LACK OF CONVERGENCE. PROBLEM OF UNSATISFACTORY GROWTH PERFORMANCE

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Rapid economic growth of emerging markets, initiated in Asia, and experienced in other parts of the world was one of the most important things for humankind. Thanks to it, millions of people were lifted out of poverty and their standard of living was significantly raised. Apart from a group of countries, which made great progress in last 50 years and successfully reached the level of high-income, we can observe so many cases of growth slowdowns which cause that convergence processes are stopped.

According to the convergence hypothesis poorer countries tend to have higher growth rates, so the distance between them and the richer countries in terms of income per capita will be reduced. Absolute convergence is indicated by Solow model. The Solow model indicates that differences in incomes between countries means that distance between their current position and their steady state is different so they will tend to converge in the future, Moreover, rates of capital productivity is lower in countries, in which capital stock per worker is higher, so capital should outflow from these countries and be transferred to poorer ones. Transfer of technology is not perfect so all the time there exists group of countries which do not dispose of the best technology. In such case we can expect reduction of differences in income levels, when technology reach out to others countries. Generally, Solow model indicates the negative relation between level of income and growth rate.

Unfortunately, we can find many proofs that this mechanism does not work. Convergence implicated by Solow model is only theoretical. In fact transition to the next development stage may require appropriate political reforms, aimed at restructuring the economy. Developing countries do not have to be innovative pioneers. At this stage of development they can import technology. Apart from it, economy takes advantage of transfer of labour force from agriculture to other sectors , in which productivity rate is much higher. At one point, these sources of growth are exhausted and economy approaches technological frontier. This time it is necessary to transform economic model and put emphasis on innovation.

Development is very often perceived as a sequential transition from low-income level to high-income level. At first stage economy is based on low-productive agricultural sector. At one point, due to accumulation of capital and mechanization of production processes, labour force starts to the flow to the industry and services. Development of the industrial sector is possible thanks to the inflow of foreign investments. This time industry is owned by foreign corporations. Next, along with development of industry, there appear native so called supporting industries, which focus on the supply of raw materials, spare parts, and components to manufacturing industries. Transition to next stage is crucial. It requires internalization of knowledge and technology. Foreign companies are replaced by native ones in all areas, like management, research, loqistics, quality control and marketing. This is very difficult and sophisticated process but only in this way country can reach the level of high income. Countries which are not able to transform their economy in such way, experience growth slowdown and do not join group of high-income countries.

Cesar Hidalgo and Ricardo Hausmann perceive economic development as a process of learning how to produce and export more technologically advanced goods. According to this concept development is determined by the capacity of accumulating knowledge, necessary to produce more sophisticated goods. It is not enough to refine the processes of producing existing goods but the country has to develop new products, in order to widen range of products. In this concept the key role is played by human capital. Crucial role of human capital in economic development is also emphasized by Kenichi Ohno. I Many economists like Dani Rodrik Ricardo Hausmann, Jason Hwang Jesus Felipe and Utsav Kumar reckon that diversification of production and technological progress are the most important growth determinants. They pay attention to strong correlation between high level of export sophistication and economic growth. Creating own base for innovation and research may be a very difficult process because getting engaged into new branches is risky and uncertain, so many companies are reluctant to do it. Role of total factor productivity is extremely important in case of middle-income and high-income countries. It confirms thesis that development of low income country is mostly based on accumulation of capital. Along with growth of capital stock its marginal productivity decrease. In order to maintain satisfactory economic growth it is necessary to focus on improving technology, refining management processes and implementing innovations.

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