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NEW DELHI, June 3, 2013 - In less than a generation, global saving and investment will be dominated by the developing world with Indias share in global investments expected to almost double by 2030. No other country except China will be investing more than India globally, says the latest edition of World Banks Global Development Horizons (GDH) report.
The report, titled "Capital for the Future: Saving and Investment in an Interdependent World, explores patterns of investment, saving and capital flows as they are likely to evolve over the next two decades.
Among the developing countries, China and India are expected to be the largest global investors. The two countries together will account for 38% of the global gross investment in 2030. In fact, developing countries share in global investment is projected to triple by 2030 to three-fifths, from one-fifth in 2000. This is expected to change the landscape of the global economy and make the worlds economies more integrated than any time in history. The report analyzes how.
"GDH is one of the finest efforts at peering into the distant future. It does this by marshaling an amazing amount of statistical information, said Kaushik Basu, the World Banks senior vice president and chief economist. "We know from the experience of countries as diverse as South Korea, Indonesia, Brazil, Turkey and South Africa the pivotal role investment plays in driving long-term growth. In less than a generation, global investment will be dominated by the developing countries. And among the developing countries, China and India are expected to be the largest investors.
Productivity catch-up, increasing integration into global markets, sound macroeconomic policies, and improved education and health are helping speed growth and create massive investment opportunities, which, in turn, are spurring a shift in global economic weight to developing countries. A further boost is being provided by the youth bulge. With developing countries on course to add more than 1.4 billion people to their combined population between now and 2030, the full benefit of the demographic dividend has yet to be reaped, particularly in the relatively younger regions of Sub-Saharan Africa and South Asia.
By 2039, India will reach its maximum ratio of working to non-working age population with 2.2 working person for every non-working one. But already by the mid-2020, when most of the other developing countries will experience less favorable demographic trends, India will be one of the economies with the highest ratios of working to non-working population. This, jointly with its large population and growing incomes, are the key explanations of why India will become a powerhouse in global savings and investment.
However, while the distribution of capital will shift toward the developing world, wealth may remain concentrated among high-income households in developing economies. If education among workers of future generations were to remain as unequal as it is today, this would perpetuate inequality of earning capacity, saving, and wealth in the future, the report says. For the case of India, without additional efforts in education, the proportion of the population with low or no education would decrease but would still be close to 60%, by 2030. Policy makers in India and in many developing countries have a central role to play in boosting private saving through policies that raise human capital, especially for the poor.
"GDH clearly highlights the increasing role developing countries will play in the global economy. This is undoubtedly a significant achievement. However, even if wealth will be more evenly distributed across countries, this does not mean that, within countries, everyone will equally benefit, said Maurizio Bussolo, lead economist and lead author of the report.
The good news is that, unlike in the past, developing countries will likely have the resources needed to finance these massive future investments for infrastructure and services, including in education and health care. Strong saving rates in developing countries are expected to peak at 34% of national income in 2014 and will average 32% annually until 2030. India, by contributing 7% to global savings by 2030, will have almost doubled its current contribution in less than two decades.
Despite strong saving levels to finance their massive investment needs in the future, developing countries will need to significantly improve their currently limited participation in international financial markets if they are to reap the benefits of the tectonic shifts taking place, the report says. In this regard, India will especially benefit from increasing the development of its financial sector. With a growing labor force, and growing consumer demand, India will have plenty of investment opportunities. With a healthy intermediation it will be able to channel more efficiently its own savings and attract additional foreign capital.
GDH - Capital for the Future paints two scenarios, based on the speed of convergence between the developing and developed worlds: the gradual scenario and the rapid one. These predict average world economic growth of 2.6% and 3% per year, respectively, during the next two decades; the developing worlds growth will average an annual rate of 4.8% in the gradual convergence scenario and 5.5% in the rapid one.
In both scenarios, developing countries employment in services will account for more than 60% of their total employment by 2030 and they will account for more than 50% of global trade. This shift will occur alongside demographic changes that will increase demand for infrastructural services. Indeed, the report estimates the developing worlds infrastructure financing needs at about $820 billion annually between now and 2030. India will account for close to 14% of these infrastructure financing needs.
Across developing regions, there will tend to be a sectoral shift in investment toward services, and this shift is likely to be especially pronounced in India, with the share of total investment going to services increasing from 66 to 73% under the scenario of gradual convergence.

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