Annex
Achieving Convergence in Incomes and Living Standards between the Industrial and Developing World – An Illustration

Except in East Asia,[58] the amount of investment presently occurring as a proportion of GDP in other developing regions is inadequate to generate, on a sustainable long-term basis, the kind of growth rates that the developing world as a whole (and each country in it) needs to aim for if a reasonable degree of convergence of incomes is to be realistically achieved.

What would a reasonable degree of convergence be and by when should it be achieved? One way of looking at the issue is to consider relative income levels of people in the OECD and non-OECD worlds in 1950, 2000 and 2050. That dividing line is used for lack of a better, simpler division among the world's haves and have-nots differentiated across (rather than within) countries. There are of course 'haves' in the developing world and 'have-nots' in the industrial world. But for the purposes of this illustration that complication is ignored and taken care of in the averages.

In 1950 the average per capita income of the 3.6 billion people who lived in the non-OECD world was about 15 per cent that of the roughly 0.65 billion people in OECD countries.

In 2000, the number of people in the developing world had grown to 5.2 billion people (which includes the transition economies). They had an average income of less than 9 per cent of the average income of the 0.85 billion people in the North (also in current dollars). Thus, instead of converging, living standards and incomes have diverged significantly over the last 50 years. As an aside it should be observed that in the last 50 years the developing world added 1.6 billion to its population (a 45 per cent increase) while OECD countries added only 200 million people to their population (a 30 per cent increase).

Of course, real incomes and comparable living standards are not properly reflected by nominal exchange rate translations of per capita incomes across countries. Adjusted incomes at PPP exchange rates provide more valid comparisons. But since reliable PPP series are not available (especially for 1950), nominal translations are taken to suffice for illustrative purposes in this Annex. In PPP terms the gap between the industrial and developing world would not be quite as wide as the nominal exchange rate figures suggest in 2000. While nominal per capita incomes in industrial countries were 11 times higher, the adjusted PPP income figures for 1998 (the latest available) suggest that the real income gap was less – about 6.5 times.

An acceptable degree of convergence would be achieved if the average income of the 7 billion (or more) people in developing countries by 2050 rises to at least one-fifth of the average income of the one billion or so people in the industrial world by then (measured in nominal terms which may translate into a difference of between one-third and one-fourth in PPP terms).

58 The averages for East Asia tend to obscure the reality that apart from the obvious success stories in the region (i.e. Greater China, Korea and the ASEAN countries, in which the Philippines has lagged although since 1997andIndonesia's prospects have been compromised by the conversion of a financial crisis into a political crisis), there are a number of countries, for example countries in Indochina, Myanmar and the Pacific Islands that are not doing as well. Their incomes and growth rates approximate those of South Asia and, in some instances, of Africa.

Table 15. The Relative Incomes of People in the OECD and Non-OECD Worlds 1950–2050
(In current and constant 1990 dollars)

		OECD (A)	Non-OECD(B)	A/B
1950				
Population (billions)		0.60	2.48	1: 4.1
Per capita income:	Current $	$ 3,700	$520	x 7.1
	Constant $	$10,500	$1,460	x 7.1
2000				
Population (billions)		0.85	5.21	1: 6.1
Per capita income:	Current $	$23,300	$2,100	x 11.1
	Constant $	$18,800	$1,700	x 11.1
Memo:	*In PPP (1998)*	*$21,763*	*$3,410*	*x 6.4*
2050 (projected)				
Population: (billions)		1.10	9.10	1: 8.3
Per capita income:	Current $ (E)	$75,000	$15,000	x 5.0
(Targeted)	Constant $ (E)	$35,000	$ 7,000	x 5.0

Table 15, which relies on a series of guesstimates and assumptions, should help illustrate the situation a little more clearly.

For a modest degree of convergence, as defined above, to occur over the next 50 years, the table shows that while average real per capita income in the industrial countries might be expected to nearly double, the increase in developing countries would have to be over 400 per cent.

If the OECD countries grew at an average real rate of about 3 per cent per annum (with an average population growth of about 0.6 per cent) over the next 50 years, developing countries would need to grow at an average rate of 9 per cent annually (with an average annual population growth rate that hopefully will have fallen to about 1.2 per cent). For such a growth rate to be achieved and sustained,[59] the average ratio of GDI/GDP in the South would need to be raised from the present average of around 20 per cent to approximately 33 per cent.

Whatever the outcome of UNCFD, no conceivable increase in external FfD would be large enough to finance that degree of convergence and that leap in investment levels. Nor should it be expected to since that might and imbalance some of the more vulnerable, crisis-prone economies of the developing world.

If this growth rate (and the implied attendant domestic investment levels) were, hypothetically, to be achieved, external FfD could, at most, finance about 8 per cent of global development investment instead of the 4 per cent it is financing now. If that were to occur, the absolute incremental dollar amounts involved would be very large. They would impose budgetary burdens on OECD governments, and on capital markets for sustained net outflows to developing countries that are outside the range of feasible outcomes. The size of such burdens would render even this very modest attempt at achieving convergence impossible.

Yet it would be a brave politician or global statesman who would be prepared to say pub-

59 The practical experience of East Asia, as well as countries such as Finland, Ireland, Portugal and Spain in Europe that were classified as middle-income developing countries as late as the 1970s, is pertinent since that region, and the other countries mentioned, has achieved nearly that average rate of growth between 1970–2000.

licly that, over the next 50 years, the international community should not even aim to achieve a narrowing of income differentials between the industrial and developing worlds to the extent suggested above. Converging at a slower rate would mean condemning developing countries to two centuries or more of continued absolute and relative poverty and degradation – an intolerable, and eventually unsustainable, prospect for the global community.

On the other hand, attempting to converge at the suggested rate or faster in the medium term would be regarded as many pragmatists as impractical enough to verge on the foolish. It would automatically imply that domestic savings in developing countries, ODA budgets, and net private capital flows to developing countries should be increased immediately by multiples of their present levels, and sustained at those increased levels over the next half-century.

East Asia and China have shown that the necessary growth rates can be achieved and sustained under the right conditions. It may take 10–25 years for other regions to emulate that example and achieve the right conditions. India is on the threshold of doing so now if it could sustain the momentum of reform that it launched in 1991–92 but has since dissipated. South Asia as a whole could do so relatively quickly if its long-running regional conflicts could be resolved and its political systems were adapted to result in a lower proportion of output being wasted by frictional losses and rent extraction.

Africa could also achieve these growth rates but over a longer period of time, as it puts in place the human, social and institutional capital foundations needed for sustaining such success. Eastern and Central Europe, Latin America, the Middle East and North Africa could achieve and sustain such growth rates almost immediately if they could resolve their internal political and administrative contradictions, moderate their high propensities for consumption and change their incentive structures and tax systems to favour saving and investment instead. Anchoring these regions to the US dollar and Euro respectively might also assist them in overcoming their inherent proclivities toward high inflation and incessant devaluation (thus discouraging financial saving in domestic currency which ceases to be a store of value). But, achievable though these growth rates might be, they would need to be supported by external official and private flows that are at least twice as large as they are now.

What this illustration is intended to suggest is that the substantive room for discussion and negotiation at UNCFD lies in the space between the unacceptable gap in incomes that exists today between the industrial and developing worlds, and the rate at which that gap should (and can realistically) be narrowed over the next 50 years.

The analysis that needs to be done to inform public debate on reversing divergence (which is exactly the opposite of what asymmetric global development should be trying to achieve) and restoring a trend toward convergence should be deeper and more incisive than the broad brush strokes presented above. It needs to be nuanced by region and country because global averages conceal more than they reveal. But such analysis needs to be made in such a way that it sheds light, rather than heat, and avoids UNCFD being side-tracked into issues of significantly less importance. The composite picture developed for the developing world as a whole needs to be a synthesis of a series of much deeper analyses carried out at country and regional levels in order to be robust and credible.

Clearly such analysis has to be undertaken with a backdrop of:

- Dwindling public concessional flows, i.e. ODA, being provided with rapidly diminishing enthusiasm or conviction that they are

having a significant developmental impact;

- Continued regional misallocation of such scarce ODA flows in terms of need; (
- Flows of foreign direct investment that are not yet large enough or sufficiently widely dispersed across the developing world to make as much of a difference to productive investment as is needed;
- Continued, if concentrated, flows of foreign portfolio capital of a short term and volatile nature whose desirability is often vitiated by the inadequate development and robustness of secondary capital markets in most developing countries;
- Artificially restricted earnings from trade because of the lack of openness of those Northern markets in which developed countries – and particularly the least developed – have any comparative or competitive advantage, i.e. agricultural and food markets, markets for textiles and garments and markets for labour;
- Private voluntary flows that are aimed primarily at humanitarian and emergency relief and at small poverty-reduction projects that do not have a significantly large or long-term developmental impact;
- A gross insufficiency of investment capital on appropriate terms for infrastructure development of a kind that is unlikely to attract much private interest in the short-term;
- The insufficiency of FfD enabling developing countries to contribute to financing international public goods and global commons.

UNCFD will focus on each of these areas as the key areas for discussion and debate. But its deliberations will be enhanced immeasurably if debate in each of these areas is informed by the kind of broad analysis and vision of what it is that the international community is trying to achieve with FfD that has been suggested above.

Bibliography

Anderson, K. et al. (2001). 'Potential Gains from Trade Reform in the New Millennium'. In Hoekman, B. and Martin, W. (eds). *Developing Countries and the WTO: A Pro-active Agenda.* Oxford: Blackwells.

Bandow, D. and Vasquez, I. (eds) (1994). *Perpetuating Poverty: The World Bank, the IMF and the Developing World.* Washington DC: Cato Institute.

Berg, R.J. and Gordon, D.F. (eds) (1989). *Co-operation for International Development: The United States and the Third World in the 1990s.* Colorado: Rienner, Boulder.

The Brandt Commission Report, Common Crisis: North-South Cooperation for World Recovery (1983). London: Pan Books.

Brandt, W. (1980). *North-South: A Program for Survival: The Report of the Independent Commission on International Development Issues.* Cambridge, Mass.: MIT Press.

Bauer, P.T. (1981). *Equality, The Third World and Economic Delusion.* London: Methuen.

Cassen, R. and associates (1986). *Does Aid Work?* Oxford, UK: Oxford University Press.

Cassen, R. and contributors (1994). *Population and Development: Old Debates, New Conclusions.* Washington DC: ODC.

Chenery, H. and Syrquin, M. (1975). *Patterns of Development 1950–70.* Oxford, UK: Oxford University Press.

Cornea, G.A., Jolly, R. and Stewart, F. (eds) (1987). *Adjustment with a Human Face: Protecting the Vulnerable and Promoting Growth, A UNICEF Study.* Oxford, UK: Oxford University Press.

Currie, D. and Vines, D. (eds) (1988). *Macroeconomic Interactions between North and South.* Centre for Economic Policy Research (International Economics Study Group). Cambridge, UK: Cambridge University Press.

Development Initiatives 'White Paper on Globalisation: Background Note on Global Development Assistance: The Role of Non-Governmental Organisations and other Charity Flows'. UK-DFID, 2000, referred to in GDF-2001.

Diamond, L. and Plattner, M.F. (1995). *Economic Reform and Democracy.* Baltimore: Johns Hopkins University Press.

Drabek, Z. and Payne, W (2000). *The Impact of Transparency on Foreign Direct Investment*, mimeo. Geneva: WTO.

European Foundation Center (2000). *Independent Funding: A Directory of Foundation and Corporate Members of the EFC*, sourced through Orpheus Programme Publications (www.efc.be).

Feinberg, R.E., Avakov, R.M. et al. (1991). *US and Soviet Aid to Developing Countries: From Confrontation to Cooperation.* Washington DC: ODC.

The Foundation Center. *International Grantmaking: A Report on US Foundation Trends* (1997) and *International Grantmaking II: An Update on US Foundation Trends* (2001), sourced through http://www.fdncentre.org.

Griffith-Jones, S. (2001). 'New Financial Architecture as a Global Public Good', draft Paper prepared for UNDP, mimeo. New York: UNDP.

Holmes, F. (ed.) (1987). *Economic Adjustment: Policies and Problems.* Washington DC: IMF.

Hoekman, B. and Saggi, K. (1999). 'Multilateral disciplines for investment related policies'. In Guerrieri, P. and Sharer, H.E. (eds). *Global Regionalism and Economic Convergence in Europe and East Asia: The Need for Global Governance Regimes.* Rome: Institute for International Affairs.

H.M. Treasury (2000). *The UK and the IMF 1999–2000.* London: H.M. Treasury.

Joseph, F. (2000). *The Economic Impact of New Multilateral Trade Negotiations: Final Report.* Report for DG2 (the Trade Directorate). Brussels: European Commission.

Kanbur, R. and Sandler, T. (1999). *The Future of Development Assistance: Common Pools and International Public Goods.* Washington DC: ODC.

Kumar, M. and Miller, M. (2001). 'Bail-outs, Bail-ins and Contracts: The Evolving New Architecture' (discussion draft paper, mimeo). Washington DC: IMF.

Lele, U. and Nabi, I. (eds) (1991). *Transitions in Development: The Role of Aid and Commercial Flows.* San Francisco: International Center for Economic Growth, ICS Press.

Lewis, J.P. and Kallab, V. (eds.) (1986). *Development Strategies Reconsidered.* Washington DC: ODC.

Little, I.M.D., Cooper, R.N., Corden, W.M. and Rajapatirana, S. (1993). *Boom, Crisis and Adjustment: The Macroeconomic Experience of Developing Countries.* Oxford, UK: Oxford University Press.

Mistry, P.S. (1989). 'Financing Development in the 1990s'. In Berg, R.J. and Gordon, D.F. (eds.). *Co-operation for International Development: The United States and the Third World in the 1990s*, Chapter 5. Colorado: Rienner, Boulder.

Mistry, P.S. (1994). *Multilateral Debt: An Emerging Crisis? Forum on Debt & Development.* The Hague: Fondad.

Mistry, P.S. and Saptagiri, L. (2000). *An Evaluation of Commonwealth Secretariat Assistance to Member Countries with International Negotiations*, Evaluation Study No. 65. London: Commonwealth Secretariat.

OECD (1998, 1999, 2000). Annual Reports of the Development Assistance Committee. Paris: OECD-DAC Secretariat.

Nordic UN Project (1990). *The United Nations: Issues and Options.* Stockholm, Sweden: Ministry for Foreign Affairs.

Nordic UN Project (1996). The United Nations in Development. Stockholm, Sweden: Ministry for Foreign Affairs.

Page, S. and Hewitt, A. (2001). *World Commodity Prices: Still a Problem for Developing Countries?*, Special Report. London: Overseas Development Institute.

Pearson, L.B. (1969). *Partners in Development: Report of the Commission on International Development.* New York: Praeger.

Persaud, A. 'The Disturbing Interaction between the Madness of Crowds and the Risk Management of Banks', paper commissioned for the Commonwealth Conference on Developing Countries and Global Financial Architecture. London: Commonwealth Secretariat, June 2000.

Persaud, A. 'Sending the Herd off the Cliff Edge: The Disturbing Interaction between Herding and Market-sensitive Risk Management Practices' (article which won the first prize in the Year 2000 Essay Competition held by the Institute of International Finance, Washington DC, 2000.

Riddell, R. (1987). *Foreign Aid Reconsidered.* London: James Currey.

Rowan, H. (1994). *Self-Inflicted Wounds: From LBJ's Guns and Butter to Reagan's Voodoo Economics*. New York: Times Books, Random House, pp. 279–306.

The South Centre. 'The United Nations Conference on Financing for Development: A Strategic Opportunity for the South', preliminary draft of a discussion note prepared by P.S. Mistry based on an earlier draft prepared by B. Gosovic, mimeo. Geneva: South Centre, March 2001.

The South Commission (1990). *The Challenge to the South: The Report of the South Commission*. Oxford, UK: Oxford University Press.

Swedish Ministry for Foreign Affairs (2000). *Mobilising Support and Resources for the UN Funds and Programmes*. Stockholm, Sweden: Development Financing 2000 Project.

Swedish Ministry for Foreign Affairs (2000). *A Foresight and Policy Study of the Multilateral Development Banks*. Stockholm, Sweden: Development Financing 2000 Project.

Thomas, V., Chhibber, A., Dailami, M. and de Melo, J. (eds) (1991). *Restructuring Economies in Distress: Policy Reform and the World Bank*. Oxford, UK: Oxford University Press.

UN (2000). *World Economic and Social Survey*. New York: UN.

UN (2001). 'Report of the Secretary-General to the Preparatory Committee for the International Conference on Financing for Development' (final draft). New York: UN.

UN. 'Technical Report of the High-Level Panel on Financing for Development'. New York: UN, June, 2001.

UNCTAD (2000). *Trade and Development Report, 1999*. Geneva: UNCTAD.

UNCTAD. *World Investment Report, 1998, 1999, 2000*. Geneva: UNCTAD.

UNDP. *Human Development Report, 1998, 1999, 2000*. New York: UN.

Ward, B., D'Anjou, L. and Runnalls, J.D. (eds) (1971). *The Widening Gap: Development in the 1970s*. New York: Columbia University Press.

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

World Bank (1997). *Private Capital Flows to Developing Countries*, World Bank Policy Research Report. Oxford, UK: Oxford University Press.

World Bank (2000). *Can Africa Claim the 21st Century*. Washington DC: World Bank.

World Bank (1999, 2000, 2001). *Global Development Finance*, Vols. I & II. Washington DC: World Bank.

World Bank (2000). *The Little Green Data Book 2001*. Washington DC: World Bank.

World Bank (2000). *World Development Indicators 2000*. Washington DC: World Bank.

World Bank (2000). *World Development Report 2000/2001*. Washington DC: World Bank.

Yusuf, S., Wu, W. and Evenett, S (2000). *Local Dynamics in an Era of Globalization*. Washington DC: World Bank.

Recent Commonwealth Secretariat Economic Publications

Commonwealth Economic Papers

Robert Cassen, Strategies for Growth and Poverty Alleviation, No.29, 1997

Richard Portes and David Vines, *Coping with International Capital Flows*, No.30, 1997

Sanjaya Lall, *Attracting Foreign Direct Investment*, No. 31, 1997

M. McQueen, C. Phillips, D. Hallam & A.Swinbank, *ACP-EU Trade and Aid Co-operation Post-Lomé IV*, No.32, 1998

Sanjaya Lall and Ganeshan Wignaraja, *Mauritius: Dynamising Export Competitiveness* , No.33, 1998.

Report of a Commonwealth Working Group, *Promoting Private Capital Flows and Handling Volatility:Role of National and International Policies*, No.34, 1998

Gerry K Helleiner, Private Capital Flows and Development: *The Role of National and International Policies*, No.35, 1998

Joseph LS Abbey, *The Political Process and Management of Economic Change*, No.36, 1998

Christopher Stevens, Mathew McQueen and Jane Kennan: After Lome IV: A *strategy for ACP-EU Relations in the 21st Century*, No.37, 2000

Alan Swinbank, Kate Jordan and Nick Beard, *Implications for Developing Countries of likely Reforms of the Common Agricultural Policy of the European Union*, No.38, 2000

Sanjaya Lall, *Promoting Industrial Competitiveness in Developing Countries: Lessons from Asia*, No.39, 1999

Jonathan P Atkins, Sonia Mazzi, Christopher D Easter, *A Commonwealth Vulnerability Index for Developing Countries: The Position of Small States*, No.40, 2000

Dr Montek S Ahluwalia, *Reforming the Global Financial Architecture*, No.41, 2000

Christopher Stevens, Romilly Greenhill, Jane Kennan and Stephen Devereux, *The WTO Agreement on Agriculture and Food Security*, No.42, 2000

A Manual of Best Practice for Combating Money Laundering in the Financial Sector, No.43, 2000

David Peretz, *Small States in the Global Economy*, No.44, 2001(hardback and paperback)

Christopher Stevens and Jane Kennan, *Post Lomé WTO-Compatible Trading Arrangements*, No.45, 2001

To order these or any other publication, please contact:
Publications Unit, Commonwealth Secretariat, Marlborough House,
Pall Mall, London SW1Y 5HX, United Kingdom
Tel: +44 (0)20 7747 6342; or Fax: +44 (0)20 7839 9081