World growth and capital flows

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A cautionary tale

- **In its 2003 Global Development Finance report (page 10), the World Bank stated:**
- **“In a world of large, unregulated capital flows, measuring capital flows is as much an art as a science”**
- **Rubin & Weisberg stressed a similar point: they often refer to ‘messy reality’ (‘In an uncertain world’, published 2003)**
- **Recall the repeated crises “emergers” have faced – including Asia and Russia as well as Latin America**

UNCTAD 'FDI potential' rankings

- **Rankings over time and across countries**
- **High rank: Sierra Leone, Zimbabwe, Zambia, Tajikstan, Nepal, Haiti**
- **Low: China, Chile, Argentina, Mexico**
- **OECD countries all very low rankings**
- **This system favours very poor countries - eg because of inclusion of 'ownership' type statistics (TVs, cars, phones etc)**

INGENUE

- **Has some of same features as UNCTAD rankings**
- **Stress on capital flows as a means of recycling the savings of the "rich" into accelerating the catch up process for the poor – although Africa then seems to be put aside and the focus returns to Asia**
- **Some capital flows do fit with this development model – but not all – eg flows related to pensions and insurance, portfolio diversification, M&A etc**
- **Recall poorer countries can benefit from the rich economies in other ways – important to have R&D, innovation and economies of scale to cut prices**

Pay in or pay back?

- **Subsistence – “emerging” – “emerged”**

- **While the problem of needing foreign capital to kick start a take off into growth for subsistence economies is well known – this is not the problem now for Asia or most other “emergers”**

- **We should maybe allow for a process over time of switching between periods of trade deficit/capital inflows and periods of trade surplus/debt repayment/reserves build up**

- **Important to keep control of B of P and debt – curbs risk premium – and keep an eye on other risks and imbalances such as poor investment decisions …**

US$ debt risk premia lower

	2000 ...	2003	2004	now
Turkey	5.4	5.9	3.3	2.4
S Africa	3.3	1.8	1.5	1.0
Russia	13.4	3.2	2.7	1.3
Brazil	6.4	7.3	4.9	3.3
Mexico	2.4	2.3	1.9	1.5
Hungary	1.0	0.4	0.3	0.7
Poland	2.0	0.9	0.7	0.5
and				
Argentina	5.7	38.2	35.6	3.9

Bottom line

- Seems very similar to other analysis in concluding comments - that less US consumption, more Asia spending, some shift in currencies etc may ease the global “imbalances” problem
- What else could we try to pull out of a long-term model of world growth and capital flows – and we should not ignore population flows either
- Not just “poor to rich” but also “less attractive” to “attractive” - a definition that can cut across regions and income levels
- A “property developer” view of the world …. location location location ?