Economic Growth in Low Income Countries

How the G20 can help to raise and sustain it

L Alan Winters, Wonhyuk Lim, Lucia Hanmer, Sidney Augustin
Development

• G20 Toronto Summit Declaration

• The role of the G20
  – Comparative advantage
The Role of Growth

• Driver of poverty reduction
  – Higher average incomes rather than redistribution

• Resources to deliver MDGs
  – Household
  – Public Sector

• The aspirations of the mid-2000s
  – Higher average growth rates preceding decade
  – Poverty reduction gains
Low Income Growth Story

- Heterogeneity

- Selection Effects

- Downturns: Frequency and Depth
Heterogeneity Among LICs: Quartile Growth Rates
# Growth History of today’s LICs

<table>
<thead>
<tr>
<th>Income Classification</th>
<th>No. observations/countries</th>
<th>Mean Growth %</th>
<th>Std. Dev.</th>
<th>Absolute First df.</th>
<th>Min %</th>
<th>Max %</th>
</tr>
</thead>
<tbody>
<tr>
<td>Low</td>
<td>910 (19)</td>
<td>0.23</td>
<td>6.00</td>
<td>4.95</td>
<td>-50</td>
<td>38</td>
</tr>
<tr>
<td>L. Middle</td>
<td>912 (19)</td>
<td>2.22</td>
<td>4.77</td>
<td>3.72</td>
<td>-29</td>
<td>22</td>
</tr>
<tr>
<td>U. Middle</td>
<td>864 (18)</td>
<td>2.37</td>
<td>5.18</td>
<td>4.13</td>
<td>-26</td>
<td>36</td>
</tr>
<tr>
<td>High</td>
<td>1242 (26)</td>
<td>3.15</td>
<td>3.56</td>
<td>2.64</td>
<td>-18</td>
<td>23</td>
</tr>
</tbody>
</table>

*(A) Classified by GNI per capita 2008*
## Controlling for Sample Effects

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<thead>
<tr>
<th>Income Classification</th>
<th>No. observations/countries</th>
<th>Mean Growth %</th>
<th>Std. Dev.</th>
<th>Absolute First df.</th>
<th>Min %</th>
<th>Max %</th>
</tr>
</thead>
<tbody>
<tr>
<td>Low</td>
<td>1100 (23)</td>
<td><strong>1.97</strong></td>
<td>5.53</td>
<td>6.15</td>
<td>-47</td>
<td>38</td>
</tr>
<tr>
<td>L. Middle</td>
<td>1774 (37)</td>
<td>1.92</td>
<td>5.11</td>
<td>4.33</td>
<td>-50</td>
<td>36</td>
</tr>
<tr>
<td>U. Middle</td>
<td>862 (18)</td>
<td>2.58</td>
<td>3.66</td>
<td>2.76</td>
<td>-18</td>
<td>23</td>
</tr>
<tr>
<td>High</td>
<td>192 (4)</td>
<td>2.04</td>
<td>2.03</td>
<td>1.56</td>
<td>-7</td>
<td>7</td>
</tr>
</tbody>
</table>

(B) Classified by GNI per capita 1962
Downturns

Percentage of years with positive growth, 1962 - 2008

<table>
<thead>
<tr>
<th>Region</th>
<th>Avg positive growth</th>
<th>Avg negative growth</th>
</tr>
</thead>
<tbody>
<tr>
<td>Low</td>
<td>4.56</td>
<td>-2.14</td>
</tr>
<tr>
<td>L. Middle</td>
<td>3.96</td>
<td>-4.71</td>
</tr>
<tr>
<td>H. Middle</td>
<td>3.59</td>
<td>-3.62</td>
</tr>
<tr>
<td>High</td>
<td>2.55</td>
<td>-1.95</td>
</tr>
</tbody>
</table>
GDP per capita, 1960 = 100

What if…

- Base case
- Halving negative growth
- Setting all negative growth rates to zero
Two Routes to Stronger LIC Growth

• Mitigating Downturns

• Raising Underlying Growth Rate
Accelerations, Collapses and Stagnation

Growth Accelerations

- Economic Reform
- + Political Change
- + Terms of Trade Shock
- Financial Liberalisation

Growth Collapses & Stagnation

- Decreases in Exports
- Economic flexibility
- Institutions
Sustained Long Run Growth

1. Exploitation of world economy
2. Macroeconomic stability
3. High rates of saving and investment
4. Markets allocating resources
5. Committed, credible, capable government

“no recipes, just ingredients”

Michael Spence, 2010
Escaping from Growth Collapses and Achieving Sustained Growth

- Trade & Openness
- Macroeconomic Stability
- Infrastructure
- Financial Sector Development
- Human Development
- Skills

Investment is the Common Theme
Trade and Openness

- Inputs to production, and markets for outputs
  - Causal relationship: openness to income levels
  - Requires adequate labour markets, business regulation, education, inflation and infrastructure

Macro Stability

- Inflation
  - Volatility and Level

- Addressing Cyclicality
  - IMF response to global slowdown
Infrastructure

• Lowers costs
• Large returns: 30-80%
• Requires adequate regulation

Financial Development

• Market liquidity boosts firm growth
• Financial depth → better coping with ‘normal’ volatility
Human Development

• Health and education raise individual productivity
  – Clear micro evidence
  – Difficult to unravel macro impact

• Returns to investment conditioned on other factors
  – Quality of investment and Market demand

Skills

• Type of education
• Cognitive and behavioural skills
• Technical skills
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http://www.sussex.ac.uk/economics/research/workingpapers
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