and self-sustaining informal sectors?

Similarly, how can humanitarian progress that, in the past, has helped reduce infant mortality and boost life expectancy be sustained when further gains require new sorts of domestic institutions? How will poor countries or individuals afford the rising costs of sustained progress in health or education?

And while official U.S. aid shrinks as a force for global development, can the broader American contribution, in the form of intellectual creativity, leadership, technical expertise, private voluntary assistance, private investment, and enlightened trade and financial policies be a driving engine for development?

Increasingly, how much the U.S. Government spends is not a reasonable measure of how much America achieves, in the absence of reliable, objective-oriented information. Without such information, how can Administrations test their policies? How can Congress — much less the general public — decide what works and what does not? And how can we avoid the perverse incentive to focus on instant success stories that may generate the next round of appropriations but divert development strategy from long-range progress?

### 2. *What are our strategic interests?*

Are American strategic interests changing? The Central American Initiative launched by the National Bipartisan Commission on Central America is the latest major foreign aid effort tied to a direct communist threat. While firmly grounded on strategic national interests, will it succeed in fostering development in Central America that will make political stability possible? In the past, such American efforts have both succeeded and failed. In any event, will an increasingly skeptical Congress be willing to provide both the long-term funding *and* the executive flexibility to make success possible?

Similarly, in the aftermath of the Soviet withdrawal from Afghanistan, can we expect another massive outflow of American assistance dollars? Will these, and other strategic considerations such as the continuous rise in base rights allocations, remain the only growing part of the assistance budget, at the expense of development elsewhere? Alternatively, could a possible decline in East-West tensions mean less strategic aid requirements from both U.S. and U.S.S.R. client states and allies?



**From Aid Recipient to Competitor.** Korea's successful economic development has transformed a poverty-stricken aid recipient into a major trade competitor. Here, a fleet of new Hyundais awaits shipment to western markets.

### 3. What are our humanitarian interests?

Humanitarianism remains a major motivation for American foreign aid. Americans always have been, and always will be, eager to help victims of natural disasters around the world. We need only recall, most recently, the massive official and private sector relief assistance Americans rushed to the victims of the Armenian earthquake.

But what about endemic poverty and economic dislocations sometimes imposed upon developing countries by their own governments? Even if it were affordable, should the U.S. become the automatic source of last resort whenever a developing country faces the economic and human consequences of its own mistaken policies?

Costs are rising along with demands, even as aid resources contract. How much can be done, how much should be done, and where? And from a humanitarian point of view, is it time to realize that the current international safety net only works when host governments allow it to?

### 4. What are our economic interests?

Has U.S. foreign assistance served our own economic interests? Certainly the reconstruction of Western Europe and Japan contributed to American prosperity, although this was an unexpected benefit from what were then seen as national security oriented programs. Since then, the economic returns have been more mixed, and development assistance has, in general, not been linked directly to U.S. economic interests.

- In the years ahead, will economic considerations play a larger role in U.S. foreign policy? Should the pressures of a more competitive international economy force an overhaul of development assistance?
- At what point should assistance oriented efforts give way to programs more directly focused on cooperation and mutual gain? What parts of the U.S. Government should be involved in managing these evolving economic relationships?

- Should the U.S. phase out its assistance programs in those countries which are becoming important trading partners? In the past, economic growth has increased mutually beneficial trade and investment and justified reducing or closing assistance programs.
- How can we compete with export promoting programs that other countries call development assistance? Is the answer to re-direct existing aid flows to promote commercial advantage or to take a stronger negotiating stance, backed by a big war chest, with our competitors?

### *5. How can we reconcile sovereignty and assistance?*

One of the most humbling lessons for enthusiastic boosters of development in the 1980s has been how comparatively small their impact is likely to be. In the last analysis, does not progress in any LDC depend on its own decisions and policies? Foreign resources, including aid, can preserve incomes and provide short-term relief in the face of natural disasters. The result, however, is maintaining the status quo, not development — *unless* the host country firmly commits itself to growth and opportunity-oriented domestic policies.

While it makes sense to mold foreign assistance programs to encourage such policies, each sovereign state must ultimately chart its own developmental course. No one else has a right — much less an obligation — to do so. The degree to which U.S. development assistance can influence such policy choices is thus severely limited. American aid has helped the people of countries like Korea to score impressive development gains, but it was the people and policies of the host countries that ultimately made their national development efforts work. Ultimately, the credit or blame for development success or failure — and the responsibility to choose its own path to development — can only reside with each sovereign state.

Indeed, to the extent that the U.S. does influence development, it is our broader economic and trade policies, the dynamic growth of the American economy, and the foreign investment deci-

sions of our vast private sector that have the greatest impact on developing nations.

### *6. How relevant is foreign assistance to development?*

Perhaps the single greatest challenge to many major developing nations today is foreign debt, a problem current foreign assistance programs do little or nothing to address. Strategic aid, sometimes in the form of direct payment transfers, has little bearing on development pure and simple. Some critics even argue that the allocation of strategically-linked assistance would be more appropriately handled directly by the State Department, and that is not, strictly speaking, development aid. And, as we saw in Chapter 1, the trade component of economic development is largely the domain of other federal agencies and departments. How much of a relevant role does this leave for U.S. development assistance as currently structured?

### *7. Finally, and most importantly, how can we better match U.S. assistance to the national interest?*

Above all, successful development means successful growth; anything less is nothing more than a thinly disguised dole fostering dependence instead of development. To be distributed, wealth must first be produced. For poverty to be reduced, wealth must be increased. And the production of wealth — of economic growth and individual opportunity — is a vital factor in the development of strong, stable democratic social values. Wise men have understood this greater dimension of wealth since ancient times, as witnessed by the Athenian historian Thucydides' proud assertion, "Wealth to us is not merely material for vain glory but an opportunity for achievement; and poverty we think it is no disgrace to acknowledge but a real degradation to make no effort to overcome."

Forty years ago, America made an investment in the future that broke all of the conventional rules of the day. In the wake of the Second World War, we reached out and provided economic assistance to the war-torn nations of Europe and Asia, to those who had been our adversaries as well as to our allies.

Through programs of economic assistance, the Marshall Plan and Point Four, and through the international organizations that we and our allies

created, we expressed our conviction that America's security and its future prosperity depend on the fortunes of many nations — on global peace and prosperity.

We believed then, and we believe now, that the economic development of other nations is in our national interest. However, we also recognize that much of what has haphazardly evolved as development assistance over the past four decades has not worked, has sometimes not even been aimed at the correct objectives, and, above all, has been overtaken by events.

Well-intended calls for a "New Marshall Plan" for the Philippines, Central America, or any other strategic region in a real or perceived state of crisis overlook historical reality. The Marshall Plan — and similar Post-war recovery assistance to Japan — was a straightforward, finite program of reconstruction. Sophisticated, industrialized societies with skilled work forces, managerial cadres, and long-established competitive economies were helped to rebuild, and to resume their place in the ranks of developed nations.

This was a magnificent undertaking, and it succeeded admirably. But it has little to do with today's development challenges, the most important of which deal with countries that have little in common — culturally, economically, politically, or geographically — with Japan and the Marshall Plan's West European beneficiaries of nearly half a century ago. The Marshall Plan nursed a series of modern but war-devastated national economies back to health. Once the patients were up and around again, they were out of the hospital and on their own.

Today's development is a matter of construction, not reconstruction. Many of the countries with the greatest needs — including many of the countries of greatest strategic importance to the U.S. — are fragile societies in their economic and political infancy as independent states. Others, while older, have been plagued by chronic social and economic instability since birth.

Development for these countries means far more than putting a good system back into operation by repairing it; it means evolving not only an entirely new atmosphere of individual rights and incentives but, in many cases, a whole new way of thinking. Box 7.3 shows that this process has already begun and is yielding positive results for those countries that have realized the value of

growth-oriented policies and have acted on the realization.

This kind of development is long-term work, and most of the work, while it can be marginally assisted by friendly outside agencies, must be done by the governments and people of the countries themselves.

No Marshall Plan existed in the 17th, 18th, and 19th centuries when Britain and Western Europe developed into global trading powers and modern industrial states, during Japan's initial drive to modernization in the second half of the 19th century, or during the first century and a half of America's own history when a small coastal cluster of mainly agricultural colonies evolved into a mighty transcontinental industrial power. In all three cases, development was the work of many generations, was largely accomplished internally, and has continued because of deeply imbedded domestic institutions that promote economic growth, competition, and trade by rewarding individual enterprise.

Conversely, we have seen New Economic Order after New Economic Order emphasizing state control and the abolition of property rights collapse under the weight of their own folly, and more and more wounded societies in the communist world as well as the developing world turn belatedly to growth and market oriented policies.

America's interest in promoting this global awakening to the realities of development is threefold:

- From a purely humanitarian standpoint, we know that economic growth is the only way out of long-term poverty and suffering for any society in any part of the world — the only way it can provide its people with the permanent means of bettering their lives.
- From an economic standpoint, we know that America, and the world, will benefit from the greater prosperity, trade, and stability that such development can bring.
- From the bottom-line view of our own strategic national interest, we know that in the long-run, peace and prosperity can only exist in a world consisting of secure nations bound together by positive economic relationships and a shared interest in continued growth and cooperation.

The seven basic questions this report poses go to the very heart of development aid. They are fundamental. Current structures and concepts are based on a past which no longer exists. The challenges of today's problems, and tomorrow's, cannot be met with yesterday's solutions, suitable as they may have been to yesterday's problems.

America's role in global development remains pivotal, but actual government programs play a supporting part at best to the contributions of the U.S. private sector, overseas investment, the contributions of the American education system as

university to the world, the massive humanitarian and developmental efforts of American private voluntary organizations, and, most of all, the growth-oriented example and wealth-generating dynamism of the American economy itself.

Radically reshaping future official assistance programs to face new realities and complement these greater unofficial American contributions to global development must be both an immediate concern and a major long-term national priority. Nothing less will serve the national interests of the United States.





Mauritania, Mauritius, Mozambique, Niger, Nigeria, Rwanda, Senegal, Sierra Leone, Somalia, South Africa, Sudan, Swaziland, Tanzania, Togo, Uganda, Zaire, Zambia, Zimbabwe.

#### *East Asia*

Burma, Fiji, Hong Kong, Indonesia, Korea, Malaysia, Papua New Guinea, Philippines, Singapore, Taiwan, Thailand.

#### *Southeast Asia*

Afghanistan, Bangladesh, Nepal, Pakistan, Sri Lanka.

#### *Near East*

Algeria, Bahrain, Cyprus, Egypt, Iran, Iraq, Israel, Jordan, Kuwait, Malta, Morocco, Oman, Saudi Arabia, Syria, Tunisia, Turkey, United Arab Emirates, Yemen Arab Republic.

#### *South America*

Argentina, Bolivia, Brazil, Chile, Colombia, Ecuador, Guyana, Paraguay, Peru, Suriname, Uruguay, Venezuela.

#### *Central America and the Caribbean*

Barbados, Costa Rica, Dominican Republic, El Salvador, Guatemala, Haiti, Honduras, Jamaica, Mexico, Nicaragua, Panama, Trinidad and Tobago.

#### *Low Income*

Afghanistan, Angola, Bangladesh, Benin, Burkina, Burma, Burundi, Central African Republic, Chad, Congo, Ethiopia, Gambia, Ghana, Guinea, Haiti, Kenya, Liberia, Madagascar, Malawi, Mali, Mauritania, Mozambique, Nepal, Niger, Nigeria, Rwanda, Sierra Leone, Somalia, Sudan, Tanzania, Togo, Uganda, Zaire, Zambia.

#### *Middle Income*

Algeria, Argentina, Bahrain, Barbados, Bolivia, Botswana, Brazil, Cameroon, Chile, China, Colombia,

Costa Rica, Cote d'Ivoire, Cyprus, Dominican Republic, Ecuador, Egypt, El Salvador, Fiji, Gabon, Guatemala, Guyana, Honduras, Hong Kong, India, Indonesia, Iran, Iraq, Israel, Jamaica, Jordan, Korea (Republic of), Kuwait, Lesotho, Malaysia, Malta, Mauritius, Mexico, Morocco, Nicaragua, Oman, Pakistan, Panama, Papua New Guinea, Paraguay, Peru, Philippines, Saudi Arabia, Senegal, Singapore, South Africa, Sri Lanka, Suriname, Swaziland, Syria, Taiwan, Thailand, Trinidad and Tobago, Tunisia, Turkey, United Arab Emirates, Uruguay, Venezuela, Yemen Arab Republic, Zimbabwe.

#### *Highly Indebted*

Argentina, Bolivia, Brazil, Chile, Colombia, Costa Rica, Cote d'Ivoire, Ecuador, Jamaica, Mexico, Morocco, Nigeria, Peru, Philippines, Uruguay, Venezuela, Yugoslavia.

#### *Industrial Market Economies*

Australia, Austria, Belgium, Canada, Denmark, Finland, France, Federal Republic of Germany, Greece, Iceland, Ireland, Italy, Japan, Luxembourg, Netherlands, New Zealand, Norway, Portugal, Spain, Sweden, Switzerland, United Kingdom, United States.

#### *OECD*

Australia, Austria, Belgium, Canada, Denmark, Finland, France, Germany (Federal Republic of), Greece, Iceland, Ireland, Italy, Japan, Luxembourg, Netherlands, New Zealand, Norway, Portugal, Spain, Sweden, Switzerland, Turkey, United Kingdom, United States.

*Economic and demographic terms are defined in the technical notes to the Statistical Tables. Growth rates are in real terms unless otherwise stated. Growth rates for spans of years in tables cover the period from the beginning of the base year to the end of the last year given. Dollars are current U.S. dollars unless otherwise specified.*

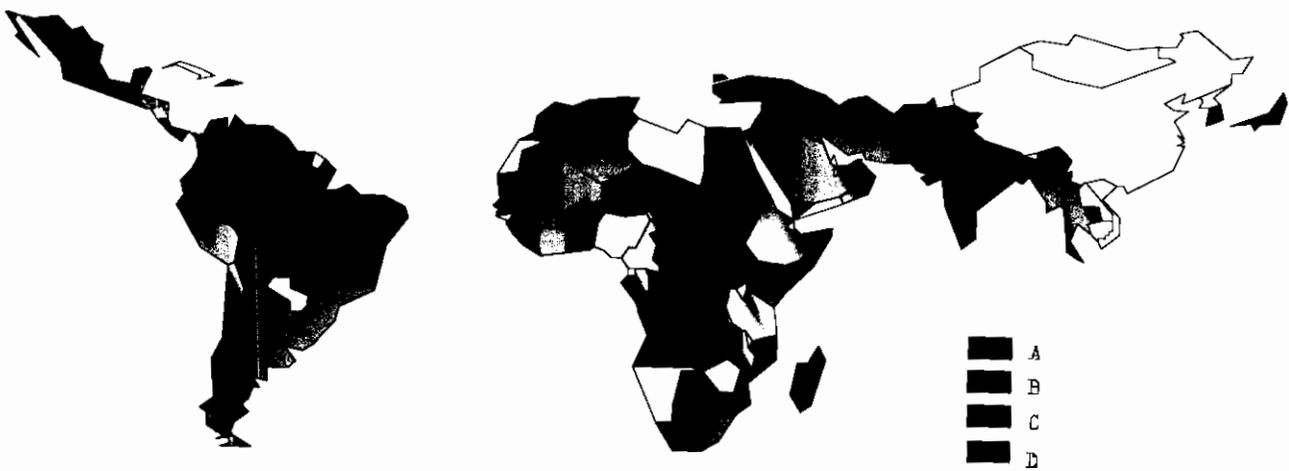
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## Growth Categories



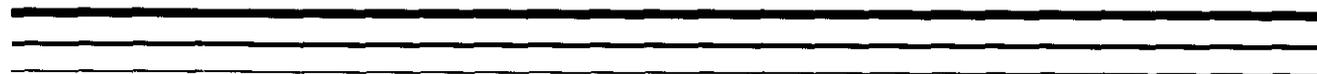
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## Economic Data Quality





## *Statistical Annex*





## Table A.1 Economic Growth

	Per Capita Gross Domestic Product							
	Current International Dollars		Annual Rate of Growth				Price Level	Grade
	1987	1950-72	1972-79	1979-87	1950-86	US = 100		
All LDCs	2,019	2.28	2.71	2.60	2.50	37.2	C+	
Report Typology Groups								
Consistent Growth LDCs	2,458	2.98	4.99	2.96	3.38	40.0	C+	
Recent Problem LDCs	2,978	3.14	2.32	-1.48	2.02	47.0	C+	
Recent Recovery LDCs	1,013	-0.33	2.65	3.08	0.99	24.0	C	
Long-Term Problem LDCs	799	0.42	0.59	-1.08	0.14	39.4	D+	
India	1,053	1.40	0.55	3.53	1.74	28.2	B	
China	2,124	2.62	3.65	5.41	3.51	NA		
Regional Groups								
Sub-Saharan Africa	990	1.56	-0.14	-1.77	0.53	40.6	C-	
Near East	3,200	3.52	3.26	-0.03	2.79	68.1	C	
East Asia	2,602	3.32	5.82	2.57	3.69	34.1	B	
Southeast Asia	1,248	0.73	2.91	2.85	1.44	20.3	C+	
Central America/Caribbean	3,845	2.79	2.66	-1.48	1.87	55.2	B-	
South America	4,052	3.59	3.74	-0.37	2.82	49.4	B-	
Income Groups								
Low Income Countries	650	0.90	0.73	-0.79	0.59	30.9	C-	
Middle Income Countries	2,242	2.51	3.04	3.19	2.84	38.9	B-	
Highly Indebted Countries	3,082	3.24	3.21	-1.15	2.32	40.6	B-	
Industrial Market Economies	14,264	4.05	2.69	1.64	3.33	98.4	A	

## Table A.2 Trade

	U.S. Trade (millions of U.S.\$)				World Trade (millions of U.S.\$)				U.S. Market Share			
	Exports		Imports		Exports		Imports		U.S. Exports as Percent of Imports		U.S. Imports as Percent of Exports	
	1965	1987	1965	1987	1965	1987	1965	1987	1965	1987	1965	1987
All LDCs	8,338	77,954	7,235	130,583	33,729	503,249	34,144	499,657	27.0	11.1	23.0	22.7
Report Typology Groups												
Consistent Growth LDCs	1,538	24,350	895	43,458	4,905	178,342	7,234	191,986	22.1	10.8	15.9	16.9
Recent Problem LDCs	5,543	45,053	5,410	72,653	23,347	238,177	19,825	205,202	29.2	20.1	27.7	33.0
Recent Recovery LDCs	19	336	97	1,412	705	4,626	556	7,127	3.2	6.0	15.4	36.0
Long-Term Problem LDCs	298	2,046	451	2,348	1,831	10,462	2,230	16,022	12.6	10.1	33.4	16.4
India	928	1,464	377	2,725	1,660	12,430	2,789	20,683	33.3	7.1	22.7	21.9
China	NA	3,497	NA	6,910	1,162	39,464	1,344	43,222	NA	8.1	NA	17.5
Regional Groups												
Sub-Saharan Africa	848	3,092	853	9,859	7,376	53,238	7,709	49,051	10.2	6.1	17.9	21.8
Near East	1,207	14,034	482	15,278	7,793	115,457	6,288	119,832	20.8	9.5	7.8	11.4
East Asia	980	22,000	1,058	46,553	3,495	177,831	4,673	169,009	18.8	11.4	25.2	24.6
Southeast Asia	361	1,067	97	1,365	1,026	7,623	1,513	12,356	25.8	8.8	10.1	23.2
Central America/Caribbean	1,840	19,894	1,511	26,050	2,788	36,065	3,614	36,898	62.7	59.3	59.5	71.0
South America	2,174	12,906	2,856	21,843	8,430	61,140	6,214	48,606	33.5	25.2	35.2	33.4
Income Groups												
Low Income Countries	423	2,160	551	7,866	4,083	24,814	4,390	30,870	10.2	6.4	18.0	25.0
Middle Income Countries	7,915	75,794	6,683	122,718	29,646	478,435	29,754	468,787	30.2	12.0	23.9	22.3
Highly Indebted Countries	3,977	30,964	4,274	50,682	12,985	121,495	11,551	104,020	32.4	25.5	33.2	39.9
Industrial Market Economies	17,583	159,525	14,867	262,150	98,186	1,481,845	109,714	1,410,721	16.7	11.8	16.6	19.2

**Table A.3 U.S. Total Exports (Millions of U.S.\$)**

	1978	1979	1980	1981	1982	1983	1984	1985	1986	1987
Consistent Growth LDCs	12,155	16,220	21,033	22,061	23,216	23,654	25,200	23,238	24,130	30,018
Recent Problem LDCs	33,432	39,925	52,853	58,978	49,760	40,112	42,250	40,005	39,613	43,581
Recent Recovery LDCs	280	322	455	406	517	361	463	364	268	334
Long-Term Problem LDCs	1,374	1,625	1,821	1,891	1,552	1,428	1,716	1,898	1,671	2,013
Highly Indebted Countries	20,691	26,848	37,117	40,128	31,293	23,583	26,781	27,713	27,575	30,944
Newly Industrial Countries	8,264	11,376	14,297	14,781	15,110	16,360	17,355	16,424	17,487	22,857
Sub-Saharan Africa	3,208	3,380	5,365	6,499	5,272	4,294	4,369	3,690	2,767	3,072
A.I.D. Countries	18,294	22,400	29,413	31,485	29,790	27,728	27,995	24,719	24,474	27,462
All LDCs	49,345	60,712	78,728	86,106	77,749	68,109	71,496	68,376	68,261	78,348
OECD	85,199	112,078	131,590	135,828	122,061	123,474	136,290	136,025	147,843	161,399
World	145,826	186,305	225,641	238,686	216,442	205,639	223,141	219,182	227,483	252,866

**Table A.4 U.S. Total Imports (Millions of U.S.\$)**

	1978	1979	1980	1981	1982	1983	1984	1985	1986	1987
Consistent Growth LDCs	18,231	20,670	24,945	28,729	28,644	35,095	44,451	46,635	52,705	65,263
Recent Problem LDCs	43,716	59,014	73,300	72,900	60,572	58,545	65,861	63,514	59,150	67,713
Recent Recovery LDCs	297	472	936	962	1,187	891	1,217	911	1,005	1,269
Long-Term Problem LDCs	1,540	1,805	1,814	1,857	1,927	1,928	2,026	1,933	2,121	2,141
Highly Indebted Countries	23,537	32,632	40,638	41,300	39,587	39,172	44,178	46,121	41,427	47,164
Newly Industrial Countries	13,497	15,335	17,602	20,643	22,195	27,605	36,169	38,976	46,032	57,475
Sub-Saharan Africa	9,575	13,626	17,939	16,216	13,894	10,504	10,445	9,404	8,271	9,298
A.I.D. Countries	23,544	29,613	36,555	35,848	31,407	30,709	35,037	33,388	32,293	34,902
All LDCs	71,275	91,911	112,891	115,314	98,374	101,626	118,415	115,553	116,509	139,411
OECD	97,094	108,562	120,833	137,417	138,356	149,053	196,369	219,549	242,446	252,302
World	172,952	205,923	239,943	259,012	242,340	256,680	322,990	343,553	368,657	402,066

Note: Tables A.3 and A.4 are derived from U.S. Department of Commerce data. For all other summary tables, refer to corresponding technical notes for definitions and sources.

**Table A.5 Foreign Direct Investment**

	Stocks			Flow of Total			Net Transfers (millions of U.S.\$)			
	U.S. Direct Investment			Foreign Direct Investment			Public		Private	
	(millions of U.S.\$)			(millions of U.S.\$)						
	1970	1981	1987	1970	1981	1987	1981	1987	1981	1987
All LDCs	13,064	44,595	60,004	2,189	20,015	9,233	22,885	-21,560	10,355	-8,532
Report Typology Groups										
Consistent Growth LDCs	1,251	13,173	22,604	444	3,733	3,324	5,207	-12,287	634	-1,517
Recent Problem LDCs	11,508	30,991	34,377	1,659	15,726	4,073	12,468	-15,974	9,341	-6,947
Recent Recovery LDCs	NA	NA	496	20	184	79	918	731	53	-53
Long-Term Problem LDCs	0	0	856	49	229	127	2,602	1,325	27	86
India	305	431	466	6	NA	NA	914	2,095	300	-101
China	NA	NA	325	NA	NA	1,669	442	2,862	0	0
Regional Groups										
Sub-Saharan Africa	1,055	3,113	4,728	453	406	360	5,283	2,374	237	31
Near East	NA	1,697	6,012	280	8,212	120	2,637	-3,208	-206	-139
East Asia	701	10,353	17,999	356	3,716	2,792	5,499	-13,551	949	-2,418
Southeast Asia	0	0	185	23	157	200	1,007	533	3	6
Central America/Caribbean	3,037	11,621	11,225	766	3,069	3,575	6,009	-1,185	1,405	-2,318
South America	7,966	17,380	19,064	306	4,455	516	1,094	-11,481	7,667	-3,593
Income Groups										
Low Income Countries	187	477	2,340	85	628	106	5,688	3,231	50	-78
Middle Income Countries	12,877	44,118	57,664	2,104	19,387	9,127	17,197	-24,791	10,305	-8,454
Highly Indebted Countries	10,453	25,859	26,714	1,039	7,740	4,209	9,341	-14,875	8,798	-6,751
Industrial Market Economies	51,295	163,569	231,103	-3,630	533	-25,815	1,243	-2,818	-16	-337

**Table A.6 Debt**

	Total Long-Term Debt			Total Long-Term Private Debt			Private Debt Held		Debt Service as Percent		
	(millions of U.S.\$)			(millions of U.S.\$)			by U.S. Banks		of Exports		
							(millions of U.S.\$)				
	1975	1981	1987	1975	1981	1987	1981	1987	1975	1981	1987
All LDCs	150,806	453,548	880,890	82,172	282,003	490,600	128,299	110,151	11.6	10.5	16.1
Report Typology Groups											
Consistent Growth LDCs	35,111	104,806	200,252	12,770	44,700	80,435	29,434	18,779	10.9	11.9	24.3
Recent Problem LDCs	92,898	292,072	548,959	66,289	222,773	371,705	93,730	87,094	12.7	19.9	23.1
Recent Recovery LDCs	2,819	8,374	17,499	270	1,478	2,190	82	92	14.9	9.0	16.7
Long-Term Problem LDCs	6,960	22,296	45,013	2,057	7,199	9,979	1,703	1,218	7.0	7.8	15.2
India	12,448	18,938	40,767	577	1,681	10,004	660	1,201	11.6	7.3	16.9
China	NA	5,274	23,659	0	3,996	14,132	665	855	NA	6.9	7.1
Regional Groups											
Sub-Saharan Africa	14,684	49,322	108,115	5,851	22,096	35,150	5,945	4,316	6.6	10.0	16.1
Near East	24,102	85,583	147,285	9,712	35,175	58,411	13,809	7,482	11.7	19.7	23.3
East Asia	24,348	70,859	150,163	13,896	44,175	84,624	30,405	20,755	8.0	10.1	26.7
Southeast Asia	7,351	14,634	27,184	420	894	1,802	287	195	14.4	7.4	15.2
Central America/Caribbean	21,121	68,218	127,133	16,948	54,706	91,320	25,944	24,174	18.2	21.9	25.6
South America	46,752	140,720	256,584	34,769	119,281	195,157	50,584	51,173	17.5	27.8	27.2
Income Groups											
Low Income Countries	13,732	44,531	99,354	4,306	15,923	25,404	2,306	843	9.0	9.7	18.2
Middle Income Countries	137,074	409,017	781,536	77,866	266,081	465,196	125,993	109,308	12.3	10.6	15.7
Highly Indebted Countries	76,183	245,071	455,734	56,818	201,831	327,876	79,812	80,959	13.6	21.4	23.2
Industrial Market Economies	5,017	15,533	34,418	4,213	12,538	26,816	177,827	174,394	6.6	15.2	30.0

# Table I. Economic Growth

	Per Capita Gross Domestic Product					Price Level US = 100	Grade
	Current International Dollars	Annual Rate of Growth			1950-86		
	1987	1950-72	1972-79	1979-87	1950-86		
Algeria	2,633	3.74	2.73	0.20	2.85	100.6	C
Angola	.	1.52	-6.72	-1.58	-0.74	.	D
Argentina	4,647	2.00	0.57	-2.08	0.86	59.9	B
Australia	11,782	2.58	1.04	1.85	2.09	.	A
Austria	12,386	4.79	3.04	1.77	3.87	.	A
Bahrain	11,142	.	.	0.93	.	.	C
Bangladesh	883	-0.80	3.90	3.03	0.87	16.4	C
Barbados	7,927	4.20	3.37	3.38	3.97	60.8	C
Belgium	13,140	3.50	2.67	1.39	2.97	.	A
Benin	665	0.24	-2.48	0.53	-0.23	55.4	D
Bolivia	1,380	1.23	2.39	-4.12	0.27	79.1	B
Botswana	2,496	3.87	4.84	6.20	4.38	27.8	B
Brazil	4,307	5.21	5.90	0.33	4.38	48.7	B
Bulgaria	.	5.44	2.76	0.08	3.86	.	D
Burkina	.	0.08	2.71	-0.64	0.44	.	D
Burma	752	2.90	2.06	2.49	2.73	28.3	C
Burundi	450	-2.92	1.79	-0.18	-1.50	51.9	D
Cameroon	1,381	1.49	2.22	4.00	2.23	110.1	C
Canada	16,375	2.61	2.72	1.20	2.39	.	A
Central African Rep.	591	-0.14	0.51	-2.04	-0.45	72.1	D
Chad	.	-0.65	-1.56	-6.09	-1.91	.	D
Chile	4,862	1.83	1.17	-0.90	1.14	31.3	C
China	2,124	2.62	3.65	5.41	3.51	.	.
Colombia	3,524	2.10	3.82	1.11	2.18	33.1	B
Congo	756	2.01	-0.80	0.70	1.22	150.5	D
Costa Rica	3,760	3.37	3.61	-1.68	2.35	42.8	B
Cote d'Ivoire	1,123	2.22	0.36	-1.80	1.02	85.1	C
Cyprus	7,910	4.83	2.01	4.48	4.13	67.4	B
Czechoslovakia	.	3.08	1.87	0.95	2.42	.	.
Denmark	15,119	3.14	1.94	1.93	2.76	.	A
Dominican Republic	.	2.89	3.33	-0.91	2.22	.	B
Ecuador	2,687	2.50	6.97	-1.34	2.55	48.7	B
Egypt	1,357	2.27	4.24	1.81	2.61	113.4	D
El Salvador	1,733	2.01	1.80	-2.60	0.96	53.7	B
Ethiopia	454	1.17	-0.39	-0.39	0.55	26.5	C
Fiji	3,558	2.27	3.70	-0.32	2.03	37.6	C
Finland	12,795	4.11	2.42	2.24	3.48	.	A
France	13,961	4.24	3.09	0.74	3.30	.	A
Gabon	2,068	4.54	3.54	-0.63	3.30	97.5	C
Gambia, The	736	1.38	2.01	-1.75	0.83	24.1	D
German Dem. Rep.	.	4.99	3.21	1.73	4.00	.	.
Germany, Fed. Rep.	14,730	4.94	2.99	1.85	3.96	.	A
Ghana	481	1.04	-2.53	-2.77	-0.49	21.7	D
Greece	.	5.81	3.60	0.33	4.33	.	A
Guatemala	1,957	1.58	2.32	-3.02	0.72	.	B
Guinea	.	0.50	1.58	5.61	1.68	.	D
Guyana	1,654	-0.08	1.36	-3.10	-0.48	26.3	C
Haiti	775	-0.17	1.61	-1.49	-0.07	46.8	C
Honduras	1,119	1.23	1.89	-2.21	0.57	71.1	C
Hong Kong	13,906	5.91	7.37	4.86	6.13	56.6	A
Hungary	.	3.45	2.42	0.39	2.65	.	.
Iceland	13,324	3.20	3.27	0.58	2.72	.	B
India	1,053	1.40	0.55	3.53	1.74	28.2	B
Indonesia	1,660	2.76	6.49	3.20	3.65	23.5	B
Iran	.	4.63	0.22	0.95	3.04	.	C
Iraq	.	2.57	8.30	-9.49	1.17	.	C
Ireland	8,566	2.97	2.81	3.28	3.10	.	A
Israel	9,182	5.32	0.98	0.38	3.50	85.1	A
Italy	10,682	4.68	3.74	1.77	3.90	.	A
Jamaica	2,506	5.49	-3.77	-1.67	2.17	47.7	C
Japan	13,135	8.00	3.43	2.87	6.17	.	A
Jordan	3,161	3.61	4.51	1.64	3.44	41.9	C
Kenya	794	1.76	1.73	-1.20	1.14	44.8	B
Korea, Republic of	4,832	4.75	9.35	4.76	5.49	56.1	B

Note: Figures in italics are for years other than specified.

Per Capita Gross Domestic Product

	Current International Dollars					Price Level US = 100	Grade
	1987	Annual Rate of Growth					
		1950-72	1972-79	1979-87	1950-86		
Kuwait	13,843	3.34	-4.88	-6.52	-0.28	86.7	C
Lesotho	1,585	3.44	6.88	3.01	4.01	15.7	D
Liberia	696	6.33	-2.01	-2.05	2.94	56.8	D
Luxembourg	15,247	2.16	2.58	2.10	2.29	.	A
Madagascar	634	0.08	-1.42	-3.23	-0.96	29.4	C
Malawi	476	2.56	3.31	-2.18	1.80	35.3	C
Malaysia	3,849	3.22	5.95	1.13	3.36	48.0	B
Mali	543	0.92	1.05	-0.04	0.76	32.4	C
Malta	7,775	3.92	10.70	2.41	4.90	47.4	B
Mauritania	840	1.70	1.08	-0.65	1.10	58.5	D
Mauritius	2,617	-0.16	6.13	0.02	0.94	61.8	D
Mexico	4,624	3.11	3.35	-1.39	2.22	30.1	B
Morocco	1,761	2.58	3.63	1.08	2.52	41.1	C
Mozambique	.	2.15	-6.87	-3.07	-0.69	.	D
Nepal	722	0.59	0.49	0.43	0.57	15.1	D
Netherlands	12,661	3.62	2.70	0.81	2.86	.	A
New Zealand	10,541	1.98	0.32	1.46	1.60	.	A
Nicaragua	2,209	3.07	-4.56	0.98	1.17	657.6	C
Niger	452	2.12	1.35	-3.74	0.70	80.7	D
Nigeria	668	1.86	2.29	-4.84	0.47	27.5	C
Norway	15,940	3.33	4.59	2.76	3.52	.	A
Oman	.	.	0.73	0.81	.	.	C
Pakistan	1,585	2.04	2.70	3.04	2.32	25.1	B
Panama	4,009	3.73	1.13	1.63	2.86	64.5	B
Papua New Guinea	1,843	2.86	0.00	-1.28	1.48	35.4	D
Paraguay	2,603	0.70	5.76	0.44	1.59	44.2	C
Peru	3,129	2.92	0.44	-0.34	1.78	66.4	C
Philippines	1,878	3.04	3.76	-1.28	2.29	32.1	A
Poland	.	3.29	2.44	-0.42	2.39	.	.
Portugal	5,597	5.38	2.84	1.07	4.06	61.6	A
Romania	.	4.92	4.02	0.52	3.87	.	.
Rwanda	571	-0.40	4.18	0.77	0.73	57.6	D
Saudi Arabia	8,320	6.83	1.96	-10.51	1.96	47.2	C
Senegal	1,068	0.59	0.32	-0.33	0.35	63.1	C
Sierra Leone	480	3.63	0.50	-1.53	1.95	27.7	D
Singapore	12,790	4.15	6.19	8.75	5.45	50.9	C
Somalia	.	-0.75	1.64	-3.77	-0.88	.	D
South Africa	4,981	2.35	0.97	-0.41	1.53	.	B
Soviet Union	.	3.98	2.58	1.59	3.24	.	.
Spain	8,989	5.06	2.17	1.79	3.90	.	A
Sri Lanka	2,053	1.14	2.09	3.12	1.79	20.9	B
Sudan	750	0.81	0.20	-2.03	0.08	58.2	D
Suriname	.	4.60	5.48	-1.59	3.53	.	C
Swaziland	.	5.74	2.41	0.41	4.03	.	D
Sweden	13,780	3.03	1.88	2.01	2.60	.	A
Switzerland	15,403	3.13	0.00	1.40	2.22	.	B
Syria	.	3.04	6.56	-1.08	2.90	.	C
Taiwan	5,907	7.35	6.47	4.89	6.84	72.4	B
Tanzania	405	2.24	2.59	-2.42	1.31	33.8	C
Thailand	2,576	2.69	5.49	2.21	3.07	34.1	C
Togo	670	2.49	-0.97	-3.46	0.53	56.9	D
Trinidad and Tobago	3,664	4.34	0.37	-5.42	1.44	103.6	C
Tunisia	2,741	2.72	4.03	2.81	2.80	47.2	C
Turkey	3,781	3.84	3.14	1.79	3.36	34.2	B
Uganda	511	0.90	-4.90	2.79	0.18	20.2	D
United Arab Emirates	12,191	.	-4.05	-10.45	.	106.6	C
United Kingdom	12,270	2.30	2.98	1.68	2.27	.	A
United States	17,615	2.08	2.04	1.22	1.94	100.0	A
Uruguay	5,063	0.71	3.58	-2.17	0.74	46.7	B
Venezuela	4,306	2.06	-3.48	-2.72	-0.06	48.5	B
Yemen Arab Republic	1,466	.	5.68	1.56	.	28.5	D
Yugoslavia	.	4.96	5.37	1.44	4.39	.	.
Zaire	220	2.39	-6.80	-1.68	-0.30	44.0	D
Zambia	717	1.99	-3.01	-1.74	0.22	33.4	B
Zimbabwe	1,184	3.51	-1.92	1.32	2.04	56.9	C

**Table II. Structure of Domestic Production (Percent 1985)**

	Private Consumption	Government Consumption	Investment	Saving	Services	Nontradables
Algeria	48	19	30	33	.	.
Angola	53	34	6	13	.	.
Argentina	70	10	19	21	25.80	47.90
Australia	59	16	27	25	.	.
Austria	61	17	22	22	45.30	51.20
Bahrain	48	13	22	38	.	.
Bangladesh	86	10	6	4	.	.
Barbados	66	15	20	19	.	.
Belgium	67	15	18	18	42.20	53.60
Benin	84	16	7	0	.	.
Bolivia	73	23	6	4	41.40	46.10
Botswana	52	33	30	15	56.50	60.20
Brazil	71	10	18	19	28.80	37.80
Bulgaria	.	.	.	.	.	.
Burkina	75	25	10	-1	.	.
Burma	69	20	13	12	.	.
Burundi	77	21	10	2	.	.
Cameroon	60	18	21	22	46.20	46.20
Canada	62	14	22	24	40.50	49.80
Central African Rep.	68	27	13	5	.	.
Chad	72	31	5	-3	.	.
Chile	53	21	27	26	38.80	63.10
China	.	.	.	.	.	.
Colombia	73	11	16	15	41.10	46.20
Congo	41	25	32	35	.	.
Costa Rica	64	23	14	13	47.80	52.60
Cote d'Ivoire	62	26	11	12	52.20	54.40
Cyprus	65	16	26	19	.	.
Czechoslovakia	.	.	.	.	.	.
Denmark	54	25	20	20	50.10	59.20
Dominican Republic	75	11	18	15	40.40	49.20
Ecuador	58	18	23	24	36.00	52.20
Egypt	59	27	19	14	.	.
El Salvador	70	27	7	4	54.60	50.70
Ethiopia	72	23	6	4	64.80	61.60
Fiji	62	22	19	16	.	.
Finland	50	17	32	33	37.80	54.40
France	64	13	23	23	39.20	48.60
Gabon	33	19	25	47	.	.
Gambia, The	75	32	21	-7	.	.
German Dem. Rep.	.	.	.	.	.	.
Germany, Fed. Rep.	57	18	23	26	39.10	49.80
Ghana	67	26	7	7	.	.
Greece	67	16	23	17	37.90	51.30
Guatemala	85	9	8	6	48.80	47.10
Guinea	66	25	10	9	.	.
Guyana	56	30	19	13	.	.
Haiti	75	19	12	6	.	.
Honduras	71	18	14	11	46.00	47.40
Hong Kong	75	5	20	19	30.70	36.10
Hungary	.	.	.	.	35.30	46.10
Iceland	64	10	26	26	.	.
India	57	28	16	15	42.60	47.90
Indonesia	62	13	25	24	39.60	43.70
Iran	54	24	21	22	.	.
Iraq	48	32	33	20	.	.
Ireland	58	20	26	22	47.40	62.10
Israel	56	33	20	11	62.20	73.40
Italy	63	16	22	21	44.00	49.70
Jamaica	60	30	15	10	.	.
Japan	55	8	35	37	37.70	56.90
Jordan	73	27	25	-0	.	.
Kenya	61	26	15	13	54.40	56.70
Korea, Republic of	58	13	29	28	37.20	49.80

	Private Consumption	Government Consumption	Investment	Saving	Services	Nontradables
Kuwait	45	14	22	41	.	.
Lesotho	98	23	15	-22	.	.
Liberia	50	38	10	12	.	.
Luxembourg	63	12	26	25	39.90	52.30
Madagascar	79	19	7	2	53.20	49.10
Malawi	67	27	9	6	51.60	51.60
Malaysia	51	19	31	31	.	.
Mali	77	25	5	-2	49.40	45.30
Malta	62	19	26	19	.	.
Mauritania	77	23	20	-0	.	.
Mauritius	68	18	17	14	.	.
Mexico	68	10	20	22	.	.
Morocco	68	28	8	4	52.20	47.10
Mozambique	77	22	5	0	.	.
Nepal	80	12	9	7	.	.
Netherlands	62	14	20	24	37.20	45.00
New Zealand	59	23	19	18	.	.
Nicaragua	56	39	14	5	.	.
Niger	71	19	15	10	.	.
Nigeria	69	18	15	13	38.10	40.50
Norway	48	21	25	31	40.20	52.50
Oman	22	37	24	41	.	.
Pakistan	79	15	10	7	55.50	45.20
Panama	51	29	21	20	40.70	55.00
Papua New Guinea	61	28	19	11	.	.
Paraguay	81	12	15	7	42.10	50.20
Peru	72	18	10	11	39.20	43.60
Philippines	70	18	13	12	49.90	47.10
Poland	.	.	.	.	43.90	52.00
Portugal	63	22	21	14	48.30	54.50
Romania	.	.	.	.	.	.
Rwanda	70	25	11	5	.	.
Saudi Arabia	28	23	30	49	.	.
Senegal	71	29	7	0	46.20	47.10
Sierra Leone	81	16	8	3	.	.
Singapore	53	9	38	38	.	.
Somalia	58	33	17	9	.	.
South Africa	60	18	20	22	.	.
Soviet Union	.	.	.	.	.	.
Spain	74	12	14	14	34.60	42.10
Sri Lanka	74	16	13	10	60.00	56.90
Sudan	72	20	14	8	.	.
Suriname	70	22	15	8	.	.
Swaziland	64	34	20	2	.	.
Sweden	50	30	19	21	.	.
Switzerland	65	8	27	27	.	.
Syria	71	19	17	10	.	.
Taiwan	53	21	22	27	.	.
Tanzania	65	24	18	11	46.30	44.40
Thailand	69	15	17	16	.	.
Togo	63	22	22	15	.	.
Trinidad and Tobago	63	13	24	25	.	.
Tunisia	72	18	14	9	41.00	43.00
Turkey	62	19	21	19	.	.
Uganda	77	22	3	1	.	.
United Arab Emirates	28	12	28	60	.	.
United Kingdom	59	25	14	16	52.00	55.60
United States	66	16	19	17	44.00	51.20
Uruguay	68	18	15	14	32.90	52.00
Venezuela	63	18	15	19	37.50	44.10
Yemen Arab Republic	73	33	15	-6	.	.
Yugoslavia	.	.	.	.	41.40	45.90
Zaire	66	18	17	15	.	.
Zambia	52	39	13	10	51.30	51.40
Zimbabwe	66	25	11	9	55.60	53.30

# Table III. Population and Health

	Population (thousands)	Dependency		Working Age Population (thousands)		Total Fertility Rate		Life Expectancy (in years)		Infant Mortality Rate		Grade	
		Ratio	1985	2025	1985	2025	1960	1985	1960	1985	1960		1985
Algeria	23,165	96	46	4,834	17,308	7.4	6.0	48	62	160	74	C	
Angola	9,260	91	70	3,719	9,962	6.4	6.4	34	45	200	137	C	
Argentina	31,128	65	54	10,884	18,408	3.1	3.0	65	71	60	32	C	
Australia	16,153	51	53	7,364	10,399	3.3	1.8	71	76	20	8	B	
Austria	7,498	49	58	3,504	3,120	2.8	1.5	69	74	32	11	B	
Bahrain	464	55	43	181	450	7.2	4.1	57	71	110	26	C	
Bangladesh	106,925	95	49	28,845	80,442	6.7	5.5	41	51	150	119	C	
Barbados	256	61	53	127	183	4.3	2.0	66	74	46	11	B	
Belgium	9,917	48	61	4,092	3,729	2.7	1.5	71	75	27	10	B	
Benin	4,326	98	69	1,964	6,074	6.8	7.0	36	47	176	110	C	
Bolivia	6,748	89	68	1,987	6,239	6.6	6.1	43	53	164	110	C	
Botswana	1,161	105	73	381	1,549	6.9	6.3	47	58	115	67	C	
Brazil	141,486	69	51	49,642	97,730	6.1	3.5	56	65	109	63	C	
Bulgaria	8,980	51	58	4,483	4,782	2.2	1.9	70	72	36	16	B	
Burkina	8,332	88	69	3,765	9,690	6.7	6.5	37	47	198	138	C	
Burma	39,196	72	48	16,699	30,685	5.9	4.0	45	60	140	70	C	
Burundi	5,013	93	53	2,520	6,343	5.7	6.3	43	49	145	112	C	
Cameroon	10,422	89	64	3,958	10,843	5.8	5.8	41	51	154	94	C	
Canada	25,837	47	61	12,723	15,024	3.6	1.6	71	77	26	7	B	
Central African Rep.	2,710	86	61	1,282	2,959	5.7	5.9	38	46	178	132	C	
Chad	5,282	85	62	1,790	4,682	6.0	5.9	36	46	189	132	C	
Chile	12,542	56	52	4,276	6,811	5.3	2.7	58	71	111	20	B	
China	1,093,517	54	48	617,906	806,677	5.9	2.4	50	69	121	32	C	
Colombia	29,956	69	50	9,195	19,115	6.7	3.6	56	65	84	46	B	
Congo	1,842	89	63	710	2,049	5.9	6.0	39	49	131	73	C	
Costa Rica	2,791	68	51	904	1,958	6.9	3.3	63	75	81	18	B	
Cote d'Ivoire	11,190	94	63	4,053	12,758	7.3	7.4	40	52	157	96	C	
Cyprus	679	55	60	312	410	3.4	2.3	69	76	29	12	B	
Czechoslovakia	15,567	55	57	8,181	9,464	2.4	2.0	70	71	23	15	B	
Denmark	5,121	51	57	2,784	2,402	2.6	1.5	72	75	20	7	A	
Dominican Republic	6,718	78	50	1,862	4,842	7.3	3.7	54	66	117	65	B	
Ecuador	9,939	83	58	2,839	7,939	6.9	4.6	55	65	119	63	B	
Egypt	50,171	77	48	12,837	31,742	7.1	4.8	47	61	175	85	C	
El Salvador	4,961	92	57	1,832	5,699	6.8	4.9	52	62	131	59	D	
Ethiopia	44,060	90	69	19,182	48,376	6.7	6.2	37	41	170	154	C	
Fiji	714	69	48	231	379	6.0	3.2	60	70	66	27	B	
Finland	4,931	46	60	2,488	2,292	2.6	1.6	69	75	19	6	B	
France	55,572	51	59	24,639	25,071	2.8	1.8	71	76	25	8	B	
Gabon	1,059	69	64	518	1,024	4.1	5.0	42	51	163	103	C	
Gambia, The	790	84	67	307	630	6.5	6.4	33	43	207	143	C	
German Dem. Rep.	16,646	49	59	9,518	9,405	2.4	1.7	70	73	31	9	B	
Germany, Fed. Rep.	60,830	43	63	29,403	21,718	2.5	1.4	70	75	28	9	B	
Ghana	13,711	98	72	4,963	18,572	6.9	6.4	46	54	127	90	C	
Greece	9,979	53	57	3,780	4,068	2.2	1.7	70	76	50	17	B	
Guatemala	8,456	95	60	2,261	8,230	6.8	5.8	47	62	119	59	B	
Guinea	6,396	85	67	2,846	6,483	6.4	6.2	34	42	202	147	C	
Guyana	988	69	47	337	638	6.0	2.7	61	70	61	30	B	
Haiti	6,155	89	69	2,822	7,148	6.1	4.7	44	55	188	117	C	
Honduras	4,685	99	63	1,303	5,268	7.4	5.5	48	64	136	69	C	
Hong Kong	5,610	45	57	2,866	3,590	5.3	1.7	68	76	33	8	B	
Hungary	10,610	52	58	5,215	5,159	1.8	1.8	69	70	44	20	B	
Iceland	246	58	54	127	164	3.9	2.0	73	77	17	5	B	
India	802,859	70	45	293,194	507,963	5.8	4.3	45	58	157	99	C	
Indonesia	172,084	73	45	63,430	119,974	5.4	3.3	43	56	133	84	C	
Iran	51,208	85	47	13,023	40,057	7.3	5.6	51	65	163	63	C	
Iraq	17,107	98	53	4,259	16,117	7.2	6.4	50	64	130	69	C	
Ireland	3,619	67	48	1,367	2,236	4.0	2.5	70	74	28	9	A	
Israel	4,372	68	54	1,610	2,927	3.9	2.9	69	75	29	12	B	
Italy	57,205	48	58	22,763	21,078	2.5	1.5	70	76	40	11	A	
Jamaica	2,410	75	45	1,095	2,114	5.4	2.9	64	74	54	18	B	
Japan	121,835	47	62	59,772	60,856	2.0	1.7	69	78	24	5	B	
Jordan	3,811	104	64	799	4,335	8.0	7.2	48	66	125	44	B	
Kenya	22,264	119	66	8,389	34,776	8.1	8.1	46	58	118	72	C	
Korea, Republic of	42,066	54	46	16,790	28,101	5.5	2.5	55	69	70	25	C	

	Population		Dependency		Working Age		Total Fertility		Life		Infant		Grade
	(thousands)	Ratio		Population		Rate		Expectancy		Mortality Rate			
		1986	1985	2025	1985	2025	1960	1985	1960	1985	1960	1985	
Kuwait	1,862	71	57	799	4,335	7.4	4.8	61	73	77	19	C	
Lesotho	1,633	85	61	730	1,754	5.8	5.8	43	56	145	100	C	
Liberia	2,328	99	73	808	2,653	6.3	6.5	42	54	146	87	C	
Luxembourg	367	44	61	155	124	2.4	1.5	69	74	29	10	A	
Madagascar	10,925	91	63	4,510	12,005	6.6	6.6	42	53	211	120	C	
Malawi	7,655	94	67	3,074	9,118	6.9	7.0	38	47	204	150	C	
Malaysia	16,205	71	45	6,171	13,207	6.7	3.5	56	69	63	24	C	
Mali	8,594	96	70	2,598	8,742	6.5	6.7	36	44	208	169	C	
Malta	348	50	59	139	170	3.1	1.9	69	73	34	10	C	
Mauritania	1,869	97	70	590	2,096	6.5	6.5	36	46	186	127	C	
Mauritius	1,063	54	48	390	644	5.7	1.9	60	69	61	23	B	
Mexico	83,065	84	48	26,080	63,974	6.7	3.6	59	69	86	47	C	
Morocco	23,328	82	45	6,676	16,226	7.2	4.8	48	61	155	82	C	
Mozambique	14,497	87	62	7,671	18,582	6.4	6.4	39	47	185	141	C	
Nepal	17,806	86	49	6,870	15,719	5.9	5.9	39	51	182	128	C	
Netherlands	14,591	46	60	5,861	5,300	3.1	1.5	73	77	16	8	A	
New Zealand	3,300	53	52	1,458	1,853	3.8	1.9	71	75	21	11	B	
Nicaragua	3,512	97	57	993	3,673	7.3	5.5	49	63	131	62	B	
Niger	6,513	100	70	3,203	9,254	7.1	7.1	36	45	186	135	C	
Nigeria	102,325	103	71	36,568	127,706	6.9	7.0	41	51	185	105	C	
Norway	4,176	55	59	2,039	2,085	2.9	1.7	73	77	17	7	A	
Oman	1,333	88	59	361	1,169	7.2	7.2	41	55	207	100	C	
Pakistan	111,011	87	47	29,801	84,414	7.0	6.5	44	57	155	109	C	
Panama	2,275	72	49	760	1,597	5.9	3.1	62	72	63	23	B	
Papua New Guinea	3,711	79	51	1,685	3,532	6.3	5.7	43	54	155	59	C	
Paraguay	3,927	83	54	1,223	3,133	6.8	4.6	64	67	81	42	C	
Peru	20,751	79	49	6,204	16,015	6.9	4.5	49	61	136	88	C	
Philippines	58,036	78	46	19,874	44,155	6.6	4.3	55	63	76	45	C	
Poland	37,691	53	58	19,221	22,672	2.6	2.2	68	71	51	18	B	
Portugal	10,208	54	54	4,563	5,558	3.1	1.8	64	73	76	15	A	
Romania	22,944	53	57	11,418	14,659	2.0	2.1	67	70	60	22	A	
Rwanda	6,554	102	67	3,063	9,857	7.7	8.3	43	49	142	122	C	
Saudi Arabia	12,610	89	59	3,405	11,925	7.3	7.2	46	63	160	71	C	
Senegal	6,814	90	68	2,897	7,142	6.7	6.4	37	46	176	128	C	
Sierra Leone	3,859	80	59	1,352	2,831	6.3	6.5	32	41	215	154	C	
Singapore	2,616	42	58	1,226	1,338	4.9	1.6	66	73	30	9	B	
Somalia	6,861	92	69	1,999	4,954	6.6	6.6	37	45	170	132	C	
South Africa	33,055	82	57	10,831	31,057	6.5	4.5	50	60	130	72	C	
Soviet Union	281,364	52	59	143,289	175,292	2.5	2.4	69	69	32	24	C	
Spain	38,894	55	53	13,725	16,728	2.9	1.7	70	77	42	10	A	
Sri Lanka	16,549	64	47	5,920	9,920	5.2	2.7	63	70	65	33	C	
Sudan	23,169	92	57	6,991	22,386	6.7	6.4	39	50	165	108	C	
Suriname	386	71	44	117	254	6.6	3.0	62	70	63	31	C	
Swaziland	715	96	72	273	834	6.5	6.5	42	55	150	118	C	
Sweden	8,346	54	61	4,237	3,793	2.3	1.6	74	77	15	6	A	
Switzerland	6,490	46	64	3,173	2,567	2.5	1.5	72	77	20	7	A	
Syria	11,275	104	54	2,596	12,017	7.5	6.8	51	65	125	48	C	
Taiwan													
Tanzania	24,582	105	72	10,913	37,534	6.9	7.1	42	53	143	106	C	
Thailand	53,243	66	46	26,657	43,860	6.4	2.6	54	65	95	39	C	
Togo	3,158	92	65	1,244	3,647	6.2	6.1	41	53	170	94	C	
Trinidad and Tobago	1,224	62	49	450	797	5.0	2.7	65	70	44	20	B	
Tunisia	7,624	77	45	2,224	5,099	7.2	4.1	50	65	155	59	C	
Turkey	52,454	68	51	21,385	42,673	6.1	3.5	52	64	176	76	C	
Uganda	16,672	102	72	7,054	23,466	6.9	6.9	44	51	125	103	C	
United Arab Emirates	1,445	50	64	683	1,037	6.9	4.8	55	71	130	26	C	
United Kingdom	56,741	53	59	27,432	26,299	2.8	1.8	71	75	22	9	B	
United States	243,264	51	60	116,800	143,116	3.3	1.8	70	75	25	10	B	
Uruguay	3,059	60	52	1,171	1,622	2.9	2.6	68	71	48	27	B	
Venezuela	18,285	75	55	5,871	15,074	6.5	3.8	61	70	73	36	C	
Yemen Arab Republic				1,676	6,971								C
Yugoslavia	23,411	47	56	10,484	11,846	2.7	2.0	65	72	80	25	B	
Zaire	32,823	93	65	11,666	36,456	5.9	6.1	43	53	146	98	C	
Zambia	7,586	100	73	2,242	9,176	6.6	7.2	43	53	130	80	C	
Zimbabwe	8,871	102	73	3,410	12,134	7.5	5.8	47	58	106	72	C	

# Table IV. Environment

	Number of Disasters 1964-86	Forests (1980)			Food Production Index (1979-81=100)		Percent Urban Population	
		Average Annual Destroyed		Restored (thousand ha.)	1980	1985	1965	1985
		(thousand ha.)	Percent					
Algeria	15	40	2.3	22	113	104	38	43
Angola	4	84	0.2	0	.	.	13	25
Argentina	24	1,550	3.5	40	94	98	76	84
Australia	15	.	0.0	62	87	99	83	86
Austria	.	.	.	21	87	109	51	56
Bahrain	.	.	.	.	.	.	.	.
Bangladesh	82	8	0.9	9	114	99	6	18
Barbados	1	.	.	.	113	81	.	.
Belgium	.	.	.	19	.	.	93	96
Benin	10	67	1.7	0	102	114	11	35
Bolivia	22	117	0.2	0	94	98	40	44
Botswana	11	20	0.1	.	157	74	4	20
Brazil	57	2,323	0.5	346	87	112	50	73
Bulgaria	.	.	.	50	.	.	46	68
Burkina	19	80	1.7	2	117	114	6	8
Burma	28	105	0.3	2	93	125	21	24
Burundi	3	1	2.7	1	101	100	2	2
Cameroon	3	110	0.4	1	104	95	16	42
Canada	.	.	.	720	86	106	73	77
Central African Rep.	3	55	0.2	.	95	95	27	45
Chad	17	80	0.6	0	.	.	9	27
Chile	20	50	0.7	.	102	100	72	83
China	56	0	.	4,552	87	121	18	22
Colombia	32	890	1.7	8	83	95	54	67
Congo	1	22	0.1	2	103	93	35	40
Costa Rica	14	65	3.6	0	97	92	38	45
Cote d'Ivoire	1	510	5.2	3	84	109	23	45
Cyprus	5	.	.	.	95	90	.	.
Czechoslovakia	.	.	.	37	.	.	51	66
Denmark	.	.	.	.	86	123	77	86
Dominican Republic	12	4	0.6	0	107	99	35	56
Ecuador	25	340	2.3	4	107	101	37	52
Egypt	7	.	.	2	105	105	41	46
El Salvador	11	4	3.2	0	96	89	39	43
Ethiopia	22	88	0.3	6	109	90	8	15
Fiji	18	2	0.2	4	111	86	.	.
Finland	.	.	.	158	95	110	44	60
France	.	.	.	51	90	107	67	73
Gabon	.	15	0.1	.	107	97	.	.
Gambia, The	8	5	2.4	0	150	123	.	.
German Dem. Rep.	.	.	.	.	.	.	73	76
Germany, Fed. Rep.	.	.	.	62	92	109	79	86
Ghana	8	72	0.8	3	142	104	26	32
Greece	11	.	.	.	83	108	48	65
Guatemala	14	90	2.0	3	94	97	34	41
Guinea	1	86	0.8	0	.	.	12	22
Guyana	5	3	0.0	0	115	81	.	.
Haiti	15	2	3.8	0	107	97	18	27
Honduras	14	90	2.3	.	109	85	26	39
Hong Kong	10	.	.	.	.	.	89	93
Hungary	.	0	0.0	19	71	108	43	55
Iceland	3	.	.	.	87	91	.	.
India	140	147	0.3	120	100	112	19	25
Indonesia	93	620	0.5	187	84	116	16	25
Iran	38	20	0.5	.	.	.	37	54
Iraq	4	.	.	.	.	.	51	70
Ireland	.	.	.	9	82	105	49	57
Israel	.	.	.	2	98	114	81	90
Italy	34	.	.	15	90	100	62	67
Jamaica	12	2	3.0	1	102	102	38	53
Japan	62	.	.	240	125	107	67	76
Jordan	5	0	.	3	77	113	47	69
Kenya	11	39	1.7	0	125	93	9	20
Korea, Republic of	33	.	.	152	85	103	32	64

	Number of Disasters	Forests (1980)			Food Production Index (1979-81=100)		Percent Urban Population	
		Average Annual Destroyed		Restored (thousand ha.)	1980	1985	1965	1985
		(thousand ha.)	Percent					
Kuwait	.	.	.	.	.	.	78	92
Lesotho	4	.	.	0	114	88	2	17
Liberia	5	46	2.3	1	101	98	23	37
Luxembourg	.	.	.	.	.	.	.	.
Madagascar	15	156	1.2	12	113	99	12	21
Malawi	4	150	3.5	6	84	90	5	.
Malaysia	11	255	1.2	4	72	125	26	38
Mali	17	36	0.5	0	104	101	13	20
Malta	.	.	.	.	91	108	.	.
Mauritania	14	13	2.4	0	133	85	7	31
Mauritius	8	0	.	1	103	101	37	54
Mexico	49	615	1.3	17	89	96	55	69
Morocco	12	13	0.4	5	112	105	32	44
Mozambique	22	120	0.8	1	.	.	5	19
Nepal	20	84	4.0	2	113	104	4	7
Netherlands	.	.	.	2	85	106	86	88
New Zealand	2	.	0.0	43	94	111	79	83
Nicaragua	18	121	2.7	0	114	77	43	56
Niger	17	67	2.6	2	95	91	7	15
Nigeria	9	400	2.7	14	127	105	15	30
Norway	.	.	.	79	85	106	37	73
Oman	.	.	.	.	.	.	4	9
Pakistan	25	9	0.4	7	94	102	24	29
Panama	13	36	0.9	0	92	100	44	50
Papua New Guinea	8	23	0.1	2	101	100	5	14
Paraguay	7	212	1.1	0	96	111	36	41
Peru	37	270	0.4	4	136	100	52	68
Philippines	100	92	1.0	42	83	94	32	39
Poland	.	.	.	106	99	105	50	60
Portugal	13	.	.	4	140	104	24	31
Romania	3	.	.	.	.	.	34	51
Rwanda	6	5	2.3	2	97	86	3	5
Saudi Arabia	4	0	.	.	123	190	39	72
Senegal	17	50	0.5	2	116	108	27	36
Sierra Leone	2	6	0.3	0	104	93	15	25
Singapore	.	.	.	.	121	93	100	100
Somalia	11	13	0.1	1	.	.	20	34
South Africa	15	.	.	63	87	83	47	56
Soviet Union	.	.	.	4540	.	.	.	.
Spain	18	.	.	92	80	103	61	77
Sri Lanka	25	58	3.5	10	75	87	20	21
Sudan	14	104	0.2	11	97	101	13	21
Suriname	1	3	0.0	0	101	117	.	.
Swaziland	2	0	.	5	93	97	.	.
Sweden	.	.	.	207	86	107	77	86
Switzerland	.	.	.	7	85	106	53	60
Syria	4	0	.	.	53	91	40	49
Taiwan	16	.	.	.	.	.	.	.
Tanzania	18	130	0.3	7	91	91	6	14
Thailand	17	379	2.4	13	84	111	13	18
Togo	5	12	0.7	0	114	90	11	23
Trinidad and Tobago	2	1	0.4	1	152	97	30	64
Tunisia	9	5	1.7	4	83	121	40	56
Turkey	34	.	.	82	94	100	32	46
Uganda	8	50	0.8	0	122	124	6	7
United Arab Emirates	.	.	.	.	.	.	56	79
United Kingdom	9	.	.	40	82	108	87	92
United States	.	.	.	1775	83	103	72	74
Uruguay	3	.	.	.	104	103	81	85
Venezuela	8	245	0.7	14	112	89	72	85
Yemen Arab Republic	5	0	.	.	81	106	5	19
Yugoslavia	15	.	.	53	81	96	31	45
Zaire	10	347	0.2	0	113	100	19	39
Zambia	7	80	0.3	3	95	97	24	48
Zimbabwe	5	80	0.4	5	100	102	14	27

# Table V. Foreign Direct Investment

	Stocks			Flow of Total			Net Transfers			
	U.S. Direct Investment			Foreign Direct Investment			(millions of U.S.\$)			
	(millions of U.S.\$)						Public		Private	
	1970	1981	1987	1970	1981	1987	1981	1987	1981	1987
Algeria	.	.	56	45	-1	.	-1,199	-724	0	0
Angola	.	.	251	.	.	.	.	.	.	.
Argentina	1,281	2,735	2,854	11	994	-19	-245	-978	4,597	-376
Australia	3,304	8,779	10,988	778	1,546	37	.	.	.	.
Austria	.	596	387	104	117	136	.	.	.	.
Bahrain	.	.	95	.	.	-41	.	.	.	.
Bangladesh	.	.	12	.	.	3	444	600	0	0
Barbados	.	.	217	9	7	.	71	-40	0	0
Belgium	1,529	6,275	7,078	140	1,349	-411	.	.	.	.
Benin	.	.	.	7	2	.	97	34	0	0
Bolivia	.	.	128	-76	76	22	92	72	-21	0
Botswana	.	.	.	.	89	125	16	32	0	0
Brazil	1,847	8,253	9,955	407	2,313	.	943	-6,102	-200	-1,860
Bulgaria	.	.	.	.	.	.	.	.	.	.
Burkina	.	.	4	0	2	.	72	81	0	0
Burma	.	.	.	.	.	.	294	154	0	0
Burundi	.	.	0	.	.	.	24	98	0	0
Cameroon	.	.	472	16	135	.	138	-33	53	-37
Canada	22,790	46,957	56,879	566	-8,680	-963	.	.	.	.
Central African Rep.	.	.	2	1	6	.	31	54	0	0
Chad	.	.	37	1	-0	4	9	45	0	0
Chile	748	834	224	-79	362	97	-565	-785	2,545	-152
China	.	.	325	.	.	1,669	442	2,862	0	0
Colombia	698	1,178	2,037	39	228	349	641	-1,155	299	-130
Congo	.	.	-2	.	31	.	241	337	0	0
Costa Rica	.	.	141	26	66	75	113	-96	-60	-34
Cote d'Ivoire	.	.	57	31	33	.	165	-108	135	134
Cyprus	.	.	9	20	78	53	63	-67	0	0
Czechoslovakia	.	.	.	.	.	.	.	.	.	.
Denmark	362	1,362	1,114	75	-39	.	.	.	.	.
Dominican Republic	.	.	155	72	80	.	63	-19	-45	-25
Ecuador	.	277	497	89	60	75	647	158	262	-28
Egypt	.	1,082	1,663	.	747	929	1,162	-204	24	5
El Salvador	.	.	51	4	-6	.	182	-60	-22	-15
Ethiopia	.	.	2	4	.	.	270	223	0	0
Fiji	.	.	.	6	38	27	54	-45	.	.
Finland	.	.	387	-34	-127	-813	.	.	.	.
France	2,590	9,102	11,478	248	-2,079	-4,067	.	.	.	.
Gabon	.	.	248	-1	48	85	-258	195	0	0
Gambia, The	.	.	0	0	2	7	38	23	0	0
German Dem. Rep.	.	.	.	.	.	.	.	.	.	.
Germany, Fed. Rep.	4,597	16,077	24,450	-0	-4	-7	.	.	.	.
Ghana	.	.	68	68	16	.	55	192	.	-10
Greece	.	222	215	50	520	683	565	-759	-149	-303
Guatemala	.	.	159	29	127	150	220	-167	-4	-11
Guinea	.	.	7	.	.	.	58	36	0	0
Guyana	.	.	4	9	-2	.	73	-5	0	0
Haiti	.	.	34	3	8	5	96	72	0	0
Honduras	.	.	203	8	-4	36	157	-44	-19	-16
Hong Kong	.	2,655	5,453	.	.	.	.	.	.	.
Hungary	.	.	.	.	2	.	268	-60	0	0
Iceland	.	.	8	5	53	2	.	.	.	.
India	305	431	466	6	.	.	914	2,095	300	-101
Indonesia	.	1,861	3,929	83	133	307	626	-158	0	-133
Iran	.	.	-24	25	.	.	.	.	.	.
Iraq	.	.	2	24	.	.	.	.	.	.
Ireland	.	2,611	5,484	32	203	89	.	.	.	.
Israel	.	405	793	40	3	148	1,149	-1,400	-226	-246
Italy	1,550	5,356	8,449	498	-254	1,753	.	.	.	.
Jamaica	.	.	90	161	-12	.	228	-125	-45	-11
Japan	1,483	6,807	14,270	-0	-5	19	.	.	.	.
Jordan	.	.	.	.	148	38	251	-169	0	0
Kenya	.	.	89	14	8	.	154	-52	-108	4
Korea, Republic of	.	778	1,018	66	60	418	1,306	-10,081	485	-997

	Stocks			Flow of Total			Net Transfers			
	U.S. Direct Investment			Foreign Direct Investment			(millions of U.S.\$)			
	(millions of U.S.\$)			(millions of U.S.\$)			Public		Private	
	1970	1981	1987	1970	1981	1987	1981	1987	1981	1987
Kuwait	.	.	-7	.	151	-93	.	.	.	.
Lesotho	.	.	-8	.	5	.	16	26	0	0
Liberia	187	259	65	.	.	.	53	21	0	0
Luxembourg	.	627	723	.	.	.	.	.	.	.
Madagascar	.	.	.	10	.	.	218	82	0	0
Malawi	.	.	5	9	1	.	34	61	0	0
Malaysia	.	849	1,111	94	1,265	575	1,616	-1,600	201	-599
Mali	.	.	.	.	4	.	102	85	0	0
Malta	.	.	.	12	39	.	20	-13	0	0
Mauritania	.	.	1	1	12	.	106	54	0	0
Mauritius	.	.	4	1	1	18	17	-4	0	17
Mexico	1,786	6,962	4,997	323	2,537	3,248	4,775	-668	1,600	-2,206
Morocco	.	.	30	20	59	60	501	-5	44	38
Mozambique	.	.	-2	.	.	.	.	.	.	.
Nepal	.	.	.	.	.	.	62	118	0	0
Netherlands	1,508	8,775	14,164	-15	-2,982	-5,259	.	.	.	.
New Zealand	184	616	635	137	171	104	.	.	.	.
Nicaragua	.	.	93	15	.	.	204	461	0	0
Niger	.	.	57	1	-6	.	222	48	36	7
Nigeria	.	218	1,267	205	543	70	1,662	242	122	-79
Norway	268	2,300	4,142	32	500	-696	.	.	.	.
Oman	.	.	23	.	64	.	80	-270	0	0
Pakistan	.	.	161	23	108	121	206	-233	3	22
Panama	1,251	3,671	4,780	33	6	.	-116	-244	0	0
Papua New Guinea	.	.	162	.	86	115	100	0	171	-61
Paraguay	.	.	14	4	32	14	92	-8	-23	-4
Peru	688	1,928	1,102	-70	125	25	-387	43	3	91
Philippines	701	1,294	1,211	-29	172	186	757	-1,125	-78	-150
Poland	.	.	.	.	4	7	.	-1,429	0	0
Portugal	.	304	381	.	155	327	678	-2,059	133	-34
Romania	.	.	1	.	.	.	521	-1,152	0	0
Rwanda	.	.	3	.	18	18	22	71	0	0
Saudi Arabia	.	.	2,385	20	6,498	-1,175	.	.	.	.
Senegal	.	.	29	5	20	.	131	86	-1	-5
Sierra Leone	.	.	36	8	8	.	25	-3	0	0
Singapore	.	1,791	2,521	93	1,675	982	-56	-60	84	-54
Somalia	.	.	-10	5	.	0	304	62	0	0
South Africa	868	2,636	1,590	318	-579	29	.	.	.	.
Soviet Union	.	.	.	.	.	.	.	.	.	.
Spain	737	2,877	4,037	179	1,436	3,825	.	.	.	.
Sri Lanka	.	.	12	-0	49	76	295	48	0	-16
Sudan	.	.	202	.	.	.	468	120	.	.
Suriname	.	.	.	-5	35	-73	.	.	.	.
Swaziland	.	.	.	.	33	36	5	-1	0	0
Sweden	620	1,403	1,188	-104	-644	-2,843	.	.	.	.
Switzerland	1,777	12,437	19,973	.	.	25	.	.	.	.
Syria	.	.	.	.	.	.	71	175	0	0
Taiwan	.	574	1,312	.	.	.	.	.	.	.
Tanzania	.	.	-10	.	.	.	278	24	.	.
Thailand	.	551	1,282	43	288	182	802	-636	86	-424
Togo	.	.	.	1	10	.	-11	-13	0	0
Trinidad and Tobago	.	932	356	83	258	61	16	-255	0	0
Tunisia	.	.	-16	16	291	89	110	-107	-34	-42
Turkey	.	210	241	58	95	110	196	-394	-14	106
Uganda	.	.	.	4	.	.	41	116	0	0
United Arab Emirates	.	.	762	.	.	.	.	.	.	.
United Kingdom	7,996	30,086	44,673	-190	-6,274	-15,248	.	.	.	.
United States	.	.	.	-6,130	15,570	-2,470	.	.	.	.
Uruguay	.	.	125	.	49	5	114	-167	91	104
Venezuela	2,704	2,175	2,124	-23	184	21	-311	-2,554	114	-1,238
Yemen Arab Republic	.	.	.	.	40	1	233	-30	0	0
Yugoslavia	.	.	.	.	.	.	284	-1,805	-519	-750
Zaire	.	.	181	42	.	.	106	246	0	0
Zambia	.	.	41	-297	-38	.	113	1	.	.
Zimbabwe	.	.	42	.	4	-31	260	-106	.	.

# Table VI. Trade

	U.S. Trade (millions of U.S.\$)				World Trade (millions of U.S.\$)				U.S. Market Share			
	Exports		Imports		Exports		Imports		U.S. Exports as Percent of Imports		U.S. Imports as Percent of Exports	
	1965	1987	1965	1987	1965	1987	1965	1987	1965	1987	1965	1987
Algeria	21	426	6	2,144	636	8,779	668	7,249	3.1	5.9	0.9	24.4
Angola	14	94	53	1,372	198	1,464	195	1,100	7.2	8.6	26.8	93.7
Argentina	268	1,090	132	1,176	1,492	6,360	1,179	5,819	22.7	18.7	8.8	18.5
Australia	797	5,495	338	3,287	2,921	26,510	3,654	29,708	21.8	18.5	11.6	12.4
Austria	58	549	72	979	1,596	27,169	2,094	32,720	2.8	1.7	4.5	3.6
Bahrain	10	205	3	70	96	2,787	71	2,693	14.1	7.6	3.1	2.5
Bangladesh		193		419		1,077		2,730		7.1		38.9
Barbados	9	132	5	61	38	155	67	515	13.5	25.7	13.3	39.2
Belgium	651	6,189	535	4,359	6,369	84,242	6,365	83,233	10.2	7.4	8.4	5.2
Benin		7		16	14	114	34	607		1.1		13.9
Bolivia	42	140	36	113	132	575	134	775	31.3	18.1	27.3	19.7
Botswana		29		7	14	1,521	23	849		3.4		0.5
Brazil	348	4,040	554	8,433	1,595	26,607	1,096	16,583	31.7	24.4	34.7	31.7
Bulgaria	4	89	2	47	203	2,108	306	4,044	1.3	2.2	1.0	2.2
Burkina	1	10			15	127	37	416	2.2	2.5		
Burma	14	8	1	13	212	520	242	679	5.8	1.1	0.5	2.4
Burundi	2	2	20	5	30	129	22	255	9.3	0.6	66.2	3.8
Cameroon	7	47	15	443	119	1,877	135	1,763	5.2	2.7	12.7	23.6
Canada	5,659	57,354	5,257	71,510	8,462	98,104	9,121	99,483	62.0	57.7	62.1	72.9
Central African Rep.	1	2	11	5	26	92	27	124	3.7	1.2	42.1	5.3
Chad		9			27	135	31	241		3.9		
Chile	237	796	228	1,105	688	4,861	604	4,153	39.3	19.2	33.1	22.7
China		3,497		6,910	1,162	39,464	1,344	43,222		8.1		17.5
Colombia	199	1,412	299	2,414	539	5,233	452	4,478	44.0	31.5	55.5	46.1
Congo		9		457	47	922	65	481		1.9		49.5
Costa Rica	61	582	62	750	112	1,425	178	1,448	34.2	40.2	55.4	52.6
Cote d'Ivoire	11	82	50	404	277	3,166	236	2,153	4.7	3.8	18.1	12.8
Cyprus												
Czechoslovakia												
Denmark	209	893	159	1,882	2,314	25,588	2,821	25,442	7.4	3.5	6.9	7.4
Dominican Republic	76	1,142	121	1,217	124	1,323	88	2,403	86.6	47.5	97.4	92.0
Ecuador	80	621	115	1,390	132	2,021	165	1,919	48.4	32.3	87.1	68.8
Egypt	158	2,211	18	498	605	4,611	933	12,416	16.9	17.8	3.0	10.8
El Salvador	61	390	52	300	188	615	200	1,089	30.5	35.8	27.6	48.8
Ethiopia	22	136	69	78	116	414	149	1,267	14.8	10.8	59.7	18.8
Fiji					53	280	72	315				
Finland	76	514	90	1,085	1,426	20,013	1,642	19,824	4.6	2.6	6.3	5.4
France	973	7,943	666	11,177	10,033	148,376	10,293	158,476	9.5	5.0	6.6	7.5
Gabon	5	52	12	379	105	1,279	62	750	8.0	7.0	11.5	29.7
Gambia, The		12		0	15	100	16	182		6.5		0.3
German Dem. Rep.	12	44	7	96	421	5,658	537	6,168	2.2	0.7	1.7	1.7
Germany, Fed. Rep.	1,651	11,748	1,452	28,028	17,866	294,165	17,554	228,339	9.4	5.1	8.1	9.5
Ghana	36	115	64	259	318	1,017	448	1,020	8.0	11.2	20.1	25.5
Greece	172	402	47	529	328	6,532	1,134	13,172	15.2	3.1	14.3	8.1
Guatemala	96	480	72	542	186	972	229	1,306	41.9	36.8	38.7	55.8
Guinea	17	36	13	121		520		420		8.5		23.2
Guyana	20	60	24	66	97	263	104	221	19.2	27.1	24.7	25.2
Haiti	21	459	23	410	38	444	37	789	56.6	58.2	61.2	92.4
Honduras	54	418	82	565	127	972	123	925	43.9	45.2	64.4	58.1
Hong Kong	191	3,983	372	10,490	1,038	48,473	1,514	48,463	12.6	8.2	35.8	21.6
Hungary	9	95	2	305	363	10,532	446	10,827	2.0	0.9	0.6	2.9
Iceland	18	84	22	300	129	1,375	137	1,590	13.1	5.3	17.0	21.8
India	928	1,464	377	2,725	1,660	12,430	2,789	20,683	33.3	7.1	22.7	21.9
Indonesia	42	767	179	3,719	708	16,548	695	10,234	6.0	7.5	25.3	22.5
Iran	195	54	95	1,752	1,271	10,900	855	8,981	22.8	0.6	7.5	16.1
Iraq	49	684	21	526	882	9,021	436	7,015	11.2	9.7	2.4	5.8
Ireland	69	1,811	63	1,155	626	15,999	1,038	13,681	6.6	13.2	10.1	7.2
Israel	224	3,130	67	2,724	426	8,423	834	13,842	26.9	22.6	15.7	32.3
Italy	895	5,530	671	11,698	7,164	116,330	7,300	125,027	12.3	4.4	9.4	10.1
Jamaica	87	602	136	423	214	873	295	1,517	29.5	39.7	63.7	48.4
Japan	2,085	28,249	2,619	88,074	8,256	231,332	7,861	150,926	26.5	18.7	31.7	38.1
Jordan	27	365		12	21	866	157	2,994	17.2	12.2		1.3
Kenya	24	95	14	85	144	1,261	247	1,916	9.7	5.0	9.7	6.7
Korea, Republic of	274	8,099	58	17,991	173	47,301	454	41,019	60.3	19.7	33.6	38.0

	U.S. Trade (millions of U.S.\$)				World Trade (millions of U.S.\$)				U.S. Market Share			
	Exports		Imports		Exports		Imports		U.S. Exports as		U.S. Imports as	
	1965	1987	1965	1987	1965	1987	1965	1987	Percent of Imports		Percent of Exports	
									1965	1987	1965	1987
Kuwait	66	505	51	568	1,343	9,809	377	5,198	17.5	9.7	3.8	5.8
Lesotho	.	7	.	.	.	9	.	40	.	17.3	.	.
Liberia	39	70	55	101	135	912	105	1,482	37.3	4.7	40.6	11.0
Luxembourg	.	.	.	.	.	.	.	.	.	.	.	.
Madagascar	4	19	31	73	91	383	146	471	2.7	3.9	33.9	19.1
Malawi	2	5	2	27	41	308	60	236	3.3	2.1	4.9	8.8
Malaysia	.	1,897	.	3,053	.	17,934	.	12,701	.	14.9	.	17.0
Mali	.	10	.	.	16	109	43	437	.	2.3	.	.
Malta	2	97	1	49	24	605	95	1,138	2.1	8.5	4.2	8.2
Mauritania	5	8	3	20	57	370	24	364	21.3	2.3	5.2	5.4
Mauritius	1	26	3	154	66	818	75	965	1.3	2.7	4.6	18.8
Mexico	1,106	14,582	700	20,520	1,142	26,783	1,555	20,765	71.1	70.2	61.3	76.6
Morocco	56	383	7	54	429	2,945	451	4,837	12.4	7.9	1.6	1.8
Mozambique	9	50	8	30	107	236	173	719	5.2	7.0	7.5	12.8
Nepal	1	56	.	38	23	224	39	493	3.1	11.3	.	16.8
Netherlands	1,089	8,217	271	4,236	6,363	92,703	7,452	91,318	14.6	9.0	4.3	4.6
New Zealand	133	819	141	1,181	996	7,209	1,052	7,263	12.6	11.3	14.2	16.4
Nicaragua	69	3	39	1	149	244	160	490	43.1	0.7	26.2	0.6
Niger	.	4	.	8	25	413	37	355	.	1.0	.	1.8
Nigeria	74	295	64	3,767	750	8,300	766	5,390	9.7	5.5	8.5	45.4
Norway	130	842	135	1,514	1,441	21,703	2,204	22,625	5.9	3.7	9.4	7.0
Oman	.	171	.	230	.	3,161	.	2,395	.	7.1	.	7.3
Pakistan	336	733	48	438	525	4,168	1,036	5,819	32.4	12.6	9.1	10.5
Panama	125	742	65	402	69	795	208	4,444	60.2	16.7	93.9	50.6
Papua New Guinea	2	51	3	23	53	1,172	99	1,213	2.0	4.2	5.6	2.0
Paraguay	16	183	15	24	57	453	52	768	30.7	23.9	26.2	5.3
Peru	282	814	274	815	668	2,605	729	3,375	38.7	24.1	41.0	31.3
Philippines	349	1,599	400	2,481	766	5,696	880	6,937	39.7	23.1	52.2	43.6
Poland	35	239	72	330	823	13,868	872	13,986	4.0	1.7	8.7	2.4
Portugal	77	581	66	713	576	9,170	920	13,435	8.4	4.3	11.5	7.8
Romania	6	193	2	782	1,098	11,454	1,183	9,348	0.5	2.1	0.2	6.8
Rwanda	.	4	.	12	7	126	10	301	.	1.4	.	9.2
Saudi Arabia	137	3,374	114	4,887	1,316	26,827	376	24,482	36.4	13.8	8.7	18.2
Senegal	8	49	.	7	128	645	164	1,174	4.9	4.2	.	1.1
Sierra Leone	14	26	6	21	82	212	107	189	13.0	14.0	7.3	10.0
Singapore	.	4,053	.	6,395	.	28,661	.	34,445	.	11.8	.	22.3
Somalia	3	43	1	4	33	115	49	452	6.1	9.6	3.0	3.5
South Africa	438	1,281	250	1,399	2,493	21,021	2,707	15,195	16.2	8.4	10.0	6.7
Soviet Union	45	1,480	46	470	2,291	37,182	2,467	44,883	1.8	3.3	2.0	1.3
Spain	491	3,148	145	3,101	944	34,192	3,007	49,112	16.3	6.4	15.4	9.1
Sri Lanka	10	77	36	464	408	1,363	308	2,124	3.2	3.6	8.8	34.0
Sudan	15	152	7	23	195	713	208	1,387	7.2	11.0	3.6	3.3
Suriname	36	72	35	57	57	353	95	280	37.8	25.8	61.1	16.1
Swaziland	.	6	.	11	.	.	.	.	.	.	.	.
Sweden	337	1,894	263	4,981	3,963	44,391	4,366	40,305	7.7	4.7	6.6	11.2
Switzerland	370	3,151	331	4,363	2,968	45,500	3,701	50,650	10.0	6.2	11.2	9.6
Syria	13	93	4	67	169	1,205	212	1,510	6.1	6.2	2.4	5.5
Taiwan	.	.	.	.	.	.	.	.	.	.	.	.
Tanzania	.	35	.	14	179	345	140	1,161	.	3.0	.	4.2
Thailand	108	1,544	45	2,387	492	11,246	718	13,003	15.0	11.9	9.1	21.2
Togo	2	20	1	26	27	233	45	561	4.5	3.5	3.7	11.1
Trinidad and Tobago	75	361	154	859	402	1,464	474	1,207	15.8	29.9	38.3	58.7
Tunisia	44	119	5	73	120	2,135	246	3,032	17.9	3.9	4.2	3.4
Turkey	205	1,482	90	897	454	10,189	576	12,862	35.6	11.5	19.8	8.8
Uganda	2	19	46	86	179	309	114	510	1.8	3.6	25.7	27.7
United Arab Emirates	.	619	.	723	.	13,135	.	7,894	.	7.8	.	5.5
United Kingdom	1,643	14,114	1,524	17,998	13,447	131,242	15,999	154,391	10.3	9.1	11.3	13.7
United States	.	.	.	.	.	.	.	.	.	.	.	.
Uruguay	20	92	39	369	191	1,183	150	1,142	13.3	8.0	20.4	31.2
Venezuela	626	3,586	1,105	5,881	2,781	10,625	1,453	9,094	43.1	39.4	39.7	55.4
Yemen Arab Republic	.	116	.	5	.	60	.	1,294	.	9.0	.	7.5
Yugoslavia	149	321	66	871	1,090	13,110	1,265	14,268	11.8	2.3	6.1	6.6
Zaire	71	104	41	320	335	1,583	321	2,084	22.1	5.0	12.3	20.2
Zambia	16	48	5	51	533	796	324	861	4.9	5.5	0.9	6.4
Zimbabwe	5	76	9	75	436	1,144	367	1,173	1.4	6.4	2.1	6.5

# Table VII. Debt

	Total Long-Term Debt (millions of U.S.\$)			Total Long-Term Private Debt (millions of U.S.\$)			Private Debt Held by U.S. Banks (millions of U.S.\$)		Debt Service as Percent of Exports		
	1975	1981	1987	1975	1981	1987	1981	1987	1975	1981	1987
	Algeria	4,477	15,307	19,240	3,398	12,428	15,972	1,210	720	8.7	24.6
Angola											
Argentina	6,581	22,736	50,309	5,456	20,823	43,185	8,427	9,230	22.0	17.3	45.3
Australia							4,525	4,643			
Austria							2,065	1,675			
Bahrain							844	539			
Bangladesh	1,605	3,912	8,851	24	67	219			16.1	7.7	16.5
Barbados	27	176	501	22	82	264			1.8	2.9	7.4
Belgium							9,042	7,372			
Benin	89	403	929	16	170	395			3.7	3.3	15.9
Bolivia	840	2,845	4,799	345	1,421	1,284	293	63	15.3	27.7	22.1
Botswana	147	165	514	0	4	44			3.2	1.4	3.7
Brazil	23,737	65,052	106,087	19,670	57,434	80,886	18,179	22,270	17.9	33.7	26.7
Bulgaria							0	88			
Burkina Faso	63	313	794	2	19	38			3.7	3.8	8.8
Burma	281	1,645	4,257	48	352	364			17.4	23.7	59.3
Burundi	18	157	718	6	4	19			5.6	5.5	38.5
Cameroon	405	2,299	3,306	112	967	1,076	82	53	5.3	9.2	15.8
Canada							17,613	11,089			
Central African Rep.	71	189	520	32	33	25			7.0	2.1	12.0
Chad	87	182	270	24	50	43			6.2	0.7	3.8
Chile	4,374	12,625	18,002	2,244	11,356	14,045	5,719	5,871	27.2	29.6	21.1
China		5,274	23,659	0	3,996	14,132	665	855		6.9	7.1
Colombia	2,746	5,942	15,352	1,008	3,313	7,089	3,040	2,073	10.8	13.1	30.7
Congo	401	1,559	3,679	138	839	2,084			12.9	13.7	18.6
Costa Rica	649	2,564	3,919	410	1,670	1,921	500	317	10.7	16.6	12.1
Cote d'Ivoire	1,008	5,072	11,714	623	3,919	6,985	623	358	8.7	31.6	19.6
Cyprus	76	486	1,419	21	309	478			3.3	6.4	13.4
Czechoslovakia							6	40			
Denmark							3,021	3,099			
Dominican Republic	673	1,633	3,071	387	621	951	493	343	4.7	13.4	16.3
Ecuador	709	5,802	9,056	474	3,941	5,896	2,058	1,787	4.4	30.9	20.7
Egypt	4,983	19,299	35,613	935	3,362	7,224	1,157	173	23.2	18.5	12.7
El Salvador	391	871	1,667	246	158	150	90	49	9.0	4.7	19.4
Ethiopia	344	964	2,434	19	93	406		21	7.3	7.5	22.9
Fiji	59	333	438	21	154	158			2.5	4.6	12.1
Finland							1,908	1,744			
France							18,441	14,011			
Gabon	772	998	1,605	599	671	966	177	29	5.2	12.5	5.1
Gambia, The	13	140	273	0	30	17			0.6	4.3	12.9
German Dem. Rep.							47	290			
Germany, Fed. Rep.							13,293	7,268			
Ghana	678	1,146	2,237	116	123	302	57	12	6.1	7.2	16.7
Greece	3,540	7,373	18,866	3,052	6,339	14,046	2,860	1,824	10.6	12.7	29.9
Guatemala	243	831	2,461	114	92	836	215	49	1.8	4.0	24.9
Guinea	759	1,262	1,616	95	188	98					
Guyana	296	640	874	133	193	197			4.5	21.4	9.4
Haiti	57	362	673	9	83	67			4.6	5.7	5.1
Honduras	360	1,429	2,796	116	543	616	214	106	4.7	12.8	23.0
Hong Kong							4,659	2,739			
Hungary		6,933	15,931		5,906	14,200	4	352		15.6	26.7
Iceland							207	137			
India	12,448	18,938	40,767	577	1,681	10,004	660	1,201	11.6	7.3	16.9
Indonesia	10,363	19,449	45,389	5,359	9,390	20,448	2,139	1,240	7.5	8.2	27.9
Iran							460	1			
Iraq							66	102			
Ireland							1,621	1,204			
Israel	6,873	16,458	22,495	3,752	7,334	10,280	2,480	1,192	19.3	21.7	17.8
Italy							10,208	10,801			
Jamaica	1,599	1,738	3,569	1,410	521	633	205	132	6.9	15.1	25.8
Japan							38,408	65,854			
Jordan	340	1,535	3,518	49	294	1,139	401	175	3.6	6.5	16.1
Kenya	1,028	2,714	4,978	503	1,199	1,275	227	63	4.3	16.3	28.8
Korea, Republic of	6,234	21,517	30,644	3,595	15,186	18,978	8,971	5,116	11.6	12.9	21.9

	Total Long-Term Debt			Total Long-Term Private Debt			Private Debt Held		Debt Service as Percent of		
	(millions of U.S.\$)			(millions of U.S.\$)			by U.S. Banks		Exports		
	1975	1981	1987	1975	1981	1987	1981	1987	1975	1981	1987
Kuwait							1,300	731			
Lesotho	14	77	237	1	6	17			0.2	1.2	4.4
Liberia	179	648	1,152	19	154	197	367	39	8.0	5.0	6.9
Luxembourg											
Madagascar	167	1,433	3,113	9	492	274			3.0	16.5	35.5
Malawi	257	675	1,155	32	188	49	81	9	8.0	27.9	23.3
Malaysia	1,843	7,323	21,675	1,224	5,660	17,116	1,146	472	3.4	3.5	14.3
Mali	338	751	1,847	17	30	61			2.7	3.9	9.9
Malta	32	131	112	2	1	0			0.6	0.4	1.0
Mauritania	189	829	1,868	32	99	127			20.7	15.8	18.2
Mauritius	52	353	591	9	150	136			1.6	9.5	6.2
Mexico	15,609	53,314	96,919	13,316	47,929	80,979	21,799	22,398	24.9	28.1	30.1
Morocco	1,727	9,395	18,840	609	3,935	5,288	818	740	5.8	30.9	23.4
Mozambique											
Nepal	34	235	902	1	0	35			1.0	1.6	9.7
Netherlands							4,631	4,115			
New Zealand							516	1,172			
Nicaragua	593	2,076	6,150	346	832	1,334	420	43	12.0	27.6	10.9
Niger	112	908	1,513	79	530	485			4.6	11.5	33.5
Nigeria	1,143	7,615	26,057	439	6,559	14,441	1,106	632	2.7	4.6	10.0
Norway							3,129	2,233			
Oman	287	537	2,474	203	163	2,078		44	1.9	2.4	11.2
Pakistan	5,115	8,860	13,205	288	506	711	287	156	17.0	9.7	17.5
Panama	771	2,429	3,772	502	1,724	2,318	1,863	654	5.9	5.0	6.5
Papua New Guinea	506	977	2,606	407	737	1,787			4.6	7.0	13.0
Paraguay	228	842	2,246	89	383	896	281	77	9.3	9.2	21.3
Peru	5,077	7,417	13,918	4,003	4,381	7,515	1,856	841	25.6	44.8	12.5
Philippines	2,860	10,371	23,837	1,948	6,849	13,400	5,061	4,383	7.4	9.7	22.7
Poland			35,569			12,655		3			14.3
Portugal	1,477	8,160	15,552	1,161	6,199	12,770	1,803	912	2.8	17.7	30.1
Romania		8,071	5,425		5,324	2,168	0	115		12.0	12.1
Rwanda	24	177	544	3	6	11			0.6	2.5	11.3
Saudi Arabia							2,329	1,039			
Senegal	310	1,016	3,109	148	301	300	56	22	5.4	8.5	21.2
Sierra Leone	149	355	513	70	121	87			10.2	20.4	9.7
Singapore	850	2,018	4,186	496	1,505	3,873	1,781	1,236	0.7	0.8	1.4
Somalia	230	1,005	2,288	6	130	167			3.4	17.8	9.2
South Africa							2,701	2,939			
Soviet Union							3	159			
Spain							6,018	3,313			
Sri Lanka	597	1,627	4,226	107	321	837		39	21.4	5.8	16.1
Sudan	1,231	4,778	8,248	457	1,408	2,049	187	12	21.3	13.9	6.8
Suriname											
Swaziland	34	162	273	1	18	10			1.4	3.1	6.1
Sweden							4,283	2,419			
Switzerland							5,068	6,897			
Syria	685	2,194	3,648	217	337	696	36	48	7.6	8.8	14.9
Taiwan							4,831	4,564			
Tanzania	871	2,284	4,079	115	528	441			6.2	10.2	18.5
Thailand	1,352	7,226	17,131	798	4,342	8,500	1,818	1,005	2.4	6.8	13.6
Togo	120	833	1,042	62	295	82			9.2	9.2	13.9
Trinidad and Tobago	149	795	1,635	70	451	1,251	144	83	2.0	3.2	17.8
Tunisia	1,029	3,455	6,415	180	1,353	1,996	180	74	7.0	13.2	24.1
Turkey	3,342	15,665	31,356	342	5,646	13,183	1,349	1,575	7.9	20.1	27.8
Uganda	212	536	1,116	27	123	58			5.1	21.2	18.9
United Arab Emirates							1,181	329			
United Kingdom							29,167	22,612			
United States											
Uruguay	670	1,674	3,192	406	1,349	2,543	616	905	41.2	10.0	24.4
Venezuela	1,494	15,145	32,749	941	14,687	31,621	10,115	8,056	5.3	10.8	22.4
Yemen Arab Republic	251	1,121	2,155	4	13	77			1.3	4.9	12.9
Yugoslavia	5,818	16,902	19,491	3,895	12,970	12,650	13	1,808	5.8	4.1	13.3
Zaire	1,718	4,239	7,334	1,200	1,358	878	92	7	14.4	10.5	12.8
Zambia	1,263	2,282	4,354	707	652	610	191	48	10.9	25.1	13.5
Zimbabwe	187	804	2,095	134	639	899		72	0.8	4.2	23.2

# Table VIII. Education

	Students in U.S.		Primary School Enrollment		Secondary School Enrollment		Gender Literacy Gap	
	Universities		(percent)		(percent)		1960	1985
	1970	1988	1965	1985	1965	1985		
Algeria	46	700	68	94	7	51	9	36
Angola	13	14	39	93	5	13	.	.
Argentina	878	1,650	101	108	28	70	3	1
Australia	1,045	1,490	99	106	62	95	0	0
Austria	272	480	106	99	52	79	0	0
Bahrain	13	360	.	.	.	.	.	.
Bangladesh	.	2,170	49	60	13	18	24	23
Barbados	142	440	.	.	.	.	.	.
Belgium	439	880	109	95	75	96	10	0
Benin	8	23	34	65	3	20	6	28
Bolivia	462	980	73	91	18	37	18	19
Botswana	18	270	65	104	3	29	-5	3
Brazil	1,473	2,950	108	104	16	35	6	3
Bulgaria	45	40	.	.	.	.	15	3
Burkina	5	30	12	32	1	5	1	15
Burma	74	230	71	102	15	24	40	20
Burundi	6	41	26	53	1	4	14	22
Cameroon	138	1,400	94	107	5	23	24	23
Canada	12,595	15,690	105	105	56	103	-1	0
Central African Rep.	5	21	56	73	2	13	11	31
Chad	4	31	34	38	1	6	13	29
Chile	977	1,110	124	109	34	69	2	3
China	9,219	25,170	89	124	24	39	.	.
Colombia	2,190	3,370	84	117	17	50	3	2
Congo	23	20	114	0	10	0	27	22
Costa Rica	442	930	106	101	24	41	1	1
Cote d'Ivoire	48	280	60	78	6	20	6	22
Cyprus	206	1,690	.	.	.	.	.	.
Czechoslovakia	318	64	99	97	29	39	0	0
Denmark	289	670	98	98	83	103	0	0
Dominican Republic	748	740	87	124	12	50	5	1
Ecuador	657	1,110	91	114	17	55	9	5
Egypt	1,103	2,090	75	85	26	62	26	29
El Salvador	393	1,110	82	70	17	24	10	6
Ethiopia	759	1,870	11	36	2	12	4	6
Fiji	55	152	.	.	.	.	.	.
Finland	311	660	92	104	76	102	0	0
France	1,994	4,310	134	114	56	96	1	0
Gabon	1	38	134	123	11	25	17	17
Gambia, The	69	152	.	.	.	.	.	.
German Dem. Rep.	.	19	109	101	60	79	0	0
Germany, Fed. Rep.	2,521	5,730	0	96	0	74	0	0
Ghana	647	1,110	69	66	13	39	20	21
Greece	1,968	4,140	110	106	49	86	22	9
Guatemala	391	740	50	76	8	17	9	16
Guinea	19	57	31	30	5	12	10	23
Guyana	841	500	.	.	.	.	.	.
Haiti	523	1,460	50	78	5	18	5	9
Honduras	427	1,250	80	102	10	36	8	1
Hong Kong	9,040	10,650	103	105	29	69	.	.
Hungary	123	190	101	98	0	72	1	1
Iceland	81	640	.	.	.	.	.	.
India	12,523	21,010	74	92	27	35	29	25
Indonesia	662	9,010	72	118	12	39	27	17
Iran	6,402	10,420	63	112	18	46	15	23
Iraq	446	990	74	100	28	55	20	34
Ireland	546	1,170	108	100	51	96	0	0
Israel	2,361	2,690	95	99	48	76	12	4
Italy	1,235	2,200	112	98	47	75	3	2
Jamaica	1,557	2,280	109	106	51	58	-6	-2
Japan	4,350	18,050	.	.	.	.	2	0
Jordan	987	5,140	95	99	38	79	35	20
Kenya	534	1,990	54	94	4	20	20	21
Korea, Republic of	3,857	20,520	101	96	35	94	.	.

	Students in U.S.		Primary School		Secondary School		Gender Literacy Gap	
	Universities		Enrollment		Enrollment			
	1970	1988	1965	1985	1965	1985	1960	1985
Kuwait	353	3,160	116	101	52	83	16	17
Lesotho	11	76	94	115	4	22	-24	-22
Liberia	372	730	41	0	5	0	10	24
Luxembourg	15	29	.	.	.	.	.	.
Madagascar	11	54	65	121	8	36	14	12
Malawi	59	151	44	62	2	4	22	21
Malaysia	836	19,480	90	99	28	53	11	15
Mali	6	113	24	23	4	7	3	12
Malta	21	36	.	.	.	.	.	.
Mauritania	1	45	13	0	1	0	.	.
Mauritius	19	102	101	106	26	51	21	12
Mexico	2689	6,170	92	115	17	55	9	5
Morocco	78	880	57	81	11	31	16	23
Mozambique	25	12	37	84	3	7	.	.
Nepal	107	480	20	79	5	25	15	34
Netherlands	894	1,630	104	95	61	102	0	0
New Zealand	315	560	106	106	75	85	1	0
Nicaragua	469	2,100	69	101	14	39	1	0
Niger	10	57	11	28	1	6	1	10
Nigeria	2,333	8,340	32	92	5	29	19	23
Norway	637	1,880	97	97	64	97	0	0
Oman	1	720	0	89	0	32	.	.
Pakistan	2,001	6,570	40	47	12	17	17	22
Panama	871	1,910	102	105	34	59	12	6
Papua New Guinea	6	18	44	64	4	14	10	20
Paraguay	84	190	102	101	13	31	12	6
Peru	1,422	2,290	99	122	25	65	26	13
Philippines	2,759	4,420	113	106	41	65	5	1
Poland	426	740	104	101	58	78	3	1
Portugal	198	610	84	112	42	47	14	8
Romania	147	72	101	98	39	75	10	3
Rwanda	5	54	53	64	2	2	15	22
Saudi Arabia	938	5,490	24	69	4	42	5	25
Senegal	29	145	40	55	7	13	9	18
Sierra Leone	312	420	29	0	5	0	6	17
Singapore	380	4,870	105	115	45	71	39	16
Somalia	60	510	10	25	2	17	3	12
South Africa	445	2,130	90	0	15	0	0	0
Soviet Union	31	77	103	106	72	99	1	1
Spain	543	2,500	115	104	38	91	10	5
Sri Lanka	185	2,030	93	103	35	63	21	10
Sudan	111	540	29	49	4	19	20	24
Suriname	9	230	.	.	.	.	.	.
Swaziland	19	149	.	.	.	.	.	.
Sweden	483	1,600	95	98	62	83	0	0
Switzerland	476	1,040	87	0	37	0	0	0
Syria	465	1,740	78	108	28	61	35	33
Taiwan	.	26,660	.	.	.	.	.	.
Tanzania	238	540	32	72	2	3	9	8
Thailand	5,627	6,430	78	97	14	30	23	7
Togo	15	50	55	95	5	21	13	25
Trinidad and Tobago	944	2,050	93	95	36	76	-2	2
Tunisia	121	760	91	118	16	39	22	27
Turkey	1,420	2,630	101	116	16	42	34	27
Uganda	263	420	67	0	4	0	23	25
United Arab Emirates	.	1,380	0	99	0	58	.	11
United Kingdom	3,859	6,600	92	101	66	89	0	0
United States	.	.	0	101	0	99	-1	0
Uruguay	182	260	106	110	44	70	-1	1
Venezuela	1,863	3,790	94	108	27	45	10	5
Yemen Arab Republic	14	560	9	67	0	10	5	24
Yugoslavia	391	750	106	96	65	82	22	12
Zaire	81	300	70	98	5	57	35	34
Zambia	61	380	53	103	7	19	23	17
Zimbabwe	171	470	110	131	6	43	17	15

# Table IX. Aid

	U.S. Economic Assistance		U.S. Economic Assistance		U.S. as Percent of Total ODA	ODA as Percent of Government Expenditure
	(millions of US\$)	(millions of US\$)	(millions of U.S.\$)	(millions of U.S.\$)		
	1946-88	1946-87	1987	1986		
Algeria	203.6	1048	.	165	.	2.1
Angola	29.8	230.2	3.4	131	5.3	5.6
Argentina	180.9	1479	2.4	88	.	0.5
Australia	8.0	1286	.	.	.	.
Austria	1135	213.9	.	.	.	.
Bahrain	2.4	22.0	.	.	.	.
Bangladesh	2494	92.9	189.2	1,455	10.0	19.6
Barbados	3.8	4.1	.	.	.	.
Belgium	589.1	357.9	.	.	.	.
Benin	70.9	0.2	3.0	138	2.2	28.0
Bolivia	1059	106.6	78.0	322	32.0	11.2
Botswana	249.5	.	17.0	102	9.8	15.2
Brazil	2198	3889	5.4	178	6.2	0.3
Bulgaria	.	.	.	.	.	.
Burkina	279.5	1.0	14.9	284	9.2	30.5
Burma	232.6	3.4	16.6	416	2.2	8.7
Burundi	68.0	.	2.9	187	2.7	48.1
Cameróon	261.8	104.3	34.7	225	8.0	8.3
Canada	17.5	1338	.	.	.	.
Central African Rep.	39.4	2.8	4.6	139	1.4	37.9
Chad	160.0	.	13.0	165	6.1	48.6
Chile	1174	1131	1.1	-5	.	0.5
China	2.3	179.9	.	1,134	.	.
Colombia	1382	1196	12.0	63	.	0.8
Congo	21.0	9.0	1.1	110	0.9	14.5
Costa Rica	1268	87.2	181.3	196	65.3	19.2
Cote d'Ivoire	52.4	146.0	0.9	186	.	6.6
Cyprus	252.2	28.4	15.0	.	.	.
Czechoslovakia	193.0	22.8	.	.	.	.
Denmark	276.5	171.5	.	.	.	.
Dominican Republic	1228	178.4	37.6	106	26.4	23.2
Ecuador	658.2	96.7	45.6	147	34.0	3.9
Egypt	13759	471.0	1015	1,667	68.8	13.1
El Salvador	2230	24.9	462.9	355	76.6	23.6
Ethiopia	579.4	44.6	6.1	642	14.2	21.8
Fiji	.	.	.	.	.	.
Finland	51.2	339.7	.	.	.	.
France	3917	1839	.	.	.	.
Gabon	23.6	53.8	1.8	79	1.3	12.4
Gambia, The	77.3	.	13.0	.	.	.
German Dem. Rep.	0.8	.	.	.	.	.
Germany, Fed. Rep.	3844	234.5	.	.	.	.
Ghana	505.4	138.6	29.6	371	2.2	18.5
Greece	1902	502.1	.	19	.	0.2
Guatemala	932.5	50.7	187.8	135	63.7	7.4
Guinea	241.3	31.3	14.4	175	6.9	20.1
Guyana	117.1	9.1	6.5	.	.	.
Haiti	628.1	640.7	101.1	175	48.0	21.8
Honduras	1191	33.8	197.8	288	60.8	40.2
Hong Kong	43.8	134.3	.	18	.	0.9
Hungary	.	.	.	0	.	.
Iceland	76.9	24.0	.	.	.	.
India	11083	770.1	156.3	2,059	2.4	0.9
Indonesia	3464	1419	124.1	711	6.5	2.2
Iran	762.0	1188	.	27	.	0.0
Iraq	45.5	25.2	.	33	.	0.2
Ireland	212.6	137.0	35.0	.	.	.
Israel	13828	1146	1200	1,937	97.8	22.7
Italy	3421	1352	0.1	.	.	.
Jamaica	978.7	96.4	89.9	177	58.8	15.6
Japan	2686	3045	.	.	.	.
Jordan	1775	408.5	111.1	537	7.1	28.4
Kenya	716.1	34.5	52.8	458	6.3	16.0
Korea, Republic of	6063	4105	.	-18	.	-0.1

	U.S.Economic	Other U.S. Loans (millions of US\$)	U.S. Economic	Total ODA (millions of U.S.\$)	U.S. as Percent of	ODA as Percent
	Assistance		Assistance		Total ODA	of Government
	(millions of US\$)		(millions of U.S.\$)		(millions of U.S.\$)	Expenditure
	1946-88	1946-87	1987	1986	1986	
Kuwait	.	.	.	5	.	0.2
Lesotho	224.0	.	21.1	88	21.6	37.8
Liberia	731.3	135.8	42.8	97	49.5	17.4
Luxembourg	.	.	.	.	.	.
Madagascar	115.2	13.6	18.0	316	5.4	21.6
Malawi	179.8	0.2	14.1	203	5.4	15.5
Malaysia	92.0	168.4	.	193	.	2.7
Mali	304.3	.	16.7	372	8.1	60.5
Malta	83.9	1.2	.	.	.	.
Mauritania	151.3	4.3	8.5	187	10.2	120.5
Mauritius	58.8	6.9	3.6	56	7.1	10.2
Mexico	402.7	3177	17.5	252	20.6	0.5
Morocco	1555	237.6	98.7	336	14.0	11.7
Mozambique	210.7	35.8	39.2	422	7.1	18.2
Nepal	391.4	.	19.8	301	5.6	23.1
Netherlands	1028	482.9	.	.	.	.
New Zealand	4.3	227.1	.	.	.	.
Nicaragua	379.9	43.6	.	150	.	3.0
Niger	320.7	5.4	30.5	308	10.7	67.3
Nigeria	429.5	432.3	20.9	60	.	0.3
Norway	299.9	490.8	.	.	.	.
Oman	108.5	.	14.9	84	.	2.4
Pakistan	6686	405.8	351.5	952	20.4	4.7
Panama	578.6	141.1	12.1	52	36.5	4.0
Papua New Guinea	5.3	30.5	1.1	263	0.4	21.8
Paraguay	204.3	20.7	3.1	66	.	6.1
Peru	1269	877.3	63.7	272	34.9	4.9
Philippines	3252	1036	296.5	956	38.4	3.7
Poland	705.3	2628	3.1	0	.	.
Portugal	1163	777.9	64.8	139	61.2	1.2
Romania	22.4	515.2	.	.	.	.
Rwanda	115.4	0.8	12.5	211	10.0	30.8
Saudi Arabia	31.8	47.3	.	31	.	0.1
Senegal	444.8	7.7	53.6	567	7.1	19.5
Sierra Leone	153.2	28.6	14.6	87	13.8	21.2
Singapore	983.1	333.7	34.6	30	.	1.1
Somalia	682.5	.	54.5	523	15.7	67.6
South Africa	32.2	149.4	16.6	0	.	.
Soviet Union	186.4	1012	.	.	.	.
Spain	1080	1972	5.0	0	.	.
Sri Lanka	967.3	27.2	58.9	571	11.6	13.7
Sudan	1375	41.7	96.6	940	15.7	45.6
Suriname	6.4	5.9	.	.	.	.
Swaziland	112.0	.	10.7	.	.	.
Sweden	109.0	251.6	.	.	.	.
Switzerland	.	.	.	.	.	.
Syria	357.4	0.1	.	842	.	10.5
Taiwan	2212	2229	.	.	.	.
Tanzania	466.2	16.0	65.3	681	1.2	38.3
Thailand	983.1	333.7	34.6	496	6.5	3.6
Togo	117.7	2.1	10.1	174	5.7	36.8
Trinidad and Tobago	40.9	334.1	.	19	.	1.0
Tunisia	1084	138.3	51.7	199	11.1	6.3
Turkey	4294	491.6	103.1	346	11.6	0.8
Uganda	120.2	1.8	14.0	198	1.5	2.8
United Arab Emirates	.	.	.	34	.	0.1
United Kingdom	7672	1928	.	.	.	.
United States	.	.	.	.	.	.
Uruguay	165.5	39.4	12.2	27	40.7	0.3
Venezuela	202.8	572.0	.	16	.	0.1
Yemen Arab Republic	345.3	0.6	45.5	233	16.7	10.0
Yugoslavia	1735	1241	.	19	.	.
Zaire	1011	276.9	62.1	448	5.1	48.6
Zambia	431.6	99.8	22.8	464	8.2	25.5
Zimbabwe	312.2	28.9	5.6	225	12.0	11.1



# Technical Notes

## Table I. Economic Growth

### *GDP per capita*

The estimates in Table I of GDP per capita in international dollars for 1987 were obtained following procedures described in Summers and Heston (1988). Each country's national currency aggregates, consumption, government, and capital formation were converted into international dollars using purchasing power parities (PPPs) estimated specifically for the aggregates. A country's *real* GDP was simply the sum of these international dollar components, plus its net foreign balance converted into dollars at its exchange rate. The PPPs were derived from the results of the benchmark studies of the International Comparison Project of the United Nations (ICP). To date, 70 countries have completed and published the results of their participation in the ICP. For these 70 countries, PPPs were built up from detailed price comparisons of individual items covering over 150 categories of expenditure on GDP. (See Kravis, Heston, and Summers, 1982 for a full description of the benchmark procedure.) The comparisons for the benchmark countries center around 1980. GDP comparisons were obtained for 1980 for the remaining 50 market economies in Table I from relationships found in the benchmark data between the PPP for GDP and available special-purpose price indexes. (A number of public agencies and private companies maintain capital city price indexes for large numbers of countries to provide international agencies, governments, and companies a basis for making post adjustments of salaries for employees serving abroad. The benchmark data were used in estimating how GDP PPPs related to the price indexes; the derived relationship was then used to estimate the PPPs of the 50 market economies.)

For 1980 it was also possible to obtain PPPs for the subaggregates for all but five centrally planned economies. Estimates in current prices were obtained for other years between 1950 and 1987 for these countries

by an extrapolation process which replicates the benchmark procedures.

### *Growth rates of GDP per capita*

Table I gives GDP per capita growth rates for the periods 1950-72, 1972-79, 1979-87, and 1950-86. These growth rates, based on 1980 international prices, are derived by the method described in Summers and Heston (1988). Each country's GDP per capita growth rate ( $r$ ) has been statistically estimated from the equation:

$$GDP_t = GDP_{t-1} * [1+r] * u_t$$

where  $u_t$  is an error term assumed to be distributed lognormally.

### *Price level index*

The price level index of a country is defined as the PPP divided by the exchange rate times 100. (Because the United States is the numeraire, its value is 100.) If the prices of items entering GDP are converted to dollars at exchange rates and compared with prices for the United States, the resulting average ratio (times 100) will give the price level index. While the index can change over time owing to different relative rates of inflation with no compensating movement in exchange rates, a frequent reason for price level movements in recent years has been exchange rate changes in excess of relative price movements.

### *Data Reliability*

The reliability of national income estimates varies considerably from country to country and from year to year. The countries' estimates have been classified into four quality classes with the relative grades: (D) fair, (C) good, (B) better, and (A) best. This classification is by: (1) the relative confidence of ICP benchmarks in Kravis, Heston, and Summers (1982), and LDCs not included in that analysis; and (2) the reliabil-

ity of national accounts data as reported by the World Bank. On average, an OECD country scores an "A," while a low income African country scores a "D."

## Table II. Structure of Domestic Production

*Private consumption, government consumption, and investment* represent percent distribution of gross domestic product.

*Private consumption* is the market value of all goods and services purchased or received as income in kind by households and nonprofit institutions. *Government consumption* includes all current expenditure for purchases of goods and services by all levels of government. All expenditure on national defense and security is regarded as consumption expenditure. *Investment* consists of the outlays for additions to the fixed assets of the economy, plus net changes in the level of inventories. *Savings* are calculated by deducting total consumption from gross domestic product. *Non-tradables* are services plus construction.

## Table III. Population and Health

All demographic and health indicators except *Working age population* are taken from the U.N. *Population Estimates and Projections: Revised as of 1988*. *Working age population* data are from the International Labour Office, *Economically Active Population Estimates and Projections 1950-2025*.

*Population* totals are mid-1986 estimate. The *dependency ratio* is the combined population under 15 and over 65 as a percentage of the population between those ages. *Working age population* is the economically active population comprising all employed and unemployed persons (including those seeking work for the first time). It covers employers, persons working on their own account, salaried employees, wage earners, unpaid family workers, members of producer's co-operatives and members of the armed forces. The *total fertility rate* represents the number of children that would be born to a woman, if she were to live to the end of her child bearing years and bear children at each age in accordance with prevailing age-specific fertility rates. *Life expectancy* at birth indicates the number of years a newborn infant would live if patterns of mortality prevailing for all people at the time of its birth were to stay the same throughout its life. The *infant mortality rate* is the annual number of deaths of infants under one year of age per 1,000 live births. Population statistics data were graded by the method of time adjustment by which the base figure was brought up to date (United Nations, *Demographic Year-*

*book 1986*): (A) by continuous population register; (B) based on calculated balance of births, deaths, and migration; (C) by assumed rate of population increase; and (D) no adjustment, base figure held constant at least two consecutive years.

## Table IV. Environment

Data for *disasters* were collected from the A.I.D. Office of Foreign Disaster Assistance (OFDA) Disaster Assistance History File and covers the period from 1964-86. Data on forests were taken from World Resources Institute and International Institute for Environment and Development (1988), *World Resources 1988-89*. The *food production index* per capita was taken from the the World Bank *World Tables* and shows the average annual quantity of food produced per capita. For this index, food is defined as cereals, starchy roots, sugar cane, sugar beet, pulses, edible oils, nuts, fruits, vegetables, livestock, and livestock products. Quantities of food are measured net of animal feed, seeds for use in agriculture, and food lost in processing and distribution. The data on *percent urban population* are from the *World Development Report 1988*. Data on urban population are from population censuses. Due to varying national definitions of *urban*, cross-country comparisons should be interpreted with caution.

## Table V. Foreign Direct Investment

Data for *U.S. direct investment stocks* are taken from the U.S. Department of Commerce, *Survey of Current Business*. *Direct investment* implies that a person in one country has a lasting interest in, and a degree of influence over the management of a business enterprise in another country. For the United States, ownership or control by a single person of ten percent or more of an enterprise's voting securities, or the equivalent, is considered evidence of such a lasting interest or degree of influence over management. Thus, U.S. direct investment abroad is the ownership or control, directly or indirectly, by one U.S. person of ten percent or more of the voting securities of an incorporated foreign business enterprise or an equivalent interest in an unincorporated foreign business enterprise. Any U.S. investment abroad that is not direct investment by this definition is considered portfolio investment. Data for *flow of total foreign direct investment* come from the International Monetary Fund, *International Financial Statistics*. *Net transfers* statistics come from the World Bank, *World Debt Tables: External Debt of Developing Countries*. Net transfers are net flows minus interest

payments (or disbursements minus total debt service payments).

#### **Table VI. Trade**

Trade data are taken from the IMF publications *Direction of Trade Statistics Yearbook 1988* and *Direction of Trade, 1963-67*. Export data for individual countries are reported f.o.b. (free on board), while import data are reported c.i.f. (cost, insurance, and freight) by the majority of countries and f.o.b. by the other countries. The *U.S. market share* consists of U.S. exports as a percent of total imports of individual countries, and U.S. imports as a percent of total exports from individual countries.

#### **Table VII. Debt**

Debt statistics are from the World Bank *World Debt Tables: External Debt of Developing Countries* with the exception of *private debt held by U.S. banks* which is taken from the Board of Governors of the Federal Reserve System, *Country Exposure Lending Survey*. *Long-term external debt* is defined as an external obligation that has an original or extended maturity of more than one year and that is owed to nonresidents and repayable in foreign currency, goods, or services. It covers the debt outstanding and disbursed on public and publicly guaranteed long-term external obligations to both official creditors and private creditors as well as private debtor non-guaranteed external obligations to private creditors. The *long-term private debt* represents the sum of publicly guaranteed and non-guaranteed external obligations owed to private creditors. *Private debt held by U.S. Banks* is the total amounts owed U.S. banks by foreign borrowers after adjustments for guarantees and external borrowings. *Debt service as a percentage of exports* is the debt-service ratio: total debt service to exports of goods and services based on public and publicly guaranteed debt.

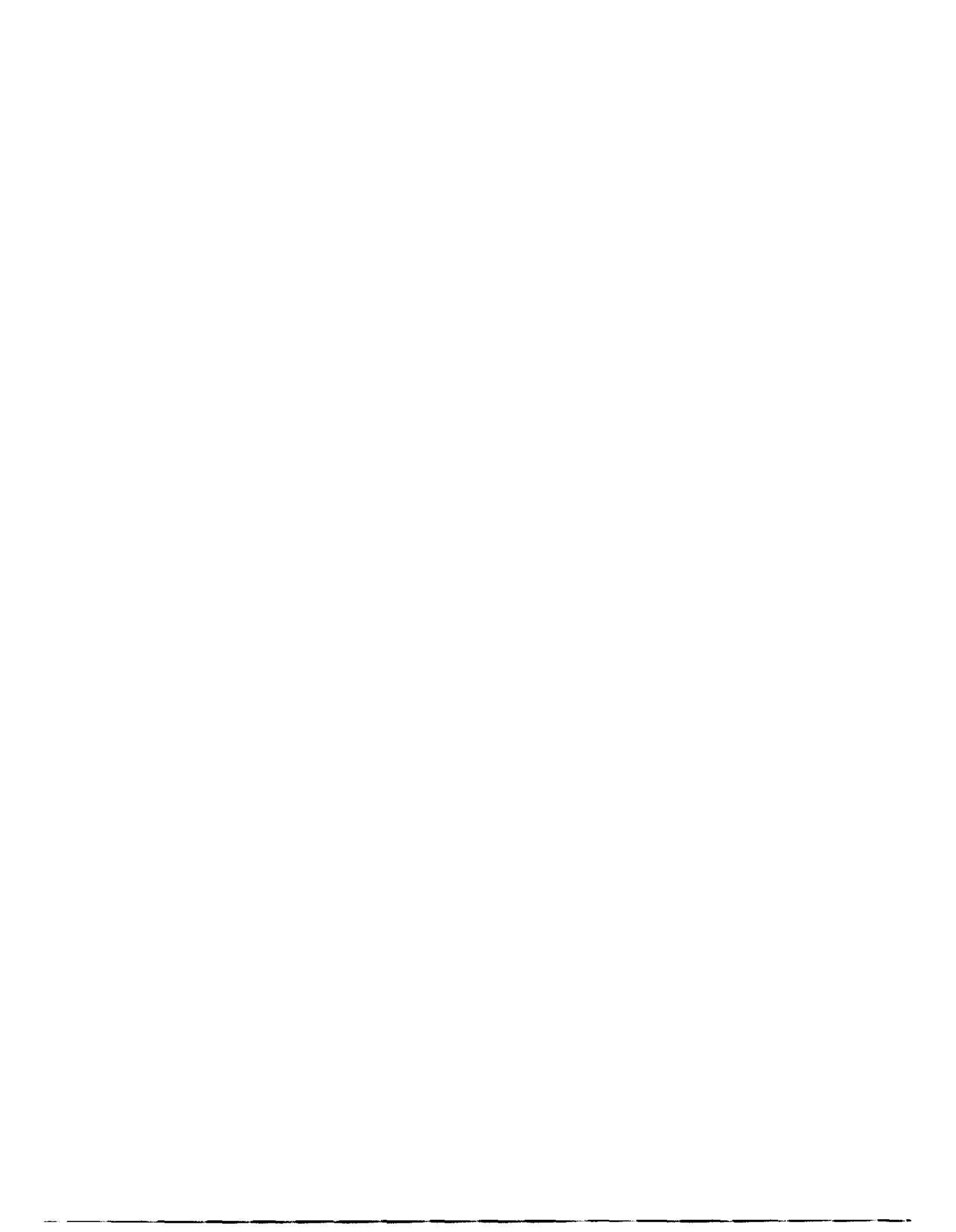
#### **Table VIII. Education**

Data on *primary* and *secondary school enrollment* are from the World Bank *World Development Report 1988*. The data on *primary school enrollment* are estimates of children of all ages enrolled in primary school. Figures are expressed as the ratio of pupils to the population of school-aged children. While many countries

consider primary school age to be 6-11 years, others do not. The differences in country practices in the ages and duration of schooling are reflected in the ratios given. For some countries with universal primary education, the gross enrollment ratios may exceed or fall below 100 percent because some pupils are younger or older than the country's standard primary school age. The data on *secondary school enrollment* are calculated in the same manner, but again, the definition of secondary school age differs among countries. It is most commonly considered to be 12-17 years. The *education gap* is the percentage difference between female and male literacy based on literacy rates from Sivard (1985), *Women — A World Survey*. *Foreign student enrollment in the U.S.* is taken from the Institute of International Education *Open Doors: 1988/89* and *Open Doors 1971* and represents the distribution of nonimmigrant foreign students in the United States.

#### **Table IX. Aid**

*U.S. economic assistance* data are from A.I.D. (1988), *U.S. Overseas Loans and Grants and Assistance from International Organizations*. U.S. economic assistance includes Development Assistance, Security Assistance, Food for Peace, and other programs such as the Peace Corps. *Other U.S. loans* include Export-Import Bank loans, short-term credits by the U.S. Department of Agriculture under the Commodity Credit Corporation Charter Act, Overseas Private Investment Corporation (OPIC) direct loans, and Private Trade agreements under P.L. 480 Title I. *Total ODA* figures are from the World Bank *World Development Report 1988* and consist of net disbursements of loans and grants made on concessional terms by official agencies of the members of the Development Assistance Committee (DAC) of the OECD and members of the Organization of Petroleum Exporting Countries (OPEC) to promote economic development and welfare. *U.S. ODA as a percent of total ODA* takes U.S. ODA from the OECD (1988), *Geographical Distribution of Financial Flows to Developing Countries* and total ODA from the World Bank. *ODA as a percent of government expenditure* takes ODA from the World Bank and government expenditures from A.I.D. estimates.



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