

**ECONOMIC GROWTH OFFICERS WORKSHOP
OCTOBER 15-19, 2007
WASHINGTON, D.C.**

Monday, October 15, 2007 “Takeaway Points”

Some repeated themes during the day.

- 1) Policy and enabling environment (both micro and macro) is critical to private sector development, pro-poor and overall economic growth and remains a considerable challenge.
- 2) Addressing USAID human resources, capacity in missions, and advocacy of importance of economic growth activities is needed to generate long term growth

Plenary Session 1: 9am – Welcome and Good Capitalism/Bad Capitalism Discussion

- USAID Administrator Henrietta Holesman Fore emphasized 4 points: Power (US still the world’s largest bilateral donor and have made significant successes), Purpose (Economic growth is essential to enable nations to lift themselves out of poverty through sustainability not dependence.), People (need to invest in USAID staff as its the people and field presence that makes the difference), and Partnerships (USAID should continue leveraging public private partnerships for increased impact – She suggested a goal be to have 30-50% of funding through PPAs.)
- Carl Schramm and Bob Litan identified 4 typologies of capitalism: Oligargic capitalism – all power and money is concentrated in a few hands; State guided Capitalism – state doesn’t own means of production but by owning banks, or regulatory measures it directs economic activity; Managerial capitalism – big dominant firms; Entrepreneurial capitalism – US model and the one that results in radical innovations.
- Most participants seemed to agree that most USAID projects operate in countries with Oligargic Capitalism – which isn’t really interested in growth, a major challenge for USAID
- Emphasized the need to improve enabling environment so entrepreneurs have incentives and ability to flourish. Also suggested training is needed for entrepreneurs, although this was seen as less important by audience.
- Comment arose from Paul Davis that contrary to the US, whose corporate and entrepreneurial environment arises from competitive forces, in many developing countries the private sector is either directed through uncompetitive means (government involvement, rentier seeking behavior, monopolies etc).

Plenary Session 2: 10:45am

Global trends in Economic Growth

- Mike Crosswell

- There is less reason to be pessimistic about growth in developing countries, even Africa, than conventional wisdom suggests
- A large majority of population even in Africa lives in countries that have been experiencing per capita economic growth of at least 2% per annum, which is a key rate for poverty reduction and meeting the MDGs
- Economic freedom appears to strongly and statistically-significantly positively affect economic growth

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Role of Trade in Growth and Trade Trends - Erin Endean, Nathan Associates

- Within-country studies show that trade liberalization is strongly associated with higher growth and that its impact is not just limited to expanding imports. Exports increase as does the percentage of manufactured exports as a share of all exports
- Time matters to trade competitiveness. In particular inventory time can strongly affect the cost of exported products. The Tariff Equivalent of days to export (days spent waiting to cross borders) is 5% in high income countries, 29% in South Asia and as much as 4 x explicit tariffs in Sub-Saharan Africa
- Trade diversification is also key. More vulnerable countries are those that are most concentrated (Middle East and North Africa and SSA are most concentrated and thus most vulnerable to changes in terms of trade). An example of this is TOT move against agricultural exporters. Oil exporters have seen improvements in TOT but this has exacerbated Dutch Disease problem

FDI in USAID countries and private capital - Roger Manning, Nathan Associates

- FDI flows to developing countries have been characterized since the 90s by two things: Tremendous growth and shift from public flows to private flows
- FDI into developing countries has gone primarily to the services sector, to East Asia and the Pacific, and to market-seeking purposes, although growth in FDI in efficiency-seeking purposes has been greater than growth for any other purposes. South-South FDI is rapidly becoming a key part of the picture
- Governments seek to induce FDI because of its growth inducing capacity, its productivity-raising ability, but they must be careful to make sure that the right circumstances, in terms of open competitive markets, policies and institutions are in place

Lunch Prof A.C. Harberger, “Economics Training for Host-Country Partners”

- Though it may be too quixotic a goal to revolutionize the teaching of economics in US graduate schools, Prof. Harberger expressed a missionary zeal for promoting “good economics”. Students come through a year of required grad macro, and they haven’t heard of money, or heard about the expansion of the banking system. Central bankers have complained that people coming back with new PhDs in the beginning are just no good at all.
- The solution?
 - Training in project evaluation: this can be a challenge because you need to professionally train a small army of people to implement.
 - “Advanced training in economics program”—this was a good exchange program from the 1990s between Catholic Univ of Chile and U of Chicago—helped spread good economics into Chilean universities, government, etc.
- What’s happening now?
 - USAID has set aside a modest amount of funds to finance a conference showcasing “good economics”: more useful, real-world, intuition-based economics that can be used by policy makers and economists in developing countries.

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Plenary 3: 1:30pm. Securing the future – A Strategy for Economic Growth

- Economic growth is the long term solution to poverty and critical to transformational development.
- The goal of the USAID economic growth strategy is to better focus, articulate and advocate for EG activities.
- Small can be high impact - a well designed and implemented small program can have very high impact on economic growth if there is counterpart buy-in. Focusing only on large projects may be missing significant opportunities for growth.
- Micro and Macroeconomic incentives drive firm level decisions, the source of production and growth.

Break outs: 2:30pm

Priorities in Assisting Tax Reform- Prof. Arnold Harberger, Mario Mansour, Mark Gallagher

- Each of the speakers had fighting words for tax incentives: we should be wary even of a “neutral” tax incentive—they can often unintentionally penalize good investments.
- You can get more job creation from a good tax reform than business development services.
- There is consensus: good tax reforms include lower tax rates, a broader base, and reasonable provisions for enforcement. (not a flat tax, but a “flattening”)

Impact of Rapid Growth in China and India on Other Developing Countries, Prof. Carl Dahlman, Georgetown University

- China and India are big and influential and are changing the environment in which policy advice will be given and received. Relationships will have to be re-thought and policy advice reconsidered
- The challenges that China’s and India’s tremendous growth place before the Rest of the World include 1) the reality of their growing economic weight 2) pressure on trade adjustments 3) geopolitical clout and changes in the battle for the “hearts and minds” of other developing countries 4) importance of their environmental footprint
- The opportunities from China and India for ROW include 1) new dynamic engines for growth of the world economy 2) innovation and competition 3) a new, increasingly multi-polar world
- Four positive impacts/implications of China: 1) reduced cost of manufactured goods, 2) a new growth pole, 3) high savings reduces cost of capital for ROW (US “ATM machine”), 3) increased commodity prices and investment in commodities
- One negative impact/implication of China is it will be hard to beat China as an exporter of manufactured goods and this will require careful strategizing on the part of would-be competitors

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- China and India change the international rules of the game. They preempt development strategies because of the “first mover advantages” and their economies of scale

Plenary 4:00pm. Louise Cord, World Bank, What makes growth pro-poor?

- Inequality matters but affects different countries differently. In countries that are poor and unequal, growth matters most but in richer and more unequal countries changes in inequality matters.
- Good governance results in pro-poor growth. Weak investment climate hits small firms harder including rural areas
- World Bank is developing a number of toolkits and assessments to review impacts on pro-poor growth from angles including gender, climate, governance and more.