

# Promoting Growth, Development and Inclusiveness

- Outline
  - Trade and Growth: Growth Miracles, 1990-2017
    - Based on residuals from a simple growth regression
    - Some features of countries with exceptional growth
  - Globalization and inequality
  - Quick comment on technology
  - Thoughts on policies to promote growth, development and inclusiveness

Country	GDPPC 1990	GDPPC 2017
Equatorial Guinea	1000	22605
China	1526	15309
Myanmar	743	5592
Vietnam	1453	6172
Ireland	21453	67335
Bhutan	2325	8709
Lao PDR	1708	6397
Cabo Verde	1657	6223
India	1755	6427
Korea, Rep.	11633	35938
Sri Lanka	3612	11669
Macao SAR, China	40365	104862
Singapore	34345	85535
Panama	7855	22267
Mauritius	7387	20293
Poland	10277	27216
Malaysia	10552	26808
Dominican Republic	5477	14601
Chile	8992	22767
Trinidad and Tobago	12255	28763
Thailand	6650	16278
Malta	16176	36513
Albania	4723	11803
Guyana	2843	7435
Bangladesh	1288	3524
Hong Kong SAR, China	26974	56055
Indonesia	4625	11189
Mozambique	379	1136
Turkey	11400	25129

## Growth Miracles 1990 - 2017

- Simple growth regression
- Only explanatory variable is a convergence term (GDPPC relative to US in 1990)
- Grew > 2% p.a. faster than predicted
- Predominantly developing countries and the not so newly industrialised countries.
- Do they have anything in common?

Country	GDPPC 1990	GDPPC 2017	Tariff 1990*	Tariff 2016*	WTO/GATT Membership
Equatorial Guinea	1000	22605	14	15	
China	1526	15309	36	4	2001
Myanmar	743	5592	4	6	1948
Vietnam	1453	6172	12	3	2007
Ireland	21453	67335	6	2	1967
Bhutan	2325	8709	17	3	
Lao PDR	1708	6397	12	1	2013
Cabo Verde	1657	6223	13	10	2008
India	1755	6427	71	6	1948
Korea, Rep.	11633	35938	12	5	1967
Sri Lanka	3612	11669	24	3	1948
Macao SAR, China	40365	104862	0	0	1991
Singapore	34345	85535	1	0	1973
Panama	7855	22267	11	5	1997
Mauritius	7387	20293	23	1	1970
Poland	10277	27216	6	2	1967
Malaysia	10552	26808	11	4	1957
Dominican Republic	5477	14601	9	5	1950
Chile	8992	22767	11	6	1949
Trinidad and Tobago	12255	28763	14	9	1962
Thailand	6650	16278	35	3	1982
Malta	16176	36513	6	2	1964
Albania	4723	11803	15	1	2000
Guyana	2843	7435	18	7	1966
Bangladesh	1288	3524	112	12	1972
Hong Kong SAR, China	26974	56055	0	0	1986
Indonesia	4625	11189	18	3	1950
Mozambique	379	1136	12	3	1992
Turkey	11400	25129	5	1	1951

- Relatively low MFN tariffs (at least on manufactures)
- Sometimes significant MFN tariff reform
- Next slide: usually have regional trade agreements with VERY significant partners

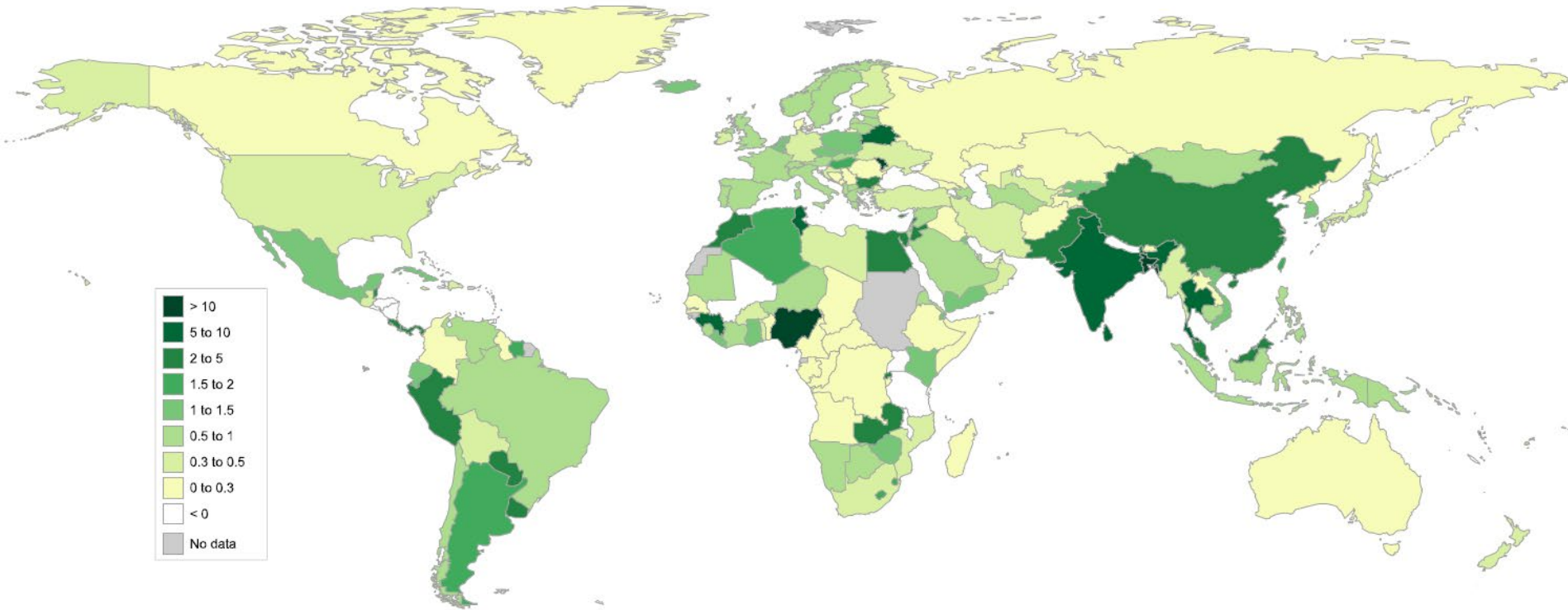
\* Trade weighted MFN tariff on Non-Agricultural Goods

Country	GDPPC 1990	GDPPC 2017	Tariff 1990*	Tariff 2016*	WTO/GATT Membership	Notes
Equatorial Guinea	1000	22605	14	15		Oil
China	1526	15309	36	4	2001	ASEAN, Korea
Myanmar	743	5592	4	6	1948	ASEAN, China, India, Japan, Korea
Vietnam	1453	6172	12	3	2007	ASEAN, China, India, Japan, Korea
Ireland	21453	67335	6	2	1967	EU, Capital Taxation
Bhutan	2325	8709	17	3		India
Lao PDR	1708	6397	12	1	2013	ASEAN, China, India, Japan, Korea
Cabo Verde	1657	6223	13	10	2008	
India	1755	6427	71	6	1948	ASEAN, China, Japan, Korea
Korea, Rep.	11633	35938	12	5	1967	ASEAN, China, EU, India, Korea, USA
Sri Lanka	3612	11669	24	3	1948	India
Macao SAR, China	40365	104862	0	0	1991	China
Singapore	34345	85535	1	0	1973	ASEAN, China, India, Japan, Korea, USA
Panama	7855	22267	11	5	1997	EU, USA
Mauritius	7387	20293	23	1	1970	EU
Poland	10277	27216	6	2	1967	EU, Korea
Malaysia	10552	26808	11	4	1957	ASEAN, China, India, Japan, Korea
Dominican Republic	5477	14601	9	5	1950	EU, USA
Chile	8992	22767	11	6	1949	EU, India, Japan, Korea, USA
Trinidad and Tobago	12255	28763	14	9	1962	Oil, EU
Thailand	6650	16278	35	3	1982	ASEAN, China, India, Japan, Korea
Malta	16176	36513	6	2	1964	EU, Korea
Albania	4723	11803	15	1	2000	EU
Guyana	2843	7435	18	7	1966	EU
Bangladesh	1288	3524	112	12	1972	
Hong Kong SAR, China	26974	56055	0	0	1986	China
Indonesia	4625	11189	18	3	1950	ASEAN, China, India, Japan, Korea
Mozambique	379	1136	12	3	1992	EU
Turkey	11400	25129	5	1	1951	EU, Korea

\* Trade weighted MFN tariff on Non-Agricultural Goods

# Welfare gains from actual tariff changes, 1990-2010

Calibration of Caliendo, Feenstra, Romalis and Taylor (2018) static trade model



Quite a few of the growth miracles appear to have received a healthy boost from trade liberalization. Model suggests powerful unilateral incentives to cut tariffs on imported intermediates.

## Education Test Scores: TIMSS Institute Mean Percentile Rank

Country	2015*	1996-2017
Equatorial Guinea		11
China		36
Myanmar		7
Vietnam		35
Ireland	523	92
Bhutan		57
Lao PDR		20
Cabo Verde		67
India		44
Korea, Rep.	606	72
Sri Lanka		44
Macao SAR, China		73
Singapore	621	87
Panama		56
Mauritius		74
Poland		73
Malaysia	465	61
Dominican Republic		40
Chile	427	83
Trinidad and Tobago		59
Thailand	431	48
Malta	494	86
Albania		41
Guyana		41
Bangladesh		22
Hong Kong SAR, China	594	86
Indonesia	386	34
Mozambique		36
Turkey	458	48

\*2011 for Indonesia. Scale: 1995 mean of 500 and standard deviation of 100.

- Quality of education?
- Institutions??

Country	Labour	Labour	Top10% 1990**	Top10% 2016**
	Share 1990 (%)	Share 2014 (%)*		
Equatorial Guinea				
China	65	57	29	37
Myanmar				
Vietnam				
Ireland	58	33	26	37
Bhutan				
Lao PDR	51	47		
Cabo Verde				
India	66	50	33	55
Korea, Rep.	58	52	32	43
Sri Lanka	77	68		
Macao SAR, China	39	34		
Singapore	43	44	35	44
Panama	45	38		
Mauritius	51	42	16	18
Poland	65	56		
Malaysia	53	53	26	22
Dominican Republic	64	66		
Chile	45	45		
Trinidad and Tobago	54	33		
Thailand	36	39	56	51
Malta	55	54		
Albania				
Guyana				
Bangladesh				
Hong Kong SAR, China	49	52		
Indonesia	45	46		
Mozambique	43	43		
Turkey	55	44	61	54

\*2017 for Ireland, direct from National Account Data

\*\*As close as was available in World Inequality Database

- Accounting for inequality:
  - Labour share
  - Share of top 10%
- What growth did the bottom 90% enjoy?



Country	Labour	Labour	Top10% 1990**	Top10% 2016**	GDPPC Growth	Adjust for	Adjust for
	Share 1990 (%)	Share 2014 (%)*				Labour Share	Top 10% share
Equatorial Guinea					12.2		
China	65	57	29	37	8.9	8.4	7.9
Myanmar					7.8		
Vietnam					5.5		
Ireland	58	33	26	37	4.3	2.2	1.6
Bhutan					5.0		
Lao PDR	51	47			5.0	4.7	4.7
Cabo Verde					5.0		
India	66	50	33	55	4.9	3.9	2.3
Korea, Rep.	58	52	32	43	4.3	3.8	3.2
Sri Lanka	77	68			4.4	4.0	
Macao SAR, China	39	34			3.6	3.1	
Singapore	43	44	35	44	3.4	3.5	3.0
Panama	45	38			3.9	3.3	
Mauritius	51	42	16	18	3.8	3.1	3.0
Poland	65	56			3.7	3.1	
Malaysia	53	53	26	22	3.5	3.5	3.7
Dominican Republic	64	66			3.7	3.8	
Chile	45	45			3.5	3.5	
Trinidad and Tobago	54	33			3.2	1.3	
Thailand	36	39	56	51	3.4	3.7	4.1
Malta	55	54			3.1	3.0	
Albania					3.5		
Guyana					3.6		
Bangladesh					3.8		
Hong Kong SAR, China	49	52			2.7	3.0	
Indonesia	45	46			3.3	3.4	
Mozambique	43	43			4.2	4.2	
Turkey	55	44	61	54	3.0	2.1	2.7

\*2017 for Ireland, direct from National Account Data

\*\*As close as was available in World Inequality Database

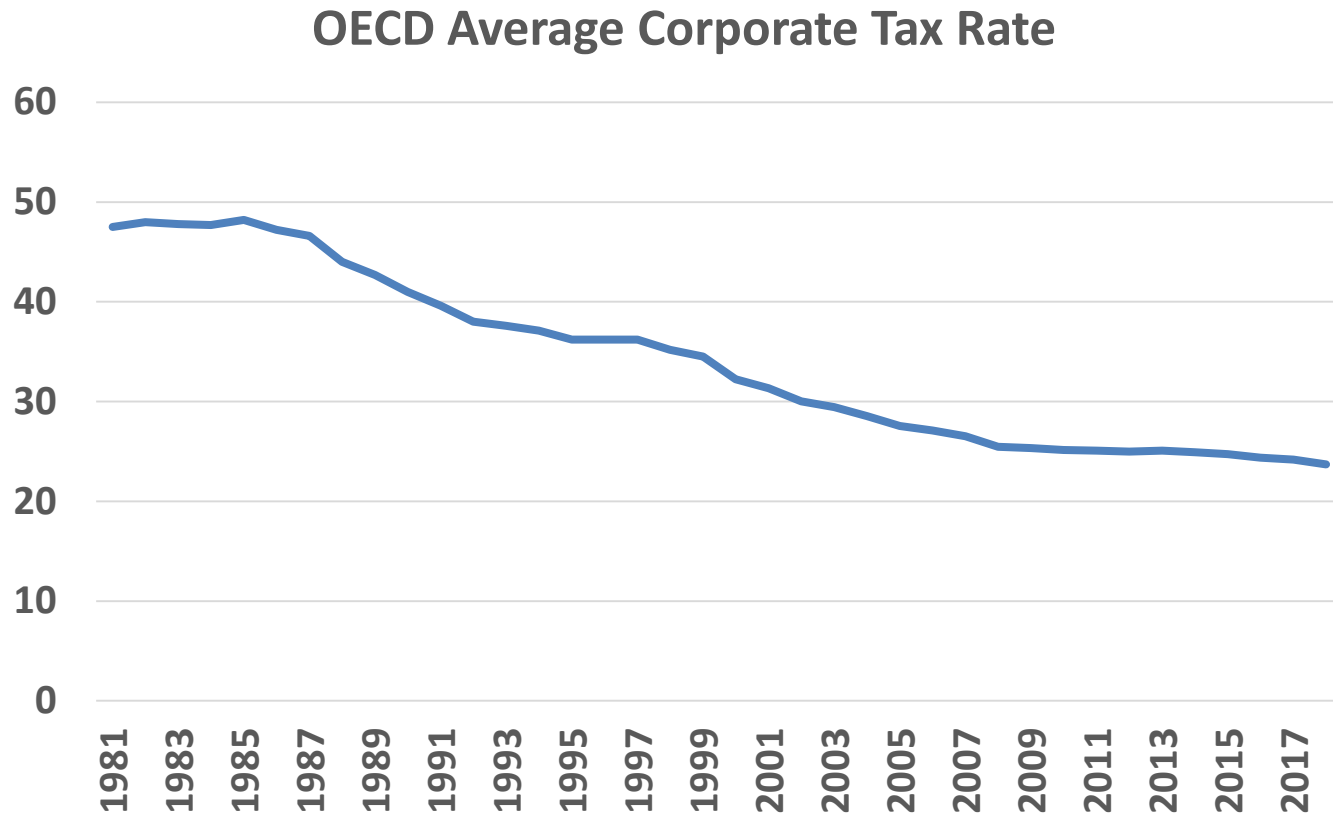


## Trade liberalization and inequality

- Rising inequality can have many proximate causes:
  - Increased share of capital
  - Increased commodity prices (if ownership concentrated)
  - Increased returns to skill/education
  - Increased compensation of executives and “superstars”
  - Domestic tax policy changes
  - Increased markups
- Trade liberalization may have been a deeper cause of some of this. Excellent survey by Nina Pavcnik in 2011, which you could augment with Autor, Dorn and Hanson (2013) inspired literature:
  - Traditional Heckscher-Ohlin effects (for developed countries or countries that protected labour-intensive industries);
  - Declining industry wage premiums for formerly protected industries (limited labour mobility);
  - Reallocation to larger, more skill-intensive firms;
  - Quality upgrading for export markets;
  - Offshoring to lower wage countries;
  - The enormous impact of China on some manufacturing centres.

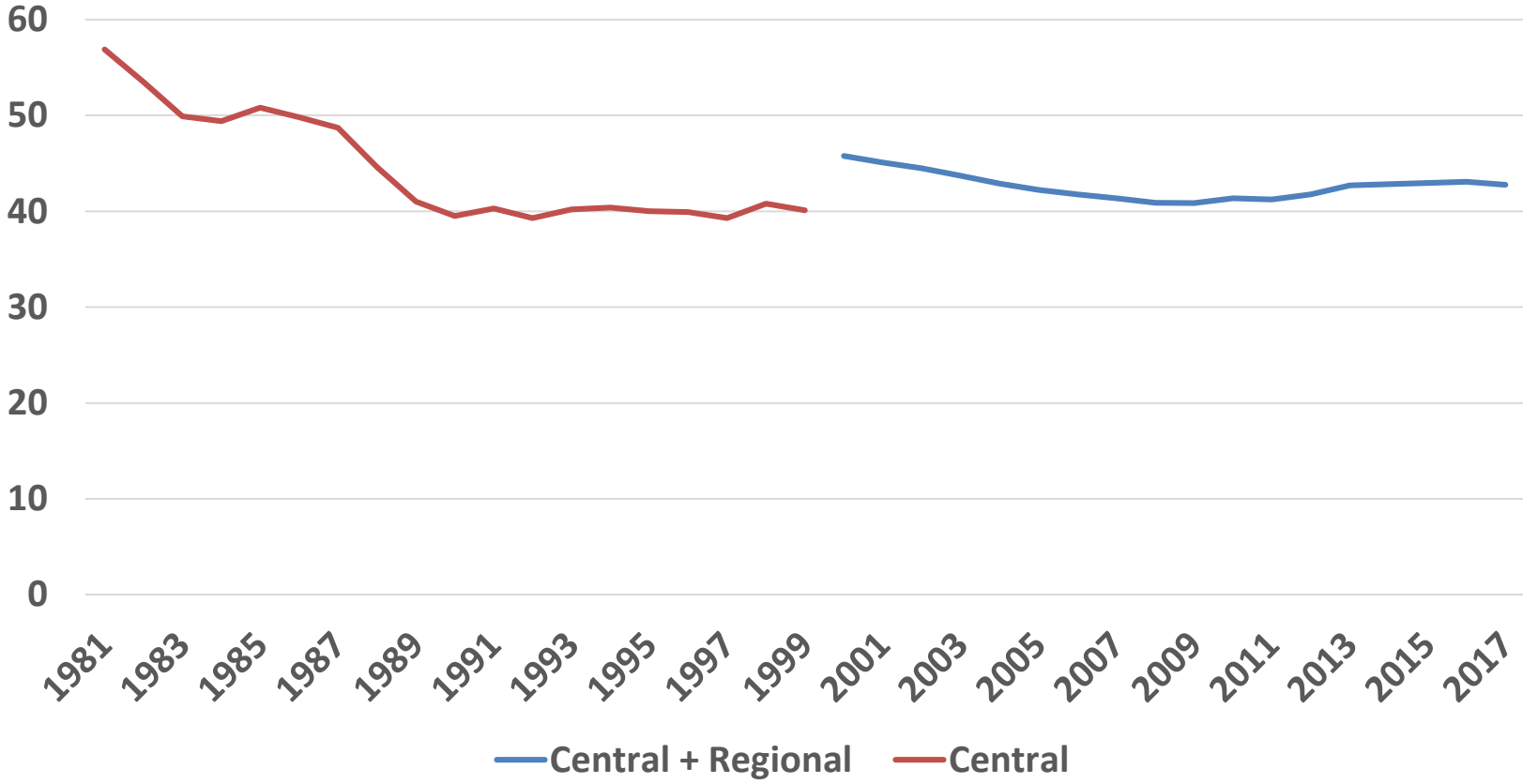
# Trade liberalization and domestic tax policy

- Trade liberalization makes it easier to serve markets from distant facilities. This almost certainly creates an incentive to lower taxes on more mobile factors, further worsening inequality:



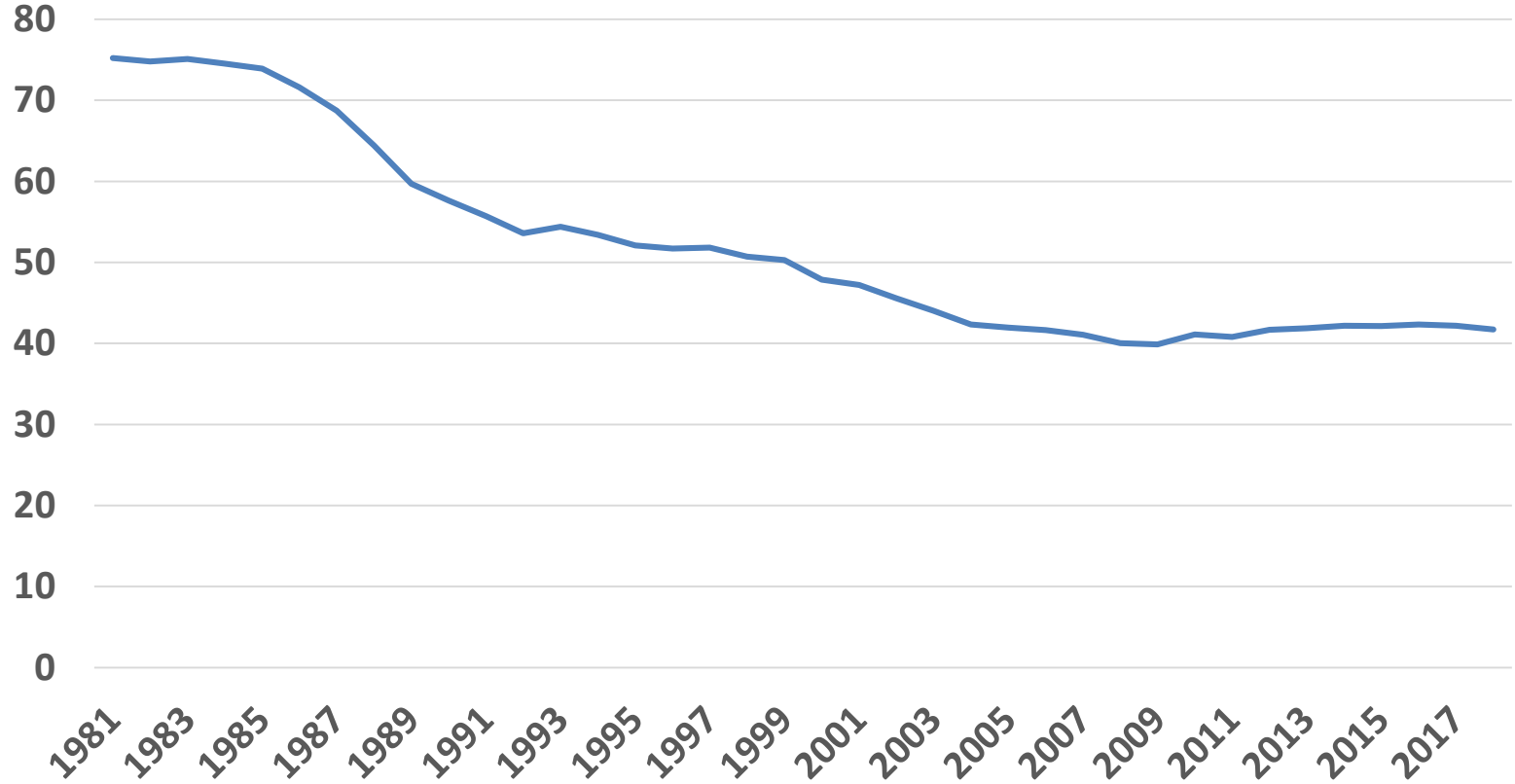
# Trade liberalization and domestic tax policy

## OECD Average Top Personal Tax Rate



# Trade liberalization and domestic tax policy

OECD Average Effective Tax on Dividends



# Markups? (Source: De Loecker, Eeckhout and Unger, 2018)

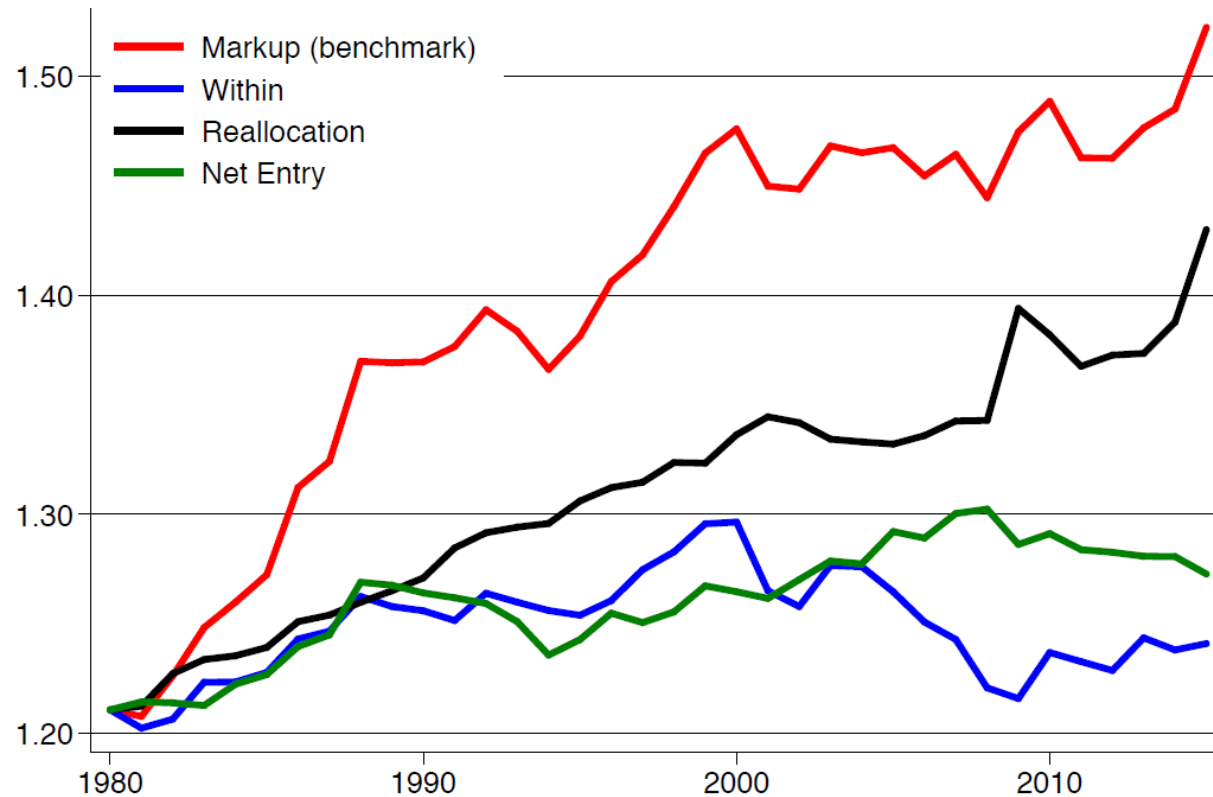


Figure 10: Decomposition of markup growth at the firm level.

# A quick note on technology

- Capital becoming more substitutable for more types of labour:
  - Extreme example: production function in a traditional taxi industry close to a Leontief technology:  $Y = A \cdot \min(K, L)$ . With self-driving taxis, the production is much closer to being linear in capital:  $Y = AK$ .
- Hard to see how Labour's share gets maintained in the long run.
- Transition may also be messy for some types of labour.

# Promoting Growth, Development and Inclusiveness

- Globalization does appear to be good for growth for most countries.
- But globalization helps unleash some forces that promote inequality.
- Technological developments also likely to worsen inequality.
- It seems that the key policies to ensure that gains are more evenly spread within a country are domestic policies:
  - (i) Policies that increase skills and adaptability of workforce:
    - Quality education.
    - Increased mobility to more successful industries and regions.
  - (ii) Policies that develop markets for labour-intensive activities, especially non-traded ones:
    - Develop markets for artisanal products and trades:
      - Training.
      - Making it easier to establish small businesses, including self-employment (e.g. farmers markets).
    - Public provision of more labour-intensive services:
      - Examples: aged care; urban and environmental restoration.



# Promoting Growth, Development and Inclusiveness

(iii) Market reforms to rein in rents and the seizure of rents by management:

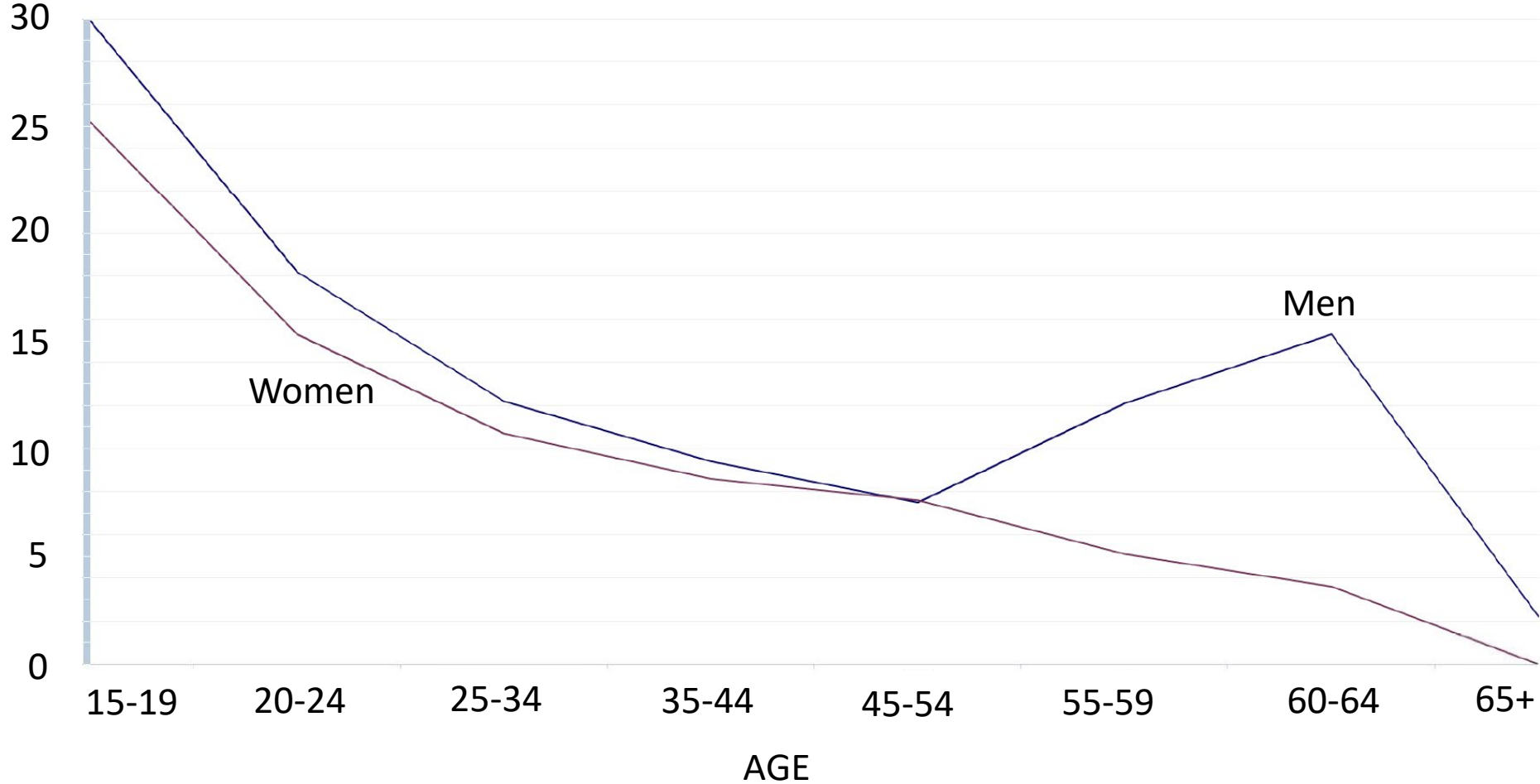
- Competition policies to address rising markups (perhaps including reviewing intellectual property laws).
- Increased shareholder power over executive compensation.

(iv) Tax/transfer policies:

- Policies that manage to be more progressive without being more distortionary; which might include a very careful look at taxation of multinationals
- Pricing publicly-owned natural resources appropriately, and pricing degradation of common resources. Revenues can fund transfers.
- If capital's share will be secularly increasing, is there a role for sovereign wealth funds?
- Adjustment assistance for workers from declining industries.

# Groups affected by high unemployment and declining industry

Feb 1993 UNEMPLOYMENT RATE (%), AUSTRALIA



3 years later, the founder of the “One Nation” party wins the electoral district held for 35 years by the Australian Labor Party (dominant left-of-centre party), including by its leader.