# SEVEN STRATEGIES FOR DEVELOPMENT IN COMPARISON*

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**Abstract**

*Four traditional mainstream development strategies are discussed (Washington Consensus, plain neo-liberalism, "good governance" and Millennium Development Goals and two long-debated key strategic issues are reconsidered (inward or outward development, industrialization or growth with predominant primary goods exports) in this comparison, adding a heterodox approach with a focus on macroeconomic policies and structural change. The rough empirical comparison finds that countries and areas with strong emphasis on macroeconomic policies, mainly in Asia, have performed unambiguously better than the mainstream approaches since 1980. From successful Asian countries, it can be learnt that a long-run continuous growth and development performance with more resilience against adverse shocks is key. Almost all larger middle-income countries have embarked on industrialization, thereby strategies based upon primary commodities or high current account deficits are unlikely to be successful in the long run. A stronger role of a package of six macroeconomic policies is advised for the larger economies; for instance, those 21 countries with a GDP of more than 100 billion in constant 2005 dollars, comprising around 87 per cent of the total GDP and 72 per cent of the population in the South in 2013.*

## What is a strategy for development and why do we need one?

In our understanding, a development strategy is an economic conception that defines the priority goals, coherently explains how set goals can be reached, identifies the policy tools and explores trade-offs and the time frame. It is a kind of vision with normative goals, balanced against what is feasible. Such a strategy does not necessarily have to be explicit; rather, it can be implicit in the mind-set of policymakers or a tacit agenda of governments. Moreover, it does not need to be comprehensive, but it must address key issues for the medium to long term. If such a vision does not exist, it is likely that the policymakers in charge, including external advisers, will simply follow the historic track, with a focus on short-term issues barely related to long-term goals. Pragmatism without a compass might prevail with rather low ambitions.

A number of "guidelines" or blueprints for development are offered in academic economics and the political economy of development, which we will discuss and compare in this essay. They are often general, i.e. not country-specific, recommendations for economic development that can to some extent be adapted to the specific needs of a country. After the demise of guidelines of the *one-size-fits-all* type, a backlash occurred as if anything would go and nothing can be said in general. I will argue here that this is not the case; rather, there are clear success stories and clear stories of failure or stagnation.

* A longer version of this essay is available online with more empirical details, see Priewe (2015).

After many of the old ideas for quick development success after World War II had failed, such as the "Big Push" or heavy aid-led development based upon "saving gap" concepts, or grand-scale import substitution policies as practised in many countries of the South until the 1980s, a transition to more simple recipe-like recommendations emerged. The (in)famous "Washington Consensus", often misunderstood as plain liberalization and market fundamentalism, was promulgated in 1989, before later being complemented by cooking recipes for "good institutions" and "good governance". The plea for financial globalization added an important part to the comprehensive liberalization agenda, concentrating on free trade, free capital flows, the privatization of State-owned enterprises and a small State in contrast to a developmental State (which is not necessarily large). Seemingly a backlash, the sudden about-face to the "Millennium Development Goals" (MDGs) was in part only a complement to the continuing neo-liberalism.

These concepts will be recapitulated in section I. The debates on inward or outward development will also be picked up, while the overdue debate on industrialization versus commodity-led development will be addressed. In section II, a macroeconomic approach to development will be sketched, put forward by ideas stemming from adapted Keynesianism and dependencia theories. Section III reviews the stylized facts of developmental success or failure since 1980, before section IV concludes.

## I. Traditional strategic concepts

### A. *Washington Consensus*

As is well-known, John Williamson summarized in 1989 (Williamson, 1990) what he believed to be the consensus of four Washington-based institutions regarding economic policies in Latin America at the time: the State Department, the Treasury, the World Bank and the International Monetary Fund (IMF). Easily understandable, it was used as a set of ten commandments that were more or less applicable to the rest of the world, including the collapsing countries of the former Soviet Union and in Eastern Europe. It was a much-needed makeshift in the absence of sound and coherent strategies of western nations for development. The ten guidelines do not truly sound like a full-fledged neoliberal agenda. In hindsight, many postulates seem innocuous and not particularly controversial, yet sufficiently ambiguous for a broad range of interpretations:

- Reduction of budget deficits to a non-inflationary level.
- Redirection of public expenditure to areas such as education, infrastructure, etc. As tax increases are ruled out, lower marginal tax rates and a broadened tax base are advised, similar to what was practised in the United States at the time.
- Domestic financial liberalization towards "market-determined interest rates", with no mention that interest rates are largely determined by central banks, and hence tight monetary policy might be the key idea in disguise. Moreover, there is no mention that domestically liberalized interest rates likely also trigger cross-border liberalization of capital flows. Again, much discretion for interpretation remains.
- Sufficiently competitive exchange rates that induce rapid growth in non-traditional exports. In plain text, avoiding the over-valuation of exchange rates is demanded, which makes industrialization difficult. Alternatively, it could be read as currency under-valuation, as well as a plea for market-determined flexible rates. Regarding trade, quantitative restrictions should be lifted and tariff reductions be instituted.
- The privatization of State-owned enterprises. One of the few unequivocal quests, similar to the better protection of property rights and the liberalization of foreign direct investment inflows.
- More competition for start-ups and other enterprises.

In hindsight, it is stunning how narrow the range of the consensus was and how much ambiguity can be found in the wording. Williamson, not a plain neoliberal, used a wording that left sufficient

room for interpretation and hence risked strong misunderstanding. Carefully read, one cannot see a clear plea for free trade and free international capital flows or a minimalist state. It is interesting to see what is not addressed, either due to a missing consensus or lacking concern: import substitution or export promotion, poverty reduction or any kind of social spending, the choice of the exchange rate regime, external debt and the balance of payments, let alone environmental issues. Furthermore, time and sequencing are ignored; accordingly, the agenda can be seen as a shock therapy or Chinese-type of gradualism. From the viewpoint of neoclassical or endogenous growth theories, almost nothing is said about technological upgrading, while from a structuralist view structural change and industrial policy are unaddressed, let alone foreign aid. In retrospect, the most stunning characteristic of the "Washington Consensus" seems to be the simplicity and naivety, its selectivity and blindness vis-à-vis so many obvious economic problems.

### B. Plain neo-liberalism

The ambiguity of the Washington Consensus was often used to interpret it as plain neo-liberalism. The imperatives would then be to free all goods, labour and financial markets as much as possible from regulations, reducing the size of governments, avoiding counter-cyclical fiscal policies, giving priority to price stability over growth and employment objectives and keeping taxation low. The legal framework of economic systems has to be geared to securing property rights, including privatising public enterprises and promoting market-friendly institutions.

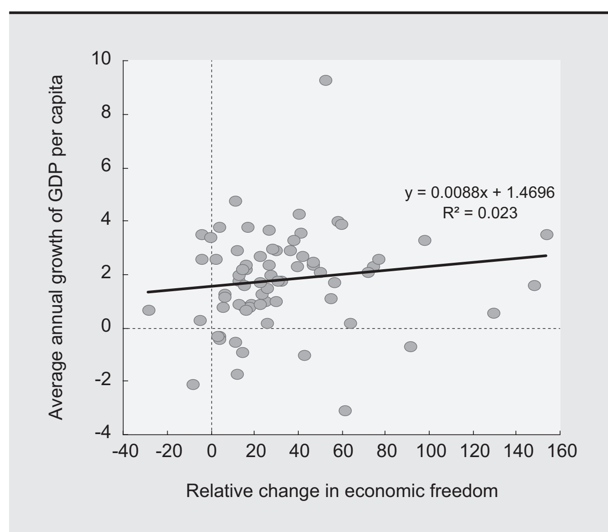
The implicit rationale of the neoliberal philosophy is the notion that developing countries suffer from manifold market distortions, similar to transition economies, whereby the unleashing of the invisible hands of markets could drive growth and development. From this perspective, the main drivers for development are seen in free trade and free cross-border financial flows, supported by institutional reforms towards what is considered as "good governance". Trade and capital flows follow the comparative advantage theory in the Heckscher-Ohlin form, where developing countries can exploit their cheap labour and natural resources while rich countries provide capital, technology and knowledge. Openness for foreign direct investment and all other capital flows is a key ingredient of this conception (e.g. Mishkin, 2006). The classical view that capital accumulation and related technical progress are engines of growth is out of focus, as well as the Keynesian idea of active macroeconomic management. The notion of public goods, and particularly education, training, research and development, which are considered as key for development by endogenous growth theories, do not form the centrepiece of this concept. Nonetheless, this philosophy is sufficiently vague and flexible to adjust to special needs or combine it with other ingredients, as long as it remains the backbone for a growth and development strategy.

Some economists have pondered on the sequencing of this strategy. John Williamson and others have advised careful gradualism, with steps to freer trade such as dismantling quantitative restrictions as the first step and liberalized capital accounts for short-term financial flows as the last stage (Williamson, 1997). Others have called for quick sequencing or big-bang reforms to pressure countries into overcoming resistance against reforms (e.g. Ishii et al., 2002).

Using the *Fraser Economic Freedom Index* (FEFI, 2014), a composite indicator of the degree of economic liberalization for a comparison of the FEFI of 71 low- and middle-income countries (LMICs) with the ranking of per capita gross domestic product (GDP) shows no clear linkage. The FEFI integrates more than 50 single indicators concerning the regulation of markets, protection of property rights, low inflation, free trade, good governance and small government, providing a grading from zero to ten (high liberalization). The change of the FEFI over the period 1990–2011 does not correlate with per capita GDP growth, nor does the FEFI level in 2011 correlate with the level of per capita GDP (charts 1 and 2). Advanced countries generally have a higher score in the FEFI compared with less developed countries, similar to often-used corruption indices or "good governance" indices. However, growth rates of GDP do not correlate with levels or changes of these indicators.

***Chart 1***

**CHANGE IN FRASER ECONOMIC FREEDOM INDEX AND PER CAPITA GDP GROWTH, SELECTED ECONOMIES, 1990–2011**

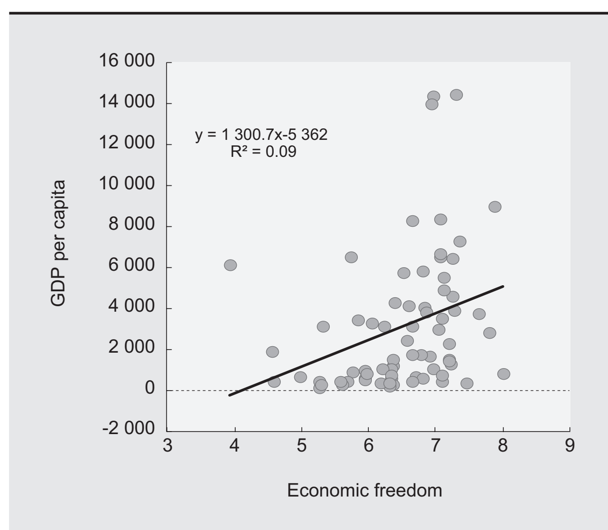



***Source:*** Author's calculations, based on World Bank, *World Development Indicators* (*WDI*) database, and Fraser Institute (2014), Economic Freedom of the World 2014 Annual Report.

***Note:*** Selected economies refer to the 71 countries classified by the World Bank as developing for the year 1990 and with data available in the *WDI* database. All data refer to the changes between 1990 and 2011.

***Chart 2***

**FRASER ECONOMIC FREEDOM INDEX AND PER CAPITA GDP, SELECTED ECONOMIES, 2011**




***Source:*** Author's calculations, based on World Bank, *World Development Indicators* (*WDI*) database; and Fraser Institute (2014), Economic Freedom of the World 2014 Annual Report.

***Note:*** Selected economies refer to the 71 countries classified by the World Bank as developing for the year 1990 and with data available in the *WDI* database. All data refer to the levels of 2011, in constant 2005 dollars.

## *C. Good governance*

Many mainstream economists argued that the weak nexus between the liberalization of markets and development could be rooted in poor "institutions". The latter is often interpreted as "good governance", measured in six dimensions in the CPIA indicators of the World Bank ("Country Policy and Institutional Assessment"). These indicators were often criticized (being opaque, biased, without conceptual base, one-size-fits-all approach, etc.). In particular, the dimensions of "regulatory quality" and "government effectiveness" with an emphasis on "sound policies" are critical and biased (e.g. Langbein and Knack, 2010; Kaufmann et al., 2007; and Wade in this volume).

What is more important is that *policies* are left out in favour of "governance" or simple neoliberal policies often return through the backdoor. The linkage between good governance in this sense and economic growth and development is weak. As with the FEFI, high income levels correlate with high CPIA scores across countries, although the level of CPIA scores do not correlate with per capita GDP growth and income growth does not significantly correlate with score changes. In most LMICs, the CPIA scores change very slowly, even when growth and structural change are booming. It seems that good governance, whatever it is in essence, is quite diverse and more a long-term *result* of development rather than a precondition. Many of the fast growing emerging economies are not winners of high CPIA score medals. It took developed countries more than a century to climb up to the score that they now have (e.g. Chang 2003).

Some much debated institutionalists like Acemoglu and Robinson (2012) believe, following Douglas North, that the *fundamental* causes of weak or strong development are rooted in "economic institutions", while the *proximate* causes lie in the determinants of growth, as analysed in standard growth theories. It is unclear what development-friendly economic institutions really are, nor is it justified to exclude policies from the fundamental determinants of growth and development. An often-used broad understanding of institutions may leave the determinants of development in the darkness of black boxes. Besides this, basic, long-standing entrenched institutions are hard to change.

### D. Millennium Development Goals

The United Nations turning to the MDGs in 2000 signified a paradigm shift in the policies of supranational institutions. Quantitative goals were set in great detail, with a fixed timeframe, identical for all developing countries and in conjunction with the support of developed countries, whereby income distribution was addressed in part for the first time. However, the MDGs, translated in poverty reduction strategy papers as medium-term national strategies, were confined to goal-setting, although they missed economic strategies, apart from the verbal commitment of donor countries to markedly increase official development aid. Perhaps strategies had been deliberately left out by the initiators of the MDGs to find global consent and delegate the choice of strategy to the respective country. Ironically, the usual set of policy advice as shown above was not really changed, with the exception of the IMF's initiative to include capital flow management (alias capital controls) into the official toolbox of the Fund from 2010. Hence, the MDGs can be considered as a social policy complement of the mainstream roadmap for broad-based liberalization of markets in the "South". While setting proper goals is an important part of defining development strategies, the MDGs miss a *production view* on development so that the eradication of absolute poverty and the related other goals can be achieved sustainably and eventually self-reliantly. Development has often been interpreted and reduced to simply overcoming poverty, predominantly understood as absolute poverty, as well as reaching the other goals to enable "capabilities" (Sen, 2001) and open opportunities for individual freedom for all citizens. Accordingly, the MDGs can be understood as a reduced substitute for genuine, broader development as perceived in traditional development discourses (e.g. Chang, 2010). From this perspective, the advent of the MDGs was a reduction of developmental ambitions in disguise.

Nevertheless, the reduction of absolute poverty advanced towards a key benchmark for development. As shown in table 1, the results thus far are mixed. Global poverty, relative to the population, was reduced remarkably, and other MDGs could be approached similarly. The share of absolute poverty (conceived as $1.25 in purchasing power parity (PPP) per day in 2005 prices) fell from 43 per cent of the population in the "South" in 1990 to 21 per cent in 2010, and from 65 per cent to 41 per cent when the margin for poverty is taken as $2 per day. If East Asia is excluded, the absolute number of poor was slightly higher in 2010 than 1990 and increased considerably when using the $2 margin, mainly due to strong population growth in Africa and India. Of course, it is questionable whether the progress made was really driven by MDG-related policies or owing to other factors.

***Table 1***

**POVERTY HEADCOUNT IN LOW- AND MIDDLE-INCOME COUNTRIES, 1990–2010**

*(Per cent of the population, unless otherwise specified)*

| | *Below $1.25 a day* | | | *Below $2 a day* | | |
|---|---|---|---|---|---|---|
| | *1990* | *1999* | *2010* | *1990* | *1999* | *2010* |
| East Asia and the Pacific | 56.2 | 35.6 | 12.5 | 81.0 | 61.7 | 29.7 |
| Latin America and the Caribbean | 12.2 | 11.9 | 5.5 | 22.4 | 22.0 | 10.4 |
| Middle East and North Africa | 5.8 | 5.0 | 2.4 | 23.5 | 22.0 | 12.0 |
| Sub-Saharan Africa | 56.5 | 57.9 | 48.5 | 76.0 | 77.4 | 69.9 |
| South Asia | 53.8 | 45.1 | 31.0 | 83.6 | 77.8 | 66.7 |
| All developing countries | 43.1 | 34.1 | 20.6 | 64.6 | 57.4 | 40.7 |
| All developing countries, excl. East Asia | 34.8 | 33.2 | 25.0 | 54.3 | 54.9 | 46.6 |
| ***Memo item:*** | | | | | | |
| All developing countries (in million) | 1 782 | 1 642 | 1 153 | 2 674 | 2 767 | 2 276 |
| All developing countries, excl East Asia (in million) | 882 | 1 004 | 908 | 1 378 | 1 659 | 1 692 |

***Source:*** Author's calculations, based on World Bank, *World Development Indicators* database.

## E. Outward development and export-led growth

After the end of Latin American import substitution strategies, the debate concerning whether import substitution or export orientation or inward or outward development is the right strategy approached an end, with outward orientation alias export promotion seen as the winner. The enormous growth of world trade, as well as the strong export orientation of many successful East Asian countries, seemed to endorse the defeat of the Latin American dependencia theories. However, it was overlooked that many Asian countries applied both import substitution *and* export promotion, mostly first the former and then the latter, but often concurrently (e.g. Bruton, 1998; Cypher 2014), with the Republic of Korea, China and Viet Nam being cases in point. In China and Viet Nam, particularly State-owned enterprises or even joint ventures with multinational companies defended domestic market shares, while foreign funded enterprises and some domestic served the world market (e.g. Amsden, 2001: 190). With tariff and non-tariff barriers, the promotion of technological innovations and energy saving or domestic energies, developed countries also attempted to practice import substitution, or at least the defence and overt or hidden protection of domestic suppliers. Moreover, export promotion was extended into outright neo-mercantilistic export-surplus oriented growth in a number of countries, both developed and developing, at times supported by under-valuation of the currency and by targeting export promotion with direct and indirect policies. The pressure to achieve price competitiveness forced many developing countries to repress prices and wages and hence domestic demand, which has contributed to large current account imbalances. China and Germany, and to a lesser extent Japan, were the main culprits, while China turned to domestic demand-led growth after the great financial crisis and strongly reduced its current account surplus.

Regarding development strategies, the question of import substitution versus export promotion was posed incorrectly, given that neither are both mutually exclusive nor does development depend on exports regardless of *what* is exported or imported. Exports of low-value commodities with a low income and price elasticity of world demand and, conversely, imports with high income elasticity and low price elasticity contribute little to growth and development. Terms of trade, income elasticity of demand

*Table 2*

**EXPORTS OF GOODS AND SERVICES, SELECTED GROUPS OF LOW- AND MIDDLE-INCOME COUNTRIES , 1990–2012**

| | *Per cent of world exports* | | *Per cent of GDP* | |
|---|---|---|---|---|
| | *1990* | *2012* | *1990* | *2012* |
| East Asia and Pacific | 3.7 | 14.2 | 20.3 | 33.5 |
| Europe and Central Asia | 2.6 | 3.5 | 20.3 | 36.2 |
| Latin America and the Caribbean | 3.8 | 5.0 | 17.3 | 23.7 |
| South Asia | 0.8 | 2.3 | 8.5 | 22.5 |
| Sub-Saharan Africa | 1.8 | 2.2 | 26.1 | 31.9 |
| World | 12.7 | 27.2 | 19.6 | 30.3 |

***Source:*** World Bank, *World Development Indicators* database.
***Note:*** Data only include low- and middle-income countries, except for the world. Data for Middle East and North Africa are not available.

and technological sophistication of traded goods are key parameters for the nexus of exports and GDP growth. For instance, sub-Saharan Africa's share in world trade is marginal and remained so from 1990 to 2012, although its export to GDP ratio is similar to East Asia, whose share in world exports grew almost fourfold during this period, as can be seen in table 2. However, Africa's exports were mainly commodities, while East Asia's were mainly manufactured goods. Moreover, South Asia, and predominantly India, also has a tiny world market share and – like Latin America – had a lower degree of trade openness than sub-Saharan Africa during the entire 1990–2012 period.

Even though import substitution is still relevant and by no means outdated, economies of scale are extremely important for exporting manufactured goods. Besides a few huge domestic markets in large economies, structural change towards manufacturing compellingly requires exports. Increasing exports is imperative for importing those goods and services that are indispensable for technology upgrading if a current account balance (or a contained deficit) is envisaged. The feat of a successful development strategy is to combine export promotion with import substitution without jeopardising the balance of payment equilibrium and without restricting necessary imports of sophisticated goods produced in advanced countries.

## F. Structural change: Towards industrialization or commodities and services?

Orthodox theories on growth and development do not care much for structural change and hence sector-specific policies. Market forces determine what is produced, whereby market-determined optimal allocation of resources should be aligned to static comparative advantage. This would guide developing countries towards the production of commodities and developed ones to manufactures and knowledge-intensive goods and services. Those who believe that this might corroborate underdevelopment will plea for policies for structural change towards *dynamic* comparative advantages, overcoming the confines of nature and the historic role of developing countries as latecomers.

Amazingly, most mainstream concepts bypass this issue. In East Asia, industrialization – understood here as manufacturing, excluding mining and construction – is strongly promoted by governments, whereas in sub-Saharan Africa it has hardly started, and in almost all Latin American countries value added in manufacturing as a share of GDP is shrinking after the high values achieved in the 1970s and early-1980s. In India, as the core of South Asia, the level reached by 1980 was maintained until the mid-1990s and shrank gradually thereafter.[1]

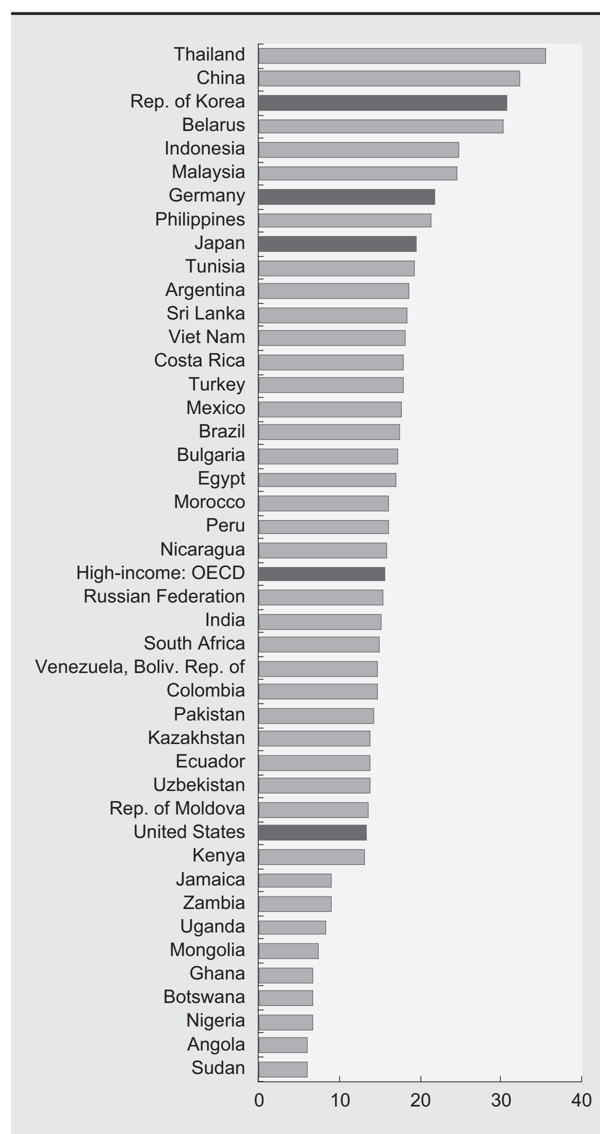
Despite a trend of deindustrialization in many developing countries, a quick look at the data shows that almost all middle-income countries, except oil exporters, have a higher share of manufacturing value added than most Organisation for Economic Co-operation and Development (OECD) high-income countries, which have a level of 15.7 per cent of GDP in 2010 (chart 3). In contrast to advanced OECD countries, the structural change regarding employment in middle-income countries has usually led directly from low-income agriculture, often subsistence farming, to low-income services, often petty trade and other petty services, with a small share of the high-value service sector, which is prevalent in OECD countries. With few exceptions, almost all rapidly growing economies have de facto embarked on industrialization. Therefore, calling developed countries industrialized in contrast to developing ones has long been outdated.

For a number of reasons, manufacturing has been key for development in economic history, for

***Chart 3***

**MANUFACTURING VALUE ADDED, SELECTED COUNTRIES, 2010**

*(Per cent of GDP)*




***Source:*** Author's calculations, based on World Bank, *World Development Indicators* database.
***Note:*** For comparison, the average of the high income OECD economies is also reported.

both now developed countries – only a handful of them developed with primary goods rather than industrialization, such as Canada, Australia and New Zealand (e.g. Taft Morris and Adelman, 1989) – and successful emerging economies after World War II. Manufacturing used to be the epicentre of applied technical progress in economic history: while inventions may be made in the service sector, product and process innovation pertain to mainly manufactured goods, whereas primary merchandise largely stems

*Table 3*

**COMPOSITION OF EXPORTS OF GOODS AND SERVICES, SELECTED COUNTRY GROUPS, 2013**

*(Per cent of total group exports)*

| | *East Asia* | *South Asia* | *Latin America and the Caribbean* | *Sub-Saharan Africa* | *High income OECD* |
|---|---|---|---|---|---|
| Merchandise goods | 89.2 | 68.2 | 88.0 | 83.0 | 77.7 |
| *of which:* | | | | | |
| Manufactured goods | 73.7 | 45.1 | 45.6 | 21.4 | 55.4 |
| Services | 10.6 | 31.4 | 10.7 | 11.0 | 23.5 |
| Errors[a] | 0.2 | 0.4 | 1.3 | 6.0 | -1.2 |

***Source:*** Author's calculations, based on World Bank, *World Development Indicators* database.
***a*** Data errors prevent that merchandise goods and services add to 100. All country groups, but the high-income OECD, only include low- and middle-income countries.

from nature-made resources, with technical progress in extraction or land use generated in either the service sector or manufacturing. Manufactured goods are tradables with increasing value added, based upon productive employment, while primary goods involve – if profitably sold – rents. Strong demand surges for primary goods, with supply constraints due to natural scarcity or long gestation periods, risk Dutch disease or even resource curse problems, which hamper manufacturing. The extent to which services can be rendered tradable is uncertain. For most LMICs, service exports have not increased above a ten percent share of total exports, with the exception of India (see table 3). Future developments may differ from history, but to date there is very little evidence that services can substitute manufactured exports on the road to economic development, apart from small countries that can live from niches in the world market.

The share of service exports has been on the rise in recent decades, having reached 23.5 per cent of all exports in high-income OECD countries, mainly driven by the United States. A great portion of these services pertains to either merchandise goods, such as transportation, or high-end knowledge, such as patents, trademarks or similar, where LMICs have a competitive disadvantage.

## II. Strategic concepts based on macroeconomic policies

In the strategic concepts sketched above, macroeconomic policies were only marginally mentioned. In general, the belief prevails that "sound money" for low inflation requires sovereign independent monetary policy, independent from monetary policy in advanced countries by having flexible exchange rate regimes. Strong swings in exchange rates have to be accepted. Since overly expansionary fiscal policy, and particularly monetized budget deficits, is seen as the main culprit for inflation, tight fiscal policy is advisable most of the time, since developing countries generally suffer from greater inflationary pressures than advanced economies. Free capital flows, especially for private equity flows, allow the financing of current account deficits. Structural adjustments are advised when the current account deficit becomes too great and if the competitiveness of enterprises is at risk due to overly high inflation or over-valued exchange rates. Free capital flows sanction fiscal profligacy and bad governance and reward the economy if the opposite prevails. Thus, the policy space for potential misbehaviour of governments is narrowed to the benefit of the country. Macroeconomic policy of this kind, mostly restrictive and geared towards priority for low inflation and a flexible exchange rate, is considered quite relevant in this view, although the long-run growth is determined by the private sector, first and foremost by the ability to make profits and

invest them profitably and innovatively to generate technical progress in the sense of technology transfer from more advanced countries. This is by and large the standard application of neoclassical thinking.

Keynesian thinking, blended with structuralist ideas borne in Latin America in the tradition of dependencia theories, believes that cyclical or chronic shortage of aggregate demand can influence medium- to long-run growth. Abundant labour is available and skills could be provided by concomitant policies. Representative for this macroeconomic view on development is Bresser-Pereira's "New Developmentalism" (e.g. Fundação Getulio Vargas, 2014; Bresser-Pereira, 2010) or similar macroeconomic views on development in Priewe and Herr (2005). Empirical evidence for the characteristics of the best growth performers in comparison can be found in the report of the Spence-Commission (Commission on Growth and Development, 2008), in line with the reasoning put forward here.

One of the main roots of underdevelopment is the low ranking of the local currency in the global currency hierarchy, led by the leading reserve currencies. Domestic money may not fulfil all of its functions properly, and particularly not the store of value and medium of credit function, while the rating of the currency and the respective domestic financial sector tends to be poor. Wealth owners have a higher propensity to hold part of their wealth in other currencies compared with advanced countries. By and large, the preference to hold financial wealth in liquidity or short-term assets is higher, which effectuates higher interest rates, even if the central bank policy rates are low. Poor collateral and risks of depreciation make long-term loans impossible or very dear. Hence, the virtuous cycle of money and credit creation, inducing investment and employment, aggregate demand and GDP growth, can be impeded. External credit in foreign currency can substitute weak domestic finance, although it generates "original sin", i.e. long-term exchange rate risks that can paralyse the use of the exchange rate to devalue if necessary for the balance of payments; hence, a fear of depreciation arises.

Furthermore, countries that wish to catch-up with advanced economies encounter balance-of-payments constraints, as they tend to have a faster growth of imports than exports (e.g. Thirlwall, 2011). In principle, this predicament can be overcome by a structural change of exports towards merchandise that is more income and price elastic and hence more competitive. However, this is a difficult and long process of innovation. Devaluations of the local currency may be contractionary in the short to medium term (see Krugman and Taylor, 1978; Blecker and Razmi, 2008). Even worse, not only might devaluations be difficult, but the currency might tend to be appreciated by natural resource price booms (Dutch disease) or similar capital inflow surges. As a result, many developing countries struggle with balance-of-payments constraints, which require containing current account deficits by tight fiscal policies.

Achieving competitiveness of trade might subsequently require reducing wages and other incomes relative to productivity, although this can weaken domestic demand and may drive people in partial subsistence or a working poor status with normally low productivity. Repressed wage increases and high unemployment or under-employment in the subsistence or informal sector, which are prevalent features in many developing countries at all stages of development, tend to keep domestic demand low.

Finally, in an open economy context, monetary, fiscal and exchange rate policies are less efficient than in most developed countries. The notion that expansionary monetary policy can function efficiently under flexible exchange rates, as stipulated by the standard Mundell-Fleming model, obfuscates that strong depreciation with massive capital outflows might follow, triggering inflation and an increased burden of external debt. Instead, the truth seems to be that monetary policy in most developing countries with an open capital account is strongly dependent on the policy rates of central banks of the leading currency areas (e.g. Priewe, 2015); moreover, specific country risk premiums have to be added to the external benchmark rates. Furthermore, the transmission of monetary policy to investment and aggregate demand might be much looser than in highly monetized advanced countries. Fiscal policy is facing a smaller fiscal multiplier in small and very open economies, as most developing economies are nowadays.

While macroeconomic policies seem to be less efficient and have no suitable substitute, developing countries tend to be more exposed to shocks. Commodity prices are more volatile, as are real exchange rates, and a lower degree of diversification of the economies makes them susceptible to sector-specific shocks. Last but not least, the push factors for capital inflows and outflows, depending on the whims

of risk appetite of global wealth owners, face them with boom-bust-cycles of external financial flows (Rey, 2013). Uncertainties seem to be much greater in developing countries compared to advanced ones, let alone political instability, poor governance, etc.

While Keynes envisaged the necessity to stabilize the fundamentally unstable advanced capitalist economies, mainly with monetary, fiscal and exchange rate polices, predominantly conducted by the central banks and the treasuries, besides multilateral governance, this need might be even more urgent in developing economies.

In contrast to the problems and disadvantages of developing countries in this regard, they are also privileged in many aspects compared to developed countries. The most important ones are the potential access to advanced knowledge and technologies – the “advantage of backwardness”, as Gerschenkron (1962) christened it long ago. Furthermore, even the salaries of people with equal skills as in developed countries are much lower and hence reflect a competitive edge, let alone unskilled workers. Revenues from abundant natural resources can help, beyond the shadows of Dutch disease, to kick-start productive development and finance infrastructure and other public goods, if used prudently.

The outcome of this brief analysis is that macroeconomic policies do matter for the short and long run, and hence for development strategies. Adverse macroeconomic conditions, especially the prices with macro impact like wages, interest and profit rates, exchange rates, as well as taxes, tariffs, fiscal deficits and public debt, depress growth and can hardly be offset by the utmost business-friendly policies as favoured by the neoliberal approaches to development.

The conclusion from this analysis is a package of seven policies (e.g. Priewe and Herr, 2005):[2]

- *Monetary and exchange rate policy*: to enable sovereign monetary policy geared to the needs of the country, a managed exchange rate regime with either permanent or occasional use of capital flow controls might be necessary, whereby the central bank should be committed to low inflation, as well as supporting growth with low real interest rates. This implies that the inflation control has to use either a nominal wage anchor or an exchange rate anchor. Occasional exchange rate adjustments must not be excluded. Low inflation is necessary for financial stability and contains unexpected inflation and uncertainty. Overly high inflation likely induces overshooting currency depreciations and possibly capital flight, whereby macro uncertainty rises and triggers interest rate hikes. A mild under-valuation of the real exchange rate can support net exports, if embedded in a set of other policies and multilaterally acceptable.

- *Fiscal policy*: some degree of counter-cyclical fiscal policy, including the usage of automatic stabilizers, would be conducive to support both inflation control and growth. Nonetheless, debt sustainability should be accomplished, predominantly with debt in local currency.

- *Balance-of-payments management*: the avoidance of current account deficits and ever-increasing net international debtor position is necessary. This may require capital inflow and outflow controls, or general import taxes, apart from orderly devaluations. Mild exchange rate under-valuation over a longer period can help to promote exports.

- *Financial sector development*: key for avoiding excessive external finance is the unfolding of local credit and – with lower priority – equity markets, preferably credit markets with long-term maturity for promoting fixed investment. A bank-based financial system with mildly repressed finance can be conducive to growth and structural change. This implies that the credit to GDP ratio as well as the broad money to GDP ratio rise in the process of development.

- *Industrial policy*: for the promotion of non-traditional tradables and import substitution, targeted industrial policy bound to the performance of enterprises should be conducted with a broad variety of tools. This should support structural change and alleviate pressures in the balance of payments. While industrial policy is rather of a micro and sector policy nature, since it is targeting economic growth and balance of payments equilibrium it is strongly intertwined with macroeconomic policies, similar to those regarding financial sector development.

- *Labour market policies*: wages should rise, on average, in line with increases in aggregate

*Table 4*

**DEVELOPING COUNTRY CHARACTERISTICS, SELECTED GROUPS BY ECONOMIC SIZE AND POPULATION, 2013**

*A. GDP*

| | *Number of countries*[a] | *Aggregate GDP as percentage of total developing countries' GDP* | *Aggregate GDP as percentage of world GDP* |
|---|---|---|---|
| Above $100 billion | 21 | 87.5 | 22.7 |
| $20–100 billion | 27 | 9.2 | 2.3 |
| $10–20 billion | 19 | 2.0 | 0.5 |
| Below $10 billion | 63 | 1.5 | 0.4 |
| All | 130 | 100.0 | 25.9 |

*B. Population*

| | *Number of countries*[a] | *Aggregate population (Billion)* | *Aggregate population (Percentage of developing country aggregate)* | *Aggregate population (Percentage of world aggregate)* |
|---|---|---|---|---|
| Above 50 million | 18 | 4.452 | 76.5 | 62.5 |
| 20–50 million | 26 | 0.820 | 14.1 | 11.5 |
| 10–20 million | 24 | 0.325 | 5.6 | 4.6 |
| Below 10 million | 71 | 0.221 | 3.8 | 3.1 |
| All | 139 | 5.818 | 100.0 | 81.7 |

***Source:*** Author's calculations, based on World Bank, *World Development Indicators* (*WDI*) database.
***Note:*** Developing countries refer to country with a GNI per capita up to $12,745.
***a*** Data refer only to the numbers of countries for which data are available in the *WDI* database.

productivity plus the target inflation rate to avoid price-wage-spirals. This is easier to implement with a centralised wage bargaining system, strongly in contrast to deregulated labour markets. Dynamic minimum wages and indexed salaries in the civil service can help to shape institutions for productivity-led wages.

- *Pro-poor income redistribution*: In countries with high income and wealth inequality, profits and rents are saved abroad to a greater extent (free capital outflows presumed), thus dampening domestic financial intermediation and aggregate demand. Redistribution policies could curb such leakages and channel purchasing power to lower income groups with a high propensity to consume; it helps to raise tax revenues to provide more public goods, and capital outflow controls could contain leakages and improve tax collection. This might increase domestic aggregate demand to a permanently higher level, thus supporting employment and growth and thereby changing the Kuznets curve.

As Asian countries have shown, policy space and an experimental, gradualist approach can help to optimise the package of policies. Macroeconomic policies play a stronger role in this concept compared to developed countries, although they are often more difficult to implement.

When checking the applicability of macroeconomic policy packages as outlined above, one has to bear in mind the small size of the majority of LMICs, measured in terms of both GDP and population (see table 4). 87 per cent of the GDP of those 130 LMICs listed by the WDI database for 2013 stems from only 21 countries. For example, rank 21 is held by Hungary with a GDP of 113 billion dollars, while India is ranked second and has a GDP half of Germany's, which ranks behind China; the latter has a size of one-third of the United States GDP. All LMICs' GDP together has the magnitude of the United States GDP. Regarding population, the size structure is similar, whereby only 18 LMICs have a population of 50 million and more, together comprising around 76 per cent of the populace of LMICs.

This size structure poses great differences for the choice of strategies, as independent macro policies are more difficult to apply in smaller countries. In these countries, probably only few macro policies out of the package are applicable, while industrial policy for strategic sectors becomes more important.

## III. Learning from success and failure – growth performance in the long run

While per capita GDP growth is certainly not a synonym for development, many development indicators such as life expectancy, absolute poverty, health, etc. require higher per capita GDP and hence GDP growth as a necessary yet not sufficient precondition. The well-known Human Development Indicator from the United Nations Development Programme, comprising GDP growth as well as other components, shows that the per capita GDP component and others strongly correlate (Priewe, 2015). Per capita GDP, counted in PPP dollars, might be, at first glance, the more appropriate measure for assessing real incomes,[3] although the data are not very reliable due to different consumption baskets; moreover, PPP-based income data only exist for few years, meaning that time series cannot sensibly be used. Therefore, in the following we use constant 2005 dollars to measure and compare incomes. We only consider rough performance indicators, due to space limitations. For more detailed analyses, see Priewe (2015).

Comparing annual per capita GDP growth, there are stunning differences between the main regions in the "South": sub-Saharan Africa grew on average by only 0.2 per cent per annum during the 1980–2012 period, with higher growth during 2000–2012 and negative growth in the lost 1980s and 1990s. Latin America accomplished overall 1.0 per cent growth during 1980–2012, in contrast to South Asia, mainly India, with 3.9 per cent and East Asia, driven by China and neighbouring countries, with 7.0 per cent (table 5). Growth acceleration in the 2000s in all regions, especially in Africa, was backed by improved barter terms of trade in many countries (e.g. *TDR 2013*: 50).

Comparing the per capita GDP growth ranking of 40 medium and large developing countries and transition economies (defined here as having a population above 20 million) shows that 11 countries grew more slowly from 1990 until 2013 than the OECD high-income country group, while 29 grew faster, most prominently China, Viet Nam and India (data are not available for five countries in this group) (see chart 4). Ranks 12 and after are occupied by Uganda and some other African countries, whereas Brazil, the Russian Federation and South Africa rank low while

***Table 5***

**AVERAGE ANNUAL GROWTH OF PER CAPITA GDP, SELECTED COUNTRY GROUPS, 1980–2013**

*(Per cent)*

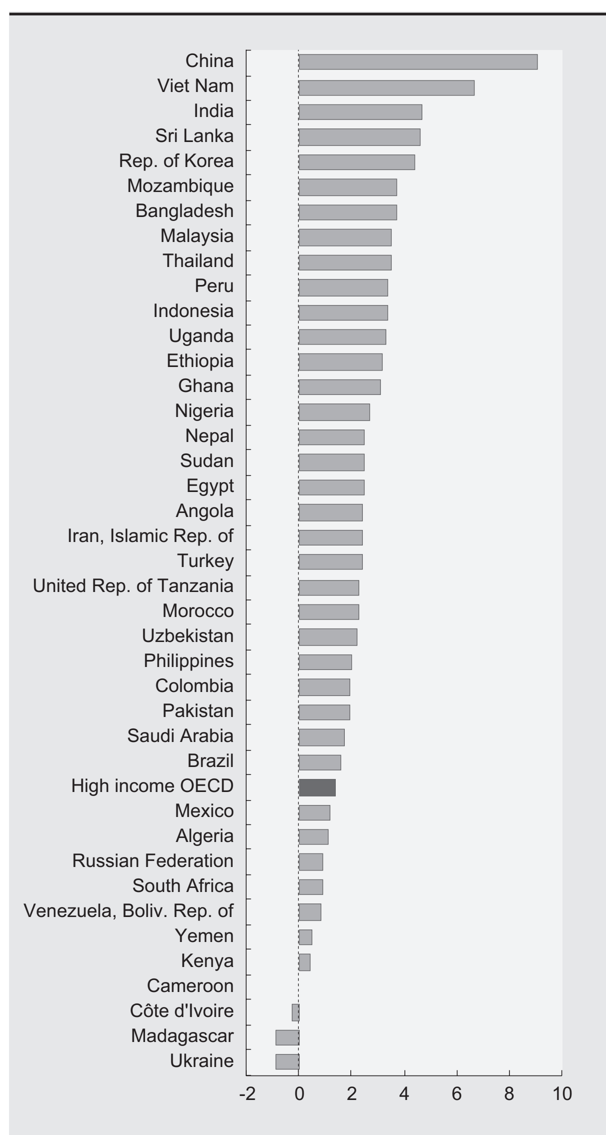
| | *1980–1990* | *1990–2000* | *2000–2013* | *1980–2013* | *1990–2013* |
|---|---|---|---|---|---|
| East Asia and Pacific | 6.0 | 6.7 | 7.9 | 7.0 | 7.4 |
| Europe and Central Asia | 1.9 | -0.7 | 3.8 | 1.9 | 1.8 |
| Latin America and the Caribbean | -0.7 | 1.4 | 1.9 | 1.0 | 1.7 |
| Sub-Saharan Africa | -1.3 | -0.7 | 2.2 | 0.2 | 0.9 |
| South Asia | 3.1 | 3.3 | 5.1 | 3.9 | 4.3 |
| Middle East and North Africa | -0.1 | 1.5 | 2.2 | 1.3 | 1.9 |

***Source:*** Author's calculations, based on World Bank, *World Development Indicators* database.
***Note:*** Data only include low- and middle-income countries, except for the world. Calculations are based on constant 2005 dollars.

***Chart 4***

**PER CAPITA GDP GROWTH, SELECTED MEDIUM AND LARGE DEVELOPING COUNTRIES AND TRANSITION ECONOMIES, 1990–2013**

*(Per cent of GDP)*



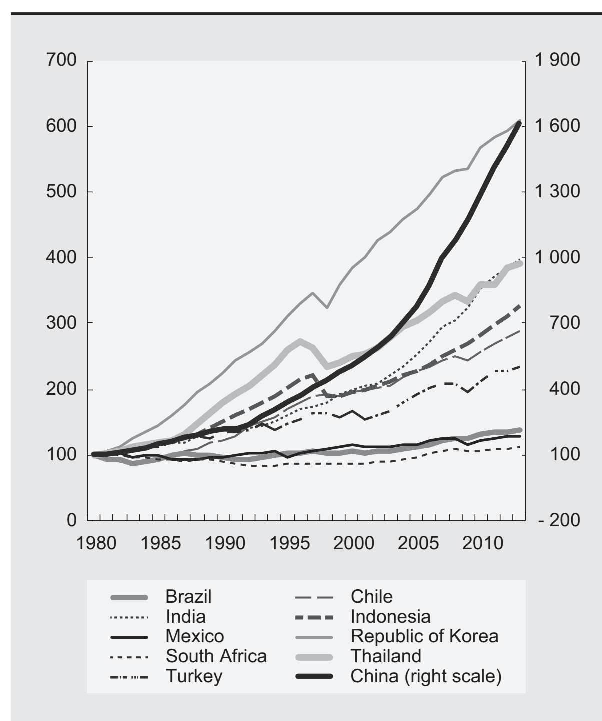

**Source:** Author's calculations, based on World Bank, *World Development Indicators* database.

**Note:** Medium and large developing countries refer to economies with more than 20 million people in 2013. The following medium and large developing countries are not reported because GDP per capita data for 2013 was available: Afghanistan, Argentina, Democratic Republic of the Congo, Iraq, Democratic People's Republic of Korea, Myanmar, and Syrian Arab Republic. For comparison, the average of the high income OECD economies is also reported.

***Chart 5***

**PER CAPITA GDP, SELECTED DEVELOPING ECONOMIES, 1980–2013**

*(Index numbers, 2000 = 100)*




**Source:** Author's calculations, based on World Bank, *World Development Indicators* database.

Mexico, the Bolivarian Republic of Venezuela and Kenya join the group of poor performers. It becomes evident that the top runner group mainly comprises Asian countries that more or less continuously performed well, whereas a few African countries only picked up after the turn of the millennium (e.g. Commission on Growth and Development, 2008).

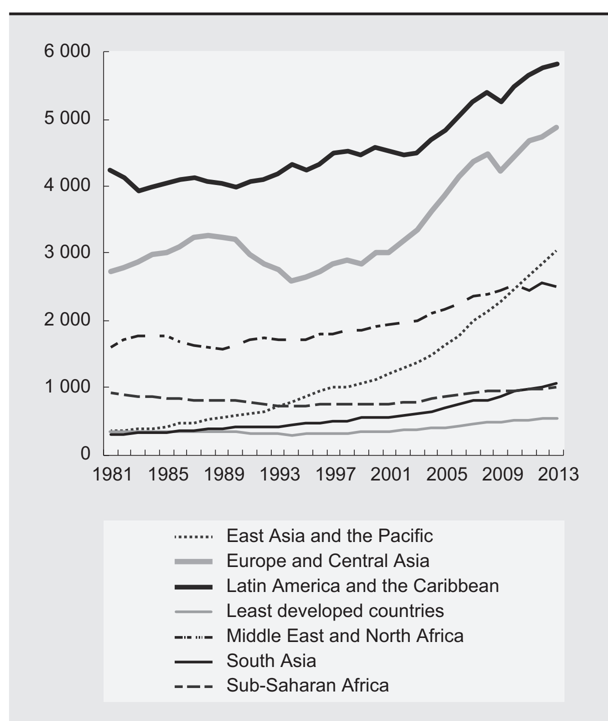
Looking at the long period from 1980 until 2013 for selected developing economies (chart 5), we see China's outstanding growth, clearly beating the Republic of Korea and all others. However, China follows a growth track similar to the Republic of Korea, Taiwan Province of China and Hong Kong (China), which started 10 to 20 years earlier. From this perspective, China has a speed similar to the first "Tiger" generation of catching-up countries in Asia. By contrast, Brazil, Mexico and South Africa have not gained so much since 1980. Here, we clearly see the diversity of growth and development. Success is not necessarily accomplished by maximising growth, but rather by continuous growth without severe and long-lasting setbacks.

Despite high growth in Asia, the *level* of per capita GDP achieved in Latin America is almost twice as high compared to East Asia, as well as six times higher than in sub-Saharan Africa (chart 6).[4]

*Chart 6*

**PER CAPITA GDP, SELECTED DEVELOPING REGIONS, 1981–2013**

*(Constant 2005 dollars)*




**Source:** Author's calculations, based on World Bank, *World Development Indicators* database.

*Table 6*

**DOMESTIC CREDIT PROVIDED BY THE FINANCIAL SECTOR, SELECTED COUNTRY GROUPS, 1990–2012**

*(Per cent of GDP)*

| | *1990* | *2000* | *2012* |
|---|---|---|---|
| East Asia and Pacific | 76.3 | 110.9 | 141.5 |
| Europe and Central Asia | 51.7[a] | 34.1 | 64.3 |
| Latin America and the Caribbean | 58.0 | 42.3 | 71.7 |
| Middle East and North Africa | 74.4 | 61.3 | 31.5[b] |
| Sub-Saharan Africa | 55.3 | 67.8 | 66.4 |
| South Asia | 47.6 | 48.4 | 71.1 |
| South Asia | 47.6 | 48.4 | 71.1 |
| High income OECD | 141.3 | 179.2 | 213.1 |

**Source:** Author's calculations, based on World Bank, *World Development Indicators* database.
**Note:** Data only include low- and middle-income countries, except for the high-income OECD group.
***a*** Data refer to 1992.
***b*** Data refer to 2010.

*Table 7*

**GROSS CAPITAL FORMATION IN LMICs, SELECTED COUNTRY GROUPS, 1990–2013**

*(Per cent of GDP)*

| | *1990–1999* | *2000–2013* |
|---|---|---|
| East Asia and Pacific | 36.7 | 38.9 |
| South Asia | 23.1 | 29.8 |
| Middle East and North Africa | 27.0 | 26.6 |
| Least developed countries | 19.4 | 23.3 |
| Europe and Central Asia | 23.7 | 22.0 |
| Latin America and the Caribbean | 19.5 | 20.2 |
| Sub-Saharan Africa | 16.4 | 18.4 |

**Source:** Author's calculations, based on World Bank, *World Development Indicators* database.
**Note:** Data only refer to the average of 153 low- and middle-income countries.

One of the basic reasons for higher growth in Asia is the degree of monetization of the economies, measured roughly by the domestic credit to GDP ratio (see table 6). Broad money and credit largely grow in tandem. In all regions analysed, credit picked up relative to GDP. In 2012 East Asia had reached the level of high-income OECD countries of 1990, although this may have driven their credit volume relative to GDP in some countries into an excessive dimension after 2000. The strong credit growth within a bank-centred financial system backed the financing of investment dynamics and thus avoided dependence on foreign finance.

Credit growth and fixed investment-to-GDP ratios (see tables 6 and 7) show the same hierarchy across regions. East Asia invested on average almost twice as much of GDP in fixed capital compared to sub-Saharan Africa and Latin America, and South Asia remarkably more so than the latter. This reflects the strong role of fixed investment for growth and embodied technical progress when complemented with human capital formation (e.g. Commission on Growth and Development, 2008).

The majority of developing countries, and especially the smaller and less developed ones, struggle with high current account deficits. Of the 153 LMICs listed in the World Economic Outlook Database from the IMF (2014), 113 faced current account deficits on average during the 2000–2013 period, whereby 70 countries (46 per cent of all LMICs listed) had deficits higher than 5 per cent of GDP and 22 up

to 5 per cent. The median deficit was -7.0 per cent of GDP, in most cases far beyond sustainability. 39 countries had surpluses, headed by top oil exporters. Despite conspicuously higher growth in the 2000s, the current account deficits were on average smaller in the 1990s, with a median deficit of 4.9 per cent and 124 countries in deficit. The reasons for the increased deficit in the 2000s are, among others, the increased imports dependent on higher growth, as well as higher energy prices.

Not all chronic current account deficits had dragged growth. Some countries still follow the *"growth cum debt"* strategy, which largely failed in so many countries, and especially in Latin America. A number of African countries have fared quite well regarding GDP growth in the last decade, with high inflows of foreign aid, partially spent more productively than in earlier periods, especially in Ethiopia and to a lesser extent in Uganda, with a rising investment-to-GDP ratio. However, their high growth does not seem sustainable unless they remain on the drip of donors and remittances from emigrants for long or even forever.

Our brief overview of a few key economic indicators unequivocally shows the distinct differences between Asian countries, despite all the differences between China, India and others on the one hand and sub-Saharan Africa and Latin America and the Caribbean on the other, and despite the latter's marked difference in the level of development. China is not as unique as it might appear, since the country sails in the same class as Japan, Hong Kong (China), Singapore, Taiwan Province of China and the Republic of Korea previously did. Within Latin America, Chile, a copper-heavy economy, striving with little success to overcome its monoculture, is the spearhead of enduring growth since the 1990s, while Brazil and Argentina accelerated in the 2000s, until growth petered out recently. Whether the few fast growing African economies can sustain their speed in the future is questionable, not least due to a huge backlog in industrialization and the fact that commodity prices will not rise forever.

In the rough picture that we have painted, we have neglected income distribution, among many other indicators. The high level of income and wealth inequality in Latin America has been somewhat reduced in the 2000s, whereas it strongly increased in many Asian countries, particularly in China, as well as in sub-Saharan Africa, facing commodity windfall profits; however, Asia comes from a much lower level of inequality than in Latin America whereas sub-Saharan Africa could reduce inequality until 1990 clearly below Latin America's level, apart from South Africa and Namibia (see *TDR 2012*: 51; data apply for unweighted averages in personal income distribution).

## IV. Conclusions

While few governments or policy-making elites have clear explicit development strategies, many have explicit or tacit ideas on the proper economic rationale for their future development, often provided by various economic advisers within and outside the country. Our short review of the original "Washington Consensus" and even more so the neoliberal interpretation that followed has shown that these visions are far too narrow, neglect important points, especially active macroeconomic policies, have no sound theoretical base or are rooted in abstract neoclassical thinking that does not stand up to the challenges of reality. The successful developing countries de facto do not follow this line and rank relatively poorly on the "Fraser Economic Freedom Index". Similar applies to the "good governance" approach to development; even if the indicators were clear and unbiased, they cannot be achieved quickly (and could not be in the history of now developed countries) and thus they are more a result of development rather than precondition. Moreover, many countries develop consummately in many aspects with low indicator values, even for corruption and rule of law. Nonetheless, the latter deserve strong ethical and distributional appreciation.

Regarding the old debates on inward or outward development, export orientation and import substitution do not show a black and white divide in either theory or reality; rather, countries have implemented

both. Indeed, it is the prudence of the mix that counts for growth and development. Export promotion in the often-propelled sense of export-led growth, with preferences for exporters regardless *what* is exported, is neither in line with the experience of advanced countries that seek systematically new comparative economic advantages, nor with the reality of successful emerging economies. At least for the larger developing countries, a thorough export orientation requires a strong commitment to industrialization, fully in line with the ideas of the pioneers of development economics. Almost all middle-income countries are nowadays more industrialized than high-income OECD countries; the latter have embarked more strongly on high-value services as inputs to industrial exporters or increasingly to direct high-value service exports. Developmental strategies primarily focusing on agricultural and mineral commodities may flourish in times of commodity price hikes, but hardly in the long run, and they are at risk to infection by Dutch disease, which over-appreciates the currency and hampers net exports of goods that are not subject to price booms. Hence, industrial policies are required to promote non-traditional exports and prudent import substitutions; moreover, a focus on few sectors is unavoidable for small economies, while macroeconomic policies are largely less efficiently applicable.

The orthodox development strategies neglect macroeconomic policies, as they narrow the latter to the goal of achieving price stability, mainly with tight monetary and fiscal policy. Instead, money, interest and exchange rates are not neutral for the growth of output and employment, neither in the short nor the long run. Strong dynamics of domestic aggregate demand matters and can be fired by growth-enhancing macroeconomic policies, not only for short-term stimulus to overcome recessions. Macroeconomic policies comprise a package of seven policies that can be blended according to the conditions and constraints in specific countries. This not only requires respective policies, but also focused institution building, for instance, for the management of the balance of payments, exchange rate management, wage bargaining or income redistribution, aside from establishing a central bank committed to more than price stability and capable of cooperating with other institutions.

The brief overview of basic macroeconomic performance indicators shows a distinct competitive advantage for East and South Asian countries, led by the giant economies of China and India. They strongly liberalized their economies in select areas in the past decades, but in a gradualist approach and in key aspects. They refrained from taking the full-fledged free-market-road of strong macroeconomic policies, maintaining capital inflow and outflow controls to some extent, as well as the usage of some kind of industrial policies. Financial sector development is a backbone for both economies, much more so in China compared to India, with the former having maintained State-ownership in commercial banking and a number of important sectors.

In sub-Saharan Africa and many Latin American economies, a higher degree of liberalising goods, labour and financial markets has taken place, with little success in the 1980s and 1990s but growth acceleration in the 2000s, mainly caused by commodity price booms that reversed the trend of terms of trade. In Africa, the hesitation to embark on industrialization beyond mining continues, while in Latin America deindustrialization has occurred since the early 1980s regarding manufacturing. The challenge of finding a development pattern with continuous growth, resilience to inflation and financial crises and growth enabling macroeconomic conditions, especially pertaining to competitive exchange rates and low real interest rates, is still awaiting a sound policy response.

The lessons that can be learnt from emerging Asian countries have not found a full echo in Latin America, let alone Africa. If both China and India as well as their neighbours embarked on full liberalization, they would most likely jeopardize the factors that have led them to where they are now. In particular, the Indian sub-continent seems to have reached a critical juncture.

Our tour d'horizon on development strategies has left out three increasingly important aspects that lie beyond this analysis, namely: the rising inequality of income and wealth, as well as the difficulties in reducing inequalities once they have reached high levels; environmental issues; and the necessity of more global governance in the face of rapidly increasing globalization of trade, finance, labour and pollution. Limited global governance makes developing countries very vulnerable to negative external shocks. They would be forced to limit their exposure to global markets when their policy space shrinks to an extent that render governments impotent in coping with the ensuing problems, while emerging democracies would be impeded.

## Notes

1 According to the WDI, for the 1960–2012 period, Argentina reached a peak – in terms of value added of manufacturing as a share of GDP – of 41 per cent in 1966, compared to 21.7 per cent in 2012. Brazil reached 34.0 per cent in 1982 compared to 13.3 per cent in 2012. Mexico reached 28.8 per cent in 1987, compared to 18.3 per cent in 2012. Chile reached 29.9 per cent in 1974, compared to 14.1 per cent in 2012. India reached 17.3 per cent in 1979 and stood at 13.5 per cent in 2012.

2 A similar approach regarding developed countries is used by Herr and Kazandziska (2011).

3 This notion could be questioned: lower prices of non-tradable goods and services imply lower income for their producers, regarding the purchase of tradables. These households often have to live, mostly partially, in subsistence.

4 Counted in current dollars, Latin America ranks first with $9,617, with Chile as the top runner, East Asia ranks second with $5,690, followed by sub-Saharan Africa with $1,701 and South Asia bringing up the rear with only $1,409, and the 49 least developed countries at $863. All the data refer to 2013 (World Bank, 2014).

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