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Plenary on Item 8:
Development strategies in a globalized world: Growing domestic and regional demand for balanced and sustainable growth

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UNCTAD Trade and Development Board, 2013

Development Strategy in a Globalised World

– Growing domestic and regional demand for balanced and sustainable growth

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Leave it to the market and do what comes naturally? I

Very few advantages that countries have are actually given by nature – many 'natural' products are products of colonialism.

- Malaysian rubber (stolen from Brazil by the British)
- Australian wool (from Britain)
- Indian tea (stolen from China by the British)
- African cocoa (from Central America)
- coffee in Asia and Latin America, including Ecuador (originally from the Arab world).

No country, not even the United States, has been blessed by nature to such an extent that they can become rich only by doing things that come 'naturally'.

Leave it to the market and do what comes naturally? II

When it comes to high-productivity activities whose existence determine whether a country is economically developed or not, countries become good at something only because they deliberately decide to become so.

- Why should the Japanese should be good at building cars?
- Why should Korea be good at making steel?
- Why are the Swiss and the Belgians good at making chocolates?

Leave it to the market and do what comes naturally? III

Now, these high-productivity activities do not develop in developing countries, if you left things to the market, because you already have superior competitors in more economically developed countries.

This is the logic of 'infant industry protection', first invented by someone who is so well-known that you even know what he looks like even though he has been dead for two centuries – except that you don't really know who he is.


10
FEDERAL
RESERVE NOTE
THE UNITED STATES OF AMERICA
GK 00000000 T
K11
SPECIMEN
UNITED STATES FEDERAL RESERVE SYSTEM
We the People
GK 00000000 T
THIS NOTE IS LEGAL TENDER FOR ALL DEBTS, PUBLIC AND PRIVATE
SERIES 2004 A
Treasurer of the United States.
Secretary of the Treasury.
TEN
DOLLARS
HAMILTON

"Were the Americans, either by combination or by any other sort of violence, to stop the importation of European manufactures, and, by thus giving a monopoly to such of their own countrymen as could manufacture the like goods, divert any considerable part of their capital into this employment, they would retard instead of accelerating the further increase in the value of their annual produce, and would obstruct instead of promoting the progress of their country towards real wealth and greatness."

(Adam Smith, *The Wealth of Nations*, 1776, the 1937 Random House edition, pp. 347-8).

Table 1. Average Tariff Rates on Manufactured Products for Selected Developed Countries in Their Early Stages of Development

(weighted average; in percentages of value)[1]

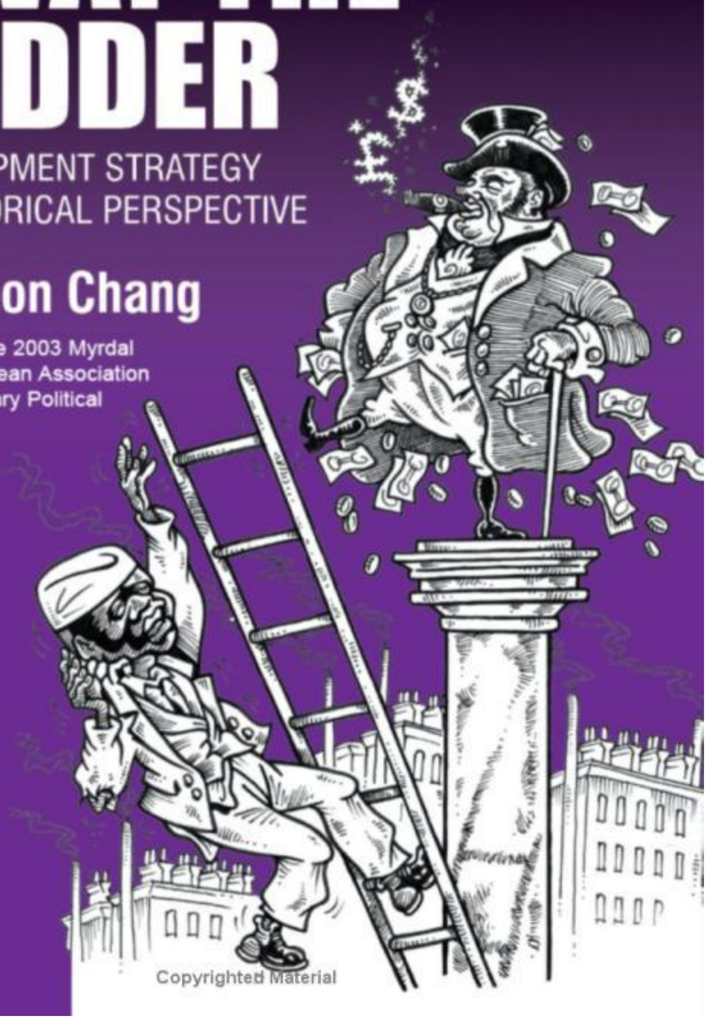
	1820[2]	1875[2]	1913	1925	1931	1950
Austria[3]	R	15-20	18	16	24	18
Belgium[4]	6-8	9-10	9	15	14	11
Canada[5]	5	15	n.a.	23	28	17
Denmark	25-35	15-20	14	10	n.a.	3
France	R	12-15	20	21	30	18
Germany[6]	8-12	4-6	13	20	21	26
Italy	n.a.	8-10	18	22	46	25
Japan[7]	R	5	30	n.a.	n.a.	n.a.
Netherlands[4]	6-8	3-5	4	6	n.a.	11
Russia	R	15-20	84	R	R	R
Spain	R	15-20	41	41	63	n.a.
Sweden	R	3-5	20	16	21	9
Switzerland	8-12	4-6	9	14	19	n.a.
United Kingdom	45-55	0	0	5	n.a.	23
United States	35-45	40-50	44	37	48	14

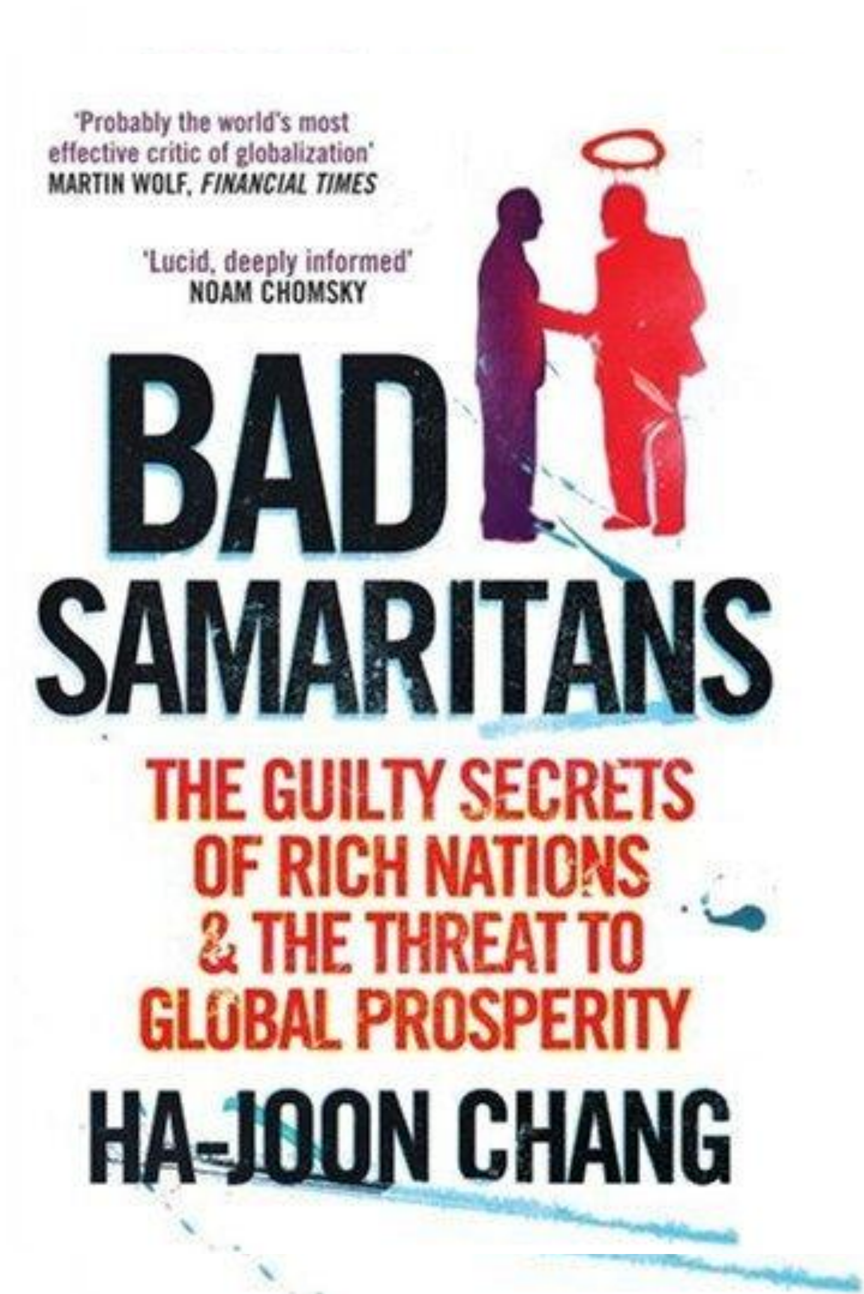
KICKING AWAY THE LADDER

DEVELOPMENT STRATEGY IN HISTORICAL PERSPECTIVE

Ha-Joon Chang

Winner of the 2003 Myrdal Prize, European Association of Evolutionary Political Economy




'Probably the world's most effective critic of globalization'
MARTIN WOLF, FINANCIAL TIMES
'Lucid, deeply informed'
NOAM CHOMSKY
BAD SAMARITANS
THE GUILTY SECRETS OF RICH NATIONS & THE THREAT TO GLOBAL PROSPERITY
HA-JOON CHANG

How today's rich countries have really developed

- Most of today's rich countries, including Britain and US, the supposed homes of free trade, actively used protectionism in their catch-up periods.
- Many of them, including the US, Finland, Japan, and Korea, heavily regulated FDI.
- Many of them, especially France, Austria, Singapore, Taiwan, Finland, and Norway actively used SOEs to promote industrial development.
- Most of them, especially the US, used R&D subsidies and public R&D, to support hi-tech industries.
- Many of them, especially the US, Japan, and Finland, actively used procurement policy to promote particular industries.

Global Value Chains: Do you really need your own industrial policy?

Even among those who agree that developing countries need to develop new manufacturing industries, there is a growing view that in this globalised age developing countries do not need their own industrial policy, because they can deregulate FDI and plug themselves into various Global Value Chains.

An attractive idea, but few countries have succeeded this way (e.g., Singapore and Ireland) and even in those cases you need intelligent industrial policy in order to insert yourself into the right part of the value chain and to climb up the chain quickly.

Global Value Chain and Economic Development
: Being hi-tech does not make you rich

(World Bank data for 2009, excluding countries with less than 50% in the share of manufactured exports in total export:
the first number is share of hi-tech exports in total manufactured exports;
the second number is the share of manufactured exports in total exports);
the third number is per capita income as of 2010 (no number means over $20,000)

1 the Philippines 66% (86%); $2,050
2 Singapore 49% (74%)
3 Malaysia 47% (70%); $7,900
4 Korea 32% (90%)
5 China 31% (94%); $4.,260
6 Hungary 26% (82%); $12,990
6 Thailand 26% (75%); $4,210
8 Switzerland 25% (90%)
8 Ireland 25% (86%)
10 Netherlands 24% (56%)
11 Israel 23% (94%)
11 France 23% (79%)
11 the UK 23% (72%)
11 the US 23% (67%)
15 Mexico 22% (76%); $9,330
16 Japan 20% (88%)
17 Finland 18% (77%)
17 Denmark 18% (65%)
17 Canada 18% (50%)
20 Sweden 17% (76%)

“We now live in a post-industrial knowledge economy.” I

“We now live in a post-industrial knowledge economy, so we don’t need manufacturing industries and thus don’t need industrial policy.

We have always lived in a knowledge economy.

- Control over knowledge has always been the key to economic prosperity.
- Many of the so-called knowledge-intensive services (e.g., research, engineering, design) have always been there – inside the manufacturing firms
- They look new only because they have been ‘spun off’ or ‘outsourced’.

“We now live in a post-industrial knowledge economy.” II

More importantly, wrong to separate the manufacturing sector from the ‘knowledge’ sector

- Manufacturing has been the main source of new productive knowledge
- It has also acted as the ‘learning centre’ through which new productive knowledge spread (supplies inputs to other sectors)
- Much productive knowledge is acquired through the production process rather than through ‘pure’ knowledge activities, like R&D

“We now live in a post-industrial knowledge economy.” III

How about knowledge-intensive services, such as finance, design, engineering, which have high productivity growth and high tradability?

- They sell mostly to manufacturing firms, so their prosperity depends on manufacturing success
- Most of these services can be developed only after you have first acquire the ability to manufacture the relevant products

There has been NO increase in international trade in services in p roportional terms in the last couple of decades.

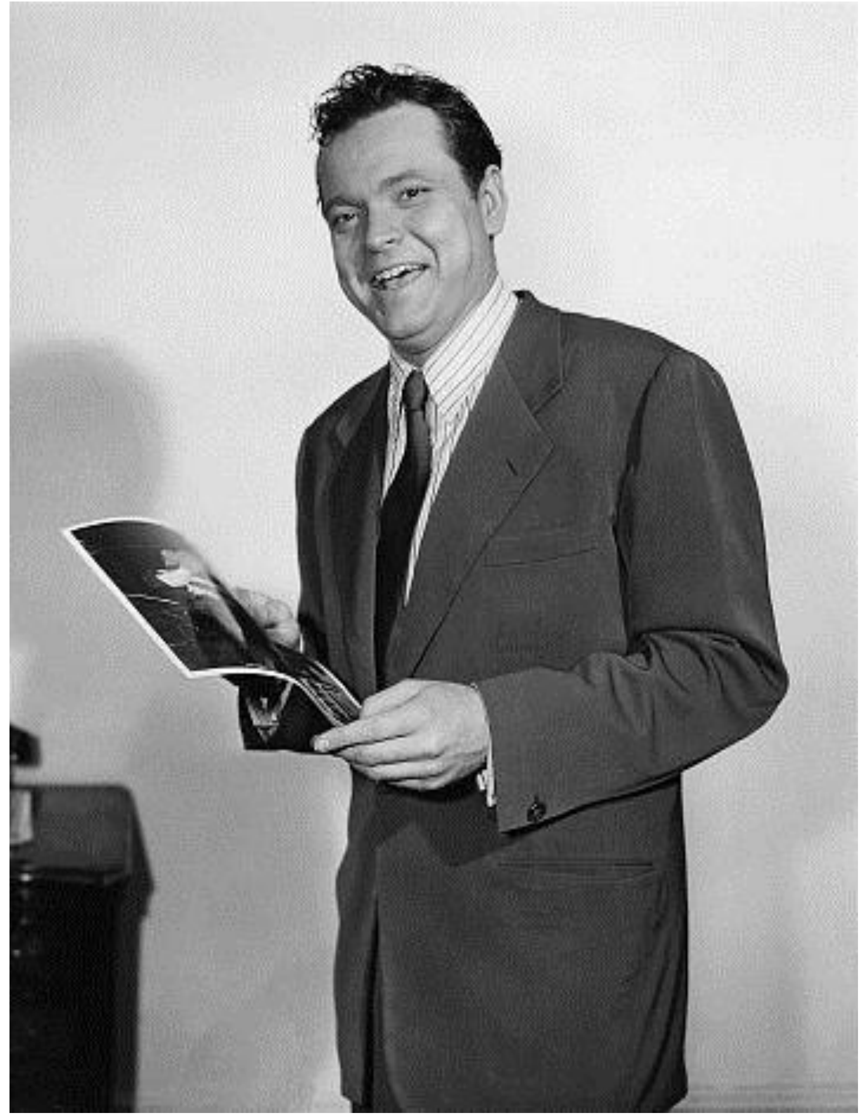
- Services trade increased from 17% of total world trade in the ea rly 1980s to 20% by the early 1990s but has fluctuated around that level since then.

“We now live in a post-industrial knowledge economy.” IV

But then how about countries like Switzerland and Singapore, which have become rich on the basis of services?

Or how about India, which has shown that countries can develop by specialising in the production and the export of knowledge-intensive services?


THE 3RD MAN
JOSEPH COTTEN · VALLI
ORSON WELLES · TREVOR HOWARD
CAROL REED
GRAHAM GREENE



“In Italy for thirty years under the Borgias, they had warfare, terror, murder, bloodshed, but they produced Michelangelo, Leonardo da Vinci and the Renaissance. In Switzerland, they had brotherly love - they had five hundred years of democracy and peace, and what did that produce? The cuckoo clock.”

(**Orson Welles as Harry Lime,**
The Third Man)

Wrong, wrong, wrong, wrong, wrong!

- Five hundred years of democracy?
  - Women were given votes only in 1971.
  - Two rogue cantons refused to give women votes until 1989 and 1991.
- Five hundred years of peace?
  - Wars with Swabia (1499) and France (1515 and 1798)
- Five hundred years of brotherly love?
  - Civil wars in 1653, 1656, 1712, and 1847
- The cuckoo clock was *not* invented in Switzerland.
  - It was invented in Germany.
- Switzerland is *not* an economy living off the black money deposited by Third World dictators and selling cuckoo clocks and cow bells to American and Japanese tourists (or, if you want to be nice to it, a post-industrial economy relying on services like banking and tourism).
- It is one of the most industrialised economies in the world.

Manufacturing Value Added Per Capita, 2010

(in constant 2000 US dollars; index USA=100)

- **Singapore**: $8,198 — 148 (world ranking: 1)
- Japan: $7,994 — 145 (2)
- **Switzerland**: $7,168 — 130 (3)
- Finland: $6,795 — 123 (4)
- Sweden: $6,559 — 119 (5)
- USA: $5,522 — 100 (8)
- Korea: $4,783 — 87 (10)
- UK: $3,162 — 57 (19)
- Mexico: $1,008 — 18 (43)
- China: $820 — 15 (54)
- Brazil: $622 — 11 (57)

Source: UNIDO

““We now live in a post-industrial knowledge economy.” V

- Then how about India? - the supposed success story o f service trade specialisation
  - “If China is the workshop of the world, India will be the off ice of the world”

- The truth is that India’s service trade has not been mu ch of a success
  - Until 2004, India had deficit in service trade.
  - Between 2004 and 2011, India recorded service trade surplus equivalent to 0.9% of GDP, which covered only 17% of its manufacturing trade deficit (5.1% of GDP).