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.

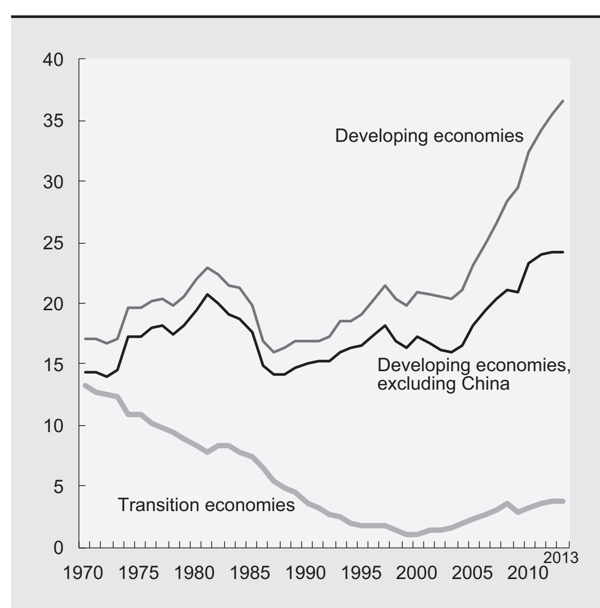
developed countries in 2013 (improving from 5.4 per cent in 2000).

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.

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.

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 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.[2] 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 first volume's chapters.

Alfredo Calcagno analyses the need to adjust developing strategies after the global financial crisis in a context of expected future slow growth in the North. The global financial crisis that started in 2008 has exposed a number of fundamental flaws in how the world economy has been functioning under a "finance-driven globalization" and often export-led growth, with increasing income inequality and a diminishing economic role for the State. Calcagno pleas for a stronger emphasis on domestic demand-led growth based upon rising incomes rather than credit and asset bubbles, addressing the role of a change in income distribution and the establishment of a developmental State that should also promote structural change and industrialization.

Jan Priewe analyses seven development strategies, namely the Washington Consensus, neoliberalism, good governance, the UN Millennium Development Goals, export-led growth, industrialization and a heterodox macroeconomic strategy for development, which is suggested by the author. Priewe argues that – at least in the case of large developing countries – a strong focus needs to be placed upon coherently managed macroeconomic policies to provide a stable environment that is conducive to development, namely one that minimizes the risk of balance-of-payments crisis, promotes domestic demand and finance for both fixed investment and human capital formation. He further argues that successful countries have pursued industrial policies, a combination of inward and outward approaches in the course of industrialization and diversification of production.

On the occasion of the 70th anniversary of the Bretton Woods institutions in 2014, *Eric Helleiner* argues that remembering the original development content of Bretton Woods may be politically very useful for reformers seeking to construct a more development-friendly global financial system today. The author recalls that the then-negotiations are often described as an Anglo-American affair in which developing countries played little role and development issues were largely ignored. However, he underscores that the Bretton Woods architects included officials from many poorer countries and international development goals were explicitly prioritized in the design of the post-war international financial order. As discontent with Bretton Woods institutions grows among developing countries policymakers, the proposed reforms may recover the original idea of constructing a multilateral economic order that would support the development aspirations of poorer countries.

Veerayooth Kanchoochat aims to identify the main middle-income traps and presents a critical review of the literature. The author discusses three strands, which he labels as (i) getting education and institutions right, (ii) changing export composition

through comparative advantage and (iii) industrial upgrading through State interventions. Among the author's conclusions is that rather than focusing only on alphabetization and institutions assuring the well-functioning of the market, governments should try to focus on developing institutions (including education) geared towards the development of modern industries targeted at changing the export composition of countries. He criticizes suggestions of following a country's traditional comparative advantage to achieve a structural transformation. Last but not least, he underscores that while industrial and technological policies are essential to transform the economic structure of a country, such policies must be guided by the carrot-and-stick principle applied in the first-tier newly industrialized economies within a stable macroeconomic environment.

Robert Wade discusses the relevance of industrial policy for developing countries, given the rising interest shown in this type of policy by politicians and economists in both the developed and developing world after the 2008 global financial crisis. For this purpose, he presents examples showing that industrial policy has regained relevance in the post-2008 world. At the micro level, he argues that agencies in charge of industrial policy should be directed by capable managers who have weak ties with the ruling elite when appointed and subsequently develop a strong tie with the president while still maintaining weak ties with the rest of the elite. He concludes by recommending that policymakers in developing countries should undertake industrial policy despite the opposition to this idea shown by mainstream economics and many international financial institutions.

Concentrating on one of the key macroeconomic policies of a development strategy, *Roberto Frenkel* and *Martin Rapetti* make the case for developing countries targeting a "stable and competitive real exchange rate" (SCRER) as part of their development strategy. For this purpose, the authors review a sample of the empirical literature reporting a positive impact of real exchange rate undervaluation on growth, as well as another strand of the literature concerned with the possible transmission channels from SCRER to increased growth. The authors argue that the main growth transmission channels of targeting a SCRER are the greater macroeconomic stability brought about by the reduced risks of balance of payment crises, the greater availability of foreign exchange and the stimulus that a higher relative price of tradeables has on investment in modern tradeable sectors. Moreover, they argue that targeting a SCRER is sustainable at the national level since financing the consumption of other countries can be sustained across time and that internal equilibrium can be attained at no or a relatively low cost if the exchange rate, monetary policy, capital controls, fiscal and wage policies can be coordinated.

Rachel Denae Thrasher and *Kevin P. Gallagher* argue that it is imperative for countries to have the national-level flexibility to meet global development goals. The authors analyse a sample of trade agreements to show that a new 'trade' policy has evolved seeking to liberalize all perceived impediments to global commerce, reaching into the realms of financial regulation, innovation policy, as well as a range of domestic regulations that promote public welfare. They argue that there is a fine line between what may be perceived as 'protectionism' by actors seeking further market access and the legitimate deployment of domestic regulation for sustainable and inclusive growth on the part of emerging market and developing countries. The authors conclude by stating that global and regional trade rule-making will need to preserve nation States' ability to deploy country-specific policy 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.

2 See http://daadpartnership.htw-berlin.de/.

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