

Clicker Poll

- Should there be a worldwide authority to enforce environmental, health and safety laws? Hint: there is a collective action problem embedded in this question
 - A. Yes
 - B. No

Institutional Paths to Development

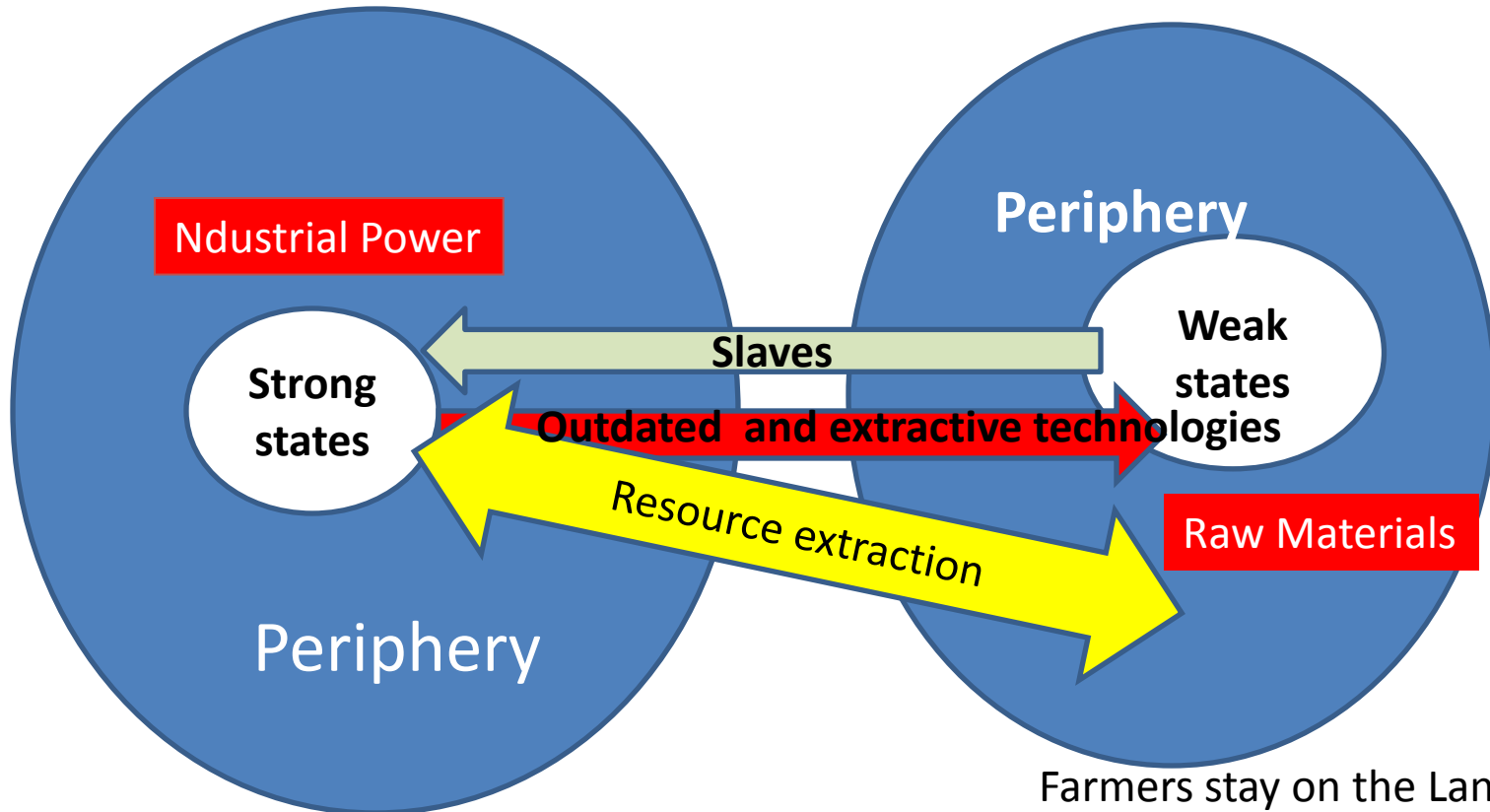
Dependency Theory Review

- Dependence upon foreign capital, technology, and expertise **impedes economic development** in developing countries.
- The North **underdeveloped** the South through **exploitation in exchange**
- This exploitation created **cores and peripheries** in the world economy
- Core-Periphery theory **explains** why the North is rich and the South is poor
- Pockets of wealth are created in the poor countries (**core of the periphery**)
- Trade, transnational corporations, aid, and international institutions contribute to **dependency** of the South on the North

How did this come about?

Core (North)

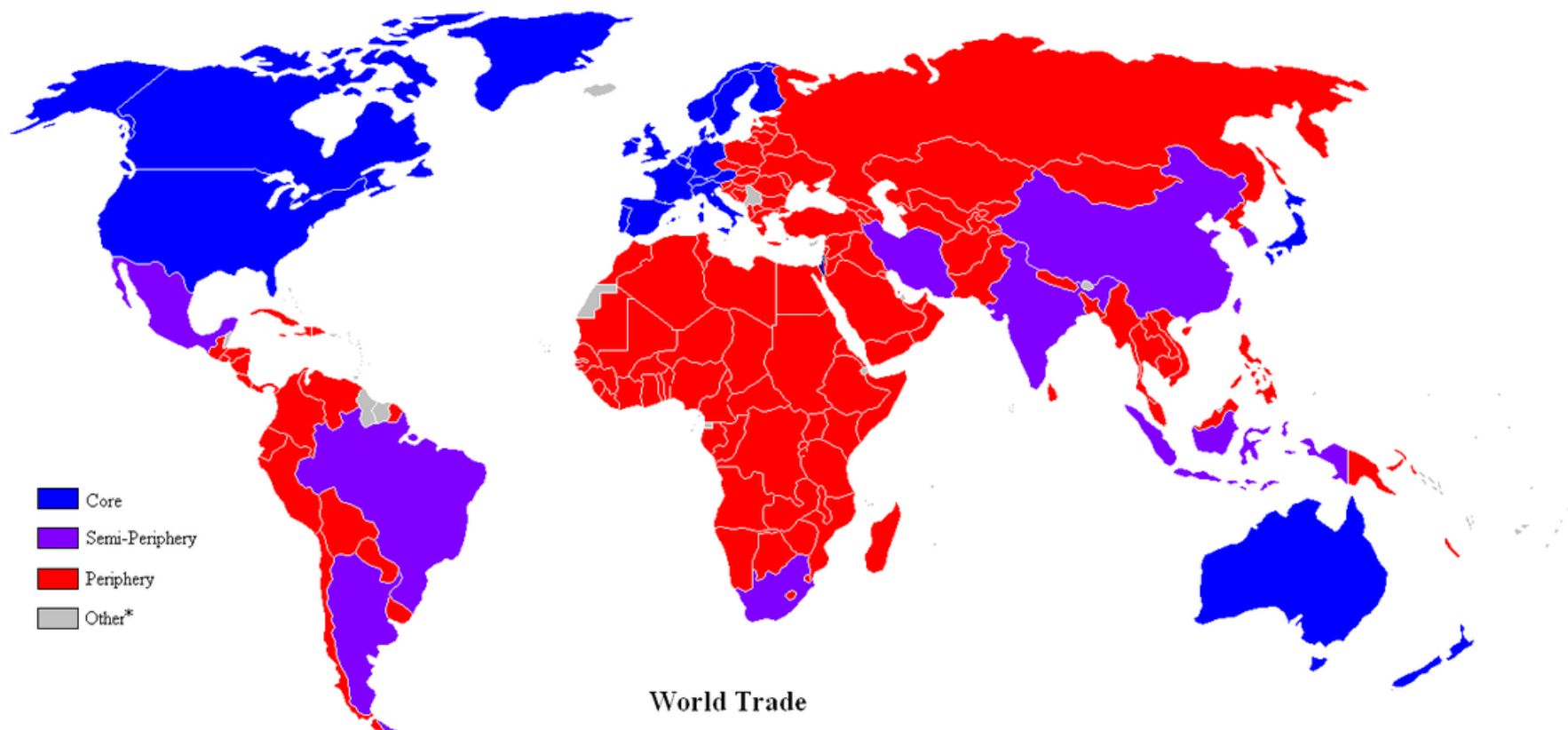
Periphery (South)



Farmers move to cities and become
The bourgeois---who run the state..create
Strong (wealthy) democracies

Farmers stay on the Land.
Aristocracy runs the state.
They are repressive, therefore
Weak...repression keeps prices low

The World System



Southern Response to Dependency Theory: Economic Nationalism

- The “South” did not have the strength to participate in the international economy
- By 1960s, Independence for many countries
- And had clear majority in the U.N.
- Rose up against the GATT. Wanted to change the terms of trade. Saw underdevelopment as the “fault” of the North.

The Problem of Development from an Economic Nationalist Perspective

- Exploitation of the South by the North
- Wealth of the rich depends on the poverty of the poor
- Northern Dominance over the South
 - Colonial legacies
 - International institutions
 - Example of Doha Round of WTO Negotiations
- Dependency explanations —> Economic Nationalist solutions

The Domestic Solution: ISI

- Industrialization is the name of the game in economic development
- What is ISI? Back to Fred List!
- Import Substitution Industrialization
- Infant industry arguments
- Close off from the international economy for a while, then come back strong!
- This didn't always work.

Clicker poll

Dependency Theory:

- A. Clear, coherent and true!
- B. Interesting but may miss some nuance
- C. Absolute balderdash!

Some Problems with Dependency Theory

- Sometimes the surplus is invested in the host country, where the factories are
- This can stimulate domestic industry and business
- The result: “Dependent Development”
- So maybe stagnation is not inevitable
- Singapore is a good example...
- Liberalism can be modified again in the North-South context.....State-Led Liberalism

Why institutions are needed to spur development

- Poor countries can't afford to wait while natural market forces work their beneficial effects.
 - Produce unbalanced economies
 - Vulnerable to price shocks
 - Vulnerable to manipulation by strong trading partners
- Therefore the state has to lead economic development
 - Because Market forces take too long, and the international economic system is competitive

Requirement for development: A Developmental State

- Example of Soviet Union
- Compatible with Keynes
- Compatible with embedded liberalism
- Historical experience
- Gerschenkron's contribution
 - Opposes Rostow
 - Opposes Dependency theory

If You're Early, use the market! (?)
(slave trade helps a lot)



Charlestown, July 24th, 1769.

TO BE SOLD,
On THURSDAY the third Day
of AUGUST next,

A CARGO
OF
NINETY-FOUR
PRIME, HEALTHY

NEGROES,
CONSISTING OF
Thirty-nine MEN, Fifteen BOYS,
Twenty-four WOMEN, and
Sixteen GIRLS.
JUST ARRIVED,
In the Brigantine *DEMBIA*, *Francis Bare*, Master, from SIERRA-
LEON, by
DAVID & JOHN DEAS.

If You're Late, Use the State!

- Development Banks
- The STATE
 - Czarist Russia and Soviet Union

The advantages of backwardness

- Need for rapid development
- British example
- British investment in a “developing” country: the U.S.
- Technology diffusion can assist development if the conditions are right.

It pays to be late

- Latecomers grow faster
 - But they need to get rid of bad (traditional) institutions in order to liberate the market
- Access to state-of-the-art technology
- Quick move to heavy industry
- Development is possible through contact with the International Economy

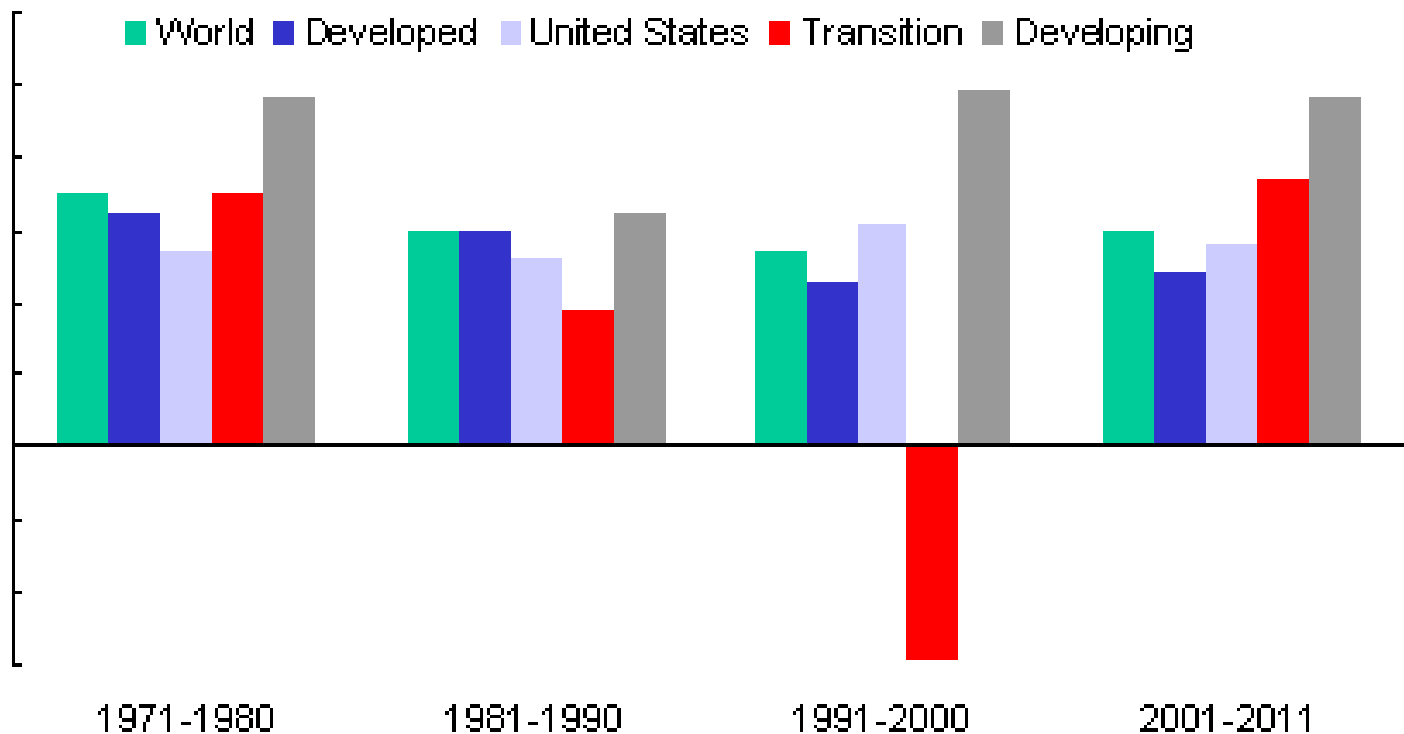
Leapfrogging: Access to the Latest Technology



Latecomers grow faster...

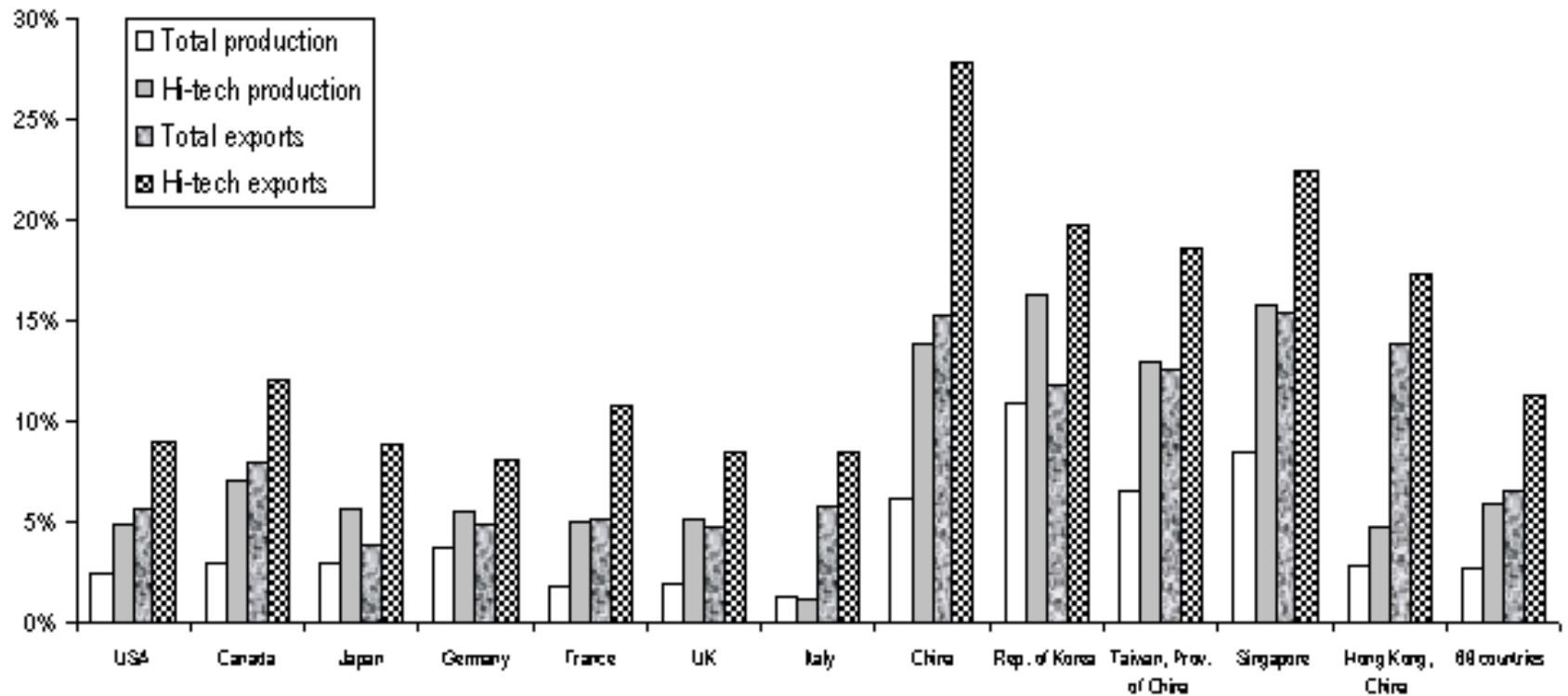
Arid GDP growth rates, decade averages

percent



Why? They moved quickly to competitive industries

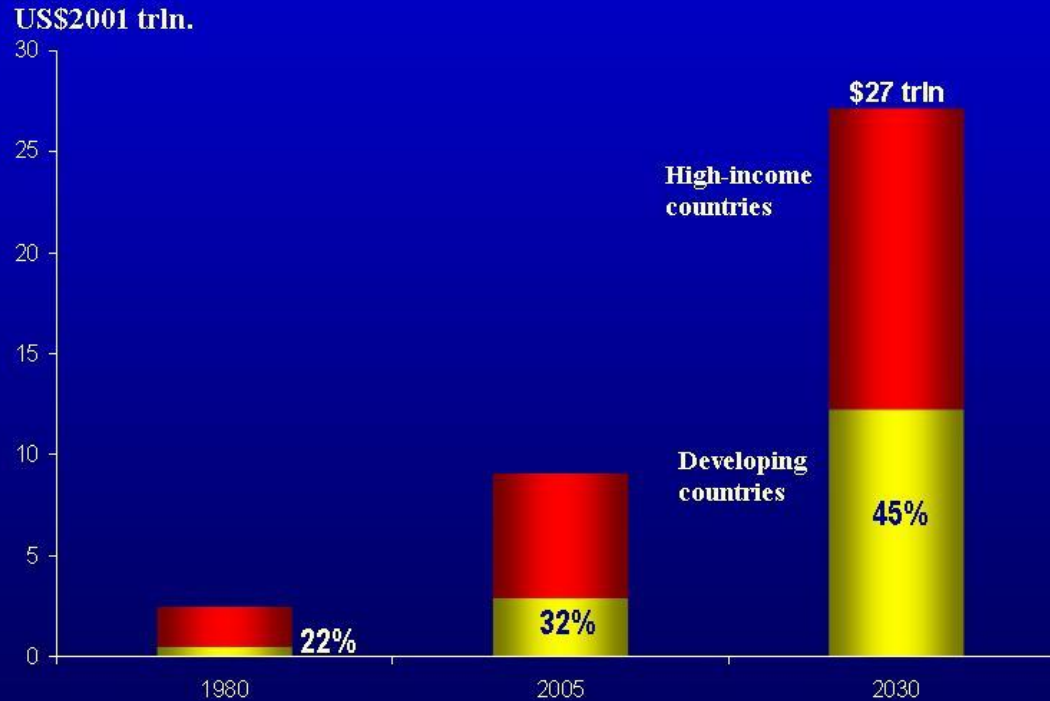
Figure 1: Growth rates of total and high technology production and exports, 1980-1995



And they developed in contact with the international economy—through exporting

Globalization increases developing countries share in world trade

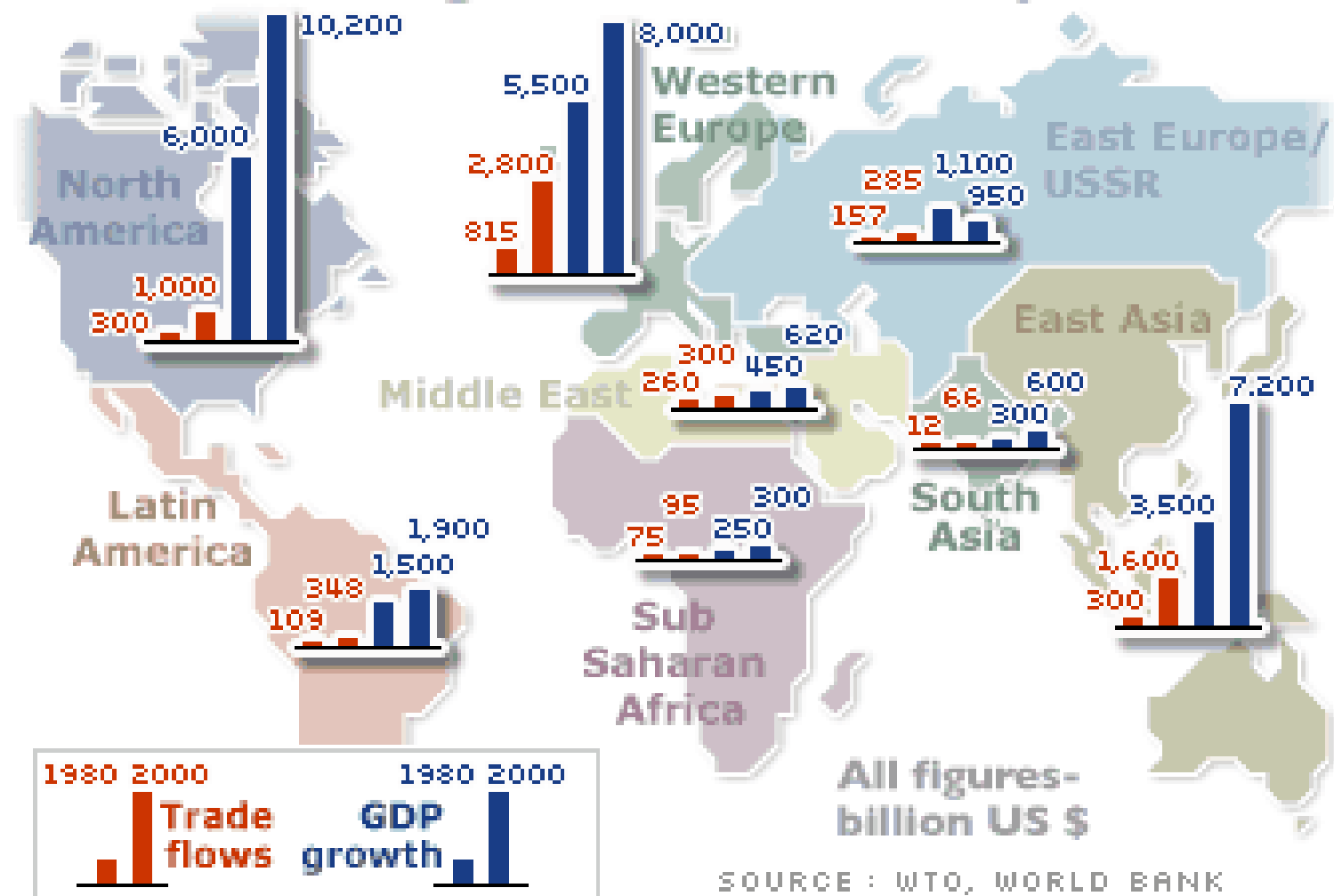
Exports from developing and developed countries, 2005-2030



Source: World Bank simulations with Linkage model.

State-led liberalism: The more integration, the more growth

Where trade grows, the economy follows...

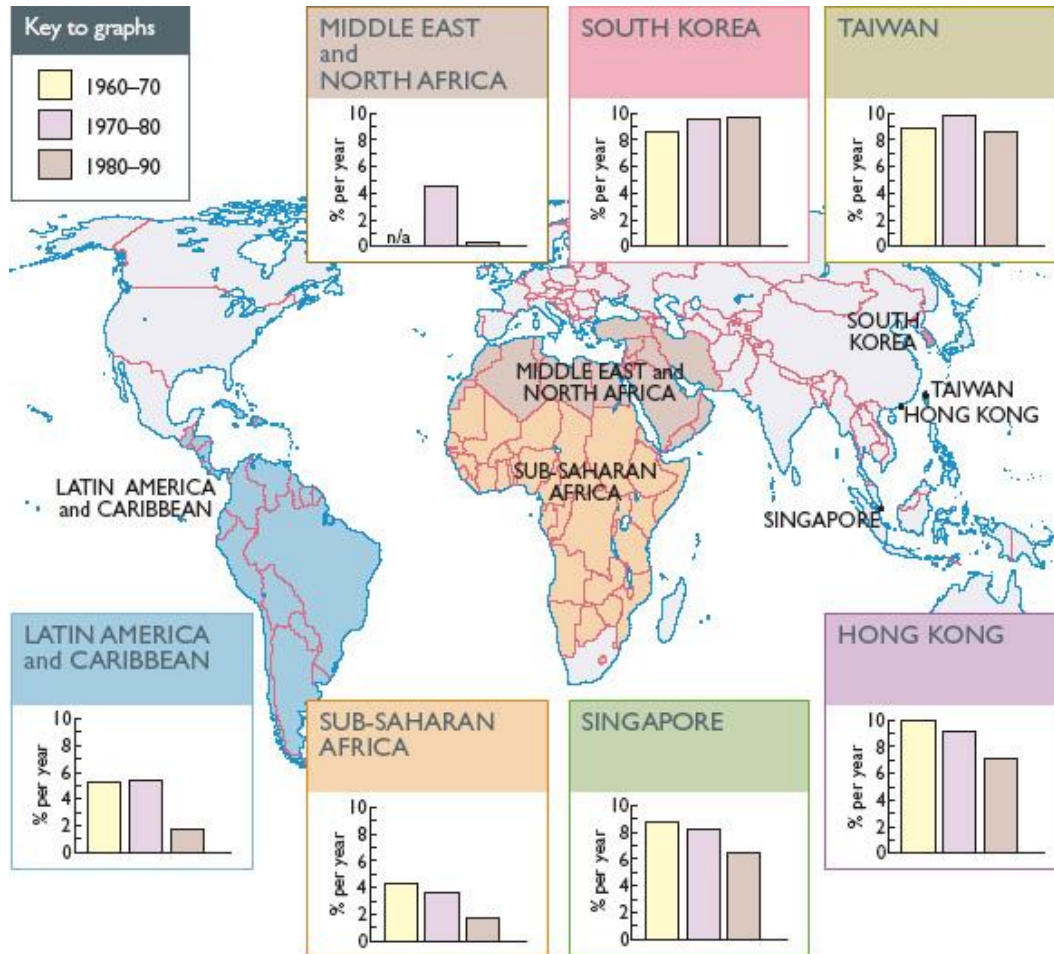


What is common to all theories of development:

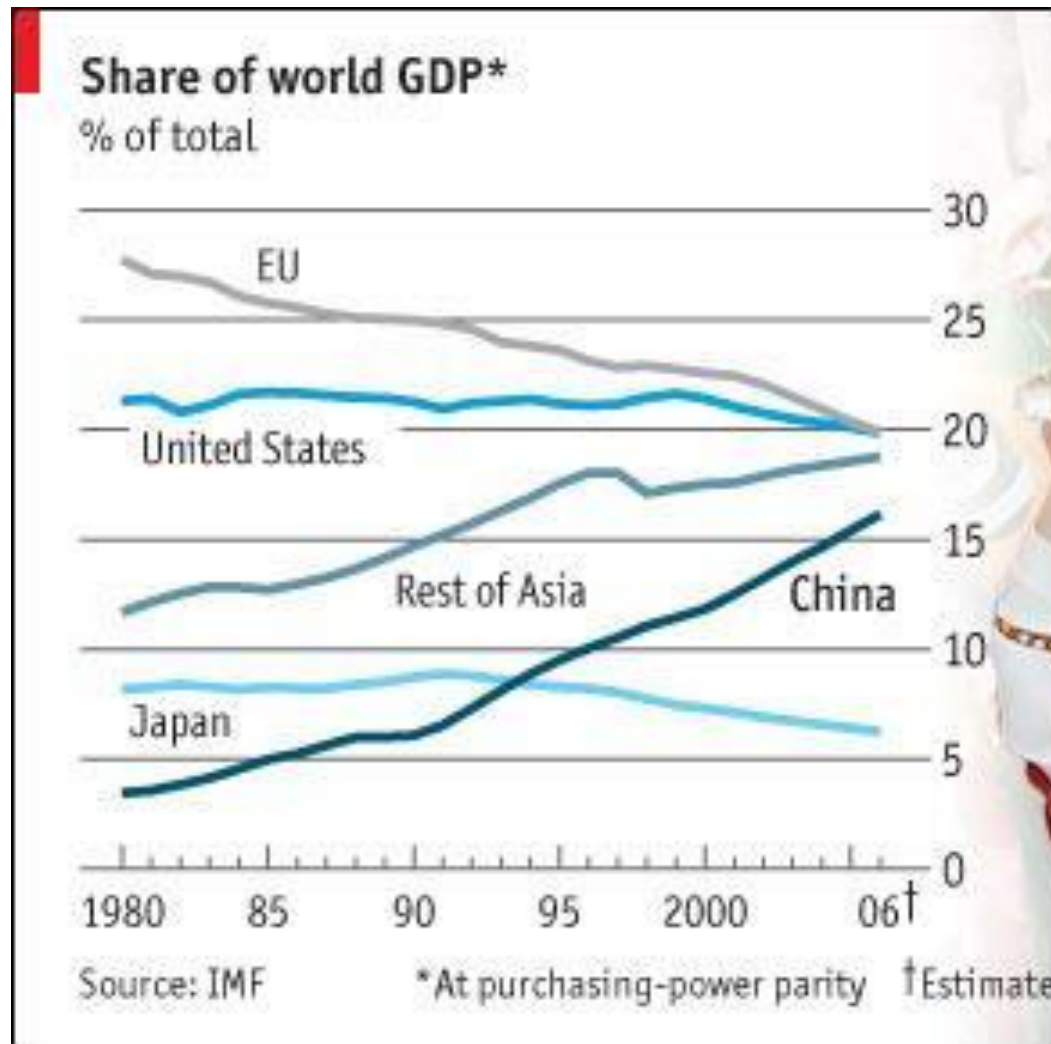
Accumulation of Capital is the Key

- Theories differ on the BEST way
- Trade?
- Aid?
- Technology transfer?
- State mobilization of capital?
- ISI?
- Growth of a middle class?
- Dependent Development?

What did Asia do right?

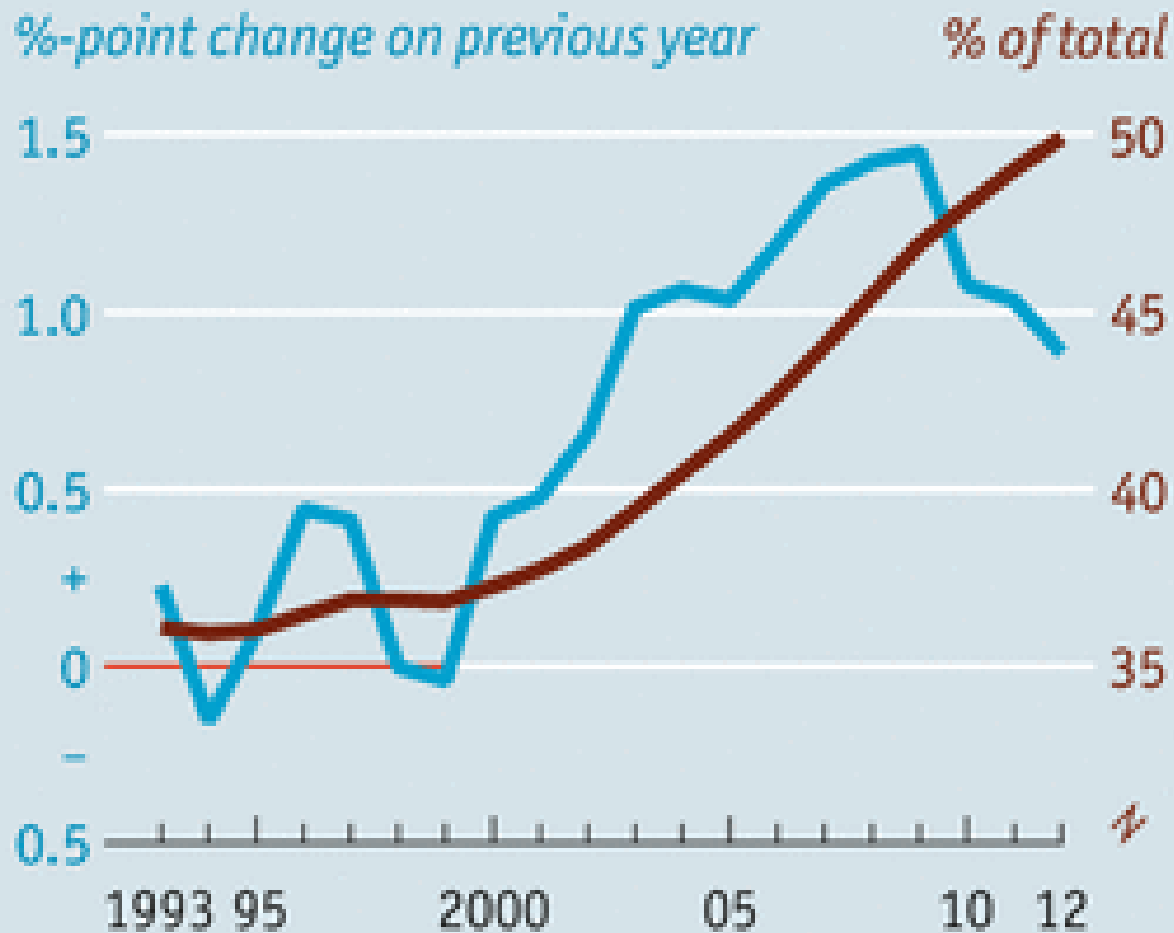


Growing share of World GDP



Unprecedented

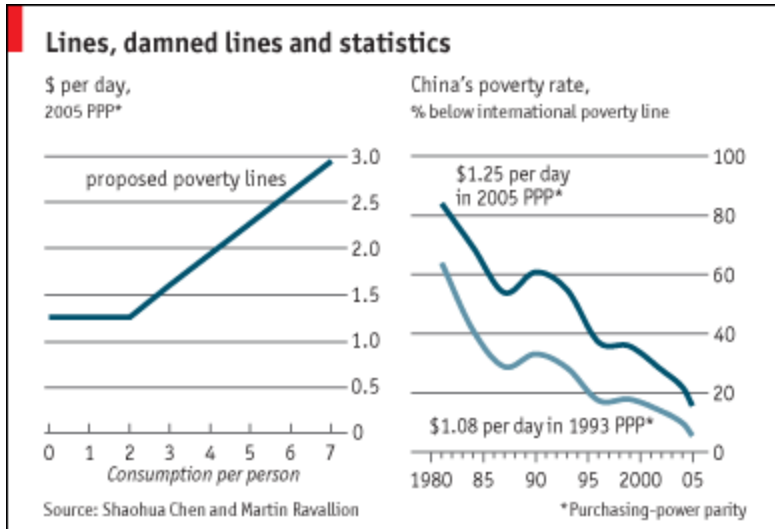
Emerging-market share of world GDP*



Source: IMF

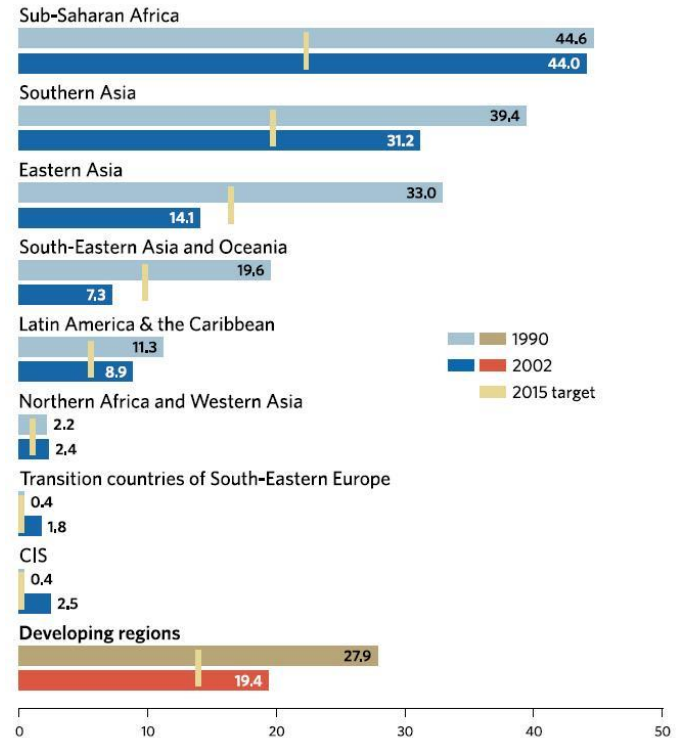
*At purchasing-power parity

Decline in poverty rate

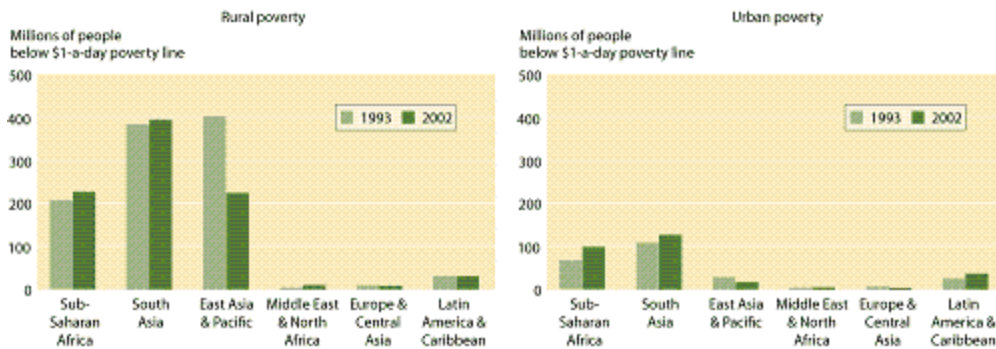


Asia leads the decline in global poverty

Proportion of people living on less than \$1 a day, 1990 and 2002 (Percentage)

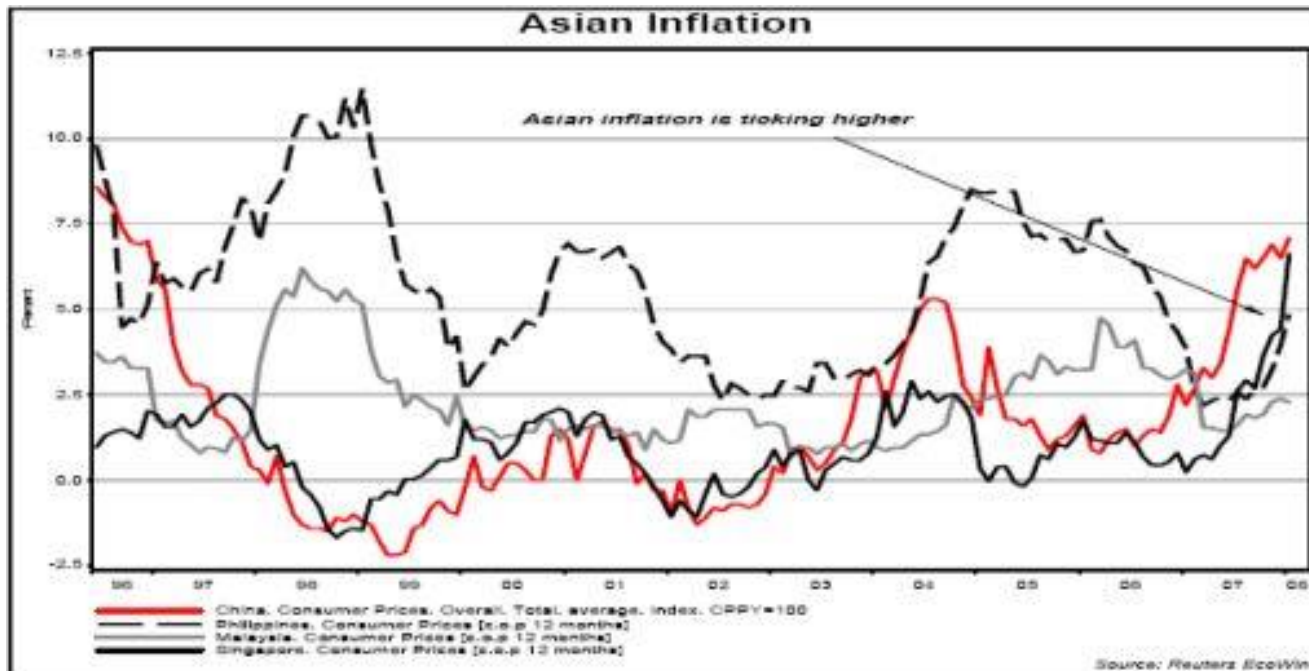


The number of poor rose in South Asia and Sub-Saharan Africa from 1993 to 2002 (\$1-a-day poverty line)

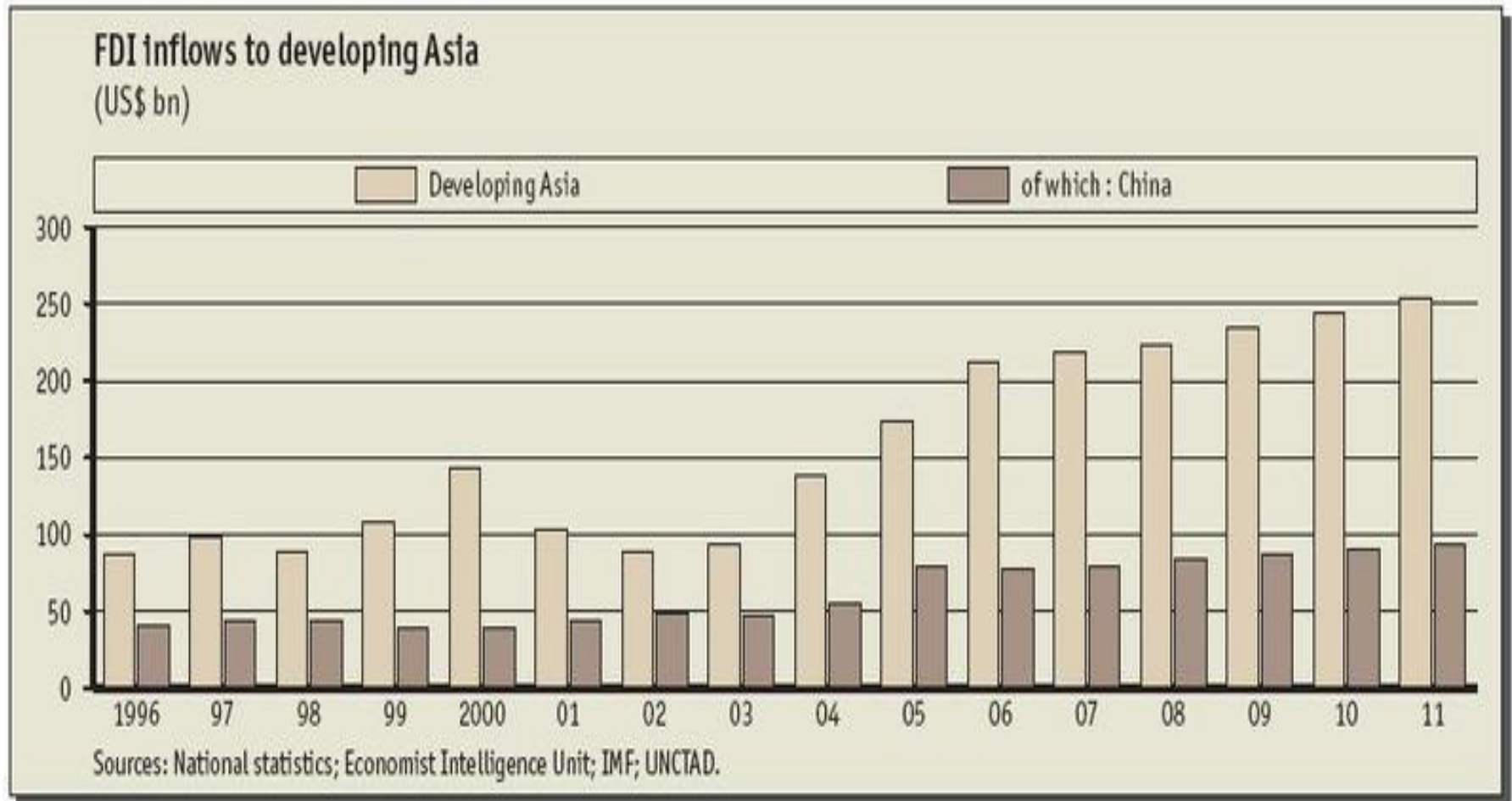


Source: Ravallion, Chen, and Sangraula 2007.

Liberal explanation

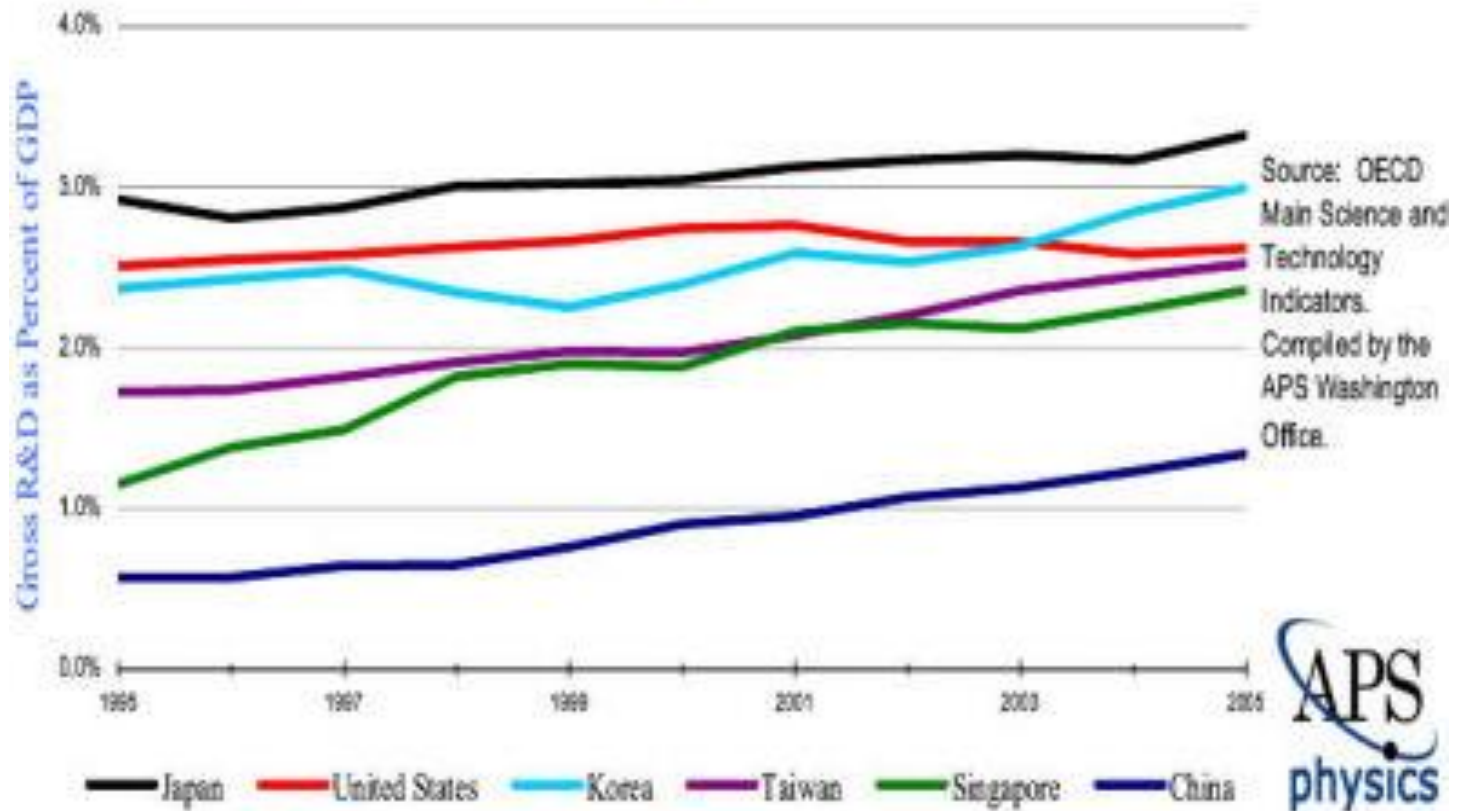


Attracting foreign investment, accumulating capital



The Product cycle?

Asian Countries building their R&D Investments



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Which do you believe is MOST right?

- A. Liberal theory
- B. Dependency theory
- C. state-led liberalism