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Controversial Strategies for the Regional Advancement of Developing Countries

by Dr Herbert Neubauer, Berlin *

The following article outlines the theories of development strategy which approach the subject from the theory of growth and discusses their practical applicability to planning activities in developing countries.

A number of theories are at hand about what strategy should be adopted for a purposive „take off“ in development regions. Among the alternative development strategies mentioned in the controversy are some concerned with the economic order — e.g. market v. planned economy, others with a sectoral approach — agriculture v. industry, light industry v. heavy industry, production v. infrastructure, and variants involving the theory of growth — such as balanced v. non-balanced growth, growth poles, and basic v. non-basic activities¹. Common to the various theories is the claim of their respective protagonists that the phase of stagnation or recession can be overcome with the help of their particular strategy and that a self-sustaining process can thereby be set in motion.

The presentation and discussion in the following article of theories of development strategy designed to set a self-sustaining development process in motion is confined to those theories which approach the subject from the theory of growth because these latter have not only received detailed consideration in the literature but are offering the best promise for a practicable solution in the field of planning activities in development regions.

Balanced and Unbalanced Growth

The theory of balanced growth is primarily attributable to Nurkse, Lewis and Rosenstein-Rodan². This strategy envisages simultaneous investments in complementary industries: their output will on the demand side come upon purchasing power which has been created by the additional incomes and be taken up by the greater absorptive capacity of the enlarged market. Drawing the logical

conclusion from this concept, Rosenstein-Rodan postulates a host of major investments („big push“ theories) in a number of consumer goods industries³. The resultant benefit manifests itself in horizontal external economies as well as in the mentioned greater probability of output market-ability. As demand increases, economies arise from degressive production costs due to the economies of scale and lower prices when the cost savings are passed on to the market.

The critics of the doctrine of balanced growth do not deny that it is theoretically sound but stress its grave faults in regard to its applicability in developing countries⁴. They aim their attacks chiefly at the specific scarcity of capital, trained manpower and efficient administrations and the lack of dynamic entrepreneurs in these countries. The danger that costs and prices will rise when the supply of the mentioned resources is not fully elastic should not be overlooked.⁵

The theory of unbalanced growth, as the counterpart of the strategy of balanced growth, puts the

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¹ Cf. also W. von Urff, *Zur Programmierung von Entwicklungsplänen. Eine theoretische und empirische Analyse unter besonderer Berücksichtigung der indischen Entwicklungsplanung* (On the programming of development plans. A theoretical and empirical analysis with special reference to Indian development planning), Berlin 1973, p. 54 ff.

² Cf. R. Nurkse, *Problems of Capital Formation in Underdeveloped Countries*, Oxford, 1958, p. 11 ff; P. N. Rosenstein-Rodan, *Problems of Industrialisation of Eastern and South-Eastern Europe*, in: *The Economic Journal*, Vol. 53, 1943, p. 202 ff; and A. W. Lewis, *The Theory of Economic Growth*, London 1955.

³ Cf. P. N. Rosenstein-Rodan, *Notes on the Theory of the "Big Push"*, in: H. C. Wallich and H. S. Ellis (eds.), *Economic Development for Latin America*, New York 1961, p. 57 ff.

⁴ Cf., e.g., H. W. Singer, *International Development: Growth and Change*, New York 1964, p. 44 ff.

⁵ Cf. R. E. Baldwin, *Economic Development and Growth*, New York 1972, p. 84.

emphasis on the industrial ramifications with preceding and succeeding stages of production as decisive determinants of development. Hirschman, who champions this theory, takes the view that it is neither practicable nor profitable to make more than a few selective investments⁶. To start up a sequence of induced goods productions such investments only should be effected as give rise to strains and disproportions (imbalances) in the vertical production structure. As the backward linkages of an investment are thought to have more decisive effects on this process than the forward linkages, it is important that investment decisions should be taken in the first place for industries close to the end of the demand chain. From here new production stimuli can be given off constantly for autonomous upward development trends.

The strategy of unbalanced growth is supported by the argument, which accords with the specific interests of development regions, that stimuli are wanted to give added impetus to the process of growth. The desired growth is however narrowly circumscribed by the limited potential of investors with the ability and willingness to take risks. The indicated development is, besides, quantitatively limited by the requirements of promising primary key investments and the implicit complementary effects, i.e. the inducement of a sequence of investments.

The Theory of Development Poles

The theory of growth or development poles, which was evolved by Perroux, puts the emphasis on the importance of "motory" industries (*industries motrices*) for the chances of growth in a geographical entity⁷. By laying stress on the dominance of the growth impulses radiating from such poles in the secondary sphere towards other sectors he designates — not unlike Hirschman — the investment stimuli and multiplier effects of an unbalanced growth as the starting point of economic development. For regional policy this implies a demand for local and sectoral concentration of the investments⁸.

The energizing effects radiating from a development pole into a region — the so-called polarization effects — may be divided into four categories: technical, incomes-related, psychological and geographical polarization⁹. Technical polarization

is the intensification of the complementary vertical relations described in the context of the theory of balanced growth which results from the motory force of key-point formation. The incomes-related polarization issues from the multiplier process of the additional incomes generated — and spent — as a result of activities sparked by the growth poles. Psychological spread and multiplier effects arise in addition to the purely economic reactions. These are attributed to the tendency of economic subjects to emulate the behaviour of others when radiation effects of motory units favour investment decisions. Finally, geographical polarization comprises the benefits resulting from agglomerative internal and external economies.

As against all these pole-induced growth impulses — in Myrdal's terminology known as "spread effects" — there exist according to this same view converse "backwash effects"¹⁰. The attractions of preferential areas lead to population flows and capital movements in the direction of these development poles and originate a cumulative process of mounting regional imbalances. This course runs counter to the desired levelling-down of income differentials and disparities of the social structure. Another objection against this theory concerns the operation of the polarization effects in the secondary sphere: it is questioned whether the induced complementary investment activities are as strong as postulated¹¹.

A strategy of "selective concentration" is recommended in an effort to overcome the indicated problem factors inherent in the theory of development poles¹². This version, which builds on the concept of Perroux, also postulates concentration of the employed resources on growth poles. As opposed to Perroux's concept however the concentration is not confined to motory spheres, but centres of potential growth in the primary and tertiary sectors are included in the planning calculations. The evolvment of successive new growth centres is demanded at the same time so as to trigger a self-sustaining longer-term growth process and elicit a trend towards sub-regional and inter-regional equalization of living conditions.

⁶ Cf., also on the following remarks, A. O. Hirschman, *The Strategy of Economic Development*, New Haven 1959, p. 19 ff.

⁷ Cf. concerning this section: F. Perroux, *La notion de pôle de croissance* (The concept of the growth pole), in: *L'économie du XXe siècle*, 2nd enlarged edition, Paris 1964, p. 142 ff.

⁸ Cf. P. Klemmer, *Die Theorie der Entwicklungspole — strategisches Konzept für die regionale Wirtschaftspolitik?* (The theory of development poles — a strategic concept for regional economic policy?), in: *Raumforschung und Raumordnung*, 30th year, 1972, p. 104.

⁹ Cf. H. Körner, *Industrielle Entwicklungspole als Instrument der Regionalpolitik in Entwicklungsländern* (Industrial development poles as an instrument of regional policy in developing countries), in: *Kyklos*, 1967, p. 689 ff.

¹⁰ Cf. G. Myrdal, *Ökonomische Theorie und unterentwickelte Regionen* (Economic theory and underdeveloped regions), Stuttgart 1959, p. 25 ff.

¹¹ Cf. E. Tuchtfeld, *Alternative Strategien der Entwicklungspolitik* (Alternative strategies for development policy), in: S. Klatt and M. Willens (eds.), *Strukturwandel und makroökonomische Steuerung. Festschrift für Fritz Voigt*, Berlin 1975, p. 213.

¹² Cf. L. Rodwin, *Metropolitan Policy for Developing Areas*, in: W. Isard and J. H. Cumberland (eds.), *Regional Economic Planning*, Paris 1961, p. 223 ff. and Waller et al., *Basic Features of Regional Planning in the Region of Kisumu (Kenya)*, DIE, Berlin 1968, p. 6 f.

The selective concentration strategy however also leaves the required secondary activities and viable markets as variable elements the force of which it is difficult to gauge.

The Export Base Theory

The formulation of the export base theory constitutes an attempt to present a growth theory with specific reference to regional economies. The export activities of which a region is capable are regarded as the cardinal point of its economic development¹³. The basic assumption is that in the absence of an adequate domestic demand the regional income can only be raised by exporting goods and services. The "external demand" required for this is entered in the model as an exogenous determinant of which it is assumed that it can be increased to any desired extent¹⁴.

For purposes of formal classification the individual sectors are divided — according to the ultimate destination of the output resulting from the

¹³ Cf. M. D. Thomas, The Export Base and Development Stages Theories of Regional Economic Growth: An Appraisal, in: Land Economics, Vol. 40, 1964, p. 423.

economic activity — into basic and non-basic spheres¹⁵. Basic are the incomes from export-oriented activities whereas all activities which are directed solely towards the intra-regional market are deemed to be non-basic. According to this theory the incomes earned from exports trigger multiplier and accelerator processes also in the non-basic sphere because they are spent inside the region. These latter create an additional growth effect.

The division of economic activities into basic and non-basic, which is necessary for planning purposes, involves some not quite insignificant problems. To draw on income statistics is as a rule useless because the customary classification of the source material does not meet the need for a distinction between basic and non-basic activities in all sectors. Employment statistics are therefore used as a second-best source: the number of the

¹⁴ Cf. H. Siebert, Zur Theorie des regionalen Wirtschaftswachstums (On the theory of regional economic growth), Tübingen 1967, p. 92.

¹⁵ Cf. concerning this section: K. Rittenbruch, Zur Anwendbarkeit der Exportbasiskonzepte im Rahmen von Regionalstudien (On the applicability of export base concepts in the framework of regional studies), Vol. 4, Berlin 1968, p. 16 ff.

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"non-basic" employees must be expressed in this context as a function of the "basic" employees¹⁶. This quasi-substitution of employment for the income criterion as an index for the quantification of the export base is founded on the thesis that the factor "labour" employed in the export sphere not only earns the income required for growth but spends it inside the region. If the relation between "basic" and "non-basic" is determined in this way, no allowance at all however is made for any changes in productivity, so that even if the validity of the export base strategy is taken for granted, this relation does not provide conclusive evidence concerning the potential strength of the economy¹⁷.

The concept of the export base theory rightly draws attention to the importance of the exports for the development process of a region. The income flows engendered through them by external impulses may generate growth-inducing effects through the creation of additional demand. This means ultimately that the beneficial character of the international division of labour, which was already recognized by Ricardo, is brought into the analysis and its applicability is translated to the inter-regional level. It must however be pointed out, first of all, that this argument negates the intra-regional demand which cannot be attributed to export-related multiplier effects¹⁸. Besides, the intra-economic interdependencies are also omitted from the analysis. And the fiction that there is always an adequate external demand on hand creates an additional difficulty because it ignores the possibility of quantitative and qualitative shifts in the exogenous demand.

Consequences for Efficacious Development Planning

It has been shown in the foregoing that none of the examined theories offers a fully satisfactory basis for regional development planning. Methodologically the strategy of balanced growth comes nearest to a satisfactory concept. But it will probably be in isolated instances only, if there exist adequate financing facilities (e.g. when oil deposits are discovered and opened up), that implementation of this theory will result in a large number of investments and thus lead to market expansion, provide stimuli for potential entrepreneurs and give rise to a development upsurge. Reliance on the strategy of unbalanced growth

will generally appear promising when dynamic entrepreneurs and opportunities for profitable investment can be assumed to be available. In this case it is possible to bring about investment sequences by purposive creation of imbalances and to impart growth impulses through chain-link effects.

The theory of development poles offers likewise a means of inducing stimuli for economic activities through the complementary effects issuing from motory spheres. This however also presupposes the existence of initiatory attitudes in some population groups and functioning markets. The application of the export base theory to tasks of regional planning may be expected to stimulate growth processes mainly in development regions with ample raw material resources. This expectation is however only justified if an adequate extra-regional demand exists and the planning region is relatively small: for as the size of a region and its population increases, so does the endogenous demand gain in importance.

Despite their undeniable specific advantages the usefulness of all the analysed strategies is ultimately impaired by the postulated prerequisites and the disregard of other relevant growth factors. The complexity and diversity of the problems involved in the postulated "take off" is such that no theory can be expected to provide absolute guidelines in the future.

So much however can be taken for granted for the purposes of operational planning: concentration of promotional activities on centres of potential growth comes nearest to the postulatatum of rapid development under the conditions created by restricted resources¹⁹. Explicit regard for sectoral and spacial ramifications is crucial in this context. Besides in the pursuit of such a strategy export opportunities should also be taken into account in planning.

In practice it will however often be impossible to take all these criteria into consideration at the same time. Which of them is to receive special attention or be given unqualified priority is a question to be answered in the light of the specific regional conditions. An *ex cathedra* answer is impossible. Political priorities, development capabilities, available resources and the social-economic development stage reached are the decisive factors. Once the development strategy has been chosen, it is the preserve of the planner to think of the weaknesses of the system in order to build into the project design such counter-measures as can be appropriately devised to avoid far-reaching social injustices.

¹⁶ Cf. G. Fischer, *Praxisorientierte Theorie der Regionalforschung* (Practice-oriented theory of regional research), Tübingen 1973, p. 145.

¹⁷ Cf. R. B. Andrews, *Mechanics of the Urban Economic Base: the Problem of Base Measurement*, in: *Land Economics*, Vol. 30, 1954, p. 53 f.

¹⁸ Cf. concerning points of criticism: H. Siebert, *ibid.*, p. 90 ff.

¹⁹ Cf. also P. Klemmer, *ibid.*, p. 107.