Impacts of Globalization on the Developing Countries

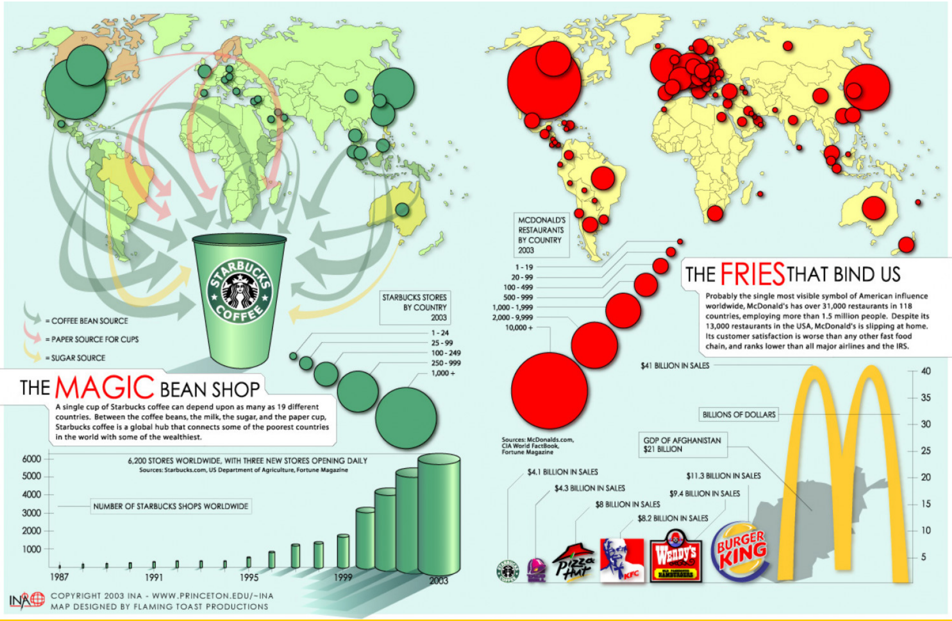
ALEŠ KOCOUREK
ales.kocourek@tul.cz

Structure of the Course

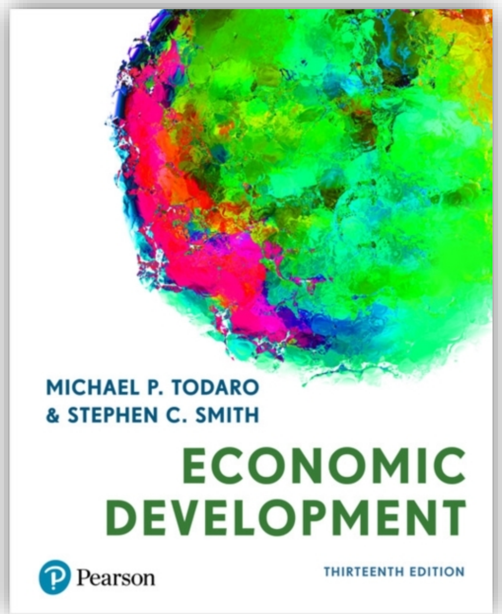
1) **Definitions of the Main Concepts**
   - Developing Countries vs. Developed Market Economies
   - Theories of Economic Development

2) **Globalization**
   - Causes and Outcomes of Globalization
   - Global Issues

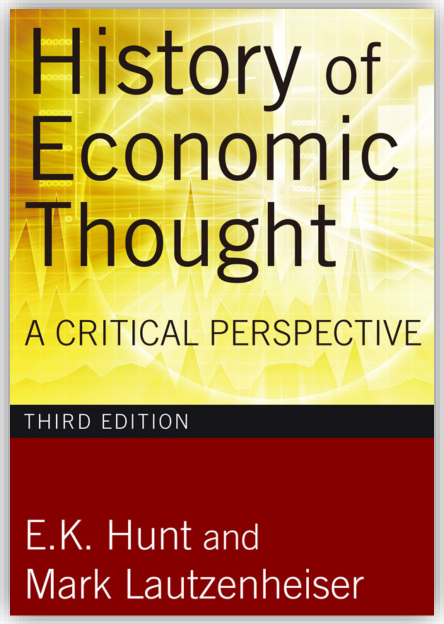
3) **Impacts of Globalization on the Developing Countries**
   - Case Studies



Literature



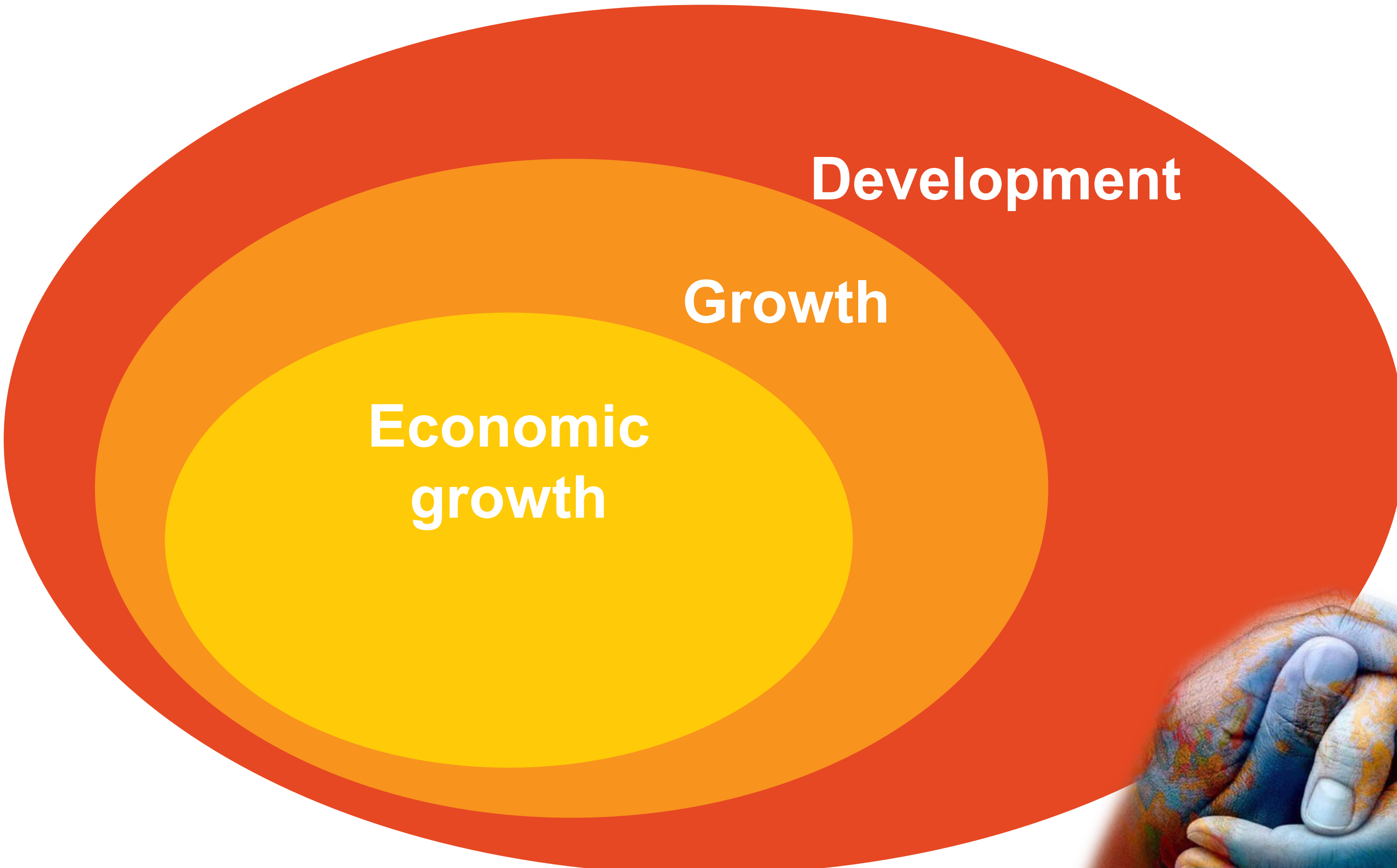
TODARO, Michael & Stephen Smith. 2020. *Economic Development*. 13th Ed. Harlow, UK. ISBN 9781292291154.



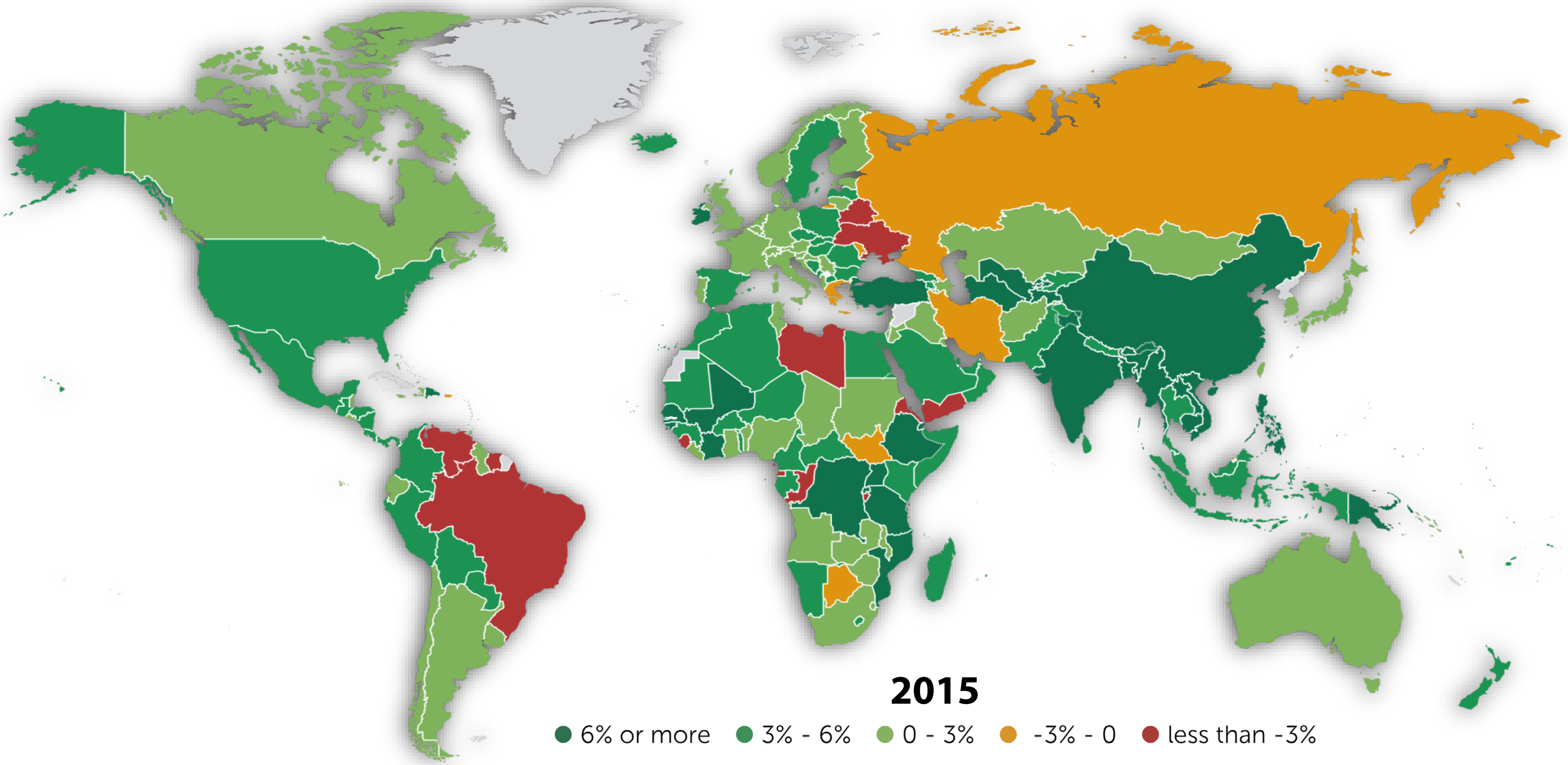
HUNT, Emery Kay & Mark LAUTZENHEISER. 2011. *History of Economic Thought: A Critical Perspective*. 3rd Ed.New York, USA. ISBN 9780765625984.

Introduction

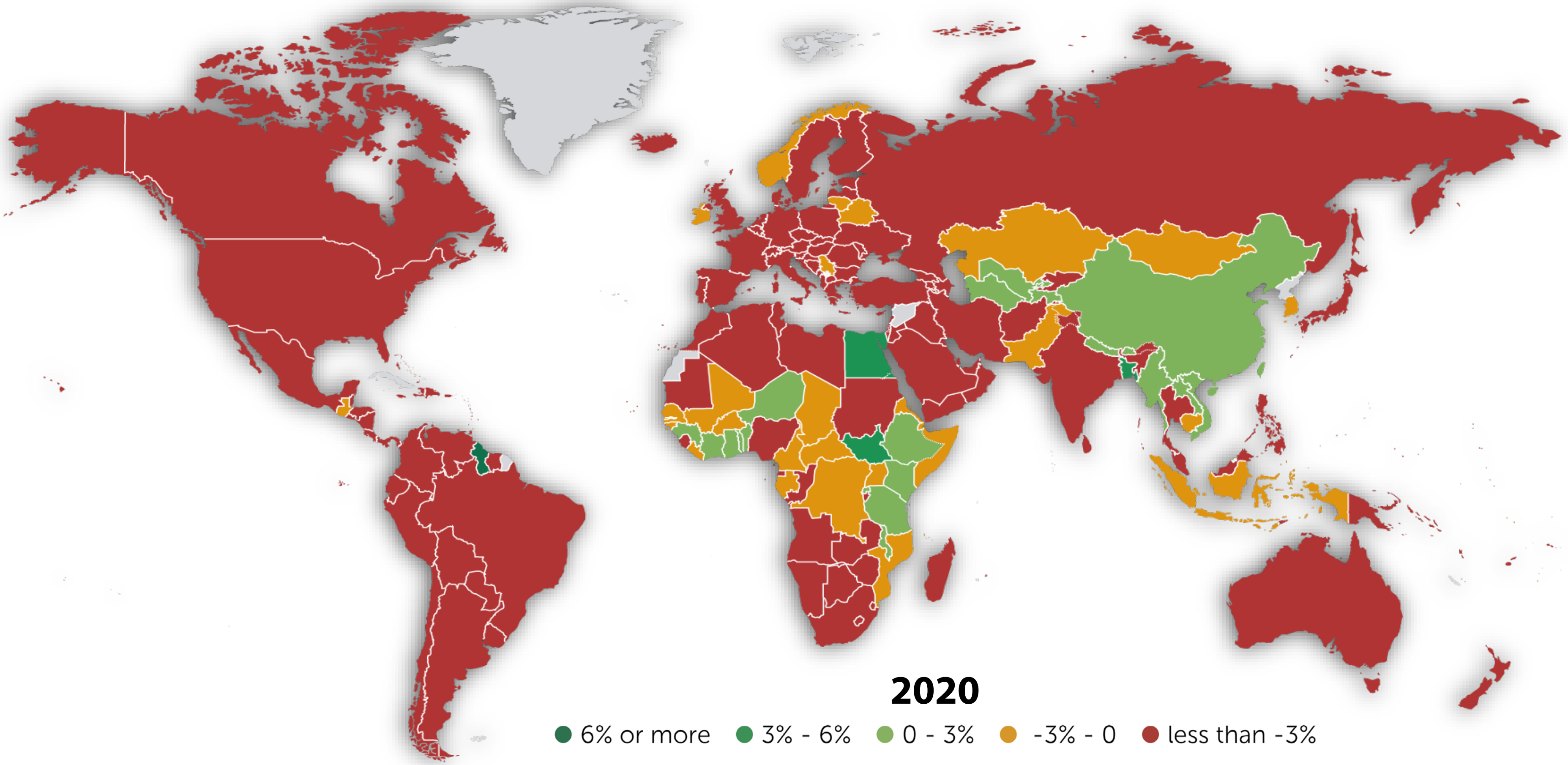
Definitions



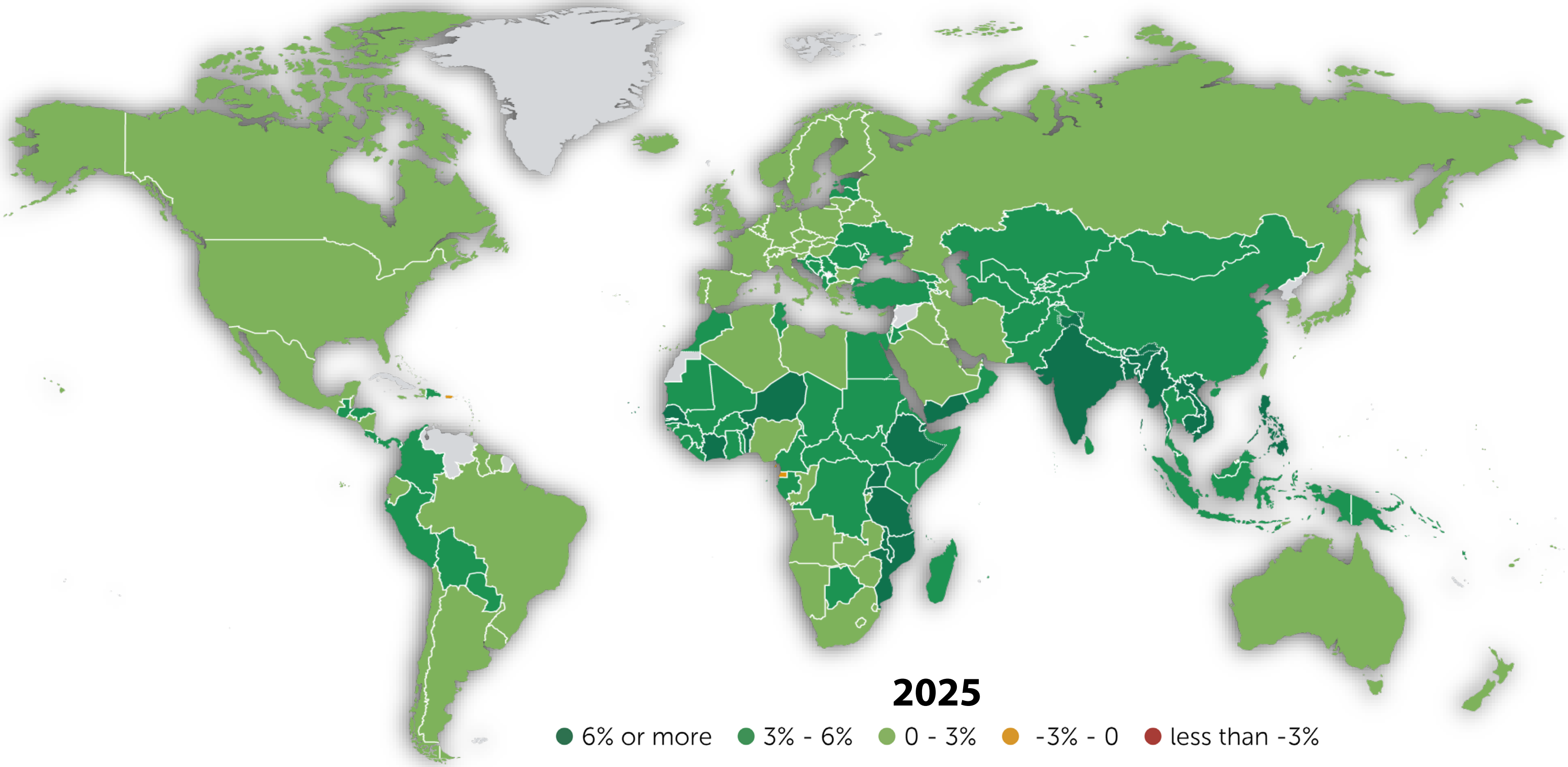
Economic Growth



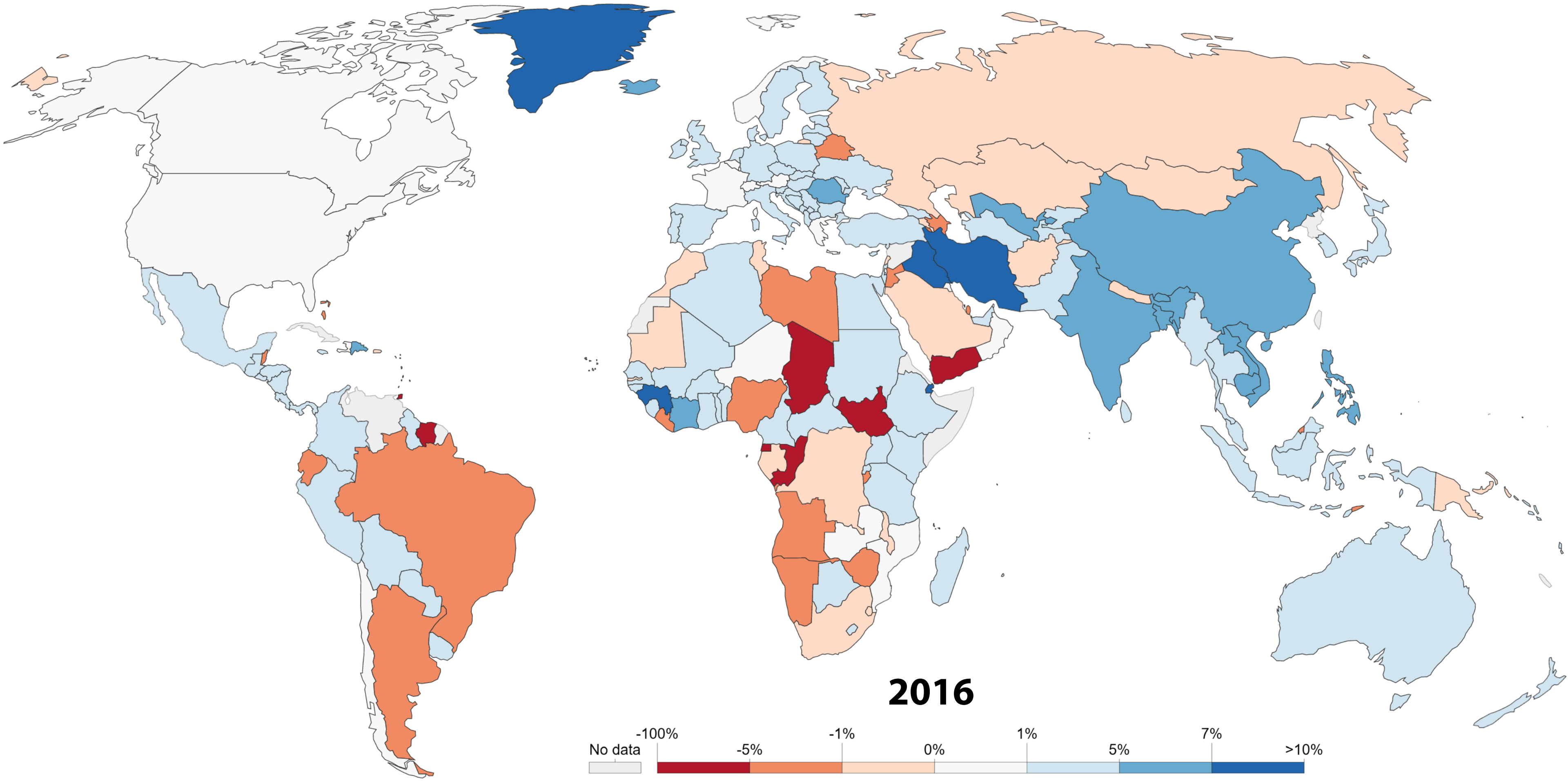
Economic Growth



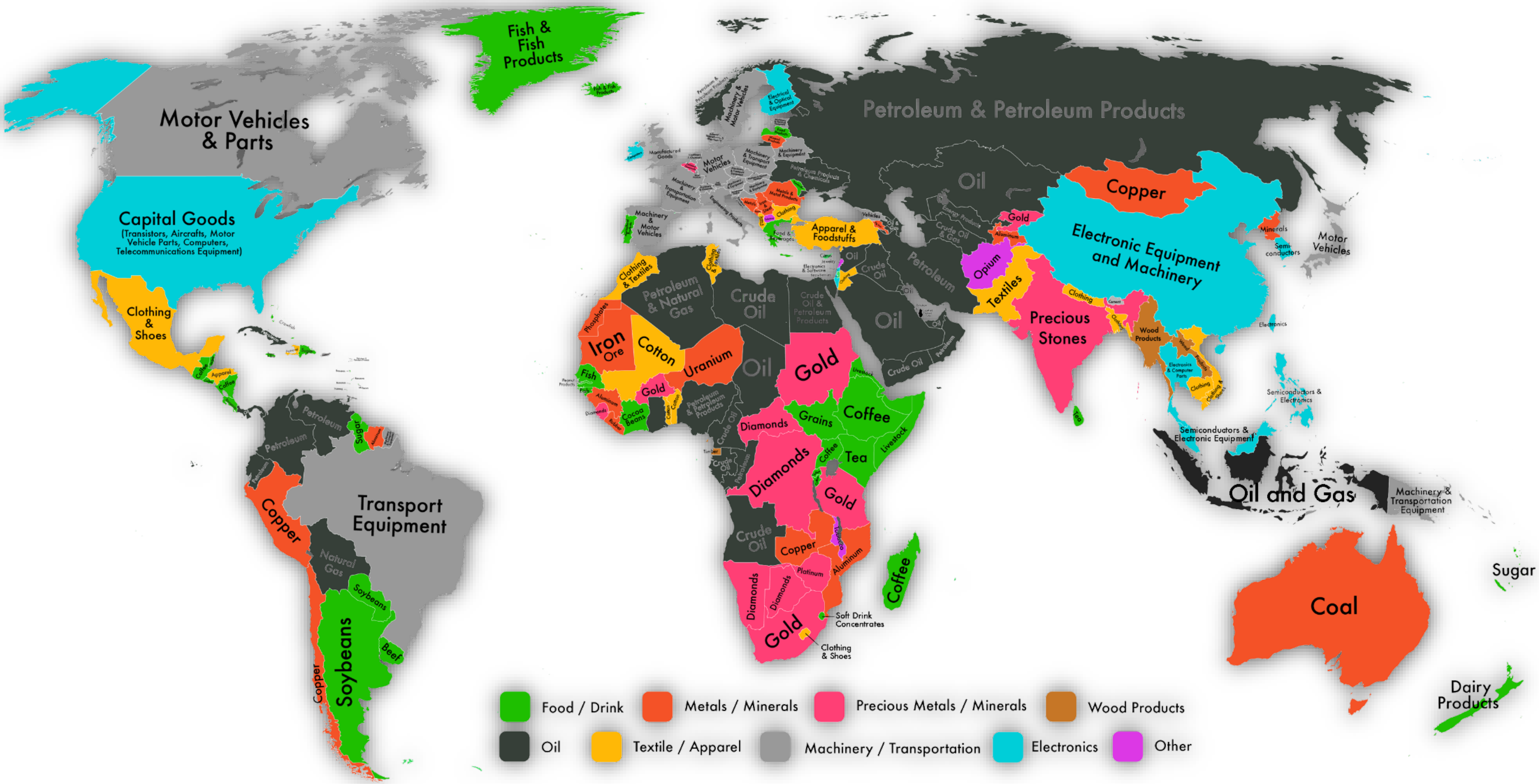
Economic Growth



Economic Growth per Capita



Sources of Economic Growth

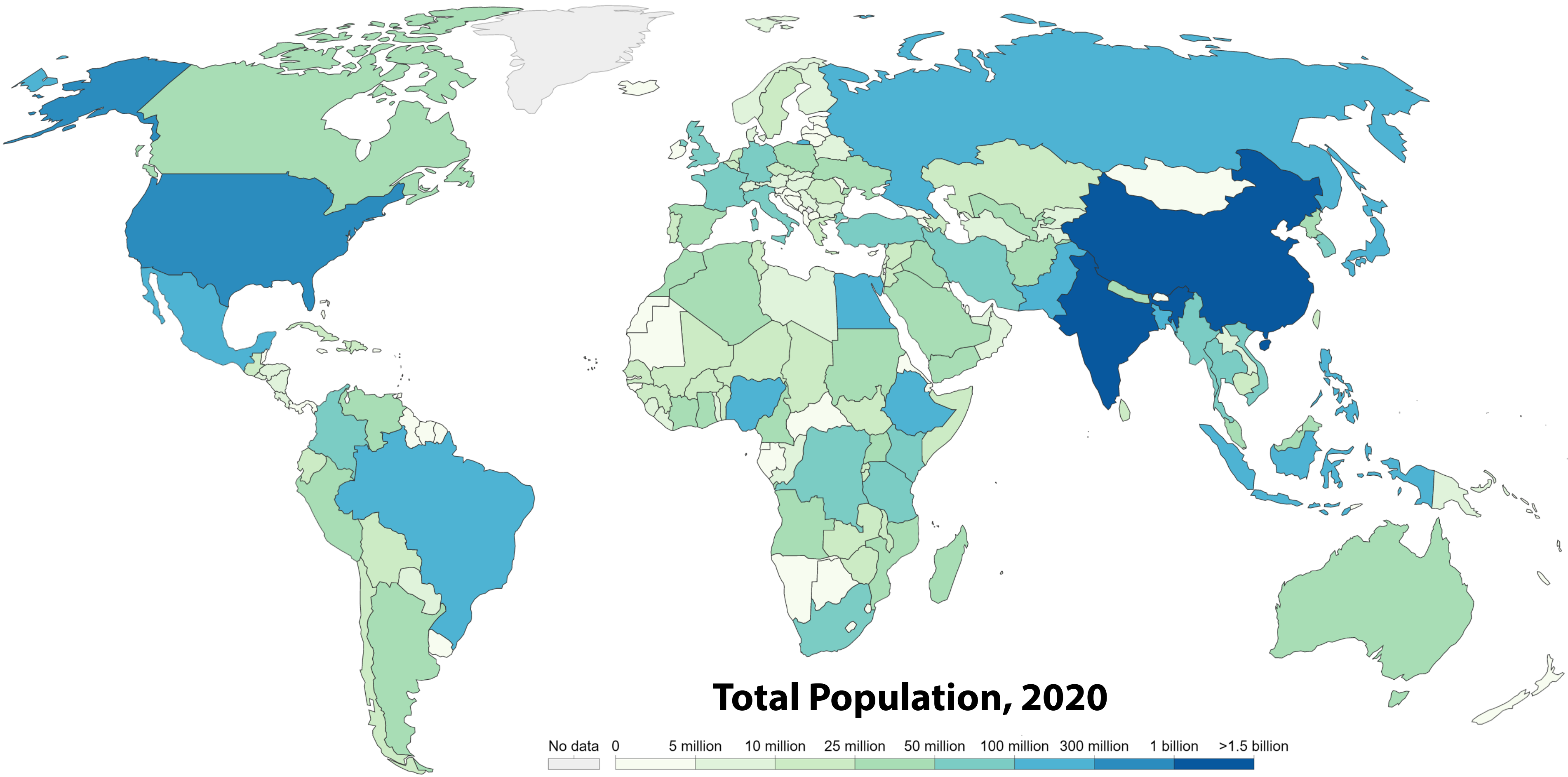


Sources of Economic Growth

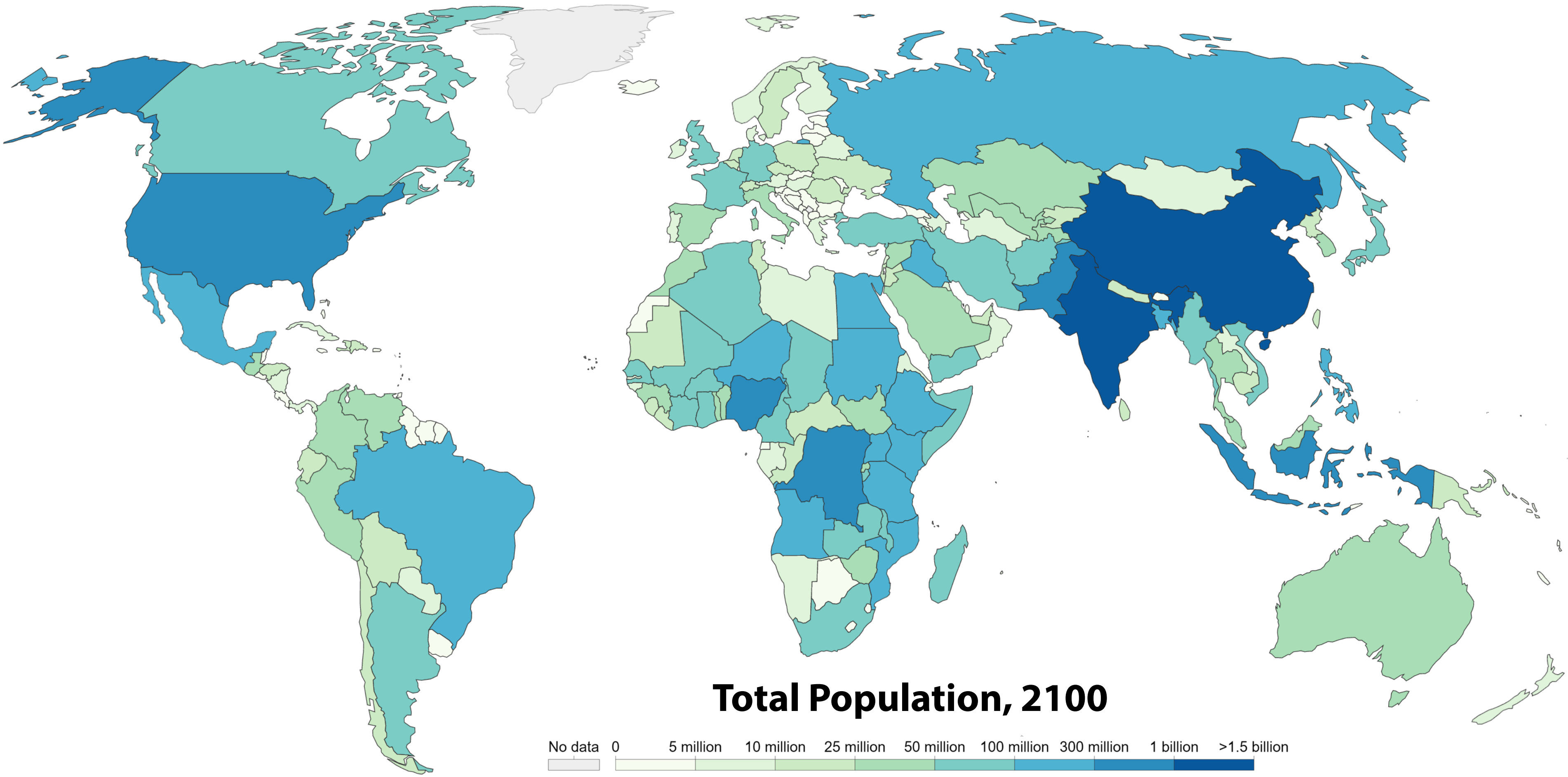
= factors of production

- **Labour**
  - Labour force (population of a country)
  - Quality of the labour force (human capital of a country)
- **Land**
  - Area of a country
  - Natural resources of a country
  - Climate, quality of the soil, quality of the resources
- **Capital**
  - Assets, buildings, infastructure, machines and technic equipment, production technology
  - Level of technical and technological progress

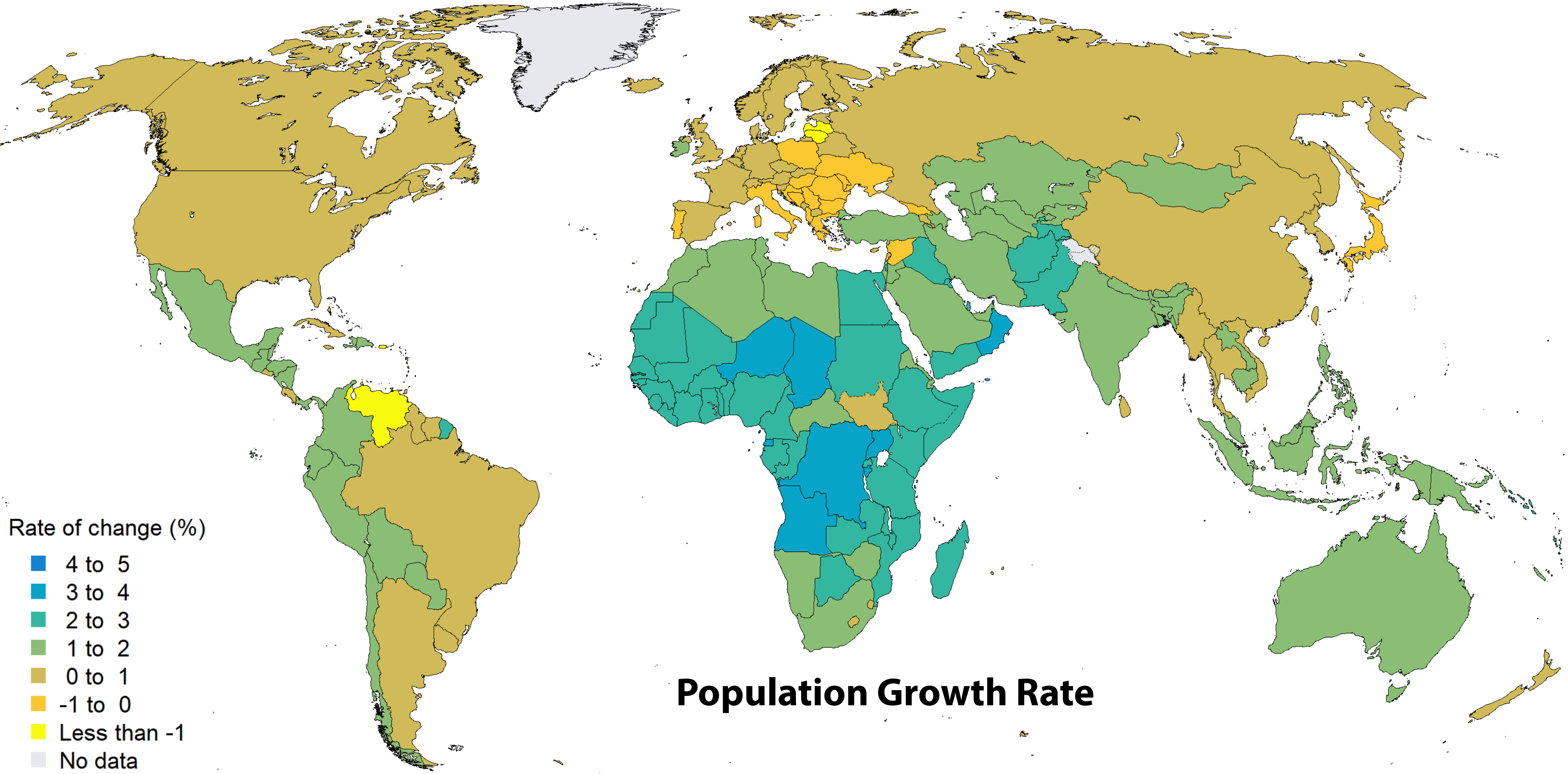
Labour


Total Population, 2020
No data
0
5 million
10 million
25 million
50 million
100 million
300 million
1 billion
>1.5 billion

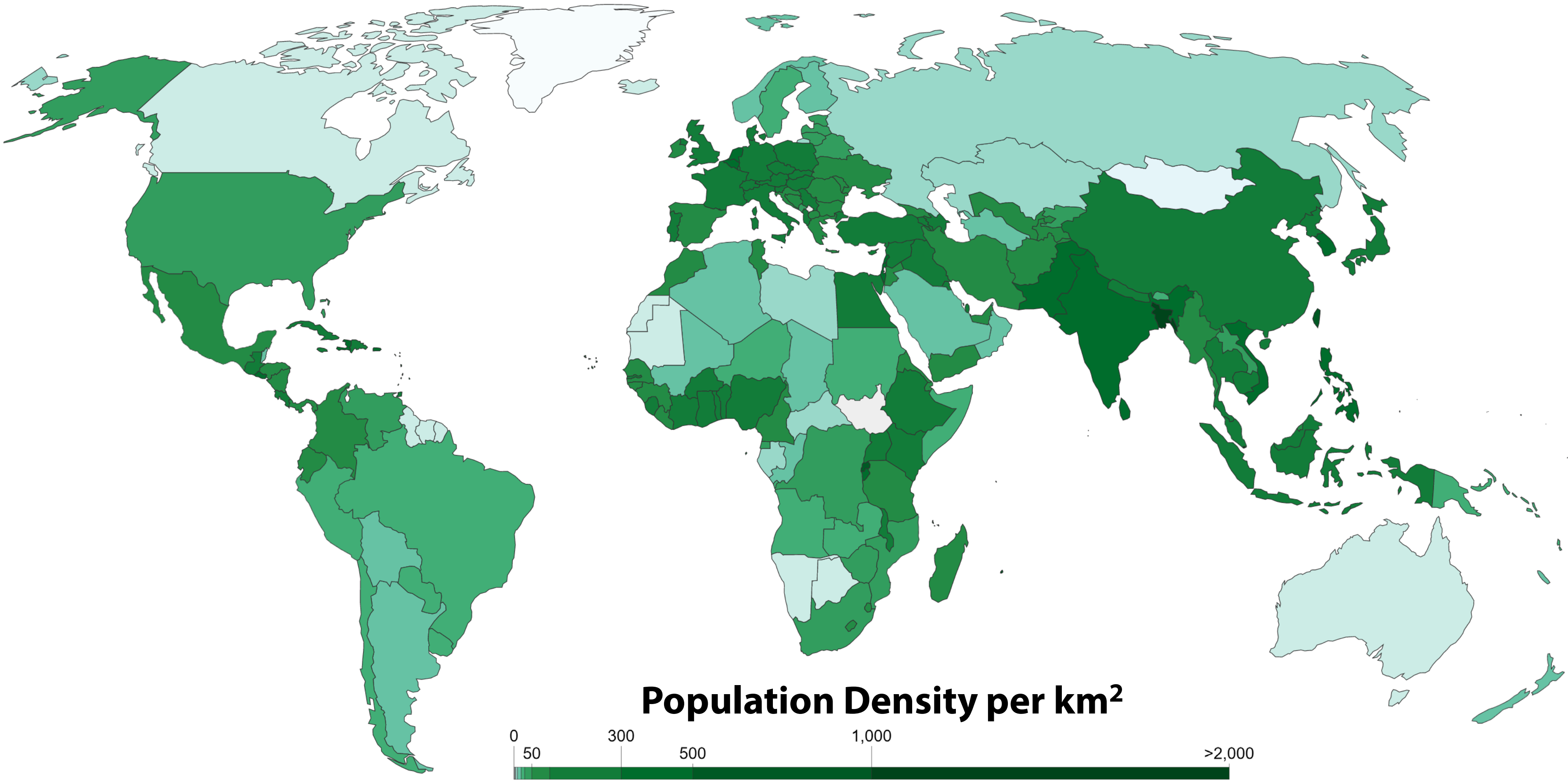
Labour


Total Population, 2100
No data
0
5 million
10 million
25 million
50 million
100 million
300 million
1 billion
>1.5 billion

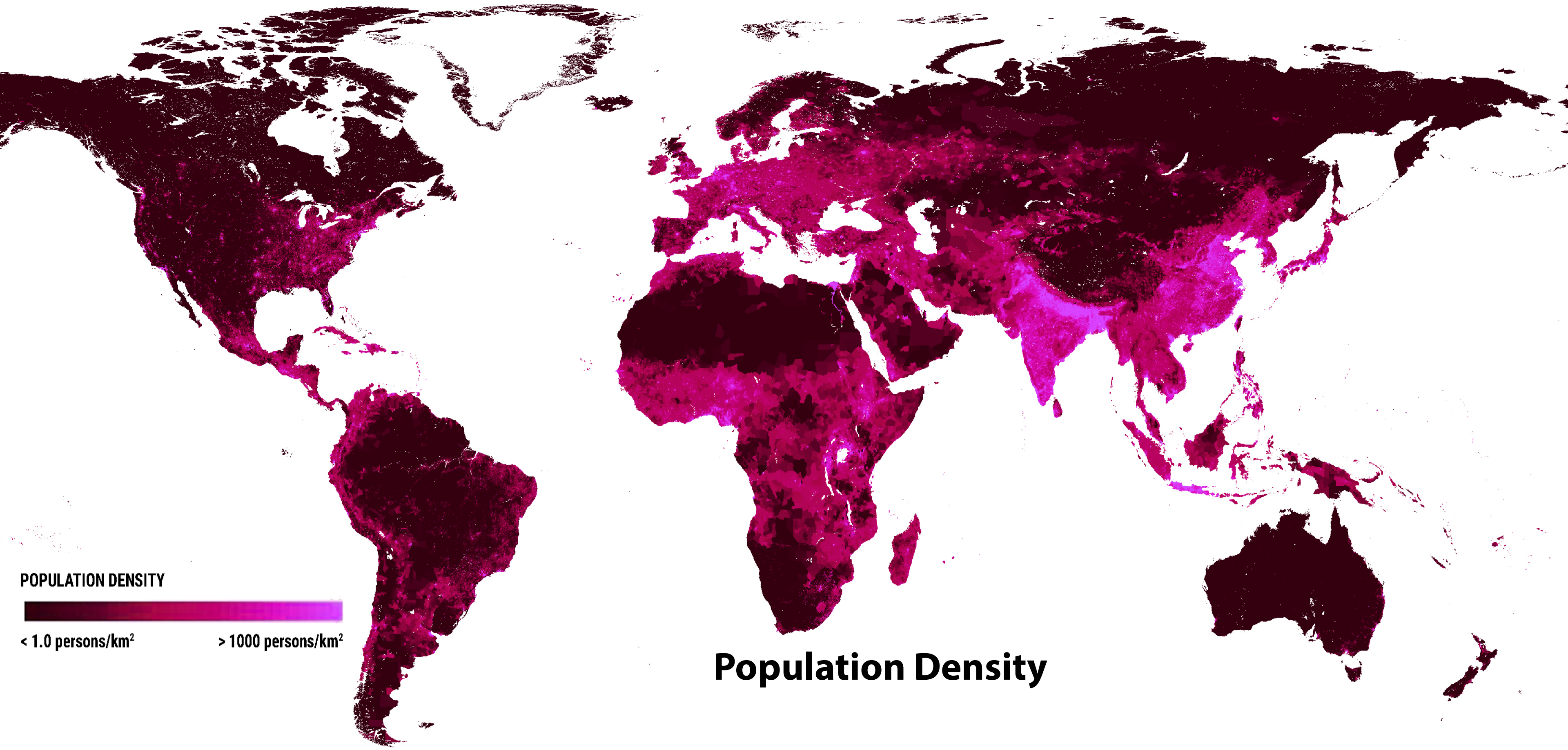
Labour


Rate of change (%)
4 to 5
3 to 4
2 to 3
1 to 2
0 to 1
-1 to 0
Less than -1
No data
Population Growth Rate

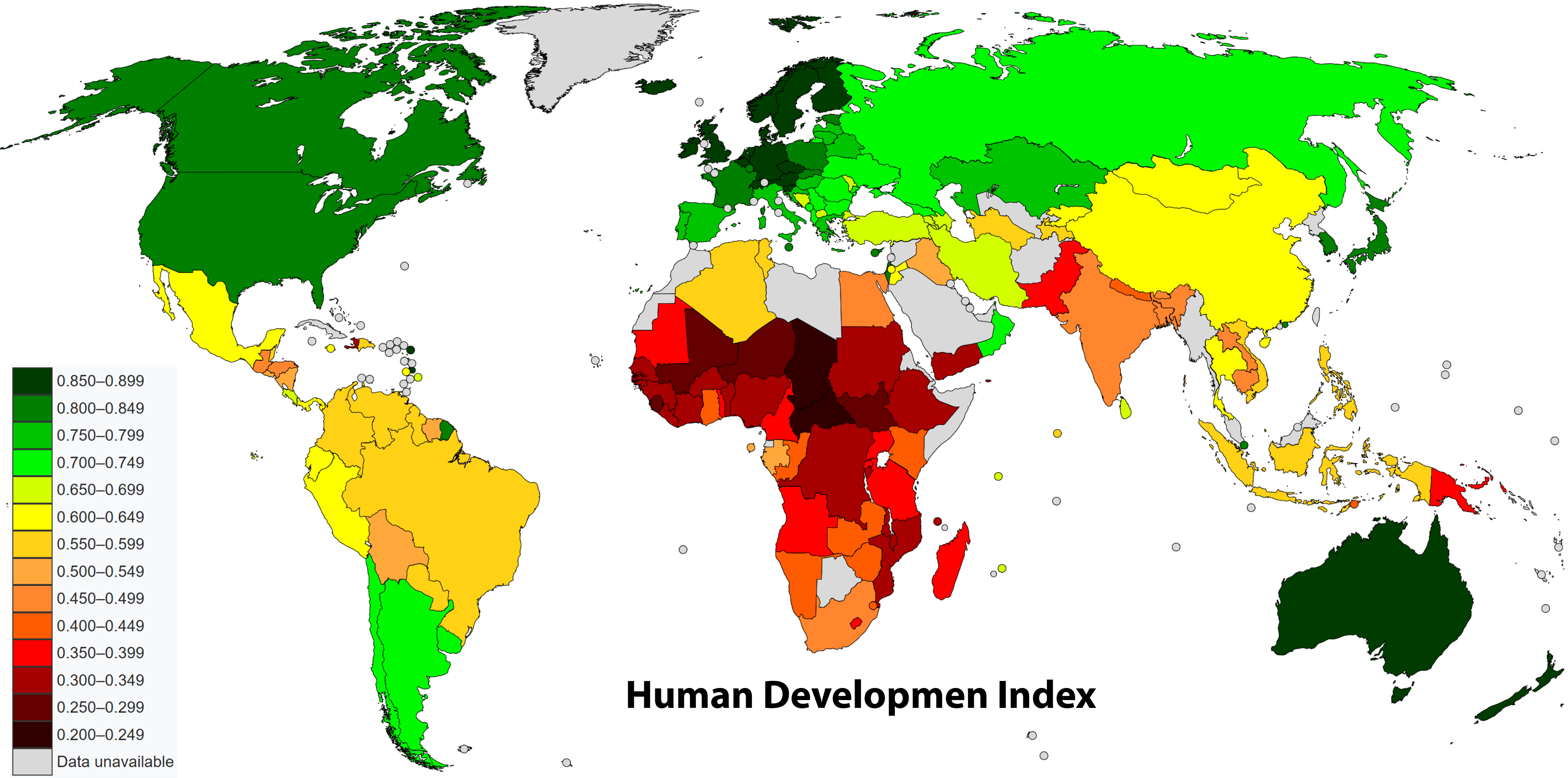
Labour



Labour

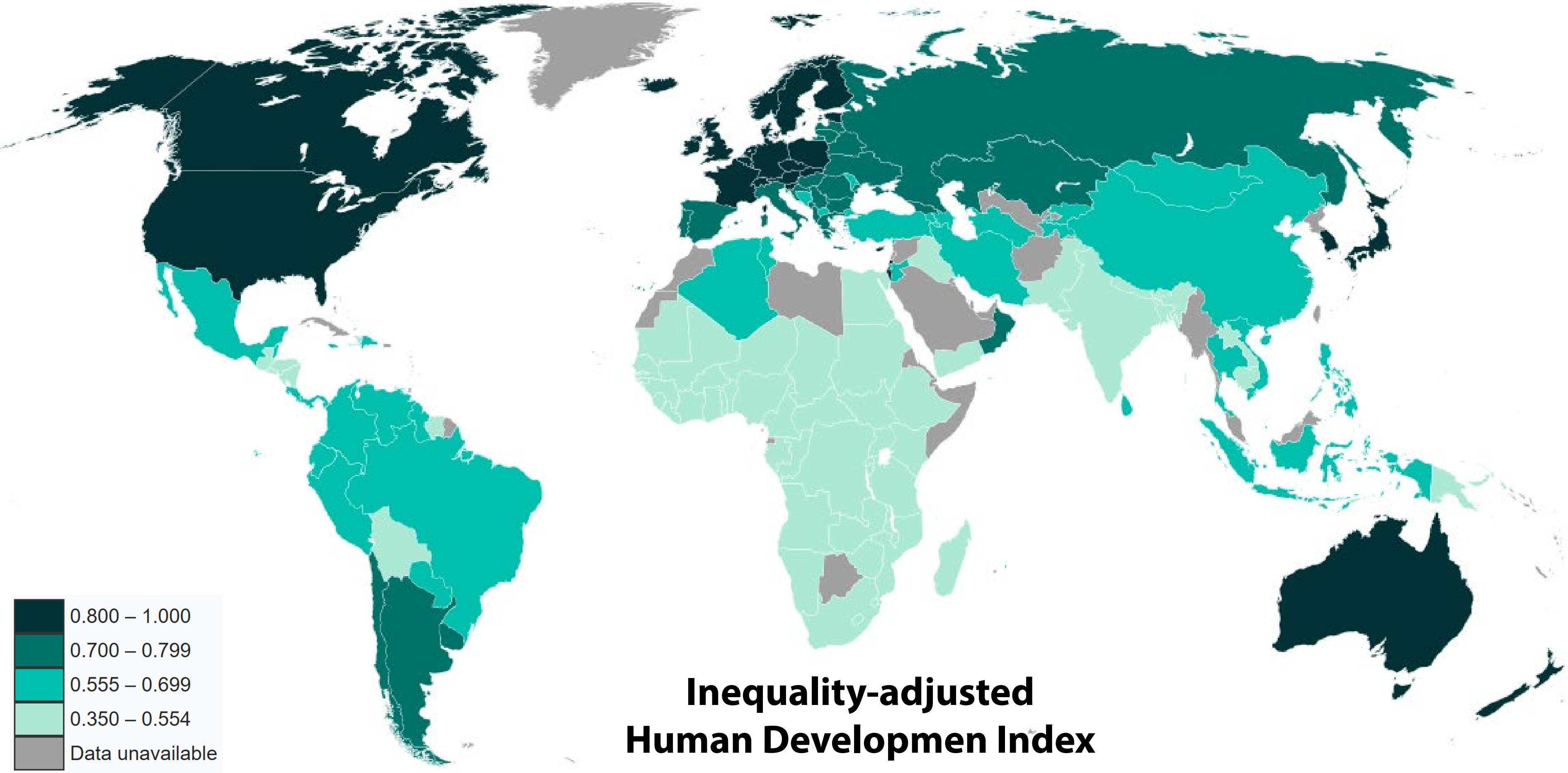

POPULATION DENSITY
< 1.0 persons/km²
> 1000 persons/km²
Population Density

Labour

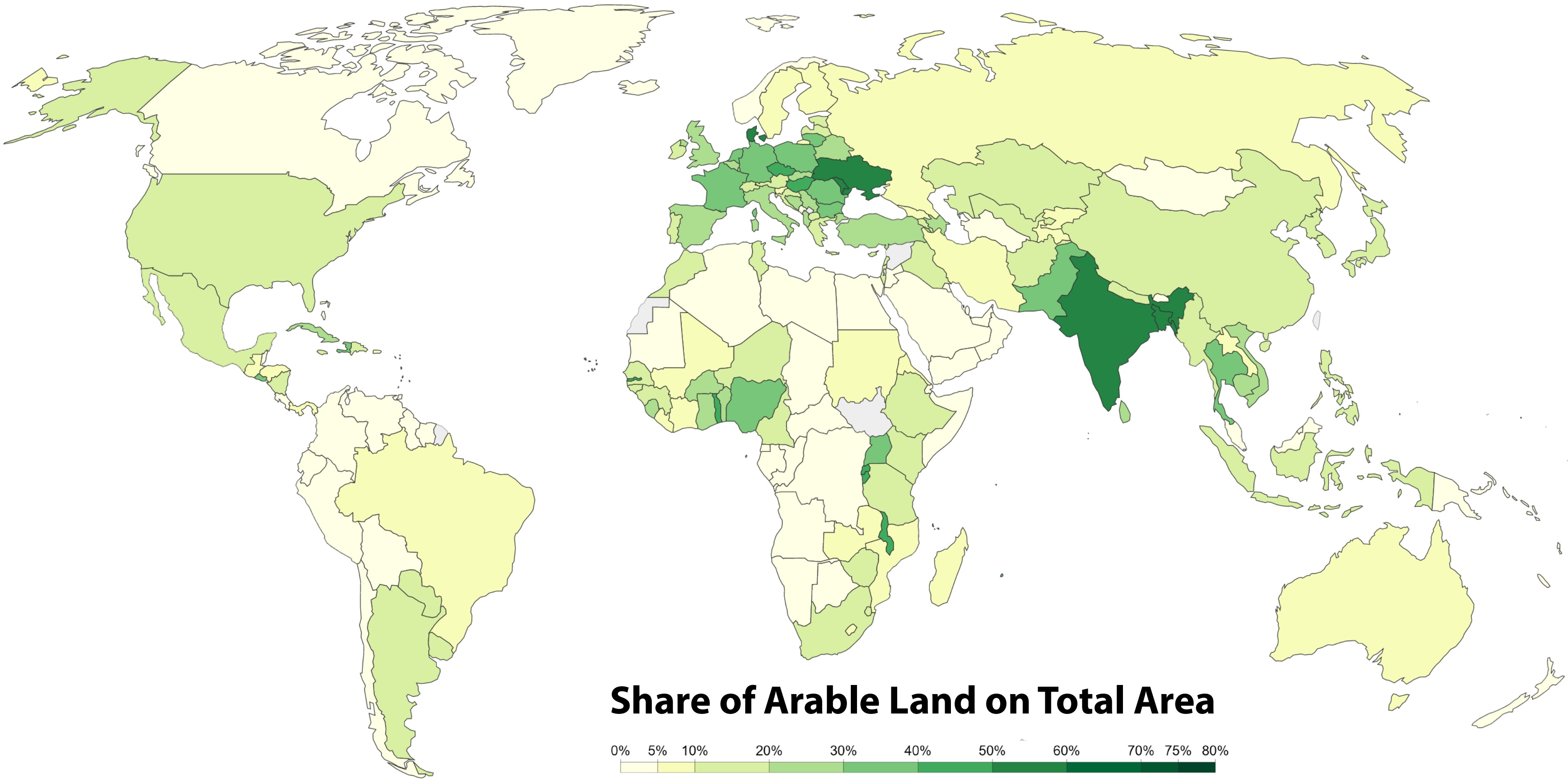


0.850–0.899
0.800–0.849
0.750–0.799
0.700–0.749
0.650–0.699
0.600–0.649
0.550–0.599
0.500–0.549
0.450–0.499
0.400–0.449
0.350–0.399
0.300–0.349
0.250–0.299
0.200–0.249
Data unavailable
Human Developmen Index

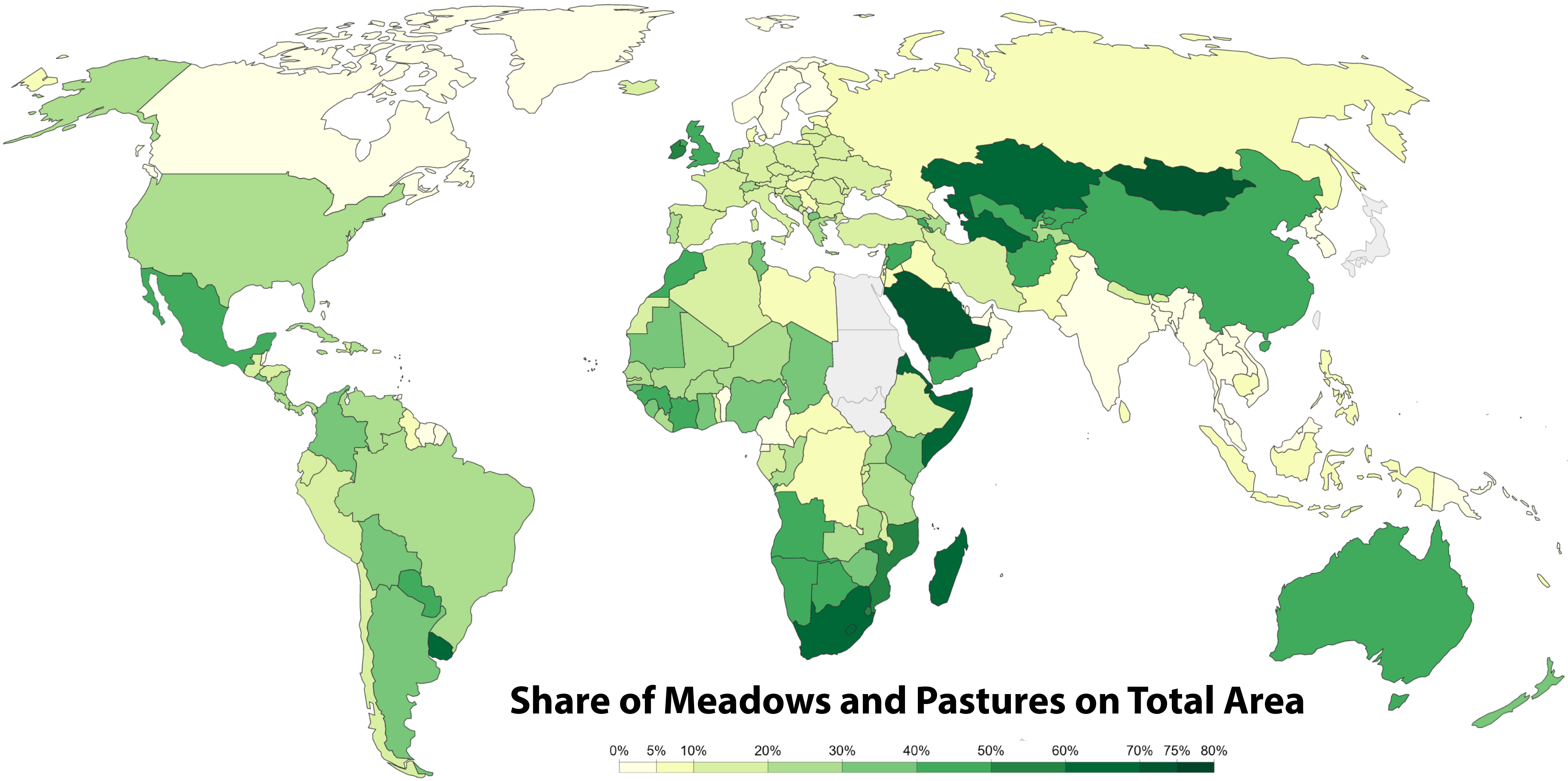
Labour


0.800 – 1.000
0.700 – 0.799
0.555 – 0.699
0.350 – 0.554
Data unavailable
Inequality-adjusted
Human Developmen Index

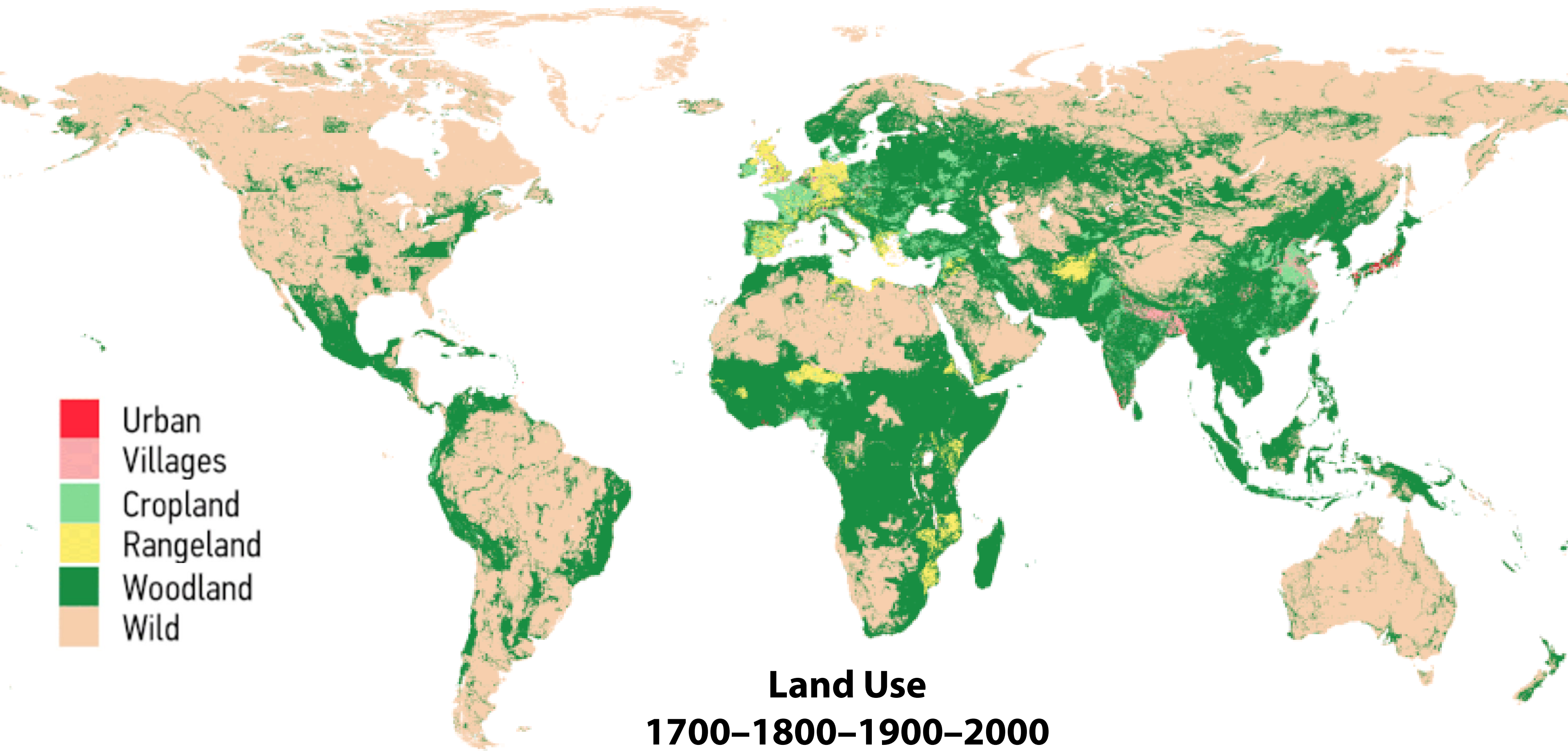
Land



Land

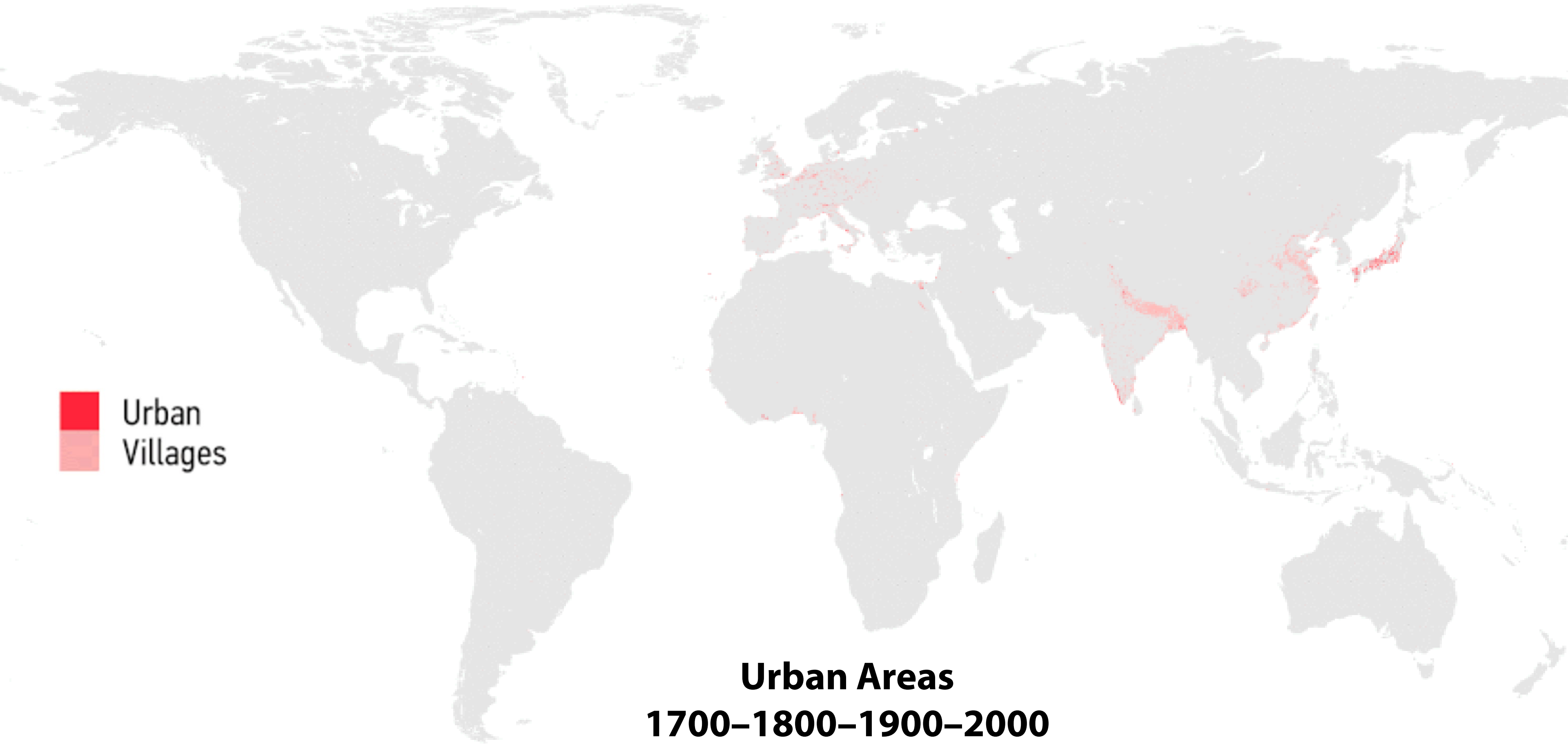

Share of Meadows and Pastures on Total Area
0% 5% 10% 20% 30% 40% 50% 60% 70% 75% 80%

Land

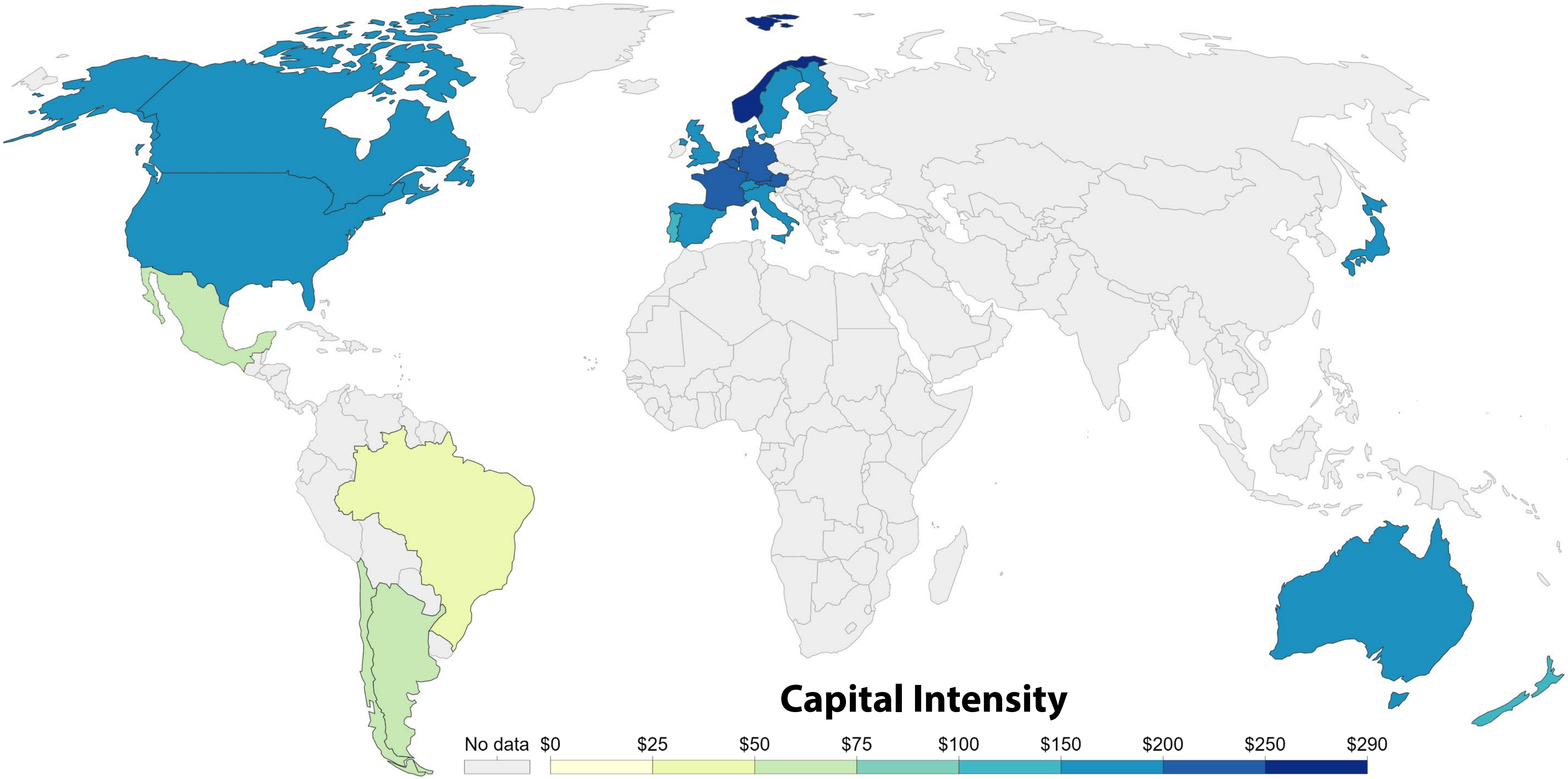


Land Use
1700–1800–1900–2000

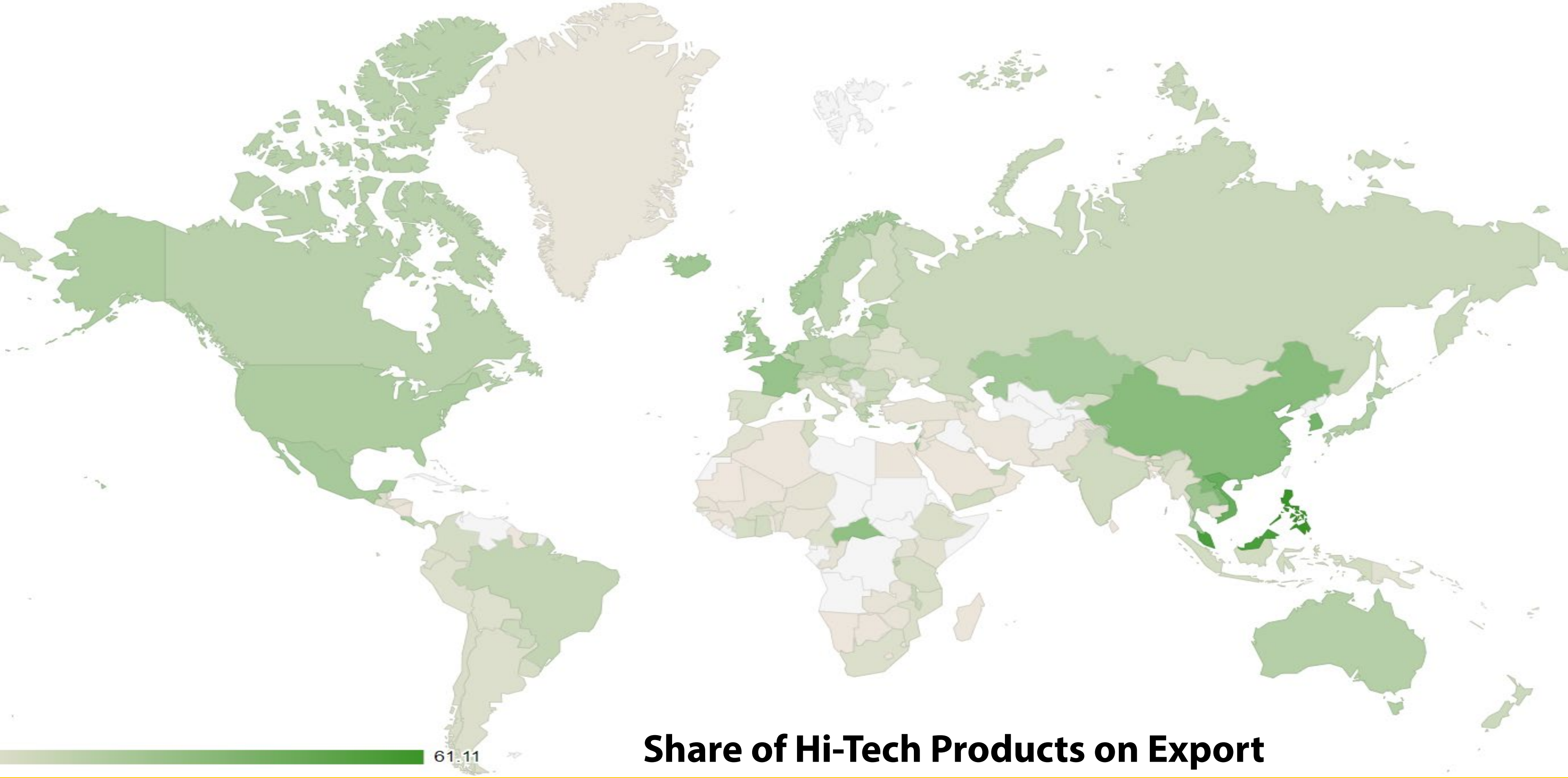
Land



Capital

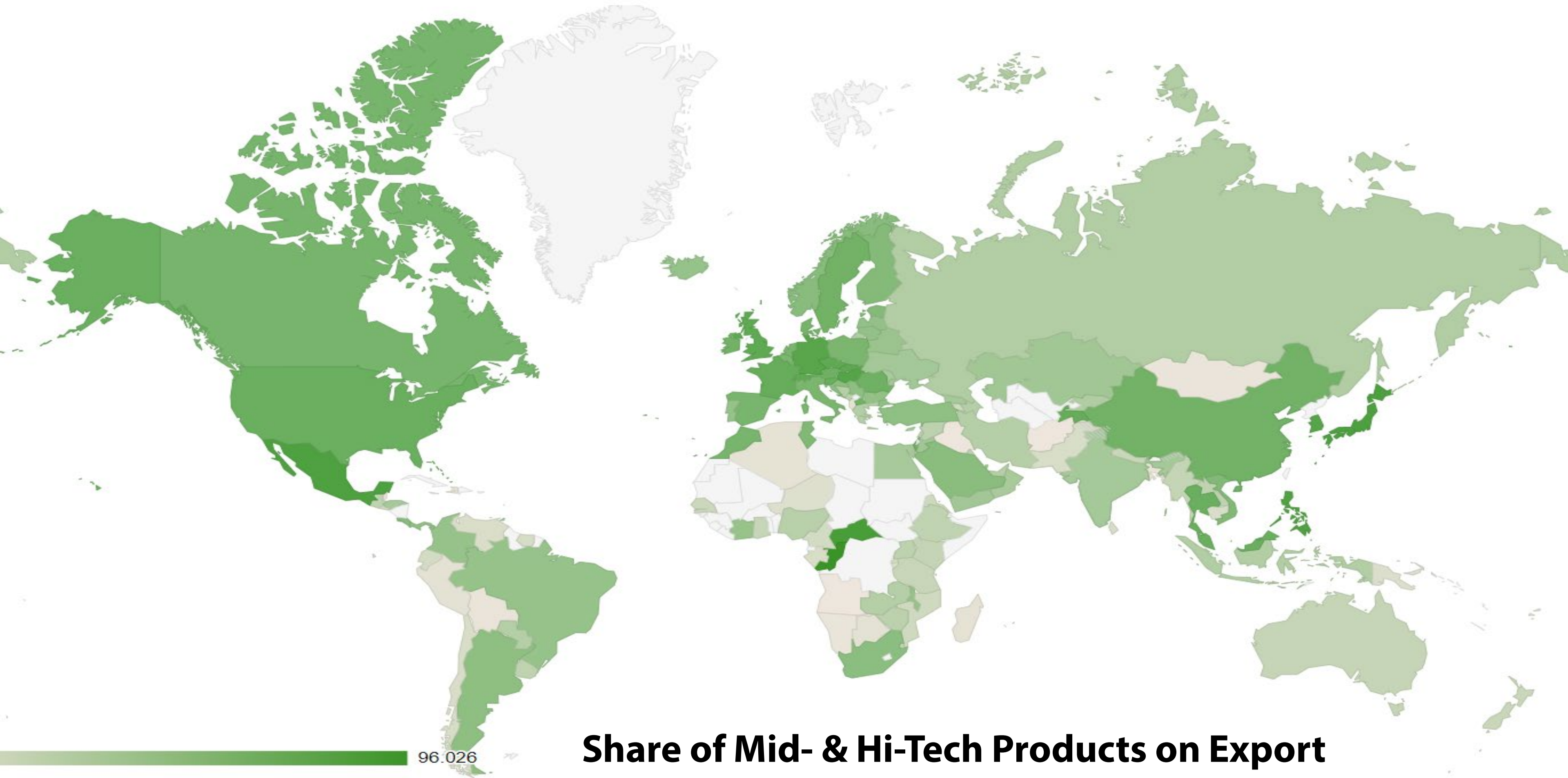


Capital



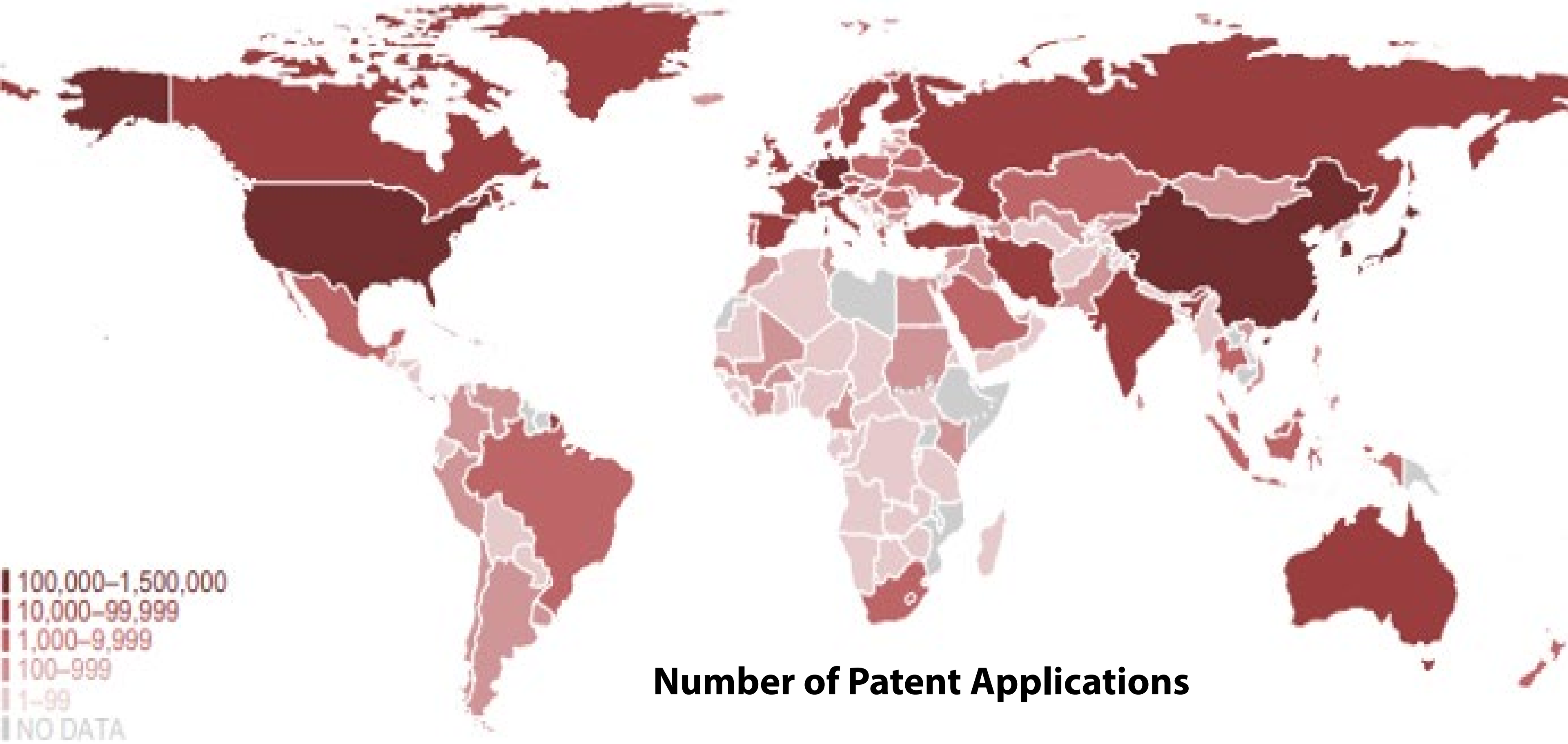
Share of Hi-Tech Products on Export

Capital



Share of Mid- & Hi-Tech Products on Export

Capital



Number of Patent Applications

Theories of Growth and Development

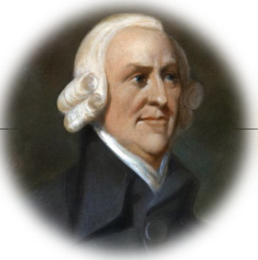
Economic Growth

= growth of the real GDP, preferably per Capita

- **Quantitative Growth = Extensive Growth**
  - Increasing the quantity of employed inputs (factors of production)
  - Making use of the economies (or returns) to scale

- **Qualitative Growth = Intensive Growth**
  - Increasing the efficiency of using the imupts
  - Making use of the education and technological progress

Classical Growth Theory



1723–1790

1766–1834

- Adam Smith & Thomas Robert Malthus
- Assumptions:
  - No technological progress.
  - The stock of land is fixed.
- Economic growth will decrease or end because of an increasing population and limited resources.
- **Subsistence level** refers to the minimum amount of income required to survive. Income beyond the subsistence level translated to profits.
  - Workers spend their wages on subsistence.
  - Landlords spend their earnings on luxurious (riotous) living.
  - Industries reinvest their profits into their ventures.
- If real GDP rose above subsistence level, it would cause the population to increase and bring real GDP back down to the subsistence level.

Keynesian Growth Theory

1883–1946

- John Maynard Keynes
- Assumptions:
  - Fixed (rigid) aggregate price level.
  - Fixed (rigid) nominal wages.
  - Constant marginal product of labour.
  - Savings = Investment.
- Insufficient effective aggregate demand as a source of economic slowdown.
- Economic growth can be supported by government spending.

Keynesian Growth Theory

1900–1978 1914–1997

- Roy Harrod & Evsey Domar
- Assumptions:
  - Output is a function of capital stock.
  - The marginal product of capital is constant.
  - Constant returns to scale.
  - Savings = Investment.
- The change in the capital stock equals investment less the depreciation of the capital stock.
- Developing countries do not have sufficiently high income to enable sufficient rate of saving. Therefore, accumulation of physical-capital stock through investment is low (= vicious circle).
- Economic growth is limited by insufficient investment (savings) and by deficit of trade balance (import > export).

Prebisch–Singer thesis

1901–1986 1910–2006

- Raúl Prebisch and Hans Singer
- Assumptions:
  - Developed global North exports high value-added products.
  - Underdeveloped global South exports raw materials and agricultural production.
- The structure of the global market leads to inequality and dependency of developing countries on the developed market economies.
- = dependency theory
- Developing countries should diversify their economies and weaken their dependence on primary commodity exports by developing their manufacturing industry.

Neoclassical Growth Theory

1924–

- Robert Merton Solow
- Assumptions:
  - Technological progress is **exogenous** (not explained by the model).
  - Constant Returns to Scale.
  - Decreasing Returns to Labour and to Capital.
- Investment is created from savings, savings increase with higher income.
- Long-term tendence to **stable state**, when the economics growth rate population growth rate equals the growth rate of the total factor productivity (technological progress).
- The growth statistics from all around the world showed there was a **residual part** of the economic growth rate not explained by the model (Solow Residual).

Theory of Modernization

1916–2003

- Walt Whitman Rostow
- Five stages of modernization later augmented to six:
  - traditional society
  - preconditions for take-off
  - take-off
  - drive to maturity
  - mass consumption (and mass production)
  - beyond consumption (the search for quality)
- = neoclassical synthesis
- A liberal model formulated to fight the spread of communist ideology across the third world (see South Korea) through a support provided by the developed market economies to the developing countries.

Theory of Modernization

1898–1987

- Karl Gunnar Myrdal
- Assumptions:
  - Capital accumulation as a result (not source) of economic development.
  - Modernization ideals = health care, education, social needs, rational behaviour, future planning, labour productivity growth, increasing living standards, social and economic equality, national independence, democracy
- = multidisciplinary approach to development
- Non-linear development of the whole society.
- Developing countries are in a desperate need for strict reforms, which are carried out in all modernization ideals = importance of a wise, enlightened government.

World-System Theory

1930–2019

- Immanuel Maurice Wallerstein
- Assumptions:
  - There is no third world, there is only one world connected by a complex network of economic exchange relationships.
  - The **core** has a high level of technological development and manufactures complex products.
  - The role of the **periphery** is to supply raw materials, agricultural products, and cheap labor for the expanding agents of the core.
- The periphery is forced to sell its products at low prices, but has to buy the core's products at comparatively high prices.
- A zone defined as "semi-periphery" acts as a periphery to the core and as a core to the periphery (see Eastern Europe).

Endogenous Growth Theory

1937–

- Robert Emerson Lucas
- = Attempt to reduce the Solow Residual
- = Human capital growth model (new classical macroeconomics)
- Assumptions:
  - Technological progress is **endogenous** (explained by the model).
  - Constant Returns to Scale.
  - Decreasing Returns to Labour and to Capital.
  - Increasing Returns to Human Capital.
- Investment in human capital (education) is the crucial determinant of technological progress and economic development.
- Human capital can overcome the decreasing/constant returns.

Endogenous Growth Theory

1955–

- Paul Michael Romer
- = Attempt to reduce the Solow Residual
- = R&D growth model (new classical macroeconomics)
- Assumptions:
  - Constant Returns to Scale.
  - Decreasing Returns to Labour, to Capital and to new knowledge creation.
  - Technological progress is **endogenous**, output of R&D.
  - R&D is affected by the interest rate.
- Spreading the knowledge is producing positive externalities.
- Integration of economies into the global markets accelerates the spread of knowledge.

Sustainable Development


1939–

- Gro Harlem Brundtland
- "Development that meets the needs of the present generation without compromising the ability of future generations to meet their own needs."

- **Strong Concept** = no use of any non-renewable resources
- **Weak Concept** = "human capital" can substitute "natural capital"

See you next week!