Business Standard

# The fall and rise of developing countries

**Y V Reddy** **July 08, 2014** Last Updated at 21:25 IST

**CATCH UP: DEVELOPING COUNTRIES IN THE WORLD ECONOMY**
Deepak Nayyar
Oxford University Press; Rs 695

A variety of explanations has been given by economists as to why some nations grow faster than others. Some of the recent publications foresee a new convergence in the levels of prosperity in developed and developing economies, and possibly a change in global power equations. A few are somewhat sceptical about both the continued rise of developing countries and the pessimism surrounding prospects for developed economies. Some books search for the few developing countries that hold great promise for returns on investments. The book under review traverses most of these themes and goes beyond.

The book is a story that explains the fall in the share in global economic activity of developing countries in recent centuries (1820-1950) and elaborates their catch-up by detailing their rise since the 1950s - particularly since the 1970s. It also speculates on their future following the global financial crisis of 2008. It is in many ways an untold story in terms of the broad sweep of the theme and the deep scholarship. The analysis and narration are insightful, and eminently readable. What is unique about this book is the elaboration of the nature of catch-up that developing countries are experiencing and, implicitly, the lessons for the future.

Part one is an account of how and why today's developing countries fell behind today's developed countries. It describes the significance of the world economies of Asia, Africa and South America until the middle of the second millennium, which was followed by their falling behind from 1820 to 1950. The period from 1950 up to 2010 reversed this trend. Part two, which accounts for about half of the narration, describes the process and features of catch-up by the developing countries.

The chapter titled "The Great Divergence and The Great Specialization" draws heavily on the Maddison Project's online database and explains the power of compound growth rates enabled by the gains from specialisation that led to the striking divergence. The chapter "Underlying Questions and Answers" provides an overview of the literature on why nations succeed or fail and its relevance to the observed phenomena in history. The chapter "End of Divergence: Beginnings of Convergence?" analyses the changes in the shares and levels of income in developing countries, and concludes with a discussion on the main hypotheses about convergence in economic history and theory. The chapter "Engagement with the World Economy" contains an in-depth analysis of the three channels of engagement - namely, trade in goods, and particularly services, investments and migration. Professor Nayyar remarks that "the three channels of engagement are connected and interactive" (page 97).

The chapter "Catch up in Industrialization" makes a point of particular interest for the current policy dilemmas in

India. It argues that there has been significant catch-up in industrialisation in the developing world as a whole since 1950, and holds: "Indeed, success was not so much about getting-prices-right as it was about getting state-intervention-right" (page 125). Professor Nayyar could have detailed the costs of not getting prices right. Possibly the secret of success was getting prices right with state intervention operating in a mutually reinforcing way. Often, the issue before the policymaker is not so much either market or state, but how they could balance and reinforce each other in a rapidly changing and largely technology-driven global economy.

The chapter "Unequal Partners and Uneven Development" provides empirical evidence to show that the catch-up in industrialisation and development was uneven. The reasons for such uneven development within the developing world are instructive for policymakers. The chapter "Emerging Divergences" explains that during the catch-up period inequality between countries and peoples remain high; the process has excluded not only countries, but also regions within the countries in the developing world. Further, the book remarks that rapid economic growth in the developing world was not always transformed into improved well-being of ordinary people.

The epilogue poses three questions: "Does the recent global economic crisis have any longer term implications? What are the possible environmental consequences of the economic rise of the developing world? How would the leading industrialized countries respond or adjust to the erosion of their economic dominance and political hegemony?" Professor Nayyar recognises the difficulties in providing answers to these complex questions, but still makes bold attempts to do it with his deep understanding of theory and policy. A striking feature of the processes of both divergence and convergence in levels of development among nations in the global economy is the weight of China and India among the developing countries. A study comparing and contrasting China, India and other developing countries in the processes of divergence and convergence could be of special interest for policymakers.

The book attempts to be simultaneously nation-centric, group of nations-centric and people-centric. It is packed with theory, policy and data, based on which several issues are analysed with broad sweep and outstanding depth. It is not only worth reading but worth possessing as a reference document to guide us in asking the right questions and in providing clues to possible answers, in the field of development economics and public policy.

---

*The reviewer is former governor of the Reserve Bank of India*
office.dryvr@gmail.com