Economic Theory and Policy amidst Global Discontent

Essays in Honour of Deepak Nayyar

Edited by

Ananya Ghosh Dastidar, Rajeev Malhotra and Vivek Suneja

ROUTLEDGE

SOUTH ASIA EDITION

14 Beyond *Catch Up*

Some speculations about the next twenty-five emerging economies

*Sudipto Mundle**

Deepak Nayyar's recent book *Catch Up* (Nayyar 2013) is a fascinating narrative of change, divergence and convergence between different regions of the world since the 16th century, and especially during the last 200 years. An economist's narrative, but written in a Braudel-like *long duree* perspective (Braudel 1973), the book belongs to the grand empirical tradition of Clark (1940); Kuznets (1966); and Chenery (1969). In the closing chapters of the book Nayyar has identified a group of fourteen countries that appear most significant for the process of 'catch up'. Then in the very last chapter he has identified another ten developing countries which could be following in the footsteps of the next fourteen, and also two 'least developed countries', Bangladesh and Tanzania. Included in this list of twenty-six countries is Taiwan, which is no longer recognised by the United Nations, and its partner institutions like the World Bank, as an independent country and therefore dropped from their published data sets. That leaves twenty-five developing countries, the Next Twenty-five, which Nayyar has identified as having the most potential for 'catching up' with the developed countries.

This chapter speculates about the prospects of these twenty-five countries by about the middle of the 21st century, that is over the next thirty-five years or so.[1] The first part of the chapter presents some elements of a theory of economic history that can frame the assessment of these prospects. The second presents the assessment based on the framework developed in the first part and the third concludes.

* Deepak Nayyar has had a long, distinguished career ranging from being Vice Chancellor of Delhi University and Chief Economic Adviser of the Indian government to publishing a remarkable book as an amateur photographer. However, his most enduring contribution is as a scholar, a leading heterodox economist whose reputation stretches well beyond India.

Elements of a theory of economic history

Forecasting and speculating about the future

The term 'speculation' is deliberately chosen rather than prediction or forecast to describe the assessments presented in this chapter. That is because a prediction or forecast is a probabilistic statement about the future, and the probabilities decline quite sharply for assessments that go beyond a year or two. So to describe the possible scenarios described here as forecasts would be pretentious.

In his book *A Theory of Economic History*, in which Hicks described as following in the footsteps of Marx rather than Toynbee, Hicks adopted a probabilistic or 'statistical' approach as he calls it (Hicks 1969). He explained that it may be possible to generalise analytically about some of the principal drivers of change in a group of societies or countries which may have some key features in common. Such a generalised model may reasonably account for the broad direction of change of the group as a whole. However, such a model would typically not be able to explain changes that may occur in a particular country. That is because those particular changes may have been driven by elements specific to that country which are not a part of the general model.

Clearly, if theories of economic history can only be applied in this probabilistic sense in interpreting the past, for which the facts are already known, it is that much more challenging to apply them for forecasting the future. Nayyar prudently limited himself to some general observations about emerging trends that may be important in determining the future. If we wish to imprudently push the envelope further, and attempt to assess the future prospects of individual countries in the Next Twenty-five group, then it is best to describe such assessments as speculations rather than forecasts.

While recognising that the goal here is to speculate rather than forecast, it is nevertheless important to ensure that as far as possible these speculations are based on facts rather than fantasy. And for that it is best to follow the procedural discipline of forecasting based on Bayesian probabilities (Silver 2012).

Initial conditions, path dependence and determinants of change

As Nayyar observes in *Catch Up*, nothing is pre-ordained about the development path of a country. At any given point of time, the legacy of a society's entire past history is reflected in its present conditions.

These present conditions are the initial conditions that lay down the boundaries of the possible, feasible paths for the future. Particularly important among these initial conditions are the endowments of resources, technical knowledge and institutions – the rules or conventions according to which a society is organised and conducts its affairs.

Which of the many feasible paths a country actually takes at each point of time, for each point can indeed be a turning point, will depend on the interaction among different elements of the initial conditions, in particular resource endowments, technical knowledge and institutions. To the dynamics of these interactions must be added unanticipated shocks, either positive or negative, that can suddenly shift the trajectory of a country, rather like a monsoon flood that can suddenly change the course of a river. We must also add to this the cumulative impact of incremental change. As chaos theory has taught us, the cumulative impact of small, imperceptible change can in fact lead to sudden, dramatic change or 'discontinuities' beyond a tipping point. Of these two sources of dramatic shift in a country's development path, future shocks will be unanticipated by definition. As for the cumulative impact of incremental change, to the extent that such incremental change is already present in the initial conditions, an alert observer needs to look out for possible signals of such change in the middle of all the noise.

The agrarian barrier to industrial growth

Setting aside the unanticipated sources of dramatic change, a theory of economic history needs to focus on the interactions between the three components of initial conditions identified earlier: Resource endowments, technical knowledge and institutions. It needs to indicate the broad path of development along which these interactions might drive a country. In a paper published over thirty years ago, I had used a model of economic history developed along these lines to illustrate how the history of industrialisation in different countries and regions of the world was crucially related to enabling changes in the agrarian barrier to industrial growth, the backward and forward linkages between agriculture and industry. The changes were in turn related to interactions between resources, technology and institutions in agriculture (Mundle 1985).

Agrarian systems were classified into three broad types, based on the relationship between two classes of people in agrarian societies, surplus producers and surplus appropriators:[2] Type A, in which surplus producers organise production but the productivity gains are captured

by a class of surplus appropriators; Type B, in which surplus appropriators organise production and also capture the productivity gains; and Type C, where surplus producers organise production and also capture the productivity gains.[3] These are ideal types. The real world would consist of combinations of these ideal types.

In other words, I had classified agrarian systems in terms of how well the prevailing institutions aligned technical capability and command over resources, for example, labour and capital in capitalist agriculture, with the incentive to innovate and raise productivity. Abstracting from other drivers of industrialisation, such as long-distance trade, Type A agrarian systems would trap countries in a vicious circle of stagnant agriculture and arrested industrialisation, for example, India before independence or the Second Serfdom in Russia and large parts of eastern Europe till the late 19th century. Type B agrarian systems would generate virtuous circles of capital-intensive technological innovation and rising productivity in agriculture and industrialisation, for example, England, Scotland and large parts of western Europe, because the surplus appropriators had strong incentives to invest much of the surplus in productivity enhancing investments. Type C agrarian systems would generate virtuous circles of labour-intensive technological innovations and rising productivity in agriculture along with industrialisation, for example, Japan post the Meiji Restoration.

Inclusive versus extractive institutions

Some of these elements have reappeared in a recent institutional theory of economic history that has become quite influential (Acemoglu and Robinson 2012). Acemoglu and Robinson recognise the role of interactions between technology, resource endowments and institutions, but identify institutions as the key drivers of change. They distinguish between inclusive and extractive institutions, and between economic and political institutions. Inclusive economic institutions ensure property rights, a level playing field among agents and a wide sharing of the fruits of growth, thereby providing the incentive for innovation, investment, skill development and a rapid rise to prosperity. Conversely, extractive institutions enable a small elite to extract all the fruits of growth at the cost of insecurity and deprivation of the majority, thereby suppressing or dampening the incentives for innovation, investment and skill formation. Such institutions are therefore associated with stagnation or slow growth.

Extractive political institutions, where a small elite monopolises political power, reinforce extractive economic institutions, which in

turn reinforce the elite's monopoly of political power, thereby perpetuating a vicious cycle of stagnation. Conversely, inclusive political institutions promote the emergence of inclusive economic institutions, thereby generating a virtuous circle of rising prosperity. So, of the many possible paths that are feasible for a given set of initial conditions, it is the prevailing nature of institutions that will determine which path a nation will follow.

Acemoglu and Robinson emphasise that theirs is not a deterministic theory of economic history. No nation's path is pre-ordained. They argue that world history has been generally characterised by the vicious circle of extractive institutions and stagnation as the norm. But when specific conjunctures and circumstances enabled a nation to break out of this negative symbiotic relationship, the nation could shift to a path of growth and prosperity driven by the virtuous circle of inclusive institutions. In this context the authors emphasise the key role of critical junctures in shifting nations from one path to another and also the accumulation of incremental changes, which they describe as institutional drift. By critical junctures, they mean transformative shocks to society, such as the 'black death' that greatly de-populated Europe, the political revolution that ended absolute monarchy in England, the rise of the Atlantic trade, etc. They point out that it is at such critical junctures that institutional drift can lead to divergent paths, as for instance between France and England.

Critical junctures and institutional drift are indeed powerful drivers of economic history. But these drivers do not necessarily have to go together. As was mentioned earlier, chaos theory tells us that the cumulative impact of incremental change, institutional drift, can on its own lead to dramatic change beyond a tipping point even without critical junctures. There is another, deeper, sense in which the Acemoglu-Robinson institutional theory of economic history needs an amendment in order to enhance its predictive power. The classification of all institutional arrangements into inclusive and extractive is possibly too broad to sufficiently discriminate between different paths of development.

By way of illustration, agrarian systems of Type A in my classification described previously would clearly be classified as stagnation inducing extractive institutions in the Acemoglu-Robinson theory, and my agrarian systems of Type C would be classified as growth promoting inclusive institutions in their theory. But what about the agrarian systems described as Type B, where a privileged class that controls production and appropriates the surplus also has the capacity, resources and incentives to invest in productivity-enhancing innovations and

growth in agriculture? Such systems can also promote industrialisation through the backward and forward linkages between the two sectors.

Do we have here a counter-example to their theory, where an extractive institutional set up generates a virtuous circle of growth, or should we describe systems such as capitalist farming as being inclusive? If we choose the latter, then we can no longer differentiate between, say, the large scale, capital intensive, capitalist farms in large parts of the USA, Europe, Australia, Argentina, etc. and the small, labour-intensive, owner-cultivated peasant farms that are typical in Japan and much of Asia. Yet, we know that the long-term dynamics of these different institutional systems, and their implications for industrial growth may be quite different.

Authoritarian systems of socialism present another awkward category. Such systems are unambiguously classified as extractive by Acemoglu and Robinson, but they invoke an auxiliary concept of centralisation to account for growth in such societies. If extractive institutions come along with a high degree of political centralisation, they argue, the political power elite can reinvest large volumes of the extracted savings to keep growth going for some time even in the absence of any inclusive sharing of the fruits of growth. Here, we see the tight link between extractive institutions and stagnation in their theory getting stretched to accommodate historical experience that is not compatible with the core theory.

Besides, what is the time horizon for the accommodation of such special cases? The fact that the Soviet Union did eventually collapse does not detract from the fact that this authoritarian system of extractive institutions grew dramatically over a period of seventy years. China, another authoritarian, socialist nation is still rising quite rapidly and now rivalling the USA. Acemoglu and Robinson predict that China's rise will not be sustained because of its extractive institutions. Chinese growth has indeed slowed in recent years. But it is still one of the fastest growing economies in the world, and is projected to surpass the size of the USA within a couple of decades, a projection that has not been seriously questioned. The Chinese case is discussed in further detail later.

The point of this discussion is to suggest that an institutional theory of economic history needs to be adequately nuanced. In particular, we need to recognise that certain types of extractive institutions may also be conducive to growth, and that in some nations extractive and inclusive institutions may co-exist. Acemoglu and Robinson recognise that extractive political institutions may co-exist with inclusive economic institutions in transitional periods, but maintain that under stable conditions the two sets of institutions will be aligned to each other.

However, the experience of rapid growth under authoritarian regimes in socialist countries and in East Asia in the latter half of the 20th century suggests that the co-existence of inclusive economic institutions and extractive political institutions may be sustained for decades. They cannot be explained away as merely transitional economic phenomena.

The discussion so far has equated development with growth. This is a very narrow definition of development compared to the concept of development as freedom proposed by Sen (1999). Incorporating his concept of the many varieties of freedom into Acemoglu and Robinson's institutional theory of economic history greatly enhances the predictive power of the theory. Sen points out that the connection between freedom of individual agency and social development is "influenced by economic opportunities, political liberties, social powers, and the enabling conditions of good health, basic education, and the encouragement and cultivation of initiatives", adding that "The institutional arrangements for these opportunities are also influenced by the exercise of people's freedoms, through the liberty to participate in social choice and in the making of public decisions that impel the progress of these opportunities".[4]

That is a very comprehensive description of the constitutive elements of inclusive economic and political institutions. Sen also adds that freedom of individual agency in one dimension contributes to strengthening free agency of other kinds, the sum of freedoms is greater than the parts, which echoes the synergy between inclusive economic and political institutions in Acemoglu and Robinson. However, there is no suggestion that freedom of individual agency can only exist if it exists simultaneously in all dimensions. In Sen's framework, it is conceivable that a society allows economic opportunities, provides basic education, good health care, etc. but not political freedom or the freedom to participate in social choice and the making of public decisions. In other words, the co-existence of inclusive economic institutions along with extractive political institutions is possible. I have cited several examples previously of such combinations producing high growth over fairly long periods of time.

Based on the foregoing discussion of actual historical experience, it is helpful to modify the Acemoglu and Robinson classification, allowing for four rather than two broadly defined types of economic and political institutions:

Inclusive–progressive
Inclusive–populist
Exclusive–progressive
Exclusive–extractive

Inclusive–progressive institutions, both economic and political, are those that are inclusive and at the same time committed to development. The *Inclusive–populist* institutions are those which are inclusive, but with the state deploying its resources for populist measures rather than development. Such institutions may be required for the survival of weak political elites in fractionalised polities. The opposite of inclusive institutions are exclusive institutions, both economic and political, that are narrowly elitist, possibly even authoritarian. If political economic conditions drive elites in such societies to be growth promoting, such institutional conjunctures can be described as *Exclusive–progressive*. On the other hand, when elites in exclusive institutions siphon off resources, and incentives are not aligned to promote growth, these institutions may be described as *Exclusive–extractive*. Clearly, the ideal composition would be to have both economic and political institutions that are inclusive and progressive. The worst possible combination would be to have political and economic institutions that are both exclusive and extractive.

The institutional theory of economic history, modified as to accommodate important experiences in the history of global development, provides us a framework with considerable predictive power for assessing the prospects of the Next Twenty-five, listed in Table 14.1 below.

The next twenty-five emerging economies

As a prelude to such assessment, it is important to recognise that size matters. There are a number of fundamental global challenges as well as opportunities facing all countries, including the twenty-five of interest to us. How a country responds to these challenges and opportunities depends on its internal conditions, technological capabilities and institutions. It also depends on a country's size. Large countries may exercise market power, and draw strength from their command over resources. These opportunities would not be available to small open economies. Some illustrations follow.

Globalisation is a major challenge and also an opportunity. Its impact on a country can be benevolent or malevolent, depending on how the country responds to it. The response will depend, among other factors, on the country's resource endowments, which is a function of its size. For example, a large country with a large, low-cost, manufacturing labour force can capture global markets, further strengthen its competitiveness and emerge as a global manufacturing hub. This is not an option for a small country.

Table 14.1 Selected indicators of the next twenty-five emerging economies

Country name	*GDP per capita (current US$), 2014*	*Population, total, 2014 (in million)*	*GDP at market prices (current US$ billion), 2014*	*Annual average GDP growth 2007 to 2014*	*Land area ('000 sq. km), 2015*	*Population density (people per sq. km of land area), 2014*	*Life expectancy at birth, total (years)*	*World population share, 2014 (percent)*
(0)	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)
World	10,739	7,259.69	77,960.61	1.66	129,736	55.96	71.5	100.00
Very large countries								
China	7,590	1,364.27	10,354.83	7.66	9,388	145.3	75.8	18.79
India	1,582	1,295.29	2,048.52	6.03	2,973	435.7	68.0	17.84
Very small countries*								
Tunisia	4,421	11.00	48.61	2.30	155	70.8	74.1	0.15
Honduras	2,435	7.96	19.39	2.40	112	71.2	73.1	0.11
Asia								
Korea, Rep.	27,970	50.42	1,410.38	2.76	97	517.3	82.2	0.69
Malaysia	11,307	29.90	338.10	3.99	329	91.0	74.7	0.41
Turkey	10,515	75.93	798.43	2.78	770	98.7	75.2	1.05
Thailand	5,977	67.73	404.82	2.50	511	132.6	74.4	0.93
Iran, Islamic Rep.	5,443	78.14	425.33	1.10	1,629	48.0	75.4	1.08
Indonesia	3,492	254.45	888.54	4.94	1,812	140.5	68.9	3.51
Philippines	2,873	99.14	284.78	4.52	298	332.5	68.3	1.37
Vietnam	2,052	90.73	186.20	5.03	310	292.6	75.6	1.25
Bangladesh	1,087	159.08	172.89	5.19	130	1,222.1	71.6	2.19

(*Continued*)

Table 14.1 (Continued)

Country name	*GDP per capita (current US$), 2014*	*Population, total, 2014 (in million)*	*GDP at market prices (current US$ billion), 2014*	*Annual average GDP growth 2007 to 2014*	*Land area ('000 sq. km), 2015*	*Population density (people per sq. km of land area), 2014*	*Life expectancy at birth, total (years)*	*World population share, 2014 (percent)*
Africa								
South Africa	6,484	54.00	350.14	1.72	1,213	44.5	57.2	0.74
Egypt, Arab Rep.	3,366	89.58	301.50	3.14	995	90.0	71.1	1.23
Nigeria	3,203	177.48	568.51	5.21	911	194.9	52.8	2.44
Kenya	1,358	44.86	60.94	4.17	569	78.8	61.6	0.62
Tanzania	955	51.82	48.06	5.55	886	58.5	64.9	0.71
Latin America								
Chile	14,528	17.76	258.06	3.15	744	23.9	81.5	0.24
Venezuela, RB**	12,772	30.69	381.29	0.90	882	34.8	74.2	0.42
Argentina	12,510	42.98	537.66	3.08	2,737	15.7	76.2	0.59
Brazil	11,727	206.08	2,416.64	2.65	8,358	24.7	74.4	2.84
Mexico	10,326	125.39	1,294.69	1.64	1,944	64.5	76.7	1.73
Colombia	7,904	47.79	377.74	3.64	1,110	43.1	74.0	0.66
Ecuador	6,346	15.90	100.92	3.99	248	64.0	75.9	0.22

Source: World Development Indicators (weblink: http://data.worldbank.org/indicator), retrieved on 02–06–2016

* Countries with less than 15 million population (0.2 percent of global population)

** Data are for 2012; except population, land area and life expectancy at birth data, which are for 2014.

Global warming and the energy crisis is another example. There are few sceptics who still question the link between global warming and the growing consumption of fossil fuels. At the same time, with costs declining in alternative technologies, the world may be at the cusp of a switch to an altogether different energy paradigm based on renewables. It is a critical juncture. Whether or not a country grasps this great market opportunity will depend, among other things, on its command over resources, and that is a function of its size.

Much the same can be said about the water crisis. With the needs of many countries running ahead of the availability of fresh water, it is a major global challenge today. At the same time, desalination technologies exist for converting abundant saline water from the oceans into potable fresh water. Costs are still very high but declining. Among those countries that have the technological capability and incentives to turn this challenge into a major market opportunity, only those would succeed that have the necessary scale and command over resources.

A fourth and final example of paradigmatic change is the emergence of microchip-based technologies that have revolutionised products, production techniques and communications across the world. There are vast new opportunities unfolding as a consequence of this great disruptive change. The size of countries, their internal markets and their command over resources, including labour, capital and knowledge, will be key determinants of the winners and losers in this Schumpeterian gale of creative destruction.

Since size matters, the set of twenty-five countries have been classified into three broad groups in the following discussion. First, there are the two very large countries with populations exceeding a billion each: China and India. At the other end, using a cut-off of fifteen million population size, approximately one-fifth of one percentage point of the global population, we have two very small countries, Honduras and Tunisia. In assessing the prospects of the remaining twenty-one countries, the discussion is focused on comparing the countries in Asia with those in Africa and Latin America. It addresses the question of why the 'catch up' process seems to be working quite powerfully in Asia, particularly East Asia, but not in the other two regions.

China and India: Two very large countries

China and India are often bracketed together mainly because of their large size. No other country has a population size even remotely close to the 1.3 billion people in each of these two countries. The per capita income in both countries is quite low, much more so in India than in

China. Yet both are among the largest economies in the world when their low per capita income is multiplied by their large populations. This large economic size gives them command over vast domestic resources, a great deal of market power and consequent geo-political influence. These similarities notwithstanding, it is really the differences between them that are more relevant in speculating about their future paths.

It is fascinating that the pendulum of economic power, which swung away from these two giant countries at the beginning of the second millennium, is again swinging back in their direction after a thousand years. Around the year 1000, China and India accounted for about half of global GDP, and also about half of the global population (Nayyar 2013). That situation began to change from the 15th century, gradually at first and then at a rapid pace during the 19th and 20th centuries. Even as recently as in 1820, the two countries still accounted for about half of global GDP, and about 57 percent of world population. But by 1950, their combined share declined to only 9 percent of global GDP, while they still accounted for about a third of global population. Since then, their relative decline has been arrested and both countries are again on the ascendant, especially China. Both are now among the largest economies in the world. In PPP (purchasing power parity) terms China is already the largest and India the third largest.

The Second World War also marked the end of the period of global colonialism. Several newly independent countries, including China and India, embarked on a new era of development from the 1950s onwards. At the time both per capita income and overall economic size were about the same in the two countries. They were not much different even at the beginning of the 1980s. But following the launch of its liberalisation reforms, starting in 1979, China has left India far behind. This is despite the fact that India also launched its liberalisation programme in 1991. It is astonishing that in a little over thirty years, China's per capita income (US$7,500 in 2014) has risen to five times that of India (US$1,582 in 2014), and the Chinese economy is also five times the size of India.[5] What accounts for the vastly different performance in the two countries? An answer to that question is quite critical for an assessment of their future prospects.

One reason, possibly the primary reason, is that the two countries have very different institutional structures. In our terminology China's political institutions are exclusive, allowing no political freedom for the vast majority of its citizens, but they are progressive. The state is deeply committed to development. And its economic institutions are inclusive. Particularly in the years following the socialist revolution,

the Chinese state has deployed vast resources in enabling widely dispersed social freedoms, in particular improvement of education and health services, along with different rounds of egalitarian land reforms and infrastructure development.

India's political institutions are inclusive. It is remarkable, perhaps even unique among developing countries, that a robust system of parliamentary democracy has flourished for over sixty years, with a free and vocal press, the toleration of dissent as a right, and so forth. The state is also committed to development. In our terminology, India's political institutions are inclusive and progressive. It's economic institutions, on the other hand, are exclusive.[6] Unlike China, India did not experience a cathartic, but equalising, socialist revolution. As a result the inclusive political institution of democracy came to rest on a deeply unequal and extractive socio-economic system, the caste system, reified over millennia. The challenge to this entrenched system is relatively recent. It started with anti-caste movements in the southern states in the early 20th century, and then spread to the north more recently. This entrenched exclusion is still reflected, as many authors have noted, in India's abysmal neglect of human development, especially basic education and basic health care. That has greatly compromised both human development as well as growth in India.[7] Moreover, India could not introduce egalitarian land reforms except in a few states.

A consequence of China's inclusive economic system and human development, especially mass education, was the availability of a huge educated workforce. This workforce could be readily harnessed and trained as skilled industrial workers as China's relentless growth over three decades transformed it into the manufacturing hub of the world by the end of the 20th century. In contrast, despite fairly high growth for over two decades, India has faced the paradox of a large surplus labour and low-labour productivity alongside the severe scarcity of a skilled workforce.

A second reason for the difference in growth performance between China and India is the difference in quality of governance and service delivery. The Chinese command and control system, though exclusive and authoritarian, is effective in both reforming and implementing policies. In contrast, as Vijay Joshi points out in his recent book, policy making and implementation in India is hobbled by three major constraints: 'Collective action gridlock', deficits in state competence and accountability and crony capitalism.[8]

Looking to the future, will China continue to soar to the top, as predicted by Arvind Subramanian (2011), or will both China and India regress towards mean global growth as predicted by Pritchett

and Summers (2013)? They have argued that three decades of high growth experienced by China and India is very unusual and that both countries are likely to slow down. Both countries have indeed slowed down significantly compared to the growth rates they recorded during the first decade of the 21st century (Mundle 2015a). Is this a secular trend, a one-time adjustment or a temporary phenomenon?

China's long period of high growth was led by exports and high public investment. It is now attempting a shift to growth led by domestic consumption along with public investment. This adjustment may partly account for the recent slowdown. The investment pillar of this new growth strategy seems quite robust (Mundle 2016a). However, even the reduced 'new normal' growth target of 6.5 percent will require sustained productivity growth. As Mody (2015) suggests, that will in turn require substantial institutional reform away from what is still a state-led economy, weighed down by zombie firms and zombie banks, towards a more market-oriented system. The new consumption pillar of growth will also require an incomes policy that substantially ratchets up the purchasing power of the working class, particularly unorganised sector workers. Such reforms would become a critical juncture if they were to happen. An even more far-reaching critical juncture could arise when China's inclusive economic institutions, and in particular its growing and increasingly affluent middle class (Silverstein et al. 2012), collide against the restrictions of an authoritarian regime that lacks political legitimacy. Bardhan and many others regard this as the greatest challenge for China's future growth.

In India, the situation is quite the reverse. The political institutions are relatively inclusive. But the economic institutions are exclusive and highly unequal, excluding large segments of the population from decent basic education and health care, among other deprivations. The prospects of high growth in the future will depend on whether or not the economic institutions get better aligned with India's inclusive political institutions.[9] Whether such a critical juncture will occur is difficult to foresee. However, there are some signals of a possible institutional drift towards more inclusive economic institutions.

Political power in India has become much more decentralised in recent years, as several regional parties with charismatic leaders have emerged as major players in India's federal political system. Such decentralisation has been nudged forward with greater fiscal empowerment of state governments by successive Finance Commissions, especially the 14th Finance Commission. Moreover, these regional political parties are beginning to compete on the basis of performance alongside traditional identity politics. Growth and social development as well as

public spending on infrastructure, education and health are beginning to emerge as important factors in political competition.

Honduras and Tunisia: Two very small countries

Honduras and Tunisia are the two smallest countries in the Group of Twenty-five. For the large countries, interaction with globalisation is a two-way process. They influence the process of globalisation, just as globalisation influences them. For the small countries, the causality runs entirely one way. Outcomes in these countries are largely determined by the tides of global political and economic developments that reach their shores.

In some ways Honduras and Tunisia are very similar. Both have small populations of less than fifteen million. Both are growing at very modest rates of just over 2 percent, and both have fairly high life expectancy of over seventy-three and seventy-four years, respectively (Table 14.1). Their economic structures are also very similar, with services accounting for around 60 percent of GDP, and agriculture for around 10 percent only, with mining, manufacturing, utilities and construction accounting for the balance (Table 14.2). However, per capita income in Tunisia at $4,421 in 2014 was almost double that of $2,435 in Honduras. This difference in standards of living is attributable to their different histories and their present location in the global geo-political economic system.

Honduras was 'discovered' and colonised by Spain at the beginning of the 16th century like much of Latin America. It remained a part of the Spanish colonial system of surplus extraction till the early 19th century, when it declared independence with the ebbing of Spanish power, first as part of a Central American federation, then on its own. Like the rest of the region, it was increasingly drawn into the US sphere of influence, formalised in its occupation by US marines in 1900. It has remained a part of the US backyard since then, with bases in the country for the US war on drugs. Occasionally, there have been tensions with neighbours. But it is a member of the Organisation of American States, and in 2006 joined the US-led North American Free Trade Agreement. One of the poorest countries in the region, it exports bananas, coffee and other agricultural products, sea food, beef and some gold and other minerals. However, the major businesses are largely owned by US companies such as United Fruit Company and Standard Fruit Company, and the economy is heavily dependent on foreign aid. Honduras is literally a classic case of what is sometimes described as a 'banana republic', characterised by exclusive economic and political institutions.

Table 14.2 Structure of production in the next twenty-five emerging economies, 2014

Country name	*Agriculture, hunting, forestry, fishing (ISIC A-B) (percent of GDP)*	*Mining, manufacturing, utilities (ISIC C-E)(percent of GDP)*	*of which:*	*Construction (ISIC F) (percent of GDP)*	*Services (ISIC G-P) (percent of GDP)*	*Exports of goods and services (percent of GDP)*	*Imports of goods and services (percent of GDP)*	*Net exports of goods and services (percent of GDP)*
			Manufacturing (ISIC D) (percent of GDP)					
(0)	(1)	(2)	(2.a)	(3)	(4)	(5)	(6)	(7) = (5)–(6)
World						29.7	29.49	0.22
Very large countries								
China	9.39	35.58	28.08	6.99	47.30	22.6	18.92	3.70
India	15.66	20.24	15.82	7.40	48.79	23.2	25.51	–2.33
Very small countries*								
Tunisia	9.01	23.48	15.47	4.57	59.36	44.6	55.38	–10.75
Honduras	12.69	18.99	17.03	5.27	60.73	46.9	65.74	–18.87
Asia								
Korea, Rep.	2.14	30.36	27.62	4.51	54.19	50.6	45.31	5.34
Malaysia	9.06	36.16	23.95	4.37	49.29	73.8	64.61	9.24
Turkey	7.13	19.56	15.83	4.56	57.72	27.7	32.18	–4.45
Thailand	10.48	34.29	27.72	2.55	52.67	69.2	62.59	6.60
Iran, Islamic Rep.	7.54	33.46	11.68	8.89	51.82	24.2	18.89	5.27
Indonesia	13.38	31.99	21.02	9.88	42.25	23.7	24.48	–0.75
Philippines	11.32	24.79	20.52	6.44	57.51	28.7	32.39	–3.73
Vietnam	18.12	33.17	17.46	5.33	43.38	86.4	83.13	3.28
Bangladesh	15.35	19.55	16.61	6.76	53.64	19.0	25.52	–6.53

Africa								
South Africa	2.23	22.77	11.91	3.66	61.02	31.3	33.11	−1.86
Egypt, Arab Rep.	13.85	33.76	15.72	4.45	43.58	14.4	22.98	−8.54
Nigeria	19.99	21.11	9.64	3.54	54.15	18.4	12.54	5.90
Kenya	27.33	12.63	10.03	4.85	47.96	16.4	33.88	−17.48
Tanzania	28.91	10.50	5.60	12.46	41.04	19.5	29.89	−10.41
Latin America								
Chile	3.05	24.84	11.29	7.26	56.21	33.8	32.29	1.48
Venezuela, RB**	4.98	38.18	12.57	8.00	43.87	24.8	29.51	−4.75
Argentina	6.91	19.22	12.26	5.06	53.07	14.8	14.49	0.29
Brazil	4.75	14.80	9.33	5.21	60.71	11.2	33.46	−1.07
Mexico	3.13	28.55	16.74	7.14	55.94	32.4	13.92	−2.73
Colombia	5.76	23.69	11.24	9.38	51.66	16.0	21.44	−5.40
Ecuador	8.72	26.23	13.83	11.13	49.47	28.6	30.11	−1.54

Source: Column (1), (2), (2.a), (3), (4) are from UN STAT database

(weblink: http://unstats.un.org/unsd/snaama/dnllist.asp) and Col. (5) & (6) from World Development Indicators (weblink: http://data.worldbank.org/indicator), retrieved on 02–06–2016

* Countries with less than fifteen million population.

** Export and Import data in Venezuela, RB are for 2013.

Tunisia's antecedents are very different. Originally settled by the Phoenicians in the 12th century BCE, it had an ancient civilisation and its city state of Carthage once dominated the entire western Mediterranean region. Present-day Tunisia was integrated into the Ottoman Empire in the 16th century, then occupied by France in the 19th century. It remained a French protectorate till 1956, when it became an independent republic. However, the first free and fair election in fifty years was held only in 2011. Before that Tunisia was ruled by two strong men. Bourguiba ruled till 1987, then Ben Ali till 2011, allegedly through repeated re-election in rigged elections.

While their monopoly of power and corruption provoked angry opposition, the continuity and stability also enabled Tunisia to develop a diversified economy, with strong trade links to countries in Europe. Rain fed agriculture supports 50 percent of the work force but contributes only 10 percent of GDP. Services, especially tourism, oil and gas, mining of phosphates and other minerals and light manufactures account for the rest. Oil, minerals, chemicals, textiles, olive oil and other agricultural produce are the major exports; France, Italy, Spain, Germany and Libya are the major trading partners. The 2011 elections were a turning point, with a moderate Islamic party coming to power, heading a centre-left ruling coalition; Sunni Muslims account for the bulk of the population. Rising Islamic fundamentalism remains a major threat, with sometimes tourists being targeted to damage the economy. But while Islam is recognised as the national religion, the ruling coalition and the new constitution adopted in 2014 are secular and progressive.

To summarise, Tunisia's institutions have long antecedents and are by and large inclusive and progressive, though facing serious risks from religious fundamentalists. If that threat can be managed, Tunisia could cross a threshold of, say, US$10,000 at current prices and approach the present living standards of Turkey or Malaysia by the middle of this century. In contrast Honduras, which is still locked into an exclusive and extractive institutional nexus, may reach a threshold of say US$5,000 at current prices, more or less comparable to the average standard of living in Thailand today.

Comparing Asia, Africa and Latin America

Figure 14.1 presents a scatter diagram plotting the recent average growth rates of the 'Next Twenty-five' group of countries against their per capita incomes. There is a distinct inverse relationship between per capita income and growth, as shown by the fitted regression line. It is

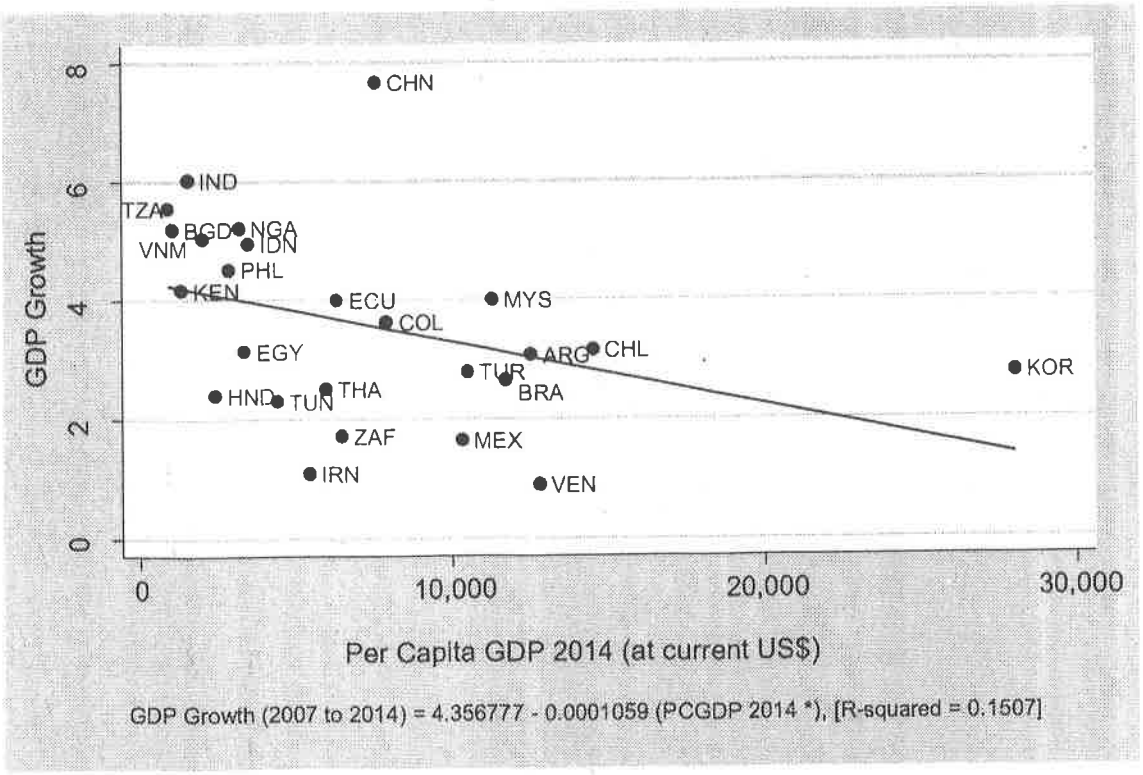

Figure 14.1 GDP growth 2007 to 2014 and per capita GDP 2014

Source: World Development Indicators (weblink: http://data.worldbank.org/indicator), retrieved on 02-06-2016

Note: * Implies statistical significance at 10 percent level.

Country Code: ARG-Argentina, BGD-Bangladesh, BRA-Brazil, CHL-Chile, CHN-China, COL-Colombia, ECU-Ecuador, EGY-Egypt, Arab Rep., HND-Honduras, IND-India, IDN-Indonesia, IRN-Iran, Islamic Rep., KEN-Kenya, KOR-Korea, Rep., MYS-Malaysia, MEX-Mexico, NGA-Nigeria, PHL-Philippines, ZAF-South Africa, TZA-Tanzania, THA-Thailand, TUN-Tunisia, TUR-Turkey, VEN-Venezuela RB, VNM-Vietnam

tempting to interpret this as an illustration of the Pritchett-Summers hypothesis of regression to mean. However, that would be misleading since none of the countries in the group barring South Korea have reached advanced country (OECD) levels of per capita income. What the figure shows, along with Table 14.1, is a bunching of most Asian and African countries, including those with relatively high growth rates of around 4 percent to 5 percent, at low per capita income levels of between $2,000 and $6,000. In contrast the Latin American countries are bunched at a higher per capita income range of around $10,000 to $15,000 along with lower rates of growth. In other words, we have high growth in several low per capita income countries of Asia and Africa and low growth in the middle income countries of Latin America – the middle income trap.

Asia

The end of the colonial era around the middle of the 20th century was a critical juncture in most Asian countries. New institutional arrangements emerged in these newly independent countries ruled by new national governments. Like China and India discussed earlier, most Asian countries moved to a path of high economic growth. The exceptions to this pattern are South Korea, Turkey, Thailand and Iran (Table 14.1). South Korea is now an advanced country, a member of the OECD group. After three decades of very high growth, the Pritchett-Summers process of regression to mean has kicked in. Turkey, with per capita income of over $10,000 and aspiring to join the European Union, has been impacted for decades by conflicts in the Middle East. The same applies to Iran, which was under US-led sanctions for many years. Both countries are yet to emerge from this abnormal period of economic growth. The case of Thailand is interesting and is discussed further later.

Setting aside the outliers, the hallmark of the Asian development path of the late 20th century, particularly in East and Southeast Asia, was high growth combined with inclusion, as highlighted in the World Bank's widely cited report on the East Asian Miracle (World Bank 1993). Country-specific variations apart, the core institutional model was the same as that seen earlier in the case of China, namely, inclusive economic institutions combined with exclusive but progressive, growth-oriented, political institutions. These political institutions were either authoritarian dictatorships, as in East Asian countries like South Korea and Taiwan or communist countries like Vietnam and China, where political power was monopolised by a monolithic communist party.

In this institutional model the fruits of growth were widely shared through strong emphasis on human development, basic education and health care, along with infrastructure. Sometimes these human development programmes were combined with egalitarian land reforms or programmes of income transfer to poor households. As explained in the context of China, the focus on basic education and health were not only ends in themselves but also laid the foundation for a skilled but low-cost industrial workforce that became the competitive backbone of east Asia's rapid export-led growth once the forces of market competition and open trade regimes were allowed to work. On the question of market forces, the authoritarian regimes essentially followed a pragmatic approach. While the market mechanism was increasingly relied on, the regimes did not hesitate to pursue a 'picking winners'

type industrial policy and other support mechanisms if they helped to push manufacturing growth. Among the two socialist Asian countries, market-oriented reforms were initiated in China from 1979, and in Vietnam the *Doi Moi* liberalisation programme started ten years later in 1989.

The main challenge in this institutional model, as we saw in the case of China, is the mismatch between inclusive economic institutions and extractive political institutions. In some cases, as in South Korea, the authoritarian regime itself initiated the transition to more inclusive political institutions as rising incomes and the emergence of an articulate, self-conscious, middle-class generated political demands for such reform. Malaysia, where per capita income has crossed $11,000 and growth remains high, will most likely reach advanced country standards by the middle of the century and will need to follow South Korea in making its political institutions more inclusive. In other cases, like Vietnam, political power has remained the exclusive domain of the Communist Party (Fforde and De Vylder 1996). Thailand is a case where demands for political liberalisation, arising in the wake of rising incomes and the emergence of the middle class, have been suppressed by successive military dictatorships. This has disrupted the growth model and a secular slowdown of growth has followed (Phongpaichit and Baker 1997).

Looking to the future, those countries which successfully introduce inclusive political institutions better aligned with their inclusive economic institutions are likely to sustain or raise their rates of growth. By the middle of the 21st century, they will have doubled or even tripled their per capita incomes. In those countries which fail to make this alignment between inclusive economic and political institutions, growth will decelerate, eventually leading to rising tensions and political strife.

Africa

The Asian paradigm outlined previously is a useful benchmark for assessing the prospects of countries from Africa and Latin America in the Next Twenty-five group. For the countries in Africa, the basic institutional model is one of exclusive-extractive economic institutions, usually combined with similarly exclusive-extractive political institutions. There are of course country-specific variations around this basic model. In countries where the variations are towards more inclusion, their future prospects are also more optimistic. In countries

where the variations are more deeply extractive, future prospects will remain gloomy. Some remarks relating to specific countries follow.

Nigeria is the largest, most populous economy in Africa, with a GDP of around $570 billion and a population of over 177 million persons. Its average growth of over 5 percent per year is entirely due to Nigeria's large reserves of oil, which accounts for virtually all its export incomes and also the revenues of the government. However, oil is also the biggest curse for its people, who remain desperately poor with 75 percent of them surviving on subsistence agriculture. It is telling that the expectancy of life in Nigeria, at less than fifty-three years, is the lowest among all the countries in the Group of Twenty-five. Nigeria's political and economic institutions are deeply extractive, with a narrow self-serving elite focused on extracting all the profits flowing from oil. As a consequence, it is almost a failed state, collapsing under the onslaught of rebels in the Niger delta and the ruthless Boko Haram Islamic fundamentalists. The latter started out in the North, but now seem to be spreading throughout the country. Nigeria's prospects for the future are quite bleak.

South Africa, the second largest economy in Africa, is generally seen as the most promising among all the countries of Africa. Under Dutch and later British colonial rule since the 17th century, South Africa remained an agricultural economy till the discovery of diamonds and gold at the beginning of the 19th century. It then soon became one of the world's largest producers of these precious products. During the 20th century the country diversified into manufacturing, then services, which now accounts for over 60 percent of GDP. Both before and after the discovery of precious minerals, the white immigrant ruling elite practiced a ruthless 'apartheid' system of racial segregation to exploit the indigenous population.

Politically and formally apartheid was finally abolished with a peaceful transition to democracy, as Nelson Mandela became President in 1994. Despite this transition to a more inclusive political system, South Africa has regressed under Mandela's successors, and the old exclusive-extractive economic institutions have survived. The white minority population still controls much of South Africa's mines and industries, while indigenous black workers make up 75 percent of the workforce. They are badly paid and working conditions remain very poor. Not surprisingly, though per capita income in South Africa is the highest among the African countries at about $6,500, life expectancy is the second lowest after Nigeria at 57.2 years. The future prospects of the country depend largely on whether or not it experiences a critical juncture that replaces the present extractive economic institutions by those that are more inclusive.

Egypt is the third largest economy in Africa, and the second highest in per capita income. It embarked on a state-led, self-reliant path of industrialisation in the early 1950s. Though a third of the workforce is still dependent on agriculture, Egypt has a well-diversified industrial base of mining, manufacturing and construction that accounts for about 40 percent of its GDP, with another 44 percent coming from services (Table 14.2). Market-oriented reforms were introduced in 1990s, when the weaknesses of the earlier model surfaced. But Egypt continues to grow at a modest pace of around 3 percent.

This is presumably because Egypt's institutions are authoritarian and exclusive, varying from progressive to extractive at different points of time. Egypt has remained under authoritarian military rule for over sixty years, despite the brief flowering of the pro-democracy movement in Tahrir Square in 2011. Its resources and attention are diverted towards combating the rise of Islamic fundamentalism and the continuing tensions of the Middle East. Absent any major political development that shifts the country to a more inclusive, non-authoritarian system, Egypt can be expected to continue along its modest growth path.

The two neighbouring countries of Tanzania and Kenya in East Africa are both largely agrarian, with much of the population surviving on subsistence agriculture and animal husbandry. Some mining and light industries in agro-processing and consumer goods have also developed. The two were under German and British colonial control in different periods since the 19th century, though Kenya had been originally colonised by Portugal in the 16th century. Both became independent in the 1960s. However, while Tanzania enjoyed two decades of stable rule under Julius Nyerère, who also established inclusive economic institutions, Kenya struggled under turbulent, and often corrupt, civilian rule. As a consequence, its institutions are neither strong nor inclusive. Future prospects depend on how effectively the two countries can promote capitalist development based on inclusive institutions (Sender and Smith 1986). Both countries are growing at 4 to 5 percent per year at present. However, given its stronger institutional legacy, Tanzania has the better prospect of doubling or tripling its per capita income by the middle of the 21st century.

Latin America

In Latin America also, as in Africa, the specific conditions of individual countries can be described as variations around a core model of extractive economic institutions, often reinforced by extractive

political institutions, that is common to all the countries. This institutional model also explains why these countries found it difficult to keep growing beyond middle-income levels to catch up with the levels of income in the advanced countries.

The Latin American countries were colonised during the 16th century, mostly by Spain. The exception was Brazil, the largest country (accounting for half the South American continent), which was colonised by Portugal. Extractive economic institutions, reinforced by similar political institutions, were employed to extract vast surpluses in gold and other precious metals, agriculture and livestock over the next 300 years (Gunder Frank 1970; Furtado 1976; Acemoglu and Robinson 2012). This colonial system of surplus extraction ended with the Napoleonic wars and the decline of the Iberian powers early in the 19th century. Following political independence, power shifted to elected rulers who sometimes replaced self-appointed local monarchs. However, the elected rulers were frequently overthrown by authoritarian military dictatorships on grounds of corruption or misrule. Sometimes they themselves became quite authoritarian, for example, Peron in Argentina.

In the economic sphere there followed a whole century of development as these countries became integrated into the new globalised economic system that evolved following the industrial revolution in Britain. In the new international division of labour, the Latin American countries became exporters of raw materials in exchange for manufactures from the metropolitan hubs of world capitalism, first Britain and later the USA, which also controlled the global financial and transportation systems (Furtado 1976).

Different Latin American countries were integrated in different ways into the global system. Some became specialised as suppliers of meat and other temperate climate agricultural products, others specialised in the supply of tropical agricultural products, yet other countries specialised in the supply of mineral products (Furtado 1976). Each country therefore became heavily dependent on the vagaries of international trade in its commodity of specialisation. These variations notwithstanding, the economic institutions in all the countries came to be characterised by a two-tier structure of extraction. Internally surplus is extracted by a narrow elite: The owners of the latifundia (huge landholdings of thousands of hectares), the mine owners or the urban bourgeoisie in the port cities who control the trade. However, these economies are closely controlled by foreign capital, mostly US corporations that extract a large share of the surplus externally. Sometimes the same multinational corporation owns the land, plantations or mines and also controls trade.

Despite the establishment of this centre-periphery structure of surplus extraction, the half century or so since the late 19th century was also the period of rising Latin American prosperity. Incomes rose steadily in the periphery, with correlated advancement in education, health and other social indicators. The middle-income status of these countries evident today is largely attributable to this long period of stable growth (Furtado 1976). The system was broken by the two world wars, and more importantly the great depression of 1929, when the global demand for the particular products in which these countries had narrowly specialised collapsed. With their global links disrupted, the countries of Latin America moved towards a path of import substitution–based industrialisation, often led by the state. However, inadequacy of the home market undermined those efforts, bringing down their pace of growth.

The failure of import substitution strategies to revive growth underlined the importance of inclusive economic institutions and shared prosperity for a home market–based model of growth. However, the abortive attempts at import substitution did succeed in creating a diversified industrial base in several of these countries. During the past half century or so, these Latin American countries have been attempting to reintegrate with the global economy, drawing on the strength of this diversified industrial base in addition to their traditional comparative advantage in primary products. This has been challenging since the global economy has become a moving target, itself getting restructured. Also, high wages in these middle income Latin American countries have made them uncompetitive vis-à-vis their Asian competitors in many industries and services. Apart from these general remarks about the Latin American experience, a few observations about some specific countries are in order to give a more nuanced picture of that experience.

The case of Brazil is especially interesting because it is not only the largest but also the most representative of the Latin American pattern of growth. Initially integrated into the centre-periphery structure based on exports of coffee from its southern estates, Brazil led the switch to an import substitution–based growth strategy when export led growth collapsed in the early 20th century. The new strategy was driven by the state, which had set up a modern steel industry during World War II, and followed up with a major infrastructure development program in the 1950s. The establishment of Petrobras, following the discovery of oil, gave a spurt to this industrially diversified growth effort. However, in the absence of inclusive economic institutions, the effort soon ran out of steam. This was mainly due to inadequacy of

domestic demand, a consequence of poor wages and low purchasing power of the working class in a labour surplus economy according to Furtado (1976). Brazil came to be seen as the classic case of a failed model of growth based on the consumption of the rich.

Following a succession of military coups since the mid-sixties, civilian rule was re-established in Brazil with the election of Cardoso in 1985. Despite his attempts at fiscal prudence and market-oriented reforms, Brazil soon ran into a major debt crisis, requiring a massive IMF rescue package of $30 billion in 2002. Brazil's approach shifted radically towards inclusive growth with the election of Lula de Silva, Brazil's first working-class president. Lula pursued a strategy of fiscal prudence combined with pro-poor policies, a large increase in minimum wages and the famous Bolsa Familia conditional cash transfer program that lifted a fifth of Brazil's population out of poverty. Though he was highly popular, constitutional limits required Lula to hand over power after two terms to his trusted chief of staff Dilma Rouseff. She was impeached for a corruption scam in Petrobas in early 2016 and had to resign. Now Lula himself is being charged. While resigning, Rouseff stated that her removal was in fact a *coup d'etat*.

Argentina is interesting because, unlike Brazil and much of Latin America, it is (along with Uruguay) a case of growth under conditions of labour scarcity. Like Australia and New Zealand, it was integrated into the 19th-century global economy as the supplier of temperate agricultural products, grain and meat. It had vast, open grazing lands in the Pampas, but little labour. Hence, production and exports were heavily dependent on high wage immigrants from Europe. Though some industries have developed in agro-processing and consumer goods, Argentina remains one of the world's main exporters of meat and grain. It is the classic example of the Latin American *Latifundia* agrarian system. The estate owners and the trading bourgeoisie constitute the narrow elite which has continued to dominate Argentina, mostly through a succession of ruthless dictatorships, whether civilian or military. The country is yet to make a transition to more inclusive economic and political institutions.

While all countries in Latin America are strongly influenced by US economic and political interests, the Mexican case is particularly interesting because of its close proximity to the USA. It demonstrates both the disadvantages as well as advantages of that proximity.

The home of the ancient Mayan and Aztec civilizations, Mexico once included the US states of California, Texas, Nevada, Utah and large parts of Arizona, New Mexico, Wyoming and Colorado. Following the collapse of the Spanish empire, these territories were ceded

to the USA either in war or through treaties, for example, the Treaty of Guadalope Hidalgo (1848). There have been contentious issues between the USA and Mexico, as also other Latin American countries, over the control of oil. While foreign capital is now barred from this sector, US corporates remain a dominant force in other sectors of the Mexican economy and can influence policy to serve their interests. Mexico is also, unfortunately, a source and transit route for drugs flowing into the USA, and has suffered for decades on that account.

On the positive side, Mexico has also benefitted from the large inflow of US capital and technology, and free access to its vast market as a member of NAFTA since 1994. There is large-scale migration of labour from Mexico, a labour surplus country, to the USA. Also, when fiscal profligacy has led Mexico to debt crises, as for instance after the collapse of oil prices in 1986 and again in 1995, the USA provided massive assistance, either bilaterally or through multilaterals like the IMF, World Bank and Inter-American Development Bank.

Venezuela is an interesting case as a small country with massive deposits of a valuable resource. It has one of the world's largest known deposits of oil. However, it also reveals the fragility of a country dependent on the export of a single commodity. Mostly ruled by military strongmen or corrupt civilians following the end of colonial rule, Venezuela experienced a critical juncture with the election of Hugo Chavez in 1998. A popular leftist leader, Chavez attempted to pull Venezuela out of US domination and initiated inclusive policies as Lula had done in Brazil. However, his efforts were fiscally profligate, mainly predicated on revenues from oil, and could not be sustained following the collapse of oil prices. Now his authoritarian successor Maduro has destroyed the inclusive economic and political institutions Chavez had nurtured, thereby plunging Venezuela into a chaotic abyss.

Finally, there is Chile, which is perhaps the only Latin American country that has enjoyed the benefits of relatively inclusive economic institutions. Chile's record was sullied by the military coup and murder of Allende in 1973, followed by fifteen years of brutal dictatorship under Pinochet. However, Chile has actually had a long democratic tradition going back to the end of colonial rule in 1833. Chile was integrated into the global economy based on the supply of copper, and it was the struggle over control of this raw material that brought down the Allende government (Furtado 1976). Nevertheless, successive elected governments had nudged Chile towards diversified industrialisation from the early 20th century, with a consequent dampened effect of copper export shocks. These governments also invested in

education and health, rather like the states in East Asia. As a consequence Chile has the highest per capita income among all the middle-income countries of Latin America at around $15,000, and the highest life expectancy at over eighty-one years (Table 14.1). Among the group of Next Twenty-five, Chile has a per capita income and life expectancy that is second only to South Korea, which is already a developed country. There is a high probability that by the middle of the 21st century, Chile too will have become a developed country.

Conclusions

This chapter has tried to speculate about the future prospects of the Group of Twenty-five countries that Nayyar had identified in *Catch Up* as having the potential to achieve developed country living standards. The speculation has been based on a theory of economic history which attributes causal primacy to economic and political institutions. The chapter has also addressed the question of why the catch up process clearly visible in many countries of Asia is not much in evidence in Africa and Latin America. It turns out that sustained high growth in Asia is being driven by the existence of inclusive economic institutions. By the same token, the absence of 'catch up' in most countries of Africa and Latin America is attributable to the prevalence of exclusive-extractive economic institutions, usually combined with similar political institutions. The chapter suggests that inclusive economic institutions can co-exist with exclusive political institutions during the period of catch up. However, in the long run, the latter will have to be reformed as rising prosperity and the emergence of a middle class raises the demand for inclusive political institutions.

Notes

1 The list is adopted from Nayyar (2013) without further scrutiny of why certain countries were included in the list and not some others. It includes, for instance, South Korea, which is already a developed country. On the other hand it excludes all former CIS countries, some of which could reach developed country status by the middle of this century.
2 'Surplus' was defined as the residual of production over and above the share going as consumption necessary for subsistence of the actual producers, for example, slaves in a slave society, serfs in feudal societies or wage labourers in a capitalist system of production. These producers would by definition also be the producers of the surplus. The slave owners, feudal lords or capitalist employers would be the surplus appropriators.
3 For an alternative typology, see Senghaas (1985).
4 Sen (1999) page 5.

5 Those who make much of India's growth rate slightly exceeding that of China during the past two years should remember that a 1 percent growth in China adds as much volume of additional output in absolute terms as 5 percent growth in India.
6 Comparisons that suggest inequality in China is higher and rising faster than in India can be quite misleading (Mundle 2015b). After factoring in differences in levels of education and health and asset distribution, including egalitarian land reforms in China, Bardhan (2015) concludes that inequality is higher in India compared to China. See also Acharya and Mehrotra (2017).
7 For a comparative assessment of human development in China and India, see Sen (1999) and Bardhan (2011) among others. On the elitist bias of India's education policy, see Mundle (2016b). For recent discussions of the adverse impact of poor human development in India on manufacturing growth and employment, see Institute of Human Development (2016); Acharya (2016); and Ninan (2015).
8 For detailed discussions of each of these three constraints, see Bardhan (2011, 2015) and Ninan (2015).
9 For a recent paper contrasting the experiences of selected countries in East Asia and South Asia from a similar perspective, see Acharya and Mehrotra (2017).

Bibliography

Acemoglu, D. and J.A. Robinson (2012), *Why Nations Fail*, Crown Publishers, USA.

Acharya, S. (2016), Why India Won't Grow at 8% Plus, *Business Standard*, 8 June, 2016.

Acharya, S. and S. Mehrotra (2017), Planning for Human Development: Lessons from the Asian Experience, *Indian Journal of Human Development (forthcoming)*.

Bardhan, P. (2011), *Awakening Giants, Feet of Clay: Assessing the Economic Rise of China and India*, Princeton University Press, NJ.

Bardhan, P. (2015), *Globalisation, Democracy and Corruption*, Front Page, London and Kolkata.

Braudel, F. (1973), *Capitalism and Material Life 1400–1800*, Harper and Row, New York.

Chenery, H.B. (1969), *The Process of Industrialisation*, Economic Development Report no. 146., Project for Quantitative Research in Economic Development, Center for International Affairs, Harvard University, Cambridge, MA.

Clark, C. (1940), *The Conditions of Economic Progress*, Macmillan, London.

Fforde, A. and S. de Vylder (1996), *From Plan to Market: The Economic Transition of Vietnam*, Westview Press, Boulder.

Furtado, C. (1976), *Economic Development of Latin America*, 2nd Edition, Cambridge University Press, Cambridge, UK.

Gunder Frank, A. (1970), *Capitalism and Underdevelopment in Latin America*, Penguin Books, Hammondsworth, UK.

Hicks, J. (1969), *A Theory of Economic History*, Oxford University Press, London.

Institute of Human Development (2016), *India Employment Report: India's Employment Challenge and the Imperatives of Manufacturing Led Growth*, Oxford University Press, New Delhi.

Joshi, V. (2016), *India's Long Road: The Search for Prosperity*, Penguin Books, London.

Kuznets, S. (1966), *Modern Economic Growth: Rate, Structure and Spread*, Yale University Press, New Haven.

Mody, A. (2015), When Crisis Comes Home, *Indian Express*, 27 August, 2015.

Mundle, S. (1985), The Agrarian Barrier to Industrial Growth, *Journal of Development Studies*, vol. 22 No. 1, pp. 49–80.

Mundle, S. (2015a), The Tortoise and the Hare, *Mint*, 18 September, 2015.

Mundle, S. (2015b), Inequality and Growth, *Mint*, 23 October, 2015.

Mundle, S. (2016a), Reflections on a Short Passage Through China, *Mint*, 15 July, 2016.

Mundle, S. (2016b), Employment, Education and the State, Radha Kamal memorial lecture delivered at the 58th Annual Conference of the Indian Society of Labour Economics, Guwahati, 24 November, 2016.

Nayyar, D. (2013), *Catch Up*, Oxford University Press, Oxford.

Ninan, T.N. (2015), *The Turn of the Tortoise: The Challenges and Promises of India's Future*, Penguin Books, London.

Phongpaichit, P. and C. Baker (1997), *Thailand: Economy and Politics*, Oxford University Press, Oxford.

Pritchett, L. and L. Summers (2013), *Asiaphoria Meets Regression to Mean*, National Bureau of Economic Research Working Paper no. 20573.

Sen, A. (1999), *Development as Freedom*, Oxford University Press, Oxford.

Sender, J. and S. Smith (1986), *The Development of Capitalism in Africa*, Methuen and Co., London.

Senghaas, D. (1985), *The European Experience: A Historical Critique of Development Theory*, Berg Pub Ltd.

Silver, N. (2012), *The Signal and the Noise: The Art and Science of Prediction*, Penguin Books, London.

Silverstein, M.J., A. Singhi, C. Liao and D. Michael (2012), *The $10 Trillion Prize: Captivating the Newly Affluent in China and India*, Harvard Business Review Press, Boston.

Subramanian, A. (2011), *Eclipse: Living in the Shadow of China's Economic Dominance*, Peter G. Peterson Institute, Washington.

Tolnai, G. (1960), *The Growth of Big Industry and Domestic Market in the Third World*, Akademiai Kiado, Budapest.

World Bank (1993), *The East Asian Miracle: Economic Growth and Public Policy*, Oxford University Press, Oxford.