



4

Economic Growth Rates

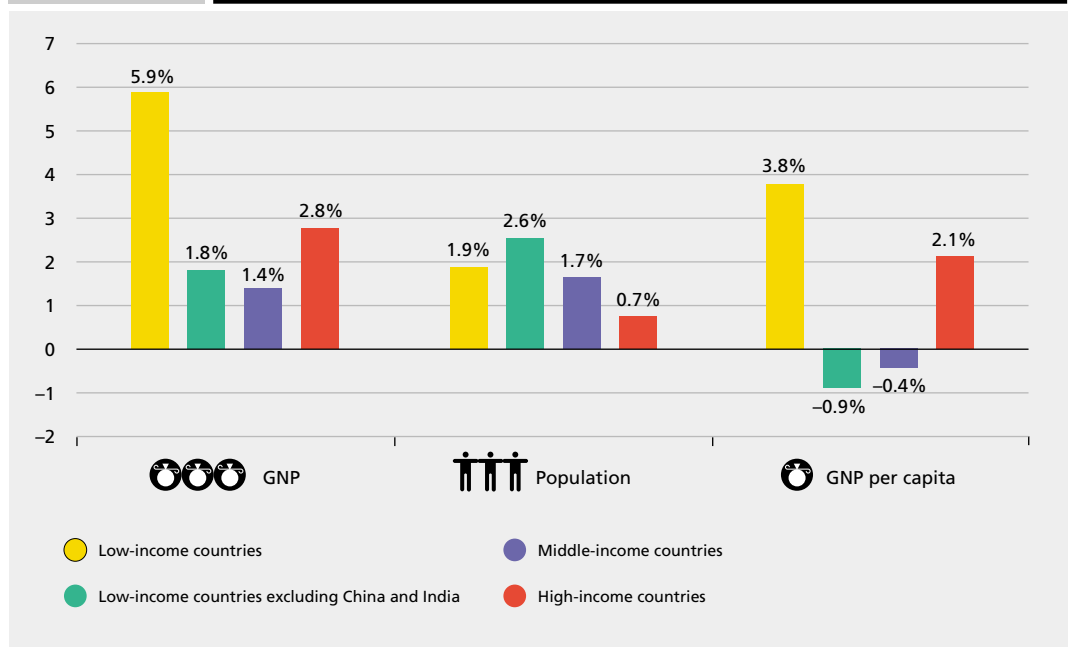
Will the poor countries catch up with the rich?

GDP and GNP growth rates in **developing countries** are on average higher than those in **developed countries**. Moreover, the difference became even larger in recent years because GNP growth in developed countries slowed from more than 3 percent a year in the 1980s to about 2 percent a year in the first half of the 1990s. Low-income countries, by contrast, appear to have performed much better during this period, with GNP growing by almost 6 percent a year in 1980–95. So, will the poor countries soon catch up with the rich?

Unfortunately, the **economic growth** patterns described above do not mean that the world is on its way to “convergence”—that is, to the gradual elimination of the economic gap between rich and poor countries. Much faster population growth in most developing countries is offsetting comparatively faster GNP growth, causing GNP *per capita* growth rates in these countries to be low or even negative (Figure 4.1; Map 4.1).

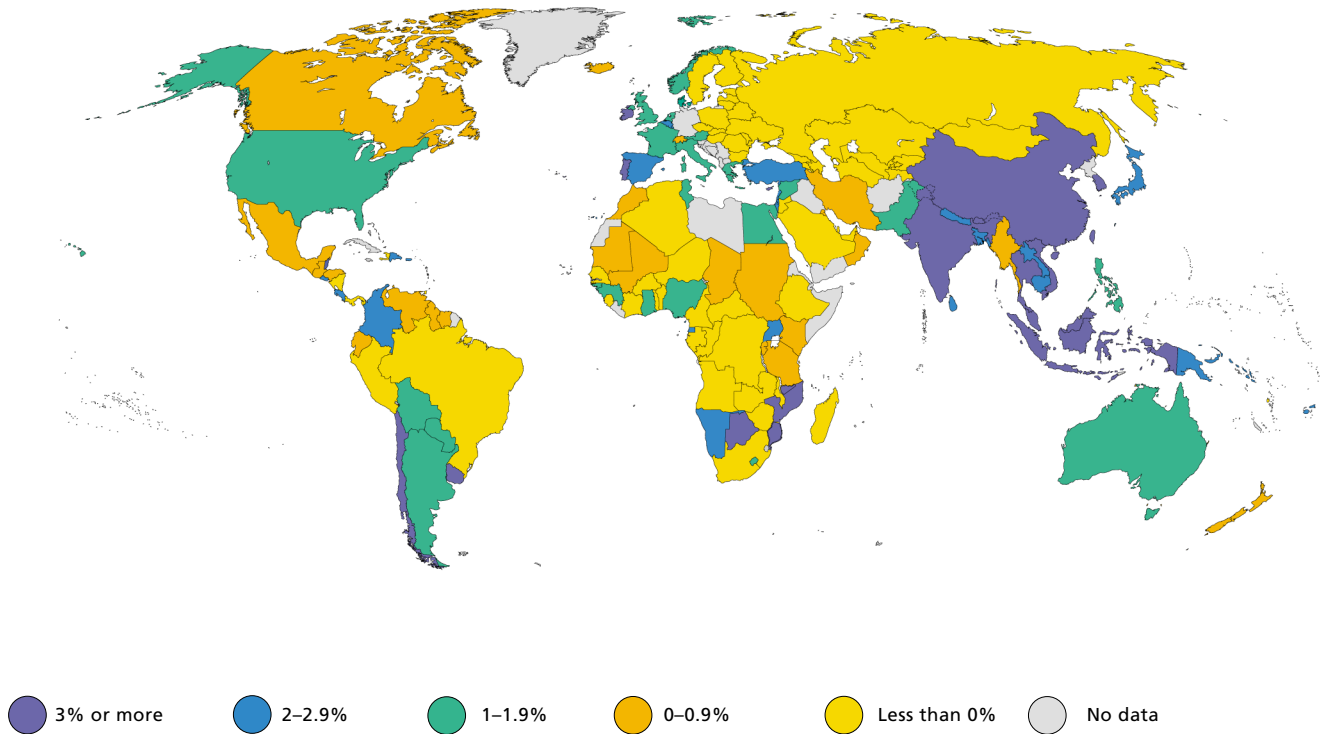
As a result the gulf between the average GNP per capita in developing and developed countries continues to widen.

Figure 4.1 Average annual growth rates of GNP, population, and GNP per capita, 1980–95



Map 4.1

GNP per capita growth rates, 1985–95

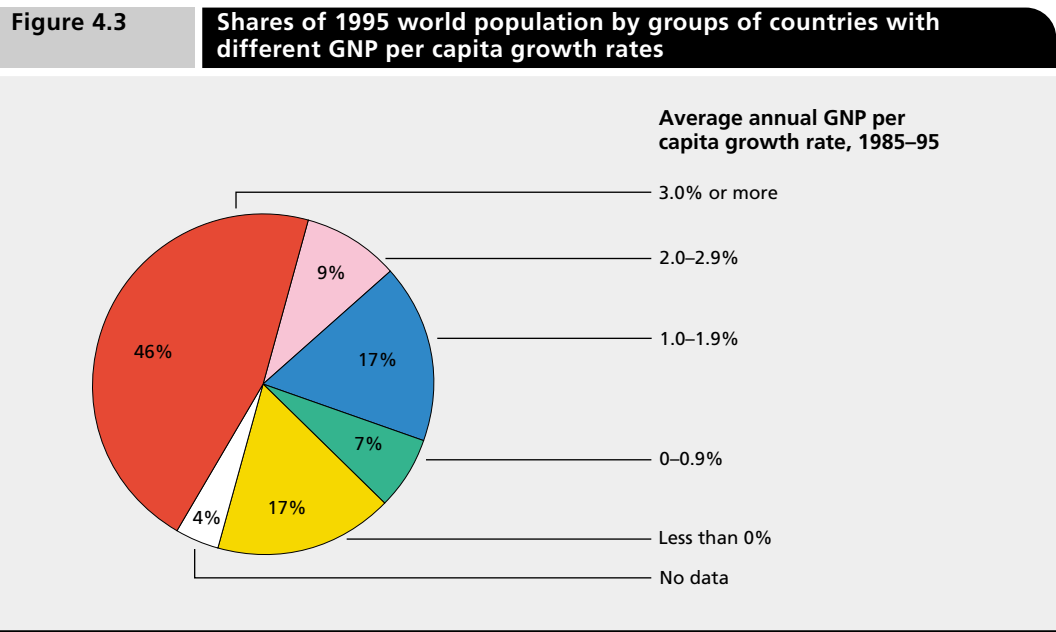
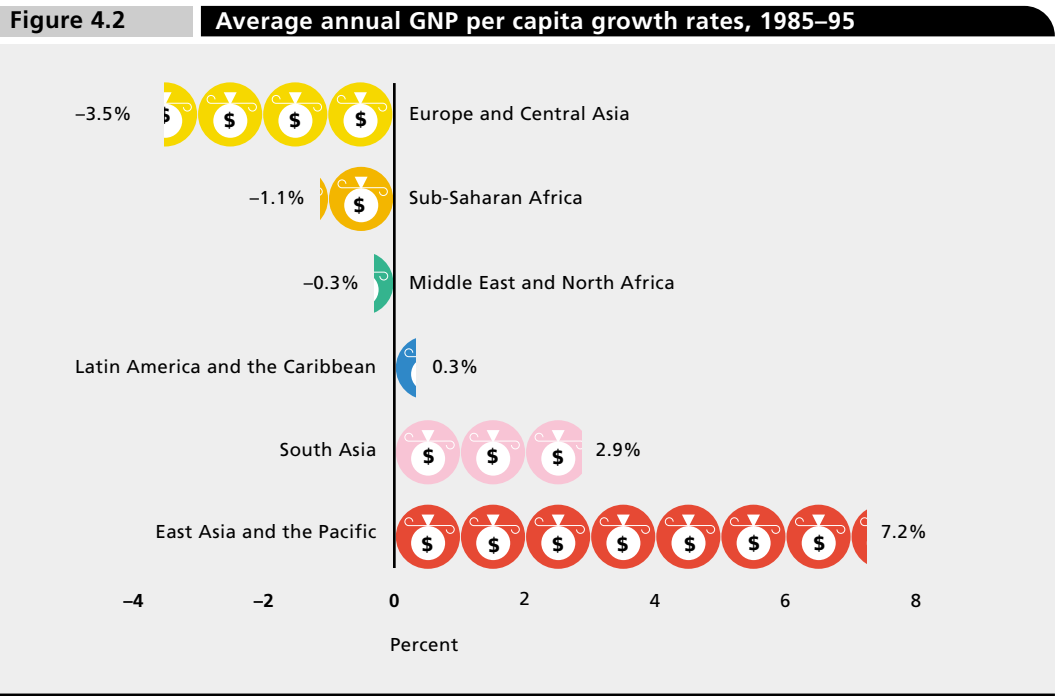


According to a World Bank study, per capita income in the richest countries was 11 times greater than in the poorest countries in 1870, 38 times greater in 1960, and 52 times greater in 1985. In the early 1990s, of \$23 trillion in global GDP, only \$5 trillion—less than 20 percent—was generated in developing countries—even though these countries accounted for about 80 percent of the world’s population.

The rapid average growth in developing countries also masks growing disparities among these countries. Between 1985 and

1995 East Asia experienced the fastest growth of GNP per capita—more than 7 percent a year (Figure 4.2). But in two other regions of the developing world, the average annual growth rate was negative: –1.1 percent in Sub-Saharan Africa, and –0.3 percent in the Middle East and North Africa. The biggest drop in GNP per capita growth occurred in Eastern Europe and Central Asia because of the economic crisis caused by the transition from planned to market economies.

The news is not all bad for developing countries, however. The two developing



countries with the biggest populations did comparatively well in 1985–95. In India GNP per capita grew by about 3.2 percent a year, and in China by an unprecedented 8.3 percent a year. Rapid

growth in China and India explains why more than half of the world’s population lives in economies growing faster than 2 percent a year (Figure 4.3). But when China and India are excluded from the

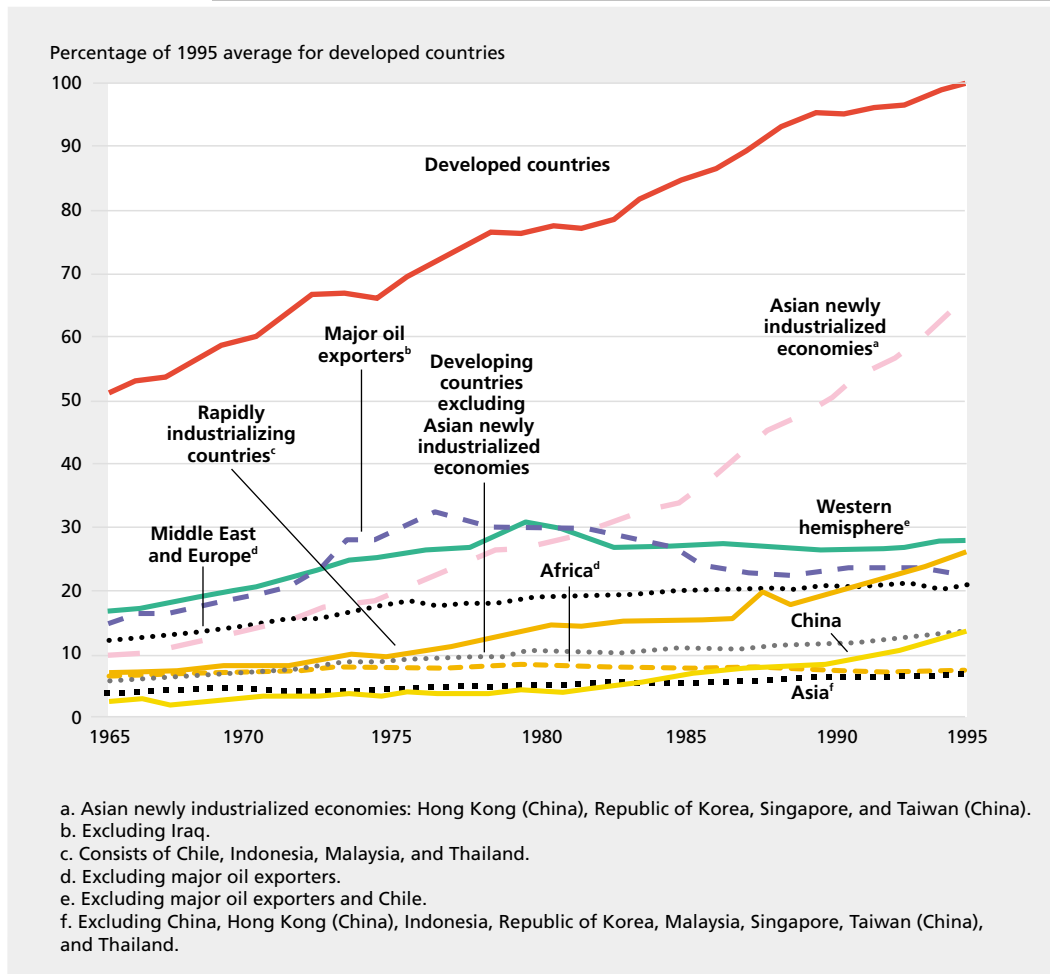
sample of low-income countries, average annual growth in this group turns negative (see Figure 4.1). In 1985–95 more than half of developing countries had negative growth rates, and four-fifths of those with positive growth rates were growing slower than high-income countries (see Map 4.1).

Between 1965 and 1995 the gap between developed countries and most developing countries widened considerably (Figure 4.4). Asia was the only

major region to achieve significant convergence toward developed countries' level of GNP per capita. Per capita income in the newly industrialized economies of Asia—Hong Kong (China), the Republic of Korea, Singapore, and Taiwan (China)—increased from 18 percent of the developed countries' average in 1965 to 66 percent in 1995. At the same time Africa, for instance, became even poorer in relative terms. The average per capita income in African countries equaled 14

How has the economic gap between developed and developing countries changed over the past few decades?

Figure 4.4 Real GDP per capita in developed and developing countries, 1965–95



percent of the developed countries' level in 1965 and just 7 percent in 1995. You can mark the 1995 position of your country on Figure 4.4 using Data Table 1 at the end of this book (see the PPP estimates of GNP per capita and use the average of \$24,930 for GNP per capita in developed countries).

Today only about 10 developing countries—those with GNP per capita

growth rates more than 1 percentage point higher than the average for developed countries—can look forward to catching up with developed countries within the next hundred years. And those 10 countries will only catch up if they can maintain their high growth rates. Doing so will be a challenge. In fact, the poorer a country is, the harder it is to maintain the high investment needed for growth (see Chapter 6).