Development economics and globalisation: the pendulum swings again

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18 May 2006
Outline

• Since the 1980s, a popular interpretation of the recent development experience of the world economy has focused on the strong causality from market integration to welfare.

• When it comes to intellectual rationales for development policy and globalisation, the prevailing wisdom has been prescriptive.

• However, globalisation has been associated with simultaneous, yet asymmetrical consequences for countries and for the people [inclusion, exclusion and marginalisation].

• Development Economics, as a field of economic research, offers new insights for the configuration of development policy and that creates new opportunities for the development economics profession at large.
Economic growth in the long run: the on-going debate on underlying factors

**Take-off**
GDP per person in Western Europe, $'000, 1990 prices

- Mechanisation in farming; steam engines; Arkwright’s spinning machine (1769); Crompton’s mule (1779); Bridge at Coalbrookdale, England, first structural use of cast iron (1779).
- Volta’s electric battery (1800);
- Electromagnetic telegraph (1833);
- First transatlantic telegraph cable (1858);
- Bell’s telephone (1876);
- Edison’s carbon-filament lamp (1878);
- Marconi’s wireless patent (1896).

- Padded horse collar (around 1100); first recorded windmill with vertical sails rotating about horizontal axis (1185).
- Gutenberg’s printing press (1455).
- Invention and development of compass; year-round navigation in Mediterranean after 1250.
- Blast furnace.
- Advances in large-scale hydraulic engineering;
- Languedoc Canal joins Atlantic and Mediterranean (1681).

- First telescopes; Huygens invents pendulum clock (1658).
- Bessemer and Siemens-Martin (open-hearth) processes for making steel.
- Car powered by internal-combustion engine (1885); Henry Ford’s Model T (1908).
- Powered flight (1903).

Source: Angus Maddison
Periods during which output per capita doubled: linear diffusion? acceleration?

- United Kingdom 1780-1838
- United States 1839-1886
- Japan 1885-1919
- Turkey 1957-1977
- Brazil 1961-1979
- China 1977-1987
Definitions and research priorities: the case of poverty/inequality

**World Poverty 1820–1992**

![Graph showing world poverty 1820–1992](image)

Source: Bourguignon & Morrisson (2002)

**World Inequality 1820–1992**

(mean logarithmic deviation)

![Graph showing world inequality 1820–1992](image)

Source: Bourguignon & Morrisson (2002)
60 years of Development Economics

• The early Keynesian influence
• Structural change and economic development
• Planning and project appraisal
• Trade regimes and economic integration
• Less state-more market
• From structural adjustment to poverty reduction
• Institutions into economic development
The evolution of research agendas

• GOALS: GDP-Non-monetary indicators-Poverty-Human capabilities-sustainable development

• DRIVERS: Physical capital-Human capital-Knowledge capital-Social capital

• MARKETS: market failures-nonmarket failures-new market failures-institutional failures

• POLICY: “poor because poor” – “get prices right”-“get all policies right”-“get institutions right”
Combinations of explanatory and normative frameworks in development policy analysis

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<thead>
<tr>
<th>Explanatory Framework</th>
<th>Normative Framework</th>
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The configuration of development policy analysis, 1950-1990 and 1990-present

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<td>Main Counter-currents Pre-1982 Latin American Structuralism and Dependency Theory</td>
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Global policy prescriptions: the “Washington Consensus”

1. Fiscal discipline
2. Reorientation of public expenditures
3. Tax reform
4. Financial liberalization
5. Unified and competitive exchange rates
6. Trade liberalization
7. Openness to Foreign Direct Investment (FDI)
8. Privatization
9. Deregulation

The follow-up debate:
INSTITUTIONS - EFFICIENCY - RESOURCES
Trends in the World Economy
FACT #1: GDP Convergence vs. divergence

Real growth of GDP per capita (annual average in %, 1960—2000)

Source: Penn World Table Version 6.1 (Heston, Summers and Aten, 2002).
FACT #2: Capital markets and financial crises

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<td>33.0</td>
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<td>Thailand 1997</td>
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<td>Indonesia 1997</td>
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<td>Malaysia 1997</td>
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<td>Russian Federation 1998</td>
<td>11</td>
<td>4.8</td>
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<td>Brazil 1999 (2002)</td>
<td>3</td>
<td>12.6</td>
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<td>Turkey 2000–01</td>
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<td>Argentina 2001–02</td>
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<td>1</td>
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<td>India</td>
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<td>Chile</td>
<td>9</td>
<td>39.4</td>
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</table>

Source: IMF and Bank staff estimates.
Fact #3: The cost of financial shocks

Total Fiscal Costs of Systemic Banking Crises as a Percentage of GDP


Note: (*) as a percentage of GNP.
FACT #4: Paying the bill - strategies of self-insurance

Foreign reserves (excluding gold) in months of imports
industrial and non-oil developing countries

- Industrial Countries
- Developing Countries (excl. oil-exporting countries)
FACT #5: Asymmetrical access to capital markets

Chart 1: Growing links
International financial integration is growing globally, but particularly strongly among industrial countries.

(sum of external assets and liabilities as a percent of total group GDP)

Source: Lane and Milesi-Ferretti (2006).
FACT #6: Evolution of inflows of FDI (billions of current US$)
FACT #7: Inflows of portfolio investment (b. current US$)
FACT # 8: Evidence on the knowledge divide share of world patents and income
FACT#9: Regional shares of industrial production in Developing Countries

Figure 7.8  Developing regions’ shares of global MVA

Source: UNIDO Scoreboard database.
FACT #10: Evolution of exports, b. current US$
FACT#11: Evolution of incomes, exports and capital flows, 1985-2000

<table>
<thead>
<tr>
<th></th>
<th>Billion of US$</th>
<th>Increase of 2002 compared to 1985</th>
<th>Percentage share of world level</th>
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<td>Gross domestic product (GDP)</td>
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<td>China and India</td>
<td>558.5</td>
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<td>Exports of goods and services</td>
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<td>China and India</td>
<td>79.1</td>
<td>685.1</td>
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<td>High-income countries</td>
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<td>Inflows of foreign direct investment</td>
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<td>Inflows of total portfolio investment</td>
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<tr>
<td>World</td>
<td>185.2</td>
<td>719.8</td>
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Sources: Country classifications based on World Bank, Global Development Finance 2003. Data on gross domestic product and exports of goods and services are taken from the IMF’s World Economic Outlook. Data on capital flows are taken from the IMF’s International Financial Statistics. Data for 2002 may be preliminary for some countries.
General Interpretation I: Asymmetries in the World Economy

• Extreme concentration of innovation and technical change

• Greater macroeconomic vulnerability of developing countries

• Increasing capital mobility vs. limited international mobility of labour
General Interpretation II: Challenges for Developing Countries

• Potential benefits of trade and foreign investment depend on the availability of institutional and productive capacities to respond
• International trade and factor movements have increased but in a highly selective way
• Diverging economic growth trajectories in the integrated world economy
• Growth and development depends on an uncertain mixture of unbalanced global market forces and asymmetrical local productive capacity and experience. Thus, institutional variety in policy configuration is needed.
Insights from theory: Development Economics-1

- Revisiting Market Failures
  - Microeconomics of development
  - Multiple-equilibria in growth modeling
- Macroeconomics of Development
  - Impacts of exogenous shocks
  - The sequence of adjustment processes
- Empirical research on Development Dynamics
  - Production systems
  - Dual structures
- Interdisciplinary “field” research
  - “Institutions rule”
  - Technology driven processes
Insights from theory: Development Economics-2

• Integrated theories for long-run growth
  – Asymmetries
  – Turning points
  – Diversity

• The policy process
  – Development strategy as a self-discovery process
  – International public goods
  – Diversity and context specificity in policy processes

• New research tools
  – Data sets
  – Research methods

• ....and a final comment on the Greek context