



Policy Brief # PB-55-2019

February 20, 2019

Lessons from Emerging Economies

Shahid Najam
Vice Chairman, BIPP



Lessons from Emerging Economies

by

Shahid Najam, Vice Chairman

The sustainable and substantial growth of the emerging economies derive from a multiplicity of factors based albeit on well thought out context specific package of interventions. Despite the variety of income levels, sizes, endowments base, and geographic spread across the regions and substantial difference in the governance and planning paradigms, there are many similarities and commonalities in the pursuit of development agenda espoused by the decision and policy makers which could serve as strategic guide for the developing countries including Pakistan to learn from.

The three factors which stand out in determining the level of development and trajectory of growth of the individual emerging countries are: policy and political stability, robust and functional institutions and conducive environment for private sector development and growth.

These economies, it is estimated, contribute around 66 percent to the global GDP growth. The ones which seem to have registered consistently higher economic growth have pursued a pro-growth policy framework characterized by increase in productivity, income and demand. The dynamic private sector and in particular the large corporations and enterprises (with annual revenues of more than \$500 million) played a key role in giving boost and momentum to the economic growth¹. These companies identified and seized the opportunities unraveled by the changing global economic order to drive the local economies and to achieve consistently annual GDP growth exceeding 3.5% during the entire period of last 50 years. China, Hong Kong, Indonesia, Malaysia, Singapore, South Korea and Thailand are the seven specific countries to outperform their competitors in the developing economies.

¹ Outperformers; high Growth emerging economies and the companies that propel them by the McKensey Global Institute

Another group of 11 countries namely Azerbaijan, Belarus, Cambodia, Ethiopia, India, Kazakhstan, Laos, Myanmar, Turkmenistan, Uzbekistan, and Vietnam managed to achieve annual GDP growth rate of around 5% for the last 20 years from 1995 to 2016.

The distinguishing features which set them apart from the rest are:

- macro-economic stability and flexible adjustment in the wake of global volatility and change (demographic, trade patterns- south south, digital revolution and rapid technological development especially ICT);
- capital accumulation with concomitant increased investment (30% vs. 20% rest) and domestic savings;
- ability to utilize and optimize export potential of goods and services by incentivizing private sector, in particular, the large companies to respond to the global demands and invest in R&D and innovation;
- transformation of comparative advantage to competitive advantage to provide impetus to productivity (an average gain of 4.1% vs. 0.1% elsewhere), assimilation of technology and innovation;
- wealth generation with equity as integral part of the policy package as is self evident from the fact that around 1.02 billion poor² were brought out of the poverty trap in these countries between 1990 and 2013;
- job creation and income enhancement (China more than 8.6% annually while other outperformers around 6%);
- urbanization, expansion of middle class and stimulation of consumer society;
- development of strong institutions including financial and banking services;
- FDI of around \$630 billion between 2000 and 2016;

While Pakistan has all the essential ingredients in terms of human and demographic advantage, natural resource and physical endowments, and social and financial assets to become a sustainable high middle income country, the lack of policy stability to fully harness the private sector potential,

² According to World Bank people living on less than \$1.90 per day

weak institutions incapable of functioning on a sustainable paradigm and the gross public sector governance dysfunction continue to pose the daunting challenges. The new government need to address these issues and in particular learn from the experience of other countries to embark on sustainable human development.