How to help emerging nations

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Abstract

Today we see large differences in the wealth of nations across the world. The nations of the developed world have provided financial help to many nations. In some cases, this assistance has proved beneficial, but in other cases that help has landed in the hands of a few while large numbers of the very poor receive little help. The Arab Spring brought revolution across North Africa. The Middle East is involved in wars since the formation of modern Israel. Russia has attacked Ukraine. China seeks to expand its reach and acquire Taiwan. More recently large numbers of immigrants from Central and South America have marched to the US. Now we see many more immigrants coming to the US from virtually every nation on earth.

Some nations have been very successful as they developed with the assistance of rich nations. Examples are South Korea and Costa Rica. Other nations have been plagued with graft and corruption. Examples are Mexico and Venezuela,

A case study approach can help identify the lessons learned in economic development and a pathway to better results.

Introduction

Most nations strive for economic progress and rising incomes over time. This goal is shared by most families and most business firms. Success in these areas usually leads to happiness and stability, both in the household and in the nation. Failure in these important areas of life can lead to criminal activity, business failures, reduced job opportunities and eventually revolution. (See Skousen, 2016).

In pre-historic times, tribes and bands of warriors attacked their neighbors to take their wealth and force some into slavery. In some parts of the world pirates captured valuable cargoes and demanded ransom.

Over time the tools of war were improved with the creation of horse cavalry, large ships with cannons, and longer range guns and artillery. World War I started almost by accident, and World War II was conceived and imposed on a war weary world in the 1930s. The US entered WWII in 1941. Ultimately the use of two nuclear bombs and success in the European theater ended WWII. Over many years we have seen wide swings in the economic success of nations. Some nations have prospered, and others have failed. As we learn from these historical facts, we should be able to understand the causes of economic success and failure. This understanding can help focus policy makers on developing better policy for the benefit of all nations. (See Banerjee and Duflo, 2019).

Korea

North Korea and South Korea provide an excellent case study of economic success and political failure. Prior to World War II, Korea was a homogenous culture of poor farmers. The economic welfare of Koreans was similar in the north and the south. After The Korean War ground to a stalemate in 1951, Korea was split along the 19th parallel. North Korea fell under the control of the Communists in alliance with USSR and China. South Korea was allied with the west and adopted an effective free market democracy. Both nations had similar resources and people. But over time South Korea prospered and has become a major supplier of automobiles and electronics to the world. North Korea remains firmly in the grasp of the Kim family and the Communist Party. Starvation is a daily problem in North Korea. The people are not allowed to leave the nation, and those who try are in danger of being shot. To generate foreign reserves, North Korea has developed weapons, possibly nuclear, and drones used by armed forces fighting in the Middle East and

Ukraine. North Korea has fired Intercontinental Ballistic Missiles into the Pacific Ocean to demonstrate its expertise. (See Lewis, 1954).

Satellite photography of South Korea shows brightly lit cities similar to other cities of the modern world. We cannot attribute the differences in wealth and productivity to the people, the culture, the natural resources. The primary difference in the two Koreas is the political control exercised by the government in the north and the existence of free market economic institutions in the south enjoy the benefits of democracy, while those in the north suffer the punishment of a dictatorship. (See Acemoglo, 2012).

Central America

There are additional examples of nations with very similar cultures, geography and resources that have markedly different incomes and standard of living. Central America is unique in that Costa Rica has a vibrant and free economy, and is the Latin American nation with the longest history of democracy. Its neighbor, Nicaragua, is governed by the dictator Daniel Ortega. The GDP per capita in Costa Rica is about three times that in Nicaragua. Economic opportunity is rather limited through most of Latin America, and that is one reason so many people there are trying to settle in the US. (See Sawers, 1996).

Spain

There also are good examples of different economic systems at different times, with interesting results. Francisco Franco governed as a military dictator from 1936 until he died in 1975. Upon his death, King Juan Carlos was restored to the throne. He adopted a free market system with increased personal freedoms. The date of 1975 has been very important to modern Spain. (See Banerjee and Duflo, 2011).

A new constitution was adopted in 1975, and Parliamentary elections were held. Innovation was encouraged, and firms flourished. From 1975 through 2015, per capita income increased by a factor of 10. Real GDP also increased by a factor of 10. Spain enjoyed a large increase in tourism, and the population increased to 46 million, partly due to increased immigration. (See Webster, 2002).

The Middle Ages and Black Death

During the 14th century, the Black Death took many lives throughout Europe, and the medical practitioners of that day were not equipped to control the losses. As many poor workers died, there was a shortage of workers in England, so wages rose. The surviving workers enjoyed more economic power and a rising standard of living. By contrast, in Eastern Europe the Black Death had a different effect. The landowners had market power and were able to buy more land and control wages. So as deaths increased, the falling supply of labor met a falling demand for labor, and the surviving workers did not benefit with rising wages. (See Ward-Perkins, 2006).

Coincidence and Luck

In 1588 the British Navy was engaged with the Spanish Armada. The British won, paving the way for the British to expand their Mercantilist trade to the New World and the colonies of Africa and Asia. However the reason the British Navy defeated the Spanish Armada was that the Spanish Admiral died, and he was replaced by a less effective commander. That situation could have turned out differently. (See Stone, 2001).

Pluralistic institutions and Extractive Institutions

Pluralistic institutions are those that spread power to more citizens and seek a common agreement as to goals and activities of the government. An example is the US Congress and Presidency which must compromise to agree on policy moves. Extractive institutions are those that concentrate power and decision making in the hands of a few, or even one, decisionmaker. An example is the late Fidel Castro in Cuba. (See North, 1989).

Pluralistic institutions (shared power) tend to perpetuate themselves in a virtuous cycle as successful petitions to the government are granted, prompting more petitions. By contrast, Extractive Institutions tend to concentrate power in the hands of a few, such as the 300-year Romanov dynasty in Russia or the numerous Emperors in China since 1000BC. (See Tawney, 1941).

Strong Central Governments are Needed

Nations without a strong central government tend to fail. For example, Afghanistan was secured for 20 years when US armed forces operated until 20, when forces were removed, the Taliban soon took over the nation. Another example is Ethiopia, which has no functioning central government. Congo is another example. Mexico has surrendered much of the countryside to drug lords and gangs that can prevent police from entering their "territory".

A strong central government is necessary to guaranty public order, property rights, and basic freedoms. Nations without these characteristics are usually the poorest on earth. (See Zahedieh, 2010).

China

China is a special case. After World War II, China fought a brief war with the Chinese Nationalists, who were forced to decamp to Taiwan (where they remain today). Mao was the dominant leader in Chica, and he concentrated his power by imposing the Cultural Revolution to enforce compliance with Communist thought. New leadership after Mao died in 1975 started the process of opening China to the West. (See Wade, 1990). Since 1980 China has opened to tourists and to firms seeking to invest and hire Chinese workers. In addition, China has acquired some patented trade secrets and used them to speed the growth of its own military and civilian firms. For example, China now builds large jet aircraft that look quite similar to Boeing jets. In recent years China's real GDP has been growing at 8% annually, after a 25-year run of growing at 12-25% annually. (See McGregor, 2010).

Foreign Aid to Promote Economic Development

There are many examples of poor nations capturing donated funds to benefit those in power. (The son of Mr. Mobutu, long time president Congo, lives in a mansion on the California coast and drives a Lamborgini). For example, President Putin of Russia has awarded many valuable management contracts to friends. Some who fell out of favor are now dead.

Columbia is another case study. The US provided $6 billion to the government led by Mr. Uribe to control illegal drugs and terrorism. However, it now appears that the funds were diverted to target Uribe's political enemies. (See Meredith, 2007).

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