Developing countries set the pace for world economic growth during the past two decades, but the gap between leaders and laggards grew wider. While some of the most heavily populated countries saw incomes rise, others experienced further deterioration in living standards, often linked to political and social upheavals.

Low- and middle-income economies with the strongest growth rates were generally characterized by:

- Commitment to improved policy environments in terms of domestic macroeconomic management and economic liberalization.
- Open door policies toward foreign trade and foreign investment, which contributed to closer integration with the global economy.
- Strong growth of the service sector and expanding trade in services.
- A decreasing share of central government expenditure in GDP.

The indicators presented in this section document the patterns of economic growth over 1980–96. (Long-term changes, back to 1965, are shown in tables 1.4 and 1.5.) Tables 4a and 4b provide current estimates and projections of major macroeconomic aggregates through 2000. Tables 4c and 4d provide recent, highly preliminary estimates of major macroeconomic aggregates for selected developing countries.

Recent economic developments

Starting from a 30-year low of 2 percent in the early 1990s, the pace of world economic expansion quickened to closer to 3 percent a year in 1996–97, similar to growth rates achieved during the 1980s. Developing countries, excluding Eastern Europe and the former Soviet Union, achieved GDP increases of more than 5 percent. Low- and middle-income economies in East Asia (including China) made the largest gains, averaging more than 10 percent a year, though progress slackened in the mid-1990s because of flagging exports and, more recently, the financial crisis that struck several of the fastest-growing Asian economies. In South Asia growth accelerated to more than 6 percent in 1996 from 4.5 percent in the previous five years, but growth slowed in India and Pakistan in 1997 while picking up in Bangladesh and Sri Lanka.

Foreign trade expansion enabled Latin America and the Caribbean to maintain growth rates of more than 3 percent a year through the 1990s, almost twice the increase achieved during the 1980s. Argentina, Mexico, and Peru all showed increasing economic growth in 1997 and, particularly Mexico, large increases in exports. Chile's growth declined slightly but remained above average.

Merchandise trade in the Middle East and North Africa has helped to underpin GDP growth of about 3 percent a year since 1991, compared with increases below 1 percent a year in the 1980s. However, the region's growth rate barely kept up with population increases and remains far below the annual gains recorded 20 and 30 years ago. Preliminary 1997 data show mixed results, with Egypt and Lebanon posting above-average growth but Morocco declining.

Prospects for the long-underperforming Sub-Saharan Africa region brightened when GDP growth of almost 4 percent was achieved in 1996, resulting in a real increase in per capita incomes. Preliminary 1997 data for Ghana, Nigeria, and South Africa show positive but modest growth rates.

Eastern Europe and the former Soviet Union experienced a sharp decline in growth during the first half of the 1990s—more than 20 percent a year in some cases. By 1996 the downtrend had slowed markedly, particularly in those countries that allowed the market economy to replace failing state enterprises and inflexible trading regimes. Growth was still negative for the region as a whole, but the annual rate of decline had fallen to 2 percent, from an average of almost 8 percent in the preceding five years. In Russia preliminary estimates for 1997 show no real decrease in the economy and a modest increase in exports.

Some aspects of growth in developing economies stand out:

- *Service sectors expanded rapidly and increased their share of total output.* The growth of service activities in East Asia and the Pacific was three times the world average in the 1990s. South Asia experienced similar growth. In Latin America and the Caribbean services account for more than half of total output and continue to grow faster than the rest of the economy (tables 4.1 and 4.2). Since 1980 low- and middle-income countries, particularly in Europe and Central Asia, have increased their share of fast-growing world exports of services from 15 to almost 20 percent (tables 4.6 and 4.7).
- *Trade grew faster than GDP, but the pace slackened.* Since the 1980s export growth has exceeded the expansion of world output. In 1996 weakness in industrial country import demand, the recent dollar appreciation (which affected the competitiveness of exporting countries with currencies linked to the dollar), and lower prices for certain commodities and semimanufactured goods all played a part in slowing world trade growth to 4 percent. Developing countries did better than the rest of the world: in East Asia merchandise trade expanded at an average annual rate of 17 percent during the 1990s. Exports of both goods and services grew to the equivalent of 30 percent of GDP, about twice the 1980 ratio. South Asian export earnings also grew faster than average. Latin America and the Caribbean managed double-digit increases after a decade of stagnation (tables 4.4 and 6.2).
- *Increases in domestic savings helped to boost investment.* Here again the East Asia region, particularly China, stood out for its strong savings and investment performance. Private sector failures caused by unsound banking practices and overinvested property sectors led to serious liquidity problems in some of the region's "tiger" economies in 1997, with worldwide financial repercussions. Investment spending in Sub-Saharan Africa grew by more than 3 percent after a decade of retrenchment in the 1980s. but domestic savings rates remained below world averages (tables 4.8 and 4.9).
- *Inflation was kept low.* Rates of inflation accelerated worldwide in the 1990s compared with the 1980s. Against this background, developing countries that managed to keep inflationary pressures under control mostly achieved better-than-average GDP growth rates (tables 4.1 and 4.15).

A global service economy

Service industries increased their share of the world economy during the past two decades, while the relative shares of agriculture and industry shrank in most developing regions. Compared with about 55 percent in 1980, this sector contributed almost two-thirds of global GDP in 1996, and one-fifth of the value of world exports. Developing countries' exports of services grew at an average annual rate of 12 percent in the 1990s, twice as fast as those from industrial regions (World Bank 1997b, p. 11). Services also absorb an increasing share of household consumption expenditures in developing countries. New estimates of purchasing power parities (PPPs) show that services typically account for between one-third and one-half of household consumption. Within individual countries low-income groups spend as large a share of their budgets on services as do the better off, but generally pay less for the services that they buy (tables 4.10 and 4.11).

While production by multinational firms is becoming increasingly important in manufacturing, the impact of global service industries in developing countries is still small, concentrated in finance, communications, and leisure industries. Even so, deregulation and the opening of sectors such as telecommunications and utilities to foreign investors are speeding the process of globalization (World Bank 1997b, p. 39). Recent experiences in low- and middle-income countries of the former Soviet Union have shown that the process can put considerable pressure on domestic prices. As subsidies and regulatory controls are eliminated, public services are required to become more efficient and cost-effective, particularly in capital-intensive sectors like housing, utilities, and transportation. In 17 of 22 of these countries, including Russia, the rise in consumer prices for services far exceeded the overall rate of inflation during 1996. The increases were attributable partly to the process of convergence with the prices prevailing in market economy trading partners, and partly to the direct impact of prices set by subsidiaries of multinational companies for services ranging from fast food to oil prospecting expertise. Adjustments in domestic prices reflecting these external influences have pushed up overall inflation rates, particularly in the early stages of transition from central control to market economy systems (IMF 1997b, p. 109).

Prospects for growth in 1998–2000

The buoyant growth of developing countries in the past few years—reflected in tables 4c and 4d and in many of the tables throughout the *World Development Indicators*—was interrupted by the outbreak of the financial crisis in East Asia during the middle of 1997. By the end of the year four developing Asian economies had been severely affected—Indonesia, Malaysia, the Philippines, and Thailand—

along with the Republic of Korea, which only recently graduated to the high-income category. The immediate effects of the crisis were a severe devaluation of currencies, a drop in stock market values, and a sharp decline in gross capital flows. In varying degrees, the crisis in Asia has affected confidence in other developing countries—especially where investors perceive weaknesses in banking systems or risks in growing short-term debt and overvalued currencies. The result is a reduction in expected short-term growth rates for developing countries, and a much greater degree of uncertainty over the course of the next three years.

Nevertheless, the economic environment facing developing countries remains generally favorable (see table 4a). G-7 inflation and international interest rates are expected to remain relatively low. The strong growth of world trade characterizing the growth of the mid-1990s is likely to continue, although the prices of many commodities, especially oil, are expected to fall in the near term, causing a decline in the terms of trade for many developing countries. Continuing growth in the United States and Europe will stimulate demand for exports, especially from countries that have undergone real exchange rate depreciation. Japan's stalled recovery, and its effect on other Asian economies, is the major uncertainty in the G-7 outlook.

If the reform programs and financial restructurings undertaken in the wake of the Asian financial crisis are successful, growth of the developing countries should rebound after a period of adjustment in 1998 (see table 4b). The regions most affected—East Asia (excluding China) and Latin America—will see sharply reduced growth in 1998, but will substantially recover by 1999. Capital flows will resume as confidence is restored. The prospects for other regions are tied less to events in Asia and depend more on continuing progress in macroeconomic management, trade liberalization, and political stability. In South Asia current account deficits have generally been small, real exchange rates have been stable, and the banking system is less exposed to short-term debt. With continuing economic reform, though politically difficult, growth is expected to pick up to an average of 6 percent in 1998–2000. The Middle East and North Africa will be more acutely affected by a decline in oil prices. Growth at near the levels achieved in 1996 depends in large part on the success of diversified exporters such as Egypt, Jordan, Lebanon, Morocco, Tunisia, and Syria. Despite the improved performance of many countries and increased attractiveness to private investors, the region faces many challenges and is subject to significant downside risk. In Sub-Saharan Africa growth is expected to improve despite declining terms of trade, uncertain capital flows, and possible extreme weather patterns. In Europe and Central Asia the effects of the Asian crisis appear to have been short-lived, but large or rising current account deficits and fragile domestic financial systems expose a number of countries to further risk. Growth in the region is strongly tied to recovery in Western Europe and expanding trade.

Note: Preliminary 1997 macroeconomic aggregates are estimates prepared by World Bank staff and are subject to revision. The projections for 1998–2000 were prepared by the staff of the Development Prospects Group as part of their work on *Global Economic Prospects and the Developing Countries 1998* (forthcoming).

Table 4a

External environment for developing country growth

Annual % change except for LIBOR

	Current estimate		Projection		
	1996	1997	1998	1999	2000
GDP growth in G-7 economies[a]	2.3	2.7	2.2	2.5	2.5
Inflation in G-7 economies[b]	2.1	1.8	1.8	2.1	2.3
World export volume	5.1	7.6	6.3	6.3	6.3
Six-month LIBOR (percent, year)	5.7	5.9	5.7	5.5	6.1
Price indexes[d]					
Nonfuel commodity prices	-5.8	2.1	-9.5	-1.5	2.0
Petroleum prices	18.9	-6.1	-11.5	2.9	0.0
US export unit value of manufactures	-4.1	-4.0	2.5	3.1	2.9

a. Canada, France, Germany, Italy, Japan, the United Kingdom, and the United States.
b. Consumer price index in local currency aggregated using 1988–90 GDP weights.
c. London interbank offered rate.
d. Measured in U.S. dollars.
e. Unit value index of manufactured exports from G-5 to developing countries, expressed in U.S. dollars.

Source: World Bank staff estimates.

Table 4b

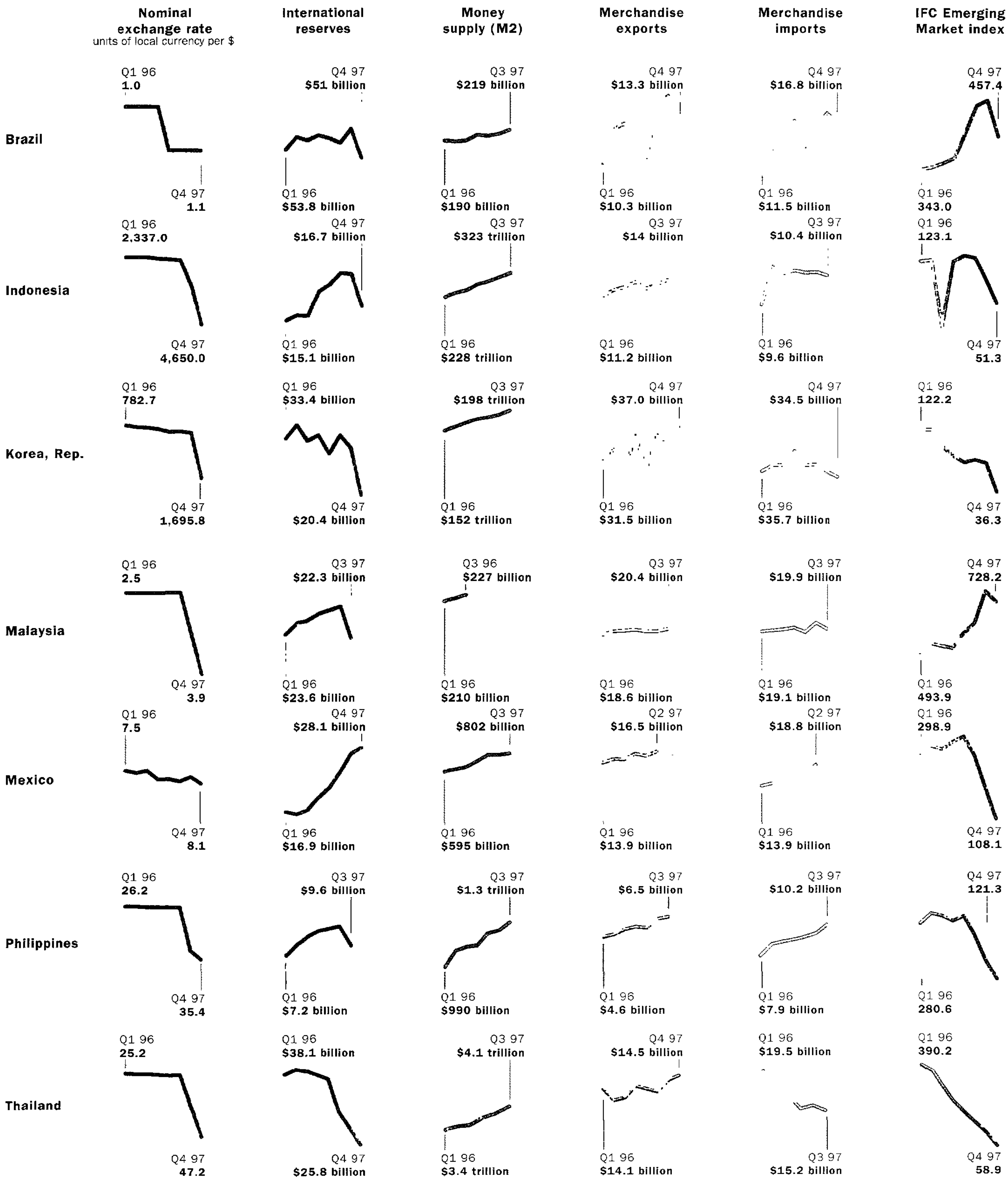
Growth of world GDP, 1996–2000

Annual % change

	Current estimate		Projection		
	1996	1997	1998	1999	2000
World	2.9	3.2	2.6	3.1	3.2
High-income economies	2.5	2.6	2.4	2.6	2.7
Low- and middle-income economies	4.5	4.8	4.0	4.8	5.2
Excl. Eastern Europe and former Soviet Union		5.2	4.2	4.0	5.1
East Asia and the Pacific	8.8	7.8	5.7	6.3	6.7
Excl. China		4.0	0.7	3.1	4.3
Europe and Central Asia	-0.2	2.3	3.0	4.0	5.1
Latin America and the Caribbean	3.4	4.8	2.7	3.7	3.8
Middle East and North Africa	4.1	3.1	2.7	3.2	3.5
South Asia	6.7	5.3	5.8	6.1	6.3
Sub-Saharan Africa	3.8	3.4	3.4	4.5	4.5

Source: World Bank staff estimates.

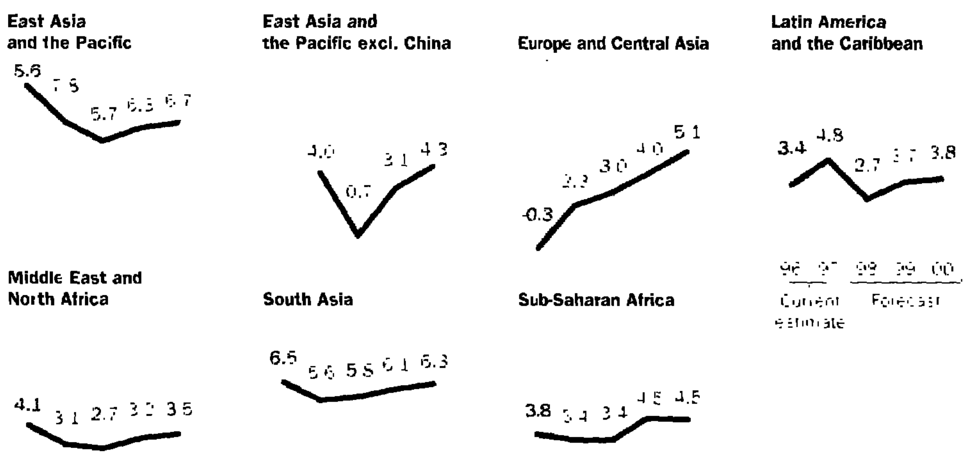
The East Asian crisis hit exchange rates and stock markets hardest



Source: International Monetary Fund, International Finance Statistics Database; International Finance Corporation, Emerging Markets Database.

The external environment for developing countries remains favorable in 1998, but growth was interrupted by the financial crisis in East Asia

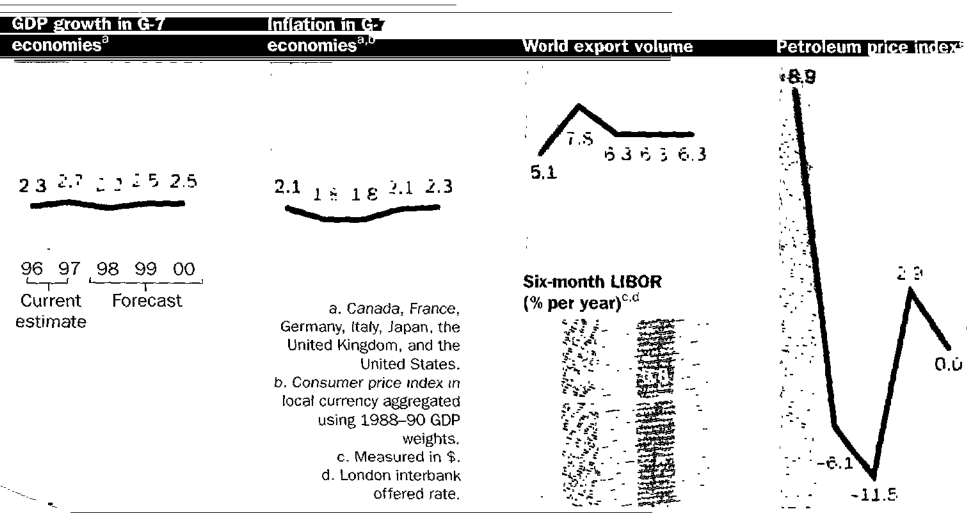
GDP growth in developing regions should recover to precrisis levels . . .



Source: World Bank, Development Prospects Group.

. . . if the external environment remains supportive

(Average annual % change, except for LIBOR)



a. Canada, France, Germany, Italy, Japan, the United Kingdom, and the United States.
b. Consumer price index in local currency aggregated using 1988–90 GDP weights.
c. Measured in $.
d. London interbank offered rate.

World inflation and interest rates will remain low and stable

Table 4c. Recent economic performance

	Gross domestic product		Exports of goods and services		Imports of goods and services		GDP deflator		Current account balance		Gross international reserves	
	average annual % growth		average annual % growth		average annual % growth		% growth		% of GDP		$ millions	months of import coverage
	1996	1997	1996	1997	1996	1997	1996	1997	1996	1997	1997	1997
Argentina	4.4	7.8	8.6	7.3	10.0	29.6	0.5	0.7	–1.4	–3.7	25,668	7.0
Bangladesh	5.3	5.7	10.6	23.0	16.9	9.7	5.6	2.0	–5.1	–2.7	1,719	2.6
Brazil	2.9	3.9	6.1	14.7	5.9	24.3	15.8	7.2	–3.2	–4.2	55,110	6.6
Bulgaria	–9.0	–7.4	–8.7	8.3	–7.8	8.6	113.6	997.7	–0.2	1.8	2,425	4.5
Chile	7.2	5.6	3.9	7.6	8.2	5.0	7.0	6.5	–3.9	–3.7	18,891	9.9
China	9.9	9.0	8.3	24.1	7.8	7.2	5.9	2.5	0.9	2.2	145,988	10.2
Colombia	2.0	3.0	4.4	5.9	3.0	5.6	17.7	19.8	–5.6	–5.3	10,095	5.5
Côte d'Ivoire	5.9	6.3	24.1	0.3	21.2	6.7	3.5	3.1	–1.9	–9.4	724	1.6
Ecuador	1.9	3.3	3.6	7.2	2.2	12.7	29.5	31.2	1.5	–1.1	2,086	3.8
Egypt, Arab Rep.	5.0	5.0	8.4	0.5	6.4	7.9	9.1	6.2	0.7	–0.3	19,147	10.3
Ghana	5.0	3.0	19.8	–5.5	12.5	0.2	33.3	29.6	–5.1	–7.3	473	2.3
Hungary	1.3	4.0	7.4	21.4	5.7	19.9	20.4	17.1	–3.8	–3.3	9,249	4.5
India	7.5	6.1	7.5	9.1	5.7	10.1	7.0	7.0	–1.1	–1.5	28,497	5.3
Indonesia	7.6	3.5	6.3	7.7	9.6	–0.1	8.7	13.5	–3.7	–2.6	18,476	4.4
Jamaica	–1.7	–1.0	1.0	–1.9	5.7	1.5	24.4	12.0	–1.9	–4.4	810	2.5
Jordan	5.2	5.0	12.2	4.3	15.7	4.0	5.1	4.0	–3.1	–2.6	2,743	5.4
Kenya	4.3	2.0	13.3	–3.4	5.8	7.2	9.6	12.5	–0.8	–2.0	763	2.5
Lithuania	3.6	3.6	3.6	6.5	3.6	4.2	26.1	12.3	–9.3	–7.6	1,178	2.8
Malaysia	8.0	7.3	10.7	7.6	8.5	6.9	8.2	2.9	–5.2	–4.5	21,700	3.5
Mauritius	6.1	5.5	6.1	5.8	5.8	5.4	6.0	5.0	0.4	–2.3	1,026	4.2
Mexico	5.9	6.9	–18.9	13.0	–16.6	18.8	30.8	17.4	–0.6	–1.6	27,581	2.4
Morocco	11.5	–2.2	6.3	2.8	–3.9	6.2	2.3	3.0	–1.7	–2.6	4,367	4.2
Nigeria	3.5	3.3	15.9	7.4	14.4	7.8	31.0	8.8	9.7	3.2	7,040	6.4
Pakistan	4.6	3.5	2.0	–6.2	13.6	–3.1	11.3	11.4	–6.5	–6.0	1,964	1.4
Peru	2.8	6.5	10.1	12.7	0.2	9.6	9.4	9.0	–5.9	–5.5	7,093	6.9
Philippines	5.7	5.1	20.3	8.9	21.1	8.7	9.0	7.0	–4.5	–4.5	8,800	2.0
Poland	5.9	6.0	9.8	12.2	23.6	19.0	18.6	14.1	–2.4	–4.1	21,030	6.0
Russian Federation	–4.9	0.0	–2.0	2.2	–1.6	4.6	45.5	18.0	2.6	0.9	25,721	3.3
Slovak Republic	6.7	5.5	–1.6	6.8	18.5	1.3	5.8	5.5	–11.0	–8.6	3,719	3.4
South Africa	3.3	2.3	7.8	6.0	7.5	5.9	8.2	8.0	–1.6	–1.9	3,595	1.2
Sri Lanka	3.8	6.0	3.9	3.0	2.8	8.6	10.9	9.5	–4.7	–5.1	..	..
Thailand	6.4	0.4	2.4	3.4	2.8	–7.8	5.1	6.0	–7.9	–2.6	23,000	4.3
Trinidad and Tobago	3.2	2.9	–7.7	4.0	–2.4	2.9	4.1	5.7	1.7	–0.6	396	1.7
Tunisia	7.0	5.7	0.5	5.2	–2.9	6.9	4.4	3.6	–2.7	–2.6	2,612	3.2
Turkey	6.7	6.5	21.7	14.8	19.0	14.6	78.3	85.0	–0.8	–2.4	30,721	6.2
Venezuela	–1.6	5.7	4.3	7.0	–5.9	19.4	111.4	..	13.1	7.7	21,601	12.8
Zimbabwe	7.3	4.5	12.2	–4.4	8.1	1.3	23.0	23.5	–2.1	–3.7	399	1.4

Note: Data for 1997 are preliminary.
Source: World Bank staff estimates.

Table 4d Key macroeconomic indicators

	Nominal exchange rate			Real effective exchange rate		Money and quasi money		Gross domestic credit		Real interest rate		Short-term debt
	local currency units per $	% change		1990 = 100		average annual % growth		average annual % growth		%	%	% of exports
	1997	**1996**	**1997**	**1996**	**1997**	**1996**	**1997**	**1996**	**1997**	**1996**	**1997**	**1996**
Argentina	1.0	0.0	0.0	..	..	18.7	26.9	6.9	10.8	10.0	8.5	38.4
Bangladesh	45.5	4.2	7.1			10.5	10.7	[illegible]	13.8	8.0	11.8	2.8
Brazil	1.1	6.5	6.8			6.8	16.5	11.0	7.4			58.0
Bulgaria	1,767.0	589.3	262.6			117.5	518.6	231.0	..	4.7		14.4
Chile	439.4	4.4	2.5	123.6	135.1	19.6	14.3	17.0	13.1	9.7	8.6	36.0
China	8.3	–0.2	–0.2		..	25.3		24.5		3.8	4.5	14.1
Colombia	1,303.1	1.8	29.6	143.9	162.6	24.4	52.5	25.3	28.3	20.7	12.0	37.7
Côte d'Ivoire	590.0	6.9	12.7	70.4	60.0	3.9		3.4				87.3
Ecuador	4,329.0	24.3	19.1	125.5	137.6	43.7	34.9	29.3	46.2	19.4	9.0	27.3
Egypt, Arab Rep.	3.4	–0.1	0.0			10.8	11.3	13.9	14.9	6.0	6.7	11.8
Ghana	..	21.1				32.6		20.2	..			33.6
Hungary	199.6	18.3	21.0	126.0	132.2							16.5
India	38.6	2.1	7.3		..	16.7		19.7		8.4	6.1	12.8
Indonesia	3,445.0	3.2	51.1			27.2	19.9	22.7	28.0	9.7	11.6	55.3
Jamaica	36.2	–12.0	3.7			10.9	17.8	28.0		15.8		15.1
Jordan	0.7	0.0	0.0			–0.3	7.6	0.8	–6.1	4.2	6.0	11.2
Kenya	63.5	–1.6	15.5			26.2	15.0	11.6	6.7	22.0	15.4	17.5
Lithuania	4.0	0.0	0.0			–3.0	73.5	–1.4	24.9	–3.6	1.9	3.8
Malaysia	3.5	–0.3	39.3	107.0	109.4					0.8		11.8
Mauritius	21.7	1.7	20.5		..	7.6	17.2	6.1	23.9	14.0	14.3	15.3
Mexico	8.2	2.7	4.4		..	26.2	24.3	3.0	–4.2		..	26.1
Morocco	9.6	3.9	9.0	113.2	113.4	6.6	8.1	7.1	–20.8		..	5.2
Nigeria	21.9	0.0	0.0	149.2	168.8	20.1		–26.4		..		36.2
Pakistan	44.1	17.1	9.8		..	20.1	14.4	21.1	5.9		..	23.6
Peru	2.7	12.6	4.6			37.2	28.0	21.7	58.6	15.2	19.3	78.0
Philippines	34.7	0.3	11.8	129.0	132.3	23.2	1.6	32.2		5.3	14.4	15.9
Poland		16.5		211.0	216.7	29.3		29.7		6.5	..	0.2
Russian Federation	5,419.0	19.5	6.5			33.0	34.7	53.7	26.1	69.6	13.3	11.1
Slovak Republic		7.9				16.2		25.9		8.0	14.4	26.5
South Africa	4.9	25.4	3.7	90.3	97.2	14.3	..	13.6	..	10.3	11.1	25.8
Sri Lanka	60.6	4.3	6.9	..	..	10.5	14.4	10.7	6.0	4.8	0.5	9.7
Thailand	40.1	1.7	52.7			12.6	15.1	–15.9	32.9	..		49.9
Trinidad and Tobago	6.3	3.3	1.4	95.2	84.2	5.8		4.4	..	11.2	8.5	8.9
Tunisia	1.1	5.0	13.0	..		13.3	17.6	2.4	1.4		..	5.6
Turkey	195,555.0	80.7	79.9		..	117.3		127.5			..	40.7
Venezuela	500.5	64.3	5.1	117.9	150.3	69.1	64.5	14.0	39.2	–37.7		10.5
Zimbabwe	14.5	16.4	33.5		..	33.3	36.9	20.2	49.5	9.9	7.5	25.6

Note: Data for 1997 are preliminary and may not cover the entire year.
Source: International Monetary Fund, *International Finance Statistics*; World Bank, Debtor Reporting System.