Lecture 11
Development

KEY QUESTIONS:

i. How do levels of development vary across space?

ii. How are global patterns of trade, capital and labour flows related to variations in levels of development across space?

With the completion of this lecture, attached readings and tutorial, you should be able to discuss the:

- variations across space in levels of development between:
  – macro-regions
  – countries within a macro-region
  – different places within a country
- the shifts in global patterns of flows of trade, capital and labour since the 1950s

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11.1 Introduction

- In general usage, 'development' refers to 'a process of change operating over time'. Traditionally, in the study of development of countries, this would be synonymous with their **economic growth**, and is seen as the process by which countries advance and become richer. *But*, growth in average income alone does not, however, guarantee that the full range of human needs and aspirations will be satisfied.
- More updated definitions of development have departed from the traditional notion (see above) which is based only on wealth. Development is a now accepted to be wide-ranging and complex concept. ***It includes wealth, but it includes other important aspects of our lives too.*** For example, many people would consider good health to be more important than wealth.
- **Development** can, thus, be defined as **a rise in the well-being of society *as a whole*, as reflected in the expanded set of opportunities available to the present generation**. It requires **not just a rise in mean income**, but that this income **be distributed as equitably as possible** among a population (i.e. over *space*) to increase the welfare of the *whole* of society – for example, by increasing access to food, clean water and housing, and improving standards of health and education.
- Development would thus lead to greater **intra-generational equity**, though no particular degree of equity is specified as a target that a country should meet in order to be called 'developed'.
- In other words, contemporary notions of development have come to **closely approximate the tenets of sustainable development**. For this reason, when considering and discussing development in Topic 1.2, we should include the three pillars/dimensions of sustainable development.
- In this lecture, we will learn that there is a **reciprocal relationship** between development and flows of trade, capital. This means that while flows of trade, capital and labour can influence development levels; the development levels of countries can also influence flows of trade, capital and labour.

11.2 Variations Across Space in Levels of Development Between Macro-regions

- **Macro-regions** (as classified by World Bank) refer to East Asia and Pacific; Europe and Central Asia; Latin America and the Caribbean; Middle East and North Africa; North America; South Asia; and Sub-Saharan Africa (refer to **Fig. 1**). It is a geopolitical subdivision of countries.

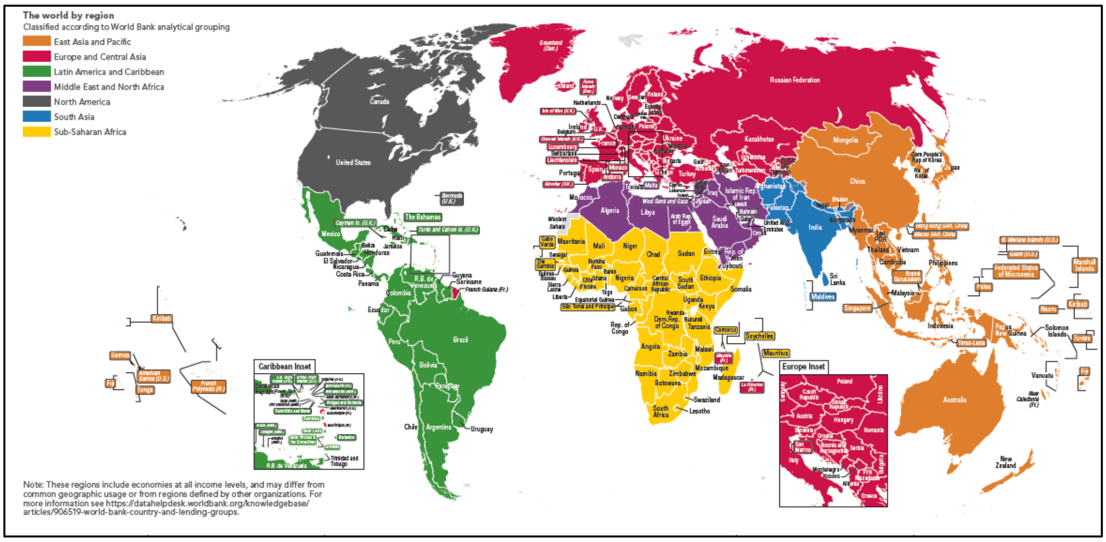

Fig. 1: World by Region Map

- However, it is important to acknowledge that there are also exceptions and variations between macro-regions (see **Fig. 3**). Adopting the World Bank's classification (see **Fig. 1**),
    - The **North American** and **European** macro-regions have high GDP per capita (indicator 5 and 6) as compared to other macro-regions.
    - The **Sub-Saharan African** and **South Asian** macro-regions have low GDP per capita (indicator 5 and 6) as compared to other macro-regions.
    -
- At the **global scale**, differences in development levels are sometimes described in other ways. The **Brandt Line** is a conceptual division of the world into the 'Global North' and the 'Global South' (refer to **Fig. 2**). The **'Global North'** refers to **developed economies**, who are often more powerful, and generally focused on the service and knowledge industries. **'Global South'** refers to **less developed or developing economies**, generally focusing on agricultural and manufacturing sectors. It highlights the concentration of wealth, resources, and industrialisation in the Northern Hemisphere, particularly in Europe, North America, and parts of Asia, compared to the relative poverty and underdevelopment in much of Africa, Latin America, and parts of Asia.

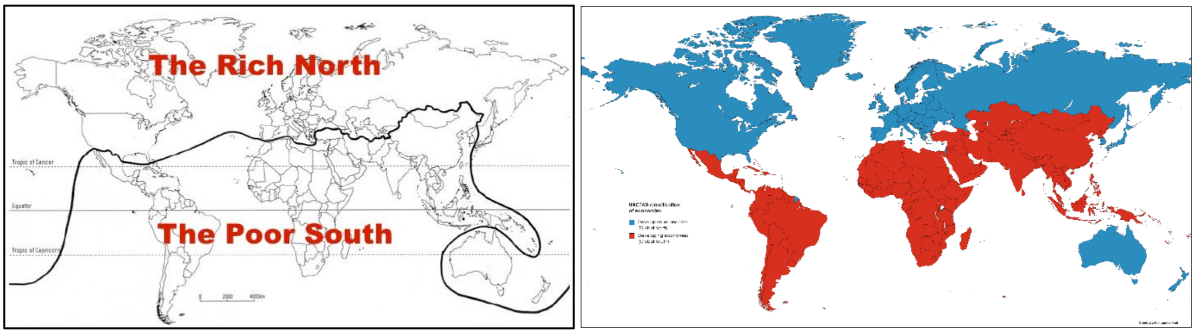

Fig. 2: The North-South Divide

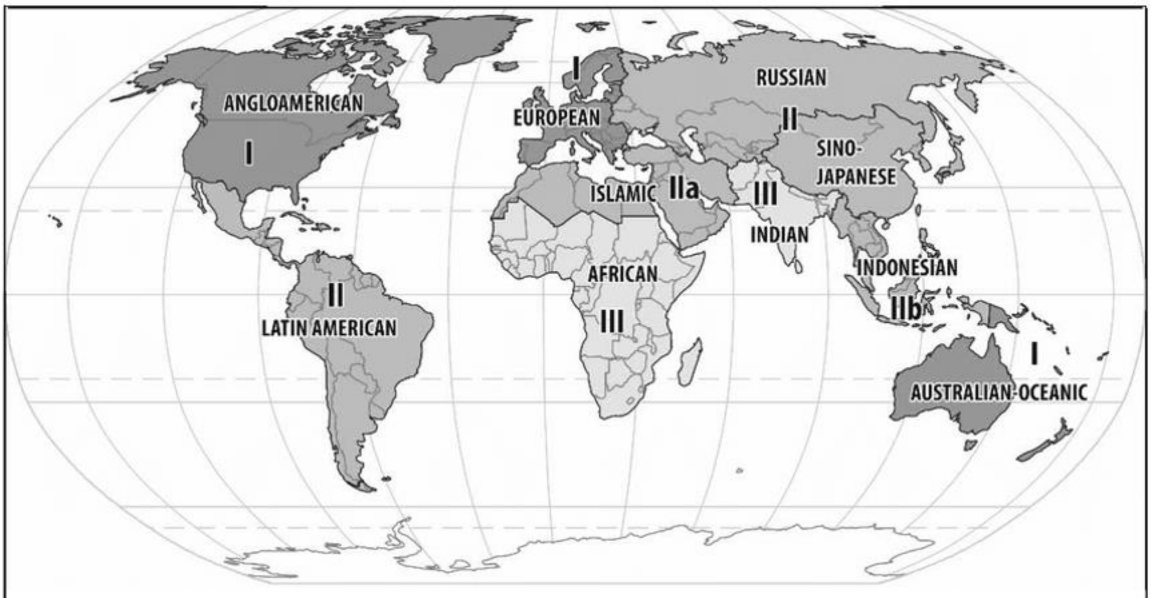

Table 1 Basic Indicators of World's Macro-Regions (2018)

No.	Macro-region	1	2	3	4	5	6	7	8	9	10
1	European	3.7	7.1	106.0	23.8	36 500	44 000	100	82	***	***
2	Angloamerican	16.0	4.8	16.5	26.3	60 500	61 000	100	80	***	***
3	Russian	16.2	3.8	13.0	2.9	8 300	20 000	100	72	***	***
4	Australian-Oceanic	6.2	0.5	4.5	2.0	40 500	40 000	95	82	***	***
5	Sino-Japanese	8.6	21.9	141.0	24.5	12 300	21 000	95	77	**	***
6	Indonesian	3.3	8.5	140.0	3.1	4 000	13 000	95	72	**	**
7	Indian	3.7	23.7	344.0	4.0	1 900	7 000	70	69	**	*
8	Islamic	8.9	7,3	41.0	5.1	7 700	21 000	80	73	**	***
9	Latin American	15.0	8.3	31.0	6.2	8 100	16 000	95	75	**	***
10	African	18.4	14.1	40.0	2.0	1 600	4 000	65	61	*	*
	Total	100.0	100.0	54.0	100.0	11 000	18 000	85	70	.	.

Legend: 1 – Size in sqkm (%)
2 – Share of World's Population (%)
3 – Population Density (People per sqkm)
4 – Share of World's GDP (%)
• 5 – GDP per Capita $ by exchange rates
• 6 – GDP per Capita by purchasing power parity
7 – Literacy (%)
8 – Life expectancy (years)
9 – Homogeneity Economic (*** – high, ** – medium, * – low)
10 – Homogeneity Cultural (*** – high, ** – medium, * – low)
Source: World Bank, CIA World Factbook, United Nations 2019, 2020

Fig. 3: Variations of basic indicators between different macro-regions

- The variation in development between macro-regions **changes over time**. This can be seen from the narrowing of the gap between the G7 and the BRICS between 1995 and 2023 (see **Fig. 4**).
  - The **G7** consists of seven of the world's most industrialized and economically developed nations. At present, the G7 members are Canada, France, Germany, Italy, Japan, the United Kingdom, and the United States. These countries are in the East Asia and Pacific, North America and Europe and Central Asia macro-regions. These countries have traditionally been characterized by high-income levels, advanced technology, strong financial systems, and well-established democratic institutions. They often play a significant role in shaping global economic policies.
  - **BRICS** is an association of five major emerging national economies (often regarded as LDCs). The BRICS countries are characterized by their significant influence on regional and global affairs. As mentioned earlier, the member countries are Brazil, Russia, India, China, and South Africa. They belong to the South America, Europe and Central Asia, South Asia and Sub-saharan Africa macro-regions. These nations are known for their rapid economic growth, large populations, and increasing geopolitical influence.

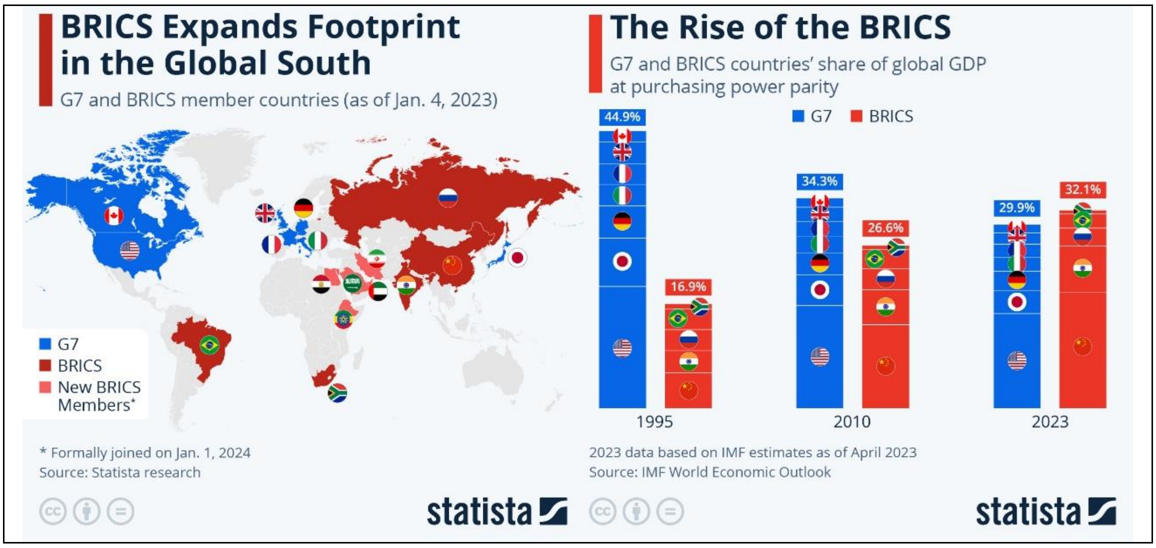

Fig. 4: Development of G7 vs BRICS

11.3 Variations across Space in Levels of Development Between Countries Within a Macro-region

Within a macro-region, the regional scale often reveals significant disparities in economic development among different areas or territories. These inequalities, sometimes referred to as **regional imbalances**, can result in spatial biases in the distribution of wealth and resources. Several factors contribute to these variations, and historical reasons, as well as geographical resources (comparative advantage), play crucial roles in shaping regional economic disparities.

<u>Case-study:</u> Variation in Levels of Development between Southeast Asian Countries in the East Asia and Pacific Macro-region

From 1960 to 1990, Asian macro-region has become wealthier faster than other regions in the world. However, this growth has not occurred at the same pace all over the region. The unequal economic development within a macro-region, particularly in the case of the four Asian Tigers (Singapore, Hong Kong, Taiwan, and South Korea) compared to other Southeast Asian (SEA) countries, has emerged as new industrialised economies in the recent decades.

A Tiger Economy refers to a rapid economic growth accompanied by improvement in standard of living. Since the 1960s, the quad maintained steady economic growth. The four Asian Tigers grew rapidly and fast and are now developed economies with relatively better educated and productive work force compared to other countries in the region (see **Fig. 5**). Particularly, Singapore and Hong Kong emerged as international financial centres, and electronic manufacturing boomed in South Korea and Taiwan. The development in the quad was also propelled by emerging technologies and globalization.

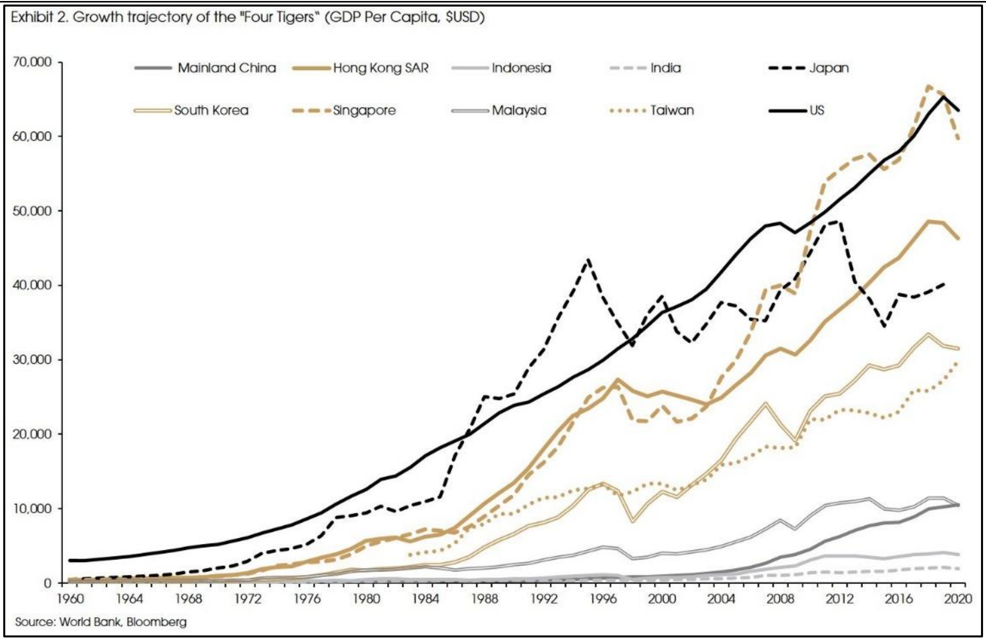

Figure 5: Variation in GDP growth between the 4 Asian tigers and the other SEA countries

Figure 6: Difference in level of development in the Asian region

- The **Tiger Cub economies** (see **Fig. 6**) are those of five developing Southeast Asian nations: Indonesia, Malaysia, the Philippines, Thailand, and Vietnam.
- The term was coined to reflect the hope that these developing nations evolve along the same path as the Asian Tigers.
- The economies of the Tiger Cubs are still in the early stages of development. But they are considered to be the **fastest-growing developing economies** in this part of the world.
- Tiger cub economies have export-driven models that stress the importance of technology to achieve similar results as the Asian Tigers.

11.4 Variations Across Space in Levels of Development Between Places Within the Country

Disparities at the national scale aim to look at the internal variations within the country.

<u>Case-study:</u> China

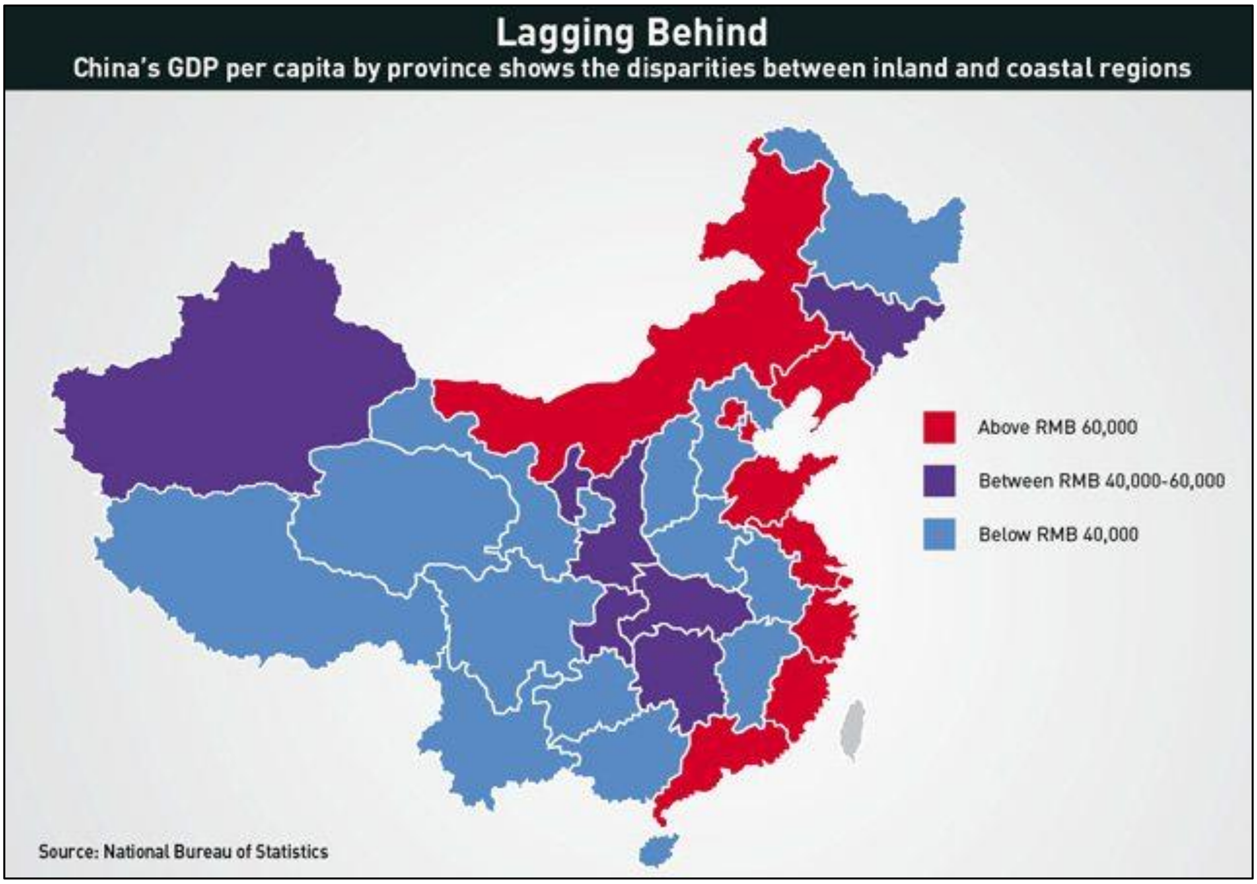

Figure 7: Wealth disparity between inland and coastal regions in China

China has experienced rapid economic growth and urbanisation.

Coastal areas have benefited from trade and investments, e.g. Shanghai, Guangzhou, Shenzhen (global economic powerhouse).

Inland areas struggle to keep up, e.g. Chongqing and Wuhan.

Some reasons for the disparity include:

- Geographical location and accessibility – coastal cities vs inland cities,
- Special economic zones (with economic policies, infrastructure to promote trade and FDI)
- Human capital and education

11.5 Shifts in Global Patterns of Flows of Trade, Capital and Labour Since the 1950s

- In **Chapter 10**, we learnt that the global economy is interconnected via flows of trade, capital and labour.
- In this section, we will examine the changes in flows of trade, capital and labour since the 1950s.
- As you examine this section, consider how these changes resulted in the characteristics of the global economy that were discussed in **Chapter 10**. In addition, consider how these changes contribute to the differences in development explored in **11.4**.

11.5.1 Changes in Flows of Trade Since the 1950s

- ***Increase in Volume and Value of Trade***
  - Trade has picked up steeply since the establishment of the World Trade Organisation (WTO) in 1995. As of 2022, world trade volume and value have expanded 4% and 6% respectively on average since 1995, when the WTO was first established.

- ***Increased Trade Activity between Low-income and High-income Countries***
  - This shift in direction of trade flow is underpinned by advances in transportation and communication technologies, which have significantly facilitated a global reconfiguration of production and service provision. Transnational corporations (TNCs) have strategically leveraged lower labor costs in low-income countries, which have become focal points for the relocation of production activities due to their cost advantages. This allows TNCs to reduce their cost of production.
  - These produced goods are then transported to high income countries to meet the demands of consumers. The products are sold at higher price to gain greater profit margins. This also reshapes the traditional role of high-income countries as leading exporters. The once-dominant economies are witnessing a decline in their export prominence, reflecting a broader redistribution of economic activities across the global landscape. Concurrently, emerging economies are seizing the opportunity, experiencing a surge in production flow and affirming their growing significance in the changing global economic arena (see **Fig. 8**).

<u>Merchandise Trade</u>

	EXPORTS						**IMPORTS**			
	2020		**1963**				**2020**		**1963**	
	%	*Rank*	*%*	*Rank*			*%*	*Rank*	*%*	*Rank*
United States	13.5	1	17.4	1		China	15.57	1	NA	NA
China	10.01	2	NA	NA		United States	8.02	2	8.6	1

Germany	6.38	3	15.6	2		Germany	7.48	3	6.2	2
United Kingdom	3.55	4	11.4	3		Japan	4.18	4	1.9	13
Hong Kong, China	3.42	5	0.9	15		South Korea	3.36	5	0.3	NA
France	3.21	6	7	4		France	2.84	6	4.7	5
Netherlands	3.18	7	3.3	9		Italy	2.83	7	4.1	8
Japan	3.16	8	6.1	5		Netherlands	2.74	8	4.3	7
South Korea	2.44	9	0	NA		Mexico	2.58	9	NA	NA
Italy	2.39	10	4.7	6		Canada	2.3	10	5	4
Canada	2.38	11	2.6	12		United Kingdom	2.09	11	4.6	6
Belgium	2.07	12	4.3	7		Vietnam	2.04	12	NA	NA
Mexico	2.04	13	NA	NA		Belgium	1.91	13	NA	NA
Spain	1.74	14	0.3	19		Malaysia	1.91	14	0.6	23
India	1.72	15	0.8	16		Russian Federation	1.91	15	5.8	3

Compiled from WTO Annual Report 1996 and World Bank Integrated Trade Solution

Fig. 8: Top 15 Export and Import Countries in 1963 and 2020

- **Increasing Emphasis on The Trade in Services**
  - Since the 1950s, there has been a transformation in global trade flows, transitioning from a predominant focus on merchandise trade to an increasing emphasis on the trade in services.
  - In the mid-20th century, the international trade landscape was largely characterized by the exchange of tangible goods, such as manufactured products and raw materials. During this time, there was a rise of traditional manufacturing powerhouses, and the global economy was shaped by the movement of physical goods across national borders. However, as technological advancements and innovations improved over the decades, nature of trading good have changed as well.
  - The latter half of the 20th century and the beginning of the 21st century witnessed a remarkable surge in the importance of trade in services. The growth of information technology, telecommunications, and the digital economy has enabled the global exchange of intangible products such as software, financial services, consultancy, and entertainment.
  - This shift has been particularly significant in the context of developed countries, where services have become a dominant component of their overall trade activities.

- The rise of service-oriented industries has not only altered the composition of international trade but has also underscored the interconnected and knowledge-driven nature of the contemporary global economy.

- **The global pattern of trade has shifted due to:**
  - Transnationalisation of production by TNCs (see **Chapter 12**)
  - Trade liberalisation by states (see **Chapter 13**)
  - Evolving characteristics of labour (see **Chapter 14**)
  - Multilateral trade agreements (see **Chapter 15**)

11.5.2 Changes in Flows of Capital since 1950s

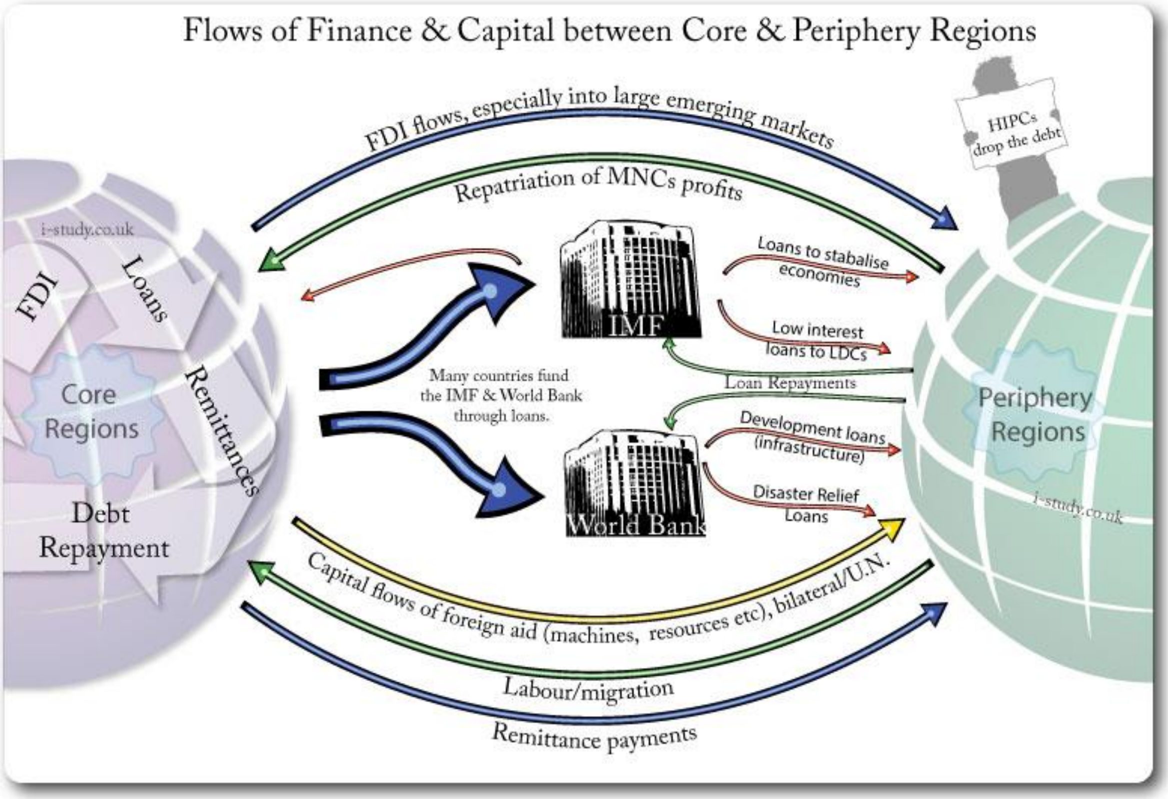

Fig. 9: Flows of capital in the global economy

- **Increase in international capital flow**
  - Since the 1950s, there has been a substantial increase in cross-border investment (see **Fig. 9)**. Particularly, from the 1970s onwards, there has been a significant surge in the movement of capital across national boundaries. This shift can be attributed to several factors, including
    - advancements in financial technologies,
    - the removal of restrictions on capital movements and the liberalisation of financial markets have allowed capital to move more freely between countries, facilitating a surge in international investment activities,

- the rise in TNCs,
- the globalization of financial services.

- **Increase in capital flowing from developed countries to less developed countries**
  - In the past, capital used to predominantly flow **from developed countries (DCs) to other regions**.
  - However, there has been a **reversal of this trend** since the 1950s, with capital now flowing from developed countries to less developed countries.
  - One significant catalyst for the change in the direction of capital flow has been **the rise of offshore production processes**. As the world globalises, TNCs sought cost-efficient production solutions by offshoring manufacturing and other activities to low-income countries. This not only facilitated increased capital flow towards these economies but also contributed to the development and expansion of industries in emerging markets.
  - However, there is a **concentration of these inflows in specific emerging economies** (especially in Southeast Asia). Countries with favorable conditions, such as stable political environments, attractive investment climates, and abundant natural resources, tend to attract a disproportionate share of global FDI. This spatial unevenness in FDI inflows highlights the selective nature of international investments, where certain regions continue to draw more attention and resources, contributing to an imbalanced global economy.
  - At the same time, the **outflows of FDIs remain heavily concentrated in high-income countries** (see **Fig. 10**). These nations, equipped with advanced technologies, financial capabilities, and TNCs, are major contributors to the global flow of capital. The uneven distribution of outward FDIs reflects the economic disparities that persist across regions, emphasizing the privileged position of high-income countries in shaping international investment trends.

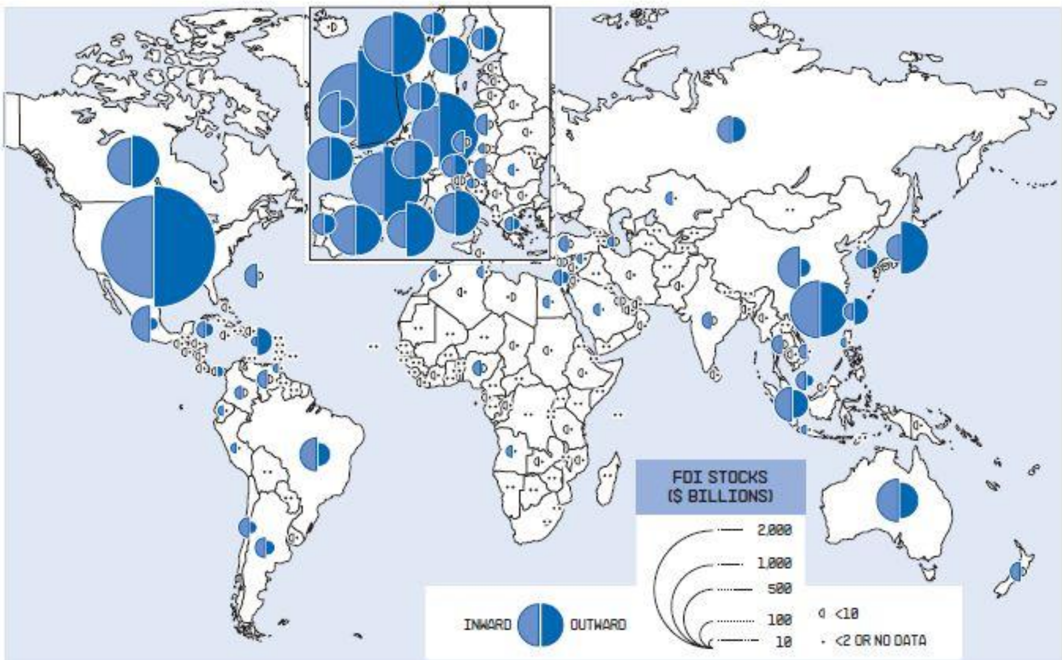

Fig. 10: Inward and outward flows of FDI stocks

- **The global pattern of capital has shifted over space and time due to:**

  a) *Advancements in Technology*

  The advent of the internet, containerization, and efficient transport networks has significantly increased the ease and speed of capital flow. Technological innovations and advancements in this region have driven capital investment, creating a dynamic ecosystem that continually attracts global attention and resources.

  b) *Political factors*

  Government policies and regulatory environments are key determinants of capital flow patterns. Investors, both domestic and foreign, closely scrutinise the regulatory landscape and policy frameworks of potential investment destinations before deciding where to allocate capital. Countries with favourable policies, trade agreements, and tax incentives can attract significant investments.

  Governments that implement **business-friendly policies** create an environment that fosters economic growth and attracts investments. These policies may include streamlined administrative processes, reduced bureaucratic hurdles, and measures that facilitate ease of doing business. The **taxation policies** of a country can also significantly influence investment decisions. Low corporate tax rates, tax incentives for specific industries, and measures to avoid double taxation can make a country more attractive to investors.

  c) *Availability of resources and efficient supply chain*

  TNCs often choose locations based on access to essential resources, such as raw materials and skilled labor. For instance, regions rich in extractive resources or possessing a skilled workforce may attract capital investments to establish production facilities. This strategic placement ensures an efficient supply chain, enhancing the overall competitiveness and attractiveness of an investment destination. These factors collectively contribute to the global capital flows, shaping the economic landscapes of nations across the world.

11.5.3 Changes in Flows of Labour since 1950s

- **Increase in the Magnitude of Labour Flows (**see **Fig. 11)**
  - The total number of international migrants increased by a factor of almost three between 1965 and 2010. The United Nations Department of Economic and Social Affairs (UNDESA) estimates the stock of international migrants worldwide at 272 million, of which 245 million are of working age (aged 15 and over) in 2019. The stock of international migrant workers in the same year totals 169 million. The 2019 estimate is up by 5 million (3.0%) from the 2017 estimate and by 19 million (12.7%) as compared to the 2013 estimate (ILO, 2021).
  - This shift is attributed to advancements in transport technologies, such as the rise of budget airlines and improvements in overall transportation infrastructure.

- These developments have significantly lowered the barriers to movement, enabling individuals to traverse both short and long distances more easily and at a lower cost.
- This phenomenon has led to a more interconnected global labor market, where individuals are increasingly willing and able to move in search of better employment opportunities, improved living conditions, or educational prospects.

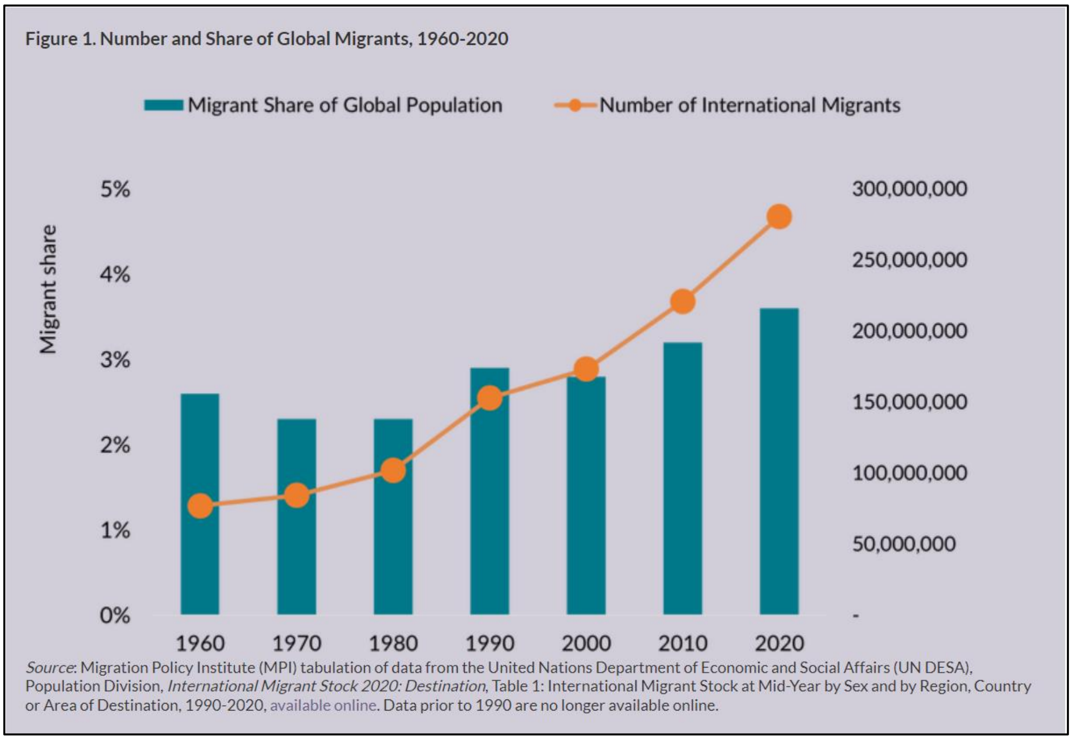

Fig. 11: Change in global migration from 1960 to 2020

- **Increase in movement from the Global South to the Global North**
  - This trend is influenced by various factors, including economic opportunities, political stability, and quality of life considerations.
  - Notably, there has been a relocation of labour-intensive production activities to developing countries, driven by globalisation and for cost-effective production.
  - As employment opportunities increase in these developing nations, labour migration follows suit. Individuals seek better economic prospects in countries with growing industries and job markets.

- **The global pattern of labour has shifted over space and time due to:**

  a) *Economic Opportunities*

  One of the primary drivers of labour migration is the pursuit of economic opportunities. Individuals often migrate in search of better job prospects, higher wages, and an improved standard of living. Individuals often migrate to regions or countries where there is a demand for their skills, and where the economic conditions offer the potential for better employment opportunities and improved earnings.

The process of industrialization and urbanization have often lead to a concentration of economic activities in urban areas. As industries grow and urban centers develop, there is an increased demand for labor in manufacturing, construction, and services. This demand attracts individuals from rural areas, where economic opportunities may be limited, to migrate to urban centers in search of employment.

b) ***Demographic Factor***

Demographic changes, including population growth or decline, play a crucial role in influencing labour migration. Growing populations may result in a surplus of labour, leading individuals to seek employment opportunities elsewhere. Conversely, regions facing declining populations may experience a shortage of labour, prompting the recruitment of workers from other areas.

c) ***Technology and Communication***

Advancements in technology and communication have significantly impacted the global pattern of labour. The ease of moving across borders has increased, facilitated by the ability to access information about job opportunities overseas and connect with potential employers through the internet. This has led to a more interconnected global labour market.

11.6 Conclusion: What Is the Relationship Between Development and Patterns of Trade, Capital And Labour Flows?

- There is a **reciprocal relationship** between development and flows of trade, capital and labour.
- In **11.1**, we learnt that the North-American and European macro-regions experience higher levels of development, as compared to Sub-Saharan Africa and South Asia.
- In **11.5**, we observed that developed countries in the North-American and European macro-regions continue to be global leaders in trade, outwards FDI and key destinations for international labour flow.
    - As TNCs from developed regions invest in other countries (outwards FDI), international trade is increased.
    - The availability of high-paying jobs and the high quality of life in developed countries serve to attract labour to immigrate to those countries.
- Therefore, **high levels of development are correlated with greater levels of trade, capital and labour flows**.
- Yet, at the same time, **increased levels of trade, capital and labour flows can increase development levels**.
    - In **11.1**, we also observed that the gap between developed countries and some less developed countries is narrowing.

- This has been the result of increased levels of capital inflows, which have triggered increases in trade flows and created employment that has drawn labour towards those countries.
- In **Chapter 13**, we will learn that the USA continues to develop because of its ability to attract highly-skilled migrants.