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Drivers of High Economic Growth

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ABSTRACT

Over the past few decades, economists' interest in the factors influencing economic growth has grown. What drives economic expansion? Why do some nations expand more quickly than others? What are the causes of inequitable nation-growth? The literature that attempts to investigate the factors that contribute to economic growth has exploded as a result of these problems and the resurgence of research in economic growth. Every country now views economic growth as a desirable fruit, and economists place great emphasis on the idea of economic growth for the following reasons:

First, stronger economic growth promotes human welfare on its own (Aghion et al., 2010).

Second, economic expansion boosts the nation's capacity to produce goods and services (Rittenberg et al., 2012).

Third, increased employment possibilities and labour productivity contribute to lower levels of poverty, the most prominent issue facing developing nations (Melamed et al., 2011).

Fourth, it enhances quality of life through the lens of human development by emphasising enhanced conditions for education and health (Ranis et al., 2000).

Fifth, it improves people's quality of life by giving them access to more commodities and services (Grant, 2014).

Sixth, faster economic growth generates more tax income for the government, which can be utilised to provide poor people with more basic services (Booth et al., 2016).

Seventh, it results in more effective use of limited natural resources (Stiglitz, 1974).

Eighth, it promotes the growth of socioeconomic infrastructure, raising people's standards of living and assisting in quickening the rate of economic growth (Canning et al., 2004).

Ninth, it eventually lessens income inequality. According to the Kuznets hypothesis, income disparity tends to develop during the early stages of growth but tends to reduce during a later stage of expansion (Aghion et al., 2010).

Tenth, faster economic growth leads to the creation of a stable financial system because demand for better and more effective financial services rises as economic growth rates rise (Patrick, 1966).

Keywords : Economic Growth, Income Inequality, GDP, Income per Capita

Introduction- Economists and policymakers have been looking for the factors that influence economic growth from the time of the mercantilists to the present era of globalisation and information technology. Up until the middle of the 18th century, a group of European economists known as the mercantilists believed that economic development in a country resulted from the buildup of wealth in the shape of precious metals such as gold and silver, which can be acquired through creating export surpluses from international trade (Blaug, 1991). In this sense, international trade is a key factor in determining economic growth.

Another school of French economists, the Physiocrats, placed emphasis on productive activity, especially in agriculture as a key contributor to national wealth and, consequently, to economic progress in the second half of the 18th century (Muller, 1978). An influential Physiocrat of the 18th century named François Quesnay proposed that agriculture is the only sector productive enough to produce an economic surplus that can boost national prosperity (Blaug, 1962; Reynolds, 2000).

Later, the mainstream economists held that economic expansion is primarily fueled by investments in productive activity. Under the laissez-faire system, Adam Smith (1776) promoted free trade as the primary engine of a free capitalist economy (Aspromourgos, 1999; Hajela, 2014; Peet et al., 2009; Reynolds, 2014). David Ricardo claimed that an economy is made up of three working classes, namely landlords, capitalists, and labourers, but that only capitalists are responsible for starting the process of expansion (Golub et al., 2000). Importantly, T. R. Malthus defined the economic growth from a demographic point of view and claimed that whereas means of subsistence expand in an arithmetic progression, population increases in a geometric progression (Malthus, 1951). According to J. A. Schumpeter, economic growth results from disruptions brought about by entrepreneur-made innovations in the continuous flow of income.

Every nation must pass through five stages of development, according to W. W. Rostow, including the traditional society stage, where the economy is based primarily on subsistence farming, the preconditions for take-off stage, where agricultural production becomes more mechanised and output is traded, and the take-off stage, where a manufacturing sector gains more importance and the glory of the agriculture sector becomes dull. the age of high mass consumption stage, where output levels rise, consumer spending rises, and the economy turns towards the tertiary sector; and the drive to maturity stage, where the state of technology increases as well as the manufacturing industry becomes more diverse (Rostow, 1959).

The Keynesian school of thought argued that in order to attain optimal economic performance, aggregate demand must be stimulated by adjustments to government spending and taxation. This will prevent the economy from experiencing a short-term downturn (Keynes, 1936). When population increase is assumed to be constant, Roy F. Harrod and Evsey Domar suggested a steady - state condition long-run model in which the rate of capital accumulation is seen as the key determinant of economic growth (Sato, 1964). Robert M. Solow added population growth and technical advancement to the capital accumulation in the Harrod-Domar model of long-run growth within the neo-classical framework. He also discusses how declining capital returns are what causes countries to converge (Solow, 1956; Barro et al., 2004).

It is important to highlight that the emphasis on physical capital as the primary predictor of economic growth has started with the evolution of the neo-classical school of thinking. Based on the assumptions of exogenous technological progress, continuous returns to scale, and the substitutability of capital and labour, neo-classical economists asserted that an increase in the capital-labour ratio contributed to economic growth.

Growth requirements include the use of labour and declining capital's marginal productivity (Aghion & Howitt, 2010). In the absence of technical advancement, the neo-classical growth model made the key premise that capital gains fall with time, leading to a steady state economy with zero per capita growth. Such presumptions are, however, seen by contemporary economists as serious weaknesses in the neo-classical school of thought.

Due to the flaws in neo-classical models, new growth theories were created that made the production process endogenous. By assuming an exogenous saving rate and a fixed level of technology in the absence of declining returns to capital, Lucas (1988) and Rebelo (1991) devised the AK growth model in the 1980s, which results in endogenous growth (Barro et al., 2004; Hussein et al., 2000). In his model, Robert Lucas asserts the endogeneity of economic growth and identifies human capital as the primary factor driving it because it boosts both the productivity of labour and physical capital (Bethmann, 2007). Paul Romer, another proponent of endogenous growth, emphasised the importance of R&D and innovation in determining economic growth

(Dinopoulos et al., 1996). Thus, endogenous growth models emphasise the importance of human capital, particularly the 1992 Mankiw-Romer-Weil model (Edwards, 2004).

Neo-Schumpeterian economics, also known as innovation economics, first came into existence in the 1990s and holds that in the current knowledge-based environment, capital alone is insufficient for economic growth. As a result, the emphasis has been placed primarily on innovation and knowledge as the drivers of economic growth (Hanusch et al., 2007). Both horizontal and vertical innovation are examples of this innovation. The increase of product variations and ongoing improvements to production processes are referred to as horizontal innovation. On the other hand, vertical innovation involves raising production and improving product quality. It is referred to as the Schumpeterian approach because it defines "creative destruction" as the total replacement of outdated, low-quality items with new, enhanced, high-quality ones (Barro et al., 2004).

The neo-classical models assumed that population was fixed and exogenous to the system, but various growth models that take migration into account (along with other variables like fertility decisions) endogenize the population and view labour force participation as a key component in economic growth (Beine et al., 2001). There are numerous other implicit elements that influence economic growth but cannot be explicitly assessed, in addition to these explicit ones. These are therefore known as the "Solow Residual" in the growth accounting system (Barro, 1999).

According to Simon Kuznets' inverted-U theory, inequality increases as the economy grows before it starts to improve and diminish. This theory holds that as a country develops, inequality first grows along with growth before gradually falling. Additionally, Kuznets' theory suggests that increased production may result from more equitable distribution (Kuznets, 1955). Therefore, it is clear that inequality contributes to and is affected by economic growth. The theories and empirical research on the relationship between inequality and economic growth can be divided into three main categories: first, inequality dampens economic growth by weakening aggregate demand of those at the bottom (Stiglitz, 2012); other factors for this negative impact of inequality on economic growth include imperfect capital markets, pressure for redistribution, and socio-political instability; second, inequality enhances economic growth; and third, inequality has no effect on either economic growth or growth in the number of people who are wealthy (Kandek (Peterson & Schoof, 2015). Benhabib (2003) discovered a little hump-shaped association between inequality and growth and claimed that initially going modestly away from total equality is beneficial for growth, but also acknowledged that growth declines as inequality increases. Thirdly, inequality has no major effect on the nation's growth through the usually characterised routes, such as reduced consumption, lower levels of human capital, and also through credit markets (Bernstein, 2013). In fact, inequality has a neutral effect on economic growth in America. With the development of databases (Maddison, 1982; Heston & Summers, 1991), which made statistics on income per capita available for many nations and for extended periods of time, a great number of empirical research developed alongside this theoretical perspective in the late 1980s (Romer, 1994). These studies identified a number of additional new factors that influence economic growth, particularly in the context of developing nations, including infrastructure, institutions, public policies, trade openness, financial development, inflation, political freedom, macroeconomic stability, and many others (Boyd et al., 1985; King et al., 1993; Barro, 1996; Khan et al., 2005; Barro, 2003; Tridico, 2007; Ndambiri et al.).

East Asia, South East Asia, South Asia, Central Asia, and The Pacific are the four subregions that make up the developing and fastest-growing part of the world known as Asia (ADB, 2016). The World Bank has classified the 50 economies in the region into four income groups: high income, higher middle income, lower middle income, & low income economies. This classification alone shows that there are differences in Asian economies' rates of economic expansion. According to Gonopadhyay and Bhattacharyay (2015), rapid economic expansion in China, India, and other Asian nations has not resulted in the predicted gains in life quality and has instead worsened income and non-income inequities. Along with these barriers to economic growth, Asian has had to deal with the issue of income and wealth inequality. The fact that only three sub-regions of Asia's expanding and

developing continent—East Asia, South-East Asia, and South Asia—are included in this issue of inequality is evidence of its existence (Khan, 1996). Even within Asia, these three sub-regions exhibit stark disparities in growth performance as indicated by per capita income. Because of its better policies, attractive demographics, better location, or starting level of education, East Asia in Asia grew more quickly than the remainder of the world, whereas South-East Asia ranked somewhere in the middle in all of these categories. However, due to its less suitable demographics and policies, South Asia fared poorly on all of these growth indicators. The disparities in growth performances of these sub regions of Asia are explained by the different performance of nations on these factors. In terms of income per person, East Asia attained an South-East Asia saw an unparalleled rate of expansion, whereas South Asia grew more slowly than the rest of the globe (Radelet et al., 1997; Khan, 1996; Nakaso, 2015). It is not homogeneous like other regions; rather, it consists of socially, culturally, geographically, politically, and economically diverse nations.

But these nations all have one thing in common, namely, quick economic and social progress. Prior to the Industrial Revolution, Asian economies accounted for 60% of world GDP. However, as western economies gained pace in their expansion, Asia's growth showed a decreasing tendency, and by the early 1950s, its proportion had dropped from 60% to just over 10%. However, the Asian economy did not collapse, and a period of expansion known as the "Asian Miracle" quickly began in the 1960s. In the 1960s, Japan saw rapid economic expansion, which was followed by Hong Kong, Korea, Singapore, and Taiwan. In the 1980s, Malaysia and Thailand also experienced rapid economic growth. China likewise gained speed in the 1990s and experienced double-digit growth (Nakaso, 2015).

Although the vast majority of its people is illiterate and unemployed, Asia has now emerged as the world's centre for manufacturing, information, and technological services. Despite this, Asia is also the largest net saver and lender to industrialised nations. It also has its negatives, including a financial sector that is underdeveloped and a lack of investment in infrastructure and urbanisation (ADB, 2016). Asia has had remarkable growth over the past few decades, going from a low-income to a middle-income region. By boosting productivity through innovation, human capital, and infrastructure, Asia can now evolve into a high-income region (ADB, 2017).

One of the most successful growth tales in the history of economic development is the expansion of Asian economies since World War II. Asia has grown successfully as demonstrated by the incredible development of Japan, which was followed by the Asian Tigers in the 1970s, ASEAN nations in the 1980s, and China in the 1990s and 2000s (Ito, 2017).

With this success in expansion, Asian economies have significantly eliminated poverty and raised the standard of living in their countries. As a result, countries in this region began to have an impact on the process of global economic development and to exercise control over global governance in the financial and economic domains. Because of its strong economic recovery following the 2007–2008 global financial crisis, Asia's reputation among industrialised nations like North America and Europe has transformed from what it once was. Due to Asia's rapid economic growth, the United States benefits. Given that the region's openness to international trade and finance is a significant driver of its growth, the U.S. and Asian economies, as well as the global economy, are now bound together by strong economic ties (Bernanke, 2009).

The subject of what drives the rapid expansion of Asian economies and what elements can stop the region's growing disparity is brought up by Asia's growing prominence in the global economy and among advanced nations. But there haven't been many research that can provide an answer to these queries. Studies that are either country specific or multi-country studies have identified a relatively small number of economic growth factors at the Asian level (Ha & Lee, 2016; Bloom & Finlay, 2009; Vu, 2017; Kim & Lau, 1994; Young, 1994, 1995; Krugman, 1994; Quibria, 2002; Sarel, 1996; Elson, 2006; Han et al., 2002; Devarajan & Nabi, 2006; Lunn et al., 2011; Woetzel et al., 2014; Thomsen, 1999; Samad, 2009).

In their study of the factors influencing Asia's economic growth from 1981 to 2007, Lee & Hong (2010) used the growth accounting paradigm to identify the sources of the region's rapid economic development. Even though this study is a solid contribution to the effort to address Asia's economic problems, it needs to be updated with data from 2007 and onward.

The drivers of growth in Asian economies were explored by Ghazanchyan et al. (2015) with a focus on the influence of investment, the exchange rate regime, financial risk, and capital account openness between 1980 and 2012. However, this study only looked at South and East Asia, ignoring other factors that have a big impact on economic growth.

In a fairly recent study, Kim (2017) used 52 nations and 18 economic variables that were statistically controlled to assess the impact of consumption on economic growth in Asia. The sole drawback of this study is that it only covers the four-year period from 2012 to 2016—a relatively short time frame for analysis to draw any conclusions.

Therefore, aside from these studies, which also have some limitations, no other significant studies are available in the context of Asian economies to address the questions of what actually propels these economies' growth, why growth varies across Asian countries, what are the prospects for a decline in the levels of regional inequality, as well as the likelihood that convergence between the Asian economies, will occur. In order to draw policy lessons from developed nations for the growth of developing countries and the viability of convergence in Asian countries, there is no study that examines the factors driving economic growth in both developed and developing Asian countries at the same time.

In order to formulate appropriate policy measures for achieving long-run growth and convergence across these economies and to address the shortcomings of the existing studies on Asia, a comprehensive research study is necessary to understand the context of the Asian economies and to identify the significant drivers of economic growth. With this context in mind, our research effort suggests identifying crucial factors that influence economic growth in Asian economies.

Drivers of Economic Growth in Some Countries are as follows:

1) Japan has a rising GDP per capita, rising petroleum consumption, a highly developed financial sector, strong human capital, and historically a significantly higher share of exports than imports. It also uses a favourable structural structure of growth, with the lowest GDP shares of the agricultural, intermediate industrial, and services sectors. However, since 1996, Japan has been experiencing a decline in the percentage of people who are working age.

2) South Korea additionally benefits from a consistently expanding GDP per capita, open trade, high petroleum consumption, a sizable working-age population, a strong human capital base, and a favourable structural growth pattern. Since 1998, Korea's share of FDI has expanded considerably. Beginning in 2001, the financial development is accelerated. Over the years, the gross formation of capital varied between 30 and 40 percent of GDP.

3) China's GDP per capita has been rising steadily throughout the years, but it is only after 2007 that this rise becomes swift and steep. Similar to Korea, China's gross capital formation ranged between 30 and 40% of GDP. China has a strong human capital base, an advantageous structural growth pattern, a growing working-age population, a growing export share over imports, increased FDI, and rising petroleum consumption.

4) Iran has a significantly greater proportion of gross capital accumulation as a percentage of GDP, expanding petroleum consumption, a favourable structural pattern of growth, a developed financial sector, a higher proportion of exports than imports, and an increasing working-age population.

5) Malaysia's GDP per capita has steadily increased over the years as a result of the country's financial development, which has led to an increase in the working-age population, increased petroleum consumption, a favourable structural pattern of growth, a higher proportion of FDI in the GDP, and higher exports. However, the levels of human capital are lower than in the aforementioned nations, and the percentage of gross capital formation likewise varied between 20% and 40%.

6) Over time, Thailand has benefited from increased GDP per capita due to expanding trade openness, petroleum consumption, exports and imports, working-age population, advantageous structural pattern, and increasing financial growth. Human capital levels are, nevertheless, somewhat low.

7) Turkey likewise experiences rising GDP per capita over time, which may be attributed to expanding trade openness, a positive structural makeup, increased petroleum consumption, and an expanding proportion of the population who are of working age. Turkey does, however, have a low proportion of gross capital formation, a low proportion of primary school students, a low life expectancy at birth, a low proportion of wide money, and a lower proportion of exports to imports.

8) Up until 2001, India's GDP per capita increased gradually, but after that point it began to climb quickly. India benefits from increasing FDI and trade openness, particularly in the 2000s and 2010s, a growing proportion of the population who are working age, increased petroleum consumption, quickly rising imports and exports, and broad money. Between 20 and 40% of gross capital formation changed over time.

9) With the exception of the working-age population and petroleum consumption, which are both increasing steadily, Indonesia has performed moderately on other economic measures.

10) The Philippines benefit from growing trade openness, FDI, a broad range of favourable trade patterns, and an increasing proportion of the population that is working age. Over the years, its gross capital formation decreased from about 30% to 20%.

11) Over the period, Pakistan's GDP per capita has steadily increased. Only in terms of increasing trade openness, working-age population, and increased petroleum consumption did Pakistan fare better. Otherwise, there is little gross capital formation, little FDI, falling gross capital formation, and more imports than exports.

12) The GDP per person in Nepal is also increasing steadily. Over time, it has experienced a significant increase in its gross capital formation. Since imports exceed exports, there is a significant difference between them. Although Nepal's performance has improved in relation to all measures, it still lags considerably behind upper-middle income and high income countries.

Conclusion

The results of this aim thus disprove the idea that Asian economies as a whole exhibit an upward tendency of economic growth. All economic indices clearly show that only high- and upper-middle income nations, such as Japan, South Korea, China, Malaysia, and Iran, are doing well. In terms of economic growth, lower-middle income and low income nations like India, Indonesia, Pakistan, and Nepal lag substantially behind high and upper-middle income nations.

The results of the first goal clearly suggest that not all Asian economies exhibit an upward growth tendency over the period. The development patterns of all Asian nations have improved, but there is still a significant difference in economic performance between high- and low-income nations based on a few key economic indices. The findings also suggest that high-income and upper-middle-income nations are superior to low-income and lower-middle-income nations.

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