



Growth Strategies and Dynamics in Developing Countries

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The Focus

- The subject is sustained high inclusive growth and the policies, investment, leadership and political underpinnings that support it.
 - Sustained means over several decades
 - Inclusive is meant to capture more than income: opportunity, productive employment, access to services
- Primary goal: provide a framework for political and policy leaders in developing countries with responsibility for strategies and policies for growth
- We understand (and are explicit) that growth is not the end goal but a means to several ends: poverty reduction, human development, health, the opportunity to work productively and to be creative

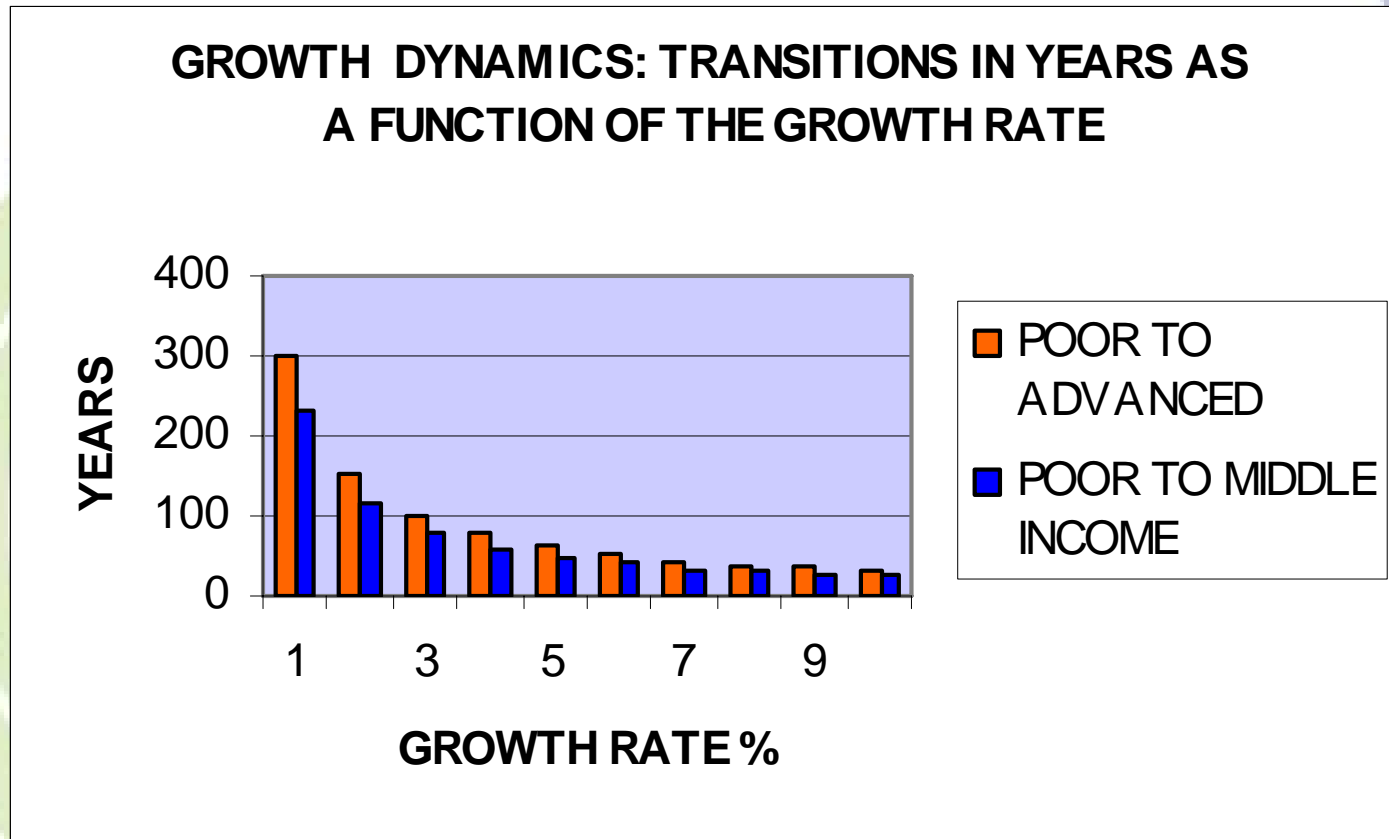
Sustained Growth Dynamics

- 12 cases of sustained high growth (7% or more for 25 years or more)
- Botswana; China; China, Hong Kong, SAR; Indonesia; Japan; Korea; Malaysia; Malta; Oman; Singapore; Taiwan, China; and Thailand
- India and Vietnam are close because of growth accelerations in the past 10-15 years
- There may be others because of recent growth accelerations (in part due to upward shift in the relative price of energy, commodities and food).
 - The jury is out on whether these initial growth accelerations will be transformed into sustainable growth dynamics: rapid employment creation and structural diversification

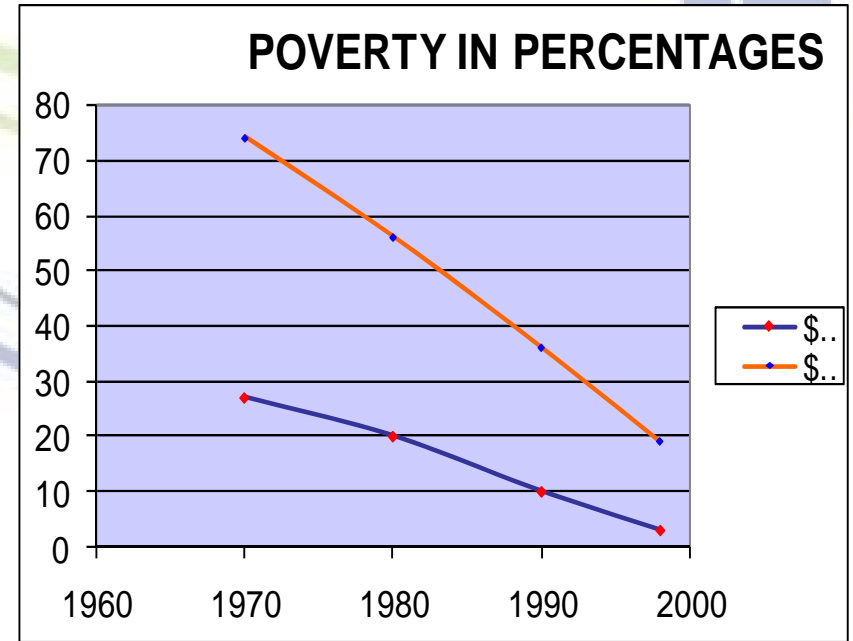
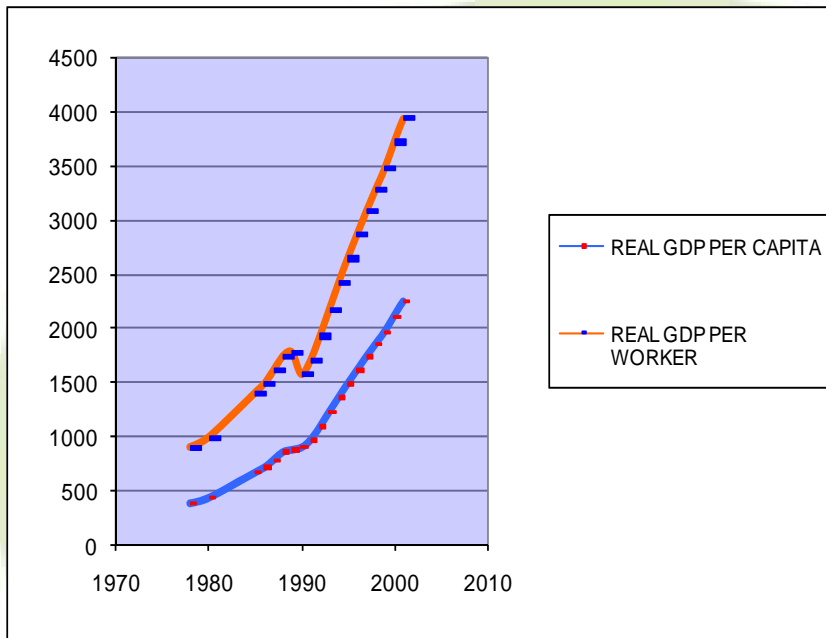
Common Characteristics

- Engaging and leveraging the global economy: demand and knowledge
- Market incentives and decentralization
- High levels (and effectiveness) of savings and investment
- Rapid diversification and incremental productive employment
- Structural transformation: creation and destruction
- Resource mobility - especially labor - across sectors and geography
- Rapid urbanization
- Stable and functional investment environment

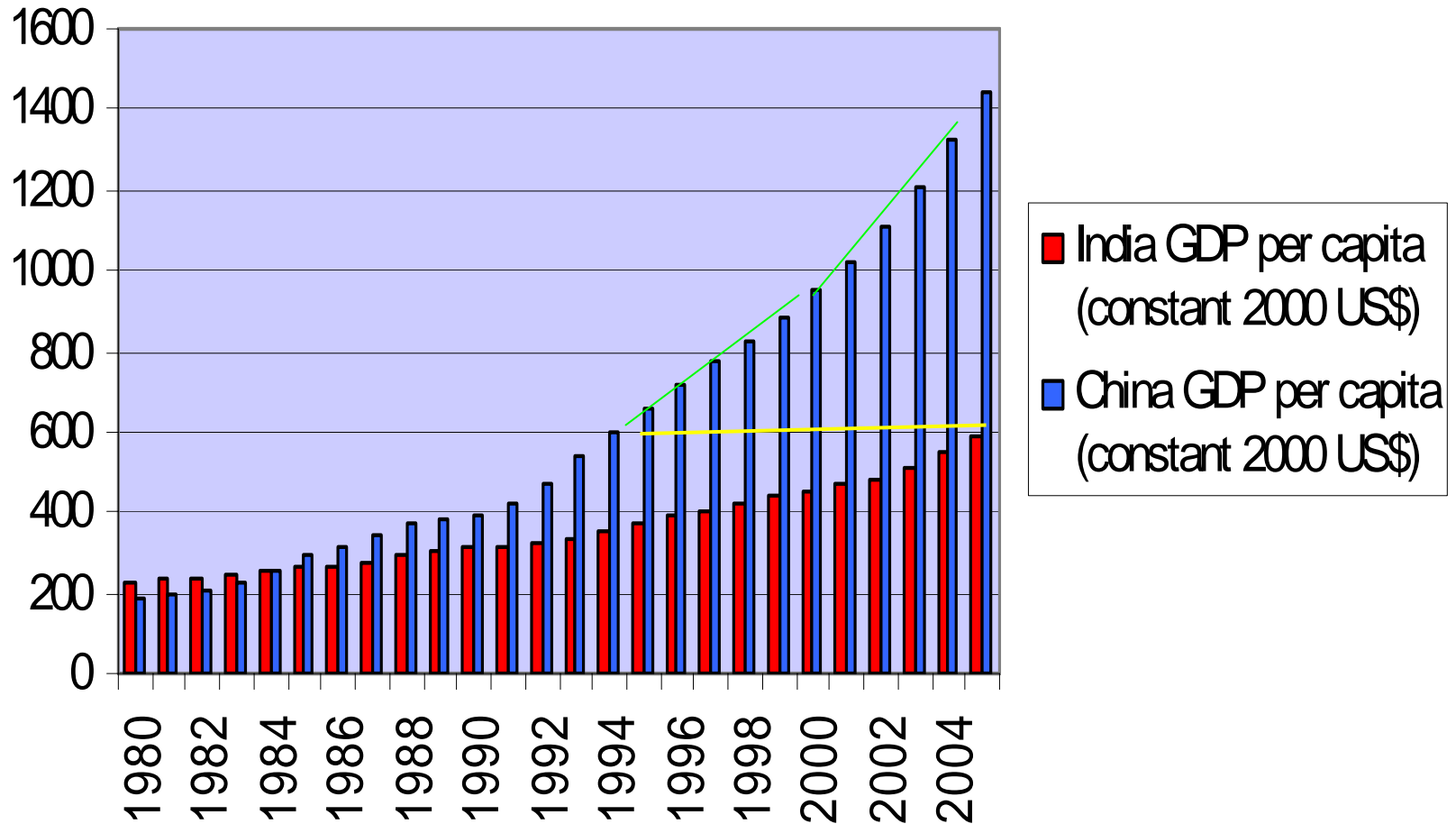
Sustained Growth Time Horizons



China: GDP per capita and Poverty Reduction

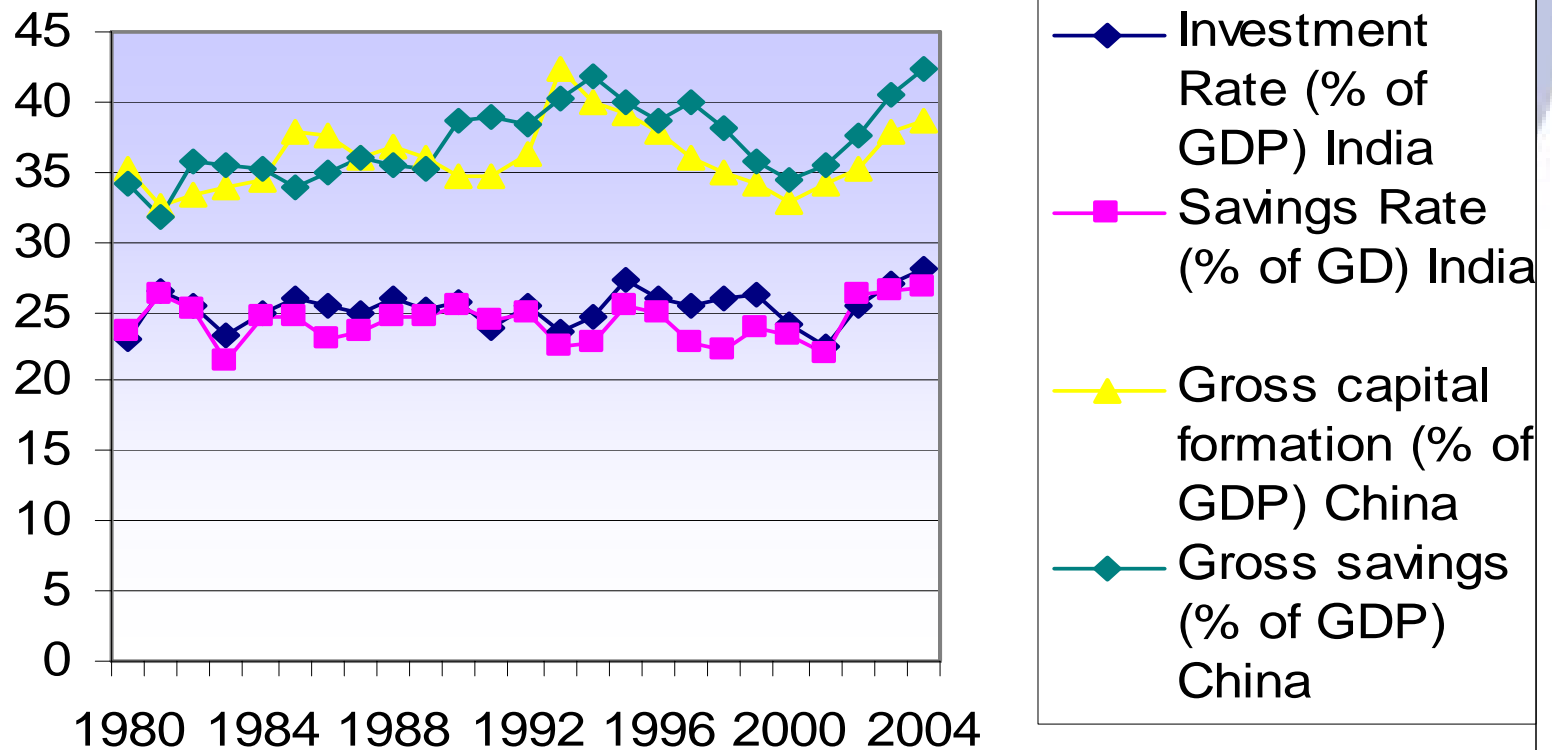


GDP per capita: China and India (constant 2000 US\$)



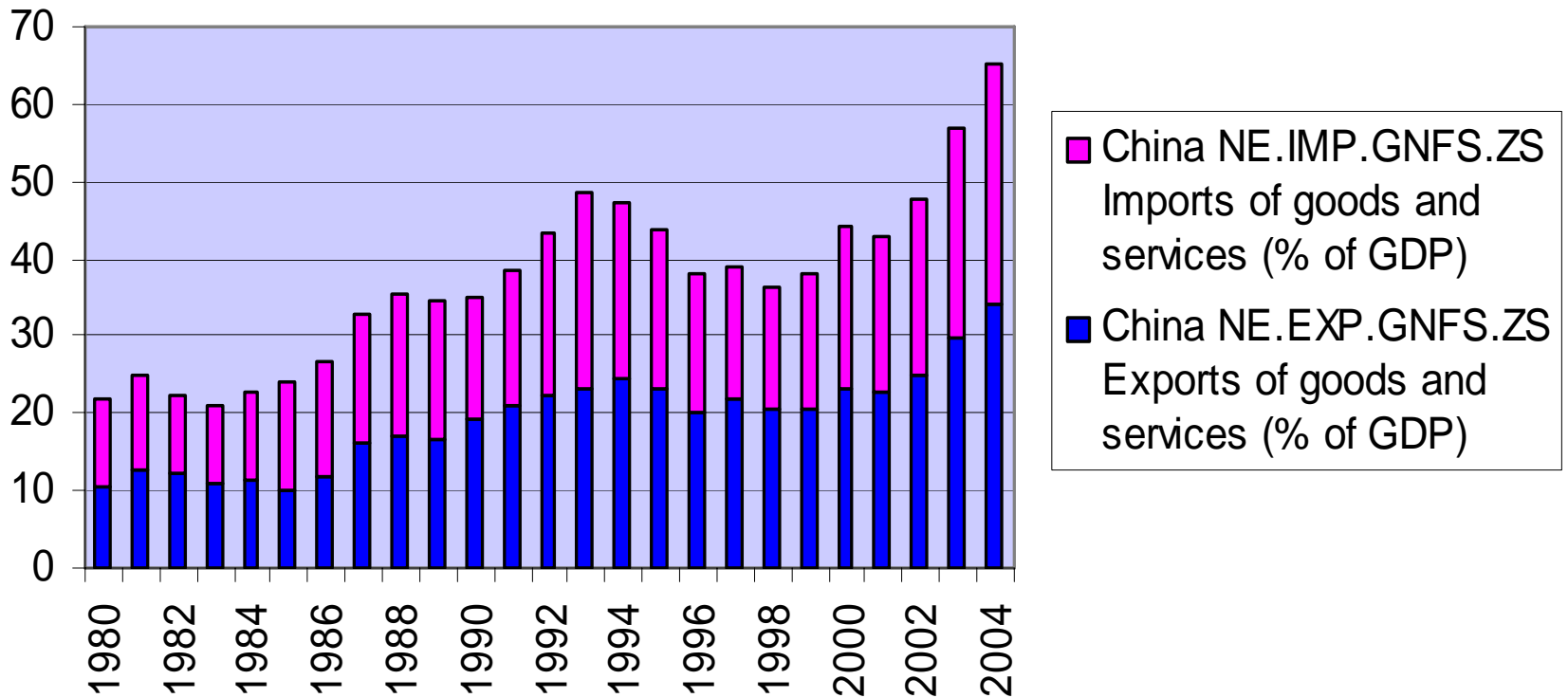
Saving and Investment

Savings and Investment in India and China

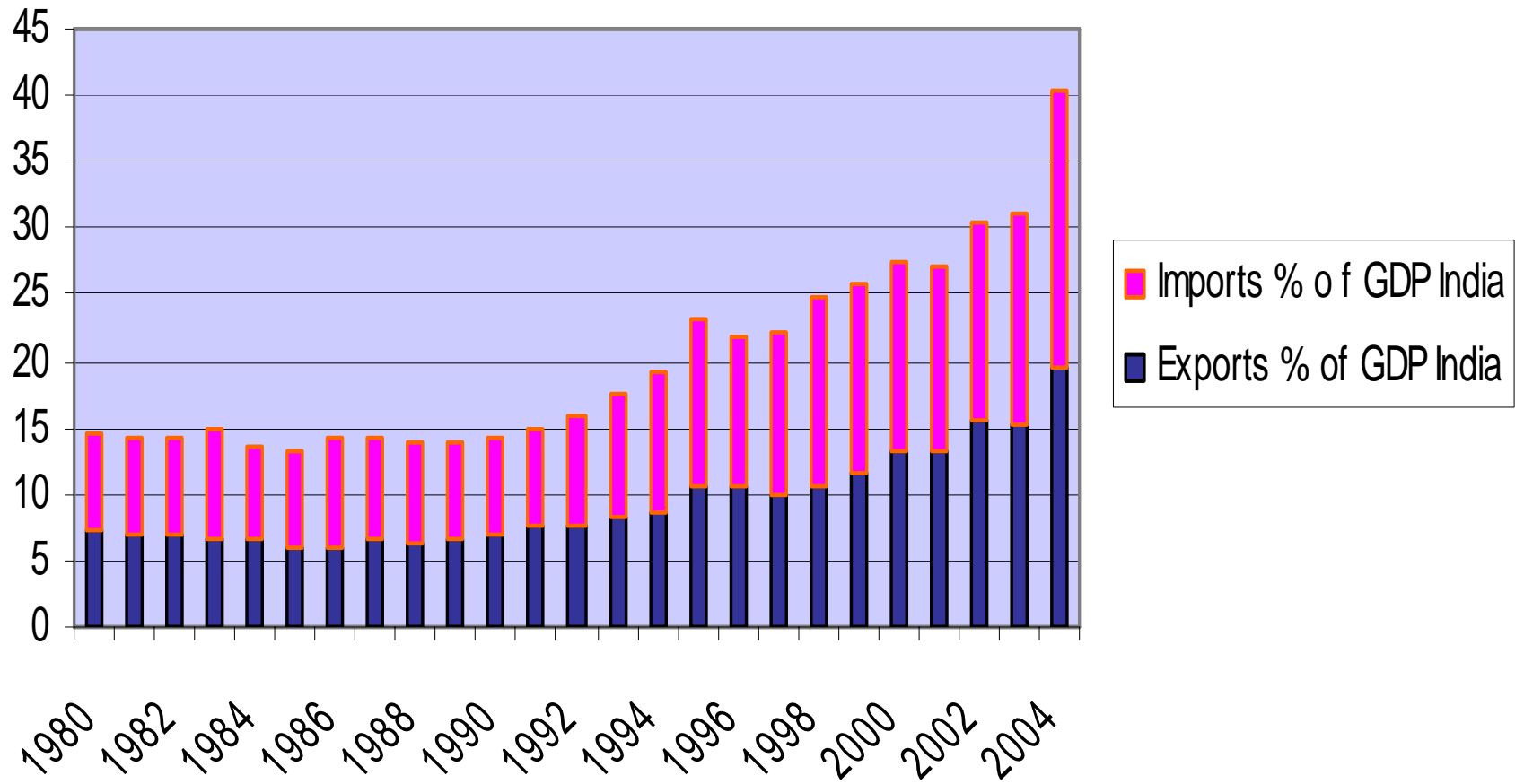


Leveraging the Global Economy

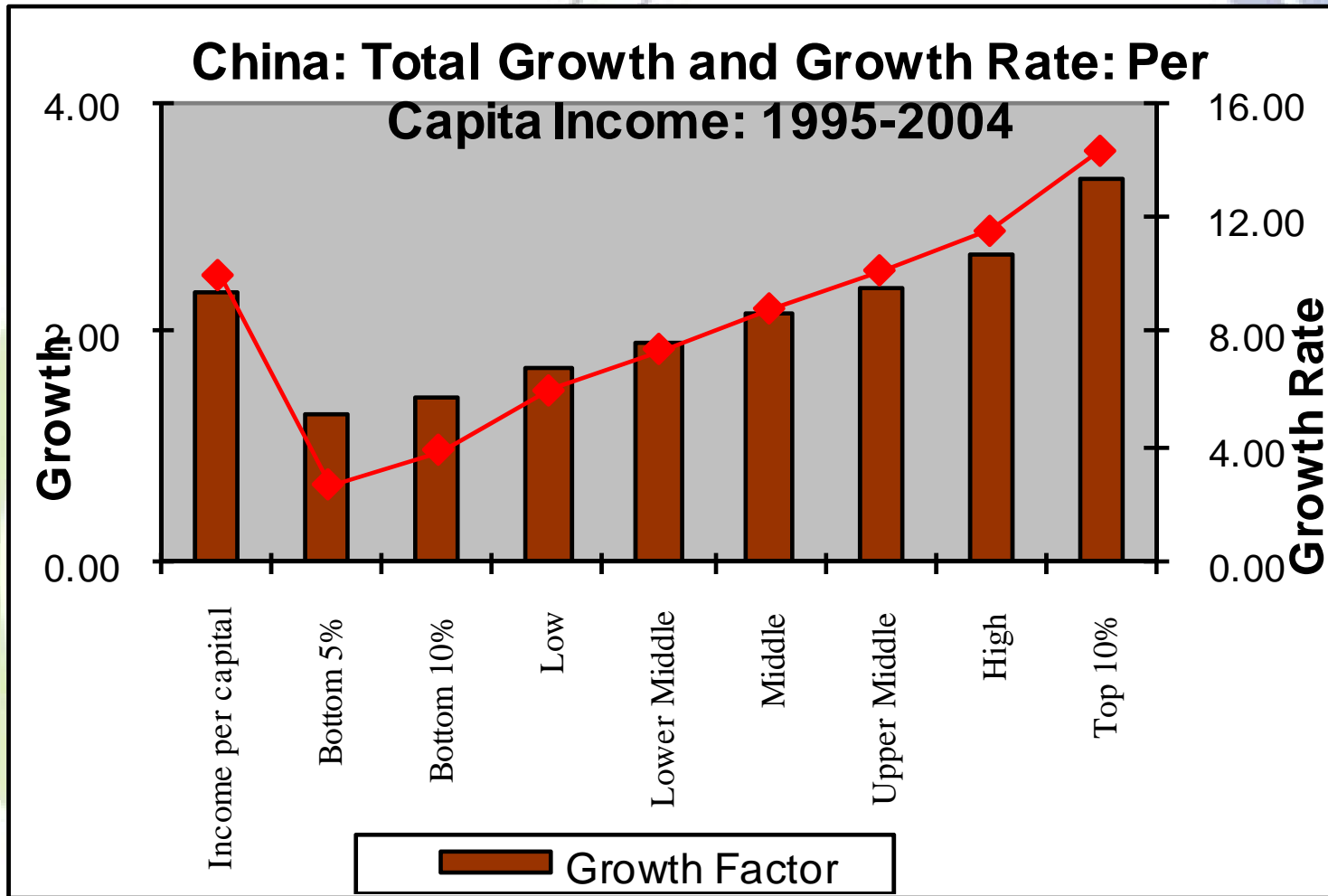
Trade in Relation to GDP China



Trade in Relation to GDP India



Income Inequality



Sustained High Growth is Difficult to Achieve

"Some of the literature gives the impression that it is after all pretty easy to increase the long-run growth rate. Just reduce a tax on capital here or eliminate an inefficient regulation there, and the reward is fabulous, a higher growth rate forever, which is surely more valuable than any lingering bleeding-heart reservations about the policy itself. But in real life it is very hard to move the permanent growth rate; and when it happens, as perhaps in the USA in the later 1990s, the source can be a bit mysterious even after the fact."

(Bob Solow, 2007, OREP)

Necessary and Sufficient Conditions

- **A this stage of our understanding of economic development, no one knows with a sufficient degree of conviction, the necessary and sufficient conditions for growth.**
- **It would be preferable if it were otherwise.**
- **Decision-making with incomplete model of the responses of economy to policy choices**
- **As economy and its institutions develops and matures, its responses change and become more like advanced countries**
- **Learning about a moving target**

A Central Question

- **“What do leaders and governments need to do increase the likelihood of setting these dynamics in motion?”**

Leadership and Politics

- Strategy and some vision about where this is all leading
- Long time horizons
- Communication
- Compacts with stakeholders
- Values
- Inclusiveness
- Clarity about the intended beneficiaries and the objective
- Managing political transitions
- Navigation with imperfect and sometimes inaccurate maps

Successful Navigation

- Recognition that advanced country model is incomplete guide
 - Especially in the early stages of growth
- Skepticism of theory and orthodoxies
- Avoidance of paralysis in the face of uncertain responses
- Usefulness of similar cases as a partial guide
- Gradualism or step by step approach
 - As a risk mitigation strategy
 - Caution in policy shifts but rapid implementation
- Experimental approach to policy and reform
 - Need to truncate failed experiments promptly
 - Expand successful ones quickly
- Clarity and unwavering attention on the goal
- Persistence, patience and a very long time horizon
 - Need to sustain focus through political transitions

Government Effectiveness

- Policy formulation and priority setting
- Attracting top flight talent
- Support an environment of vigorous policy debate
 - Whether the debate is externally visible and accessible to outsiders varies a lot from case to case
- But not endlessly
- Capacity to act and implement
- Anticipate mistakes (viewed ex post)
- Admit and fix

Policy Areas With Incomplete Maps

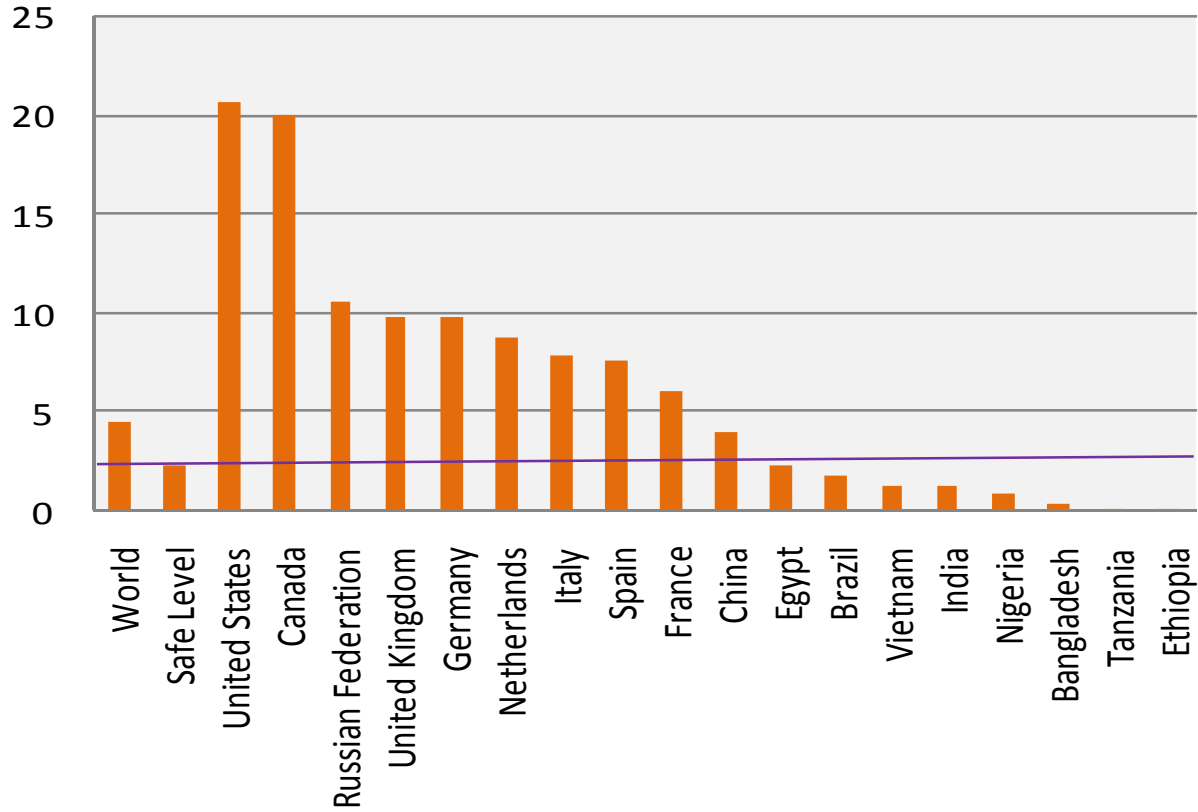
- Speed of opening up on the current account
 - Maintaining reasonable balance between rate of job creation and job destruction
- Financial sector maturity and openness on the capital account
- Stimulating export diversification
 - With minimal inefficiency, waste and risk of capture
 - Incentives that are explicitly transitory
- The exchange rate and capital account opening as industrial policy tools
- The surplus labor problem in the early stages
- Finding a successful formula and doing it for too long
 - Structural transformation is continuous and very little is permanent
- Protecting people and families (not sectors, firms and jobs on a permanent basis) in the destruction part of creative/destruction, that is in the transitions

Climate Change and Global Warming

- Similar decision-making structure
- Time horizon: on the order of 50 years
- Sequential decision making with high initial uncertainty, learning along the way, and a moving target with respect to mitigation costs and options as a result of technology
- Uncertainty in several areas
 - Science: ranges are high for given levels of stock of CO₂ in atmosphere
 - Costs:
 - By source
 - Efficient pattern of mitigation across countries
 - Time path of cost reduction
- Response: take actions that reduce mitigation costs and generate the maximum amount of useful information, to inform the next round of decision making

CO2 EMISSIONS PER CAPITA

Tons per year



The Global Context

Key External Influences on Developing Country Options

- Doha success
- Financial Stability and Governance
- Responsive climate change strategy that accommodates growth
- Internationally supervised migration for work
- Focus on equity and risk mitigation internally and also in advanced countries
- Voice in evolving global governance