

2 Questions:

- 1. Poverty Reduction: Market or government?**
- 2. what can LDC's do to achieve sustainable development ?**

Some Key issues to be aware of:

- 1. development + growth**
- 2. measuring development**
- 3. domestic factors (eg micro credit scheme)**
- 4. international trade (access for foreign markets e.g. USA, EU etc**
- 5. FDI – foreign direct investment**
- 6. Aid**
- 7. Indebtedness (e.g. African governments crippled by debt)**
- 8. aid or trade?**

2 approaches to Poverty Reduction

1) Aid/intervention/regulation/government solutions

Domestic Factors:

1. education + health (merit goods)
2. Domestic Factors: Empowerment of women, enterprise culture
3. Domestic Factors: income distribution
4. Aid
5. Indebtedness

2) Market/trade based solutions

Domestic factors:

6. microcredit
7. use of technology
8. FDI – large MNC's or multi national corporations such as Bayer, Henkel etc
9. Trade (WTO) 'fair trade'

1) State: = resource allocation system

- **Intervention by government is common**
 - **planned/command economy is the extreme**
 - **import substitution strategy common**
 - **aid is key part of development strategy**
 - **state owned monopolies are common (these are inefficient producers)**
 - **government borrowing to improve infrastructure including roads, rail + telecommunications**
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- Government dominates economy and restrictions in place on markets or even an outright ban on market activity (command economy)
 - Nationalization (state owned enterprises) common
 - Low productivity (low o/p per worker per hour)
 - Low growth in economy: consequence of this is low development as seen in poverty cycle
 - Poverty common (including absolute poverty)
 - Problems with corruption + poor governance

Result:

1. **Economy stagnates**
2. **Relative (to comparable nations) and absolute poverty (lack of food, shelter and clothing) evident**

2) Market: = resource allocation system

- outward oriented strategy
- market based strategy
- free enterprise strategy
- free trade approach to development strategy
- laissez faire (let the market do/ Adam Smith)
- market function in terms of " signalling and incentive" i.e. resource allocation mechanism
- Profit motive " incentive function of market".
- Market mechanism allocates resources effectively : better resource allocation
- Privatization (firms privately owned)- firms and households benefit from higher wages and higher profits
- More growth: more resources available for development
- Government receives more tax revenue
- FDI encouraged.
- MNC's are welcome to do business in the domestic nation
- Market based / outward oriented strategy promotes free trade ie reduction of trade taxes (tariffs) and membership of the WTO (World Trade Organization) that supports free trade

Result:

1. Growth
2. Development (conditions necessary for)
3. Employment
4. Resource Allocation and efficiency