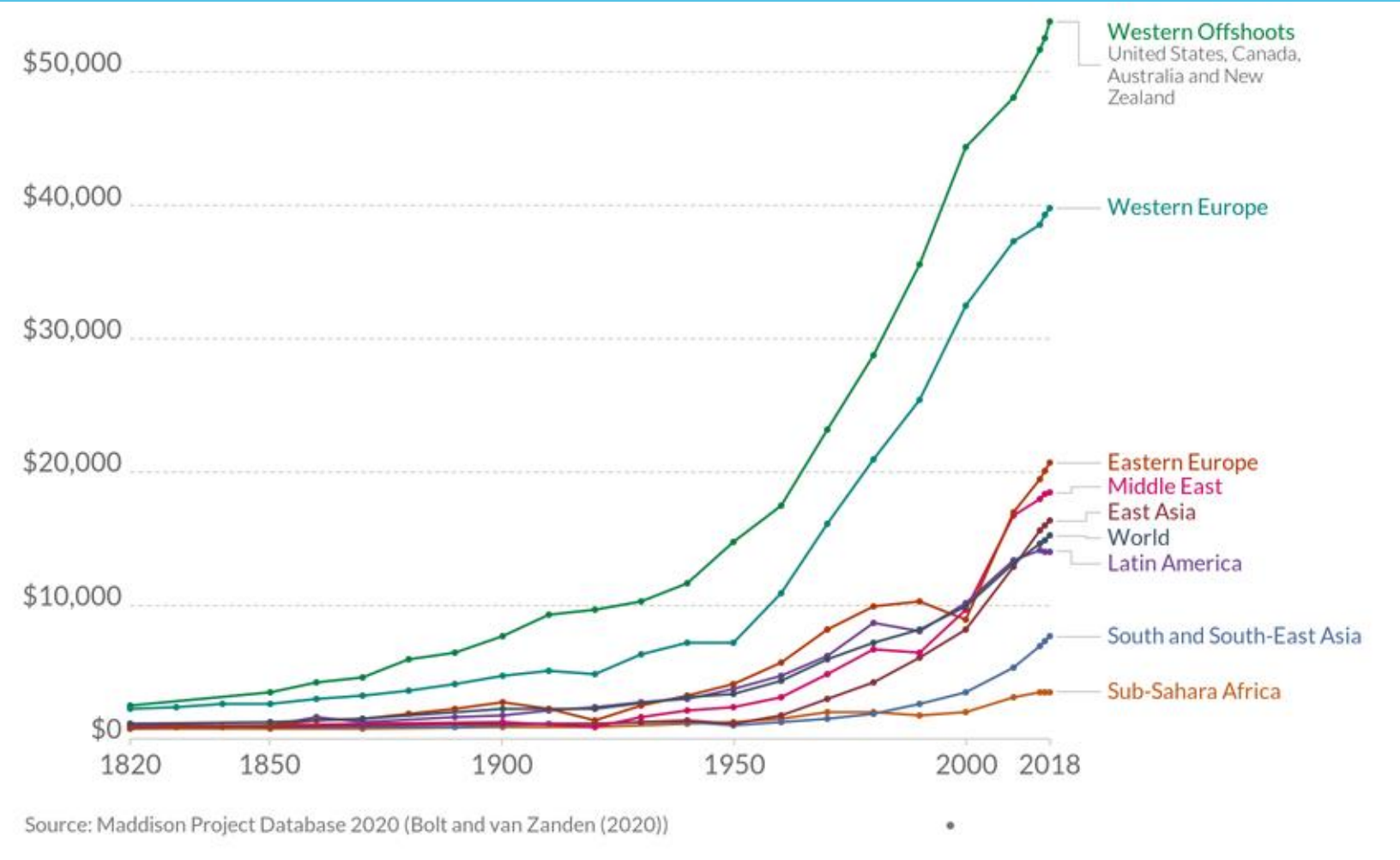




PATTERNS OF ECONOMIC GROWTH

FACULTY OF ECONOMICS, THAMMASAT UNIVERSITY
MODULE 3

GDP/capita long-term trend, 1820-2018



Differences in development trajectories

Countries that have regressed
Macroeconomic and political instability; decline in GDP

Negative growth (< 0%)
Ukraine, Argentina, Madagascar, Zambia

Countries remained stagnant
Insignificant economic growth, no structural change

Slow growth (0-3%): Myanmar, North Korea, Papua New Guinea, Ethiopia, Peru, Brazil

Fast growing economies
Increased output and productivity; some structural problems

Moderate to rapid growth (3-5%): India, China, Malaysia, Thailand, Viet Nam; Botswana, Chile, Estonia and Mauritius

Achieved developed country status
Continued long term economic growth; structural change

Exceptional growth (>5% for a long period) : South Korea, Taiwan, Hong Kong and Singapore

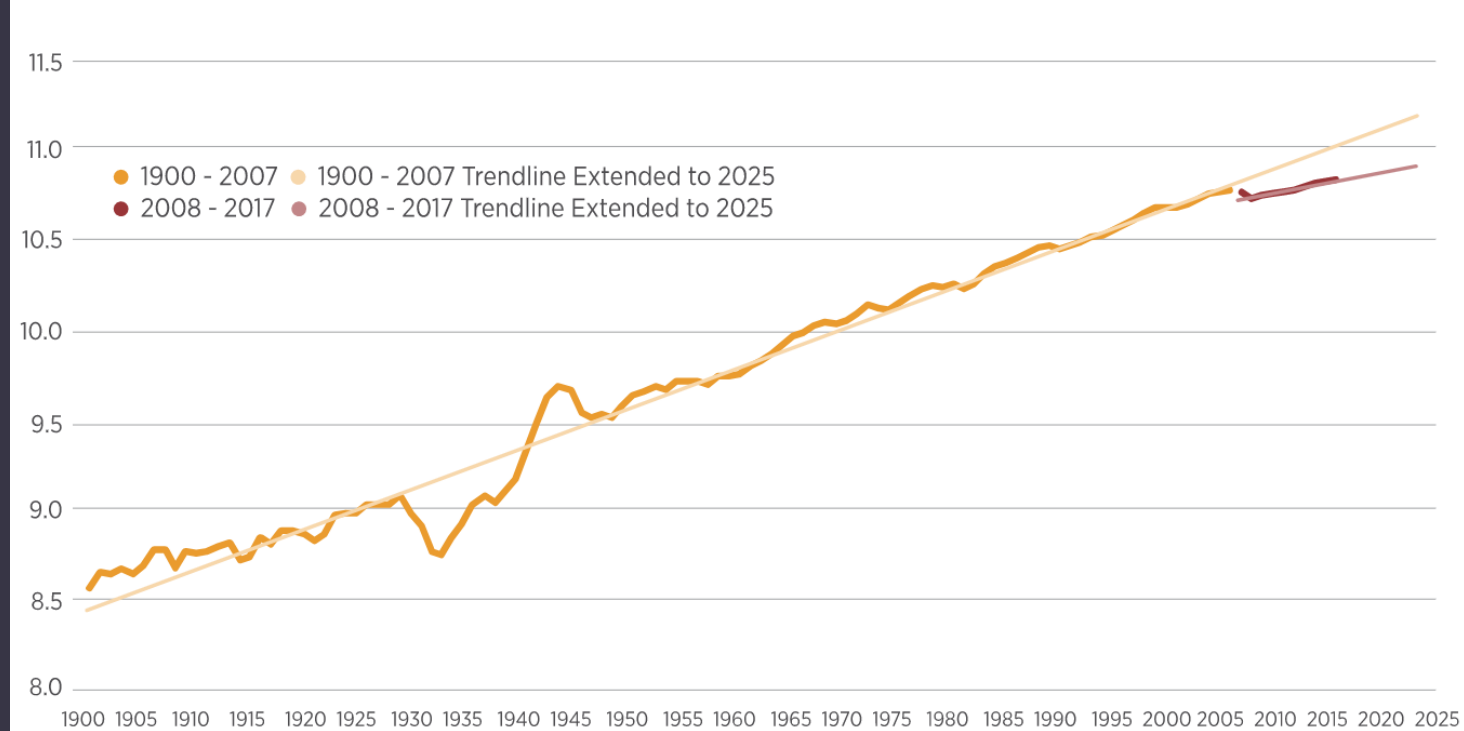
Why are some countries rich? poor?

- *Long-run economic growth is* the single, fundamental explanation of why countries become rich

Examples

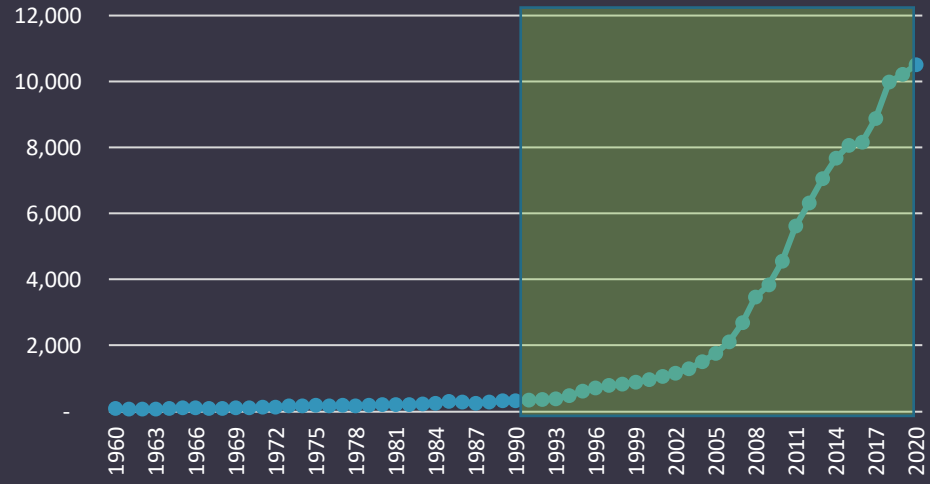
United States, starting 1900
Japan, 1950-1990
South Korea, starting 1970
Taiwan: starting 1980
Singapore: starting 1980
China: starting 1990

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

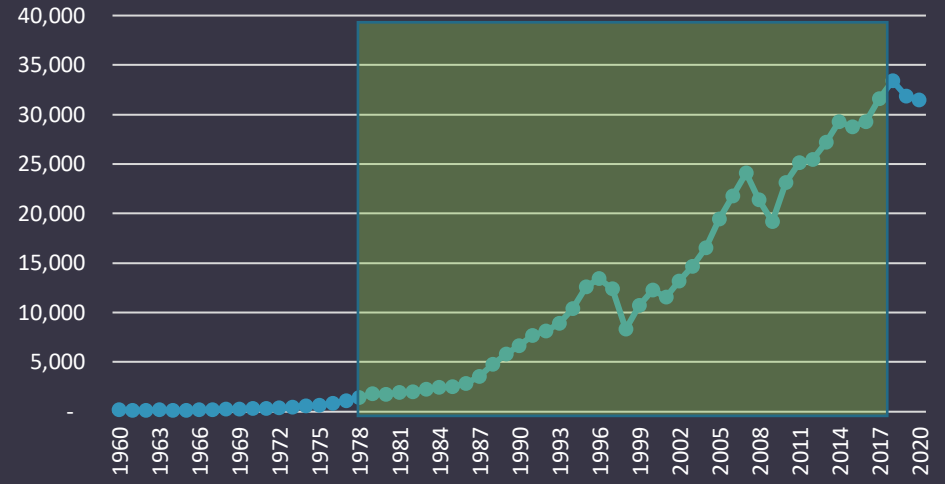


Source: Data from 1929 to 2017 is from the U.S. Bureau of Economic Analysis (BEA). Data from 1900 to 1928 is adapted from the 2018 Maddison Project Database.

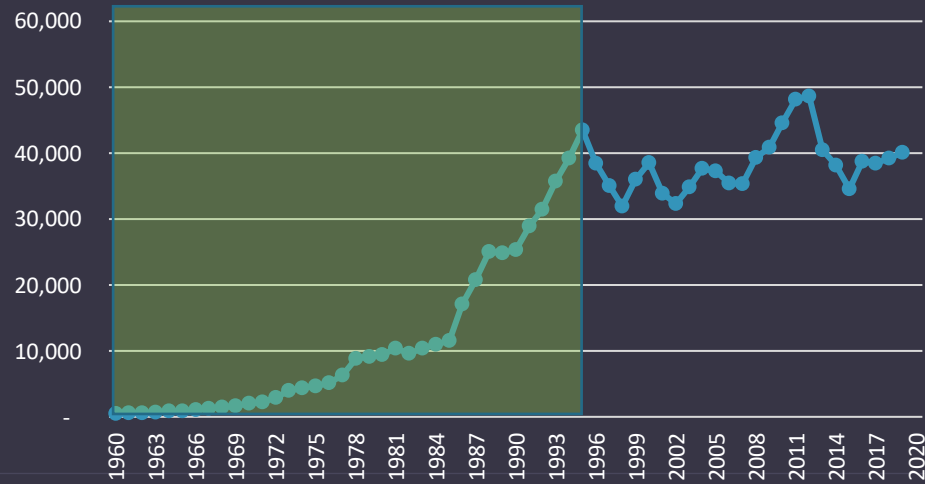
China



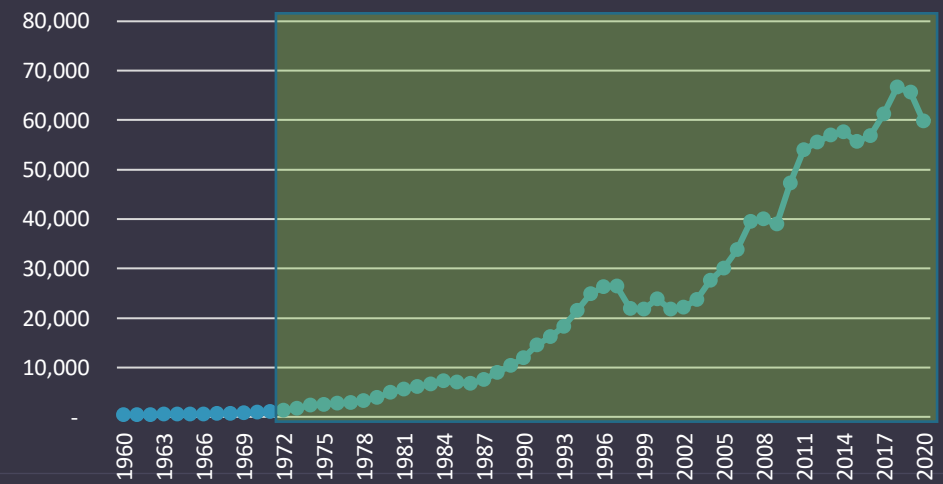
Korea, Rep



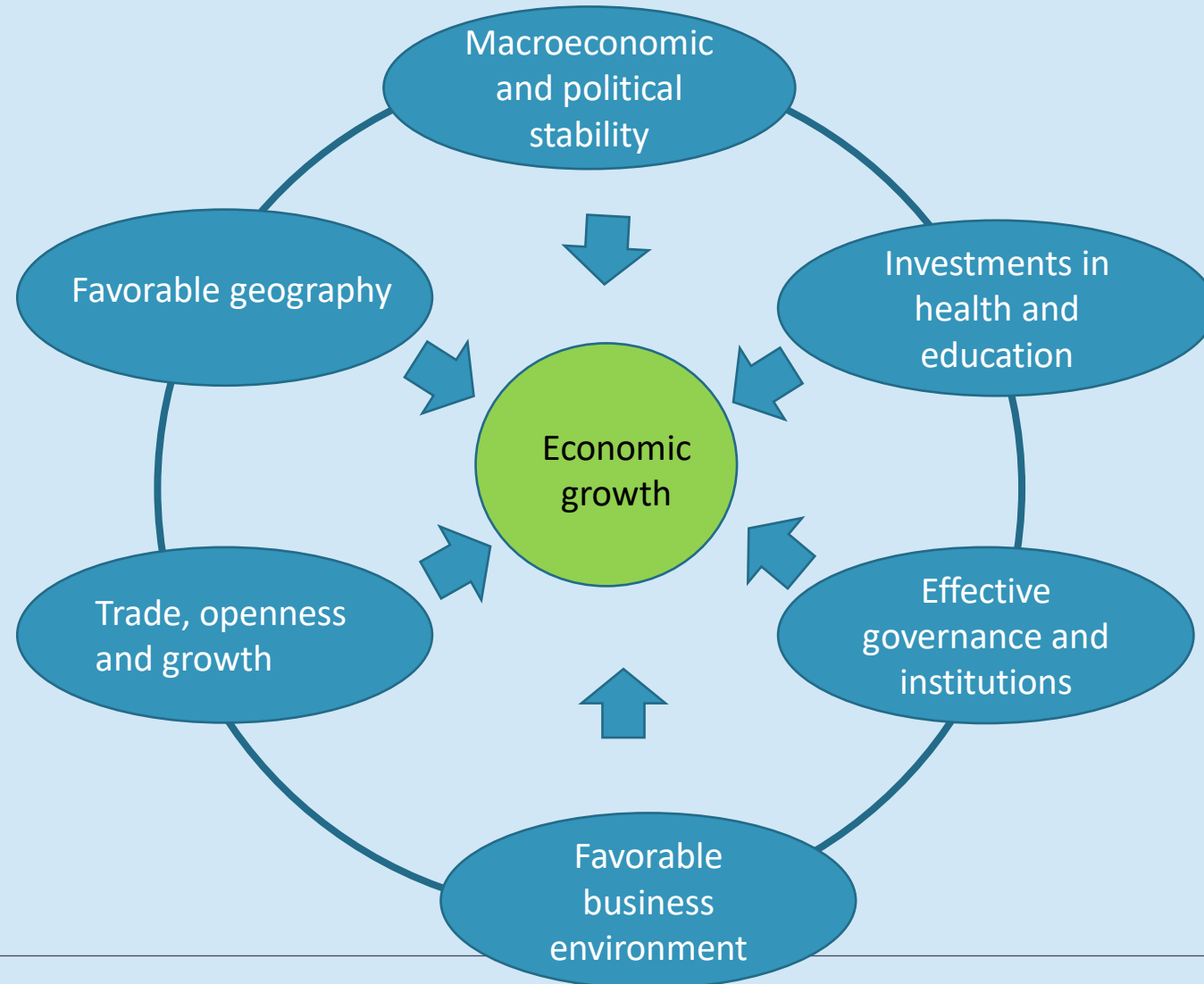
Japan



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

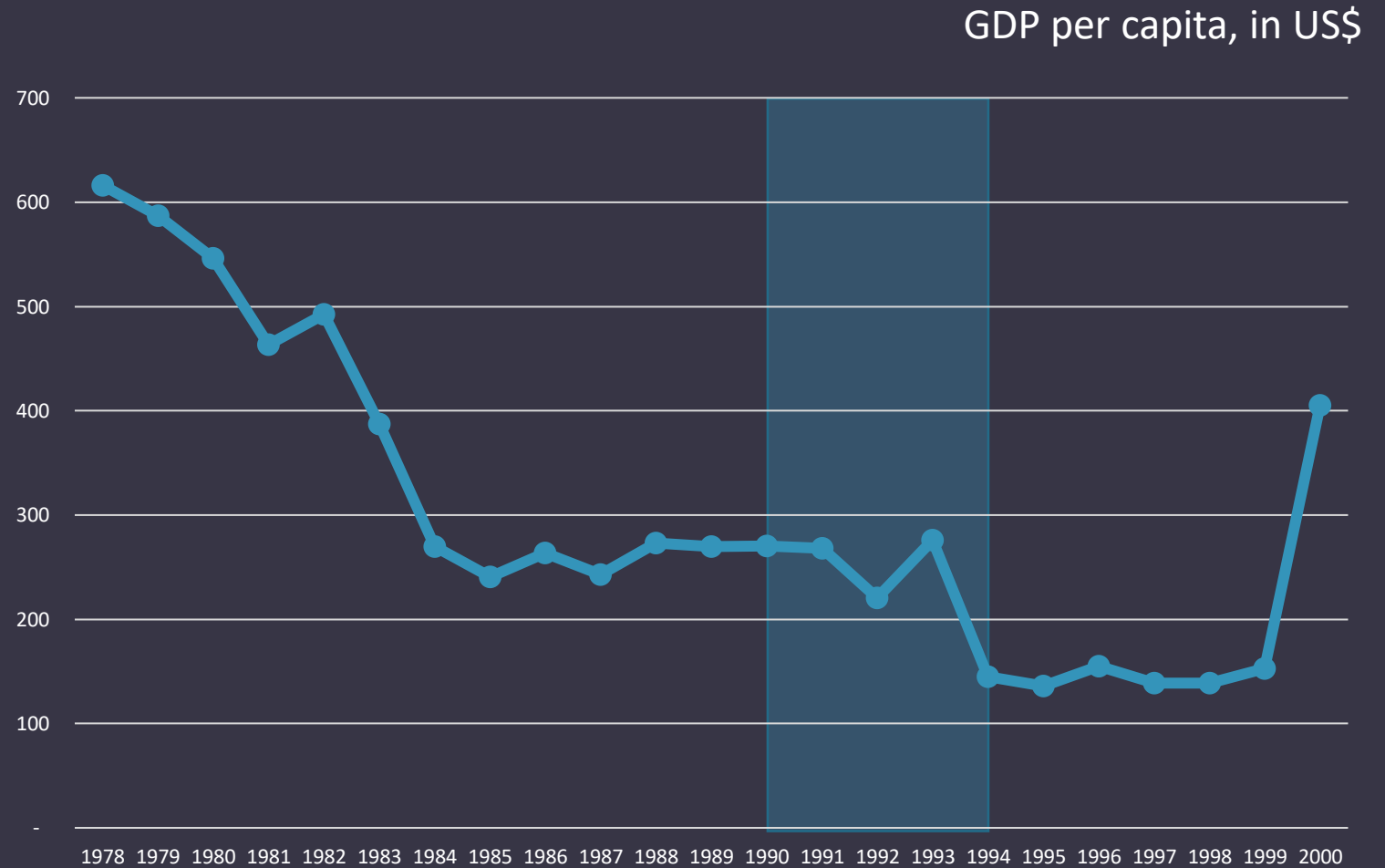


Case study: Congo, 1990-1994

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



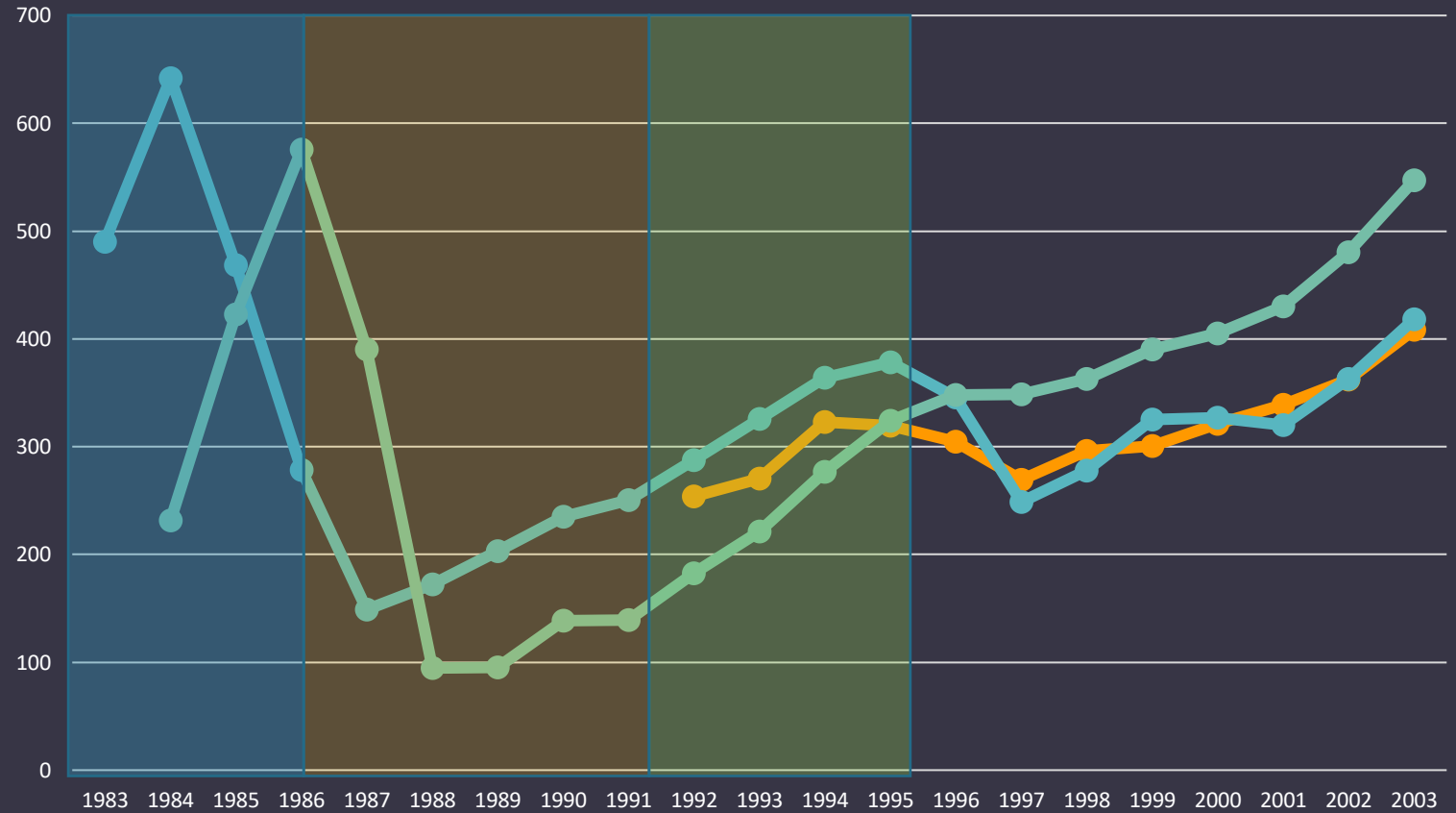
observation period

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



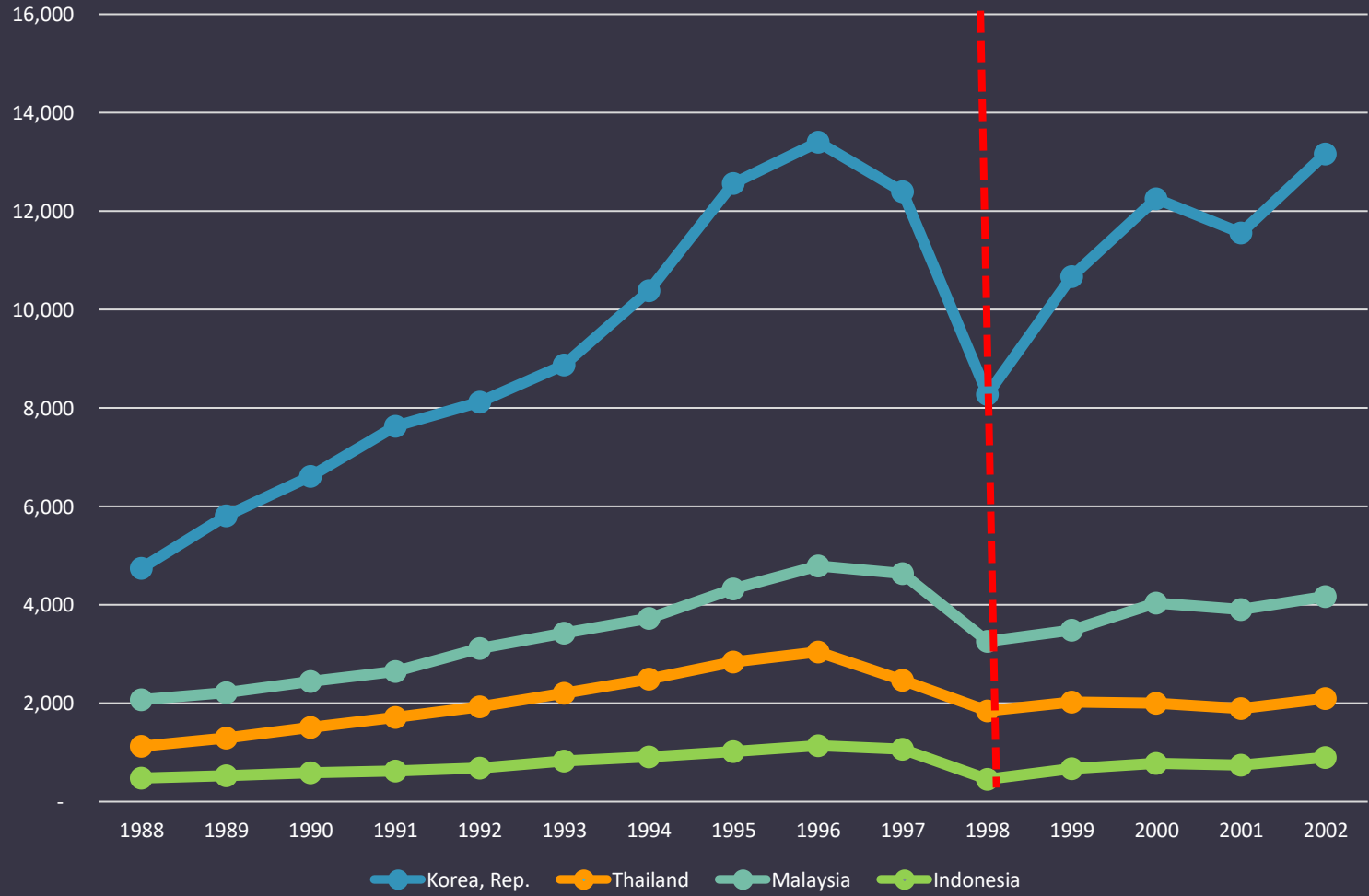
isolation reforms resumption of economic growth Cambodia Lao PDR Vietnam

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

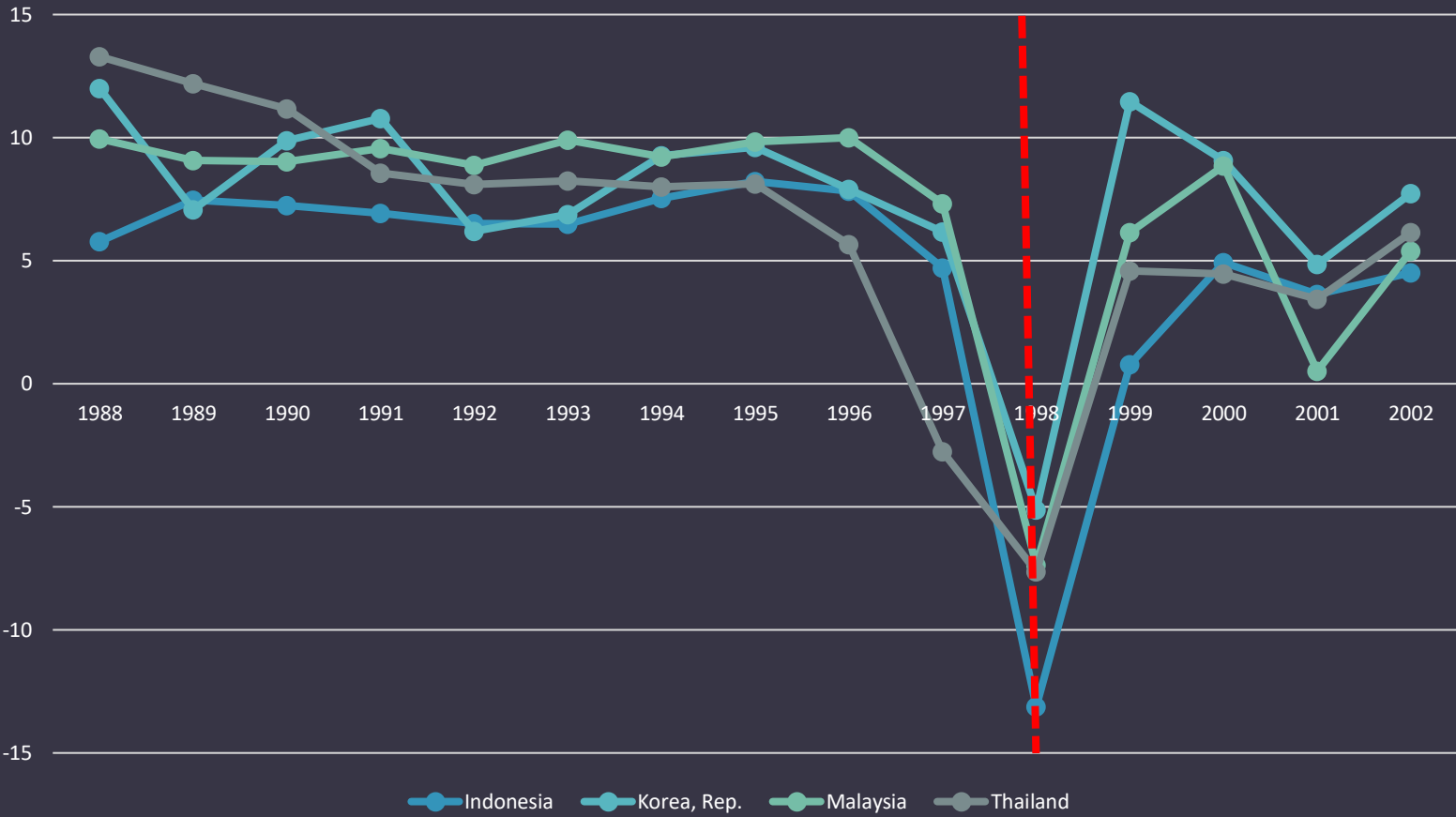
GDP per capita fell drastically for South Korea, Malaysia, Thailand and Indonesia in 1998 before rebounding in 2000



Source: World Bank Open Data

GDP growth for select countries

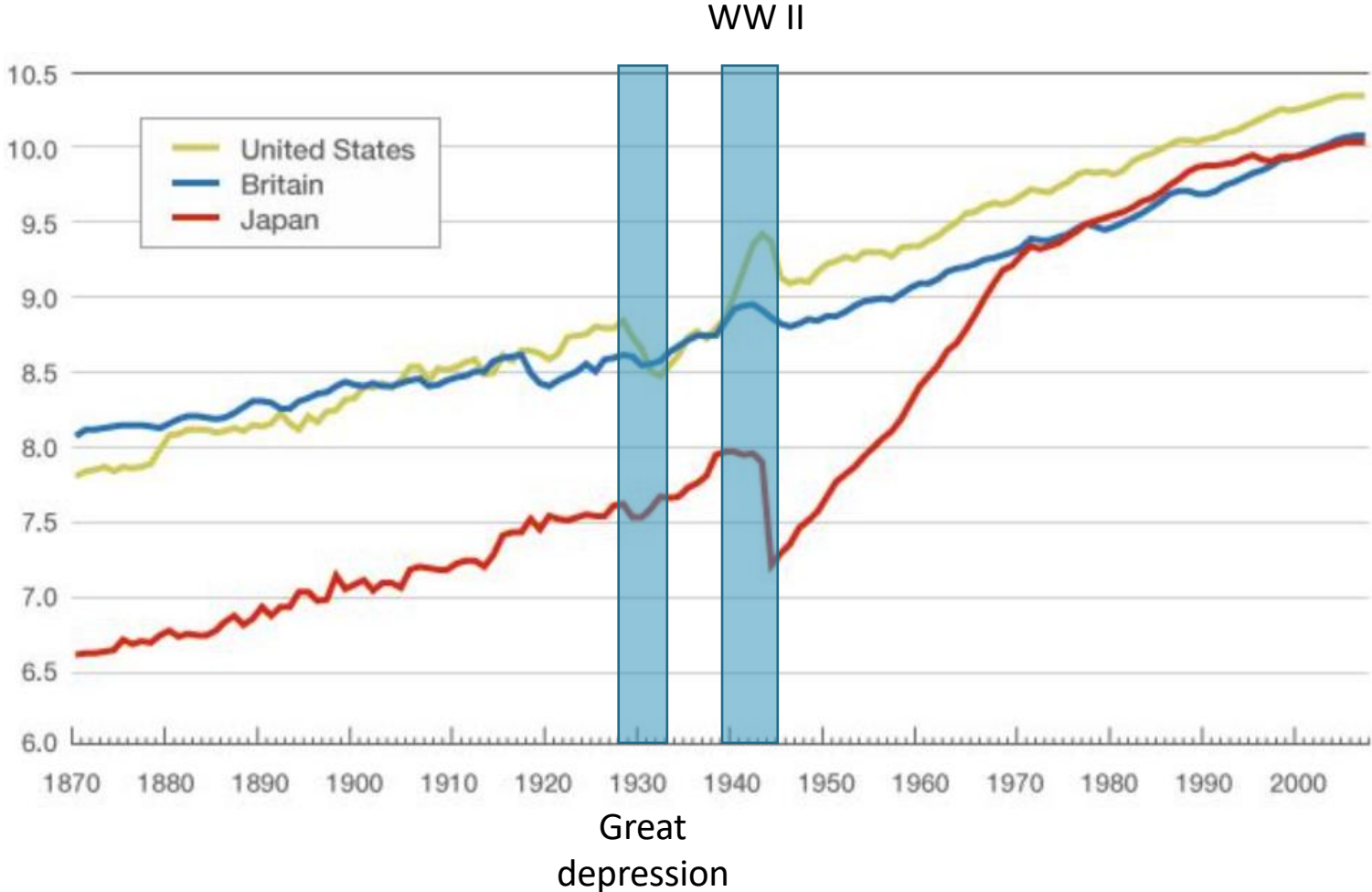
The economic contraction is indicated in GDP growth figures for South Korea, Malaysia, Thailand and Indonesia in 1998



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 rule of law
- Strong institutions support financial; health and education systems; trade; and legal systems
- Good governance improves investment climate, reduces risks and increases profitability
- Strong legal systems help settle commercial disputes in predictable, rational manner
- Low level of corruption reduces costs of investment



Favorable business environment

- Businesses make decisions regarding saving, investment, education and job opportunities
- Businesses need a conducive environment: a strong legal system, access to financial resources, and adequate physical infrastructure
- Business decisions are based on government regulations and policies: 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

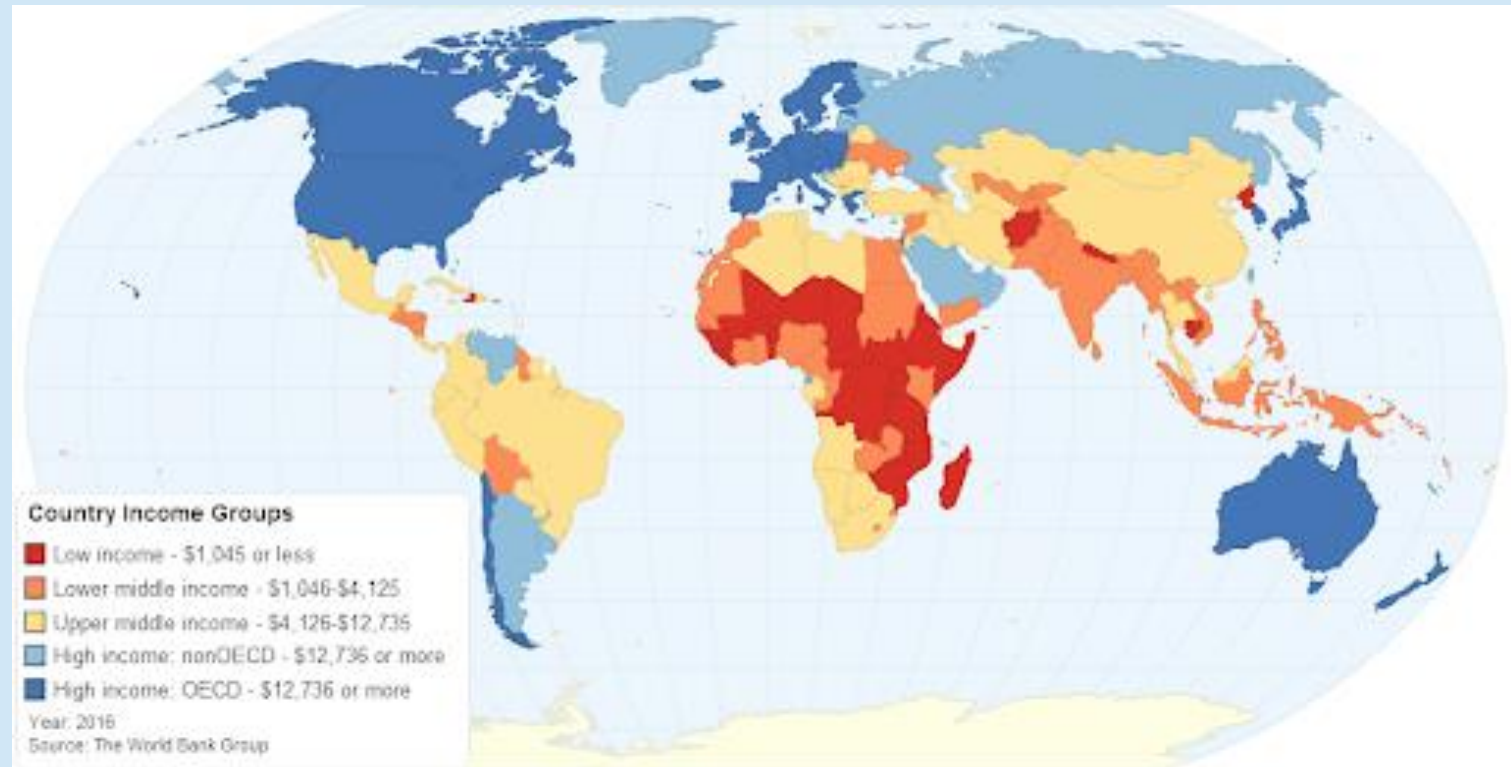
- Trade enables countries to accumulate physical and human capital; and increase productivity
- Outward-oriented policies encourage export promotion; examples are South Korea, Taiwan Singapore, Malaysia
- Inward-oriented policies encourage import substitution; examples are Brazil and Argentina



Favorable geography

- Most poor countries are located in the tropics
- Tropics: 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

THANK **Y**OU!