

Underdevelopment and Economic Theory of Growth: Case for Infant Industry Promotion¹

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Abstract

The article reviews the literature on economic development, critiques neoliberal economic theories, and advances the theory of infant industry promotion as an alternative model for development in Africa. The essay argues that for developing countries to catch up to developed countries requires contextualizing development theory, applying selective economic policies to industries where productive capacities can be developed, and localizing the policy lessons to develop the productive abilities of local industries. The role of state in development and implementation of protective measures such as tariffs, import bans on key raw materials, and rebates on industrial inputs is discussed. To escape the Resource Curse, African states will have to develop an alternative source of employment, an industrial base, and strengthen the productive powers of infant industries if those industries are to survive fierce international competition. To be durable in the African context, economic policy must reflect local conditions, vary from one historical context to the next, use readily available resources, and adequately respond to local problems.

Author's Note

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1. Introduction

When assessing key economic, social, and political indicators in Africa, the last fifty years signal general disappointment. A persistent problem facing African countries is political violence, which undermines reform of all sorts and stifles economic development across sectors. While political violence is the main factor that accounts for the disintegration of African society, the unraveling of the social fabric and the death of millions of people is traceable to underdevelopment.

The fight against poverty in its many forms (e.g. persistent malnutrition, numerous pandemics, untreated but curable diseases, and chronic economic problems) has shaped how policy is enacted and has transformed the fate of many societies around the world.

How does one explain the persistent lack of development on the continent? By analyzing the approach to development through Infant Industry Promotion, this essay observes how today's rich countries developed and how that model can be replicated.²

In navigating the different theories of economic development, I will show the limits of neoliberal theories of growth and argue that we must pay attention to the history of economics, focusing on policies adopted by today's rich countries. Next, I will argue that no single school of economic thought can help African countries develop. The key lies in contextualizing development theory, applying selective policy to industries where productive capacities can be developed, and drawing relevant lessons from diverse schools of thought around the world. Localizing the methodology prioritizes local industries and thus develops their competitiveness. Lastly, lessons will be drawn to help African countries learn from successful 'catch ups' and effective economic policies successfully implemented by today's developed countries.³ In the next section, I explore the question of development in the African context. I begin my analysis with the problem of underdevelopment in the African context.

Underdevelopment is related to – yet, distinct from – the problem of violence. This is mostly so because interstate violence has been significantly dropped over the past five decades (Peter, 2001; Themnér & Wallensteen, 2011). Violence, specifically civil wars and intra-state conflicts, poses the greatest threat to peace and the socioeconomic wellbeing of the people of Africa (Geneva Declaration Secretariat, 2008, pp. 2-3, 13).

On the other hand, ethnic violence has proliferated, costing the lives of millions of people. The gap between the fall of interstate violence and the rise ethnic violence raises several questions. What accounts for the underdevelopment of countries that have been relatively stable, without war or internal ethnic conflicts? What explains the widening inequality between the Global North and South (Erik S Reinert, 2007), the 'haves' and 'have not's'?

To borrow a phrase popularized by the British poet Percy Bysshe Shelley in *A Defense of Poetry* (1954), around the world the "rich have become richer, and the poor have become poorer." Underdevelopment leads to poverty, which deprives people of the means to live decent lives. Oftentimes, when underdevelopment and poverty in Africa become too great to bear, competition over scarce resources leads to violent outbreaks, costing the lives of many.

Infant Industry Promotion is a term that refers to a state policy that for a period of time shields domestic industries in order to prepare them for competition with more established firms. This approach is characterized by a series of policies designed to nurture domestic industry until those industries develop "productive powers" (Brown, Lynn-Jones, & Miller, 1995, p. 54) and are able to compete globally.

Implementing Infant Industry Promotion involves prioritizing industries identified by the state as crucial to a country's economic future and by enacting regulations to protect those industries during the infant stage of development. The removal of protective measures (e.g. tariffs, subsidies, quotas, import bans, rebates on industrial inputs, regulations, and product standards) fosters the capability of domestic industries to compete locally, regionally and internationally. The process can require months or years, depending on the nature of the industry and the intensity of competition.

2. Economic Growth in Africa: A Short Review

In his lecture to the African Development Bank in 2009, Chang showed economic growth statistics between 1960-1980 and 1980-2004 on GDP growth rates (%) for sub-Saharan Africa as a region. He contrasted that with two other regions: all developed countries, as well as Latin America and the Caribbean (Table 1). Sub-Saharan Africa had the lowest growth rate compared with all other regions from 1960 to 2004.

These figures were reported in 1989 by The United Nations Economic Commission for Africa (UNECA) in a published report that showed the annual growth rate (GDP) for the continent was 0.4 percent between 1980 and 1987. Furthermore, the per-capita income at the end of the 1970s continuously declined at a rate of 2.6 percent annually during the same period (UNECA, 1989, p. i). The report noted that while poverty was increasing, “productive and infrastructural facilities” (UNECA, p. i) were decaying. Two decades later UNECA published new statistics on the growth rate across regions in Africa (see Table 2 for summary).

At first it seems African economies have indeed picked up speed and joined the ranks of other developing countries. The report however identified the source of growth in the surge in commodity price between 2005 and 2007 and increased Foreign Direct Investment (FDI) in the extractive industries. Both commodities and natural resources are industries that suffer from diminishing returns over time. This will be discussed later in this paper. It showed that Central and Southern Africa are the most affected regions. Historically, these two regions have had weaker economic institutions.

The sudden surge in GDP across regions was misleading because it was not reflective of any sustainable trend that transforms the economy of a country. The result was that when the financial crisis of 2008 hit, most of those countries went into a severe recession and numbers fell to historic lows.

Table 1. Annual per capita GDP growth rates (%)

Regions	‘Bad Old Days’ 1960-80 (%)	‘Brave New World’ 1980-2004 (%)
All developing countries	3.0	2.2
Latin America and the Caribbean	3.1	0.5
Sub-Saharan Africa	1.6	-0.3

Source: Table reproduced from The lecture delivered in the Eminent Speakers Program of the African Development Bank on 26 February 2009 (H. J. Chang, p. 2). Chang reproduced the table from World Development Report 2002 (World Bank, p. 237).

Table 2: Real GDP growth (%)

Years	2005	2006	2007	2008	2009	2010
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					(estimated)	(projections)
Africa (Regions)	5.9	5.9	6.0	4.9	1.6	4.3
Central	5.0	2.6	5.6	4.5	0.9	3.8
East	7.4	6.8	7.5	6.4	3.9	5.3
North	6.0	5.9	5.3	4.7	3.5	4.1
Southern	6.0	6.6	6.7	4.6	-1.6	4.1
West	5.1	5.3	5.9	5.3	2.4	4.7
Oil-exporting Countries	6.8	6.0	6.9	5.6	2.5	4.9
Oil-importing Countries	4.9	5.9	5.1	4.2	0.5	3.6

Source: The United Nations Economic Commission for Africa, 2010 (UNECA, p. 135, see Table 4.7)

3. Making Sense of Underdevelopment

There is a wide consensus that the problem of underdevelopment in the African context is related to the mode of production imposed from outside. It is also argued that Africa's mode of integration into the global economy is responsible for its underdevelopment (Amin, 1972; Rodney, 1972). One group of scholars argues that the conditionality imposed by World Bank (WB)⁴ and International Monetary Fund (IMF) is responsible for the underdevelopment of African economies (Amin, 2010b; Easterly, 2001; Goldstein & Montiel, 2007). Others claim that the problem lies with the mode of production and capitalist system (Amin, 1990; Arrighi, 2007). Those who locate the cause in the capitalist system explain that the outgrowth of the capitalist produces such problems as "racism, sexism, imperialism, militarism, alienation, system environmental destruction, and the glaringly unequal distribution of wealth, incomes and political power" (Hunt, 2003; Wise, 1973).

Another view that explains the fate of the poor is offered by the Malthusian school of economics, reasoning that poor people are to be blamed for poverty because they have too many children. This view is still popular in the explanation of poverty, not only in developing countries but also in the United States where some claim that African Americans and Hispanics have too many children (Hunt, 2003, p. 51). Political scientists also point to the institutional legacy of colonialism as the main culprit in the impoverishment of the continent, exemplified by exploitative and unequal relations in Africa's rural sides, starting in the late 19th century and extending to the late 20th century (Amin, 1972; Mamdani, 1986; Rodney, 1972).

Marxist theories contributed to this commentary, focused on the relations of exchange, modes of production, and class struggles. Still, faced with the problem of mass violence in the postcolonial period, neither political economics nor Marxists could make sense of the violence. Postcolonial violence is not driven by market-based relationships. In other words, it is not the result of a clash between classes or division of labor. This fact withstood the attempted explanations of all political

economists. It could be partially explained by Marxist scholars. Marxists succeeded in “historicizing the political legacy of colonialism and the colonial state as legal/institutional complex that reproduced particular political identities” (Mahmood Mamdani, 2005, p. 3).

Neoliberal economists empowered and driven by with their faith in perfect competition, equilibrium, and the Efficient Market Hypothesis (Malkiel, 2003) have pushed for the liberalization of markets, the removal of state planning from economic policy, deregulation of financial markets, and reduction of industrial tariffs. Africa’s leading political economist, Samir Amin, recently pointed out that neoliberal economists do not ask the real question about the system that governs the world today: capitalism. Rather, they religiously trust the efficiency of the market and textbooks on economics are, therefore, “quasi-fundamental religious texts” (Amin, 2011). Blind to the limits of the market hypothesis and its many flaws (Hunt, 2003), they provide an a priori response to explain that the market already exists, therefore, it is rational and efficient. Unfortunately, this paradigm has proved disastrous for the countries of the South.

The economic laws that govern firms also govern nations. In allocating resources to one sector you forego allocation to another. In times of crisis, war, and conflict, a country preoccupies itself less with building industries for civilians’ goods than with industries that support the war effort.

A plethora of scholarship exists that examines the plunder of resources within the African continent (Amin, 2010a; Bond, 2006, see Ch. 4; Hochschild, 2001). Under colonial domination, both the economies and labor force of Africa were organized in such a fashion that all surpluses were extracted and exported to Europe (Jones, 2003, p. 42). Amin recently remarked that of all regions in the world, Africa remains the most vulnerable part of the global system and by this logic, is condemned to perpetual exploitation (Amin, 2010a). The Development Centre of the Organization for Economic Co-operation and Development for the OECD on the history of world development showed in its historical analysis of world economy that:

“Africa has nearly 13 per cent of world population, but only 3 per cent of world GDP. It is the world’s poorest region, with a 1998 per capita income only 5 per cent of that in the richest region, less than half of that in Asia (excluding Japan). It has the lowest life expectation (52 years compared with 78 in Western Europe) (Maddison, 2001, p. 161).

From this perspective, a “useful Africa is an Africa without Africans. For the global system, the African people are too much” (Amin, 2010a). Given the desperate conditions existing for the people of Africa, it is no surprise that the postcolonial period has been ravaged by a proliferation of ethnic violence, civil wars, and genocides. The easiest way to weaken it is to exploit a divided and dismembered continent. So reported the Ghanaian writer, Ayi Armah, in his article on the fragmentation of the African continent (Armah, 2010). Locating Africa’s problem in its lack of integration has inspired the African Union to call for the unification of markets as a way to strengthen Africa’s position on the international stage.

The issue of uniting the countries of Africa was the subject of the Africa Union’s Summit in January 2011, under the theme of “Towards Greater Unity and

Integration through Shared Values" (AU, 2011). Today, the leading institutions in Africa - African Union, The United Nations Economic Commission for Africa (UNECA), and the African Development Bank (A.D.B.) have entire divisions dealing with the chronic problem of underdevelopment on the continent (Shaaeldin, 1991, p. 328).

The unification of various markets in Africa is seen as a prerequisite to the strengthening of the continent as a whole. A stronger Africa will develop the ability to restrain "external plunder" (Amin, 2010a; Bond, 2006, pp. 45-46), and utilize its resources for the benefit of the African peoples. Those who have control over global capital may well be advantaged by Africa remaining in darkness and its society perpetually fragmented. In disunity, Africa can be greedily exploited. Lacking in capability and sovereignty over territory and people, African states are easily subjugated politically and economically to the will of the dominant West.

The next section discusses the theory of comparative advantage and problematizes it to show its limits. The last section concludes by discussing one alternative model in the theory of infant industry promotion.

4. The Theory of Comparative Advantage and its Assumptions

The theory of comparative advantage is the most important concept in international trade theory. Common reasons advanced for trade include differences in natural resource endowment, differences in technological capabilities, and differences in demand. Some countries have more rare minerals than others. Other countries have developed and pioneered technological innovation; others have unique demands for goods and services. Lastly, the existence of economies of scale in production delivers countries with more mature industries an advantage in a trade relationship superior to operating in self-sufficiency (Suranovic, 2010, p. 35). The economic theory of comparative advantage is based on relative production costs across countries.

The theory offers a powerful tool for those engaged in international trade. However, it is grounded, like any economic theory, in a set of assumptions. The countries involved produce using one factor of production. Other factors of production are omitted from the assumption. It infers that goods are homogeneous across firms and countries; labor is homogeneous within a country but heterogeneous across nations. Labor is always fully employed in the model of comparative advantage while goods and services move easily and cheaply across countries and between countries. The model presumes a perfectly competitive market. Lastly, the level of technology utilized in production of goods and services is the only factor presupposed to vary across countries and industries (Suranovic 2010, 39-45).

The real world shows a different picture; one that is more complicated than the Ricardian model. The real world has politics to which economics is subordinated. In the real world of trade, many countries are involved, not just two, and they produce a variety of goods and services that are not homogeneous. The market is not perfectly competitive, since great differences exist among firms that enjoy power in certain markets and in certain industries.

Add to this complication the truth that some governments purposefully create and sustain monopolies that only generate market failures and not a competitive market (Joseph E. Stiglitz, 1989). Countries have monopolies that effectively prevent entries into the industry. Worse still, some countries have firms that set prices for goods and services at the expense of the price set by the assumed competitive market economy.

Despite these flaws, the theory remains the most important and powerful in explaining normative trade. I say normative because a world of differences exist between how trade should be conducted according to the model and how trade is conducted. The theory does not describe *how* nations actually engage in trade but rather explains how trade *can* happen in the real world. It remains the bedrock of international trade as a conceptual framework.

5. Comparative Advantage and Specialization

The United Nations defines trade broadly as the inward and outward movement of goods through a country or territory (United Nations, 1998, p. 23). This definition includes movements through customs, warehouses and free zones. The theory of comparative advantage postulates that countries should specialize in the products they can most cheaply manufacture relative to other goods.

Comparative advantage also shows that trade benefits both parties even when one country has an absolute advantage in certain industries. The reason pertains to specializing in product where a country has the greatest relative advantage over its trading partner. The country that lacks a comparative advantage in a given industry can also benefit from trading with other nations by specializing in products that present a relative advantage. This conceptual framework was first elucidated by David Ricardo, and provides the theoretical foundation for 19th century free trade.

Chang Ha-Joon, Economist and faculty member at University of Cambridge, argues that the theory of comparative advantage is correct only within a very narrow scope (H.-J. Chang, 2008, pp. 46-47). It assumes as a starting point: that nations will accept current levels of technology as a given. Technology refers to the techniques used to turn resources (labor, capital, and land) into outputs (goods and services). Ricardo's theory of comparative advantage is a powerful tool for explaining how trade benefits a nation, but is not a good theory for explaining what happens when a country wants to acquire advanced technologies.⁵

Chang argues that absorbing new technologies takes time. For countries that do not have a technological edge but seek to acquire it, protection from international competition is essential during the learning and implementation period. The problem lies in the opportunity cost involved in adopting a protectionist stance while domestic industries get ready for competition with the external world. The cost that a country must bear is often too heavy as that country must forego the opportunity to import cheaper products during the learning phase under protectionism. Without great sacrifice, a country cannot develop an advanced industrial base capable of competing on the international stage. The advocates of trade under neoliberalism argue that in order to achieve greater production and higher standards of living, countries need specialize in areas where those countries have a comparative advantage. This enables nations to concentrate on a limited number of activities in

order to increase economic efficiency. Some countries have an absolute advantage or a comparative advantage in production. Reinert accused proponents of trade who recommend specialization in areas that offer a comparative advantage of misleading Third World Countries specializing “in being poor and uneducated” (Erik S Reinert, 2005, p. 16). Instead he recommends a shift away from a focus on industries that suffer from diminishing return. Economic policies should seek to change “the economic structures of poor countries. This includes an emphasis on “scale, scope, speed and specialization” (Erik S Reinert, p. 16). This means that countries seeking to develop need to focus their limited resources on developing the productive powers of key domestic industries. This is represents a shift from trade to production as a guiding principle.

As discussed earlier, trade can benefit even countries that have an *absolute advantage* in a certain industry Absolute advantage is defined as the ability to produce goods or services at lower cost or with higher productivity. The reason trade can benefit a country that has no absolute advantage lies in the ability to produce a good or service using fewer resources than other producers use. For both countries engaged in the trade, having a smaller opportunity cost than others can lead to higher relative productivity. Once the comparative advantage is determined, then each country can focus on what it produces using the least resources. The outcome of this process of specialization is an increase in the total production of goods and services. This exchange then leads to higher living standards rather than self-sufficiency. This is the heart of the theory of comparative advantage.

From Hamilton to List, all the way to today’s economists, the theory of comparative advantage has been criticized for failing to lift countries that seek to develop infant industries. In Germany, the leading critic of international trade and advocate of infant industry promotion was Georg Friedrich List (1789-1846). In List’s seminal work, *The National System of Political Economy* (List, 1991, published in 1838), he argued that it was the responsibility of a nation to develop its “productive powers.” According to List, it was better for a state at the intermediate level of development to “protect only those infant industries that have a fair chance of achieving a comparative advantage” (Waltz, 1993, p. 56). List criticized those who slavishly followed the school of ‘Free Trader,’ who took at face value the teachings of Adam Smith and David Ricardo and likened them to “the patient who followed a printed prescription and died of a misprint”(Brown et al., 1995, p. 54; Hirst, 1909, p. 289).

List also showed that the practice advocated by Great Britain, the 19th century power and later by the United States, amounted to a deliberate act of “kicking away the ladder”⁶ which allowed other countries to climb to the top. This deliberate act of sabotaging developing countries’ opportunity to use same mechanism effectively denied poorer countries the chance to develop (H.-J. Chang, 2005).

For the Americans, List advised that “the worst of all things” (Hirst, 1909) would be for farmers in America to buy their manufactured goods from England. The United States needed to protect its Infant Industries from competition, a vision that Alexander Hamilton vigorously advocated.

Another contribution for the promotion of infant industries comes from Norwegian economic theorist Erik Reinert, professor of Technology Governance and Development Strategies at Tallinn University of Technology, Estonia. Reinert

argues that the priority in development economics is located on the wrong objectives. Large emphasis rests on foreign financing of domestic social goals rather than building industries and capacities to stimulate growth. Rather than attacking the roots of the problem, the West attacks symptoms. This has led to the retardation of development, strangulation of infant industries, and “welfare colonialism” (Erik S Reinert, 2005).

Drawing from examples in Europe, the U.S., South America, and Africa, Reinert shows that the Marshall Plan was only successful because it placed an emphasis on re-industrializing Germany. This is contrasted with the massive failure of the Morgenthau Plan which focused on de-industrializing Germany (G. C. Marshall, 1997a). The Morgenthau Plan is what the West regularly imposes on all other developing countries rather than adopting a plan similar to the Marshall Plan. Reinert writes that we need to return to economics as historically practiced because the model it offered was the best model for releasing countries from poverty. Development efforts based on the dominant paradigm, which has abandoned the long tradition of economics dating back to the 1400s onward, ignored history and turned development economics into palliative economics.

The importance of history in the study of economics is necessary if one is to know what has been successful in the past. Columbia University’s Nobel winning economist Joseph Stiglitz made a similar observation in a keynote address to the First Global Development Network in Bonn in 1999. Stiglitz noted that success in meeting the challenges of the new century will depend on an accurate understanding of the histories of, “how we-the developed and developing countries, and the economies in transition-came to be where we are today” (J.E. Stiglitz & Chang, 2001, p. 194). This point is elaborated in great detail by Reinert, who traces the history of the discipline of economics and notes that the praxis of development economics has always been “to assimilate and produce less efficient copies of the economic structure of wealthy nation” (Erik S Reinert, 2007).

To duplicate imperfectly economic structures of wealthy nation requires two factors: large division of labor and diversity in industries with increasing return activities, such as knowledge-intensive services. Most of today’s poor countries lack a strong manufacturing sector because the West has convinced them of, or imposed upon them, the need to focus on comparative advantage. The effect is what Reinert calls “*industricide*,” the killing of industries at the infant stage, reducing the country to an exporter of raw material and net importer of manufactured goods. Rich countries have focused on manufacturing and knowledge-intensive sectors while allocating raw material extraction to developing countries. The effect has been a sustained system whereby the rich get richer and the poor are made poorer.

6. Increasing and Diminishing Returns

The concept of diminishing and increasing returns dates back to the European Renaissance and finds expression in the writings of many economists including Friedrich List (1865), Alfred Marshall (1890), and in American statements attributed to policymakers such as Abraham Lincoln and Alexander Hamilton (Erik S Reinert, 2005). These concepts are rooted in economic theory that leads to growth or lack thereof.

A successful economic policy must distinguish between “*diminishing return industries*, where specialization *increases unit costs*, and *increasing return industries*, where specialisation *decreases unit costs*” (E.S. Reinert, 2004, p. 162). Marshall, author of the celebrated *Principles of Economics (1890)*, recognized that a country has to subsidize industries where its industries are subjected to a dynamic of increasing return. Moreover, an economic policy that favoured increasing returns also needed to tax industries subject to decreasing returns (E.S. Reinert, 2004, p. 163). Agriculture and extractive industries are industries subject to decreasing returns. Manufacturing and technological sectors are examples of types of industries that are often subject to the dynamic of increasing returns. These easily reveal the Schumpeterian notion of “creative destruction.” (H. Reinert, 2006).

According to Erik Reinert⁷ diminishing returns occurs in economic activities where “one factor of production is held constant, while the other factors of production are expanded. As a consequence of the one factor being held constant, the increased input of the other factors yields less and less benefit”.⁸ With diminishing returns, specialization increases unit costs. Specialization in increasing returns activities decreases unit cost as volume increases. It also increases labor productivity and per capita income. Diminishing return activities on the other hand place emphasis on perfect competition and the pursuit for market equilibrium. Increasing return activities emphasize the dynamic of imperfect⁹ competition that leads to growth.

World history shows the absolute lack of countries that have done well *vis-à-vis* what Alfred Marshall called the dynamic of diminishing returns (A. Marshall, 1890). Rather, successful cases of catch-up in the past have been achieved through a series of protective measures, selective policy favoring increasing return activities while taxing diminishing return activities.

As an historical example, Reinert points to the reindustrialization of post-World War II Germany as the most successful example of wealth creation built on the distinction between diminishing return and increasing return. Reinert contends that the distinction between these two terms and their implication in economic policy account for the development of countries.

In 1947 after the realization that the Morgenthau Plan had failed, then Secretary of State, George C. Marshall, announced its replacement with what became known as the Marshall Plan. Marshall outlined the contour of his plan in his Harvard Address (G. C. Marshall, 1997b). There, he noted that “the farmer has always produced the foodstuffs to exchange with the city dweller for the other necessities of life. This division of labour, was at the present time...threatened with breakdown”(G. C. Marshall, 1997b, p. 160). The distinction between urban and rural, the countryside and the city is one between two sectors: one based on agriculture and the other on industries that focus on manufacturing. The distinction is neat. It is one between industries that specialize in decreasing returns (e.g. extractive industries and agriculture) and those that specialize in increasing returns (e.g. industries that focus on manufacturing requiring innovation and constant technological advancement).

While the Morgenthau Plan called for a dismantling of industries in Germany the Marshall Plan called for rebuilding German industries. The two approaches to developing Germany reflected the differences between decreasing and increasing return. The former called for a focus on agriculture, the latter for a focus on industries. The first opted for a focus on an area where there was decreasing return

while the second prioritized industries that yielded increasing return over time. The focus of the Marshall Plan on was industry and returning industrial production back to the 1936 level which was deemed normal (E.S. Reinert, 2004, p. 158).

The neoliberal paradigm places a strong emphasis on the individual, market equilibrium with perfect competition, and ignores the evolutionary dynamic of economic growth, along with the history behind growth as seen in developed countries. In the developing world today, Reinert has called the problem plaguing African countries “The Triple Curse” (Erik S Reinert, 1996). This includes religious adherence to diminishing return activities, emphasis on perfect competition, and pursuit for market equilibrium and massive exposure to erratic price volatility. Taken together, these factors lead to vicious cycles of poverty and unsustainable growth.

While economic growth was achieved and developed through what Reinert calls the dynamic of imperfect competition, rich countries today are the strongest advocates for the exact opposite for developing countries. Their prescriptions have acquired a ‘quasi-fundamental religious’ acceptance: Free Trade, deregulation of the financial market, and a near sacred adherence to the Efficient Market Hypothesis.

Developing countries must pay special attention to how today’s rich countries became rich and avoid listening to self-proclaimed narratives or myths of how they became rich. How do African countries avoid the propensity to specialize in activities that only produce Diminishing Returns? What is the way to escape the *Triple Curse*? What must be done to get Africa moving forward and develop industry competitiveness? The answer is offered by Reinert in an alternative source of employment, which will raise the standard of living, increase wage, and provide people with a viable means of support. This can be done by developing the industrial sector in a competitive local market. Even when this local market is inefficient by global standards, it proves far better than nothing. Reliance on what is advocated by the Free Trade enthusiasts will only lead to dependence on raw materials and natural resources, which inevitably leads to a poverty trap (Erik S Reinert, 1996, p. 28).

The international playing field is far from being level. In the real world, some countries are far in the lead, others lag far behind. The outside expectation for African states is that they should be able to play with other states on the so called “equal playing field”. The reality however is far from this professed truth. In actuality the demand for African states to liberalize their markets, promote competition, and aim for market equilibrium is rather a call for African economies to remain committed to activities which are doomed to lead to what Marshall called the dynamic of diminishing returns.

No country in the history of the world has done well focusing on diminishing returns. Every case in history points toward the dynamic of imperfect competition. All successful catch-up situations in the past have been achieved through a series of protective measures, selective policy favoring Increasing Return activities while taxing diminishing return activities. History teaches us that to break free from the bondage of underdevelopment; African states must prioritize certain industries, selective economic activities and develop the productive powers of those industries while they protect infant industries from external competition. This pattern does not exempt the industries from internal competition but protection from external competition is essential during the formative years. This is one way that African economies can escape the trap of ‘Schumpeterian underdevelopment’

(Erik S Reinert, 2007, pp. 167-168) while promoting a system of even growth and the dynamic system of historical Increasing Returns.

7. Conclusion

For economic policy to be durable in the African context, it must reflect and respect local conditions. It must vary from one historical context to the next, use local resources, and respond adequately to local problems. A wholesale import of formulaic policy has proved disastrous over the past fifty years and will prove equally destructive in the future. Sustainable economic development requires first knowing the society in which one lives and knowing oneself as a people. It demands that research institutions within Africa produce knowledge to solve local problems within the continent. African states must learn lessons behind today's developed countries. This requires focusing on actual economic policy rooted in the theory of Infant Industry Promotion. It requires that African countries put in place protective measures such as tariffs, subsidies, quotas, and import bans on key raw materials.

It is important to select only industries that have the capacity to develop productive powers. The goal is to gradually remove barriers and protective measures as each industry develops the capacity to compete nationally, then regionally, and ultimately internationally. Lastly, to get out of the *Triple Curse*, African states need to develop an alternative source of employment, an industrial base, and strengthen the productive powers of infant industries if those industries are to survive the fierceness of international competition. All calls for deregulation of markets, removal of state planning from economic policy, reduction of industrial tariff, and liberalization of the economy in Africa should be strongly resisted and actively discouraged.

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² Infant Industry Promotion as a state policy is credited to Alexander Hamilton. The concept was picked up by two other nineteenth century economists: Daniel Raymond in the United States and Friedrich List, the 19th century German political economist, who saw the state as the main instrument for economic progress. Recently two other economists have popularized the term and developed the term further. For more on the concept, see (H.-J. Chang, 2003, 2005; Erik S Reinert, 1999; Erik S Reinert, 2007; Erik S Reinert, 2011)

³ The classification of developed nation versus least developed or underdeveloped nations follows the classification used in the UN Human Development Index. The report groups countries into four groups depending on how they score on a number of measures: health, education and income. The UN groups countries into one of four categories: Very high, high, medium, low HDI. "A country is in the very high group if its HDI is in the top quartile, in the high group if its HDI is in percentiles 51–75, in the medium group if its HDI is in percentiles 26–50 and in the low group if its HDI is in the bottom quartile. Earlier *HDRs* used absolute rather than relative thresholds (UNDP, 2010, p. 26, see box 2.1). The term developed in this essay refers to countries in the first category.

⁴ For a case study of the role of World Bank in dismantling the institutions of higher education in Uganda, see (M. Mamdani, 2007)

⁵ The reasons that Ricardian theory fail to accommodate high technological innovation and economic growth is elucidated in Chang's book *Bad Samaritans: The Myth of Free Trade and the Secret History of Capitalism*.

⁶ This is also the title of a book by Ha-Joon Chang (2002)

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⁸ (Erik S Reinert, 1996)

⁹ For more information on the dynamic of imperfect competition see, (Erik Steinfeldt Reinert, 1980; Erik S Reinert, 1995)