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Retroeconomics – Global Challenge for Economic Development

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By *Vladimer Papava*

Vladimer Papava writes: In many and mostly poor countries, their economies have been using obsolete technologies. As a result, all of these countries do not have a real chance to be successful in any long-term economic growth. The usage of obsolete technologies by any company can create the illusion that this or that business is prosperous. At the level of international competition, however, it is obvious that these types of companies do not have any chance for success.

In the modern world, the reindustrialization of national economies is a topical issue for many political leaders. For reasons of politics (such as the limitation of one's time of stay in a political position), their most frequent error is to attain success at breakneck speed. As a result, the process of reindustrialization in many – and, again mostly poor countries – is based in the application of obsolete technologies. The theory of technological backwardness and its detrimental effect upon a country's economy is something I call retroeconomics.

To explain further, the type of economy that fosters the functioning of firms (i.e., retro-firms) that are relatively technologically backward in comparison to contemporary global achievements but where, nevertheless, the demand for their products still exists is a retroeconomy.

The establishment of a retroeconomy is based on different factors:

First, there is the protection of intellectual property which restricts the free dissemination and accessibility of new technological know-how. The authorized use of new technology becomes expensive, especially for firms that operate in poor countries with a relatively low level of economic development. As a result, priority is given to relatively outdated technologies in these particular countries.

Secondly, there is the monopolization of the economy wherein monopolies purchase patents on new technologies, not for the purpose of applying them in a more or less efficient manner but to prevent third parties from employing them, even if the monopolies in question put the patents to use at a later time (or as they deem necessary). According to Michael Porter from Harvard Business School, the leading international competitors, as a rule, prefer not to sell the highest-quality latest-generation technology. On the contrary, in order to maintain a competitive advantage, they sell already used, second-hand technology. Due to such policies, economically backward countries accumulate not innovative but imitation technologies.

Thirdly, the low level of education and the absence of an appropriately educated workforce make it virtually impossible to utilize information even via open channels (not to mention channels of commercial knowledge transfer).

Lastly, we can see the emergence of a so-called zombie economy, signifying a consolidation of firms (and associated banks) rendered insolvent as a result of a financial crisis which continue to operate via bank loans taken on the basis of government guarantees. Naturally, zombie-firms have no interest in technological upgrades to manufacturing and/or replacing management since, owing to government support, they manage to maintain operation without these efforts. It is clear that a zombie economy contributes directly to the establishment of a retroeconomy.

Although the retroeconomy established in economically backward countries at the expense of an imitation policy ensures economic growth, imitator countries are under the threat of a long-term maintenance of relatively low levels of productivity as compared to developed countries.

The role of the government is very important for overcoming the effects of a retroeconomy. Its economic policy has to be concentrated on the following directions:

The development of the education system which implies the improvement of the quality of the general secondary education and the harmonization of vocational and university education with international standards; given the country's economic development potential, the government must define priority areas based on which relevant scientific groups should be funded to implement pertinent research projects in universities.

The establishment of channels of commercial knowledge transfer when the government should acquire patents on modern technology in keeping with relevant economic sectors to then supply these firms at reduced prices; in order to attract modern technology, the government should render assistance to relevant firms to cover part of the bank interest and also offer tax concessions.

The guaranteeing, to the maximum extent possible, that no non-viable firms remain on the market which, first and foremost, should occur via the establishment of an adequate legislative framework; national bankruptcy laws should rely on a basic principle which states that a balance should be maintained between the interests of the creditors, on the one hand, and the timely liquidation of non-viable firms, on the other; the sound legal space on the market which excludes other laws and regulations impeding the efficient application of bankruptcy law should to be established.

It should be taken into account that in imposing these functions on the government, when there is a real threat of failure and, especially, when state institutions are weak and the corruption level is high, great significance is afforded to publicizing the decisions to be taken by the government in order to ensure maximum public and expert engagement in the development of these decisions.

The phenomenon of a retroeconomy is already quite deep-rooted throughout the world and it is essential to consolidate the attention of economists and politicians on this threat in order to stop the process of the zombification of a retroeconomy.

Vladimer Papava is a Professor of economics, Ivane Javakhishvili Tbilisi State University, a Senior Fellow at Rondeli Foundation – Georgian Foundation for Strategic and International Studies, a former Minister of Economy of the Republic of Georgia, and is the author of Necroeconomics, a study of post-Communist economic problems.