4.10 Economic growth and/or economic development strategies

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Learning objectives

4.10 Economic growth and/or economic development strategies	Depth	Diagrams, calculations and construction

Strategies to promote economic growth and/or economic development
• Trade strategies
    • Import substitution
    • Export promotion
    • Economic integration
• Diversification
• Social enterprise
• Market-based policies
    • Trade liberalization
    • Privatization
    • Deregulation
	AO2
	AO4
		Diagrams: in this section students are expected to draw from the diagrams used in the other sections

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Learning objectives

4.10 Economic growth and/or economic development strategies	Depth	Diagrams, calculations and construction
Interventionist policies • Redistribution policies including tax policies, transfer payments and minimum wages Provision of merit goods • Education programs • Health programs • Infrastructure including energy, transport, telecommunications, clean water and sanitation Inward foreign direct investment	AO2 AO4	Diagrams: in this section students are expected to draw from the diagrams used in the other sections

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Learning objectives

4.10 Economic growth and/or economic development strategies	Depth	Diagrams, calculations and construction
Foreign aid • Humanitarian aid/development aid • Debt relief • Official Development Assistance (ODA) • Non-governmental organizations (NGOs) Multilateral development assistance • The World Bank • International Monetary Fund Institutional change • Improved access to banking, including microfinance and mobile banking • Increasing women's empowerment • Reducing corruption • Property rights • Land rights	AO2 AO4	Diagrams: in this section students are expected to draw from the diagrams used in the other sections

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Learning objectives

4.10 Economic growth and/or economic development strategies	Depth	Diagrams, calculations and construction
Strengths and limitations of strategies for promoting economic growth and economic development	AO3	
Strengths and limitations of government intervention versus market-oriented approaches to achieving economic growth and economic development	AO3	
Progress toward meeting selected Sustainable Development Goals in the context of two or more countries	AO3	

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Introduction

Strategies to economic growth and development refer to the approaches used to tackle the barriers to economic growth and development including trade strategies, market-based policies, interventionist policies, foreign aid and institutional change.

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Real world example

Source: UN Sustainable Development Goals

There are **17 UN Sustainable Development Goals**. How should governments prioritize which SDGs to allocate their limited resources towards?

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Real world example

“In a world of limited resources, we can’t do everything, but how should we prioritize? The Copenhagen Consensus Center provides information on **which targets will do the most social good relative to their costs**. The final decision on choosing goals will definitely rest on a number of factors, not just economics – but knowing the costs and benefits provides an important piece of information.”

Source: Copenhagen Post-15 Consensus

See the source above for the UN SDGs with the greatest social, economic and environmental benefits for every dollar spent.

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Introduction

Governments may adopt various strategies to raise the standard of living and quality of life in the economy. This unit explores the following strategies:

- Trade strategies
- Diversification
- Social enterprise
- Market-based policies
- Interventionist policies
- Provision of merit goods
- Inwards foreign direct investment
- Foreign aid
- Multilateral development assistance
- Institutional change

Trade strategies

Primary sector output tend to generate lower revenue than secondary or tertiary sector output. Since ELDCs rely heavily on primary sector in terms of national income and employment, in the long term, such trading strategies often worsen economic conditions.

Trade strategies to promote economic growth and development include:

- Import substitution
- Export promotion
- Economic integration

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Import substitution

Import substitution encourages domestic production and consumption through protectionist measures such as tariffs and quotas.

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Trade strategies

Import substitution

Import substitution is often used to **protect infant industries** from foreign competitors until they are competitive enough to enjoy economies of scale.

Advantages

- Increased domestic production and employment.
- Resilience from external shocks (e.g., global recession).
- Fewer imports lead to reduced transportation costs, and a reduction in final price of goods.

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Trade strategies

Import substitution

Disadvantages:

- Trade protection distorts the market forces, leading to economic inefficiency.
- Consumers are worse off as choices decrease and prices increase.
- Reduced competition may result in lower quality products and a lack of innovation
- Restrictive trade practices leads to retaliation from other countries.

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Export promotion

Export promotion is a strategy that focuses on supporting domestic producers who engage in export activities to achieve economic growth and development.

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Trade strategies

Export promotion

Advantages:

- Access to larger markets
- Economies of scale
- Greater diversification
- Investments in human and physical capital raises a country's productive capacity.
- Foreign currency is generated to pay for import expenditures.

Disadvantages:

- Overdependence on export sector
- High income nations may use protectionist measures to discourage export promotion from ELDCs.
- Opportunity cost of government expenditure to support export promotion. Other areas of government spending may be affected.

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Economic integration

Economic integration is the process in which **countries cooperate and coordinate their economic policies**, increasing linkage between economies involved.

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Trade strategies

Economic integration

Economic integration is often achieved through reduction or elimination of trade barriers.

Countries can integrate economically through preferential trade agreements, trading blocs or monetary union (discussed in unit 4.4).

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Trade strategies

Economic integration

Advantages:

- Greater choice of goods and services
- Lower prices
- More investments between countries, leading to higher employment.
- Economies of scale
- Stable business environment in the long run due to improved political relationships.

Disadvantages:

- Loss of autonomy in policymaking
- The country may have to impose common trade restrictions on non-member countries, causing prices of imports to rise.

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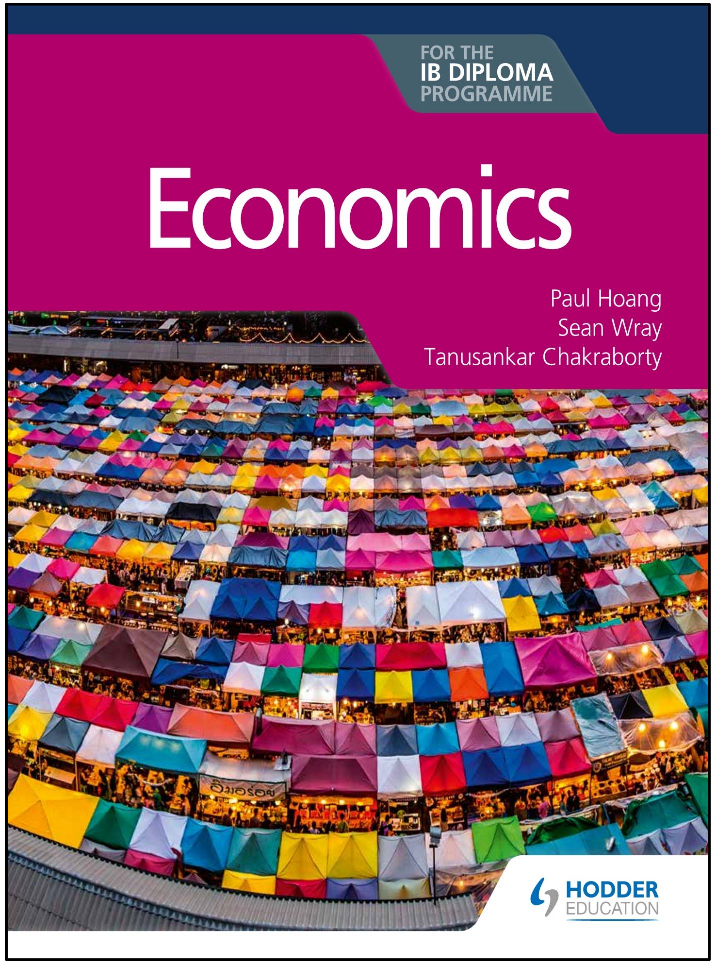
- Page 597
- Paper 1 Exam Practice Question 36.1
- [10 marks]



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Diversification

Diversification is the process in which countries increase the variety of goods and services produced usually by expanding the secondary and tertiary sectors.

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Real world example

Article: Congo Must Diversify its Economy and Think about the Post-Oil Era

1. What problems does the dominance of the oil industry cause?
2. Discuss possible sectors which Congo can diversify into.

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Diversification

Advantages:

- Address problems of over-specialization while creating employment opportunities.
- Volatility of primary commodity prices is reduced, ensuring stability of income.
- More efficient use of scarce resources in ELDCs.
- Reduce effects from external supply shocks, e.g. extreme weather conditions.

Disadvantages:

- High risks of failure as ELDCs lack the experience and expertise to diversify
- Higher costs due to a broader range of products produced by domestic firms.
- Long term plans are required for diversification to succeed.

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Social enterprise

A **social enterprise** is an organization that focuses on meeting social objectives such as improving social and environmental well-being, rather than aiming to maximise profits.

Example: [Oxfam International]

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Real world example

Explain how Oxfam contributes towards economic growth and development in Zimbabwe.

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Social enterprise

Advantages:

- Encourages volunteers and civic commitment to facilitate economic development.
- Attention from the media, raising awareness to support ELDCs to achieve development.
- Government support (tax incentives and preferential support programmes) help encourage widespread participation.

Limitations:

- Limited amount of funding.
- Volunteers may not be committed and skillful enough to carry out their duties.
- Thorough accounting and reporting system must be maintained, and activities are closely audited.
- Organizations may lack the profit incentive to achieve development goals.

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Market-based policies

Market-based policies focus on removing intervention policies and increasing market incentives to improve a country's productive capacity.

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Market-based policies

Trade liberalization encourages free trade through elimination or reduction of trade barriers. This encourages more competition and greater efficiency in international markets.

Privatization is the selling of state-owned enterprises to private sectors. Firms can be driven to cut costs and increase profits, improving efficiency and productivity.

Deregulation is the reduction or elimination of regulations in order to lower the costs of production for firms, which encourages competition and greater efficiency.

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Real world example

Video: Why did the UK sell off the railways?

Discuss the arguments for and against the privatization of the UK's railways.

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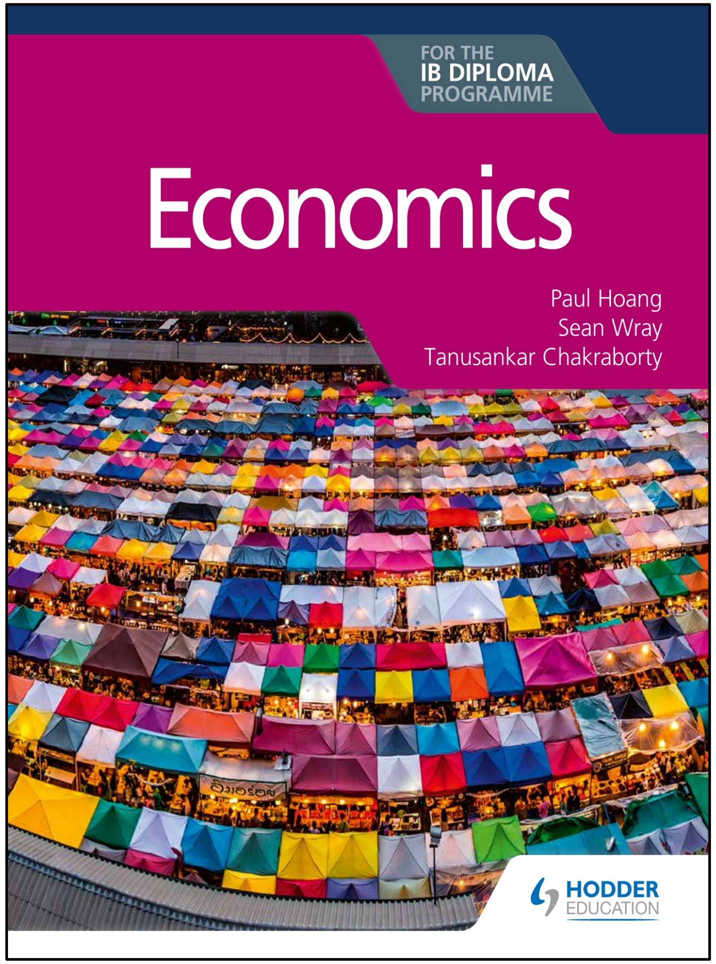
- Page 601
- Paper 1 Exam Practice Question 36.2
- [10 marks]



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Interventionist policies

Interventionist policies involve government intervention to correct market failures and drive socially desirable outcomes to promote economic growth and development.

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Interventionist policies

A variety of interventionist policies have been covered in microeconomics and macroeconomics including:

Redistribution policies

- Progressive taxation
- Transfer payments
- Minimum wages

Provision of public and merit goods

- Education
- Healthcare
- Infrastructure

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Interventionist policies

Educated individuals have higher employment prospects and a better chance at escaping the poverty cycle.

An investment in education also leads to lower crime rates and improvements in R&D.

A good healthcare system prevents the spread of contagious diseases, improving the health and labour productivity of the workforce.

Investments in energy, transport, telecommunications, and clean water and sanitation help improve labour productivity and productive capacity. Proper infrastructure is also needed to attract FDI.

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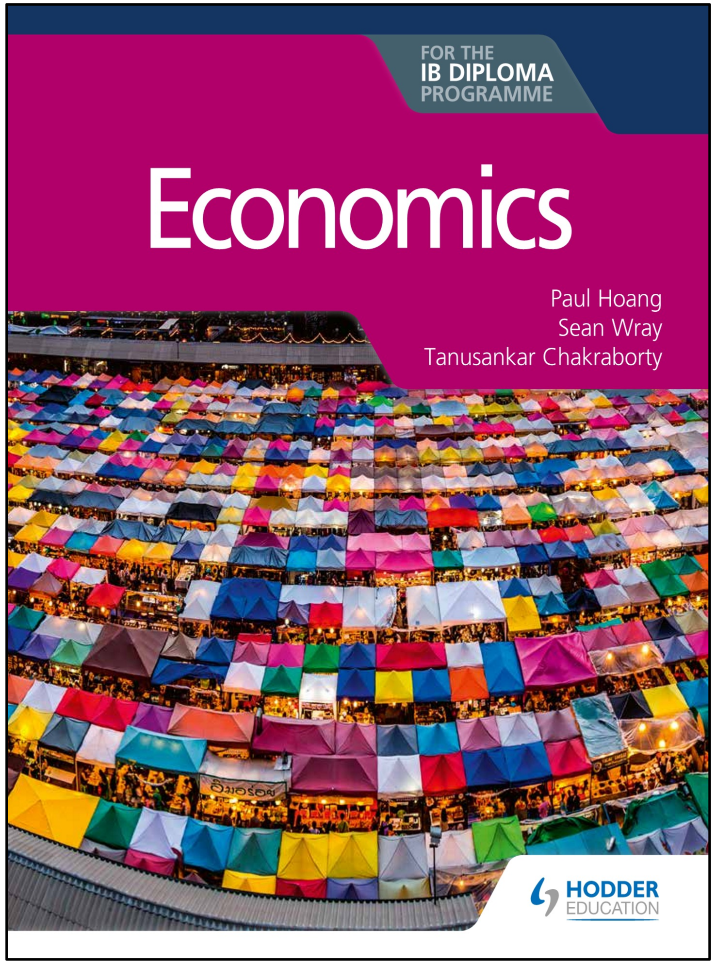
- [10 marks]



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Inward foreign direct investment (FDI)

Inward FDI occurs when countries attract long-term capital expenditure from multinational corporations (MNCs), ultimately promoting economic growth and development.

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Real world example - data analysis

Source: [Mapped: Foreign Direct Investment by Country]

Data Analysis Questions

1. What do you notice from the data?
2. What questions do you wonder about the data?
3. Research information that may help you answer your questions from Q2.
4. What conclusions can you make from Q1, Q2, and Q3?

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Real world example

Article: [China tops list of investors in H1 in Cambodia]

1. Why do you think Cambodia is an attractive investment from China's perspective?
2. How might Cambodia benefit from Chinese FDI?

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Inward foreign direct investment (FDI)

Benefits of FDI for MNCs may include:

- Cheaper production costs in lower income countries.
- Economies of scale enjoyed by operating on a larger scale.
- Access to natural resources that can be exploited for production.
- Increased sales revenue in fast-growing economies.
- Avoid trade barriers by locating in foreign countries.
- Logistical reasons – to reduce delivery times to customers in ELDCs.
- Financial incentives – governments offer tax breaks, grants, subsidies to MNCs to attract FDI.

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Inward foreign direct investment (FDI)

Advantages for Host Countries:

- Major source of national income for ELDCs
- Higher national income helps ELDCs break out of the poverty cycle
- Higher tax revenues
- Transfer of knowledge, skills and practices from MEDCs to ELDCs
- Greater employment opportunities
- Higher productivity and efficiency for domestic firms due to the competition from MNCs.

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Inward foreign direct investment (FDI)

Disadvantages for Host Countries :

- MNCs may utilize their own management team, reducing the benefits of skill transfers
- MNCs may exploit workers or natural resources in ELDCs.
- Profits generated by MNCs are partially repatriated back to their home country.
- Domestic firms may be unable to compete with MNC, resulting in unemployment
- Growing influence of MNCs create a loss in cultural, political and economic identity of ELDCs.

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- Page 611
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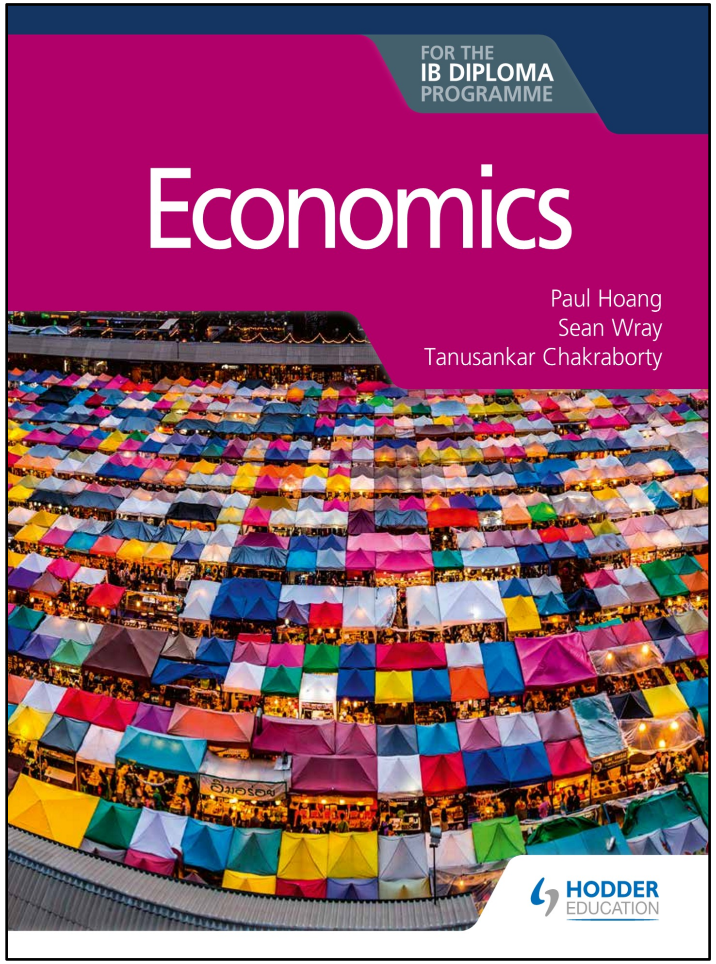
- [6 marks]



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Foreign aid

Foreign aid refers to **concessional** and **non-commercial** assistance in the form of finance, goods and services granted to ELDCs with the goal of improving economic, social, or political conditions.

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Real world example

1. What are the different types of aid?

2. Why do countries give foreign aid?

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Foreign aid

Humanitarian aid/ development aid

Humanitarian aid helps countries to achieve economic development objectives. It is also given to save lives in natural disasters or national emergencies. Humanitarian aid can be given by NGOs, individual countries, or multilateral organizations.

Grants	Non-repayable financial assistance provided by the government
Concessional long-term loans	“Soft loans” with highly favourable terms and conditions
Project aid	For specific development projects
Programme aid	For specific industries
Conditional aid	Recipient nations must use the aid for policy reforms and structural adjustments
Tied aid	Recipient nations must use the aid to buy products from the donor country

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Foreign aid

Debt relief

Debt relief is the total or partial remission of foreign debts. It is common for ELDCs to be heavily indebted due to high interest rates charged by creditors.

The World Bank identified 39 countries as heavily indebted poor countries (HIPCs), which are eligible for special assistance from international organizations.

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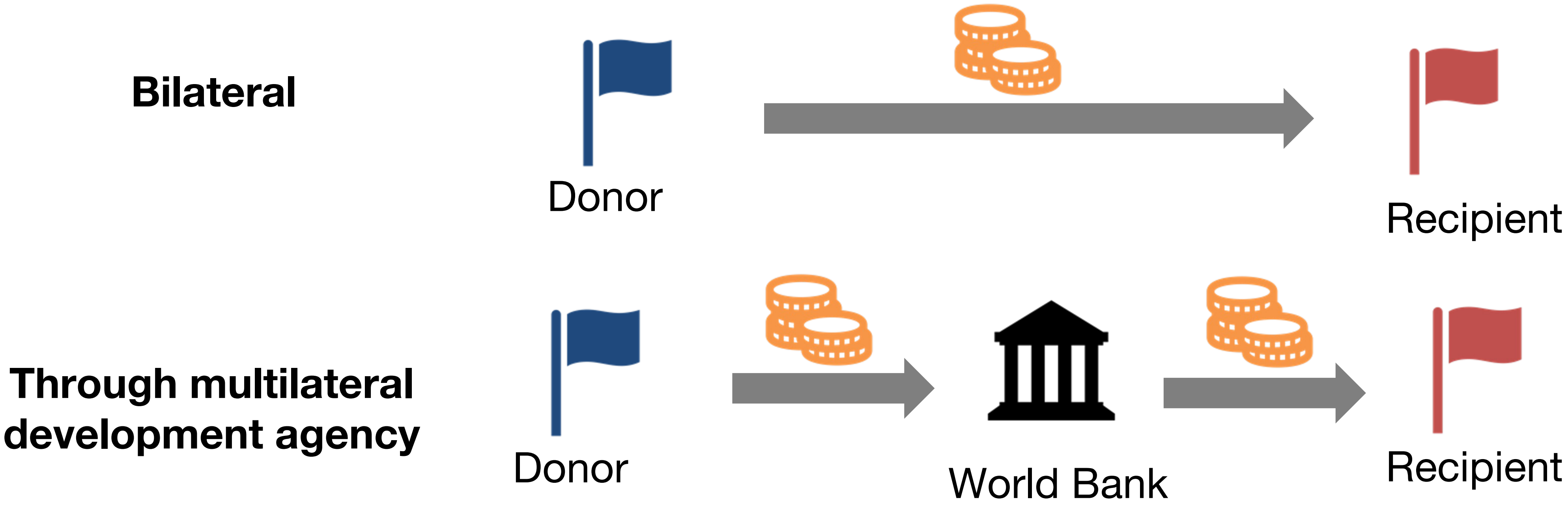
Foreign aid

Official development assistance (ODA)

Official development assistance is given by foreign governments rather than non-profit organizations, for development purposes. Foreign aid through ODA can be provided bilaterally or channeled through multilateral development agency.



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Foreign aid

Non-governmental organizations (NGOs)

Non-governmental organizations are private organisations which aim to pursue social objectives of improving economic, environmental and social conditions. Some large NGOs have highly trained workforces and a significant reach with governments around the world.

8 dominant NGOs contributing foreign aid:

World Vision International, Oxfam International, Save the Children International, Plan International, Médecins Sans Frontières, CARE International, CARITAS International and ActionAid International.

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Foreign aid

Advantages:

- Helps ELDCs to escape from the poverty cycle by increasing production and productivity.
- Eradicates extreme poverty.
- Reduces inequalities and unemployment in ELDCs.

Disadvantages:

- ELDCs may be economically dependent on donors from MEDCs.
- Misuse of foreign aid by corrupt governments.
- Concessionary loans incurs interest repayments, adding financial burden to ELDCs.
- Economic development should be based on higher volumes of trade, but not on foreign aid.
- The type of aid may not be appropriate to the country as it can involve political interferences.

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Multilateral development assistance

Multilateral development assistance is financial aid delivered through international institutions such as the World Bank and the International Monetary Fund (IMF).

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Multilateral development assistance

Multilateral development assistance is seen as a less political form of foreign aid, and usually takes the form of non-concessionary loans, which incurs interests and repayment periods determined by the market.

What are the functions of the World Bank and the IMF?

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Multilateral development assistance

The World Bank

The World Bank lends money to ELDCs for economic development projects and programmes for structural change. It is made up of two financial institutions: The International Bank for Reconstruction and Development (IBRD) and The International Development Association (IDA).

The International Monetary Fund (IMF)

The IMF aims to oversee the global financial system and to promote global monetary co-operation. It provides multilateral development assistance and make short-term non-concessional loans to countries.

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Institutional change

Institutional change refers to activities including increasing accessibility to banking, female empowerment, reducing corruption, extending and protecting property rights.

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Institutional change

Improved access to banking - microfinance

Microfinance refers to small loans given to individuals or businesses that do not ordinarily have access to traditional credit facilities.

For example, microfinance institutions such as Kiva.org aims to connect willing lenders from around the world to women, farmers, refugees, students, people affected by COVID-19, and more.

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Institutional change

Improved access to banking - microfinance

Advantages:

- Improves gender equality and income distribution.
- Provides small-sized loans to people who are unable to borrow from commercial banks.

Disadvantages:

- Most providers charge high interest rates as poor individuals lack credit to secure loans.
- Unemployment cannot be largely reduced.
- People are unwilling to start up businesses due to financial instability in ELDCs.
- Micro-entrepreneurs have limited skills and trainings to set up businesses.

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Institutional change

Improved access to banking - mobile banking

Mobile banking allows greater ease of access to financial services and reduces “shoe leather costs” for individuals and businesses.

As countries develop high-speed internet technologies, it enables more access to mobile banking services.

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Institutional change

Increasing women's empowerment

Countries with lower female empowerment often have lower productivity and slower growth as gender inequality limits the quantity and quality of half of the labour force. It also deprives women of economic and financial independence.

The World Bank aims to:

1. Improve healthcare and education gaps
2. Improve access to employment
3. Increase agency to decision making

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Real world example

How does the empowerment of women help improve economic growth and development?

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Institutional change

Reducing corruption

Corruption refers to dishonest or fraudulent activities to acquire illicit benefits or to abuse power for personal gain. It is detrimental to consumer and business confidence and subsequently negatively impacts domestic and international trade. Such activities are excluded in a country's national income, limiting tax revenue, and reported GDP.

Real-world example

Article: Corruption cases on foreign vessels reduced

How does corruption impact a country's economic security, international trade image and inward foreign direct investment?

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Institutional change

Property rights

Property rights refer to the legal entitlement of physical and intangible assets by individuals, groups, firms, or governments. Strong enforcement of property rights allows asset owners to feel assured of their investments in a country, encouraging domestic investment and foreign direct investment (FDI).

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Institutional change

Land rights

Land rights refer to an individual's ability to obtain, use and hold land. Legal landowners can rent their land in return for rental income. Thus, it is an important source of security, income and wealth. In ELDCs, land rights are particularly important in allowing a basic means of living.

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Evaluating strategies for economic growth and development

The effectiveness of each strategy is dependent upon a range of factors, such as the context of the economy, population size, budgetary constraints, as well as political and social influences.

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Real world example

1. How is Rwanda using Singapore as a blueprint to achieve economic growth?
2. How effective are the regimes in achieving economic growth?

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Intervention versus market-oriented approaches

While many ELDCs share common characteristics, not all have the same features. Thus, different degrees of government intervention is required to achieve economic growth and development.

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Interventionist policies

Strengths of Intervention Policies

- Correcting market failures
- Provision of essential infrastructure
- Investment in human capital
- A stable macroeconomic environment
- Provision of social safety net
- Reducing income and wealth inequalities
- Emergencies and disasters

Limitations of Intervention Policies

- Budget deficits, debt, and opportunity cost of government spending
- Excessive bureaucracy and inefficiency
- Corruption and poor governance
- Protection of inefficient producers results in inefficient allocation of resources
- Intervention leads to allocative inefficiency

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Market-oriented policies

Strengths of market-oriented policies

- Allocative efficiency
- Reduced costs for producers
- Increased competition resulting in lower prices and greater variety of goods
- Incentive based labour market policies increase efficiency of labour resources
- Benefits of trade liberalization
- Benefits of adopting a floating exchange rate system

Limitations of market-oriented policies

- Inability to deal with market failures
- Income and wealth inequalities may worsen
- Weak institutions means a lack of legal enforcement for economic activities
- Inability to reduce poverty
- Informal economic activities may arise

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Sustainable Development Goals

The UN Development Programme was announced in 2015, where 17 Sustainable Development Goals were outlined to be met by all member states by 2030.

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Real world example

Source 1: Measuring progress towards the Sustainable Development Goals

Source 2: The global goals we've made progress on -- and the ones we haven't I Michael Green

Using the sources above and any additional research, create a presentation which outlines the progress that has been made on the UN Sustainable Development Goals.

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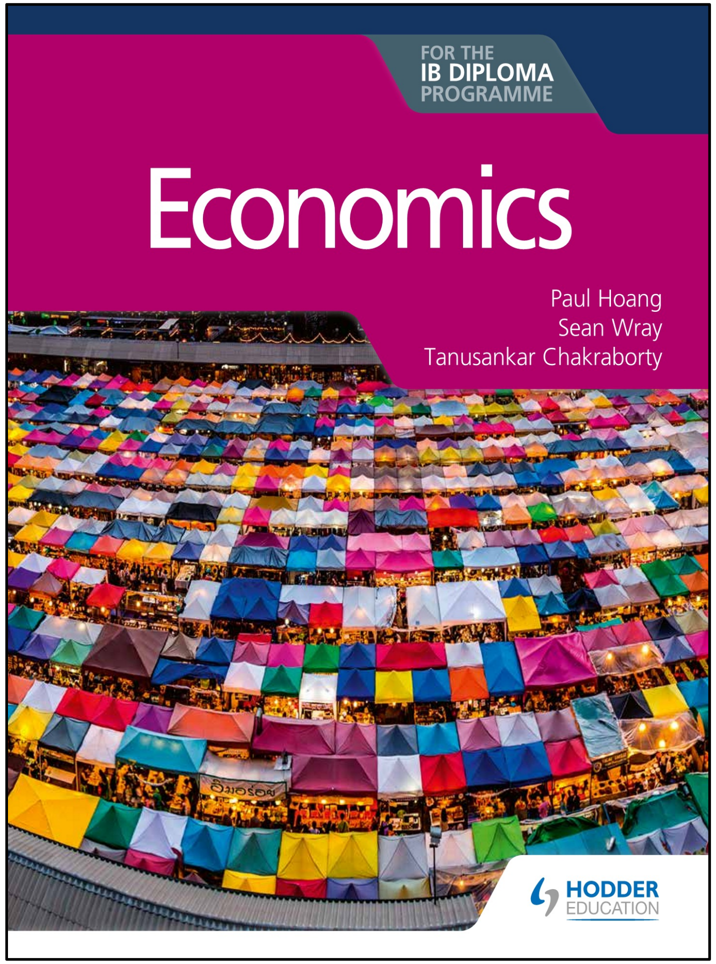
- [15 marks]



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Test your knowledge on this unit: Kahoot!

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