Economic Trends in the Developing World

When the last chapter of the economic history of the twentieth century is written, it will likely be about economic integration and globalization, a trend that is benefiting developing and industrial countries alike.

OVER THE past decade, developing and industrial countries have forged new links through trade and financial flows. The developing world's growing integration into the global economy is examined in the World Bank's forthcoming *World Development Indicators 1997 (WDI)*, along with other promising trends observed in many developing countries—strong growth, success in reducing poverty, and improved living standards. Overall, the outlook is bright. But many challenges remain. Economic reforms are far from complete; billions of people still live in dire poverty; and growing energy demand threatens the environment.

Economic integration

Since 1950, global trade has grown faster than output. After stagnating in the 1970s and 1980s, trade has boomed in the 1990s, led by the rapid growth of East Asian exports (Chart 1). Merchandise trade grew dramatically, but trade in services grew more sharply; the latter's share in world exports rose from 15 percent in 1980 to 18 percent in 1995. The strong growth of international trade is due to the liberalization of markets worldwide, the achievement of the Uruguay Round and other multilateral agreements over the course of the past several decades. Tariffs have been falling, and, perhaps even more important, nontariff barriers are being dismantled.

Chart 1
Ratio of trade to GDP, 1985–95

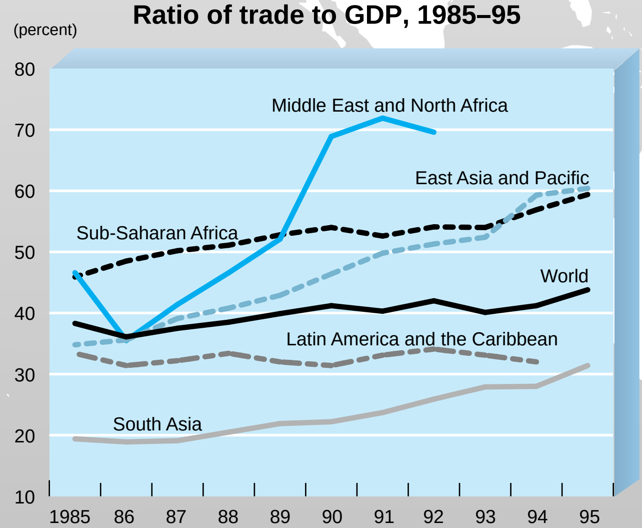
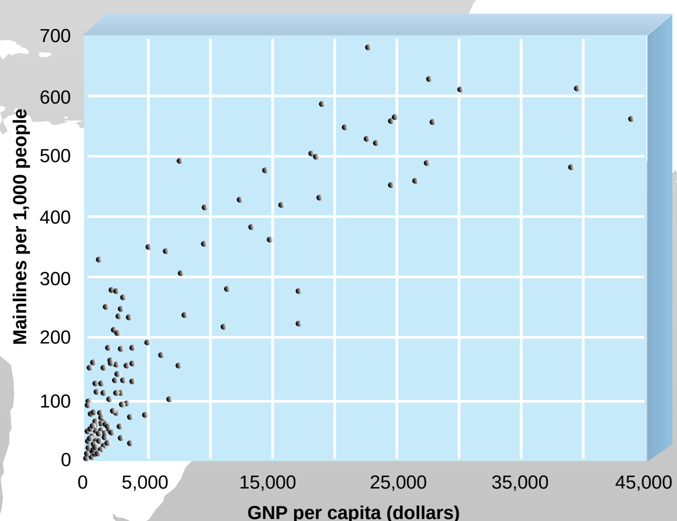


Chart 2
Telephone lines and GNP per capita, 1994–95



Source: World Bank, *World Development Indicators 1997* (Washington).

World Development Indicators 1997

The World Bank's *World Development Indicators 1997* provides a broad view of the world economy, the people who live and work in it, the environment that both provides natural resources and absorbs much of the waste, and the ongoing structural transformation of developing and high-income economies. This year, the *WDI* includes a new section on the interaction of states and markets and expanded coverage of the links—trade, investment, and official flows—that characterize global integration.

The World Bank has published the *WDI* every year for almost two decades as a statistical appendix to the *World Development Report*. This year, for the first time, the *WDI* is a free-standing publication; it has been enlarged to include more than 75 tables of data and is accompanied by a CD-ROM that contains most of the underlying time-series data. Along with expanded coverage of economic, social, and environmental indicators, the new *WDI* contains more extensive descriptions of the indicators and a candid discussion of their limitations.

No statistical compendium can capture the full complexity of the world economy. The *WDI* is intended to expand the scope of our quantitative understanding of the development process while recognizing the limitations of the data on which that understanding is based. Thanks to collaboration with the World Bank's many partners, including the IMF, the United Nations and its specialized agencies, and private suppliers of data, it is now possible to provide a more accurate and comprehensive assessment of the challenges ahead.

In some developing countries, trade liberalization has been accompanied by rapid financial integration, as inflows of foreign private capital, particularly foreign direct investment (FDI), have soared. Although the story is now familiar, the statistics are still dramatic. In 1990, FDI brought $25 billion of investment to developing countries; by 1995, this figure had increased almost fourfold, to $95 billion. FDI and portfolio flows combined are now four times greater than aid flows from high-income countries.

Technological change has spurred economic integration, both by decreasing the cost of information and by increasing the speed of information transmission. Modern telecommunications have allowed the creation of worldwide, round-the-clock financial markets; firms that operate networks of global suppliers and subsidiaries; and new service industries that deliver their products electronically. However, supply and demand in the communications sector are very much a function of income. The number of telephone lines rises rapidly with GNP per capita (Chart 2), and the number of Internet users is highest in Western Europe and North America.

Economic trends

Certain economic trends are emerging for the developing world: for example, agriculture continues to decline in importance while the share of manufactured exports in GDP is rising. The fastest-growing sector—in high-income and developing economies alike—is services.

Growth has been greatest in economies that have opened themselves to world trade, welcomed private investment, achieved macroeconomic stability, and allowed an incentive system of prices and taxes to encourage structural transformation. Over the past decade, the fastest-growing economies were in Asia. Between 1990 and 1995, developing economies' GDPs grew, on average, by 3.1 percent annually; the average annual growth rate was 10.3 percent in East Asia and 4.6 percent in South Asia, compared with only 2.3 percent in the high-income countries.

Chart 3

Gross domestic investment as a share of GDP

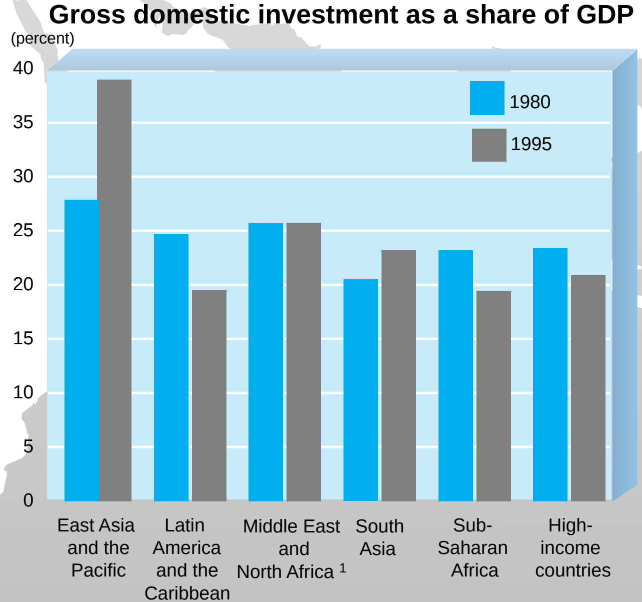
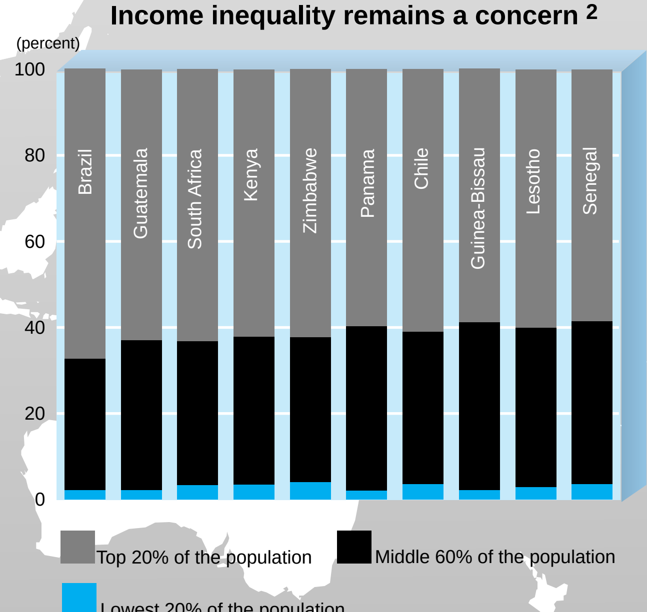


Chart 4

Income inequality remains a concern [2]



Source: World Bank, *World Development Indicators 1997* (Washington).

[1] Data for 1992. Data for subsequent years not available.

[2] Shares of income or consumption for different segments of the population in selected countries.

A handful of developing economies are emerging as potential giants. In 1995, the 10 largest—Argentina, Brazil, China, India, Indonesia, Mexico, Pakistan, Russia, Thailand, and Turkey—accounted for 59 percent of the developing world's GDP and 44 percent of its exports, and 11 percent of world GDP. By contrast, the economies of sub-Saharan Africa accounted for 10.4 percent of the world's population but only 1.1 percent of world GDP.

There is some evidence of a changing public-private balance throughout the world—in many Asian countries, fiscal deficits have declined, while investment-to-GDP ratios have increased (Chart 3). And the size of the public sector, as measured by the ratio of central government expenditures to GDP, has decreased, particularly in Asia and Latin America. Nevertheless, bureaucrats are still in business. Despite more than a decade of divestiture, state-owned enterprises remain ubiquitous. Indeed, their presence has shrunk significantly only in the former socialist economies and a few middle-income countries.

Social indicators

Economic growth means little if it does not result in an increase in human well-being. There is reason for optimism on this score. Social indicators have improved in some regions. Average infant mortality rates for low- and middle-income countries have been halved, from 105 per 1,000 live births in 1970 to 52 in 1995. But these averages mask regional and gender disparities. Infant mortality remains above 90 per 1,000 live births in sub-Saharan Africa and 70 per 1,000 in South Asia. Primary school enrollments have declined in some African countries, and enrollment rates are typically lower for girls than for boys. Although many developing countries have succeeded in reducing poverty, more than 1.3 billion people still live on less than a dollar per day; another 2 billion are only slightly better off. And inequality of incomes remains a political and economic concern (Chart 4).

The environment

People depend on the environment for their welfare, and the welfare of the environment depends upon the people who live and work in it. Growth at the expense of the environment or of the health of a nation's population is unlikely to be sustainable. Deforestation, degradation of water supplies, and air pollution affect the quality of life and productivity of the economy. While economic development is frequently seen as a cause of environmental degradation, the truth is that only with accelerated economic development and a better understanding of the ways in which economic activity affect the environment can environmental problems be solved. In recent years, there have been signs of progress. Carbon dioxide emissions per capita have fallen in high-income countries (Chart 5), and energy use has become more efficient (as measured by GDP per unit of energy used). But there is much work to be done. If, for example, in the course of development, the low- and middle-income economies expand their energy use to match levels in high-income countries (Chart 6), there will be huge economic and environmental consequences. F&D

Chart 5

Carbon dioxide emissions are increasing in developing countries

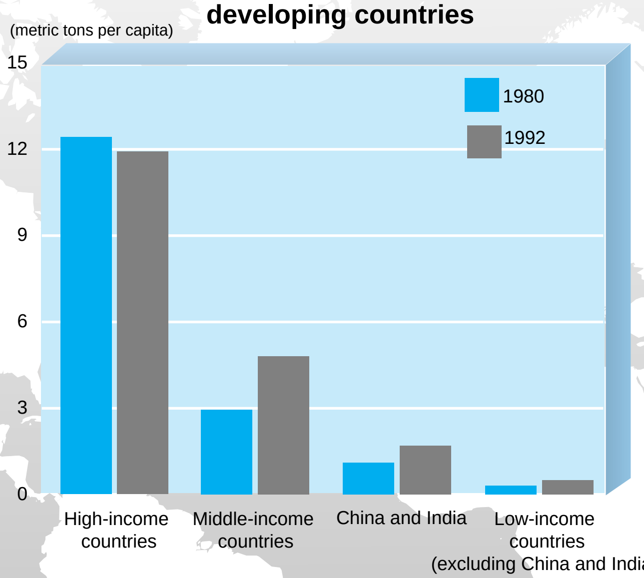
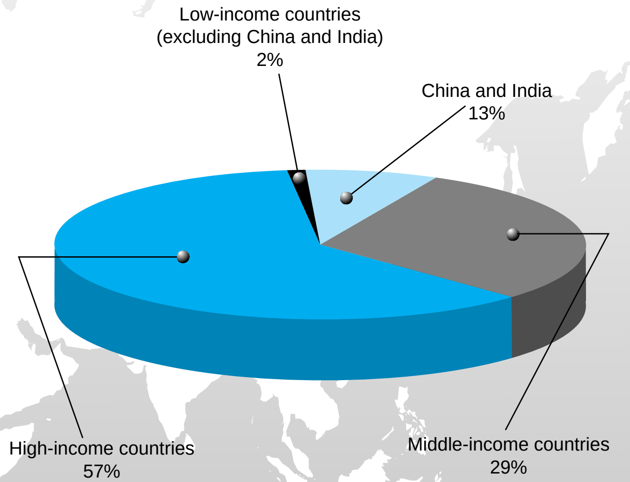


Chart 6

Share of total commercial energy use, 1994 [1]



Source: World Bank, *World Development Indicators 1997* (Washington).

1 World commercial energy use, measured in oil-equivalent units.