



Economic Development and the Less Developed Countries

Economic growth without social progress lets the great majority of people remain in poverty, while a privileged few reap the benefits of rising abundance.

-John F. Kennedy



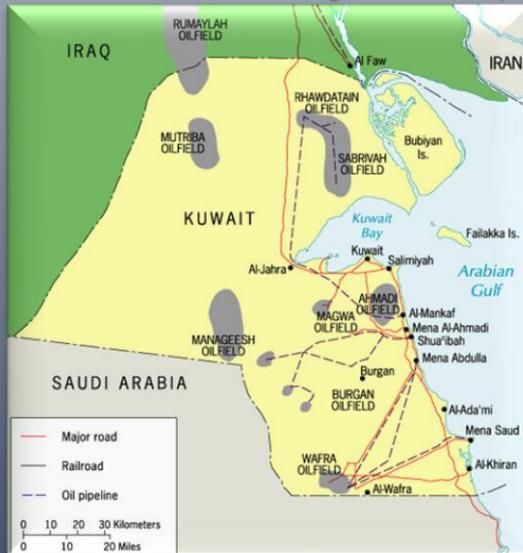
Because resources are distributed unequally around the world, several things happen.

1. Interdependence of states ... States must trade with each other to acquire the goods they do not possess.

What are the effects of unequal distribution of resources?



Kuwait pumps oil from a large reserve that lies mostly in Iraq.



2. uneven economic development (rich states and poor states)
3. energy producers and consumers
4. imperialism (one state dominating another)
5. 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 they are 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?



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



The total value of goods and services (with some adjustments), including income received from abroad, produced by the residents of a country 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 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 society.

Gross Domestic Product (GDP)



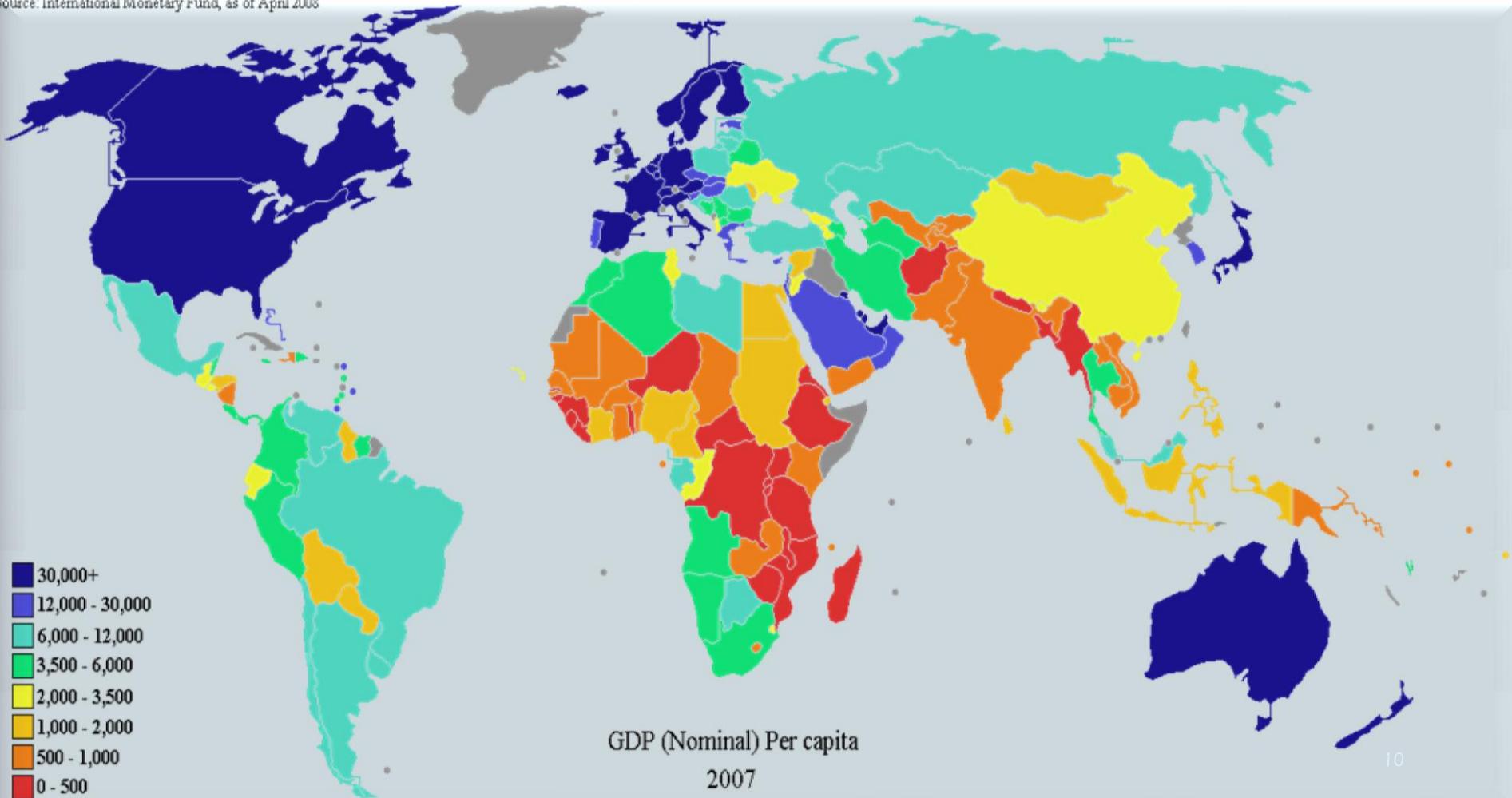
- Nominal GDP is GDP that is calculated by using the current year's price for goods and services; it is sometimes referred to as 'current-dollar GDP.'
- Real GDP is calculated by using a base year's price for goods and services so that when multiplying price (P) by quantity (Q), only the quantity changes 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 country or countries over time.

Nominal GDP vs. Real GDP

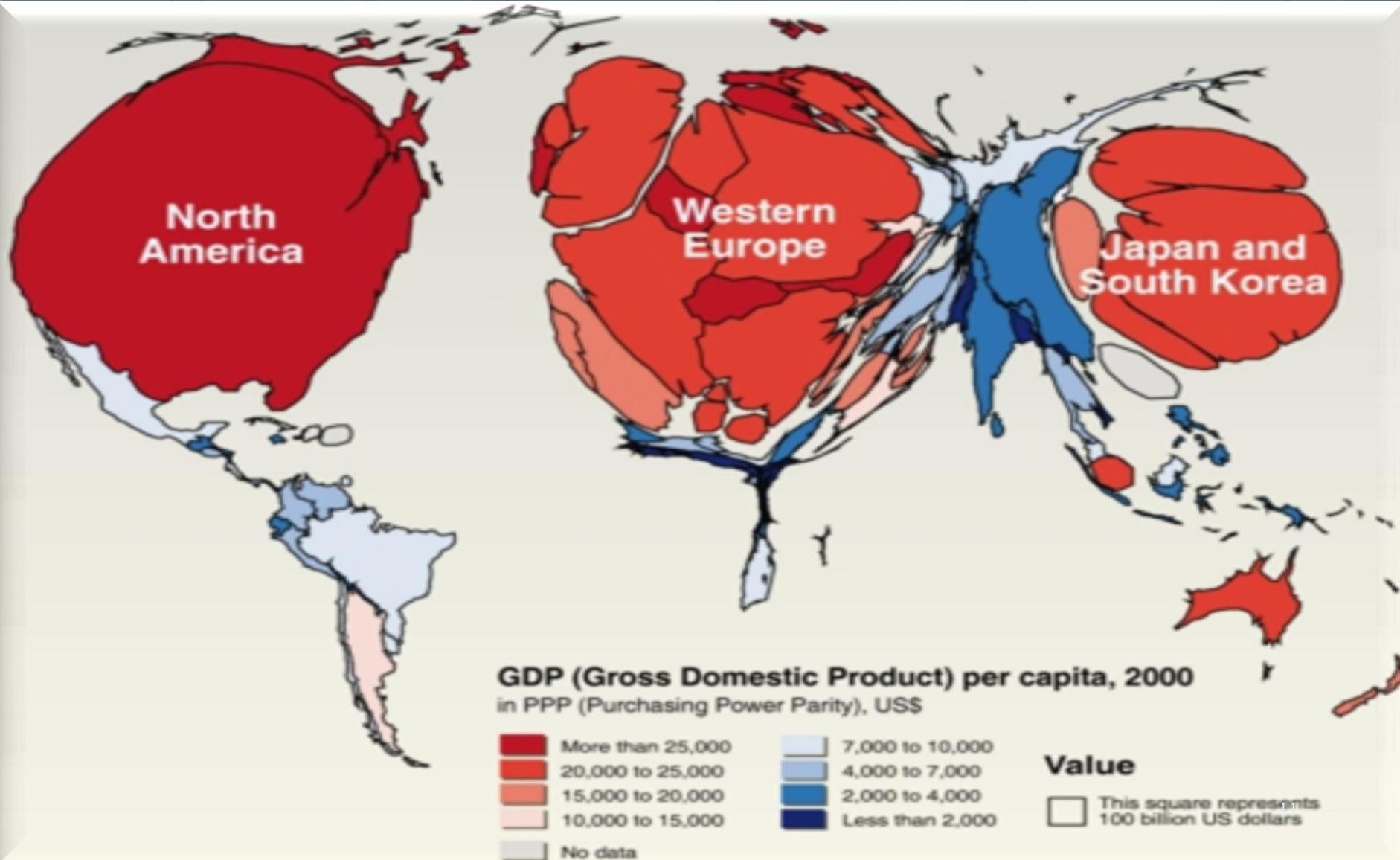


Uneven Distribution (GDP per Capita)

Source: International Monetary Fund, as of April 2008



An Alternative View of the World





Problems with Comparing GDP per Capita

- measurement errors
- income distribution
- fluctuations in exchange rates
- differences in living standards

GDP per Capita correlates with other measures of quality of life but the figures available for LDCs are subject to greater measurement errors than those for IACs.

Big Mac Index



The McCurrency menu

The hamburger standard

	Big Mac prices		Implied PPP† of the dollar	actual exchange rate	Under (-)/over (+) valuation against dollar
	In local currency	in dollars*			
United States‡	\$3.57	3.57	-	-	
Argentina	Peso 11.0	3.64	3.08	3.02	+2
Australia	A\$3.45	3.36	0.97	1.03	-6
Brazil	Real 7.50	4.73	2.10	1.58	+33
Britain	£2.29	4.57	1.56§	2.00	+28
Canada	C\$4.09	4.08	1.15	1.00	+14
Chile	Peso 1,550	3.13	434	494	-12
China	Yuan 12.5	1.83	3.50	6.83	-49
Czech Republic	Koruna 66.1	4.56	18.5	14.5	+28
Denmark	DK28.0	5.95	7.84	4.70	+67
Egypt	Pound 13.0	2.45	3.64	5.31	-31
Euro Area**	€3.37	5.34	1.06††	1.59	+50
Hong Kong	HK\$13.3	1.71	3.73	7.80	-52
Hungary	Forint 670	4.64	187.7	144.3	+30
Indonesia	Rupiah 18,700	2.04	5,238	9,152	-43
Japan	Yen 280	2.62	78.4	106.8	-27
Malaysia	Ringgit 5.50	1.70	1.54	3.2	-52
Mexico	Peso 32.0	3.15	8.96	10.2	-12
New Zealand	NZ\$4.90	3.72	1.37	1.32	+4
Norway	Kroner 40.0	7.88	11.2	5.08	+121
Poland	Zloty 7.00	3.45	1.96	2.03	-3
Russia	Rouble 59.0	2.54	16.5	23.2	-29
Saudi Arabia	Riyal 10.0	2.67	2.80	3.75	-25
Singapore	S\$3.95	2.92	1.11	1.35	-18
South Africa	Rand 16.9	2.24	4.75	7.56	-37
South Korea	Won 3,200	3.14	896	1,018	-12
Sweden	SKr38.0	6.37	10.6	5.96	+79
Switzerland	SFr6.50	6.36	1.82	1.02	+78
Taiwan	NT\$75.0	2.47	21.0	30.4	-31
Thailand	Baht 62.0	1.86	17.4	33.4	-48
Turkey	lire 5.15	4.32	1.44	1.19	+21

Four most expensive

Iceland - USD 7.45

Norway - USD 6.63

Finland - USD 6.11

Sweden - USD 5.33

Four most affordable

India - USD 1.40

China - USD 1.41

Hong Kong - USD 1.54

Malaysia - USD 1.57

Ten Fastest Earned

Tokyo - 10 minutes

Los Angeles - 11 min

Chicago - 12 min

Miami - 12 min

New York City - 13 min

Auckland, NZ - 14 min

Sydney, OZ - 14 min

Toronto - 14 min

Zürich, Switz - 15 min

Dublin, Ireland - 15 min

Ten slowest earned

Bogotá, Col. - 97 minutes

Nairobi, Kenya - 91 min

Jakarta, Indo. - 86 min

Lima, Peru - 86 min

Caracas, Ven. - 85 min

Mexico City - 82 min

Manila, Phil - 81 min

Mumbai, India - 70 min

Sofia, Bulgaria - 69 min

Bucharest, Rom. - 69 min³



- Developed states have better access to natural and capital resources.
- Developed states have more investment in technology and have created a better infrastructure. (Infrastructure refers to capital goods usually provided by the government, including highways, bridges, waste and water systems, and airports.)

What are the indicators of economic development?



- Developed states have more skilled labor.
- Developed states have a higher level of economic development.
- Developed states have a higher standard of living & a higher quality of life.
- Developed states have political cultures that place value on law and order, infrastructure development and international trade.

What are the indicators of economic development?



- Is the state more urban or more rural? Developed states are generally urban.
- At what labor level do most people work? Most people in developed states work in secondary and tertiary areas.

What are the indicators of economic development?





- Is the Gross Domestic Product for the state high or low? Most developed states have a high GDP.
- What is the level of the educational achievement? Most developed states have a highly educated population.

What are the indicators of economic development?



A state has a high standard of living and a high quality of life if...

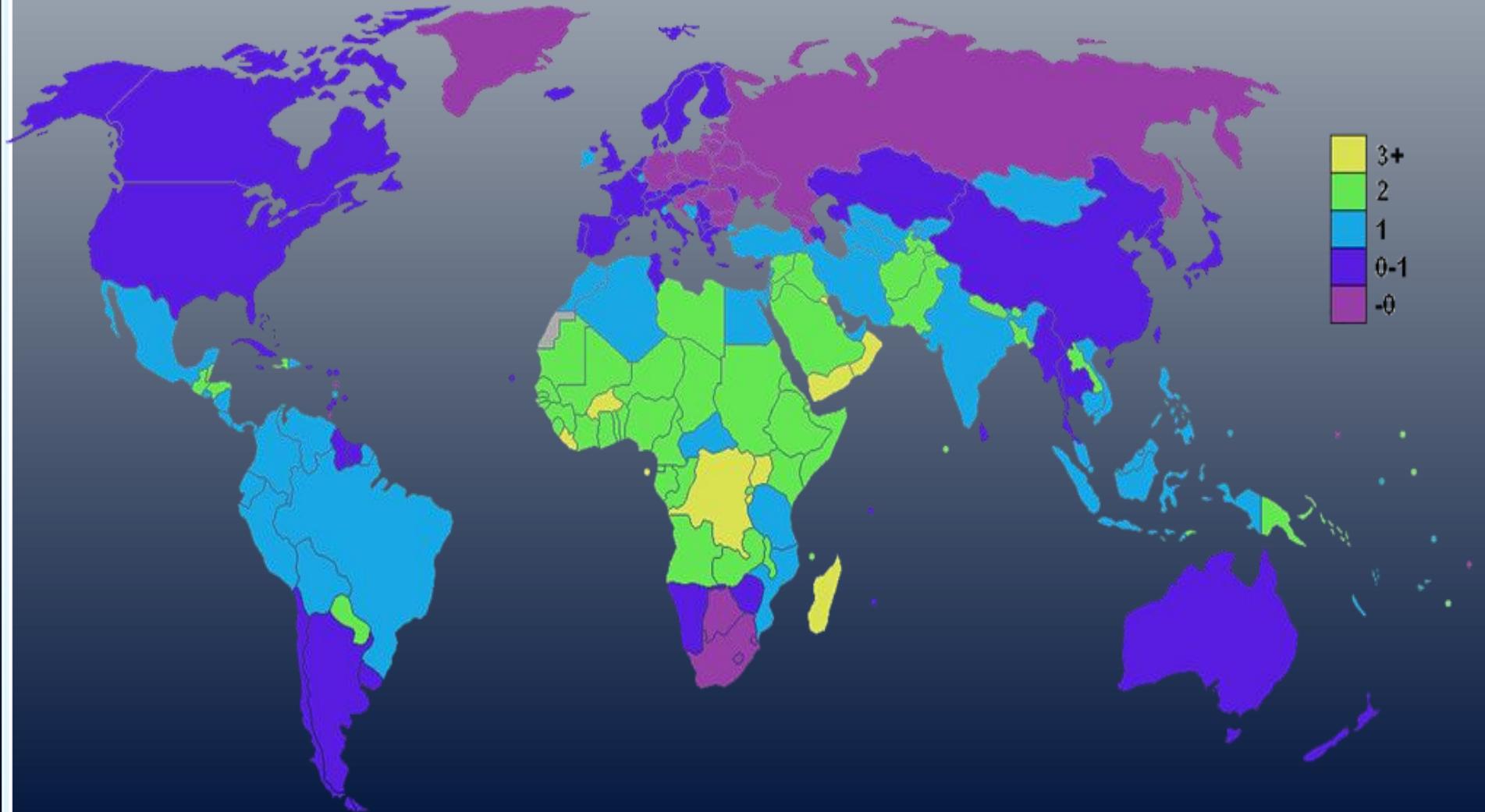
- The population growth rate is low.
- The population age distribution is even.

What are the indicators of economic development?

Population Growth Rate



The birthrate minus the death rate.





A state has a high standard of living and a high quality of life if...

- The literacy rate, life expectancy rate and percentage of urban population are high.
- The infant mortality rate is low.

What are the indicators of economic development?

Development Levels



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 countries.” That recognition reflects low ratings in three indicators: gross domestic product, share of manufacturing in the GDP and literacy rate. The “industrial countries” are those identified in 1995 as most developed by the UN Development Program.

Industrially Advanced Countries (IACs)



High-income nations that have market economies with technologically advanced capital and well-educated labor

Often referred to as MDCs – most developed countries

- Among the world's IACs are the US, Canada, Australia, New Zealand, Japan and most of the countries of Western Europe.



Less Developed Countries (LDCs)

LDCs are economies based on agriculture and lacking technology, advanced capital and well-educated labor.

Among those countries classified as LDCs are most of the countries of Africa, Asia and Latin America.



State Group	Per Capita GNP ¹	Per Capita Energy Consumption ²	% of Labor Force in Agriculture
Least Developed States	\$213	48 kg	74%
All Developing States	\$982	527 kg	58%
Industrial States	\$16,065	4834 kg	10%

1. US dollars, 1992

2. Kilograms of oil equivalent, 1992; commercial energy only

Source: UN Development Program. Human Development Report 1995.

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

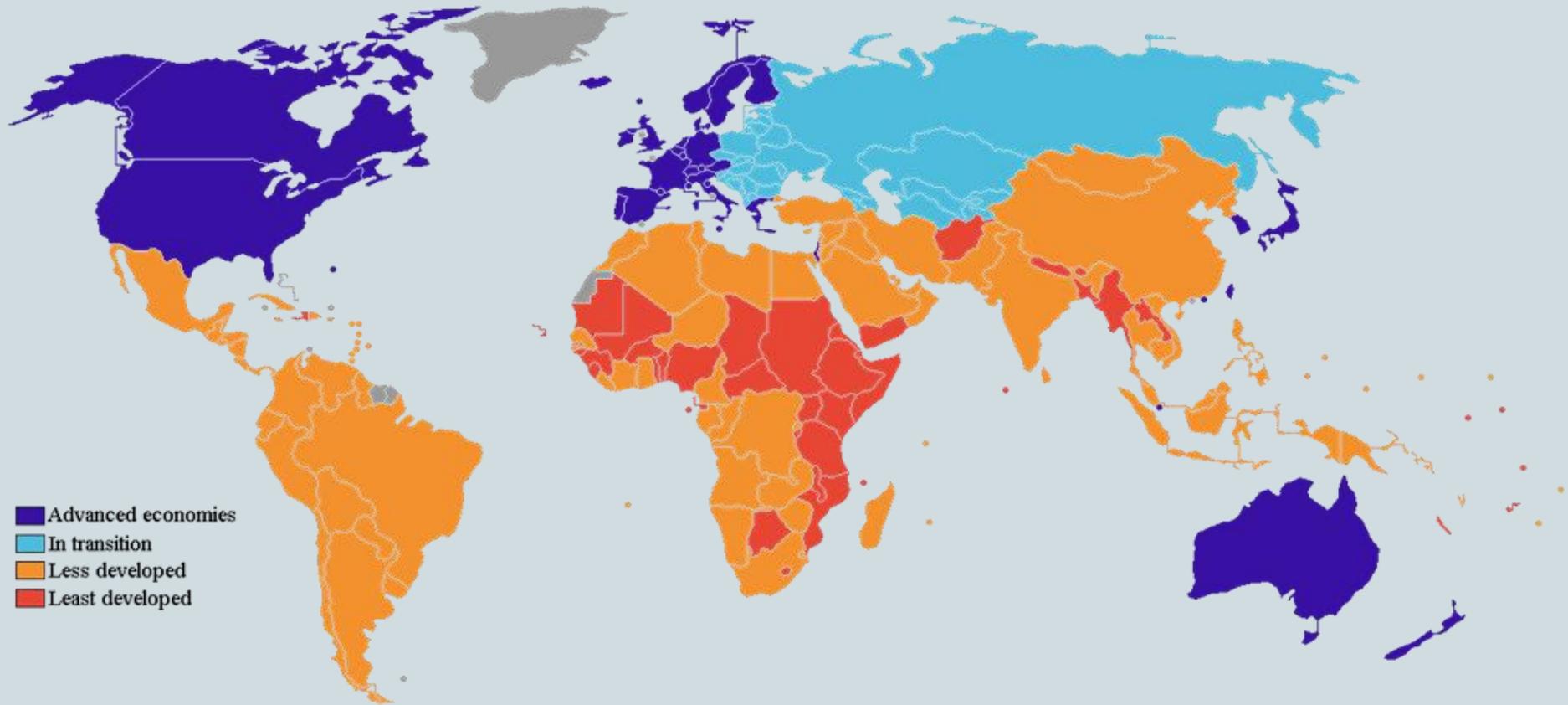
Relative Characteristics of Development



	Less Developed	Developed
Per capita incomes	low, and capital is scarce	high, and capital is available
Wealth	uneven within individual	even within individual
Economies	primary industries dominate	manufacturing and service industries dominate
Rural proportion	over 50%	under 10%
Farming	small mechanization, low yields	high mechanization, high yields
Population	mostly in rural	mostly in urban (>70%)
Birth and death rates	high, and low life-expectancy	low, and high life-expectancy
Diet	inadequate or unbalanced	adequate or balanced
Medical services	poor	available
Housing and infrastructure	overcrowding and poor, bad sanitation yields poor social conditions	good social conditions, adequate housing and good sanitation
Education	poor facilities and high illiteracy	good facilities and low illiteracy
Gender	women may be in inferior position in society	women on equal terms with men



Level of Development by State





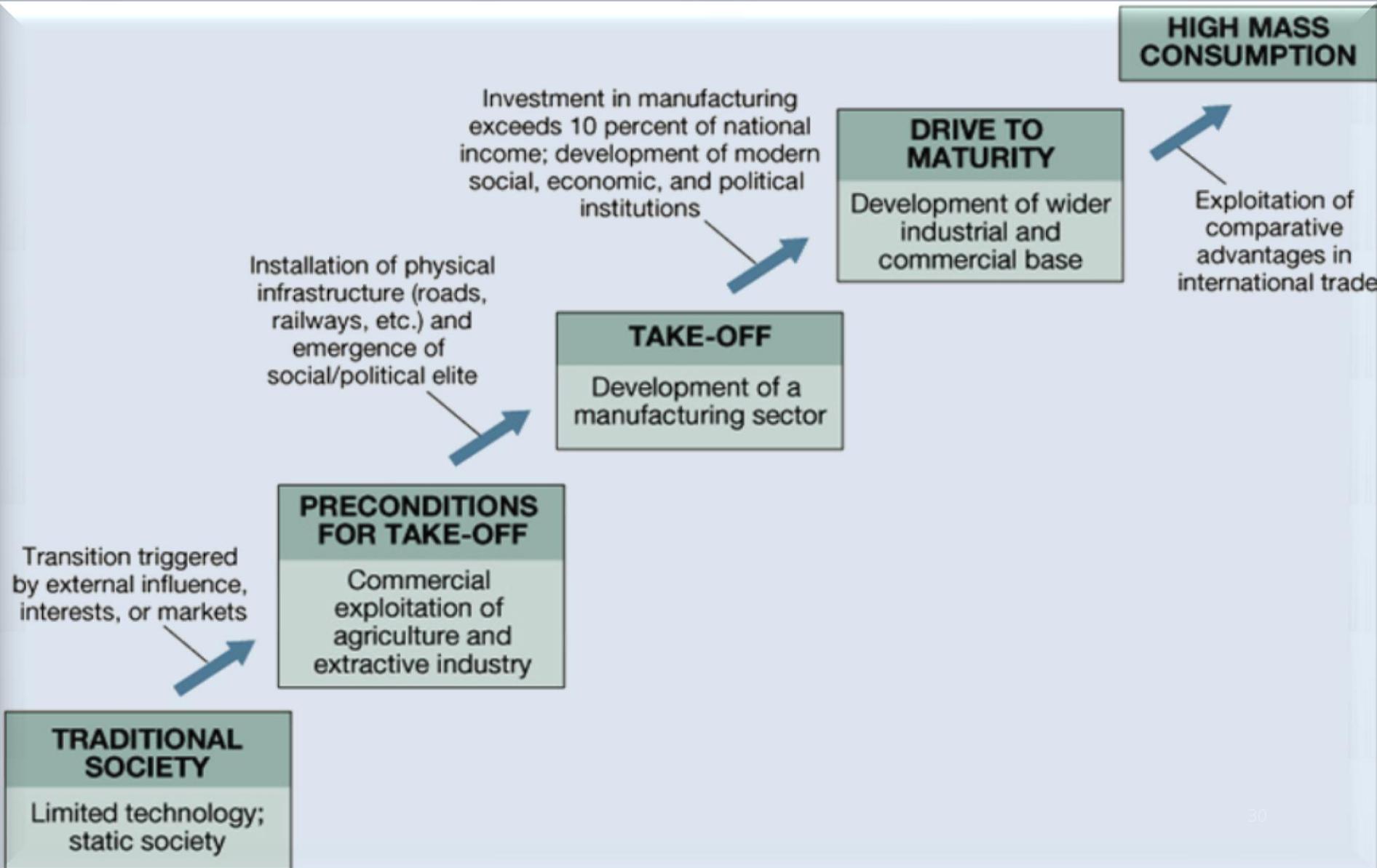
The move toward economic development is a global trend.



Advocates of development claim that...

- ...all states must and will progress through the same. development stages.
- ...the whole world is steadily modernizing.
- ...everyone will reach a level of high consumption eventually.
- ...some states are slower than others (but it's their own fault).

Development Stages





- There is no single strategy for economic 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



- development generally in urban industrial areas
- production flows out: reliant on cheap labor
- profits leave the state (no investment in community – just investment for business purposes)
- led by the golden rule?
- agglomeration in urban areas leads to over-urbanization
 - rural poor head to cities for jobs
 - formation of megacities: Rio de Janeiro, Buenos Aires, Sao Paolo, Calcutta, etc
 - shantytowns, favelas
 - not nearly enough jobs to support huge populations

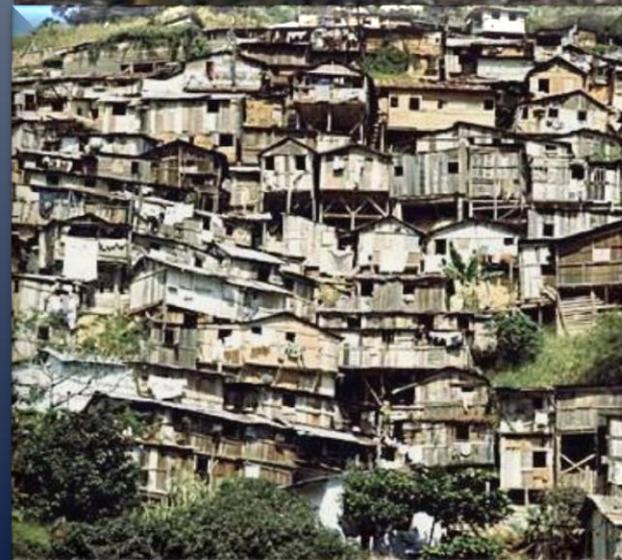
Problems with Development

Urban Growth



Although Tokyo is the largest city in the world today, the fastest growing megacities in the world are in the periphery or semi-periphery

- Mumbai, India
- Lagos, Nigeria
- Karachi, Pakistan
- Kuala Lumpur, Malaysia
- Sao Paulo, Brazil
- Mexico City, Mexico
- And many others



Rio de Janeiro, Brazil



- ~ 1,000,000 people around Rio live in favelas (makeshift slums)
- growth rate: Rio: 2.7% favelas: 7.5%
- <50% of favelas don't have running water
- 70% minority population (black, native or mixed)
- why?
 - lack of market (abandonment of rural areas for city)
 - lack of access to market / exports
 - can't compete with large agricultural corporations
 - lure of jobs / possibilities in big city
 - most end up worse (no job, no land, nothing to go back to)
 - abundance of cheap labor keeps wages very low
 - situation worsens, greater need for more development?

Rio



- Early starters have a huge advantage.
 - economic inertia – easier to continue current process / structure / methods of exploitation than start anew
- 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?

Development ... An Uneven Scale



- In the drive to industrialize and achieve high mass consumption, states often allow firms to pollute.
- The costs of pollution are often difficult to quantify.
 - Costs of cleaning-up/preventing are fairly easy for firms to estimate – costs passed to consumers.
 - Linking pollution and problems is not easy to do.
 - How does one quantify reduced quality of living?
 - medical costs for respiratory problems and cancer
 - damage to and loss of plants, animals and material objects
 - heat and noise pollution

A Word about the Environment

THE END

