

Essentials of Economics II

Chapter 6: Final Story

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Ferdowsi University of Mashhad

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AQA

❖ What is meant by economic development?

- It is about improving people's **incomes**, **capacities**, and **capabilities** so that they can live their lives with greater freedom to make choices for themselves and their families
- Amartya Sen emphasizes the importance of human capabilities, which include the ability to lead a healthy life, acquire education, have access to economic and political opportunities, and participate in the **life** of the **community**.
- Economic development is fundamentally about people's development **over time**.

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Introduction

❖ What is meant by economic development?



Professor Amartya Sen

Inclusive development is about improving and deepening people's **freedoms and capabilities**



Professor Joseph Stiglitz

Development is about **transforming the lives of people**, not just transforming economies

What is the Human Development Index?

❖ What is the Human Development Index?

- HDI is a broad composite measure of **improvements in people's lives**.
- HDI is calculated through a geometric mean of **GDP per capita**, **life expectancy at birth**, and the **average between mean years of schooling and expected years of schooling**. Each component of the HDI has an equal 33% weighting.

❖ What are the components of the Human Development Index?

- **Knowledge:** An educational component made up of two statistics (i) mean years of schooling and (ii) expected years of schooling
- **Long and healthy life:** A life expectancy component is calculated using a minimum value for life expectancy of 25 years and a maximum value of 85 years
- **A decent standard of living:** Using GNI per capita adjusted to purchasing power parity standard (PPP)

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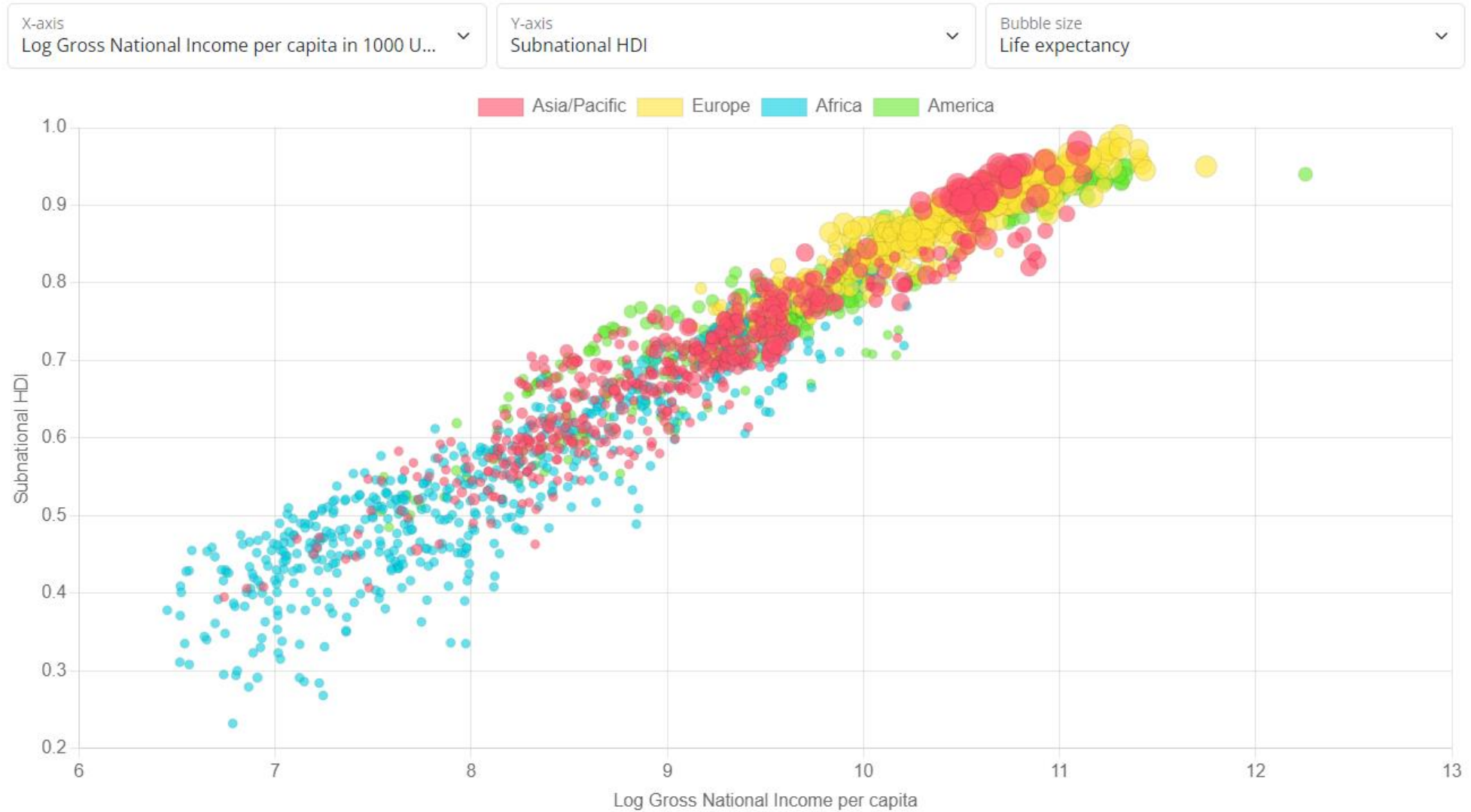
HDI

HDI Rank	Country	Human Development Index (HDI)	Life expectancy at birth (years)	Expected years of schooling (years)	Mean years of schooling (years)	Gross national income (GNI) per capita (US \$s) PPP
1	Switzerland	0.962	84.0	16.5	13.9	66,933
2	Norway	0.961	83.2	18.2	13.0	64,660
3	Iceland	0.959	82.7	19.2	13.8	55,782
4	Hong Kong, China	0.952	85.5	17.3	12.2	62,607
5	Australia	0.951	84.5	21.1	12.7	49,238
6	Denmark	0.948	81.4	18.7	13.0	60,365
7	Sweden	0.947	83.0	19.4	12.6	54,489
8	Ireland	0.945	82.0	18.9	11.6	76,169
9	Germany	0.942	80.6	17.0	14.1	54,534
10	Netherlands	0.941	81.7	18.7	12.6	55,979

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8	Ireland	0.945	82.0	18.9	11.6	76,169
12	Singapore	0.939	82.8	16.5	11.9	90,919
18	United Kingdom	0.929	80.7	17.3	13.4	45,225
19	South Korea	0.925	83.7	16.5	12.5	44,501
33	Greece	0.887	80.1	20.0	11.4	29,002
42	Chile	0.855	78.9	16.7	10.9	24,563
62	Malaysia	0.803	74.9	13.3	10.6	26,658
77	Ukraine	0.773	71.6	15.0	11.1	13,256
79	China	0.768	78.2	14.2	7.6	17,504
86	Mexico	0.758	70.2	14.9	9.2	17,896
115	Vietnam	0.703	73.6	13.0	8.4	7,867
129	Bangladesh	0.661	72.4	12.4	7.4	5,472
132	India	0.633	67.2	11.9	6.7	6,590
146	Cambodia	0.593	69.6	11.5	5.1	4,079
165	Rwanda	0.534	66.1	11.2	4.4	2,210
170	Senegal	0.511	67.1	9.0	2.9	3,344
185	Mozambique	0.446	59.3	10.2	3.2	1,198
191	South Sudan	0.385	55.0	5.5	5.7	768

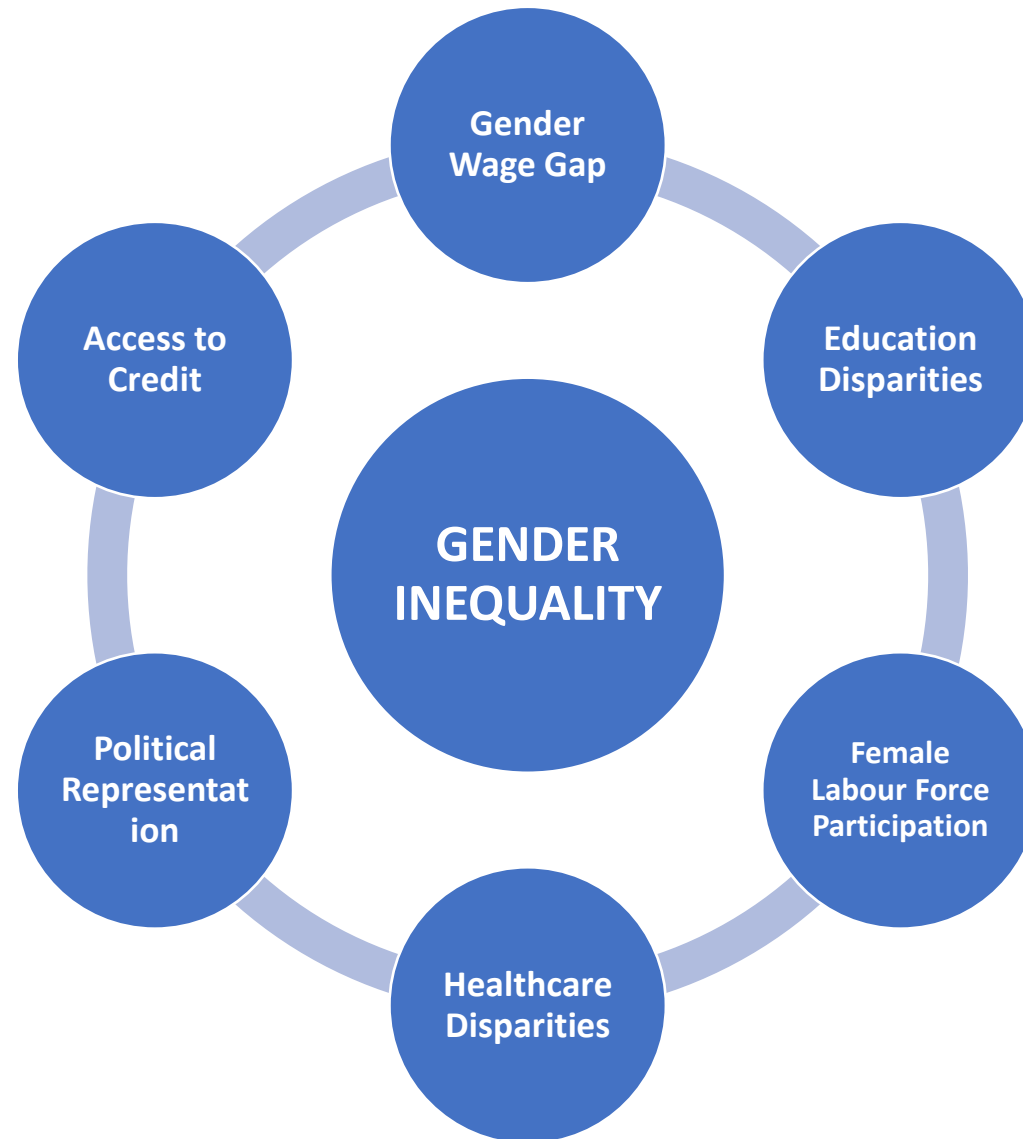
HDI



Limitations of the basic Human Development Index

HOW MIGHT WE MEASURE GENDER INEQUALITY?

GENDER INEQUALITY



Maternal mortality ratio (2022)

GENDER INEQUALITY

HDI Rank	Country	Maternal Mortality Ratio (deaths per 100,000 live births)
191	South Sudan	1,150
190	Chad	1,140
181	Sierra Leone	1,120
163	Nigeria	917
188	Central African Republic	829
185	Somalia	829
158	Mauritania	766
177	Guinea-Bissau	667
178	Liberia	661
180	Afghanistan	638
159	Côte d'Ivoire	617

❖ CAUSES OF GENDER INEQUALITY IN POOR COUNTRIES

- **Traditional Norms and Stereotypes:** Deep-seated cultural and traditional norms often reinforce gender roles and stereotypes, limiting the opportunities and choices available to women
- **Limited Access to Education:** In many low-income countries, girls and women have less access to quality education.
- **Economic Disparities:** Women may be paid less for the same work, have limited access to credit, and face employment discrimination.
- **Healthcare Disparities:** High maternal mortality rates, limited access to reproductive healthcare, and gender-based violence all contribute to gender disparities in health.
- **Conflict and displacement:** Women and girls who are forced to flee their homes are at risk of exploitation and violence

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Economic Development vs Economic Growth

Economic Development and Economic Growth)

Economic Development vs Economic Growth

❖ How is economic growth different from economic development?

- **Economic development** is a **broader** concept than **economic growth** that encompasses not only GDP growth but also improvements in the quality of life, well-being, and living standards of the population.
- Development considers a wide range of factors, including education, healthcare, poverty reduction, income distribution, access to clean water, nutrition, political freedom, and environmental sustainability.

❖ Economic Growth:

- A sustained rise in a country's productive capacity.
- An increase in the real value of GDP / GNI per capita.
- Increases in the productivity of factors of production.

❖ Economic Development:

- Progress in expanding economic freedoms.
- Sustained improvement in economic and social opportunities.
- Growth in personal and national capabilities.

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Does a period of rapid economic growth inevitably lead to economic development?

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Does a period of rapid economic growth inevitably lead to economic development?

Economic growth is a **necessary** but **not sufficient** condition for economic development. A country can have a high rate of growth, but if the benefits are not distributed fairly or if it comes at the expense of environmental degradation, it would not be considered true development.

- 1/ Impact of corruption
- 2/ Rising income & wealth inequality
- 3/ Threats to environmental sustainability
- 4/ Investment may dominate consumption

Alternative Indicators of Development Progress

Economic Development vs Economic Growth

Alternative Indicators of Development Progress

- Levels of household **savings** and **access to basic financial services**
- Scale of **dependency on export incomes** from primary commodities
- Share of the **population** living in **rural areas** and employed in farming
- Scale of the **informal economy**
- **Demographic data**: natural population growth rate, a country's median age
- Extent of **urbanization** and scale of rural-urban migration
- **Access to & reliability and cost of basic critical infrastructure** such as telecoms, transport, ports, clean water and household sanitation
- **Strength of institutions** (government, civil service, financial markets)
- **Levels of corruption** within a country, transparency of institutions
- **Resilience of economy** and communities to **external shocks**

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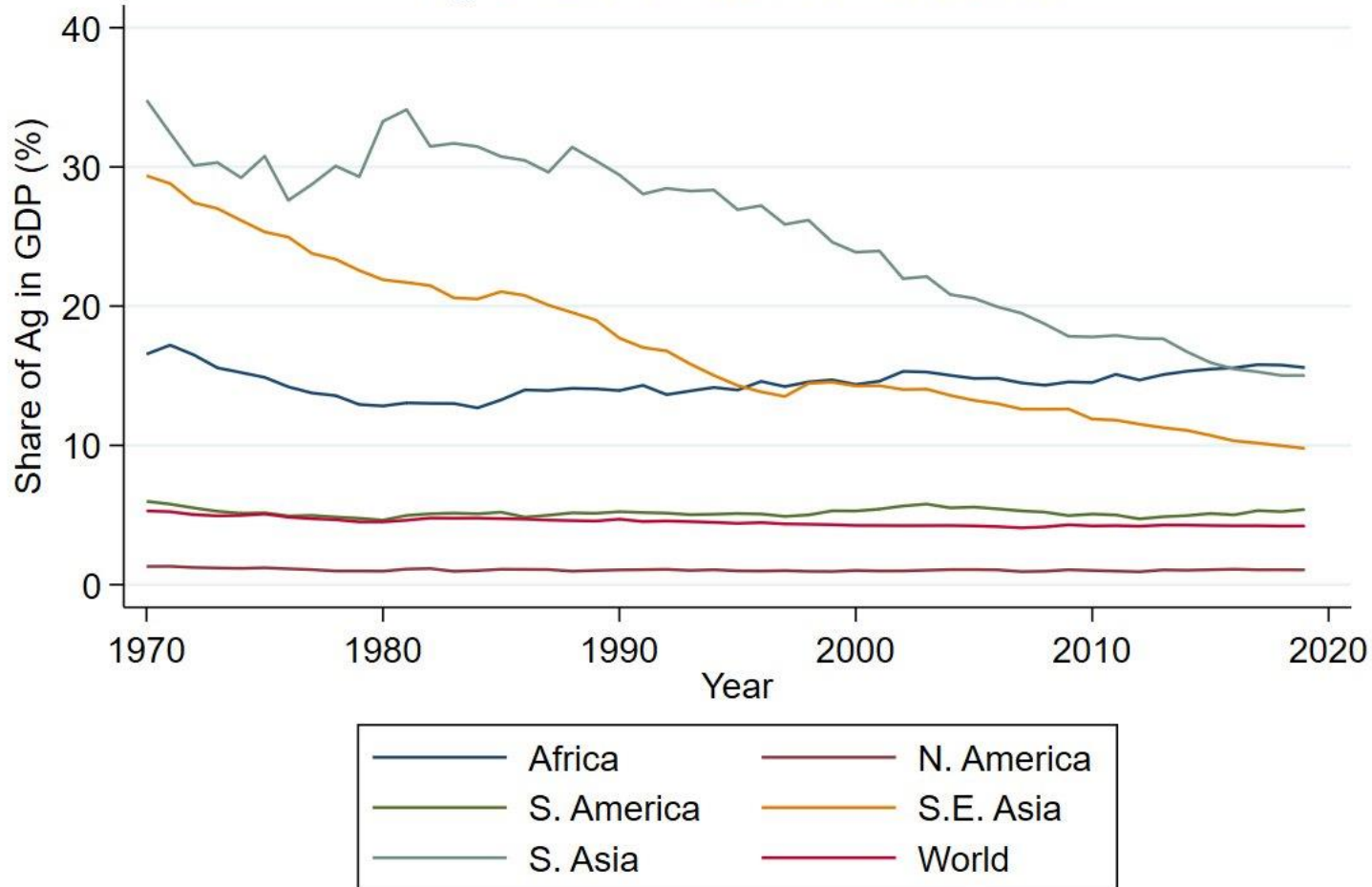
Highest Employment in Agriculture

Agriculture

HDI rank	Country	Employment in agriculture (percent)	Employment in services (percent)
185	Burundi	92.0	6.5
188	Central African Republic	77.3	17.3
187	Chad	76.6	21.3
189	Niger	75.1	17.7
159	Uganda	72.7	20.7
181	Mozambique	70.3	21.2
175	Guinea-Bissau	68.1	24.9
150	Zimbabwe	66.5	26.9
173	Ethiopia	66.1	23.7
175	Congo (Democratic Republic of the)	65.4	24.8
163	Tanzania (United Republic of)	65.3	27.9
142	Nepal	65.0	19.9
164	Madagascar	64.2	26.8
184	Mali	62.6	29.8
137	Lao People's Democratic Republic	62.4	25.7
160	Rwanda	62.4	28.7

Agriculture

Ag Share of GDP: Worldwide



Agriculture is almost 20% of GDP in Africa, compared with a world average of about 5%.

Moreover, the agricultural share of GDP for the African region has remained stable over the last 50 years, whereas the share for Southeast Asia and South Asia has fallen dramatically.

Source: VoxDev (2022)

URBANISATION AND ECONOMIC DEVELOPMENT

❖ There is no clear relationship between urbanization and development

- **Industrialization and Productivity:** Urban areas tend to be hubs of industrial and commercial activity. Factories, businesses, and services are concentrated in cities, leading to increased industrialization and productivity.
- **Agricultural Efficiency:** Urbanization can lead to a shift from agrarian-based economies to more efficient agricultural practices. As people move from rural areas to urban centers, there is often increased mechanization and modernization of agriculture, resulting in higher agricultural productivity.
- **Human Capital Accumulation:** Cities and urban areas typically offer more educational and skill-building opportunities. Access to better schools, vocational training, and higher education can lead to a more skilled and productive workforce, which, in turn, can contribute to economic growth.

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URBANISATION

HDI rank	Country	Urban Population (%)
155	Papua New Guinea	13.2
185	Burundi	13.4
189	Niger	16.5
174	Malawi	17.2
160	Rwanda	17.3
111	Samoa	18.1
72	Sri Lanka	18.6
86	Saint Lucia	18.8
185	South Sudan	19.9
142	Nepal	20.2
173	Ethiopia	21.2

FERTILITY RATES AND ECONOMIC DEVELOPMENT

❖ FERTILITY RATES AND ECONOMIC DEVELOPMENT

- **Limited Access to Education:** In less economically developed regions, access to education, particularly for girls and women, can be limited.
- **Limited Access to Healthcare:** In regions with lower economic development, access to quality healthcare, including reproductive and maternal healthcare, may be inadequate.
- **Economic Dependence on Children:** In some low-income or agrarian societies, children are considered a source of labour and a form of social security in old age.
- **Lack of Women's Empowerment:** In societies with low economic development, women may have limited decision-making power regarding reproductive choices.

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- **Limited Access to Healthcare:** In regions with lower economic development, access to quality healthcare, including reproductive and maternal healthcare, may be inadequate.
- **Economic Dependence on Children:** In some low-income or agrarian societies, children are considered a source of labour and a form of social security in old age.
- **Lack of Women's Empowerment:** In societies with low economic development, women may have limited decision-making power regarding reproductive choices.

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FERTILITY RATES

HDI rank	Country	Fertility rate
189	Niger	7.0
175	Congo (Democratic Republic of the)	6.0
184	Mali	5.9
187	Chad	5.8
148	Angola	5.6
185	Burundi	5.5
161	Nigeria	5.4
172	Gambia	5.3
182	Burkina Faso	5.2
159	Uganda	5.0

YOUTH UNEMPLOYMENT AND DEVELOPMENT

❖ FERTILITY RATES AND ECONOMIC DEVELOPMENT

- **Limited Job Opportunities:** Low-income countries often lack a diverse and robust job market. Employment opportunities may be scarce, particularly for entry-level positions that young job seekers typically seek.
- **Lack of Economic Diversification:** Many low-income countries heavily rely on a narrow range of industries, often tied to agriculture or a few key sectors.
- **Limited Access to Education:** A lack of education and vocational training can hinder young people's ability to acquire the skills and qualifications needed for employment. There are often significant human capital gaps.
- **Youth Population Growth:** Low-income countries often have a significant youth demographic bulge which can then strain the labour market as it competes for a limited number of jobs.

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YOUTH UNEMPLOYMENT

	Youth jobless rate (%)	Youth not in school or employment (%)
South Africa	56.0	32.6
Libya	50.5	31.8
Eswatini (Kingdom of)	46.5	36.0
Saint Lucia	45.2	39.4
Palestine, State of	42.0	33.8
Saint Vincent and the Grenadines	41.7	28.6
Bosnia and Herzegovina	39.7	21.2
Namibia	39.5	33.7
North Macedonia	39.1	23.1
Botswana	37.4	34.8
Tunisia	36.3	24.8
Gabon	36.0	30.3
Armenia	35.5	36.5
Greece	35.1	13.9

What are the main sustainable development goals?

❖ SUSTAINABLE DEVELOPMENT GOALS

- The Sustainable Development Goals (**SDGs**) are a set of **17 global goals** established by the United Nations in 2015 as part of the 2030 Agenda for Sustainable Development.
- They are designed to address a wide range of global challenges, including **poverty, inequality, climate change, environmental degradation, peace, and justice**.
- The SDGs are intended to guide global efforts toward a more sustainable, equitable, and prosperous future.
- Sustainable development is a concept that aims to balance the **economic, social, and environmental aspects** of human well-being and progress to meet the needs of the present generation without compromising the ability of future generations to meet their own needs.

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Sustainable Development



Sustainable Development Goals are a **universal call to action** to end extreme poverty, protect the planet and ensure that all people enjoy peace and prosperity.

Barriers to Development & Poverty Reduction

Poverty



Infrastructure Gaps



Primary Export Dependency



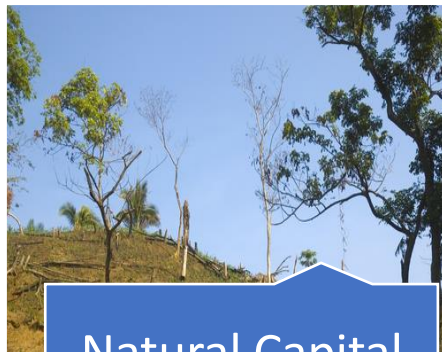
Conflict and Corruption



Human Capital Weaknesses



Savings and Foreign Exchange Gaps



Natural Capital Depletion



High Inequality of Income & Wealth



Lack of Competition in Markets

What is primary product dependency?

Primary Product Dependency

Typically, countries at an earlier stage of development tend to **export a narrower range of products**. Many developing countries continue to have high dependence on **extracting & then exporting primary commodities**. These nations are vulnerable to **volatile global prices** and **terms of trade**.

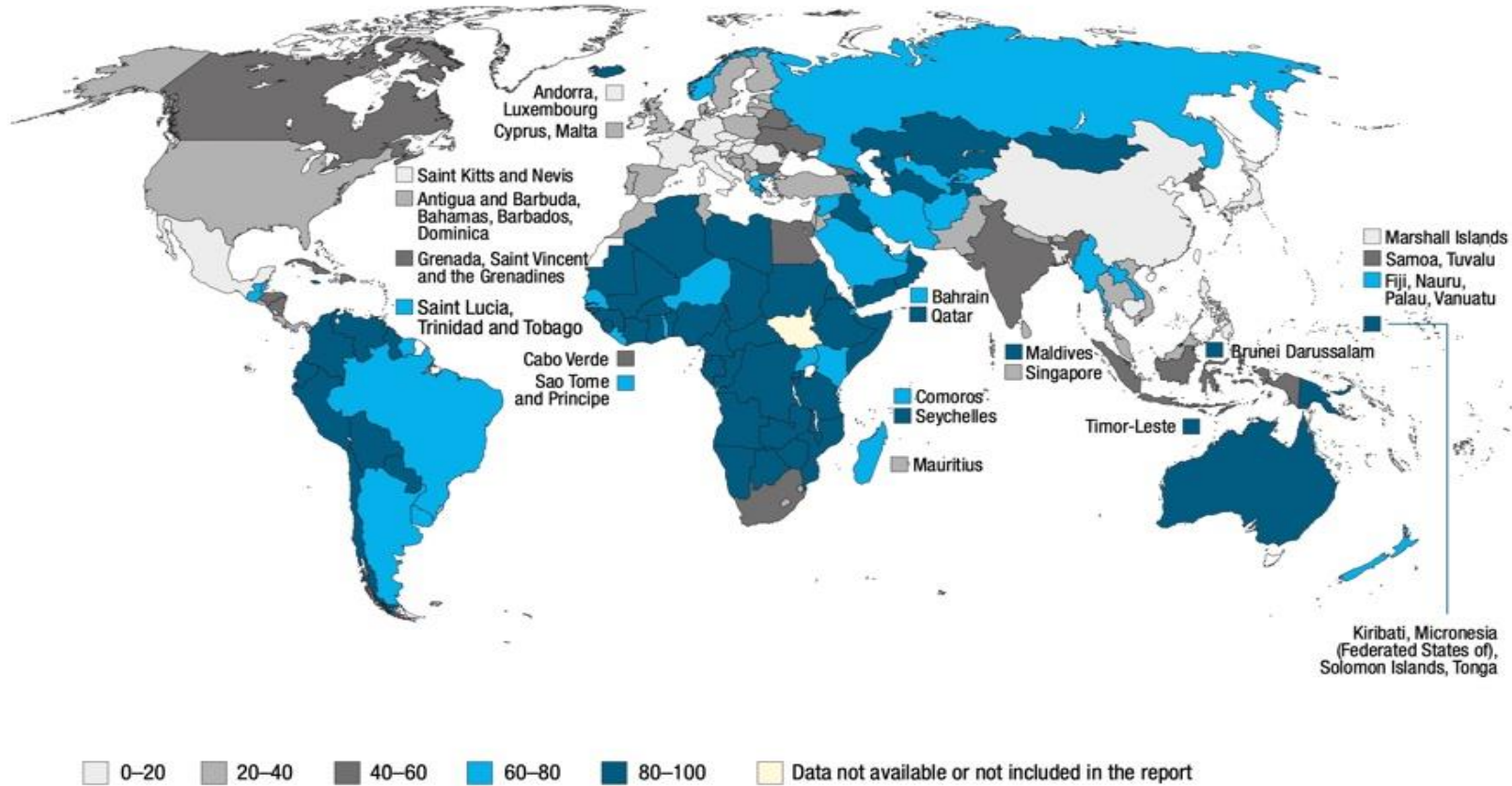
Export-commodity dependent

A country is export-commodity-dependent when **more than 60 per cent of its total merchandise exports** are composed of primary commodities.

Commodities are products stemming from agricultural production or mining production that have not yet been transformed.

Export/Product Dependency

Figure 1.
Degree of commodity export dependence of all countries in the world, 2013–2017
(percentage)



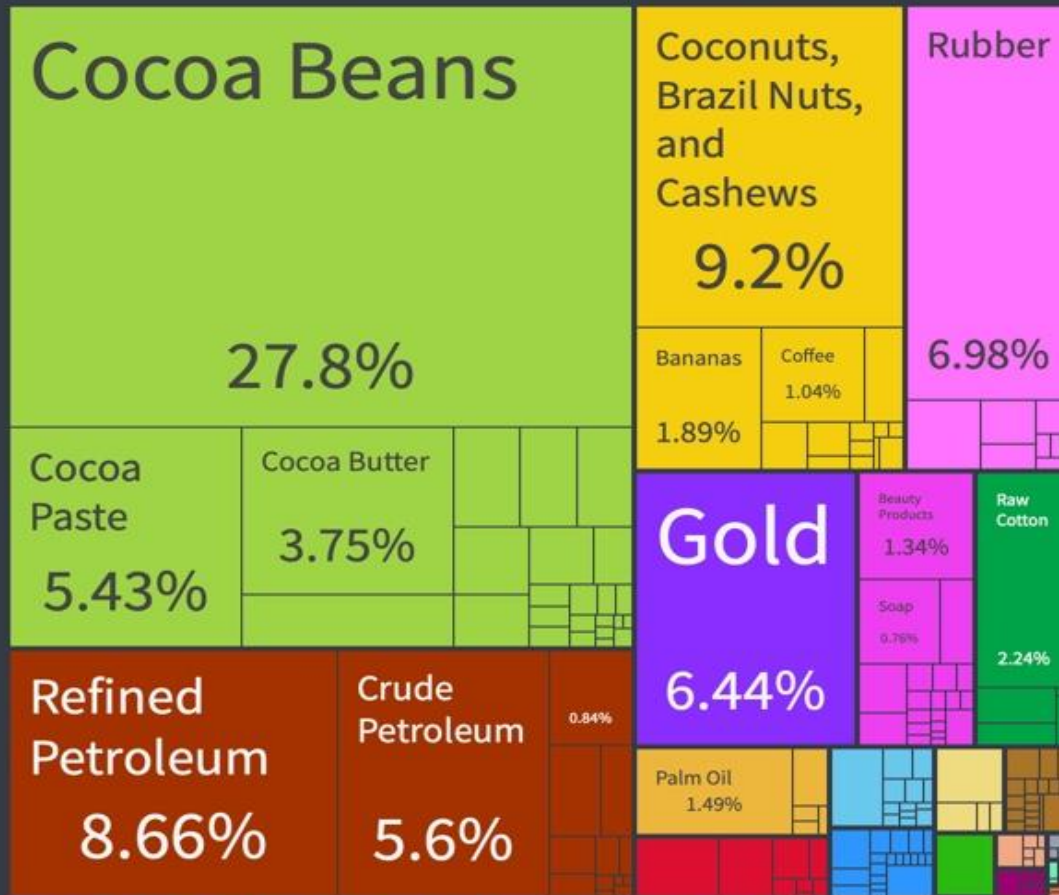
91 per cent of low-income countries are dependent on their commodity exports, compared with less than one third of high-income countries.

Source: Authors, based on data from UNCTADStat.

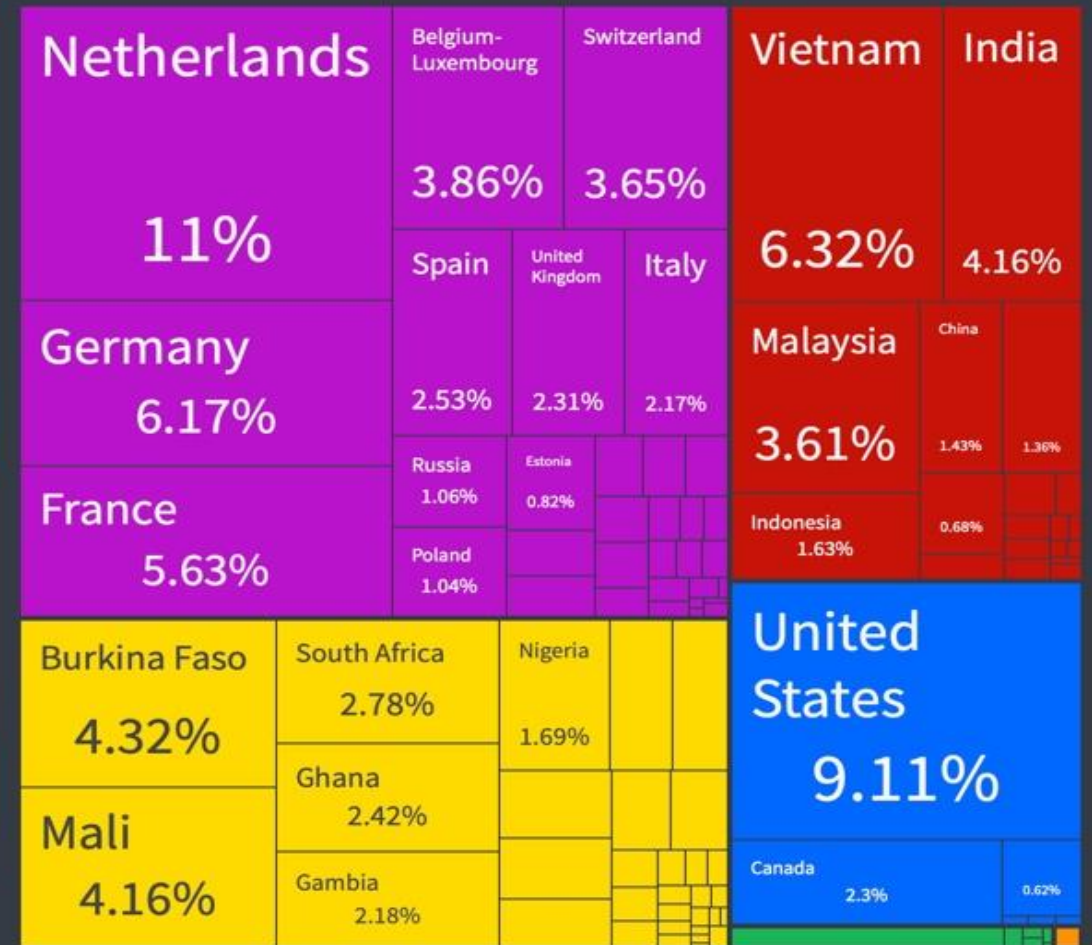
Export/Product Dependency

Ivory Coast

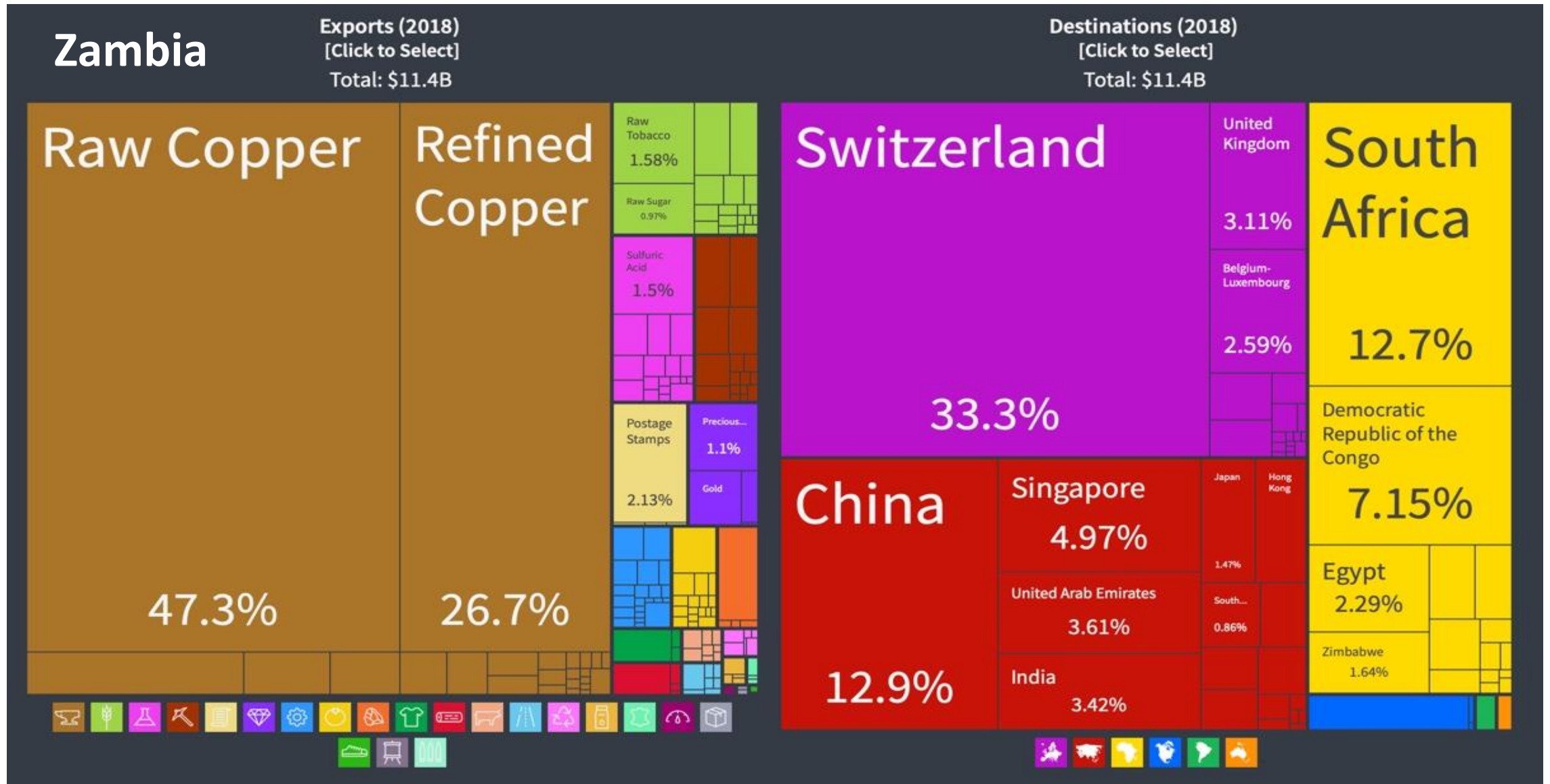
Exports (2018)
[Click to Select]
Total: \$12.7B



Destinations (2018)
[Click to Select]
Total: \$12.7B



Export/Product Dependency



Prebisch-Singer Hypothesis

The **Prebisch-Singer Hypothesis** (PSH) suggests that, over the long run, **real prices** of primary commodities such as coffee and cocoa decline **relative** to prices of manufactured goods such as cars and washing machines.

Dutch Disease

Dutch Disease

Dutch Disease refers to the adverse impact of a sudden discovery of natural resources on the national economy via the appreciation of the real exchange rate and the subsequent worsening of export competitiveness

What strategies can help countries to avoid the natural resource curse?

What strategies can help countries to avoid the natural resource curse?

- **Economic Diversification:** Promote diversification by developing and supporting non-primary sectors such as manufacturing, services, and technology.
- **Agricultural and Rural Development:** Promote modern farming techniques and sustainable agriculture to increase output and reduce dependency on a limited range of primary products.
- **Export Diversification:** Diversify export markets to reduce dependence on a single buyer or a few countries. Seek new trade partners and explore emerging markets.
- **Human Capital Development:** Invest in education and vocational training to develop a skilled and adaptable workforce that can engage in a variety of industries. Foster a culture of innovation and entrepreneurship to drive diversification.
- **Value added:** Add value to primary products through processing, manufacturing, and refining. For example, processing agricultural products into finished goods or exporting refined minerals instead of raw materials.

External Debt

External Debt

2019 data		Per capita incomes	Size of External debt stock	Annual debt service payments
HDI rank	Country	(2017 PPP \$)	(% of GNI)	(% of GNI)
99	Mongolia	12,310	253.9	68.6
166	Djibouti	5,519	157.6	21.4
92	Lebanon	14,717	145.1	30.0
48	Montenegro	21,379	144.1	30.9
61	Georgia	15,014	110.6	14.2
129	Bhutan	11,345	109.2	3.9
101	Jamaica	9,761	108.0	8.3
181	Mozambique	1,280	107.6	5.7

External debt is money owed to external (overseas) creditors

Examples include government bonds sold to foreign investors and private sector credit from foreign banks

In February 2021, lower-income countries were spending \$144m [£102m] a day on debt payments