

Economic Growth and Development

by Rajul Pandya-Lorch

Developing countries as a group have experienced rapid economic growth in the last three decades: between 1965 and 1990, their gross national product (GNP) per capita grew at an average annual rate of 2.5 percent to reach US\$840 in 1990 (Table 1). However, economic performance has been uneven across developing regions and countries. While Sub-Saharan Africa barely managed to maintain a positive rate of growth during 1965-90, East Asia and the Pacific region had an astonishing average rate of growth of 5.3 percent per year. The other developing regions averaged about 1.8 percent per year in GNP per capita growth.

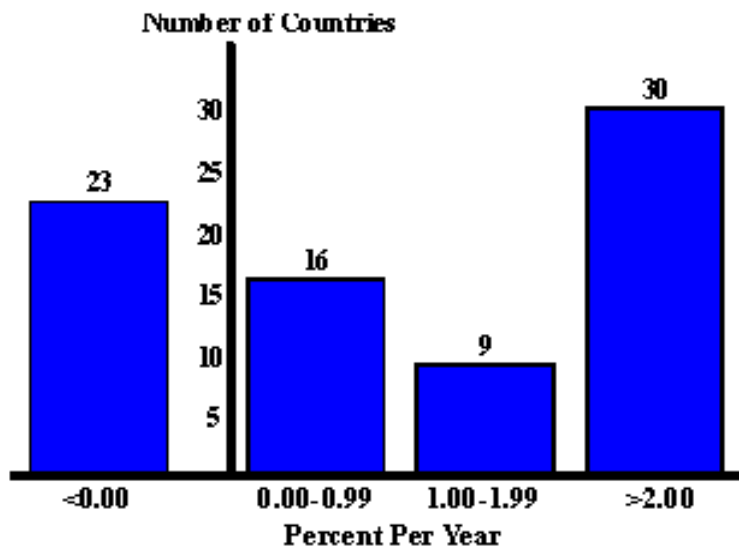
Table 1--GNP per capita in the developing world

Region	GNP Per Capita 1990	Annual Average Growth Rate		
		1965-90	1980-90	1990-2000 ¹
		(percent)		
South Asia	330	1.9	3.1	3.1
Sub-Saharan Africa	340	0.2	-0.9	0.3
East Asia and the Pacific	600	5.3	6.3	5.7
Middle East and North Africa	1,790	1.8	-2.5	1.6
Latin America and the Caribbean	2,180	1.8	-0.5	2.2
Low- and middle-income economies	840	2.5	1.2	2.9
High-income economies	19,590	2.4	2.4	2.1

Source: World Bank, *World Development Report 1992* (Washington, D.C.: World Bank, 1992).

¹Estimated.

Figure 1—Developing-country experience with per capita GNP growth, 1965-90

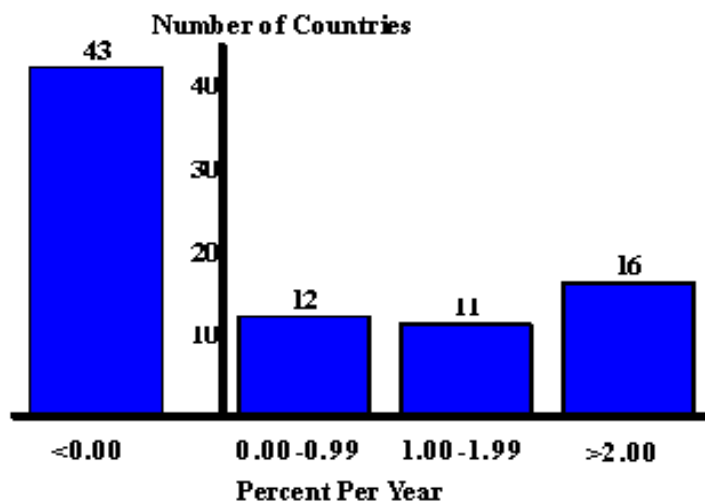


Note: Calculated from data in World Bank, *World Development Report*, 1992.

Incomes Decline, 1965-90

Across 78 developing countries (with available data), 23 countries experienced a decline in their per capita GNP between 1965 and 1990 (Figure 1). Of these, 15 were African countries, and the rest Latin American. Almost 303 million people lived in those 23 countries in 1990. Their average annual per capita GNP growth rates ranged between -0.1 percent and -3.3 percent: for several of the countries with long-term economic deterioration, it will be a struggle to regain the income levels of 1965, let alone to increase them. On the other hand, there were 30 countries with annual growth rates exceeding 2 percent. The decade of the 1980s has been difficult. Three of the major developing regions--Sub-Saharan Africa, Middle East and North Africa, and Latin America and the Caribbean--experienced negative per capita income growth rates. However, East Asia and the Pacific escaped much of the developing world's economic downturn: per capita income in that region grew at 6.3 percent per year during 1980-90. Available data indicate that 43 developing countries experienced negative growth in per capita income during 1980-91 (Figure 2). Of these 43 countries, with a population in 1991 of 680 million, 21 were African and 14 were Latin American. Average annual growth rates of GNP per capita dipped below -2 percent per year for 11 countries.

Figure 2--Developing-country experience with per capita GNP growth, 1980-91



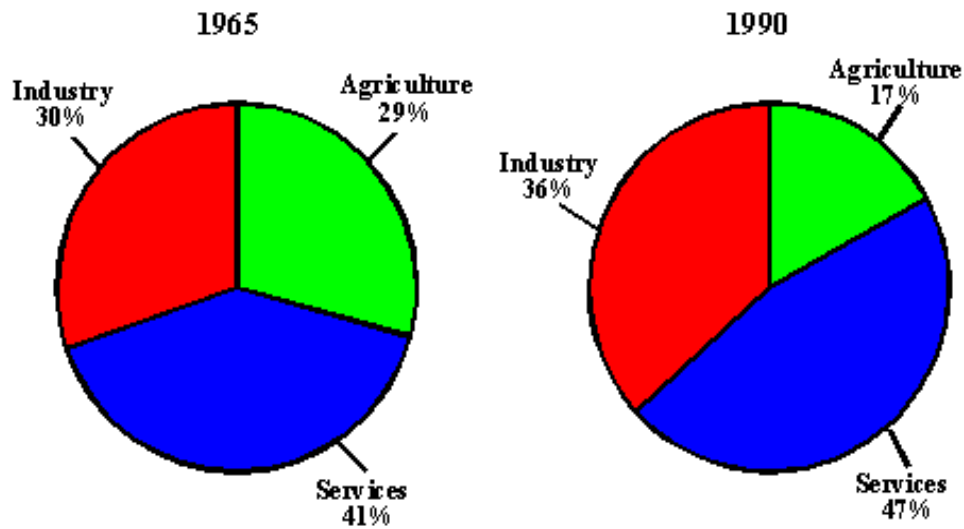
Note: Calculated from data in World Bank, *World Development Report*, 1993.

Growth Is Expected to Rebound

The 1990s are expected to be better. World Bank projections suggest that annual per capita income growth in developing countries will jump to 2.9 percent, and that growth in regions that had negative growth rates in the 1980s will rebound (Table 1). Sub-Saharan Africa is expected to have a slightly positive rate of growth, at 0.3 percent per year, but it is evident that the region will need special attention if it is to achieve growth rates comparable to other developing regions.

Considerable changes have taken place in the structure of production in developing countries. The share of agriculture in total production has declined from 29 percent in 1965 to 17 percent in 1990, while the share of services and industry has correspondingly increased (Figure 3). In Sub-Saharan Africa and South Asia, agriculture is an important sector, contributing about one-third of gross domestic product (GDP). It is a source of employment, directly or indirectly, to a majority of the population.

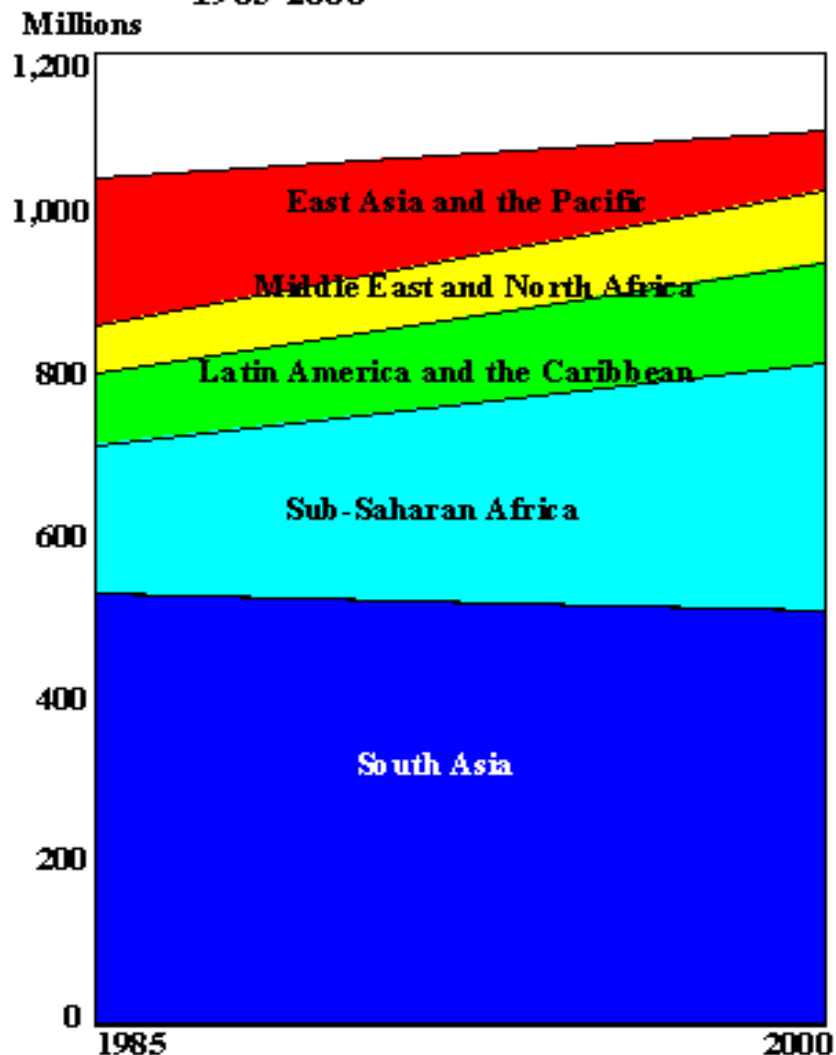
Figure 3--Change in structure of production in developing countries since 1965



Note: Calculated from data in World Bank, *World Development Report*, 1992.

Agricultural growth is essential for economic growth in most low-income developing countries. The sheer size of the agricultural sector often makes it the only viable lead sector for economic growth. Very few countries have experienced rapid economic growth without agricultural growth preceding or accompanying it. In the past 20 years the countries that achieved the most rapid agricultural growth also had rapid economic growth, while the countries that experienced real declines in agriculture had the lowest economic growth rates. Agricultural growth is strongly correlated with growth in other sectors of the economy: growth in agricultural output is matched by an almost equivalent increase in nonagricultural output. Thus, poor performance in the agriculture sector is more likely to inhibit overall growth in low-income countries than poor performance in other sectors.

**Figure 4--Poverty in the developing world,
1985-2000**



Source: World Bank, *World Development Report*, 1992

Poverty is a major consequence of deteriorating or slow economic growth. In 1991, 51.6 percent of the world's population was living in 30 countries that had GNP per capita of less than US\$500. World Bank estimates of poverty in the developing world suggest that in 1985, an estimated 1 billion people were poor: they lived below a poverty line of about \$420 per person per year. South Asia was home to about half of the developing world's poor (Figure 4), but projections suggest that Sub-Saharan Africa will increasingly become a locus of poverty in coming years as the number of poor people in that region increases from about 184 million in 1985 to 304 million people in 2000. The

magnitude of poverty is also anticipated to increase in Latin America and the Caribbean and in the Middle East and North Africa between now and 2000, but to decline by more than half in East Asia from 182 million in 1985 to 73 million in 2000. Overall, the absolute number of poor people in all developing countries is expected to increase slightly, but their share of the total population will decline from 31 percent in 1985 to 24 percent in 2000 due to population growth.

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