

Executive summary

“Rethinking Development”

Ideas about development have evolved since the Second World War, with different paradigms dominating mainstream thinking and practice at one time or another. A focus on industrialisation, planning and growth in the post-war years gave way to ideas about structural transformation in the 1960s and dependency theory in the 1970s. The “Washington Consensus” of the 1980s and 90s prioritised macroeconomic stability and promoted structural adjustment. Since the 2000s, a goal-based approach has led to the creation of the Millennium Development Goals and their successor, the Sustainable Development Goals.

While there is still no standard definition, a consensus is emerging that development has to do with real improvements in people’s quality of life and well-being. But how can this be achieved? Could policies that led to development in early industrialising countries be repurposed as gold standards to follow in developing countries? The pathways of recently industrialising countries such as the People’s Republic of China (hereafter “China”) have not followed mainstream paradigms. This raises questions on what types of strategies countries should use to reach higher and sustainable levels of well-being.

Development strategies must respond to a new global context

A major transformation in the global economy has taken place over the past three decades. Since the 1990s, emerging economies such as China and India have grown faster than the OECD average. Combined with their large populations, these growth differences have reshaped the global macroeconomic landscape.

The emergence of this new global economic geography happened in three distinct periods:

- The opening of China, India and the former Soviet Union to world markets was felt from the 1990s.
- A second period, from 2001 to the 2008 global financial crisis, saw pervasive convergence of poor countries. Rapid urbanisation and industrialisation in Asia led to rising commodity prices.
- A recent period in the 2010s, in which convergence has temporarily slowed down is driven by the global recession and China’s transformation from a manufacturing and export-led economy to one based on services and consumption, which led to a slump in commodity prices.

This transformation of economic geography had a profound effect on global development. It re-drew the map of economic relations in terms of trade, finance and migration. It boosted global growth, lifting millions out of poverty. And it changed global governance architecture.

By 2010, developing countries accounted for 42% of global merchandise trade. South-South flows made up half of that total. China has played a central role: since the global financial crisis, Chinese imports have been the driving force for South-South trade.

Emerging economies also became important providers of development finance; emerging donors increased their share of development finance other than Official Development Assistance from 6% to 13%. China's Belt and Road Initiative, a large international development strategy focused on connecting countries with China, is further deepening South-South integration.

Development strategies cannot assume that economic growth will automatically generate improvements in well-being

Economic growth in the South has not solved all problems. Absolute and relative poverty have risen in some countries, income inequality has increased in many instances, and environmental degradation has accompanied industrialisation and urbanisation.

That GDP growth has not solved all problems should not come as a surprise. Even Kuznets, who first defined GDP in 1934, had warned against using it as a measure of welfare. Yet at the Bretton Woods conference ten years later it became the main tool for measuring a country's economy and for decades GDP growth was viewed as a good proxy for more general development.

A more holistic view of development that looks at different dimensions of well-being, their distribution across a population, and their sustainability, tells a more complex story.

Globally, well-being indicators have been closely correlated with GDP per capita. However, the relationship between well-being and GDP per capita has changed over time. Two periods can be identified:

- From 1820 until 1870, countries with higher GDP per capita did not always report better well-being outcomes. During the early years of industrialisation, between the 1820s and 1870s, the rate of GDP growth for industrialised countries was around 1-1.5% per annum. Although relatively slow, GDP growth was underway, but had almost no positive impact on well-being. This “early growth paradox” was the price that early industrialisers paid for rapid urbanisation and proletarianisation.
- After 1870 the correlation between GDP per capita and well-being measures became stronger, due to cheaper American food imports in Europe boosting real wages, the rise of democratic regimes, breakthroughs in medical knowledge and social policy measures. Many improvements in well-being outcomes occurred without necessarily improving in GDP per capita.

Since the 1950s, newly emerging countries which began to grow rapidly have been distinguished from the early developers by the phenomenon of “catching up” or GDP per capita convergence:

- In Latin America and Asia, well-being gains were stronger than the gains in GDP per capita (life expectancy, education), but not in all dimensions.
- In Africa, improvements in well-being achieved relatively better results than GDP per capita, but there remains a constant and growing gap with the rest of the world.

Development strategies need to respond to new trends and challenges

Beyond goals of economic growth, most national development plans being designed today do focus on social inclusiveness and environmental sustainability. However, few show awareness of mega trends and the challenges and opportunities they present.

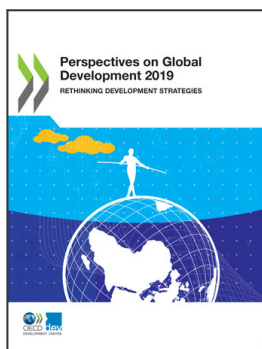
Some challenges have been faced before: the potential slowdown of global growth, trade protectionism, the rise in inequality, population growth and weakening global governance.

However, new challenges have emerged that early industrialising countries did not face. These include new global rules, high interdependence between countries, unprecedented population booms, high mobility, risk of pandemics and climate change. They also include new technologies, spanning digitalisation, automation, artificial intelligence and biotechnology.

Development strategies for the 21st century

Emerging economies have taken and will take different development paths than early industrialisers. Indeed, in the wake of the transformation of global economic geography, new strategies include greater South-South co-operation, policies linking migration and development, and novel ways to extend social protection.

Experience suggests that strategies are a useful tool to ensure balanced growth, inclusive of social and environmental matters. Rather than forging a singular development paradigm for all countries, history teaches us that development strategies are most effective when they are multisectoral, participatory, location-specific and embedded in multilateralism, and when the necessary resources and political will are available to ensure implementation.



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