

SUSTAINED HIGH INCLUSIVE GROWTH

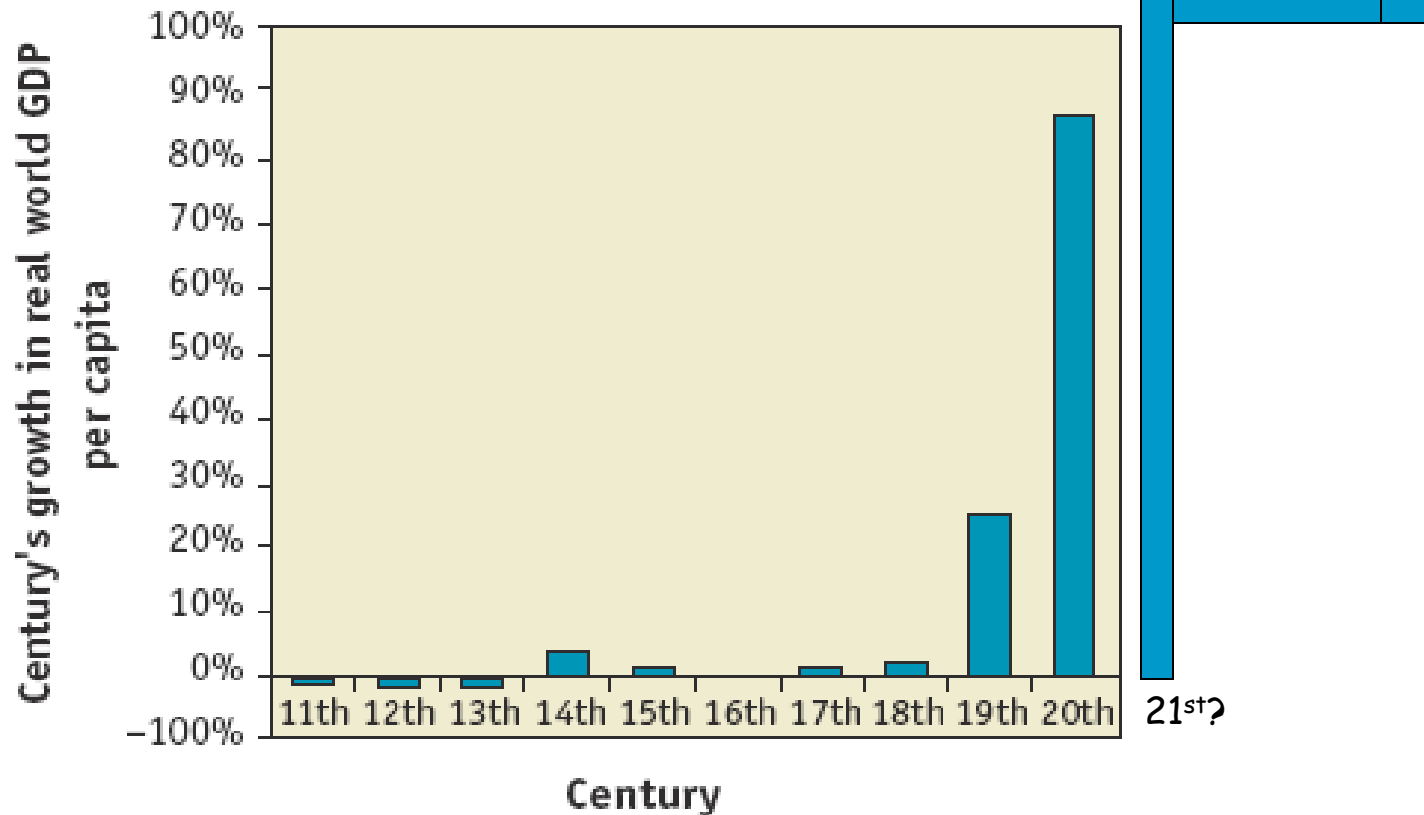
12th Sir Arthur Lewis Memorial Lecture

November 7, 2007

Michael Spence

FIGURE 11

Worldwide Growth in Real GDP per Capita, 1000–Present



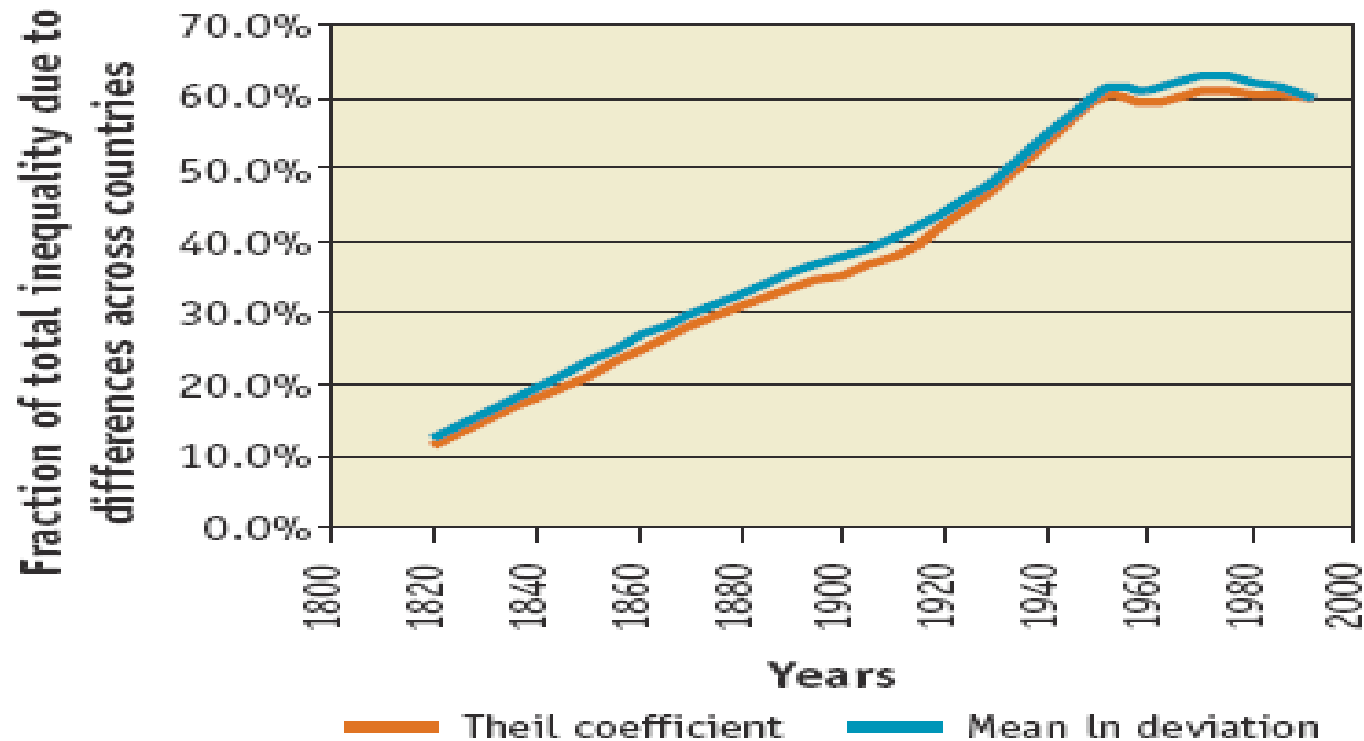
Source: DeLong 2000.

Growth is a Recent
Phenomenon

Different Starting Points

FIGURE 1.4

Fraction of World Inequality Accounted for by Differences across Countries



Source: Source: Bourguignon and Morrison 2002.

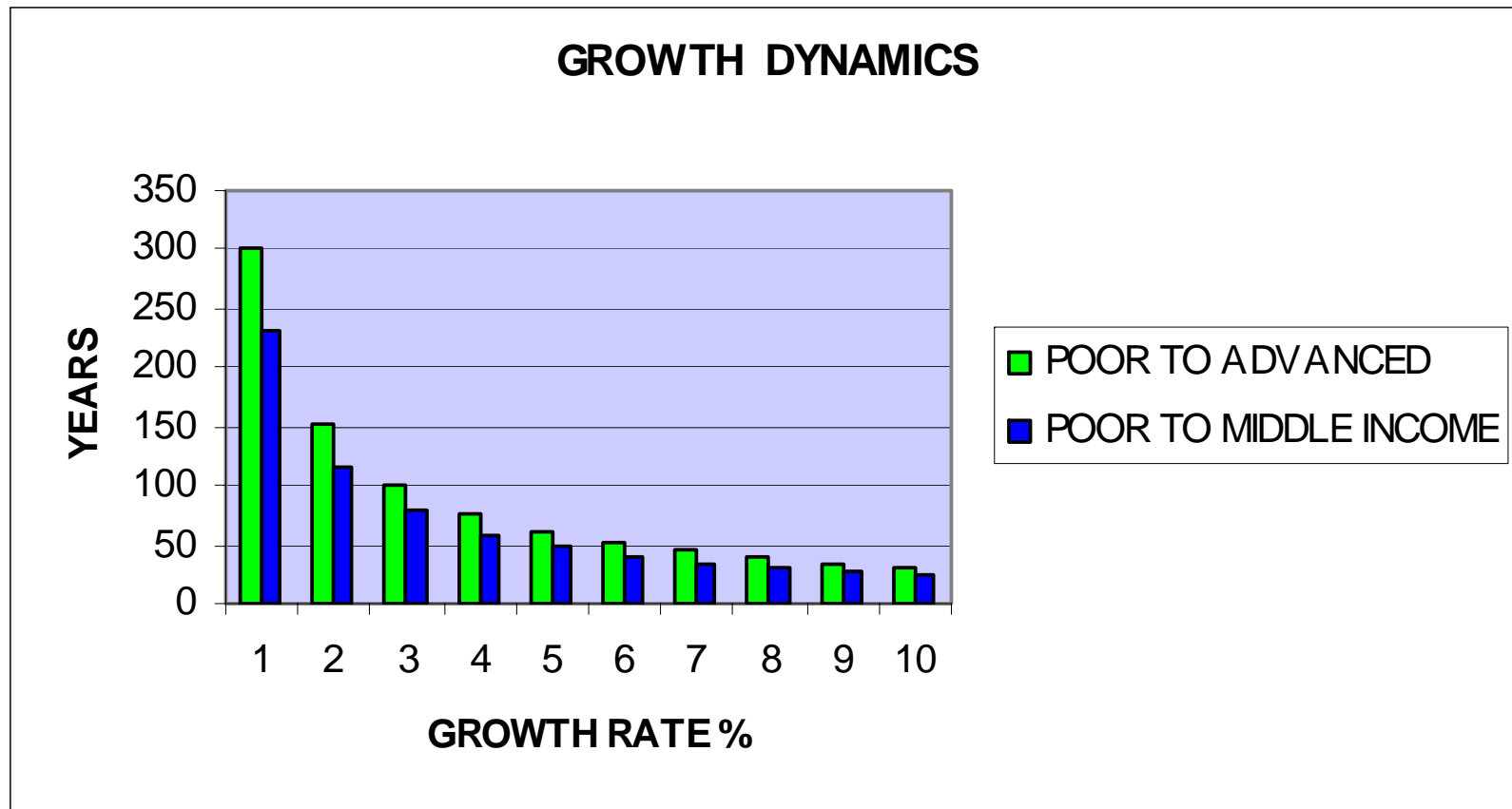
Inequality Takes a New Form

- 30 years ago less than 20% lived in advanced or rapidly growing countries
- Now is well over 60% and rising
- Poor in rapidly growing countries likely to become better off
- But there is a remaining 2 billion people
- Collier's bottom billion
- Issue is poor and no growth

Sustained High Growth

- > 7% for two decades or more
- Income doubles every 10 years or less
- Twelve cases in the post war period - none before
 - It was not possible
- India and Vietnam are likely entering the sustained high growth phase
- All leverage the global economy
 - Huge elastic demand
 - Comparative advantage
 - Surplus labor in traditional sectors initially
- Over time the domestic economy becomes bigger drives growth along with exports

It is a Marathon not a Sprint



Why the interest in Growth

- Necessary condition of poverty reduction
- Not an end in itself
- Makes accomplishing economic and social goals easier or even possible - creates options
 - Human development
 - Health
 - Opportunity to be creative and to innovate

Sustained High Growth Cases

COUNTRIES THAT SUSTAINED HIGH GDP GROWTH FOR 25 YEARS OR MORE
DURING 1950-2005

(In parenthesis, the number of times per-capita income increased over the period, and the
per capita income in US\$ 2000 in 2005)

-----Over 7 percent-----

| | |
|----------------------|--------------------------------|
| Botswana (*) | 1960-2005 (2.7, \$2000 700) |
| China | 1961-2005 (13.7, \$2000 1,445) |
| Hong Kong, China (*) | 1960-1997 |
| Indonesia | 1966-1997 |
| Japan (*) | 1950-1983 |
| Korea (*) | 1960-2001 |
| Malaysia | 1967-1997 |
| Malta (*) | 1963-1994 |
| Oman (*) | 1960-1999 |
| Singapore (*) | 1967-2002 |
| Taiwan, China (*) | 1965-2002 |
| Thailand | 1960-1997 |

Sustained Growth in the 6 to 7 Percent Range

| ----- | Less than 7 per cent | and more than 6 percent |
|----------------------|----------------------|-------------------------|
| Algeria | | 1962-1987 |
| Belize | | 1966-2001 |
| Bhutan | | 1980-2005 |
| Brazil | | 1960-1985 |
| Gabon | | 1960-1985 |
| Israel (*) | | 1960-1986 |
| Kenya | | 1961-1986 |
| Lesotho | | 1972-1997 |
| Pakistan | | 1960-1989 |
| Saudi Arabia | | 1968-1993 |
| Salomon Islands | | 1972-1998 |
| Syrian Arab Republic | | 1960-1996 |

Key Elements of High Growth

- Leveraging global economy demand and knowledge
- Global demand is large, exists and is elastic
- Labor supply is elastic
- This is the modern implementation of the Lewis model
 - Results in tremendous amount of incremental productivity employment
 - Wages above social opportunity cost in early stages
 - Therefore for a period of time - private return to capital below social return

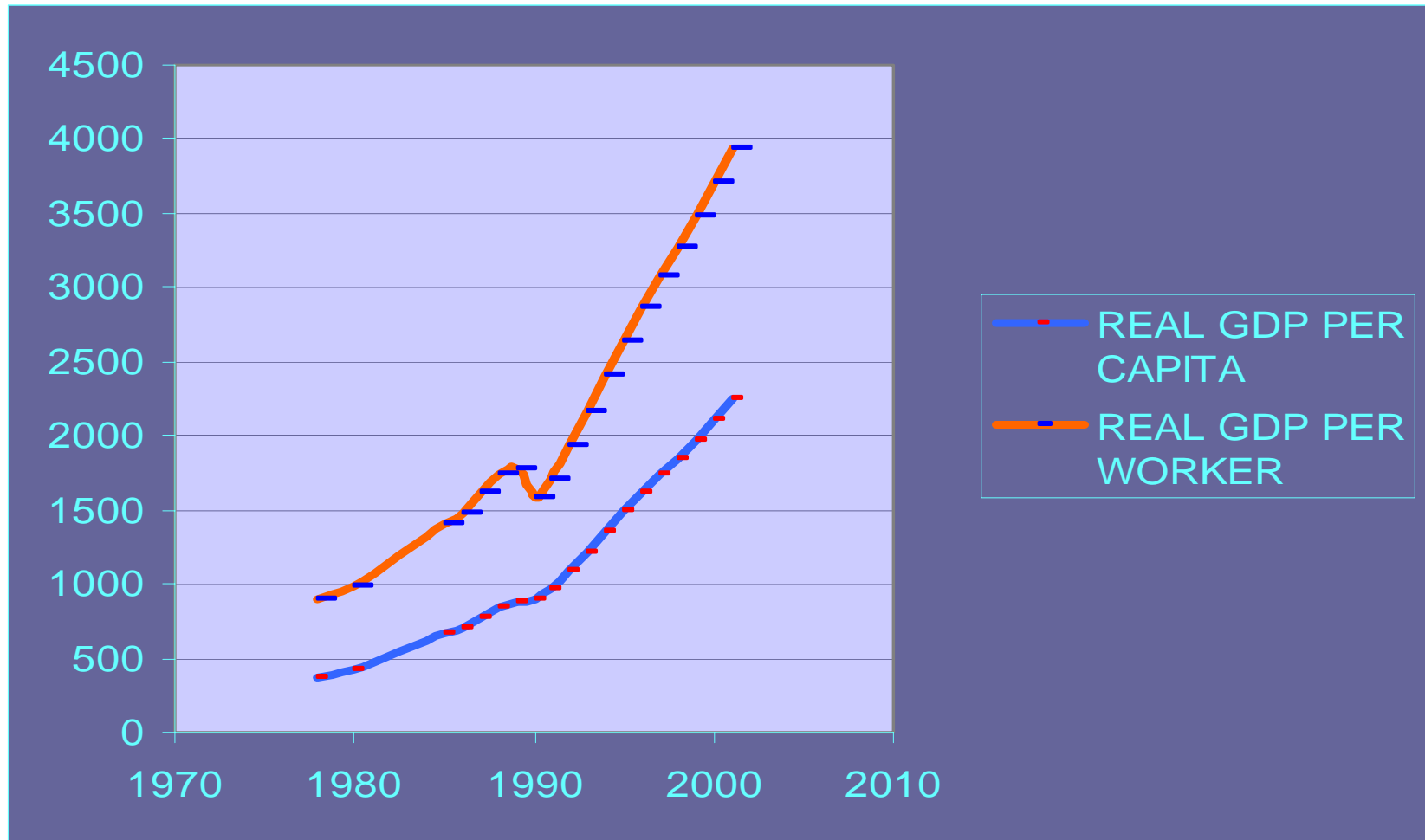
Key Elements Continued

- Careful opening to Global economy
 - The nature of a developing economy
- High Savings and Investment: Public and Private
 - HR, Education and Infrastructure
- Long time horizons - zero or negative discount rate
- Functioning market system - not necessarily fully developed

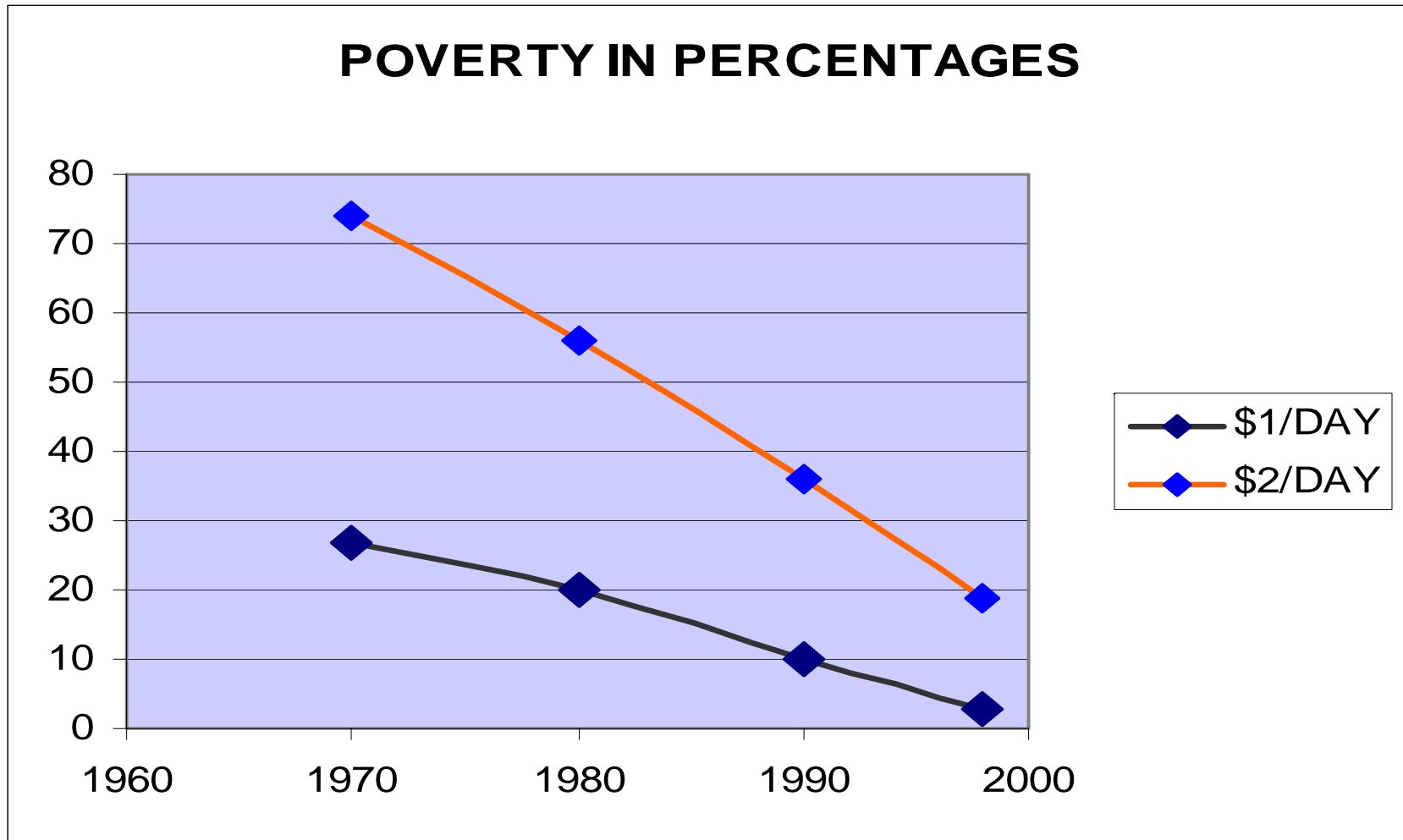
Key Elements Continues

- Flexibility and resource mobility
 - Creative destruction or churn
- Competition as the driver of the dynamics of productivity growth
- Stable predictable rules governing investment and a stable macro environment
- Clarity about roles of public and private sectors with boundaries in the "right" place
- Growth is about constant change: nothing is permanent in the structure of the economy or in policies to support growth

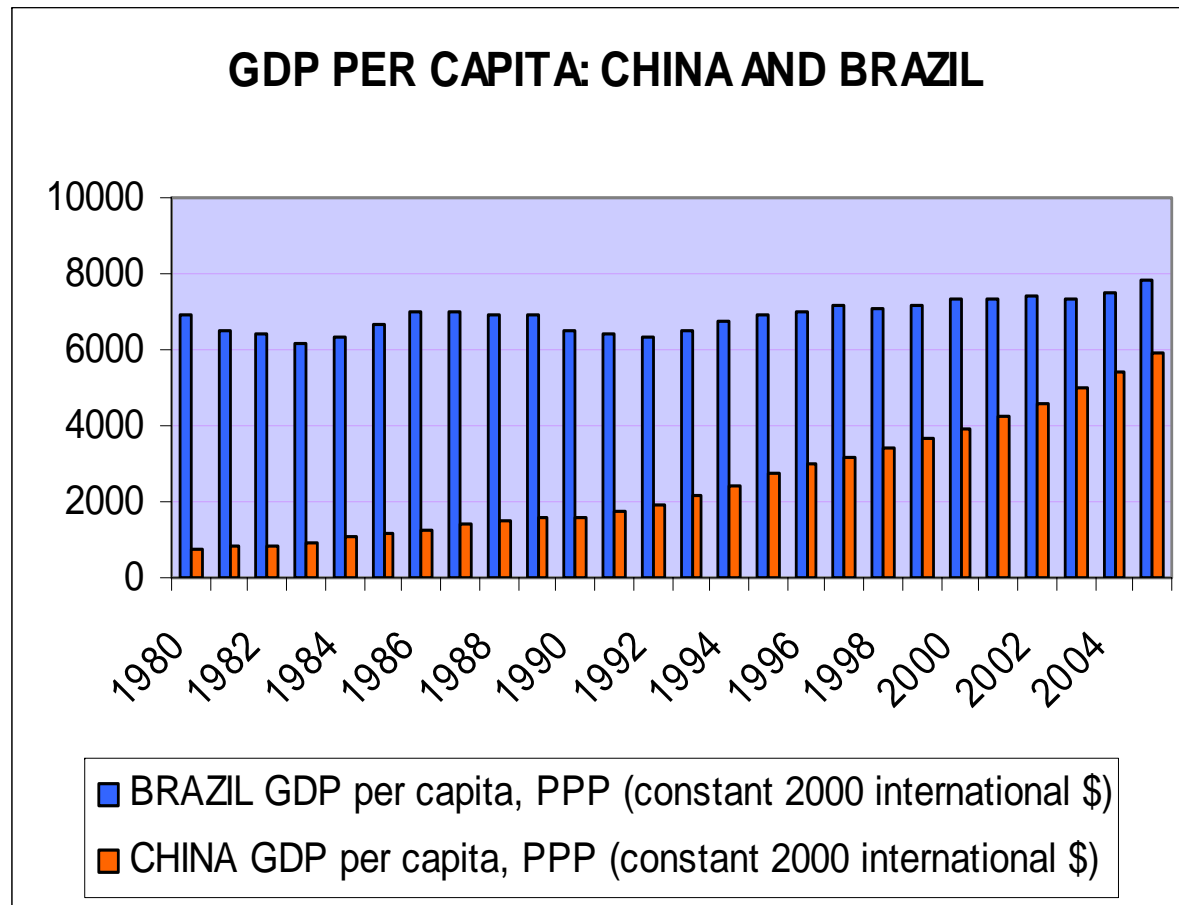
China: GDP per capita



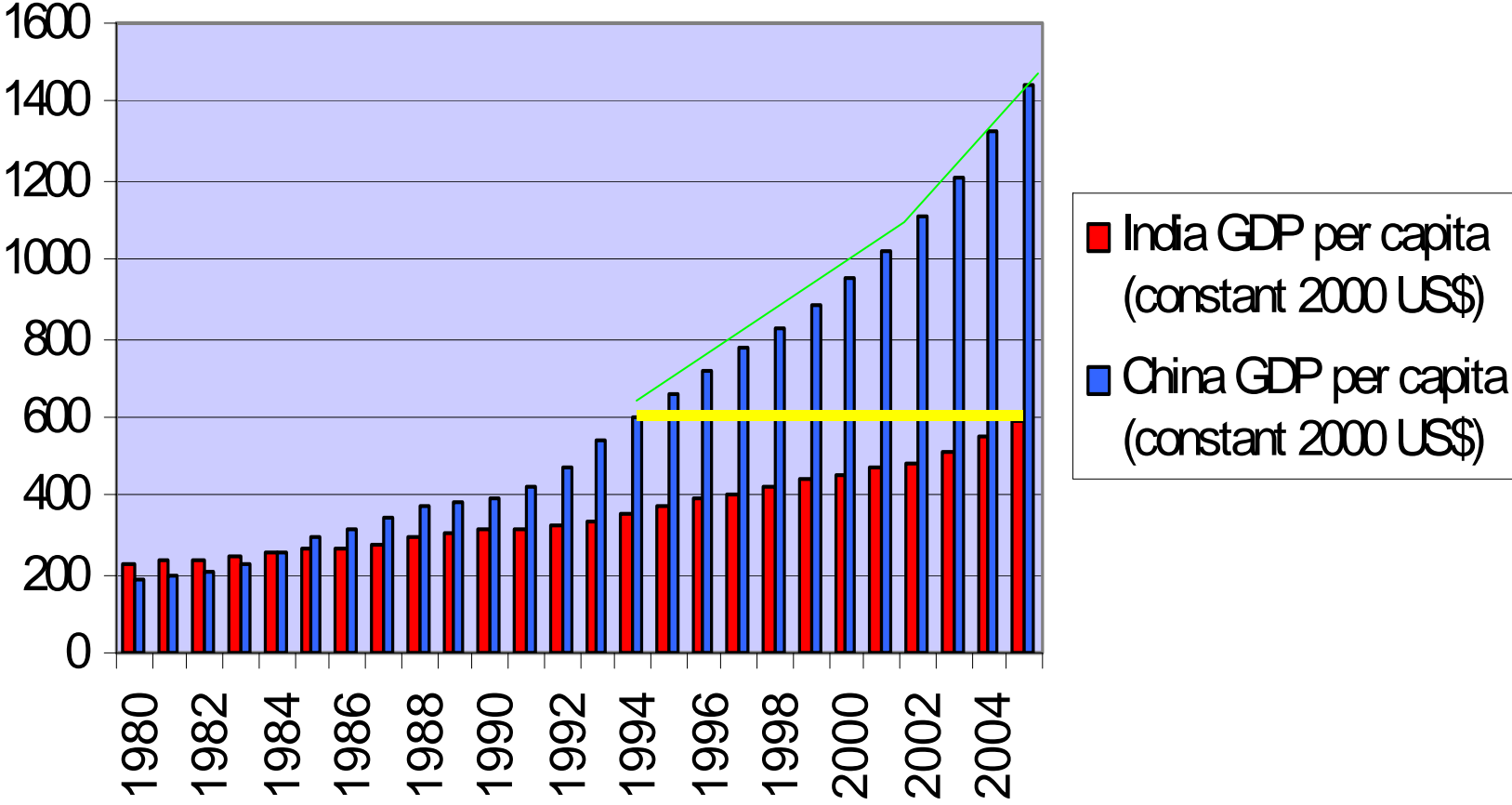
Poverty Reduction: China



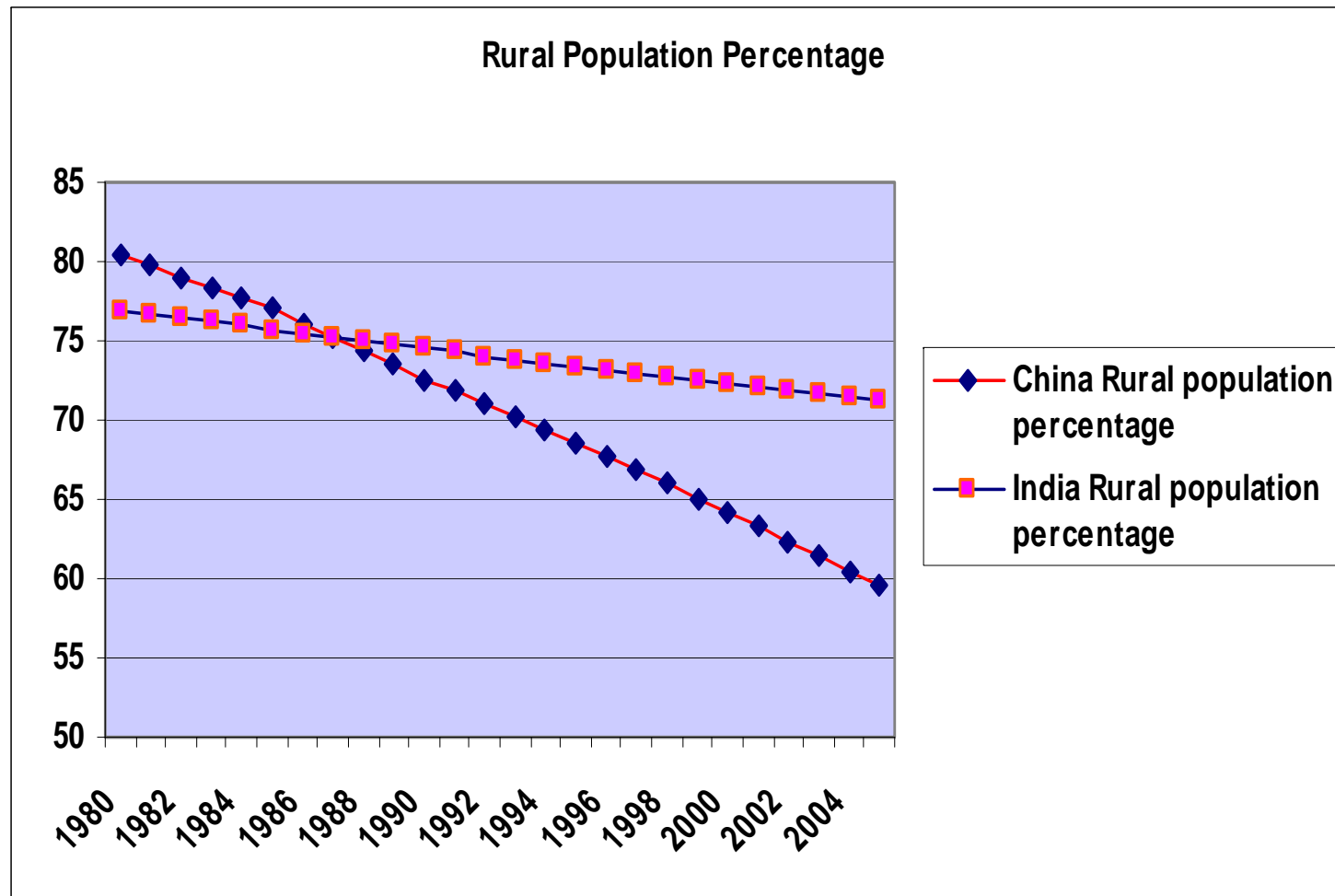
Rest of Developing Countries Growing More Slowly



GDP per capita: China and India (constant 2000 US\$)

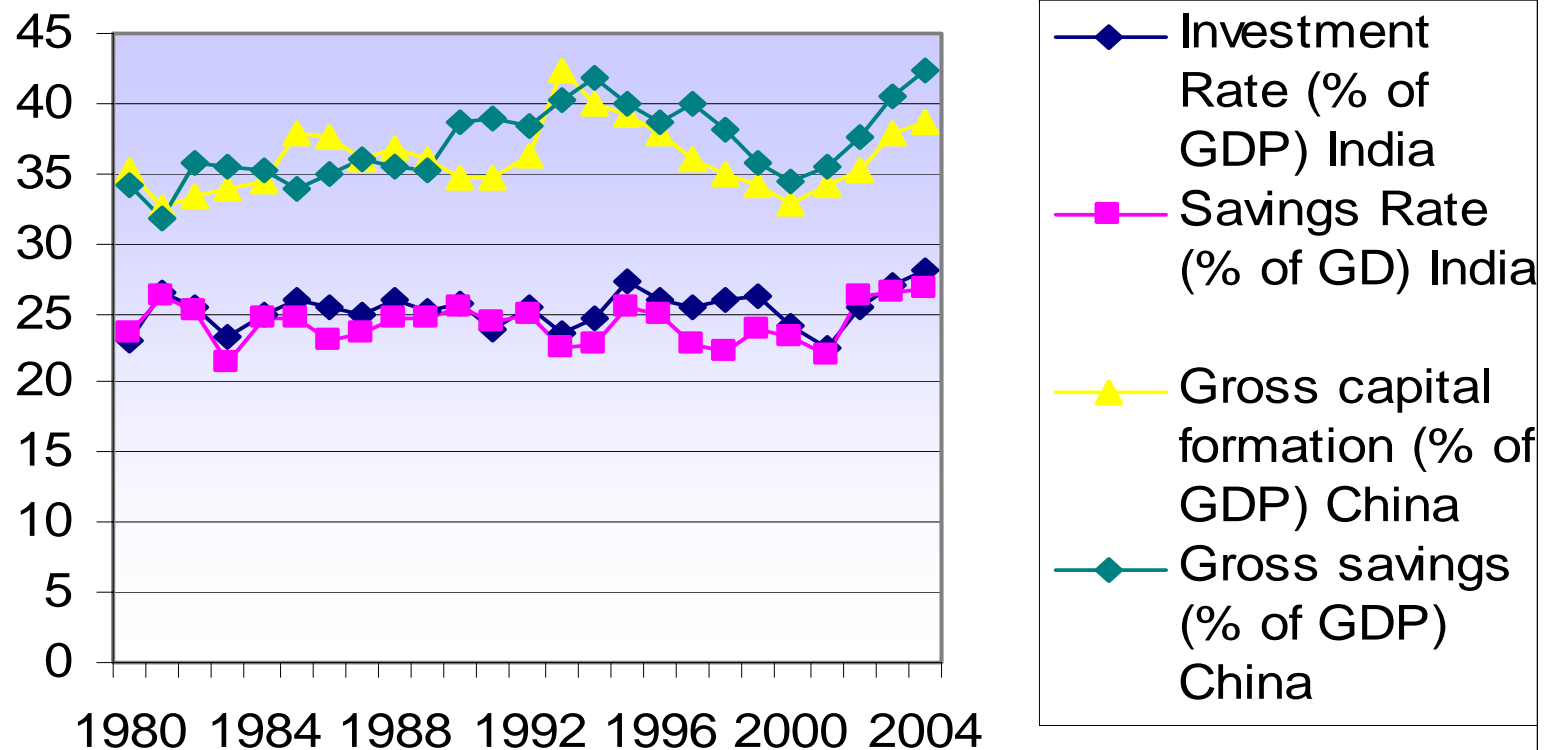


Rural Populations Decline

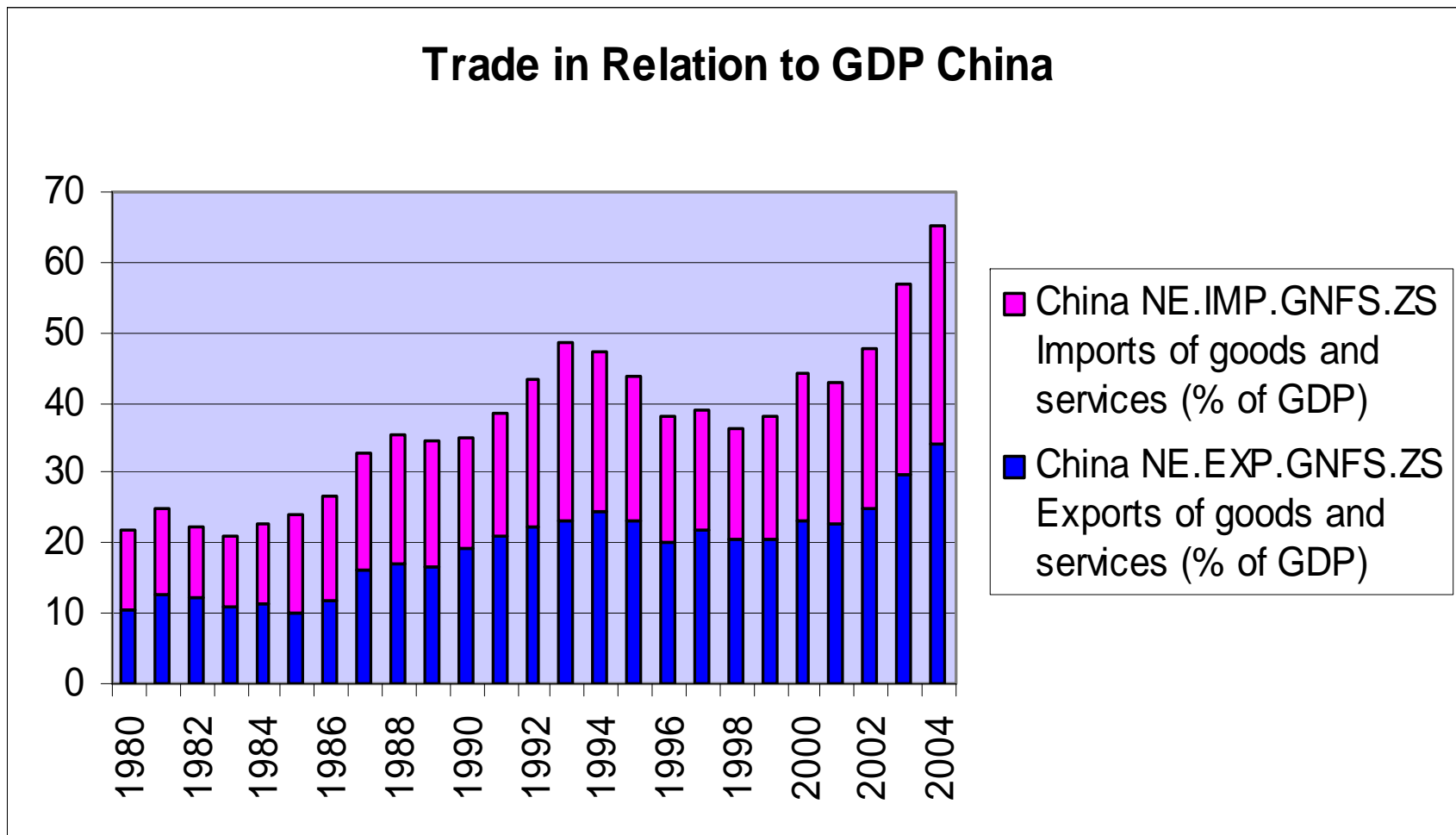


Saving and Investment

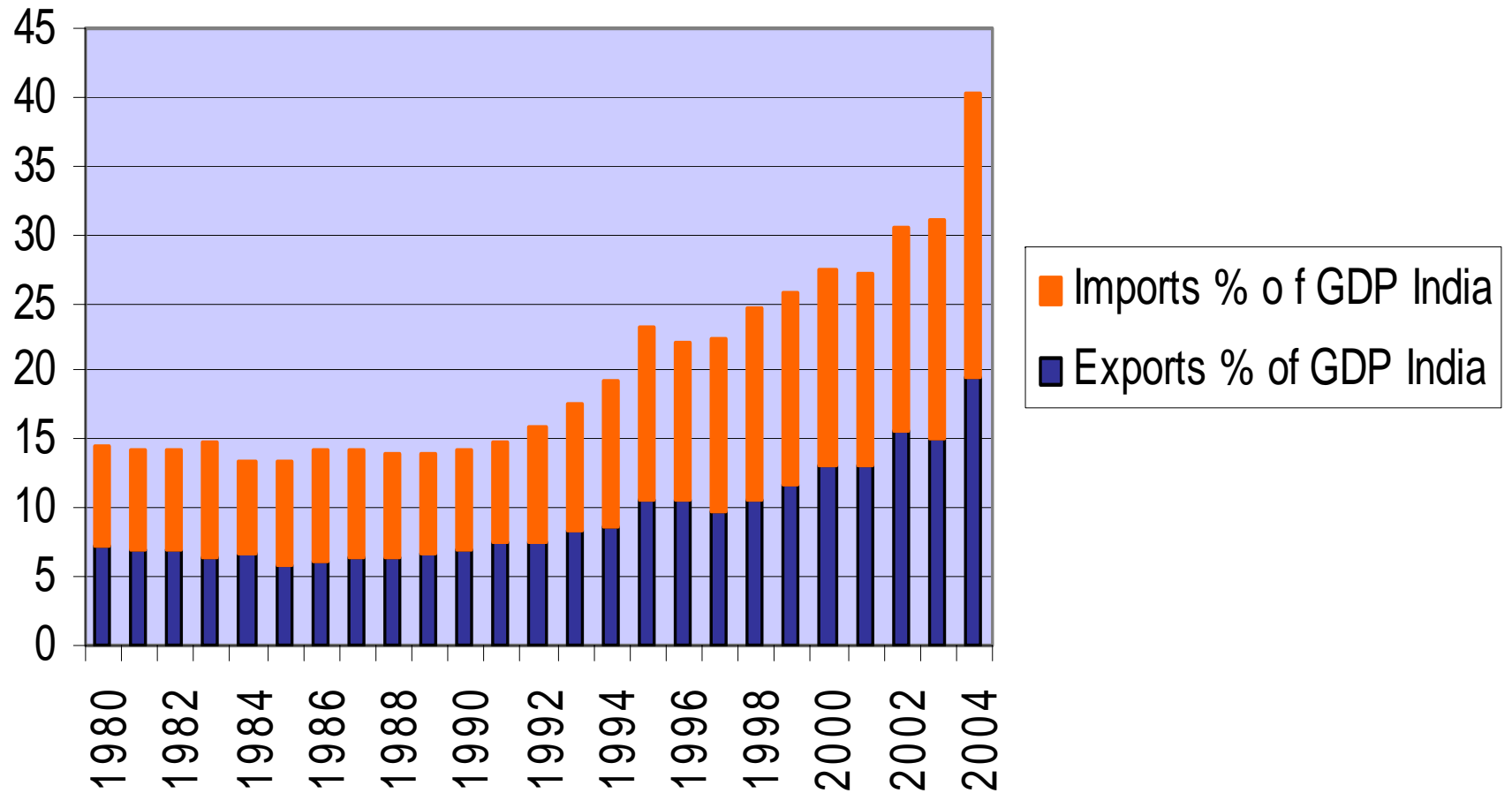
Savings and Investment in India and China



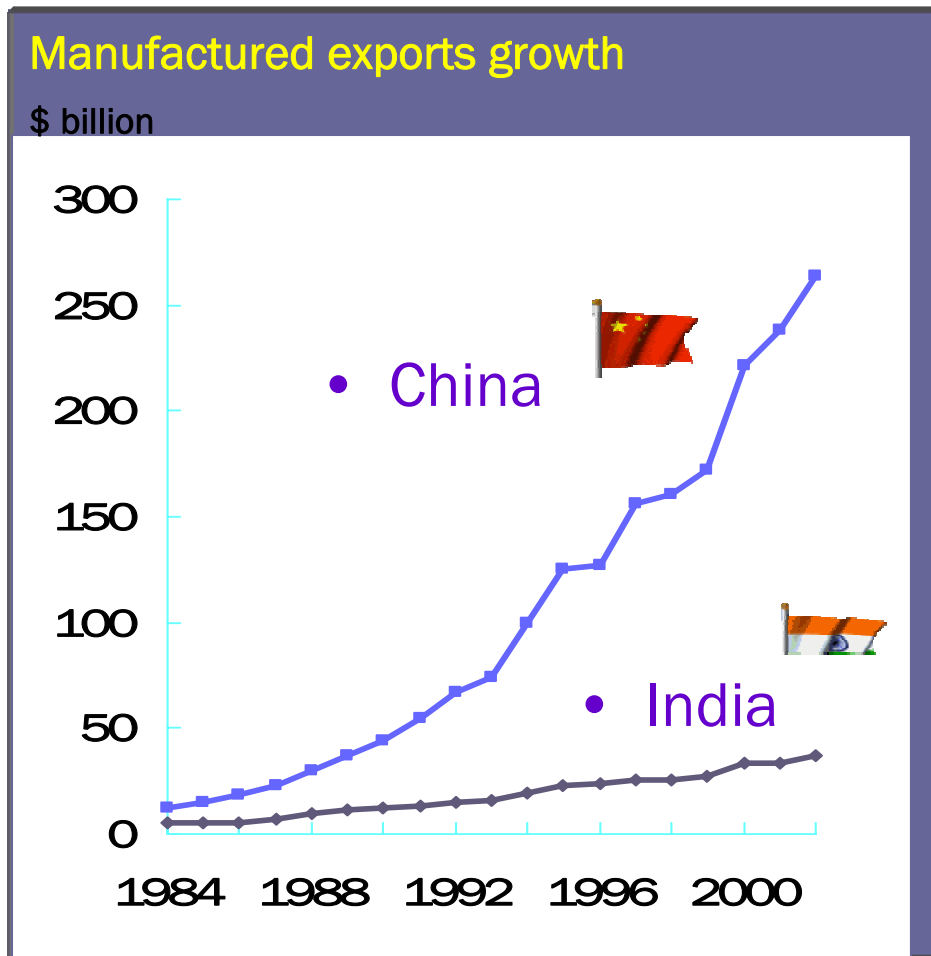
Leveraging the Global Economy



Trade in Relation to GDP India



In addition to lower prices, FDI drove rapid export growth in China



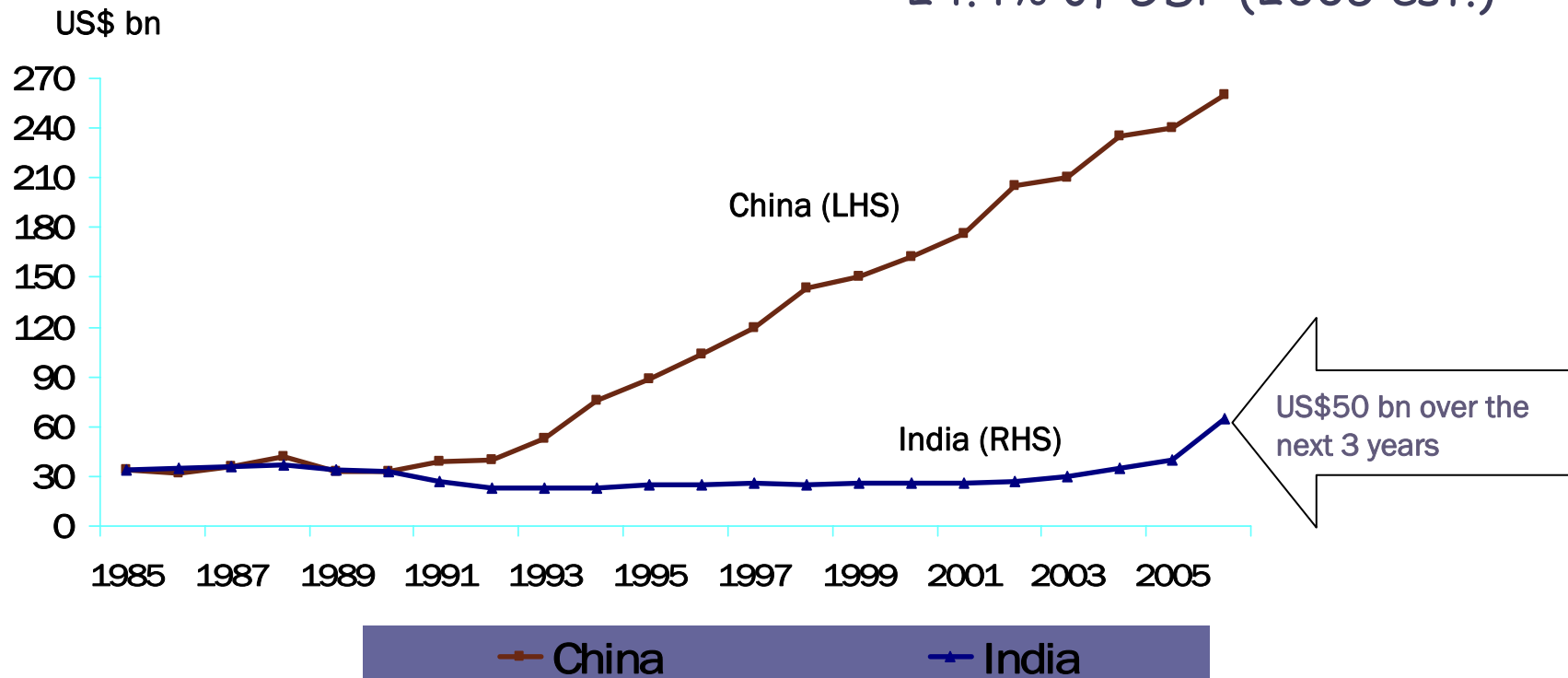
FDI backed exports

Per cent of total exports

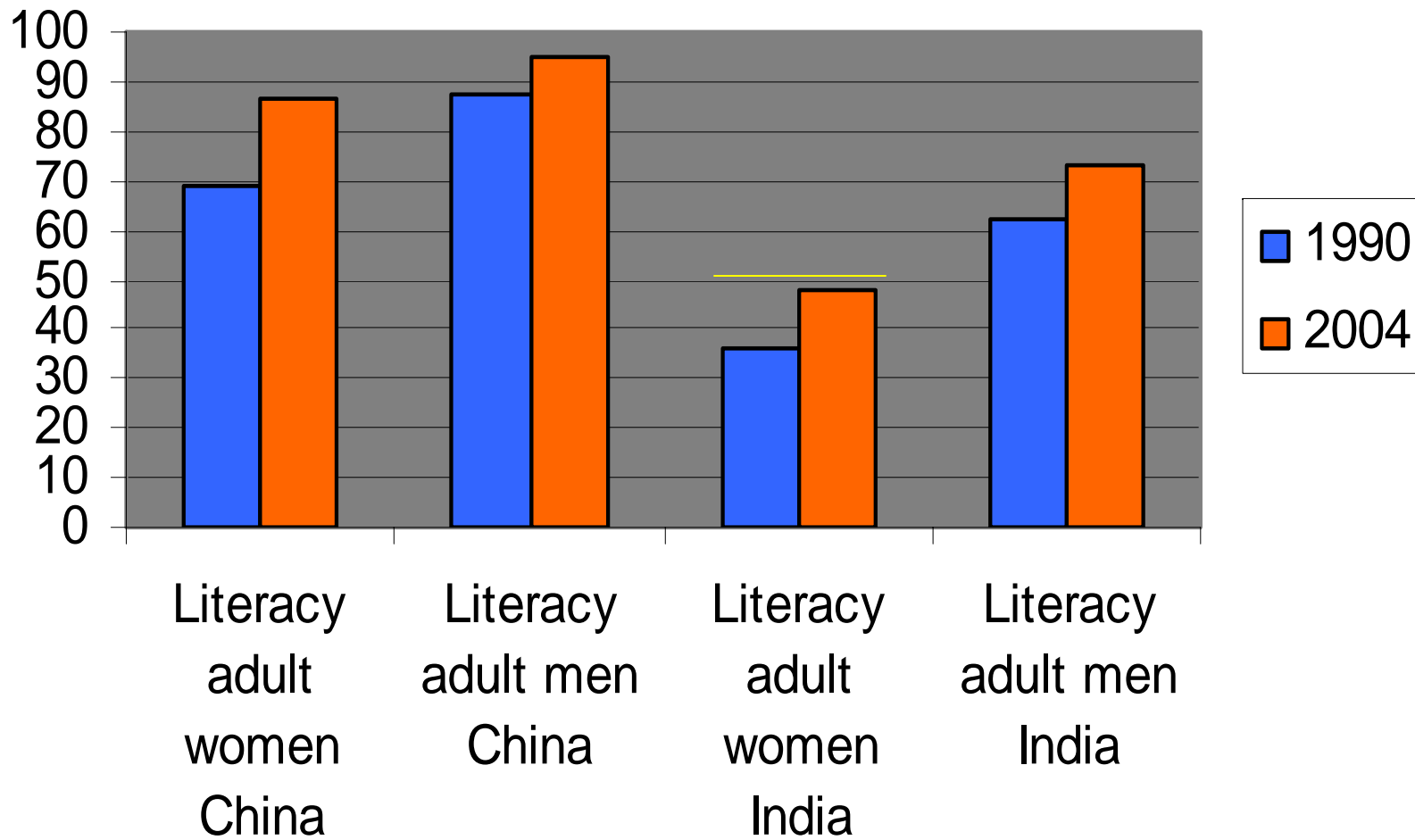


China vs India - Infrastructure Formation

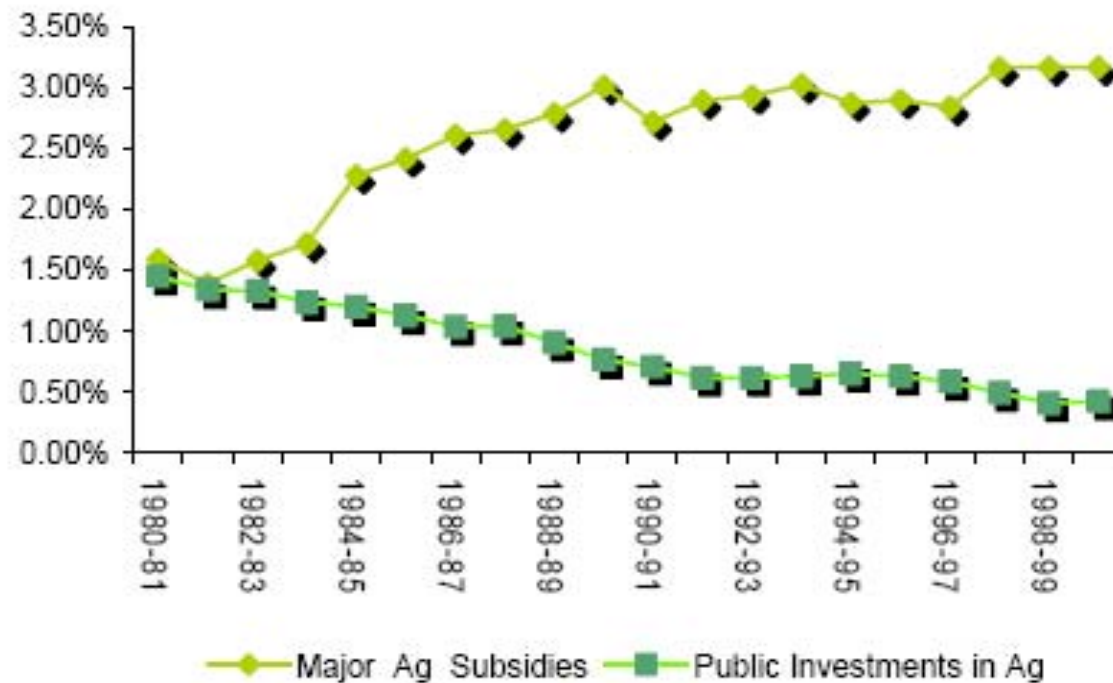
Public debt: China
24.4% of GDP (2005 est.)



Literacy Rates: India and China



Efficiency and Investment in Agriculture



Notes: Agricultural subsidies include GOI foodgrain and fertilizer subsidies, state government power and irrigation subsidies.

Source: Ministry of Agriculture, Acharya and Jogi 2004.

The Latest Entrant: Vietnam



Key Trends in Global Economy That Affect Growth Opportunities and Challenges

- Rising income inequality and the Pew Survey
 - The need in all countries to focus on equity of outcomes
- Information technology, trade in services and the accelerating diffusion of knowledge
- Global warming
- Demographics, aging and migration
- The growth of China and India and the decline in the relative price of manufactured goods
- Demand shock in energy and commodity prices and food

Key Policy Priorities that Support Sustained High Inclusive Growth

- Openness - but carefully
- Public sector investment
 - Infrastructure
 - Especially ICT and proper pricing of services
 - Health and Education
 - Nutrition and early education
 - Cognitive skills and not years of schooling
- Managing equality of opportunity and equity in terms of ex post outcomes

Key Policy Priorities that Support Sustained High Inclusive Growth

- Industrial policies
- Exchange Rates as a form of industrial policy
- Managing the capital account in the development context

Key Policy Priorities that Support Sustained High Inclusive Growth

- Urbanization, Housing and Agriculture
- Telecommunications infrastructure, services, competition and regulation
- Efficient provision of services
- Reforms that get government out of the way
- The Environment
 - Growth first and deal with the environment later is not a good strategy

Special Situations

- Resource Rich States
- Small States
 - Defined to be countries with a population of less than 2 million

Small states members of the World Bank

| Africa | East Asia and the Pacific | Latin America and the Caribbean | Europe, Middle East, and South Asia |
|--|---|---|---|
| Botswana Cape Verde Comoros Djibouti Equatorial Guinea Gabon Gambia, The Guinea-Bissau Lesotho Mauritius Namibia São Tomé and Príncipe Seychelles Swaziland | Brunei Fiji Kiribati Marshall Islands Micronesia, Federated States of Palau Samoa Soloman Islands Timor-Leste Tonga Vanuatu | Antigua and Barbuda Bahamas, The Barbados Belize Dominica Grenada Guyana St. Kitts and Nevis St. Lucia St. Vincent and the Grenadines Suriname Trinidad and Tobago | Bahrain Bhutan Cyprus Estonia Iceland Luxembourg Maldives Malta Qatar San Marino |

Source: Prepared by Staff

Notes: There are several small states that are not World Bank members: Cook Islands, Nauru, Niue, and Tuvalu.

Critical Policies - Small States

- Coordinated infrastructure investment and regional integration
- Sharing of governance and government service costs
- Outsourcing
- Risk mitigation through conventional diversification is not possible
- Other financial options for risk mitigation
- Human capital based economies