POLI 150: Global Development

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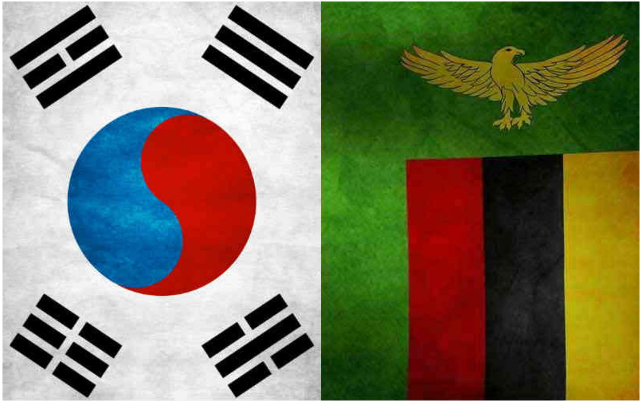
Today's Class

- Global Development
- Domestic Three Is of Development
- International Community & Economic Development

Puzzles of Development

- Why have some countries successfully developed while others have not?
- How do domestic actors affect development?
- Has the international political economy helped or hurt developing states?
- What role does foreign aid play?

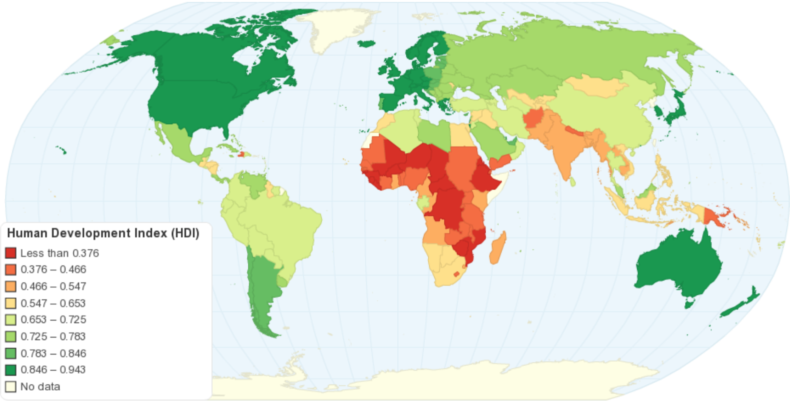
A Tale of Two Countries



Differences in Development

- Less developed countries (LDCs) want to become more developed
- While seems uncontroversial, steps to develop can cause some conflicts of interest
- Sources of conflict arise as a result of geography, domestic actors' interests, and domestic institutions

HDI Across the World



Geographic Barriers

- Tropical regions are generally poor, while temperate regions are more wealthy
- Landlocked countries, distance from major markets, disease, and weather $\rightarrow$ less development
- Effects of geography were much greater in the past
- Problem with the geographical explanation? Huge variation in countries that are geographically similar! (e.g. Botswana and Zambia)

Domestic Factors

- Infrastructure—physical, economic, and social—allows citizens to productively engage in economic activities
- Property rights ensure that individuals have incentives to invest in their economic activities
- Governments have incentives to provide these public goods, but sometimes cannot due to weakness or lack of technical expertise
- If they have the ability to, why might governments *not* invest in the factors that encourage development?

Domestic Conflicting Interests

- Actors might be invested in a traditional economic sectors that would be harmed by development
- Wealthy landowners might oppose property rights for farmers
- Owners of plantations have incentives to oppose urbanization
- In Sub-Saharan Africa, policies often channel resources from rural to urban areas to benefit a narrow sector of elites

Domestic Interactions

- Every country experiences these domestic conflicts of interest
- Some states are able to overcome these through cooperation, but others have deep divisions
- Countries with ethnic or regional tension impedes development
- Colonialism → increased intrastate divisions (e.g. SSA)
- Resistance to an external threat can lead disparate groups to overcome collective action problem (e.g. South Korea & Taiwan)

Domestic Institutions & the Resource Curse

- Institutional arguments supplement geographic explanations

- **Resource Curse**: the argument that natural resource endowment leads to less development

- States invest heavily in extracting resources, and less in other activities; governments have incentives to use funds from resources to fuel corrupt policies (e.g. Zambia)

- States without resources must invest in making the economy more productive in other, more sustainable ways (e.g. South Korea)

Colonialism & Development

- Colonialism is often cited as a source for lack of development
- Some of the most developed countries in the world were colonies
- But many policies of colonialism hampered development: trade toward mother country, restricted colonial manufacturing, resource exploitation
- What explains the difference in colonial experience? One study finds that settlers' mortality rates $\rightarrow$ less investment in institutions $\rightarrow$ less development *today*

International Community & Global Development

- Rich and poor nations have shared interests: FDI, trade, lending, etc.
- However, the interests between wealthy nations and LDCs often come into conflict
- For example, rich countries benefit from lower wages in LDCs; no incentive to encourage development that will raise wages
- MNCs may disagree with LDCs about the distribution of profits from FDI

IPE & Development

- Some argue that the international economic system is biased against LDCs
- LDCs specialize in primary products (huge markets); industrialized nations specialize in manufactured goods (often subject to oligopolies)
- In this view, LDCs' exports are subject to market forces, but wealthy states have control over the market for their exports

Farm Trade Policy & LDCs

- Industrialized countries protect their farmers with barriers to trade
- Example: cotton industry in the US; government pays billions of dollars per year in subsidies to cotton farmers
- Increased American production of cotton raises the global supply and lowers the price of cotton
- A small number of American farmers receive the benefit, while millions of cotton farmers in LDCs receive lower profits

Biased International Institutions?

- LDCs have had nearly no success in getting rich countries to lower agricultural barriers, and this power disparity plays out in the international economic institutions

- IMF: voting is a function of economy size

- WTO: LDCs have lowered trade barriers to manufactured goods without reciprocation in agricultural goods

- How have governments in LDCs reacted to these obstacles?

Import-Substituting Industrialization

- Following the economic collapse in the 1930s, many LDCs turned inward and focused on self-sufficiency
- **Import-substituting industrialization (ISI)**: reduce imports and encourage domestic manufacturing
- Done through a mix of trade barriers, subsidies, and nationalized industries
- The belief was that a shift away from agricultural production toward industry would spur development

Import-Substituting Industrialization

- As foreign markets collapsed, domestic actors invested in primary products lost influence and pro-industrial groups gained influence
- ISI was very common in LDCs across the country until the 1980s
- Problems? Manufacturing was not efficient in these states $\rightarrow$ difficulty selling to foreign markets
- ISI left countries vulnerable to crises and led to poverty for rural citizens

Export-Oriented Industrialization

- ISI is about industrialization for self-sufficiency
- **Export-Oriented Industrialization (EOI)**: a set of policies used by East Asian countries in the 1960s to spur manufacturing for exports
- Governments offered cheap loans and tax-breaks for manufacturing and a weak currency to make their products cheap on the global market
- Extremely successful in encouraging development, and ultimately become the dominant set of policies for LDCs

Globalization & LDCs

- The failure of ISI left LDCs vulnerable to pressure from developed countries
- Following crises, IMF encouraged **Washington Consensus** for LDCs
- LDCs formed the Group of 77 (now up to 130) that seeks to enact change beneficial to developing nations
- LDCs greatest successes came from commodity cartels, like OPEC, which allowed them to take advantage of resource wealth

Foreign Aid

- Foreign aid is often cited as a response to issues of global development
- Countries give very little in foreign aid, and there isn't domestic pressure to encourage more
- Many governments of LDCs will distribute foreign aid to their supporters
- Aid is often given for reasons other than alleviating poverty
- Is it possible to encourage rich governments to give more aid, and how could it be made more effective?

Aid vs. Trade

- Debate between whether foreign aid or increased trade will spur development
- Evidence suggests aid only works if governments adopt appropriate policies
- Trade allows for more sustainable development
- A third option: aid as narrowly targeted interventions rather than comprehensive development aid