

Chapter 1

Introducing Economic Development: A Global Perspective

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Economic Development

11th Edition

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Learning Objectives

After completing this chapter, students will be able to:

1. Define what development is, and how to measure it.
2. Explain how poverty is, and describe the differences between north and south countries.
3. Describe the differences between economic growth and economic development.

Reasons for Studying Development Economics:

- **(1) Problem of World Poverty.**
- **(2) Meaning Of Economic Development**
- **(3) Models Of Economic Growth.**
- **(4) Role of Industrial Sector**
- **(5) Problems Of Population.**
- **(6) Foreign Trade Sector and Development.**
- **(7) Role of Agriculture Sector.**
- **(8) Foreign Private Investment and Development**

Cont....

- **(9) Role of State in Economic Development.**
- **(10) Fiscal and Monetary Policies And Economic Development.**
- **(11) World Development Institutions and Foreign Aid**

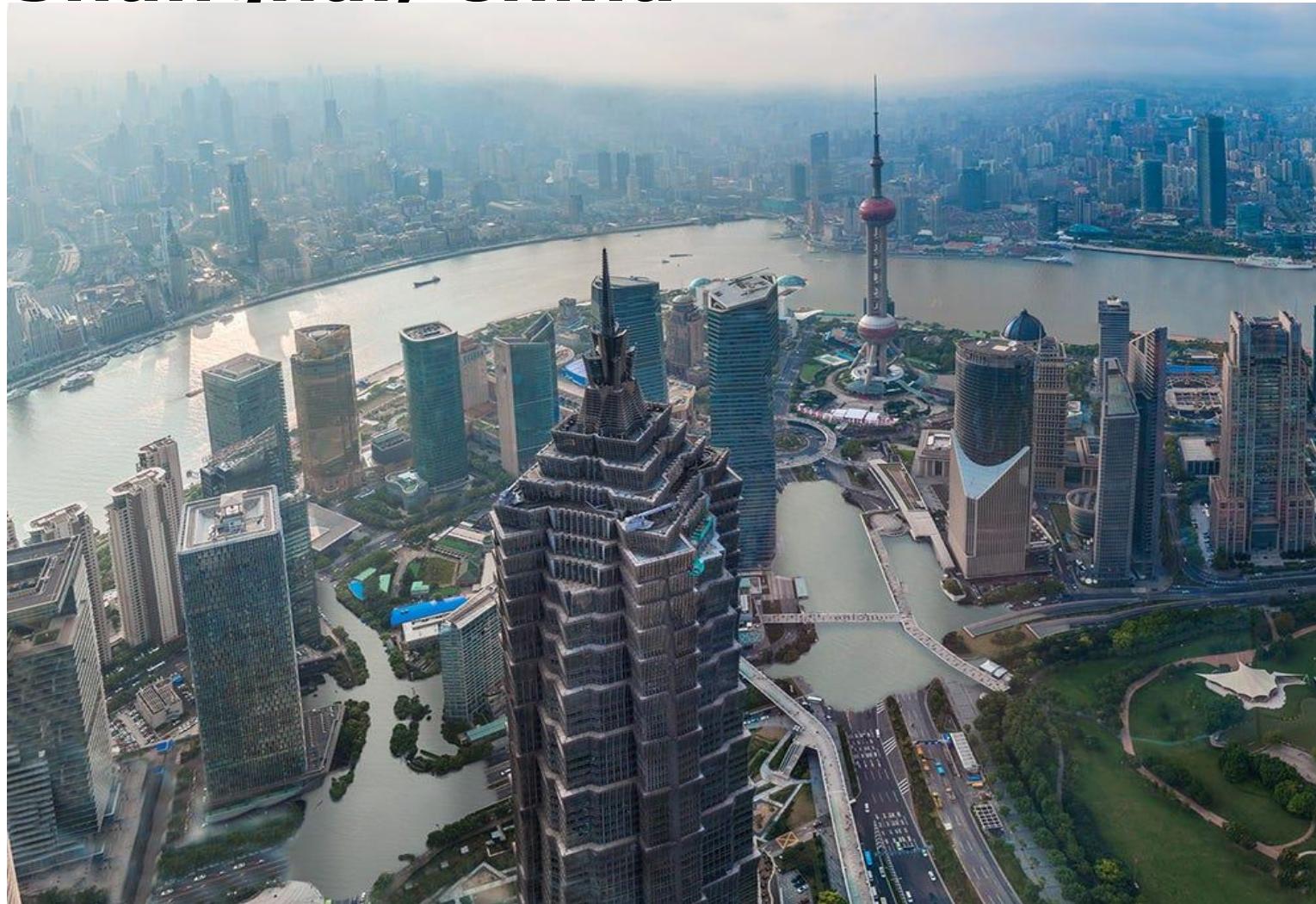
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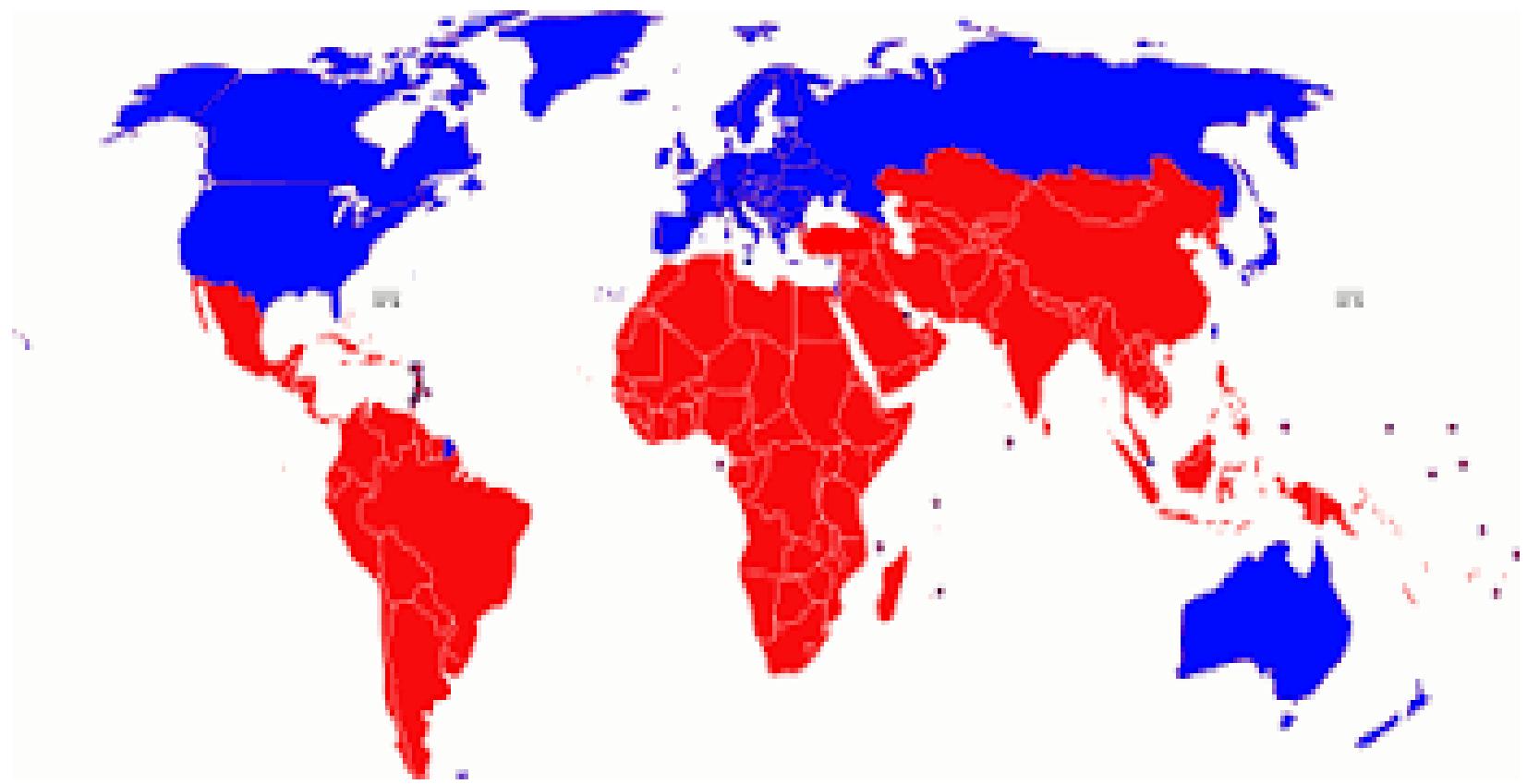
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North and South Countries:



1.1 How the Other Half Live

- *When food was in abundance, relatives used to share it. These days of hunger, however not even relatives would help you by giving you some food.* **—Young man in Nichimishi, Zambia**
- *We have to line up for hours before it is our turn to draw water.* **—Mbawadzulu Village (Mangochi), Malawi**
- *[Poverty is] . . . low salaries and lack of jobs. And it's also not having medicine, food, and clothes.* **--Discussion group, Brazil**
- *Don't ask me what poverty is because you have met it outside my house. Look at the house and count the number of holes. Look at the utensils and the clothes I am wearing. Look at everything and write what you see. What you see is poverty.* **—Poor man in Kenya**
- **A universal theme reflected in these quotes is that poverty is more than lack of income – it is inherently multidimensional, as is economic development.**

Poor Kids in Rishikesh, India



Severely malnourished Rwandan refugee children wait for food within a makeshift camp some 25 miles south of Kisangani



What do we mean by being poor?

Almost 3 billion people lack access to toilets and almost 1 billion lack access to clean drinking water

“The poorest 20% of the world’s children are twice as likely as the richest 20% to be stunted by poor nutrition and to die before their 5th birthday.”

2.7 million newborns worldwide die within their first month of life



Almost 200 million children under the age of 5 in developing regions are underweight for their age.

179 million infants in the least developed countries are not protected from diseases by routine immunization.

3.2 million children under the age of 15 currently live with HIV (human immunodeficiency viruses)

161 million children do not attend primary school.

UNICEF

What Is Poverty?

- Poverty is a state or condition in which a person or community lacks the financial resources and essentials for a minimum standard of living. Poverty means that the income level from employment is so low that basic human needs can't be met.

World Bank Data

- The global extreme poverty rate fell to 9.2 percent in 2017, from 10.1 percent in 2015. That is equivalent to 689 million people living on less than \$1.90 a day. At higher poverty lines, 24.1 percent of the world lived on less than \$3.20 a day and 43.6 percent on less than \$5.50 a day in 2017.

Is Iraq a poor country?

Iraq ranks 95th out of 179 countries on the World Bank list.

On average people make \$5040 a year.
(\$5040/12month=\$420)

However, these figures are **nominal** and use the Atlas Method.

We should account for (PPP) **Purchasing Power Parity – Remember from Iraq Economy?**

[https://en.wikipedia.org/wiki/List_of_countries_by_GNI_\(nominal,_Atlas_method\)_per_capita](https://en.wikipedia.org/wiki/List_of_countries_by_GNI_(nominal,_Atlas_method)_per_capita)

Growth and Development

Economic growth is an increase in the capacity of an economy to produce goods and services, compared from one period of time to another. It can be measured in **nominal** or **real** terms, the latter of which is adjusted for inflation.

The goal of economic development in its simplest form is to create the wealth of a nation. Prior to the 1970s, rapid **economic growth** has been considered a good proxy for other attributes of development.

Development

Economic development economic development can be defined as efforts that seek to improve the economic well-being and quality of life for a community by creating and/or retaining jobs and supporting or growing incomes and the tax base.

What happened in Kurdistan over the last 10 years?

- 1- Change in quality of food and nutrition.
- 2- Change in income.
- 2- Change in health services.
- 3- Change in infrastructure.
- 4- Change in quality of telecommunication, technology, and transportation.
- 5- Change in mentality of people.
- 6- Change in education level.

Economic Growth

VS

Economic Development

- Production.
- **Quantitative.**
- **Unidimensional**
- **Economic Growth is a *means* but it is not an *end*.**

- Production to improve social welfare.
- **Qualitative concept.**
- **Multidimensional**
- Economic Development is an *end* in itself.

1.3 What Do We Mean by Development?

- **Traditional Economic Measures**
 - Gross National Income (GNI)
 - Income per capita
 - Utility of that income?
- **The New Economic View of Development**
 - Leads to improvement in wellbeing, more broadly understood
- **Amartya Sen's "Capability" Approach**
 - Functionings as an achievement
 - Capabilities as freedoms enjoyed in terms of functionings
 - Development and happiness
 - Well being in terms of being well and having freedoms of choice
 - "Beings and Doings":

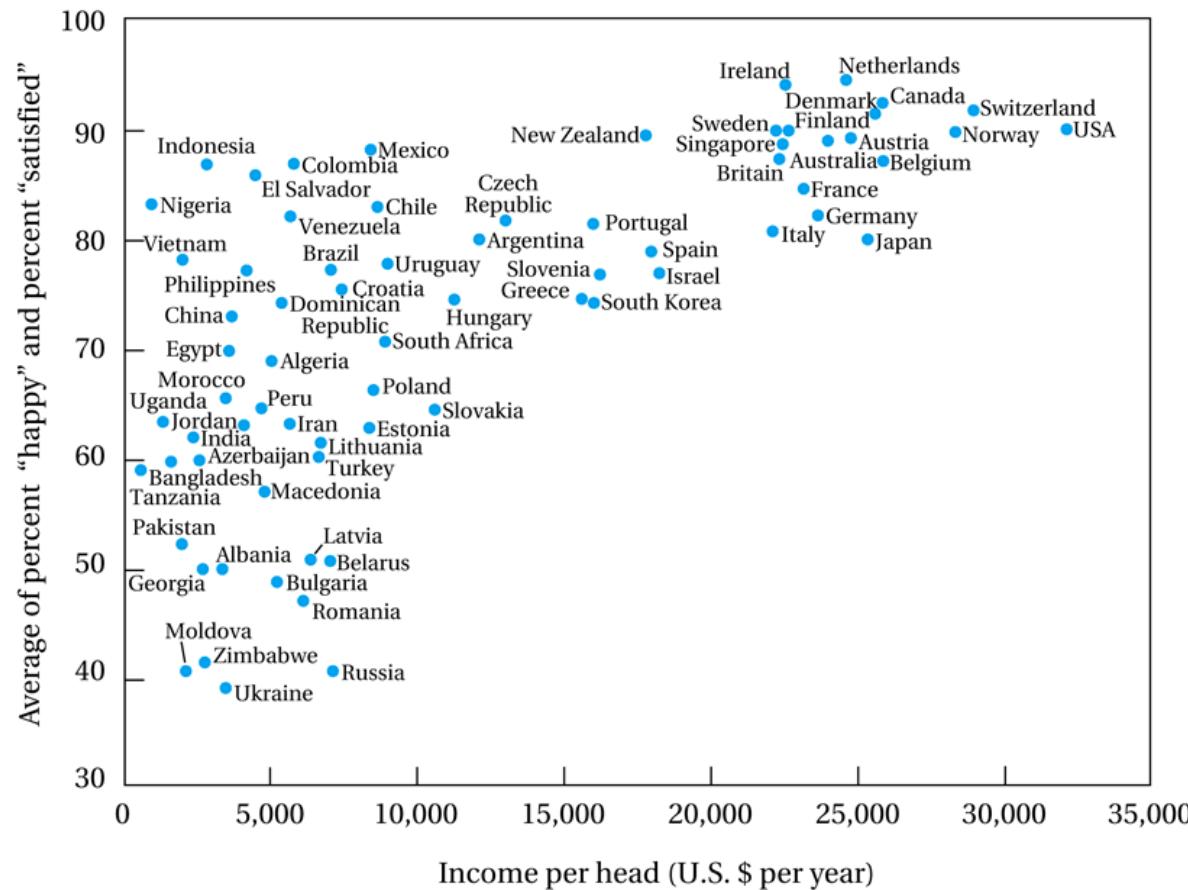
Some Key “Capabilities”

- Some Important “Beings” and “Doings” in Capability to Function:
 - Being able to live long
 - Being well-nourished
 - Being healthy
 - Being literate
 - Being well-clothed
 - Being mobile
 - Being able to take part in the life of the community
 - Being happy – as a state of being - may be valued as a functioning

1.3 What Do We Mean by Development? (cont'd)

- **Three Core Values of Development**
 - Sustenance: The Ability to Meet Basic Needs
 - Self-Esteem: To Be a Person
 - Freedom from Servitude: To Be Able to Choose

Figure 1.2 Income and Happiness: Comparing Countries



Source: From *Happiness: Lessons from a New Science* by Richard Layard, copyright © 2005 by Richard Layard. Used by permission of The Penguin Press, a division of Penguin Group (USA) Inc. and United Agents Ltd. (www.unitedagents.co.uk) on behalf of the author.

GNI Per capita Groups, 2019

- High-Income Group
- 12,630 USD to 116,400 USD
-
- Upper-Middle-Income Group
- 12,629 USD to 4,050 USD
-
- Lower-Middle-Income Group
- 4049 USD to 1,080 USD
-
- Lower Income Group
- 1,079 USD to 230 USD
- **Source: The World Bank.**

GNI Per capita 2019

Upper-Middle-Income Group

<u>Iraq</u>	5,740	2019 (Ranked 95)
<u>Russia</u>	11,260	2019 (Ranked 62)

Five Asian Tigers commonly referred to as “the Asian Miracle”



The **Five Asian Tigers** or Asian Dragons are the highly developed economies of **Hong Kong, Singapore, South Korea, Malaysia and Taiwan**. These countries underwent rapid industrialization and maintained exceptionally high growth rates (in excess of 7 percent a year) between the early 1960s (mid-1950s for Hong Kong) and 1990s.

Singapore

Modern Singapore is a remarkable phenomenon, which has attracted the attention of social scientists from several disciplines and a wide range of ideological viewpoints. The island city state located at the tip of the Malay peninsula is now home to some four million people, and has one of the highest per capita gross domestic products in the world.

Singapore

The **economy of Singapore** is a highly developed free-market economy.

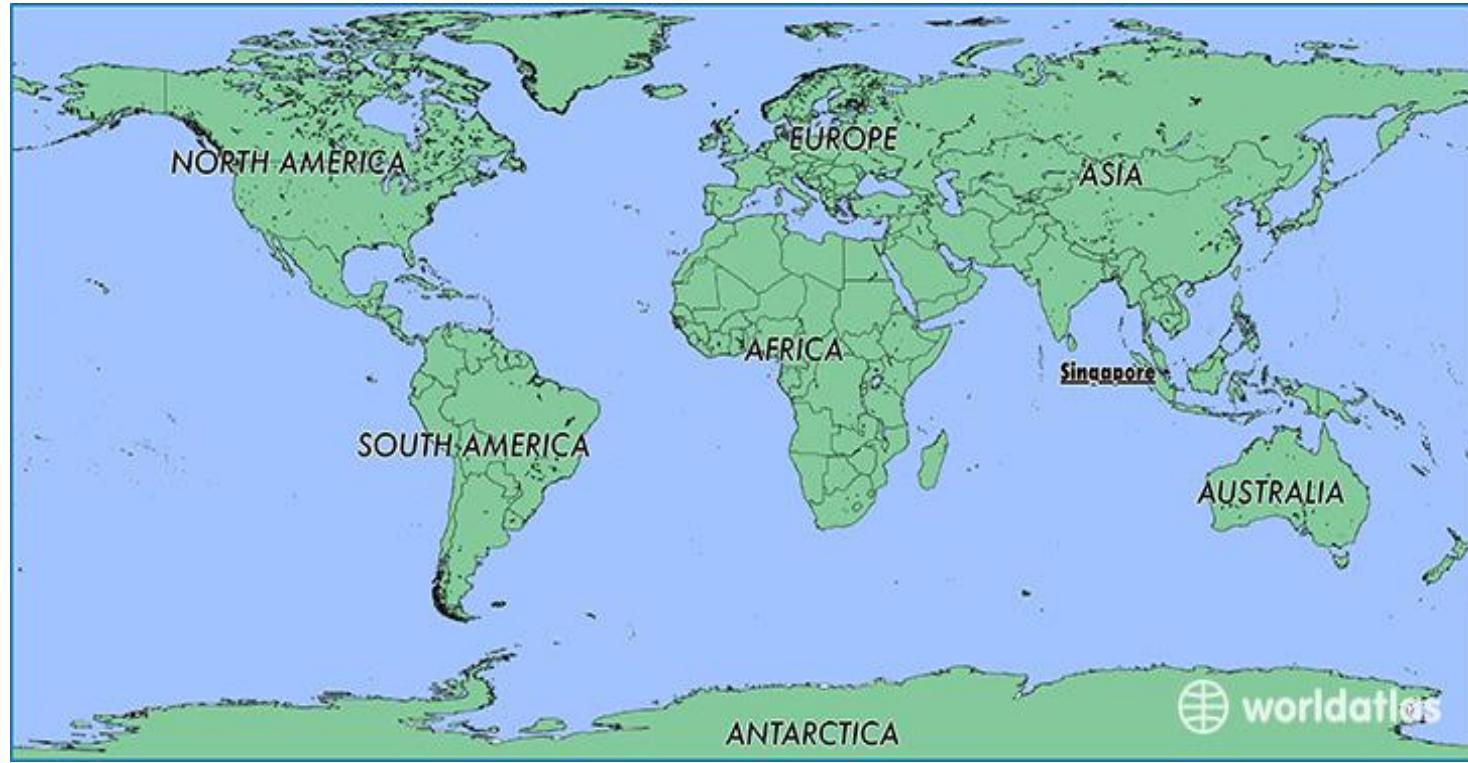
Singapore's economy has been ranked as the most open in the world, 7th least corrupt, most pro-business, with low tax rates (14.2% of Gross Domestic Product, GDP).

It has the third highest per-capita GDP in the world in terms of Purchasing Power Parity (PPP). Average GDP per capita is 57,714.30 USD (2017). **Iraq GDP per capita 5,165.71 USD (2017)**

Singapore

Singapore's largest industry by far is the **manufacturing sector**, which contributes 20%-25% of the country's annual GDP.

Key industry clusters in Singapore's manufacturing include electronics, chemicals, biomedical sciences, logistics and transport engineering. In the third quarter of 2017, the manufacturing sector grew by 35%, with clusters like electronics and engineering benefiting from high demand.



How did Singapore Achieve this Economic Success?

The government has continued to promote economic growth through an active industrial policy that targets fiscal incentives, increases public investment, promotes development of skill sets attractive to foreign investors, and focuses on **economic diversification**. Well-secured **property rights** promote entrepreneurship and productivity growth.

The rule of law is secured by a societal intolerance of corruption.

Question Bank

What is the difference between economic development and economic growth?

What can Kurdistan learn from Singapore's economic development?

Is it possible for Iraq to replicate Singapore's success? Why / Why Not?

What are some examples of successful economic development in recent history?

