

SG's Ad Hoc Expert Group Meeting

UNLDC IV: Key Development Challenges facing the LDCs

18-19 February 2010

**Global Development Outlook 2010**  
**“Shifting Wealth”**

by

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The view expressed are those of the author and do not necessarily reflect the views of UNCTAD



# *UNLDC IV: Key Development challenges facing the LDCs*

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OECD Development Centre



# Outline

## **Global Development Outlook 2010 “Shifting Wealth”**

1. Growth Performance in a 4-Speed World
2. Implications for Poor Countries
3. Structural Progress in the LDCs

# “Shifting Wealth”: Growth in a 4-Speed World

# Global Development Outlook 2010

## Key messages on “Shifting Wealth”

- Since 1990, the global centre of economic gravity is shifting, led by sustained growth in China and India, since the 2000s on ‘**sugar high**’.
- Good news for developing countries that directly/indirectly benefit.
- Despite strong economic growth & unprecedented poverty reduction globally, progress has been unequal and calls for re-balancing.
- South-south linkages (goods, capital, people and ideas) increasingly connect emerging and still poor countries.
- “Shifting wealth” demands re-thinking traditional policy prescriptions for international co-operation and national development policies

# Global Development Outlook 2010:

A useful framework for thinking about development since 1990

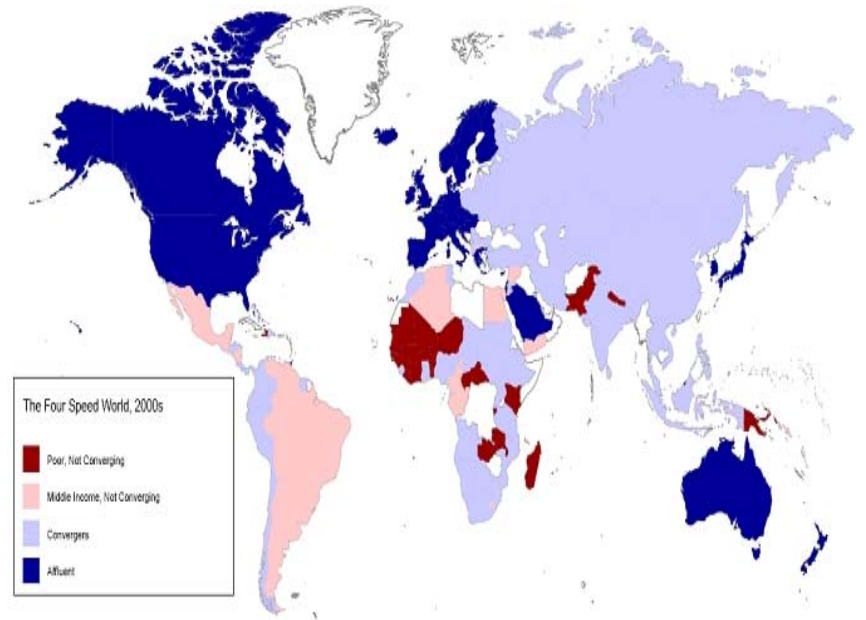
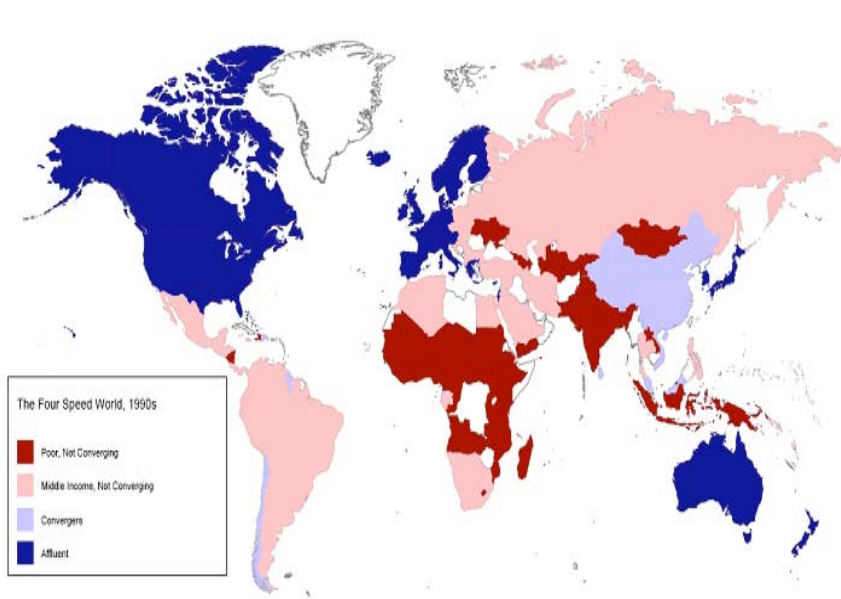
## The 4-Speed World

- **Affluent:** High Income GNI/cap
- **“Convergers”:** GDP/cap Growth > twice OECD average
- **Struggling:** GDP/cap Growth < twice OECD average & Middle Income GNI/cap
- **Poor:** GDP/cap Growth < twice OECD average & Low Income GNI/cap

# The 4-Speed World:

## 1990s

## 2000s





# The 4-Speed World

|                   | <i>1990s</i> | <i>2000-07</i> | <i>1990-2007</i> |
|-------------------|--------------|----------------|------------------|
| <b>Affluent</b>   | 34           | 40             | 40               |
| <b>Converging</b> | 13           | 69             | 22               |
| <b>Struggling</b> | 65           | 35             | 70               |
| <b>Poor</b>       | 56           | 26             | 36               |
| <b>Total</b>      | 168          | 170            | 168              |

# “Shifting Wealth’s” impact on global wages, prices and interest rates

**Beside the shift in global growth patterns towards convergence, 3 other major developments underpin “Shifting Wealth”**

- **Initial wage shock** when global labor force absorbed massive numbers of workers in large converging economies
- Converging economies’ vast **appetite for raw materials** increased fossil energy and industrial metals from 2000, transferring wealth to raw material exporters
- Many countries switched from **net debtor to net creditor** position, indirectly depressing interest rates on US government debt

# “Shifting Wealth”: Implications for Poor Countries



# What does Shifting Wealth mean for the Poorest Countries?

- Despite the initial wage shock, “Convergers” like China and India are now less competing with the least-developed countries.
- While Raw Material Exporters have benefited, natural resources aren’t the only source of growth in Poor countries
- The realigned global economy implies unprecedented opportunity for South-South Trade, Investment, and Aid

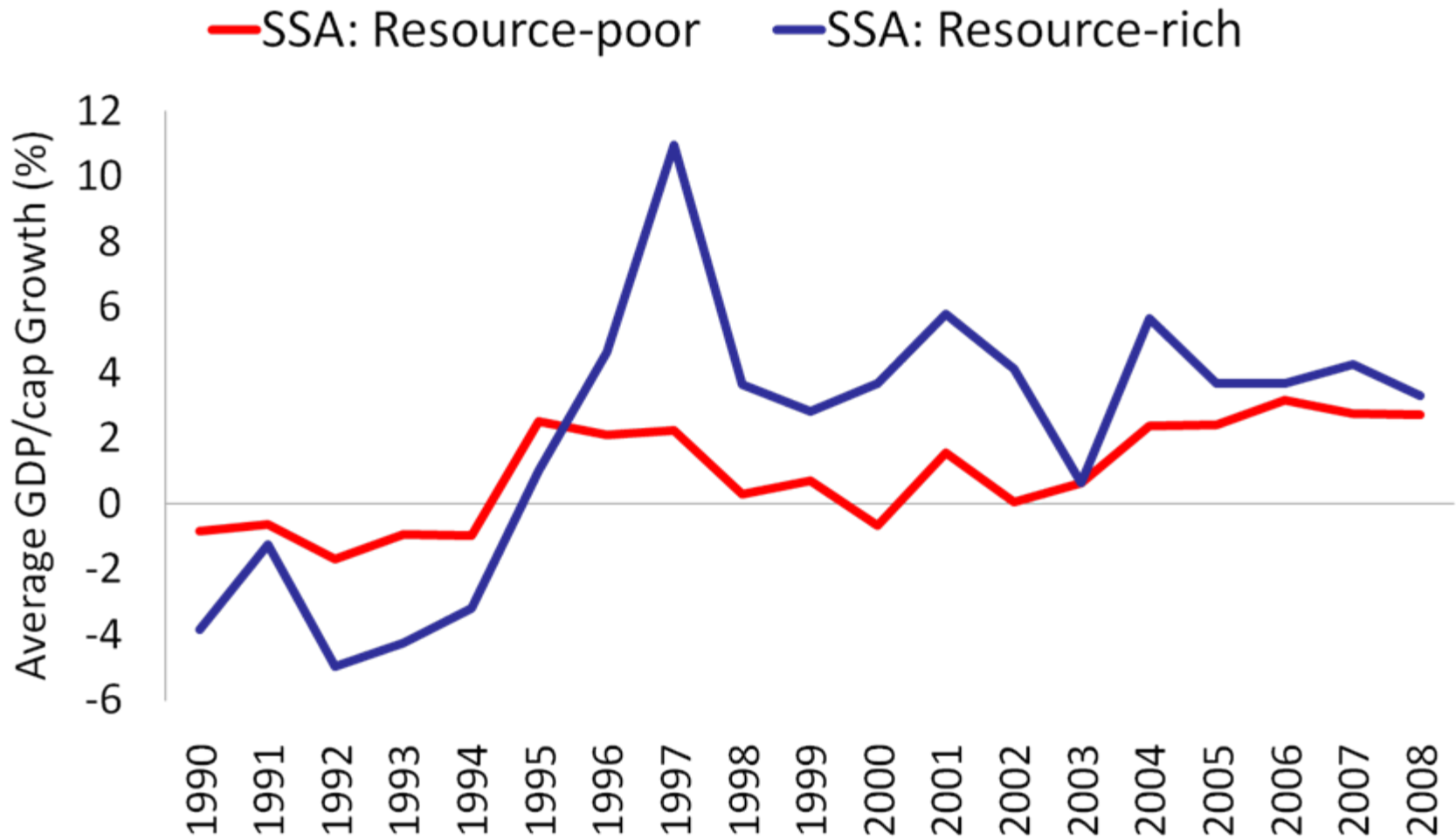
# China's exports now more similar to Affluent countries

Fu, Kaplinsky and Zhang (2009)

- 1989-1997 the prices of low-income countries were most affected by Chinese exports
- 1998-2006 middle-income countries were most affected by China's export expansion.
- Evidence from this study also indicates a price depression effect of China's exports on high-income countries in low-technology product markets

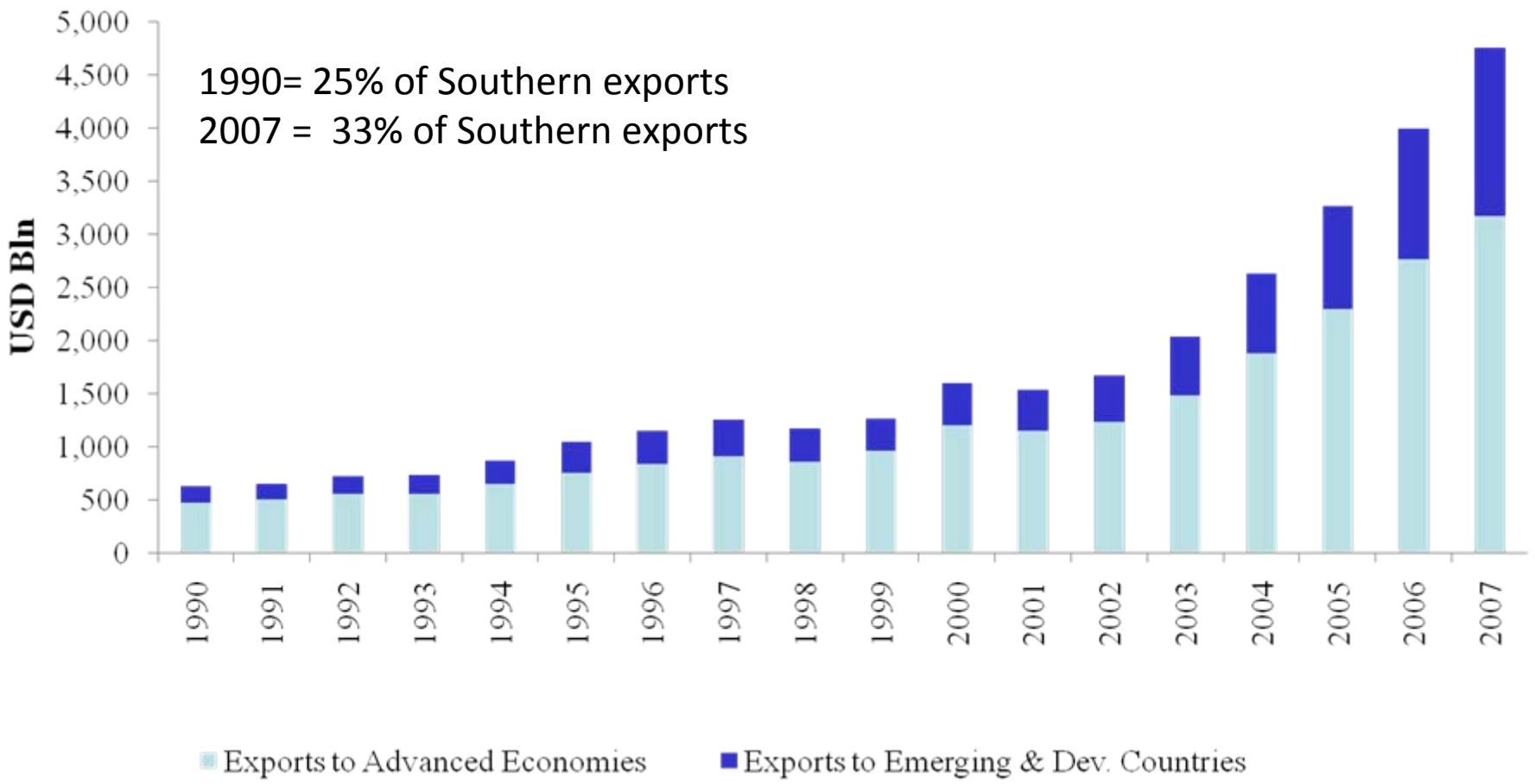
# All that glitters is not gold...

## Resource Rich vs. Resource Poor Countries in Sub-Saharan Africa



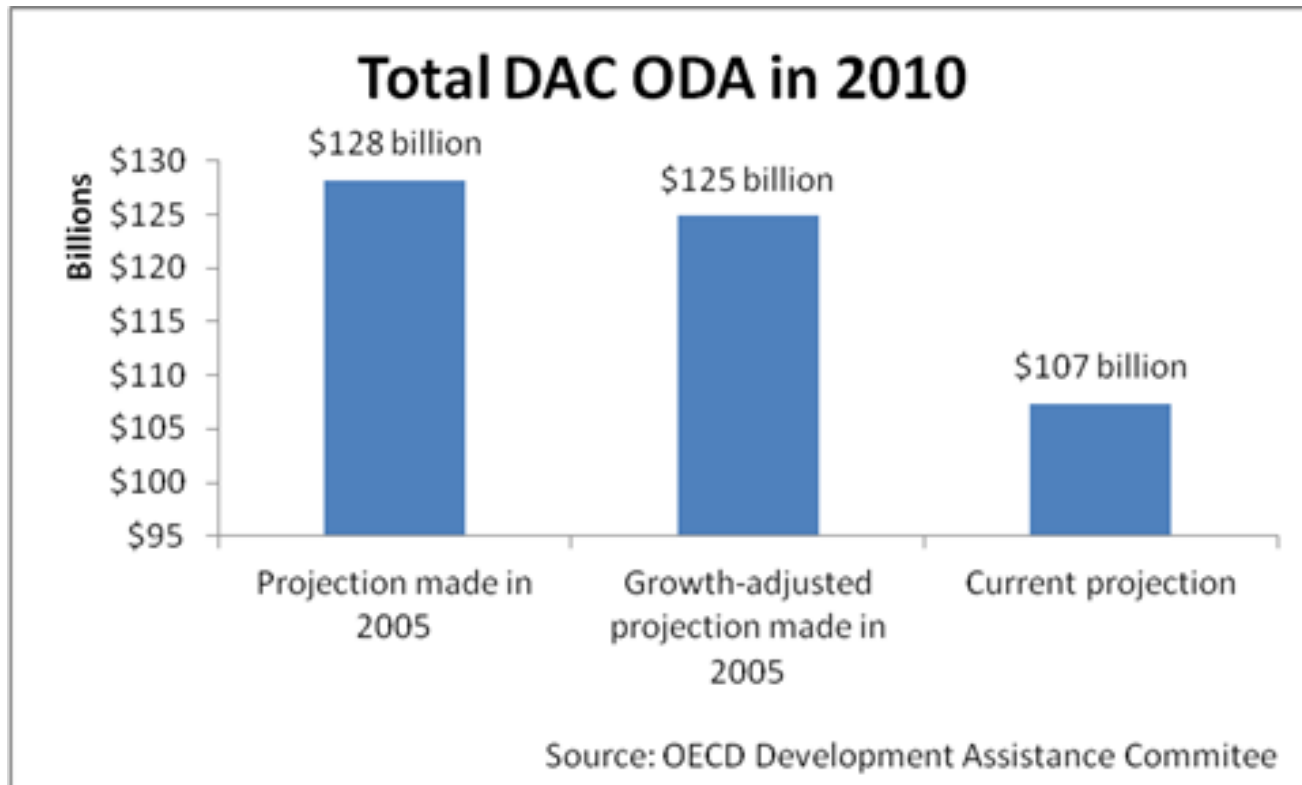
# New Trade Partners

## South-South Exports (as a share of total Southern exports)



Source: IMF DOTS (2009)

## Turn to cash-rich emerging partners: DAC donors underdeliver





# “Shifting Wealth” and Structural Progress in the LDCs

# What does “Shifting Wealth” mean for Structural Progress in the LDCs?

- Why has there been such a strong bifurcation in the developing world?
  - manufacturing capacity
  - technological upgrading
- Growing Synchronicity between the China and Developing world
  - LDCs have a stake in debate on global imbalances
  - Chinese RMB appreciation may not be in Poor Country’s interest



# Build Up in Manufacturing Capacity has been Uneven

## Manufacturing Value-Added Per Capita

| COUNTRY                    | 1990    | 1995    | 1998    | 2000    | 2005    | 2007    |
|----------------------------|---------|---------|---------|---------|---------|---------|
| World                      | \$812   | \$837   | \$886   | \$944   | \$1,014 | \$1,060 |
| CIS                        | \$462   | \$216   | \$195   | \$237   | \$327   | \$361   |
| Sub-Saharan Africa         | \$30    | \$26    | \$28    | \$28    | \$30    | \$30    |
| China                      | \$100   | \$199   | \$256   | \$303   | \$491   | \$597   |
| Latin America              | \$622   | \$696   | \$733   | \$687   | \$759   | \$789   |
| North Africa               | \$150   | \$155   | \$171   | \$194   | \$208   | \$215   |
| Developing Countries       | \$171   | \$215   | \$239   | \$253   | \$326   | \$366   |
| Industrialized (excl. CIS) | \$3,491 | \$3,658 | \$3,925 | \$4,238 | \$4,421 | \$4,554 |
| Asia                       | \$117   | \$170   | \$195   | \$222   | \$314   | \$367   |

Source: UNIDO

# Technological Divide between Convergers & Struggling/Poor

Average TFP growth (%), 2000s

|                   | Only labour force | Human capital<br>augmented CB function |
|-------------------|-------------------|--|
| Affluent          | 1.15              | 1.14                                   |
| <b>Converging</b> | <b>3.41</b>       | <b>2.83</b>                            |
| Struggling        | 0.34              | 0.51                                   |
| Poor              | 0.20              | 0.57                                   |
|                   |                   |  |
| Brazil            | 1.4               | 1.4                                    |
| <b>China</b>      | <b>4.4</b>        | <b>4.4</b>                             |
| India             | 2.1               | 2.1                                    |
| South Africa      | 1.8               | 1.8                                    |

Source: OECD Development Centre, 2010

# Convergence: China's Impact

- Rodrik (2010): 10% nominal effective appreciation of the renminbi would reduce China's annual per capita growth by 0.86 percentage points.

- => drop of GDP growth to 0.30 percentage points of annual per capita income growth in poor countries (0.86 x 0.354)

- Source: B.Hacibedel & H. Reisen, "Global Imbalances, Renminbi Appreciation and Poor-Country Growth", *OECD Development Centre WP*, forthcoming 2010.

Table 1. Developing-Country Growth: Switching to the China Growth Engine

|                                  | Low Income |           | Middle Income |          |
|----------------------------------|------------|-----------|---------------|----------|
| <b>advanced</b>                  | 0.134      | 0.832***  | 0.173         | 0.662*** |
|                                  | 1.13       | 3.40      | 1.89          | 4.95     |
| <b>advanced*dummy(2000-2008)</b> | 0.289***   | -0.916*** | 0.281         | -0.41**  |
|                                  | 3.80       | -2.85     | 4.72          | -2.35    |
| <b>china</b>                     |            | -0.128    |               | 0.224*** |
|                                  |            | -1.61     |               | 5.16     |
| <b>china*dummy(2000-2008)</b>    |            | 0.354***  |               | 0.217*** |
|                                  |            | 3.85      |               | 4.40     |
| <b>obs</b>                       | 432        | 432       | 1053          | 1053     |
| <b>R2</b>                        | 0.36       | 0.39      | 0.26          | 0.29     |

# Potential growth impact of Renminbi appreciation on developing countries

| <b>Impact channel</b>          | <b>Indirect growth effect</b> | <b>Price competition effect</b> | <b>Total effect</b> |
|--------------------------------|-------------------------------|---------------------------------|---------------------|
| <b>Low-income countries</b>    | Negative                      | Insignificant                   | Negative            |
| <b>Middle-income countries</b> | Negative                      | Positive                        | Ambiguous           |

The End

**Thank you!**

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