Barriers to economic growth and economic development

Poverty Cycle

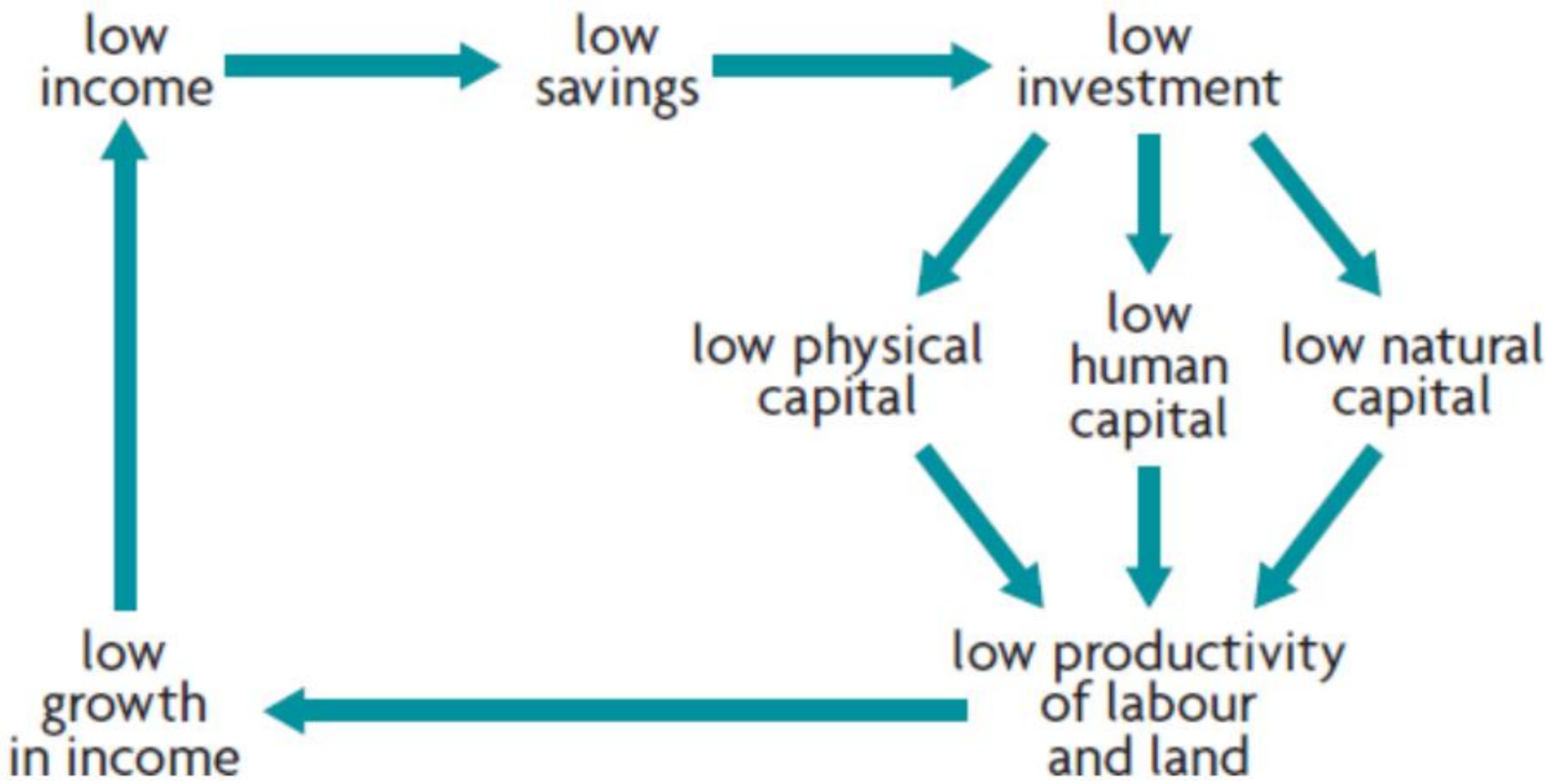
The condition of the poor people

- People who are poor spend their entire incomes just on essentials, and often even this is not enough for survival.
  - **Low physical capital**: farm tools, roads, water supplies or sanitation systems
  - **Low human capital**: less educated, low levels of skills and poor levels of health
  - **Low natural capital**: their natural capital often becomes depleted as they destroy their natural environment in an effort to survive. (depletion of minerals in the soils, cutting of forests, overfishing of lakes, rivers and oceans, etc.)
- They don't have enough savings to make investments in the capital they need, thus they are **trapped in a situation where their poverty leads to more poverty, in a cycle**.

Poverty Cycle

A **Poverty Cycle (poverty trap)** arises when low incomes result in low (or zero) savings, permitting only low (or zero) investments in physical, human and natural capital, and therefore low productivity of labour and of land. This gives rise to low, if any, growth in income (sometimes growth may be negative), and hence low incomes once again.

- A poverty cycle may occur in a family, a community, a part of an economy, or in an economy as a whole. An important feature of the poverty cycle is that poverty is transmitted from generation to generation.



Poverty transmits across generations

- **Ways that poverty is transmitted across generations:**

Poor Education:
People often cannot afford to send their children to school, because:
- the children need to work to supplement the family income
- unaffordable transportation costs or school fees.

Poor Health condition:
unaffordable medical care, limited food
→ malnourished and physically disadvantaged children.

Large families
The income of the parents must be stretched to cover the needs of more people.
→'demographic trap': Poor people have more children, and more children keep poor families trapped in poverty

Lack of modern agricultural inputs
(fertilizers, irrigation facilities, improved seeds)
→ Natural resource depletion: overuse land, thus depleting the soil of essential nutrients.
→ Their children will be force to work on soils with poorer quality that have lower yields (lower output per unit of land)

Lack of access to credit
Poor people with low saving cannot access to credits that could help raise them out of their poverty

→The children in poor family grow into adulthood lacking skills, often unable to realize their full health potential, and condemned to low productivity and low incomes.

Breaking out of the poverty cycle

- Poor people and poor communities trapped in a poverty cycle cannot emerge from this on their own.

↓

- **Government intervention needed**

  → investments in **human capital** (health services, education, nutrition)

  → **Physical capital** in the form of infrastructure (sanitation, water supplies, roads, power supplies and irrigation)

  → **Natural capital** (conservation and regulation of the environment to preserve environmental quality)

  → Ensure the poor people can participate in private sector activities, such as ensuring **access to credit** so that the poor can borrow to finance private investment.

- If the country is so poor and trapped in a poverty cycle, escape is possible if resources are provided through <u>foreign aid</u>.

Economic barriers

Economic barriers

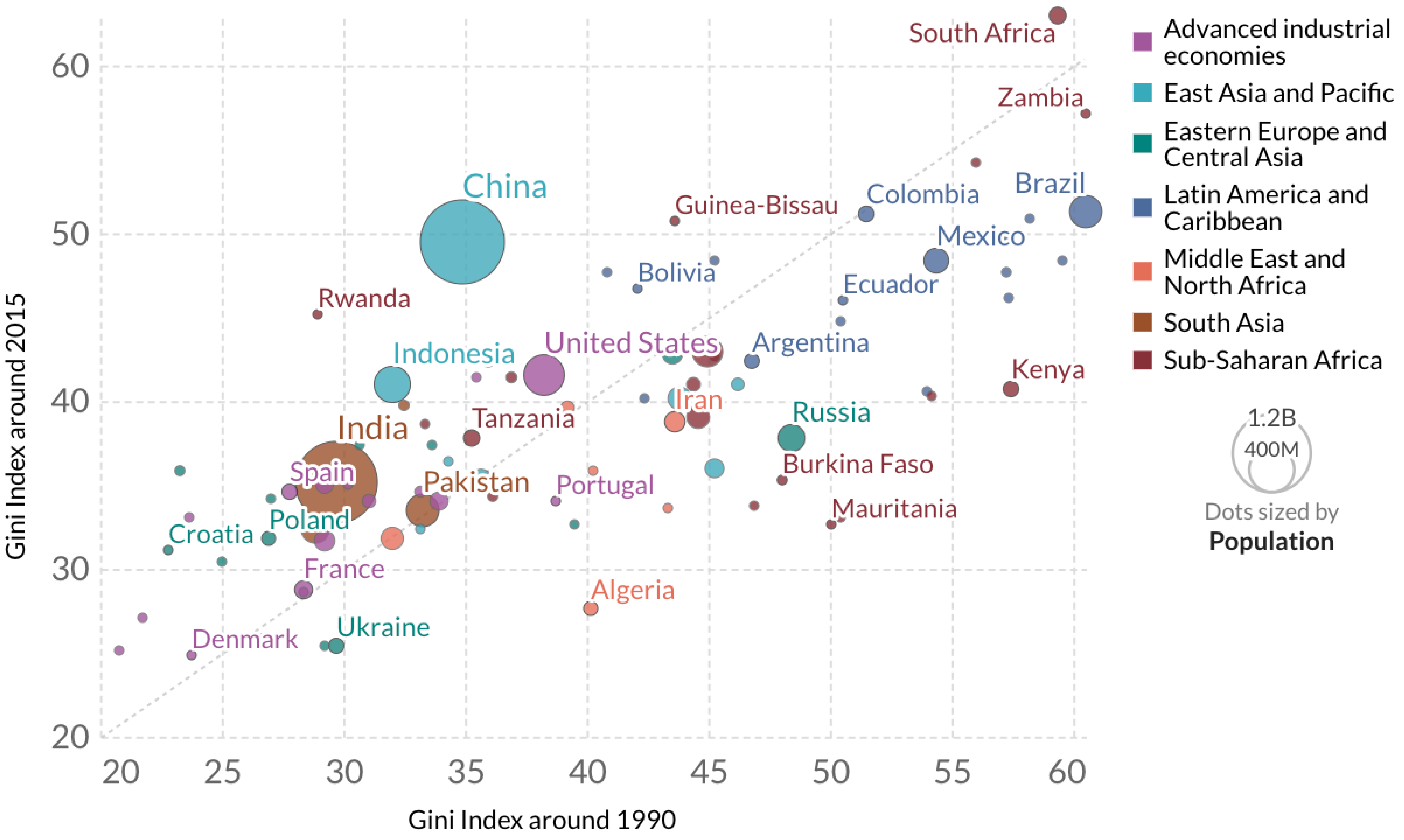
Factors works as a barrier to economic growth and development

1. Rising economic inequality
2. Limited access to infrastructure
3. Limited access to appropriate technology
4. Low levels of human capital
5. Dependence of production and exports on the primary sector
6. Limited access to international markets
7. The informal economy
8. Capital flight
9. Indebtedness
10. Geography and landlocked countries
11. Tropical climates and endemic diseases

Economic barriers:
1. Rising economic inequality

- **High unequal distributions of income are barrier to growth and development.**
- Greater equality in income distribution may lead to more rapid growth and more development.

- However, according to the World Bank, income inequality increased in 2008-2013 in 34 of 83 countries monitored. There are more rapid income growth among higher income groups while in 23 countries the poorest 40% experienced a decline in income.



Source: Povcal (2018); The Chartbook of Economic Inequality (2017); Kandbur et al. (2017) Table 1.B
Note: Estimates are based on household survey data of either incomes or consumption. All countries for which comparable surveys within five years of each reference year were available are shown.
OurWorldInData.org/income-inequality-since-1990 • CC BY

- Sample of 83 countries, covering around 85% of the world's population
- Diversity between countries
- Politics and policy at the level of individual countries can make a difference
- There were rises in inequality in some of the world most populous countries, including China, India, the US and Indonesia

Economic barriers:
2. Limited access to infrastructure

Infrastructure: Numerous types of **physical capital** resulting from investments, making **major contributions to economic growth and development** by lowering costs of production and increasing productivity; including power, telecommunication, piped water supplies, sanitation, roads, major dam and canal works for irrigation and drainage, urban transport, ports and airports.

2. Limited access to infrastructure

The importance of infrastructure

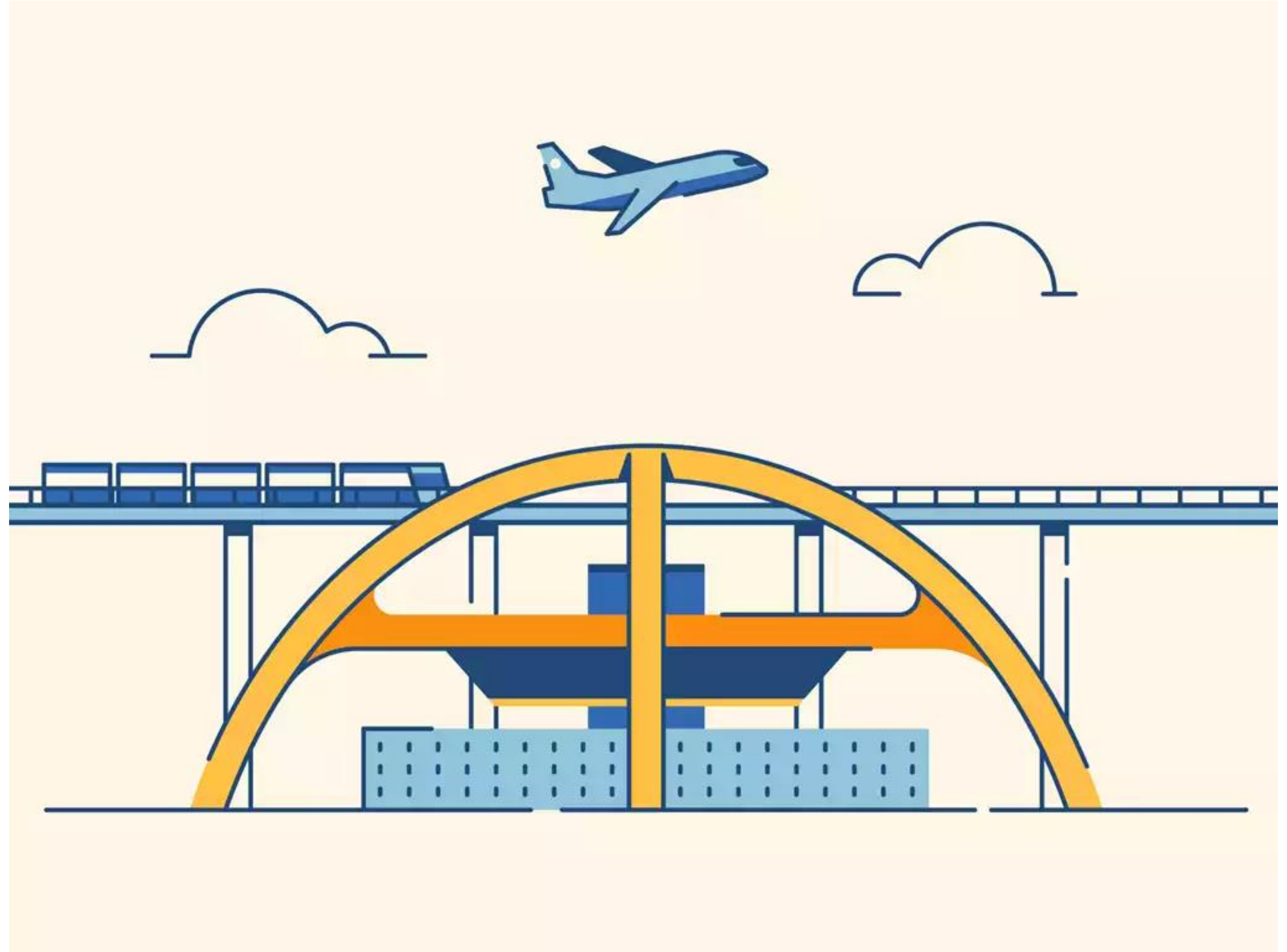
- Infrastructure plays a major role in most economies, representing about 20% of total investments in developing countries.
- Infrastructure provision is mostly a government responsibility. (public goods or merit goods)

Enable Trade

• Enables trade, powers businesses, connects workers to their jobs

• China has invested $14 billion in Eastern Africa Kenya's Standard Gauge Railway (SGR). The 485km railroad further enable trade.

•The SGR contributes 2 to 3 percent to Kenya's gross domestic product (GDP).



Job Creation

• In USA, 14 million people have jobs in fields directly related to infrastructure. From locomotive engineers to truck drivers and airline pilots, to construction workers and meter readers.

• The Belt and Road Initiative of China could generate 46 million jobs
• It can reduce poverty from 9.5% in 2015 to 3.9% by 2030. And lift 8.7 million people from extreme poverty.

2. Limited access to infrastructure

Lack of infrastructure

- In 2015, 1 in 4 health care facilities did not have access to basic water services.

- 2.4 billion people did not have access to basic sanitation services like toilets and latrines.

- 13% of the world's population had no access to electricity

- 75 million Nigerians have no access to electricity

The reasons for poor infrastructure development

1. Problems of Financing

- In many developing countries, as part of government social policy intended to make services affordable, the prices charged have been kept below cost, resulting in insufficient revenue for the state enterprises providing infrastructure.
- Haiti has Latin America's worst timeliness, tracking, customs, etc. - GDP Ranked 145th

2. Inadequate maintenance &poor quality

- Lack of revenues → poor maintenance → low quality and unreliable services.
- It will result in degradation of the assets with negative effects on the economy, leading to greater costs of reconstruction over time.

3. Limited access by the poor

- Lack of revenues → constraints in quantity of infrastructure facilities → impossible to provide services for the entire population (The poor people suffer disproportionately from lack of access, both in rural areas and in urban slums)

2. Limited access to infrastructure

The reasons for poor infrastructure development

4. Misallocation of resources

- The infrastructure provided is sometimes inappropriate given the needs of the population and the country’s level of economic development.
- Some infrastructure facilities may remain underused due to insufficient demand (power, telecommunications, ports), some other services (such as more roads, better maintenance and improvements in service quality) are neglected.

Lebanon is rich in resources, ***its GDP/capita ranks 48th.*** but due to inadequate infrastructure, the country is unable to meet the needs of its citizens.

- Its water system, which is 'particularly bad during the summer months, is in need of rehabilitation.
- Transport and communications also ranked low in quality.

2. Limited access to infrastructure

The reasons for poor infrastructure development

5. Neglect of the environment

- Failure to adequately control unnecessary emissions
- Wasteful consumption of water
- Building roads and dams in ecologically vulnerable areas, and so on.

The Three Gorges

- The Yangtze River contains 300 different fish species. The construction of the dam will prevent fish from spawning upstream, thus diminishing population sizes.

- It have a negative impact on the local fishing industry and also on the livelihoods of fishermen who depend on it.

- The 100,000 acres that were flooded accounted for 10% of China’s grain supply.

Economic barriers:
3. Limited access to appropriate technology

- **Appropriate technology:** Technologies that are well-suited to a country's particular economic, geographical, ecological and climate conditions. Often used in connection with labor-abundant developing countries that require labor-intensive (as opposed to capital-intensive) technologies.

➢ **Labour-using(labor-intensive) technologies** use **more labour in relation to capital**. They result in increases in local employment and the use of local skills and materials, increases in incomes and poverty alleviation, and save on the use of scarce foreign exchange.

➢ **Capital-using (capital-intensive) technologies** use **more capital in relation to labour**. In developing countries with large supplies of labour they displace workers and increase unemployment, reduce incomes and throw people into poverty, and require skill levels that may be costly and difficult to acquire, as well as the use of foreign exchange for imports.

3. Limited access to appropriate technology

a. Different factor supplies (labour and physical capital)

Developed countries

- Relatively scarce Labour
- More abundant Physical capital
- Large capacity for producing and maintaining technologically advanced machines and equipment.

Developing countries

- Relatively Large quantities of labour (unemployed or underemployed)
- scarce physical capital, costly to acquire.
- Low capacity to produce, operate and maintain technologically advanced equipment.

Scenario:
A farm in a less developed country
With widespread rural unemployment and poverty
Farming technology: primitive technology

Which new technology shall we adopt?

Option 1: Heavy agricultural machinery

- More expensive
- Less labour needed (unemployment↗ → rural poverty worsens)
- More imports of machinery (use more foreign exchange, negative impacts on BOP)
- Skilled labour needed to repair it and parts may have to be imported.

Capital-using technology

Option 2: ploughs pulled by animals

- Less expensive
- More labour needed (unemployment↘) →more income and reducing rural poverty
- The facilities can be produced locally →increased employment on manufacturing industries → more training → more high skilled workers
- Less imports, foreign exchange will be saved, no negative impacts on BOP.

Labor-using technology

Benefits of appropriate technology

- ✓ Affordable to people in LEDCs
- ✓ Can be designed/produced by people in LEDCs
- ✓ Can be used and maintained
- ✓ Has a positive impact on living standards
- ✓ Does not cause sudden increases in unemployment as it replaces labor
- ✓ Has positive externalities in terms of environmental impact

→Most technological advances tend to be of the capital-using type, because most research and technological developments occur in developed countries that focus on their own priorities and needs.

→Many developing countries have at times tried to copy or imitate the production techniques of the developed world, resulting in the use of inappropriate technologies.

→Unemployment and underemployment, growth of the informal economy

Economic barriers:
3. Limited access to appropriate technology

b. Different climate and ecological conditions

- Many of the technologies developed in rich countries are also inappropriate to the climates, geography and ecological conditions of many developing countries.
- Agriculture – different climatic conditions, soils, disease agents and other agronomic factors.

E.g. **Wind power generation**

- ➢Next to sea
- ➢On the hills
- ➢With constant wind power

→ Inappropriate for inland countries with inappropriate condition

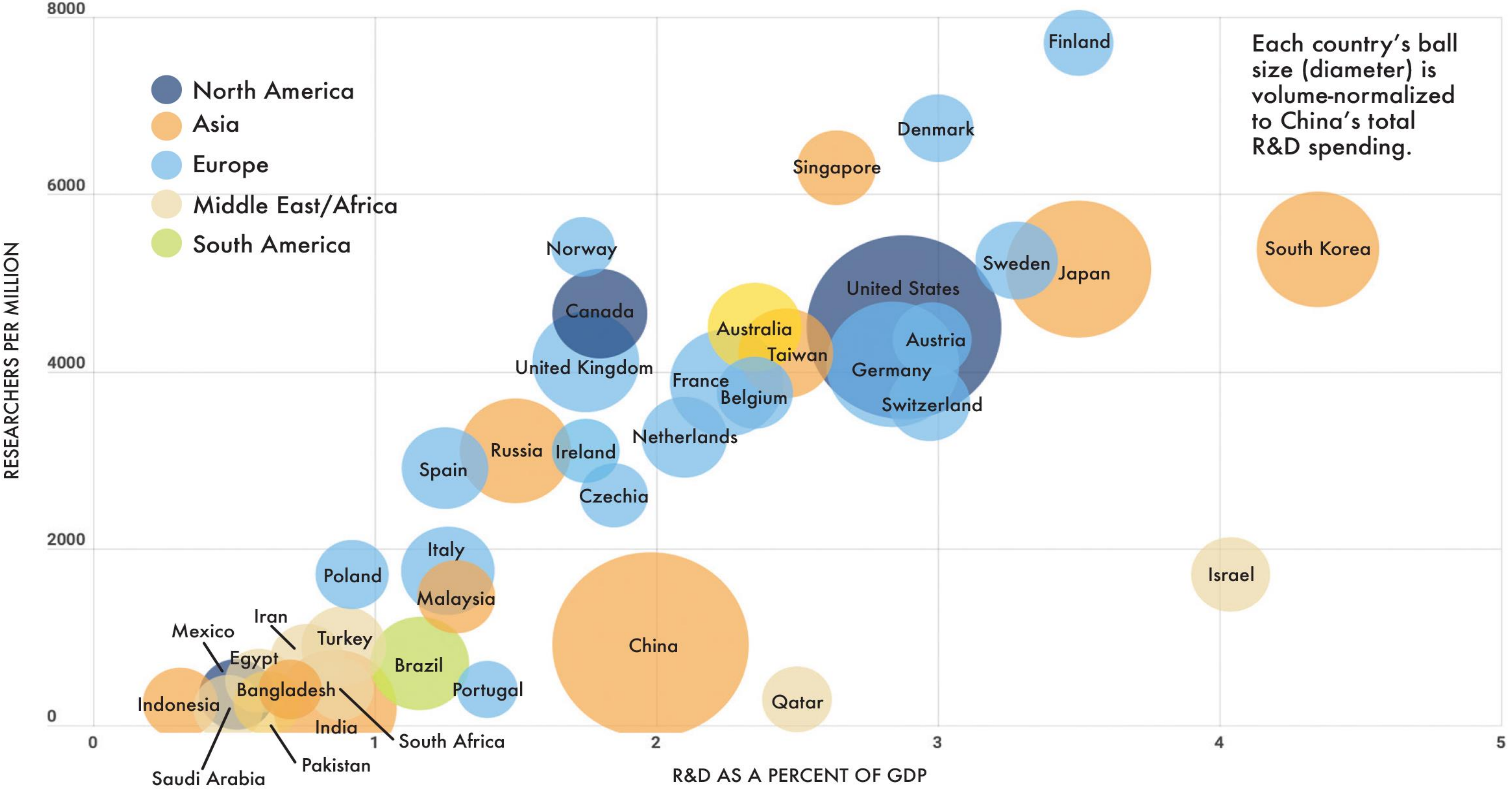
Economic barriers:
3. Limited access to appropriate technology

c. Difficulties in the development of appropriate technologies

- Most technological innovation occurs in developed countries. (some exceptions: China, India, Brazil)
- Many developing countries have very few resources to devote to R&D and new technology development.
  - Sweden 3.3%, Japan 3.2%, Denmark & Germany 2.9%, Finland 2.8%, United States 2.7% of GDP on R&D
  - Lower income countries typically spend less than 0.5% of GDP on R&D

- **Further problems**: the private sector in developing countries faces few incentives to engage in R&D, they have neither the resources nor the markets to support R&D activities.

WORLD OF R&D 2021



Economic barriers:
4. Low levels of human capital

Human capital refers to skills, abilities and knowledge acquired by people as well as good levels of health, all of which make them more productive.

Developing countries lag behind in both education and health.

⬆️ human capital,

⬆️ future productivity,

⬆️ Employment opportunities

⬆️ growth & development

a. Barriers to education
b. Barriers to achieving good health

4. Low levels of human capital
a. Barriers to education

- **Importance of Education**

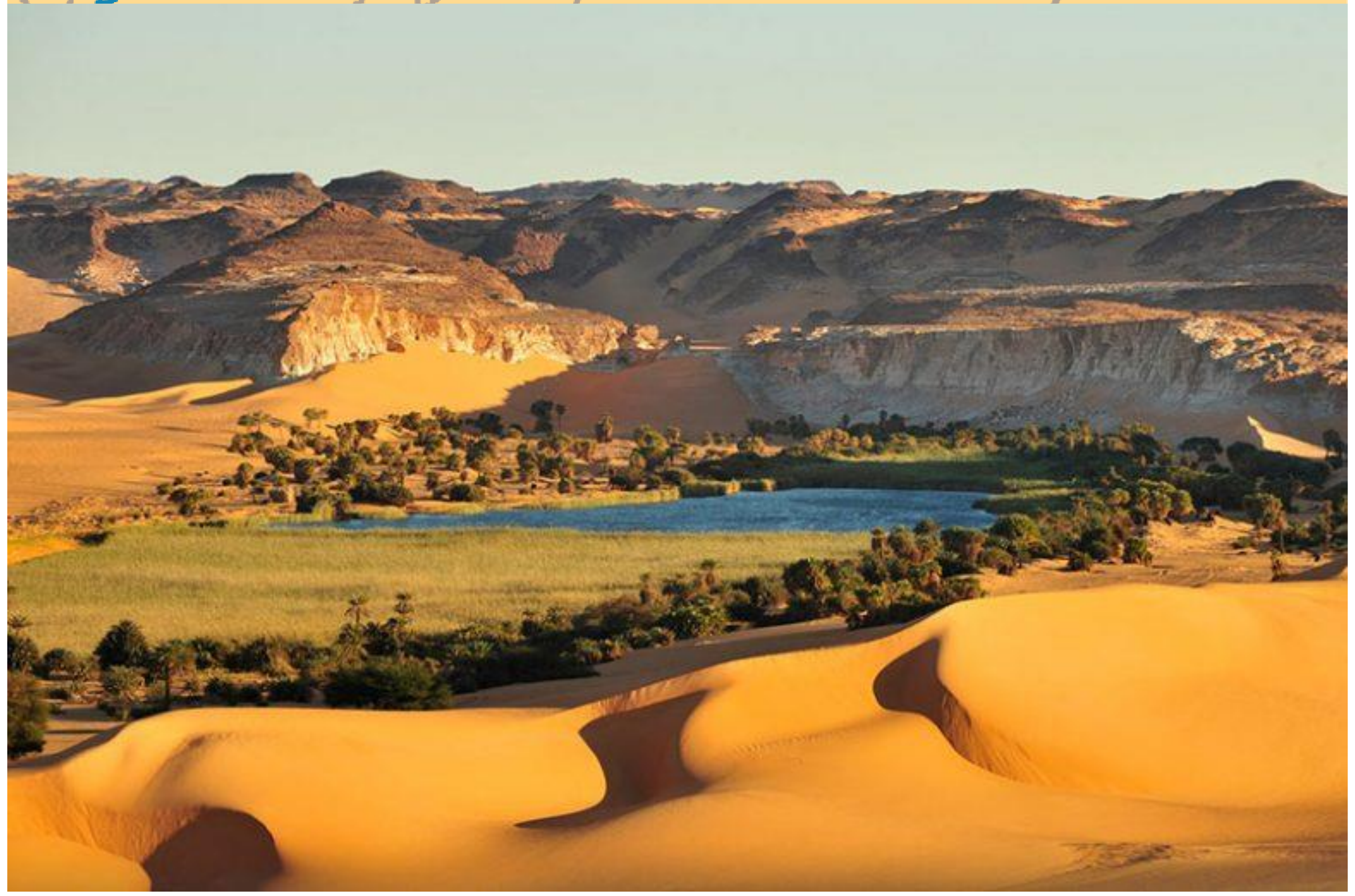
Higher income

Lower unemployment

Reduce Income inequality

"ensure inclusive and equitable quality education and promote lifelong learning opportunities for all"

4. Low levels of human capital
a. Barriers to education



Case study – CHAD

Chad, landlocked country in north-central Africa. Although it is the fifth largest country on the continent, Chad—much of the northern part of which lies in the Sahara—has a population density of only about 20 persons per square mile (8 persons per square km). **Most of the population lives by agriculture**; cotton is grown in the south, and cattle are raised in the central region.

- Rate of illiteracy: 70%
- >2m not know how to read or write(Girls: 77%)

4. Low levels of human capital
a. Barriers to education

- **Insufficient funding for education**
  - Many developing countries, especially the poorer ones, do not have sufficient government revenues to fund education.

- **Government**
  - 2.3 percent of its budget on education
  - lower than comparable sub-Saharan African countries
- **Financial Aid**
  - GPE grant of US$7 million from World Bank
  - at least 96% more financing is required

4. Low levels of human capital

a. Barriers to education

- Lack of fund leads to ...

Insufficient classrooms

a typical classroom can range from 50 to 100 students

65% temporary shelters with a life span of <1yr

Insufficient basic facilities

lack of running water toilets

1/7 potable water

1/4 has toilets

1/3 toilets are for girls only.

Lack of teaching materials

Old, worn-out, not updated

lack of textbooks at all levels and in all subjects.

4. Low levels of human capital

a. Barriers to education

- **Insufficient teachers or untrained teachers**
  - No enough teachers at the primary and secondary levels
  - Teachers do no have the necessary training.
  - In Chad, 3/4 pupils are supervised by teachers whose highest level of education does not go beyond secondary schooling

→Many children do not receive the basic training they need to learn the basic skills of reading, writing and arithmetic.

4. Low levels of human capital
a. Barriers to education

- **Inability to pay for education**
  - Other costs (books, pens) + opportunity costs
  - average income is less than half a US dollar/day/capita
- **Health condition**
  - Hunger & Malnutrition
    - In Chad, 37.8% of children under 5 are stunted
  - HIV-AIDS
    - full-blown AIDS cases reached 12,000 (2000)
    - 30% to 40% of whom were transmitting the virus to their child

4. Low levels of human capital
a. Barriers to education

Other barriers…

Conflict or risk of conflict

It is estimated that 250 million children live in countries where there are conflicts, while 61 million do not go to school because of conflicts.

Disability discrimination

In the poorest countries it is estimated that 95% of children with disabilities do not attend school while also facing discrimination.

Gender discrimination

It is estimated that over 130 million girls do not go to school just because they are girls.

Distance of school from home

Some children may have to walk three hours a day to get to school.

4. Low levels of human capital

b. Barriers to achieving good health

- **Insufficient funding for health cares**
  - The financial gap is especially serious in sub-Saharan Africa
    - 16% of the world's population
    - 23% of the world's disease burden
    - 1% of global health care spending.
    - Bearing the global morbidity, mortality, low life expectancy
      - 80% of the estimated 207 million malaria cases
      - 90% of the estimated 627 000 malaria deaths
      - Highest level of under-five-years and infant mortality rates

- **Insufficient access to health care services**
  - The National Academies of Sciences, Engineering, and Medicine define access to health care as:
    - **"timely use of personal health services to achieve the best possible health outcomes."**
  - At least half of the world's population do not have access to all the essential health care services they need. (By work bank & World Health Organization)

4. Low levels of human capital
a. Barriers to achieving good health

- **Private payments for health care**
  - 800 million people spend at least 10% of their budget on health care services
  - 100 million are pushed into extreme poverty a day because of this.
  - In SSA, 37% of all spending on health care is made out-of-pocket
  - 11% of the African population is pushed into poverty and 37% do not receive medical treatment
  - Out-of-pocket medical care costs may lead individuals to delay needed care and result in higher medical debt
- **Geographical access**
  - Long distances, lack of roads and transportation
  - In Ghana, nearly half (45%) live that further from 'comprehensive' facilities, offering life-saving blood transfusion and surgery.
  - In the most remote regions these figures rose to 63% and 81%, respectively.

4. Low levels of human capital

a. Barriers to achieving good health

- **Insufficient numbers of trained medical practitioners**
  - There are extremely serious problems that even where medical practitioners are available they are often ineffective.
  - 57 countries with a critical shortage of healthcare workers
  - deficit of 2.4 million doctors and nurses.
  - Africa has 2.3 healthcare workers per 1000 population while 24.8 per 1000 population in North America
  - make correct diagnoses one-third to three-fourths of the time in Africa.
- **Insufficient medical facilities and medical supplies**
  - 50 to 80 percent of medical equipment in developing countries is not working
  - Problems of financing in order to set up, staff and equip medical facilities to ensure access to rural populations.

4. Low levels of human capital

a. Barriers to achieving good health

- **Acceptability of modern medical practices**
  - In some very poor societies modern medical practices are not accepted as people prefer traditional medicine.
- **Insufficient access to clean water and sanitation**
  - To ensure good health
  - SDG 6: Ensure availability and sustainable management of water and sanitation for all
  - 2 billion people lack access to safely managed drinking water at home
  - 3.6 billion people, nearly half the world's population, do not have access to safely managed sanitation in their home
  - 2.3 billion people lack basic hygiene services, including soap and water at home.
  - There are more than 340,000 children per year who die due to diarrhoeal diseases from unsafe drinking water and poor sanitation.

Economic barriers:
5. Dependence of production and exports on the primary sector

The **primary sector** of an economy is the sector that produces primary commodities, which are goods arising from the factor of production land.

- Agricultural, fishing and forestry products
- products of extractive industries (oil, coal, minerals, etc.)

Economic barriers:
5. Dependence of production and exports on the primary sector

The characteristics of primary sector

- Production process
  - Requires low labour skills
  - Requires small initial investments
  - Replaceable by technology
  - Seasonal (agriculture and fishery)
- Product
  - Homogeneous
  - Susceptible to external factors
  - Scarcity/limited amount

→

Highly replaceable

Highly volatile

Low sustainability

- Low income developing countries tend to specialize in the production of only a few goods, which usually are primary commodities. → it's exports are likely to be dominated by primary products.
  - E.g. Countries in sub-Saharan Africa and Latin America receive at least half their export earnings from primary commodities. (overspecialized)

Economic barriers:
5. Dependence of production and exports on the primary sector

Price volatility of primary products – the price of primary products are more volatile (fluctuate more) than the prices of manufactured products because they have low PED and low PES (usually less than one).

- **As product prices fluctuate (Price volatility):**

  →uncertainty in farmer's income, agricultural investment, employment and wages of agricultural workers

  → Producers are unable to plan, as they are unable to determine the future profitability of investments.

  →Fluctuating and unstable export earnings, affecting the country's BOP and ability to import.

  →influence the government's revenues with negative consequences on its efforts to plan for growth and development and undertake necessary investments in merit goods.

If the price decrease...

- Great impact on GDP
- Structure unemployment

If the price increase...

- Higher export value →Currency appreciation
- Less competitive export
- De-industrialization

"Dutch Disease"

Over investment in primary sector causes decline in other sectors

Economic barriers:
5. Dependence of production and exports on the primary sector

Over-extraction

- Resource depletion
- Pollution
    - Less alternative developments
- Monopoly and corruption
    - Land and mines controlled by government or large companies

Case: Nauru's phosphate mining

- Highest GDP per capita in 1970s
- After the running out of phosphate → LEDC with high indebtedness and high inequality
- Unscientific mining approach → degradation of soil, 90% land contaminated
- High unemployment: >90%
- Limited manufacturing industry

"Resource Curse"

"Although large deposits of key resources such as oil would usually be considered a blessing for the development prospects of a country, if often turns out to be a resource curse."

-Paul Collier

Case of Qatar:
- the role by government

- Qatar is a country in the middle east. Much of the country is desert. Qatar is a high income economy and is a developed country, with the world's third largest natural gas reserves and oil reserves.
- Heavily dependence on oil &natural gas export

- **Government's actions:**
  - ✓Increasing spending in 12 years education and universal health care
  - ✓Diversification in service industry, such as banking and tourism
  - ✓Research in green energy

Economic barriers:
6. Limited access to international markets

- **The inability to access international markets** refers to difficulties encountered by developing countries in their exports to developed countries.
  a. Tariff barriers
  b. Agricultural trade and rich country subsidies
  c. Other non-tariff barriers: the ‘new trade protection’

Economic barriers:
6. Limited access to international markets

a. Tariff barriers

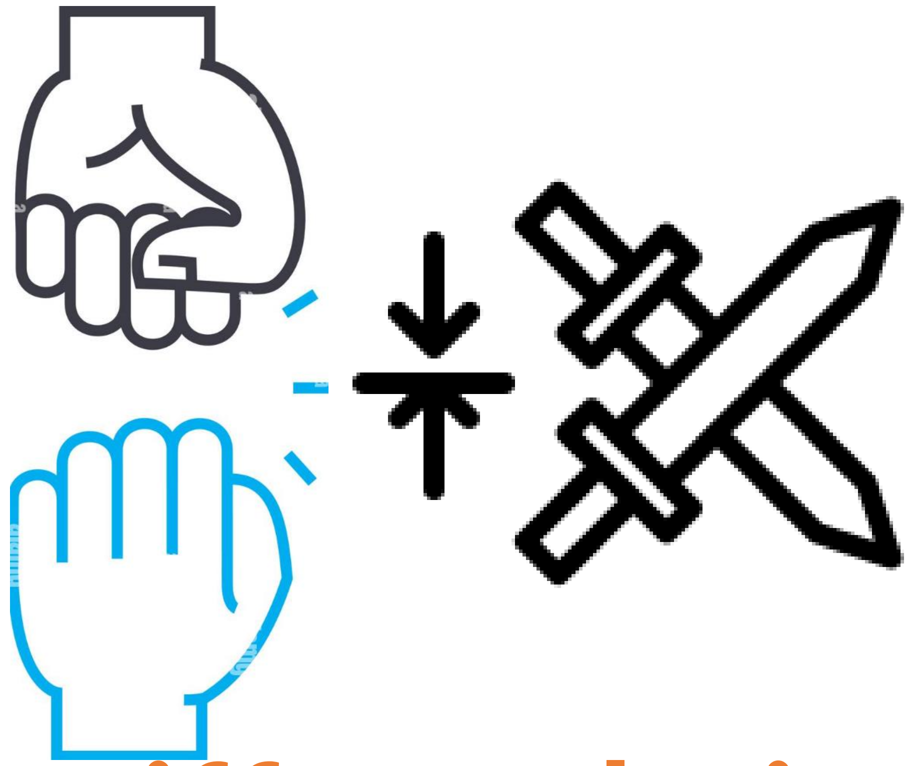
  - Primary products in particular face much higher tariffs than those in manufacturing and natural resources.
  - Agricultural products, textiles and apparel
- Use of tariff barriers to discourage the development of manufacturing and diversification.

Economic barriers:
6. Limited access to international markets

Problems with tariffs:

vertical diversification

Developing countries use the availability of primary products (Such as cocoa beans) to stimulate manufacturing in processed products. (such as chocolate)



tariff escalation

- Countries impose low tariffs on raw materials and much higher tariffs on processed products.

→ difficult for developing countries to expand into manufacturing.

- E.g. tariff escalation for apparel, animal products, tanning and manufacturing.

Economic barriers:
6. Limited access to international markets

b. Agricultural trade and rich country subsidies

- Agriculture is one of the most protected sectors, especially in developed countries due to high volatility and low income of farmers.
- E.g. EU's Common Agricultural Policy (CAP), US farm policies
- Problems: negative consequences for many developing country primary product exports and for poverty alleviation.

Economic barriers:
6. Limited access to international markets

Negative consequences of Agricultural trade and rich country subsidies

➢Global misallocation of resources

- Higher prices received by developed country farmers → excess production and surpluses
- When these goods are exported, they artificially lower the international price of the goods, making it more difficult for farmers in developing countries to compete.
- Very low prices force some farmers in developing countries to abandon or reduce cultivation of the product.

→too much of the protected good is produced in the developed countries (overallocation of resources) and too little in developing countries (underallocation of resources)

➢Global inefficiency

- Developing countries can often produce certain agricultural products at a far lower cost than developed countries.
- Due to the trade protection, the more inefficient developed country producers continue to produce, capturing global market shares from the more efficient developing country producers.

Economic barriers:
6. Limited access to international markets

Negative consequences of Agricultural trade and rich country subsidies

➢ **Lower export earnings for developing countries**

- Developing countries that export products receiving protection in developed countries suffer due to lower exports, as well as lower prices. (lower international price due to the rich-country subsidies) → lower export earnings.

→Balance of payments difficulties and increased debt burdens.

➢ **Increased poverty among affected farmers.**

- lower incomes, lower investment possibilities for farmers, lower employment opportunities for farm workers and increased poverty.
- Some displaced farmers are forced to migrate to the cities, where they find work in the informal economy while contributing to the growth of urban slums.

Economic barriers:
6. Limited access to international markets

c. Other non-tariff barriers: the 'new trade protection'

- technical regulations
- standards and requirements
- testing and certification
- labelling and packaging requirements
- customs and administrative procedures
- sanitary measures including food safety and quality standards (administrative barriers)

Economic barriers:
7. The informal economy

A **formal economy** refers to the part of an economy that is registered and legally regulated.

An **informal economy** by definition lies outside the formal economy, and refers to economic activities that are unregistered and legally unregulated.

7. The informal economy
Informal economies in different countries

"Work in informal economy in developing countries is not undertaken to avoid payment of taxes or bypass labour or other legislations as in developed countries." "Most people entered the informal economy not by choice, but as a consequence of lack of opportunities in formal economy and in the absence of other means of livelihood."
- ILO (International Labor Organization)

Developed country:	unregistered work resulting in tax evasion, as well as corruption or crime which are illegal.
Underdeveloped country:	Physical survival and starvation for individuals and families

An informal economy exists everywhere in the world but in developing countries it is often a very important part of the economy, because it offers work and income to substantial portions of the population who have no other opportunities to work in view of lack of employment opportunities in the formal economy.

7. The informal economy

Informal economies in different regions

Urban	Barbers, cobblers, carpenters, tricycle, pedicab drivers, garbage collectors, small shop owners, restaurant workers, etc.
Rural	Agricultural sector

7. The informal economy

Informal economy size

Region	Share of informal employment in total employment, % 2016
Africa	85.8
Arab States	68.6
Asia and Pacific	68.2
Americas	40.0
Europe and Central Asia	25.1
Total	61.2

- Around 2 billion people aged 15+, corresponding to 61.2% of global employment, work in the informal economy.
- Of these 2 billion people mentioned above, 93% are in middle-income and low-income developing countries.
- HDI
  - Countries with a high level of informal employment have a lower Human Development Index (HDI) value as level of employment is affected by levels of education.
  - People who have completed secondary or university education are less likely to be in informal economy.

7. The informal economy

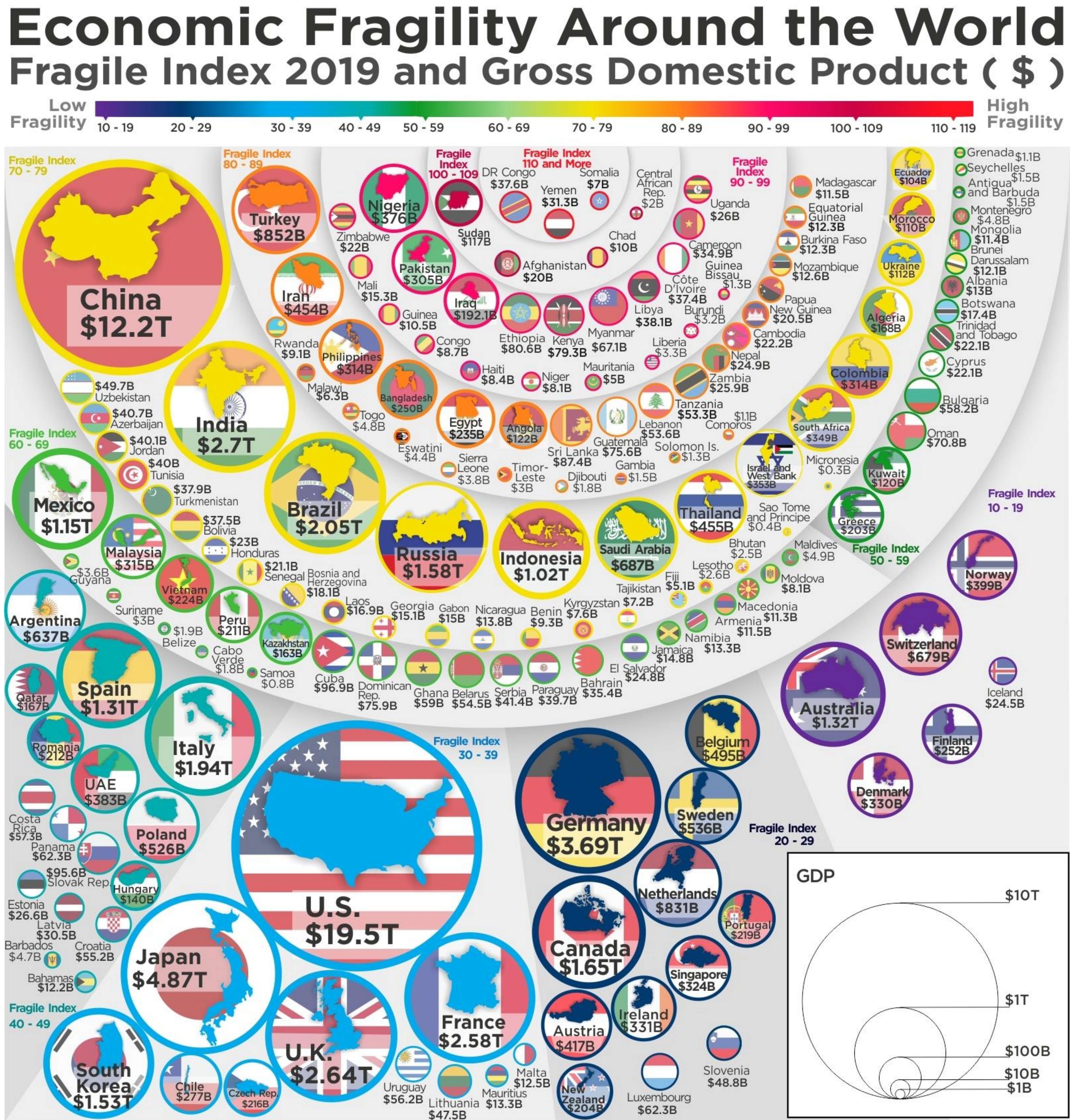
Problems of informal economy

- Government loses tax revenues
- Workers have no worker protection.
- Environmental dangers and health hazards in slums with no basic services like water sanitation and sewerage.
- No access to credit for workers
- Limited possibilities for education and training
- No social protection including pensions, etc.

Imagine

If you are living in a country with high uncertainty and political instability, You may be afraid of:

- loss of property through confiscation
- sudden increases in taxation
- political instability
- loss of value of the domestic currency, such as high rates of inflation, serious balance of payments problems, serious foreign debt problems and the possibility of devaluation or depreciation of the domestic currency.
- → social and economic turmoil with negative effects on economic performance.



Economic barriers:
8. Capital flight

- **Capital flight** refers to the large-scale transfer of privately-owned financial capital (funds) to another country resulting from fear and uncertainty of holding domestic assets.

→ financial capital leaves the country in search of safe investments in assets in a safer financial, economic and political environment, and the domestic currency is exchanged for stable currencies that are not expected to lose their value.

✗ Normal outflow to seek foreign asset, it occur because of the desire of residents to diversify their holdings of foreign assets.

✓ Large-scale transfer of privately-owned financial capital to a country

Economic barriers:
8. Capital flight

- **Negative consequences of capital flight:**
  - Loss of financial capital that could have been invested domestically.
  - downward pressure on the value of the currency, often forcing governments to devalue or allow the currency to depreciate.
  - Capital flight by fears of currency devaluation → possibility of becoming a self-fulfilling prophesy: fear of devaluation leads to sales of the domestic currency, which cause the currency to be devalued or depreciated.
  - Worsen the external debt problems of many developing countries. It involves the use of scarce foreign exchange, the scarcity of foreign exchange leads to more external borrowing.
  - Financial crisis. Capital flight → sales of domestic currency → drop in foreign exchange reserves → devaluation of the currency → negative consequences on economic growth.

Mexico's 1982 financial crisis

Mexico experienced fast economic growth from 1930-1981 (average GDP growth rate 6%)
Mexico government refused to pay for their debt payment in 1982, lacking:

1. Fundings to service the increasingly burdensome number of foreign loans
2. Fundings sought by Mexican businesses and individuals as a hedge against the falling peso.

It leads to:

- Large amount of foreign investment escaped from Mexico. (sell Peso, buy foreign currencies) with capital flight of $270 billion from 1978-1982 → depreciation of Peso

→ More investors sell Peso → further depreciation.
→ Declining stock market
→ 0.7% GDP growth rate from 1980-1989
→ Inflation rate in 1987: 159.2%

Economic barriers:
9. Indebtedness

Many countries suffered from indebtedness due to:

- The beginning: Oil shock of 1973-1974 (OPEC increase the price of oil) → larger import expenditure for oil-importing countries → borrow to cover their deficits
- The global financial crisis (GFC) began in 2008 → Economic downturn and recession.
- Major drop of global commodity prices in 2014 → exporting countries lose export revenues → larger deficits → more borrowing.
- Low interest rates in economically developed countries (expansionary monetary policy) → easier for some African countries to borrow from international lenders.
- Low levels of saving and large financing needs for infrastructure in African countries → borrow more
- Poor governance led to an increase in debt
- Exchange rate depreciation following the commodity price decreases caused the real value of debt to increase
- In many countries, increased borrowing led to more government spending rather than investment.
- There was an increase in borrowing from private sources (commercial banks) which lend at market rates, resulting in higher debt-servicing costs.

Economic barriers:
9. Indebtedness

Consequences of high level of debt:

- High debt servicing costs → fewer resources on other gov’ spendings.
- Poor credit ratings → difficult to borrow
  - Fitch Ratings has revised the Outlook on Egypt's Long-Term Foreign-Currency IDR to Negative
- Contractionary fiscal policy of increase taxes + cut spending
- Increasing income inequality (gov’ bonds held by higher income groups)
- Lower private investment due to uncertainty
- Possibility of debt trap
- Lower economic growth

Economic barriers:
9. Indebtedness

Egypt Indebtedness

- around 87% debt to GDP ratio in 2021

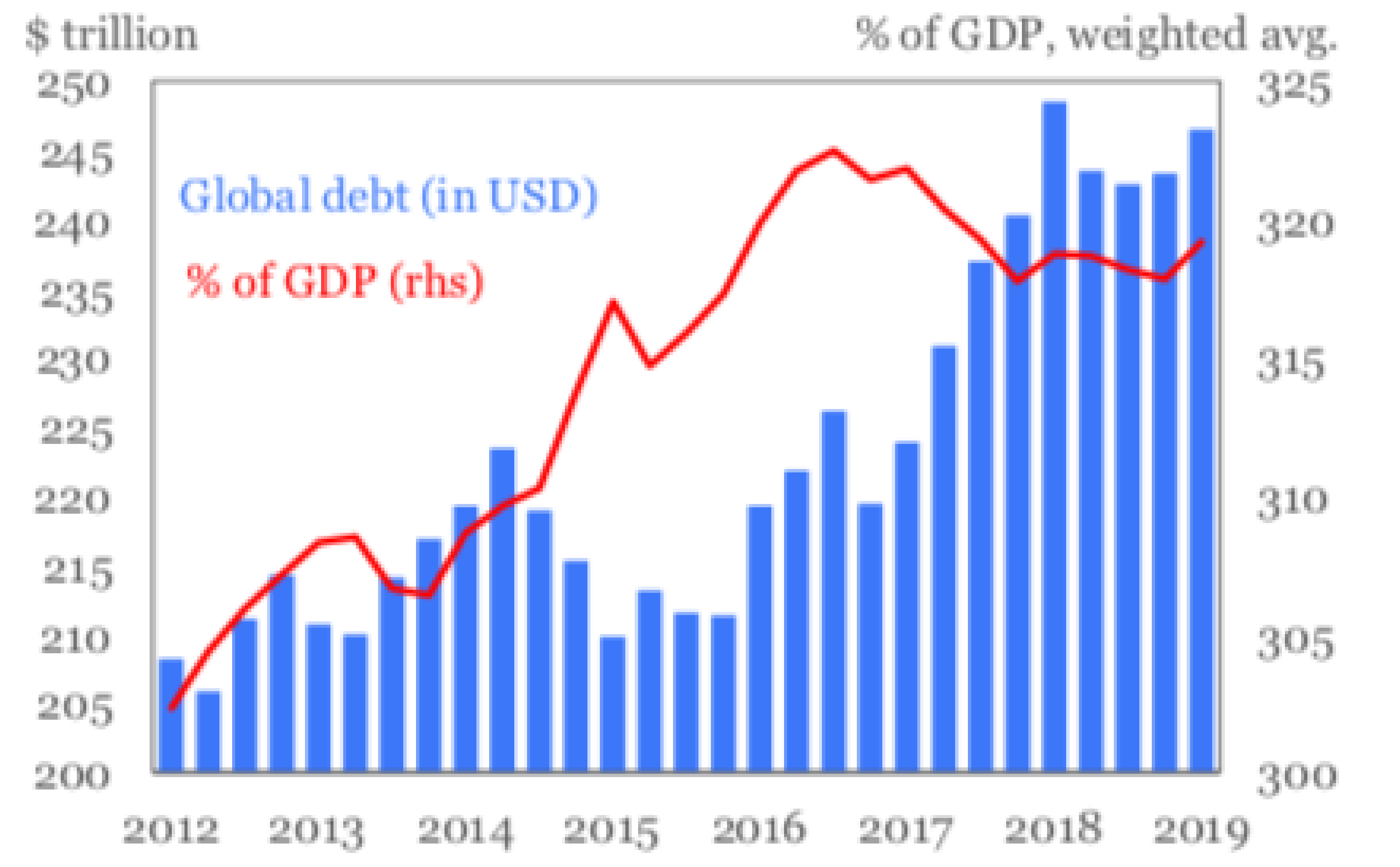
- owes more than $52 billion to multilateral institutions, at least 44.7% of which is owed to the IMF alone

Possible Reasons for Indebtedness

- rely on regressive sales tax policies that were not generating enough income
- turned to debt to finance the gap between government income and expenditures
- More government spending rather than investment

- $30.7bn went to servicing debt
- huge amount of money goes to paying the salaries of civil servants

Chart 1: Big jump in global debt as financial conditions ease



Source: IIF, BIS, IMF

Economic barriers:
9. Indebtedness

Possible solutions:

In 1996, the World Bank and IMF began the Heavily Indebted Poor Countries (HIPC) Initiative, intended to provide debt relief to some highly indebted poor countries by cancelling a portion of their debts.

→Reduction of poverty and hunger

→Increased spending in primary education and health

→Highly favorable effects on health indicators (reduction of infant and child mortality rates, incidence of tuberculosis and HIV/AIDS)

- However, the debt situation of many poor countries has deteriorated. By 2018, more than one-third of the countries that had received debt relief were back or nearly back at their previous debt level.



Transportation of Imports and Exports

If you want to export some toys from China to US, which transportation will you choose?

Let's do some investigation...

From China to the US → long distance

Toys → no requirement for freshness

Aim: Lowest possible cost

- By Car: No route can pass directly from China to the US
- By Air: Fast, but more expensive than by water
- By Water: The most efficient and cost-effective way

Best option

- Landlocked country are an independent sovereign state that does not have direct access to an ocean, such as the Atlantic, or to a sea that is not landlocked, such as the Mediterranean.
- 44 landlocked countries
- 32 landlocked developing countries (LLDCs)

Economic barriers:
10. Geography and landlocked countries

For Landlocked countries, they can access ports for their export and import activities depend on their nonboring countries, which they may:

- have bad relations
- have poor road infrastructure
- face conflicts and political instabilities
- Have administrative procedures and high transportation costs
- →prevent their integration into the global grading system.

Africa		**Asia**	**Europe**	**Latin America**
Botswana	Niger	Afghanistan	Armenia	Bolivia
Burkina Faso	Rwanda	Bhutan	Azerbaijan	Paraguay
Burundi	South Sudan	Kazakhstan	Moldova	
Central African	Republic	Uganda	Kyrgyzstan	North Macedonia
Chad	Zambia	Laos		
Eswatini	Zimbabwe	Mongolia		
Ethiopia		Nepal		
Lesotho		Tajikistan		
Malawi		Turkmenistan		
Mali		Uzbekistan		

Table 19.3: Landlocked developing countries

Burundi

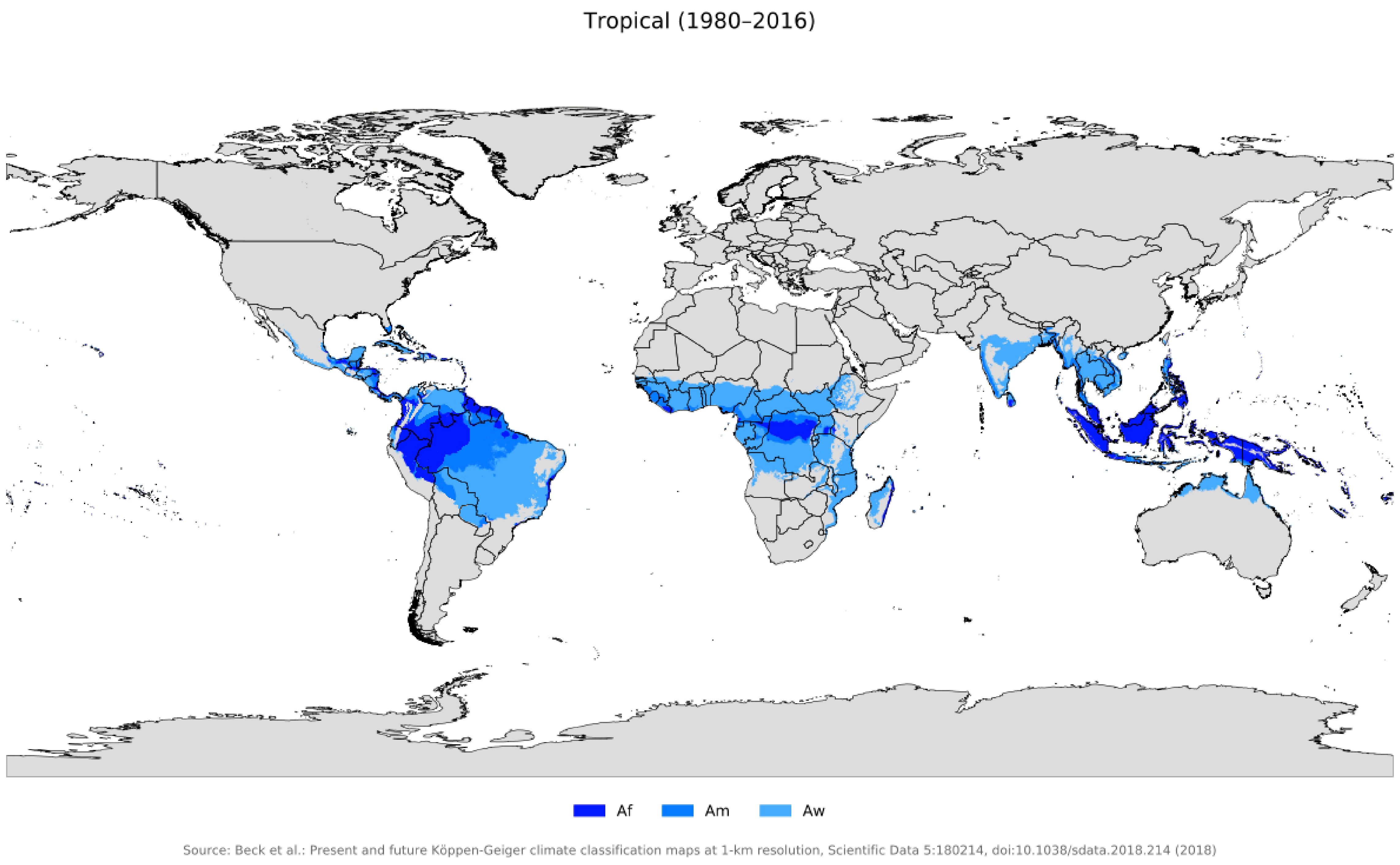
- Burundi is surrounded by Tanzania, Democratic Republic of the Congo, and Rwanda
- Tanzania has a limitation in its transportation infrastructure
- Burundi has a strained diplomatic relations with Kenya
- Burundi can only consider the port of Durban in South Africa to export its merchandise
- Burundi's GDP per capita: $407.73 per capita, comparing to $12,167 world average

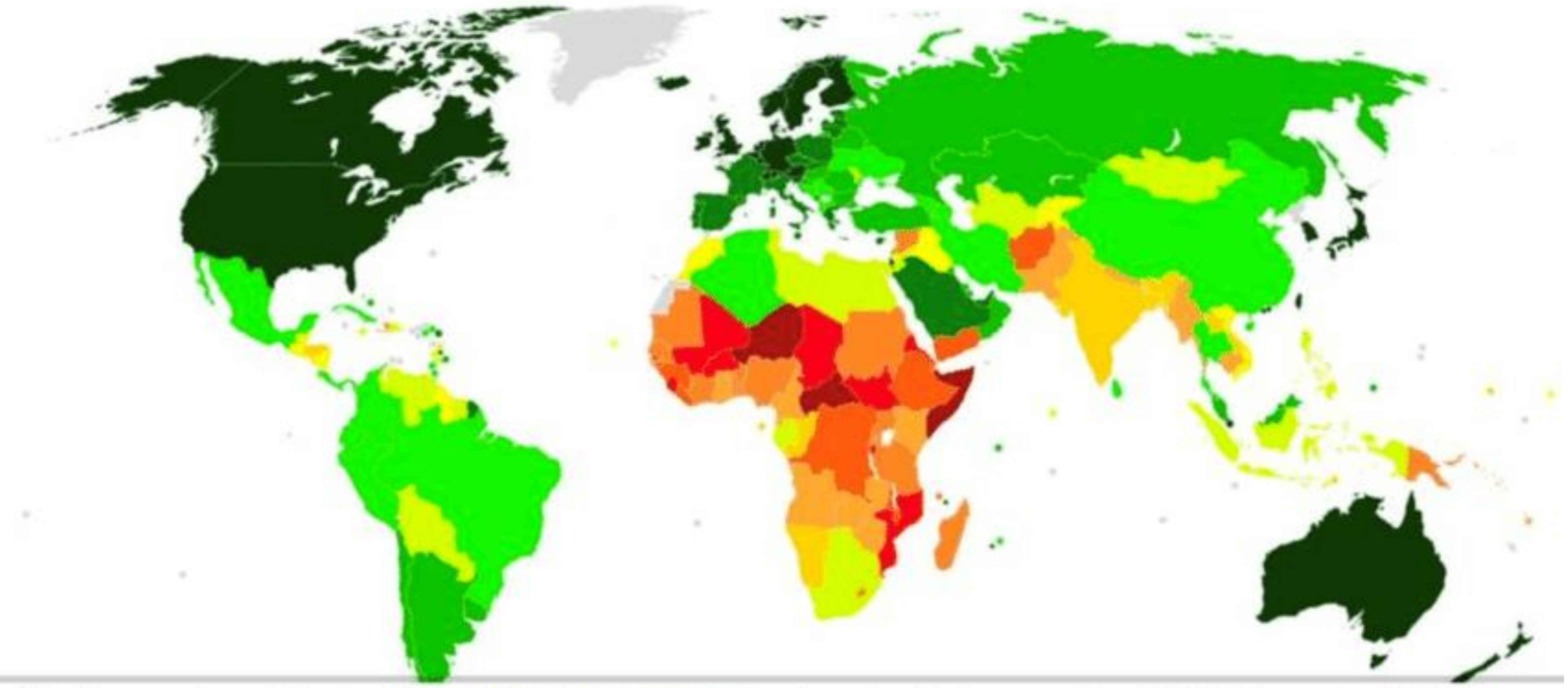
How about other 12 landlocked countries?

- There are 12 landlocked countries that are not considered as LLDCs, liken Luxembourg, Austria, or Switzerland.
- Their economies are more diversified
- Less dependent on sea trade
- Surrounded by more economically developed markets
- A relatively shorter distance from the sea

GDP per capita of some landlocked countries

Country	GDP	GDP per capita	Population	Land area
Liechtenstein	$4.83 billion	$145,747.58	37,009	160 sq km
Switzerland	$632.19 billion	$41,505.12	8 million	40,000 sq km
Bolivia	$27.04 billion	$4,601.89	10.46 million	1.08 million sq km
Afghanistan	$18.03 billion	$949.00	31.11 million	652,230 sq km
Zimbabwe	$10.81 billion	$349.61	13.18 million	386,850 sq km



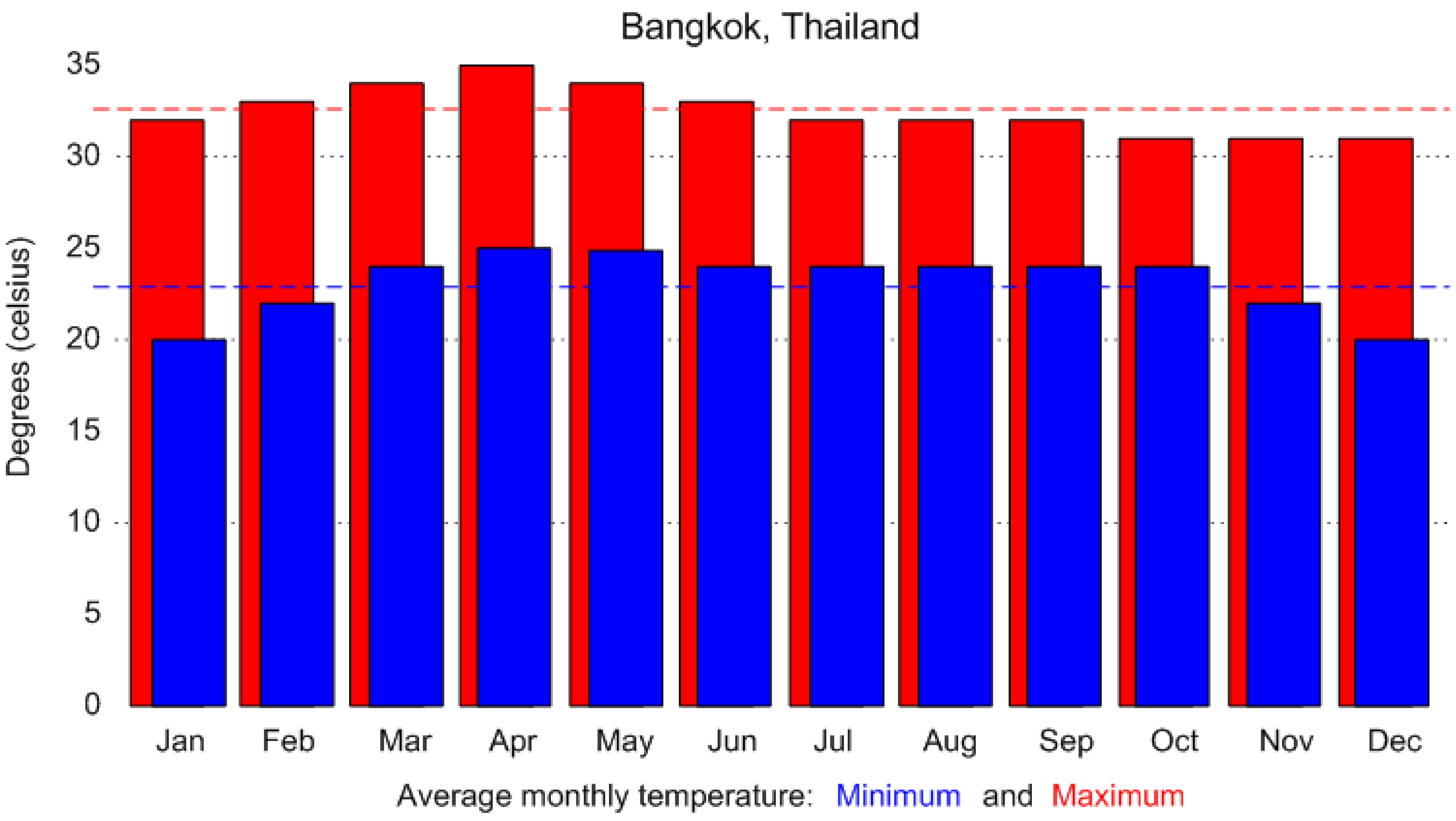


World map of countries by Human Development Index categories in increments of 0.050 (based on 2018 data, published in 2019) ≥ 0.900 0.850–0.899 0.800–0.849 0.750–0.799 0.700–0.749 0.650–0.699 0.600–0.649 0.550–0.599 0.500–0.549 0.450–0.499 0.400–0.449 ≤ 0.399 Data unavailable

11. Tropical Climate and Endemic Diseases

Characteristics of Tropical climate:

- average temperature in every month exceeds 18°C
- no winter season



Climate & Labor Productivity

- Exposure to hotter temperatures has a well-established negative impact on human health, resulting in an unhealthy workforce.
- Workers in industries that are regularly exposed to heat largely reduce the hours of work when daily maximum temperatures exceed 32°C

Climate & Agriculture

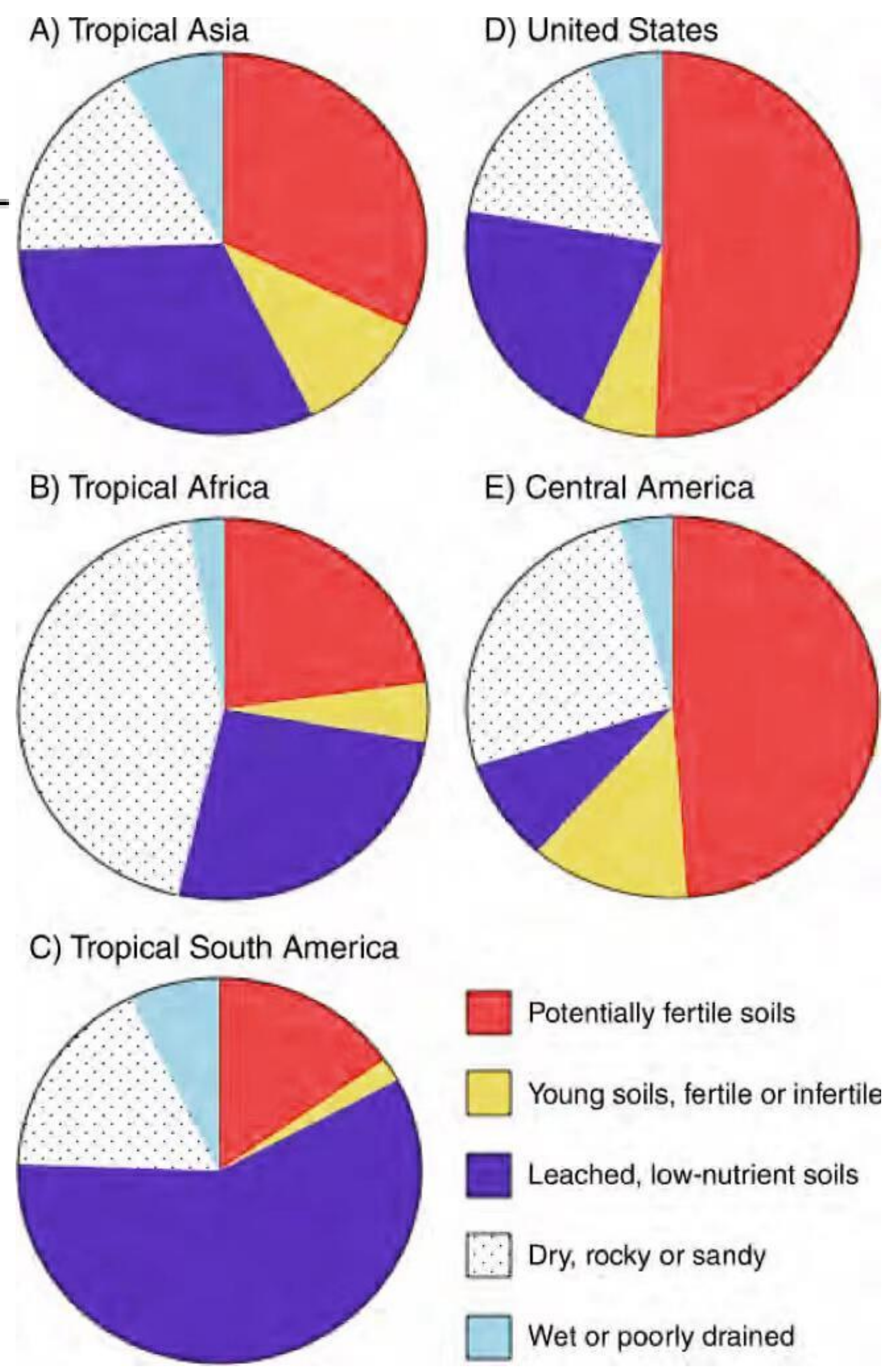
- Tropic regions are actually less conductive to agriculture compared to temperate regions

Effect on Crop Yield:

- The yields of 6 crop groups (wheat, maize, rice, pulses, root crops, and vegetables) and 2 livestock categories are generally lowest in tropical zones.

Crop Yields, 1998

Ecozones	Number of Countries	Cereal (Milled Rice Equivalent)	Wheat	Maize	Rice (Paddy)	Pulses	Roots and Tubers	Vegetables and Melons	Beef Carcasses	Pig Carcasses
Cold	37	32.3	25.5	70.0	54.5	17.0	246.2	196.0	255.2	77.0
Dry	82	20.4	26.6	24.7	36.3	9.9	128.8	133.4	161.2	57.5
Temperate	71	33.7	26.1	53.6	58.1	13.7	253.8	200.1	223.5	73.2
Tropical	78	17.4	17.6	19.2	24.9	7.6	97.9	104.8	161.3	54.8
Tropical/temperate		51.6%	67.4%	35.8%	42.9%	55.5%	38.6%	52.4%	72.2%	74.9%

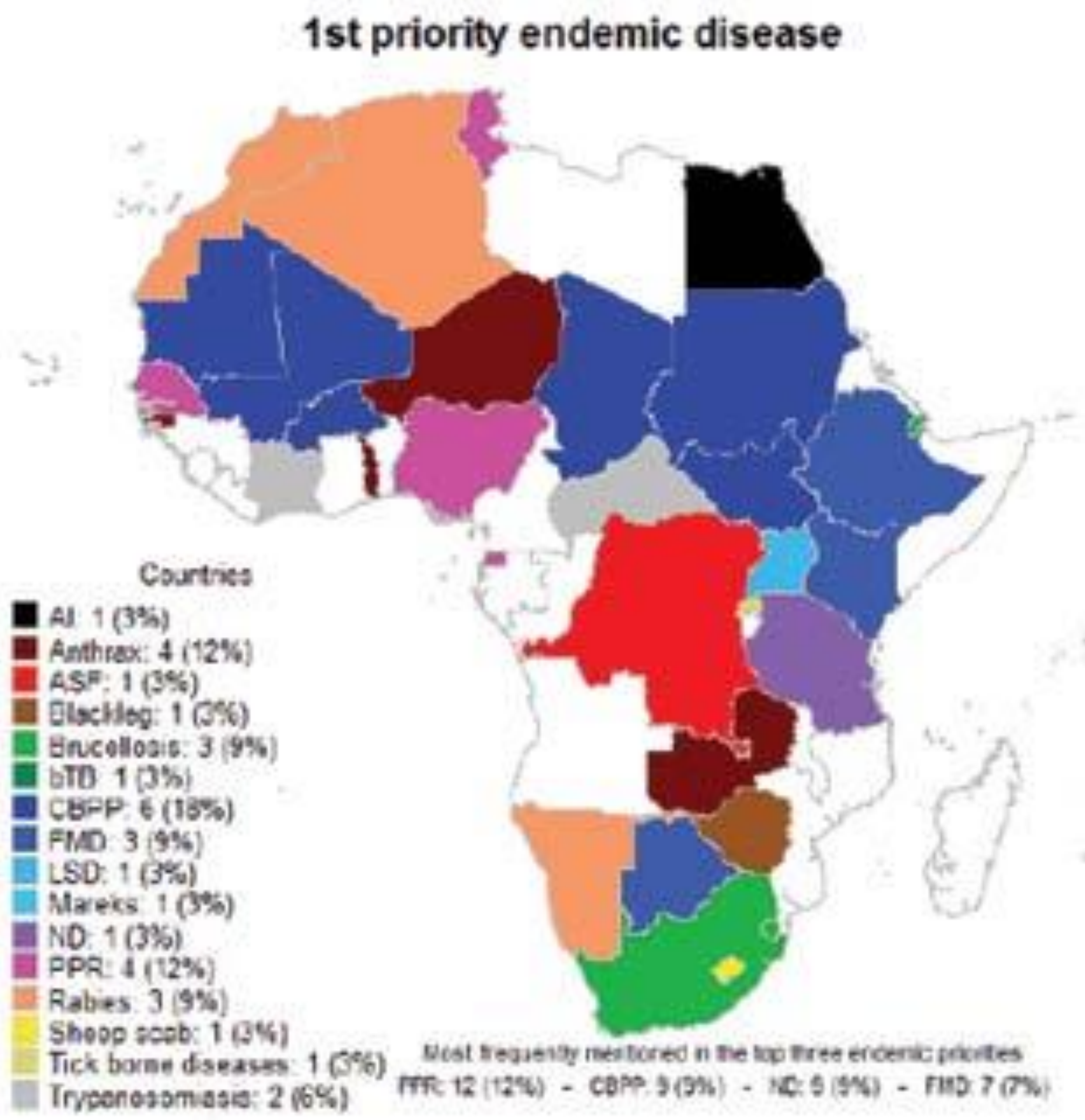


Geographical limitations:

- Problematic soils in humid tropics
  - Millions of years of weathering have washed most of the nutrients out of the soil.
  - Little organic matter and nutrients
- Rainfall variability

→ Lower agricultural productivity

Endemic Diseases



TEN EXAMPLES OF ENDEMIC DISEASES IN OUR COMMUNITIES

1. Malaria
2. Poliomyelitis
3. Sickle Cell Anemia.
4. Typhoid fever
5. Schistosomiasis
6. Meningococcal meningitis
7. Guinea worm
8. Cholera
9. Elephantiasis
10. Measles

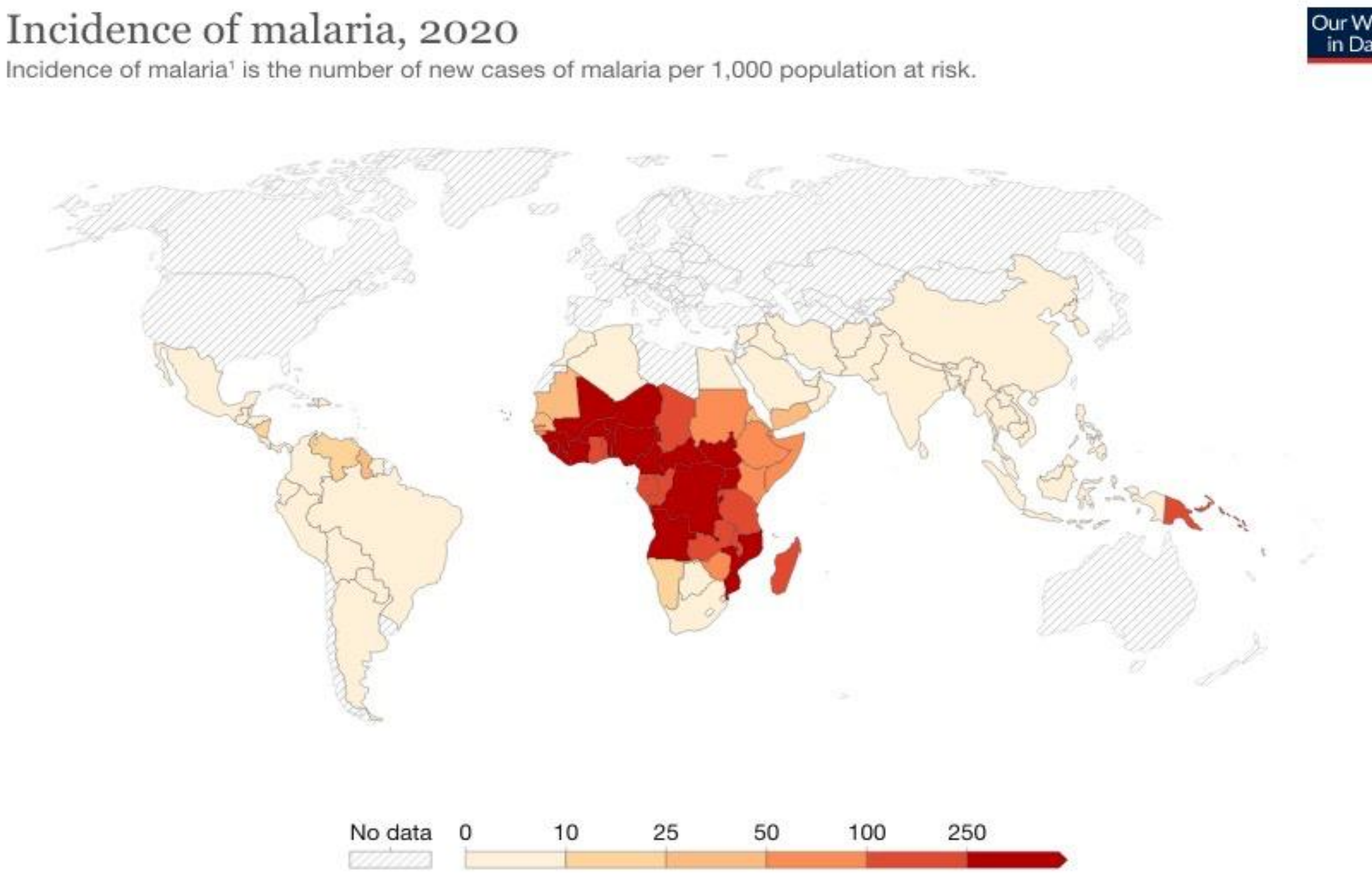
Endemic diseases: diseases that are commonly found in an area

- Tropical climates are conductive to spread of certain diseases due to high temperature
  - Eg: Malaria

- Mosquito, the vector for the parasite, thrives in tropical areas (~32°C), in stagnant water, estuaries or densely populated agricultural regions
- Successive death 24h after no treatment, with symptoms appearing 10-15 days after bite
- Africa is home to 93% of malaria deaths

In **Ethiopia**

- 5 mil cases a year, 70k deaths a year
- Transmission peaks bi-annually during harvesting seasons (large migrations from highlands to lowlands for agricultural work)
- Lack of education on relevant information



Economic barriers:
11. Tropical climates and endemic diseases

- Most developed countries have temperate climates, while almost all developing countries have tropical and subtropical climates.
  - Heat and humidity → reduced labor productivity;
  - Tropical and subtropical climates will reduce soil quality and negatively affect the health of both human and animals.
- Most diseases in developing countries are rooted in the consequences of poverty, including:
  - poor nutrition
  - inadequate vaccination coverage
  - lack of clean water supplies
  - limited or no access to sanitation
  - indoor air pollution due to inappropriate cooking fuels
  - limited access to health care facilities and medications
  - poor health education.

  * Most of the diseases in low-income countries are either preventable or treatable.

- ❗ low economic output & low development levels
- ❗ high mortality rate and low economic productivity
- ❗ lower development levels
- ❗ lack of budget to treat and prevent the diseases
- ❗ higher prevalence of diseases
- ❗ unhealthy labor and lower labor productivity
- ❗ higher poverty rate in the tropics

Political and Social barriers

Political and social barriers

1. **Weak institutional framework**
   1.1. Legal system
   1.2. Taxation system
   1.3. Banking system
   1.4. Property rights
2. **Gender inequality**
3. **Lack of good governance and corruption**
4. **Unequal political power and status**

1. Institutional framework

The world bank defines **institutions** as 'the rules, organizations and social norms that facilitate coordination of human action'.

Both developed and developing countries need:

→ Institutions relating to **property rights**

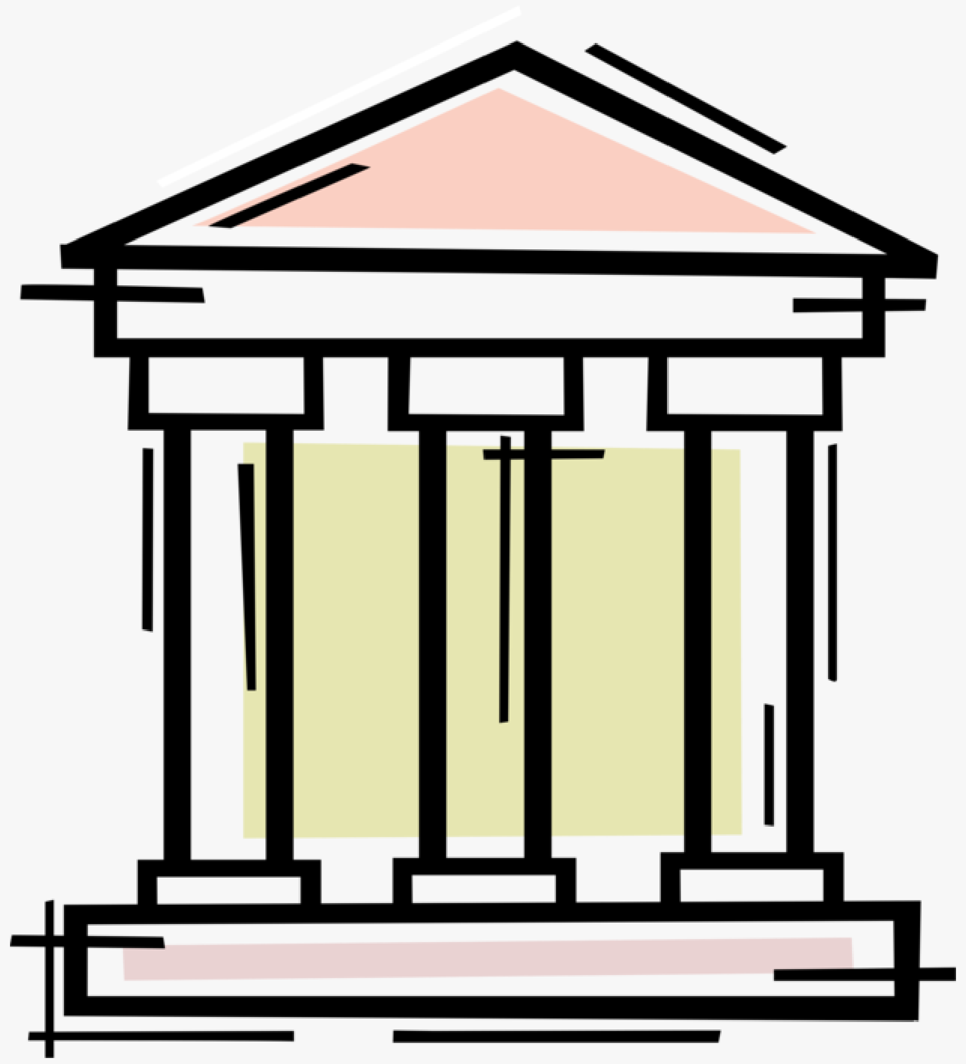
→ a well-functioning **legal system** that provides effective enforcement of laws, contracts and mechanisms for settling conflicts

→an efficient, fair and transparent **tax system**

→**banking and credit institutions** that provide effective links between savers and investors, and broad access by the population to credit.

→Institutions that **protect against corruption**

And so on...



- a market system cannot function well without well-developed institutions as above.

Weak Institutional framework

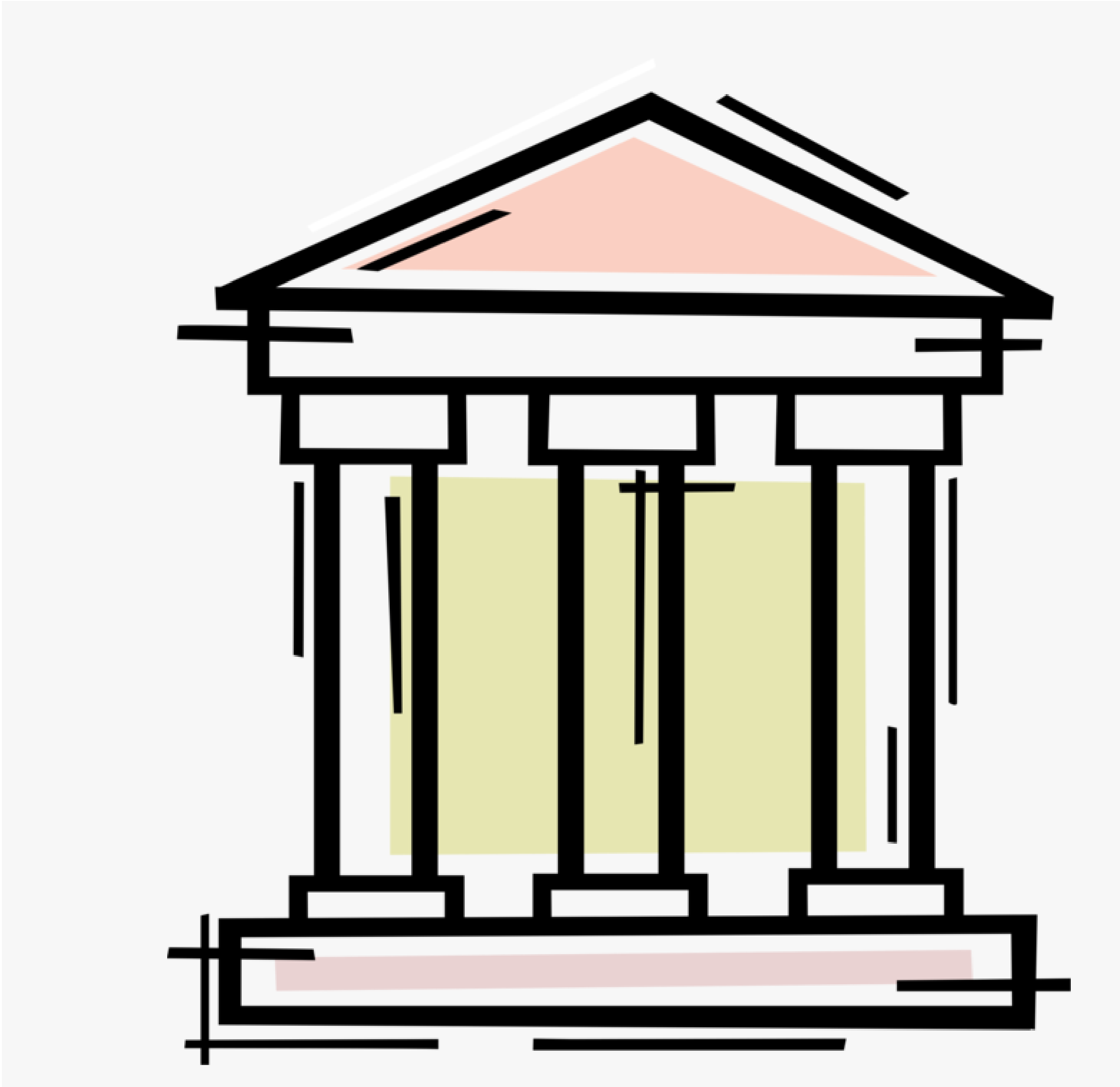
1.1 Legal system

Legal framework and access to justice

- Equal access to justice for all, including vulnerable groups
- 'all necessary steps to provide fair, transparent, effective, non-discriminatory and accountable services that promote access to justice for all'

→Access to justice is necessary to eliminate poverty, as poverty is often the result of disempowerment, exclusion and discrimination.

- To achieve the above, it is necessary to have
  - → effective tax collection systems
  - → protection of property rights
  - → well effective ability to resolve disputes.



Weak Institutional framework

1.2 Ineffective taxation structures

Typical features of developing country tax systems:

- High dependence on indirect taxation
- Ineffective and highly bureaucratic tax systems
- Weak tax collection systems, often marked by a significant level of corruption
- Concentration of political and economic power in wealthy groups, enabling them to influence government tax policy so as to minimize their tax burden.

→ Low levels of revenue
→ Inequities in tax systems
→ Negative impacts on resource allocation

Impacts of the ineffective taxation structure

a) Low levels of revenue

- less developed countries experience low levels of tax revenue due to:
  1. Corruption in tax collection
  2. Inefficiencies in tax collection
     - Complicated bureaucratic procedures and complex tax legislation → waste of resources and tax evasion
  3. Tax exemption and privileges of wealthy people and large firms due to their economic and political powers
  4. Low property tax rates
     - in Latin America estates control more than half of the region's productive land, but pay limited tax due to low property tax rate.
  5. The political and economic power of elites influence government tax policies generally
- Low levels of government tax revenue means that the government has fewer revenues with which it can undertake necessary investments in essential services.

Impacts of the ineffective taxation structure

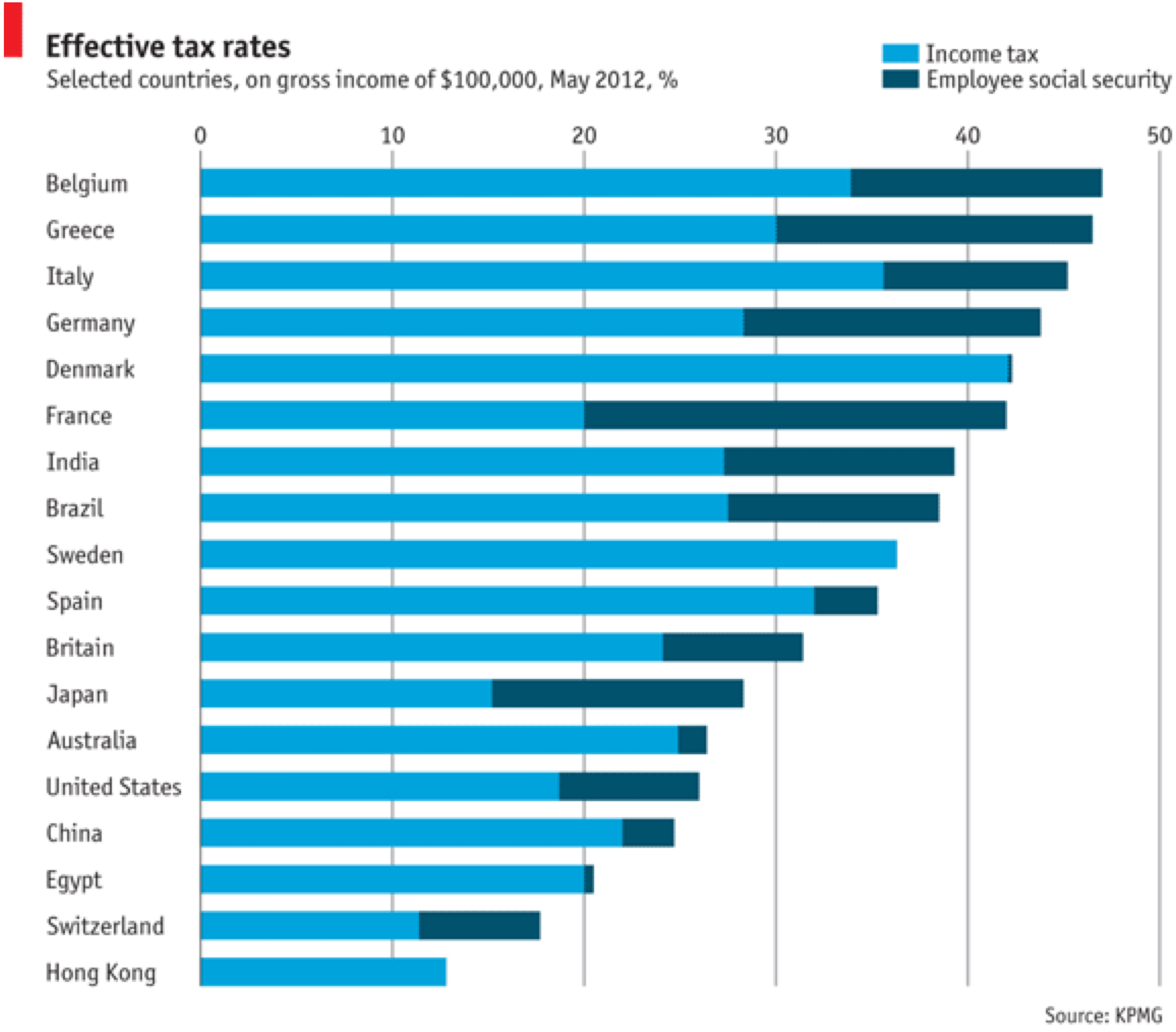
b) **Inequities in tax systems** in less developed countries due to:

1. They are not progressive, and may even be regressive:
   - Developing country tax systems typically rely far more on indirect rather than direct taxes
   - To the extend that tax systems rely on direct taxes, these are not always very progressive.

2. Tax evasion, tax concessions and privileges for high income groups, and low property taxes → high income groups paying far less overall taxes in relation to their income than medium and lower income groups, therefore making the tax system even more regressive.

3. Inequities in tax systems accentuate income inequalities

Income tax rate in different countries



Impacts of the ineffective taxation structure

3. Negative impacts on resource allocation

- In developing countries, taxes are often results in distorting the allocation of resources.
  - Many firms or sectors benefit from a variety of tax advantages, derive from:
    - Government interests in promoting particular sectors
    - Politicians favor allies and supporters
    - State enterprises often pay little or no tax at all.
  - Medium-sized firms tend to be penalized by having to shoulder a higher tax burden
  - Older firms that are closely connected with politicians enjoy tax advantages, which disincentivize new firms.
  - Imports of capital goods are often exempted from import tariffs → promotes the use of capital-intensive technologies.

→the "wrong" combinations of goods and services being produced, the "wrong" combinations of resources are used for production.

Cases and data

- At least 55 of the largest corporations in America paid no federal corporate income taxes in their most recent fiscal year in the United States.
- The tax-avoiding companies represent various industries and collectively enjoyed almost $40.5 billion in U.S. pretax income in 2020
  - ***Archer Daniels Midland*** *enjoyed $438 million of U.S. pretax income last year and received a federal tax rebate of $164 million.*
  - ***FedEx*** *zeroed out its federal income tax on $1.2 billion of U.S. pretax income in 2020 and received a rebate of $230 million.*
  - ***Nike*** *didn't pay a dime of federal income tax on almost $2.9 billion of U.S. pretax income last year, instead enjoying a $109 million tax rebate.*
  - ***Dish Network*** *paid no federal income taxes on $2.5 billion of U.S. income in 2020.*
  - ***Salesforce*** *avoided all federal income taxes on $2.6 billion of U.S. income.*

Weak Institutional framework

1.3 Banking

Importance of banking for growth and development

- provide an incentive for people to save, because they offer a return (interests) on savings. The greater the saving, the greater the funds available to be invested.
- provide businesses and farmers with credit to open, run and expand their businesses and farms → greater investment → increased output and growth.
- provide consumers with credit that can be used for investment in human capital, increasing the productivity of labor and contributing to growth and development.
- Making credit available to very low-income earners, so they can make necessary investment in physical, human and natural capital → poverty alleviation and improvement of distribution of income

1.3 Banking

Banking sectors in developing countries

- The no. of banks and their branches in relation to the population in developing countries is far smaller than in developed ones
- The total amount of funds in bank deposits on average is about 15% of national income (<30% in most developed countries)
- High degree of public sector ownership of commercial banks (private sector ownership in more developed countries)
    - Government might guide banking lending and resource allocation to highly productive investments
    - Lower levels of efficiency
    - less borrowing and saving
    - highly bureaucratic procedures that discourage private investment through borrowing
    - less competition and lower productivity

1.3 Banking

Banking sectors in developing countries

- Commercial banks in developing countries often cater to larger, wealthier borrowers, bypassing the medium-sized and especially smaller borrowers → lack of wealth means lack of access to credit.
- Many people in developing countries are forced to rely on:
  - Informal(illegal) sources of credit charging very high interests
  - Pawnbrokers who lend amounts far smaller than the value of the article that has been pawned.
  - Friends and family, whom the supply of loanable funds is irregular or insufficient.

→ major deterrent to growth and broad-based development.

Disparity between developed and developing countries:

- In Chad, there are barely nine bank accounts per thousand adults. In Rwanda, Liberia, and Madagascar, 35 accounts per thousand adults.

- Of the reasons cited for being unbanked in a survey done in South Africa:
    a) 78%: lack of income (or lack of a job),
    b) 13%: hindered by documentation needs, fees, or distance.
- Ongoing maintenance fees that reduce the number of bank accounts: monthly maintenance fee for a bank account costs the typical formal worker in Rwanda 3% of her monthly wage, compared to only 0.05% in Singapore.

Weak Institutional framework

1.4 Property rights and land rights

Property rights refer to the laws and regulations that define rights to **ownership, use and transfer of property**.

Can be both tangible(land) and intangible (Intellectual property) and can be owned by individuals, business and governments.

Why might the absence of property right hinder the development of economics?

- A market economy needs secure property rights to eliminate uncertainty and risk associated with undertaking investments relating to the “property”.
- The more secure the property rights, the faster the economic growth.
- Secure property rights involve **titling**, whereby the owner of a property received a **title**, which is legal evidence of ownership.

- The less secure the property rights, the lower the access to credit, the worse the terms, and so the fewer the investments financed by credit.

Weak Institutional framework
1.4 Property rights and land rights

Land rights refer to the right and rules to possess, occupy and use land. (land refers to natural resources including the land itself, trees, minerals, pasture, water)

- In developing countries, land rights are often regulated by custom or by communal ownership, which do not involve titles.
  - Important role in agricultural production
  - Provide work for rural population
  - Enables people to get credit
  - Source of livelihood for the rural population.

Investment and access to credit

- Some economists argued that weak or non-existent property rights were responsible for the failure of developing countries to grow.
- recommend the establishment of property rights including land legislation and titling as a key strategy for economic development.
  - →security for investments
  - →Better access to credit
  - →Development of efficient markets for buying and selling property
  - →Increases in tax revenues
  - →Increases in foreign investment

Weak Institutional framework

1.4 Property rights and land rights

Land titling did not work as expected in developing countries due to:

- Titles were often captured by elites who could pay higher prices.
- Once titles are established taxes may be imposed; if the poor cannot pay them they are forced to sell their property or land.
- If the poor borrow using the land as collateral and are unable to pay the loan.
- Any temporary economic hardship such as a poor harvest or a drop in commodity prices may force the poor to sell the land.
- Titling increases the market value of land making it less affordable to the poor.

→the poor find themselves landless → increased income inequalities

- **The problem of land grabs**: the buying or leasing of large pieces of land by individuals, large companies or multinational corporations

  →the risk of eviction and displacement of millions of poor farmers

  →Decreased food security, large farms often produce commodities for export, rather than food products produced by small farmers.

Political and social barriers
2. Gender inequality

- **Gender inequalities in:**
  a) **Health and education**
    - Cultural factors – girl's education is not as important as a boy's (labor market, marriage)
    - In low-income families – resources are insufficient to educate all children equally.

  b) **Labour market**
    - Lower levels of education and skills → lower qualifications to take on jobs requiring skills
    - Discrimination prevents women from securing a high-level job
    - Women are more likely to work in the informal economy (cannot receive job security, legal protection, pensions, etc.)
    - Women are more likely to have unpaid responsibilities (child-rearing, household chores and subsistence farming)

  c) **Inheritance rights and property rights**
    - Inheritance rights and property rights are passed mainly to men in many developing countries.
    - Many countries passed laws ensuring equality between the sexes in inheritance rights and restrict the rights of women to own property.

Political and social barriers
2. Gender inequality

d) Access to credit

- lack of property rights for women → no property to be used as collateral
- The problem of discrimination
- Low earning power

→ Less attractive candidates to receive credit.

e) Income, wealth and poverty

- Factors mentioned above → lower income for women; wealth is concentrated in the hand of men. →making women among the poorest parts of the population in many developing countries.

- **Solution: Empowerment**: eliminating the deprivations and creating conditions of equality of opportunities (external benefits that spill over into other areas influencing growth and development)

Case: Gender Inequality in India

- Discrimination against girls & women, causing them to control less resources and have less access to various opportunities, including social, economic, political......

Income, wealth, and poverty

- In India， women's incomes in average are substantially lower than men's: in 2009, where men were paid 103 rupees per day, while women were paid 55 rupees.
- Poverty among women is particularly pronounced when they are in charge of households with no income.
- In India, lots of women are located in the poorest regions, with limited or no access to clean water or health services.

Education for female in India

Education

- India girls continue to be less educated than boys for more than a century.
- In India, cultural factors dictate that a girl's education is less important than a boy's.
- Expected years of schooling suggests the gender disparities in literacy in India will diminish.

Country	Female adult literacy	Male adult literacy	Mean years of schooling	Mean years of schooling	Expected years of schooling	Expected years of schooling	GNI *per capita* US$ PPP
China	94.5	98.2	7.6	8.3	14.0	13.6	16 800
Colombia	94.9	94.4	8.5	8.1	14.9	14.3	14 120
Peru	91.2	97.2	8.7	9.7	13.9	13.6	12 900
Sri Lanka	91.0	93.0	10.3	11.4	14.1	13.6	12 520
Ecuador	93.3	95.4	8.6	8.8	15.4	13.9	11 350
Armenia	99.6	99.7	11.7	11.7	13.4	12.6	10 060
Morocco	58.8	78.6	4.5	6.5	12.0	12.8	8050
Bolivia	88.6	96.5	8.2	9.7	14.0	14.0	7350
India	60.6	81.3	4.8	8.2	12.9	11.9	6950
Angola	60.7	82.0	-	-	11.0	12.7	6450
Moldova	99.1	99.7	11.5	11.7	11.9	11.4	6100
Zambia	56.0	70.9	6.5	7.4	12.0	13.0	3900
Chad	14.0	31.3	1.2	3.4	6.4	9.5	1920
Uganda	71.5	85.3	4.7	7.2	11.0	12.2	1820
Sierra Leone	37.7	58.7	2.7	4.3	9.3	10.2	1510
Burundi	83.1	88.2	2.7	3.7	9.3	10.2	730

Labour market in India

- Discrimination on Indian women prevents them from securing a high-income job.
  - Low-income
  - Job security
  - Poor Legal protection of workers' rights……
- Indian women also have more unpaid responsibilities including child-raising, household chores, and cultivating food.

Gender Statistic Measure[11]	Females (India)	Males (India)	Females (World)	Males (World)
Infant mortality rate, (per 1,000 live births)	44.3	43.5	32.6	37
Life expectancy at birth, (years)	68	64.5	72.9	68.7
Expected years of schooling	11.3	11.8	11.7	12.0
Primary school completion rate, (%)	96.6	96.3	[12]	
Lower secondary school completion rate, (%)	76.0	77.9	70.2	70.5
Secondary school education, pupils (%)	46	54	47.6	52.4
Ratio of females to males in primary and secondary education (%)	0.98	1.0	0.97	1.0
Secondary school education, gender of teachers (%)	41.1	58.9	51.9	48.1
Account at a formal financial institution, (% of each gender, age 15+)	26.5	43.7	46.6	54.5
Deposits in a typical month, (% with an account, age 15+)	11.2	13.4	13.0	12.8
Withdrawals in a typical month, (% with an account, age 15+)	18.6	12.7	15.5	12.8
Loan from a financial institution in the past year, (% age 15+)	6.7	8.6	8.1	10.0
Outstanding loan from banks for health or emergencies, (% age 15+)	12.6	15.7	10.3	11.6
Outstanding loan from banks to purchase a home, (% age 15+)	2.26	2.35	6.6	7.4
Unemployment, (% of labour force, ILO method)	4	3.1	[12]	
Unemployment, youth (% of labour force ages 15–24, ILO method)	10.6	9.4	15.1	13.0
Ratio of females to males youth unemployment rate (% ages 15–24, ILO method)	1.13	1.0	1.14	1.0
Employees in agriculture, (% of total labour)	59.8	43	[12]	
Employees in industry, (% of total labour)	20.7	26	[12]	
Self-employed, (% employed)	85.5	80.6	[12]	
Cause of death, by non-communicable diseases, ages 15–34, (%)	32.3	33.0	29.5	27.5
Life expectancy at age 60, (years)	18.0	15.9	[12]	

Gender inequalities in India

Access to credit

- Indian women often lack collateral for bank loans due to low levels of property ownership and microcredit schemes have come under scrutiny for coercive lending practices.

Inheritance & property rights

- 70% of rural land in India are owned by men, even government enact the law: Married Women Property Rights Act in 1974 to protect women.

3. Inappropriate governance and corruption

Governance refers to the way of governing, and the exercise of power in the management of an economy's economic and social resources, in order to achieve particular objectives such as economic growth and development.

- Not about what is done for economic growth and development, but rather **how it is done**.
- The effectiveness of the government.

GOOD GOVERNANCE (According to World Bank report): "The process through which state and nonstate actors interact to design and implement policies within a given set of formal and informal rules that shape and are shaped by power."

- (This report defines power as the ability of groups and individuals to make others act in the interest of those groups and individuals to bring about specific outcomes.)

3. Inappropriate governance and corruption

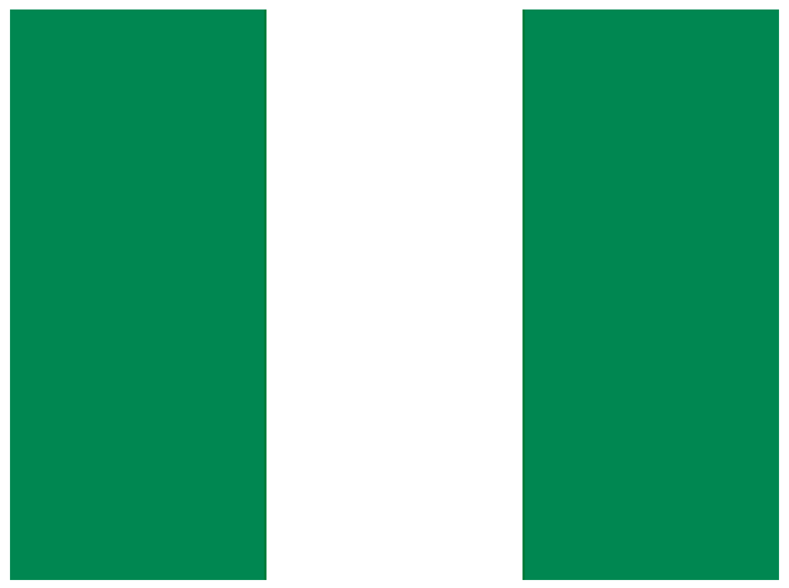
Six principles of good governance:

- **Participation** – the extent to which the stakeholders affected by policies are involved in making decisions and in the implementation of decisions.
- **Fairness** – the extent to which rules apply to everyone in society equally.
- **Decency** – the extent to which the formation and implementation of rules does not harm or humiliate anyone.
- **Accountability** – the extent to which political figures and decision-makers are responsible to society for the actions and their statements.
- **Transparency** – the extent to which decisions made by government are clear and open.
- **Efficiency** – the extent to which scarce resources are used without waste, delays or corruption.

Inappropriate governance in Nigeria

- The governance put too much emphasis on ethnicity and religion, ignoring issues of economics, security and society.

- Violation of principles
  - Fairness: people of ethnicity and religion are given more care than they have to, while the wider public suffer more
  - Decency: people without ethnicity and religion are harmed by the governance
  - Efficiency: Resource are overallocated to those of ethnicity and religion



Political and social barriers

3. Inappropriate governance and corruption

The World Bank defines **corruption** as ‘the abuse of public office for private gain’.

- Forms including bribery, patronage, construction kickbacks, procurement fraud, extortion, false certification, cronyism, nepotism and embezzlement.
- It is especially pronounced in countries where the legal system, mass media and the system of public administration are weak and underdeveloped.

How corruption associated with lower growth and poorer development performance?

- Corruption, in the form of a payment made to obtain something, is like a tax, which makes private investment more costly → lower investment → lower growth.
- Bribes often have to be paid in order to obtain basic services (e.g. to teachers or doctors), they work like a regressive tax → deprive the poor of basic social services.
- Bribes go into the pockets of public servants and politicians (unlike tax to government) – not available to the government for the provision of social services. If the purpose of bribes is tax evasion → deprives the government sector of resources.
- Government may accept bribes to pursue uneconomic projects while neglecting investments in basic social services → misallocation of resources.
- Corruption prevents the operation of competitive markets, as it restricts the entry of new firms that must pay bribes to begin operations.
- If government officials accept bribes in order to bypass environmental regulations, authorize the abuse and destruction of natural resources, or finance environmentally unsound projects.
- Corruption damages the people's trust in the country(government), its institutions and leadership, and encourages contempt for the rule of law.

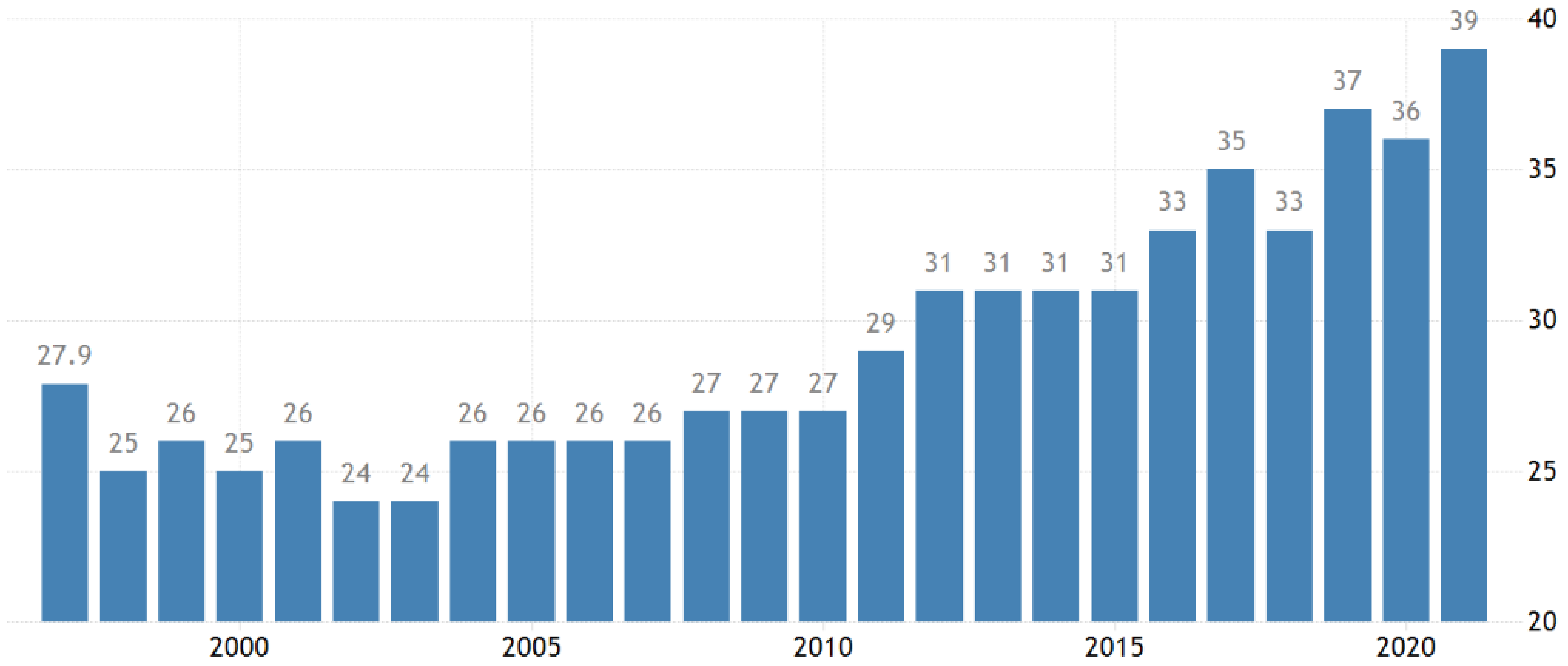
Transparency International (TI)

- **Transparency International** is a German registered association founded in 1993 by former employees of the World Bank. Based in Berlin, its nonprofit and non-governmental purpose is to take action to combat global corruption with civil societal anti-corruption measures and to prevent criminal activities arising from corruption.

The Corruption Perceptions Index is an index which ranks countries "by their perceived levels of public sector corruption, as determined by expert assessments and opinion surveys."

Corruption in Vietnam

Vietnam’ s Corruption Perceptions Index



- 2021 rank 87 out of 181
- 2015 rank 119 out of 181

Vietnam is strengthening its anti-corruption policies these years

How Corruption presents in Vietnam

- One of the many forms of corruption in Vietnam is unfair land appropriation.
- A report by the World Bank in 2013 stated that land administration is the second most corrupt sector in Vietnam.
- In late 2013, the Vietnam National Assembly passed the 2013 Land Law (No.45/2013/QH13). The law enables private investors to either negotiate directly with local land owners or go through the national assembly to acquire permission to appropriate land. This new law creates opportunities for many unfair compensations. Private investors from other countries use bribes to exploit the poor locals and get them to sign their land and their livelihood away.

5. Unequal political power and status

Political Power

A Political system is a set of legal institutions that define how a government is structured and functions.

Types: monarchies, democracies, republics, oligarchies, and so on.

- Political Structure ("most important"):
  - relationship between various groups within a society
  - degree of political power they control
- Development program need support of political power (political elites).

5. Unequal political power and status

Social class and status

- **Social Stratification**: arrangement of the population in layer based on the basis of an unequal distribution of:
    - income
    - wealth
    - power
    - prestige

- E.g., Caste System vs Class System
    - Caste System: status determined by birth, cannot be changed.
    - Class System: status determined by education, income, job, and so on

    → Caste system and rigid class system, the top caste or class often uses its power to prevent the lower castes or classes from attaining social mobility and moving out of their disadvantaged social and economic positions.

5. Unequal political power and status

Racial and Ethnic Issues

- Race: people who have been grouped together on the basis of certain physical characteristics
- Ethnicity: share same cultural characteristics/identity (language, dress, food, values, and so on)

- Impacts: Prejudice, discrimination & intolerance → social tensions/conflicts

5. Unequal political power and status

Political Stability

- Def: Stable government and its ability to withstand forcible removal from power
- Positive correlation between political stability and higher economic growth and development:
  - Effective government decision making and implementing economic and other policies(for years), creating a stable economic environment
  - Instability create an environment of uncertainty, which is unfavorable for policies to carry out and make investors riskier.
  - Political instability related with outflow of financial capital as people seek for safety, leading to balance of payments deficit
  - Increases vulnerability to famine and hunger. (e.g., 1984-1985 Ethiopia hunger caused by military conflict)