

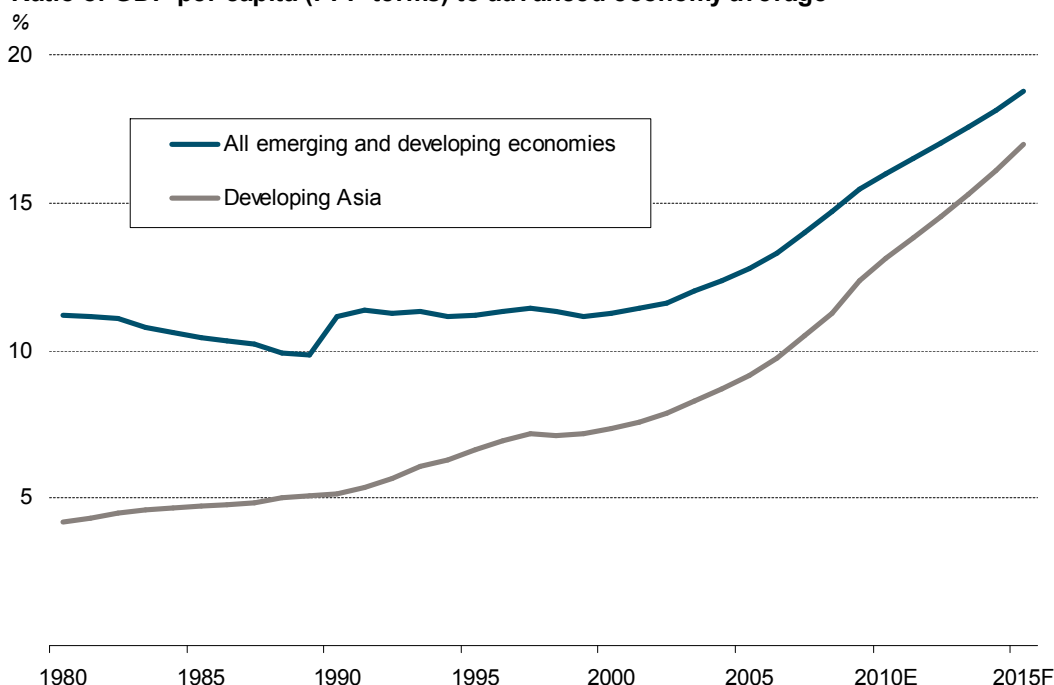


## THE GREAT CONVERGENCE

*The onset of rapid catch-up growth in the developing world is an historic development with the potential to reshape the world economy in fundamental ways*

Beginning around the turn of the millennium, developing economies have opened up a substantial gap over developed economies in terms of economic growth.<sup>1</sup> This sustained period of growth outperformance has delivered a degree of convergence in living standards between the developing and developed world. At the start of the 1980s, the average level of GDP per capita in developed and emerging economies measured in purchasing power parity (PPP) terms was only eleven per cent of that in the advanced economies. By 1990, that ratio was little changed, and this was still the case by 2000. But by 2009 it had increased to about 15%, and on the latest IMF forecast will have risen to almost 19% by 2015.

**Ratio of GDP per capita (PPP terms) to advanced economy average**



Source: Calculations on data from International Monetary Fund, *World Economic Outlook Database October 2010*. (2010)

The catch-up performance of the economies of Developing Asia – led by China – is even more impressive. In 1980, average GDP per capita was just four per cent of



the advanced country average: by 1990, it was five per cent; by 2000 it was seven per cent, and by last year it had climbed to more than 12 per cent.

When looked at in an historical context, these signs that the – admittedly still extremely large – gap in income per head is now in the process of being narrowed make for a striking development. Not least because, until quite recently, the big picture of relative living standards in the developed and developing worlds was one of ‘divergence, big time’.<sup>2</sup> This divergence in living standards reflected quite different patterns in the long-run economic performance of the two groups of countries compared to those prevailing today:

- The advanced economies had reached that status thanks to long-run growth rates that were rapid by previous historical standards, and which had produced a degree of convergence in incomes per head *within* the group of rich economies.
- But the rest of the world had seen economic growth lag behind, producing substantial divergence in relative living standards.

The divergence in economic performance between developed and developing economies is one of the defining features of world economic history.

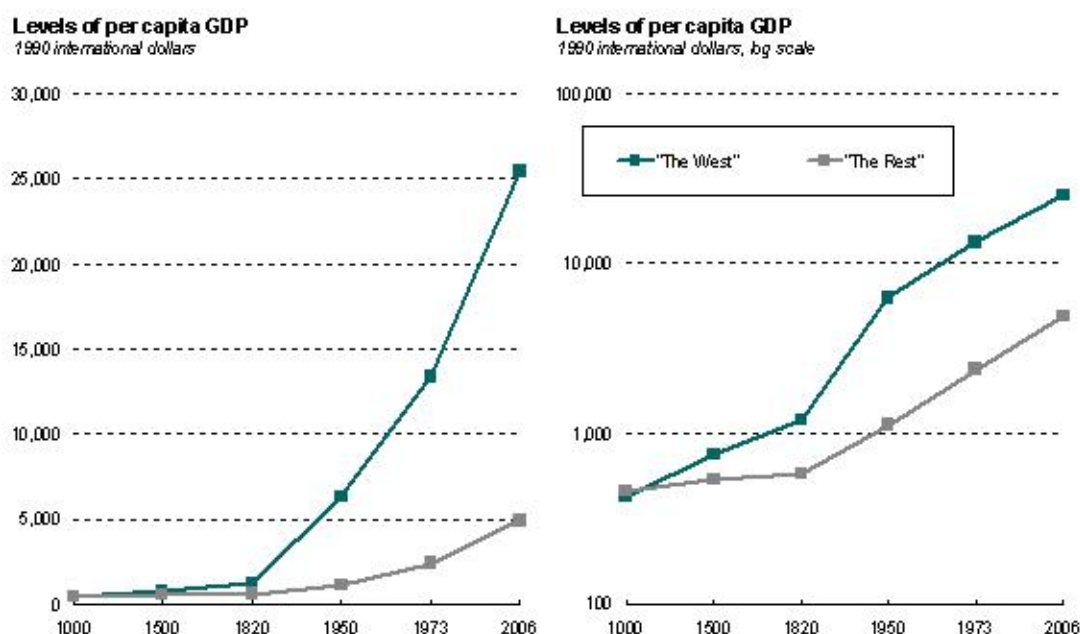
To see this, think for a moment about the big picture – the long-term sweep of economic history as applied over centuries, rather than decades. One narrative of the long-term trajectory of the world economy was provided in a recent book by economic historian Gregory Clark.<sup>3</sup> In *A Farewell to Alms*, Clark highlights the two big developments that have helped transform the world economy.<sup>4</sup>

- First, the onset of the Industrial Revolution in Northern Europe around 1800, which triggered the onset of what Simon Kuznets famously labelled as modern economic growth (that is, sustained and rapid growth in real output per head).<sup>5</sup> This allowed a small but growing number of economies to break free from the so-called Malthusian trap, which had left average world income per head close to flat-lining for century after century.
- Second, the opening up of a huge gap in living standards between those economies that experienced the onset of modern economic growth, and those that got left behind.

Kenneth Pomeranz, writing about the differential performance of the Northern European and Chinese economies, coined the term *Great Divergence* to capture the gap that opened up between the two.<sup>6</sup> For Pomeranz, there was little to choose between Western Europe and China up until around the start of the nineteenth century; indeed, on many counts he reckoned Chinese performance looked the



better of the two. But the fact that the West ‘got’ modern economic growth and China didn’t, made for very different subsequent trajectories.



Source: based on data from Maddison, *The West and the Rest in the world economy: 1000-2030. Maddissonian and Malthusian interpretations.* (2008)

Of course, there is significant debate over the details. The late Angus Maddison, for example, didn’t buy the thesis that the pre-nineteenth century world economy was locked in a Malthusian trap.<sup>7</sup> While agreeing that the advance in per capita income before then took place at little more than a ‘slow crawl’, in his view the earlier period still brought economic progress, particularly in the countries that have now become the rich world (what Maddison calls the ‘West’ as distinct from the ‘Rest’): on his numbers, between 1000 and 1820 income per capita in the West rose almost threefold.

Similarly, in Maddison’s view the roots of the Great Divergence predate the 1800s. For the period 1000 to 1820, Maddison estimated that income per capita in the ‘Rest’ only rose by a quarter compared to his estimated tripling of income per head in the West. Citing among other factors the much higher level of urbanisation, the smaller proportion of the population employed in agriculture, and higher life expectancies, Maddison argued that, contra-Pomeranz, Western European income per head was already more than twice that of China’s by 1820.<sup>8</sup>

Still, while there is disagreement over the details and the timing, it’s hard to disagree with the magnitude of the consequences of these events. There seems to be little doubt that the onset of modern economic growth marked a massive point of inflection



for the world economy. Rapid and sustained increases in per capita wealth transformed the world economy – including by encouraging the rise of what we now call globalisation. What's more, the onset and then international spread of this accelerated economic growth has also dominated international *political* relations, triggering dramatic changes in the balance of power both between and within the groups of developed and developing countries.<sup>9</sup>

To a great extent, then, the world that emerged in the twentieth century was very much a product of the (differential) impact of the onset of growth. Seen from this perspective, the arrival of strong, sustained catch-up growth in the developing world suggests the possibility of another event of equivalent historical significance – a *Great Convergence* that could perhaps overturn the preceding *Great Divergence*.

This idea of a *Great Convergence*, albeit expressed in a variety of ways including for example as 'the rise of the BRICs' and the 'emerging markets century', is now firmly embedded in most of our forecasts – a feature that I've described elsewhere as *Our consensus future*.<sup>10</sup> Assuming that all these forecasts are right, and that the *Great Convergence* is here to stay, then over the longer term we should expect this trend to have consequences of a similar scale to the earlier *Great Divergence*.

Mark Thirlwell  
Director, International Economy Program  
Lowy Institute for International Policy

<sup>1</sup> See also IEC#3.

<sup>2</sup> Lant Pritchett, Divergence, big time. *Journal of Economic Perspectives* 11 (3) 1997.

<sup>3</sup> Gregory Clark, *A farewell to alms: A brief economic history of the world*. Princeton, Princeton University Press, 2007.

<sup>4</sup> On the first two big developments, see in particular Chapter 1: Introduction: The Sixteen-Page Economic History of the World in *Ibid*. Clark takes the art of compression even further than reducing world economic history to 16 pages, and presents us with 'World Economic History in One Picture', see Figure 1.1 p. 2.

<sup>5</sup> Simon Kuznets, *Modern economic growth*. New Have, Conn., Yale University Press, 1966.

<sup>6</sup> Kenneth Pomeranz, *The Great Divergence: China, Europe and the Making of the Modern World Economy*. Princeton, Princeton University Press, 2000.

<sup>7</sup> Angus Maddison, The West and the Rest in the world economy: 1000-2030. Maddisonian and Malthusian interpretations. *World Economics* 9 (4) 2008

<sup>8</sup> Angus Maddison, *The world economy: historical statistics*. Development Centre Studies. Paris, OECD, 2003.

<sup>9</sup> Richard A Easterlin, *Growth triumphant: The Twenty-first Century in Historical Perspective*. Michigan, The University of Michigan Press, 1998.

<sup>10</sup> Mark Thirlwell, *Our consensus future: The lay of the land in 2025*. Lowy Institute Perspectives. Sydney, Lowy Institute for International Policy, September, 2010.