

## 4.1 Economic Development

### The nature of economic growth and economic development

#### 164. Economic growth and economic development

##### Economic growth

- ✧ Rise in national income
- ➔ The value of all incomes in the economy added together
- ➔ GDP (Gross domestic product) is a common measure of national income

##### Economic development

- ✧ A process where there is improvement in the lives of all people in the country
- ✧ Increase in economic growth does not necessarily mean economic development



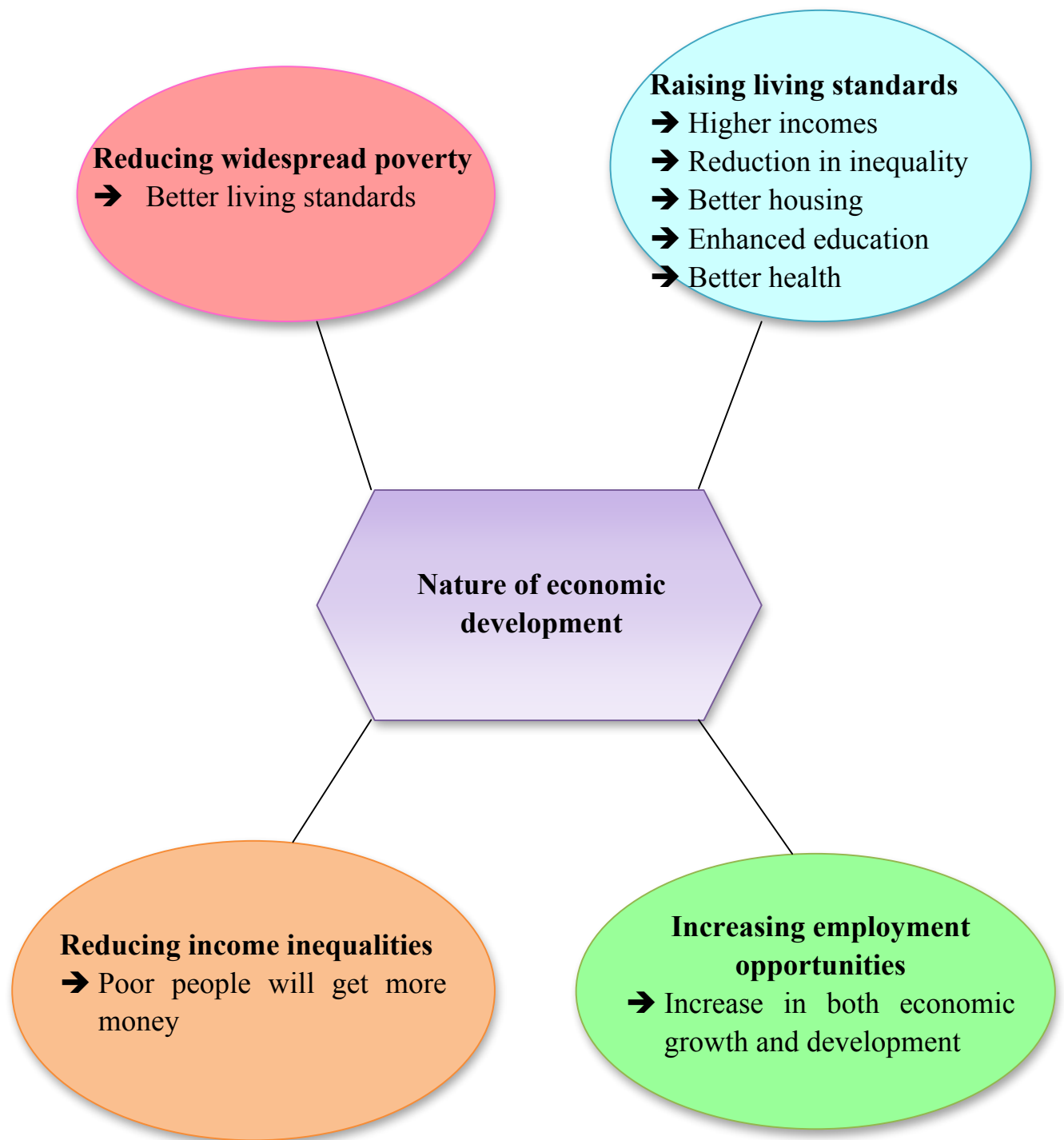
### “Development as Freedom”

By Amartya Sen (1933-present), development economist

- ➔ Development is about increasing people’s freedoms
- ➔ Reducing poverty so that people can be adequately fed and sheltered
- ➔ Public provision of education, healthcare, and the maintenance of law and order
- ➔ The Guarantee of civil liberties and the opportunity for civic participation

#### IB Question

- Distinguish between economic growth and economic development.



#### **IB Question**

- Explain the multidimensional nature of economic development in terms of reducing widespread poverty, raising living standards, reducing income inequalities and increasing employment opportunities.

## Most important sources of economic growth in economically less developed countries

### Human capital

- ✧ Improving the **quantity** and **quality** of labor
- ✧ **Quality**: improved by **better health care**, **education** for children, **vocational training** etc.
- ✧ **HOWEVER**, if the population grows at a faster rate than the level of GDP, the GDP per capita will fall

### Technology

- ➔ Initiating technology
- ➔ Risk taking and innovation

### IB Question

• Explain that the most important sources of economic growth in economically less developed countries include increases in quantities of physical capital and human capital, the development and use of new technologies that are appropriate to the conditions of the economically less developed countries, and institutional changes.

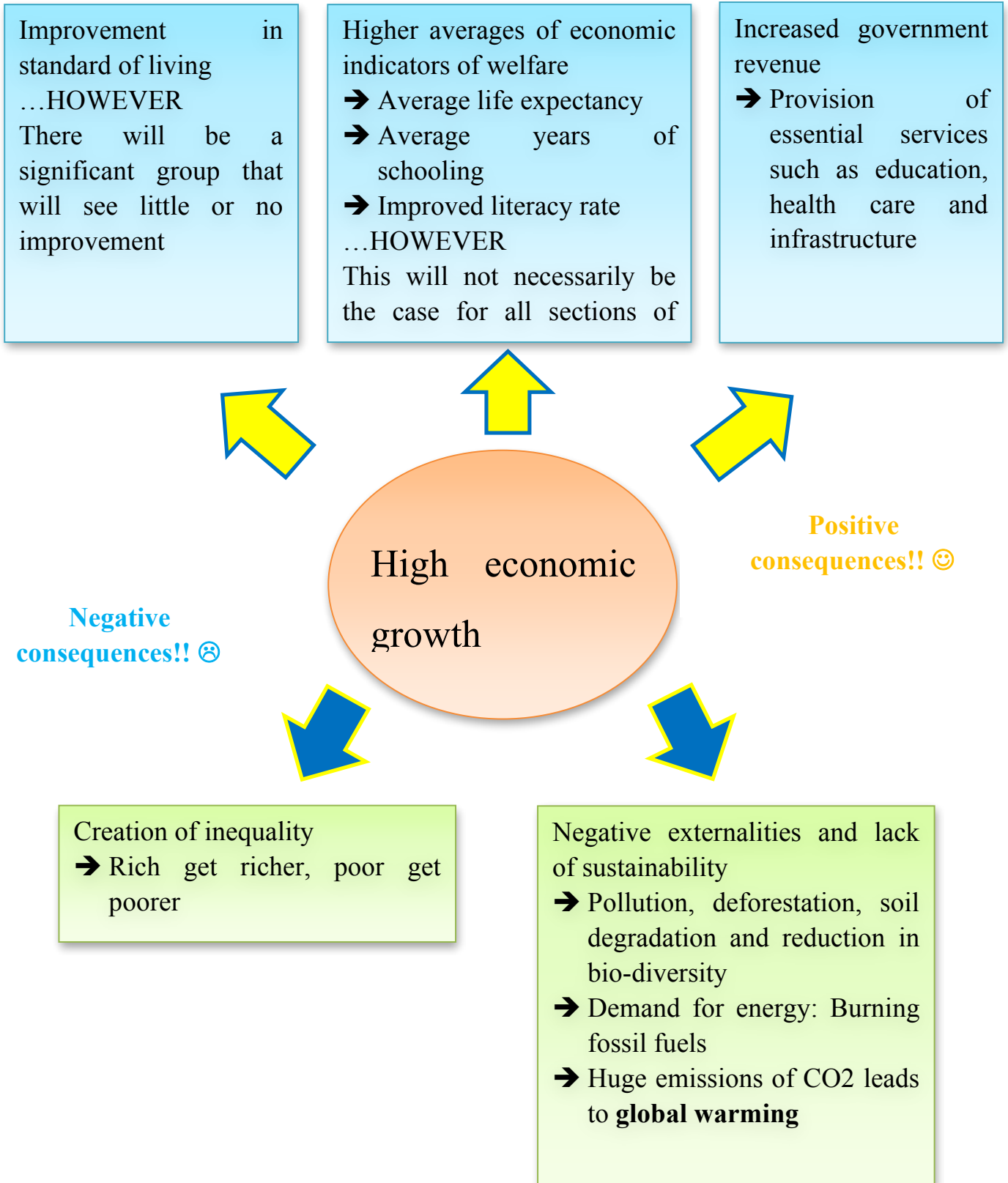
### Physical capital

- **Directly productive capital** - plant and equipment, e.g. factories
- **Indirectly productive capital** - infrastructure or facilitating capital, e.g. roads and railways
- ✧ Improving the **quantity** and **quality** of physical capital
- ✧ **Quantity**: affected by the level of **saving**, **domestic investment**, **government involvement** and **foreign investment**
- ✧ **Quality**: improved by higher **education**, **research and development**, and **access to foreign technology** and **expertise**

### Institutional changes

- An adequate banking system
- A good education system
- Reasonable infrastructure
- Political stability
- Good international relationships
- A good health care

## Q. Does economic growth lead to economic development?



**Key words:**

- **Global warming**

Severe effects on developing countries

- Insecure access to water
- Spread of tropical diseases
- Increased amount of drought and flood
- Risk to food security
- Rising sea levels  
(Especially the coastal areas along with low-lying islands in the Caribbean Sea and Pacific Ocean)
- **“Uneconomic growth”**: Compromising the living standards of future generations

**IB Question**

- Explain the relationship between economic growth and economic development, noting that some limited economic development is possible in the absence of economic growth, but that over the long term economic growth is usually necessary for economic development (however, it should be understood that under certain circumstances economic growth may not lead to economic development).

*165. Common Characteristics of economically less developed countries*  
 (Although it is dangerous to generalize as there are many exceptions in each case)

**1. Low levels of GDP capita**

Caused by:

1. Low education standards
2. Low levels of health among workers
3. Lack of investment in physical capital
4. Lack of access to technology

Country (Rank)	GDP per capita
Norway (3)	65,640
Romania (60)	16,518
Jordan (105)	6,148
Liberia (177)	655
Congo, Dem. Rep. (180)	422

World Bank 2005-2012

(Romania → developing country, thus exception)

**2. High levels of poverty**

- Very low incomes
- High levels of inequality
- Very poor housing
- Poor health
- High infant mortality rates
- High levels of malnutrition
- Lack of education

**3. Large urban informal sectors**

- In many developing countries in Latin America, Sub-Saharan Africa, Middle East and Asia, the informal sector accounts for most of the total employment.
- E.g.) The informal sector in Indonesia in 2004 accounted for 64 per cent of the total employment.



#### 4. Relatively large agricultural sectors

- For the **70%** of the world's poor who live in rural areas, **agriculture is the main source of income and employment**.
- However, **depletion and degradation of land and water pose serious challenges** to producing enough food and other agricultural products to sustain livelihoods in rural areas and to meet the needs of urban populations.

#### 5. High (crude) birth rates

- ✧ **Crude birth rates**: annual number of live births per 1,000 of population
- ✧ The world average in 2005 → **20.15**
- Niger: **51.08** Mali: **46.09** (**Developing countries**)
- Austria: **8.65** Japan: **7.41** (**Developed countries**)

*World Factbook 2010*



Country (HDI rank)	Child dependency ratio (%)	Old age dependency ratio (%)
Australia (2)	28.1	20.7
France (8)	28.4	26.2
UK(21)	26.3	25.1
Bolivia (113)	<b>60.2</b>	8.0
Botswana (125)	<b>52.1</b>	6.1
Burkina Faso (177)	<b>90.0</b>	3.9
Cambodia (137)	<b>51.0</b>	5.6
Congo (176)	<b>91.0</b>	5.2

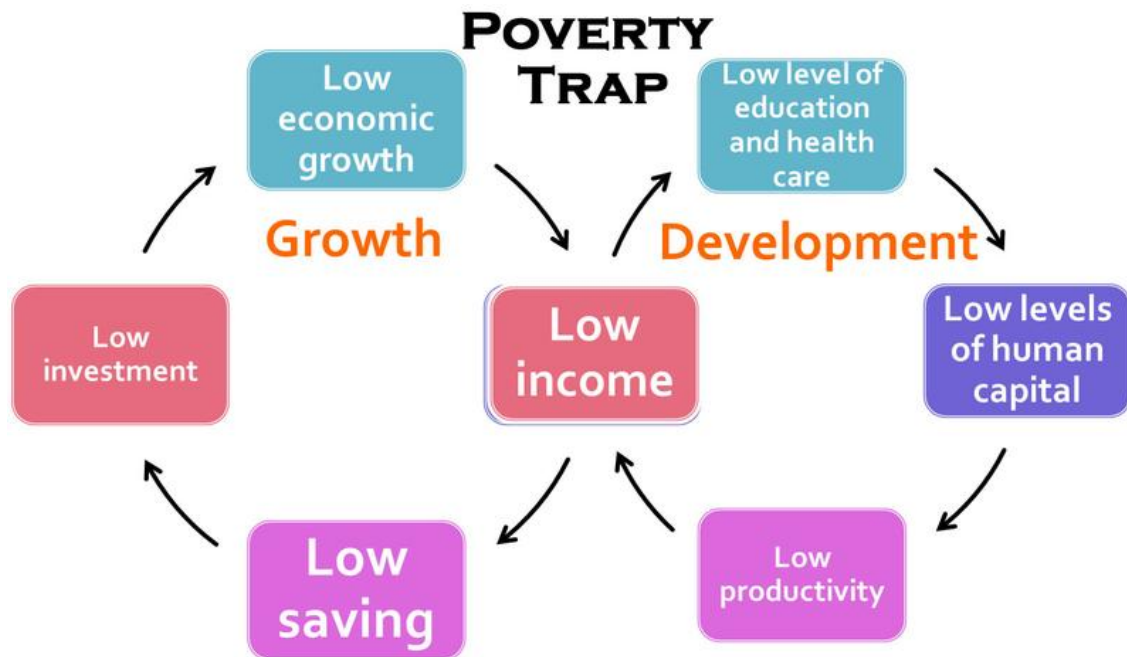
Human Development Report 2009

#### IB Question

- Explain, using examples, that economically less developed countries share certain common characteristics (noting that it is dangerous to generalize as there are many exceptions in each case), including low levels of GDP per capita, high levels of poverty, relatively large agricultural sectors, large urban informal sectors and high birth rates.

## Poverty cycle (Poverty trap)

- ✧ Seemingly endless continuation of poverty.
- ✧ To develop economically, countries need to invest in new and improved capital. However, **investment needs funding** and this **requires savings**. Countries with low income and low savings levels have a lack of funds for investment, which in turn leads to **lower incomes**.
- ✧ There is a need for invention to break out of the cycle



Examples of a poverty cycles

### IB Question

- Explain that in some countries there may be communities caught in a poverty trap (poverty cycle) where poor communities are unable to invest in physical, human and natural capital due to low or no savings; poverty is therefore transmitted from generation to generation, and there is a need for intervention to break out of the cycle.



*166. Diversity among economically less developed nations*

✧ *Resource endowments*

- ➔ Not all developing countries are poorly endowed
- ➔ Endowment in terms of physical resources can vary immensely between developing countries.

Example

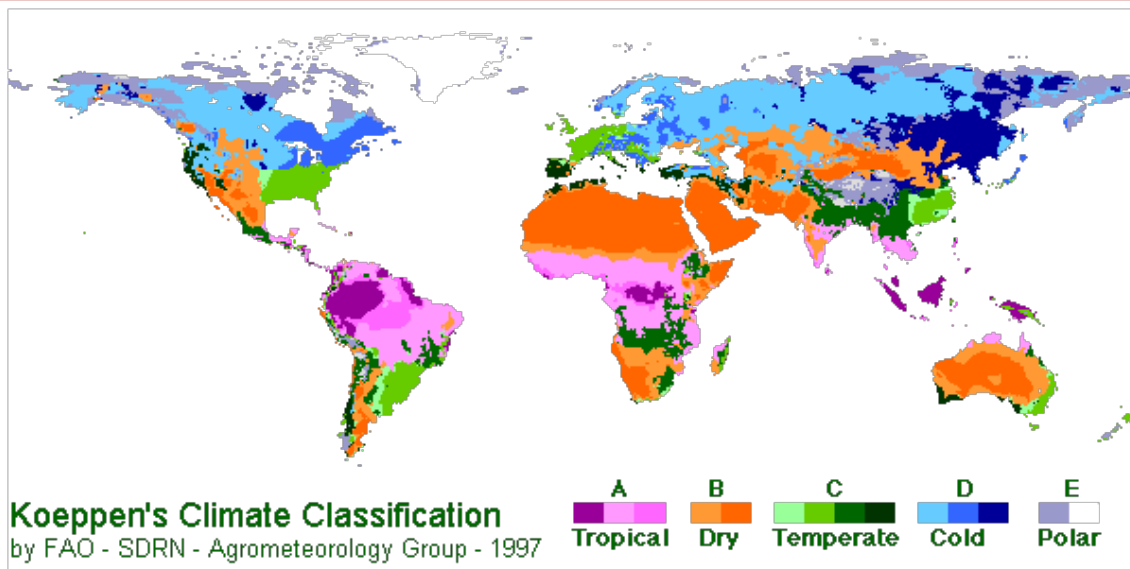
- Angola possesses oil and diamonds and yet is still very much a developing country
- Chad has been considered a country that lacked physical resources, but the discovery of oil and subsequent production since 2003 may make a large difference to the country
- Bangladesh, on the other hand, is very poorly endowed with the physical resources and synthetic products have now replaced the one major resource that they did have, jute
- Japan is not well endowed with physical resources and Singapore has almost literally none, yet both countries have created “economic miracles” over the last 50 years.

**Key words:**

- **Endowments**
  - ➔ The resources they possess through nature
  - ➔ E.g.) oil, natural gas, minerals etc.

## ✧ Climate

- Climate varies widely among the developing countries.
  - E.g.) in Russia, continental climate can be found and total precipitation is not very high whereas Egypt has a hot desert climate and generally dry.
- HOWEVER, it should be noted that most developed countries have temperate climates, while almost all developing countries have tropical and subtropical climates



## ✧ History (Colonial or otherwise)

- A large proportion of developing countries were once colonies of developed countries
- Some countries gained some positive outcomes from colonization (e.g. Singapore and Hong Kong) and some did not (e.g. Vietnam and Angola)
- No matter developing countries we consider, there will be marked historical differences that will set the countries apart from each other socially, politically and economically

### ✧ *Political systems*

- Democracies, such as Brazil, Indonesia, and Mexico
- Monarchies, such as Brunei and Tonga
- Military rule, such as Myanmar and Pakistan
- Single party states, such as China, Cuba, and Syria
- Theocracies, such as Iran
- Transitional political systems, where a country is in transition, often caused by conflict and civil war, and so cannot be classified, such as Haiti and Somalia

### ✧ *Degree of political stability*

- ➔ Countries differ enormously with respect to their political stability
- ➔ A stable government is necessary for effective government decision-making and for implementing economic and other policies that have continuity over some years, creating a stable economic environment
- ➔ Political instability increases vulnerability to hunger and famine  
E.g.) The 1948-85 famine in Ethiopia resulting in over 1 million deaths was caused as much by political instability, internal war and violence as by drought

#### **IB Question**

- Explain, using examples, that economically less developed countries differ enormously from each other in terms of a variety of factors, including resource endowments, climate, history (colonial or otherwise), political systems and degree of political stability.

167. International development goals

- ✧ In 1970 the General Assembly of the United Nations made a commitment to the developing countries of the world that:

*"Each economically advanced country will progressively increase its official development assistance to the developing countries and will exert its best efforts to reach a minimum net amount of 0.7 percent of its gross national product at market prices by the middle of the decade"*

- ✧ The best known international development goals are the **Millennium Development Goals (MDGs)**
- ➔ The goals were adopted by world leaders in 2000, with the aim of them being achieved by **2015**.



**IB Question**

- Outline the current status of international development goals, including the Millennium Development Goals.

