

Developing countries in the world economy

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In the span of world history, the distinction between industrialized and developing economies, or rich and poor countries, is relatively recent. It surfaced in the last quarter of the nineteenth century. In fact, one thousand years ago, Asia, Africa and South America, taken together, accounted for more than 80% 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% 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 sixteenth century to the late eighteenth century, as Europe created the initial conditions for capitalist development. Even so, in the mid-eighteenth 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 eighteenth century, which spread to Europe over the next fifty 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% 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 divide 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.

The Great Divergence in per capita incomes was, nevertheless, the reality. In a short span of 130 years, from 1820 to 1950, as a proportion of GDP per capita in Western Europe and North America, GDP per capita in Latin America dropped from 3:5 to 2:5, in Africa from 1:3 to 1:7, and in Asia from 1:2 to 1:10. 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 60.5% to 7.5% — while the share of Europe, North America, and Japan rose from 39.5% to 92.5%, to stay at these levels until 1950.

The industrialization of Western Europe and the de-industrialization of Asia during the nineteenth century were two sides of the same coin. The century from 1850 to 1950 witnessed a progressive integration of Asia, Africa and Latin America into the world economy, 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 Latin America fared better. Consequently, by 1950, the divide between rich industrialized countries and poor underdeveloped countries was enormous.

During the six decades beginning 1950, changes in the share of developing countries in world output and in levels of per capita income relative to industrialized countries, provide a sharp contrast. In terms of PPP statistics, the share of developing countries in world output stopped its continuous decline circa 1960, when it was about 25%, to increase rapidly after 1980, so that it was almost 50% 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 industrialized countries it was somewhat less than 1:5 in 2008.

There was a significant catch-up in industrialization for the developing world as a whole beginning around 1950 that gathered momentum two decades later. Between 1970 and 2010, in current prices, the share of developing countries in world industrial production jumped from 13% to 41%, while their share in world exports of manufactures rose from 7% to 40%.

It is clear that, during the second half of the twentieth century and the first decade of the twenty-first century, there was a substantial catch-up on the part of developing countries. In 2008, the share of developing countries in world GDP was close to their share around 1850, while their GDP per capita as a proportion of that in industrialized countries was about the same as in 1900. The share of developing countries in world industrial production remained at its 1913 level until 1970. By 2010, however, this share was higher than it was in 1860 and possibly close to its level around 1850.

On the whole, the significance of developing countries in the world economy circa 2010 is about the same as it was in 1870 or a little earlier. Given this situation in 2010, which is an outcome of the catch up process since 1950, it is likely that the significance of developing countries in the world economy circa 2030 will be about the same as it was in 1820.

This is an untold story. Some important questions arise. First, why did the countries and continents, now described as the developing world, experience such a decline and fall in the short span of time from 1820 to 1950? Second, what were the factors underlying their catch up in output, income, and industrialization since 1950? Third, how was this catch up distributed between continents, countries, and people? Fourth, is it possible to learn from recent experience, and the past, about the future of developing countries in the world economy?

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