Why Are Some Countries Richer Than Others?

POSC 1020 – Introduction to International Relations

Steven V. Miller

Department of Political Science

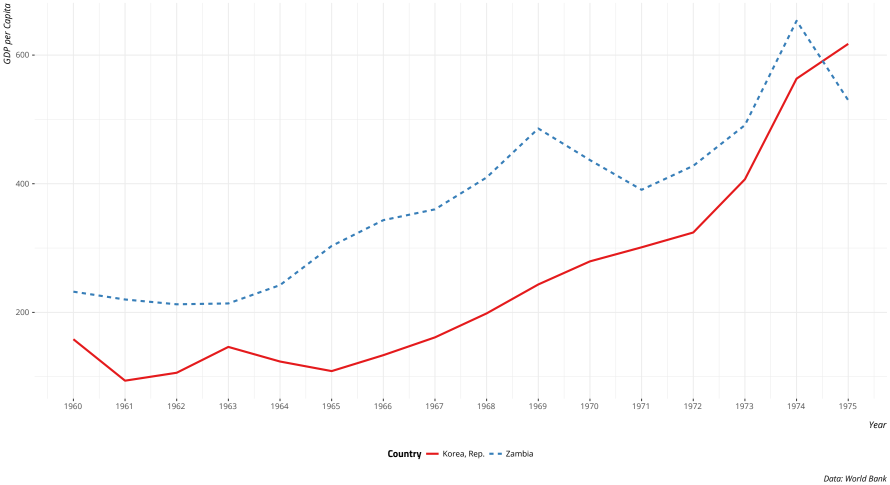
CLEMSON UNIVERSITY

Puzzle(s) for Today

Why are some countries rich and others poor?

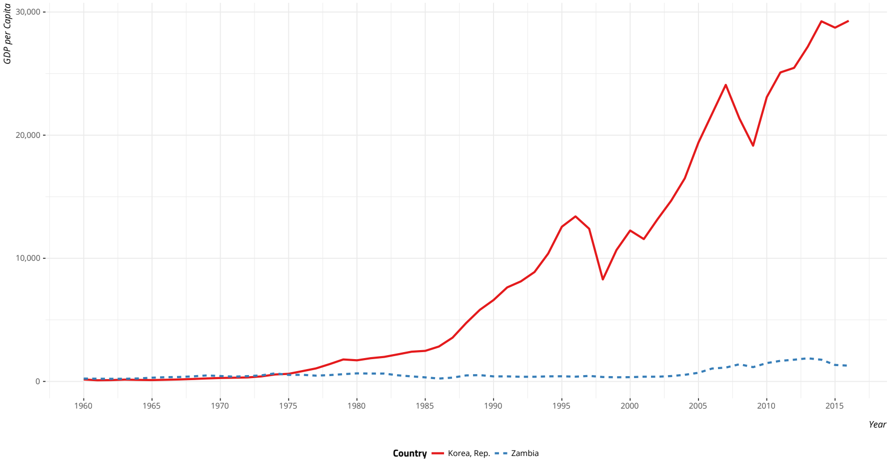
GDP per Capita for Zambia (Northern Rhodesia) and South Korea, 1960-1975

Zambia (Rhodesia) was much better endowed and had more growth potential in the 1960s.



GDP per Capita for Zambia (Northern Rhodesia) and South Korea, 1960 to the Present

South Korea's development far exceeded what we would've expected in the 1960s.



Data: World Bank

What Explains Development?

1. Geography
2. Domestic factors
3. Domestic institutions

Geography

Geography is less an argument for development and more a correlation. Factors include:

- Southern Hemisphere
- Landlocked territory
- Tropical weather/excessive heat

Geography

There are intuitive arguments here, but geographical explanations mask substantial variation within cases.

- e.g. Chile and Australia in the Southern Hemisphere.
- Austria, Kazakhstan, and Switzerland are thriving landlocked countries.
- Oil states in the gulf and Sinagpore are hot/tropical and developed.

Domestic Factors

Development follows important investment in infrastructure.

- Physical infrastructure
- Social infrastructure
- Property rights

Long-term growth requires a meaningful social investment.

Domestic Factors

Sometimes key actors have no interest in that social investment.

- i.e. wealthy elites see these public goods as redistribution.
- Infrastructure may siphon cheap labor from the countryside.
- Actors motivated by race/ethnicity unlikely to see interest in common good.

Domestic Institutions

Countries better endowed in natural resources generally have less incentive to promote meaningful development.

- We call this a “resource curse.”

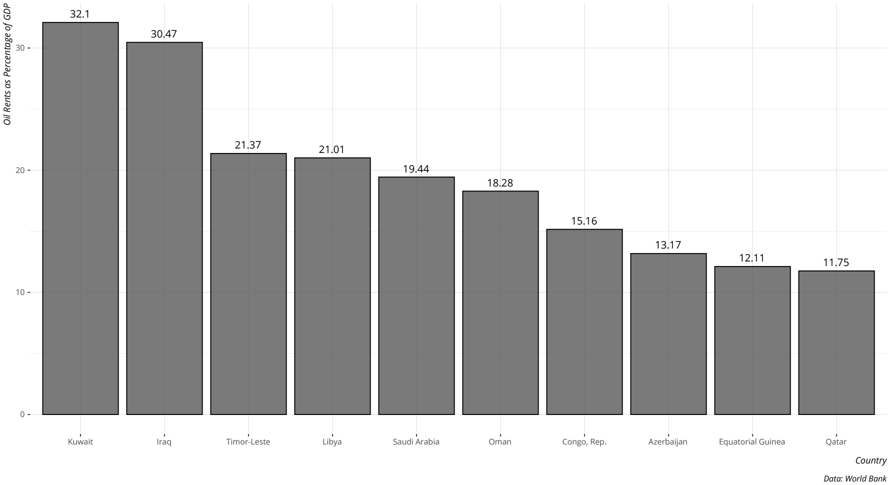
Intuition behind the “resource curse”:

- States rich in primary commodities tend to generate most income from foreign receipts.
- This decreases incentive to innovate to improve productive capacities.

Recall our previous example of Northern Rhodesia/Zambia and South Korea.

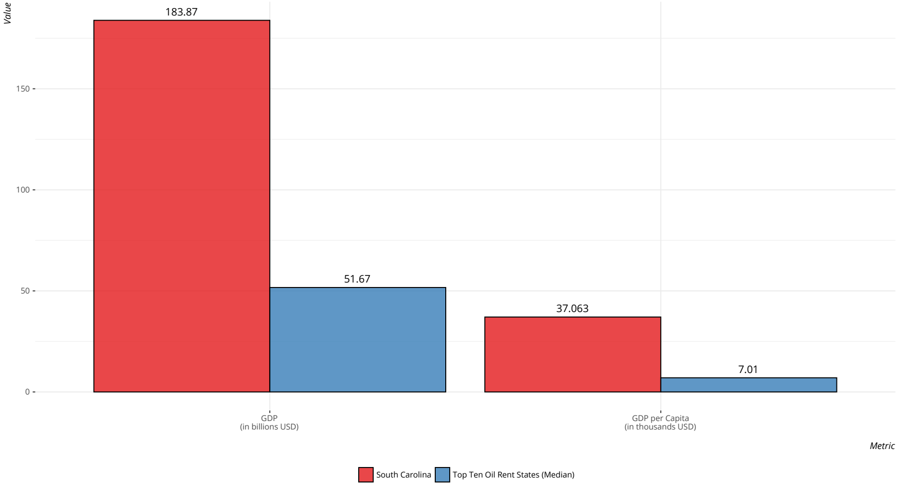
These Are the Ten Countries Whose Economies Are Most Indebted to Selling Oil Abroad (2016)

There are some conspicuous states in here, but the median GDP per capita is 7,013.53 USD and the median GDP (51.67 billion USD) is less than half the GDP of South Carolina.



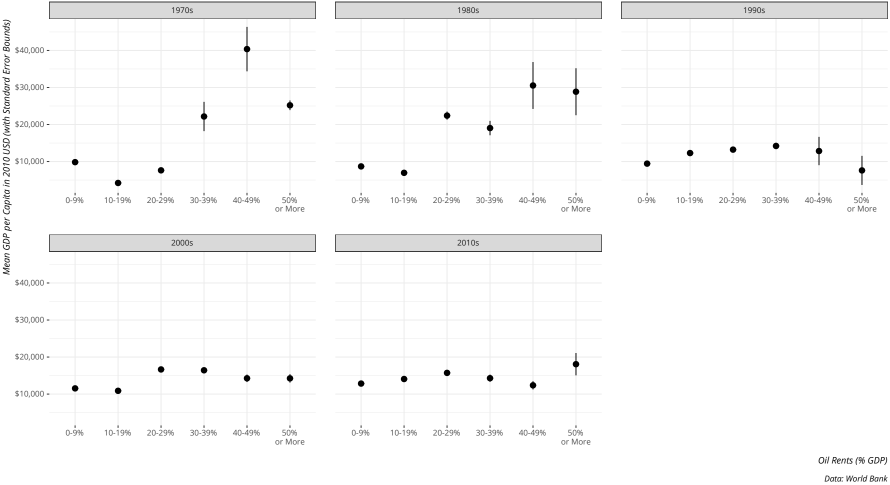
The Typical Economy and Quality of Life in These Countries Are Well Below Even South Carolina (the 5th Poorest State)

Saudi Arabia and UAE have bigger economies and Qatar is wealthier per head, but these oil-exporting countries are much poorer than a poor U.S. state.



Oil Rentier States Seem to Be Less Developed than States Who Don't Rely as Much on Oil Exports

We call this the "resource curse" in the development literature, though it seems to affect the top rentier states (and less so right now).



Are Rich Countries Responsible for Problems in the Developing World?

Short answer: yes, that's an important part of it.

The Legacy of Colonialism

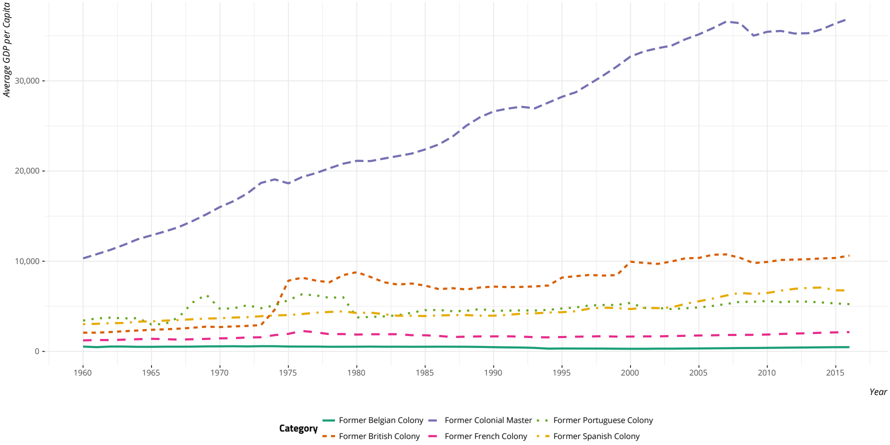
Colonialism has an important legacy on development.

- Colonial powers were not interested in promoting meaningful development.
- Colonial powers were also not benign and "enlightening."

Colonialism is not a total explanation for LDC problems, but it's a real legacy.

Colonialism is a Partial Explanation for Stunted Development but it's a Real Legacy

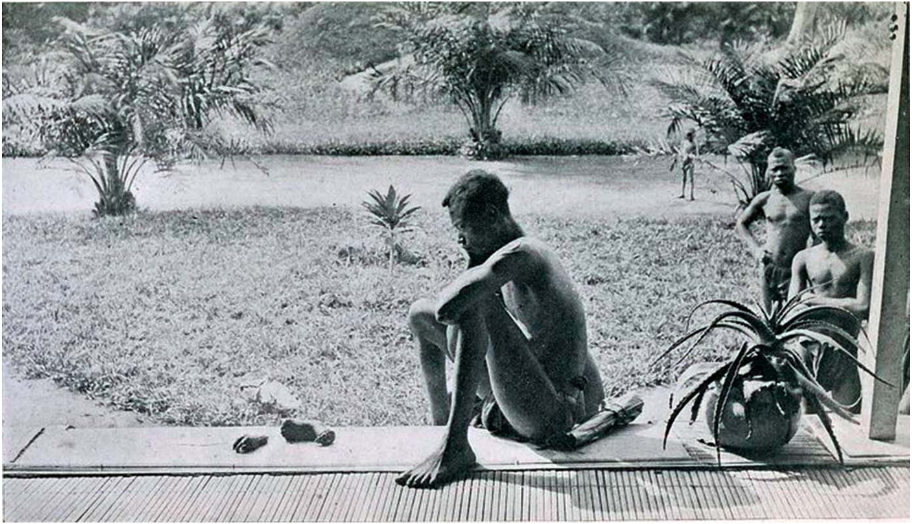
GDP per capita of former colonial states drags well behind those that were previously colonial masters.



Data: World Bank (GDP per Capita in Constant USD) and ICOW (Colonial History Data).
Note: Data clearly omit states formerly held by Japan (e.g. Koreas), China (e.g. Mongolia), Russia (e.g. Central Asia), Turkey (i.e. Middle East), Italy (Somalia, Eritrea), and Netherlands (Indonesia).
Data here also omit the U.S., Canada, and all of Oceania.

Obligatory trigger-warning for next slide…

The Consequence for Not Meeting a Daily Rubber Quota in Belgian Congo



Is the International Economy Biased Against LDCs?

Short answer: yes, that's part of it too.

The Trade Bias Against LDCs

LDCs specialize in primary products like raw materials and agricultural goods.

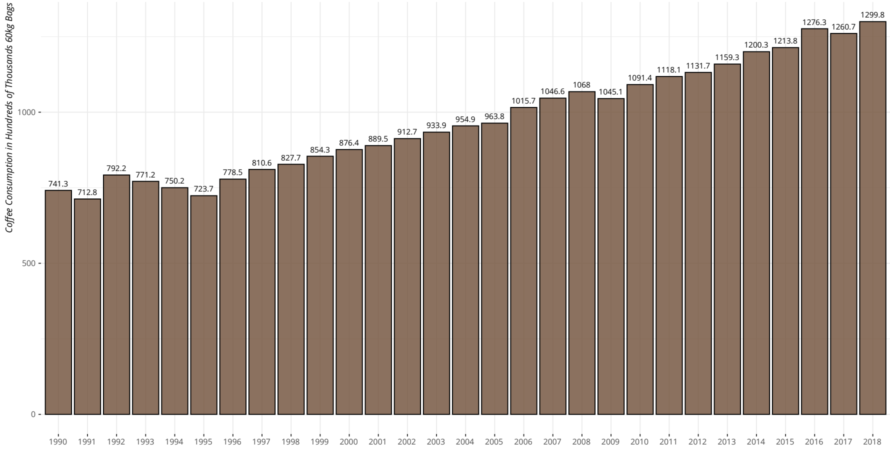
- These markets are usually very competitive (e.g. coffee), which depresses prices.
- Bigger economies specialize in manufactured goods, which cluster on oligopolies. This raises prices.

Generally, the terms of trade works against LDCs.

- They get less for what they sell and pay more for what they buy.

The World is Drinking More and More Coffee

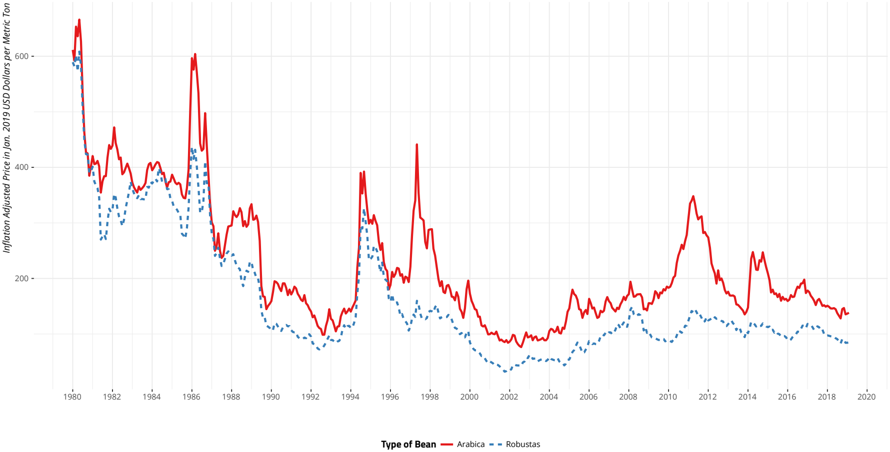
Coffee consumption is up over 70% since 1990 in these select countries (i.e. Europe + USA and Japan), suggesting demand for coffee is increasing in rich countries.



Data: International Coffee Organization

The World is Drinking More Coffee, but Coffee is Fetching Lower Prices in the Global Market

Coffee markets are far more competitive than the markets for the machinery necessary to mass produce coffee beans, which forms a kind of trade bias against LDCs.



Data: International Monetary Fund via Federal Reserve Bank of St. Louis.
Note: prices are manually converted from nominal to real prices with a Jan. 2019 index.

Are Institutions Biased Against LDCs?

Short answer: yes, that an important part of the problem as well.

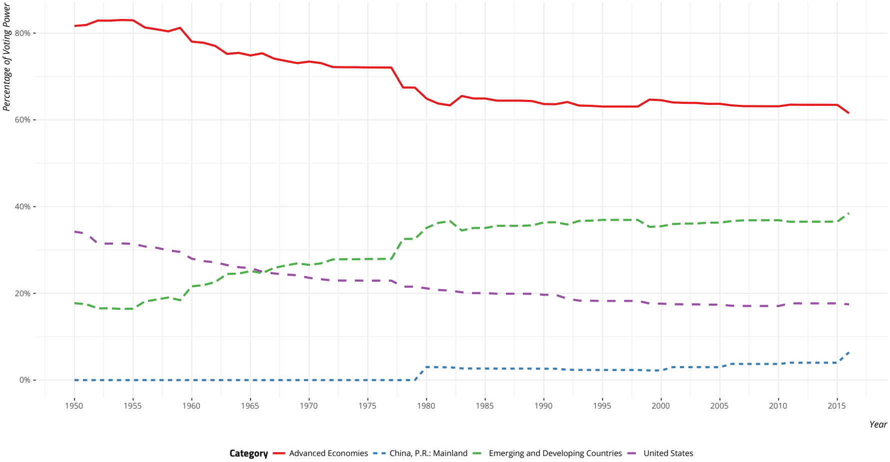
The Institutional Bias Against LDCs

Bigger IGOs are dominated by richer countries.

- IMF, WB, and WTO all weight votes by economic size, and not population.
- The U.S. with just a little support from Europe, can veto any proposal in these IGOs it doesn't like.

IMF Voting Rules Privilege the Wealthy States Over the Developing States

Voting power is weighted by economic size/openness/reserves in the IMF, which favor countries like the U.S. despite the majority of the world's population residing in poorer countries.



Data: International Monetary Fund

The Institutional Bias Against LDCs

International trade agreements have the same problem.

- Rich countries structure these to their advantage and also protect their industries (esp. agriculture) at the expense of poorer countries.

Conclusion

Why are some countries rich and others poor?

- Correlates: poorer countries are landlocked, have tropical climates, and are in the Southern Hemisphere.
- Problem: these are noisy indicators at best, and don't explain much.
- Development hinges on domestic factors/institutions.
- Problem: these are also noisy and elites may not see an incentive in infrastructure.

Rich countries structured the world in their image.

- Colonial legacies, and fundamental economic/institutional biases all loom large.

Table of Contents