

Socio-Economic Development

Why are poor countries poor and rich countries rich? How are wealth and poverty related to changes in health, life expectancy, education, population growth and politics? This non-technical introduction to development studies explores the dynamics of socio-economic development and stagnation in developing countries. Thoroughly updated and revised, this second edition includes new material on the effects of the 2008 financial crisis, the emergence of the BRICS economies, the role of institutions in development and the accelerated growth of economies in Africa and Asia. Taking a comparative approach, Szirmai places contemporary debates within their broader contexts and combines insights and theories from economics, economic history, political science, anthropology and sociology. Each chapter includes comparative statistics and time series for thirty-one developing countries. Assuming no prior knowledge of economics, this book is well suited for students in interdisciplinary development studies and development economics, for policy makers and for practitioners pursuing careers in developing countries.

Adam Szirmai is Professorial Fellow at the United Nations University Maastricht Economic and Social Research Institute on Innovation and Technology (UNU-MERIT) and Professor of Development Economics at Maastricht University. His research focuses on the determinants of long-run growth, catch-up and stagnation in the developing world, with particular emphasis on the role of the manufacturing sector. A second focus of his research concerns the relationships between innovation, technological change and economic growth.

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Second edition

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PREFACE

The aim of this book is to provide a general introduction to the dynamics of socio-economic development and to the study of the problems of developing countries. The book was written for students of universities and other institutions of higher education from a variety of disciplines, who encounter the problems of developing countries in their studies and who are in need of a general introduction to this field. It is also intended for people pursuing a professional career in developing countries and international organisations, for policy makers and for readers with a general interest in development. The text can be read as an introduction by students with no prior knowledge of development. It also can be used at an advanced level as a handbook of development, providing a comprehensive overview of past and present theoretical and empirical debates and controversies in the field of development studies. The book provides non-economists with a non-technical introduction to economic perspectives on development, while introducing economists to a broader socio-economic view of development.

The central issue in development, as approached in this book, lies in low levels of per capita income and low standards of living among the mass of the population in the so-called developing countries. The key elements in the book are trends in productive capacity, per capita income, changes in standards of living and poverty, and the factors that affect economic development or economic stagnation in the long term. The core of development is thus defined in economic terms. However, the explanatory factors are not limited to economic ones. Historical, institutional, cultural, demographic, political, social and ecological factors are all of great importance for the analysis of economic development. They will receive ample attention in the book.

It needs to be emphasised that the concept of development is much broader than that of economic development alone. Development involves changes in a wide range of social outcomes, such as poverty, health, education, life expectancy, human rights or political participation, which are directly or indirectly linked to economic changes but which need to be studied in their own right. This is reflected in the title of the book, which refers to socio-economic development.

The structure of the book takes the key proximate factors distinguished in economic theories of growth – labour, capital and land and technological change – as its point of departure. However, in line with the interdisciplinary nature of the book, these factors are interpreted in a broad fashion. Technological change lies at the heart of growth and economic development. Two main issues discussed in Chapter 4 are the role of technological change in development, and the consequences of accelerating technological change for developing countries. The treatment of the primary production factor ‘labour’ is couched in terms of a more general discussion of demographic and human factors in development. These include population growth and the interrelationships between population growth and economic development (Chapter 5), topics such as health, disease, mortality and life expectancy (Chapter 6) and education, human capital and literacy (Chapter 7). I argue that

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health and education are important as independent aspects of development in their own right. But the state of health and levels of education also influence the quality of the labour force, the productivity of labour and the socio-economic dynamics of a country.

Modern economic growth is historically associated with massive capital accumulation in the industrial sector and a structural transformation of agrarian societies into societies in which industry and services become more and more important. Capital accumulation is discussed in the theoretical Chapter 3 and in the context of industrialisation in Chapters 8 and 9. Structural change and the shift to industry are discussed in Chapter 8, which also deals with the role of primary exports in these transformations. In classical development economics it is taken for granted that manufacturing is the leading sector in development. Though in my view this sector is still a very important one, its role can no longer be taken for granted in the light of the increasing importance of services. Chapter 8 pays attention to modern debates about the roles of different sectors and engines of growth in economic development.

Chapter 9 focuses on the past, present and future of industrialisation. It discusses the role of capital accumulation in the broader context of the process of industrialisation. This chapter also pays attention to the different industrialisation strategies that developing countries have followed over time, including import substitution, balanced growth, labour-intensive export orientation, the promotion of the informal sector and technological upgrading. The chapter also examines the implications of the emergence of and changes in global value chains and the role of foreign direct investment (FDI).

The discussion of the primary production factor 'land' is broadened to include the whole issue of agricultural and rural development. The role of the agricultural sector in the wider process of development is examined in Chapter 8, which among other things makes a case for the continued importance of agriculture in developing countries. In Chapter 10, the development of agricultural production and productivity is discussed against the background of social changes in rural communities and rural areas. This chapter also presents data on trends in food consumption and an overview of the recent debates on modern biotechnology.

The discussion of the sources of economic development in Chapters 4 to 10 is preceded and followed by chapters which place development in a historical and international perspective. Chapter 2 focuses on the development of the international economic and political order since the fifteenth century. Chapter 3 deals with the theories and empirics of growth and stagnation. The approach in these chapters is historical and comparative. Chapter 11 focuses on the political aspects of development and the interrelations between state formation, democratic rule and economic growth. Chapter 12 introduces the institutional and cultural context of development and discusses the dynamic relationships between institutions and economic development. Changes in the international political and economic order since the Second World War are reviewed in Chapter 13. In this chapter, attention is paid to the evolution of international institutions and organisations, on the one hand, and the implications of the international division of labour and free trade for developing countries, on the other. This chapter includes a discussion of developing country debt, the emergence and demise of structural adjustment policies and the recent debates on globalisation and the architecture of the international financial system. Special attention is paid to the financial crisis of 2007–8 and its impact on advanced and developing countries. The final chapter (Chapter 14) focuses on the role of foreign aid in development. Foreign aid is seen as part of

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international resource flows, which include FDI, remittances and private and public loans. Aid is discussed in the context of theories of development and the many different factors influencing development in the long run. Every chapter ends with questions for review and suggestions for further reading.

Empirical data have an important place in this book. It is my conviction that a serious debate of development issues should be grounded in sound empirical information. Throughout the book, I present empirical data on long-run economic, social and political trends for a sample of thirty-one developing countries, representing Asia, Latin America and Africa. These thirty-one countries represented 78 per cent of the total population of developing countries in the year 2010. The same set of countries is used throughout the book, providing an empirical basis for the discussion of theories, patterns and trends in development in the different chapters. The book contains over seventy tables, usually covering the period from 1950 to the present and sometimes going back to the pre-1945 period. The country data are supplemented by aggregate statistics for different regions and continents.

This book is accompanied by a website, which presents the detailed worksheets underlying the tables in the book. These worksheets show how the tables in the book have been put together from a variety of sources. The address of this website is www.dynamicsofdevelopment.com. I hope this website will serve as an important didactic tool for the empirical study of development. It will introduce students to the increasing wealth of international comparative statistics on all dimensions of development. Ever more data are accessible in digital form on the websites of research institutions and international organisations. Our website will provide links and references to the most important international sources of data on development, serving as a structured portal for statistics on development. A second purpose of the website is to foster a more critical attitude towards the use of statistics. Statistical tables are constructs, which depend on assumptions, models, concepts, decisions about what data to use, how to combine data from different sources, what years to compare, how to link data for different years in a consistent fashion and of course the quality and reliability of the basic data itself. It is important to be clear about how the data have been collected and organised, what assumptions and choices have been made and what sources have been used. If such information is not provided – as is too often the case – the statistics cannot be trusted. Examination of the worksheets on the website will help readers to formulate their own conclusions, which may well differ from those of this author. They will come to understand that any table should be seen as a working hypothesis, rather than a final statement about economic or social reality. Finally, the website allows us to provide much more detail than is possible in the tables in the book. It will also allow for updating on a continuous basis, so the statistics remain up to date.

Despite its considerable length this book has no pretensions to completeness. The attempt to synthesise a very wide range of subjects in a single book will inevitably leave specialists on different topics unsatisfied. Also, the book is written as an introduction to ongoing debates about development, rather than a final summary of our knowledge of all different aspects of it. In the choice of subjects, the emphasis has been on the long-run dynamics of development and the factors that play a role in these dynamics.

This book has a long history. A first version was published in Dutch in 1993. An English translation was published in 1997 by Prentice Hall under the title *Social and Economic Development: Trends, Problems and Policies*. The first edition of the present book was published in 2005 by Cambridge University Press under the title *The Dynamics of*

Preface

Socio-Economic Development: An Introduction. In the ten years since the appearance of the previous edition, there have been major changes in the global economy. Former developing countries such as Korea and Taiwan have become high-income advanced economies. The giants China and India have become middle-income economies. China has become the manufacturing workplace of the world. The increasing importance of the BRICS (Brazil, Russia, India, China and South Africa), as well as other large emerging economies such as Malaysia, Indonesia and Turkey, has changed the nature of the international order and the international balance of power. Many emerging economies now engage in outward-bound FDI, a substantial part of which flows to developing countries (South–South investment). The deep financial crisis of 2007–8 and beyond has exposed weaknesses in advanced country financial institutions. The crisis has affected the advanced economies much more than developing countries. Not only have there been major changes in the global economy and developing countries, the literature on development has experienced an explosive growth. The present revision tries to take into account the changes in the world and the advances in research and in the literature. Though the structure of the book remains unchanged, all chapters have been revised very substantially. In particular, Chapter 12 has been revamped to include the large new literature on the role of institutions. The chapter on the international order (Chapter 13) has been extensively rewritten to reflect the changes in the international economic order. The chapters on structural change and industrialisation (Chapters 8 and 9) have tried to incorporate new thinking on these topics. One of the important new elements of the revised text is the development of a systematic framework of proximate, intermediate and ultimate causality in Chapters 1 and 3. This framework is applied in all subsequent chapters, so that the reader is better able to understand how a given chapter fits into the large framework.

The fact that the book has a twenty-year history provides both risks and opportunities. The danger of a book conceived long ago is that parts of the discussion become dated. The challenge is to show how some of the older debates and concepts remain relevant in the present. Too often, lessons learned from older debates are forgotten or neglected, to our detriment. We should learn the lessons from recent developments without forgetting the lessons derived from older experiences. I have tried to strike a balance between the newest theories and approaches and important older intellectual contributions and debates. In doing so, the book also provides something of an intellectual history of development debates.

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I could not have written this book without the support of numerous colleagues and ex-colleagues. They generously let me profit from their knowledge of and insights into the various aspects of development. I have made extensive use of their advice, their publications, and their empirical research. I have enjoyed years of fruitful and intensive discussions with them. I would like to thank the following persons for their advice on substantive or statistical issues and their stimulating comments on previous editions of the book and drafts of the present version: Bart van Ark, Anne van den Ban, Richard Bluhm, Tobias Broich, Michael Bruneforth, Carlo Cafiero, Carolina Castaldi, Luciana Cingolani, Samuel Cohn, Geske Dijkstra, Peter Druijven, Pierre van der Eng, Jacob de Haan, Gerhard Heilig, Hal Hill, Niels Hermes, Karel van Hoestenbergh, Jojo Jacob, René Kemp, Hans-Paul Klijsma, Jos Koetsier, Remco Kouwenhoven, Lutz Krebs, Paul Lapperre, Alejandro Lavopa, Robert Lensink, Kees van der Meer, Nicolas Meisel, Nanno Mulder, Wim Naudé, Chris de Neubourg, Alessandro Nuvolari, Jacques Ould-Aoudia, Howard Pack, Dirk Pilat, Neville Postlethwaite, Gé Prince, Baseer Qazi, Shyama Ramani, Henny Romijn, Johan Schot, Jan Stel, Ida Terluin, Marcel Timmer, Kaj Thomsson, Peter de Valk, Harry van Vianen, Geert Verbong, Bart Verspagen, Daniel Vertesy and Ton Zwaan. I would like to acknowledge a special intellectual debt to Angus Maddison. Long ago, he encouraged me to write a first version of this book. He has always been a major source of intellectual stimulation. It is more important than ever to emphasise that the responsibility for the book and for its shortcomings rests entirely with the author.

Since, 2007, the United Nations University – Maastricht Economic and Social Research Institute on Innovation and Technology (UNU-MERIT) – has provided me with a creative environment for the study of development. I am thankful to the past and present directors Luc Soete and Bart Verspagen for creating this environment and making me part of it. My colleagues at UNU-MERIT have created an open and supportive intellectual atmosphere, which deserves to be nurtured. I have particularly enjoyed intensive interactions and debates with PhD students from more than forty countries across the globe, most of them from developing countries. The full list of people that should be thanked is too long to specify. I would like to single out Eveline in de Braek, who provided enthusiastic and efficient support for this book, and for many other activities I was engaged in, while at UNU-MERIT. Ad Notten was an exemplary librarian, in full command of the intricacies of modern digital search techniques, while providing a level of personal support and help that can only be described as old fashioned. Herman Pijpers and Mourik-Jan Heupink have provided invaluable IT support. Tobias Broich provided statistical assistance in updating several of the tables. Finally, I am also very thankful for the generous backing provided by Chris Harrison and his colleagues at Cambridge University Press. I thank them for their encouragement as well as for their patience. This book is dedicated to my wife Veronika in gratitude for our shared life, her unflinching support and her forbearance.

ACRONYMS AND ABBREVIATIONS

ACER	age specific enrolment rate
ACP	Asian, Caribbean and Pacific Countries
ADB	Asian Development Bank
ADER	average dietary energy requirements
ADLI	Agricultural Development Led Industrialisation (Ethiopia)
AFD	Agence Française de Développement
AfDB	African Development Bank
ASEAN	Association of Southeast Asian Nations
BMI	body mass index
BMR	basal metabolism rate
BRICS	Brazil, Russia, India, China and South Africa
CEE	Central and Eastern Europe
CFC	chlorofluorcarbon
CGIAR	Consultative Group on International Agricultural Research (now CGIAR Consortium)
CIMMYT	Centro Internacional de Mejoramiento de Maiz y Trigo (International Maize and Wheat Improvement Centre)
CIS	Community Innovation Surveys
CMEA	Council for Mutual Economic Assistance
CPI	Corruption Perceptions Index
CPIA	Country Policy and Institutional Assessment
CVD	cardiovascular diseases
DAC	Development Assistance Committee (OECD)
DALY	disability adjusted life years lost
DGBAS	Directorate General of Budget Accounting and Statistics (Taiwan)
DRS	debt reporting system (World Bank)
EC	European Community
ECLAC	United Nations Economic Commission for Latin America
ECOSOC	Economic and Social Council (United Nations)
EDF	European Development Fund
EEC	European Economic Community
EPA	Economic Partner Agreement (EU)
ESAF	Enhanced Structural Fund Facility (IMF)
ESCAP	United Nations Economic and Social Commission for Asia and the Pacific
EU	European Union
EWLP	Experimental World Literacy Program
FAO	United Nations Food and Agriculture Organisation
FCCC	Framework Convention on Climate Change (United Nations)

List of acronyms and abbreviations

FDI	foreign direct investment
FYR	Former Republic of Yugoslavia
GATT	General Agreement on Tariffs and Trade
GDFP	Geographical Distribution of Financial Flows to Developing Countries
GDI	gross domestic income
GDP	gross domestic product
GER	gross enrolment ratio
GERD	gross domestic expenditure on R&D
GGDC	Groningen Growth and Development Centre
GHG	greenhouse gas
GMO	genetically modified organism
GNERD	gross national expenditure on R&D
GNI	gross national income
GNP	gross national product
GPI	Gender Parity Index
GSP	generalised system of preferences
HALE	health life expectancy
HDI	Human Development Index
HDR	Human Development Report
HIC	high-income country
HIE	high-income economy
HIPC	heavily indebted poor country
IBPGR	International Board for Plant Genetic Resources
IBRD	International Bank for Reconstruction and Development (World Bank)
ICARDA	International Center for Agricultural Research in the Dry Areas
ICC	International Criminal Court
ICJ	International Court of Justice
ICRISAT	International Crops Research Institute for the Semi-Arid Tropics
ICT	information and communication technologies
IDA	International Development Association
IDB	Interamerican Development Bank
IFAD	International Fund for Agricultural Development
IFC	International Finance Corporation
IFI	international financial institution
IGO	intergovernmental organisation
ILO	International Labour Organization
IMF	International Monetary Fund
IPCC	Intergovernmental Panel on Climate Change
IPR	intellectual property rights
IRRI	International Rice Research Institute
ISI	import substituting industrialisation
ISIC	International Standard Industrial Classification
IT	information technology
ITO	International Trade Organisation
LAFTA	Latin American Free Trade Association
LAO	limited access order

List of acronyms and abbreviations

LDC	less developed country
LEISA	low external input and sustainable agriculture
LIC	low-income country
LMIC	lower-middle-income country
MDER	minimum dietary energy requirement
MDG	Millennium Development Goal
MDRI	Multilateral Debt Relief Initiative
MFA	Multi Fibre Arrangement
MFN	most favoured nation
MICS	middle-income country
MITI	Ministry of International Trade and Industry (Japan)
MNC	multinational corporation
MNE	multinational enterprise
MPS	material product system
NAFTA	North American Free Trade Association
NATO	North Atlantic Treaty Organisation
NER	net enrolment ratio
NGO	non-governmental organisation
NIC	newly industrialised country
NIE	newly industrialising economy
NIEO	new international economic order
NNI	net national income
NTB	non-tariff barrier
NTRF	net total resource flows
OA	other assistance
OAO	open access order
OAS	Organisation of American States
OAU	Organisation of African Unity
OBM	own brand manufacturing
ODA	official development assistance
ODM	own design manufacturing
OECD	Organisation for Economic Cooperation and Development
OEM	original equipment manufacturing
OFID	OPEC Fund for International Development
OOF	other official flows
OPEC	Organisation of Petroleum Exporting Countries
PAL	physical activity level
PISA	Programme for International Student Assessment
PPP	purchasing power parity
PRIO	Peace Research Institute Oslo
PRS	poverty reduction strategy
PRSP	Poverty Reduction Strategy Paper
PWT	Penn World Tables
QALY	quality adjusted life year
R&D	research and development
RAUI	risk aversion causes under investment (hypothesis)

List of acronyms and abbreviations

RCT	randomised controlled trial
SAF	Structural Adjustment Facility (IMF)
SAL	Structural Adjustment Loan (World Bank)
SAP	Structural Adjustment Programme (IMF)
SECAL	Sectoral Adjustment Loan (World Bank)
SIC	semi-industrialised country
SME	small and medium-sized enterprise
SNA	System of National Accounts
SSA	Sub-Saharan Africa
STABEX	Système de Stabilisation des Recettes d'Exportation (System for Stabilisation of Export Earnings)
SWAp	sectorwide approach (in aid debate)
SYSMIN	system of stabilisation of export earnings from mining products
TBC	tuberculosis
TF	total factor
TFP	total factor productivity
TIMMS	Trends in International Mathematics and Sciences Studies
TNC	transnational corporation
TRIPS	Agreement on Trade-Related Aspects of Intellectual Property Rights
TVE	township and village enterprise
UCDP	Uppsala Conflict Data Programme
UIA	Union of International Organisations
UMIC	upper-middle-income country
UN	United Nations
UNCED	United Nations Conference on Environment and Development
UNCTAD	United Nations Conference on Trade and Development
UNDP	United Nations Development Programme
UNEP	United Nations Environmental Programme
UNEPTA	United Nations Expanded Program of Technical Assistance
UNESCO	United Nations Educational, Scientific and Cultural Organisation
UNHCR	United Nations High Commissioner for Refugees
UNICEF	United Nations Children's Fund
UNIDO	United Nations Industrial Development Organisation
UNITAR	United Nations Institute for Training and Research
UNPD	United Nations Population Division
UNPF	United Nations Population Fund
UNRWA	United Nations Relief and Works Agency
UNSO	United Nations Statistical Organisation
USAID	United States Agency for International Development
USSR	Union of Soviet Socialist Republics
WB	World Bank (<i>see</i> IBRD)
WDI	World Development Indicators (World Bank)
WDR	World Development Report (World Bank)
WDT	World Debt Tables (World Bank)
WFP	World Food Program
WGI	World Governance Indicators (World Bank)

xxx**List of acronyms and abbreviations**

WHO	World Health Organisation
WHR	World Health Report (WHO)
WIPO	World Intellectual Property Organisation
WRI	World Resources Institute
WT	World Tables (World Bank)
WTO	World Trade Organization
YLD	Years of life lost due to disability
YLL	Years of life lost due to premature mortality