State Economic Growth:

An Analysis of Effective and Ineffective Development

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Abstract:

This particular research seeks to provide an in depth analysis of state development. More specifically, research centers on what factors aid and hinder a state's ability to develop economically. Analysis begins with a case study of Brazil and Mexico to help analyze at present how countries seem to be developing and confirm what variables are in fact affecting development. Following the case study, a regression was conducted using a panel comparison of 52 countries over 9 years to help further shine light on just why some countries are more effective in development than others.

State Economic Growth

The debate over what allows a state to properly develop is far from a new concept. Dating back to the 1950s when decolonization truly hit its peak, most states debated over how to truly develop economically particularly those states breaking away from imperial influence to true independence. Over time, nations have developed new innovative ways to develop their economy and grow in power. The fact of the matter is that some states are significantly more successful than others. The age old question has always been what leads certain states to struggle so substantially in their development process. Many theorists have sought to answer this question ranging from the modernization approach to the dependency theory. Those advocating the modernization theory argue that all states can and do go through a natural process in which the country experiences various stages until finally development occurs. Dependency theory, on the other hand, does not argue that there is an automatic process of development but rather that the reason there are still underdeveloped countries is even post independence many states were in one way or another trapped within a dependency on their former mother country. Even so, there is much work still to do to determine what factors affect economic development and to what degree. A state's potential prosperity hinges firmly on the ability to develop while the state is within infancy that will in fact set a path in which the development of the economy holds tremendous potential to make or break that respective nation. Often times, there is much debate between what aspects should be prioritized in a state's development in order to progress properly. In order to better understand the importance of economic development within a country, it is important to first start by analyzing prior research conducted in regards to the area in question. The ultimate question that this research seeks to address is as follows: What leading factors affect a state's ability to develop economically? In particular, this research will first seek to analyze this phenomenon through a case study comparison of Brazil and Mexico followed by a regression analysis consisting of panel data collected from 52 countries over a nine year period. The regression has been chosen to be a part of this research as this part of the analysis will help to better study development as a whole as well as help to make the following research applicable to other cases and future studies.

Literature Review

Economic Growth:

The Stages of Economic Growth: A Non-Communist Manifesto by W.W. Rostow is a particularly useful means of explaining economic development. Throughout his book, Rostow describes various states of development that countries undergo through modernization. Rostow begins with the first stage of economic growth within a state known as the traditional society. According to Rostow, one whose structure is developed within limited production functions is considered a part of this stage (Rostow 4). Within the traditional society highly productive innovations are common including: trade, industry, and agriculture (4). In the initial stages of traditional societies, Rostow points to the fact that these societies had rather limited productivity and frequently had to devote a high proportion of their resources to agriculture (5). Within these early stages of development, families and clans also played a particularly large role in social organizations (5). In the case of traditional societies, Rostow emphasizes that economic progress is without a doubt necessary for a state's development (6). It is also quite true that the enterprising men, as Rostow calls them, within these private economies used saving and took significant risks in order to see economic profit and modernization (7). These traditional societies were in fact able to overcome substantial obstacles in order to gain economic progress and as a result growth steadied (7).

The next stage of development, according to Rostow, is known as the “take off stage.” Within this period of development, new industries expand at a rapid pace (Rostow 8). Additionally, entrepreneurship expands alongside the economy as unused natural resources and methods of production are utilized (8). Past the take off stage, states are often faced with fluctuation in their economic growth as the economy seeks to expand modern technology (9). Within this time frame, 10-20% of the national income is invested into the economy as well as those goods that were previously imported are now produced within the domestic market (9). This stage is also known to have new import requirements implemented (9). According to Rostow, the take off stage should last 60 years. At this point, the country should have reached maturity (9). It is important to note, that trying to set such a timeline and assuming that development will occur within the time allotted is unrealistic. Rostow’s notion that it only takes 60 years fails to account for the complexities of economic development and the numerous variables constantly influencing a country’s ability to develop its economy.

According to Rostow, modern economists have also sought to analyze population, technology as well as entrepreneurship in regards to a state’s development (Rostow 13). Rostow, however, believes that there is a need to develop a dynamic theory of production including: income, consumption, saving, and investment (13). Within peacetime, investment has maintained a tendency to accelerate the development of new technology (14). The demand for resources, according to Rostow, has resulted from social decisions as well as the policies of governments (15). The major difference between a traditional and modern society depends on whether the investment rate is low in comparison the population increase (20). In order for development to properly progress, Rostow emphasizes the need for the population to be prepared to train and operate within a regularly changing economic system (20).

In order to better explain the importance of economic development, Rostow highlights the take off stage as a rather crucial point within development. The requirements for a state within this stage include significant political and social structural changes as well as changes in societal values (Rostow 36). Within the early stages of the take off stage, it is common for the state to have a stimulus that could be a political revolution that will ultimately affect the balance of social power and values, the character of economic institutions, as well as the distribution on income (36). Rostow emphasizes the need for the country to maintain a positive, sustained, and self-reinforcing response to the stimulus (37).

The take off stage is so important in terms of a state's development that Rostow proceeds to discuss this stage in further detail as well as the transition into maturity. The three crucial aspects to the take off stage include: a rise in the rate of productive investment from 5% to 10% of the national income, the development of one or more substantial manufacturing sectors alongside a high rate of growth, as well as the existence or quick emergence of a political, social, and institutional framework (Rostow 39). The growth of the economy during this stage includes within the primary growth sector in which there is much room for innovation to occur (52). Supplementary growth sectors also become a substantial part of the economy as a rapid advance occurs as a result of the growth of primary sectors (52). Within the take off stage, Rostow also discusses the derived-growth sectors in which an advance occurs in steady relation to the growth of income, population, and industrial production (52). According to Rostow, this process of developing into maturity establishes the base for political and social pressures that cause the succession of modifications (71). Modern history also demonstrates a consistency that groups or states have the tendency to look beyond their respective borders in search of finding new worlds to conquer (73). Those mature states may also choose to use their power to redistribute income into society by progressive taxation (73). In Rostow's theory of development, he also mentions what he believes those states that are still underdeveloped need to adopt in order to develop. According to his plan, these nations must allocate their resources to modernize non-industrial sectors that are required for industrial growth including: social overhead capital, agriculture, and finally foreign-exchange sectors (139). Overall, Rostow analyzes the importance of economic growth rather thoroughly. The major critique to remember with this analysis is that while Rostow does thoroughly examine economic development that development is far more complicated than what Rostow leads the reader to believe and may not be so easy to suddenly be able to develop one's country as Rostow implies. Rostow would likely be described as a modernization theorist who believes that a clearly laid out plan can be applied to any state no matter the circumstances. The fact of the matter is that development does not simply follow one plan as each state is quite different. In order to provide more of an understanding of what exactly economic development entails Evans, Rueschemeyer and Skcopopl seek to further analyze this phenomenon.

As previously stated, one must first analyze prior research on the area of interest in order to better understand the variable at hand as well as its significance. In the book, Bringing the State Back In, by Peter Evans, Dietrich Rueschemeyer, and Theda Skocpopl the authors seek to further address the issue of economic development. Within his research, Evans states that public enterprises as well as early economic self-sufficiency are often promoted by a state (Evans 99). Governments have also been known to use the following strategies in order to promote economic growth: import substitution, industrialization, as well as a low reliance on foreign investment

(99). Evans also argues that there is an overwhelming amount of evidence that states will also use tradition as a means of manipulation rather than as a constraint on action (300). An argument is also presented that within certain conditions including a lack of access to information, high risk, and uncertainty, there are individuals who will elect to adopt short-run political policies as a means of maximizing their status, wealth and power (301).

Evans also includes a major theory presented by rational-choice theorists who argue that the success of a group in forming a viable political organization is dependent on the political entrepreneurs' ability to understand problems that can arise within an organization as well as how to address these issues (Evans 302). Evans continues this argument in stating that the "good entrepreneur" understands the organization as well as the rationale of an individual's behavior (302). The problem with this notion is that incentives that are commonly used typically miss the broad patterns of countries in terms of structure as well as development (302). Throughout his book, Peter Evans points to cases within history to help better explain economic development. In particular, Evans analyzes part of the developing world including Latin America and Africa. Evans' research most certainly helps to better provide a background of the dependent variable in question, economic development. Evans, however, could expand his research more by explaining economic development is and its significance more thoroughly. Evans' research displays faults in the sense that Evans assumes the reader has a relatively strong understanding of economic development and fails to set the base of economic development before discussing it as a whole.

Another theorist who seeks to analyze the economic development of states is <u>The Rise and Decline of Nations</u> by Mancur Olson. Within Olson's research, he seeks to analyze whether a society has the capability to achieve a rational or efficient economy through bargaining amongst organized groups (Olson 37). Olson maintains the view that small groups are unlikely to be able to do so let alone a society (37). Olson defines these groups as consumers, taxpayers, the unemployed, as well as the poor who all lack the incentive or numbers to organize. These groups would also be extremely likely to be left out of the bargaining within this type of economy (37). While these groups may not have the incentives or numbers to be able to organize, Olson does point out that in most cases organizations do want to see economic growth happen (41). Within a well developed state, Olson anticipates that the available technology will be better as well as the goods to be cheaper (42).

Olson's research also brings into mind the affects of collective action in regards to development. According to Olson, the typical organization that focuses on collective action represents a rather minute segment of society and therefore will have little to no incentive to make any kind of sacrifice for the betterment of society (Olson 44). This type of organization is more commonly known as a special interest group (44). Special interest groups are not necessarily a negative part of society as they can help to boost an economy by lobbying for a price increase or to lower the tax of a particular product (69). According to Olson, lobbying special interest group increases the complexity of regulation and the scope of the government by creating provisions and exceptions (69). An example of such lobbying would be in the case that the group wins the tax reduction for income that ultimately will make the tax code longer and more complicated (69). It is important to keep in mind, however, that special interest groups are much more interested in gaining their portion of the national income rather than trying to make societies more productive (75). Olson also proceeds to argue that unions are much more likely to form when import-substituting industries are protected (170). Olson argues that whether a union forms or not, the population will typically have more influence on public policy (170). It is important to note, however, that these groups can cause instability in the state through strikes or riots thus causing economic growth to substantially slow or potentially even stop (170).

In order to have a proper discussion of what impacts a state's ability to develop economically, Olson also discusses the issue of external factors as well as domestic. In particular, Olson places a focus on the discussion of the common market and free trade (Olson 119). The concepts of common market and free trade are meant to allow the relatively unrestricted movement of labor, capital, as well as firms within a larger area (119). It is important to note, however, that the gains that a state may find from free trade are not sufficient enough to explain substantial economic growth as a whole (121). Developing countries have attempted to enact common markets as well as a comparative advantage in hopes of improving development but thus far have not been able to promote growth (132). Olson argues as well that caste systems within a state can maintain a role in the distribution of wealth. For example, the caste that enjoys prosperity will rise gradually and may very well choose to impose strict rules in order to maintain their status (157). One particular myth Olson chooses to emphasize in regards to development is that the economic development of poor countries is extremely difficult and requires special promotion (175). This myth is rather flawed as it fails to look at the fact that poor nations can choose to borrow technology from developed nations and thus improve their techniques of production at a rapid rate (176). Overall, Olson provides a very thorough analysis of economic development. Olson's research provides a strong example of what factors can largely influence economic development particularly within the realm of societal structure through special interest groups as well as caste systems. The one important issue to note with his research, however, is that his case studies largely focus on democracies and fail to account for other forms of government and how they may impact development. A stronger case study would provide data amongst a wide array of governments amongst countries in order to more thoroughly analyze the impact that political structure may have on economic development.

The article, "Compressed Development," by D Whittaker and Tianbia Zhu provides their theories in regard to explaining the phenomenon of economic development. Whittaker and Zhu focus in particular on the study of late development noting that there is an acceleration and uneven pace of change in public attitudes and institutions (Whittaker 440). According to Whittaker and Zhu, recently developing countries confront a world in which production systems have become disintegrated and geographically dispersed especially those systems that are necessary to drive the pace of development (440). The authors seek to explain their view of economic development by describing what they believe is to be a new form of development post the stage of late development. Whittaker and Zhu call this new stage compressed development and argue that the driving factors include the accelerating development of new technology, information and communications technology, new business models including specialization, as well as global capital flows that are enabled by financial liberalization (441). Whittaker and Zhu define compressed development as different stages of development influencing each other (447).

Whittaker and Zhu also mention within their study another researcher Evans who conducted research on late development. In Evans' research, he found that the most positive features of this stage of development include: an autonomy-coherent structure populated by professionalized, well paid, career-oriented, elite bureaucrats who focus on selective collective projects (441). In these particular cases, Evans describes a strong connection to industrialists, land owners, as well as the labor force (441). In terms of late development, it has also been generally argued that late developers need to develop differently than the early industrializers (442). This argument differs from the major developmental theory of Rostow proving there are other ways for a state to develop and that the ways of the past are no longer applicable to the ever changing world of development. This is not to discredit Rostow but rather to provide the argument that developmental theories need to adjust to the changing world around them. According to Gerschenkron, late developers are not at a disadvantage as they have the example of earlier industralizers to study and know what aspects of development to emulate and which to avoid (Whittaker 443). Gerschenkron also argues that late developers focus on directing limited capital to areas that were vital to early developers (Whittaker 443). The authors of this article also mention that in recent years there has been a growing recognition of the social dimension of development as well as the role of social policy in promoting economic development (454). To support this claim, the authors cite Pierson and Mkandawire who argue social policy is necessary in late industrialization in order to ensure national cohesion as well as to produce the social pacts and capital needed for the process of industrialization (454). Whittaker and Zhu also present the difficulties that late or compressed developers face as the compression and engagement in new systems create new challenges for the state as it faces several stages of development simultaneously (454). Whittaker and Zhu's article allows for an interesting perspective to be presented especially in order to help better explain the issues that countries still developing in today's society faces. However, their model of compressed development is slightly unclear and needs to be more thoroughly explained and supported if it is to be adopted as another model of economic development. While the authors mention compressed development and provide a brief definition, they fail to provide a thorough analysis of what compressed development is and its applicability to modern society. This particular study holds some use as to helping to explain modern development but is not expected to be a focus of the research as the research development still focuses on state economic development as a whole.

Political Structure:

One particular area that needs to be analyzed in regards to economic development is the political structure within a given state. In Karen Barkey and Sunita Parikh's article, "Comparative Perspectives on The State," the authors seek to address the relationship between these variables. According to Barkey and Parikh, the state has become a central concept in which researches have sought to explain its relationship in regards to social, economic, as well as political change (Barkey 524). In the early stages of development, the state will differentiate itself from society in order to develop. Once the state has been able to consolidate its power, it will then seek to further the goals of the system (529). To better understand why state development is still very much relevant today, Barkey and Parikh differentiate between those countries that have been able to develop in comparison to those who are still struggling to do so. For instance, while prior states had established themselves, such as European countries, many third world powers were left inheriting their predetermined state structures and boundaries whether it was beneficial or not (531).

Within developing nations, state elites have relied primarily on despotic power as they have been unable to create effective state administrations that inevitably have hindered the development of infrastructure (Barkey 532). Barkey and Parkih also argue that a common perception amongst states has been that rapid economic growth is necessary in order to compete in the world market and requires a planned and sustained state intervention (533). Barkey and Parikh make the argument that the most important factors in regard to economic growth include state autonomy and state capacity (533). Barkey and Parkih define state autonomy and capacity as the internal characteristics of the state as well as its relationship to groups within society (533). State autonomy and state capacity are particularly important as states need to have control of the development process in order to ensure success (533). Barkey and Parikh also note that as the international system follows a capitalist market, political and market dynamics will influence state autonomy (533). Political structures most certainly maintain importance in development as a state's capacity to carry out its objects is a direct result of its internal institutional structure as well as its ability to mobilize external resources including expertise and capital (534). Barkey and Parikh place a particular emphasis on the notion that when a state is directing economic growth, state autonomy and capacity must be high in order to have a successful economic development (534-535). While the article does provide a strong analysis of the importance of political structures within the state, Barkey and Parikh could strengthen the article by focusing the topic more and analyzing economic development in more detail. While this article makes strong arguments, the topic still remains rather broad and could strengthen by conducting an analysis of the relationship between political structures and economic development.

Another particular source that better explains the importance of a state's political structure results in the article, "States and Economic Development," by Atul Kohli. Kohli introduces the topic in his article by first introducing a major theory of development that dominated the international system for decades. This theory, also known as the Washington Consensus, holds that a state should open up its economy to the international market and reduce government role in economics. This theory continues in saying that by doing so, states will experience rapid economic growth (Kohli 212). This consensus was largely a result of two major beliefs: state-led economic growth was a disaster in the developing world and that globalization changed the rules of economic game in that states had few alternatives but to embrace this new economic open policy (213). Kholi then proceeds to describe the developing world by stating that during the era of state intervention and import substitution, rather than minimum government role, the developing world actually grew faster (213). The neoliberal approach through the Washington Consensus was largely unsuccessful in developing areas including Latin America and Sub-Saharan Africa as their economic development was severely lagging behind the development of other countries (213).

Once Kohli establishes a general explanation of developmental theories and patterns, he takes a more focused approach to explaining the economic development of states. In terms of development, Kohli identifies three major patterns of state authority: neopatrimonial states, cohesive-capitalist states, and finally fragmented-multiclass states (214). Kohli defines neopatrimonial states as those where public officeholders treat public resources as their personal patrimony (214). This approach as a whole tends to fail as public goals and capacities to pursue specific tasks have been repeatedly undermined by personal group interests (214). Those states that fall under the distinction of neopatrimonial have emerged as weakly centralized and with authority structures lacking legitimacy (214). These developing states have also seemed to struggle with leaders that are unconstrained by norms or institutions as well as poorly structured beuacracies (214). Cohesive-capitalist states, as Kohli classifies them, are characterized by centralized authority structures throughout society (214). These authority structures are also known to be deeply engrained in society with a narrow elite alliance amongst the state and capital (214-215). These states, as a whole, have tended to equate rapid economic growth with national security with economic growth as a high priority (214). In these states, the government also maintains a close alliance with producer or capitalist groups (215). In these cases, there is a competent beaucracy as well as the government has a tight control over the labor force (215). In these states, the governments also tend to be authoritarian and rather repressive (215). It is important to note that states with a strong centralized government, particularly those that are repressive, often are extremely involved in the decision making in regard to the economy. This is likely to cause a very strong direct correlation amongst political structures and economic development.

In the case of fragmented-multiclass states, a command authority exists in which leaders are often held accountable for poor public policies as well as performance (Kohli 215). In these states, leaders must constantly be concerned over public support (215). Kohli tests his theories of state development through a case study of South Korea, Brazil, India and Nigeria (216). In the case study, Kohli finds that cohesive-capitalist states have state-guided corporations and have typically been the fastest in terms of growth within the developing world (216). These states have also developed trade and industry with a rather well-designed, consistent, and thoroughly implemented policies (216). In these countries, the government also eases supply and demand constraints amongst private entrepreneurs (216). Cohesive-capitalist states also found capital to be boosted at times through superior tax collection and public investment (216). Economic policies within these countries also included expansionist monetary and fiscal policies, tariffs, as well as exchange-rate policies that boosted domestic demand (216).

In the cases of fragmented-multiclass states, however, they were much less effective at alleviating supply and demand constraints by investors (Kohli 217). In these cases, tax-collecting capacities were also very limited (217). Repression of labor was also not enacted which made it much more difficult for investors to mobilize a cheap and docile labor force (218). The monetary and fiscal policies in this type of state reflected a growth commitment but fluctuated amongst political cycles (218). As a whole, state intervention in developing states has often been motivated by the need to build short-term political support via patronage or by personal greed (218). Political instability, inconsistent policies, as well as poor allocation of resources for personal and sectional gains have hurt state-led efforts to promote industry and growth (218). Kohli also points out that as a whole, most developing states have been the product of colonialism and have been molded by this as a result (219). Kohli also makes a point to emphasize within his article that improving the quality of states and other institutions will remain a precondition for improving economic outcomes (224). One way that Kohli could potentially improve the article would be to go even further into the types of political structures and compare in further detail which types states have typically adopted as well as the impact of adopting such policies.

"Democracy, Development, and the International System" by Carles Boix also seeks to explain the relationship between political structures and economic development. According to Boix, development and democracy hold a strong correlation in the contemporary world (Boix 809). Boix also argues that in 1999, 94% of countries that have a per capita above $10,000 held free and competitive elections while only 18% with a per capita income below $2,000 did not hold such elections (809). By analyzing per capita income, researchers are able to predict 76% of the annual observations of political regimes in sovereign countries post WWII (809). A statistical association between democracy and income has also been generated and has prolonged a debate over the impact of economic development on political institutions (809). Boix also states that most literature has also found that higher levels of development increase the likelihood of democratic transitions and the stability of democracies (809). Within his article, Boix highlights a rather large issue in development that is still prevalent today. By the middle of the 19th century, those countries that were wealthier at this given time frame were still ahead of their counterparts 150 years later (811). Higher levels of development as well as high-income voters will also be more willing to accept democracies as their form of government (814).

Development has also been generally found to correlate with lower levels of inequality especially in the long run (814). Boix also argues that as inequality declines, the redistributive demands of low-income voters will fall and those high-income voters will be much more likely to support democracy (814). Development had also been correlated with a shift in the nature of wealth from fixed assets to mobile capital (814). In those states with unequal economies, the threats of high taxes under a democracy compel high-income individuals to support authoritarian regimes over those that are democratic (814). Boix argues further that those poor countries with a small middle class and thin political center have a very low chance of consolidating a democracy (815). While this article provides an interesting perspective in the relationship between political structure and economic development, there is one substantial flaw: the author focuses on only one political structure and leaves out all others making his study hold little application to be able to applied to the international system as a whole. Based upon the prior research, the relationship between a state's political structure and its economic growth is expected to have a strong direct correlation. It is believed that in the case of democracy and development that a state may not initially form as a democracy but in order to end up on the right track that democracy is adopted in order to truly drive any significant development.

As it is incredibly important to discuss political structures in terms of economic development, the notion of corruption is just as necessary for discussion. The article, "The Context for Political Corruption: A Cross-National Analysis," by Xin Xiahui seeks to provide such analysis. According to Xiahui, recent theories have stated that the causes for corruption are as follows: monopoly power, little accountability, and wide discretion (Xiahui 294). Since the 1990s, states have become much more interested in the need to counter corruption and through regional groups such as the OAS they have been better able to do so. For instance, in 1996 the

OAS established the Inter-American Convention against Corruption (294). The issue of corruption has become increasingly important as it acts as an impediment toward sustained economic development as well as newly established democratic regimes (294-295). While corruption has been largely considered to be a hindrance on economic development, some theorists have argued that bribes can actually encourage economic development by expediting project approvals (295). Even so, this research will hold to the notion that corruption is ultimately harmful toward economic development. In order to more effectively deter corruption, Xiahui argues that reforms reducing the number of permits and discretion of bureaucrats are an effective means of battling corruption (295). It is also quite likely that without reducing the degree of corruption investors will most likely avoid starting or maintaining any investment causing exports to halt as well as possibly decline as a result.

Within the author's work, Xin Xiahui presents other theories in regard to corruption and economic development. Xiahui states that many modern theories have researched corruption by placing a focus on institutions with corrupt officials (Xiahui 296). The organizational features such as the presidency, legislature, public agencies, and courts are all believed to affect the degree in which officials are corrupt (296). In order to address corruption within these organizations, reform movements including the removal of corrupt officials from office is a strong approach to solving this issue (296). However, there is little chance that there will be a long-term effect if organizations and the incentives of those in office fail to change (296).

Another theory particularly useful to explain corruption within political structures lies within the principle-agent theory. According to Xiahui, agents within the political structure commit corrupt acts when they maintain discretion in actions, little accountability, and a considerable degree of monopoly power (Xiahui 296). Within the article, Xiahui also cites the theorist Weber who argues that economic development needs legally driven bureaucracies that have very little corruption (298). Xiahui also argues that only a large economy will generate enough tax revenues necessary for the government to pay public officials on a regular basis in order to deter the temptation of corruption (298). In the cases of poor economic conditions, the government will collect few taxes and pay officials poorly (298). As a result, officials have to resort to using their power to supplement incomes through corrupt transactions (298). For those states strong enough, it is also important that the government discourage corruption. State strength according to Xiahui includes: legitimacy, participation, and mobilization (298). As a whole, citizens are also much more likely to view strong states as legitimate and will demand more transparency through government proceedings and punish those officials who are found to be corrupt (299). A state's ability to control corruption will disintegrate during those periods of rapid social change as bureaucracies become disorganized and officials will become less accountable (299). Xiahui's research provides a strong background into the varying levels of corruption as well as when corruption is more likely to occur. By providing the difference in strong and weak states, Xiahui also highlights one of the major issues that those less developed nations face consistently. By helping to explain corruption as well as its effect on economic development, Xiahui helps to provide a strong base as to why this relationship needs to be studied further.

Douglas Houston's article, "Can Corruption Ever Improve an Economy? helps to further explain the issue of corruption. According to Houston, many have argued that corruption only leads to problems for a state's economy (Houston 325). One such organization seeking to fight the issue of corruption is Transparency International whose main focus is to eliminate corruption altogether (325). The need to address such an issue centers around the belief that corruption is expected to increase the economic costs of doing business by undermining laws (325). Despite the common belief that corruption is a negative concept, Houston presents the argument that there are cases in which engaging in corruption exceeds the cost of corruption (325). According to Houston, corruption can expand economic activity when citizens bribe officials to evade bad laws (326). When the protection of property is weak, corruption can in fact expand the economy of the state (326). On the other hand, when protection is strong corruption can in fact restrict economic growth (326). Houston does admit that corruption can damage legal institutions (327). Even so, Houston maintains that corrupt behavior can have a positive long-term effect for those states that fail to defend personal or economic freedom (328). In the end, Houston provides a decent analysis of corruption especially in terms of economic development. However, there is much to improve upon in order to strengthen the argument. Houston needs to expand upon what the issue of corruption is, what the significance of corruption is, as well as provide evidence favoring arguments that corruption is a hindrance as well as to support his argument that corruption can in fact be a benefit.

Education:

The article, “Impact on Eduaction on Poverty Reduction” by Masood Sarwar Awan provides a different factor of economic development deserving of discussion: education levels. In particular, Awan focuses on the relationship between education and poverty stating that they hold an inverse relationship (Awan 660). Higher levels of education amongst a population have also been found to decrease the amount of individuals who are labeled as in poverty (660). Knowledge and skills have also been linked to higher wages (660). According to Awan, there is also a direct effect of education through increased income or wages (660). An indirect relationship also exists in the sense that education particularly on poverty can increase the living standard (660). In other words, basic needs are more likely to be fulfilled including water, sanitation, health facilities, and shelter (660). Governmental investment in education also increases the skills and productivity of poor households (660). As whole, poor countries have low levels of education as well as children of poor families are less likely to attend school (660). Lack of education has also been found to be a cause of low earning potential for an individual as well as an increase of likelihood that poverty will continue into future generations (660). Awan emphasizes the need for governments who are developing economies that they should reduce poverty in the cheapest manner possible and place substantial focus on primary education (661). While this article presents interesting arguments in regards to education and economic development, the article is rather short and does not contain a whole lot of detail on the topic. The author also mentions in his methods that he has run a regression but there is no such analysis present in his published research. While it is important to consider education levels in a given state, this particular aspect would be better placed under a state's social structure with research focusing on this particular relationship in terms of economic growth. In the end, education is not believed to hold enough significance to be considered in terms of economic development. This is not to say that education levels do not have some sort of impact but rather it is strongly believed that this factor has far too little impact to be considered as a key part of the study of economic development.

Urbanization:

Urbanization is also a rather important aspect to consider when analyzing the economic development of states. In Andrés Cadena's article, "The Growing Economic Power of Cities," he analyzes this particular relationship and argues that the rise of emerging market cities is a powerful force for global growth (Cadena 1). As a whole, rapid rising levels of public and private debt in developing states has led to the deleveraging and depressing of consumption (1). The massive wave of urbanization within the developing world has been able to counteract this depression (1). Urbanization has become such a prevalent concept in the international system that more than half of the world's population now lives in cities (1). Cities have garnered appeal as they offer a higher standard of living than a rural setting (2). Additionally, the average income of those living in a city is one and a half to three times the amount of those who live in rural areas (2). Those cities with 150,000 or more in population are also able to reduce the average cost of providing basic services and necessities to the people (2). Cities have also been able to promote economic growth as they are highly appealing to productive businesses (2). By 2005, it was estimated that the top six hundred cities will generate 60% of global GDP with many these new cities coming from developing areas such as Asia and Latin America (4). It is also anticipated that four hundred emerging-market cities will generate almost 45% of global growth (5). The rise of midsized cities has also been a powerful force in global economic growth as the raise in incomes of billions as well as a global demand for goods and services are present (5). The rate of urbanization does, however, eventually plateau within a country once a country has become what many would deem developed (6). It is also expected over the next few decades for the following trends to impact the development of cities including: aging, decreased consumption and growth, as well as a change in economic activity (8). Overall, this article provides a strong background of what urbanization is as well as its effect on economic development. However, the article could most certainly expand to explain the importance of urbanization in greater detail. In particular, it is important to realize with urbanization that this trend often leads to the rapid birth of cities and continues to drive this trend as well as development as a whole as the people flock to the city in hopes of a better life and more opportunity. It is also important to note that urbanization can definitely have a rather negative effect on economic growth as those who live in urban areas are able to come together much more easily than those in rural areas and choose to revolt if they are unhappy with the current economic situation.

“Cities and Development” by J Vernon Henderson also seeks to analyze the relationship between urbanization and economic development. Henderson maintains the view that urbanization does not cause development but sustained economic development cannot occur without urbanization (Henderson 515). Developing countries, as a whole, have either national urbanization policies or policies that govern the allocation of resources directing to a move to urbanization (515-516). It is important to note that rapid urbanization requires a massive movement of a population, modernizing traditional institutional and social structures, as well as massive local and intercity investments in infrastructure (516). National urbanization policies also reflect an increase in the size of governments as well as their involvement in national consumption and investment (516). While Henderson presents some rather valid arguments, the major issue with this article is it leaves little analysis to pull from and be able to better assess the relationship between urbanization and economic development. To better strengthen this article, Henderson would need to go into much more detail in regards to urbanization, its importance, as well as its impact on economic development. While it is true that those more urbanized societies are much more economically developed, it is believed that urbanization while should be considered is not as crucial aspect to development as other variables such as political or social structure. Even so, urbanization is very much an important and common part of development and so needs to be analyzed in terms of its affect on state economic development. It is believed that urbanization still maintains a large significance in terms of development as urbanization commonly expands development as not only do cities boom but also resources and other services increase as well as the state gains the ability to function in a more developed manner.

Social Stability:

"The Role of the State in Economic Development" by Guido Tabellini also provides analysis of the relationship between social stability and economic development. According to Tabellini, the key challenge for most developing countries is to create basic legal and institutional infrastructures that protect property rights, enforce private contracts, as well as allow individuals to freely take advantage of market opportunities (Tabellini 283). Tabellini also maintains that governments should provide public goods, correct market failures, reduce inequalities in income/opportunities, and to stabilize excessive economic fluctuations (283). Institutions that protect property rights are also seen as essential to economic development (284). The quality of institutions and structural policies can be explained through the colonial history of countries (285). Some colonies in this time exploited to extract resources while others had European settlers enforce their economic and political institutions upon them (285). Those that were used by imperial powers for resources were less able to develop adequate institutional infrastructure (285). The developing world continued to face serious challenges in the 20th century as from 1960-2000 the growth rate of developing countries was far from stable (289).

According to Tabellini, a stable macroeconomic environment, social stability, that includes the following: law and predictable inflation, a sustainable budget balance, as well as a stable and competitive currency are believed to be ingredients to economic success (Tabellini 290). The macroeconomic policy environment is measured by the rate of variability of inflation and the government budget surplus in percent of GDP (290). Inflation, budget deficits, and a distorted exchange rate market are all believed to reduce rather than promote growth (290). Within the article, Tabellini also cites researchers Easterly and Rebelo who found that a share of public investment in transport and communication is positively correlated with growth (Tabellini 293). Trade liberalizations, according to Tabellini, remove economic distortions and create new opportunities for the private sector (298). The opening up of an economy also acts as a counterbalance on governments as it increases the cost of pursuing inefficient policies making them less desirable (298). In particular, Tabellini highlights the importance of the state to provide such public goods in order to ensure stability of not only the societal structure but the regime as well. This article is also believed to highlight the importance of an open vs. closed economy as well. Even so, the researcher could strengthen claims by conducting his own research further in order to prove the theories that he presents.

Andrés Rodríguez Pose provides the analysis of economic development in a different light with a comparison to a state’s social structure. In particular, Rodríguez analyzes the importance of communities within development. Rodríguez defines the major aspects of a community as norms, traditions, social conventions, interpersonal contacts, relationships, as well as informal networks (Rodríguez 1). Society is defined as those institutions that are defined by more transparent rules (2). Within his research, Rodríguez places an emphasis on the society and communal factors particularly within territorial patterning and the differentiation of economic development (2). He also places a rather large focus on examining the role of institutions and the underlying social forces in economic development (3). In general, communities are thought to have beneficial effects on the economy by generating trust, reducing transaction costs between economic agents limiting moral hazards, as well as free riding (3). Free riding can be a rather large issue within state economies as individuals may choose to try and benefit from the system by not contributing rather than helping to improve the economy by taking an active role. It has also been suggested that a positive correlation exists between communities and economic development (3). Communal groups can have a negative effect on development as clientelism and nepotistic practices can result excluding portions of society from taking an active part in the economy or seeing any sort of economic benefit (4). Rodríguez emphasizes the importance of promoting individual choice and adjustment in order to better develop economically (4).

Rodríguez continues his discussion of social structure of states through further analysis of the importance of communities. According to Rodríguez, low levels of a communal base could potentially lead to a confrontational society (4). This alone holds substantial significance as economic development often slows or comes to a halt if there is too much confrontation within a society. Within society, groups and rules interact and ultimately shape the basic ways in which individuals can participate in the economy by creating incentives of what actions to avoid and which to take (6). Successful economic development, in Rodríguez' eyes, includes an effective social policy including distribution of income as well as the process in which incomes are determined (8). Too high of inequality can also lead to the withdrawal of efforts by potentially productive actors (8). Appropriate distribution, on the other hand, encourages participation and discourages any withdrawal in effort (8). Moderation in inequality can also improve investments, creation of skill, as well as an incentive to fully participate in the economy and become an entrepreneur (8). This moderation also improves the willingness to pay taxes and to invest in the economy (8).

Communities hold a rather strong role in economic development for additional reasons other than those previously mentioned. For example, communities are capable of voicing their opinions to agents and even in modern economies are able to maintain a large role (Rodríguez

10). Competition and political interaction between groups also helps to counteract the issues of corporatism and distributional holdups (10). One significant positive effect of social structure is the fact that it reduces any attempt of an individual or group trying to gain absolute power (11). Revolutions, implementation of major changes in societal rules, or internal conflicts can significantly alter the balance of society according to Rodríguez (12). The potential for rapid institutional change is also likely to exist when there is a severe imbalance between community and society (17). A rapid institutional change can drastically impact economic development as the entire state becomes unstable causing any sort of attempts to continue progressing the economy to grind to a halt. This is precisely why it is so important to not only study social stability but also to consider the durability of a regime in regards to its impact on development. This source most certainly does a great job of emphasizing the importance of social structure as well as its relationship in regards to economic development. The author could potentially strengthen his argument by providing more specific examples to prove his argument whether through data or case study analysis.

Richard Breen's article, "Inequality, Economic Growth, and Social Mobility," helps to further shine light on the relationship between social structure and economic development. According to Breen, high levels of social mobility are necessary to ensure economic growth (Breen 429). High levels of inequality, on the other hand, typically restrict the rate of social mobility (429). Breen argues that the relationship between economic growth and social mobility is rather difficult to determine (429). Breen uses the neo-liberal model to analyze the relationship between inequality and economic growth (430). Breen also makes the argument that an inequality of rewards provides incentives for a population to work and provides a desire to do a good job (430). The liberal theory of industrialism states that economic development leads states to become more meritocratic and positions in society will be filled on the basis of achievement (430). Breen also notes that as the production of goods and services increasingly depends on scientific and technical knowledge, education levels become more important (430). According to neo-liberal theories, individuals need an incentive to perform and essentially allow for economic growth (433). While Breen introduces major theories of economic development as well as does shine light on the relationship between the two variables at hand, his article still remains rather vague and needs more specificity in order to more thoroughly explain social structure and development.

Neil J Smelser's book, Social Structure and Mobility in Economic Development, provides extensive insight into the relationship between social structure and state economic development. Development as a whole involves a complex series of changes in rate of growth including output per capita, literacy, and political participation (Smelser 2). Rapid economic development, according to Smelser, establishes pressure to the state to adjust the education and training of a new type of labor force (2). Often with the rapid development of an economy, social structure changes as many choose to move to an urban area (2). Individuals must also learn how to respond to new rewards and deprivations as well as to accept new standards for effective performance (2). Smelser defines social structure as a construct used to characterize recurrent and regularized interaction between two or more persons (2). One of the most fundamental aspects of a social system includes the general customs of social life (3). Directional tendencies also exist within a social structure including: production, allocation, and the consumption of scarce commodities (3). Within the social structure, there is also a coordination and control of collective actions as well as the creation, maintenance, and implementation of norms within the system (3). It is believed that social structure will prove to be a crucial aspect to economic development as the strength and stability of a state's society can essentially make or break a state's ability to develop.

In his analysis of social structure and economic development, Smelser dives into further detail of the makeup of a social organization. According to Smelser, the importance of resources includes literacy and the training of the population (3).The basic aspects within a social structure include the interaction amongst individuals and the social organization (4). The important aspects of a social structure are that the interaction is selective, regularized, and regulated by various social controls (4). Smelser also discusses the use of sanctions to control the behavior of people within a social structure. These sanctions help to establish the roles and expected performance of these roles within the structure (4). Institutionalization combines all of these elements including roles, collectives, values, norms, and sanctions (5). According to Smelser, the important aspects of states are that economic, political, and racial-ethnic roles coincide with one another (10). Smelser does make the note that rapid development can cause tensions between differentiated and undifferentiated structures including egalitarian and hierarchical principles (12). Many underdeveloped countries choose a highly centralized approach to development which tends to generate tension and conflict (13). Smelser also states that it has been suggested that variation in rates of development is partly due to a difference in values linked to entrepreneurial occupations (21). This article as a whole helps to explain how a social structure works as well as its importance but Smelser's argument and research could be improved by more thoroughly analyzing the relationship between social structures and economic development.

External Influences:

In today's world, external factors must be considered in regards to the analysis of economic development. Xinxuan Cheng helps to better paint the picture of this relationship in her article, "Analysis on the Development and Influence of Overlapping Free Trade Agreement." In today's society, globalization has become a significant factor in economic development. In order to obtain trade deals and reduce risks from the opening up of economies, regional economic organizations have become an important strategic choice (Cheng 45). One particular situation that countries must now face is that trade liberalization has become much more popular and those countries still developing have had to give up their anti-trade and anti-market strategies in hopes of a progress in development (45). The number of regional trade agreements, according to the World Trade Organization, has increased by approximately eight times (45). Many countries have hoped to achieve substantial economic benefits through these free trade agreements (45). The emergence of the phenomenon of overlapping free trade agreement has been found to correlate with the development of economic regionalization and globalization (46). Free trade agreements have also offered the chance for these countries to maintain a stronger bargaining chip as well as an opportunity for economic competition especially amongst regional agreements (46). It is important to note that this article is a very specific case of external influences but still maintains relevancy as it helps to more thoroughly demonstrate what situations developing countries are having to face in today's society especially in terms of internationally.

"Capitalist Influences and Peace" by Richard Rosecrance helps to provide additional insight into the relationship between external influences and development. Within this article Rosecrance cites Karl Deutsch who states that as agricultural states industrialize, they are less likely to import goods from the outside world (Rosecrance 192). Rosecrance also notes that international markets today are very different from those in the past (194). For example, in the 19^{th} and 20^{th} centuries, trade was the way in which to tie markets and production together (194). During these centuries, conflicts over trade opportunities were also common (194). Within the 20^{th} century, in particular, foreign direct investments and ownership of 10-20% of a company acted as a substitute of failure in trading (194). Rosecrance further argues that development lessons conflict as the middle class prospers and gains power (195). Financially open nations are also less likely to face fewer international crises according to Rosecrance (195). In order to obtain an open economy, political structures need to adopt important factors, including capital, that favor having more of an open strategy (195). While Rosecrance highlights some of the major aspects of external influences in regards to development, he greatly needs to be more detailed in his analysis and provide more information so that those reading his work can better understand the importance of external influences as well as how they are likely to impact economic development. As it stands, Rosecrance's article is far too short and needs to be more expanded more as development is not as simplistic as this article paints it to be. In fact, the relationship between external factors and development has only continued to grow in significance as the world becomes more intertwined due to globalization.

Paola Subacchi seeks to address the relationship between external influences and economic growth in her article,"New power centres and new powerbrokers: are they shaping a new economic order?" Subacchi argues that global integration by trade and finance has become a major part of the international economic reality (Subacchi 485). The countries with the most mature industrial economies are able to shape the world economy as well as influence its dynamics (485). These countries are also able to build up a large capital flow to match their trade surplus (485). What is incredibly important to note in terms of development is that even the most developed states constantly have to worry about maintaining and promoting economic growth in their country. For instance, the United States has the world's largest economy but is currently running an account deficit and is constantly looking for new ways to grow economically (487).

Within her analysis, Subacchi also mentions the center-periphery model used to describe international economic development. This model states that the world economic system is organized around two poles linked in an asymmetric power relation in which the center controls the system (487). The center also exports financial capital and high value goods to the rest of the market in exchange for commodities and low value goods (487). This model has also been expanded to include open capital markets and the market-determined exchange rates within the center (487). The center also issues the main international reserve currency to the rest of the market (487). It is important to note, however, that the model is far too simple to try and explain today's complex international system. Subacchi's argument suggests that analysis should move away from this model to more of a multi-polar structure (488). Subacchi identifies the growing powers in the international system now includes China, India, Brazil, Russia, and the United States. All of these powers have a strong potential for growth as well as capital accumulation (492). Subbachi also emphasizes that economic issues may cause tension or conflict amongst countries. This is precisely why the economy is so often connected to foreign policy concerns (494). As countries develop, they also become more economically integrated and start to liberalize capital flows (495). Subacchi definitely provides a strong basis for the external influences that developing countries as well as those more developed must face in today's society especially in the case of globalization. One particular way that Subacchi could expand

and strengthen her article would be to include more of the impact that external influences tend to have in regards to a country's economic growth especially domestically.

Jeffrey Henderson also seeks to analyze the relationship between external influences and economic development in his article, "Global Production Networks and the Analysis of Economic Development." According to Henderson, a state-centric analysis continues to be a popular means of studying economic development. However, this type of analysis is losing its relevancy as the world is changing and becoming much more complex (437). In order to better understand development, Henderson argues that it is important to first understand how places are transformed by capital, labor, knowledge, as well as power (438). Globalization has drastically changed the traditional focus of development from a state center to economic (438). Global production networks are now expected to take the place of transnational corporations as the most effective form of industrial organizations (443). Henderson describes the purpose of these global networks as they are meant to include intermediate complexity and geographical variation in producer-consumer relations (445). These networks also integrate firms into structures that typically blur traditional organizational boundaries as well as integrate national economies (445). One major issue found in this article is that it actually is too theory based with little to offer on the actual relationship between the variables at hand. This article most certainly offers an interesting perspective in terms of external influences impacting economic development but needs to be addressed more in a political light than business. External factors are also anticipated to largely effect a state's ability to develop economically especially in modern circumstances as countries become increasingly economically interdependent.

Research Design

As previously stated the research question to keep in mind is: What leading factors affect a state's ability to develop economically? While many may argue that state development is no longer relevant, the fact of the matter is that a state's development is continuous. This is precisely why states are constantly seeking new ways to prosper economically. A state's ability to develop economically determines the whole being of the state and without a strong development, the state is at a standstill as domestic issues such as poverty and unrest will only continue to increase. The unfortunate reality is that some states are far less successful in their economic development and even today are still struggling to prosper domestically as well as globally. This research will seek to better address this issue as it paints a clearer picture of what factors make or break a state's ability to develop. The model to be studied will be as follows: Economic Development (x) = Political Structure (y1) + Urbanization (y2) + Social Stability (y3) + External Influences (y4). Each of these variables has previously been introduced in terms of significance through the study of prior research and is believed to be necessary in order to properly study economic development. The hypotheses or expected results include:

> Hypothesis 1: As political structure (y1) stabilizes; economic development (x) will increase
>
> It is expected that the more cohesive and stable a state's government is, the stronger understanding of the economic market as well as an ability to develop effective policies that will help the state to see economic progress rather than degradation. If a state's political structure is weak or unstable, that economic development will slow if not come to a halt altogether.

Hypothesis 2: As the state controls for urbanization (y2), economic development will also increase (x)

As history has proved, those states that have a low degree of urbanization have a tendency to be the least developed countries. It is expected that if there is more of an urban population, there will be much more opportunity for economic growth than a state still largely dependent on agriculture. It is important to note, however, that problems may arise in an urban setting such as violence. Even so, it is believed that research will stand to prove that an urbanized state will prosper economically.

Hypothesis 3: As a state's social stability (y3) becomes more developed (x) economic development will increase

A state's social structure is believed to be detrimental to a state's ability to develop economically. Those social structures that promote equality amongst classes as well as have a history of stability will allow for a state to focus on promoting economic growth. On the other hand, if there is a large divide among classes or a high degree of instability economic growth will be unable to progress and a state will remain undeveloped. Within the case study, social stability will take these subcategories into account to help portray stability within the state as a whole. Durability will be later studied in Part B.

Hypothesis 4: The better a state is able to adapt to external influences (y4), the more economically developed (x) the state will become

External influences are also believed to be a rather significant factor in terms of economic development especially in terms of today's standards. The reality of the international system has dramatically changed over the years as states have become more

> interconnected through globalization. This means that protectorate strategies such as import substitution are no longer a realistic possibility for development as states must adapt to the global market. Those states that are more prepared to work within this market and adapt to the ever changing market are expected to be much more economically developed than those still struggling to adapt to this new world order.

The method in which research will be conducted will follow a case study analysis. The regression analysis will come later in Part B. The case study analysis will be gathered through secondary research or the use of secondary source material. The approach in analysis will follow a primarily qualitative analysis. Data will also be collected in order to paint a clear image of how the independent variables are affecting economic development as well as strengthen the research. In terms of what type of study, the research will be conducted according to a most different case study. In other words, cases will be selected according to one that has seemed to have a fair amount of success in its economic development and one that has not. Each case has also been chosen as each was exposed to similar situations throughout their development giving these countries the ability to be accurately assessed within the same scope. The cases that have been chosen for this purpose are Brazil and Mexico. The case selection criteria will be as follows:

Have these states been exposed to similar conditions or are they too different for consideration?

Has the state experienced successful or unsuccessful economic development? The cases shall be chosen with one state that has experienced successful development and one that has been largely unsuccessful.

Is the state considered to be a developed country or is it considered to be underdeveloped?

Measurements:

In terms of measurement, each variable will be considered and importance shall be weighed with each case. The cases will be used to show in these particular countries how much each independent variable (y) affects the dependent variable (x).

Measurements for economic development (x):

Taking into account inflation rates, has the state's economic growth per capita progressed over time, regressed, or remained stagnant?

Measurements of Political structure (y1):

According to Polity IV data, how Democratic is the state?

- As emphasized within the literature review, it is believed that the level of democracy that a state embraces is likely to drive how successful of economic development they will experience.

Does the government consistently enact policies to encourage economic growth?

Has the government had a history of corruption?

- Corruption has also been chosen as an important measurement as this factor is believed to affect development a great deal as not only are finances handled irresponsibly within domestic politics but also will cause outside investment and exports to be negatively affected.

Does the population maintain a high or low level of confidence in their government?

Measurements of urbanization (y2):

What is the percentage of the population living in urban vs. rural areas?

- This measurement has been chosen as within the literature review urbanization became a prevalent issue in terms of factors that impact economic development. This measure will help to analyze to what degree a state is urbanized in order to better analyze this relationship.

Does the country have an issue of overcrowding in urban areas?

-If so, how is the state handling such issues?

- This measure has also been selected as urban bias also has been discussed as a significant factor in regards to a state's ability to develop and so must be researched further.

Is there a high rate of violence in urban areas?

How does the state attempt to address such issues?

-Are these policies effective?

Measurements of Social Stability (y3):

Is there a large economic gap between the wealthy and poor?

Are ethnic or racial tensions apparent within the state?

Is there gender inequality in the state? (I.e. Are women provided equal rights?)

Measurements of External influences (y4):

How has the state handled the issue of globalization?

Is the country involved in regional groups? How so?

How involved is the state in the global organizations?

Does the state border any powerful countries?

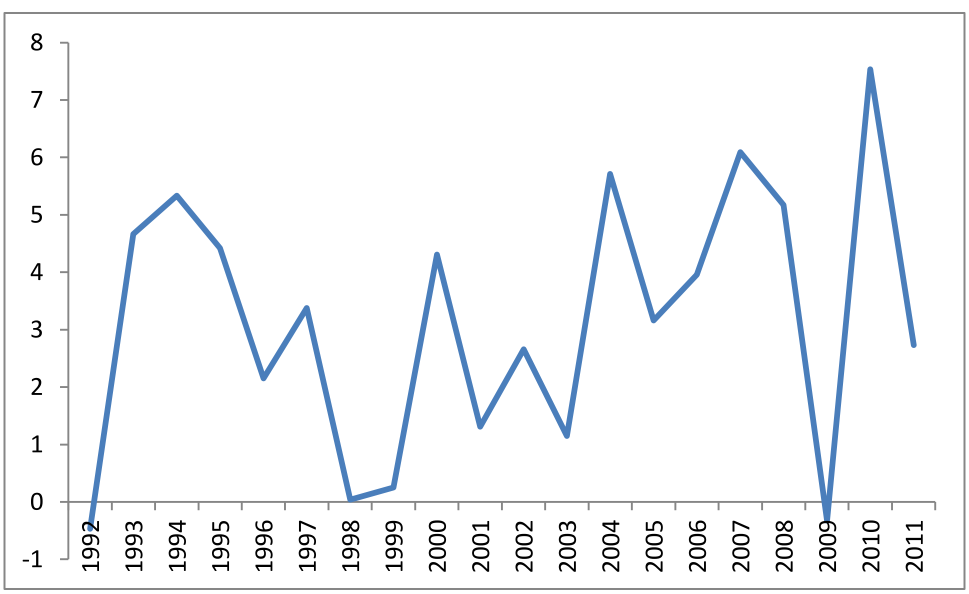
-Does this seem to impact the state's development?

- Each of the measurements for this variable (y_4) have been chosen as it is believed they are the most effective manner to analyze a state's reaction to external influences as well as how involved a state is globally as such involvement has been emphasized within the literature review as having significance in terms of development.

Results

Economic Growth (x):

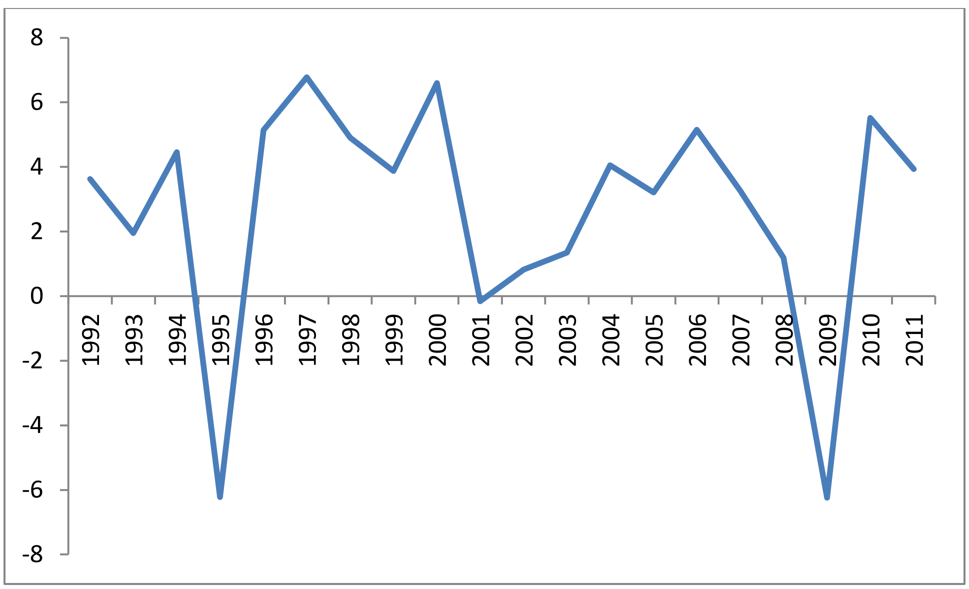
Brazil GDP:



GDP Growth Rate 1992-2011 (World Bank 2012)

This acceleration in growth has largely been due to a decrease in unemployment hitting a historic low of 5.7% in 2010 (413). It is important to note that as a whole Brazil has maintained one of the highest interest rates in the world (416). This high interest rate has hurt Brazil in the past as the state's dependency on external capital discouraged investment as well as harmed the competitiveness of domestic producers (Gómez 249). Even so, Brazil has continued to experience economic success as the bank credit of Brazil's GDP rose at 26.7% in 1998, 28.1% in 2005, to 47% in 2010 (Amann 417).

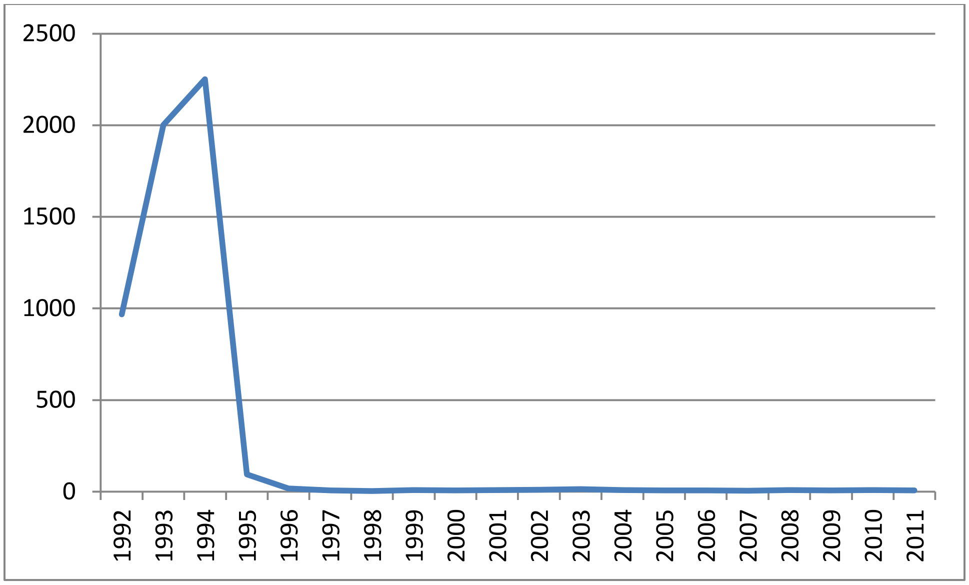
Mexico GDP:



GDP Growth Rate 1992-2011 (World Bank 2012)

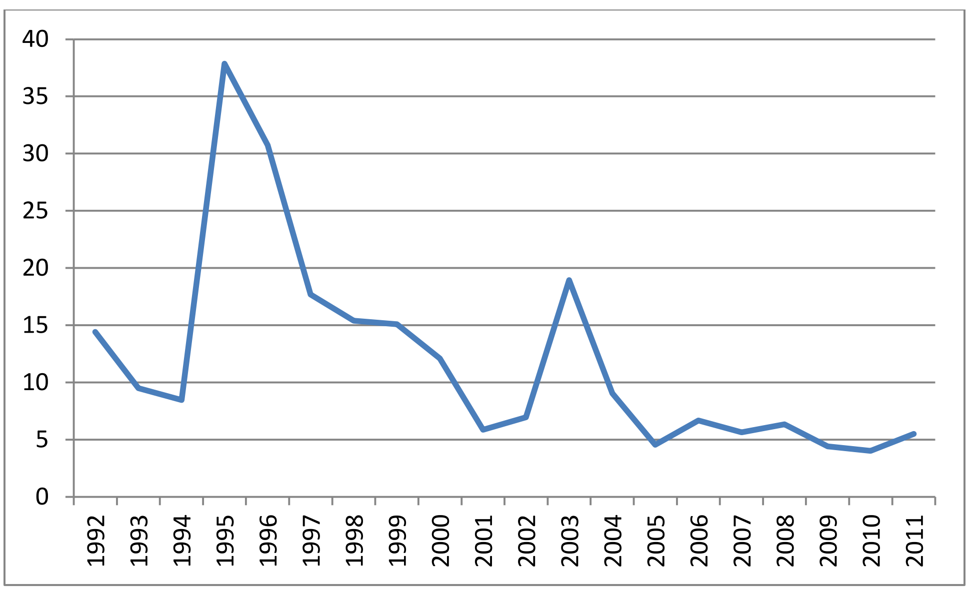
As a whole, Mexico's inflation rates have decreased overtime (see below graph) with significant spikes in an increase in 1995 and 2003. GDP growth, on the other hand, has been much more unsteady with several losses in growth in 1995, 2001, and 2009.

Brazil Inflation:



GDP Inflation Rates 1992-2011 (World Bank 2012) *Note flat line indicates a low percentage*

Mexico Inflation:



GDP Inflation Rates 1992-2011 (World Bank 2012)

Political Structure (y1):

Brazil Polity IV Score:

Key: Countries with *Polity* scores from +6 to +10 are counted as democracies

Score: 2009 2010 Change

Polity: 8 8 0

Democ: 8 8 0

Autoc: 0 0 0

Date of Report: 1 June 2011 (Polity IV 2012)

As a means to stabilize the Brazilian economy, the government enacted a stabilization plan of the local currency, the Real from 1993 to 1994 (Amann 416). In order to do so, the government connected with an appreciation of the currency due to high interest rates ranging 7-10% from the prior policy of import stabilization methods (416). In order to stabilize the Real, the Brazilian government pegged the currency to the U.S. dollar (Gómez 244). However, this plan ultimately caused an issue in the balance of payments as well as Brazil's economy becoming more vulnerable externally (244). This economic policy found its end in 1999 when the peg to the dollar collapsed (244). As a result, the Cardoso government was forced to adopt a floating exchange rate procedure (244). This procedure sought to fight inflation through what is known as an exchange rate anchor (Amann 416). Under the Lula administration, the government continued to fight inflation by using the high interest rates and ultimately reducing inflation to 7.54% which ended up under the Central Bank's stipulation of reducing the inflation rate to 8% (Flynn 1224). Under the Lula administration, a social security reform was also proposed in order to reduce the public sector deficit (1229). Prior to this reform, men in the public sector had been able to retire after 30 years and women at 25 with full salary causing a strain on the economy (1229). In addition to this reform, Lula also proposed a cap on retirement benefits resulting in a minimum age of 65 for men to retire with 35 years of service and women at the age of 60 with

30 years of service (1229). Under the Rousseff administration, the new president will have to address issues of an inefficient tax system, continue to restructure social security, make corporatist labor laws more flexible as well as reduce the public debt burden (Roett 46).

Mexico Polity IV Score:

Score:	2009	2010	Change
Polity:	8	8	0
Democ:	8	8	0
Autoc:	0	0	0

Date of Report: 1 June 2011 (Polity IV 2012)

In terms of the political structure within Mexico, the country has moved from an authoritarian presidency with one dominant power and rigged elections to more of a multiparty system with competitive elections (Palma 88). Mexico has also reformed its economic policies in order to encourage competition (95). The government has sought to do so in order to offer more certainty and security to investors (95). The political structure within Mexico has been much less stable than that of Brazil's as the laws in Mexico can be contradictory or non-existent according to Manuel Palma-Rangel (96). In fact, authorities have been known to apply laws at discretion rather than constant enforcement (96). The structure has only continued to have more issues as the Supreme Court has been largely unable to control the constitutionality and legality of the actions of the other branches of government (96). The adoption of a multiparty system was adopted in some regions as of 1995 in which competitive elections occurred (Hiskey 31). As this change in political system was new, the Partido Revolucionario Institucional (PRI) still dominated in various regions at this time (Hiskey 31). During this time, some regions experienced conflict including violence between those pushing for a multiparty system and those wanting to remain under the PRI (32). It is important to note, that those states within Mexico that had a free and fair election at this time better handled the economic crisis of 1995 than those who did not (37). The economic crisis of 995 was by far one of the worst in Mexico's history since the 1930s (38). This crisis resulted following President Zedillo's currency devaluation in 1994 in which the Mexican economy contracted over 6% (38).

In terms of substantial relation between the political structure and economic development, it is important to analyze the election of President Fox. Fox was elected in 2000 under the National Action Party (PAN) (Pastor 135). This election was considered particularly significant as this was the first time in history that the executive power was passed democratically (135). This was also the first time in decades that the PRI party lost a presidential election (135). The particular concern that arose in 2001 was that if the government failed to tackle the microeconomic issues in the country that it would lose its access to the United States market through NAFTA (137). Under the Fox administration, the government also faced serious budget constraints (137). The Mexican economy also faced a serious economic slowdown from 2001 to 2003 averaging less than 1% in economic growth (144). Since 2000, the government's economic policies have included: aggregate growth, job creation, as well as distributional gains (144). However, the Mexican government has faced a serious inability for substantial economic growth or high employment (144). Within the Fox administration, tax revenues ultimately stagnated with the GDP rate at only 11% (144). It is important to note that economic policies were difficult to compile during the Fox administration, as President Fox faced policy sabotage through gridlock with Congress (146). The job growth in the formal sector during Fox's presidency also suffered as it increased only 1.5% from a level prior to the peso crash of 1995 (151).

As a whole, the Mexican government has sought to enforce effective economic policies. For instance, under the Zedillo presidency a food subsidy program was set in place (Rosenberg 49). Unfortunately, this program ended up being rather ineffective. A conditional cash transfer program was also initiated by the Mexican government known as Opportunidades (49). This program in particular centers on fighting poverty aimed at the poorest of Mexican civilians (49). In order to determine which citizens were deserving of this program, the government used Census data to determine who fit into the extreme poverty category (49). Under this program, families are required to recertify every six years (49). This program is also unique in that it is aimed at the woman of the household not the man (49). Approximately 70% of the money received is spent on food and the rest of the money goes to clothing as well as home improvements (49). In order to prevent corruption, local political leaders do not have involvement in the program (49). Those in the program receive their money through local banks that hand out envelopes of cash and also have the option to have direct transfer if they open an account with the bank (49). This goal of this program set up by the government is to finally break the cycle of poverty (50). This program has overall been successful as until recently not a lot of children even had a high school education (50). Under this program, part of the conditions to receive the money is to keep their children in school (50).

Brazil Corruption Index:

As a whole, Brazil has not faced a significant corruption issue. However, in attempting to address issues of violence within the slums or favelas corruption was much more of an issue in the past. In some cases, the police would warn the drug lords inside of the favelas in advance of police raids or would sell them high-caliber weaponry and rounds of ammunition (Muggah 63). The corruption of the police force in this case became so poor at one point that the police would become as violent as the gangs in the favelas often adopting their murderous techniques (63). In the initial attempts to control the favelas, the police were often tempted to join the gangs as they had little training or pay from the government (Baena 35).

Brazil Corruption Perception Index (Transparency International 2011)

RANK:	SCORE:
73 /183	3.8 /10

Brazil Control of Corruption (Transparency International 2010)

PERCENTILE RANK:	SCORE:
60%	0.05611194

Mexico Corruption Index:

Unlike Brazil, Mexico has had much more of an issue of corruption particularly within the government. As a whole, Mexico has had a history of labor monopolies, constant corruption, as well as a self-interested bureaucracy (Aguilar 1). The vast majority of Mexican citizens now believe that politicians should only be allowed to maintain power through elections, greater accountability, as well as decreased corruption (1). This belief reflects a change in the Mexican people that they are no longer willing to tolerate such heavy amounts of corruption. The people now expect the government to adhere to the following: protecting human rights, adhering to the law, and ending the culture of impunity (1). The population views all of these policies as nonnegotionable (1). The people also demand that poverty and social inequality must be reduced as well as there should be no large public debt and the country needs to be open to globalization (1). It is important to note, however, that corruption is still an issue particularly in local politics (1). While a PRI candidate has won the recent 2012 election, he is the first candidate to be democratically elected rather than handpicked by the prior president (1). The PRI dominance also no longer exists within the legislature as the party does not dominate either house of Congress as well as the Supreme Court is finally independent (1). For the first time in history, the two opposing parties the PRI and PAN are finally working together for legislation (1).

Mexico Corruption Perception Index (Transparency International 2011)

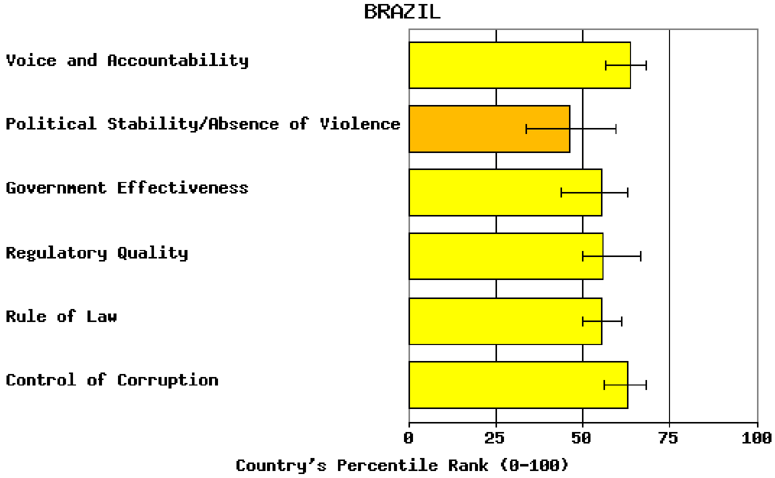
RANK:	SCORE:
100 /183	3 /10

Mexico Control of Corruption (Transparency International 2010)

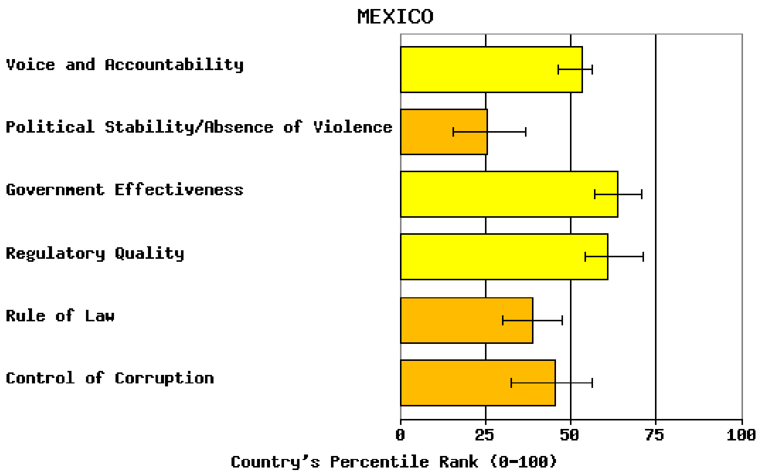
PERCENTILE RANK:	SCORE:
44%	-0.370132479

Legitimacy of Government:

Confidence in Government (World Bank 2011)



Source: Kaufmann D., A. Kraay, and M. Mastruzzi (2010), The Worldwide Governance Indicators: Methodology and Analytical Issues
Note: The Worldwide Governance Indicators (WGI) are a research dataset summarizing the views on the quality of governance provided by a large number of enterprise, citizen and expert survey respondents in industrial and developing countries.
These data are gathered from a number of survey institutes, think tanks, non-governmental organizations, international organizations, and private sector firms.
The WGI do not reflect the official views of the World Bank, its Executive Directors, or the countries they represent. The WGI are not used by the World Bank Group to allocate resources.



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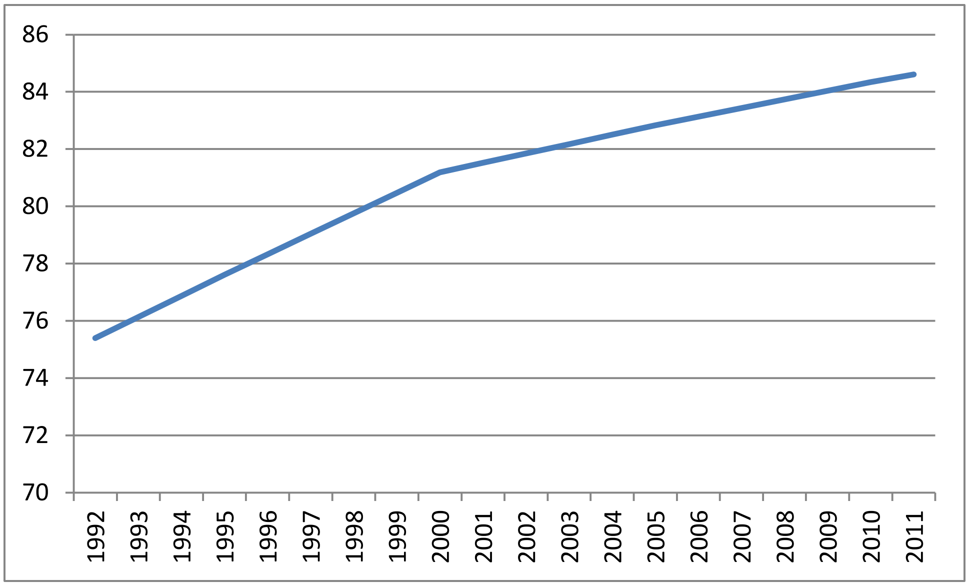
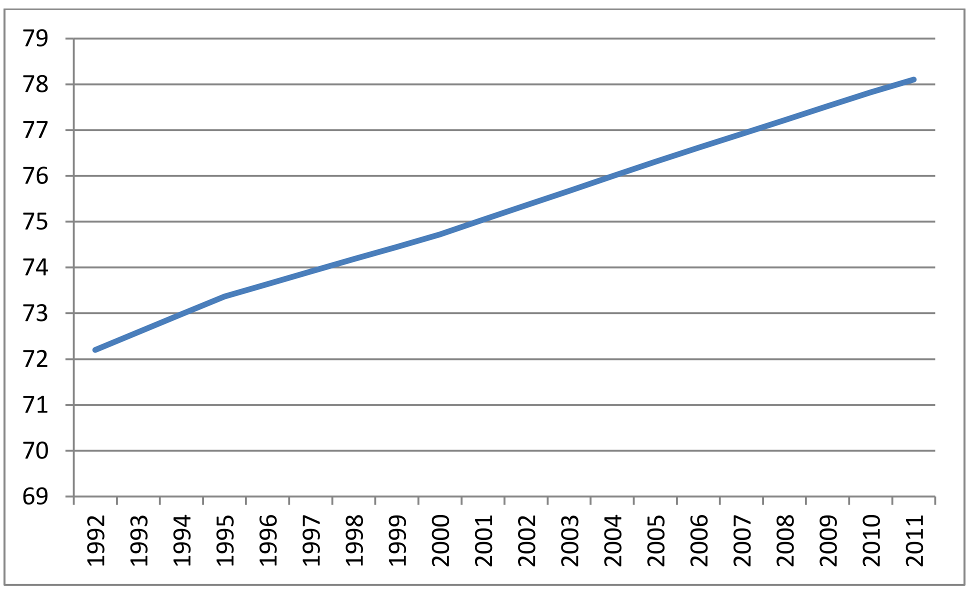
Urbanization (y2):

Brazil Urban Population:



Percent of Population in Urban Areas 1992-2011 (World Bank 2012)

Mexico Urban Population:



Percent of Population in Urban Areas 1992-2011 (World Bank 2012)

Brazil:

In terms of urban crowding problems, Brazil has in fact had an issue of overcrowding. This issue of overcrowding has resulted in slums spread out through the major cities also known as favelas. These favelas have had a serious tendency to be engrossed in violence (Baena 34). The rapid urbanization in the 1950s with a mass migration from the countryside to the cities is largely to blame for this issue (34). Many of those who attempted this migration remained in the favelas after not being able to find work or afford housing within city limits (34). The inability to pacify or control these favelas, as previously mentioned, has been largely due to corruption as well as a lack of responsibility within the government (35). The former policy of addressing the favelas was that the police would storm in and engage in crossfire with the gangs who dominated these slums (35). Those gangs who ruled these favelas were controlled by drug traffickers or militias (35). The violence within these slums was so high that the homicide rates within favelas were 100 per 1,000 (35). Those living in the favelas have also resorted to pirating electricity as well as satellite T.V. (35). Many of those living in these slums are unemployed, a part of the drug trade or are a part of the informal economy (37). The government within Rio de Janeiro has stated that they are determined to improve security as well as decrease violence within the city (37).

To understand why the favelas have become such an issue, it is important to further analyze the context of these slums. Those who have remained in these favelas have done so as they are unable or unwilling to return to rural areas (Muggah 62). A large reason why these slums continue to be an issue is that until more recently the government was unwilling to address the issue and would simply avoid it (63). Those residents living in Rio have often been described as living in the asphalt where the wealthy are or living in the favelas with the poor (63). The Brazilian government for a long time also missed out on economic revenue as taxes were rarely collected inside favelas as well as deeds to houses rarely issued or public services (63). As previously mentioned, the drug lords were in charge of favelas as they would as executive officers, mediators, judges, juries, as well as executioners (63). It is important to note that the issue of urban violence has dominated public policy agenda since the 1980s (63).

More recently, Brazil has been under more pressure to address this issue of urban violence as they are to host the World Cup in 2014 as well as the Summer Olympics in 2016 (Muggah 64). As a means to counter the violence, the government has initiated a program known as the National Program for Public Security with Citizenship (PRONASCI) in 2007 to promote citizen security across the country (64). As a part of this program, the government has provided $3.5 billion for more than 150 municipal governments to enact security policies (64). The new pacification policy for the favelas has adopted the approach in which a military police stays in the favela for 100-150 days until a peace form arrives to replace them and continue patrolling as well as administering basic services (64). Since 2008, more than 18 favelas have been pacified (65). This program has been criticized as doing too little too slowly (65). Additional criticisms have included that under 3% of the favelas have been targeted as well as others are concerned that there are not enough alternatives that have been provided for young men who form the majority of armed gangs in the slums (65). The government has also been criticized for not recruiting police fast enough to control the favelas (65). An unexpected issue has also arisen in that property prices have quadrupled in some of the occupied favelas displacing the poor who live there (66).

Mexico:

Mexico has also seen its fair share of urban violence over the years through an ongoing battle amongst drug gangs. In 2011, 26 corpses were dropped by a downtown landmark in Guadalajara (Finnegan 1). The largest cause of urban violence in Mexico has largely been due to a serious issue of warring drug cartels. The two cartels in particular that have caused much of the violence have been the Zetas and Sinaloa as they fight for control (1). Under the Calderón administration, the government decided to adopt what is known as a kingpin strategy to attempt to address this issue in which the policy has cost approximately 50,000 lives (1). This strategy enacted an approach in which the government would go after the leaders of the cartels like a deck of cards (1). The government has had a degree of success in which 22 cartel leaders have been killed; however, this strategy has ultimately caused more violence (1). Cartel violence has become such an extreme that the way in which a corpse is mangled and placed in the town serves as a message (1). The violence and fear of the cartels has become so extensive that the army wears masks in drug raids so as to not be identified by the cartel (1). Part of the reason that this violence has continued is that 98% of the crimes in Mexico go unpunished (1).

Social Stability (y3):

Brazil:

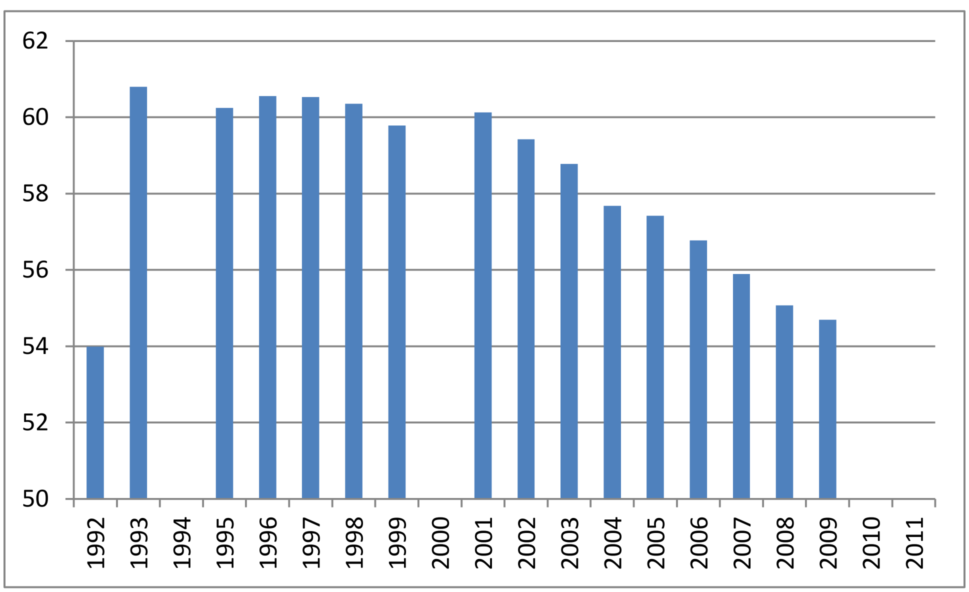
As a whole, the social structure within Brazil has experienced a decline in inequality along with the emergence of a new middle class (Amann 418). By 2009, 94 million people were now a part of the middle class (418). One major group that has questioned the stability of the government and ultimately demanded a change in inequality has been the Landless Workers Movement (MST). The MST has been an agrarian reform movement that challenges Brazil's highly concentrated system of property ownership which has been deemed one of the most unequal in the world (Meek 1). As a means to gain attention to their issue, the MST occupies land that has been labeled unproductive (1). This challenge of authority has been ongoing for 25 years as of 2002 (1). The MST's primary goals have included: immediate struggle for land for the landless families through non-violent occupation of unproductive land, agrarian reform in particular the redistribution and developing/sustaining for rural families as well as a more just society (Plummer 19).

In terms of gender and racial relations, Brazil still endures some stratification. In particular, the middle and upper class have often had servants in which black women are often their maids (Santana 92). Many of these women who are maids are semi-illiterate, low-skilled, and with little other employment options (93). Poor mothers have often left their children in the care of others including relatives in order to work for these middle or upper class families (93). On average, Brazilian women spend 33.5 hours per week or five daily hours cooking and cleaning as opposed to men who will only do the same for approximately 10 hours a week (95). As a whole, 18% of total female employment is in domestic labor (95). In the area of domestic service, more than 90% are women in which 24% are black and only 14% are white (95). Men are also known not to deal with the maids in whom the wives are in charge of giving the maids their orders (100). There has also been a growth in female employment due to economic necessity as well as an employment demand that has increased from 40% in 1995 to 53% in 2005 (103). This increase in employment demand has been greater in urban areas of Brazil (103). There has also been a strong discrepancy in greater working hours for men and a lower pay of women (104).

Mexico Social Stability:

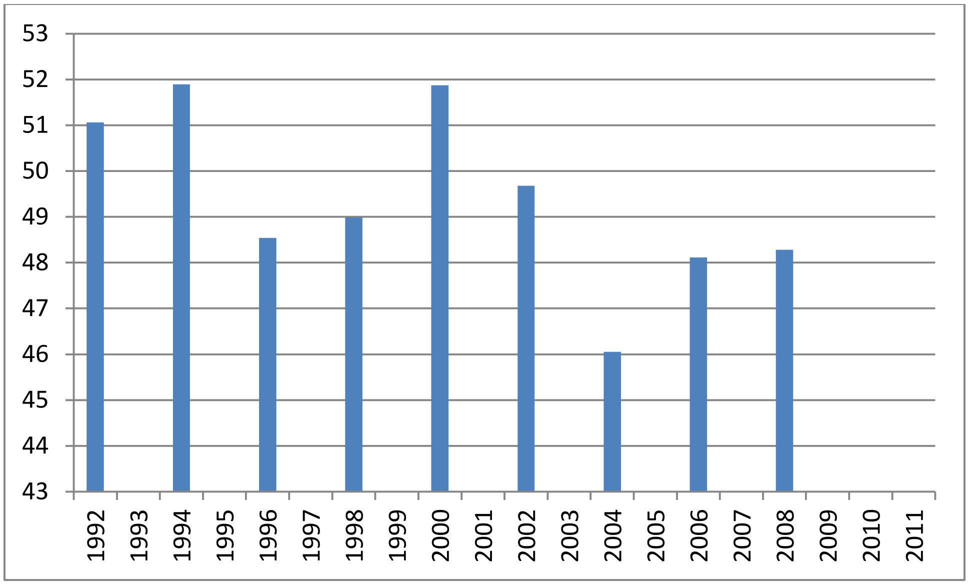
In terms of social stability, Mexico has struggled a great deal more than Brazil due to such high inequality. Within Mexican society suicide, fertility, abortion, partner violence, poverty, level of education, as well as industrialization have all been unevenly distributed amongst gender (Frias 215). In general, Mexico is among the most unequal countries of Latin America in the social realm with gaps in education, poverty, development, as well as distribution of services and health (218). Due to care giving and raising children, women have largely remained in the home rather than participating in the formal economy (222). The average gender gap as public employees and managers between men and women is 67% (223). In terms of professional and technical occupations for each 100 males there are 65 women (223). Within public office for every 100 male city counselors there are only 48 women (230). The overall equality for women currently sits at 44% (242).

Brazil GINI score:



Economic Gap between Wealthy/Poor (GINI Index-World Bank 2012)

Mexico GINI score:



Economic Gap between Wealthy/Poor (GINI Index-World Bank 2012)

External Influences (y4):

Brazil:

In terms of external influences, Brazil has maintained a policy of universalism. In other words, Brazil has maintained a receptive policy toward all countries no matter the geographic region as they desire to be a global actor (Gomes 152). The common belief in Brazil is that the state is destined to become a major world power (152). Brazil has a whole has also opened up its economy toward global aspirations since the 1990s (153). The Brazilian state has also taken on a more proactive stance in cooperating with neighbors despite political differences in the region (155). In terms of regional groups, Brazil has also become largely involved in South America's trade group MERCOSUR (157).

This involvement has served as a hope to reinforce Brazil's bargaining position in the international arena (Gomes 157). The government also holds a strong desire for South American integration under Brazilian leadership (157). In 2000, the Brazilian government enacted an initiative to form the South American Community of Nations (SACN) which focuses on economic integration, infrastructure, and a strengthening of democratic regimes (157). Brazil has also engaged in trade negotiations with the EU and the formation of the Free Trade Area of the Americas (FTAA) in 1994 (158). Under a Brazilian initiative, the South American Defense Council was also established (161). Brazil has also been placed in the category of rising powers known as BRICS (Brazil, Russia, India, China, South Africa) (165). Brazil has also become a part of the G20, UN, Rio group, as well as the Ibero-American Summits (Roett 48). Under the Lula administration, the Brazilian government also actively fought for a permanent seat on the UN Security Council (48).

Mexico external influences:

While Mexico may not be viewed as a rising power just yet, the country has also sought to become actively involved in the global arena. In 1992, Mexico signed a bilateral free trade agreement with Chile (Cheng 30). In 1995, Mexico also built the "G3" with Venezuela and Colombia (30). In 2004, Mexico also signed a free trade agreement with Uruguay (30). By 2008, Mexico had entered into 39 free trade agreements worldwide including the EU and Japan (30). The Mexican state also has gained business access to Central America and also has a free trade agreement with the United States and Canada through NAFTA (30). Under the policies of NAFTA the agreement includes: market access, textiles and clothes, automobile products, energy and petrochemicals, agriculture, rules of origin, land transportation, investment, financial services, and dispute settlements (30). Under the Fox administration, the government also introduced the Puebla-Panama Plan in 2001 in order to enact 98 investment and cooperation projects to drive economic integration in Central America (30). As a whole, the Mexican economy is closely tied to the United States in which most of Mexico's trades are within the NAFTA region (33). Such an influence could most certainly be a hindrance to the Mexican economy as in 1999 export to the United States was at 88.2% (33). It is important to note, however, that this dependency has weakened gradually through the pursuance of trade agreements with other countries (33).

Analysis

Measurements/ Results of Economic Development (x)

- Taking into account inflation rates, has the state's economic growth per capita progressed over time, regressed, or remained stagnant?
    - Brazil- As a whole inflation has decreased as GDP growth has continued to progress over time
    - Mexico- Inflation has also decreased but GDP growth has been much more erratic in which growth has progressed as well as regressed over time

Measurements/Results of Political Structure (y1):

- According to Polity IV data, how Democratic is the state?
    - Brazil and Mexico were both rated at an 8 meaning each country was considered to be fairly democratic
- Does the government consistently enact policies to encourage economic growth?
    - Brazil has consistently enacted policies to encourage growth such as the Real plan as well as fighting inflation

- Mexico overall has failed to consistently enact policies; however, the government has recently enacted more policies for economic growth and if continued in the future they will meet this category.

- Has the government had a history of corruption?

    - Brazil has not had a history of governmental history overall but rather in the police force particularly in addressing the issue of the favelas

    - Mexico has had a history of corruption largely under the PRI government in which presidents were not democratically elected but rather hand picked

- Does the population maintain a high or low level of confidence in their government?
    - As a whole Brazil's population maintains a higher level of confidence in the government but both countries maintain a fairly strong confidence level in the government

Measurements/Results of Urbanization (y2):

- What is the percentage of the population living in urban vs. rural areas?

    - As of 2001, Brazil maintains a larger population living in urban areas at 84.6% with only 15.4% in rural areas

    - Mexico holds less of a difference in those living in urban and rural areas as 78.1% live in urban areas with 21.9% living in rural setting

- Does the country have an issue of overcrowding in urban areas?
    - If so, how is the state handling such issues?

        - Brazil has a serious overcrowding issue in the favelas and has recently adopted an effective pacification policy to address this issue
        - Mexico does not have an overcrowding issue so much as urban violence

- Is there a high rate of violence in urban areas?
    - Both countries maintain a high rate of violence in urban areas for Brazil largely in the favelas and Mexico as a whole due to warring drug cartels
- How does the state attempt to address such issues?
    - Are these policies effective?
        - Brazil has adopted pacification policy which more recently has been effective
        - Mexico adopted kingpin strategy which has been effective to a degree but has also incited more violence

Measurements/Results of Social Stability (y3):

- Is there a large economic gap between the wealthy and poor?
    - Brazil still has a rather large economic gap particularly between the hills (where the poor live) and the asphalt (where the wealthy are)
    - Mexico still has a serious issue of poverty but not so much an economic gap between wealthy and poor
- Are ethnic or racial tensions apparent within the state?
    - Brazil still has ethnic disparities particularly amongst Afro Brazilians- this inequality increases along with gender in minorities- tensions are not violent however

    - Mexico does not have much of an issue of ethnic tension so much as cartel rivalries

- Is there gender inequality in the state? (I.e. Are women provided equal rights?)

    - Gender inequality still exists within both states but is more significant with traditional roles still a large part of Mexican society

Measurements/Results of External Influences (y4):

- How has the state handled the issue of globalization?

    - Both countries have embraced the issue of globalization but Brazil has been more successful in becoming an active part in globalization. Mexico is embracing globalization as well but is moving at a slower pace.

- Is the country involved in regional groups? How so?

    - Both states are involved in regional groups. Brazil is largely the leader of regional groups including MERCOSUR

    - Mexico has become more involved in regional groups including NAFTA and the Pueblo- Panama Plan

- How involved is the state in the global realm?

    - Brazil has started to establish itself as a global power through membership in G20, BRICS, as well as seeking a permanent seat on the security council

    - Mexico has also started to become more involved in the global realm with trade agreements extending to the EU and Asia particularly with Japan

- Does the state border any powerful countries?
    - Does this seem to impact the state's development?
        - Both countries border powerful countries. However, Brazil's neighbors including Argentina and Venezuela are not as powerful as Brazil leaving no significant impact on the state's development
        - Mexico borders the United States and is heavenly influenced in terms of development as much of its trade is within NAFTA and the country has only recently start to break free of this dependency

Hypotheses:

(H1): As political structure (y1) stabilizes; economic development (x) will increase

This hypothesis was supported as Brazil has maintained a stable political structure and developed successfully. This hypothesis also holds true in Mexico as the political structure has started to stabilize in recent history allowing for economic development to slowly increase. When the political structure was unstable so too was the ability to develop in Mexico which further supports this hypothesis.

(H2): The more the state controls for urbanization, (y2) the more a state is economically developed (x)

This hypothesis has also been supported through the case study. While Brazil has been able to develop economically even with the issues arising from urban bias, the violence in the favelas has held the country back to a degree. As a result of more effectively addressing this issue, Brazil is providing an even stronger opportunity for the state to develop even further. This hypothesis has also been supported through Mexico as to explain why the state has had such an issue developing. Mexico has been largely plagued with the issue of urban violence that accompanies urban bias which has caused the country to have to place much of its focus toward violence rather than economic development. However, Mexico has been making strides toward also addressing the issue of economic development through enacting more policies for development including cash transfer programs.

(H3) As a state's social equality (y3) becomes more developed (x) economic development will increase

This hypothesis has neither been supported nor rejected through the case study. Social equality did not play a very large role in either state as the state, Brazil, was able to develop despite some issues of social equality or in the case of Mexico does not have an issue of social equality so much as an issue with warring drug cartels fighting for control over territories in the country.

(H4) The better a state is able to adapt to external influences (y4), the more economically developed (x) the state will become

This hypothesis has also been supported through each case as both countries have recognized the importance of adapting to a more globalized economy in order to develop. As Brazil has been more stable overall, the country has been better able to adapt to external influences and establish itself as a rising power. Mexico is also embracing external influences as it seeks to better establish itself in the global realm as well but has been much slower in this process due to such domestic instability.

Potential Error

While this research has sought to be an accurate portrayal of economic development and provide a legitimate analysis, it is recognized that the research may potentially hold some error. For instance, the time frame within the case study may not have been extensive enough to thoroughly analyze economic development as the time considered was over a period of 20 years from 1992-2012. The case study could most certainly be extended in time in order to study the development of Brazil and Mexico as a whole. One potential error within the case selection itself is that the cases selected, Brazil and Mexico, may both be too closed to what is considered as developed and not as opposing of cases as expected within a most different case study. Another potential error within the research is that the study may be too subjective due to a large focus on qualitative research. This error could be addressed through including more empirical research including a regression analysis. The most significant potential error lies in those variables that may have been unaccounted for within the research. Economic development is by no means a simple concept to analyze as many factors can influence such development. As a result, unaccounted variables may be leaving unanswered questions in regard to development as well as not portraying as accurate of a picture as if these variables were included. Even so, the research was meant to focus on what was believed to be the most significant influences on the dependent variable in order to better provide an analysis of state economic development.

Conclusion

In the end, state economic development is constantly progressing and changing with time. No matter what, the issue of state economic development will maintain relevancy as states are constantly seeking to find new ways to improve even if they are considered a developed state. In the cases of those still struggling to develop the issue of how to develop becomes that much more apparent as they seek to find prosperity and stability. This ability to develop economically largely determines a state's domestic stability as well as its ability to function in the international realm. As many states are struggling to develop even today, the research question of what factors lead to a state's ability or inability to develop will maintain relevancy for years to come. As this research has sought to better answer this question and paint the picture of economic development more clearly, by no means has the issue of state economic development been solved as development is a continuous process happening even right now.

Part B

As the issue of economic development is rather complex, it is important to investigate this particular phenomenon as thoroughly as possible. In order to do so, research will be extended in order to provide a more thorough analysis. While the case study provided valuable research into development, it is important to increase the generalizability by conducting analysis on a much larger scale through the use of panel data. The case study has also been used as a means of establishing those variables most important to study. The r^2 within the regression analysis will also provide for more generalizability within the research. To ensure a more accurate study, the research model and design will also be adjusted accordingly. The literature review in the initial discussion will hold as those variables within the regression analysis have been covered and still maintain significance. As before the general layout of this paper will stand thus accordingly initializing with the research design.

Research Design

As a reminder, the research question sought to be addressed is what leading factors affect a state's ability to develop economically? The adjusted model will now include: Economic Development (x) = Political Structure (y_1) + Urbanization (y_2) + Social Stability (y_3) + Open vs. Closed Economy (y_4). This model has been adjusted to assess what is believed to be the most relevant factors in terms of economic development. In particular, urban bias has been adjusted to take into account urbanization as a whole. Social stability remains within the model; however, analysis will now be focused on the durability of the regime within a state. External influences are now changed to analyzing whether the state has an open vs. closed economy as a means of analyzing involvement in the international market. This is precisely why Urban Bias has been adjusted to reflect urbanization as a whole, social stability will be more concerned with durability of the regime, as well as external factors will now focus on whether the state is actively engaged in the international market or still embracing the concept of a closed economy. As previously stated, each variable and its respective importance has been previously covered in the literature review as well as within initial research conducted in the case study. Overall, hypotheses have remained relatively the same with slight adjustments made accordingly to the newly presented model. Hypotheses for this purpose are as follows:

H_1: As political structure (y_1) stabilizes; economic development (x) will increase

It is believed that as a state democratizes, the state's ability to develop economically will also increase. In other words, as a state becomes more democratic and overall restrictions decrease the state will better be able to focus on developing its economy and adapt accordingly to the international market.

H_2: The greater degree of urbanization (y_2), the less a state will be able to develop economically (x)

As previously stated this hypothesis has been adapted from that of Part A as the model is now focusing on urbanization as a whole as it is believed to be more significant than urban bias. Urbanization is believed to ultimately become a hindrance and cause economic development to decrease rather than continue progression. As a state approaches a high degree of its population living in urban areas, the country will start to experience either a standstill or quite possible inversion in development as the country begins to be plagued with other issues such as urban bias that will take away the attention on development.

H_3: As a state's society becomes more equal (y_3), the more economically developed (x) it will become

In terms of social stability, it is believed that as a state's equality increases so too will economic development. In particular, it is believed that the more durable a state's government is the more effective economic development will be. In other words, the state will need to have a lack of regime changes in order to have successful development. This hypothesis has been adjusted from the prior form as it has been decided to focus in on what is believed to be the most significant factor of social stability, durability of a regime, in order to best analyze the relationship between social stability and economic development.

H_4: The more open a state's economy is internationally (y_4), the greater degree of economic development (x)

The more involved a state is in engaging economic relations within the international realm, the more developed the state will be economically. It is believed that if a state is too closed off from the international economy it will ultimately suffer as globalization has caused the world to become so interconnected that true economic development will be unable to occur without this international involvement. This hypothesis has been adjusted as well as it is believed that external influences were not accurately assessing what affects a state's development on the international level. This is precisely why the model has been changed to assess a state's involvement in terms of whether the economy is open or closed particularly in terms of exports.

For this portion of the study, research will be conducted according to a regression analysis using panel data. The panel data consists of 52 countries over nine years ranging from 2003-2012. Countries were chosen by stratified sample and were chosen every third starting at the second country based on the 2011 World Bank GDP ranking ranging from highest to lowest. The country list is as follows:

Ranking of Countries:

- Qatar
- Norway
- Switzerland
- United Arab Emirates
- Ireland
- Canada
- Belgium
- Equatorial Guinea
- Japan
- Spain

- New Zealand
- Czech Republic
- Trinidad and Tobago
- Estonia
- Russian Federation
- Chile
- Malaysia
- Mexico
- Belarus
- Lebanon
- Montenegro
- Venezuela
- Brazil
- Macedonia
- Colombia
- Tunisia
- Albania
- Thailand
- El Salvador
- Egypt
- Angola
- Sri Lanka
- Bolivia

- Indonesia
- Congo
- Honduras
- India
- Moldova
- Lao
- Cameroon
- Yemen
- Gambia
- Kenya
- Benin
- Tanzania
- Rwanda
- Haiti
- Comoros
- Togo
- Malawi
- Niger
- Eritrea

Measurements:

Time Frame: Past 9 years

Measurement for Economic Development (x):

- GDP per capita (constant dollars)

Measurement for Political Structure (y_1):

- Level of democracy (Polity IV Data)
  - The Polity IV data is used as a means of measuring on a scale of -10 to +10 how democratic a state is. The scale, -10 being autocratic and +10 meaning completely democratic, helps to provide an overall score year by year to show the progression of democracy within a given state

Measurement for Urbanization (y_2):

- Population living in urban areas (World Bank)

Measurement for Social Stability (y_3):

- Durability (Polity IV data)

Measurement for Open vs. Closed Economy (y_4):

- Export percentage of GDP

Justification of Measurements:

Economic Development (x): GDP per capita (World Bank)

GDP per capita was chosen as GDP alone is not sufficient enough to truly measure economic development. In order to control for varying population size and more accurately compare economic development GDP per capita must be used as it takes population into account.

Political Structure (y_1): Level of Democracy (Polity IV- Variable Polity 2)

The more democratic the government particularly within their level of freedom of the economy, the greater the state will be able to grow economically. In other words restrictions will not hold development back in this type of state as countries are able to function within the free market system. Democracy does not guarantee a stable economy but gives countries a stronger chance at development due to increased accountability helping to prevent issues such as corruption or governmental mismanagement. Polity 2 was used as this measurement keeps all countries in equal measurement from -10 to +10. As previously mentioned, the scale of -10 indicates complete autocracy or power centered around one leader to +10 indicating the state is considered a true democracy.

Urbanization (y_2): Percent of population living in urban areas (World Bank)

The greater urbanized a state's population is, the less economically developed the state will be as issues such as urban bias and urban violence become more prevalent ultimately detracting from economic development. By measuring the percent of the population, an accurate portrayal of the degree in which urbanization affects economic development will better be assessed.

Social Stability ($_{y3}$): Durability (Polity IV- Variable Durability)

This measure was chosen as a means to assess regime change within the state. It is believed that the more consistent a regime is in power the greater chance for development as the country is better able to maintain stability. In other words, if there is too much of a regime change the country will become unstable and incapable of developing properly. The increase in durability score over time indicates the amount of years the country has been without a regime change (i.e.) the greater the number, the greater amount of years without a regime change. This measure was chosen as it is believed that the greater degree of years that a regime remains without interruption permits for a sense of stability to be created throughout society. While it is acknowledged that there are other factors that come into play in terms of social stability, the primary concern for this research centers around the stability of the regime as it is believed that this stability sets the tone for the rest of society.

Open vs. Closed Economy (y_4): Export Percentage of GDP (World Bank)

This measure is used to assess how great the state is seeking to take part in international economy by taking into account the degree of exports that a country is outputting as a part of GDP each year. The degree in which a state exports is believed to indicate that the country is in fact making an attempt to be involved in the international economy thus providing a greater chance for economic development.

Results

Regression Output: Fixed Effects controlled for Heteroscedacity

```
. xtreg growth pols urban stab econ, fe robust


Fixed-effects (within) regression            Number of obs      =      449

Group variable: state                      Number of groups   =       52


R-sq:  within  = 0.0828                  Obs per group: min =        3

      between = 0.4199                                       avg =      8.6

      overall = 0.4064                                       max =        9


                                              F(4,51)           =     3.59

corr(u_i, Xb)  = -0.0225                       Prob > F          =    0.0119



   (Std. Err. adjusted for 52 clusters in state)

------------------------------------------------------------------------------

             |               Robust

     growth |      Coef.   Std. Err.      t    P>|t|     [95% Conf. Interval]

-------------+----------------------------------------------------------------

       pols |  -160.2864   111.8169    -1.43   0.158    -384.7683    64.19552

      urban |   436.8448   137.6171     3.17   0.003     160.5669    713.1226

       stab |   46.03113   39.64148     1.16   0.251    -33.55246    125.6147

       econ |  -43.76898   48.39891    -0.90   0.370    -140.9338    53.39588

      _cons |  -9294.943   8163.342    -1.14   0.260    -25683.54     7093.65
```

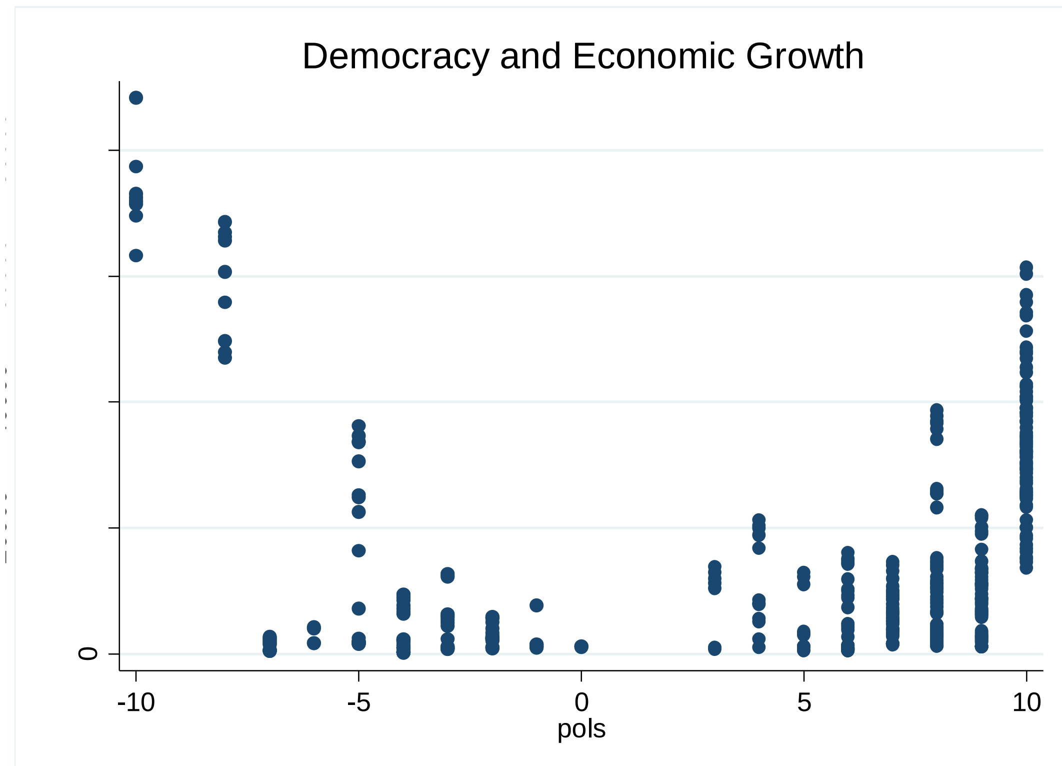
-------------+--

sigma_u | 12678.744

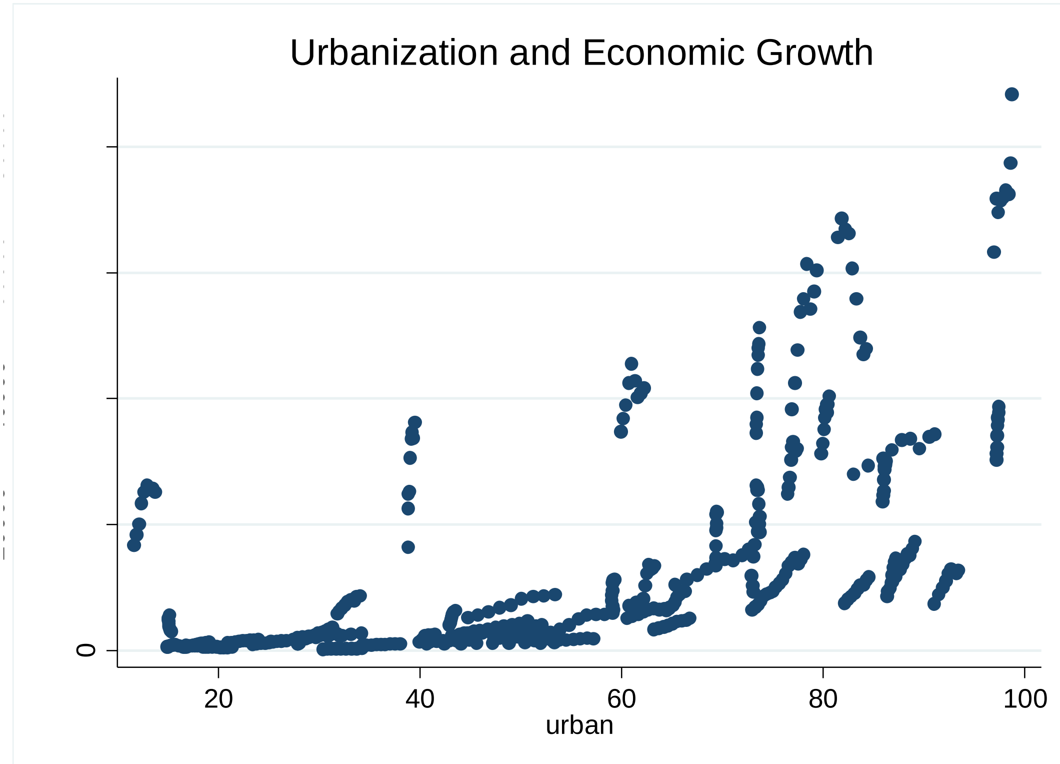
sigma_e | 2562.4738

rho | .96075546 (fraction of variance due to u i)

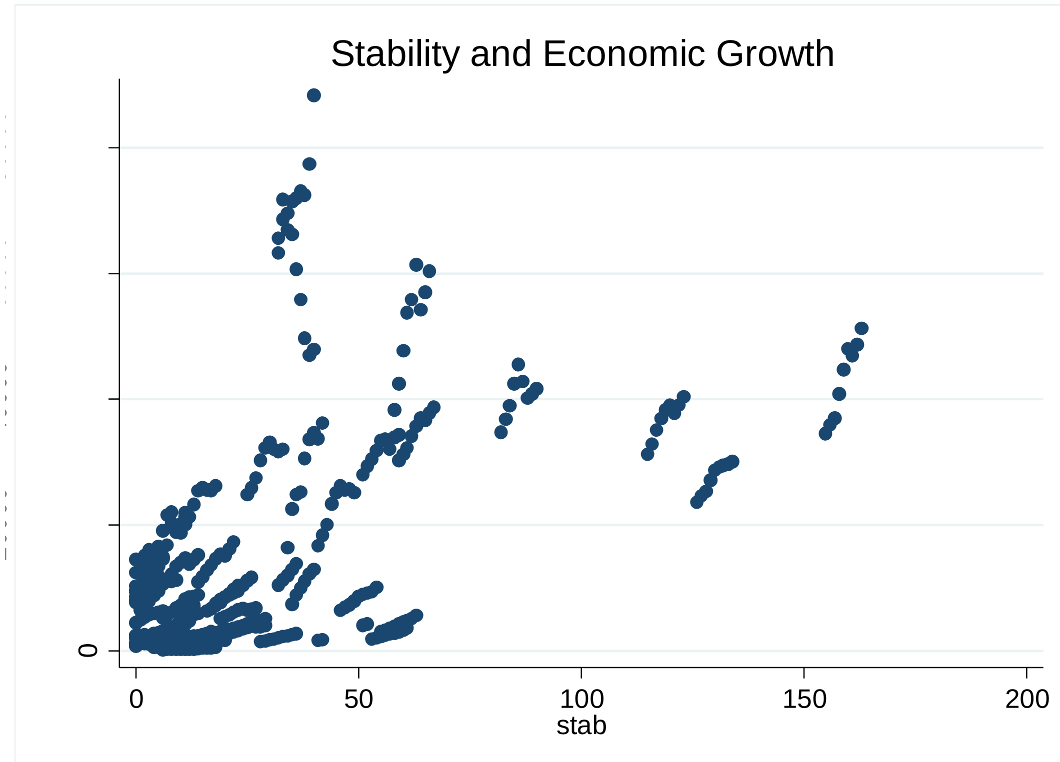
Regression Results broken down by variable:



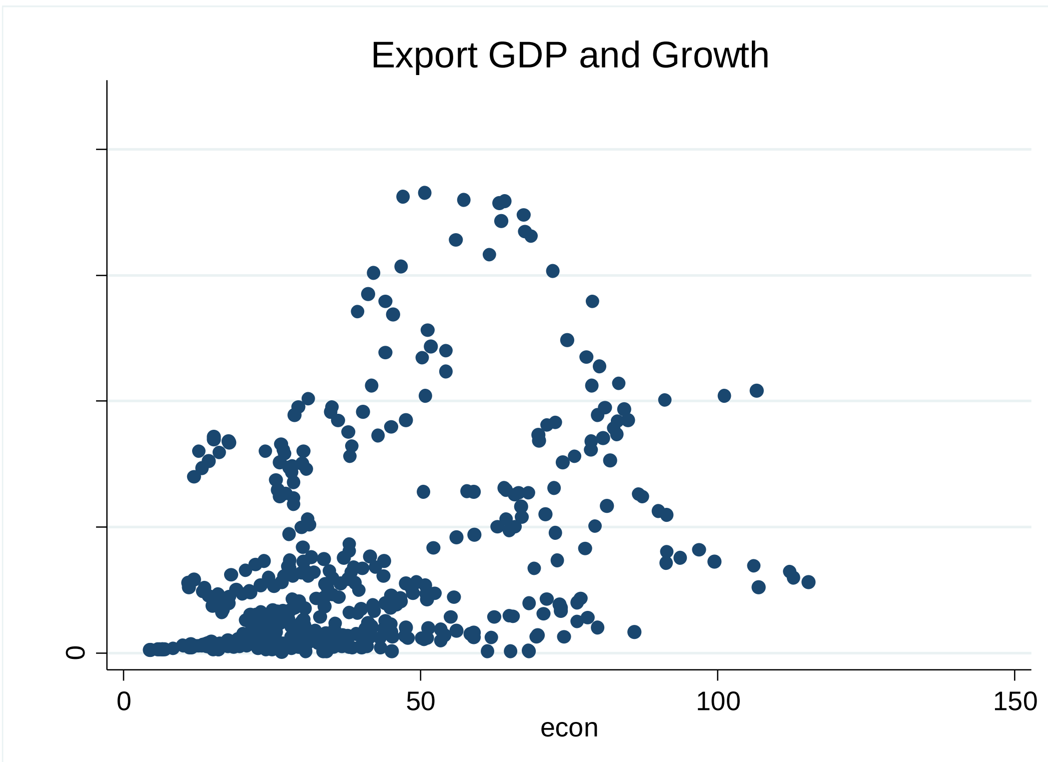
Interpretation: The level in which a state functions as a democracy did not maintain a significant relationship in terms of economic growth within the regression. This indicates that in terms of the relationship between political structure (y_1) and economic growth (x) that there is little significance between whether a state is democratic and how effective their development. In other words, a state whether considered to be autocratic or a democracy have essentially equal chance at development in this circumstance. This result runs counter to arguments present in the literature review as theorists argued that democracy drives successful development when in reality whether a state is democratic or not holds little relevancy. This indicates that the theory of democracy and development needs to be reconsidered and acknowledge that democracy does not equal development.



Interpretation: Urbanization (y_2) appears to hold a substantial relationship in terms of economic growth (x). However, it is important to note that the relationship did not follow the original hypothesis in the belief that as a country percentage of the population living in urban areas increased that economic growth would actually decrease due to other problems arising such as urban violence that would detract away from the state's ability to develop economic policies. Results from the regression proved opposite of the original belief indicating that as a country urbanizes so too will its economic growth.



Interpretation: Stability (y_3) maintained the expected relationship with the dependent variable, economic growth (x). The prior belief that as a state was able to maintain overall stability that the country would successfully develop economically was maintained within regression results. More specifically, the regression demonstrated that as the state maintains a durable government the greater the chance for progression in development. In other words, if the state is under constant regime change and unable to maintain a long standing government they will be much less likely to experience successful development as the country is likely in some degree of chaotic environment and unable to develop or enforce effective economic policies at that time.



Interpretation: The relationship of the independent variable, Open vs. Closed Economy (y_4), with economic development (x) also did not result in the expected result. In order to study this relationship, the regression tested how great of an influence the export percentage of a state's GDP had on its ability to develop from year to year. According to the results, the percentage of exports within GDP did not seem to increase the degree of economic growth but rather had the opposite result. These results indicate that the greater degree in which exports contribute to a state's GDP does not guarantee growth but can actually harm the economy.

Breakdown of regression:

Regression was run as a fixed effect with a control for heteroscedasticity. Heteroscedasticity occurs when the variance across observations within the regression are not constant. If a high heteroscedasticity exists the variance within the regression will also be high leading to a lack of ability to predictive power of the regression results. This potential error was controlled for by placing the term robust into the command within the Stata program. It was important to control for heteroscedacicity as this helps to ensure that results are in fact accurate. In other words, it is important to have the variance in terms of the error term constant or homoscedastitic. The regression was also run as a one tailed test meaning that for variables to have significance they must match accordingly with the hypothesis in terms of direction. In other words, if the hypothesis assumes a negative relationship, then the variable must have a negative number to indicate a significant relationship. Within the regression, the Prob > F = 0.0119. The r^2 within this regression was R^2: .41 (41%) indicating a weak correlation. In other words, the variables tested do not have a strong influence on the dependent variable, economic development. According to the Princeton Stata Guide book, the P>|t| of each variable must be lower than .025 to reject that the coefficient is different than 0 (Torres-Reyna 19). When this criterion is met, the independent variable has substantial influence on dependent variable. According to this criterion results are as follows:

P>|t|:

Pols- .079 does not have significant influence

Urban- 0.002 does have significant influence

Stab- .018 does have significant influence

Econ- .022 does have significant influence

Within regression results, it is also important to analyze the significance of each coefficient. In a regression analysis the coefficient indicates to what degree X changes per unit change in Y. Coefficients within this regression included:

Pols: For every unit of democracy, growth experiences a decrease of -160.2864

Urban: For every 1 percent of urbanization, growth experiences an increase of 436.8448

Stab: For every unit of durability, growth experiences an increase of 46.03113

Econ: For every 1 percent of export GDP, growth experiences a decrease of -43.76898

Analysis

Hypotheses:

H_1: Does not hold (Democracy)

-Hypothesis was created under the impression that the more democratic a nation is, the more economic freedom would exist allowing the economy to grow. In other words, the less restrictions that are placed on the economy, the more adaptable a country's economic structure will be to the international market. It is believed following results that how democratic a state is not relevant to a country's ability to develop but rather economic policies are much more influential. Regression result was -160.2864; however, this number would have had to be positive to hold.

H_2: Did not hold (urbanization)

-This hypothesis was established with the belief that once a state became urbanized other problems would arise such as urban bias that would ultimately stunt economic growth as the government would become more focused on issues that arise with urban bias rather than creating sound economic policies. This belief has changed arguing that ultimately the more urbanized a state, the more economically developed the country will be as well. The coefficient for this variable was 436.8448. In order for the hypothesis to be confirmed, the coefficient would need to be negative.

H_3: Held (Durability)

-This hypothesis was created under the belief that the durability and stability of the country was essential to economic growth. The results confirm that the durability of a regime is in fact important as it helps to stabilize the state thus allowing the government to focus on economic policies and growth. Those countries with constant regime change are far less likely for economic development as the government is too focused on trying to address instability within the country rather than any true policy making involving the country's economy. Results indicated that the coefficient of durability was -46.03113. This hypothesis also did not hold as the coefficient would have to be positive to do so.

H_4: Did not hold (Exports)

-Hypothesis was created under the belief that as a country becomes more involved in the international market, the more economic growth will be encouraged and progress. According to results, the degree in which a state exports does not guarantee any sort of successful economic growth. The coefficient of export percentage of GDP was -43.76898 indicating that the hypothesis did not hold as the coefficient was not positive.

In terms of overall significance, those variables that are significant include: Urbanization, Stability, and Economy. Each of these variables is in fact significant; however, the relationship of each variable did not match up accordingly with the hypotheses that were created or the expected relationships. It is still believed that each of these variables is in fact significant in terms of development; however, additional variables should be analyzed in order to more accurately assess state economic development.

Potential Error

Even with the additional research it is quite possible that error exists. One such error may be within the data itself. While countries were chosen as randomly as possible, there were countries that had to be eliminated following the initial selection due to lack of data available. These countries included: Malta, Antigua and Barbuda, Saint Vincent and the Grenadines, Tonga, Mauritania, and Sao Tome and Principe. Having to release these countries could lead to error as generalizability becomes slightly more difficult as the sample was not able to reflect the population quite as effectively as desired. As previously mentioned, error may also exist as more variables need to be considered in order to better assess those factors that affect economic development as indicated by the weak correlation within the r^2.

Conclusion

Ultimately, the notion of state economic development is an incredibly complex phenomenon that will continue to need to be addressed over time as development never truly ends even for the most developed nations. The aim of this research was to provide further insight into what factors affect economic development in order to better understand this complex phenomenon that exists within the international system. In particular this research sought to address the following research question: What leading factors affect a state's ability to develop economically? Through this study, those factors analyzed included: political structure, urbanization, social stability, and open vs. closed economy. In the aspect of political structure having significance, this argument remains true as various aspects such as corruption and legitimacy of the government can greatly impact a state's ability to develop. In regards to the argument presented in the literature review that democracy drives democracy, this concept remains unfounded as no clear relationship was presented particularly within the regression analysis. While the hypothesis surrounding urbanization was incorrect, the variable urbanization was supported following the literature review as urbanization proved to maintain significance on the dependent variable. The variable, social stability was supported in the literature review as well as throughout the case study as well as regression analysis as within each form of study this variable proved to maintain significance. External factors focused on open vs. closed economy were supported following the literature review to some degree but did not appear to hold a great deal of significance. It is believed that in future research this variable should still be considered on some level but adjusted for more accurate assessment. It is firmly believed that these factors still hold significant influence in the realm of economic development but there are additional factors that should be considered within future research of this phenomenon. State economic development will remain a prevalent and complex issue so long as the international system exists and shall need to be continued to be treated with importance if countries desire to continue progression in development.

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