PICTURE THIS

The Ingredients of

SINCE 1950, 13 economies have managed to grow at an average rate of 7 percent or more for at least 25 years in a row. How did they do it? And, more important, can such high growth be repeated in other countries on a sustained basis? For over two years, these were the questions that guided the work of the Commission on Growth and Development, comprising leaders from business, government, and academia, including two Nobel laureates.

Diversified and engaged

Sustained fast growth is not a miracle—it is possible for developing countries, as long as their leaders are committed to it and take advantage of the opportunities provided by the global economy. The 13 successes identified by the Commission (see table) include the familiar Asian examples, but the list is otherwise well diversified in terms of size, resource endowment, and political regime.

Since economies can learn faster than they can invent, developing countries can catch up through much faster growth than was experienced by today's industrialized countries when they were creating their own growth levers. Even with high rates, catching up is a long-term process that takes two generations or more.

Critical to success is engagement with the global economy that enables developing countries to import knowledge and technology, to access markets, and to generate a strong export sector, which is especially important in the early stages of growth.

Sustained high growth in developing economies is a post–World War II phenomenon.

Economy	Period of high growth	Per capita income: At start of growth period	Per capita income: 2005[1]
Botswana	1960–2005	210	3,800
Brazil	1950–1980	960	4,000
China	1961–2005	105	1,400
Hong Kong SAR	1960–1997	3,100	29,900
Indonesia	1966–1997	200	900
Japan	1950–1983	3,500	39,600
Korea	1960–2001	1,100	13,200
Malaysia	1967–1997	790	4,400
Malta	1963–1994	1,100	9,600
Oman	1960–1999	950	9,000
Singapore	1967–2002	2,200	25,400
Taiwan Province of China	1965–2002	1,500	16,400
Thailand	1960–1997	330	2,400

Source: World Bank, *World Development Indicators 2007*.
Note: A 7 percent cutoff was chosen because growth at these rates produces very substantial changes in incomes and wealth: income doubles every decade at 7 percent.
[1]In constant 2000 U.S. dollars.

The five common characteristics of sustained high growth

In addition to engaging with the global economy, these high-growth countries share other important characteristics. Macroeconomic stability—which includes relatively low inflation and avoidance of excessive debt—helped them ride out economic shocks and uncertain investment horizons. Their economic policies and collective choices were oriented toward the future, helping them achieve high investment and saving rates.

These 13 countries also relied on markets, including mobility of labor, to allocate resources. And strong leadership—in the form of individuals, parties, or political systems—forged a consensus around the goals of growth and development, and ensured the process was inclusive and fair in terms of opportunities.

Sustained High Growth

How did they do it?

Six of the economies—Hong Kong SAR, Japan, Korea, Malta, Singapore, and Taiwan Province of China—continued to grow all the way to high-income levels. But several lost momentum before catching up with industrialized nations. The most striking example is Brazil (see next box).

It is not easy—or common—for middle-income countries to reach high income. The first priority for policymakers is to anticipate this transition and the new demands it will make of them.

Korea, for example, changed its policies and public investments in the 1980s and the 1990s to help the economy's evolution from labor-intensive manufacturing to a more knowledge- and capital-intensive economy.

The second priority is for countries to let go of some of their earlier policies, even the successful ones. Singapore, for example, responded to evolving economic conditions at home and abroad by allowing labor-intensive manufacturing to migrate elsewhere in the region, where labor was cheaper. It even ran special economic zones in China and India.

Brazil's slowdown

Brazil, one of the first countries to achieve sustained high growth, began to slow down in 1980. The country suffered inflation and debt overhang from the 1973 oil shock.

Instead of seeking to expand exports, it turned inward in 1974 and extended a policy of protecting light manufacturing domestic industries to heavy industries and capital goods production.

Brazil's exchange rate appreciated dramatically and its exporters lost much of the ground they had gained in previous decades. When dollar interest rates spiked in 1979, Brazil was plunged into a debt crisis from which it took more than a decade to emerge.

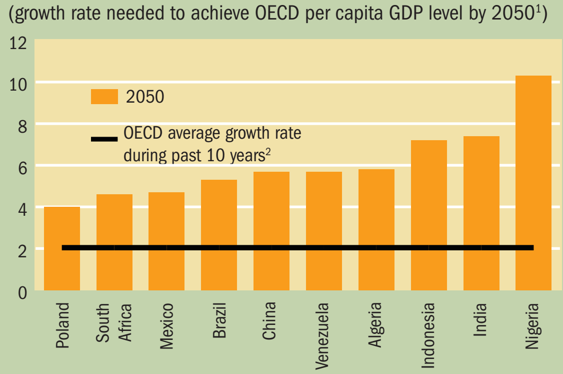
New global challenges

Countries embarking on a high-growth strategy today must overcome some global trends their predecessors did not face. These include global warming; the falling relative price of manufactured goods and rising relative price of commodities, including energy; swelling discontent with globalization in advanced and some developing economies; the aging of the world's population, even as poorer countries struggle to cope with a "youth bulge"; and a growing mismatch between global problems—in economics, health, climate change, and other areas—and weakly coordinated international responses.

But whatever the challenges, the strength of the global economy remains central for rapid growth in developing countries.

Developing countries will need strong growth to catch up with OECD countries.

(growth rate needed to achieve OECD per capita GDP level by 2050[1])



Source: World Bank, *World Development Indicators 2007*.
[1]Per capita income in the OECD countries was $30,897 in 2006. Assuming it continues to grow at the historical trend of 2.04 percent a year, it would become $75,130 in 50 years.
[2]OECD=Organization for Economic Cooperation and Development.

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