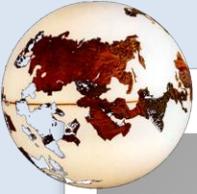




ECONOMIC GEOGRAPHY PART III

Commerce changes the fate and genius of nations.
-Thomas Gray



- Economic Development

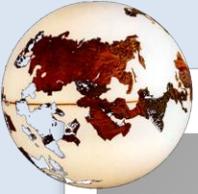


Economic Geography Part III



ECONOMIC DEVELOPMENT

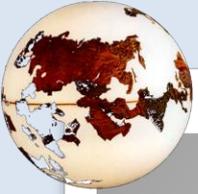
[Return to Table of Contents](#)



Because resources are distributed unequally around the world, several things happen.

- **interdependence** of states ... States must trade with each other to acquire the goods they do not possess.
- energy producers and consumers
- **imperialism** (one state dominating another)
- **conflicts** over control of resources

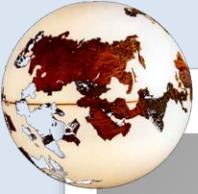
What are the effects of unequal distribution of resources?



Unequal distribution of resources causes states to **specialize** in the goods and services they produce. It also encourages states to trade with one another for the goods they cannot produce themselves. It allows some to make a profit.



What are the effects of unequal distribution of resources?



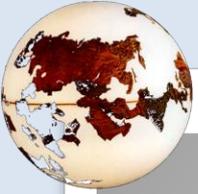
For example:

Japan has limited natural resources but it is a major industrial power.

The United Arab Emirates (UAE) has lots of oil but no big industry.

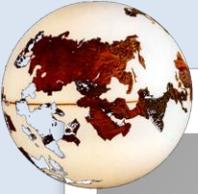


What are the effects of unequal distribution of resources?



Most importantly for our purposes, because resources are distributed unequally around the world, we see **uneven economic development** (rich states and poor states).

What are the effects of unequal distribution of resources?

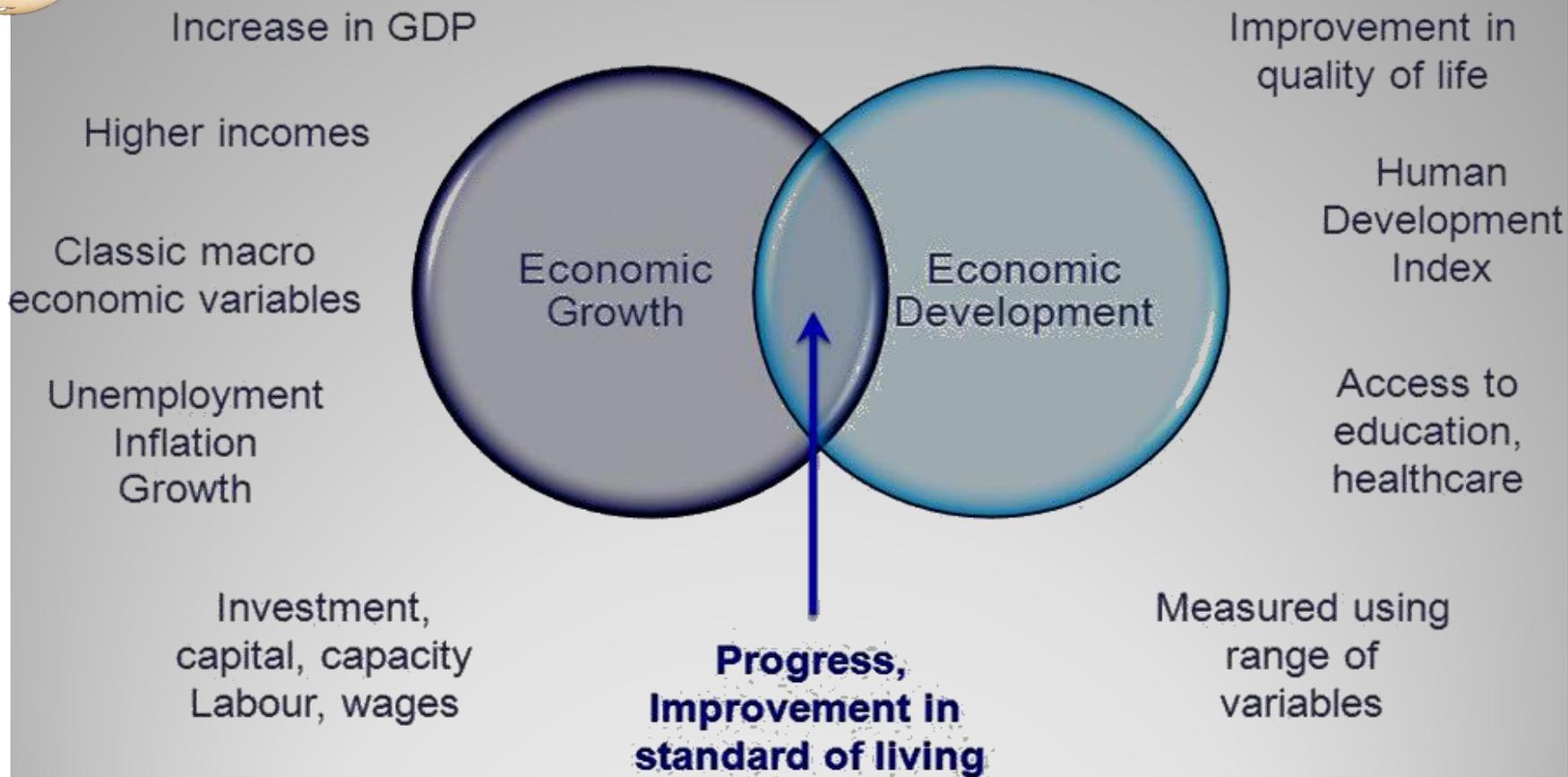


- ... an increase in availability of and improvements in the distribution of food, shelter, health, protection, etc.
- ...improvements in *levels of living*, including higher incomes, more jobs, better education, etc.
- ...expansion in the range of economic and social choices available to individuals and states

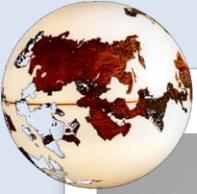
What do we mean by economic development?



What do we mean by economic development?



Differences between Economic Growth and Economic Development

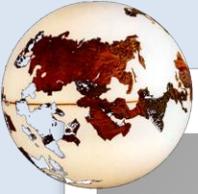


You cannot look at one variable to determine level of economic development. You must look for several variables that indicate the same thing ... a pattern.

[Introducing Economic Development:
A Global Perspective](#)



Measures of Economic Development

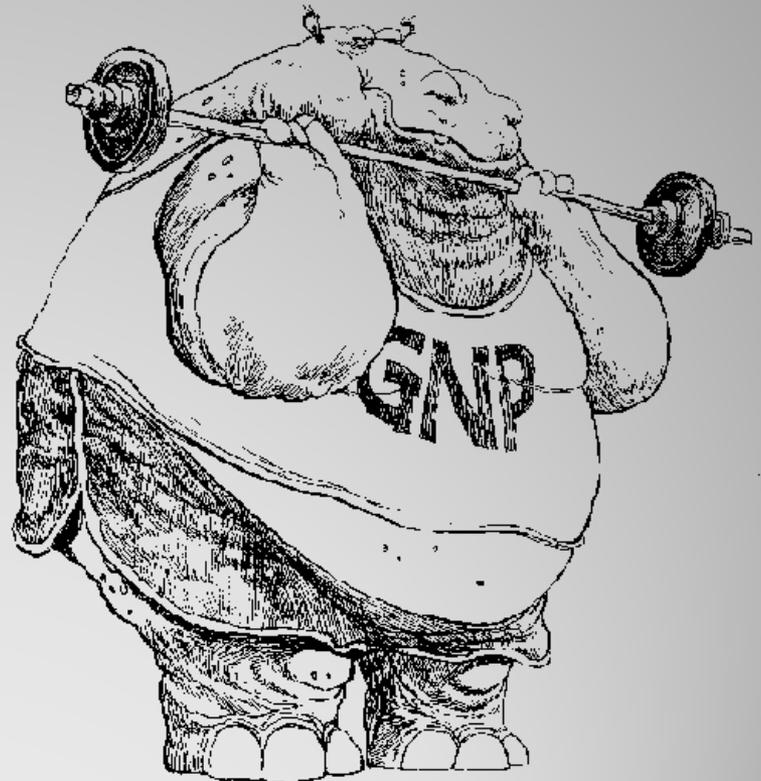


- GNP / GDP / GNI per capita
- population growth
- occupational structure of the labor force
 - primary activities (extraction)
 - secondary activities (manufacturing)
 - tertiary activities (service)
- urbanization
- consumption per capita
- infrastructure
- social conditions

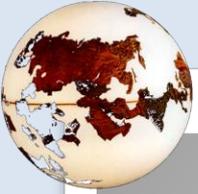
Measures of Economic Development



...the total value of goods and services (with some adjustments), including income received from abroad, produced by the residents of a state during a specified period (usually a year)



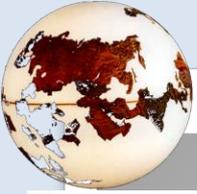
Gross National Product (GNP)



- ...the total market value, expressed in dollars, of all final goods and services produced, including foreign-owned, in an economy in a given year
- calculated by multiplying the price times the quantity for all final goods and services produced within the borders of a state annually
- Economists use GDP data to measure the economy's growth.
- GDP has been called the single best measure of the economic well-being of a state.

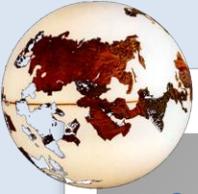
gdp

Gross Domestic Product (GDP)



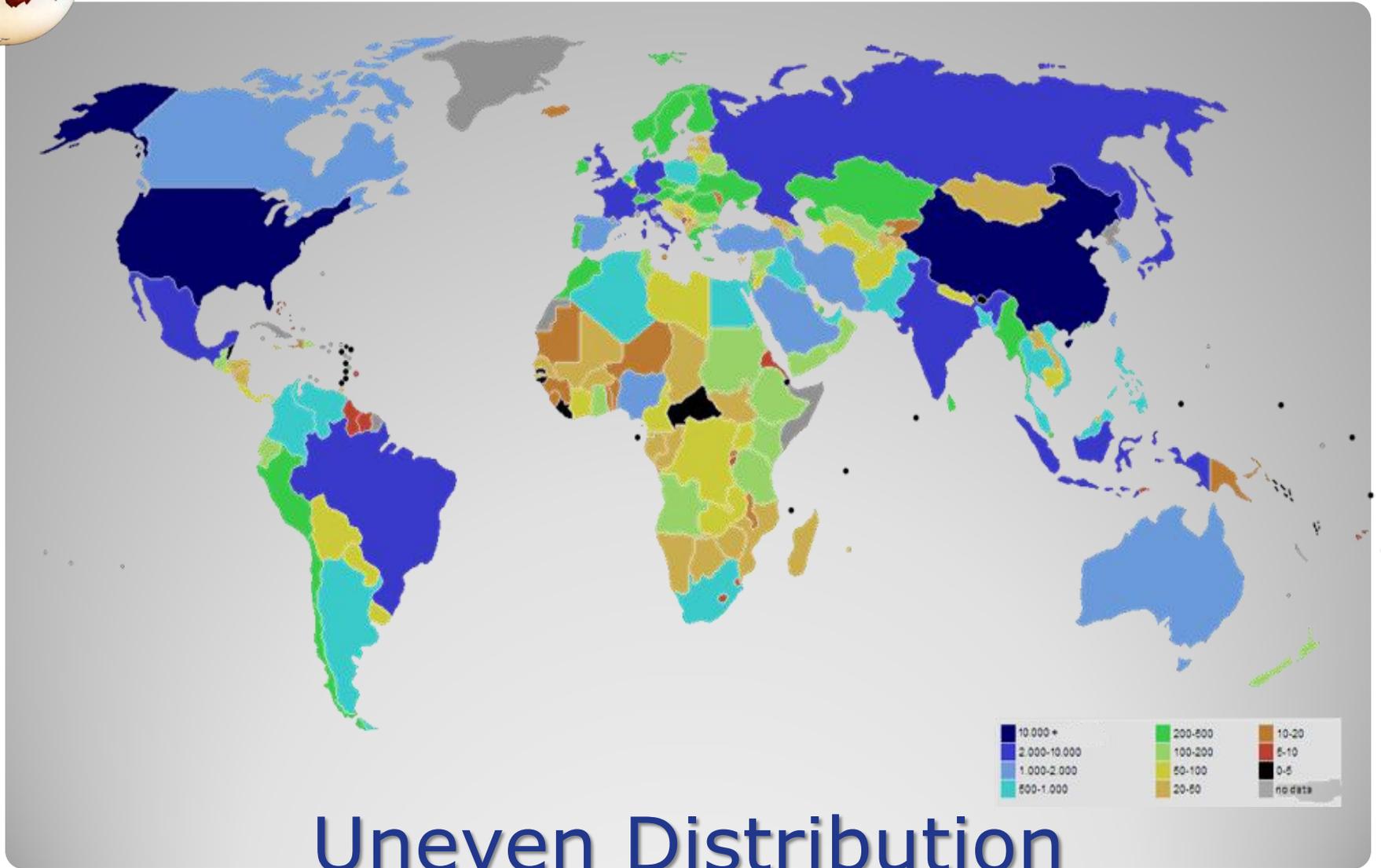
	GDP	GNP
Definition:	An estimated value of the total worth of a country's production and services, calculated over the course on one year	GDP (+) total capital gains from overseas investment (-) income earned by foreign nationals domestically
Stands for:	Gross Domestic Product	Gross National Product
<u>Formula</u> for Calculation:	$GDP = \text{consumption} + \text{investment} + (\text{government spending}) + (\text{exports} - \text{imports})$	$GNP = GDP + NR$ (Net income from assets abroad (Net Income Receipts))
Layman Usage:	Total value of <u>products</u> & Services produced within the territorial boundary of a country	Total value of Goods and Services produced by all nationals of a country (whether within or outside the country)
Uses:	Business, Economic Forecasting	Business, Economic Forecasting
Country with Highest Per Capita (US\$):	Luxembourg (\$87,400)	Luxembourg (\$45,360)
Country with Lowest Per Capita (US\$):	Liberia (\$16)	Mozambique (\$80)
Country with Highest (Cumulative):	USA (\$13.06 Trillion in 2006)	USA (~ \$11.5 Trillion in 2005)
<u>Application</u> (Context in which these terms are used):	To see the strength of a country's local economy	To see how the nationals of a country are doing economically

Difference between GDP and GNP

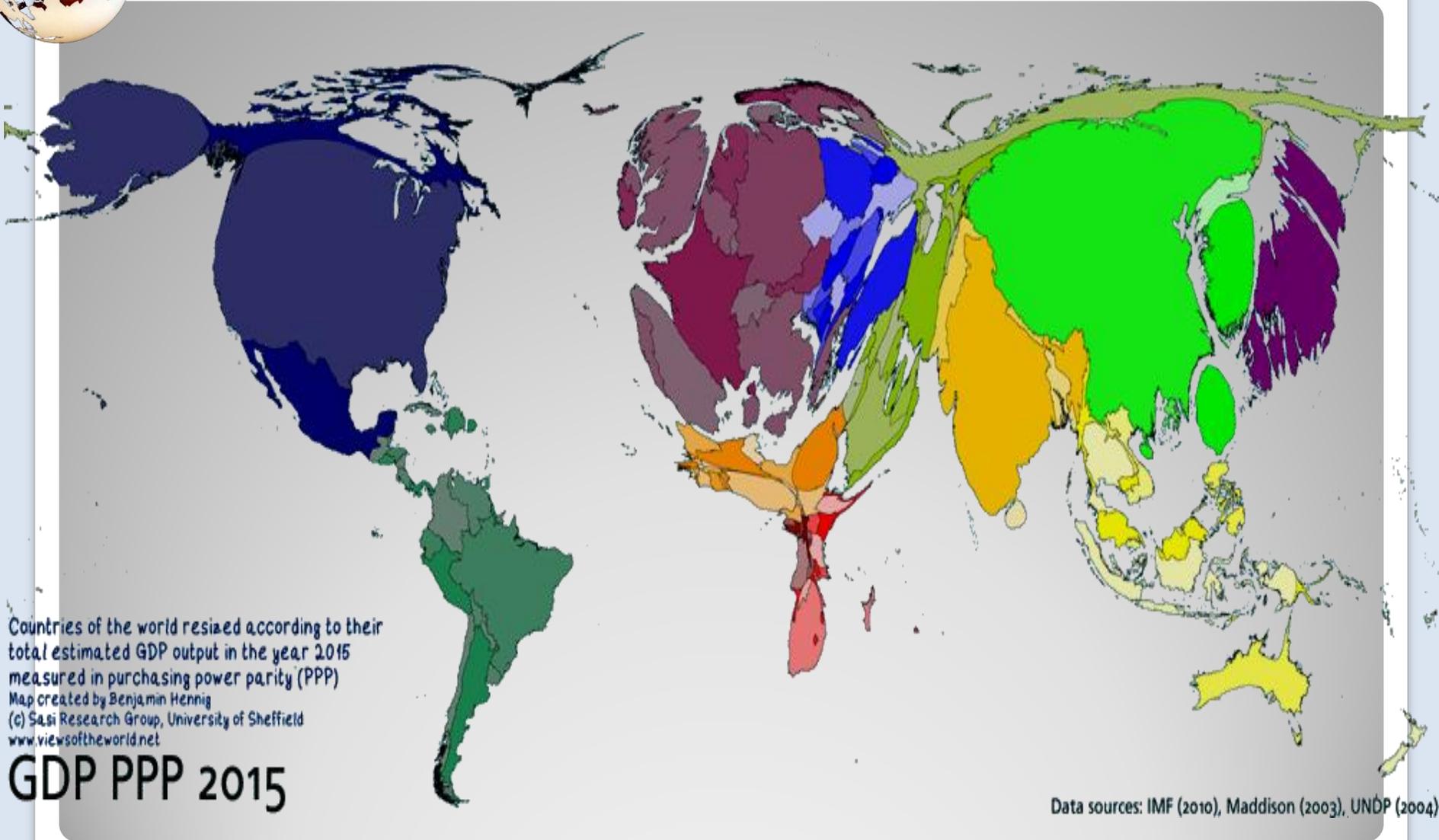


- **Nominal** GDP is GDP that is calculated by using the current year's price for goods and services, sometimes referred to as *current-dollar GDP*.
- **Real** GDP is calculated by using a base year's price for goods and services so that when multiplying price (P) by quantity (Q), only the quantity changes over time.
- Real GDP has been adjusted for price changes over time, i.e. inflation or deflation, and is sometimes referred to as *constant-dollar GDP*.
- Real GDP is used to compare the growth of output of a state or states over time.

Nominal GDP vs. Real GDP



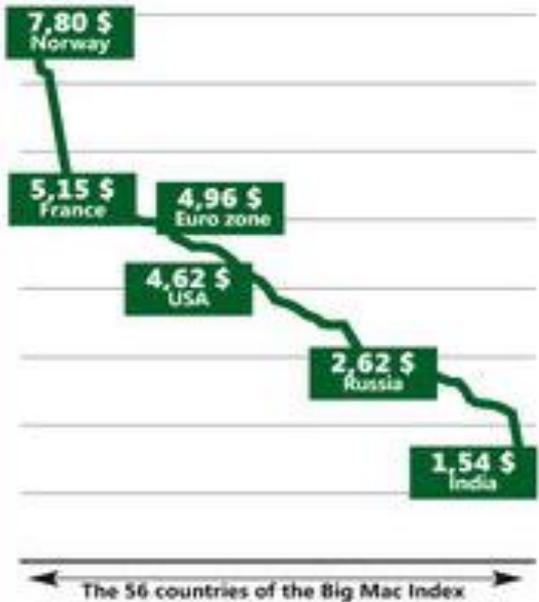
Uneven Distribution (GDP Per Capita, 2015)



An Alternative View of the World



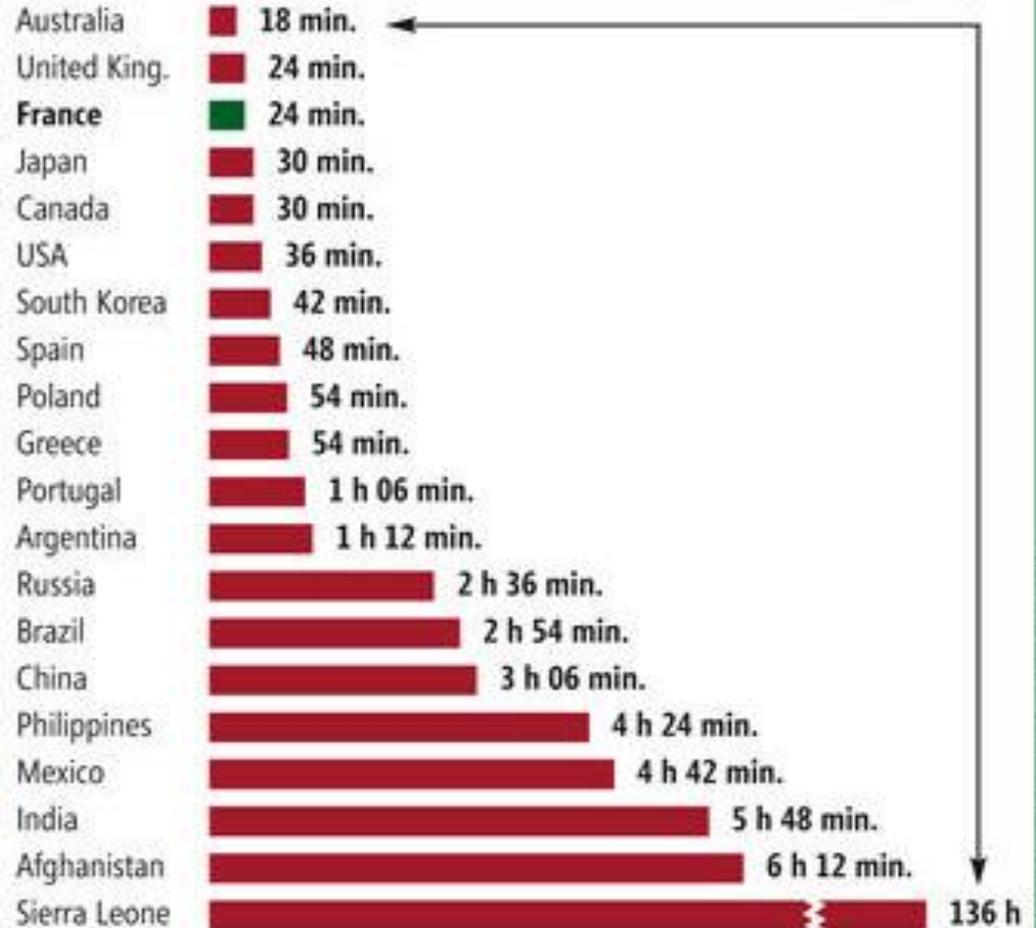
> Big Mac's price by country (January 2014)



Contrary what we may think, even in France, Big Mac's price may vary depending cities. For example : 3,90 € in Rennes, 3,95 € in Rodez, 4,00 € in Paris, 4,30 € in Marseille.

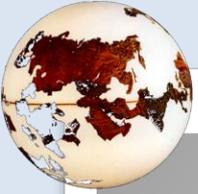


> How long to work to buy a Big Mac ? (according to the minimum salary) (August 2013)



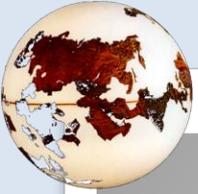
Source : Big Mac Index - The Economist, ConvergEs

The Big Mac Index



- Developed states have better **access** to natural and capital resources.
- Developed states have more **investment** in technology and have created a better infrastructure.
- Developed states have more **skilled labor**.
- Most developed states have a high **GDP**.
- Most people in developed states work in **secondary and tertiary areas**.

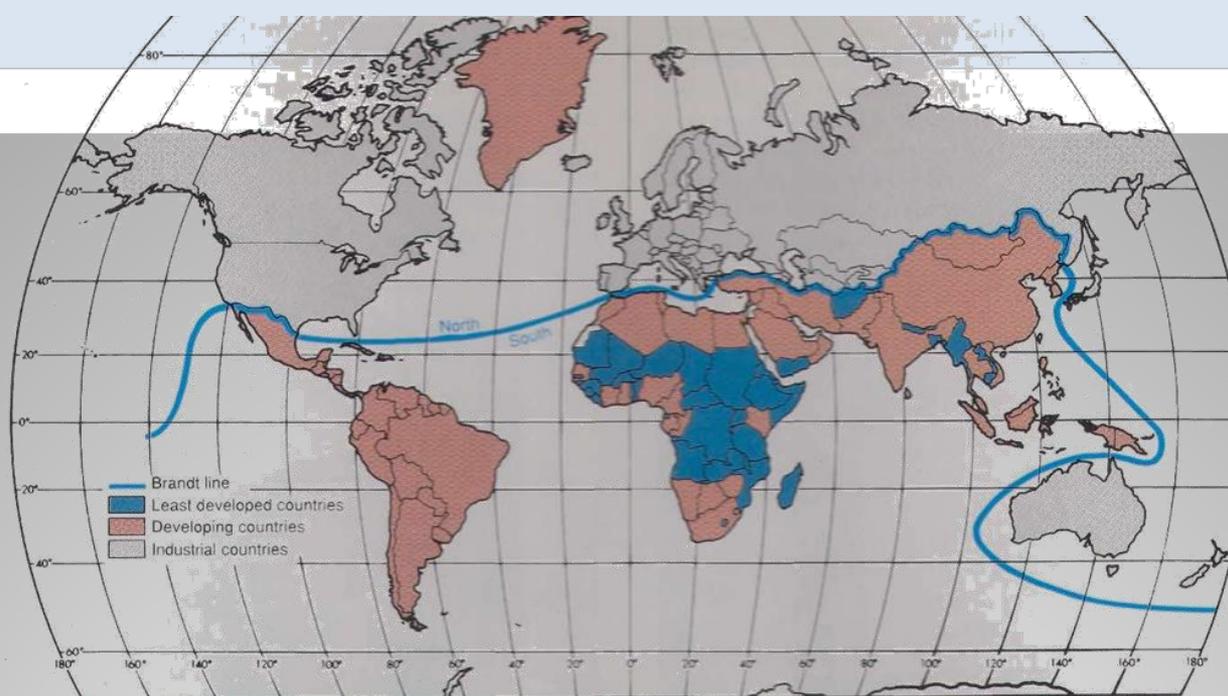
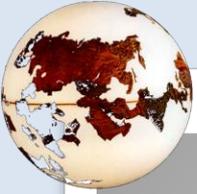
What are the indicators of economic development?



- Developed states have a **higher standard of living** and a higher quality of life. A state has a high standard of living and a high quality of life if...
 - The population growth rate is low.
 - The population age distribution is even.
 - The literacy rate, life expectancy rate and percentage of urban population is high.
 - The infant mortality rate is low.

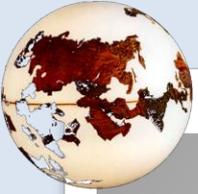
What are the indicators of economic development?





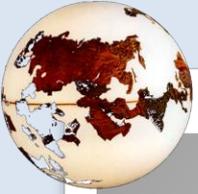
The North–South line of the [1980 Brandt Report](#) suggested a simplified world contrast of development and underdevelopment based largely on degree of industrialization and per capita wealth. More recently, the UN General Assembly recognized 45 [least developed states](#). That recognition reflects low ratings in three indicators: GDP, share of manufacturing in the GDP and literacy rate. The industrial states are those identified in 1995 as most developed by the UN Development Program.

Development Levels



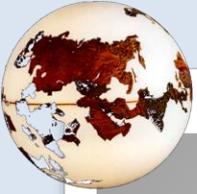
State Group	Per Capita GNP	Per Capita Energy Consumption (kilograms of oil equivalent)	% of Labor Force in Agriculture
Least Developed States	\$213	48 kg	74%
All Developing States	\$982	527 kg	58%
Developed States	\$16,065	4834 kg	10%

Economic Indicators



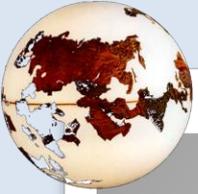
Indicator	Most Developed States	Less Developed States	Least Developed States
Total Fertility Rate (# actual/# projected)	1.63	2.31	4.53
Infant Mortality Rate (#/1000 births)	5.9	36.4	74.0
Life Expectancy Male (yrs @ birth)	74.2	66.9	55.7
Life Expectancy Female (yrs @ birth)	80.9	70.6	59.0

Social Indicators

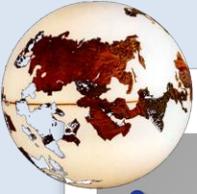


Relative Characteristics of Development

	Less Developed	Developed
Per capita income	low, and capital is scarce	high, and capital is available
Wealth	uneven within individual state	more even within individual state
Economic sector	primary industries dominate	manufacturing and service industries dominate
Rural population	over 50%	under 10%
Farming	small mechanization and low yields	high mechanization and high yields
Birth and death rate	high, and low life-expectancy	low, and high life-expectancy
Diet	inadequate or unbalanced	adequate and balanced
Medical services	poor	available
Housing and infrastructure	overcrowded and poor housing, bad sanitation, poor social conditions	adequate housing, good sanitation, good social conditions
Education	poor facilities and high illiteracy	good facilities and low illiteracy
Gender	women may be in inferior position in society	women on more equal terms with men

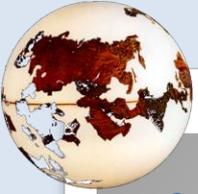


The move toward economic development is a global trend.



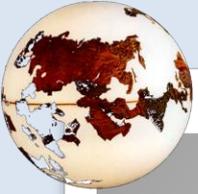
- **United Nations**: an intergovernmental organization to promote international cooperation, formed in 1945, 193 current members
- **World Bank**: an international financial institution that provides loans to developing states for capital programs
- **International Monetary Fund**: an international organization working to foster global monetary cooperation, secure financial stability, facilitate international trade, promote high employment and sustainable economic growth, and reduce poverty
- **non-governmental organizations** (NGOs): World Watch, Human Rights Watch, World Commission on Dams and many, many others

Institutions of International Development



- **Self-Sufficiency Model:** nonparticipation in international economy
- **Rostow's Model** (International Trade / Economic Growth Model): see following slides
- **Basic Needs / Appropriate Technology Model:** strive only to provide basic needs to population and adopt technology appropriate to that level
- **Revolutionary / Radical Reform Model:** revolutionary goals often include appropriating any foreign-owned equipment, factories, technology, etc in the state

Strategies for International Development

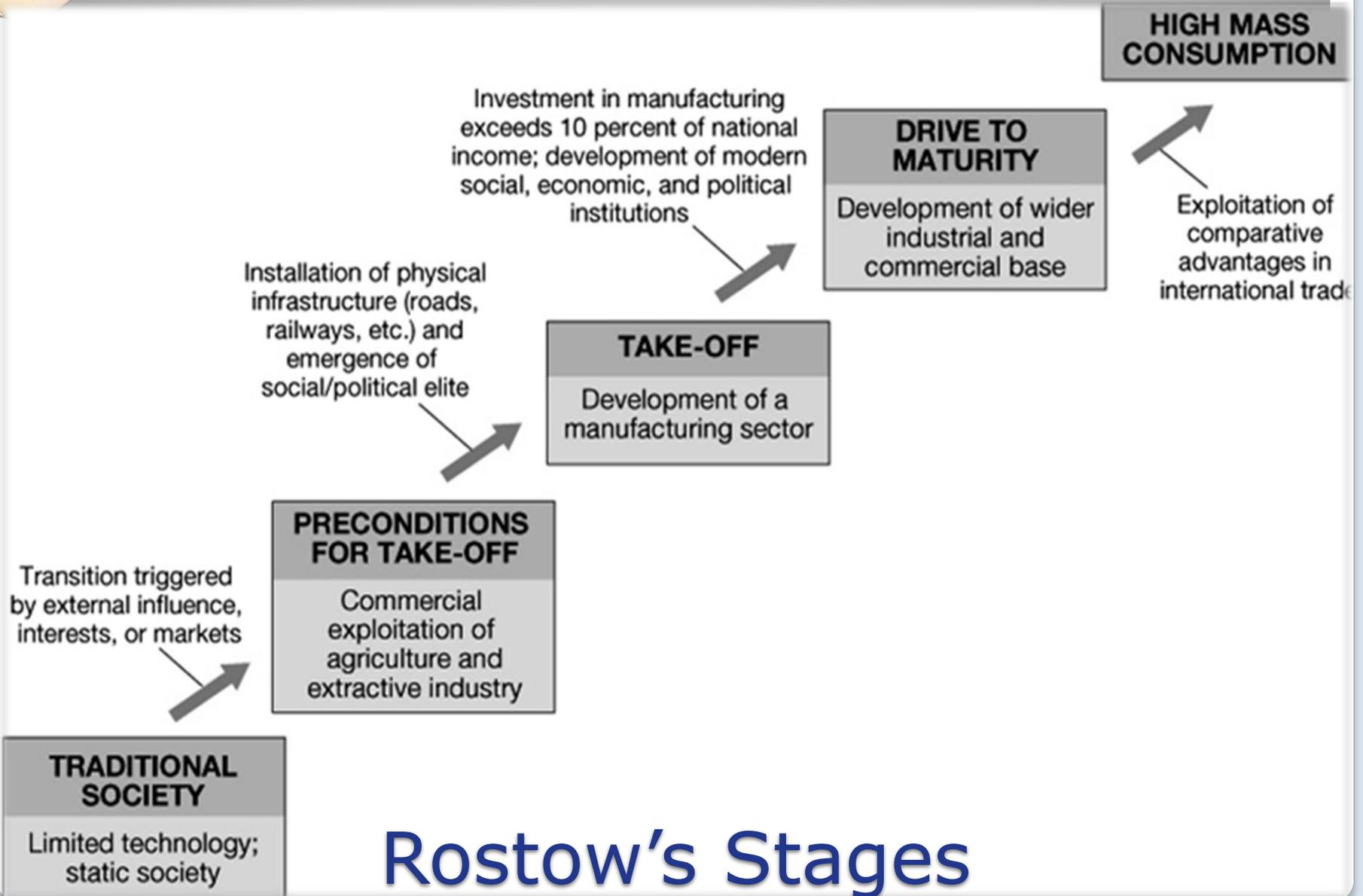
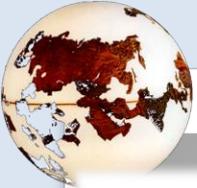


...argues that each state passes through five stages
(If some are slower it's their own fault.)

- Traditional Society
- Preconditions for Take-off: elite group initiates economic innovations, which lead to productivity
- Take-off: rapid growth in a number of specific economic activities, technological advances
- Drive to Maturity: modern technology diffuses to a wide variety of industries
- Age of Mass Consumption: economy shifts from heavy industry to consumer goods



Walt Rostow's Model





- **Developmentalism**: the assumption that every state and region will eventually make economic progress toward high mass consumption provided they compete to the best of their ability ... not likely and hard on the planet
- **Increased dependence on MDCs and their markets**: undue influence on many global policies, including those of the UN and World Bank
- **Market Stagnation**: MDCs have very limited population growth ... current markets for low-cost manufactured goods grow slowly ... undervalues obstacles and competitive disadvantages faced by late starters vs. those in core

Problems with Rostow's Model



- high-debt states
- hostility toward World Bank and IMF structural adjustment programs (free market requirements for loans and assistance)
- warfare and instability limit foreign investment
- core-periphery relationships (both within states and globally) may be necessary for economic growth

Other Problems in International Development



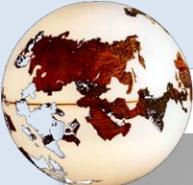
- The developing world now spends \$13 on debt repayment for every \$1 it receives in grants.
- For the poorest states (approximately 60), \$550B has been paid in both principal and interest over the last three decades, on \$540B of loans, and yet there is still a \$523B debt burden.





- June 2005 – G8 states (eight wealthiest democracies: US, France, Germany, Italy, Japan, Russia, Canada and EU) agree to immediately cancel debt of 18 poorest states and extend arrangement to 20 more if they agree to IMF structural adjustment and corruption controls ... total immediate cost to the G8: \$40.
- Relief is spread over 40 years and effects only a handful of states. (Interestingly, Iraq's \$30B debt was entirely cancelled with little debate.)
- G8 states spend \$350B on farm subsidies and more than \$700B on military expenditures.

High-Debt States: A Case Study

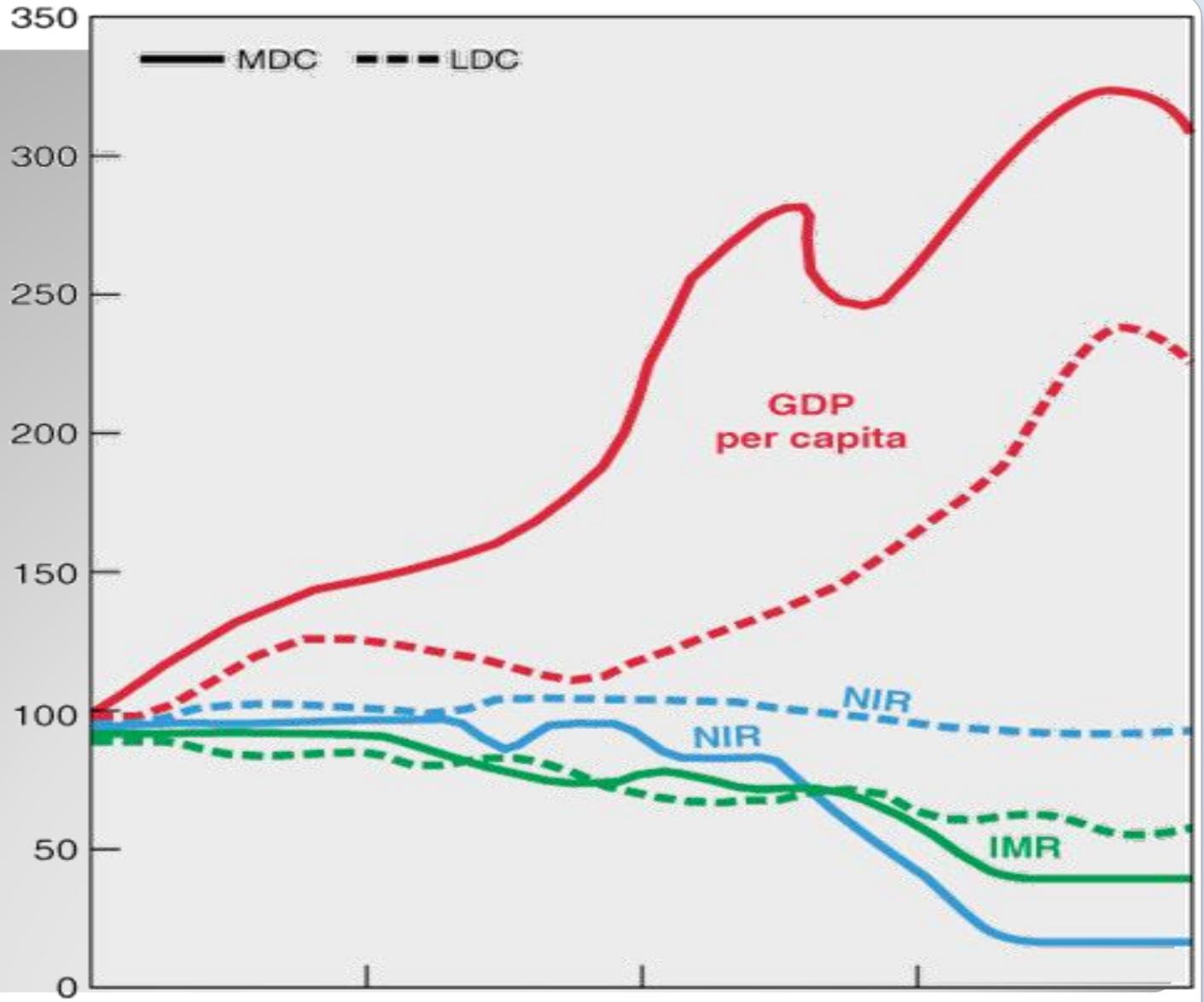
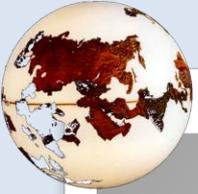


FLOW OF FOREIGN-DIRECT-INVESTMENT

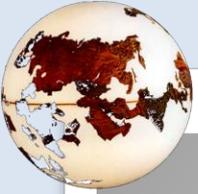
- Largest Host Economies
- From United States
- From Europe
- From Japan



Warfare and Instability Limit Foreign Investment



Progress Toward Development

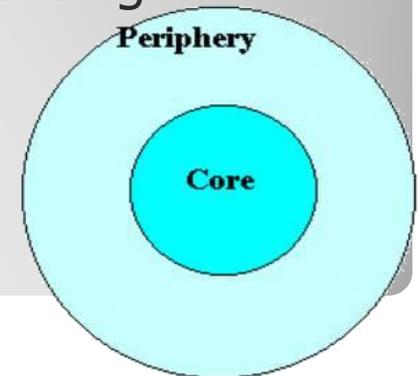


- **Export-oriented industrialization**
 - emphasizes production for export
 - few restrictions on imports
 - leading development strategy today
- **Import-substitution industrialization**
 - restricts imports to generate a domestic market for the state's products
 - common in the past, less common today

Economic Development Strategies



- Early starters have a huge advantage.
 - **economic inertia**: easier to continue already functioning process / structure / methods of exploitation than to start a new one
- Late starters are actively kept out of core club.
 - political or military pressure / control
 - periphery leaders often supported to ally their personal interests with those of the external core state, not with own people / state
 - financial interests of core (race to the bottom)
- Ultimately, why would core states want to change current system?



An Uneven Scale...



© Mike Baldwin / Corridor

B.A. Baldwin



“Man, they can’t do anything right.
Half the countries are underdeveloped.
The other half are overdeveloped.”

Continued in *Economic Geography Part IV*

[Return to Table of Contents](#)