By the end of this chapter, you should be able to:

- Distinguish between economic growth and economic development
- Explain the relationship between economic growth and economic development
- Define sustainable development
- Outline the current status of the Sustainable Development Goals
- Explain the relationship between sustainability and poverty
- Explain and give examples of common characteristics of developing countries
- Explain and give examples of the diversity that exists between developing countries.

“Development can be seen, it is argued here, as a process of expanding the real freedoms that people enjoy. Focusing on human freedoms contrasts with narrower views of development, such as identifying development with the growth of gross national product, or with the rise in personal incomes, or with industrialization, or with technological advance, or with social modernization.

Development requires the removal of major sources of unfreedom: poverty as well as tyranny, poor economic opportunities as well as systematic social deprivation, neglect of public facilities as well as intolerance or overactivity of oppressive states. Despite unprecedented increases in overall opulence,
the contemporary world denies elementary freedoms to vast numbers – perhaps even the majority of people.

Sometimes the lack of substantive freedom relates directly to economic poverty, which robs people of the freedom to satisfy hunger, or to achieve sufficient nutrition, or to obtain remedies for basic illnesses, or the opportunity to be adequately clothed or sheltered, or to enjoy clean water or sanitary facilities. In other cases, the unfreedom links closely to the lack of public facilities and social care, such as the absence of epidemiological programmes, or of organized arrangements for health care or education facilities, or of effective institutions for the maintenance of local peace and order. In still other cases, the violation of freedom results from a denial of political and civil liberties by authoritarian regimes and from imposed restrictions of the freedom to participate in the social, political, and economic life of the community."


What is meant by economic development?

The national income statistics discussed in Chapter 13 provide important information about a country’s economic activity. They form the basis for assessing a country’s economic growth. However, economic growth is very much a one-dimensional concept. It is, quite simply, an increase in the real output of an economy over time. Traditional economic theory has tended to make the assumption that increased output of an economy, along with the pattern of industrialization that accompanies economic growth, is equivalent to economic development. This is a simplistic and incorrect assumption.

The last decades have seen the evolution of a new branch of economics—development economics. At the core of this study is the fact that economic growth is not equivalent to economic development. Economic development is a far more complex and multidimensional concept. For economic development to occur, growth must be inclusive, that is, it must benefit all people in the economy, not just a small percentage of high-income people. Furthermore, economic growth is of no use if it comes with a cost that must be borne by future generations and so real economic progress must be development that is sustainable.

A very basic definition of development might be an improvement in living standards or economic well being, or welfare. However, this is somewhat simplistic so we now expand on this notion. Yet we must always keep in mind the very subjective nature of the concept and be aware that there is a wide range of possible explanations.

For example, development economist Amartya Sen (see the biography box) makes a powerful link between development and freedom.
Amartya Sen was born in West Bengal, India. At the age of 9, he had his first encounter with suffering, on meeting victims of the Bengal famine in which three million people died. Later, his work on famine research led to the publication of Poverty and Famines: An Essay on Entitlement and Deprivation, addressing the inequalities in access to food.

While at secondary school, Sen was uncertain as to what academic discipline he should study. In his own words, “I seriously flirted, in turn, with Sanskrit, mathematics and physics, before settling for the eccentric charms of economics.”

At the age of 18, Sen left India to study economics at Trinity College, Cambridge, where he earned both his Bachelor of Arts and then his doctorate. He has held several teaching positions, including at the University of Calcutta, Jadavpur University, Delhi, Oxford University, London School of Economics, Harvard and Cambridge.

While working at Harvard, he teamed up with an old friend Mahbub ul Haq, a reputed Pakistani economist. Together, they contributed to the establishment of the Human Development Index and the Human Development Report, published annually by the United Nations Development Programme (UNDP).

Such developments have allowed economic development to be evaluated on a range of measures, rather than on the classical macroeconomic indicators such as GNP or GDP.

Having published an impressive number of books and publications, Sen has also received a number of awards, including the Nobel Prize for Economics in 1998 for his contribution to welfare economics. He has had a powerful influence on the study of development economics as well as on international institutions and national governments.

Did you know?

The United Nations Development Programme (UNDP) “works in about 170 countries and territories, helping to achieve the eradication of poverty and the reduction of inequalities and exclusion. We help countries to develop policies, leadership skills, partnering abilities, institutional capabilities and build resilience in order to sustain development results.

In September 2015, world leaders adopted the 2030 Agenda for Sustainable Development to end poverty, protect the planet and ensure that all people enjoy peace and prosperity. UNDP is working to strengthen new frameworks for development, disaster risk reduction and climate change. We support countries’ efforts to achieve the Sustainable Development Goals, or Global Goals, which will guide global development priorities through 2030.

UNDP’s Strategic Plan (2018–2021) has been designed to be responsive to the wide diversity of the countries we serve. The diversity is reflected in three broad development contexts:

- eradicate poverty in all its forms and dimensions
- accelerate structural transformations
- build resilience to shocks and crises.

To respond to these issues, and better focus its resources and expertise to deliver on the 2030 Agenda, UNDP has identified a set of approaches that we call our Signature Solutions:

- keeping people out of POVERTY
- GOVERNANCE for peaceful, just and inclusive societies
- crisis prevention and increased RESILIENCE
- ENVIRONMENT: nature-based solutions for development
- clean, affordable ENERGY
- women’s empowerment and GENDER equality.

In all our activities, we encourage the protection of human rights and the empowerment of women, minorities and the poorest and most vulnerable.”

Does economic growth lead to economic development?

In order to consider this question, we should first look at where economic growth comes from and then we can consider its implications for economic development.

What are the sources of economic growth?

These may be identified under four simple headings:

1. Natural factors

   Anything that will increase the quantity and/or quality of a factor of production should lead to an increase in potential growth. Increasing the quantity of land available is not really very easy, although countries like Holland and Singapore have done so by means of land reclamation. However, this will only have a very small effect upon total land area and thus production capability, unless the land area is very small to start with, as is the case with Singapore. Using landfill methods Singapore has increased its land area from 581.5 square kilometres in 1965, when it gained independence, to 721.5 square kilometres at the present time, an increase in land area of around 24%. However, if its neighbour, Malaysia, was to gain the same increase through landfill, 140 square kilometres to add to its existing 329,847 square kilometres, this would represent an increase of 0.04% of land area!

   Thus, most countries will attempt to improve the quality of their natural factors, rather than the quantity. The quality of land may be improved by fertilization, better planning of land usage, improved
agricultural methods and building upwards, as opposed to outwards, as is the case in places like Hong Kong.

2. Human capital factors
The quantity of human capital may be increased either by encouraging population growth or by increasing immigration levels. However, the majority of developing countries would not be keen to increase population size and, even if they were (like Singapore), the process is very long term.

Thus, most emphasis is put on improving the quality of the human capital. The main methods of doing this would be improved health care, improved education for children, vocational training and re-training for the unemployed. In addition, the provision of fresh water and sanitation can very much improve the health and thus the quality of human capital.

3. Physical capital and technological factors
Economic growth may be achieved by improving the quantity and/or quality of physical capital. Physical capital includes such things as factory buildings, machinery, shops, offices and motor vehicles. [Social capital is items such as schools, roads, hospitals and houses.] Obviously, the quantity of physical capital is affected by the level of saving, domestic investment, government involvement and foreign investment. The quality of physical capital is improved by higher education, research and development and access to foreign technology and expertise.

We identify two concepts here:

- **Capital widening**: This exists when extra capital is used with an increased amount of labour, but the ratio of capital per worker does not change. In this case, total production will rise, but productivity (output per worker) is likely to remain unchanged.
- **Capital deepening**: This exists when there is an increase in the amount of capital for each worker. This often means that there have been improvements in technology. Capital deepening will usually lead to improvements in labour productivity as well as increases in total production.

Physical capital enabling extraction, or improved extraction, of primary products, such as oil drilling or improved mining techniques, may be very important in terms of economic growth since they will, in effect, increase the quantity of a factor of production.

4. Institutional factors
A prerequisite for meaningful economic growth is the existence of certain institutional factors. These are factors such as an adequate banking system, a structured legal system, a good education system, reasonable infrastructure, political stability and good international relationships. Some of these factors are also sources of economic development, as we will see later in the section.
The possible benefits of economic growth cannot be overstated, and indeed, there is significant evidence that economic growth has enabled countries to raise millions of people out of poverty. Economic growth enables citizens to enjoy higher incomes and higher material standards of living. Higher incomes result in greater tax revenues for governments, which can be used to invest in development objectives such as spending on health services, education and infrastructure. However, it should not be assumed that growth always leads to economic development, and is certainly not the case that economic growth will lead to sustainable development.

What is sustainable development?

“Endless economic growth, based on the consumption of finite resources, cannot continue indefinitely...”

*IB syllabus, Conceptual understanding.*

The World Commission on Environment and Development was formed by the United Nations in 1983, and in 1987 the report, *Our Common Future*, was published. The Commission was of the opinion that economic growth cannot be sustained into the future if environmental degradation is taking place and non-renewable resources are being used up at too fast a rate. The term “sustainable development” was introduced and defined as “development that meets the needs of the present without compromising the ability of future generations to meet their own needs”. In economics we learn about the advantages of economic growth, and may even tend to assume that all countries seek to achieve high rates of economic growth. However, it becomes increasingly vital to appreciate the possible negative consequences of economic growth in terms of the effects on the environment and the ability of future generations to meet their needs. When we examine how resources should be allocated we must consider how such resource allocation affect future generations.

As economies grow, so does the demand for more and more goods and services and more and more energy to produce these goods and services. Factories, power plants and households all consume vast amounts of resources and energy to meet their demands resulting in earth-threatening global problems. In Chapter 9, we saw that these environmental challenges, including the ‘climate crisis’ can be examined using the economic theories of negative externalities of consumption and production, along with threats to common access resources.

The economist, Herman Daly, talks about “uneconomic growth” and has defined it as occurring “when increases in production come at an expense in resources and well being that is worth more than the items made”. We can conclude that economic growth based on current consumption patterns is clearly not sustainable and is, in reality, uneconomic growth.
The effects on humans will be felt most severely in the developing countries. Most tragically, those that will be most harmed by the climate crisis are those that contributed the least to the greenhouse gas emissions that have created the crisis.

- Access to safe water will become even more precarious. Even now more than one billion people do not have access to safe water.
- Tropical diseases may spread further north.
- Droughts will become more frequent and intense in Asia and Africa, and flooding will likely become a bigger problem in temperate and humid regions.
- Food production in the tropics and sub-tropics is likely to suffer. Food production could become easier in middle and high latitudes but there is no guarantee that this will lessen the risk to food security.
- Millions of people will be affected by rising sea levels. This includes coastal areas along with low-lying islands in the Caribbean Sea and Pacific Ocean.

As we mentioned earlier, economic progress needs to be measured in terms of economic development that can be achieved in a sustainable manner.
What are the sustainable development goals?

Throughout this Course Companion, there have been references to this very important example of global cooperation. We now look at this more closely.

The Sustainable Development Goals (SDGs) were born at the United Nations Conference on Sustainable Development in Rio de Janeiro in 2012. The objective was to produce a set of universal goals that met the urgent environmental, political and economic challenges facing the world.

The SDGs replace the Millennium Development Goals (MDGs), which started a global effort in 2000 to tackle the indignity of poverty. The MDGs established measurable, universally agreed objectives for tackling extreme poverty and hunger, preventing deadly diseases, and expanding primary education to all children, among other development priorities. The objectives were set to be met by the year 2015.

From 2000 to 2015, the MDGs drove progress in several important areas: reducing income poverty, providing much needed access to water and sanitation, driving down child mortality and drastically improving maternal health. They also kick-started a global movement for free primary education, inspiring countries to invest in their future generations. Most significantly, the MDGs made huge strides in combating HIV/AIDS and other treatable diseases such as malaria and tuberculosis.

Key MDG achievements were:

- More than 1 billion people have been lifted out of extreme poverty (since 1990)
- Child mortality dropped by more than half (since 1990)
- The number of out of school children has dropped by more than half (since 1990)
- HIV/AIDS infections fell by almost 40 percent (since 2000)\(^1\).

The SDGs came into effect in January 2016 and will continue until 2030. The SDGs are a bold commitment to tackle some of the more pressing challenges facing the world today. They are also an urgent call to shift the world onto a more sustainable path. All 17 Goals interconnect, meaning success in one affects success for others. Dealing with the threat of climate change impacts how we manage our fragile natural resources, achieving gender equality or better health helps eradicate poverty, and fostering peace and inclusive societies will reduce inequalities and help economies prosper. Figure 29.1 outlines the 17 SDGs.

### Table 28.1 The Sustainable Development Goals

<table>
<thead>
<tr>
<th>Goal</th>
<th>Detail</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. <strong>End poverty in all its forms everywhere</strong></td>
<td>10. <strong>Reduce inequality within and among countries</strong></td>
</tr>
<tr>
<td>2. <strong>End hunger, achieve food security and improved nutrition and promote sustainable agriculture</strong></td>
<td>11. <strong>Make cities and human settlements inclusive, safe, resilient and sustainable</strong></td>
</tr>
<tr>
<td>3. <strong>Ensure health lives and promote well being for all at all ages</strong></td>
<td>12. <strong>Ensure sustainable consumption and production patterns</strong></td>
</tr>
<tr>
<td>4. <strong>Ensure inclusive and equitable quality education and promote lifelong learning opportunities for all</strong></td>
<td>13. <strong>Take urgent action to combat climate change and its impacts</strong></td>
</tr>
<tr>
<td>5. <strong>Achieve gender equality and empower all women and girls</strong></td>
<td>14. <strong>Conserve and sustainably use the oceans, seas and marine resources for sustainable development</strong></td>
</tr>
<tr>
<td>6. <strong>Ensure availability and sustainable management of water and sanitation for all</strong></td>
<td>15. <strong>Protect, restore and promote sustainable use of terrestrial ecosystems, sustainably manage forests, combat desertification, and halt and reverse land degradation and halt biodiversity loss</strong></td>
</tr>
<tr>
<td>7. <strong>Ensure access to affordable, reliable, sustainable and modern energy for all</strong></td>
<td>16. <strong>Promote peaceful and inclusive societies for sustainable development, provide access to justice for all and build effective, accountable and inclusive institutions at all levels</strong></td>
</tr>
<tr>
<td>8. <strong>Promote sustained, inclusive and sustainable economic growth, full and productive employment and decent work for all</strong></td>
<td>17. <strong>Strengthen the means of implementation and revitalize the global partnership for sustainable development</strong></td>
</tr>
</tbody>
</table>

**Source:** undp.org

\(^1\) Source: www.undp.org
Although the goals may seem rather broad and general, each of the goals is supported by more specific targets. For example, the targets for goal number 1, no poverty, are:

- By 2030, reduce at least by half the proportion of men, women and children of all ages living in poverty in all its dimensions according to national definitions
- Implement nationally appropriate social protection systems and measures for all, including floors, and by 2030 achieve substantial coverage of the poor and the vulnerable
- By 2030, ensure that all men and women, in particular the poor and the vulnerable, have equal rights to economic resources, as well as access to basic services, ownership and control over land and other forms of property, inheritance, natural resources, appropriate new technology and financial services, including microfinance
- By 2030, build the resilience of the poor and those in vulnerable situations and reduce their exposure and vulnerability to climate-related extreme events and other economic, social and environmental shocks and disasters
- Ensure significant mobilization of resources from a variety of sources, including through enhanced development cooperation, in order to provide adequate and predictable means for developing countries, in particular least developed countries, to implement programmes and policies to end poverty in all its dimensions
- Create sound policy frameworks at the national, regional and international levels, based on pro-poor and gender-sensitive development strategies, to support accelerated investment in poverty eradication actions.\(^2\)

**What is the relationship between sustainability and poverty?**

There is a vicious cycle that exists between poverty and environmental damage. To meet their basic needs, poor people tend to rely more on the environment than rich people. The environment may be the direct source of their food, fuel, sanitation and facilities for waste disposal. Yet their use of the environment results in further environmental problems.

Consider the problem of deforestation using the concept of common access resources. Low-income people in rural areas of developing countries often depend on wood as their only source of fuel for cooking and use common sources of wood. When the existing trees are cut down, there are consequences. The households who need the wood must travel greater distances to acquire wood for fuel. This is most often the responsibility of women and leaves them with less time to earn income for their households. This is quite likely to keep low-income households

\(^2\) Source: undp.org
trapped in a vicious cycle and one result will be the persistent overuse of the resources.

Poor people are unable to own their land. They may have to use common-pool land which is not well-suited to the growing of food. The lack of ‘land tenure’, insufficient knowledge of good agricultural practices and inability to afford irrigation and fertilizers are likely to lead to low levels of agricultural productivity and crop yields. This is another vicious cycle. Their poverty pushed them to more and more marginal lands, with the consequences of greater areas of soil erosion and land degradation. The threat is not only to the low-income households, but to the long-term sustainability of the land as a natural resource. Poor people are far more vulnerable to floods and other environmental catastrophes that are the result of climate change, yet they were the people that contributed the least to the global problem. Although they are the most affected, poor countries are also the ones that are least likely to be able to afford the costs of mitigation needed to avert the climate crisis. Within the Paris Agreement, there are mechanisms to support developing countries in this regard, but the consequences of the crisis will continue to have a disproportionate effect on poor people.

Do developing countries have common characteristics?

The development economist, Michael P. Todaro, produced a list of the common characteristics of developing nations. He said that the common characteristics could be classified into seven broad categories:

1. **Low standards of living characterized by low incomes, inequality, poor health and inadequate education**: In developing countries low standards of living tend to be experienced by the majority of the population. The main indicators of these low living standards are high poverty levels (i.e. very low incomes), high levels of inequality, very poor housing, low standards of health, high infant mortality rates, high levels of malnutrition and lack of education.

2. **Low levels of productivity (output per person)**: This is common in developing countries. The main causes are the low education standards within the countries, the low levels of health amongst workers, lack of investment in physical capital and lack of access to technology.

3. **High rates of population growth and dependency burdens**: Developing countries tend to have crude birth rates that are more than double, on average, than the rates in developed countries. The crude birth rate is the annual number of live births per 1,000 of the population.

---

The world average in 2018 was 18.2, but in some developing countries it can be over 40. For example, it was 44.2 in Niger and Angola in 2017. Most developed countries tend to have figures below 15 and some are well below, such as Spain, with 9.2 and Japan, with 7.74.

High crude birth rates in developing countries tend to be transformed into high-dependency ratios. The high crude birth rates mean that there are a lot of young people, under the age of 15, in developing countries. Thus, those of working age, usually assumed to be 15 to 64, have to support a much larger proportion of children than the workforce in developed countries. However, interestingly, developed countries have high numbers of the population over the age of 64, who also need to be supported by the workforce.

The dependency ratio may be expressed in a number of forms. One is the child dependency ratio, which is the percentage of those who are non-productive, under the age of 15, expressed as a percentage of those of working age, usually 15 to 64. The equation would be:

\[
\text{Child dependency ratio} = \frac{\% \text{ of population under 15}}{\% \text{ of population 15 to 64}}
\]

Another is an old age dependency ratio, which is the percentage of those who are non-productive, over the age of 65, expressed as a percentage of those of working age, usually 15 to 64. The equation would be:

\[
\text{Old age dependency ratio} = \frac{\% \text{ of population over 65}}{\% \text{ of population 15 to 64}}
\]

As we can see in Table 28.2, the three developed countries have child dependency ratios of about 28% and they have old age dependency ratios ranging from 24% to 32% (and these are predicted to continue to grow). The developing countries have much higher child dependency ratios, ranging from 49% to 91%, and significantly lower old age dependency ratios, ranging from 5% to 11%.

<table>
<thead>
<tr>
<th>Country (HDI rank)</th>
<th>Child dependency ratio (%)</th>
<th>Old age dependency ratio (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Australia [3]</td>
<td>29</td>
<td>24</td>
</tr>
<tr>
<td>France [24]</td>
<td>29</td>
<td>32</td>
</tr>
<tr>
<td>UK [14]</td>
<td>28</td>
<td>29</td>
</tr>
<tr>
<td>Bolivia [118]</td>
<td>51</td>
<td>11</td>
</tr>
<tr>
<td>Botswana [101]</td>
<td>49</td>
<td>6</td>
</tr>
<tr>
<td>Burkina Faso [183]</td>
<td>86</td>
<td>5</td>
</tr>
<tr>
<td>Cambodia [146]</td>
<td>49</td>
<td>7</td>
</tr>
</tbody>
</table>


Table 28.2 Examples of dependency ratios in developed and developing countries (all figures are for 2017)

The differences tend to highlight the high crude birth rates and the low life expectancy levels in developing countries as opposed to developed countries. They also highlight the different problems faced in terms of dependency ratios. It is interesting to note that a significant number of developed countries are considering increasing the retirement age in order to keep people working longer and to thus reduce the old age dependency ratio.

4. **High and rising levels of unemployment and underemployment:** Developing countries tend to have relatively high rates of unemployment, typically between 10% and 20% of the labour force, but in a number of countries much greater. Although it is a difficult thing to measure accurately in a developed economy, let alone a developing economy, some estimated figures are shown in Table 28.3.

<table>
<thead>
<tr>
<th>Country (HDI ranking)</th>
<th>Unemployment rate (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Bangladesh [136]</td>
<td>4.4</td>
</tr>
<tr>
<td>Botswana [101]</td>
<td>20</td>
</tr>
<tr>
<td>Burkina Faso [183]</td>
<td>77</td>
</tr>
<tr>
<td>India [130]</td>
<td>8.5</td>
</tr>
<tr>
<td>Mozambique [180]</td>
<td>24.5</td>
</tr>
<tr>
<td>South Africa [113]</td>
<td>27.5</td>
</tr>
</tbody>
</table>

*Source: The World Factbook, CIA, 2019*

**Table 28.3** Unemployment rates for selected developing countries

Although the unemployment figures in developing countries are worrying enough, there are three more groups that need to be considered. Firstly, there are those who have been unemployed for so long that they have given up searching for a job and no longer appear as unemployed. Secondly, there are the hidden unemployed, those who work for a few hours in the day on a family farm or in a family business or trade of some sort, and so do not appear as unemployed. In Table 28.3, the unemployment figure for Bangladesh look very good at 4.4%. However, it is estimated that there is huge underemployment in the country and that around 40% of the workforce is underemployed, working only a few hours per week at very low wages. Then, lastly, there are the underemployed. Those who would like full-time work, but are only able to get part-time employment, often on an informal basis.

It is when all of these groups are put together that the full extent of unemployment in developing countries can begin to be understood. Although it is impossible to be accurate, it would be fair to say that in many developing countries the true rate of unemployment is over 50%. When we consider high birth rates, as discussed earlier, then the situation is only likely to worsen.

5. **Substantial dependence on agricultural production and primary product exports:** Many developing countries, but certainly not all, are heavily dependent on the exports of one or two commodities for their export revenue. This is illustrated in Table 28.4.
Economic development and sustainable development

<table>
<thead>
<tr>
<th>Country</th>
<th>Primary commodities (%)</th>
<th>Manufactures (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Benin*</td>
<td>84</td>
<td>16</td>
</tr>
<tr>
<td>Burkina Faso*</td>
<td>91</td>
<td>9</td>
</tr>
<tr>
<td>Ethiopia*</td>
<td>93</td>
<td>7</td>
</tr>
<tr>
<td>Côte d'Ivoire*</td>
<td>92</td>
<td>8</td>
</tr>
<tr>
<td>Angola**</td>
<td>98</td>
<td>2</td>
</tr>
<tr>
<td>Yemen**</td>
<td>83</td>
<td>17</td>
</tr>
<tr>
<td>Bangladesh†</td>
<td>4</td>
<td>96</td>
</tr>
<tr>
<td>Nepal†</td>
<td>32</td>
<td>68</td>
</tr>
</tbody>
</table>

* Non-oil-exporting LDC
† Manufactures-exporting LDC
** Oil-exporting LDC

▲ Table 28.4 Share of primary commodities and manufactures in total merchandise exports for selected LDCs

We see that for the first six countries listed, the dependence on the export of primary commodities, as compared with the export of manufactured products, is very strong. For example, 93% of all Ethiopia's merchandise export earnings come from the sale of primary commodities. In the same manner, Côte d'Ivoire earns 93% of its merchandise export earnings by exporting primary commodities.

However, notice the difference between the first four countries and the next two, as noted in the key. The first four are known as non-oil-exporting LDCs, while Angola and Yemen are characterized as oil-exporting LDCs. Almost all of the export revenue for Angola and Yemen comes from the sale of oil.

The last two countries, Bangladesh and Nepal, are different again. They concentrate on the export of low-skill manufactured products, especially textiles.

We can see from Table 28.5 that there is one more group of LDCs that need to be identified, which are the services-exporting LDCs, such as Cape Verde and the Maldives. These countries make most of their export revenue from tourism.

<table>
<thead>
<tr>
<th>Country</th>
<th>Merchandise trade (%)</th>
<th>Services (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cape Verde†</td>
<td>5</td>
<td>95</td>
</tr>
<tr>
<td>Maldives†</td>
<td>30</td>
<td>70</td>
</tr>
</tbody>
</table>

Source: Trade profiles, WTO, 2019
† Services-exporting LDC

▲ Table 28.5 Share of merchandise trade and services in total exports for selected LDCs

We will focus on the developing countries that are dependent on the export of non-oil commodities. While there is no doubt that the long-run trend in commodity prices was downward in the last 50 years.
of the 20th century, there has been a short-run upward movement, since about 2003, although the global economic crisis of 2008 (ask your teacher!) did dent the short-run trend.

<table>
<thead>
<tr>
<th>Year</th>
<th>All primary commodities, weighted average</th>
<th>Non-oil commodities</th>
<th>Agricultural raw materials</th>
<th>Metals</th>
</tr>
</thead>
<tbody>
<tr>
<td>2009</td>
<td>117.0</td>
<td>98.1</td>
<td>96.1</td>
<td>121.4</td>
</tr>
<tr>
<td>2010</td>
<td>146.3</td>
<td>123.1</td>
<td>129.6</td>
<td>185.8</td>
</tr>
<tr>
<td>2011</td>
<td>182.7</td>
<td>147.7</td>
<td>161.0</td>
<td>209.4</td>
</tr>
<tr>
<td>2012</td>
<td>174.5</td>
<td>136.2</td>
<td>127.9</td>
<td>172.1</td>
</tr>
<tr>
<td>2013</td>
<td>169.2</td>
<td>128.8</td>
<td>122.3</td>
<td>165.4</td>
</tr>
<tr>
<td>2014</td>
<td>159.6</td>
<td>121.8</td>
<td>113.1</td>
<td>143.5</td>
</tr>
<tr>
<td>2015</td>
<td>108.7</td>
<td>101.1</td>
<td>100.0</td>
<td>105.6</td>
</tr>
<tr>
<td>2016</td>
<td>100.0</td>
<td>100.0</td>
<td>100.0</td>
<td>100.0</td>
</tr>
<tr>
<td>2017</td>
<td>113.6</td>
<td>106.4</td>
<td>105.2</td>
<td>122.1</td>
</tr>
<tr>
<td>2018</td>
<td>128.4</td>
<td>108.1</td>
<td>107.2</td>
<td>129.8</td>
</tr>
</tbody>
</table>

Source: International Monetary Fund, 2019

Table 28.6 Real primary commodity prices, 2009–2018

Recent movements in commodity prices are shown in Table 28.6. The data illustrates a major problem for commodity-exporting developing countries. As we discovered in Chapter 7, commodity prices tend to be volatile, due to relatively inelastic demand and supply. If we look at the data, prices in all columns peaked in 2012, before falling significantly by 2016, and then rising again by 2018.

As a result of the volatile prices, countries dependent on non-oil commodity exports are vulnerable to circumstances that are simply beyond their control. The fact that export prices can fluctuate significantly over a short period of time can make it very difficult for countries to plan effectively for the future.

6. **Prevalence of imperfect markets and limited information**: The trend in developing countries, in the last twenty years, has been towards a more market-oriented approach to growth. This has sometimes been promoted, or “encouraged”, by international bodies such as the International Monetary Fund and the World Bank. However, this is possibly problematic, since whilst market-based approaches may work well in economies where markets are efficiently functioning, many developing countries face imperfect markets and imperfect knowledge.

Developing countries lack many of the necessary factors that enable markets to work efficiently. They lack a functioning banking system, which enables and encourages savings and then investment. They lack a developed legal system, which ensures that business takes place in a fair and structured manner. They lack adequate infrastructure, especially in terms of transport routes of all types which would enable raw materials, semi-finished products, and final goods to move around the country and out of the country efficiently and at relatively low costs. They lack accurate information systems
for both producers and consumers, which often leads to imperfect information, the misallocation of resources and misinformed purchasing decisions.

7. Dominance, dependence and vulnerability in international relations: In almost all cases, developing countries are dominated by developed countries, because of the economic and political power of the developed countries. In addition, they are dependent upon them for many things such as trade, access to technology, aid and investment. It is not really possible for economically small, developing countries to isolate themselves from world markets. For these reasons developing countries are vulnerable on the international stage and are dominated by, and often harmed by, the decisions of developed countries, over which they have no control. Some would argue that what is needed is for the developing countries to act as a bloc, rather like a trade union, in order to gain from “collective bargaining”.

All of the above factors are characteristics of developing economies and can also represent hindrances to economic growth and thus, possibly, economic development.

**How much diversity is there among developing countries?**

As useful as a list of common characteristics is, we have to be aware that no two developing countries are the same. Developing countries display notable diversity in a number of areas:

1. They have different resource endowments: There is a tendency to assume that developing countries must be poorly endowed with resources, both physical and human. However, this is not necessarily the case. Whilst it is common for the human resources to be undernourished and poorly educated, and thus low-skilled (we may refer to this as low levels of human capital), endowment in terms of physical resources can vary immensely between developing countries. Angola possesses oil and diamonds and yet is still very much a developing country. Chad had been considered a country that lacked physical resources, but the discovery of oil and subsequent production, since 2003 may make a large difference to the country. Bangladesh, on the other hand, is very poorly endowed with physical resources and synthetic products have now replaced the one major resource that they did have, jute. It should be remembered, however, that a lack of physical resources does not necessarily mean that a country cannot be successful. Japan is not well endowed with physical resources and Singapore has almost literally none, yet both countries have created “economic miracles” in the last 50 years.
2. **They have different historical backgrounds:** A large proportion of developing countries were once colonies of developed countries. However, the extent to which this has affected these countries varies greatly. Much depends upon the length of time that the countries were colonized and whether the eventual independence was given freely or whether it had to be fought for. It could be argued that some countries gained some positive outcomes from colonization, such as Singapore and Hong Kong, and some countries did not, such as Vietnam and Angola.

Colonized or not, there is no doubt that whatever developing countries we consider, there will be marked historical differences that will set the countries apart from each other socially, politically and economically.

3. **There are different geographic and demographic factors:** Developing countries differ hugely in terms of geographical size and also in terms of population size. Some developing countries are truly huge, such as China, Brazil, India and the Democratic Republic of the Congo, whereas others are very small in terms of land mass, such as Swaziland, Jamaica and, especially Nauru.

In terms of population, it is a common mistake to assume that all developing countries have large populations. This is, in fact, not the case. Developing country populations range from China (approx. 1,420 million in 2019), India (approx. 1,369 million in 2019), and Indonesia (approx. 270 million in 2019), three of the four most populated countries in the world at one end of the spectrum, down to Fiji, Guyana and Djibouti, who all have populations of less than one million people.

4. **There are differences in ethnic and religious breakdown:** Developing countries have a wide range of ethnic and religious diversity. High levels of ethnic and religious diversity within a country increase the chances of political unrest and internal conflict. We have seen examples of this in Rwanda, Sri Lanka, Angola and Myanmar in the last 20 years. However, this is not the case in all developing countries.

5. **There are different structures of industry:** It is widely assumed that all developing countries depend upon the production and exportation of primary products. Whilst this may be true of many, we should not forget the evidence that was presented in Tables 28.4 and 28.5. Developing countries such as Burkina Faso and Ethiopia may be typical of many, in terms of primary product export dependence, but other countries, such as Bangladesh and Nepal, are exporters of manufactured products and others, such as Cape Verde and the Maldives, are mainly exporters of services, in the form of tourism.

6. **There are differences in per capita income levels:** Although it is often thought that all developing countries have very low levels of income per capita, we should be aware that there are marked differences in per capita income from developing country to developing country. Table 28.7 shows a range of developing countries and their GDP per capita (PPP US$).
### Table 28.7 GDP per capita (PPP US$) for selected countries in 2017

<table>
<thead>
<tr>
<th>Country</th>
<th>HDI rank</th>
<th>GDP per capita (PPP US$)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Mauritius</td>
<td>65</td>
<td>20,189</td>
</tr>
<tr>
<td>Thailand</td>
<td>83</td>
<td>15,516</td>
</tr>
<tr>
<td>Jamaica</td>
<td>97</td>
<td>7,846</td>
</tr>
<tr>
<td>Botswana</td>
<td>101</td>
<td>15,534</td>
</tr>
<tr>
<td>India</td>
<td>130</td>
<td>6,353</td>
</tr>
<tr>
<td>Pakistan</td>
<td>150</td>
<td>5,311</td>
</tr>
<tr>
<td>Ethiopia</td>
<td>173</td>
<td>1,719</td>
</tr>
</tbody>
</table>

**Source:** Human Development Report 2018, UNDP

7. **There are differences in political structure:** Developing countries have varying political structures. These include:
- democracies
- monarchies
- military rule
- single-party states
- theocracies
- transitional political systems, where a country is in transition, often caused by conflict and civil war, and so cannot be classified.

Within each of these structures there are of course many substructures. For example, democracies may be presidential systems, semi-presidential systems, parliamentary republics or constitutional monarchies. The main point is that, with developing countries being so diverse in their systems of government, it is very difficult to establish one-size-fits-all solutions to developmental problems.

In conclusion, we can say that, while there are some common characteristics that are held by developing countries to a certain degree, there are also several significant differences. One must be very cautious in making generalizations that imply that all developing countries are the same.

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### EXAMINATION QUESTIONS

**Paper 1, part (a) questions – HL & SL**

1. Distinguish between economic growth and economic development. [10 marks]
2. Using a PPF diagram, explain how it is possible for a country to achieve economic growth. [10 marks]
3. Outline three of the Sustainable Development Goals. [10 marks]

**Paper 1, part (a) questions – HL**

1. Explain the relationship between sustainability and poverty. [10 marks]

**Paper 1, part (b) questions – HL only**

1. Using real-world examples, discuss the view that economic growth will always lead to economic development. [15 marks]