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Sources of Aggregate Growth in Developing Regions: Still More Questions than Answers?
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1 Introduction
In the last 40 years of the twentieth century, economic growth was a puzzle and a surprise, defying orthodox predictions and prescriptions. Growth has varied tremendously across and within developing regions, and over time. A selected group of Asian developing countries was the only region to have experienced persistent and high growth over the period. In others, especially Africa and Latin America, growth has been very disappointing and highly volatile, despite huge inflows of development finance and significant economic reforms since the 1980s. The transition economies have experienced larger initial drops in their GDP than anticipated by economists, and the Arab countries have witnessed marked volatility in their performance. In all of this period, and despite massive development assistance and a plethora of special global initiatives directed at eliminating underdevelopment traps, only Botswana and Mauritius have graduated from the list of least-developed countries. Rather, more countries continue to join the league, and currently there are 49 such countries with 34 of them in Sub-Saharan Africa. The economic recovery since the mid-1990s in most developing regions has been minuscule relative to the requirements for poverty reduction, and for Africa even the best performers are projected to remain very poor in 2020 if present trends continue (Berthelemy and Soderling, 2001).

What is the reason for all these disappointing results and what can economists tell us about their causes? From Adam Smith’s seminal Inquiry into the Nature and Causes of the Wealth of Nations (1776), through the neoclassical growth models, development economics,
and the recent extensions in the endogenous growth models, understanding economic growth has always been the fulcrum of economic science. Despite the eternal interest and the burgeoning literature on the subject, it would be fair to say that if the disappointing growth performance is a measure of economists’ ignorance, then there is plenty of it. Our ideas about why nations prosper and others stagnate remain largely fickle and contentious. Even in our state of ignorance, however, there are certain fundamental insights that our current state of knowledge and methodology permit us to draw. The goal of this chapter is to illuminate the state of play by summarizing what we know, what we don’t know, and what we should know about the sources of growth in developing regions in the last 40 years. We draw primarily from six regional papers on growth written for the GDN growth project to highlight both the areas of consensus and agenda for further research. The six regions covered include Sub-Saharan Africa (SSA), the Middle East and North African (MENA) region, Latin America, Transition Economies, South Asia, and the Southeast Asian region. Our key finding is that the literature has come a long way to underscore some of the growth fundamentals consistent with our educated guesses. However, we admit that the largely unresolved issues tend to raise more questions than answers.

The chapter is organized into four sections. Section 2 summarizes the broadly agreed growth-accounting framework and the evidence from the regional studies and empirical literature. In section 3, we evaluate the various cross-national ‘regression-based’ approaches to decomposing the sources of growth and summarize the findings. Section 4 summarizes the major themes that emerge as ‘unresolved issues’ or as an agenda for further research and concludes the paper.

2 Aggregate growth-accounting framework

Growth results from two major sources – the accumulation of factor inputs (physical capital and labour), and the efficiency of factor use (total factor productivity, TFP). Why does the source of growth matter for policy? The answer lies in the nature of factor accumulation and the concern for long-run sustainability of growth. According to the neoclassical growth model, which is supported by empirical evidence, factor accumulation exhibits diminishing returns. Thus, for sustainable long-run growth, a country cannot rely solely on accumulation of factor inputs, but must have growth in TFP.