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, Tajikistan, 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

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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 ?