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WIDER Working Paper 2016/102

Structural transformation in the world economy

On the significance of developing countries

Deepak Nayyar *

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Abstract: This paper outlines the contours of global economic development, since 1980, to analyse underlying factors and consider future implications. The increased economic significance of developing countries, reflected in their share of world output, manufacturing and trade, is striking. But development, driven by rapid economic growth, has been most uneven. It is concentrated in a few economies, the Next-14, which have led the catch-up process. Their similarities—initial conditions, enabling institutions and supportive governments—suggest lessons for latecomers. Their experience shows that there are alternative paths to development, rather than unique solutions, so that one-size-does-not-fit-all and there are choices to be made. And it is clear that inclusive societies alone can sustain rapid growth and transform it into development that improves the wellbeing of their people.

Keywords: global economy, inclusive growth, transformation, development

Tables: at the end of the paper.

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1 Introduction

The world economy has witnessed profound changes associated with structural transformations, beginning around 1980, which have exercised an enormous influence on the process of, and outcomes in, development. Much of this would have been difficult to imagine, let alone anticipate, three decades ago: the gathering momentum of globalization, the rapid internationalization of finance, the technological revolution in information and communication, the collapse of communism, the return of entrepreneurial capitalism, the global financial crisis, the Great Recession, and the discernible shift in the balance of economic power away from the industrialized countries. In reflecting on the past and thinking about the future of development in this wider context, it is essential to consider the growing economic significance of developing countries in the world economy, not only because this is among the most striking changes over the past thirty years but also because it has the potential of transforming the lives of large numbers of people over the next thirty years.

The object of the paper is to focus on this outcome in global development, analyse the underlying factors and consider the future implications. First, it sketches the contours of change in the significance of developing countries in the world economy, over the past three decades, which has been driven by rapid economic growth. Second, it highlights the uneven process of development and the unequal nature of outcomes across continents and between countries, or country-groups, in the developing world: there is a high degree of concentration in Asia among continents and in fourteen economies among countries. Third, it considers the lessons that emerge from the development experience of countries that have led the process of catch up to discuss what it means for countries that continue to lag behind. Fourth, it reflects on the potential for, and the possibilities of, development futures in countries that are latecomers to, or laggards in, the process but could follow in the footsteps of the leaders. In doing so, it touches upon the relationship between ideas and outcomes in development.

2 Catching up

In this essay, the term developing countries is used to describe Africa, Asia excluding Japan, and Latin America including the Caribbean. The period since 1980 has witnessed a striking increase in their global economic significance, which is reflected in their size, industrialization levels, and engagement with the world economy.

Economic size is shaped by population and by income. Table 1 presents evidence on the distribution of world population and world GDP in current prices at market exchange rates, between the three constituent country-groups, for selected benchmark years during the period 1980–2014. The share of developing countries in world population was always overwhelmingly large; yet, it increased from less than three-fourths in 1980 to more than four-fifths in 2014. Between 1980 and 2014, however, their share in world GDP rose much more from 22 per cent to 38 per cent while the share of industrialized countries fell from 68 per cent to 57 per cent and that of Eastern Europe and the former USSR fell from 10 per cent to 5 per cent. This change was far more pronounced between 1990 and 2014, as the share of developing countries in world GDP jumped from 18 per cent to 38 per cent, by as much as 20 percentage points, entirely at the expense of industrialized countries whose share plunged from 78 per cent to 57 per cent. It is worth noting that the share of developing countries in world income was bumped-up in 1980 because of the increase in oil prices and the boom in commodity prices and scaled-down in 1990

because of the lost decade in Latin America and in Africa. Even so, by 2014, developing countries accounted for almost two-fifths of world GDP at market exchange rates.

This dramatic change in the relative shares of country-groups must be situated in the context of a much larger world GDP in absolute terms, juxtaposed with a rapid growth in GDP and GDP per capita in real terms. It must also be recognized that both industrialized countries and developing countries were much better off in 2014 as compared with 1980. In that sense, it was a positive-sum-game rather than a win-lose situation. But it did represent a restructuring of the world economy that narrowed the wide gap between rich and poor countries.

Differences in GDP growth rates underlie these changing shares of country-groups in world income. Table 2 sets out growth rates in GDP and GDP per capita in developing countries, industrialized countries, transition economies, and the world as a whole during the period 1981–2014, also disaggregated further in time for 1981–90, 1991–2000, 2001–08 (as the global economic crisis led to a sharp slowdown in growth thereafter) and 2009–14. Between 1981 and 2014, the GDP growth rate in developing countries at 4.8 per cent per annum was double that in industrialized countries at 2.4 per cent per annum and treble that in transition economies at 1.5 per cent per annum. In fact, during 2001–08 and 2009–14, before and after the downturn, the GDP growth rate in developing countries was three times that in industrialized countries.

The differences in GDP per capita growth rates were similar, as population growth in the developing world slowed down after 1980. During 1981–2014, growth in GDP per capita in developing countries at 3.2 per cent per annum was almost double that in industrialized countries at 1.7 per cent per annum and more than double that in transition economies at 1.2 per cent per annum. This difference was much greater, as compared with industrialized countries, during 2001–08 and 2009–14.

Table 3 outlines the trend in GDP per capita in developing countries, as a proportion of GDP per capita in different country-groups and in the world economy, for selected benchmark years. It shows that, between 1980 and 2014, per capita income in developing countries converged significantly towards per capita income levels in transition economies and in the world economy. However, in comparison with per capita income levels in industrialized countries the convergence was at best modest, because the initial gap was so much wider although it did mean the end of divergence. But this did lead to a massive new divergence within developing world, as per capita income in Least Developed Countries (LDCs) dropped from more than one-third to just one-fifth of that in developing countries. It is no surprise that LDCs in conflict, or environmental stress, fared the worst.

The story was similar in terms of catch up in industrialization and a growing engagement with the outside world. This is borne out by the evidence presented in Table 4 on the economic significance of developing countries in the world economy. Between 1980 and 2014, the share of developing countries in world manufacturing value added jumped from 18 per cent to 47 per cent. This is indeed a profound structural change. It means that the share of developing countries in world industrial production is higher than their share in world output, while industrialized countries are no longer the manufacturing-hub of the world. In the process of industrialization developing countries have also become competitive in world markets, as their share in world exports of manufactured goods rose from 12 per cent in 1980 to 44 per cent in 2014.

Over the same period, the share of developing countries in world merchandise exports rose from 30 per cent to 45 per cent and in world merchandise imports from 24 per cent to 42 per cent. In contrast, the increase in their significance as countries of destination or origin for foreign direct

investment was far less. But their share of remittance inflows in the world economy increased from 47 per cent in 1980 to 65 per cent in 2014. It would seem that trade and migration were more important than investment and finance in their engagement with the world economy.

3 Uneven development

The dramatic increase in the economic significance of developing countries is among the important manifestations of structural transformation in the world economy over the past thirty years. But this process was uneven across geographical space. It was unequal between continents. Much of it was concentrated in Asia. Development was also uneven between countries within continents and country-groups across continents. There was a high degree of concentration among a few countries—China, India, Indonesia, Malaysia, South Korea, Taiwan, Thailand and Turkey in Asia; Argentina, Brazil, Chile and Mexico in Latin America; and Egypt and South Africa in Africa—which have been described as the Next-14 (Nayyar 2013). Brazil, India, China and South Africa are a subset of the Next-14 and are also a part of BRICS as a political formation. In this essay, for the purpose of analysis, these four countries are defined as BRICS, excluding Russia, because the latter is an industrialized economy that is not part of the developing world even though it is part of BRICS as a political formation (Nayyar 2016). At the other end of the spectrum, there is another group of the poorest countries in the world—the least developed countries (LDCs)—as many as 48 in number that fell behind rapidly during the past three decades (Nayyar 2013).

The discussion that follows, based on evidence compiled for this paper, highlights the disparate outcomes in development between continents, country-groups and countries. Table 5 presents data on the shares of regions (Asia, Africa, and Latin America) and of country-groups (Next-14, BRICS, LDCs, other developing countries, and all developing countries) in world GDP (in current prices at market exchange rates) and world population, for selected benchmark years during the period from 1980 to 2014. It also provides absolute figures for world totals as a point of reference. Table 6 sets out growth rates in GDP and GDP per capita for the same regions and country-groups in the developing world during the period 1981–2014, and for the sub-periods 1981–90, 1991–2000, 2001–08, and 2009–14. This further disaggregation in time is useful because it highlights not only the differences in growth performance between regions and country-groups but also the underlying growth rates that explain changes in income shares and differences in income levels. It also provides growth rates for the world economy as a point of comparison. Table 7 traces the changes in the relative importance of the same regions and country-groups in terms of catch up in industrialization and engagement with the world economy, outlining their percentage shares in world totals for selected macroeconomic aggregates, from 1980 to 2014.

Among continents, or regions, Asia led the process throughout, while Latin America remained roughly where it was to start with, and Africa fared badly. Consider the evidence in Table 5 on the distribution of income and population among regions in the developing world. Between 1980 and 2014, the share of Asia in world GDP more than doubled while its share in world population remained almost unchanged. The share of Latin America in world GDP and world population was roughly proportionate, although its share in world GDP contracted during the 1980s, its lost decade, to recover thereafter. In contrast, for Africa the disproportionality between its share in world income and world population worsened significantly, and its share in world GDP contracted sharply during its lost decades in the 1980s and 1990s so that it had not quite recovered by 2014.

The underlying GDP growth rates, set out in Table 6, explain the changes in their respective shares of world income over time. During 1981–2014, the GDP growth rate in Asia was 6.1 per cent per annum, as compared with 4.8 per cent per annum in developing countries and 2.9 per cent per annum in the world economy, while it was 3.5 per cent per annum in Africa and 2.8 per cent per annum in Latin America. In fact, GDP growth in Asia was significantly higher through each of the sub-periods, whereas GDP growth was much lower in Africa during the 1980s and 1990s and in Latin America during the 1980s.

These disparities in GDP growth rates and differences in population growth rates, together with the lost decades in two continents, explain differences in GDP per capita growth rates. Table 6 shows that, between 1981 and 2014, GDP per capita growth in Asia at 4.6 per cent per annum, was much higher than in Africa at 0.9 per cent per annum and in Latin America at 1.2 per cent per annum, as compared with 1.5 per cent per annum in the world economy. Indeed, growth in GDP per capita in Asia was much higher throughout in every sub-period, while in Africa and Latin America it was much lower during 1981–90 and 1991–2000. It is no surprise that per capita income levels in Asia witnessed a modest convergence towards per capita income levels in industrialized countries and a significant convergence towards per capita income levels in the world economy, both of which were more visible from 2000. However, in comparison with industrialized countries and the world, per capita income levels in Africa witnessed a clear divergence, while those in Latin America fluctuated but remained roughly where they were in 1980 (Nayyar 2013).

The differences were even more pronounced in the pace of industrialization. Table 7 shows that the share of Asia in world manufacturing value added more than quadrupled from 10 per cent in 1980 to 39 per cent in 2014, while that of Africa stagnated in the range of 1–2 per cent and that of Latin America remained in the range of 6–7 per cent. Consequently, the share of Asia in manufacturing value added in the developing world jumped from more than one-half to more than four-fifths, while the share of Latin America plummeted from more than one-third to about one-eighth and that of Africa dropped from one-tenth to one-twenty-fifth. Table 7 also reveals that the story was similar in engagement with the world economy. During 1980–2014, the share of Asia in merchandise trade of developing countries rose from less than three-fifths to almost four-fifths, while the share of Latin America fell from one-fifth to one-eighth and that of Africa one-fifth to one-twelfth. The distribution of remittance inflows was less unequal and did not worsen as much over time despite the dominance of Asia. Clearly, remittance inflows were unequal between continents but less so than the distribution of manufacturing value added and trade. The concentration was much less in foreign direct investment.

In country-groups, the Next-14 were the analogue of Asia among continents. The BRICS were the leading and most important subset of the Next-14. The LDCs, even more than Africa among regions, fell behind rapidly. Other developing countries—the residual group which included the oil-exporting economies and many countries exporting primary commodities—fared much better than LDCs and Africa, but clearly worse than the Next-14.

This was reflected in the changing distribution of income and population among them during the period from 1980 to 2014 (Table 5). The share of the Next-14 in world GDP rose from 12 per cent to 28 per cent, while the share of BRICS in world GDP rose from 6 per cent to 19 per cent, although their shares in world population fell from 52 per cent to 51 per cent and from 41 per cent to 40 per cent respectively. In sharp contrast, the share of LDCs in world population increased from 9 per cent to 13 per cent, while their share in world GDP barely changed from 0.9 per cent to 1.2 per cent. The share of other developing countries in world population increased from 14 per cent to 18 per cent while their share in world GDP remained almost unchanged at about 9 per cent, although it dropped to about 5 per cent in 1990 and 2000; their

1980 share was probably attributable to the oil price hikes and the commodity prices boom, while their 1990 and 2000 shares were probably attributable to the lost decades in Africa and Latin America.

Differences in the growth performance of different country-groups underlie their changing shares in world income (Table 6). During 1981–2014, real GDP growth was 5.3 per cent per annum in the Next-14, 6.3 per cent per annum in BRICS, and 4.4 per cent per annum in LDCs, as compared with 2.9 per cent per annum in the world economy. It is worth noting that, during 2001–08 and 2009–14, GDP growth rates in all developing-country-groups, including LDCs, were much higher than those for industrialized countries and the world economy, which contributed to the rising share of developing countries in world GDP. Between 1981 and 2014, real GDP per capita growth was 4 per cent per annum in the Next-14, 5 per cent per annum in BRICS, and 1.8 per cent per annum in LDCs, as compared with 1.5 per cent per annum in the world economy. Once again, during 2001–08 and 2009–14, GDP per capita growth rates in all country-groups, except LDCs, were much higher than those for industrialized countries and the world economy, which explains the observed modest convergence in per capita income for the Next-14 and BRICs as well as the striking divergence in per capita income for LDCs.

The disparities between country-groups were far greater in industrialization. Table 7 shows that, between 1980 and 2014, the share of the Next-14 in world manufacturing value added jumped from 12 per cent to 39 per cent while that of BRICS jumped from 7 per cent to 29 per cent. Consequently, the share of the Next-14 in manufacturing value added in the developing world rose from two-thirds to more than four-fifths, while that of BRICS rose from about one-third to three-fifths. The share of LDCs was negligible. The concentration in engagement with the world economy, Table 7 suggests, was somewhat less. Between 1980 and 2014, in merchandise trade of developing countries, the share of the Next-14 increased from more than one-third to three-fifths, while the share of BRICS increased from one-eighth to a little more than one-third. Once again, the share of LDCs was negligible. The shares of the Next-14 and BRICS in remittance inflows to, or inward and outward stocks of foreign direct investment in, the developing world were significant and rose over time, but the concentration was far less.

In this context, it is worth noting that the distribution of such macroeconomic aggregates was unequal even among BRICS. The share of China was very large. The concentration was the greatest in merchandise trade, industrial production and manufactured exports. It would mean too much of a digression to enter into a discussion here. But I have discussed this issue at length elsewhere (Nayyar 2016, 2017). It should suffice to reiterate the basic conclusions. China is the most important part of the BRICS story. Yet it is not the whole story. There is much more to BRICS than China. BRICS are the most important part of the Next-14 tale. But there is far more to the Next-14 than BRICS. The Next-14 are the most important part of the growing significance of developing countries. Yet, there is more to the developing world than the Next-14. In sum, the process of uneven development is characterized by concentration at each level from the apex to the base: China in BRICS, BRICS in the Next-14, and the Next-14 in developing countries. But there is also a significant dispersion across levels in this hierarchy of country-groups.

There is another, related, dimension of uneven development that deserves mention. The catch-up process is associated with emerging divergences in the world economy. There is an exclusion of regions, of countries within regions, of regions within countries, and of people within countries (Nayyar 2013). This issue is important but any meaningful discussion requires a separate study. I have, in fact, analysed it elsewhere (Nayyar 2017a). The conclusion drawn is worth summing up here. During the period since 1990, catch up driven by rapid economic growth probably led to a modest reduction in economic inequality between countries and

between people in the world although it created new divergences between countries in the developing world, while it led to a significant increase in economic inequality between people within countries although it brought about a significant reduction in absolute poverty in countries that experienced rapid growth. The counterfactual is important. In the absence of catch up, outcomes might have been worse.

3 Lessons and learning

The industrialization and development experience of the Next-14 suggests that there were differences in size, settings, drivers, emphases, and transitions (Nayyar 2013). It is important to recognize this diversity. There were differences in economic size. Some countries were small (Malaysia, Taiwan and Chile), others were medium-sized (South Korea, Thailand, Turkey, Egypt, South Africa, Argentina and Mexico), while some were large (China, India, Indonesia and Brazil). There were different settings. Some countries were resource-rich and land-abundant (Argentina, Brazil, Chile, Mexico, South Africa and Indonesia), other countries were resource-poor and land-scarce (China, India, South Korea, Taiwan, Thailand and Egypt), while one was resource-rich and land-scarce (Malaysia). There were different drivers. Some countries relied on primary commodities or natural resources as the basis for manufacturing (Argentina, Brazil, Chile, South Africa and Indonesia), while other countries relied on cheap labour (China, India, Malaysia, South Korea, Taiwan, Thailand, Turkey, Egypt and, to some extent, even Mexico). There were different emphases. For some countries, external markets and external resources were critical in industrialization (Argentina, Chile, Mexico, Indonesia, Malaysia, Thailand and Turkey), whereas for other countries domestic markets and domestic resources were the drivers (Brazil, China and India), but for a few it was external markets and domestic resources (South Korea and Taiwan). There were different transitions, reflected in patterns of structural change. Some countries moved from the extensive margin of absorbing surplus labour from the agricultural sector into the industrial sector to the intensive margin of moving labour from low productivity to high productivity employment in the industrial sector (South Korea and Taiwan, followed by Malaysia and China), while most of the other countries did not but experienced varying transitions as the share of the agricultural sector in employment fell while that of the services sector rose but that of industrial sector did not.

There were different models of industrialization.¹ The Latin American model relied on foreign capital, foreign technology and foreign markets, in which Brazil was the exception while South Africa came close. The East Asian model had three variations. There were countries such as Malaysia, Thailand and Indonesia, where the size ranged from small to large, which relied on foreign capital, foreign technology and foreign markets. In this sense, they were not very different from another variation in the city-states of Hong Kong and Singapore. There was also a third variation of this model in South Korea and Taiwan that relied on foreign markets, but mobilized domestic resources and developed domestic technological capabilities instead of relying on foreign capital or foreign technology. The mega-economy model, followed by China and India, relied mostly on domestic markets, domestic resources and domestic technologies in

¹ There is an extensive literature on the industrialization experience of the Next-14. Indeed, given the space constraint, it is exceedingly difficult to cite so many references. Instead, this note provides a few selected references. For a systematic analysis of the Latin American experience, see Bertola and Ocampo (2012). On East Asia, see Wade (1990), and Chang (2004). Some references to the literature on country experiences are as follows: Brazil (Baer 1995), Mexico (Ros 1994), India (Nayyar 1994), Indonesia (Booth 1998), Malaysia (Rasiah 1995), Taiwan (Ranis 1992), and South Korea (Amsden 1989 and Chang 1996). For a cross-country perspective, see also Helleiner (1992), Nayyar (1997) and Amsden (2001).

the earlier stages of industrialization but at later stages both these countries joined the quest for external markets with a selective approach to foreign technology and foreign capital. Brazil, Turkey and Egypt, in three different continents, adopted a model that sought to find a blend of domestic and foreign in markets, capital and technology, which evolved over time, in their pursuit of industrialization.

These industrialization models must also be situated in the wider context of their development models, each with its mix of the state and the market or openness and intervention that differed across countries and changed over time. And there are possible clusters in terms of development models, which range from a strong reliance on markets and openness (Argentina, Chile, Mexico, South Africa, Malaysia, Thailand and Indonesia), through state support with moderated openness (Brazil, Egypt and Turkey), or strategic intervention and calibrated openness (South Korea, and Taiwan), to state intervention and controlled openness (China and India). The differences are more than nuances. Moderated openness was largely open economies with few restrictions in some spheres. Calibrated openness was about asymmetries in openness created by design, manifest in strategic trade policy that was open for the export sector but restrictive for other sectors, with limits on openness to foreign capital and tight curbs on foreign brand names. Controlled openness was much more extensive not only in trade but also with respect to foreign investment and foreign technology.

Such analytical clusters help to focus on what was common among these countries despite their apparent diversity even if reduced to smaller subsets. But they had even more in common across subsets in factors that put them on the path to sustained industrialization. It is possible to identify three such factors: initial conditions, enabling institutions, and supportive governments (Nayyar 2013).

There were two aspects of initial conditions. The first was the existence of a physical infrastructure. The second was the spread of education in society, where primary education provided the base and higher education provided the edge. In both, a critical minimum was essential to kick-start industrialization. And countries created these initial conditions, or built upon what existed, essentially through governments.

Similarly, for the Next-14, some institutions may have been inherited from the past but only in small part. The framework of enabling institutions, to support or foster industrialization, in these countries was put in place by pro-active governments. It was all about the establishment of planning offices, industrial boards and development banks. The object was to create production capabilities, investment capabilities and innovation capabilities in domestic firms with countries opting for different emphases on the public sector and the private sector (Lall 1990). The creation and evolution of such institutions was an integral part of industrialization-driven development processes (Chang 2007).

In the pursuit of industrialization, the role of governments, in evolving policies, nurturing institutions and making strategic interventions, whether as a catalyst or a leader, was central to the process almost everywhere (Stiglitz 1989; Shapiro and Taylor 1990; Bhaduri and Nayyar 1996; Lall 1997; Amsden 2001; and Nayyar 2013). Indeed, even among the small East Asian countries, success stories portrayed by orthodoxy as role models of markets and openness, development was more about the visible hand of the state rather the invisible hand of the market, particularly in South Korea and Taiwan (Amsden 1989; Wade 1990; and Chang 1996). Thus, developmental states were a critical part of success at industrialization (Evans 1995 and Amsden 2001), even if their role varied in time and space (Nayyar 2013). For countries that stressed markets and openness, it was about minimizing market failure. The emphasis was on getting-prices-right and buying the skills or technologies needed for industrialization. For

countries that stressed state intervention with moderated, calibrated or controlled openness, it was about minimizing government failure. The emphasis was on getting-institutions-right and building the skills or technologies needed for industrialization.

Of course, this role was not defined once-and-for-all but evolved over time with industrialization and development (Bhaduri and Nayyar 1996; and Nayyar 1997). In the earlier stages, it was about creating the initial conditions. In the later stages, there was a change in the nature and degree of this role, which had three dimensions: functional, institutional and strategic. Functional intervention sought to correct for market failure, whether general or specific. Institutional intervention sought to govern the market by setting rules of the game for players in the market, to create frameworks for regulating markets and institutions to monitor the functioning of markets. Strategic intervention sought to guide the market interlinked across sectors, not only through industrial policy and technology policy but also through the use of exchange rates and interest rates, to attain the broader, long-term objectives of industrialization. Governments also fostered industrialization at the micro level, through the nurturing of entrepreneurs in different types of business enterprises, or through the creation of managerial capabilities in individuals and technological capabilities in firms in the private sector (Lall 1992; Amsden 2001).

The clusters of size, settings, drivers, emphases, transitions and models among the Next-14 suggest such a wide range of attributes that most developing countries, except for small-island economies or land-locked countries, would have something in common with one, two or a few of them, so that there are lessons to be drawn from their experience. This suggests that there is hope for many of the latecomers. Clearly, these experiences cannot be completely replicated, or transplanted, and their lessons must be contextualized. Moreover, differences between countries in the Next-14 clearly show that there are alternative paths to development, so that there is no unique solution. Indeed, there are choices to be made that are bound to be influenced by history and conjuncture but should also be shaped by characteristics and circumstances of countries. In fact, many of the present laggards in industrialization may not be very different from what the leaders in industrialization were fifty years ago, so that the possibilities of, and potential for, development are similar.

The critical factors are initial conditions, enabling institutions and supportive governments. It should be possible to create initial conditions and to build institutions. What needs to be done is obvious in the former but must be contextualized in the latter. There could, however, be a problem with governments performing their necessary role. Both democracy, which make governments accountable to people, and propriety, which prevents corruption, are desirable, but are not necessary for governments to perform their role in development. In fact, authoritarian regimes and corrupt governments are more common than their opposites in the industrialization experience of the Next-14 (Nayyar 2013). Hence, it is essential that latecomers to development create control mechanisms embodied in institutions that impose discipline on economic behaviour not only of individuals and firms but also of governments. This is the challenge.

4 Contemplating futures

It is time to address the question posed at the outset. What can we learn from the experience of the past thirty years that have witnessed a substantial change in the economic significance of developing countries, even if it has been concentrated in one continent (Asia) and a few countries (Next-14), about the possibilities of development in other low-income or middle-income countries over the next thirty years? In doing so, I would like to stress three propositions. First, inclusive societies alone can sustain rapid growth and transform it into

development that improves the wellbeing of their people. Second, there are alternative paths to development, rather than unique solutions because one-size-cannot-fit-all, so that there are choices to be made. Third, learning to unlearn from development is just as important as learning from development. It would be idle to pretend that these propositions constitute an answer, but it is plausible to suggest that these might be important determinants of how the future unfolds for countries that are latecomers to development. Consider each in turn.

Development is about creating production capabilities in economies and ensuring wellbeing of people in countries. Initial conditions, enabling institutions and supportive governments are necessary to kick-start industrialization, which would transform capabilities in the spheres of production and technology. But these might not be sufficient to sustain economic growth in the long run and transform it into meaningful development if it does not improve the living conditions of people. In the pursuit of development, poverty eradication, employment creation and inclusive growth are an imperative. For one, these are constitutive as the essential objectives of development. For another, these are instrumental as the primary means of bringing about development.² This is the only sustainable way forward for developing countries because it would enable them to mobilize their most abundant resource, people, for the purpose of development. The same people who constitute resources on the supply side provide markets on the demand side, to reinforce the process of growth through an interactive cumulative causation (Nayyar 2014).

Therefore, developing countries must endeavour to combine economic growth with human development and social progress. This is a lesson for leaders and followers alike. The leaders, the Next-14, can sustain their growth in future only by ensuring that the benefits of catch up are distributed in a far more equal manner between people and regions within countries. The followers, low-income or even middle-income countries, can provide an impetus to their growth with a faster transformation into meaningful development if the process includes more people and lagging regions. This has not happened so far. Even so, it is clear that catch up, driven by economic growth, is necessary for reducing inequalities between people and regions, simply because the increase in aggregate income would make a less unequal distribution more feasible. Moreover, without such inclusion, rapid growth would just not be sustainable in the future.

This requires a creative interaction between the state and the market, beyond the predominance of the market model in the process of development. It is in part about regulating markets and in part about inclusive growth. And growth can be inclusive only if it creates employment. For a similar context, but at a different time, Polanyi (1944) analysed what he characterized as the 'Great Transformation' in Europe. In doing so, he described a double-movement: the first from a pre-capitalist system to a market driven industrialization in the nineteenth century; the second from the predominance of the market model to a more inclusive world in which the state played a corrective, regulatory, role. This transformation, which began in the early twentieth century, was complete by the mid-twentieth century. But it did not last long. There was a resurgence of the market model beginning in the late 1970s. Hence, the present situation in developing countries is similar to the pre-transformation situation in Europe (Stewart 2007). Such a Great Transformation in the developing world in the early twenty-first century, similar to the Great Transformation in the industrialized world in the early twentieth century, could deepen and widen the catch up process (Nayyar 2013). This needs developmental states.

² This argument is similar to Amartya Sen's conception of development as freedom. Sen (1999) argues that development is about expanding real freedoms that people enjoy for their wellbeing, social opportunities, and political rights. Such freedoms are not just constitutive as the primary ends of development. Such freedoms are also instrumental as the principal means of attaining development.

The possibilities of doing better, or the prospects of catching up, on the part of developing countries in the world economy, depend not only on how the Next-14 fare in times to come but also on whether this process spreads to other countries in the developing world.

The economic determinants of potential growth in the developing world are a source of good news. And, in principle, developing countries may be able to sustain high rates of growth for some time to come. There are three reasons. Their population size is large, which is a possible source of growth, and their income levels are low, which means that the possibilities of growth are greater. Their demographic characteristics, in particular the high proportion of young people in the population, which would mean an increase in their workforce and savings rates for some time to come, are conducive to economic growth, provided education spreads across society to create capabilities among people. Their wages are significantly lower than in the world outside, which is an important source of competitiveness for some time to come. In practice, developing countries may not be able to realize this potential for growth because of endogenous constraints that could be country-specific or common to most, and exogenous constraints beyond their control (Nayyar 2013). There could be many exogenous constraints. An important example is climate change, to which small island economies among LDCs are most vulnerable. Yet, the belief that Africa, or some countries elsewhere, are destined for underdevelopment is simply not tenable (Chang 2010). After all, in 1960, it would have been impossible to predict that South Korea would be where it is now. Indeed, at this juncture, several developing countries are not very different from many of the Next-14 in 1980. In sum, there are possibilities.

The diversity of the Next-14 makes it clear that there are no unique solutions or magic wands for development. There cannot be, simply because one-size-does-not-fit-all. In fact, the experience of the Next-14 suggests that there are alternative paths to development. Hence, there are choices to be made. To some extent, these choices depend upon size, settings and endowments. However, the emphases, say in terms of the relative importance of domestic, as compared with, external markets, resources and technologies, also depend upon country-specific conjunctures and circumstances. Moreover, there are strategic choices to be made between development models, each with its mix of the state and the market or openness and intervention. These choices could make the difference between success and failure. Of course, even the right choices cannot guarantee outcomes in development, which are inevitably shaped by a complex mix of economic, social and political factors in the national context, where history matters (Kindleberger 1996).

The message is clear. It is essential, and wise, to be circumspect about generalized prescriptions, standardized solutions or simple *mantras*, because there is nothing automatic about development. Thus, learning from experience is of critical importance. It is about correcting for mistakes. Everybody would agree. But it is just as important to unlearn from experience. It is about questioning long-held beliefs and thinking anew. Most have not thought about it. Yet, this distinction is important to understand the nature of the relationship between ideas and outcomes, or ideologies and policies, in the wider context of development (Nayyar 2008).

In retrospect, it is clear that turning points in thinking about development, which reshaped policies or strategies, were strongly influenced by history (the past) and conjuncture (the present), reinforced by the dominant ideology of the times. The Development Consensus, evolved in the early 1950s, was shaped by the experience of de-industrialization and underdevelopment in the colonial era, characterized by open economies and unregulated markets, juxtaposed with the nationalist aspirations of the newly independent countries beginning de-colonization. The Washington Consensus, which evolved through the 1980s, was shaped, in part, by the history of development outcomes over three decades. The success of a few small East Asian countries and failures elsewhere were highlighted, even if the history was selective and partial. This was

reinforced by the conjuncture, which witnessed the political collapse of communism, perceived as the triumph of capitalism that changed the dominant political ideology. The swing in the pendulum in thinking about development, from the Development Consensus to the Washington Consensus, driven by a mix of ideology and experience, was complete by the early 1990s. The dominance of the Washington Consensus began to wane and the belief system was shaken by the global economic crisis, but it has not been replaced by a new consensus. In both worldviews, there was some learning from experience but almost no unlearning from experience.

Outcomes in development, which were clearly discernible by the mid-1970s, persuaded advocates of the Development Consensus sought to introduce correctives for past mistakes, to ameliorate poverty, focus on basic needs, and stress human development, but without rethinking strategies. The critics sought fundamental changes in economic policies. This culminated in the Washington Consensus which was implemented almost everywhere. But development outcomes that followed belied expectations (Stiglitz 1998; and Rodrik 2005). The promised economic performance simply did not materialize in a very large number of countries, particularly in Africa and Latin America. Indeed, many countries that were non-conformists and adopted heterodox or unorthodox policies fared far better than the countries that were conformists and adopted orthodox policies (Taylor 2007; Nayyar 2008). This unfolding reality, which revealed a mismatch between regime change and economic performance, did not persuade orthodoxy to think about correctives in policies (except to suggest doing more of the same or doing it faster) let alone rethink strategies. Of course, outcomes did lead to some debate and some rethinking about development. There was learning from experience everywhere, but it was limited or selective. And it differed across schools of thought. For it was shaped only in part by outcomes. Priors in thinking and ideology in perspectives also exercised considerable influence.

The relationship between ideas and outcomes in development was asymmetrical, selective and partial, since ideas were shaped far more by ideology than outcomes. The reason is clear enough. Dominant ideologies were always reluctant to question their belief systems. It meant ceding intellectual or political space. Hence, the attempts to unlearn from development, which changed priors or thinking, were few and far between. And it should come as no surprise that non-dominant doctrines were more willing to learn from development experience. It meant capturing intellectual or political space. Yet, once the tables were turned, such that non-dominant doctrines became dominant ideologies, they also became reluctant to learn, and unwilling to unlearn from experience. Obviously, it would be a formidable challenge to change this reality, because ideologies do shape thinking in economics and politics. Even so, an ability to learn combined with a willingness to unlearn from development could transform the possibilities of change for good in the developing world over the next thirty years.

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Tables

Table 1: The distribution of world GDP and world population: 1980–2014 (%)

World GDP in current prices at market exchange rates					
	1980	1990	2000	2010	2014
Developing Countries	22.2	17.5	21.6	32.8	37.7
Industrialized Countries	68.1	77.8	76.0	61.9	57.2
Eastern Europe and former USSR	9.7	4.7	2.4	5.3	5.1
World	100.0	100.0	100.0	100.0	100.0
World Total (in US\$ billion)	12043	22604	32858	64401	77451

World Population					
	1980	1990	2000	2010	2014
Developing Countries	74.2	77.0	79.2	80.7	81.5
Industrialized Countries	17.2	15.3	14.2	13.4	13.0
Eastern Europe and former USSR	8.6	7.7	6.6	5.9	5.5
World	100.0	100.0	100.0	100.0	100.0
<i>World Total (in billions)</i>	<i>4.4</i>	<i>5.3</i>	<i>6.1</i>	<i>6.9</i>	<i>7.3</i>

Note: The percentages in the table have been calculated from data on GDP in current prices at market exchange rates, and from data on population in millions, for each of the country-groups, as also for the world economy.

Source: United Nations, UNCTAD Stat, based on UN National Accounts Statistics and Population Statistics.

Table 2: Growth rates in the world economy: 1981–2014 (% per annum)

GDP					
	1981–90	1991–2000	2001–08	2009–14	1981–2014
Developing Countries	3.7	4.7	6.5	5.4	4.8
Industrialized Countries	3.4	2.7	2.2	1.7	2.4
Eastern Europe and former USSR	2.9	-1.2	6.2	2.7	1.5
World	3.5	3.0	3.4	2.9	2.9

GDP per capita					
	1981–90	1991–2000	2001–08	2009–14	1981–2014
Developing Countries	1.5	3.1	5.1	4.0	3.2
Industrialized Countries	2.8	1.4	1.9	1.3	1.7
Eastern Europe and former USSR	2.2	-1.2	6.0	2.5	1.2
World	1.7	1.6	2.2	1.7	1.5

Note: The growth rates for each of the country-groups and the world economy have been calculated from data on GDP and GDP per capita in 2005 US\$. The average annual rates of growth for each of the periods and for the entire period have been calculated by fitting a semi-log linear regression equation:

$\ln Y = a + bt$ and estimating the value of b .

Source: United Nations, UNCTAD Stat, based on UN National Accounts Statistics.

Table 3: GDP per capita in developing countries as a proportion of GDP per capita in the world economy and in country-groups

	1980	1990	2000	2010	2014
Industrialized Countries	0.07	0.04	0.05	0.09	0.11
Eastern Europe and former USSR	0.24	0.35	0.75	0.45	0.49
LDCs	2.80	3.20	5.20	5.10	5.00
World Economy	0.29	0.23	0.27	0.41	0.46
<i>Developing Countries (in US\$ current prices at market exchange rates)</i>	<i>791</i>	<i>964</i>	<i>1465</i>	<i>3787</i>	<i>4934</i>

Note: The proportions in the table have been calculated from data on GDP in current prices at market exchange rates for developing countries (presented in the last row), for each of the country-groups, and for the world economy.

Source: United Nations, UNCTAD Stat, based on UN National Accounts Statistics and Population Statistics.

Table 4: Economic significance of developing countries in the world economy 1980–2014 (%of totals for the world)

	1980	1990	2000	2010	2014
Manufacturing Value Added	18.4	17.5	24.7	42.0	47.4
Manufactured Goods Exports	12.0	17.9	29.3	40.2	43.8
Merchandise Exports	29.5	24.2	31.9	42.1	44.7
Merchandise Imports	24.0	22.2	28.8	39.0	42.2
Remittance Inflows	46.8	42.0	60.8	68.6	64.7
FDI Inward Stock	...	24.9	23.6	32.4	33.7
FDI Outward Stock	...	6.9	11.1	16.4	19.6

Notes: For 1980 and 1990, manufactured goods exports are defined as the sum of SITC 5 (chemicals), SITC 6 (manufactured goods), SITC 7 (machinery and transport equipment), and SITC 8 (miscellaneous manufactured articles) less SITC 68 (non-ferrous metals). For 2000, 2010 and 2014, manufactured goods exports are also less SITC 667 (pearls, precious and semi-precious stones) but those values are very small so that the figures over the entire period are comparable.

Figures on the inward and outward stocks of FDI are not reported in this table for 1980 because the coverage of the UNCTAD database in that year was partial and incomplete so that the statistics for 1980 are not comparable with those for subsequent years.

Source: For 1980 and 1990: Nayyar (2013). For 2000, 2010 and 2014: United Nations, UNCTAD Stat, based on UN National Accounts Statistics, International Trade Statistics, and UNCTAD Foreign Direct Investment Online Database

Table 5: The distribution of GDP and population in the developing world: 1980–2014 (%)

A: GDP in current prices at market exchange rates

I. Regions	1980	1990	2000	2010	2014
Asia	11.5	10.1	13.1	22.2	26.7
Africa	3.6	2.2	1.8	2.7	3.1
Latin America	6.6	5.2	6.7	7.9	7.8
II. Country Groups					
Next-14	12.3	11.9	15.5	24	27.5
<i>Of which BRICS</i>	6.3	5.5	7.4	15.8	18.9
LDCs	0.9	0.7	0.6	1.0	1.2
Other Developing Countries	8.5	4.9	5.5	7.8	9.0
Developing Countries	21.7	17.5	21.6	32.8	37.7
World	100	100	100	100	100
<i>World Total (in US\$ billion)</i>	<i>12043</i>	<i>22604</i>	<i>32858</i>	<i>64401</i>	<i>77451</i>

B: Population

I. Regions	1980	1990	2000	2010	2014
Asia	55.4	56.9	57.5	57.3	56.9
Africa	10.7	11.8	13.2	14.9	15.9
Latin America	8.1	8.3	8.5	8.5	8.6
II. Country Groups					
Next-14	51.6	52.3	52.1	51.3	51.0
<i>Of which BRICS</i>	<i>41.2</i>	<i>41.7</i>	<i>41.5</i>	<i>40.7</i>	<i>40.3</i>
LDCs	8.8	9.6	10.8	12.1	12.8
Other Developing Countries	13.8	15.1	16.3	17.3	17.7
Developing Countries	74.2	77.0	79.2	80.7	81.5
World	100.0	100.0	100.0	100.0	100.0
<i>World Total (in US\$ billion)</i>	<i>4.4</i>	<i>5.3</i>	<i>6.1</i>	<i>6.9</i>	<i>7.3</i>

Note: (a) The Next-14 are made up of Argentina, Brazil, Chile, China, Egypt, India, Indonesia, South Korea, Malaysia, Mexico, South Africa, Taiwan, Thailand and Turkey. The BRICS are defined as Brazil, India, China and South Africa. (b) The percentages have been calculated from data on GDP in current prices at market exchange rates, and on population in millions, for each of the regions and country-groups, and for the world economy.

Source: United Nations, UNCTAD Stat, based on UN National Accounts Statistics and Population Statistics

Table 6: Growth rates in the developing world for regions and country-groups: 1981–2014 (% per annum)

GDP					
I. Regions					
	1981–90	1991–2000	2001–08	2009–14	1981–2014
Asia	5.5	6	7.5	6.1	6.1
Africa	2.1	2.8	5.6	3.4	3.5
Latin America	1.9	3.1	4.2	3.4	2.8
II. Country Groups					
Next-14	4.8	5.3	6.6	5.7	5.3
<i>Of which BRICS</i>	5.3	6.4	8.3	6.5	6.3
LDCs	2.5	3.9	7.3	5.2	4.4
Developing Countries	3.7	4.7	6.5	5.4	4.8
World	3.5	3	3.4	2.9	2.9
GDP per capita					
I. Regions					
	1981–90	1991–2000	2001–08	2009–14	1981–2014
Asia	3.4	4.5	6.3	5.0	4.6
Africa	-0.7	0.3	3.1	0.9	0.9
Latin America	-0.1	1.4	3	2.3	1.2
II. Country Groups					
Next-14	2.8	4	5.6	4.7	4.0
<i>Of which BRICS</i>	3.3	5.1	7.3	5.6	5.0
LDCs	-0.1	1.2	5	2.7	1.8
Developing Countries	1.5	3.1	5.1	4	3.2
World	1.7	1.6	2.2	1.7	1.5

Note: The growth rates for each of the regions, country-groups and the world economy, have been calculated from data on GDP and GDP per capita in 2005 US dollars. The average annual rates of growth for each of the sub-periods and the entire period have been calculated by fitting a semi-log linear regression equation $\ln Y = a + bt$ and estimating the value of b .

Source: United Nations, UNCTAD Stat, based on UN National Accounts Statistics.

Table 7: Relative importance of regions and country-groups in the developing world in selected macroeconomic aggregates (as % of totals for the world)

I: Regions					
	1980	1990	2000	2010	2014
Asia					
Manufacturing Value Added	10.1	10.7	17.0	33.1	39.2
Merchandise Exports	18.3	17.0	23.9	32.8	36.1
Merchandise Imports	13.5	16.1	21.0	30.1	32.6
Remittance Inflows	28.7	23.2	36.9	44.5	43.4
FDI Inward Stock	30.6	16.4	14.8	19.6	23.1
FDI Outward Stock	3.0	3.2	8.2	11.7	16.1
Africa					
Manufacturing Value Added	1.9	1.5	1.3	1.6	2.0
Merchandise Exports	5.9	3.0	2.3	3.4	2.9
Merchandise Imports	4.6	2.6	2.0	3.1	3.4
Remittance Inflows	13.4	11.3	8.3	11.5	7.2
FDI Inward Stock	5.9	2.9	2.1	2.9	2.9
FDI Outward Stock	1.4	1.0	0.5	0.6	0.9
Latin America					
Manufacturing Value Added	6.4	5.5	6.5	7.3	6.2
Merchandise Exports	5.4	4.2	5.7	5.8	5.8
Merchandise Imports	5.9	3.5	5.8	5.8	6.1
Remittance Inflows	4.4	7.3	15.6	12.4	13.9
FDI Inward Stock	6.0	5.4	6.8	9.9	7.7
FDI Outward Stock	8.5	2.6	2.4	4.1	2.7

II: Country-Groups

	1980	1990	2000	2010	2014
Next-14					
Manufacturing Value Added	12.1	14.0	20.3	35.9	39.4
Merchandise Exports	9.2	12.1	18.3	25.9	26.4
Merchandise Imports	9.7	11.5	17.2	25.0	25.5
Remittance Inflows	23.2	20.7	30.6	34.6	34.5
FDI Inward Stock	10.6	8.7	10.7	15.4	15.4
FDI Outward Stock	11.9	5.0	3.3	6.5	9.3
Of which BRICS					
Manufacturing Value Added	6.6	6.4	10.0	24.6	28.8
Merchandise Exports	3.5	3.9	5.8	13.7	15.7
Merchandise Imports	3.8	3.3	5.5	13.2	14.6
Remittance Inflows	8.1	4.1	15.4	24.5	23.0
FDI Inward Stock	5.1	3.3	5.0	8.1	9.1
FDI Outward Stock	8.1	2.9	1.4	3.2	5.3
LDCs					
Manufacturing Value Added	0.50	0.35	0.31	0.61	0.8
Merchandise Exports	0.74	0.52	0.56	1.06	1.11
Merchandise Imports	1.19	0.72	0.65	1.10	1.4
Remittance Inflows	3.51	4.49	4.82	5.46	7.2
FDI Inward Stock	0.89	0.53	0.49	0.70	0.9
FDI Outward Stock	0.06	0.05	0.03	0.07	0.1
Developing Countries					
Manufacturing Value Added	18.4	17.8	24.7	42.0	47.4
Merchandise Exports	29.7	24.1	31.9	42.1	44.7
Merchandise Imports	24.0	22.2	28.8	39.0	42.2
Remittance Inflows	46.8	42.0	60.8	68.6	64.7
FDI Inward Stock	42.5	24.7	23.6	32.4	33.7
FDI Outward Stock	13.0	6.7	11.1	16.4	19.6
World	100.0	100.0	100.0	100.0	100.0

Note: The percentages have been calculated from data on the selected macroeconomic aggregates in current prices at market exchange rates for each of the regions and country-groups.

The figures on the inward and outward stocks of FDI for 1980 are not comparable with the figures for subsequent years, because the coverage of the UNCTAD database in 1980 was partial and incomplete.

Source: United Nations, UNCTAD Stat, based on UN National Accounts Statistics, International Trade Statistics, and World Bank Statistics on Remittances; UNCTAD Foreign Direct Investment Online Database; and Nayyar (2013).