

11.167 Economic Development & Technical Capabilities

Lecture 9

Role of Advanced Countries

It is always the more advanced countries that provide the tools for the underdeveloped countries to grow. For example, the British role in the East Indian Company was like that of a Godfather, in that it made sure they were generally conducting business in if anything, at least a profitable manner.

Before WWII, the powers were France, England, Japan, Germany, and Holland, but after WWII it's primarily the United States. However, unlike the pre-WWII days where a superpower would have direct control over its colonies, United States control is through indirect measures and pressures.

The American Empire

Review of timeline:

- 1941-45 - United States and Russia are allied, fighting the axis powers
- 1947 - Berlin wall is erected, beginning of the Cold War
- 1950 - Russia develops the nuclear bomb
- 1953 - Stalin dies, and Russia makes developing countries a focus – from this point the United States shifted their policy to “security economics”
- 1955 - United States/CIA overthrow the democratically elected head of Iran
- 1957-8 - Sputnik satellite launched into space by Russia. Doesn't really do much, but freaks out the United States
- 1958 - United States invades Lebanon, throws out elected leader as well
- 1959 - Castro comes into power in Cuba, creates a socialist/communist country
- 1965 - Dominican Republic President thrown out
- 1970's - Horrible time for the United States. Three things contributed to the decline of United States power and refocused their foreign policy.
Vietnam war
OPEC
- 1973 - US humiliation by Japan in nearly **every** industry x/c chemistry
Democratically elected Chile President assassinated

“Security Economics”

Security Economics refers to the policies enacted by the United States in the period following Stalin's death. These policies were designed for the purpose of strengthening capitalist states, and while the leaders of the era claim they were for “freedom” and the “free world,” as we can see from the timeline above “free world” means a non-communist world. There were two major policies followed during this time:

- Non-reciprocity – Refers to the fact that developing countries don't have to open their markets to the United States, but the US opens its markets for developing countries. This is great for developing countries, because they're given all the benefits of access to the huge US domestic market, yet can still put up tariffs and such to protect their industries.
- Flexibility - Developing countries were pretty much left alone – thus, they had the freedom to develop their own domestic and foreign policies.

Many beneficial policies were enacted in developing countries because of security economics. Performance standards and incentives were strictly enacted in many successful developing countries, and thus many innovative methods of promoting industry were developed. A great example is the Board of Investment of Thailand, which was instrumental for developing their industry. In exchange for monetary support and guidance, one Thai company agreed to export 50% of output after 5 years of production. A foreign company who wanted to start a new venture in Thailand was restricted to only bringing three foreign managers, and then after several years those managers must leave, and have trained a Thai to take his/her place.

“Superpower Economics”

Fairly different outlook of the developing world by the United States. The paradigm shift occurred because of the troubles the US started having in the 1970's (OPEC, Vietnam, etc.). The Federal Reserve decided to reduce the money supply in the late 70's, which drove up interest rates and decreased investment. After this occurred, the interest rates in developing countries skyrocketed, and it became really difficult for these countries to pay back their existing loans. The concept of “democracy” is very tricky, many stipulations put on by the US. Heavily promotes free market economics and no barriers to trade, and call it a “level playing field.” Many elected officials are corrupt.

This policy of superpower economics is turning many areas of the world to a concept of regionalism, i.e. Big trading blocks, such as the European Union, an East Asian bloc, etc.

Role of Japan

The United States hatred for Japan's economic success is also a primary factor in the US development of its superpower economics policy. The Japanese were destroying the United States in almost every industry, and the US couldn't understand it. They blamed it on the protection and subsidies that Japan provided to its companies. Thus, the US forced Japan to drop protection on its industries except for its agriculture.

The IMF and the World Bank

These are large international organizations that provide monetary support and stability around the world, or at least that's their purpose. Many developing countries have varying opinions for both the IMF and the World Bank.

IMF

- Main constituents are private banks
- Developing countries use IMF money to repay outstanding debt that they can't themselves
- The IMF offers two ways to repay debt
 - Cut spending, which the IMF heavily favors
 - Use the money to develop more, and thus to make more money
- Loaned money with stipulations that countries must open their markets

World Bank

- Supposed to lend for development purposes, but unfortunately now only lends for poverty alleviation
 - For example, we all want all the people in India to have easy access to cheap medicine, but we would much rather have the people in India have easy access to cheap medicine produced in India.
 - The plan of poverty alleviation doesn't help to increase productivity
 - The reason the World Bank promotes poverty alleviation is because the US congress said it wouldn't support the World Bank if it tried to promote businesses