# Edexcel (A) Economics A-level

## Theme 4: A Global Perspective

## 4.3 Emerging and Developing Economies

### 4.3.2 Factors influencing growth and development

Notes

# Impact of economic and non-economic factors in different countries

## Primary product dependency

Primary products are raw materials in industries such as agriculture, mining and forestry. Mining accounts for just over 60% of South Africa's exports. Their ability to pay foreign debts and for imports relies on this.

Several developing countries rely on these primary products as a significant part of their economy. One issue with this is the v**olatility of commodity prices** that can make it hard for workers to plan for the future, and it means incomes of farmers are fickle and hard to predict.

A fall in the price leads to a fall in export incomes, which can make it hard to fund their infrastructure and education. Moreover, relying on primary products is not necessarily sustainable, since they could be over extracted and run out.

## Savings gap: Harrod-Domar model

In many developing countries, there is only limited wealth, which means money cannot be put aside for the future, and they can only afford to spend in the short run. Consumers have to focus on their immediate needs, including food and safe water, to ensure they can survive. Without sufficient savings, there is inadequate capital accumulation.

Africa's saving rate is around 17%, whilst the average for middle income countries is around 31%. This makes it more expensive for the African public and private sectors to get funds since they have higher borrowing costs. This impedes capital investment.

The Harrod-Domar model states that investment, saving and technological change are required in an economy for economic growth. The rate of growth increases if the savings ratio increases. This leads to increased investment and technological progress, which leads to higher productivity.

The rate of growth is calculated by the savings ratio / capital output ratio in the Harrod-Domar model. Growth increases with more saving or a small capital output ratio.

The limitations of the model are that there is a low marginal propensity to save in some countries, or that there might be a poor financial system. Funds might not lead to borrowing and investment. There could also be inefficiency in the workforce.

Moreover, the paradox of thrift could be considered. An increase in savings could lead to an increase in investment. However, an increase in savings means there is a reduction in spending, which leads to a fall AD.

- **Foreign currency gap**

A foreign currency gap exists when the country is not attracting sufficient capital flows to make up for a deficit in the capital account on the balance of payments. In other words, the value of the current account deficit is larger than the value of capital inflows.

- **Capital flight**

This is when capital and money leave the economy through investment in foreign economies.

It is triggered by an economic threat, such as hyperinflation or rising tax rates. It can worsen an economic crisis and cause a currency to depreciate.

- **Demographic factors**

The population can impact the growth and development of a country. There is a link between keeping birth rates down and fighting hunger, poverty and environmental damage. Rapid population growth has complicated efforts to reduce poverty and eliminate hunger in Africa. The current population of 1.1 billion is expected to double by 2050, which is not sustainable.

- **Debt**

The debt crisis emerging in the developing world threatens the fight against poverty and inequality.

- **Access to credit and banking**

Without a safe, secure and stable banking system, there is unlikely to be a lot of saving in a country.

- **Infrastructure**

Poor infrastructure discourages MNCs from setting up premises in the country. This is since production costs increase where basic infrastructure, such as a continuous supply of electricity, is not available.

- **Education/skills**

This is important for developing human capital. Adequate human capital ensures the economy can be productive and produce goods and services of a high quality. It helps generate employment and raise standards of living.

- **Absence of property rights**

  Weak or absent property rights mean entrepreneurs cannot protect their ideas, so do not have an incentive to innovate.

- **Corruption**

  In sub-Saharan Africa, the money lost from corruption could pay for the education of 10 million children per year in developing countries.

- **Poor governance/civil war**

  This could hold back infrastructure development and is a constraint on future economic development. It could destroy current infrastructure and force people into poverty.

- **Vulnerability to external shocks**

  For example, an earthquake prone country is likely to find it hard to develop their infrastructure, and people might be pushed into poverty. Nepal was already one of the poorest countries in the world, but the Nepal earthquake in 2015 pushed more people into poverty.