Chapter 41

Measures to promote growth and development

Key terms

1. Market-Orientated : which rely upon free markets to deliver economic development.
2. Interventionist strategies : where government plays a leading role, regulating and manipulating markets or bypassing markets through direct provision of goods and services.
3. Bilateral aid: when aid is given directly by one country to another
4. Multilateral aid: when donor countries give money to an international agency, and the agency then disperses the aid
5. Tied aid: offering aid on the condition that it is used to buy goods and services from the provider of aid
6. Buffer stock scheme: a scheme whereby an organization buys and sells in the open market so as to maintain minimum and maximum price in the market for a product
7. Interventionist strategies : where government plays a leading role, regulating and manipulating markets or bypassing markets through direct provision of goods and services.
8. Joint venture: a company that is owned by firm and a government
9. Microfinance scheme: when very small loans are given out to individuals, by non government organization, who would otherwise not have access to borrowed money

1. Different types of development strategy

- **Market-Orientated :** which rely upon free markets to deliver economic development.
- **Interventionist strategies :** where government plays a leading role, regulating and manipulating markets or bypassing markets through direct provision of goods and services.

2. Market-oriented strategies to promote growth and development

2.1 Trade liberalisation

- Trade liberalisation : is the removal or reduction of trade barriers between countries. One-objective of trade liberalisation might be to gain from export-led growth. An increase in exports will increase AD and causing economic growth.

2.2 Promotion of foreign direct investment (FDI)

- FDI can help remove some of the constraints on economic growth and development.

2.3 Removal of government subsidies

- Many of these subsidies target essential items -such as food or fuel -that make up a disproportionate share of spending of low income households. Other subsidies target agriculture and industry in a bid to increase output and investment.
- Removing subsidy can reduce national debt.

2.4 Privatisation

- Privatisation is recommended by free-market economists.
- They argue that the discipline of the market forces firms cut their average costs to a minimum, leading to productive efficiency.
- They also have to be allocatively efficient, giving customers what they want to buy. In contrast, nationalised industries have no incentive to be efficient.
- So, privatisation in developing countries can be powerful way to increase efficiency and therefore economic growth.

2.5 Floating exchange rates

- Market forces determine the value of the currency. The advantage of this is that governments do not have to intervene and do not have to worry about gold and foreign currency reserves running out. And depreciation can causes export-led growth.

2.6 Developing a financial sector

- Microfinance scheme: when very small loans are given out to individuals, by non government organization, who would otherwise not have access to borrowed money

3. Interventionist strategies

3.1 Development of human capital

- Education and skills have long been recognised as an important factor in economic development.
- Countries that invested heavily in education when they were still relatively poor, such as China , have benefited in long run.
- Education raises the human capital of the population and allows workers to be more productive.

3.2 Protectionism

- Protectionism was more widely used by some countries as a means of promoting economic growth and development.

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3.3 Managed exchange rates

- Governments can choose to manage a single exchange rate, buying and selling currency to fix an exchange rate.
- However, speculation in currency markets is so large that countries find it very difficult to maintain an exchange rate even within a broad band over a number of years.

3.4 Infrastructure development

- A government may also choose to spend more money on infrastructure as a means of achieving faster economic growth.

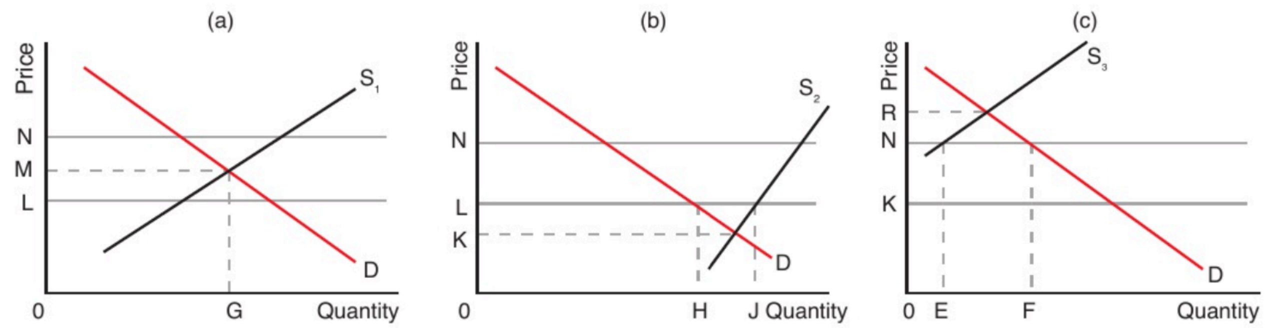
3.5 Promoting joint ventures with TNCS

- FDI can be associated with exploitation where foreign companies take far from their investment than the country receives in benefits.
- One way of reducing perceived exploitation is for a government to insist on major investment being set up as joint venture.
- However, some critics have expressed concern that developed countries may actually lose out when they invest in developing countries.

3.6 Buffer stock schemes

- The price of commodities is volatile over time. This is a problem for developing countries that relay upon commodities for exports, jobs and government income.
- One way of stabilising commodity prices is set up a "Buffer stock scheme".
- This is likely set up by a group of governments to fix world price for a commodity. Equally, it could operate within a country assuming that exports and imports are controlled.

Diagram



4. The impact of other strategies

4.1 Industrialisation (The Lewis structural dual-sector model)

- Industrialisation (The Lewis structural dual-sector model): Industrialisation is therefore a key feature of economic development of mainly agriculture economies.
- W. Arthur Lewis was an economist who used this to focus on the role of migration in developing countries.
- He argued that growth could be sustained by the gradual transfer of workers from low-productivity agriculture (traditional sector) to higher-productivity urban secondary and tertiary industries.

4.2 Development of tourism

- Tourism has a number of advantages for developing countries compared to manufacturing
- There are criticisms made of the impact of tourism on economic development. A developing country may become more vulnerable to external shocks-a recession in developed countries will reduce tourists to developing countries.

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4.3 Development of primary industries

- Countries such as Saudi Arabia, Chile and Norway have seen significant economic development because they have a comparative advantage in production of certain primary commodities.
- However, commodities can be highly demanding to an economy as well as highly advantageous.

4.4 Debt relief (Debt forgiveness)

- **Debt relief (Debt forgiveness)**: Governments of a number of developing countries borrowed money which later they were unable to repay or service the interest on the loans. They fell into a debt trap.
- The result for a number of countries was nearly two decades of low economic growth. These governments found it difficult, if not impossible, to borrow in international markets because they were already so indebted, They were forced to adopt what today are called fiscal austerity policies.

- Their countries also had to export more than they imported in order to earn the foreign currency to make repayments on debts.

4.5 Foreign aid

- Foreign aid can take a variety of forms
    1. Bilateral aid: when aid is given directly by one country to another
    2. Multilateral aid: when donor countries give money to an international agency, and the agency then disperses the aid
    3. Tied aid: offering aid on the condition that it is used to buy goods and services from the provider of aid
- **Reasons why aid can help growth and development include**
    - Foreign aid can help to reduce absolute poverty. For example, aid spent on new health clinics will help to ensure basic needs are met.
    - Foreign aid can help to fill a saving gap. This should increase investment, setting off positive multiplier effects.
    - Foreign aid can help fill a foreign exchange gap. This may help finance more imports of capital goods or it can be used to pay interest on debt owed to foreign investors.

5. The role of international financial institutions and non-government organisations.

5.1 The international monetary fund (IMF)

- International financial institutions aims to promote international monetary cooperation and exchange rate stability

5.2 The world bank

The World Bank was set up to promote economic development. It is made up of two institutions.

- The international Bank for Reconstruction and Development (IBCD) focused on middle income and poor countries considered able to delay debts.
- The international development association (IDA) focused on the poorest countries in the world.

The world bank provides low interest, free credit or grants to developing countries for education, health and infrastructure, communications and many other purposes. Some of projects are co-financed with governments, commercial banks or private sector.

5.3 Non-governmental organisation (NGOS)

- NGOs: organization which is separated from government.