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CRESCITA, DIGUAGLIANZA E SVILUPPO SOSTENIBILE. ALCUNI CONTRIBUTI DALLA XX AISSEC CONFERENCE

di Chiara Candelise, Università di Torino e OEET

Le prossime due newsletter "Emerging Economies" si concentreranno su contributi di ricerca presentati alla recente *XXth Scientific Conference* della *Italian Association for the Study of Comparative Economic Systems (AISSEC)* (https://www.osservatorio-economie-emergenti-torino.it/our-activities/188-xx-aissec-conference-programme-available.html), tenutasi in Ottobre 2018 presso il Collegio Carlo Alberto, Torino.

Il focus della Conferenza era allineato con la missione dell'associazione (AISSEC): studi comparati di sistemi economici. La conferenza ha di fatto ospitato numerosi contributi accademici nazionali e internazionali, che hanno spaziato dalla macroeconomia e lo sviluppo sostenibile in paesi emergenti e in via di sviluppo, a studi comparati di economie avanzate. Al fine di costruire le prossime due newsletter sono stati selezionati i contributi della conferenza più esplicitamente dedicati alle economie emergenti e ai paesi in via di sviluppo. Gli articoli selezionati sono stati raggruppati in due temi: 1. Una prospettiva macroeconomica con contributi dedicati a tematiche di crescita, diseguaglianza e sviluppo sostenibile; 2. Contributi con approccio microeconomico, dedicati a questioni di genere e di sviluppo umano.

La prossima newsletter "Emerging Economies" di Dicembre 2018 sarà dedicata al secondo tema, mentre la presente newsletter, Novembre 2018, è dedicata al primo: crescita, diseguaglianza e sviluppo sostenibile. Il primo contributo è una analisi cross country di A. Savoia e M.N. Asadullah sulle determinanti della riduzione della povertà, che dimostra la rilevanza del contesto istituzionale e della qualità del governo: paesi con maggiore *state capacity* hanno ridotto la povertà più velocemente e hanno maggiori probabilità di raggiungere il Millenium Development Goal 1 (dimezzare la povertà). A seguire un articolo di M. Boario che confronta Myanmar con Vietnam e Tailandia al fine di analizzare se il paese possa essere considerato emergente; l'articolo conclude che nonostante Myanmar sia una economia in forte crescita, la corrente situazione sociale e politica e altri fattori di rischio portano a non poterlo definire con certezza un paese emergente. Il contributo di S. Klasen, C. Lo Bue e V. Prete invece presenta uno studio empirico basato su dati longitudinali di Indonesia, Vietnam, Tailandia e Sud Africa che esplora l'effetto di shocks sugli schemi distributivi della crescita e, quindi, l'impatto sulla povertà. M. Marson e I. Savin presentano uno studio comparato dell'impatto di finanziamenti e aiuti Cinesi ai paesi Africani rispetto a quelli dei donatori tradizionali, dimostrando, tra gli altri elementi, come l'impatto delle due fonti di finanziamento sia di fatto simile. Infine, O. Demidova presenta i risultati di un' analisi della convergenza di 80 regioni della Russia sul periodo 2000-2014.

ECONOMIC GROWTH, INEQUALITY AND SUSTAINABLE DEVELOPMENT. SOME CONTRIBUTIONS FROM THE XX AISSEC CONFERENCE

by Chiara Candelise, Università di Torino e OEET

The next two issues of the newsletter "Emerging Economies" will present contributions from the latest *XXth Scientific Conference* of the *Italian Association for the Study of Comparative Economic Systems (AISSEC)* (https://www.osservatorio-economie-emergenti-torino.it/our-activities/188-xx-aissec-conference-programme-available.html), held in October 2018 at the Collegio Carlo Alberto, Turin.

The conference focus has been on the mission of the association (AISSEC): the comparison of economic systems. It hosted a range of national and international research papers dealing with both theoretical and applied research work on several topics ranging from macroeconomics and sustainable development in emerging and developing countries, to comparative studies of advanced economies. For the purpose of the next two newsletter contributions have been selected among those dealing more explicitly with emerging and developing countries. They have been grouped along two themes: 1. A macroeconomic perspective with contributions addressing growth, inequality and sustainable development; 2. A microeconomic theme with focus on gender issues and human development.

While the second theme will be addressed in the December 2018 "Emerging Economies" newsletter, this newsletter, November 2018, presents an overview of selected research articles addressing the first theme: growth, inequality and sustainable development. It begins with a cross country analysis of A. Savoia and M.N. Asadullah of what can facilitate poverty reduction, showing that institutional context and quality of government do matters: countries with greater *state capacity* have reduced poverty at a higher speed and are more likely to achieve Millennium Development Goal 1 of halving poverty. Then, an article of M. Boario which compares Myanmar with neighbouring countries Vietnam and Thailand to argue whether the country can be considered an emerging economy: despite being one the fastest economies in the region the country's sustainability of growth and improvement of living is endangered by the presence of a conflict trap, compounded with poverty and resource trap. The contribution by M. S. Klasen, C. Lo Bue and V. Prete explores how shocks can affect the distributional patterns of growth and, in turn, poverty reduction, using empirical illustrations based on longitudinal survey data from Indonesia, Vietnam, Thailand and South Africa. A comparative study of the impact of Chinese public funding versus traditional donors on African countries, led by M. Marson and I. Savin, concludes that Chinese funding has similar impacts on development of African countries, when compared with traditional donors. Finally, O. Demidova presents results of an examination of gross regional product per capita convergence of 80 Russian regions across the 2000-2014 period, showing significant differences across regions and the factors affecting them.

WHY DO SOME COUNTRIES REDUCE POVERTY FASTER THAN OTHERS?

By Antonio Savoia, Global Development Institute and Effective States and Inclusive Development Centre, University of Manchester; M Niaz Asadullah, Faculty of Economics and Administration, University of Malaya; Global Development Institute, University of Manchester

Can poverty be eradicated is the biggest question for development. Progress in poverty reduction was a central success with the Millennium Development Goals (MDGs): Estimates suggest that as many as one billion people were lifted out of poverty. Since poverty reduction remains important for the more ambitious Sustainable Development Goals (SDGs), it seems that the time is right to identify why poverty has been reduced so much and why some countries have seen a greater reduction than others.

Our research[1] presents new evidence on what facilitates poverty reduction. We find that in more effective states, or in countries with greater *state capacity*, income poverty has been reduced at a significantly faster speed, and those countries are much more likely to achieve MDG 1 of halving poverty. Our estimates suggest that countries with the highest state capacity can reduce income poverty at up to twice the speed of countries with the weakest capacity.

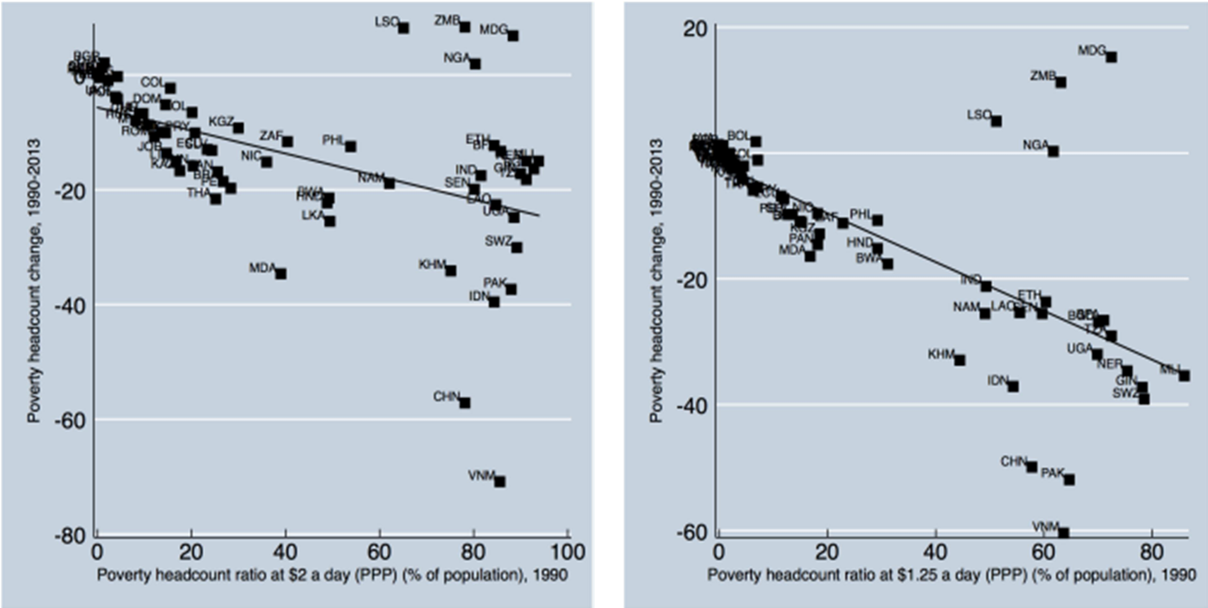
Our methodology is straightforward. We examine poverty in 89 developing countries between 1990 and 2013. Then, we show whether, and how fast, economies with higher income poverty levels experienced larger reductions in their poverty rates to close the gap with economies with lower income poverty levels – known as poverty convergence. We do this by using such standard international measures as poverty headcount and poverty gap at USD 1.25 and USD 2 per day. Our findings show that these poverty measures tended to decrease faster in countries with initially higher poverty levels.

Does adopting the MDGs explain this convergence? Our research examines whether the convergence process accelerated after 2000. We find that it did, after accounting for outliers. The adoption of the MDGs was a boost for poverty reduction. This presumably reflects the pressure on individual countries to design and implement poverty reduction programmes. *Poverty Reduction Strategy Papers*, for example, became routine parts of national development plans.

What remains unexplained is the substantial variation in poverty reduction performance across countries. Although at similar levels of initial poverty, some countries present substantial variations in their poverty reduction achievements (Figure 1). Compare the following two groups of countries: Nigeria, Lesotho, Madagascar and Zambia versus China, Vietnam, Indonesia and Cambodia. Initial headcount ratios at USD 1.25 per day were similar in both groups. Yet, the latter group — not the former one — succeeded in reducing poverty.

[1] See Effective States and Inclusive Development Centre, now published in *World Development*.

Figure 1. Initial level of poverty vs. subsequent change: headcount measures



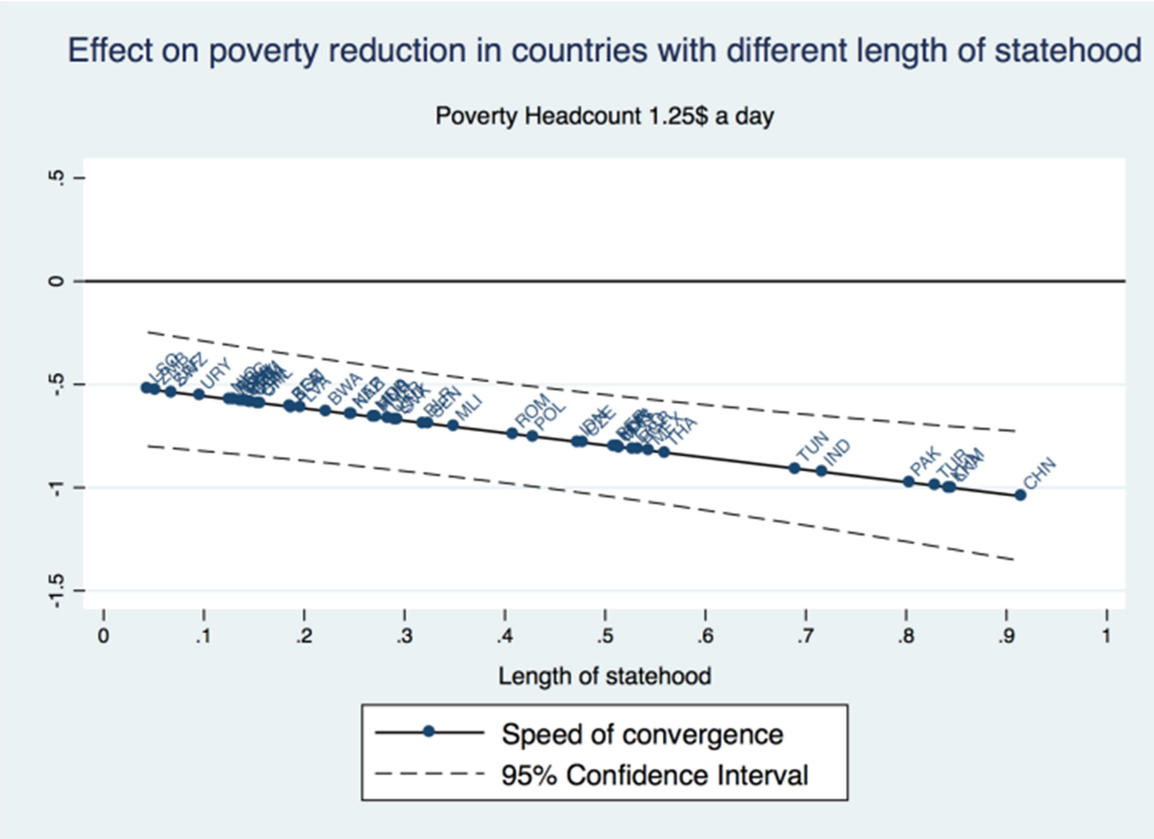
Source: Asadullah and Savoia (2018) "Poverty reduction during 1990–2013: Did millennium development goals adoption and state capacity matter?", *World Development,* Volume 105, Pages 70-82.

So what's causing this disparity? Could it reflect differences in governance conditions at national levels, such as state capacity?

State capacity is greater when ruling elites are subject to more limits on the exercise of their power. Executive power is constrained by institutionalised checks and balances. State capacity is also greater in countries with a longer history of statehood. In these cases, countries' ability to resolve coordination failures and to deliver goods and services to their citizens is boosted through the effects of learning by doing.

The evidence is not significant that constraints on the executive accelerate poverty reduction. However, the evidence is strong that countries with a longer history of statehood and greater ability to administer their territories experience faster income poverty reduction. These countries were more likely to have achieved the MDG target of halving poverty. The convergence parameter in the group of countries with the longest state history – China, Cambodia, Indonesia, Vietnam and Turkey – is estimated to be approximately double the size of that for the group – Lesotho, Zambia, Zimbabwe and Swaziland – with the shortest state history (Figure 2).

Figure 2. Speed of convergence at different levels of state capacity: headcount USD 1.25



Source: Asadullah and Savoia (2018) "Poverty reduction during 1990–2013: Did millennium development goals adoption and state capacity matter?"*, World Development,* Volume 105, Pages 70-82.

Thus, in short, the MDGs were instrumental to poverty reduction, and states with a greater ability to administer their respective territories experienced significantly faster poverty reduction.

So, what are the implications of these findings? First, institutional context matters for poverty reduction. The adoption of new development goals per se, however ambitious, may not be enough. The goals should be coupled with sufficient capability for designing and delivering poverty reduction strategies. Second, as the quality of government is now a part of SDG 16, our results provide empirical justification for this inclusion. It suggests that synergies amongst development goals could be important to further development progress and convergence in living standards during this era of the SDGs.

BEYOND CONVERGENCE IN ASEAN, WHAT PROSPECTS FOR MYANMAR? INSIGHT FROM VIETNAM AND THAILAND

by Michele Boario, United Nations Industrial Development Organization (UNIDO)

Evidence suggests some level of convergence in economic growth within Association of South East Asian Nations (ASEAN). The newer members are catching-up to the economic conditions prevailing in ASEAN founder countries. Myanmar is not an exception; the country is one of the fastest growing economy in the region. Despite a significant economic slowdown in 2017, the IMF considers the country as an emerging market, and many investors continue looking at Myanmar as Asia's final frontier. Should we conclude that Myanmar is an emerging economy? The answer depends on how an emerging economy is defined. To the extent that irreversibility of growth is part of the definition, the presence in Myanmar of growing inequality and polarization compounded with a conflict trap, make it problematic to include this country into the group of the emerging economies.

The strong Myanmar economic growth is the result of several market-oriented reforms and a resolute processes of opening up. Important steps have been taken toward creating an environment conducive to private investment. The government has unified the exchange rate and liberalized the foreign exchange market, and passed new advanced Investment and Company Act laws. It has also introduced an open tender system for public procurement, started opening the financial sector to foreign banks, and enacted Special Economic Zones helping investors to overcome infrastructure bottlenecks. These reforms have contributed to a surge in foreign direct investment (FDI), particularly in telecommunications, and oil and gas.
A significant transfer of know-how already started, yet much more is needed to integrate the economy in the regional and global value chains. Moreover, in spite the new Myanmar Government led by Aung San Suu Kyi is committed to an equitable development, most of the institutions and the public administration are very weak and the pace of the reform process slowed down in 2016 and 2017. On a positive note, the country looks firmly future oriented with a rising level of savings and investment. Overall is a mixed picture, in particular taking into consideration the polarization of the country at ethnic, religious and gender level and the deep divide between urban and rural living conditions.

A better understanding has been sought through a comparative analysis with Vietnam and Thailand which are considered as two clear examples of emerging economies in the region. Success factors and weakness in both countries are interesting lessons to be learnt for Myanmar and point at what is still missing in the golden land to be considered as an emerging economy.

After a decade of unsuccessful command economy, in 1986 Vietnam started the "Doi Moi" a "renovation" based on reforms to stabilize and open the economy, and trade agreements, which resulted in strong economic growth, export and investment boom, and dramatic human development improvement. Success factors are: pragmatic leadership and effective policy making cycle; strong institutions and broad foundation for infrastructure; equitable initial investment in human development; successful combination of internal and external resources; land and agriculture sector reforms; pragmatic and sequenced trade liberalization; continued investment in human development; social solidarity and equity in policy and implementation; future orientation; political stability; and a pragmatic leadership based on trial and error methodology, consensus based decisions, and political support to implement policies. As of 2018 the "renovation" seems losing momentum, some of the possible reasons are: limited technological spillovers from FDIs, limited productivity improvement, failure in providing medium and high skills.

On the south-eastern border of Myanmar, Thailand has undergone major industrial and social transformation amid rapid economic growth and development for over half a century. It is now the second largest economy with the 4th highest income per capita in the Association of Southeast Asian Nations. It has successfully shifted its economy from agriculture to export-oriented manufacturing, while integrating key production, particularly automobiles and electronics, into regional value chains. It has also been quite successful in attracting FDI, particularly in export-oriented sectors. The key factors behind this success story are a dynamic group of entrepreneurs and supportive state, political and macroeconomic stability, openness, export orientation and FDIs, future orientation, and a very high labour force participation of women. The miracle ended in 1997 with the Asian Crisis, the country is currently facing a middle-income trap, with some clear structural weaknesses, encompassing: aging population, not enough investment in secondary education and research, high inequality, and pollution.

Taking into consideration the time series of key variables for economic emergence, such as the GDP per-capita, FDIs, exports, savings and investment, and human development index, Myanmar seems on the right path to follow the success stories of Thailand and Vietnam. However, Myanmar is still facing a number of daunting political challenges, including the reform of the constitution, the relationship between the ruling party, the Army and the oligarchs, the lack of local representation in the regional governments, and above all the difficult process for the National League for Democracy (NLD) to move from opposition movement to ruling majority without any previous government experience. The peace process is not improving, many ethnic armed groups are still fighting with the Army and the international criticism on the treatment of Muslim minorities is growing. The risk of a major civil war or a new coup is still there, not only due to a constitutional clause giving the Army the prerogative to declare the state of emergency and get back power at any time, but also because a number of conflict risk factors still characterize Myanmar: low income, primary commodity export, the coexistence of one large ethnic group and a multitude of smaller ones, previous coups and civil wars.

In conclusion, despite its huge economic potential, to the extent that irreversibility of growth is part of the definition, the presence in Myanmar of a conflict trap, compounded with a poverty trap and a resource trap, for the time being, make it problematic to include the country into the group of the emerging economies.

WHAT'S BEHIND PRO-POOR GROWTH? AN INVESTIGATION OF ITS DRIVERS AND DYNAMICS

By Stephan Klasen, University of Goettingen; Maria C. Lo Bue, University of Goettingen; Vincenzo Prete University of Goettingen

Sustained economic growth and substantial progress in reducing poverty have taken place in many parts of the developing world over recent decades. Yet, large parts of the population in many countries continue to be highly vulnerable to poverty. A key challenge to establishing a development strategy for reducing vulnerability to poverty lies in the interplay between distribution and growth.

This paper considers how shocks can affect the distributional pattern of growth and thus poverty reduction, thereby bringing together the literature on the distributional pattern of growth with the literature on shocks and their impacts.

Standard growth incidence curves (GICs) describe how growth episodes impact on the overall income distribution. Yet, nothing can be said about the drivers of such episodes.
To this regard, on may note that, by construction, GICs may give a misrepresentation of true growth due to measurement errors. At the same time, the variation in the incidence of growth across the different percentiles can also be the effect of some shocks that hit these percentiles in different ways.

By relying on a non-anonymous axiom, we compare actual growth episodes at each percentile of the initial personalized distribution with a counterfactual pattern of predicted growth which, by relying on the assumption of time-constant marginal returns of individual endowments, rules out the presence of shocks. The comparison between the observed and the counterfactual GICs allows understanding to what extent the way that growth shaped individual income trajectories has been the outcome of unexpected changes in the marginal return of individual socio-economic characteristics which substantially changed individual ranking in the income distribution.

Using empirical illustrations based on longitudinal survey data, we show to what extent the degree of the pro-poorness of growth in Indonesia has been the outcome of patterns of mobility and vulnerability. Our results show that growth has been pro-poor over the period 2000-2014, with the incidence of growth in the poorest quintile being larger than expected.
However, much of the difference between actual and expected growth results from individuals' recovery from past negative shocks. Lastly, we apply a first-order Markov model of state dependency and find that initial shock experience and retention are not exogenous to shock recovery, while unobserved factors decreasing the probability of experiencing a positive shock in the past, tend to increase the conditional probability of a positive shock in the present.

THE IMPACTS OF FOREIGN PUBLIC FUNDING ON AFRICAN DEVELOPMENT: A COMPARATIVE STUDY OF TRADITIONAL DONORS AND CHINA

By Marta Marson, Univerity of Insubria; Ivan Savin, Universitat Autònoma de Barcelona

Over the last few decades China has become an important source of aid and other official funding for African countries. Nevertheless, its coordination with other development partners into the global coordination of aid assistance to Africa remains very limited both in the countries where they operate and at the global level. Moreover, the contribution of China to Africa's development has been severely criticised. While there have been recently studies demonstrating that funding from China and traditional donors are driven by similar determinants, little has been done to compare the impact of this funding on development.

The present work aims to close this gap, by comparing impacts on governance, infrastructure development, countries' dependence on natural resources and external debt sustainability. Furthermore, we explore whether African countries experience some (dis)advantage from the presence of both donors.

To do so, we combine data for the period 2000-2014 from a range of sources (AidData, OECD, World Bank, UNCTAD, African Development Bank) and consider aid and other official flows together to avoid classification inconsistences. Methodologically, we employ a quantile regression that allows us to distinguish the impacts of funding on countries with different level of the development indicator under consideration.

Overall, our findings support the claim that China has similar impact on African countries when compared with traditional donors. Funding from both donors positively affects the quality of governance, the state of infrastructure, and, unfortunately, increases the dependence of African countries on natural resources. An exception is external debt, where funding from China increases normalized debt stock, while traditional donors reduce it, even after controlling for traditional donors' debt relief. At the same time, the presence of alternative donors results in a positive effect on indebtedness sustainability, but also in negative impacts on other development dimensions (increase in dependence on natural resources, lower improvement in infrastructure and lower quality for some dimensions of governance). This confirms the intuition that presence of both donors can benefit the recipient countries strengthening ownership and alignment principles of aid effectiveness, but also challenges harmonization and accountability dimensions.

UNEVEN DEVELOPMENT OF EMERGING COUNTRIES ON THE EXAMPLE OF RUSSIA

by Olga Demidova, Higher School of Economics, National Research University, Moscow

Issues concerning Russian regions' economic growth, convergence or divergence attract the interest of researchers and has continued to be relevant for more than 20 years. Russian regions are very heterogeneous in terms of geography, climate, and endowment with natural resources. Many researchers note that there are huge differences between the Russian regions. This leads to a difference in their economic development.

The subject of this paper is the examination of gross regional product per capita convergence of 80 Russian regions over the 2000-2014 period. The regions have been split into three groups: poor, middle and rich. The main hypotheses tested in this study are:
1) Factors affecting economic growth in poor, medium and rich regions are different.
2) The growth rate of poor, medium and rich regions varies.
3) The growth of Russian regions is affected not only by their internal factors, but also by the condition of other neighboring Russian regions.

With the help of a specially developed spatial-econometric model, significant differences between identified groups of the regions were revealed.
According to the results obtained:
1) There is convergence only for the middle and rich regions, and the speed of convergence for rich regions is sufficiently higher.
2) The situation in neighboring regions affects only growth in rich regions. The better the situation in neighboring regions, the slower is the growth of rich regions.
3) The share of urban population does not influence economic growth.
4) Investments stimulate economic growth only in rich regions, but for the poor regions they have the opposite effect (apparently, investments are inefficiently used).
5) The share of a higher educated labour force does not affect the growth rate.
6) High density of highways stimulates growth only in poor regions, so it makes sense to develop the infrastructure there.
7) The level of economic risk affects the growth rate in accordance with expectations only in the rich regions, and, the lower the risk, the higher the growth. In the middle regions the situation is opposite. The regions with higher level of risk grow faster. This phenomenon deserves further study.
8) Openness of the region to exports and imports does not affect the growth rate.