PAMUN XVI RESEARCH REPORT— Ensuring that Growth and Development Occur Simultaneously in LEDCs

Introduction of Topic

During the Industrial Revolution, many Western countries underwent economic growth as production increased and economies expanded. Along with increased output, there was a simultaneous trend of an improved quality of life. During the last century, there have been examples of countries where economic growth has taken place place as a result of increased output, but citizens did not end up being better off. The role of the United Nations includes ensuring that governments and multi-national corporations (MNCs) act in ways which will benefit their citizens.

Economic development can be defined in terms of income per capita, life expectancy, and education, while economic growth is measured in Gross Domestic Product (GDP), or the number of goods and services produced within a country. Typically, economic development needs economic growth in order to take place. However, there have been past instances where development did not result from growth. For example, in Nigeria, Foreign Direct Investment from oil companies based in other nations led to increased investment in the country. Companies invested in importing technology to extract oil, and bring engineers and managers from other countries who have the “know-how”. However, that investment was not used for beneficial purposes, such as limiting corruption or increasing the population’s human and physical capital by providing education, training and infrastructure. In many cases, when less economically developed countries acted as resource-providers to wealthy industrialized countries, there were little to no economic development initiatives. As a result, countries are then trapped in a circle of low investment leading to limited levels of economic development.

Definition of Key Terms

Economic Growth

An increase in the number of goods and services produced in an economy in a given time period usually a year. It is typically measure using Gross Domestic Product, which is a summation of everything produced in an economy in a given year.

Economic Development

Economic development is characterized by improvements in well-being of citizens in a country. It takes into account: average income, level of healthcare education, and quality of infrastructure. More specific social aspects such as infant mortality rate, population growth, literacy rate, life expectancy, or average caloric intake can be used to determine economic development. In addition, economic development can also take into account the level of corruption, and happiness index in a country. Furthermore, the occupational structure of the labour force can indicate the level of economic development in a country.

Less Economically Developed Countries

Countries which rank low in the Human Development Index (HDI) and their economies are lacking in terms of infrastructure and healthy industry. HDI is a statistical analysis performed by the UNDP, and considers life expectancy, education, and income to rank countries in terms of developed by assigning and number between 0 and 1 to each country. They typically represent low levels of income and abundant poverty. Such countries are modernised, and their economies rely on agriculture. As a rule of thumb, industrial and manufacturing practices make up for less than 10% of the nation's GDP. Many African and Arab nations are less economically developed countries.

Foreign Direct Investment

Foreign Direct Investment (FDI) is investment in a business by an investor from another country. Typically, the foreign investors will either set up a subsidiary in the foreign country of interest, acquire shares of the overseas company, or merge with a pre-existing foreign company.

Factors of Production

Aspects used in the production of a good or service: Land, Labour, Human Capital, Physical Capital, Entrepreneurship.

Multinational corporations (MNCs)

Multinational corporations refer to companies that have assets in more than one country, while based in a central office in another country. Some companies of such magnitude have budgets exceeding the GDP of many small countries, and this gives them a very large negotiating power.

Background Information

The determinants of spending in an economy include: consumer spending, investment spending, government spending, and the amount of net exports. In order to better quantify economic growth, GDP has to be turned from its nominal value to a real value, where inflation (or the increase in prices from one year to the next) is accounted for. Then, most organizations will transform that value to Purchasing Power Parity (PPP) in US dollars. In some countries, a carton of milk costs 2 US dollars, while in other countries, where income is lower, it will usually be cheaper, so the purchasing power parity is different. Finally, the real GDP PPP value has to be transformed to real GDP PPP per capita, by dividing the value for a specific country by the population of the country.

Regarding Foreign Direct Investment (FDI), the OECD accepts an FDI case to be valid if the foreign investor(s) holds 10% or more of the foreign corporation's shares/stock. FDI is often criticized since Less Economically Developed Countries (LEDCs) are many times former colonies, and hence may view western investors as modern economic colonialism, and fear they might exploit them and their natural resources. Another reason that FDI is criticized is to do with capital returns, and the fact that any profit that may arise from the investment in the future, will return to the country from which the investment came from. In addition, since firms purpose is to maximize profit, they hence need to cut costs, meaning that wages will be low, and firms may not always provide good working conditions.

Of course, there are advantages to Foreign Direct Investment as it stimulates development, supports international trade, and creates jobs. As a rule of thumb, as long as the corporation investing in the country is doing its part to help society, by providing safe employment, enriching their worker's human capital, and pays sufficient wages, then it can be very helpful to a country as a source of economic growth and development.

MNCs are most commonly based in the US, China, or Western Europe. Lately, Indian, Brazilian, Russian and South African companies have been also able to expand to other market, and be considered as MNCs. To give an idea of the magnitude of large MNCs, the biggest one, Wal-Mart, had $485.65 billion revenue in 2015, and employs 2.3 million people. Evaluating their actions and operation, they have created many jobs, most of which pay well for the standards of LEDCs, and have made advanced technology and goods in countries where they would otherwise be unavailable.

Some people are concerned with MNCs, due to their large political influence over governments. The United Fruit Company (UFC), the predecessor of Chiquita Brands International, had great power in Guatemala and owned the majority of their land to use for crops, but when a newly elected Guatemalan president tried to expropriate some of that land, American interests fuelled by the needs of UFC led to an overthrow to take place. This is an extreme example given, in order to show how powerful MNCs can potentially be. Another interesting, and more recent example is the one of Nigeria, a country in West Africa, which is extremely low developed, despite its GDP being the 20th in the world, a bit over 1 trillion

USD. Nigeria has an abundant supply of natural resources notably oil, as it is the 12th largest oil producer in the world. There are also many car companies who have factories in Nigeria. Despite its industry, it faces huge human rights problems. This is another example where due to corruption on the behalf of both companies and the government mixed with irresponsible FDIs such as the *Royal Dutch Shell* company. More common cases would include their control over technical and intellectual property in countries where government intellectual property laws are not well-developed. Adidas, for example, holds patents on shoe designs, and Apple has patented hardware and software capabilities in such countries. These patents allow companies to exercise monopolies in the local market, and prevent new enterprises from being developed. MNCs also sometimes exploit labour offered by host nations around the world. A recent case concerns the operation of the footwear company, Nike, in factories located in the Philippines and Indonesia. Filmmakers recorded the inhuman working condition in sweatshops, and interviewed workers who revealed the absence of medical insurance, and their devastating wages which were far below the minimum wage. Conditions for the MNCs workers of Taiwan, Thailand and China are not as bad as in Indonesia and Philippines, but still do not adhere to international working standards.

Major Countries and Organizations Involved

United States of America

The US is one of the main countries to invest in others. Depending on a country's view, they might find that the US should or should not encourage their companies to act in ways which support economic development. American, as well as European and Chinese, companies have expanded their operations in other countries, which has caused positive and negative effects. In many cases, American investment has helped infrastructure to improve and created jobs in Asian nations while in other cases have exploited workers and governments alike, by providing poor working conditions, and low wages.

United Nations Development Program

The UNDP is the UN's development network devoted to helping countries ensure a better life for their people. Their goals include eradicating poverty and the reduction of inequalities and exclusion whether this refers to genders, minorities, or anything else. They do so by providing aid to countries who seek to develop policies, expand their skillset and institutional capabilities. The UNO's goal is sustainable developmental results. Continuing the work of the Millennium Development goals, the 2030 Agenda for Sustainable Development Goals were set in 2015. Those goals can be viewed as the "ultimate achieving economic development guide".

Timeline of Events

Year	Event
1953	The coup in Guatemala takes place.
1965	The United Nations Development Programme is created under the jurisdiction of ECOSOC
July 2009	A/RES/63/304 General Assembly resolution on “Implementation of the recommendations contained in the report of the Secretary-General on the causes of conflict and the promotion of durable peace and sustainable development in Africa”

Main Issues

The main issue of this topic has to do with countries finding a balance between economic growth and development. In order to achieve this balance, the money spent in an economy should satisfy the basic pillars of economic development: income, education, and healthcare. These can be achieved through ensuring gender equality, improved levels of health, increased in productivity, better facilities, and political stability.

Less economically developed countries can attract growth by improving the quality of human capital through education and training. However, in many countries education is of very low quality, and as many as 115 million children of primary school age are not enrolled in school. In addition, most employers do not provide training and as a consequence, human capital is very low. Economic growth also results from improvement in the quantity and quality physical capital. For example, the development and use of new technology which is appropriate to conditions in less economically developed countries. Developing countries are labour intensive, using manual labour to produce, whereas developed countries use technology to avoid hiring more workers. In South Africa, unemployment rate exceeds 25% and public education is limited. Thus, using tractors and heavy machinery for agriculture would not be appropriate technology, since it does not utilize the skills of the country, and would not fix the problem of inequality. Instead, manual; labour would be more appropriate. Improving the institutional factors such as the banking system, legal system, education system, political stability. However, many country’s governments are corrupt and their infrastructure is underdeveloped. For example, the Turkish government has the right to change judges, leading to a crooked judicial system.

A country also needs good healthcare, ensuring the wellbeing of labour. Most notably, this reduces child mortality rates, and in countries where infant mortality rate is high, people tend to have more children. Sadly, families with a lot of kids do not have enough resources for all of their child to get education, and a better quality of life.

Previous Attempts to solve the Issue

There are 3 main views economists have had over the years regarding achieving economic growth:

Interventionism

Interventionists believe that economic development can take place if governments use funds from aid or borrowing to invest in education, healthcare, and infrastructure. However, the disadvantage of this policy is that many times minorities of the country are rejected, as officials decided to take care of their own people rather than the whole country. It can also lead to extremely high national debt as such policies need money which can be generated by borrowing. As a result, countries can be forced to further borrow to pay back the loans, or follow policies which will generate taxes, but shrink at the same time the economy. In the worst of cases, a country might go bankrupt, which is catastrophic.

Market forces

During the 90s, it was believed that economic growth was possible if foreign direct investment was supported, in order to bring money and corporations into the country and expand business. Then, development would come by itself as MNCs would provide employment, as well as research and development. However, the technology used was not always appropriate for the situation. In some countries, companies used machinery-intensive factors of production rather than labour-intensive, but the locals did not have the required education to work for such companies. In the end, companies brought in foreign engineers to work instead of the domestic workers. In cases where no regulation took place, there were cases where corporations exploited workers and their basic human rights.

Mixed

The most recent belief is to find a balance between unregulated market forces, and government investment. By supporting the use of appropriate technology and production type for the country (for example labour-intensive production techniques) while providing incentives for foreign direct investment. It uses business investment to bring in money to the society, and create jobs, while using regulations to promote amelioration of the factors of production.

Over the last years, many countries have not managed to create and implement a balanced system that entertains both economic growth and development. However, new approaches to achieve this should be implemented.

Possible Solutions

Fighting corruption

Corruption is a major problem in many developing countries, in order to guarantee better functioning of the public sector, measures should be taken to control it. By doing so, the inflow of money and resources will more likely be used for the advantage of the population of the country. It is not an unlikely scenario that funds often are used to bribe officials, limited efficiency as competitiveness might decrease, and resources used to benefit the wealthy and powerful.

Education

Education is perhaps the most efficient way to develop a country. By educating the work force and youth, people will be able to find better jobs, increase their income, invest in their children's education, and manage to break away from the poverty cycle. By providing free education to children, and even training to workers, the quality of the factors of production will ameliorate, and allow for better efficiency and productivity.

Infrastructure

Basic facilities and organizational structures can really benefit the quality of people's lives. Infrastructure like hospitals, roads, buildings, and hygienic facilities can allow for better productivity and well-being.

Incentives for business

Due to limited government funding, and possible inefficiency of the public sector, in order to supply many of these aforementioned goods and services to create economic development, and as a way to ensure that development comes along with growth, are government incentives. This can be introduced in the form of tax breaks, or subsidies for corporations which provide training to their workers, perform research and development, or creating infrastructure.

Empowering women

In many countries, women are excluded from actively participating in society. By keeping girls in school, they will be able to escape poverty, and aid their country's development. In addition, since most children decide to stay with their mother in cases of divorce, it further stresses the importance of women having a source of income. Additionally, double income households also can guarantee an enhanced

quality of life for the family, and better education for the child. The UNDP, and NGOs such as “Room to Read” strives to create such an environment where women have equal opportunities as men through giving incentives for parents to keep their kids in school

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