Edexcel Economics (A) A-level

Theme 4: A Global Perspective

4.3 Emerging and Developing Economies

Detailed Notes

4.3.1 Measures of development

Whilst economic growth is measured purely by real GDP and the productive potential of the country, economic development is about **improvements in living standards**.

- A **developed country** is one with a high GDP per head and tends to be thought of as Western. There are high levels of education and healthcare, reliable and safe transport infrastructure and operations and high productivity and investment. They are likely to have entered a phase of de-industrialisation and may have developed their service sector. Governments are democratically-elected and not corrupt. France and the UK are examples of developed countries.

- On the other hand, a **developing country** is one with a lower GDP per head, low levels of physical and human capital and high levels of unemployment and underemployment. Health tends to be low with high mortality rates and high levels of population growth, due to high birth rates. Institutional structures are weak and corrupt. There is a band of developing countries in sub-Saharan Africa, including Ethiopia.

- This UN report provides a list of all developed and developing countries by region: http://www.un.org/en/development/desa/policy/wesp/wesp_current/2012country_class.pdf

Human Development Index:

HDI is a measure of economic development calculated by the UN. It is a **composite index** based on three factors:
- **health** as measured by life expectancy at birth
- **education** as measured by the mean years of schooling of adults aged 25+ and the expected years of schooling of a current 5-year-old over their lives
- **income** as measured by real GNI per capita at purchasing power parity.

Each of the three indicators is given equal weighting and a mean is taken to give a figure between 0 and 1. The higher the number, the greater the level of development.

Advantages and disadvantages:
- It takes into account **three key factors** which are important for the development of a country.
- It is **relatively easy to calculate** because governments tend to collect the statistics used in the data.
- However, there are some **issues with the figures**: health takes no notice of the quality of life that people enjoy and education doesn't take into account the quality and success of education.
- There is no consideration for the **equality of income**.
- Also, there are **other factors** which affect development, for example freedom from corruption or the environment.

It is **only an indicator and not a precise measure**, so should not be expected to be perfect.

Other indicators:

The Inequality-adjusted Human Development Index (IHDI):

- This is an adjustment of HDI which includes a fourth indicator of development: **inequality.** The Atkinson Index adjusts measures for education, health and income according to the level of inequality. It is **broader than HDI** but can still be criticised for not taking into account more measures and quality.

The Multidimensional Poverty Index (MPI):

- This measures the **percentage of the population that is multidimensional poor**. It uses data for health, education and standard of living but uses a broader range of indicators within these categories.

- Years of schooling and school attendance data is used for education; child mortality and nutrition data for health; and availability of electricity, sanitation and safe drinking water in households, cooking fuel used, assets owned and the type of floor in a house for standard of living.

- It highlights the countries where some areas are extremely rich but where most of the population is not and **focuses on poverty**. However, it cannot be calculated for all countries as the **data is not always available**. It also doesn't take into account the environment.

The Genuine Progress Indicator:

- It is calculated from **26 different indicators** grouped into three main categories: **economic, environmental and social**. It aims to look at **economic sustainability**, to ensure development does not limit the amount produced and consumed in the future.

- The economic category looks at personal consumption, inequality and the cost of unemployment. Environmental accounts for the cost of pollution, loss of natural areas, CO_2 emissions, ozone depletion and the depletion of non-renewable resources. In social, the 10 indicators range from the value of housework and parenting to the cost of crime and commuting to the value of volunteer work.

- They tend to show developed countries experiencing negative growth over time, due to their impact on the environment. Some argue this proves that development is **unsustainable** whilst others argue the index is biased and is constructed to prove the **anti-growth case**.

Moreover, figures like changes in **electricity production** or the **numbers with a mobile phone** per thousand of the population can show development levels. These are easier to calculate than indexes.

4.3.2 Factors influencing growth and development

Economic factors:

Primary product dependency:

- Primary products include agriculture, mining etc. A large amount of most developing country's economic activity is based on a primary product. These cause issues for a number of reasons.

- **Natural disasters** can wipe out production of the primary product and so means that farmers are left with no income. They are often **non-renewable**, which means the country will suffer when they run out of the product.

- They tend to have a **low-income elasticity of demand**, which means as people get wealthier, they don't continue to increase the amount of primary products they buy whereas they are likely to increase their demand for manufactured goods. The **Prebisch Singer Hypothesis** suggests the long run price of primary goods declines in proportion to manufactured goods, which means those dependent on primary exports will see a fall in their terms of trade. However, in recent years, there has been a **rise in the prices of some key commodities**, such as food and a fall in prices of some manufactured goods due to the expansion to places like China.

- Another issue caused by this is the **Dutch disease**. This is when a country becomes a significant commodity producer in a short amount of time, causing an increase in demand for the currency (to enable people to buy the goods) which pushes its value up. This increases export prices and leads to a reduction in competitiveness of the economy, causing a fall in output in other areas. This occurred for the non-oil sectors in Venezuela and Nigeria.

- Some countries have been able to use primary products to develop, for example Saudi Arabia and oil. It is suggested that countries should use primary product **revenue to invest** in manufacturing etc.

- Not all primary products have a low income elasticity of demand, for example diamonds.

- One example of a country that suffers from this is Ghana. Gold, cocoa and oil account for 75% of their total exports and they had to ask the IMF for a loan in 2014 due to their unsustainable balance of payments deficit. (IMF website)

Volatility of commodity prices:

- Primary products tend to have **inelastic demand and supply** curves which means relatively small changes in demand or supply leads to **huge fluctuations in price.**

- These large changes in price mean that **producers' income** and the **country's earnings** are also rapidly fluctuating, making it **difficult to plan and carry out long term investment** as well as meaning that producers can see their income fall very rapidly, causing **poverty.**

- When prices of commodities rise for a number of years, there tends to be **over-investment** in the production of the commodity causing long term risk when the price eventually falls.

Savings gap:

- Developing countries have lower incomes and thus they save less. This means there is less money for banks to lend, reducing borrowing and thus reducing investment/consumption. A savings gap is the **difference between actual savings and the level of savings needed to achieve a higher growth rate.**

- The savings rate in Africa is around 17% of GDP compared to 31% on average for middle income countries (Tutor2u). India is another country with a low savings as a share of GDP.

- The **Harrod-Domar model** suggests savings provide the funds which are borrowed for investment purposes and that growth rates depend on the level of saving and the productivity of investment. It concludes that economic growth depends on the amount of labour and capital and that developing countries have a vast labour supply, so their problems are caused by capital. In order to improve capital, investment is necessary and investment requires savings.

- However, there are problems with this model. **Economic growth is not the same as economic development.** It is difficult for individuals to save when they have little income and borrowing from overseas causes problems with debt. It is possible that **investment could be wasted**.

Foreign currency gap:

- This is when **exports from a developing country are too low** compared to imports to finance the **purchase of investment or other goods** from overseas required for faster economic growth.

- One country which suffers from this is Ethiopia. In 2018, public debt was around 60% of GDP; most of it in foreign currency so it is possible that they will not have enough foreign currency to repay their debt. It is thought there are only enough currency reserves to pay for a month of imports. (The Economist)

Capital flight:

- Large amounts of money are **taken out of the country**, rather than being left there for people to borrow and invest. If money was placed in banks within the country, then credit could be created by banks for consumers and businesses to spend.

- This can occur because of lack of confidence in the country's stability, to hide it from government authorities or simply for profit repatriation.

- This caused the Argentine economic crisis in 2001.

Demographic factors:

- Developing countries tend to have **higher population growth**, which limits development. If population grows by 5%, the economy needs to grow by 5% to even maintain living standards. This means developing countries need to have higher rates of growth to develop than more developed countries would do.

- The high population growth is caused by high birth rates, which increases **the number of dependents** within a country but does not immediately increase those of working age. It places strains on the **education system** and leads to **youth unemployment**.

- The population of Africa is expected to more than double by 2050, complicating efforts to reduce hunger.

Debt:

- During the 1970s and 1980s, developing countries received vast loans from banks in the developed world. Now, they suffer from **high levels of interest repayment**; sometimes even higher than the loans and aid they receive from developed countries, meaning **money is flowing from developing to developed countries**.

- This means they have **less money to spend on services** for their population and they may need to **raise taxes**, which limits growth and development.

- Borrowing for growth makes sense, just as firms borrow to expand, but the problem occurs when governments take on too much debt and do not spend it well.

- Nigeria's debt is 52% of GDP.

Access to credit and banking:

- Developing countries have **limited access to credit and banking** compared to developed countries, who have complex systems. This means those in developing countries cannot access **funds for investment** and they struggle to **save for the future**.

- Some families may use **loan sharks**, who give high interest rates and leave individuals permanently in debt.

Infrastructure:

- In a developed country, there is a complex network of buildings, roads, ports, railways, airports, utilities and electricity cables.

- Low levels of infrastructure make it **hard for businesses to trade and set up** within the country, for example if there are a lack of roads. It makes their services and production less reliable.

- However, the development of infrastructure can be **expensive** and tends to conflict with **environmental goals.**

- India is a good example of country suffering from poor infrastructure. For example, they saw power blackouts in 2012 and this damages their potential tourism industry. About half their roads are not paved and they need to invest around $400bn in the power sector. (Tutor2u)

Education/skills:

- Poor education within these countries means that workers are low skilled, sometimes unable to read and write, so have **low levels of productivity**.

- Countries like China and South Korea invested heavily in their human capital when they were developing, and this has benefitted them in the long term. Ethiopia suffers from high illiteracy rates at around only 49%. (Unesco)

- However, there is debate about what **type of education** is needed and problems concerning **over-education** i.e. if graduates are unable to find graduate level jobs.

Absence of property rights:

- Property rights are where individuals are allowed to own and decide what happens to certain resources. A lack of rights mean that individuals and businesses c**annot use the law to protect their assets,** leading to reduced investment. They will be unwilling to buy machinery, build factories or establish brands.

- The loss of property rights in Zimbabwe led to economic collapse.

Non-economic factors:

- Many developing countries suffer from **corruption**. Corruption means individuals will make decisions which maximise the bribes they receive as oppose to those which maximise development and output. Leaders are likely to make decisions which benefit themselves rather than benefiting the economy. **High levels of bureaucracy** are often linked to corruption and this is costly and time-consuming, deterring new businesses and reducing output of those already established. Ghana's high level of freedom and democracy is one reason why it has been able to develop so quickly.

- **Diseases** such as HIV/AIDS and malaria have a negative impact on economic growth.

- Countries with **poor climates and geographical terrain** may suffer from natural disasters and it may be difficult for farmers or to set up businesses.

- Many countries suffer from **civil wars,** for example Syria and Iraq. This causes high levels of poverty and destroys infrastructure, making it very difficult for the country to rebuild even after the war has ended.

Synoptic point:

Some factors which limit development are microeconomic factors, for example the inelasticity of demand and supply for commodities, whilst others are macroeconomic factors, such as high levels of debt. However, they all have macroeconomic impacts i.e. limiting growth and development

Development has microeconomic impacts since it leads to improvements in conditions for individuals, as they have higher incomes and improved conditions. Firms may also benefit from development since higher income will lead to more sales.

4.3.3 Strategies influencing growth and development

Rostow's model of development has five main stages of growth. The country begins as a traditional society based on agriculture and a subsistence economy. They tend develop into the pre-conditions, with an increase in capital used in agriculture and some mining industries. Next, they take-off with increased industrialisation, followed by a drive to maturity with diversified industry and higher levels of technology. Eventually, they end up a stage of high mass consumption with a strong service sector and high output levels. However, this is often seen as an oversimplified model and necessitates financial infrastructure and investment. It does not show how to encourage development, but simply shows the stages and is based on the Western world so may not apply to current developing countries.

The Millennium Development goals were a set of eight measureable goals which aimed to uphold human dignity, equality and reduce poverty. They were not all achieved but good progress was made. A second set of goals, The Sustainable Development Goals were set in 2015 and aim to be achieved by 2030. They are even more ambitious, including an end to poverty, increased health, infrastructure, access to water and education, reduced inequality, increased sustainability and the empowerment of women.

Market-orientated strategies:

Trade liberalisation:

- Countries can aim for **export led-growth**.
- Removing trade barriers will mean that domestic industries either close or are forced to become as **efficient** as other world producers. Resources will be **allocated to their best use** where the country has a comparative advantage.
- Countries like Singapore and South Korea and regions like Hong Kong have benefitted from this method.

Promotion of FDI:

- FDI is **investment by one private sector company in one country into another private sector company in another**. It includes direct acquisition of a foreign firm, construction of a facility, investment in a joint venture with a local firm or licensing of intellectual property.
- Firms tend to undertake FDI because production costs are lower in developing countries and because it enables them access to a new market.
- It is different from a loan because if the investment fails, it is the company who has to deal with it and the **country does not owe money to foreigners**.

- It also involves the **transfer of knowledge** from one country to another, with the company bringing production and management techniques and training for staff which will benefit the country as a whole.

- It will **create jobs** and leads to the effect of the multiplier. Labour productivity tends to increase and wages are often higher. It is a source of investment and can help to **fill the savings gap**.

- However, there is usually a **repatriation of profits** and developing countries may find the company **exploits** them, by offering lower wages and poorer conditions than they would in a developed country.

- The country will also **lose some sovereignty** and become dependent on another firm. Local competition may find it hard to set up and compete and the best jobs often go to imported labour, leaving only low skilled jobs for locals.

- **Environmental damage and exploitation of natural resources** and tend to become problems.

- <u>India has benefited greatly from FDI. The Make In India initiative liberalised FDI policy and led to a 48% increase in FDI in a range of sectors, including pharmaceuticals, manufacturing and railways.</u>

- <u>Samsung's investment in Vietnam has been crucial. Many local firms are now a part of their supply chain and other businesses have set up around their factories, for example hotels and restaurants.</u>

Removal of government subsidies:

- Subsidies are placed on essential items within a country, such as food or fuel, or target agriculture and industry in an attempt to increase output and investment. They can be an effective way of **minimising absolute poverty** and **ensuring a minimum standard of living** but they create many problems.

- They are often **poorly targeted** since subsidies on basic goods like rice will benefit everyone in the country, not just the poor. Economic theory suggests the problem would be better solved by giving poor households cash payments, as this would mean they were targeted at the poor.

- Subsidies to farmers and producers tend to lead to **inefficiency** and if they are given a large amount over a long period of time, the subsidy becomes ineffective in increasing development. In other cases, they can be beneficial in allowing an **infant industry** to grow.

- They represent a **large amount of government spending**, incurring an opportunity cost and often leading to high levels of debt.

- They can also cause problems in terms of **corruption** and criminality, for example in Venezuela subsidised fuel is smuggled across its borders and sold in neighbouring countries for profit. The fuel subsidies have also led to high emissions, an unintended consequence.

- Removing a subsidy can be very **politically unpopular** and some governments have even been thrown out because of attempting to do this. The best time to remove a subsidy is when the free market price is falling, as this means the removal is less noticeable to the people.

- Venezuela has placed subsides on almost all goods due to high inflation and low wages, but this is still not enough and demand is still higher than supply.

Floating exchange rate systems:

- In these systems, market forces determine the currency. The country does not have to worry about their **gold and foreign currency reserves** and the government does not intervene.

- However, there are problems with this. It means that the currency can be **volatile** which makes it difficult for exporters/importers to make decisions about the **future** and can cause large changes in macroeconomic variables, including economic growth.

Microfinance schemes:

- These schemes aim to give poor and near-poor households **permanent access to a range of financial services**, including loans, savings, insurance and fund transfers. It is used to refer to loans from providers known as microfinance institutions (MFI) who deliver small loans to unsalaried borrowers, such as 'Opportunity'.

- They take little or no collateral and use group lending, pre-loan saving requirements and an implicit guarantee of access to future loans if present loans are repaid fully and promptly. It allows borrowers to **invest** in their businesses or start up new ones.

- The scheme tends to target groups who would be less likely to otherwise receive loans, for example **women**.

- However, South Africa has shown the problems that can occur with this system. It has become a method of **financing consumption spending** and unemployment means that most people **do not have the funds necessary to ensure repayment** of their loan, meaning they have to sell off family assets, borrow from friends and family or simply take out new loans to repay the old ones. When actually used for investment, it has simply **increased the informal economy** with very little being spent on sustainable methods of development. Financial resources have been diverted away from more productive and sustainable activities, for example manufacturing.

Privatisation:

- Privatisation can **end the corruption** within a firm who is owned by the state, as well as encouraging them to be more efficient by **increasing competition**.
- Selling off a firm, particularly if it is loss making, will **improve government finances** and reduce levels of debt.
- However, if the firm is privatised as a **monopoly** there will be no competition within the market. On top of this, it can be **associated with corruption** where politicians or officials sell the company at below market price to a friend or family member or receive bribes to accept one company's bid.
- The <u>water industry in Ghana was privatised in 2006 but when the contract was expired in 2011, the government did not extend it. Water quality improved but reliability did not. There had been increased revenue and efficiency and improved customer service.</u>

Interventionist strategies:

Development of human capital:

- This would provide workers with skills and training and thus help them to be more efficient and **improve productivity**. Businesses struggle to expand where there are skills shortages and it also limits innovation.
- Human capital could be developed through schools or vocational training, whether this be apprenticeships or simply classes provided for business people.
- Higher skills would allow the country to develop from the primary sector to a manufacturing sector, **overcoming primary product dependency.**
- Better education also improves **quality of life**.
- Both <u>China and South Korea</u> developed their human capital massively in order to develop.

Protectionism:

- Protectionism **allows domestic industries to grow** by keeping foreign goods out and protects them from strong competition. They can use a policy of **import substitution**, where they deliberately attempt to replace imported goods with domestically produced goods by adopting protectionist measures.

- This will **create jobs** in the short run and will allow the industry to develop, perhaps to the extent where the **barriers can be removed**, and the industry can compete globally.

- However, it means countries **lose out from the benefits of specialisation and comparative advantage** and could cause **inefficiency**, since domestic producers suffer from a lack of competition. Other countries are likely to **retaliate.**

Managed exchange rates:

- The currency could be **fixed against a number of different exchange rates**. They can introduce high exchange rates for the import of essential products and lower exchange rates for others. There could be an even lower one for exports. A high exchange rate for essential products will mean that the price within the country is low, which helps to reduce poverty if the goods are consumer goods and encourages investment if they are capital goods. A lower exchange rate for other imports will mean that the price of these goods within the country is higher, discouraging their import and encouraging consumers to buy from domestic producers.

- The problem with these tiered exchange rates is that they often **fail to work in practice**; black markets in foreign exchange develop which can destabilise the system and corruption becomes an issue, when government officials buy currency at one exchange rate and sell it for profit at another.

- Alternatively, governments can manage a **single exchange rate** which will **reduce volatility**, but speculation may mean that countries find it difficult to maintain an exchange rate over a number of years.

Infrastructure development:

- Infrastructure is **essential for development**; a country needs roads, airports, schools, hospitals, railways etc.

- Interventionists believe the government should provide these systems whilst a market-based system would be for the private sector to provide them. Infrastructure tends to suffer from the **free rider problem** and has **very high capital costs**, making it unlikely the private sector will develop it. Moreover, it has **many positive social benefits** which suggests the government should provide it.

- One problem of this is that the **government may not have the funds** to provide the infrastructure and it is argued that they may be **inefficient.** Infrastructure projects are often associated with **bribery and corruption**, cause **environmental damage** and may be poorly built and maintained.

- Some argue that **intermediate technology**, which uses local materials and can be fixed locally, is better than large scale infrastructure.

Promoting joint ventures with global companies:

- One way to **reduce the exploitation of countries** as a result of FDI would be to set up a joint venture. The government may insist that firms setting up production plants in their country find a local partner to create a jointly owned company with. This will help to keep some of the **profits generated within the country**, which can be used in investment.

- Tata Starbucks Pvt.Ltd is a joint venture company with Starbucks in India

Buffer stock schemes:

- This is where the government imposes both a **maximum and minimum price for goods**, **buying up stocks** when there is excess supply and **selling them off** when there is excess demand. As a result, it should be **self-financing**: money is raised when selling the products, which allows the government to buy the next lot of stocks.

- It is used on **commodities,** where the prices are volatile, and can either be set up by a group of countries or within a country. When it works effectively, it is beneficial because it **stabilises prices** and thus encourages investment since producers can plan for the long term. It also prevents sharp falls in prices, meaning that producers are kept from falling into absolute poverty, and prevents sharp rises in prices, meaning that consumers are able to afford the good. It can solve some of the issues relating to **primary product dependency**.

- However, it **requires stocks to go up and down**; if they keep rising, then the scheme will run out of money and if they keep falling, the scheme will run out of stocks. They require **huge start-up costs**, as well as administration costs and problems of storage.

- Other countries may benefit from a buffer stock system since it keeps global prices fairly stable when undertaken by a group of countries, and so they can be seen as **free riders** of the system. This may mean that some countries will not want to introduce the system.

- The biggest issue is that minimum prices may be set too high, encouraging producers to become **inefficient**. They will produce as much as they like and know they will be able to sell it anyway, meaning that supply is high and the government has to continually buy up the stocks.

- If the scheme is operating at a loss, the taxpayer feels the burden and **government finances** are worsened.
- The Ivory Coast and Ghana implemented a buffer stock scheme for cocoa in 2017 due to low prices

Other strategies:

Industrialisation:

- The **Lewis model** assumed that developing countries had **dual economies** with a traditional agricultural sector, which had low wages, low productivity, underemployment and low savings, and a modern industrial sector, with high levels of investment and urbanisation.
- It suggested that the **modern industrial sector would attract workers** from rural areas by offering higher wages. Lewis believed that labour productivity was so low in agricultural areas that people leaving the area would have no impact on output and would in fact mean there was a surplus of food, since the same amount was being shared amongst less people. Those who moved to the urban areas would have **higher incomes** and thus **more savings for investment**.
- He believed **savings and investment were the key to growth** and thus growth could be achieved through rural-to-urban migration.
- However, although labour productivity is low for some parts of the year, during planting and harvesting **vast amounts of labour** is needed. Also, it is not necessarily true that those with **higher wages will save and invest** their money.
- Recently, migration has led to **urban poverty** replacing rural poverty as the industrial sector is unable to provide jobs for all those who have moved. **Improvements in technology** will lead to a reduced demand for labour.
- It can be argued that industrialisation is a **result of development**, rather than a cause.
- It is possible for the government to build factories and plants to **encourage the transition** to industrialisation. This has been successful in countries such as South Korea, but in many countries the industry fails and so there is just a waste of scarce resources.

- Instead of industrialising, India went from agriculture to services as this is where they had a comparative advantage. This shows that **not all countries will develop in the same way**.

Development of tourism:

- Some countries have decided to take advantage of their climate and geography to build up a tourism industry, such as the Caribbean. This provides them with the **funds to develop their economy** and improve living standards.

- The **income elastic nature** of tourism means that as the global economy grows, demand for the industry will increase even further, allowing the developing country to continue development. However, it also means that they will suffer in times of recession.

- Tourists represent a source of **foreign currency**, which will fill the currency gap. so countries will be able to fund their imports without negative consequences. However, holidaymakers' demands for products from their home countries mean that the tourism industry is associated with an **increase in imports** and so may not help the foreign currency gap at all.

- Countries are likely to attract **investment** from transnational hotel companies, who will also bring knowledge with them. It can help to fund **improvements in infrastructure**, as tourism requires reliable electricity, airports, clean water etc. and so the government have an incentive to provide this. This investment will have a multiplier effect through the economy.

- **Jobs are created** locally since the tourism industry relies on low skilled workers who know the local area, rather than to high skilled workers which may be sourced from abroad. It is very labour intensive.

- The government will see **higher tax revenues** due to higher income and higher profits. It can provide funds to allow countries to diversify.

- However, the industry is **seasonal** and involves **low skilled, low paid jobs** which means the effect of the multiplier is limited. **Tourism destinations can go in and out of fashion**, meaning some areas will see a loss of employment and that investment may only receive a short-term return.

- A large amount of wealth created will be withdrawn as TNCs **repatriate their profits**, causing problems involving capital flight.

- On top of this, the country can suffer from a large number of **externalities,** including pollution, waste, environmental damage and impact on culture.

- In Morocco, 7 eco-resorts are being built on the north coast where unemployment is 40%. (The Economist)

Development of primary industries:

- Some countries, such as Saudi Arabia, Norway and Australia, were able to develop because of an abundance in natural resources. The development of a primary industry provides **funds to allow a country to diversify** as well as allowing **infrastructure development** and **better education**.
- However, primary products are volatile and **primary product dependency** causes many issues. Primary industries also suffer from **corruption.**
- The government can **address the Dutch Disease**, for example in Norway the government uses some of its oil revenues to invest overseas and this increases supply of their currency, depreciating it and helping other industries to compete overseas.

Fairtrade schemes:

- Fairtrade is defined as being 'a trading partnership based on dialogue, transparency and respect, which seeks greater equity in international trade'. (WTFO) There are a number of organisations which monitor that what is being sold under the Fairtrade label conforms to a number of key principles: **a fair price, community development, fair working conditions and protecting the environment.**
- A fair price typically means that agreements are made to buy a guaranteed amount of produce over a period of time at a price which is above the market price when the agreement was made. This gives producers **stability and raises their income**.
- The system means that **child labour** is not used and that production is sustainable and does not take place at the expense of **environmental degradation**.
- A study carried out in Sri Lanka showed that those under fair trade had **higher income and satisfaction,** a greater understanding of the market and a more optimistic view of the future than those not under fair trade. They were able to **save for the future** and invest or provide financial support for their children. However, they still did not feel their income was sufficient.
- It is argued that the system has an **insignificant impact** on the developing world. It benefits the Fairtrade producers but can leave others worse off since non-Fairtrade producers see a fall in demand. In the long term, the higher price for Fairtrade goods will increase supply and thus this could bring price back down, but this will depend on the price elasticity of supply.

- Another issue is that higher incomes **reduces the incentive to diversify** and keeps farmers engaged in low profit activities. On the other hand, it can be argued that it allows parents to send their **children to school** (whether because it provides the funds necessary or means children are no longer expected to stay at home to work the land) and this will allow them to gain skills which in the future will allow them to move away from agriculture.

Aid:

- This is when a country voluntarily transfers resources to another or gives loans on concessionary terms. There are different types of aid:
    - tied aid is aid with conditions attached, such as economic or political reforms or a commitment to buy goods from the donor country
    - bilateral aid is directly from one country to another
    - multilateral aid is when countries give aid to an international organisation who distributes it to other countries.
    - concessional loans are loans given on lower, or no, interest rates

- Egypt, Afghanistan and Vietnam are the greatest recipients of aid, whilst the EU and US are the largest donors.

- Aid is good as it is able to **reduce absolute pove**rty, particularly emergency relief provided after disasters such as the Haiti earthquake (2010). However, it is unclear whether the money really reduces absolute poverty, as improving infrastructure does little to help those who suffering most.

- It can **fill the savings gap**, as outlined by Harrod-Domar, and thus provides funds for investment, whether this be in infrastructure or in human capital. Both of these often have to be done by the government because they can be seen as public goods and suffer from the free rider problem. It also provides foreign exchange to **fill the foreign currency gap**.

- It can contribute to **increased globalisation and trade** as well as reducing world inequality.

- However, some argue it results in a **dependency culture** where countries are unconcerned by their finances as they know they can receive aid from another country.

- **Corruption** means that money does not always go to where it is meant to. In the long term, tied aid and concessional loans may mean that the country loses out. Since concessional loans still have to be repaid, this may limit where the money is spent; countries may only spend money on things they know will see a return in the short term.

- It is difficult to know the best way to develop a country and therefore it is **difficult to know the best place to spend the aid.**

Debt relief:

- Many countries suffer greatly from the **high interest repayments** to loans they have taken out. It limits the growth of some of the poorest countries, whilst being relatively small for the countries and agencies that are owed the money. Therefore, it seems reasonable for the debt of developing countries to be written off.

- It will ease government finances and allow more **money to be spent on provision of services** and infrastructure to aid development.

- However, it causes **moral hazard** because it creates a precedent: every poor country may now expect to receive debt relief. It also **eases pressure** on weak governments to adopt reforms and good economic policies.

Synoptic points: Like the factors of development, some of these are microeconomic strategies and some are macroeconomic strategies. Most of them have both microeconomic and macroeconomic effects, but their main aim is a macroeconomic one: to bring about growth and development.

World Bank:

- The World Bank was founded at the Bretton Woods Conference after the Second World War. It aims to bring about **long-term development and a reduction in poverty**.

- It is made up of:
    - the International Bank for Reconstruction and Development (IBRD)
    - the International Development Association (IDA)
    - the International Finance Corporation (IFC)
    - the Multilateral Investment Guarantee Agency (MIGA)
    - and the International Centre for Settle of Investment Disputes (ICSID).

  The IBRD and IDA provide **financing, policy advice and technical assistance**: IDA helps the poorest countries whilst IBRD helps middle income and creditworthy poorer countries. IFC, MIGA and ICSID help **strengthen the private sector in developing countries** by providing them with **finance, technical assistance, political risk insurance and settlement of disputes**.

- The World Bank has funded over **12,000 development projects** since 1947 through interest free loans and grants and supports long term human and social development.

International Monetary Fund (IMF):

- Like the World Bank, the IMF was set up in the Bretton Woods Conference but it was not set up to promote economic development, instead to ensure that **exchange rate systems work well.**

- They provide loans to help countries when there are **international exchange rate crises** or when they cannot afford to pay off their international debt.

- When providing loans, the IMF insists that countries make **macroeconomic reforms** to resolve the problems. The IMF has received criticism for this because it causes problems for countries. Usually, it involves **reducing imports and increasing exports** which reduces the amount of resources available for domestic consumption. It can also be in the form of **lower government spending**.

- However, countries are not forced to turn to the IMF for help but many do because the **alternative is defaulting on their loans**, which would cause even more problems than the reforms do. The reforms intend to **help countries to overcome issues** and should allow a country to develop in the long term; they are not meant to be a punishment.

- The IMF also provides **advice** which aims to bring about **economic stability and raise living standards** and help countries to **develop their economic institutions** through training and technical assistance, for example the central bank in Kosovo.

NGOs:

- These are **non-profit organisations that are run independently from the government**.

- Firstly, they can provide **direct assistance to countries** in the form of project work, for example Oxfam or CAFOD. This can range from education to wells to healthcare and can either be emergency or long term.

- On top of this, they can act as **pressure groups** to lobby governments to adopt more pro-development strategies.

- A problem of NGOs is that it is believed that **they alone can never solve the problem**, it is the government who has to fix the issues.

- On top of this, many see them as having an **anti-capitalist agenda** which blames problems on the World Bank, the IMF and the WTO. This causes divisions in the development project and is also an issue since past experience suggests global capitalism is the best system for development.