



PATTERNS OF ECONOMIC GROWTH

Economic growth experiences

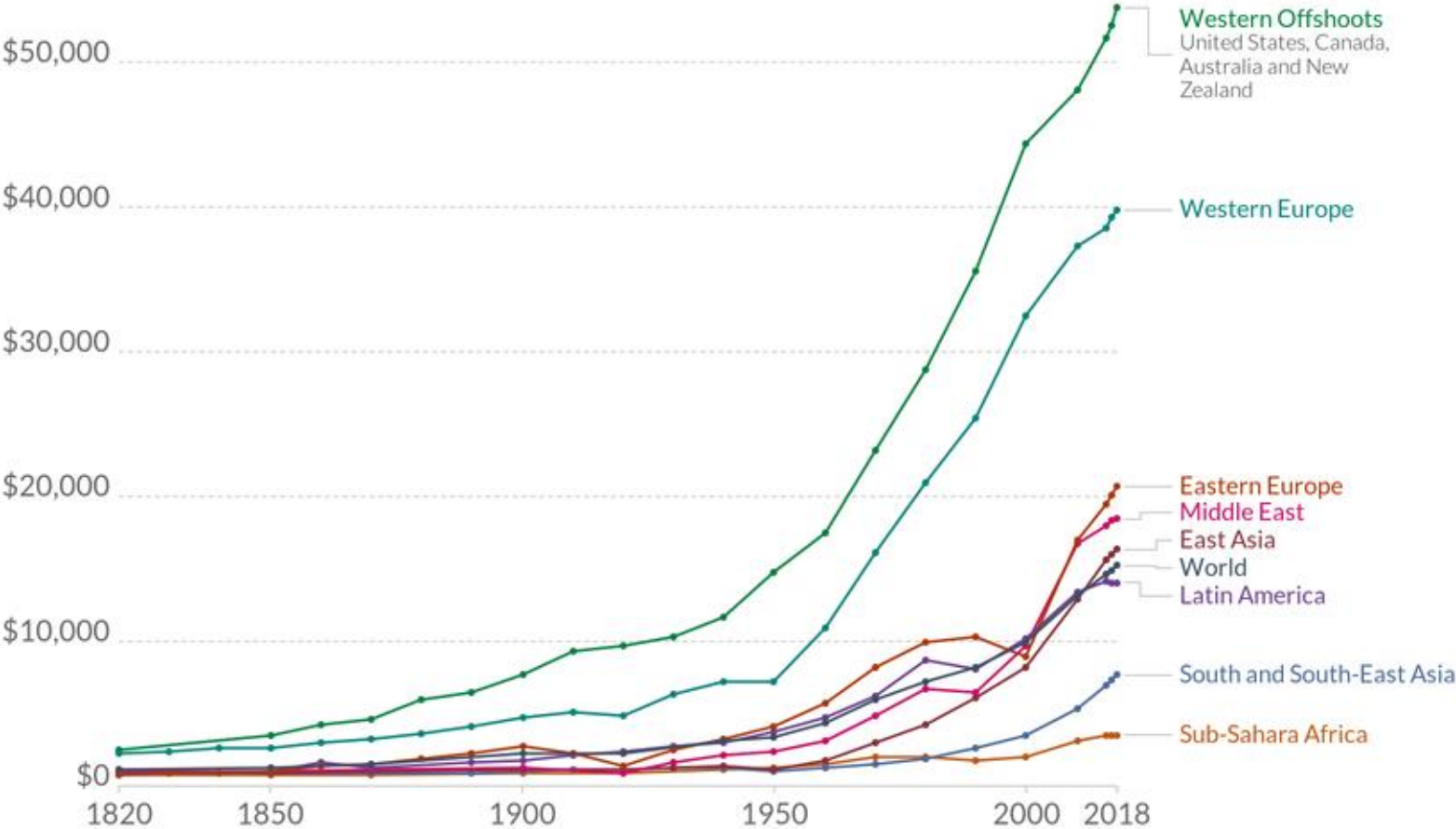
Economic growth across countries are different:

- Rapid growth of East Asian countries within the last 50 years
- Economic stagnation in African countries; few signs of growth
- Economic revival of Eastern European countries
- Economic decline of former Soviet Russian states

Rapid economic growth is a relatively recent phenomenon. Until 500 years ago, most people in the world were poor – food, clothing, shelter, nutrition and health care were rudimentary.

Despite gains from economic growth worldwide, a majority of the world's population, however, still remain poor.

GDP/capita long-term trend, 1820-2018



Source: Maddison Project Database 2020 (Bolt and van Zanden (2020))

Differences in development trajectories

Countries that have regressed

Falling GDP due to macroeconomic and political instability

Ukraine, Argentina

Countries remained stagnant

Insignificant economic growth, no structural change

Lower income countries: Myanmar, North Korea, Papua New Guinea

Fast growing economies

Increased output and productivity; some structural problem

High middle-income countries: India, China, Malaysia, Thailand and Viet Nam; Botswana, Chile, Estonia and Mauritius

Achieved developed country status

Continued long term economic growth (>7%); structural change

High income countries: South Korea, Taiwan, Hong Kong and Singapore

Differences in economic growth

Negative growth
<0%

- Madagascar
- Zambia

Slow growth
1%-3%

- Peru
- Philippines
- Nigeria

Moderate growth
3%-4.5%

- Turkey
- Chile
- Brazil

Rapid growth
>4.5%

- Thailand
- Malaysia
- Sri Lanka

Exceptional growth
>10%

- South Korea
- Singapore
- Botswana
- China

Industrialized Countries
<5%

- United States
- France
- Japan

Evident in long term average annual growth (30 years). An average growth rate of 1%, will increase income by 65% in 50 years, and income doubles in 70 years. If growth rate is 2%, income will increase by 270% during the same time and income will take 35 years to double).

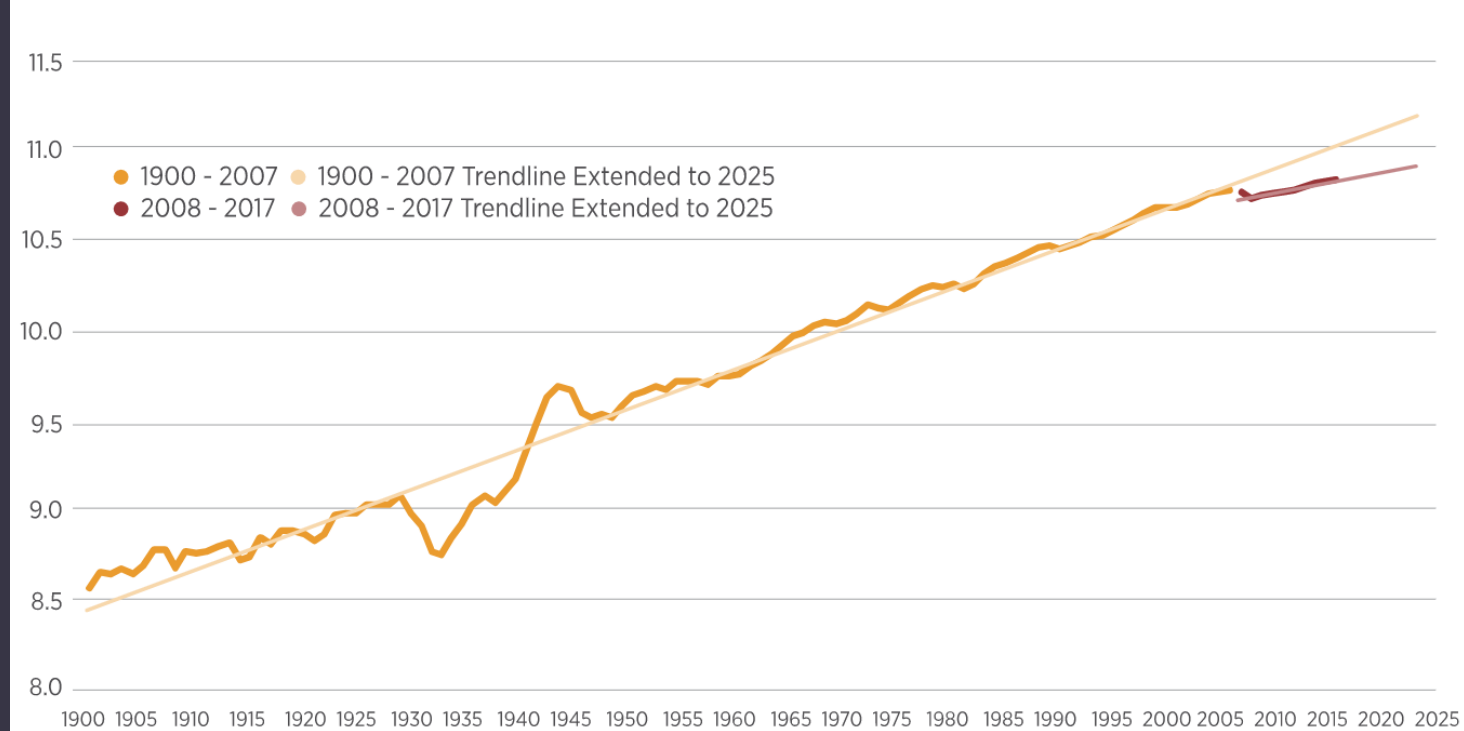
Why are some countries rich? poor?

- *Long-run economic growth* may be the single most fundamental explanation of why countries become rich

Examples

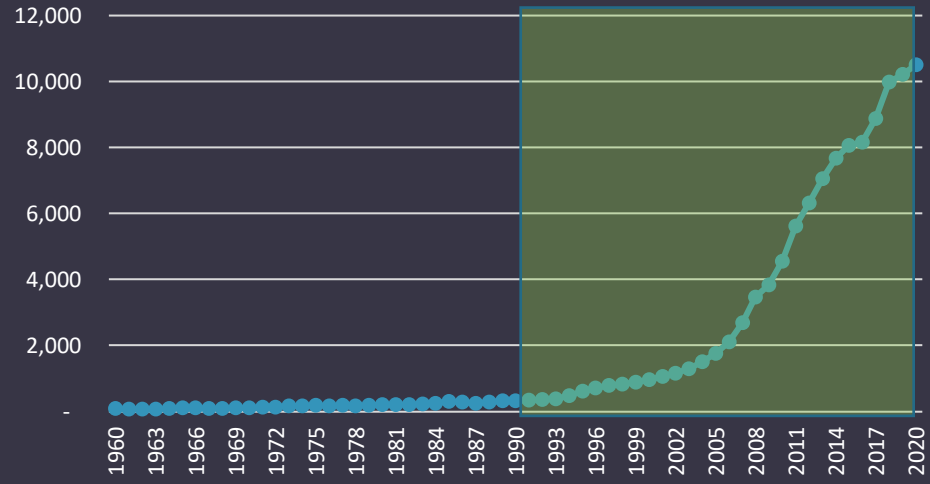
United States, starting 1900
Japan, 1950-1990
South Korea, starting 1970
Taiwan: starting 1980
Singapore: starting 1980
China: starting 1990

U.S. Real GDP Per Capita (1900 - 2017)

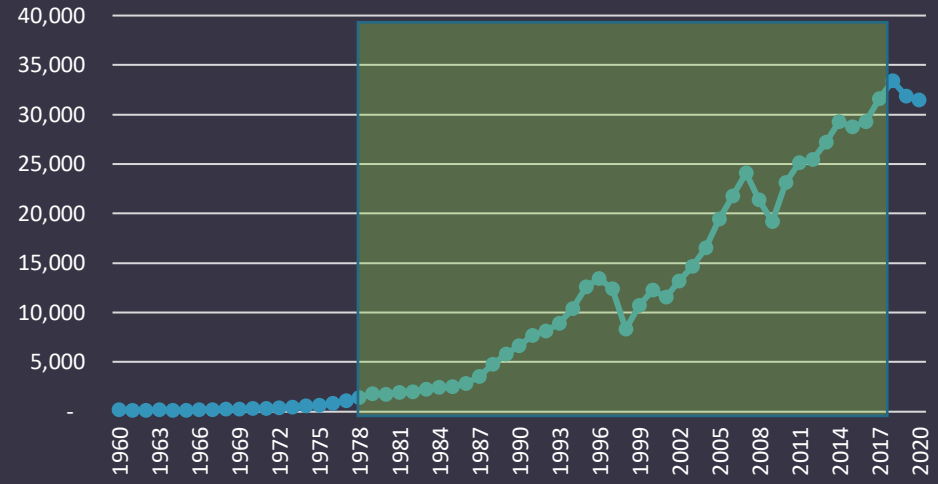


Source: Data from 1929 to 2017 is from the U.S. Bureau of Economic Analysis (BEA). Data from 1900 to 1928 is adapted from the 2018 Maddison Project Database.

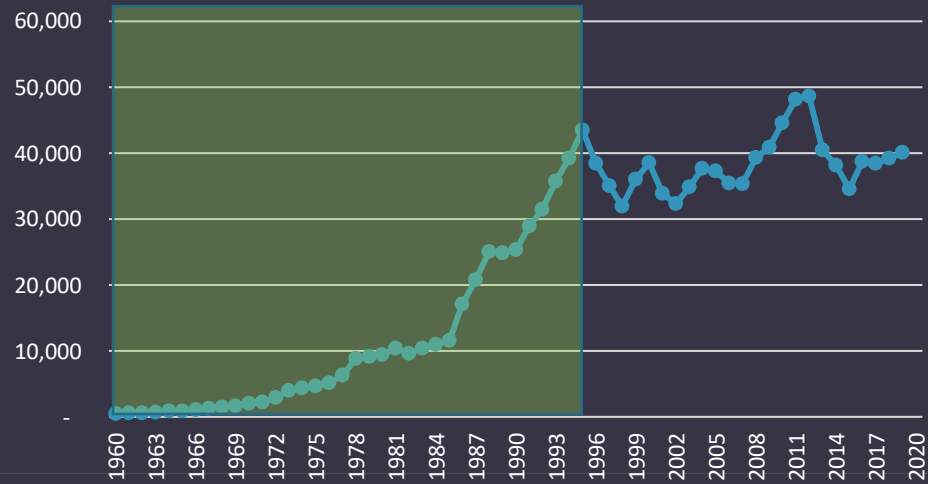
China



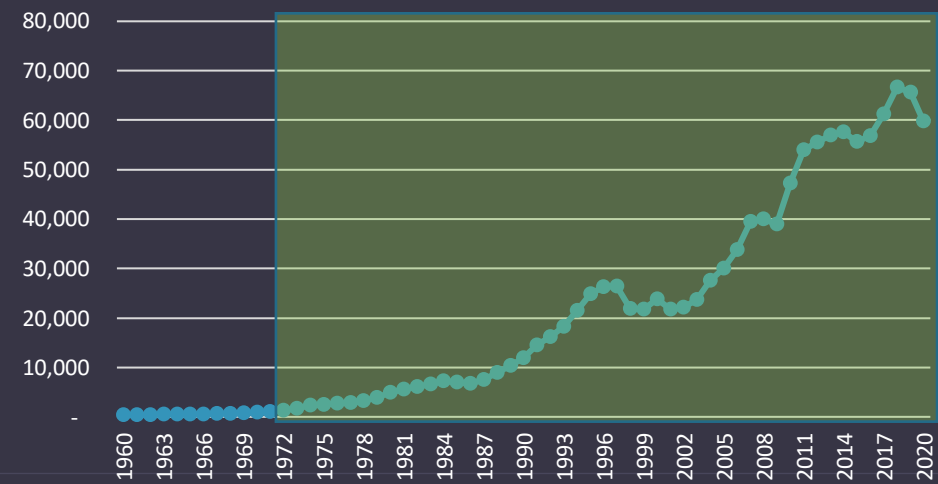
Korea, Rep



Japan



Singapore



Determining factors of economic growth



Macroeconomic and political stability

- Democratic Republic of Congo (1990-1992): suffered inflation (2,800%) due to civil war and social conflict
- Cambodia, Lao PDR and Viet Nam (1960s-1980s): post war social conflicts; isolated from the outside world
- Sub-Saharan Africa (late 1990s): cross-border and civil war
- The Balkans (late 1980s): conflict led to genocide and ethnic cleansing in Bosnia
- The Asian financial crisis of 1998: Negative growth for South Korea, Malaysia, Thailand and Indonesia

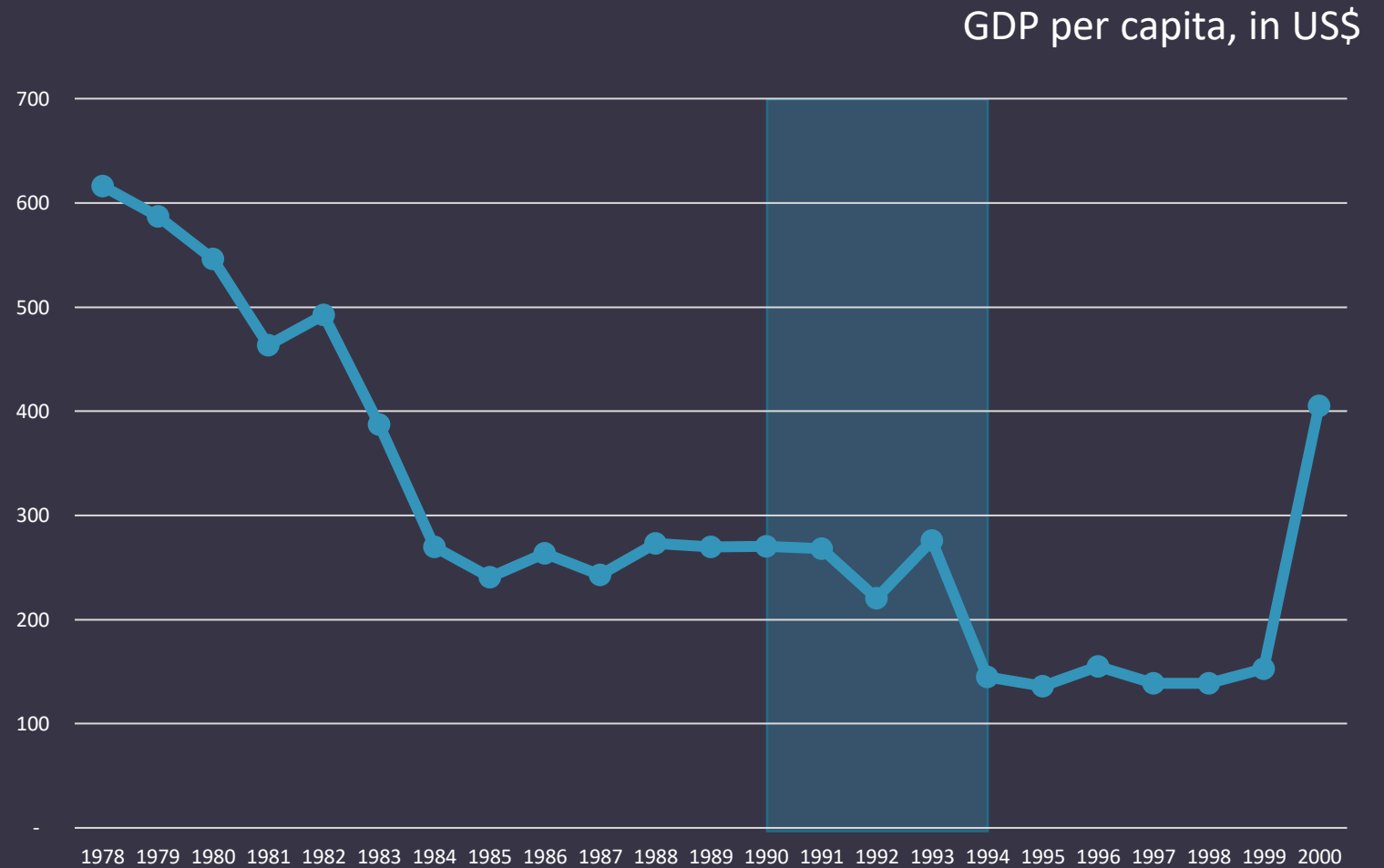


Case study: Congo, 1990-1994

Decline in economic growth: Democratic Republic of Congo

During 1990-1992, Congo suffered inflation (2,800%) due to civil war and social conflict

Lowest growth rate occurred in 1994 (-4%) before resuming growth the following years



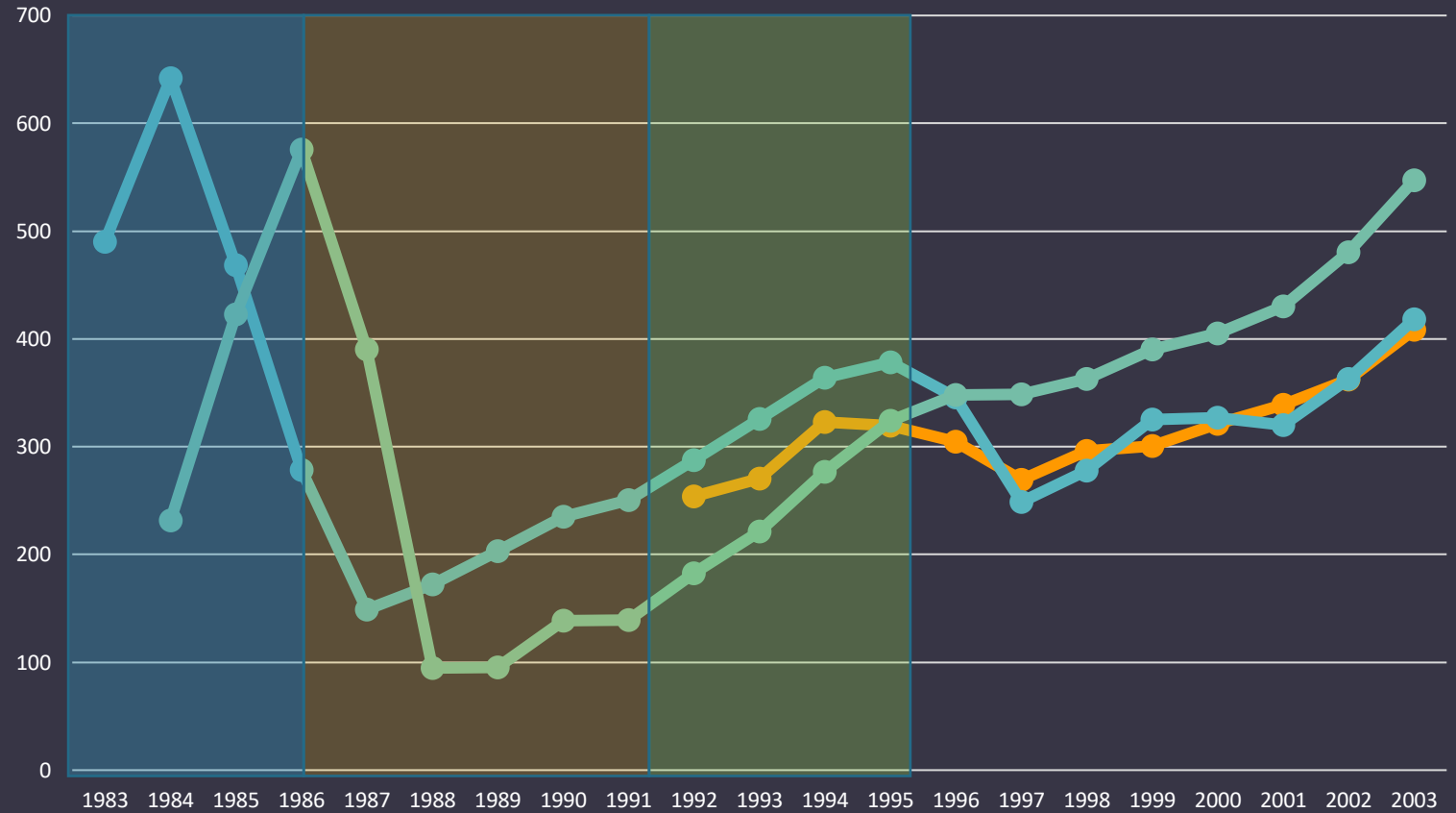
observation period

Source: World Bank Open Data

Case study: Cambodia, Laos and Vietnam

Post war isolation, conflict and reform, 1980s-1990s

After suffering from social conflicts (1970s-80s) and isolation (1980-86), the region embarked on economic reforms and resumed economic growth



isolation

reforms

resumption of economic growth

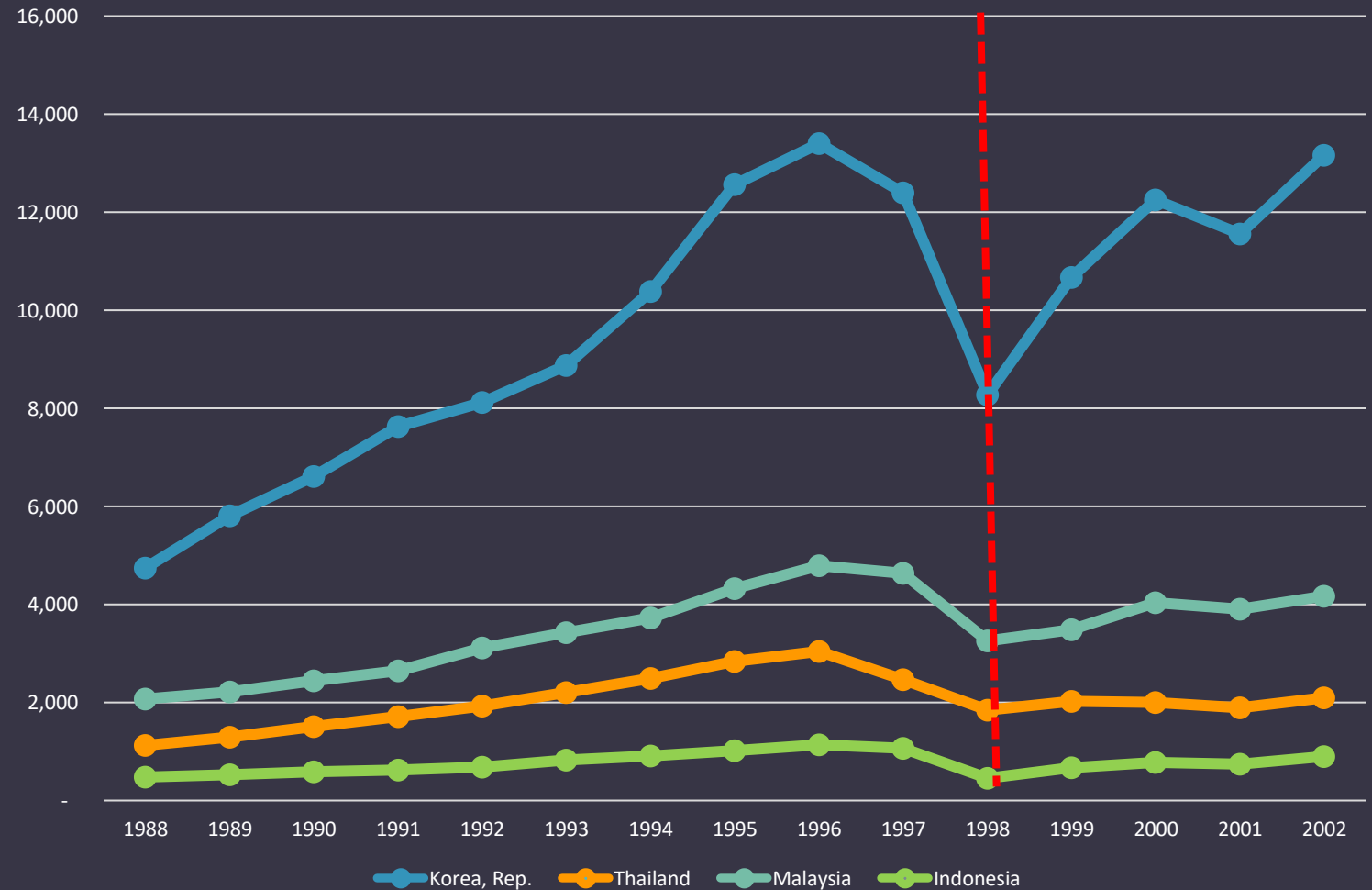
Cambodia Lao PDR Vietnam

Source: World Bank Open Data

Case study: Asian financial crisis 1998

The Asian financial crisis spread quickly from Korea, Thailand and other countries in East and Southeast Asia

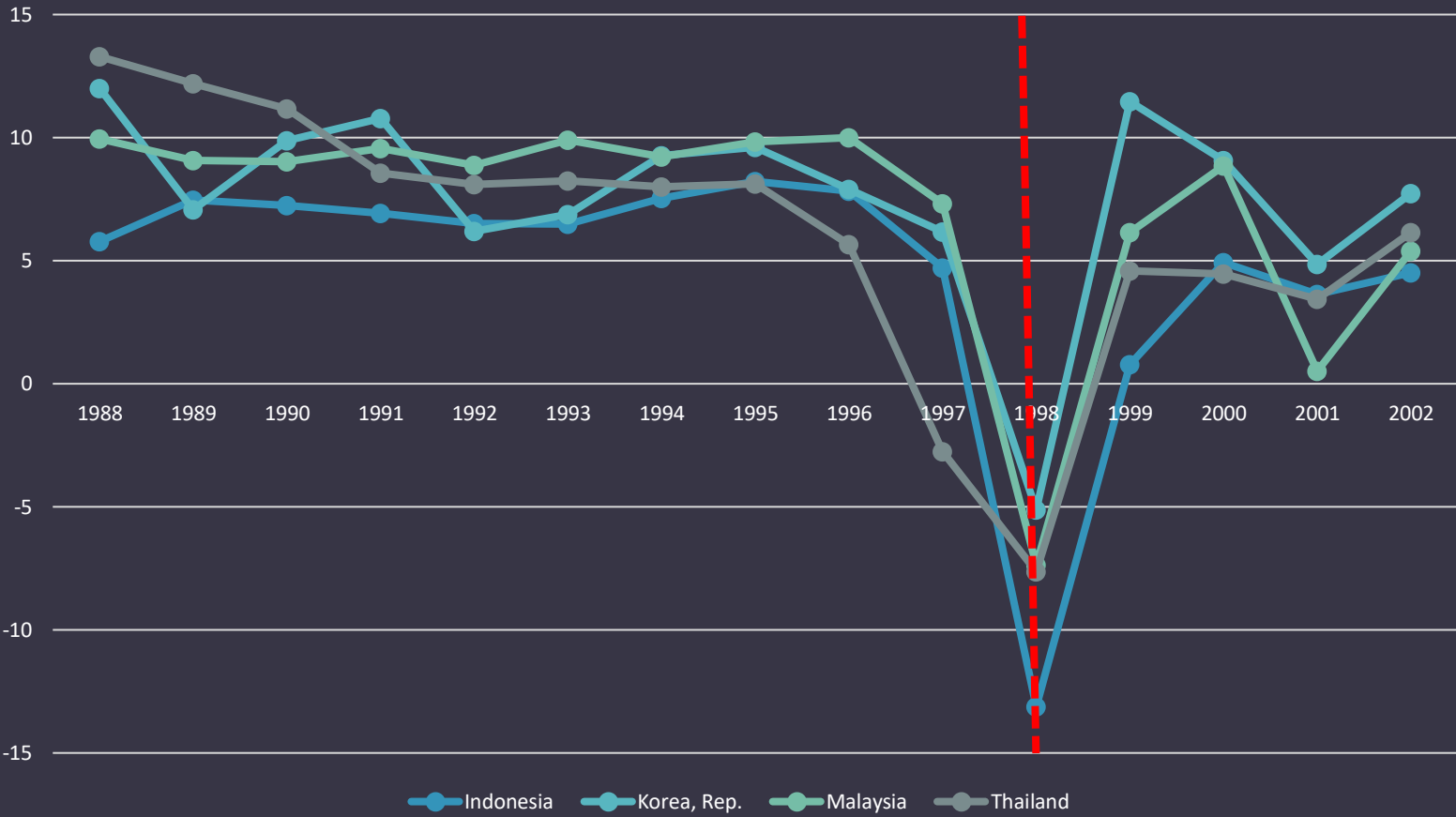
GDP per capita fell drastically for South Korea, Malaysia, Thailand and Indonesia in 1998 before rebounding in 2000



Source: World Bank Open Data

GDP growth for select countries

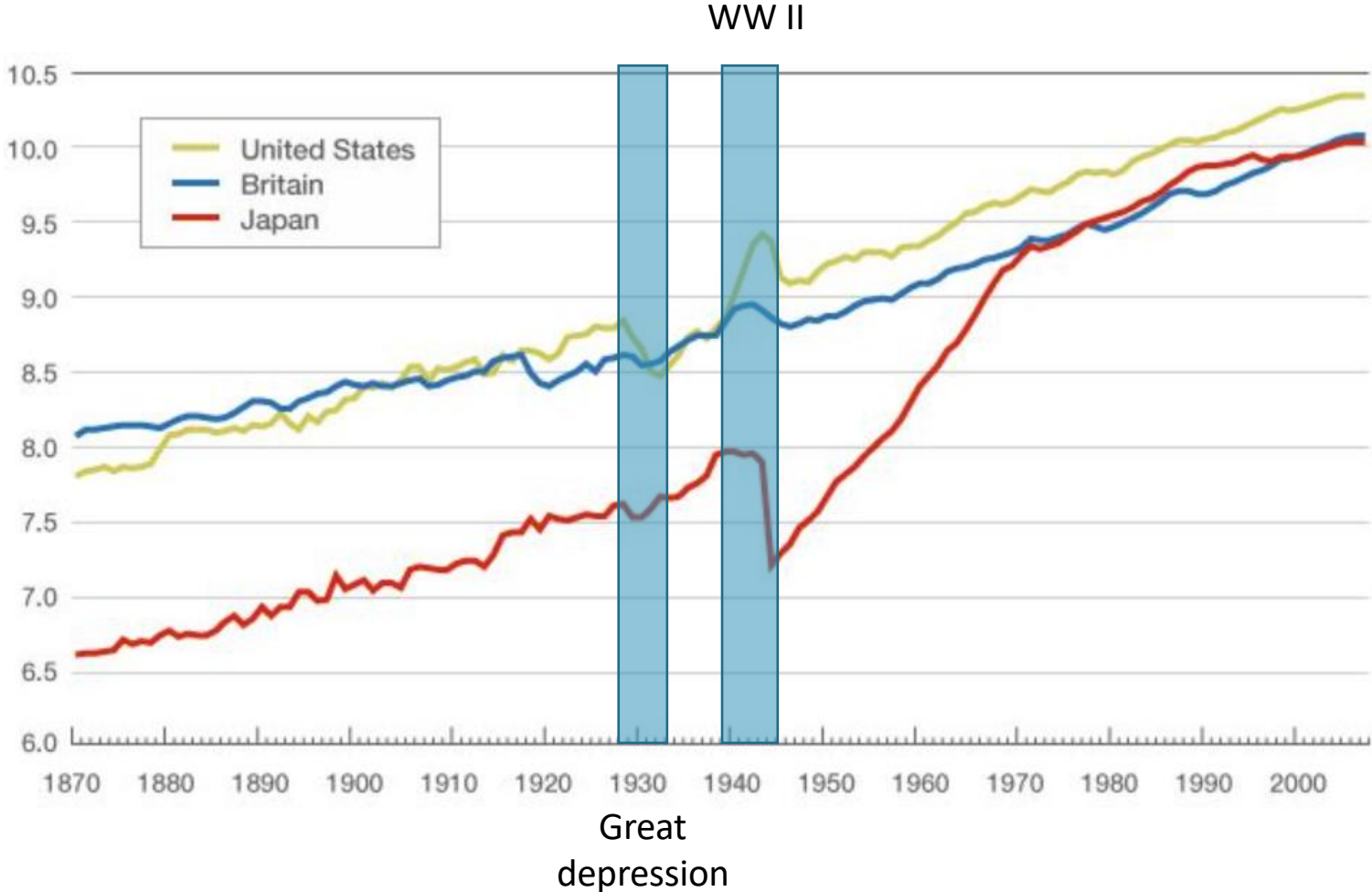
The economic contraction is indicated in GDP growth figures for South Korea, Malaysia, Thailand and Indonesia in 1998



Source: World Bank Open Data

GDP per capita, 1870-2000

GDP per capita figures for the US, UK and Japan, 1820-2000



Investments in health and education

- Healthy and educated workforce = high productivity
- Access to affordable health care facilities, clean water and sanitation
- Disease control, reproductive maternal and child health programs
- Education provides needed skills to attract investments; good mix of vocational and educational training programs provides variety



Effective governance and institutions

- Positive relationship between economic growth and the strength of the rule of law
- Strong institutions needed to manage financial systems, build health and education systems, ensure trade and govern legal systems
- Good governance improves the investment climate by reducing risks and increasing profitability
- Strong legal systems help settle commercial disputes in predictable, rational manner
- Low level of corruption reduces costs of investment



Favorable business environment

- Private individuals and firms make various decisions regarding saving, investment, education and job opportunities
- Businesses will need a healthy/conducive environment, which includes a strong legal system, access to financial systems/resource, and adequate physical infrastructure
- Most business decisions are based on government regulations and policies such as taxes, subsidies, penalties, benefits, permits and license

Most business decisions are based on government regulations and policies such as:

- Taxes
- Subsidies
- Penalties
- Benefits
- Permits
- Licenses

Trade, openness and growth

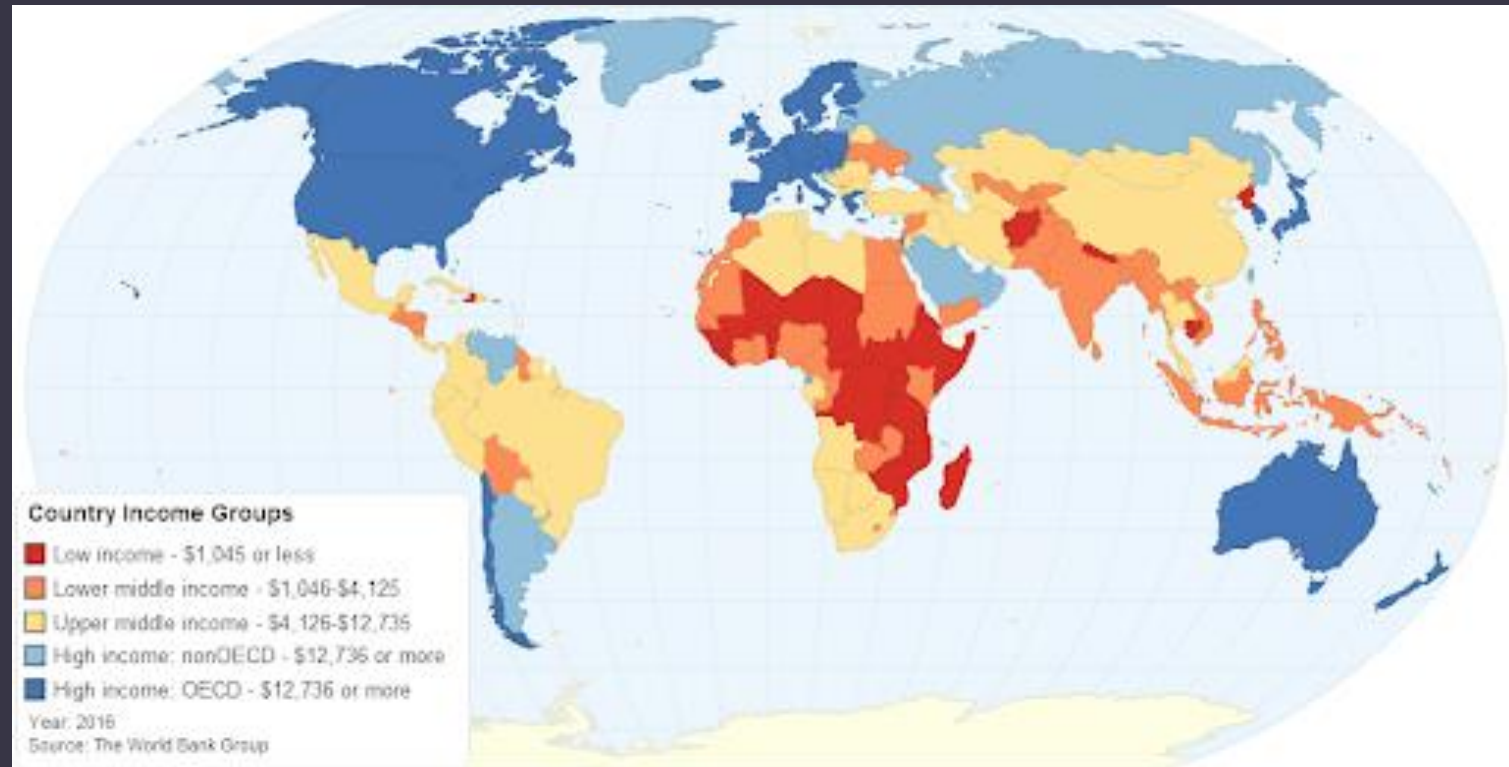
- Trade encourages countries to accumulate physical and human capital and by increasing productivity
- Outward-oriented policies encourage export promotion; examples of countries applying export-oriented policies: South Korea, Taiwan Singapore, Malaysia
- Inward-oriented policies encourage import substitution; examples of countries applying import-substitution policies are Brazil and Argentina



Favorable geography

- Most of the poorest countries are located in the tropics
- Tropical areas are prone to spread of disease and erratic climate
- Natural resource endowment alone does not guarantee economic growth

Most advanced industrialized countries are located in temperate and subtropical zones, between the Tropic of Cancer and Tropic of Capricorn



Conclusion

- Development experiences vary from one country to another, depending on whether they are able to accumulate capital and increase productivity over time
- Among several explanations are macroeconomic and political stability, investments in health and education, governance and institutions, trade openness, and a favorable geography

T **HANK** **Y** **OU!**