

Can Poor Countries Prosper in the Modern World?

Generating the Wealth of Nations

Assignment 3

Date: 2013-06-30

Income disparity vary great deal among nations. We can see this from the Maddison data set. In 2008, US has the highest GDPpc of \$31251, while Congo has the lowest GDPpc of only \$249. This spread of the lowest to the highest is an astonishing 125 times.

There are too opposing view of the economic development among countries in the world. The first one is the economic performance in the world should converge. Technologies, the main underpinning of economic growth since the Industrial revolution, is spreading from the originated countries and early adopters to the rest of the world. In fact the timing of technology diffusion seems to has greatly narrowed. When it would take more than half century for widely use of electricity diffuse from developed countries to poor countries a century ago. Today new Internet technology are being adopted by poor countries essentially right away. This lead to one of the main theme of economic growth discussed in the lecture, catch up and convergence.

Nevertheless many countries have remained poor. The problem they are facing are daunting. This include political instability, civil wars, poorly run and corrupted government, lack of skilled workers and capital, and a land that is prone to disease or natural disaster, which is getting degraded even more due to poor management. It might seem that they are caught in a poverty trap. Without much comparative advantage, it seems their tomorrow will not be better than today.

In this essay we want to study factors that concern these scenarios and whether it is possible for poor countries to proser in the modern world. Before we begin, let's first examine the validity of the statement that "poor countries have remained poor". Then we will look into two specific examples that follow a divergent path, Singapore and Zimbabwe.

Do Poor Countries Remain Poor

To examine the validity of the statement that "poor countries have remained poor". We compare the date in the Maddison data set. We used the data of 1952 and 2008. This 56 year span is the longest period when data is available from most countries in the world.

Figure 1 compare the the GDPpc of each country on a logarithmic scale, with the color indicates the different regions. The trend shows a positive correlation. Countries that are poor in 1952 remain poor in 2008. Rich Western European countries are by and large remain rich.

The country above the regression line are successful states that outperform the rest. Some

GDP Growth by Country

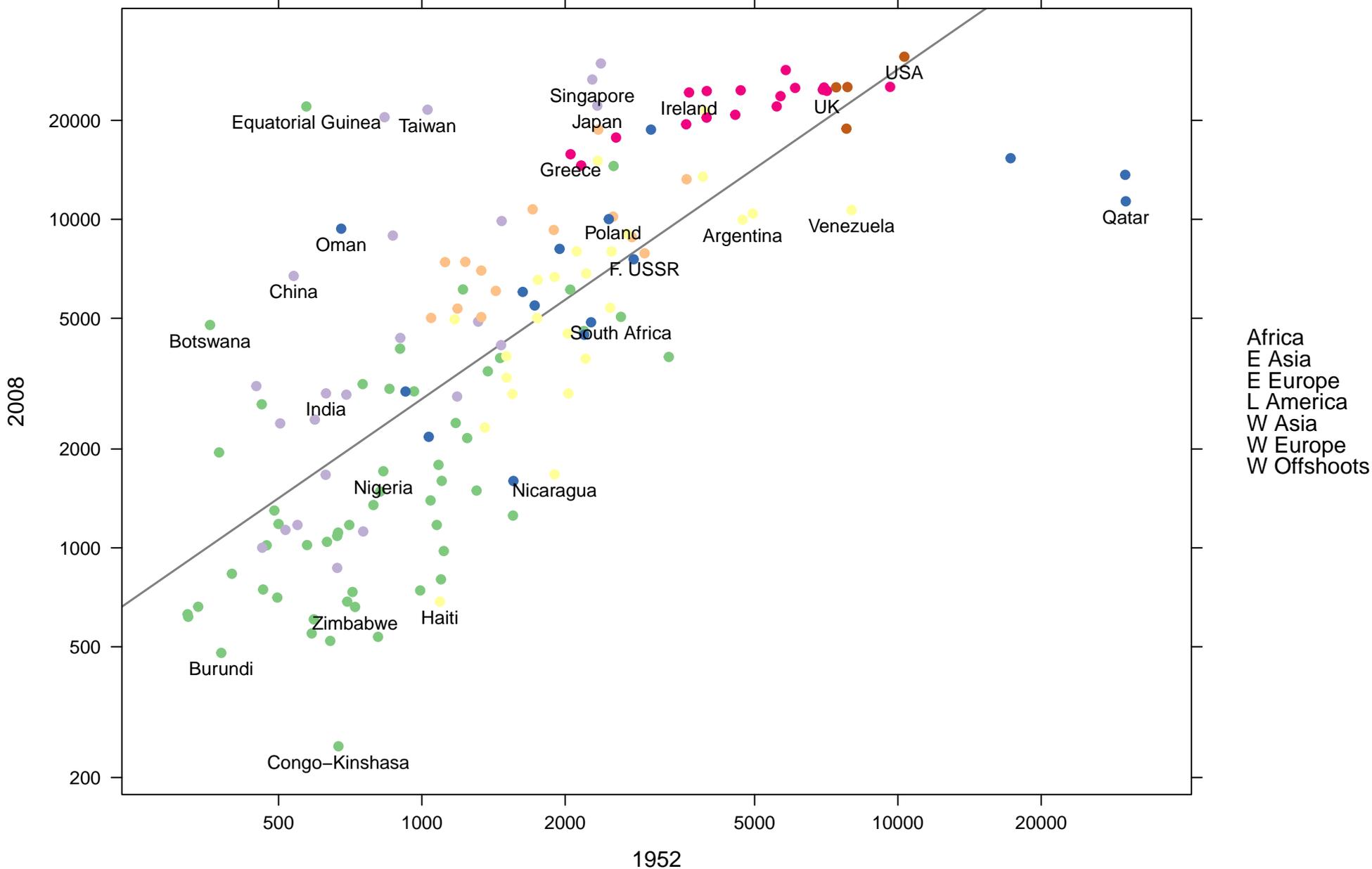


Figure 1 – Compare the GDPpc of 2008 to 1952. The axis are in logarithmic scale.

examples the are Singapore and Taiwan, who arose from relative poor to a prosperous countries today. This is balanced by under performer below the regression line. For example, Zimbabwe has seen its GDPpc decreased in this time span.

Note: some outliers in the chart are small countries such as Qatar in the far right. This variation in their GDPpc is due to the dramatic increase of their population as they turn into a prosperous state.

Development in Singapore

Singapore, an island nation off the tip of the Malay Peninsula, gained independence from Britain 1963. Initially Singapore was merged with the Federation of Malaya to form Malaysia. Due to ethnic tensions and riots between the Chinese and the Malay population and political disagreement, it was expelled from Malaysia, leading to the independence of Singapore in 1965.

At the time of separation, it was believed that without natural resources and the support of the hinterland, it will be difficult for the small island nation to survive. Singapore also faces issues such as high levels of unemployment, racial tension, and the threat of communists.

Under the leadership of prime minister Lee Kuan Yew, the Singapore government has acted to restore racial harmony and to instill the nascent Singaporean identity. The government has invested in public education and provided housing for large number of population. Geographically Singapore was surrounded by much larger but unfriendly nations of Malaysia and Indonesia. As such Singapore has sought global trading and exported oriented industrialization from the start. It has adopted free economy and has been wide open to the world. With a stabilized society, Singapore has experienced strong and sustained growth over the decades.

Today Singapore is a developed nation with one of the highest per capital GDP in the world. It has a diversified economy consists of manufacturing of electronics, pharmaceutical and chemicals, financial and business services, and tourism [1]. It attracts large amount of foreign investment. Even more notably, it attracts large number of talents to emigrate to the nation, which boosts its population to five millions today.

Zimbabwe After Independence

Zimbabwe is a landlocked country in southern Africa with a population of 12 millions. Like Singapore, Zimbabwe is a former British Colony. It is officially independent from United Kingdom after a referendum in 1979, ending the unilaterally declared independence by the white minority government of Rhodesia and the ensuing guerrilla civil war.

The major economic activities of Zimbabwe is mining and agriculture. The agriculture has suffered major blow after the controversial land redistribution of 2000 [2]. Beginning in the colonial era, the white settlers have owned majority of Zimbabwe's prime farm land. These are large commercial farm producing export crops such as cotton, tobacco, and coffee. After the independence, the government started land reform by acquiring farm from willing sellers

to redistribute to black farmers. After 20 years, much of the land remain in white settlers.

The 2000 reform mandate compulsory purchases from land owner to accelerate the reform. This implementation has been disastrous. Some owner are forced off the land violently, often together with their farm workers, and without compensation. Instead of redistributing the land to the poor, some land ended up in the hands of members of the Government and their families. They often have no experience or interest in running a farm and rather make off from short term gain by selling off farm equipment. As a result the Agricultural production has plummeted.

Black and White are not the only ethnic conflict in Zimbabwe. There are also racial tension and violence between the majority black population of Shona and the minority of Ndebele. Political opposition are oppressed and prosecuted. This lead to an unstable environment and the distrust among people and the government.

An involvement of civil war in Congo around 2000 has also drain significant economic resource of Zimbabwe. As a result Zimbabwe's per capita GDP has plummeted with widespread unemployment and poverty.

Conclusion

We have seen diverge paths of two countries and some of the factors that contribute to their rise or decline. As we can see the quality of the institution have a major impact to the economic development. In Singapore's case, the government work towards the common good of people and maintain racial harmony. In Zimbabwe's case corrupted government exploit people for their own gain and engage in prolonged civil conflict.

While it is always possible to make evaluation on the actions and policies in the hindsight, it is difficult to predict the economic outcome of the future. There is no certainty in determining if a poor country will remain poor or if they will take off. One thing I believe is the future is not predestined. It depends on the hard work of the people and the institution that promote the good of its people.

If the Zimbabwe story is disheartening and shows that convergence is not at all a given, I would like return to figure 1 to point out an observation on one group of countries. The Western Europe, along with the Western Offshoot, has exhibit economic convergence. Some poorer Western European countries are able to catch up with the leaders. Their range of 2008 GDP is narrower than the range is 1952. This offers one example of economic convergence.

References

[1] Singapore Economy 2012 - A Brief Introduction | GuideMeSingapore.com
<http://www.guidemesingapore.com/incorporation/introduction/singapores-economy>

[2] BBC News Online: Zimbabwe Crisis: The Battle for Land http://news.bbc.co.uk/hi/english/static/in_depth/africa/2000/zimbabwe_crisis/slideshow/default.stm