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# Rich People Poor Countries: the rise of emerging market tycoons and their mega-firms

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EVENTS

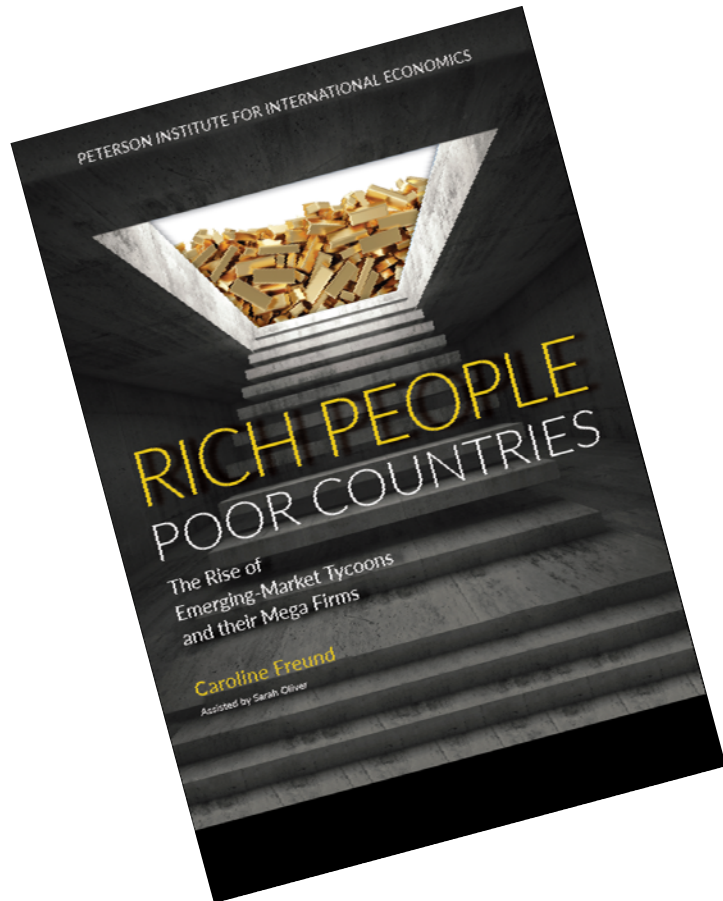
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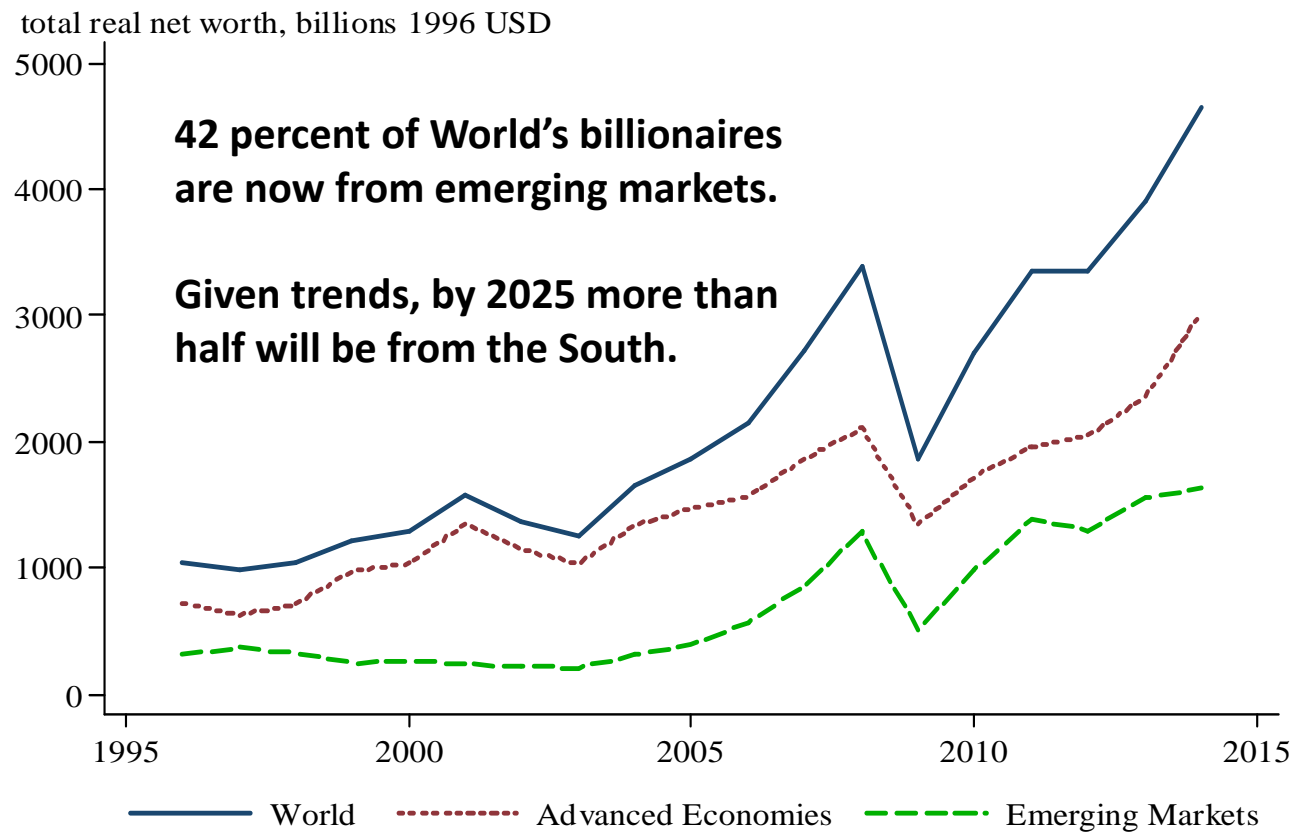


Caroline Freund  
Peterson Institute for  
International Economics

Presentation at LSE  
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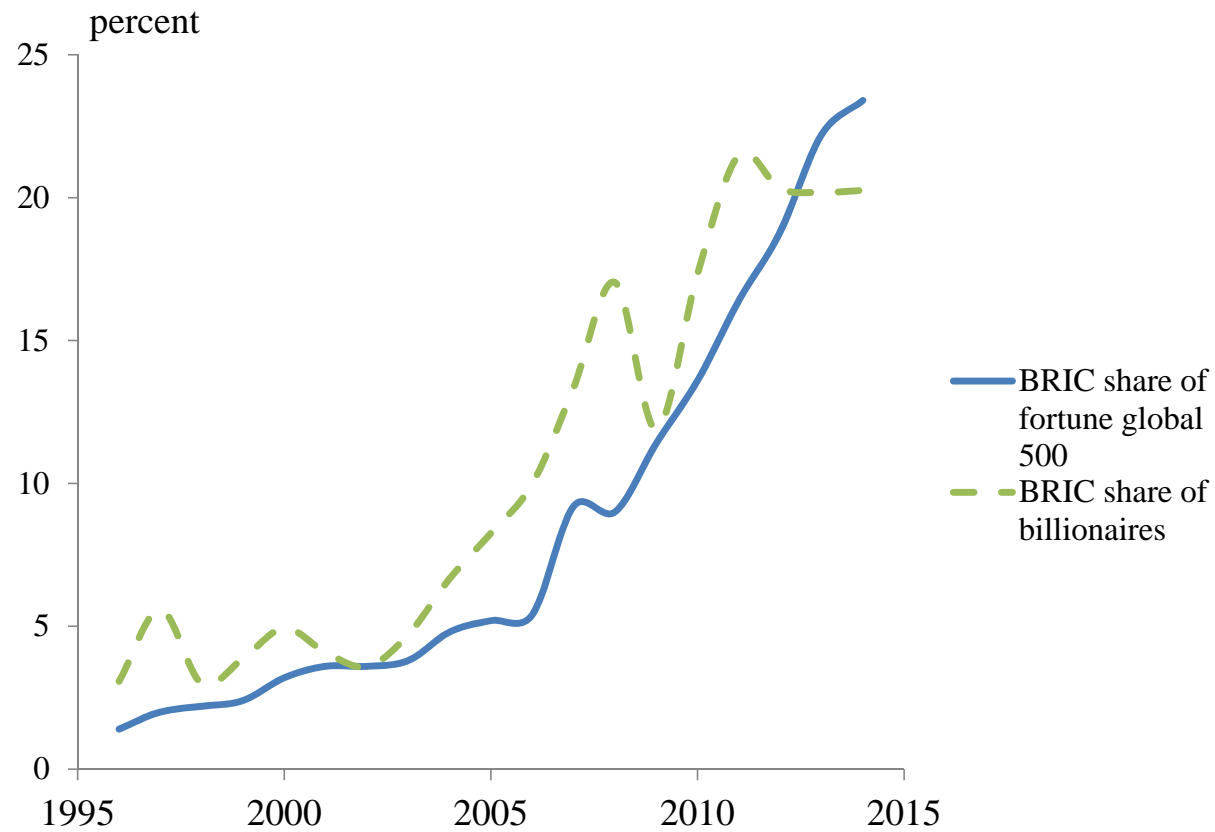
# Growth in Extreme Wealth



Sources: Forbes World's Billionaires and World Bank WDI.



# Extreme Wealth & Mega Firms



BRIC countries include Brazil, Russia, China and India

Sources: Forbes World's Billionaires and Fortune 500.



## Who are the Superrich?

- Inheritors
- Self-made
  - Company founders
  - Executives
  - Politically connected/resource based
  - Finance/real estate

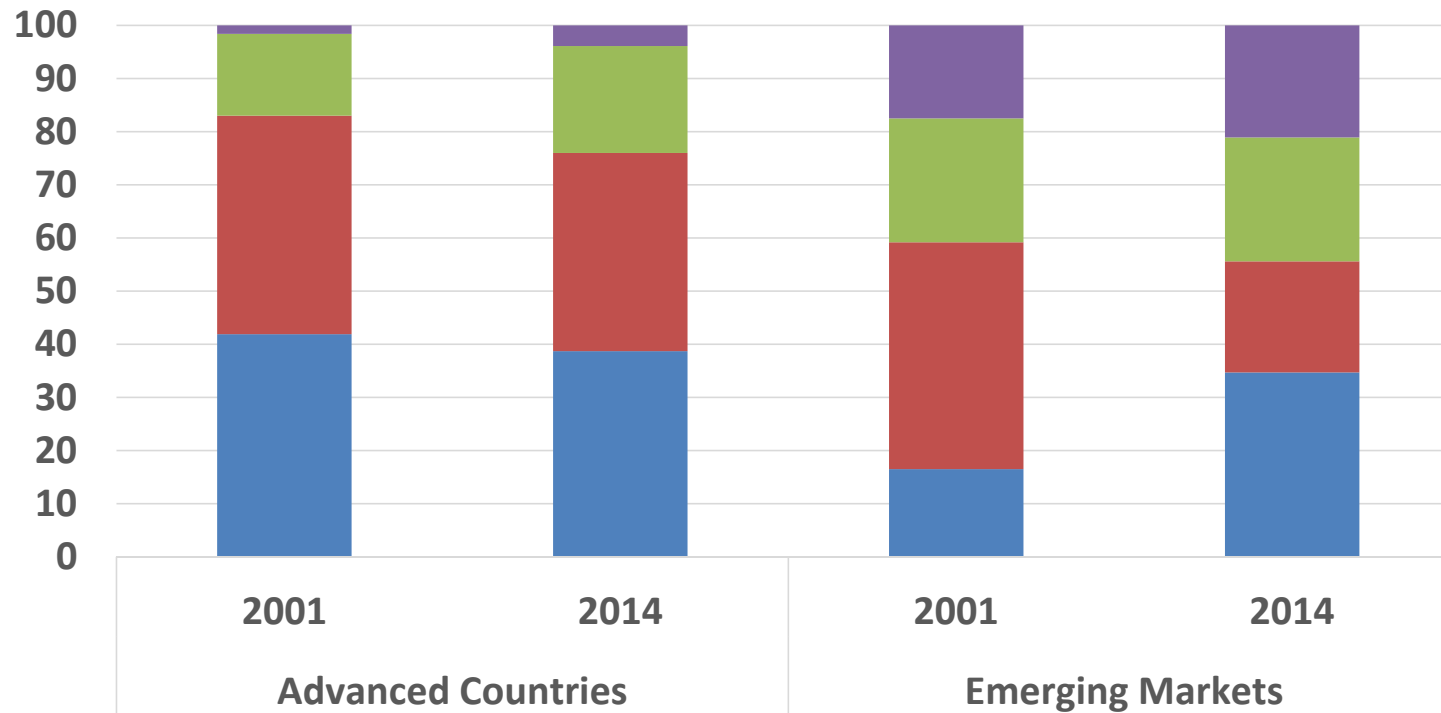


# Founders

- Founded a company
- Non-resource
- Non-privatization
- Non-finance/real estate
- Non-license
- No family in gov't or corruption charge



# Sources of Wealth

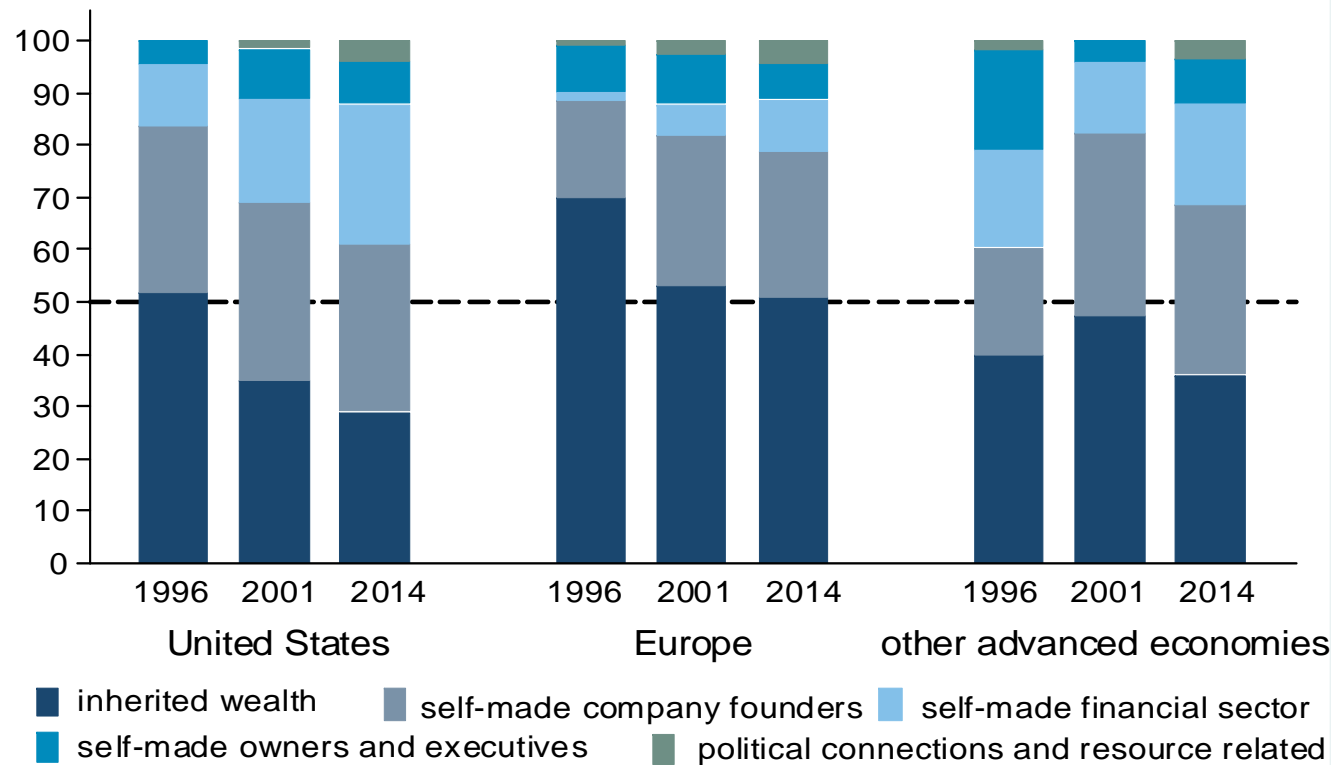


- Resource related/politically connected
- Financial sector
- Inherited
- Company founder & executive



## A Note on the Advanced Countries

share of billionaires

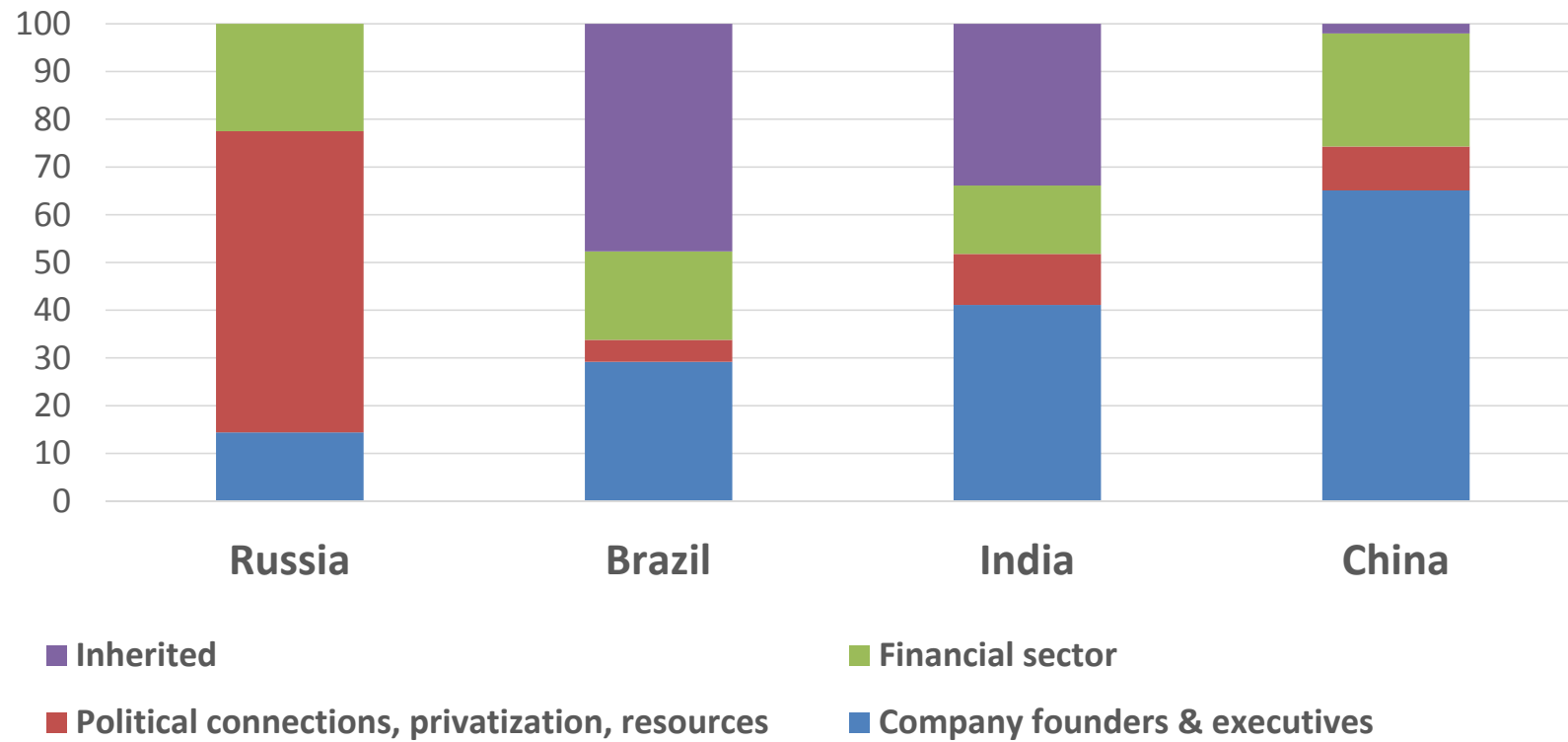






# BRIC Source of Wealth

Distribution of billionaires, by source of wealth, 2014





## Who are the Richest? Chile v. Tunisia

- 1985 same level of development, 2014 Chile is three times richer
- Chile has 12 billionaires in 2014, Tunisia 0



Horst Paulman  
Founder: Cencosud  
First hypermarket in 1976  
645 stores in Latin America



Marouen Mabrouk  
Owner: French chain Casino (and Orange)  
Married to former President Ben Ali's daughter

- Business environment encouraged large *outward* looking firms in Chile.
- Ben Ali clan bought state companies and lured foreign investors in Tunisia.

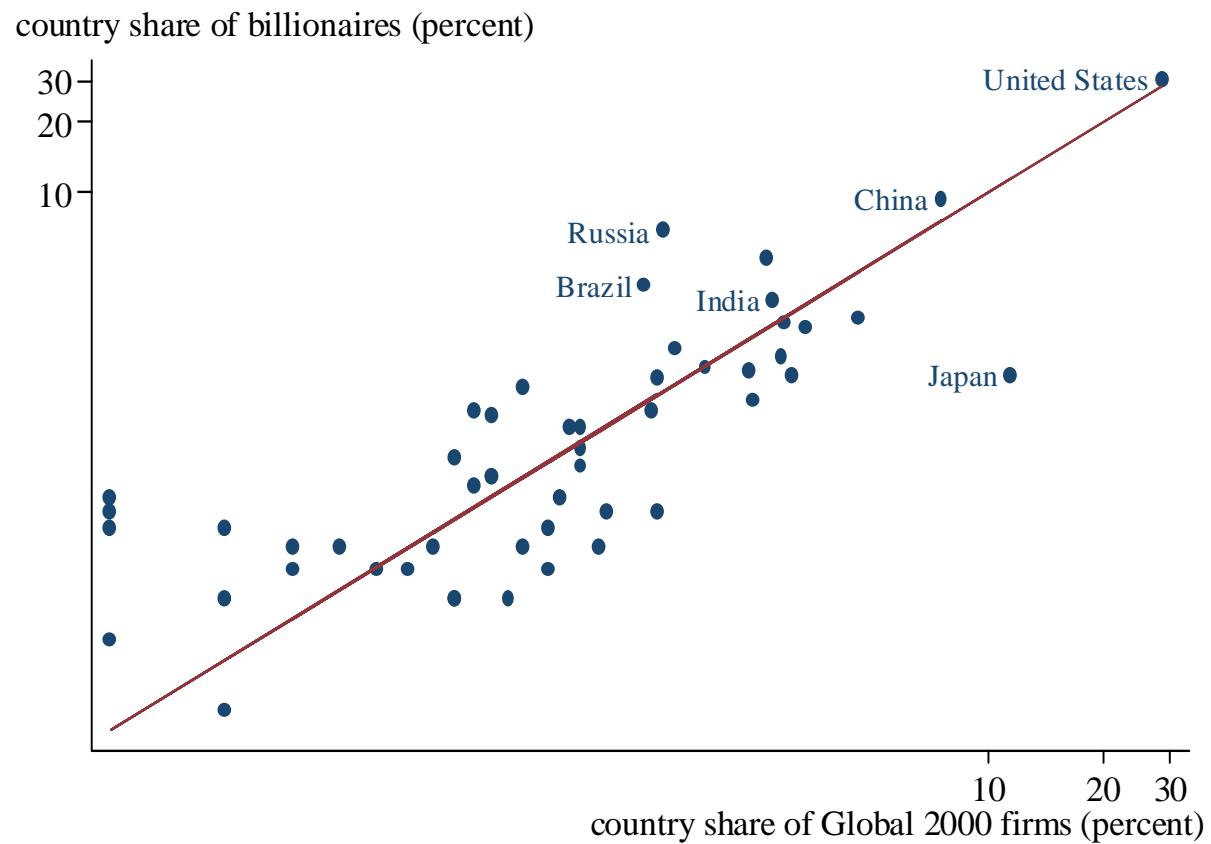


## Individuals Matter

- Case studies: eg. Samsung's success & innovations by Lee Kun-Hee of Samsung.
- Large literature showing CEOs explain a significant share of firm policies and performance, controlling for other determinants. Exogenous variation in leadership – (unexpected) death of CEO.
- CEOs with more decision making power matter more.



# Wealth and Large Firms Go Together



Sources: Forbes World's Billionaires and Global 2000.

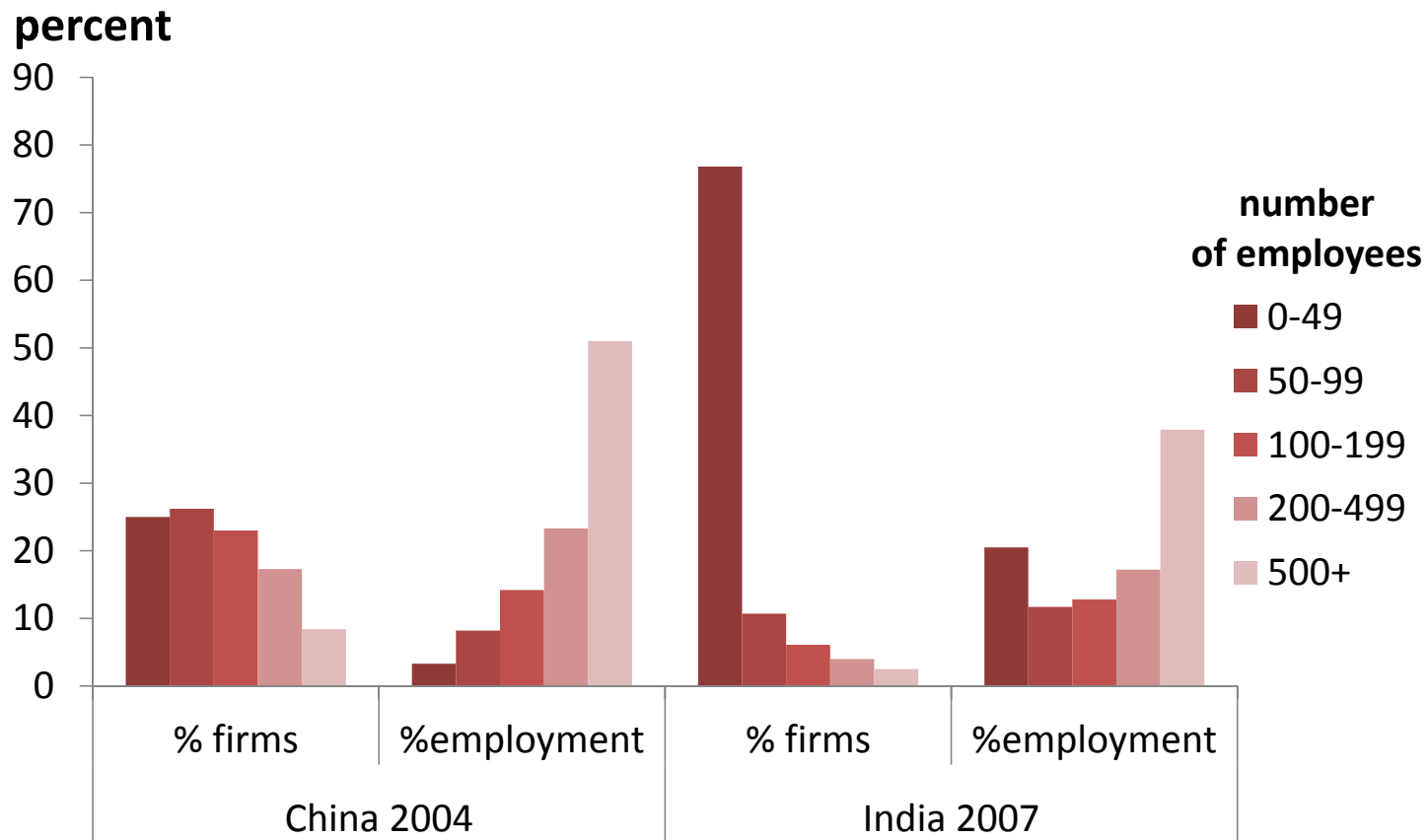


## Large Firms Promote Modernization

- Alfred Chandler – Scale, R&D, and management.
- Allocative efficiency – Firm heterogeneity and resources flow to most productive uses.
- Individual firms matter.



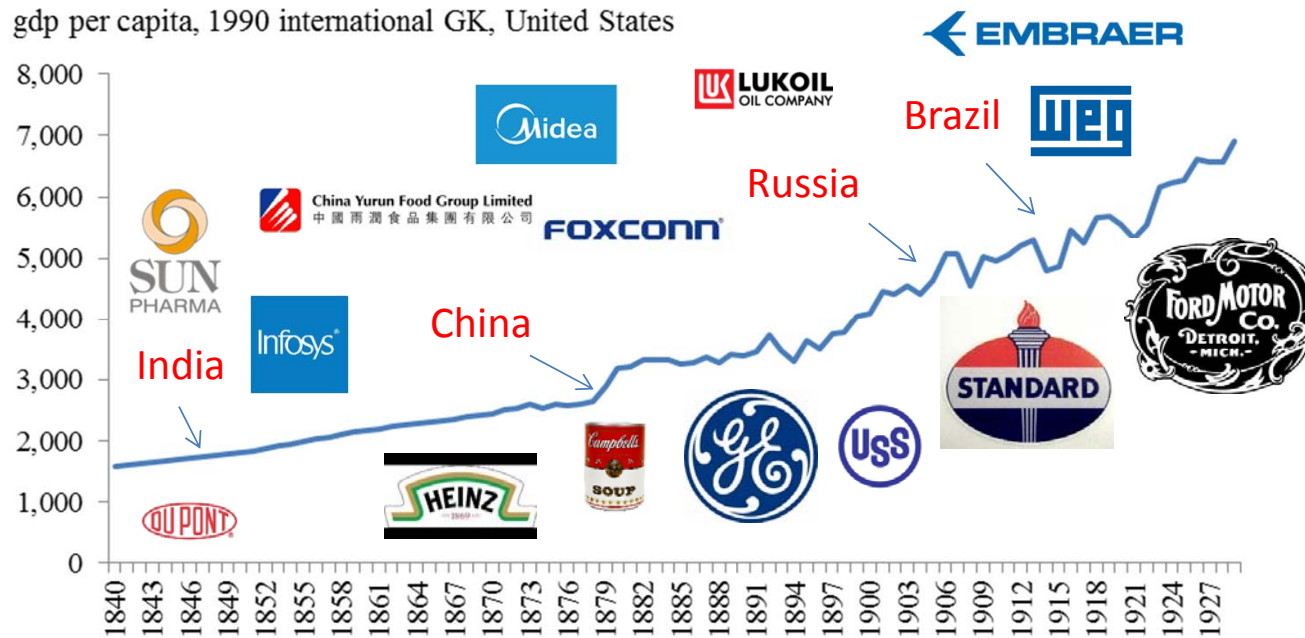
# Large Firms & Manufacturing Employment



Source: van Ark et al. 2010



# Branding Development: US at the turn of last century and the BRICS this century



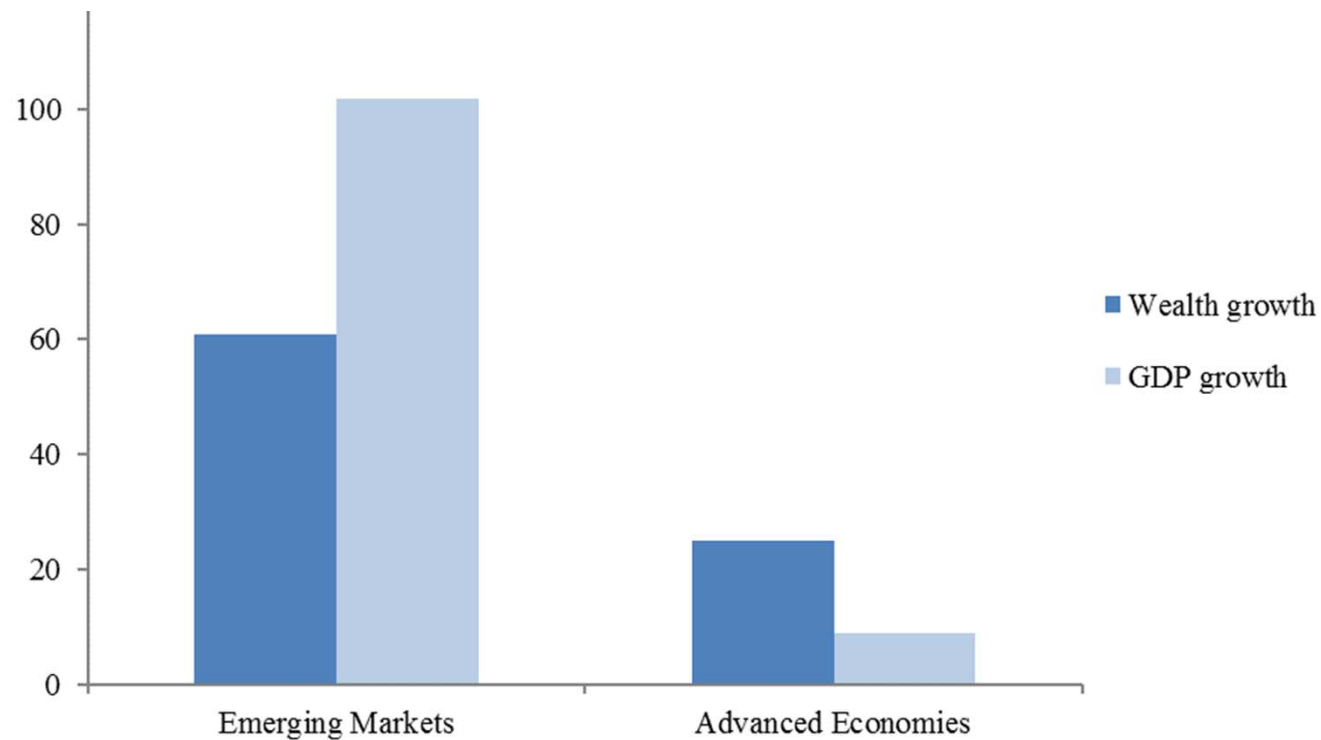
Source: Maddison Project 2013.

# A Note on Extreme Wealth & Inequality

## Wealth is growing faster than income in the North, but not in the South



Growth in wealth of the 5 richest and GDP growth 2006-2012

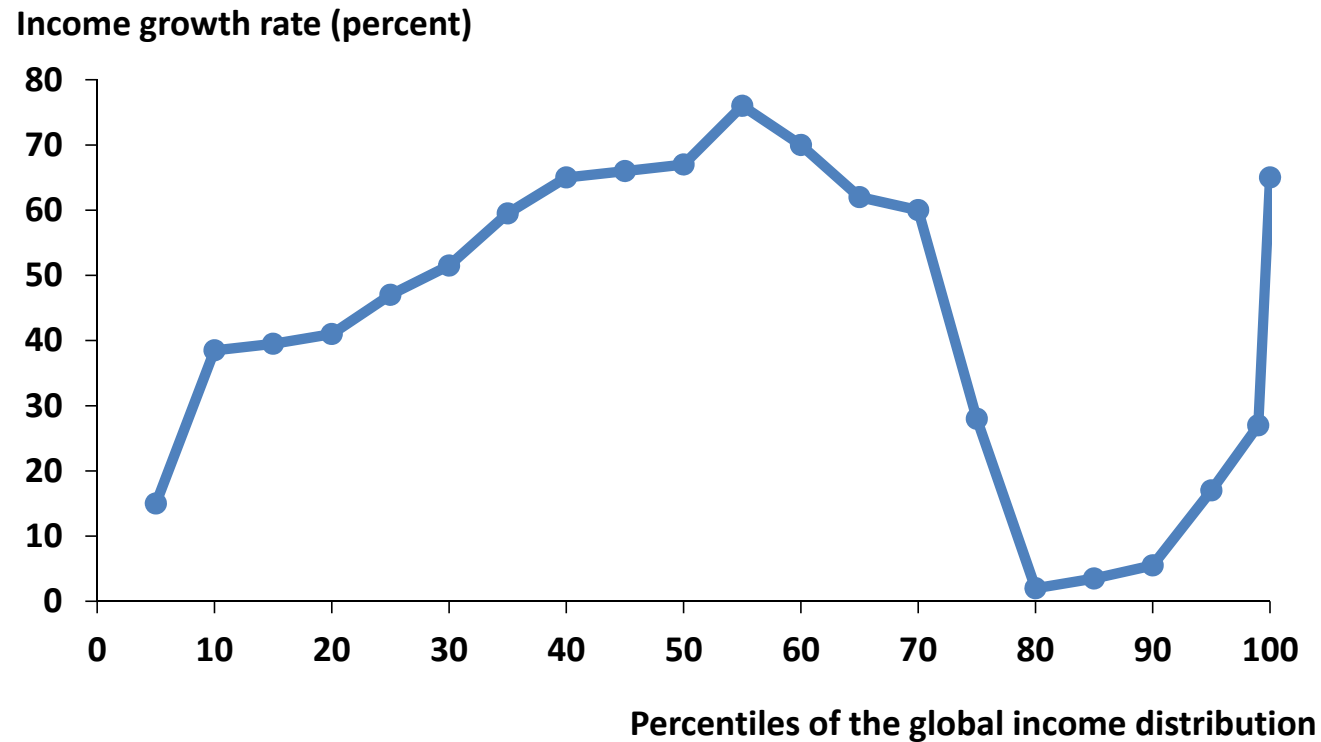


Source: Author's calculations using data from Forbes World's Billionaires and World Bank WDI.





# Global inequality has declined: Growth Incidence Curve, 1988-2008



Source: Lakner and Milanovic (2013)



## Policy Implications

- Promote entrepreneurship
  - Property rights, free entry and openness to trade
- Limit cronyism
  - Transparent privatization & government procurement, competition policy
- Tax more heavily less productive sources of wealth
  - Inheritance & (some) finance

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