Economic geography flashcard

Question: How far has economic geography determined the success and failure of different parts of the world in the 20th century? According to Jared Diamond's book, Guns, Germs, and Steel: The Fates of Human Societies," there was no way to predict which society would develop quickly; indeed, each continent had different advantages that could have given it a head start. And yet, there have always been some countries who led the world, and others that lagged behind. Market access, location, factor endowments, and institutions all help to explain why particular countries grew, while others did not.

Market accessThe location of a country and its distance from others are two deciding factors in a country's market. Transportation costs are directly related to distance, and very important to trade. Also, trade policies obviously affect how much trade there can be between countries. Stephen Redding and Anthony measured market access and supplier access, showing that they widely vary across countries (Minns 11).

While the article was written in 2004, it is most likely that the 20th century showed a similar trend. The combination of distance from other countries and trade policies are two factors that affect how accessible a market is. North America has the highest market access between the United States, Canada, and Mexico because of the North American Free Trade Agreement, eliminating tariffs between the three. Next comes Western Europe, which has also low trade barriers.

In contrast, Sub-Saharan Africa has very low market access because of its large distance from financial capitals like New York and London; it also

suffers from internal congestion that prevents trade and self-imposed costs of trade. According to data accumulated by Angus Maddison for the Organization of Economic Cooperation and Development in 1995, Western Europe had 2. times the level of GDP in Africa, which increased to 13. 2 by 1992 (Gallup, et al.

1). Furthermore, African GDP per capita in 1992 was $1, 284, a level that Western Europe had reached in 1820 (Gallup, et al. 1). It was also shown that there is a positive relationship between income per capita and the assigned scores of market access (Minns 13).

Poorer countries have low market access since they are far away from advanced economies and also have trade barriers. Distance from large markets constrains growth; we can see that distance is still a large factor regarding markets even today. LocationWhere a country is located relative to its neighbors and its physical geography can give rise to differences in economies. " Location explains between 60 and 70 percent of variation in income across countries" (Minns 14).

These high percentage estimates shows that location definitely matters regarding income, explaining the majority of differences in income. Furthermore, it is estimated that reducing a country's distance to trading partners in half would raise its income by 25 percent (Minns 14). If a country could change from being an island, or moving its place on the world map, its income could rise drastically. For example, if Sri Lanka were not an island, its income would rise 7 percent (Minns 15).

This is because countries that are direct neighbors tend to trade more. If it eliminated all of its trade barriers, income would rise 20 percent (Minns 15). However, countries also depend on nearby countries to grow. While Sri Lanka is close to a large economy like India, India still has a very low income per capita.

If it were able to move to Central Europe, its income would increase by 67 percent (Minns 15). Unfortunately, this is impossible, but Sri Lanka could definitely become an open economy if it desired to raise income. Another factor regarding a country’s physical location is suggested in “ Why Do Some Countries Produce So Much More Output Per Worker Than Others? ” by Robert Hall and Charles Jones. The authors believed there is a correlation between distance from the equator and Western European influence.

One of the reasons explaining this correlation was that Western Europeans tended to settle in regions that had low populations, such as the United States, Canada, and Australia. Secondly, they were also more likely to settle in countries with similar climates, which were places far from the equator (Hall, et al. 01). Where these settlers ended up, they spread Western European influence and favorable social infrastructure, such as property rights, and checks and balances (Hall, et al.

101). According to an article written by John Luke Gallup, Jeffrey Sachs, and Andrew Mellinger called “ Geography and Economic Development,” countries in the tropics are almost all poor, while almost all rich countries are in higher latitudes (Gallup, et al. 3). Tropical regions have more diseases and limits on

agricultural productivity. Also, coastal economies are generally richer than landlocked economies.

In fact, the only landlocked countries that are not poor are a few that are deeply " deeply integrated into the regional European market, and connected by low-cost trade" (Gallup, et al. 3). Outside of Europe, landlocked countries have an average income of $1, 771, whereas coastal countries have an average of $5, 567 (Gallup, et al. 3).

Based on the evidence presented in the paper, the authors believe that geography continues to affect economic development, along with economic and political institutions. Factor endowments and InstitutionsIt is believed that social infrastructure and institutions have large effects on how economies developed. Institutions in turn, were influenced by the original factor endowments of a country. Colonies in the Caribbean and Brazil had suitable climates and soil conditions for large sugar plantations, which were produced using slavery.

(Engerman and Sokoloff 4). People from Britain who migrated to these countries had no plans to stay; instead, they wanted to get as much money as possible here and bring it all back home to Britain. Therefore, the majority of the people were slaves, and there was a high inequality for income and power. (Engerman and Sokoloff 4). However, colonies in the United States and Canada attracted a different set of immigrants.

These people wanted to continue living in the new colonies, and brought European institutions along (Minns Lecture). Colonies in the northeast had many small farms, with few slaves, and relatively equal distributions of

wealth and human capital (Engerman and Sokoloff 4). These variances in equality led to differences in the ways institutions evolved in the colonies. The North American populations of settlers were more homogeneous, and “ led, over time, to more democratic political institutions, to more investment in public goods and infrastructure, and to institutions that offered relatively broad access to economic opportunities” (Engerman and Sokoloff 4). However, in the colonies with high inequality, they had less democratic political institutions, limited investments, and unbalanced institutions favoring the few elite (Engerman and Sokoloff 4).

Factor endowments such of economies in the New World led to different levels of inequality, and therefore different types of institutional and economic development. In the colonies with high inequality, the small elite of European descent gave themselves “ a disproportionate share of political power and [used] that influence to establish rules, laws, and other government policies that gave them greater access to economic opportunities than the rest of the population, thereby contributing to the persistence of the high degree of inequality” (Engerman and Sokoloff 18). On the other hand, the more homogeneous societies gave rise to institutions with more equal treatment and opportunities, and so democratic institutions and more equality persisted here. In “ Institutions Rule: The Primacy of Institutions over Geography and Integration in Economic Development,” Dani Rodrik, Arvind Subramanian, and Francesco Trebbi believe that the quality of institutions was the leading factor in determining income levels around the world. They found that after controlling for institutions, geography has weak

direct effects on income. This is shown through its effect on agricultural productivity and morbidity.

However, geography does have a strong indirect effect since it influences the quality of institutions, and also through the distance from markets and extent of integration (Rodrik, et al. 3). Their results showed that institutional quality has a significant positive effect on integration, and confirmed that geography has a strong effect on the quality of institutions. Jeffrey Sachs wrote " Institutions Don't Rule: Direct Effects of Geography on Per Capita Income" in response to Rodrik, Subramanian, and Trebbi's article. He disagrees with the conclusion that geography operates on income predominantly through institutions, with little direct effect.

He argues that the reasons why geography affect institutions, such as " the suitability of locations for European technologies, the disease environment and risks to survival of immigrants, the productivity of agriculture, the transport costs between far-flung regions and major markets" are all based on direct effects of geography on " production systems, human health, and environmental sustainability" in the first place (Sachs 2). In conclusion, geography did play an important role in the success and failure of economies around the world throughout the 20th century. Whether through direct and indirect effects, market access, location, factor endowments, and institutions all help to explain why some countries grew more advanced than others.