Economic Development and Transition
### Developed Nations and Less Developed Countries

<table>
<thead>
<tr>
<th>Developed Nations</th>
<th>Less Developed Countries</th>
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<tbody>
<tr>
<td>• Developed nations are nations with <strong>higher</strong> average levels of material well-being.</td>
<td>• Less developed countries (LDCs) are countries with <strong>low</strong> levels of material well-being.</td>
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**Development** is the process by which a nation improves the economic, political, and social well-being of its people.
# Measuring Development

**Per Capita GDP**

Per capita GDP is a measurement of a nation's GDP divided by its total population.

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<th>Energy Consumption</th>
<th>Labor Force</th>
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<td>How much energy a nation consumes depends on its level of <em>industrialization</em>, or the extensive organization of the economy for the purpose of manufacture.</td>
<td>If a nation's labor force is mostly devoted to <em>subsistence agriculture</em>, or raising enough food to feed only their families, there are fewer workers available for industry.</td>
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<th>Consumer Goods</th>
<th>Literacy</th>
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<td>The quantity of consumer goods a nation produces per capita can also indicate its level of development.</td>
<td>A country's <em>literacy rate</em> is the proportion of the population over age 15 that can read and write.</td>
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<th>Life Expectancy</th>
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<td>Life expectancy is the average expected life span of an individual. It indicates how well an economic system supports life.</td>
<td>A country's <em>infant mortality rate</em> indicates the number of deaths that occur in the first year of life per 1,000 live births.</td>
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Characteristics of Developed Nations

- Developed nations have high per capita GDPs, and a majority of their populations are neither very rich nor very poor.

- Developed nations have high levels of agricultural output, but relatively few people work on farms. Most of the labor force work in industry and services.

- Developed nations have solid infrastructure. Infrastructure is the services and facilities necessary for an economy to function.
Characteristics of Less Developed Countries

- Less developed countries have low per capita GDPs, and their low energy consumption levels signal lower levels of industrialization.
- Unemployment rates are high in LDCs, often as high as 20 percent. Most people in the labor force are subsistence farmers.
- Literacy rates in LDCs are low due to limited resources for education.
- Housing and food are often of poor quality in LDCs, leading to high infant mortality rates and lower life expectancies.
Levels of development vary greatly among nations.
Rapid Population Growth

- The **population growth rate** is the increase in a country’s population in a given year expressed as a percentage of the population figure at the start of the year.

- Economists often focus on the **natural rate of population increase**, or the difference between the birth rate and the death rate.

If a country’s population doubles, it must also double the following if it is to maintain its current level of development:

- employment opportunities
- health facilities
- teachers and schoolrooms
- industrial output
- agricultural production
- exports and imports
Resource Distribution and Physical Capital

Resource Distribution

- In parts of Africa, Asia, and Latin America, physical geography makes development more difficult.
- Only about 10 percent of the world’s land is **arable**, or suitable for producing crops.

Physical Capital

- The lack of economic activity typical of LDCs is due in part to a lack of physical capital.
- Subsistence agriculture provides little opportunity for individuals or families to save.
Human Capital
When a country fails to invest in human capital, the supplies of skilled workers, industry leaders, entrepreneurs, government leaders, doctors, and other professionals is limited.

Health and Nutrition

– Proper food and nutrition are necessary for physical and mental growth and development. Inadequate nutrition is called malnutrition.

Education and Training

– To be able to use technology and move beyond mere subsistence, a nation must have an educated work force.

“Brain Drain”

– The scientists, engineers, teachers, and entrepreneurs of LDCs are often enticed to the benefits of living in a developed nation. The loss of educated citizens to the developed world is called “brain drain.”
Political Factors and Debt

From Colonial Dependency to Central Planning

- Many LDCs are former colonies of European powers. Their dependency on their colonizers for manufactured goods hindered their own development. Several LDCs turned to central planning after gaining their independence in an effort to modernize quickly.

Government Corruption

- Corruption in the governments of many LDCs holds back development.

Political Instability

- Civil wars and social unrest prevent the necessary social stability required for sustained development.

Debt

- Rising oil prices in the 1970s and a strong U.S. dollar have made it hard for many LDCs to repay loans.
The Role of Investment

Building an infrastructure, providing education and health care, and creating technology and industry, all require large sums of money.

Internal Financing

- **Internal financing** is derived from the savings of a country’s citizens.
- In many LDCs, there is little internal financing.

Foreign Investment

- **Foreign investment** is investment which originates from other countries.
- There are two types of foreign investment, **foreign direct investment**, and **foreign portfolio investment**.
## Two Types of Foreign Investment

### Foreign Direct Investment
- **Foreign direct investment** is the establishment of an enterprise by a foreigner.
- Many multinational corporations are attracted to foreign direct investment because of the possibilities for increased profits.

### Foreign Portfolio Investment
- **Foreign portfolio investment** is the entry of funds into a country when foreigners make purchases in the country’s stock and bond markets.
- Foreign portfolio investment creates funds which indirectly increase production.
Many developed nations provide aid to less developed nations for building schools, sanitation systems, roads, and other infrastructure.
International Economic Institutions

World Bank

- The largest provider of development assistance is the World Bank. The World Bank offers loans, advice, and other resources to many less developed countries.

United Nations Development Program (UNDP)

- The United Nations Development Program is dedicated to the elimination of poverty through development.

International Monetary Fund

- The International Monetary Fund (IMF) primarily offers policy advice and technical assistance to LDCs. The IMF is also viewed as a lender of last resort.
Moving Toward a Market Economy

Privatization

- **Privatization** is the sale or transfer of state-owned businesses to individuals. Private ownership gives individuals, rather than the government, the right to make decisions about what to produce and how much to produce.

Protecting Property Rights

- A government must create whole new sets of laws that ensure a person’s right to own land and transfer property.

Other New Roles for Government

- A government must also be able to deal with possible unrest caused by the transition to a market economy. A government may also play a role in establishing a new **work ethic**, or a system of values that gives central importance to work.
# Transition in Russia

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<th><strong>1. Communism in Russia</strong></th>
<th><strong>2. Glasnost and Perestroika</strong></th>
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<td>The Soviet government reorganized farmland into state farms and collective farms. Much of the economy was focused on the growth of heavy industry.</td>
<td>In the late 1980s, Soviet Premier Mikhail Gorbachev introduced new reforms. <em><a href="#">Glasnost</a></em> was a policy of &quot;openness&quot; encouraging open speech. <em><a href="#">Perestroika</a></em> called for a gradual change from a centrally planned economy to free enterprise.</td>
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<th><strong>3. Collapse of Communism</strong></th>
<th><strong>4. Transition to a Free Market</strong></th>
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<td>In 1991, Russians voted in their first democratic election. Soon after, the Soviet republics declared themselves independent nations. By the end of 1991, the Soviet Union ceased to exist.</td>
<td>Since 1991, the Russian government has moved Russia towards free enterprise. However, extensive corruption and government mismanagement have hindered Russia's progress.</td>
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Transition in China
Since the end of China’s civil war in 1949, China has developed its own unique version of communism.

The Great Leap Forward
- In 1958, Mao Zedong introduced the Great Leap Forward. The program’s intent was to turn China into a great economic power, but instead resulted in famine and about 20 million deaths.

Transition to the Free Market
- Mao died in 1976. His successor, Deng Xiaoping, introduced new approaches to government and the economy. Deng shifted industrial and agricultural production decisionmaking back to individual farmers and factory owners.

Economic Zones
- Deng also set up four special economic zones along China’s east coast. In these zones, local governments are allowed to offer tax incentives to foreign investors and local businesses can make their own production decisions. China now has hundreds of special economic zones.