

4.3 Role of Domestic Factors - Summary Notes

Objectives

analyse a **specific developing economy**, and using appropriate diagrams where relevant, **I can** examine how the following factors contribute to economic growth

- appropriate technology
- and micro-credit
- empowerment of women
- globalisation

Factor	Description	Real World Example
	<p>Education leads to improved well-being of society as a whole. Increases the productivity of labour. Improved levels of communication leads to discussion, debate and social reform.</p> <ul style="list-style-type: none"> - Improves the role of women in society - Improved levels of health due to clearer communication 	<p>Southern Asia school enrolment ratio = 90% Sub-saharan Africa school enrolment ratio = 71% Child labour can interfere with education Communication re: contraception can reduce birth child dependency ratios</p>
	<p>Countries who spend a higher proportion of their GDP on Health Care, tend to have higher life expectancy. Improved levels of health = increased labour productivity. Significant developments have occurred in many countries in the training of doctors and nurses, building of clinics and hospitals and the provision of public health services such as safe water.</p>	<p>Australia spends 17.2% of GDP on Education (life index = 0.94) Syrian Arab Republic spends 5.9% of GDP on Education (life expectancy index = 0.82) Australia has a significantly higher HDI ranking</p>
	<p>Definition: Essential facilities and services such as roads, airports, sewage treatment, water systems, railways, telephone and other utilities that are necessary for economic activity. Sewage = improved health Roads = transport and access to health and education services Radio = Communication and community participation Gas and Electricity = Food preparation and heating</p>	<p>Transport - roads, railways, seaports, airports, for transport Public Utilities - Electricity, gas, water supply, sewerage Public Services - Police, fire, education, health and social management Communication - Radio/TV, Postal, Telecommunications</p>
Instability (lack of)	<p>Political stability leads to more aid, foreign direct investment (FDI) and security for domestic savings and profits. Laws are enforceable and people are likely to have a voice in the running of a country. Wars = poor economic development, lower FDI. Definition - Corruption - dishonest exploitation of power for personal gain</p>	<p>Civil war in Sudan 1983-2005 = displaced population of people in Cameroon, Liberia and Uganda have peaked in the last 12 months. Corruption (bribes, extortion, fraud) more likely to occur in: - Military government who are not accountable to the people - Weak legal structure</p>

		<ul style="list-style-type: none"> - Accounting practices are not controlled or checked - Political elections not organised and limited free
	<p>Legal system must be in place for development to be achieved. Contracts and property rights need to be enforced.</p>	<p>Rights that should be in place regarding property rights:</p> <ul style="list-style-type: none"> - right to own assets, such as land or buildings - right to sell assets - right to rent assets - right to exclude others from taking our assets
Finance, Credit	<p>Developed and independent financial institutions are essential. In developing countries official financial markets are often foreign banks. Unofficial markets are not legally controlled and therefore illegal. These are usually operating with very high interest rates.</p> <ul style="list-style-type: none"> - Many people struggle to have collateral (assets) and thus cannot access finance to start (or continue) their business. 	<p>Weak financial sector = capital flight (savings leave country) and low savings/investment. Micro-credit schemes (people borrowing smaller money) have had great success in some countries International. SEEP Network. http://www.seepnet.org Women are considered more reliable to loan more credit schemes.</p>
	<p>Governments in developing countries struggle to access taxation revenue to improve education, health and infrastructure. Large tax incentives are often given to foreign firms to attract FDI. Lack of efficiency in administering tax and corruption also reduce tax revenue.</p>	<ul style="list-style-type: none"> - 3% of population in developing countries pay income tax (Estimated) - 60-80% of population in developed countries pay income tax (Estimated) <p>Large informal markets exist in the developing world</p>
Technology	<p>Surplus supply of labour makes it difficult to introduce new technologies. What technologies could take advantage of the abundance of labour?</p>	<p>Nut sheller - simple design. 1:1 capital to labour ratio Solar cooker - foil and plastic film. Cheap to purchase and use. Take advantage of the excess sunshine. People do not destroy forests for firewood (or use their time doing so)</p>
Gender	<p>In many countries women are subservient to men. Improved education and social standing improves economic development indicators.</p>	<p>Positive externalities due to women empowerment</p> <ul style="list-style-type: none"> - Improved family well-being ... health care, diet, income - Women help to educate the children - Improved quality of workforce - More control over contraception and thus lower population growth and child dependency ratios
Income Distribution	<p>Developing countries tend to have a significant gap between the wealthy and poor = inequality of income distribution.</p>	<p>Wealthy often import and consume foreign goods. This does not benefit domestic production.</p>

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Politics tend to be dominated by the wealthy, thus decisions are made in support of their interests. Rich often remove funds from the economy in developing countries (capital flight).

Gini-Index (higher the index = great inequality)
Croatia - 29.0
Brazil - 55.0