DOMESTIC AND INTERNATIONAL FACTORS AND ECONOMIC DEVELOPMENT

4.2.1 Domestic factors and economic development

Economic growth only leads to development when incomes rise, education increases, and they can afford health care

- ➔ This can also work vice versa where education and health care lead to better growth, due to the increased productivity

Domestic obstacles to economic development

1. Poverty traps: self-perpetuating mechanism that contributes to the persistence of poverty in a nation
    a. Natural resource trap
        i. Poverty → resource poor country → no exportable commodities → limited foreign income → inability to import capital goods → low productivity → poverty
    b. Geography trap
        i. Poverty → country is landlocked with hostile neighbors → no access to global markets → no foreign income from exports → less domestic employment → lower incomes → poverty
    c. Education / poor governance trap
        i. Minimal spending on public goods → poor education system → low quality human capital → low productivity → low incomes → low tax revenue/corrupt government → minimal spending
    d. Conflict trap
        i. Intense resource scarcity → civil unrest and violence → political and economic uncertainty → reduced investment from abroad → intense resource scarcity
2. Institutional and political obstacles
    a. Ineffective taxation structure
        i. Less foreign investment, money hiding from government in foreign systems → less revenue for the government
    b. Lack of property rights
        i. Less investment (investors want certainty that the land will be theirs; farmers + shopkeepers neglect fields/business)
    c. Political instability
    d. Inequality in the distribution of income
        i. Income enjoyed by a tiny elite → keeps majority of the people in poverty (seen in the Gini coefficient)
    e. Lack of infrastructure
        i. Less attractive to FDI, due to the lower efficiency at which the country functions → higher costs and lower incomes
    f. Lack of access to credit
        i. Capital flight, as wealthy individuals move their money abroad (fear of unstable banking system) → small businesses unable to borrow money
3. Social and cultural obstacles
    a. Religion
        i. Conflict of religion creates economic uncertainty, thus reducing actual development
    b. Tradition
        i. Objectives of economic growth questioned by members who want a more traditional society, hindering development

Domestic factors contributing to economic development

1. Education
    a. Strong correlation between education and income, due to higher productivity
2. Health
    a. Not only the result of development, but leads to it, too → individuals can shift their minds onto something else if their well being is given
3. Banking, credit, and micro-credit
    a. Allows access to credit for poor country entrepreneurs: they can build up a business with a socially beneficial purpose, thus also increasing employment