

M3132

Development Strategies

*Prof. Dr. Franz Heidhues and
Prof. Dr. Gertrud Buchenrieder*

Universität Hohenheim, Institut 490a

1

Assumptions of static dualistic models (Higgins & Myint, 1960s) → **(A) dualism of sectors**

	Modern sector	Traditional sector
Technology	Imported, modern	Simple, traditional
Capital intensity	High	Low
Specialisation	High level	Low level
Ability to substitute labour with capital	Low	High
Production	<ul style="list-style-type: none">- Durable consumer goods- Investment goods- Raw materials and intermediates	<ul style="list-style-type: none">- Food-products- Consumer goods
Marketing	<ul style="list-style-type: none">- Export- Urban market	<ul style="list-style-type: none">- Self-consumption- Local/rural market
Saving	Relatively high	Low (?)

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2

Assumptions of dynamic dualistic models (Lewis 1955, Frei & Ranis 1964)

Subsistence sector

- hidden unemployment and open unemployment
- marginal productivity of labour = 0
- elastic supply of labour
- family labour is remunerated according to the average productivity of the family labour
- limited supply of land

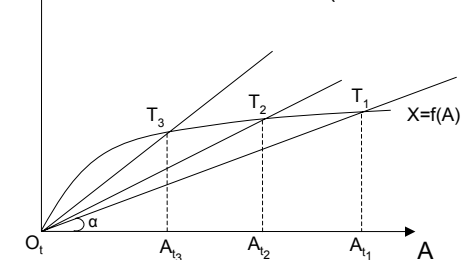
Industrial sector

- higher marginal productivity of labour than in subsistence sector
- wage labour is paid in cash according to the value of the marginal productivity of labour
- real capital is created by reinvesting profits
- wage income is consumed 100%
- reinvestment of profit shifts production function outwards

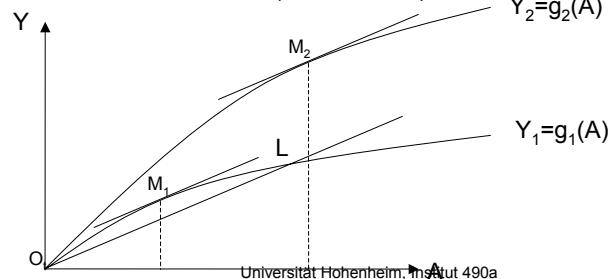
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3

Traditioneller Sektor (Produktion X)



Moderner Sektor (Produktion Y)



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4

Static models: no or little interaction between the traditional and the modern sector

Dynamic models: are based on the static model, but they see interdependencies between the two sectors

Problems encountered in 2-sector models

- „Neglect agriculture issue“
- High population growth
- Limited economic growth and employment effects
 - imports were mainly labour saving
 - not enough employment growth in quantity & quality
 - rural-urban migration
 - distortion of production factors (interest rate for capital)
- Non-equitable income distribution
 - preference for capital owners

Importance of 2-sector models for development theory & policy!

1. **Demonstrated importance of agricultural sector in development process**
2. **Showed that reduction of population growth is important**
3. **Gave the instruments for the practical development policy of the 60s and 70s**
(**Objective: high growth in modern sector to resolve employment problem in agricultural sector**)

(C) Inward-outward looking development strategy

- International trade is necessary to get those goods that the country cannot or can only produce at relative high costs (argument of comparative costs)
- To pay for imports, goods must be exported (foreign exchange argument).
Access to forex difficult because
 - the real exchange relations (terms of trade) worsen
 - export receipts vary strongly
 - industrial countries create trade barriers, etc.
- Competitiveness
 - pressure to work efficiently
 - infant industry argument

These strategies are based on the assumption that trade is beneficial.

1. Inward looking strategy

1. Those economic sectors should expand that supply primarily the domestic market.
2. The export sector should earn the foreign exchange that are necessary to realize the anticipated development process and the import volume.
3. Those sectors should be expanded that show a high dependency on imports. This should create a maximal development effect and save foreign exchange.
4. Points 1-3 are valid already then, when a sector, which competes with imported goods can increase its production and can sell it to the domestic market.
5. In concurrence to Pont 4, some scholars of the inward looking strategy state that it is only successful implemented if imports decrease.

Generally accepted definition:

Imports are substituted if the domestic production of previously imported goods covers the additional demand caused by the economic development process and thus, the relative share of imports in the domestic supply decreases (Hemmer, 1988, S. 527f).

2. Outward looking strategy

1. Intention is to make selected economic sectors within the export sector to leading sectors of the domestic development process
2. Use of the direct effects of the export sector on the domestic economy, i.e. the country must be competitive with its export goods on the world market
3. Supply should be elastic (in order to be capable to react to the international demand) and linkages to other sectors should exist, to stimulate growth of the domestic economy
4. If Points 1-3 do not apply, then export receipts should be used to import necessary goods and services, which can not be produced in the country itself (foreign exchange argument)

(Hemmer, 1988, S509ff)

From Industrialization to Rural Development

Agriculture: from neglect to respect

Contributions of the agricultural sector to the development process

Production

- Supply of urban population with food
- Production of primary products for the industrial sector

Market

- Market for industrial products

Factors

- Supply of capital
- Supply of labour

Balance of payments

- Supply of foreign exchange

Sectoral priorities

Industry

- + higher productivity factor
 - + diversification
 - + market with higher income elastics
-
- missing know-how
 - high import demand for primary commodities
 - Complex, import- technologies
 - Low employment effects

Pro

Contra



Dual development with less income equity

Agriculture

- + food security
 - + comparative advantages
 - + simple technologies
 - + labor-intensive technologies
 - + target orientation towards poor groups in rural areas
-
- few links to other sectors?
 - Limited diversification
 - Flourishing, but unstable export markets
 - Saturated export markets or markets with low income elasticity



Rural development strategies „Demand led“ agricultural growth

Rural Development Strategies

1. Rural Regional Development Strategy (RRD)

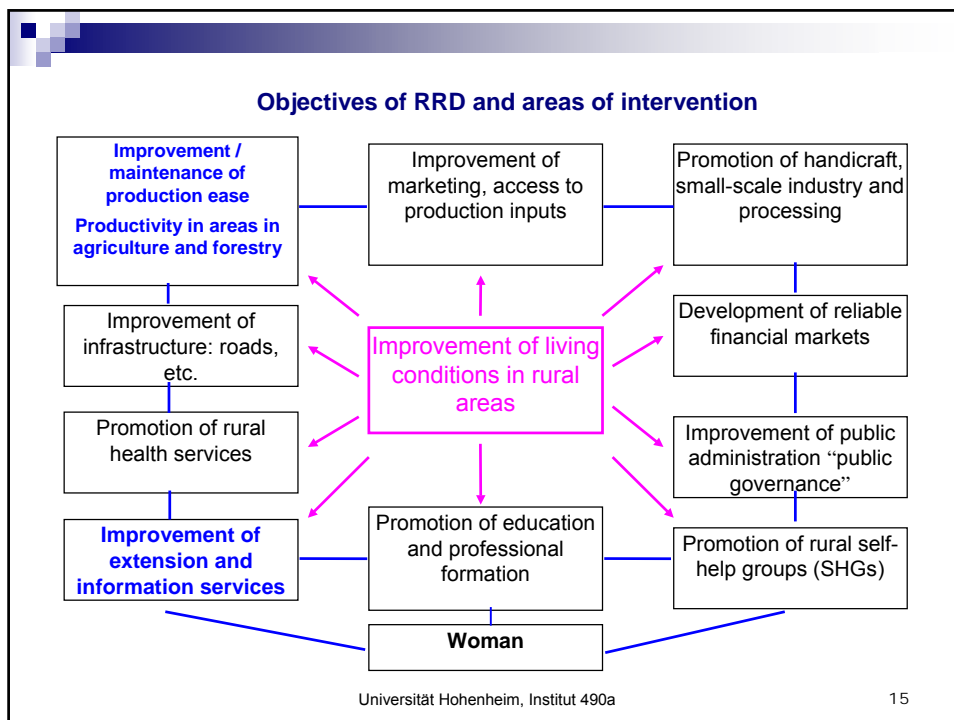
RRD is a strategy which intends to contribute to the development of rural areas while securing the ecological base in the long run. Particularly, the poor groups of the population shall be empowered to improve their living conditions and to build their future in a self-responsible manner.

End of 60s **Consequent result of above experience:**
- today **Concept of integrated rural development**

1. No isolated activities in a socio-economic system
2. No production increase without social progress, i.e. participation of the rural poor
3. In the long-run, production and income shall increase along with human capital

Objective:

**Ecological sustainable economic development of rural regions,
improvement of living conditions for poor population groups**



RRD - Direct improvement of living conditions of the rural poor through

<p>Productivity and income Increase</p> <ul style="list-style-type: none"> - Use of local resources - adapted (normally labor intensive) technologies - long-term protection of resources (environmentally sound technologies, regenerative energies) and <p>Employment creation</p> <ul style="list-style-type: none"> - agriculture, handicraft and small scale industry, community infrastructure 	<p>Improvement of physical and social infrastructure</p> <ul style="list-style-type: none"> - Improvement of physical and social infrastructure <p>This means</p> <ul style="list-style-type: none"> - community infrastructure - rural road infrastructure - community water and sanitation - priority on primary school and professional formation - basic health services 	<p>Participatory planning, decision making and implementation</p> <ul style="list-style-type: none"> - Decentralization of decision making - Group-building and self-help-groups - Building of sustainable (local/regional) institutions
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Improvement of living standards and sustainability through

1. Productivity increase
2. Institution building, structural adjustment and social progress
3. Participation of population

Criticism of RRD

Integrated rural development involves the engineering of a **multitude of interlocking changes** - technical, economical, social, even political – tasks of such extraordinary **complexity** that they simply defy the integrated capacity of bureaucratic management, on both the donors' and the recipients' sides, on any but a very small scale.

Schultes, Jens. 1992. Neuorientierung in der Ernährungssicherung. *entwicklung + ländlicher raum* 26 (4) 3-7.

RRD-approach in summary

1. poverty outreach oriented but is not welfare
2. sustainable
3. target group oriented
4. participation of relevant groups
5. Sector-oriented
6. regional

3. Comprehensive Development Strategy (World Bank)

Objective All relevant organisations of development aid are supposed to work together, i.e.. government, civil society and target group

- Responsibility with government
- Incorporation of institutional environment
- Avoidance of uncoordinated activities

Expansion of traditional objectives (economic growth & macroeconomic stability):

- Good & clean governance (verantwortungsvolle Regierungsführung)
- Legal framework
- Education & health etc.

Result Decentralisation of development policy

- Each country develops a long-term framework (Planning matrix)
- Efficiency increase with scarce financial means through CDF-Matrix


Area of intended effect of development policies:

Policies to develop, structurally adjust and diversify agriculture

- | | |
|----------------------------|---|
| Structural policies | <ul style="list-style-type: none">• Measures to boost investments• Measures to promote factor mobility• Measures to support land reparation• Measures to allocate land use for alternative uses such as tourism• Measures to further market and information technology infrastructure |
| Income policies | <ul style="list-style-type: none">• Assistance to marginal regions, e.g., through direct compensation payments |
| Social policies | <ul style="list-style-type: none">• Special social security systems |

Policies to create employment and secure intra-regional acceptable and comparable living standards

- | | |
|---------------------------------|--|
| Economic policies | <ul style="list-style-type: none">• Measures to create employment through financial aid to enterprises, e.g., loans, tax reductions• Measures to support enterprise foundations, e.g. technical aid• Measures to improve economic climate for enterprises by providing information and improve access to credit and new technologies• Measures to advance service sector in order to improve overall economic setting• Measures aiming at diversifying economic activities, e.g., production in market niches, tourism |
| 'Human capital' policies | <ul style="list-style-type: none">• Vocational training in the areas of agriculture, environment, etc.• Vocational training in the use of software and information technologies |
| Infrastructural policies | <ul style="list-style-type: none">• Measures to improve transport, electricity and sewage system• Measures to improve access to information, e.g., telecommunication system• Programs to rehabilitate and redevelop rural communities |



Policies to protect the natural resources

Environmental policies

- Promotion of integrated respectively ecological sound land use
- Control of land use in protected natural areas
- Promotion of the cultivation of renewable resources

Other environmental policies

- Measures to protect flora and fauna
- Investment in the improvement of water quality
- Advancement of environmental conscience through information

Haarbeck and Boger (1997: 7) in Pohlen (1998: 24)