

## **8 themes in development:**

1. development + growth
2. **measuring development**
3. domestic factors ( eg micro credit scheme)
4. international trade
5. FDI
6. Aid
7. indebtedness
8. aid or trade?

**Big Question: how important is it to measure development?**

Measuring Development is a key issue as it helps to target the areas most in need for assistance by the international community.

There are a some key indices for this:

1. HDI (human development index – see webnote **424**)
2. HSI ( human suffering index)
3. HPI (human poverty index)

### **4.2 Measuring Development**

1. GDP per capita
2. GNI per capita
3. purchasing power parity (PPP)
4. exchange rates
5. composite indicators of development (HDI)
6. Human Development Index

1. purchasing power parity (PPP) – see webnote: 324 ( Exchange Rates)

### **415 - 3.2 Purchasing Power Parity Theory**

Definition :

Exports would equal imports if the amount which can be bought inside and outside the country with one dollar were identical- equal buying power inside and outside the country

Take a look at this website:

<http://hdr.undp.org/en/statistics/>

- Section 4.2 Development
- Section 4.5 Development
- Section 4.8 Development

4. Study the extract and data below and answer the questions that follow.

### **Cambodia encouraged to review international partnerships**

- ① The United States (US) Secretary of State has urged Cambodians to pursue a variety of economic partnerships throughout Asia-Pacific and not become over-reliant on China. She said that Cambodia should look for partnerships that cut across regional geographic lines.
- ② Both China and the US are working to extend their influence in Cambodia. Nearly 400 Chinese companies have invested billions of dollars in Cambodia, including key **infrastructure** projects such as hydropower dams and coal-power plants. While acknowledging the attraction of Chinese investment, the Secretary of State said: “One of the challenges for Cambodia is the construction of dams on the Upper Mekong river”. China has been criticised by environmental groups over the building of a series of hydropower projects on the Mekong river. Concerns over the project include a possible loss of water quality and a loss of biodiversity.
- ③ The Secretary of State also indicated that the US was willing to cooperate with Cambodia to resolve an outstanding debt of about US\$445 million that the country owes to the US.
- ④ The Cambodian Foreign Minister had asked the Secretary of State at a meeting to help his country convert the debt into development aid. She said she was ready to explore creative ways Cambodia could be relieved of the debt, possibly by agreeing to preserve key environmental areas or investing in education. In this way, the debt repayment would be treated as development aid.

[Source: AFP 2010]

[Source: <http://hdrstats.undp.org/images/explanations/KHM/>.pdf 2011 Human Development Report, United Nations Development Programme.]

## Human Development Report 2010 Statistics for Cambodia

	Life expectancy at birth	Expected years of schooling	Mean years of schooling	GNI per capita (constant 2005 PPP US dollars)	HDI value
1980	38.7	6.1	5.0	-	-
1985	52.6	6.1	5.2	-	-
1990	55.6	6.1	5.3	-	-
1995	56.2	6.5	5.5	793	0.407
2000	57.6	7.5	5.7	975	0.438
2005	60.1	9.7	5.7	1390	0.491
2010	62.7	9.8	5.8	1753	0.518

Source adapted from UNDP

(a) (i) Define the term *infrastructure* indicated in bold in the text (paragraph 2). (ii) State **two** forms of development aid (paragraph 4). [2 marks]

(b) Using an appropriate diagram, explain why hydropower dam projects on the Mekong River might lead to market failure. [2 marks]

(c) Explain why the Human Development Index (HDI) is considered a better measure of economic development than GNI. [4 marks]

(d) Using information from the text/data and your knowledge of economics, discuss the possible effects on the economic development of Cambodia of investment from China and the United States (US). [8 marks]

Study the extract below and answer the questions that follow.

## The Tiger in Front

**1** If it were not for two things, India's economic performance would seem remarkable. In 1991, India began to dismantle its import substitution policy, adopting an outward oriented strategy. Since then, the country has achieved average annual economic growth of 6 %. The proportion of people living below the poverty line, 50 % in 1978, fell to 25 % by 2000. Since 1991, average GDP per head (at purchasing power parity) has doubled. However, a significant proportion of the people are still poor and that is one of the things that make India's success less impressive. The number of poor people in India is more than 260 million and nearly half of its children under five are underweight. The World Bank estimates that 35 % of Indians live on less than \$1 a day, compared to 17 % of Chinese.

**2** The second thing is China. Comparisons are unavoidable. The two countries are unique in each being home to more than one billion people, many of them poor. Other Asian successful countries, such as Singapore and Hong Kong, are relatively small places. China, however, proves that size is no obstacle to high growth. China has done better than India on almost every measure of economic growth and poverty reduction. India's growth rate of 6 % seems impressive, but then looks ordinary compared to China's growth rate of almost 10 %.

**3** China has received \$500 billion in **foreign direct investment** since 1980: India has received less than a tenth of that. Indeed, India lacks **investment** of all kinds. India invests only about one quarter of GDP, whereas China's investment is about 40 %. The gap shows especially in infrastructure such as roads, sea ports and airports, and electricity supply. However, India and China still face similar challenges. Their primary economic problems are unemployment, regional inequality, and the poverty of farmers, who face very low prices, which tend to fluctuate a great deal.

**4** In the Human Development Index, China is 94th out of 177 countries, with a score of 0.745, whereas India, with 0.595, comes 127th. However, there has been a 36 % rise in the Indian index since 1980. In international trade, China leads the way. In 2004, China overtook Japan to become the world's third largest trader behind America and Germany. Although India's trade has been growing at up to 16 % per year, the increase in China's trade in 2004 was bigger than India's total foreign trade. [Source: adapted from *The Economist*, March 2005© The Economist Newspaper Limited, London (03 March 2005)]

(a) Define the following terms indicated in bold in the text:

(i) foreign direct investment (*paragraph 3*) [2 marks]

(ii) investment (*paragraph 3*). [2 marks]

(b) Explain how allowing for differences in purchasing power may give a more realistic value of the average GDP per head in India. [4 marks]

(c) Using an appropriate diagram, explain how the government could help to protect farmers against fluctuating prices. [4 marks]

(d) Using information from the text and your knowledge of economics, evaluate the effectiveness of adopting an outward oriented strategy to achieve economic development. (8 marks)

November 2006 SL paper : no answer available.