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## NEWS RELEASE

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### **Developing Countries Come to the Global Economy's Rescue**

*They account for half of global growth and will surpass economic size of developed nations by 2015*

WASHINGTON, September 27, 2010—While the rich world puts its house in order, developing countries are becoming a new engine of global growth and a pulling force for advanced economies, says a new book by World Bank economists.

According to *The Day After Tomorrow: A Handbook on the Future of Economic Policy in the Developing World*, almost half of global growth is currently coming from developing countries. As a group, it is projected that their economic size will surpass that of their developed peers in 2015.

“Developing countries have come to the global economy’s rescue,” said Otaviano Canuto, World Bank Vice President for Poverty Reduction and Economic Management (PREM), and co-editor of the book. “They are the new locomotives of growth which will move global growth forward while high-income countries remain stagnant.”

According to the publication, growth in developing countries is estimated to reach 6.1 percent in 2010, 5.9 percent in 2011, and 6.1 percent in 2012, while corresponding figures are 2.3 percent, 2.4 percent, and 2.6 percent for high-income countries. These diverging growth prospects continue in the medium term. Five factors account for it: faster technological learning, larger middle-classes, more South-South commercial integration, high commodity prices, and healthier balance sheets that will allow borrowing for infrastructure investment.

“The economic horizon of the developing world is promising,” said Marcelo Giugale, World Bank’s Director for Poverty Reduction and Economic Management in the Latin America and Caribbean Region, and co-editor of the study. “The rebalancing of global growth toward a multiplicity of engines will give the developing countries new relevance. It will also change their policy agendas: on average, economic management will be stronger, governments will be better, and the beginning of the end of poverty will be within reach.”

The study notes that developing countries should take advantage of their relatively healthier fiscal positions to foster inclusive growth. This means better targeting of social programs, more emphasis on giving people the same opportunities, and business environments that facilitate the creation of formal jobs.

Other upcoming, developing-country trends identified in the book include the recovery of remittances, an increase in South-South trade, rising investment by sovereign wealth funds, more conservative debt management, and progress by many governments in gaining public trust.

According to *The Day After Tomorrow*, regions like East Asia, Latin America, South Asia and, soon Africa, have the potential to turn into “newly developed.” Here are some of the highlights by region:

In **Sub-Saharan Africa**, the world’s poorest region, an estimated additional 7 to 10 million people may have been thrown into poverty as a result of the crisis. Nevertheless, the continent’s prospects for faster growth are good as long as there is a sustained commitment to sensible policies. These will need to address the challenges of infrastructure, job creation, governance and shrinking aid.

**East Asia and the Pacific** is leading the world out of the crisis, but still needs to make progress on economic integration and climate change. In China some “rebalancing” is needed through the expansion of domestic consumption and the service sector. Middle-income countries like Indonesia, Malaysia, the Philippines and Thailand, need to move up into knowledge- and innovation-based markets, while trade facilitation will be the key for low-income countries like Cambodia, Lao PDR, and Vietnam.

**Eastern Europe and Central Asia** was the hardest hit region by the global crisis, with growth declining by 12 percentage points between 2007 and 2009. As a result, many of its earlier achievements were reversed. In order to move forward, the region needs to improve its competitiveness and to put its social service provision on a fiscally sustainable path.

In **Latin America** growth came to a standstill, and poverty (US\$4 per day) increased by some 8 million people, as a result of the crisis. But there was no economic or social meltdown thanks to progress over the previous decade on macroeconomic management and smarter social policy. Barring further external shocks, the region is now well-positioned to enter a path of fast and sustained development.

In the **Middle East and North Africa**, the economic crisis will likely result in 2.6 million more people falling into poverty by 2011, and in an exacerbated unemployment problem. The Gulf countries are leading the regional recovery, assisted by higher oil prices and a more stable financial sector. The key to unlocking the region’s enormous potential is to open the door for a new generation of private entrepreneurs, and for women to fully join economic life.

**South Asia** was the region of the world that better withstood the crisis and the first to return to the growth path, but poverty persists—with some 600 million living on US\$1.25 a day. So the challenge is to make recovery stronger, inclusive and sustainable. The priority is to reduce fiscal deficits and tame public debt accumulation in order to create fiscal space for social programs and critical infrastructure. Deepening trade integration will be critical.

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*The publication and related material will be available to the public at:*  
<http://go.worldbank.org/TPPWANWXRO>