

8. Low economic power on the international stage
  - a. Don't have much of a say in international agreements
  - b. Can't manipulate situations in globalized world to suit them
  - c. Can't find a way to trade more
    - i. Reduce tariffs
    - ii. Can't talk about trade relations very easily etc...

BUT – they have differing characteristics too, DO NOT view them as one homogenous

- Not all are the same – not all have these characteristics – different political structures, historical backgrounds, labour specialization etc...
- Each country on its own etc...

### Measurements of development

#### Single indicators

##### 1. GDP/capita (GNI/capita)

- a. Average income per person in the economy – gdp/population
- b. Lots of limitations
- c. Can be useful to give a blank measure of incomes – however development encompasses way more than just an increase in incomes
- d. GDP doesn't tell us about income inequality, pollution, externalities negative externalities etc...
- e. GNI per capita used more
  - i. GDP is just a measure of how much production is taking place in a country, regardless of who is producing
  - ii. GNI looks at income generated by all factors of production, even outside the country – e.g. labour that leaves and works in another country – repatriated money
  - iii. GDP counts output of foreign companies that is repatriated back to the advanced economies, rather than entering the developing economy
  - iv. When looking at GNI, we also look at purchasing power parity (PPP)
    1. Income converted into a worldwide currency (e.g. us dollars)
    2. PPP – cost of the same basket of goods and services in different countries e.g. \$1000 in India buys more than \$1000 in the UK – India's PPP is higher

##### 2. Health measures

- a. Life expectancy
  - i. If going up, means health institutions are of good quality
  - ii. Doctors able to treat patients
  - iii. = jobs out there
  - iv. = education is strong, for doctors to actually exist
  - v. = other parts of economy might also be doing well e.g. sanitation facilities
  - vi. Access to hospitals might be strong
  - vii. Education of how to stay away from diseases is strong
  - viii. Development outcomes are improving in the economy

## Trade and development

### Benefits

1. Exploit comparative advantage → natural resources
  - a. Higher exports = higher AD = higher growth → Development
    - i. Growth link to higher incomes etc → development outcomes
2. Consumers benefit from lower prices, increased choice and improved political relations
  - a. Political e.g. sub-Saharan African countries and China
3. Economies of scale and efficiency benefits
  - a. Increase in output lowers costs
  - b. Higher profits = higher corporation tax revenues
4. Technological transfer and growth of secondary industries, breaking dualistic structures
  - a. Opening yourself up to trade and perhaps importing capital goods, you can see how other countries are improving technology and copy it
  - b. If firms make more profits, they can reinvest in company – reinvest in technology – improves technology – break away from primary sector dependence (dualistic structure)

### Trade problems (international barrier to trade)

1. "Resource curse"
  - a. Primary commodity dependence
    - i. Falling prices
    - ii. Depletion of resources – unsustainable way of pursuing development
    - iii. Slowing demand – e.g. falling oil prices
2. Price fluctuations
  - a. Inelastic demand and supply as these are necessity goods – e.g. corn
  - b. Reduces incentive to invest
  - c. Export revenues are not certain – can't guarantee stability of economy
3. Access to international markets limited for developing countries
  - a. Protectionist measures by developed countries on primary goods – e.g. US subsidises corn producers or e.g. EU health and safety standards may not be met by developing countries, for example if they lack the technology or expertise
  - b. Tariff escalation – tariffs on manufactured goods are much higher than on primary goods – reduces developing countries' incentive to produce manufactured goods
  - c. Non-convertible currencies – developing countries have soft currencies that tend to fall in value, which developed countries don't want – reduces potential for trade and development
4. Long term decline in terms of trade – export prices, relative to import prices fall – become trapped in primary goods dependence because of falling revenues

4. Welfare-state, pension provision
  - a. Not just rich people benefit

Problems: (too much government intervention)

1. Bureaucracy, inefficiency, corruption
  - a. Motives of government may not be to cut costs – inefficiency
2. Nationalised industries → loss making, inefficient
  - a. State run companies very inefficient – lack of profit incentive = no incentive to cut down costs, pursue lower prices, maximise profit – consumers face higher prices, industries may be loss making and need heavy subsidies = more costly than if ran by private firms
3. Increased government spending → indebtedness
  - a. Large budget deficits
  - b. Might promote increasing supply of money – detrimental to economy

In truth, a mixture of free market and government intervention is the best way to go, if we can find a way to allow markets to run freely, without major limitations like protectionism abroad, problems of income inequality, then great. Similarly, if we can allow governments to run where the limitations of the government can be looked at, e.g. government running with a majority private system to make sure that inefficiencies from government do not take place, or hold government accountable to prevent corruption, then again, having a strong government will be beneficial.

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