

# Economic Growth is a Relatively New Phenomenon

## **Economic Growth 1500-2000**

(Per capita, %)

	<u>1500- 1800</u>	<u>1820- 1950</u>	<u>1950- 2000</u>
World	0.04	0.9	2.1
Western Europe		1.1	2.8
Asia		0.2	3.4
Africa		0.4	1.0
Years to Double			
World Income	1733	77	33

# 21 Fast Growing Countries

## Growth Rates

Country	GDP per capita 1990 int'l dollars		
	1960	2001	avg. gwth
	1 Korea, Rep.	1,105	14,673
2 Botswana	403	4,552	6.1
3 Taiwan	1,492	16,214	6.0
4 Singapore	2,310	21,011	5.5
5 Oman	935	6,926	5.0
6 Thailand	1,078	6,383	4.4
7 China	673	3,583	4.2
8 Malaysia	1,530	7,756	4.0
9 Mauritius	2,777	11,318	3.5
10 Lesotho	458	1,705	3.3
11 Cape Verde	508	1,812	3.2
12 Tunisia	1,343	4,710	3.1
13 Indonesia	1,019	3,256	2.9
14 Egypt, Arab Rep.	991	2,992	2.7
15 Pakistan	647	1,947	2.7
16 Dominican Republic	1,302	3,651	2.5
17 Swaziland	935	2,610	2.5
18 Sri Lanka	1,300	3,562	2.5
19 Yemen, Rep.	964	2,594	2.4
20 Turkey	2,247	6,033	2.4
21 India	753	1,957	2.4
Average	1,180	6,155	3.7
United States	11328	27948	2.2
World	2,605	5,626	1.9

Sources: Maddison 2003; data for Taiwan from the Asian Development Bank, 2003.

# 21 Fast Growing Countries

## Life Expectancy

	Country	Life expectancy at birth		
		1960	2001	change
1	Korea, Rep.	54	74	19
2	Botswana	47	39	-8
3	Taiwan		76	
4	Singapore	64	78	15
5	Oman	40	74	33
6	Thailand	53	69	16
7	China	36	70	34
8	Malaysia	54	73	18
9	Mauritius	59	72	13
10	Lesotho	43	43	0
11	Cape Verde	52	69	17
12	Tunisia	49	72	24
13	Indonesia	41	66	25
14	Egypt, Arab Rep.	46	68	22
15	Pakistan	44	63	20
16	Dominican Republic	52	67	15
17	Swaziland	40	45	4
18	Sri Lanka	60	73	13
19	Yemen, Rep.	36	57	21
20	Turkey	50	70	19
21	India	44	63	19
	Average	48	66	17
	United States	70	78	8
	World	50	67	16

Sources: Data for Taiwan from the Asian Development Bank, 2003; all other data from World Development Indicators, 2003.

# 21 Fast Growing Countries

## Infant Mortality

		Infant mortality (per 1,000 live births)		
Country		1960	2001	change
1	Korea, Rep.	85	5	-80
2	Botswana	118	80	-38
3	Taiwan		6	
4	Singapore	35	3	-32
5	Oman	212	12	-200
6	Thailand	103	24	-79
7	China	132	31	-101
8	Malaysia	73	8	-65
9	Mauritius	67	17	-50
10	Lesotho	137	91	-46
11	Cape Verde	108	29	-79
12	Tunisia	170	21	-149
13	Indonesia	128	33	-95
14	Egypt, Arab Rep.	189	35	-154
15	Pakistan	139	84	-55
16	Dominican Republic	102	41	-61
17	Swaziland	150	106	-44
18	Sri Lanka	83	17	-66
19	Yemen, Rep.	220	79	-141
20	Turkey	163	36	-127
21	India	146	67	-79
	Average	128	39	-87
	Total			
	United States	26	7	-19
	World	119	56	-63

Sources: Data for Taiwan from the Asian Development Bank, 2003; all other data from World Development Indicators, 2003.

# 21 Fast Growing Countries

## Adult Illiteracy

	Country	Adult illiteracy rate		
		1970	2001	change
1	Korea, Rep.	13	2	-11
2	Botswana	54	22	-32
3	Taiwan		9	
4	Singapore	27	7	-20
5	Oman	81	27	-54
6	Thailand	20	4	-15
7	China	47	14	-33
8	Malaysia	42	12	-30
9	Mauritius	33	15	-18
10	Lesotho	36	16	-20
11	Cape Verde	61	25	-36
12	Tunisia	73	28	-45
13	Indonesia	44	13	-31
14	Egypt, Arab Rep.	68	44	-25
15	Pakistan	79	56	-23
16	Dominican Republic	33	16	-17
17	Swaziland	51	20	-32
18	Sri Lanka	20	8	-11
19	Yemen, Rep.	86	52	-34
20	Turkey	44	14	-29
21	India	67	42	-25
	Average	49	21	-27

Sources: Data for Taiwan from the Asian Development Bank, 2003; all other data from World Development Indicators, 2003.

# Evolution of Thinking on Keys to Development

1. Capital Fundamentalism
2. Basic Human Needs
3. Stabilization and Structural Adjustment
4. The March to Markets

But each was too much of a silver bullet....

# Common Elements of Successful Growth Strategies

## 1. Stability

- Macroeconomic
  - High saving rates
  - Budget balance
  - Low rates of inflation
  - Sensible exchange rates
- Political
- Instability is especially bad for the poorest

# Common Elements of Successful Growth Strategies (cont.)

## 2. Investments in Health and Education

- Primary education, especially for girls
- High rates of return for investments in health
- Virtuous Circle: education and health are both a product of growth and a critical input
- Quality of services, not just quantity of money

# Common Elements of Successful Growth Strategies (cont.)

3. Private Sector Led Growth, Integrated with the World Economy
  - Agriculture
  - Labor-Intensive manufacturing (and services)
  - Not export-led growth, but labor-intensive manufactures export-led growth
  - Not Industrial targeting
  - Specifics differed by country

# Common Elements of Successful Growth Strategies (cont.)

4. Strong Institutions for Governance
  - Economic Institutions
  - Social Services
  - Corruption
  - Rule of Law

- Some search for a “Silver Bullet,” but there are no silver bullets.
- Some believe that ALL deficiencies must be fixed (the Comprehensive Development Framework), but this spreads resources too thin.
- The good news: Countries do not need to get everything right. Need an integrated strategy that sets priorities.

- Priorities Change During the Course of Development
- Development is Much More Difficult in Some countries than others
  - Landlocked
  - Desert
  - Small islands
- Strategies must differ across countries.

# Aid and Growth

- Conventional Wisdom: little or no relationship between aid and growth
- Revised conventional wisdom: aid “works” in a good policy environment, but not elsewhere

# Aid and Growth

- New results: the subcategories of aid that you would expect to affect short-term growth have a strong positive impact on growth: Aid to support balance of payments, budget, infrastructure, agriculture, industry, etc.
  - Strong effect remains, on average, across all countries, regardless of policy environment
  - At the means, a 1 percentage point increase in “short-term aid” is associated with a 0.7 percentage point increase in growth.

# Aid and growth

	1	2	3
Net ODA	0.212 (0.138)		
Net ODA squared	-0.008 (0.005)*		
Short aid		0.620 (0.241)**	0.960 (0.328)***
Short aid squared		-0.041 (0.016)**	-0.059 (0.026)**
Log repayments			-0.384 (0.188)**
Log initial GDP per capita	1.548 (0.522)***	1.779 (0.501)***	-0.059 (0.493)
East Asia			2.394 (0.648)***
Tropics			-2.125 (0.398)***
Inflation			-1.604 (0.558)***
Budget balance			8.280 (5.473)
Openness Sachs-Warner			1.412 (0.456)***
Institutional quality			0.333 (0.114)***
Log initial life expectancy			3.489 (1.845)*
Civil war			-2.187 (0.891)**
Lagged civil war			1.864 (0.730)**
Observations	372	372	368
R-squared	0.12	0.10	0.39

Note: Standard errors in parentheses. \* significant at 10%; \*\* significant at 5%; \*\*\* significant at 1%. All regressions include period dummies and a constant term. Estimated by 2SLS. Aid, aid squared and repayments are instrumented.