



GREYSTONE COLLEGE
OPENING UP GLOBAL CAREER OPPORTUNITIES



National Differences in Economic Development

Unit 3

International Business & Logistics

Reference and Complementary Reading

- Chapter 3: Globalization of Global Business Today 12th Edition

Introduction

- Differences in political, economic, and legal systems influence the level of economic development and its attractiveness for doing business
- There has been a general move toward more democratic forms of government, market-based economic reforms, and adoption of legal systems that better enforce property rights



Differences in Economic Development

Various ways of measuring the economic development and progression of nations

Classifying countries

- **Economic Development:** Increase in the economic well-being, quality of life and general welfare of one nation's people

Developed Countries

- Highly industrialized, highly efficient economies, and whose people enjoy a high quality of life

Developing Countries

- Less developed industrial base, and slightly lower quality of life relative to developed countries

Least Developed Countries

- Rank lowest in socioeconomic development, quality of life, and economic growth

Classifications of developing countries from fastest to slowest growth

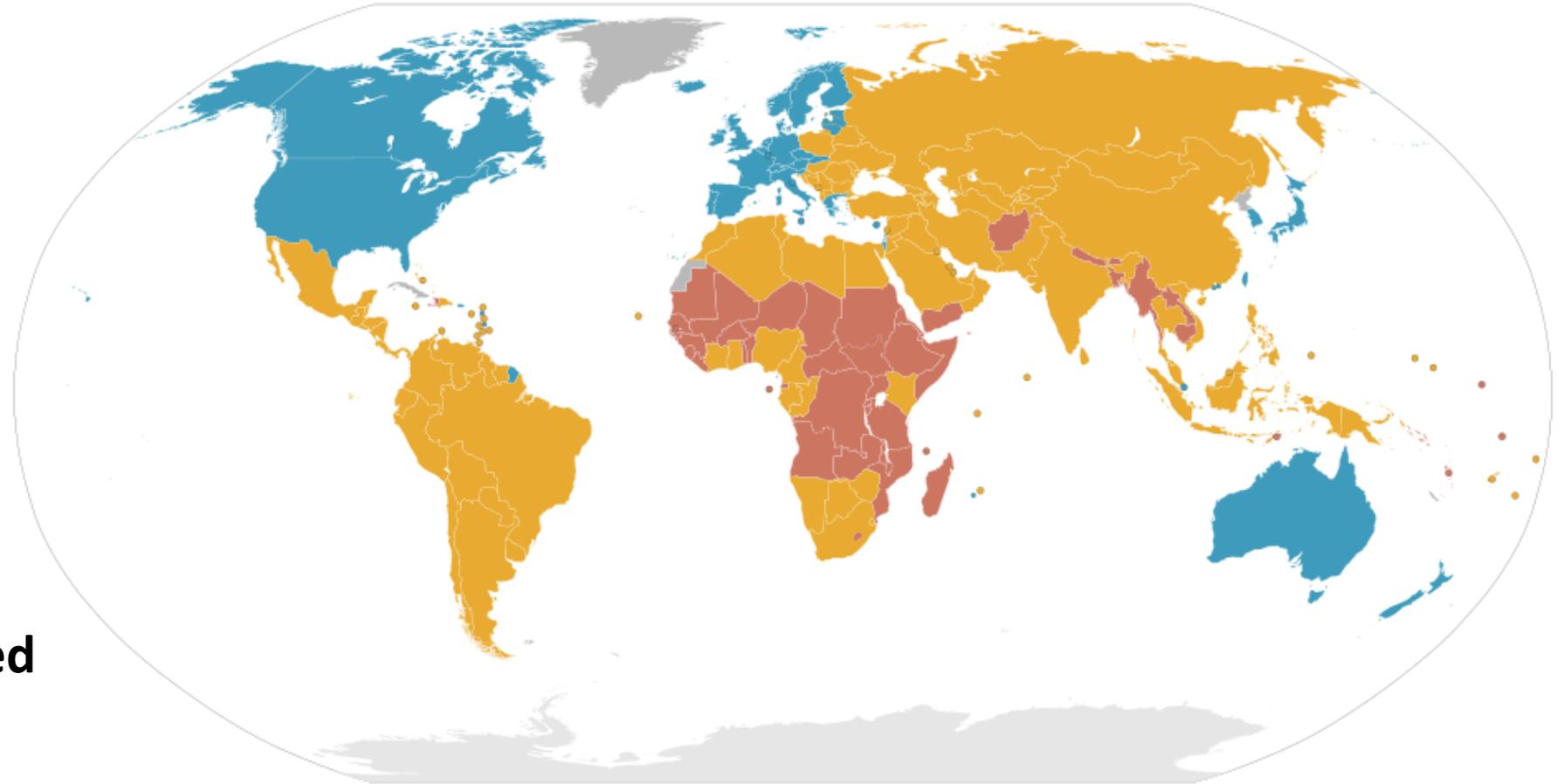
Newly Industrialized

Emerging Market

Frontier Market

Differences in Economic Development

- Rankings provided regularly by the IMF, UN, & World Bank



How to Measure Economic Development

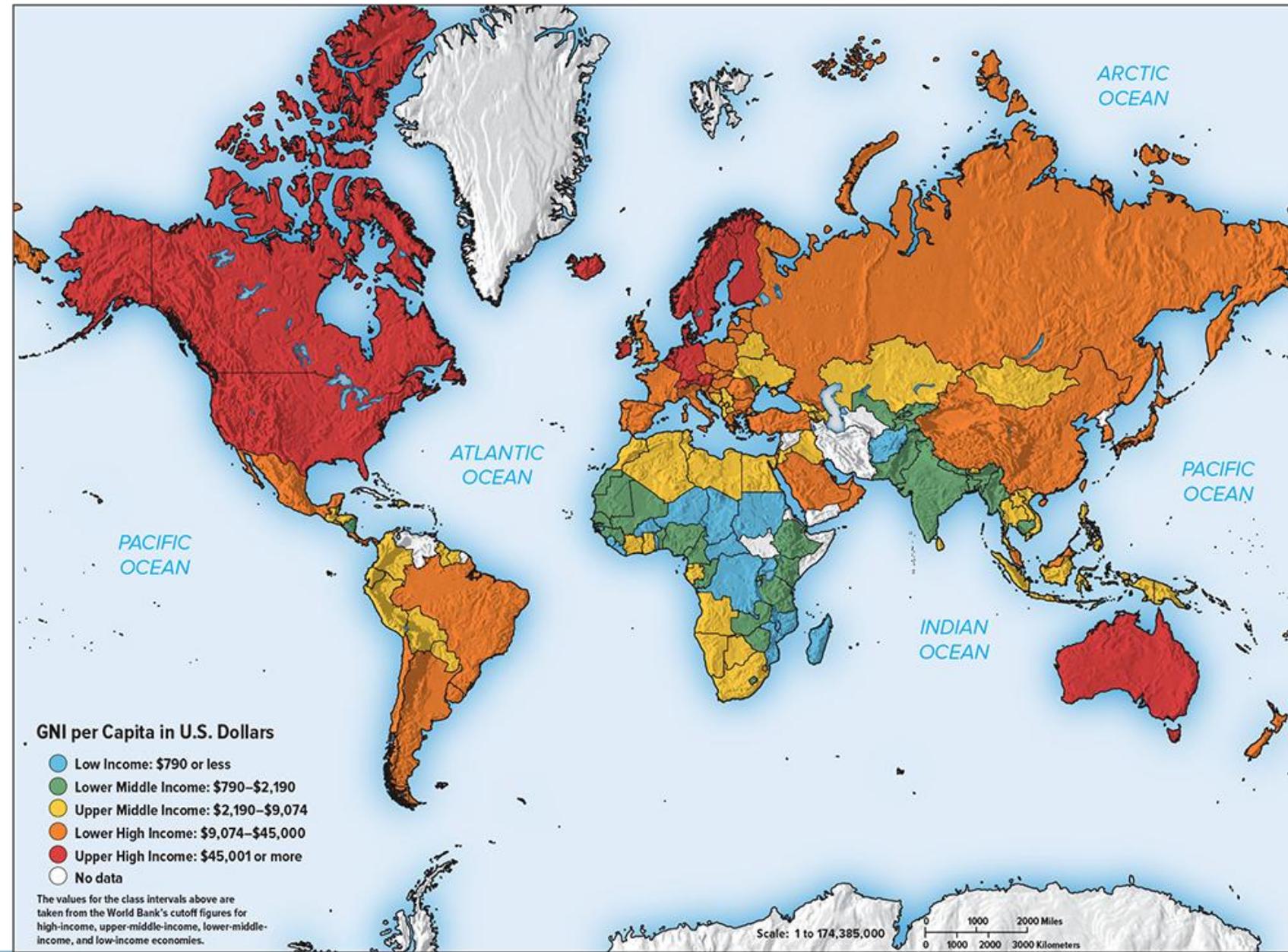
- **Gross Domestic Product (GDP):** Gross domestic product is a monetary measure of the market value of all the final goods and services produced in a specific time period.
 - The most general calculation used to measure a country's economy
 - Doesn't speak to quality of life in the country, mostly economic performance

So instead, another measure was created...

How to Measure Economic Development

- **Gross National Income (GNI):** measures the average total annual income received by all residents in a country
 - **Example:** Add together how much income every citizen in Canada makes in any given year
 - **GNI per capita** looks at how much each PERSON receives on average per year (per capita is Latin for per person)

GNI per capita, 2019



How to Measure Economic Development

- GNI per capita figures can be misleading as they do not consider differences in the cost of living between countries
 - **Purchasing Power Parity (PPP)** adjustments allow for a more direct comparison of living standards in different countries

Purchasing Power

Value of goods and services that can be purchased with one unit of a country's currency

Purchasing Power Parity (PPP)

A calculated adjustment to account for a currency's ability to buy the same "basket" of goods in two different countries

PPP Example

American Employee Salary	French Employee Salary
\$100 per day	€75 per day

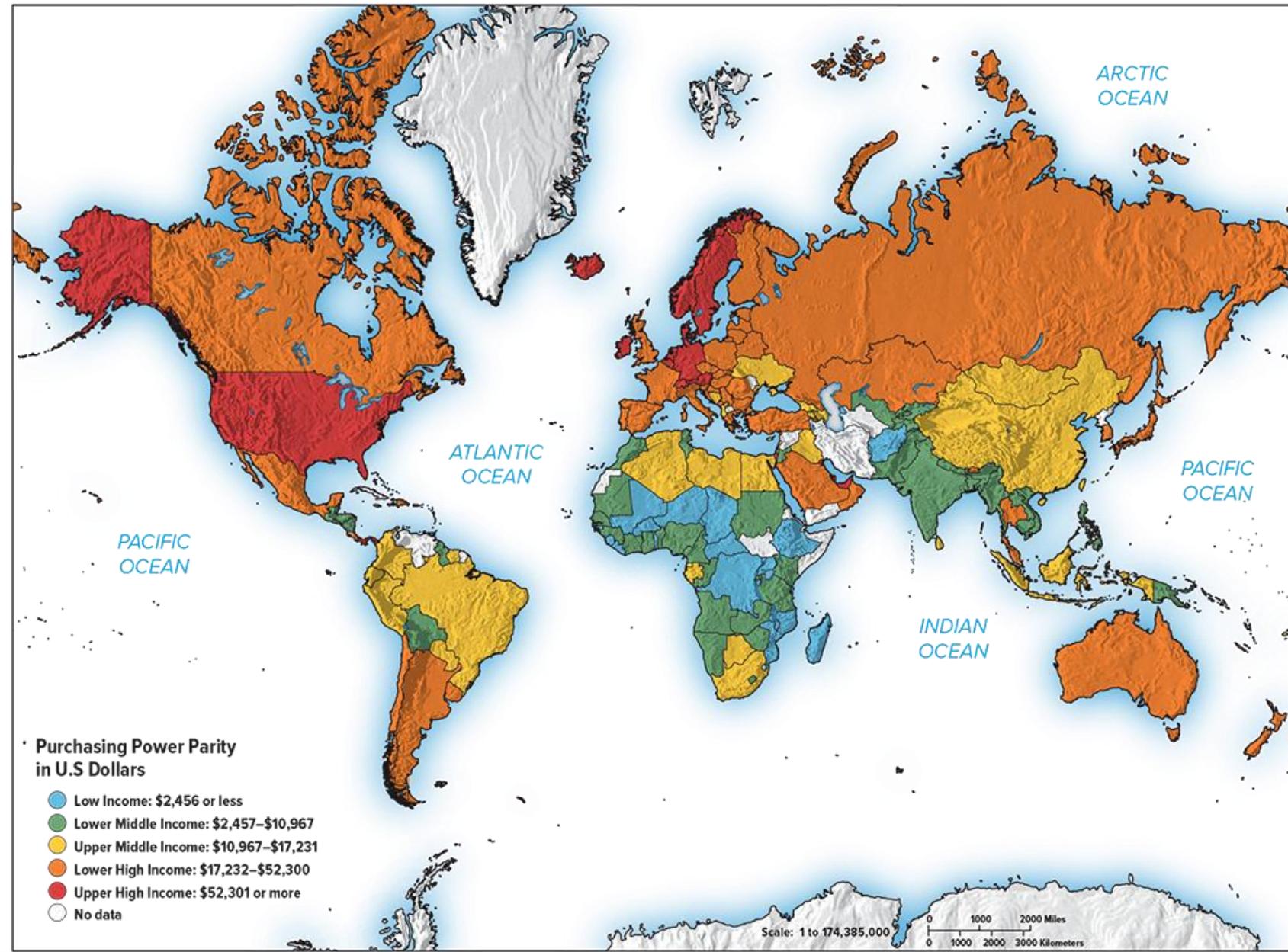
- Converting the currencies doesn't tell us much. €75 is equal to \$85 USD, but does that mean the French employee is actually less wealthy...?



One way to compare it fairly is to compare things both employees need to buy to survive, like groceries. If the U.S. employee's \$100 USD buys a week's worth of groceries, but the French employee's ~\$85 USD buys a week and a half, the French employee is actually "*wealthier*"

The PPP is a calculated adjustment used globally to factor these differences into GNI per capita.

GNI PPP per Capita, 2019



Economic Data for Select Countries

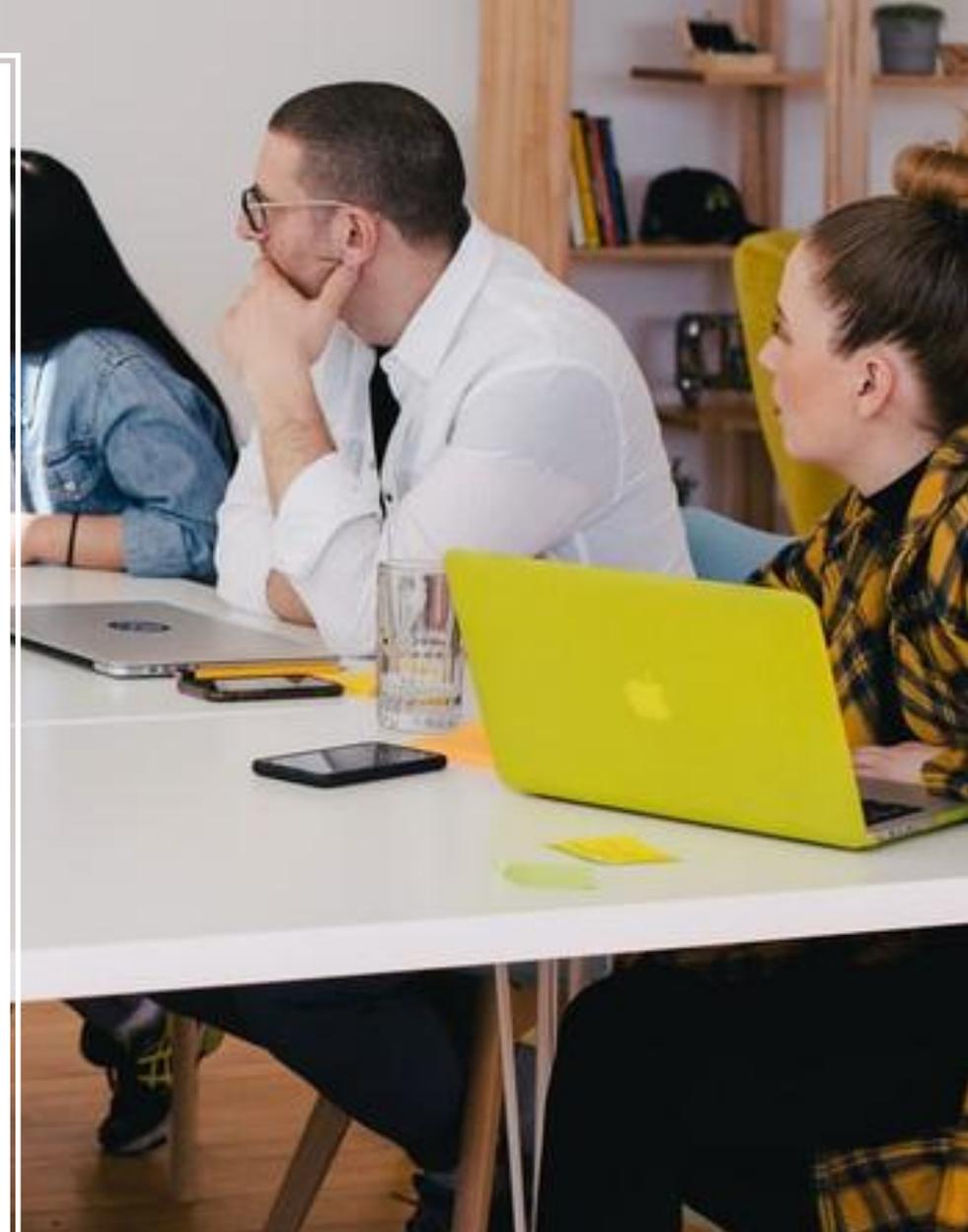
Country	GNI per Capita, 2019 \$	GNI PPP per Capita, 2019 \$	Annual GDP Growth Rate, 2010 to 2019 %	Size of Economy GDP, 2019 (\$ billions)
Brazil	\$9,130	\$14,850	1.39 percent	\$1,840
China	10,410	16,740	7.69	14,343
Germany	48,520	57,690	1.97	3,998
India	2,130	6,960	6.74	2,875
Japan	41,690	44,780	1.28	5,081
Nigeria	2,030	5,170	3.65	448
Poland	15,200	32,710	3.63	592
Russia	11,260	28,270	1.92	1,700
Switzerland	85,500	72,390	1.85	703
United Kingdom	42,370	48,040	1.86	2,827
United States	65,760	65,880	2.28	21,428

Differences in Standards of Living

- Official figures can be misleading
- Unrecorded cash transactions can be significant
 - India's **black or shadow economy** may be around 50 percent of GDP.
 - EU estimates shadow economy accounted for 10 to 12 percent of GDP in the U.K. and France, 21 percent in Italy, and 23 percent in Greece.
- GNI and PPP data do not indicate growth rates
 - A country can have a low GNI but may be rapidly growing year-over-year

Activity: Country Comparator

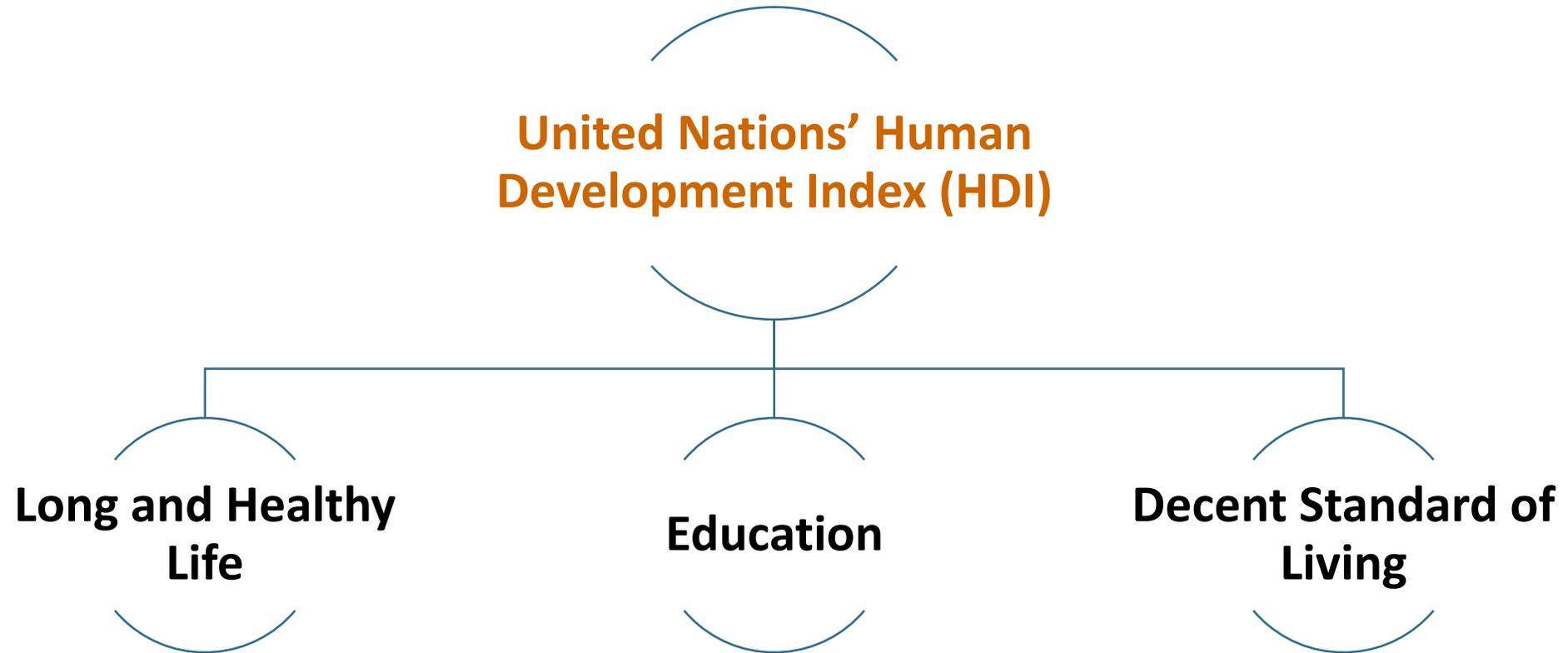
- The Country Comparator tool on globalEDGE (<https://globaledge.msu.edu/comparator>) can compare countries across a variety of macro variables to better understand the economic changes occurring in countries
 - An effective way to statistically get an overview of the political economy and economic development by country worldwide
- BRIC (Brazil, Russia, India, and China) are considered “superstar” emerging markets, but are they that similar? The GDP adjusted for purchasing power parity is the greatest in Russia. Where do Brazil, India, and China fall?



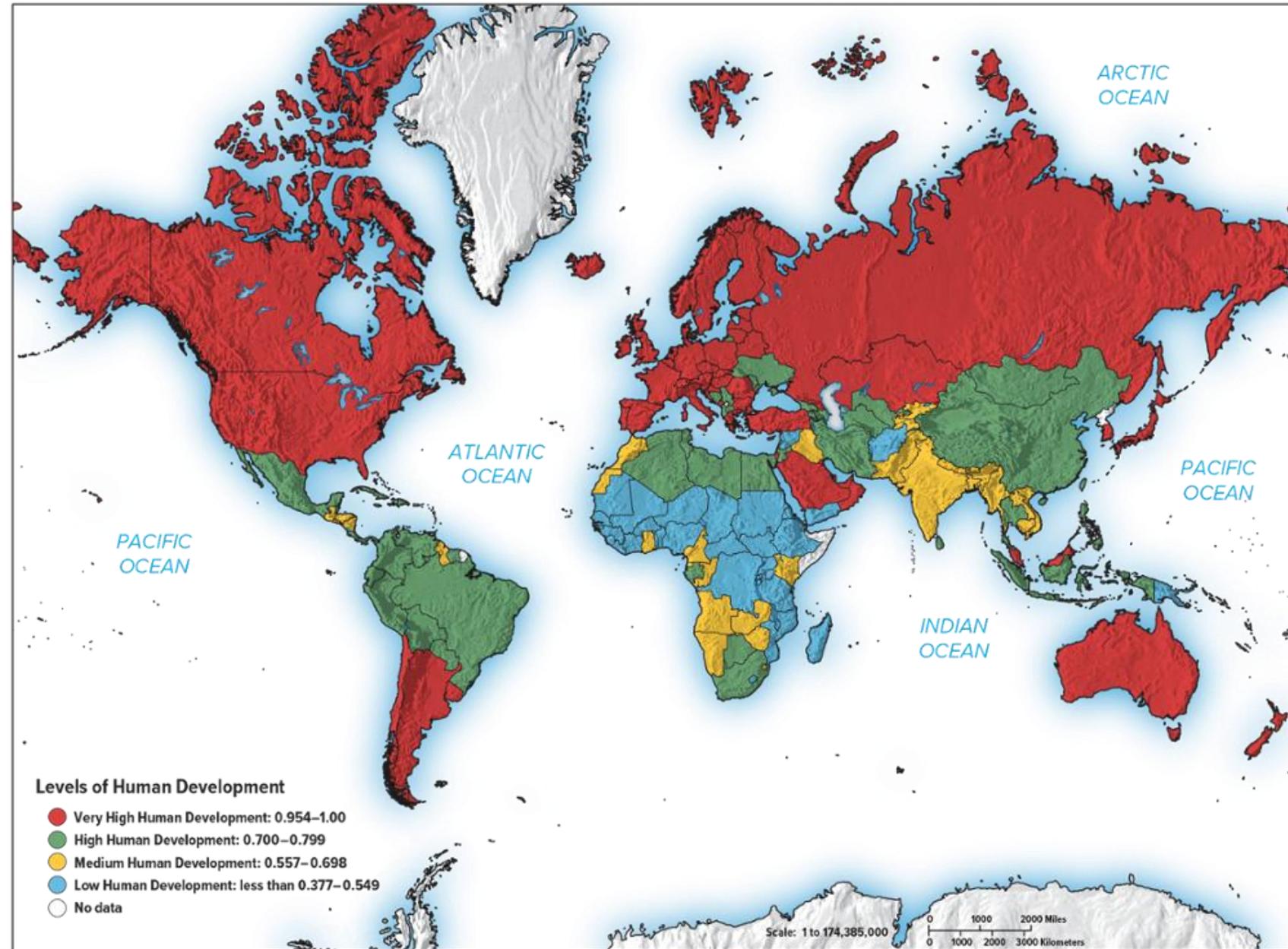
Broader Conceptions of Development

- Economist Amartya Sen argues development should be assessed less by material output and more by the capabilities and opportunities people enjoy.
- The UN created the Human Development Index (HDI) based on life expectancy, education attainment, and whether average incomes are sufficient to meet basic needs of life in a country.
 - Scaled from 0 to 1, countries scoring less than 0.5 are classified as having low human development (the quality of life is poor)

Broader Conceptions of Development



Human Development Index, 2018





Political Economy and Economic Progress

Examining the relationship
between politics and the economy

What negatively impacts freedom & development?

Poverty

Tyranny

Poor
economic
opportunities

Corruption

Inefficient
state-run
enterprises

Excessive
regulation

Poor
infrastructure

Contributing Factors to Economic Development

1. Entrepreneurship

2. Market-Based Economies

3. Strong Property Rights

4. Required Political System

5. Geography, Education, Demographics

1 Entrepreneurship

- For a country to sustain long-term economic growth, the business environment needs to be conducive to innovation and entrepreneurial activity.
 - **Innovation:** new products, new processes, new organizations, new management practices, and new strategies.
 - **Entrepreneurs:** first to commercialize innovative new products and processes.

Why do you think entrepreneurship contributes to economic growth?

2

Market-Based Economies

- Market-Based economies have low barriers, low government intervention, and ease in doing business.
 - **Example:** Is it easy to start a business in Canada?
- Innovation and Entrepreneurship require a Countries with high economic freedom have high economic growth and richer citizens.
 - Hong Kong, Switzerland, Singapore, U.S., Canada, and Germany
 - Countries that lack economic freedom fail to achieve strong economic growth

Correlation: As economic freedom falls, GDP falls

3

Strong Property Rights

- Innovation and Entrepreneurship Require Strong Property Rights
- Individuals and businesses must have opportunity to profit from their innovative ideas.
 - Economist Hernando de Soto argues developing world will not benefit from capitalism until property rights are better defined and protected.



Read: Country Focus – Page 75
Property Rights in China



4

Required Political System

- Democratic regimes tend to be better at achieving long-term economic growth than dictatorships.
 - Reason: Limiting human freedom suppresses human development and therefore limits economic progress.
- This is not always true: some of the fastest growing economies of the past 40 years began as undemocratic governments
 - **Examples:** China, Singapore, and Hong Kong.
 - Moreover, democracy is sometimes a consequence of economic growth
 - **Examples:** South Korea & Taiwan

An economy-focused government that doesn't limit human freedom often achieves economic growth, regardless of political structure.

5

Geographic, Education, Demographics

Geography

- Certain countries are better placed geographically to benefit from trade, natural resources in their territory, etc.

Education

- Countries that invest in education promote faster economic development as seen in the HDI.

Demographics

- Young, older, and growing vs. shrinking populations can also impact economic growth.



States in Transition

Examining shifting economies and political systems over the past 50 years

States in Transition - Politics

- Three Trends in Political Economy Since Late 1980s

A wave of democratic revolutions swept the world and many previous totalitarian regimes collapsed.

A move away from centrally planned and mixed economies towards free markets.

A shift back toward greater authoritarianism in some nations and signs of a retreat from the free market model.

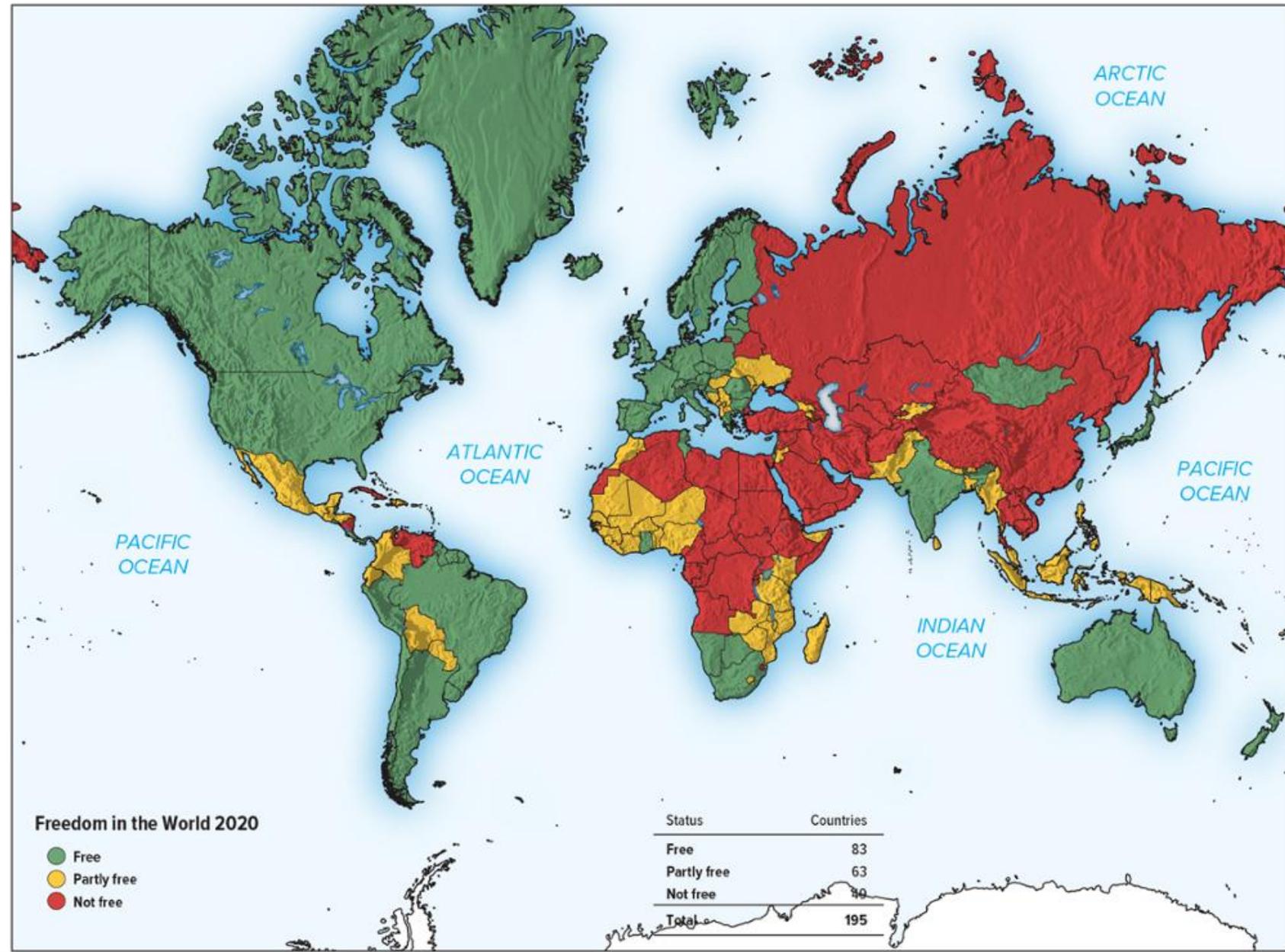
Why has democracy spread?

Many totalitarian regimes failed to deliver economic progress to majority of population.

New information and communication technologies have broken down ability of state to control access to uncensored information.

Economic advances of last quarter century led to increasingly prosperous middle and working classes who pushed for democratic reforms.

Freedom in the World, 2020



States in Transition - Economy

- Since the late 1980s there has been a transformation from centrally planned command economies to market-based economies
 - Command and mixed economies failed to deliver the sustained economic performance achieved by countries that had adopted market-based systems
 - Many countries shifted to a market-based system

Economic Transformation is Caused By...

Deregulation



- Removing legal restrictions to the free play of markets.
- Facilitating establishment of private enterprises.
- Removing price controls.

Privatization



- Transferring ownership of state property to private individuals.
- Does not guarantee economic growth.
- Example:** Air Canada used to be government-owned.

Legal Systems



- Laws protect private property rights help to enforce contracts.
- Lack of laws leaves no incentive to engage in economic activity.



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