Question 2:

Since the 1970s the concept of the “Third World” has been widely criticized for not capturing the increasing differentiation among developing countries. Consider the figure below (Norman & Stiglitz 2012) and discuss the explanatory power of contrasting theories of economic growth and development regarding the trends and regional similarities/differences of GDP per capita annual growth rate 1980-95 and 1995-2009 in the Third World/Global South. Finally reflect upon if a theoretical consensus is emerging in the 21st century regarding the key drivers and obstacles of economic development in the “Global South” and what are the key features of such a consensus or disagreement.

The field “political economy” has gained relevance because it realized that explaining economic outputs by using economic explanations only was too simplistic. It did not capture the political, social and historical background of the investigated economy and thereby reached the wrong conclusions. The combination of the two was thereby necessary in order to capture the interplay of the market, the state and other private actors. Adding on the concept of development makes it increasingly interesting because it gives rise to the question: How do we define development? Is it focusing on economic growth alone or does is incorporate other areas such as democracy, the reduction of inequality and a peaceful country? Depending on how you define development you will reach different results when analyzing regional differences which this paper will evaluate later on. But the main focus will be on economic growth as an indicator for development. For now we will end by defining the subject “Political Economy of Development” as the interplay of market and private forces affecting development.

As the question implies there has been a change of attitude towards what was once (and sometimes still is) called “The third world”. In order to understand this change a short explanation of how this term came to be accepted in the first place is appropriate: During the Cold War the world was divided into two great powers: The West and the East as is traditionally described. The West was characterized by a market economy, democratic rule and economic prosperity. The East was characterized by plan economy, communist rule and extensive growth (using more input resources while not improving technology leading to an unstable sort of output growth). As it was the Western World who invented the terms, the West was called the first world and the east was called the second world. Besides these two superpowers led by the USA and the USSR, there were countries which were not growing economically, were very poor and very dependent on aid from the first and the second world. These countries, mostly located in Africa, Latin America and Asia were called “The Third World”. When the second world disappeared by the collapse of the Soviet Union we were left with two worlds: A developed first world which donated aid to the receiving developing third world.

Now however, even though the world map looks more or less the same, the picture has changed. First of all as also mentioned by the question, the regional differences in the Third World have turned out to be too big to be captured by one term. While some countries in the Third World may still be classified as developing (state with insufficient state capacity to implement strategies for successful economic growth), it is also highly recognized that other countries have moved on to be developmental states (states with sufficient state capacity to implement successful growth strategies). Secondly the use of the term involved a general consensus of "West is best", implying that the first world was the only one having the recipe to economic growth. Now with the success of e.g. China it is obvious that this is no longer true. Thirdly and not to forget the discourse has been changed. It is no longer sufficient or efficient to look at the world with western eyes – you need to recognize that there is no such thing as good or bad development and if neglecting this, large opportunities to facilitate the process of reaching sustainable growth can be overlooked. And in the end this is the essence of the subject of PED: How to achieve sustainable economic growth for the developing countries.

Following this introduction the paper will evaluate regional differences and similarities of development with the starting point of the shown figure. This section will be divided into three sections: Asia, Latin America and Sub-Saharan Africa. These regional analyses will be followed by a discussion of whether there are certain similar features of the successes and/or failures of the developing and developmental states and whether there has been created a recipe for economic development. The paper will conclude by arguing that while there have been attempts to create a universal solution for economic development and signs of some of the same drivers and obstacles, in order to create a successful development strategy it must be designed especially for the concrete economy.

Regional perspectives:

Asia including both East Asia and South Asia must be seen as the clear winner of this figure. During both time periods this region has had the largest GDP per capita annual growth rate. East Asia has done markedly better than South Asia but both regions have a growth rate of more than the double of SSA and LA in the latest time period from 1995-2009 and are the only regions with a positive growth rates in the first period from 1980-1995! It is also mostly in this region that we find states that have moved from being developing to developmental states, e.g. China, Singapore, Taiwan. Trying to answer how some of these states went from the poorest countries in the world to developmental states with fast growth (often referred to as the "East Asian miracle") we find the theory of Systemic Vulnerability. This theory shows with the starting point of three Asian countries: Taiwan, Singapore and South Korea, how internal and external pressures have created the environment of "systemic vulnerability" which has induced the change to become a developmental state with economic growth. The three needed factors for creating this are: Internal pressure for broad coalitions, external security threats and scarce natural resources. The logic goes as follows: If the elite rulers of the state face the challenge of internal pressure, it is necessary for them to form broad coalitions and produce side payments in e.g. the form of education, health care, etc. in order to satisfy the citizens. If at the same time the state faces external security threats as was the case for these three countries from at least the 60-80ies it cannot cut down on military spending to fund the side payments so it must seek for other measures. The last factor needed is that the state cannot find the funding for the side payments or the military from its natural resources, because there are none or very few. Then in order to find payment for the expenditures it faces, it will have to reform and create incentives for economic development to stay in power. This theory fits well on the three before mentioned states and shows how unique historical, social and political contexts can create a perfect environment for economic reforms. However within this region you also find differences: The contrasting of China and India is for examples exceptional. Whereas India has chosen the path of democracy and an open economy, China has a state with "an iron fist" and a selectively open economy. For now it has been obvious that China has reached the best results by far looking at economic growth, indicating that democracy can be problematic for the implementation of the necessary economic reforms. But it can also be argued that India in the future will be the winner when China faces the costs of transition from authoritarian regime to a more democratic and free state. Furthermore it exemplifies how evaluating developmental success depends on how you define development: Had it been defined by freedoms to the people India would be the clear winner. So even though the factors of systemic vulnerability and a strong and authoritarian state has seemed like the explanation for Asia's propound economic growth, exceptions to this development pattern are found in the region, making it impossible to apply only one explanation.

Sub-Saharan Africa on the other hand can be called the loser of the figure. However starting with a growth rate of below zero, moving to a positive growth rate almost as good as the Latin American one, SSA has moved in the right direction so to say. But why has this region been so slow to create some positive growth? And does the figure indicate that it is now time for SSA to rise and shine? In order to explain why SSA has been a region of poor economies you might look at 3 explanatory factors: Geographical environment, global context and bad governance. The factor of the geographical environment initially claimed that countries being land-locked found it harder to promote economic growth because they were far from trading areas such as harbors. Additionally it said that countries in a tropical environment had the additional disadvantage of many diseases. While the point about diseases might hold true, the presumed advantage in economic performance of coastal over landlocked countries turned out to be proved wrong. However the most important geographical explanation of SSA's poor performance is called "the resource curse". As the theory of systemic vulnerability also states, when countries can draw from the wealth of their natural resources, the incentive to transform the economy is not pressing. The next point of the global context refers to SSA's problem with for example competing on prices, now that e.g. China's efficiency produces extremely cheap products outcompeting the local products from SSA. The final point of bad governance refers to the fact that many of the ruling powers of SSA don't have the state capacity necessary to control the many private interests of the region, e.g. incorporate the FDI's into the local economy to extract some value into the region.

But there have been some remarkable exceptions to this region: Botswana and Mauritius, two very different countries have had economic growth along with a functional democracy. This also shows that it is possible for both landlocked (Botswana) and coastal (Mauritius) countries to achieve economic growth. Taking a look at the two different countries you find 3 main similarities explaining their success: Strong leaders, non-corrupt and strong bureaucracy and checks and balances by the people. The checks and balances has proven to provide the citizens with a common voice and some common values even in plural societies, while the strong bureaucracy which in other countries of SSA and other regions turn out to be a disadvantage creating immense possibilities for corruption has been effective and important when leaded by pro-democratic strong leaders. Such a light of hope seen in this otherwise very poor region is inspirational but can the rest of the region follow their examples? The growth rate indicates that SSA is moving forward but what one must also take in mind is the fact that Africa usually does well in times where commodity prices rise which the period from 1995-2009 has been characterized by so one must not jump to the hasty conclusion that SSA and the rest of Africa is now on the right path and we can relax. Many are still skeptical as to whether the states have the necessary means and authority to control the huge market and private forces and turn them into their advantage. Some would also argue that it is not always in the developed world's interest to help SSA develop accountable and well-functioning states as for example seen in Nigeria where Western intervention has been remarkably absent.

Latin America is not doing overwhelmingly well on the figure either, being almost equal to SSA in the latest period. Taking a look at this region's history also shows some huge ups and downs in the history of its economy. From being maybe the region of the Third World that had the rest of the world's highest expectations as to developing into becoming a part of the first world with close ties to USA to today's status of still being a developing region with anchor countries such as Brazil and Argentina. What went wrong? Following the debt crisis of the 80'ies, the USA created some rules as to how the LA countries should reform their economies, also called the Washington Consensus (WC). The WC was very neo-classical and promoted and open and free market with almost no regulations and only a minor role for the state to play. Both Brazil and Argentina pegged their currency to the dollar. But the WC was too hard on the LA economies and led to another crisis for mayor countries such as Argentina in 1999-2001. The WC was not only applied for LA but given the bad results, most developing countries turned away from the neo-classical consensus of leaving out the state and in LA there has been a sort of "return of the state" in the 21st century. The spirit spreading has been that the state must now have a more social focus and fulfill its responsibility to its citizens. The rise of social interest groups has been remarkably in especially LA and has led to the victory of many middle-left governments. Many of the governments have turned back to focusing on their advantages in their primary activities, leading an export-led growth strategy. While this has so far proven to be a good strategy, the danger lures ahead many scholars predict. When focusing primarily on their national advantages only, the LA region only pushes the problem of developing other sectors and widening the scope of their economy on to the next crisis. And even though the state has tried to reconnect with its people, participation and involvement from the civil society is still a huge problem for the region of LA.

Reaching a consensus?

Having looked at the regional perspectives it is obvious that there exist both similarities and differences. One consensus that seems to be universally applicable is the fact that it is no longer a question of whether developing countries should let the market rule of the state rule but instead how these two can work together in order to create the best results. In other words what kind of policy should the developing states lead in order to integrate optimally into the global economy? Schmitz provided a framework for this question, where he argued that the correct state policy for developing countries should be both challenging and supporting. Whereas the WC had been too challenging but not supporting, the strategy seen in many developing countries of import substitution was too supporting but not challenging enough. The correct mix would lead to an active industrial policy with mainly export-led growth and a strive for upgrading (moving up the value chain of a production). He also identified the main hurdles developing economies faced: A technology gap and a marketing gap. When facing both of them, as can be said for many countries of SSA the best opportunity would be to attract FDI's. When facing only one of them, it would be strategically wise to do a joint venture, licensing or get into a value chain. When finally you would face none of them, the developing countries could produce and export their own products.

This theory creates a good common ground when thinking about developing countries' challenges and possible strategies but it is too simplistic and it must be remembered to always think about the unique historical, political and geographical context of the developing country in order to find the most successful developmental path. However given our recent regional analysis a striking feature is what seems to be the fact that development does not happen until the ruling elite of a country is forced to reform their way of ruling. It gives rise to the claim that the ruling elite is always trying to maximize their utility by staying in power, and when external or internal pressures become too overwhelming, they maximize by promoting economic growth. This also explains why some people argue that aid can have the wrong effect: It removes some of the pressure on developing states to create a functional tax-system and make sure there are people who can actually pay tax by promoting employment and distribution. But then you have exceptions like Botswana and Mauritius and India, where democracy has seemed to be the goal and not power-maximization. So mayor disagreements are found as to whether the solution lies in authoritarian state control, being able to focus only on economic progress or maintaining democracy while promoting growth or an entirely different model.

The overall consensus must be that the state has a role to play and that it is that of creating mutual interests with private investors and the industries so there is a mutual dependence in the greater benefit for the country. How to achieve this however is still questionable but the international society should be very careful when trying to promote economic growth in the Global South because forcing the correct policy for one country down on another country might prove to be completely wrong and provide bad results. It is therefore important to remember that even though a consensus stating “each country or region needs a development policy especially fitting its conditions” might sound simplistic and unusable, it still forces us to keep an open mind as to what development is and how it can be achieved. And this openness and diversification to and of political economy is going to be essential when facing the challenge of creating sustainable economic growth in the Global South.