The path to economic development is growing more treacherous, again

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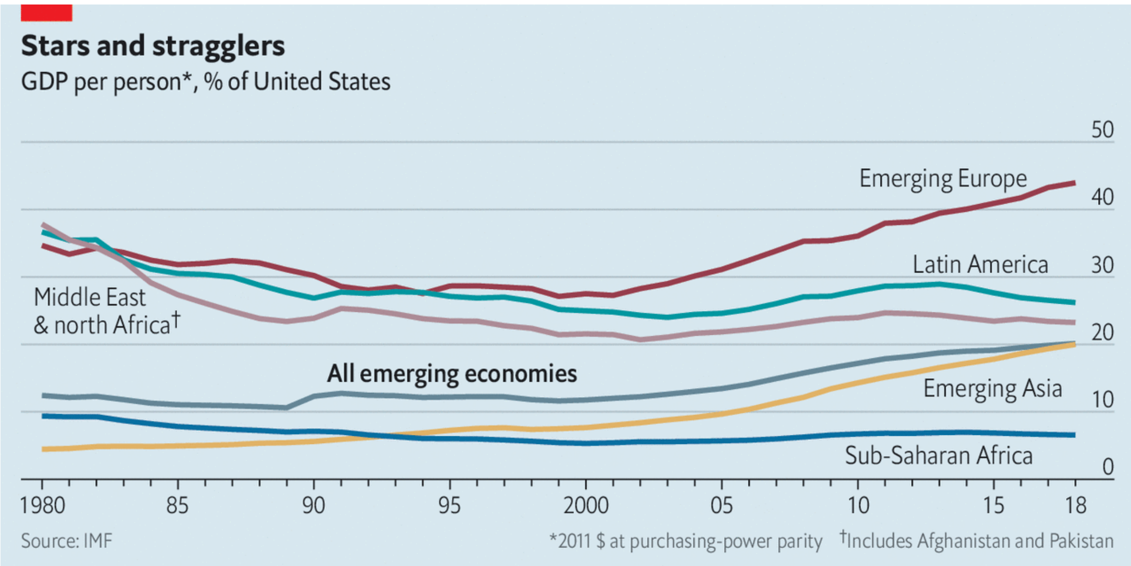
Emulating China's development model is getting harder

In the 1990s economists had almost given up on the developing world. Although individual countries, like Singapore or South Korea, occasionally scaled the income ladder, the overall picture was, in the words of Lant Pritchett, a development economist at Harvard University, "divergence, big-time" between advanced economies and the rest. Then the scene changed. From the late 1990s global trade grew explosively, and the gap between the rich and the rest closed fast. Poverty tumbled. The share of people living on no more than $1.90 a day (at purchasing-power parity) fell from 36% in 1990 to just 10% in 2015. It would be the best of news if this trend could be maintained. Sadly, convergence seems to be slowing. That is bad news for Africa in particular.

The path to becoming a rich country usually runs through industrialisation, supported by opening up to trade and developing export industries. Trade facilitates technology transfer. Global markets weed out all but the most productive firms and allow even companies from small countries to scale up using techniques such as mass production.

Historically, few poor countries had stable, growth-oriented governments for long enough to build a broad, competitive industrial base. But in recent decades the once-exclusive club of fast-growing economies welcomed scores of new members, ushered in by the rapid growth in trade associated with the emergence of global supply chains. Supply-chain trade allowed countries to sidestep the arduous process of building an industrial base from the ground up. Cheap labour and proximity to big markets were often enough to lure foreign plants. The growth of China, sitting at the heart of Factory Asia, served as a "force multiplier". It also shifted the world's economic centre of gravity towards Asia's poorer economies, and sparked a commodity boom that buoyed parts of the emerging world not linked into supply-chain networks—notably Latin America and parts of Africa.

A quarter of a century on, the limits of this development miracle are increasingly clear. Incomes in the poorer parts of Asia and Europe surged towards those in America (see chart). Elsewhere, there was less convergence. Indeed, in Latin America and Africa recent income growth did not fully make up the ground lost during the tumultuous 1980s and 1990s, and real output per person is once again falling compared with that in America. The end of convergence would be bleak news for Africa, where incomes are lowest. The share of Africans who are extremely poor fell from 54% in 1981 to 41% in 2015. But because the population has grown so rapidly the number of poor Africans has increased.



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Most countries languishing on the lower rungs of the development ladder place their hopes in replicating China's experience. Industrialisation in East Asia has followed a "flying geese" pattern: as leading economies become more advanced and wages rise, less sophisticated production jobs shift to poorer places with lower labour costs. China benefited in this way from growth in South Korea and Taiwan. And as Chinese workers have become more expensive, some firms have shifted jobs again, for example to Vietnam. Perhaps rising wages in emerging Asia will eventually push manufacturers to look to Africa for cheap labour.

But it could be a long wait. As Ewout Frankema of Wageningen University in the Netherlands and Marlous van Waijenburg of the University of Michigan note in a recent paper, the flow of jobs from more advanced to less advanced economies depends in part on a very wide wage gap. During the early 20th century, when textile producers in Japan challenged British manufacturers, wages in the former were roughly an eighth of those in the latter, for example. In most African countries wages are around a third of those in newly industrialising countries such as Vietnam and Bangladesh.

Growth potential

That gap might be too small to offset the costs of poor infrastructure and low labour productivity. There are exceptions, such as Ethiopia, where wages are much lower than in emerging Asia and where value-added in manufacturing has risen sharply over the past half-decade as a share of gdp. Yet it is still only 5.6% of gdp, tiny by global standards. And a recent study by Chris Blattman of the University of Chicago and Stefan Dercon of Oxford University suggests that Ethiopia is attracting the dregs of industrial work. Its factory workers earn no more than their compatriots in other sectors, and their health is worse.

Africa faces other obstacles, too. Its governments are mostly weaker than those in developing Asia. Slowing growth in global trade and rich-world protectionism will not help. Nor will economic weakness in China, which hoovers up lots of African exports. Robots, too, will erode the attraction of cheap labour.

Industrialisation is not the only route to development. Exporting business services has helped India to grow fast. But the benefits to such growth have been limited; roughly 70m Indians remain in extreme poverty. And as Poonam Gupta of the World Bank and Barry Eichengreen of the University of California, Berkeley, have noted, India's services exports are uniquely large, and higher than economic fundamentals would predict, suggesting that its experience will prove hard to imitate. Natural resources can also power an economic boom. Botswana, Africa's greatest development success story, depends heavily on diamonds, for instance. But as Mr Frankema and Ms van Waijenburg point out, growing populations mean that resource riches will have to be spread more thinly—and this is assuming that elites do not grab the lot. Botswana, notably, has one of the least dense populations in the world.

Africa's case is not hopeless. Few economists predicted the emerging world's growth spurt. But the path to development may be getting steeper once more. To make progress the continent's governments must improve education and economic institutions. Rich countries, for their part, should be lowering, not raising, barriers to trade and migration, which prevent Africans from playing a full part in the world economy. The fate of billions is at stake.