

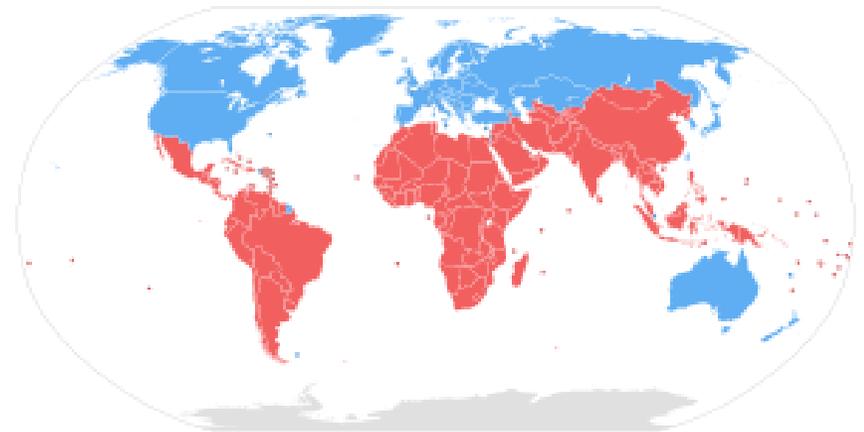
Fulbright
University
Việt Nam

Development Policy 2020

Session (7): Inclusive Growth

Schedule

- How does globalization facilitate (or deter) national economic growth?
- What is the implication of regionalization of economy?
- Do geographic location of countries matter in development?
- What is inclusive growth?



North-South Divide

- Classification of countries by the level of development (socio-economic). The term “**the Third World.**”
- Separation of world economy into ‘**core**’ and ‘**periphery**’ – The core in Northern hemisphere (25% of world population) controls 80% of world income, 90% of manufacturing. How this discrepancy happen?
- Structure (trade of raw material and finalized products) – Dependency theory
- Global migration (technology transfer) theory
- Geopolitics, culture, etc.



“Poor countries have poorly educated populations, and possess outdated or nonexistent machinery and technology.” – but *why?*

Does Geography Matter?

- Yes or No? – (**fact**) High-income regions are almost entirely concentrated in a few temperate zones, half of the world's GDP is produced by 15% of the world's population, 54% of the world's GDP is produced by countries occupying just 10% of the world's land area.
- Geography matters? **Yes!** Geography explains cross-country differences in prosperity.
- Geography hypothesis – “the geography, climate, and ecology of a society's location shape both its technology and the incentives of its inhabitants.”
 - ✓ *Climate – determine work efforts, incentives, even productivity*
 - ✓ *Geography – determine technology a society develop, especially in agriculture*
 - ✓ *The burden of infectious disease in the tropics.*

You agree? What is the problem with this hypothesis?



Joseph Stiglitz

Globalization and Its Impact

- Question: Is globalization good for development (in particular, for developing countries?)
- Some people say **yes** – look at Chinese economy (GDP growth 10% for 30 years), growing India (recent GDP growth more than 8%)
- Closer integration of the countries of the world – result of lower communication and transportation costs | Reduction in manmade barriers to movements of goods and services, people, capital, knowledge, etc.
- Developing countries benefited: a) access to markets; b) access to technology
- Do you agree? – What about Latin American countries (former best students of liberalization, experiencing decline in income, increasing poverty) | Africa (declining income) | former communist countries (declining income, increasing poverty)

Failures

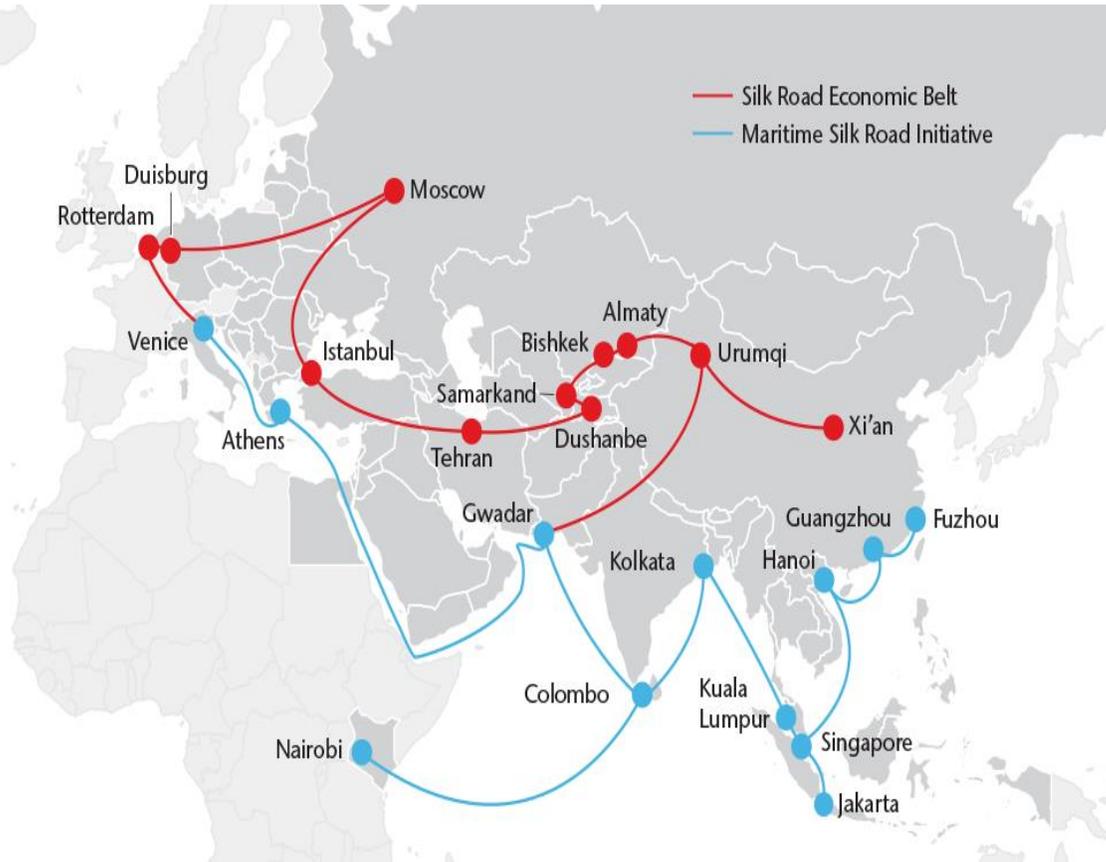
*Unfair global
governance*



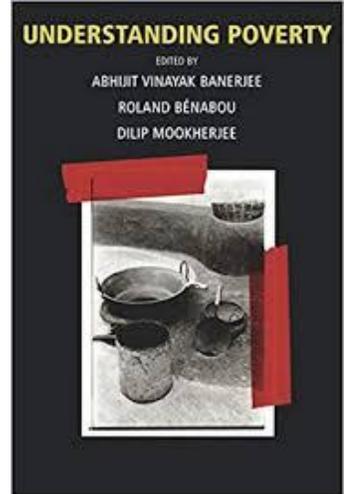
Voices of
developing
countries are
not heard

- Is the globalized world getting better? **Yes or No**
- Trade? (equal? Beneficial to developing countries?) – e.g. African countries **been left without education, technology and resources to take advantage of new opportunities. Projected benefit went to developed countries.**
- Has Washington Consensus policies been working? – e.g. Latin American countries' **capital market liberalization exposed them to huge volatility.**
- Has environment in developing countries been saved? – sustainable development **No compensation**
- Has global knowledge been fairly transferred to developing countries **Widened knowledge gap**
- Has the responsibility for global warming fairly distributed? **Area of global injustice**

One Belt One Road? 一帶一路

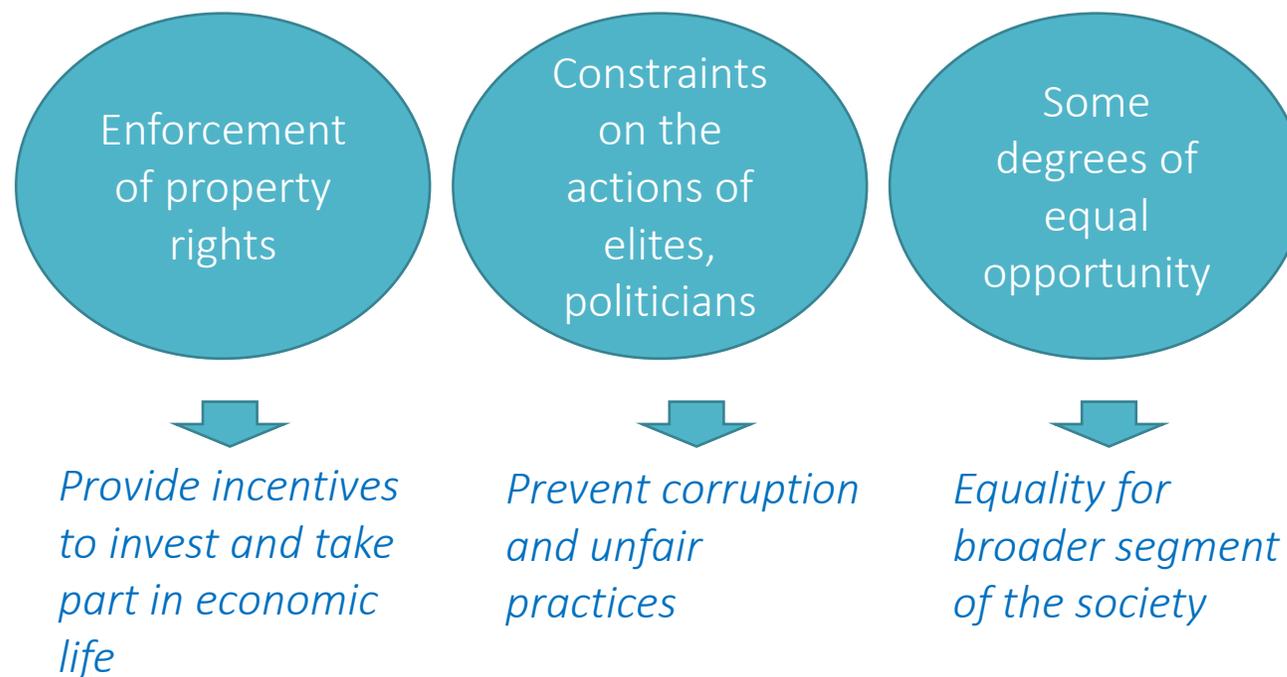


- So, what happened to OBOR project? – Xi Jinping’s foreign policy (global infrastructure development, 2013 -).
- “Bid to enhance regional connectivity and embrace a bright future” like the Silk Road → create a unified large market, cultural exchange and integration → accelerate economic growth.
- Requires long-term capital investment.
- More than 100 countries supported this project (mostly non-Western countries).
- Many concerns: ecological issues, debts, ‘neo-colonialism,’ etc.



Poverty: Institutional Hypothesis

- Two main contenders to explain the fundamental causes of cross-national differences in prosperity (Banerjee et al.): *Why some places don't have better condition?*
- Against geography hypothesis: Banerjee et al. (2006) argues that “**institutions**” are more important. Geography hypothesis emphasizes natural forces.
- Institutional hypothesis argues: “**some societies are organized in a way that upholds the rule of law, encourage investment of all kinds, facilitate broad-based participation by citizens, and supports market transactions.**”



Institutions of Private Property

Continued...

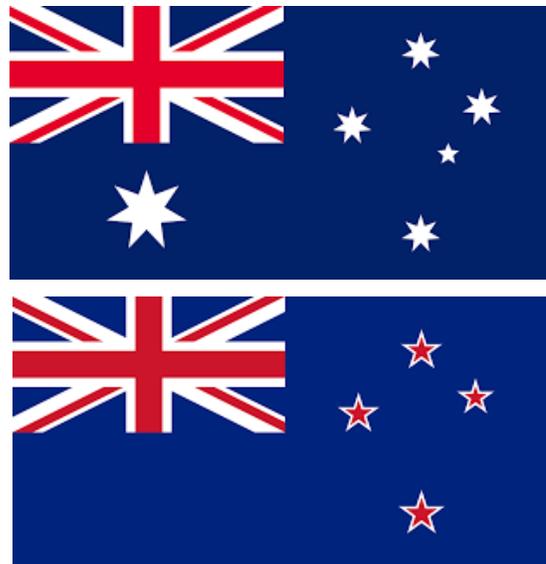


- Nobel Prize Laureate Douglas North also supported 'institutional hypothesis'
- Unfortunately – institutions of private properties do not exist in many societies.
- Extraction of resources by one (or a few) group at the expense of the rest (extractive institution)

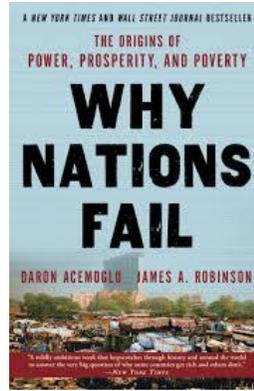


Belgian colony, Congo
Caribbean
-- slave plantation

Latin America
-- Forced labor



Other European settled in
Australia, NZ, US, etc.
-- Placed significant
constraints on elites,
politicians, etc.



Extractive vs. Inclusive Institutions

- Countries differ in their economic success because of their different institutions – the rules influencing how the economy works, and the incentives that motivate people.
- Over the several years, worldwide consensus → the need for a more 'inclusive growth.'
- Acemoglu and Robinson theorized that there are two institutions: 1) extractive institutions in which a small group of individuals do their best to exploit the rest of the population, and 2) inclusive institutions in which many people are included in the process of governing.



Figure 1.1 Income inequality has increased in most OECD countries and emerging market economies

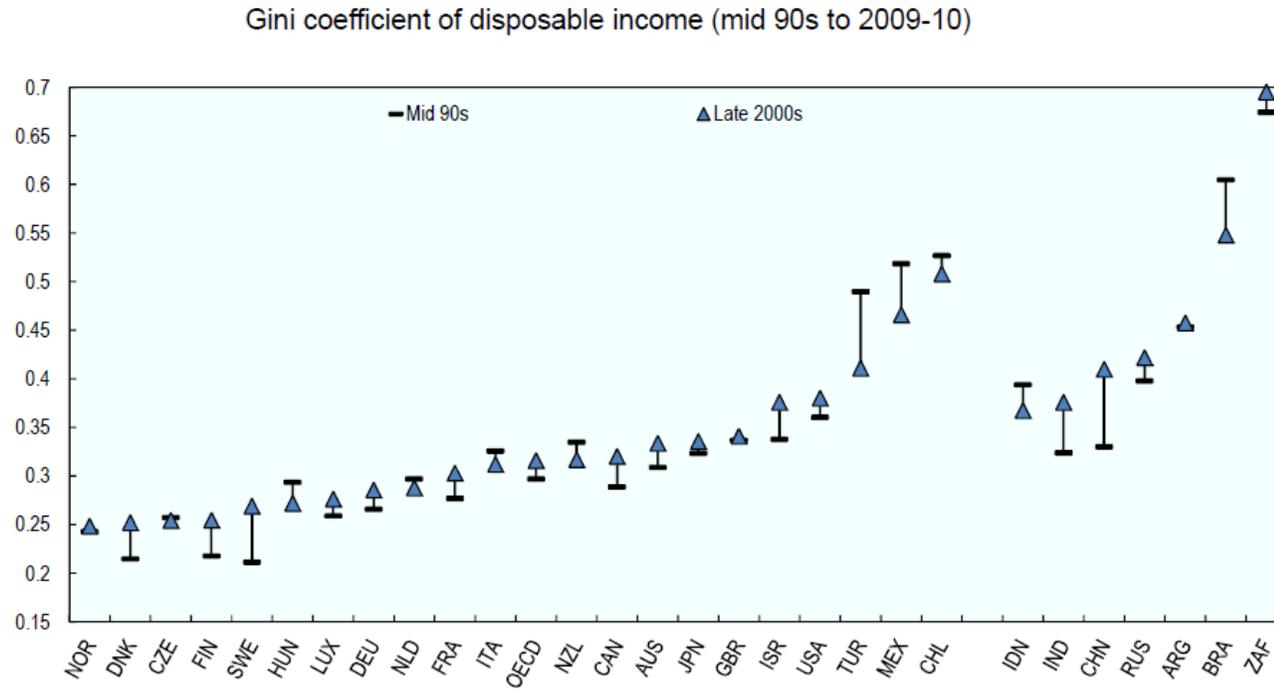


Figure 1.5. The state of income inequality in the world

Gini coefficient (Mid to end 2000)

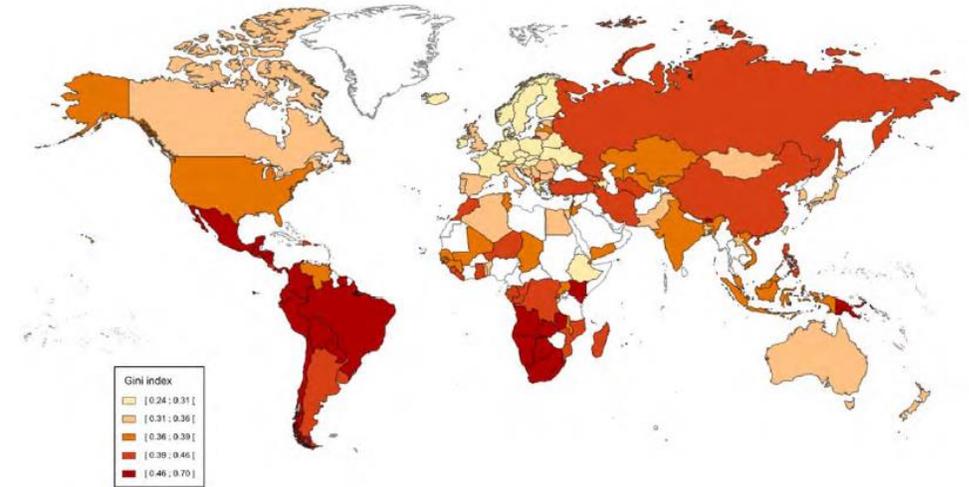
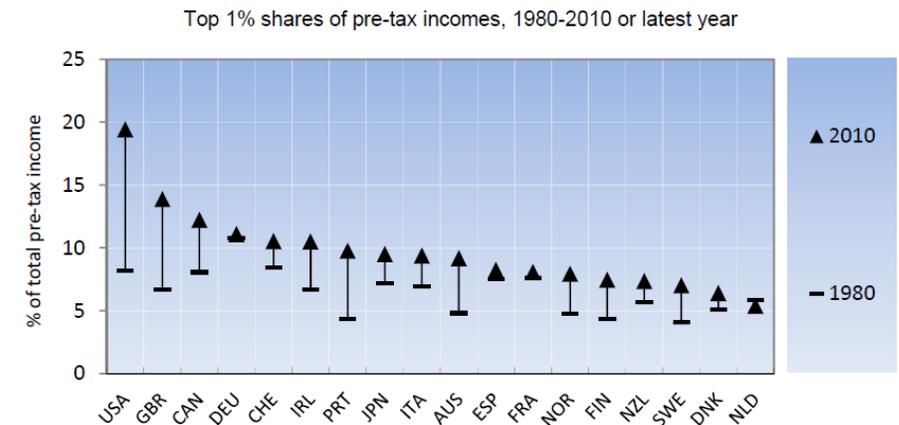


Figure 1.2. Concentration of income among top earners has increased in many OECD countries



Note: Data refer to the years in parentheses in the following countries: US (2012); Norway (2008); France, Italy and Finland (2009); Portugal (2005); Sweden (2011); Germany (1998) and the Netherlands (1999).

- Increased income for elites
- Increasing inequality (Brenner and Pastor, 2015)
- Urban-rural inequality (e.g. China, Gini Coefficient 0.47)
- Top 1% share increased
- Demands for inclusive growth
- Growth pattern as well as pace is important (ADB, 2007)
- Institutionalized exclusion of the poor

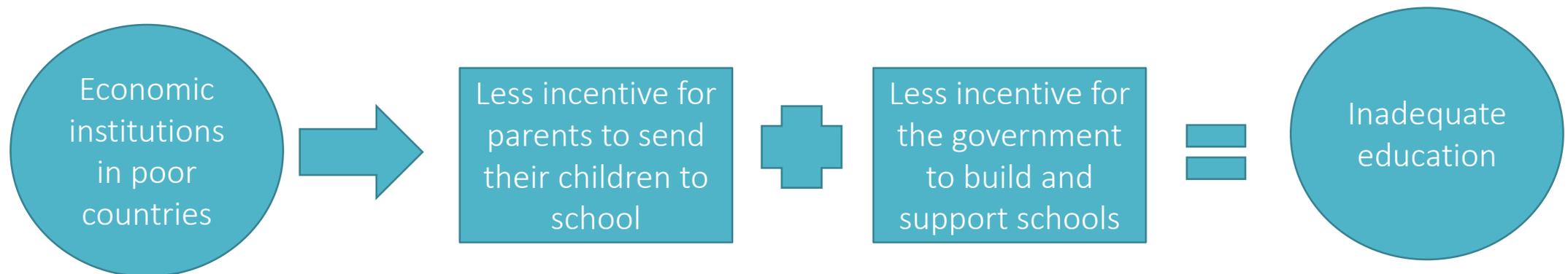
Is Meritocracy Bad?



- Meritocracy has become a leading social ideal in modern world → “the rewards of the life – money, power, jobs, university admission – should be distributed according to skill and effort.
- Singapore’s success? – based on meritocracy ([LKY](#))
- Increasing dissatisfaction with meritocratic idea.

Inclusive Economic Institutions

- Create inclusive markets – give people freedom to pursue the vocations in life that best suit their talents but also provide a level of playing field that give them the opportunity to do so. (e.g.) North Koreans, Colonial Peru & Bolivia
- Technology and Education – Inclusive economic institutions also pave the way for the engines of prosperity.



The Inclusive Development Index

 Most inclusive advanced economies	Rank	 Most inclusive emerging economies	Rank
Norway	1	Lithuania	1
Iceland	2	Hungary	2
Luxembourg	3	Azerbaijan	3
Switzerland	4	Latvia	4
Denmark	5	Poland	5
Sweden	6	Panama	6
Netherlands	7	Croatia	7
Ireland	8	Uruguay	8
Australia	9	Chile	9
Austria	10	Romania	10

Source: Inclusive Development Index 2018, World Economic Forum

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Growth and
development

Inclusion

Intergeneratio-
-nal equity

Is
Vietnam
inclusive?

Vietnam

- IDI scores are based on a 1-7 scale: 1= worst, and 7=best.
- Vietnam's IDI ranking is 33, while GDP per capital ranking is 52 – Green color indicates that IDI is advancing

Emerging Economies

DIFFERENC

ECONOMY	LEVEL		
	IDI SCORE	IDI RANK	GDP PER CAPITA RANK
Lithuania	4.86	1	1
Hungary	4.74	2	4
Azerbaijan	4.69	3	26
Latvia	4.67	4	5
Poland	4.61	5	2
Panama	4.54	6	11
Croatia	4.48	7	6
Uruguay	4.46	8	8
Chile	4.44	9	3
Romania	4.43	10	15
Bulgaria	4.41	11	18
Costa Rica	4.32	12	16
Malaysia	4.30	13	10
Peru	4.29	14	23
Kazakhstan	4.26	15	13
Turkey	4.26	16	7
Thailand	4.24	17	25
Algeria	4.22	18	30
Russian Federation	4.20	19	9
Paraguay	4.19	20	35
Dominican Republic	4.19	21	21
Nepal	4.15	22	71
Argentina	4.13	23	14
Mexico	4.12	24	17
Macedonia, FYR	4.10	25	29
China	4.09	26	22
Iran, Islamic Rep.	4.08	27	28
Albania	4.08	28	31
Nicaragua	4.05	29	50
Colombia	4.01	30	19
Moldova	4.00	31	49
Georgia	3.99	32	33
Vietnam	3.98	33	52
Bangladesh	3.98	34	64
El Salvador	3.96	35	38



Table 6: Dashboard of National Key Performance Indicators: Levels

Emerging Economies

	GROWTH & DEVELOPMENT				INCLUSION				INTERGENERATIONAL EQUITY & SUSTAINABILITY			
	GDP PER CAPITA, \$	LABOR PRODUCTIVITY, \$	HEALTHY LIFE EXPECTANCY, YRS	EMPLOYMENT, %	NET INCOME GINI	POVERTY RATE, %	WEALTH GINI	MEDIAN INCOME, \$	ADJUSTED NET SAVINGS*, %	CARBON INTENSITY, KG PER \$ OF GDP	PUBLIC DEBT, %	DEPENDENCY RATIO, %
	Rank											
Vietnam	1770	9894	66.6	76.7	42.2	11.6	74.5	6.8	18.0	196.2	62.4	42.9
Bangladesh	1030	7833	62.4	59.7	39.5	59.2	57.9	2.9	25.3	71.7	33.1	51.5
El Salvador	3803	19153	64.1	59.0	38.9	9.8	65.7	7.6	3.5	40.3	59.9	56.0



Question about Inclusive Growth

- The extractive and inclusive categories are intuitive and useful – but explaining the entire cases and history of humankind by this dichotomy is difficult.
- (e.g.) Rome – prospered for centuries under the extractive institutions of the empire.
- Other examples – South Korea, Taiwan, Chile, and China (good economic results)
- North Korea vs. South Korea
- Northern Italy vs. Southern Italy (Robert D. Putnam)
- Zimbabwe – transition from extractive colonial institutions → catastrophic economic collapse

Not Easy Prescription

- Acemoglu & Robinson – Politically inclusive institutions (certain level of centrality and diversity of political power) + economically inclusive institutions prevent the rise of the vested interest and facilitate ‘destructive creativity’ (old one replaced by new one).
- What is the implication of inclusive & exclusive institutions about Vietnam? What is the philosophical basis of <Inclusive Institution> theory? Discuss.