

Openness & Growth Miracles

Darryl McLeod, Lecture 5
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It looks like the global economic recovery is for real

Brookings-FT Tiger composite index



Source: The Brookings Institution

FT

WEO April 20th 2017

IMF growth forecasts - advanced economies

Annual % change in real GDP

■ 2017 ■ 2018



Source: IMF

F

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Consensus growth strategies: post East Asian miracle with or w/o institutions

Early Washington Consensus

- Trade liberalization
- Open capital account??
- Macroeconomic stability
- Privatization

Sachs-Warner Index:

- Tariffs < 10%, quotas <40%
- BMP < 20%
- Non-socialist government
- No marketing board

Rodrik/A&R critique

- Institutions rule (A&R)
- East Asia used protection
- China kept state sector
- Industrial Policy?

Hausmann et al. :

- What you export matters
- Weak RER not enough
- Growth diagnostics Rodrik
- Clinical economics (Sachs)
- Policies matter (Banerjee & Duflo, 2012)

Consensus growth strategies: post East Asian miracle with or w/o best institutions

Early Washington Consensus

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Sachs-Warner Index:

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Post EA miracle consensus

- Weak RER --
- Macro stability
- Exports and FDI
- EPZ + socialism works too

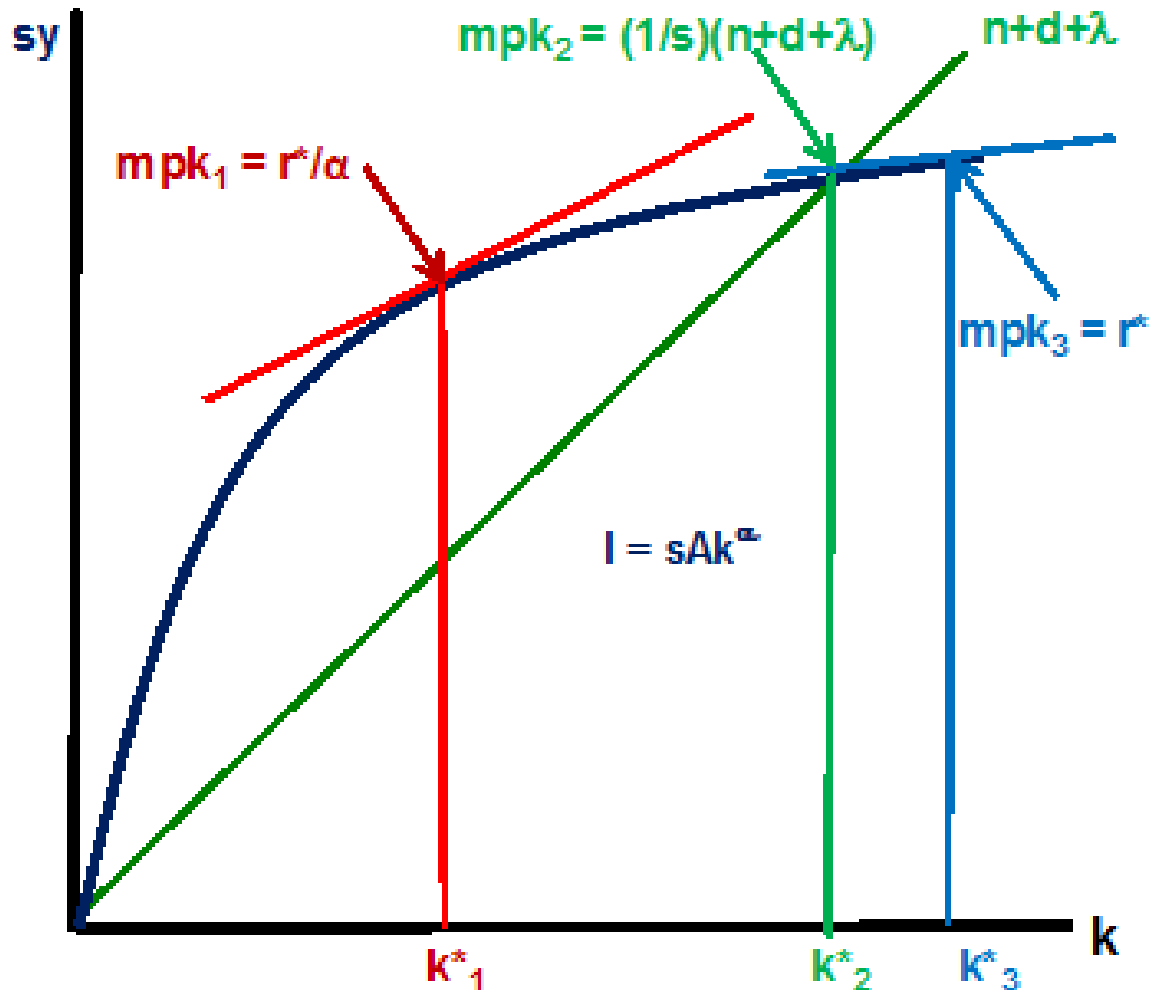
Africa w/poverty traps:

- Levers for growth
- Macro stability, weak RER
- Aid OK, resource rents?
- Aid can break poverty trap
- Debt relief?

Openness and Growth

Figure 4: open or closed capital markets

saving sy = Investment



Capital stock per worker $k = K/L$

recall that $mpk = \alpha Ak^{\alpha-1}$ so slope of $sy = s\alpha Ak^{\alpha-1}$

East Asian miracle I line (from Justin Lin's 2012 Quest for Prosperity p.275)

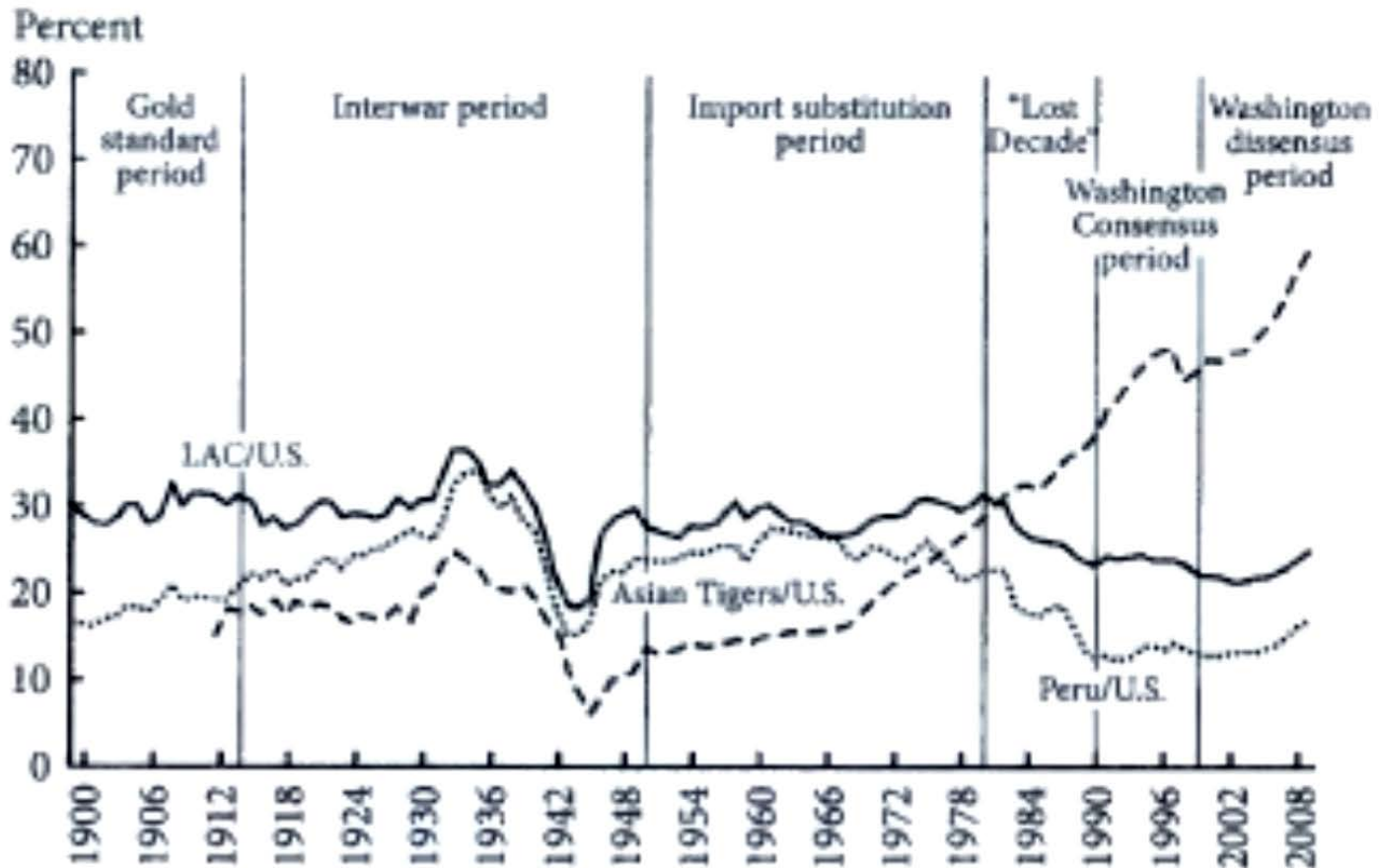
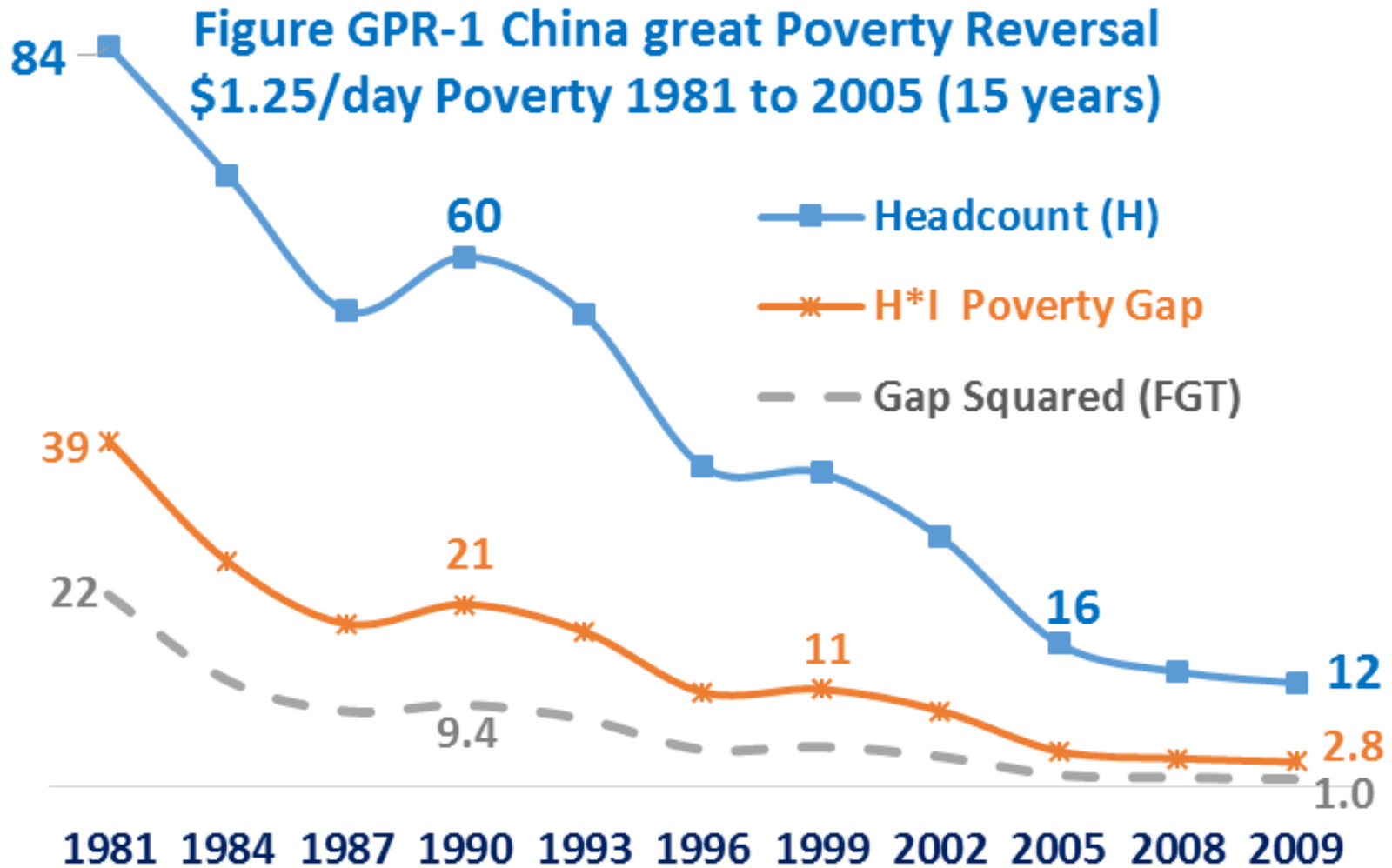


Figure 9.1 GDP per capita of selected regions relative to the United States, 1900–2008

Source: Maddison (n.d.).

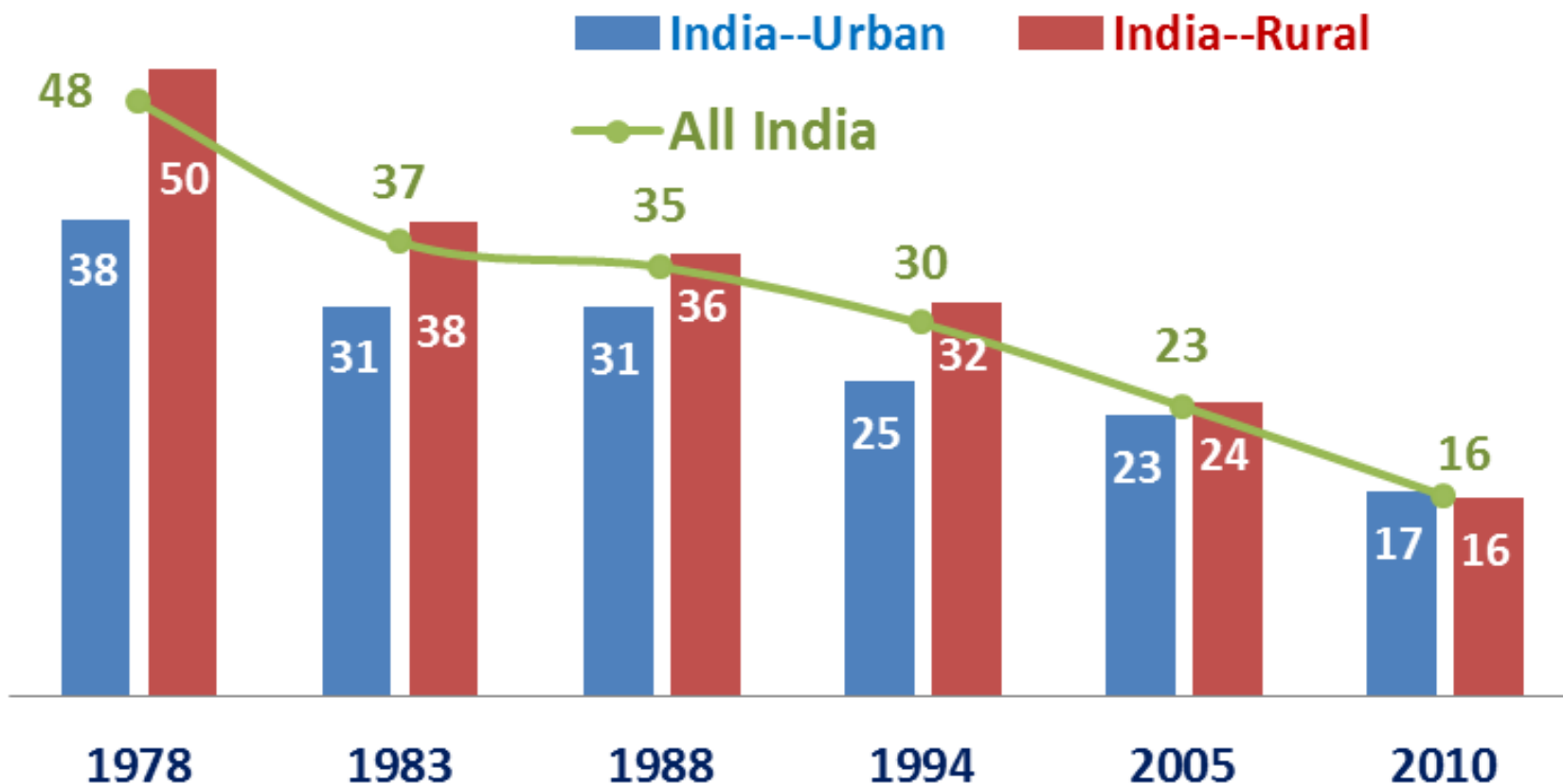
Note: LAC: Latin American countries. Asian Tigers: an average of Hong Kong SAR, China; Taiwan, China; the Republic of Korea; Singapore; and South Korea.

East Asian miracle II



South Asian miracle

Figure SA-1A \$1/day poverty rates (H) in India



Source: World Bank, Povcalnet January 2013
(<http://iresearch.worldbank.org/PovcalNet/index.htm?1>)

Permanent or transient? Capital inflows, aid (debt relief) good policy or good luck?

1. Two gap growth model: fx is what is needed.
2. Commodity price booms, resource discoveries, aid and private capital inflows all lead to:
 - RER Appreciation
 - fiscal expansion
 - private capital inflows “the boom”

But, -- all of above can be invested in human and physical capital, FDI is less reversable,

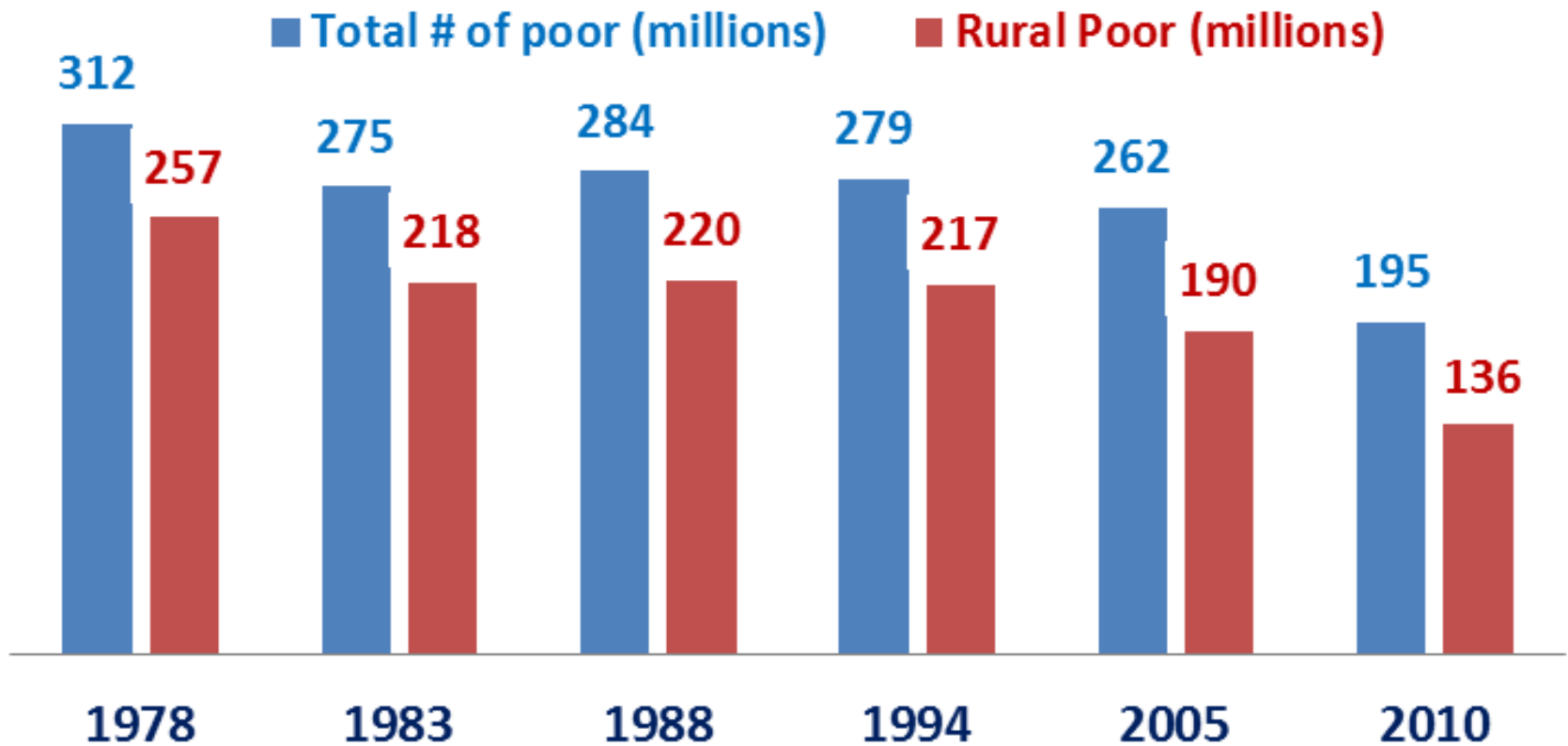
East/west African Miracles

Table SSA-2 Per capita Income & growth rates, 2000 to 2011

Country	ISO	1990	2000	2006	2011	2006- 2011	2000- 2011	1990- 2000
Ghana	GHA	907	1067	1255	1652	5.7%	4.1%	1.5%
Mozambique	MOZ	396	501	694	861	4.4%	5.1%	2.2%
Rwanda	RWA	718	654	889	1132	5.0%	5.1%	-0.8%
Uganda	UGA	563	774	977	1188	4.0%	4.0%	2.9%
Zambia	ZMB	1249	1028	1200	1431	3.6%	3.1%	-1.8%
Ethiopia	ETH	545	527	689	979	7.3%	5.8%	-0.3%
Malawi	MWI	572	670	640	789	4.3%	1.5%	1.5%
Angola	AGO	3093	2476	3926	5227	5.9%	7.0%	-2.0%
Mauritius	MUS	6104	9154	10479	12733	4.0%	3.0%	3.8%
Mean log Dev*		0.378	0.297	0.274	0.266	*(not including AGO or MUS)		

South Asian miracle

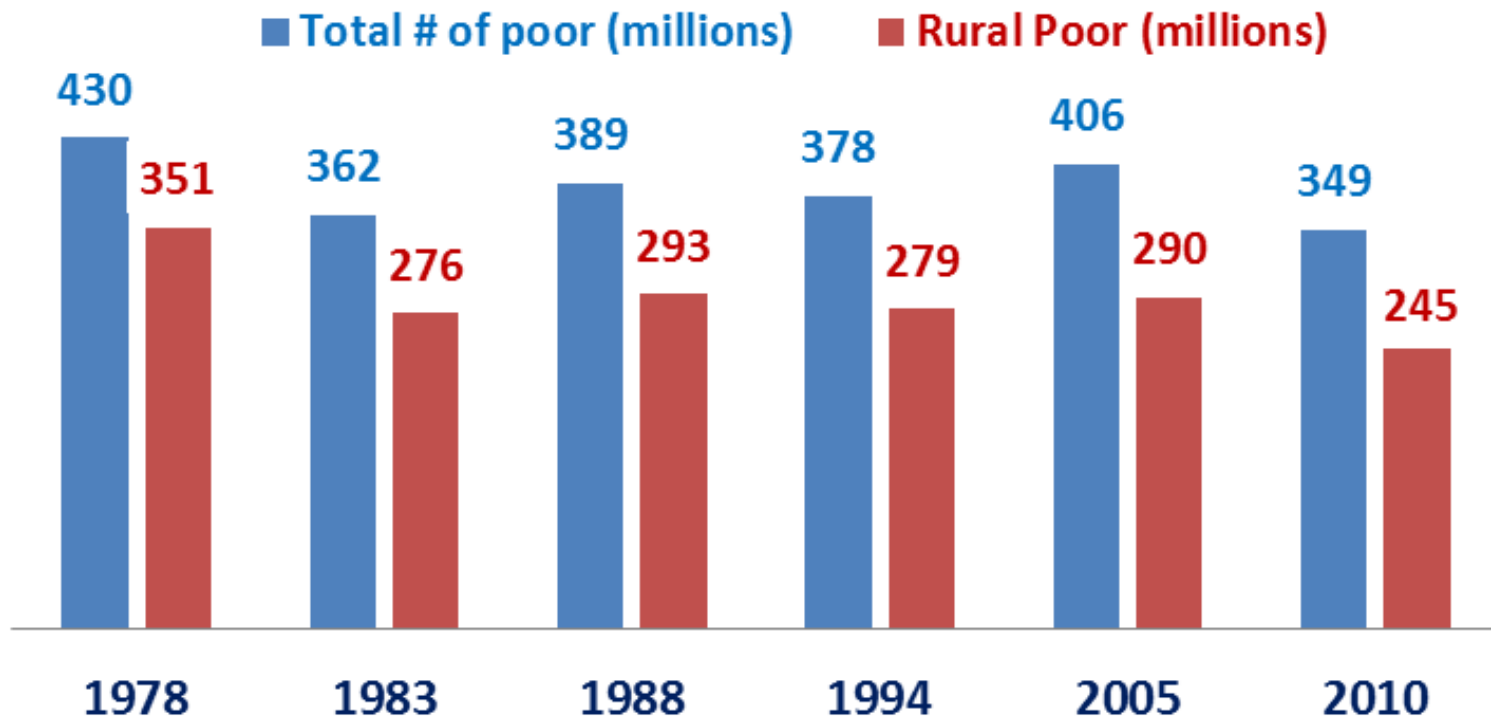
SA-5 India: Total Population of \$1/day poor



Source: World Bank, Povcalnet January 2013 (<http://iresearch.worldbank.org/PovcalNet/index.htm?1>)

South Asian miracle

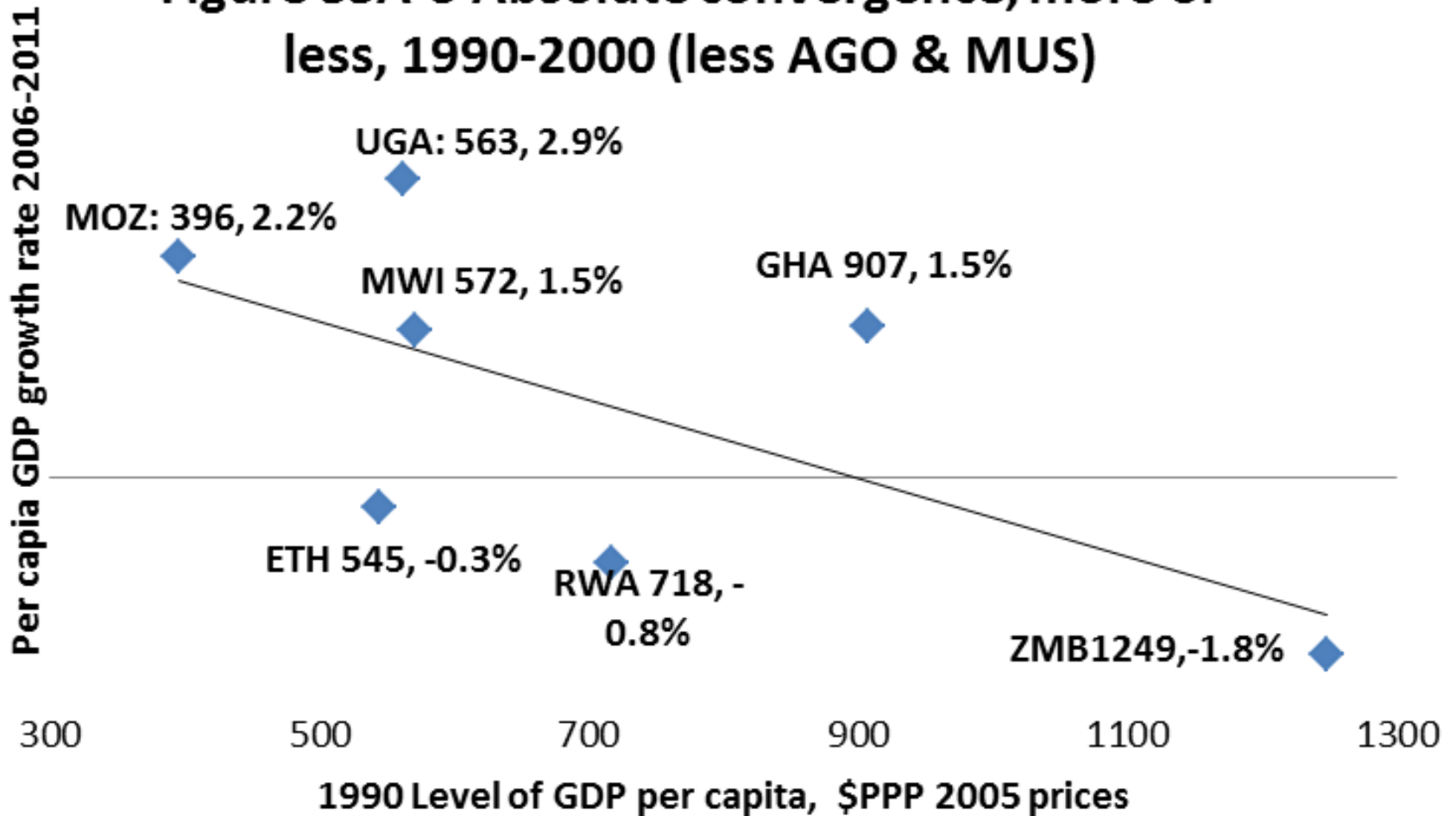
SA-5 India: Total Population of \$1.25/day poor



Source: World Bank, Povcalnet January 2013 (<http://iresearch.worldbank.org/PovcalNet/index.htm?1>)

East/west African Miracles

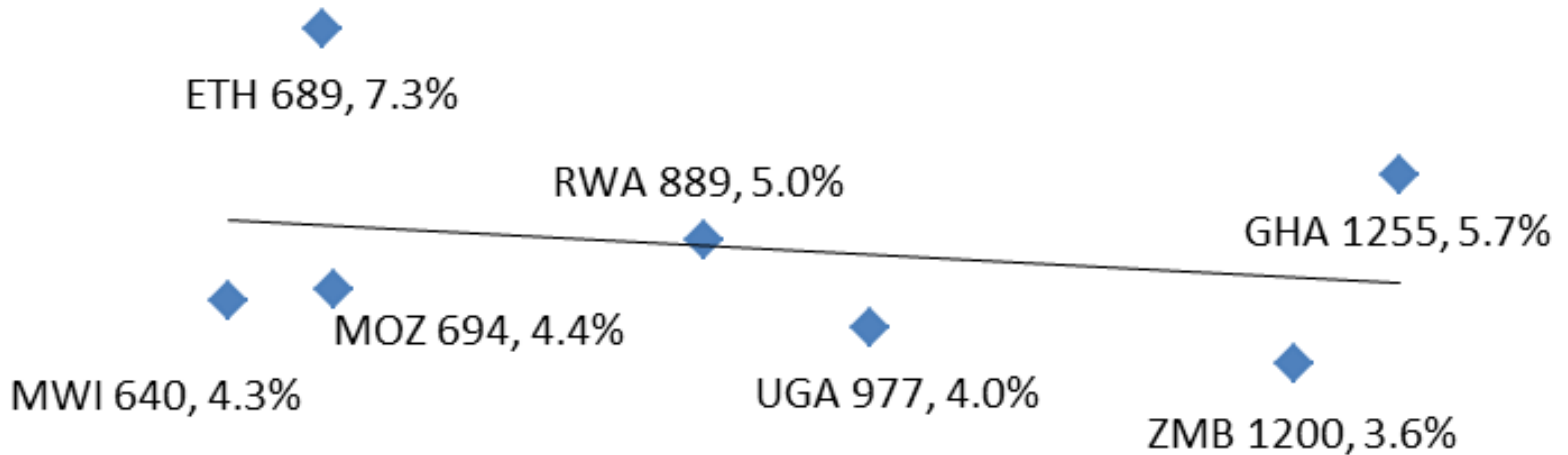
Figure SSA-5 Absolute convergence, more or less, 1990-2000 (less AGO & MUS)



East/west African Miracles

Figure SSA-3 Absolute convergence, almost
2006-2011 (no AGO or MUS)

Per capita GDP growth rate 2006-2011



500

600

700

800

900

1000

1100

1200

1300

2006 Level of GDP per capita \$PPP 2005 prices

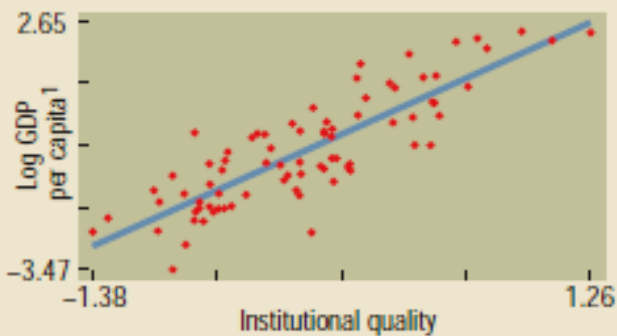
Rodrik and Subramanian (2003)

Chart 2

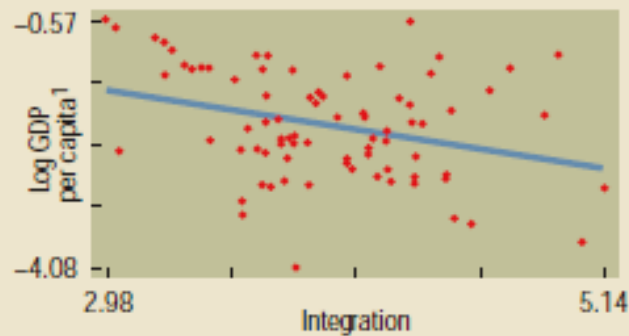
Institutional quality scores high

Institutional quality can boost income significantly, while global integration and geography, on their own, do not.

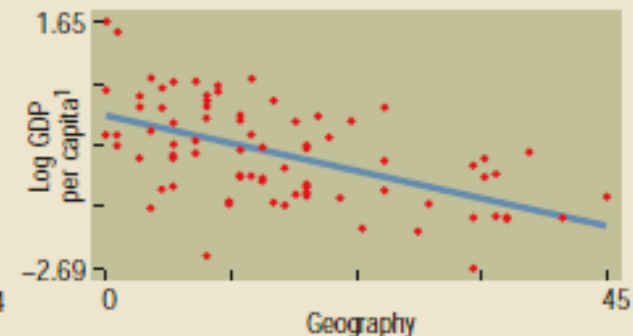
As institutional quality rises, so does income ...



... but increases in integration may not help



... nor does a more benign geographic location.



Source: Authors

Note: The graphs capture the causal impact of each of the determinants on income, after controlling for the impact of the others. The indicators of integration and geography used are the ratio of trade to GDP and distance from the equator, respectively. For further details, see Rodrik, Subramanian, and Trebbi (2002).

¹Expressed in terms of purchasing power parity, 1995.

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