

TWO DIFFERENT MODES OF DEVELOPMENT WITH DIFFERENT SUSTAINABILITY

Katsumi Hirano

June 2015



Foto: 1ª Conferência de Lisboa sobre Desenvolvimento, Fundação Calouste Gulbenkian, 3-4 de dezembro de 2014.

© Conferências de Lisboa

TWO DIFFERENT MODES OF DEVELOPMENT WITH DIFFERENT SUSTAINABILITY

In the history of global development after World War II, two groups of developing countries with different modes of development are observed. Each group has different growth dynamics and hence different requirement of sustainability. While proper policies and good governance are picked up by almost everyone as conditions of sustainability of development, social cohesion kept by healthy nationalism should be perceived as prerequisite for it.

North-South Problem

The theme of 'North-South Problem', which framework was constructed by a famous Argentina economist Raul Prebisch in 1940s and 1950s, put its focus on trade between developed and developing countriesⁱ. So-called 'North-South Trade' was supposed as exchange of manufactured goods produced in developed countries and primary goods from developing countries. Based on this dichotomy, Prebisch and his followers asserted to maintain the prices of primary goods at least parallel with manufactured goods in order to keep stable income of developing countries. Therefore, its tactics was to make up collective bargaining power of 'South' at the international negotiation determining the term of trade with 'North'.

In fact natural resources' prices, especially oil price, have historically been most critical determinants of income allocation between 'North and South'. During the uptrend of resources' prices, economic growth rates of developing countries keep higher than of developed ones and foreign investment starts to flow from developed countries to developing ones.

The assertion of North-South Problem was dramatically actualised as 'Oil Crisis' in 1970s through politically or diplomatically manoeuvring oil price by OPEC (Organisation of Petroleum Exporting Countries). Nevertheless, OPEC had failed to maintain its cartel system. Market mechanism became dominant on determining oil price by the end of 1980s in the result that North-South Problem's argument has lost effectiveness and influence. Prebisch's idea on sustainability of development could not prove its viability.

East Asia Miracle

The theory of North-South Problem did not have any idea of developing economy that was able to export manufactured goods. However, a number of non-OECD (Organisation of Economic Cooperation and Development) countries that were expanding export of manufactured goods emerged in 1970s. These ten countries were called NICs (Newly Industrialising Countries) in an OECD report of 1979ⁱⁱ, but only four economies, namely South Korea, Singapore, Taiwan, and Hong Kong continued to grow in 1980s. Those four economies came to be called NIES (Newly Industrialising Economies).

Bela Balassa analysed the characteristics of such countries at first in his paper of 1971ⁱⁱⁱ. He described the set of policies adopted by South Korea and Taiwan as 'Outward-looking strategy', and their developmental process as 'export-oriented industrialisation'. He argued that their strategy was based on comparative advantage on labour.

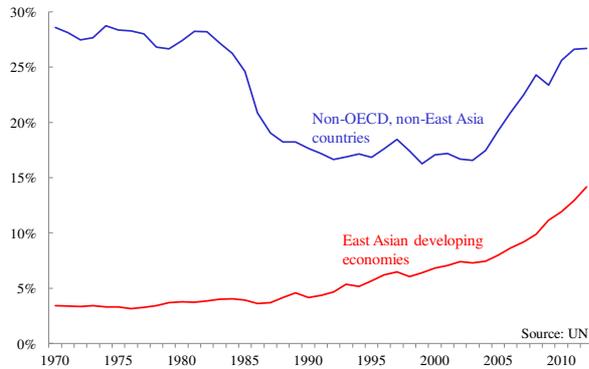
NIES had been endowed no natural resources but cheap and abundant labour force, which enabled them to bring up competitive manufacturing industries that could produce cheaper products than developed countries did. The economic rationality of NIES strategy provided arguments good enough for development economics to yield a new type of theories. Export-oriented industrialisation was much more attractive to the mainstream of economics than North-South Problem's framework which had rather affinity with neo-Marxism.



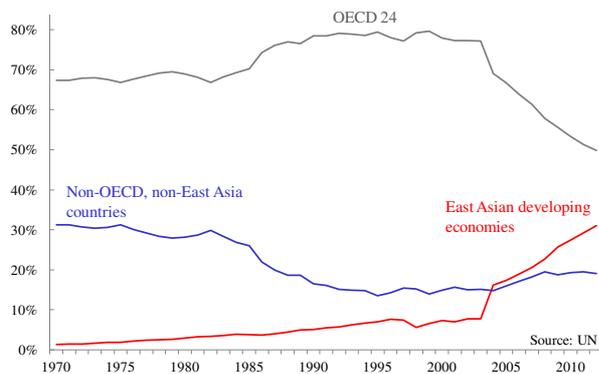
TWO DIFFERENT MODES OF DEVELOPMENT

Two types of developing economies

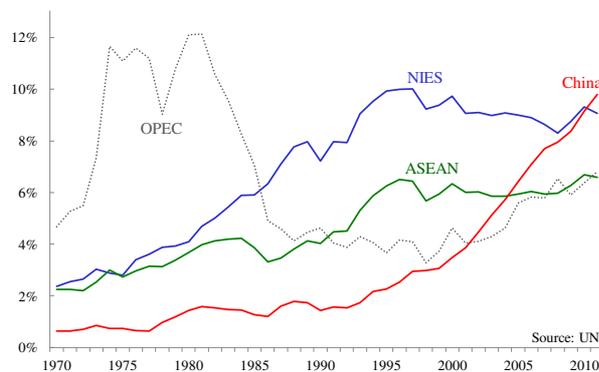
GDP shares in the world production



Shares in the world manufacturing



Shares in the world export



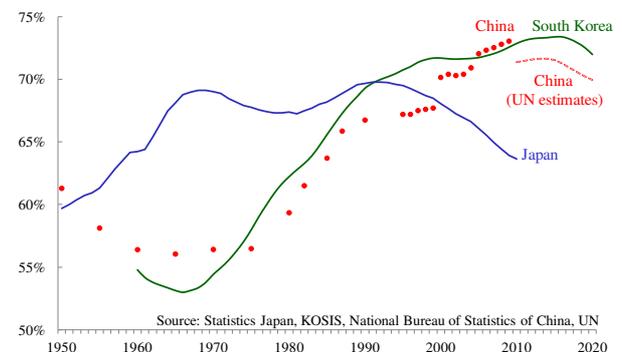
Sustainability of NIES Development

Economic growth of NIES depended on the competitiveness provided by the quality and amount of their labour force. East Asia has the highest population density in the world and also accomplished modernisation of agriculture during 1980s. 'Green Revolution' has made their food production capacities nearly tripled in two decades from 1960s, and increasing domestic food supply helped to maintain low wage. Such progress brought demographic shift from rural to urban areas supplying labour to new industries, and promoted equitable income distribution.

East Asian countries also enjoyed 'Demographic Bonus' coincidentally, that is, increasing labour force component in total population, which accelerated economic growth. But, demographic bonus should be followed by demographic onus; a phase of decreasing labour force component in total population. Japan is the first case of it and will be followed by China, South Korea, and so on. Under demographic onus, the growth potential of outward-looking strategy should be considerably lost like as Japan's experience in these 20 years. Immigration might be one of the solutions to offset its distractive effect, however, it seems to be difficult for East Asians to adapt immigration-dependent strategy like Europeans, with only one exception of Singapore that has adopted English as official language.

Demographic bonus and onus

Shares of working age population



Resource Curse and Poor Governance

From 2003 we experienced again resources' prices hike, which brought about rapid economic growth even in Sub-Saharan Africa that had been left much behind other developing regions. China moved beforehand in new directed diplomacy toward Africa pushed by its own expanding requirement for natural resources. But resource boom has already ended. Due to steep prices' reduction, the economic performances of natural resources' exporters were rapidly deteriorated.

To keep sustainability of development, it is important for resource-endowed developing countries to nurture any other sectors than resource exploitation. Careful and prudent appropriation of resources revenue is key for that purpose, nevertheless, the argument of 'resource curse' says that resource endowment may smear national picture of development and social progress through unequal income distribution, prevailed corruption, stagnated employment, etc^{iv}. These symptoms are explained as consequences of rent-seeking activities entailed with resource business.

In the case of Sub-Saharan Africa, underdevelopment of agriculture is definitely one of the most serious and fundamental problems annoying Africans. The land productivity of food cereal in Sub-Saharan Africa is less than one thirds of the world average; consequently Africa is the biggest importer of cereal in the world in spite of that 60% of its labour force is still engaged in the agricultural sector. Africa now depends around 25% of its total cereal consumption on import and aid, which has brought higher price of foodstuff and then comparatively higher wage than in Asian developing countries. After all, Africa doesn't have comparative advantage in labour. Constantly increasing cereal import of Africa has become global concern for food security of the human being.

Sustain Development

For sustaining development in longer term in the current globalised world, it must not be ignored to establish collaboration with global companies who spread international business beyond borders. Development in the 21st century will become more competitive for each government to provide various incentives to the private sector.

On the other hand, historically speaking, development occurs not in international arenas but within national border. Development itself is a nationalistic phenomenon,

and hence establishing healthy nationalism will provide motivation for development and contribute to sustain it.

Broadly shared nation-consciousness will be indispensable for preventing resource curse. For example, Norwegian way to reserve institutionally a considerable part of resources revenue for next generation is based on their firm national identity kept beyond generations. Modernisation of agriculture was initiated everywhere by the public sector, without which initiative social foundation for industrial revolution would have not been prepared. While proper policies and good governance are picked up by almost everyone as conditions of sustainability of development, social cohesion kept by healthy nationalism should be perceived as prerequisite for it.

NOTES

ⁱ Raul Prebisch, "The Economic Development of Latin America and its Principal Problem", 1949, reprinted in *Economic Bulletin for Latin America*, Vol.VII No.1, February 1962, the United Nations Economic Commission for Latin America.

ⁱⁱ "The Impact of the Newly Industrialising Countries on Production and Trade in Manufacturing", OECD, 1979.

ⁱⁱⁱ Bela Balassa, "Industrial Policies in Taiwan and Korea", *Weltwirtschaftliches Archiv*, Band 106 Heft 1, J.C.B.Mohr.

^{iv} For example, Richard M. Auty, *Sustaining Development in Mineral Economics: The Resource Curse Thesis*, Routledge, 1993.

IMVF Briefs are publications that target a wide audience and present in a concise manner the key features and questions regarding a development-related issue .

This paper was initially presented at the 1st Lisbon Conference on Development, held in December 2014. More information in www.conferenciasdelisboa.com

Katsumi Hirano is Chief Senior Researcher at the Institute of Developing Economies (IDE-JETRO). He is a Board member of Sasakawa Africa Association (SAA), Japan Consortium of Area Studies (JCAS), and Friends of the Global Fund in Japan (FGFJ). He published a number of books including, in English, Japan and South Africa in a Globalising World: A Distant Mirror, Ashgate: UK, 2003. He received the Ono Azusa Memorial Award in 1982 and the Okita Saburo Memorial Prize in 2003.

SOBRE O IMVF

O Instituto Marquês de Valle Flôr (IMVF) é uma fundação de direito privado e uma Organização Não Governamental para o Desenvolvimento (ONGD) que realiza ações de ajuda humanitária, de cooperação e educação para o desenvolvimento económico, cultural e social, realiza estudos e trabalhos científicos nos vários domínios do conhecimento, bem como fomenta e divulga a cultura dos países de expressão oficial portuguesa.

ABOUT IMVF

Instituto Marquês de Valle Flôr (IMVF) is a private foundation and a Non-Governmental Development Organization (NGDO) that carries out humanitarian aid and economic, cultural and social development cooperation and education. It also conducts studies and produces scientific papers on several fields of knowledge, and promotes and disseminates the culture of countries whose official language is Portuguese.

Instituto Marquês de Valle Flôr
Rua de São Nicolau, 105
1100-548 Lisboa
Portugal
Tel.: + 351 213 256 300
Fax: + 351 213 471 904
E-mail: info@imvf.org