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On "Great Divergence" and "Great Convergence"

Vladimir Popov, *Mixed Fortunes: An Economic History of China, Russia, and the West* (London: Oxford University Press, 2014), xiii+191 pp.

The author of this interesting and thought-provoking book Vladimir Popov is a prominent Russian economist, an Advisor in the Department of Economic and Social Affairs of the United Nations (New York), and a Professor Emeritus at the New Economic School (Moscow).

The book is the result of many years of his consistent research and logical summary of the main original findings, early versions of which were published widely and became well-known internationally. Its goal, formulated by the author in the introduction, "is to provide a non-technical interpretation of the 'Great Divergence' and 'Great Convergence' stories" between the West and other parts of the world between 1500–1950 and beyond.

In the first two chapters, Popov posed two major questions. How and why did the West become rich first? Why have some developing countries been in catch-up mode, but others have not? Based on the analysis of different viewpoints on this matter, he presents his own original explanations, that the West became rich due to radical dismantling of traditional community that led to the social differentiation and "income redistribution in favor of savings and investment at the expense of consumption."

Attempts to catch up via forced or voluntary Westernization scenarios in the majority of developing countries (Latin America, Sub-Saharan Africa), or in the Russian Empire, according to Popov, failed. The destruction of community institutions dramatically increased income disparity that offset the new economic opportunities, and did not lead them to a trajectory necessary for catching-up development. Whereas East Asian countries managed to retain their traditional institutions that enabled some of them to show dynamic economic growth that led to the chain of miracles of catching up with the West.

Chapters 3 and 4 are devoted to the comparative analysis of two giants as regards territory and population: Russia and China. The author studies the differences in their institutional and economic development from long- and short-term perspectives. Special focus is placed on the stages of classical socialism and market reforms. The main question here is why the outcomes of transformation are so different: deep recession in Russia and fast acceleration in China? Socialism, according to Popov, in both countries "contributed to the restoration of the collectivist institutions" diminishing income disparities and strengthening the states' institutional capacity. However, as argued in his book, the centrally-planned economy may only be viable for 25–30 years since emphasis on new investments and extensive growth was inseparable from its economic model. Without efficient replacement of retiring fixed capital stock, intensification of production had become nothing more than wishful thinking.

The former Soviet Union (FSU), after several decades of high growth, reached second position in the world but faced such problems in the 1960s. Three decades later a delayed attempt to reverse the country onto the right institutional trajectory failed. "Shock therapy" market reforms in the 1990s, greatly worsened the situation as exemplified by "inequalities, corruption, crime, and the shadow economy."

Unlike the FSU, China since 1979 has undergone gradual transformation and so far managed to preserve its political system as well as "Asian values" based institu-

tions. The exceptional institutional continuity with the right strategy of transformation and export-oriented industrial policy (as in Japan and some other East Asian states in the era of their dynamic growth) has provided impressive results in China too.

Therefore, the author of the book stresses that various institutional trajectories led to different outcomes in Russia and China. Here it is possible to add that the adequacy of the selected methods of reforms to their initial conditions and the stages of development also play a role.

Chapter 5 deals with theoretical analysis of the causes of growth miracles and failures in order to learn lessons with far-reaching implications for development economics. The author notes, that the theories of economic development of the second half of the twentieth century did not greatly contribute to "manufacturing" of the East Asian miracle. On the other hand, the policies the West recommended to the South and the former East aggravated, rather than supported, their catch-up development.

Under these circumstances, the logical way out was to switch to a new paradigm for development theory and policy advice, that enables decision-makers depending on the stage of their development to use tailor-made policy prescriptions and to avoid the traps of development, transformation and globalization *à la* successful East Asian countries.[1]

In the Conclusion, Popov evaluates the opportunities for China to sustain its economic growth and become a leading superpower, as well as the strengths and weaknesses of the Russian economy and its prospects. He also suggests that the lessons learned from successful East Asian experiences should provide the foundation for the emerging theory of stages of development and practice of policy advice. The author hopes that by using such policies not only the South Asian, Middle Eastern and North African Islamic countries, that are, in his opinion, more ready to follow the Chinese model but, "eventually, Latin America, Sub-Saharan Africa and Russia will catch up as well."

Forecasting is always risky, but my comments to Popov's projections are as follows:

1 Now, when most Middle Eastern and North African states are in strife because of war and internal turmoil, despite good institutional preconditions, it will be difficult for most of them to catch up in the immediate future. To forecast the situation in South Asian, Latin American and, especially, Sub-Saharan African states also requires special country-based case studies.
2 Russia's relative success achieved by the year 2012, will be difficult to sustain in the immediate years as well, especially, under conditions of low oil prices and economic sanctions. However, it has great potential to revive, as it had done twice in the twentieth century. Success could be repeated in the twenty-first century not just because of its rich natural resources, but also its human and social capital, and above all the "Russian character." History has shown that in the most difficult times, Russians can mobilize and unite their forces to provide a new breakthrough to catch up.
3 As Popov warns, China's "rapid increase in income inequality since 1985 could

1 Similar ideas have been developed by the reviewer for more than two and half decades. See, for example, B. Islamov, *The Central Asian States Ten Years After: How to Overcome Traps of Development, Transformation and Globalization?* (Tokyo: Maruzen, 2001), xxiii+258 pp.

be a factor leading to a weakening of collectivist institutions," that impedes fast economic growth. The recent rapid increase in the number of billionaires in China (in 2011, it surpassed the number of billionaires in Russia, and acquired second place after the USA), political rivalry, corruption among top government officials, problems in the Chinese stock and the exchange rates markets in 2015 require more careful study of the new processes in its development.

4 However, no matter what happens in the future with political and economic developments in China, there are already important lessons of significant catch-up by a state that had non-market initial conditions. In this respect, it is a pity that the book lacks an analysis of other Post-Soviet countries apart from Russia. However, Popov does have publications on the "economic miracle" in the FSU and analysis of the case of Uzbekistan that supports the main ideas of his book under consideration.[2]

These points are not criticisms but suggestions that can be taken into account. As a whole, the book represents an important contribution to the comparative analysis of the world economic systems, as well as to the economics of development and transition.

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2 See V. Popov, *An Economic Miracle in the Post-Soviet Space: How Uzbekistan Managed to Achieve What No Other Post-Soviet State Has* [PONARS Eurasia Working Paper] (The Institute for European, Russian and Eurasian Studies, George Washington University, August 2013) (in English and Russian).