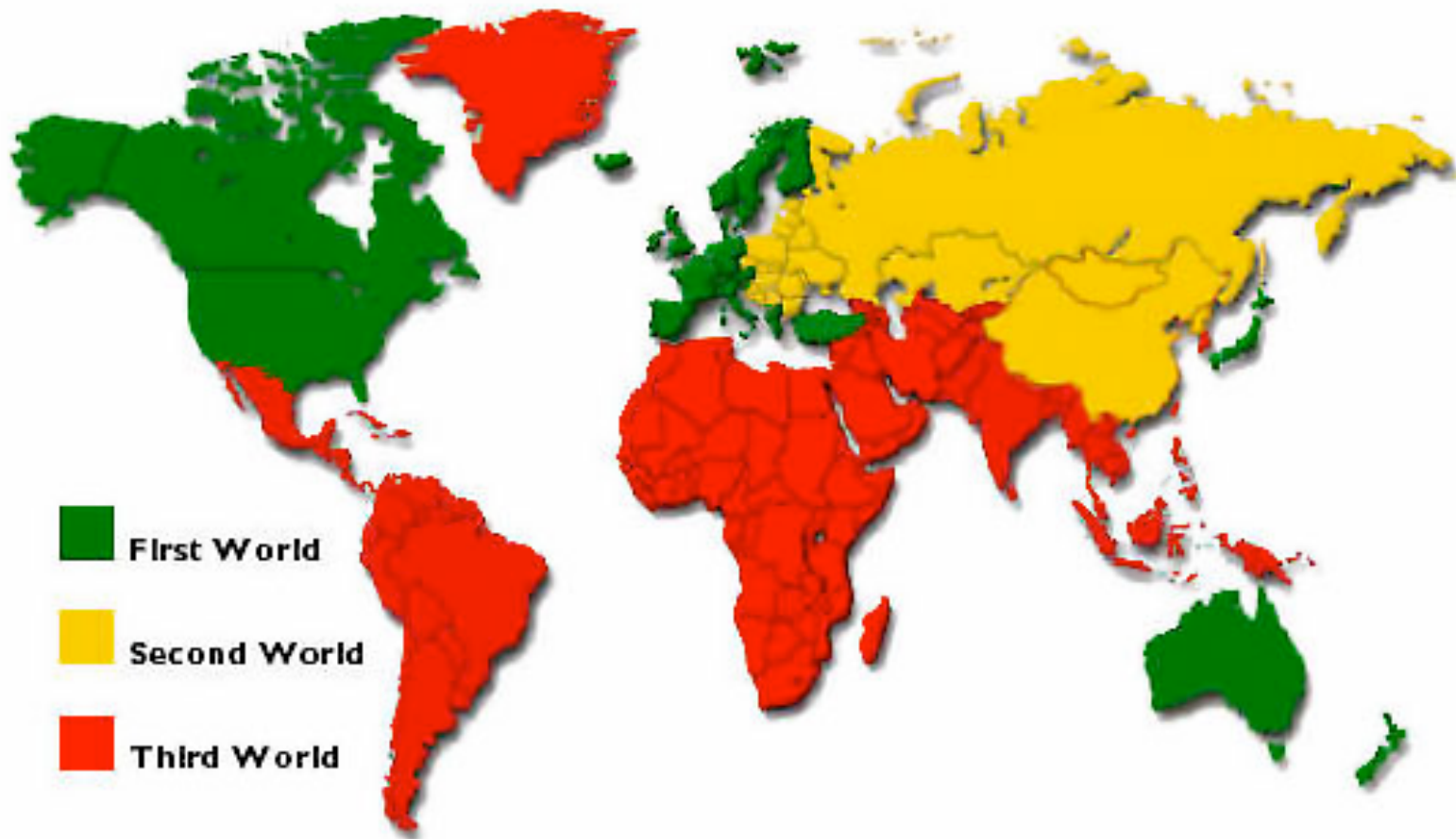


# Economic systems and their developmental stages

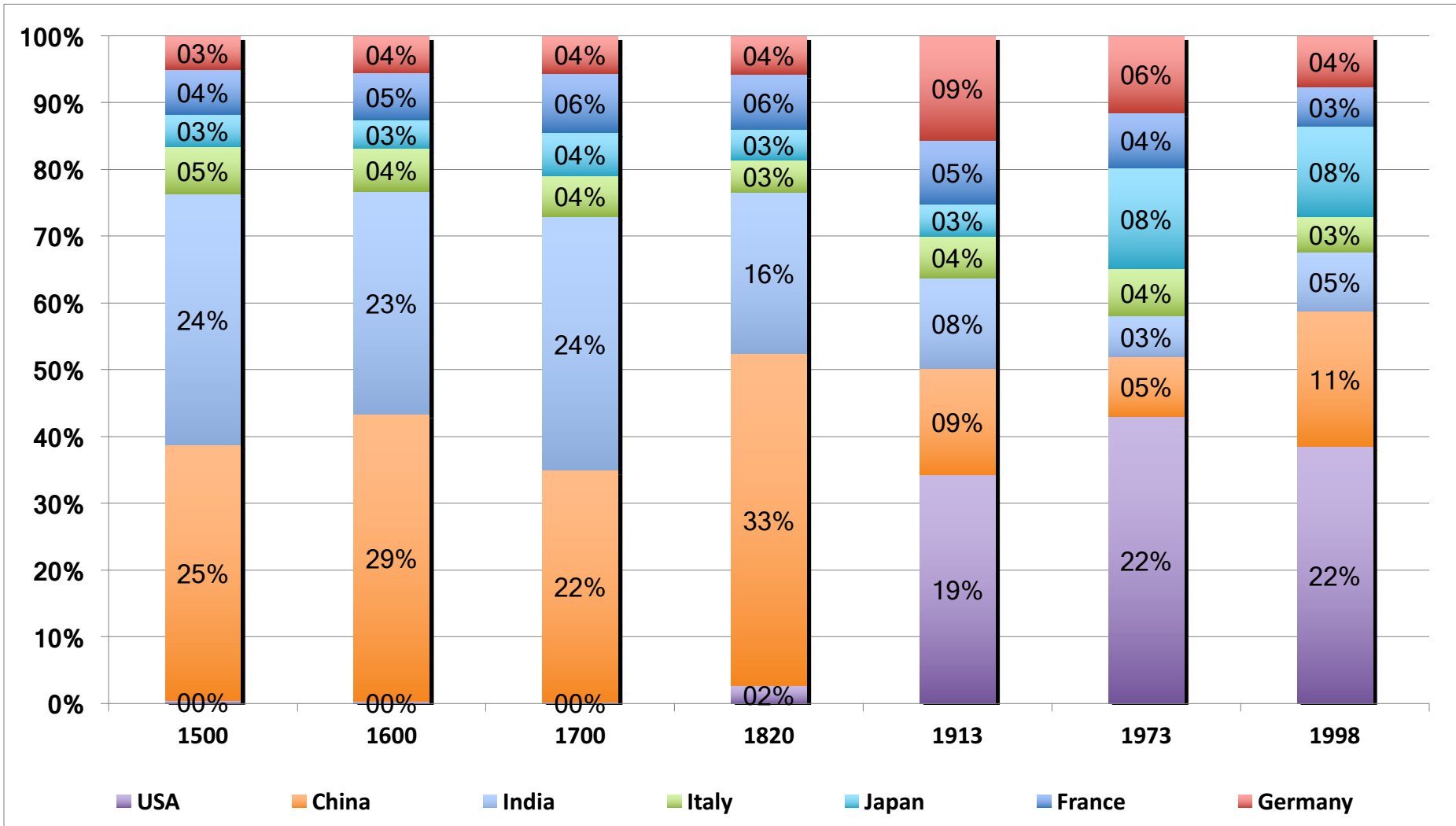
## ● Preliminary definitions

### First World, Second World and Third World

It's a matter of geo-politics or economics?



# The long view - World GDP share



Source: Maddison, 2001



## Theories on ED

Different stages of Economic Development according to Rostow

- **Traditional society:** agricultural economy of mainly **subsistence farming**; the **size of the capital stock is limited**
- **Pre-conditions for take-off:** agriculture becomes more **mechanised** and more output is traded. Savings and investment grow. Some external funding (**overseas aid, remittance incomes**)
- **Take-off:** manufacturing industry assumes greater importance. Political and social institutions start to develop - external finance may still be required. Savings and investment grow, perhaps to 15% of GDP.
- **Drive to maturity:** industry becomes more diverse. Growth should spread to different parts of the country as the state of technology
- **Age of mass consumption:** output levels grow, enabling increased consumer expenditure. There is a shift towards tertiary sector activity and the growth is sustained by the expansion of a middle class of consumers.



## Theories on ED

### Other model

- **A. Smith** (specialization and private sector importance)
- **K. Marx** (resources from workers to capitalists)
- **Structural changes** (failure in primary/secondary sector mix)
- **International dependence** (colonialism as a trap)
- **Neoclassical** (free market as a trig)
- **New growth theories** (innovation and knowledge as push factor)

## Definitions today

Different stages of Economic Development according to UN

More developed countries (MDCs)

Developed economies

Less developed countries (LDCs)

or

Economies in transition

Least developed countries (LLDCs)

Developing economies

Criteria of classification:

- GDP (Gross Domestic Product) per capita
- political and economic stability
- human vulnerability (Human Development Index)

## Rates of growth (real GDP)

	2009-2016 <sup>a</sup>	2009	2010	2011	2012	2013	2014	2015	2016	2017 <sup>b</sup>	2018 <sup>c</sup>	2019 <sup>c</sup>
Developed economies	1.0	-3.7	2.6	1.5	1.0	1.2	1.9	2.2	1.6	2.2	2.0	1.9
Economies in transition	0.9	-6.6	4.8	4.6	3.4	2.4	0.9	-2.2	0.4	2.2	2.3	2.4
Developing economies	4.9	2.8	7.7	6.2	5.1	4.9	4.4	3.9	3.8	4.3	4.6	4.7



## Definitions today

### Is it still a living matter?

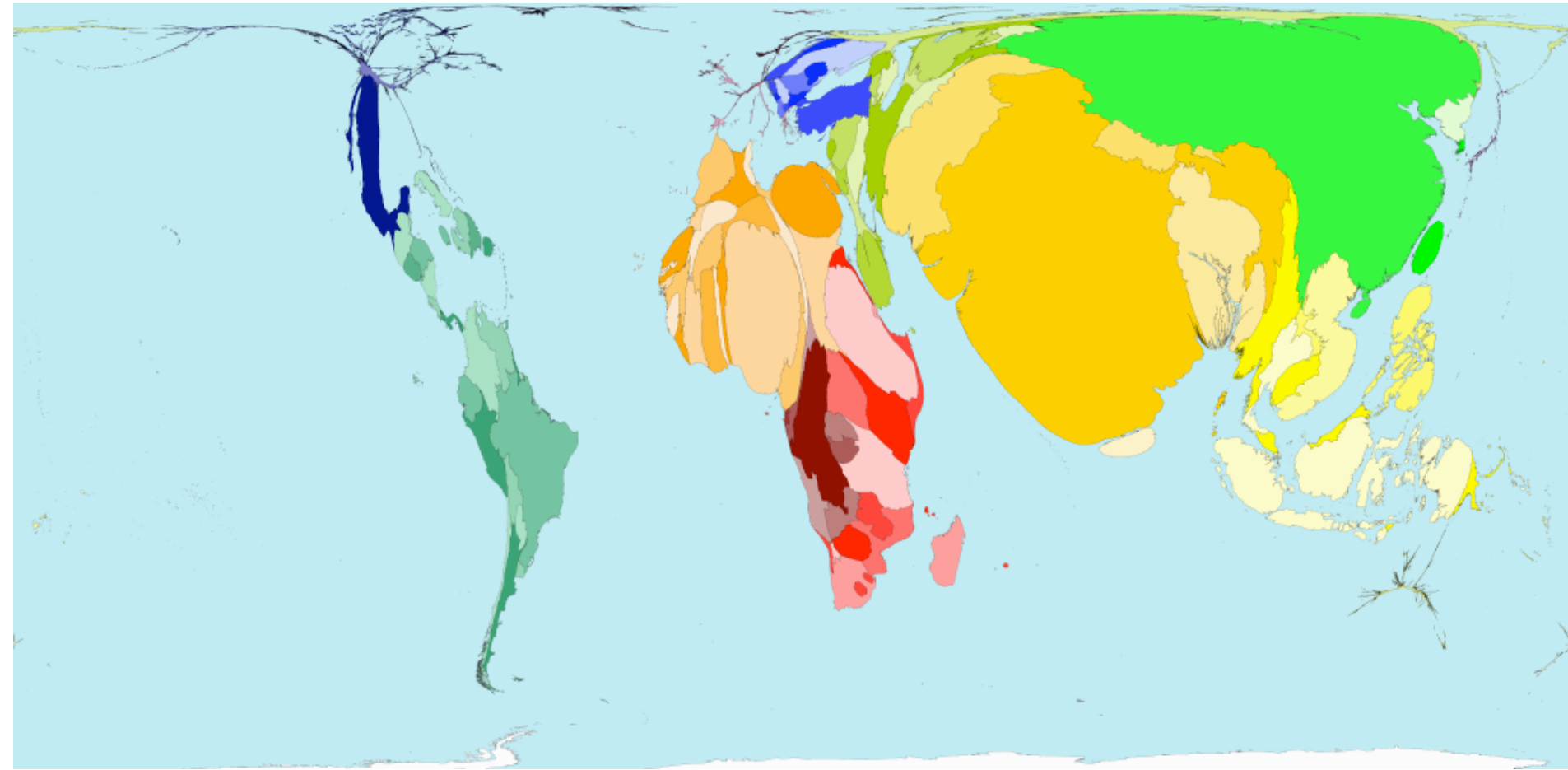
Towards a new approach: newly industrialized countries (NICs).

#### General success factors

- Political stability in policies affecting their development
- Economic and legal reform
- Entrepreneurship
- Planning
- Outward posture
- Factors of production
- Industries targeted for growth
- Wide incentives
- Privatization of state-owned enterprises (SOEs)

● Evidences

Population living on up to 10\$ per day

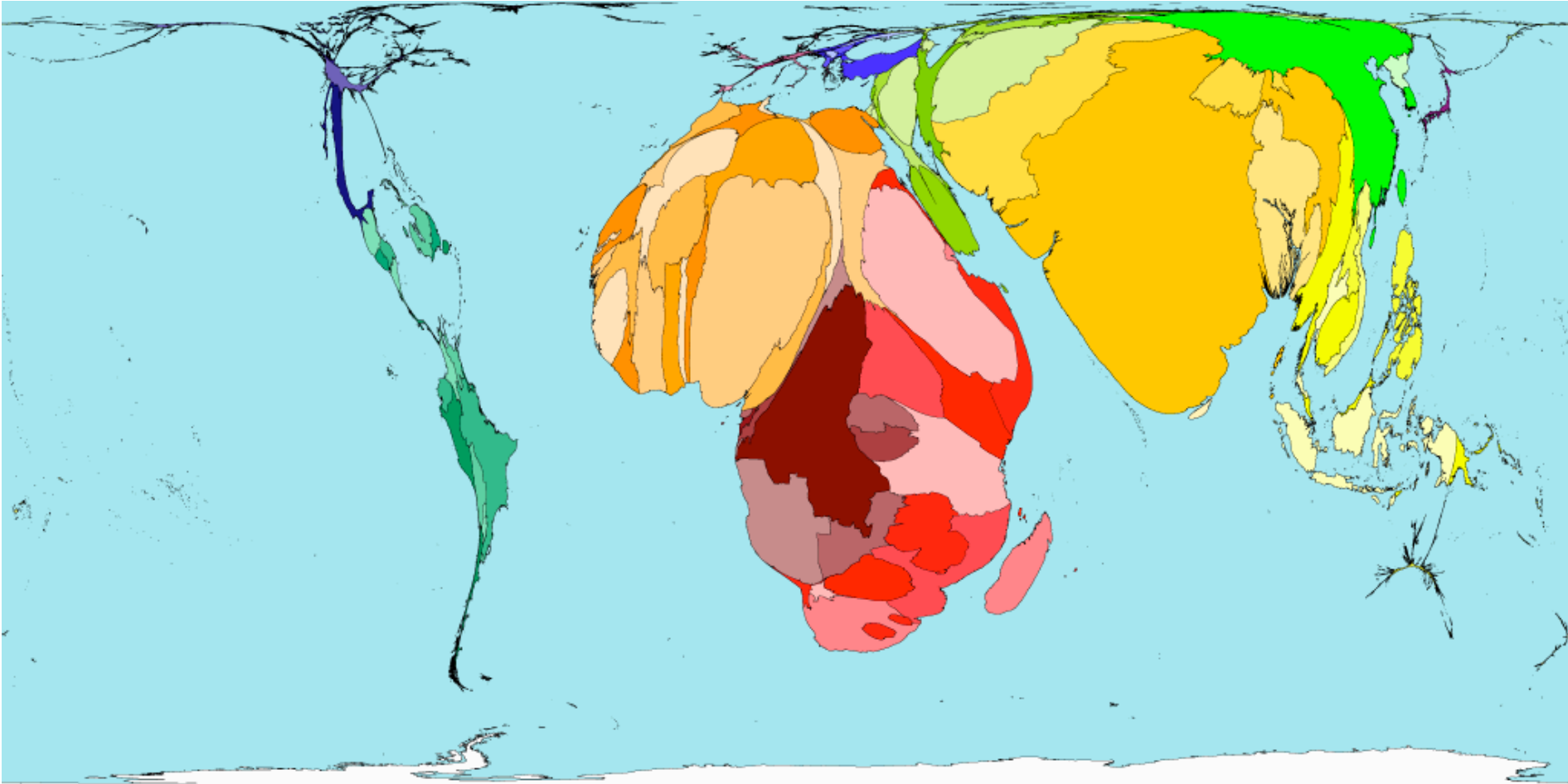


Source: worldmapper.com



● Evidences

1 – 4 years old death (percentage)



Source: worldmapper.com

## Evidences: about the gaps between poor and rich countries

Financial Capital: mismanagement of public (government) and private (“tv before toilet”) financial resources

Human capital: low investment in education, skills and public health

Technology: scarce investment in research and development, production and process efficiency

Market mix: free/partially free markets don't work properly

## Cause of prosperity/poverty

### Potential causes?

Geography (environmental causes)

Institutions (responsible to shape market and incentives)

Culture (beliefs, attitude, preferences, taboo...)

## ● Cause of prosperity and poverty: geography

- Climate influences attitude (Montesquieu, Ibn Khaldun, Jean Chardin...)
- Environmental determinism: the environment determines development paths (J. Diamond)
- Geographical advantages like access to coastline, infectious diseases...

Some doubts...some example:

Haiti vs Dominican Republic  
HDI rank: 94 VS 168



North Korea vs South Korea  
HDI rank: 22 VS N.A.



## ● Cause of prosperity and poverty: institutions

Institution could influence legal systems, market and barriers, political rules, participation...

1. Economic institutions (banks, international organizations)
2. Political institutions (by constitution)
3. Social and civic institutions (suq, ngos)
4. Formal vs informal/*de jure vs de facto* (Libya today)



## Cause of prosperity and poverty: culture

**Culture:** “the sum total of the beliefs, rules, techniques, institutions and artifacts that characterize human populations” or “the collective programming of the mind”.

### **Element of culture**

Religion

Language

Values and attitudes

Custom and manners

### **Type of culture**

Corporate culture (work attitude, achievement, ethics...)

Individualism vs collectivism

Masculinity vs femininity

...

## Theoretical approach

### **Hernando De Soto (1941 - )**

- No nation can have a strong market economy without adequate ownership of property.
- Extra legal economy results in many countries where small entrepreneurs lack legal ownership of their property, making it difficult for them to obtain credit, sell the business, or expand.
- Lack of information on income prevents governments from collecting taxes and acting for the public welfare.
- The extralegals create their own rules and, as a consequence social, political and economic problems that affect the society at large.
- What the poor majority in the developing world do not have, is easy access to the legal system, which, in the advanced nations of the world and for the elite in their own countries, is the gateway to economic success.



## Theoretical approach

### **Dambisa Moyo (1969 - )**

- Foreign aid helps perpetuate the cycle of poverty and hinders economic growth in less developed countries
- New coming economies (e.g. China) investments in less developed country (e.g. Africa) is sincere, credible, practical and efficient and is welcomed by the local people.
- "I am confident that time will prove that friendship and cooperation between the Chinese and African people has a bright future"

## Theoretical approach

### Muhammad Yunus (1940 - )

Social business:

- social business **focuses on providing a product** and/or service **with a specific social, ethical or environmental goal**
- social business is a **profit-oriented business** that is **owned by the poor** or other underprivileged parts of the society, who can gain through receiving direct dividends or by indirect benefits

The poor are like a “bonsai tree,” and they can do big things if they get access to the social business that holds the potential to redeem the failed promise of free-market enterprise.

Key ingredients to the success of the approach are education, institutions to make social businesses visible in the market place (a social stock market), rating agencies, appropriate impact assessment tools, indices to understand which social business is doing more and/or better than other social businesses so that social investors are correctly guided.

● International organization approach

