Concept

Leapfrogging vs. Growth

12.31.2007

	Growth	Leapfrogging
Definition	An increase in average income (GNP per capita) that does *not* necessarily improve a country's wealth *relative* to other countries.	Sustained and continuous improvement in a country's average income *in comparison to other countries*.
Rate of Growth	Annual growth in average income in the range of 3%-5% is considered high growth.	4%-6%[1] annual growth is a minimum for leapfrogging.
Length of cycle	Growth occurs in business cycles that commonly last of 3-5 years.	A minimum of six years, but in certain cases 15 to 20 years.[2]
Frequency	Nearly all countries have experienced growth. Nearly 80 instances of Growth Accelerations have been identified in the last fifty years.[3]	Very few countries have experienced a leapfrog. They include, for example: Israel (50'-70'); Singapore (60's-90's); Ireland (80's-00'); Japan and Germany (50's-70's).
Product Space	A gradual upgrading of country's product space to products that are consumed by 'rich countries.'	Most leapfrogs require a dramatic shift in the product space to products that are consumed by 'rich countries.[4]'
Is there a recipe?	It is commonly held that principles embodied in the 'Washington Consensus' based on macroeconomic stability[5] and a few other broad policies must be well set.	There is no recipe. Each country leaps uniquely.
Is a Vision necessary?	No. Countries may grow without a shared vision and ambitious long tern objectives.	Most leapfrogs require a broader long term vision that informs structural reforms, massive investments in

1 Relative improvement requires faster growth than leading countries. If wealthy nations can attain growth of 5% during growth episodes, to leapfrog a country must grow at a rate of at least 6%.

2 Leapfrog is an a-cyclical phenomenon that outlasts typical business cycles and demonstrates resilience to external shocks.

3 Eighty periods of sustained growth over 8 years were identified according to the Penn World Tables. Many more episodes of shorter growth spurts exist. (Hausman, *et. al.*, Growth Accelerations, August 2005).

4 Some countries may have already done so and need to concentrate on diffusing in the new part of the product space. Others may need to jump to long distances just to achieve moderate growth.

5 The term "Macroeconomic Stability" describes a national economy that has minimized vulnerability to external shocks, which in turn increases its prospects for sustained growth. Stability is attained through managing national debt, inflation, and currency fluctuations. See Reut Term: Macroeconomic Stability.

	Growth	Leapfrogging
		infrastructure and change of priorities, patterns of conduct or habits.
Perspective	Time series. Growth is assessed in comparison to past performance.	Leapfrogging is tied to evaluating performance relative to other countries. It generates 'catch up' with the rich countries.
Cooperation between the public and private sectors	Growth is possible without collaboration or trust between the sectors.	Close collaboration between the sectors transforming the product space which requires significant investments in human resources, regulation and infrastructure.
The Public Sector's Role	Common view: the government should do very few things: openness, sound monetary policy and preserving property rights.	Effectively identifying obstacles and opportunities for the expansion of the economic activity and acting on them.
The Business Sector's Role	Growth can occur when the business sector addresses its own needs while other sectors see their condition worsen.	The business sector is bound to the ideal of increasing the pie and dividing it such that 'everyone' benefits.

End.