# Growth models to growth strategy: a consensus view

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# Consensus on growth strategies: post East Asian miracle (institutions?)

**Early Washington Consensus**

- Trade liberalization
- Open capital account??
- Macroeconomic stability
- Privatization

**Sachs-Warner Index**:

- Tariffs < 10%, quotas <40%
- BMP < 20%
- Non-socialist government
- No export monopoly

**Post EA miracle consensus**

- Weak RER
- Macro stability
- Exports and FDI
- EPZ + socialism works too

**Africa w/poverty traps:**

- **Levers for growth**
- **Macro stability, weak RER**
- **Aid OK, resource rents?**
- **Aid can break poverty trap**
- **Debt relief?**

# What about institutions?

**Institutions fundamental but,**

- Country specific (Rodrik) hard to change
- May be endogenous (Resource curss- Collier)
- Correlated with Geography (Sachs- malaria, landlocked)
- Some work-arounds: (Collier– ISA, military, EPZs)
- Asset redistribution shocks

**Not essential as there are other levers for growth** (Johnson et al.below)

- Trade- EPZs
- Competition, open capital markets
- FDI- new technologies
- Education
- Political coalitions (Marshal plan)
- Black and white cats both hunt mice… (China, HRS, etc.)

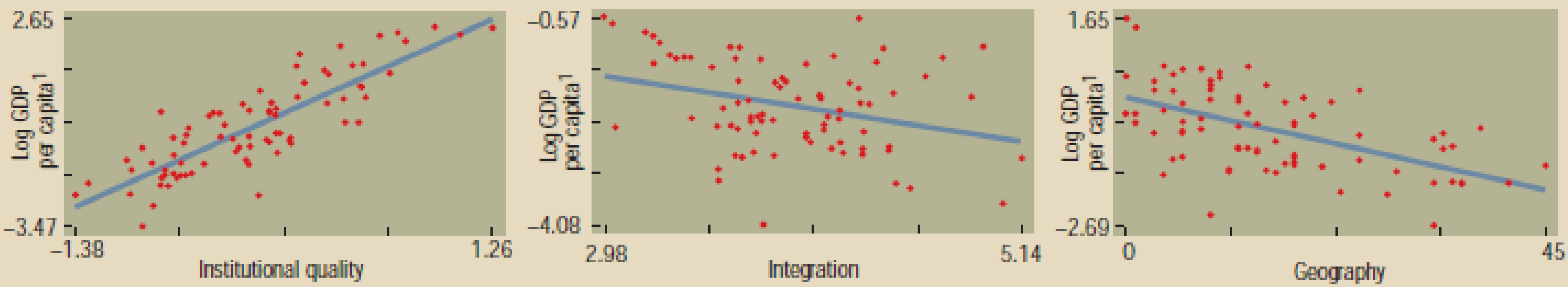
# Rodrik and Subramanian (2003)

Chart 2

## Institutional quality scores high

Institutional quality can boost income significantly, while global integration and geography, on their own, do not.

**As institutional quality rises, so does income ... but increases in integration may not help ... nor does a more benign geographic location.**




Source: Authors

Note: The graphs capture the causal impact of each of the determinants on income, after controlling for the impact of the others. The indicators of integration and geography used are the ratio of trade to GDP and distance from the equator, respectively. For further details, see Rodrik, Subramanian, and Trebbi (2002).

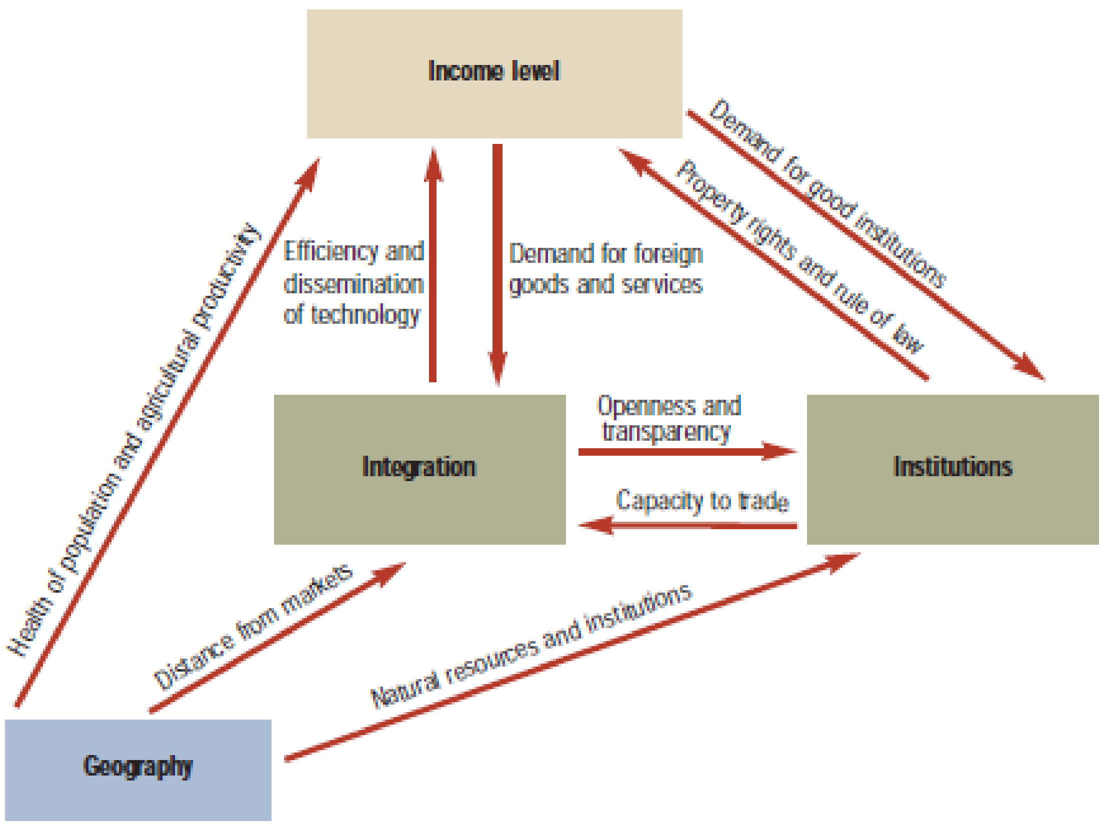
[1]Expressed in terms of purchasing power parity, 1995.

# Rodrik and Subramanian (2003) F&D

Chart 1

**The "deep determinants" of income**

Development and its determinants are related in multiple and complex ways, making the task of determining and quantifying causality difficult.



# Levers for growth in Africa

## Showing promise

Some African countries show strong potential when compared with developing countries that have previously managed sustained growth.[1]

| | Measures of Broad Institutions | | Economic Outcomes | | | Potential Policy Levers | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | Economic institutions | Political institutions | Growth | Export performance | | Key characteristics of recent sustained growth cases, with weak initial institutions | | | | | | |
| | Investment risk[2] | Constraint on the executive[3] | Average past 10 years[4] (percent) | Exports to GDP[5] | Manufacturing exports to GDP[5] | Trade openness[6] | Currency over-valuation[7] | Inflation[8] | Primary education[9] | Secondary education[9] | Aid to GDP[5] | Costs of entry[10] |
| Burkina Faso | 9.0 | 3.0 | 1.6 | 5.3 | 1.2 | 0.50 | 1.5 | 2.03 | 43.6 | n.a. | 11.9 | 3.3 |
| Ethiopia | 7.0 | 3.0 | 4.0 | 7.9 | 0.9 | 0.83 | -19.0 | 17.78 | 63.9 | 19.0 | 16.6 | 4.3 |
| Ghana | 6.8 | 4.0 | 1.9 | 27.5 | 4.8 | 1.00 | -17.0 | 26.7 | 81.4 | 37.7 | 9.4 | 1.0 |
| Mali | 7.5 | 5.0 | 1.7 | 26.0 | 0.16 | 1.00 | 8.6 | -1.4 | 57.0 | n.a. | 11.8 | 2.3 |
| Mozambique | 8.5 | 4.0 | 5.7 | 9.9 | 0.68 | 1.00 | -3.7 | 13.4 | 98.9 | 13.3 | 32.0 | 0.7 |
| Senegal | 8.0 | 6.0 | 1.3 | 21.2 | 6.3 | 0.00 | 13.2 | 0.0 | 75.3 | 18.7 | 7.7 | 1.2 |
| Tanzania | 7.5 | 3.0 | 1.3 | 9.3 | 1.4 | 1.00 | 130.2 | 3.5 | 69.9 | n.a. | 12.2 | 2.3 |
| Uganda | 9.0 | 3.0 | 4.1 | 7.6 | 0.6 | 1.00 | 25.6 | 7.8 | 136.4 | n.a. | 11.1 | 1.1 |
| Average | 7.9 | 3.9 | 2.7 | 14.3 | 2.0 | 0.79 | 17.4 | 8.7 | 78.3 | 22.2 | 14.1 | 2.0 |
| Sub-Saharan Africa | 7.5 | 3.7 | 1.4 | 26.0 | 5.6 | 0.48 | 12.6 | 12.9 | 90.9 | 38.8 | 11.1 | 1.4 |
| Sustained growth countries (SGCs) | 6.4 | 2.1 | 6.5 | 22.4 | 5.7 | 0.65 | -13.5 | 9.1 | 96.0 | 34.3 | 5.1 | 0.2 |
| Developing world | 8.3 | 4.4 | 1.6 | 28.9 | 13.2 | 0.44 | -6.1 | 8.3 | 99.0 | 60.4 | 7.0 | 0.7 |

Source: Compiled by authors.

[1]Data are for the most recent period available, except for the SGCs. For the SGCs, see note to each column.

[2]The risk rating, from the International Country Risk Guide Economic Rating, is the sum of three components (contract viability, payment delays, and profit repatriation) and varies from 0 (high risk) to 12 (low risk). For SGCs, data refer to the mid-1980s.

[3]The measure, which is an assessment of the operational independence of the chief executive of the country, varies from 0 (no constraint) to 7 (maximum constraint) and is from the Polity IV database. For SCGs, data refer to the start of the growth episode (T).

[4]For SGCs, values are averages over the period T to T+7 (World Bank's World Development Indicators).

[5]For SGCs, values are averages over the period T to T+5 (World Bank's World Development Indicators).

[6]The measure combines five criteria—tariffs, nontariff barriers, black market premium, state monopoly over exports, and socialist economic system—for determining openness. It is based on Sachs and Warner (1995) as updated by Romain Wacziarg and Karen Horn Welch. It varies from 0 (closed regime) to 1 (open regime). For SGCs, values are averages over the period T to T+5.

[7]The measure is the percentage overvaluation of the real exchange rate in 2000. Overvaluation is measured as the deviation of a country's actual exchange rate from a benchmark rate related to a country's per capita income measured in purchasing power parity terms. For SGCs, values are averages over the 10-year period from T-5 to T+5.

[8]For SGCs, data refer to the most recent period (IMF's *International Financial Statistics*).

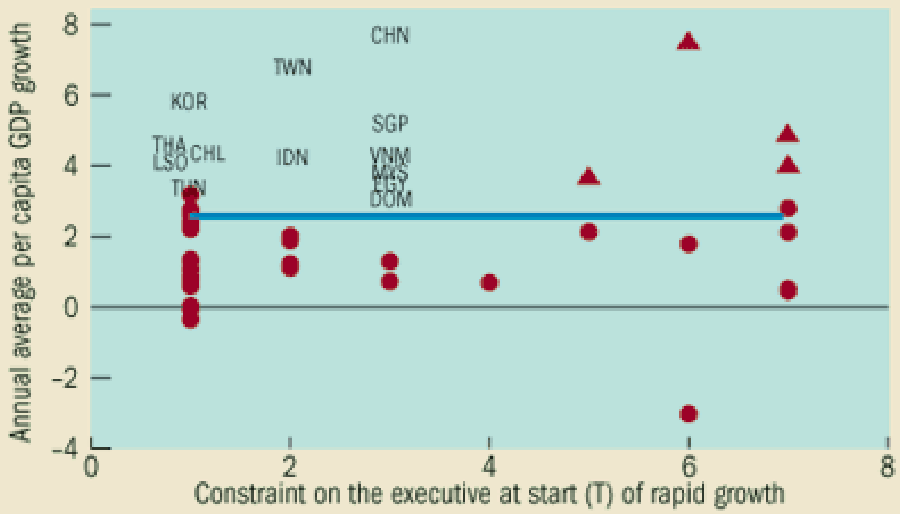
[9]Measured as the gross enrollment ratio (World Bank's World Development Indicators). For SGCs, data refer to the year T.

[10]From World Bank Doing Business Database, and measured as the costs in U.S. dollars per capita of starting a business. For SGCs, data are for the most recent period.

Chart 1

## No holding them back

Many of the countries that experienced sustained growth started with weak institutions.




CHL = Chile
CHN = China
DOM = Dominican Republic
EGY = Egypt
IDN = Indonesia
KOR = Korea
LSO = Lesotho
MYS = Malaysia
SGP = Singapore
THA = Thailand
TUN = Tunisia
TWN = Taiwan Province of China
VNM = Vietnam

Sources: World Bank, World Development Indicators database, and Polity IV.

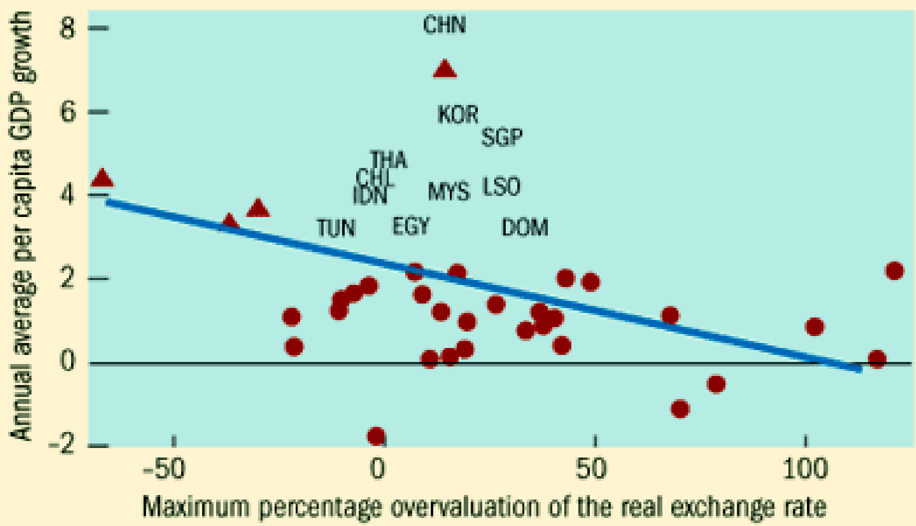
Note: The following notation applies to all the charts: countries with weak initial institutions are represented by country codes in the case of sustained growers and by circles in the case of unsustained growers, and countries with strong initial institutions by triangles (see text for definitions). T refers to the start of the growth acceleration as identified in Hausmann, Pritchett, and Rodrik, (2004), or to 1970 for countries without accelerations. The growth rate is the average from T to the most recent period for which data are available.

# Competitive RER

Chart 2

**Getting the currency right**

The sustained growers avoided prolonged bouts of currency overvaluation.

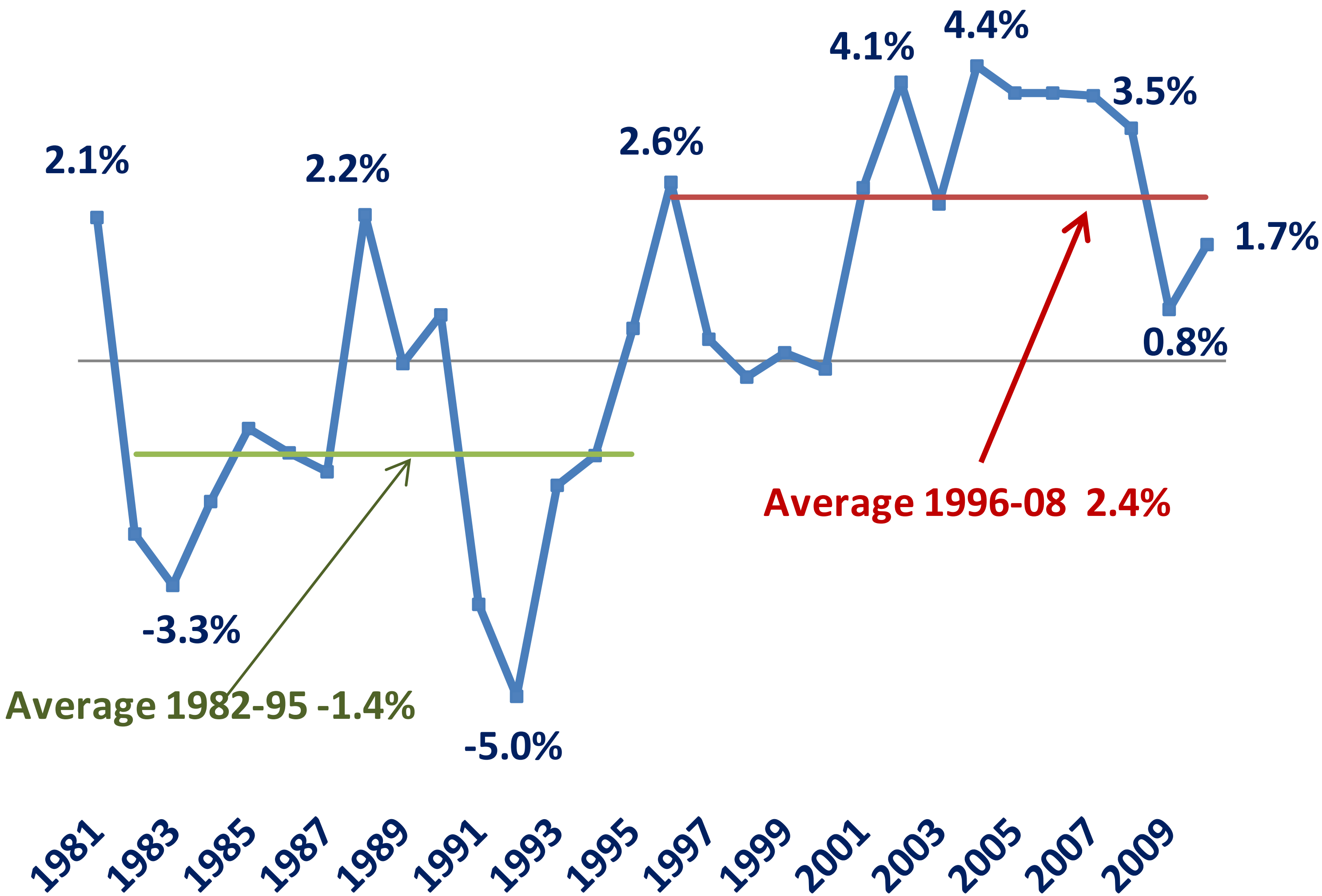



CHL = Chile
CHN = China
DOM = Dominican Republic
EGY = Egypt
IDN = Indonesia
KOR = Korea
LSO = Lesotho
MYS = Malaysia
SGP = Singapore
THA = Thailand
TUN = Tunisia

Sources: World Bank, World Development Indicators database, and IMF staff estimates.

Note: Overvaluation is measured as the residual from a regression of the real exchange rate against per capita income, measured in terms of purchasing power parity.

# Figure 1 SSA Per capita GDP Growth rate




*Source: IMF WEO April 2010 Database (population weight average GDP per capita) not including Liberia, Eriteria,*

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