Paths of Development

“Advantage of Backwardness” (A. Gershenkron)

Early developers (US, UK in 18th century)
- Face no international competition
- Limited state role

Middle developers (Japan, Germany in 19th century)
- Face international competition
- Adopt technology quickly
- Greater state role

Late developers (Russia, China, 20th c.)
- Extensive states role needed
- Face tremendous international competition
- Advantage of backwardness has declined

Late-Late developers (experimental developers)
- Post-colonial states
- Embedded in highly developed capitalist system
- Is development possible?
Major Obstacles to Development

Colonial Legacies
- weak states
- little capacity
- “dependent development” of economies

Rentier States and Democracy
- resource curse: oil hinders democracy
- weak states never tax population
- hinders long-term development

Corruption
- patron-client institutions
- World Bank unwilling to prevent fraud
- Failed development projects
Dependency Theory
- Produce commodities and extract raw materials for export (foods, minerals, oil)
- International investment is directed at extraction and commodity production
- Commodity prices are volatile, and decline over time
- Difficult to accumulate capital for investment
- Dependent on foreign markets

How to avoid dependence on developed-country markets?

Import-substitution Industrialization (ISI)
- substitute imports with domestic industries
- protect “infant industries”; high tariff barriers
- favor domestic producers (even if inefficient)
- resist FDI and MNCs
- exemplars are Brazil, India
- Easier with large domestic market
- Some successes, some failures (e.g. Brazilian computer industry v. regional jets)

Export-led growth (ELG)
- focus on generating exports to earn capital for investment
- start w/ low level industrial products, move up the product cycle (labor intensive v. capital intensive approach)
- export industries must be protected
- innovation must be possible
- regulate FDI and MNCs
- Taiwan, Korea
- Easier with smaller economy (large external market)
Capitalist Developmental State (C. Johnson; R. Wade)
- Exemplar as Japan (1950-1980)
- Gov’t directs economic planning
- Japan sets rules for FDI and MNC presence
- Domestic market competition
- Protection from imports in key sectors
- ELG & ISI mixed

Newly Industrialized Economies (NIEs)
- Asian “Tigers”: South Korea, Taiwan, Hong Kong, Singapore (1980s)
- South Asian “Dragons”: Thailand, Malaysia, Philippines (1990s)
- 1997 Asian financial crises leads to debate over CDS