Economic globalization, institutions and development

ADDENDUM ON VALORIZATION

This addendum of valorization is added in compliance with article 23.5 of the "Regulation governing the attainment of doctoral degrees at Maastricht University" decreed by resolution of the Board of Deans, dated 3 July 2013.

It is unequivocal that poverty is a prevalent problem that deserves the utmost attention of policymakers. However, it is not straightforward to design and implement solutions. Efforts to eradicate poverty should be informed by debates based on research. Policies and efforts which are not based on evidences could miss their targets. The studies that constitute this dissertation are intended to contribute to the debate surrounding the solutions to developmental problems, with particular emphasis on Sub-Saharan Africa.

The first two studies (Chapters 2 and 3) are concerned with financing development internationally (i.e., from external sources). As the findings of Chapter 2 indicate not only has aid failed to systematically foster economic growth, but it has also negatively affected the institutional quality of the recipients. Thus, to try to indicate poverty using more aid is tantamount to using an ordinary axe to cut a metal. We need to change the axe; only a better kind of aid – and not more of the same kind we already know – could help the fight against poverty. Even then, aid can never be a magic bullet.

At least in regard to the effect of economic growth, FDI is a better source of external finance than aid. However, this comes with other countervailing effects. There are more potentially positive or negative effects, but this study has identified two undesirable effects: on institutional quality and on structural transformation.

In both chapters, institutional quality is treated as a dependent variable that is influenced by aid and FDI inflows, and this is an important area where the dissertation contributes to the debate. Institutional quality is an important intermediary between finance and economic growth. Of equal (if not more) importance is the value of institutions as development outcomes. Civil liberty, political rights, the rule of law, among others, are desirable in themselves. Hence, by ignoring how these financial flows affect institutions and – through institutions – other outcomes, the debate misses an important block. The efforts being exerted to solve problems of the developing world appear to be driven by ideological orientations. As a result, it has been the norm (with some exceptions) not to question if the problem lies in finance or something else. Supportive of the counterclaim that finance is not the supreme factor is the amount of illicit financial outflow from Sub-Saharan Africa, which is much more than aid or FDI and close to their sum. Institutional quality, on the other hand, has robust desirable effects on the development indicators used in this dissertation – economic growth and industrialization, but also emancipates developing countries from kneeling down before financial lenders and multinationals.

Chapter 4 adds another evidence on the importance of institutions. Institutions shape the pattern of trade; improving institutional quality could help countries progress from exporting simple (less contract-intensive) products to exporting complex (more contract-intensive) products. They do so through influencing both the extensive (probability of exporting, number of destinations, or number of varieties) and intensive (volume, volume per destination, or volume per variety) margins. For the less developed countries, the influence materializes mainly through the extensive margin. This is a relatively young area of research, and as such I believe that the contribution of this dissertation in this line is particularly important.

Each of the three studies in this dissertation is just a drop in the ocean. However, the findings of each are believed to contribute to keeping the debate alive, and this is what should be expected from a single study. Acting on the basis of findings from single studies is perhaps one of the factors that explain the failure of policies from institutions such as the World Bank. Thus, while this dissertation does not provide specific policy recommendations to implement right away, it calls the attention of policymakers to the value of considering non-growth effects of any policy and to the significance of not taking for granted that finance is the (binding) problem of developing countries. Moreover, the empirical evidences suggest that efforts to improve institutions in developing countries through more aid and/or FDI flows from the developed world are misplaced and having the exact opposite effect.

Overall, the dissertation is intended to feed into the debate on the interplay between economic globalization and development in the less developing world, particularly those in Sub-Saharan Africa. Presentations at seminars/conferences and publishing the results in peer-reviewed scholarly journals are the channels for effecting this purpose. Thus far, different versions of the chapter on aid have been presented at: (i) UNU-MERIT in-house seminar of *Research Theme III* (*Economic Development, Innovation, Governance and Institutions*) on 17 May 2016; (ii) *"The World and Africa" in the 21st Century: China, the West and Economic Interventions in Africa – A Conference in the Critical Tradition of W. E. B. Du Bois* (Howard University) on 24 March 2017; and (iii) *The First Annual Internal Conference of UNU-MERIT* on 29 June 2017. Besides, this paper has been published first as a working paper (*UNU-MERIT Working Paper Series #2016-009*) and eventually in *Review of Development Economics, 2018; 22:23–44*, (first published online on 7 June 2017). The chapter on FDI was presented at *Vienna Investment Conference: Quality FDI, Growth and Development* (organized by UNIDO and Kiel Institute for the World Economy, 14-15 September 2016); and is recently published as UNU-MERIT working paper #2018-013.