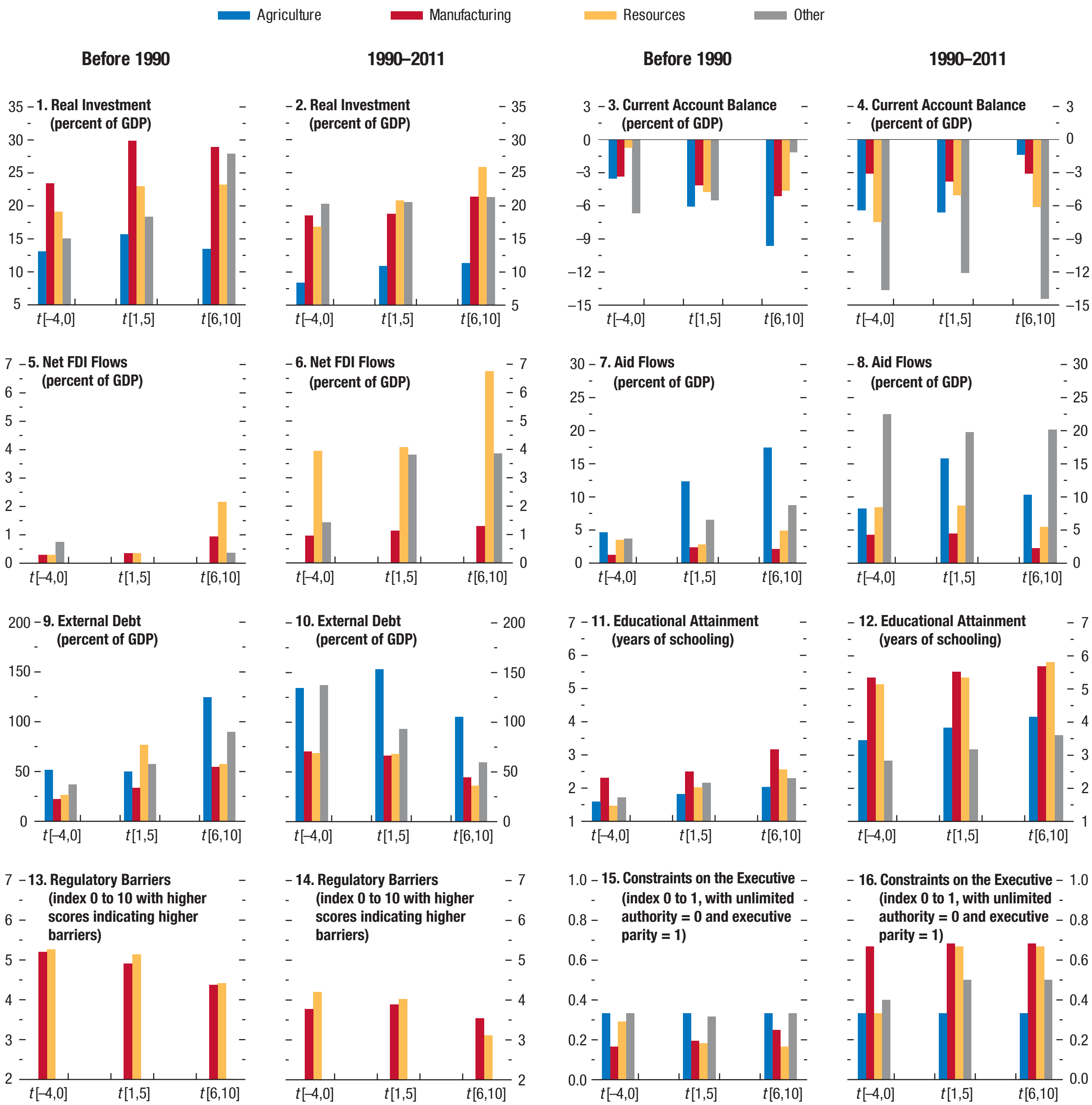
Figure 4.10. Investment and Financing across the Spectrum of Today's Dynamic Low-Income Countries

(Median economy; t = 1 in the first year of a strong growth episode)

Investment rates were relatively high for both generations of dynamic low-income countries (LICs). However, external financing of this investment differed across groups. In the current generation, resource-oriented economies benefited most from foreign direct investment (FDI), while agriculture- and other-oriented economies benefited most from aid. Partly because of shifts in external financing, external debt eventually fell for all groups of today's dynamic LICs. Moreover, today's manufacturing- and resource-oriented economies helped to fuel their growth by reducing regulatory barriers while strengthening political institutions. At the same time, educational attainment improved for all groups.



Sources: Barro and Lee (2010); Gwartney, Lawson, and Hall (2012); IMF, Balance of Payments Statistics database; IMF, International Financial Statistics database; IMF, World Economic Outlook database (October 2012); Lane and Milesi-Ferretti (2007) updated to 2011; Penn World Table 7.1; Political Regime Characteristics and Transitions database (2011); World Bank, World Development Indicators database; and IMF staff calculations.

Note: Economy groups and indicators are defined in Appendix 4.1. LICs exclude countries experiencing or recovering from a serious external or internal conflict at the start of their takeoffs. See the text for the definition of strong growth episodes (takeoffs). See Appendix 4.1 for the definition of conflict and the source of the conflict data. A constant composition sample underlies each of the panels to ensure comparability within the group of strong growth episodes across time for that panel. Bars are plotted only if there are at least three takeoffs.