Outline of Today’s Lecture

Economic development
• What is a developing country?
• Some salient features of poor countries
• Development strategies
• Successes and failures
Development Economics

Development economics is about economic growth in poor or developing countries.

Major hallmarks of poor countries:

- low per capita income (high poverty rates)
- low life expectancy, poor health status, and often high population growth rates
- high illiteracy and little education
- rudimentary technologies along with little capital and other complementary factors
Where the developing world’s poor live

Distribution of population living on less than $1 a day, 1998 (1.2 billion)

- Europe and Central Asia: 2.0%
- Middle East and North Africa: 0.5%
- Latin America and the Caribbean: 6.5%
- East Asia and Pacific: 23.2%
- Sub-Saharan Africa: 24.3%
- South Asia: 43.5%
## Representative countries

<table>
<thead>
<tr>
<th>Country</th>
<th>Per capita income (Market, PPP in $US)</th>
<th>Education (expected years boys, girls)</th>
<th>Population (millions, growth rate, 1999)</th>
<th>Manufacturing exports (billions)</th>
</tr>
</thead>
<tbody>
<tr>
<td>US</td>
<td>30600, 30600</td>
<td>[16, 16]</td>
<td>272, 1.0%</td>
<td>$682</td>
</tr>
<tr>
<td>Brazil</td>
<td>4400, 6300</td>
<td>[11, 11]</td>
<td>168, 1.4%</td>
<td>$51</td>
</tr>
<tr>
<td>Russia</td>
<td>2300, 6300</td>
<td>[13, 13]</td>
<td>149, -0.1%</td>
<td>$74</td>
</tr>
<tr>
<td>India</td>
<td>450, 2150</td>
<td>[10, 10]</td>
<td>997, 1.8%</td>
<td>$34</td>
</tr>
<tr>
<td>Eritrea</td>
<td>200, 1010</td>
<td>[5, 4]</td>
<td>4, 2.7%</td>
<td>$½</td>
</tr>
</tbody>
</table>
Poverty in Poor Countries

“Poor people live without fundamental freedoms of action and choice that the better-off take for granted. They often lack adequate food and shelter, education and health, deprivations that keep them from leading the kind of life that everyone values. They also face extreme vulnerability to ill health, economic dislocation, and natural disasters. And they are often exposed to ill treatment by institutions of the state and society and are powerless to influence key decisions affecting their lives.

These are all dimensions of poverty.”

Figure 3.2
Health indicators improve as incomes rise

Under-five mortality rate, 1995
Per 1,000 live births

Per capita GDP, 1995
U.S. dollars (PPP); log scale

Source: World Bank data.
Wealthier is healthier (1993)
Across countries, the ratio of female to male literacy rises with per capita income.

Ratio of female to male literacy rate
Average, 1990–98

Per capita GDP
1995 U.S. dollars (PPP); log scale
Conflict is overwhelmingly concentrated in poor countries

Share of incidents of civil war and strife, 1990–95

Percent

0  20  40  60  80  100

East Asia and Pacific  Europe and Central Asia  Latin America and the Caribbean  Middle East and North Africa  South Asia  Sub-Saharan Africa  Developing countries  High-income countries
Democracy and growth go hand in hand

Source: Samuelson-Nordhaus, Economics, 17th edition, Chapter 34.
The rich get richer …

Figure 8
The incomes of rich and poor countries continue to diverge

GDP per capita
(1995 U.S. dollars)

Three roads to development

• Decrease population growth
  … and the specter of Malthus

• Increase capital growth
  – human capital
  – domestic saving
  – borrowing and foreign aid

• To increase T.C., most fruitful route is to import technological improvements

• But development economics is a complex of economic and other factors (see next slide)
Economic development seen through the lens of growth accounting

Recall growth accounting equation:

\[ g_Q - g_L = \alpha (g_K - g_L) + T. C. \]

where \( \alpha = \) share of capital \( \sim \frac{1}{4} \) to \( \frac{1}{3} \)

This suggests three potential approaches to development:

… work on K, L, or TC.
Investment accounting:

For closed economy:
\[ I = S = \text{Priv. Sav.} + (T - G) \]

For open economy:
\[ I + NX = I + \text{Exp} - \text{Imp} = S = \text{Priv. Sav.} + (T - G) \]
or
\[ I = \text{Private Sav.} + \text{Public Sav.} + \text{Foreign Sav.} \]
Failure is a vicious circle, while success is a cumulative process.
The Miracle Economies of East Asia

Basic facts of different regions

Ingredients in East Asian economies:
- High saving and investment rates
- Openness to trade and technology
- High levels of education
- Rule of law and institutions of the market
- Undervalued exchange rates
Private capital flows to developing countries have increased dramatically.
The East Asian crisis of 1997-98

- Sources: bad fundamentals + unstable short-term capital flows
- Like “run on the bank”
- IMF programs helped stabilize
- Quick return to rapid growth
Countries in Crisis: Decline and Recovery
Growth of Real GDP (not per capita GDP)
Some development dilemmas

Children from Afghanistan weaving a rug in the Hazaratown refugee camp in Pakistan. They work 5 to 10 hours a day, for $5 to $7 a month. (Source: New York Times)
Fatima Sakhi's tiny fingers moved swiftly and nimbly up and down the loom.

Fatima, who is 9 years old, worked in imposed silence on a bench beside five other children, all between the ages of 8 and 12.

[WDN Query: is this acceptable? Should it be banned? Can we morally buy a rug produced by Fatima?]

Fatima is lucky. She comes at 8 every morning, but leaves at 1 p.m. for school. Most of the 23 other children work until evening.

“Everyone in every family must work in order to survive, no matter how young or how little pay,” said Kazim Wahdi, a teacher in the Afghan refugee settlement.

In this world of shared misery, all things are relative. Fatima's family could not afford the $1 a month it costs to send her to school if she did not work.

Is a tedious and difficult job too high a price for a 9-year-old to pay for her education?”

What about sweatshops?

How successful have tropical African countries been in developing manufacturing and “high tech” industries?

Manufacturing exports to the United States:

- Eritrea: $110,000
- Ethiopia: $280,000
- Chad: $100,000
- Western Sahara: 0
- Canada: $180,000,000,000

Are sweatshops exploitation…

… or the first step on the road to factories, good jobs, and a humane high-income economy?