
International Studies & AAE 374 Growth and Development of Nations

Lecture 26
10 December 2009

I. The Two Faces of Development

A. Milanovic's Basic Argument

1. Globalization – There is PRO VIEW that is propounded by lots of people that “matter” in the countries that “matter” which sees globalization as a benign (positive) force leading us ultimately to the era of a converging world.
2. “could secure. . . cheap and comfortable means of transport to any country or climate without passport or other formality, could dispatch his servant to the neighboring office of a bank for such supply of the precious metals as might seem convenient, and could then proceed abroad to foreign quarters, without knowledge of their religion, language, or customs...” (J.M.Keynes, *Economic Consequences of the Peace*, 1918)
 - (a) Captured in our course by either the comparative advantage model or the Solow model.
 - (b) Empirical evidence of Asian experiences trotted out as proof.
3. Globalization – There are two popular NEGATIVE views, one from the L and one from the R.
 - (a) One from L views globalization as a malignant force that leads to exploitation of S and job-loss/wage-loss in N. Also, sees globalization as a triumphant and unbridled capitalism.
 - (b) One from R is often linked to anti-immigration views where globalization engenders fear of job loss as well as loss of cultural homogeneity.
4. Can all of these views be true? Yes, and moreover globalization can be a story of more “freedom” of exchange and movement of goods and factors as well as a story of coercion and brute force.

B. Empirical reflections

1. Just look back to the previous era of globalization, in the late 19th, early 20th century, and it was a period of both growing trade and colonialism as globalization was largely colonialism in that period.
2. 19th century was also the era of income divergence in the world. While in the North Atlantic countries, the foundation for conditional convergence was arguably established, so were the origins of the great divergence the world economy has experienced over the past 200 years.

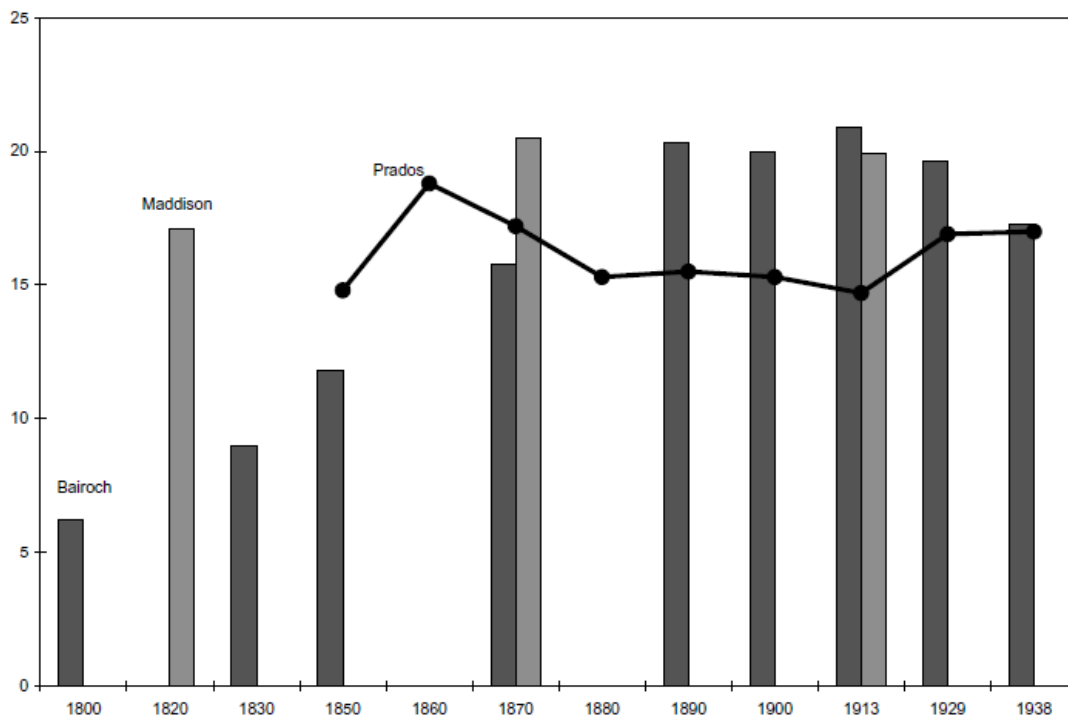


Figure 1. *The Gini coefficient of GDPs per capita of rich countries, 1800–1938.* Source: calculated from Bairoch (1997, vol. 2, pp. 252–253), Maddison (1995, p. 194 & 2001, Appendix A), and Prados de la Escosura (2000, p. 24).

3. Moreover, even among the rich countries there was an increase in the Gini coefficient of the GDP per capita. The story got considerably worse across the world during the last era of globalization.
4. Cites specific cases of Indian deindustrialization linked to colonialism of 19th century. (1760 India: 10-30% less than Brits, 1800 China \geq Brits)
“China is a sickly, sleeping giant. But when she awakes the world will tremble.” –
Attributed to Napoleon by Lord Amherst



5. Shows in Table 1 a decline in the level of industrialization in 3rd world countries but a substantive rise in Northern countries.

Table 1. *Level of industrialization (manufacturing output per capita), 1800–1913 (UK 1900 = 100)*

	1800	1830	1860	1880	1900	1913
Total developed countries	8	11	16	24	35	55
Total Third World	6	6	4	3	2	2
<i>Memo:</i>						
United Kingdom	16	25	64	87	100	115
United States	9	14	21	38	69	126

Source: Bairoch (1997, vol. 1, p. 404).

6. What about more current evidence?
 Looks at mean regional GDP per capita levels and growth rates
 Population-weighted measures of same:

Table 2. *Unweighted regional GDP per capita levels and growth rates, 1960–98^a*

	GDP per capita (in 1995 international prices)			Growth rate of GDP per capita (%, p.a.)	
	Year 1960	Year 1978	Year 1998	1960–78	1978–98
Africa	1,514	2,147	2,432	2.0	0.6
Asia	1,971	5,944	7,050	6.3	0.9
Latin America	3,458	5,338	6,329	2.4	0.9
E. Europe/FSU	2,093	5,277	4,851	5.3	-0.4
WENAO	8,257	14,243	20,990	3.1	2.0
World	3,277	5,972	7,456	3.4	1.1

Source: Own calculations using the data from World Bank SIMA (Statistical Information Management and Analysis) database, countries' statistical yearbooks, Maddison (2001) and Penn World Tables.

^a Each country is one observation.

Table 3. *Population-weighted regional GDP per capita levels and growth rates, 1960–98^a*

	GDP per capita (in 1995 international prices)			Growth rate of GDP per capita (%, p.a.)	
	Year 1960	Year 1978	Year 1998	1960–1978	1978–1998
Africa	1,539	2,007	2,033	1.5	0.1
Asia	963	1,945	3,967	4.0	3.6
Latin America	3,297	5,460	6,353	2.8	0.8
E. Europe/FSU	2,206	5,361	4,290	5.1	-1.1
WENAO	9,792	16,438	22,594	2.9	1.6
World	3,058	4,940	6,498	2.7	1.4

Source: Own calculations using the data from World Bank SIMA (Statistical Information Management and Analysis) database, countries' statistical yearbooks, Maddison (2001) and Penn World Tables.

^a Each country is one observation, but each observation is weighted by country's population.

7. Imagine we only told an outsider 3 things:
 - (a) More growth better
 - (b) We want to see differences between poorer and richer countries decrease
 - (c) 60-78 was the Import substitution era and the latter period is the globalization era.

8. What would the outsider say after comparing the two eras?
 - (a) Globalization was worse overall for growth. Growth in first period was 2-3 times higher.
 - (b) In first era, two of poorer regions grew faster than richer region while in the second era none did.
 - (c) Hard to avoid conclusion that ISI era better than globalization.

9. Counter argument would be that stabilization of 80s due to excesses of 70s and that "bad" countries could have done better under globalization

than they did. China would be the positive example of doing the globalization approach in a positive fashion.

10. But, Milanovic does not buy this argument. Why?

- (a) 1/3 of China's industrial output from state-owned enterprises and almost 20% of total GDP.
- (b) Preconditions for China's growth? How about nationalization, widespread and free education at all levels, labor migration impediments, land reform and abolishment of large holdings.
- (c) Dynamic part of economy town and village enterprises (TVEs) which are owned by the community, not private owners.

11. Also does not buy it for other reasons he elaborates related to "selection" of who is and who is not a globalizer.

C. Omitted issues

1. Colonialism, conquest, slavery, deindustrialization of colonies.
2. World Wars I and II as outcomes of imperialism.
3. Social reforms of 20th century as response to Communist threat
4. More currently, intellectual property rights, differential treatment of subsidies (ag but also R&D), and trade dispute resolution costs.
5. Who should decide on IFI policies and approaches?

II. Political Economy in the Post-globalization Era

A. *Milanovic gives some heard knocks to globalization as we know it.*

1. Similar to Tina Rosenberg's article that we read at the beginning of the course, Milanovic suggests that globalization as we now know it may not persist.