WHEN ASIA WAS ECONOMIC SUPERPOWER

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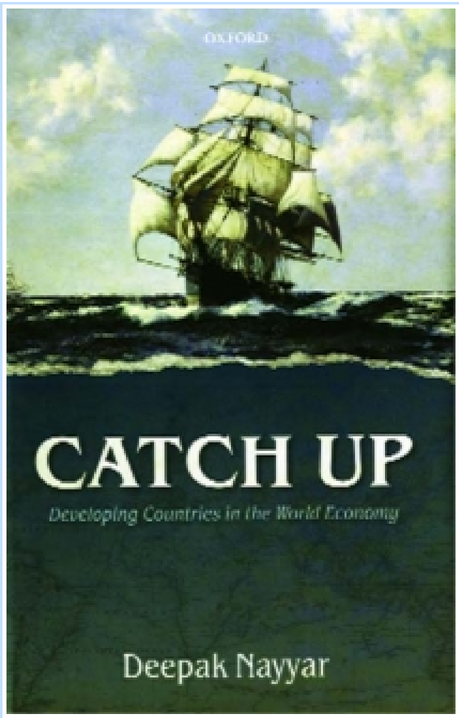

Deepak Nayyar's latest book looks at world economics from a historical perspective. Excerpts

Catch UP

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In the span of world history, the distinction between industrialised and developing economies, or rich and poor countries, is relatively recent. It surfaced in the last quarter of the 19th century. In fact, 1,000 years ago, Asia, Africa, and South America, taken together, accounted for more than 80 per cent of world population and world income. This was attributable in large part to Asia, where just two countries, China and India, accounted for approximately 50 per cent of world population and world income. The overwhelming significance of these three continents in the world economy continued for another five centuries until 1500. The beginnings of change are discernible from the early 16th to the late 18th century. The voyages of discovery and the colonisation of the Americas were critical turning points, as the consequent mercantile expansion of trade, supported by state power and naval power, combined with social, political and institutional change in Europe, created the initial conditions for capitalist development.

Even so, in the mid-18th century, the similarities between Europe and Asia were far more significant than the differences. Indeed, demography, technology and institutions were broadly comparable. The Industrial Revolution in Britain during the late 18th century, which spread to Europe over the next 50 years, exercised a profound influence on the shape of things to come. Yet, in 1820, less than 200 years ago, Asia, Africa, and South America still accounted for almost three-fourths of world population and around two-thirds of world income. The share of China and India, taken together, was 50 per cent even in 1820.

The dramatic transformation of the world economy began around 1820. Slowly but surely the geographical divides in the world turned into economic divides. The divides rapidly became a wide chasm. The economic significance of Asia, Africa, and Latin America witnessed a precipitous decline such that, by 1950, there was a pronounced asymmetry between their share of world population at two-thirds and their share of world income at about one-fourth. In sharp contrast, between 1820 and 1950, Europe, North America, and Japan increased their share in world population from one-fourth to one-third and in world income from more than one-third to almost three-fourths. The rise of 'The West' was concentrated in Western Europe and North America. The decline and fall of 'The Rest' was concentrated in Asia, much of It attributable to China and India, while Latin America was the exception as its shares in world population and income were not only symmetrical throughout but also rose over time.

The Great Divergence in per capita incomes was, nevertheless, the reality. In a short span of 130 years, from 1820 to 1950, as a percentage of GDP per capita in Western Europe and Western Offshoots, GDP per capita in Latin America dropped from three-fifths to two-fifths, in Africa from one-third to one-seventh and in Asia from one-half to one-tenth. But that was not all. Between 1830 and 1913, the share of Asia, Africa, and Latin America in world manufacturing production, attributable mostly to Asia, in particular China and India, collapsed from 60 per cent to 7.5 per cent, while the share of Europe, North America, and Japan rose from 40 per cent to 92.5 per cent, to stay at these levels until 1950.

The industrialisation of Western Europe and the deindustrialisation of Asia during the 19th century were two sides of the same coin. It led to the Great Specialisation, which meant that Western Europe, followed by the United States, specialised in and exported manufactured goods while Asia, Africa, and Latin America specialised in and exported primary commodities. The century from 1850 to 1950 witnessed a progressive integration of Asia, Africa, and Latin America into the world economy, through international trade, international investment and international migration, which created and embedded a division of labour between countries that was unequal in its consequences for development. The outcome of this process was the decline and fall of Asia and a retrogression of Africa, although in its post-colonial era Latin America fared much better except for the divergence in incomes, so that by 1950 the divide between rich industrialised countries and poor underdeveloped countries was enormous.

During the six decades from 1950 to 2010, changes in the share of developing countries in world output and in levels of per capita income relative to industrialised countries, provide a sharp contrast. In terms of Maddison PPP statistics, the share of developing countries in world output stopped its continuous decline c1960, when it was about one-fourth, to increase rapidly after 1980, so that it was almost one-half by 2008, while the divergence in GDP per capita also came to a stop in 1980 and was followed by a modest convergence thereafter, so that as a proportion of GDP per capita in industrialised countries it was somewhat less than one-fifth in 2008.

In current prices at market exchange rates, between 1970 and 2010, the share of developing countries in world GDP doubled from one-sixth to one-third, while their GDP per capita as a proportion of that in industrialized countries recorded a modest increase from one-fourteenth to one-eleventh.