Mr. President:

I am grateful to you and to the Council for this opportunity to meet with you during your Second Regular Session of 1979. In the past three weeks the Council has focused its attention on a number of major global issues. It has done so both within the framework of a general discussion of international and social policy, and in the course of considering individual agenda items concerned with issues such as natural resources, industrial development and food problems. All these discussions take on a new significance and urgency as the time approaches when the global community must agree on a new development strategy for the 1980s and beyond.

It is, of course, for governments to decide upon that strategy. The role and the responsibility of the U.N. system is to provide governments with the analytical infrastructure on which they can base a coherent, sound and achievable set of goals, and to put forward policy options for appropriate and feasible measures which will help governments to reach those goals.

The World Bank's principal contribution to that essential analytical work will be the World Development Report 1979. This report is the second in a series of comprehensive annual analyses of economic and social progress in the developing world. Their purpose is to help governments to assess the alternatives and take necessary decisions at the national and international level on issues of major development policy.
Last year's Report reviewed the development record of the preceding 25 years. It gave particular attention to problems confronting the low income countries of Asia and sub-Saharan Africa, and accordingly it focussed on agricultural development and poverty alleviation.

This year's Report reassesses growth prospects in the light of the past year's events and extends the time horizon to 1990 and beyond. While continuing to stress the problems of the poorest countries, and of the "absolute poor" in all developing countries, it gives greater attention to middle-income countries than did last year's Report. It provides a fuller treatment of their development experience, distinguishing three categories of countries in this broader grouping: the semi-industrialized, the mineral economies, and the predominantly agricultural. The Report addresses the problems of coping with an expanding labor force, a challenge which all developing countries now face, and then considers two aspects of structural transformation which pose especially urgent policy choices for middle-income countries. These are the issues of industrialization and urbanization. And finally, the Report discusses three areas of international concern--trade, capital flows and energy.

A draft of the 1979 Report was discussed by the Bank's Executive Directors just ten days ago. In final form, it will not be published until mid-August, but I would like to share its highlights with you today.

Specifically, what I want to do this morning is to

- tell you how we now assess the growth prospects of the developing countries;

- refer to the major international policy issues which both underlie and are raised by the Report;
- review briefly the domestic policy issues and options confronted by the developing countries as their economies grow.

**Prospects for Development**

What is our present assessment of the growth prospects of the developing countries?

This year, as last year, the Report examines three alternative growth scenarios. The "basic" scenario projects the way we believe the world environment is most likely to evolve—not the most desirable course, not the necessary or inevitable course, but what, from this year's vantage point, seems most realistic. The "low" scenario suggests the consequences were the slow post-1973 growth of world output and trade to continue to 1990. And the "high" scenario reflects the assumption that trade output will recover to the level of the 1960s. I emphasize that none of these scenarios is intended to be or should be seen to be a forecast or a target. There are too many uncertainties for that. They simply serve as frames of reference for the issues discussed in the Report.

A key determinant in the growth prospects of developing countries is the economic health of the industrialized countries. The "basic" scenario assumes that these countries will grow at an average annual rate of 4.2% in the 1980s.

On average the developing countries would grow at 5.6%—only 3.3% per capita. The outlook for the sub-Saharan countries of Africa is particularly bleak: a per capita growth rate of 1.2%.

The "high" scenario assumes annual growth in the OECD averaging 4.9%; this would support a greater expansion of world trade, and a larger flow of official development assistance. Developing countries could be expected to
grow an average of 6.6% in the decade of the '80s. Yet even under this most optimistic projection, developing countries' per capita GDP would rise an average of only 4.3% a year, and average per capita income in 1990 would be less than one-twelfth of that in the industrialized countries.

Under the "low" scenario, the industrialized economies would grow at an average annual rate of 3.5%, no faster than they did in the decade of the '70s; world trade would grow at a lesser rate, and the slower growth of GNP would mean a slower rise in ODA. This would probably limit the developing countries to an average annual growth rate of only 2.5% per capita.

The indications are that the massive disparities of living standards across the world will continue. So will the present diversity in income levels among the developing countries: under all three scenarios the gap between the average incomes of low and middle income countries will widen. The "basic" scenario projects the shocking figure of 600 million "absolute poor" at the end of the century. By "absolute poor", we mean persons whose income is so low that they cannot afford to buy a nutritionally adequate diet and other basic necessities—they are living literally on the margin of life. If the economies of the developing countries were to grow only at the rates now projected in the "low" scenario, the year 2000 might see, not 600 million, but more than 700 million persons living in absolute poverty. Under the "high" scenario that number could fall to perhaps 470 million, and it might be still further reduced through better income distribution and reduced fertility.

But to achieve this progress would require heroic measures. And it takes little imagination, nor would it be wholly unrealistic, to envisage a deterioration of the elements of the international environment, perhaps through
refusal or failure to take the necessary action or institute requisite reforms, which would make the "low" scenario, unacceptable as it is, appear optimistic.

It is obvious and imperative that we avoid the "low" scenario and aim at least at the results projected by the "high" scenario.

If this is the objective, what policies and actions are called for at the international and national levels?

Mr. President, a recurring theme at recent international meetings--UNCTAD V offers the most recent example--has been the mutuality of interest between developed and developing countries, and the interdependence of issues. The Report considers three principal areas of international concern: the environment for world trade, the prospects for capital flows, and energy. In each, mutuality of interest is both strong and long-term, and their interdependence is clear. For example, a more liberal trade environment improves the export and growth prospects of developing countries, enhancing their debt servicing capacity and helping to strengthen the structure of international capital flows. It is significant that on the list of objectives proposed for the New International Development Strategy by General Assembly Resolution 33/193, improvement in the terms of trade of the developing countries, and a substantial increase in real terms in the flow of resources to those countries, rank high. Informed policy choices must be made by the international community if these mutual interests are to be protected and their potential realized.

I turn now to a brief discussion of these three policy issues.

First, trade.
Trade

Mr. President, in my address to UNCTAD V, I drew on the Report's analysis of the environment for world trade and outlined a program of action. I shall not abuse the Council's patience by repeating that program here. However, I wish to emphasize that our projections of manufactured exports from the developing countries, which are a necessary foundation for their economic growth, will not be realized unless protectionist pressures are resisted and the industrialized countries facilitate access to their markets for the developing country exports. These special efforts by the industrialized countries are in their long-term interest, since they stand to gain from low-cost imports and a more rapid expansion of markets for their own exports.

Attainment of the export growth rates projected by the Report also assumes policy reforms and sustained effort on the part of the developing countries; structural adjustments favoring exports; a liberalization by the more industrialized of the developing countries of their own import policies; continued expansion of South/South trade—trade among developing countries; and more active participation by these countries in future multilateral trade negotiations. In this connection, I will stress here something I said at UNCTAD: I am prepared to recommend to the Bank's Executive Directors that the Bank consider requests for assistance to developing countries which undertake the requisite structural adjustments for export promotion, and provide program loans in appropriate cases.

I now come to capital requirements.

Capital Requirements

The domestic investment needed to support the growth projected by the "basic" scenario will be provided mainly by the savings of the developing countries. But if those rates of growth are to be achieved, a staggering
$469 billion will have to be met from external sources in 1990. For the low-income countries this means primarily official development assistance; they rely on such concessional resource transfers for about 70% of net inflows of medium- and long-term capital. The middle-income countries will look mainly to market loans.

The principal assumption we have made about ODA from the DAC countries is that it will rise a little less than 5% annually in real terms, to reach 0.35% of GNP by 1985, where it would remain through 1990. Such an increase in real terms seems modest indeed. But we are well aware that we are projecting a reversal of recent trends. Perhaps the 0.7% of GNP target for ODA set by the General Assembly at the start of the decade was unrealistically high. Yet four industrialized countries have reached it or exceeded it. It is the performance of the three largest economies which has fallen strikingly short; it has, as a matter of fact, deteriorated. The plain truth is, Mr. President, that unless early and sizeable increases in ODA commitments are made—if the record of the past few years is not turned around—even the modest gains projected for the low-income countries by the "basic" scenario will not—cannot—be achieved.

As for the middle-income developing countries, the "basic" scenario projects a need for $419 billion of external capital in 1990. Of this total, $309 billion is assumed to be provided through medium- and long-term loans on market terms. Net private lending is projected to grow at an annual average of almost 4% in real terms during the 1980s. Despite the increase in aggregate debt, debt services ratios for broad country groupings are not unacceptably high and do not point to a general debt problem. But liquidity crises may confront individual countries from time to time. These may occur less often
to the extent that international action succeeds in improving the maturity
structure of aggregate capital flows and debt and in adopting improved
arrangements for dealing with crises when they do occur.

Finally, a word on energy.

Energy

The balance in world demand and supply of energy will depend on what
happens in both oil importing and exporting countries. If prolonged production
setbacks in a few key oil exporting countries could be avoided; if major
consumer countries would adopt and implement strong conservation measures; and
if sustained efforts were to be made to find and develop new sources of energy,
the global demand for energy in the next decade could have been met without
significant and continuing increases in the real price of internationally
traded energy. That was our assumption. But events since the analytical work
on the Report was completed have already demonstrated that this assumption was
too optimistic. If the developing countries' growth is not to be reduced
significantly below the rates we have projected, it is essential that:

. the industrialized countries face and deal promptly and effectively with
  such issues as conservation of demand, safety of nuclear power, pricing
  of domestic energy supplies and development of synthetic fuels;
. non-oil-exporting developing countries consider how to explore and
  develop their own commercial energy resources\(^a/\), how to use non-commercial
  and non-conventional energy sources more efficiently, and how to adjust
  to higher energy prices,
. oil-exporting developing countries decide how fast to exploit their
  non-renewable resource and how to ease the transition of the world to

\(^a/\) An undertaking for which the Bank has offered financial and technical assistance.
a post-oil future, however distant.

Structural Transformation

I come now, Mr. President, to discussion of two issues which deserve special emphasis when considering development programs for the next two decades. These are:

- how to create employment opportunities for the additional one-half billion persons who will join the labor force in developing countries by the end of the century;
- how to provide the one billion persons who will be added to the urban population of developing countries, during the same period, with decent accommodations and adequate public services.

Employment and Industrialization

Between 1975 and the year 2000, the labor force in the developing countries is projected to increase by over 550 million, twice the growth realized in the previous 25 years. How can productive and gainful employment opportunities be found for anything like this number, especially given existing levels of underemployment and poverty?

We have tried, in the Report, to sketch a variety of policy measures which could go some long way toward meeting the challenge. The Report emphasizes promotion of appropriate agricultural and industrial development strategies and measures to improve education and skills. These should be supplemented by labor market policies that make it easier for workers to move both geographically and from one occupation to another. And for the longer run, Mr. President, we emphasize the role of population policies in bringing the labor force in developing countries to a more manageable size.
In the low-income countries, the Report's prescription for expanding productive employment and income opportunities is for improved performance in the rural economy. Specifically, it sees the need, as a first priority, to reverse investment, pricing and trade policies which discriminate against agriculture. Within agriculture, there must be sustained programs of support for small farmers. The conclusion that promoting agricultural growth and encouraging the efficient use of rural labor are important means of reducing underemployment applies also to middle-income countries, many of which have half or more of their labor force in agriculture. However, most middle-income countries must also implement industrial and trade policies that promote a rapid expansion of production and employment in industry, and adopt policies giving greater inducements to manufactured exports.

The level of industrialization is a key index of structural transformation. The problems implicit in industrialization are particularly difficult in the early stages when critical choices must be made in respect of sector, scale and timing of investments. Perhaps the most difficult of these problems is how to support industrialization without prejudice to agricultural development.

Another pressing structural problem concerns urbanization.

Urbanization

In 1950, only one city in the developing countries had a population over 5 million; by the year 2000, it is estimated that there will be 40. The estimate for the industrialized countries is only 12. Moreover, we estimate that 18 cities in the developing world will have over 10 million inhabitants, and one may have three times that number. In the last 25 years of this century, one billion persons will be added to the urban populations of developing countries.
We address, in this year’s Report, the policy issues related to problems implicit in this urban concentration and also those associated with the growth of individual cities: lack of remunerative employment, housing and public services, and the existence of congestion and pollution. Cities will continue to grow even in the face of vigorous decentralization measures and policies designed directly and indirectly to slow migration out of rural areas. The task is therefore to devise and carry out policies which will help assure that the inevitable growth is efficient and equitable: urban investment and regulation should facilitate expansion of transportation, housing, sanitation and other services and facilities which meet the needs of the urban majority at low cost.

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Mr. President:

I have outlined today for the Council the main findings and conclusions in the second in the World Bank series of annual reports aimed at providing a comprehensive assessment of global development issues. You will appreciate that there has not been time to do more than touch the high points. Again, as last year, we have not attempted to address every major question, but I believe the questions we have addressed are fundamental to the formulation of a well-designed, balanced and workable development strategy. I would emphasize, in particular, the interdependence in the world economy, and how critically action, failure to act, and policy choices can affect, for better or worse, the course of economic development.

I do not doubt that agreement can be reached on what should be the strategy's overall objectives. Nor is there doubt that the means to achieve those objectives are at our disposal. The question is whether the international
community can summon up the political will to do what is both obvious and necessary.

For too long, despite the remarkable economic progress achieved in the developing world over the last 25 years, gross inequities in the structure of international economic relations and in national economic policies have confronted us, and for too long there has been reluctance to initiate the actions which could help redress those inequities. As a result, the international community is condemning hundreds of millions of people to a continued condition of life which must be totally unacceptable in a world committed to the upholding of human dignity and decency.

The Bank's purpose, then, in presenting its continuing global assessment of development issues is twofold:

- to help provide the sound underpinning for formulating and implementing those policies which we know must be adopted;
- to help ensure that inaction cannot fairly be excused on grounds of a lack of understanding of the problems we are facing.

We attach great importance to the work we have done to produce these Reports. But that does not mean we believe that any single source of analysis can alone provide the indispensable data base. Nor do we expect universal agreement with our perspective on the world economy. The component parts of the system must illuminate the options as each identifies them in the light of its competence, expertise and capacities. I hope that the Bank's contribution to the Council's deliberations will be found constructive.

Thank you, Mr. President.