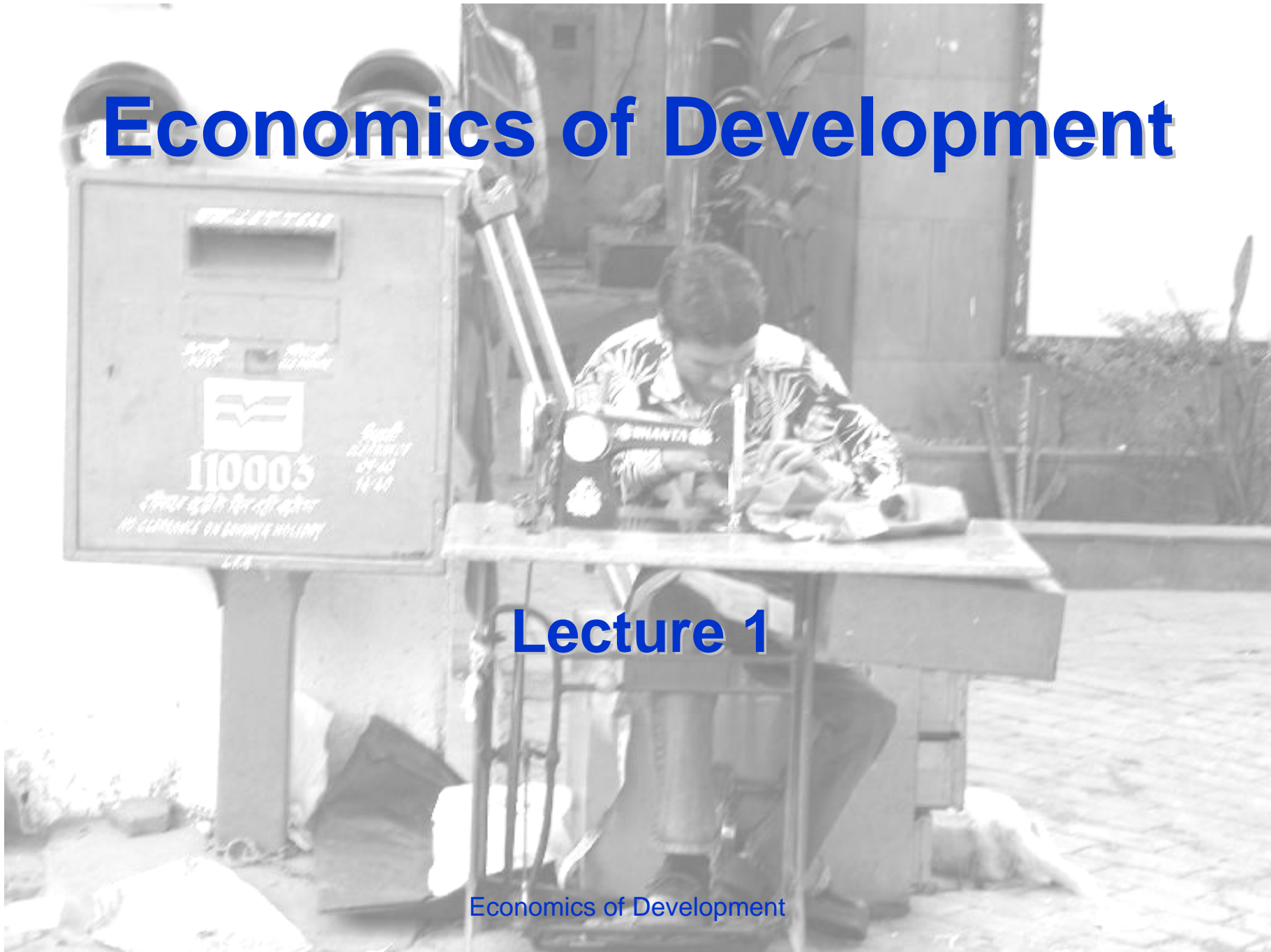


# Economics of Development



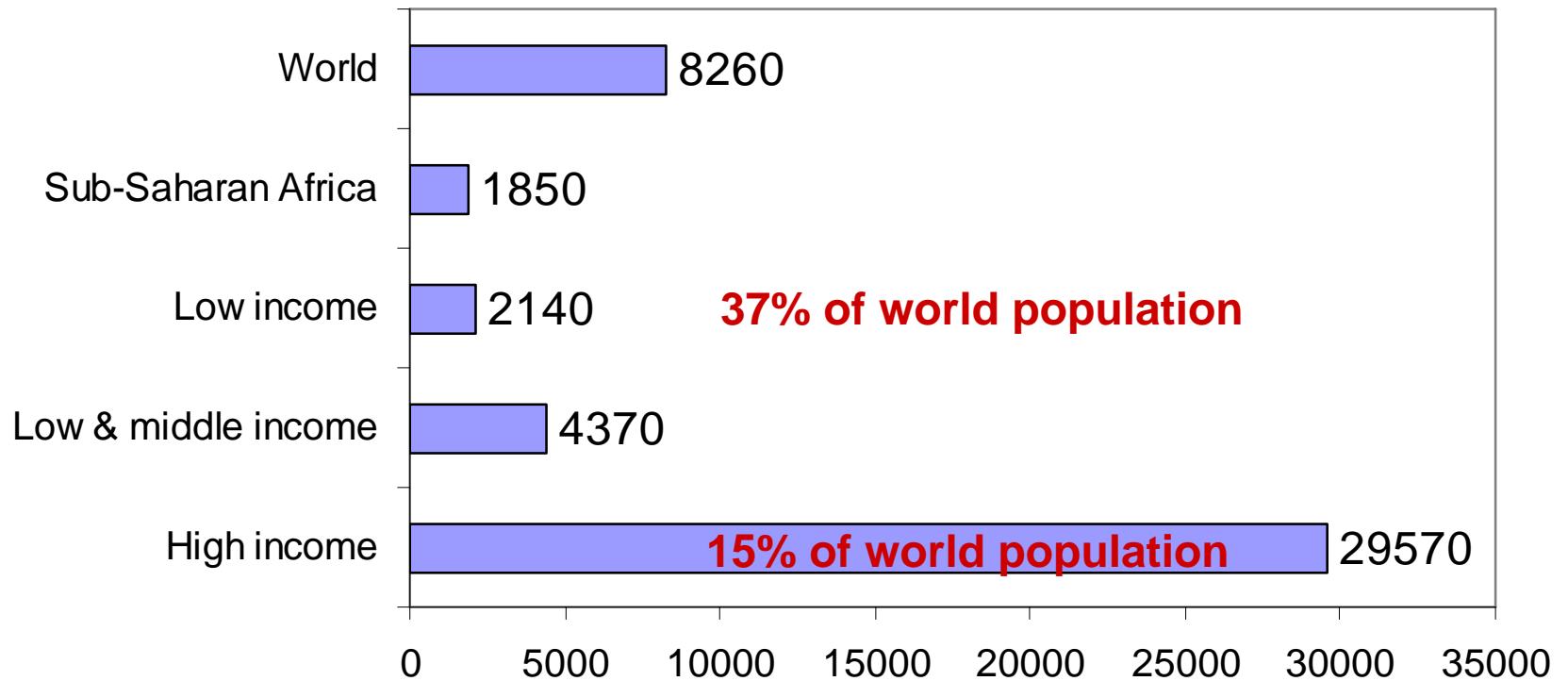
## Lecture 1

# Why care about development?

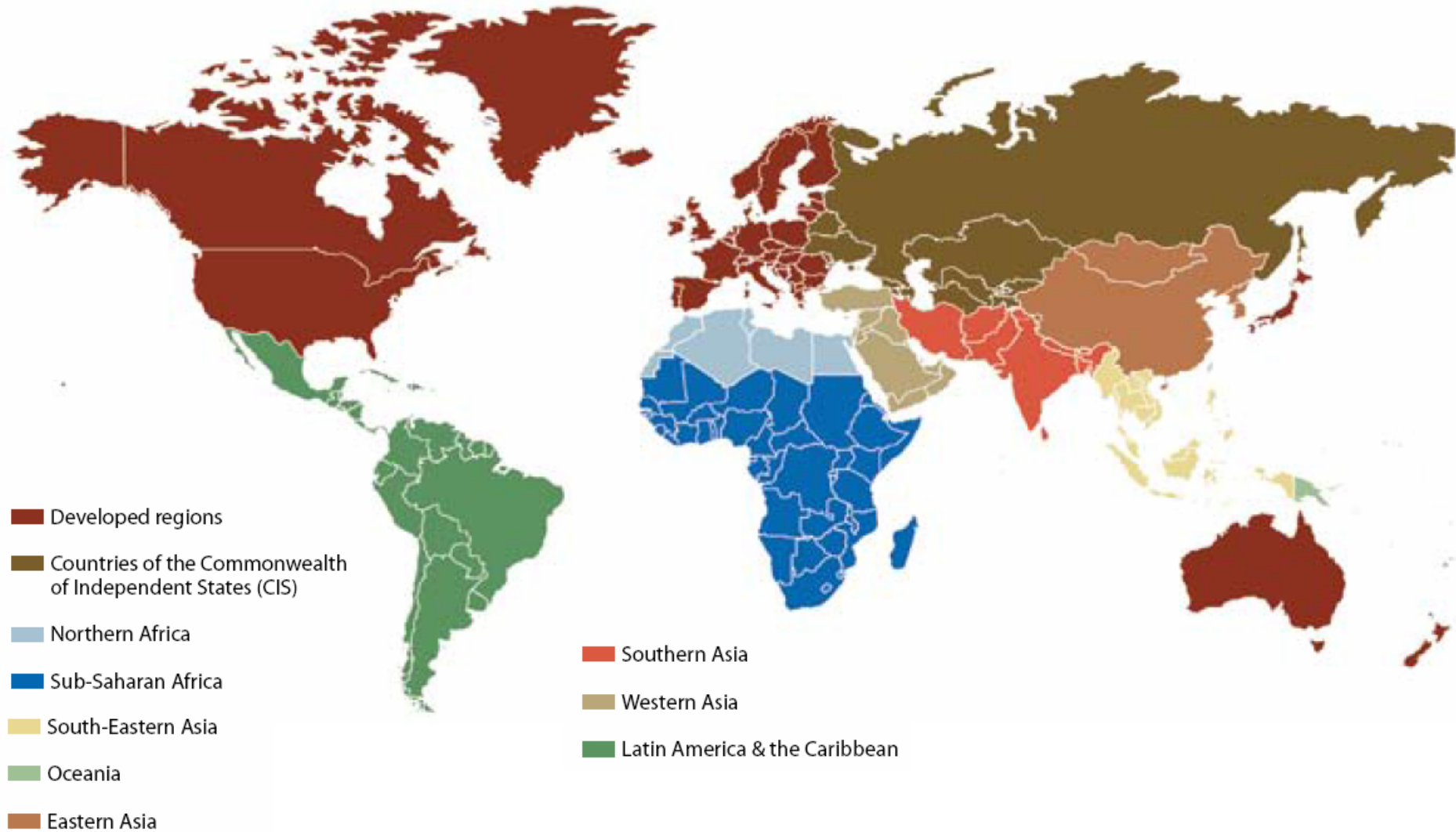
- Out of over 6 bln people less than 1 bln live in high-income countries (15.5%)
  - High-income countries: annual **\$29,570** GDP per capita (PPP) in 2003
  - What was it in all other countries? **\$4,370**
  - In countries of Sub-Saharan Africa? **\$1,850**
  - Would the gap be larger or smaller if one does not adjust for PPP?
- Robert Lucas: “The consequences for human welfare involved ... are simply staggering: Once one starts to think about them, it is hard to think about anything else.”
  - We care about GDP growth because it alleviates poverty
  - Poverty is dying babies, starving children, oppressed women, and a lot of other miseries...

# Differences in GDP pc are striking

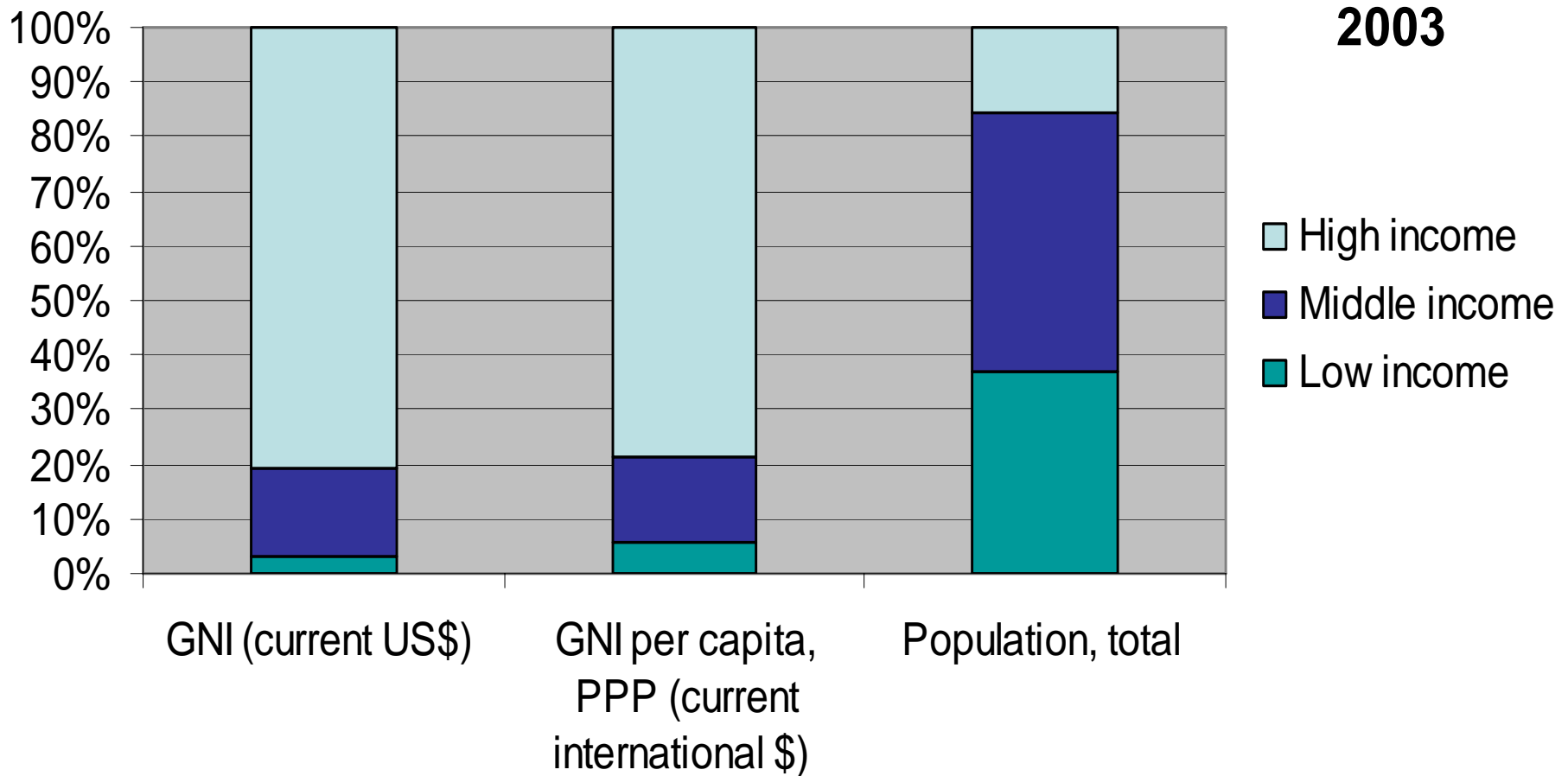
**GDP per capita, PPP (current international \$) 2003**



# Regional Groupings



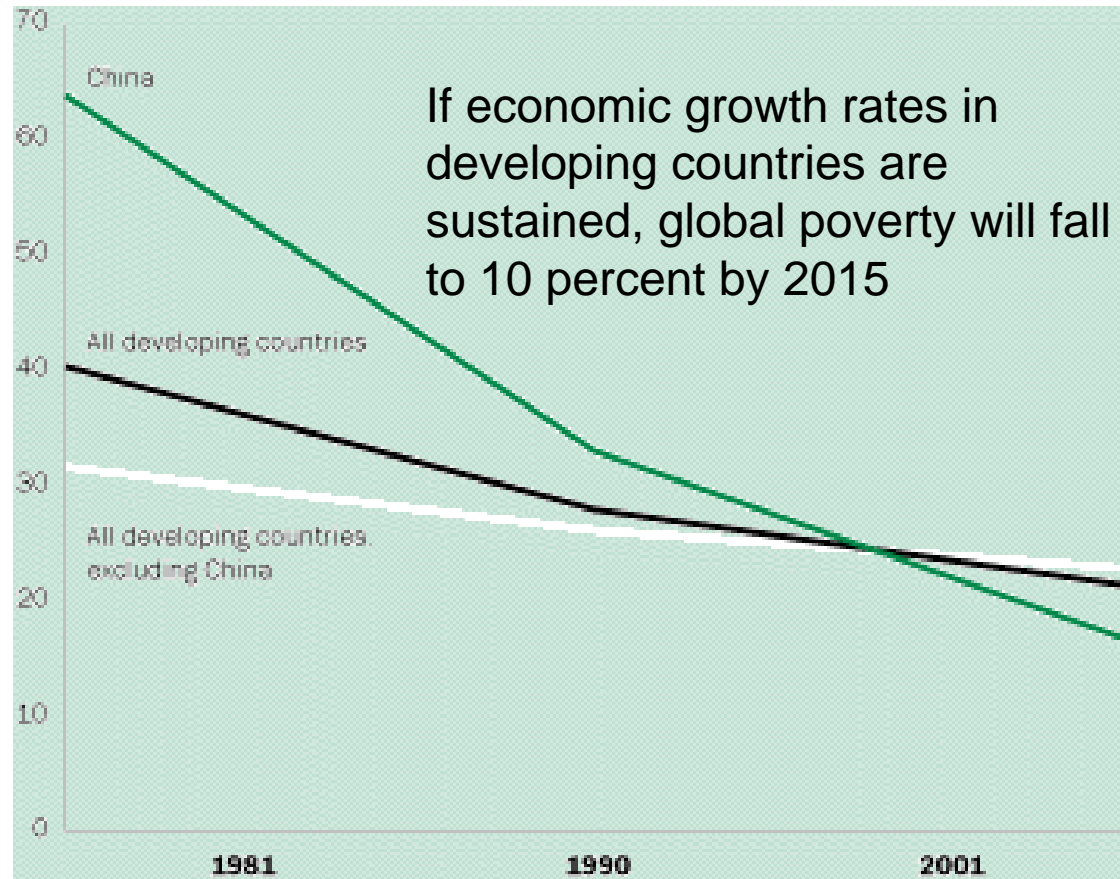
# High income countries produce (and consume) 80% world income



# Poor countries are very poor indeed

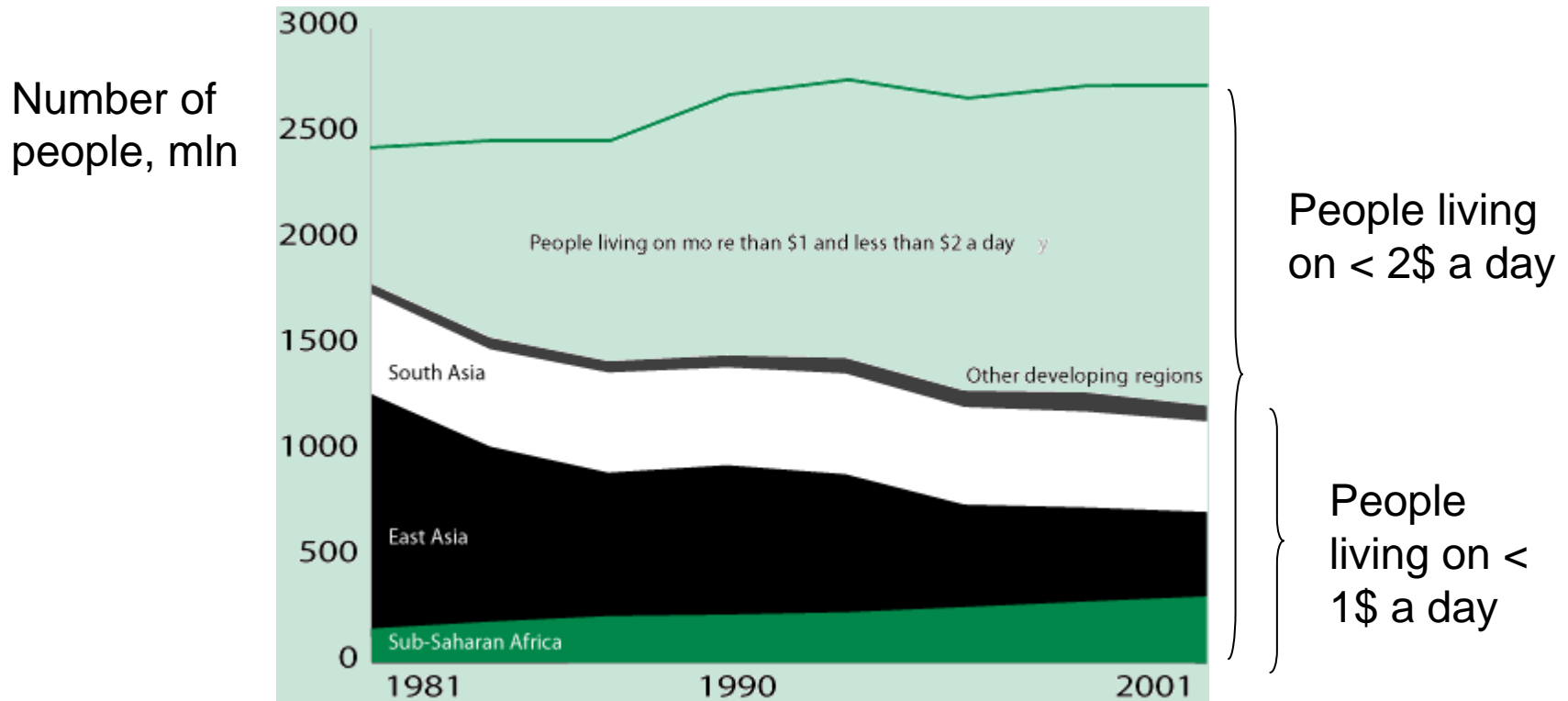
- In all developing countries, one person in five subsists on less than \$1 day (in 2003)
- There has been progress:
  - Since 1990 to 2003 extreme poverty in developing countries has fallen from 28 percent to 21 percent
    - However, over the same time their population grew 15 percent to 5 billion people, leaving 1.1 billion people in extreme poverty
- 72.8% of the population in Mali in the 1990s lived on less than \$1 a day at 1993 PPP prices
- Almost 91% in Nigeria lived under \$2 a day

# Proportion of people living on less than \$1 a day (%)



- In 1981 China was among the poorest countries, with more than 60 percent of its population living on less than \$1 a day
- China's poverty was cut in half by 1990 and in half again by 2001

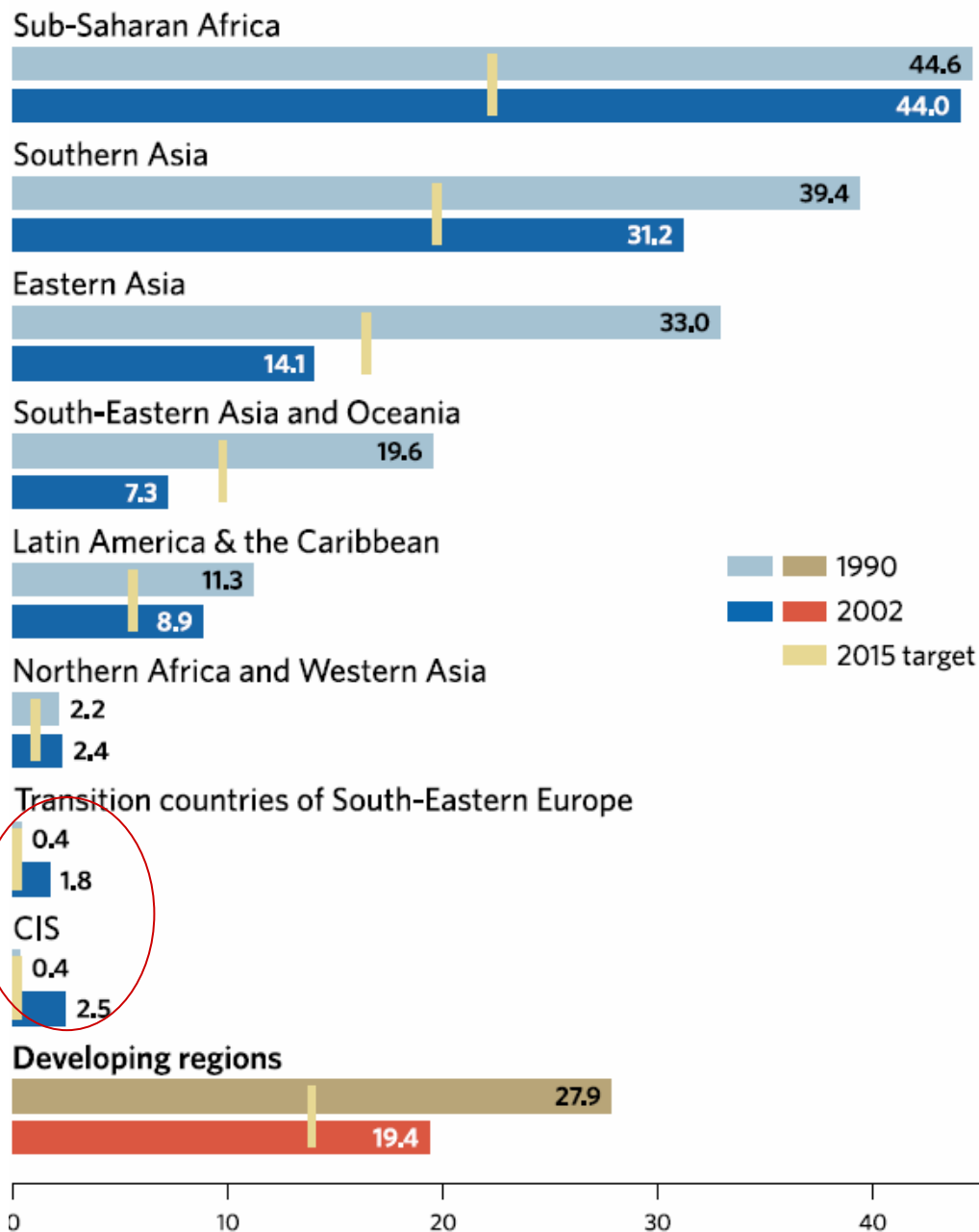
# The greatest challenge to development



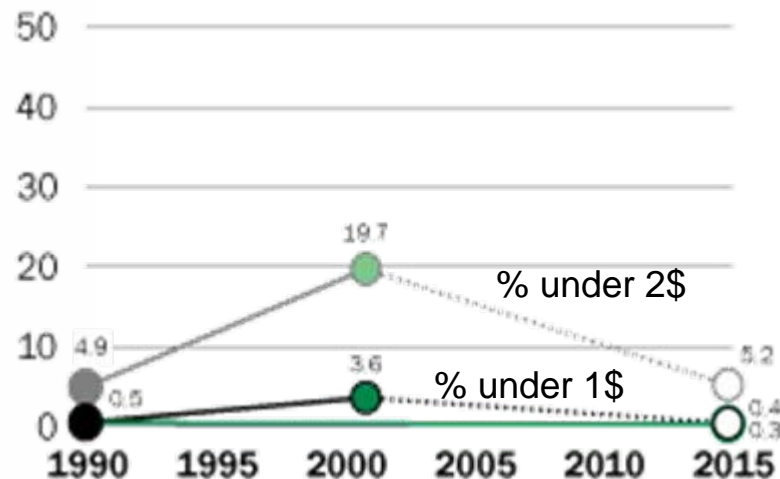
- The number of extremely poor people in Sub-Saharan Africa has almost doubled since 1981 to 313 million people in 2001 (!)
- Globally, even as poverty rates fell and the number of people living on less than \$1 a day diminished, the number living on less than \$2 a day increased from 2.4 billion in 1981 to **2.7 billion** in 2001 (!)



Proportion of people living on less than \$1 a day, 1990 and 2002  
(Percentage)



Even in percentage terms dynamics in CIS does not look great



# The 5 poorest vs. the 5 richest in 2006

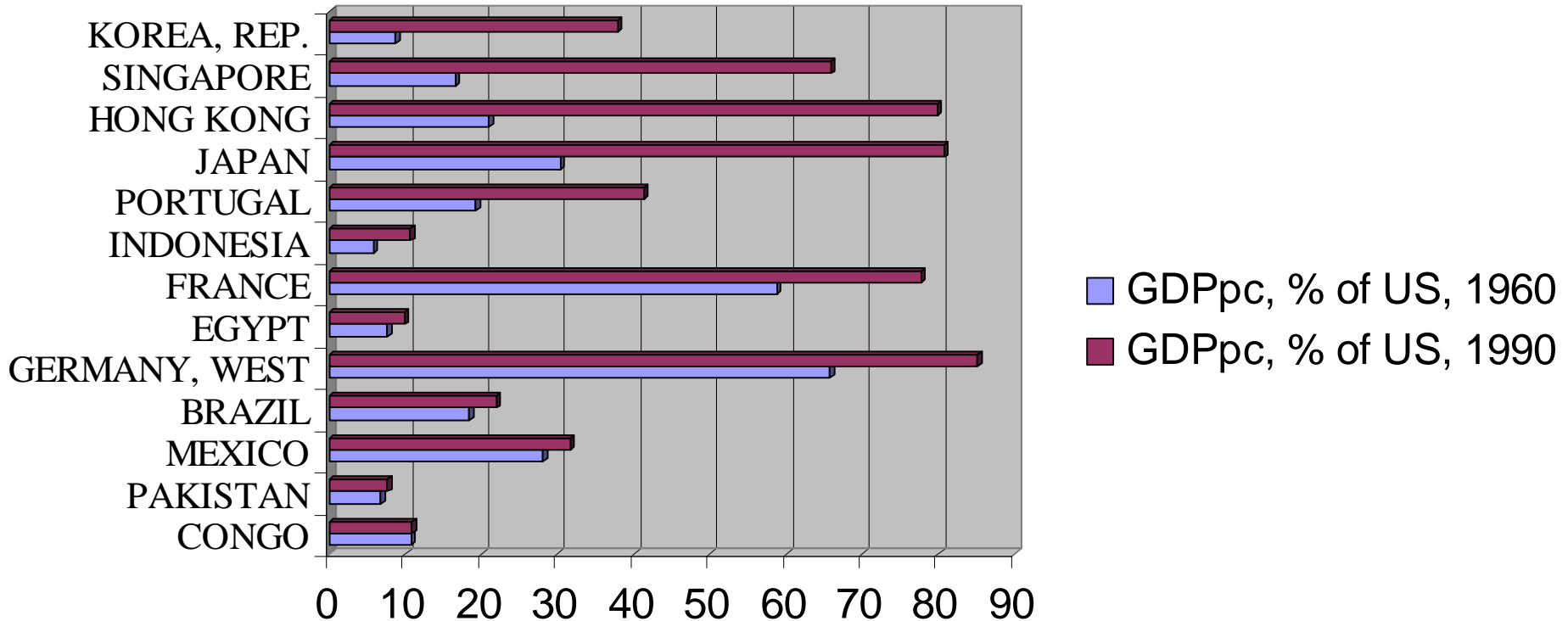
Gross domestic product based on PPP per capita GDP, US dollars

Poor:			Rich:		
1	Malawi	620	1	Luxembourg	70044
2	Democratic Republic of Congo	716	2	United States	43538
3	Republic of Yemen	755	3	Norway	43481
4	Tanzania	772	4	Ireland	42082
5	Burundi	794	5	Iceland	37913
Russia			12143		

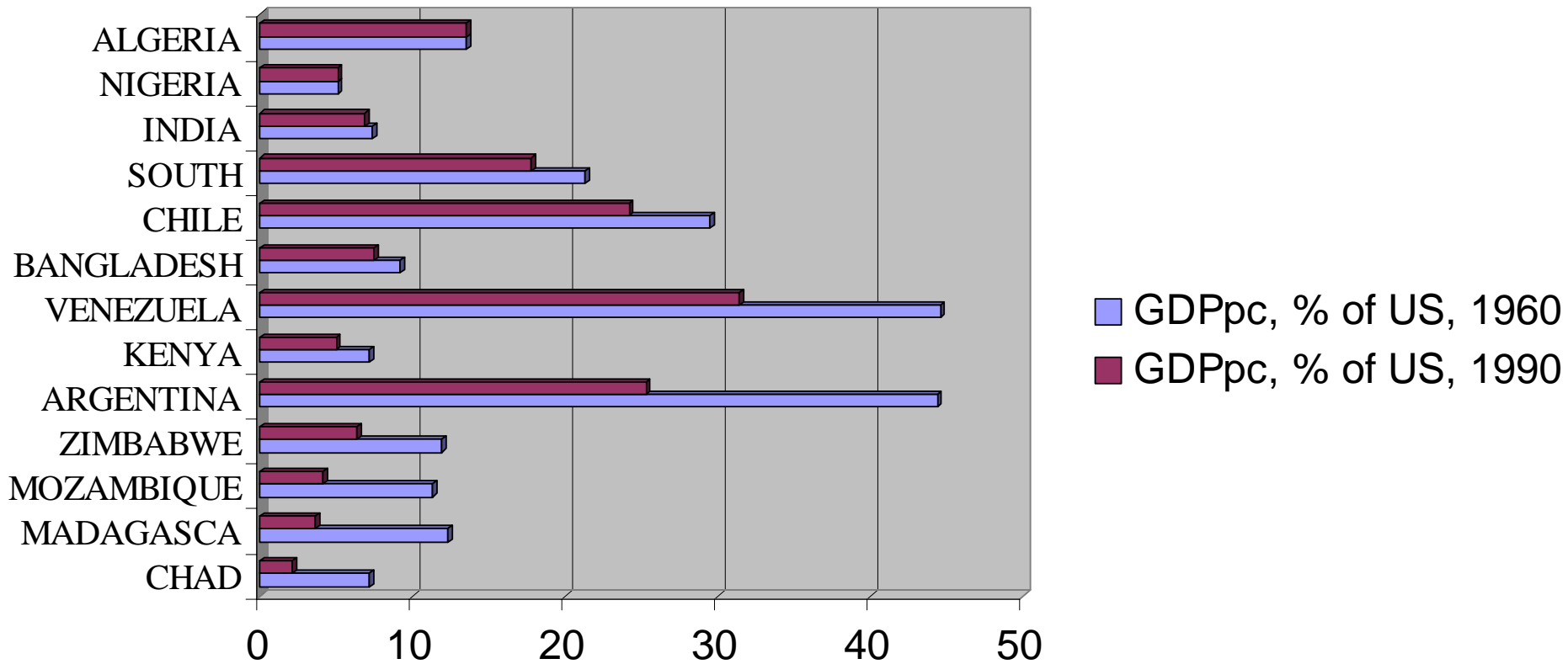
Gross domestic product per capita, current prices, US dollars

Poor:			Rich:		
1	Burundi	114	1	Luxembourg	81495
2	Democratic Republic of Congo	118	2	Norway	62332
3	Ethiopia	128	3	Switzerland	53929
4	Myanmar	154	4	Ireland	53091
5	Malawi	172	5	Iceland	52338
Russia			6143		

# Successful development is feasible ...

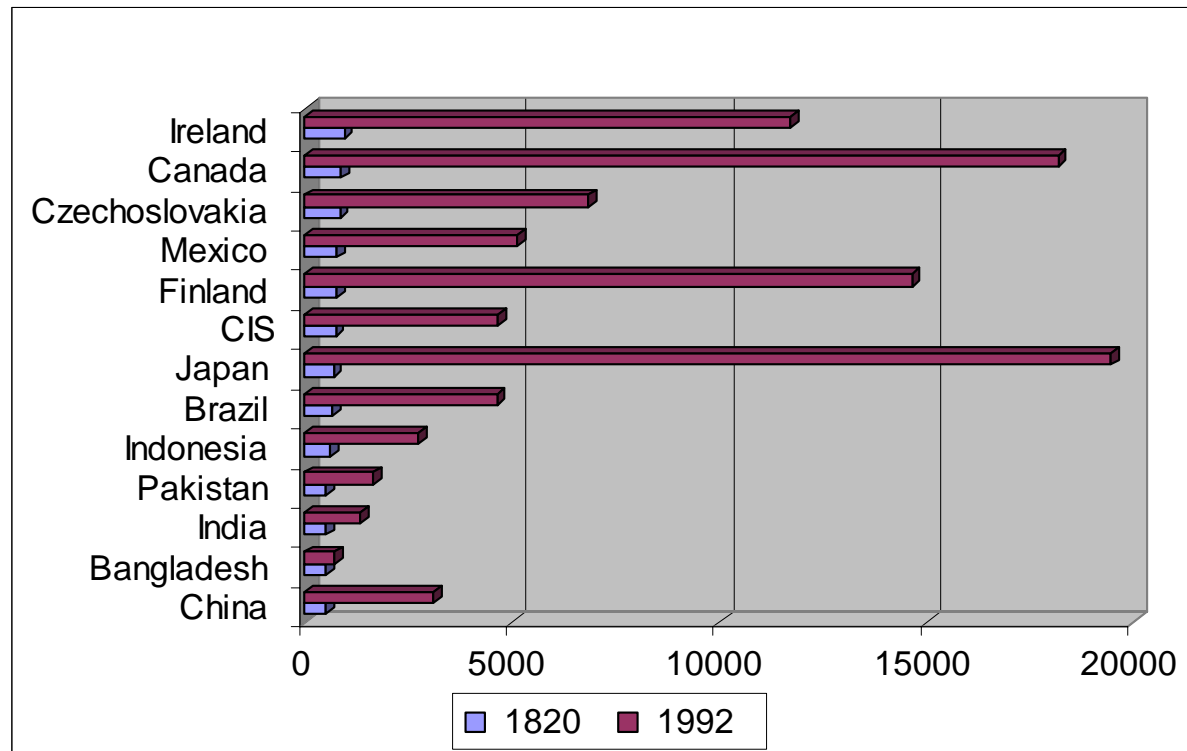


# ... but not guaranteed



# The longer view:

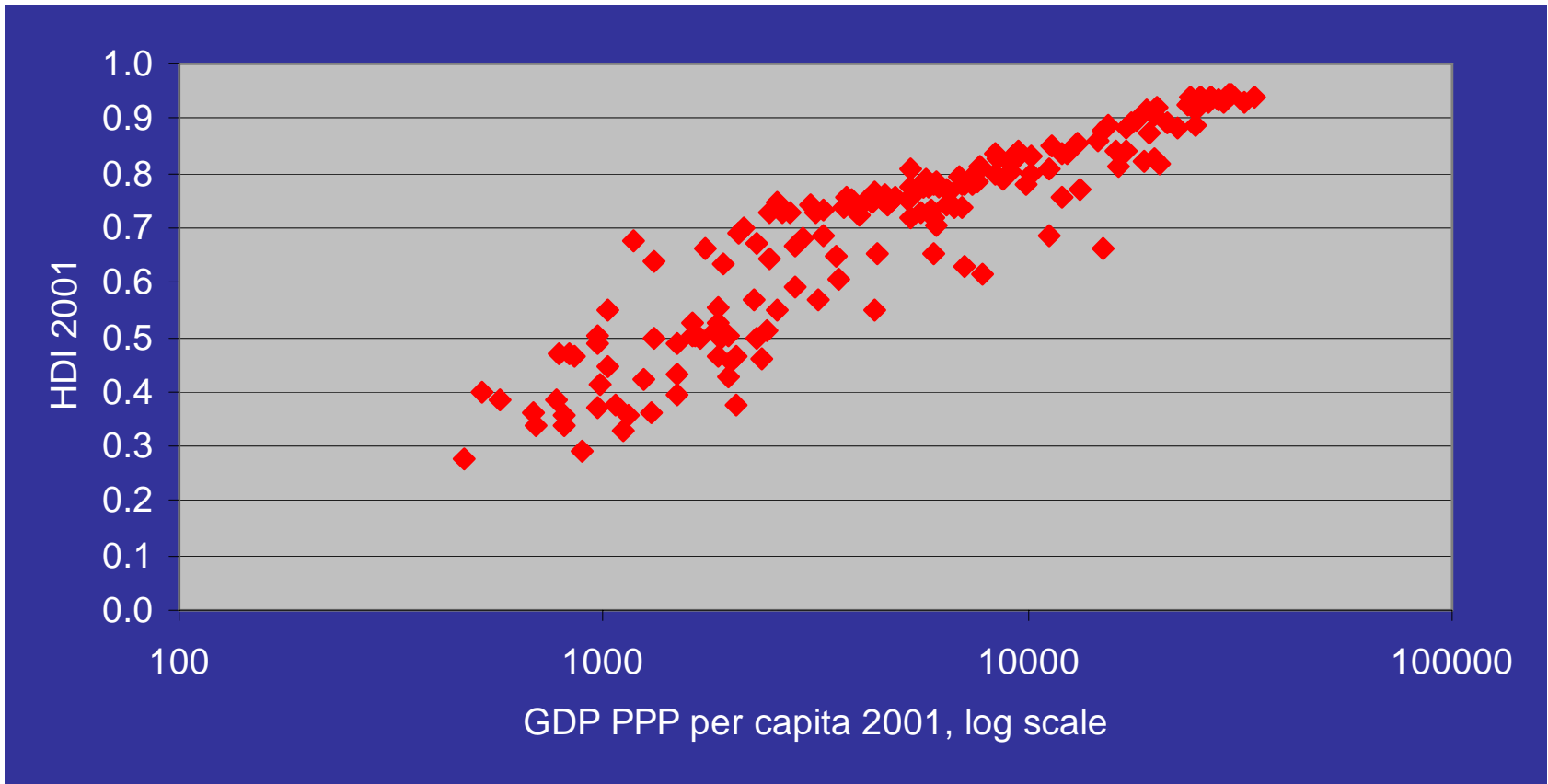
GDP per capita in 1990 International dollars for countries with initial 1820 value <1000



# Income is not the only component of development

- Amartia Sen: “Development as Freedom”
  - Humans need basic freedoms
  - This is where a citizen of RF who does not care about poor countries should get interested in development
- Other standard measures of human development
  - Education
  - Health
- Human development index (HDI):
  - Education (enrollment + literacy) + Life expectancy + GDP PPP per capita
  - Many non-OECD countries with similar incomes have very different HDI
- Still, richer countries are also the ones with higher HDI

# HDI is highly correlated with GDP



Note about heteroskedasticity...

# Insufficient income translates into...

Take a typical country in SSA in 1990s - Mali:

- 40% of the children under 5 in Mali in 1992-97 had measurable signs of malnutrition
  - 53% in India, 0 in Sweden
- Under 5 mortality rate in Mali was 235/1000 in 1997
  - 286 in Sierra Leone, 6 in Norway
- Life expectancy at birth for males was 49 years in Mali
  - 36 years in Sierra Leone, 77 in Sweden
- 72% of adult females were illiterate in Mali in 1997
  - 93% in Niger, 0 in Sweden
- Since then, there has been a lot of progress



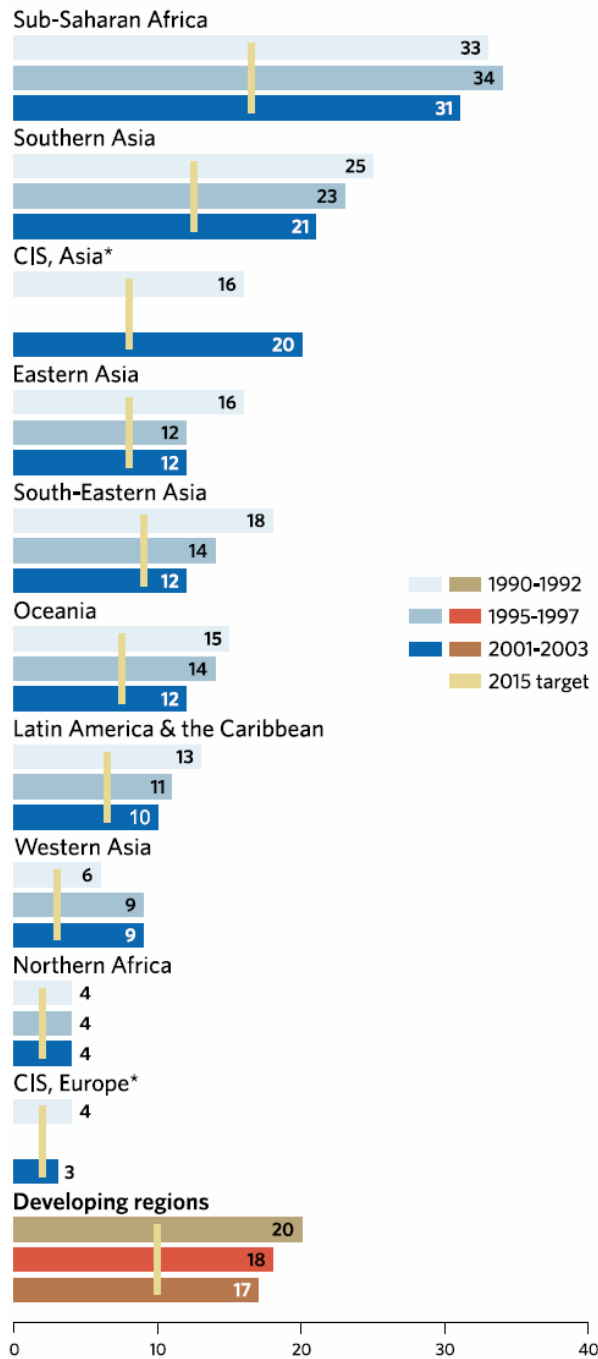
Now:

11,000,000 pop

240 GNI



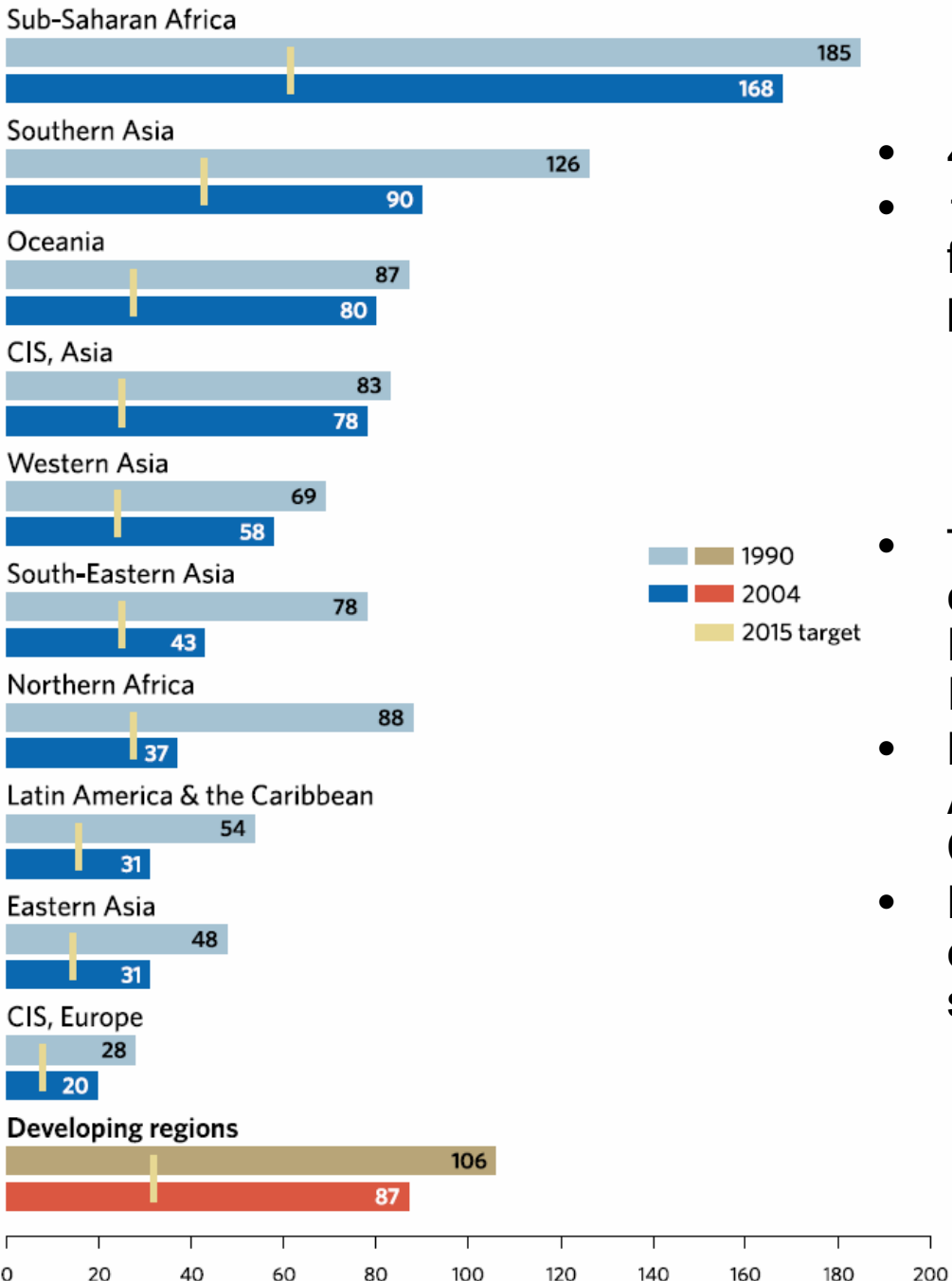
Proportion of people living with insufficient food  
1990-1992, 1995-1997 and 2001-2003 (Percentage)



# 824 million people in the developing world experienced chronic hunger in 2003

- Even though the percent of people going hungry is decreasing, the absolute number of people is increasing

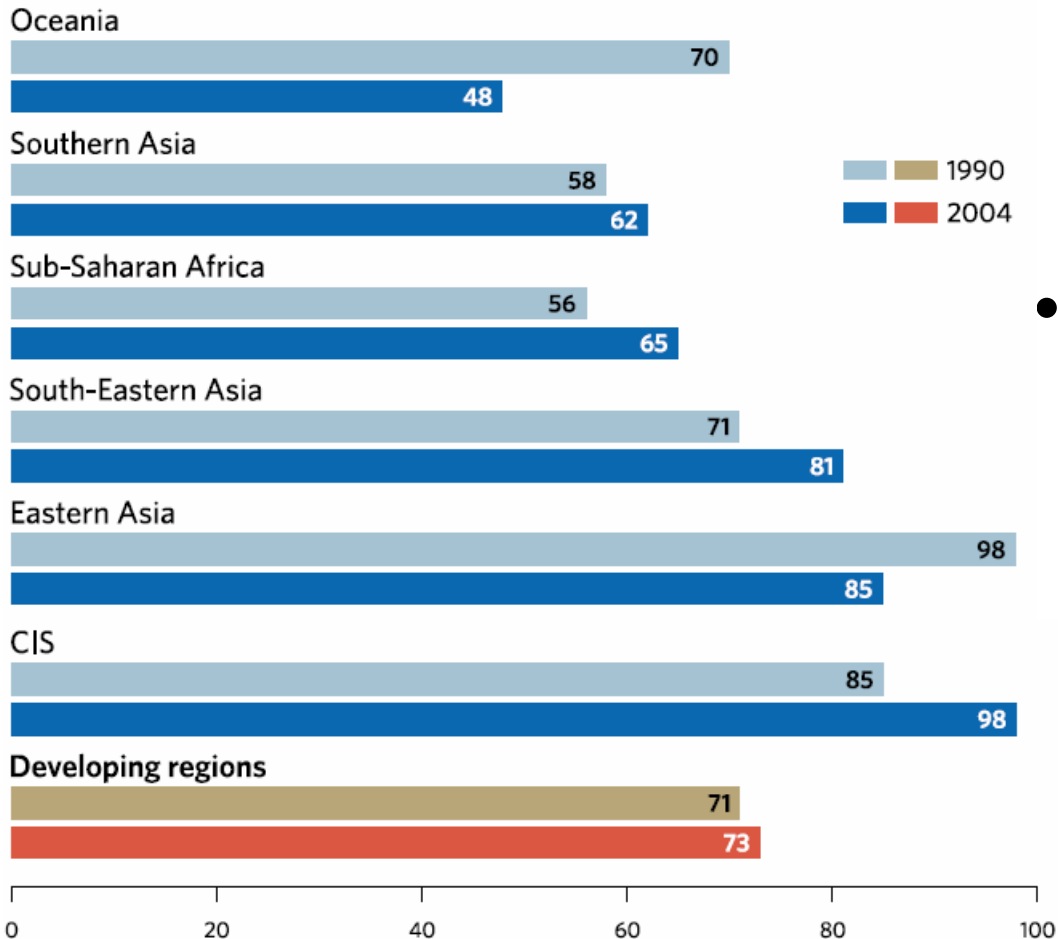
Under-five mortality rate per 1,000 live births, 1990 and 2004



- 4 out of 1000 typical for rich countries
- 10.5 million children died before their fifth birthday in 2004 – mostly from preventable causes, i.e.:
  - 2 mln of dehydration from diarrhea
  - 2 mln of measles, pertussis, polio, diphtheria, tetanus (because of no immunization)
- Two thirds of the world’s unprotected children live in six countries: China, the Democratic Republic of the Congo, India, Indonesia, Nigeria and Pakistan
- Much progress in South Asia, North Africa, and Latin America & the Caribbean
- Higher household incomes and education for mothers doubles child survival

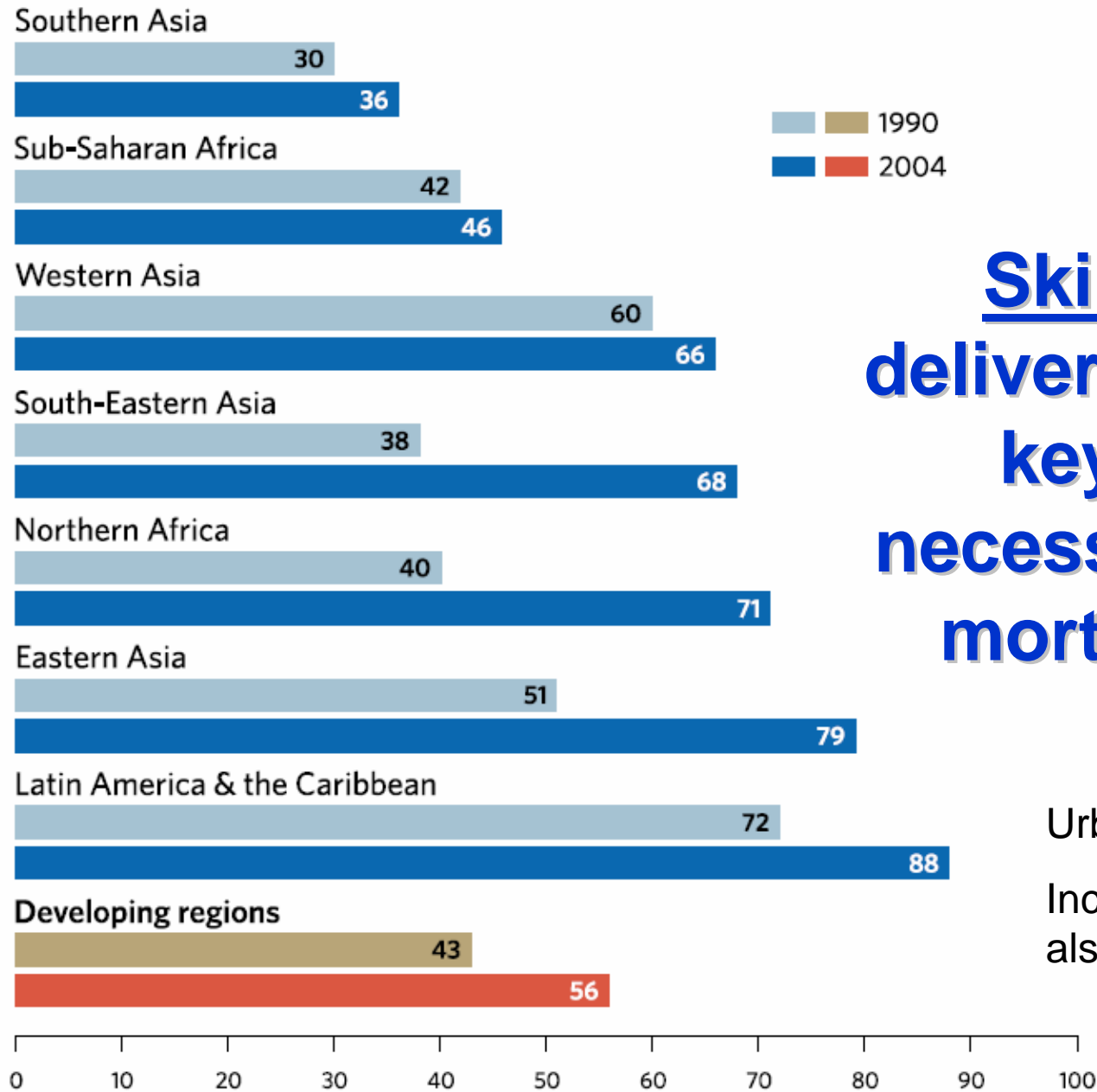
# Measles kills close to half a million children each year

Percentage of children (12-23 months old) immunized against measles, 1990 and 2004 (Percentage)



- The vaccination of three quarters of the world's children has proven to be one of the most cost-effective public health interventions on record
- Disparities in child deaths are pronounced within countries
  - Survival rates for children of mothers with at least a secondary education are twice as high
  - Children living in the wealthiest 20 % of households are twice as likely to survive as those in the poorest 20 % of HH

Proportion of deliveries attended by skilled health care personnel, 1990 and 2004 (Percentage)

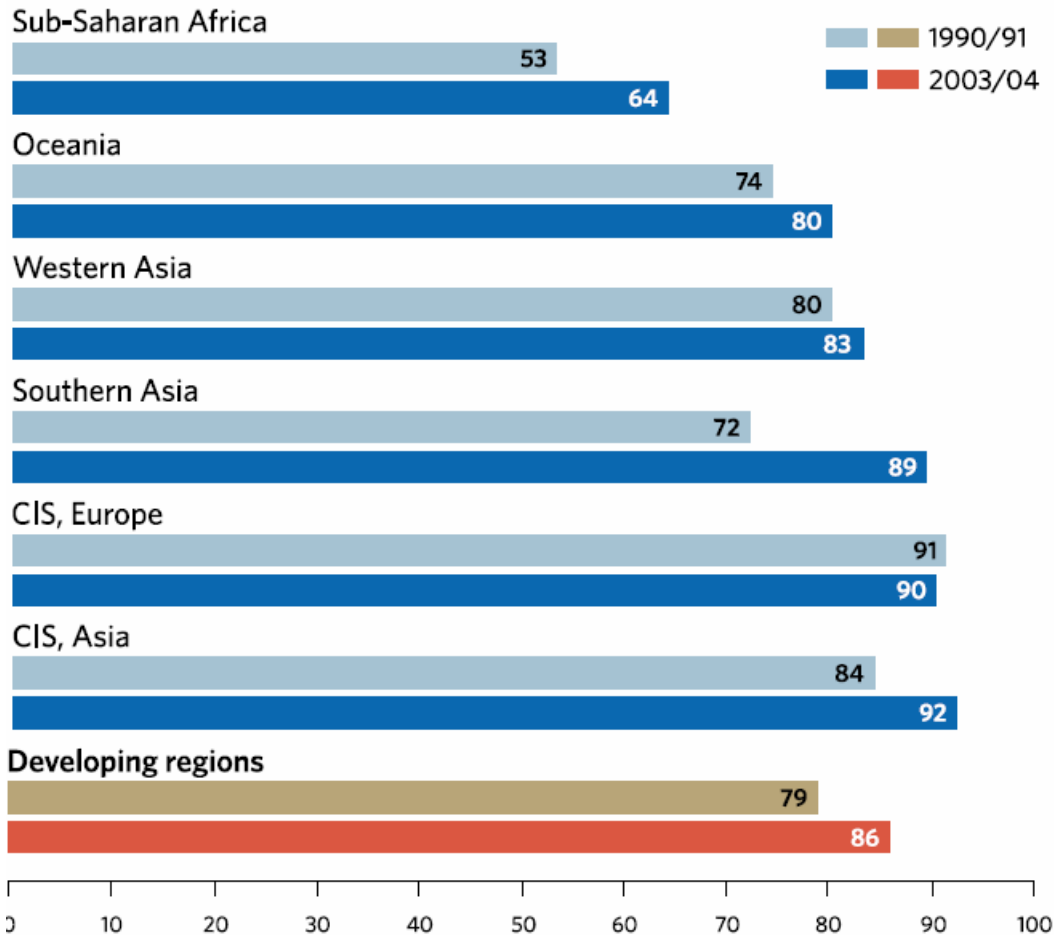


**Skilled care at delivery is one of the key elements necessary to reduce mortality at birth**

Urban/ Rural gap is huge;  
Income within countries also matters

# Access to primary education

Net enrolment ratio in primary education, 1990 / 91 and 2003 / 04  
(Percentage)



- In Burkina Faso, Djibouti, Eritrea, Ethiopia, Mali and Niger, fewer than half the children of primary-school age are enrolled in school
- Southern Asia, in contrast, has made great progress over the period 1999-2004
- Largely as a result of progress in India

Proportion of children of primary school age out of school by sex, 1996/2004 (Percentage)

Sub-Saharan Africa



Southern Asia



Oceania



Western Asia



CIS, Asia



Northern Africa



Developing regions



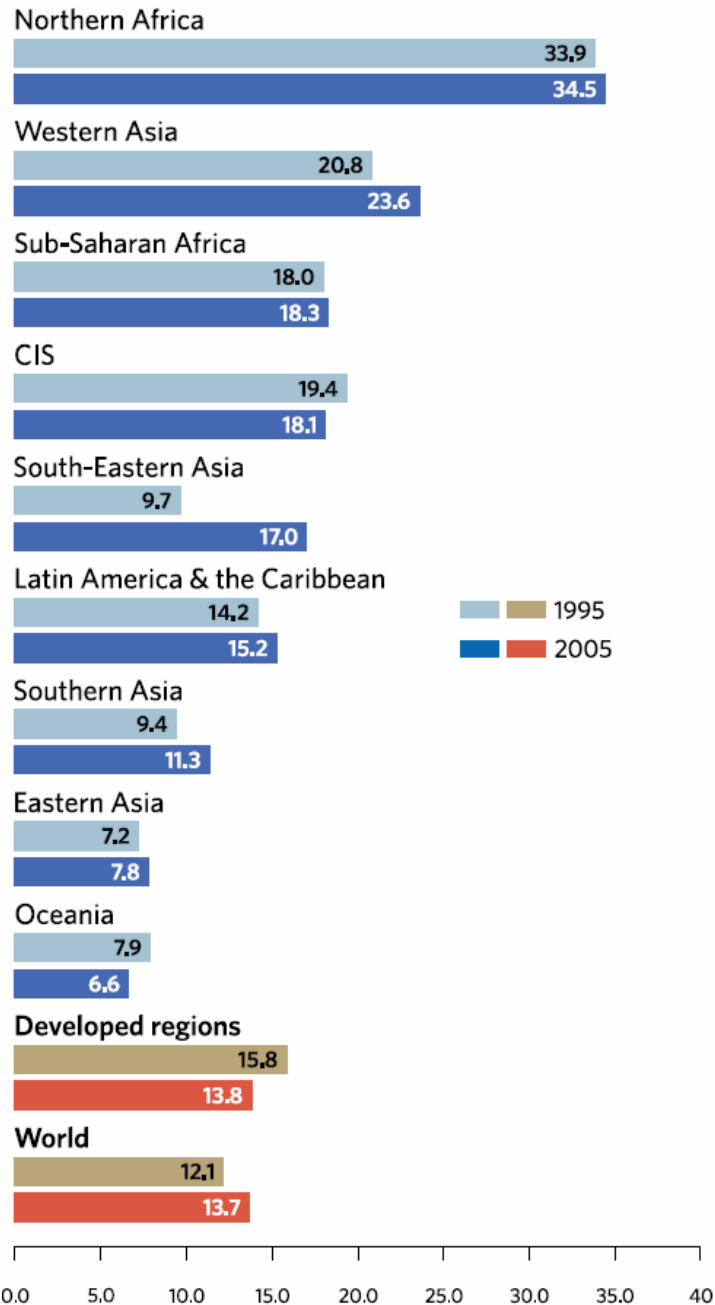
Girls  
Boys



# An educational gender gap persists

- Rural/Urban gap:
  - Based on household surveys in 80 countries, 30 % of rural children of primary-school age do not attend school, compared to 18 % in urban areas

Youth unemployment rates, 1995 and 2005  
(Percentage)

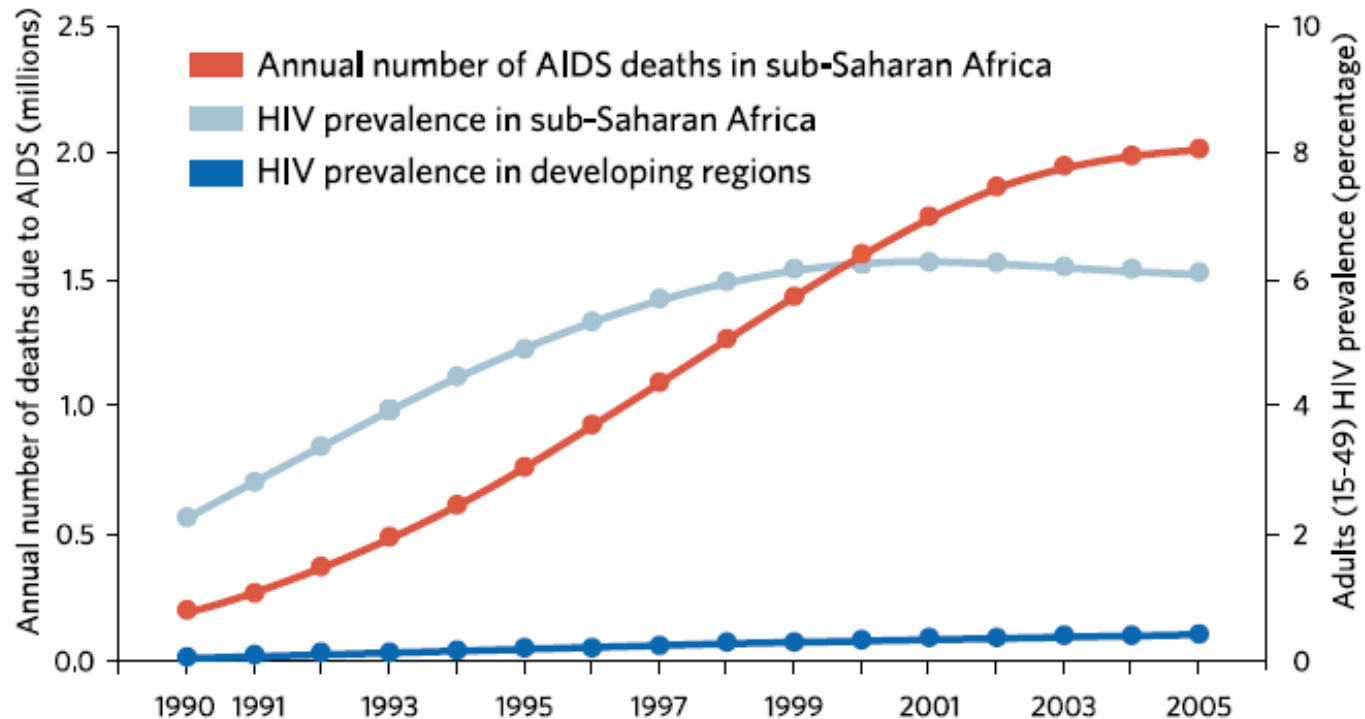


# Job prospects for youth have declined in most regions

- Youth unemployment has risen from 72.8 to 85.7 million in the last 15 years
  - Many severe consequences, including the rise of conflict

# HIV / AIDS is on the rise

HIV prevalence in adults aged 15-49 in sub-Saharan Africa and all developing regions (Percentage) and number of AIDS deaths in sub-Saharan Africa (Millions), 1990-2005



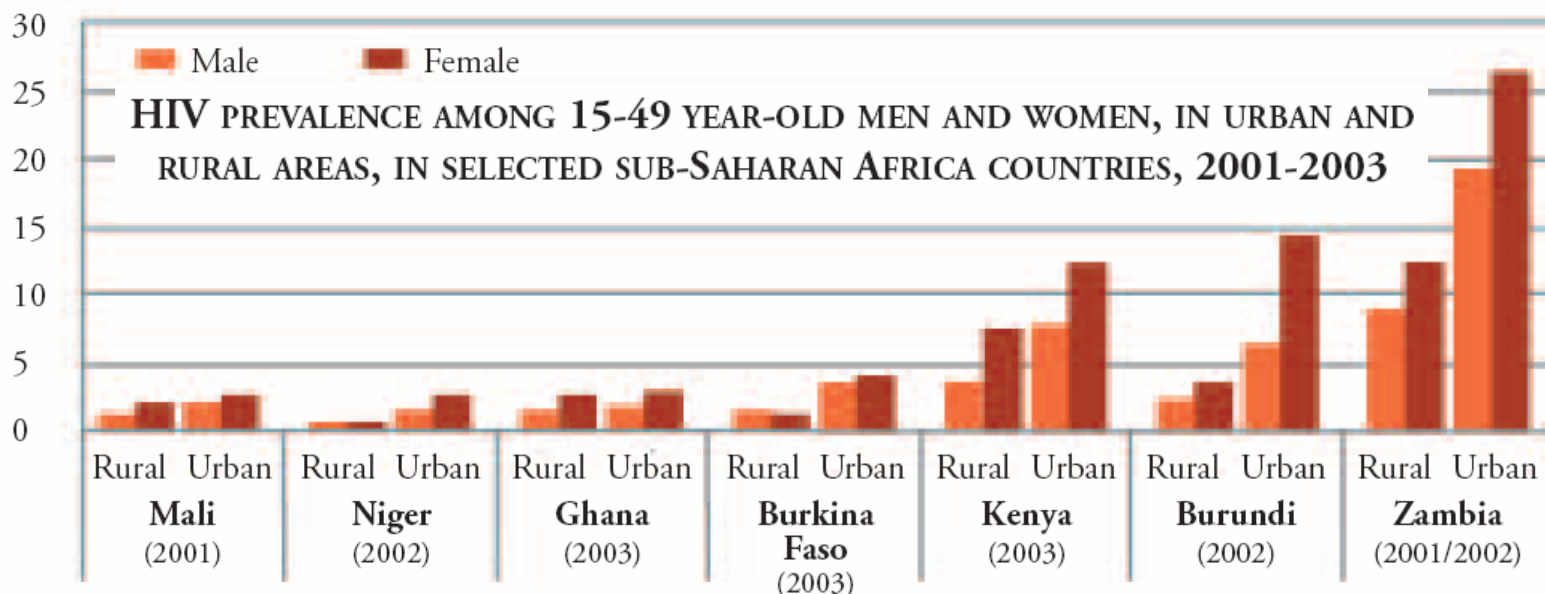
- The number of people living with HIV has continued to rise from 26.2 million in 2003 to 38.6 million in 2005 (nearly half of whom are women).
- There were 4.1 million new infections in 2005.
- The number of AIDS-related deaths also increased that year, to 2.8 million, despite greater access to antiretroviral treatment.



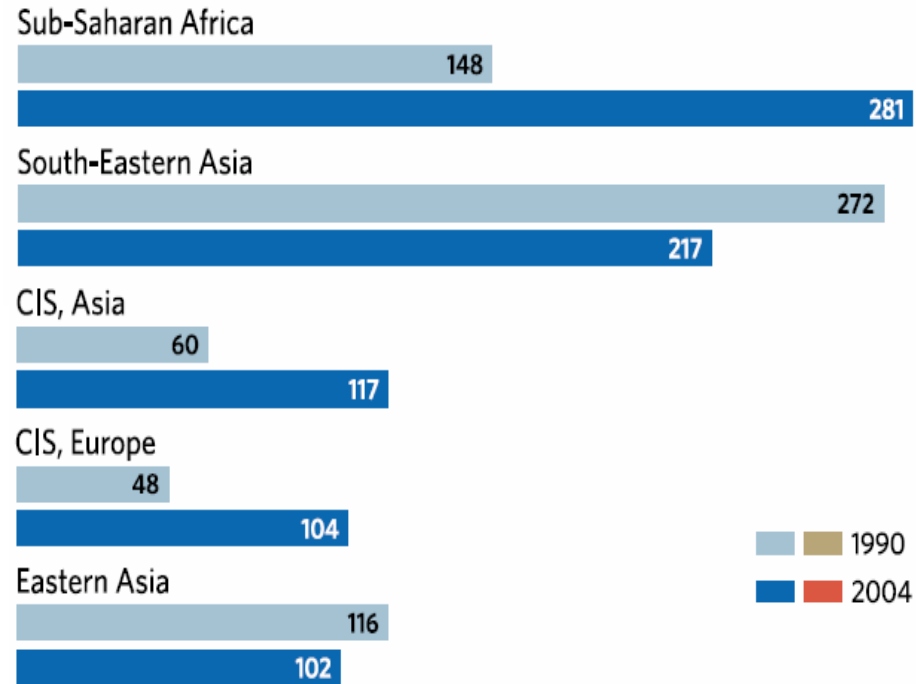
# HIV / AIDS prevalence

- Since 1999, average life expectancy has gone down in 38 countries
  - Without a significant increase in the response to AIDS, these countries will be 14% smaller than predicted in the absence of AIDS
  - Life expectancy in Zambia is now 34
  - Prevalence has stabilized in SSA: as new people acquire the virus, nearly the same number die from AIDS.
- Russian Federation is home to one of the largest epidemic (speed of diffusion) in Europe, and 80% of those living with HIV are aged 15-29 years
  - In Russia, the proportion of new HIV infections acquired during heterosexual relationship (not drugs or homosexuals) has grown from 5.3% in 2001 to just over 20% in 2003

% HIV prevalence



Number of new tuberculosis cases per 100,000 population (excluding people that are HIV-positive), 1990 and 2004

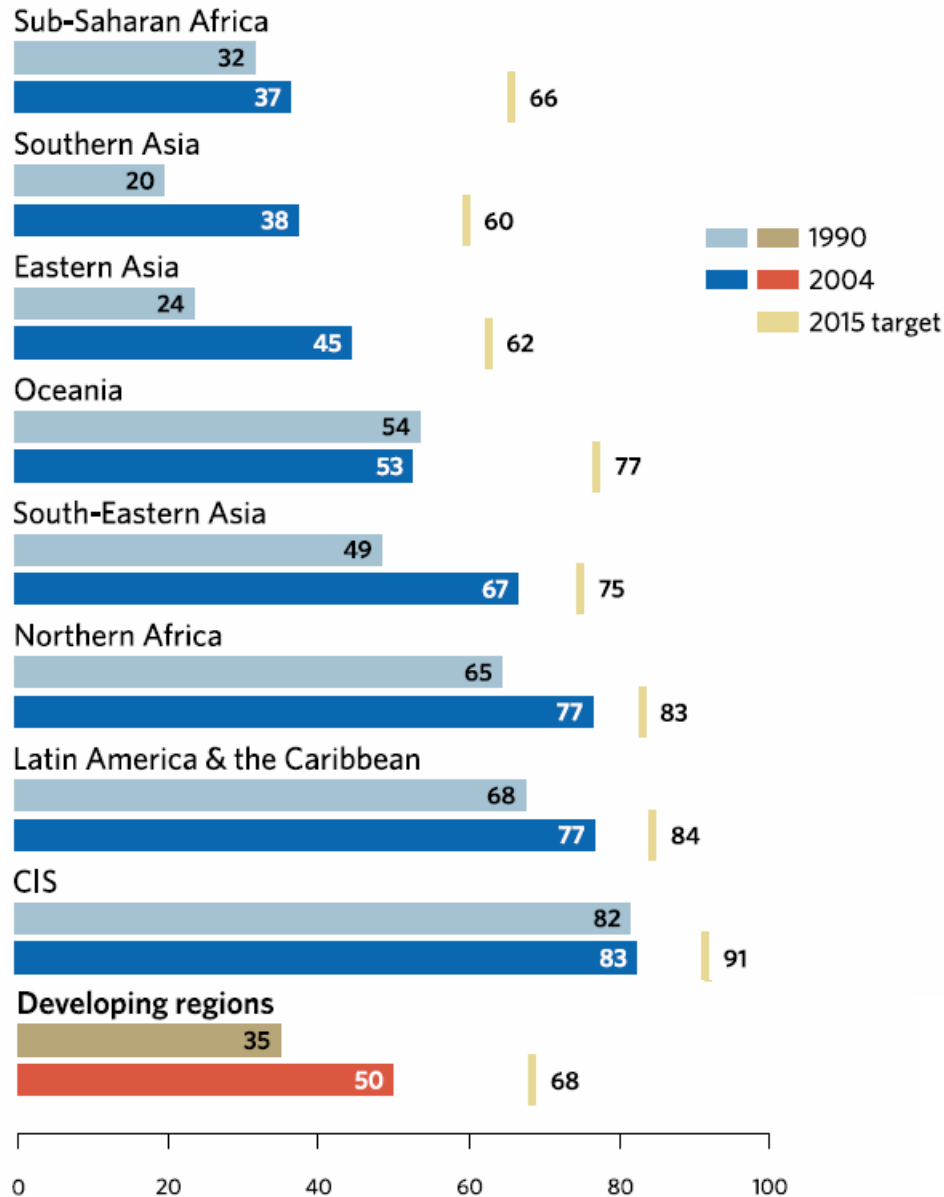


- Russia is the only TB high-burden country in Europe
- Hotspots for multi-drug resistant TB are Estonia, Latvia and certain regions in Russia and China.
  - It is estimated that drug-resistant TB accounted for 3.2% of the world's new cases in 2000

# One-third of the world's population is infected with TB

- An estimated two million people died from TB in 2003. Most of these deaths were preventable.
- Despite the fact that a cost-effective cure for TB has been available for more than 50 years, TB is on the rise in many developing and transition countries
- The number of new tuberculosis cases is growing by about 1 % per year, with the fastest increases in sub-Saharan Africa.
- In the CIS, incidence increased during the 1990s (peaked around 2001, and has since fallen)

Proportion of population using improved sanitation, 1990 and 2004  
(Percentage)

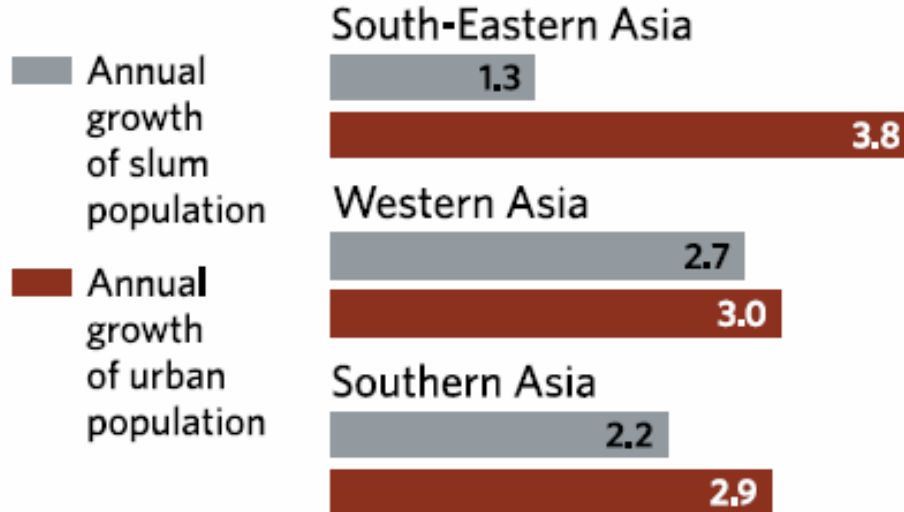


sustainable access to safe drinking water and basic sanitation is a challenge for half of developing world

- 1.2 billion people gained access to sanitation b/w 1990 and 2004
- Urbanization helps

# Cities growing together with their slums

Annual growth of urban and slum populations, 1990-2001 (Percentage)



# Stylized scenarios of development after World War II

- East Asia: 7% per annum
- Sub-Saharan Africa 0%
- Latin America and Caribbean: starting from West European level in 1950 but stagnation till 1990
- Middle East and North Africa (MENA) and South Asia:
  - Somewhere in between
- Transition countries
  - Central and Eastern Europe: converging to EU
  - Former Soviet Union: slow recovery at first, now robust fast growth, yet rise of corruption & inequality
  - China (and Vietnam): stellar growth rates

# **X-country data on development**

<http://www.imf.org/external/pubs/ft/weo/2005/01/data/index.htm>

<http://devdata.worldbank.org/data-query/>

<http://hdr.undp.org/statistics/>