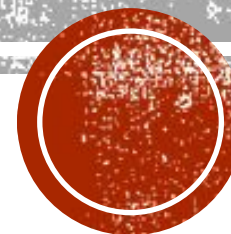


# WORLD ECONOMICS: MEANING OF DEVELOPMENT

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# DEVELOPMENT

- What is the difference between growth and development?
  - **Economic growth** means an increase in real national income / national output.
  - **Economic development** means an improvement in the quality of life and living standards, e.g. measures of literacy, life-expectancy and health care.
  - Ceteris paribus, we would expect economic growth to enable more economic development. Higher real GDP enables more to be spent on health care and education.
  - However, the link is not guaranteed. The proceeds of economic growth could be wasted or retained by a small wealthy elite.



# DEVELOPED AND DEVELOPING COUNTRIES

- The primary factor used to distinguish developed countries from developing countries is gross domestic product (GDP) per capita, a figure calculated by dividing a country's GDP by its population.
- One unofficial threshold for a country with a developed economy is a GDP per capita of \$12,000. Some economists prefer to see a per capita GDP of at least \$25,000 to be comfortable declaring a country as developed, however. Many highly developed countries, including the United States, have high per capita GDPs of \$40,000 or above.



# DIFFERENCES BETWEEN DEVELOPED AND DEVELOPING COUNTRIES

Exceeding even the \$12,000 GDP does not automatically qualify a country as being developed. Developed countries share several other characteristics:

- They are highly industrialized.
- Their birth and death rates are stable. They do not have excessively high birth rates because, thanks to quality medical care and high living standards, infant mortality rates are low. Families do not feel the need to have high numbers of children with the expectation that some will not survive. No developed country has an infant mortality rate higher than 10 per 1,000 live births. In terms of life expectancy, all developed countries boast numbers greater than 70 years; many average 80.
- They have more women working, particularly in high-ranking executive positions. These career-oriented women frequently choose to have smaller families or eschew having children altogether.
- They use a disproportionate amount of the world's resources, such as oil. In developed countries, more people drive cars, fly on airplanes, and power their homes with electricity and gas. Inhabitants of developing countries often do not have access to technologies that require the use of these resources.
- They have higher levels of debt. Nations with developing economies cannot obtain the kind of seemingly bottomless financing that more developed nations can.



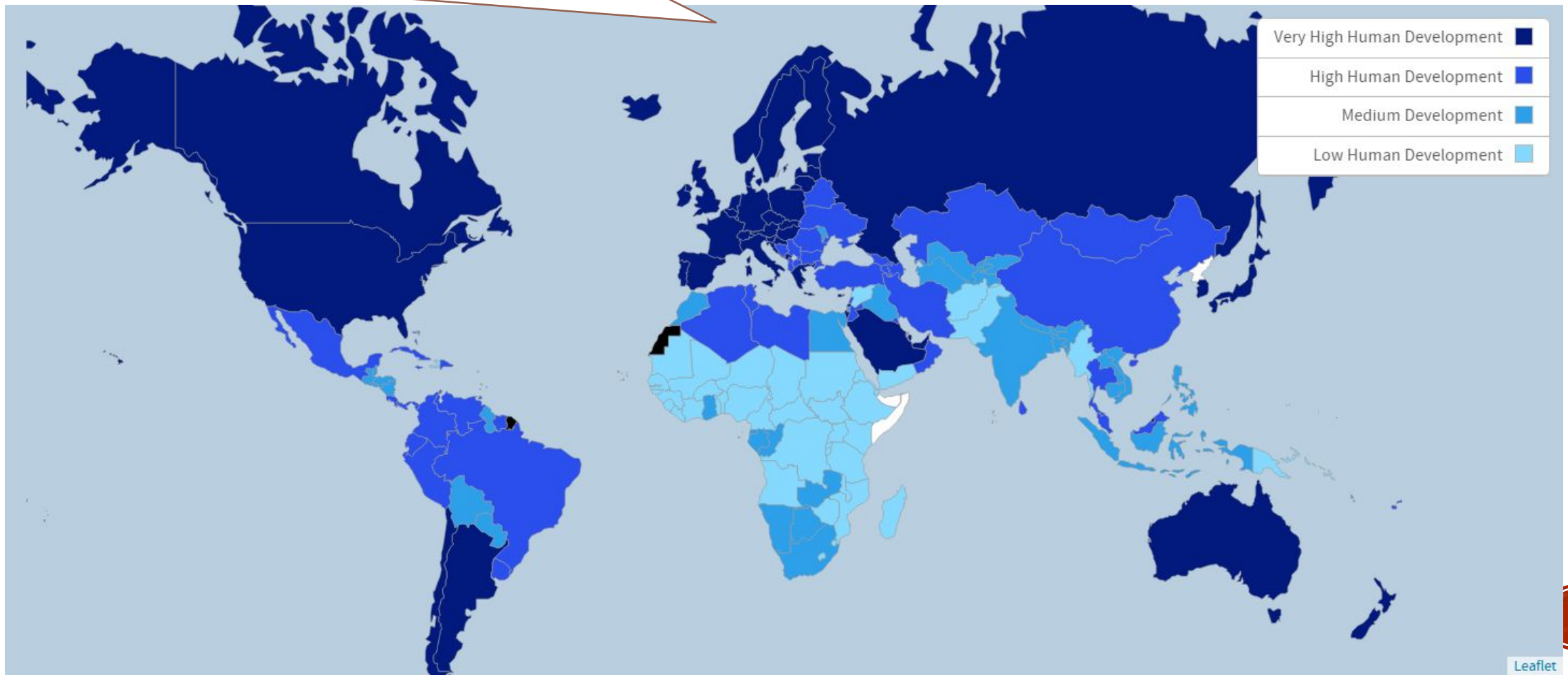
# HOW TO MEASURE DEVELOPMENT

Institutions measure a country's level of development in many different ways. For instance, the United Nations has few conventions for distinguishing between "developed" and "developing" countries, while the World Bank makes specific distinctions using gross national income (GNI) per capita, although other analytical tools may be used in the process.

- The **International Monetary Fund's** (IMF) definition is often considered to be the most comprehensive measure since it takes into account per capita income, export diversification, and the degree of integration into the global financial system. In 2011, the organization published a research report on the topic of classification titled "Classification of Countries Based on Their Level of Development" that outlines its methodologies for classifying a country's level of development.
- The **World Bank** has a much more concrete methodology as it considers countries with per capita income of less than US\$12,275 as "developing" countries. But the organization also divides these developing countries into numerous income classes, ranging from low-income to upper-middle-income countries, meaning there are other gray areas for international investors to consider.
- There are no **WTO** definitions of "developed" and "developing" countries. Members announce for themselves whether they are "developed" or "developing" countries.



Another measuring device: the **HUMAN DEVELOPMENT INDEX** (HDI) developed by the United Nations as a metric to assess the social and economic development levels of countries. It quantifies life expectancy, educational attainment and income into a standardized number between 0 and 1; the closer to 1, the more developed the country. No minimum requirement exists for developed status, but most developed countries have HDIs of 0.8 or higher.





# TYPICALLY RECOGNIZED DEVELOPING COUNTRIES

- Different organizations use different measures to determine how companies are classified, but a few common denominators appear in the mix. For instance, the so-called BRICS are generally considered developing countries and comprise Brazil, Russia, India, China, and South Africa, but examples of common developing countries go far beyond these popular emerging markets.
- Some other countries that appear on include the following:
  - Argentina.
  - Chile.
  - Malaysia.
  - Mexico.
  - Pakistan.



# WHO NEEDS CLASSIFICATIONS OF COUNTRIES TO DEVELOP AND DEVELOPING

International investors often classify countries around the world based on their level of economic development. These classifications are based on a number of economic and social criteria, ranging from per capita income to life expectancy to literacy rates.

These classifications are

- Developed countries,
- Developing countries,
- Less developed countries and
- Emerging markets





# WHAT ARE FRONTIER & EMERGING MARKETS?

## Frontier and emerging markets

- spanning from **Africa** to **Latin America** and beyond
- represent some of the **fastest growing economies** in the world.
- Emerging markets is a term that was coined in the 1980s to represent countries transitioning from developing to developed status. While the term is commonly used among investors, there is *no universally accepted definition of emerging markets*.
- When emerging market economies began to mature, the term frontier markets was coined to represent investable countries with lower market capitalizations and liquidity. These countries are widely considered to be the up-and-coming emerging markets, but are a bit more hazardous to investors in terms of political risk, market maturity, and transparency.





▪ The emerging markets in 2017 were:

- Brazil,
- Chile,
- China,
- Colombia,
- Czech Republic,
- Egypt,
- Greece,
- Hungary,
  
- India,
- Indonesia,



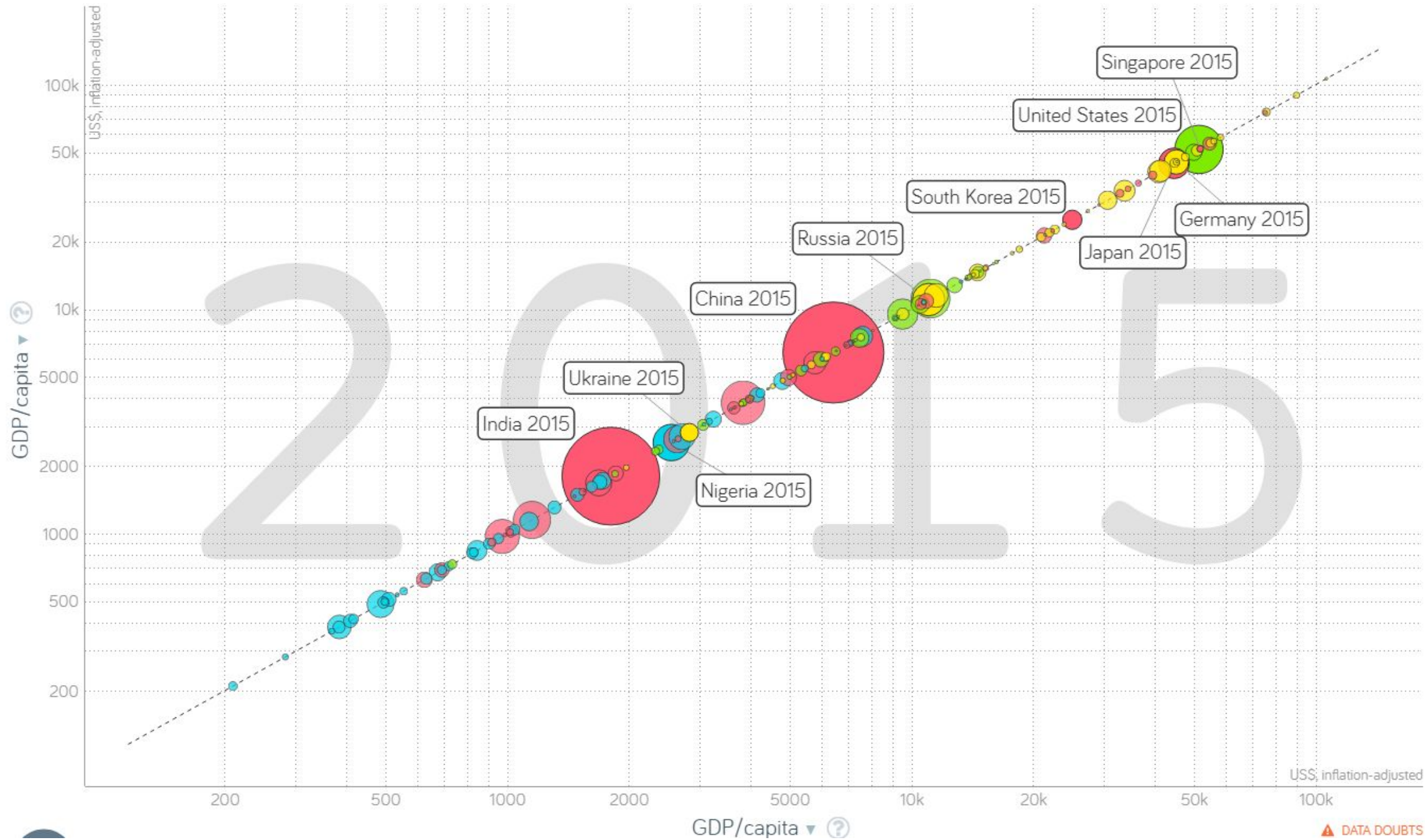
# FRONTIER MARKETS

- Frontier and emerging markets offer investors higher potential returns, but they also involve greater risk than developed countries like the United States. This attributes make them ideal for investors with a medium to long-term time horizon.
- There is no single definition of a frontier market or emerging market, but instead, there are several different indices. Many of these indices have ETFs that offer investors a quick way to diversify in these high growth markets.
- Investors looking for either more specific exposure or broader exposure have several alternatives to all-world funds.



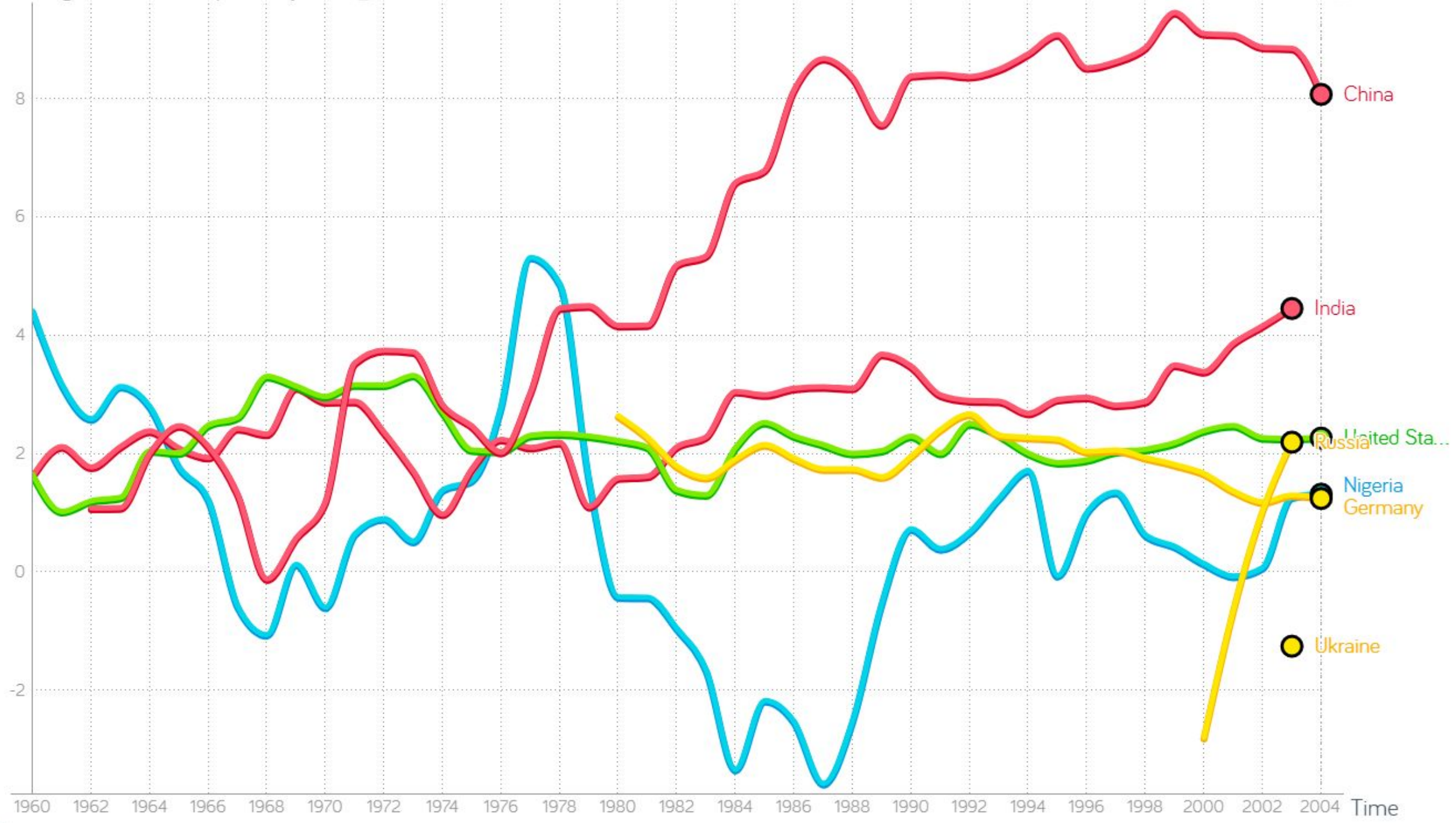
# COUNTRY CLASSIFICATION SYSTEMS IN SELECTED INTERNATIONAL ORGANIZATIONS

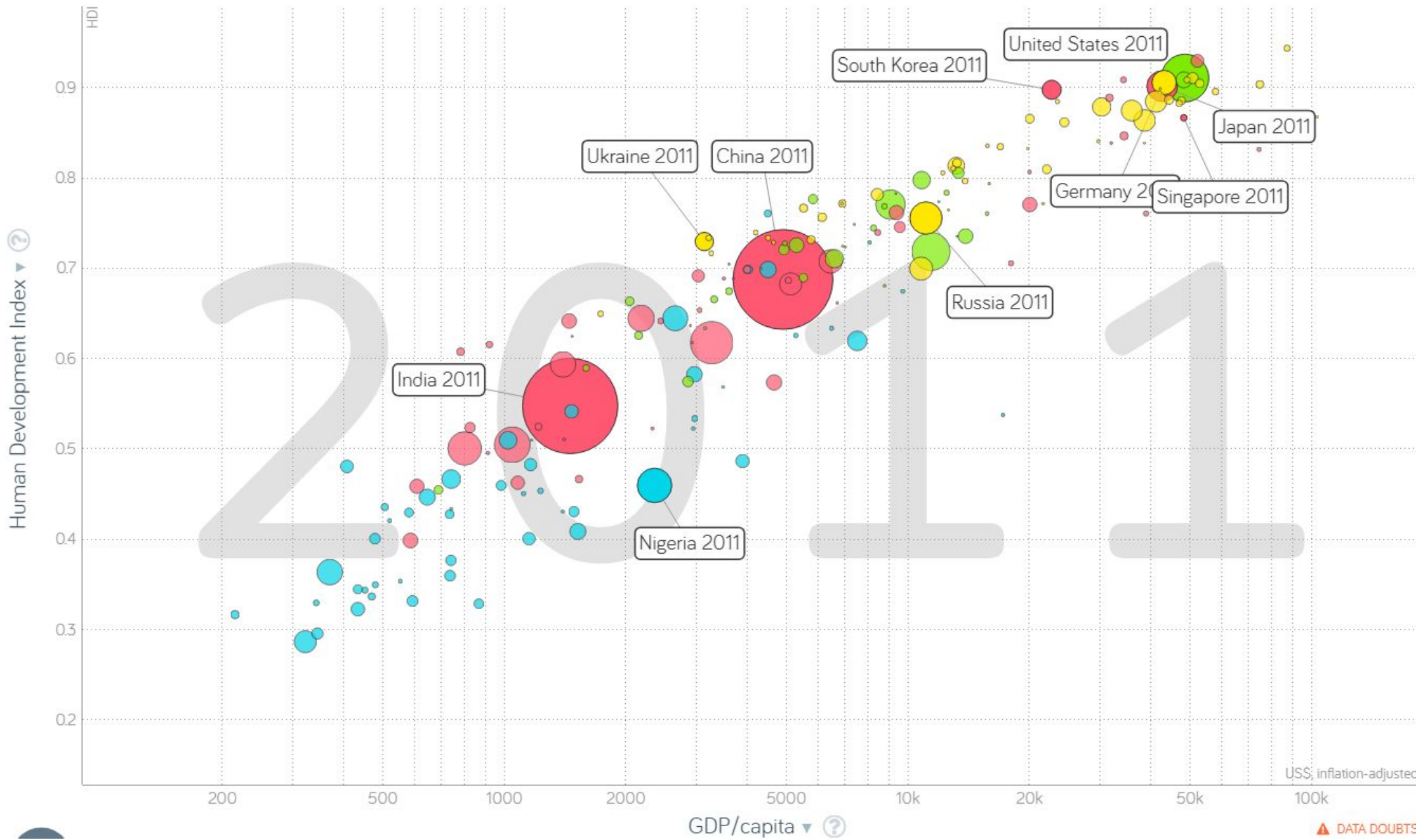
	<b>IMF</b>	<b>UNDP</b>	<b>World Bank</b>
Name of 'developed countries'	Advanced countries	Developed countries	High-income countries
Name of 'developing countries'	Emerging and developing countries	Developing countries	Low- and middle income countries
Development threshold	Not explicit	75 percentile in the HDI distribution	US\$6,000 GNI per capita in 1987-prices
Share of countries 'developed' in 1990	13 percent	25 percent	16 percent
Share of countries 'developed' in 2010	17 percent	25 percent	26 percent
Subcategories of 'developing countries'	(1) Low-income developing countries and (2) Emerging and other developing countries	(1) Low human development countries, (2) Medium human development countries, and (3) High human development countries	(1) Low-income countries and (2) Middle-income countries





Economic growth over the past 10 years ?





US\$, inflation-adjusted

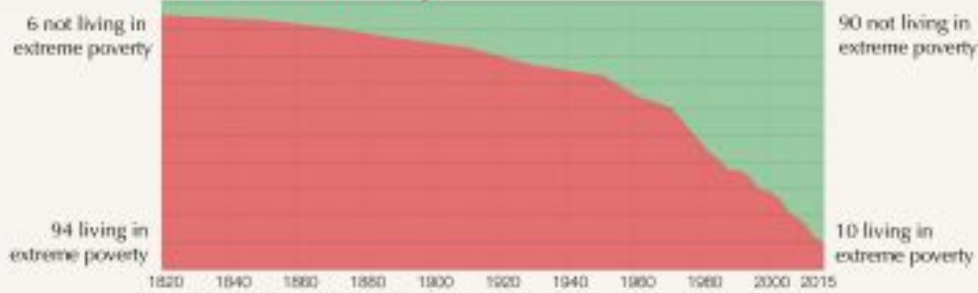
▲ DATA DOUBTS





# The World as 100 People over the last two centuries

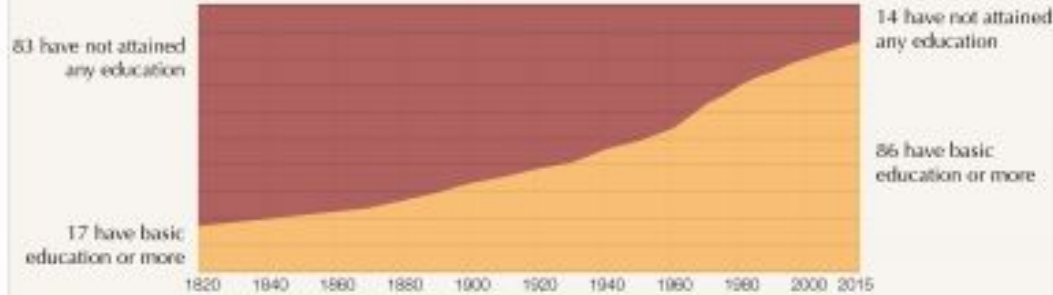
## Extreme Poverty



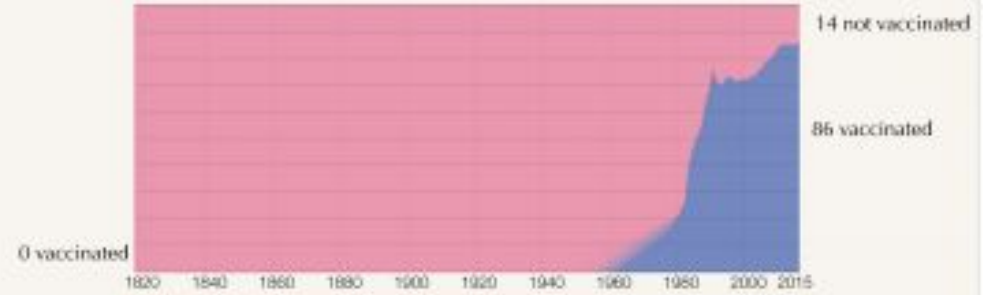
## Democracy



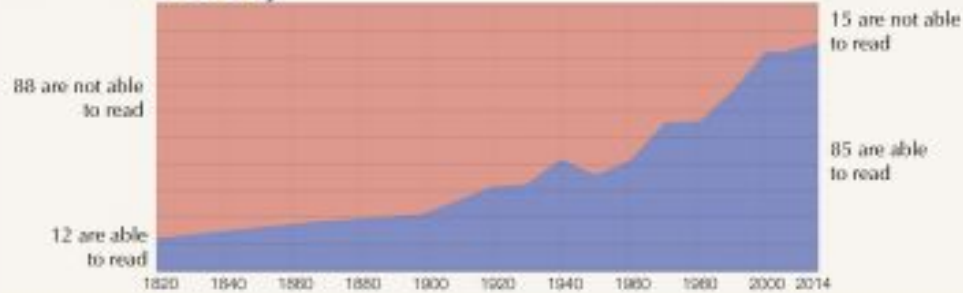
## Basic Education



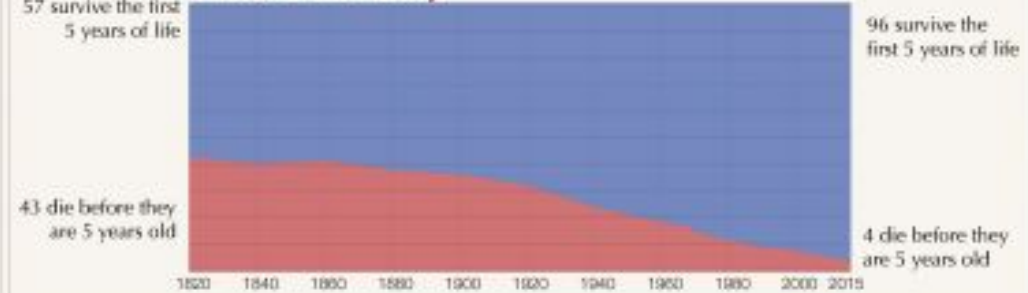
## Vaccination against diphtheria, pertussis (whooping cough), and tetanus



## Literacy



## Child Mortality



**Data sources:**

Extreme Poverty: Bourguignon & Morrison (2002) up to 1970 – World Bank 1981 and later (2015 is a projection).  
 Vaccination: WHO Global data are available for 1980 to 2015 – the DPT3 vaccination was forced in 1999.  
 Education: OECD for the period 1820 to 1950, ISASA for the time thereafter.  
 Literacy: OECD for the period 1820 to 1990, UNESCO for 2004 and later.

Democracy: Polity IV index (own calculation of global population share).  
 Colonialism: Winner and Min (own calculation of global population share).  
 Continent: HYDE database.  
 Child mortality: up to 1960 own calculations based on Gipsreider; World Bank thereafter.



All these visualizations are from OurWorldInData.org an online publication that presents the empirical evidence on how the world is changing.



# TRENDS OF MODERN

## ECONOMICS



### **Arcelor Mittal (Krivirizhstal)**

The most expensive Ukrainian privatization - \$ 5 billions

At the time of privatization – 52,000 workers



### **WhatsApp**

Company founded by Jan Koum (borne in Kyiv)

Sold for \$19 billions

At the time f sale – 57 workers



# TRENDS OF MODERN ECONOMICS



## **Wheat harvest in Ukraine**

20 million tons

Market price = 220 \$ / ton

Total = \$ 4.4 billion



## **Avatar movie**

World movie rental - \$ 2.8 billion

