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WORLD BANK ANTICIPATES GLOBAL UPTURN, URGES INCREASED HELP TO POOR COUNTRIES

WASHINGTON, March 13, 2002 – Developing countries now suffering from a global economic downturn are likely to experience a rebound in growth this year. But growth rates in many poor countries still will be too low for rapid poverty reduction.

Developing countries' output is expected to rise by 3 percent this year, only slightly more than in 2001. Developing countries will continue to grow faster than the rich countries, which despite signs of recovery are expected to record a meager 0.8 percent growth in 2002, about the same as last year, according to **Global Development Finance**, the Bank's yearly report on developing countries' external finance.

In East Asia, which saw growth slow sharply in 2001 – concentrated in the high-tech exporting countries – to 4.6 percent down from 2000's 7.4 percent, GDP growth is estimated to reach 5 percent, buoyed by countries that have benefited from domestic stimulus packages and by the anticipated rebound in global high-tech markets – signs of which are now emerging in the United States. During the fourth quarter of 2001, industrial production in high-tech East Asia, (Korea and Malaysia among middle income countries, Singapore and Taiwan, China among the Newly Industrialized Economies) has turned the corner decisively, in line with an upturn in Asian semiconductor sales. The report notes, however, that in the absence of adverse surprises, momentum underlying the current upswing could produce 7 percent regional growth by 2003, similar to the robust outturns of 2000. Similarly, as most countries in the region have generally kept real exchange rate levels below their pre-crisis averages, they are expected to benefit fully

from the turnaround in global trade, with export growth of near 15 percent in 2003 and 10 percent in 2004.

The report cautions that downside risks to East Asia remain large. The recovery in global high-tech sectors may not be as robust as has been the case in past cycles. In particular, the unprecedented burst of the high-tech bubble in financial markets may exert a larger drag on the availability of funds for high-tech firms than is assumed in the baseline. In broader scope, near-term revival of world demand continues to hinge on the spending behavior of the U.S. consumer. And abrupt changes in consumer confidence could serve to delay or protract recovery for some time.

Global Poverty

Although growth in developing countries is expected to accelerate to 5 percent in 2003, the rebound will be less pronounced in many of the poorer, commodity-dependent economies due to continued weakness in commodity prices. These countries will fall short of the growth rates needed to meet the international target of reducing by half the proportion of people in extreme poverty between 1990 and 2015.

World leaders endorsed the poverty reduction target as the centerpiece of the Millennium Development Goals adopted last year at a United Nations summit. The Bank is urging rich countries to demonstrate their commitment to the goals by opening their markets to developing country products and increasing assistance to low-income countries that use aid effectively.

“Many poor countries have improved their policies, institutions and performance in the past decade. Because aid increasingly is channeled to these countries, aid is more effective today than ever before,” says **World Bank Chief Economist Nicholas Stern**. *“But even successful poor countries are being hurt by lower global growth, adverse trends in commodity prices, and declining aid.”*

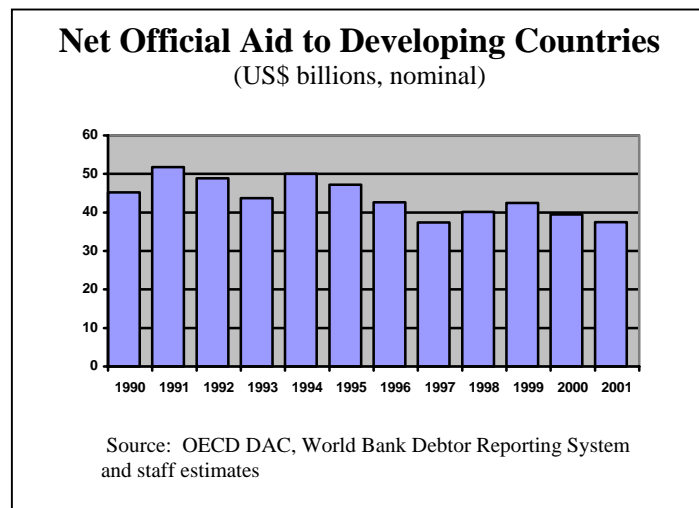
According to *Global Development Finance 2002*, the global economic slowdown is exceptionally deep and broad, as the deceleration in growth rates has been equally rapid for rich countries and developing countries. In the last 40 years, the deceleration of world GDP was sharper only in 1974, during the first oil crisis.

Countries dependent on commodities exports have been hit especially hard, with prices for commodities as diverse as coffee, cotton, rice, soybeans, and precious metals at or near historic lows. Countries that rely on tourism have also suffered due to the drop in travel following the September 11, 2001 terrorist attacks on Washington and New York.

Many developing countries have had less access to capital markets, due to a global decline in lending, increased uncertainty among investors, and reduced willingness to assume risk. Foreign direct investment (FDI) flows, which have been more stable than capital market flows, changed little from the previous year and, at \$168 billion in 2001, remain only \$15 billion below the peak level of 1999.

Overall, net long-term private flows to developing countries fell in 2001 for the fifth year in a row to an estimated \$234 billion, \$30 billion below the previous year's level and more than \$100 billion less than the peak in 1997.

Official Development Assistance (ODA) fell, widening the gap between the availability of aid and the needs of the poorest countries. ODA dropped sharply in the 1990s following the end of the Cold War, picked up briefly in response to the 1997 East Asian financial crisis, and during the past two years again declined. In 2001, total ODA was 20 percent less than in 1990 in inflation-adjusted dollars.



Rich Countries Urged to Step Up Support For Millennium Development Goals

According to Stern, the report underlines the need for world leaders to take concrete steps to create a deep and lasting partnership for development when they gather next week in Monterrey, Mexico for the International Conference on Financing for Development.

“A growing number of poor countries are putting in place the policies, institutions and governance needed to achieve sustained pro-poor growth,” says **World Bank Chief Economist Nick Stern**. *The gathering in Monterrey presents a historic opportunity for the richer countries to demonstrate their support for these efforts by continuing to open their markets and by substantially increasing aid.”*

Five donor countries have reached or surpassed the international target of contributing 0.7 percent of their GNP to development assistance but many other donor countries fall short and the need for aid continues to grow.

The World Bank has estimated that between \$40 - \$60 billion a year in additional aid will be needed to meet the Millennium Development Goals, assuming improved performance in developing countries. The goals call for halving the proportion of people who live on less than a dollar a day, compared to 1990, and substantially improving health and education in developing countries by 2015.

Opening rich country markets to exports of developing countries, including agriculture and textiles, constitute a key element of the new partnership for development. The decision at the World Trade Organization (WTO) in Doha last November to launch a round of multilateral trade negotiations focused on development is potentially an important step forward in this direction.

“Industrial countries are stepping up trade-related technical assistance to developing countries, as promised at Doha,” says **Uri Dadush, Director, Economic Policy and Prospects Group**, *“but technical assistance cannot substitute for opening markets.”*

Poor Countries Increasingly Integrated with Global Financial System

Even the poorest countries have become increasingly integrated into the global financial system, for example, by opening to foreign banks and by attracting foreign investment. Although these countries still have difficulty borrowing on international capital markets, relative to the size of their economies they attract about the same amount of FDI as middle-income developing countries.

“Despite their lack of access to capital markets, poor countries’ integration into the global economy means that they face similar policy challenges as middle-income countries, including how to deal with capital mobility,” says **William Shaw, the lead author of the report**.

Countries with a sound investment climate – including effective policies, governance and institutions, adequate infrastructure, and appropriate regulations – are in the best position to increase the volume and to improve the productivity of both domestic and foreign investment, he said. For example, poor countries with better policies enjoyed much more rapid increases in FDI than poor countries with worse policies, and were more able to absorb the advanced technology and skills that often accompanies FDI. Residents of poor countries with better than average investment climates sent only one sixth as much capital out of the country as residents of countries with worse-than-average investment climates.

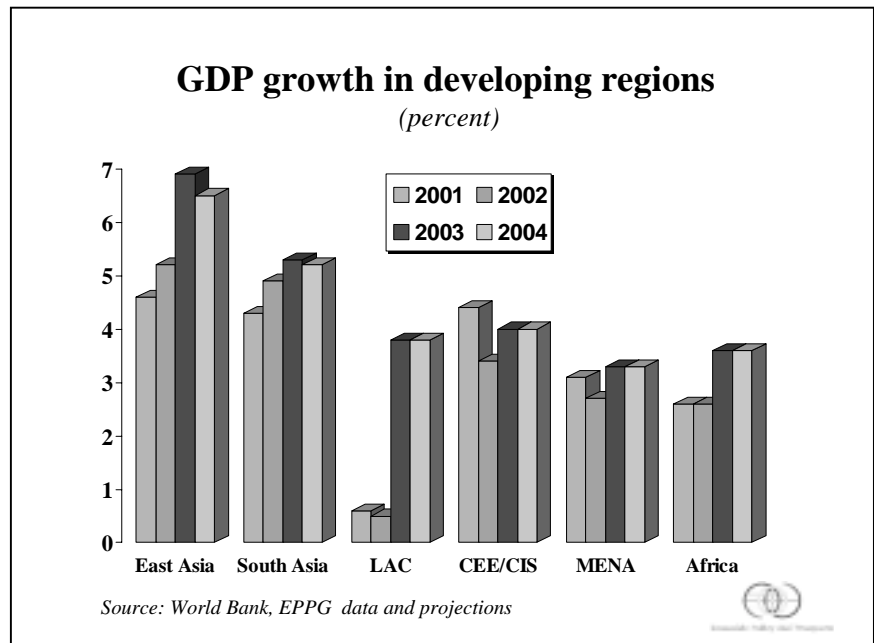
Better policies also have enabled some poor countries to attract more diversified FDI flows—the share of FDI going to poor countries that was devoted to exports of natural resources fell sharply in the 1990s. Similarly, countries that established the competitive conditions required to attract foreign banks experienced an improvement in the efficiency of their domestic banks and thus a decline in the costs of financial intermediation.

Recovery to begin late this year

The report found that the economic consequences of the events of September 11th postponed the expected rebound of the world economy by about two quarters but, as several of the strong market reactions to the terrorist attacks have been reversed and signs of a recovery in the United States and the high-tech sectors have started to mount, strong growth rates in the second half of 2002 are expected. The report projects global GDP growth of 3.6 percent in 2003, an improvement over 2001 and 2002, but still short of the strong 3.9 percent performance of 2000.

Recovery in 2003 is likely to be strongest in East Asia, where countries have benefited from domestic stimulus, and where strong dynamics in the high-tech sectors could once again work in their favor. The aggregate of Latin American countries are also expected to recover from the very slow growth of 2002, although growth will be less rapid than in the Asian countries, as financial strains remain elevated and commodity prices are expected to rebound only modestly. Low commodity prices will also continue to restrain economic growth in some of the poorest countries, particularly in Sub-Saharan Africa.

Growth in South Asia will remain high, while the recent decline in oil prices is likely to restrain growth in the Middle East and North Africa. Recovery in Central and Eastern Europe will be supported by faster growth in the European Union, while the recent decline in the price of oil will limit growth in Russia and a few other countries of the CIS.



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