

The Role of Politics in Economic Development

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Introduction

a) Economic Development

Today, there are 195 United Nations recognised countries in the world. Each of these countries have their respective differences, resulting from their physical geography and the institutions created and run in each country. As a result of these differences, to each country, we can attribute their unique level of economic development. The definition of economic development varies according to different sources. For this exploration, economic development will be regarded mainly from three perspectives: education, healthcare and income levels. Although these measures may not be entirely reflective of a country's exact welfare, they are regarded as good indicators in the wide literature of economics.

b) Politics & Economic Development

Economic development is described as a transition from a low-income national economy to a modern industrial economy. This transition is facilitated by two factors: physical geography and national institutions. Physical geography is both the location and the terrain/ecosystems of a country. Advantageous characteristics include having a coastline, low natural disaster frequency or being located on a trade route. Disadvantages may include an arid climate, being isolated from trade routes and having rough terrain. The physical geography of a country is not easy to change. Although, for example, artificial straits such as the Suez Canal in Egypt can allow a country to further realize its trade potential, such human alterations to the physical geography are not sufficient to create economic development alone. This is where national institutions come in. A set of inclusive institutions that aim to maximize a country's gains domestically and internationally will bring much benefit to a country's economic development. On the other hand, extractive institutions that are corrupt, divisive and polarized will do the opposite.

c) Methodology

This report is an investigation of the effects of politics on economic development. The exploration will examine two pairs of sister countries who have similar physical geography but contrasting political institutions. This way, the effect of politics on a country's institutions will be isolated as much as possible for thorough analysis. The first pair will be the Republic of Haiti and Dominican Republic, followed by the Republic of Korea and the Democratic People's Republic of Korea pair. Economic development will be explored through political frameworks and how much they prioritized areas that create economic development. Such factors include education, healthcare, economic well-being, incentives to innovate, etc. It should be noted that the effects of politics on economic development do not become apparent immediately, therefore the exploration takes a historical approach, building up the near history.

Republic of Haiti & Dominican Republic

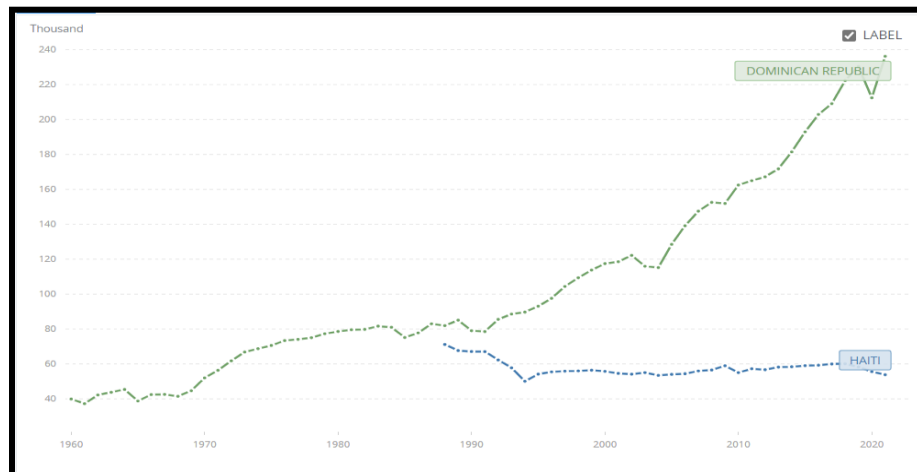
a) History

Haiti and the Dominican Republic (DR), two countries that have shared their sole boundaries with each other for two centuries, have differences so stark and apparent. From language and culture, to politics and history, these two nations have diverged to the extent that they may be considered as the biggest contrast of bordering nations in the western hemisphere. Their history as sovereigns began in the early-to-mid 19th centuries when Haiti became the first black republic in the western hemisphere and the DR gained independence from Spain and Haiti respectively in 1844. During the 19th century, Haiti suffered a large capital loss due to their debt to their French captors upon independence. The entire sum to be paid to France was 150 million francs. The French indemnity taxed Haitians finances and capitals throughout the 19th century until the sum was reduced and ultimately flushed by foreign powers. Haitian development also struggled due to western powers refusing to cooperate with the new state. The US in particular was concerned about Haiti's abolishment of slavery and hence did not recognize its legitimacy until 60 years after its independence. All this led to an isolated Haiti who was denied national loans required to develop the nation. Conversely, DR began exporting large portions of sugarcane, cacao and coffee by the 1870s and was able to form trade relations with the US. Eventually the DR, supported by the US's rising sugar demand, fell into the American trade orbit. The eastern economy of Hispaniola shifted into a plantation and export economy by the end of the 19th century.

b) Political Framework & Economic Development

The history of the two nations coincided in 1916 when the United States took control of the nations' government due to socioeconomic and political turbulence.

GNI per capita 1960-2020



From the 1960s, the real GDP per capita of the two countries were close to equal. Since then, however, DR's per capita has more than tripled whereas Haiti's GDP has halved. This trend difference can be attributed to the political and economic policies placed by the DR government, which led to its sudden growth. The structural policy decisions that uplifted the former Spanish colony were only possible due to the nation's successful democratization. Joaquin Balaguer provided political stability to the DR for most of the 1970s and provided a platform for the nation to raise their GDP growth rate to above 5% from just 3% in the 1960s. Education enrollment skyrocketed and the credit market was liberalized. Structural policies placed throughout the late 20th century by the government paced the DR towards becoming one of the most developed economies in the Latin American and Caribbean region.

Haiti on the other hand was subject to the Duvalier dynasty well into the 1980s. When the Duvalier regime fell in 1986, a series of failed successions led the country into a pit of mismanagement. US intervention could not help the nation as its heads of state continued to dissolve due to coups d'état. Moreover, natural calamities, rampant corruption and exceeding power falling into the hands of local cartels and gangs in the capital of Port au Prince held back Haiti's economic development. Today that leaves the country, home to 11 million people, with one of the lowest GDP growth rates in the LAC region.

South Korea (ROK) & North Korea (DPRK)

a) History

During its near history, the Korean Peninsula has been deeply influenced by its two major neighbors China and Russia, and Japan which sits across a 120-mile strait. The whole Korean peninsula was a Japanese colony during the Second World War until the Japanese surrender on the 15th August, 1945. As to the fate of the peninsula, the 38th parallel decision was masterminded by U.S. policy-makers in order to prevent a total Russian occupation of the entire Korean Peninsula. U.S.-Soviet Joint Commission met in Seoul in the spring of 1946 and again in May 1947, however the delegations could not agree on which Korean political group should be consulted in creating a new Korean government. The Soviet occupation forces began supporting Kim Il-sung, who recently returned from Russia as a Soviet army captain. The North Korean leaders, who had a decisive edge over the South in military strength, launched the Korean War with a surprise attack on 25 June 1950. President Truman immediately committed U.S. forces to drive the North Koreans back to their half of the peninsula. Additionally, the Americans used the UN mechanisms to enforce the concept of global collective security during the campaign.

b) Political Framework & Economic Development

Table 1. Defense Spending in South Korea by Year*

Year	Defense budget (bn Won)	Defense budget (bn US\$)	% of GDP	% of GNP	% of public expenditure	Rate of Increase Won (%)	Rate of Increase \$ (%)
1960	14.7	0.148	7.40	6.7	35.0	-	-
1965	29.9	0.112	3.73	3.7	31.9	19.8	9.8
1970	102.4	0.299	3.69	4.0	23.2	21.3	11.2
1974	296.8	0.697	3.63	4.4	29.1	61.7	51.2
1975	442.4	0.914	4.25	4.9	28.5	49.0	31.1
1976	703.8	1.454	4.91	3.8	32.4	59.1	59.0
1980	2,257.7	3.706	5.81	6.4	34.8	47.9	21.7
1983	3,274.1	4.797	4.99	5.79	31.4	4.9	12.5
1984	3,306.1	4.104	4.40	4.50	29.6	1.0	-14.4
1985	3,689.2	4.237	4.39	4.50	29.4	11.6	3.2
1989	6,014.8	8.960	3.89	3.90	27.3	9.0	18.6
1990	6,637.8	9.375	3.56	3.56	24.2	10.4	4.6
1993	9,215.4	11.480	3.17	3.18	24.2	9.6	6.6
1995	11,074.4	14.363	2.78	2.79	21.4	9.9	14.8
1997	13,786.5	14.495	2.81	2.82	20.7	12.6	-4.7
1998	13,800.0	9.865	2.85	2.90	18.3	0.1	-31.9
2000	14,477.4	12.805	2.50	2.41	16.3	5.3	10.8
2003	17,514.8	14.695	2.42	2.28	14.8	7.0	12.7
2005	21,102.6	20.602	2.60	2.44	15.6	11.4	24.5
2007	24,497.2	26.364	2.72	2.51	15.5	8.8	11.9
2009	28,980.3	-	-	-	10.8	8.7	-

Table 2: North Korea's Defense Spending: Official and Estimated Figures

Year	Total budget (bn Won)	Official Defense Budget		MND South Korea estimates		US Arms Control and Disarmament Agency/ US Dept. of State estimates		Ham's estimates 1960-97 (bn \$)
		% of Total budget	bn Won	% of Total budget	bn \$	1968-1999 (bn \$)	1995-2005 (bn \$)	
1960	1.968	(19.0)	0.374	30.9	0.24	-	-	0.166
1965	3.476	(19.8)	(0.613)	30.9	0.42	-	-	0.343
1967	3.948	30.4	1.201	30.4	0.47	-	-	0.513
1970	6.003	29.2	1.753	29.2	0.68	0.576	-	0.742
1972	7.389	17.0	1.256	30.9	0.97	1.025	-	0.786-1.094
1975	11.368	16.4	1.864	30.9	1.71	1.080-2.0	-	1.096-1.574
1980	18.837	14.6	2.750	30.9	3.25	1.300-4.38	-	1.585-2.332
1985	27.329	14.4	3.935	30.9	4.00	5.26-5.4	-	2.348-3.332
1990	35.514	12.0	4.262	30.0	5.15	5.94	-	2.189-3.173
1994	41.442	11.4	4.724	30	5.76	5.50	-	2.370-3.836
1995	24.220	-	-	(30)	(6.24)	6.00	6.54	2.353-3.318
1998	20.015	14.6	2.922	52	4.78	4.30	4.40	-
2000	20.956	14.3	2.997	52	5.0	-	4.88	-
2005	405.700	15.9	64.506	-	-	-	6.72	-
2009	482.600	15.8	76.250	-	-	-	-	-

DPRK's politics have placed great constraints on its economic development. Most of the resources in DPRK have been driven to the military instead of other crucial sectors, through *songun* (a style of military-first politics), which has worsened North Korea's chronic economic problems. The disintegration of the Soviet Union followed by a natural disaster induced food crisis between 1994 and 1997 worsened the economic outlook. Moreover, today, there is no effective tax system whilst the government controls all significant economic activities. The state sets the production levels for the state-owned industries which account for nearly 100 percent of the country's GDP. DPRK's politics pushed for extractive institutions in merely all sectors. Consequently, access to financing is very limited and innovative incentives are limited to government mandated programs. The state's dogmatic adherence to socialist Juche (autonomy) ideology, its lopsided emphasis on heavy industry and the reduction of foreign economic assistance prevented improvements in education, healthcare and economic welfare.

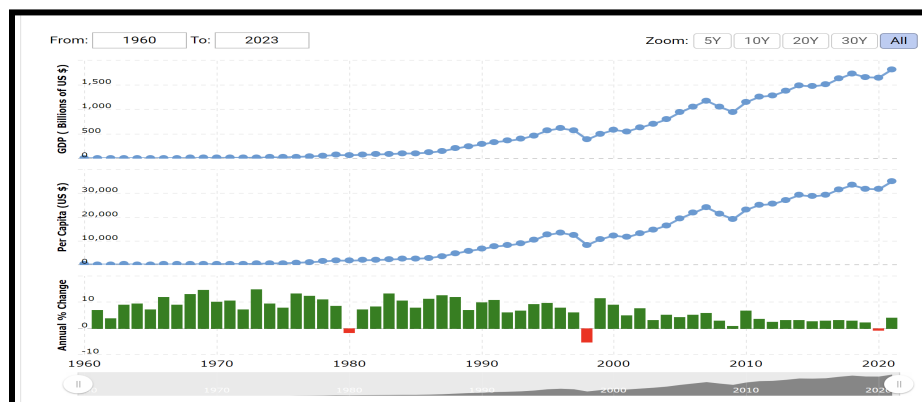
Trends in GNP per capita and factor productivities in North Korea based on Estimates I (growth rates per annum, %)

	GNP	GNP per capita	Labour force	Capital stock	Labour productivity	Capital productivity
1954-1960	9.0	5.3	5.7	12.6	3.1	-3.2
1960-1965	3.2	0.6	5.2	6.8	-1.9	-3.4
1965-1970	3.7	1.0	3.8	4.5	-0.1	-0.8
1970-1975	5.9	2.9	4.0	8.6	1.8	-2.5
1975-1980	3.5	1.8	4.5	8.1	0.1	-4.2
1980-1985	6.5	4.8	3.0	11.2	3.3	-4.2
1985-1989	4.0	2.8	2.6	8.9	1.4	-4.5
1954-1989	5.2	2.8	4.1	8.7	1.1	-3.2
1960-1989	4.5	2.3	3.7	8.0	0.7	-3.2

Table 4
Trends in GNP per capita and factor productivities in North Korea based on Estimates II (growth rates per annum, %)

	GNP	GNP per capita	Labour force	Capital stock	Labour productivity	Capital productivity
1954-1960	9.3	5.7	5.7	13.0	3.5	-3.2
1960-1965	3.3	0.7	5.2	6.9	-1.8	-3.4
1965-1970	3.3	0.6	3.8	4.1	-0.5	-0.8
1970-1975	4.6	1.6	4.0	7.3	0.5	-2.5
1975-1980	2.2	0.4	4.5	6.6	-1.3	-4.2
1980-1985	4.0	2.3	3.0	8.6	0.9	-4.2
1985-1989	2.7	1.5	2.6	7.5	0.1	-4.5
1954-1989	4.4	1.9	4.1	7.8	0.3	-3.2
1960-1989	3.4	1.2	3.7	6.8	-0.4	-3.2

Similarly, ROK was one of the poorest countries in the world in the 1950s. Its Gross Domestic Product (GDP) was a mere \$1.5 billion and GDP per capita was only \$70 in 1954. Differently, starting in 1962 with a five-year economic plan, ROK initiated industrialization to develop the economy. The plan focused on transforming the economy from being foreign aid dependent to becoming independent through improving the foundation of the economy before the initiation of export-oriented industrialization policy. After the first economic development plan was completed in 1967, increasing exports became the keynote of the second five-year development plan. The KIM Young-sam administration pushed economic policies, which included the liberalization of the foreign exchange rate, foreign direct investment, and insurance. These policies led to an increase in foreign capital flow, which was followed by the rise of mercantile banks or quasi-financial companies to handle the foreign capital. ROK's political choices placed it 13th as the largest economy in the world. Its national GDP in 2007 was \$949.7 billion and GDP per capita reached \$19,624.



Conclusion

In conclusion, there is a strong basis for the claim of politics and economic development being intertwined. The exploration looked at sister countries whose politicians pursued diverging policies. The politics behind the two case studies outlined how a common history does not necessarily mean a common fate. With politics that create inclusive institutions and ensure the provision of education, healthcare and economic well-being, a nation will go a long way with its economic development. On the other hand, misallocation of spending and corruption create barriers to development. Between Haiti and the DR, it was a matter of diverting colonialism's toll whilst between ROK and DPRK, it was about balancing military expenditures with areas that benefit human capital. Even in today's world, political agendas continue to shape each country's path to creating economic development and support for inclusive institutions.

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