

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**
 - **Dual 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
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Theory-based Terms: The words contain the theory

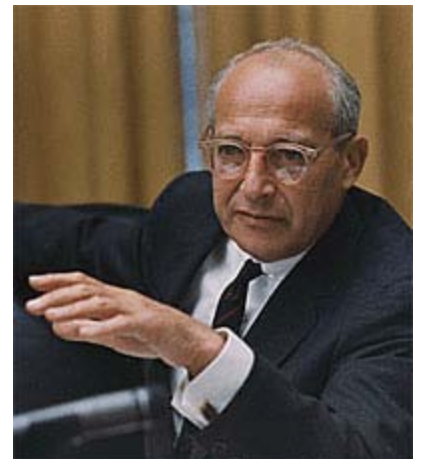
- Liberal Theory
 - Developing countries
 - Less Developed Countries
 - Emerging markets
- Dependency theory
 - Underdeveloped Countries
- Neutral?
 - The “South”

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

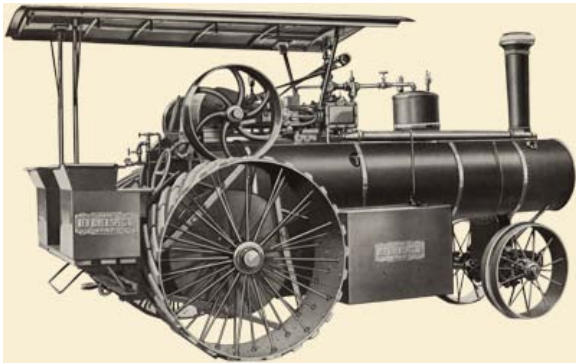


Stage 1: Traditional society



Stage 2: Preconditions for Growth

- Population growth will outpace economic growth in traditional society
- Stimulus needed to mobilize capital and resources



Favorable international environment

External Injection of capital

Stage 3: The Takeoff

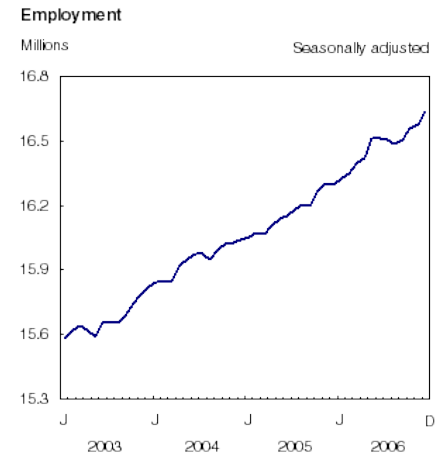
- Productive investment must rise to 10 per cent of national income
- Needed: rapid accumulation of capital and productive investment



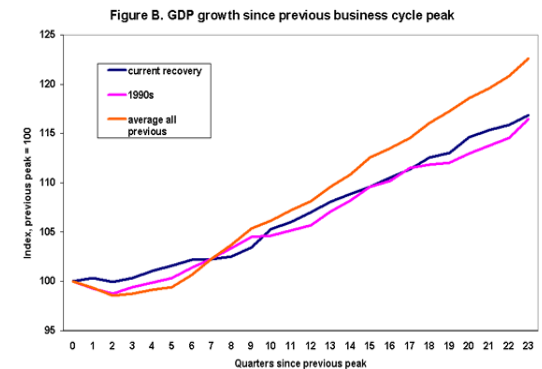
Finance
Stock market
Trade
Foreign investment
aid

4. The Drive to Maturity

- Employment growth
- Growth in national income
- Rise of consumer demands
- Strong domestic markets



Bring on the air conditioning: Customers at a market in Port Harcourt, Nigeria.



Source: Author's calculations using data from the Bureau of Economic Analysis

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

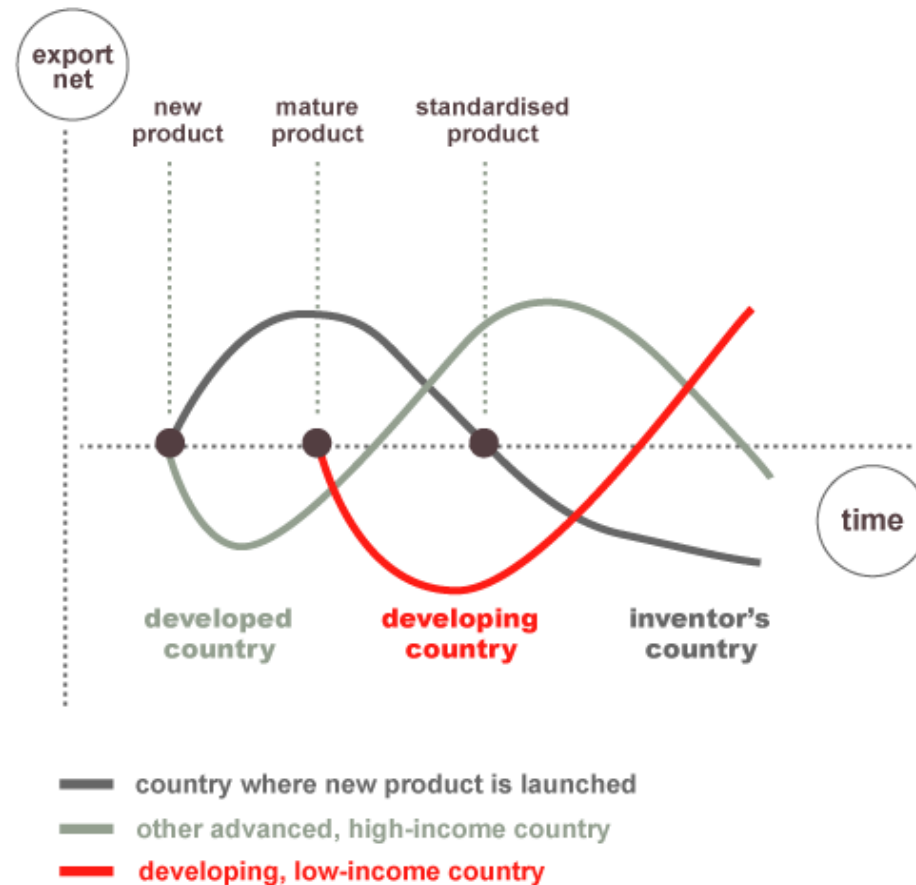
The maturing phase of the product cycle

- 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

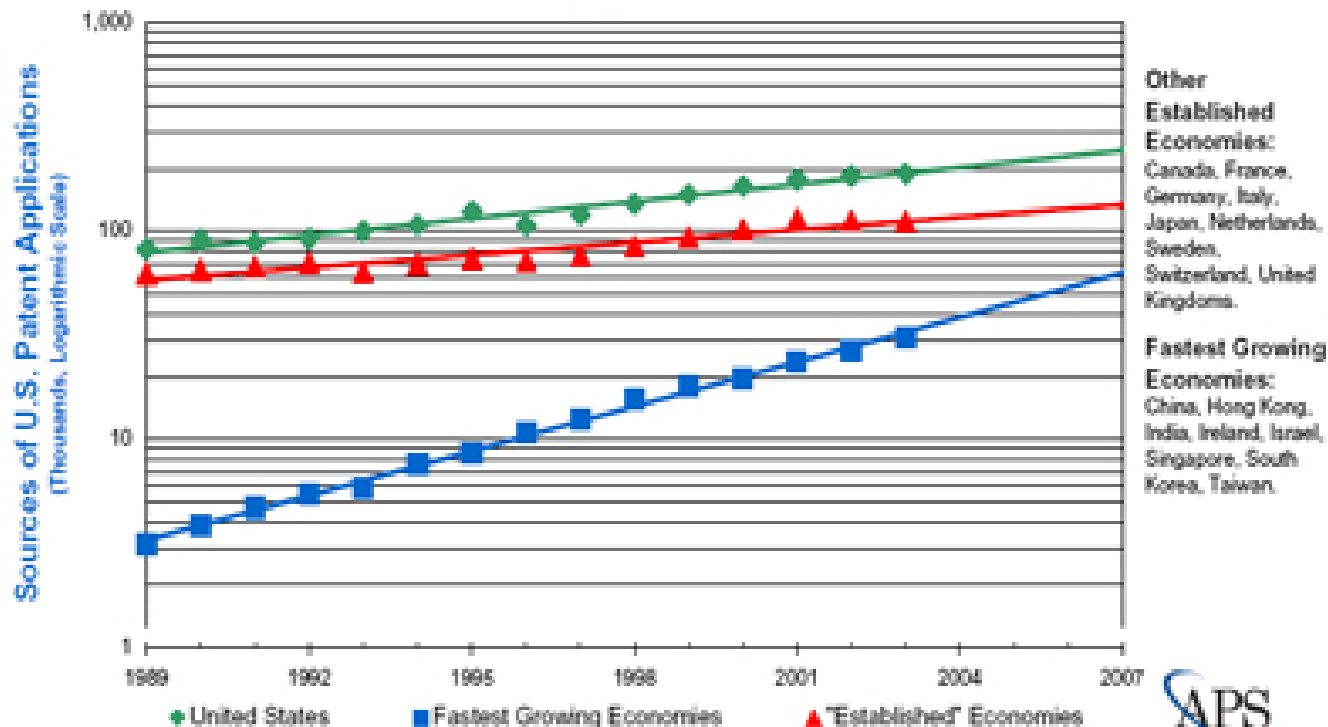
- Production fully routine
- Comparative advantage shifts to the developing country
- Export platforms develop

So...is there a symbiotic relationship between the MNC product cycle and global economic development?



As developing countries grow, they become sources of innovation....

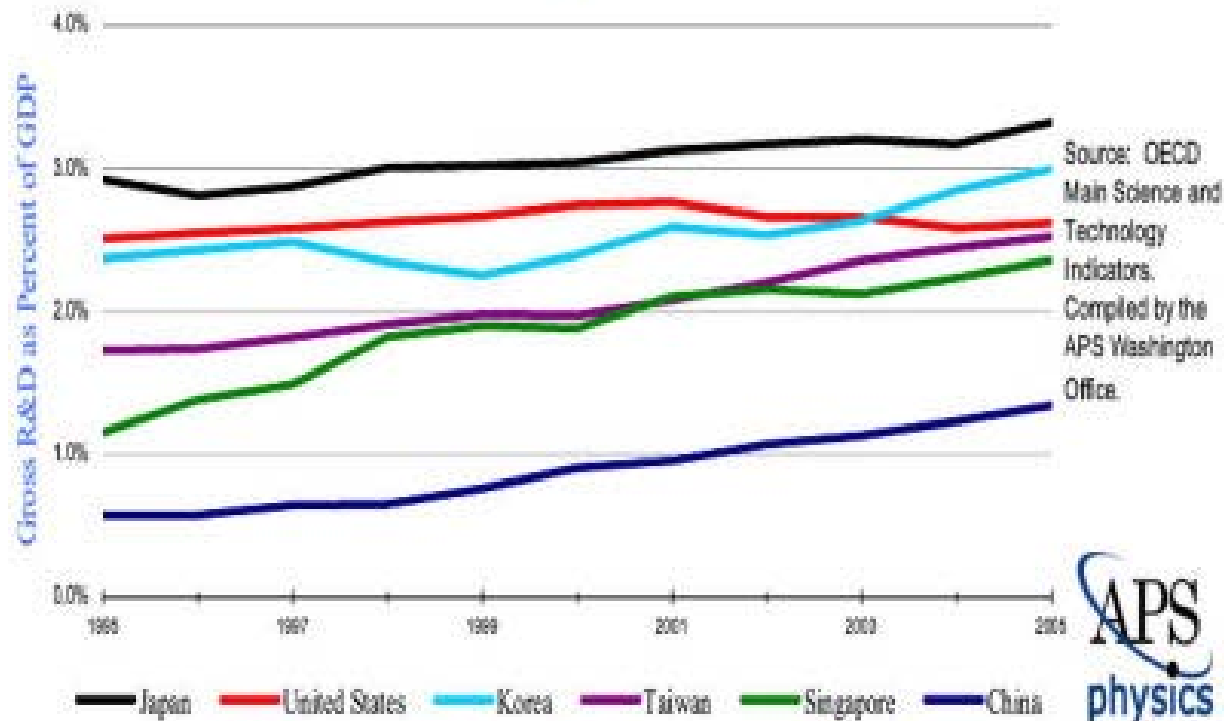
China and India Making Large Technological Advances



Source: 2008 NSF Science and Engineering Indicators and OECD Main Science & Technology Indicators; compiled by APS Washington Office.

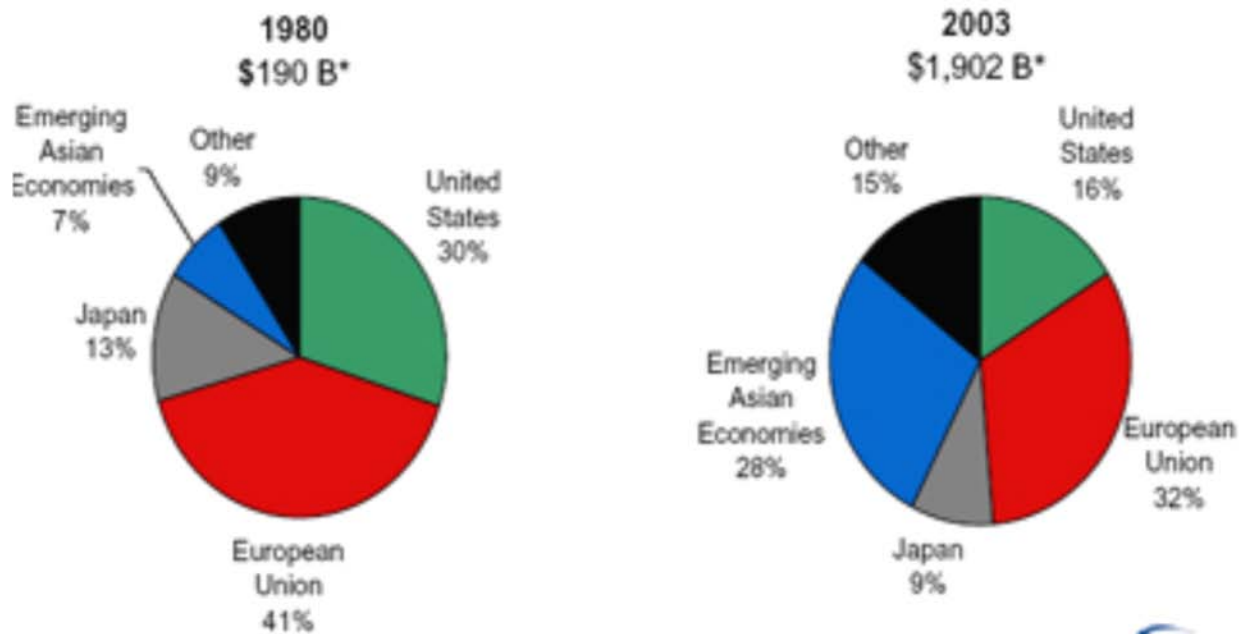
Research and Development

Asian Countries building their R&D Investments



High Tech Exports

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



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

*1997 U.S. Dollars. **Emerging Asian Economies:** 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?

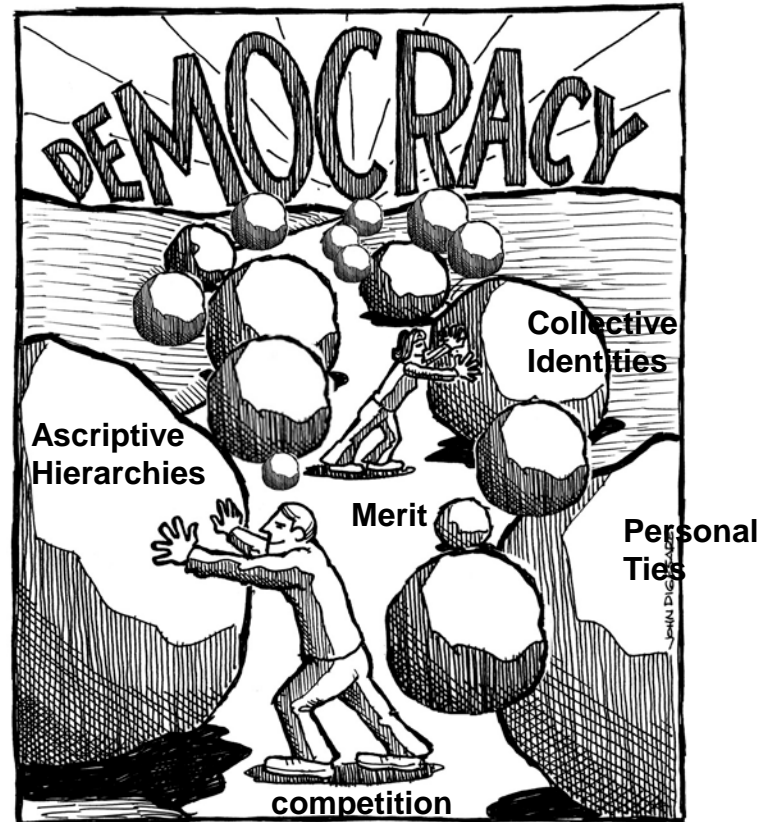
- External connections like trade and investment are important, but that's not all.....
- There are internal requirements for development as well....
- Traditional culture must give way to modern culture....

Tradition and Modernity

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

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

	Internal	External
Stimulants	<ul style="list-style-type: none"> • Human Capital • Entrepreneurial Spirit • Efficient Government • Savings • Research and Development • Investments <p>= <i>Modern Society</i></p>	<ul style="list-style-type: none"> • Opportunities to Catch Up • Foreign Investments • Trade • Aid
Hindrances	<ul style="list-style-type: none"> • Political Instability • Corruption • Traditional Society 	<ul style="list-style-type: none"> • 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