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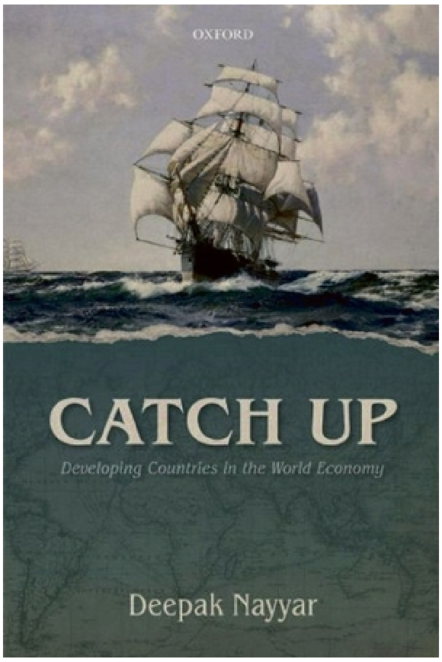
Rise of the colonised

SUDIPTO MUNDLE



- **Author:** Deepak Nayyar
- **Publisher:** Oxford University Press, 2013

The author’s account of the history of development is a fascinating narrative of change, divergence and convergence between different regions of the world since the 16th century. By SUDIPTO MUNDLE

Deepak Nayyar's *Catch Up* is a fascinating narrative of change, divergence and convergence between different regions of the world since the 16th century. The emphasis is on the dramatic developments seen in the last 200 years, especially the period since 1950. Nayyar is a well-known critic of orthodox economics, but his analysis is based on a careful sifting of data on long-term global trends, not economic ideology. The book belongs to the grand empirical tradition of Colin Clark, Simon Kuznets and Hollis B. Chenery. Written in an elegant style, it is very readable despite the large volume of data it presents and the inevitably arcane discussion about their reliability and comparability.

The distinction between developed and developing countries is of relatively recent origin. Around the year 1000, today’s developing countries of Asia, Africa and South America accounted for 83 per cent of the global gross domestic product (GDP), roughly proportionate to their share of the world population. China and India alone accounted for about half of both the global GDP and the world population. Today’s developed (industrialised) countries (western Europe, North America, Australia, New Zealand and Japan) then accounted for only 13 per cent per cent of the global GDP and a comparable share of the global population. Thus, per capita incomes were roughly similar between these two groups of countries.

This picture began to change from the 15th century onwards. Change was initially gradual, but the pace accelerated dramatically during the 19th and 20th centuries, the period of “Great Divergence”. In 1820, today’s developing countries still accounted for about 63 per cent of the global GDP and about 74 per cent of the global population. Their per capita income was about 85 per cent of the global average of $666 (in 1990 prices). The two largest countries, China and India, together accounted for about half of the global GDP and about 57 per cent of the world population. By 1950, the GDP share of developing countries had shrunk to only 27 per cent though they still accounted for over two-thirds of the global population. China and India now produced only 9 per cent of the global GDP, with well over a third of the global population. In contrast, developed countries’ share more than doubled to about 60 per cent of the global GDP, with a population share of only about 28 per cent. Per capita income in South America, Africa and Asia respectively was about 40 per cent, 14 per cent, and only 10 per cent of that in developed countries. In this relatively short period of 130 years, today’s developed countries pulled away from the rest, riding on the engines of colonialism and the Industrial Revolution. While the colonial encounter disrupted the economies of the entire developing world, its worst effects were clearly concentrated in Asia. Real per capita income in Asia, including China and India, was actually declining during most of this period. The phenomenon of deindustrialisation was also most pronounced in Asia.

The postcolonial period, triggered by the end of the Second World War, marks another great turning point. In the period from 1950 until the present, which Nayyar calls “the Great Transformation”, the pendulum of economic power has been swinging back towards developing countries. This period is marked by a gradual convergence of developed and developing countries, the “catch up”. By 2008, the share of developing countries had recovered to about half of the global GDP, as it was in the mid-19th century. Their average per capita income has also stopped falling further behind. There is also growing engagement of developing countries with the global economy. Initial policies of autarky were reversed from around 1980. By 2008, developing countries’ share of global trade had risen to over 40 per cent, double their share in 1970. Their share as destinations for global capital flows is also rising, while there is growing migration of their workers to developed countries.

One is also seeing the reindustrialisation of developing countries. Their share of value added in global manufacturing rose from around 13 per cent in 1970 to over 40 per cent by 2010, while the share of manufactures in developing country exports rose from around 12 per cent in 1980 to nearly 63 per cent by 2010. Over 46 per cent of this consisted of medium- or high-technology products. A third key feature of this period that Nayyar emphasises is the growing role of services. Industry, especially the manufacturing industry, led the rise of developed countries. But now services are leading the growth of developing countries along with manufacturing. As Nayyar explains, many modern services, especially e-commerce and information technology- enabled services, manifest features similar to manufactured products. They have a very high factor productivity and they can be exported. A different trend, somewhat disturbing, also evident in this period is the growing divergence among developing countries. “Catch up” is not much visible in Africa or Latin America.

The global GDP share of Africa has remained at less than 3 per cent, where it was in 1970, while that of Latin America has increased marginally to 8 per cent. Similarly, Africa’s share in manufacturing value added in 2010 was still less than 2 per cent, as it was in 1970, while that of Latin America at 7 per cent is only marginally higher than what it was in 1970. Their shares of global trade, at around 3 per cent and 6 per cent respectively, are less than half of what they were in 1950.

Thus, “catch up” is largely an Asian phenomenon dominated by the sheer size of China and India. As the centre of the global economy swings back towards Asia, these two countries, especially China, are re-emerging as pre-eminent global economies, as they were at the end of the first millennium. Divergence within the developing world is also visible at the level of individual countries. A group of 14 developing countries, which Nayyar calls the Next-14, are pulling ahead of the rest of the developing world, accounting for the bulk of developing country GDP, population, manufacturing value added and manufactured exports. The per capita income of this group at $4,313 (in 2010 prices) is more than six times that of the least developed countries, that is, $684. Eight of these 14 countries are in Asia (China, India, Indonesia, Malaysia, South Korea, Taiwan, Thailand and Turkey), only four in Latin America (Argentina, Brazil, Chile and Mexico) and just two in Africa (Egypt and South Africa). There is also a large divergence in incomes between rich and poor regions within these countries as indeed there is in many of the other developing countries. Thus, the great divergence witnessed during 1820-1950 still continues, but the dividing line has now shifted from the boundary between developed and developing countries to boundaries within developing countries themselves. An important conundrum of this period is the re-emergence of China and India. They are the largest economies among the group of Next-14. However, in terms of per capita income, China ($4,454) and India ($1,326) are at the bottom of this group along with Egypt ($2,643).

Thus, these two relatively poor countries are not only the two largest developing countries but are also among the largest in the global economy. China is already the largest, having recently surpassed the size of the United States economy. This is an unprecedented historical phenomenon the world has not seen before. In the past, the largest economies have also been the richest.

How the global economy will adjust to these new dynamics is yet to be seen. However, in addressing that question the following heterodox lessons that Nayyar has gleaned from his account of the history of development are important. Nothing is preordained or inevitable about the development process. It depends on how the dynamics play out among initial conditions, technology and institutions. Development is path dependent, and historical antecedents define the range of possibilities. But the realisation of a particular path is determined by complex and not easily predictable interactions between technology and institutions, including the state. In the 200-year history of development, the visible hand of the state has been a key driver of outcomes alongside the invisible hand of the market.

Henceforth, another important driver will be the technological response to the growing tension between the unlimited demand for a limited supply of energy resources and the disastrous environmental consequences of exclusively fossil fuel-powered growth.

Sudipto Mundle is an Emeritus Professor at the National Institute of Public Finance and Policy, New Delhi.
