New Political Economy, 2014
Vol. 19, No. 4, 578–600, http://dx.doi.org/10.1080/13563467.2013.829432

Routledge
Taylor & Francis Group

The 'Rise of the South': Global Convergence at Last?

ALFREDO SAAD-FILHO

This article offers a political economy review of the literatures and the empirical evidence concerning the 'Rise of the South'. The study focuses on global convergence (in the long-term, in the last 30 years, and in the aftermath of the 2008 global crisis), economic decoupling between developing and advanced economies, and the economic strategies which may help catching-up, especially the 'flying geese' paradigm and industrial policies supporting manufacturing sector growth. It shows that the mainstream literature suffers from significant weaknesses; that empirical claims concerning convergence and decoupling have been exaggerated, and that flying geese-type strategies are severely limited. Examination of the drivers of growth in the South and the policies implemented in key converging countries support the claim that political economy approaches can offer valuable policy insights to countries grappling with the challenges of long-term growth and development.

Keywords: convergence, Rise of the South, global growth, industrial policy

Few issues have been as hotly debated recently in the field of development as the 'Rise of the South' (RoS), global convergence and North–South decoupling.[1] These exchanges have been motivated by the far-reaching transformations in the global economy during the last couple of decades, and the strong performance of several developing economies (DEs), especially the so-called BRICS (Brazil, Russia, India, China and South Africa). Their perceived success has lent support to the argument that the world is 'turning upside down': the economic and political supremacy of the West is being eroded, changes in global governance will inevitably follow and the next generation of world-leading economies can already be identified. More recently, and equally significantly, most DEs have experienced only a shallow downturn followed by rapid recovery in the wake of the global crisis starting in 2007, in contrast with the deep contraction and protracted slowdown in many advanced economies (AEs).

Alfredo Saad-Filho, Development Studies, SOAS University of London, Thornhaugh Street, Russell Square, London WC1H 0XG, UK. Email: as59@soas.ac.uk

Convergence claims have often been associated with mainstream economics predictions that the South must, eventually, catch up with the North. While most economists have welcomed the RoS as a tardy but welcome validation of these predictions, many political scientists and international relations scholars have expressed concerns about the potentially destabilising implications of the rise of Russia and, especially, China.[2] This article does not address these issues. It focuses, instead, on the economic debates around convergence.

These debates are atypical for two reasons. First, and in contrast with most academic disputes, RoS was initially highlighted by writers based in private financial institutions, rather than universities, international organisations or think-tanks – see, for example, Buiter and Rahbari (2011), King (2011) and Wilson and Purushothaman (2003), respectively, from Citibank, HSBC and Goldman Sachs. These contributions tend to depart from a superficial diagnosis of RoS, and they rapidly get down to the business of enthusing readers with the (financial) profit-making opportunities that will inevitably follow. Second, this literature often conflates distinct temporal horizons: the very long term (decades or even centuries), the last 20–30 years (marked by the hegemony of neoliberalism and Washington Consensus-type economic policies) and the recent (post-2007) crisis period. This conflation has provided support to claims that there is an unproblematic RoS driven by competitive markets, information technologies and transnational business activity ('globalisation').

Despite the historical significance of the RoS, the conventional narrative is flawed at three levels. First, it diagnoses generalised convergence, even though the short- and medium-term evidence is mixed and the global economy has diverged markedly in the long-term. Second, it confuses the achievements of a small number of countries which have avoided mainstream policies with widespread income and productivity gains secured by mainstream policies. Third, it mistakenly claims that the South has, largely, 'decoupled' from the North – or even that the South can now drive Northern growth ('reverse-coupling'). These shortcomings can be explained by the neglect of history in most conventional literature, statistical oversights, and the hard-wired assumption that firm- and country-level maximising behaviour, a competitive environment and conventional macroeconomic policies must foster convergence. In contrast, the political economy analysis which inspires this article suggests that the global economy is defined by unevenness at multiple levels (including firms, production chains, countries and regions), and that there is no automatic tendency for countries to converge: outcomes depend on circumstances, domestic policies and global constraints which cannot be captured adequately by mainstream approaches.

This article includes this introduction and six substantive sections. The first examines the mainstream literature on global growth and convergence, and the evidence of long-term convergence. The second focuses on the development policies implemented in the postwar period, their impact on global inequality and recent DE growth performance. The third reviews the period after the onset of the global crisis. These sections show that moments of convergence have often been decontextualised and exaggerated in support of a neoliberal policy agenda. The fourth examines the potential drivers of convergence, especially transnational production networks, the 'flying geese' paradigm, and the importance of trade and

industrial policy. The fifth focuses on the 'decoupling' between the South and the North. The sixth concludes this article.

1. Long-term patterns of growth

Evidence of sustained growth in the Northern 'core' of the world economy since the Industrial Revolution, in contrast with slow growth or even decline in the Southern 'periphery', has triggered several waves of debate about the scope for global convergence, even if only in a purely logical 'long-run'.

Veblen (1915) and Gerschenkron (1962) provided the analytical framework for the analysis of long-term economic growth and its relationship with poverty and inequality. They advanced the intuitively appealing idea that early developers create technologies which others can learn, purchase or steal. Since the adaptation of new methods of production is likely to be cheaper than their discovery, latecomers have an inbuilt advantage and can fast-track their development. This view was apparently supported by the post-World War II experiences in Japan and Western Europe, where a productivity and growth surge was attributed to the introduction of capital goods incorporating mass production technologies. If this could be replicated elsewhere, capitalist economies might converge rapidly in terms of per capita income, living standards, productivity and technology, dispensing with the need for socialist revolutions or even large-scale state intervention.

These insights were incorporated into the growth literature through the work of Domar (1946), Harrod (1939), Kuznets (1955) and Solow (1956). Kuznets' work was inductive, and focused on the discovery of empirical patterns linking growth to inequality within – rather than between – countries. His inverted-U hypothesis suggested that economic growth initially leads to greater inequality, which later declines as workers shift towards high-productivity urban activities and the benefits of growth trickle down. In contrast, Harrod and Domar developed a simple Keynesian model with a production function with constant returns to scale, where the growth rate of the gross domestic product (GDP) depends on domestic savings (which automatically increase the capital stock), the rate of depreciation (which erodes it) and the productivity of capital. In this model, if productivity and the rates of saving and depreciation are constant across rich and poor countries, their growth rates will equalise; hence, there is no relationship between initial GDP per capita and subsequent growth rates (that is, relative but not absolute convergence).

Solow's influential growth model builds on these insights. It includes a production function with decreasing returns to scale, and assumes individual optimising behaviour, perfect competition, costless technological progress and the equalisation of marginal returns to the factors of production. Since capital is relatively scarce in poor countries, its marginal productivity must be higher than in the rich economies, and capital should flow from rich to poor countries. For these two reasons (higher marginal productivity and capital flows), the South should be able to short-circuit the introduction of the latest technologies, raise productivity, accumulate and grow faster than the rich countries in the transition to their (logical) long-run equilibrium position. Since the Solow model predicts

convergence while setting aside differences in the institutional and policy environments across countries, it was associated with the notion of unconditional convergence.

Despite their econometric sophistication, most studies of unconditional convergence have been unpersuasive. They tend to suffer from several limitations, including questionable datasets, inadequate models, the mutual determination of parameters and outcomes (Rodriguez 2006),[3] and closed economy assumptions, which rule out international trade, flows of capital and labour, technology transfers and institutional learning (including the effect of Washington Consensus-type conditionalities), even though neoclassical theory claims that international integration is a key driver of growth (Islam 2003: 343).

By the mid-1970s most observers had accepted that poor countries are not converging, and that the distribution of income was deteriorating across the developing world. Yet, the Solow model has remained influential, because it is simple, optimistic and follows directly from the postulates of neoclassical economics. A recent illustration is provided by Wilson and Purushothaman (2003: 6):[4]

> [D]eveloping economies ... have the potential to post higher growth rates as they catch up with the developed world. This potential comes from two sources. The first is that developing economies have less capital (per worker) than developed economies ... Returns on capital are higher and a given investment rate results in higher growth in the capital stock. The second is that developing countries may be able to use technologies available in more developed countries to 'catch up' with developed country techniques. As countries develop, these forces fade and growth rates tend to slow towards developed country levels.

The limitations of traditional growth theory, and increasing recognition of global divergence, helped to popularise the alternative mainstream view that convergence is both rare and policy-dependent, or that it is conditional: each economy tends towards its own income level in the long-run, depending on their policies, institutions and circumstances. In order to converge, DEs must adopt the 'correct' economic policies and implement the 'necessary' structural reforms. These insights were incorporated into competing variants of endogenous (new) growth theory since the mid-1980s (Romer 1994; Barro and Sala-i-Martin 2003).

The controversies between supporters of conditional and unconditional convergence have been inconclusive (see, for example, the special issue of *Knowledge, Technology & Policy*, 13 (4), 2001): while some authors estimate progressive reductions in global inequality since World War II, others find a large increase in the dispersion of global per capita income. This is partly due to differences in the structure of their models, and partly due to the difficulty of combining national accounts categories with household income surveys. Specifically, new growth theory has been criticised for its vagueness, unrealistic assumptions (e.g. that technology is freely available and useable everywhere) and poor empirical results. More recently, an extensive literature has investigated the relationship between openness and convergence; for example, Sachs and Warner (1995)

suggested that open economies tend to converge, while closed economies do not, but their findings have been criticised heavily (Ocampo and Taylor 1998; Ocampo 2002).

While mainstream studies remain mired in these methodological and empirical difficulties, historical analyses provide an incontrovertible picture of long-term divergence. Five hundred years ago, Asia, Africa and Latin America had 75 per cent of world population and a similar percentage of world income. By 1950, their population share had declined to two-thirds, and their income share had tumbled to 27 per cent. In contrast, the population share of the AEs had risen from one quarter to one-third, while their share in world income reached 73 per cent. These trends have been reversed only marginally. The DE share in world GDP rose from 15 to 22 per cent between 1970 and 2005; however, as a proportion of AE income per capita, the DEs remained below 5 per cent. By the same token, the ratio of the average GNP per capita of the richest quintile of the world's population to the poorest quintile rose from 31:1 in 1965 to 60:1 in 1990, and 74:1 in 1997 (Nayyar 2009: 2, 6, 13; see also Nayyar 2006, 2008; UNCTAD 2012a). In his careful examination of long-term global growth, Pritchett (1997: 3, 10) forcefully concludes that:

> Divergence in relative productivity levels and living standards is the dominant feature of modern economic history. In the last century, incomes in the 'less developed' ... countries have fallen far behind those in the 'developed' countries, both proportionately and absolutely ... [F]rom 1870 to 1990 the ratio of per capita incomes between the richest and the poorest countries increased by roughly a factor of five and ... the difference in income between the richest country and all others has increased by an order of magnitude ... [T]he conclusion of massive divergence is robust to any plausible assumption about a lower bound [for national per capita incomes].[5]

Long-term divergence can be attributed to the industrial revolution and the spread of manufacturing production in the AEs, colonialism and the commercial and financial plunder associated with modern imperialism, and the revolution in technologies, transport and communication since the late nineteenth century. They drove the dramatic expansion of trade and markets among the AEs while, simultaneously, creating DE dependence on AE markets, finance and technology (Nayyar 2006: 154–5, 2009: 4, 5, 10; see also Pomerantz, 2004; Reinert 2007; Rodrik 2011b: 12). As the Latin American structuralists put it, the AEs became the engine of growth of the DEs.

2. Development in the age of neoliberalism

Most DEs were heavily penalised by the international debt crisis and by exceptionally low commodity prices between the early 1980s and the early 2000s (Nissanke and van Huellen 2012). Under strong pressure from the IMF, the World Bank and the US administration, dozens of DEs and former socialist economies discarded

their developmentalist economic strategies, which tended to stress manufacturing sector growth, and introduced policies inspired by the Washington (and, later, post-Washington) consensus. In many countries, these policies fostered one and, sometimes, two 'lost decades' with little if any per capita income growth, rising inequality, deindustrialisation and the proliferation of precarious forms of employment (UNCTAD 1997, 2012a; Bayliss *et al.* 2011).

An expanding literature beginning with Cornia *et al.* (1987) documented the human costs of conventional adjustment policies, and showed that the international financial institutions were, at least, oblivious to the growth of deprivation and the disproportionate burden on the poor arising from conventional policies. In their defence, the IMF and the World Bank deployed questionable appeals to the empirical evidence, selective references to the occasional (invariably temporary) star performers, and insisted that the problem was not with the policies but with their insufficient implementation, opening the way to subsequent discourses around corruption and good governance, which shifted the blame to the underperforming countries themselves (Fine and Saad-Filho 2013).

Within the mainstream, the disappointing performance of the DEs was construed as evidence for new growth theory. In this discourse, 'getting the institutions right' became a mantra, just like 'getting the prices right' was the mantra of the Washington consensus (Rodrik 2006: 979–80). This culminated in the tautological proposition that, *if* convergence had failed to materialise, this *must have been* because the 'correct' policies and institutions were either missing or were applied incorrectly. This logical inversion renders conventional policies and neoclassical growth theory immune to criticism, which prevents meaningful policy debate.

The conventional argument that the DEs failed in 1950–80 because their interventionist strategies created inefficiencies, macroeconomic instability and fostered fiscal and balance of payments crises does not stand up to scrutiny. Although most DEs underperformed, annual income growth rates between the early 1960s and the mid-1990s in South Korea and Taiwan (China) exceeded 11 per cent; Brazil's income per capita rose 8.7 per cent per annum in 1950–80 and Mexico's rose 7.4 per cent. In contrast, annual income growth in most AEs rarely exceeded 3 per cent. Experience also does not support the view that developmentalist strategies can be quickly replaced by 'market-driven outward-oriented strategies' simply by downsizing the public sector, reducing inflation and opening markets to foreign trade and capital flows (Gore 2000).

Dismay with the economic underperformance of most DEs was supplanted by a wave of optimism in the mid-1990s, which intensified in the early 2000s as most DEs recovered smoothly from the bursting of the dotcom bubble, and soon maintained annual GDP growth rates around 5 percentage points higher than the AEs (Akyüz 2012: 10). As a consequence, 'the world's economic centre of gravity has moved towards the East and South, from OECD [Organisation for Economic Co-operation and Development] members to emerging economies ... This realignment of the world economy ... represents a structural change of historical significance' (OECD 2010: 15).

Perceptions of global realignment are often supported by the simple extrapolation of recent performance differences. For example:

> Suppose China were to follow Japan's path during the 1950s and 1960s. Then it would still have 20 years of very fast growth in front of it, reaching some 70 per cent of US output per head by 2030. At that point, its economy would be a little less than three times as large as that of the US, at PPP, and larger than that of the US and western Europe combined ... At recent rates of growth, India's economy would be about 80 per cent of that of the US by 2030. (Wolf 2011)[6]

However, expectations of imminent and unproblematic convergence are exaggerated. First, they are generally based on PPP$ measures of the size of DEs, which are designed to compare living standards in different countries. Although they are useful for that purpose, it is the market value of domestic output that determines the contribution of each economy to global supply and demand and the expansionary and deflationary impulses which they transmit to the rest of the world (Akyüz 2012: 28). Second, recent DE growth was largely fuelled by high commodity prices which, in turn, responded to global growth, the financialisation of commodity markets, the recovery of Latin America after two decades under the (post-)Washington consensus, the stabilisation of several African countries, and the gigantic US-centred speculative bubble which burst in 2007–08. These conditions are hardly replicable, much less over several decades (see Section 3). Third, DE growth has been highly uneven, and the star performers happen to be the most populous countries in the world.[7] Fourth, and despite the hype, *there may have been no convergence at all*:

> the convergence observed in the 2000s was not statistically significant. This suggests that any improvement is tentative, and the situation could quite easily be reversed if, for instance, the strong growth performance of the largest convergers (above all India and China) fails. Nonetheless, the 'change of gear' in the 2000s was important in psychological terms, helping to shake off the development pessimism of the 1990s. (OECD 2010: 37)

Leaving aside the conflation of 'not statistically significant' (i.e., one cannot confidently state whether or not convergence is taking place) with 'tentative' (it *is* taking place but gradually and hesitantly), it is clear that claims of *global* convergence hinge almost entirely on the performance of *two* countries, China and India: over-arching claims about recent convergence need a stronger grounding on reality.

3. Convergence after the crisis

With the outbreak of the global crisis, the international economic environment deteriorated rapidly in all areas that had previously supported expansion in DEs. Net capital flows turned negative, commodity prices tumbled and economic activity contracted rapidly in most AEs, leading to a sharp drop in DE exports. After growing 7 per cent per annum for several years, AE imports fell by 12

per cent in 2009; volumes recovered in 2010, but subsequently stagnated because of the Eurozone crisis (Griffith-Jones and Ocampo 2009; IMF 2009, ch. 4; UNCTAD 2012a; Akyüz 2013: 31).

The policy responses in most AEs were based on state-sponsored financial sector stabilisation, fiscal spending and monetary policy activism. In contrast, DE policies tended to be both more varied and proportionately larger. This was partly because of the more diversified sources of disruption affecting the DEs and, partly, because most DEs had sounder macroeconomic, balance of payments and financial positions than the AEs, giving them additional policy space. The fiscal package in 15 Asian DEs reached 7.5 per cent of 2008 GDP, almost three times the average level in G7 countries, and China's alone reached US$600 billion (13 per cent of GDP). Large fiscal stimuli were also introduced in Argentina, Brazil, Korea, Malaysia, Singapore and Thailand, generally focusing on increased spending in infrastructure and construction (Akyüz 2012).

These aggressive responses were supported by the rapid recovery of North–South capital flows. This was an unintended consequence of the fiscal and monetary policy relaxation in the AEs, which was meant to support the banking system and restore lending. A large part of the resources created by AE fiscal deficits, low interest rates and central bank asset purchases slipped to more dynamic (and higher interest rate) economies in the South. The continuing success of large DEs despite the crisis reinforced the perception of global convergence and gave credence to the view that the South had 'decoupled': it could now grow faster than the North, and independently of the latter's tribulations (see Section 5).

Unfortunately, the forces driving DE recovery since 2009 cannot be sustained; in the longer term, it is also impossible to rebuild the growth-promoting conditions of the pre-crisis global economy (see Section 2, and Bremmer and Roubini 2011): unless fundamental changes take place in DE policy-making and in their global integration, including their dependence on foreign markets and foreign capital, the recent spurt of convergence is likely to exhaust itself. The limitations to growth in China are the most significant example, because of the size and importance of the country's economy and its influence on global commodity demand.

Despite its extraordinary economic achievements, China suffers from severe underconsumption due to the low share of household income in GDP (that is, extremely low wages) and high precautionary savings, since the lack of social provision compels families to save in order to meet their future health, education and housing needs. Consumption growth has lagged GDP growth since the early 2000s; on the eve of the crisis, private consumption was only 36 per cent of GDP, and it declined further subsequently (in contrast, in AEs consumption often reaches 70 per cent of GDP). In 2009, investment accounted for half of GDP and for 80 per cent of China's growth. As Bellamy Foster and McChesney (2012) rightly put it:

> no country can be productive enough to reinvest 50% of GDP ... without eventually facing immense overcapacity and a staggering non-performing loan problem. China is rife with overinvestment in physical capital, infrastructure, and property ... this is evident in sleek but empty airports and bullet trains (which will reduce the need for the 45 planned airports), highways to nowhere,

> thousands of colossal new central and provincial government buildings, ghost towns, and brand-new aluminum smelters kept closed to prevent global prices from plunging ... Overcapacity will lead inevitably to serious deflationary pressures, starting with the manufacturing and real-estate sectors ... All historical episodes of excessive investment – including East Asia in the 1990s – have ended with a financial crisis and/or a long period of slow growth.

Chinese policy-makers recognise that the country cannot return to its pre-crisis pattern of growth, in which double-digit GDP growth rates were supported by booming exports to AEs. This is both because AE demand is likely to remain weak for years, and because Germany and Japan are also engaged in export-led growth. Their strategies would require the USA to revert to its pre-crisis position of driver of global demand, which is unfeasible and might endanger the global monetary, trading and financial systems. Because of these constraints, China must now rely primarily on domestic demand for growth, making it essential to raise consumption significantly. However, so far Chinese policy-makers have focused on marginal interventions to reduce household savings, e.g. lowering interest rates, rather than boosting household income and restoring the public provision of basic goods and services in order to reduce precautionary savings. Attempts to boost consumption through subsidies for vehicle and appliance purchases have created only temporary surges, while support for the housing market has fuelled a real estate bubble. The main driver of growth remains public sector-backed investment.

Given its key role supporting the global demand for commodities and as a source of investment in resource-rich DEs, a permanent slowdown in China presents significant risks for other DEs. These risks are compounded by the shift of Chinese growth towards consumption, which is less import- and commodity-intensive than either investment or exports, and by the increasing efficiency of use of materials in China (Akyüz 2013: 3, 29, 41). The global impact of the economic transformations in China is compounded by the adjustment programmes imposed in several countries, most notably in the Eurozone periphery. They compress demand, promote the illusion that all countries can export their way to growth and, ultimately, increase the global deflationary gap.

The fragilities in the global economy suggest that the favourable conditions in commodity markets may not last. The forces sustaining AE capital flows to DEs are also susceptible to change, because historically low interest rates in AEs and the appetite for investment in DEs cannot continue indefinitely (Akyüz 2012: 43). The immediate threat is a sharp increase in global risk aversion due to falling growth in AEs, imbalances in large DEs, economic contraction and financial fragility in the eurozone, US fiscal policy stalemate or oil supply risks. If capital flows and commodity prices decline, the most vulnerable countries will be the commodity exporters with large current account deficits, while such oil-importing deficit countries such as India and Turkey are marginally less vulnerable because they would benefit from falling energy bills. Although several DEs hold large international reserves, these are often borrowed reserves accumulated from

capital inflows, rather than earned reserves due to current account surpluses. They have a counterpart in net foreign exchange liabilities, often liquid portfolio flows and short-term loans, which would present a threat in the event of loss of confidence.

4. Drivers of convergence

Despite the fragility of claims of global convergence, the mainstream literature has promptly identified three drivers of this process. First, the (post-)Washington consensus policy reforms which, allegedly, have secured rapid and stable growth where they have been applied correctly. Second, the spread of global capitalism, which 'doubled the number of people working in ... market-oriented economies and so halved the capital/labour ratio ... [W]ages ... at subsistence levels ... reduced the cost of a range of traded goods and services, and made the take-off possible in a number of ... countries' (OECD 2010: 17, 47, 48). Third, and trivially, faster DE growth triggers currency realignments which turbo-charge the underlying convergence.[8] This reading of RoS assumes that 'all successful countries have used market signals and international competition as the fundamental mechanism for resource allocation' (Harrison and Sepulveda 2011: 10).

It is hazardous to speculate about the drivers of an unproven process of convergence. The mainstream drivers are also tautological, because the 'failing' countries are always said to have violated the conventional policy prescriptions; conversely, the sins of the successful countries are, retrospectively, minimised. In what follows, a more reasonable set of drivers of growth in the converging countries is examined.

4.1. *Global trade and production networks*

No area has been as symbolic of the RoS as international trade. In 1990, North–North exchanges still accounted for nearly 60 per cent of global trade, with South–South trade barely reaching 8 per cent and the DE share of global exports touching on 23 per cent. By 2008, North–North trade had declined to 40 per cent, South–South trade had reached 20 per cent, and the DE export share was 37 per cent (OECD 2010: 71).

The expansion of DE trade can be attributed to faster growth in most DEs than in the AEs, the rise in commodity prices, and the rapid opening to trade in many DEs, leading to a steep climb in their export- and import-to-GDP ratios. Although impressive, these figures can exaggerate DE trade performance and its potential impact. First, although higher commodity prices lift national income, they do not directly imply economic 'success', except tautologically. Second, while GDP includes only value-added domestically, total exports (X) and imports (M) include value-added in other countries; consequently, trade growth tends to inflate the X/GDP and M/GDP ratios without any implications for local income or welfare. This effect is especially significant in countries joining transnational production networks, involving imports of inputs, processing and subsequent exports for consumption mainly in AE markets. Third, trade growth is a poor

indicator of development, because trade generally responds to – rather than leads – economic growth (Ocampo and Taylor 1998).

South–South trade has grown rapidly but unevenly: East Asia currently accounts for three-quarters of the total, and China alone for 40 per cent. In contrast, India's share is only one-tenth of China's, because of the country's smaller economy and lower participation in vertically integrated production chains (OECD 2010: 72; ADB 2011: 47, 53; Akyüz 2012: 30).

Vertical chains shape East Asian trade: 80–90 per cent of East Asian South–South exports are absorbed within the region, and 40 per cent of the total exports of the largest East Asian DEs are to other members of this group,[9] while only 22 per cent of their exports are of final products. Before the crisis, only 12 per cent of Korean and Taiwanese exports went directly to the USA and about the same to the EU, while 25 per cent went to China, largely for further processing and re-export. Conversely, in 2003–07, over 60 per cent of Chinese imports were reprocessed for export; under 15 per cent were consumed and 25 per cent invested (see Athukorala 2010; Kim *et al.* 2010; Lim and Lim 2012). Around 80 per cent of China's exports to the USA are reprocessed, but most of the value-added stays in the AEs; the other East Asian DEs also tend to earn more than China itself. A striking example is provided by the manufacture of iPhones:

> According to the Federal Reserve Bank of San Francisco, "In 2009, it cost about $179 in China to produce an iPhone, which sold in the United States for about $500. Thus, $179 of the U.S. retail cost consisted of Chinese imported content. However, only $6.50 was actually due to assembly costs in China. The other $172.50 reflected costs of parts produced in other countries" ... The Chinese economy today is ... structured around the offshoring needs of multinational corporations geared to obtaining low unit labor costs by taking advantage of cheap, disciplined labor ... In this global supply-chain system, China is more the world-assembly hub than the world factory. (Bellamy Foster and McChesney 2012)

Despite their large trade volumes China and the other East Asian DEs have little scope to drive growth in the South, because their trade is heavily integrated into regional production chains and their net exports are geared to AE markets which capture most the value created along the chain, leaving little available for circulation within the South. Large current account-deficit countries, such as Brazil, India and Turkey, have even less scope to drive DE growth because of their much lower imports and heavy reliance on AE capital.

4.2. *Beyond 'flying geese'*

The vertical integration of production in East Asia has been called the 'flying geese' pattern of development. This metaphor was originally deployed by Kaname Akamatsu in the 1930s to explain the growth of late developers like Japan, and its subsequent interaction with neighbouring DEs; it was later

applied to other groups of countries. Allegedly, the Japanese economy originally imported simple Northern consumer goods, then built the capacity to produce them domestically with government support, then produced better goods for export, and then followed a similar sequence for more sophisticated goods. As Japan developed, wages increased and firms shifted the production of simple goods to neighbouring economies with lower wages, but using Japanese capital and technology. As these countries' technological capability improved, they also graduated to more sophisticated goods and spread low-tech production to a third tier of countries, and so on. This paradigm has obvious similarities with Vernon's (1966) product-lifecycle approach which, however, focuses on individual products rather than countries.

ADB (2011) suggests using flying geese as a paradigm for North–South interaction, with Northern countries as the leading goose bringing along a flock bound together by trade-promoting foreign direct investment (FDI). Naturally, this development strategy is conditional upon the liberalisation of trade and investment, good governance and respect for the rule of law – a seemingly very different strategy leading to the same post-Washington consensus-type policy priorities.

The combination of historical interpretation and policy prescription underpinning the flying geese paradigm is insufficient at four levels (Chang 2011). First, as was shown in Section 4.1, East Asian development has included both tighter integration within the region and the incorporation of East Asia into the global economy through production for AE markets. The growth of regional trade is not generally due to the flow of final products, but to the flow of inputs to production for extra-regional consumption. Movements of capital, technology and manufacturing capacity within the region, and the upward mobility of countries, were predicated on AE markets, which may not be available to newer generations of DEs after the crisis.

Second, it is implicitly assumed that transnational corporations (TNCs) are benevolent conveyors of industrial knowledge, willing to share their technologies through FDI, licensing, subcontracting, technical assistance and joint projects, and that local firms in countries down the chain can absorb new technologies smoothly and expand and diversify their output despite the competitive pressures from firms based in more advanced countries. This may not be the case:

> [E]xpanding factory Asia to other regions in the South ... may be dislocative in the short and medium run. Faced with more intense competition, domestic industries may be unable to thrive; undercapitalized, they may be crowded out of markets for scarce resources, such as skilled labor and capital equipment. (ADB 2011: 43)

The upshot may be a complex pattern of transnational integration *with* deindustrialisation (Rasiah 2011). To the extent that manufacturing development takes place, it is likely to increase local dependence on imported capital, technologies and components, with limited linkages across local suppliers. This helps to explain why poorer countries entering the East Asian regional division of labour often run trade deficits vis-à-vis Japan, the first-generation newly

industrialising economies, and China (for example, China has accumulated large surpluses in its growing trade with Laos and Cambodia).

Third, instead of being either the outcome or the harbinger of growing co-operation between independent DEs, East Asian integration closely resembles the traditional trade and investment relations between North and South.

Fourth, and more prosaically, it is not clear that significant tranches of manufacturing production will move out of China any time soon. Given the country's rapidly improving infrastructure and vast reserves of unskilled labour, manufacturing production is more likely to migrate *within* China for the foreseeable future, drastically reducing the scope for 'flying geese' with other DEs.

In sum, expectations that flying geese provides a realistic depiction of East Asian industrialisation, and that it can support the convergence of new DE economic blocs, gloss over the analytical and historical shortcomings of this model, and greatly exaggerate its policy relevance. Despite these limitations, South-centred production networks can diversify the sources of DE growth, expand the scope for DE manufacturing production and open new export markets. This can depart from the production of low-tech goods or host assembly operations in poorer DEs, while the more advanced countries provide markets, technology, capital and trade and investment credit. These arrangements can be supported by monetary and financial policy integration and the expansion of regional infrastructure. This would not amount to a BRICS-centred flying geese strategy, because the production networks, markets and sources of capital would be diversified, rather than being centred in one leading economy; the physical and financial infrastructure would include a range of countries, rather than connecting ever more closely a given hierarchy of countries, and manufacturing development would be closely linked with national industrial policies, rather than accommodating to TNC strategies (IMF 2011; UNCTAD 2011; Chang 2011; Dahi and Demir 2008).

This approach can bring multiple benefits. First, DEs have an increasing impact on the global demand for commodities and the global terms of trade, and their growth benefits poorer commodity exporters. Second, South–South production networks would reduce dependence on the AEs and allow DEs to increase exports, reap economies of scale and command imported goods which would otherwise be unavailable. Third, trade diversification will reduce the DE exposure to fluctuations in the terms of trade, since the growth of the world as a whole is bound to be less volatile than the growth of the North. Fourth, DEs can export relatively more sophisticated goods to the South than to the North, helping to increase their technological capacities. Fifth, South–South trade can support the diffusion of more appropriate technologies among DEs. Finally, closer interaction between DEs can support improvements in economic policy-making across these countries.

4.3. *Industrial policy and manufacturing growth*

Most converging countries have dislocated binding cost, technological, labour market and balance of payments constraints through the expansion of high-productivity manufacturing activities. The DE share in world manufacturing value-added (at 1975 prices) increased from 8 to 11 per cent between 1960 and 1980.

In the following decade, this share (at 1980 prices) rose only marginally, from 14 to 15 per cent, but between 1990 and 2007 this share (at 2000 prices) shot up from 16 to 27 per cent (Nayyar 2009: 20). Unfortunately, these achievements were concentrated in a small number of countries, especially Brazil, China (including Hong Kong and Taiwan), India, Indonesia, Korea, Malaysia, Mexico, Singapore, South Africa, Thailand and Turkey.

Their successes depended on the careful selection of sectoral priorities, rapid capital accumulation, technological learning and institutional adaptation, supported by a conducive financial, institutional and regulatory framework, which can be encapsulated in the notion of industrial policy (Amsden 1997, 2001; Weiss 2011; Fine *et al.* 2013). These experiences confirm the views of such heterodox economists such as Nicholas Kaldor, Raúl Prebisch, Michał Kalecki, Albert Hirschman, Petrus Verdoorn, Luigi Pasinetti and Anthony Thirlwall that economic growth is sectorally biased: a unit of value-added can have a very different impact on long-term growth, depending on the sector where it is produced (Tregenna 2009: 434–40).[10]

The manufacturing sector plays a key role in rapid growth and development for five reasons. First, manufacturing growth fosters diversification, backward and forward linkages, agglomeration economies and dynamic economies of scale through learning-by-doing. Thus, manufacturing tends to 'pull' the other economic sectors, even when they are initially larger. Second, manufacturing offers greater scope than agriculture or services for productivity growth through the development and adaptation of new technologies. These innovations are subsequently diffused across the economy through the spread of new skills and production methods and the sale of manufactured inputs. Third, manufacturing productivity tends to rise with the rate of growth of manufacturing output, potentially creating virtuous circles of growth across the economy. Fourth, manufacturing can more easily foster export diversification and the production of import substitutes, which can alleviate the balance of payments constraint. Fifth, manufacturing sector wages tend to be relatively high, which can support demand growth and improvements in living standards. Hence, intersectoral shifts of labour and other resources towards manufacturing can help to raise productivity and growth rates in DEs; conversely, economic structures narrowly determined by static comparative advantages, as is envisaged by mainstream economics, are sub-optimal for long-term growth and for global convergence.

Successful policies supporting manufacturing sector growth are, almost invariably, heterodox. Nowhere did markets spontaneously conjure the conditions for long-term manufacturing growth, and economic planning has been extensively used in all converging countries. In another striking contrast with neoclassical growth theories, several countries with high rates of investment and growth have financed them through domestic (rather than imported) savings, and some fast-growing DEs were even capital exporters. For example, Japan, Singapore and China have run current account surpluses throughout their extended periods of rapid growth (Buiter and Rahbari 2011: 3). Conversely, until recently most Latin American countries had followed the policy agenda of the Washington institutions and, even in the mid-2000s, it was argued that their disappointing growth was due to the failure to implement fully the conventional reforms. These claims

vanished completely since the region's performance improved markedly during the last decade, while alternative policies were implemented in several countries. In sum, economic success has never been about 'getting prices right'; it is, instead, mainly about 'getting state intervention right' (Nayyar 2009: 23).[11]

The liberalisation of trade and finance plays at most a secondary role in sustained growth processes, and they often generate instability and crises. On the one hand, arguments for free trade often exaggerate its potential impact on growth, because they are normally based on a perfectly competitive world where goods prices reflect social costs. Without this assumption, it cannot be claimed that free trade is systematically superior to protection. Even when international competition raises the efficiency of domestic firms, the free-trade discourse generally ignores the costs of change, including unemployment, lower wages, deindustrialisation and balance of payments instability, which must be considered for the adequate evaluation of the policy alternatives. On the other hand, the mainstream systematically exaggerates the positive impact of capital mobility, while underestimating its costs and destabilising implications. For example, it emphasises the foreign exchange and technology inflows due to FDI, but disregards technological dependence and the ensuing capital outflows (trivially: FDI is not unconditional aid). In the absence of data on profit repatriation, royalty payments, imports, re-investment and impact on domestic capital markets, it is impossible to ascertain the contribution of FDI to long-term economic growth. Rowthorn and Kozul-Wright (1998: 29) rightly point out that:

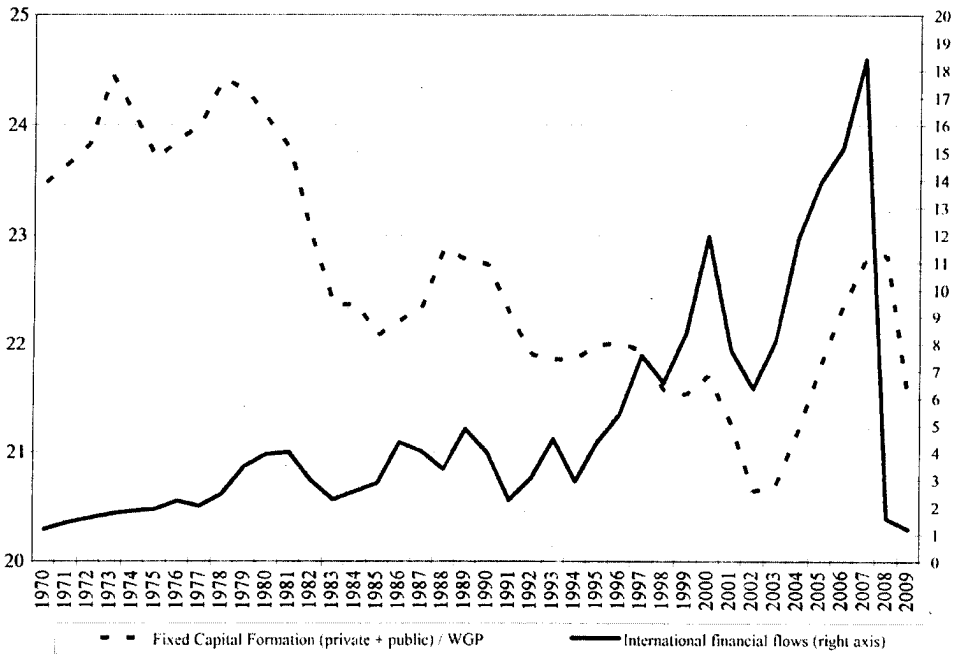

FIGURE 1. International financial flows and fixed investment (% of world GDP)
Source: UNCTAD (2012b: 21).

> [F]inancial flows are rarely associated with the flows of real resources ... Rather, they are primarily related to the purchase and sale in secondary markets of liabilities created for the financing of already existing real assets ... They are extremely volatile and subject to bandwagon effects, capable of generating gyrations in security prices, exchange rates and trade balances. They make little contribution to the international allocation of savings or diffusion of technology and hence to a reduction in international disparities in per capita income. Indeed, the combination of financial and trade liberalization can very easily upset the domestic accumulation dynamic by shifting incentives towards the non-tradable goods sector and placing a premium on more liquid but less productive assets.

These concerns are supported by long-term data suggesting that international financial flows are associated with a falling, rather than rising, trend for fixed investment (Figure 1).

5. Decoupling at last?

Rapid growth in large DEs has provided support to claims that the South has 'decoupled': it can now grow faster than the North, regardless of the latter's tribulations. In this literature, coupling is defined as business cycle synchronicity between two countries or regions; conversely, decoupling is 'the emergence of a business cycle dynamic that is relatively independent of global demand trends and that is driven mainly by autonomous changes in internal demand' (ADB 2007: 66). Some contributions in this literature claim that business cycles have converged among DEs and AEs, while they have diverged between these groups of countries (Kose *et al.* 2008; Kose and Prasad, 2010: xiii). An alternative interpretation of decoupling is that DE and AE business cycles may have remained in synchrony, but their trend rates of growth have diverged (Brahmbhatt and Silva 2009: 2).

North–South decoupling would have far-reaching implications for global dynamics; for example, it would alleviate DE dependence on AE markets, finance and technologies. Support for competing versions of decoupling, and even for its extreme version, reverse-coupling (the claim that DE growth now determines AE performance) has grown exponentially after the global crisis. For example, Bergsten (2008) stated that:

> The global economy has clearly decoupled from the US and world growth remains close to 4 percent in spite of the absence of any increases in domestic US demand. Continued expansion abroad, especially in the emerging market economies, has ... cushioned the slowdown ... [W]e are ... experiencing the first episode in history of reverse coupling, in which the rest of the world pulls the U.S. forward rather than the opposite ... The traditional relationship where 'the world catches cold when the U.S. sneezes' no longer holds.

An alternative interpretation of these performance differences after the crisis is that the financial relationship between DEs and AEs has diverged from their real relationship; that is, 'real decoupling' has been accompanied by 'financial coupling', or greater 'cross-market financial interdependence' (Yeyati and Williams 2012: 2).

Decoupling is generally attributed to DE 'trade diversification, commodity strength and, particularly, the emergence of China ... [which has overtaken] the G7 as the main global factor behind output fluctuations in the emerging world' (see also IMF 2008: 25; Yeyati and Williams 2012: 17). Other contributing factors are the ample scope for DE technological catch-up despite the AE slowdown, and the growing independence of DE exports from Northern markets (Dooley and Hutchinson 2009; Haddad and Hoekman 2010: 74–5). These claims are essentially identical to those concerning North–South convergence which, as was shown in Sections 1–3, tend to conflate different time horizons (long-term, the last few decades, and the post-crisis period) in order to offer an over-simplified and overly smooth picture of market-led catch-up.

Closer examination of the decoupling hypothesis reveals significant weaknesses. First, Wälti (2009: 3) assessed business cycle synchronicity between 34 DEs and four groups of AEs, and concluded that it has not declined recently. These results support the view that 'globalisation brings national business cycles closer together', rather than 'decoupling' them. Second, while decoupling (just like the earlier notion of convergence) has drawn support from the DE ability to avoid the worst of the global crisis, it subsequently lost credibility as the loss of AE dynamism eventually exhausted the potential sources of DE growth (Cohan and Yeyati 2012). Trivially:

> Saying that China has decoupled from the US because China grows at 5% while the US experience an output decline of 2% is wrong. If the trend growth rate is 9% in China and 2% in the US, both countries are 4 percentage points below trend and their business cycles are therefore perfectly in tune. This is a hypothetical example, but it makes the point. (Wälti 2009: 2)

Current debates and the trajectory of leading DEs show that real decoupling is incompatible with financial coupling (UNCTAD 2012a; Akyüz 2013). In other words, *if* the South intends to decouple from the North – in the realistic sense of sustaining growth independently of AE cycles, by pursuing appropriate development policies and neutralising external shocks – it *must* reduce its degree of exposure to global financial flows, and make greater efforts towards regional and South–South integration of production, trade and finance.

6. Conclusion

Convergence is essential for the achievement of a more equal and balanced world economy, and decoupling would help the South to sustain its convergence. Despite encouraging signs recently, those goals remain both distant and elusive. Much of the catch-up in the last three decades is attributable to fast growth in a small

number of DEs and, more recently, to the impact of high commodity prices; performance disparities within the South remain significant and, over the long-term, most DEs have underperformed significantly relative to the AEs.

Despite the weight of the evidence supporting a cautious assessment of global trends, mainstream economists and private financial institutions have proclaimed global convergence and decoupling enthusiastically and, sometimes, with one eye on the profits that their own rosy predictions can bring into existence. There is a striking mismatch between their optimism, the weakness of the theories supporting convergence claims and the ambiguity of the empirical evidence. Unsurprisingly, the convergence literature is, also, badly fragmented, and scholarly debates have often been conflated with disputes about economic methodology, alternative growth theories and the merits of rival databases.

Overly optimistic accounts of the RoS generally draw upon a voluntaristic and historically inaccurate assessment of the achievements of the DEs, as if the adoption of mainstream policies were a necessary and sufficient condition for sustained growth. Presumably, DEs should either specialise according to their purported comparative advantages, or seek integration into a liberalised flying geese-type formation producing for wealthier markets. These approaches ignore the growth, employment, distributional and other costs of DE attachment to mainstream development strategies. The successful AEs and the converging DEs did not simply specialise according to static comparative advantages – instead, they introduced context-sensitive industrial policies in order to build dynamic competitive advantages (Amsden 2001; Chang 2002; Fine 2006; Reinert 2007; Williamson 2011). In contrast, mainstream strategies offer only a low-wage, capital-, technology- and foreign market-dependent road to growth, which has become especially fraught with uncertainties in the wake of the most severe global crisis since the Great Depression. Experience shows that successful and socially desirable development strategies require the insulation of domestic policy space, including domestic finance, from AE policy choices, in order to promote strategic DE integration drawing upon selective manufacturing, processing and high value-added sectors. This institutional environment can support the implementation of targeted industrial policies to enhance employment, productivity and wages simultaneously, expand the social and economic infrastructure attached to a developmental welfare state, and promote regionally integrated chains of production of goods and services for DE consumption (Saad-Filho 2007; UNRISD 2010; Fine 2011).

The current age of neoliberalism is characterised by uneven and combined development; it has created unprecedented prosperity for some countries, provinces and households, while others have declined in relative and even in absolute terms, and suffered significant poverty and exclusion effects (UNCTAD 2012a). Rapid growth across most DEs in recent years was largely due to an unsustainable pattern of global accumulation centred around US current account deficits, which is unlikely to return. Recent perceptions of convergence were also influenced by the extraordinary performance of China and India – the world's most populous countries but, still, also those with the largest number of poor households. Brazil and South Africa have performed relatively poorly, while Russia remains an oil- and gas-dependent wild card. Despite their recent achievements, these

countries also have huge numbers of poor people, and serious deficiencies in their social and economic infrastructure. Most other DEs are either too small, or grow too slowly, to make a significant difference to global poverty and inequality even in the medium term. These patterns of development are not conducive to rapid and sustained convergence either within or between countries.

Thirty years of tight macroeconomic policies, concentration of income and falling real wages in all major AEs, including the USA, Germany and Japan, and in China and other DEs, accompanied by overinvestment especially in export-intensive industries integrated in global production chains, have created a worldwide tendency towards underconsumption and deflation.[12] The countervailing impact of financialisation and explosive growth in consumer lending, especially in the USA and the UK, was insufficient to stabilise global accumulation. Since these imbalances operate both at a national and at a global level, their resolution depends on coordinated national, regional and global policy initiatives.

Two immediate challenges demand a rethink of DE development strategies. First, the risk of further global slowdown, which could be triggered by continuing stagnation in Western Europe, Japan and the USA. Second, DEs cannot expect the return of the growth pattern they enjoyed during the early 2000s boom even after the eventual recovery in Europe, the USA and Japan. These challenges can be addressed only through a careful choice of economic policies supporting rapid accumulation and productivity growth, and the co-ordinated expansion of employment and demand, preferably assisted by greater South–South integration and co-operation initiatives.

This article has argued that perceptions of decoupling and global convergence (in any time-scale), and arguments about their sustainability, should be tempered by a hefty dose of realism. Detailed studies, drawing upon experiences of success as well as failure, are needed in order to explain the recent patterns of growth in the South, and to provide policy guidance for the DEs. Convergence and decoupling are important for these countries, and progress towards these goals would facilitate distributional improvements, employment creation and poverty alleviation. Faster progress along these lines is essential; it is now also increasingly feasible, although it remains conditional on unconventional policy choices.

Notes

1. Economic development is conventionally measured by the country's gross domestic product per capita (GDPpc), calculated either in current dollars (US$) or in purchasing power parity dollars (PPP$). Global convergence implies that GDPpc rises faster in the South than in the North for a considerable time, preferably in both measures. RoS is a broader term, concerning the global political economy implications of economic convergence. The terms 'North' (advanced economies, AEs) and 'South' (developing economies, DEs) are rarely defined precisely. The country classifications used by the World Bank and the IMF are explained in http://data.worldbank.org/about/country-classifications and http://www.imf.org/external/pubs/ft/weo/faq.htm#q4b. Without loss of generality, in this article the 'North' refers to the World Bank's High Income OECD countries, and the 'South' to low, lower-middle and upper-middle income economies (http://data.worldbank.org/about/country-classifications/country-and-lending-groups). This excludes 38 high-income non-OECD countries and territories, among them several tax havens, Cyprus, Hong Kong and Macao (China), Singapore and the GCC countries.
2. See Bremmer (2009) for a taste of the literature.

3. This limitation (which is similar to sample selection bias) is best exemplified by studies of convergence among countries at comparable income levels (e.g. OECD members), for which data are more easily available. Since these countries have *already* converged, the test is biased in favour of the convergence hypothesis. Convergence tends to disappear when a wider set of countries is considered (Jones 2002).
4. For a more nuanced view, see Rodrik (2011a).
5. Ocampo *et al.* (2009: viii) claim that 'there is no strong or sustained global trend towards economic convergence, especially during the last quarter century of greater economic integration'; see also Taylor and Rada (2007).
6. For similar claims, see Buiter and Rahbari (2011: 4), Harrison and Sepulveda (2011: 7), O'Neill and Stupnytska (2009: 21–3) and Wilson and Purushothaman (2003: 1).
7. 'The influence of China and, increasingly, India is disproportionate and overwhelming ... Excluding China, the contribution of developing economies to PPP adjusted global GDP growth was around 40% ... in 2008. Including China raises the contribution of the emerging and developing group to almost 70%' (OECD 2010: 44).
8. 'Countries ... grow richer on the back of appreciating currencies. Currencies tend to rise as higher productivity leads economies to converge on Purchasing Power Parity (PPP) exchange rates ... About two-thirds of the increase in US dollar GDP from the BRICs should come from higher real growth, with the balance through currency appreciation. The BRICs' real exchange rates could appreciate by up to 300% over the next 50 years (an average of 2.5% a year)' (Wilson and Purushothaman 2003: 2, 6).
9. China, Hong Kong (China), Indonesia, Republic of Korea, Malaysia, Philippines, Singapore, Taiwan (China) and Thailand.
10. These relationships hold; however, the manufacturing industry is defined, e.g. whether it includes manufacturing alone, or also construction, mining, transportation, some utilities, or the entire non-agricultural sector; see Williamson (2011).
11. 'China's policies on property rights, subsidies, finance, the exchange rate and many other areas have so flagrantly departed from the conventional rulebook that if the country were an economic basket case instead of the powerhouse that it has become, it would be almost as easy to account for it ... One can make similar statements for Japan, South Korea and Taiwan during their heyday ... As for India, its half-hearted, messy liberalization is hardly the example that multilateral agencies ask other developing countries to emulate' (Rodrik 2011b: 18).
12. 'The world economy suffers from underconsumption because of low and declining share of wages in national income in. In the OECD countries, the wage share dropped by 10 points in the past 25 years. In China, the share of wages and household income in GDP are much lower than in AEs ... and [t]he wage share has dropped by about 10 percentage points since the mid-1990s' (Akyüz 2013: 36).

Notes on contributor

Alfredo Saad-Filho is professor of political economy at the School of Oriental and African Studies (SOAS), University of London, and was a senior economic affairs officer at the United Nations Conference on Trade and Development. He has published extensively on the political economy of development, industrial policy, neoliberalism, democracy, alternative economic policies, Latin American political and economic development, inflation and stabilisation, and the labour theory of value and its applications.

References

ADB (2007), *Asian Development Outlook: Growth amid Change* (Mandaluyong City: Asian Development Bank).

ADB (2011), *Asian Development Outlook: South-South Economic Links* (Mandaluyong City: Asian Development Bank).

Akyüz, Y. (2012), *The Staggering Rise of the South?* South Centre Research Paper 44.

Akyüz, Y. (2013), *Waving or Drowning: Developing Countries after the Financial Crisis*, South Centre Research Paper 48.

Amsden, A. (1997), 'Bringing Production Back In: Understanding Government's Role in Late Industrialization', *World Development*, 25 (4), pp. 469–80.

Amsden, A. (2001), *The Rise of the "Rest". Challenges to the West from Late-Industrializing Economies* (Oxford: Oxford University Press).

Athukorala, P.-C. (2010), *Production Networks and Trade Patterns in East Asia: Regionalization or Globalization?* Asian Development Bank Working Paper Series on Regional Economic Integration 56.

Barro, R. and Sala-i-Martin, X. (2003), *Economic Growth*, 2nd ed. (Cambridge, MA: MIT Press).

Bayliss, K., Fine, B. and van Waeyenberge, E. (eds) (2011), *The Political Economy of Development: World Bank, Neoliberalism, and Development Research* (London: Pluto Press).

Bellamy Foster, J. and McChesney, R.W. (2012), *The Global Stagnation and China*. Available from: http://monthlyreview.org/2012/02/01/the-global-stagnation-and-china [accessed 2 August 2013].

Bergsten, F. (2008), 'Trade Has Saved America from Recession', *Financial Times*, 30 June. Available from: http://www.ft.com/cms/s/0/d87f2158-46a4-11dd-876a-0000779fd2ac.html [accessed 2 August 2013].

Brahmbhatt, M. and Silva, L.P. (2009), *The Global Financial Crisis: Comparisons with the Great Depression and Scenarios for Recovery*, World Bank PREM Notes on Economic Policy, 141. Available from: http://www1.worldbank.org/prem/PREMNotes/premnote141.pdf [accessed 2 August 2013].

Bremmer, I. (2009), 'State Capitalism Comes of Age: The End of the Free Market?' *Foreign Affairs*, 88 (3), pp. 40–55.

Bremmer, I. and Roubini, N. (2011), 'Whose Economy Has It Worst?', *Wall Street Journal*, 12 November. Available from: http://online.wsj.com/article/SB10001424052970204358004577029972941870172.html [accessed 2 August 2013].

Buiter, W. and Rahbari, E. (2011), *Global Growth Generators: Moving Beyond Emerging Markets and BRICs*. Citigroup and CEPR Policy Insight 55.

Chang, H-J. (2002), *Kicking Away the Ladder: Development Strategy in Historical Perspective* (London: Anthem Press).

Chang, D-O. (2011), *Opportunities for LDCs in Integrating East Asia: From New Regional Division of Labour to Inclusive Regional Development Network*. UNCTAD background paper for The Least Developed Countries Report. Available from: http://unctad.org/Sections/ldc_dir/docs/ldcr2011_Chang_en.pdf [accessed 2 August 2013].

Cohan, L. and Yeyati, E.L. (2012), *What Have I Done to Deserve This? Global Winds and Latin American Growth*. Available from: http://www.voxeu.org/index.php?q=node/7519 [accessed 5 August 2013].

Cornia, A., Jolly, R. and Stewart, F. (1987), *Adjustment with a Human Face: Protecting the Vulnerable and Promoting Growth* (Oxford: Oxford University Press).

Dahi, O. and Demir, F. (2008), 'South–South Trade in Manufactures: Current Performance and Obstacles for Growth', *Review of Radical Political Economics*, 40 (3), pp. 266–75.

Domar, E. (1946), 'Capital Expansion, Rate of Growth, and Employment', *Econométrica*, 14 (2), pp. 137–47.

Dooley, M.P. and Hutchinson, M.M. (2009), *Transmission of the US Subprime Crisis to Emerging Markets: Evidence on the Decoupling-Recoupling Hypothesis*. NBER Working Paper 15120.

Fine, B. (2006), 'The Developmental State and the Political Economy of Development', in K.S. Jomo and B. Fine (eds), *The New Development Economics after the Washington Consensus* (Oxford: Oxford University Press), pp. 101–22.

Fine, B. (2011), *Locating the Developmental State and Industrial and Social Policy after the Crisis*. Available from: http://eprints.soas.ac.uk/13440/ [accessed 2 August 2013].

Fine, B. and Saad-Filho, A. (2013), 'Neoliberal Development and Its Critics', in H. Weber (ed.) *Politics of Neoliberalism* (London: Routledge), forthcoming.

Fine, B., Saraswati, J. and Tavasci, D. (eds) (2013), *Beyond the Developmental State: Industrial Policy into the Twenty-First Century* (London: Pluto Press).

Gerschenkron, A. (1962), *Economic Backwardness in Historical Perspective* (Cambridge, MA: Harvard University Press).

Gore, C. (2000), 'The Rise and Fall of the Washington Consensus as a Paradigm for Developing Countries', *World Development*, 28 (5), pp. 789–804.

Griffith-Jones, S. and Ocampo, J.A. (2009), *The Financial Crisis and Its Impact on Developing Countries*. International Policy Center for Inclusive Growth Working Paper 53. Available from: http://www.ipc-undp.org/pub/IPCWorkingPaper53.pdf [accessed 5 August 2013].

Haddad, M.E. and Hoekman, B. (2010), 'Trading Places: International Integration after the Crisis', in O. Canuto and M. Giugale (eds), *The Day After Tomorrow: A Handbook on the Future of Economic Policy in the Developing World* (Washington, DC: World Bank), pp. 67–84.

Harrison, A. and Sepulveda, C. (2011), *Learning from Developing Country Experience: Growth and Economic Thought Before and After the 2008-09 Crisis*. World Bank Policy Research Working Paper 5752. Available

from: https://openknowledge.worldbank.org/bitstream/handle/10986/3554/WPS5752.pdf?sequence=1 [accessed 5 August 2013].

Harrod, R. (1939), 'An Essay in Dynamic Theory', *Economic Journal*, 49 (193), pp. 14–33.

IMF (2008), *World Economic Outlook: Housing and the Business Cycle*. Available from: http://www.imf.org/external/pubs/ft/weo/2008/01/ [accessed 2 August 2013].

IMF (2009), *World Economic Outlook*. Available from: http://www.imf.org/external/pubs/ft/weo/2009/01/ [accessed 2 August 2013].

IMF (2011), *New Growth Drivers for Low-Income Countries: The Role of BRICs*. Available from: http://www.imf.org/external/np/pp/eng/2011/011211.pdf [accessed 5 August 2013].

Islam, N. (2003), 'What Have We Learnt From The Convergence Debate?' *Journal of Economic Surveys*, 17 (3), pp. 309–62.

Jones, C.I. (2002), *Introduction to Economic Growth* (New York: W.W. Norton).

Kim, S., Lee, J.-W. and Park, C.-Y. (2010), *The Ties that Bind Asia, Europe, and United States*. ADB Economics Working Paper Series 192. Available from: http://www.adb.org/sites/default/files/pub/2010/Economics-WP192.pdf [accessed 2 August 2013].

King, S. (2011), *The Southern Silk Road: Turbocharging 'South–South' Economic Growth*. HSBC Global Economics Report.

Kose, M.A. and Prasad, E. (2010), *Emerging Markets: Resilience and Growth amid Global Turmoil* (Washington, DC: Brookings Institution Press).

Kose, M.A., Otrok, C. and Prasad, E. (2008), *Global Business Cycles: Convergence or Decoupling?* Institute for the Study of Labor, Discussion Paper 3442.

Kuznets, S. (1955), 'Economic Growth and Income Inequality', *American Economic Review*, 45 (1), pp. 1–28.

Lim, M.-H. and Lim, J. (2012), *Asian Initiatives At Monetary And Financial Integration: A Critical Review*. Unpublished manuscript.

Nayyar, D. (2006), 'Globalisation, History and Development: A Tale of Two Centuries', *Cambridge Journal of Economics*, 30 (1), pp. 137–59.

Nayyar, D. (2008), *China, India, Brazil and South Africa in the World Economy: Engines of Growth?* WIDER Discussion Paper 2008/05.

Nayyar, D. (2009), *Developing Countries in the World Economy: The Future in the Past?* WIDER Annual Lecture 12.

Nissanke, M. and van Huellen, S. (2012), *Commodities Super-Cycle: Implications for South Asia*. Available from: http://unctad.org/en/PublicationsLibrary/ecidc2013misc1_bp3.pdf [accessed 2 Augusts 2013].

Ocampo, J.A. (2002), 'Rethinking the Development Agenda', *Cambridge Journal of Economics*, 26 (3), pp. 393–407.

Ocampo, J.A. and Taylor, L. (1998), 'Trade Liberalisation in Developing Economies: Modest Benefits but Problems with Productivity Growth, Macro Prices, and Income Distribution', *Economic Journal*, 108 (450), pp. 1523–46.

Ocampo, J.A., Rada, C. and Taylor, L. (2009), *Growth and Policy in Developing Countries: A Structuralist Approach* (New York: Columbia University Press).

OECD (2010), *Perspectives on Global Development: Shifting Wealth* (Paris: OECD Development Centre).

Pomerantz, K. (2004), *The Great Divergence: China, Europe, and the Making of the Modern World Economy* (Princeton: Princeton University Press).

O'Neill, J. and Stupnytska, A. (2009), *The Long-Term Outlook for the BRICs and N-11 Post-Crisis*. Goldman Sachs Global Economics Paper 192.

Pritchett, L. (1997), 'Divergence, Big Time', *Journal of Economic Perspectives*, 11 (3), pp. 3–17.

Rasiah, R. (2011), 'Is Malaysia Facing Negative Deindustrialization?' *Pacific Affairs*, 84 (4), pp. 715–36.

Reinert, E. (2007), *How Rich Countries Got Rich... and Why Poor Countries Stay Poor* (London: Constable).

Rodríguez, F. (2006), *Growth Empirics When the World is Not Simple*. Available from: http://www.un.org/en/development/desa/policy/wess/wess_bg_papers/bp_wess2006_rodriguez_empirics.pdf [accessed 2 August 2013].

Rodrik, D. (2006), 'Goodbye Washington Consensus, Hello Washington Confusion?' *Journal of Economic Literature*, 44 (4), pp. 969–83.

Rodrik, D. (2011a), *Unconditional Convergence*. NBER Working Paper 17546. Available from: http://www.nber.org/papers/w17546 [accessed 5 August 2013].

Rodrik, D. (2011b), *The Future of Economic Convergence*. NBER Working Paper 17400.

Romer, P. (1994), 'The Origins of Endogeous Growth', *Journal of Economic Perspectives*, 8 (1), pp. 3–22.

Rowthorn, R. and Kozul-Wright, R. (1998), *Globalization and Economic Convergence: An Assessment*. UNCTAD Discussion Paper 131.

Saad-Filho, A. (2007), 'There is Life beyond the Washington Consensus: An Introduction to Pro-Poor Macroeconomic Policies', *Review of Political Economy*, 19 (4), pp. 513–37.

Sachs, J. and Warner, A. (1995), 'Economic Reform and the Process of Global Integration', *Brookings Papers on Economic Activity*, 26 (1), pp. 1–118.

Solow, R.M. (1956), 'A Contribution to the Theory of Economic Growth', *Quarterly Journal of Economics*, 70 (1), pp. 65–94.

Taylor, L. and Rada, C. (2007), 'Can the Poor Countries Catch Up? Mixed Results from Extended Sources of Growth Projections for the Early 21st Century', *Metroeconomica*, 58 (1), pp. 127–54.

Tregenna, F. (2009), 'Characterising Deindustrialisation: An Analysis of Changes in Manufacturing Employment and Output Internationally', *Cambridge Journal of Economics*, 33 (3), pp. 433–66.

UNCTAD (1997), *Trade and Development Report* (New York: United Nations).

UNCTAD (2011), *Regional Monetary Cooperation and Growth-Enhancing Policies: The New Challenges for Latin America and the Caribbean* (New York: United Nations).

UNCTAD (2012a), *Trade and Development Report* (New York: United Nations).

UNCTAD (2012b), *Report of the Secretary-General of UNCTAD to UNCTAD XIII*. Available from: http://unctad.org/en/docs/tdxiii_report_en.pdf [accessed 2 August 2013].

UNRISD (2010), *Combating Poverty and Inequality: Structural Change, Social Policy, and Politics* (New York: United Nations).

Veblen, T. (1915), *Imperial Germany and the Industrial Revolution*. Available from: http://socserv.mcmaster.ca/econ/ugcm/3ll3/veblen/ImperialGermany.pdf [accessed 2 August 2013].

Vernon, R. (1966), 'International Investment and International Trade in the Product Life Cycle', *Quarterly Journal of Economics*, 80 (2), pp. 190–207.

Wälti, S. (2009), *The Myth of Decoupling*. Available from: http://www.voxeu.org/index.php?q=node/3814 [accessed 5 August 2013].

Weiss, J. (2011), *Industrial Policy in the Twenty-First Century: Challenges for the Future*. WIDER Working Paper No. 2011/55.

Williamson, J.G. (2011), *Industrial Catching Up in the Poor Periphery, 1870-1975*. Available from: http://www.nber.org/papers/w16809.pdf [accessed 2 August 2013].

Wilson, D. and Purushothaman, R. (2003), *DreamingWith BRICs: The Path to 2050*. Goldman Sachs Global Economics Paper 99.

Wolf, M. (2011), 'In the Grip of a Great Convergence', *Financial Times*, 4 January. Available from: http://www.ft.com/cms/s/0/072c87e6-1841-11e0-88c9-00144feab49a.html [accessed 2 August 2013].

Yeyati, E.L. and Williams, T. (2012), *Emerging Economies in 2000s: Real Decoupling and Financial Recoupling*. World Bank Policy Research Working Paper 5961.