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Development Economics

# Introduction

Development is very crucial to any economy for survival and it takes years to reach a certain stable position in the global economy. There are many economic theories suggested by famous economists which focuses on different areas of development i.e. technological innovation, human capital, inward investment, aggregate demand, increasing returns to scale and high amount of savings etc. (Hoff and Joseph, 2001). But even then, many countries continue to struggle and are left far behind in the economic progress. Therefore, development economics aims at resolving the issues many economies face in economic development and growth and offers the reasons and models through which their underdevelopment can be assessed. This paper focuses on discussing and analyzing the economic data of 145 countries in relation to their GDP, per capita income and population in 1990 and 2015. The positions for 1990 and 2015 were reviewed and the mobility matrix was studied for the respective countries for year 1990 and 2015. The essay aims at exploring the reasons for the lacking behind of some countries in 2015 while other countries improved their economic situation in these years.

**Discussion**

Mobility matrix is the matrix that is used to observe the changes for two points in time with the objective to find the transitional change a country experienced in the mobility from one category to another in the given time period. 145 countries were taken under study to observe the upward mobility in them for the year 1990 to 2015 and accordingly the mobility matrix was made. Below is the respective mobility matrix for year 1990 and 2015.

**Mobility Matrix for 1990 and 2015**

|  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- |
| **Number of countries** |  | **0.25** | **0.5** | **1** | **1.5** | **2** | **2.5** |
| 39 | **0.25** | 82 | 13 | 3 | 0 | 3 | 0 |
| 29 | **0.5** | 21 | 48 | 31 | 0 | 0 | 0 |
| 35 | **1** | 0 | 14 | 57 | 26 | 3 | 0 |
| 8 | **1.5** | 0 | 0 | 25 | 50 | 25 | 0 |
| 7 | **2** | 0 | 0 | 14 | 43 | 29 | 14 |
| 27 | **2.5** | 0 | 0 | 0 | 0 | 15 | 85 |

The matrix shows the number of countries in the left most column for the 1990 year where the GDP per capita for 39 countries were at 25%, below the world average GDP per capita. 29 countries were having GDP per capita at 50%, below the world average GDP per capita for 1990. 35 countries had GDP per capita at 100%, 8 countries had 150% percent, 7 had 200% and only 27 countries acquired the GDP per capita at 250% of world average per capita.

While comparing the data of the same countries in 2015, it was seen that the countries which had GDP per capita less than or equal to 25% of world average per capita were 82 in number. The countries that had GDP per capita greater than 25% but less than or equal to 50% of world average GDP per capita were 48 in total count of 145 countries. Similarly, 57 countries were having GDP per capita greater than 50% but less than or equal to 100% of world average per capita. 50 countries had GP per capita greater than 100% but less than or equal to 150% of world’s average per capita. Only 29 countries were falling in the category of countries who had GDP per capita greater than 150% but less than or equal to 200% of the world average GDP per capita. Likewise, 85 countries had GDP per capita more than 200% of world GDP per capita.

Developed Countries

Above is the graphical representation of 23 developed countries whose GDP per capita is equal to the 250% of the world average GDP per capital throughout the time from 1990 to 2015. GDP per capita is the most effective measure to assess the standard of living of a country telling us about the per capita income each citizen has in relation to the GDP of the country. Countries like Germany, Australia, United States, Canada, France and United Kingdom are considered to be the advanced economies of the world due to their heavy investment in technology, MNC’s revenues, high human capital, effective governance and welfare oriented policies (Rostow, 1959). They were never underdeveloped but undeveloped in the World War II. United States immediately helped some of them recover after the World war II with the initiative in the form of Marshall plan. Saudi Arabia and Bahrain are experiencing high GDP per capita than world’s average GDP per capita due to their high dependence on oil and gas resources and high revenues generating from the export of these natural resources to other countries. However, income inequality is much greater in these economies making the gap between rich and poor wider. The reason behind the high GDP per capita of other countries like Singapore, Sweden, Austria, Japan etc. is due to their increasing returns to scale, specialization, high human capital, Foreign direct investment and stable political environment (Sokoloff, Kenneth, and Stanley, 2000).

**Changes in Trend**

This part analyzes the changing trends in the positions of different countries from 1990 to 2015. Many countries went through the transition in all these years to build their manpower and to make their industries more competitive with global market. But, some countries also experienced downfall as far as the economic progress is concerned which led to the low GDP per capita from the total output of the country in relation to the per capita income of its citizens. Below are two kinds of situations analyzed, increasing trend and decreasing trend in some countries from 1990 till 2015.

There are 12 countries out of 145 countries list who have witnessed a high mobility in the time period of 1990 to 2015. The reasons of their high mobility may vary from country to country for example China jumped from 0.25 in 1990 to 1 in 2015 by inward investment, making the backward and forward linkages strong for the industries. China has the advantage of largest workforce due to which the labor cost is low there, effective governance and keeping education on priority to enhance the human capital (Sen, 1983). Similar examples are Indonesia, Sri Lanka, Ireland and many other countries that invested more on the profitable sectors of the economy.

As far as the decreasing trend in countries is concerned, many countries also observed declined GDP per capita from 1990 to 2015 which are, Bahamas, Spain, Italy, New Zealand, Gabon, Greece, Portugal and Russia. There are some other factors as well that affects the economic performance of the countries. These factors can be, political, social or global in nature. Russia had financial crisis in the country due to the continuous devaluation of its currency which led to the inflation and hence the per capita income of people declined. There were also international economic sanctions imposed on Russia which adversely affected the whole Russian economy. Italy faced the issue of high unemployment due to underdeveloped agriculture sector and the dominance of private sector in the economy. People didn’t have jobs and they were unemployed which led to fall in per capita income and GDP was affected. As far as the case of New Zealand is concerned, the country is in huge debt as the government debt accounts for 32.5 percent of the overall GDP. Other countries are also facing many external issues due to which their economy affected and the GDP per capita was fallen.

It is not possible for all the countries to show some change in mobility in only few decades. Countries like Cyprus can be static and maintain a stable economy in the world. Theory of convergence might not work for all the countries and the best example is Cyprus (Ray, 2010). Cyprus faced weak growth and entered recession from 2012 onwards leading to high unemployment. Kazakhstan is also having static but strong and stable economy due to its focus on industrialization and making the domestic industries globally competitive to global market (Rosenstein-Rodan, 1943).

Poor countries lacking upward mobility

There is a long list of countries which remained poor from 1990 to 2015 due to limited mobility. Most of these countries belongs to African continent which explains the weak economic growth and poor GDP per capita they have. Countries like Tanzania, Kenya, Uganda, Ethiopia, Zambia etc. which are located in East Africa were the victims of civil war in the past and hence faced major poverty issues due to poor governance. There were ethnic conflicts, political instability, lack of resources, unskilled manpower and no technology which made them extensively poor. There are some Asian countries as well in the list i.e. Bangladesh, Nepal etc. which are having the similar problems in the way of development.

There are five main reasons for the lack of upward mobility in some countries. There are:

1. Less investment in human capital (quality education)
2. Unemployment
3. Lack of technological advancement (agriculture and industry)
4. Savings
5. Poor governance (exploitative political environment)

It is understandable that the development problems are contextual and they are not the same for every country. But the above mentioned reasons are the common justifications of all the underdeveloped countries. First reason is the lack of investment in human capital which includes the education as well as the technical knowledge of the field. Looking at the scenario of the developed countries, it can be said that all the developed countries possess highly skilled labor in the workforce which increases the increasing returns to scale (Ray, 2010). Endogenous growth models emphasized on the investment in human capital. The model focused on the fact that spending on education and enhancing knowledge of workers can give rise to technological advancement and innovation like in the case of China. For the development, it is very important to increase the productivity level of the labor which can only be done by working on human capital.

The second main reason is the issue of unemployment in the poor countries. This reason is partially dependent on the first reason. If a country is having a very large workforce and the major ratio is of unemployed people, then the country is wasting its potential to achieve development. According to Karl Marx, huge reserve army of labor is harmful for any economy as it restricts the productivity of the labor and stops the production from expanding. In these countries, the forces for stagnation are very powerful due to ineffective economic policies. This unemployed army can be used for creating forward and backward linkages for the key sectors that can boost the economic growth of the country. But for that, investment is needed first to educate the labor. In the meanwhile, unemployed and underemployed yet productive workers can be employed to the suitable sectors of their fields and it will bring long run effects for the economy.

Third reason is related also related to the concept of endogenous growth which says that technological advancement can lift the economy and can help in achieving the high economic growth. This is why convergence is important. The per capita income of the poor countries can grow at a speed higher than that of developed countries because there is a diminishing returns to scale in technology in those developed countries. Poor countries are far behind in technology and uses traditional methods for production in the industries and agriculture which is time consuming and ineffective. If they focus on bringing technology to their country, then the whole world will converge.

Fourth reason is in line with the harrrod-domar model for development. Harrod-Domar model is a classical Keynesian approach towards increasing the economic growth (Ray, 2010). It is widely used in development economics to offer effective measures to improve the economic growth of the country. The model emphasizes on the idea of increasing savings temporarily to bring about long term changes in the economy. The government might come into play by increasing the level of savings along with the increase in capital-out ratio. This model is very helpful in making favorable economic policies in the poor countries. However, the drawback of this model is that, in the poor countries where the people are facing severe poverty, it becomes hard to increase the savings. Whereas this is not the case with developed countries and hence they increase the savings to achieve more economic stability.

The last reason is not economic but political in nature. Governance plays a crucial role in the economy. The countries which remained poor were facing unstable governance which was not effective either. Excellent governance can help in achieving a higher mobility more easily as compared to bad governance. Prioritizing the economic issues over political issues is the only way out for the poor stagnated countries.

**Conclusion**

There is no doubt that higher mobility is directly linked with increased public spending and this why some economic policies are suggested. The policy maker must first identify the sectors of the economy that will give a boost to the growth of the country. After exploring those sectors, the money should be spending on the forward and backward linkages. It is not only about the key sectors but the sector which has the maximum number the linkages and the strength those linkages have, are equally important (Rosenstein-Rodan, 1943). The trade policies should not be restricted and limited to any sanctions (Rosenstein-Rodan, 1943). There is no balanced growth but unbalanced growth in the practical world (Ray, 2010). Therefore, the countries should wisely make investment decisions and development. The budgetary policies especially for the poor countries should be progressive that will benefit them in long-run i.e. investment in education. Advanced economies should provide aid and loans for the poor countries for their “big push” investment that will lead the economy in the right direction of development and will increase the mobility.

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