Drivers of emerging economies

LIMITED ANALYSIS. The IMF suggests Asia's economic growth is likely to increase despite adverse external circumstances

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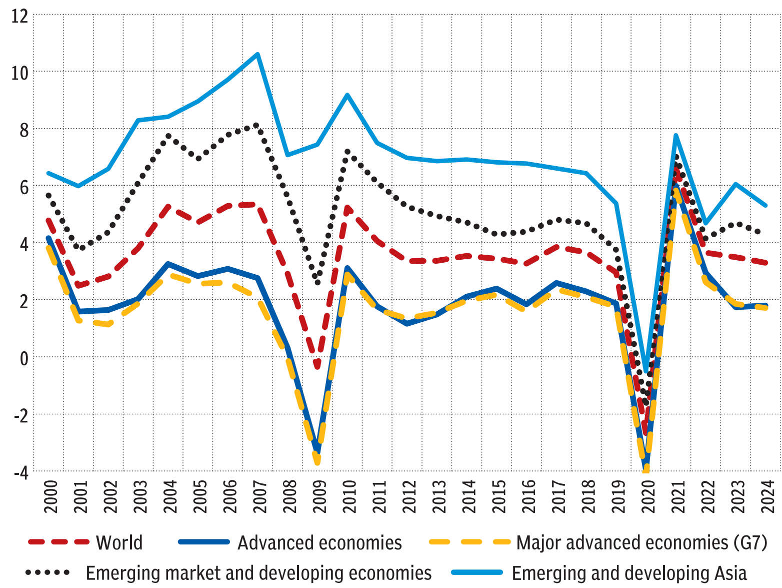
Over 30 years ago, a seminal paper by Easterly, Kremer, Pritchett, and Summers questioned whether economic "miracles" were the result of "Good Policy or Good Luck?" This question is revisited in the context of the October 2025 IMF World Economic Outlook, which contains a chapter titled 'Emerging Market Resilience during a time of Uncertainty: Good Luck or Good Policies?'. This article analyses the strong performance of emerging market and developing economies (EMDEs) in a world marked by geopolitical uncertainty and trade conflicts.

What does the data say? The Chart reports the annual real GDP growth rates of the following five country groups:world; advanced countries; major advanced economies (G7 countries); emerging market and developing economies (EMDEs); and emerging and developing Asia. A few comments about these country groups are in order here.

The IMF currently has 191 member countries. Based on complex economic criteria, 41 members are classified as "advanced economies", including six Asian nations (Japan, Korea, Hong Kong, Macao, Taiwan, and Singapore). The remaining 150 countries fall under "emerging market and developing economies," which encompass the 'emerging and developing Asia' subgroup.

The Chart highlights two critical features of twenty-first-century economic growth. First, global growth has become increasingly coupled, showing greater synchronicity across different country groups, although the recent pandemic revealed nuances in this interconnectedness. Second, EMDEs — particularly those in developing Asia — consistently outperform both advanced economies and the G7 in growth rates. This dynamic is structurally significant: because the EMDE share of global GDP has steadily risen to approximately 60 per cent, these economies have arithmetically driven global expansion throughout the first quarter of the century. Effectively, the growth momentum of the developing world has become the primary engine pulling the global economy forward, overshadowing the slower trajectory of traditional industrial powers. The IMF projections also suggest that for the next year, Asia's economic growth is likely to increase "despite weaker external demand, elevated tariffs, and persistent policy uncertainty".

Global and major country groups' growth rates (%)



Source: World Economic Outlook, IMF. October 2025

STATISTICAL ARTIFACTS?

While the average growth of emerging economies is higher than that of advanced economies, is it more stable? Are these merely statistical artifacts? Or, are there any explanations? The IMF report notes, "The resilience to risk-off shocks observed in recent years not only reflects benign external conditions, but it is also rooted in improved policy frameworks," and flags some interesting hypotheses.

If the world and its economic centres of gravity are shifting, perhaps we need to look at the experience of EMDEs in a more in-depth and focused way.

First, EMDE central banks have improved the implementation and credibility of monetary policies with strong policy frameworks (like the adoption of inflation targeting), relying less on foreign exchange interventions.

Second, central banks have become less sensitive to fiscal pressures. Specifically, the IMF says, "Before the global financial crisis, higher government spending often led to looser monetary policy and rising inflation expectations, but post-crisis spending shocks have been met with rate hikes, and long-term inflation expectations have remained anchored, as central banks have become more independent."

Third, EMDEs have made significant improvements in implementing more effective fiscal policies.

These, however, are the usual defences of IMF orthodoxy. Curiously, the report debunks conscious usage of macro-prudential policies or usage of forex reserves, and notes, "Resilience to risk-off episodes, the diminished need for foreign exchange interventions in the presence of strong policy frameworks, and evidence of autonomy of domestic monetary policy are suggestive of a progressive transition towards a world that, while unequal across countries, appears to be characterised by the trilemma of the classic Mundell-Fleming framework and less by the dilemma ... in which monetary policy independence is limited unless capital controls are used." Put crudely, these EMDEs seemed to have performed well due to the usual good policies of the advanced countries.

The report, however, leaves many questions unanswered. What has been the role of many of these EMDEs' emergence as centres of global value chains? What has been the role of international trade in all these? What has been the role of the labour market? Have the advanced countries abandoned these principles of good policy?

If the world and its economic centres of gravity are shifting, perhaps we need to look at the experience of EMDEs in a more in-depth and focused way. Seeing their success only through the lens of market fundamentalism may be an incomplete view.

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