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Factors Affecting Economic Development

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Abstract

Economic development implies an improvement in economic welfare through higher real incomes and other welfare indices such as improved literacy, better infrastructure, reduced poverty, and better health care. Economic development requires a degree of political stability, investment, and a mixture of public and private initiatives to increase economic potential. This study aims at highlighting factors affecting economic development. The study leverage the World Bank (2017) report on inward investment, which shows that the biggest block to development is prolonged civil unrest/military conflict as this causes investment to dry up and resources to be wasted on unproductive means. It underscores the importance of addressing such concerns to advance the African economy.

Keywords: *Economic development, Infrastructure, Investment*

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Background to the Study

Issues in African economic development

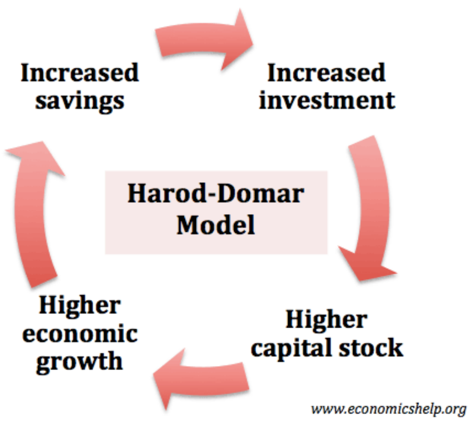
There are several factors in African economic development.

1. **Levels of infrastructure** – e.g. transport and communication. In recent years, economic development in Central Africa has been improved due to increased investment in roads, railways, and seaports. Part of this investment has come from Chinese companies that have a vested interest in transporting raw materials from Africa to China.

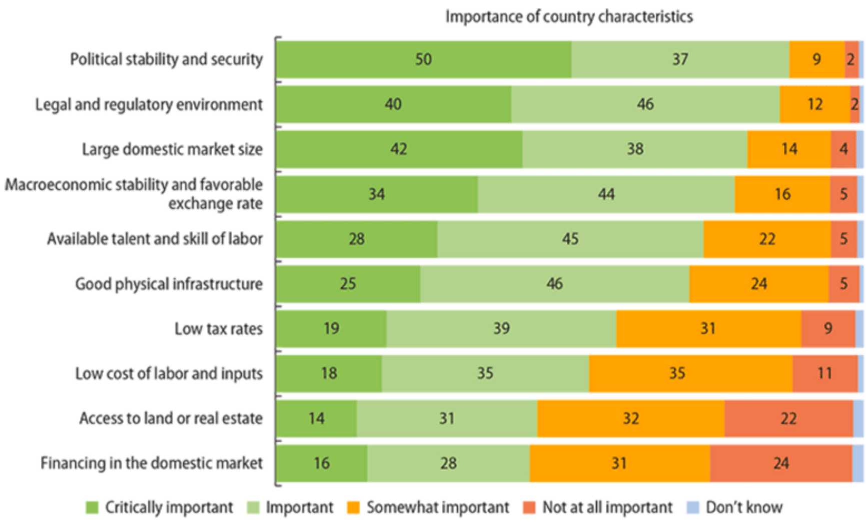
2. **Education**. Levels and standards of education have a significant influence on labour productivity. Without basic literacy and numeracy, it is difficult for an economy to develop from manual labour to new higher-tech industries in the service sector. For example, good levels of education in India have given opportunities for growth in service industries, such as IT and call centres.

3. **Levels of inward investment**. Developing countries that can attract inward investment can see significant growth in development due to higher levels of capital and the benefits of attracting multinational companies into their economy. For newly industrialised countries (NICs), inward investment has played a significant role in increasing economic development. For example in 2011, inward investment in Brazil stood at $101bn.

4. **Levels of savings/capital.** In growth models, such as Harod Domar levels of savings and capital are seen as key factors in determining economic growth. Higher savings enables a virtuous circle of increased investment, higher growth, and therefore, higher savings.



5. **Political stability / Law and order**. Political stability and the protection of private property were ranked as the most important factors for encouraging firms to invest in developing economies. Any sign of instability increases the economic and personal risk of investing in developing countries



Source: World Bank (2017) report on inward investment

The link between natural resources and development is not straightforward. One theory suggests raw materials can lead to a 'resource curse' where an economy is stuck in producing primary products with no incentive to diversify the economy. It can also depend on whether natural resources are owned by the developing economy and filter through to different sections of society.

1. **Tax rates and levels of corruption** – e.g what percentage of tax rates are collected and spent on public services. For foreign multinationals, a low tax rate may be important to encourage investment. However, there needs to be a balance as the government needs to collect taxes to fund public services and public infrastructure.

2. **Free trade vs protectionism**. An important debate in economic development is between the benefits of free trade versus protectionism. Removal of tariff barriers can lead to a rise in exports, which contributes to economic development. Asian countries, such as Korea, Taiwan, and China have all benefitted from the removal of tariffs. However, for developing economies stuck in producing primary products (where they have a static comparative advantage) there is a strong case for temporary tariffs to enable new infant industries to develop.

3. **Tourism**. For developing economies with an attractive climate and environment, tourism can be an important source of foreign earnings and an incentive to develop infrastructure and new hotels.

Evaluation – other possible factors that influence economic development

1. Culture of entrepreneurship. For example, in the past 20 years, India has seen a shift from a conservative religious society to a more secular society with a greater focus on material improvement.

2. Political system. Some argue a Command economy can lead to economic stagnation, e.g. Cuba. China has successfully managed a partial economic shift to a free-market based economy (with still political control of the Communist Party)

3. Regulation/free-market system. Free market economists, such as Milton Friedman argue the openness of an economy is important. For example, privatization and deregulation reduce barriers to investment and economic growth.

Conclusion

The article highlights the challenges of economic development in Africa and the world at large. In Africa, the problem of development has been associated to prolonged civil unrest/military conflict in the continent. This has causes investment to dry up and resources to be wasted on unproductive means. Good governance and economic stability is a place to begin in ensuring economic development in the continent and the world at large.

Reference

Tejvan, P. (2019). Factors affecting economic development in Africa https://www.economicshelp.org/blog/147654/economics/factors-affecting-economic-development/