

Long View of Developing Countries in the World Economy

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One of the enduring questions in modern social science is about the fate of late-developing countries. Will they succeed in the struggle to modernise their economies and catch up with the more advanced countries, or are they destined to fall ever further behind? The answers to this question have been many and varied. In the early decades following the second world war, there was a general optimism that if they followed the appropriate policy guidelines and encouraged local entrepreneurship, the late-developers could follow in the path of their predecessors.

Of course, the actual guidelines would be different if you hewed to modernisation theory, as opposed to structuralist development economics. But the sense of optimism was common to both. By the late 1960s, a far more pessimistic prognosis could be found in the emergence of dependency theory and world-systems, both of which viewed underdevelopment to be the more normal state of affairs in the Global South, and, indeed, took it to be the necessary corollary to economic growth in the advanced world. The rise of the newly industrialised countries (NICs), and now the BRICS (Brazil, Russia, India, China and South Africa), has once again generated a sense of optimism towards the possibility of development, albeit of a more measured character than in the 1950s. Even if all of the South is not likely to develop, it is undoubtedly the case that a small number of countries have experienced a genuine success in their efforts at moving up the economic ladder. So what are we to make of this history?

Answering Big Questions

In this little book, Deepak Nayyar offers to answer such big questions. Taking a long view of the modern world economy, he examines the process through which the West pulled away from the rest of the world as an economic zone, such

Catch Up: Developing Countries in the World Economy

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that by the late 19th century, there was a clear demarcation between the advanced capitalist world and the rest. Once this economic hierarchy emerged, it placed the less developed countries (LDCs) in the position of having to catch up with the earlier developers, not just because of the demonstration effect of the latter's success, but as a matter of economic survival. It is this process of catching up that comprises the focus of Nayyar's book.

The book is presented in two parts, one that establishes the initial divergence between the economic fortunes of the West and "the rest", and a second that examines the ensuing process of catching up by the LDCs.

The argument in the first part is presented succinctly and quite efficiently, hewing to what is by now a familiar line in recent economic history – that the divergence between the West, on the one hand and Asia, Latin America and Africa, on the other, did not become economically significant until the 19th century. As late as the mid-18th century, India and China still loomed as not only two of the largest economies in the world, but also as centres of global manufacturing. This began to change around 1820, and by the turn of the century these erstwhile heavyweights of the world economy had been reduced to minor players. Using Angus Maddison's well-known data set, Nayyar shows that whereas the West accounted for 37% of global gross domestic product (GDP) in 1820, and the current LDCs for 63%, by 1914 this ratio had been virtually reversed, with the West now generating 70% of global GDP and the rest reduced to 27% (Table 2.2, p 15).

Not only did the West overtake Asia in economic weight, this process was accompanied by a profound economic

restructuring. The Great Divergence was concurrent with a Great Specialisation – as they fell behind, the LDCs increasingly got locked into specialising in primary goods. Indeed, the great manufacturing centres of India and China experienced a process of deindustrialisation, getting pushed back from the industrial frontier and taking their place as producers of agricultural commodities in the global economy. This process of economic differentiation proceeded apace through the first half of the 20th century and it is at the end of the second world war that we witness something of a turnaround for the LDCs.

Narrowing the Gap

Nayyar shows that the post-war era comprises a real watershed in the global economic hierarchy. Starting around 1950, the LDCs began to experience some success in attenuating their economic slide. In fact, the decades since then fall into two phases, as Nayyar very persuasively demonstrates. From around 1950 to 1980, the LDCs as a whole slowed down or even stopped the widening of the gap between their development and that of the West. This was itself an epochal event and it could not have occurred without a considerable economic expansion in the Global South. One can infer from this the importance of decolonisation, since it was in these decades that countries across Asia and Africa wrested free of colonial rule, took control of their own states and implemented ambitious programmes of national development – which are often pilloried by economists these days for their waste and inefficiency, but which obviously brought about a dramatic shift in global economic power.

Then, starting around 1980 the South did not just slow down its economic marginalisation but even began to reverse it. Nayyar shows in Chapters 4 and 6 that the share of the South in global GDP began to grow starting in the 1970s, so that by 2010 it had made impressive gains on the West. But what is key here is that this ascension up the global ladder was not evenly spread. It was the spectacular success of Asia that drove the aggregate gains by the LDCs. While Latin America and Africa managed to basically hold their

ground, Asia pulled ahead, enjoying the fastest rates of growth in the global economy and hence acted as a locomotive, pulling up the Global South's average. But even while Asia experienced this remarkable resurgence, its separation from the rest of the South should not mask some commonalities across these regions. Nayyar shows that there was a move out of agriculture across the South, shrinking the economic space occupied by peasant production, and thereby reversing the Great Specialisation that had set in during the early 19th century. But, unlike the earlier developers, the movement out of agriculture did not translate into simple industrialisation. While the share of manufacturing has tended to increase across all the regions in the LDCs, what has been equally noticeable is the growth of services, much more so than in the cases of late development a century ago. The conspicuous exception to this is China, while the exemplar of service-led restructuring is perhaps India.

Nayyar closes his very able analysis by disaggregating "The Rest" even further. He shows that, within the regional divergences, it is a further subset of countries that can be identified as the engines of economic growth. This is a group of 14 countries, mostly in Asia but with some cases in Latin America and in Africa and they account for around three-fourths of the "catch-up" success of the South. And even among these, he further distinguishes divergent patterns of growth and structural change.

What emerges from all this is a very nuanced and illuminating analysis of the patterns of growth over the past half-century. Nayyar shows that the strong versions of *dependendista* arguments lack warrant. There is no denying that engagement with the world economy has been to the benefit of a substantial number of developing economies. But he also shows that this cannot be the occasion for the sort of Pollyanna-ish arguments generated by modernisation theorists, or current

advocates for convergence, since there remain large portions of the Global South whose economies continue to stagnate or just barely manage to keep up. What governs the divergence in outcomes? Nayyar's analysis here is somewhat brief, since the book's approach is mainly inductive. But he clearly sees a crucial role for some kind of state-sponsored developmentalism. All of the successful cases in his group of 14 relied on some kind of industrial policy, some degree of protection for local industry and an eschewal of free-market dogmas. Here the reader would do well to follow his references and peruse the more detailed historical work on planning and statist development strategy. This is an excellent book, highly recommended for anyone seeking a sure-handed introduction to the evolution of the North-South divide in economic development.

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