INTRODUCTION

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The global financial crisis that erupted in 2008 marks the starting point for a comprehensive rethinking of economic theories and policies, particularly in the field of development strategies. A number of questions need to be addressed for economic analysis and policy recommendations to be relevant, including the assessment of the causes of the crisis, its potential remedies and the way in which the crisis challenges our understanding of economic and social processes.

The crisis shed new light on the economic trends that led to it, including the developments in different developing and transition economies.[1] Moreover, the crisis may be changing the economic framework in which developing countries formulate and implement their development policies; therefore, it is necessary to assess the extent to which these policies need to be reformulated. These considerations call for examining development strategies from a historical perspective. Indeed, different groups of developing and transition countries had experienced quite divergent performances in the decades preceding the global financial crisis. This has provided a rich set of experiences from which a very valuable learning can be extracted.

When looking at the long-term performance of developing countries from 1980 until 2013, it is possible to identify three major features. First, Asian countries perform remarkably better on most indicators, and especially in terms of per capita gross domestic product (GDP) growth, compared with African and Latin American countries. Second, while the 1980s and 1990s were practically two lost decades for development in most countries outside Asia, transition and developing economies have boomed since the early 2000s; even after the Great Recession of 2008–2009, output growth has been more buoyant in developing countries than in developed countries, despite strong diversity of performances within the regions. Third, after several decades in which the share of developing countries in global output remained virtually constant, it almost doubled in the decade following 2003.

In the 1980s and 1990s, per capita GDP growth rates in most developing countries were well below those of developed countries, and in many cases they actually contracted (table 1). This trend of developing countries lagging behind visibly changed in the period from 2000–2013, when per capita GDP in the developed countries expanded by a meagre average annual rate of 0.9 per cent, while developing and transition economies caught up with a (weighted) average annual increase in per capita incomes of 4.6 per cent. All developing and transition regions improved their economic performance: Asian economies continued their strong dynamic, several African and Latin American countries reoriented their economic policies away from the Washington Consensus and benefited from a commodity boom, while transition economies in Europe and Central Asia recovered from the huge output losses from the economic collapse of the early-1990s. This growth acceleration was achieved despite the industrialized countries being in the doldrums for most of this period.

Rapid output growth was associated with significant increases in per capita incomes in many

Table 1

GDP PER CAPITA GROWTH IN CONSTANT 2005 DOLLARS, 1981–2013

Country group	*1981–1990*	*1991–2000*	*2001–2013*	*1991–2013*
		Median		
Developed	2.0	2.1	1.1	1.9
Developing and transition	0.3	1.1	2.8	2.0
		Average of the group/region		
Developed	2.6	2.0	0.9	1.5
Developing and transition	1.3	2.0	4.6	3.5
of which:				
Developing Africa	-0.5	0.0	2.4	1.7
Developing America	-0.3	1.4	2.3	1.7
Developing Asia	3.2	4.7	6.0	5.2
Transition	…	-4.8	4.9	2.5
Number of developing and transition with growth…				
above 5 per cent	19	14	27	18
above 3 per cent	36	41	77	47
above 0 per cent and below 3 per cent	45	71	67	97
below 0 per cent	66	53	20	19
above average weighted growth of developed	41	63	124	96
below average weighted growth of developed	106	102	40	67
Number of developing and transition with data	147	165	164	163

Source: UNCTAD secretariat calculations, based on United Nations, Department of Economic and Social Affairs (UN-DESA), *National Accounts Main Aggregates* database.

Note: GDP per capita is calculated by dividing the corresponding total GDP by the total population of each country group.

developing countries, and particularly those that are highly populated. Therefore, in terms of the population that benefited from it, the improvement was remarkable: in 1990, 52 per cent of the world's population lived in low-income countries (defined here as below the $1,000 level in per capita GDP in constant prices of 2013); in 2013, that share had plummeted to 10 per cent (table 2). First, China left the low-income group, followed after 2000 by India, among others. Hence, the accelerated income growth has had real effects for the living conditions of hundreds of millions of the poor across the world. Developmental indicators like the reduction of absolute poverty or improvements in health and education usually go hand in hand with higher average levels of income. However, the strength of the nexus between growth and social improvement strongly differs across countries. Indeed, it may be significantly reduced if – as has frequently happened – growth is associated with rising inequality and environmental damages. Therefore, the drivers and characteristics of growth hold the utmost importance, not only for determining the social impacts of growth but also for its environmental sustainability.

The overall positive developments in the economic and social indicators of developing regions require two major qualifications. First, after the financial crisis, growth in developing and transition economies has become more erratic and the prospects gloomier, with uncertainty about the future growth of the world economy being on the rise. In many large emerging markets from Brazil to South Africa and the Russian Federation, there are doubts about whether the growth spell of the past 15 years can be continued. Second, even if some catching-up occurred, the income gap between developed and developing countries remains large. When using per capita income at constant 2005 dollars as a yardstick, developing countries on average only reached 8.3 per cent of the developed countries level in 2013, and only marginally improved from 5.5 per cent in 1990. At current exchange rates, developing countries' average income reached 11.6 per cent of that of the

Table 2

EVOLUTION OF COUNTRY GROUPS ACCORDING TO PER CAPITA INCOME, 1990–2013

	Number of countries in sample			*Population (per cent)*		
	1990	*2000*	*2013*	*1990*	*2000*	*2013*
Below $1,000	51	66	54	53.4	41.2	10.3
$1,000–$5,000	85	60	65	25.8	34.4	37.8
$5,000–$20,000	41	43	43	6.8	10.3	36.9
More than $20,000	29	38	46	14.0	14.0	14.9
Total reported	206	207	208	100.0	100.0	100.0

Source: UNCTAD secretariat calculations, based on UN-DESA, *National Accounts Main Aggregates* database.
Note: All economies are categorized according to their GDP per capita in current dollars. The World Bank Atlas Method was used for conversion to dollars and for the benchmarks adjustment. For example, the 2013-benchmark of $1,000 was applied like $803 in 2000 and $663 in 1990. Population is presented as percentage of the world total population for the country groups.

developed countries in 2013 (improving from 5.4 per cent in 2000).

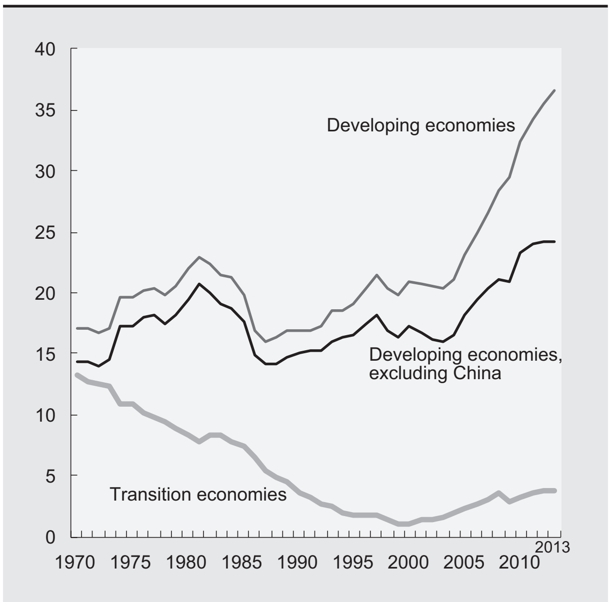
Whatever the measure for proper cross-country income comparisons, there is no doubt that there has been a significant change in the relative weight of developing and developed countries in the world economy. The share of developing countries in world output fluctuated between 16 and 23 per cent during 1980–2003 (chart 1). By contrast, from 2003 until 2013 it almost doubled from 20.3 to 36.5 per cent (when China is excluded, this share rises from around 16.0 to 24.3 per cent). This is due to both accelerating growth in developing countries and decelerating growth in developed countries. This structural change is likely to continue as long as developed countries maintain their low growth path, as has been the case – on average – after the financial crisis. However, this should not be interpreted as a decoupling between developed and developing countries since global interdependence is stronger than ever. Nonetheless, the characteristics of this interaction and the nature of growth drivers are changing, whereby development strategies must adapt accordingly.

Furthermore, there has been considerable diversity in the developing countries' growth performance, both *between* the different broader regions of developing countries and to a lesser extent *within* the regions. There is no clear and unique formula for success or failure, no "one size fits all" approach to development strategies. One of the lessons that can be extracted from experience is that policies need to adapt to specific conditions and national goals, which implies avoiding rigid precepts for both targets and

Chart 1

CONTRIBUTION OF DEVELOPING AND TRANSITION ECONOMIES TO GLOBAL OUTPUT,1970–2013

(Per cent of global GDP in current dollars)



Source: UNCTAD secretariat calculations, based on UN-DESA, *National Accounts Main Aggregates* database.

tools. However, this does not mean that strategies have to be replaced by ultra-pragmatic and flexible policies, constantly changing according to short-term conditions. The adoption of a better combination of macroeconomic pragmatism and a clear development orientation is one of the reasons why the performance of many developing and transition economies dramatically improved in the early-2000s. Volume I of this publication discusses these general issues that all developing countries need to handle, as well as highlighting some key policy areas of interest for most of them.

Theoretical thinking on economic development largely relies on comparative analysis. In particular, it explores the reasons why some countries or regions have performed better than others in the long run. Essays in Volume II of this publication contribute to this approach, as well as examining why the performance in a given country or group of countries has improved or deteriorated in the long-term depending on changing development strategies. From this perspective, poor economic results in vast developing regions and transition economies in the 1980s and 1990s have to be compared with rapid output growth and social improvements in the two preceding decades, as well as the 2000s. Several factors have contributed to explaining these contrasts. In particular, the existence of a developmental State that uses its room for manoeuvre to act on both the supply and demand side is a common denominator of most successful experiences. On the contrary, neoliberal policies that restrained the role of the State in the economy and dismissed the need to preserve any policy space prevailed in the slow-growing regions during the 1980s and 1990s.

The demise of the Washington Consensus owing to failing empirical tests (Birdsall and Fukuyama, 2011), the failures of neoliberal recipes and the dramatic consequences of the global financial crisis (after several regional financial crises) have altogether generated enormous new challenges. Consequently, old certitudes have to be abandoned. Development models championed by governments and academia in developed countries as well as by several international organizations are increasingly questioned. Moreover, in parallel to their rising economic weight, the leading developing economies have gained increased influence in the debate about the functioning of the global financial and trading system, as well as global political issues.

Against this historical background, this publication intends to explore the nature and consequences of the crisis, as well as the diversity of economic and social development among developing countries. It looks at the reasons behind the recent improvement in developing countries performances and its potential for continuation after the financial crisis.

The recent economic trends and the challenges posed by the global crisis reinforce the importance of implementing strategies for development as opposed to leaving the economy to market forces. Countries need a strategic compass for long-run economic development, either explicitly or implicitly. Among other ingredients, this comprises macroeconomic policies, sectoral policies (including the financial sector, trade and industrial policies), institution building in key areas and development-friendly global governance. Within a chosen medium- or even long-term strategy, governments need more policy space to adjust to the specific (and evolving) social, historical and institutional context. The experience of Asia shows that rather than implementing narrow and rigid general guidelines, experimental approaches – which require policy space – are a recipe for success. Furthermore, the slow-growth periods endured by several countries (the "lost decades") allowed inferring which policies should be avoided. The authors of this publication share the notion that developing countries can and should learn more from each other, as well as from their own past experience. It is important to look at comparisons between developing countries, including both success and failure stories.

A developmental State needs to use a variety of tools to intervene in several key areas. Most authors in this book hold the view that more active macroeconomic management with a stronger focus on domestic demand is needed. This should replace export-led growth when associated with entrenched incomes and austere public spending. More prudent financial sector development is necessary to enhance investment with predominantly domestic sources of finance. Industrialization is a major target of any development strategy, and this requires industrial policy. Small countries – even more than larger ones – need a focus of policies on certain sectors to shape potential comparative advantages beyond agricultural or mineral commodities. Boom-bust cycles of short-term capital flows undermine growth and development. Cross-border capital flows should be governed by prudent management, which can include capital controls. Unregulated capital flows negatively affect market-driven exchange rates, generating strong volatility or chronic overvaluation of exchange rates, both of which are strong hindrances for development, given that currency-related conflicts or even currency wars may need to be resolved in the framework of a new global financial architecture. Strong and sustainable development requires a developmental State supported by increased fiscal space for providing public goods and income redistribution. Reducing income inequality beyond curtailing absolute poverty can have positive impacts for growth, employment and structural change (*TDR 2012*).

Many of the chapters in this publication were written by authors who collaborated within the "Partnership on Economic Development Studies", a network of 11 universities from the South and HTW Berlin – University of Applied Sciences, with which UNCTAD has been cooperating. This network was funded by the German Academic Exchange Service (DAAD) from 2009 until 2013. We are grateful to the DAAD for their generous support of this project. Most of these contributions stem from the workshop on "Development Strategies: Country Studies and International Comparisons" held in November 2013 in Shanghai (hosted by the East China Normal University). Other chapters are from well-known scholars who work or regularly cooperate with UNCTAD.

As already mentioned, this publication is presented in two volumes with a total of 14 chapters. The first volume addresses the more general issues, while the second focuses on country studies and country comparisons. Due to space limitations, many issues cannot be addressed here. For instance, environmental problems as well as the debate on the Sustainable Development Goals are not included, and in the second volume we mainly cover large economies with significant regional impact, although several lessons that can be extracted from their experiences also hold interest for many least developed countries. While all authors are academic economists, we attempt to reach a broader readership within and outside academia, from graduate students to journalists and policymakers. Therefore, unnecessary technical presentations are avoided. Lastly, the opinions expressed are those of the authors and do not necessarily represent those of UNCTAD, HTW Berlin or the institution to which the authors are affiliated. The remainder of this introduction provides an overview of the second volume's chapters.

In this (second) volume, four countries are selected based upon the role that they play in the developing world and the current discourses on development: Brazil, Chile, China and India. To a certain extent, they all represent development success stories, at least for a considerable spell of time. Brazil, China and India account for a large proportion of the world population and their corresponding regional GDP. The continental size of these economies plays a role in their development conditions, particularly regarding their domestic markets. By contrast, Chile is a special case as a small country that is among the most developed in Latin America and often considered a role model, yet it remains many miles off the levels achieved by the first generation of Asian tigers like Taiwan Province of China or the Republic of Korea, especially regarding its industrial development.

China and India have experienced very rapid growth and a remarkable structural transformation in recent decades, strongly contributing to the changing landscape of the world economy. These trends, which are based upon fast industrialization and urbanization processes, are likely to continue in the foreseeable future.

Brazil and Chile share a number of common features with most other countries in Latin America, such as semi-industrialization, dependence on commodities, high income and wealth inequality and a relatively high per capita income (in current dollars) among developing countries ($11,200 and $15,700, respectively, in 2013, compared to $1,600 and $6,600 in India and China in the same year). All these countries are very peculiar cases embedded in their history and incorporating their idiosyncratic heritages.

It is not possible to identify single countries that are completely representative of the more than 160 countries identified as developing countries by the United Nations. Indeed, developing countries have become increasingly heterogeneous as a group. Nevertheless, some of the development strategies analysed here may be relevant for the cases of least developed countries and middle-income countries. Aside from the detailed analysis of selected country cases, this publication includes two overarching and comparative studies. The remainder of this introduction provides an overview of the seven chapters of this volume.

Sebastian Dullien looks at the characteristics of countries that performed best in terms of real GDP per capita growth between 1980 and 2013. He finds three types of countries in this group: a few tiny economies that have found a specific niche in the world market, some petroleum exporters that have exploited new fuel sources, and a relatively large number of countries that had an undervalued exchange rate and a deliberate development strategy, often including explicit industrial policy. Interestingly, institutional quality as generally measured by standard indicators does not seem to play a decisive role in terms of being a top performer; rather, this group comprises both countries with good rule of law and low degrees of corruption as well as those with poor scores for these two indicators.

C.P. Chandrasekhar analyses the important role of development banks as a major component of the financial policies that a development strategy should envision. However, development banks are being challenged by neoliberal financial liberalization on the grounds that equity and bond markets could substitute them. The author argues that the disappearance of development banking would lead to a shortfall in finance for long-term investments, especially for medium and small enterprises. Accordingly, he points to a number of successful development banks in several countries.

Amit S. Ray observes an enigma of the "Indian model" of development, which he attempts to unveil. After discussing the evolution of India's development policies over the last six decades, he describes India's development trajectory over the long haul. He shows how the country has finally emerged a global player in the last couple of decades, despite India's lost opportunity to be a part of the Asian Miracle during the 1960s, 1970s and 1980s. However, the Indian model of development, principally driven by rapid expansion of high-end knowledge-intensive sectors, comes with a tragic neglect of low-end labour-intensive mass manufactures. From an agriculture-dominated economy, India straight away jumped to an economic structure, albeit with a transition period of three or four decades, during which services and high-end manufacturing assumed the lead role. He argues that this development model is not only inequitable in the extreme, but it is also a prescription for political volatility and is definitely not a sustainable development model, especially in a democracy.

Liqing Zhang and *Qin Gou* provide a retrospect of China's economic growth since 1978, as well as a prospect for the years to come. They start with a review of China's economic spurt in the past reform period. They hold that this success had been driven by the demographic dividend, high saving rates, an outward-oriented development strategy as well as growing technical progress. Subsequently, the authors analyse the challenges from the diminishing demographic dividend, growing structural imbalances, macro instability and financial risks. Lastly, they suggest some reform policies to maintain sustainable economic growth and avoid middle-income traps, including deepening financial sector reforms, reforms of the household registration system and the education system, structural rebalancing and the phasing-out of the massive stimulus policy applied during and after the financial crisis.

Laike Yang analyses China's production sharing within East Asia and the respective changes in the trade pattern. International production sharing has been a key feature of East Asian economic development in recent decades, with firms in advanced Asian economies relocating their production to China, using it as an assembly base before exporting the final products to the United States and Europe. China has taken advantage of this process and transformed into a global manufacture centre, with the country's emergence having reshaped the Asian production network and trade pattern. Yang analyses the economic model and the development strategies in East Asia, China's position in East Asia's production network, as well as its impact on China's technological upgrading. He finds that China has moved to the centre of East Asia's production network, thanks to its export-led development strategy. It has significantly upgraded its technology and narrowed its technology gap with South East Asia, although the gap between China and Asian advanced economies remains large.

The term "social developmentalism" in the sense of a social-oriented development strategy is a source of heated debate among Brazilian economists. *Pedro Rossi* and *André Biancarelli* analyse this model for the case of Brazil. In the recent debate on the Brazilian growth model, the economic tripod, i.e. the combination of inflation targeting, targeting the primary fiscal deficit and the floating exchange rate regime, was identified as being responsible for lowering economic growth and hindering development in Brazil. However, the macro regime has proved flexible over time, allowing changes in the form of management of policies within the same institutional framework, especially after the 2008 crisis. Within this context, the authors aim to discuss the relationships between these macroeconomic policy fronts and a social-oriented development strategy for the Brazilian economy. The background question is whether the actual macroeconomic regime, inherited from an orthodox perspective, is compatible with the deepening of social development, which depends upon a strong role of the State, changes in income distribution and the expansion of social infrastructure.

Ricardo Ffrench-Davis analyses the performance of the Chilean economy over the last four decades. In terms of GDP per capita, Chile is the most advanced country in Latin America and is often considered a role model for development, not only in this continent. Its economy is usually highly praised as having been successful since the imposition of neoliberal reforms under the dictatorship of general Pinochet in 1973. However, the four decades that have elapsed include sub-periods with quite different policy approaches and notably diverse outcomes; thus, there is neither one unique model nor only one outcome. The four decades' growth is moderate, averaging 4.2 per cent per year, comprising meagre growth of 2.9 per cent during the 16 years of dictatorship and a much better performance of 5.1 per cent during a quarter-century of democracy, albeit with a vigorous 7.1 per cent in the initial years (1990–1998) and a more modest 3.9 per cent in the last 15 years. Focusing on three episodes (1973–1981, 1990–1995 and 2008–2013), French-Davis explores lessons for building "a model for development".

Notes

1 In our view, there is not a completely satisfactory classification of countries in "developed", "developing" and "transition economies". In some cases, the participation in a given group or organization (e.g. being a member of the OECD or of the "Group of 77 and China" (G77)) is used to distinguish developed and developing countries. However, this does not exclude overlapping or paradoxes, such as some G77 countries having per capita GDP higher than some OECD countries. Some institutions classify countries in low-, middle- and high-income groups, using their per capita income levels as the sole criterion and setting arbitrary thresholds. For instance, the World Bank (2014) currently defines low-income countries as those whose per capita income is below $1,045, middle-income countries as those with an income between $1,045 and $12,746 and high-income countries as those exceeding $12,746 (thresholds are periodically adjusted with inflation). However, using the income level as the criterion for dividing countries in "developing" and "developed" is problematic (Nielsen, 2011). A number of small oil-exporting countries (e.g. Brunei Darussalam, Equatorial Guinea, Oman and Qatar) or offshore financial centres have higher per capita income levels than countries with a much more developed and diversified production capacity, higher technological mastery and better qualified working force (e.g. Argentina, Brazil, the Republic of Korea, the Russian Federation and Turkey). In this introduction, we generally use the United Nations classification of developed, developing and transition economies. According to the United Nations Statistical Division (UNSD, 2013), "there is no established convention for the designation of 'developed' and 'developing' countries or areas in the United Nations system. In common practice, Japan in Asia, Canada and the United States in northern America, Australia and New Zealand in Oceania, and Europe are considered 'developed' regions or areas." The group of transition economies comprises the CIS and the South-East European countries that are not European Union members.

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