Economic Development

The single most important geographic fact of economic development is its striking unevenness.

World Bank

What do we mean by economic development?

Economic development is a term that economists, politicians, and others have used frequently in the 20th century. *Modernization*, *Westernization*, and especially *Industrialization* are other terms people have used to define economic development.

Economic development is a policy intervention endeavor with the goal of improving the economic and social well-being of people. Economic development usually refers to the adoption of new technologies, the transition from an agriculture-based to an industry-based economy and a general improvement in living standards.

Economic Growth vs. Economic Development

Economic development is not the same thing as economic growth.

Economic growth is a phenomenon of market productivity and rise in GDP. Economic growth is a part of the process of economic development but it is not a synonym for economic development.

A state may experience economic growth without seeing any economic development.

Three Objectives of Economic Development

- increase availability and improve the distribution of food, shelter, health, protection, etc
- improve standard of living, including higher incomes, more jobs, better education, etc
- expand the range of economic and social choices available to individuals and states

Three Characteristics of Economic Development

- **Geographic Unevenness***:* governments generally cannot simultaneously foster economic production and spread the effects out smoothly
- **Circular Causation***:* rising concentrations of economic production are compatible with rising living standards ... The market forces of agglomeration, migration and specialization can, if combined with progressive policies, yield both economic production and higher living standards.
- **Neighborhood Effects***:* it is useful to promote economic integration ... It is more difficult for places left behind to catch up but spillovers from economic integration are an effective and realistic way to gain immediate benefits.

Classification of States by Level of Economic Development

- States are classified as being
  - **MEDC**: more economically developed or developed
  - **LEDC**: less economically developed or developing or (sometimes) least developed or undeveloped

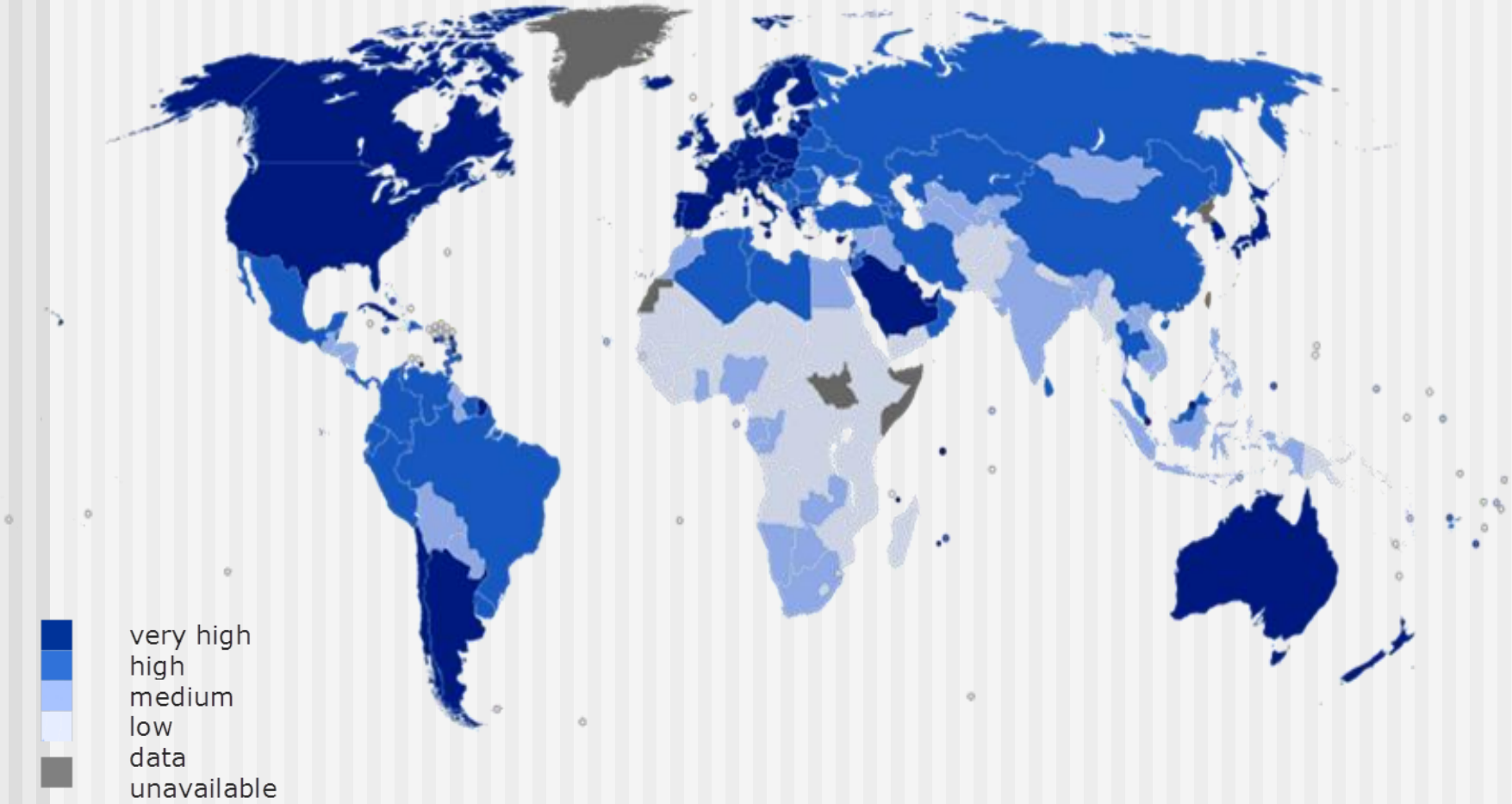
Key Issue #1:

How does development vary among states?

Human Development Index (HDI)

- developed by the UN
- a composite statistic of life expectancy, education and income per capita indicators, which are used to rank states into four tiers of human development (very high, high, medium, low)
- How is the HDI created?
  - **economic indicator**: gross domestic product per capita
  - **social indicator**: literacy rate and level of education
  - **demographic indicator**: life expectancy

Human Development Index by State, 2014



Measuring Development

Economic Indicators:

- **Gross Domestic Product** (GDP)
- **economic sectors**
- access to **raw materials** (natural resources)
  - deemed essential, but Japan and others developed without many resources
  - Some resources are more important than others.
- availability of **consumer goods** (nonessentials)
  - motor vehicles, telephones, televisions, etc

Limitations of Using a Single Indicator (such as GDP/capita)

- Figures can be misleading on their own, as they are **averages**. GDP per capita may be very high as a result of some very rich people living in a state, when in fact a lot of the population may actually be quite poor (Iran).
- GDP does not show **variations** across a state (in Devon, GDP per capita is much lower than London).
- As a state develops, some aspects develop before others (Ecuadoran literacy rates are high but GDP per capita is very low).
- **HDI may be better as a single measure** since it is composed of 3 variables: life expectancy, literacy and GDP per capita.

Quality of Life vs. Standard of Living

What do we mean by Quality of Life and Standard of Living? They are not the same!

Standard of living refers to the economic level (wealth) of a person's daily life. Are they comfortably off or not? It can be measured.

Quality of life is how good or bad people think their life is (perception). It cannot be measured.

For example, a person may be poor but educated, healthy and have a long life expectancy. In this situation, standard of living is low but quality of life is good.

GDP Per Capita

- GDP is the value of the total output of goods and services produced in a state in one year.
- **GDP per capita** is the GDP divided by the total population and measures the average contribution an individual makes to the wealth of the state every year.
- Keep in mind that per capita GDP measures average wealth, not *distribution* of wealth.

GDP Per Capita

The gap between MEDCs and LEDCs is, for the most part, growing. In the last two decades, GDP per capita was up $10,000 in MEDCs compared to $200 in LEDCs. The GDP per capita of many African states actually decreased.

GDP Per Capita

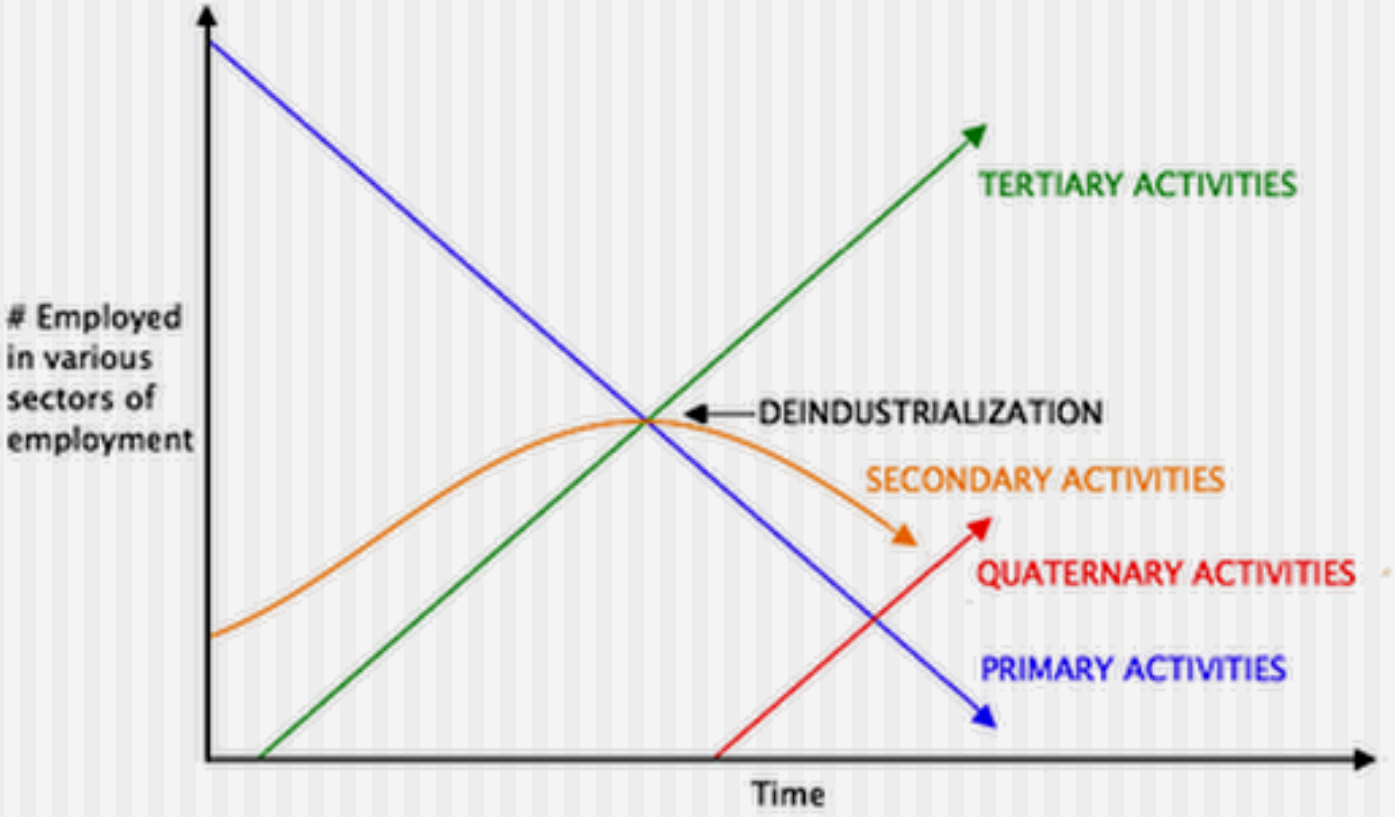
	GDP per capita US$	Human development index (HDI)
USA	26,977	0.943
Norway	22,427	0.943
Canada	21,916	0.96
France	21,176	0.946
Iceland	21,064	0.942
Netherlands	19,876	0.941
China	2,935	0.65
Albania	2,853	0.656
Uzbekistan	2,376	0.659
Ukraine	2,361	0.665
Turkmenistan	2,345	0.66
Pakistan	2,209	0.453
India	1,422	0.451
Burkina Faso	784	0.219
Niger	765	0.207
Burundi	637	0.241
Sierra Leone	625	0.185
Mali	565	0.236
LEDCs	3,068	0.5864
Least Developed	1,008	0.3439
MEDCs	16,337	0.9114
World	5,990	0.7715

Economic Sectors

- Average GDP per capita is higher in MEDCs because of their economic structure. All economic structures include the same sectors but of varying sizes.
  - **primary activities**: extraction (agriculture, oil, mining, logging, cattle, etc)
  - **secondary activities**: processing of raw materials (factories, industry)
  - **tertiary activities**: service (health care, garbage, education, banking, transportation, etc)
  - some also include quaternary activities: intellectual organization (IT, research, government, etc)

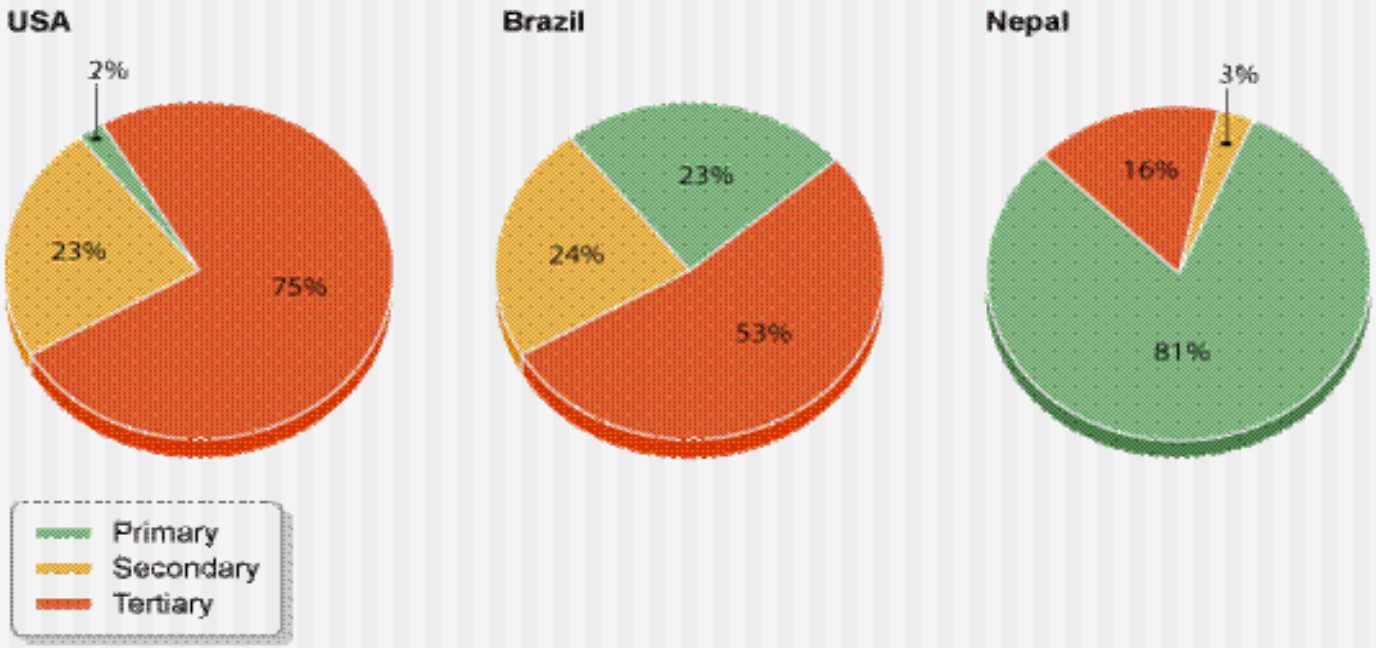
Economic Sectors

A state's economic structure changes over time as the state develops.

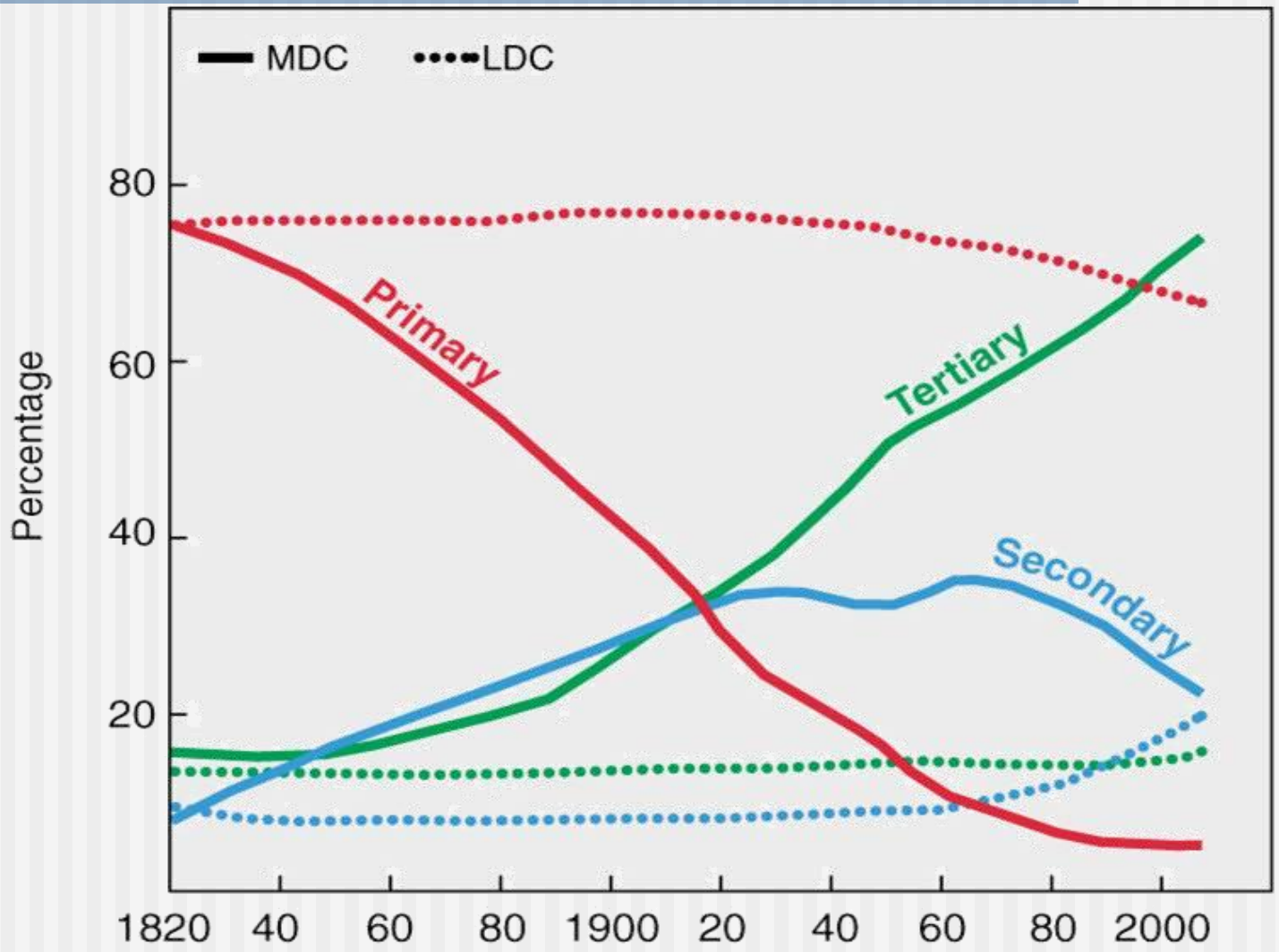


Economic Sectors

The **distribution of workers among sectors/activities** varies between MEDCs and LEDCs. As a state develops, more and more of its labor force is employed in secondary and then in tertiary activities. Look at the structure of three economies at different levels of development.



Economic Sectors as a Measure of Development



Raw Materials

- The availability of raw materials can measure a state's potential for development.
- Some states do not need raw materials to develop. They may develop through trade.
- As certain raw materials become important, a state's level of development may advance. Often the sale of resources is used to finance development.

Consumer Goods

- Wealth used to buy nonessentials increases manufacturing which increases wealth for a state.
- The quantity and type of goods and services indicates level of development.
- In LEDCs, some goods and services may become desirable. We then often see the development of “haves” and “have-nots” within a state.

Measuring Development

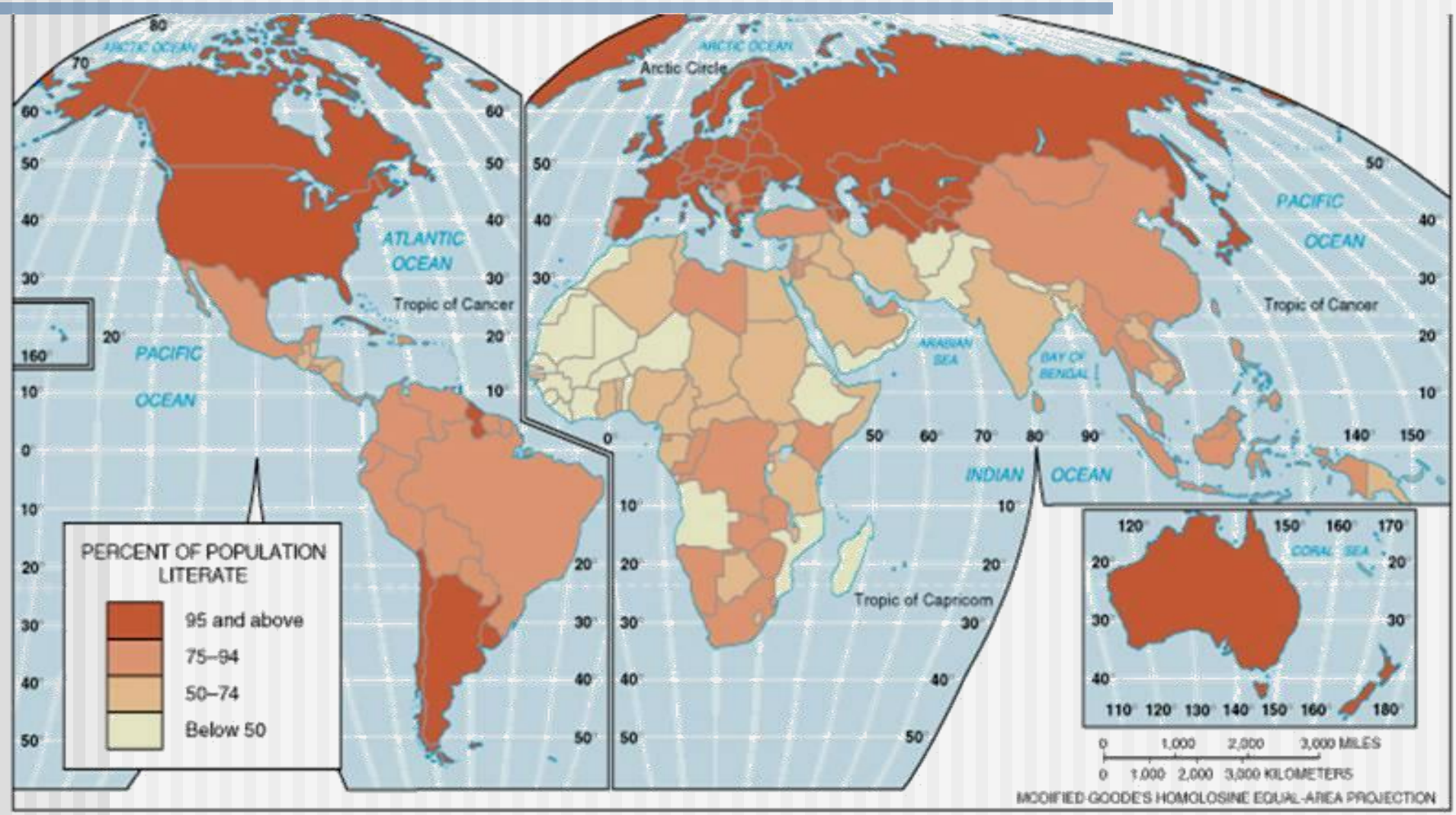
Development is not only economic (wealth, jobs) but also social (education, health care, life expectancy, etc) and cultural.

Measuring Development

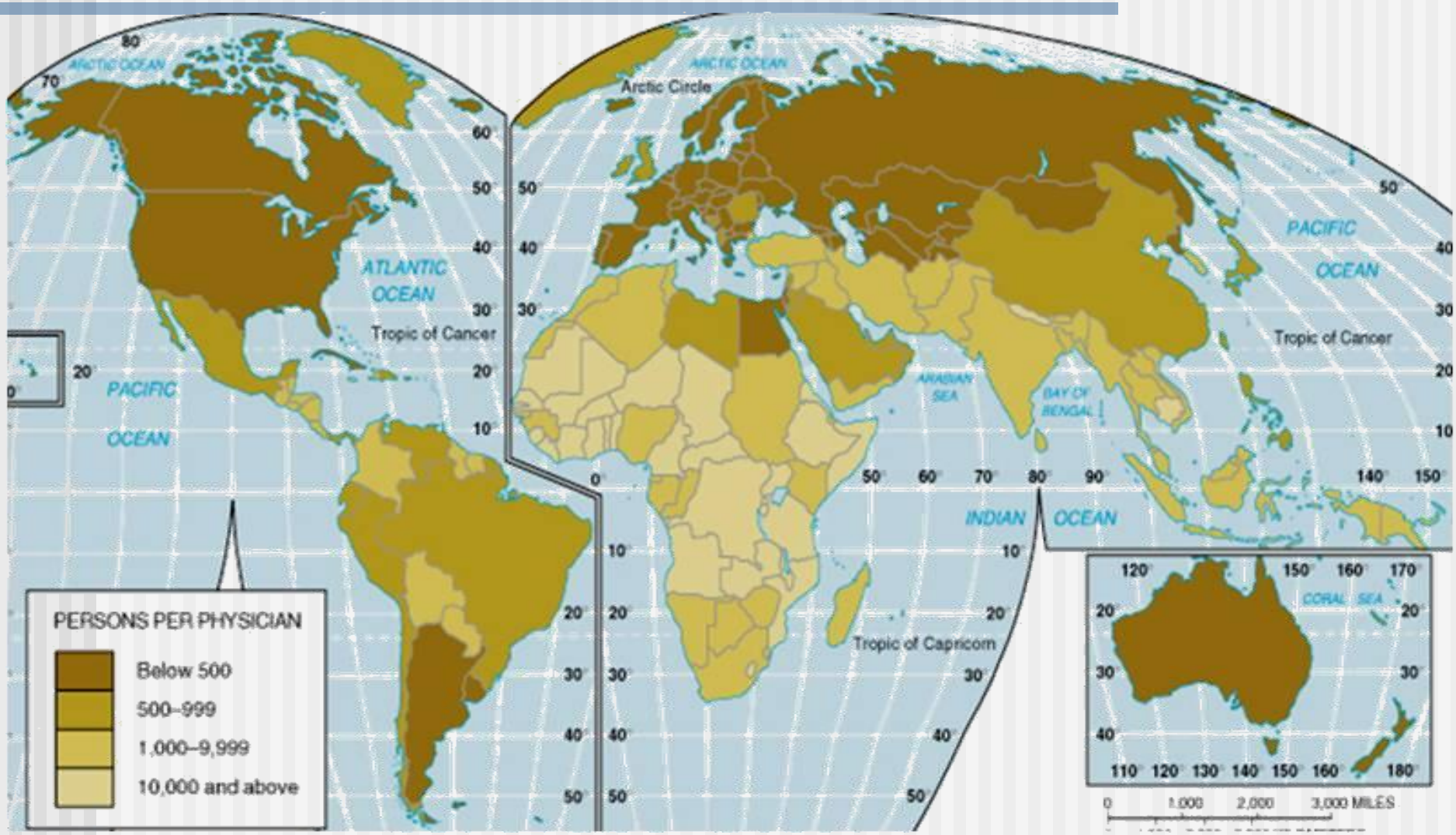
Social Indicators:

- **Education and Literacy**: The higher the level of development, the greater the quantity (average number of years spent in school) and quality (literacy rate and teacher/student ratio) of education.
- **Health and Welfare**: MEDCs have more resources to care for people when they get sick. Too, health is influenced by diet, which is improved in MEDCs. MEDCs also have the means to provide for those that are unable to provide for themselves (welfare, food stamps, etc).

Education and Literacy



Health and Welfare



Measuring Development

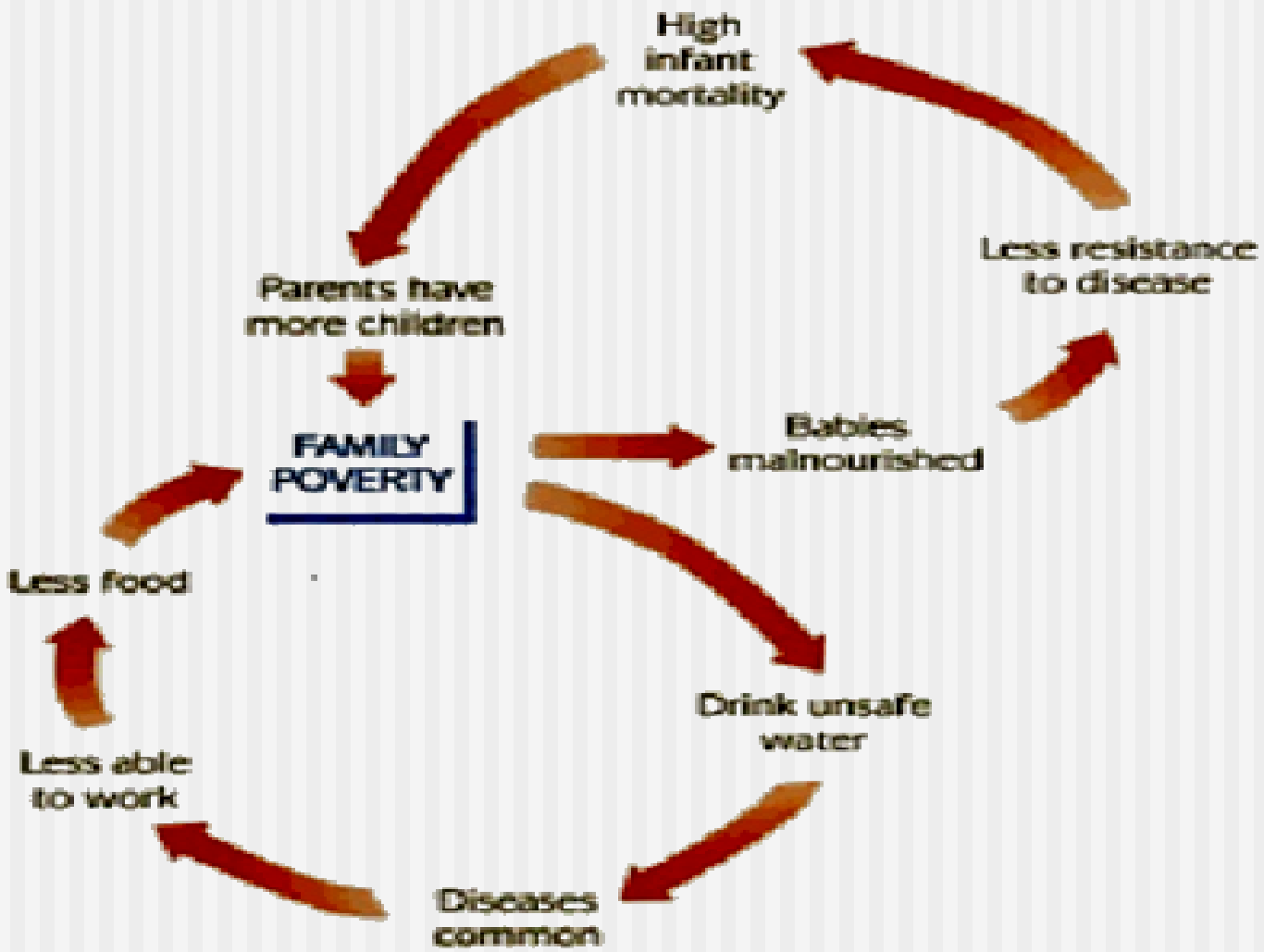
Demographic Indicators:

- **Life Expectancy**: Better healthcare equals longer life.
- **Infant Mortality Rate**: greater in LEDCs
- **Rate of Natural Increase**: LEDCs' RNI is higher than MEDCs' RNI.

Life Expectancy

Nation	Life Expectancy for Everyone	Life Expectancy for Males	Life Expectancy for Females	Years Women Expected to Outlive Men
Singapore	80.1	77.1	83.2	6.1
Australia	79.8	76.9	82.7	5.8
Jordan	77.4	74.9	79.9	5
Luxembourg	77.1	73.8	80.6	6.8
United States	77.1	74.2	79.9	5.7
Botswana	39.3	38.6	39.9	1.3
Angola	38.3	37.1	39.6	2.5
Zimbabwe	37.8	39.2	36.3	-2.8
Malawi	37.6	37.2	38	0.8
Mozambique	37.5	38.3	36.7	-1.7
Zambia	37.2	37.1	37.4	0.3
World	64	62	65	3

Infant Mortality Loop



Life Expectancy and Literacy

	Life Expectancy	Adult Literacy Rate %	Human Development Index (HDI)
USA	76.4	99	0.943
Norway	77.6	99	0.943
Canada	79.1	99	0.96
France	78.7	99	0.946
Iceland	79.2	99	0.942
Netherlands	77.5	99	0.941
China	69.2	81.5	0.65
Albania	70.6	85	0.656
Uzbekistan	67.5	99	0.659
Ukraine	68.5	98	0.665
Turkmenistan	64.9	98	0.66
Pakistan	62.8	37.8	0.453
India	61.6	52	0.451
Burkina Faso	46.3	19.2	0.219
Niger	47.5	13.6	0.207
Burundi	44.5	35.3	0.241
Sierra Leone	34.7	31.4	0.185
Mali	47	31	0.236
LEDCs	**62.2**	**70.44**	**0.5864**
Least developed	**51.16**	**49.2**	**0.3439**
MEDCs	**74.17**	**98.63**	**0.9114**
World	**63.62**	**77.58**	**0.7715**

Comparing MEDCs and LEDCs

	MEDCs	LEDCs
Birth Rate	Low, 10-16 babies born per 1000 people	High, 20-45 born per 1000 people
Death Rate	Low due to good health care	High due to poor health care and widespread disease
Natural Increase	Low (below 1%)	High (2-3.5% or more)
Infant Mortality	Very few children die before the age of 5.	A high proportion of children die before the age of 5 due to poor health care. About 35,000 babies die every day due to poor health care and lack of food.
People per Doctor	A majority of people have access to a doctor	Few people have access to a doctor unless they are wealthy.
Life Expectancy	Life expectancy is high due to good medical care and quality of life.	Life expectancy is low due to poor medical care and quality of life.
Housing	Housing is adequate for a majority of people. Most people have access to clean running water and electricity.	Housing is often inadequate with no access to clean running water or electricity. Shanty towns develop and consist of poorly built properties.
Literacy	Literacy rates are high because a majority of children have access to a free education.	Literacy rates are low because people cannot afford to send their children to school. Some areas may not have schools due to a lack of teachers.
GDP	The rich MEDCs are in the continents of North America, Europe and Australasia. Japan in Asia is also in this group.	The poorest LEDCs are mainly in the continents of Africa and Asia. They lie on the southern side of the North-South Line.

Key Issue #2:

Where are more and less economically developed states located?

Geographic Distribution

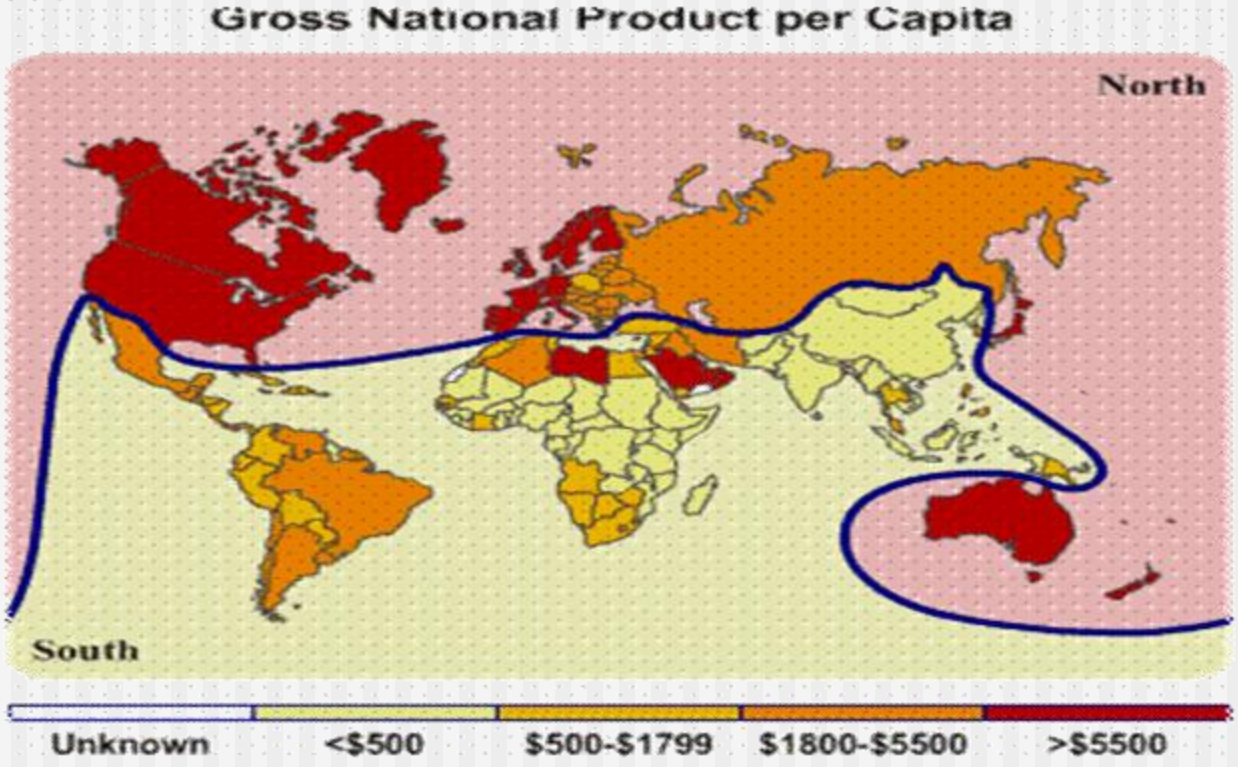
- States can be categorized into **regions** based on level of development.
  - Regions also have distinctive demographic and cultural characteristics.
  - Western Hemisphere: Anglo-America and Latin America
  - Europe, Russia, Australia, New Zealand
  - Asia: Central, East, South, Southeast, Southwest, Oceania
  - Sub-Saharan and North Africa

Geographic Distribution

- Distribution of MEDCs and LEDCs shows a **global pattern**.
- **MEDCs**:
  - Anglo-America, Europe, Russia, Australia, New Zealand (also Japan)
- **LEDCs**:
  - Latin America, Asia, Africa

Location of MEDCs and LEDCs

The Brandt Report used wealth to make a simple division between the rich (industrialized) and poor (mainly agriculturally based) states of the world. This approach has become less popular as it is seen to be too simple.



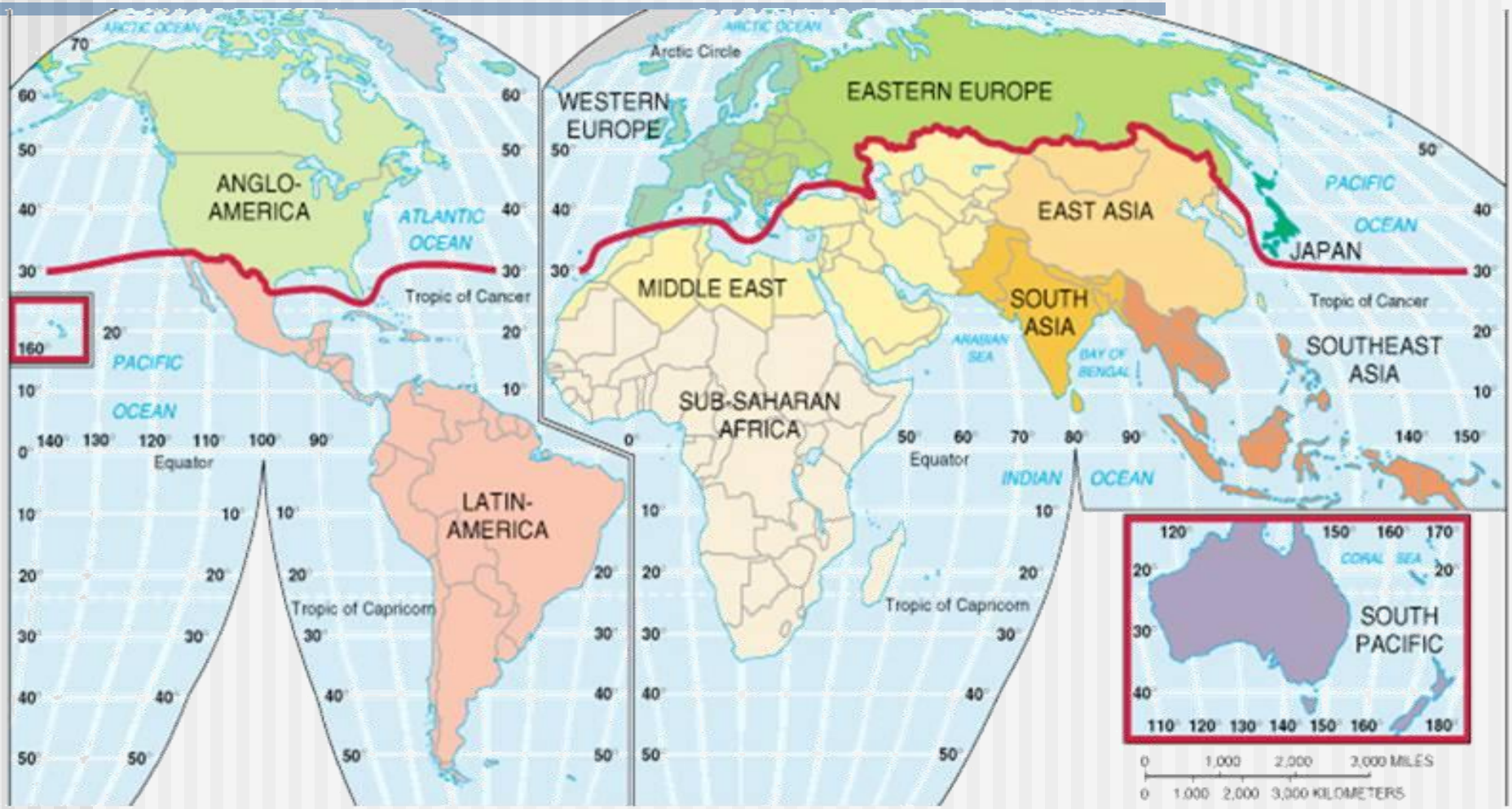
Why the North-South Division Is No Longer Valid

- Development is not only **economic** (wealth/jobs) but also **social** (education, healthcare, life expectancy, etc) and **cultural**.
- Some LEDCs are growing faster than most MEDCs. A new category had to be introduced to cover those developing fastest. They became known as NICs (**newly industrializing countries**).
- Even within a state, there can be significant differences between people and regions.
- The North-South division does not cover **variations in quality of life**.
- Some states grow richer at a greater rate than others and some may get poorer so a simple two-fold division is no longer acceptable.

Why the North-South Division Is No Longer Valid

- Although we won’t spend any time on it here, a five-fold division is more realistic because it recognizes the great variety in the types of states: 1. rich industrializing (US), 2. oil exporting (Saudi Arabia), 3. newly industrializing (China), 4. former Communist (Russia), 5. heavily in debt (many African states).

Location of MEDCs and LEDCs



Still, development generally reflects a **global North-South split**.

Key Issue #3:

How does level of economic development vary by gender?

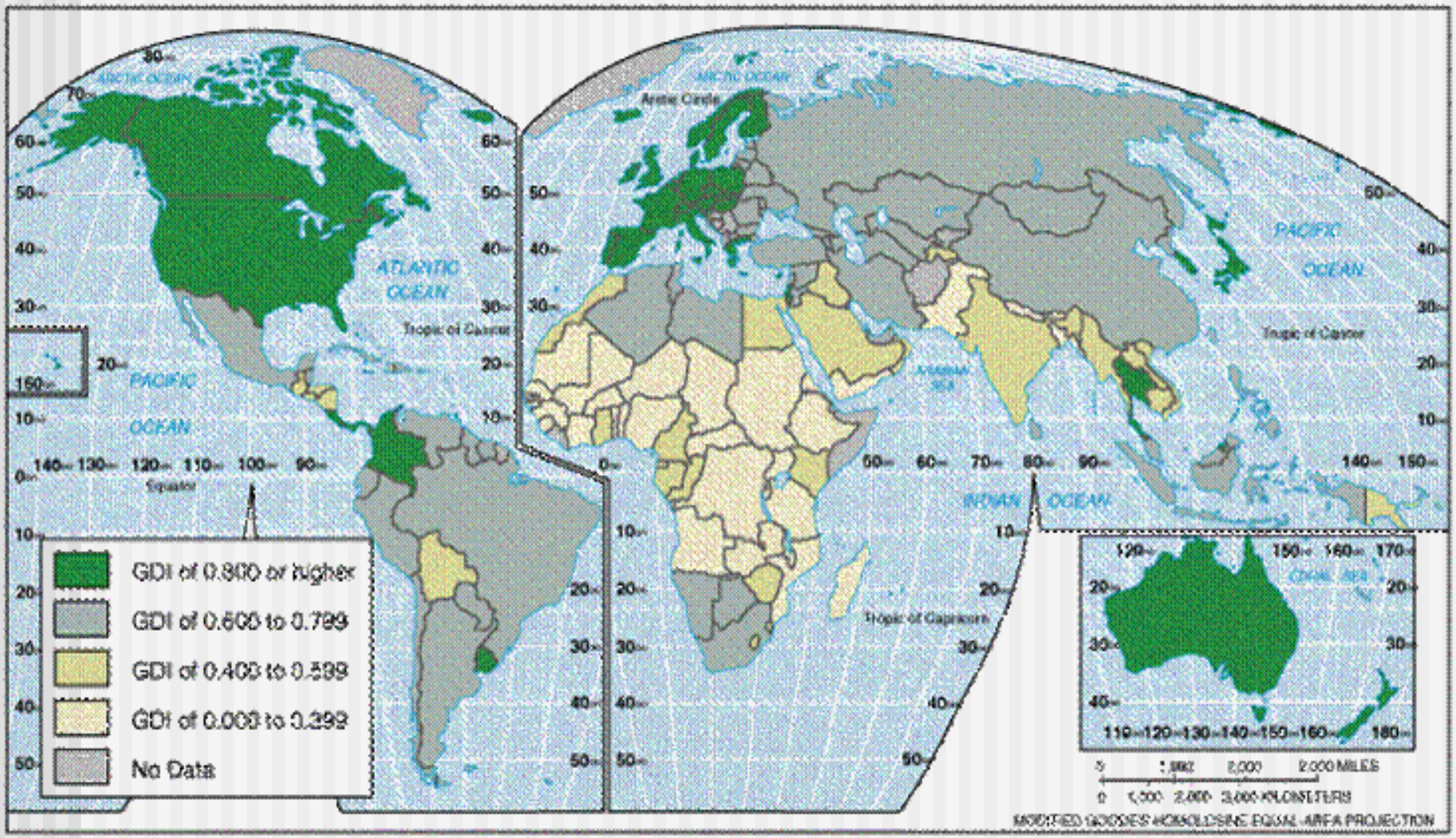
Development and Gender Inequality

- The overall development of a state masks gender inequalities.
- To solve this, the UN created the **GDI** and the **GEM**.

Gender-Related Development Index (GDI)

- similar to HDI
- A state with **complete equality** has a GDI of **1.0**.
- How does the UN determine this?
  - economic indicators
  - social indicators such as education and literacy
  - demographic indicators

Gender-Related Development Index (GDI)



Gender Empowerment Measure (GEM)

- Measures the ability of women to participate in achieving improvements to their standard of living.
- How is GEM determined?
- A state with **complete power equality** has a GEM of **1.0**.
- economic indicators of gender empowerment:
  - percentage of women holding professional or technical jobs (What may bar women from holding professional or technical jobs?)
  - power over economic resources (share of national income held by women)

Gender Empowerment Measure (GEM)

- political indicators of empowerment:
  - percentage of a state's administrative and managerial jobs women hold
  - percentage of women elected to public office
- Every state's GEM is lower than its GDI.
- A higher GEM than GDI would mean women possess a greater share of a state's resources than power over allocating those resources.

Gender Empowerment Measure (GEM)

Key Issue #4:

What obstacles to development do less developed states face?

Obstacles to Development

Physical/Environmental Obstacles (natural)

- States near the tropics suffer from more **climate-related diseases** than cooler parts of the world (malaria). People can't work if they're ill.
- **Environmental hazards** (natural events which threaten lives and property), particularly climatic hazards (drought, flooding, hurricanes, etc) are a problem in states like Haiti, Ethiopia and Mozambique. Any natural disaster can set back a state living on the edge by years.
- The global **distribution of raw materials** is uneven and many undeveloped states have few with which to work.

Obstacles to Development

Economic Obstacles (costs)

- Global trade policies have not favored the poorest states. Sometimes **tariffs** (taxes on imported goods) are put on goods by the buying states, discouraging the purchase of LEDC goods.
- LEDCs sell mainly **primary products** which are of low value (more supply than demand) and make little money for that state.
- MEDCs can buy raw materials/primary products from **alternative sources** (other LEDCs) ... again, more supply than demand.
- The **prices** of raw materials (fruit, coal, etc) have not risen as much as those of manufactured goods (made in MEDCs).

Obstacles to Development

Economic Obstacles (costs)

- Many LEDCs depend on **exporting one raw material** (80% of Ghana's exports is cocoa). If the world price collapses or the harvest is bad, they receive less money, leading to job losses, etc.
- LEDCs have **little industry** (factories), so have to buy expensive, manufactured goods (TVs) from MEDCs.
- LEDCs suffer a **trade deficit** (money spent on imports > money received for exports).
- MEDCs have a ready supply of raw materials, can control the processing of goods (have factories) and create more jobs. MEDCs also have more political power in controlling trade (choose who to buy from).

Obstacles to Development

Social Obstacles (health, lifestyle, community)

- **water quality**: Poor water quality causes disease, which makes people ill/unable to work and prevents economic development. In many LEDCs, diseases are carried in water, making water quality unreliable.
- **reliability of water supply**: Inadequate water supplies limit crop yields (harvests) and therefore food supply. If in short supply, people waste a lot of time searching for and transporting it.

Obstacles to Development

Social Obstacles (health, lifestyle, community)

- **education**: LEDCs find it difficult to fund education for all children and parents are often reluctant to let family workers "waste" time in school. However, development requires a certain level of education and investors want an educated workforce.
- **health**: An LEDC's poor health system contributes to an unhealthy and unreliable workforce.
- **family support**: Farmers are often poor in LEDCs (as a result of low prices), so do not earn enough to support their families.

Obstacles to Development

Political Obstacles (government decisions)

- LEDCs often **lack the structure or training to provide adequate oversight** of government and bureaucratic functions so there are seldom many (if any) checks on corruption or incompetence. Too, corruption and incompetence are an **accepted** part of some cultures.
- **Corrupt government officials** make themselves rich (usually illegally) at the expense of their state's development (Zimbabwe).
- Corrupt and incompetent governments are **unstable**. Foreign investors are discouraged from investing money because they cannot guarantee invested money will reach its target or be used for its intended purpose.

Obstacles to Development

Political Obstacles (government decisions)

- **Civil war** has made many states poor (Somalia, Sierra Leone, Ethiopia). **Warfare** and **political instability** limit economic development and foreign investment.
- **Core-periphery** relationships may be necessary for economic growth.
- Domestic governments can be **hostile toward World Bank and IMF structural adjustment programs** (IMF "free market" requirements to be eligible for loans and assistance), which often conflict with cultural and historical custom.

Key Issue #5:

What strategies can less developed states use to encourage development?

Self-Sufficiency Strategy

- Adopted at one time by China, India, most African and Eastern European states.
- **Protect local, fledgling businesses** from large, international competition and provide government subsidies if necessary.
- **Limit imports** with higher taxes on imported goods (tariffs), quotas on imports, import-license requirements.
- **Spread investments** as equally as possible across all sectors of the state's economy and in all regions.

Problems with Self-Sufficiency Strategy

- **Inefficiency**:
  - protects inefficient businesses
  - without competition businesses lag behind rest of the world, don't have to keep on top of technological innovations
  - businesses become dependent on government support
- **Large Bureaucracy**:
  - complex administrative systems needed
  - government involvement encourages corruption
  - government share of the costs keeps going up
  - increased regulation
  - growth of black market to get around government requirements

International Trade Strategy

- States identify their distinctive or **unique economic assets**.
- Economically develop by concentrating scarce resources on expanding **unique local industries for trade**.
- Preferred strategy for spurring economic development especially since world wealth is increasing.
- Many states are switching from a self-sufficiency strategy to an international trade strategy because it promotes better development.

International Trade Strategy

- **Rostow's Development Model**
  - 5 stage model of development based on 2 factors:
    - MEDCs have successfully followed this model in the past so why can't it work for others?
    - Many LEDCs contain scarce resources and raw materials that MEDCs are seeking.
  - examples: Persian-Gulf states and the four Asian Dragons

International Trade Strategy

- **World Trade Organization**
  - Established in 1995.
  - Works to **reduce trade barriers** by:
    - negotiating the reduction or elimination of international trade restrictions on manufactured goods and the movement of money
    - enforcing agreements
    - bringing charges of copyright or patent violations

International Trade Strategy

- **Fair Trade**: an international movement ensuring that producers in LEDCs get a fair deal ... Producers receive a minimum guaranteed price for their product or crop, helping them maintain a reasonable standard of living.
- **Trading Groups**: members (states) work together ... For example, MERCOSUR is a trade group in South America that includes Argentina, Brazil, Paraguay and Uruguay. Gives those states more control over the price of export goods, making it more difficult for richer states to shop for cheaper prices. Too, the elimination of tariffs between those states will facilitate easier and more efficient trade.

Problems with International Trade Strategy

- **Uneven global resource distribution**: not every state has something to trade
- **Market stagnation**: trade based on one or a few products will suffer from international market fluctuations
- **Increased dependence on MEDCs**: LEDCs' future dependent on whether MEDCs will purchase products at reasonable prices

Financing Development Strategy

- **Loans**: sums of money that at some time in the future have to be paid back with interest.
- A state that wants funds for development projects can borrow from other states, from world financial organizations (IMF, World Bank) or from international banks (HSBC).
- **Loan Solutions**: Small businesses in the US have loaned money to individuals in LEDCs. It enables people to invest in equipment, hire extra workers (if necessary), increase output and invest in appropriate technology that will allow the business to become sustainable.

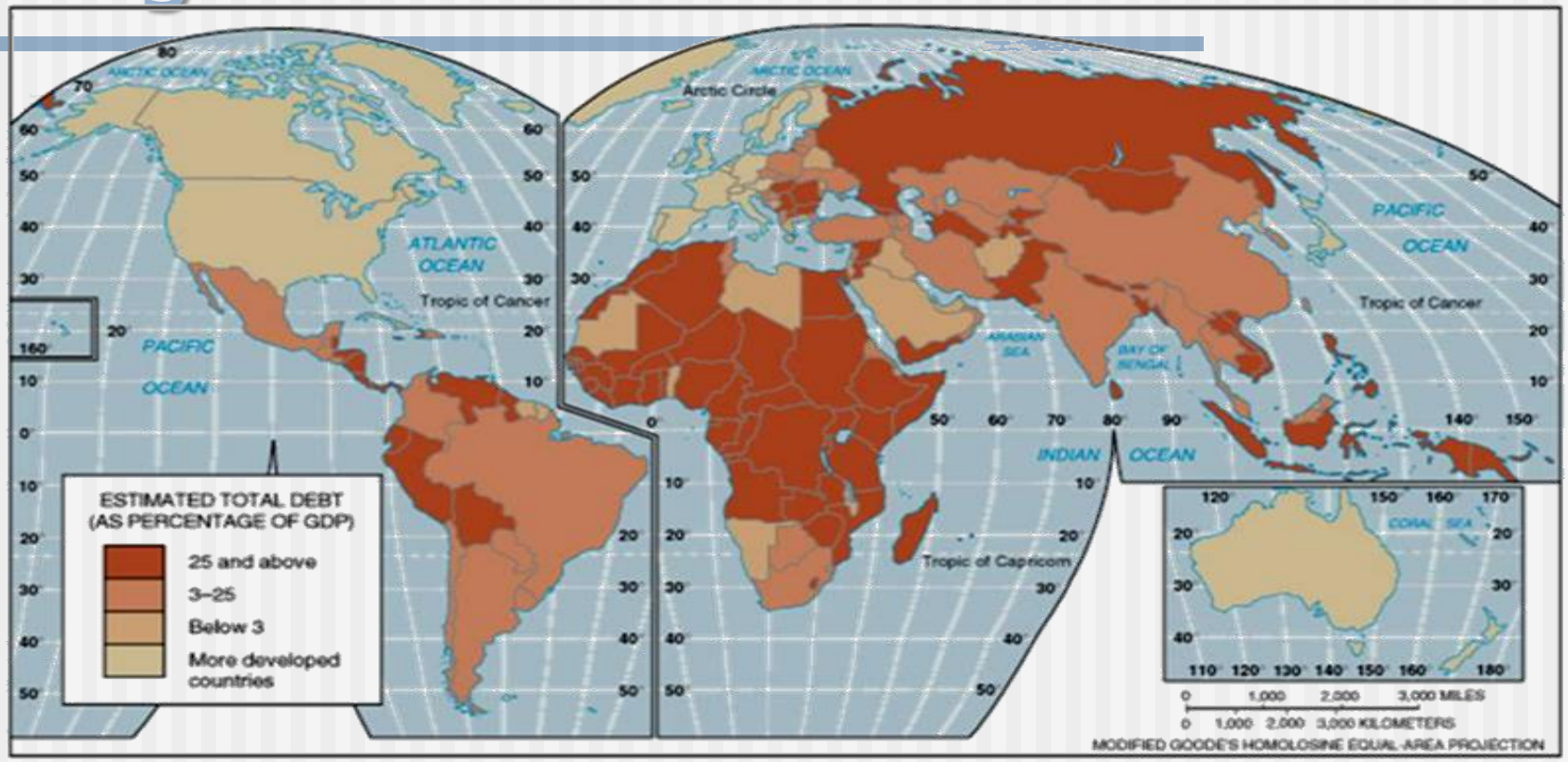
Financing Development Strategy

- Helped some states develop but others have struggled to pay back loans in the world recession.
- **Debt Relief**: amount of interest and/or principle owed is reduced or written off.
- **Conservation Swaps**: agreements through which a proportion of a state's debts are written off in exchange for the debtor state's implementation of environmental conservation projects (rainforest protection).

Problems with Financing Development Strategy

- If the project the money was borrowed for is a success, the debt is repaid. However, if the debt cannot be repaid as agreed, the state will have to pay it back over a longer period, creating more problems for its standard of living and level of development.
  - Requirements for new loans or extensions on old loans increase.
  - The problem has grown so large that international organizations have created a new category of states - **Heavily Indebted Poor Countries** (HIPCs).

High-Debt States



The developing world now spends $13 on debt repayment for every $1 it receives in grants. For the poorest states (approximately 60), $550 billion has been paid in both principal and interest over the last three decades, on $540 billion in loans, and yet there is still a $523 billion dollar debt burden.

Aid Development Strategy

- **Aid** is gifts of money, goods, food, machinery, technology and trained workers. The aim is to raise standards of living.
- **Purpose**: help after disasters, help with large development schemes (airports, dams, etc), improve basic services and amenities (reliable water supply, hospitals, schools, etc)
- True aid is not a loan that needs to be repaid. However, in the real world, some ‘aid’ has payback connected to it.

Aid Development Strategy

Types of Aid

- **short-term aid** (food, clothing, medicines intended to help people suffering from a disaster)
- **long-term aid** to help with economic development (building schools/hospitals, investment in industry and agriculture)
- **multilateral aid**: MEDCs give money to international organizations (World Bank, IMF, UN) which then redistribute it to LEDCs for development projects

Aid Development Strategy

Types of Aid

- **bilateral/tied aid**: given to a poor state on the condition that all or part of the money will be spent on buying commodities from the donor state (goal to boost export income of donor state but recipient state not able to shop around for best price or product)
- **top-down aid**: help governments run more efficiently or help build infrastructure (roads, bridges)
- **bottom-up aid**: help provide basic health care for communities, clean drinking water and money for education

Aid Development Strategy

Advantages of Aid

- helps people through a crisis (lives are saved)
- ‘feel good’ factor
- New industries improve skills and provide jobs.
- Agriculture improves with new and better crops and better farming can improve diet.
- New infrastructure (schools, hospitals) is built.
- Providing a reliable water supply can help improve health standards.
- Improving education and developing skills helps a state become self sufficient.
- More recently, projects have used ‘appropriate technology’, so are more sustainable.

Problems with Aid Development Strategy

Disadvantages of Aid

- Big projects (airports or dams) are **expensive** and donors may feel this money is wasted.
- Local people **lose land** to large scale projects.
- Most people **do not benefit** from large scale projects.
- Governments, charities may **fail to provide what's needed**.
- The LEDC government may be **forced to change development policies** to suit the donor's ideas
- It is estimated that **less than half** of aid goes to poor states, instead it is based on the military, political and business interests of the donors, a reward to those in power.

Problems with Aid Development Strategy

Disadvantages of Aid

- A lack of infrastructure can prevent development happening **as planned**. For example, schools and hospitals can't be built without roads and power.
- **Trained staff** may not be available.
- Charity **funds may drop** during an economic recession.
- There may be a lack of money for fuel, spare parts, etc, with that **burden falling on the LEDC**.
- Aid is a poor substitute for trade.
- Excluding humanitarian/emergency aid, there has been no significant **correlation** between the level of aid given and corresponding development.

Problems with Aid Development Strategy

Disadvantages of Aid

- There is a **lack of complementary inputs**: human technical skills, administrative capacity, infrastructure, financial institutions, and political stability.
- The introduction of hard currency inflows may lead to **increases in consumption** rather than in investment or even saving.
- **aid weariness**

Evaluation of Growth and Development Strategies

Environmental Issues

Economic development has a direct relationship with the environment and environmental issues.

New agricultural techniques that increase crop yields have negative effects on the environment.

Increasing the secondary sector increases air, water and soil pollution.

LEDCs resent current international restrictions regarding environmental issues affecting those things necessary to develop economically.


The End