Globalisation and Economic Development

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Multiple Choice

1	D	**6**	D	**11**	A	**16**	D
2	C	**7**	A	**12**	A	**17**	C
3	D	**8**	C	**13**	D	**18**	A
4	C	**9**	C	**14**	C	**19**	B
5	C	**10**	B	**15**	A	**20**	B

Short Answers

Question 1

(a) The global trading system is one factor which contributes to inequality, largely due to agricultural protection persisting in the major advanced economies of US and EU. The minimal amount of aid efforts from developed economies is another factor which further entrenches inequality against developing economies.

(b) Technological advancements can assist with improving education and access to foreign markets, for developing economies which have the infrastructure that allows them to accept improvements in internet and communication. Additionally, developments in health and pharmaceutical products have the capacity to treat infectious diseases which are more prevalent in the developing economies.

(c) Developing economies are often reliant on foreign assistance in order to achieve greater economic development. This is due to a lack of income-generating production and higher levels of poverty. The difficulty is in ensuring that foreign aid goes towards infrastructure or welfare in order to improve living standards, rather than simply in reducing the level of foreign debt or into administration. Advanced economies have committed to spending 0.7 per cent of their annual GDP towards providing foreign assistance, however in reality have contributed less than half that amount.

(d) Increased foreign direct investment (FDI) and financial inflows have accelerated economic growth in emerging economies, but they still remain low in developing economies. In particular, the least developed economies receive less than 5 per cent of the world's total FDI. As a result, development in emerging economies tends to occur at a more rapid pace than in developing economies, which are constrained by a lack of investment to create employment and wealth-generating opportunities. In addition, some developing economies have been detrimented by financial market volatility. Where short term speculative financial flows are the major factor driving growth this has in some situations has led to a sharp recession and falling living standards. As a result, global inequality has increased and while absolute poverty has been reduced worldwide, living standards in developing economies have remained low.

Question 2

(a) Economic development refers to the level of welfare in an economy, by taking into account factors such as standard of living, health, educational attainment and the environment.

(b) The least developed countries (LDCs) suffer from high inequality and low levels of economic welfare, especially in the areas of health and educational attainment, as illustrated in the stimulus/table. In addition, they face high economic uncertainty, due to their weak political and economic institutions.

(c) The Human Development Index (HDI) takes into account life expectancy at birth, which reflects the health and nutrition standards in a country. The HDI also considers the level of educational attainment for the economy. This is measured by adult literacy, and the ratio of people having completed primary, secondary or tertiary education. Finally, the gross national income (GNI) per capita is included in the HDI measure, as it indicates the accessibility of each person to available goods and services in the economy.

(d) The political and economic institutions, economic policies and government responses to globalisation are key factors in explaining why an economy with a high level of economic growth may face low levels of economic development. Firstly, political instability and a high level of government corruption will contribute to a less equal distribution of income within an economy. It also discourages foreign investment and assistance, which are two key sources of economic growth especially for developing economies and the LDCs. Where economies have a stable institution, it is also important that governments implement policies encouraging flows of trade, finance and investment, in order to take advantage of the access to regional and global markets. On the other hand, the economic policies adopted in determining the amount of government intervention and welfare support can ensure that a larger portion of the national income goes towards economic development. As seen in the stimulus for example, on average governments in Asia spend very little of their GDP on improving health (1.8% of GDP). This will limit the capacity for the economy to improve their life expectancy, which is one of the measures included in the HDI.

Question 3

(a) An advanced economy is a high-income, industrialised economy with a sustained level of economic development. In contrast, an emerging economy is characterised as having the fastest rates of economic growth globally, due to rapid industrialisation.

(b) Growth in advanced economies is primarily sourced from either the services sector, or in advanced manufacturing industries, as these countries have already benefited from the process of industrialisation. They are also generally under liberal-democratic political and economic institutions, which promote welfare-based policies to improve economic development. Finally, advanced economies have close economic ties with one another, which entrenches their benefits from trade, financial and investment flows.

(c) Emerging economies have generally benefited from globalisation, and experienced rapid levels of growth due to export-led development strategies and high foreign direct investment (FDI) inflows. The reductions in global manufacturing protection and high demand for manufactured products from advanced economies have led to high levels of export and economic growth. This is reflected in the stimulus, which shows 9 per cent average growth for East Asia and the Pacific, which dominates the emerging economies.

In contrast, developing economies have benefited less, and tend to experience lower economic growth rates than emerging economies. Developing economies have experienced lower export growth than emerging economies, often due to high protectionist barriers for their agricultural exports. As their main source of growth is from the agricultural sector, this explains the low levels of growth in developing economies