

Late development
and the challenges
facing late developers
economics essay



On the world stage, the list of the wealthiest countries has been dominated by European nations for the past six hundred years. Mid-last century a shift occurred that has seen the emergence of Asian countries growing at rapid rates. The surge was led by Japan and was quickly followed by those now known as the Asian Tigers. What problems did these countries overcome to grow so quickly while at the same time so many other nations are trapped in the quagmire of poverty and debt? Additionally, what challenges do the countries attempting development later than others face if they wish to emulate the Asian Tigers?

This essay will briefly explain the problem of late development before outlining the challenges faced by late developers.

Broadly speaking development implies wish to shift from an undesired state to a more desirable state; in this case a movement away from the situation of inequality and poverty to that of more equality and less poverty.

Inequality in terms of social, cultural, economic and political needs is widespread in the world, not just between nations but within populations of nations. Such inequality leads to the poverty experienced by the populations of the undeveloped and developing nations of the world, causing millions of needless deaths every year around the world.

Before any explanation or hypothesis regarding development of nations can be carried out, the term poverty requires discussion. An orthodox view of poverty is not having sufficient money to buy food and other basic material needs[1]. An alternate view of poverty is where people are not able to meet their own material and non-material needs through their own effort. The

subtle difference between the two definitions will be expanded later in this essay.

Additional to discussing poverty, the term 'development' needs discussion. To determine the status of a nation as developed, developing or underdeveloped requires the use of a metric, criterion or standard of some kind. Which form of measure is hotly debated and is a very contentious issue. Different measures that can be used are national gross domestic product (GDP) per capita, level of economic industrialization or the Human Development Index (HDI) to name a few and the selection of which one determines the rankings of nations. During the Cold War, the terms First, Second and Third World were used to describe the USA, Soviet and non-aligned blocks of countries. The term Third World became synonymous with underdeveloped and developing countries and to this day is misused to describe these countries.

THE PROBLEMS OF LATE DEVELOPMENT

The same problems face developing countries, regardless of the metric used to measure a nation's development ranking. The prime problem facing developing nation is their late start compared to the more advanced industrialised countries that are generally accepted as being developed. Late development precludes nations from using the first mover advantages of economies of scale, positive network effects and the ease of sourcing investment funds[2].

Nations that get a head start in an industry have the ability to compete evenly against other nations starting at the same time in that industry. As

capacity builds, the high costs of initial production, research and development, and low levels of output alter because of innovation and improvement leading to more effective and cheaper production methods, enhanced products, and higher levels of output. All these factors enable the distribution of fixed costs, such as production and transport costs, across the greater output, thus lowering the final cost of an item. These economies of scale enable the first mover to produce a product at a lower cost than a late developer, which in turn, allows the first mover to either undercut late starters or make more profit when selling at the same price[3]. Late developers hence need to find ways around the economies of scale factor such as using cheaper local labour for production, leveraging off any local raw materials or new areas to innovate.

A good example of the economies of scale at work is the early motor vehicle industry. The Ford Motor Company is generally credited with the first use of a production line type manufacturing method in the automotive industry that enabled Ford to mass produce cars at prices much cheaper than the completion. Follower companies adopted the same technology, but not after Ford had gained a significant market share in North America and enabled the company to create a world-wide manufacturing base that was not seriously challenged for over half a century[4].

Starting an industry or sector of technology first attracts people and firms into the area where that technology is found, thus creating a centre of excellence in terms of equipment and personnel. The 'network effect[5]' of a centre of excellence also adds to the economics of scale effects, as raw material supplies are only shipped into one area and conversely distribution

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centres can also be centralised. Additionally, distributed manufacturing within such a network is sped up and costs reduced due to close proximity, thus reducing costs and time effects. Late starters wishing to build their own competing centres of excellence face the obstacle of attracting expertise away from established areas. The inability to match wage rates and favourable conditions of established centres of excellence need to be countered at the new location, often by government subsidies, low tax rates and favourable trade conditions. Well known examples of successful secondary centres of excellence are the Japanese automotive industry following America and the New Zealand and Australian movie production centres following in the footsteps of Hollywood and Bollywood. The effects of globalisation and easy flow of information and technology are continuing to reduce the need to physically concentrate people and industry; hence the network effects are being reduced for the first mover.

Sourcing investment funds for any new industry is a challenge, yet sourcing funds to compete against a developed nation's established industry is even more difficult. The first mover nations have the advantage of having the first opportunity to attract investment capital, whether internal to the nation or externally via foreign investment. Regardless of the source of investment funds, late developers seeking funding must compete against established industries with proven return rates and known levels of risk, therefore pay higher interest rates. These higher interest rates further erode the profit margin of the late developer and make their products less attractive on price and company success rates lower.

THE CHALLENGES FACING LATE DEVELOPERS

In light of the problems face by late developers, why is striving for development so important? United Nations former Secretary General Kofi Annan described a developed country as ' one that allows all its citizens to enjoy a free and healthy life in a safe environment' implying that developing and undeveloped countries citizens do not enjoy a free and healthy life in a safe environment. The orthodox, or liberalist, view of development describes its purpose as the requirement to move from a subsistence economy to an industrialised and modern economy[6]. Compare such a view with the alternate or more socialist view, where the purpose of development is to create human well-being through sustainable societies in social, cultural, economic and political means. These two viewpoints differ significantly but suffer from overlapping sets of challenges that need addressing to successfully develop a nation.

The orthodox view of development identifies a strong trend between development and industrialisation. This view sees industrialisation as a better path for growth of a nation than agriculture or resource extraction as there is a greater potential for capital accumulation. This growth is due to the higher productivity achieved with successful industrialisation, which in turn leads to better wage growth, better skill and expertise growth, and the unlimited potential of the free-market. Such an approach generally requires a top-down governmental control process, using external capital investment to attract technology and stimulate private sector growth.

Using industrialisation as the pathway to growth and development has the disadvantages of exposing a nation to both the good and bad aspects of <https://assignbuster.com/late-development-and-the-challenges-facing-late-developers-economics-essay/>

globalisation. Fast and freer information flows, financial deregulation, access to technology and exposure to the global village's cultural influence can have positive and negative effects on both markets and populations. The effects of global financial institutions such as the World Bank, International Monetary Fund and open finance markets can lead to a nation's own monetary policy having little control on capital availability and exchange rate control; a critical factor in ensuring a stable economy[7]. Ostensibly, small and vulnerable nations can be either manipulated easily or must flow global trends with few ability to cause self-determination in the globalised finance market.

The alternate view of development takes a different approach to development. In this view the final target of development is not necessarily parity with developed nations using convention metrics, such as GDP per capita, but a more holistic vision of a journey towards self-sufficiency, self-reliance and unity rather than outright fiscal wealth. In this respect, development is more a process rather than a target. The fundamental difference to the orthodox view is that the alternate view is a bottom up process and involves the respect of nature and culture, political inclusion of marginalised groups and local control of resources and investments.

Comparing the two very different approaches identifies that there are challenges to both, including some common challenges. The orthodox view has the advantage of potentially providing greater growth rates and hence reducing inequality between nations, but often at the cost of higher internal inequality as the gap between the richest and poorest within a nation

widens. This effect is sometimes called the unavoidable consequence of <https://assignbuster.com/late-development-and-the-challenges-facing-late-developers-economics-essay/>

economic growth[8]. Opponents to the orthodox view also contend that sustained development is only viable through further growth within a global free-market, which benefits the suppliers of the initial capital more than the nation seeking development[9]. Conversely, the alternate view of development suffers the potential problem of creating slower growth rates than embracing outright industrialism and its side effects. This approach also requires assistance from external to the country, but more often in the form of education and material resources, rather than direct capital injection. The Chipko movement in India and the rubber tapper movement in the Amazon are examples of successful grass roots versions of the alternate development methods[10]. Both are relatively small scale and limited to regions and ethnicities rather than whole nations.

Both approaches suffer from the challenges of overcoming education, literacy, environmental and health issues which all slow rates of growth. Additionally, corruption is seen as a huge obstacle to developing nations, specifically in autocratic and flawed democracies. Later in the development cycle nations that grow strongly need to be able to keep their exchange rate competitive by neutralize the tendency of the exchange rate to head toward overvaluation[11]. This problem is related to the Dutch disease[12], the policy of growth with foreign savings, and to exchange rate populism.

CONCLUSION

In summary, it can be seen that development of countries is import to reduce the gap between the most advanced nations in the world and the least. Development leads to a reduction in suffering by people who cannot meet their own needs through their own means, while at the same time

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enabling societies to become sustainable in economic, political and cultural terms.

The process of development is slow and the challenges are many.

Overcoming the problems of being a late developer is complex and difficult, but demonstrably possible as the Asian Tiger nations and other Newly Industrialised Countries have proven. Striving to industrialise by increasing exports has been a successful development strategy for the Asian Tiger countries, but not all nations have been successful using this technique.

Local political, geographical and geological environments can both help and hinder development, as can the effects of globalisation by open both market and financial flows.

While the history of development success shows that the crux of change is primarily national and local, such change now takes place in an increasingly globalised world of ever tighter political, economic, and cultural ties. The problems faced by developing nations are many and no universal answer or solution exists. Each nation that wishes to develop needs to create a development plan unique to their nation, based on their specific politics, cultures, resources, skills and geography. Only then can real and sustains development occur.

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