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Entering the 21st century: the challenges for development

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By many people, the 20th century will be remembered as an era of great achievement in human endeavour, and of enormous economic growth and prosperity. Achievements in medical research, from eradicating infectious diseases to laser surgery; in engineering, from the transistor to space exploration; and in economic development have all contributed to greater well being in the world at the end of the 20th century. Among the challenges to development identified by the World Bank in the coming decades will be managing the twin processes of globalization and localization, as well as post-conflict reconstruction. These will form the backdrop of the Bank's main focus of creating a world free of poverty.

Keywords: comprehensive development framework; globalization; localization; post-conflict reconstruction; poverty; challenges

1. INTRODUCTION

The 20th century will be remembered by many people as an era of great achievement in human endeavour, and of enormous economic growth and prosperity. Achievements in medical research, from eradicating infectious diseases to laser surgery; in engineering, from the transistor to space exploration; and in economic development have all contributed to greater well being in the world at the end of the 20th century. During this period, colonialism, Fascism, Nazism, communism and brutal dictatorship challenged democracy and freedom, but were beaten by the progressive forces that continue to shape our world. These forces have been given greater impetus towards the end of the era by globalization and localization, the twin processes that are shaping the international system through the functional integration of economies on one level, and by decentralizing political power and decision making closer to people within countries, on another. The world is a safer, more prosperous place at the end of the Millennium than it has been for most of the past 100 years. However, this safety and prosperity is not enjoyed evenly throughout the world.

While the end of the 20th century has seen the easing of East–West tension and the chances of mass scale inter-state war between highly industrialized countries virtually eradicated (by one count, 110 million people were killed in armed conflict during the 20th century, most of them in the First and Second World Wars), conflict has soared within states and among rival groups in pockets around the world. At least four million people have been killed in violent, mainly intra-state, conflicts during the last decade of the 20th century and by January 1997 there were over 35 million refugees and internally displaced persons around the world (World Bank 1998). Even more disturbing has been the dramatic increase in civilian deaths over the latter part of the century. Research by the World Bank has shown that as

many as 90% of all deaths in recent wars have been non-combatant, compared to 15% earlier in the century. During one violent clash in 1994, more than 500 000 people (almost all civilians) were killed in three months of genocide in Rwanda, making this one of the most horrifying chapters in human history.

At the same time, while the global economy has grown significantly in the last several decades and economic activity has reached most places, poverty and underdevelopment continue to blight vast communities around the world. Inequity between rich and poor continues to grow: three billion people still live on under US\$2 a day; forests are being degraded at the rate of an acre a second; 130 million children are not in school; 1.5 billion people have no access to clean water and two billion do not have access to sewerage (Wolfensohn 1999). These figures, alarming by any measure, are not static. The problem is compounded by the 80 to 90 million people added to the population in the developing world each year. It is exacerbated by the proliferation of states that has occurred in the post-Cold War era, which has placed an enormous strain on the international system as well as on the ability of the development community to respond to any crises that may result from this process. Growth, prosperity, relative peace and stability—the most basic of freedoms that most people in the West take for granted—are thus far from universal. Our greatest challenge in the next millennium is, therefore, to expand these freedoms—freedom from want, freedom from need and freedom from fear—to the remotest parts of the world.

2. POST-CONFLICT RECONSTRUCTION

More than 50 countries have experienced significant periods of conflict during the last two decades of the 20th century (World Bank 1998). In some cases, the state has either failed or collapsed altogether, leaving enormous power vacuums where economic predation

and warlordism have become the norm. As a result of conflict and state failure, 30 countries in various parts of the world have had more than 10% of their population displaced; in ten countries, the proportion is more than 40%. In most cases where vast numbers of people are dislocated, it becomes difficult to relocate them because of minefields that have been laid in the roads and fields of conflict zones. World Bank research has shown that long after the guns are silent, in the aftermath of civil conflict and strife, countless casualties are caused by the estimated 100 million landmines that have been laid in various parts of the world. The process of cleaning minefields around the world is time-consuming and dangerous. Although it is absolutely essential (landmines quite literally impede the roads to reconstruction and development) it is a tragic misallocation of resources. In a more peaceful world, donor funds used for clearing landmines could instead be put towards actual developmental projects, such as the construction of roads and telecommunications networks, dams, schools and hospitals. Protracted civil conflict deepens poverty and misery. In Angola, for example, an entire generation has spent most of their lives under conditions of war and social dislocation.

The World Bank will continue to assist with post-conflict reconstruction by supporting the transition from conflict to peace through the rebuilding of the socio-economic frameworks of the affected countries. Such reconstruction does not refer only to the reconstruction of physical infrastructure, nor does it necessarily imply a rebuilding of the socioeconomic framework that existed before the onset of conflict. Protracted, or particularly violent, conflict can transform a society, and a return to the past may not be possible or even desirable. What is needed is to rebuild the enabling conditions for a functioning peacetime society; the role of the World Bank is not to implement this process, but rather, to support it.

Working conditions in post-conflict countries, with their limited government capacity, fragile political balances, devastated social fabric and extreme time pressures, increase the risks of reversals, setbacks and failures. The risks involved in conducting business and bringing more people into economic activity are much higher than in developing countries that have not been affected by war and civil conflict. Post-conflict reconstruction, therefore, has two overall objectives: first, to facilitate the transition to sustainable peace after hostilities have ceased, and, second, to support long-run economic and social development. Reconstruction assistance is, therefore, directed at:

- (i) jump-starting the economy through investment in key productive sectors; creating conditions for the resumption of trade, savings and domestic and foreign investment; and promoting macroeconomic stabilization, rehabilitation of financial institutions and the restoration of appropriate legal and regulatory frameworks;
- (ii) re-establishing the framework for governance by strengthening government institutions, restoring law and order and enabling the organizations of civil society to work effectively;

- (iii) repairing important physical infrastructure, including key transport, communication and utility networks;
- (iv) rebuilding and maintaining key social elements of society by financing education and health, including recurrent costs;
- (v) targeting assistance to those affected by war through reintegration of displaced populations; demobilizing and reintegrating of ex-combatants into civil society; revitalizing local communities that have been most disrupted by conflict through such means as credit lines to subsistence agriculture and micro-enterprises; as well as support for vulnerable groups such as female-headed households;
- (vi) supporting landmine removal programmes, including mine surveys and overall support for populations living in mine-polluted areas;
- (vii) normalizing financial borrowing arrangements by planning a work-out of arrears, debt rescheduling and the longer-term path to financial normalization.

While the primary purpose of post-conflict reconstruction is to rebuild the society and political economy of war-ravaged countries and to create conditions that make the return of pre-war tensions unlikely and undesirable, these processes cannot proceed in isolation from global economic activity. In other words, global economic activity does not stand still during regional or domestic reconstruction and (re)integration into the global economy is the ultimate objective of countries coming out of civil conflict; for these reasons we must remain cognizant of global economic and political trends. The cynosure of these trends are the twin forces of globalization and localization, which, together and in opposition, will shape the development landscape of the early 21st century.

3. GLOBALIZATION AND LOCALIZATION

Globalization must not be perceived as a threat, nor must we allow it to become an actual threat—for its benefits can be enormous. It has brought economic activity and prosperity to distant markets and opened the global economy to erstwhile isolated communities around the world. At the same time, localization is forcing states to take note of subnational dynamics and accommodate demands emanating from the local level. The responses of governments to these twin forces will, by and large, determine whether low-income countries can begin to catch up economically with those of industrialized countries and whether efforts to uproot poverty will be successful in the coming decades.

Globalization denotes the integration of markets for goods and factors of production along with increasing uniformity of standards and consumer tastes. Starting in the 1980s, many countries—industrialized as well as developing—began dismantling controls on the movement of capital and adopting a stance more favourable to foreign direct investment (FDI). Declining transport costs and impressive advances in communications technology as well as information processing served to tighten the integration of goods and capital markets. The adoption of common rules to regulate banking and financial reporting lent further momentum, as did the creation of the World

Wide Web and international coalescence around product standards such as ISO 9000.

Greater demand for, and receptivity towards, FDI and the ease of transacting over long distances induced companies to reorganize their activities, slice up the value-added chain and distribute production facilities across their markets. This spatial diffusion and the widening of markets is behind the proliferation of production networks which allows firms to specialize, focus their research efforts, and leverage their scarce managerial and marketing skills. Cross-country production networks have reinforced the impulse released by the liberalization of trade and the removal of barriers to capital mobility.

Despite all these changes, globalization could have remained a weak force were it not for a seismic shift experienced throughout the world towards market-based economies and democratic forms of government. The decisive events were the tearing down of the Berlin wall in 1989 and the subsequent end of East–West rivalry, but almost equally the spread of democracy in Africa during the early 1990s and the consequent increase in global economic activity. For example, the membership of the World Trade Organization (WTO) increased from 102 in 1990 to 134 in 1998. As a result of these changes, trade in goods and services has risen twice as fast as gross domestic product (GDP) during the 1990s, with the share of developing countries climbing from 23% to 29% (World Bank 1999). Alongside conventional trade, various forms of capital are circulating more widely and in far larger volumes. For instance, developing countries received US\$155 billion of FDI in 1998, 16 times the amount received in 1990. Global production networks now account for about one-third of the total production.

Globalization has not only catapulted supranational issues to the attention of the nation-state, it has also increasingly circumscribed its choices. At the same time, localization is forcing states to take note of subnational dynamics and accommodate demands emanating from the local level. Localization, which includes the demand for autonomy and political voice evinced by regions and by communities, has many causes. Dissatisfaction with the ability of the state to deliver on promises of development is one factor. The strength of local and ethnic identity reinforced by education, better communications and the rising concentration of people in urban areas is another reason. A third reason is the desire to deepen the sense of belonging to a place in a world where globalization is levelling cultural differences. And a fourth factor is the sharpening competition between subnational units in an open environment, compounded by a reluctance of richer entities to share resources with their less well-off neighbours.

The pull of local identity is strikingly manifested in the multiplication of nation-states—from 96 in 1980 to 192 in 1998 (World Bank 1999), a doubling that has derived additional impetus from the changed geopolitical circumstances attendant on the ending of the Cold War. Furthermore, the demand for political voice is gaining momentum. As Nobel Laureate Amartya Sen observed in a recent essay, ‘while democracy is not as yet universally practical nor indeed uniformly accepted in the general climate of world opinion, democratic governance has now

achieved the status of being taken as generally right’ (Sen 1999, p. 5). In 1980, of 48 of the largest countries, only 12 had elections at the national level. Today 34 of these countries held elections at both national and local levels.

A second manifestation is the ongoing process of political and functional decentralization in large as well as small states. Half the countries that decentralized politically also devolved major functional responsibilities. Examples include primary and secondary education in Poland, and primary healthcare and local road maintenance in the Philippines. Often this has substantially raised the subnational share of public expenditure: in Mexico it increased from 11% in 1987 to 30% in 1996, and in South Africa, from 21% to 50%. (World Development Report 1999, p. 45.)

Decentralization is not limited to large and wealthy countries. In the Middle East and North Africa, Jordan, Lebanon, Morocco and Tunisia all have elected local governments. In Eastern Europe and Central Asia (in addition to Russia and the Ukraine), the rights and responsibilities of subnational governments are enshrined in the constitutions of Albania, Bosnia, Bulgaria, Croatia, Georgia, Hungary, Kazakhstan and Tajikistan. Other small countries of the region, such as the Baltics and the Kyrgyz Republic, have taken significant steps to strengthen local government. In Africa, 25 out of the 38 countries that held national elections in the 1990s also had local elections—this includes a number of very small countries such as Cape Verde and Mauritius. In Latin America, every country will soon have elected mayors. Even outside the large federations of Argentina, Brazil, Colombia and Mexico, local governments account for 20% of government expenditures in the other countries for which we have data.

Another phenomenon driving localization and contributing to the emerging sense of local identity is urbanization. It has been estimated that half the world’s population will be living in areas classified as urban by the turn of the century. As recently as 1975, this share was just over one-third and by 2025 it will rise to almost two-thirds. The fastest change will occur in developing countries, where almost three-quarters of those added to the world’s population in the next century will reside in urban areas. While the rate of urbanization peaked in higher-income countries of Latin America, Eastern Europe and the Middle East, the transition is just beginning in Asia and Africa. Almost 1.5 billion people are expected to be added to urban populations over the next 20 years. The pace of urbanization and the sheer numbers involved will pose one of the major development challenges of the next century.

Globalization and localization, the latter associated with the spread of both participatory democracy and urbanization, can improve the prospects for rapid and sustainable growth. This could come about through the increased availability and more efficient allocation of resources, the freer circulation of knowledge, a more open competitive milieu and improved governance. But, as always, there are downside risks. Globalization entails greater exposure to external shocks, such as capital volatility, which was recently highlighted by the East Asia Crisis, along with a number of threatening environmental issues. Decentralizing measures introduced to satisfy local

demands can lead to macroeconomic instability if fiscal imprudence by subnational entities is not vigorously disciplined. Moreover, the promise of agglomeration economies (from the concentration of industry and skills) in raising urban living standards could prove elusive if policies cannot prevail over the spread of poverty, violence and generalized squalor.

As more and more developing countries are brought into the global economy, those who feel threatened by its apparent relentlessness may be tempted to retreat into protective national or subnational enclaves or withdraw from modernity. We believe that neither globalization, nor localization is sufficiently threatening to international society or to national or subnational communities to warrant a retreat into isolation and exclusion. Globalization can bring new opportunities for expanded markets and the spread of technology and management expertise, which in turn hold the promise of increased productivity and a higher standard of living. It can also result in increased pressure on workers and communities in general, through the fear of job losses to competition from imports. The dangers of contagion and the impact of transnational financial crises on domestic banking systems, as we have seen with the rampant spread of the East Asian Crisis, are real concerns for ordinary workers, whose life savings may be at risk, as much as it is for investors. We cannot ignore the concerns of ordinary people; the voices of the weak and the poor are as important as those of investors. The World Bank is working with national governments to create the requisite policy and regulatory environment and the appropriate safety nets to serve as shock absorbers against economic crises where the poor management of globalization may have adverse effects on developing countries.

To an extent, globalization has its own counterweight that can militate against policies or processes that threaten to isolate or alienate local communities. As communities come under threat—real or perceived—from the vicissitudes of the global economy, they may tend to look inwards, to local and communal bonds and local cooperation. This localization raises levels of participation and involvement, thereby providing local communities with the opportunity (and ability) to shape the context of their own lives in a much more meaningful manner and in a way that is closer to voters. Localization can therefore result in more responsive and efficient local governance. In both cases, institutional responses are required. Globalization will require national governments to establish closer partnerships—with other nations, international and multilateral organizations, multinational corporations and non-governmental organizations—through supranational regimes. Localization will require national governments to reach accommodation with regions and cities over responsibilities and revenues through subnational corporations. Both processes require responses that may be beyond the control of the nation-state, albeit that the state remains pivotal in shaping development policy. The World Bank can and will, therefore, endeavour to play a catalytic role in facilitating the management of these processes and in building capacity among developing countries to improve their abilities to benefit from globalization.

4. COMPREHENSIVE APPROACH TO DEVELOPMENT

Against the backdrop of uneven development and underdevelopment, the proliferation of regional and interstate conflict, and rapid globalization and localization, the World Bank has put forward its Comprehensive Development Framework (CDF)—a set of guidelines for a more holistic, integrated and realistic approach to development. The CDF proposes a holistic approach to development that is sensitive to the domestic social and economic demands and expectations within a particular country. While it promotes the ideal of sustainable economic growth, it recognizes that the developmental needs of one country may differ significantly from those of another; that underdevelopment and uneven development may be symptoms of deeper (and unique) social, political and economic problems.

In addressing these and other problems in the next century, the development community must be humble. We must take into account conditions that may be unfamiliar and develop policies that are sensitive to local needs and capabilities. We must avoid the temptation to prescribe programmes to the poor that we ourselves would find intolerable (if they were imposed on us) or deny poor countries development opportunities without which highly industrialized countries would not have become as prosperous. Important though they may be, we must move beyond narrowly defined technical prescriptions. Higher GDP, low inflation and 'getting prices right' all have a role to play in poverty alleviation, but they must not come at the expense of increased unemployment, the decay or collapse of infrastructure, the fraying of social fabrics, and the erosion of the safety that traditional societies and extended families provide. Social stability and cohesion must be preserved and improved.

It follows that, in articulating and deliberating our policies, we must prevent a type of self-censorship that removes important social and political aspects of development from our discourse. We don't have all the answers. We recognize that there is more to living standards than is typically captured in GDP growth, or in simply getting the macroeconomics right. For example, globalization is placing new strains on society and affecting how we work, how we learn and what investments we have to make. As production forces become increasingly globalized, a heavy emphasis is placed on the diffusion and upgrading of technology. Education and training (including the training and retraining of workers, and the provision of transferable skills) become priorities in development programmes and are important instalments of investment in human capital, which the state may have to manage.

This broad approach is embodied in the CDF, which represents a perspective that includes democratic, egalitarian and sustainable development, and higher standards of living and education. The CDF is essentially a strategy for development in the 21st century that reflects more adequately a framework that presents the structural, social and human aspects of development. This approach goes beyond the familiar statistics of infant and maternal mortality, unemployment and children in school, to address fundamental long-term issues such as the scope and substance of societal development. The CDF is shaped by four main ideas; all of which are interrelated.

First, we realize that the ultimate goal of development is to raise people's standard of living. This includes higher per capita income as well as improvements in health, education, opportunities for participation in public life, a clean environment and inter-generational equity, among others. Second, we recognize that there is a role for government in development to assure investment in human capital (education and training), for the protection of property rights, for establishing and maintaining the requisite regulatory environment, etc. Government's role in the economy varies due to factors such as its capacity for decision making and administration, the country's level of development and external conditions. Third, no single development policy can make much difference in an otherwise hostile policy environment. Increasing human welfare requires an integrated policy package in an institutional environment that rewards good outcomes, minimizes perverse incentives, encourages initiative and facilitates inclusiveness. Fourth, processes are as important as policies; the sustainability of policy outcomes depends on the breadth of support they enjoy. This support is fostered by modes of planning and decision making that are based on consensus, participation and transparency. Institutions of good governance that embody these processes are a key to sustained development and such institutions will often require partnerships and arrangements between government, the private sector, non-governmental organizations and other institutions of civil society. If we are going to successfully combat the threats of poverty and social disruption, and place individual countries in the driving seat, we cannot de-link these processes from one another. The phenomenal growth of East Asia over a relatively short period is a case in point.

The miraculous achievements of East Asia in the post-war period—the recent chain of crises notwithstanding—remains the best example of what is possible in development. Between 1960 and 1995, eight economies in East Asia grew more than twice as fast as the rest of East Asia, approximately three times as fast as Latin America and South Asia, and five times faster than sub-Saharan Africa. By the early 1990s they were the only economies that enjoyed high growth, declining inequality and dramatic increases in life expectancy, from 56 years in 1960 to 71 years in 1990. Not only did economies in the region grow rapidly and with impressive improvements in living standards, education, health and income, but the fruits of this growth were shared widely. East Asia reduced the number of people living in absolute poverty (defined as US\$1 a day) by half in the two decades preceding the crisis, from 720 million to 350 million. Moreover, the rate of poverty decline actually accelerated over the last ten years of the same period—the total number of people in poverty fell by 27% between 1985 and 1995. While six out of ten East Asians lived in absolute poverty in 1975, roughly two in ten did in 1995. This pace of poverty reduction was faster than in any other region of the developing world. Government intervention played a large role in East Asia's enormous successes and in a number of ways. Proscribing the state on simple ideological grounds removes an important element from the development process. (World Bank 1993.)

Our challenge, in the coming years, is to take the best practices from East Asian development experience and

make them available to countries emerging from periods of social and economic decline—with sufficient scope and opportunity to consider local conditions. This will not be easy. The essence of the CDF is the belief that countries should be in the driving seat and steer the course of their development. This becomes difficult in a political vacuum and where social cohesion remains fragile. Research has shown that since 1980, nearly half of all low-income countries have experienced major conflict. During the past ten years, virtually every country in Africa has either experienced major conflict or borders on another country that has experienced conflict. To be fair, this is not unique to Africa. Over the same period we have seen conflict bring relatively prosperous societies, such as Yugoslavia, into social dislocation and deep poverty. In most of these countries authority, accountability, administrative responsibility and capacity, as well as political power, have been dissolved, which makes it difficult, if at all possible, to identify which actors can and should steer the course of development.

5. CONCLUSION

The statistics on poverty speak for themselves. The dislocation and rupture caused by protracted civil conflict has deepened poverty in many parts of the world and has impeded our development efforts. Moreover, the overall human crisis that followed in the wake of the East Asian Crisis was severe and compounded the problems of the developing world and the transition economies of Eastern Europe and Central Asia. In the transition economies, poverty has been deepening dramatically since the end of the Cold War. In 1989, 14 million people in the transition economies were living under the poverty line of US\$14; that number had increased to 147 million by the mid-1990s. In sub-Saharan Africa growth slowed from 4.5% in 1995–1996 to 3.5% in 1997 and 2.4% in 1998. The spread of the AIDS virus over the past decade has rolled back many of Africa's developmental achievements. In the Middle East and North Africa, oil-exporting countries faced the largest terms of trade shock ever in the aftermath of the East Asian Crisis; a decline of about 25%, translating into a loss of revenues representing 7% of GDP. In Latin America and the Caribbean, growth slowed to an estimated 2.5% in 1998 (it is expected to continue falling to below 1% in 1999) from more than 5% in 1997. (World Bank 1998.)

The proliferation of intra-state conflict (including state failure and collapse) in the last decades of the 20th century has made it difficult to address poverty directly and may continue to do so for many years to come, as minefields are cleared and institutions are re-established. The nature and scale of these conflicts—which are mainly inter-state and among rival groups—also undermine development in a wide range of countries and threaten national and regional stability. Enabling developing countries, especially those emerging from civil war and strife, to participate in the global economy, begins by assisting reconstruction within countries and within regions. In doing so, we must ensure that the developing world shares equitably in the benefits of participation in international economic activity and of globalization.

As an international community we cannot prevent or resolve all the conflicts that may erupt around the world.

Nevertheless, we can support the transition by societies in conflict to a consolidated peace by a series of well-timed technical interventions that remove some of the core impediments to post-conflict reconstruction and build a firmer base for socially sustainable development. The rationale for World Bank action is simple: we cannot have peace without economic hope.

The world at the end of the 20th century is in many ways safer and more prosperous than it has been; there are more opportunities for greater diffusion of progress, modernization, peace and prosperity. Our greatest challenge over the next several decades is to expand the freedoms that we in the industrialized world take for granted—freedom from want, freedom from need and freedom from fear—to the developing world. The same vigour with which we fought the scourges of Fascism, Nazism and communism earlier this century must be employed to combat the scourge of poverty, economic decline, the AIDS virus, other life-threatening diseases and intra-state conflict in the coming decades. These

actual and emerging disasters threaten regional and international stability; they cause human hardships, mass displacement of people, and political and economic disruptions. These are the central challenges we face in the world at the end of the 20th century. As an international society we ignore them at our peril.

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