

The structural change models focused on the pattern of development and hypothesized that the pattern was similar in all countries and was identifiable.

However, empirical works, such as Chenery (1960), Chenery and Taylor and Chenery and Syrquin (1975), on the process of structural change does recognize that pattern of development can be different among countries, which is dependent on the countries' particular set of factors including "a country's resource endowment and size, its government's policies and objectives, the availability of external capital and technology, and the international trade environment

International Dependence Models:

The international dependence theory was very popular in the 1970s and early 1980s. The dependence theorists argued that underdevelopment exists because of the dominance of developed countries and multinational corporations over developing countries. The theory is considered an extension of Marxist theory (Hein 1992).

The poor countries are said to be dependent on the developed countries for market and capital. However, developing countries received a very small portion of the benefits that the dependent relationship brought about. The unequal exchange, in terms of trade against poor countries, made free trade a convenient vehicle of "exploitation"

for the developed countries. Developed countries can exploit national resources of developing countries through getting cheap supply of food and raw materials. Meanwhile, poor countries are unable to control the distribution of the value added to the products traded between themselves and the developed countries

The growth of international capitalism and multinational corporations caused poor countries to be further exploited and more dependent on the developed countries. Poor countries therefore could not expect sustained growth from that dependence. Following the international dependence theory, developing countries should therefore end the dependence by breaking up their relationships with the developed world, as well as by closing their doors on the developed countries

The models gained increasing support among the developing countries because of the limited results of the stages and structural change models. However, the failures of the model were clearly reflected in the developing countries that followed the autarky policy. These countries often experienced stagnant growth and finally decided to open their economies once again such as China, Tanzania and India

Meanwhile, the experience of the newly industrialized economies of East Asia, namely Hong Kong, Singapore, Taiwan and South Korea, during the 1970s and 1980s showed that their success had been the result of emphasizing trade with the advanced industrial countries. The negative impacts of the policy of autarky rendered the theory out of favour in the 1980s

Neoclassical Counter-Revolution Models:

In the 1980s, neoclassical counter-revolution economists used three approaches, namely the free market approach, the new political economy approach and the market-friendly approach, to counter the international dependence model. In contrast with the international dependence model, these approaches mainly argued that

underdevelopment is not the result of the predatory activities of the developed countries and the international agencies but was rather caused by the domestic issues arising from heavy state intervention such as poor resource allocation, government-induced price distortions and corruption

As a response to public sector inefficiency, economists of the counter-revolution thinking, for example Bauer (1984), Lal (1983), Johnson (1971), and Little (1982), focused on promoting free markets, eliminating government-imposed distortions associated with protectionism, subsidies and public ownership.

Another strand of neoclassical free market thoughts called the traditional neoclassical growth theory actually originated from the Harrod–Domar and Solow models. Expanding the Harrod–Domar formulation, Solow neoclassical growth model stresses the importance of three factors of output growth: increases in labor quantity and quality (through population growth and education), increases in capital (through savings and investments) and improvements in technology

Technological change in Solow's model is provided exogenously. Thus, with the same provided rate of technological progress, the growth rate would be expected to converge across countries. By opening up national markets, developing countries can draw additional domestic and foreign investments, thus increasing the rate of capital accumulation and returns on investments. Consequently, developing countries tend to converge to higher per-capita income levels

Neoclassical economists focused on the market to find a way out for the developing countries. Policies of liberalization, stabilization and privatization therefore become the central elements of the national development agenda.

Foreign trade, private international investments and foreign aid flowing into the developing countries are expected to accelerate economic efficiency and economic growth of these countries. Empirically, the models, however, did not bring about the expected results. The growth rates per capita have diverged among countries

Several African countries focusing on these issues achieved an average growth rate of only 0.5 % per year. With weak and inadequate legal and regulatory framework, not to mention the different institutional, cultural and historical context of the developing countries, free market in these countries fails to stimulate economic development

Contemporary Theories of Economic Development:

1. New Growth Theory

Endogenous growth or the new growth theory emerged in the 1990s to explain the poor performance of many less developed countries, which have implemented policies as prescribed in neoclassical theories. Unlike the Solow model that considers technological change as an exogenous factor, the new growth model notes that technological change has not been equal nor has it been exogenously transmitted in most developing countries

New growth theorists (Romer 1986; Lucas 1988; Aghion and Howitt 1992) linked the technological change to the production of knowledge. The new growth theory emphasizes that economic growth results from increasing returns to the use of knowledge rather than labor and capital. The theory argues that the higher rate of returns as expected in the Solow model is greatly eroded by lower levels of complementary investments in human capital (education), infrastructure, or research and development (R&D). Meanwhile, knowledge is different from other economic goods because of its possibility to grow boundlessly. Knowledge or innovation can be reused at zero additional cost. Investments in knowledge creation

therefore can bring about sustained growth. Moreover, the knowledge could create the spillover benefits to other firms once they obtained the knowledge. However, markets failed to produce enough knowledge because individuals cannot capture all of the gains associated with creating new knowledge by their own investments.

Policy intervention is thus considered necessary to influence growth in the long term. The new growth models therefore promote the role of government and public policies in complementary investments in human capital formation and the encouragement of foreign private investments in knowledge-intensive industries such as computer software and telecommunications

Although the new growth theory helps to explain the divergence in growth rates across economies, it was criticized for overlooking the importance of social and institutional structures (Skott and Auerbach 1995). Its limited applicability lies in its assumptions. For example, it treats the economy as a single firm that does not permit the crucial growth-generating reallocation of labor and capital within the economy during the process of structural change. Moreover, there are many other factors which provide the incentives for economic growth that developing countries lack such as poor infrastructure, inadequate institutional structures and imperfect capital and goods markets (Cornwall and Cornwall 1994). Policy-makers will therefore need to pay careful attention to all of the factors that determine the changes and their impacts on the aggregate growth rate.