POLI 441
POLITICAL ECONOMY OF AFRICA'S DEVELOPMENT SINCE INDEPENDENCE

SESSION 4 : DEVELOPMENT STRATEGY IN CONTEMPORARY PERSPECTIVE

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Session Overview

This session advances the development debate started in Session 3 and focuses Ha Joo Chang's explanation of the "secret" behind the development of the West. Under this session we will explore the role of "good policies" and "good institutions" as advanced by Chang in his book "Kicking Away the Ladder: Development Strategy in Historical Perspective."

Largely Chang dismisses the suggestions of Anglo-Saxon development policies contained in the Washington and Post-Washington Consensus policy blueprints for Western developmental success and instead point to the Infant Industry theory with its twin strategies of "protectionism" and "subsidies" as the driving forces behind Western Industrialization.

The session ends with a serious consideration for discussion, the role of contemporary political and economic realities that make it difficult for developing economies to catch up with the current developed economies using both global regulatory institutions and regulatory policies to achieve continued economic dominance.

Session Outline

The key topics to be covered in this session are:

- Topic 1: **“GOOD POLICIES” AND “GOOD INSTITUTIONS”**
- Topic 2: **THE INFANT INDUSTRY ARGUMENT**
- Topic 3: **TARIFFS AND SUBSIDIES**
- Topic 4: **THE SHRINKING POLICY SPACE**

Reading materials

- Chang, H.-J. (2005) Kicking Away the Ladder: Developing Strategy in Historical Perspective, London: Anthem Press (Chapter 1, “Introduction: How did the Rich Countries Really Rich?,” pp. 1 – 9)
- Wade, R. H. (2003*)* Governing the Market: Economic Theory and the role of Government in East Asia’s Industrialization, Princeton: Princeton University Press (“Introduction”)
- Bardhan, P. (1993) “Symposium on Democracy and Development” *Journal of Economic Perspectives*, Vol. 7, No. 3, pp. 45-49
- Nye, J. (1991) “The Myth of Free-Trade Britain and Fortress France: Tariffs and Trade in the Nineteenth Century” *Journal of Economic History*, Vol. 53, No.1, pp. 23-46
- Soludo, C., Obgu, O., and Chang, H-J., (eds.) (2004) The Politics of Trade and Industrial Policy in Africa: Forced Consensus? Trenton: Africa World Press, Inc
- Altenberg, T., (2011) Industrial Policy in Developing Countries: Overview and Lessons from Seven country Cases, German Development Institute Discussion Paper, No. 4/2011
- Yulek, M., (2015) Economic Planning and Industrial Policy in the Globalizing Economy: Concepts, Experiences and Prospects. New York: Springer

Learning objectives

At the end of the session, students should be able to:

- Understand the “good policies” and “good institutions” thesis as advanced by Chang
- Understand their role and limitations to Africa’s development
- Articulate the “infant industry theory” and what it entails
- Situate Africa’s development within protectionism and subsidies
- Understand the challenges and shrinking policy space for Developing countries development
- Appreciate the options available to Developing countries right now

Topic one

"GOOD POLICIES" AND "GOOD INSTITUTIONS"

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Several years after the Culturalist and the Historicist debate, Professor Ha-Jo Chang in his book “Kicking Away the Ladder” introduced two other important factors that arguably, from the point of the developed world, lead to their economic successes:

- “good policies”
- “good institutions”

GOOD POLICIES

Good policies, broadly conceived, include those policies contained in two important development policy documents:

- the “Washington Consensus”
- “Post-Washington Consensus.”

WASHINGTON CONSENSUS

The term “Washington Consensus” was coined in 1989 by John Williamson, who was a senior research fellow at the Institute for International Economics. The Institute convened a conference that was aimed at “examining the extent to which the old ideas of development economics that had governed Latin American economic policy since the 1950s” were being swept by ideas from OECD countries

- Fiscal policy discipline, with avoidance of large fiscal deficits relative to GDP;
- Redirection of public spending from subsidies ("especially indiscriminate subsidies") toward broad-based provision of key pro-growth, pro-poor services like primary education, primary health care and infrastructure investment;
- Tax reform, broadening the tax base and adopting moderate marginal tax rates;
- Interest rates that are market determined and positive (but moderate) in real terms;
- Competitive exchange rates;
- Trade liberalization: liberalization of imports, with particular emphasis on elimination of quantitative restrictions (licensing, etc.); any trade protection to be provided by low and relatively uniform tariffs;
- Liberalization of inward foreign direct investment;
- Privatization of state enterprises;
- Deregulation: abolition of regulations that impede market entry or restrict competition, except for those justified on safety, environmental and consumer protection grounds, and prudential oversight of financial institutions;
- Legal security for property rights.

POST-WASHINGTON CONSENSUS

Dani Rodrik:

- Corporate governance
- Anti-corruption
- Flexible labor markets
- WTO agreements
- Financial codes and standards
- "Prudent" capital-account opening
- Non-intermediate exchange rate regimes
- Independent central banks/inflation targeting
- Social safety nets
- Targeted poverty reduction

GOOD INSTITUTIONS

The institutions are largely Anglo-Saxon driven and include the following:

- Democracy
- Good bureaucracy
- independent judiciary,
- transparent governance,
- financial institutions

Topic Two

THE INFANT INDUSTRY ARGUMENT

THE INFANT INDUSTRY

Frederick List is the founder of the infant industry argument. To justify his theory, List (1885:316) argues that "under a system of perfectly free competition with more advanced manufacturing nations, a nation which is less advanced … can never attain to a perfectly developed manufacturing power of its own, nor to perfect independence, without protective duties…"

Chang (2005:10-11) takes up this argument by further drawing a very interesting analogy:

In the same manner that we protect our children until they "grow up" and are able to compete with adults in labour markets, developing country governments need to protect their newly- emerging industries until they go through a period of "learning" and become able to compete with the producers from the more advanced countries.

INFANT INDUSTRY

At the heart of the infant industry argument, therefore, is the fact that production experience generates efficiency improvements either directly in the protected industry or indirectly in other industries as learning spill over ensues.

These were not only the industrial development strategies of today's high-income countries during their catch up phases, but have also been the reasons behind Europe's recent justifications for supporting Airbus to compete against Boeing.

Topic Three

TARIFFS AND SUBSIDIES

TARIFFS AND SUBSIDIES

The basic principle underlying Chang's analogy is that in our world today, the ability of a country to sustain rapid economic growth is highly dependent upon the international competitiveness of its large firms.

However, to nurture large indigenous firms, various forms of state support are essential. Small and new firms in the developing world cannot compete with established firms in developed countries because the latter, by virtue of their long term experience, have better information and knowledge in the production process.

TARIFFS AND SUBSIDIES

The solution suggested by the infant industry argument is to protect newly emerging firms from foreign competition in order to generate positive learning and spill-over effects, and to give them time to secure necessary scale economies.

Protection would stimulate domestic production and encourage more of these positive effects. As efficiency improves through learning by doing, the ability of small firms to grow into large, globally competitive ones becomes naturally feasible.

TARIFF AND SUBSIDIES

In addition, if the protection is through tariffs, the state gets extra revenue through tax which it might spend in its support of large businesses.

Thus, by protecting infant industries, a government might facilitate more rapid economic growth and a much faster improvement in the country's standard of living relative to specialization in the country's static comparative advantage goods .

Topic Four

SHRINKING POLICY SPACE

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- Bilateral trade/diplomatic agreements
- Multilateral trade/diplomatic agreements
- IMF/WB conditionalities
- WTO restrictions including:
  - Trade-Related Aspect of Intellectual Property Rights (TRIPS)
  - Trade-Related Aspects of Investment Measures (TRIMS)
  - Non-Agricultural Market Access conditions (NAMA)
  - The concept of Reciprocity
  - The Most Favoured Nation Principle

References

- Chang, H.-J. (2005) Kicking Away the Ladder: Developing Strategy in Historical Perspective, London: Anthem Press (Chapter 1, "Introduction: How did the Rich Countries Really Rich?," pp. 1 – 9)

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