

## Development and Sustainable News 4<sup>th</sup> November 2017.

Written by a friend of mine

### Development Economics

One of the most striking characteristics of the world economy in recent decades has been the growing inequality in the distribution of resources between different parts of the world. China, the most populous country in the world, has experienced economic growth at an unprecedented rate, and India has also made substantial progress. Meanwhile, countries in sub-Saharan Africa have stagnated, and the gap in living standards continues to widen.

Development economics attempts to explore some of the economic challenges peculiar to some of the poorest countries in the world. You will investigate the factors that have led to this global inequality, and analyse some of the forms of market and government failure that may have contributed to the situation.

As part of this study programme, you will see the way in which economics can help our understanding of some of the major challenges of the 21st century, including:

- to what extent does rapid population growth help or hinder development?
- is it necessary for economies to go through a process of structural transformation – and how does this take place?
- what is the role of education and health care provision in contributing to the process of development?
- how important is it for countries to engage in international trade in the context of a globalising economy?
- how can less-developed countries achieve sustainable development?
- what effect has the HIV/AIDS epidemic had on economic and human development?

Development economics faces up to these questions and shows you how to apply economic analysis in a variety of situations of global significance. Development economics can draw on theory that you may have encountered in both micro and macro modules, and combine this with evidence from poorer countries.

By studying development economics, you will have the opportunity to apply the tools of economic analysis to the problems and challenges facing less-developed countries, and to begin to understand why some countries have been able to go through a process of economic and human development whilst others have languished.

<http://voxeu.org/content/topics/development>

An excellent link for all things 'development economics'.

<https://data.worldbank.org/data-catalog>

Access to lots of World Bank data

### Why study development economics?

**(1) Problem of World Poverty:** The discipline of Economic Development starts with the problem of backwardness and international poverty. It means why the world has been divided into two opposite poles; the North and the South. In other words, why the development gap between countries of the world is increasing, i.e., the rich countries are getting rich while the

poor countries are getting poor. In this respect, the Lorenz curve and Gini co-efficient like measures are employed to measure international inequalities. Therefore, a moral and ethical justification exists to **study development economics** as a separate body. In addition to know about world poverty, it is the economic development which helps us to know what is the classification of the countries at international level, i.e., how many are developed countries, how many are middle income earners and how many are less developed countries. With this we come across the salient features of developing or poor economies. Thus, the economic development, as a subject, helps us to know about the characteristics of developing countries, though these characteristics are diverse and as well as common.

**(2) Meaning of Economic Development:** It is the education and the mass media both at the country level and at world level which arouse the feelings in favor of development, i.e., the people of backward countries of Africa, Asia and Latin America became aware of with the concept of Economic Development. The Western experts were of the view that if real GNP and per capita GNP of a country increase over a long period of time it would be given the name of economic development. But later, a lot of criticism was made against these measures of development. Then the economists engaged themselves in finding other measures of economic development. Accordingly, the social and economic indicator approach, the basic needs approach and the construction of human development index approach have been introduced by the economists and sociologists to measure economic development. Thus, in Development Economics we study economic development and different measures which can be employed to measure it.

**(3) Models of Economic Growth:** In Development Economies we come across a lot of models of economic growth which present the picture of economic growth of western advanced countries. It means that how the developed nations got growth or what was their route of economic growth. In this respect, we study the growth model as presented by Adam Smith, Ricardo, and other classical economists; the neoclassical models of economic growth as presented by J.E. Meade, Robert Solow, and Swan etc.; the Schumpeter's model of economic growth; the Harrod-Damar models of economic growth; and many other models of economic growth.

**(4) Theories of Under-Development and Development:** Development Economics also presents a lot of theories regarding the under-development of the poor countries as well as the theoretical means and ways through which the poor and backward nations of the world can attain economic development. The first set of theories is given the name of structuralist theory of development which states that the poverty of the poor nations is attributed to structural problems of the UDCs. The other theory is given the name of 'International Dependencia model which states that it is the deliberate behavior on the part of DCs which exploited UDCs in such a way to keep them poor and backward. The third theory of economic development is called Stage Theory, where it has been told that the process of economic growth and development is furnished with certain stages (Rostow's stages of economic growth) whereby it has been emphasized that poverty comes into being due to shortage of capital, and growth can be attained by increasing the savings and investment (even through foreign resources). The fourth major theory of economic growth is given the name Neo-classical counter-revolution theory which says that rather blaming international forces the poor countries should depend upon free markets and privatization for their economic growth.

**(5) Problems of Population:** The models of economic growth tell us that labor is an important factor of economic growth. But as far as developing countries are concerned it is not so. The population growth has led to create a lot of problems i.e., population in developing countries is rising faster than natural resources and the capital accumulation. Consequently, the developing countries must face ever-rising unemployment. Moreover, the population growth often leads to migration of people from rural areas to urban areas. As a result, a lot of problems regarding urbanization and environmental pollution are rising. In such, it is the Economic Development which deals with the issues of population growth, its effects on production, employment, migration, urbanization and environment etc. Again, development economics presents different theories regarding population, i.e., what should be the optimum level of population for any country, let quantity of labor which could have compatibility with the resources of the country.

**(6) Dualistic Theories:** The un-development of the poor countries is also attributed to their dualistic character, i.e., they have a few developed cities and so many backward cities, use of capital intensive technologies along with rising unemployment; and the existence of mass poverty accompanied by a few rich etc. In this regard, the development economists like Boek and Higgins have presented the theories of sociological and technological dualisms. Again, in Development Economics we study the models of dualistic economies like Lewis model of unlimited supply of labor and Ranis-Fei model etc.

**(7) Role of Agriculture Sector:** The agri. sector can also play an important role in the economic growth of a country. But in case of developing countries the agri. sector is prey to a lot of troubles, i.e., there is subsistence farming, the techniques of production are outdated; the per acre yield is very low; the natural calamities badly affect the agri. sector; and the share of food stuff is higher while that of cash crops is lower. In such situation, the Development Economies tells us how the status of agri. sector can be changed. In this respect, the development economists suggest for land reforms, introduction of crash program in

agriculture, provision of subsidies on inputs to the farmers, and the implementation of procurement prices schemes for farm outputs.

**(8) Role of Industrial Sector:** The industrial sector can also play an important role in the economic growth of a country. But in case of developing countries the industrial sector is prey to a lot of troubles, i.e., the UDCs have a limited industrial sector; the industrialists must face the problem of insufficiency and inadequacy of funds; the technological gap is obstructing the industrial growth; and the industrialists are not provided with consultancy services. Therefore, it is the Development Economies which guides the developing countries regarding new technologies, more financial funds for industrialists, choice of technologies and establishment of new industries, the package of industrial investment, the balanced growth pattern or unbalanced growth pattern, and the pursuance of export promotion strategy of industrialization or import substitution policy of industrialization.

**(9) Foreign Trade Sector and Development:** From the history of advanced countries it becomes obvious that foreign trade sector played an important role in their economic development. Therefore, if the developing countries wish to attain economic development they should promote their foreign trade sector. This was the one-sided view regarding trade and growth. But the Development Economists, like Gunnar Myrdal, Hans Singer, R. Prebisch etc., have also given the opposite view. They believe at international level such forces operate that world trade is least beneficial for developing countries, it just safeguards the interests of developed countries. The Terms of Trade<sup>1</sup> have been found going against UDCs when DCs get higher prices for their products and prices of primary exports from UDCs go on to fall. Again the agri. exports from UDCs must face a severe competition with their artificial substitutes and trade restrictions in the markets of DCs. Moreover, the BOP positions of UDCs go on worsening day by day, i.e., they must face heavy BOP deficits. To remove such deficits, they must borrow from rich countries and international agencies. With this they are facing Debts and Repayment of Debts like problems. Thus, the economic rules operating at global level are also becoming responsible for increasing the gulf between have and have-nots. Thus, the developing countries are demanding for a "Just New World Economic Order".

**(10) Foreign Private Investment and Development:** Each student of Development Economies is aware of with this fact that the UDCs must face twin gaps like saving gap and foreign exchange gap. These gaps are the biggest obstacles in the way of their industrialization and development. Thus, the development economists stress upon foreign private investment which would help in removing these gaps. The Multi-national companies (MNCs) will bring not only enough foreign capital but foreign technology will also be brought by them. In this way the foreign capital and foreign technologies will become helpful for economic development of the poor countries. But the Development Economics also tells us that foreign private investment and the role of MNCs are furnished with a lot of problems. They exploit the laboring class of the poor countries and they are engaged in the activities like transfer pricing.

**(11) Role of State in Economic Development:** To attain economic development just the market forces cannot be relied upon. It means that private sector is not capable enough to start the big projects like thermal and hydro power plants construction of roads, water supply and water sanitation etc. Moreover, the social and institutional changes cannot be brought just through invisible hand. Therefore, for the sake of socio-economic changes which are necessary for economic development of Third world countries the state will have to play its role. It is the Development Economies which discusses the role of state in economic development.

**(12) Fiscal and Monetary Policies and Economic Development:** As the capital considered to be the life blood of production, and it is also something very much must for industrialization, the key to economic development. But because of low income the savings in the UDCs remain low leading to low investment and low capital formation, 1 this way, the UDCs remain incapacitated to attain economic development. Thus, for the sake of economic development they can depend upon fiscal and monetary policies. The fiscal measures like changes in tax rates, provision of subsidies to the producers and boosting of govt. expenditures on socio-economic sectors will become helpful in the attainment to economic development in the developing countries. Again, the Monetary measures like provision of loans to backward sectors and backward regions at concessionary rate lowering of bank rate, purchase of govt. securities, reduction in marginal requirements a decreasing the reserve ratios central banks in. the poor countries can use the monetary policy for economic development.

**(13) World Development Institutions and Foreign Aid:** The domestic resources are insufficient, the export sector is passive, the foreign private investment is attached with exploitation, and fiscal and monetary policies are attached with a lot of limitations and lag: Then, for the sake of economic development the developing countries can depend upon unofficial and official foreign loans. It means that the poor countries can borrow from foreign countries (advanced countries and oil rich countries) as well as from aid given agencies like World Bank, IFC, IDA and UNDP etc. Such official and unofficial capital flow will become helpful for the attainment of economic development of UDCs. Thus, it is in Development Economics which helps us to know about foreign aid, its types, its positive role, its side effects, repayments of loans and interest charges.

## Some current examples

A good weekly visit: <https://www.afdb.org/en/blogs/economic-growth-human-and-social-development/post/10-must-read-economics-stories-of-the-week-09-06-2017-17098/>

## The year in a few lines. My comments are in RED.

What's more, [70% of the population](#) was directly or indirectly employed in the agricultural sector, a prevalent trend throughout other African economies.

This means we need to address yields, rural-urban drift and ways of engaging young people in BOTH cash and food crop growing. Have a look at: <https://www.youtube.com/watch?v=afjVaehQRxg>, <https://www.youtube.com/watch?v=9LW10p7n05I>

The African economy has evolved over the past year.

But to promote the conditions for more equitable growth, we need to encourage the processing of agricultural output as well as it being simply 'for sale' in both domestic and export markets.

Put dimply **diversification** is paramount and in 2017 are the countries which are diversifying their economies".

Countries within Africa will enjoy growth in the coming years from other industries such as industrialization and manufacturing. He also states that that in the future it would be a proud moment to see 'Made in Africa' on product labels exported all over the world.

## Technology

Ultimately the biggest industry used on a global scale, technology can be classified by a number of different mediums. Whether that is iPads or androids, gaming apps or dating sites, technology use is consistently on the rise.

Smartphone use has doubled in Africa in 2 years (as of 2016), which is mostly due to their widespread availability and lower pricing. From looking at this statistic, it is also important to note that there has been a steady rise in the use of apps, which include (but are not limited to) dating apps, gambling apps, social media apps, news apps.

## Agriculture

This industry has predominantly been a huge source of income for the African economy, and it is still an area that consistently brings in revenue.

In addition to this by 2034, Africa will be expected to have a larger workforce than either China or India, as Africa has the advantage of a young and growing population, resulting in the fastest urbanization rate in the world.

## Financial services – Banking

From a Western perspective this may not be the most obvious sector, but Africa's banking sector has grown rapidly over the past 15 years, with Sub-Saharan Africa becoming a player in emerging-market banking. The total assets (as of 2008) came in at \$669bn, whilst North Africa coming in at \$497bn.

The benefit is that it creates a lot of scope for future development.

## Oil & Gas

It is known that where there is Oil, there is bound to be financial benefits in trading. By 2015, [it was reported](#) that 13% of global

oil production would take place in Africa, compared with 9% in 1998. This growth has allowed various investments to take place due to the cost competitiveness in comparison with other countries.

It is apparent that oil production has grown rapidly in Africa than any other region. It has also been demonstrated that Africa has natural gas reserves with 90% of the continent's annual natural gas production deriving from Nigeria, Libya, Algeria and Egypt.

### **Infrastructure**

**In any country, the development of infrastructure is crucial to a healthy economy.** It is evident that infrastructure has been a key driver for progress in Africa. It contributes specifically to human development, and significantly to poverty reduction.

**As Africa becomes more urbanized like its Western counterparts, public goods should become easier and cheaper to deliver a more geographically concentrated population.**

There is the opportunity for Africa to build on sectors and create small niches within them that can be unique. Who knows – maybe one day there will be a time where 'Made in Africa' will be a well-known term seen by all.

### **Let's turn our attention to Sustainable Issues**

#### **This week – water**

In the small community of Juan Augusto Saldívar, about an hour outside of Paraguay's capital, Julian Marecos is president of the local water board. He volunteers with four others to supervise the community's water service, which was founded in 1993 and supplies more than 3,800 users, including the school, health centre, church, and other people in neighbouring areas.

After record rains caused \$3bn worth of damage, Peru must build infrastructure to prepare for any more extreme climate events in the future

Read more

Born and raised in the area, Marecos still remembers the difficulties endured to access drinking water. "Traditionally, families used to get water from wells they had in their homes but often, particularly during very hot seasons, these wells dried up," he says. "Thanks to the board, we no

longer have these difficulties and we have available drinking water, which helps us avoid many diseases."

Across Latin America, 30 million people don't have access to safe water while 100 million still lack access to sanitation. This is despite the region being home to a third of the world's freshwater resources. The issue was given priority in the millennium development goals (MDGs), which gave a target of halving, by 2015, the proportion of the population without sustainable access to safe drinking water and basic sanitation.

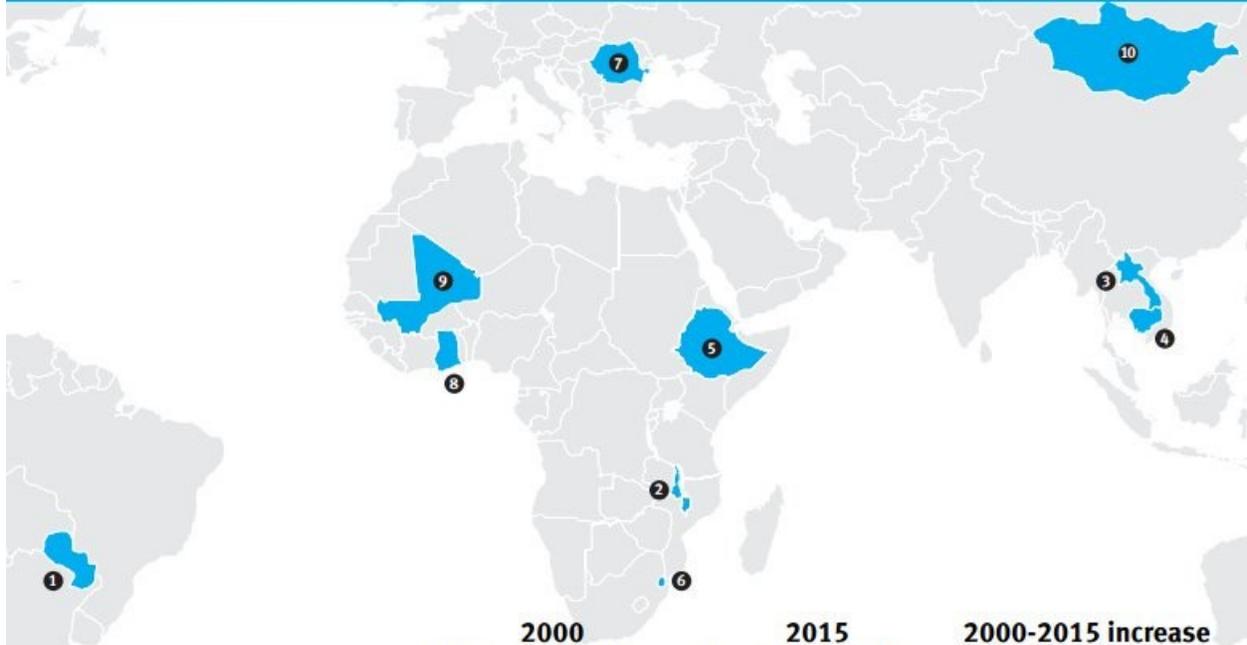
**Only one country managed this in rural areas: Paraguay. In fact, it overachieved the goal; more than [94% of its rural population now has access to safe water](#), compared with 51.6% in 2000, making more progress than any other country.**

Best wishes,

John

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## The world's ten most improved countries for rural water access



Country	2000 % rural population with safe water	2015 % rural population with safe water	2000-2015 increase in % population with safe water
1 Paraguay	51.6	94.9	43.3
2 Malawi	57.3	89.1	31.8
3 Lao People's DR	37.9	69.4	31.5
4 Cambodia	38.1	69.1	31
5 Ethiopia	18.9	48.6	29.7
6 Swaziland	41.1	68.9	27.8
7 Romania	72.7	100	27.3
8 Ghana	57.1	84	26.9
9 Mali	37.2	64.1	26.9
10 Mongolia	32.4	59.2	26.8

#StateOfWater