Institute of Global Affairs public lecture

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

Caroline Freund

Former Chief Economist for the Middle East and North Africa, World Bank

Professor Erik Berglof

Chair, LSE
Growth in Extreme Wealth

42 percent of World’s billionaires are now from emerging markets.

Given trends, by 2025 more than half will be from the South.

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

Advanced Countries

Emerging Markets

- Resource related/politically connected
- Financial sector
- Inherited
- Company founder & executive
A Note on the Advanced Countries

share of billionaires

United States
Europe
other advanced economies

- inherited wealth
- self-made company founders
- self-made financial sector
- self-made owners and executives
- political connections and resource related
BRIC Source of Wealth

Distribution of billionaires, by source of wealth, 2014

- Russia
  - Inherited: 10
  - Financial sector: 50
  - Political connections, privatization, resources: 30
  - Company founders & executives: 20

- Brazil
  - Inherited: 30
  - Financial sector: 30
  - Political connections, privatization, resources: 30
  - Company founders & executives: 20

- India
  - Inherited: 20
  - Financial sector: 30
  - Political connections, privatization, resources: 40
  - Company founders & executives: 10

- China
  - Inherited: 10
  - Financial sector: 50
  - Political connections, privatization, resources: 20
  - Company founders & executives: 20
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

- 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

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
Institute of Global Affairs public lecture
Rich People Poor Countries: the rise of emerging market tycoons and their mega-firms

Caroline Freund
Former Chief Economist for the Middle East and North Africa, World Bank

Professor Erik Berglof
Chair, LSE

Hashtag for Twitter users: #LSEIGA