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Ricardo Hausmann: Prisoners of Geography Study Guide

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RICARDO HAUSMANN: PRISONERS OF GEOGRAPHY

STUDY GUIDE, 2005

Steven Alan Samson

http://www.foreignpolicy.com/articles/2001/01/01/prisoners_of_geography

Outline

1. Backlash against the study of economic geography in the academic world is being reversed
 - a. Lawrence Summers has decried the “tyranny of geography” and warned against focusing the blame on governments
 - b. Hausmann challenges the “prevailing development paradigm” that “market-oriented economic policies and the rule of law alone suffice to make all countries rich.”
 - b. [On the other hand, David Landes and Hernando de Soto emphasize the importance of these two factors]
2. Failure to close the income gap is associated with location: Countries left behind have two distinguishing characteristics:
 - a. Tropical location correlated with
 - 1) lower annual growth rates
 - 2) poorer health conditions
 - 3) skewed income distributions

NOTE: Some comparisons of per capita gross domestic product (GDP)
Source: 2003 World Almanac

Temperate		Tropical	
China	\$3,600	Indonesia	\$2,900
Argentina	\$12,900	Brazil	\$6,500
Iran	\$6,300	Yemen	\$820
Algeria	\$5,500	Nigeria	\$950
Taiwan	\$17,400	Malaysia	\$10,300

- b. Distance from coastline, including countries that are landlocked
3. Latitude Problems
 - a. Main engines of growth: access to markets (Adam Smith) and technological progress (Joseph Schumpeter)
 - b. Adam Smith: Productivity gains through specialization are the secret to the wealth of nations. Problem: Developing nations face several obstacles:
 - 1) Transportation costs: lack of cheap access to the sea, lack of physical infrastructure, expense of crossing borders in the case of landlocked states
 - 2) Challenge of coordinating infrastructure expenditures with neighboring countries
 - c. Joseph Schumpeter: Technological innovations are powerful engines of economic growth
 - 1) Several factors affect research and development (R&D) capabilities: climate differences, economies of scale, east-west vs. north-south geographical layout, proximity to the seashore, tropical diseases
4. Bordering on Poverty

The **dominant paradigm** (emphasizing market-oriented policies and rule of law) oversimplifies the challenges; its emphasis on education and nutrition programs may contribute to a “brain drain.” Needed priorities include:

- a. Infrastructure Development: “Important region-oriented projects remain chronically underfunded”
- b. Technological Development: R&D needs to be funded; “multilateral financing will be needed to compensate private firms for such initiatives”
- c. Integration:
 - 1) “Borders limit the movement of goods, capital, and labor and thus limit access to markets”
 - 2) Problem of “sovereign risk”
 - 3) Value of worker remittances from abroad
 - 4) Risk-sharing, as in the case of natural disasters
- 5. Sidebar: Locational Correctness
 - a. Economic geography: Adam Smith, Montesquieu, Social Darwinism
 - b. Ellsworth Huntington
- 6. Geo-Globalization
 - a. “It is the absence of globalization – or an insufficient dose of it – that is truly to blame for . . . inequities”

Review

characteristics of “left behind” countries
 Adam Smith
 Dominant development paradigm
 sovereign risk

main engines of growth
 Joseph Schumpeter
 developmental priorities
 risk-sharing