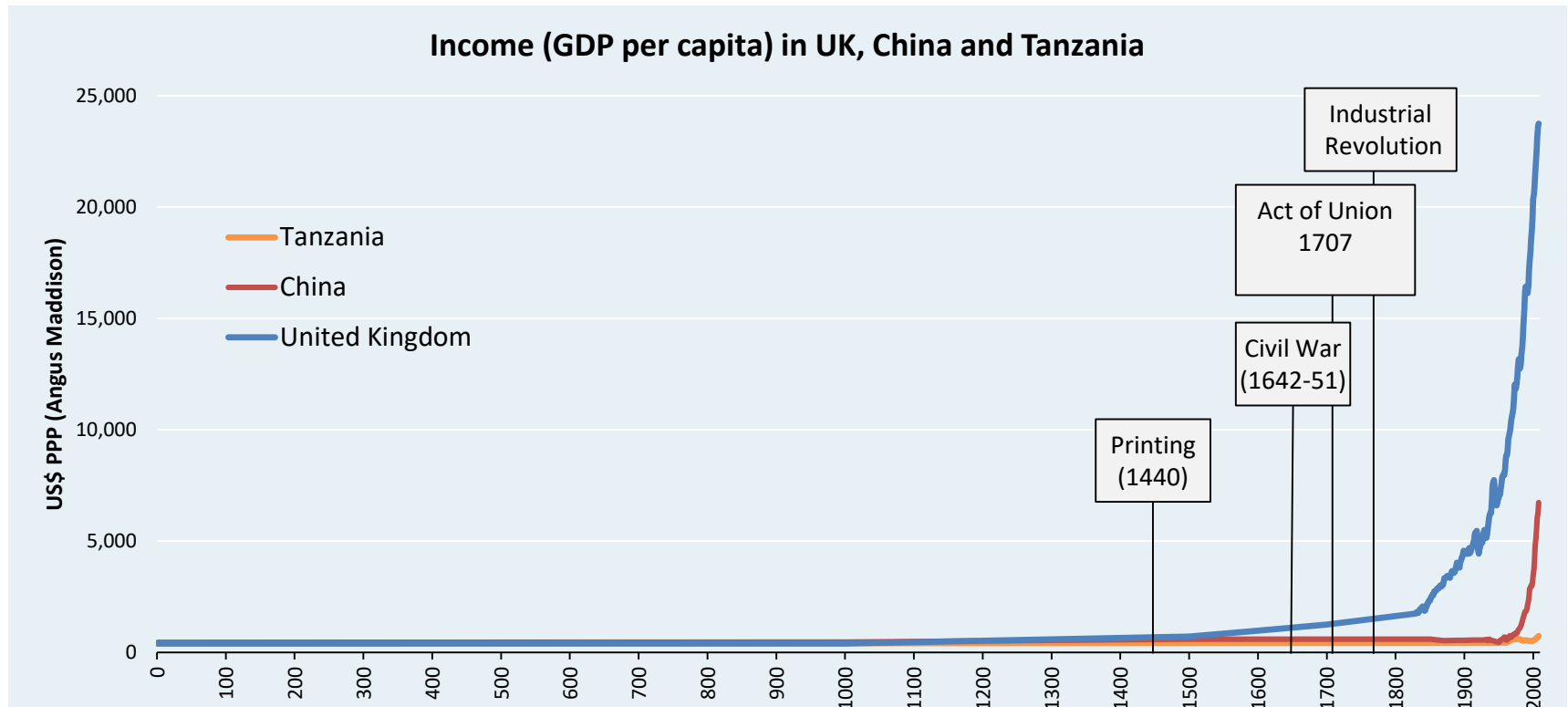


Why do some countries stay poor?

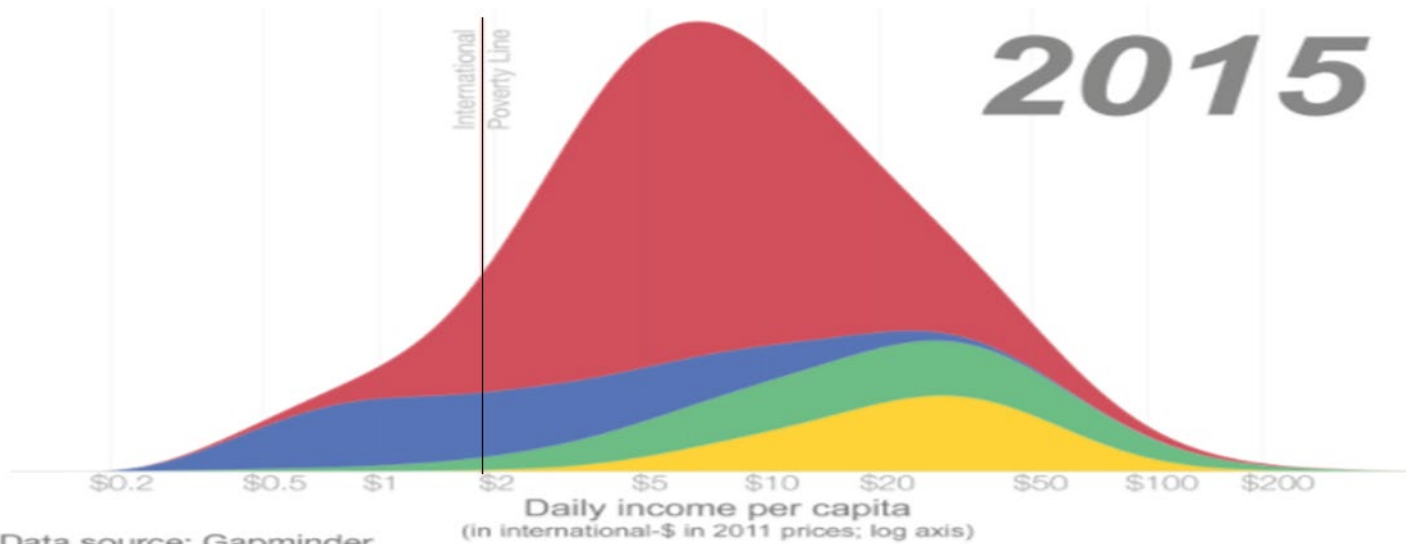
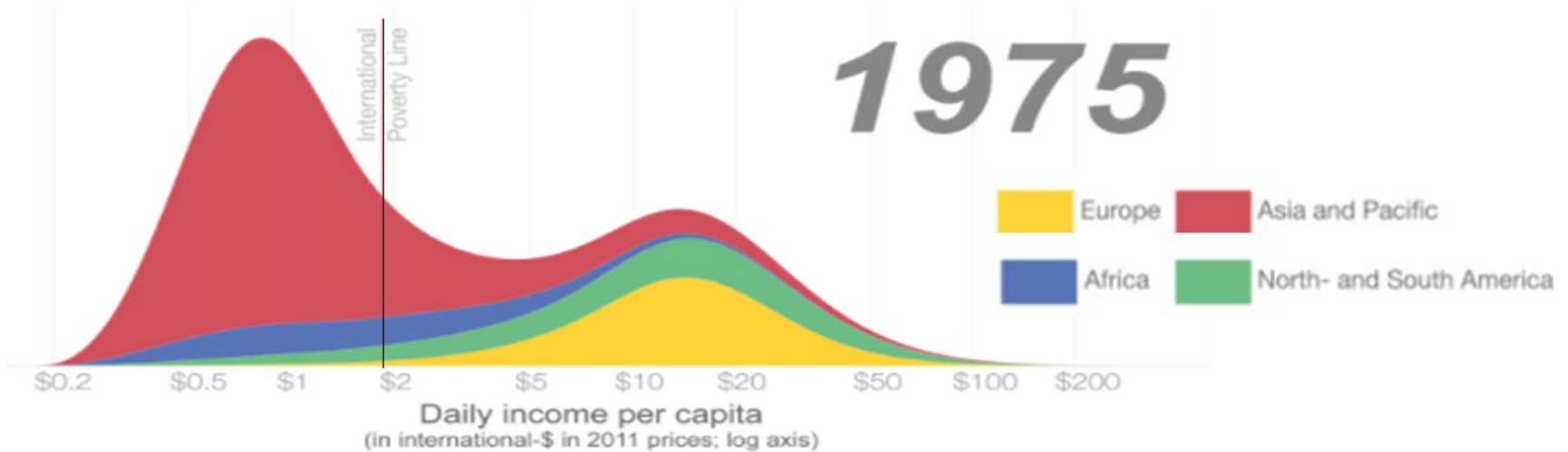
Nick Lea
Deputy Chief Economist
Department for International Development
January 2019

A Brief History of Income



- For most of economic history, nothing happened
- UK eventually established security, inclusive politics, technology => 60 fold increase
- China able to grow faster by using existing technology
- Development is a process of **escaping traps** (Tanzania => ~2 fold increase)

The Biggest Economic Change in History

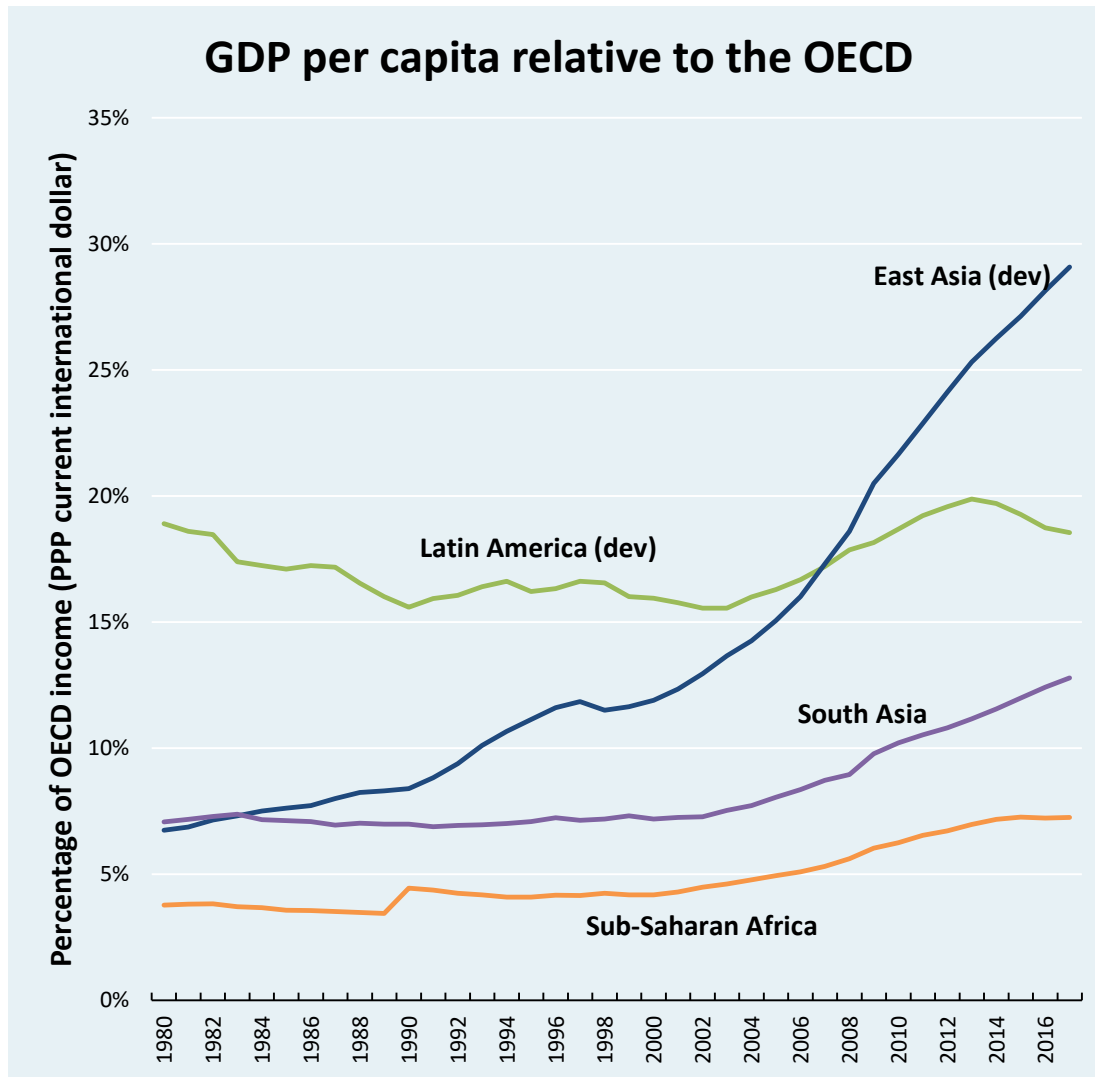


Data source: Gapminder

The visualization is available at OurWorldInData.org where you find more visualizations and research on global development.

Licensed under CC-BY-SA by the author Max Roser.

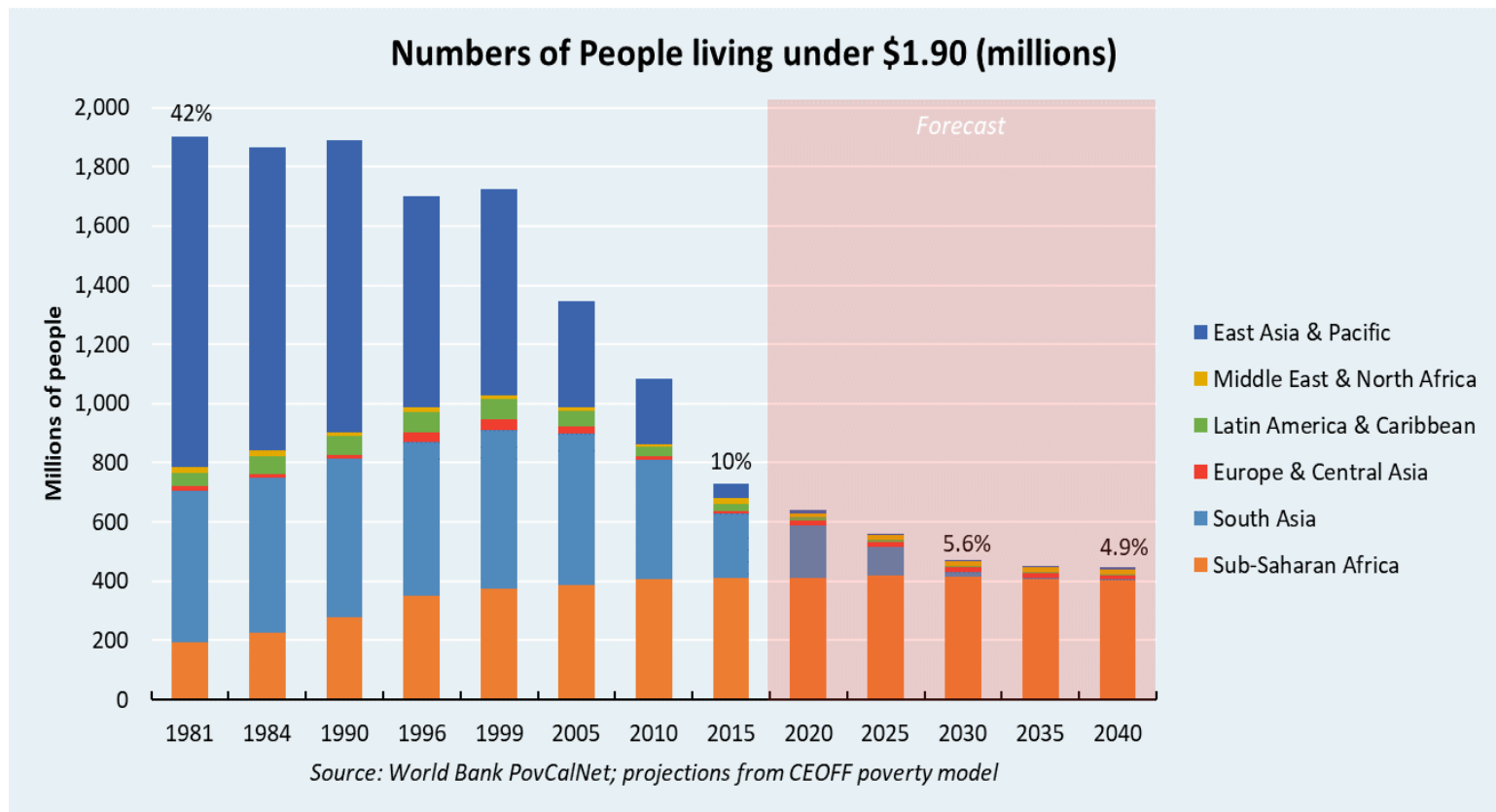
Convergence is what matters in the long run



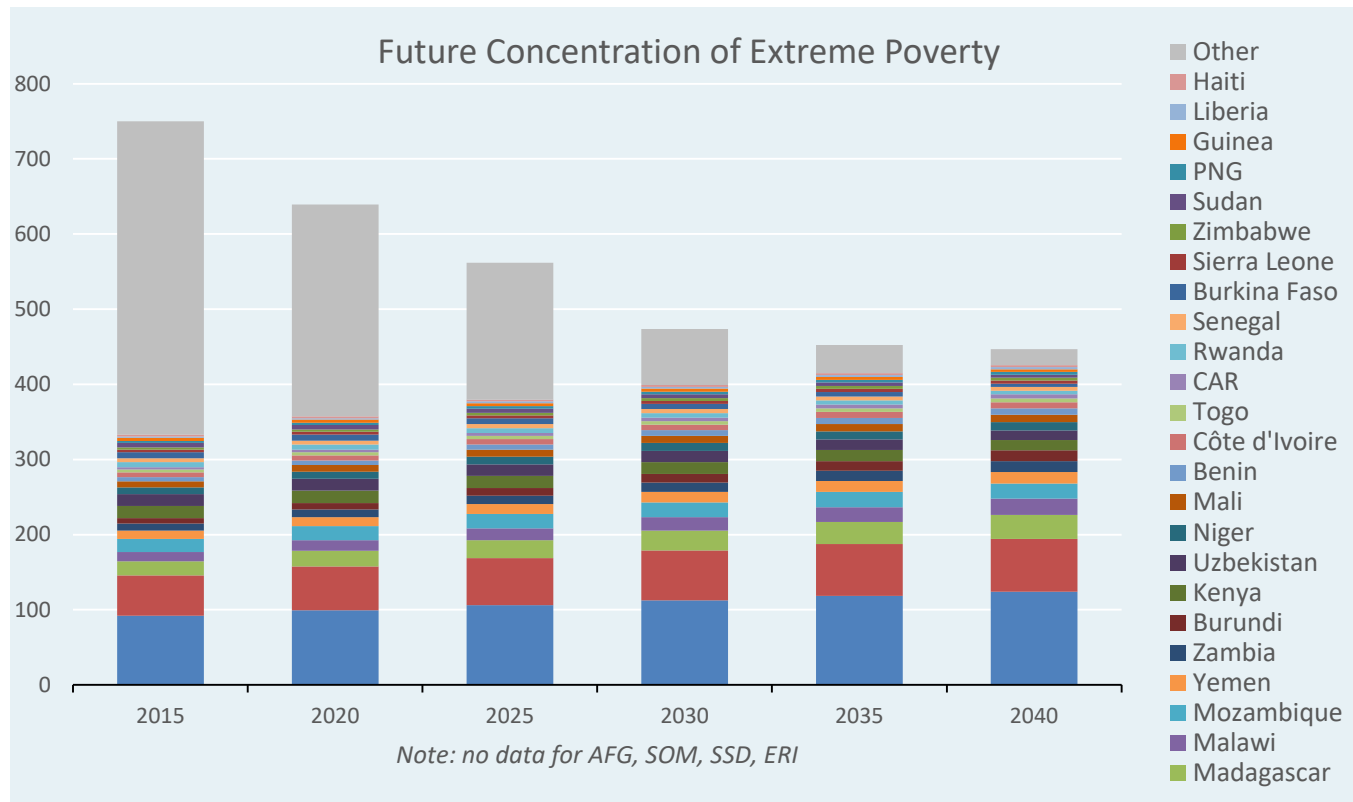
- East Asia makes strong progress towards OECD frontier.
- Slow but steady progress in South Asia from lowest level
- Latin America makes progress after 2003 (debt crisis, commodity recovery) but falling again.
- Extremely slow progress in Sub-Saharan Africa, flat since 2015.

Extreme poverty is ending in Asia

- The **proportion** of those in extreme poverty has significantly fallen nearly everywhere
- Due to population growth, the overall **number** of Africans in absolute poverty has not yet fallen (~400 million)



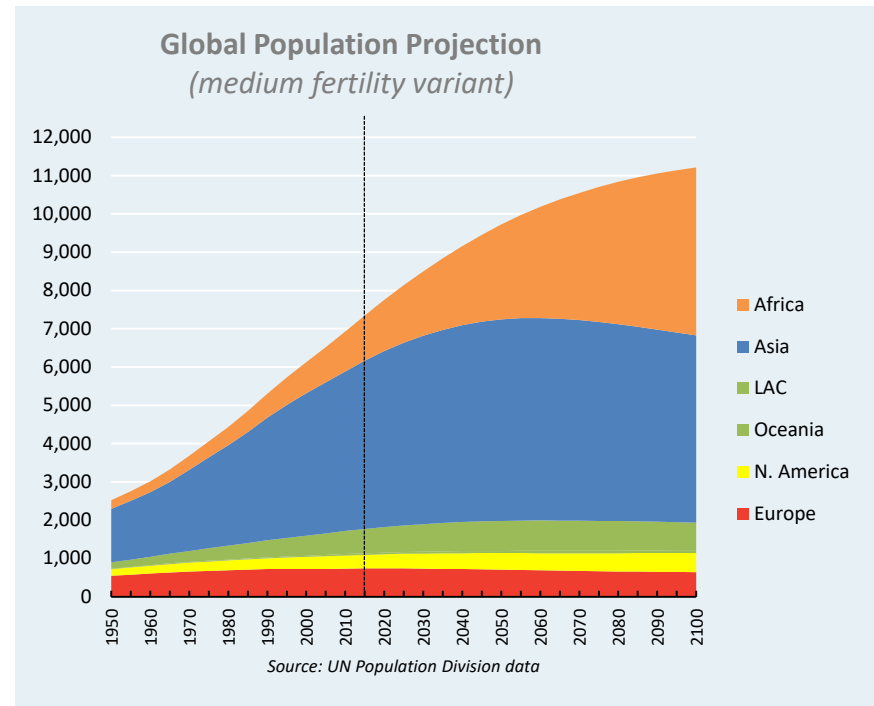
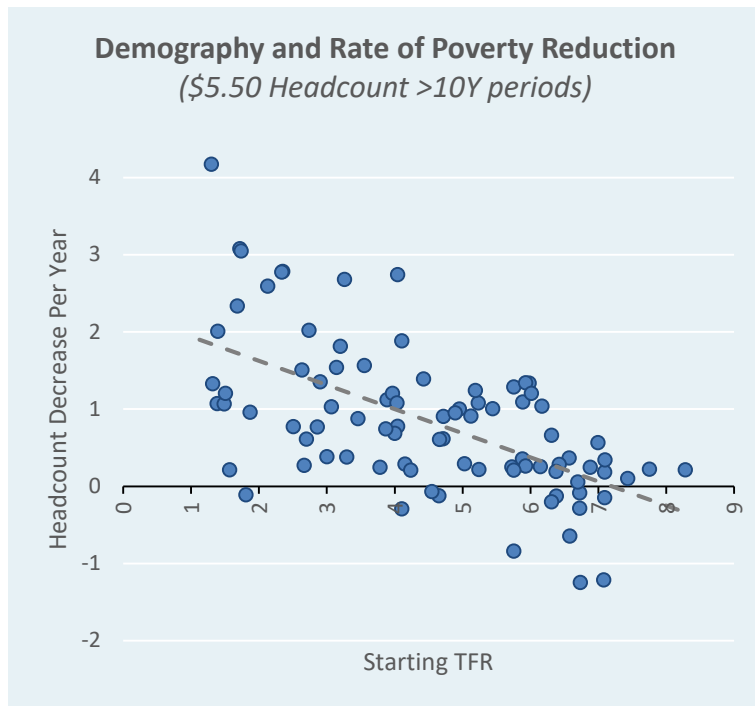
The tough cases



- 95% of extreme poverty is projected to be in 26 (+AFG,SOM,SSD,ERI) countries by 2040
- All but 7 are classed as fragile (Malawi, Benin, Togo, Rwanda, Senegal, Burkina Faso, PNG).

**What keeps these 400 million people poor
(and these nations fragile)?**

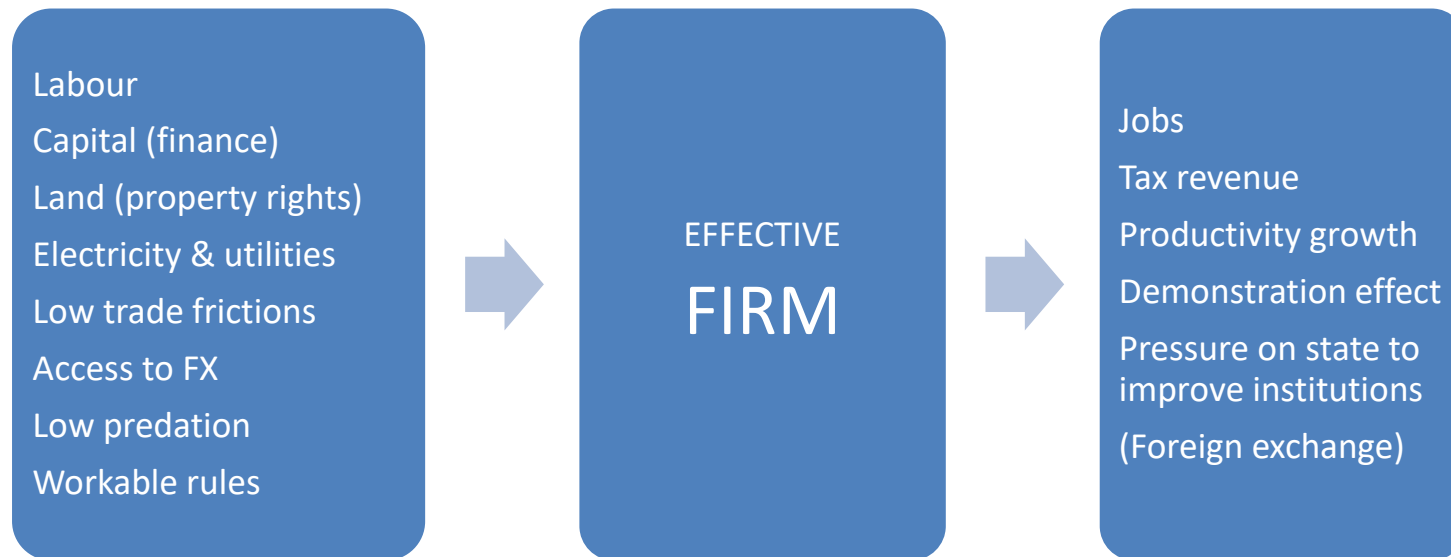
Trap 1 : Demography



- High population growth increases poverty numbers **and** associated with slow headcount reduction
- Africa's population doubled in last 26Y, will double again by 2050 (2.5 billion)
 - Urban population will triple
 - Migrant labour supply: Africa grows from 1.7x Europe to 3.5x by 2050
- Faster demographic transition → poverty, incomes, urbanisation, security, migration

Trap 2: Lack of effective firms

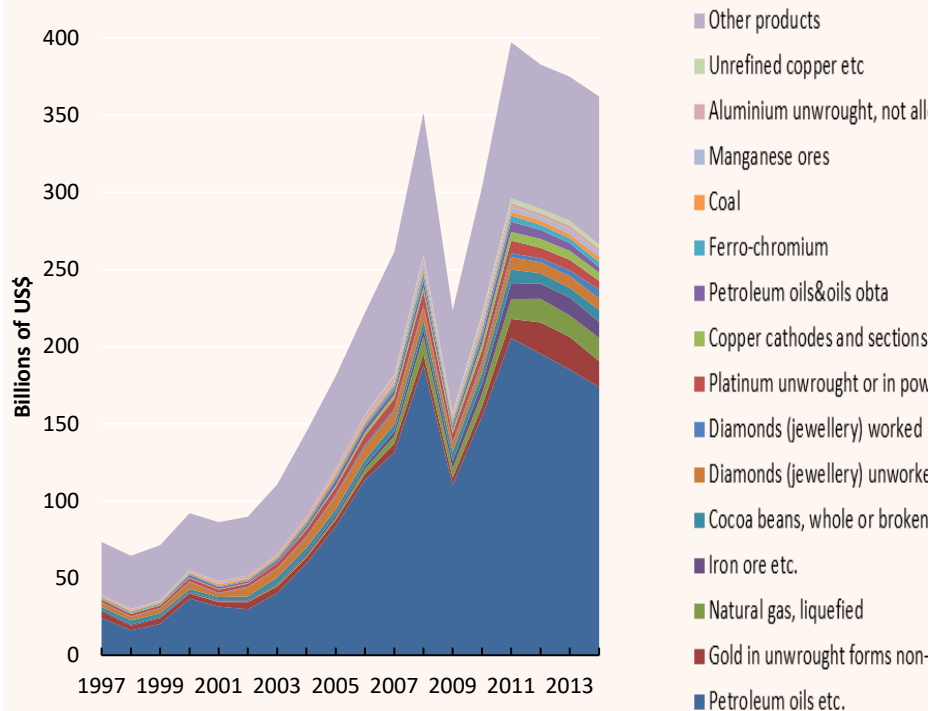
- Effective firm = productivity through economies of specialisation and scale
- Since 1200, output per person in the UK has risen ~50x
- Habitat for firms is difficult to create but possible (Ethiopia, Rwanda, Bangladesh, Ghana)



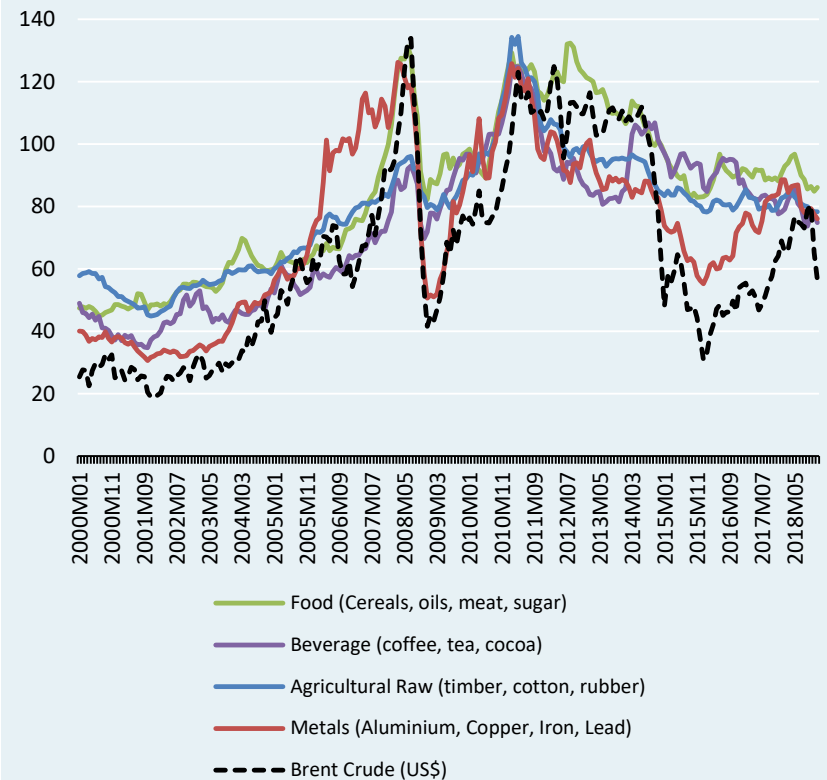
- Most *tough cases* rely on a few FDI extractives companies to create the multipliers that drives nearly all other economic activity. (SSA exports to RoW are ~50% oil)
- Ideal are exporting firms that create jobs and have an upgrade path

Undiversified commodity economies

What does the World buy from Africa?



Commodity Indices



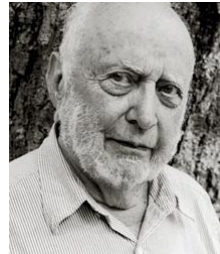
- African econ. models of **undiversified commodity exports** will almost certainly not deliver the growth, jobs, and stability required to escape poverty.
- **Automation** may make this even harder.

Trap 3: Political Order - more like North than Weber



Max Weber (1919)

- State as single actor
- Monopoly on violence
- Able to project policy over territory
- Professionalised, impartial civil service
- Acts like a benevolent social planner
- *Development prevented by lack of know-how and finance*

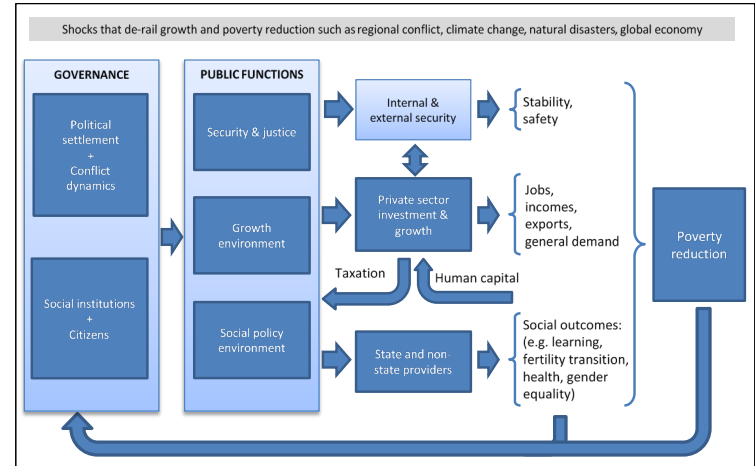


Douglass North (2011)

- State as multiple actors
- Multiple groups using violence
- Not able to project policy over territory
- State **maximizes rents** by limiting access to resources and opportunities
- Dominant group **shares rents** with other elites to lower violence (elite-bargain)
- *Development prevented because it destabilizes the elite-bargain.*

The extreme poor may be with us a while

- Depends on context so diagnostic approach is helpful
- Most common syndrome:
- **Political order prevents an inclusive economy and civil society from emerging**



- Tempting for externals to become the service deliverer
- Better to nudge/repair/(build) the “system” so that the historical forces can act:
 - Enable non-violent elite-bargaining (from South Sudan to Malawi)
 - Build legitimacy in small steps (delivery -> legitimacy -> compliance -> delivery)
 - Create incentives for rival groups to share power
 - Build security (peacekeeping, DDR)
 - Build the economy (export FDI, buy Africa!)
 - Strengthen societal demands (accountability, media, transparency)