In Search of the Golden Decade

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A golden decade is all it takes for a nation to progress from basket case to powerhouse and erect a solid foundation for lasting economic success.

The 1980s were such a decade for South Korea which tripled its per capita annual income to almost $6,000 between 1979 and 1989. After that growth spurt, the country went on to roughly double its GDP every ten years.

In Europe, The Netherlands followed a similar trajectory, tripling its economy in the 1960s and then doubling GDP every decade or so to reach a per capita income in excess of $52,000 by 2009.

Whilst a golden decade vastly enhances the prospects of enduring prosperity, it offers no guarantees. In the 1970s, Brazil almost quintupled the size of its economy. However, after the Milagro Brasileiro (Brazilian Miracle) fizzled out around 1980, the country registered only lacklustre average growth interspersed with boom and bust cycles producing either euphoria or depression, consistent only in their failure to deliver sustained development. Egypt is another case in point. In the 1980s, that country also increased its economic output fivefold, only to see the remarkable achievement undone in the decades that followed.

The third, and largest, group of countries never experienced a golden decade at all. India moved up steadily – though never spectacularly – and remains a largely unfulfilled promise. Most African countries have also failed to sustain a decade or more of accelerated development, registering the odd growth spurt – more often than not propelled by a spike in commodity prices – only to fall back to decidedly underwhelming levels of economic performance once their terms of trade normalise.

Whilst statistics usually fail to disclose the whole truth, offering snapshots instead, numbers do reveal overall trends that may be tied to specific macro-economic and political developments. Economists have long sought a universal development model that may applied with minimal adjustments to any country struggling to attain a modicum of prosperity. Their quest somewhat resembles the futile efforts of Medieval alchemists. Yet, post-war experience does allow for commonalities to be distilled to produce a few useful pointers that, jointly, create an enabling framework which fosters growth and builds on – rather than squanders – achievements.

Comparative Advantage

In the late 1700s, English economist David Ricardo (1772-1823) introduced a novel concept – the comparative advantage. Mr Ricardo argued that the export of goods is not merely a means to accumulate bullion at the expense of trade partners (mercantilism), but may offer mutual benefits by allowing trading nations to engage in what they do best. Industrial specialisation – leveraging advantages awarded by geography, natural resources, climate, or any other distinguishing factor – allows trading partners to both source and produce goods more efficiently.

Comparative advantage still drives international trade and determines the fate of nations. The United Arab Emirates' (UAE) privileged position at the crossroads of east and west allowed the country to become a logistics and services hub, offering benefits not available elsewhere. Likewise, The Netherlands – home to one of the world's largest oil companies and running a vast trading empire with the attendant gateway ports – was able to build a petrochemical industrial complex second to none, thus extracting maximum benefit from its comparative advantages. Lacking those specific advantages, nearby Belgium and Germany developed other specialisations – such as steel and dyes – that also enabled them to generate wealth through trade.

Scottish whiskey, Italian shoes, French perfume, Kenyan tea, Argentine beef, Japanese electronics, Indian spices, and American cotton are all the product of comparative advantages. Whilst the Dutch may try their hand at wine making, it is highly improbable that they can outmanoeuvre the French who, likewise, would probably not prove very successful at cultivating and marketing tulips.

Tariff Walls

David Ricardo's comparative advantage constitutes a strong argument for free trade. Latter-day attempts at kick-starting development via (neo)mercantilism – whereby advantages are sought via protectionism, i.e. the closing of borders in order to keep competitors at bay – have generally not fared well.

In the decades following the Second World War, Argentina built up its national industry behind tariff walls. While the Argentine industrial estate looked formidable, it was nearly wiped out in the 1980s when exposed to the global market. Lacking competition, and comparative advantages, the manufactured goods Argentina produced – from kitchen utensils to computers to war planes and pretty much everything in between – were mostly overpriced, outdated, and of poor quality.

Brazil, Turkey, India, and a host of other developing nations went down the same path with equally disappointing results. However, discarding David Ricardo does carry significant political appeal and can produce robust, albeit relatively short-lived, economic growth.

David Ricardo: comparative advantages as drivers of trade and prosperity.

Such it was that Brazil managed to experience its economic miracle almost in tandem with the German one.

Delivering near full employment, Brazil's rapid industrialisation was hailed the world over as an example of what a contemporary mercantilist approach could achieve. Alas, as soon as the country ventured onto the global stage, timidly disassembling trade barriers in the early 1990s, its industrial prowess was shown to be considerably less robust than advertised. Virtually none of its businesses managed to penetrate foreign markets while a great many succumbed to outside competition.

Meanwhile, German industry – primed for success via its exposure to global markets – went on the conquer the world; its multiple premier brands hallmarks of quality and universally coveted by consumers eager to pay a premium for anything Made in Germany.

Egypt: Trapped in Mr Rostow's third stage of development.

Developing countries exiting mercantilism due to the need to generate foreign exchange – mostly to pay off debts – often discover that local entrepreneurs, up to and including iconic business tycoons, lack the core competencies needed to successfully operate globally. Accustomed to a comfy and profitable existence that rewards, rather than punishes, inefficiencies, formerly shielded industries are seldom able to survive – disappearing into receivership or gobbled up by large transnationals.

Enter Mr Rostow

In theory, economic development is a straightforward pursuit: savings lead to investment which increases the size of capital stock that now produces more output and, thus, a higher income resulting in more savings – repeating the cycle ad infinitum. The classic Harrod-Domar linear model of development states that the rate of economic development depends on the level of savings and the capital output ratio – the productivity of (return on) investments. Originally meant to explain and compartmentalise the business cycle, the Harrod-Domar model applies equally well to nations.

Whilst on a sustained growth trajectory, economies move through five distinct stages as first analysed and explained by American economic historian Walt Whitman Rostow in 1960. According to Mr Rostow, the trick is to escape the first stage – that of a society based on subsistence agriculture and barter – at the earliest opportunity. Once the transitional second stage has been reached, specialisations occur, savings accumulate, and investment in basic infrastructure takes place. This is the point at which outside investors start paying attention. Stage three sees the beginnings of an industrialisation process, boosted by direct foreign investment (FDI).

FDI has the capacity to significantly accelerate economic development by supplementing the domestic pool of savings available for investment in capital stock. As such, FDI has a coveted and well-documented multiplier effect.

However, Mr Rostow's third stage of development is not the antechamber to a cornucopia of riches. As industrialisation progresses, societies are subjected to profound change and great strains. Migratory pressures swell, disrupt, and transform urban centres, creating a concentration of disadvantaged – but initially hopeful – newcomers. As prosperity levels rise, social inequality often increases as well, adding a layer of volatility to political life.

Africa's megacities – Cairo, Lagos, Nairobi amongst others – are not just hotbeds of entrepreneurial activity, but also drivers of political change (revolution being such an outdated concept). As the Arab Spring reached Cairo late January 2011, the masses gathered on Tahrir Square clamoured not only for democracy and accountability; they also demanded jobs and education – i.e. a resumption of national development.

Trapped on the Third Floor

Egypt is one the many African nations trapped in its third stage of development. Whilst the country attracted a fair bit of foreign direct investment – from a low of $40m in 2002 to a high of $5.57bn in 2008 – Egypt has been singularly unable to build up and sustain economic momentum.

Though hardly unique, the country repeatedly traversed boom and bust cycles, peaking in 1989 with a respectable annual per capita GDP of $2,155 (nominal), before plummeting to barely $790 three years later. It took all of sixteen years to recover the lost ground. Even data based on purchasing power parity (PPP) shows Egypt's economy suffering prolonged stagnation and failing the public's expectations and aspirations. Lacking bread and games, people eventually become restless; a truism Mr Mubarak taunted to his own detriment.

Propelling a nation into Mr Rostow's fourth stage of development – aptly named Drive to Maturity – with foreign capital providing the propellant is a proposition both tempting and perilous. Whilst foreign direct investment usually takes the medium to long-term view, and is therefore not easily spooked by temporary setbacks or economic dips, commercial lenders and equity and securities traders tend to take their money and run for the exit at the first sign of trouble.

Such it was that Mexico's sovereign debt default of 1981 – an issue limited to a single country experiencing a cash flow crunch – almost immediately affected most of Latin America, resulting in the now infamous Lost Decade with Argentina (1982), Brazil, Chile, Venezuela (1983), and Peru (1984) being unable to service their debts. Branding an entire continent as default-prone, and not bothering to distinguish between its constituent parts, short-term investors hastily departed, dumping shares and bonds wholesale, while banks promptly and predictably refused to roll over loans.

Mr Rostow had repeatedly warned developing countries to ignore the siren song of banks and traders, suggesting they finance their growth with more dependable FDI instead. However, in order to attract investors, governments need to implement policies that foster growth and create a legal and regulatory framework to match. That may not fit well with local political realities.

Commercial banks can also provide the funds required for investment in capital stock and usually do not demand changes to economic policy or regulation. It used to be that banks were equally happy to lend vast sums of money to democratic or dictatorial govern-

ments and to market driven or planned economies.

Frequently spent unwisely and without regard for competitive advantages or market forces – and liable to disappear when most needed such as during a downturn – commercial lending often constituted a hindrance to development rather than a stimulus. Few nations, if any, managed to attain sustained economic growth via debt.

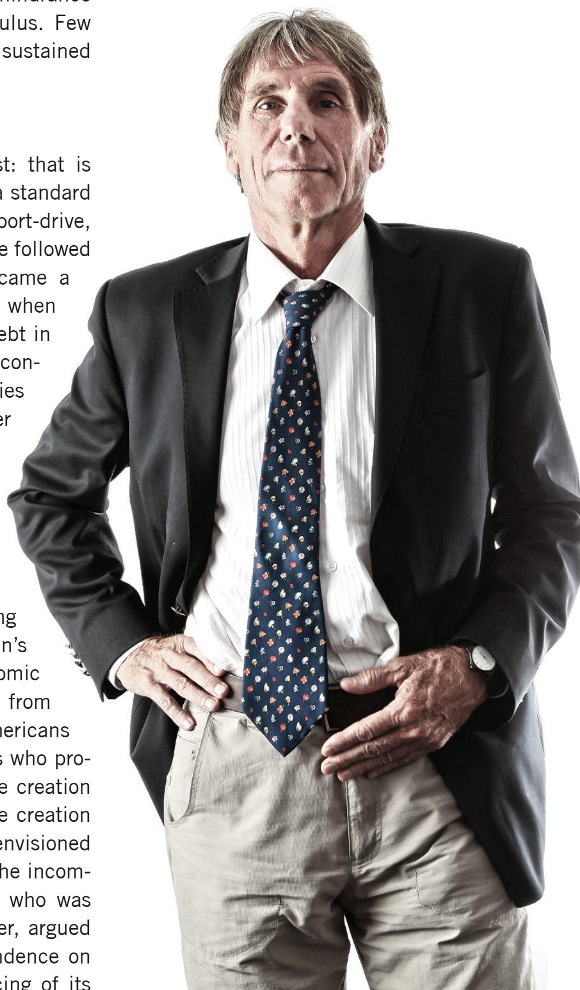
Something Remarkable

Organic growth seems to work best: that is Chile's lesson to the world. Put on a standard development path – privatisation, export-drive, austerity, welcoming FDI, etc. – Chile followed the rest of Latin America and became a defenceless victim of circumstance when Mexico defaulted on its sovereign debt in 1981 and investors abandoned the continent, submerging healthy economies in an unprecedented crisis. After suffering an economic contraction that lopped 14.3% of its GDP, Chile declared its own default in 1983 having seen its debt balloon from $3.5bn in 1973 to well over $17bn a decade later.

The country then did something remarkable: it sent Milton Friedman's Chicago Boys packing – the economic advisors to the government on loan from the University of Chicago. The Americans were replaced with local economists who proposed a novel idea that entailed the creation of a domestic capital market via the creation of private pension funds – entities envisioned to be free from state interference. The incoming advisors, led by Hernán Büchi who was shortly after named Finance minister, argued that Chile needed to end its dependence on fickle foreign capital for the financing of its national development.

Whilst pursuing a monetarist policy not unlike the one promoted by the Chicago Boys, Mr Büchi managed to ensure rapid and sustainable growth by keeping commercial banks at bay. The policy produced consistent current account surpluses and allowed the Chilean government not only to repay its debts, but become a creditor nation – the only one in Latin America. Though the 2008 financial crisis pushed the country's net international investment position (NIIP) back into the red, it is widely expected that Chile will shortly regain admittance to the select club of creditor nations.

While elsewhere in Latin America countries hobbled from one debt crisis to the next, Chile remained largely impervious to the mood swings of short-term investors thanks to its own, and gradually deepening, capital market. The country was long unique in actively discouraging opportunistic capital from entering its buoyant markets via a retention rule – a requirement for investors to deposit 30% of incoming funds with the central bank for a year, no interest paid.



Hernan Büchi: Sending Mr Friedman's Chicago Boys home.

Economic Maturity

The approach allowed Chile to move into Rostow's fourth and decisive stage of development and gain full economic maturity. The country did not lose sight of its competitive advantages either – developing both forestry and fish farming industries.

In less than ten years, Chile became one of the world's largest exporters of salmon capturing fully 55% of the US market while briefly overtaking Norway as the world's largest producer of farmed salmon and driving New England's fishing industry over the brink.

For all its prowess, Chile's accelerated development – relatively late in coming – pales in comparison with the growth trajectory that South Korea followed. Not only did South Korea have a lot of catching up to do – registering an annual per capita income (PPP) of barely $155 in 1960 versus around $550 for Chile – by 1983 the country had been firmly established as a middle income economy, inching ahead of Latin America's star performer – and never looking back since.

While direct comparisons ignore a number of variables and traits, clearly South Korea pursued a much more effective development model than the one embraced by Chile – so much so that last year the country boasted an annual per capita income ($27,513) more than double the one enjoyed by Chileans.

What Gives Where?

In the late 1940s, South Korea seemed poised for failure on an epic scale. The decolonisation process that followed the war cut the country off from the Japanese market. Its internal division, along the 38th parallel with an American dominated south and a Russian supported North, disrupted domestic trade and supply chains, causing economic havoc. The three-year-long Korean War that erupted in 1950 is estimated to have cost up to 1.5 million lives and destroyed about a quarter of the country's capital stock.

Initially, South Korea followed a well-trodden path to continued economic underperformance, following in the footsteps of Chile, Brazil, Argentina, Turkey, India, and countless others that tried – and failed – to disprove David Ricardo and develop domestic industry regardless local conditions. Tariff barriers were duly erected, import prohibitions decreed, and local entrepreneurs fêted. Instead of laying a solid foundation for future growth, import substitution industrialisation (ISI) created a domestic aristocracy of mostly inept businessmen, competent only at currying favours with bureaucrats and politicians. Directly unproductive profit-seeking (DUP) ruled the day and maximised inefficiency while failing to deliver prosperity.

In May 1961, General Park Chung Lee grabbed power and ordered an economic about-turn. South Korea was to export its way out of the quagmire while investing heavily in education and keeping an eye on the Gini coefficient measuring income inequality.

In a sense, and contrary to popular belief,

the South Korea of General Park Chung Lee – a former officer in the Japanese Imperial Army who served in Manchuria – maintained and expanded upon policies first introduced by the colonial overlords – an emphasis on modern education, public healthcare, and top-down rule by an enlightened elite of well-meaning and all-powerful technocrats.

As such, South Korea apparently differed little from other emerging nations guided by dictators hell-bent on dragging their backward countries into modernity. However, and contrary to most, South Korea pinned its future on three solid pillars: high national savings rates, universal education, and a clear and well-defined sense of national purpose. The combination produced results beyond any and all expectations. South Korea became a creditor nation with a net international investment position (NIIP) in excess of $200bn.

The Golden Six

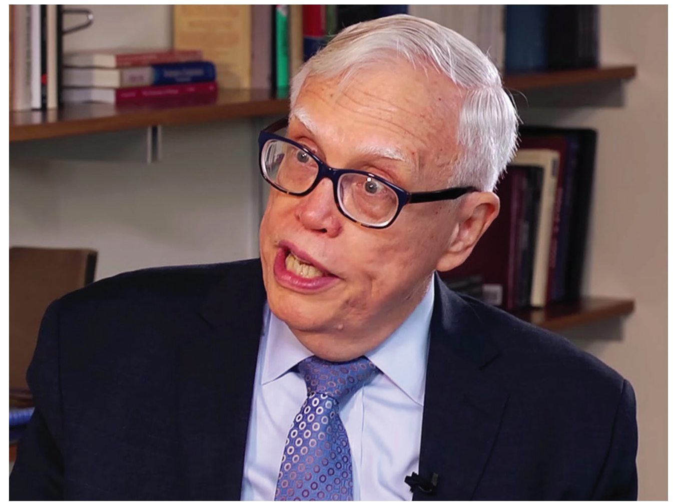
A small corner of Northwest Europe, largely devoid of natural resources, holds the world's purse strings. Taken together, Germany and the Benelux countries (Belgium, The Netherlands, and Luxemburg) have accumulated the world's second largest NIIP. By including neighbouring Switzerland and Denmark, this small area knocks Japan of its perch as the largest holder of overseas assets. Once liabilities are subtracted, Europe's Golden Six still boast assets worth well over $3,270 trillion.

These creditor nations have managed to secure a spot in a perpetual upwards cycle that ensures national incomes will keep growing even if economic performance at home (e.g. Japan) is less than stellar. This helps explain why Japan seems unconcerned about its persistent lack of GDP growth and huge public debt (237% of GDP).

A steadily strengthening NIIP leads to increased returns on investments which, in turn, add to the current account surplus and thus to the volume of funds available for new acquisitions of capital stock. Once on the positive side of the equation, countries seldom fall back. The UK and Sweden are the exceptions. Both countries crossed the line into the red; the former as a direct result of its war debts and the latter due to decades of complacency and living the life of Reilly.

Conversely, debtor nations only rarely manage to move into the black. In South America, Chile is making heroic attempts after sustaining solid current account surpluses for decades on end and reducing its public debt significantly (now barely 14% of GDP).

Debtor nations – the vast majority of the world's countries – are, however, not condemned to remain so forever. Up to a point, incurring debts can be useful to underwrite a development drive – as long as the outcome is certain to enhance an economy's ability to produce strong sustainable returns that exceed the rate of interest paid. There are two main problems with debt-driven development: few investments qualify and few governments possess the needed acuity to stick to a sensible agenda.



James Heckman, winner of the 2000 Nobel Memorial Prize in Economics: Education pays off big time.

Financing social programmes via public debt in order to alleviate poverty, and gain political capital in the process, is an almost irresistibly attractive proposition and one sure to ultimately end in national disgrace as most countries of Latin America discovered. The giving-a-fish rather than teaching-to-fish parable applies.

The ABC of Development

South Korea, Malaysia and, to a significantly lesser extent, Chile show that a commitment to raising educational standards pays off – big time. American economist and Nobel laureate James Heckman, winner of the 2000 Nobel Memorial Prize in Economics, calculated that every dollar invested in education yields anywhere from eight to seventeen dollars in added productivity. Gains, however, are not immediately noticeable and take time – sometimes generations – to materialise.

Nonetheless, Mr Heckman argues that education kick-starts an upwards cycle since skills accumulate over time and learning usually encourages people to keep learning – a fact borne out by both research and empirical evidence. However, this was not the road chosen in the latter half of the twentieth century as decolonisation took hold and the modernising forces of globalisation spread.

Whilst education was usually regarded as highly desirable, it also proved to be an unaffordable luxury for countries barely able to feed their population. The urgent need for a direct boost of productivity took precedence over longer-term goals such as improved education and healthcare. The few available financial resources were often committed to large-scale infrastructure projects. These mostly benefit the extractive sector – effectively a low hanging fruit.

This way of capital formation, quite logical given the often dire circumstances and pressing needs prevalent in most developing countries, also sprang the dreaded middle income trap: accelerated growth, as expressed by a significant rise in per capita incomes, would often stagnate at a level still far removed from that of fully industrialised nations. In Latin America, Brazil, Mexico, and Peru remained stuck in the middle income trap for most of the 1980s. In Africa, Nigeria, South Africa, Morocco, and Tunisia are likewise struggling to break through the glass ceiling.

A 2013 report by the World Bank shows that only a select few countries manage to attain the required escape velocity that allows them to break free from the middle income trap. In 1960, the bank's middle income bracket included 101 countries. Since then, only thirteen burst through to the next level, including South Korea, Chile, Uruguay, Taiwan, Singapore, Hong Kong, Saudi Arabia, and Oman in addition to Ireland, Spain, Portugal, and Israel. Greece recently re-joined the middle income group after a short stint in the high-income class.

Imposing Cultural Change

In the early 1970s, development theories were adapted in order to assign more prominent roles to education and healthcare. General literacy and primary education suddenly became all important with both economists and sociologists arguing that schooling, more than

any other pursuit of public policy, contributes towards the formation of capital, enabling a process of cultural change that makes the people affected more receptive of modern societal values. By acquiring the skills needed in transitional societies (Mr Rostow's third stage of development) – while shedding traditional attitudes that may have discouraged sustained development (essentially brainwashing the Noble Savage) – people would come to covet material well-being and thus be encouraged to adopt the production and consumption patterns of the West.

Investment in human resources soon became the leitmotif of development aid dispensed by Western donor countries. Most programmes aimed to improve education and healthcare standards and included a "gender element" – a sort of standing joke amongst development workers of the time. Henceforward, bilateral aid was no longer to be given for industrial undertakings or infrastructure projects – the human dimension was deemed of overriding importance.

Significant Shift

The thinking on economic development had undergone a significant shift: instead of directing efforts at the creation of wealth (capital), the models were now redesigned to help form the capacity to create wealth: every student attending school was henceforward considered a valuable resource able to make a significant future contribution to national development.

It did not work either. Apart from connotations of cultural imperialism, the education drive, if anything, added to social inequities by creating a local elite – an enlightened class of mostly presumptuous rulers who, more often than not, ignored the plight of those left behind.

Improved education also results in a brain drain. Take India and South Africa. Both countries invest heavily in the training of medical professionals at well-funded medical schools only to see young doctors depart upon graduation to the United States, Canada, and Europe.

In a study published in the British Medical Journal, statistician Steve Kantors, Professor Edward Mills of the Faculty of Health Sciences of the University of Ottawa, and other academics found that the loss of return on investment in medical training had cost the countries of Sub-Saharan Africa in excess of $2.1bn during the 2000s. The losses varied from $2.5m in Malawi to $1.4bn in South Africa. The report also calculated the benefit to the doctors' host nations. The United Kingdom has profited the most from immigrant physicians who netted the country around $2.7bn. The United States comes in a distant second deriving an estimated $845m from doctors trained in Africa.

In South Africa, it costs the state more than $90,000 in direct grants, bursaries, and academic infrastructure to train a doctor during the six years it takes to obtain a medical degree. Foreign employers – mostly British and Canadian health services providers – are brazen in their poaching practices; recruiters visit campuses, advertise in local medical journals, and entice senior students to sign up with cash bonuses and other sweeteners. In effect subsiding healthcare in the developed world, South African authorities became so upset that in 2010 they summoned the high commissioner (ambassador) of Canada to demand an immediate stop to the rustling of junior doctors. The missive fell, however, on deaf ears.

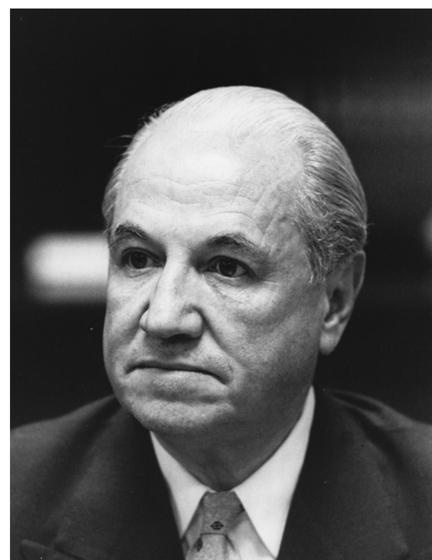
Still accorded an important place in any development model, education has of late been demystified and is no longer considered a cure all end all. In fact, formal education is now seen, in the eyes of some, as an impediment to attaining broad development across demographic strata.

Why Try?

For Argentine economist Raúl Prebisch (1901-1986) and his Brazilian colleague Celso Furtado (1920-2004) – both formulators of structural economics which resolutely discards any and all notions of the principle of comparative advantage as first described by David Ricardo – underdeveloped countries cannot possibly escape the middle income trap as long as they remain dependent on First World trade, capital, and knowledge.

Messrs Prebisch and Furtado argued that the internal and external disequilibria inherent in the productive structure, and the dynamics of the balance of power, will consistently result in deteriorating terms of trade. Beholden to rich countries' markets, dependent on foreign capital, and unable to negotiate prices, developing nation are condemned to subsist on the margins of global affairs.

Raúl Prebisch and Celso Furtado both advocated the strengthening of political and societal institutions as a way of ensuring sustained economic development. They also recognised the need to encourage national savings – e.g. pension funds – to ensure the availability of capital and raise the rate of investment. Finally, Messrs Prebisch and Furtado proposed a mixed development model that contained elements of ISI (import substitution industrialisation) and EOI (export-oriented industrialisation), albeit with an emphasis on the former.



Raúl Prebisch: Relegating David Ricard's comparative advantage to the dustbin.

Structural economics assigns a secondary role to the free market. In fact, it denies – not altogether unreasonably – that such a thing even exists: to some extent markets are always regulated. Cross border trade, structural economists argue, is not the panacea most of their mainstream peers hold it to be. Free trade, Messrs Prebisch and Furtado concluded, constitutes a direct assault on the poorer partner's ability to accumulate capital and underwrite national development.

Nice Try

Whilst structural economics seems, at first glance, quite reasonable and even workable, real life didn't bear this out. Named executive director of the Economic Commission for Latin America (CEPAL) in 1950, Mr Prebisch transformed this small United Nations agency in a veritable hotbed of revolutionary economics. He actively promoted the ISI development model which was embraced by Argentina, Brazil, and a host of other countries. Henceforward, these economies would no longer import consumer goods. Instead, domestic industry was tasked with meeting demand, creating jobs and a new elite of uncompetitive industrialists in the process.

In a rather ironic twist, Mr Prebisch, the anti-free trader par excellence, was appointed first secretary general of UNCTAD – the United Nations Conference on Trade and Development formed in 1964. Undermining his credibility ever so slightly, once installed in

Geneva Mr Prebisch promptly renounced import substitution as a valid development model and proposed increased south-south trade instead. He also demanded developed countries unilaterally open their markets to the products of developing nations as a way of redressing the skewed balance of power.

Whilst an original thinker and fine academic who remained hugely influential in Latin America throughout his life, Mr Prebisch' steadfast denial of market dynamics has caused much harm and hardship. As such, the results of the policies he inspired are not at all dissimilar to those obtained by India which for decades on end tinkered with a hybrid economic development model that bound private enterprise – such as it was – to the rigid five-year plans, set in stone regardless market conditions, of a planned economy. The result became known as the "Hindu rate of growth" – denoting a prolonged period of barely noticeable economic growth or a state of near stagnation.

India is still waiting for its Golden Decade which often appeared to dawn but never quite got underway. Whilst the country did manage to escape the lending trap and contained its external debt to less than 25% of GDP, its retrograde development model, adopted immediately after independence in 1947 (dominion status) under the tutelage of Jawaharlal Nehru, resonates to this day.

Though the country has broken off its love affair with the spinning wheel, India remains a highly regulated society, saddled with an overall inefficient industry – save for some remarkable exceptions in the IT sector and in basic industries such as Tata Steel. However, the legacy of Alexander Gerschenkron (1904-1978) may yet come to the rescue. As it happens, India is a prime candidate to benefit from what the Russian-born economic historian and Harvard University professor named backward economic advantages.

Hogwash

Prof Gerschenkron had little time for Walt Whitman Rostow's five stages of growth which he reportedly once called hogwash. According to Prof Gerschenkron, economic backward countries almost always enjoy competitive advantages: investment in new productive capacity means that plants will possess state-of-the-art machines and facilities, and benefit from the latest in management techniques and processes. Chile's fish farming industry, built from scratch and conquering world markets in under a decade, seems to prove the point.

Prof Gerschenkron describes a brave new world awash with opportunity. In countries trying to catch up, growth comes in spurts and development takes place in leaps and bounds, with the smarter ones opting for capital intensive production as opposed to socially more acceptable labour intensive endeavours.

Prof Gerschenkron argued that the state of a developing nation must do all it can to attract capital: beg, borrow, or steal – it doesn't really matter as long as the funds are available to finance grand industrial undertakings that are sure to turn a quick profit.

An exponent of the Austrian School of Economics, or at least of its more progressive wing, Prof Gerschenkron did not believe that a gradual approach to development as described by Rostow et al would be able to deliver the goods. As such, Prof Gerschenkron may have served as inspiration to China as it embraced economic pragmatism – possible perhaps only due to its rather sterile political environment – in order to deliver the goods not just to its own population, but to the entire world.

India's love affair with the spinning wheel did not help speed up economic development.

The proverbial 800-pound gorilla rearranging the file cabinet of development models, China managed to prove that mixing and matching theories – and ruthlessly imposing the resulting policy framework – actually works. The country has taken a bit of Rostow, Prebisch, Ricardo, Gerschenkron, and Keynes – added a whiff of Marxist flavour in a nod to leaders past – to come up with a model that delivered almost instant success.

Whether reformer Deng Xiaoping (1904-1997), leader of the Communist Party of China, actually said it or not: when the Chinese got his message that "to get rich is glorious", they set to work. The government got mostly out of their way and provided the wherewithal – often via creative bookkeeping (Prof Gerschenkron would have approved) – to make things happen.

The Golden Decade Found

And happen they did. China is now in its third consecutive Golden Decade and shows few signs of slowing to a crawl with glass ceilings being shattered and middle income traps ignored. The country burst through Rostow's stages of development to claim a spot on the fifth rung – the age of mass consumption.

If there is any lesson in China's experience for other developing nations, it may be a simple one: talk less and do more. Whilst at it, do not try to reinvent the wheel – just keep it spinning – or lose time by implementing novel untested economic theories based on political assumptions. Also, do not for a moment believe that the system is rigged against new members joining the developed world.

This, simple though it is, seems a rather tall order in most countries that do have a lively political scene – as opposed to China's ensemble of parliamentary yes-men – and where debate is valued as an expression of popular will, and perhaps anxiety. Politics may throw a spanner in the wheel, but globally rates of growth and development, slow though they may still be, are picking up.

According to the World Bank, poverty rates are declining at an encouraging clip. In fact, the World Bank last year reported that for the first time in history the global poverty rate dipped below 10%.

Something is working, somewhere: though models may differ, as long as they observe economic practicalities all efforts at promoting development contain kernels from which some prosperity may spring. After all, economics is not an exact science – some would even argue it is not a science at all.