Developing Countries: Chances and Challenges

Hans-Werner Sinn
Presidential Address
IIPF, Cape Town 2009

August 2009
The Current Crisis
Globalisation and Convergence
Income Inequality
Capital Flows
Migration
Nutrition and Biofuel
The Current Crisis
World economy, GDP 1951-2009
Constant prices, annual percentage change

Global GDP growth
Quarter-over-quarter, annualized

Source: IMF, World Economic Outlook, April 2009.
Ifo World Economic Climate*

* Arithmetic mean of judgment about the present and expected economic situation.


August 19, 2009
At present, the Ifo World Economic Survey (WES) III/2009 indicates a positive outlook for South Africa's economic climate.

* Arithmetic mean of judgment about the present and expected economic situation.


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Globalisation
and Convergence
GDP per capita in different regions and countries (2007)

Source: World Bank, WDI.

July 28, 2009
GDP per capita in different regions and countries (2007)

Source: World Bank, WDI.

*2006

July 28, 2009

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Economic growth in selected regions and countries

Real GDP Index, 1995=100

Hong Kong, Singapore, South Korea, Taiwan 75.1%

Central and eastern Europe 73.6%

China 228.5%

Latin America 55.7%

Middle East 84.1%

Africa 89.1%

World 63.3%

United States 45.1%

EU27 37.3%

Source: IMF, World Economic Outlook Database, April 2009.
Economic growth in selected regions and countries

Real GDP Index, 1995=100

Africa 89.1%
South Africa 58.2%

Source: IMF, World Economic Outlook Database, April 2009.

July 22, 2009
Source: IMF, World Economic Outlook Database, April 2009.
Income Inequality
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BRIC 43%

Share of global GDP and global population in 2008

Share of GDP

- Rest of the World 8%
- EU27 30%
- United States 24%
- BRIC 15%
- Rest of Asia 18%
- Africa 2%
- India 2%
- Brazil 3%
- Russia 3%
- China 7%
- EU+US 54%

Share of population

- Rest of the World 8%
- EU27 8%
- United States 19%
- China 20%
- Russia 2%
- Brazil 3%
- India 18%
- Africa 13%
- BRIC 43%

*Rest of Asia
**Rest of Latin America

Source: IMF, World Economic Outlook Database, April 2009; Eurostat; Ifo Institute calculations.

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Population who live below the poverty line*

*Share of population living with less than 1.25$ per day (2005 Purchasing Power Parities).

Source: World Bank; calculations by the Ifo Institute.

July 28, 2009

Source: World Bank; calculations by the Ifo Institute.
Population who live below the poverty line*

*Share of population living with less than 1.25$ per day (2005 Purchasing Power Parities).

Source: World Bank; calculations by the Ifo Institute.
Relative size of middle class in world population

% of population

Middle class: income above weighted average of absolute poverty lines in developed countries ($8.2 per capita per day at 1996 PPP prices)

- 1950: 23.5%
- 1960: 28.8%
- 1980: 32.2%
- 1990: 34.2%
- 2000: 42.6%
- 2006: 50.2%

Worldwide Lorenz curve by country
(GDP per capita, PPP)

Source: World Bank, WDI; calculations by the Ifo Institute.
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Why?

Factor price equalisation
Fall of the Iron Curtain
Reduced tariffs and taxes
Average applied tariff rates in developing and industrial countries

Notes: All tariff rates are based on unweighted averages for all goods in ad valorem rates, or applied rates, or MFN rates whichever data is available in a longer period.

Average applied tariff rates 2007

<table>
<thead>
<tr>
<th>Country</th>
<th>Tariff Rate</th>
</tr>
</thead>
<tbody>
<tr>
<td>Bahamas</td>
<td>29.9%</td>
</tr>
<tr>
<td>Iran</td>
<td>21.3%</td>
</tr>
<tr>
<td>Egypt</td>
<td>16.7%</td>
</tr>
<tr>
<td>Pakistan</td>
<td>14.5%</td>
</tr>
<tr>
<td>India</td>
<td>14.0%</td>
</tr>
<tr>
<td>Niger</td>
<td>12.9%</td>
</tr>
<tr>
<td>Uganda</td>
<td>12.2%</td>
</tr>
<tr>
<td>Brazil</td>
<td>12.1%</td>
</tr>
<tr>
<td>Uzbekistan</td>
<td>10.8%</td>
</tr>
<tr>
<td>Sri Lanka</td>
<td>10.7%</td>
</tr>
<tr>
<td>China</td>
<td>8.7%</td>
</tr>
<tr>
<td>Russian</td>
<td>8.3%</td>
</tr>
<tr>
<td>South Africa</td>
<td>7.8%</td>
</tr>
<tr>
<td>Indonesia</td>
<td>6.6%</td>
</tr>
<tr>
<td>United Arab Emirates</td>
<td>4.2%</td>
</tr>
<tr>
<td>Bahrain</td>
<td>4.1%</td>
</tr>
<tr>
<td>Saudi Arabia</td>
<td>4.0%</td>
</tr>
<tr>
<td>Qatar</td>
<td>3.8%</td>
</tr>
<tr>
<td>Australia</td>
<td>2.8%</td>
</tr>
<tr>
<td>United States</td>
<td>2.7%</td>
</tr>
<tr>
<td>Turkey</td>
<td>1.9%</td>
</tr>
<tr>
<td>EU27</td>
<td>1.6%</td>
</tr>
<tr>
<td>Switzerland</td>
<td>0.0%</td>
</tr>
<tr>
<td>Singapore</td>
<td>0.0%</td>
</tr>
<tr>
<td>Hong Kong, China</td>
<td>0.0%</td>
</tr>
</tbody>
</table>

Migration
More developed regions: They comprise all regions of Europe plus Northern America, Australia/New Zealand and Japan.

Less developed regions: They comprise all regions of Africa, Asia (excluding Japan), Latin America and the Caribbean plus Melanesia, Micronesia and Polynesia.

Source: OECD, Policy Coherence for Development 2007: Migration and Developing Countries.
Stock of foreign-born population as a percentage of total population (2006)

- Hungary: 3.4
- Finland: 3.6
- Denmark: 6.6
- France: 8.3
- Norway: 8.7
- United Kingdom: 10.1
- Netherlands: 10.6
- Germany: 12.7
- Sweden: 12.9
- United States: 13.0
- Austria: 14.1
- Canada: 19.8
- New Zealand: 21.2
- Australia: 24.1

Source: OECD, International Migration Outlook 2008; German Statistical Office.

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Problem Brain Drain
Brain Drain
A problem for many countries

Share of a country’s nationals with a university education who live in an (other) OECD country

- less than 2 (4)
- less than 5 (19)
- less than 10 (26)
- less than 20 (23)
- more than 20 (22)
- not included (71)

Source: OECD Database on Expatriates and Immigrants, 2004/2005; Cohen and Soto (2001),
http://www.oecd.org/document/40/0,3343,en_2649_33935_39269032_1_1_1_1,00.html
Skill distribution of migrants (2000)

Note on Schooling Levels: "Low" refers to less than upper secondary; "Middle" to upper secondary but not tertiary; "High" to tertiary level.

Source: OECD, Policy Coherence for Development 2007: Migration and Developing Countries.
Capital Flows
August 4, 2009

Net capital exports
United States 1929-2008

Source: IMF; Bureau of Economic Analysis; Ifo Institute calculations.

Emerging and developing economies
1980-2008

-790 bn US$
714 bn US$

% of GDP
Breakdown of net capital exports and imports: shares for 2007

### Net capital exports
- **China**: 21%
- **Germany**: 14%
- **Japan**: 12%
- **Other countries**
  - Venezuela
  - Qatar
  - Libya
  - Hong Kong
  - Iran
  - Malaysia
  - Algeria
  - Taiwan
  - Sweden
  - UAE
  - Singapore
  - Kuwait
  - Netherlands
  - Norway
  - Switzerland
  - Russia
  - Saudi Arabia

### Net capital imports
- **USA**: 49%
- **Spain**: 10%
- **United Kingdom**: 7%
- **Other countries**
  - Ireland
  - India
  - Poland
  - South Africa
  - Portugal
  - Rumania
  - France
  - Turkey
  - Greece
  - Italy
  - Australia
  - New Zealand
  - Bulgaria
  - Other countries

**Other countries**
- Argentina
- Brazil
- Chile
- Colombia
- Costa Rica
- Denmark
- Finland
- Greece
- Hungary
- Indonesia
- Israel
- Jordan
- Korea, Republic of
- Korea, Democratic People's
- Luxembourg
- Mexico
- Mexico, State
- Mexico, City
- Mongolia
- Morocco
- Nepal
- Norway
- Oman
- Pakistan
- Panama
- Peru
- Philippines
- Portugal, Province
- Portugal, Autonomous Region
- Qatar
- Romania
- Romania, Autonomous Region
- Romania, County
- Russia
- Saudi Arabia
- Singapore
- South Africa
- Spain
- Sweden
- Switzerland
- Taiwan
- Taiwan Province
- Thailand
- United Arab Emirates
- United Kingdom
- United States
- Venezuela
- Vietnam
- Yemen
- Zimbabwe
Emerging and developing economies

Africa: Sub-Saharan

% of GDP

Nutrition and Biofuel

Table or Tank: Competing for agricultural land
Million tonnes of oil equivalent

Source:
Bioethanol in the World (2006)

- North and Central America: 48%
- South America: 44%
- EU: 4%
- Asia: 5%
Only of marginal importance?

Suppose we just replace liquid fuels, which itself is only a fifth of world fossil energy use ...
<table>
<thead>
<tr>
<th>Biofuel share</th>
<th>Share of agricultural land</th>
</tr>
</thead>
<tbody>
<tr>
<td>10%</td>
<td>9%</td>
</tr>
<tr>
<td>20%</td>
<td>17%</td>
</tr>
<tr>
<td>100%</td>
<td>85%</td>
</tr>
</tbody>
</table>
The tortilla crisis and other food protests

Why?

Was it biofuels?

Tortilla crisis, Mexico city, 31.01.2007

Honduras, 17.04.2008

Senegal, 26.04.2008
It was.
World market prices of cereals and crude oil

Price index January 2005=100

Source: HWWI; Ifo Institute calculations.

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The ratchet effect
A new phase of history

World market prices of cereals and crude oil

- Corn (maize)
- Rice
- Crude oil

Source: HWWI; Ifo Institute calculations.

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Conclusions

- Globalization has brought rapid growth
- Income inequality is falling
- Brain drain has been a problem
- Capital has flown in the wrong direction
- Ratchet effect of bio fuels is opening a new chapter of history for developing countries
Ende