Chapter 1
Wither Convergence?
Catching-up in an Era of Diminished Expectations

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ABSTRACT

For the first time since the industrial revolution, emerging economies are the main driver of global economic growth. For all its significance, this cannot be taken as an indicator of global convergence, since it resulted essentially from the successful catching-up processes of just a few Asian countries over the last few decades, whilst the productivity and income of the bulk of the developing economies have lagged persistently behind those of the advanced economies. The former continue to have the potential to grow faster than the latter, but realizing this potential on sustainable basis makes it necessary to meet a number of increasingly stringent conditions. Grounds for optimism are considerably less solid today than was the case in the recent past. This is highlighted by the large number of countries locked-up in the 'middle-income trap". This chapter offers a fresh view of this phenomenon, examines the nature of the conditions required for the potential for catching-up of middle-income economies to be realized, and attempts to arrive at a realistic outlook on this matter.

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INTRODUCTION

The plan of this chapter is as follows. The First Section sets the stage by briefly reviewing the global catch-up record and its rationale. The Second section addresses the exogenous and endogenous factors prompting the current era of diminished expectations about developing countries' catching-up prospects. Recent success stories of nations rising 'from rags to riches' within a single generation seem unlikely to be emulated in the post-2008 crash scenario. The Third section puts forward a new interpretation of the "middle-income trap", whereby countries at mid-way in their development process suffer a truncation in their ability to continue their march towards

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joining the high-income group of countries, and examines what it takes to overcome the trap. The last section concludes.

THE CATCHING-UP RECORD: CONSTRAINED (HYPER-CONDITIONAL) CONVERGENCE

The overriding long-term trend marking the evolution of the world economy since the industrial revolution has been one of inter-country divergence, not convergence (Landes 1999; Pritchett 1997).[1] Within this overall picture, there has been a rich story of *bounded or club convergence* in the shape of successful catching-up processes by selected countries. Outstanding among these were those of the United States in the nineteenth century, followed by continental Europe and then, more recently, by Japan, the Asian tigers and, currently, China.[2]

Much has been learned from these experiences through the work of outstanding scholars.[3] The key lesson for the purposes of this chapter relates to the improved understanding of the key role of indigenous innovative (scientific, technological, organizational, managerial, institutional and policy) capability development. Nevertheless, the current state of knowledge on catch-up remains far from consummate. This is the case particularly, although not exclusively, with respect to policies and strategies.

There is growing agreement that catching-up is neither automatic nor unconditional. There is only *pains-taking* and *conditional* convergence; that is, provided that high enough levels of investment, education, learning, innovation, entrepreneurship, trade, etc. are attained … then convergence may be expected to follow. However, because it is so hard to pull *all* these conditions together, added to institutional, organizational and managerial adaptations, a long enough time-frame for decision-makers, anticipatory resource-allocation strategies and the absence of disrupting external shocks, it is no wonder that policy-makers normally fail to achieve sustained catch-up.[4]

Firms and industries in catching-up countries are not uniformly behind the global technology frontier. Some are considerably more advanced than others. The same applies to sectorial innovation systems.[5] Large inter-sector productivity differentials explain why shifting resources across broad sectors, particularly from traditional agriculture and informality to manufacturing and modern services, may contribute greatly to catching-up processes in the earlier stages of industrialization.

Although the basic mechanics of catching-up may be summarized through a few general assertions at a rather superficial level, the causal processes involved are far from simple. Accounting for these, particularly from a policy and strategy perspective, requires bringing into play qualitative features not amenable to being captured through simple formal models and a few stylized variables.

Shifting Expectations

Expectations on economic and technological catching-up by late industrializing countries appear to have come full circle during the last few decades. Up to approximately the late 1960's an optimistic view generally prevailed, according to which easy access to superior knowledge and technology from more developed economies would lead to speedy global (unconditional) economic convergence.

During the following decades these expectations were in fact (partly) fulfilled, but only by a handful of countries that managed to meet the myriad necessary and sufficient conditions.[6] True, emerging and developing economies accelerated their pace of economic growth in the run-up to the global financial crisis of 2008-2009. This inspired a short-lived resurgence of optimism on