The fundaments of regional development theories 1

Comparative advantage theory

David Ricardo (1817) – Classical theory (convergent)

Thesis: *Every region (state) specializes to the production and export of the goods which it is able to produce relatively cheaper.*

It explains how ELDCs can successfully and profitably become involved to the trading with EMDCs. Thus ELDCs can survive within the severe competition. Foreign trade will not result in the collapse of an ELDC. But it is the form of joining a country to the world business which predetermines the country to be advantageous:

- *high road* = competitiveness thanks to high-quality products
- *low road* = competitiveness thanks to low prices including low salaries

What form of becoming involved to the world economy would you suppose for Slovakia?

Example: *The production of electronic goods in Japan is 6x greater compared to Slovakia. The production of textiles in Japan is 3x greater than in Slovakia. Hence Japan will concentrate to the production of* ***electronics****.*

Table 1: Number of comparable goods when using the same amount of inputs:

	ELECTRO	*TEXTILE*	
Japan	**30**	**300**	exchange rate **1:10**
SK	**5**	**100**	exchange rate **1:20**

If Japan exports 1 DVD player to Slovakia, it will obtain 20 jeans for it, compared to Japan´s own market.
Furthermore, if Slovakia sells 100 jeans to Japan, it will gain 10 DVD players, not only 5 in case of no trade existence.

Thus it is an interest of every country to focus to the production of those goods, which the comparative advantage is the greatest in.

Cumulative causation theory

Gunnar Myrdal (1957): Keynesian theory (divergent)

Thesis: *If a region develops more rapidly in comparison with other ones, this gap will become larger.*

Positive cumulative mechanisms – reasons for growth (examples): industrial structure, geographic location, etc.
Negative cumulative mechanisms – reasons against growth (examples): tax increase, bankruptcy of local factory, etc.

Results of such cumulative mechanisms:

- **regional drainage** = capital mobility – e.g. taking the savings away from a periphery to the centre by banks
- **selective migration** – e.g. highly-educated people moving into the centre (capital) to be paid more
- **intraregional trade** – e.g. economic problems caused by greater competition of a core (capital)
- **agglomeration effects** – e.g. transport costs´ reduction thanks to the proximity of firms, sharing the same infrastructure, high PPP, sufficient amount of skilled labour, many opportunities, etc.

Other examples of factors influencing further economic divergence of a region:

- workforce in developed areas is more productive compared to developing ones
- capital and labour is "sucked" from poor to wealthy regions
- rich countries demand more raw materials and agricultural products from ELDCs

EMDCs will develop even faster compared to ELDCs. So the development gap (difference) among countries of the world has always been widening.

Keywords

convergence, divergence, comparative advantage, high-road, low-road, exchange rate, cumulative mechanism, regional drainage, selective migration, PPP, development gap