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Published: February 10, 2014 22:46 IST | Updated: February 10, 2014 22:46 IST

Guiding the development debate

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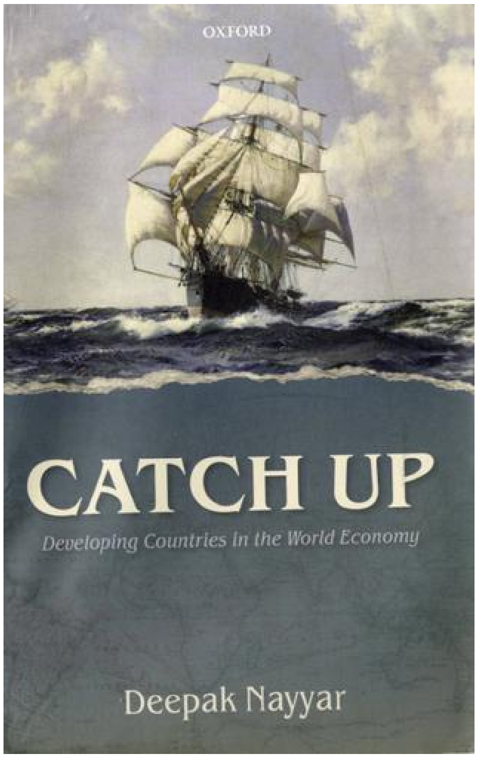

Catch Up: Developing Countries in the World Economy: Deepak Nayyar; Oxford University Press, YMCA Library Building, 1 Jai Singh Road, New Delhi-110001. Rs. 695.

Have developing countries succeeded in their efforts to catch up with industrialised nations?

Development Economics is an exciting area of study. When it is combined with history or historiography, it turns heady. Add to this mix, the seemingly esoteric long-run data such as those developed by Colin Clark, Angus Madison, Simon Kuznets, Michal Kalecki *et al* and you get new vistas opening up before you. Nayyar's study is of this genre.

Deepak Nayyar started his early work on Development Economics and was a pioneer *nonpareil*. He holds an organic view of development and it is natural he would stray into other areas like statistics and history. He has been writing articles or delivering lectures over the years. His Commentary on "Globalization, history and development: a tale of two centuries" (*Cambridge Journal of Economics*, 2006) is a precursor to such explorations. His contribution to the U.N. Development Programme (*The South in the World Economy: Past, Present and Future*, Occasional Paper 2013/01) is a path breaking study and offers a preview to this book.

Nayyar engages his gaze over 200 years of history and data to study the trends and patterns of development. He divides them into distinct phases: 17 and 18 centuries when Asia was dominant, the 19 century when the Great Divergence commenced and finally, the modern era which he divides into two distinct periods, i.e. the one before 1950 and the other after 1980. There are common trends and forces at work. There are regional variations as between Asia, Africa and South America. He uses comparative data with ease though it may tire a lay reader.

Data reveal that during a span of 130 years, i.e. from 1820 to 1950, Asia's dominance in the earlier century declined and witnessed the rise in the share of income of the West from 37 to 73 per cent and the decline in the income of the "rest" (developing countries) from 63 to 27 per cent. This "transformation" marked the beginning of "a new international economic order." The year 1870 is marked as a watershed. By then, "The international division of labour had indeed changed. The beginning of a divide between what are now described as industrialised countries and developing countries in the world economy was visible." He characterises this shift as the "Great Divergence."

Many factors were at work. The Industrial Revolution in the U.K. and its spread to Europe in later years and the specialisation it led to in manufacturing sectors were the foremost. Not surprisingly, "the rest" declined. As Nayyar puts it, "… the industrialisation of Europe and the de-industrialisation of Asia, during the 19 century, were the two sides of the same coin." During these years, there was integration of the "rest" with the west. "Free trade was imposed on Asia, Africa and Latin America as imperialism prised open markets through gunboat diplomacy or colonial dominance." Their integration with the west through trade, investment and migration "created and embedded a division of labour between countries that was unequal in its consequences for development." The longer term implications such as decline in skill levels, labour productivity, technological capability, path dependence and cumulative causation would accentuate the divide.

There is an interesting and in-depth analysis of later years which mark the "end of divergence or the beginnings of convergence." He studies the 'catch up' in output during the years from 1950 to 2008. There were regional variations in GDP and output as between Asia, Africa and Latin America. Latin America witnessed contraction or negative growth in GDP in some years as during 1981-1990, *the lost decade*, and there was slowdown during 1991 to 2000. However, during 2001-2008, both GDP and GDP per capita growth rates in every region of the developing world were significantly higher than the corresponding growth rates in industrialising countries. It led to the rapid increase in the share of developing countries and to the belief in the more broad-based *convergence* in GDP per capita in the 2000s.

Uneven growth

Among neoliberal economists, especially in the U.S., there is an abiding faith in global integration leading to convergence of rates among all countries. This is supposed to be is an automatic or inherent tendency when countries interact with trade, investment and migration. In some quarters, including the World Bank, this becomes an argument to advance globalization. Nayyar analyses at length this concept and cites a number of academic studies on it. However, he demolishes it convincingly. As he says, "Catching up is a function not only of technological opportunities but also of social capabilities, which have institutional dimensions that are slow to develop in economies, firms and individuals. Hence, every country may not be able to realise its potential for catching up since that depends on its social history and initial conditions." He dismisses the view that latecomers to industrialisation can catch up with leaders automatically by getting globally integrated. Growth is uneven and development unbalanced. It has led to prosperity for a few and marginalization for many.

Nayyar explores (chapter 6) the idea whether developing countries have met with success in their efforts to catch up with industrialisation. He takes the unconventional view that structural change is not necessary for industrialisation and each country has to assess the comparative advantage vis-à-vis its endowments. The policy mix will vary from country to country.

More interesting and provocative are his views on "openness" and "state intervention." He refers to the long standing debate on this area and how orthodoxy, including the IMF/Bank variety, is in retreat. Trade policies are important and, as he says, "There is more to trade policies than the distinction between import substitution and export promotion or inward and outward orientation." He narrates how a large number of countries adopted the reform agenda of the Washington Consensus and how "their performance, in terms of economic growth, industrial development and distribution of incomes, was not only much worse than other parts of the world but was also distinctly worse than their own performance in the preceding three decades." He enters a strong plea for the pursuit of policy which is a strategic mix of trade policy, industrial policy and technology policy. He attributes the success stories in East Asia and parts of Latin America to the adoption of such policies. As he concludes, "development was more about the visible hand of the state rather than the invisible hand of the market."

The record in the first decade of 21 century is somewhat depressing. The great convergence has given place to growing divergences. International inequality between countries and people remains at high levels. This was in great part due to the inequality between industrialised and the poor countries. Great divergence persisted at somewhat higher levels through the second half of the 20 century. The catching up process was associated with the exclusion of countries, and regions within countries, especially in developing countries. Again, there was massive divergence in per capita incomes between LDCs and the rest of the developing world. There was also exclusion in the countries (14 in all) identified as more advanced. Finally, rapid growth in developing countries that were catching up was not transformed into meaningful development to improve the welfare of the poor.

The Epilogue (chapter 9) is a sober assessment of the past, the present and the future. Despite global integration in years ending with 2010, the developing countries are at the same position in the global scenario as they were in 1820. The relative increase in share gained in the years prior to 1980 has been eroded or reversed. There are constraints on growth related to “poor infrastructure, underdeveloped institutions, inadequate education, unstable politics or poor governance.” These have to be overcome through, as he says, “a creative intervention between the state and the market beyond the predominance of the market model in the process of development.”

In the context of the ongoing economic crisis, some western analysts suggest that higher rates of growth in developing countries would drive the process of recovery in the west. Nayyar dismisses the idea out of court. He feels that the two work as complements rather than as substitutes. He goes on to add that the process of recovery would depend to a greater extent on the pace of recovery in the industrialised world, in particular in the U.S. The more interesting point he makes is that*, in future, developing countries may not hope to grow at a faster rate or secure a higher share as “dominant powers are reluctant to cede economic or political space to newcomers.”* The future is uncertain for developing countries unless they transform themselves into inclusive societies where economic growth, human development and social progress move in tandem.”

It appears Nayyar ends his book with the prayer of a renowned development practitioner. His plea sounds utopian but, given the past record, it is a necessity for survival. The book is truly a guide to policymakers in developing countries. Across the pages, he has analysed many issues and given out many observations on the ongoing Development Debate.

Keywords: Deepak Nayyar, Catch Up, Development Economics, Indian economy, economy development