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The countries shaded on this map are known as:
- Industrialized countries
- Developed countries
- Rich countries
- Countries of the North

In all these countries, most people have a high standard of living. There are about thirty developed countries; their total population is about 1 billion.

The countries not shaded on this map are known as:
- Industrializing countries
- Developing countries
- Less developed countries, or LDCs
- Poor countries
- Countries of the South
- Countries of the Third World

In all these countries, most people have a low standard of living. There are about a hundred developing countries; their total population is about 3 billion.
The Developing World

Harriet Baldwin and Bruce Ross-Larson

The World Bank
Washington, D.C. 20433
U.S.A.
The World Bank is an international organization owned by nearly 150 countries. Its work is to help poor countries in their efforts to improve the living conditions of their people. It does this by lending money to these countries for development projects. The International Development Association, which is part of the World Bank, makes interest-free loans to the world's poorest countries. The World Bank began to operate in 1946; the International Development Association was founded in 1960. Their loans to developing countries now amount to about $14 billion a year.

There are many diverse views about economic development. In recognition of this diversity, the World Bank does not subscribe to any one view. But there is what might be called a mainstream view, shared by many professionals working on development issues. The authors of this book have sought to represent such a view. As with any presentation of a complex subject, many statements and interpretations are not universally accepted, and some are the subject of considerable controversy. Consequently, the views and interpretations in this book must be considered to be those of the authors and should not be attributed to the World Bank, to its affiliated organizations, or to any individual acting on their behalf.

The statistics in this book are more recent than those in the 1981 edition. A few changes have been made in the text to conform to the new statistics.
Foreword

This book is about the way the world is developing. It is about more than three billion persons who live in countries that are poor. It is about economic development, the process by which poor countries are improving the living conditions of their people. It is about the growing interdependence of rich and poor countries in a rapidly changing world. This book also is about the efforts of people everywhere to move toward a better world, a world in which more people will be well fed, in good health, and able to make choices about the way they make a living.

Since 1946, the World Bank has been assisting the world’s poor countries in their efforts to improve the living conditions of their people. This book draws on that experience to add to your knowledge of what the developing world—your world—is like. It is a world of great wealth and grinding poverty, of promise and uncertainty.
Chapter One

Inside the Developing Countries

If you landed at the international airport outside the capital city of a typical developing country, you would see an airport much the same as one in a developed country. You would find nothing strange about the traffic jam you would get caught in as you headed into the city. There might be more bicycles, motor scooters, and small cars than you are used to seeing, perhaps even some rickshaws. In general, however, things would look familiar.

The feeling of familiarity would continue for a while. You would see parks, wide avenues lined with trees, and big office buildings for banks, businesses, and government. There would be stoplights, parking meters, and late model cars. A truck rolling past might have been made in your country. Billboards would advertise movies and soft drinks. You would pass shops selling cameras, transistor radios, and jogging shoes. Some people would be dressed as people are in your country; some might be wearing jeans.

Perhaps you would visit the national museum, where historical and artistic treasures are displayed. On a tour of the city, you might be taken to an ancient fort or palace, to statues of leaders in the country's fight for independence, and to a temple, mosque, or shrine. You might go to a soccer game in a crowded stadium. And you might stop in a coffee shop, where people your
Inside the Developing Countries

age listen to some of the same records popular at home.

But as soon as you left the track beaten by tourists, the feeling of familiarity would begin to leave you. You would find houses and buildings in need of repair. Some of them would be draped with laundry hung out to dry. Shopkeepers would display their wares at the edge of the street. In one shop you might see an electric fan propped up to blow the flies away from piles of fruits and vegetables. People would be dressed differently from you, perhaps in flowing robes or in wraps of bright cloth. Many of them would not be wearing shoes. Children would dart around, poorly dressed or naked. You might pass someone who was blind, crippled, or deformed by leprosy. You probably would feel a little uneasy if a woman carrying a sickly baby tapped your arm and held out her hand to you.

If you drove out of the city, you would pass some large factories and warehouses. But soon the feeling of unfamiliarity would mount. Crowded slums would...
Stretch for miles. Narrow, unpaved streets would be crowded with people, ducks, and chickens, and with cows, goats, and sheep. Dusty lanes would separate shacks roofed with tar paper or tin sheets. Women would be cooking over charcoal fires in front of their makeshift homes, as babies lay beside them and little children played nearby in an open gutter.

As you drove farther into the countryside, you would pass farmers leading wagons drawn by oxen or camels loaded with hay. You would see pregnant women carrying babies on their hips and balancing jugs of water or baskets of produce on their heads. Adults and young people would be at work in the fields that line the road. A boy your age might be guiding a plow drawn by a buffalo. A girl your age might be sowing wheat or planting rows of rice.

In some developing countries, the paved road would end about twenty-five miles outside the capital city. A dusty road, lined with telephone poles, would lie ahead. If you continued on this road you would pass mile after mile of fields, village after village, and town after town. People would be gathered around small shops selling tin pots, printed cloth, brightly colored plastic containers, and grain stored in open burlap bags. Occasionally you would see a small factory.

If you traveled in the country for a couple of weeks, you would notice many ways in which it differs from your own country and in which it is like other developing countries. Developing countries are different from each other, but they are alike in five ways that distinguish them from developed countries. First, most of their people are poor. Second, most families make their living in agriculture. Third, people have few skills, tools, and machines that would increase their ability to produce goods and services. Fourth, developing countries can afford to import only limited amounts of the many things they need from other countries. Fifth, their populations are rapidly growing. These conditions make it difficult for people in developing countries to raise their standard of living.
Poverty is Widespread

There are poor people in all countries. But poverty is far more widespread in the less developed countries (LDCs) than in developed countries. It also is much worse.

Hundreds of millions of persons in the developing countries live on fifty cents a day or less. They are hungry much of the time. Because the food they eat does not nourish them properly, they have little energy and little resistance to disease. The water they drink is often polluted, and illness is everywhere. They must live in Cities and large towns in the LDCs have slum areas in which people are crowded together in squalid, unsanitary conditions.
Poverty is Widespread

Most people in the LDCs have few chances for work that would enable them to improve their living conditions.

houses that are crowded and poorly built, and they have few clothes. Health care and education are beyond their reach. They cannot get jobs that would provide them with enough money to enable them to improve their lives.

Hundreds of millions of others in the developing countries are barely able to satisfy their minimum needs for food, clothing, shelter, education, health care, and clean water. They may work long hours on farms or in towns and cities, but they do not earn much. They have few chances to get jobs that would enable them to earn more.

Not everybody in the developing countries is poor, however. Many people eat nutritious food, drink pure water, live in comfortable houses, and are educated. Their work provides them with regular income. A few of these people are wealthy by any standard.

Why are so many hundreds of millions of people poor in the developing countries? The main reason is that these people cannot produce enough or find the work to earn adequate incomes. They do not have the skills, tools, or machines that would enable them to produce more and earn more. They must work hard and long just to survive.
Most Families Make a Living in Agriculture

In most of the developed countries, the proportion of families that make a living in agriculture is less than 10 percent. In most of the LDCs, that proportion is more than 50 percent, and in many it is more than 70 percent.

Agricultural families in the developing countries work under difficult conditions. Often the soil is poor. Rain may come only during a few months of the year, and there is not enough irrigation to supply adequate water at other times. Crops are often attacked by insects or blight. As a result, harvests are good in some years and bad in others. If crops fail because of a drought, flood, or insect attack, shortages of food are more severe. There may even be a famine.

Many farmers own land, but their plots are small. Many others work as tenant farmers, paying a large part

For many families in the LDCs, farming offers the only hope for getting the food they need to survive.
Most Families Make a Living in Agriculture

Most families make a living in agriculture. But millions more do not own or rent land. They make a poor living as day laborers, often working only during the planting and harvesting seasons. Even farmers who own or rent land work only part of the year.

Most farmers in the developing countries rely on simple methods. Their farm tools usually are handmade and similar to those used for hundreds of years. They use animals for plowing and hauling, but their animals often are sick. And they use seeds that they have saved from the previous harvest.

Because of these conditions, millions of farm families in the developing countries produce only enough to feed themselves. Other millions produce a little more than is needed to feed themselves and can sell what is left over. Only a few large farms produce a great deal. This low level of agricultural production means that many developing countries do not have enough food to feed their people—so they must try to import it.

Because farms produce so little, the incomes of almost all agricultural families are low. And because incomes are low, few farmers can afford to purchase the fertilizer, insecticide, and better seeds that would enable them to produce more. Nor can they afford to buy better livestock or to pay veterinarians to care for their animals. Sometimes they borrow money—to buy seed for planting or food during the growing season. But they usually must borrow from shopkeepers, who charge high fees for lending money.

Farmers have little chance to get work during the off-season or another job that might pay them more. Most factories and other work opportunities are in towns and cities. With little hope of improving their living conditions in the countryside, many rural people move to urban areas. They hope to find jobs that will give them higher income. But few of them have the skills that most jobs require. Even if they were to acquire those skills, there are not nearly enough jobs to go around. Cities in all the developing countries are ringed with slums filled with people who once made a living in agriculture.
Capital is Scarce

Capital is what people use to increase their ability to produce the goods and services they need to improve their living conditions. In general, the developed countries have a lot of capital; the LDCs have much less.

Capital includes the plows, warehouses, and irrigation systems needed to produce agricultural goods. It includes the tools, machines, and factories needed to produce manufactured goods. It includes the office buildings, business machines, and filing cabinets needed to support the production and sale of goods. It includes the ports, roads, and trucks needed to move goods from producers to purchasers. Capital also includes dams, telephone systems, and electric power generators needed to support economic activity of all kinds.

Because the LDCs do not have enough capital, their people must rely much more on hand power than on machine power.
Knowledge and skills also increase the ability of people to produce goods and services and are another kind of capital: human capital, which is different from physical capital. Human capital is created through training and education. It is at least as important as physical capital. Without skills—whether in farming the land, operating a machine, managing a business, caring for people who are ill, or teaching school—people cannot make the best use of the physical capital they have.

Because the developed countries have a lot of physical and human capital, they can produce a lot of goods and services. Because the LDCs generally have much less capital, they produce far fewer goods and services. To improve the living conditions of their people, the LDCs must produce more. But to produce more, they must have more capital. Without that capital, incomes will remain low, and many people will remain poor.

*The likelihood is slight that this boy will go beyond the sixth grade and gain the skills and knowledge needed for most jobs.*
Imports are Limited

All countries need goods and services that they cannot produce or do not produce in sufficient quantity. To get these goods and services, a country imports them from other countries. In general, the developed countries import large amounts of many things from other countries. The LDCs import much less.

But the developing countries need many things from other countries. Examples are food, energy, machinery, and advice from experts on how to run factories, build dams and railroads, and train nurses and teachers. To pay for these imports from other countries, the developing countries must export some of their own products. The value of what they can import depends largely on the value of what they export.

The problem of many developing countries is that they have few things they can export to the developed countries. Chad, Haiti, and Bangladesh are examples. Other developing countries export a great deal of one or two products: such mineral products as tin, oil, and copper, and such agricultural products as tea, coffee, cotton, sugar, and fish. But if the country to which they...
export the product buys less, or if the price goes down, workers making the product may be thrown out of work. And because less money is made from exporting the product, there is less money to pay for imports.

Sometimes a developing country can get money to pay for some of its imports by getting a loan or grant from international banks or from the governments of wealthier countries. But there is not enough loan and grant money available to help the developing countries pay for the many imports they need. In addition, loans must be repaid, and the developing countries want to avoid getting too deep in debt.

The rising price of oil has limited the imports of many developing countries even more. Because developing countries that import oil must now pay much more for it, they have less money for other imports. As a result, they must increase their exports, borrow money, or reduce their imports of other goods and services. And because of inflation in the developed countries, the prices of many other goods imported by the LDCs have also risen sharply. This inflation has made it necessary for the LDCs to reduce their imports even further. It has thus increased the difficulty of improving the living conditions of their people.
Populations are Growing Rapidly

The combined population of the LDCs is over 3 billion, compared with 1 billion in the developed countries. In addition, the populations of LDCs are growing three times faster than those of developed countries.

There are two reasons that the populations of developing countries are growing so rapidly. First, people are living longer because they are healthier than they used to be. Since the Second World War, modern medicines have been widely used, and public health services have improved. As a result, many diseases that were common in the developing countries—such as malaria and smallpox—are no longer the killers they once were. The second reason that populations are growing rapidly is that people in the developing countries still have large families. Couples once had to have many babies to be sure that some survived. More babies survive now, but couples are still having many babies.

An important aspect of population growth in the developing countries is that the size of urban populations is soaring. Tens of millions of people have moved from rural areas to towns and cities. It is estimated that eigh-

Throughout the developing world, the rapid growth of cities is straining essential services.
teen cities in developing countries will have populations of more than 10 million in 2000. Examples are Cairo in Egypt; Jakarta in Indonesia; Seoul in Korea; Manila in the Philippines; Sao Paulo and Rio de Janeiro in Brazil; and Bombay, Calcutta, and Madras in India. Mexico City may have more than 30 million inhabitants in 2000.

Rapid population growth makes it difficult to improve living conditions in the developing countries. More people will need more food, which already is in short supply. More people will also need more houses, more jobs, more schools, and more hospitals. There are too few of these things now. But if populations continue to grow rapidly in the developing countries, people will have even fewer of these things in the future. That is why the rate of population growth must be slowed down if living conditions are to improve.

Recent studies show that population growth is indeed beginning to slow down. But even if this trend continues, the world's population will rise to more than 6 billion by 2000 and to 10 or 12 billion by 2100. Thus, a century from now, there may be three times as many people as there are today. Almost all of this growth will be in the developing countries.

*Rapid population growth means that there will be greater needs in the future for food, housing, schools, health care, and jobs.*
Comparing Countries

This chapter presents some statistics that illustrate the characteristics of developing countries described in Chapter One. These statistics provide specific information about how LDCs differ from developed countries and how they differ from each other.

Like most statistics, the ones here have limitations. First, some statistics are based on actual counting, but others are based on estimates. Second, the statistics of some countries are more accurate than those of other countries. Third, statistics on things measured in terms of money (such as income) must be expressed in a single currency (such as U.S. dollars) to make comparisons possible. This introduces more error. Fourth, statistics seldom are up-to-date, because it takes a long time to collect and verify them. (The statistics in this book are the most recent and reliable ones available at the time of writing.) Despite these limitations, statistics are a useful tool for studying and comparing countries.

One statistic that gives some idea of the extent of poverty in a country is the gross national product per capita, or the GNP per capita. The GNP is the total value of goods and services produced in a country. "Per capita" is Latin and means "divided by the number of people in the country."

Statisticians calculate the GNP per capita in this way. First, they add up the value of all the goods and services that the people of a country produce in one year—all the food, roads, clothes, flashlights, bicycles, telephone calls, television sets, doctors' services, government research, and thousands of other things. The value of all these goods and services each year is the country's gross
Comparing Countries

national product, or GNP. Second, they divide the GNP by the population of the country. The number they get is the GNP per capita for that year (see Table 1).

GNP per capita is the part of a country's GNP that everyone in the country would have if the GNP were equally divided among them. It always is expressed as an amount of money. It sometimes is called per capita income. GNP per capita is an average: it does not mean that each person in the country gets that amount.

**Table 1. Gross National Product, Population, and Gross National Product per Capita, Selected Countries, 1981**

<table>
<thead>
<tr>
<th>Country</th>
<th>Gross national product</th>
<th>Population</th>
<th>Gross national product per capita</th>
</tr>
</thead>
<tbody>
<tr>
<td>Malawi</td>
<td>$1,200,000,000</td>
<td>6,200,000</td>
<td>$200</td>
</tr>
<tr>
<td>Upper Volta</td>
<td>1,500,000,000</td>
<td>6,300,000</td>
<td>240</td>
</tr>
<tr>
<td>India</td>
<td>179,500,000,000</td>
<td>690,200,000</td>
<td>260</td>
</tr>
<tr>
<td>China</td>
<td>297,400,000,000</td>
<td>991,300,000</td>
<td>300</td>
</tr>
<tr>
<td>Kenya</td>
<td>7,300,000,000</td>
<td>17,400,000</td>
<td>420</td>
</tr>
<tr>
<td>Indonesia</td>
<td>79,200,000,000</td>
<td>149,500,000</td>
<td>530</td>
</tr>
<tr>
<td>Bolivia</td>
<td>3,400,000,000</td>
<td>5,700,000</td>
<td>600</td>
</tr>
<tr>
<td>Egypt</td>
<td>28,100,000,000</td>
<td>43,300,000</td>
<td>650</td>
</tr>
<tr>
<td>Nigeria</td>
<td>76,200,000,000</td>
<td>87,600,000</td>
<td>870</td>
</tr>
<tr>
<td>Ecuador</td>
<td>10,100,000,000</td>
<td>8,600,000</td>
<td>1,180</td>
</tr>
<tr>
<td>Korea, Rep. of</td>
<td>66,100,000,000</td>
<td>38,900,000</td>
<td>1,700</td>
</tr>
<tr>
<td>Malaysia</td>
<td>26,100,000,000</td>
<td>14,200,000</td>
<td>1,840</td>
</tr>
<tr>
<td>Brazil</td>
<td>267,500,000,000</td>
<td>120,500,000</td>
<td>2,220</td>
</tr>
<tr>
<td>Mexico</td>
<td>160,200,000,000</td>
<td>71,200,000</td>
<td>2,250</td>
</tr>
<tr>
<td>Japan</td>
<td>1,185,400,000,000</td>
<td>117,600,000</td>
<td>10,080</td>
</tr>
<tr>
<td>United States</td>
<td>2,946,000,000,000</td>
<td>229,800,000</td>
<td>12,820</td>
</tr>
<tr>
<td>Germany, Fed. Rep.</td>
<td>829,900,000,000</td>
<td>61,700,000</td>
<td>13,450</td>
</tr>
<tr>
<td>USSRa</td>
<td>not available</td>
<td>268,000,000</td>
<td>not available</td>
</tr>
</tbody>
</table>

*GNP and GNP per capita data from the USSR are not comparable with data from other countries in the table.*
Comparing Countries

Social indicators are statistics that provide information about the quality of life in a country. There are many social indicators. Three important ones are related to health and education (see Table 2). The infant mortality rate is the percentage of babies who are born alive but die before reaching their first birthday. Life expectancy is the average number of years a newborn child can expect to live. The adult literacy rate is the percentage of persons over fifteen who can read and write.

Table 2. Infant Mortality Rate, Life Expectancy, and Adult Literacy Rate, Selected Countries, Most Recent Estimates

<table>
<thead>
<tr>
<th>Country</th>
<th>Infant mortality rate</th>
<th>Life expectancy</th>
<th>Adult literacy rate</th>
</tr>
</thead>
<tbody>
<tr>
<td>Malawi</td>
<td>17%</td>
<td>44 years</td>
<td>25%</td>
</tr>
<tr>
<td>Upper Volta</td>
<td>21%</td>
<td>44 years</td>
<td>5%</td>
</tr>
<tr>
<td>India</td>
<td>12%</td>
<td>52 years</td>
<td>36%</td>
</tr>
<tr>
<td>China</td>
<td>7%</td>
<td>67 years</td>
<td>69%</td>
</tr>
<tr>
<td>Kenya</td>
<td>9%</td>
<td>56 years</td>
<td>47%</td>
</tr>
<tr>
<td>Indonesia</td>
<td>11%</td>
<td>54 years</td>
<td>62%</td>
</tr>
<tr>
<td>Bolivia</td>
<td>13%</td>
<td>51 years</td>
<td>63%</td>
</tr>
<tr>
<td>Egypt</td>
<td>11%</td>
<td>57 years</td>
<td>44%</td>
</tr>
<tr>
<td>Nigeria</td>
<td>13%</td>
<td>49 years</td>
<td>34%</td>
</tr>
<tr>
<td>Ecuador</td>
<td>8%</td>
<td>62 years</td>
<td>81%</td>
</tr>
<tr>
<td>Korea, Rep. of</td>
<td>3%</td>
<td>66 years</td>
<td>93%</td>
</tr>
<tr>
<td>Malaysia</td>
<td>3%</td>
<td>65 years</td>
<td>60%</td>
</tr>
<tr>
<td>Brazil</td>
<td>8%</td>
<td>64 years</td>
<td>76%</td>
</tr>
<tr>
<td>Mexico</td>
<td>5%</td>
<td>66 years</td>
<td>83%</td>
</tr>
<tr>
<td>Japan</td>
<td>1%</td>
<td>77 years</td>
<td>99%</td>
</tr>
<tr>
<td>United States</td>
<td>1%</td>
<td>75 years</td>
<td>99%</td>
</tr>
<tr>
<td>Germany, Fed. Rep.</td>
<td>1%</td>
<td>73 years</td>
<td>99%</td>
</tr>
<tr>
<td>USSR</td>
<td>not available</td>
<td>72 years</td>
<td>100%</td>
</tr>
</tbody>
</table>
Comparing Countries

The proportion of workers in agriculture indicates how many people in a country work in farming to make their living. That proportion is obtained by dividing the number of workers in agriculture by the total number of workers in a country and expressing that fraction as a percentage (see Figure 1). In all but a few LDCs, the proportion of workers in agriculture is much higher than in the developed countries. The main reason is that farming is about the only way most people in LDCs can make a living.

Figure 1. Proportion of Workers in Agriculture, Selected Countries, 1980

- Malawi
- Upper Volta
- India
- China
- Kenya
- Indonesia
- Bolivia
- Egypt
- Nigeria
- Ecuador
- Korea, Rep. of
- Malaysia
- Brazil
- Mexico
- Japan
- United States
- USSR
Comparing Countries

Energy consumption per capita is the average amount of energy used by each person in a country. It indicates whether capital is plentiful or scarce, because some form of energy — oil, coal, gas, or electricity — is required to operate most kinds of physical capital. The statistic is calculated by determining the amount of each kind of energy used in a country during a year and converting these amounts into the equivalent of kilograms of coal. (One kilogram equals 2.2 pounds.) The total is then divided by a country's population (see Figure 2).

Figure 2. Energy Consumption per Capita, Selected Countries, 1980
The value of merchandise imports per capita indicates the extent to which a country buys goods from other countries. If a country does not import much, the value of imports per capita usually is low. If a country imports a great deal, the value of imports per capita usually is high. The statistic is calculated by determining the total value of a country's merchandise imports for a year and dividing the total by the country's population (see Figure 3).

**Figure 3. Value of Imports per Capita, Selected Countries, 1981**
Population data provide specific information about a country's population and how it is changing. The population of a country can increase for two reasons: because the number of persons born is greater than the number of persons who die; and because the number of persons who move to a country is greater than the number who move from it. For almost all countries, the first reason is much more important than the second.

The populations of developing countries are growing rapidly. The population growth rate provides information on just how fast that growth is taking place. Statisticians compute the population growth rate by comparing the number of people in a country at the beginning of a year with the number at the end of the same year. Then they express the increase in population as a percentage of the total population at the beginning of the year. Population growth rates often vary from year to year. Thus the average annual growth rate for a period of years gives a better picture of how fast a country's population is growing (see Table 3).

When a country's population growth rate is known, it is possible to estimate how long it would take for that population to double if the growth rate were to stay the same.

- A population growing 3 percent a year doubles in 23 years.
- A population growing 2 percent a year doubles in 35 years.
• A population growing 1 percent a year doubles in 70 years.
• A population growing less than 1 percent a year will not double for more than 70 years.

It also is possible to get a rough idea of how large a population might be in a specific year in the future. Such estimates are based on a country’s current population, its growth rate, and some other data. These estimates show that the populations of all developing countries will be much larger in 2000 than they are today (see Table 3).

Table 3. Population Data, Selected Countries

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Malawi</td>
<td>2.9%</td>
<td>6,200,000</td>
<td>12,000,000</td>
</tr>
<tr>
<td>Upper Volta</td>
<td>2.0%</td>
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Chapter Three

Whys and Hows of Economic Development

Economic development is the process by which the developing countries are improving the well-being of their people. Economic development involves changes—often far-reaching changes—in the way people make a living, in their habits and customs, in family and community relations, in attitudes and beliefs. But these changes must occur if more of the world's people are to escape from a life of poverty.

Developed Countries—Developing Countries

Why is economic development necessary? Why are so many countries poor? Complete answers to these questions would have to take many factors into account—customs, history, natural resources, and social and political arrangements. But one way to answer them is to answer another question: Why are some countries rich?

For most of human history, conditions throughout the world were pretty much the same. Almost all people lived in squalor, often suffering from hunger and disease. Infant mortality was high, life expectancy was low, and most people were illiterate. In every great civilization of the past, the common people had to struggle just to feed, clothe, and house themselves.

Then in the 1700s a series of changes in Europe began to alter life for people there. Those changes led to the industrial revolution, and large numbers of people gradually shifted from work in agriculture to work in industry. But there were other big changes as well—in agriculture, in trade, in education, in public health, in scientific
knowledge, and in transportation and communication. With those changes, people in Europe began to produce many more goods and services. They became more productive. Some people became rich; many suffered and stayed poor. But over a period of three centuries, the standard of living of most Europeans gradually rose.

The changes that occurred in Europe also took place in North America. By the early 1900s a big proportion of people on both continents worked in industry. Incomes were going up, infant death rates were going down, and most people were getting an education. Millions of people enjoyed health and comfort that could not have been imagined in the 1700s.

Other parts of the world were largely untouched by the changes that swept Europe, North America, and later Japan. Even in the 1940s most people in Asia, Africa, and Latin America still lived as peasant farmers had lived since ancient times. Most people were poor and illiterate, and disease was widespread. Many countries on these continents had been the colonies of the industrialized
nations. Their minerals and agricultural products had supported economic development in the industrialized nations. But few steps had been taken to improve living conditions in the colonial countries.

This situation began to change shortly after the Second World War. At that time, many countries in Asia, Africa, and Latin America launched efforts to change economic life. There were a number of reasons for this change. One was the determination of those countries to become stronger economically and to meet the rising expectations of their people. More and more colonies were winning their independence. And in countries already independent, governments were becoming more concerned with the interests of more of their people.

A second reason was the growing awareness in Europe and North America of the widespread poverty elsewhere in the world. People in these countries began to recognize that their wealth gave them an obligation to help the poorer countries. So they began to provide money and expert advice. Since the Second World War, countries in Europe and North America have provided hundreds of billions of dollars to assist Asian, African, and Latin American countries with their economic development. In recent years, Japan and certain Arab countries have also provided assistance.

A third reason was the realization that the developed countries would benefit considerably from economic development in the rest of the world. People in the developed countries believed that they would have new opportunities in the developing countries for setting up businesses and factories and for selling more of their goods and services.

The developing countries are now engaging in economic development. Thus they are making many changes to increase the ability of their people to produce more goods and services. They are being assisted by the developed countries, which have already made these changes. As a result of this joint effort, the living conditions of millions of people in the developing countries are improving, and in some the gains are striking.
Growth and Equity

Economic activity in all countries involves two related things—producing goods and services, and distributing them. All developing countries strive to produce more of the many goods and services their people need and want. This increased production is called economic growth. Many developing countries also want to distribute their increased supply of goods and services to more of their people, especially to their poorest people. This broader sharing of goods and services can be called economic equity.

Imagine that all the goods and services in a country are a pie and that people in the country get shares of the pie. In no country are the shares equal. The poor get small shares; the well-to-do get bigger shares. All developing countries want their pie of goods and services to grow rapidly. In other words, they want economic growth. Many developing countries also want the poor to get bigger shares and to catch up with those who are better off. In other words, they want to improve equity by changing the way the pie is divided.

Economic growth is achieved by making people more productive, that is, by increasing their ability to produce goods and services. Increased productivity thus is at the heart of economic growth. Economic equity is achieved by...
by providing opportunities to the poorest people—opportunities for work, education, health care, and such basic services as water, sewers, and transportation. Increased opportunity thus is at the heart of economic equity.

In the 1950s and 1960s, growth was much more important than equity. It was assumed that everyone in developing countries would become better off if roads were built, electricity was generated, industries were set up, and the production of goods and services increased. An increasing amount of goods and services would “trickle down” to the poorest people, and their living conditions would improve.

But it became clear in the early 1970s that, while some people in the developing countries were better off, the living conditions of the poorest people were not improving. Their incomes were not rising. They were not able to buy more goods and services. They did not have the skills needed for the new jobs that were opening up. They were being left out. As a result, they remained sick, hungry, illiterate, and poorly clothed and housed.

In the early 1970s, therefore, the governments of many developing countries began to pay more attention to assisting the poorest people so that they, too, would benefit from economic growth. Economic equity has since become increasingly important in economic development.

*Since the early 1970s, more LDCs have devoted effort to providing a bigger share of the pie to their poorest people.*
Saving and Investing

What is needed for economic development? How can people become more productive and speed economic growth? How can opportunities be increased to improve equity?

Two things must be done for economic development to get started and then go faster: **saving and investing**.

Saving and investing take place in this way. People, businesses, and governments in all countries spend most of their income on goods and services that are used up—or consumed—soon after purchase. Examples are loaves of bread, treatments by a doctor, electricity to light offices, and raw materials used in production. When people, businesses, and governments do not spend all their income on such goods and services, they are saving.

Having invested in a spinning wheel, this woman from Bangladesh can make clothes for her family and sell cloth at a nearby market.

When they spend those savings on such things as tools, machines, and training—which increase their ability to produce more goods and services in the future—they are investing.

In the developing countries, however, it is difficult to save because there is so little income to start with. Most
of it must be spent to meet daily needs. Of course, if nothing is saved, there is nothing to invest. Yet there must be investing if economic development is to take place.

There are many ways of investing. Farmers might use some of their savings to buy better tools or improved seeds for the next planting. Families might buy school books for their children. Businesses might buy new equipment and train workers to use and maintain it. Governments might build dams and roads or improve schools and health services.

Saving and investing make economic development possible. But many developing countries are locked in a vicious circle. Their people do not produce much, so they must consume all that they produce. That means they cannot save much. Since they do not save much, they cannot invest much. And since they do not invest much, they cannot increase their ability to produce more.

*Figure 4. The Vicious Circle of Poverty*

![Diagram of the Vicious Circle of Poverty]

There are two things that the developing countries can do to get out of the vicious circle. The first is for people, businesses, and governments to save more—and to invest their savings in things that increase their ability to produce more. The second is to get assistance from the developed countries. That assistance has the same effect as increasing their own savings: it enables them to invest more. The developing countries are trying to do both.
Governments and Economic Development

Private individuals and businesses in most developing countries do most of the saving and investing needed for economic development. They also produce most of the goods and services. They own or work in small enterprises and large ones—farms, banks, plantations, businesses, factories, trading companies, and retail stores. But the governments of developing countries also play important roles in economic development.

One of the most important roles of the government of a developing country is to take the responsibility for big development projects. Using the money it collects from taxes and borrows at home and abroad, a government builds and operates many basic facilities on which economic growth depends. There must be roads for transporting workers, raw materials, agricultural products, and manufactured goods. There must be electric power to run machinery and communications systems to carry information long distances. There must be ports to handle shipments to and from other countries. There must be schools, universities, and health centers to increase people’s skills and improve their health. Governments usually have responsibility for building and operating these important facilities to make sure that they are built and to make them available at low cost.

A second important role of government is to encourage economic activities that promote economic growth and, if it so chooses, economic equity. A government can do this in many ways. It might lower the taxes for factories that employ large numbers of workers or produce things for export. It might raise the interest rates on savings accounts to encourage people to save. Or it might sell seed and fertilizer to farmers at low cost to help them produce more.

A third important role of government is to plan the development effort for the country as a whole. In most developing countries, a special department of the government—the Ministry of Planning or the Economic Planning Board—has the main responsibility for plan-
Governments and Economic Development

ning economic development. That department studies the resources of the country—the natural resources, the amount of physical capital, the skills of its people, the amount of money that can be spent. It also studies what already is under way to advance economic development and what must be done in the future.

Because the developing countries have so few resources and their needs are so great, hard choices must be made. What goods and services does the country need most? To meet those needs, what should be done first?

Governments often take responsibility for big development projects, such as building this dam to supply hydroelectric power in Chile.

second? third? What can be put off? How will economic changes affect social and political life? On the basis of the studies by planning officials, a plan is drawn up to guide economic development in the country for a period of, say, five years. The plan states the aims for that period and provides guidelines for achieving them.

By playing these roles in economic development, the governments of developing countries provide leadership to private individuals and companies.
Chapter Four

Activities of Economic Development

Some developing countries have already come a long way on the road to economic development. Others are just getting started. To advance economic development, the developing countries engage in several basic activities, which are described in this chapter.

- Increasing physical infrastructure
- Increasing industrial production
- Increasing agricultural production
- Increasing foreign trade
- Educating and training people
- Assisting the poorest people
- Slowing population growth

The emphasis given to each of these activities differs from country to country. And because of the scarcity of money and trained people, no developing country can do all that it wants to do. Each country must make choices, and those choices reflect the way a country perceives its most pressing needs.

Economic development changes people's lives. It disturbs human relationships. It challenges values. It compels people to make new choices and take new risks. This chapter includes brief accounts of individuals affected by economic development. Each account asks readers, What would you do if you faced some of the changes that economic development brings about?
Activities of Economic Development

Increasing Physical Infrastructure

A developing country must do many things to provide the groundwork for economic development: it must improve its transportation system, increase its electricity supply, extend its telecommunications system, and provide more facilities for supplying water and removing wastes. These things are called physical infrastructure and usually are built and operated by the governments of developing countries. Such physical infrastructure is an important part of every country’s physical capital. Without the right kind and amount of physical infrastructure, many development activities cannot take place.

Based on a study of its present and future transportation needs, a developing country improves old facilities.

Roads are the principal means of bringing economic development to rural areas of the LDCs.
and builds new ones. It might construct a new highway linking the countryside to a port on a river, lake, or sea. It might improve roads between major cities. It might pave some roads that lead from villages to market towns. It might modernize ports by digging channels, putting in cargo-handling equipment, and enlarging docks and warehouses. It might also decide to modernize its railroads and build more airports. All these things are necessary to move produce to markets, raw materials to factories, workers to their jobs, and manufactured goods to places where they can be sold.

As cities grow and industries expand, more electricity is needed for running machines and for lighting homes, workshops, and factories. So, the developing countries must improve and extend their facilities for producing and distributing power. Some developing countries are

*This telephone cable is being laid to carry information needed for development activities of all kinds.*
building dams to provide hydroelectric power. To meet the needs of rural people, power lines have been extended to supply electricity to houses, shops, and workshops in small towns and villages.

The physical infrastructure of the developing countries also includes systems for communicating—by telephone, telegraph, radio, and television. These systems must be strengthened to carry the information that is needed for economic activity of all kinds. The telephone exchanges need to be expanded to handle many more calls. Local and long distance lines need to be extended. And because radio and television are increasingly being used for education and training, the developing countries are improving their facilities for broadcasting.

The developing countries are also improving their facilities for supplying water and removing wastes. This is important not only for health and sanitation, but for modern manufacturing as well. The movement of people from rural areas to the towns and cities of developing countries has strained these facilities. So, the governments of developing countries are building pumping stations, storage reservoirs, and treatment plants. In rural areas, wells are being dug and pumps are being installed so that women and children do not have to spend so much time carrying water over long distances.

What would you do if . . .

. . . you were a woman living in a village of 2,000 persons in the foothills of mountains in Central Java, the most densely populated island in Indonesia? You have spent all your life in the rolling countryside, where rice is grown all year round in terraced fields.

Your husband owns a half hectare (about one acre) of land. Here your family grows the food you eat and some fruit and rice that can be sold at the market in a nearby town. You often work with him. So do two of your sons and a daughter, who sometimes work as day laborers for other farmers. The two younger children still are in
school, but the little girl will soon stop because you cannot afford to pay both of their school fees. Besides, she will be able to do some of the work once done by your eldest son, who recently went to Jakarta, the capital city.

Your village takes part in the country’s Village Development Program. Under this program, the government provides your village with some money to help make improvements that otherwise could not be made. The village council decides what improvements will be made each year and uses that money to buy the materials needed. Then people in the village volunteer to do the work. Last year, they rebuilt a bridge at the entrance to the village.

The village council is now trying to decide what it should do this year. Your husband is a member of the council, and he has been talking with you and your neighbors about possible projects. Several have been proposed, but the choice has narrowed to two projects. One is to improve the road that leads to the market town. Part of it has to be surfaced with gravel and crushed rock so that cars, trucks, and buses will be able
to use the road when the rains are heavy. The village council would use government money to buy several truckloads of rock and gravel, which the men of the village would spread out. A government engineer would show them where to make drains along the side of the road.

There are advantages and disadvantages to having the road improved. You would be able to get to the market town during the rains to go to the new health center. You have tuberculosis, as do many others in your village, and you must regularly go to the health center to get medicine. But the road is a painful symbol to you. You often watched your eldest son head down the road to the market town. It was there that he first heard about life in Jakarta, where he finally went to live. You do not want your other children to leave your village. The road is temptation enough now; the temptation would be even greater if the road were improved.

The other project is to improve the system that supplies water to the two taps in the village. The storage tanks at a nearby spring are leaking and need to be rebuilt. Covers have to be installed on the tanks to keep the water from becoming polluted. The pipes carrying water to the taps leak badly, and so do the taps, which have to be relocated. With the money from the government, the council would buy new pipes, new taps, and cement for the storage tanks and covers. A government engineer would supervise all the work.

This project has advantages and disadvantages, too. Clean water would reduce the intestinal disorders that affect everyone in the village. But you are worried about having the taps moved, even though you realize that the muddy area around them is a breeding ground for mosquitoes. You fill your water jug at the tap near your house every morning. Your friends are there at the same time, and you talk and exchange news with them. You are afraid that all this might change if the tap were moved to another place in the village.

Today the village council is going to decide on the project to undertake this year. What would you do?
Increasing Industrial Production

There are three main reasons a developing country wants to increase industrial production. The first is to produce the manufactured goods that its people need. The second is to produce goods for export to other countries. The third is to provide regular jobs for the vast number of its unemployed and part-time workers.

But to increase their industrial production, the developing countries must increase their physical capital—the tools, machines, and factories needed to produce manufactured goods. They also must increase their human capital—the skills of their workers.

When a developing country begins to industrialize, it sets up factories that require only a small amount of capital. These factories produce some of the goods the country has been importing. They might process farm products into food items, such as dried milk, bottled drinks, and canned fruits and vegetables. Or they might

One of the first things an LDC does to increase industrial production is to produce consumer goods that previously had to be imported.
As the LDCs gain experience in manufacturing, they can set up more complex operations, such as this pipe factory in Morocco.

produce construction materials, such as bricks, lumber, and cinder blocks. Or they might make consumer goods, such as cloth, clothing, shoes, furniture, metal pots, and flashlight batteries.

Another kind of industry that springs up as a country develops is assembly work. Plants are set up for assembling finished products from parts, which are imported from the developed countries. Such products range from refrigerators, pocket calculators, and transistor radios to bicycles, motor scooters, and trucks.

As the skills of workers increase and a country imports more capital, it is possible to manufacture more complicated products. For example, India now manufac-
turers generators, textile machinery, and other industrial equipment—both for use in the country and for export. Korea, in addition to producing these same items, manufactures stereo equipment, television sets, and tools for making machines.

Many developing countries have set up factories to change raw materials into products that can be used by other industries, whether in the country or abroad. Some countries have built mills to process iron ore into steel and smelters to change tin and copper ore into pure metal. Some have built petrochemical plants to process crude oil into gasoline or natural gas into fertilizer. And some have built saw mills to change timber into plywood and other lumber products. All these plants require much more capital than is required for processing food and for making consumer products and building materials.

Naturally all these factories provide much-needed jobs. One problem, however, is that most factories are set up in towns and cities. That is where most of the services they need are located: water, electricity, and the offices of banks, trading companies, and government agencies. To create more jobs for unemployed and part-time workers in rural areas, many developing countries are beginning to set up small factories in the countryside. In addition to providing jobs, those factories help to reduce the movement of people to the cities.

Another problem is that most of the machinery for these factories is imported. Such machinery has been designed for use in the developed countries, where capital is abundant and most workers are employed. The conditions in the LDCs are just the opposite: capital is scarce, and many workers need jobs. For these reasons many LDCs are trying to adapt industrial machinery so that many workers are needed to run it.

What would you do if...

...you were a successful businessman in San Jose, Costa Rica? You sometimes smile when you remember the morning in 1950 when you first arrived in San Jose after the long bus ride from your village. Was it really
thirty years ago? Your family had farmed in that village as long as anyone could remember. It was a hard life: long hours in the fields, long hours hauling irrigation water up from the well. Working together, you and your father and brothers raised only enough food for your family.

When you finished eighth grade in your village, your parents sent you to live with your uncle in San Jose so that you could continue school there. You were scared when you started at the trade school. But motors had always interested you, and you liked learning more about them. When you finished your training as an auto mechanic, you set up a small repair shop in a shed near the school. Things went well for you, and soon you rented a shop next door to one of the big hotels.

There was nothing special about repairing the car of two foreigners that day twenty years ago. But when they came back to San Jose a year later, they asked you to become an agent for their company. They wanted you to sell and repair their tractors throughout Costa Rica.

Soon you were traveling in your truck all over Costa Rica, showing farmers how to use tractors. After you sold a tractor, you returned every once in a while to service and repair it. Before long, you had ten employees, then twenty. You moved into an office with a sales room. By 1970 you had become a leading businessman in San Jose.
Through the years, you always sent money back to your family. When electricity came to your village, you bought a pump for your father and installed it in the well on his land. The pump ended the back-breaking work of hauling irrigation water up from the well. But more important, more water meant more food. Soon your family was eating more and selling surplus tomatoes. Their neighbors saw the difference the pump had made and wanted pumps, too. So you installed them for what they cost you. By 1975 many farmers in your village were producing tomatoes for sale in San Jose. Each year after that, the harvest increased.

Last week, your brother came to San Jose to tell you that this year's crop had been the best ever. But many farmers in the village had to let many of their tomatoes rot because no more could be sold in San Jose. Your brother said that people were planning to cut back on their tomato planting.

You would like to help. With your money and connections, you could set up a cannery to make tomato juice in the village. You could build a shed, install tubs and canning equipment, and have your brother manage the operations. The cannery would use all the tomatoes the farmers could grow, and some of the unemployed men and women in the village could work there. Perhaps you might one day export tomato juice to the United States.

But if you invested your money in a cannery, you would have to pull out of another business venture in San Jose. You and some other businessmen have recently talked about starting a new vocational school. An architect has designed a building, and you have interviewed several persons who might become the school's director. You are proud of the reputation you enjoy in San Jose, and the vocational school is only one of many things you could do to help people in your adopted city. So many people in Costa Rica need vocational training. You know what a difference it made in your life thirty years ago.

Tomorrow you and the other businessmen plan to meet to continue your discussions. What would you do?
Activities of Economic Development

Increasing Agricultural Production

Activities to increase agricultural production have always been important in economic development. There are two reasons for this. First, most developing countries do not produce enough food to feed their people adequately. As their populations grow, the need for food becomes even greater. Second, increased agricultural production can raise the incomes of poor farmers and provide jobs for unemployed or part-time rural workers.

Advice to farmers can make the difference between a good crop and a poor one, between a better future and a bleak one.

How, then, can agricultural production be increased in the developing countries? One important way is to persuade farmers to adopt new farming methods. Many farmers in the developing countries use the same methods that their fathers and grandfathers used. With these methods, they can produce only enough to feed a single family. To change this, the government trains and pays field-workers to teach farmers about methods that are more productive.

At first, field-workers teach farmers simple but useful methods that do not cost any money: how best to pre-
pare the soil for planting; how to plant seeds in rows; how to weed fields without damaging the crops. As crop yields increase and farm incomes rise, field-workers can encourage farmers to invest in tools, fertilizer, and better seeds. If the soil is suitable, field-workers might encourage farmers to plant another crop between the rows of their usual crop. Because the crops ripen at different times, a field can produce much more than before.

Two other important ways of increasing agricultural production are to build irrigation systems and to provide loans to farmers. With a regular water supply, there can be two growing seasons a year rather than one. That is what happened in Egypt after water from the Nile River was controlled by the Aswan Dam to make water available all year round. And with loans from special banks set up with government support, farmers in many developing countries can buy more seeds, fertilizer, insecticide, and farm tools.

Agricultural production can also be increased by using more land for farming. In Thailand, for example, the government offered land at low cost to farmers who
agreed to settle in an area that had not been farmed. In Malaysia, new farmland was created by clearing large areas of rain forest. This new farmland was subdivided into plots that were sold to persons who once had little or no land of their own.

Yet another way of increasing agricultural production is to make farmers owners of the land they till. Many farmers in the developing countries must work as tenant farmers on land owned by wealthy landlords. If such farmers increased their production, the landowners, not they, would benefit. The governments of some developing countries have purchased land from people with large landholdings and sold it at low cost to the farmers working it. Such steps, called "land reform," give farmers an incentive to increase their production.

Thus, to increase agricultural production, the developing countries often must use more physical capital—more tools, irrigation works, and farm machinery. They also must try to increase their human capital—the skills of farmers cultivating the land.
Increasing Agricultural Production

By using fertilizer and improved seeds, rice farmers in many parts of the developing world are now getting bigger harvests.

What would you do if . . .

. . . you were a seventeen-year-old boy living in the Philippines, about fifty kilometers (thirty miles) west of Manila, the capital city? Your father rents a farm of two hectares (five acres) and grows rice. Everyone you know does the same thing year in and year out—planting, weeding, harvesting, and then waiting to start planting again.

There are ten in your family, and you all live in a three-room house made of cement blocks. You and the younger children sleep on mats on the floor of the big room. Your parents have a small sleeping room of their own; so do your older brother and his wife and baby. An older sister lives in Manila with her husband. In a small shed attached to the side of the house, your father runs a shop for selling insecticide and fertilizer.

When your parents were younger, they lived in a house made of bamboo. In those days they could grow only one crop of rice a year on their land. After they gave
the landlord the half that was due him, there was just enough left to feed the family, with a little saved for seeds for the next planting season. To get more money, your father sometimes sold the fish he caught in the flooded rice fields, or your mother sold some vegetables from her garden.

Then your parents heard about some new seeds that produced more rice but needed expensive fertilizer. They decided to borrow some money to buy the seeds and fertilizer and tried them out on part of their land. Sure enough, the harvest from that part was much larger than that from the rest of the farm. Each year after that, they planted more land with the new seeds. And each year, the harvest was larger. Then your father got a loan from a bank and bought a pump. By pumping water onto the farm, he could grow a crop in the dry season as well as in the rainy season. Two crops of rice a year! Your parents' eyes still light up when they tell you about the first year that happened.

After a while your parents had saved enough money to build the house you now live in. And a few years after that, they opened the store, where you still enjoy listening to conversations between your father and the other farmers. Mostly they discuss how things have improved for them over the years and what their plans are for the next planting season.

Your parents kept you in school through the eighth grade, even though they found it difficult to pay your school fees and needed your help in the rice fields. You had to stop to give the younger children a chance to get some schooling, too. Now you have more time to help your parents, and sometimes you earn some money working as a day laborer for your neighbors.

Recently your village began to take part in a program sponsored by the Department of Agriculture. As part of the program, boys with a primary education and experience in farming are trained to be field-workers. You know a lot about farming—from what you have learned from your father, from other farmers, and from a field-worker who comes to your village from time to time.
And you have been told that you would be accepted into the training program.

If you were to become a field-worker, you would have to leave home to attend a new agricultural high school in the capital of your province. You would live in a hostel there, and you would be paid enough to live on during the two years of training. After finishing, you would be paid a regular salary for your work in villages throughout the province. Then you would be able to send money home so that your younger brothers—and perhaps even your sisters—could continue in school.

This is the first time you have thought about leaving your village. You always expected to be a farmer like your father, and you know your parents are counting on you to take more responsibility for the rice fields and the store as they get older.

But you sometimes worry about sharing your father's land with your brothers when you all are adults. How can only two hectares of land provide enough food for the families you will someday have? Of course, you might do well enough to rent some other land. Or one of you might go to live with your sister and try to find work in Manila. But it still would be difficult.

Soon you must decide whether you will enroll in the training program. What would you do?
Increasing Foreign Trade

By increasing its foreign trade, a developing country can do two important things it could not otherwise do. It can buy from other countries more of the goods and services it does not produce itself. It can sell more of its own goods to other countries in order to pay for things it is importing. Increasing foreign trade thus is important for economic development.

As economic development proceeds, a developing country must import many more of the things it needs but does not produce itself. To build physical infrastructure, it needs capital equipment: cranes, trucks, bulldozers, locomotives, and generators. To spur industrial production, it needs fuel, machinery, and office equipment. To spur agricultural production, it needs fertilizer, insecticide, and irrigation pumps. And as development continues and incomes rise, the people of a country want more consumer goods, many of which must be imported: radios, electric fans, motor scooters, and automobiles.

At this busy port in Dakar, Senegal, grain imports are being bagged for delivery to drought-stricken areas farther inland.
Increasing Foreign Trade

To pay for additional imports, developing countries try to do two things. First, they try to increase their exports to other countries. Second, they try to produce more of the food products and consumer goods that they have been importing. By doing so, they can import more of the capital and other items needed for economic development.

The exports of most developing countries consist mainly of a few agricultural or mineral products. Some developing countries export tea, coffee, or cocoa. Others export bananas, coconuts, or citrus fruits. Still others export rubber, cotton, or vegetable oil. And those with mineral deposits export oil, bauxite, phosphate, iron ore, or copper ore. The problem with relying on one or two basic exports is this: If the price of the product goes down, the developing country makes less money. Thus it must reduce its imports.

That is why the developing countries are trying to increase the variety of their exports by producing manufactured goods. The products a developing country can

*By processing raw materials, an LDC can increase the value of its exports and provide more jobs at the same time.*
Manufacture for export are often made from its natural resources. In addition to exporting logs, Colombia now exports paper, greeting cards, furniture, and flooring materials. In addition to exporting cotton, India now exports woven textiles and clothing. In addition to exporting rubber, Malaysia now exports tires, inner tubes, and rubber boots.

Exporting manufactured products requires a great deal of capital and technical knowledge. Both are scarce in developing countries. To overcome this scarcity, a company in a developing country might enter into a contract with a foreign firm. Under that contract, the foreign firm would normally provide the capital and technical know-how for building and operating a factory and for transporting and selling the finished products. The company in the developing country might provide the land for the plant, the building materials, and the workers.

What would you do if . . .

. . . you were a businesswoman operating a tannery in a town in Uruguay? You grew up in Montevideo, where you attended the university and studied economics and business administration. After graduation, you married a fellow student and went to live in Paysandú, a few hundred kilometers to the north. Your father-in-law had operated a tannery there. Your husband became his partner and took over the business after his father died.

Life in Paysandú was much quieter than it was in the capital, and you missed your family. But you enjoyed learning about the operation of the tannery. You often accompanied your husband on his trips to ranches, where cattle were slaughtered and hides were prepared for shipment to the tannery. The tannery seemed noisy and smelly to you at first, but the process of cleaning, soaking, and stretching hides fascinated you.

After your children were born, you stopped traveling with your husband on business, but you often discussed his work with him. He relied on your judgment, partly
Increasing Foreign Trade

because of your knowledge of business practices, partly because he felt you had such a good business sense. Then, about five years ago, he was killed in a car accident. That tragedy left the business in your hands, and soon you were absorbed in its daily operations.

For three years the business went well, but then your regular customers began to cut back on their orders. The tannery had always relied on sales to these firms, which processed hides into leather products for sale in Montevideo. It had been difficult to find other customers in the past two years, but you found enough to keep the business afloat. You know, however, that selling hides will become more difficult in the future, given the competition from other tanneries.

There are two things you can do. First, you could enlarge the business and begin to produce leather products for export. The government of your country has been encouraging companies to produce more exports. It charges lower taxes to companies in the export business, and it provides those companies with various kinds of help.

You have been thinking about building a factory beside the tannery—a factory that would produce suede jackets for export. To build the factory and pay for the machinery, you would have to borrow a lot of money.
You would have to hire someone to design the jackets and supervise production. You also would have to hire and train more workers. And you would have to find a trading company that would sell your jackets in other countries.

To explore this venture further, you recently went to Montevideo to find out from officials of the Ministry of Industry about the help they might give you in setting up the new factory. You learned that they would help you get a loan to build the factory and buy the machinery. They would also provide experts to help you figure out all the steps in production and to train the workers you need. And they would recommend companies that could help you with the marketing of your jackets in other countries.

The assistance offered by the Uruguayan government makes you feel less anxious about the risks of expanding your business. If you were successful, you might someday expand the factory further and produce many other kinds of processed leather goods. You would like to do this because you know that many people in Paysandu need jobs. You would also like this for your husband's sake—to take his place as a leader of the business community. All very attractive, but you still would have to put up most of your savings to get the venture off the ground. Would it be worth it?

The other thing you could do is sell the tannery. You would not have to worry about whether the business would succeed and whether you would be able to repay the loan. Instead, you could return to Montevideo: your children would like to be near their cousins, and you would like to be near your elderly parents. You would have enough money to live comfortably and to send your children to college in Europe or the United States. But you would also like to find work that is as challenging as your work at the tannery. Although you know many business people in Montevideo, you are not sure that any of them would hire you.

You must soon decide between selling the tannery or expanding its operations. What would you do?
If a country is to develop its economy, it must have people with skills. It needs people who know how to build and maintain roads, dams, and harbors. It needs people who can install, operate, and repair industrial machinery. It needs people who can read instructions, keep written records, and conduct scientific and economic research.

If a country is to develop, then, it needs more typists, plumbers, carpenters, electricians, accountants, engineers, economists, business managers, and many other skilled people. But there are too few such people in developing countries. By educating and training individuals, the developing countries are increasing their human capital—one of the major tasks of economic development.

Educational systems in many developing countries were set up during colonial times to train people for work in business and government. Thus, most schools were in cities and were largely designed for the needs of the well-to-do. As a result, there are too few schools in rural areas, and most of them are poorly equipped. There also are too few institutions offering vocational training.

When the LDCs invest in education and training, they are investing in their most abundant and valuable resource—their people.
In addition to providing education to young people, the LDCs are providing adults with new skills and knowledge.

It is difficult to transform the educational system of a developing country so that it can better meet the needs of the country and its people. To bring this change about, the developing countries are building new schools, especially in rural areas and urban slums. They are building and operating training institutions to produce more teachers with good qualifications. They are developing new course materials and textbooks to make education relevant to the lives of students. They also are setting up vocational schools, research institutions, and agricultural training colleges to train students for jobs in commerce, industry, and government. In some countries, parents are being encouraged to keep their daughters in school, and more vocational training programs are being developed for women.

School enrollments are soaring in all developing countries. But millions of students must drop out after a few years, and millions of others cannot afford to attend school at all. Perhaps they live too far from a school. Perhaps they must work to contribute to the meager income of the family. Or perhaps their parents cannot afford to pay school fees, which may amount to only a few dollars a year.
The developing countries are now paying more attention to the needs of those who are too old to attend school. To increase the skills of adults, literacy classes are being conducted in urban slums and remote villages. Rural women are learning about nutrition, family planning, and general health care. Many businesses in the developing countries run training programs for their workers. And because of the widespread ownership of transistor radios, many developing countries are producing radio programs that can transmit useful information and skills. Television is sometimes used, too, although it is too expensive for use in most developing countries.

To provide all these services, the developing countries are spending billions of dollars each year. The skills and knowledge gained by many persons in the developing countries enable them to become more productive and prepare them for new opportunities. But people who are better trained and better educated also have high expectations. If they are farmers, they want to increase their production or to find other kinds of work in rural areas. If they live in cities, they want jobs in banks, businesses, factories, or government agencies. Education and training must go hand in hand with improved employment opportunities.

What would you do if . . .

. . . you were a fifteen-year-old girl living in a small village on the altiplano, the high plain in the mountains of Bolivia? Your village is a couple hundred kilometers north of La Paz. You have never been to the capital city, but you have heard villagers talk about the long bus trip that starts at dawn, winds down the mountains, follows the shore of Lake Titicaca, and ends at midnight in La Paz.

By working hard and long, your family manages to have just enough to eat. Your parents and two older brothers work most of the day in the potato fields. For as long as you can remember, you have helped your mother carry water from the well, sweep the house and yard, peel and cook the potatoes. You also help her to
spin and weave the wool from your sheep and llamas so that you can make blankets, ponchos, and clothes for the family.

On Saturdays you usually go with your parents to the market in the square near the church in Ayata, a town eight kilometers (five miles) away. There you buy some necessities—soap, matches, sugar, and salt. Sometimes, when there is spare cash, your father can buy beer, cigarettes, and batteries for the transistor radio. Sometimes your mother sells her weaving.

Like the other girls in the village, you started school when you were nine. Most of the boys started when they were seven. You remember the hard wooden benches and the cold, one-room schoolhouse that your father and other men of the village built, the one your little sisters now attend. You remember the teacher who talked to you in your own language, but taught you to read, write, and speak in Spanish. Your teacher told you that you were good at Spanish, and at arithmetic and writing, too.

When you finished the third grade, you were sent to the school in Ayata. So were twelve boys from the village and your girlfriend next door. But your girlfriend had to
drop out after a year because her parents could not afford to pay her school fees any longer. It was cold as you walked the eight kilometers to school each morning. But it was beautiful coming back in the afternoons, when the air was clear and the glistening snow on the mountaintops was pink and gold.

Now you have finished the eighth grade, the first girl from your village ever to do so. Your parents want you to continue your schooling in La Paz. You could live with an uncle and aunt whom you have never met. With a high school diploma and your knowledge of Spanish and your own language, you might become a secretary or a primary school teacher, or you might get additional training and become a nurse.

To go to La Paz would be expensive. You would have to pay school fees, buy school books and uniforms, and give some money to your aunt and uncle for food. You would also need some money for bus fares so that you could come home to visit during holidays. Your parents tell you not to worry about the money. They can manage, they say, and in a few years you could be earning more in a month than they do in a year.

But you do worry. You know that your family would have to sacrifice a lot. You also know that your two younger sisters might not be able to go beyond the third grade—at least while you were in school. If you did get more schooling, you could help your family. But that would be many years away. And what if you did not do well in school or did not find a job when you finished?

Then there is the boy you have been fond of since you were a child. He wants you to stay in the village—to marry him one day, have many children, and live just as your parents live. You would weave ponchos and blankets, work with him in the fields, and care for your children. You would attend the festivals and go each week to the market in Ayata. You would be around people you had known all your life.

The time has come for you to make a decision. Your parents tell you that the decision is yours. What would you do?
Assisting the Poorest People

Almost a billion of the world's people live in absolute poverty. Not only are they relatively poor, when compared with those who are better off in their own countries and elsewhere in the world. They are absolutely poor because they cannot meet their basic needs as human beings—for food, water, shelter, education, health care, and productive work. Most of them live in rural areas, but a growing number lives in urban slums.

In the early 1970s it became clear that economic growth alone was not reducing absolute poverty. So the governments of many developing countries began to aim the activities of economic development more toward their poorest people. Doing this makes good political sense, because it helps to narrow the gap between rich and poor. It also makes good economic sense, because the entire country benefits from having its people healthier and better educated—and therefore more productive.

Because so many of their poorest people are rural, the developing countries are giving greater emphasis to increasing agricultural production, especially that of small-scale farmers. By doing so, new jobs have been created and farm incomes have risen. To provide additional employment opportunities to the rural unemployed, developing countries are setting up small-scale industries in the countryside. Examples are boat yards, textile mills, and workshops.

Because so many people in cities live in absolute poverty, the developing countries are improving living conditions in urban slums. Most slum housing is built by squatters, people who settle on unoccupied land and build simple houses using tin sheets, mud bricks, discarded lumber, and cloth. To improve the quality of housing, some developing countries are offering durable building materials to slum dwellers at low cost. Others are building low-cost housing in slum areas. Almost all developing countries are building sewers, installing water taps, and paving roads and footpaths in slum areas. They are also extending their systems of public trans-
Assisting the Poorest People

Portation by operating regular bus services for slum dwellers. And to provide more employment opportunities to the urban unemployed, new industries and vocational training centers are being set up in slum areas. Because the poorest people lack education and health care, the developing countries are taking steps to provide more of these services in areas where poor people live. More schools are being built in the countryside and in urban slums, and more teachers are being trained to teach in them. In addition, adults are attending literacy classes, and women are learning about family health care and nutrition. The number of health clinics that serve the absolute poor is also increasing, and more health workers are being trained to work among the poorest people.

Despite these efforts, it will be many decades before most of the poorest children have an opportunity to attend school and receive good health care. It will be many decades before most of the poorest adults have opportunities for productive employment. And it will be many decades before most of the poor live in decent surroundings.

Once installed, this water pipe will bring clean water to thousands of slum dwellers in Sao Paulo, Brazil.
Activities of Economic Development

What would you do if . . .

. . . you were a sixteen-year-old boy living on the outskirts of Ouagadougou, the capital of Upper Volta? You have lived there for only two years, so the village you once lived in is still clear in your mind. You remember watching your mother scratch the dusty soil around the millet plants, stir the pot over the fire, carry the baby on her back, milk the scrawny cows, and care for your blind grandfather.

You also remember the day your father came back to the village from Ouagadougou to take your family to the city. He had gone there to find work after a drought went into its third year and there was almost nothing left to eat in the village. He found a hut in a squatters' settlement and repaired it. He said that many other people in the settlement spoke your language and that you would not be lonely.

And you remember the way he led all of you to your new house through a maze of narrow, dusty lanes lined with mud houses. Surrounded by hundreds of others just like it, the hut was smaller than the one you had left. But at least there was a shed for cooking, a small space for a garden, and a pen for animals.

You now feel at home in Ouagadougou. Even though the surroundings are ugly, life is easier than it was in your village. Your father works as a night watchman. Your
mother sometimes earns a little money when she can do housework in the city. But most of the time she must take care of your younger brothers and sisters and your grandfather.

For a while you had a job carrying mud in a basket from the bottom of a nearby gulley to a neighbor who was making bricks. But your neighbor finished making bricks a couple of months ago, and you have had no job since. Now and then you earn a little by running errands for shopkeepers, but you haven't been able to find a regular job. When you had your job, your family had enough money to pay for food and for the water sold by a water vendor who comes to your part of the settlement each morning. But it has been tougher for all of you since you lost your job.

A few weeks ago, some government officials held a meeting in your neighborhood. They said that the settlement you live in would be improved. New roads and footpaths would be laid out. Ditches would be dug to carry away rainwater and sewage. And pipes would be installed to bring clean water to some central points. The officials said that your father could get a loan to pay for materials to improve your house: to add a room, install a tin roof, or replace the mud floor with cement. Your father would find it difficult to pay back the loan, but he thinks he can manage if you get a job.

Since coming to Ouagadougou, you have heard people talk about Abidjan, the capital city of the Ivory Coast. Two days away by train, it is a much bigger city than Ouagadougou. People say that there are more jobs there and in the countryside nearby. The older brother of one of your friends recently sneaked onto the train and went to Abidjan. Your friend suggested that you and he might do the same thing. If you went to Abidjan, you might earn more money than you can earn in Ouagadougou. And if you could send some money back to your family, they would be better off than if you were to stay in Ouagadougou.

Your friend wants to go to Abidjan right away. What would you do?
Activities of Economic Development

Slowing Population Growth

It is difficult for the governments of developing countries to persuade people to have smaller families. For many couples a large family is a symbol of success, wealth, and prestige. In addition, children help with farming and household chores, and they often earn money by working away from home. The more children there are in a family, the more money a family can earn—or so the argument goes. And by having many children, parents can be sure that they will be taken care of when they are old and unable to provide for themselves. But as long as families continue to be large in the developing countries, it will be difficult to improve living conditions.

What, then, can the developing countries do to reduce population growth? A successful program of economic development helps. As incomes rise, fewer children are needed to work and add to family income. As health care improves and infant mortality goes down, parents do not need to have so many children to make sure that some survive. As women become better educated and have wider opportunities, they marry later in life and have fewer children. For all these reasons, couples begin to want fewer children.

Many developing countries offer services to enable couples to plan their families. Doctors, nurses, and other health workers inform their patients about family planning services. Family planning workers meet with people in clinics and homes to explain how couples can space their children and have a baby every three or four years rather than every year. Health workers who travel on bicycles or motor scooters to remote areas often provide family planning services along with general medical treatment.

Some developing countries have started programs that encourage couples to have smaller families. China, India, Korea, Egypt, Thailand, Hong Kong, Singapore, and Indonesia are examples. In such countries, films, posters, billboards, and radio and television programs urge...
The message of this poster is clear: Large families need much more food, clothing, housing, and other essentials than small families.

couples to "Stop at Two" or to "Plan Your Family." National leaders express their support for small families. And government departments conduct research to find out what methods of family planning are most acceptable in the country and the ways in which family planning services can be most effectively provided.

In these same countries, high school students are taught about the advantages of having small families. They learn that a family can spend more on education and health care if there are fewer mouths to feed. They learn that young persons from families with two or three children have greater opportunities than those from families with eight or ten children. They also learn that their country will be better off if families are small.

But the developing countries must do much more to reduce their rates of population growth. Without greater effort, the task of economic development will be much more difficult in the future than it has been in the past.
What would you do if . . .

. . . you were a thirty-year-old woman living on a small farm in central Kenya? You were married when you were fifteen, and you have had ten babies. Like most women you know, you feel that you always are either pregnant or nursing a baby. But you always expected life to be that way. You and your husband take pride in having many children. You know that the more children you have, the more you will be respected by your neighbors. You probably will have two or three more babies.

Eight of your ten children are still alive, but two of them are sickly and one is blind. The women in your village say that if children live to be five years old, they are likely to live to be adults. Six of your children are over five, so you are better off than your mother was. She had twelve babies, but only five of them lived to be adults.

One reason for having many children is that they help you with your work. Every morning, you must go to a stream more than three kilometers (about two miles).
from your house to get water. You also grow most of the food for your family, tend the chickens, keep the house tidy, and prepare all the meals. You work very hard, and you need your children to help you.

Another reason you want to have a large number of children is to be sure that some of them will live long enough to care for you when you are old. But because so many babies die, you know you have to have many to be sure that some will live to care for you when you are old—just as you now care for your elderly parents.

Sometimes you look forward to the time when you cannot have any more babies. You will not be so tired then. But some men in your tribe take second wives when their first wives stop having babies. A second wife often is a help to the first wife, because she shares in the work.

Your farm is much smaller than farms used to be: your husband’s parents divided their land among their sons. It is becoming more and more difficult these days to raise enough food for your family. You do not worry much about this because you think it is God’s will that you must work so hard. But someday your land will be divided among your children, and you cannot help wondering how they will manage.

Every market day, a woman called a family planning worker visits the village near your farm. You have heard that this person knows how couples can have fewer babies. Your neighbor tells you that the family planning worker says people do not have to have so many children nowadays because fewer children die. She says that if people have fewer children, they might afford the school fees for all of them. She also says that your country can become more modern if everyone has fewer children. You are not sure what “becoming modern” means, but it sounds as though it is a good thing for your country.

Tomorrow the family planning worker will come to your village again. Although most people you know are suspicious of her, you are tempted to go to meet her. But you think your husband would disapprove. And if you stopped having babies, he might even take a second wife. What would you do?
Chapter Five

Paying for Economic Development

Economic development requires many things. It requires roads, electricity, telephone lines, and water pipes. It requires farm implements, seeds, and fertilizer. It requires schools, hospitals, houses, and buses. It also requires people with skills: teachers, nurses, technicians, engineers, and accountants. To pay for these things, a developing country needs money—a lot of money. Naturally, the amount of money a country can spend on economic development determines how much development can take place. It determines the amount of capital that can be purchased. It also determines the number of people who can be paid to work in economic development activities.

The money to pay for economic development comes from many sources. The most important sources are in each developing country. But there are other sources in the developed countries and a few wealthier LDCs—governments, international organizations, and private banks and companies. And some organizations in the developed countries support activities that contribute to economic development.

Each Developing Country

A developing country pays for most of its economic development itself—generally about 80 to 90 percent of the total cost. Money comes from the taxes individuals and companies pay to their governments, from the savings of private individuals and companies, and from the money the developing countries earn from their exports. Using only their own money, the developing countries
Paying for Economic Development

Pay for hundreds of thousands of development projects: training field-workers to help farmers, constructing irrigation systems, setting up factories, building roads and bridges, buying buses and trucks, and building and operating schools and health centers.

The governments of the developing countries get most of their money from sales taxes and taxes on imports. They also collect income taxes from private individuals and companies. To support their development activities, governments also borrow from banks in the country.

Private individuals and companies in the developing countries also have funds that can be used for development. What they have left after paying expenses and taxes—that is, their savings—can be used for economic development. These savings can be used directly—for example, if a company invests in new equipment or in a training program for workers. Or these savings can be used indirectly—for example, by depositing them in a bank, which then makes loans to other individuals and businesses or to the government.

*The governments of LDCs must do more than install and operate physical infrastructure. As this repair shop for the Malawi railways demonstrates, they must also maintain it.*
Governments of Other Countries

The developing countries often turn to foreign sources to get additional money for economic development. A principal source is grants and loans from the governments of the developed countries. These grants and loans usually are for specific development projects, such as an irrigation system, a factory, an agricultural training program, or the reform of an educational system. Grants do not have to be repaid. Loans must be repaid, but interest rates usually are low, and repayment can be over a long period. Such grants and loans by the governments of developed countries are called foreign aid or development assistance.

Since the Second World War, the developed countries have provided tens of billions of dollars to the LDCs in this way. The largest amount of foreign aid has come from the United States, which is natural because it has the largest gross national product (GNP) in the world. But other developed countries have provided a higher

By making loans and grants, the governments of many wealthier countries contribute to the development efforts of LDCs. Such foreign aid has assisted many LDCs in expanding their health services.
Paying for Economic Development

...proportion of their GNP for development assistance than the United States. Table 4 shows how much money the developed countries provided for economic development in 1960 and what percentage of each developed country's GNP that assistance represented. The table also shows estimates for 1982.

Table 4. Development Assistance from Selected Developed Countries to the Developing Countries, 1960 and Estimates for 1982 (1982 dollars)

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<td>0.4%</td>
</tr>
<tr>
<td>United States</td>
<td>9,230,000,000</td>
<td>8,302,000,000</td>
<td>0.5%</td>
<td>0.3%</td>
</tr>
</tbody>
</table>

**Total**            | $15,811,000,000             | $27,919,000,000             |                       |                        |
Development assistance does not cost the developed countries a great amount. There are three reasons for this. First, the amounts are not large to begin with. Second, the developed countries get back the money they lend. Third, they often get back much of the money they provide as grants. That happens because the LDCs often purchase the goods and services they need from the developed country making the grant.

The countries listed in Table 4 are not the only ones giving foreign aid. Several of the oil-rich developing countries in the Middle East provide a great deal of money for economic development. In 1981, for example, they provided about $7,800,000,000 in development assistance, mostly to developing countries in Africa and the Middle East. Qatar contributed 2.6 percent of its GNP; Kuwait 2.0 percent; Saudi Arabia 4.8 percent; and the United Arab Emirates 2.9 percent.

A big part of the foreign aid of many developed countries is in the form of capital equipment.
International Organizations

Development assistance also includes grants, loans, and advice from a number of international organizations formed by the governments of developed and developing countries.

The United Nations helps with economic development through the activities of many of its agencies. These agencies give advice to the developing countries and inform them about the development activities in other developing countries.

- The United Nations Development Program (UNDP) is in charge of making grants to the developing countries for projects that other U.N. agencies recommend. Most of the grants go to the world's poorest countries.
- The Food and Agriculture Organization (FAO) of the United Nations studies and recommends how food crops can be increased, how animals can be made healthier, how more fish can be caught, and how forests can be used and protected.
- The International Labor Organization (ILO) advises the developing countries about training workers, increasing the number of jobs, and improving working conditions.

A loan from the Inter-American Development Bank to the government of Brazil made it possible to bring electricity to rural areas.
• The United Nations Educational, Scientific, and Cultural Organization (UNESCO) works with the developing countries to improve the training of teachers, increase adult literacy, and build schools.

• The United Nations Fund for Population Activities (UNFPA) does research on population and assists the developing countries in projects that slow population growth.

• The United Nations Children’s Fund (UNICEF) encourages many activities that benefit children.

• The United Nations Industrial Development Organization (UNIDO) helps the developing countries to increase their industrial operations.

• The World Health Organization (WHO) is concerned with training health workers, improving public health services, conducting research on health problems, and preventing and controlling diseases.

The World Bank is the largest of the international organizations that provide funds for economic development. Working closely with the United Nations, the World Bank lends money for specific development projects to the more than 100 developing countries that are among its members. The developing countries must repay these loans in the future. But the period of repayment is fifteen to twenty years, and the interest rates are lower than those charged by most other banks. For the poorest countries, loans called “credits” are made by the International Development Association, which is part of the World Bank. No interest is charged on these credits, and the period of repayment is fifty years.

Developing countries in various parts of the world can also borrow money from banks that lend money for economic development in a specific region. The Asian Development Bank, the African Development Bank, and the Inter-American Development Bank are examples. These regional banks are similar to the World Bank: loans are for specific development projects, interest rates are lower than usual, and repayment periods are long.
The developing countries can also get loans and grants from the European Development Fund, to which a number of countries in Europe contribute.

Private Banks and Companies

As their economies become stronger, the LDCs can qualify for loans from banks in the developed countries. Many banks in the developed countries—such as the Chase Manhattan Bank in New York, the Bank of America in San Francisco, and Lloyds Bank in London—do a lot of lending in the LDCs. Banks often work together in making loans to pay for big development projects in the LDCs. Sometimes such loans help private businesses in those countries to expand their operations. Banks make loans to the LDCs for the same reasons that they make loans in their own countries—because it is profitable, and because they feel the borrowers can repay the loans.

Private companies in the developed countries are another important source of money for development activities. Volkswagen, Phillips Electric, General Motors, and International Business Machines are examples. These companies may supply equipment and machinery on special terms to governments and businesses in the LDCs. Or they may invest directly in an LDC—say, by setting up a factory in partnership with an LDC company. The LDCs gain because of the jobs and skills provided to their workers. The foreign companies gain because they can make their products at lower cost in the LDCs than in the developed countries.

Other Organizations

Many other organizations in the developed countries support activities that contribute to economic development. Church groups build and operate schools, colleges, and hospitals. Volunteer organizations—such as the U.S. Peace Corps, the International Volunteer Service, and the American Friends Service Committee—send people to the developing countries to teach reading and writing and to introduce new methods of farming and animal
Other Organizations

This Peace Corps volunteer is teaching youngsters in Nepal how to add and subtract—basic knowledge for any economic endeavor.

care. Private foundations support research on problems in the LDCs and provide scholarships for young persons from the LDCs to study in Europe and North America. Hundreds of other small organizations do many other things: for example, they run family planning clinics, conduct programs in nutrition education, and organize the sale of handicrafts.

The developing countries thus obtain money for economic development from many sources. But economic events in the 1970s and 1980s have created severe problems for many LDCs. Higher oil prices have squeezed the imports of goods and services needed for development. Higher interest rates and growing debt repayments have squeezed imports further. And diminishing world trade has made it more difficult for LDCs to increase their exports, which are the basis of their imports and their ability to repay loans. These problems will ease only when the world economy recovers from recession and world trade expands, enabling the developing countries to increase their exports, import more, and speed up their economic development.
Effects of Economic Development

Economic development in the past twenty years has brought many changes to the developing countries. What, then, is the record of economic development? What has been achieved? What problems remain to be solved? How has economic development affected the relationships of all countries?

The Record

The record of economic development is impressive. Never before have living conditions of so many improved so much in so short a time. Hundreds of millions of persons in the developing countries now have higher incomes, sturdier houses, cleaner water, more food on the table, and more schools and health clinics within their reach. And people today are living longer than they did even a few decades ago.

Economic development has brought about tremendous growth in the production of goods and services in many developing countries. Since 1960 the gross national product (GNP) of the developing countries has substantially increased (see Table 5 on the next page). In some countries the GNP has increased many times over.

Because the developing countries are producing more, they can save more. Because they are saving more, they
Effects of Economic Development

are investing more. Because they are investing more, they are producing more. And by increasing their production of goods and services in the present, the developing countries are increasing their ability for even more economic growth in the future.

Thus another result of increased production is that more developing countries are breaking out of the vicious circle that has held them back for so long: low production → low saving → low investment in capital → low production. That vicious circle is becoming a spiral that moves upward in ever-widening arcs (see Figure 5).

\[
\begin{table}
\textbf{Table 5. Gross National Product and GNP per Capita, Selected Developing Countries, 1960 (Estimates) and 1981 (1981 dollars)}
\begin{tabular}{llllll}
\hline
\textbf{Country} & \textbf{Gross national product} & \textbf{GNP per capita} \\
\hline
Malawi & $389,000,000 & $1,200,000,000 & $110 & $200 \\
Upper Volta & 791,200,000 & 1,500,000,000 & 190 & 240 \\
India & 84,360,900,000 & 179,500,000,000 & 190 & 260 \\
China & not available & 297,400,000,000 & not available & 300 \\
Kenya & 1,851,900,000 & 7,300,000,000 & 230 & 420 \\
Indonesia & 21,492,400,000 & 79,200,000,000 & 230 & 530 \\
Bolivia & 1,314,500,000 & 3,400,000,000 & 400 & 600 \\
Egypt & 8,193,600,000 & 28,100,000,000 & 320 & 650 \\
Nigeria & 21,774,400,000 & 76,200,000,000 & 420 & 870 \\
Ecuador & not available & 10,100,000,000 & not available & 1,180 \\
Korea, Rep. of & 10,347,200,000 & 66,100,000,000 & 420 & 1,700 \\
Malaysia & 6,101,300,000 & 26,100,000,000 & 760 & 1,840 \\
Brazil & 55,932,600,000 & 267,500,000,000 & 780 & 2,220 \\
Mexico & 37,358,100,000 & 160,200,000,000 & 1,030 & 2,250 \\
\hline
\end{tabular}
\end{table}
\]
Figure 5. The Spiral of Economic Growth

- Increased production
- Increased consumption
- Increased investment
- Increased consumption
- Increased production
- Increased investment
- Increased saving
- Low production
- Low consumption
- Low investment
- Low saving
Along with this remarkable growth of production in the developing countries, there has been a large increase in the amount of their foreign trade. By exporting more of what they produce, they have been able to import more of the capital goods they need to increase production even further. Tables 6 and 7 show the growth in merchandise exports and imports for a few developing countries. Most of the exports of the developing countries still consist of mineral and agricultural products, but these exports now include more manufactured goods. For most developing countries, the imports of oil, raw materials, and capital goods have been increasing faster than their other imports.

Table 6. Value of Merchandise Exports per Capita, Selected Developing Countries, 1960 (Estimates) and 1981 (1981 dollars)

<table>
<thead>
<tr>
<th>Country</th>
<th>Value of exports per capita</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>1960</td>
</tr>
<tr>
<td>Malawi</td>
<td>$ 15</td>
</tr>
<tr>
<td>Upper Volta</td>
<td>2</td>
</tr>
<tr>
<td>India</td>
<td>8</td>
</tr>
<tr>
<td>China</td>
<td>not available</td>
</tr>
<tr>
<td>Kenya</td>
<td>88</td>
</tr>
<tr>
<td>Indonesia</td>
<td>84</td>
</tr>
<tr>
<td>Bolivia</td>
<td>134</td>
</tr>
<tr>
<td>Egypt</td>
<td>63</td>
</tr>
<tr>
<td>Nigeria</td>
<td>131</td>
</tr>
<tr>
<td>Ecuador</td>
<td>212</td>
</tr>
<tr>
<td>Korea, Rep. of</td>
<td>5</td>
</tr>
<tr>
<td>Malaysia</td>
<td>438</td>
</tr>
<tr>
<td>Brazil</td>
<td>78</td>
</tr>
<tr>
<td>Mexico</td>
<td>75</td>
</tr>
</tbody>
</table>
Table 7. Value of Merchandise Imports per Capita, Selected Developing Countries, 1960 (Estimates) and 1981 (1981 dollars)

<table>
<thead>
<tr>
<th>Country</th>
<th>Value of exports per capita</th>
</tr>
</thead>
<tbody>
<tr>
<td>Malawi</td>
<td>$ 33</td>
</tr>
<tr>
<td>Upper Volta</td>
<td>17</td>
</tr>
<tr>
<td>India</td>
<td>27</td>
</tr>
<tr>
<td>China</td>
<td>not available</td>
</tr>
<tr>
<td>Kenya</td>
<td>158</td>
</tr>
<tr>
<td>Indonesia</td>
<td>30</td>
</tr>
<tr>
<td>Bolivia</td>
<td>53</td>
</tr>
<tr>
<td>Egypt</td>
<td>141</td>
</tr>
<tr>
<td>Nigeria</td>
<td>42</td>
</tr>
<tr>
<td>Ecuador</td>
<td>66</td>
</tr>
<tr>
<td>Korea, Rep. of</td>
<td>52</td>
</tr>
<tr>
<td>Malaysia</td>
<td>516</td>
</tr>
<tr>
<td>Brazil</td>
<td>150</td>
</tr>
<tr>
<td>Mexico</td>
<td>130</td>
</tr>
</tbody>
</table>
The growth of production and the expansion of foreign trade have led to improvements in the living conditions of hundreds of millions of persons. These improvements can be seen in increases in adult literacy and life expectancy and in reductions in infant mortality. Figure 6 shows the changes in these social indicators for a few developing countries between 1960 and 1980 or 1981. Similar changes are taking place in all other developing countries.

**Figure 6.** GNP per Capita and Social Indicators, Selected Developing Countries, 1960 and Most Recent Estimates

- **Thailand**
  - GNP per capita: $1,000 in 1960, $200 in 1981
  - Infant mortality rate: 18% in 1960, 12% in 1981
- **Upper Volta**
  - GNP per capita: $800 in 1960, $200 in 1981
  - Infant mortality rate: 16% in 1960, 10% in 1981
- **Philippines**
  - GNP per capita: $400 in 1960, $200 in 1981
  - Infant mortality rate: 8% in 1960, 2% in 1981
- **Niger**
  - GNP per capita: $1,000 in 1960, $200 in 1981
  - Infant mortality rate: 14% in 1960, 6% in 1981
- **Mexico**
  - Adult literacy rate: 90% in 1960, 90% in 1980
  - Life expectancy: 65 years in 1960, 65 years in 1980
- **Indonesia**
  - Adult literacy rate: 80% in 1960, 80% in 1980
  - Life expectancy: 55 years in 1960, 55 years in 1980
- **Algeria**
  - Adult literacy rate: 65% in 1960, 65% in 1980
  - Life expectancy: 50 years in 1960, 50 years in 1980
- **Nepal**
  - Adult literacy rate: 40% in 1960, 40% in 1980
  - Life expectancy: 45 years in 1960, 45 years in 1980
- **Thailand**
  - GNP per capita: $1,000 in 1960, $200 in 1981
  - Infant mortality rate: 18% in 1960, 12% in 1981
- **Upper Volta**
  - GNP per capita: $800 in 1960, $200 in 1981
  - Infant mortality rate: 16% in 1960, 10% in 1981
- **Philippines**
  - GNP per capita: $400 in 1960, $200 in 1981
  - Infant mortality rate: 8% in 1960, 2% in 1981
- **Niger**
  - GNP per capita: $1,000 in 1960, $200 in 1981
  - Infant mortality rate: 14% in 1960, 6% in 1981
- **Mexico**
  - Adult literacy rate: 90% in 1960, 90% in 1980
  - Life expectancy: 65 years in 1960, 65 years in 1980
- **Indonesia**
  - Adult literacy rate: 80% in 1960, 80% in 1980
  - Life expectancy: 55 years in 1960, 55 years in 1980
- **Algeria**
  - Adult literacy rate: 65% in 1960, 65% in 1980
  - Life expectancy: 50 years in 1960, 50 years in 1980
- **Nepal**
  - Adult literacy rate: 40% in 1960, 40% in 1980
  - Life expectancy: 45 years in 1960, 45 years in 1980

---

*Country with a GNP per capita of more than $410 in 1981*

*Country with a GNP per capita of less than $410 in 1981*
One outcome of these achievements, however, is that the populations of the developing countries have continued to grow rapidly. The reason is that more babies are surviving and life expectancy is increasing, but most families are continuing to have many children.

Economic development would have had a greater effect on the lives of individuals if population growth had been slower. There may be more goods and services now, but there are many more people who need them. There may be more opportunities for jobs in industry and agriculture now, but there are more people looking for work. And there may be much more foreign trade now, but the need for further increases in foreign trade is even greater. Rapid population growth means that economic development, despite the achievements of the past twenty years, will be more difficult in the future.

Figure 7. World Population, by Region, 1981 and Estimates for 2000
Unsolved Problems

There are several basic problems that economic development has failed to solve. One of them is that living conditions of the poorest people in the developing countries have not improved much. Nearly a billion of the world's people still live in absolute poverty. People who live in absolute poverty lack the basic things needed for a decent life. The developing countries are now giving special attention to their poorest people. But they have not made enough improvement in economic equity—in giving their poorest people larger pieces of the growing pie. The developing countries must therefore focus more effort, and the developed countries more assistance, on reducing absolute poverty.

Despite the economic growth of the last twenty years, the number of persons who still must struggle to survive is growing.
A second unsolved problem is that living conditions in the poorest developing countries—those with a GNP per capita of $500 or less—are improving much too slowly. In the poorest countries, the GNP per capita has increased, but only half as fast as in other developing countries that are somewhat better off. The improvement in social indicators for the poorest countries, and their 2.4 billion people, also has been slower.

Why is this so? Many of the poorest countries—Chad and Mali, for example—lack the natural resources usually needed for economic growth. Some of them—China, India, Bangladesh, and Indonesia, for example—have huge populations that make the tasks of economic development exceedingly difficult. New ways must therefore be found to improve living conditions faster in the poorest countries.

Another problem that economic development has not solved is the huge difference between living standards in the LDCs and in the developed countries. Despite their record of economic growth, most LDCs are not catching up. It is probable that only a few LDCs will approach the present living conditions of the developed countries in the next fifty years. For many LDCs it may take a few hundred years. In the meantime, living conditions in those countries are getting better, but much too slowly.

Yet another problem that remains unsolved is that the opportunities for men have increased more rapidly than those for women. Fewer girls than boys attend school in developing countries. Illiteracy rates are much higher for women than for men. Farm training programs are mostly for men, even though women may do most of the farm work. Men are more likely than women to get jobs in industry and loans for businesses. Such conditions increase the inequality of opportunity between men and women, and this inequality has economic consequences.

By neglecting women, the developing countries are neglecting half of their potential human capital. For this reason, and for reasons of justice, women must be drawn more fully into the work of economic development.
Effects of Economic Development

Interdependence

Economic development has affected all countries because it has increased their interdependence.

The developed countries have depended on the LDCs for natural resources for a long time. This dependence is even greater today because the economies of the developed countries have been growing. Most of the world’s known petroleum reserves are in the LDCs. Almost all bauxite—the principal source of aluminum, which is used in building many lightweight structures, from garden furniture to airplanes—is in the LDCs. Most of the copper and tin required for electrical machinery and appliances is mined in the LDCs. Most of the world’s rubber, which is used for tires on most kinds of vehicles, is tapped in the LDCs. And most of a wide range of food products, such as tea, coffee, and sugar, is grown in the LDCs.

Economic growth in the developing countries is bringing about new kinds of interdependence. The developed countries are beginning to depend more on imports of consumer goods made in the LDCs: clothing, textiles, sporting goods, leather products, radios, television sets, stereo equipment, and certain foods. Because of lower wages, these consumer goods can be made more cheaply in the LDCs than in the developed countries. These cheaper products can help to keep down prices in the developed countries.

The developed countries are also beginning to depend more on their exports to the LDCs. Millions of persons in the developed countries are employed in work that grows out of economic development. Many produce agricultural goods. Many others produce capital goods—tractors and farm equipment, airplanes and railroad cars, trucks and bulldozers, electricity generators and steel construction beams, and machinery for spinning yarn, weaving cloth, mining coal, and refining oil. For example, more than a million workers in the United States are employed in producing exports to the LDCs.

Thousands of people in the developed countries pro-
vide services to the LDCs. Many provide expert advice: on engineering problems, factory management, and education and health care, for example. Others do research on such topics as plant and animal diseases, soil conditions, energy sources, and family planning. Many work in the hundreds of businesses that operate in the LDCs—banks, manufacturers, trading companies, and mining and construction firms.

The dependence of the developed countries on trade with the LDCs is shown in Table 8. This trade is an

\begin{table}
\centering
\caption{Trade between Selected Developed Countries and the Developing Countries as a Group, 1981}
\begin{tabular}{lcc}
\hline
Country & Percentage of total exports that went to developing countries & Percentage of total imports that came from developing countries \\
\hline
Australia & 34\% & 25\% \\
Austria & 23\% & 16\% \\
Belgium & 15\% & 18\% \\
Canada & 11\% & 13\% \\
Denmark & 18\% & 12\% \\
Finland & 12\% & 11\% \\
France & 30\% & 30\% \\
Germany, Fed. Rep. & 24\% & 23\% \\
Italy & 35\% & 37\% \\
Japan & 46\% & 62\% \\
Netherlands & 15\% & 24\% \\
New Zealand & 29\% & 23\% \\
Norway & 11\% & 8\% \\
Sweden & 20\% & 17\% \\
Switzerland & 27\% & 11\% \\
United Kingdom & 29\% & 22\% \\
United States & 41\% & 44\% \\
\hline
\end{tabular}
\end{table}
Effects of Economic Development

important portion of the total foreign trade of the developed countries.

Most LDCs depend very much on the developed countries for food, machinery, expert advice, and consumer goods. But they are worried by this dependence. The reason is that they need to sell their products in the developed countries to earn money to buy the goods and services they need. And if they cannot buy those goods and services, they cannot improve the living conditions of their people. What if the developed countries needed fewer of their products?

They are concerned, too, that the developed countries may not increase the amount of development assistance they are providing. The populations of the LDCs are increasing; the need for greater production, especially for their poorest people, is thus increasing, too. Many of them need even more foreign aid from the developed countries than they received in the past. What if the developed countries were to reduce their foreign aid?

Another concern of the LDCs is that the developed countries consume vast quantities of natural resources. The LDCs need to export their natural resources to carry economic development forward. But they will themselves need vast quantities of these natural resources as just as the developed countries depend on the LDCs for raw materials, so the LDCs depend on the developed countries for the heavy equipment needed to extract raw materials.
they reach more advanced stages of economic development. What will happen as the supply of these natural resources is reduced?

The LDCs have these concerns because their economies are much weaker than the economies of the developed countries. Today the world economy is dominated by the developed countries, but the LDCs want to become more equal partners. As a result, they are beginning to work with each other to protect their interests and advance their common needs. As a group they have more power than each has alone. They are forming regional organizations and working together in various groups sponsored by the United Nations.

These concerns have recently sharpened because of changes in the world economy. Inflation and recession in the developed countries, together with higher oil prices, have had a staggering effect on the LDCs. These conditions will make economic development even more difficult in the coming years—for several reasons.

The developed countries, because of inflation and recession at home, are beginning to change their policies toward the LDCs. First, some developed countries, in response to domestic economic pressures, are buying fewer LDC exports. Second, many developed countries

*The experience of experts—from the developed countries and from some developing countries—can help LDCs avoid problems that other countries have already encountered.*
Effects of Economic Development

To export shirts, and provide jobs for its vast work force, India depends on buyers in the developed countries. To sell some of their sewing machines, developed countries depend on shirt manufacturers in India and other LDCs.

are not increasing their aid to the LDCs, and some are even decreasing it. Both have the effect of slowing down economic development in the LDCs.

Although the LDCs that export oil are benefiting from the higher prices, most LDCs must import it and pay the higher prices. Where can they get the money for this? One way is by increasing their exports, which is difficult at any time. It is even more difficult today because the developed countries are buying less from them. So they must borrow, which increases their indebtedness, and they must reduce other essential imports. For these reasons it appears certain that the pace of economic development in the first half of the 1980s will be much slower than in the 1970s. In some parts of the world, there may be no advance at all.

In such times of worldwide economic uncertainty, all countries have greater responsibility to their partners in
an interdependent world. The developed countries, in making their economic decisions, must take into account the well-being of the LDCs. And the LDCs must make the best possible use of their limited resources to keep economic development moving forward as rapidly as possible.

Human societies have been interdependent since early times because no society has ever produced all that it needs and wants. And the relationships between societies have constantly changed. Further changes lie ahead as economic development continues and interdependence becomes greater than ever before. These changes can lead toward a better world, a world in which all countries would cooperate to achieve a better life for everyone. In such a world, the well-being of each country would depend on the well-being of all countries.

To export logs, and get the money needed for many essential imports, Gabon depends on the construction industry in Western Europe. To sell some of their trucks, developed countries depend on timber companies in Gabon and other LDCs.
Afterword

Is economic development leading toward a better world? It clearly is for hundreds of millions in the developing countries who are better fed, in better health, and better able to make choices about the way they make a living. It clearly can lead toward a better world for hundreds of millions more during the rest of this century and beyond. The question is, Will economic development take place fast enough?

Twenty years from now, there probably will be half again as many people as there are today—6 billion compared with 4 billion. Forty years from now, in 2020, there could be twice as many people as there are today—8 billion. Most of the increase in population will take place in the developing countries. This increase in population is the greatest single obstacle to improving the living conditions of most of the world's people.

• How can economic development take place fast enough to provide food for all these people?
• How can economic development take place fast enough to provide the other goods and services people in the developing countries need to improve their living conditions?
• How can economic development take place fast enough to provide jobs for the 500 million more people who will need them in the developing countries before the end of this century?
• How, moreover, can economic development take place without damaging the environment and wasting the world's scarce resources?
• And how can the countries of this interdependent world cooperate to carry economic development forward?
These questions must be answered during your lifetime if the living conditions of hundreds of millions of persons in the developing world are to get better, not worse. You can begin to answer these questions yourself by learning more about the world that is developing around you.

One thing is certain: the task of economic development is far from complete. If the living conditions of most of the world’s people are to improve, there must be even greater economic growth in the developing countries. There must also be even greater effort to make sure that everyone has a fair share of that growth. Thus to achieve greater economic growth and to improve economic equity, the developing countries must devote even more of their resources to economic development than they have in the past. And the developed countries must give them even more help.

A growing proportion of the children in LDCs are getting more schooling, which can make a big difference in the productivity of farmers and factory workers—and in the ability of a country to develop.
Glossary

**Absolute poverty** Poverty so severe that people cannot meet even their basic needs for food, clothing, and shelter.

**Adult literacy rate** The percentage of persons in a country who are over fifteen and can read and write.

**Capital** Things people use to produce more goods and services. Physical capital consists of tools, machines, roads, and so on. Human capital consists of the skills and knowledge of people.

**Developed countries** Japan, Australia, New Zealand, and most countries of Europe and North America. All of them have a great deal of industry; most of their people have a high standard of living.

**Developing countries** Most countries in Asia, Africa, Southern Europe, and Latin America. A high proportion of their people work in agriculture, but the amount of their industry is increasing. Most of their people have a low standard of living.

**Development assistance** See Foreign aid.

**Economic development** The process that developing countries engage in to improve the living conditions of their people.

**Economic equity** The broader sharing of goods and services among the poorer people in a country.

**Economic growth** The production of an increasing amount of goods and services.

**Exports** The goods and services that a country produces and sells in other countries.

**Foreign aid** Money or services provided by wealthier countries to support economic development in poorer countries.
Goods and services  The things people produce and the activities they engage in to satisfy their needs and wants.

Gross national product (GNP)  The value of all the goods and services a country produces in a year. It includes, for example, food and clothing, roads and buildings, military equipment and government salaries, and exports.

GNP per capita  The part of a country’s GNP that each person in that country would have if the GNP were divided equally among them.

Imports  The goods and services that a country buys from other countries.

Infant mortality rate  The percentage of babies that are born alive in a country but die before reaching their first birthday.

Interdependence  A relationship in which people or countries depend on each other to meet their needs and wants.

Investing  Spending savings on goods and services that are not used up soon after purchase and that enable people to produce more.

LDCs  Less developed countries. See Developing countries.

Life expectancy  The average number of years a newborn child can expect to live.

Physical infrastructure  Installations or facilities that provide the groundwork for economic development. Examples are roads, electricity and communications networks, and systems of water supply and waste disposal.

Productivity  The ability of people to produce goods and services.

Savings  Income that is not spent on goods and services used up soon after purchase.

Standard of living  The amount of goods and services people have to meet their needs.
This book is part of Learning Kit No. 1 in the World Bank's series of multimedia kits about economic development, TOWARD A BETTER WORLD. Other materials in the kit are two filmstrips and a teaching guide. Other kits in the series are listed on page 4 of the teaching guide.

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All statistics in the book were supplied by the World Bank’s Economic Analysis and Projections Department, which draws on an array of national and international sources in compiling social and economic data. The World Bank’s Cartography Division prepared the maps, which are based on the Eckert IV equal-area projection. The denominations used in the maps and the boundaries shown do not imply, on the part of the World Bank and its affiliates, any judgment on the legal status of any territory or any endorsement or acceptance of such boundaries. The figures were prepared by the Art and Design Section of the World Bank. Carol Crosby Black designed the cover and layout.


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