Chapter 18: Development and Globalization
Section 1
Key Terms

- **development**: the process by which a nation improves the economic, political, and social well-being of its people
- **developed nation**: a nation with a relatively high average level of material well-being
- **less development country**: a nation with a relatively low level of material well-being
- **newly industrialized country**: a less developed country that has made great progress toward developing its economy
- **per capita GDP**: a nation’s gross domestic product divided by its population
Key Terms, cont.

- **industrialization**: the organization of an economy for the purpose of manufacture
- **literacy rate**: the proportion of a nation’s population over age 15 that can read and write
- **life expectancy**: the average expected life span of an individual
- **infant mortality rate**: the number of deaths that occur in the first year of life per 1,000 live births
- **subsistence agriculture**: level of farming in which a person raises only enough food to feed his or her family
Levels of Development

• Economists divide the world’s nations into different categories according to their level of development.
  – Development is the process by which a nation improves the economic, political, and social well-being of its people.
  – Development refers to a nation’s well-being. It is not a judgment of the worth of a nation or its people.
• Nations with a relatively high average of material well-being are called developed nations.
  – The United States, Canada, Japan, and Australia are all examples of developed nations.
• Nations with relatively low levels of material well-being are called less developed countries (LDCs).
  – LDCs include some of the world’s poorest countries such as Bangladesh, Nepal, and nations of Central and Southern Africa.
Levels of Development, cont.

• Newly industrialized countries include LDCs that have made great progress toward developing their economies.
  – Examples of newly industrialized countries include nations like Mexico, Brazil, Saudi Arabia, and former republics of the Soviet Union.
Development Around the World

- **High-income economies** (Per Capita GNI $11,116 or above)
- **Upper middle-income economies** (Per Capita GNI $3,596 – $11,115)
- **Lower middle-income economies** (Per Capita GNI $906 – $3,595)
- **Low-income economies** (Per Capita GNI $905 or less)
- **No data available**
One tool economists use to measure a nation’s level of development is per capita GDP, which is a nation’s GDP divided by its population. Per capita GDP does not take into account distribution of income. In every nation, some people are wealthier than most, while others are poorer than most.
Energy Consumption

• Energy consumption is another good way to measure development.
  – The amount of energy that a nation consumes is closely linked to its level of industrialization.
    • High levels of energy use indicates high levels of industrial activity.
Labor Force

• One sign of low development is if a large share of the population works in agriculture.
  – The more people involved in agriculture, the fewer there are available to work in industry.
Consumer Goods

• Availability of a large number of consumer goods indicates that people have enough money to meet their basic needs and still have enough left over to buy nonessential goods.
  – This is a sign of high development.
Social Indicators

• Three social indicators also measure a nation’s development.
  – Literacy rate - an educated population has the potential to be more productive and to use or produce advanced technology
  – Life expectancy - indicates how well an economic system supports life
  – Infant mortality rate - the lower a nation’s infant mortality rate, the higher its level of development
Development Nations

- Developed nations have the following general characteristics:
  - High consumer spending
  - Healthy populations—low infant mortality and high life expectancy
  - High literacy rates
  - High agricultural output but few people working on farms
  - High productivity and widespread use of technology
  - Mostly urban
  - Solid infrastructure
Less Developed Countries

• Characteristics of less developed countries include:
  – Raising only enough food to feed the family
  – High unemployment rates
  – Much of the nation is underemployed
  – Inability to buy consumer goods
  – Low literacy rates
  – Poor quality of housing and diet
  – High infant mortality and short life expectancy
Chapter 18: Development and Globalization

Section 2
Key Terms

- **population growth rate**: a measure of how rapidly a country’s population increases in a given year
- **malnutrition**: consistently inadequate nutrition
- **internal financing**: capital derived from the savings of a country’s citizens
- **foreign investment**: capital that originates in other countries
- **foreign direct investment**: the establishment of a business by investors from another country
Key Terms, cont.

• **foreign portfolio investment**: purchases made in country’s financial markets by investors from another country

• **debt rescheduling**: an agreement between a lending nation and a debtor nation that lengthens the time of debt repayment and forgives part of the loan

• **stabilization program**: an agreement between a debtor nation and the International Monetary Fund in which the nation agrees to change its economic policy to match IMF goals

• **nongovernmental organization**: an independent group that raises money and uses it to fund aid and development programs
• What factors harm or help development?
  – Factors that can harm development include a high rate of population growth, lack of physical and human capital, poor nutrition and healthcare, political obstacles, and an economy that does not allow for internal growth.
  – Factors that help development are a normal rate of population growth, high amounts of physical and human capital, stable government, and an economy that encourages growth.
Rapid Population Growth

- Rapid population growth is one of the most pressing issues facing many less developed countries.
  - The population growth rate is a measure of how rapidly a country’s population increases in a given year and take into account the number of babies born, the number of people who died, and the number of people who migrated to or from a country.
• The graph on the left shows rates of population growth for selected nations. The graphs in the middle and on the right show how age distribution is related to national income.
Causes and Effects

• Rapid population growth is caused by:
  – Increased life expectancy
  – More births than deaths
  – High proportion of the population of child-bearing age

• As its population grows, a country must expand employment opportunities, healthcare, education, and infrastructure just to maintain its existing standard of living.
  – In order to improve the lives of people, output must grow faster than the population, which can be a daunting task for many LDCs.
Limited Resources and Capital

• Natural resources are not evenly distributed throughout the world.
  – In parts of Africa, Asia, and Latin America, physical geography is a serious obstacle to development.
  – Less developed countries also often lack the means to use their resources efficiently.

• The low productivity typical of LDCs is due in part to lack of physical capital.
  – Without capital, industry cannot grow and farm output remains low.
Low Human Capital

• Lack of human capital, including low literacy rates, also hinders development in LDCs.
  – Education and training allow people to develop new skills and adapt to new technologies and processes.

• Two factors contribute to lower literacy rates in LDCs:
  – Only 3 out of 4 children who begin primary school are still in school 4 years later
  – The literacy rate for women lags far behind men
Education and Literacy

- Education and literacy rates vary from country to country. These rates can also vary between men and women in the same country.

<table>
<thead>
<tr>
<th>Country</th>
<th>Primary School Enrollment Rate (percentage)</th>
<th>Literacy Rate (percentage)</th>
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<tbody>
<tr>
<td></td>
<td>Female</td>
<td>Male</td>
</tr>
<tr>
<td>United States</td>
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<tr>
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<td>88</td>
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<tr>
<td>Niger</td>
<td>32</td>
<td>46</td>
</tr>
</tbody>
</table>
Nutrition and Health

• Poor nutrition and health also impeded the development of human capital.
  – Many people in LDCs suffer from malnutrition, which makes people more vulnerable to disease. This can reduce worker productivity.
  – Poor sanitation in many LDCs also leads to the spread of diseases.
  – In addition, many poorer countries have high rates of infection by HIV.
Political Obstacles

- Political factors may also limit or even reverse a nation’s development.
  - Many LDCs were former colonies of European powers, which often prevented the development of industry. Once free, these nations turned to central planning.
    - This allowed them some gains at first but hindered them in the long run.
    - Corruption, war, and social unrest also added to the slow economic growth of these nations.
    - Lastly, economic policies in many LDCs have favored small minorities instead of the majority.
Financing Development

• A developing country can acquire development funds in a variety of ways.
  – One source is internal financing when capital is derived from the savings of the country’s own citizens.
  – In most LDCs, though, large segments of the population do not have enough money to save. As a result, most poor countries have little capital available for internal financing.
Foreign Investment

• Capital that originates in other countries is called foreign investment.

• There are two types of foreign investment.
  – Foreign direct investment occurs when investors establish a business in another country. Multinationals, for example, often build factories in LDCs.
  – Foreign portfolio investment occurs when investors from a foreign country make purchases in an LDC’s financial market. An American investor, for example, might buy shares in a mutual fund that then buys stock in a foreign company.
Borrowing and Debt

• In the 1970s and 1980s, many LDCs acquired loans from foreign governments and private banks to finance development.
  – Some of this money was misspent as a result of inexperience or political corruption.
  – Changes in the world economy, such as rises in oil prices and the increase in the value of the dollar, also caused problems for LDCs, pushing them further and further into debt.
Foreign Aid

• Many developed nations gives money and other forms of aid to LDCs.
  – They provide case payments for building schools, sanitation systems, roads, and other infrastructure.
  – Foreign aid is motivated by humanitarian concerns, but also by military, political, and economic reasons.

Identify the amount of foreign aid each of these countries received: Iraq, Colombia, Congo.
International Institutions

• Several international economic institutions promote development in LDCs.
  – The World Bank - uses funds raised to offer loans and other resources to more than 100 LDCs
  – UN Development Program - uses its resources to help eliminate poverty
  – International Monetary Fund (IMF) - promotes development by offering policy advice and technical assistance
    • The IMF creates debt rescheduling plans and promotes stabilization programs, which are controversial because they can have a negative impact on the poor in the short term.
NGOs

- Nongovernmental organizations (NGOs) are independent groups that raise money to fund aid and development programs.
  - Examples include the Red Cross, CARE, and the World Wildlife Fund.
  - Some NGOs focus on providing food or medical help when natural disasters or wars cause problems.
  - Others, like the Grameen Bank, make small loans to poor people.
Key Terms

- **privatization**: the sale or transfer of government-owned businesses to individuals

- **special economic zones**: designated regions in China where foreign investment is encouraged, businesses can make the most of their own decisions, and foreign companies are allowed to operate
Privatization

For many nations economic transition has meant moving from central planning to a market-based economy.

- One of the first steps in moving to a market economy is to sell or transfer government-owned businesses to individuals. This process is called privatization.
- In China, the transition from strict communism to free market practices has given rise to a new generation of entrepreneurs, such as this store owner.
Privatization, cont.

• A government can privatize businesses by:
  – Selling the business to one owner
  – Selling shares to investors
  – Giving citizens a voucher to purchase shares in businesses once they are privatized

• Privatization can be difficult. Many people will lose their jobs because they are no longer guaranteed by the government.

• Another result of privatization is corruption, which leads to an unfair distribution ownership.
Transitioning Economies

• Moving to a market economy requires changes in the legal system.
  – The government must create new laws that ensure a person’s right to own and transfer property. Such an overhaul of the legal system takes time.

• Workers in a transitioning economy also need to learn a new work ethic because incentives, not quotas motivate people’s labor in a free market.
  – Many people accustomed to central planning might resist the shift to the free market out of fear and uncertainty.
The Fall of Communism

– When the Soviet Union fell in 1991, Russia and the other former Soviet republics began the difficult transition to a free market economy.

• Under communism, government planners directed the Soviet economy, which led to frequent shortages and low-quality goods.

• In the late 1980s, Mikhail Gorbachev began to move the Soviet Union toward a more free market economy.
The transition to free market economics created problems.

- People lost secure government jobs, benefits, and pensions.
- Many people were hurt financially and unrest grew.
- One by one, the 15 Soviet republics declared independence.
A Painful Transition

• Russia’s new president, Boris Yeltsin, promised rapid progress towards a free market economy.

• Despite improvements, hardships continued.
  – Inflation increased
  – There was an uneven distribution of income
  – Corruption was rampant

• By 1998, the Russian economy was in shambles.
Russia in a New Century

• Tight controls from the central government, combined with rising prices for Russian oil, allowed Russian leaders to stem the crisis.
  – By 2007, Russia had the world’s ninth largest national economy.
  – Still, problems persist and the transition to a market economy is far from complete.
China

• China is a major exporter of goods and a key trading partner of the United States.
  – In 1949, communists led by Mao Zedong took power in China.
  – In 1976, Deng Xiaoping became China’s new leader. Deng began using free market policies to increase productivity.
  • He used incentives to increase production.
  • He gave farmers and factory managers more freedom.
  • He set up four free market centers along China’s east coast, which increased foreign trade and investment.
China, cont.

• These economic changes have led to huge economic growth.
• Still, development has brought its share of problems.
  – Increase in crime and pollution
  – Jobs are no longer guaranteed
  – Poverty and unemployment plague rural areas
  – Economic development has not meant political liberty

India

• A former British colony, India struggled economically after gaining independence.
  – In the 1990s, new policies encouraged Indian companies to expand.
    • Many software companies opened new facilities in India, where educated workers could offer technical support to computer users around the world.
  – Economic growth helped promote the emergence of a much larger middle class, which provided a growing market for consumer goods.
India, cont.

• As with China, India’s growth is not complete.
  – There is a growing gap between the richest and poorest citizens, which is true in virtually all nations with developing economies.
  – Urban dwellers with educations and skills benefit the most from growth. Uneducated people in poor rural areas struggle with poverty and continue to rely on subsistence farming.
Persistent Poverty in Africa

- South of the Sahara, most African nations face economies largely based on subsistence farming with low literacy rates, inadequate health and nutrition, high rates of HIV infection, and mounting debt. Civil war also plagues many nations.

- Only two African nations south of the Sahara have sizeable economies—Nigeria and South Africa.
Nigeria and South Africa

- Nigeria benefits from large oil reserves yet suffers from overproduction, political corruption, and ethnic conflict.
  - New leaders promised to improve the economy and standards of living.
- South Africa has one of the 25 most productive economies in the world despite high unemployment rates, poverty, and high rates of HIV infection.
  - Still, South Africa benefits from a rich array of natural resources and a strong manufacturing base.
Different Paths in Latin America

– Brazil exports iron ore, timber, coffee, and soybeans. It also produces ethanol made from sugar cane.

– Mexico produces rich crops of cotton and coffee and has diversified its economy by promoting tourism.
Chapter 18: Development and Globalization
Section 4
Key Terms

- **globalization**: the increasingly tight interconnection of producers, consumers, and financial systems around the world
- **offshoring**: the movement of parts of a company’s operations to another country
- **remittances**: cash payments sent by workers who have migrated to a new country to family members in their home country
Key Terms, cont.

- “brain drain”: migration of the best-educated people of less developed countries to developed nations
- **sustainable development**: the goal of meeting current development needs without using up resources needed by future generations
- **deforestation**: the large-scale destruction of forests
Causes of Globalization

- The increasingly tight interconnection of producers, consumers, and financial systems around the world is known as globalization.
  - Globalization began in the Middle Ages with the spice trade connecting Europe, Asia, and Africa.
  - The colonization of the Americas in the 1500s and 1600s and the Age of Imperialism that began in the late 1800s, further increased the interconnectivity of world economies.
Transportation and Communication

- Globalization today is taking place at a much faster pace than in the past.
  - One contributing factor to this is today’s transportation and communication capabilities.
    - Jet airplanes allow producers to sell goods in distant markets while satellite communications and computers allow customers and suppliers on opposite sides of the world to talk quickly and clearly.
Expansion of the Free Market

• As a result of the shift to free market economies by many nations, the proportion of the world that practices free market economies has more than tripled.
  – These new free market economies are more open to foreign investment.
• The creation of trading blocs has changed the nature of competition in the global market.
  – The EU has given the United States some competition on the global market with its combined output of the 27 member nations.
  – Concerns about competition from the EU was one of the factors that prompted the signing of NAFTA.
What is Globalization?

- Spread of Free Market Economies
- Rapid Transportation and Communication
- Interconnected Financial Markets
- Foreign Exchange Markets
- Multinational Corporations
- Free Trade Agreements
Interconnected Financial Markets

- Due to interconnected free markets, financial markets in one country often affect people in another.
  - If the American stock exchange is experiencing financial difficulty, for example, it affects investors in the European and Asian exchanges.
  - These effects impact ordinary people as well as investors. As the value of assets in other countries fall, banks buy less of them, which means the banks have less capital available to make loans to people in their own countries.
Multinational Corporations

- The presence of multinational corporations in the global economy has sparked much controversy.
  - Supporters argue that MNCs bring many benefits to LDCs, such as technology, jobs, and training.
  - Critics argue that MNCs hurt LDCs by offering too-low wages, few jobs, and little profit for the host company.
Job Loss

• People in developed nations are concerned about job loss as the result of offshoring.
  – Offshoring may involve a single process, as when an American bank hires a call center in India or Kenya to handle its telemarketing.
  – Or it can be total, as when a multinational manufacturer closes a plant in the United States to build one in another country.
  – In either case, the result is job loss.
Population Shifts

• Globalization and development have accelerated population shifts.
  – Much of this migration takes place within a nation’s borders.
    • In many LDCs, cities offer more job opportunities than rural areas. As a result, large number of people in villages are streaming into cities.
  – Rapid urbanization has caused several problems:
    • Inadequate housing, schools and sanitation
    • Poverty, crime, and disease are widespread
Population Shifts, cont.

• Each year, millions of workers leave LDCs in the hopes of finding jobs in developed nations.
  – Most immigrants come legally but those who come illegally raise security concerns.
  – Many immigrants send money back home to their families, providing an important source of income.
  – Some immigration hurts LDCs as the most-educated people leave for work in other countries.
Challenges

• Globalization creates opportunities but it also creates challenges. These challenges include:
  – The feelings by some LDCs that international trade and financial policies favor the wealthier nations.
  • The Group of 20 works to help this issue by promoting growth and learning how to combat the financing of terrorist operations.
  – Scientists worry that rapid development can cause environmental damage.
    • Deforestation and providing sustainable development are at the heart of this challenge.
Challenges, cont.

• Another challenge is competition for scarce resources.
  – In some regions, like China, it is increasingly difficult to find enough clean, healthy water to meet the needs of a growing population.

• Even if resources do not run out, the cost of scarce water and fuel causes problems.
  – The world oil crunch, for example, became yet another challenge to the struggle of LDCs to build their economies.
Globalization even poses challenges for the U.S. economy.

- Workers must keep up-to-date with new technologies so they can remain productive in their current jobs. When jobs do not provide training, workers must take responsibility to learn needed skills.

- The American workforce has also become more diverse. To be productive, American workers must be prepared to work closely with people of different backgrounds.
Competition and Innovation

- Globalization has made economic competition more intense. American companies need to stay competitive.
  - Business managers face constant pressure to cut costs and increase profits.
- Growing competition spurs innovation.
  - The companies that develop new products or processes can quickly gain a large share of the world market.