

Development Policies and Development Politics

POSC 1020 – Introduction to International Relations

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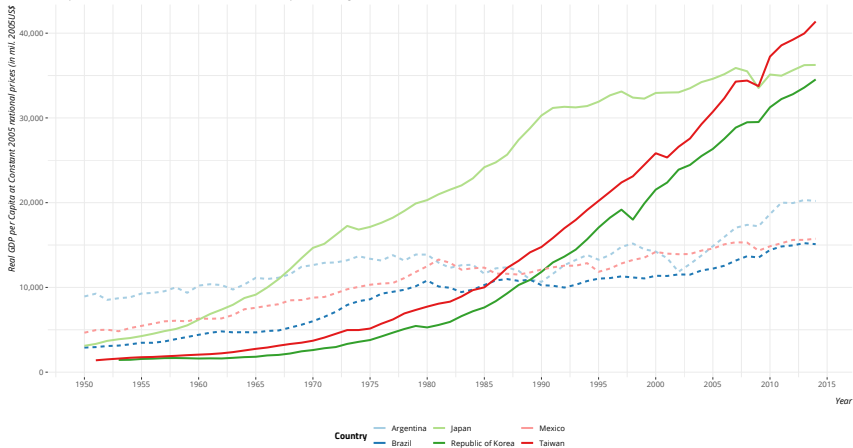


Puzzle(s) for Today

What explains development success and development failure?

Why Did Development in These 'Asian Tigers' Far Exceed the Three Biggest Economies in Latin America?

One prominent answer focuses on the different development strategies we saw in East Asia vs. Latin America.



Data: Penn World Table (9.0)

Autos Were Usually Focal Points of ISI

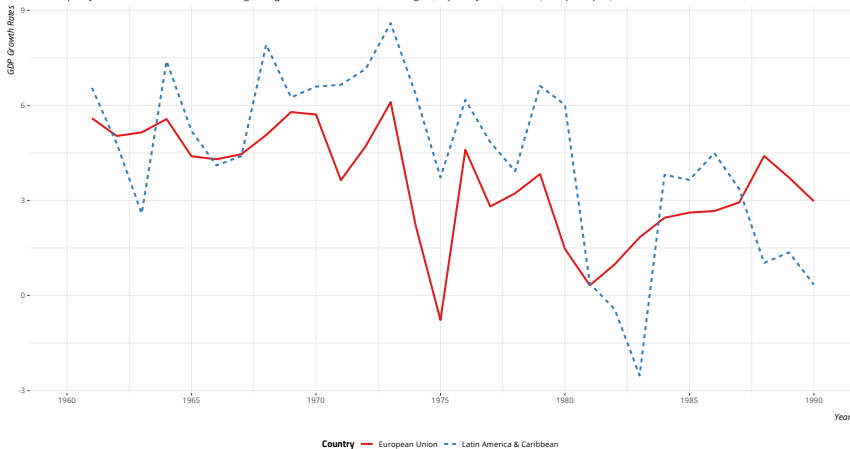


The ISI Framework

- Enact trade barriers to shield industries from competition.
- Subsidize modern industrial sector.
- Invest in infrastructure to make industrialization possible.

ISI's Failure Wasn't Total as Latin America Experienced Better GDP Growth Until the 1980s

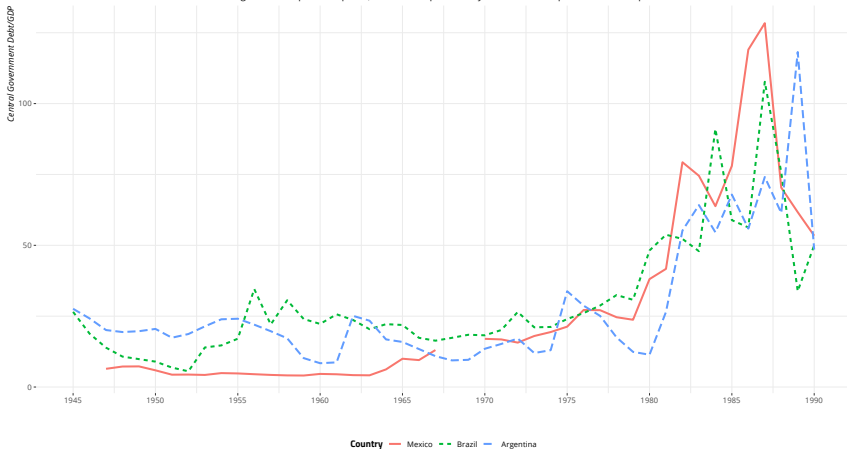
We can qualify that Latin America had further to go but growth rates were real in the region, especially in the 1970s (even per capita).



Data: World Bank

ISI Usually Meant These Governments Took on Debt Well Beyond Their Ability to Service It

ISI amounts to massive subsidies or even outright ownership of enterprises, which is compounded by the fact these exports weren't competitive.



Data: Various places, compiled by Reinhart and Rogoff (2009). I promise these statistics were presented without Excel errors, though. :P

The ISI Framework

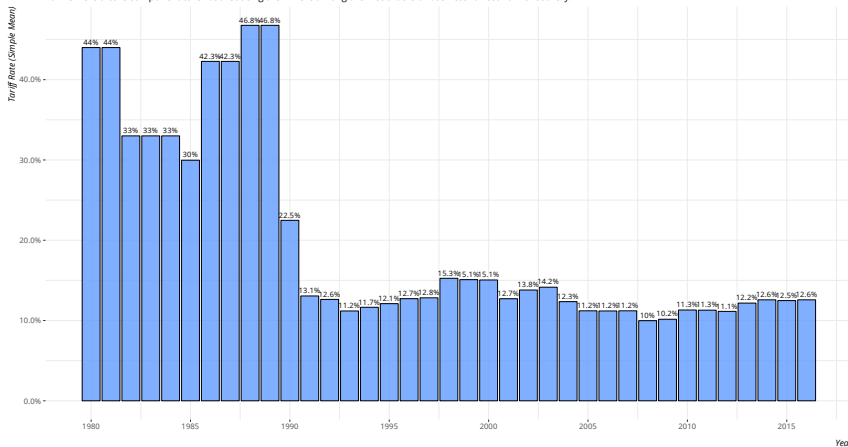
Problems:

- Industries were inefficient.
- Lack of competition usually meant products were low quality.
- Uncompetitive exports compounded economic downturns.

Washington Consensus to address ISI problems largely ended those policies.

Tariff Rates, Like Argentina's Tariff Rate Here, Were Some of the First Targets of Washington Consensus Reforms

Tariffs were a core component to ISI but reducing them were among the first orders of business for economic recovery.



Data: various sources, primarily World Bank (1980-1984, 2010-2016). See also: Lora's (2012) report for the Inter-American Development Bank.
 Note: 1980-1984 figures are actually means for 1980-1 and 1982-4 via Laird and Nogues' (1989) article in the World Bank Economic Review.

ISI Products Usually Became Punch-Lines

A red Yugo car is the central focus, with a diverse group of approximately 15 people of various ages and ethnicities posing around it. Some are standing behind the car, some are leaning on it, and one young boy is kneeling in front. They are all smiling and making celebratory gestures like fist pumps. The background is a solid dark blue.

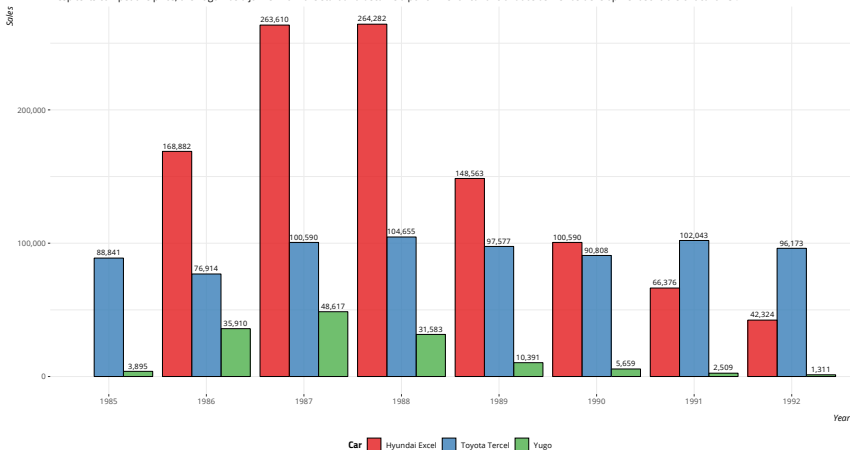
YUGO, \$3990.*

EVERYBODY NEEDS A YUGO SOMETIME

*\$3990 MFG. SUGG. PRICE FOR YUGO G.V. TRANS. \$320, DEALER PREP: \$90, TOTAL \$4,400 EXCL. TAX AND TITLE.

The Yugo Was Easily Outsold by Similar Models from Asian Automakers and Bottomed Out the U.S. Market Quickly

Despite its competitive price, the Yugo was a junker from the start and became a punchline for car aficionados as well as development scholars critical of ISI.



Data: carsalesbase.com. Note: I'm aware the inclusion of the Tercel is questionable since the third generation of Tercels were quite different from the first and second generations. Just roll with it.

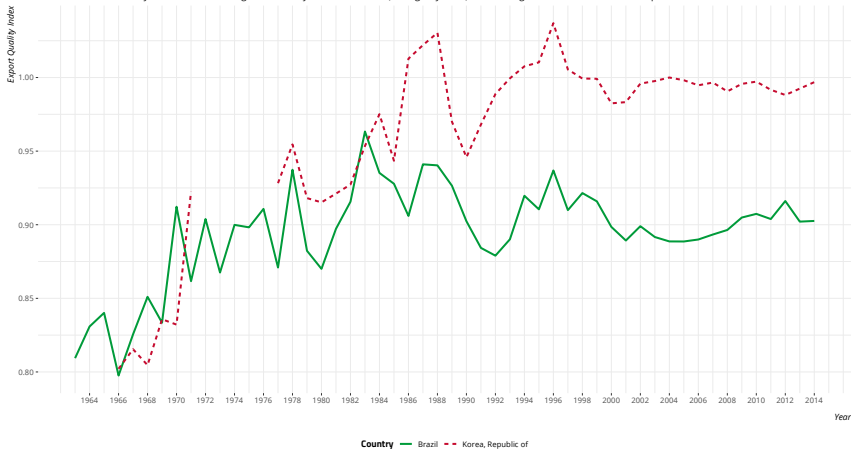
The EOI Framework

Latin America generally turned inward. The “Asian Tigers” looked outward.

- Market products for quality for richer countries (esp. America).
- Depress currency to make exports cheap.
- Extend low-interest loans and tax breaks to exporters toward that end.

South Korean Passenger Automobiles Surpassed Brazil's Autos in Export Quality Early into the 1970s

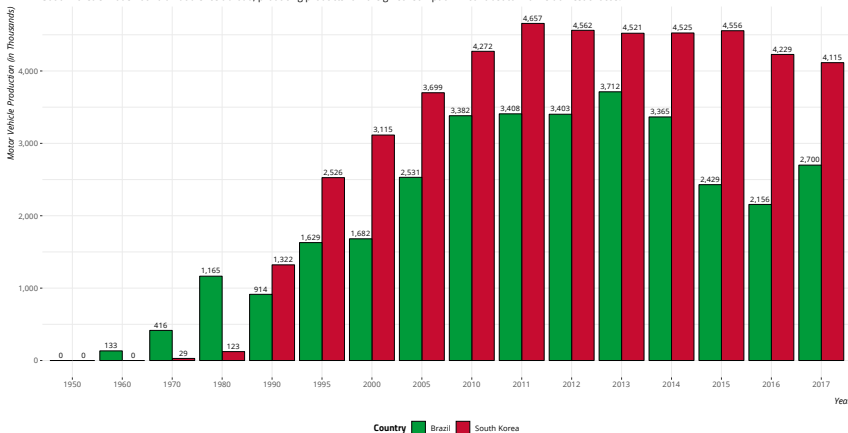
South Korea's first foray into the distant foreign market may have been Guam (through Hyundai) but cracking the U.S. market soon set it apart from Brazil.



Data: International Monetary Fund

It Didn't Take That Long For South Korea's Motor Vehicle Production to Outpace Brazil

South Korea's model found an audience abroad, producing products for foreign consumption in contrast to Brazil's domestic focus.



*Data: Organisation Internationale des Constructeurs d'Automobiles, among other sources.
 Note: production includes figures for passenger cars, light commercial vehicles, minibuses, trucks, buses and coaches.
 Production is later defined in the 21st century as where vehicle was assembled.*

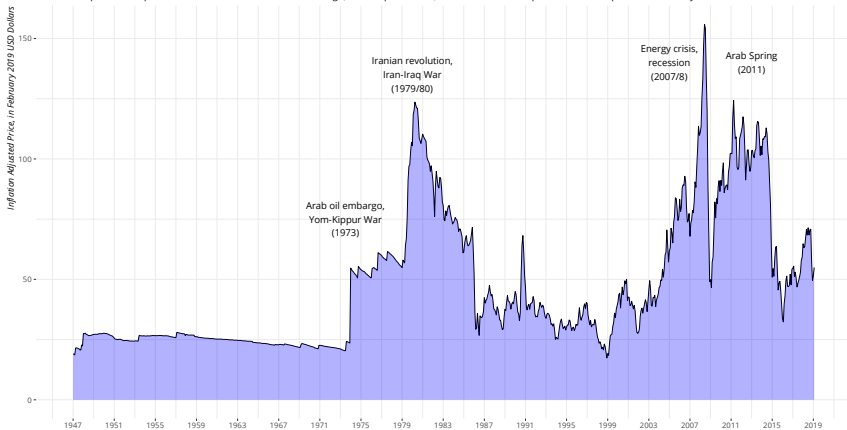
Commodity Cartels

Poorer countries sharing common resource have found cartels useful

- OPEC is clearly best example of this.

Average Crude Oil Price, 1947-2019

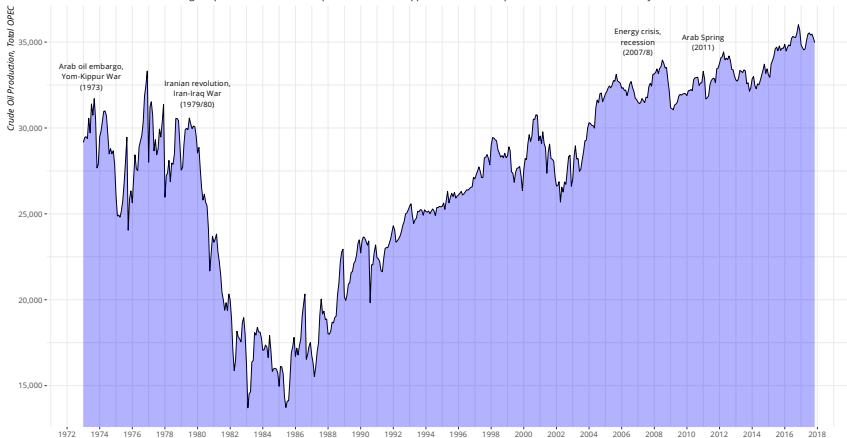
We observe prominent spikes that coincide with the Arab oil embargo, Iran-Iraq War onset, and the worst consequences of the Iraq War and corollary financial crisis.



Data: Federal Reserve Bank of St. Louis
Note: prices are for West Texas Intermediate (WTI), manually converted from nominal to real prices with a February 2019 index.

OPEC is a Clear Example of a Commodity Cartel Changing the Terms on Which They Trade Goods

OPEC's first success was doubling the price of oil in 1973 in response to the Yom Kippur War. Overall oil production was halved in the 10 years from 1973 to 1983.



Data: U.S. Energy Information Administration (Feb. 2018 Monthly Energy Review)

Commodity Cartels

However, commodity cartels are no quick fix.

- Cartels are hard to govern!
- Oil is a unique commodity too.

Cartels Are Inherently Unstable. OPEC is No Different. And Everyone---like the United Arab Emirates---Cheats

Some OPEC members (e.g. Indonesia) cheat less than others but everyone does it and it kinda defeats the purpose of the cartel.

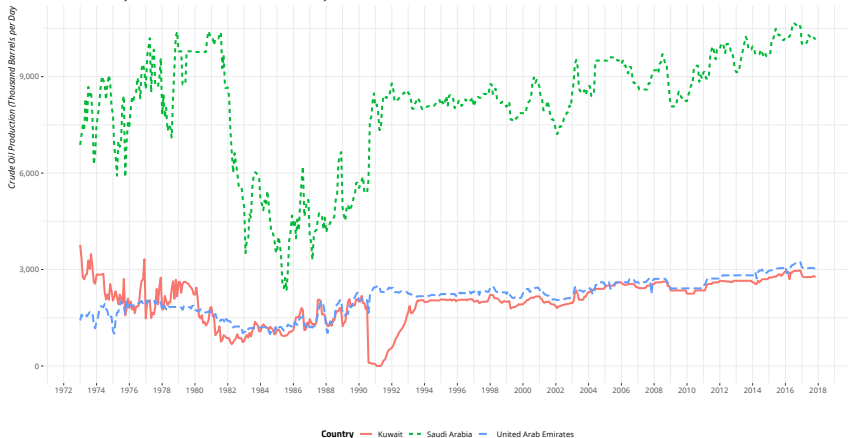


Data: U.S. Energy Information Administration (Feb. 2018 Monthly Energy Review)
Quota Data: 2016 OPEC Annual Statistical Bulletin

Saudi Arabia's Response to Widespread Cheating in the 1980s: Beat Everyone to the Floor

Saudi Arabia has the largest oil reserves, a rather small population, and huge currency reserves.

It can take a bloody nose for the cause of the cartel and beat anyone to the floor when it's concerned about market share.



Data: U.S. Energy Information Administration (Feb. 2018 Monthly Energy Review).

Conclusion

- While everyone prefers development, powerful groups can block it.
- Domestic institutions play an important role—they may promote or hinder development.
- Rich countries adopt policies that hurt the poor.
- Successful development requires a country to overcome both internal and external obstacles.

Table of Contents

Introduction

What Can LDCs Do About This Bias?

Conclusion