Chapter 18: Development and Globalization
Section 2

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ECONOMICS

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Objectives

1. **Identify** the causes and effects of rapid population growth.
2. **Analyze** how political factors and dept are obstacles to development.
3. **Summarize** the role investment and foreign aid plays in development.
4. **Describe** the functions of various international economic institutions.

Key Terms

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- **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

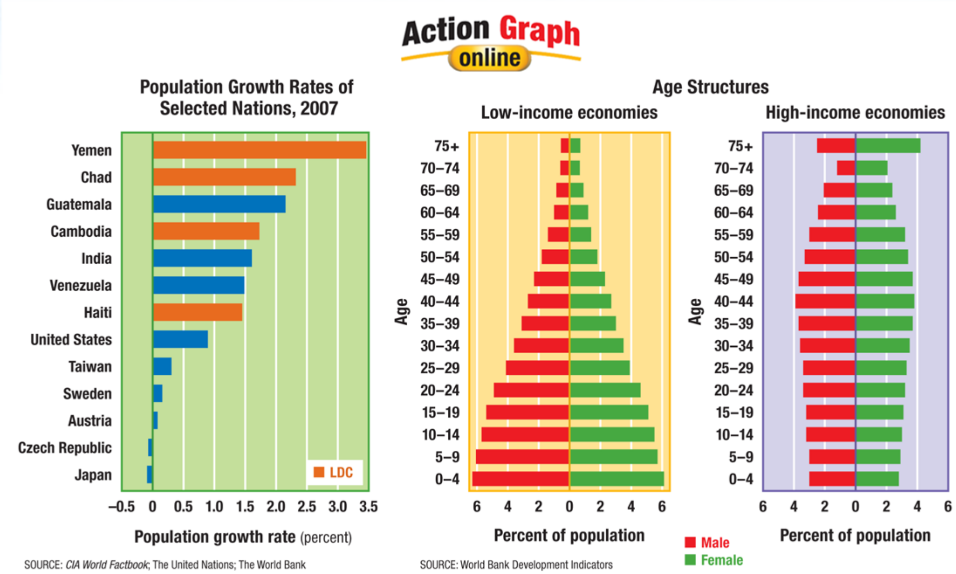
Introduction

- 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.

Population of Selected Nations



- 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.
  - In which nations is the population growing at a rate about double that of the United States?

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 it 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

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- 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.

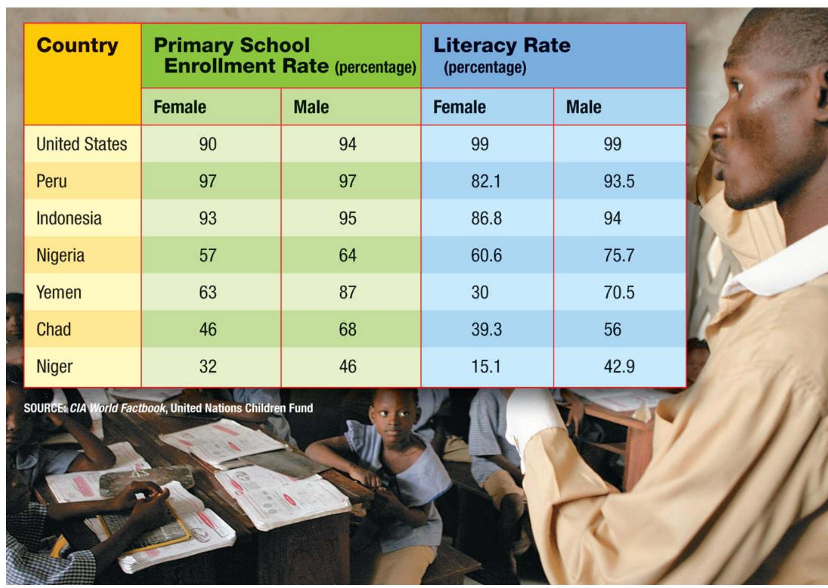
Low Human Capital

- Lack of human capital, including low literacy rates, also hinders development in LDCs.
  - Education and training allow people to develop new skills and adopt 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.
  - What percentage of male children attend school in Nigeria? In which nation can the smallest percentage of the population read and write?



Country	Primary School Enrollment Rate (percentage)		Literacy Rate (percentage)	
	Female	Male	Female	Male
United States	90	94	99	99
Peru	97	97	82.1	93.5
Indonesia	93	95	86.8	94
Nigeria	57	64	60.6	75.7
Yemen	63	87	30	70.5
Chad	46	68	39.3	56
Niger	32	46	15.1	42.9

SOURCE: *CIA World Factbook*, United Nations Children Fund

Nutrition and Health

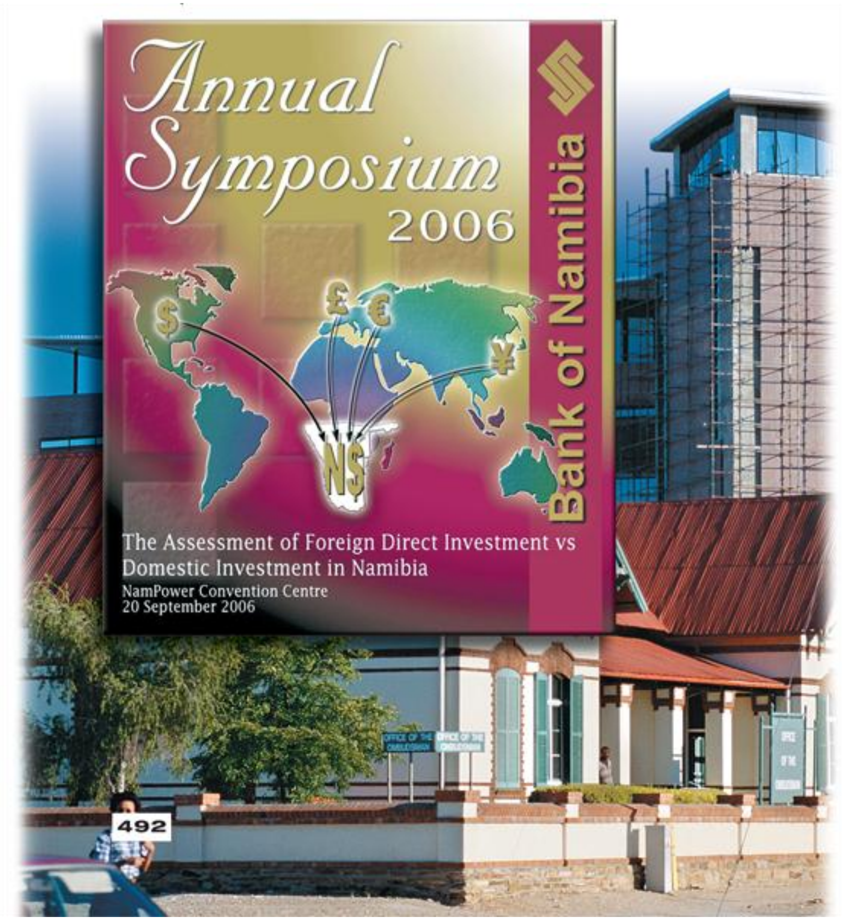
- Poor nutrition and health also impeded the development of human capital.
  - Many people in LDCs suffer from malnutrition, which makes people more vulnerable to disease. This can reduce worker productivity.
  - Poor sanitation in many LDCs also leads to the spread of diseases.
  - In addition, many 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

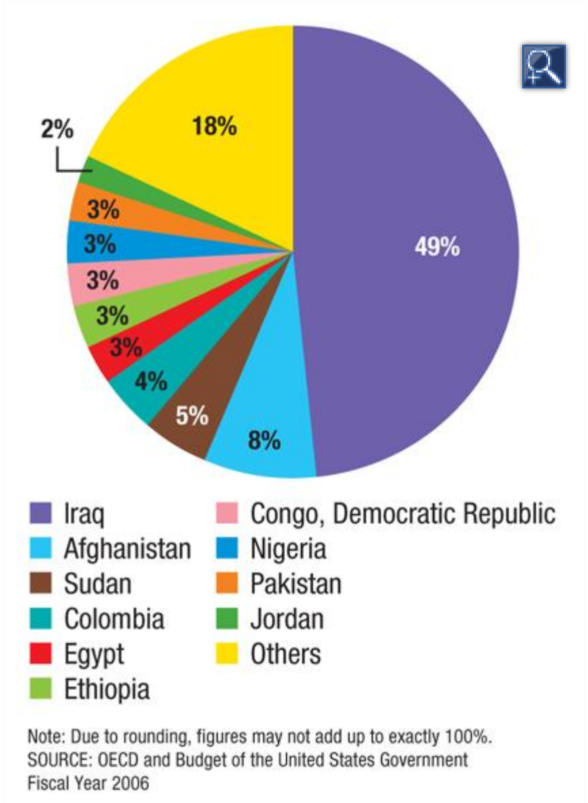
- Capital that originates in other countries is called foreign investment.
- There are two types of foreign investment.
  - Foreign direct investment occurs when investors establish a business in another country. Multinationals, for example, often build factories in LDCs.
  - Foreign portfolio investment 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.

Review

- Now that you have learned which factors harm development and which factors help development, go back and answer the Chapter Essential Question.
  - Do the benefits of economic development outweigh the costs?