4.3.3 Strategies influencing growth and development

a) *Market-orientated strategies:*
   - *trade liberalisation*
   - *promotion of FDI*
   - *removal of government subsidies*
   - *floating exchange rate systems*
   - *microfinance schemes*
   - *privatisation*

b) *Interventionist strategies:*
   - *development of human capital*
   - *protectionism*
   - *managed exchange rates*
   - *infrastructure development*
   - *promoting joint ventures with global companies*
   - *buffer stock schemes*

c) *Other strategies:*
   - *industrialisation: the Lewis model*
   - *development of tourism*
   - *development of primary industries*
   - *Fairtrade schemes*
   - *aid*
   - *debt relief*

d) *Awareness of the role of international institutions and non-government organisations (NGOs):*
   - *World Bank*
   - *International Monetary Fund (IMF)*
   - *NGOs*

- Trade liberalisation:
  - The complete lowering or complete removal of trade barriers such as tariffs, quotas and non-tariff barriers
  - The diagram is the opposite of a tariff diagram
- FDI: The flow of capital from one country to another
- Ways of promoting FDI:
  - Reduction in corporation tax
  - Tax incentives and grants
  - Reduction in bureaucracy
  - Liberalisation of labour laws
  - Reducing trade barriers
  - Deregulating capital markets
- Advantages of FDI:
  - Can create employment and promote long term sustainable growth
  - Encourages the innovation of technology
  - A supply of funds to invest and develop
- Disadvantages of FDI:
  - International capital flows are volatile and shifts in hot money are dangerous
  - Greater risk of contagion
  - FDI requires a stable and peaceful country

- Removal of government subsidies: Subsidies can distort the free market mechanism causing market failure
- Floating exchange rate: when the value of the exchange rate is determined by the forces of supply and demand
- Advantages of a floating exchange rate:
  - Could cause a depreciation making exports more competitive
  - Might encourage investment if a currency is no long overvalued
- Disadvantages of a floating exchange rate:
  - Risk of currency crisis from speculation
  - No control over competitiveness through this medium
- Microfinance schemes: Borrowing small amount of money from lenders to finance enterprises. The focus is on groups whose alternative sources of finance are limited to the informal sector
- Advantages of microfinance schemes:
  - Increases the income of those who borrow and can reduce their dependency on primary products
  - Multiplier effect form increased investment
  - Borrowers can break away from aid and achieve financial independence
  - Detach the poor from high interest, exploitative loan sharks
  - Greater competition from more enterprise
- Disadvantages of microfinance schemes:
  - Loans may have high repayment rates
  - Could lead to a reduce in other assistance to the poor such as official development assistance
- Privatisation: assets are transferred from the public sector to the private sector
- Advantages of privatisation:
  - Increased incentives to operate efficiently, which increases economic welfare
  - Firms produce the goods and services consumers want- increases allocative efficiency and quality
  - Raises revenue for the government
- Disadvantages of privatisation:
  - Risk of selling of assets cheaply
  - May not operate in the interests of the consumers
- Advantages of development of human capital:
  - Higher productivity
  - More advanced machinery could be used
  - Increase in innovation
  - Encourages FDI
- Disadvantages of development of human capital: opportunity cost of government spending
- Protectionism: placing controls on imported goods eg tariffs and quotas
- Managed exchange rate: Combination of fixed and floating exchange rate systems. It floats on the market but the central bank buys and sells currency to try to maintain its level

- Advantages of managed exchange rates:
  - Keeps the cost of imports low especially of oil and capital equipment making it easier for them to grow and develop
  - Or, can be used to make exports cheaper
- Advantages of infrastructure development:
  - Increases the mobility of labour and reduces business costs from delays
  - Improved productivity
- Disadvantages of infrastrucutre development: opportunity costs- very expensive and adds to debt
- Promoting joint ventures with global companies: A partnership is set up between two firms based in multiple countries
- Advantages of promoting joint ventures with global companies:
  - A firm can participate in international trade, without the responsibilities
  - Help technological knowledge to be transferred
  - It opens up new markets and saves them time and funds
  - Risk and costs are spread
  - Less vulnerable to hostile actions if there is political instability
- Disadvantages of promoting joint ventures with global companies:
  - Loss of control of technology and expertise to local partner
  - Partners may have different strategic interest
- Used to reduce price volatility in the agricultural market
- Governments buy up harvests during surpluses and then sell the goods onto the market when supplies are low
- Key features:
  - A ceiling price (maximum)
  - A floor price (minimum)
  - A buffer stock: involves the storage or release of stocks in order to reduce price fluctuations
- Advantages of buffer stock schemes:
  - Helps farmers remain stable
  - Improves consumer welfare by ensuring prices are not in excess
- Disadvantages of buffer stock schemes:
  - Storage is difficult and expensive since agricultural costs are perishable
  - Administration costs
  - There may be large surpluses or shortages
- Lewis model:
  - In agriculture there is a surplus of unproductive labour (marginal productivity is zero) while wages in the manufacturing sector are fixed
  - Workers from agriculture are attracted to the manufacturing sector
  - Manufacturing attracts more capital so demand for labour increases
- Advantages of growth by industrialisation:
  - Lowers the price of consumer goods and technology
  - Countries become more self sufficient
  - Productivity is higher in manufacturing
- Disadvantages of growth by industrialisation:

  - Profits may not be reinvested into the firm or repatriated to foreign firms
  - Capital investment may replace labour so demand for labour might fall
  - Labour mobility could be limited
  - Agriculture can be the basis of growth
- Advantages of development of tourism:
  - Reduces dependence on primary products
  - Developing countries have a high MPC so the multiplier is large
  - Source of foreign exchange
  - Employment opportunities
  - Demand for tourism is income elastic
- Disadvantages of development of tourism:
  - Little revenue is retained in the country, since travel companies repatriate profits
  - External costs: could cause overcrowding and the loss of habitats
  - Income from tourism is unstable as it depends on the business cycle
  - Locals could feel stigmatised by tourism
  - Investing in the infrastructure necessary is expensive
  - Employment is low paid and seasonal
- Advantages of development of primary industries:
  - Develop a comparative advantage
  - Makes up the livelihood of most in developing countries
  - Available workforce not many high skilled workers required
- Disadvantages of development of primary industries:
  - Other industries are neglected
  - Degradation of the natural environment
  - Commodity prices are volatile
  - Not sustainable-resources will run out
- Fairtrade schemes: Ensures that farmers can receive a fair price for their goods. Supermarkets buy a guaranteed quantity at a price above the market equilibrium.
- Advantages of Fairtrade schemes:
  - Guaranteed income for farmers means thy can plan for the future
  - Ensures that working conditions meet a minimum standard
  - Promotes environmental protection
  - Stops the use of child labour
- Disadvantages of Fairtrade schemes:
  - Only a psychological influence and could distract from other policies
  - Makes non Fairtrade workers worse off
  - Distorts price signals so it is less efficient
  - Less incentive for producers to improve the quality of their product
- Dambisa Moyo says corruption means aid is misused and providing goods means private firms can't compete
- Purpose of development aid:
  - Reduce absolute poverty in the long run
  - Provide emergency short-term relief

- Types of aid:
  - Tied aid: conditions attached
  - Bilateral aid: From one country to another
  - Multilateral aid: through organisations such as the World Bank
- Advantages of aid:
  - Capital inflows can provide funds for saving
  - Multiplier effect- high MPC
  - There is diminishing return to capital so initial investment produces high marginal returns
  - Reduces human capital inadequacies or pay of debt
  - Could be used to improve infrastructure
  - Reduce absolute poverty and inequality
- Disadvantages of aid:
  - Could be used to influence other countries- conditionality
  - Could be misused by corrupt leaders
  - Potential dependence on aid
  - Aid is not distributed fairly- historic ties
  - Could distort market forces
  - Interest rates must be paid on concessional loans
- Debt relief: Partial or total forgiveness of debt. If a country defaults it is hard to borrow more in the future.
- Advantages of debt relief:
  - Debt means financial resources are diverted from infrastructure, education and healthcare
  - Increases business confidence, leading to increase in investment
  - Environmental gains: conditions attached
- Disadvantages of debt relief:
  - It might encourage more borrowing in the future
  - Risk of corruption
  - Length of time to agree a debt cancellation
  - Moral hazard problem
  - Adverse impact on financial institutions
  - May be used to coerce developing countries