Foreword

As the twenty-first century dawned, world leaders were optimistic as seldom before. They vowed to make "the right to development a reality for everyone" and free "the entire human race from want." Fifteen years later, buoyed by the initial burst of progress, they set a tight deadline: "We resolve, between now and 2030, to end poverty and hunger everywhere." For a time, it seemed humanity might be on the brink of an era of extraordinary progress.

It was not to be. As the first quarter of the century winds to a close, it's clear that the lofty goals of the past few decades will not be met. The long-term growth outlook for developing economies is now the weakest it's been since the start of the century. Barring a sustained improvement in growth rates, only six of today's 26 low-income countries are likely to achieve middle-income status by 2050. By 2030, 622 million people will remain in extreme poverty. Hunger and malnutrition will remain the fate of roughly the same number.

This edition of *Global Economic Prospects* presents the first systematic review of the performance of developing economies since the dawn of the century—and assesses their prospects for the next 25 years. Developing economies, which began the century on a trajectory to close the income gap with the wealthiest economies, are for the most part now falling farther behind. Most of the forces that powered their rise have dispersed. In their place have come fierce headwinds: weak investment and productivity growth, aging populations in nearly all but the poorest countries, rising geopolitical tensions, and the escalating dangers of climate change.

These economies achieved considerable progress in the twenty-first century, the report finds: initially, they grew at the fastest clip since the 1970s. Developing economies also became more important to the global economy than they were at the start of the century. Today, they account for nearly half of global GDP, up from just 25 percent in 2000. In short, within a generation, they transformed the global landscape.

The bulk of this progress occurred in the earliest years—before the Global Financial Crisis of 2008-09. It began to peter out after that. Overall economic growth underwent a series of downward shifts: from 5.9 percent in the 2000s to 5.1 percent in the 2010s to 3.5 percent in the 2020s. Since 2014, with the exception of China and India, the average per capita growth rates of income in developing economies have been half a percentage point lower than those in wealthy economies, widening the rich-poor gap. Domestic reforms stalled. Government debt surged to record highs as government expenditures as a share of GDP ballooned without an attendant rise in government revenues. Geopolitical tensions escalated, causing global economic integration to falter: as a share of GDP, foreign direct investment (FDI) inflows into developing economies today are at just half the level of the 2000s. New global trade restrictions in 2024 were five times the 2010-19 average.

The consequences were greatest for low-income economies, home to more than 40 percent of people struggling on less than $2.15 a day. These economies have been the focus of global efforts to end extreme poverty. Yet their progress has come to a virtual standstill amid rising conflict, frequent economic crises, and persistently weak growth. At the start of the twenty-first century, 63 countries were classified as "low-income." Since then, 39—including India, Indonesia, and Bangladesh—have entered the ranks of middle-income countries, meaning their annual per capita incomes were above $1,145 by 2023. The remainder, which were joined by South Sudan and the Syrian Arab Republic in the 2010s, have simply stagnated: on average, their inflation-adjusted GDP per capita has grown by less than 0.1 percent annually over the past 15 years.

These ups and downs underscore what developing economies got right and wrong in the first quarter of this century—and they shed light on what they can do in the coming years to chart their own progress regardless of what happens beyond their borders. It's worth remembering that these economies now have greater sway on growth outcomes in other developing economies. Today these economies increasingly trade with one another: more than 40 percent of the goods exported by developing economies go to other developing economies, double the share in 2000. They're also an increasingly important source of capital flows, remittances, and development assistance going into other developing economies.

Our analysis indicates that a 1 percent increase in GDP growth in the three biggest developing economies—China, India, and Brazil—boosts GDP in other developing economies by nearly 2 percent in all after three years. That's just half the effect of growth in the United States, the euro area, and Japan. In short, the welfare of developing economies is still strongly tied to growth in three biggest advanced economies. Still, the dependence is smaller than it was at the turn of the century—and that points to an opportunity for them.

Developing economies should have no illusions about the struggle ahead: the next 25 years will be a tougher slog than the last 25. A fresh game plan is needed—one that strengthens their capacity to fend for themselves and seize growth opportunities wherever they can be found. With the right policies, some challenges can be turned into opportunities. Given their tighter trade links with one another, developing economies can reap significant rewards by accelerating reforms to attract investment and deepen trade and investment ties with these economies. They can also accelerate growth by modernizing infrastructure, improving human capital, and speeding up the climate transition.

That work should start now—while the global economy remains stable. Our forecasts call for it to expand by 2.7 percent this year and next—the same rate as in 2024. That's below the 3.1 percent average that prevailed in the decade before COVID-19, but it could be accompanied by some welcome trends: an expected decline in both inflation and interest rates. In a time of exceptionally high global policy uncertainty, however, developing economies would be wise to take nothing for granted. Far better to redouble the effort to take control of their own destiny.

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