Chapter 31
The Problems of Development Gap between Developed and Developing Nations:
Is There Any Sign of Convergence?

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ABSTRACT

The persistently large income gap between the Developed Countries (DCs) of the North and relatively Less Developed and Developing Countries (LDDCs) of the South is one of the most notable features of the international community over the last few decades. Such large disparities in income are paralleled by huge gaps in other non-monetary indicators of well being. Different research works in this field have indicated that the average annual growth rate of per capita income in LDDCs has been faster compared to that in DCs particularly since early 1990s indicating a sign of convergence in the growth process. However, the absolute gap between the DCs and LDDCs in terms of per capita GNP has widened over years. In this chapter, an attempt has been made to indicate the pattern of β-convergence and σ- convergence in income growth between DCs and LDDCs during 1960-2012. The study observes that there remains a definite indication of β and σ convergence in the growth rate of real PCI across different groups of nations particularly during the period 2000-2013.

INTRODUCTION

The persistently large income gap between rich countries of the North and relatively poor countries of the South is one of the most notable features of the international community over the last few decades. In particular, there is a sharp divide between developed industrialized countries and the less developed or developing countries. The economic difference between the two groups of countries is not merely a difference of wealth. There are also a number of common structural characteristics, such as underdeveloped financial markets, poor infrastructure and a more pervasive role of the government in the economy,

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which distinguish the former from the latter. Moreover, 'the rich country– poor country' dichotomy extends into the social and political realms as well, with the rich countries generally enjoying greater political stability and social peace.

Just as inequality among the citizens of a country breeds tension and conflict, inequality among the countries of the world constitutes an obstacle to international harmony and understanding. On many international issues, developing countries and developed countries form antagonistic blocs. For example, in the negotiations preceding the birth of the World Trade Organization (WTO) in 1995, developing countries vehemently opposed efforts by developed countries to open discussions about labor standards. The two blocs also clash regularly over environmental issues, where developed countries tend to call for more strict controls, as well as human rights issues. While we should not exaggerate the seriousness of the conflict between the two groups of countries, there is an unmistakable global divide along wealth lines.

Most of the less developed and developing countries (LDDCs) have a low per capita income base in comparison with the developed countries (DCs). So, a pertinent question that naturally evolves in the process of economic growth is whether these LDDCs can catch up with the income growth as well as the level of per capita income attained by the DCs. The phenomenon of the poor countries catching up with rich countries over time is called 'convergence' in economic jargon. Some economists often argue that though some less developed or developing countries lag behind the developed countries in this growth process, there is every possibility of catching up of the higher growth trajectory by the LDDCs in the long-run. So, the growth process across nations would show a tendency to converge over time. Such convergence in the growth process is supposed to be made possible through the use of better technology by the LDDCs and a shift of resources from the slow-growth sector to the high-growth sector in an economy. It is also assumed that the marginal productivity of capital in LDDCs would be much higher than that in developed countries because the usage of capital in the production process remains at a low level in LDDCs.

There is no doubt that some of the LDDCs have experienced spectacular improvement in their income growth particularly during the last two decades leading to some signs of growth convergence between the DCs and the LDDCs. But despite such convergence in economic growth, there still remain several indications of development divergence between these two groups of nations.

OBJECTIVES

The study is essentially intended to enquiring the relevance of the convergence projection of the Neo-Classical growth doctrine among the countries in terms of per capita income (PCI) in the long-run. Hence, in this paper, our main objective is to find out whether the growth rates of per capita income in the DCs and the LDDCs have converged over time and whether that growth convergence has been accompanied by a substantial reduction in North–South gap in living standards over the last few decades or not.

So, we want to focus our attention to different aspects of 'development divergence' in the backdrop of 'growth convergence'. That is, have the poor countries been catching up with rich countries in recent times? Is such a convergence in the process of economic growth necessarily implying a convergence in the process of economic development across nations? This is an important issue in development economics because the polarization of the world into two disparate components does not bode well for international peace or prosperity, especially in the long-run. Conversely, our objective is to get an answer

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