

Developing countries

Content:

- A. DC in general
- B. Political development
- C. Economic development
- D. Milestones
- E. Ways to overcome underdevelopment

DC in general

A. DC in general

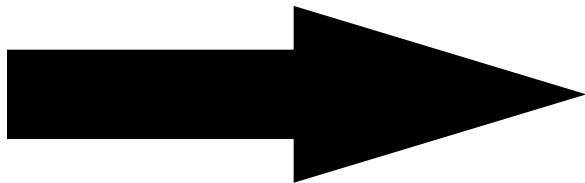
- majority formed after WWII – main characteristic **underdevelopment**
- DC in LR: **lagging behind** developed countries (according to GDP p.c.)
 - **BUT big differences** among countries
 - + according to HDI: catching-up since 1950s
- development with **problems**
 - DC blame western countries
 - western countries emphasis internal problems of DC

Terms

- 1960s developed x **underdeveloped**
- 1970s **third world countries** = outside of blocks ⇒ first world + CPE
- 1980s developed x **less developed**
- nowadays **newly industrialized** + emerging markets

DC - definition

- **different concepts**
- **narrow** = original – *all colonies, semi-colonies and dependent countries which gained independence -> DC*
- **wide** – *according to GDP p.c. but differences*



illogical →
characteristics

Comparison of narrow and wide concepts – examples

Narrow concept (UNCTAD)

Developing countries:

countries in Africa, America, Asia, Europe and Oceania including Cuba, Malta and former Yugoslavia

Developed market economies:

countries of OECD except Turkey and Mexico, including Gibraltar, Faroe Islands, Island, Israel, South Africa

East European countries:

European transforming economies

Socialistické země Asie:

China, North Korea, Mongolia, Vietnam

Wide concept (WB)

Developing countries:

countries with low and middle income (GDP p.c. from 695 to 8 625 USD) including transforming economies

High income countries:

divided into 2 groups, i.e. **OECD countries** without Turkey and Mexico and **other non-member states** in Europe (e.g. Greenland, Island), Asia (Singapore, Hong Kong, Brunei, etc.), Middle East (Israel, Kuwait, Qatar, United Arab Emirates) and America (The Bahamas, Bermuda, Virgin Islands, etc.)

DC – main characteristics

- low **GDP p.c**
- high **population growth**
- high % of **poverty**
- **unequal distribution** of incomes
- structure of economy (large share of **agriculture**)
- **small share of trade** on GDP
- high **unemployment**
- serious market **failures** and rigidities
- lack of **human capital** (quality of LF)
- lack of **physical capital** + backward technologies + low labour productivity

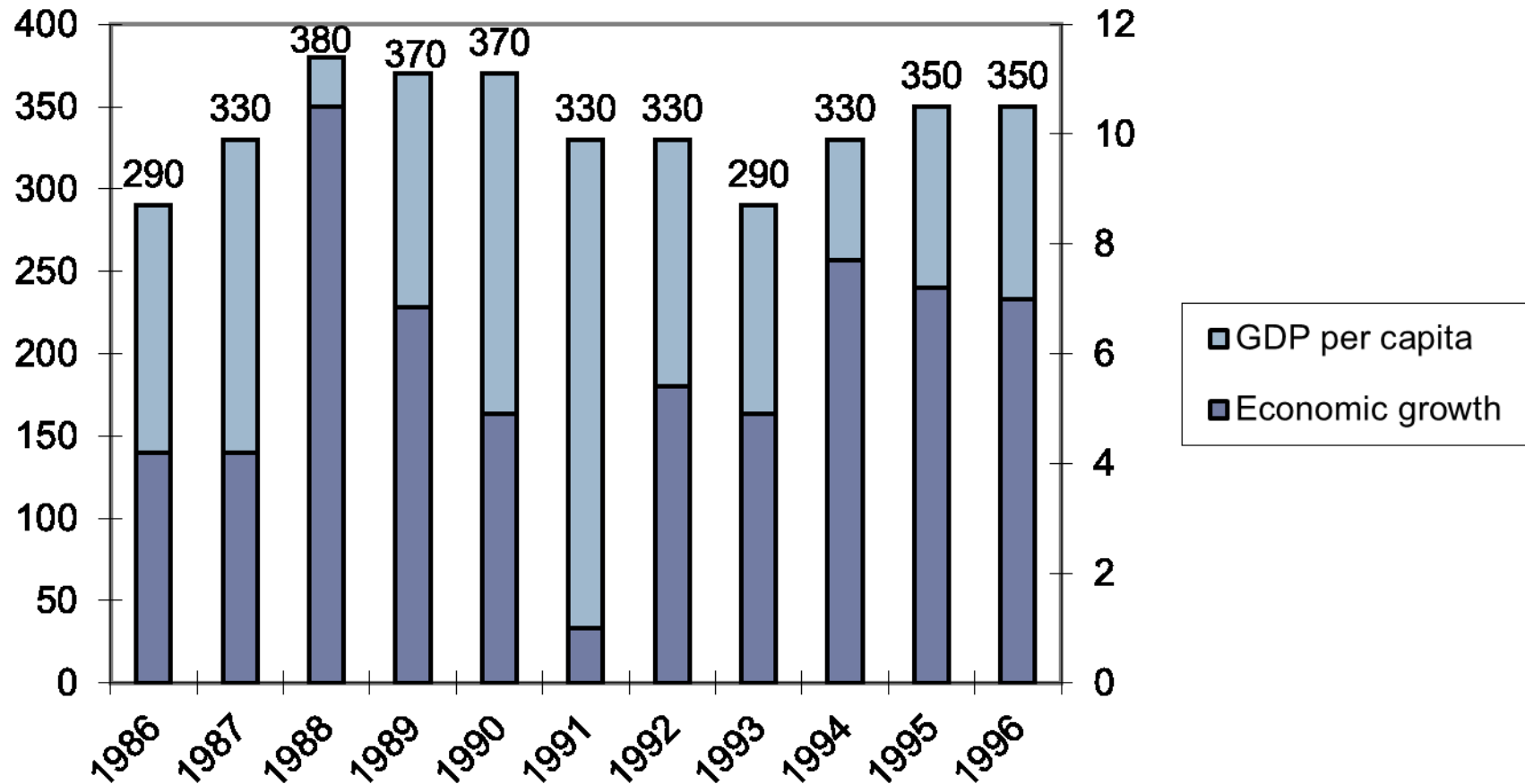
DC – characteristics

- <https://www.youtube.com/watch?v=MauZwxPEF88>

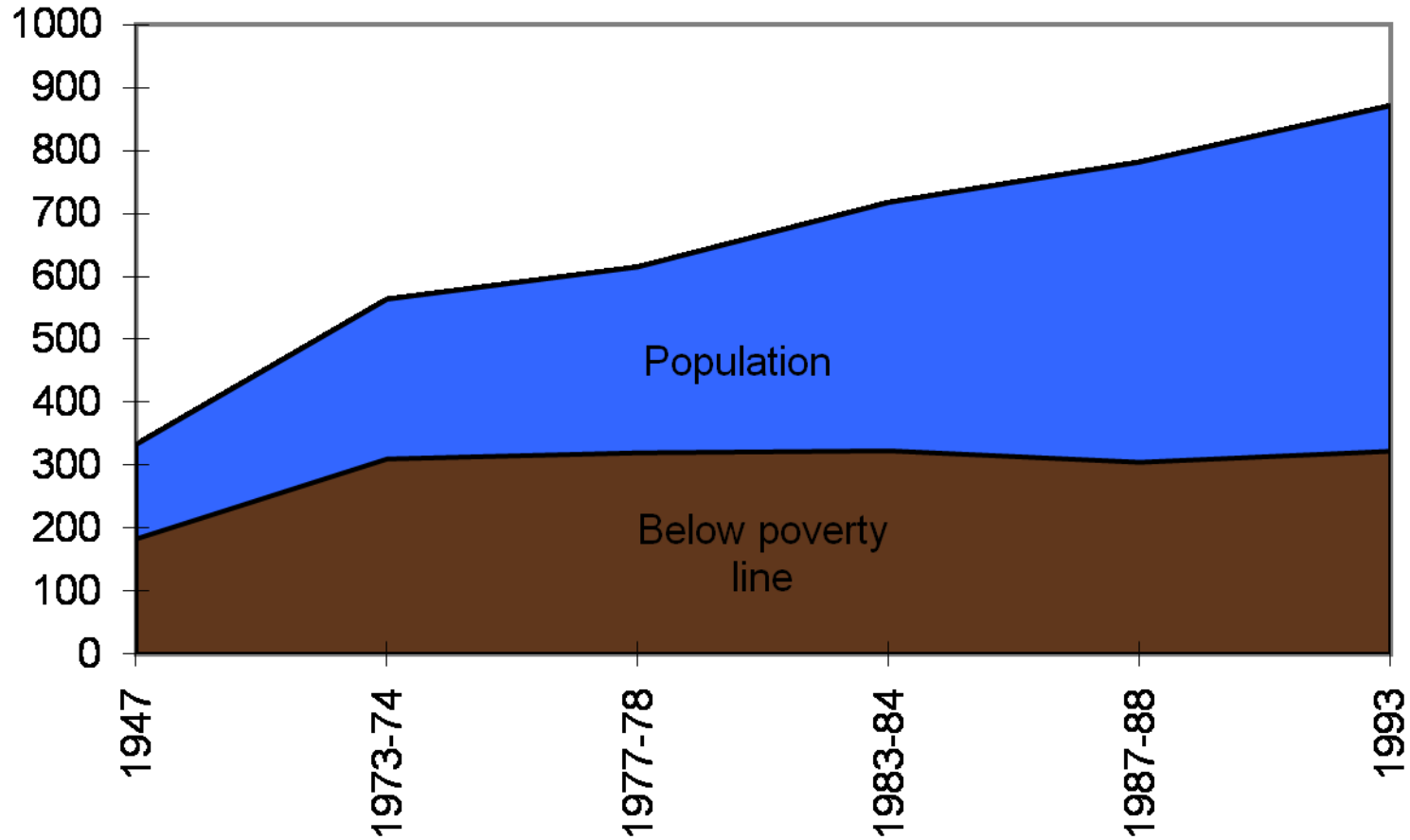
Selected demographic indicators in 1992

Country	Population growth 1985–93 (p.a.)	Life expectancy	Children per woman	Children mortality [deaths per 1000 born children]
Afghanistan	2,5	43	6,9	162
Austria	0,7	77	1,6	7
Bulgaria	-0,8	71	1,5	16
Ghana	3,2	56	6,1	81
Hungary	-0,5	69	1,8	15
Italy	0,2	77	1,3	15
Malaysia	2,4	71	3,5	14
Niger	3,2	46	7,4	123
Poland	0,4	70	1,9	14
Saudi Arabia	4,4	69	6,4	28
Sweden	0,6	78	2,1	5
Turkey	2,1	67	3,4	54
UK	0,3	76	1,8	7

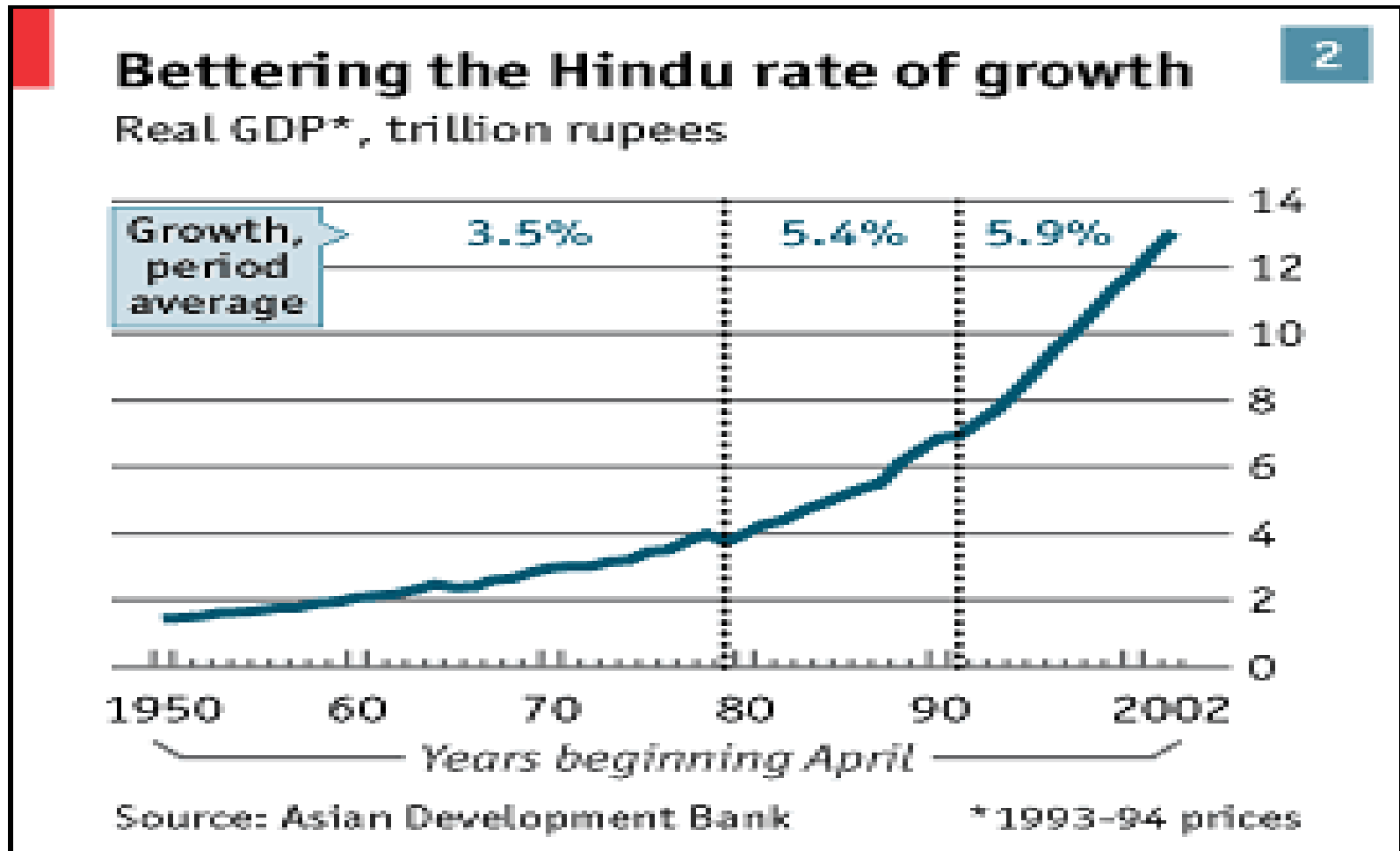
Economic growth and changes in GDP p.c. in India (1986–1996)



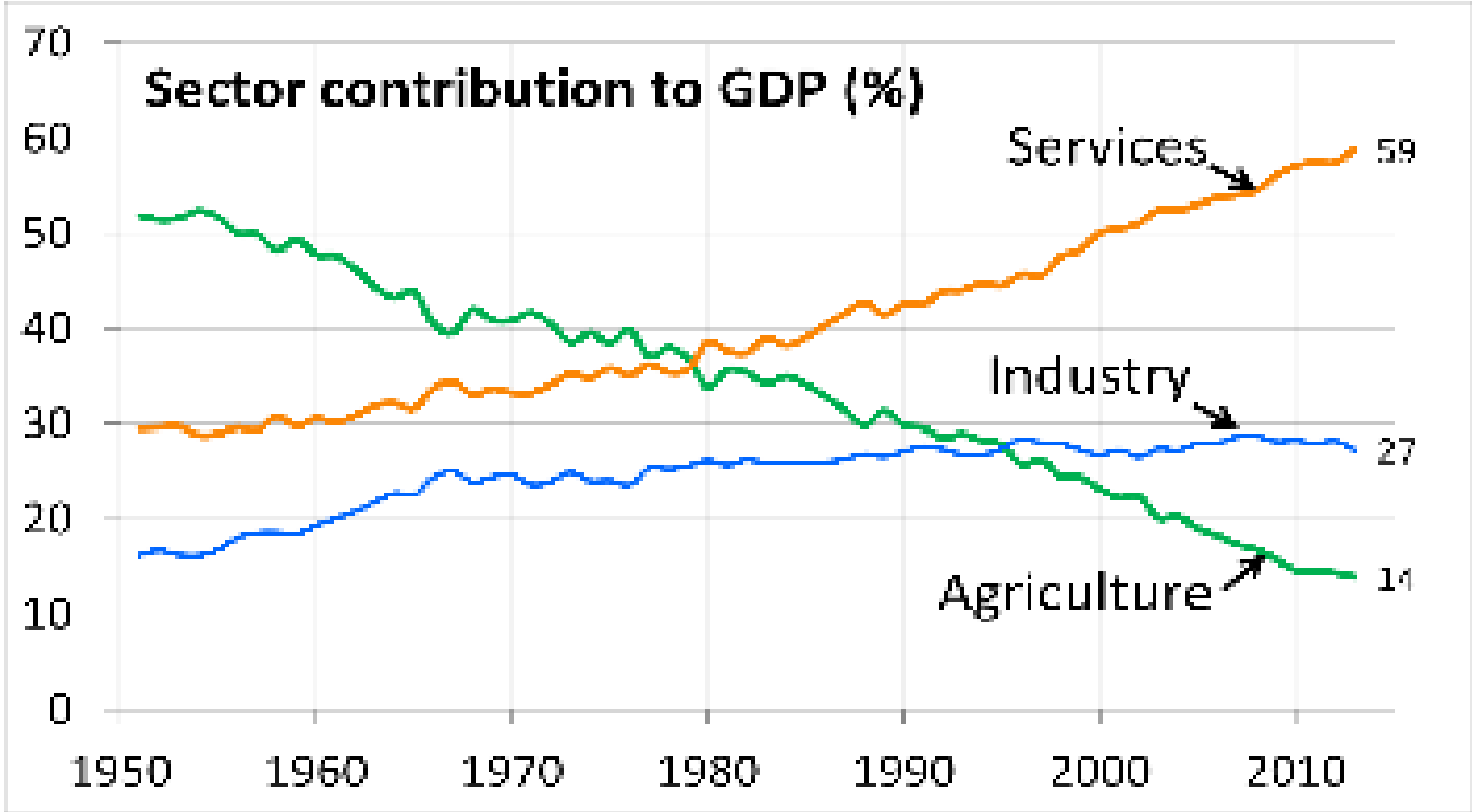
Population growth in India and its share below poverty line



Average growth rate of GDP in India (1950–2002)



Structure of Indian economy



Development of India's government deficit

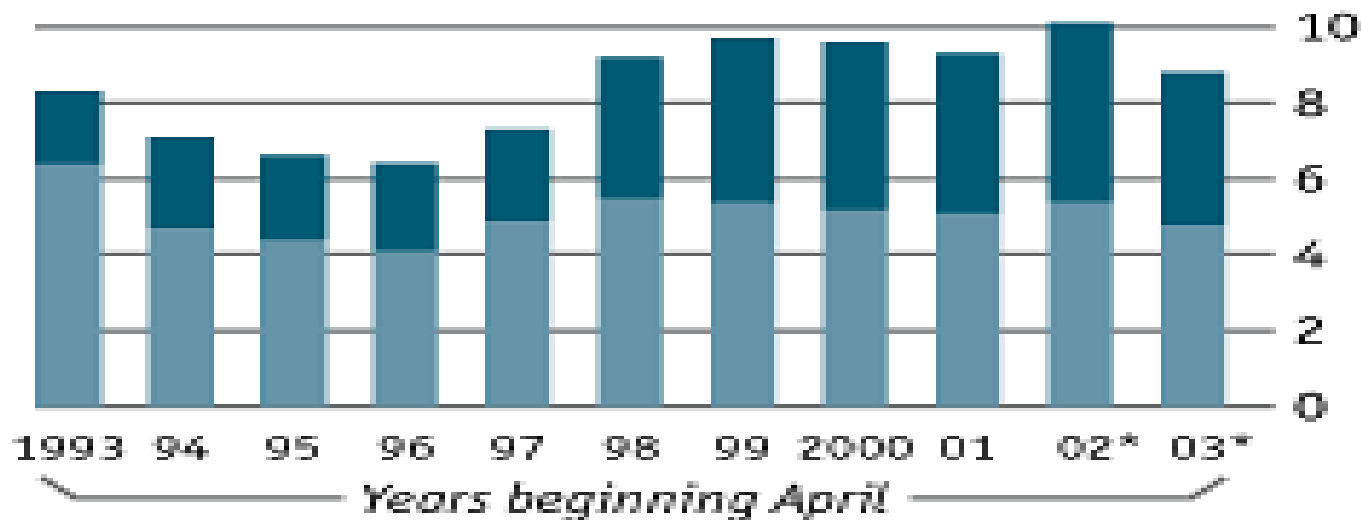
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Sustainable?

India's general-government deficit, % of GDP

Central

State and public-sector businesses



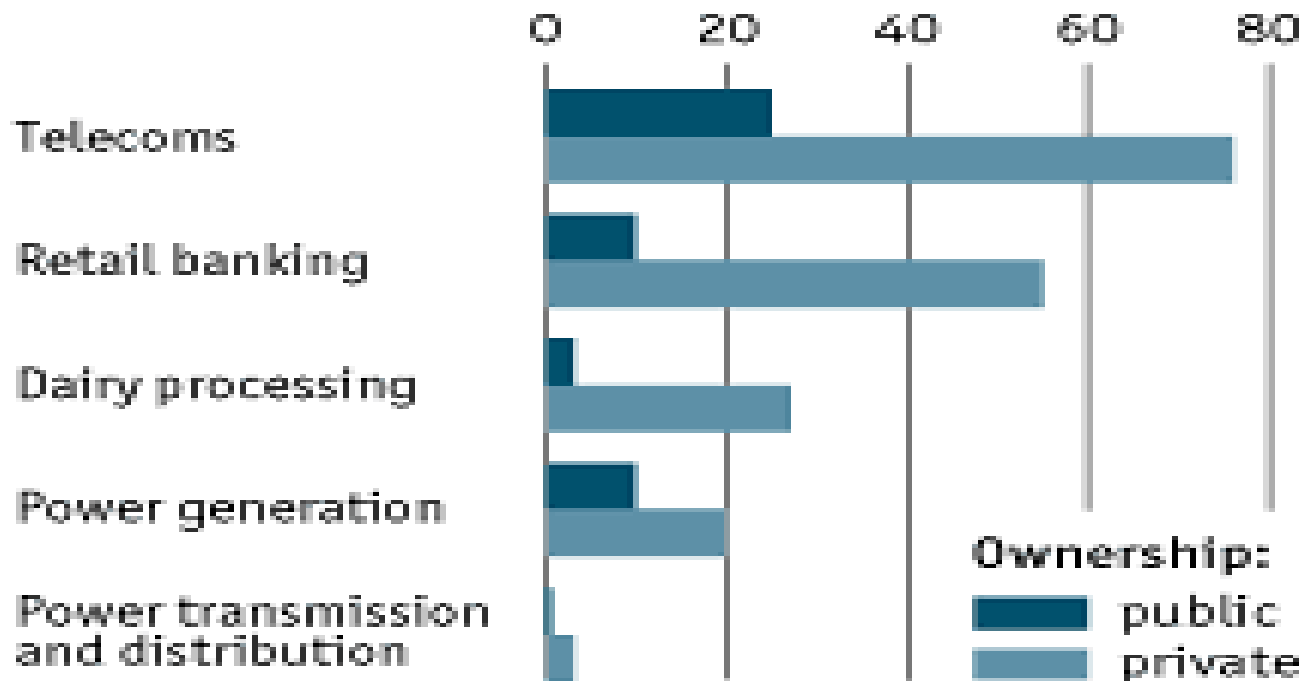
Sources: World Bank; Government of India Economic Survey; Reserve Bank of India

* Estimate

India's labour productivity in selected sectors (USA=100)

Privatise them

India's labour productivity, 1998
United States=100



Source: McKinsey

India vs. China



Difference between econ. growth and econ. development

- ▶ income distribution and poverty
- ▶ life expectancy
- ▶ production of steel and iron p.c.
- ▶ production of energy p.c.
- ▶ number of primary and secondary schools
- ▶ number of hospitals per 1000 inhabitants
- ▶ number of cars per 1000 inhabitants
- ▶ quality of environment
- ▶ involvement of inhabitants in the governance

Political development

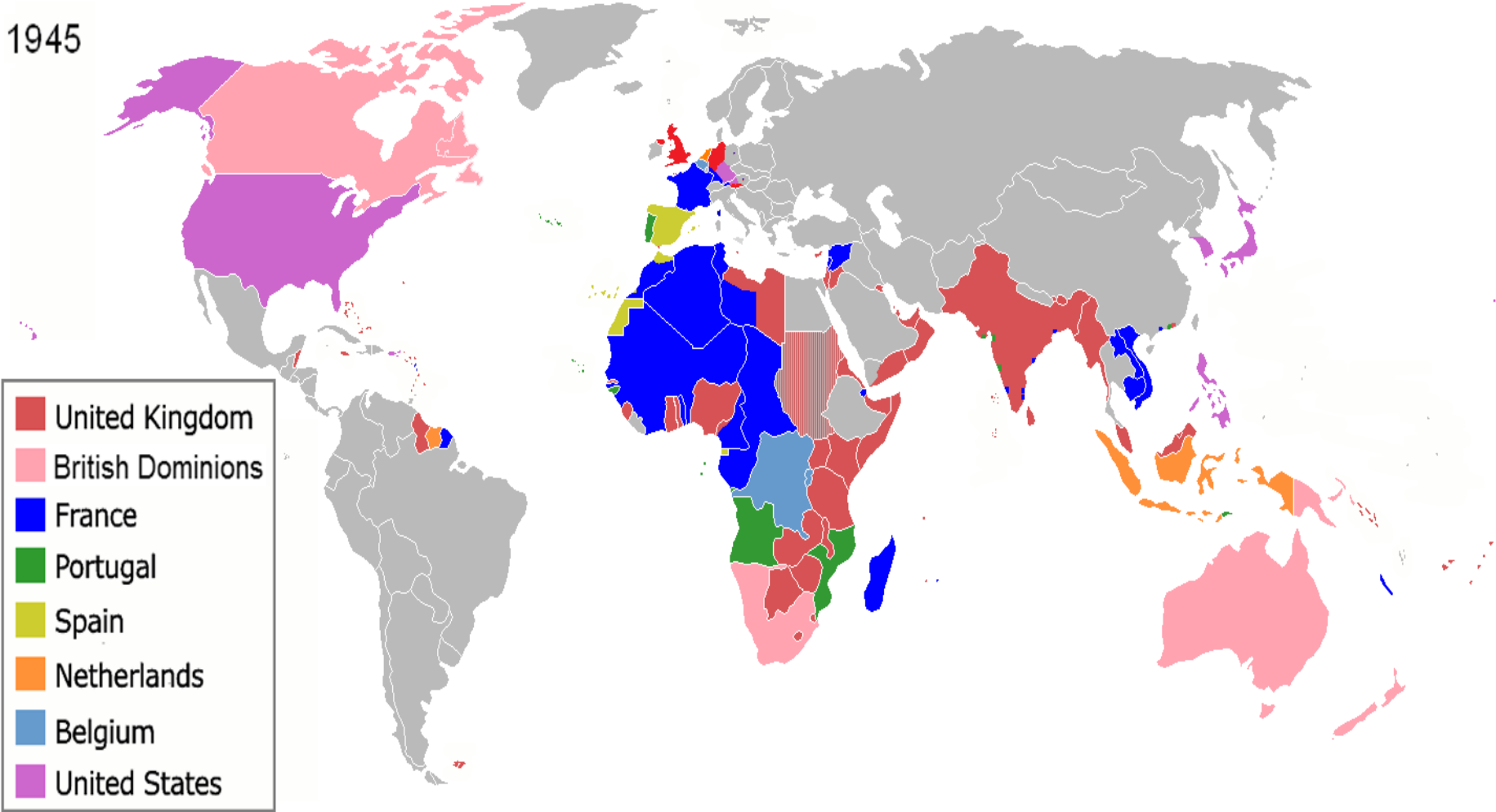
- common strategy of DC

B. Political development of DC

- until the end of 19th century – **countries divided among colonial powers**
 - certain countries formally independent (China, Persia) + dependent countries or semi-colonies (Australia, New Zealand)
 - reasons ...
- **relations with colonies**
 - trade in similar way as in GB's empire
 - emigrants
 - capital


Colonies and colonial powers in 1945

1945



Political map of Africa in 1914



 Africa, 1914. Before 1800, Africa was controlled by numerous African states. By 1914, all of Africa, with the exceptions of Ethiopia and Liberia, was under the control or oversight of European powers.

Independence

- certain countries after WWI
- but the **majority after WWII**
 - disputable outcomes
 - 24 the worst countries according to HDI in Africa – during last 10 wars or coups in ½ of them
 - in 1991 first president in AFR who voluntarily resigned after lost elections (Benin)
- nowadays – **Caribbean area**
 - no attempt to gain independence

Cold War

- DC x Western
- not many with centrally planning
- only strategically important states forced to join either side
- making use of bipolarity

Common strategy of DC

- conference in **Bandung**
 - 29 countries in 1955
 - resolution x war, zionism, colonialism,
 - + right to self-determination
 - + demands of help from advanced economies
- **OSN**
 - 1960 - Declaration on the Granting of Independence to Colonial Countries and Peoples
 - 1960 - Declaration on the abolition of colonialism
 - 1974 - New International Economic Order
 - Number of claims (e.g. 1% GDP to support DC)

Non-Aligned Movement

- 1961 in Belgrade
- 21 states
- goals:
 - more active participation of Non-Aligned states
 - ban on nuclear testing
 - final and total decolonization
 - initiative to the establishment of the UN Conference on Trade and Development(UNCTAD)
 - stability of natural resources prices
 - I. slogan „*trade not aid*“
- in 1970s X Western (Cuba – chair)
- in 1980s mass character
 - influence in OSN
- end of the Cold War ↓ importance

Group of 77

- 1964 in Geneva
- 77 underdeveloped countries
- goals:
 - X „inequity“ of the world economic system = particularly X ↓ natural resources prices
 - coordination of DC's actions
- dissension in 1970s - OPEC
- in 1990s > than 120 members, but insignificant influence

Economic development

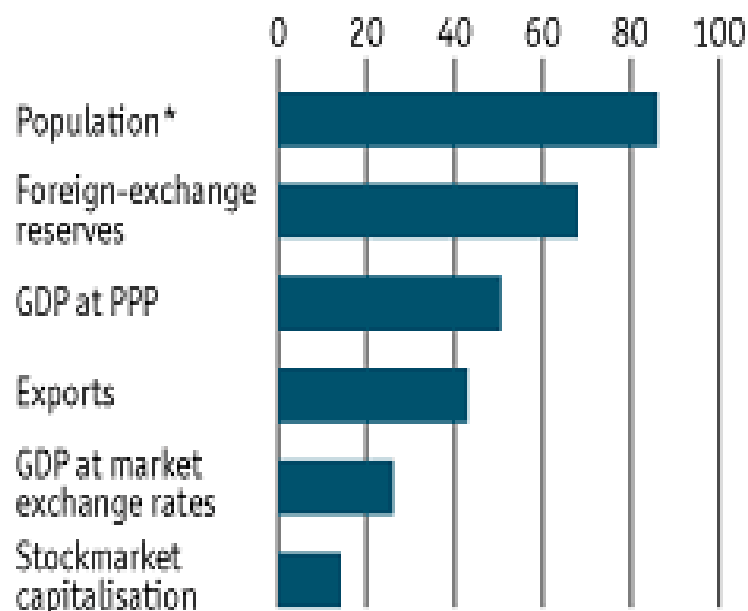
C. Economic development

- economic and cultural **backwardness** \Rightarrow need of econ. \uparrow
- + \uparrow had to be $>$ than \uparrow population \Rightarrow X population explosion
- ! Difference in economic strength and growth
- different initial position + different development \Rightarrow huge **differences among countries and regions**
 - Asian Tigers X Sub-Saharan Africa

The young pretenders

1

Emerging economies as % of world total, 2005



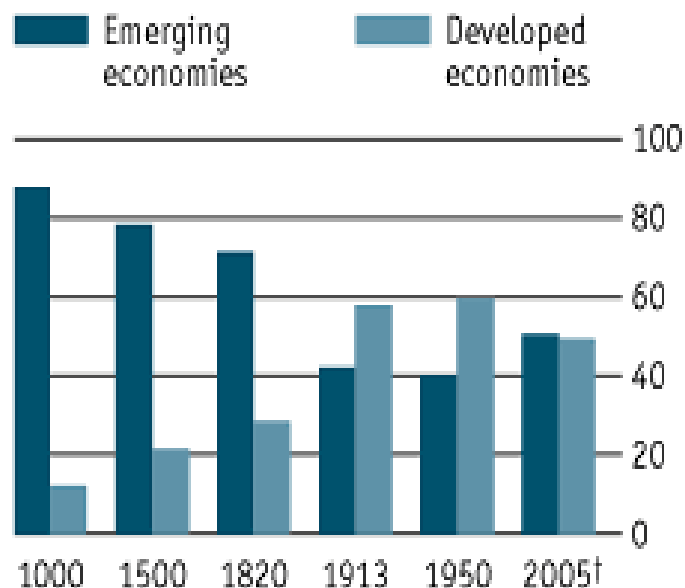
Sources: IMF; MSCI; *The Economist* estimates

*2004

Making a comeback

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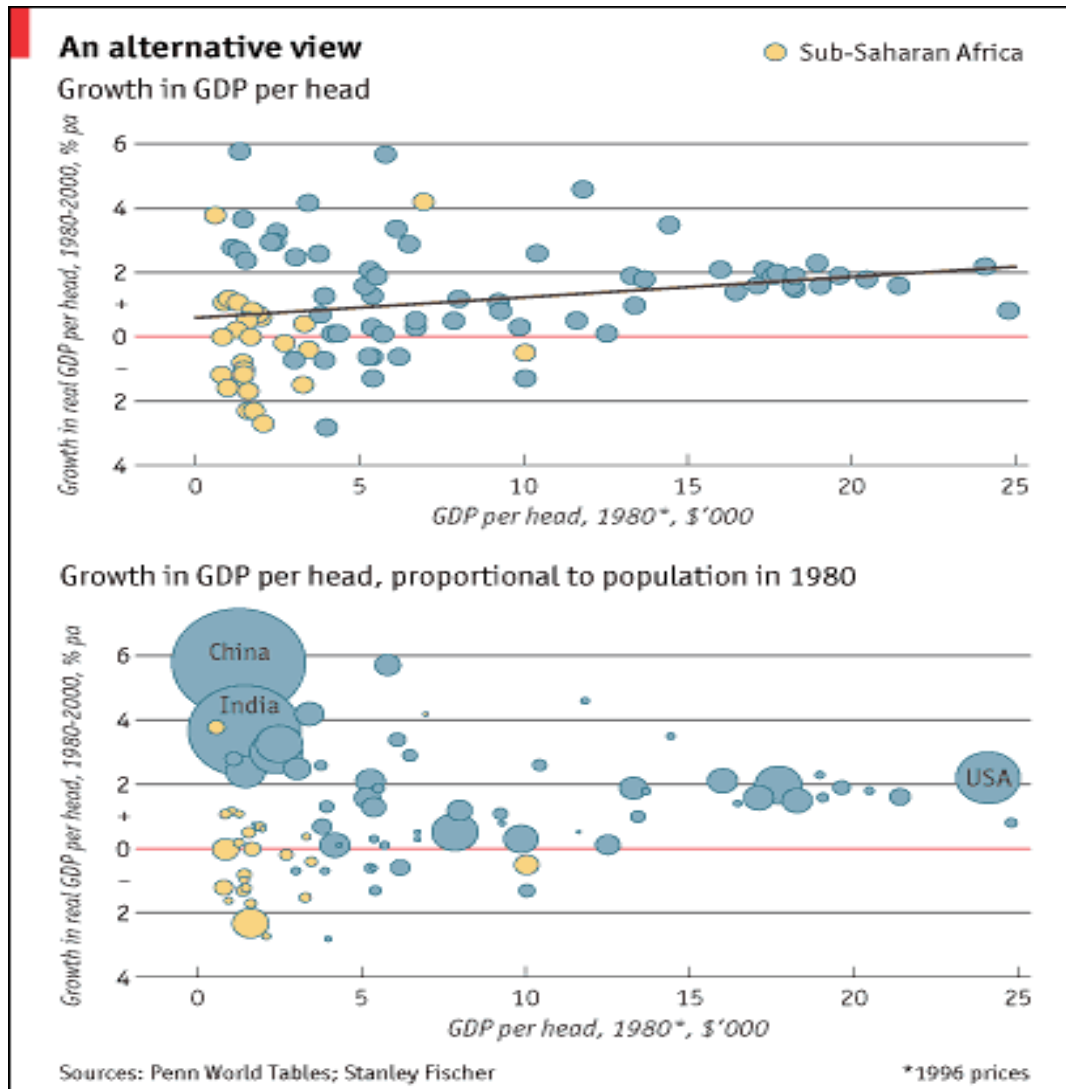
Share of global GDP*, %



*At purchasing-power parity †*The Economist* estimates

Source: OECD, Angus Maddison

Convergence?



Average growth of GDP, 1971-2000 (in prices of 1995 and %)

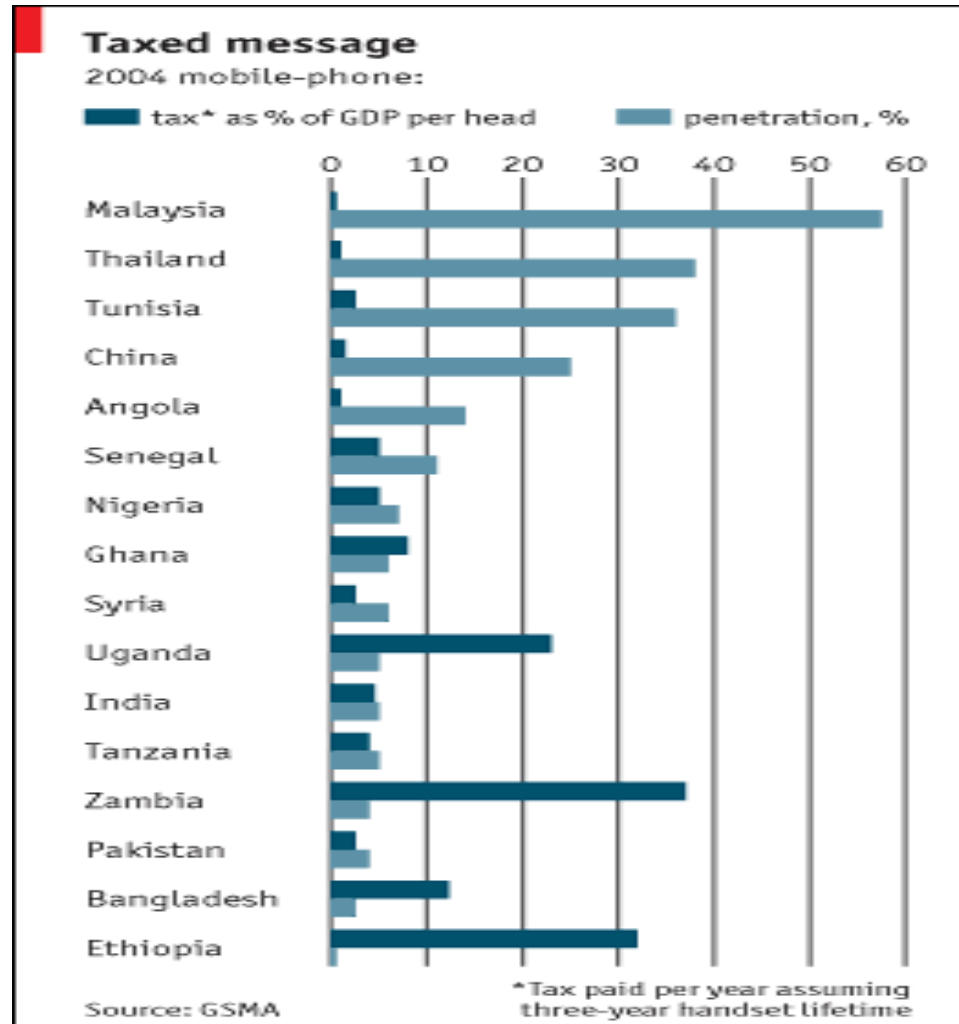
	GDP in 2000 USD billion	1971-80	1981-90	1991-00
World	31,981	3.8	3.2	2.6
Advanced countries	25,599	3.4	3.1	2.4
Industrial	24,811	3.4	3.0	2.4
G-7	21,028	3.4	3.1	2.3
USA	9,873	3.1	3.2	3.2
Japan	4,752	4.5	4.0	1.4
Germany*	1,872	2.7	2.2	1.8
Eurozone	6,077	3.3	2.5	2.1
Industrial non-G7	3,783	3.2	2.7	2.8
Others with high GDP	788	7.7	5.2	5.2
Asian NIS	571	9.5	7.4	6.1
Countries with low and middle income	6,401	5.4	3.5	3.2
Asia	2,595	5.4	7.2	6.8
East Asia and the Pacific	1,982	6.6	7.8	7.2
China	1,080	5.3	9.2	10.1
Korea	457	7.6	9.1	6.1
Indonesia	153	7.9	6.4	4.2
South Asia	612	3.1	5.8	5.2
India	479	3.0	5.9	5.6
Latin America and the Caribbean	1,949	5.9	1.1	3.3
Brazil	588	8.5	1.5	2.7
Mexico	584	6.7	1.8	3.5
Argentina	285	3.0	-1.5	4.6
Europe a Central Asia	993	5.2	3.5	-2.3
Russian Federation**	247	5.2	4.7	-5.2
Turkey	200	4.2	5.2	3.6
Poland	158	5.0	-0.1	3.7
Middle East and North Africa	549	6.6	2.4	3.2
Saudi Arabia	149	10.3	0.4	2.3
Iran	134	1.8	2.7	4.1
Egypt	96	6.6	5.5	4.4
Sub-Saharan Africa	315	3.3	1.7	2.2
South Africa	126	3.5	1.3	1.7
Nigeria	41	4.7	1.1	2.5

Asian Tigers

- **South Korea, Taiwan, Hong-Kong, Singapore**
- belong to newly industrialized countries (NIC)
- up to 1960s standard DC
- since 1960s very rapid econ. growth
 - South Korea strongly influenced by the monetary crisis in 1997
- nowadays GDP p.c. more than 20 000 \$ = more than in Czech Republic

- ▶ **reasons:**
 - ▶ ↑↑ EX
 - ▶ cheap and productive **labour force**
 - ▶ **foreign capital**
 - ▶ **development of industry** – textile, clothing, metallurgical, metal-working ⇒ electronics, chemistry, auto industry
 - ▶ reasonable **EP**
- ▶ **BUT different strategies:**
 - ▶ Singapore and Hong-Kong - liberal
 - ▶ X South Korea and Taiwan – state interventions
- ▶ **2nd wave:** Malaysia, Thailand, Indonesia
- ▶ **3th wave:** Laos, Vietnam
- ▶ **China**
- ▶ X Sub-Saharan Africa – lagging behind
- ▶ ⇒⇒ possibility of convergence **BUT** need of good EP

Taxes levied on cell phones

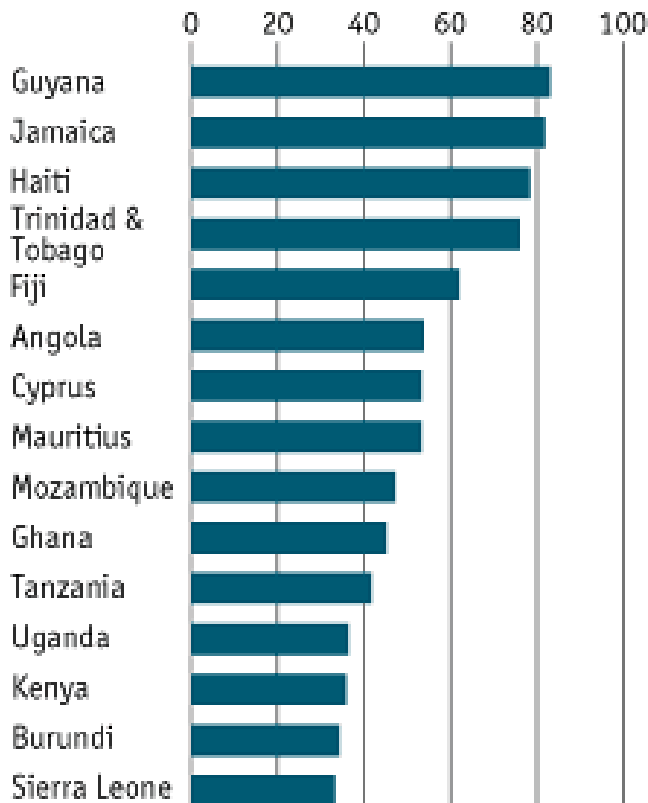


Migration of qualified labor force

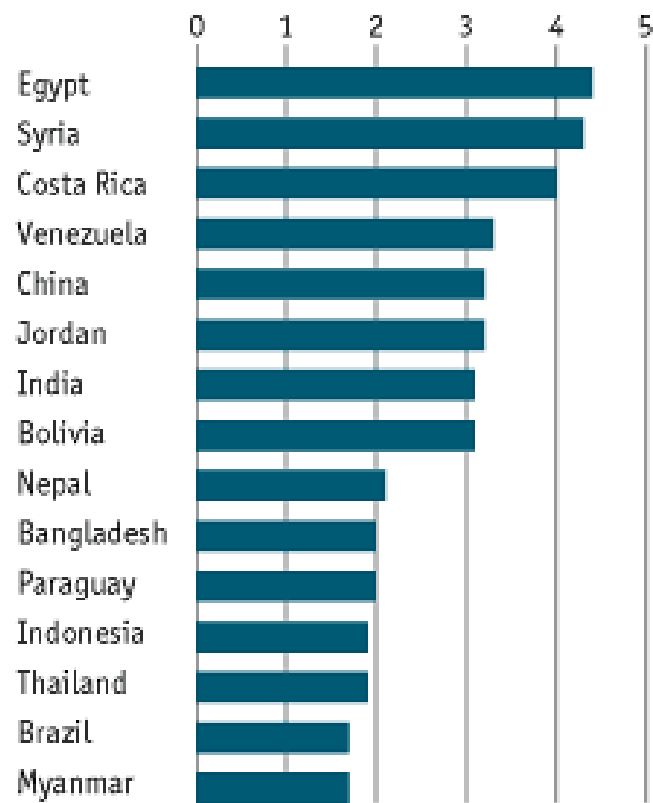
Graduate emigration

% of graduates living in OECD countries

Top 15

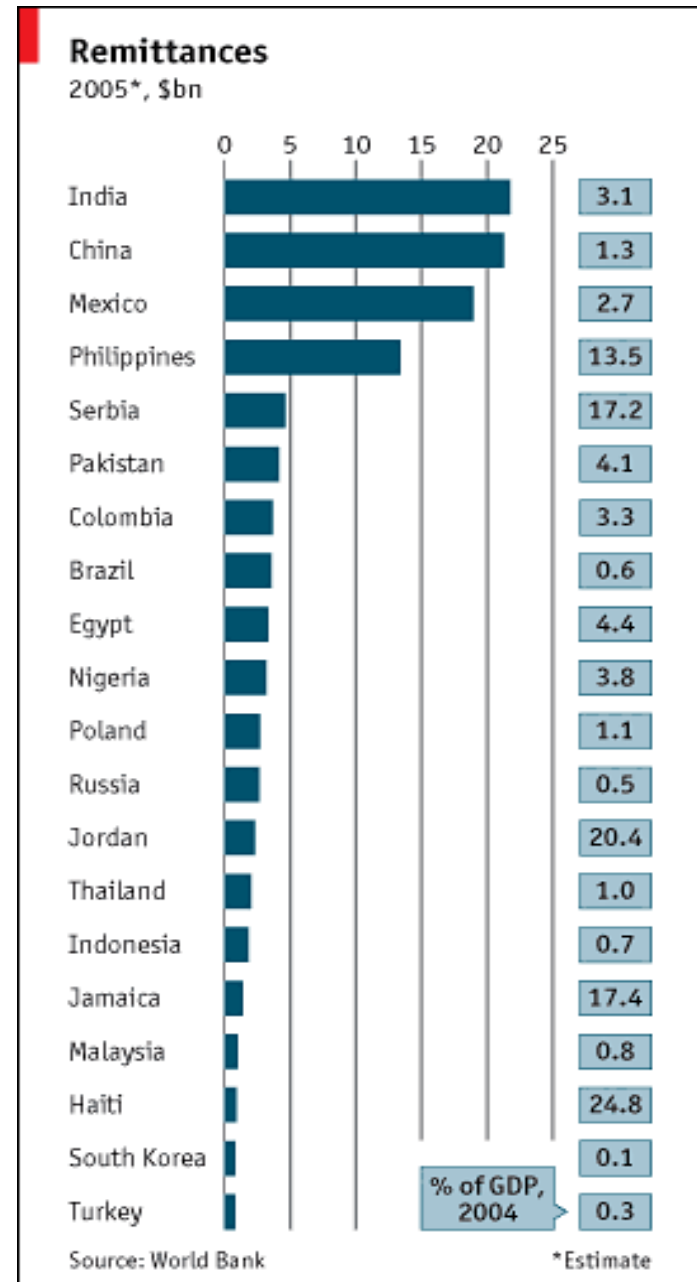
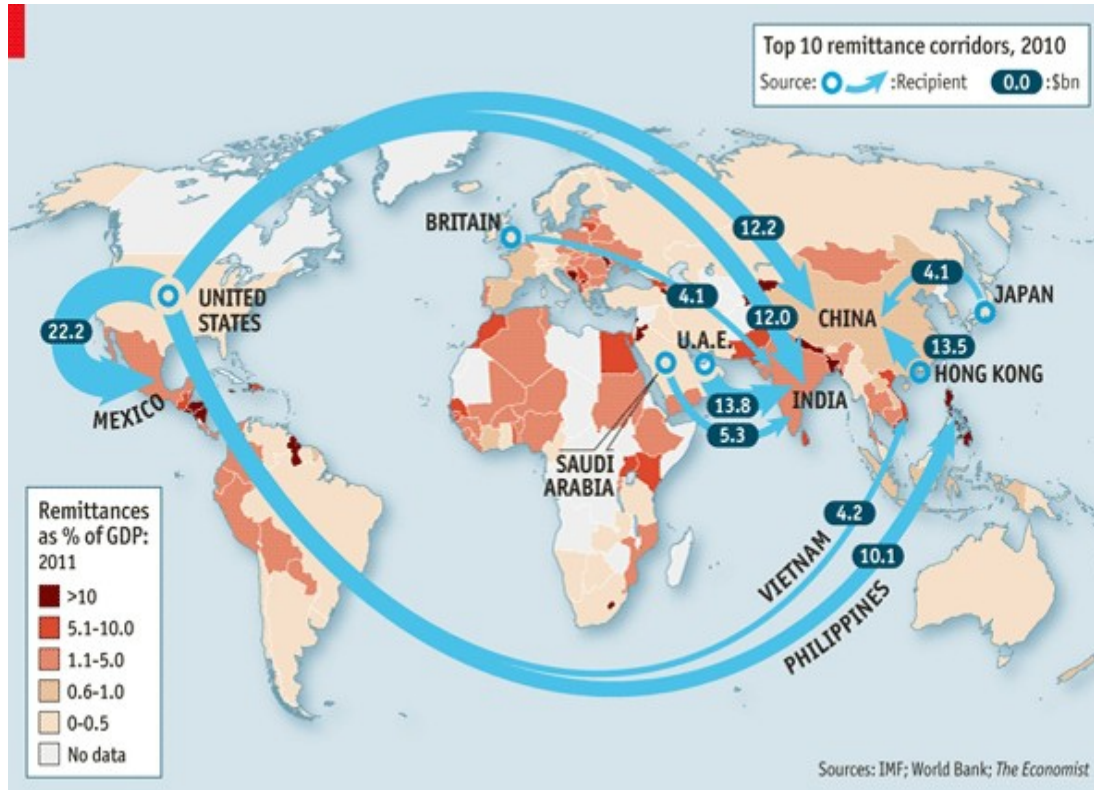


Bottom 15



Source: OECD

Remittances



Milestones

- Green Revolution, Debt, Poverty, Foreign aid

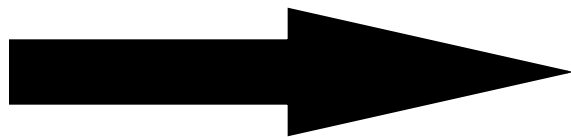
D1. Green Revolution

- population growth + food shortage ⇒ **starvation and malnutrition**
⇒ effort to ↑ **efficiency in agriculture**
- **changes** at end of 1960s and beginning of 1970s = Green Revolution
- **tools:**
 - **biological**
 - **seeds**- „miracle seeds“
 - **more intensive use of agricultural land**
 - **irrigation + organical fertilizers**
 - **mechanical**
 - tractors, mechanization
- **important role of governments** - fertilizers, irrigation and seeds

- **outcomes**
 - prevention of starvations
 - at the beginning - ↑ production
 - BUT problems with chemical fertilizers - ↑ usage + ↑ acidity of land
- **Africa** not affected by the first round
 - in the mid-1980s program „Sasakawa 2000“
 - similar problems as those in Asia
- end of 1980s **new Green Revolution**
 - ecological = more traditional with less chemicals
 - emphasis on grading up

D2. Debt

- **indebtedness** - important problem since constitution
- in 1970s **↑ indebtedness**
 - **↑ oil price**
- beginning of 1980s
 - Inflationary pressures ⇒ shift in the US monetary policy
 - ⇒ **↑ interest rates (LIBOR)**
 - ⇒ appreciation of \$
 - econ. **↓** in Western countries + other problems



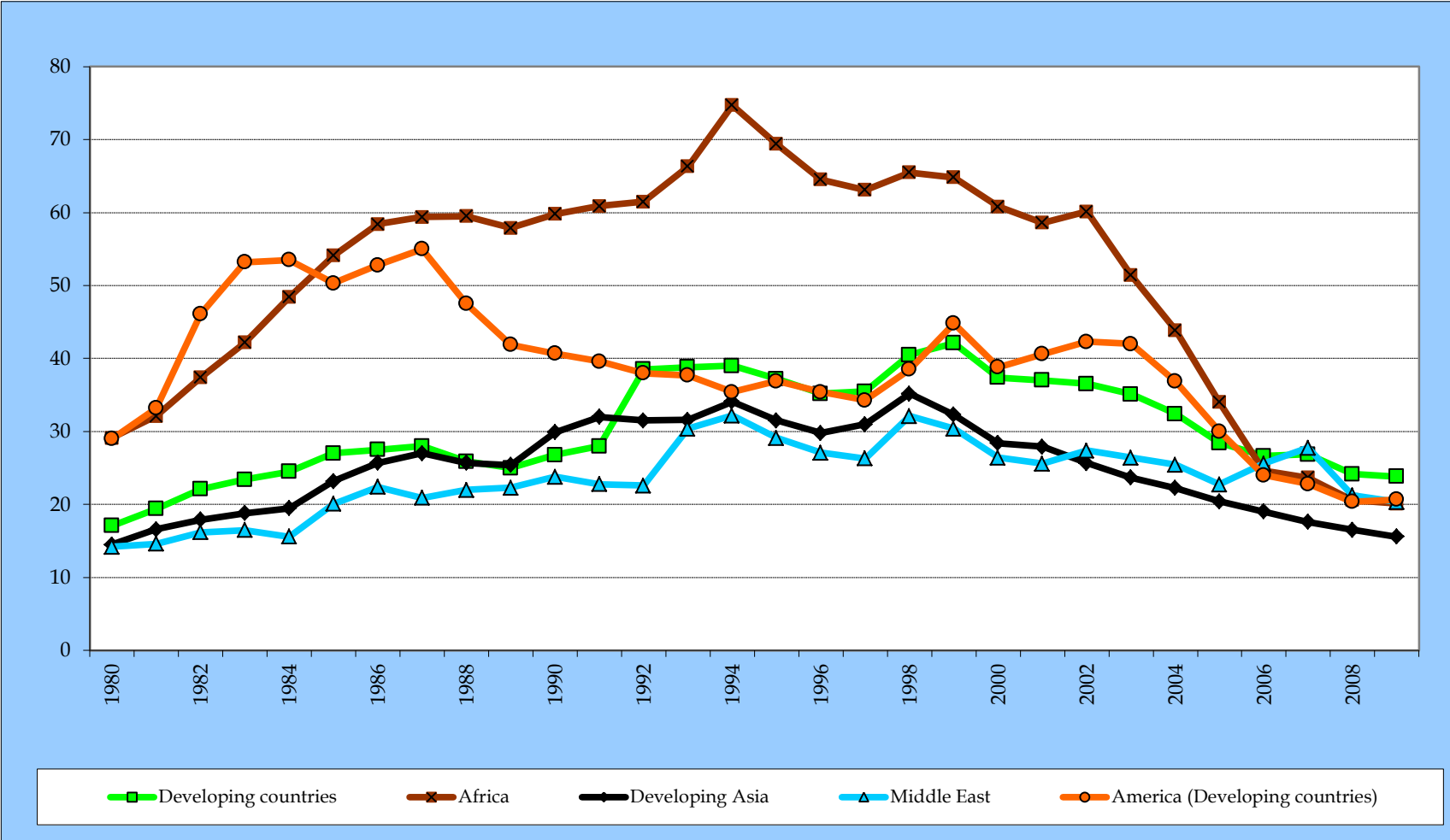
huge ↑ indebtedness

Current account balance in USD billion

	1973	1974	1975	1976	1977	1978	1979	1980	1981	1982
Rice producers	6.7	68.3	35.4	40.3	29.4	-1.3	56.8	102.4	45.8	-17.8
Other developing countries	-11.3	-37	-46.3	-32.6	-29.6	-33.2	-49.7	-74.4	-95	-73.2
Industrial countries	20.3	-10.8	19.8	0.5	-2.4	14.6	-25.6	-61.8	-18.9	-22.2

- Mexico + other 60 countries **serious problems with repayments**
- ⇒ **IMF + IBRD + Paris Club:**
 - prolonging the repayment schedule
 - lowering of interest rates
 - granting further debts
 - BUT strict conditions
- ↑ **debt** also after the end of the crisis
 - reduction in 1990s

External debt (% of GDP) in respective developing regions



Nowadays

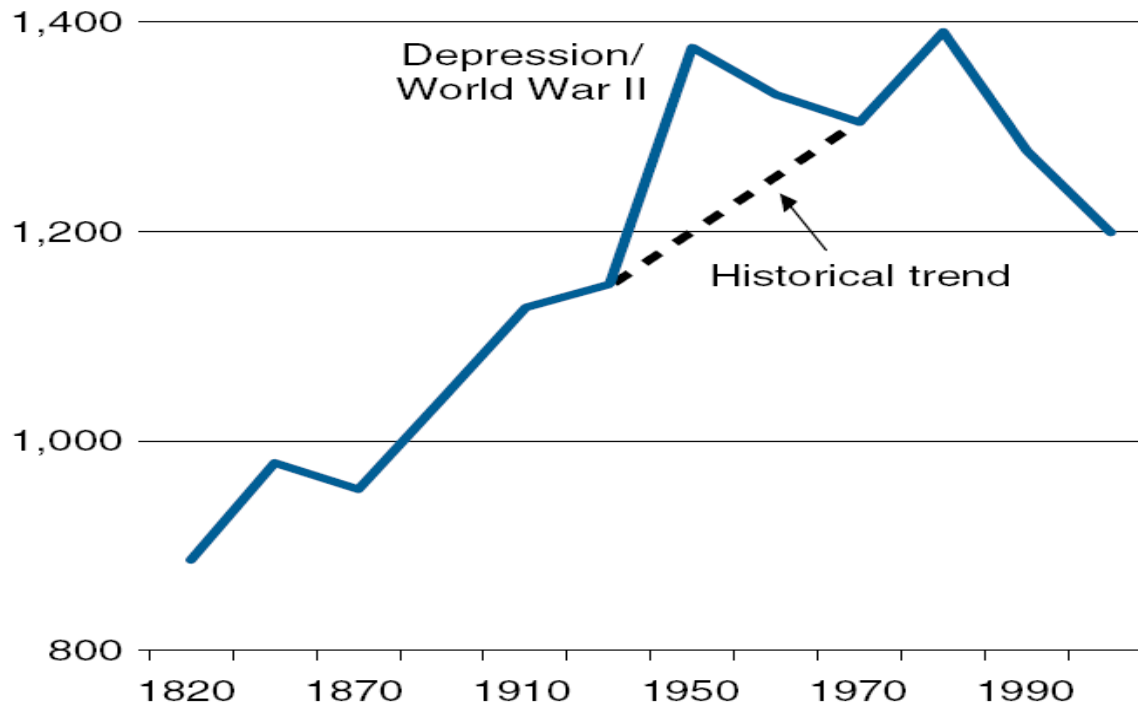
- ▶ huge differences among countries
- ▶ IMF a IBRD lend to DC under the condition of a meaningful program
 - ▶ discussion about so-called Washington Consensus = macro stability, trade liberalization and privatization
 - ▶ agreement of IMF, WB, and the US Treasury Department BUT never an official doctrine
- ▶ conditions often not respected ⇒ serious problems+ promises ⇒ loans ⇒... ⇒ for certain countries strict conditions
 - + somewhere e.g. Kenya opposition X loan from IMF b/c corruption in government

- debt relief for the poorest countries – **HIPC (Heavily Indebted Poor Country)**
 - initiative since 1996
 - 38 countries included – mainly in Africa
- individual states in most cases already forgiven bilateral debts
- problem with international organizations IMF + WB
 - no money for projects
 - + conditioned by meaningful EP + from saved money program with NGO x poverty

D3. Poverty

- persistent problem

Number of people with a daily income less than one dollar (billion)

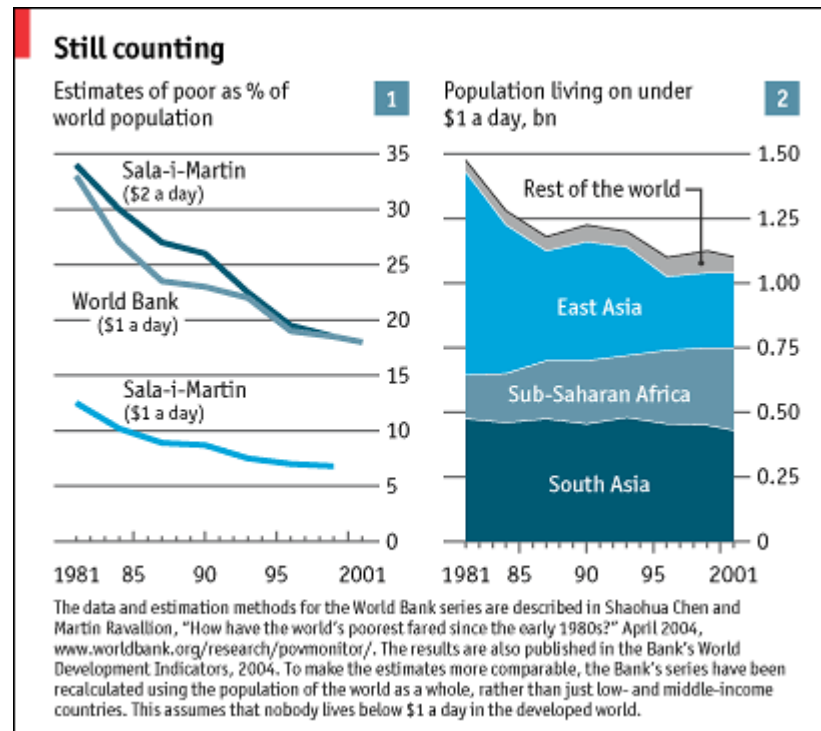


Millennium Development Goals

The 8
Millennium
Development
Goals



Poverty around the world

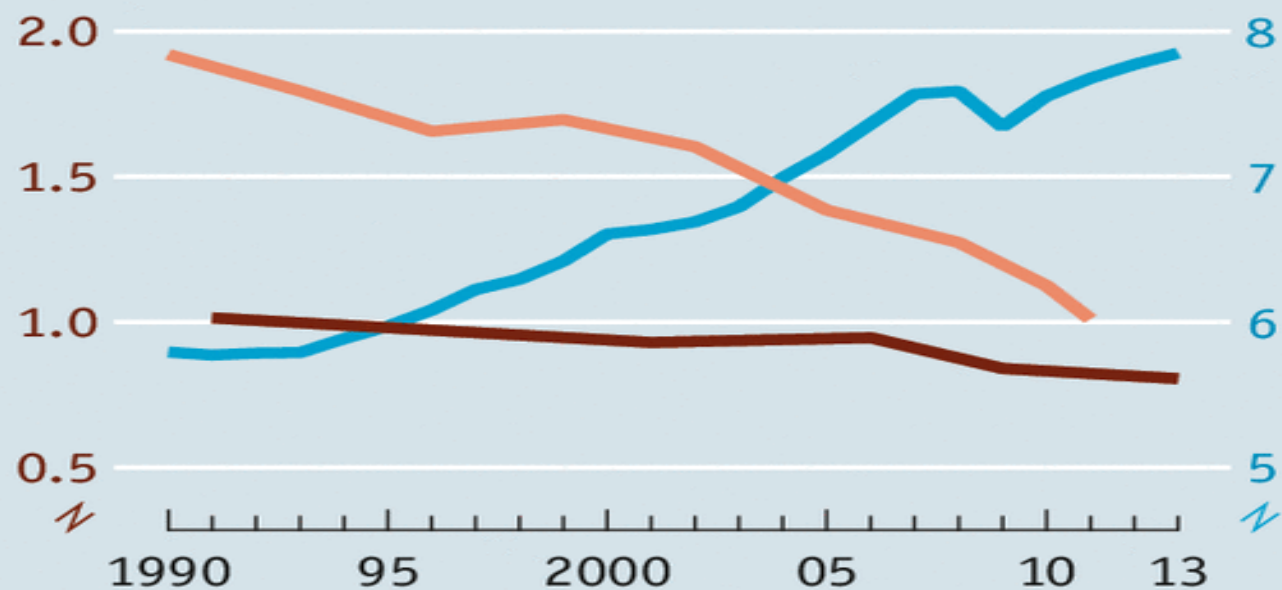


Hard to swallow

Number of people globally, bn:

— living below \$1.25* a day
— undernourished

*Global GDP per person
2005 \$'000*



Sources: World Bank; FAO *At 2005 purchasing-power parity

D4. Foreign aid

- **permanent aid, BUT**
 - sufficient?
 - efficiency of using the aid (army + dictators + ...)
 - often „conditioned“ = western countries provide s recipients to buy goods or services ⇒ inefficiency...
- **reasons for the aid:**
 - support stability
 - relations with former colonies
 - Cold War
 - „compensation“ for DC

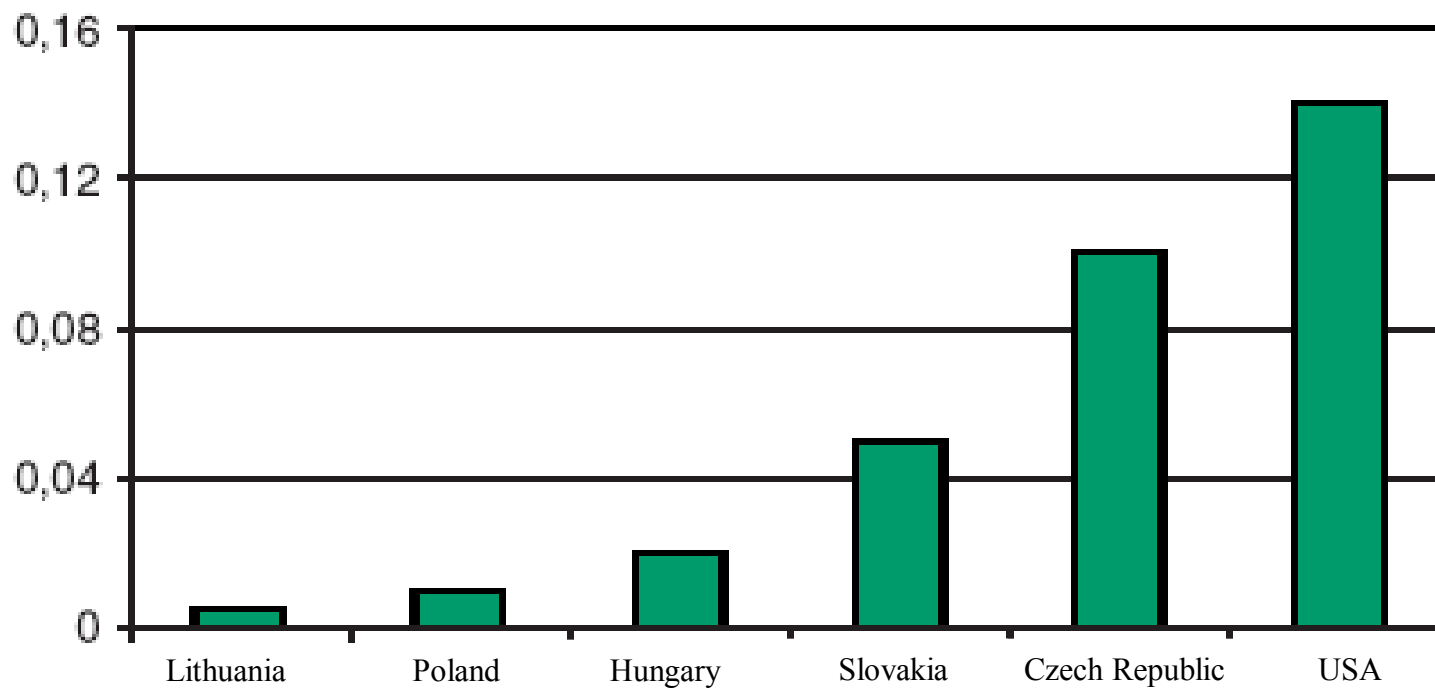
- **form:**
 - loans
 - donations
 - scientific and technical support
 - loans in the case of BofP problems
 - food aid
 - private INV
- **development:**
 - long-term permanent \uparrow **absolute size BUT**

- nowadays:
 - in 1990s ↓ aid
 - mainly problematic treatment with aid
 - recently again ↑
 - certain countries tens % of GDP
- meeting of MMF and WB in Prague, 2000 - CR started the so-called graduation = financing development programs
 - CR's aid very small
- the best form of aid = liberalization (open markets)
 - Protectionism mainly in AGR. + labour-intensive commodities (textile)
 - OSN – trade losses for DCs 700 bil. \$ per year – significantly > than the total amount of aid

Official net amount of funds to developing economies according to countries (USD billion) and percent of GNI in 1990 and 2004

	USD billion total (2004)	1990 % of GNI	2004 % of GNI
Norway	2,199	1.17	0.87
Denmark	2,037	0.94	0.85
Luxembourg	236	0.21	0.83
Sweden	2,722	0.91	0.78
Holland	4,204	0.92	0.73
Portugal	1,031	0.24	0.63
Switzerland	1,545	0.32	0.41
Belgium	1,463	0.46	0.41
France	8,473	0.60	0.41
Ireland	607	0.16	0.39
Finland	680	0.65	0.37
Great Britain	7,883	0.27	0.36
Germany	7,534	0.42	0.28
Canada	2,599	0.44	0.27
Australia	1,460	0.34	0.25
Spain	2,437	0.20	0.24
Austria	678	0.11	0.23
New Zealand	212	0.23	0.23
Greece	465		0.23
Japan	8,922	0.31	0.19
USA	19,705	0.21	0.17
Italy	2,462	0.31	0.15
OECD-DAC*	79,533	0.33	0.26

Development of aid in % of GDP given by Lithuania, Poland, Hungary, Slovakia, Czech Republic and the USA



Ways to overcome underdevelopment

E. Ways to overcome underdevelopment through foreign trade

- **two main strategies:**
 - **1. import substitution industrialization**
 - **2. export-led growth**
- shift towards 2., but sometimes combination of the strategies

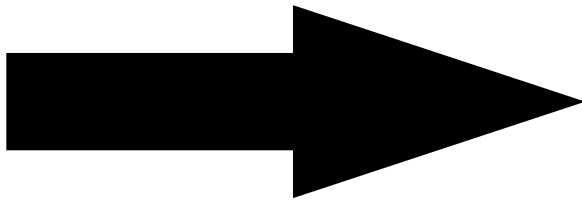
E1. Import substitution

**Industrialization via import substitution =
Import Substitution Industrialization**

- **protection** of domestic markets -> industrialization
- strategy of „**infant industry**“
- **theoretically:**
 - seemingly efficient
 - application only on condition that the consumers' loss is < the producers' profit

Other problems:

- **corruption**
- **monopolization**
- **bureaucracy** (bureaucracy – industry - army)
- problematic **elimination**



high costs

+ world trade liberalization → difficult implementation

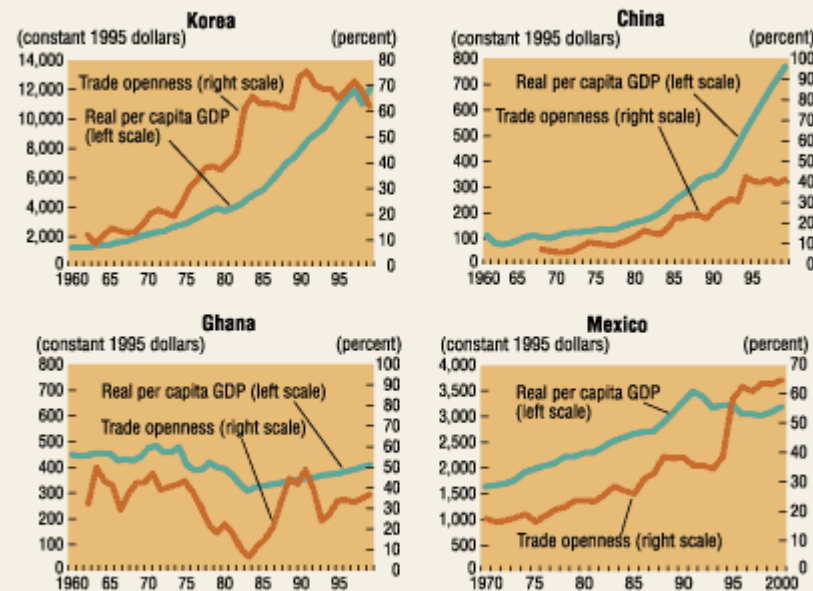
E2. Export-led growth

growth strategy based on export =
export-led growth

- \uparrow export \Rightarrow \uparrow GDP

Relationship of export and growth

Dramatic increases in per capita income have accompanied the expansion of trade



Source: IMF, World Economic Outlook database.

Notes: Trade openness is defined as the sum of exports and imports divided by GDP. Data for Korea, China, and Ghana are for 1960–99 and for Mexico for 1970–2000.

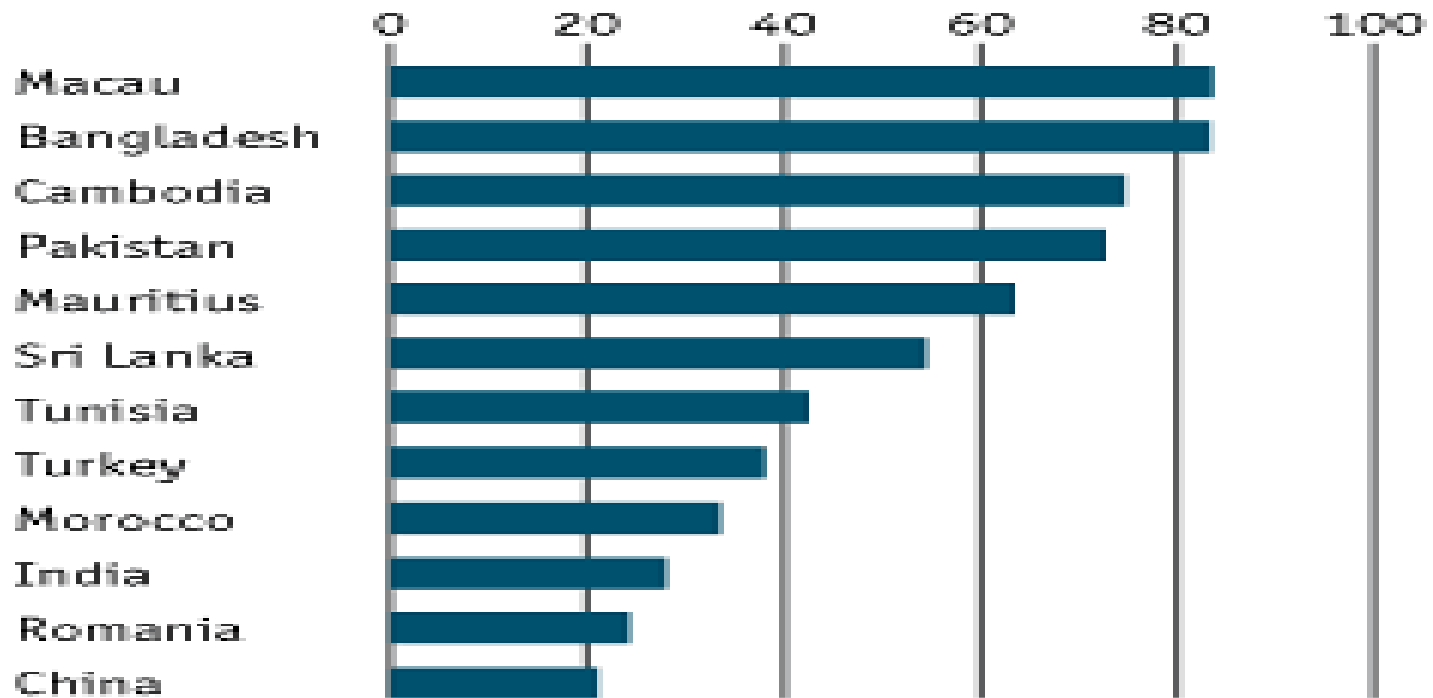
Major commodities' share in export and GDP in selected countries (%)

Country	Commodity	Export share
Liberia	India rubber	96.7
Venezuela	oil	86.6
Iran	oil	84
Azerbaijan	oil products	76.8
Zambia	metals	73.0
Sierra-Leone	diamonds	72.6
Chile	cooper	45.0

Dependency on textile exports

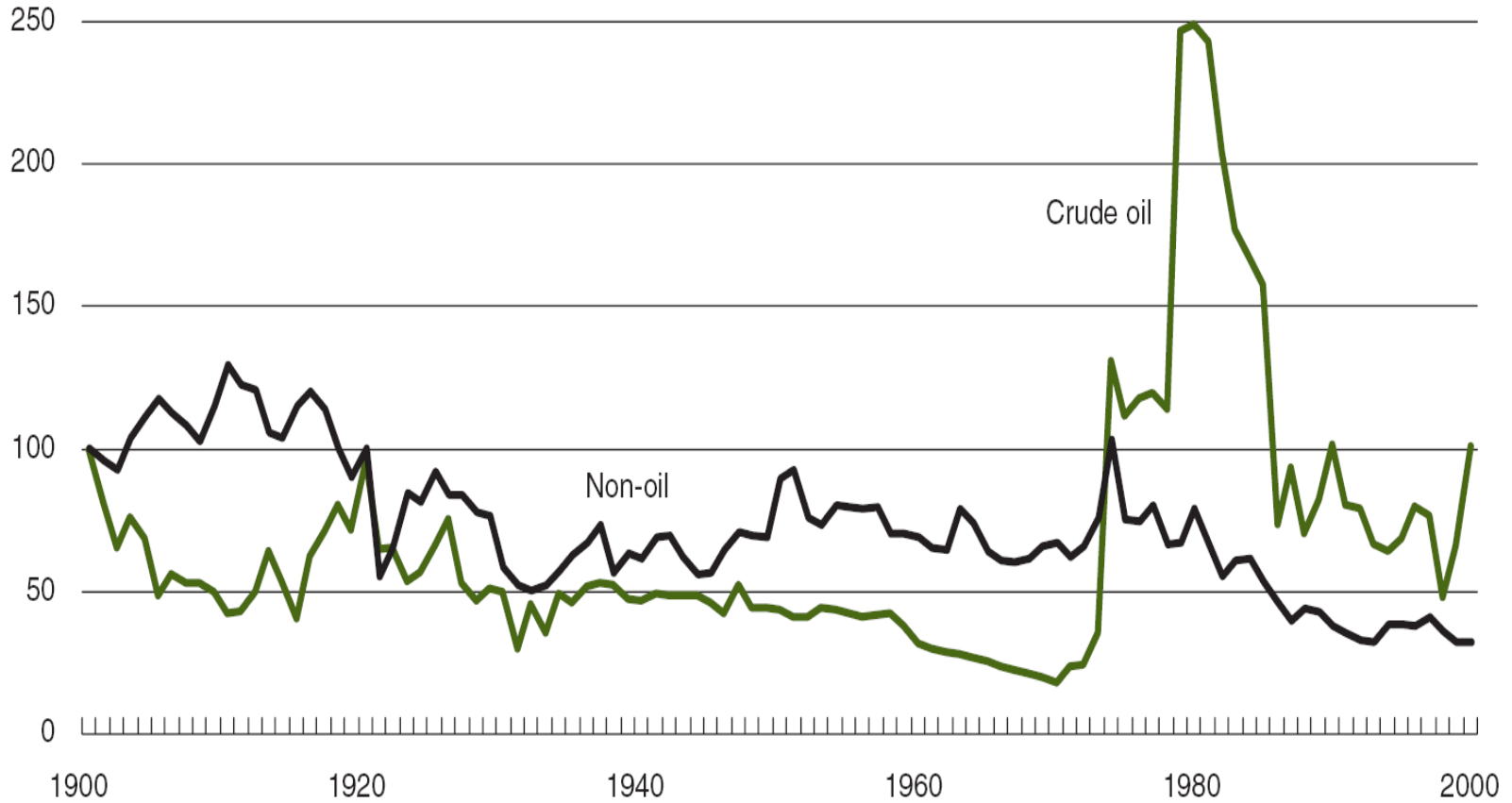
Tailor-made

Textile and clothing exports as % of total exports
2002



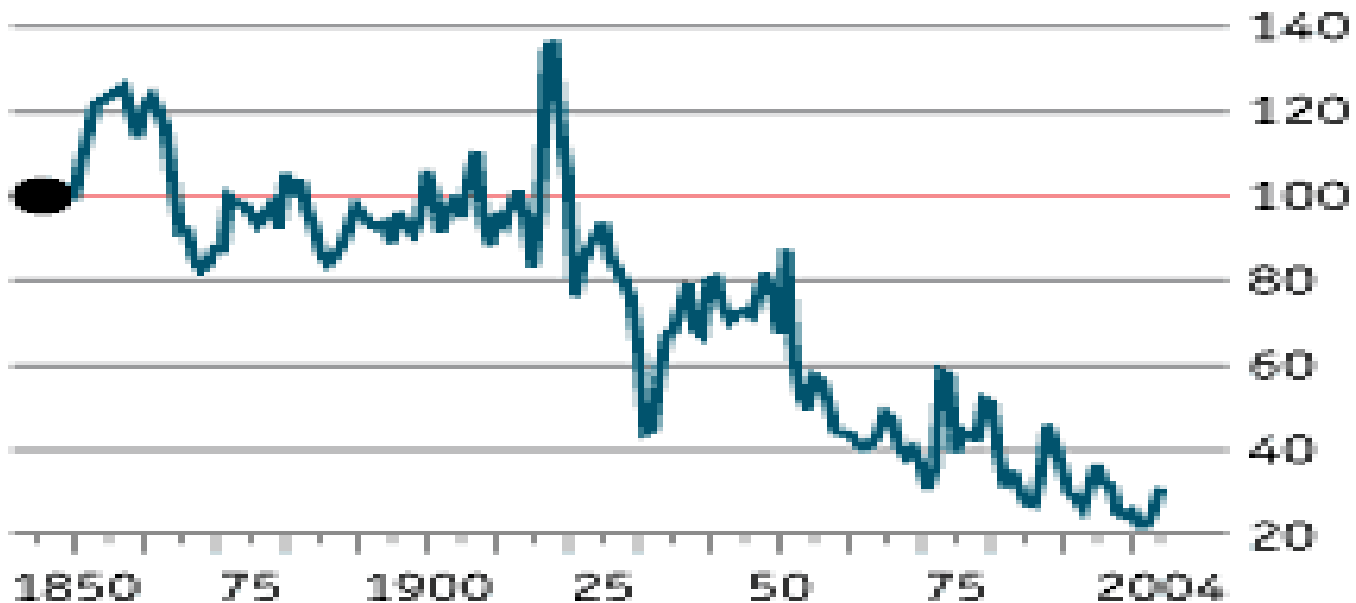
Source: IMF

Real commodity prices in 1990-2000 (index 1900=100)



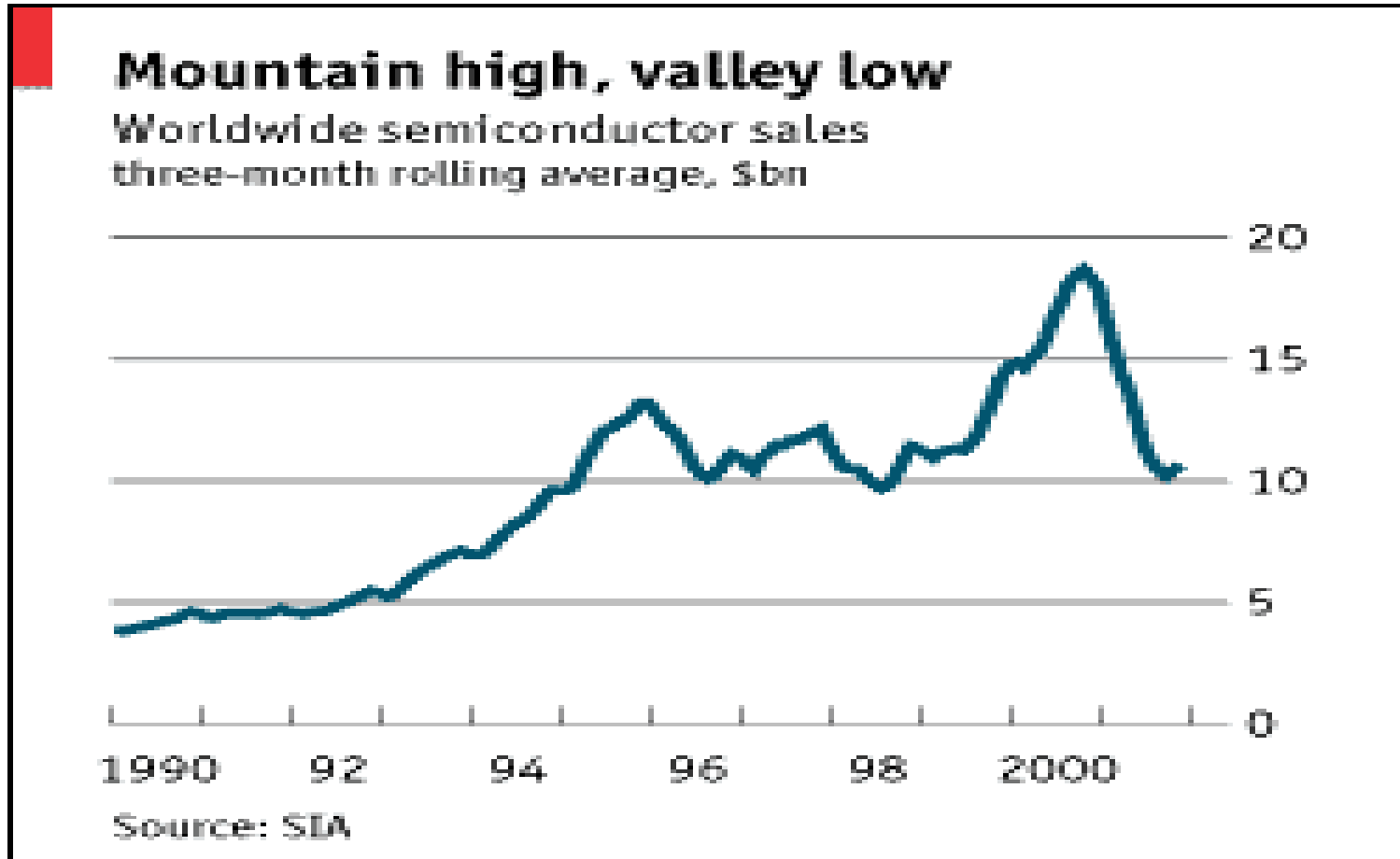
A century of decline

The Economist industrial commodity-price index
real* \$ terms, 1845-50 = 100



*Adjusted by US GDP deflator

...even semiconductors



Protectionism

The fortress

1

Average tariffs in high-income countries, %



Source: Oxfam

Thanks for your
attention!