Industrialization and Structural Transformation

Part 1: Kuznets's four kinds of countries in the world

EE482 Industrialization: Role of Public and Private Sectors
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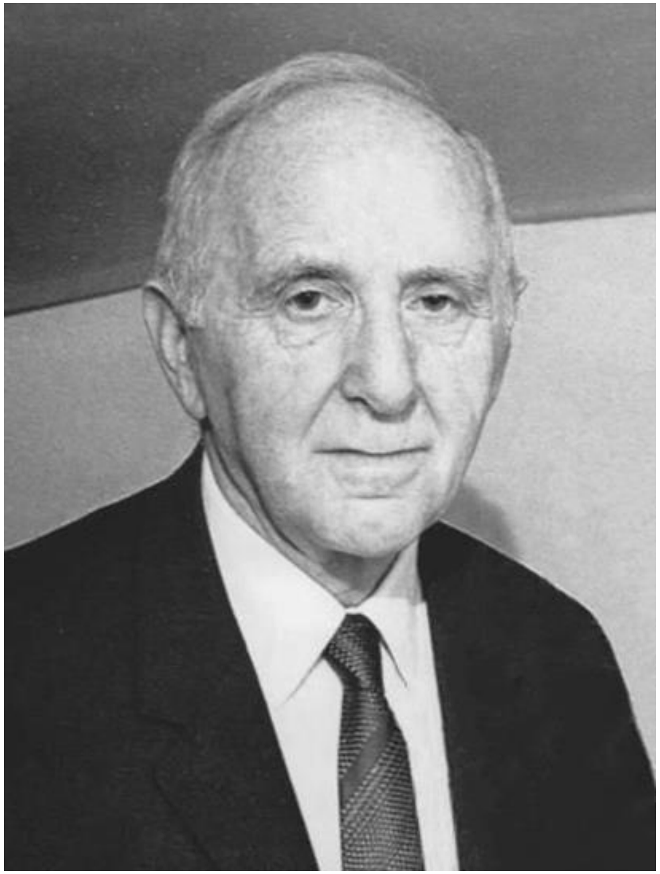
Faculty of Economics, Thammasat University

The Sveriges Riksbank Prize in Economic Sciences in Memory of Alfred Nobel 1971



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"There are four kinds of countries in the world: developed countries, undeveloped countries, Japan and Argentina".

Simon Kuznets

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Briefing

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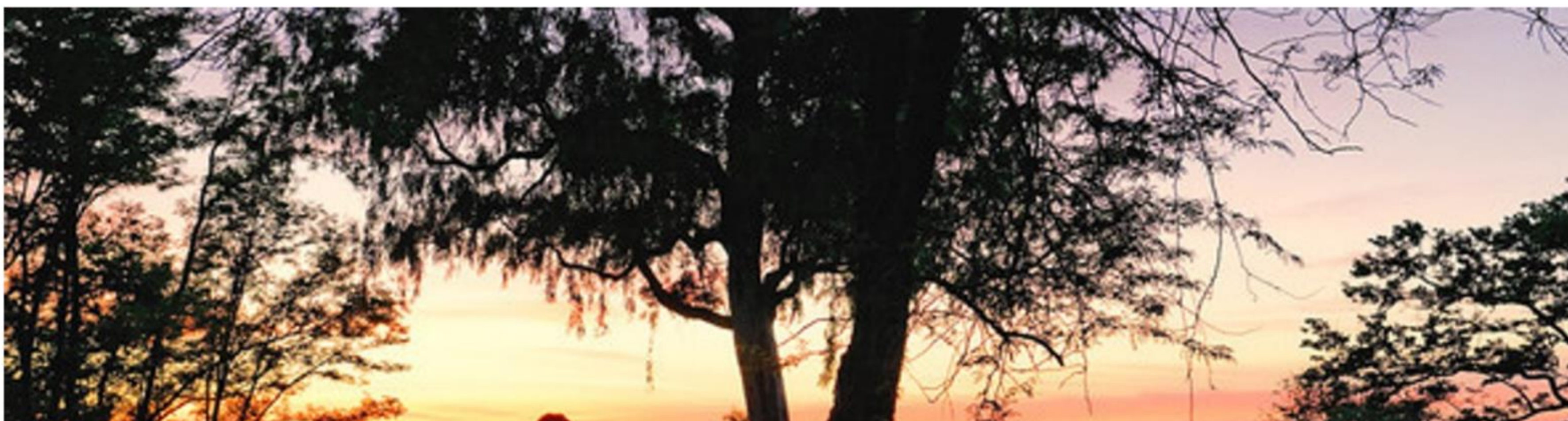
The tragedy of Argentina

A century of decline

One hundred years ago Argentina was the future. What went wrong?



Source: https://www.economist.com/briefing/2014/02/17/a-century-of-decline

The tragedy of Argentina: A century of decline

- *In the **43 years** leading up to **1914**, **GDP** had grown at an annual rate of **6%,** the **fastest recorded in the world**.*
- *The country was a **magnet for European immigrants**, who flocked to find work on the fertile pampas, where crops and cattle were propelling Argentina's expansion.*
- *In 1914 **half of Buenos Aires's population** was **foreign-born**.*
- *The country ranked among **the ten richest in the world**, after the likes of Australia, Britain and the United States, but ahead of France, Germany and Italy.*
- *Its **income per head** was **92% of the average of 16 rich economies**.*

Source: https://www.economist.com/briefing/2014/02/17/a-century-of-decline

The tragedy of Argentina: A century of decline

- *It never got better than this. Although Argentina has had periods of* ***robust growth in the past century****—not least during the commodity boom of the past ten years—and its* ***people remain wealthier than most Latin Americans****, its standing as one of the* ***world's most vibrant economies*** *is a distant memory (see chart 1).*
- *Its* ***income per head*** *is* ***now 43% of those same 16 rich economies****; it* ***trails Chile*** *and* ***Uruguay*** *in its own back yard.*

Source: https://www.economist.com/briefing/2014/02/17/a-century-of-decline

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Exceptions and rules

How Argentina and Japan continue to confound macroeconomists

Bold new policy frameworks have failed to break long-standing habits

Source: https://www.economist.com/finance-and-economics/2019/03/28/how-argentina-and-japan-continue-to-confound-macroeconomists

The Economist: How Argentina and Japan Continue to Confound Macroeconomics

- The two countries, of course, have long mystified economists.
- In 1950 **Argentina's GDP per person was three times that of Japan**, according to the Maddison Project database.
- The Eva Perón charitable foundation, run by the president's wife, **shipped 100 tonnes** of **relief supplies** to the war-battered **Japanese**.
- Thousands of **Japanese migrated** in the opposite direction, creating a population of **23,000 Nipo-Argentinos** by the end of the 1960s.
- But the two countries' **economic paths went on to cross decisively**.
- **Japan's GDP per person** eclipsed Argentina's around 1970 and is now about **twice as high**, measured at purchasing-power parity.
- **Its success** and **Argentina's failure** defied predictions.

Source: https://www.economist.com/finance-and-economics/2019/03/28/how-argentina-and-japan-continue-to-confound-macroeconomists

The Economist: How Argentina and Japan Continue to Confound Macroeconomics

- In **Argentina**, **consumer prices were 50%** higher in February (2019) than a year earlier, the fastest increase since 1991.
- In **Japan** over the same period, inflation was **less than 0.2%,** equalling the lowest rate since 2016.
- The inertia in both countries is puzzling.
- **Inflation** has stayed low in Japan despite a drum-tight labour market (**unemployment** has remained at **2.5%** or below for over a year) and high in Argentina despite a fast-shrinking economy: its **GDP contracted** by **more than 6%** year-on-year in the fourth quarter of 2018.

Source: https://www.economist.com/finance-and-economics/2019/03/28/how-argentina-and-japan-continue-to-confound-macroeconomists

The Economist: How Argentina and Japan Continue to Confound Macroeconomics

- Argentina's **national saving rate** has **averaged only 17%** of GDP over the **past 30 years**, **too low** to meet its **ambitions for investment**.
- As a consequence, it has recorded **a deficit** in its **current account** with the rest of the world in **30 of the past 40 years**.
- **Japan**, on the other hand, has run a **surplus since 1981** and is now the **world's biggest** net **international creditor**.
- Despite some signs of change (see article), Japan's corporations still **hoard cash** and **other financial assets**, rather than **splashing out on the higher wages** or **dividends** a rich economy can afford.

Source: https://www.economist.com/finance-and-economics/2019/03/28/how-argentina-and-japan-continue-to-confound-macroeconomists