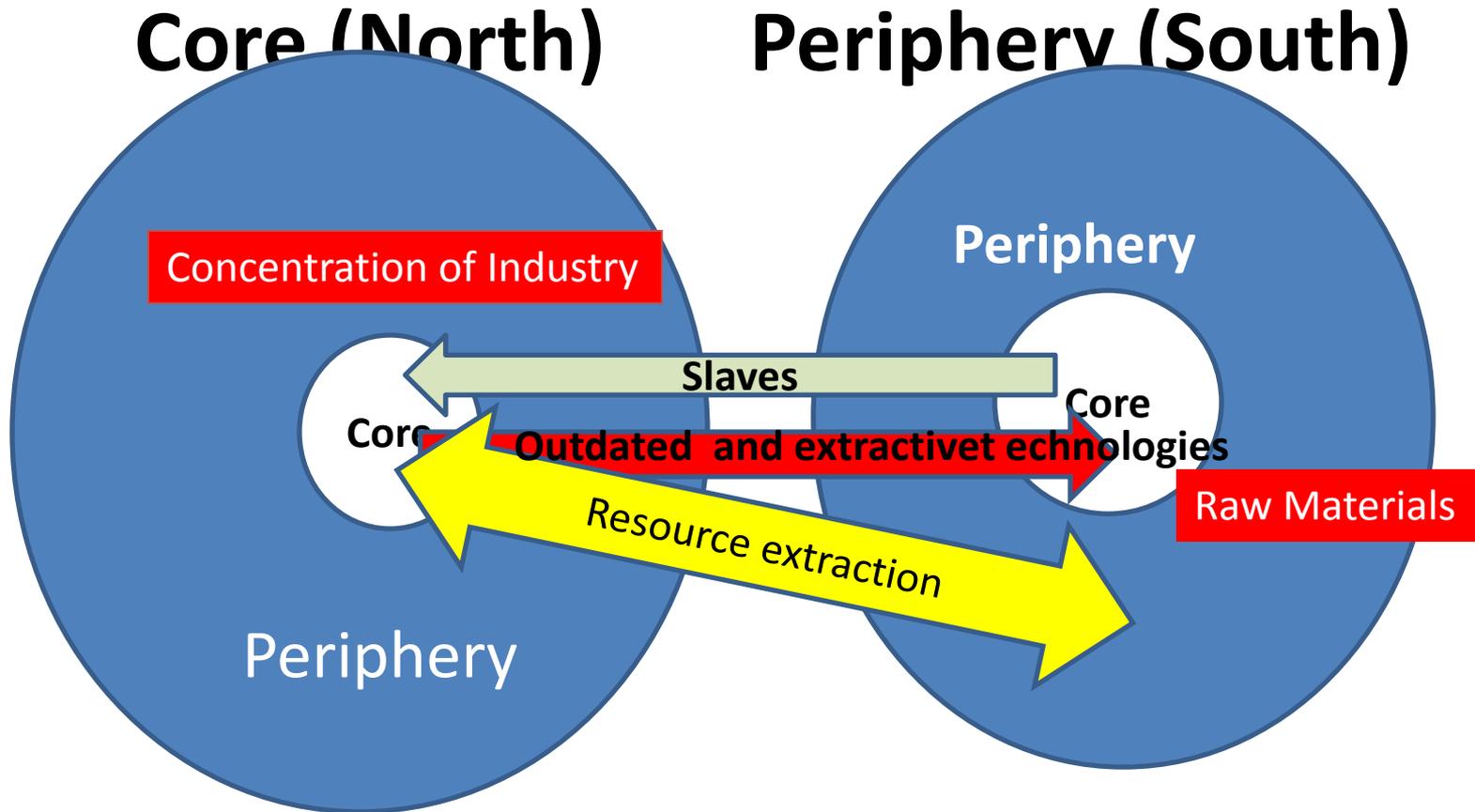


Institutional Paths to Development

Dependency Theory Review

- The North Underdeveloped the South through exploitation in exchange
- The 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; these
- Trade, transnational corporations, aid, and international institutions contribute to Dependency of the South on the North
- How did this happen?

How did this come about?



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

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, Econ. Nat. solutions

The Domestic Solution: ISI

- What is ISI? Back to Fred List!
- Infant industry arguments
- Close off from the internat. Economy for a while, then come back strong!
- This didn't always work.

Some Problems with Dependency Theory

- Sometimes the surplus is invested in the host country---location of plants, services
- This can stimulate domestic industry and business
- The result: “Dependent Development”
- So maybe stagnation is not inevitable
- Singapore is a good example...

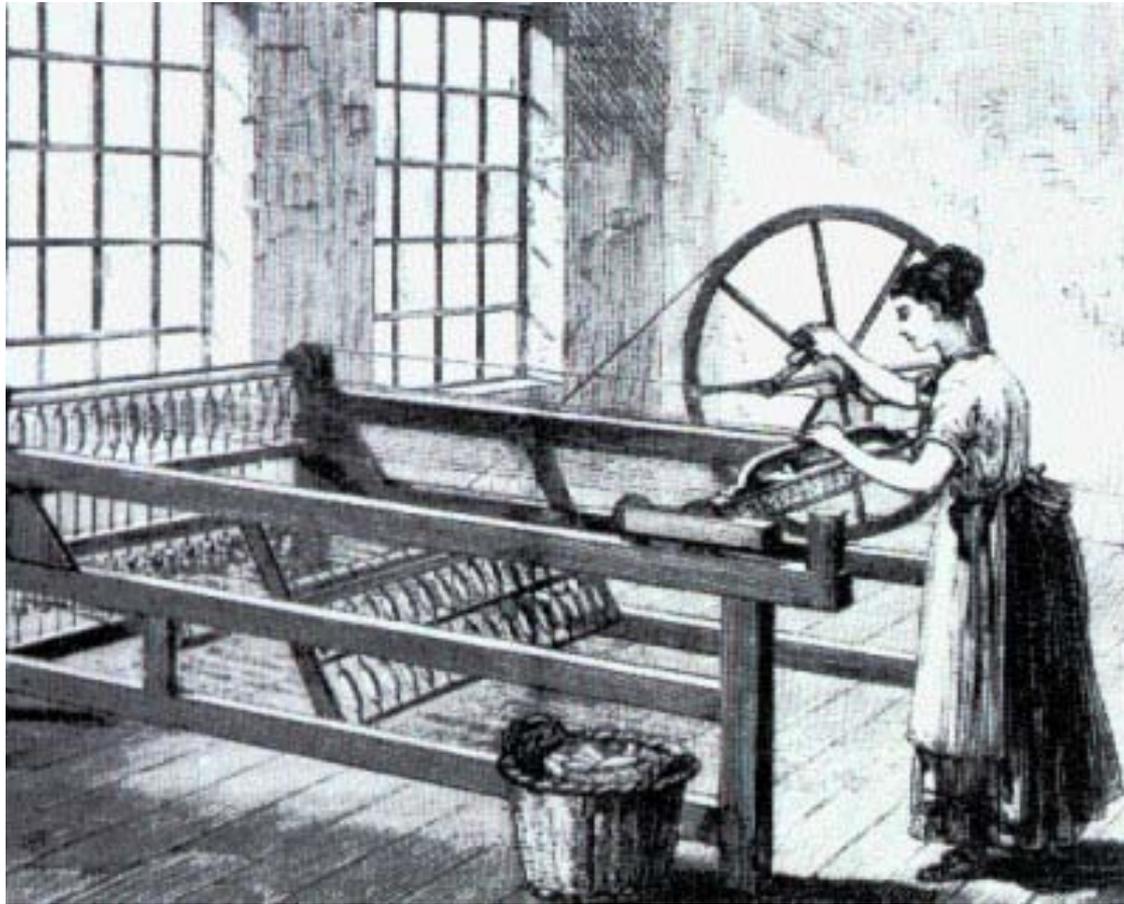
Why institutions are needed to spur development

- Poor countries can't afford to wait while natural market forces work their beneficial effects.
 - Market forces take too long
 - Produce unbalanced economies
 - Vulnerable to price shocks
 - Vulnerable to manipulation by strong trading partners

Requirement for development: A developmental State

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

If You're Early, use the market! (?)



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
- Late developers got the newest technology
- Why I call this perspective “modified Liberalism”

It pays to be late

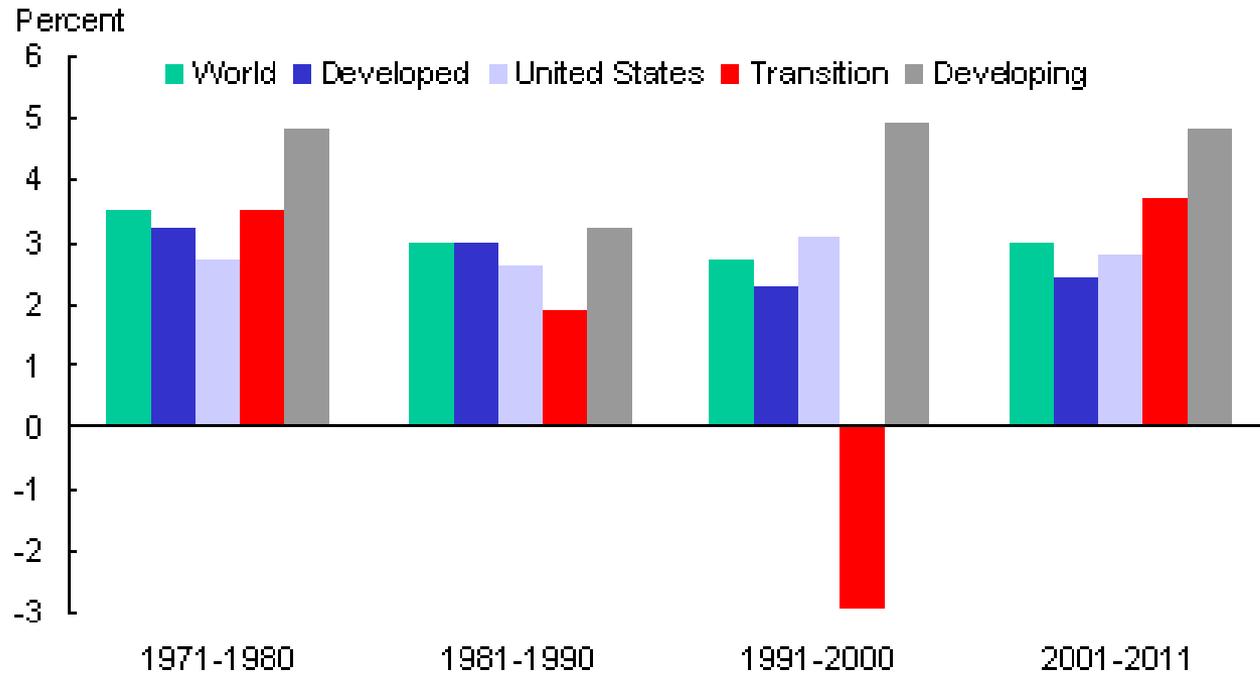
- Latecomers grow faster
- Access to state-of-the-art technology
- Quick move to heavy industry
- Development is possible through contact with the International Economy

Leapfrogging: Access to the Latest Technology



Latecomers grow faster...

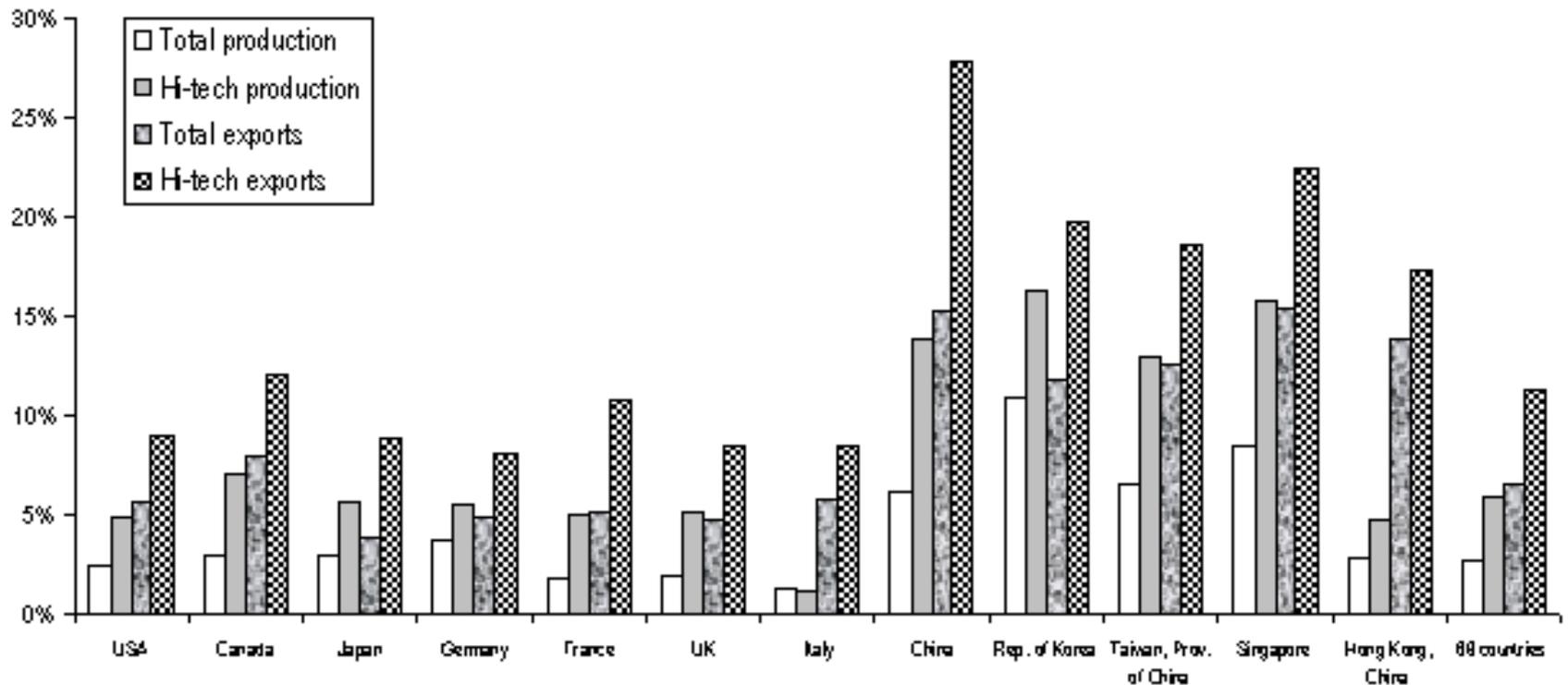
World GDP growth rates, decade averages



Source: *USDA Agricultural Baseline Projections to 2011*, February 2002.
Economic Research Service, USDA

They move quickly to competitive industries

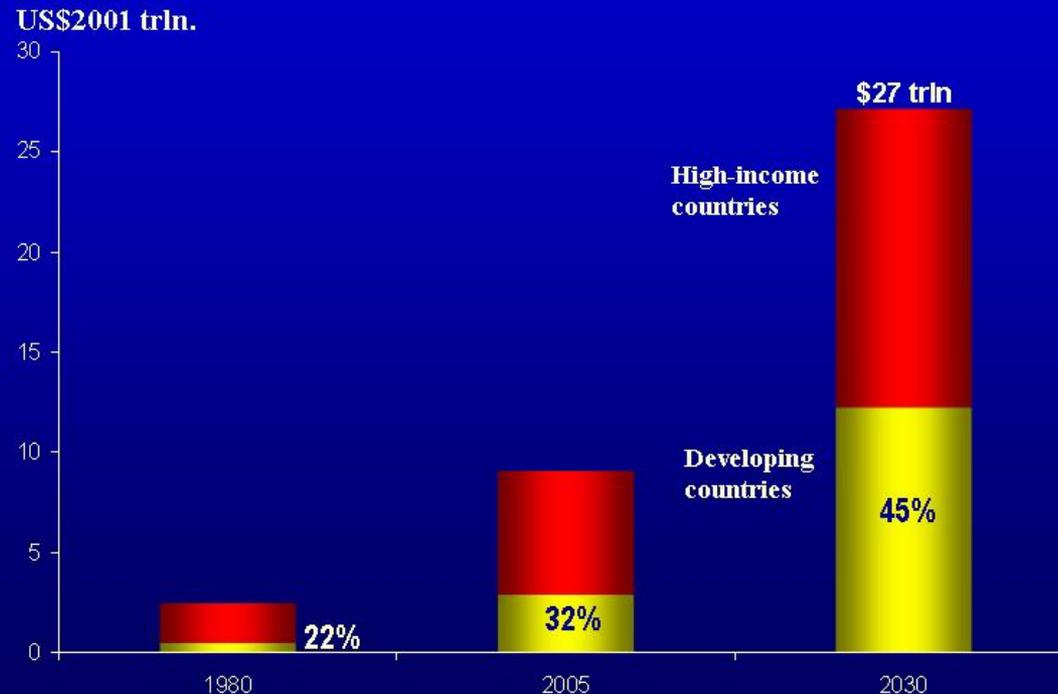
Figure 1: Growth rates of total and high technology production and exports, 1980-1995



Development is possible through contact with the international economy

Globalization increases developing countries share in world trade

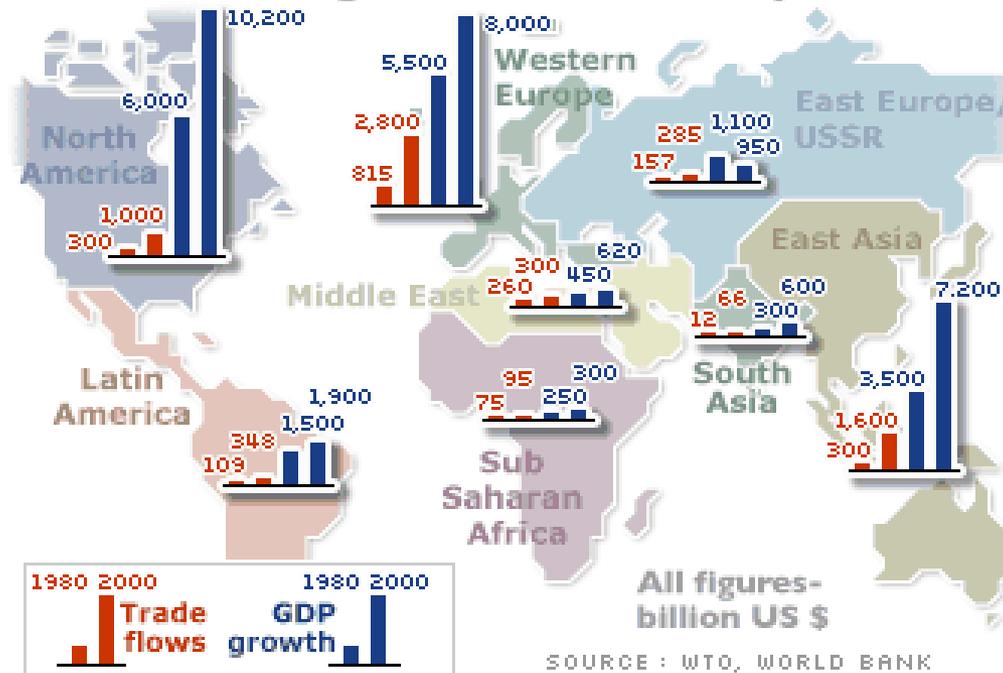
Exports from developing and developed countries, 2005-2030



Source: World Bank simulations with Linkage model.

The more integration, the more growth

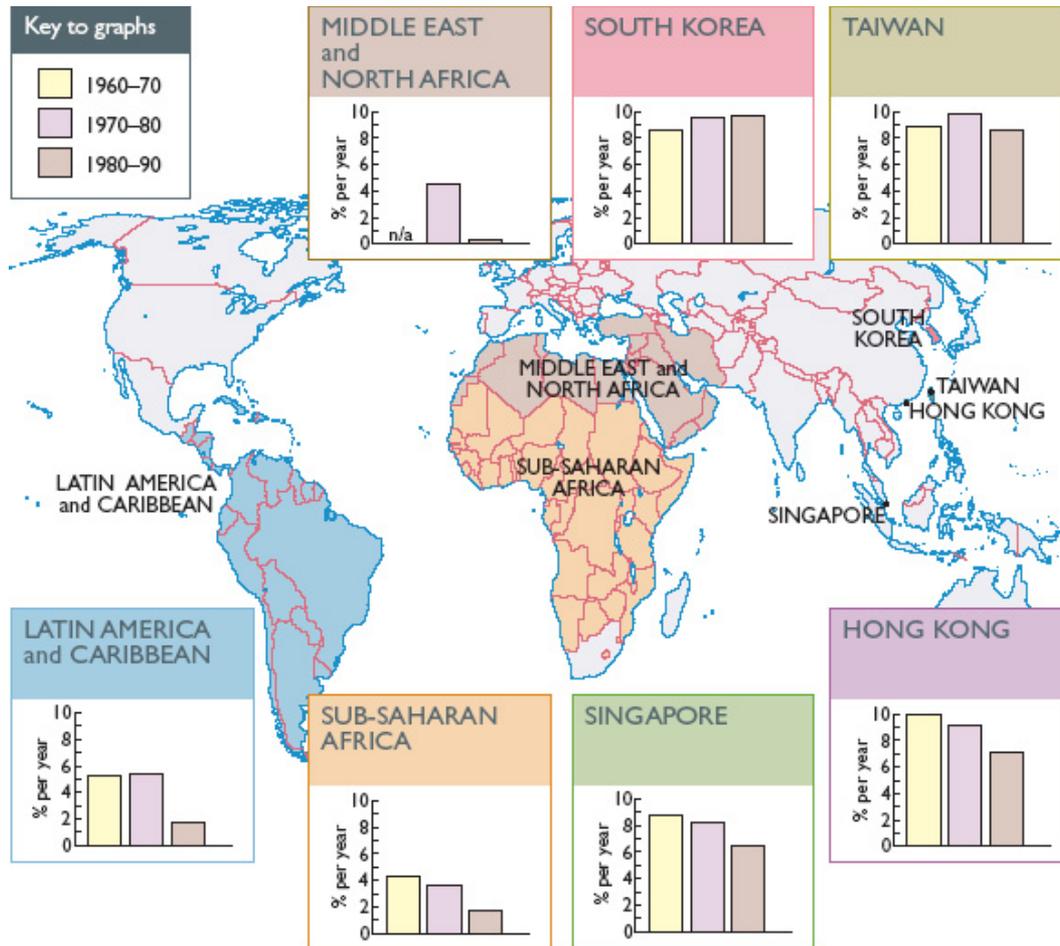
Where trade grows, the economy follows...



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?

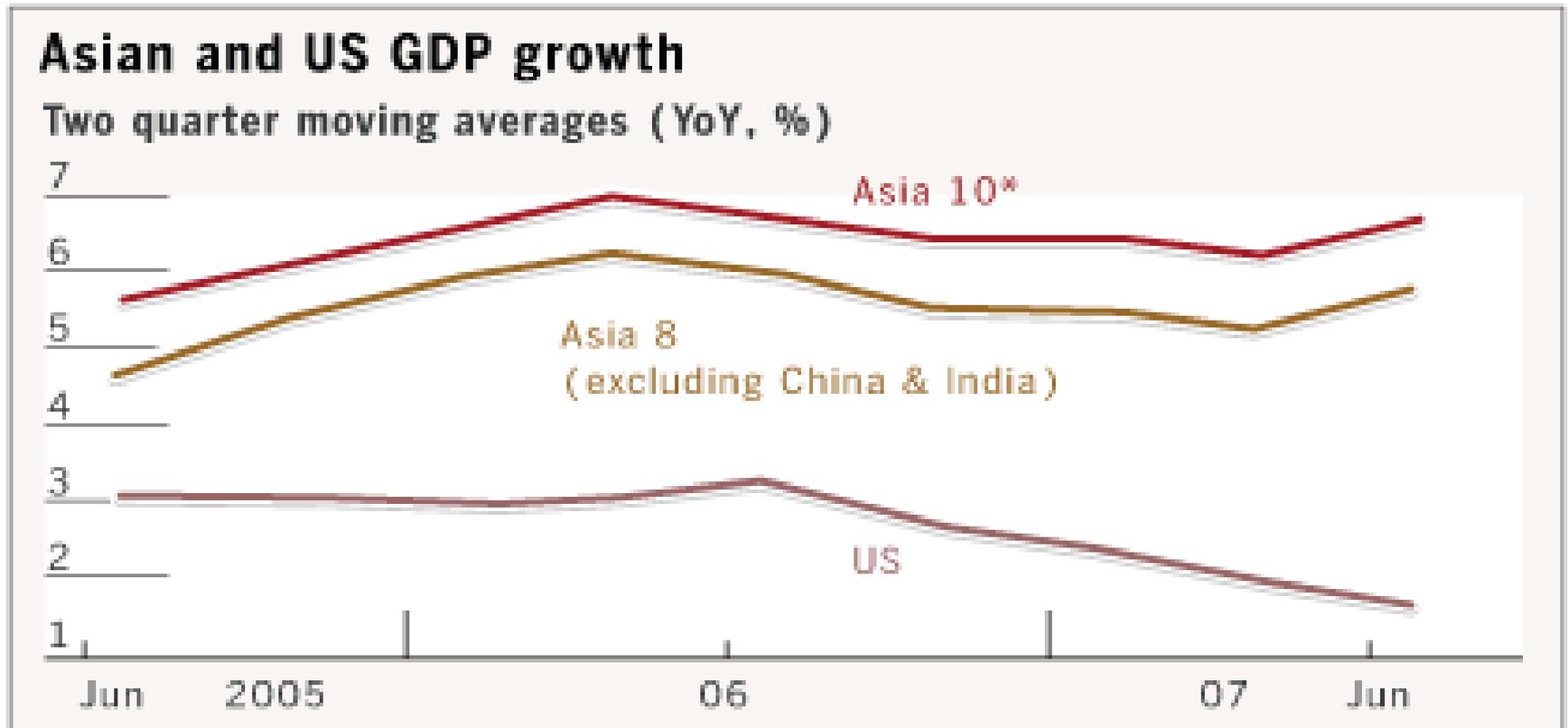
What did Asia do right?



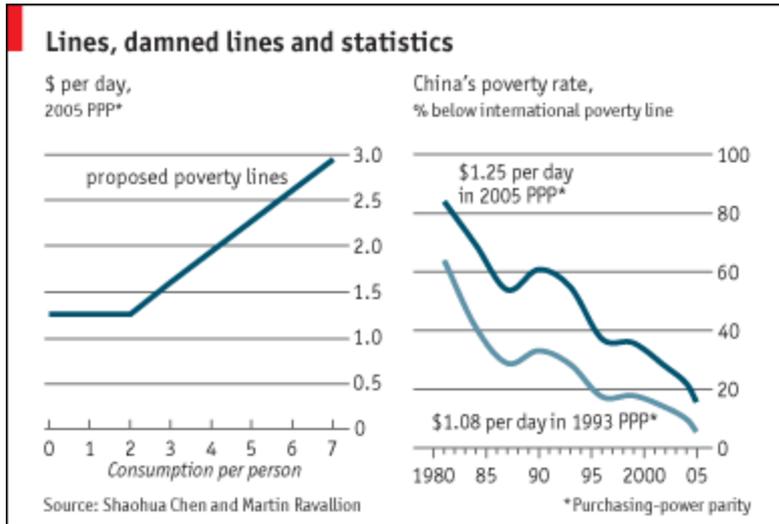
Growing share of World GDP



Asia-US GDP Growth

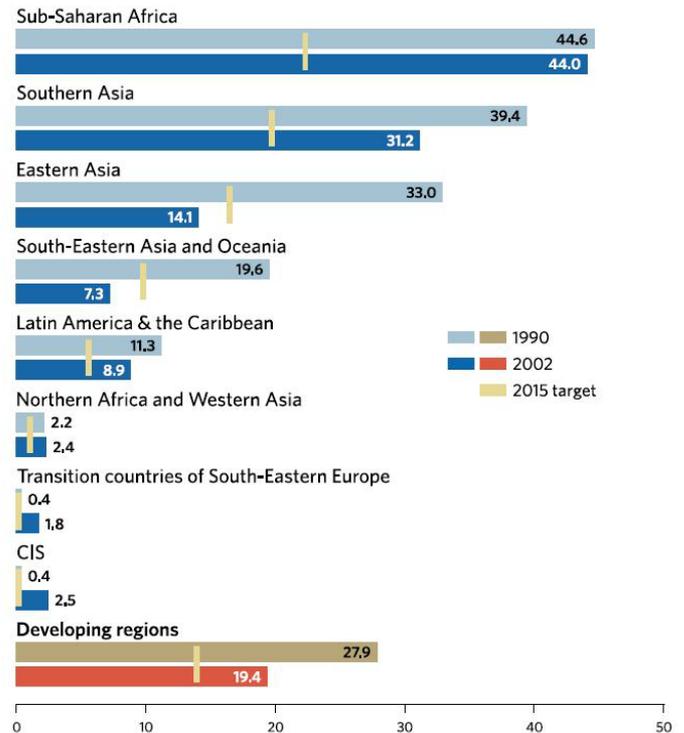


Decline in poverty rate

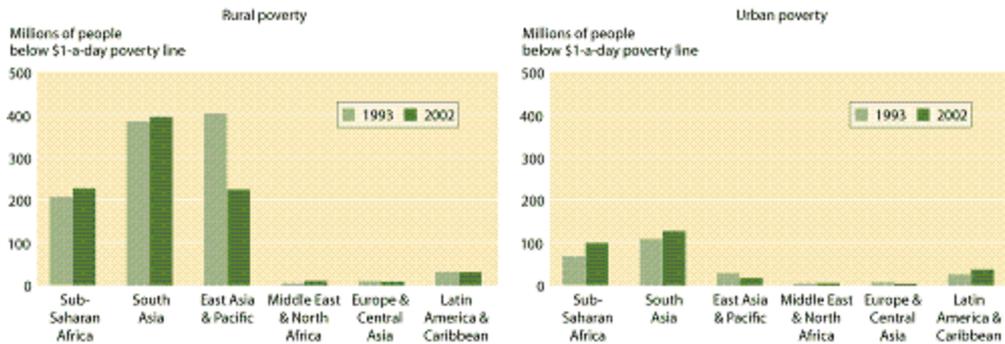


Asia leads the decline in global poverty

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)

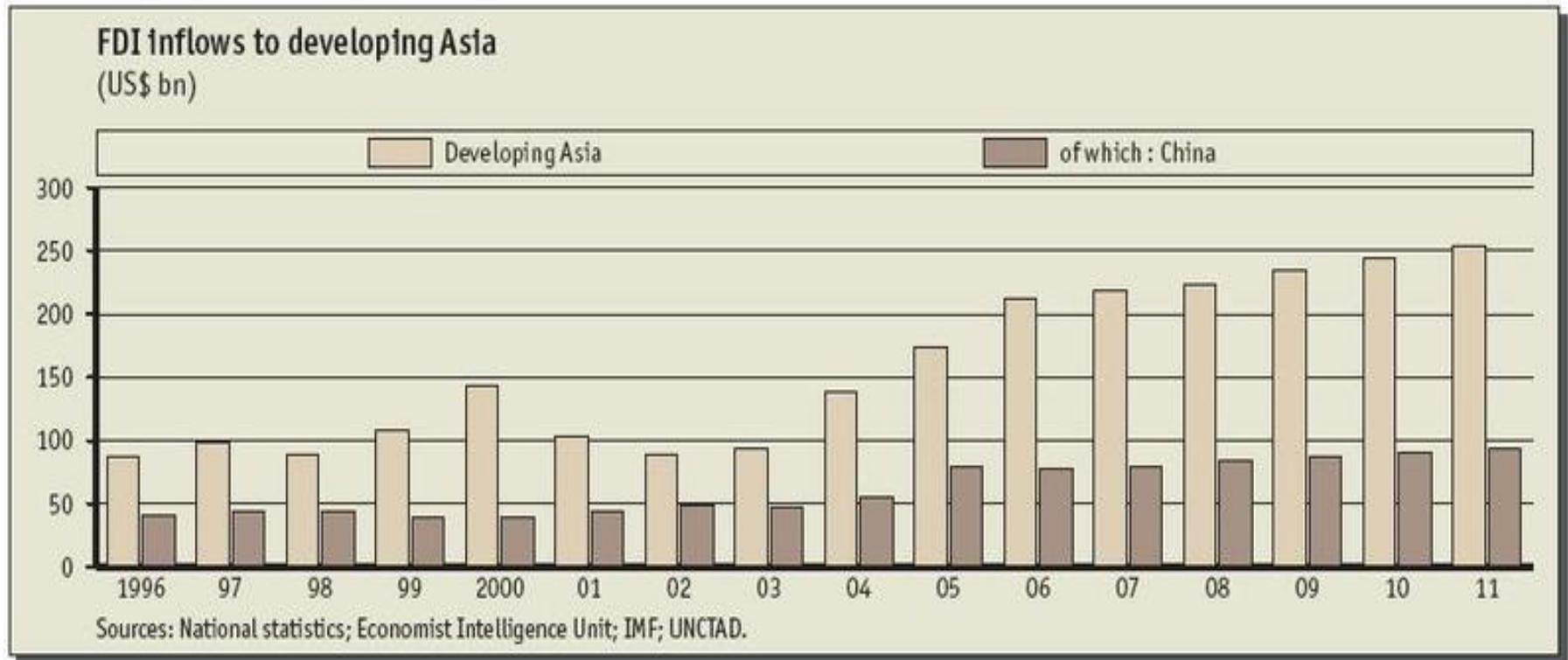


Source: Ravallion, Chen, and Sangraula 2007.

Liberal explanation

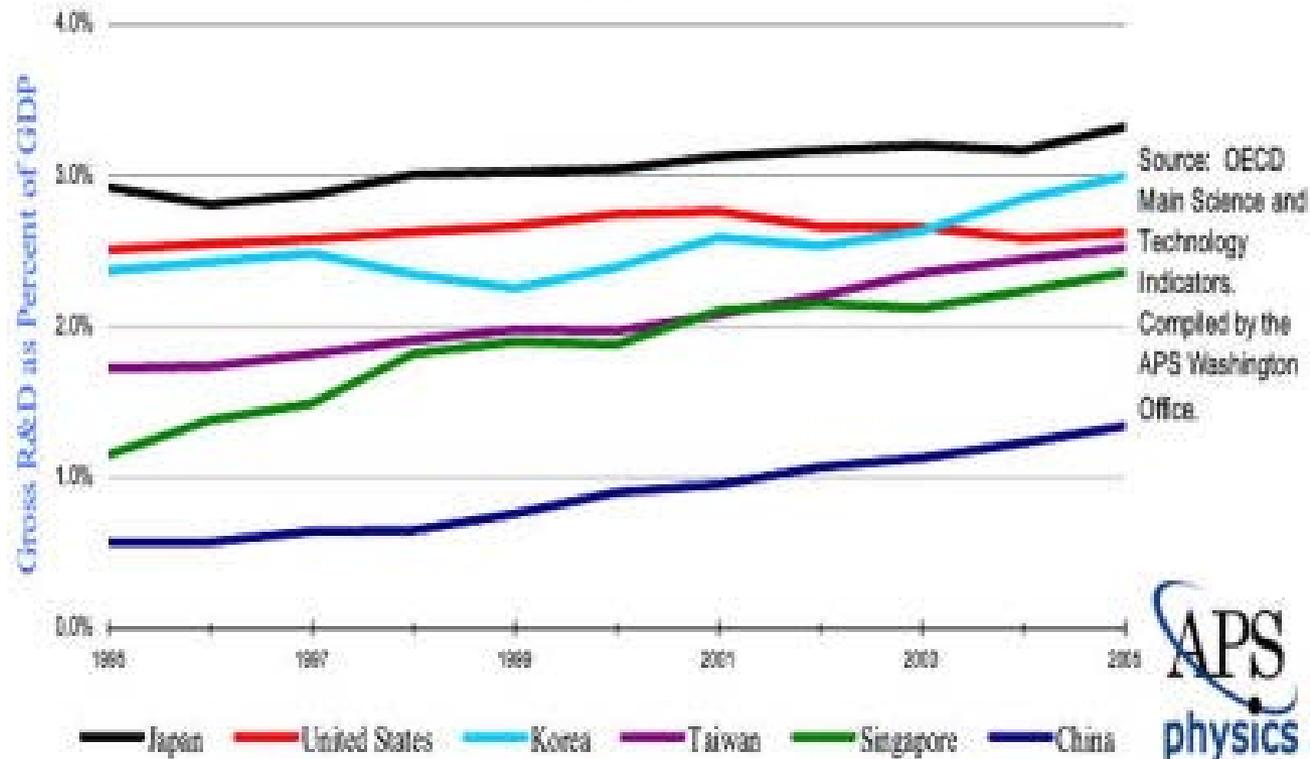


Attracting foreign investment, accumulating capital



The Product cycle?

Asian Countries building their R&D Investments



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