

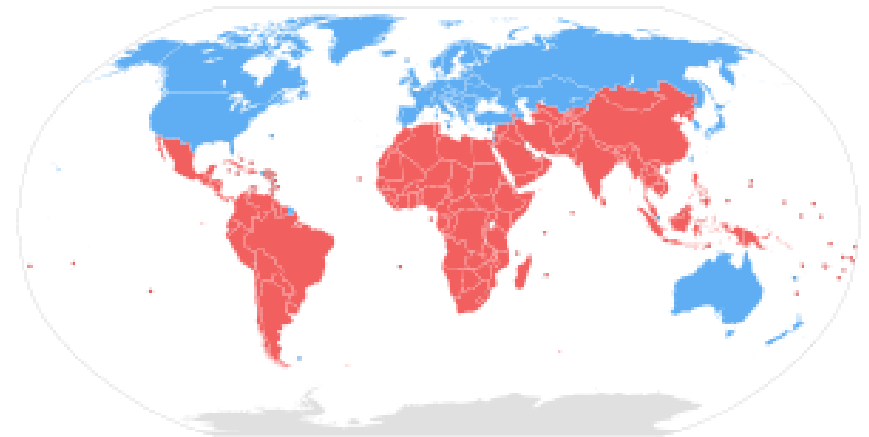


## Development Policy 2019

Session (7): The Big Debate – Policy vs. Geography vs. Institutions

# Schedule

- How does globalization facilitate (or deter) national economic growth?
- What is the implication of regionalization of economy?
- Do geographic location of countries matter in development?
- What is inclusive growth?



# North-South Divide

- Classification of countries by the level of development (socio-economic). The term “the Third World.”
- Separation of world economy into ‘core’ and ‘periphery’ – The core in Northern hemisphere (25% of world population) controls 80% of world income, 90% of manufacturing. How this discrepancy happen?
- Structure (trade of raw material and finalized products) – Dependency theory
- Global migration (technology transfer) theory
- Geopolitics, culture, etc.



“Poor countries have poorly educated populations, and possess outdated or nonexistent machinery and technology.” – but *why?*

# Does Geography Matter?

- Yes or No? – (**fact**) High-income regions are almost entirely concentrated in a few temperate zones, half of the world's GDP is produced by 15% of the world's population, 54% of the world's GDP is produced by countries occupying just 10% of the world's land area.
- Geography matters? **Yes!** Geography explains cross-country differences in prosperity.
- Geography hypothesis – “the geography, climate, and ecology of a society's location shape both its technology and the incentives of its inhabitants.”
  - ✓ *Climate – determine work efforts, incentives, even productivity*
  - ✓ *Geography – determine technology a society develop, especially in agriculture*
  - ✓ *The burden of infectious disease in the tropics.*

*You agree? What is the problem with this hypothesis?*



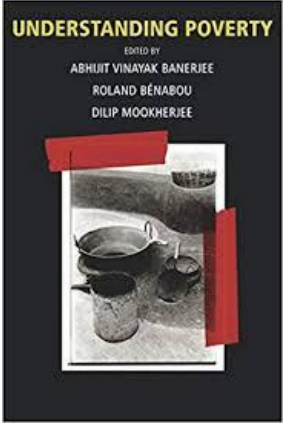
*Joseph Stiglitz*

# Globalization and Its Impact

- Question: Is globalization good for development (in particular, for developing countries?)
- Some people say **yes** – look at Chinese economy (GDP growth 10% for 30 years), growing India (recent GDP growth more than 8%)
- Closer integration of the countries of the world – result of lower communication and transportation costs | Reduction in manmade barriers to movements of goods and services, people, capital, knowledge, etc.
- Developing countries benefited: a) access to markets; b) access to technology
- Do you agree? – What about Latin American countries (former best students of liberalization, experiencing decline in income, increasing poverty) | Africa (declining income) | former communist countries (declining income, increasing poverty)

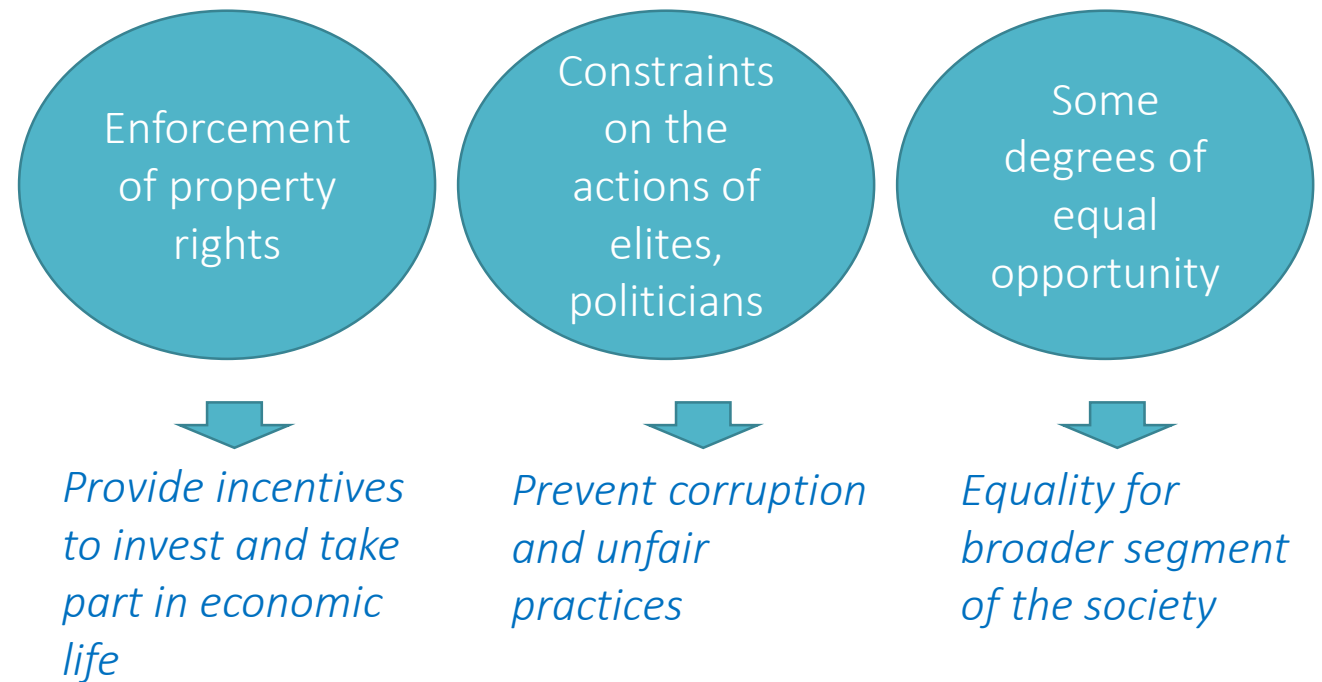
# Failures

- Is the globalized world getting better?
- Trade? (equal? Beneficial to developing countries?) – e.g. African countries
- Has Washington Consensus policies been working? – e.g. Latin American countries
- Has environment in developing countries been saved? – sustainable development
- Has global knowledge been fairly transferred to developing countries
- Has the responsibility for global warming fairly distributed?



# Poverty: Institutional Hypothesis

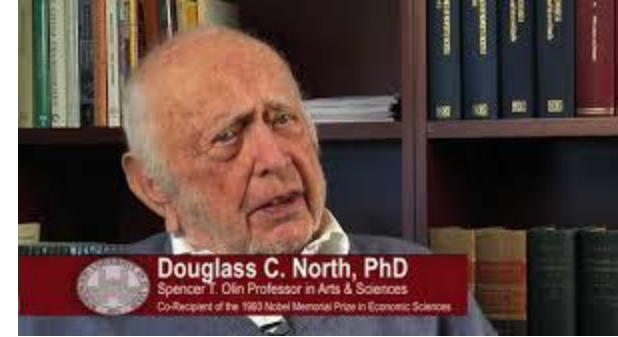
- Two main contenders to explain the fundamental causes of cross-national differences in prosperity (Banerjee et al.):  
*Why some places don't have better condition?*
- Against geography hypothesis: Banerjee et al. (2006) argues that “institutions” are more important. Geography hypothesis emphasizes natural forces.
- Institutional hypothesis argues: “some societies are organized in a way that upholds the rule of law, encourage investment of all kinds, facilitate broad-based participation by citizens, and supports market transactions.”



**Institutions of Private Property**

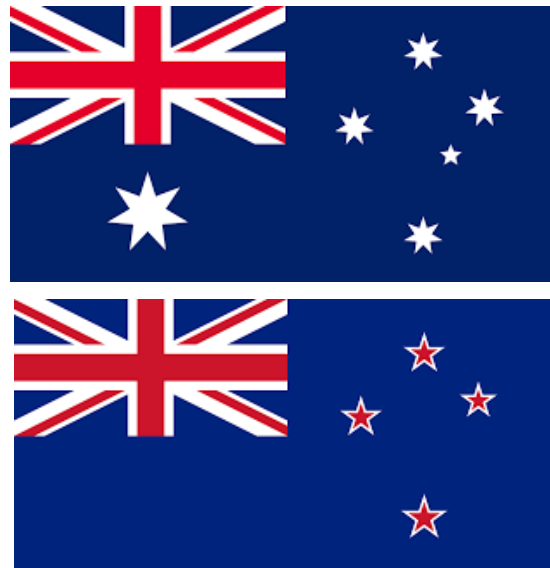
# Continued...

- Nobel Prize Laureate Douglas North also supported 'institutional hypothesis'
- Unfortunately – institutions of private properties do not exist in many societies.
- Extraction of resources by one (or a few) group at the expense of the rest (extractive institution)



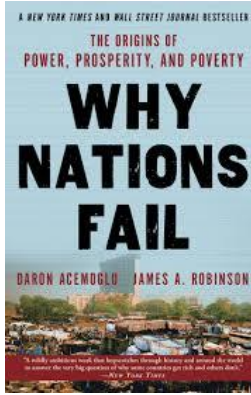
Belgian colony, Congo  
Caribbean  
-- slave plantation

Latin America  
-- Forced labor



Other European settled in  
Australia, NZ, US, etc.  
-- Placed significant  
constraints on elites,  
politicians, etc.





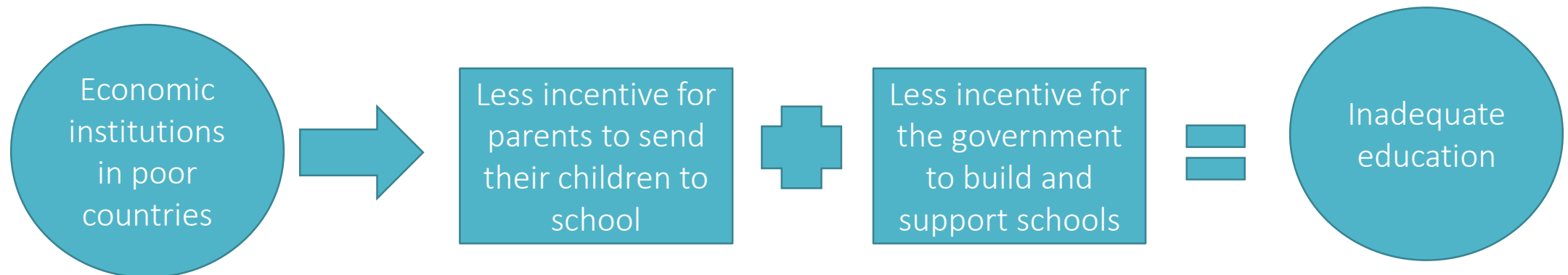
# Extractive vs. Inclusive Institutions

- Countries differ in their economic success because of their different institutions – the rules influencing how the economy works, and the incentives that motivate people.
- Over the several years, worldwide consensus → the need for a more 'inclusive growth.'
- Acemoglu and Robinson theorized that there are two institutions: 1) extractive institutions in which a small group of individuals do their best to exploit the rest of the population, and 2) inclusive institutions in which many people are included in the process of governing.





# Inclusive Economic Institutions

- Create inclusive markets – give people freedom to pursue the vocations in life that best suit their talents but also provide a level of playing field that give them the opportunity to do so. (e.g.) North Koreans, Colonial Peru & Bolivia
- Technology and Education – Inclusive economic institutions also pave the way for the engines of prosperity.



# The Inclusive Development Index

 Most inclusive advanced economies	Rank	 Most inclusive emerging economies	Rank
Norway	1	Lithuania	1
Iceland	2	Hungary	2
Luxembourg	3	Azerbaijan	3
Switzerland	4	Latvia	4
Denmark	5	Poland	5
Sweden	6	Panama	6
Netherlands	7	Croatia	7
Ireland	8	Uruguay	8
Australia	9	Chile	9
Austria	10	Romania	10

Source: Inclusive Development Index 2018, World Economic Forum

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Growth and  
development

Inclusion

Intergeneratio-  
-nal equity

Is  
Vietnam  
inclusive?



# Question about Inclusive Growth

- The extractive and inclusive categories are intuitive and useful – but explaining the entire cases and history of humankind by this dichotomy is difficult.
- (e.g.) Rome – prospered for centuries under the extractive institutions of the empire.
- Other examples – South Korea, Taiwan, Chile, and China (good economic results)
- North Korea vs. South Korea
- Northern Italy vs. Southern Italy (Robert D. Putnam)
- Zimbabwe – transition from extractive colonial institutions → catastrophic economic collapse

# Not Easy Prescription

- Acemoglu & Robinson – Politically inclusive institutions (certain level of centrality and diversity of political power) + economically inclusive institutions prevent the rise of the vested interest and facilitate ‘destructive creativity’ (old one replaced by new one).
- What is the implication of inclusive & exclusive institutions about Vietnam? What is the philosophical basis of <Inclusive Institution> theory? Discuss.