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Can emerging markets outdo developed markets by 2030?

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The economic distance between "The West" (Western Europe and North America) and "The Rest" (Asia, Africa and Latin America), or between industrialised countries and developing countries, is relatively recent in the span of world history. Indeed, there is an untold story about changes in the economic significance of developing countries that divides into four periods.

(The rapid economic growth…)

The first period, 1000-1500, was characterised by the overwhelming importance of the three continents now described as developing countries, which accounted for more than 75% of world population and world income, attributable in large part to Asia, which was, in turn, attributable to just two countries, China and India, which accounted for about 50% of world population and income and were the primary suppliers of manufactured goods to the world.

Capitalism's Baby Steps

The second period, 1500-1820, witnessed the beginnings of change, associated with three developments in Europe: the voyages of discovery and the colonisation of the Americas, the mercantile expansion of trade supported by state power and naval power, and institutional change in society and polity that created the conditions for capitalist development.

The Industrial Revolution in Britain towards the end of this period turned out to be a critical determinant of the shape of things to come. Yet, in mid-18th century, the similarities between Europe and Asia were striking, as demography, technology and institutions were broadly comparable. Even in 1820, less than 200 years ago, Asia, Africa and Latin America still accounted for around three-fourths of world population and two-thirds of world income, while the share of China and India was 50%.

The third period, 1820-1950, witnessed a dramatic transformation of the world economy: the "Rise of the West", concentrated in Western Europe and North America, and the "Fall of the Rest", concentrated in Asia, in particular China and India. The economic significance of Asia, Africa and Latin America fell so steeply that, by 1950, they accounted for two-thirds of world population and one-fourth of world income.

When the Tables Turned

The radical changes in manufacturing transformed economic life in Western Europe, jacking up productivity, output and incomes. This got help from free trade, imposed by imperialism, and the transport revolution that dismantled the protection provided by geography via distance and time, to hasten deindustrialisation in Asia with a devastating impact on China and India.

There were two striking outcomes: the "Great Divergence" in per-capita incomes between the West and the Rest, and the "Great Specialisation" in which the West produced manufactured goods and the Rest produced primary commodities. This short span of 130 years created an enormous gap and sharp divide between rich and poor countries.

The divergence in per-capita incomes came to a stop in 1980 and a modest convergence began thereafter to gather momentum in the 2000s. This period since 1970 also witnessed a rapid rise in the share of developing countries in world industrial production and world manufactured exports, both of which exceeded 40% in 2010.

Reversal, But Not for All

However, this catch up, rather than rise, was distributed in an unequal manner between regions and, within them, countries, so that divergence within the developing world rose. What is more, the rapid economic growth was not quite transformed into meaningful development that improved the well-being of ordinary people - increments in income have been unequally distributed. Absolute poverty has been reduced but poverty persists while economic inequality has soared.

Beginning 1950, 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 industrialised countries was about the same as in 1900. In 2010, the share of developing countries in world industrial output was higher than it was in 1860 and possibly close to its level around 1850.

The significance of developing countries in the world economy circa 2010 is about the same as it was around 1870. This is an outcome of the catch-up process since 1950. Unfolding reality suggests that the significance of developing countries in the world economy circa 2030 will be about the same as it was in 1820.

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