

Common characteristics of developing countries

- These features in common are *on average and with great diversity*, in comparison with developed countries:
 - Lower levels of living and productivity
 - Lower levels of human capital
 - Higher levels of inequality and absolute poverty
 - Higher population growth rates
 - Greater social fractionalization
 - Larger rural population - rapid migration to cities
 - Lower levels of industrialization and manufactured exports
 - Adverse geography
 - Underdeveloped financial and other markets
 - Colonial Legacies - poor institutions etc.

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2.1 Defining the Developing World

- World Bank Scheme- ranks countries on GNP/capita
 - LIC, LMC, UMC, OECD (see Table 2.1 and Figure 2.1)

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Table 2.1 Classification of Economies by Region and Income, 2010

Country	Code	Class	Country	Code	Class	Country	Code	Class
East Asia and the Pacific			Latin America and the Caribbean			Sub-Saharan Africa		
American Samoa†	ASM	UMC	Argentina	ARG	UMC	Angola*	AGO	LMC
Cambodia*	KHM	LJC	Belize†	BLZ	LMC	Benin*	BEN	LJC
China	CHN	LMC	Bolivia†	BOL	LMC	Botswana†	BWA	UMC
Fiji†	FJI	UMC	Brazil	BRA	UMC	Burkina Faso†	BFA	LJC
Indonesia	IDN	LMC	Chile	CHL	UMC	Burundi†	BDI	LJC
Kiribati†	KIR	LMC	Colombia	COL	UMC	Cameroon	CMR	LMC
Korea, Dem. Rep. (North)	PRK	LJC	Costa Rica	CRI	UMC	Cape Verde†	CPV	LMC
Laos (PDR)†	LAO	LJC	Cuba†	CUB	UMC	Central African Rep.*†	CAF	LJC
Malaysia	MYS	UMC	Dominica†	DMA	UMC	Chad†	TCD	LJC
Marshall Islands†	MHL	LMC	Dominican Republic†	DOM	UMC	Comoros†	COM	LJC
Micronesia, Fed. Sts.†	FSM	LMC	Ecuador	ECU	LMC	Congo, Dem. Rep.*	COD	LJC
Mongolia†	MNG	LMC	El Salvador	SLV	LMC	Congo, Rep.	COG	LMC
Myanmar*	MMR	LJC	Grenada†	GRD	UMC	Côte d'Ivoire	CIV	LMC
Palau†	PLW	UMC	Guatemala	GTM	LMC	Eritrea*	ERI	LJC
Papua New Guinea†	PNG	LMC	Guyana†	GUY	LMC	Ethiopia†	ETH	LJC
Philippines	PHL	LMC	Haiti†	HTI	LJC	Gabon	GAB	UMC
Samoa*	WSM	LMC	Honduras	HND	LMC	Gambia, The*	GMB	LJC
Solomon Islands†	SLB	LMC	Jamaica†	JAM	UMC	Ghana	GHA	LJC
Thailand	THA	LMC	Mexico	MEX	UMC	Guinea†	GIN	LJC
Timor-Leste†	TLS	LMC	Nicaragua	NIC	LMC	Guinea-Bissau†	GNB	LJC
Tonga†	TON	LMC	Panama	PAN	UMC	Kenya	KEN	LJC
Vanuatu†	VUT	LMC	Paraguay†	PRY	LMC	Lesotho†	LSO	LMC
Vietnam	VNM	LJC	Peru	PER	UMC	Liberia*	LBR	LJC

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2-4

Table 2.1 Classification of Economies by Region and Income, 2010 (continued)

Country	Code	Class	Country	Code	Class	Country	Code	Class
Europe and Central Asia			Latin America and the Caribbean			Sub-Saharan Africa		
Albania	ALB	LMC	St. Kitts and Nevis†	RSA	UMC	Madagascar*	MDG	LJC
Armenia†	ARM	LMC	St. Lucia†	LCA	UMC	Malawi†	MWI	LJC
Azerbaijan†	AZE	LMC	St. Vincent and the Grenadines†	VCT	UMC	Mali†	MIL	LJC
Belarus	BLR	UMC	Suriname†	SRB	UMC	Mauritania*	MRT	LJC
Bosnia and Herzegovina†	BHR	UMC	Uganda	UGB	UMC	Mauritius†	MUS	UMC
Bulgaria	BGR	UMC	Venezuela, RB	VEN	UMC	Morocco	MOR	LJC
Georgia	GEO	LMC				Mozambique*	MZM	LMC
Kazakhstan†	KAZ	LMC				Namibia	NAM	UMC
Kosovo	KIV	LMC				Niger†	NER	LJC
Kyrgyz Republic†	KIC	LJC				Nigeria	NGA	LMC
Latvia	LVA	UMC				Rwanda†	RWA	LJC
Lithuania	LTU	UMC				San Tome and Principe†	STP	LMC
Macedonia, FYR†	MDA	LMC				Senegal	SEN	LJC
Maldives†	MVD	LMC				Seychelles†	SYC	UMC
Montenegro	MNE	UMC				Sierra Leone*	SLB	LJC
Poland	POL	UMC				Somalia*	SOM	LJC
Romania	ROU	UMC				South Africa	ZAF	UMC
Russian Federation	RUS	UMC				Sudan†	SDN	LMC
Serbia	SRB	UMC				Swaziland†	SWZ	LMC
Tajikistan†	TJK	LJC				Tanzania†	TZA	LJC
Turkey	TUR	UMC				Togo†	TGO	LJC
Turkmenistan†	TKM	LMC				Uganda†	UGA	LJC
Ukraine	UKR	LMC				Uganda†	UGA	LJC
Uzbekistan†	UZB	LJC				Zambia†	ZMB	LJC
						Zimbabwe†	ZWE	LJC

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2-5

Table 2.1 Classification of Economies by Region and Income, 2010 (continued)

Country	Code	Class	Country	Code	Class	Country	Code	Class
High-income OECD Countries			Spain	ESP	LMC	Guam†	GUM	LMC
Australia	AUS	UMC	Sweden	SWE	UMC	Hong Kong, China	HKG	UMC
Austria	AUT	UMC	Switzerland	CHE	UMC	Isle of Man	IMN	UMC
Belgium	BEL	UMC	United Kingdom	GBR	UMC	Israel	ISR	LMC
Canada	CAN	UMC	United States	USA	UMC	Kuwait	KWT	UMC
Czech Rep.	CZE	UMC				Liechtenstein	LIE	UMC
Denmark	DNK	UMC				Macao, China	MAC	UMC
Finland	FIN	UMC				Malta	MLT	UMC
France	FRA	UMC				Monaco	MCO	UMC
Germany	DEU	UMC				Netherlands Antilles†	ANT	UMC
Greece	GRC	UMC				New Caledonia†	NCL	UMC
Hungary	HUN	UMC				Northern Mariana Islands†	MNP	UMC
Iceland	ISL	UMC				Oman	OMN	UMC
Ireland	IRL	UMC				Puerto Rico†	PR	UMC
Italy	ITA	UMC				Qatar	QAT	UMC
Japan	JPN	UMC				San Marino	SMR	UMC
Korea, Rep. (South)	KOR	UMC				Saudi Arabia	SAU	UMC
Luxembourg	LUX	UMC				Singapore†	SGP	UMC
Netherlands	NLD	UMC				Slovenia	SVN	UMC
New Zealand	NZL	UMC				Taiwan, China	TWN	UMC
Norway	NOR	UMC				Trinidad and Tobago†	TTO	UMC
Portugal	PRT	UMC				United Arab Emirates	ARE	UMC
Slovak Republic	SVK	UMC						

* least developed countries

† landlocked developing countries

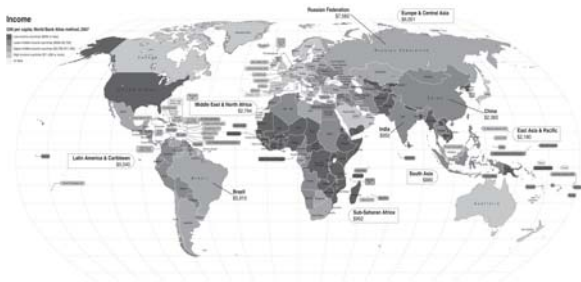
‡ small island developing states

Source: Data from World Bank, World Development Indicators, 2010 (Washington, D.C.: World Bank, 2010) and WEB online; United Nations; and <http://www.isc.org>.

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2-6

Figure 2.1 Nations of the World, Classified by GNI Per Capita



Source: Data from Atlas of Global Development, 2nd ed., pp. 10–11. © Collins Bartholomew Ltd., 2010.

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2-7

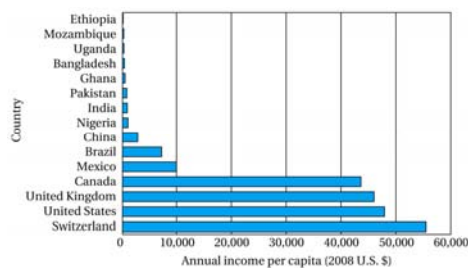
2.2 Basic Indicators of Development: Real Income, Health, and Education

- Gross National Income (GNI)
- Gross Domestic Product (GDP)
- PPP method instead of exchange rates as conversion factors (see Figure 2.2)

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2-8

Figure 2.2 Income Per Capita in Selected Countries (2008)



Source: Data from World Bank, *World Development Indicators, 2010* (Washington, D.C.: World Bank, 2010), tab. 1.1.

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2-9

Table 2.2 A Comparison of Per Capita GNI, 2008

Country	GNI Per Capita (U.S. \$)	
	Exchange Rate	Purchasing Power Parity
Argentina	7,190	11,990
Bangladesh	520	1,450
Brazil	7,300	10,070
Burundi	140	380
Cameroon	1,150	2,170
Chile	9,370	13,240
China	2,940	6,010
Costa Rica	6,040	10,950
Ghana	630	1,320
Guatemala	2,680	4,690
India	1,040	2,930
Indonesia	1,880	3,590
Kenya	730	1,550
Malawi	280	810
Malaysia	7,250	13,730
Mexico	9,990	14,340
Nicaragua	1,080	2,620
Sierra Leone	320	770
South Korea	21,530	27,840
Sri Lanka	1,780	4,460
Thailand	3,670	7,760
Uganda	420	1,140
United Kingdom	46,040	36,240
United States	47,930	48,430
Venezuela	9,230	12,840
Zambia	950	1,230

Source: Data from World Bank, World Development Indicators, 2010 (Washington, D.C.: World Bank, 2010) table 1.1.

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2-10

2.3 Holistic Measures of Living Levels and Capabilities

- Health
- Life Expectancy
- Education
- HDI as a holistic measure of living levels
- $HDI = \frac{1}{3}(\text{income index}) + \frac{1}{3}(\text{life expectancy index}) + \frac{1}{3}(\text{education index})$
- HDI can be calculated for groups and regions in a country
 - HDI varies among groups within countries
 - HDI varies across regions in a country
 - HDI varies between rural and urban areas

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2-11

Table 2.3 Commonality and Diversity: Some Basic Indicators

Country or Group	2008 Income Per Capita (U.S. \$)	2008 PPP Per Capita (U.S. \$)	2008 Life Expectancy (years)	Prevalence of Undernourishment ^a (%)	2007 Under-5 Mortality per 1,000 Live Births	2006 Crude Birth Rate	Adult Literacy ^b	
							Male	Female
Income Group								
Low	523	1,354	59	30	118	32	76	63
Lower middle	2,073	4,589	68	15	64	20	87	73
Upper middle	7,852	12,208	71	6	23	17	95	92
High	39,687	37,665	80	5	7	12		
Country								
Dem. Rep. Congo (LIC)	150	280	48	75	199	45	78	56
India (LMC)	1,040	2,930	64	22	69	23	73	51
Egypt (LMC)	1,800	5,470	70	<5	25	25	73	58
Brazil (LMC)	7,300	10,070	72	6	22	16	90	90
Malaysia (LMC)	7,250	13,730	74	<5	6	20	99	94
United States (high-income)	47,930	48,430	78	<5	8	14		
Region								
East Asia and the Pacific	2,644	10,461	72	12	29	14	96	90
Latin America and the Caribbean	6,768	10,312	73	9	23	19	92	91
Middle East and North Africa	3,237	7,343	71	7	34	24	82	65
South Asia	963	2,695	64	22	76	24	73	50
Sub-Saharan Africa	1,077	1,949	52	28	144	38	74	57
Europe and Central Asia	7,350	11,953	70	6	22	14	99	97

Source: Data from World Bank, World Development Indicators, 2010 (Washington, D.C.: World Bank, 2010), multiple tables.

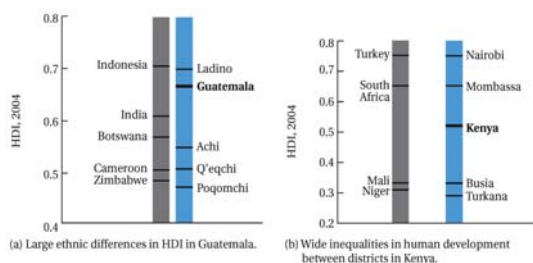
^aMost recent year between 2004 and 2006.

^bMost recent year between 2003 and 2006.

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2-12

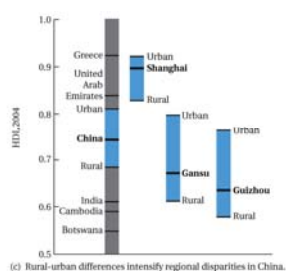
Figure 2.3 Human Development Disparities within Selected Countries



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2-13

Figure 2.3 Human Development Disparities within Selected Countries (continued)



Source: United Nations Development Program, *Human Development Report, 2006* (New York: Oxford University Press, 2006), figs. 10-12. Used by permission.

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2-14

Table 2.4 2009 Human Development Index for 24 Selected Countries (2007 Data)

Country	Relative Ranking	Human Development Index (HDI)	GDP Per Capita (PPP, U.S. \$)	GDP Rank minus HDI Rank
Low Human Development				
Niger	182	0.340	627	-6
Afghanistan	181	0.332	1,054	-17
Dem. Rep. Congo	176	0.309	298	5
Ethiopia	171	0.414	279	0
Brunei	167	0.460	866	1
Cote d'Ivoire	163	0.484	1,090	-17
Malawi	160	0.493	761	12
Medium Human Development				
Bangladesh	146	0.543	1,241	9
Pakistan	141	0.532	2,496	-9
India	134	0.612	2,753	-6
South Africa	129	0.683	9,757	-51
Nicaragua	124	0.699	2,570	6
Gabon	103	0.755	15,167	-49
China	92	0.772	5,383	10
Iran	88	0.782	10,955	-17
Thailand	87	0.783	8,135	-5
High Human Development				
Saudi Arabia	59	0.843	22,935	-19
Costa Rica	54	0.854	10,842	19
Cuba	51	0.863	6,676	44
Chile	44	0.878	13,880	15
Very High Human Development				
United Kingdom	21	0.947	35,130	-1
United States	13	0.956	45,392	-4
Canada	4	0.966	35,812	14
Norway	1	0.971	53,433	4

Source: Data from United Nations Development Program, *Human Development Report, 2009*, table 1.

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2-15

Table 2.5 2009 Human Development Index
Variations for Similar Incomes (2007 Data)

Country	GDP Per Capita (U.S. \$)	HDI	HDI Rank	Life Expectancy (years)	Adult Literacy (%)	Combined Gender Enrollment Ratio
GDP Per Capita near PPP \$1,000						
Madagascar	932	0.543	143	59.9	70.7	61.3
Haiti	1,140	0.532	149	61.0	62.1	52.1
Rwanda	866	0.460	167	49.7	64.9	32.2
Mali	1,083	0.371	178	48.1	26.2	46.9
Afghanistan	1,054	0.352	181	43.6	28.0	30.1
GDP Per Capita near PPP \$1,500						
Kenya	1,342	0.541	147	53.6	71.6	59.6
Ghana	1,334	0.526	152	56.5	65.0	56.5
Côte d'Ivoire	1,690	0.484	163	56.8	48.7	37.5
Senegal	1,666	0.464	166	53.4	41.9	41.2
Chad	1,477	0.392	175	48.6	31.8	36.5
GDP Per Capita near PPP \$2,000						
Kyrgyzstan	2,006	0.710	120	67.6	99.1	77.3
Laos	2,165	0.619	133	64.6	72.7	59.6
Cambodia	1,802	0.593	137	60.6	76.1	58.5
Sudan	2,086	0.531	150	57.9	60.9	39.9
Cameroon	2,128	0.523	153	50.9	67.9	32.3
Mauritania	1,927	0.520	154	56.6	55.8	50.6
Nigeria	1,969	0.511	158	47.7	72.0	33.0
GDP Per Capita near PPP \$4,000						
Tonga	3,748	0.768	99	71.7	99.2	78.0
Sri Lanka	4,241	0.759	102	74.0	90.8	68.7
Honduras	3,796	0.712	112	72.0	83.6	74.8
Bolivia	4,206	0.729	113	65.4	90.7	86.0
Guatemala	4,562	0.704	122	70.1	73.2	70.5
Mexico	4,108	0.654	130	71.0	55.6	61.0

Source: Data from United Nations Development Program, Human Development Report, 2008, table 3.

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2-16

2.3 Holistic Measures of Living Levels and Capabilities

- The New Human Development Index
- Introduced by UNDP in November 2010

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2-17

What is new in the New HDI?

1. Calculating with a geometric mean

- Probably most consequential: The index is now computed with a geometric mean, instead of an arithmetic mean
- A geometric mean is also used to build up the overall education index from its two components
- Traditional HDI added the three components and divided by 3
- New HDI takes the cube root of the product of the three component indexes
- The traditional HDI calculation assumed one component traded off against another as perfect substitutes, a strong assumption
- The reformulation now allows for imperfect substitutability

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2-18

What is new in the New HDI?

2. Other key changes:

- Gross national income per capita replaces gross domestic product per capita
- Revised education components: now using the average actual educational attainment of the whole population, and the expected attainment of today's children
- The maximum values in each dimension have been increased to the observed maximum rather than given a predefined cutoff
- The lower goalpost for income has been reduced due to new evidence on lower possible income levels

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2-19

Table 2.6

The 2010
New Human
Development
Index
(NHD1), 2008
Data

NHD1 rank	NHD1 Value	Life Expectancy at Birth (years)	Mean Years of Schooling (years)	Expected Years of Schooling (years)	GNI Per Capita (PPP 2008 \$)	GNI Per Capita Rank	Non-income NHD1 Value
Very High Human Development							
Norway (1)	0.938	81.0	12.6	17.3	58,839	2	0.914
United States (46)	0.902	79.6	12.4	15.7	47,894	5	0.917
Canada (8)	0.888	81.0	11.5	16.0	38,668	6	0.913
South Korea (12)	0.877	79.8	11.6	16.8	29,138	16	0.918
United Kingdom (26)	0.849	79.8	9.5	15.9	33,987	16	0.900
Qatar (36)	0.803	76.0	7.3	12.7	79,426	36	0.737
High Human Development							
Chile (41)	0.783	78.8	9.7	14.5	13,561	11	0.849
Costa Rica (62)	0.733	79.1	8.8	11.7	10,870	7	0.766
Brazil (73)	0.699	72.9	7.2	13.8	10,607	13	0.728
Medium Human Development							
Dominican Rep. (88)	0.663	72.8	6.9	11.9	8,273	19	0.695
China (89)	0.663	73.5	7.5	11.4	7,258	24	0.707
Armenia (96)	0.635	65.5	6.9	12.4	13,384	36	0.613
Indonesia (108)	0.600	71.5	5.7	12.7	3,957	2	0.663
South Africa (139)	0.597	52.0	8.2	13.4	9,812	27	0.591
Tajikistan (132)	0.580	67.3	9.8	11.4	2,030	22	0.709
Vietnam (113)	0.572	74.9	5.5	10.4	2,995	7	0.606
Guatemala (134)	0.560	70.8	6.1	10.6	4,094	13	0.583
India (119)	0.519	64.4	4.4	10.3	3,137	6	0.549
Pakistan (151)	0.490	62.2	4.9	6.8	2,478	4	0.523
Low Human Development							
Korea (126)	0.470	55.6	7.0	9.6	1,628	10	0.541
Bangladesh (129)	0.469	66.9	4.8	8.1	1,587	12	0.543
Ghana (130)	0.467	57.1	7.1	9.7	1,380	14	0.536
Malawi (131)	0.435	61.2	3.2	10.2	953	22	0.530
Papua New Guinea (137)	0.431	61.6	4.3	5.2	2,227	10	0.447
Bhuti (141)	0.404	61.7	4.9	6.8	949	13	0.491
Angola (144)	0.403	48.1	4.4	4.4	4,941	47	0.333
Cote d'Ivoire (148)	0.397	58.6	3.5	6.3	1,625	10	0.420
Afghanistan (155)	0.349	44.6	3.3	8.0	1,619	12	0.338
Philippines (157)	0.326	56.1	3.5	8.3	992	22	0.357
Dem. Rep. of Congo (168)	0.239	48.0	3.8	7.8	291	0	0.390
Zimbabwe (169)	0.140	47.0	7.2	9.2	176	0	0.472

Source: Data from Human Development Report 2010, Table 1, pp. 102-106. © 2010 by the United Nations Development Programme.

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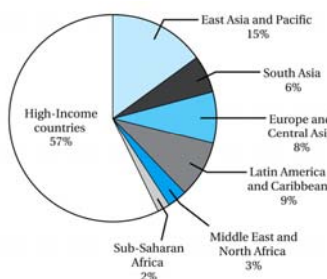
2-20

2.4 Characteristics of the Developing World: Diversity within Commonality

1. Lower levels of living and productivity
2. Lower levels of human capital (health, education, skills)
3. Higher Levels of Inequality and Absolute Poverty
 - Absolute Poverty
 - World Poverty
4. Higher Population Growth Rates
 - Crude Birth rates

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2-21

Figure 2.4 Shares of Global Income, 2008

Source: Data from World Bank, *World Development Indicators, 2010* (Washington, D.C.: World Bank, 2010), p. 34.

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2-22

Table 2.7 The 12 Most and Least Populated Countries and Their Per Capita Income, 2008

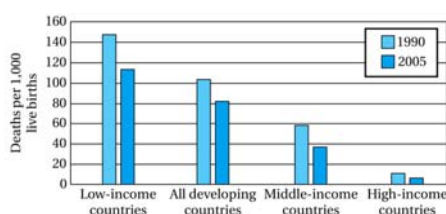
Most Populous	Population (millions)	GNI Per Capita (U.S. \$)	Least Populous ^a	Population (thousands)	GNI Per Capita (U.S. \$)
1. China	1,325	2,940	1. Palau	20	8,630
2. India	1,140	1,040	2. St. Kitts and Nevis	49	10,870
3. United States	304	47,930	3. Marshall Islands	60	3,270
4. Indonesia	227	1,880	4. Dominica	73	4,750
5. Brazil	192	7,300	5. Antigua and Barbuda	87	13,200
6. Pakistan	166	950	6. Seychelles	87	10,220
7. Bangladesh	160	520	7. Kiribati	97	2,040
8. Nigeria	151	1,170	8. Tonga	104	2,690
9. Russian Federation	142	9,660	9. Grenada	104	5,880
10. Japan	128	38,130	10. St. Vincent and the Grenadines	109	5,050
11. Mexico	106	9,990	11. Micronesia	110	2,460
12. Philippines	90	1,890	12. Sao Tome and Principe	160	1,030

Source: The World Bank, *World Development Indicators, 2010* (Washington, D.C.: World Bank, 2010), tabs 1.1 and 1.6.

^aCriteria for inclusion in the least-populous rankings: United Nations member as of mid-2010, with 2008 comparable population and GNI per capita data in tab. 1.6 in the source.

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2-23

Figure 2.5 Under-5 Mortality Rates, 1990 and 2005

Source: International Bank for Reconstruction and Development/World Bank, *World Development Indicators, 2007* (Washington, D.C.: World Bank, 2007), p. 36. Reprinted with permission.

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2-24

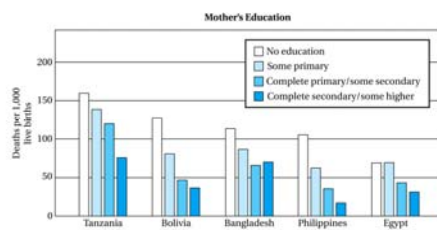
Table 2.8 Primary School Enrollment and Pupil-Teacher Ratios, 2010

Region or Group	Net Primary School Enrollment (%)	Primary Pupil-Teacher Ratio
Income Group		
Low	80	45
Lower Middle	87	23 ^a
Upper Middle	94	22
High	95	15
Region		
East Asia and Pacific	93 ^a	19
Latin America and the Caribbean	94	25
Middle East and North Africa	91	24
South Asia	86	40 ^a
Sub-Saharan Africa	73	49
Europe and Central Asia	92	16

Source: Data from World Bank, *World Development Indicators, 2010* (Washington, D.C.: World Bank, 2010), tabs 2.11 and 2.12.
^aData for 2009

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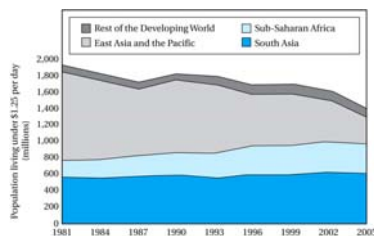
2-25

Figure 2.6 Correlation between Under-5 Mortality and Mother's Education

Source: International Bank for Reconstruction and Development/World Bank, *World Development Indicators, 2007* (Washington, D.C.: World Bank, 2007), p. 119. Reprinted with permission.

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Figure 2.7 Number of People Living in Poverty by Region, 1981–2005

Source: International Bank for Reconstruction and Development / The World Bank: "The Developing World is Poorer Than We Thought, But No Less Successful in the Fight Against Poverty" by Shaohua Chen and Martin Ravallion, Aug. 26, 2008. Reprinted with permission from The World Bank.

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Table 2.9 Crude Birth Rates Around the World, 2009

45+	Afghanistan, Angola, Burkina Faso, Dem. Rep. of Congo, Niger, Somalia, Uganda, Zambia
40-44	Benin, Mali, Nigeria, Rwanda, Sierra Leone, Timor-Leste
35-39	Côte d'Ivoire, Ethiopia, Kenya, Madagascar, Senegal
30-34	Comoros, Ghana, Guatemala, Pakistan, Papua New Guinea, Sudan, Zimbabwe
25-29	Bolivia, Cambodia, Egypt, Paraguay, Philippines, Saudi Arabia
20-24	Algeria, Dominican Republic, India, Mexico, Peru, South Africa
15-19	Argentina, Brazil, Costa Rica, Sri Lanka, Vietnam
10-14	China, Cuba, Hungary, United Kingdom, United States
<10	Austria, Germany, Japan, South Korea, Serbia, Taiwan

Source: Data from World Bank, World Development Indicators, 2010 (Washington, D.C.: World Bank, 2010), tab. 2.1.

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2.4 Characteristics of the Developing World: Diversity within Commonality

5. Greater Social Fractionalization
6. Larger Rural Populations but Rapid Rural-to-Urban Migration
7. Lower Levels of Industrialization and Manufactured Exports
8. Adverse Geography
 - Resource endowments

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Table 2.10 The Urban Population in Developed Countries and Developing Regions

Region	Population (millions, 2009)	Urban Share (%)
World	6,810	50
More developed countries	1,232	75
Less developed countries	5,578	44
Sub-Saharan Africa	836	35
Northern Africa	205	50
Latin America and the Caribbean	580	77
Western Asia	231	64
South-central Asia	1,726	31
Southeast Asia	597	43
East Asia	1,564	51
Eastern Europe	295	69

Source: Population Reference Bureau, 2009 World Data Sheet.

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Table 2.11 Share of the Population Employed in the Industrial Sector in Selected Countries, 2004-2008 (%)

	Agriculture			Industry			Services		
	Males	Females	Share of GDP (2008)	Males	Females	Share of GDP (2008)	Male	Female	Share of GDP (2008)
Africa									
Egypt	28	43	13	26	6	38	46	51	49
Ethiopia	12	6	44	27	17	11	41	77	42
Madagascar	82	83	25	5	2	17	11	16	57
Mauritius	10	8	4	36	26	29	54	66	67
South Africa	11	7	3	35	14	34	54	80	63
Asia									
Bangladesh	42	68	19	15	13	29	41	19	32
Indonesia	41	41	14	21	15	48	38	44	37
Malaysia	18	10	10	32	23	48	51	67	42
Pakistan	36	72	20	23	13	27	41	15	53
Philippines	44	24	15	18	11	32	39	65	53
South Korea	7	8	3	33	16	37	40	74	60
Thailand	43	40	12	22	19	44	35	41	44
Vietnam	56	60	22	21	14	40	23	28	38
Latin America									
Colombia	27	6	9	22	16	36	51	78	55
Costa Rica	18	5	7	28	13	29	54	82	64
Mexico	19	4	4	31	18	37	50	77	59
Nicaragua	42	8	19	20	18	30	38	73	51
Developed Countries									
United Kingdom	2	1	1	32	9	24	66	90	76
United States	2	1	1	30	9	22	68	90	77

Source: World Bank, World Development Indicators, 2010 (Washington, D.C.: World Bank, 2010), table 2.1 and 4.2.
Note: Ethiopia agricultural employment reflects limited coverage.

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2.4 Characteristics of the Developing World: Diversity within Commonality

9. Underdeveloped Financial and Other markets

- Imperfect markets
- Incomplete information

10. Colonial Legacy and External Dependence

- Institutions
- Private property
- Personal taxation
- Taxes in cash rather than in kind

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2-32

2.5 How Low-Income Countries Today Differ from Developed Countries in Their Earlier Stages

- Eight differences
 - Physical and human resource endowments
 - Per capita incomes and levels of GDP in relation to the rest of the world
 - Climate
 - Population size, distribution, and growth
 - Historic role of international migration
 - International trade benefits
 - Basic scientific/technological research and development capabilities
 - Efficacy of domestic institutions

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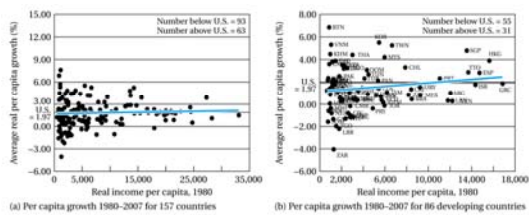
2.6 Are Living Standards of Developing and Devolved Nations Converging?

- Evidence of unconditional convergence is hard to find
- But there is increasing evidence of “per capita income convergence,” weighting changes in per capita income by population size

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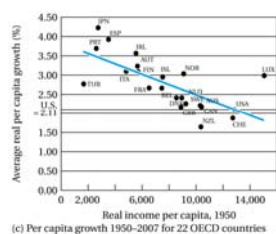
Figure 2.8 Relative Country Convergence: World, Developing Countries, and OECD



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Figure 2.8 Relative Country Convergence: World, Developing Countries, and OECD (cont'd)

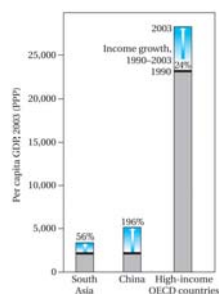


Source: Data from Center for International Comparisons, University of Pennsylvania, accessed at http://pwt.econ.upenn.edu/php_site/pwt63/pwt63_form.php.

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Figure 2.9 Growth Convergence versus Absolute Income Convergence

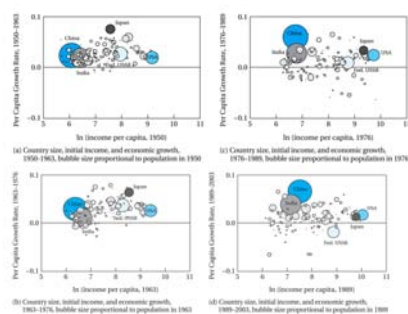


Source: From Human Development Report, 2005, p. 37. Reprinted with permission from the United Nations Development Programme.

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Figure 2.10 Country Size, Initial Income Level, and Economic Growth



Source: Steven Brakman and Charles van Marrewijk, "It's a big world after all: On the economic impact of location and distance," *Cambridge Journal of Region, Economy and Society* 1 (2009): 411-437. Reprinted by permission of Oxford University Press.

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Nature and Role of Economic Institutions

- Institutions provide "rules of the game" of economic life
- Provide underpinning of a market economy
- Include property rights; contract enforcement
- Can work for improving coordination,
- Restricting coercive, fraudulent and anti-competitive behavior
- Providing access to opportunities for the broad population-
- Constraining the power of elites, and managing conflict
- Provision of social insurance
- Provision of predictable macroeconomic stability

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2-39

Role of Institutions

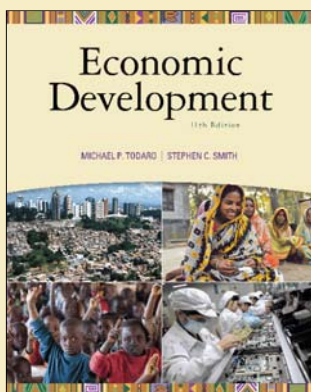
- Acemoglu, Johnson, and Robinson's "reversal of fortune" and extractive institutions
- Bannerjee and Iyer, "property rights institutions." Landlords versus cultivators

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Chapter 3

Classic Theories of Economic Growth and Development



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3.1 Classic Theories of Economic Development: Four Approaches

- Linear stages of growth model
- Theories and Patterns of structural change
- International-dependence revolution
- Neoclassical, free market counterrevolution

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3.2 Development as Growth and Linear-Stages Theories

- A Classic Statement: Rostow's Stages of Growth
- Harrod-Domar Growth Model (sometimes referred to as the AK model)

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The Harrod-Domar Model

$$S = sY \quad (3.1)$$

$$I = \Delta K \quad (3.2)$$

$$\Delta K = c\Delta Y \quad (3.3)$$

$$S = I \quad (3.4)$$

$$S = sY = c\Delta Y = \Delta K = I \quad (3.5)$$

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The Harrod-Domar Model

$$sY = c\Delta Y \quad (3.6)$$

$$\frac{\Delta Y}{Y} = \frac{s}{c} \quad (3.7)$$

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Criticisms of the Stages Model

- Necessary versus sufficient conditions

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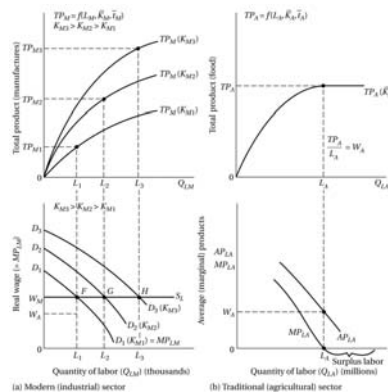
3.3 Structural-Change Models

- The Lewis two-sector model

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Figure 3.1
The Lewis Model of Modern-Sector Growth in a Two-Sector Surplus-Labor Economy



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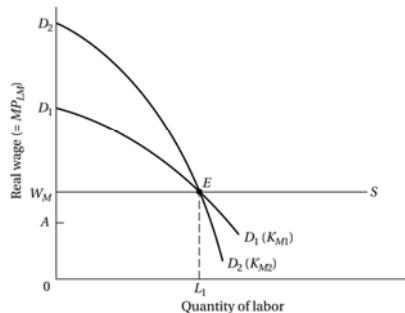
Criticisms of the Lewis Model

- Rate of labor transfer and employment creation may not be proportional to rate of modern-sector capital accumulation
- Surplus labor in rural areas and full employment in urban?
- Institutional factors?
- Assumption of diminishing returns in modern industrial sector

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Figure 3.2 The Lewis Model Modified by Laborsaving Capital Accumulation: Employment Implications



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Empirical Patterns of Development - Examples

- Switch from agriculture to industry (and services)
- Rural-urban migration and urbanization
- Steady accumulation of physical and human capital
- Population growth first increasing and then decreasing with decline in family size

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3.4 The International-Dependence Revolution

- The neocolonial dependence model
 - Legacy of colonialism, Unequal power, Core-periphery
- The false-paradigm model
 - Pitfalls of using “expert” foreign advisors who misapply developed-country models
- The dualistic-development thesis
 - Superior and inferior elements can coexist; Prebisch-Singer Hypothesis
- Criticisms and limitations
 - Does little to show how to achieve development in a positive sense; accumulating counterexamples

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3.5 The Neoclassical Counterrevolution: Market Fundamentalism

- Challenging the Statist Model: Free Markets, Public Choice, and Market-Friendly Approaches
 - Free market approach
 - Public choice approach
 - Market-friendly approach
- Main Arguments
 - Denies efficiency of intervention
 - Points up state owned enterprise failures
 - Stresses government failures
 - Traditional neoclassical growth theory - with diminishing returns, cannot sustain growth by capital accumulation alone

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3.6 Classic Theories of Development: Reconciling the Differences

- Governments do fail, but so do markets; a balance is needed
- Must attend to institutional and political realities in developing world
- Development economics has no universally accepted paradigm
- Insights and understandings are continually evolving
- Each theory has some strengths and some weaknesses

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Concepts for Review

- Absolute poverty
- Brain drain
- Capital stock
- Convergence
- Crude birth rate
- Dependency burden
- Depreciation (of the capital stock)
- Diminishing Marginal Utility
- Divergence
- Economic Institutions
- Fractionalization
- Free trade
- Gross domestic product (GDP)
- Gross national income (GNI)
- Human capital
- Human Development Index (HDI)

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Concepts for Review (cont'd)

- Imperfect market
- Incomplete information
- Infrastructure
- Least developed countries
- Low-income countries (LICs)
- Middle-income countries
- Newly industrializing countries (NICs)
- Purchasing power parity (PPP)
- Research and development (R&D)
- Resource endowment
- Terms of trade
- Value added
- World Bank

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