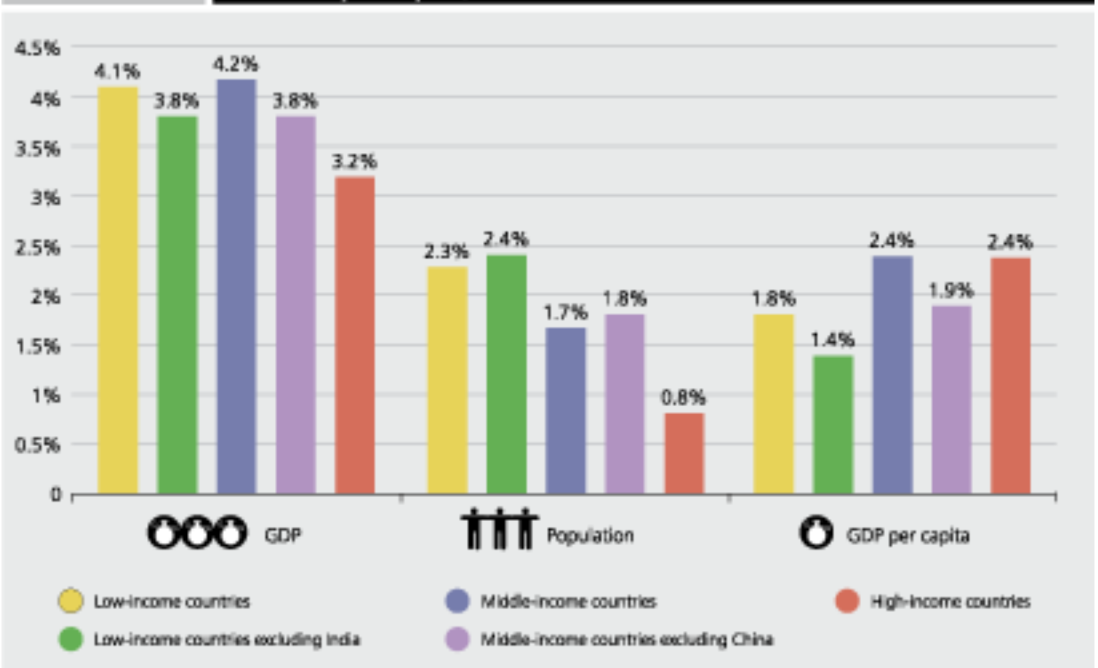
Economic Growth Rate
The World Bank

GDP growth rates in developing countries are on average higher than those in developed countries. Over the 1965-99 period, the average annual growth rate was 4.1 percent in low-income countries, 4.2 percent in middle-income countries, and 3.2 percent in high-income countries (see Figure 4.1). So does this mean that the poor countries will soon catch up with the rich?

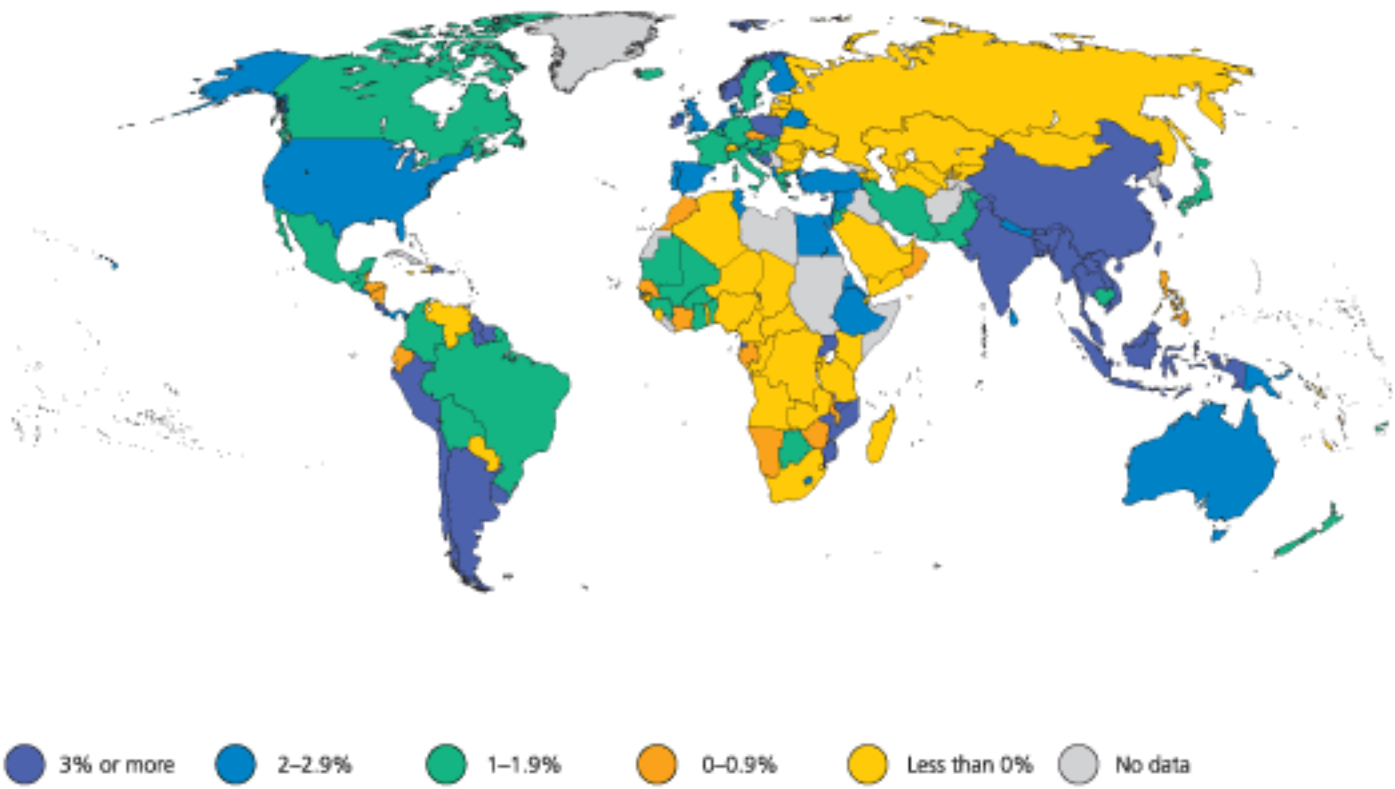
Figure 4.1 Average annual growth rates of GDP, population, and GDP per capita, 1965 – 1999



Unfortunately, the growth patterns described above do not mean that the world is on its way to “convergence”—that is, to the gradual elimination of the development gap between rich and poor countries. Much faster population growth in most developing countries is offsetting comparatively faster GDP growth, causing GDP per capita growth rates in these countries to be relatively low or even negative (see Figure 4.1; Map 4.1; Data Table 1).

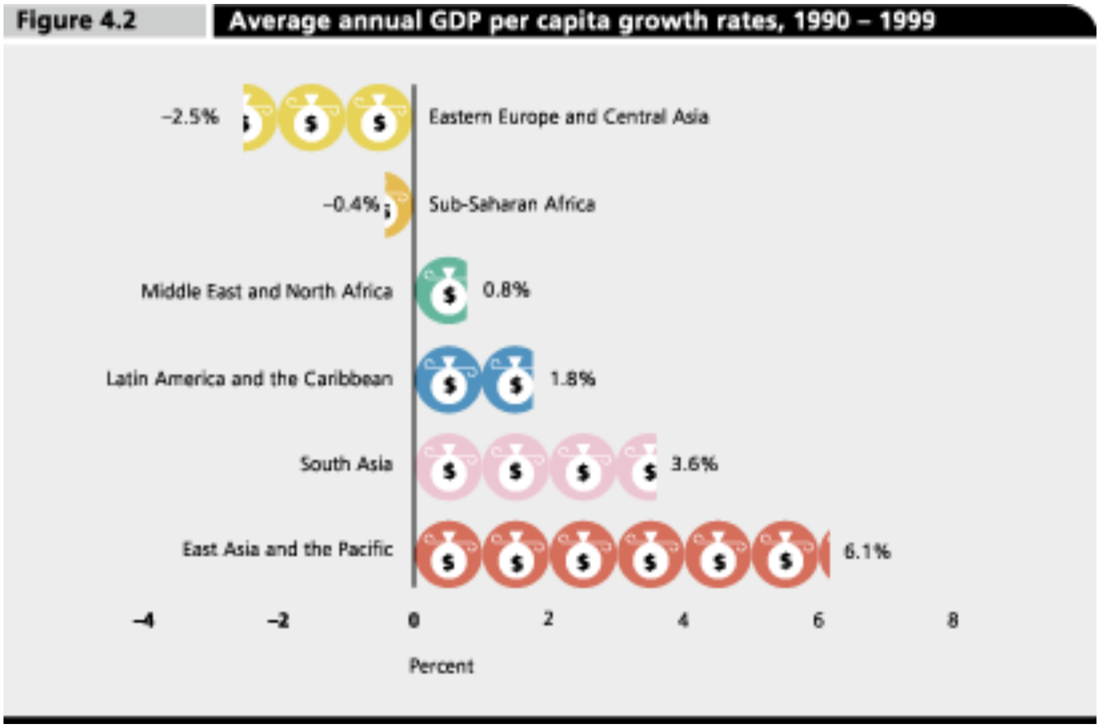
Source URL: http://www.worldbank.org/depweb/english/beyond/global/chapter4.html
Saylor URL: http://www.saylor.org/course/ECON104#1.3

Map 4.1 GDP per capita growth rates, 1990–1999



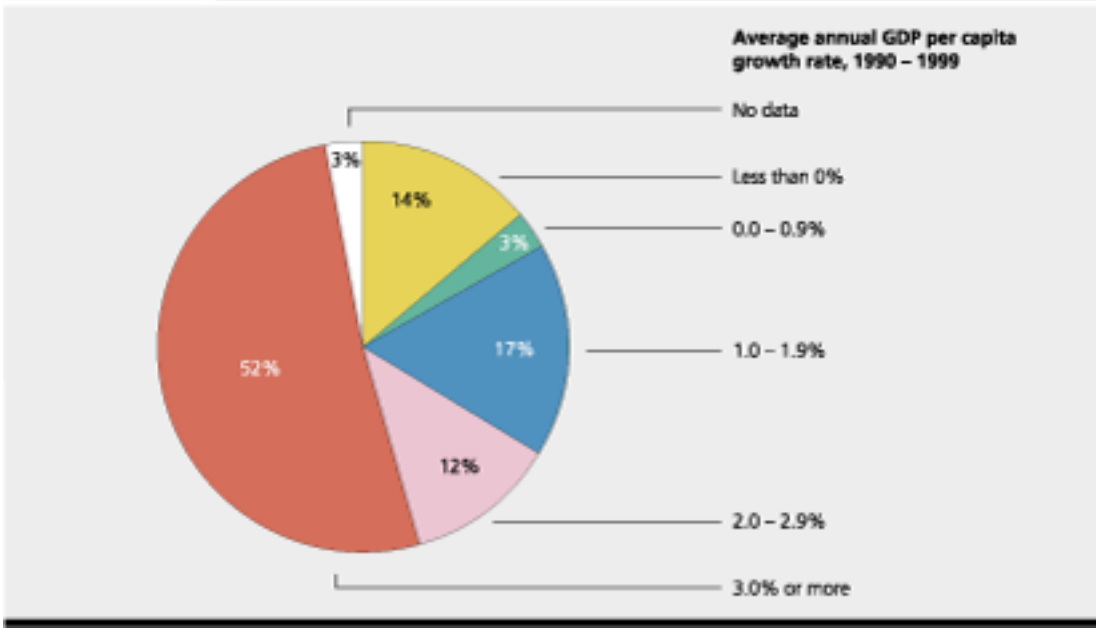
As a result the gulf between the average GNP per capita in developing and developed countries continues to widen. In the last 40 years of the 20th century, the gap between the average income of the richest 20 countries and that of the poorest 20 countries doubled in size, with the wealthiest group reaching a level more than 30 times that of the poorest. By the end of the century, of more than $29 trillion in global GDP, only about $6 trillion—less than 22 percent—was generated in developing countries, even though these countries accounted for about 85 percent of the world's population.

The average growth data for developing countries also mask growing disparities among these countries. Between 1990 and 1999 East Asia and the Pacific experienced the fastest growth of GDP per capita—more than 6 percent a year. At the same time in Sub-Saharan Africa the average annual growth rate was negative, and in the Middle East and North Africa it was less than 1 percent. The biggest drop in GDP per capita growth occurred in Eastern Europe and Central Asia because of the economic crisis caused by the transition from planned to market economies (see Figure 4.2).



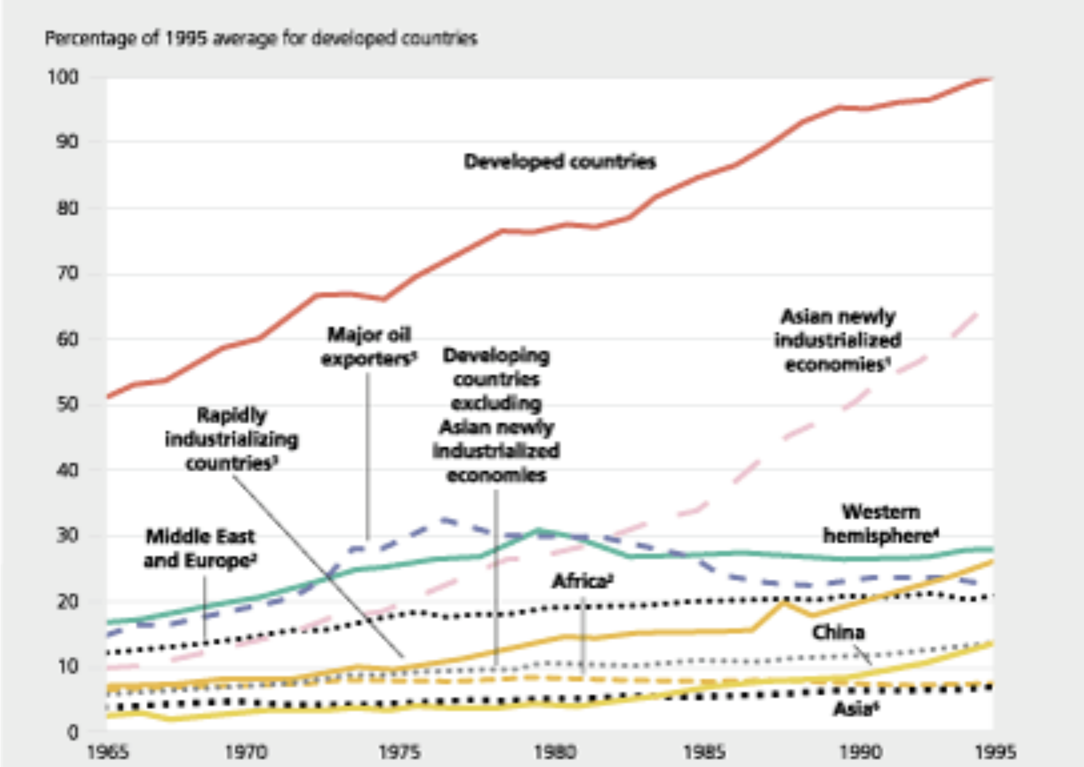
The news is not all bad for developing countries, however. The two developing countries with the biggest populations did comparatively well during the past decade. In India GDP per capita grew by about 2.4 percent a year, and in China by an unprecedented 6.4 percent a year. Rapid growth rates in China and India explain why almost two-thirds of the world's population live in economies growing faster than 2 percent a year (see Figure 4.3). But if India is excluded from the group of low-income countries and China is excluded from the group of middle-income countries, average annual growth rates in these groups become considerably lower than in high-income countries (see Figure 4.1). During the last decade of the 20th century 54 developing countries had negative average growth rates, and most of those with positive growth rates were growing slower than high-income countries (see Map 4.1 and Data Table 1).

Figure 4.3 **Distribution of 1999 world population among economies grouped by GDP per capita annual growth rate, 1990 – 1999**



Between 1965 and 1995 the gap between developed countries and most developing countries widened considerably (see Figure 4.4). Asia was the only major region to achieve significant convergence toward the 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 country 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 percent of the developed country level in 1965 and just 7 percent in 1995. Even though Figure 4.4 does not cover the second half of the 1990s, you can still find the approximate position of your country in it, using Data Table 1 in the back of this book (see the PPP estimate of GNP per capita in your country as of 1999 and use the average of $24,930 for GNP per capita in developed countries)..

Figure 4.4 **Real GDP per capita in developed and developing countries, 1965 – 1995**



1. Asian newly industrialized economies: Hong Kong (China), Republic of Korea, Singapore, and Taiwan (China).
2. Excluding major oil exporters.
3. Consists of Chile, Indonesia, Malaysia, and Thailand.
4. Excluding major oil exporters and Chile.
5. Excluding Iraq.
6. Excluding China, Hong Kong (China), Indonesia, Republic of Korea, Malaysia, Singapore, Taiwan (China), and Thailand.

Based on existing trends, 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 catch up only 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 volume of investment needed for its economic growth (see Chapter 6).

Sustained economic growth in developing countries is a critical tool for reducing poverty and improving most people's standard of living. But economic growth alone is not enough. In some countries poverty worsened in spite of overall economic growth, owing to increased income inequality (see Chapter 5). Such economic growth can be socially unsustainable–leading to social stress and conflict, detrimental to further growth. In addition, fast economic growth can lead to fast environmental degradation, lowering people's quality of life and eventually reducing economic productivity (see Chapter 10 and Chapter 14). Consider the fact that, if the global economy continues to grow by 3 percent a year for the next 50 years, the total global GDP will more than quadruple. Whether such a drastic increase in human economic activity will be compatible with the requirements of environmental and social sustainability will depend on the “quality of growth,” on the proper balancing of economic goals with environmental and social goals (see Figure.1.2 and Chapter 16).