Developing or underdeveloped?

Growing wealth and inequality
Today’s Agenda

• Is the World Developing or Underdeveloped?
  – Theory-based Terms
  – What is Economic development?
  – The good news: Growth and aggregate improvement in human welfare indicators

• Liberal views on development and explanations for the growing gap

• A. Rostow and Stages

  • B. Liberalism and integration into the international economy:
    – Staples Theory (Trade)
    – Product cycle (MNC),
    – Institutions (Washington Consensus)

• C. Internal Requirements for Development
  – Move from a traditional to a modern society
  – Democracy

• D. Summary of the Liberal position

• Dependency Theory is concerned with global inequality.....
  – Income distribution and absolute poverty
  – Dependency Theory Explanations
    • Importance of Technology
    • Exploitation in international exchange
    • Duel Economy and Dependency
    • Core and Periphery in the Periphery
  – Terms of Trade
    • Oil is the Exception
    • OPEC
    • Commodities Trade
  – MNCs and IFIs, and foreign Aid
Theory-based Terms: The words contain the theory

- Liberal Theory
  - Developing countries
  - Less Developed Countries
  - Emerging markets

- Dependency theory
  - Underdeveloped Countries

- Neutral?
  - The “South”
What is economic development?

• Overall growth?
• Emphasis on consumption and income levels?
• Or maximizing people's capabilities--that is, their ability to lead the kind of life they value.
• But does this definition depend on economic growth?
• All of the theories of development say so
Liberal explanations for global growth

• Walt Rostow: the intellectual context
  – No previous conceptual apparatus
  – But experience with Marshall Plan
  – But there were historical patterns of development
  – Winning the cold war meant:
    Helping the “Third world” develop
    Within the liberal capitalist model
Stage 1: Traditional society

• Why no growth?
Stage 2: Preconditions for Growth

- Population growth will outpace economic growth in traditional society
- Stimulus needed to mobilize capital and resources
  - Revolution and institutional restructuring
  - Technological innovation
  - Favorable international environment
  - External Injection of capital

Favorable international environment
External Injection of capital
Stage 3: The Takeoff

• Productive investment must rise to 10 per cent of national income
• Needed: rapid accumulation of capital and productive investment

Finance
Stock market
Trade
Foreign investment
aid
4. The Drive to Maturity

- Employment growth
- Growth in national income
- Rise of consumer demands
- Strong domestic markets
5. High Mass Consumption Society
The Importance of Capital Accumulation

• Capital accumulation is the name of the game
• So how does it happen?
Economic development and the International Economy

• International interdependence will lead to economic development of ALL countries in a liberal system

• Trade serves as an engine of growth
The Staples Theory

• Staples are field crops or minerals
• Earnings finance industrial growth
• Canada and Australia developed this way
• This justifies the theory of comparative advantage
• Export-led growth is the way to develop
Trade and the product cycle

• Corporations maximize their own growth and the growth of the countries in which they operate
• Three stages of corporate expansion and growth
the introductory or innovative phase

- Located in advanced countries
- Comparative advantage in product development because of large home market
- And lots of resources
- Corporation enjoys monopolistic position
- Foreign demand grows
- Corporation exports
The maturing phase of the product cycle

- Technology diffuses
- Innovative firm loses competitive edge as technology becomes available
- Advantage shifts to foreign production to replace exports and hold market share
- Innovative firm establishes foreign branches
The Standardized Phase

- Production fully routine
- Comparative advantage shifts to the developing country
- Export platforms develop
So… is there a symbiotic relationship between the MNC product cycle and global economic development?
As developing countries grow, they become sources of innovation.....
Research and Development

Asian Countries building their R&D Investments

Gross R&D as a Percent of GDP

Source: OECD Main Science and Technology Indicators. Compiled by the APS Washington Office.

Japan, United States, Korea, Taiwan, Singapore, China
High Tech Exports

High-Tech Exports: U.S. Losing World Share

1980
$190 B*

- Emerging Asian Economies: 7%
- Other: 9%
- United States: 30%
- Japan: 13%
- European Union: 41%

2003
$1,902 B*

- Emerging Asian Economies: 26%
- United States: 28%
- Europe Union: 32%
- Japan: 9%
- Other: 15%

Source: National Science Foundation, Science and Engineering Indicators 2006, Appendix Table 6-4.

*1997 U.S. Dollars. Emerging Asian Economics: China, South Korea, Taiwan, Singapore, Hong Kong, India. High-tech includes Aircraft, Pharmaceuticals, Office and computing machinery, Communication equipment, Medical, precision, and optical instruments, Communication equipment, Medical, precision, and optical instruments.
Role of International Institutions: Washington Consensus on conditions for loans and aid

• Internal liberalization of Markets
• Integration into the world Economy
• Reduction of extensive government programs because they.......
  – Tend of allocate funds to non-productive activities
  – Entrepreneurs can’t find funding
  – Create wrong incentives
  – Stimulate pressure for trade protection
So why do some countries stagnate and show little or no economic growth?

• External connections like trade and investment are important, but that’s not all.....

• There are internal requirements for development as well....

• Traditional culture must give way to modern culture....
## Tradition and Modernity

<table>
<thead>
<tr>
<th>Tradition</th>
<th>Example</th>
<th>Modernity</th>
<th>example</th>
</tr>
</thead>
<tbody>
<tr>
<td>collective unit of social organization</td>
<td>Religion, ethnic group, tribe</td>
<td>Individual as the unit of social organization</td>
<td>U.S. Bill of Rights,</td>
</tr>
<tr>
<td><strong>Personal ties govern social organization and behavior</strong></td>
<td>family, tribe (feed corruption, suppress entrepreneurship)</td>
<td>Pragmatic and functional ties govern behavior.</td>
<td>markets, professions, associations (feed merit and excellence)</td>
</tr>
<tr>
<td>essentialist Identity (one dimensional)</td>
<td>ethnic identity, religious identity, (us vs. them)</td>
<td>Multideminsional Individual identity</td>
<td>Example?</td>
</tr>
<tr>
<td>Identity derived from mystical principles</td>
<td>National identity (us vs. them)</td>
<td>Free choice of identity</td>
<td>See above (can conform to market signals)</td>
</tr>
<tr>
<td>Ascriptive hierarchies,</td>
<td>Kingdoms, families (rigidity)</td>
<td>Functional hierarchies</td>
<td>Parliaments, (flexibility, change)</td>
</tr>
</tbody>
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Democracy and Markets

- Democracy and markets encourage each other: political and economic freedom are two sides of the same coin.
## Summary of Liberal Theories of Development

<table>
<thead>
<tr>
<th>Stimulants</th>
<th>Internal</th>
<th>External</th>
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</table>
|            | • Human Capital  
|            | • Entrepreneurial Spirit  
|            | • Efficient Government  
|            | • Savings  
|            | • Research and Development  
|            | • Investments  
|            | = Modern Society  |
| Hindrances | • Political Instability  
|           | • Corruption  
|           | • Traditional Society  |
|            | • Opportunities to Catch Up  
|            | • Foreign Investments  
|            | • Trade  
|            | • Aid  |
|            | • Trade Barriers in the North  
|            | • Absence of project finance  
|            | • Absence of Balance of Payments finance |
Liberal perspective in a nutshell

• Economic growth is part of “modernization”
• Demography and Technology create conditions for growth
• Accumulation of capital
• Mass Consumer society