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'Next 14' & the future

Catch Up seeks answers to the relevant question of what role developing nations play in the world economy

Madan Sabnavis: Sunday, Dec 08, 2013

After the financial crisis of 2007, the theory of decoupling has gained importance, and it was felt, developing countries could lead the world economy irrespective of what happens in the developing world. While this phase of elation lasted through the sovereign debt crisis from 2010 onwards, the present power of US tapering dilutes this theory. How exactly should we look at this balance of economic power, and is there a historical context in which we should analyse these trends?

We often talk about how powerful countries like India and China were at one time and that there was a transformation when the balance of economic power moved towards the West, where we see the developed world today. The present emerging markets or developing countries have gone through a name change in the form of being 'underdeveloped economies' to the 'south' part of the 'northsouth' concept. But today, there is active discussion on how developing countries could be controlling major growth impulses.

To explain this and more, Deepak Nayyar in his book, Catch Up: Developing Countries in the World Economy, broadly divides the economic history of the world into three parts: pre-1820, 1820-1950, and the period after the 1950s till date. The developing countries in his data analysis belong to Asia (minus Japan), Africa and Latin America, while the developed world includes the ones from North America and Europe, and Japan, excluding the Caribbean. Till the 1820s, developing countries dominated the world in terms of both population and income, and hence, when the decline came about, there was a deep fall in prosperity in these countries.

The developed countries 'caught up' and went ahead after 1820, which was also the time of the industrial revolution, which spread across these countries at different points of time. Growth in trade, investment and migration contributed to this phenomenon and Nayyar points out that the division of labour, which emerged, was unequal. There were several reasons for this transformation, all of which contributed partly, though did not explain fully the story. Culture played a role, where the protestant ethic of Weber played its part, as it was religion that goaded people to work hard and make money. Marx would have said the dialectical process did not quite take off in Asia, but worked in these countries, and which helped to bring about this change. Another reason could be geography, where the temperate climate helped to grow more crops and was more congenial for working hard. Also, being close to the oceans and seas helped in furthering trade.

But Nayyar feels that finally institutions that were created were the ones which decided whether countries remained rich or moved towards low levels of income. Where governments were extractive, which was the case with developing countries, economies declined quite sharply. In case of developed countries, the economic and political institutions helped strengthen these countries.

Nayyar goes on to explain how the advantages of cheap labour and capital helped herald the industrial revolution in the UK, which helped bring about a slew of innovation across sectors.

Simultaneously, the concept of colonisation had caught on and raw materials that were procured helped speed up the processes in the colonising country. This was also the time when traditional industries collapsed in developing countries. There is a lot of data provided by the author to show how the balance shifted to the so-called West.

However, following World War II, there was a transition in the other direction, with developing countries 'catching up'. Within these nations, Asia performed better than others and the only handicap was the growth in population, which lowered the per capita income. The pick-up took place more specifically from 1980 onwards, which was the time when we can recollect the challenge posed by the Asian tigers. This was also the time when there was wide-scale migration to the West, where money was remitted in return, which helped to provide these countries with the requisite foreign exchange for further development. The structure of the economies also changed from agricultural to manufacturing and services, which provided a boost to growth, as the multiplier effect was higher.

Here, once again, Nayyar emphasises the role of the state, as accelerated progress was achieved with the help of positive policies with respect to trade, industry, institutions, interventions, etc, to make them globally competitive. If we juxtapose our own Indian story with this development, we can see the results emanating after we went in for economic reforms in 1991. It is here that Nayyar brings up an innovative term for nations within the group of developing nations, which have their own path, called 'Next 14'. These include Argentina, Brazil, Chile and Mexico in Latin America; Egypt and South Africa in Africa, and China, India, Indonesia, Malaysia, Korea, Thailand, Taiwan and Turkey in Asia. There are three reasons, according to him, as to why these have become important: size, growth and history, even though there is diversity in income.

Now, within these nations, he observes convergence in income in Asia, divergence in Africa and stability in Latin America. Once again, he emphasises the role of institutions in explaining disparities in the growth stories of these nations. However, notwithstanding these paths, he clarifies that rapid growth and income do not mean that the absolute number of poor has come down.

What then are the prospects? All exercises done by scholars show better prospects for these countries in the years to come and there should be greater convergence with the developed world by 2050, if not 2030. This is so because they have a lower base and a large young population.

Further, wages are lower in relative terms and this will enable them to compete on costs with the outside world. Also, given the spare capacity, the probability of improvement in productivity is also higher in the earlier stages of growth than in the latter part, which is good news for them. But, he rightly points out, the 'Next 14' cannot on their own be growth drivers for the world economy. They can complement, but never substitute the developed world, especially the US. This probably addresses the question posed in the beginning, as to whether we have entered a decoupled world.

Nayyar, of course, is an economist of the highest calibre, who looks at an issue that has not been explored to this length. While it could be a bit academic, as it looks at tomes of data, it is a book that cannot be missed.

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