

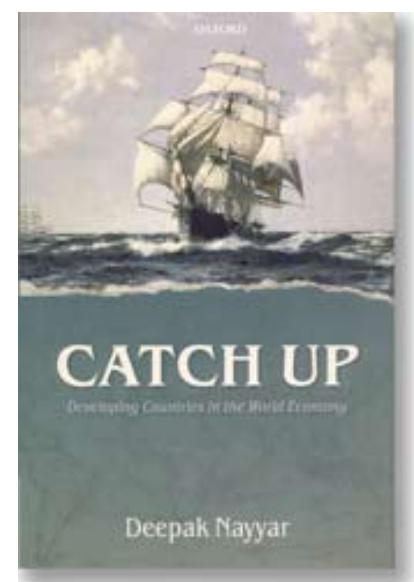
# The great divergence

**Catch Up: Developing Countries and the World Economy**  
By Deepak Nayyar

Oxford University Press, New Delhi, 2013, 221 pp., Rs 595 (HB)  
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place solely through trade, so Europe's rise and Asia's fall would have been slower, but not less sure. Thus the real question is why did the Industrial Revolution take place in Europe first and not in Asia. Most of the recent writing, especially by liberal economists, is devoted to showing that this was due to the innate advantages, if not superiority that Europe enjoyed over Asia, Africa and South America. They trace these to three factors: culture, institutions



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and geography. The first two have more than a racist tinge in them. Present-day Western economists start by citing Marx, Weber and Hegel, among others to trace the causes of failure of the Industrial Revolution to take root in Asia. These include everything from the Asiatic mode of production which, Marx believed, involved rule by despots that constrained individual initiative and did not allow representative institutions to develop, to the absence of Weber's "protestant ethic" and therefore of instrumental rationality and a "capacity to reason", to the absence of the "very concept of a state" (India – Hegel). These early, in retrospect ill-informed, conclusions

routinely killed off viruses and bacteria while the melting snows and warm summers provided ideal conditions for agriculture. Geography, Europe's configuration around three small, sheltered seas – the Mediterranean, Baltic and the North Sea – also facilitated cheap and safe maritime transport and hence an early integration of markets and development of exchange. Nayyar dismisses the first two explanations, and accepts the third, but points out that misconceptions apart, none of them is capable by itself of providing an adequate explanation for "The Great Divergence". If there is a lacuna in his critique it is the relative absence of a discussion

on the role of technological change. This could be because of his desire to critique recent liberal explanations and stay clear of discussing the voluminous writing on this issue by Marxist scholars such as Braudel, Polanyi, Hobsbawm, Sweezy, Baran, Magdoff, Gunder Frank, Wallerstein and the latest but not by any means the least of them, Giovanni Arrighi. However without a thorough discussion of the role that technology has played in shaping the capitalist world it is not easy to bring both the Great Divergence from 1820 to 1980, and the partial convergence of GDP and income after 1980 onto a single plane.

If one brings technology into our analytical toolbox, it immediately becomes apparent that start of The Great Divergence coincided with the rise of the nation-state, and Re-Convergence with the onset of globalisation and the weakening of the nation-state. Both these tectonic shifts in the organisation of human society marked staging points in the remorseless expansion of what Braudel called the "container of capitalism" – the minimum size of market needed to accommodate an efficient production system at the existing level of technological development. The expansion of capitalism's container was dictated by the progress of technology.

The Great Divergence began not with the Industrial Revolution in Britain, which actually took place in three stages over more than a century, but with the harnessing of steam power, i.e. the energy from fossil fuels, within this more prolonged and diffused technology shift. Steam power immensely expanded the scope for mass production and economical transportation, thereby causing an explosive increase in capitalism's container. By the same token the Re-convergence began when capitalism's container became too large to fit within the political boundaries of even the largest and richest nation-state – the US. Capitalism then burst the bonds of the nation-state, rendering all the political structures that had sustained it – high tariff walls, capital movement controls and forbidding national borders – obsolete. At that point it was the migration of technology and manufacturing, not foreign direct investment and labour, to the low income countries that began the de-industrialisation of the West and the resurgence of Asia.

Once the role of technology is acknowledged, the only question that remains to be answered is why was so much of its development concentrated in northern Europe, and specifically in Britain? The answer, paradoxically, is the sheer poverty of its people. Northern Europe was cold and inhospitable, and its inhabitants were hungry for the affluence of their neighbours to the south. Till as late as the 12th century the only way they knew of acquiring some of this wealth was through plunder. That accounted for the incessant raids of the Goths, Visigoths and Huns upon the Roman Empire, and the Viking raids and voyages of the end of the first millennium.

War is the extreme form of competition and competition is the seed-bed of innovation. When Europe replaced war with its civilised counterpart, international trade, the competitive spirit survived and

metamorphosed into an inquisitive spirit that gave birth to remarkable marketing innovations like the Venetian *galere da mercato* – vast trading ships financed by the world's first shareholding companies – and a rapid acquisition of existing technologies, notably the compass and the printing press from China and the Lateen sail, which allowed sailing ships to sail into the wind, from the Levantine Arabs.

This hunger to learn and absorb is the ultimate reason for the birth of the Industrial Revolution in one of the less hospitable parts of the world. Geography also played its part, but not solely in the sense that Jared Diamond emphasises. For at that time the sole fossil fuel available was coal and most of the coal deposits of the world were located in the temperate regions of the northern hemisphere.

Given these roots it was inevitable that the Industrial Revolution would create a predatory world order that would have to be maintained by force. Nothing could be further from the truth, or more self serving, than the myth the liberal economists are now trying to create that the Great Divergence was not a product of war, conquest and a forcible de-industrialisation of Asia and parts of Africa and South America; that Europe in a sense deserved its greatness and Asia its decline. The truth is that both China and India had all the prerequisites of an industrial revolution: large integrated smoothly functioning national markets; a highly developed financial-cum-trading system and a close cooperation between the rulers and this new mercantile bourgeoisie. While China was relatively closed to foreign influence and ideas, the principalities of the later Mughal Empire were far more penetrated by foreign trade. Their rulers welcomed foreigners with open arms and employed them in every capacity from physicians at court to trainers and modernisers of their armies. Had there been no colonial annihilation of that diverse India, it would have been only a matter of time before their powerful trading-cum-financial bourgeoisies, which were already financing 'putting out' production on a large-scale to meet the demands of their own elites and of foreign traders, would have begun to absorb industrial technologies as well.

But the British take-over, and its financial, monetary, land ownership and other administrative 'reforms' destroyed the indigenous banking system and prevented the imposition of trade protection to foster local industry. Japan, which was not colonised did precisely this.

The role that the denial of protection played cannot be underestimated. As Nayyar has pointed out in his data, though not in his text, Latin America was able to reach substantially high levels of income and industrialisation before its growth stalled in the 1930s, because it shook off the colonial yoke in the 19th century. And Japan was able to give drastic protection to its nascent industry and banking systems in the late 19th century because it was never a colony. We were. Therefore although the modernisation of the Indian economy began ten years before Japan's, by 1980 Japan was an industrial super power, and we were nowhere. ■

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The subject matter of Deepak Nayyar's new book, *Catch Up*, is almost as old as the science of Economics itself. It is the perennial hunt for answers to one question: How did Europe, a relatively small, and climatically not very hospitable, part of the world, and its offshoots – the West, in short – get to rule the world economy for more than two centuries? And why did that dominance end so abruptly in just 30 years after the decade of the 1970s? Economic historians, and Marxist economists, have sought answers to the first question for the better part of a century, but today as global capitalism – globalisation for short – enters the middle phase of its development and the sun begins to set upon the nation-state, it is the second that has gained salience. And this has begun a renewed quest for answers amongst a growing legion of liberal economists as well.

Nayyar's book does not so much try to answer these questions as to survey, succinctly, the vast recent literature on the subject. As he himself emphasised during a recent book launch in New Delhi, his purpose in writing it was to synthesise current knowledge into a readable account of the way in which the world has changed, and is changing again, during the past thousand years, and give a fair presentation of diverging views where these exist. He has done all this with extraordinary skill and a lightness of touch that makes the book easy to read.

*Catch Up* is, however, more than just a survey of the current literature on economic development. In every section, Nayyar has carefully assessed the validity of divergent claims and views with the help of data culled from various sources, and arrived at unambiguous conclusions on their validity. The reader is thus given little chance to become, and then remain, confused.

Perhaps the central question in the book is "how did Asia – China and India in particular – which dominated world production and trade for four millennia, sink so suddenly into poverty and obscurity within barely a century and a half, between 1820 and 1950?" The historians' answer is that it was caused by a combination of four developments: the Industrial Revolution in Britain followed by western Europe; a vast expansion of international trade, facilitated by the development of steamboats and the telegraph; colonial expansion – notably in Asia – that created markets for cheap, mass produced manufactures through the barrel of the gun while depriving the local governments of the right to protect their artisanal industries by limiting or heavily taxing imports.

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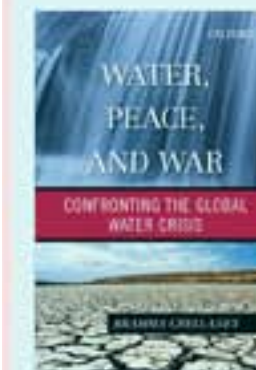
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