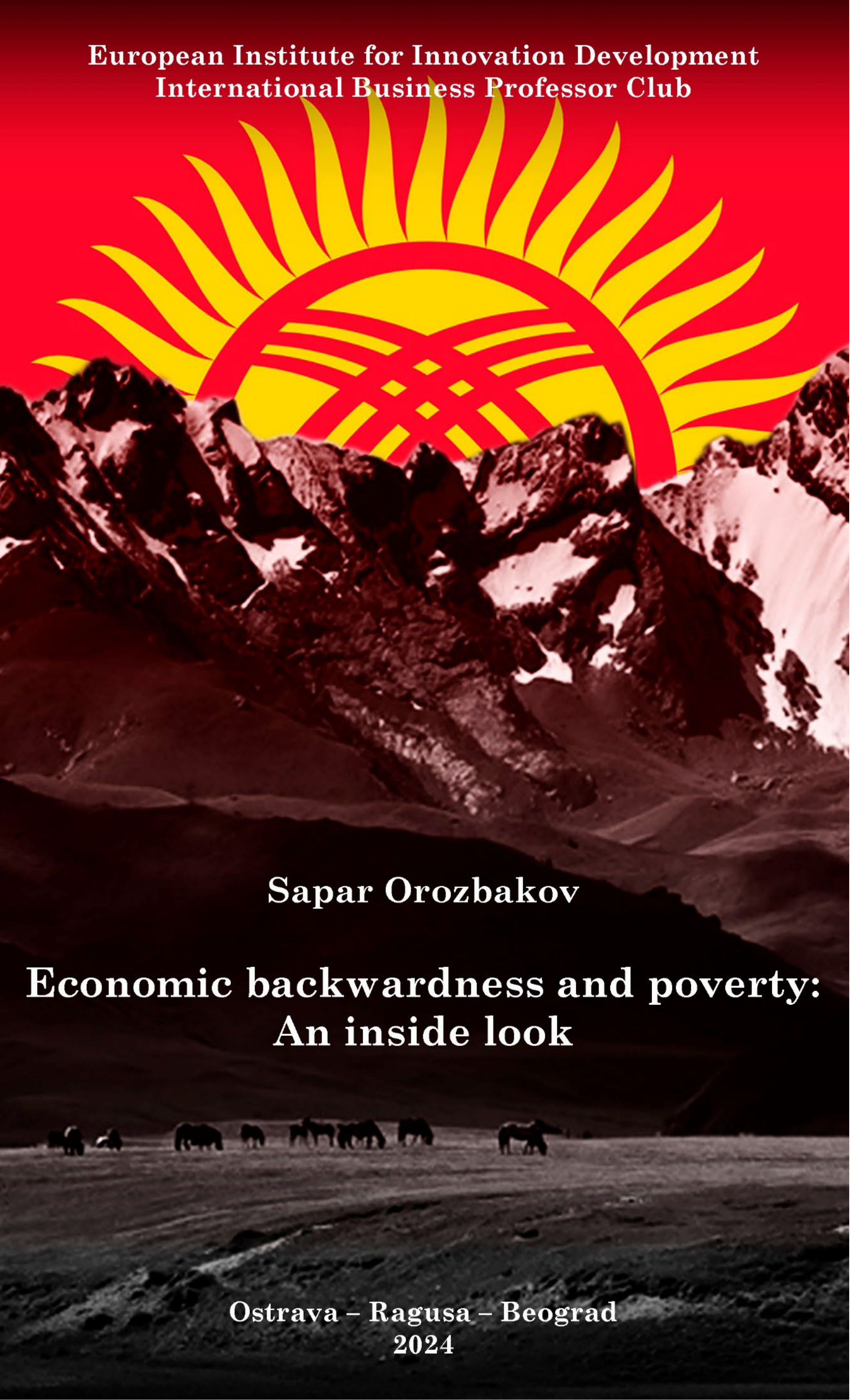

European Institute for Innovation Development
International Business Professor Club

Sapar Orozbakov

Economic backwardness and poverty: An inside look

Ostrava – Ragusa – Beograd
2024

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ECONOMIC BACKWARDNESS AND POVERTY: AN INSIDE LOOK

Happy memory of my teacher
Kemelbek Nanaev

Ostrava – Ragusa – Beograd
2024

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Reviewers:

Alexander Buychik, Doctor of Economics, PhD of Social and Political Sciences, Chief for Sciences of the Tuculart Holding, Vice-Chancellor of the Academic Council of the European Institute for Innovation Development

Maxim Bakhtin, Doctor of Philosophical Sciences, Professor, Chancellor of the Academic Council of the European Institute for Innovation Development, President of the International Business Professors Club

The book includes two scientific articles the author wrote earlier but has not been published and ten journalistic articles published in the last 20 years. The articles touch upon the economic development problems of the Kyrgyz Republic and its place in the world financial community. The author presents to the public his scientific hypothesis about the existence of a law of equalization of territorial levels of economic development, which, in his opinion, operates similarly to the law of equalization of price levels (the law of a single or one price). The collection of articles contains a new understanding of industrial development. The author's thesis about the stepwise nature of industrial development, which is due to the limited knowledge and experience of the population of countries, the level of their scientific and technical development, i.e., the transition of industrial development from simple to complex types of production due to this limitation will reveal the nature of many economic diseases, known as the Dutch disease, "traps of medium and low incomes".

Contents

Introduction

The book includes two previously written but not yet published scientific articles and ten journalistic articles published in the last 20 years. These publicistic articles were initially intended for a local audience, though websites shared most of them in neighbouring countries, some of which were translated into English by local publications. In principle, I wrote many articles in Russian and Kyrgyz. Here, the most significant articles were selected, which, as I hope, are of interest to the international community, at least to those who study the experience of the Kyrgyz Republic.

Both scientific and publicistic articles touch upon the problems of economic development. Economic development, as is known, is a sore point for any developing country. Kyrgyzstan is just such a country. It made a massive leap in its development during its stay in the Soviet Union, reached great heights in science and art, and had a promising industry. The quality of its human capital was comparable to the human capital of developed countries; over the past 30 years, after gaining independence and the transition to a market economy, instead of developing even further, it has turned into a typical African country, or more precisely, a country south of the Sahara, if we speak in terms of the classification of African countries by international financial institutions. According to data for 2022, Kyrgyzstan has a GDP per capita of $ 1,655 and ranks 161 out of 193 countries for which the World Bank has data. According to this indicator, in the ranking table, it is next to Zimbabwe at the top ($1,677) and Senegal at the bottom ($1,599).

I saw everything that had happened over these 30 years with my eyes; I was a living participant in this process. I witnessed how industrial and agricultural enterprises were destroyed and sold by new owners, who became such as a result of the state property privatisation programme in parts of China. The Chinese built small enterprises from our equipment and manufactured goods that we bought with money from the Chinese from the sale of equipment and received on credit or as aid from foreign countries.

Kyrgyzstan, which earned the title of a diligent student of international financial organisations for its most consistent implementation of the principles of the Washington Consensus, lost almost half of its production during market reforms, turning into a typical agrarian country. Total unemployment engulfed the country. A third of the working population is still forced to earn a living in other countries as labour migrants. The external debt has grown considerably, eating up a quarter of state revenues. However, many external borrowings were received on preferential terms with a long repayment period and a low interest rate, often not exceeding 1%.

The sharp decline of the economy caused a correspondingly substantial decline in the population's living standard. The income's uneven distribution aggravated it further. As expected, the layer of rich people grew, a significant part of whom accumulated their wealth using their official positions. The fusion of business, government, and crime remains a pressing problem today. Most people survived on one-time incomes from various sources. I experienced poverty when earning a living by growing crops, even though I had higher education. I stood at the origins of the transition to a market economy, working in the State Commission for Economic Reform.

In Kyrgyzstan, nicknamed the "Island of Democracy", unlike other Central Asian countries, where presidents rule until old age and death, power has changed five times. Moreover, three times, this happened violently due to popular discontent with the policies and actions of the presidents. The country has changed its constitution and form of government several times, moving from mixed to parliamentary and back from parliamentary to presidential with unlimited powers of the president. This has not led to noticeable improvements in the economy and people's lives. However, each new president promised a heavenly life and, at the end of his term in power, tried to convince others that he could lead the country on sustainable development. People do not believe in the prospects of their country. Many willingly acquire citizenship in other countries. This applies primarily to educated youth, on whom the country's future depends.

My articles are not ordinary publicistic articles, which, as we know, retell other people's thoughts. My articles are my thoughts born from many years of reflection. This is the fruit of my research into the problems of economic development. I am an economist by profession. I have a degree in the Candidate of Sciences (PhD). Back in Soviet times, I was so seriously involved in economic science that when I defended my PhD thesis at one of the Moscow institutes, one of the speakers described me as a rare phenomenon.

In Soviet times, we had no access to world economic literature. With Kyrgyzstan's establishment as an independent country, I had to eliminate this gap quickly. The Internet helped me a lot with this. I remember how earlier, under Soviet power, we spent a whole day to get one figure from government agencies. With the development of the Internet, we could get acquainted with the statistics of any country, except for maybe 5-10 countries. We could read any book and articles on the Internet.

In this book, I submit to the public my scientific hypothesis about the existence of a law of equalising territorial levels of economic development, which, as it seems, operates similarly to the law of equalising price levels (the law of a single or one price). Recognition of the existence of this law is of great significance for the economic development theory. It allows us to correctly understand the reasons for the jumpy growth of a backward economy and the slowdown in the rates of economic growth in developed countries, determine the role and place of factors known in economic science, such as scientific and technological progress, the institutional factor in the economic development of developing countries, unravel the complex interweaving of factors influencing economic growth, shedding light on the mechanism of economic development in developing countries.

My articles contain a new understanding of industrial development. My thesis on the stepwise nature of industrial development, which is conditioned by the limited knowledge and experience of the population of countries, the level of their scientific and technical development, i.e., the transition of industrial development from simple to complex types of production due to this limitation will allow us to reveal the nature of many economic diseases, received the name Dutch disease, "traps of medium and low incomes".

I thank Stanislav Chenyukh and Salmoorbek Abdyraev for their support in preparing this book. I also want to thank the world-famous Polish reformer Leszek Balcerowicz for his suggestions and valuable comments on my article "On the Law of Equalising Countries' Economic Development Levels" in the manuscript.

Scientific Articles

On the law of equalising countries' economic development levels [1]

Abbreviations:
EAEU or EEU – Eurasian Economic Union
GDP – gross domestic product
ILO – International Labour Organization
OECD – Organisation for Economic Co-operation and Development
PPP – purchasing power parity
WTO – World Trade Organization

Numerous theories of economic development explain in different ways why some countries prosper while others remain economically backward for a long time and cannot escape the embrace of poverty for decades. Various strategies for achieving rapid economic growth rates have been developed on their basis. However, the fact is that a market economy contains an internal mechanism of economic development that is capable of ensuring economic growth without any interventions and government regulation – without additional stimulation and incentives. If a country uses this mechanism, it can quickly catch up with advanced countries regarding its economic development level. We are talking about the objective process, named "convergence" or "rapprochement" in economic literature. In addition to these words, the process is designated by the term "catch-up development". However, the theory explaining this process is created on false premises, giving rise to confusion in economic theory generally and the theory of economic development, in particular.

Research on the convergence process was revived after the appearance of the Solow economic growth model, in which it (convergence) found its theoretical justification (*Solow, 1956*; *Solow, 1957*). Developing the convergence theory associated with the Solow model was significantly contributed by Baumol William (*Baumol, 1986*), R.J. Barro and Sala-i-Martin (*Barro & Sala-i-Martin, 1991*; *Barro & Sala-i-Martin, 1992*; *Barro & Sala-i-Martin, 1995*), Mankiw (*Mankiw et al., 1992*) and many others. The fact is that the Solow model, like all neoclassical models, was based on the marginalist theory of diminishing productivity of factors of production. According to this theory, and, consequently, the Solow model, which uses it as an essential element as capital stock increases and a country becomes rich, the economic growth rate should slow down. It allows poor countries to catch up with them.

However, numerous empirical studies have shown that convergence does not always occur. This has led to confusion among convergence theorists and the creation of various truncated versions of convergence theory, namely the concept of so-called conditional convergence, according to which poor countries grow faster than rich ones only when other things are equal (with the same steady state, i.e., under the condition of similar structural parameters and production function, in terms of the Solow model) (*Barro & Sala-i-Martin, 1992*). In the case of different steady states, conditional convergence means that a country grows faster the further it is from its stable state (*Tumanova & Shagas, 2004, pp. 199-203*). There is also a theory of club convergence, which states that convergence occurs between economies with similar parameters. Some scholars cite a whole set of reasons for convergence that allegedly follow from the Solow model (*Romer, 2014, pp. 52-57*). Human capital and the technological development level, like investment, are among them. However, they are general economic development factors that are characteristic of both developing and developed economies. As a result, the doctrine of convergence is eroded and ceases to be a particular theory predicting the inevitability of income convergence of all countries at the same level.

However, this is a false association. In my opinion, the convergence of incomes of countries does exist, but for entirely different reasons. The real reason that contributes to equalising economic development levels is that in an underdeveloped economy, production costs, primarily labour costs, included in the cost of any product, are low since their price, including the price of labour – wages in these countries are usually lower than in a developed economy, and this allows it – an underdeveloped economy – to produce competitive goods. This helps it conquer the market, displacing developed countries from it and leaving them with only the market for which it cannot manufacture goods purely because of the low level of technology and the lack of skilled workers.

How do wages affect economic growth? A hypothetical example is necessary to illustrate this. It can be assumed that, in some underdeveloped countries, wages are five times lower than in developed countries. Then, all other things being equal, any product with 20% labour intensity can be produced at 80% cheaper, as seen from the table compiled from hypothetical examples. If wages are ten times lower, then the difference in the product cost price can reach 180% (*Table 1*).

To show that the examples of wages that I have given above are not fictitious, in the appendix, I will provide actual data on wages by country for which the ILO has data. As the table shows us, there are not less than 5,000 dollars a month in the most advanced countries wages, while in many underdeveloped countries, they do not reach 100 dollars, i.e., the difference is up to 50 times. I claim that all economic miracles' secret lies precisely in the difference between wages and the cost of other resources.

In this regard, I would like to note that many people associate the rapid development of the economies of East Asian and South Asian countries with the undervalued exchange rate of national currencies, which is allegedly deliberately performed by the authorities of these countries to gain a price advantage in competition with other countries, e.g., the US authorities believe that the yuan exchange rate is undervalued by 20-40%. In their opinion, it allows Chinese manufacturers to "take jobs from the US", displacing American manufacturers from their traditional markets (*Geithner…, 2009*). The same accusations from the US were made against Japan and Germany once when they were at the rapid economic growth stage and had a positive trade balance with the US. I do not deny the influence of the exchange rate on economic growth. However, the influence of the exchange rate on the exported product price is too small compared to the influence of the cost of labour and other resources.

In labour-intensive industries, this competitive advantage will be further multiplied. This leads to the fact that these countries specialise in producing labour-intensive goods, mainly clothing, contributing to the even faster development of the economies of these countries. Almost all fast-growing Asian countries were engaged in clothing production at the early stage of their development, some countries for a long time, and some for a short time. For an underdeveloped economy, clothing production is also attractive because it is less capital-intensive and does not require significant capital investments, which an underdeveloped economy will not have in sufficient quantities at its first development stages. Its technological accessibility is of great significance, though more complex and high-quality sewing products require special training of workers and a higher level of technical and technological support.

My country, Kyrgyzstan, also produces clothes. This industry appeared in our country spontaneously – without a conscious and targeted government policy. In addition to low wages, the development of this industry was facilitated by cheap raw materials and equipment made in China, which were also imported to Kyrgyzstan at the lowest customs tariffs. Kyrgyzstan, like China, was a member of the WTO, while Russia and Kazakhstan, where our clothes were sold, were not members at the time. However, as the economies of these neighbours developed under the influence of high oil and gas prices, wages began rapidly growing in Kyrgyzstan. Kyrgyzstan did not have time to diversify its economy and switch to production with a high added value content. The negative impact of these negative factors increased after Kyrgyzstan joined the EAEU (or EEU). As a result, the sewing industry lost its former dynamism of development [*2*], and its future does not look so clear.

Labour-intensive industries include mechanical engineering, many types of services, and clothing production. However, these industries require a more advanced level of technology and worker qualifications. Therefore, an underdeveloped country usually engages in clothing production after agricultural production, which is also labour-intensive.

Transnational companies' relocation of production from developed countries to underdeveloped ones is also associated with the low cost of labour in these countries. However, they prefer those countries where the market mechanism is more or less in effect, i.e., laws are observed. The availability of ready-made skilled workers in this country is also considered so as not to start production from scratch.

Another natural way to resolve territorial disparities in wages is labour migration. The impact of labour migration on economic growth rates in the supplier and recipient countries of labour is different. It can contribute to an increase in the economic growth rate in developed countries, receiving labour. This is because employers can hire migrants cheaper than local workers. Of course, this will ensure higher competitiveness for the companies of this country. The faster growth of the German economy in the 1990s and 2000s, in contrast to other developed countries, in particular the USA, in my opinion, is due to the accession of East Germany, where the standard of living and, consequently, wages were previously lower than in the West.

The impact of labour migration on economic growth has mainly hurt labour-exporting countries. Of course, remittances from labour migrants can become an investment in the economy. This is significant when foreign investment does not come to the country, and this lacks capital. However, the negative aspects of labour migration outweigh the positive ones. Labour migration leads to an increase in wages without increasing labour productivity and the loss of competitive advantage for these countries. It gives rise to a phenomenon known as Dutch disease. My country is just such a country (*Orozbakov, 2006b*). As the economy grew in Russia and Kazakhstan, caused by the increase in demand for energy resources and the rise in their prices, unemployed people from our country left for these countries. Even some of the workers left since wages there were an order of magnitude higher. In addition to Russia and Kazakhstan, the favourite countries where our people go in droves as labour migrants are South Korea, Turkey, Italy, and the USA.

According to estimates, a third of the working-age population are labour migrants. This is the second indicator in the world after Tajikistan. In this competition, local employers were forced to raise wages. Thus, from 2006 to 2015, real wages increased 2.1 times, while labour productivity, calculated as the ratio of GDP at PPP in comparable prices and the number of employed, increased by only 41% during that period. The most exciting thing was that, in our country, experiencing a shortage of jobs, there was also a labour shortage. Oddly enough, the unemployment rate, calculated using the ILO methodology, was even lower in some years than in Russia, even though it is not Russia but Kyrgyzstan that supplies the labour force.

The brain drain is the most severe consequence of this natural way of resolving territorial disproportions between jobs and the labour force. It further aggravates the situation of backward countries, making it even more difficult for them to develop. A country that needs to diversify its economy, i.e., to create production with a higher added value, needs more educated workers.

For simplicity, to make it more transparent, I spoke above only about wages. To calculate the full advantage of an underdeveloped country over developed countries, instead of wages, we must take the entire added value and add the benefits of low prices of some non-tradable goods that can be used in production.

The price of non-tradable goods and services, like the price of labour, is derived from the country's economic development level. They also have a low price in underdeveloped countries, while the price of tradable goods is controlled by supply and demand in the world economy. For this reason, it is equalised between countries under the influence of the single (one) price law. Even the prices of traded goods in underdeveloped economies are somewhat lower than in developed countries. The different prices for the entire set of goods can be judged by the GDP ratio at par with GDP at PPP. In Kyrgyzstan, this is three times the value. The appendix shows the share of value added in the volume of production by individual industries (*Table 2*).

In many countries, cheap labour was the primary source of rapid economic development. This applies to the mid-20th-century countries of Southern Europe, Eastern Europe after the fall of the Soviet Union, and East and South Asia. When the United States overtook Britain in economic development and came out on top of the world, cheap and rich natural resources played a leading role, not labour. They managed to avoid the Dutch disease thanks to more liberal economic laws that increased competition and, as a result, the development of scientific and technological progress in the country.

In the current world economy, a striking example of a development strategy based on the use of natural resources is Equatorial Guinea. This small African country increased its GDP by 10.4 times from 1996 to 2008, with an average annual growth rate of 11%. Of the countries that emerged in the place of the former USSR, countries with a resource development strategy include Russia, Kazakhstan, Turkmenistan and Azerbaijan. Previously, most Arab countries relied on a similar development strategy, where economic growth had already faded as natural resources were depleted.

I mean GDP per capita by the economic development level. When I talk about equalising the economic development levels, I mean equalising the GDP per capita. Moreover, in my opinion, this is a law, not a hypothesis, as convergence theorists call it. This is an objective, inevitable process that does not depend on the will and consciousness of people. However, the economy must be market-oriented and open for this law to manifest itself. This is the law of a market economy, whereas, in the convergence hypothesis discussed above, the convergence of levels of economic development is sought in every economy. This is the fundamental difference in my approach to the problems of convergence. In its mode of action, in many ways, this law is similar to the law of a single price, which means that the prices of goods that participate in international trade are equalised, and one price is set for all countries.

However, the law of one price operates in a truncated form, extending only to so-called tradable goods, whereas the law of equalising economic levels covers the entire economy. The law can be considered a continuation of the law of one price in non-tradable goods. The final result of the law of equalising economic development levels will be the establishment of a single price for all goods, including the prices of non-tradable goods. I mean the fact that the prices of non-tradable goods among developed countries are closer than in comparison with underdeveloped countries.

Generally speaking, the engine of the economy, which promotes its growth, is the desire of individuals to earn money through entrepreneurship. This desire is best realised in a market economy, where private property and all types of freedom are provided, including economic freedom. For example, in China, for the economy to grow faster than under socialism, it was enough to provide economic freedom. In this sense, the economy is developed by market mechanisms. It is market mechanisms, not capital and investment, not labour, not scientific and technological progress, that develop the economy. The principle of self-regulation is no exception here. Economic development in a market economy is a "self-developing process" since, in any society, there are people who want to earn money. The cheap labour that I am writing about here makes this growth only spasmodic, stormy, and explosive, pushing countries to converge their levels of development. In other words, the rapid development of an underdeveloped economy occurs only if it has a market and open economy. An open market economy creates the effect of communicating vessels. However, many underdeveloped countries do not have a market economy. Though they legislate for market liberal laws, they are generally not observed and operate weakly and distortedly. Therefore, convergence is not universal.

An open economy means the same market economy but on a larger scale. It is a continuation of liberal economic policy in the global space. An ample market space increases the demand for goods in an underdeveloped economy, and rapid economic growth is essentially the result of this large volume of demand; e.g., if the Chinese economy suddenly switched to a closed mode of operation for some reason, it would certainly develop, but its growth rate would be much lower. At the dawn of capitalism, all the economies that grew faster than others, e.g., the United States and Germany in the second half of the 19th century, did not have Chinese growth rates at the growth stage since the market space was limited at the time.

Large countries, if they switch to the autarkic development mode, can, to some extent, ensure acceptable economic growth, but small countries cannot do without additional market space. Domestic demand in underdeveloped countries is not significant due to the low solvency of their population, and this, of course, cannot but limit the economic growth rate even with idealistic mechanisms of a market economy. Almost all countries, except for a few, pursue an open economy policy. This is evident from the fact that more than 150 countries are members of the WTO. Therefore, the problem in most cases lies in the domestic economic policy of backward countries. However, the rules of foreign economic relations used in world practice cannot be called ideal from the point of view of the principles of a market economy.

However, building a market economy is a big issue that deserves special consideration. I intend to write a unique article about it. My article on institutional problems, which I mentioned above, will examine precisely these questions. Here, I will make only a few remarks necessary to understand the law of equalising levels of economic development better. Just as adopting the laws aimed at building democracy does not mean that the country automatically becomes a democratic country, the adoption of market laws also does not guarantee that market principles of economic regulation will operate. The exact reasons often underlie the improper operation of the democracy and market economy laws. In most cases, this is due to the peculiarities of the culture and mentality of backward peoples. The culture and mentality of the people change, as is well-known, very slowly. This is the difficulty of building a truly market economy, in general, and progress in economic development, in particular.

It is not by chance that I used the term "backward people". Here, the relationship between the economy and culture is two-way. The economy does not develop, and market relations do not work since the culture is backward and does not meet the requirements of the market economy. However, the backwardness of culture is primarily associated with the backwardness of the economy. For example, respect for private property is fostered in the economic development process, and developed countries, it is higher than in underdeveloped ones. It is a vicious circle that can be broken by changing the mentality of backward peoples in the cultural interaction process. The literature noted the positive aspects of colonising backward peoples (*Acemogluet al., 2004*). We fully agree with this opinion. Proximity to developed countries has approximately the same effect. In the rise of the economies of Southern Europe and later Central and Eastern Europe, the decisive role was played by proximity to developed peoples, who also had the exact religious and historical origins. Alternatively, it is necessary to raise the economy with the help of manual control – non-market methods, as in Asian countries of rapid development. If the economy develops, people's living conditions improve, and their education increases, building a regular market economy will be much easier. The transition to genuine democracy will also go smoothly and even naturally. This can be seen in the example of the aforementioned Asian countries, where a breakthrough has begun in the economy. They are becoming completely democratic countries.

Those countries that achieve great success in their economic development without having a market economy and democratic institutions use state regulation. In the absence or weakness of market mechanisms, it is mandatory. However, not every state regulation gives positive results. For it to be accompanied by economic growth, state regulation must compensate for the missing elements of the market economy and act in the same direction as market mechanisms, complementing and correcting weak and inoperative elements of the market economy. It should not be an alternative, not a replacement for market mechanisms, but their continuation. However, in practice, rulers of countries often impose their will with the help of state regulation and act against democratic principles. A monopoly on power gives rise to a monopoly in the economy, and laws work selectively, resulting in uncertainty and weakening property protection for others. Thus, many countries use authoritarian rule. However, only a few achieve positive results. Continuing this thought, it is worth noting that government intervention is not required in countries that have suitable market mechanisms. It will only get in the way and lead to worse results.

My country, Kyrgyzstan, was one of the 15 republics of the former USSR that gained independence unexpectedly after its collapse. In many analytical materials reviewing the country's economy, it is described as a backward outskirt of the Soviet empire, living exclusively on subsidies from the Union budget. However, this is not true. Kyrgyzstan had a somewhat developed industry by Soviet standards, comparable in its manufacturing part to the industry of Russia itself, and, before the collapse of the Soviet Union, it occupied third place in terms of GDP per capita after Russia and Kazakhstan. However, it did receive considerable money from the centre. In the Soviet Union, there was a substantial price disproportion, and advanced industries could also not cover their costs and not bring in income sufficient for their development. However, this industry was created by Russia's attracting specialists, who left the country "en masse" after Kyrgyzstan became an independent country.

In Kyrgyzstan, reforms aimed at building a market economy, as in all countries that emerged from the ruins of the USSR, began in 1992 with a sabbatical on freedom. The country was lucky with its leader. Under public pressure, unlike other Central Asian countries, the First Secretary of the Communist Party of the Republic, being an unpopular person, was not elected president. Physicist Askar Akayev, who headed the republican Academy of Sciences, became president. The first years of the scientist president's activity were beneficial. Kyrgyzstan managed to curb inflation and stop the decline in production earlier than Russia and neighbouring countries. It performed state property's rapid privatisation. Under international financial organisations' leadership, it introduced liberal economic laws, for which the country earned the name of their most diligent student. However, there was no particular economic growth corresponding to the dynamism and depth of the reforms. The growth rate of Kyrgyzstan's GDP did not differ from that of neighbouring countries, where there was neither democracy nor a market economy, according to international organisations. Then, in the middle of the first decade of this century, when the prices of oil and other natural resources rose sharply, it turned out that in those neighbouring republics that were in no hurry to perform economic reforms, the economic situation was even much better than in the Kyrgyz Republic.

There are many reasons for the poor performance of economic reforms. International organisations have pointed to the inadequacy of structural reforms, referring to the government's reluctance to privatise the few enterprises that remain in state hands and the weakness of state bodies. Local analysts have linked all the problems to the Akayev family rule, which has begun to take over all the country's profitable companies. However, there are deeper reasons that underlie all those that are on the surface. The fact is that after independence and the collapse of communist ideology, a movement began to return to cultural roots.

A distinctive feature of nomadic societies is tribal collectivism, which has been brought to the point of the monolith. In the primary cells of tribal associations, called "*bir atanyn baldary*" (literally "children of one father"), people were obliged to help each other, and, as a result, no one was left without a piece of bread. However, people lived separately from their closest relatives. Large-scale works were performed jointly using the "*ashar*" method with the participation of all association members. This led to the prevalence of group interests over personal ones and the development of unique traditions and customs that killed people's economic initiative. During the Soviet power years, significant changes occurred in the mentality of the people. However, this collectivism was not overcome since the socialist society itself was a collective society, and the collective farms, organised by the Soviet government in rural areas, were created based on those above primary tribal cells.

As the state bodies weakened due to their chronic underfunding and the collapse of communist ideology, national traditions and customs, which, by limiting free competition, came into conflict with the principles of a market economy and democracy, came to life, becoming unwritten laws and turning into one of the powerful instruments of the functioning of Kyrgyz society. As a result, freedom turned into chaos due to the lack of uniform rules and permissiveness for those with power. A monopoly of certain groups on power was born, which quickly turned into an economic monopoly, and a situation arose where no business could be confident in the future. Trying to maintain his power, Askar Akayev became the head of one of the groups. At the end of his presidency, he was slightly different from other Central Asian dictators. The overthrow of Akayev did not help. Only the dominant groups fighting for the country's resources changed, and the rules remained unchanged. In Russia, the situation also strengthened this market economy since the elite and people of Kyrgyzstan viewed it as an example to follow.

National traditions do not allow market entities to act rationally. Due to collectivism in Kyrgyzstan, it is profitable to invest money not in production but in politics. It is impossible to put a corrupt official in jail since his relatives will stand up for him and not let anyone hurt him. People study not for the specialities that the market requires but for those where, in their opinion, they can earn big money because they hope that with the help of their connections, they can find employment where they want. Kyrgyz culture does not approve of the desire for material wealth. Profit is seen as an accidental find, which the buyer is obliged to share with others. Therefore, local entrepreneurs usually see their business as a means of survival. Examples of distortion could be continued, but I think it is enough to understand the mechanism of distortion of market signals. Such an economy cannot be called a market economy, as it is in Western countries. It will not give the expected results. Despite abundant assistance from Western countries, the country's economy has not been able to rise to a new level. In a relatively short time, Kyrgyzstan has turned into a typical African country with high external debt, high unemployment and appalling living conditions, the country where the economy is dominated by the agricultural sector with one or two enterprises extracting natural resources.

How can we prove the existence of the law of equalising economic development levels? First, let us analyse the GDP per capita data to identify the tendency to equalise the levels of economic development of countries in the global economy. For this, I calculated the weighted coefficients of variation based on the World Bank data. I calculated it in two versions: GDP per capita at the current dollar exchange rate and the 2011 exchange rate. The problem of all researchers' studying convergence is that there is no data for an earlier stage of their development for most developing countries. Therefore, many researchers performed their calculations based on data from developed countries. This led to erroneous opinions about existing convergence in the global economy. Unfortunately, the World Bank archive, which I use as the main one, contains GDP data from 1960. To slightly increase the time horizon of the analysis, when calculating the coefficient of variation of GDP in dollars at the 2010 exchange rate for developed countries, I used the data of the Madison project (*Table 2*). From there, I took data starting in 1900. The Madison Project data does not allow us to extend the time series of developing countries very much because it is also limited to them. We could extend the time series by one decade in this way.

As seen from the table, it is difficult to say whether the economic development levels of these countries are converging or diverging. The GDP variation coefficient per capita in dollars at the current exchange rate fell until the early 1970s, and in the next decade, it remained at the level of the previous decade. Then, it increased during the 1980s-2000s; in the first decade of the 21st century, a downward trend emerged again, and in the second decade, it changed to growth. The variation coefficient calculated at a comparable dollar exchange rate increased until the beginning of the new century. Then it fell. However, it did not reach the level of the 1950s and 1960s.

Then, I divided these countries into two groups: developed and developing. The group of developed countries, which, in my opinion, have a full-fledged market economy, included 15 countries of the European Union. They were joined by a non-member but developed European country, Norway, like the USA, Canada, Australia, and New Zealand. There are 20 countries in total. The second group consists of the remaining countries, which, in international practice, are considered developing. OECD members and former socialist countries, which are no longer typical developing countries, e.g., Singapore, Taiwan, and Hong Kong, were excluded from the list. Some developing countries were not included in the group due to the lack of a complete data set. This group consists of 97 countries. The GDP variation coefficients per capita in comparable prices for developed countries were calculated starting from 1990 since there is data on them (*Table 3*).

The table shows that the coefficient of variation at the current dollar exchange rate among developed countries in 2017 was 24.9%, while it was 103.6% among developing countries. A similar difference exists in the coefficients of variation calculated at the dollar of 2010 exchange rate. This means that the difference in GDP levels in developing countries is more significant than in developed countries. Looking at these indicators over time, we can see a clear downward trend in the coefficients of variation for developed countries. However, the deviation from the general trend was quite substantial in some periods. The GDP variation coefficient per capita in developed countries in dollars of 2010 has decreased from 30% to 18.4% from 1990. As we can see from the following lines of this table, such a trend is not observed for developing countries. The relatively low variation coefficients among developed countries in 1990 mean that the convergence of economic development levels occurred at the early stages of their development. I want to note that those researchers who claim to have discovered convergence in the global economy base their conclusions on calculations based on data from developed countries. In particular, the American economist Baumol was one of the first to write that his calculations indicated the presence of such a trend (*Baumol, 1986*). It was later revealed that he had used only data from developed countries in his calculations. It is worth noting that Baumol acknowledged his mistake when he was accused of bias (*Baumol & Wolff, 1988*). However, I do not think that he did this intentionally. Many who talk about convergence in the global economy use the data at their fingertips. Since the most accessible data are from developed countries, they use these data to come to erroneous conclusions.

The decrease in the coefficient of variation among developed countries with the multidirectional movement of this indicator among developing countries, in my opinion, proves that in a market economy, there is a law of equalising economic development levels since developed countries have a full-fledged market economy and all of them, without exception, pursue a policy of open economy. This is my first proof that a law of equalising countries' economic development levels exists. The second proof is that there are fewer differences in the GDP level per capita in the developed regions than in the underdeveloped countries' regions. These differences tend to decrease. In other words, the same patterns among developed countries appear in the developed countries' regions.

I calculated the coefficients of variation of GDP per capita for regions (states, prefectures, regions) of countries for which data is available on the Internet. As can be seen from the table, the coefficients of variation for developed countries differ significantly from those for developing countries. If the coefficient of variation of GDP per capita for US states was 13%, then the coefficient of variation of GDP per capita for federal subjects of Russia was 71%, 47% for Brazil, and 66% for Argentina. The indicators of other developed countries are closer to the US level: Germany, Australia, Japan, and France (*Table 4*). I do not think that developed countries have reduced regional differences in GDP per capita by redistributing funds in favour of backward regions to raise their level of development. However, the existence of some programmes for these purposes cannot be denied. Equalising development levels among regions in developed countries occurs naturally through market mechanisms. Cheap resources make it possible to produce competitive goods, and, first of all, as has already been said, cheap labour attracts capital to these regions. Finally, I would note that if the low coefficient of variation among developed countries shows that a necessary condition for the operation of the law of equalising economic development levels is a market economy, then the high coefficient of correlation between the level of GDP per capita and its growth rate indicates the reason for the operation of the law, i.e., it indicates the future height of the GDP growth rate at low levels of economic development.

Thirdly, low GDP growth rates in developed countries and its abrupt growth in some underdeveloped countries also indicate the operation of the law of equalising countries' economic development levels. The slowdown in GDP growth in developed countries has been evident since the 1970s, although many analysts still do not fully understand this process. However, due to the differences in their economies, the decline in economic growth rates in developed countries began at different times. For this reason, each country first looked for the reasons for the slowdown within its economy. Over time, it became clear that the slowdown was general in economic growth. However, analysts could not distinguish the slowdown in GDP growth rates in developed countries from the permanent low growth rates in many developing countries caused by other reasons, believing that it was a global phenomenon. Only after it became clear that some countries continued to develop rapidly simultaneously did analysts realise that the slowdown was characteristic of developed countries and began to look for reasons familiar to all developed countries.

However, many scientists identify economic growth with the growth of labour productivity, believing, following Solow, that economic growth's primary source is scientific and technological progress, which, as is known, increases labour productivity, and this dramatically confuses them and prevents them from reaching the true causes of this phenomenon. Many articles in the economic literature explain the slowdown in economic growth and labour productivity by the decline in scientific developments and their introduction into production in recent years (*Jones, 2017*).

The labour productivity growth, defined as the GDP amount per work hour, does tend to decrease. However, it is not a factor that can exhaustively explain the slowdown in economic growth rates. Of course, this requires further, more in-depth research. However, our preliminary analysis shows that the GDP growth rate is significantly affected by the amount of labour, which is decreasing in developed countries. In other words, the decline in the GDP growth rate in developed countries is mainly due to the decline in the workers' number growth. Moreover, this is not connected with demographic problems alone – a decreased birth rate in developed countries. It is easy to see that in developed countries, the unemployment rate tends to increase, and the number of hours worked per