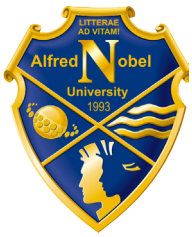
ALFRED NOBEL UNIVERSITY

A. ZADOIA, A. MAGDICH, O. ZADOIA

ECONOMY OF FOREIGN COUNTRIES



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ECONOMY OF FOREIGN COUNTRIES

Study guide

Electronic edition

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Z 15

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Навчальний посібник розкриває зміст дисципліни «Економіка зарубіжних країн» за допомогою слайдів, які відображають ключові визначення, основні поняття, схематичне відображення взаємозв'язків та взаємозалежностей. Наочна форма подання матеріалу сприяє ефективному засвоєнню програмного матеріалу, а також дозволяє студентам під час лекції або при самостійному опрацюванні дисципліни робити власні доповнення та коментарі.

Навчальний посібник розрахований на студентів спеціальності «Міжнародні економічні відносини».

Zadoia A.

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The study guide reveals the content of course "Economy of foreign countries" with the help of slides, which reflect key definitions, basic concepts, schematic presentation of the relationships and interdependencies, illustrative form of the material presentation contributes to the effective perception of the program material and allows students to make own additions and comments during lectures or in the process of self-mastering the course.

The study guide is designed for students of specialty "International economic relations".

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Contents

INTRODUCTION

Knowledge of the economy of foreign countries is an essential component of the training of specialists in international economic relations. Indeed, for successful partnership with foreign companies, it is necessary to have information about the economic potential of the partner country, the sectoral structure of the economy, the government's economic policy, the characteristics of foreign economic activity, the degree of state participation in the international division of labor, political preferences, national peculiarities of business negotiations, etc P. This knowledge will help to avoid possible negative consequences in making foreign economic decisions both at the level of the national economy and at the enterprise level.

The course "Economics of foreign countries" is the most important knowledge about the economy of countries that have become or can become foreign trade partners of Ukraine in the future. It is closely related to such disciplines as "International Economic Relations", "International Trade", "International Finance", "International Investment Activity", which will be studied in the future.

It is a question of the international community and business relationships.

On completion of the course, students will be able to:

1) demonstrate in particular;

2) understand and interpret public regulatory policies;

3) analyze the economic trade policy tools; evaluate a nation's productive potential;

4) retrieve and utilize relevant sources e.g. textbooks, newspapers, websites, business magazines and selected journals;

5) demonstrate key skills in data analysis, statistics, and calculation involved in economic problems;

6) apply the problem-solving skills, including the use of mathematic and statistics.

The characteristic of the economy of foreign countries is carried out according to the following scheme: the country at a glance; factors of economic development of the country; the economy and the global economy.

However, it should be understood that understanding of the course. It could not answer all questions. Therefore, it is necessary to study this guide.

Chapter 1

NATIONAL ECONOMY IN THE GLOBAL ECONOMIC SYSTEM

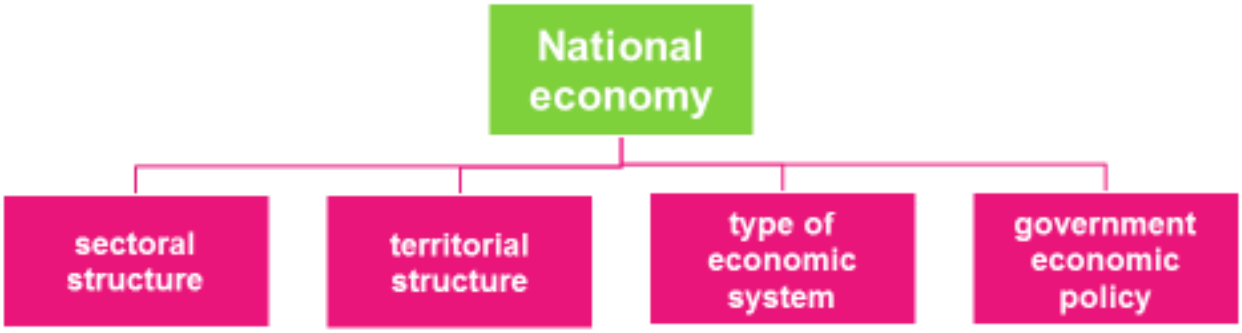
Chapter Outline

1.1. National economy as an object of the global economic system
1.2. National economic indicators. Classification of countries

1.1. National economy as an object of the global economic system

National economy

- can be defined as the historically shaped complex of production sectors in a given county, interrelated through the division of labour
- refers to the economy of an entire country, which implies:
  - unified economic laws
  - a common currency
  - a single center of coordination
  - a single defence system



Key terms

a nation	• a large group of people that inhabit a specific territory and are connected by history, culture or another commonality
a country	• a nation with its own government, occupying a particular territory. Country may both to sovereign states and to other political entities
a state	• a territory considered as a political community living within one system of government. The term is used in political science as it is more precise and less ambiguous
a nation-state	• When a nation of people has a State or country of their own, it is called a nation-state
a national economy	• the economy of a nation. The historically shaped complex of production sectors in a given country, interrelated through the division of labor

There are eight accepted criteria used to determine whether an entity is an independent country or not

1. **Space or territory** that has internationally recognized boundaries (boundary disputes are OK).
2. **People** who live there on an ongoing basis.
3. **Economic activity** and an organized economy. A country regulates foreign and domestic trade and **issues money**.
4. **The power of social engineering**, such as education.
5. **Transportation system** for moving goods and people.
6. **A government** that provides public services and police power.
7. **Sovereignty**. No other State should have power over the country's territory.
8. **External recognition**. A country has been "voted into the club" by other countries.

ENTITIES THAT ARE NOT COUNTRIES

Places commonly confused as being countries include:

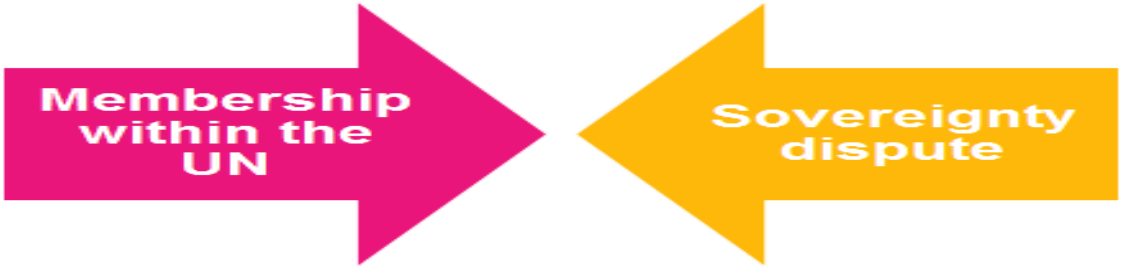
Hong Kong ***(a Special Administrative Region of the People's Republic of China)***
Bermuda ***(a British Overseas Territory)***
Greenland ***(an autonomous constituent country within the Kingdom of Denmark)***
Puerto Rico ***(an unincorporated territory of the United States located in the northeast Caribbean Sea)***

What is the number of countries in the world?

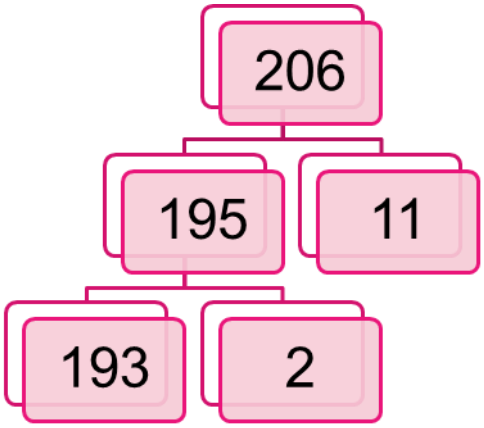
The answer to this seemingly simple geographical question is that it depends on who's doing the counting.

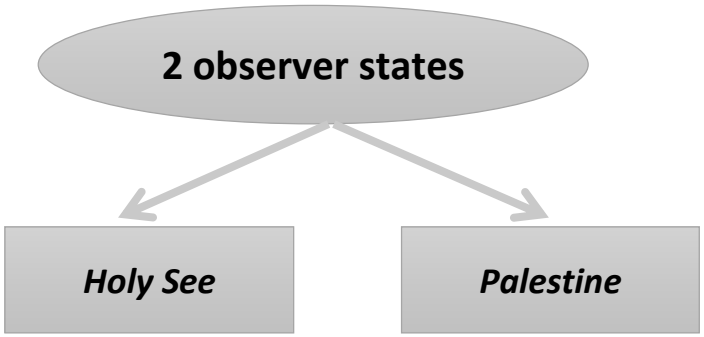
- The United Nations, for example, recognizes ***more than 240 countries and territories.***
- The United States, however, officially recognizes ***fewer than 200 nations.***
- Ultimately, the best answer is that there are ***195/196 countries in the world.***

To define whether the country is independent or not, we will stick to two criteria:



Membership within the United Nations system divides the 206 listed states into three categories: 193 member states, 2 observer states, and 11 other states





11 other states:	Claimed by
Abkhazia – Republic of Abkhazia	Georgia
Artsakh – Republic of Artsakh	Azerbaijan
Cook Islands	None
Kosovo – Republic of Kosovo	Serbia
Niue	None
Northern Cyprus – Turkish Republic of Northern Cyprus	Republic of Cyprus
Sahrawi Arab Democratic Republic	Morocco
Somaliland – Republic of Somaliland	Somalia
South Ossetia – Republic of South Ossetia	Georgia
Taiwan – Republic of China	PRC
Transnistria – Pridnestrovian Moldavian Republic	Moldova

The Cook Islands and **Niue**, both states in free association with New Zealand which are members of several UN specialized agencies and have been recognized "full treaty-making capacity", but are neither member states nor non-member observer states.

_____

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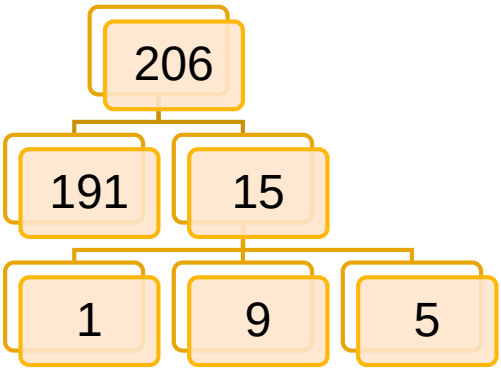
The sovereignty dispute table indicates states whose sovereignty is undisputed (191 states) and states whose sovereignty is disputed (15 states, out of which there are 5 member states, 1 observer state and 9 other states)



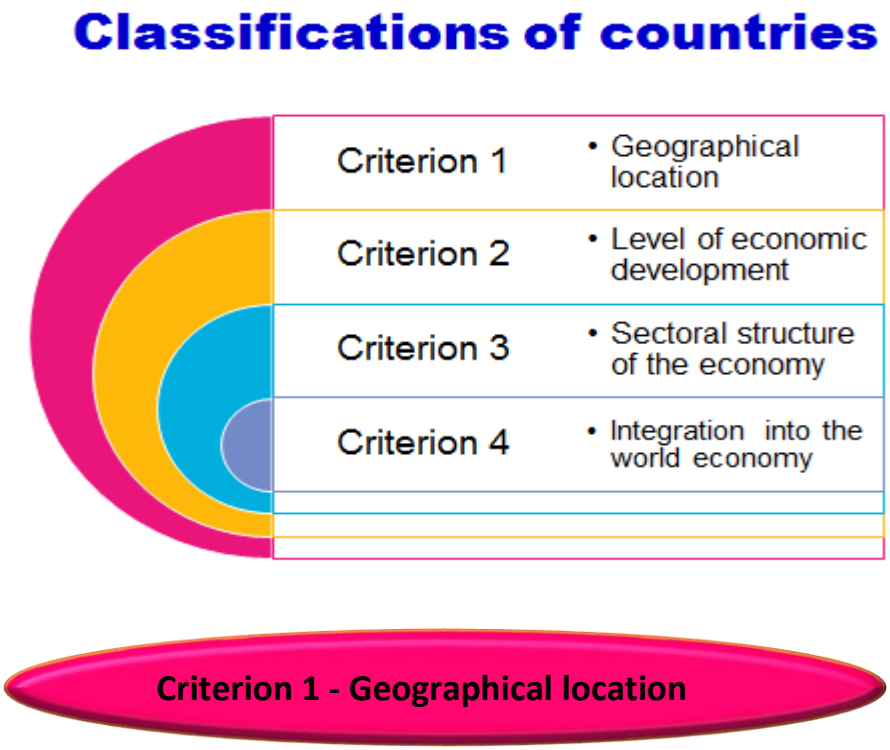
191 = 193-5 = 188 UN members with undisputed sovereignty + Holy See + Cook Islands + Niue

1 observer state - Palestine

9 other states:	**5 UN member states with disputed sovereignty:**	
	Name	**Claimed by**
	China	**Taiwan**
	Israel	**Palestine**
	Cyprus	**Turkey**
Northern Cyprus	**North Korea**	**South Korea**
	South Korea	**North Korea**
South Ossetia		
Taiwan		

The **political status of the Cook Islands and Niue** is formally defined as being states in free association within the Realm of New Zealand, which is made up of the Cook Islands, Niue, New Zealand, and two of its territories: Tokelau and the Ross Dependency.

1.2. National economic indicators. Classification of countries



An example of a country classification by geographic region

Western Europe	**Australia and Oceania**
Central Europe	**North Africa**
Eastern Europe	**West Africa**
South-West Asia	**Eastern Africa**
Central Asia	**South Africa**
South Asia	**North Africa**
Far East	**Latin America**
Southeast Asia	

Criterion 2 - Level of economic development

- Levels of economic development vary from country to country. Some countries are very wealthy and some are very poor. Standards of living and indicators of economic development are used to assess how wealthy a country is.
- Definition of development **changes overtime**. Early examples focused on strength of economies:
  - First World (USA, Europe, Australasia)
  - Second World (Former Communist)
  - Third World (Africa, parts of Asia etc). ***These are all OUTDATED terms.***

Growth versus Development

- Economic growth may be one aspect of economic development but is not the same
- **Economic growth:**
  - A measure of the value of output of goods and services within a time period
- **Economic Development:**
  - A measure of the welfare of humans in a society

Economic Growth

- Using measures of economic performance in terms of the value of income, expenditure and output
- **GDP – Gross Domestic Product**
  - The value of output produced within a country during a time period
- **GNP – Gross National Product**
  - The value of output produced within a country plus net property income from abroad (or income from foreign investments)
- **GDP/GNP per head/per capita**
  - Takes account of the size of the population
- **Real GDP/GNP**
  - Accounts for differences in price levels in different countries

National Income – Problems with using GDP/GNP

- **Reliability of data?**
  - How accurate is the data that is collected?
- **Distribution of income?**
  - How is the income distributed – does a small proportion of the population earn a high percentage of the income or is income more evenly spread?
- **What is actually produced does not always have a monetary value e.g. subsistence farming.**
- **Quality of life?**
  - Can changes in economic growth measure changes in the quality of life?
  - Does additional earnings power bring with it additional stress, increases in working hours, increased health and family problems?
- **Impact of exchange rate?**
  - Difference in exchange rates can distort the comparisons – need to express in one currency, but which one and at what value?

Development

- Development incorporates the notion of a measure/measures of human welfare
- As such it is a normative (establishing a norm) concept – open to interpretation and subjectivity
- Development might include:
  - levels of poverty
    - absolute poverty
    - relative poverty
  - inequality
  - progress

Human Development Index (HDI)

HDI – A socio-economic measure
Focus on three dimensions of human welfare:
Longevity – Life expectancy
Knowledge – Access to education, literacy rates
Standard of living – GDP per capita: Purchasing Power Parity (PPP)

Developed countries tend to have the following characteristics:

1. Low population growth rates
2. Higher percentage of old people
3. High literacy rates
4. Long life expectancies
5. Low infant mortality rates
6. High percentage of population living in urban areas
7. Economy based on tertiary economic activity
8. High GDP per capita
9. High levels of education

Factors that affect economic activity

1. **Access to resources**
   a) Access to natural resources - If a country does not have many resources it is more difficult for them to develop their economy.
   b) Access to capital resources - Countries that do not have money, modern infrastructures, or industries will have a difficult time developing their economy.
   c) Numbers and skills of human resources - Countries need skilled workers and unskilled workers in order to develop their economy.

2. Location and ability to exchange goods

a) Countries that are landlocked will have a difficult time transporting goods. Landlocked means a country does not have an outlet to an ocean. Some examples are Switzerland, Bolivia, Rwanda, and Mongolia.

b) Countries that are islands or on the coast will have an easier time exchanging goods.

3. Sectoral structure of the economy. How much of the economy is devoted to primary, secondary, or tertiary economic activity. The economy in some countries is primarily based on agriculture or mineral extraction. Countries in Africa tend to farm or dig up minerals.

4. Educational achievement - The number of skilled workers in a country

5. Population age distribution - Some countries have many young people while others have older people

6. Urban/rural ratio - The number of people who live in cities versus the countryside.

7. Proximity to shipping lanes.

8. Access to communication networks

9. Membership to political and economic goods.

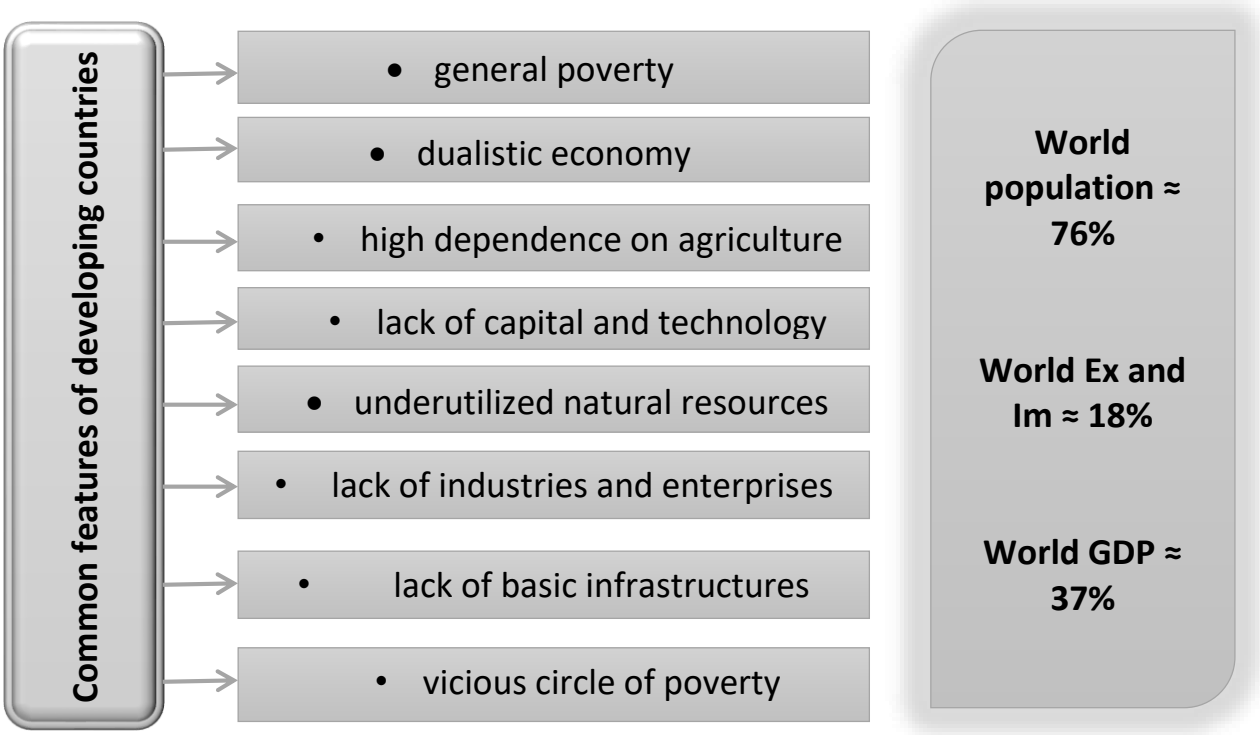
Common features of developed countries

- leading role of private ownership
- mixed economy
- a strong middle class
- democracy
- post-industrial society
- high social standards

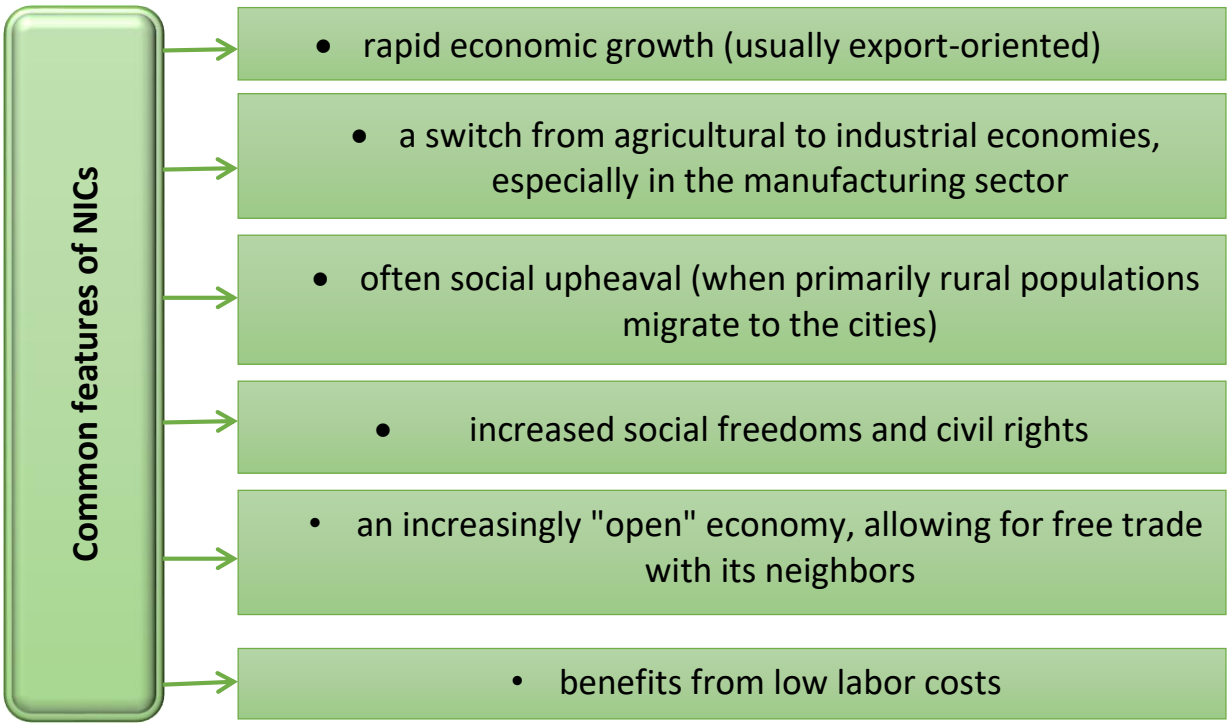
World population ≈ 16%

World Ex and Im > 70%

World GDP > 50%


Common features of developing countries
• general poverty
• dualistic economy
• high dependence on agriculture
• lack of capital and technology
• underutilized natural resources
• lack of industries and enterprises
• lack of basic infrastructures
• vicious circle of poverty
World population ≈ 76%
World Ex and Im ≈ 18%
World GDP ≈ 37%


The main development strategies of developing countries
• market strategy as the basis for economic transformations
• export orientation of national economy
• import of capital and technologies from the developed countries
• improving conditions for international trade
• settlement of demographic problems



A country is classified as a Least Developed Country if it meets three criteria:

- **Poverty** adjustable criterion based on GNI per capita averaged over three years. As of 2018 a country must have GNI per capita less than US $1,025 to be included on the list, and over $1,230 to graduate from it
- **Human resource weakness** (based on indicators of nutrition, health, education and adult literacy)
- **Economic vulnerability** (based on instability of agricultural production, instability of exports of goods and services, economic importance of non-traditional activities, merchandise export concentration, handicap of economic smallness, and the percentage of population displaced by natural disasters)

A transition economy is an economy which is changing from a planned economy to a free market

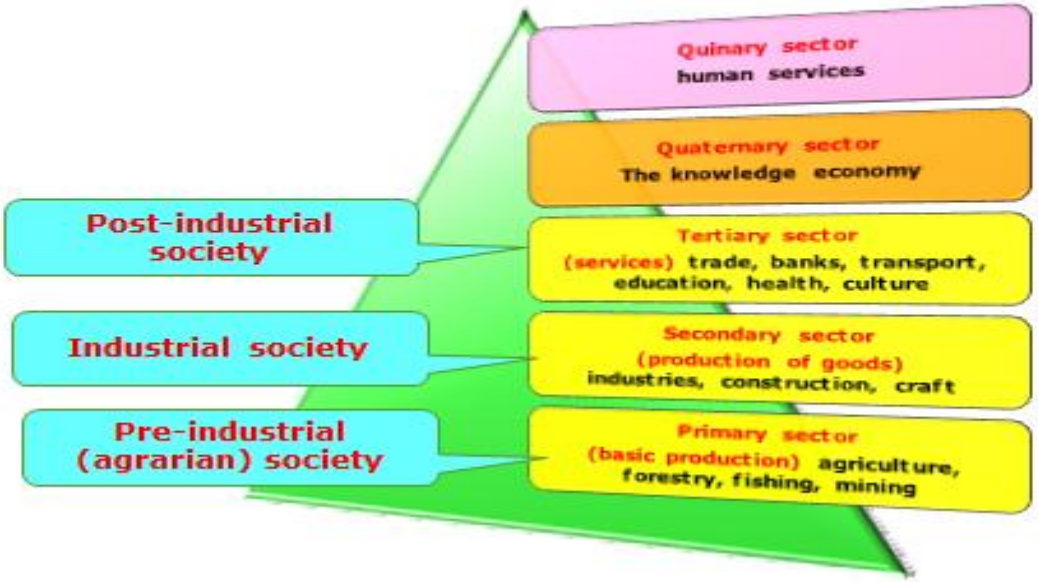
- The transition process is usually characterized by:
  - the changing and creating of institutions
  - particularly private enterprises
  - changes in the role of the state, thereby, the creation of fundamentally different governmental institutions and the promotion of private-owned enterprises, markets and independent financial institutions

World population ≈ 8%

World Ex and Im ≈ 10%

World GDP ≈ 10%

- **Criterion 3 - Sectoral structure of the economy**



A nation's economy can be divided into various sectors to define the proportion of the population engaged in the activity sector. This categorization is seen as a continuum of distance from the natural environment. The continuum

starts with primary economic activity, which concerns itself with the utilization of raw materials from the earth such as agriculture and mining. From there, the distance from the raw materials of the earth increases.

PRIMARY SECTOR

The primary sector of the economy extracts or harvests products from the earth, such as raw materials and basic foods. Activities associated with primary economic activity include agriculture (both subsistence and commercial), mining, forestry, farming, grazing, hunting and gathering, fishing and quarrying. The packaging and processing of raw materials are also considered to be part of this sector.

In developed and developing countries, a decreasing proportion of workers are involved in the primary sector. Only about 2 percent of the U.S. labor force is engaged in primary sector activity today, a dramatic decrease from the mid-19th century when more than two-thirds of the labor force was primary-sector workers.

SECONDARY SECTOR

The secondary sector of the economy produces finished goods from the raw materials extracted by the primary economy. All manufacturing, processing, and construction lie within this sector.

Activities associated with the secondary sector include metal working and smelting, automobile production, textile production, chemical and engineering industries, aerospace manufacturing, energy utilities, engineering, breweries and bottlers, construction and shipbuilding.

In the U.S., a little less than 20 percent of the working population is engaged in secondary sector activity.

TERTIARY SECTOR

The tertiary sector of the economy is also known as the service industry. This sector sells the goods produced by the secondary sector and provides commercial services to both the general population and to businesses in all five economic sectors.

Activities associated with this sector include retail and wholesale sales, transportation and distribution, restaurants, clerical services, media, tourism, insurance, banking, healthcare, and law.

In most developed and developing countries, a growing proportion of workers are devoted to the tertiary sector. In the U.S., about 80 percent of the labor force is tertiary workers.

QUATERNARY SECTOR

Information services: Information technology, media, R&D, information generation and sharing, financial planning, education, designing

Although many economic models only divide the economy into three sectors, others divide it into four or even five sectors. These final two sectors are closely linked with the services of the tertiary sector. In these models, the

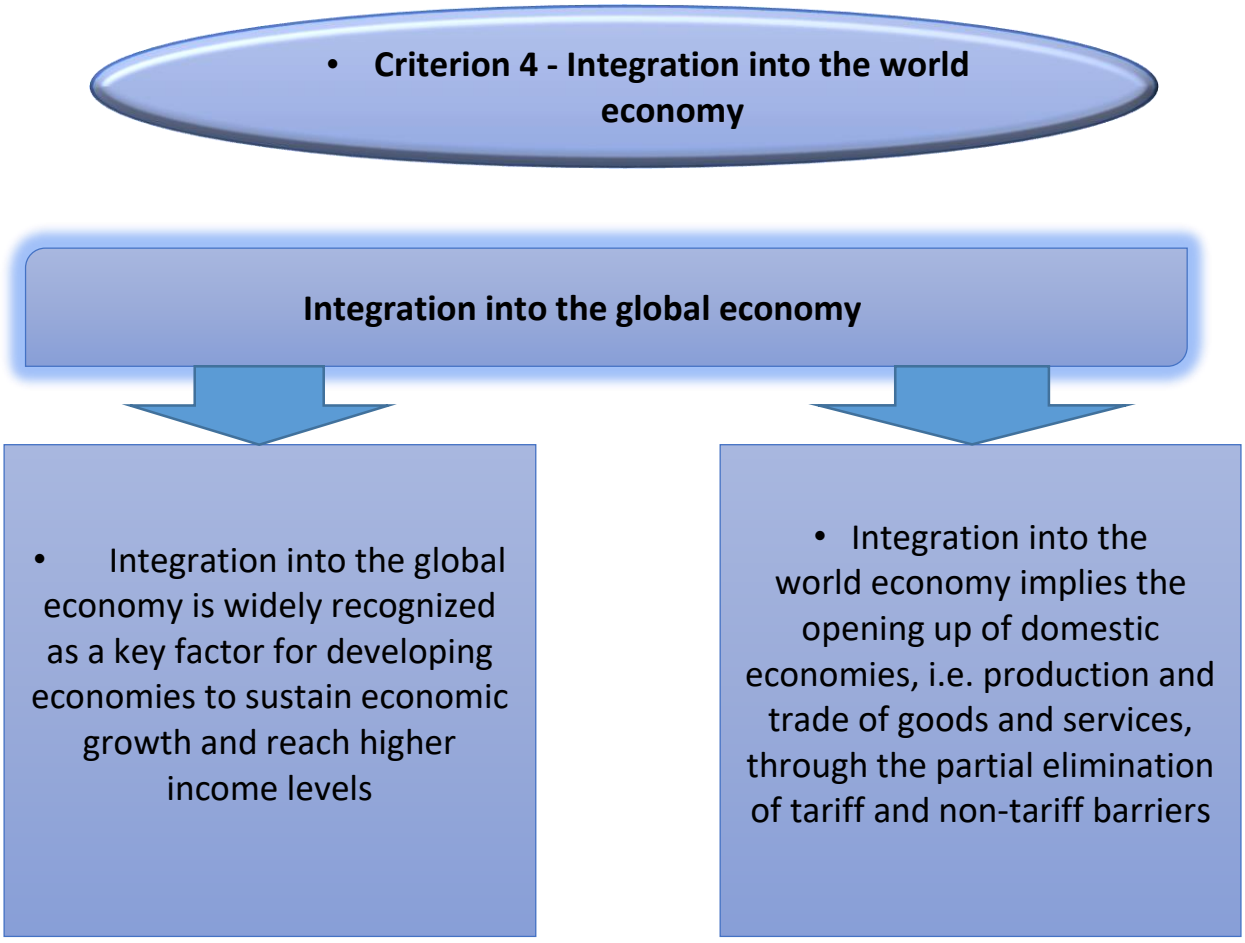
quaternary sector of the economy consists of intellectual activities often associated with technological innovation. It is sometimes called the knowledge economy.

Activities associated with this sector include government, culture, libraries, scientific research, education and information technology. These intellectual services and activities are what drive technological advancement, which can have a huge impact on short- and long-term economic growth.

QUINARY SECTOR

Some economists further subdivide the quaternary sector into the quinary sector, which includes the highest levels of decision making in a society or economy. This sector includes top executives or officials in such fields as government, science, universities, nonprofit, healthcare, culture and the media. It may also include police and fire departments, which are public services as opposed to for-profit enterprises.

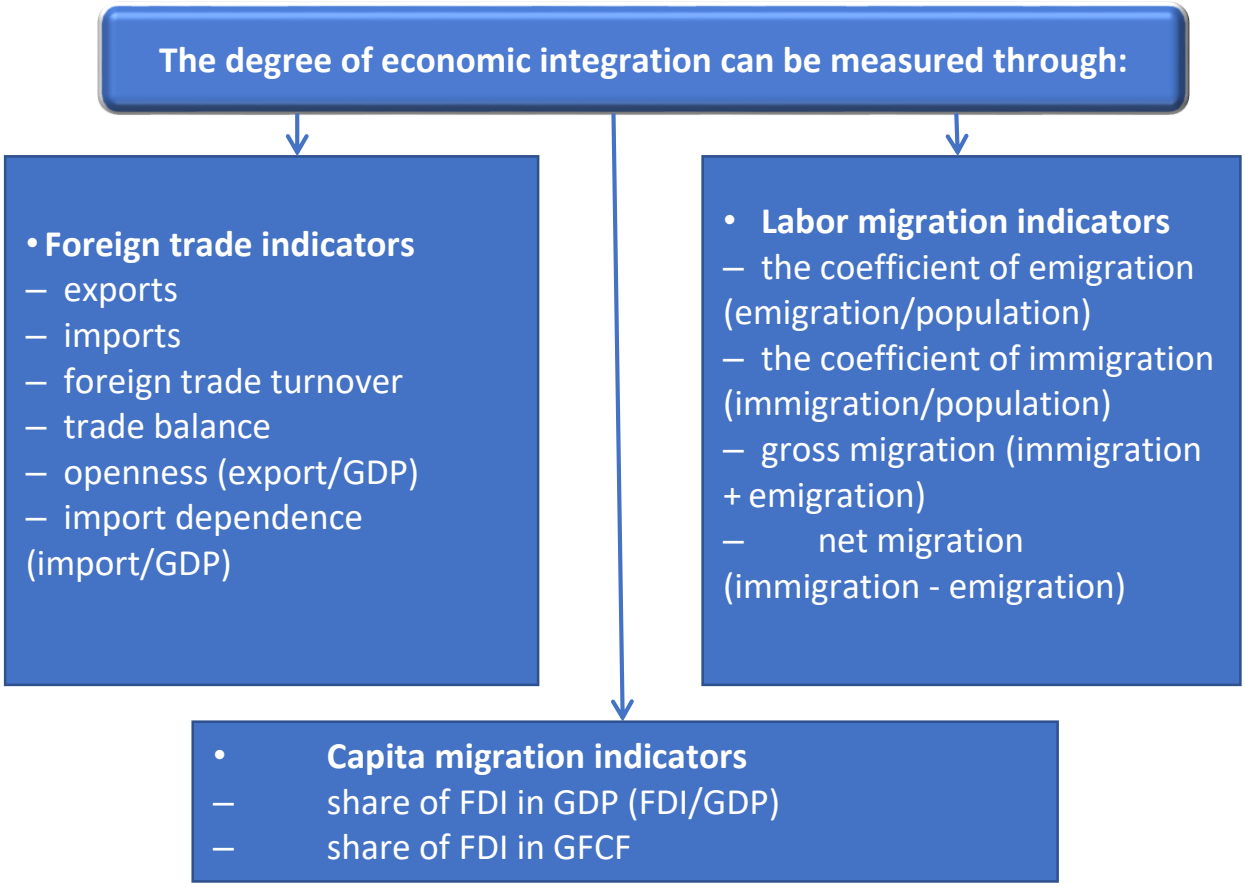
Economists sometimes also include domestic activities (duties performed in the home by a family member or dependent) in the quinary sector. These activities, such as childcare or housekeeping, are typically not measured by monetary amounts but contribute to the economy by providing services for free that would otherwise be paid for.



The degree of economic integration can be categorized into eight stages:

Stages of economic integration

Stages	Characteristics					
	Liberalization of trade between member countries	Mutual tariff elimination	Common outside (external) tariffs	Free flow of production factors (capital, labour force)	Harmonization of economic policy (fiscal and monetary)	Unification of economic policy, common bodies for its implementation
Preferential trade area	✓					
Free trade zone	✓	✓				
Customs union	✓	✓	✓			
Common market	✓	✓	✓	✓		
Economic and monetary union	✓	✓	✓	✓	✓	
Full integration (political union)	✓	✓	✓	✓	✓	✓



Tasks for control and self-control of knowledge and skills

Questions for Review

1) What is economic potential of a country? How it can be measured?

2) What is a sectoral structure of an economy? Does it differ in different group of countries?

3) What is meant by the industrial stage of economic development?

4) What factors affect territorial structure of a country's economy?

5) What criteria for classifying countries do you know?

6) Which countries belong to the group of industrialized countries?

7) How are the income group thresholds determined?

8) What historical and economic conditions affected the formation of a group of developed countries?

9) What indicators characterize the dynamics of economic development?

10) What factors influence economic development of a country?

Determine whether these statements are true or false

1) Since economic potential is defined with respect to absolute production volume, a high economic potential may be enjoyed by large countries with developed productive forces and great national wealth.

2) Economic growth and economic development are interchangeable concepts.

3) Institutions including maintaining the rule of law and stable democracy can be considered as a growth driver.

4) A developed country, industrialized country, more developed country, and more economically developed country (MEDC) are interchangeable concepts.

5) For the last 100 years, there has been a substantial shift from the primary and secondary sectors to the tertiary sector in industrialized countries.

6) The secondary sector of the economy includes industries that produce a finished, usable product and the extraction of natural resources.

7) The HDI was created to emphasize that people and their capabilities should be the ultimate criteria for assessing the development of a country, not economic growth alone.

8) The primary factor used to distinguish developed countries from developing countries is gross domestic product (GDP) per capita.

9) At this stage of the development of the world economy all countries in the world are sovereign independent states.

10) The discovery of more natural resources like oil, or mineral deposits cannot boost economic growth and cause the shifts in the country's Production Possibility Curve.

Chapter 2

THE ECONOMY OF THE US AND CANADA

Chapter Outline

2.1. The economy of the U.S.
2.2. The economy of Canada

2.1. The economy of the US

- the U.S. at a glance
- factors of economic development of the U.S.
- the place and role of the US economy in the global economy

Synopsis on the U.S. Economy:

The U.S. economy remains the most technologically powerful economy in the world – at the forefront in computers, pharmaceuticals, aerospace and military equipment – but its advantages have narrowed since WWII with output now falling behind China's, as investment in infrastructure, science, industry, and human capital have lagged (Cia.gov, 2018).

The U.S. economy features a highly-developed and technologically-advanced services sector, which accounts for about 80% of its output. The U.S. economy is dominated by services-oriented companies in areas such as technology, financial services, healthcare and retail. Large U.S. corporations also play a major role on the global stage, with more than a fifth of companies on the Fortune Global 500 coming from the United States (FocusEconomics | Economic Forecasts from the World's Leading Economists, 2018)

United States country profile

The USA is the world's foremost economic and military power, with global interests and an unmatched global reach.

- America's gross domestic product accounts for close to a quarter of the world total, and its military budget is reckoned to be almost as much as the rest of the world's defence spending put together.
- The country is also a major source of entertainment: American TV, Hollywood films, jazz, blues, rock and rap music are primary ingredients in global popular culture.
- The United States originated in a revolution which separated it from the British Crown. The constitution, drafted in 1787, established a federal system with a division of powers which has remained unchanged in form since its inception (BBC News, 2018)

US at a glance

Area	9,8 million sq km (4rd)
Population	326,6 million (3rd)
Currency	US dollar ($)
Government	Federal presidential republic
Capital	Washington
GDP (PPP) total	$ 18,6 trillion
PDP (PPP)per capita	$ 57,294
Independence:	4 July 1776 (declared independence from Great Britain); 3 September 1783 (recognized by Great Britain)

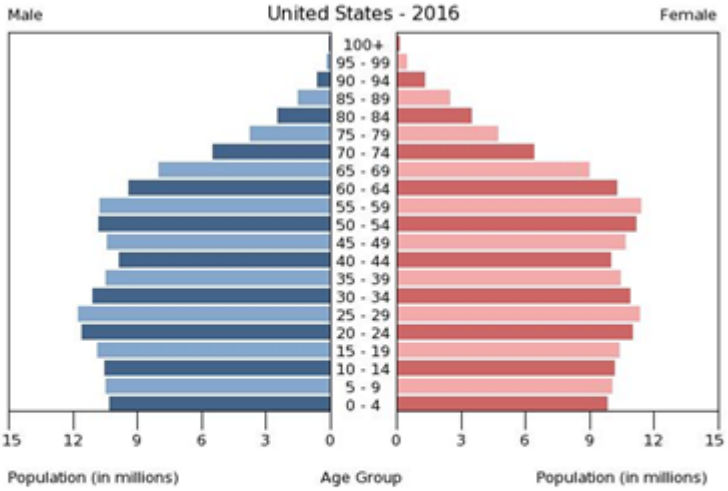
USA: People and society

Ethnic groups:
white 72.4%, black 12.6%, Asian 4.8%, Amerindian and Alaska native 0.9%, native Hawaiian and other Pacific islander 0.2%, other 6.2%, two or more races 2.9% (2010 est.)

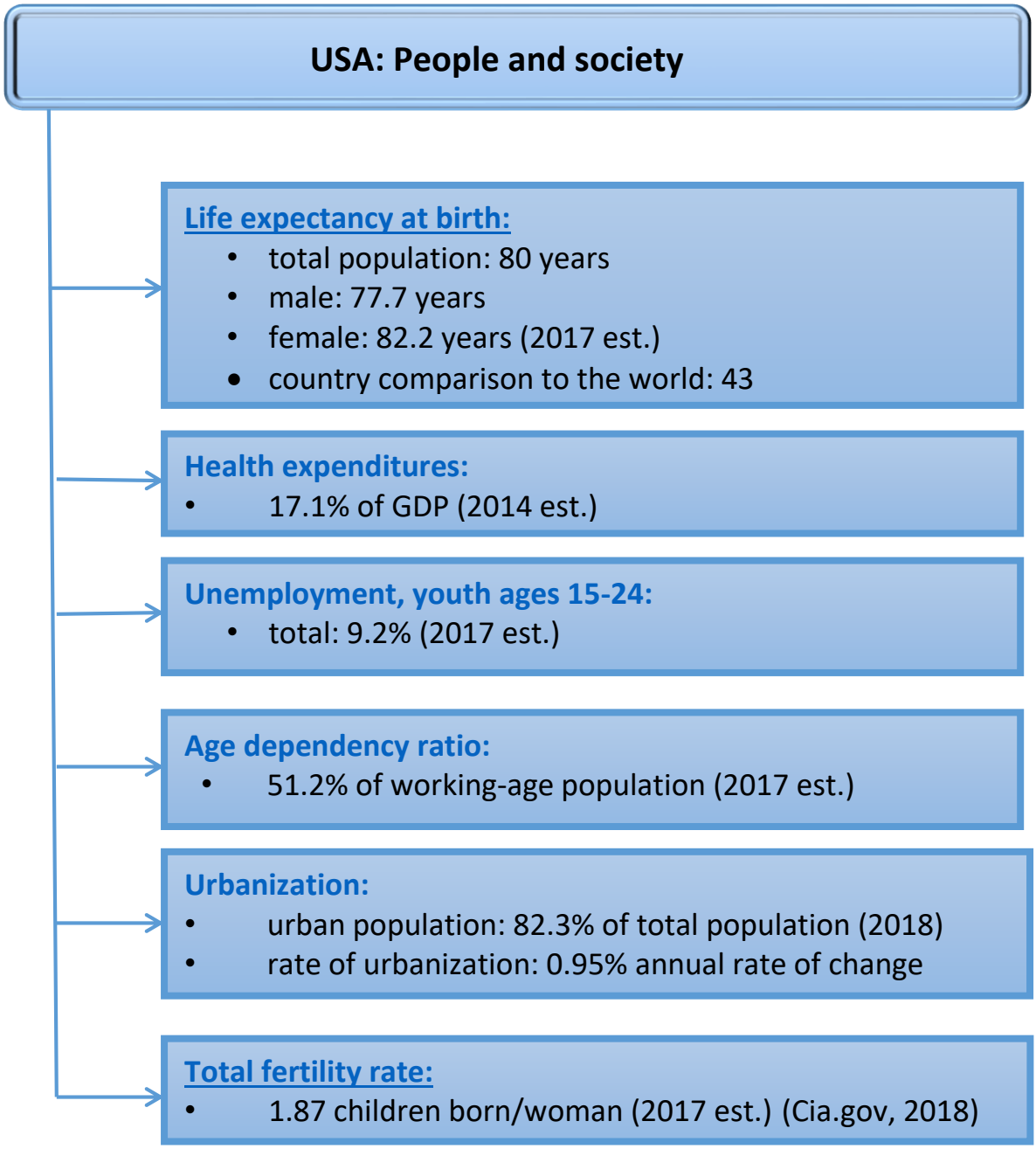
Languages:
English 79%, Spanish 13%, other Indo-European 3.7%, Asian and Pacific island 3.4%, other 1% (2015 est.)

Religions:
Protestant 46.5%, Roman Catholic 20.8%, Jewish 1.9%, Mormon 1.6%, other Christian 0.9%, Muslim 0.9%, Jehovah's Witness 0.8%, Buddhist 0.7%, Hindu 0.7%, other 1.8%, unaffiliated 22.8%, don't know/refused 0.6% (2014 est.) (Cia.gov, 2018)

Age structure



0-14 years: 18.73% (male 31,255,995/female 29,919,938)
15-24 years: 13.27% (male 22,213,952/female 21,137,826)
25-54 years: 39.45% (male 64,528,673/female 64,334,499) (Cia.gov, 2018)
55-64 years: 12.91% (male 20,357,880/female 21,821,976)
65 years and over: 15.63% (male 22,678,235/female 28,376,817) (2017 est.)



TFR - the average number of children that would be born per woman if all women lived to the end of their childbearing years and bore children according to a given fertility rate at each age

USA: Economy

GDP - composition, by end use:

- **Household consumption:** 69.1%
- **Government consumption:** 17.2%
- **Investment in capital :** 16.6%
- **Exports of goods and services:** 12.2%
- **Imports of goods and services:** -15.1% (2017 est.)

GDP - composition, by sector of origin:

- **agriculture:** 0.9%
- **industry:** 18.9%
- **services:** 80.2% (2017 est.)

Labor force - by occupation:

- **farming, forestry, and fishing:** 0.7%
- **manufacturing, extraction, transportation, and crafts:** 20.3%
- **managerial, professional, and technical:** 37.3%
- **sales and office:** 24.2%
- **other services:** 17.6% (2009 est.)

Unemployment rate:

- 4.4% (2017 est.)

Population below poverty line:

- 15.1% (2010 est.)

Household income or consumption by percentage share:

- **lowest 10%:** 2%; **highest 10%:** 30% (2007 est.)

Distribution of family income - Gini index:

- 45 (2007); 40.8 (1997)
- **country comparison to the world:** 39

Inflation rate (consumer prices):

- 2.1% (2017 est.)

Reserves of foreign exchange and gold:

- $117.3 billion (31 December 2016 est.)
- **country comparison to the world:** 22

Debt - external:

- $17.91 trillion (31 March 2016 est.)
- **country comparison to the world:** 2 (after the EU)

Stock of direct foreign investment - at home:

- $4.084 trillion (31 December 2017 est.)
- **country comparison to the world:** 3

Stock of direct foreign investment - abroad:

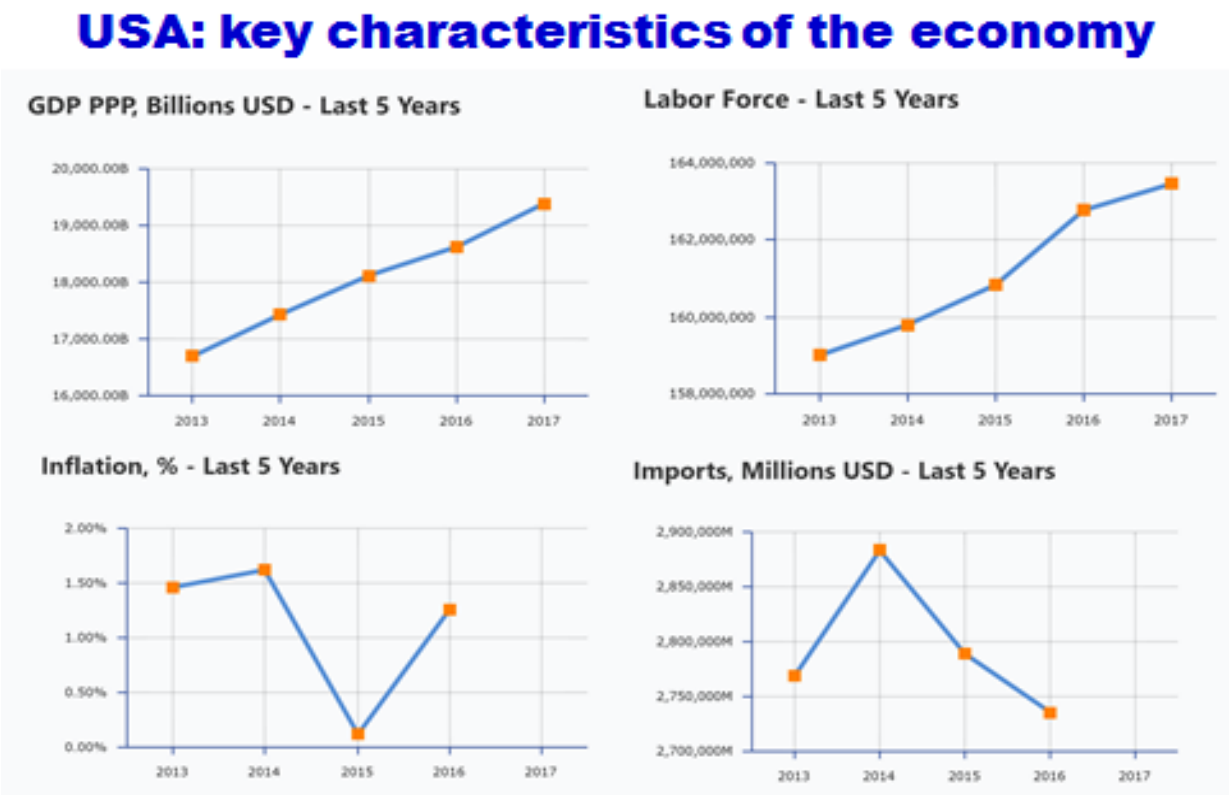
- $5.644 trillion (31 December 2017 est.)
- **country comparison to the world:** 3

Agriculture - products:

- wheat, corn, other grains, fruits, vegetables, cotton; beef, pork, poultry, dairy products; fish; forest products

Industries:

- highly diversified, world leading, high-technology innovator, second-largest industrial output in the world; petroleum, steel, motor vehicles, aerospace, telecommunications, chemicals, electronics, food processing, consumer goods, lumber, mining (Cia.gov, 2018)



Source: Insights, G. and States, U. (2018). *United States: Economy*. [online] Globaledge.msu.edu. Available at: https://globaledge.msu.edu/countries/united-states/economy [Accessed 15 Sep. 2018].

USA: key indices (cont'd)

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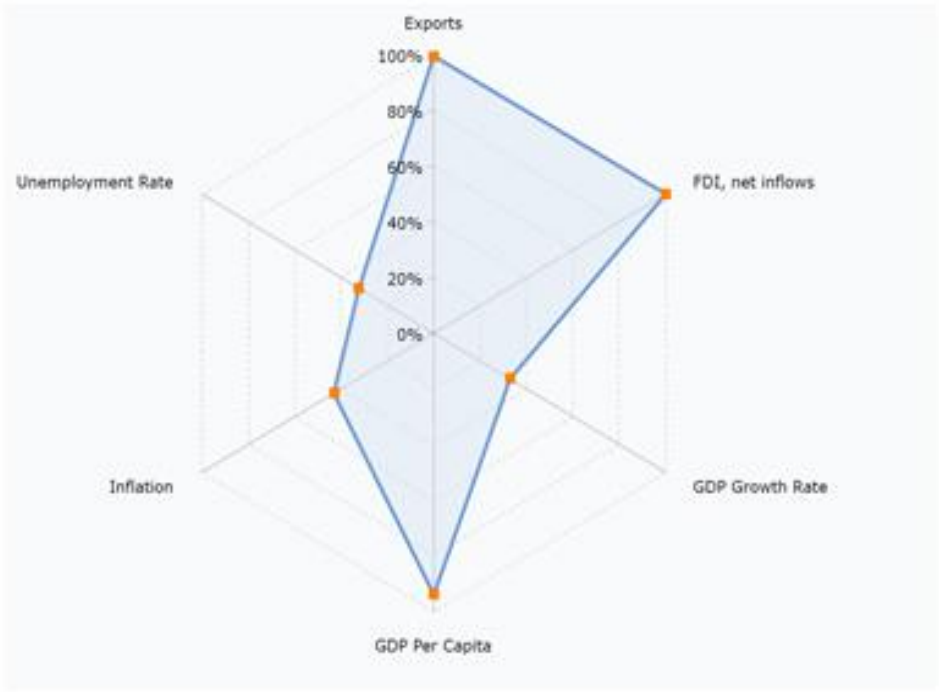
USA: Economic Snapshot



Source: Insights, G. and States, U. (2018). *United States: Economy*. [online] Globaledge.msu.edu. Available at: https://globaledge.msu.edu/countries/united-states/economy [Accessed 15 Sep. 2018].

USA: Economic history

1565	First permanent European settlement in North America.
17th-18th centuries	Hundreds of thousands of Africans brought over and sold into slavery to work on cotton and tobacco plantations.
1776	The American Revolutionary War is sparked by the signing of the Declaration of Independence. The war lasts until 1783, when Britain accepted the loss of their American colonies by virtue of signing the Treaty of Paris.
1787	Founding Fathers draw up new constitution for United States of America. Constitution comes into effect in 1788.
19th century	Residual resistance by indigenous people crushed as immigration from Europe assumes mass proportions, with settlers moving westwards.
1812-1815	The War of 1812 occurs between the U.S. and Britain, which is due in part to British restrictions on U.S. trade during the Napoleonic Wars.

1861-1865	US Civil War: Federalist forces defeat the Confederate pro-slavery states in the South. Slavery is abolished under the Thirteenth Amendment.
1914	The U.S. completes construction of the Panama Canal. The canal greatly expedites international maritime trade by linking the Atlantic and Pacific oceans.
1914	The U.S. completes construction of the Panama Canal. The canal greatly expedites international maritime trade by linking the Atlantic and Pacific oceans.
1929-1933	13 million people become unemployed after the Wall Street stock market crash of 1929 triggers what becomes known as the Great Depression.
1941	Japan attacks the US fleet at Pearl Harbour in Hawaii, precipitating the United States' entry into World War Two.
1948	The U.S. commits $13 billion to reviving post-war European economies under the Marshall Plan.
1954	Racial segregation in schools becomes unconstitutional; start of campaign of civil disobedience to secure civil rights for Americans of African descent.
1981	Ronald Reagan wins the presidency and implements his plan of supply side economics, dubbed Reaganomics". This economic policy leads to several years of economic expansion, but triples the national debt as a cost.
1992	Congress passes the North American Free Trade Agreement (NAFTA). NAFTA establishes free trade between the United States, Mexico, and Canada.
2001 11 September	Coordinated suicide attacks on various high-profile targets, prompting the US to embark on a ''war on terror'' which includes the invasion of Afghanistan and Iraq.
2008	Barack Obama is elected the first black president of the United States.
2008	The United States faces its worst financial crisis since the Great Depression after Lehman Brothers, a major investment bank, and collapses. "The Great Recession" creates a global financial crisis. (BBC News, 2018; Insights and States, 2018)

Factors of economic development of the US

The country has access to abundant natural resources and a sophisticated physical infrastructure.

It has a large, well-educated and productive workforce. Moreover, the physical and human capital is fully leveraged in a free-market and business-oriented environment.

The government and the people of the US both contribute to this unique economic environment. The government provides political stability, a functional legal system, and a regulatory structure that allow the economy to flourish. The general population, including a diversity of immigrants, brings a solid work ethic, as well as a sense of entrepreneurship and risk taking to the mix.

Economic growth in the United States is constantly being driven forward by ongoing innovation, research and development as well as capital investment.

Natural-resource potential of the US

- Cultivated land area (2nd place, after India)
- Oil production (3rd place, after Russia and Saudi Arabia)
- Natural gas production (1st place)
- Forest area (4th place, after Russia, Canada and Brazil)
- Coal production (3rd place after China and India) with 491 billion tons accounting for 27% of the world's total)
- Copper production (4th place, after Chile, China, Peru)
- Timber production (3rd place after China and Canada)
- Gold exports (3rd place after Switzerland and Hong Kong)
- Phosphate production (3rd place after China and Morocco with Western Sahara)
- Total renewable water resources (3rd place after Brazil and Russia)

With about $45 trillion in natural resources, the U.S. is number two on the list of countries with the most natural reserves.

A total of 89% of the country's natural resources are from coal and timber, but it also has sizable deposits of natural gas, oil, gold and copper.

Country's demand for most mineral resources is completely covered with mineral reserves:

- The 1st place on reserves of coal, with 27% of the world's total.
- Large reserves of uranium ores.
- Rich oil and gas reserves, the 8th place in the world.
- Potash reserves and reserves of shale.
- Iron ore can fully meet the needs of the country.
- Rich reserves of titanium ores.
- The 2nd largest reserves of tungsten ore, after Canada.
- The U.S. is rich in gold and takes the second place in the world after South Africa.
- Abundant reserves of lithium ores.
- Large reserves of copper ore, satisfying 60 % of the country, more than seventy copper deposits.
- The 1st place of reserves of molybdenum ore.
- The 2nd place on reserves of lead ores, after Australia.
- Large deposits of silver ore.
- The 2nd largest reserves of phosphorite after Morocco.
- Numerous deposits of building materials: clay, facing stone, marble, sand, gravel.
- A number of deposits of gems like tourmaline, turquoise, sapphire, jade, beryl, rose quartz.

THE PLACE AND ROLE OF THE U.S. IN THE GLOBAL ECONOMY

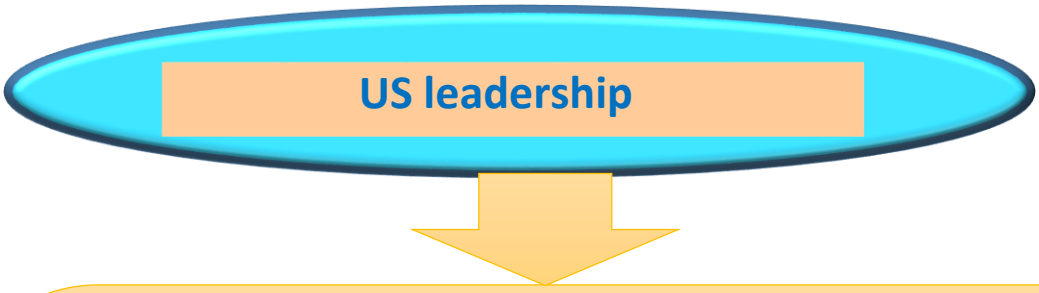
Despite facing challenges at the domestic level along with a rapidly transforming global landscape, the U.S. economy is still the largest and most important in the world.

The U.S. economy represents about 20% of total global output, and is still larger than that of China

Even though the services sector is the main engine of the economy, the U.S. also has an important manufacturing base, which represents roughly 15% of output.

The U.S. is the second largest manufacturer in the world and a leader in higher-value industries such as automobiles, aerospace, machinery, telecommunications and chemicals.

Meanwhile, agriculture represents less than 2% of output. However, large amounts of arable land, advanced farming technology and generous government subsidies make the U.S. a net exporter of food and the largest agricultural exporting country in the world (FocusEconomics | Economic Forecasts from the World's Leading Economists, 2018).



1. US share of the world GDP (PPP) – 24,6% (est.2016)
2. 2nd largest industrial output; share of world industrial output 15% est. 2017)
3. 2nd largest world exporter; share in world total exports – 9% (est. 2016)
4. 1st largest world importer; share in world total imports – 14% (est. 2016)
5. Gold reserve – 1st place
6. US technological leadership (high-technology innovator)
7. US leadership in globalization processes
8. US financial leadership. The **New York Stock Exchange** it is by far the **world's largest stock exchange** by market capitalization of its listed companies at US$21.3 trillion as of June 2017.
9. US leadership in international organizations (UNO, NATO, IMF, IBRD, NAFTA)

The US Competitive Advantage

- The US has the most technologically powerful economy in the world. US firms are at or near the forefront in technological advances, especially in computers, pharmaceuticals, and medical, aerospace, and military equipment; however, their advantage has narrowed since the end of World War II.
- In the US, private individuals and business firms make most of the decisions, and the federal and state governments buy needed goods and services predominantly in the private marketplace. US business firms enjoy greater flexibility than their counterparts in Western Europe and Japan in decisions to expand capital plant, to lay off surplus workers, and to develop new products. At the same time, businesses face higher barriers to enter their rivals' home markets than foreign firms face entering US markets.
- Well-developed infrastructure
- High labour productivity
- US dollar is the most important reserve currency
- High employment rate

The US Competitive Disadvantages

- Long-term problems for the US include stagnation of wages for lower-income families, inadequate investment in deteriorating infrastructure, rapidly rising medical and pension costs of an aging population, energy shortages, and sizable current account and budget deficits.
- The onrush of technology has been a driving factor in the gradual development of a "two-tier" labor market in which those at the bottom lack the education and the professional/technical skills of those at the top and, more and more, fail to get comparable pay raises, health insurance coverage, and other benefits.
- Imported oil accounts for nearly 55% of US consumption and oil has a major impact on the overall health of the eco
- The sub-prime mortgage crisis, falling home prices, investment bank failures, tight credit, and the global economic downturn pushed the US into a recession by mid-2008.
- Wars in Iraq and Afghanistan required major shifts in national resources from civilian to military purposes and contributed to the growth of the budget deficit and public debt. Through 2014, the direct costs of the wars totaled more than $1.5 trillion, according to US Government figures.

Challenges to the U.S. economy:

- The U.S. economy has is currently emerging from a period of considerable turmoil. A mix of factors, including low interest rates, widespread mortgage lending, excessive risk taking in the financial sector, high consumer indebtedness and lax government regulation, led to a major recession that began in 2008.
- Large and sustained fiscal deficits and a growing external imbalance
- A steady increase in U.S. imports of manufactured goods that are cheaper than equivalent domestic goods.
- The "outsourcing" of jobs: a number of U.S. companies to close factories in the United States and build new ones in developing countries, where they can take advantage of lower wages and improved manufacturing skills.

USA: Trade Statistics

Exporter rank: 2/146
Trade Balance Rank: 145/145

Importer rank: 1/145

Top 10 Export Countries	
Country	Export USD$
Canada (≈18,3%)	$266,764,846,599
Mexico (≈15,7%)	$229,701,720,993
China (≈8,4%)	$115,602,060,260
Japan (≈4,4%)	$63,234,270,311
United Kingdom	$55,280,153,195
Germany	$49,164,592,884
South Korea	$42,308,096,518
Netherlands	$39,682,742,036
Hong Kong	$34,872,025,357
France	$32,618,447,002

Top 10 Import Countries	
Country	Import USD$
China (≈21,6%)	$481,516,029,544
Mexico (≈13,4%)	$296,761,578,397
Canada (≈12,8%)	$282,955,447,094
Japan (≈5,8%)	$135,116,982,811
Germany (≈5%)	$116,266,722,998
South Korea	$71,881,138,597
United Kingdom	$55,153,137,778
France	$47,769,520,324
India	$47,740,263,696
Italy	$46,607,827,030

Insights, G. and States, U. (2018). *United States: Trade Statistics*. [online] Globaledge.msu.edu. Available at: https://globaledge.msu.edu/countries/united-states/tradestat [Accessed 15 Sep. 2018].

Top 10 Export Goods	
Industrial Machinery	$190,634,364,244
Electrical Machinery	$167,123,160,388
Aircraft	$134,769,837,356
Motor Vehicles & Parts	$124,564,186,349
Oil & Mineral Fuels	$93,701,792,291
Precision Instruments	$82,002,848,506
Plastics	$58,623,628,787
Precious Stones & Metals	$57,228,980,270
Pharmaceuticals	$46,962,969,692
Items nesoi	$40,125,077,810
Total Exports (2016)	$1,450,457,291,215
Exports of goods and services (% of GDP) (2016)	11.89%

Top 10 Import Goods	
Electrical Machinery	$335,842,142,752
Industrial Machinery	$315,411,642,557
Motor Vehicles & Parts	$284,834,524,798
Oil & Mineral Fuels	$163,161,653,332
Pharmaceuticals	$92,521,703,111
Items nesoi	$86,388,195,397
Precision Instruments	$80,763,489,174
Precious Stones & Metals	$65,332,733,935
Furniture	$63,138,205,873
Plastics	$50,348,807,283
Total Imports (2016)	$2,248,208,943,026
Imports of goods and services (% of GDP) (2016)	14.69%

Insights, G. and States, U. (2018). *United States: Trade Statistics*. [online] Globaledge.msu.edu. Available at: https://globaledge.msu.edu/countries/united-states/tradestat [Accessed 15 Sep. 2018].

Exports and imports by major commodity groups

Exports - commodities:

- **agricultural products** (soybeans, fruit, corn) 9.2%
- **industrial supplies** (organic chemicals) 26.8%
- **capital goods** (transistors, aircraft, motor vehicle parts, computers, telecommunications equipment) 49.0%
- **consumer goods** (automobiles, medicines) 15.0% (2008 est.)
- (Cia.gov, 2018)

Imports - commodities:

- **agricultural products** 4.9%
- **industrial supplies** 32.9% (crude oil 8.2%)
- **capital goods** 30.4% (computers, telecommunications equipment, motor vehicle parts, office machines, electric power machinery)
- **consumer goods** 31.8% (automobiles, clothing, medicines, furniture, toys) (2008 est.)
- (Cia.gov, 2018)

2.2. The economy of Canada

- Canada at a glance
- factors of economic development of Canada
- the place and role of Canada in the global economy

Synopsis on the Canada's Economy:

Canada resembles the US in its market-oriented economic system, pattern of production, and high living standards. It achieved strong growth since World War II by combining abundant natural resources, a highly skilled labor force, and modern capital stock with close economic ties to the US

Since World War II, the impressive growth of the manufacturing, mining, and service sectors has transformed the nation from a largely rural economy into one primarily industrial and urban. Canada has a large oil and natural gas sector with the majority of crude oil production derived from oil sands in the western provinces, especially Alberta.

Canada now ranks third in the world in proved oil reserves behind Venezuela and Saudi Arabia and is the world's seventh-largest oil producer. (***Cia.gov, 2018***).

Canada country profile

The world's second largest country by surface but relatively small in terms of population, Canada punches above its weight in economic terms.

- A federation of former British colonies, Canada follows the British pattern of parliamentary democracy, and the UK monarch is head of state. Ties with the US are now vital, especially in terms of trade, but Canada often goes its own way.

- Both English and French enjoy official status, and mainly French-speaking Quebec - where pressure for full sovereignty has abated in recent years - has wide-ranging cultural autonomy. Indigenous peoples make up around 4% of the population.

- Canada is one of world's top trading nations - and one of its richest. Alongside a dominant service sector, Canada also has vast oil reserves and is a major exporter of energy, food and minerals (***BBC News, 2018***).

Canada at a glance

Area	9,98 million sq km (2nd)
Population	35,7 million
Currency	Canadian dollar ($) (CAD)
Government	Federal parliamentary democracy and constitutional monarchy
Capital	Ottawa
GDP (PPP) total	$ 1,7 trillion
PDP (PPP) per capita	$ 46,199
Independence	1 July 1867 (union of British North American colonies); 11 December 1931 (recognized by UK per Statute of Westminster)

Canada: People and society

Population:

- 35,623,680 (July 2017 est.)
- **country comparison to the world:** 38
- 0.73% (2017 est.)

Ethnic groups:

- Canadian 32.2%, English 19.8%, French 15.5%, Scottish 14.4%, Irish 13.8%, German 9.8%, Italian 4.5%, Chinese 4.5%, North American Indian 4.2%, other 50.9%

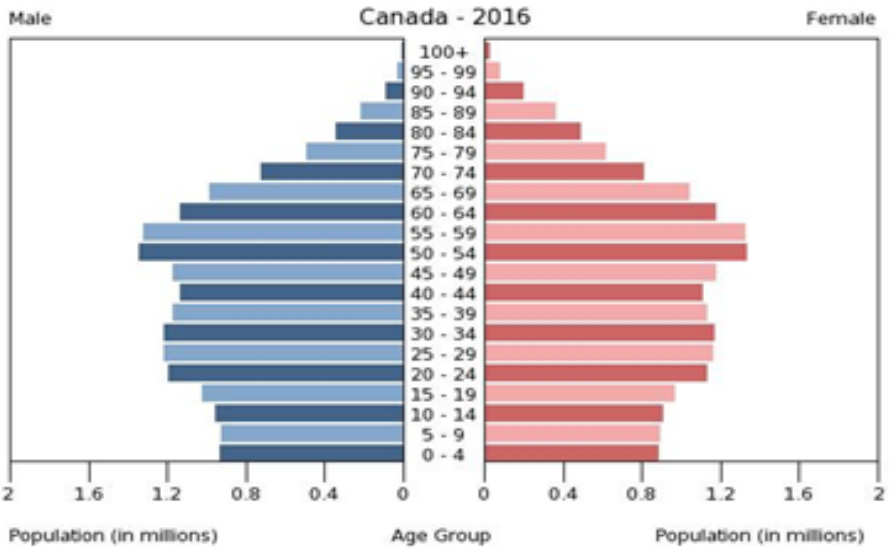
Languages:

- English (official) 58.7%, French (official) 22%, Punjabi 1.4%, Italian 1.3%, Spanish 1.3%, German 1.3%, Cantonese 1.2%, Tagalog 1.2%, Arabic 1.1%, other 10.5% (2011 est.)

Religions:

Catholic 39% (includes Roman Catholic 38.8%, other Catholic .2%), Protestant 20.3% (includes United Church 6.1%, Anglican 5%, Baptist 1.9%, Lutheran 1.5%, Pentecostal 1.5%, Presbyterian 1.4%, other Protestant 2.9%), Orthodox 1.6%, other Christian 6.3%, Muslim 3.2%, Hindu 1.5%, Sikh 1.4%, Buddhist 1.1%, Jewish 1%, other 0.6%, none 23.9% (2011 est.) (Cia.gov, 2018)

Age structure



0-14 years: 15.44% (male 2,819,279/female 2,680,024)
15-24 years: 11.85% (male 2,171,703/female 2,048,546)
25-54 years: 39.99% (male 7,227,145/female 7,020,156) (Cia.gov, 2018)
55-64 years: 14.1% (male 2,492,120/female 2,529,652)
65 years and over: 18.63% (male 2,958,721/female 3,676,334) (2017 est.)

Life expectancy at birth:

- **total population:** 81.9 years
- **male:** 79.3 years
- **female:** 84.7 years (2017 est.)
- **country comparison to the world:** 21

Health expenditures:

- 10.4% of GDP (2014)

Unemployment, youth ages 15-24:

- **total:** 11.6%

Age dependency ratio:

- 47.3% of working-age population (2015 est.)

Urbanization:

- **urban population:** 81.4% of total population (2018)
- **rate of urbanization:** 0.97% annual rate of change (2015-20 est.)

Total fertility rate:

1.6 children born/woman (2017 est.) ***(Cia.gov, 2018***)

Canada: Economy

GDP - composition, by end use:

- **Household consumption:** 58.1%
- **Government consumption:** 20.9%
- **Investment in capital :** 23.1%
- **Exports of goods and services:** 31.4%
- I**mports of goods and services:** -33.6% (2017 est.)

GDP - composition, by sector of origin:

- **agriculture:** 1.7%
- **industry:** 28.1%
- **services:** 70.2% (2017 est.)

Labor force - by occupation:

- **agriculture:** 2%
- **manufacturing:** 13%
- **construction:** 6%
- **services:** 76%
- **other:** 3% (2006 est.)

Unemployment rate:

- 6.5% (2017 est.)

Population below poverty line:

- 9.4% (2008 est.)

Household income or consumption by percentage share:

- **lowest 10%:** 2.6% **highest 10%:** 24.8% (2000)

Distribution of family income - Gini index:

- 37.9 (2011) 24.9 (1993)
- **country comparison to the world:** 78

Inflation rate (consumer prices):

- 1.6% (2017 est.)

Reserves of foreign exchange and gold:

- $85.6 billion (31 December 2017 est.)
- **country comparison to the world:** 29

Debt - external:

- $1.608 trillion (31 March 2016 est.)
- **country comparison to the world:** 14

Stock of direct foreign investment - at home:

- $1.045 trillion (31 December 2017 est.)
- **country comparison to the world:** 12

Stock of direct foreign investment - abroad:

- $1.366 trillion (31 December 2017 est.)
- **country comparison to the world:** 11

Agriculture - products:

- wheat, barley, oilseed, tobacco, fruits, vegetables; dairy products; fish; forest products

Industries:

- transportation equipment, chemicals, processed and unprocessed minerals, food products, wood and paper products, fish products, petroleum, natural gas

(Cia.gov, 2018)

Canada: key characteristics of the economy

Source: Insights, G. and States, U. (2018). *Canada: Economy*. [online] Globaledge.msu.edu. Available at: https://globaledge.msu.edu/countries/canada/economy [Accessed 15 Sep. 2018].

Canada: key indices

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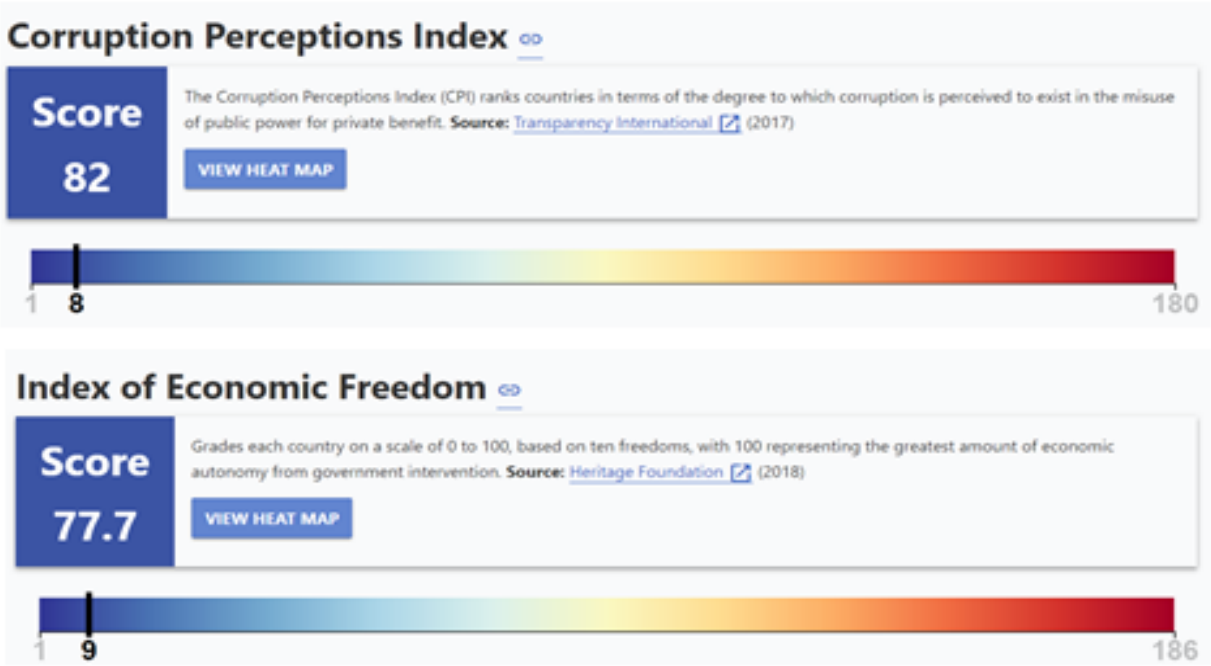
Canada: key indices (cont'd)



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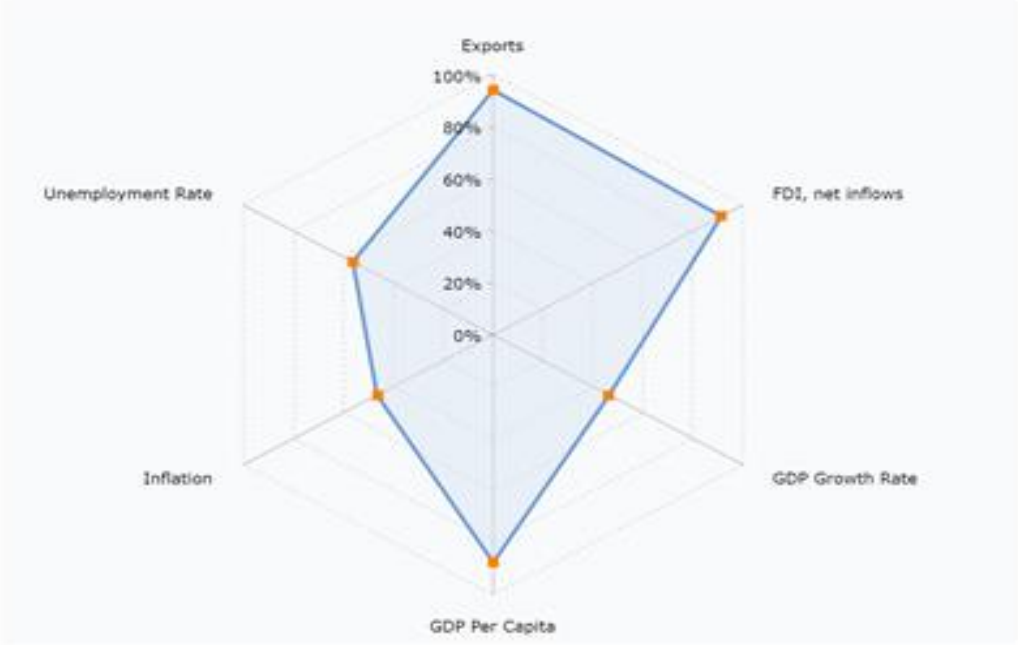
Canada: Economic Snapshot



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Canada: Economic history

1534	French explorer Jacques Cartier claims the shores of the Gulf of St. Lawrence for France.
1583	Newfoundland becomes England's first overseas colony.
1600s	Fur trade becomes increasingly important and lucrative in the region, establishing a rivalry between the French, British, and Dutch.
1627	Company of New France established to govern and exploit "New France" - France's North American colonies
1756	The Seven Years' War begins between New France and the British colonies. The war ends in 1763 with the signing of the Treaty of Paris, which gave all French colonies east of the Mississippi to Britain.
1763	Under the Treaty of Paris, Britain acquires all French colonies east of the Mississippi, including New France, which becomes the colony of Quebec.
1867	British North America Act unites Ontario, Quebec, Nova Scotia and New Brunswick in the Dominion of Canada.
1885	The Canadian Pacific railroad is completed, thereby facilitating communication and transportation across the nation.
1898	A gold rush occurs along the upper Yukon River.
1931	The Statute of Westminster is agreed upon, giving all British dominions complete autonomy, including Canada..
1939	World War II: Canadian forces are active in Italy, Europe, the Atlantic and elsewhere.
1949	Canada becomes a founding member of North Atlantic Treaty Organization (NATO).
1982	The Canada Act is passed by Britain, granting complete independence to Canada. Canada adopts its new constitution, including a charter of rights
1992	The North American Free Trade Agreement (NAFTA)is agreed upon by Canada, the United States, and Mexico.

1995	A referendum in Quebec rejects independence by a margin of only 1%.
2009	Parliament approves a $30 billion stimulus package to shore up the economy during the global financial crisis (BBC News, 2018; Insights and States, 2018)

https://www.bbc.co.uk/news/world-us-canada-16761057
https://globaledge.msu.edu/countries/united-states/history

Factors of economic development of Canada

- Only 5% of the land is arable (capable of being farmed)? – 5 = only in Southern Canada (Northern Canada's terrain is permafrost!) – This is actually a large amount, considering Canada is the world's 2nd largest country
- Canada's economy has focused on resource extraction in recent years. While crude oil, Canada's big commodity export, helped the country get through the global financial crisis relatively unscathed, the low oil price is now putting the economy under severe strain
- Structural problems: The drop in global energy prices is not the only reason for Canada's sluggish economy. There is much hand-wringing over Canada's lack of innovative, globally competitive companies at a time when its traditional manufacturing industries are being eroded. Canada trails other developed economies in areas including corporate research and development, information technology investments, patents and productivity
- There are concerns that ultra-low interest rates, currently at 0.5%, have been driving unsustainable housing booms, particularly in Toronto and Vancouver.
- Consumer debt is at a record 165% of disposable income, with most of the borrowing going into buying houses

Natural-resource potential of Canada

- Over the last decade, natural resource wealth accounted for between 12% and 19% of Canada's total wealth.
- Energy resources include natural gas, crude oil, crude bitumen (oil sands) and coal. Mineral resources include gold-silver, nickel-copper, copper-zinc, lead-zinc, iron, molybdenum, uranium, potash and diamonds. Timber reserves include timber stocks that are physically accessible and available for harvesting.
- Canada has the world's largest proportion of fresh water lakes. Canada also has a very small population compared to other countries that are similar in size. This is why they are able to share most of their resources. Canada contains 9% of the world's renewable water supply
- Alberta has 50% of the world's supply of bitumen
- the country is a leading exporter of zinc, uranium, gold, nickel, aluminum, steel, iron ore, coking coal and lead
- Canada has the third largest oil reserves in the world and is the world's fifth largest oil producer and fourth largest oil exporter.

The place and role of Canada in the global economy

- The economy of Canada is a highly developed mixed economy with 10th largest GDP by nominal and 16th largest GDP by PPP in the world.
- Canada has the 4th highest total estimated value of natural resources, valued at US$33.2 trillion in 2016. It has the world's 3rd largest proven petroleum reserves and is the 4th largest exporter of petroleum. It is also the 4th largest exporter of natural gas. Canada is considered an "energy superpower" due to its abundant natural resources and small population.
- At the end of World War II, Canada emerged as a key player in the new geo-political reality.
- In the Trudeau years (1968-1979; 1980-1984), the notion of Canada as the world's leader in peacekeeping became deeply embedded.
- In the early 90s, Canada was instrumental in laying the groundwork for regional and international trade agreements, most notably NAFTA and the WTO.
- Today Canada is increasingly seen as an example of a successful pluralistic and democratic society with the rule of law

Canada’s Competitive Advantage

- Primary advantages lie in location, natural resources, a diverse economy, high-quality public education, and institutional and political stability.

- Canada's proximity to, and unique relationship with, the US are definite advantages in accessing the large US market. This is bolstered by trade agreements with the US, which gives preferential treatment for goods and services. Moreover, the location of the ports gives the country closer access to key central US regional markets than US ports for both Asian and European sourced and destined goods.

- Canada has abundant natural resource wealth. It is the world's largest producer and exporter of uranium, with the world's third largest reserves. Canada is also the world's largest producer of potash. It is the world's second largest generator of hydroelectricity and the world's third largest producer of natural gas. Canada is the largest supplier of crude oil, petroleum products and natural gas to the US.

- Canada's cultural diversity, tolerance and high level of acceptance of immigration are important attributes in a global world.

- Canada's economic base is diverse. In addition to its mineral and petroleum resources, Canada is among the world's leaders in fisheries, forestry and agriculture. Canadian economy derives further strength from its burgeoning services sector. The mix of traditional and emerging products and services is a powerful basis on which to compete.

- Canada has a highly educated population. Canadians also have high rates of labour force participation, and are skilled and adaptable workers with a strong work ethic. Many Canadians have successfully learned new labour market skills and have seized new opportunities, which are key assets in a value-added, knowledge-based economy.

- Canada has earned an international reputation for integrity and credibility through strong leadership and diplomacy. Canada is a well-respected member of the G7, and stands out in the world for its prudent fiscal policy (which has generated consistent surpluses), complemented by credible monetary policy. Canada also provides political stability through strong institutions and a commitment to the rule of law, an increasingly important competitive asset for economic and resource development.

Canada’s Competitive Disadvantages

- Competitive Weaknesses can be classified broadly as population density and geography, scale, jurisdictional fragmentation and regulatory burden, taxation and the cost of capital, and insufficient entrepreneurial ambition.

- Although Canada's land mass is the second largest in the world, its population and economy are small by world standards. Canada accounts for 0.5 percent of the world's population and 2 percent of the world's economic activity. Canada ranks last in the G7 in terms of population size and share of total world economic activity.

- Cold climate and dispersion of a modest population over a large area. Canada's large size imposes high infrastructure costs and places heavy demands on borders, ports and transportation corridors. Small domestic market means that Canadian firms must look beyond the borders to achieve the scale necessary to compete on a more equal footing with their global rivals. Canada's firms must also overcome the tendency to remain small in a decentralized federation. Compounding these difficulties, Canada lacks effective mechanisms for addressing federal–provincial differences, leading to market fragmentation.

- A multitude of internal barriers constrain the mobility of goods, services and people and make a small market even smaller. Unnecessary regulations and procedures slow down innovation, frustrate new product launches, operate to protect domestic producers from foreign competitors, and create a drag on competitiveness, productivity, investment and growth.

- The level and system of taxation and the associated impact on the cost of capital for Canadian enterprises are also drags on Canadian competitiveness. There is insufficient harmonization in federal and provincial consumption and business taxes. Canadian taxes on business investment in certain provinces discourage productivity-enhancing investment and reduce the attraction of Canada as a desirable destination for FDI.

- The lack of sufficient entrepreneurial culture and ambition. While the entrepreneurial spirit exists in certain companies and industries, Canada needs more aggressive and ambitious business leaders with the global mindset necessary to compete to win in the twenty-first century.

Challenges to Canada's economy:

- **Challenges in natural resource development.** Natural resources are increasingly central to Canada's economic trajectory. Their challenge is to maximize the positive spinoffs from resource developments, while minimizing the economic and environmental costs.

- **Vulnerability to global economic slowdown.** As a trade-fueled economy, Canada is quite vulnerable to a slowdown in the economies that are its major trading partners. The US, China, Japan, and the European Union are among Canada's key trading partners. A slowdown in these economies would affect Canadian revenue from energy, cars, and basic materials that make up its major exports.

- **Acid rain from factories near Great Lakes region** is destroying timber resources improving public services (which forces the country to raise taxes).

- **Lack of diversification**. The Canadian market lacks diversification. More than 70% of the TSX Composite Index is made up of only three sectors—energy, materials, and financials. While there are a few strong utilities and telecommunications businesses to choose from across the country, the consumer retail and technology sectors are very much absent from the composite.

- **Brain drain to the US**. The migration of some of Canada's best-educated and skilled workers to the US poses another challenge to an economy that thrives on its talent pool. Much of this brain drain is attributable to the lower taxes and higher wages in the US.

- **Geopolitical challenge with economic conse**quences: Québec. Quebec's independence has the potential to significantly disrupt the Canadian economy. According to Statistics Canada, the province represents 19.16% of the total GDP (gross domestic product) of Canada.

https://marketrealist.com/2015/02/depreciating-loonie-reflects-collapse-commodities-oil-prices

Canada: Trade Statistics

Exporter rank: 12/146 **Importer rank: 10/145**
Trade Balance Rank: 130/145

Top 10 Export Countries	
Country	Export USD$
USA ≈76.4%	$296,607,266,017
China ≈4.3%	$15,832,275,983
United Kingdom	$12,907,490,266
Japan	$8,089,163,101
Mexico	$5,761,602,546
South Korea	$3,320,659,791
India	$3,006,946,340
Germany	$2,960,590,236
France	$2,569,717,143
Belgium	$2,426,851,452

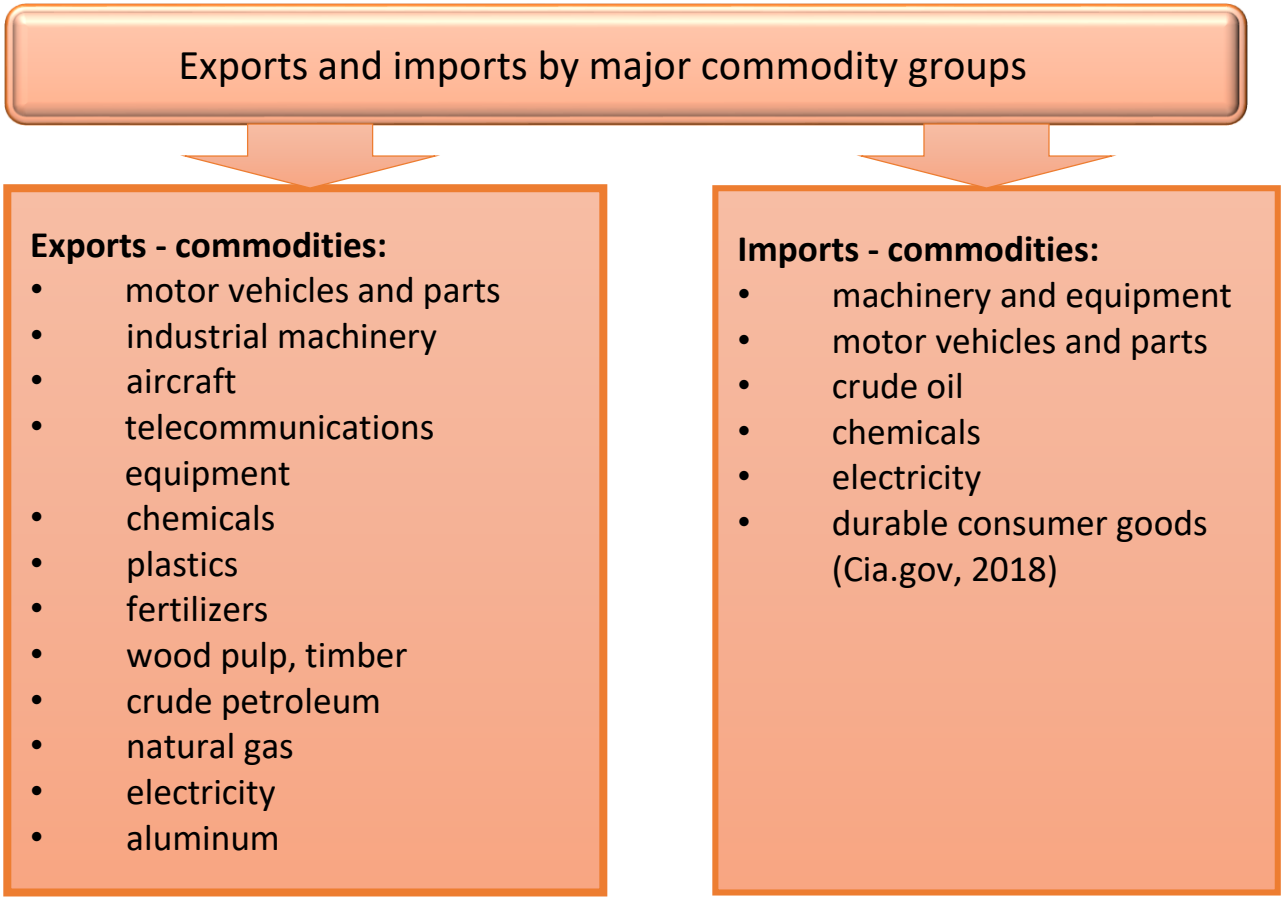
Top 10 Import Countries	
Country	Import USD$
USA ≈51.5%	$210,250,896,474
China ≈12.6%	$48,641,696,239
Mexico ≈6.3%	$25,075,246,229
Germany	$13,045,172,576
Japan	$11,936,210,216
South Korea	$8,011,261,044
United Kingdom	$6,232,390,626
Italy	$5,696,192,968
France	$4,515,505,282
Vietnam	$3,744,504,191

Insights, G. and States, U. (2018). *Canada: Trade Statistics*. [online] Globaledge.msu.edu. Available at: https://globaledge.msu.edu/countries/canada/tradestat [Accessed 15 Sep. 2018].

Top 10 Export Goods	
Motor Vehicles & Parts	$64,288,083,502
Oil & Mineral Fuels	$62,312,802,581
Industrial Machinery	$30,029,295,224
Items nesoi	$20,227,147,647
Precious Stones & Metals	$17,620,670,797
Wood	$13,181,541,861
Electrical Machinery	$12,630,081,842
Plastics	$12,125,474,622
Aircraft	$10,271,714,995
Pharmaceuticals	$8,396,280,356
Total Exports (2016)	$389,071,103,128
Exports of goods and services (% of GDP) (2017)	30.89%

Top 10 Import Goods	
Motor Vehicles & Parts	$67,492,616,474
Industrial Machinery	$61,899,119,869
Electrical Machinery	$39,663,540,194
Oil & Mineral Fuels	$25,321,104,842
Plastics	$14,745,211,326
Precision Instruments	$11,960,908,670
Pharmaceuticals	$11,413,255,794
Precious Stones & Metals	$10,501,808,223
Furniture	$8,780,024,732
Iron & Steel Articles	$8,443,232,987
Total imports (2016)	$402,966,133,661
Imports of goods and services (% of GDP) (2017)	15.15%

Insights, G. and States, U. (2018). *Canada: Trade Statistics*. [online] Globaledge.msu.edu. Available at: https://globaledge.msu.edu/countries/canada/tradestat [Accessed 15 Sep. 2018].



Tasks for control and self-control of knowledge and skills

Questions for Review

1) Discuss the place of the U.S. in the global economy and describe the mechanism of the U.S. influence on the global economy.

2) What historical and economic factors have influenced the development of the American economy?

3) What role do natural recourses play in the U.S. economy?

4) Characterize the position of the U.S. in the global credit financial markets.

5) Specify the role of agriculture in the U.S. economy.

7) What factors influenced the dynamics of the U.S. economic growth in the last two decades?

8) What historical and economic factors have influenced the development of the economy of Canada?

9) What role do natural recourses play in the economy of Canada?

10) What are the features of Canada's foreign trade policy?

Determine whether these statements are true or false

1) The U.S. has the second world's largest consumer market, with a household final consumption expenditure five times larger than that of Japan.

2) The economy of Canada is fueled by abundant natural resources, a well-developed infrastructure, and high productivity.

3) The U.S. and Canada are highly developed mixed economies.

4) The U.S. exports boost the U.S. economy.

5) The U.S. economy heavily depends on natural resources.

6) Canada is one of the most densely populated countries in the world.

7) Canada's oil dependence is strong.

8) The U.S. remains Canada’s biggest trade partner.

9) Canada can be described as a "small open economy" that is highly independent on the vagaries of international trade.

10) Much of Canada's economic vitality relies heavily on its natural resources.

Chapter 3

THE ECONOMY OF THE EU AND JAPAN

Chapter Outline

3.1. The economy of the EU
3.2. The economy of Japan

3.1. The economy of the EU

The economy of the EU

- the EU at a glance
- demographic, social and economic trends
- the place and role of the EU in the global economy

Synopsis on the EU Economy:

The European Union is described foremost as a political and economic partnership-type institution with 28 member states. Also commonly shortened to just 'the EU', the European Union was founded after the end of the Second World War. Starting goals were aimed at ensuring peace and stability for nations shaken and torn apart by the horrors of the war, as well as preventing another such conflict from ever taking place again. Consolidation and common goals for prosperity were a big theme in the early days of the EU.

In terms of economic mass, the European Union today essentially represents Europe. This was not the case 50 years ago. Today is of course very different: EFTA plays only a marginal role, and the EEC has evolved into the EU, which now has a population of over 500 million in 28 countries. Today, in terms of population and economic output, the EU is Europe. ***(https://www.statista.com/topics/921/european-union/)***

EU at a glance

Area	4,475,757 km2
Population	512,6 million
Currency	Euro (€) (EUR) (19)
Political centers	Brussels, Luxembourg, Strasbourg
Government	Political and economic union
GDP (PPP) total	$20,9 trillion
GDP per capita	$40,891

Member states of the EU

1957	France, Western Germany, Italy, Belgium, the Netherlands, Luxembourg	**6**
1973	+ Great Britain, Denmark, Ireland	**9**
1981	+ Greece	**10**
1986	+ Spain, Portugal	**12**
1995	+ Austria, Finland, Sweden	**15**
2004	+ Cyprus, Czech Republic, Slovakia, Poland, Slovenia, Hungary, Latvia, Lithuania, Estonia, Malta	**25**
2007	+ Bulgaria, Romania	**27**
2013	+ Croatia	**28**

EU: People and society

Population:

- 326,625,791 (January 2018 est.)

Ethnic groups:

- The largest groups that account for about 450 million people in the European Union are: Germany (83 million), France (67 million), United Kingdom (66 million), Italy (60 million), Spain (46 million), Poland (40 million), Romania (20 million), Netherlands (17.2 million), Belgium (11.4 million), Greece (11 million), Portugal (10.8 million), Czech Republic (10.5 million), Sweden (10.2 million)

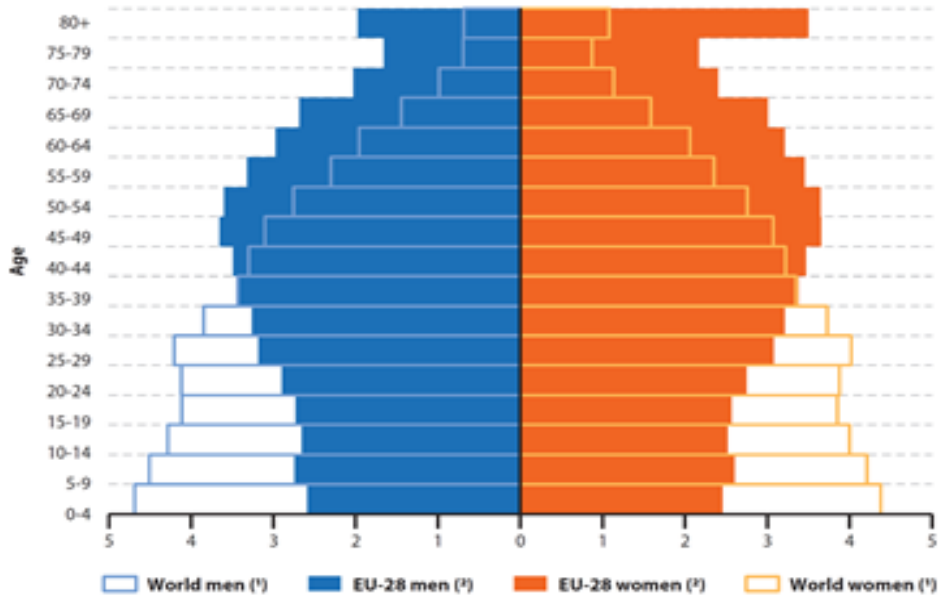
Languages:

- The EU has 24 official languages, of which three (English, French and German) have the higher status of "procedural" languages of the European Commission

Religions:

- The EU has significant religious diversity, mirroring its diverse history and culture. The largest religious group professes Christianity and accounts for 72% of the EU population, predominantly Roman Catholicism, Protestantism and Eastern Orthodoxy. Several EU nations do not have a Christian majority and for example in Estonia and the Czech Republic the majority has no religious affiliation.

Age pyramids, 1 January 2017 (% of total population)



The largest shares of the world's population are among the youngest age classes, whereas for the EU-28 the share of the age groups below those aged 45-49 years generally gets progressively smaller approaching the youngest age groups.

Population and economy: share in EU-28

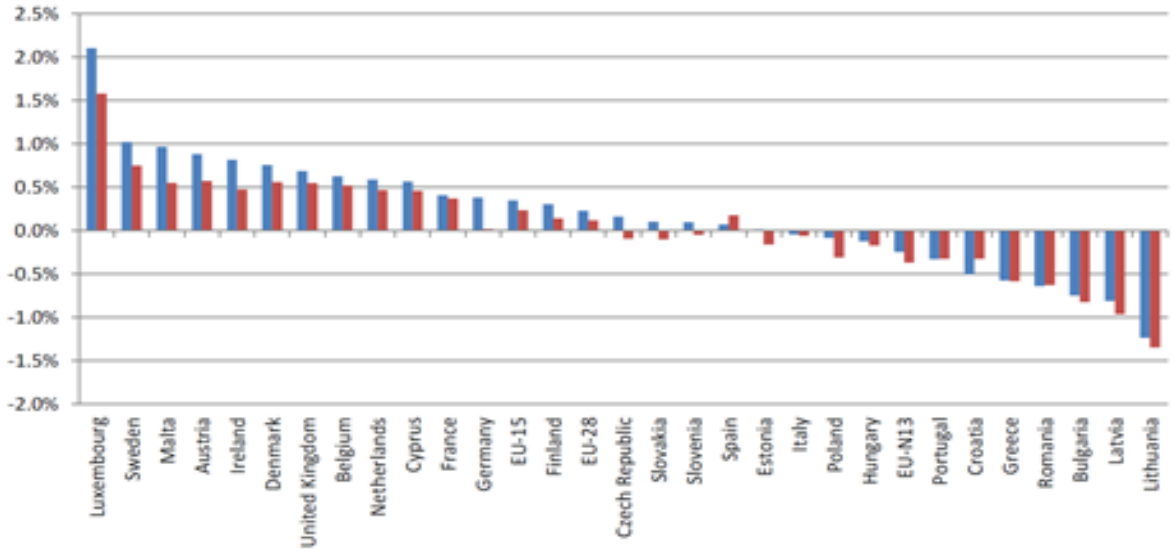
Country	Share in EU-28 GDP 2016	Population 2016	Rural population 2015
Belgium	2.8%	2.2%	1.0%
Bulgaria	0.3%	1.4%	1.0%
Czech Republic	1.2%	2.1%	2.3%
Denmark	1.9%	1.1%	1.7%
Germany	21.1%	16.1%	13.2%
Estonia	0.1%	0.3%	0.6%
Ireland	1.8%	0.9%	2.8%
Greece	1.2%	2.1%	3.5%
Spain	7.5%	9.1%	1.7%
France	15.0%	13.1%	21.2%
Croatia	0.3%	0.8%	1.9%
Italy	11.3%	11.9%	6.0%
Cyprus	0.1%	0.2%	n.a.
Latvia	0.2%	0.4%	0.5%
Lithuania	0.3%	0.6%	0.3%

Country	Share in EU-28 GDP 2016	Population 2016	Rural population 2015
Luxembourg	0.4%	0.1%	n.a.
Hungary	0.8%	1.9%	1.9%
Malta	0.1%	0.1%	n.a.
Netherlands	4.7%	3.3%	0.1%
Austria	2.4%	1.7%	3.6%
Poland	2.9%	7.4%	13.7%
Portugal	1.2%	2.0%	3.3%
Romania	1.1%	3.9%	11.0%
Slovenia	0.3%	0.4%	1.2%
Slovakia	0.5%	1.1%	2.1%
Finland	1.4%	1.1%	2.3%
Sweden	3.1%	1.9%	0.9%
United Kingdom	16.0%	12.8%	2.4%

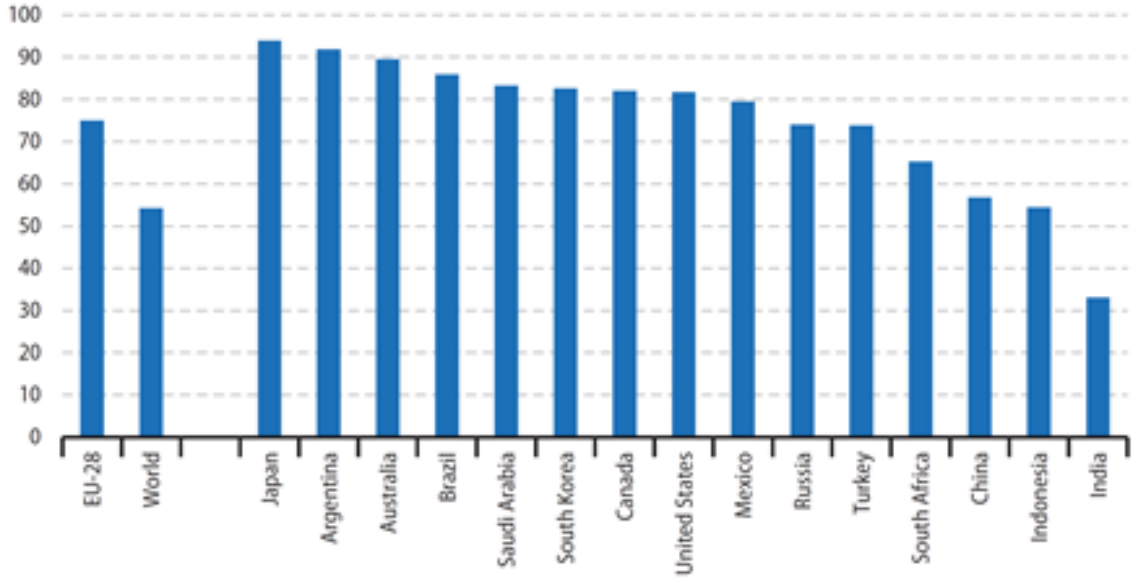
Population and gross domestic product: main data

EU Member States	Total population	Nominal GDP, (million EUR)	GDP per capita, (EUR)	EU Member States	Total population	Nominal GDP, (million EUR)	GDP per capita, (EUR)
Belgium	11,311,117	421,974	37,400	Lithuania	2,888,558	38,631	13,500
Bulgaria	7,153,784	47,364	6,600	Luxembourg	576,249	54,195	92,900
Czech Republic	10,553,843	174,412	16,500	Hungary	9,830,485	112,399	11,500
Denmark	5,707,251	276,805	48,300	Malta	434,403	9,898	22,700
Germany	82,175,684	3,132,670	37,900	Netherlands	16,979,120	697,219	40,900
Estonia	1,315,944	20,916	15,900	Austria	8,690,076	349,493	40,000
Ireland	4,724,720	265,835	56,800	Poland	37,967,209	424,581	11,000
Greece	10,783,748	175,888	:	Portugal	10,341,330	184,931	17,900
Spain	46,445,828	1,113,851	24,000	Romania	19,760,314	169,578	8,600
France	66,759,950	2,225,260	33,400	Slovenia	2,064,188	39,769	19,300
Croatia	4,190,669	45,557	10,900	Slovakia	5,426,252	80,958	14,900
Italy	60,665,551	1,672,438	27,600	Finland	5,487,308	214,062	39,000
Cyprus	848,319	17,901	21,000	Sweden	9,851,017	462,417	46,600
Latvia	1,968,957	25,021	12,800	UK	65,382,556	2,366,912	36,100

Total population, projected annual growth rate, %

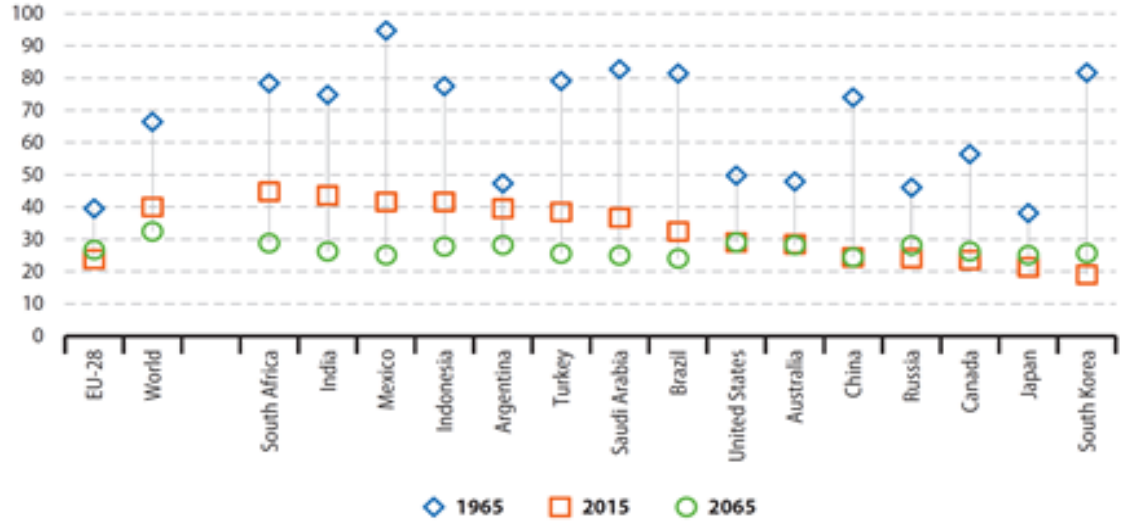


Urban population, 2016 (% of total population)



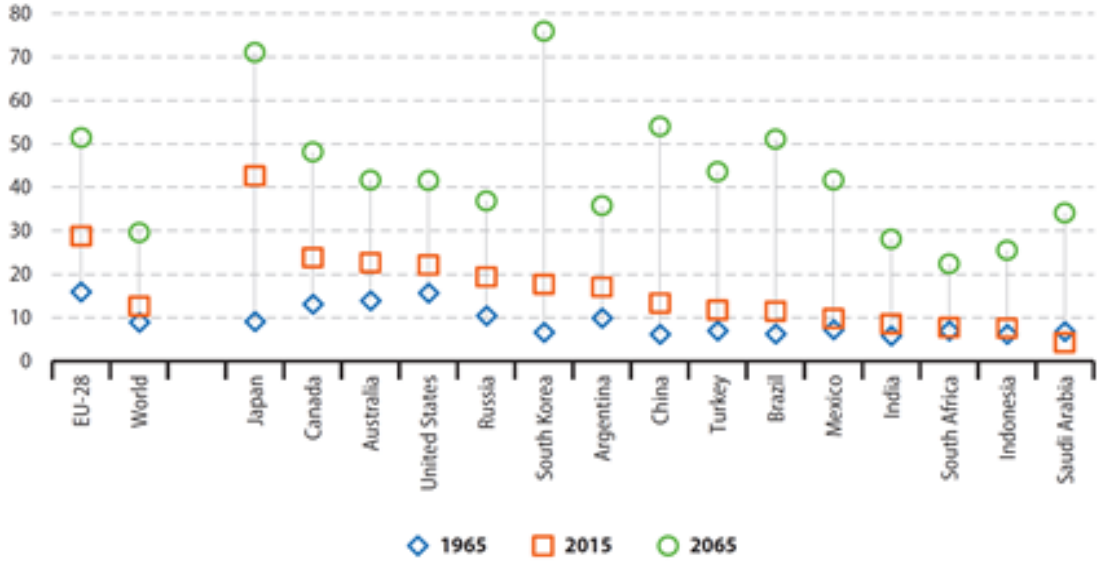
Three quarters (75.0 %) of the EU-28 population lived in an urban area in 2016, considerably above the world average of 54.3 %

Young-age dependency ratio, 1965, 2015 and 2065 (population aged 0-14 as a percentage of the population aged 15-64)



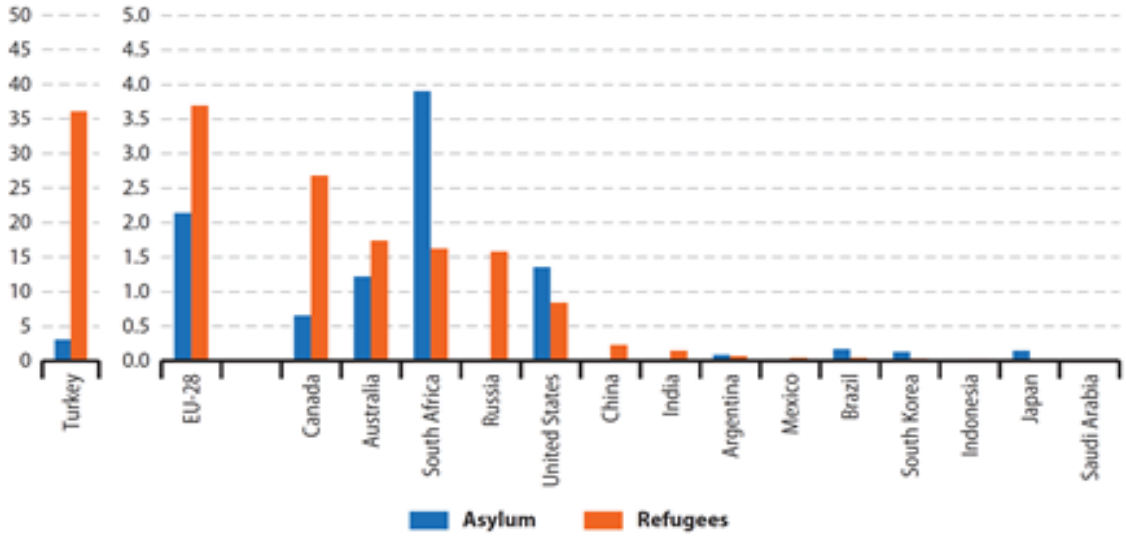
In percentage point terms, the fall in the young age dependency ratio for the EU-28 between 1965 and 2015 more than cancelled out an increase in the old-age dependency ratio.

Old-age dependency ratio, 1965, 2015 and 2065 (population aged 65 or more as a percentage of the population aged 15-64)



The EU-28's old-age dependency ratio is projected to increase from 28.8 % in 2015 to 51.4 % by 2065, when it is projected to be 21.8 points above the world average, but considerably lower than in South Korea (76.0 %) or Japan (71.1 %).

Asylum seekers and refugees, 2016 (number per 1 000 inhabitants)

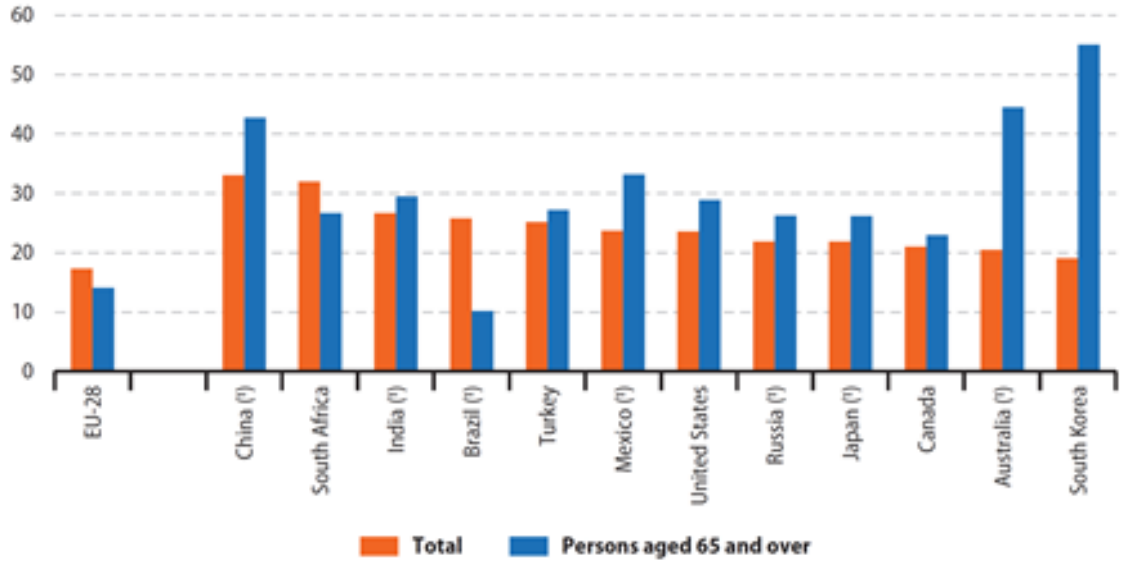


In 2016, according to the UNHCR there were at least 1.1 million asylum seekers in the EU-28: the highest numbers were from Afghanistan (224 thousand), Syria (145 thousand) and Iraq (111 thousand), followed by Nigeria, Pakistan and Iran (each accounting for around 50 thousand asylum seekers).

EU living conditions: Public expenditure on social protection, 2005 and 2016 (% of GDP)

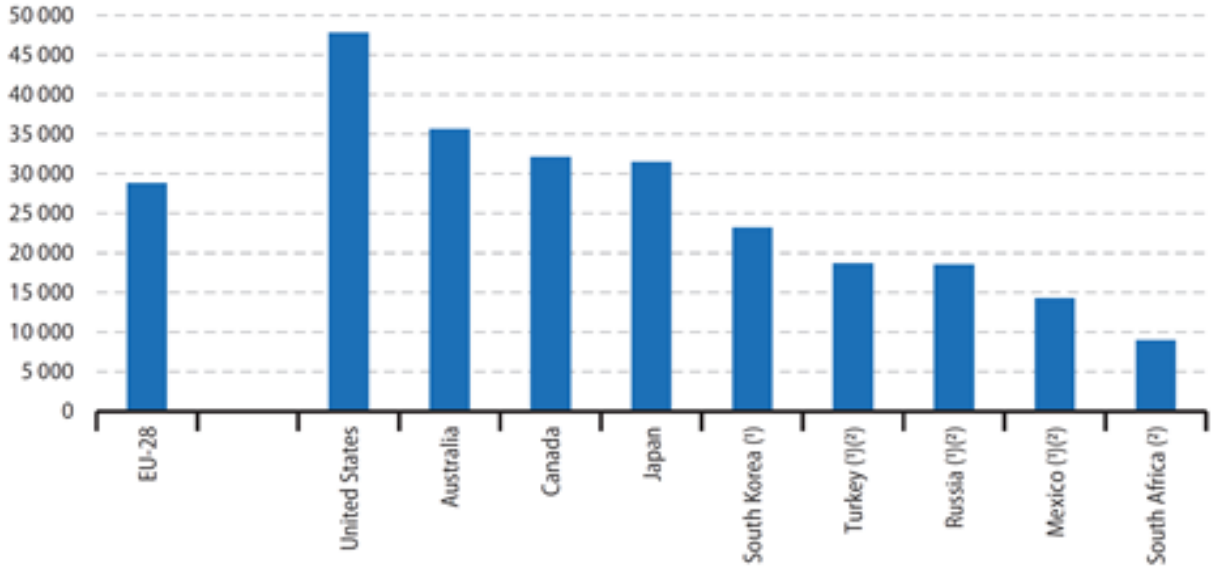
The EU-28 (2014 data) recorded the highest expenditure on social protection (using this measure), ahead of Japan (2013 data) which was the only other G20 member (among those for which data are available) with a ratio above 20 %.

EU living conditions: Poverty rate, 2015 (%)



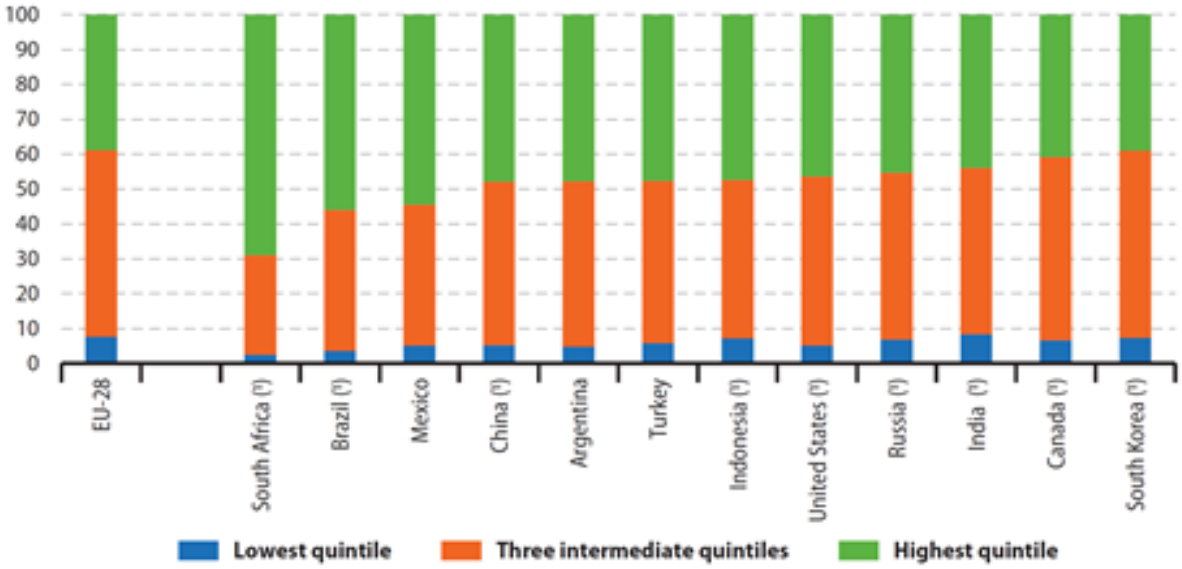
The overall poverty rate was lower in thEU-28 in 2015 than in any of the other G20 members

EU living conditions: Gross household adjusted disposable income, 2016(international USD per inhabitant)



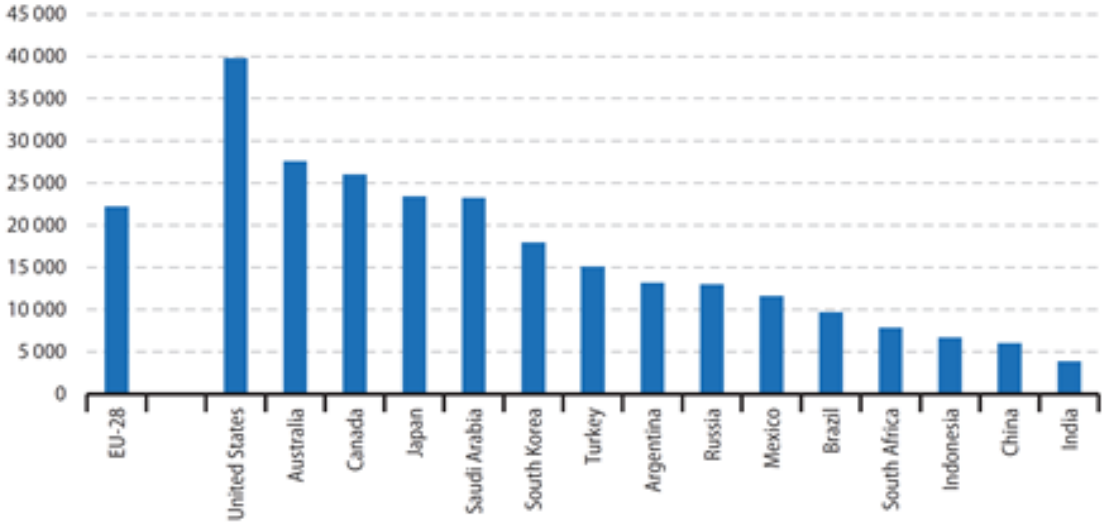
In 2016, the United States had the highest annual household adjusted income per inhabitant among the G20 members, followed at some distance by Australia, Canada, Japan and the EU-28.

EU living conditions: Income quintile shares, 2014 (%)



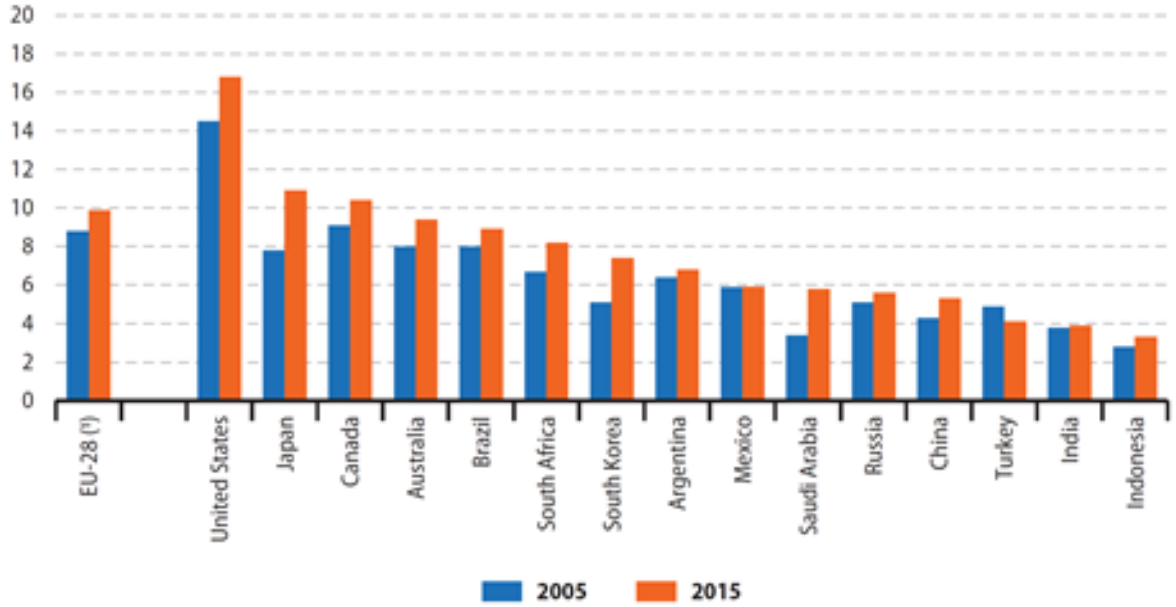
The widest inequalities in income distribution in 2014 were recorded in South Africa, while the EU-28 and South Korea had the most equitable distributions

EU living conditions: Final consumption expenditure of households, 2016 (international USD per inhabitant)



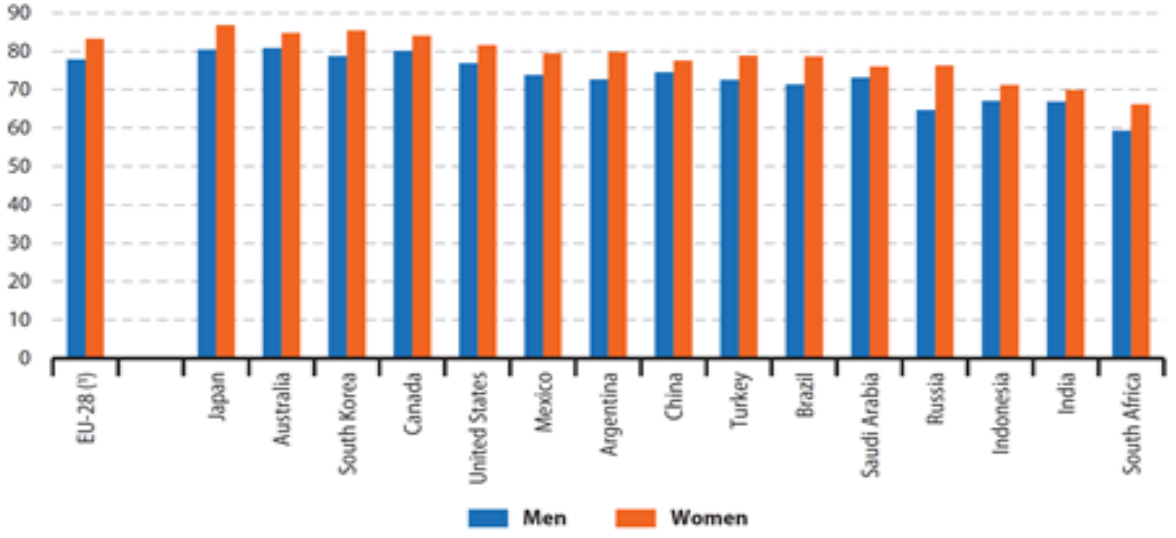
Household consumption expenditure per inhabitant in 2016 was highest among theG20 members in the United States, Australia, Canada, Japan and Saudi Arabia, followed bythe EU-28.

EU health expenditure: Health expenditure, 2005 and 2015 (% of GDP)



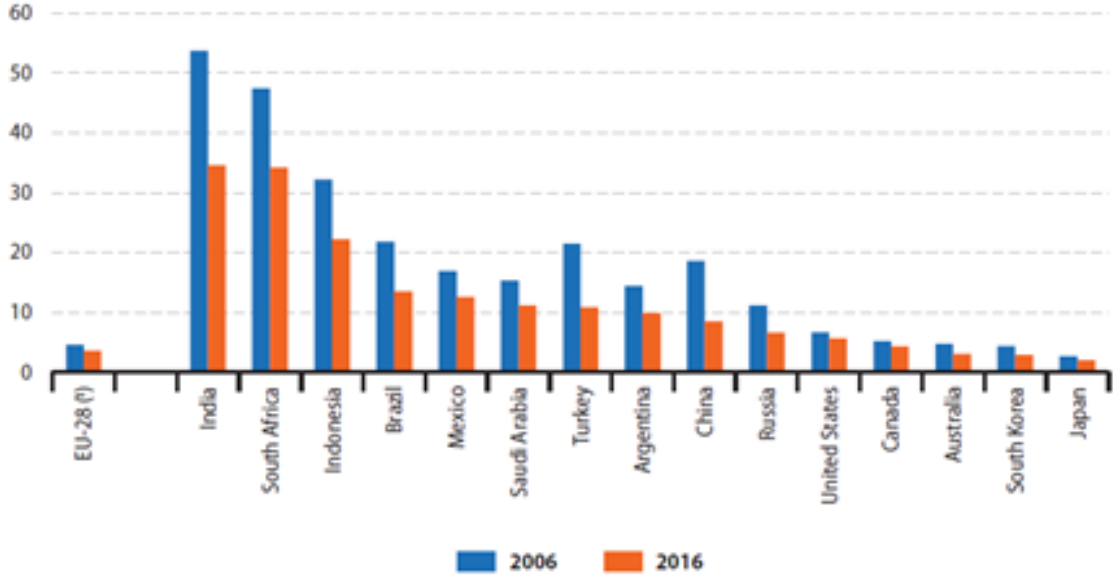
The United States had by far the highest expenditure on health relative to gross domestic product (GDP), 16.8 % in 2015. Six other G20 members committed between 8 % and 11 % of their GDP to health in 2015: Japan, Canada, the EU-28 (excluding Malta), Australia, Brazil and South Africa.

EU life expectancy: Life expectancy at birth, 2015 (years)



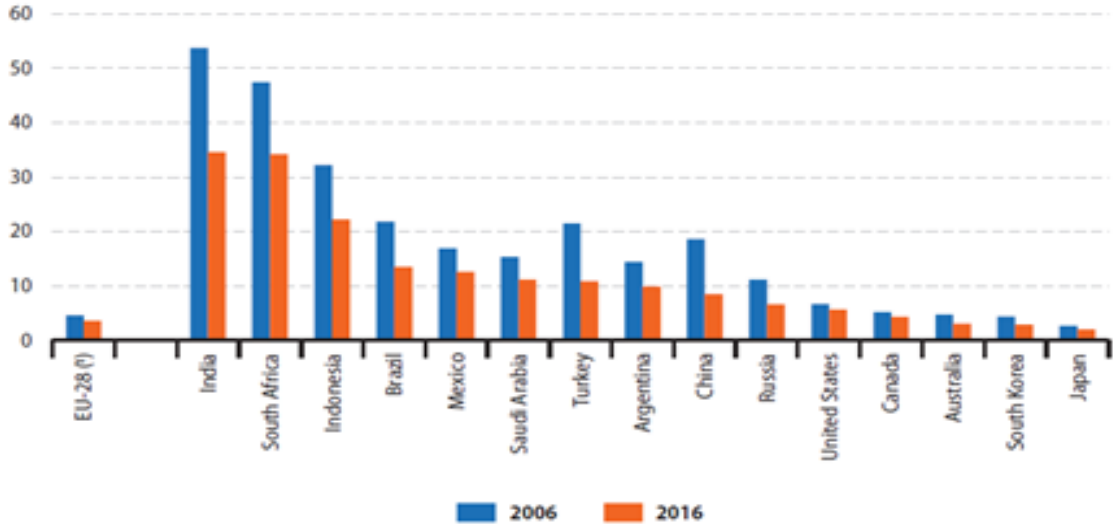
Among the G20 members, the highest life expectancy at birth in 2015 was recorded in Japan (84 years), while life expectancy also reached or passed 80 years in Australia, South Korea, Canada and the EU-28.

EU infant mortality rate: Life expectancy at birth, 2015 (years)



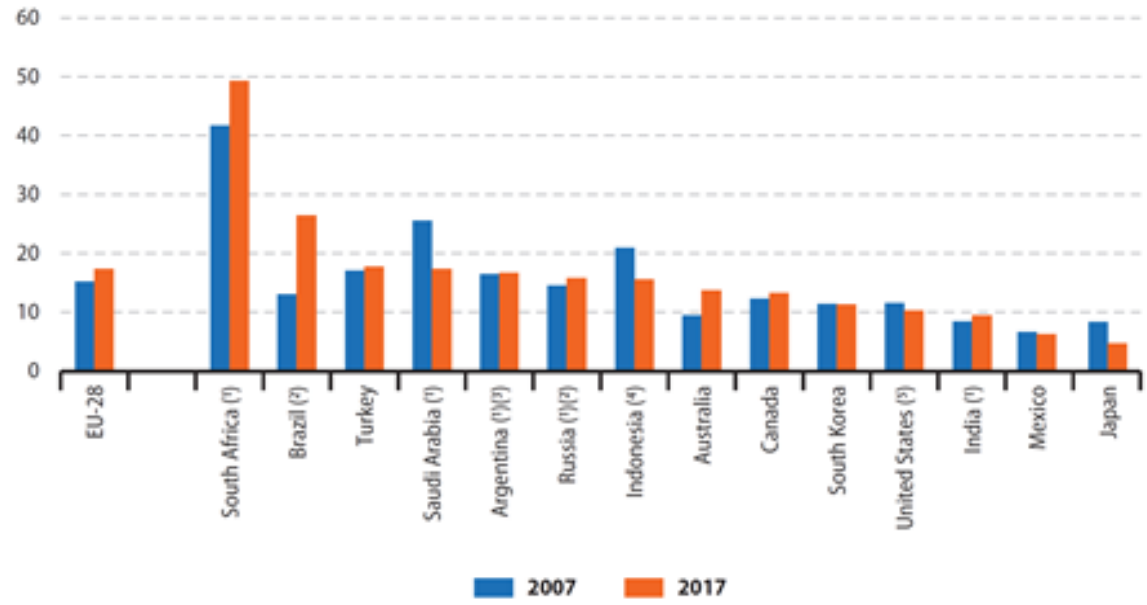
The lowest infant mortality rates among G20 members were recorded in Japan, South Korea, Australia, the EU-28 and Canada, all under 5.0 deaths per 1 000 live births.

EU infant mortality rate: Life expectancy at birth, 2015 (years)



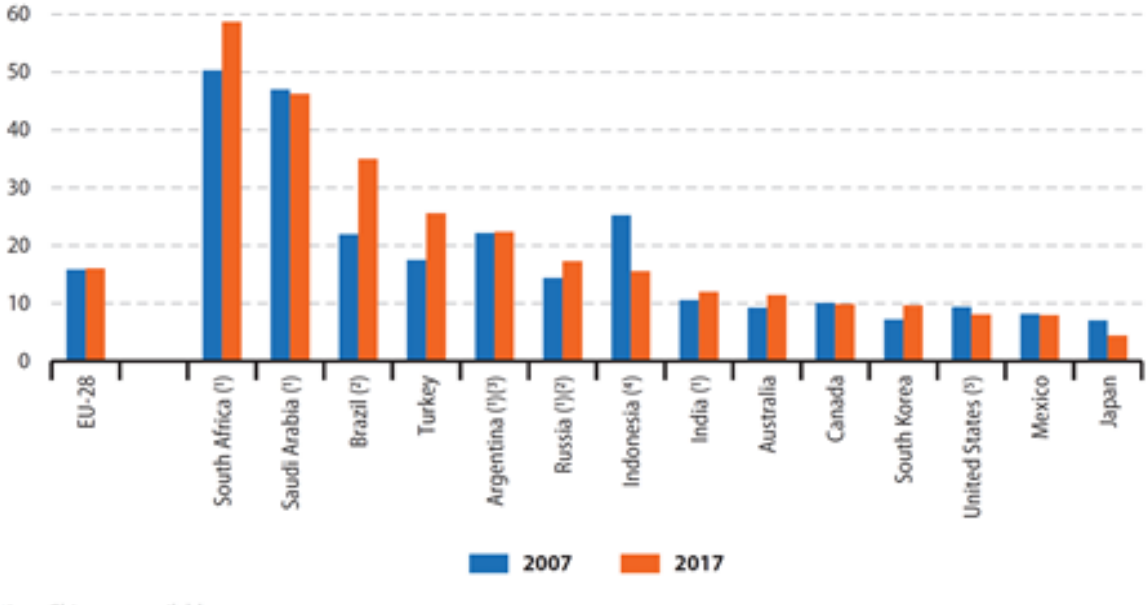
The lowest infant mortality rates among G20 members were recorded in Japan, South Korea, Australia, the EU-28 and Canada, all under 5.0 deaths per 1 000 live births.

EU economy: Male youth (persons aged 15-24 years) unemployment rate, 2007 and 2017 (%)



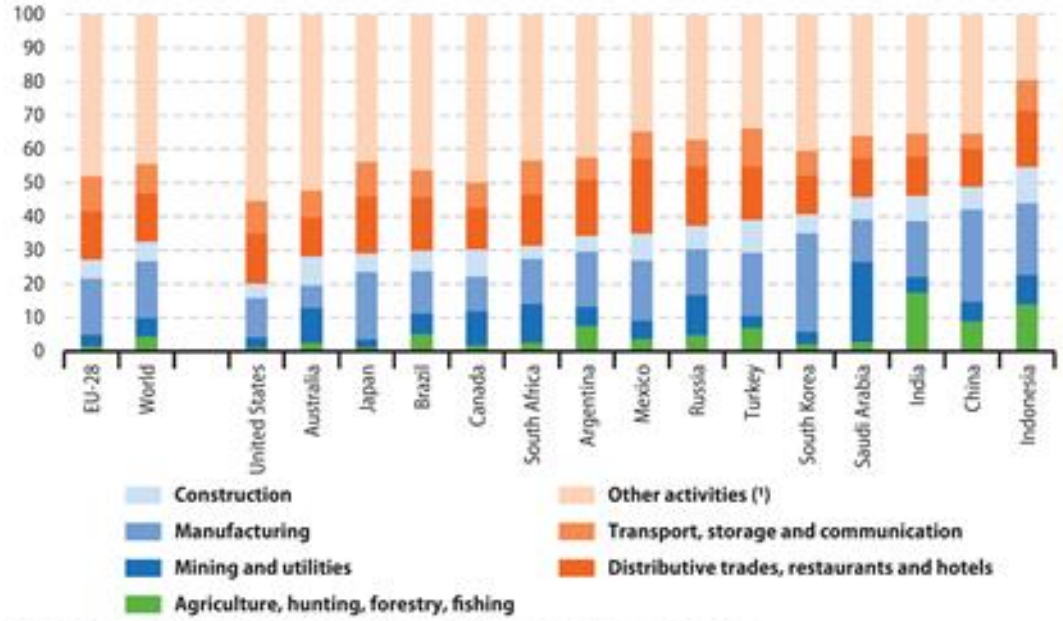
Male youth unemployment rate in the EU-28 increased between 2007 and 2017

EU economy: Female youth (persons aged 15-24 years) unemployment rate, 2007 and 2017 (%)



Female youth unemployment rate in the EU-28 increased between 2007 and 2017

EU economy: Gross value added by economic activity, 2016 (% of total gross value added)

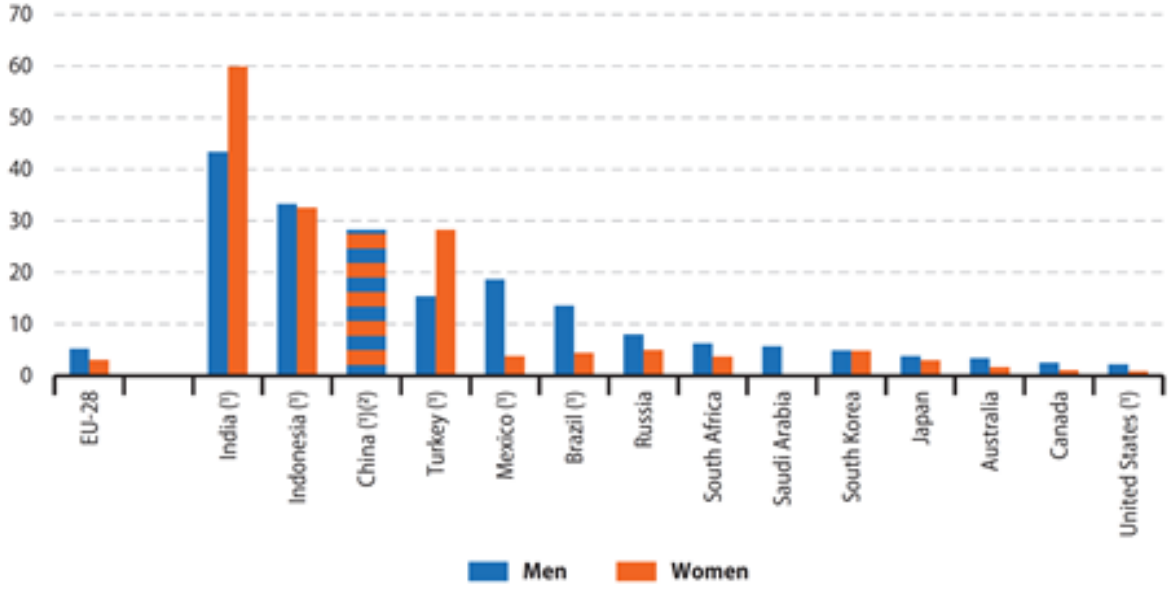


Note: based on ISIC Rev.3. Ranked on the share of services (the three segments shown in orange).

(1) 'Other activities' include: financial intermediation; real estate, renting and business activities; public administration and defence; compulsory social security; education; health and social work; other community, social and personal service activities; and private households with employed persons.

Source: the United Nations Statistics Division (National Accounts Main Aggregates Database)

EU economy: Agriculture, forestry and fisheries, 2016 (% of total employment)



EU economy: Production of selected crops, 2006 and 2016 (million tonnes)

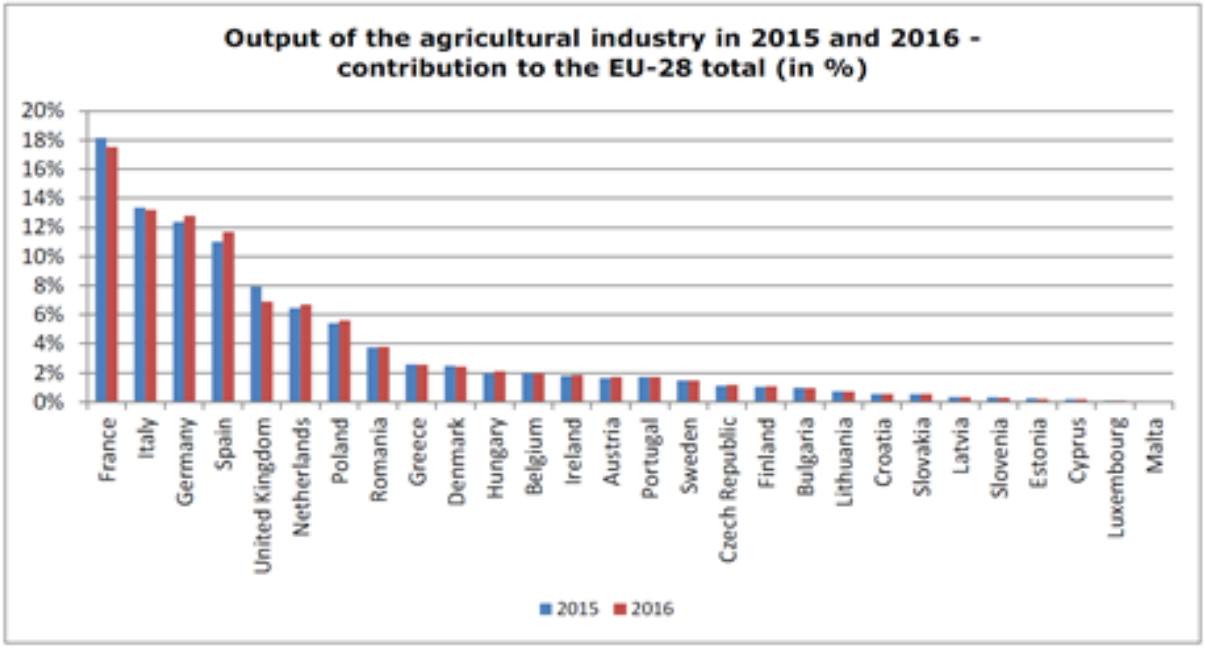
	Sugar cane		Maize		Rice		Wheat		Potatoes	
	2006	2016	2006	2016	2006	2016	2006	2016	2006	2016
EU-28	0.0	0.0	58.3	62.8	2.6	2.9	127.5	142.7	57.0	55.9
World	1 417.4	1 890.7	707.9	1 060.1	640.7	741.0	614.5	749.5	297.1	376.8
Argentina	*26.5*	*22.0*	14.4	39.8	1.2	1.4	12.7	18.6	1.9	1.8
Australia	37.1	34.4	0.4	0.4	1.0	0.3	25.2	22.3	1.2	1.1
Brazil	477.4	768.7	42.7	64.1	11.5	10.6	2.5	6.8	3.2	3.9
Canada	:	:	9.0	12.3	:	:	25.3	30.5	5.1	*4.3*
China	97.1	*122.7*	151.6	*231.7*	181.7	*209.5*	108.5	*131.7*	54.0	*99.1*
India	281.2	348.4	15.1	26.3	139.1	*158.8*	69.4	93.5	29.2	43.8
Indonesia (1)	29.2	*27.2*	11.6	*20.4*	54.5	*77.3*	:	:	1.0	1.2
Japan	1.3	1.6	*0.0*	*0.0*	10.7	8.0	0.8	0.8	2.6	2.2
Mexico	50.7	56.4	21.9	28.3	0.3	0.3	3.4	3.9	1.5	1.8
Russia	:	:	3.5	15.3	0.7	1.1	44.9	73.3	28.3	31.1
Saudi Arabia	:	:	0.1	*0.1*	*0.0*	*0.0*	2.6	0.8	0.5	*0.4*
South Africa	20.3	15.1	6.9	7.8	*0.0*	*0.0*	2.1	1.9	1.9	2.2
South Korea	:	:	0.1	*0.1*	6.3	5.6	0.0	*0.0*	0.6	*0.6*
Turkey	:	:	3.8	6.4	0.7	0.9	20.0	20.6	4.4	4.8
United States	29.6	29.9	267.5	384.8	8.8	10.2	49.2	62.9	20.0	20.0

(1) Sugar cane: unofficial data.

Source: Eurostat (online data code: apro_cpnh1) and the Food and Agriculture Organisation of the United Nations (FAOSTAT: Production)

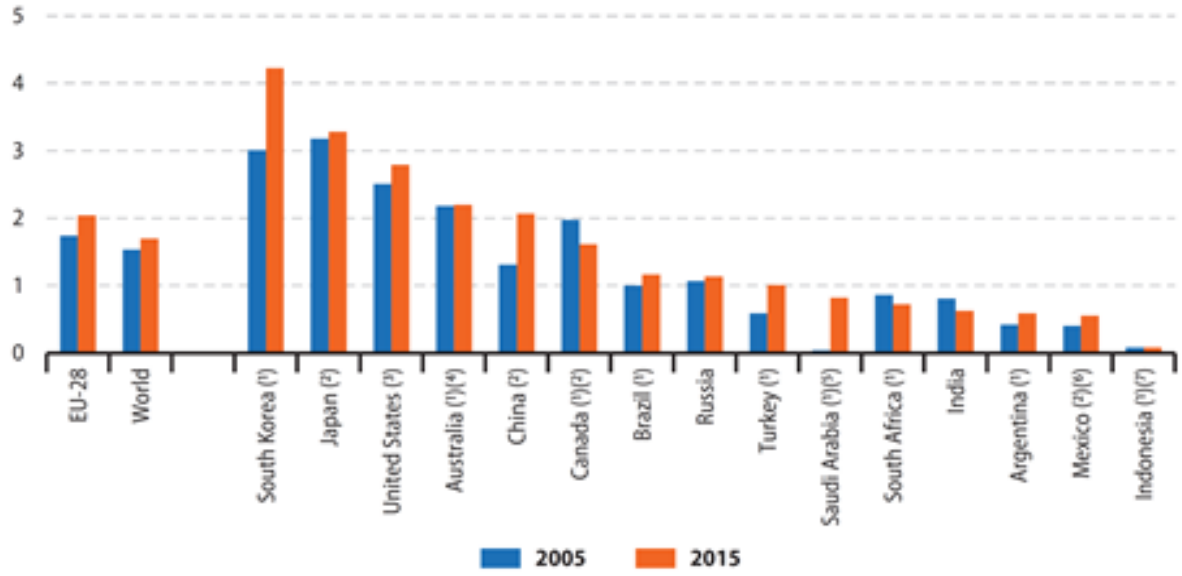
Agricultural production in the EU

Agricultural industry output (*)



Source: Eurostat, Economic Accounts for Agriculture (values at current producer prices). Updated: March 2017.

EU economy: Gross domestic expenditure on research and development, 2005 and 2015 (% of GDP)

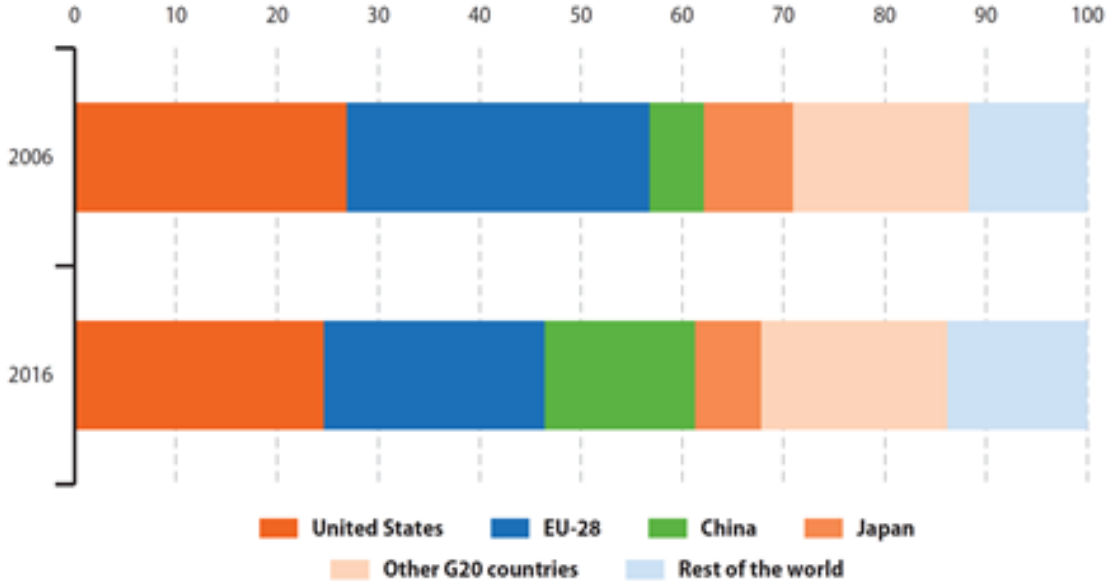


(1) Australia: 2006 instead of 2005. South Korea: 2007 instead of 2005. Indonesia: 2009 instead of 2005. Australia, Indonesia, Saudi Arabia and South Africa: 2013 instead of 2015. Argentina, Brazil, Canada and Turkey: 2014 instead of 2015.
(2) Break in series.
(3) Excluding most or all capital expenditure.
(4) 2013: estimate.
(5) Based on R&D budget, not expenditure.
(6) 2015: estimate.
(7) Estimates.

Source: Eurostat (online data code: rd_e_gerdtot) and the United Nations Educational, Scientific and Cultural Organisation (UIS: Science & Technology)

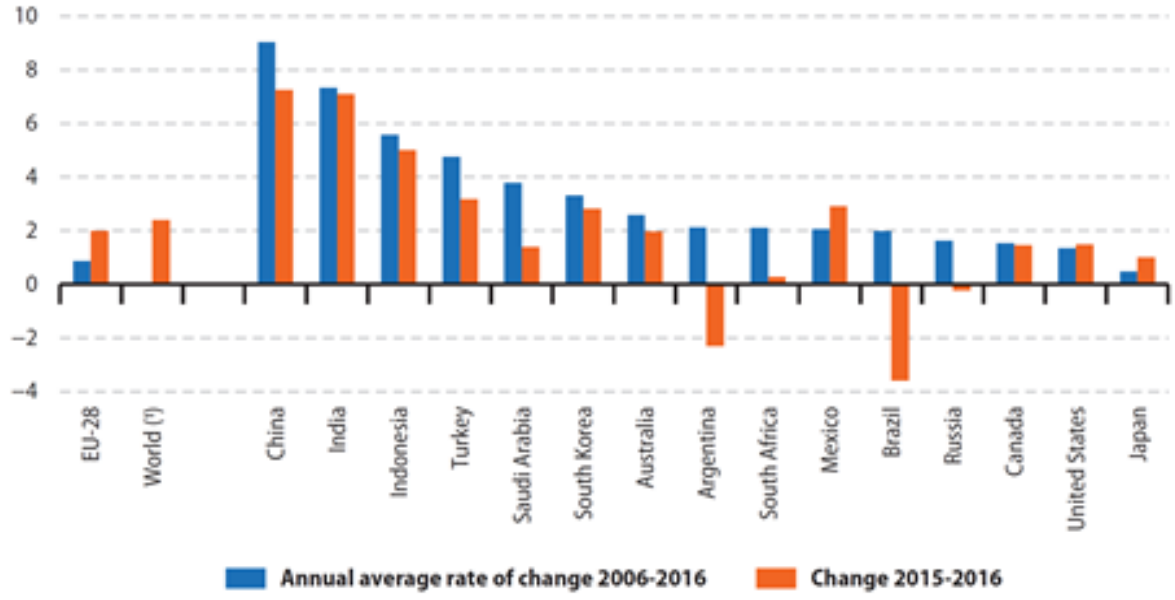
The place and role of the EU in the global economy

GDP, 2006 and 2016 (% of world total)



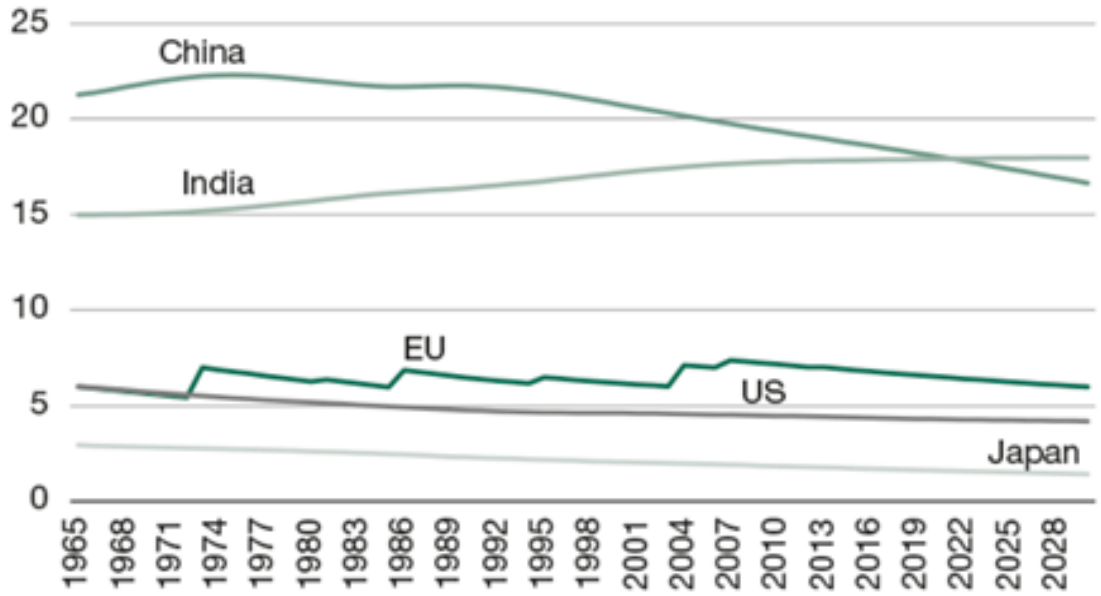
G20 members accounted for 86.2 % of the world's GDP in 2016

Real change in GDP, 2006-2016 (%)

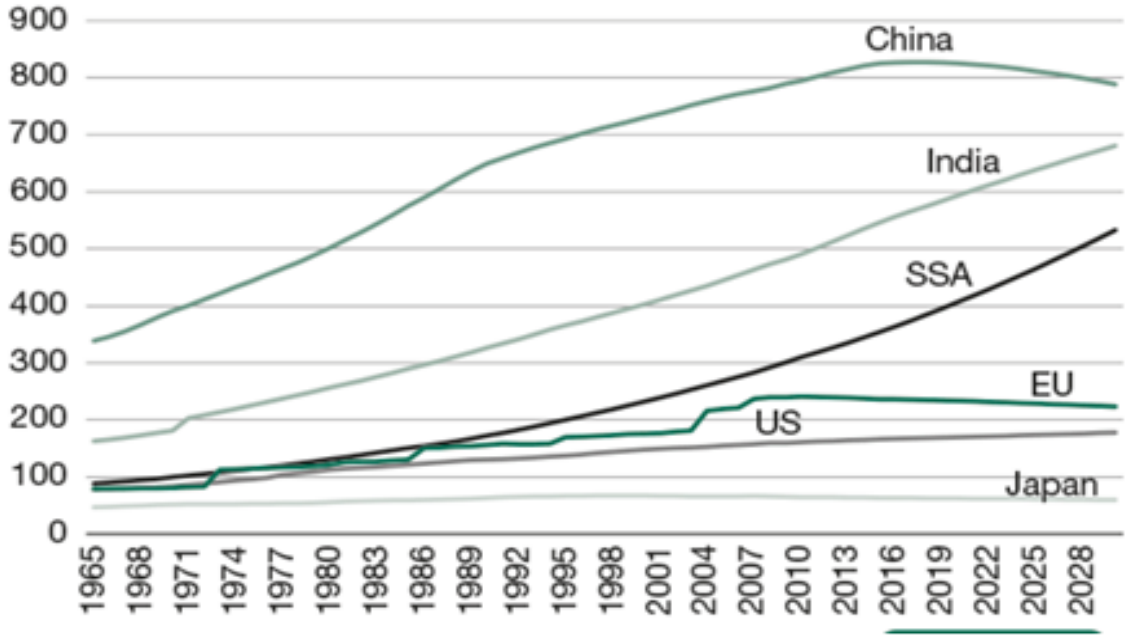


The annual growth rate in 2016 for the world was 2.4 %, with the EU-28 recording slightly slower growth (2.0 %).

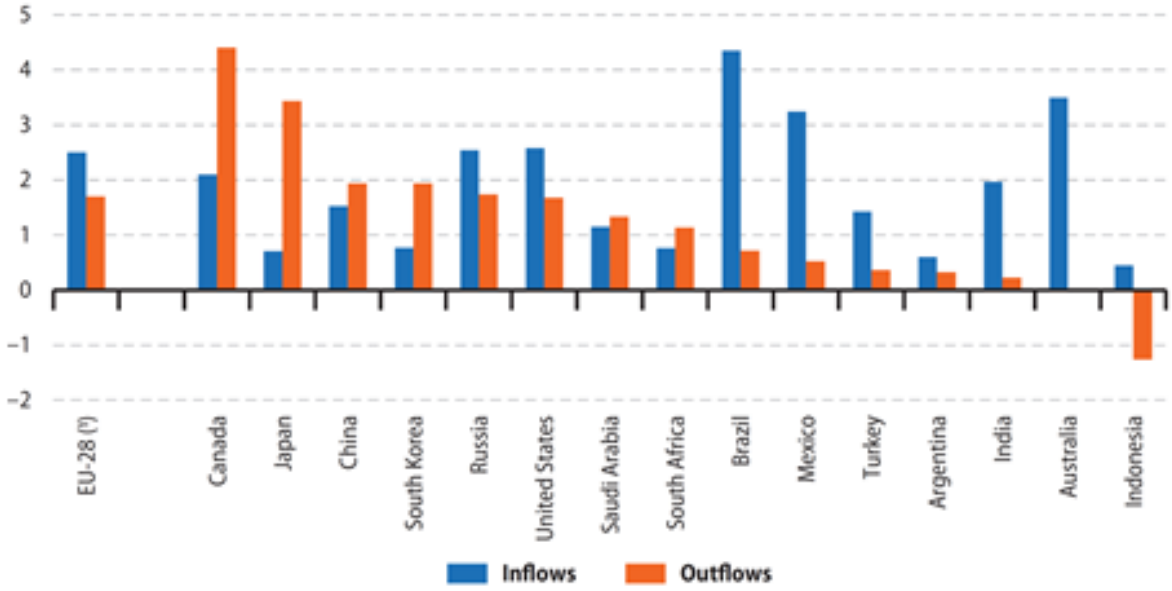
Share of world population in major economies, in %



Changes in the global labour force, 1965-2030, in millions

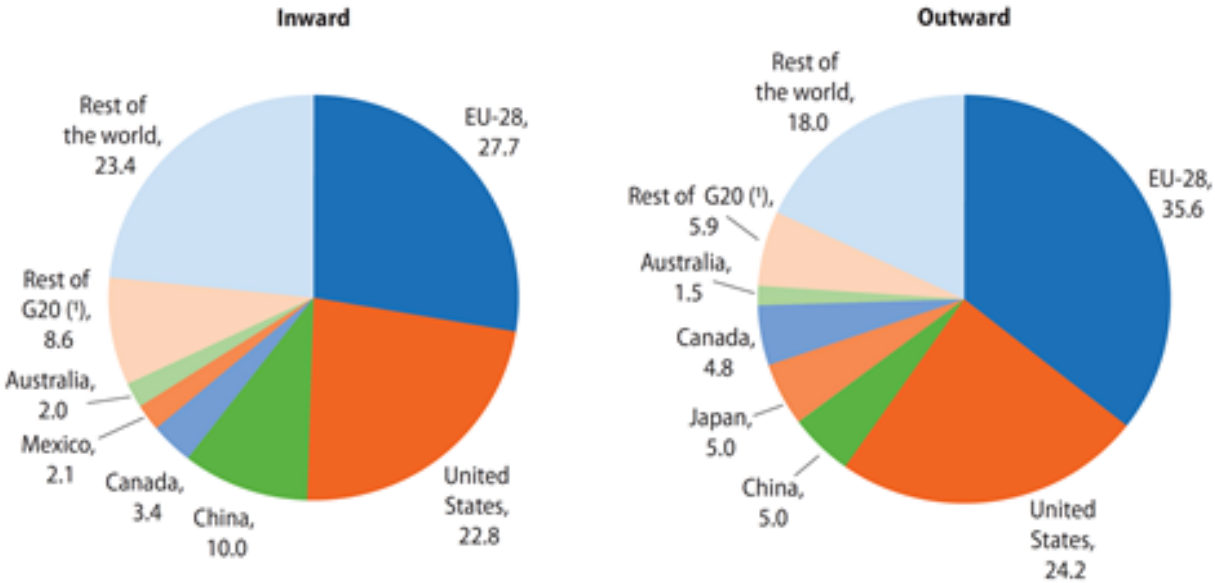


Flows of foreign direct investment, 2016 (% of GDP)



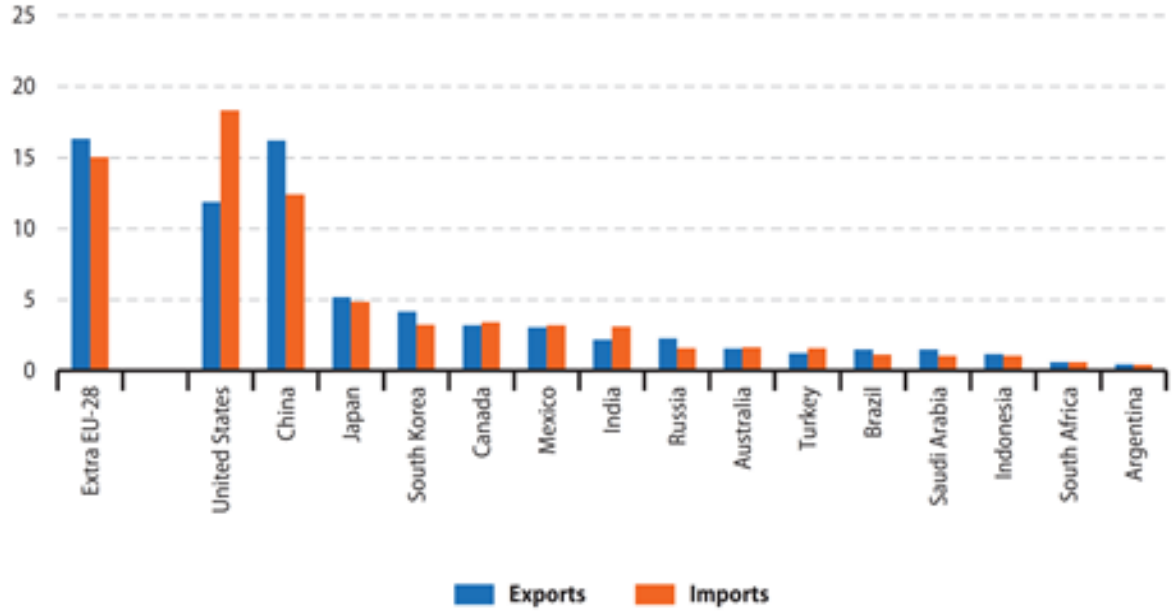
The annual growth rate in 2016 for the world was 2.4 %, with the EU-28 recording slightly slower growth (2.0 %).

Shares of world stocks of foreign direct investment, 2016 (% of total)



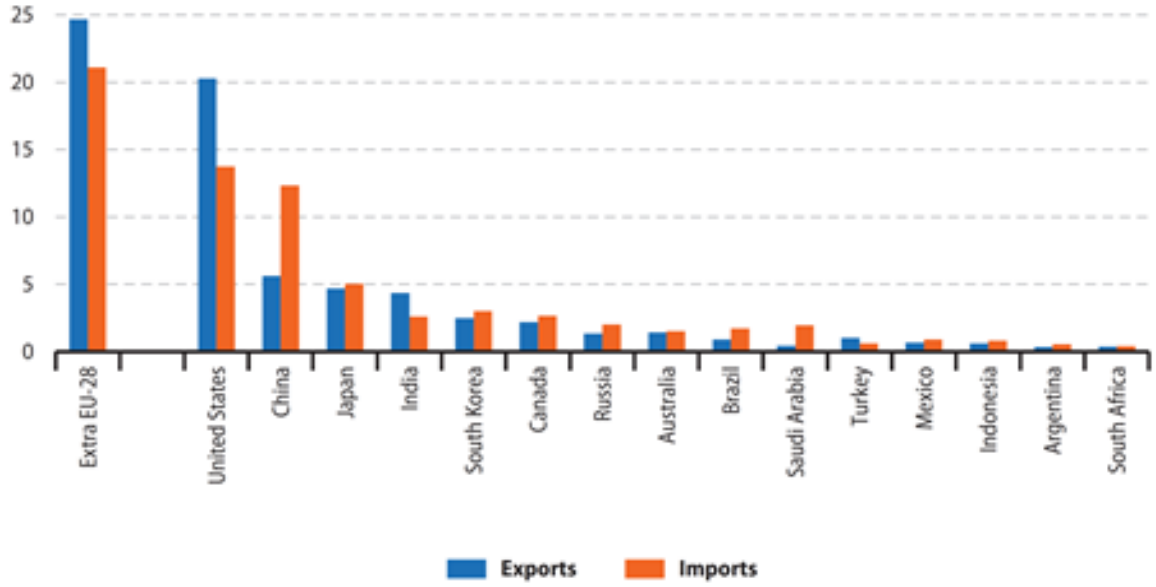
The EU-28 had the highest level of outward stocks, accounting for 35.6 % of the world's outward stocks in 2016; it also had the largest share of inward stocks, some 27.7 % of the world total.

EU trade: Trade in goods, 2016 (% of world total)



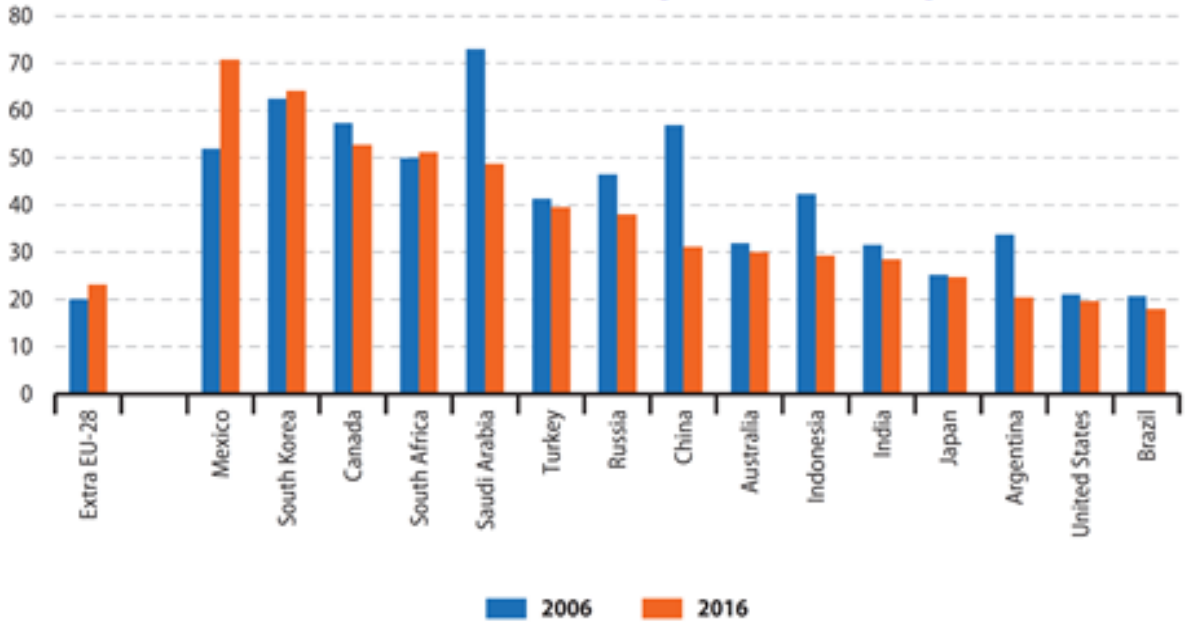
The EU-28 accounted for around one sixth of world trade in goods in 2016, with a 16.3 % share of exports and a 15.0 % share of imports

EU trade: Trade in services, 2016 (% of world total)



The EU-28'scontribution to world trade totaled 24.7 % of exports and 21.1 % of imports. As such, the EU-28's extra-EU trade in services was clearly larger than that of any of the other G20 members, both in terms of exports and imports.

EU trade: International trade in goods, 2006 and 2016 (% of GDP)



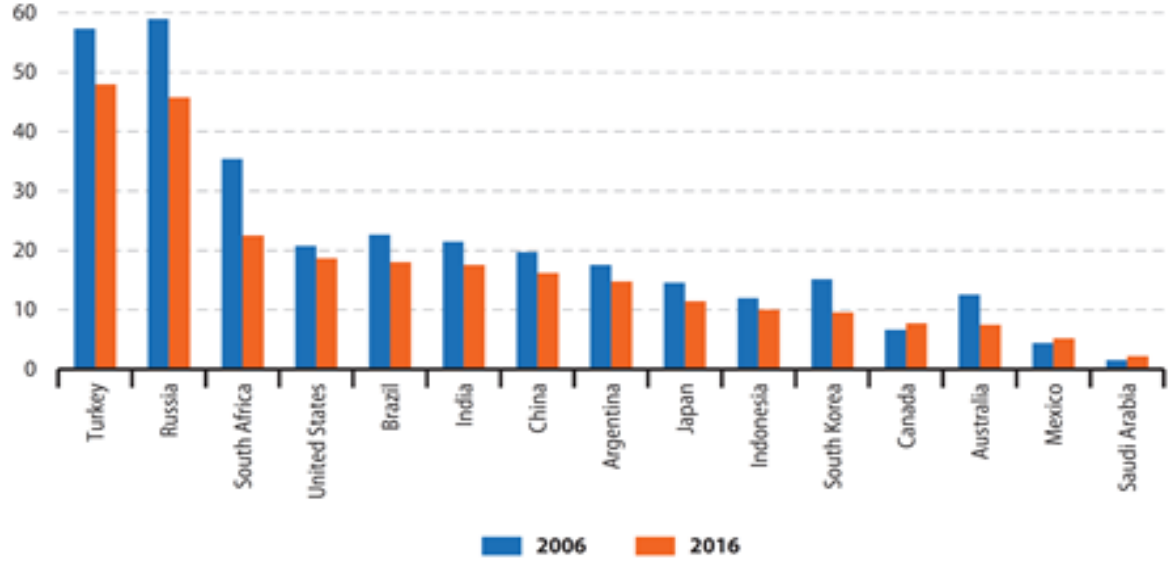
Comparing 2006 with 2016, the ratio of trade in goods to GDP increased notably in Mexico and to a smaller extent in the EU-28 and a much smaller extent in South Korea and South Africa.

EU trade: EU-28 trade in goods by partner, 2007 and 2017 (EUR billion)

	2007			2017		
	EU-28 exports to partner	EU-28 imports from partner	Balance	EU-28 exports to partner	EU-28 imports from partner	Balance
World (extra-EU-28)	1 234.5	1 450.9	−216.4	1 878.8	1 855.9	22.9
Argentina	6.0	8.5	−2.6	9.9	8.2	1.7
Australia	23.9	13.5	10.4	34.6	13.0	21.6
Brazil	21.3	32.9	−11.6	32.2	31.1	1.1
Canada	25.4	24.3	1.1	37.7	31.4	6.3
China	71.8	233.9	−162.0	198.2	374.6	−176.4
India	29.2	26.7	2.5	41.7	44.1	−2.4
Indonesia	5.4	12.8	−7.4	10.1	16.6	−6.5
Japan	43.7	79.3	−35.5	60.5	68.6	−8.1
Mexico	21.0	12.2	8.8	37.9	23.7	14.2
Russia	89.2	147.7	−58.5	86.2	145.1	−58.9
Saudi Arabia	20.0	18.7	1.3	33.1	21.6	11.5
South Africa	20.4	22.1	−1.6	24.5	23.1	1.4
South Korea	24.7	41.7	−17.0	49.8	50.0	−0.2
Turkey	52.8	47.4	5.5	84.7	69.7	15.0
United States	259.6	178.0	81.6	375.5	255.5	120.0

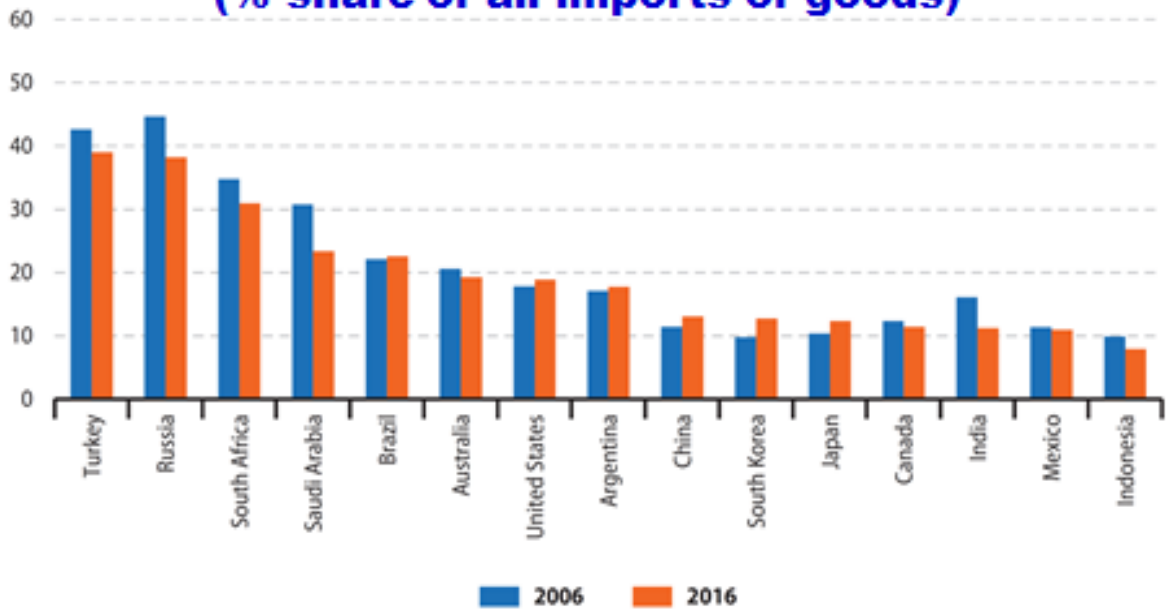
Source: Eurostat (online data code: ext_lt_maineu)

EU trade: EU-28 as the destination of exports of goods from G20 partners, 2006 and 2016 (% share of all exports of goods)



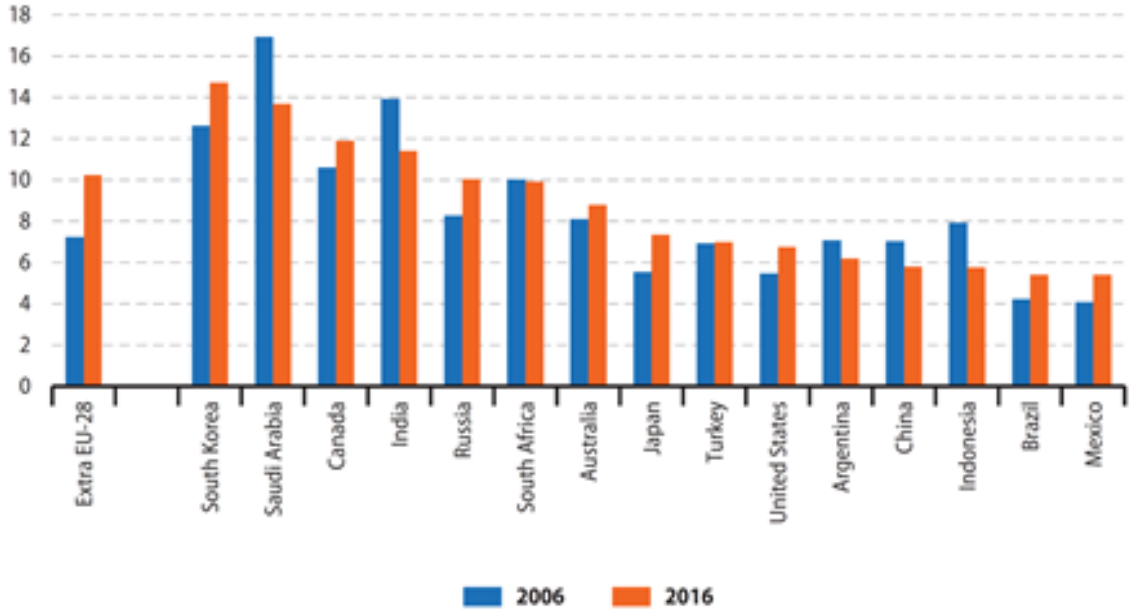
Nearly half of all goods exported from Turkey and Russia in 2016 were destined for the EU-28

EU trade: EU-28 as the origin of imports of goods into G20 partners, 2006 and 2016 (% share of all imports of goods)



The EU-28 was the source of nearly two fifths of all goods imported into Turkey and Russia in 2016, close to one third of the imports into South Africa, and between one quarter and one fifth of the goods imported into Saudi Arabia and Brazil.

EU trade: International trade in services, 2006 and 2016 (% of GDP)



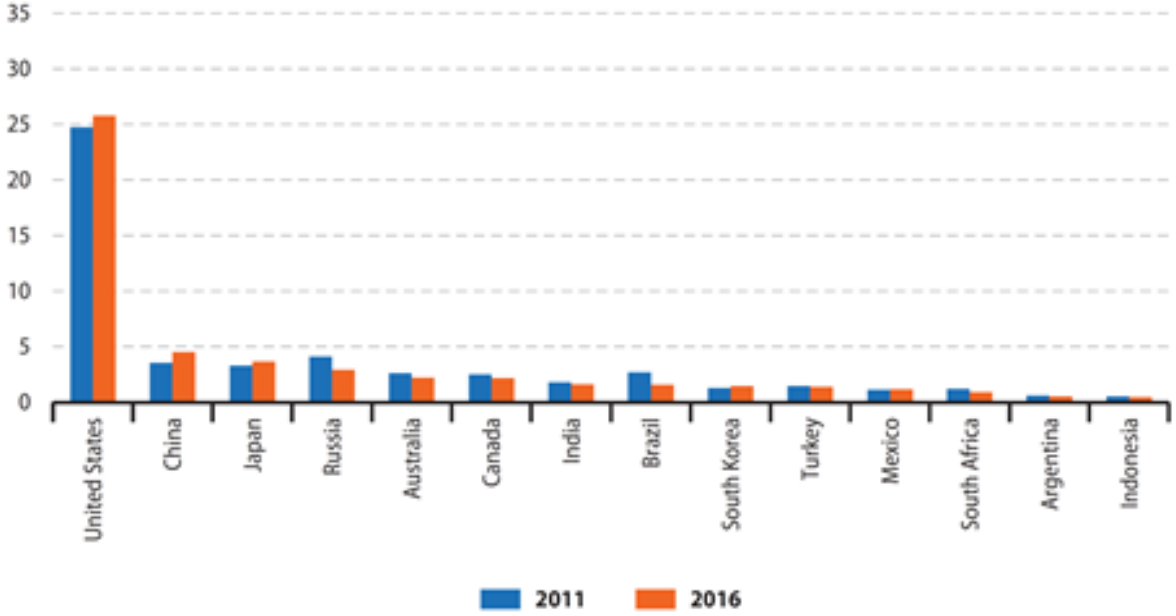
Comparing 2006 with 2016, the ratio of trade in services to GDP increased by 3.1 points in the EU-28, the largest increase among the G20 members, with South Korea (2.1 points) recording the second highest increase.

EU trade: EU-28 trade in services with G20 partner countries, 2011 and 2016 (EUR billion)

	2011			2016		
	EU-28 exports to partner	EU-28 imports from partner	Balance	EU-28 exports to partner	EU-28 imports from partner	Balance
World (extra-EU-28)	616.1	480.5	135.6	844.9	711.8	133.1
Argentina	3.7	2.3	1.4	4.6	2.2	2.4
Australia	16.3	7.8	8.5	18.8	8.3	10.5
Brazil	16.7	6.7	10.0	13.5	7.9	5.6
Canada	15.6	10.4	5.2	18.5	11.8	6.7
China	21.8	17.8	4.0	38.3	29.6	8.8
India	11.2	13.6	−2.4	13.6	15.3	−1.7
Indonesia	3.3	1.8	1.5	4.0	2.2	1.8
Japan	20.2	15.5	4.7	31.0	18.0	13.0
Mexico	7.1	3.6	3.5	9.8	5.0	4.8
Russia	25.5	12.6	12.9	24.7	11.3	13.5
South Africa	7.4	4.4	3.0	7.8	5.0	2.8
South Korea	7.9	4.7	3.2	12.6	6.6	6.0
Turkey	9.2	15.0	−5.9	11.8	13.9	−2.1
United States	152.4	145.3	7.1	218.0	219.3	−1.3

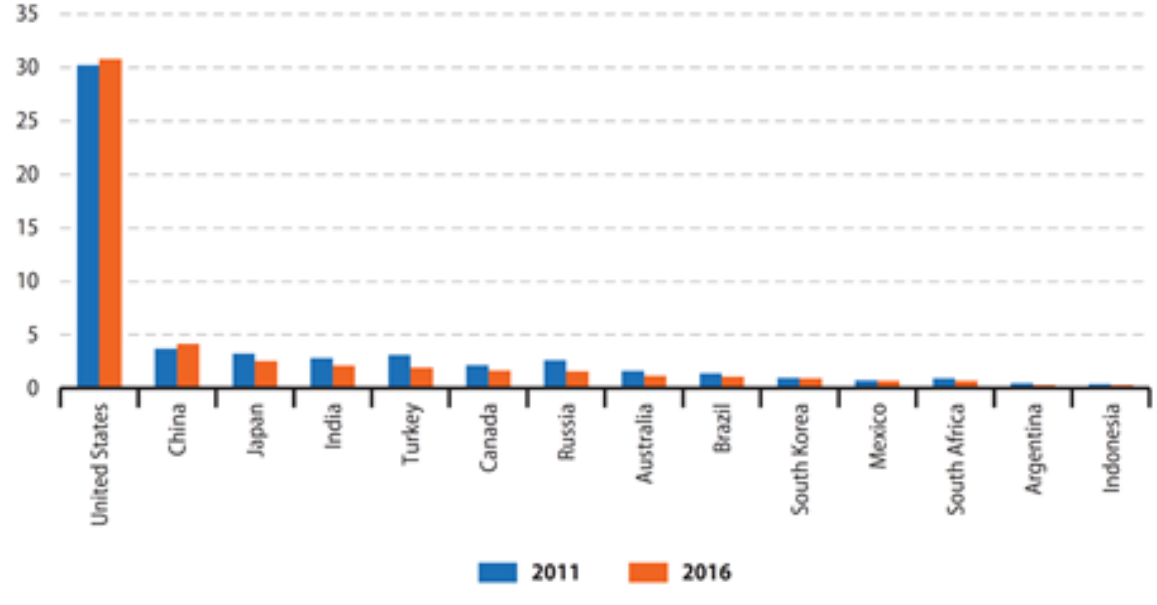
Note: Saudi Arabia, not available.

EU trade: EU-28 exports of services to non-member countries, 2011 and 2016 (% share of all extra-EU-28 exports of services)



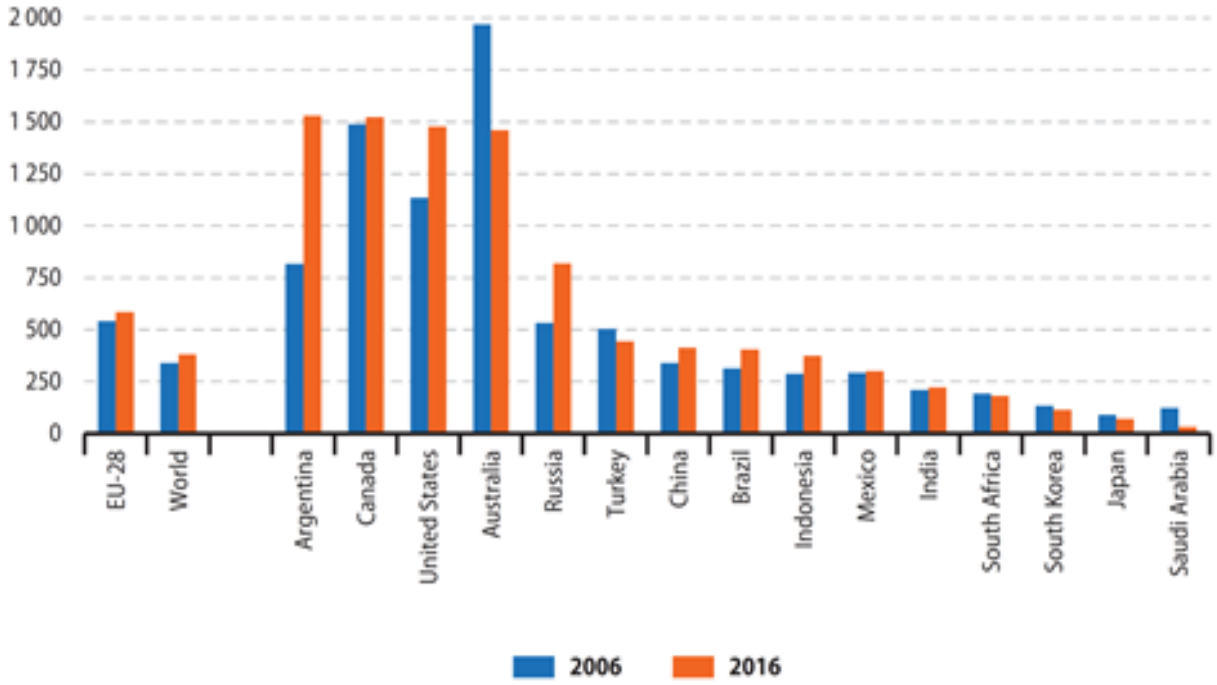
The United States was by far the EU-28's largest partner for trade in services in 2016

EU trade: EU-28 imports of services from non-member countries, 2011 and 2016 (% share of all extra-EU-28 imports of services)

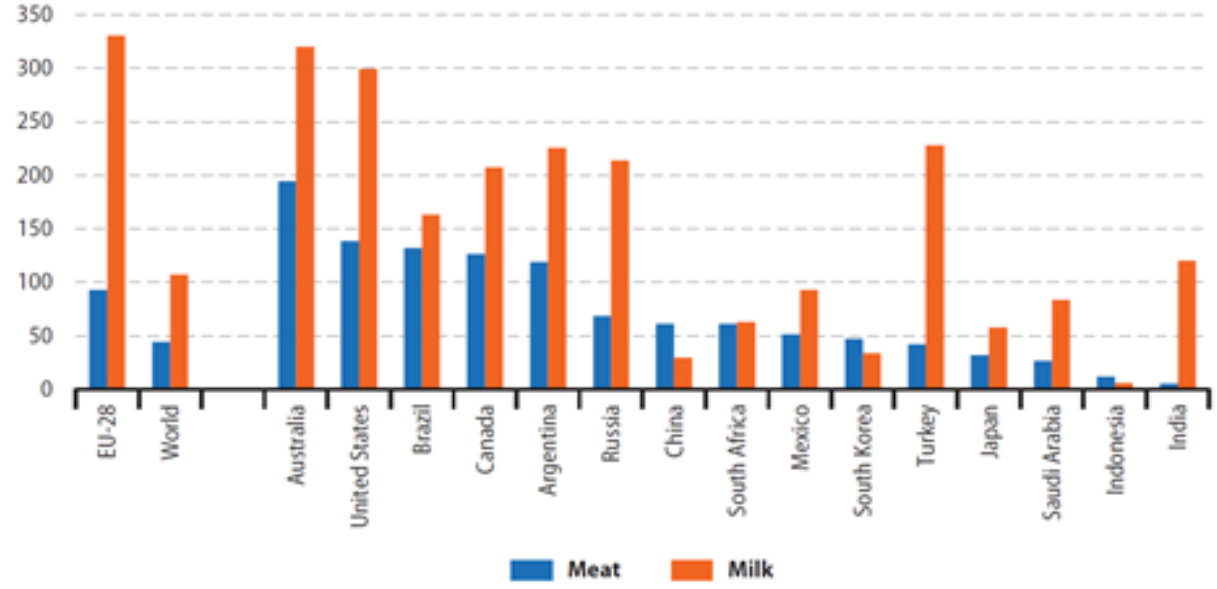


The United States was by far the EU-28's largest partner for trade in services in 2016

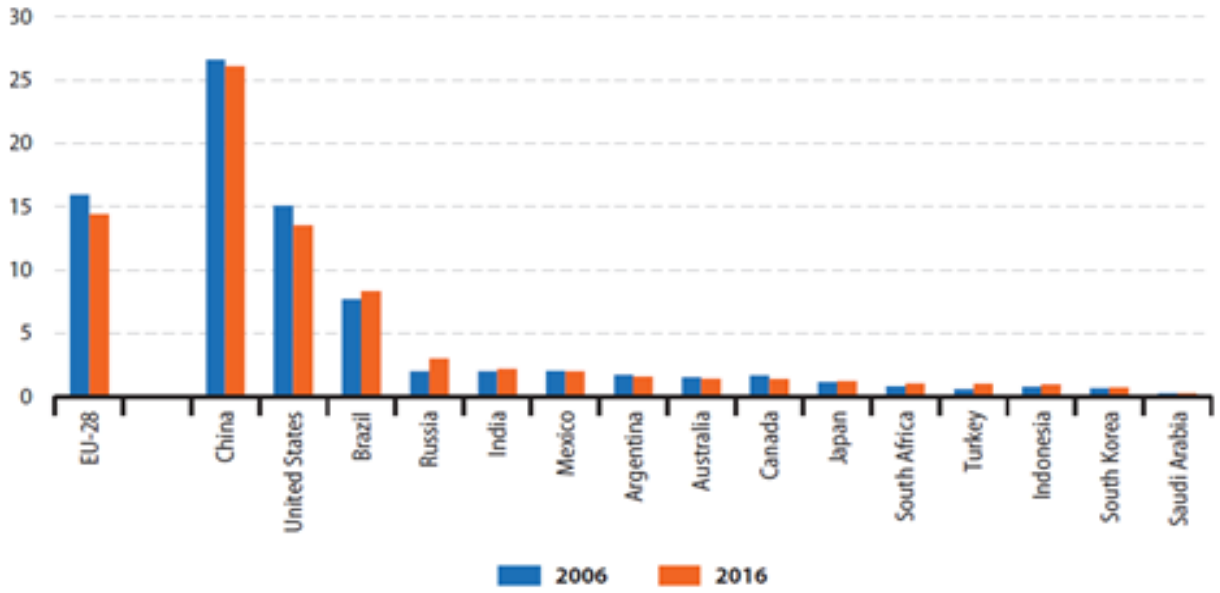
Production of cereals, 2006 and 2016 (kg per inhabitant)



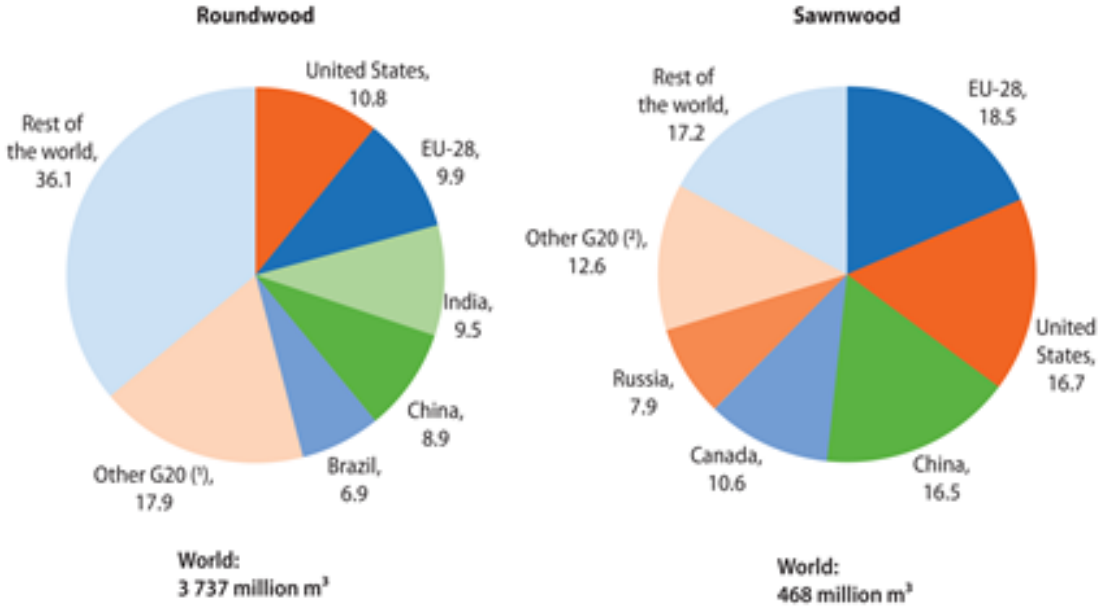
Meat and milk production, 2016 (kg per inhabitant)



Meat production, 2006 and 2016 (% of world total)



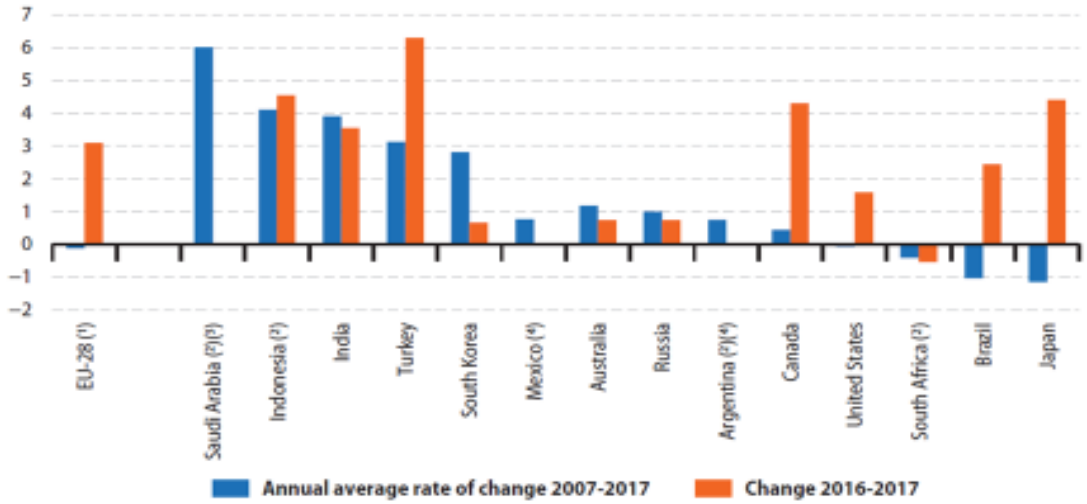
Production of roundwood and sawnwood, 2016 (% of world total)



(1) Argentina, Australia, Canada, Indonesia, Japan, Mexico, Russia, Saudi Arabia, South Africa, South Korea and Turkey.
(2) Argentina, Australia, Brazil, India, Indonesia, Japan, Mexico, South Africa, South Korea and Turkey. Saudi Arabia: not available and therefore included in the value for the rest of the world.

Source: Eurostat (online data codes: for_basic and for_swpan) and the Food and Agriculture Organisation of the United Nations (FAOSTAT: Forestry)

Industrial production index, 2007-2017 (%)



Note: ranked on annual average rate of change 2007-2017. China: not available.

(1) Calendar adjusted.
(2) Manufacturing.
(3) Annual average rate of change 2010-2016. Change 2016-2017: not available.
(4) Annual average rate of change 2007-2016. Change 2016-2017: not available.

Source: Eurostat (online data code: sts_inpr_a), the International Monetary Fund (International Financial Statistics) and the OECD (Main Economic Indicators)

3.2. The economy of Japan

2. **The economy of Japan**

– Japan at a glance

– factors of economic development of Japan

– the place and role of Japan in the global economy

Synopsis on the Japan's Economy:

- overcame its scarcity of natural resources through government-industry cooperation, a strong work ethic, mastery of high technology, and a comparatively small defense allocation; currently stands as 4th largest economy in the world; challenges include a low birthrate and an aging, shrinking population (Cia.gov, 2018).

Japan country profile

- **Japan has the world's third-largest economy, having achieved remarkable growth in the second half of the 20th Century after the devastation of the Second World War.**

- Its role in the international community is considerable. It is a major aid donor, and a source of global capital and credit.

- More than three quarters of the population live in sprawling cities on the coastal fringes of Japan's four mountainous, heavily-wooded islands.

- Japan's rapid post-war expansion - propelled by highly successful car and consumer electronics industries - ran out of steam by the 1990s under a mounting debt burden that successive governments have failed to address.

- Japan's relations with its neighbours are still heavily influenced by the legacy of Japanese actions before and during the Second World War. Japan has found it difficult to accept and atone for its treatment of the citizens of countries it occupied (BBC News, 2018)

Japan: People and society

Population:

- 126,451,398 (July 2017 est.)
- **country comparison to the world:** 10
- -0.21% (2017 est.)

Ethnic groups:

- Japanese 98.5%, Korean 0.5%, Chinese 0.4%, other 0.6%

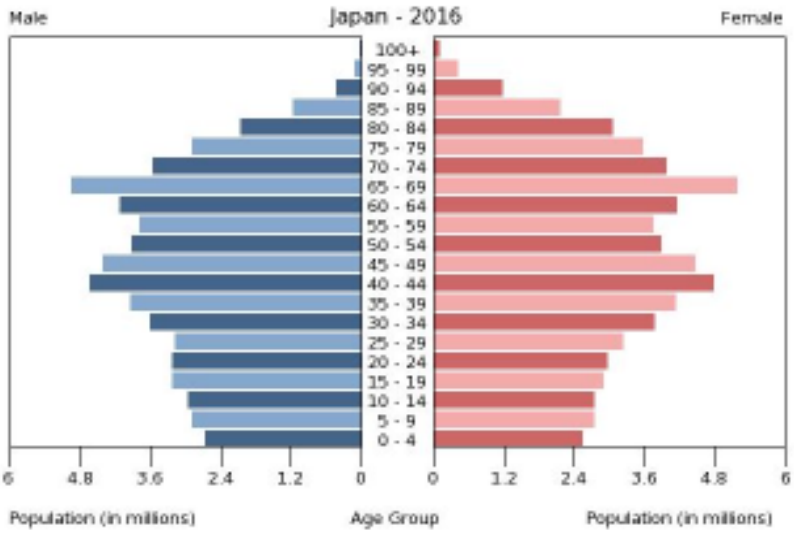
Languages:

- Japanese

Religions:

- Shintoism 79.2%, Buddhism 66.8%, Christianity 1.5%, other 7.1%
- **note:** total adherents exceed 100% because many people practice both Shintoism and Buddhism (2012 est.)

Age structure



0-14 years: 12.84% (male 8,361,611/female 7,875,045)
15-24 years: 9.64% (male 6,417,085/female 5,778,904)
25-54 years: 37.5% (male 23,435,323/female 23,980,781) (Cia.gov, 2018)
55-64 years: 12.15% (male 7,692,424/female 7,665,157)
65 years and over: 27.87% (male 15,397,309/female 19,847,759) (2017 est.)

Life expectancy at birth:

- **total population:** 85.3 years
- **male:** 81.9 years
- **female:** 88.8 years (2017 est.)
- **country comparison to the world:** 2

Health expenditures:

- 10.2% of GDP (2014 est.)

Unemployment, youth ages 15-24:

- **total:** 5.1%

Age dependency ratio:

- 64% of working-age population (2015 est.)
- **Urbanization:**
- **urban population:** 91.6% of total population (2018)
- **rate of urbanization:** -0.14% annual rate of change (2015-20 est.)

Total fertility rate:

- 1.41 children born/woman (2017 est.) (***Cia.gov, 2018***)

Japan: Economy

GDP - composition, by end use:

- **Household consumption:** 55.9%
- **Government consumption:** 19.5%
- **Investment in capital :** 23.7%
- **Exports of goods and services:** 17.8%
- I**mports of goods and services:** -16.8% (2017 est.)

GDP - composition, by sector of origin:

- **agriculture:** 1%
- **industry:** 29.7%
- **services:** 69.3% (2017 est.)

Labor force - by occupation:

- **agriculture:** 2.9%
- **industry:** 26.2%
- **services:** 70.9% (February 2015 est)

Unemployment rate:

- 2.9% (2017 est.)

Population below poverty line:

- 16.1% (2013 est.)

Household income or consumption by percentage share:

- **lowest 10%:** 2.7% **highest 10%:** 24.8% (2008)

Distribution of family income - Gini index:

- 37.9 (2011) 24.9 (1993)
- **country comparison to the world:** 78

Inflation rate (consumer prices):

- 10.5% (2017 est.)

Reserves of foreign exchange and gold:

- $1.217 trillion (31 December 2016 est.)
- **country comparison to the world:** 2

Debt - external:

- $3.24 trillion (31 March 2016 est.)
- **country comparison to the world:** 8

Stock of direct foreign investment - at home:

- $268.4 billion (31 December 2017 est.)
- **country comparison to the world:** 24

Stock of direct foreign investment - abroad:

- $1.548 trillion (31 December 2017 est.)
- **country comparison to the world:** 8

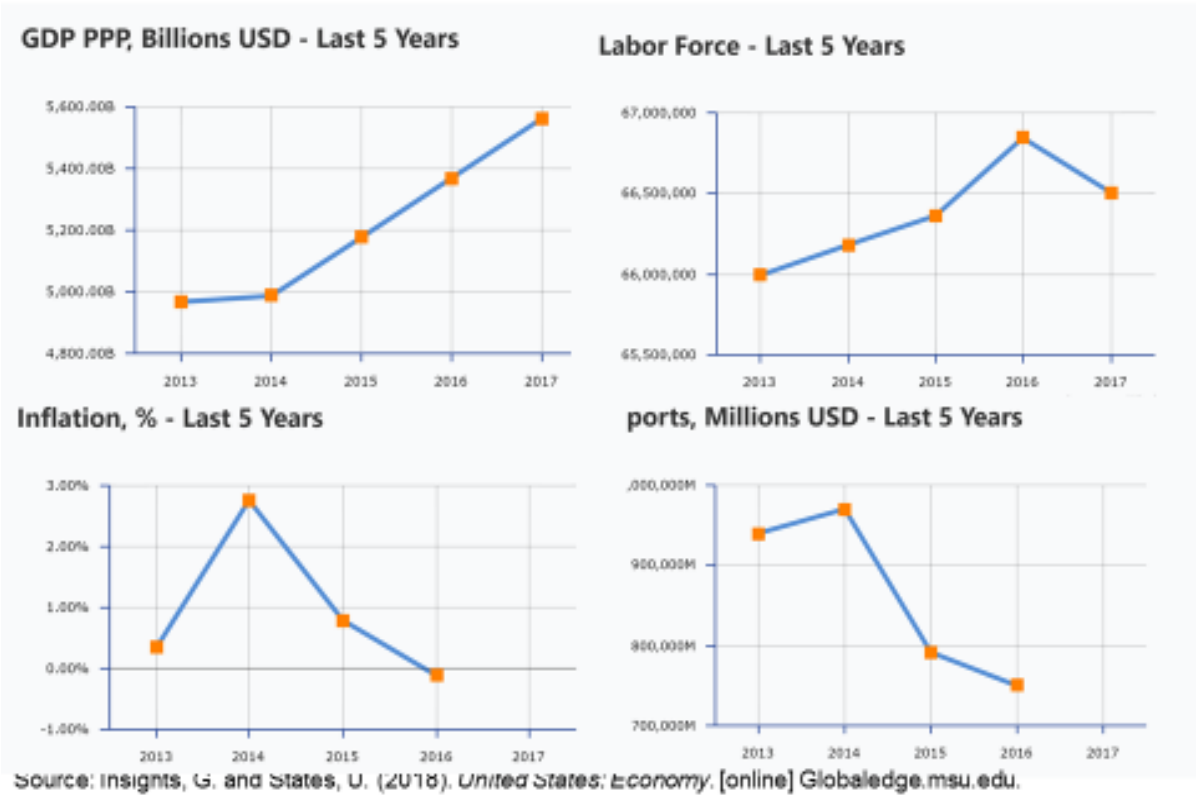
Agriculture - products:

- vegetables, rice, fish, poultry, fruit, dairy products, pork, beef, flowers, potatoes/taros/yams, sugarcane, tea, legumes, wheat and barley

Industries:

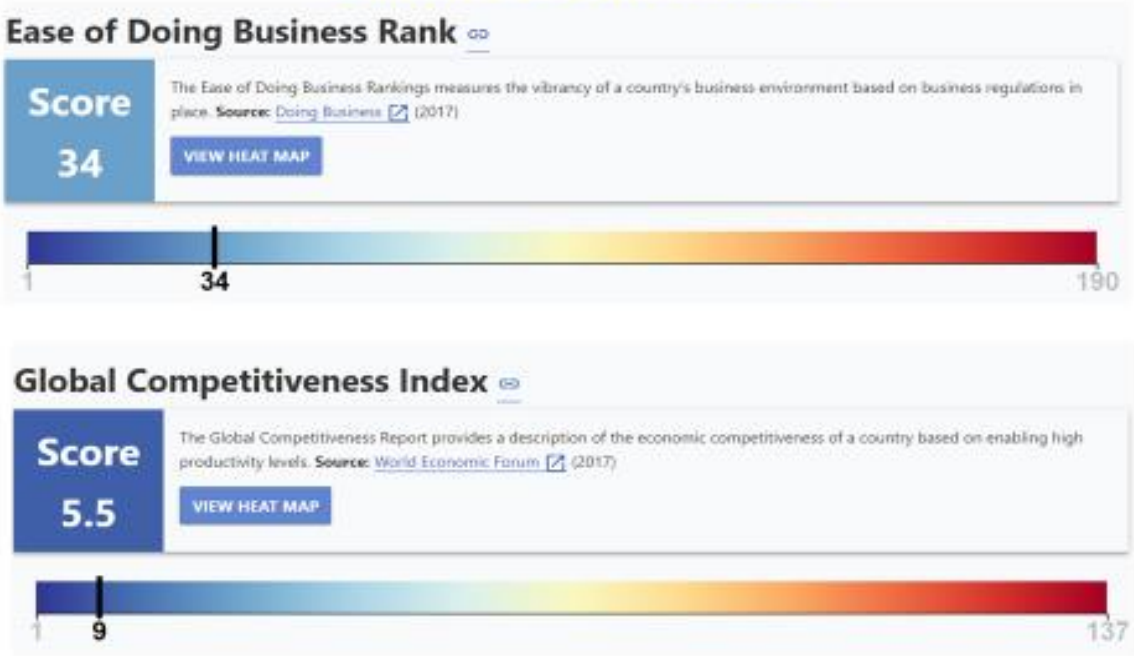
- among world's largest and most technologically advanced producers of motor vehicles, electronic equipment, machine tools, steel and nonferrous metals, ships, chemicals, textiles, processed foods (Cia.gov, 2018)

Japan: key characteristics of the economy



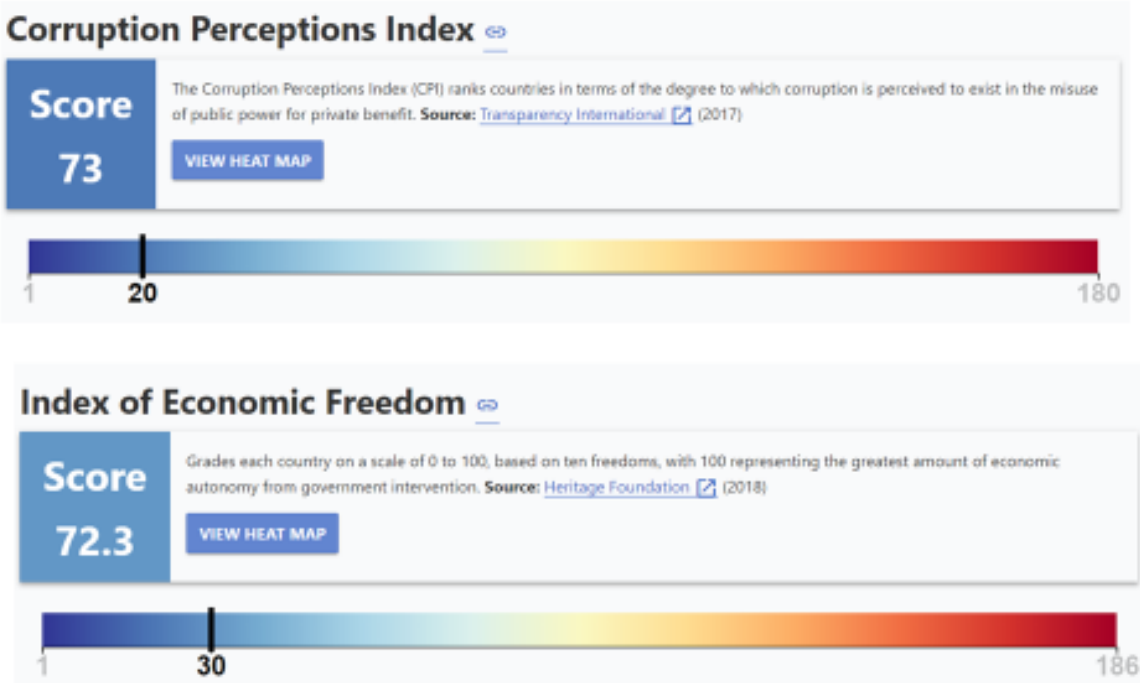
Source: Insights, G. and States, U. (2018). *United States: Economy*. [online] Globaledge.msu.edu. Available at: https://globaledge.msu.edu/countries/united-states/economy [Accessed 15 Sep. 2018].

Japan: key indices



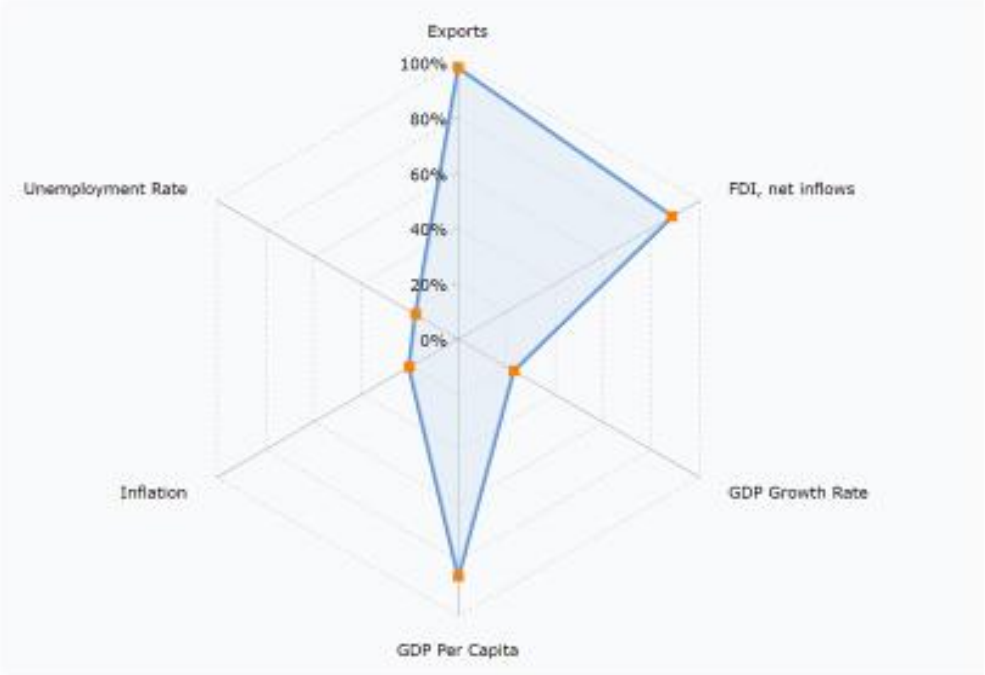
Insights, G. and States, U. (2018). *Japan: Indices*. [online] Globaledge.msu.edu. Available at: https://globaledge.msu.edu/countries/japan/indices [Accessed 15 Sep. 2018].

Japan: key indices



Insights, G. and States, U. (2018). *Japan: Indices*. [online] Globaledge.msu.edu. Available at: https://globaledge.msu.edu/countries/japan/indices [Accessed 15 Sep. 2018].

Japan: Economic Snapshot



Source: Insights, G. and States, U. (2018). *Japan: Economy*. [online] Globaledge.msu.edu. Available at: https://globaledge.msu.edu/countries/japan/economy [Accessed 15 Sep. 2018].

Japan: Economic History

1192	**Minamoto Yoritomo is appointed shogun and establishes the Kamakura government**
1274, 1281	The Mongols try to invade Japan twice, but fail mainly because of bad weather conditions
1853	A U.S. fleet forces Japan to open its market to foreign influence, ending 200 years of self-imposed isolation.
1868	Meiji restoration. The Empire of Japan is proclaimed and the country enters a period of rapid industrialization and trading dominance over East Asia.
1894-1895	Sino-Japanese War.
1904-1905	Russo-Japanese War.
1910	After three years of fighting, Japan annexes Korea. Japan is now among the world's leading powers.
1914	Japan joins First World War on the side of Britain and her allies, gaining some Pacific islands from Germany.
1937	Second Sino-Japanese War starts. Japan declares war on China, invading the country and capturing Shanghai, Beijing, and Nanjing. Japan occupies China until the end of World War II.
1941	Japan attacks a United States naval fleet in the Pacific, prompting the U.S. and their main allies to declare war on Japan.
1945	Japan surrenders after two atomic bombs are dropped over Hiroshima and Nagasaki.
1952	The Allied Occupation of Japan ends. Japan regains its independence after being controlled by the U.S. military government since 1945.
1972	Normalization of relations to China.
1973	Oil crisis.

1950s-1980s	Japanese post-war economic miracle: economic growth rate averaged 7.5 percent in 1960-1970, and 3.2 percent in the 1980s and early 1990s.
1997	Japan's economy enters a severe recession amidst the Asian financial crisis.
2001	A trade dispute with China occurs after Japan imposes import tariffs on Chinese agricultural products. China retaliates with import taxes on Japanese manufactured goods.
2008	A deal is reached with China for the joint development of a gas field in the East China Sea.
2009	Japan faces its worst economic crisis since World War II after the economy shrank by over 3% in the final quarter of the year due to the steep fall in external demand.
2011	The Fukushima Daiichi nuclear disaster. Japan is overtaken by China as the world's second-largest economy.
2012	Abenomics. In December, 2012, Shinzo Abe became Japan's Prime Minister for the second time. His first term was from 2006 to 2007. He won in 2012 by promising economic reform to shake the country out of its 20-year slump.

Factors of economic development of Japan

Japan’ s prewar experience provided several important legacies:

The Tokugawa period (1600−1867) bequeathed a vital commercial sector in burgeoning urban centers, a relatively well-educated elite (although one with limited knowledge of European science), a sophisticated government bureaucracy, productive agriculture, a closely unified nation with highly developed financial and marketing systems, and a national infrastructure of roads

The buildup of industry during the Meiji period to the point where Japan could vie for world power was an important prelude to post-war growth from 1955 to 1973, and provided a pool of experienced labor.

Circumstances beyond Japan's direct control contributed to its success.

International conflicts tended to stimulate the Japanese economy until the devastation at the end of World War II. The Russo-Japanese War (1904-05), World War I (1914-18), the Korean War (1950–53), and the Second Indochina War (1954-75) brought economic booms to Japan. In addition, benign treatment from the United States after World War II facilitated the nation's reconstruction and growth.

The level and quality of investment that persisted through the 1980s.

During the economic boom of the late 1980s, the rate still hovered around 20%. Japanese businesses imported the latest technologies to develop the industrial base. As a latecomer to modernization, Japan was able to avoid some of the trial and error earlier needed by other nations to develop industrial processes.

In the 1970s and 1980s, Japan improved its industrial base through licensing from the US, patent purchases, and imitation and improvement of foreign inventions. In the 1980s, industry stepped up its research and development, and many firms became famous for their innovations and creativity

Investment in capital equipment, which averaged more than 11% of GNP during the prewar period, rose to about 20% of GNP during the 1950s and to more than 30% in the late 1960s and 1970s.

Japan's labor force contributed significantly to economic growth, because of its availability and literacy, and also because of its reasonable wage demands. Before and immediately after World War II, the transfer of numerous agricultural workers to modern industry resulted in rising productivity and only moderate wage increases. As population growth slowed and the nation became increasingly industrialized in the mid-1960s, wages rose significantly. However, labor union cooperation generally kept salary increases within the range of gains in productivity.

High productivity growth played a key role in post-war economic growth. The highly skilled and educated labor force, extraordinary savings rates and accompanying levels of investment, and the low growth of Japan's labor force were major factors in the high rate of productivity growth.

- The nation also benefited from **economies of scale**. Although medium-sized and small enterprises generated much of the nation's employment, large facilities were the most productive. Many industrial enterprises consolidated to form larger, more efficient units. Before World War II, large holding companies formed wealth groups, or zaibatsu, which dominated most industry. The zaibatsu were dissolved after the war, but keiretsu − large, modern industrial enterprise groupings − emerged. The coordination of activities within these groupings and the integration of smaller subcontractors into the groups enhanced industrial efficiency.

Japanese corporations developed strategies that contributed to their immense growth. **Product diversification** became an essential ingredient of the growth patterns of many keiretsu. Japanese companies added plant and human capacity ahead of demand. **Seeking market share** rather than quick profit was another powerful strategy.

Natural-resource potential of Japan

Japan has virtually no oil or natural gas, and few other minerals or natural resources that have any value other than timber.

The high cost of resources drained the Japanese treasury in 2008. About ¥18 trillion flowed out of the country, 3.5 percent of Japan's GNP, for resources. Most of it was for oil, coal and natural gas. Large amounts of iron and other metals were also imported.

Among the few resources that Japan does have are titanium and sheet mica. Titanium is an expensive metal prized for its strength and lightness. It is used mostly in jet engines, air frames, and space and missile applications. It is produced in the Ukraine, Russia, Kazakstan, Japan, the U.S., the United Kingdom and China.

Sheet mica is used in electronic and electrical equipment processes. The main sources are in India, Belgium, Brazil, and Japan. The U.S. doesn't have any

The place and role of Japan in the global economy

There are four characteristics of globalization in the Japanese economy especially in the period after the 1990s, as explained below:

1) The changes in exchange rates and their economic impact. After making the transition to a floating exchange rate system, Japan was faced with a steep appreciation of the yen in the late 1980s as well as experienced a long-term appreciation of the yen, albeit modest, in the early 1990s. These exchange rate changes had a substantial impact on the Japanese economy.

2) With the advancement of Japan's industrial and trade structure, the focus on the US as a trading partner and direct investment destination gradually shifted to the East Asian region. These developments are the result of vigorous corporate activity which took place as Japan's relations deepened with overseas economies.

3) Regarding Japan's financial and capital transactions, equity investments from abroad have recently increased, but it cannot be said that Japan's international financial and capital transactions have accelerated, except in the bubble economy period. Financial and capital developments have been stagnant compared to those on the trade front.

4) The Japanese economy's international ties are not as deep as those of European and North American countries. This means that even though globalization in Japan is presumably advancing, it may not be the case when compared to the European and North American countries.

The Japan's Competitive Advantage

• **Temperate climate, abundant rainfall, high mountains**. Though limited in arable land, the mild climate. With a rugged terrain, three quarters of Japan is mountainous. The mountains and plentiful rainfall generate large-volume, fast-running body of water and become a significant natural source of energy and of ample water supply for industrial and residential use. e and plentiful rainfall favor agriculture.

• **Natural Harbors**. Japan's major urban centers all adjoin natural harbors, offering strategic benefits.

• **Large Population**. Its population of 126 million provides the base for a large domestic economy, which in turn offers several major advantages over European counterparts.

• **Economies of scale and of agglomeration**. The large domestic market enables Japan's firms to operate at efficient scales, allowing lower unit costs.

• **More firms per industry, greater competition and R&D intensity**. A larger economy can accommodate a larger number of firms in each industry. Fierce domestic rivalry and competition among firms lend themselves to high R&D intensity, and it would have positive effects on advances in technology.

• **Higher productivity of public infrastructure**. A large population, inhabiting a small area, enables Japan a greater efficiency in the use of social infrastructure, be it intercity railroads, highways, urban subway and surface mass transits, air and sea ports, and so forth. Japan's high speed trains (the Shinkansen) is an example which cannot be emulated in Canada or Australia where the major cities are smaller and too far apart.

• **The culture of frugality**. The resource-poor environments of Japan may have brought forth the culture of thrift and frugality among its population (living or doing with less, not so much by choice but more by constraints).

• **The diet, general health, and average physique.** For a nation of islands, fish naturally becomes a major part of the diet. The small land mass leaves little space for anything other than the basic food staple, rice. This basic diet of fish and rice (taken in relatively small amounts, by the Western standard) has often been said to account for Japan's notable longevity.

• **Advantages of an early achiever among Asian nations**. Commodore Mathew Perry's 1853 visit of Tokyo Bay was the beginning of Japan's substantive trade relationship with the outside world. The subsequent circumstances prompted and enabled Japan to launch aggressive development programs would be beyond the scope of this study. Japan's modern economic growth began after the Meiji Restoration (1868) and that it was the beginning of the rapid surge in economic development which paved the way for Japan's successful industrialization in a relatively short span of time.

• **The Postwar constitution** – a low cap on military outlays. Japan's post-war constitution stipulates an upper limit on defense expenditures to one percent of the GDP. This meant lower taxes with their attendant positive supply side effects or high spending in productivity-promoting infrastructures or R&D activities.

• **The Role of the Government**. Government investment in infrastructure, large and small, proceeded ceaselessly, and at accelerated pace during periods of economic stagnation. The major projects of strategic importance included intercity railroads, urban mass transits, air and sea port expansions (and numerous large scale land reclamation for such expansions) and communications infrastructure.

• **Telecommunications infrastructure**. Japan has made rapid progress in developing telecommunications infrastructure; broadband services in Japan, reportedly, is "the least expensive and fastest in the world."

• **Government's Export Promotion Programs**: loan subsidies, tax designs for saving, investment, and export promotions, the postwar trade policy – Import restrictions.

The Japan's Competitive Disadvantage

Natural resources: land and minerals. Japan has thus been known to be among the least blessed in natural resources

Challenges to Japan's economy:

- **Keiretsu** is the structured interdependent relationships between manufacturers, suppliers, and distributors. This allows the manufacturer monopoly-like power to control the supply chain. It also reduces the impact of free market forces. New, innovative entrepreneurs can't compete with the low-cost keiretsus. It also discourages foreign direct investment for the same reason.
- **Guaranteed lifetime employment** meant companies hired college graduates who stayed until retirement. The recession made that strategy unprofitable. By 2014, only 8.8 percent of Japanese companies offered it. But 25 million workers, aged 45 to 65, are still employed under the system. Most have outdated skills and are just cruising until retirement. That burdens corporate competitiveness and profitability by artificially raising wages for these workers.
- **An aging population** means the country must pay out more retirement benefits than it receives in income taxes from the working population. It hires temporary workers from nearby South Asian countries but does not welcome immigrants. That reduces the consumer base.
- **The yen carry trade** is a result of Japan's low interest rates. Investors borrow money in low-cost yen and invest it in higher-paying currencies, such as the U.S. dollar. It's one reason the dollar's value soared 15 percent in 2014. A lower yen normally increases the price of imported commodities, triggering inflation. But plummeting oil prices in 2014 meant the BOJ didn't have to worry about inflation and could keep rates low.
- **Japan's massive debt-to-GDP ratio** means Japan owes more than twice as much as it produces annually. The biggest owner of its debt is the Bank of Japan. That has allowed the country to keep spending without worrying about higher interest rates demanded by skittish lenders.
- **Japan briefly became the largest holder of U.S. debt in 2015 and again in 2017.** Japan does this to keep the yen low relative to the dollar to improve its exports.
- **Japan is the world's largest net food importer**. The country has just one-third as much arable land per person as China.
- **Japan's main imports are oil and liquid natural gas**. It is trying to reduce these imports by increasing its use of renewable energy. It is also restarting nuclear plants that were shut down after the Fukushima nuclear disaster.
- **Deflation** is still a concern, even though the economy is growing. Deflation in Japan started in the early 1990s. In March 2001, the Bank of Japan and the Japanese government tried to eliminate deflation in the economy by reducing interest rates (part of their 'quantitative easing' policy). Despite having interest rates near zero for a long period, this strategy did not succeed.

Japan: Trade Statistics

Exporter rank: 4/146
Trade Balance Rank: 11/145

Importer rank: 5/145

Top 10 Export Countries	
Country	Export USD$
United States ≈19.4%	$130,585,866,470
China ≈19%	$113,830,233,712
South Korea ≈7.6%	$46,235,237,668
Hong Kong ≈5.1%	$33,624,337,741
Thailand ≈4.2%	$27,398,049,558
Singapore	$19,841,986,378
Germany	$17,652,733,307
Australia	$14,104,469,909
United Kingdom	$13,659,024,323
Vietnam	$12,990,345,953

Top 10 Import Countries	
Country	Import USD$
China ≈24.5%	$156,552,583,048
United States ≈11%	$69,221,593,000
Australia ≈5.8%	$30,432,596,105
South Korea ≈4.2%	$25,019,531,161
Germany ≈4%	$22,022,455,938
Thailand	$20,139,207,493
Saudi Arabia	$19,570,254,430
Indonesia	$18,214,821,840
Malaysia	$17,334,411,720
UAE	$17,298,552,509

Insights, G. and States, U. (2018). *Japan: Trade Statistics*. [online] Globaledge.msu.edu. Available at: https://globaledge.msu.edu/countries/japan/tradestat [Accessed 15 Sep. 2018].

Top 10 Export Goods	
Motor Vehicles & Parts	$141,798,537,822
Industrial Machinery	$123,979,702,084
Electrical Machinery	$98,151,189,242
Items nesoi	$38,182,813,533
Precision Instruments	$35,856,498,046
Iron & Steel	$24,510,778,209
Plastics	$23,407,167,366
Organic Chemicals	$15,938,467,818
Precious Stones & Metals	$13,956,364,831
Ships & Boats	$12,895,334,582
Total Exports (2016)	$644,932,439,497
Exports of goods and services (% of GDP) (2017)	16.12%

Top 10 Import Goods	
Oil & Mineral Fuels	$110,878,112,125
Electrical Machinery	$89,834,015,263
Industrial Machinery	$59,466,102,716
Pharmaceuticals	$24,387,663,582
Precision Instruments	$24,169,079,501
Motor Vehicles & Parts	$20,893,783,834
Ores	$17,333,649,243
Organic Chemicals	$14,414,474,552
Plastics	$13,932,157,432
Apparel: Non Knit	$13,334,602,897
$606,924,046,814	$606,924,046,814
Imports of goods and services (% of GDP) (2017)	15.15%

Insights, G. and States, U. (2018). *Japan: Trade Statistics*. [online] Globaledge.msu.edu. Available at: https://globaledge.msu.edu/countries/japan/tradestat [Accessed 15 Sep. 2018].

Exports and imports by major commodity groups

Exports - commodities:

- motor vehicles 14.9%
- iron and steel products 5.4%
- semiconductors 5
- auto parts 4.8%;
- power generating machinery 3.5%
- plastic materials 3.3% (2014 est.)

Imports - commodities:

- petroleum 16.1%
- liquid natural gas 9.1%
- clothing 3.8%
- semiconductors 3.3%
- coal 2.4%
- audio and visual apparatus 1.4% (2014 est.)
- (Cia.gov, 2018)

Tasks for control and self-control of knowledge and skills

Questions for Review

1) Identify the main stages of the formation of the European Union.

2) What factors influenced the development of the EU economy in the post-war period?

3) What place does the services sector play in the EU economy?

4) Do natural resources influence the development of the EU economy?

5) What is the geopolitical role of the European Union?

6) What is the place of Japan in the global economy?

7) What factors contributed to the growth of the Japanese economy?

8) What is the essence of the Japanese economic miracle?

9) Identify the key stages of development of Japan in the second half of the 20th century.

10) Analyze the reasons for the decline in economic growth in Japan in the 90s of the 20th century.

Determine whether these statements are true or false

1) The European Union is the third largest economy in the world in nominal terms and according to purchasing power parity or PPP (after the United States and China).

2) The EU citizens in 18 countries now use the euro as their currency and enjoy its benefits.

3) The EU's main economic engine is the single market which enables most goods, services, money and people to move freely.

4) The European Union is the largest trade block in the world.

5) Free trade among its members was one of the EU's founding principles.

6) Japan's material difficulties are that the country is overpopulated, land is very limited and natural resources are scarce.

7) To maintain its living standards Japan must import large quantities of food and the raw materials with which to manufacture industrial goods for export.

8) Japan has the highest ratio of public debt to GDP of any developed nation.

9) When the Meiji emperor was restored as head of Japan in 1868, the nation was a militarily strong country, primarily industrial, and had much technological development.

10) The Mongol invasion was the only military invasion of Japan before World War II.

Chapter 4

THE FEATURES OF ECONOMIC DEVELOPMENT OF NEWLY INDUSTRIALIZED COUNTRIES (NICS)

Chapter Outline

4.1. NICs at a glance
4.2. Factors of economic development of NICs
4.3. The place and role of the NICs in the world economic system

4.1. NICs at a glance

What are NICs?

- The term newly industrialized country (NIC) is an economic classification used by economists to represent economies that fall somewhere between a developed country and a developing country. The countries falling under this categorization are characterized by rapid export-driven economic growth and a secular migration of workers from rural to urban areas.
- Some examples of NICs include China, India, and Brazil, although definitions of so-called *NICs* vary between economists. The one thing most economists can agree upon is that NICs tend to be attractive investment destinations given their strong economic growth rates, which makes them very important for international investors.
- Many emerging markets fall under the NIC categorization, as opposed to frontier markets that tend to be a lot earlier-stage.

Breaking down NIC

- Economists and investors commonly use the term newly industrialized country, but there is no single agreed-upon definition. As a result, there are many different countries that are considered NICs but not everyone agrees on what those countries are. Moreover, the classification can rapidly change over time, depending on a country's economic conditions.

- All NICs industrialized in the 20th century. In the 1970s and 1980s, examples of newly industrialized countries included Hong Kong, South Korea, Singapore and Taiwan. These countries have moved beyond newly industrialized countries and to developed countries as their economies have matured. Examples in the late 2000s included South Africa, Mexico, Brazil, China, India, Malaysia, the Philippines, Thailand and Turkey.

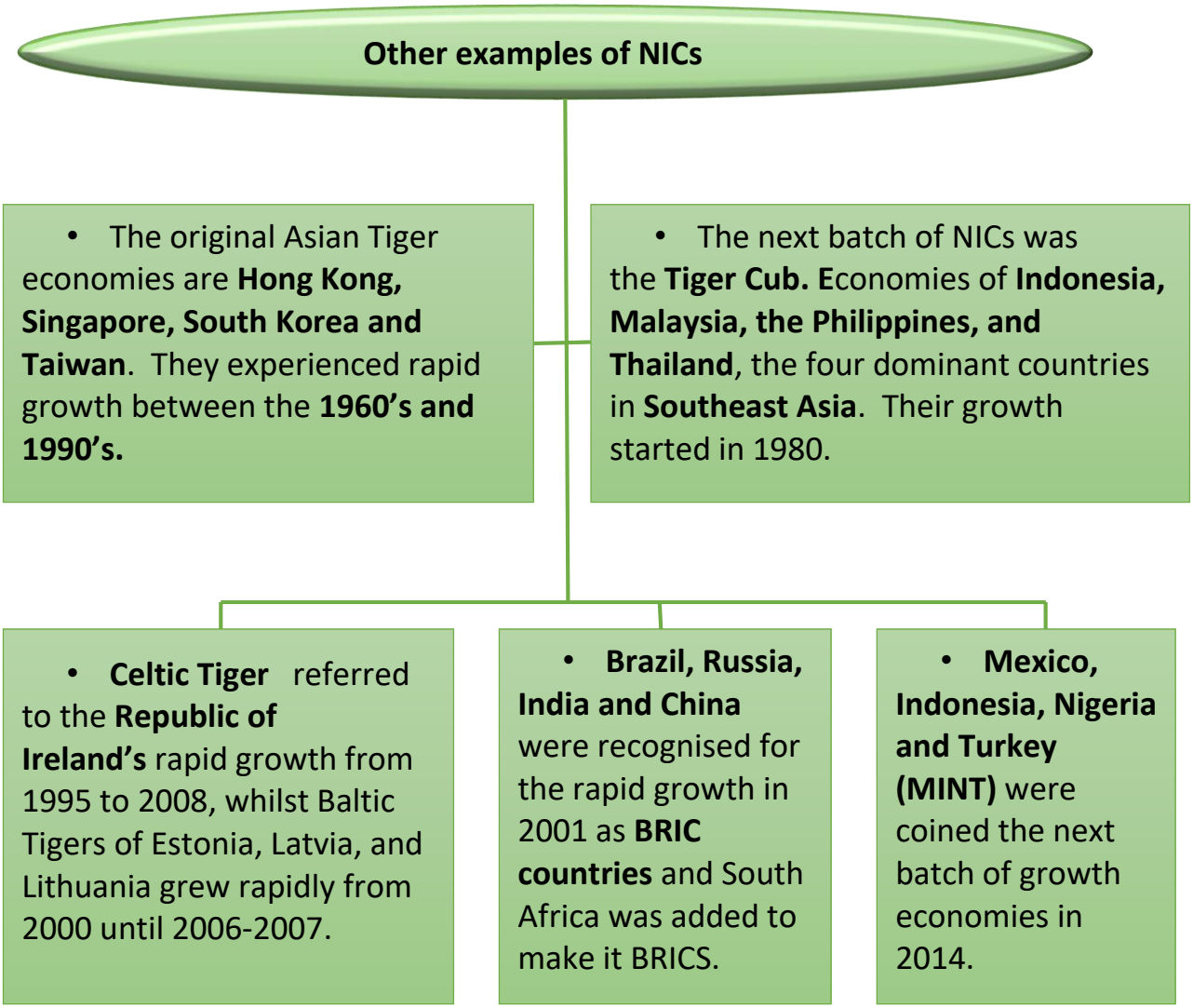
- Some countries may also be demoted from NICs to frontier markets if their economies have regressed due to deteriorating economic or political environments. For example, some countries have made strides in installing a democratic government but have slipped with an autocrat taking power. The lack of strength in their institutions could result in a demotion of their economic status.

- The governments of NICs kept close control over industrial development, and encouraged industries to export manufactured products to the more developed and richer countries abroad.

- The profits generated by exports were reinvested in the domestic economy. Domestic businesses grew, wages rose, and workers spent their new wealth on home-produced goods and services - thus stimulating further growth. This is called the multiplier effect.

- NICs tend to have a large proportion of people working in secondary industries. The % of the population working in primary industry starts to decline.

- The success of NIC economies has contributed to the decline, over the last 30 years, of manufacturing industries in More Economically Developed countries (MEDCs) such as the UK. Industries struggled to compete with the cheaper competition from NICs, where production costs and wages were less.



Features of NICs

- **Sustained and large growth of the economy**. Rapid economic growth (usually export-oriented) and rapid productivity growth. Development of own TNCs. Lowered poverty rates.
- **Stable governments and strong political leaders that allow the country to develop**. Government structures are often more stable with lower levels of corruption and less violent transitions of power between officials. Long-term industrial planning.
- **Quick industrialisation.** A switch from agricultural to industrial economies,. Processing raw materials, not just selling them.
- **Rapid urbanisation** via rural to urban migration as people flock to growing manufacturing industries.

- **An increasingly open-market economy**, allowing free trade with other nations in the world.

- **A high degree of investment and capital formation** largely funded from domestic savings, and a high propensity to export, with consumer durables and machinery accounting for a large share of exports. Strong capital investment from foreign countries from overseas TNCs and other countries. These countries have also begun exporting capital in the form of investment and production facilities in other developing and developed countries.

- **Openness to globalization and free trade.** Part of trading block, e.g. ASEAN.

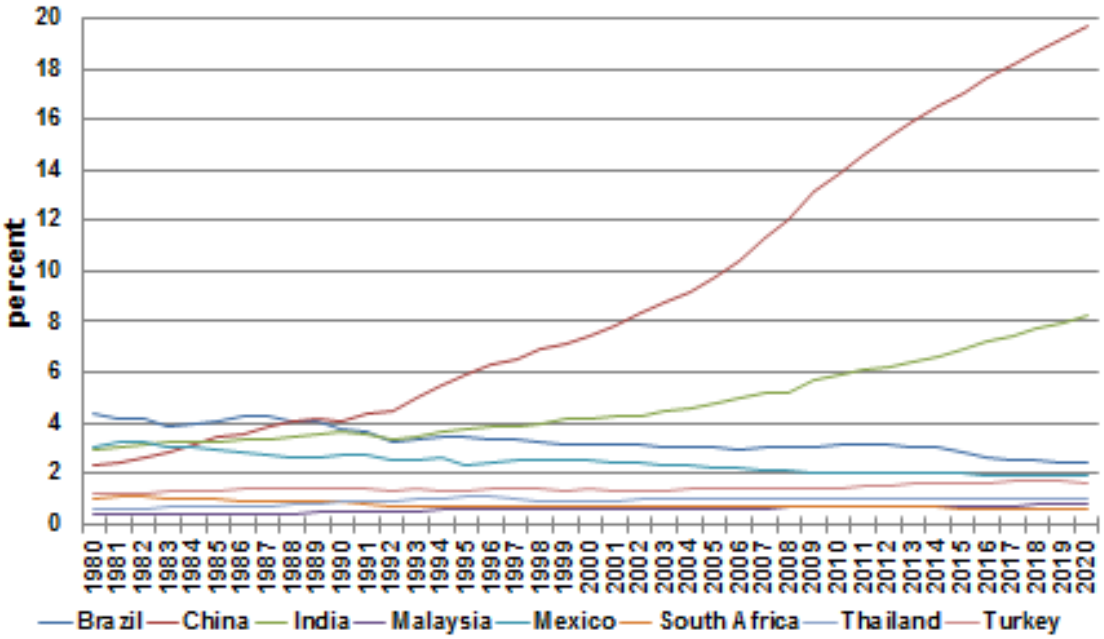
- **Increased social freedoms and civil rights.**

Selected indicators for selected NICS

Region	Country	GDP (PPP) (international billions of dollars, 2017, IMF)	GDP per capita (PPP) (international dollars, 2017, IMF)	Income inequality (GINI) 2008–17	Human Development Index (HDI, 2016)	Real GDP growth rate as of 2017
Africa	South Africa	762	13,403	63.4	0.666 (medium)	0.695
North America	Mexico	2,406.2	19,480	48.3	0.762 (high)	2.145
South America	Brazil	3,219.1	15,500	51.3	0.754 (high)	0.748
Asia	China	23,122	16,624	42.2	0.738 (high)	6.5
	India	9,446	7,174	37	0.624 (medium)	7.5
	Indonesia	3,243	12,378	39.5	0.689 (medium)	5.151
	Malaysia	923	28,871	46.3	0.789 (high)	5.43
	Philippines	879	8,229	40.1	0.682 (medium)	6.6
	Thailand	1,229	16,917	37.8	0.740 (high)	3.708
	Turkey	1,988.3	24,912	39	0.767 (high)	6.120

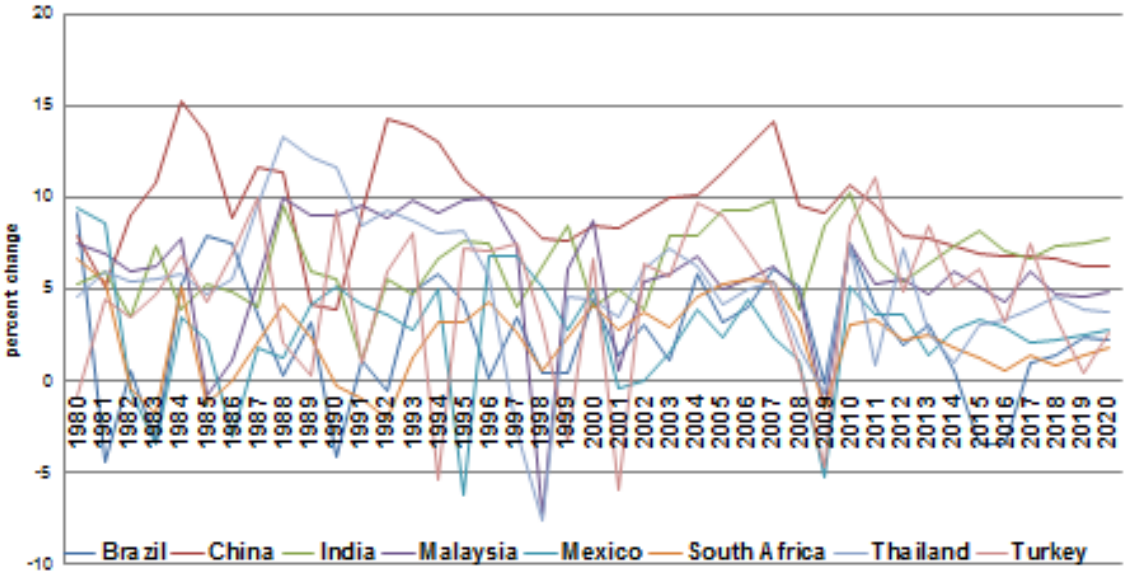
GDP based on purchasing-power-parity (PPP) share of world total (IMF, 2018)

Estimates Start After 2017



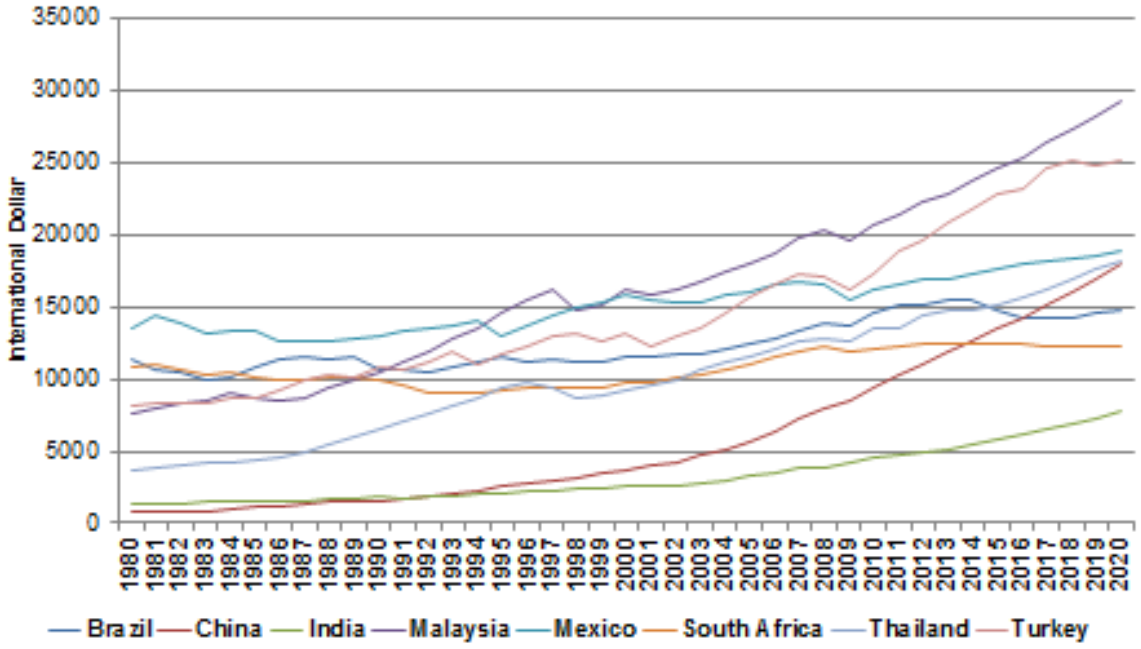
GDP, constant prices (IMF, 2018)

Estimates Start After 2017

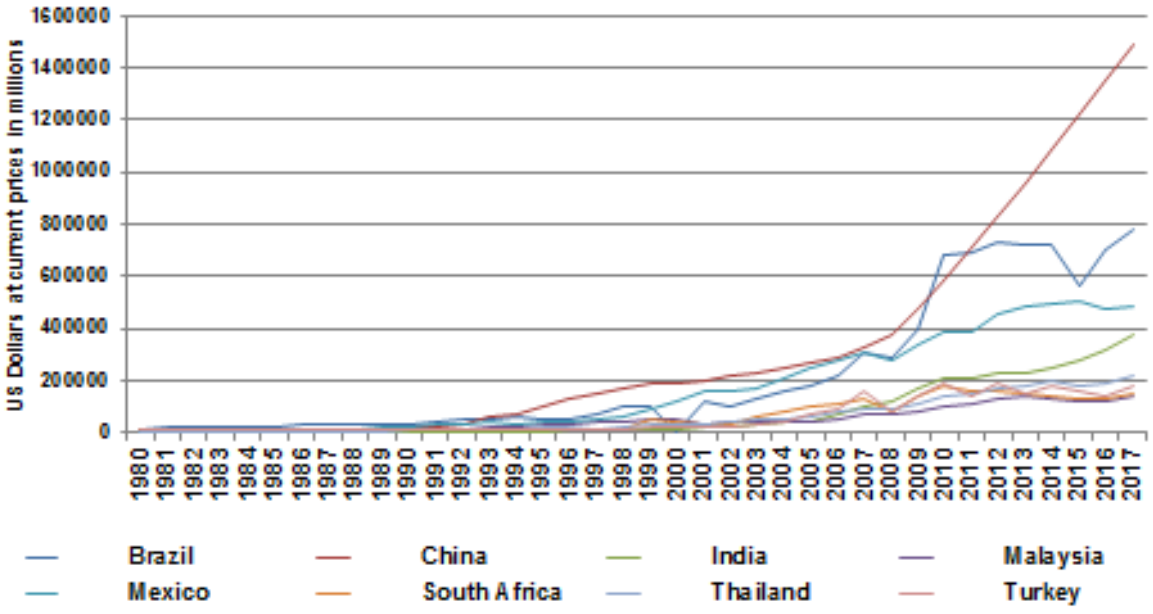


GDP per capita, constant prices (IMF, 2018)

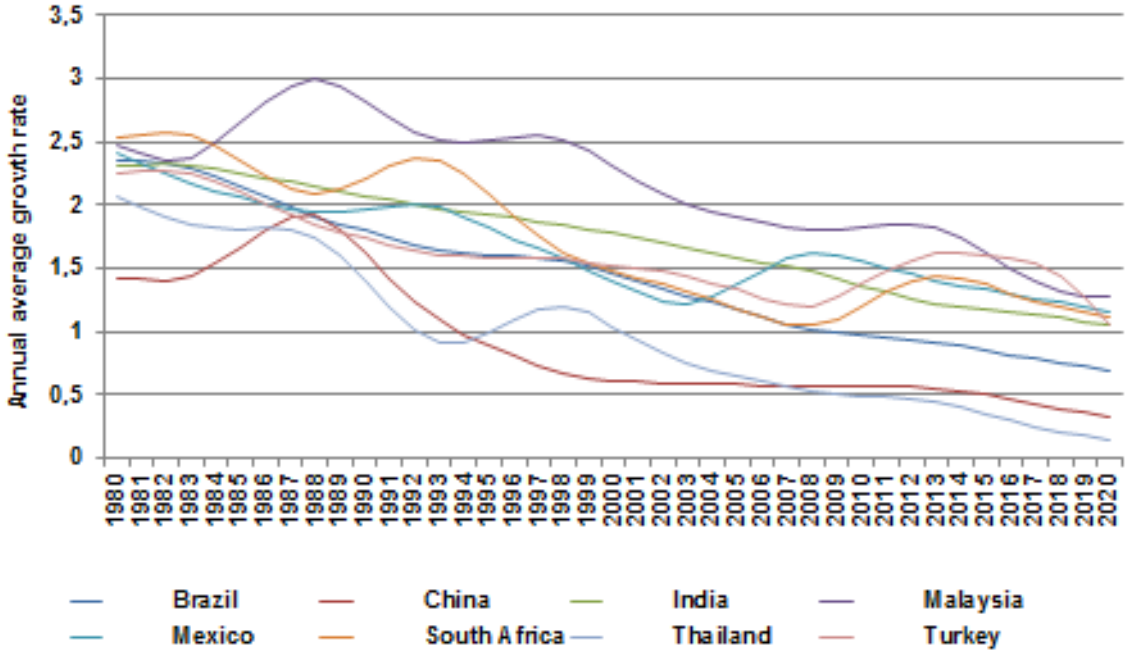
Estimates Start After 2017



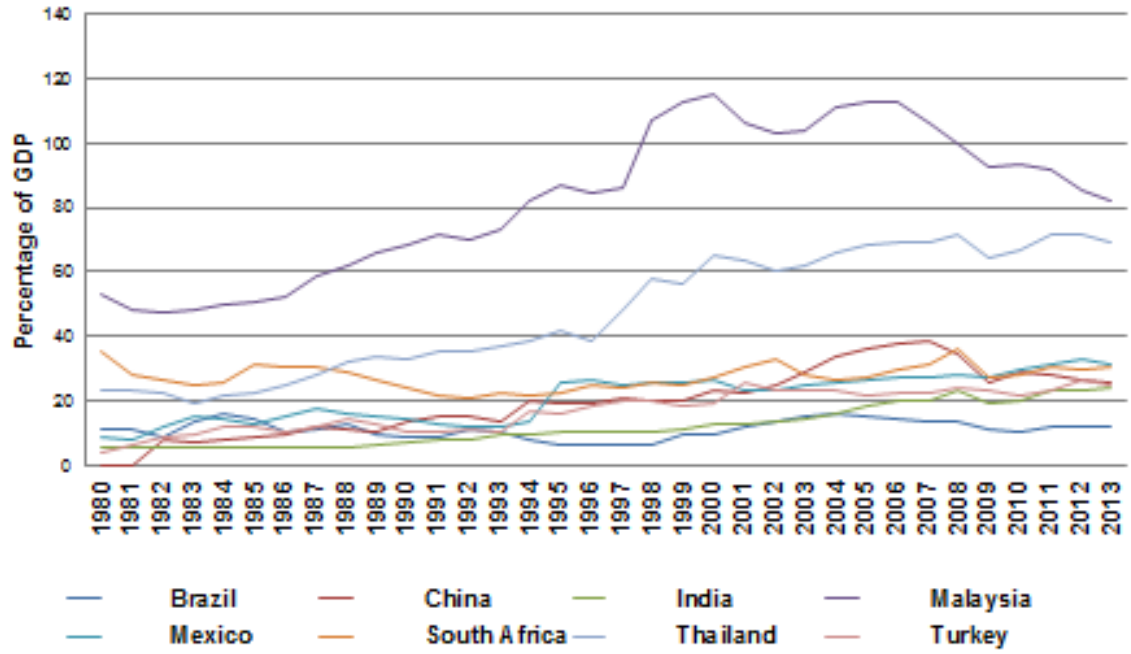
FDI: Inward stock, annual (UNCTAD, 2018)



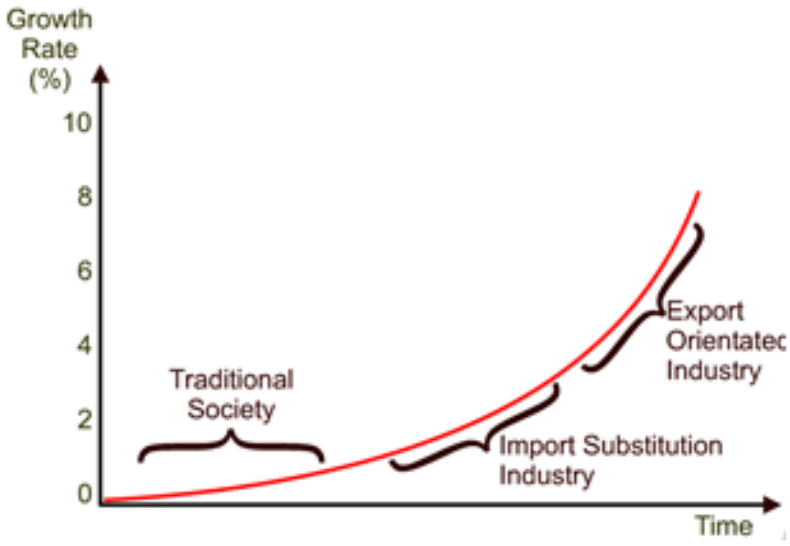
Total population growth rates, annual, (UNCTAD, 2018) Estimates Start After 2017



Trade openness (exports of goods and services as percentage of GDP, (UNCTAD, 2018)



Development stages of an NIC



The time frame for the whole process can be as little as 30 years.

Development stages of an NIC (cont'd)

- This stage has traditional, labour intensive industries, using low levels of technology and local raw materials such as textiles

Traditional society

Import substitution

- The country develops Import Substitution Industries (ISIs) at home to replace expensive imports, which are subjected to high levels of tax

- The country moves into Export Orientated Industries (EOIs) which are high-technology and require a lot of capital investment. They require a lot of Research and Development (R&D), but generate rapid growth in the economy.

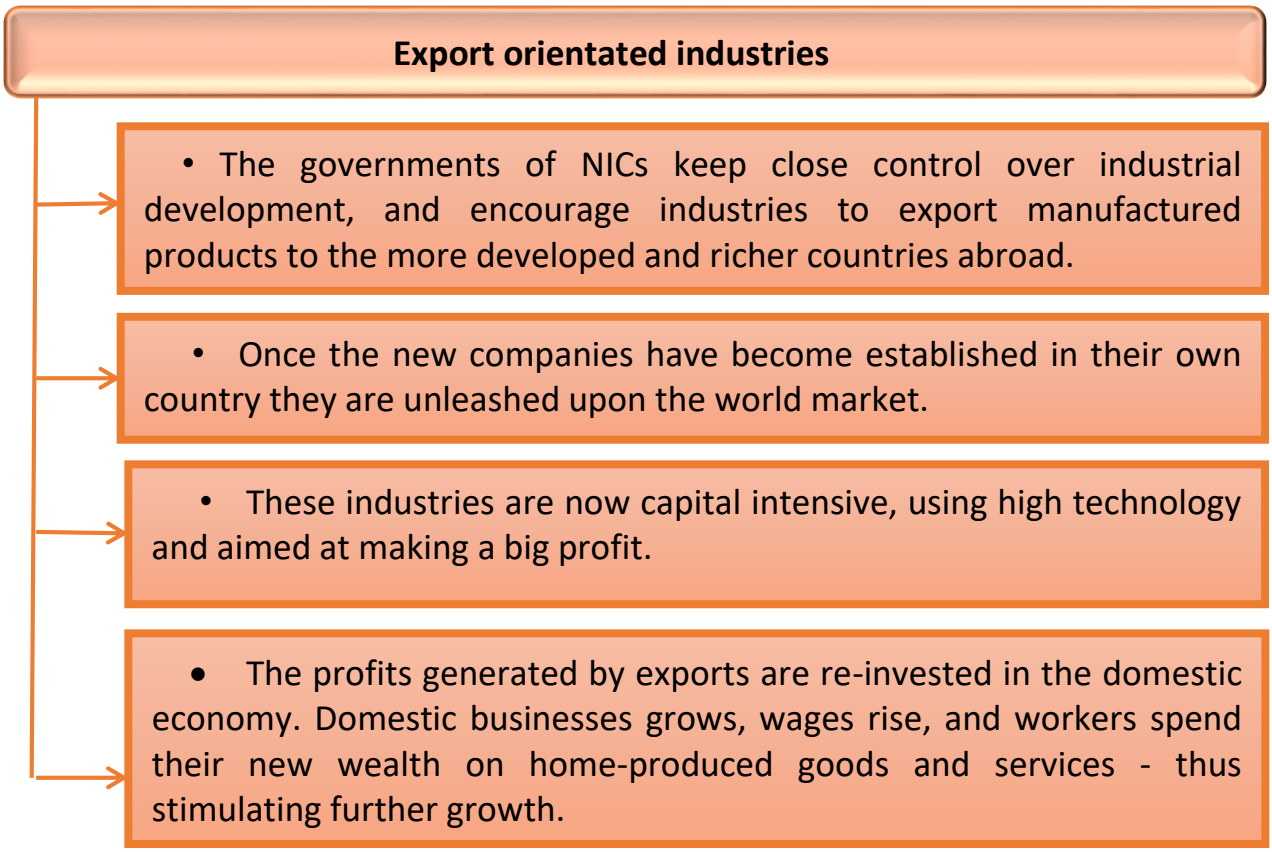
Export orientation

Traditional society

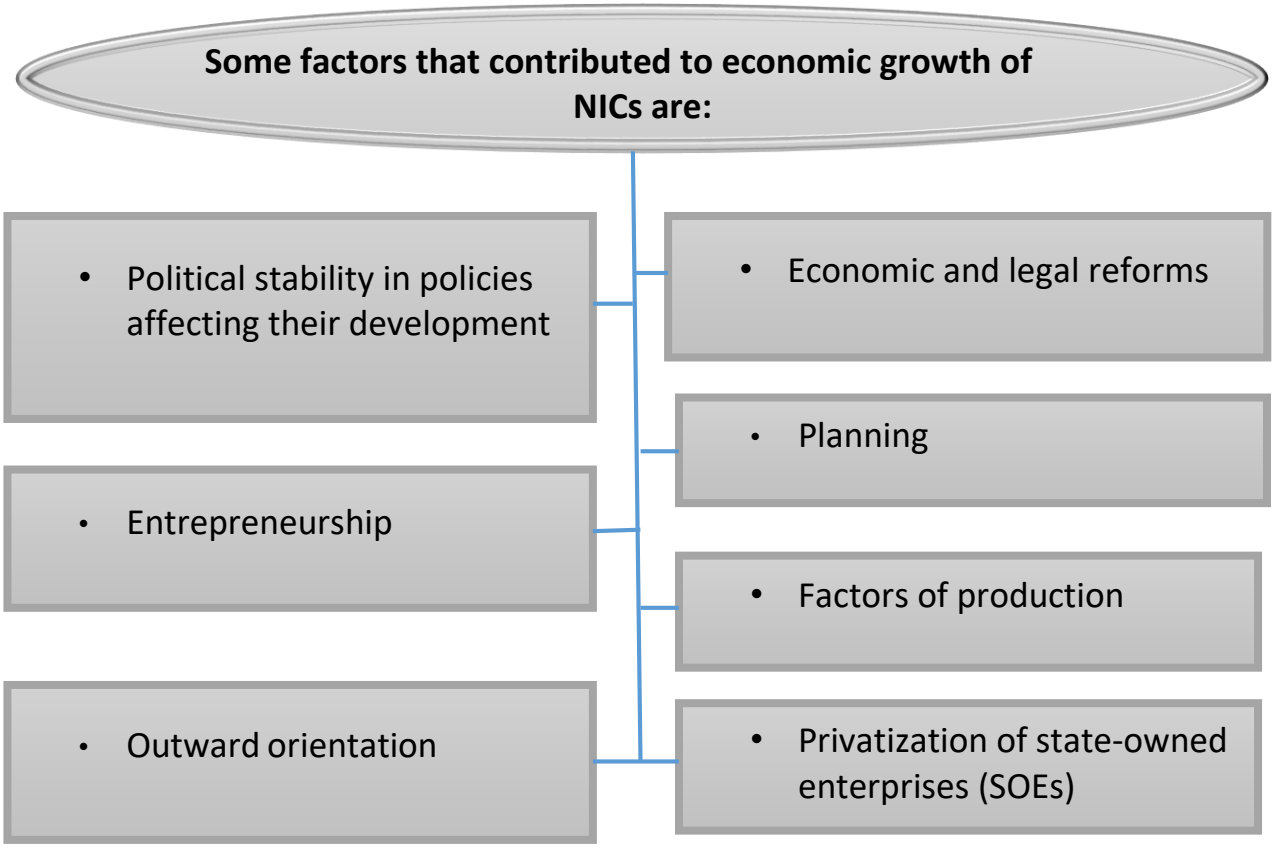
- Most industry is labour intensive, concentrating on small cottage-style traditional industries, using local raw materials. Examples could include food processing or textile manufacture
- Often, the majority of people are still in the primary sector, doing things such as farming.
- There is little technology and most people have very little money.
- Most products are imported from abroad, meaning that the country is relying on other for many of its needs.

Import substitution industries

- The country decides to promote its own industries.
- New companies copy products from well-known companies, and then make them for a far cheaper price.
- The country operates a strict regime of trade tariffs and high taxes for any similar products being imported into the country. This is aimed at protecting their own companies whilst they grow.
- Example industries are car manufacture, computer manufacture and the manufacture of other electrical



4.2. Factors of economic development of NICs



Reasons for rapid development

- The NICs' key to success was marrying imported technology and cheap labour to an export market
- High rate of capital investment financed by a high rate of consumer saving and from growing export sales.
- Much of the new investment has been in knowledge-based, high-value-added industries.
- Large investment in education and training has improved the quality of the labour force.
- Movement of labour from low-productivity industries, e.g. agriculture, into high-productivity industries.
- Agriculture, while declining in relative importance, experienced rapid growth and productivity improvement.
- Population growth rates declined more rapidly in the NICs than in other parts of the developing world.
- In most NICs, in one form or another, the government intervened – systematically and through multiple channels – to foster development, and in some cases the development of specific industries.
- Policy interventions took many forms: targeting and subsidising credit to selected industries, keeping deposit rates low and maintaining ceilings on borrowing rates to increase profits and retained earnings, protecting domestic import substitutes, subsidising declining industries, establishing and supporting government banks, making public investments in applied research, establishing firm- and industry-specific export targets, developing export marketing institutions, and sharing information widely between public and private sectors.
- The NICs also engaged in "financial repression" where interest rates were kept low to cheapen borrowing by firms. Thereby savers, the majority of whom are households, subsidised corporate borrowers.

Challenges for Achieving Development

- One of the biggest problems continues to be income disparity. Although the per capita income has been raised significantly, usually a small percentage of the population has become very wealthy, while most remain in poverty.

- Many NICs have a structural dependency on Japanese and US licensed technology.

- Economic freedom is not always associated with political freedom in countries such as China, where Internet censorship and human rights violations are common. The case is diametrically opposite for India; While being a liberal democracy throughout after its independence, India has been widely criticized for its inefficient, bureaucratic governance and slow process of structural reform. Thus, while political freedom in China remains limited, the average Chinese citizen enjoys a higher standard of living than his or her counterpart in India.

- South Africa faces an influx of immigrants from countries such as Zimbabwe, although many also come from Burundi, Democratic Republic of the Congo, Rwanda, Eritrea, Ethiopia and Somalia. While South Africa is considered wealthy on a wealth-per-capita basis, economic inequality is persistent and extreme poverty remains high in the region.

- Mexico's economic growth is hampered in some areas by an ongoing drug war in the north of the country.

- Other NICs face common problems such as widespread corruption and/or political instability as well as other circumstances that cause them to face the "middle income trap“.

4.3 The place and role of the NICs in the world economic system

Relations between Newly Industrialized Nations and MEDCs

- MEDS may see opportunity in the growing stability of an NIC. This could lead to additional outsourcing by companies in MEDCs to facilities within NICs. This lowers labor costs for outsourcing companies with less risk compared to outsourcing to less stable nations. While this can increase the strength of the labor force within the NIC, complications can occur with the increased demand because the government may not have fully established laws and regulations surrounding industry.

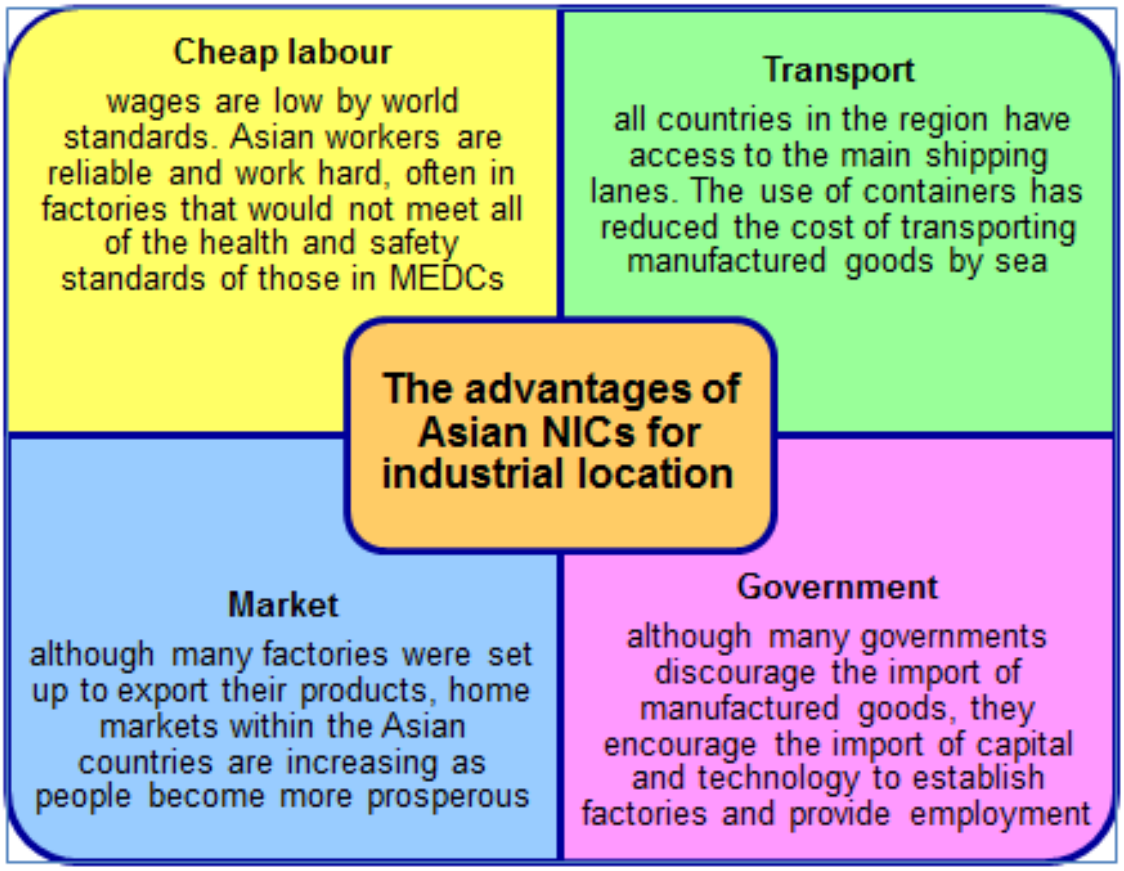
Comparative advantages of NICs:

- **low labour costs**

Comparatively low wage costs mean lower input prices for suppliers. As a result, it is often easier for producers in NICs to outperform and outproduce factories in developed countries, where the cost of living is higher, and trade unions and other organizations have more political sway. This comparative advantage is often criticized by advocates of the fair trade movement.

- **expanding domestic (home internal) markets**
- **available raw materials**
- **reduced import and export tariffs**
- **weaker legislation with regards to staff safety and welfare, protecting the environment and planning**

All of these factors gave manufacturing industries an advantage in terms of cost. As a result, many richer countries' TNCs set up branch plants in NICs or relocated their manufacturing there totally. Indeed, many of the industries involved low skilled activities with low technology but high labour input. Not all of the initial advantages to companies are advantageous to society however, and are detrimental to people's health and welfare. These NICs began to dominate manufacturing in electrical goods, textiles and clothing, shipbuilding, and increasingly have moved into car assembly.



New International Division of Labour (NIDL)

- An emergent form of the division of labour associated with the internationalisation of production and the spread of industrialisation, especially in a number of rapidly growing NICs. Although termed 'new', the NIDL is more accurately understood as a manifestation of the perpetual global restructuring of capital at a global scale; an older process dating back since the colonial times.

- The term has been used by Frobel et al (1980) in their account of the deindustrialisation of the old industrial countries. It is associated with the outflow of investment as capital operating on a global scale and taking advantage of transportation and communication technology and the fragmentation and locational separability of the productive process, to tap the global reserves of labour and to seek out cheap production sites in order to better face competitive pressures.

- An alternative interpretation suggests that Multinational Corporations (MNCs) are pushed out of industrialised countries because of falling rates of profit. The implication is that the NIDL is a strategic response to the continuous imperative of accumulation in capitalism. TNCs - the major agents of the NIDL - reorganise the geography of their productive structure in order to enhance profitability and so stimulate the growth of industrial production in the NIC and elsewhere.

- The NIDL is, in this view, the result of multinational restructuring of production. Only incidentally would the interests of an MNC coincide with the buildup of an integrated a complex industrial structure in a developing country. The countries remain passive and dependent

Tasks for control and self-control of knowledge and skills

Questions for Review

1) What are characteristics of the Newly Industrialized Countries (NICs)?

2) What are challenges for achieving development in NICs?

3) What is the role of Newly Industrialized Economies in global value chains?

4) Describe the main directions of economic reforms in the NICs.

5) Analyze and compare the dynamics of economic growth in different NICs.

6) Analyze factors affecting economic development of the NICs.

7) What are the features of economic development of the NICs of Latin America?

8) What are the features of economic development of the NICs of East and East Southeast Asia?

9) What economic problems are still present in many NICs?

10) What economic positives have TNCs provided to NICs? Name at least one reason why TNCs are interested in the Asian market.

Determine whether these statements are true or false

1) An NIC is a country that has abandoned agriculture in favour of high-tech industries.

2) An NIC is a country whose economy has advanced towards industrialization and might develop soon.

3) Most NICs countries share a large urban population and rapid economic growth.

4) An NIC trades more with other countries and has a higher standard of living than developing countries.

5) NICs began to be recognized during the second half of the 20th century, when economies such as those of Hong Kong, South Korea, Singapore, and Taiwan underwent rapid industrial growth.

6) In almost all NICs, greater industrialization has led to increased trade, greater economic growth, participation in regional trading blocs, and attraction of foreign investment, especially from developed countries.

7) A primary sign of a country's transition to an NIC is a substantial growth in gross domestic product.

8) Advanced countries may see opportunity in the growing stability of an NIC such as additional outsourcing by companies in advanced countries to facilities within NICs.

9) Since there is no exact qualification or definition for an NIC, the list of existing NICs is open to some debate

10) NICs have per capita incomes lower than LEDCs.

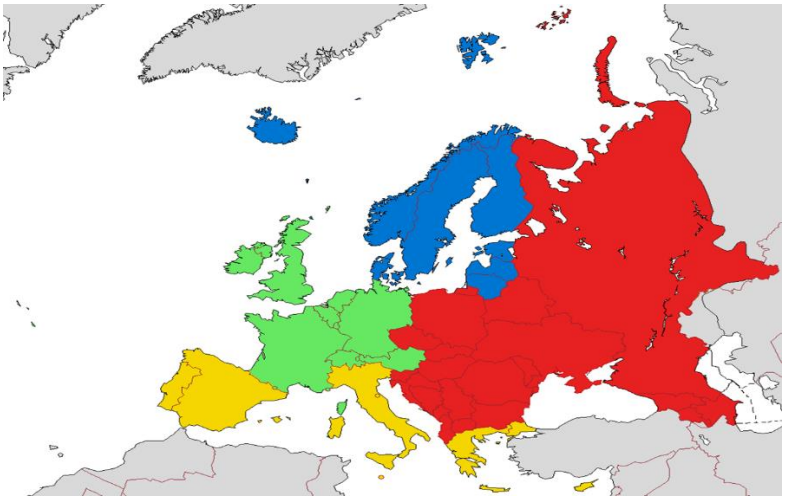
Chapter 5

THE FEATURES OF ECONOMIC DEVELOPMENT OF CENTRAL AND EASTERN EUROPEAN COUNTRIES (CEECS)

Chapter Outline

5.1. CEECs at a glance
5.2. Factors of economic development of CEECs
5.3. The place and role of CEECs in the world economic system

5.1. CEECs at a glance



What are CEECs?

- Central and Eastern Europe, abbreviated CEE, is a term encompassing the countries in Central Europe **(the Visegrád Group**), **the Baltics**, Eastern Europe, and Southeastern Europe **(Balkans),** usually meaning former communist states from the Eastern Bloc **(Warsaw Pact)** in Europe. Scholarly literature often uses the abbreviations CEE or CEECS for this term.

- The Organisation for Economic Co-operation and Development (OECD) also uses the term "Central and Eastern European Countries (CEECs)" for a group comprising some of these countries: Albania, Bulgaria, Croatia, the Czech Republic, Hungary, Poland, Romania, the Slovak Republic, Slovenia, and the three Baltic States: Estonia, Latvia and Lithuania (OECD, 2018).

Breaking down CEECs

- Countries in the region are quite different in terms of natural resource potential, characteristics of the population, level of economic development. However, they have a closely interwoven relationship of historical destiny and mutually complementary structures of the economy, which makes it possible to consider them as a certain territorial socio-economic unity - the Central Eastern European region.

- The great political and socio-economic upheaval of the 1990s formed a new political map of this part of Europe. As a result of the collapse of the USSR, Ukraine, Belarus, Russia, Moldova, Lithuania, Latvia and Estonia became independent states. The Council of Economic Mutual Assistance (CMEA) and the Warsaw Treaty Organization (also known as the Warsaw Pact - a political and military alliance) which were the main factors of the integration processes in Central Europe during the time of socialism ceased to exist.

- **The Visegrád Group, Visegrád Four, or V4** is a cultural and political alliance of four Central European states – the Czech Republic, Hungary, Poland and Slovakia, that are members of the European Union (EU) and NATO – for the purposes of advancing military, cultural, economic and energy cooperation with one another along with furthering their integration in the EU.

- **The Warsaw Pact**, formally known as the Treaty of Friendship, Cooperation and Mutual Assistance, was a collective defence treaty signed in Warsaw among the Soviet Union and seven Soviet satellite states of Central and Eastern Europe in May 1955, during the Cold War.

- **The Baltics** – Estonia, Latvia, Lithuania (which chose not to join the CIS with the other 12 former republics of the USSR).

- The term "**the Balkans**" is used more generally for the region of Southeastern Europe. The Balkans are usually said to comprise Albania, Bosnia and Herzegovina, Bulgaria, Croatia, Kosovo, the Republic of Macedonia, Montenegro, Romania, Serbia and Slovenia, while Greece and Turkey are often excluded.

- Eastern Europe – several definitions of Eastern Europe exist today, but they often lack precision, are too general or outdated. These definitions vary both across cultures and among experts, even political scientists, as the term has a wide range of geopolitical, geographical, cultural, and socioeconomic connotations. Often, Eastern Europe is equivalent to the European part of the former Soviet Union and includes Belorussia, Russia, Moldova and Ukraine.

- CEECs have gone through a dramatic process of industrial restructuring in which the Europe Agreements have played a major role. CEECs have made important steps towards their integration within the European Union economy. Some of these countries (Estonia, Latvia, Lithuania, Slovenia and Slovak Republic) are nowadays part of the euro zone. Others will join the euro area in future.

Common features of CEECs

- All the countries belong to **one geopolitical region of CEE.**

- **Centrally planned economy in the past**. All the countries are post-socialist countries, whose market transformations began (with varying degrees of intensity) only in the 80's and 90's of the last century.

Most countries of the region have gone through drastic transformations twice: in the 1940's, when they shifted from the Western model of social development to the socialist (led by the USSR, the countries of CEE united into a single geopolitical region) and in the late 80s, when Yugoslavia and Czechoslovakia collapsed and Germany reunified. The experience of market reform turned out to be the most successful in Central European countries. This is due to the fact that these countries have always had a more open economy with fairly significant elements of the market. As a result, the reforms in these countries began much earlier than in the USSR.

- All countries of the region belong to a group of countries with **high and middle income** according to the World Bank classification (World Bank, 2018)

- **Relatively small size of the domestic market.** All the countries, with the exception of Russia, are countries with a so-called small economy, with a share of GDP that does not exceed one percent of the world's GDP. For

comparison: the share of GDP of the U.S. in the world GDP in 2017 was 15,3%, China – 18,2%, India – 7,4%, Japan – 4,3%, Germany – 3,3%, Brazil – 2,6%, the United Kingdom - 2,3%, France – 2,2%, Italy – 1,8%, Canada – 1,4%. The share of the entire CEE region in world GDP is about 6% and tends to decrease (IMF, 2018).

- **High integration in the world economy and a significant dependence on foreign trade**. The economy of any country is considered open if export quota is more than 25%. Since 2001, the regional average exceeds this level more than twice (Unctad, 20018).

- **Peripheral position on global markets.** The peripheral stance of CEECs is a legacy of communism which has stifled free enterprise (including capital markets) for almost half a century. Despite continued progress, the financial centres of CEE also remain marginal from the pan-European (let alone global) perspective.

2017	World Bank Classification	IMF Classification
Albania	Upper middle income country	Emerging market and developing economies
Belarus	Upper middle income country	Emerging market and developing economies
Bosnia and Herzegovina	Upper middle income country	Emerging market and developing economies
Bulgaria	Upper middle income country	Emerging market and developing economies
Croatia	High income country	Emerging market and developing economies
Czech Republic	High income country	Advanced economies
Estonia	High income country	Advanced economies
Hungary	High income country	Emerging market and developing economies
Latvia	High income country	Advanced economies
Lithuania	High income country	Advanced economies
Macedonia	Upper middle income country	Emerging market and developing economies
Moldova	Lower middle income country	Emerging market and developing economies
Montenegro	Upper middle income	Emerging market and developing economies
Poland	High income country	Emerging market and developing economies
Romania	Upper middle income country	Emerging market and developing economies
Russia	Upper middle income country	Emerging market and developing economies
Serbia	Upper middle income country	Emerging market and developing economies
Slovak Republic	High income country	Advanced economies
Slovenia	High income country	Advanced economies
Ukraine	Lower middle income country	Emerging market and developing economies

2017	GDP per capita, PPP, international dollar	Total investment, percent of GDP	Gross national savings, percent of GDP	Inflation, average consumer prices, percent change	Unemployment rate, percent of total labor force
Albania	11379	22,8	15,9	2,0	13,8
Belarus	17153	26,2	24,5	6,0	0,8
Bosnia and Herzegovina	11620	15,8	11,0	1,2	20,5
Bulgaria	19785	20,9	25,4	1,2	6,2
Croatia	22495	20,8	24,7	1,1	12,4
Czech Republic	32301	25,8	26,9	2,4	2,9
Estonia	28767	25,4	27,0	3,7	5,8
Hungary	26867	22,4	25,7	2,4	4,2
Latvia	25179	21,5	20,7	2,9	8,7
Lithuania	29430	17,2	18,0	3,7	7,1
Macedonia	13585	n/a	30,3	1,4	22,4
Moldova	6078	19,8	13,5	6,6	4,1
Montenegro	16166	29,5	13,2	2,4	n/a
Poland	26943	19,7	20,0	2,0	4,9
Romania	22365	24,4	21,1	1,3	4,9
Russia	25353	24,3	26,5	3,7	5,2
Serbia	13688	21,0	15,3	3,1	14,1
Slovak Republic	30058	22,4	20,6	1,3	8,1
Slovenia	31340	19,3	26,4	1,4	6,6
Ukraine	7957	20,7	18,9	14,4	9,2

5.2. Factors of economic development of CEECs

Stage of Development

CEECs countries have undergone a short but difficult path in their formation. As part of the European economic system, these countries have certain differences from Western European countries. Factors of their economic development should be considered through a prism of their historical development.

- **1945-1980. A stage of socialist development** (domination of social forms of ownership of means of production; planning and administrative regulation of the economy). Administrative-command system gradually transformed into national economic models of CEECs, allowing for some elements of a market economy which played a secondary and supplementary role with direct producers having limited autonomy in making economic decisions.

- **1970-1980. Lagging behind on technology.** The practice of CEECs development has shown that concentration of resources in the hands of the State and a centrally planned economy can be sufficiently effective under extensive factors of growth and under necessity to develop major

industries in a short period time. However, such a system is not able to provide intensive growth on the basis of scientific and technological progress, which has become particularly evident in the 70's and 80's with economic and technological lagging behind countries with a developed market economy.

- **1989-1991. Fall/transformation of communist regimes.** The fall of the Iron Curtain implied the collapse of the USSR and Council of Mutual Economic Assistance (CMEA). CEECs have experienced a massive reallocation of production and the labor force during transition, which strongly affected the patterns of regional concentration of manufacturing firms.

- **1991-1990's. Transition from a centrally planned to a market economy (**privatization, creation of a framework for competition, a sharp restriction of state regulation of prices). The transition largely depended on the initial conditions: the level of economic development, the availability and development level of market elements, mentality of the population, the degree of economic openness. The transformations were mainly evolutionary in Bulgaria, Hungary, Romania and Croatia, and radical – "shock therapy" in Poland, the Czech Republic, Ukraine and Russia. The best results in creating a market economy have been achieved by the Central European countries: the Czech Republic, Hungary, and Poland. Slower and more difficult transition to the market took place in the Baltic countries (Lithuania, Latvia and Estonia) and especially in the countries of the Balkan region: Bulgaria, Romania, the countries of the former Yugoslavia.

- **1990s-2000's.** In the early 1990s, CEECs rapidly re-oriented their external relations towards Western Europe. Consequently, one would expect them to join into a pan-European pattern of specialization according to comparative advantage.

- **2004, 2008. EU enlargement with the CEECs block.**

- **2008-2009.** The world economic crisis that paralyzed the world had a profound impact on all countries in the region.

- **Post-crises period – nowadays. Growing Euroscepticism.** The reasons why societies in the CEECs share a skeptical view on the EU-integration today have much to do with their experiences gained from the economic transition of the early 1990s. Workplaces were protected in the socialism and the state strove for full employment. In the transformation process,

the feeling of being protected by the state suddenly disappeared and was replaced by value crisis, uncertainty of existence and the rise of an egocentric thinking. All of these explained why a general distrust for the newly established democracy, the political parties and the market economy increased radically within the society. Growing distrust was accompanied with antipathy, prejudices, apathy and absence of solidarity for people who deepened more into social crisis during the transformation. The society adopted a skeptical view of the present and the future. Mental opposition to further comprehensive structural reforms strengthen. A nostalgic feeling for the socialism arose. By entering the European Union, life seemed to still be difficult for individuals to follow the rapidly changing world. The CEECs joined the EU in those hectic times when a big part of the society was not able to and it was not willing to adopt changes of the transformation.

Factors of economic growth in CEECs over the last two decades

- association with the EU
- economic, political and social reforms according to European standards
- the removal of trade barriers
- a favorable exchange rate for CEE currencies against the Euro
- the injection of foreign capital and financial aid
- relatively cheap and skilled plus low taxes appeared to be a pull factor for FDI
- inflow of new immigrants
- rising exports
- falling inflation
- integration of CEECs' enterprises into the global value chains of European TNCs
- CEECs focus on external sources of economic growth due to the influx of capital from EU countries. Unfortunately, an increase in domestic demand resulted from increased household welfare can be considered as a source of economic growth in the region to a much lesser extent

Challenges to the CEECs' economy:

- On the one hand, high integration into the world economy is a factor contributing to the economic growth of the region, on the other hand, **significant dependence on foreign trade** was one of the reasons for a deep recession during the 2008 global economic crisis.

- **The dependence on foreign capital inflows** makes the region particularly sensitive to the instability of global financial markets, which can dramatically increase the cost of international borrowing and reduce net capital inflows to emerging markets.

- The most dangerous of the internal risks for economic dynamics in CEE is **a reduction or slowdown of investment**. There are several reasons for that:
  - external demand is too small to cause a buildup in private investment spending
  - still limited cross-border movement of bank lending funds can slow down credit growth in the region
  - development of new projects that will receive EU funding during 2014-2020 will take time, and the provision of funds to member countries, in particular Poland and Hungary, may temporarily be reduced

- **The return of geopolitical risks:**
  - the main geopolitical risk for CEECs results from the frozen conflict in Ukraine, which carries the threat of sustaining or further escalating tensions in relations between Ukraine and Russia
  - the second geopolitical risk for the CEECs is the escalation of conflicts in the Middle East, which can lead to disruptions in oil production and thus cause jumps in world oil prices. Given the dependence of all CEE countries on oil imports, the negative impact of this jump on regional economic growth can be significant

5.3. The place and role of CEECs in the world economic system

Comparative advantages of CEECs

- **The geographical position of Central European countries can be defined as advantageous, which is characterized by:**

  - a compact location in the center of Europe between the West and the East. On the one hand, there are developed Western European countries that largely determine economic policy in the regional and world markets, on the other hand, the CIS countries which are traditional economic partners for Central Europe;

  - most CEECs countries have access to the sea, enabling them to make extensive contacts with the outside world;

  - developed system of transport communications. This territory in all directions is crossed by railways and highways, pipelines, and power lines. The Danube water system has an integral value for the region.

  - **Different soil-climatic conditions caused significant differences in the quality of land, which is the basis for the development of agro-industrial production.**

- **The natural resource potential of the countries of the region is very different.**

  - The mineral-raw material base is represented by fuel and energy resources, ore and non-metallic raw materials. Among the fuel and energy resources, brown coal is the most common, which is mostly extracted in an open way (Poland, the Czech Republic, Romania). The oil and gas provinces are in Russia, Romania (covering in part also Hungary and Serbia), as well as in Albania and Croatia.

  - Fuel resources are mainly located in the northern part of the region, ores – in the southern. Deposits of iron ore minor are extensive in Russia, Ukraine, Croatia, Bosnia and Herzegovina, Macedonia, Slovakia, Hungary and Romania. The region is much better off with non-ferrous metal ores: copper and polymetallic ores that are mined

both in the south and in the north. Most of the copper ores are in Poland, bauxite is in Hungary.

– non-metallic raw materials are presented by deposits of salt (Poland, Romania) and natural sulfur (Poland).

- **The population of CEECs is almost a quarter of the population of the whole of Europe (even without Russia and Ukraine).** Countries in the region are different from the main characteristics of the population, but they also have some common features. First, demographic processes in the region were affected by the consequences of the Second World War. Secondly, the restructuring of the economy during transition period caused development of urbanization processes and the associated changes in the reproduction of the population, the nature of its resettlement.

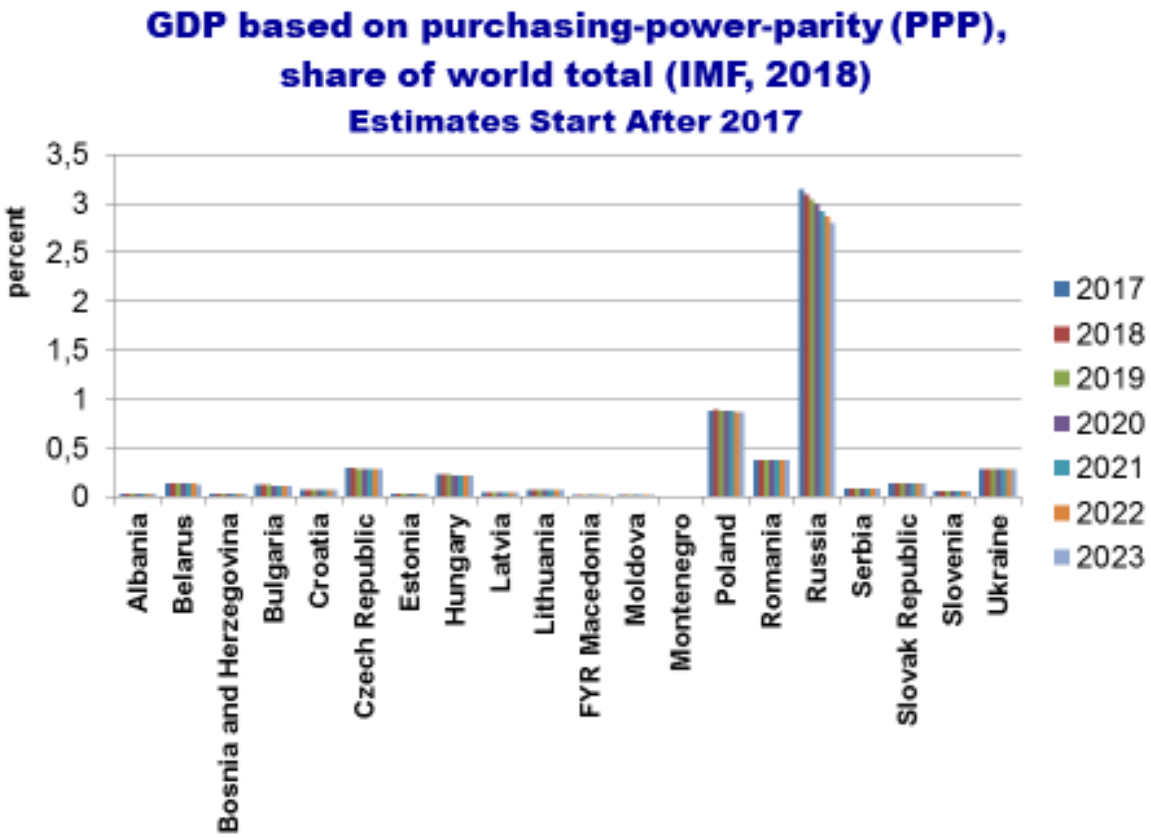
- **A large number of young, educated and experienced workers** coupled with the fact that **small and medium-sized enterprises** that generate more than half of GDP are a significant force in the CEECs.

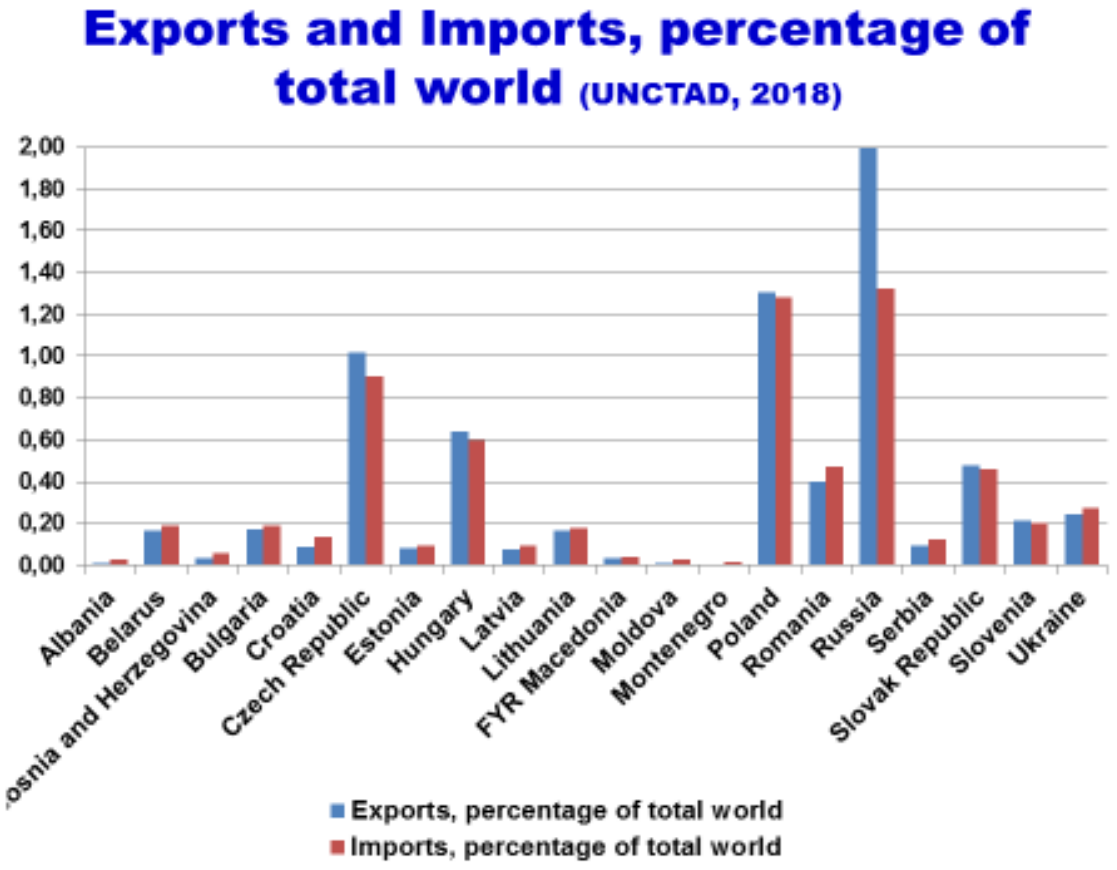
Comparative disadvantages of CEECs

- about half of CEECs are middle-income countries that are on the second stage or are moving to the third stage of development according to the global competitiveness index, which determines the **peripheral position of the region in the global economy**

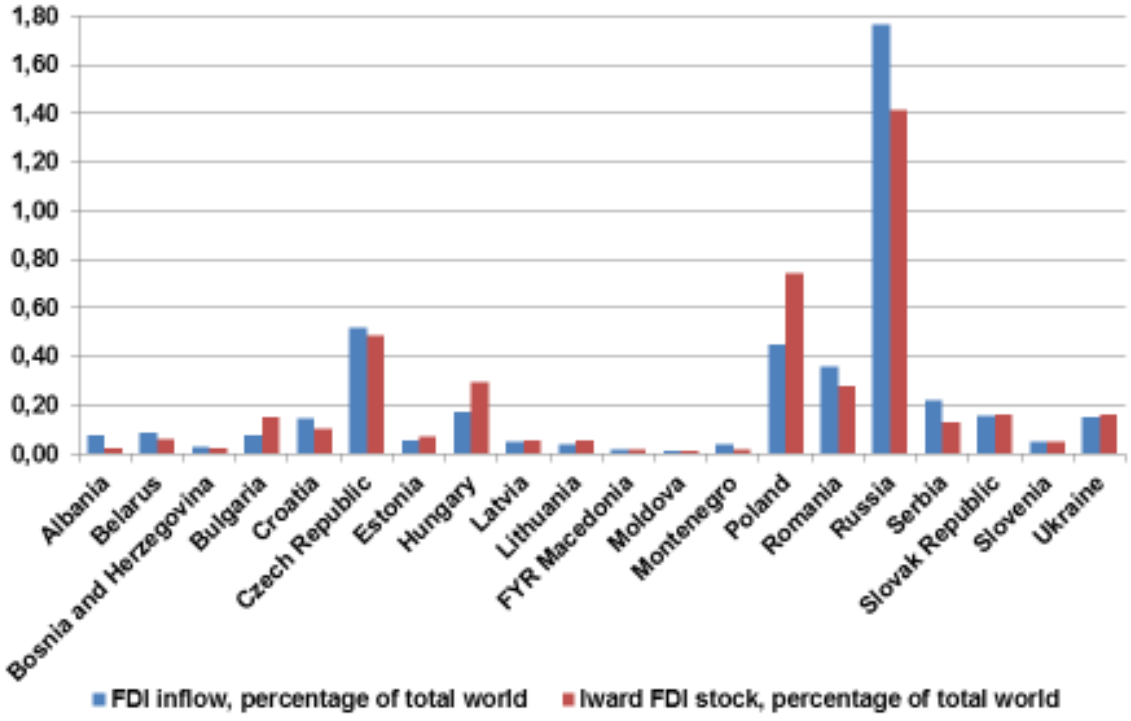
- **relatively backward structure of the economy**. There is a lot of primary sector (e.g. in Romania, agriculture employs 30% of the economically active population, although it produces only 6% of GDP)

- **the share of high-tech goods on average across CEECs is less than 10% of total exports**. Further development of the economy for most CEECs is possible only under the condition of transition to a knowledge-based economy and an increase in the share of knowledge-intensive industries. However, **R&D expenditures in most CEECs make up only about 1% of GDP** (twice as less as the EU average) which is primarily due to low level of development of their information and communication infrastructure.

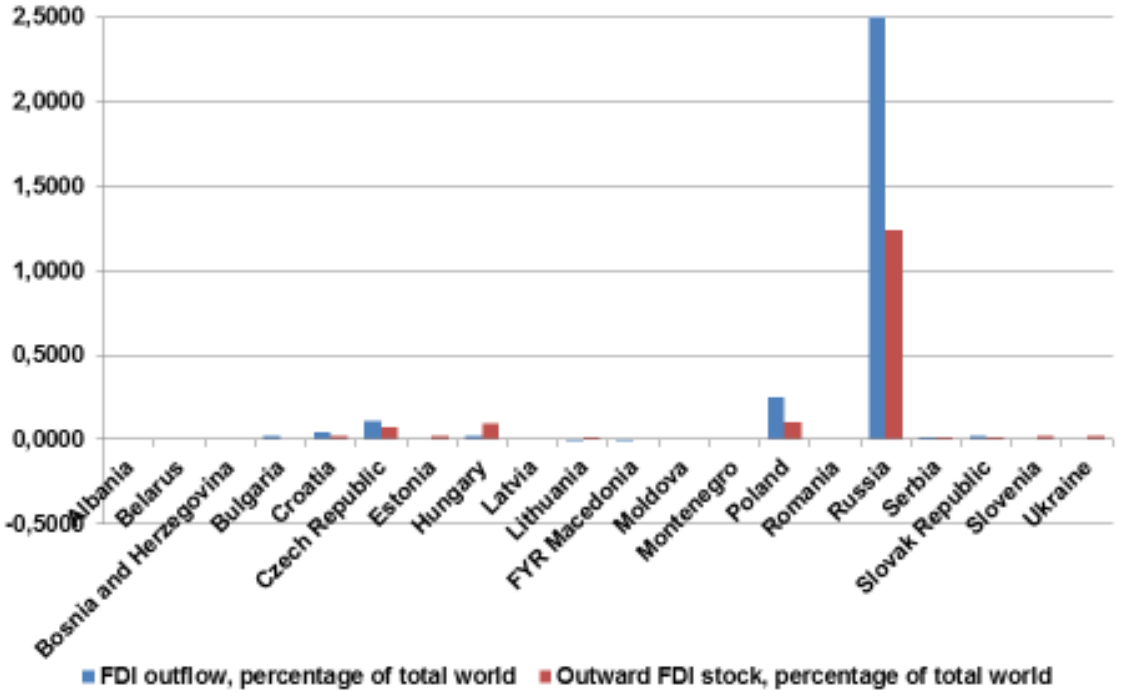

GDP based on purchasing-power-parity (PPP), share of world total (IMF, 2018)
Estimates Start After 2017
percent
3,5
3
2,5
2
1,5
1
0,5
0
Albania
Belarus
Bosnia and Herzegovina
Bulgaria
Croatia
Czech Republic
Estonia
Hungary
Latvia
Lithuania
FYR Macedonia
Moldova
Montenegro
Poland
Romania
Russia
Serbia
Slovak Republic
Slovenia
Ukraine
2017
2018
2019
2020
2021
2022
2023


Exports and Imports, percentage of total world (UNCTAD, 2018)
2,00
1,80
1,60
1,40
1,20
1,00
0,80
0,60
0,40
0,20
0,00
Albania
Belarus
Bosnia and Herzegovina
Bulgaria
Croatia
Czech Republic
Estonia
Hungary
Latvia
Lithuania
FYR Macedonia
Moldova
Montenegro
Poland
Romania
Russia
Serbia
Slovak Republic
Slovenia
Ukraine
Exports, percentage of total world
Imports, percentage of total world

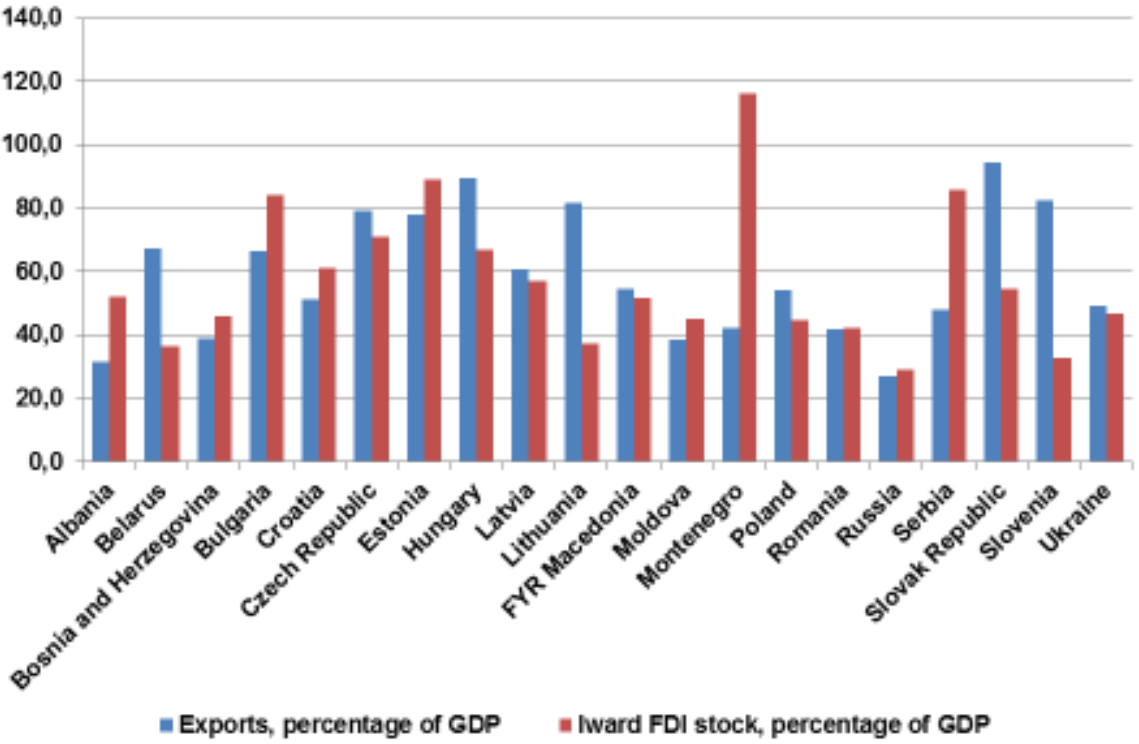
Inward FDI, percentage of total world
(UNCTAD, 2018)



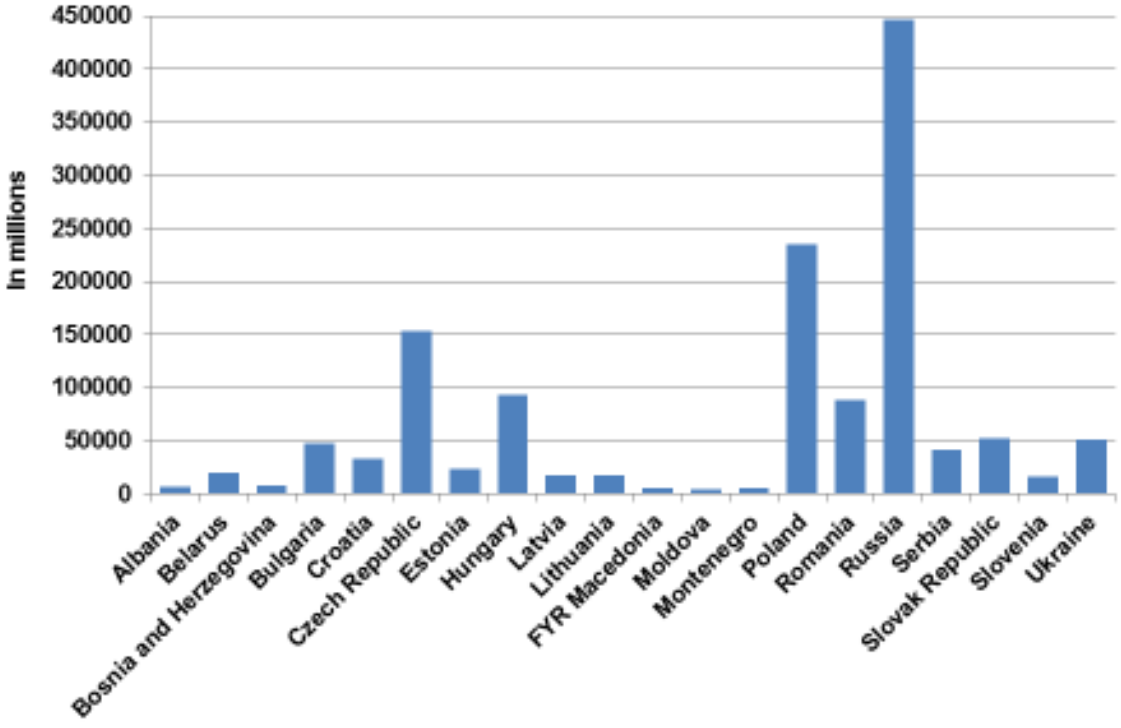
Outward FDI, percentage of total world
(UNCTAD, 2018)



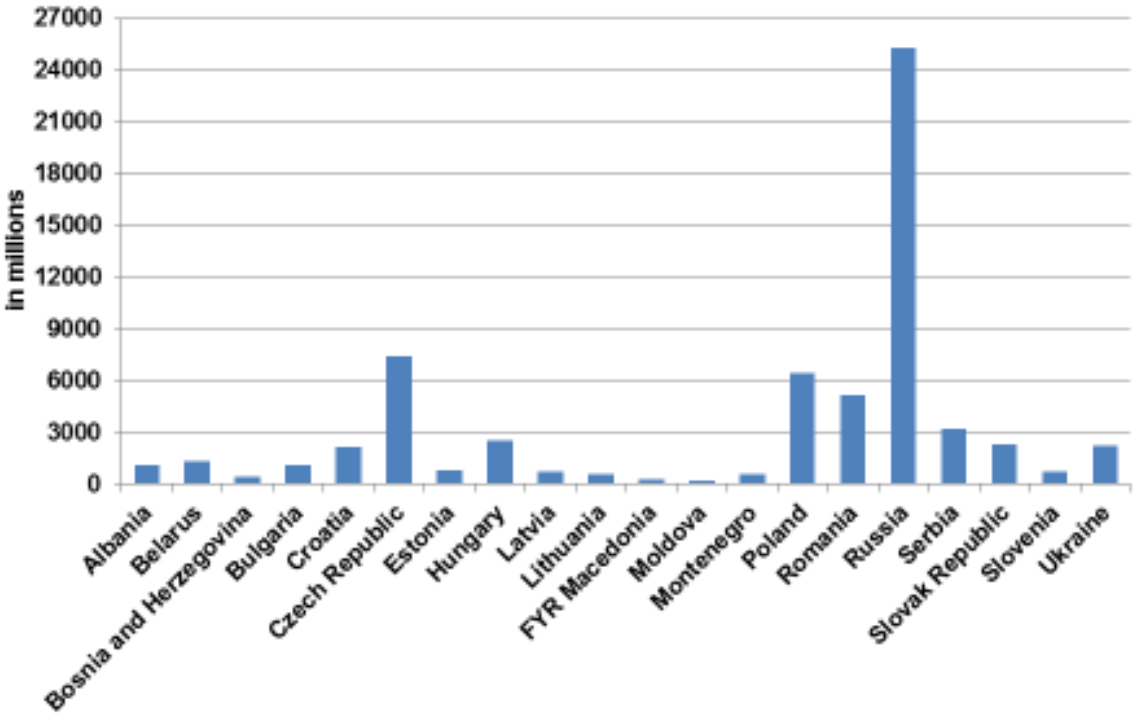
Openness indicators (UNCTAD, 2018)



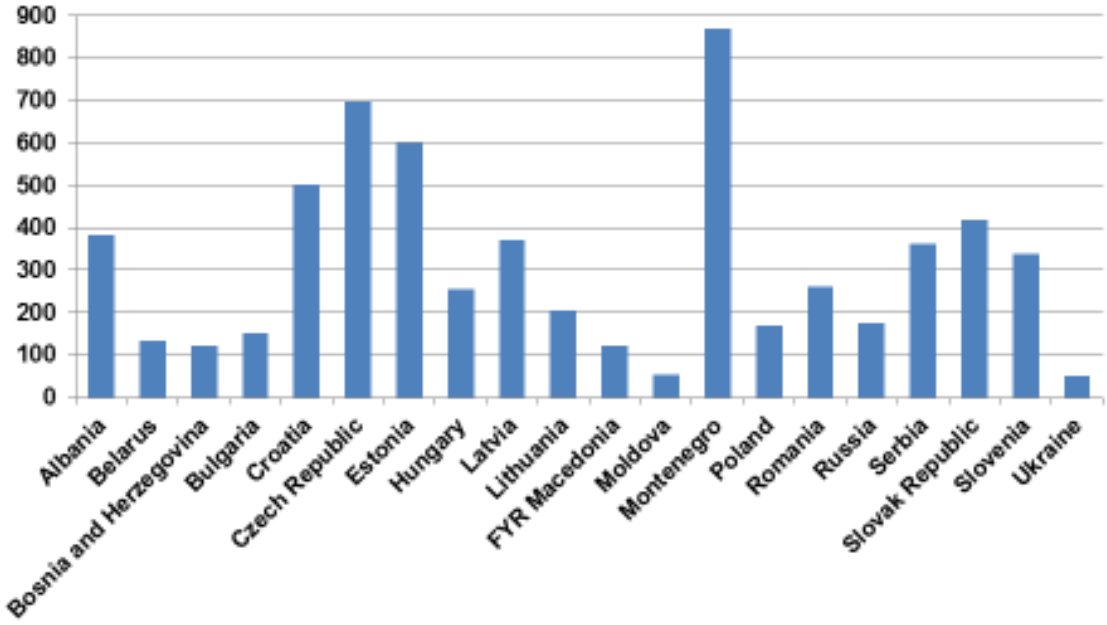
Inward FDI stock, US Dollars at current prices (UNCTAD, 2018)



FDI Inflow, US Dollars at current prices (UNCTAD, 2018)



FDI Inflow, US Dollars at current prices per capita (UNCTAD, 2018)



Tasks for control and self-control of knowledge and skills

Questions for Review

1) What countries make up Central and Eastern Europe?

2) What are prerequisites for the formation of a group of CEECs?

3) What are economic problems of countries with transition economy?

4) What factors affect economic development of CEECs?

5) What is the essence of the concept of transition economy?

6) What are the peculiarities of integration processes in CEECs?

7) What is the Warsaw pact and why was it formed?

9) What was the goal of the Council for Mutual Economic Assistance (CMEA)?

10) What is Visegrad Group?

Determine whether these statements are true or false

1) Views on which countries belong to Central and Eastern Europe are vastly varied.

2) CEE, is a term encompassing the countries in Central Europe, the Baltics, Eastern Europe, and less economically developed countries of Western Europe.

3) The CEE countries include the former and current socialist states.

4) After 15 years of economic boom in CEE, the development came to an abrupt halt as the effects of the global economic downturn set in by mid-2008.

5) No CEEC is an European Union member at this stage.

6) The main advantages of CEECs are great location which opens markets of over 200 million consumers, qualitative labor force for relatively low costs, good atmosphere for foreign investments and business development.

7) There are still plenty of unexploited opportunities in CEE, whether in its huge surfaces of arable land, in its strong skills in technical and technological areas, numerous investment incentives or unique touristic destinations.

8) The growth potential of the CEECs is intensified by their integration into the Eurozone and Schengen area.

9) Low labour costs paired with high-level infrastructural facilities in CEECs are attracting Western companies.

10) Following World War II, large parts of Europe that were culturally and historically Western became part of the Eastern bloc.

Chapter 6

THE ECONOMY OF RUSSIAN FEDERATION

Chapter Outline

6.1. The role of the RF economy in the world

6.2. Factors of economic development of Russia

6.1. The role of the RF economy in the world

– Russia at a glance
– factors of economic development of Russia
– the place and role of Russia in the global economy

Synopsis on Russia's Economy:

- Largest communist country before break up of Soviet Union
- Russia has an abundance of natural gas oil, coal, and precious metals. It is also rich in agriculture
- Oil, natural gas, metals, and timber account for more than 80% of Russian exports abroad
- The Union of Soviet Socialist Republics was a constitutionally socialist state that existed in Eurasia from 1922 to 1991
- Operated on the basis of a centrally planned economy – a state control over virtually all means of production and over investment, production, and consumption decisions throughout the economy
- reforms have stalled in recent years and Russia remains a predominantly statist economy with a high concentration of wealth in officials' hands, particularly in the energy, transportation, and banking sectors; as one of the world's leading producers of oil and natural gas Russia is vulnerable to boom and bust cycles that follow swings in global commodity prices

Russia country profile

- **Russia - the largest country on earth - emerged from a decade of post-Soviet economic and political turmoil to seek to reassert itself as a world power.**
- Income from vast natural resources, above all oil and gas, helped Russia overcome the economic collapse of 1998, but the oil price slump of 2014 ended the long run of prosperity.
- The state-run gas monopoly Gazprom still supplies a large share of Europe's needs.
- Vladimir Putin - Russia's dominant political figure since 2000 - has enhanced his control over state institutions and the media - a process supplemented more recently by an emphasis on fierce nationalism and hostility to the West

Russia at a glance

Area	**17.1 million sq km**
Population	**144 million**
Currency	**Ruble (RUB)**
Government	**Federal semi-presidential republic**
Capital	**Moscow**
GDP (PPP) total	**$ 4.1 trillion (6th)**
PDP (PPP) per capita	**$ 28,957**

Russia: People and society

Population:

- 142,257,519 (July 2017 est.)
  country comparison to the world: 9
- population growth rate: -0.08%(2017 est.)

Ethnic groups:

- Russian 77.7%, Tatar 3.7%, Ukrainian 1.4%, Bashkir 1.1%, Chuvash 1%, Chechen 1%, other 10.2%, unspecified 3.9% (2010 est.)

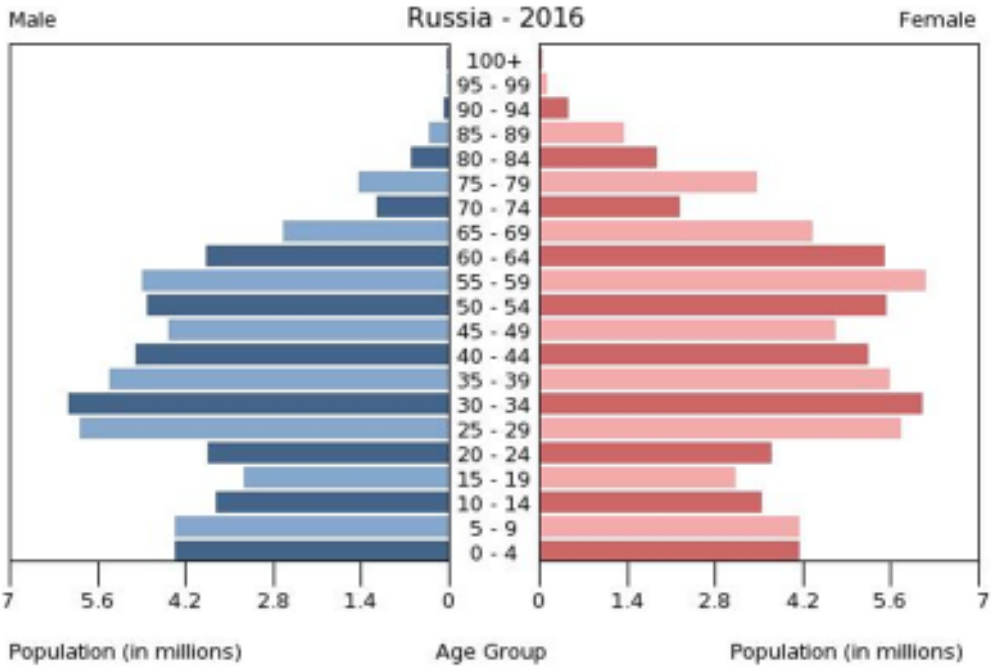
Languages:

- Russian (official) 85.7%, Tatar 3.2%, Chechen 1%, other 10.1% (2010 est.)

Religions:

- Russian Orthodox 15-20%, Muslim 10-15%, other Christian 2% (2006 est.)

Age structure



0-14 years: 17.12% (male 12,509,563/female 11,843,254)
15-24 years: 9.46% (male 6,881,880/female 6,572,191)
25-54 years: 44.71% (male 31,220,990/female 32,375,489) (Cia.gov, 2018)
55-64 years: 14.44% (male 8,849,707/female 11,693,131)
65 years and over: 14.28% (male 6,352,557/female 13,958,757) (2017 est.)

Life expectancy at birth:

- **total population:** 71 years
- **male:** 65.3 years
- **female:** 77.1 years (2017 est.)
- **country comparison to the world:** 154

Health expenditures:

- 7.1% of GDP (2014 est.)

Unemployment, youth ages 15-24:

- **total:** 16.1% (2015 est.)

Age dependency ratio:

- 43.5% of working-age population (2015 est.)

Urbanization:

- **urban population:** 74.4% of total population (2018 est.)
- **rate of urbanization:** 0.18% annual rate of change (2015-20 est.)

Total fertility rate:

- 1.61 children born/woman (2017 est.) ***(Cia.gov, 2018)***

Russia: Economy

GDP - composition, by end use:

- **Household consumption:** 52.4%
- **Government consumption:** 17.8%
- **Investment in capital:** 23.6%
- **Exports of goods and services:** 25.6%
- I**mports of goods and services:** -19.4% (2017 est.)

GDP - composition, by sector of origin:

- **agriculture:** 4.7%
- **industry:** 32.4%
- **services:** 62.3% (2017 est.)

Labor force - by occupation:

- **agriculture:** 9.4%
- **industry:** 27.6%
- **services:** 63% (2016 est.)

Unemployment rate:

- 5.5% (2017 est.)

Population below poverty line:

- 13.3% (2015 est.)

Household income or consumption by percentage share:

- **lowest 10%:** 2.3%; **highest 10%:** 32.2 (2012 est.)

Distribution of family income - Gini index:

- 41.2 (2015); 41.9 (2013)
- **country comparison to the world:** 57

Inflation rate (consumer prices):

- 3.7% (2017 est.)

Reserves of foreign exchange and gold:

- $418.5 billion (31 December 2017 est.)
- **country comparison to the world:** 8

Debt - external:

- $451.5 billion (31 December 2017 est.)
- **country comparison to the world:** 27

Stock of direct foreign investment - at home:

- $479.7 billion (31 December 2017 est.)
- **country comparison to the world:** 19

Stock of direct foreign investment - abroad:

- $443 billion (31 December 2017 est.)
- **country comparison to the world:** 19

Agriculture - products:

- grain; sugar beets; sunflower seeds; vegetables; fruits; beef; milk.

Industries:

- complete range of mining and extractive industries producing coal, oil, gas, chemicals, and metals;
- all forms of machine building from rolling mills to high-performance aircraft and space vehicles;
- defense industries (including radar, missile production, advanced electronic components), shipbuilding;
- road and rail transportation equipment;
- communications equipment;
- agricultural machinery, tractors, and construction equipment;
- electric power generating and transmitting equipment;
- medical and scientific instruments;
- consumer durables, textiles, foodstuffs, handicrafts ***(Cia.gov, 2018)***

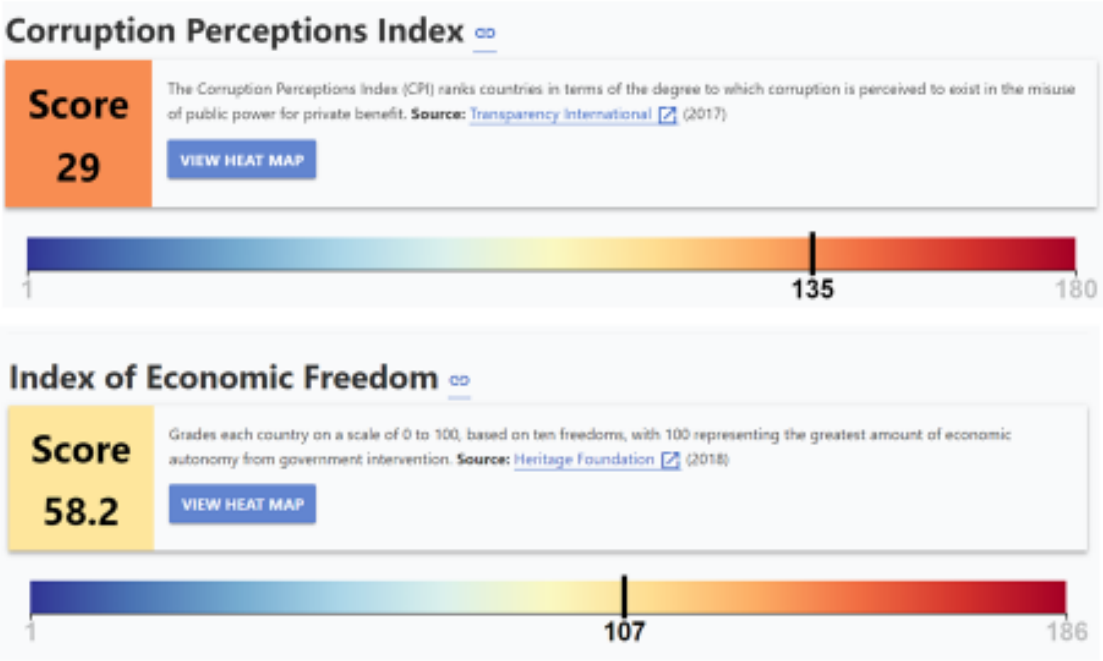
Russia: key characteristics of the economy

Source: Insights, G. and States, U. (2018). *Russia: Economy*. [online] Globaledge.msu.edu. Available at: https://globaledge.msu.edu/countries/russia/economy [Accessed 15 Sep. 2018].

Russia: key indices

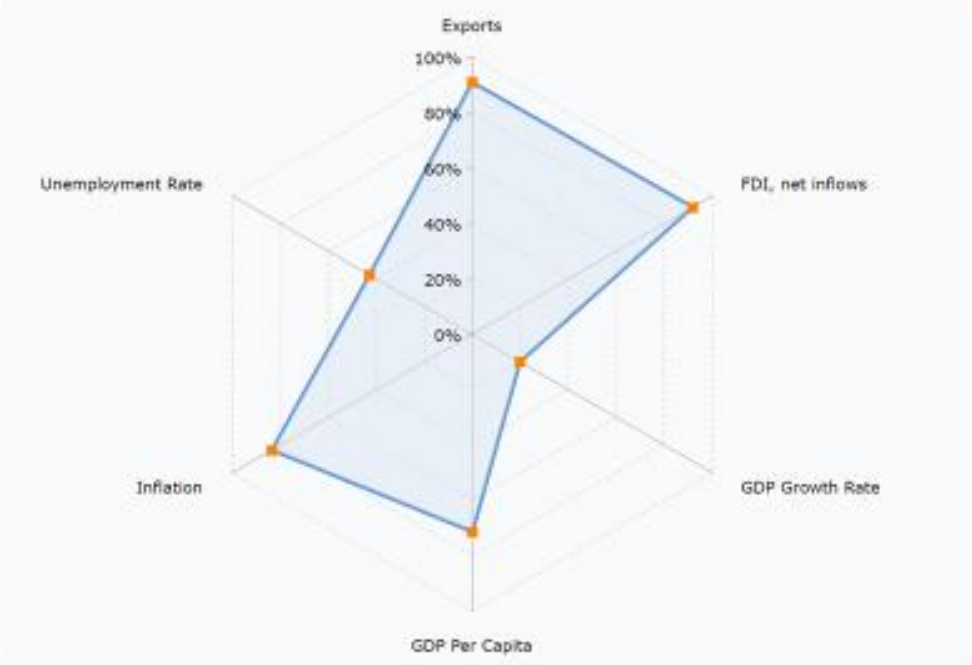
Insights, G. and States, U. (2018). *Russia: Indices*. [online] Globaledge.msu.edu. Available at: https://globaledge.msu.edu/countries/russia/indices [Accessed 15 Sep. 2018].

Russia: key indices (cont'd)



Insights, G. and States, U. (2018). *Russia: Indices*. [online] Globaledge.msu.edu. Available at: https://globaledge.msu.edu/countries/russia/indices [Accessed 15 Sep. 2018].

Russia: Economic Snapshot



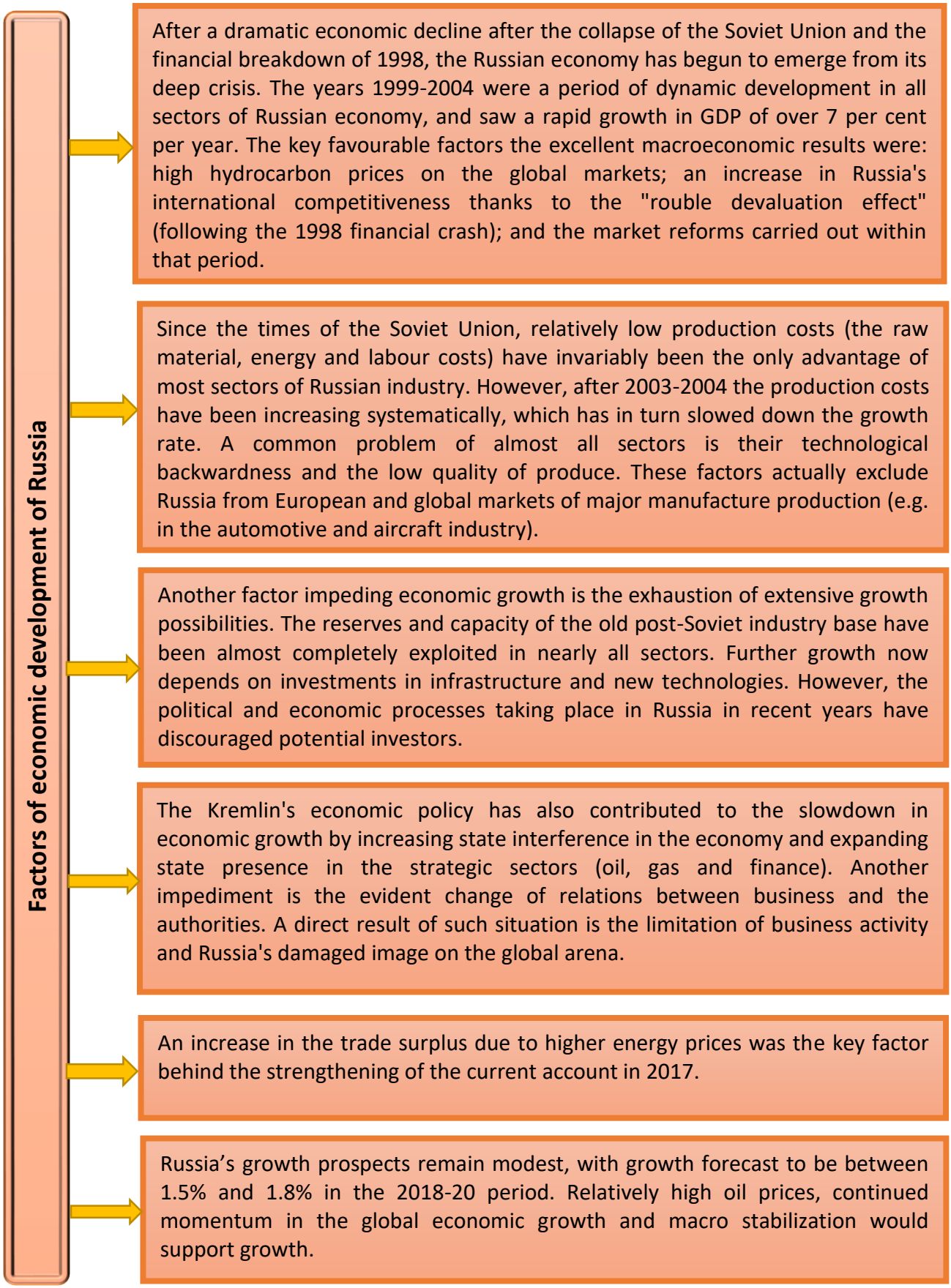
Source: Insights, G. and States, U. (2018). *Russia: Economy*. [online] Globaledge.msu.edu. Available at: https://globaledge.msu.edu/countries/russia/economy [Accessed 15 Sep. 2018].

Russia: Economic History

1922	Bolsheviks reorganise remnants of Russian Empire as Union of Soviet Socialist Republics.
1547	Grand Prince Ivan IV of Moscow (Ivan the Terrible) is the first ruler to be proclaimed Tsar of Russia.
1689-1725	Peter the Great introduces far-reaching reforms
1798-1815	Russia takes part in the European coalitions against Revolutionary and Napoleonic France, defeating Napoleon's invasion in 1812 and contributing to his overthrow
1861	The practice of serfdom is abolished throughout the Russian empire. The government's focus on the military and industrial sector leads to the growth of the working class along with rapid industrialization.
1904-1905	Russian expansion in Manchuria leads to war with Japan - and the 1905 revolution, which forced Tsar Nicholas II to grant a constitution and establish a parliament, the Duma.
1914	Russian-Austrian rivalry in Balkans contributes to outbreak of First World War, in which Russia fought along side the Allied Powers of Britain, France, Italy, and the United States.
1917	Nicholas II abdicates. Bolshevik revolutionaries led by Lenin topple the provisional government and take power.
1918-1922	Civil war between Red Army and anti-communist White Russians.
1930s	Rapid industrialization occurs under Stalin's rule.
1941	A surprise attack by Nazi Germany in July forces the Soviets into World War II. The USSR joins Allied Powers of Great Britain, the United States, and France.
1945	Allied victory over Nazi Germany is followed by swift establishment of Soviet hegemony in Central and Eastern Europe, and Balkans. The end of the war sees the start of decades of Cold War rivalry with the West.
1964-1982	The Soviet economy is in great distress under the rule of Leonid Brezhnev. Economic stagnation resulting from a multitude of factors

	including low productivity, inefficient production, and increased government spending places the nation's economy on the brink of collapse.
1988-1991	Perestroika. Gorbachev first modest steps to reform (allowing private-sector activity)
1991	The Soviet Union collapses, and the former Soviet republics, including Russia, become independent nations. Following the dissolution of the Soviet Union and the creation of the Russian Federation, Russia continues to face economic crisis. The government is forced to transition the nation from a command economy to a market-based one. This transition is fraught with difficulties, the most significant of which being hyperinflation.
1991-1998	Yeltsin's radical reforms to introduce a market economy: 90% of price controls lifted; 70% of economy transferred to private ownership; vast wealth transfer to oligarchs; 30% of population below poverty line; real wage decrease by 38%; life expectancy halved while crime rates doubled.
1996	Russia is admitted to the G-7 group of industrialized countries.
1998	Newly appointed Prime Minister Yevgeny Primakov stabilizes the collapsing ruble and carries out major tax reforms, effectively ending the danger of a Russian debt default.
2006	The ruble becomes a convertible currency.
2008	The Russian parliament approves $68 billion to aid banks hurt by the global financial crisis.
2010	A customs union between Russia, Belarus, and Kazakhstan enters into force.
2014	Russia invades Crimea, promoting the United States and European Union to impose multiple rounds of sanctions against Russia.
2015	The Eurasian Economic Union enters into force. Russia begins armed intervention in Syria to support ally President Bashar al-Assad.
2018	Vladimir Putin elected to fourth term as president in contest with minor candidates.

6.2. Factors of economic development of Russia



Natural-resource potential of Russia

Russia is probably richer in natural resources than any other country in the world. It has abundant supplies of oil, natural gas, timber and valuable minerals, such as copper, diamonds, lead, zinc, bauxite, nickel, tin, mercury, gold and silver – most of which are located in Siberia and the Far East. The value of Russia's resources is huge.

Russia is the largest country in the world; it covers a vast amount of topographically varied territory, including much that is inaccessible by conventional modes of transportation. The traditional centers of economic activity are almost exclusively located in the more hospitable European part of Russia, which once offered considerable coal and natural gas to drive heavy industry. But the European fuel base was largely depleted by the 1980s, forcing Russia to rely on Siberian deposits much farther from the industrial heartland.

Russia's raw materials provide significant inputs for an industrial economy. The abundance of oil and natural gas has made Russia virtually self-sufficient in energy and a large-scale exporter of fuels. Oil and gas were primary hard-currency earners for the Soviet Union, and they remain so for the Russian Federation. Russia also is self-sufficient in nearly all major industrial raw materials and has at least some reserves of every industrially valuable nonfuel mineral. Tin, tungsten, bauxite, and mercury were among the few natural materials imported in the Soviet period. The forests of Siberia contain an estimated one-fifth of the world's timber, mainly conifers.

Many of Russia's natural resources are located far from industrial processing centers. The fuel resources that supported development of industrial centers in European Russia have been depleted, necessitating reliance on coal, natural gas, and petroleum from Siberian deposits. However, Russia still has an estimated 6 percent of the world's oil deposits and one-third of the world's natural gas deposits, making it a major exporter of both commodities. Rich deposits of most industrially valuable metals, diamonds, and phosphates also are found in Russia.

Metals and Minerals in Russia

Russia possesses rich reserves of iron ore, manganese, chromium, nickel, platinum, titanium, copper, tin, lead, tungsten, diamonds, phosphates and gold. The iron ore deposits of the Kursk Magnetic Anomaly, close to the Ukrainian border in the southwest, are believed to contain one-sixth of the world's total reserves. Intensive exploitation began there in the 1950s. Other large iron ore deposits are located in the Kola Peninsula, Karelia, south-central Siberia, and the Far East. The largest copper deposits are located in the Kola Peninsula and the Urals, and lead and zinc are found in North Ossetia.

Most metals are found in the Urals and Siberia. At one time it was estimated that Siberia contained almost 20 % of the world's gold and silver, and about a third of its iron. Many of Russia's mineral resources are located in the remote, freezing north, where isolated industrial cities have grown up around mines and deposits. Miners and workers in particularly remote areas work in shifts in which they spend two weeks living in barracks at the mining site and then are flown in helicopters back to cities.

Russia's diverse mineral resources have given many of its products a strong position in world markets. Of particular economic importance are diamonds, of which in 2006 Russia accounted for one-quarter of world production; nickel (1/3rd); cobalt (20%); platinum (40 %); and aluminum (12 %). [Source: Library of Congress, October 2006].

At one time Russia was the world's second largest producer of gold after South Africa. By some estimates it contains 6 percent of the world's gold reserves. The Russian production figures are secret but its estimated that about 250 tons are produced each year, about a third of what comes out of South Africa.

Siberia contains large deposits of silver

According to the Guinness Book of Records, the largest piece of platinum was a 340-ounce nugget found in Ural Mountains of Russia on 1843.

Russia is the world's largest nickel producer.

The uranium mine near Krasnokamensk was once the largest in the world. It now ranks around 5th.

Russia's Competitive Advantage

- **Large reserve of raw-materials**
- **Unique Geographic Position**

Russia links Europe with Asia and also borders the North American continent, offering the following advantages:

  - Worldwide sea routes — Russia is bounded by three out of four world oceans
  - Major functioning and planned airport hubs
  - Rail and road transit routes (leads the world in length of electrified railroads)
  - Pipelines, developed networks of various types of warehousing facilities
  - Other transport and logistics infrastructure.

- Russia’s geography facilitates building effective international and domestic supply-production-market chains.
- Geographically diverse federal districts and regions offer distinct competitive advantages and favorable investment-attraction policies.
- **Low internal energy prices**
- **Relatively well educated work force**
- **One of the Largest Consumer Markets.** Consumer activity has contributed to dynamic growth in trade, retail, telecommunications and services on the back of rising incomes and the development of consumer lending.

Russia's Competitive Disadvantage

- the prevalence of technologies and methods of organizing production that are uncompetitive by modern standards
- extremely high resource intensity of production and high level of costs (including in technologically advanced sectors)
- huge depreciation of fixed assets, limited domestic saving
- a great unevenness in the economic development of the regions and gaps in the standards of living across them
- weak motivation and low labor intensity and bureaucratization of the economy
- irrationality of the location of production (especially after the collapse of the integrated economic complex of the USSR), high proportion of long-distance traffic in transport
- high dependence of living standards and industrial modernization on imports and attracting foreign loans
- lack of adequate infrastructure

Challenges to the Russian economy:

- **Corruption**. Russia ranks as the second-most corrupt country in Europe (after Ukraine), according to the Corruption Perceptions Index. According to The Norwegian-Russian Chamber of Commerce “corruption is one of the biggest problems both Russian and international companies have to deal with”. Corruption in Russia impacts all aspects of life, including public administration, law enforcement, healthcare and education. The phenomenon of corruption is strongly established in the historical model of public governance in Russia and attributed to general weakness of rule of law in Russia.

- **Russia’s dependence on energy exports**, bringing about long-term instability which manifests itself in sequestration as oil prices decline or sterilization of excess liquidity when they grow.

- **A need for modernization**, including structural changes, towards an economy relying more on high added value finished goods and less dependent on exports of raw materials and energy. The favourable economic situation after 2004 has nevertheless failed to bring about the modernisation of the manufacturing sector. Nor has it made Russia give up the "oil-oriented" economy model.

- **Transformation of saving into investments**, despite any changes, is practically at a standstill in Russia. With gross saving of more than 30 % of GDP, investments account for approximately 17 %. Flight of capital is declining in relative terms but external debt payments are growing. As a result, there is a deficit of investments capable of boosting productivity.

- **Absence of any movement of capital between economic sectors** results in inefficiency of even available investments. This makes impossible to implement much needed structural changes.

- **Slow development of the stock market** which is the most efficient arrangement to transform saving into investments. However, it is only emerging in Russia, its development being largely obstructed by the lack of protection of minority shareholders, weakness and dependence of courts, and weaknesses of the banking sector as the cornerstone of the stock market. There are countries with a weak stock market and strong banks but there is no single country with a developed stock market and a weak banking system.

- **Institutions of a civic society**, which are essential for achieving and maintaining stable economic growth, **have not developed** either. There are still no firm guarantees of ownership in Russia. The prosecutor's office, the courts and the militia are all subordinate to the Kremlin. The courts' verdicts at all levels (from district courts to the Arbitration Court and Constitution Court) demonstrate their political dependence. Despite tax reform, Russian state institutions still remain instruments of administrative and legal repressions.

- **Inefficient natural monopoly pricing**. Prices and tariffs of natural monopolists are considerably lower than in the world market and other countries. Costs are not transparent but prices are not high enough to encourage energy saving. Essentially, this does not really mean saving consumers' costs but simply losses. This confirms that natural monopolists provide large-scale subsidies to the economy and households, something which finally slows down any efforts to achieve modernization and economic efficiency.

- **The obvious risk of major spill over from the Middle East crisis** (Syria, Iran), which could lead to a destabilization of Russia or worse could drag the country into a war.

Russia: Trade Statistics

Exporter rank: 17/146
Trade Balance Rank: 3/145

Importer rank: 23/145

Top 10 Export Countries	
Country	Export USD$
Netherlands (≈10%)	$29,254,623,869
China (≈10%)	$28,021,250,166
Germany (≈7%)	$21,258,480,738
Belarus (≈5%)	$14,050,696,991
Turkey (≈5%)	$13,698,261,431
Italy	$11,931,332,875
South Korea	$10,027,147,246
Kazakhstan	$9,426,891,449
United States	$9,425,801,962
Japan	$9,384,191,777

Top 10 Import Countries	
Country	Import USD$
China (≈21%)	$38,086,968,999
Germany (≈11%)	$19,448,966,923
United States (≈5.6%)	$11,065,813,734
Belarus(≈5%)	$9,406,284,809
France (≈4.5%)	$8,491,607,260
Italy	$7,839,051,677
Japan	$6,679,836,010
South Korea	$5,113,263,435
Poland	$3,957,454,669
Ukraine	$3,950,745,422

Top 10 Export Goods	
HS Code	Export USD$
(27) Oil & Mineral Fuels	$134,703,176,338
(99) Items nesoi	$45,239,262,288
(72) Iron & Steel	$14,121,802,697
(71) Precious Stones & Metals	$8,905,706,377
(84) Industrial Machinery	$6,800,757,937
(31) Fertilizers	$6,637,347,167
(44) Wood	$6,523,925,273
(76) Aluminum	$5,980,102,185
(10) Cereals	$5,606,085,090
85) Electrical Machinery	$4,049,923,514
Total Exports (2016)	$285,491,052,006
Exports of goods and services (% of GDP) (2017)	**26.04%**

Top 10 Import Goods	
HS Code	Import USD$
(84) Industrial Machinery	$35,360,934,058
(85) Electrical Machinery	$21,504,449,413
(87) Motor Vehicles & Parts	$15,637,224,646
(30) Pharmaceuticals	$8,908,085,029
(39) Plastics	$7,541,507,098
(99) Items nesoi	$6,581,103,885
(90) Precision Instruments	$5,163,256,017
(73) Iron & Steel Articles	$4,148,748,535
(08) Fruit & Nuts	$3,830,585,784
(72) Iron & Steel	$3,032,674,602
Total Imports (2016)	$182,257,213,91
Imports of goods and services (% of GDP) (2017)	**20.69%**

Source: https://globaledge.msu.edu/countries/russia/tradestats

Exports and imports by major commodity groups

Exports - commodities:

- petroleum and petroleum products
- natural gas
- metals
- wood and wood products
- chemicals
- a wide variety of civilian and military manufactures

Imports - commodities:

- machinery
- vehicles
- pharmaceutical products
- plastic
- semi-finished metal products
- meat
- fruits and nuts
- optical and medical instruments
- iron
- steel (Cia.gov, 2018)

Tasks for control and self-control of knowledge and skills

Questions for Review

1) What are the main parameters that characterize Russia's place in the global economy?

2) Reflect on Russia's participation in international integration processes.

3) Describe the economic potential of Russia in terms of natural and labor resources.

4) On what indicators does Russia take rather high places?

5) What are the directions of Russia's foreign economic policy in the near future?

6) When did Russia or the Soviet Union first test a nuclear weapon?

7) Approximately how did Russia's population change between 1995 and 2015?

8) In what year were the Russian tsars overthrown?

9) What was a serf?

10) What region in Russia makes up about 75% of Russia's land, but only has 25% of the population?

Determine whether these statements are true or false

1) The Russian Federation, as Russia is formally called, came into being as the chief successor state of the Soviet Union when the latter collapsed in December 1991.

2) Russia took shape through territorial conquest over centuries, eventually forming a vast empire by the early 20th century.

3) Russia is the second-largest country in the world after the U.S., more than 1.7 times the size of the third-largest country, Canada.

4) Russia, including its exclave of Kaliningrad, shares borders with twenty-four countries.

5) After winning election as Russia's president in June 1991, Vladimir Putin became the first president of the newly independent country upon the Soviet Union's collapse.

6) The Russian economy remains deeply dependent on oil and gas exports and badly in need of diversification.

7) Russia's GDP per capita measured about $10,600 in 2017, somewhat more than one-sixth the United States' figure of about $59,500.

8) Russia possesses the world's largest nuclear arsenal today.

9) Russia has a large amount of raw materials, more than the U.S.

10) The Cold War put a great deal of pressure on the Soviet economy.

Chapter 7

THE ECONOMY OF THE PEOPLE'S REPUBLIC OF CHINA (PRC)

Chapter Outline

7.1. The place and prospects for China in the global economy
7.2. Factors of economic development of the PRC

7.1. The place and prospects for China in the global economy

- the PRC at a glance
- factors of economic development of the PRC
- the place and role of the PRC in the global economy

Synopsis on the PRC's Economy:

- largest economy and exporter in the world, but one that continues to pursue state-directed industrial, trade, and investment policies, including state-support of key sectors (Cia.gov, 2018).

PRC: BBC country profile

- China is the world's most populous country. It has a continuous culture stretching back nearly 4,000 years and originated many of the foundations of the modern world.
- The People's Republic of China was founded in 1949 after the Communist Party defeated the nationalist Kuomintang, who retreated to Taiwan, creating two rival Chinese states - the People's Republic on the mainland and the Republic of China based on Taiwan.
- After stagnating for decades under the rigid totalitarian socialism of founder Mao Zedong, China reformed its economy along partly capitalist lines to make it one of the world's fastest-growing, as well its leading exporter. China is now a major overseas investor, and is pursuing an increasingly assertive foreign and defence policy.
- But economic change has not been matched by political reform, and the Communist Party retains a tight grip on political life and much of wider society (BBC News, 2018).

PRC at a glance

Area	9,6 million sq km (3rd/4th)
Population	1,4 bln
Currency	Renminbi (Chinese yuan (¥) (CNY)
Government	Unitary one-party socialist republic
Capital	Beijing
GDP (PPP) total	$ 25,2 trln (1st)
PDP per capita	$ 18,066 (79th)

China: People and society

Population:

- 1,379,302,771 (July 2017 est.)
- country comparison to the world: 1
- population growth rate: 0.41% (2017 est.)

Ethnic groups:

- Han Chinese 91.6%, Zhuang 1.3%, other (includes Hui, Manchu, Uighur, Miao, Yi, Tujia, Tibetan, Mongol, Dong, Buyei, Yao, Bai, Korean, Hani, Li, Kazakh, Dai, and other nationalities) 7.1% (2010 est.)

Languages:

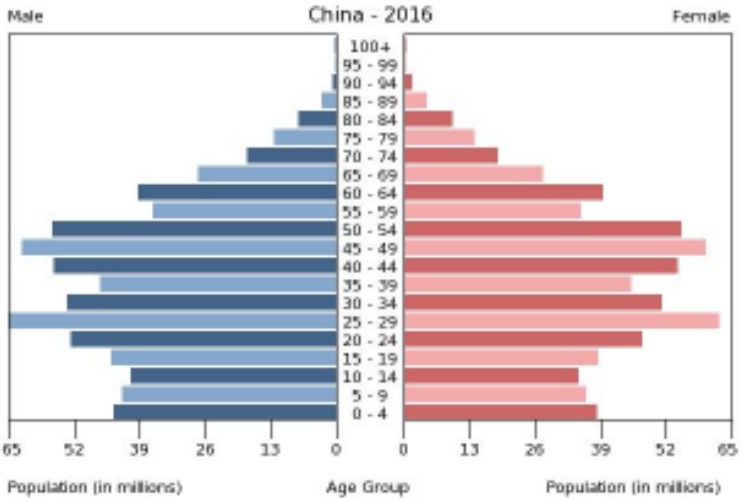
- Standard Chinese or Mandarin (official; Putonghua, based on the Beijing dialect), Yue (Cantonese), Wu (Shanghainese), Minbei (Fuzhou), Minnan (Hokkien-Taiwanese), Xiang, Gan, Hakka dialects, minority languages (see Ethnic groups entry)

Religions:

- Buddhist 18.2%, Christian 5.1%, Muslim 1.8%, folk religion 21.9%, Hindu < 0.1%, Jewish < 0.1%, other 0.7% (includes Daoist (Taoist)), unaffiliated 52.2% (2010 est.)

Source:
The World Factbook —
Central Intelligence Agency

Age structure



0-14 years: 17.15% (male 127,484,177/female 109,113,241)
15-24 years: 12.78% (male 94,215,607/female 82,050,623)
25-54 years: 48.51% (male 341,466,438/female 327,661,460)
55-64 years: 10.75% (male 74,771,050/female 73,441,177)
65 years and over: 10.81% (male 71,103,029/female 77,995,969) (2017 est.)

Life expectancy at birth:

- **total population:** 75.7 years
- **male:** 73.6 years
- **female:** 78 years (2017 est.)
- **country comparison to the world:** 102

Health expenditures:

- 5.5% of GDP (2014 est.)

Unemployment, youth ages 15-24:

- **N/a**

Age dependency ratio:

- 37.7% of working-age population (2015 est.)

Urbanization:

- **urban population:** 59.2% of total population (2018 est.)
- **rate of urbanization:** 2.42% annual rate of change (2015-20 est.)

Total fertility rate:

- 1.6 children born/woman (2017 est.)

PRC: Economy

GDP - composition, by end use:

- Household consumption: 39.1%
- Government consumption: 14.6%
- Investment in capital: 44.4%
- Exports of goods and services: 19.7%
- Imports of goods and services: -17.8% (2017 est.)

GDP - composition, by sector of origin:

- agriculture: 8.3%
- industry: 39.5%
- services: 52.2% (2017 est.)

Labor force - by occupation:

- agriculture: 27.7%
- industry: 28.8%
- services: 43.5% (2016 est.)

Unemployment rate:

- 3.9% (2017 est.)

Population below poverty line:

- 3.3% (2011 est.)

Household income or consumption by percentage share:

- **lowest 10%:** 2.1%; **highest 10%:** 31.4% (2012 est.)

Distribution of family income - Gini index:

- 46.5 (2016); 46.2 (2015)
- **country comparison to the world:** 29

Inflation rate (consumer prices):

- 1.6% (2017 est.)

Reserves of foreign exchange and gold:

- $3.187 trillion (31 December 2017 est.)
- **country comparison to the world:** 1

Debt - external:

- $1.607 trillion (31 December 2017 est.)
- **country comparison to the world:** 15

Stock of direct foreign investment - at home:

- $1.514 trillion (31 December 2017 est.)
- **country comparison to the world:** 6

Stock of direct foreign investment - abroad:

- $1.342 trillion (31 December 2017 est.)
- **country comparison to the world:** 12

Agriculture - products:

world leader in gross value of agricultural output; rice, wheat, potatoes, corn, tobacco, peanuts, tea, apples, cotton, pork, mutton, eggs; fish, shrimp

Industries:

world leader in gross value of industrial output; mining and ore processing, iron, steel, aluminum, and other metals, coal; machine building; armaments; textiles and apparel; petroleum; cement; chemicals; fertilizer; consumer products (including footwear, toys, and electronics); food processing; transportation equipment, including automobiles, railcars and locomotives, ships, aircraft; telecommunications equipment, commercial space launch vehicles, satellites (Cia.gov, 2018)

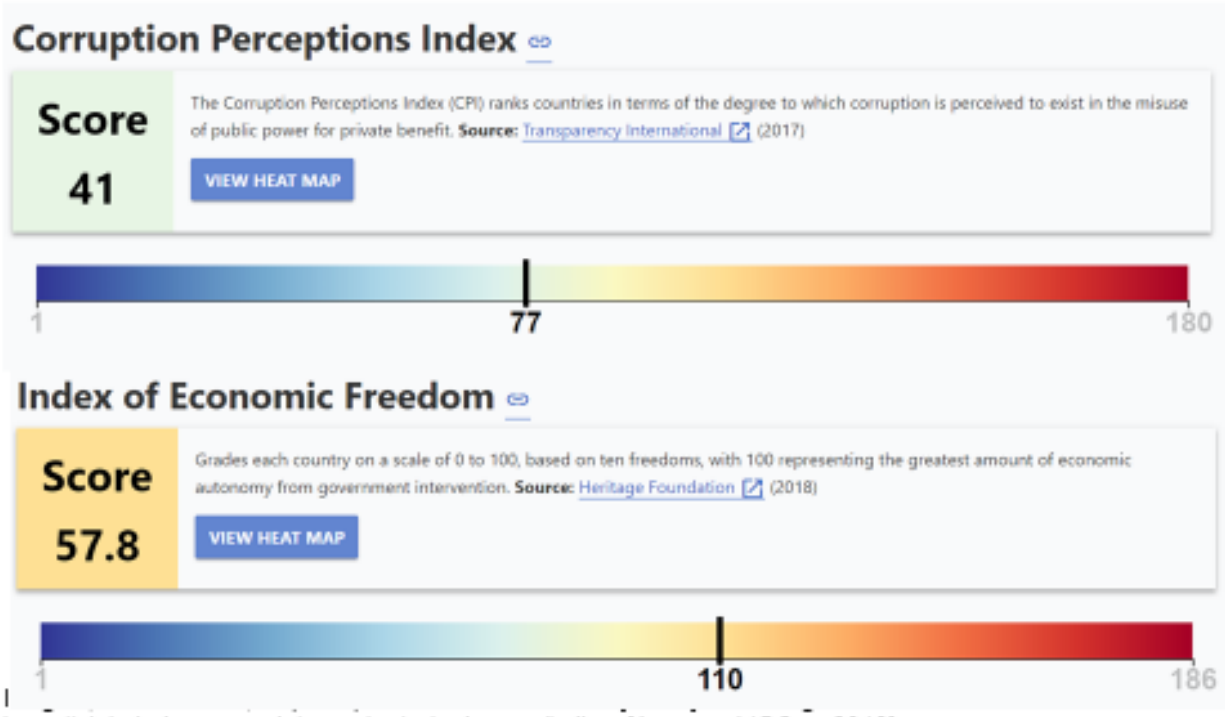
PRC: key characteristics of the economy

Source: Insights, G. and States, U. (2018). *China: Economy*. [online] Globaledge.msu.edu. Available at: https://globaledge.msu.edu/countries/united-states/economy [Accessed 15 Sep. 2018].

PRC: key indices

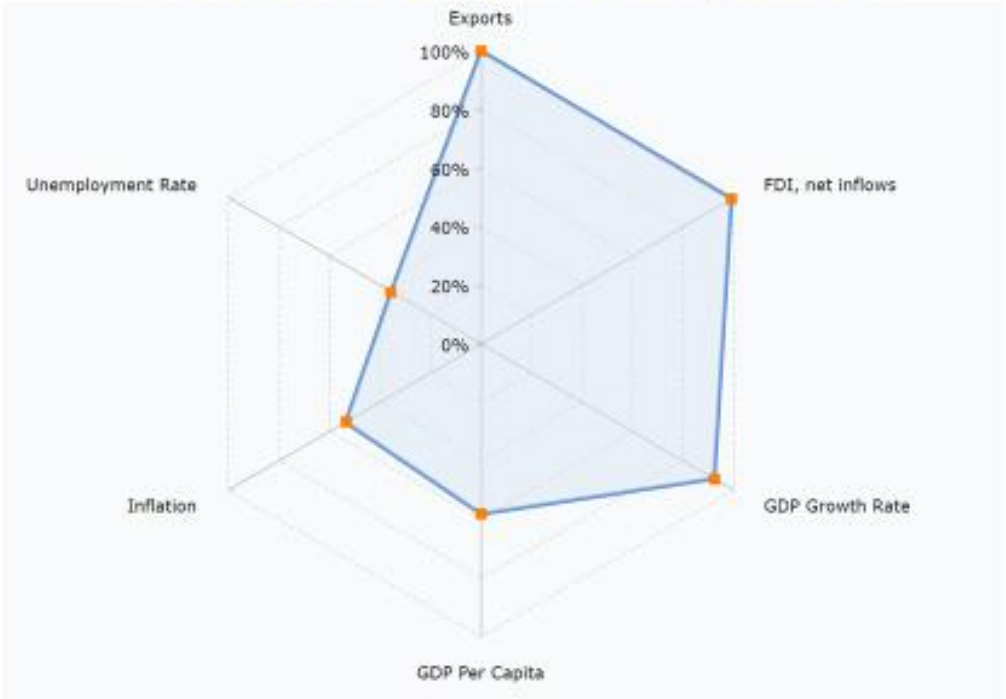
Insights, G. and States, U. (2018). *China: Indices*. [online] Globaledge.msu.edu. Available at: https://globaledge.msu.edu/countries/united-states/indices [Accessed 15 Sep. 2018].

PRC: key indices (cont'd)



https://globaledge.msu.edu/countries/united-states/indices [Accessed 15 Sep. 2018].

PRC: Economic Snapshot



Source: Insights, G. and States, U. (2018). *China: Economy*. [online] Globaledge.msu.edu. Available at: https://globaledge.msu.edu/countries/united-states/economy [Accessed 15 Sep. 2018].

China: Economic History

1700-1046 BC	- Shang Dynasty rules northern China - the first Chinese state for which clear written records remain.
221 BC	- Most of China becomes united for the first time under King Ying Zheng. During his reign, the first Great Wall of China is built
1271	Mongols conquer China and rule until 1368. Beijing becomes the capital.
1368	The Ming Dynasty overthrows the Mongols and establishes a sophisticated agricultural economy and a strong, centralized bureaucracy.
1842	After losing the First Opium War, China cedes Hong Kong to the British, and Western countries are given special commercial privileges.
1899	The Boxer Rebellion begins in Northern China as an anti-foreigner movement and aims to re-establish traditional rule. This effort is thwarted by Western powers, including Russia and Japan, who extract further concessions from the weakened government.
1911	A military revolt leads to the end of the Qing monarchy and the formation of a republic, but much of the country is taken over by unruly warlords.
1931-1945	Japan invades and establishes a brutal regime of occupation across large parts of China.
1949	The Chinese Communist Party (CCP) conquers most of the country, forcing the Kuomintang (KMT) to move to Taiwan, where the KMT establishes a provisional government called the Republic of China. Communist leader Mao Zedong proclaims the founding of the People's Republic of China after defeat of the nationalist Kuomintang in a civil war.

1950	China sends People's Liberation Army (PLA) troops into Tibet, enforcing a longstanding claim.
1958-1962	Mao's "Great Leap Forward" disrupts agriculture, producing an economic breakdown, and is quickly abandoned after the loss of millions of lives
1966-1976	- Mao's "Cultural Revolution" produces massive social, economic and political upheaval.
1976	- Mao dies. From 1977 pragmatist Deng Xiaoping emerges as the dominant figure and undertakes far-reaching economic reforms.
1979	The government introduces a one-child policy to try to slow population growth.
1986-1990	China's "Open-Door policy" opens the nation to foreign investment and encourages the development of a market economy and the private sector.
1989	Stock markets open in Shanghai and Shenzhen.
1994	China abolished the official renminbi (RMB) currency exchange rate and fixes its first floating rate since 1949.
1997	Hong Kong reverts to Chinese rule after 150 years under British control.
2004	China signs a trade agreement with 10 southeast Asian countries.
2006	The controversial Three Gorges Dam project is completed. It is the world’s largest hydropower project.
2008	China introduces a $586 billion stimulus package to combat the effects of a slowing global economy.
2010	China becomes the world's second-largest economy after the United States, when Japan's economy shrank in the final months of the year. China overtakes Germany as the world's largest exporter.
2015	China abandoned its 35-year old one-child policy, raising the limit on families to raise two children. China's economic growth drops to its lowest in 25 years to 6.7%. One of the major drivers for the significant drop in growth is the decreasing demand for raw materials from China in the world markets.

7.2. Factors of economic development of the PRC

Factors of economic development of the PRC

- **Population growth.** Rapid population growth in China, despite the One Child Policy, has resulted in very large numbers in the economically active population, leading to rapid urbanisation. This has fueled further industrialisation, allowing for further population growth.
-
- **Education.** Literacy levels of China have risen dramatically over the past 20 years and now stand at 95%.
- **Investment in infrastructure.** The government has built many new roads, improved the rail system and made China's major rivers navigable all year round.
- **Export-led growth.** This strategy is beginning to become phased out in favour of Import Substitution Industrialisation by which consumer products imported for China's growing middle-class are increasingly being made in China, such as cars, domestic white goods and house- and office-furniture.
- **Energy supply.** Since the 1990s China has been developing its energy base, with new hydroelectric and nuclear power plants
- **Free market economics.** China first began moving away from a centrally planned economy towards a market-oriented system in 1978. Deng Xiaoping was Mao's successor and he sought to bring an end to China's relative economic isolation.
- **Special Economic Zones and FDI.** FDI was encouraged in the initial phase of economic growth. They tended to locate in one of 6 SEZs (Special Economic Zones) or 14 Open Cities in which a relaxation of regulation and government control created a more attractive business environment.
- **Economic diversification.** China has recently started to diversify into Research and Development, specialist manufacturing and hi-tech industry.
- **'Going global'.** China has started to globalise economically by buying up foreign companies in North America and Europe particularly.

- **Confucian values.** State and society are emphasized above the individual. The degree of control and authoritarian structures are more accepted in China than in most western cultures with their emphasis on individualism.

- **Political system.** The non-democratic and authoritarian political regime in China has meant that it has been possible to embrace western-style free market economics while maintaining control over the political system. In many ways, the planned economy of China (where the state controls economic activity rather than private business) has accelerated economic growth because the government has controlled all decision-making.

- **Strong leadership.** Chinese politicians are said to feel a greater responsibility to the nation than to themselves. Strong leadership from the head of state has been a major factor contributing to economic success.

Natural-resource potential of the PRC

- Mineral resources include large reserves of coal and iron ore, plus adequate to abundant supplies of nearly all other industrial minerals.
- Besides being a major coal producer, China is one of the world's largest producers of gold and the world's largest producer of antimony, natural graphite, aluminum, steel, rare earths, barite, zinc and tungsten; and the third largest producer in the world of iron ore.
- Other major minerals are bauxite, coal, crude petroleum, diamonds, gold, iron ore, lead, magnetite, manganese, mercury, molybdenum, natural gas, phosphate rock, tin, uranium, and vanadium.
- China also exports large amounts of tin, coals and a number of industrial minerals and is the world's largest consumer of steel.
- China is one of the world's largest exporters of magnesium.
- China accounts for 30 percent of the world's supply of phosphates, essential for fertilizer.
- China is also a major producer of pine resin, or rosin, an agent that prevents bleeding in paper and is indispensable in products such as printing ink and tires for motor vehicles.

The PRC Competitive Advantage

- **Cheap labour cost**

– **Labour supply.** There is a plentiful supply of workers in China with a steady stream of rural-urban migrants in search of work.

– **Female participation in the workforce .** China's workforce is characterised by a higher than average female participation in manufacturing industry.

– Despite the fact that wages are rising briskly for both skilled workers and factory labour, relative to the United States and Europe, labour is still cheap

- **Location .** China's geographical location has geopolitical significance because of its proximity to consumer markets and trading partners. South Korea, Taiwan, Japan and Hong Kong are on major trade routes. It is no coincidence that the first SEZs were concentrated on the east coast facing Taiwan and the Pacific, particularly around Hong Kong.

- **Raw materials.** China has a great wealth of natural resources, having vast reserves of coal, oil and natural gas. These are being used to fuel the industrial development of the country. However, so large is the country's requirement for raw materials to feed its manufacturing industries, that it is a major importer of oil, gas, coal, iron-ore, copper and other key commodities in world trade.

- **Political Stability.** Despite having suffered from much political instability in the past, political risk in China now is comparatively low due to the single party political system.

- **Market Size.** A large population with the availability of land means a potentially large market. In addition, China has a rapidly rising middle class that already exceeds the entire population of the United States. China presents a huge potential for would-be investors.

- **Transportation.** China has developed their transportation and infrastructure since late 1970s. Improved transportation has led to a booming travel and air cargo industry in the country.

- **Devaluation of Yuan.** By devaluating its currency, China lowered the price of its exports and gained a competitive advantage in the international markets. On August 11, 2015, the PRC surprised markets with three consecutive devaluations of the yuan renminbi, knocking over 3% off its value.

The PRC Competitive Disadvantage

- Previously, **easy access to capital from state-controlled financial institutions** and the **availability of plentiful and cheap labour** have helped the country register double-digit growth. Today, these same factors, the misallocation of capital and the country's changing demographics, are resulting in slowdown of the Chinese economy
- In technology, China is playing a good game of catch-up but from an immense disadvantage. The patent base on which Chinese firms stand is minuscule compared to that of the advanced economies.

- **Growing Income Inequality.** China's economic growth has benefited the south and eastern regions more than anywhere else. This has created a growing disparity between north and south. The agricultural north has, by contrast, been left behind. Many farmers struggle to make a living. Therefore, this has encouraged a migration of workers from north to south. China has struggled to deal with this regional inequality.

- **Property Boom.** There are fears that China has been caught up in its own speculative property bubble. Especially in Beijing aSouth South East, house prices have increased significantly. There are concerns that this property bubble could burst, creating negative equity.

- **Undervaluation of Yuan.** The impact of an undervaluation of the Yuan might:
  - Increase inflationary pressure in the Chinese economy.
  - Make it expensive for Chinese to buy foreign goods.
  - Give an artificial advantage to Chinese manufacturers.

- **Overheating Economy.** Because the Chinese economy is growing so quickly there are concerns that this could easily lead to inflationary pressures. This is particularly a problem because of:
  - relatively loose monetary policy
  - growth in consumer debt.
  - undervalued exchange rate
  - property boom.
  - inflation is currently 3.8%, but, there are upward pressures.

- **Huge Balance of Payments Surplus.** Maybe not such a serious problem for China. But, the US sees it as creating a great disequilibrium. The US, if not anyone else, would like to see China use its balance of payments surplus elsewhere.

- **Shortage of Power.** The growing demand from the Chinese economy has placed great demands on China's creaking power infrastructure.

Challenges to the PRC economy:

- **Falling Growth Rate:**
  - Chinese economic growth rate has been unprecedented. The economy has been growing over 10% per annum for a couple of decades now. However, since Chinese economy is centrally planned, this growth rate was planned by the government too. Hence, this growth rate was largely fuelled by the very ambitious infrastructure projects that were undertaken by the government of China. However, there is a problem. The infrastructure projects also caused a lot of debt. Over the years, the economy became overburdened with this debt.
  - China remains the world's third-largest country by geography. A population of 1.4 billion people − and still rising − needs to be housed, fed, educated and economically engaged. Hundreds of millions of Chinese still live in rural areas, and raising their living standards further is a massive challenge.

- **Export Driven Economy to Consumption Driven Economy.** The Chinese economic miracle was fuelled by the United States consumption debacle. The U.S. alone accounts for over a third of Chinese exports. The U.S. consumption has been enabled by loose interest rate policies implemented by the Fed. Zero interest rates led to a lot of money floating around. A huge chunk of this floating money ended up being spent on Chinese goods. After 8 years of zero interest rate policy, the rates are now set to rise. This is expected to cause a drastic drop in demand in the United States. As a result, Chinese exports will also suffer. China's big challenge is to sustain its economic prowess on a domestic economy. Instead of selling to other countries, Chinese businesses now have to sell to each other, if the miracle has to be sustained.

- **Environmental problems.** China is the world's biggest emitter of greenhouse gases (GHGs), and its emissions are not projected to peak until the early 2030s. Water and soil degradation are also significant environmental concerns. China is making significant investments in green technology and environmental practices, but the path ahead to a cleaner, more sustainable physical environment will be long. Respiratory and other health problems are widespread, which shortens life expectancy.

- **One-party rule.** China's rapid economic growth and expanding geopolitical influence make it a rising regional and international power in trade, diplomatic and military issues. However, it is unclear how the one-party Chinese government will manage being a dominant regional power and a central global player.

- **Weak stock market.** Even though China's economy is now the second-largest in the world and still boasts one of the fastest growth rates among major economies, its stock market has lost about 50 per cent of its value since a peak in the summer of 2015, with half that fall occurring in 2018. In the process, investors have lost trillions of yuan.
- **China's ballooning debt poses a danger to the Chinese economy.** This massive increase China's debt was due to state-run banks injecting easy loans into the system, based on directions from the government.
- **Manufacturing and Banking Viability.** The Chinese government central planning has led to a lot of mal investments. Since the money was loaned out by state banks, the banking system is also reeling under the effects of this problem. The government is currently managing these non-performing assets. However, these assets could cause mayhem in the Chinese banking sector. The spillover effects of this downturn could be felt in the stock markets as well as across the world.
- **Tax Revenues and Expenses.** A falling GDP also means falling tax revenues for the Chinese government. This becomes a huge problem when one adds the fact that China is a communist country. A centralized economy is based on funds being disbursed from the center. Falling tax revenues and rising expenditures have created shortfalls which need to be filled by borrowing money. Given the debt trap that China may soon find itself in, borrowing is not really a viable option. China will have to figure out other ways to collect more tax or else it may have to cut spending even further causing the GDP to go into freefall.
- **Regional Imbalances: Coastal to Internal.** The economic boom has led to widespread development all across China's coastal periphery. Now, since domestic consumption is the key factor, China will have to focus on its severely underdeveloped internal areas. Interior China is still a third world country with low standards of living. This can be viewed as a challenge because sustaining high Chinese growth rates with such poor infrastructure will be difficult to say the least.

PRC: Trade Statistics

Exporter rank: 1/146
Trade Balance Rank: 1/145

Importer rank: 2/145

Top 10 Export Countries	
Country	Export USD$
United States (≈19%)	$385,677,759,424
Hong Kong (≈12.4%)	$287,251,662,044
Japan (≈6%)	$129,268,487,384
South Korea (≈4.5%)	$93,707,103,461
Germany	$65,214,030,647
Vietnam	$61,094,096,781
India	$58,397,760,569
Netherlands	$57,447,210,217
United Kingdom	$55,664,076,103
Singapore	$44,495,953,063

Top 10 Import Countries	
Country	Import USD$
South Korea (≈9.7%)	$158,974,531,293
Japan (≈9.1%)	$145,670,688,473
United States (≈8.5%)	$135,120,133,073
Germany (≈5.3%)	$86,109,029,796
Australia (≈5.1%)	$70,895,012,700
Malaysia	$49,269,636,528
Brazil	$45,855,047,246
Switzerland	$39,945,437,599
Thailand	$38,532,342,814
Vietnam	$37,171,603,826

Insights, G. and States, U. (2018). *China: Trade Statistics*. [online] Globaledge.msu.edu. Available at: https://globaledge.msu.edu/countries/united-states/tradestat [Accessed 15 Sep. 2018].

Top 10 Export Goods	
(85) Electrical Machinery	$553,168,922,135
(84) Industrial Machinery	$343,770,528,509
(94) Furniture	$87,509,355,600
(61) Apparel: Knit	$74,413,440,500
(62) Apparel: Non Knit	$72,064,923,620
(90) Precision Instruments	$67,487,732,957
(39) Plastics	$62,349,962,839
(87) Motor Vehicles & Parts	$60,145,135,152
(73) Iron & Steel Articles	$51,891,864,569
(64) Footwear	$47,202,913,204
Total Exports (2016)	$2,097,637,171,895
Exports of goods and services (% of GDP) (2017)	19.76%

Top 10 Import Goods	
85) Electrical Machinery	$412,879,364,754
(27) Oil & Mineral Fuels	$176,535,890,009
(84) Industrial Machinery	$147,659,933,125
(26) Ores	$94,479,040,429
(90) Precision Instruments	$92,688,922,041
(71) Precious Stones & Metals	$79,327,271,321
(87) Motor Vehicles & Parts	$71,506,000,147
(39) Plastics	$61,048,503,014
(29) Organic Chemicals	$43,905,779,588
(12) Oil Seeds	$38,295,394,616
Total Imports (2016)	$1,587,920,688,162
Imports of goods and services (% of GDP) (2017)	18.05%

Insights, G. and States, U. (2018). *China: Trade Statistics*. [online] Globaledge.msu.edu. Available at: https://globaledge.msu.edu/countries/united-states/tradestat [Accessed 15 Sep. 2018].

Exports and imports by major commodity groups

Exports - commodities:

- electrical and other machinery, including computers and telecommunications equipment
- apparel
- furniture

textiles

Imports - commodities:

- electrical and other machinery, including integrated circuits and other computer components
- oil and mineral fuels
- optical and medical equipment
- metal ores
- motor vehicles
- soybeans (Cia.gov, 2018)

Tasks for control and self-control of knowledge and skills

Questions for Review

1) Discuss the place of China in the global economy.

2) What is the essence of the policy of openness of China's economy?

3) What were the peculiarities of the model of China's economic development before the 90s years of the 20th century?

4) Reflect on China's economic potential.

5) What is the essence of the Chinese economic reforms?

6) Reflect on the dynamics of economic growth in China.

7) What are the priorities of the concept of further macroeconomic development of the national economy of Chins in the 21st century?

8) What are the problems and difficulties of China's development in the transition period?

9) Does the Chinese development model require any corrections at the present stage?

10) What structural changes are occurring in the Chinese economy now?

Determine whether these statements are true or false

1) China now has many companies among the Global Fortune 500 companies; most or all are state-owned companies.

2) Almost all Chinese debt is held domestically (that is, it's not owed to foreigners), and the increase in debt in recent years is almost all attributable to increases in corporate (State owned Enterprises SOE) debt.

3) China joined the World Trade Organization in 2001.

4) China still has a sizable state owned (or “state-invested”) sector, mostly in "strategic" industries such as oil and telecommunications.

5) China’s foreign trade is limited to the four Special Economic Zones (SEZs).

6) China's strategies and tactics for economic growth differ significantly from those of other fast developing East Asian nations.

7) China’s OFDI (outbound foreign direct investment) is increasingly placed in developed economies which have less restrictive (compared to China) FDI regulations.

8) China’s one child policy reduced births per couple, and was in place for ~35 years.

9) In China’s GDP, the state sector remains larger than the private sector.

10) In GDP PPP (purchasing power parity), China is now the largest economy in the world.

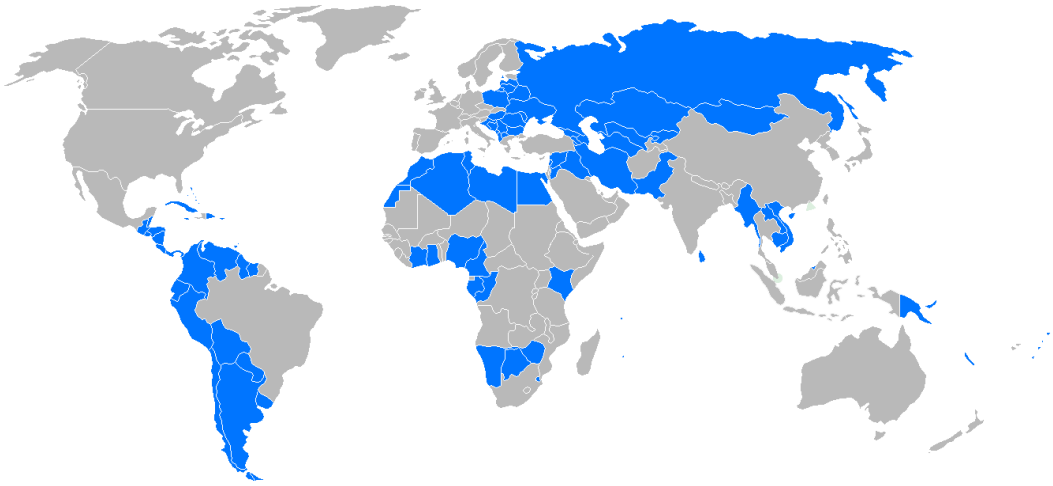
Chapter 8

THE ECONOMY OF DEVELOPING COUNTRIES (LEDCS)

Chapter Outline

8.1. LEDCs at a glance
8.2. Factors of economic development of LEDCs
8.3. The place and role of LEDCs countries in the world economic system

8.1. LEDCs at a glance



What is a developing country?

- Also called a less-developed country or less economically developed country (LEDC), a developing country is a nation with a lower living standard, underdeveloped industrial base, and low Human Development Index (HDI) relative to other countries.
- There is no universal, agreed-upon criterion for what makes a country developing versus developed and which countries fit these two categories, although there is general reference points such as a nation's GDP per capita compared to other nations.

Also, the general term less-developed country should not be confused with the specific least developed country

Breaking down LEDCs

- The developing/developed countries taxonomy became common in the 1960s as a way to easily categorize countries in the context of policy discussions on transferring resources from richer to poorer countries.

- For want of a country classification system, some international organizations have used membership of the Organization of Economic Cooperation and Development (OECD) as a main criterion for developed country status. Though not expressly stating a country classification system, the preamble to the OECD convention does include a reference to the belief of the contracting parties that "economically more advanced nations should co-operate in assisting to the best of their ability the countries in process of economic development. This consequently resulted in about 80-85 percent of the world's countries labeled as developing and 15-20 percent as developed.

- Due to the absence of a methodology in classifying countries based on the level of development, most economist would focus on the development taxonomies of the UNDP, World Bank and IMF (A4id.org, 2019)

United Nations Development Programme's (UNDP) Country Classification System

- The UNDP's country classification system is calculated from the Human Development Index (HDI), which aims to take into account the multifaceted nature of development.
- HDI is a composite index of three indices measuring countries achievement in longetivity, education and income. It also recognizes other aspects of development such as political freedom and personal security.
- In the classification system, developed countries are countries in the top quartile of the HDI distribution. Developing countries consists of countries in the high group (HDI percentiles 51-75), medium group (HDI percentiles 26-50), and the low group with bottom quartile HDI. Currently, 47 countries out of 186 compared.
- For analytical purposes, United Nations World Economic Situation and Prospects (WESP) classifies all countries of the world into one of three broad categories: developed economies, economies in transition and developing economies

The World Bank's Country Classification Systems

- The classification tables include all World Bank (WB) members, plus all other economies with populations of more than 30,000. The World Bank's classification of the world's economies is based on estimates of gross national income (GNI) per capita. As of July 1 2018, the new thresholds for classification by income are:
  - ***Low income: $ 995 or less***
  - ***Lower middle income: $ 996 to 3,895***
  - ***Upper middle income: $ 3,896 to 12,055***
  - ***High income: $12,056 or more*** (World Bank, 2019)
- Low- and middle-income economies are usually referred to as developing economies, and the Upper Middle Income and the High Income are referred to as Developed Countries.

The WB adds that the term is used for convenience; 'it is not intended to imply that all economies in the developing group are experiencing similar development or that other economies in the developed group have reached a preferred or final stage of development'.

The IMF's Country Classification Systems

- The main criteria used by the IMF in country classification are:
  - per capita income level
  - export diversification
  - degree of integration into the global financial system.
- The IMF uses either sums or weighted averages of data for individual countries. However, the IMF's statistical Appendix explains that this is not a strict criterion, and other factors are considered in deciding the classification of countries.
- The IMF refers to the classification of countries as Advanced and Emerging and Developing Economies. Advanced Economies are sub-catergorised into Euro Area, Major Advanced Economies (G7), Newly Industrialized Asian Economies, Other Advanced Economies (Advanced Economies excluding G7 and Euro Area), and the European Union. The Emerging and Developing Economies are sub categorised into Central and Eastern Europe, Commonwealth of Independent States, Developing Asia, ASEAN-5, Latin America and the Caribbean, Middle East and North Africa, Sub-Saharan Africa.

Country Classification Systems in Selected International Organizations

	UNDP	IMF	World Bank
Name of Developed Country	Developed Countries	Advanced Countries	High income countries
Name of Developing Country	Developing Countries	Emerging and Developing countries	Low- and middle-income countries
Development Threshold	75 percentile in the HDI distribution	Not explicit	US$6,000 GNI per capita in 1987-prices
Subcategories of developing countries	(1) Low human development countries (2)Medium human development countries (3) High human development countries	1) Low-income developing countries (2) Emerging and other developing countries	(1) Low-income countries (2) Middle-income countries

Developed economies

North America	Europe		Major developed economies (G7)
	European Union	Other Europe	
Canada United States	**EU-15** Austria[a] Belgium[a] Denmark Finland[a] France[a] Germany[a] Greece[a] Ireland[a] Italy[a] Luxembourg[a] Netherlands[a] Portugal[a] Spain[a] Sweden United Kingdom	Iceland Norway Switzerland	Canada Japan France Germany Italy United Kingdom United States
Developed Asia and Pacific	**EU-13**[b]		
Australia Japan New Zealand	Bulgaria Croatia Cyprus[a] Czech Republic Estonia[a] Hungary Latvia[a] Lithuania[a] Malta[a] Poland Romania Slovakia[a] Slovenia[a]		

a Member of Euro area.
b Used in reference to the 13 countries that joined the EU since 2004.

Developed economies and Economies in transition according to UN WESP classification

Table B
Economies in transition

South-Eastern Europe	Commonwealth of Independent States and Georgia[a]	
Albania	Armenia	Republic of Moldova
Bosnia and Herzegovina	Azerbaijan	Russian Federation
Montenegro	Belarus	Tajikistan
Serbia	Georgia[a]	Turkmenistan
The former Yugoslav Republic of Macedonia	Kazakhstan	Ukraine[b]
	Kyrgyzstan	Uzbekistan

a Georgia officially left the Commonwealth of Independent States on 18 August 2009. However, its performance is discussed in the context of this group of countries for reasons of geographic proximity and similarities in economic structure.
b Starting in 2010, data for the Ukraine excludes the temporarily occupied territory of the Autonomous Republic of Crimea and Sevastopol.

Source: World Economic Situation and Prospects 2018

Africa		Asia	Latin America and the Caribbean
North Africa	Southern Africa	East Asia[b]	Caribbean
Algeria	Angola	Brunei Darussalam	Bahamas
Egypt	Botswana	Cambodia	Barbados
Libya	Lesotho	China	Belize
Mauritania	Malawi	Fiji	Dominican Republic
Morocco	Mauritius	Hong Kong SAR[a]	Guyana
Sudan	Mozambique	Indonesia	Jamaica
Tunisia	Namibia	Kiribati	Suriname
Central Africa	South Africa	Lao People's Democratic Republic	Trinidad and Tobago
Cameroon	Swaziland	Malaysia	Mexico and Central America
Central African Republic	Zambia	Mongolia	Costa Rica
Chad	Zimbabwe	Myanmar	Cuba
Congo	West Africa	Papua New Guinea	Dominican Republic
Equatorial Guinea	Benin	Philippines	El Salvador
Gabon	Burkina Faso	Republic of Korea	Guatemala
Sao Tome and Principe	Cabo Verde	Samoa	Haiti
East Africa	Côte d'Ivoire	Singapore	Honduras
Burundi	Gambia (Islamic Republic of the)	Solomon Islands	Mexico
Comoros	Ghana	Taiwan Province of China	Nicaragua
Democratic Republic of the Congo	Guinea	Thailand	Panama
Djibouti	Guinea-Bissau	Timor-Leste	South America
Eritrea	Liberia	Vanuatu	Argentina
Ethiopia	Mali	Viet Nam	Bolivia (Plurinational State of)
Kenya	Niger	South Asia	Brazil
Madagascar	Nigeria	Afghanistan	Chile
Rwanda	Senegal	Bangladesh	Colombia
Somalia	Sierra Leone	Bhutan	Ecuador
Uganda	Togo	India	Paraguay
United Republic of Tanzania		Iran (Islamic Republic of)	Peru
		Maldives	Uruguay
		Nepal	Venezuela (Bolivarian Republic of)
		Pakistan	
		Sri Lanka	
		Western Asia	
		Bahrain	
		Iraq	
		Israel	
		Jordan	
		Kuwait	
		Lebanon	
		Oman	
		Qatar	
		Saudi Arabia	
		Syrian Arab Republic	
		Turkey	
		United Arab Emirates	
		Yemen	

Developing economies by region according to UN WESP classification

Source: World Economic Situation and Prospects 2018

Economies by per capita GNI in June 2017 according to UN WESP classification

High-income		Upper middle income		Lower middle income		Low-income	
Australia	Lithuania	Albania	Kazakhstan	Angola[b]	Mongolia	Afghanistan	Liberia
Austria	Luxembourg	Algeria	Lebanon	Armenia	Morocco	Benin	Madagascar
Bahamas	Malta	Argentina	Libya	Bangladesh	Myanmar	Burkina Faso	Malawi
Bahrain	Netherlands	Azerbaijan	Malaysia	Bhutan	Nicaragua	Burundi	Mali
Barbados	New Zealand	Belarus	Maldives	Bolivia (Plurinational State of)	Nigeria	Central African Republic	Mozambique
Belgium	Norway	Belize	Mauritius	Cambodia	Pakistan	Chad	Nepal
Brunei Darussalam	Oman	Bosnia and Herzegovina	Mexico	Cameroon	Papua New Guinea	Comoros	Niger
Canada	Poland	Botswana	Montenegro	Cabo Verde	Philippines	Democratic Republic of the Congo	Rwanda
Chile	Portugal	Brazil	Namibia	Congo	Republic of Moldova	Eritrea	Senegal
Cyprus	Qatar	Bulgaria	Panama	Côte d'Ivoire	São Tomé and Principe	Ethiopia	Sierra Leone
Czech Republic	Republic of Korea	China	Paraguay	Djibouti	Solomon Islands	Gambia	Somalia
Denmark	Saudi Arabia	Colombia	Peru	Egypt	Sri Lanka	Guinea	Togo
Estonia	Singapore	Costa Rica	Romania	El Salvador	Sudan	Guinea-Bissau	Uganda
Finland	Slovak Republic	Croatia[b]	Russian Federation	Ghana	Swaziland	Haiti	United Republic of Tanzania
France	Slovenia	Cuba	Samoa[c]	Georgia[b]	Syrian Arab Republic	Lesotho	Zimbabwe
Germany	Spain	Dominican Republic	Serbia	Guatemala	Tajikistan	Mauritania	
Greece	Sweden	Ecuador	South Africa	Honduras	Timor-Leste		
Hong Kong SAR[d]	Switzerland	Equatorial Guinea	Suriname	India	Tunisia		
Hungary	Taiwan Province of China	Fiji	Thailand	Indonesia	Ukraine		
Iceland	Trinidad and Tobago	Gabon	The former Yugoslav Republic of Macedonia	Jordan[b]	Uzbekistan		
Ireland	United Arab Emirates	Guyana	Turkey	Kenya	Vanuatu		
Israel	United Kingdom	Iran (Islamic Republic of)	Turkmenistan	Kiribati	Viet Nam		
Italy	United States	Iraq	Venezuela (Bolivarian Republic of)	Kyrgyz Republic	Yemen		
Japan	Uruguay	Jamaica		Lao People's Democratic Republic	Zambia		
Kuwait				Lesotho			
Latvia				Mauritania			

Source: World Economic Situation and Prospects 2018

Least developed countries (June 2017) according to UN WESP classification

Africa		East Asia	South Asia	Western Asia	Latin America and the Caribbean
Angola	Malawi	Cambodia	Afghanistan	Yemen	Haiti
Benin	Mali	Kiribati	Bangladesh		
Burkina Faso	Mauritania	Lao People's Democratic Republic	Bhutan		
Burundi	Mozambique	Myanmar	Nepal		
Central African Republic	Niger	Solomon Islands			
Chad	Rwanda	Timor Leste			
Comoros	Sao Tome and Principe	Tuvalu[a]			
Democratic Republic of the Congo	Senegal	Vanuatu			
Djibouti	Sierra Leone				
Eritrea	Somalia				
Ethiopia	South Sudan[a]				
Gambia	Sudan				
Guinea	Togo				
Guinea-Bissau	Uganda				
Lesotho	United Republic of Tanzania				
Liberia	Zambia				
Madagascar					

Source: World Economic Situation and Prospects 2018

Heavily indebted poor countries (as of February 2017) according to UN WESP classification

Post-completion point HIPCs[a]		Pre-decision point HIPCs[b]
Afghanistan	Haiti	Eritrea
Benin	Honduras	Somalia
Bolivia	Liberia	Sudan
Burkina Faso	Madagascar	
Burundi	Malawi	
Cameroon	Mali	
Central African Republic	Mauritania	
Chad	Mozambique	
Comoros	Nicaragua	
Congo	Niger	
Côte D'Ivoire	Rwanda	
Democratic Republic of the Congo	Sao Tomé and Principe	
Ethiopia	Senegal	
Gambia	Sierra Leone	
Ghana	Togo	
Guinea	Uganda	
Guinea-Bissau	United Republic of Tanzania	
Guyana	Zambia	

a Countries that have qualified for irrevocable debt relief under the HIPC Initiative.

b Countries that are potentially eligible and may wish to avail themselves of the HIPC Initiative or the Multilateral Debt Relief Initiative (MDRI).

Source: World Economic Situation and Prospects 2018

Small island developing States according to UN WESP classification

United Nations members		Non-UN members/Associate members of the Regional Commissions
Antigua and Barbuda	Marshall Islands	American Samoa
Bahamas	Mauritius	Anguilla
Bahrain	Nauru	Aruba
Barbados	Palau	Bermuda
Belize	Papua New Guinea	British Virgin Islands
Cabo Verde	Saint Kitts and Nevis	Cayman Islands
Comoros	Saint Lucia	Commonwealth of Northern Marianas
Cuba	Saint Vincent and the Grenadines	Cook Islands
Dominica	Samoa	Curaçao
Dominican Republic	São Tomé and Príncipe	French Polynesia
Federated States of Micronesia	Seychelles	Guadeloupe
Fiji	Singapore	Guam
Grenada	Solomon Islands	Martinique
Guinea-Bissau	Suriname	Montserrat
Guyana	Timor-Leste	New Caledonia
Haiti	Tonga	Niue
Jamaica	Trinidad and Tobago	Puerto Rico
Kiribati	Tuvalu	Turks and Caicos Islands
Maldives	Vanuatu	U.S. Virgin Islands

Source: World Economic Situation and Prospects 2018

Landlocked developing countries according to UN WESP classification

Landlocked developing countries		
Afghanistan	Kyrgystan	South Sudan
Armenia	Lao People's Democratic Republic	Swaziland
Azerbaijan	Lesotho	Tajikistan
Bhutan	Malawi	The former Yugoslav Republic of Macedonia
Bolivia (Plurinational State of)	Mali	Turkmenistan
Botswana	Mongolia	Uganda
Burkina Faso	Nepal	Uzbekistan
Burundi	Niger	Zambia
Central African Republic	Paraguay	Zimbabwe
Chad	Republic of Moldova	
Ethiopia	Rwanda	
Kazakhstan		

Source: World Economic Situation and Prospects 2018

Fuel-exporting countries according to UN WESP classification

Economies in transition	Developing countries				
	Latin America and the Caribbean	Africa	East Asia	South Asia	Western Asia
Azerbaijan	Bolivia (Plurinational State of)	Algeria	Brunei Darussalam	Iran (Islamic Republic of)	Bahrain
Kazakhstan	Colombia	Angola	Indonesia		Iraq
Russian Federation	Ecuador	Cameroon	Viet Nam		Kuwait
Turkmenistan	Trinidad and Tobago	Chad			Oman
Uzbekistan	Venezuela (Bolivarian Republic of)	Congo			Qatar
		Côte d'Ivoire			Saudi Arabia
		Egypt			United Arab Emirates
		Equatorial Guinea			Yemen
		Gabon			
		Libya			
		Nigeria			
		Sudan			

Source: World Economic Situation and Prospects 2018

Common features of LEDCs

- Low per capita real income, which results in low savings and low investments. It means the average person doesn't earn enough money to invest or save money. They spend whatever they make. Thus, it creates a cycle of poverty that most of the population struggles to escape. The percentage of people in absolute poverty (the minimum income level) is high in developing countries.

- High population growth rate/size. Often, this is because of lack of family planning options, lack of sex education and the belief that more children could result in a higher labor force for the family to earn income. This increase in recent decades could be because of higher birth rates and reduced death rates through improved health care.

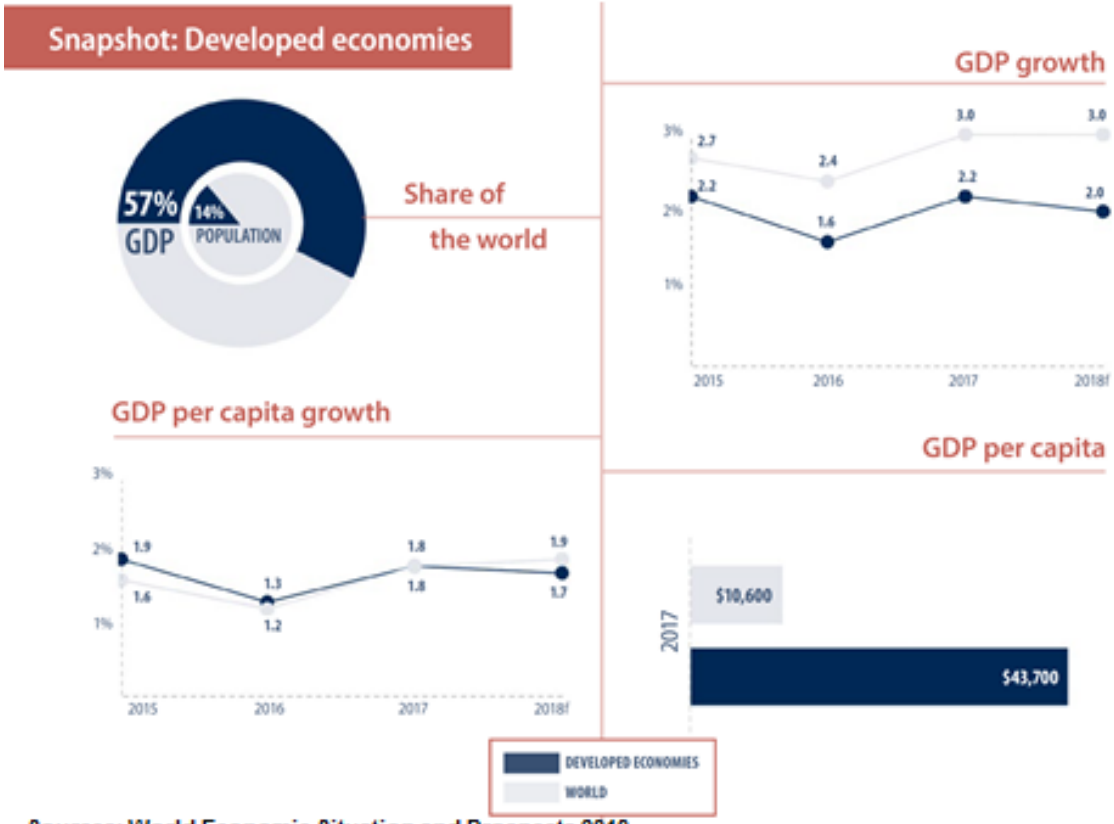
- Multi-economy: coexistence of pre-industrial, industrial and post-industrial types of production.

- High rates of unemployment. In rural areas, unemployment suffers from large seasonal variations. However, unemployment is a more complex problem requiring policies beyond traditional fixes.

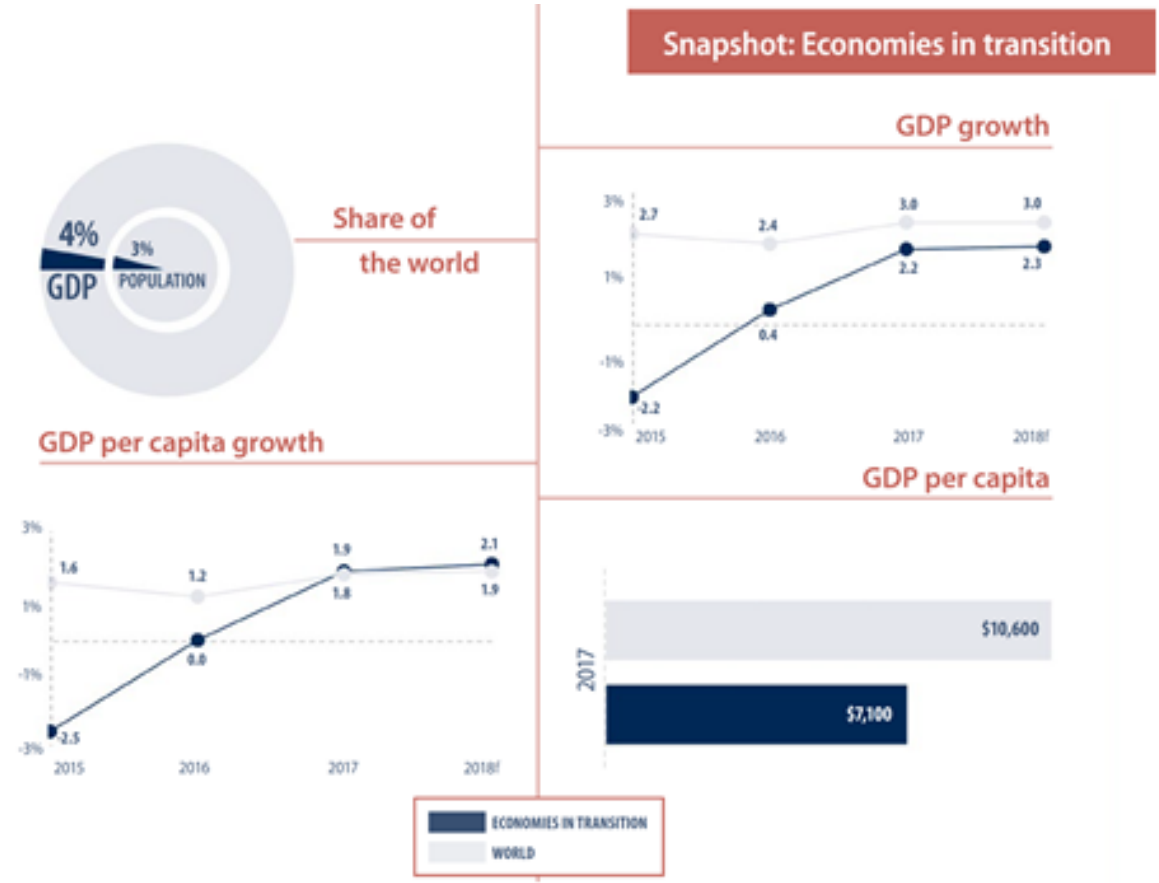
- Dependence on primary sector. Almost 75% of the population of low-income countries is rurally based. As income levels rise, the structure of demand changes, which leads to a rise in the manufacturing sector and then the services sector.

- Dependence on exports of primary commodities. Since a significant portion of output originates from the primary sector, a large portion of exports is also from the primary sector. For example, copper accounts for two-thirds of Zambia's exports.

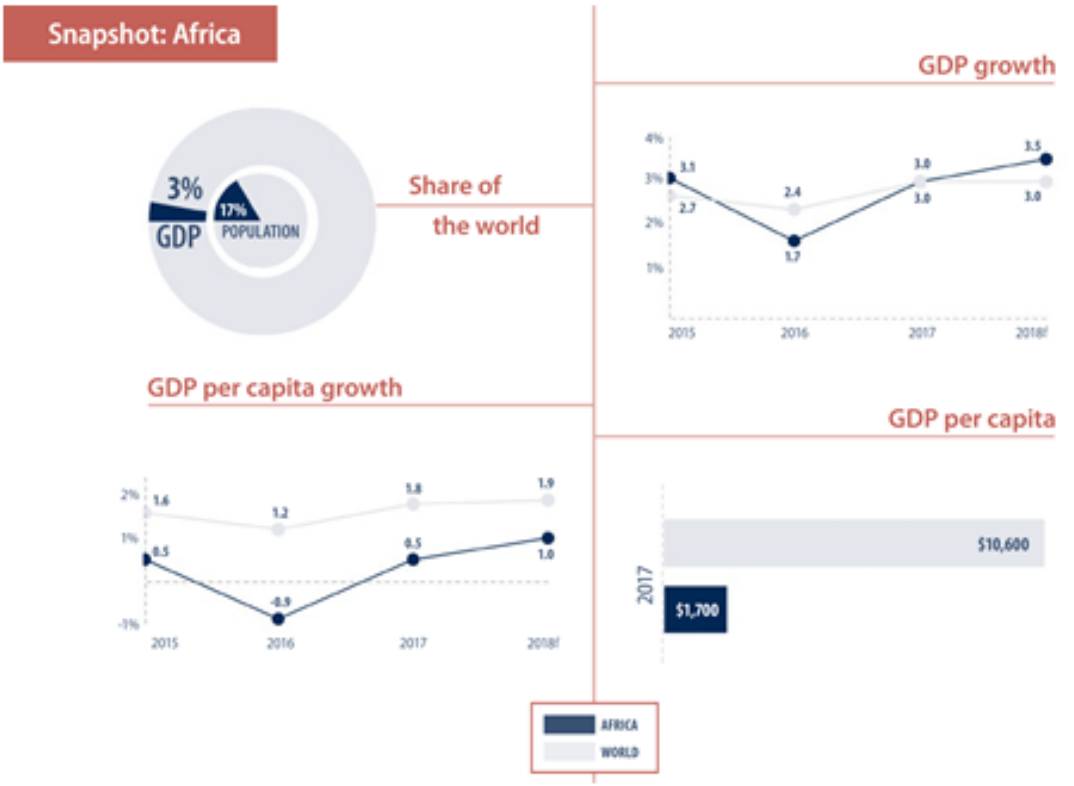
- National identity crises: very little national cohesion, traditional female roles, extreme regionalism, prohibitive value systems pitting one group against another, long period of colonialism (independence only came in the late 20th century), still maintain their dependence on former colonial powers.



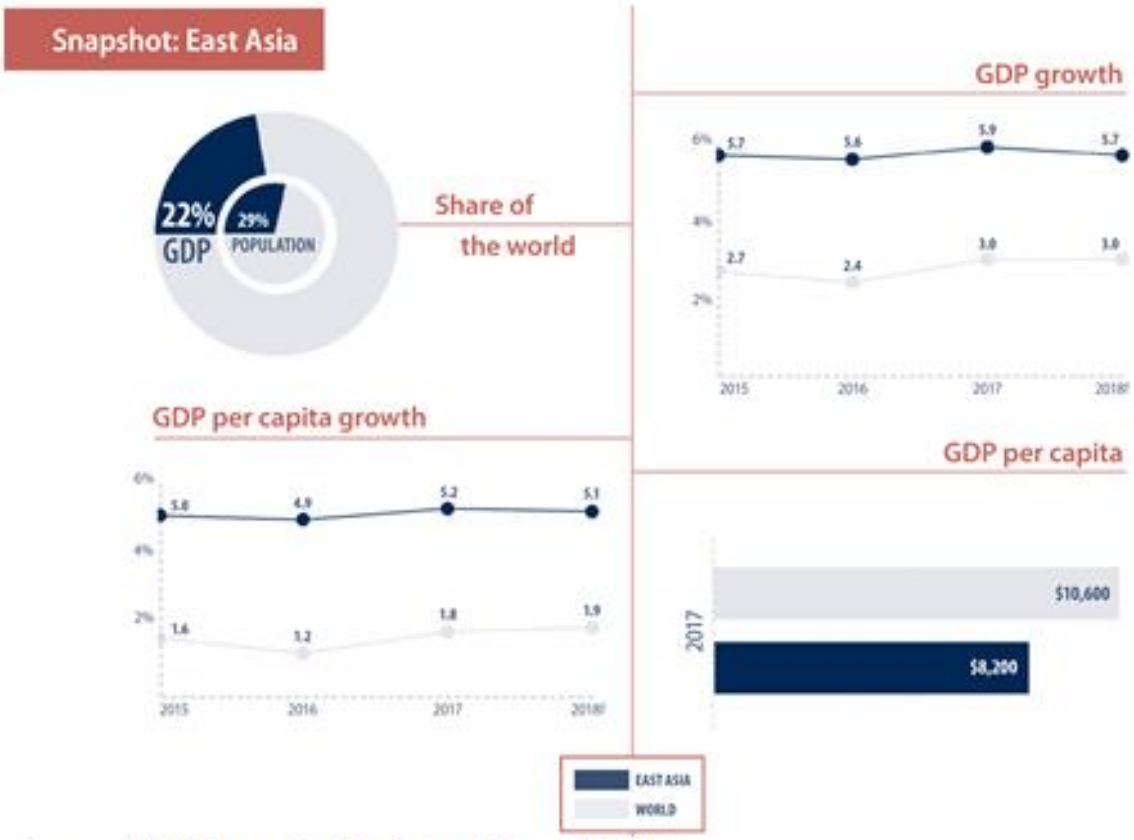
Sources: World Economic Situation and Prospects 2018



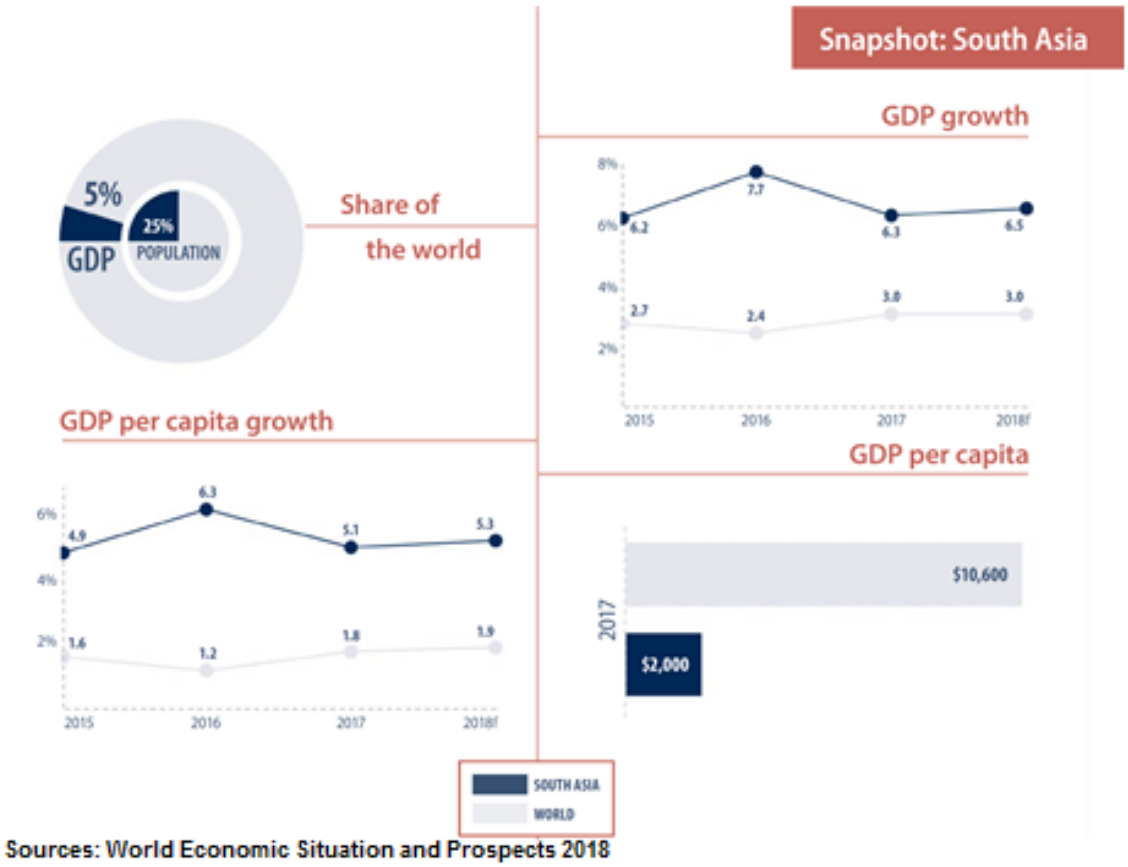
Sources: World Economic Situation and Prospects 2018



Sources: World Economic Situation and Prospects 2018



Sources: World Economic Situation and Prospects 2018



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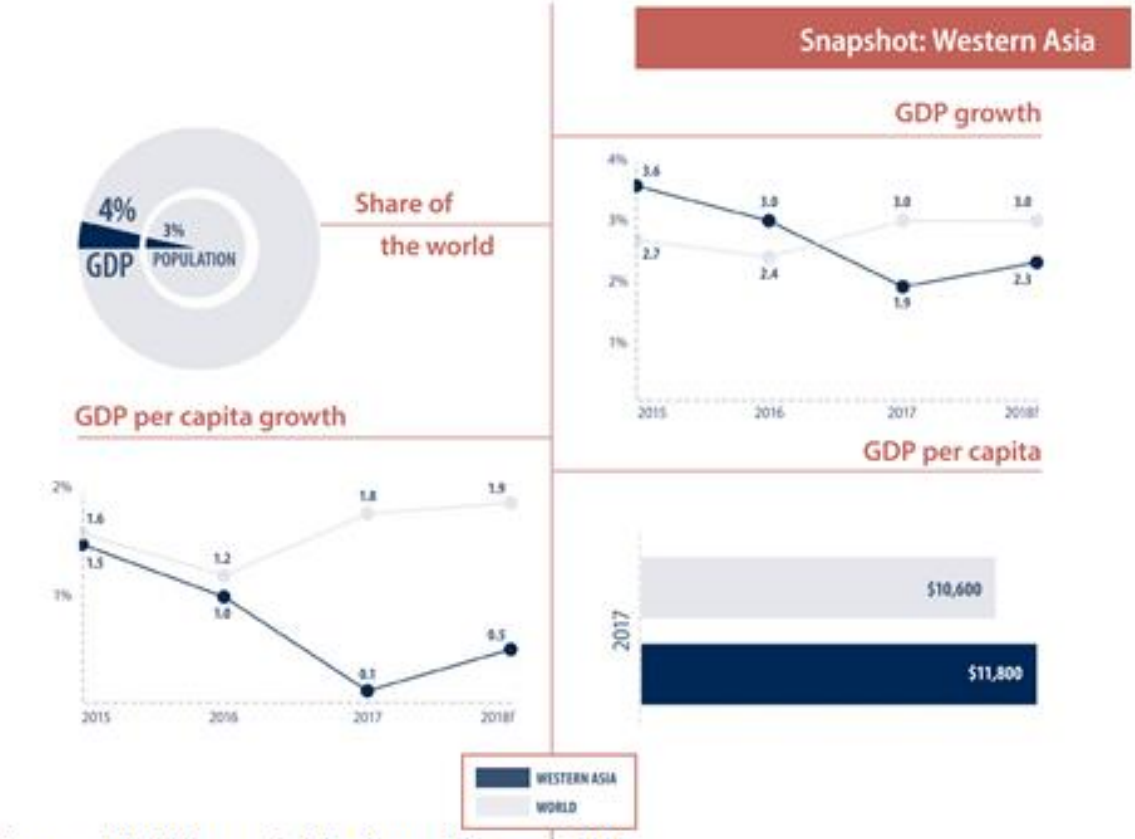

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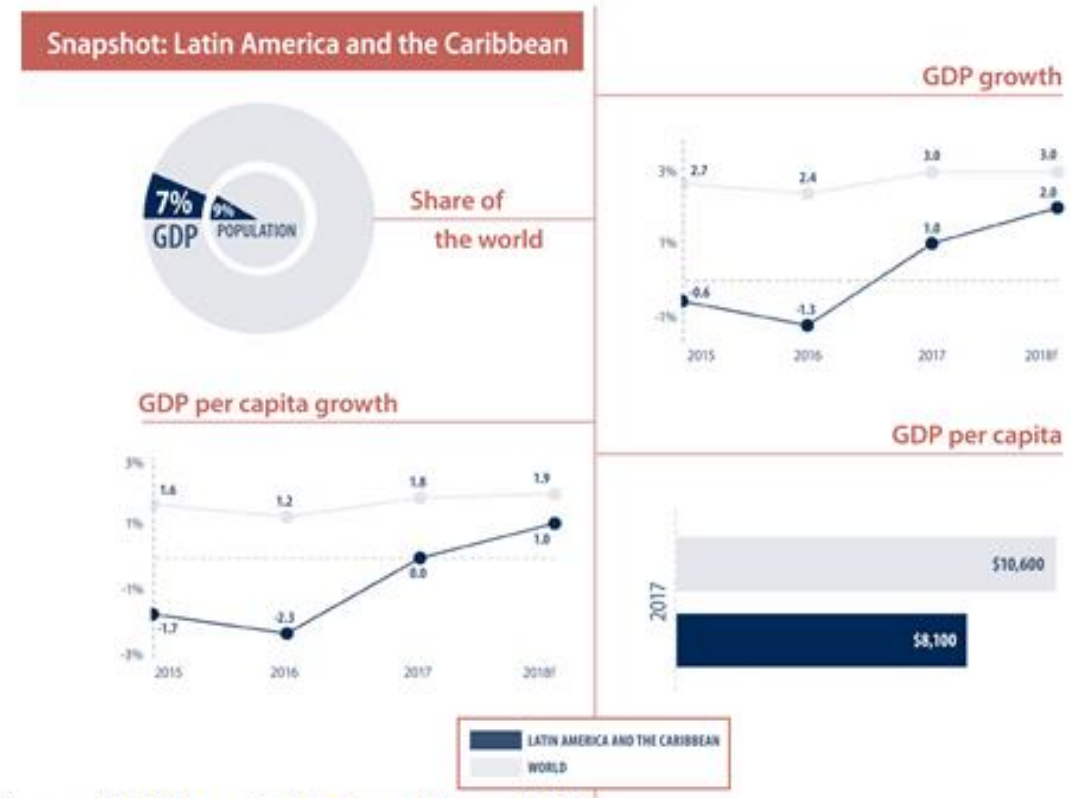
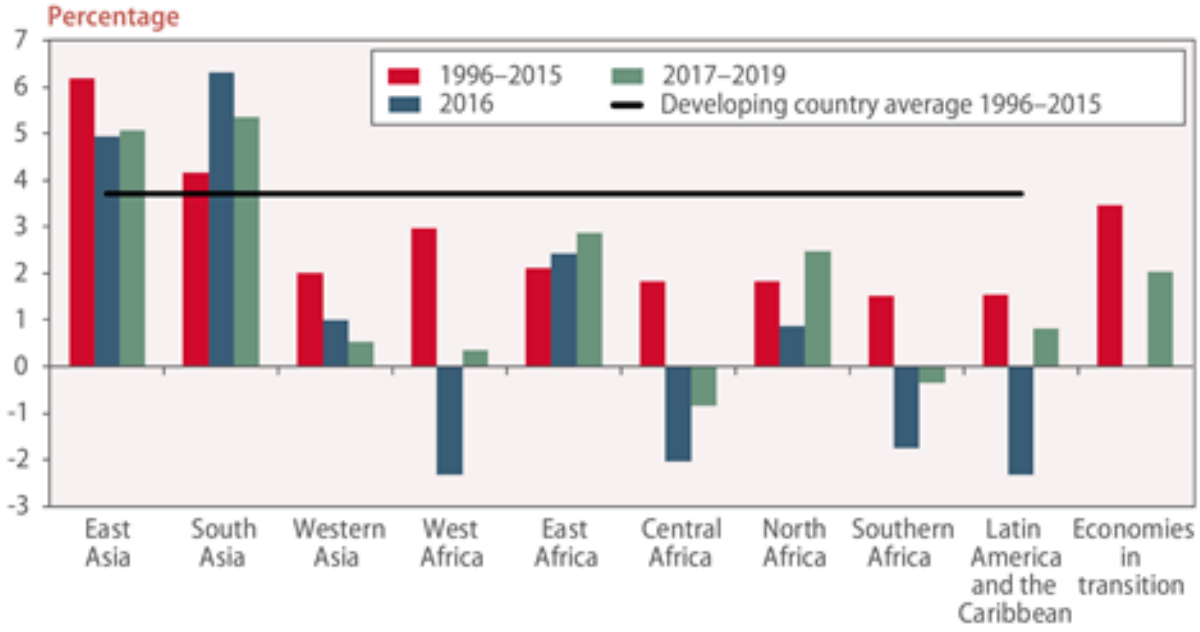


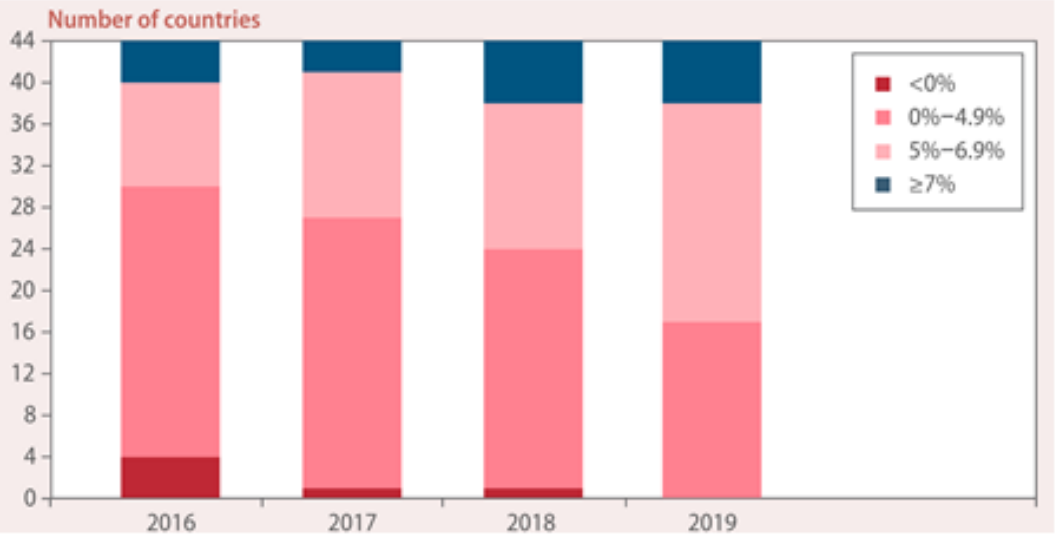
Sources: World Economic Situation and Prospects 2018

Average annual GDP per capita growth by region



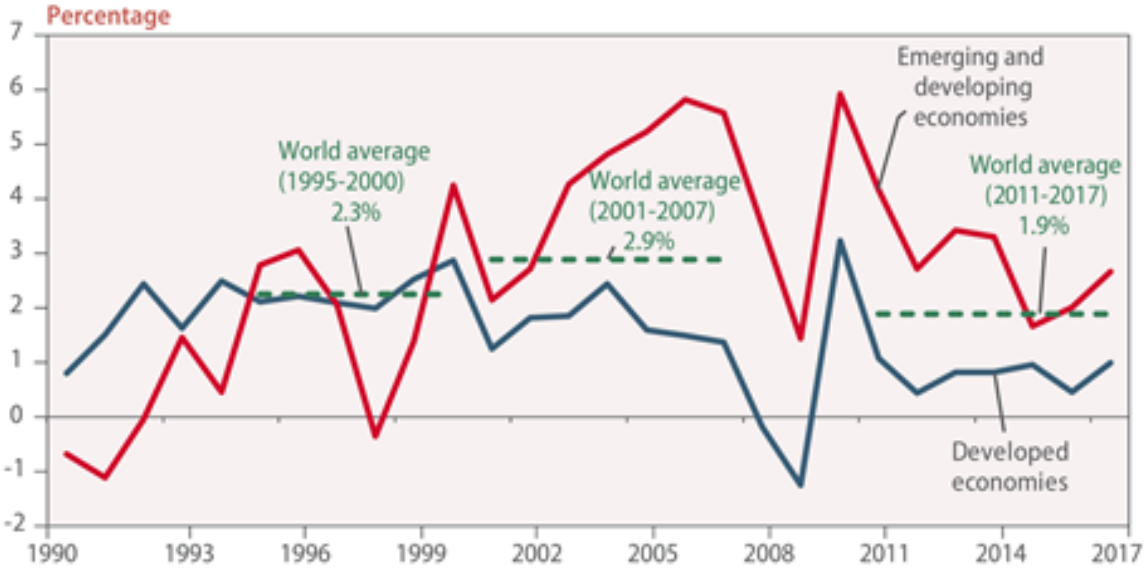
Source: UN/DESA, based on United Nations Statistics

Real GDP growth in the least developed countries group



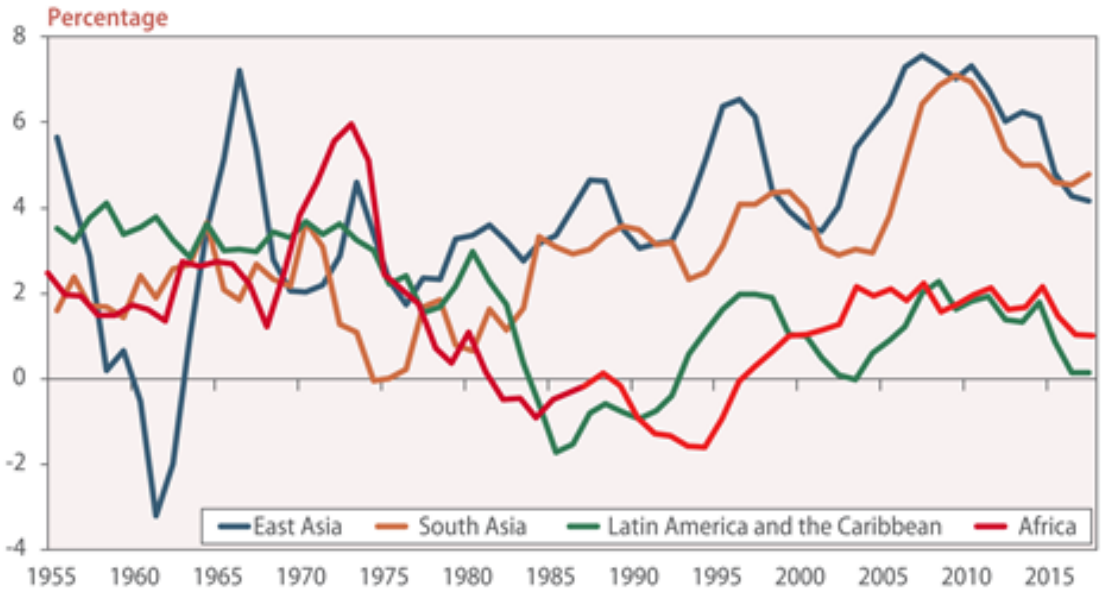
Source: UN/DESA forecasts

Labour productivity growth, developed versus emerging and developing economies



Source: UN/DESA, based on data from The Conference Board Total Economy Database™, May 2017

Labour productivity growth in major developing regions, 5-year moving average



Source: UN/DESA, based on data from The Conference Board Total Economy Database™, May 2017

Capital stock

Source: UN/DESA, based on data from IMF Investment and Capital Stock Dataset 2017

Annual percentage change	2015	2016	2017[b]	2018[c]	2019[c]	Change from WESP 2017 2017	2018
World	2.1	2.4	2.6	2.8	2.8	-0.2	-0.1
Developed economies	0.2	0.7	1.5	1.9	2.1	-0.1	-0.1
United States of America	0.1	1.3	1.7	2.1	2.1	-0.5	-0.4
Japan	0.8	-0.1	0.3	1.4	1.8	-0.3	0.0
European Union	0.0	0.3	1.6	1.8	2.1	0.2	-0.1
EU-15	0.1	0.3	1.6	1.8	2.1	0.2	-0.1
EU-13	-0.4	-0.2	1.9	2.2	2.4	0.2	0.0
Euro area	0.0	0.2	1.4	1.6	2.0	0.2	-0.1
Other developed countries	1.0	1.3	1.5	2.0	1.9	-0.3	0.1
Economies in transition	15.8	7.8	5.3	5.1	4.6	-1.7	-0.2
South-Eastern Europe	0.8	0.4	2.3	2.0	2.6	0.6	-0.4
Commonwealth of Independent States and Georgia	16.4	8.1	5.4	5.2	4.7	-1.8	-0.2
Russian Federation	15.5	7.1	3.9	4.4	3.9	-2.7	-0.3
Developing economies	4.4	5.2	4.4	4.3	4.2	-0.3	-0.2
Africa	7.0	11.3	13.0	9.5	8.1	2.9	-0.1
North Africa	7.8	11.3	17.6	8.3	7.1	9.2	0.4
East Africa	6.0	6.0	7.3	6.0	5.5	2.0	0.7
Central Africa	3.3	2.2	2.6	2.9	2.8	-0.1	-0.2
West Africa	8.3	13.2	14.3	15.4	12.8	-1.4	-0.3
Southern Africa	5.9	12.5	9.4	7.9	6.8	-0.4	-0.3
East and South Asia	2.6	2.6	2.4	3.1	3.4	-0.7	-0.3
East Asia	1.6	1.9	1.8	2.5	2.7	-0.5	-0.2
China	1.4	2.0	1.5	2.5	2.8	-0.6	-0.2
South Asia	6.9	5.5	4.9	5.8	5.9	-1.5	-0.3
India	5.9	4.9	3.5	4.5	4.8	-2.2	-0.9
Western Asia	4.9	5.4	4.8	4.5	3.9	-0.7	-0.6
Latin America and the Caribbean	7.7	9.3	5.8	4.9	4.7	-0.3	0.1
South America	9.8	11.9	6.0	5.4	5.2	-1.4	-0.2
Brazil	9.1	8.7	3.4	3.7	4.1	-2.4	-0.9
Mexico and Central America	2.5	2.8	5.4	3.8	3.4	2.4	0.8
Caribbean	3.4	6.1	4.1	3.5	3.8	0.4	0.0
Least developed countries	8.3	13.1	11.4	8.3	7.5	0.8	-0.2

Inflation, 2015–2019[a]

Source: UN/DESA.
a Figures exclude Venezuela (Bolivarian Republic of).
b Estimated.
c Forecast, based in part on Project LINK.

8.2. Factors of economic development of LEDCs

Differences in levels of development between developing countries

Different countries in the developing world are at very different stages of development.

There are many reasons, physical and human, to explain differences in levels of development between countries. Factors such as climate and government type are important to a country's development.

Human capital

– High population growth will generally limit development, since resources such as food, space, and water will have to be spread more thinly. There will not be enough jobs, houses, schools or health clinics to serve the population.

– The developing countries are arguably more endowed with human resources in the world compare to developed countries in term of population. However, these are not amounted the kind of human capital for economic growth because human resources required for economic growth need to possess some level of skills that will enhance their productivity. This has largely been attributed to poor schooling system, and poor health system resulting to low life expectancy and high mortality rate which are all antidotes to human capital development

Physical capital

- **Domestic investment**
- Capital flight is a challenge for many developing countries of the world. It reduces the investible capital available in the domestic economy. Investments that lead to increase in capital formation for the economy and act as the foundation for infrastructure or framework for the development of the country cannot be undertaken since there is paucity or inadequacy of capital. The continuous campaign for foreign investors to invest capital in the domestic economy becomes meaningless when encouragements to domestic investors are not yielding results. This raises concern on issues of domestic investment and capital flight. Domestic investment is only possible with aggregated domestic savings which itself is a function of the level of income.

- **Infrastructure**
- The level of infrastructure in many developing countries does not encourage economic activities to thrive. The small scale business and enterprises which form the real sector of many of these countries may find it difficult to grow and contribute meaningful impacts to economic growth.

Impact of Foreign Direct Investment on Developing Countries

- ***Upsides of FDI on developing countries***

Many developing countries do not have the necessary resources at their disposal to develop some sectors and hence, they permit foreign capital to invest in these sectors. Of course, they also ensure that sectors like defense and other sectors that have national security implications are kept off the list of sectors in which foreign direct investment is allowed. For many countries, opening up of their economies results in benefits since they need the dollars as well as because they might not have the expertise to commence productive activities in these sectors. Finally, foreign direct investment can be used to pay for expensive imports and encourage exports as well. After all, every developing country (except those with large oil reserves) needs to pay for its oil imports in dollars and hence foreign direct investment helps to earn precious dollars.

- ***Downsides of FDI on developing countries***

There are many downsides to allowing FDI into the developing countries. However, the developing countries benefit because of inflow of dollars and much needed capital, which is not available domestically, there is scope for outflow of dollars as well since the foreign companies typically repatriate a part or whole of their profits back to their home countries. This is the reason why developing countries must think twice before allowing blanket foreign direct investment. To circumvent this, many developing countries typically restrict foreign direct investment into sectors that badly need capital and where the developing country does not have expertise. Further, the fact that many developing countries have capital controls on the capital account (which is to restrict wholesale repatriation of both profits and investment) and relax the current count where only profits and that too a percentage of it is repatriated.

Physical factors

- **Climate**
  - Any extreme climate will hinder development, for example, being too hot, too cold, too wet or too dry. Many African countries are situated in very hot, arid climates. This makes food production difficult.
  - Some countries have severe climatic problems, like drought, which can hamper development. This means they are unable to produce enough food to feed their populations. Money has to be borrowed for this, instead of it being invested in development projects.
  - Any extreme in weather will make life difficult. It will be difficult to build houses and roads, to farm the land, to attract industry and to earn a living generally.

  - Mountains and steep slopes again make it difficult to farm, travel and earn a living. This is true of mountainous countries like Afghanistan.
- **Natural hazards**
  - Areas likely to be hit by floods, hurricanes, volcanic eruptions, earthquakes or by drought tend to remain less developed.
  - Mozambique has suffered serious flooding in recent years.
  - The Philippines has been devastated by Typhoon Haiyan.
  - Pakistan and Haiti have been affected by massive earthquakes.
  - Ethiopia is currently affected by drought.
- **Mineral resources**
  - Areas lacking in mineral resources (eg coal, diamonds, oil) and areas with poor soils or poor drainage will remain less developed. Countries like Saudi Arabia and Kuwait have vast oil reserves to export.
  - Oil is in great demand, so can be sold for a huge profit giving them a high GDP. Factors such as war, however, can prevent a country from developing. Iraq is not reaping the benefits of its oil reserves due to conflict.
- **Diseases**
  - Areas that are naturally linked to endemic disease will also struggle to develop. Many countries in Africa have suffered a development setback due to Aids and malaria. Researchers have concluded that the world lost on average 1.3 years of human development progress due to the Aids pandemic between 1982 and 1992.

Political and institutional factors

- Political systems can affect development. For instance, some countries are ruled by dictators, such as Robert Mugabe in Zimbabwe. Africa has more dictators than any other continent.
- Many African countries, such as Liberia, Sudan and Somalia have been plagued by civil war and this has impeded development. Many of the civil wars in Africa have been caused by dictators, such as the conflict in Ethiopia, Sudan and DR Congo. Conflicts have a direct impact on Africa's agricultural production.
- In the 1960s, Africa could feed itself and export food. Now there is widespread food insecurity. Civil war and dictatorships also discourage foreign investment.
- Ethnic fractionalization.
- Property rights protection. Cross-country evidence suggests that countries with worse property rights have lower aggregate investments, worse access to finance, and slower economic growth.

Possible paths to development:

Development through trade in primary products

- Primary products are agricultural goods and minerals.
- Comparative advantage suggests that LEDCs should specialize in primary production, BUT:
  - some evidence suggests the terms of trade have been moving against primary products and towards manufactures
  - prices of primary products tend to be volatile
  - export concentration can be destabilizing

Development through import substitution

- Import substitution is a policy of replacing imports by domestic production
  - under the protection of high tariffs or import quotas
  - in the short run this involves inefficient use of resources
  - in the long run, domestic market may not be large enough to allow scale economies
  - and it fosters an inward-looking attitude
  - and promotes activities in which the country begins with a comparative disadvantage

Development through export promotion

- Export-led growth stresses production and income growth through exports rather than the displacement of imports
- The most successful economies of the last 3 decades have followed this route
  - especially countries in South East Asia
- But for other countries to follow, co-operation is needed from the industrial countries to avoid over-protectionism

Development through borrowing

- LEDCs have traditionally been borrowers in world markets
  - funds used to import capital goods to supplement domestic investment
  - borrowing finances a current account deficit
- Borrowing increased after the first OPEC oil-price shock of 1973/74
  - notably borrowing by non-oil developing countries
- Countries were reluctant to borrow from the IMF under stringent conditions, so borrowed from commercial sources
  - often at variable interest rates
- High real interest rates in the early 1980s created debt servicing problems for many borrowers, raising the possibility of default
- The HIPC initiative of the late 1990s attempted to tackle the debt burden which many LEDCs found unsustainable

Development through structural adjustment

- Structural adjustment programmes
  - the pursuit of supply-side policies aimed at increasing potential output by increasing efficiency, e.g.:
  - reductions in government subsidies to industry
  - privatization
  - trade liberalization
  - price reforms
  - monetary and fiscal discipline

Development through aid

- Aid is an international transfer payment from rich countries to poor countries.
  - takes many forms:
    - subsidized loans
    - gifts of food or machinery
    - technical help
  - justified on grounds of equity?
  - but may create dependency
  - allowing freer trade is an alternative

Problems of LEDCs

- **Structural constraints**
  - geography – not just in the historical sense described above but also in the more contemporary aspect that a modern economy cannot function without a division and diversification of labor. Thus, countries with small populations may have trouble developing and gaining access to markets, while landlocked countries may struggle to integrate with global markets and expand their economies
  - high economic poverty, hunger, high mortality rates, unsafe water supplies, poor education systems, corrupt governments, war, and poor sanitation. These factors all combine to create what the World Bank calls “poverty traps” – cycles that must be broken for countries to develop.
- **Social investment in infrastructure**

LEDCs may not be able to achieve scale economies in

- power generation
- roads
- telephone systems
- urban housing

- **Customs and ideology**
  - in SOME cases, traditional attitudes may inhibit development
  - but this argument is often over-stated
  - corruption and dishonesty
- **Human capital**
  - LEDCs lack resources to invest in
    - health
    - nutrition
    - education
    - industrial training
  - so workers in LEDCs tend to be less productive than workers using the same technology in HICs.
- **Low productivity agriculture**
  - Many LEDCs have a high proportion of their labour force engaged in low productivity agriculture.

8.3 The place and role of the LEDCs in the world economic system

Globalization and New International Division of Labour

- NILD is an outcome of globalization. It has resulted from an ongoing geographic reorganization of production – a spatial shift of manufacturing industries from advanced capitalist countries to LEDCs.
- Under the “old” international division of labor, until around 1970, underdeveloped areas were incorporated into the world economy principally as suppliers of minerals and agricultural commodities. However, as developing economies are merged into the world economy, more production takes place in these economies.
- This has led to a trend of transference, or what is also known as the "global industrial shift", in which production processes are relocated from developed countries (such as the US, European countries, and Japan) to developing countries in Asia (such as China, Vietnam, and India) and Latin America. This is because companies search for the cheapest locations to manufacture and assemble components, so low-cost labor-intensive parts of the manufacturing process are shifted to the developing world where costs are substantially lower.

Comparative advantages of LEDCs

- Many developing countries, and most least developed countries, are mired in **Resource-driven stage** according to Porter's Competitiveness 'diamond' Model. The export mix is extremely narrow and typically limited to low value-added products. Dependence on international business intermediaries is high, and margins are low and susceptible to swings in prices and terms of trade. Technology is assimilated through imports, imitation and FDI

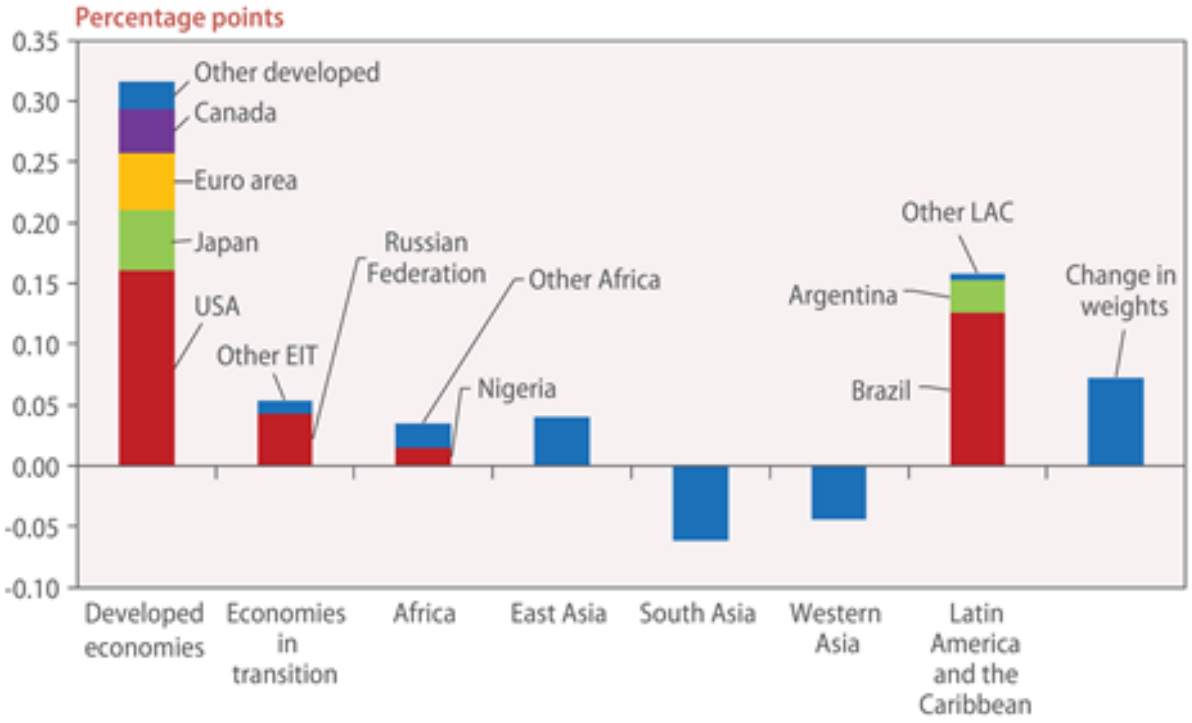
- However, some Asian and Latin American countries have been able to shift to **Investment-driven stage,** where countries begin to develop competitive advantage by improving their efficiencies and developing increasingly sophisticated products. Improvements are made to imported technologies; there is extensive joint venturing and heavy investment in trade-related infrastructure (roads, telecommunications and ports).

- LEDCs have benefited from globalization by leveraging their **comparative advantage in labor costs**. Corporations have shifted manufacturing and other labor-intensive operations to these countries to take advantage of lower labor costs. For this reason, countries such as China have seen exponential growth in their manufacturing sectors in recent decades. Countries with the lowest labor costs have a comparative advantage in basic manufacturing.

- Globalization has benefited developing countries by providing **jobs and capital investments** that would not have otherwise been available. As a result, some developing countries have been able to progress more quickly in terms of job growth, educational attainment, and infrastructure improvements.

- **Involvement of initially under-utilized factors of production** (land, capital, human capital, technology) can spark the economy.

Contributions to change in world gross product growth by country, 2017



Source: UN/DESA

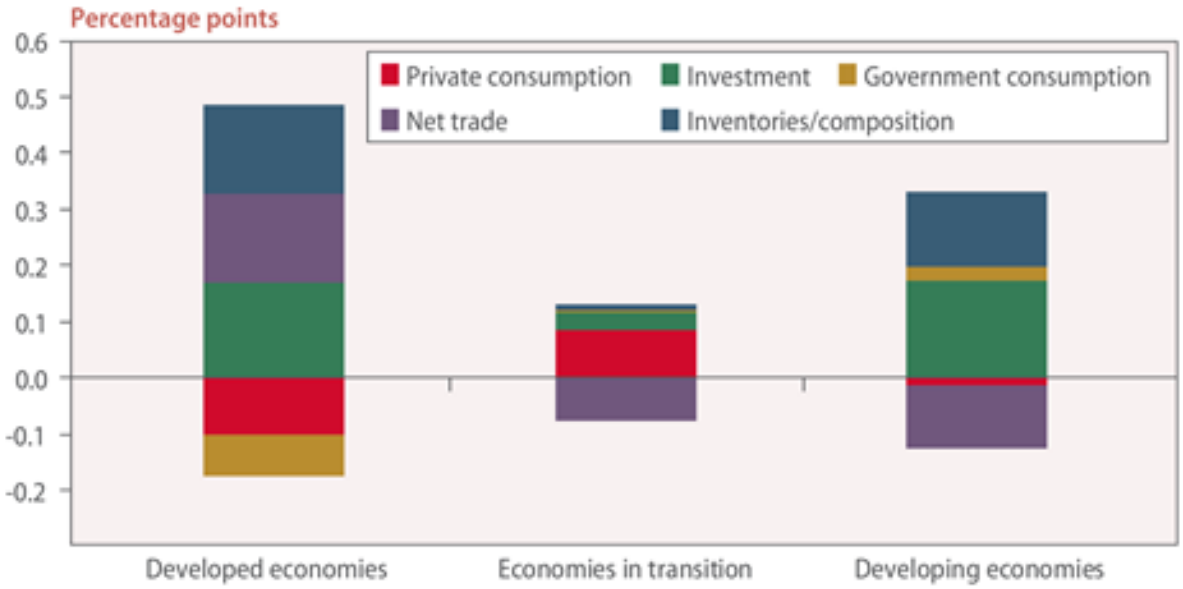
Annual percentage change	2015	2016	2017[a]	2018[b]	2019[b]	Change from WESP 2017 2017	2018
World	2.7	2.4	3.0	3.0	3.0	0.3	0.1
Developed economies	2.2	1.6	2.2	2.0	1.9	0.5	0.2
United States of America	2.9	1.5	2.2	2.1	2.1	0.3	0.1
Japan	1.1	1.0	1.7	1.2	1.0	0.8	0.3
European Union	2.2	1.9	2.2	2.1	1.9	0.4	0.3
EU-15	2.1	1.8	2.0	1.9	1.8	0.4	0.2
EU-13	3.8	2.9	4.2	3.6	3.5	1.0	0.3
Euro area	2.0	1.8	2.1	2.0	1.9	0.4	0.3
Other developed countries	1.6	1.8	2.5	2.4	2.2	0.5	0.2
Economies in transition	-2.2	0.4	2.2	2.3	2.4	0.8	0.3
South-Eastern Europe	2.0	2.9	2.5	3.2	3.3	-0.6	-0.1
Commonwealth of Independent States and Georgia	-2.4	0.3	2.2	2.3	2.4	0.8	0.3
Russian Federation	-2.8	-0.2	1.8	1.9	1.9	0.8	0.4
Developing economies	3.9	3.8	4.3	4.6	4.7	-0.1	-0.1
Africa	3.1	1.7	3.0	3.5	3.7	-0.2	-0.3
North Africa	3.2	2.8	4.8	4.1	4.1	1.3	0.5
East Africa	6.7	5.4	5.3	5.8	6.2	-0.7	-0.5
Central Africa	1.7	0.6	0.7	2.1	2.5	-2.7	-2.1
West Africa	3.2	0.3	2.4	3.3	3.4	-0.7	-0.8
Southern Africa	1.9	0.6	1.2	2.3	2.5	-0.6	-0.3
East and South Asia	5.8	6.0	6.0	5.8	5.9	0.1	-0.1
East Asia	5.7	5.6	5.9	5.7	5.6	0.3	0.1
China	6.9	6.7	6.8	6.5	6.3	0.3	0.0
South Asia	6.2	7.7	6.3	6.5	7.0	-0.6	-0.4
India[c]	7.6	7.1	6.7	7.2	7.4	-1.0	-0.4
Western Asia	3.6	3.0	1.9	2.3	2.7	-0.6	-0.7
Latin America and the Caribbean	-0.6	-1.3	1.0	2.0	2.5	-0.3	-0.1
South America	-1.9	-2.7	0.4	1.8	2.4	-0.5	-0.2
Brazil	-3.8	-3.6	0.7	2.0	2.5	0.1	0.4
Mexico and Central America	3.1	2.5	2.5	2.6	2.6	0.1	0.3
Caribbean	0.2	-0.8	0.2	1.8	2.0	-1.2	0.0
Least developed countries	4.2	4.3	4.8	5.4	5.5	-0.3	-0.2
Memorandum items							
World trade[d]	2.9	2.2	3.7	3.5	3.6	1.0	0.2
World output growth with PPP weights[e]	3.3	3.1	3.6	3.7	3.7	0.1	0.0

Growth of world output, 2015–2019

a Estimated.
b Forecast, based in part on Project LINK.
c Fiscal year basis.
d Includes goods and services.
e Based on 2012 benchmark.

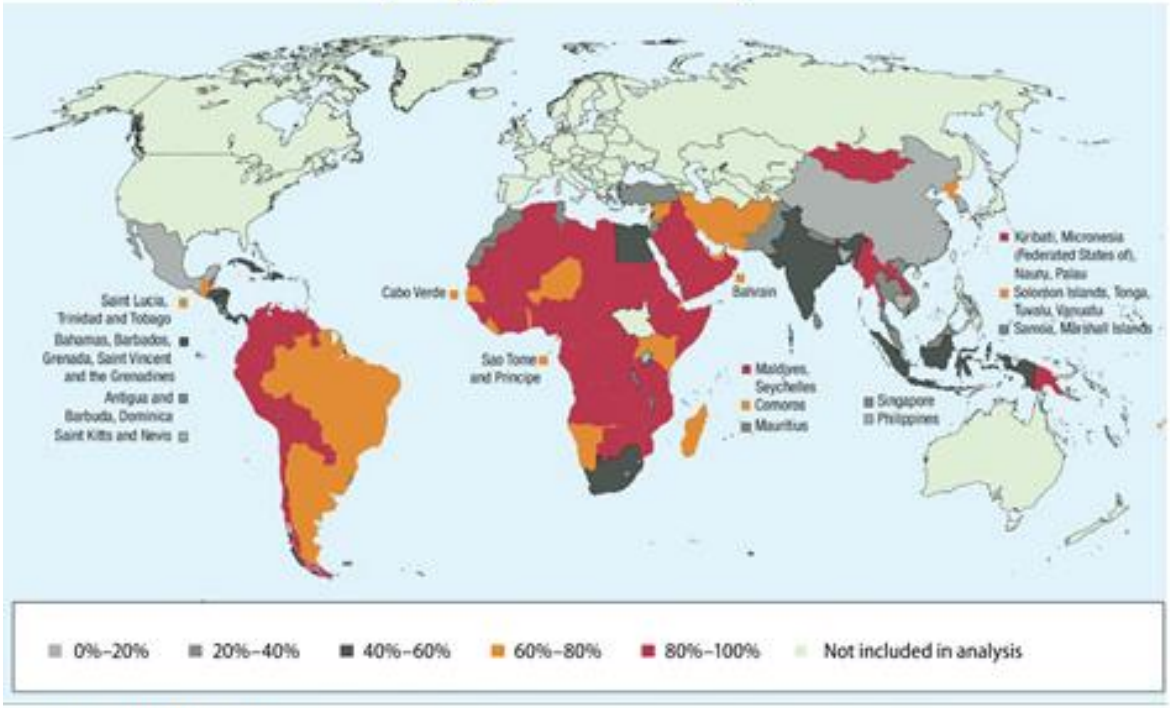
Source: UN/DESA

Contributions to change in world gross product growth by component, 2017



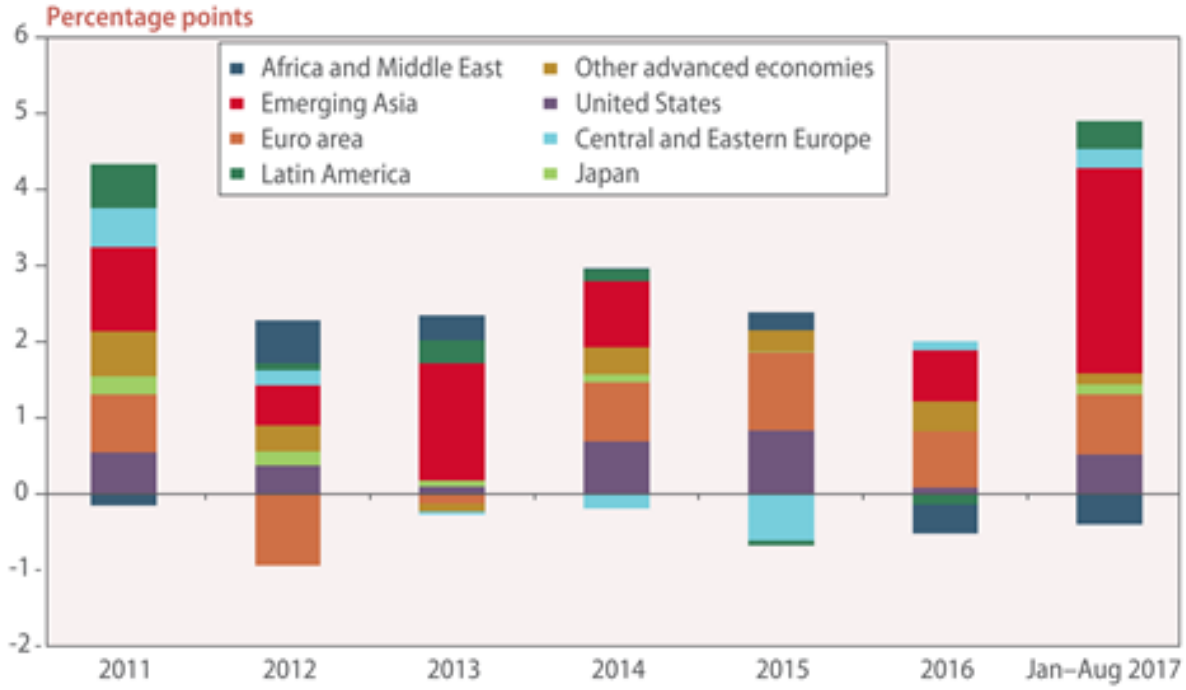
Source: UN/DESA

Commodity dependence of export revenue in developing countries, 2014-2015



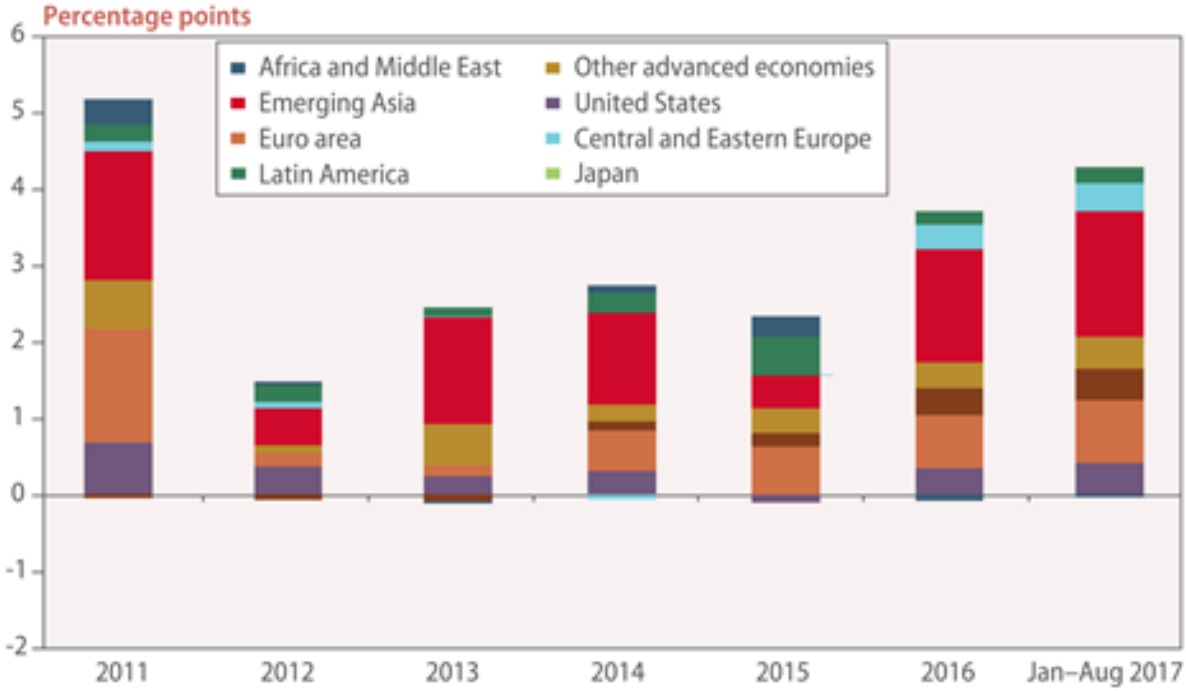
Source: UNCTAD (2017).

Contribution to global merchandise import volume growth by region



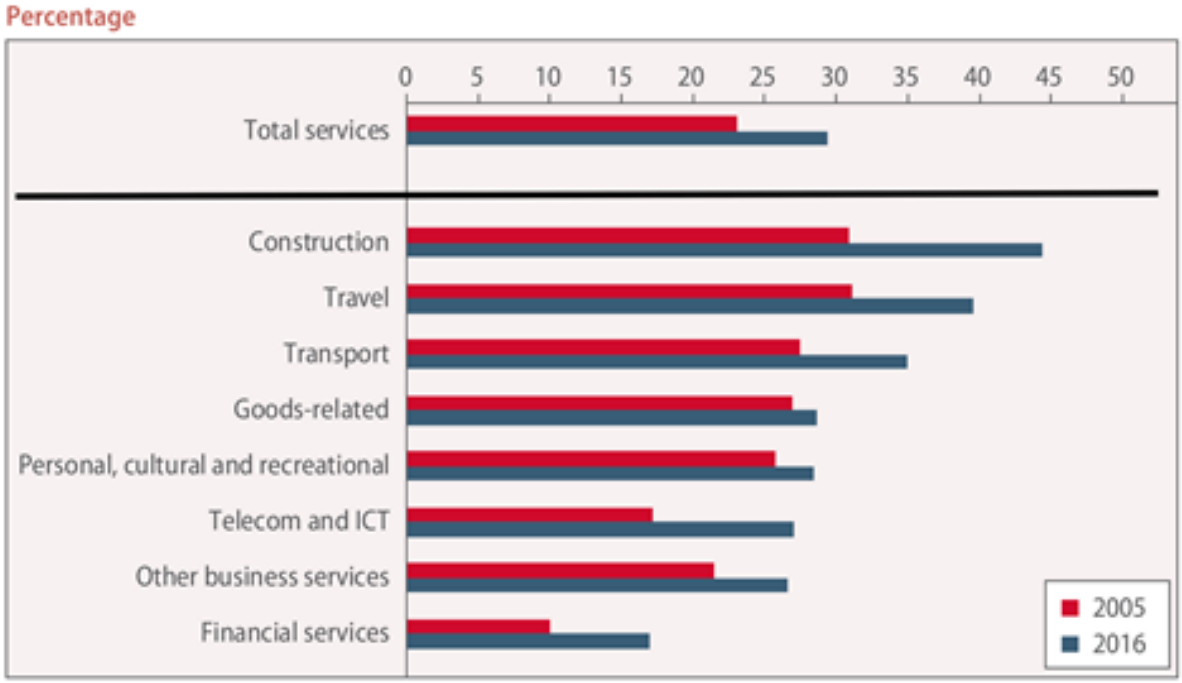
Source: UN/DESA based on data from CPB Netherlands Bureau for Economic Policy Analysis.

Contribution to global merchandise export volume growth by region



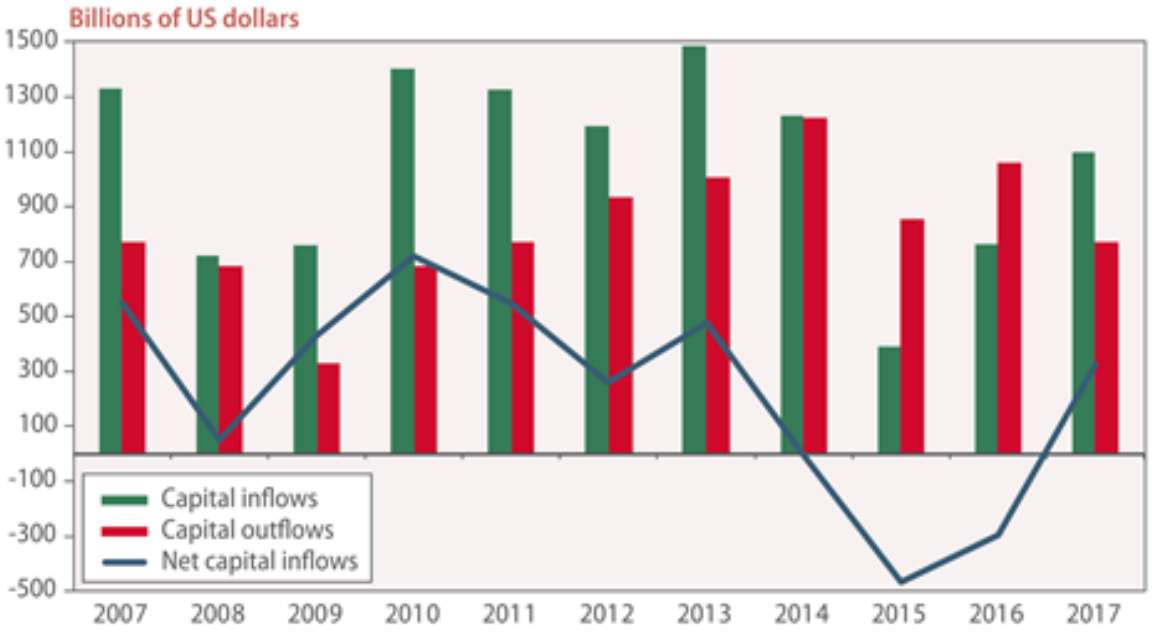
Source: UN/DESA based on data from CPB Netherlands Bureau for Economic Policy Analysis.

Developing economies: Share in global services exports by category



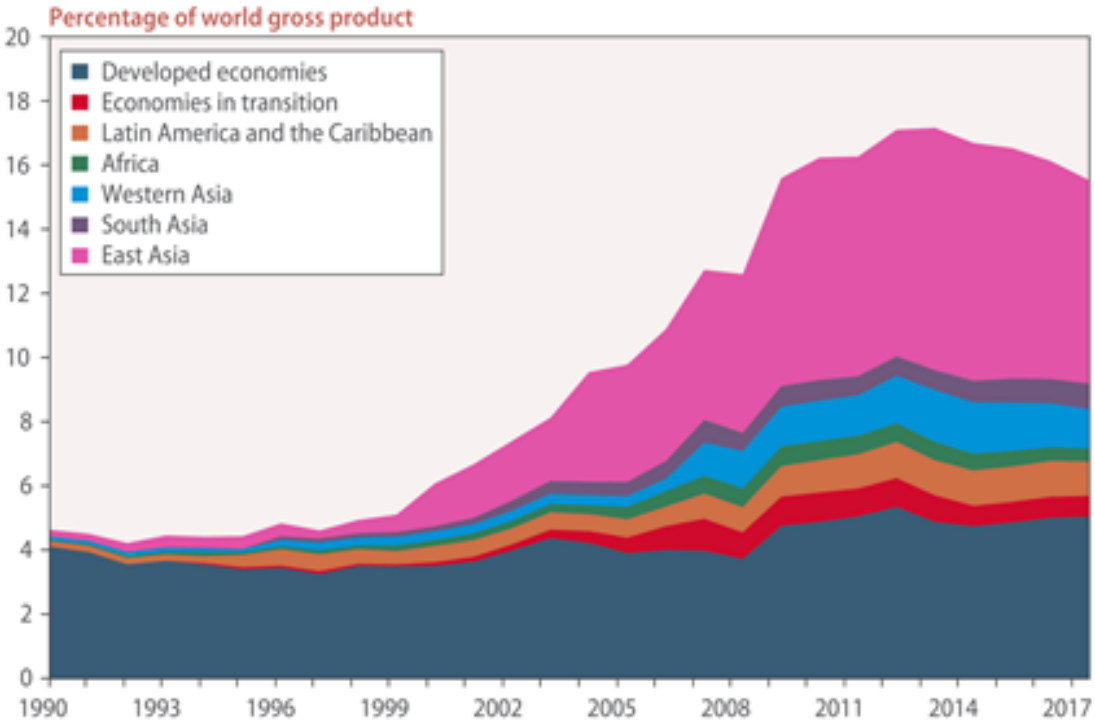
Source: UNCTADstat

Capital inflows to emerging economies



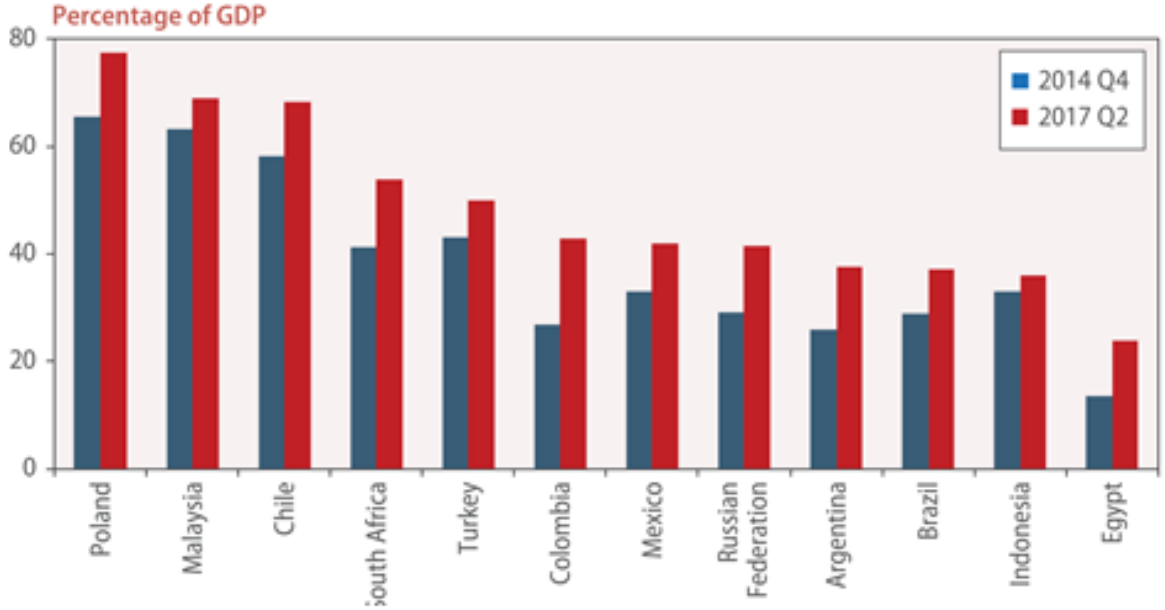
Source: IIF (2017).
Note: The sample of countries include 25 large emerging economies.

Foreign exchange reserves as a percentage of world gross product



Source: UN/DESA, based on data from IMF (2017c).
Note: Excludes the value of gold held as official reserves. Data for 2017 partly estimated.

Gross external debt in selected emerging economies



Sources: UN/DESA, based on data from World Bank Quarterly External Debt Statistics Database and IMF (2017).

Tasks for control and self-control of knowledge and skills

Questions for Review

1) What are the main parameters that determine whether a country is developed or developing?

2) How does the World Bank classify countries?

3) Reflect on the place of developing countries in the global economy.

4) What are the factors affecting the economic development of developing countries?

5) What are the problems and challenges faced by developing countries?

6) Analyze the dynamics of economic growth in developing countries.

7) What structural changes are occurring in developing economies?

8) What is the role of foreign investment in developing countries?

9) What are integration priorities of developing countries?

10) What are the regional peculiarities of the economic development of developing countries?

Determine whether these statements are true or false

1) Defining underdevelopment in strictly economic terms can be difficult because some developing nations have per capita incomes equal to those of developed nations.

2) Increasing life expectancy and literacy rates are valuable indicators of development because they are not always correlated with average income of nations.

3) Since 1990, many developing nations have had falling per capita incomes.

4) Countries that rely on exports of agricultural products, minerals, and oil have equitable distributions of income and are likely to become democracies over time.

5) Developing countries with a better chance of becoming democratic and maintaining democracy have reached a minimal threshold of socioeconomic development.

6) Some developing countries are largely dependent on exports of primary products; others do not show such dependence.

7) All developing countries have weak institutional structure such as lack of property rights, absence of the rule of law and political instability which affect incentives to invest.

8) The low levels of per capita income and poverty in developing countries is due to low levels of productivity in various fields of production.

9) A developing country is generally predominantly industrial.

10) The insufficient amount of physical and human capital is a common characteristic a feature in all undeveloped economies.

Chapter 9

THE ECONOMY OF UKRAINE

Chapter Outline

9.1. Ukraine at a glance
9.2. Factors of economic development of Ukraine
9.3. The place and role of Ukraine in the global economy

9.1. Ukraine at a glance

Synopsis on Ukraine's Economy:

• Recently, Ukraine has made significant progress on reforms designed to make the country prosperous, democratic, and transparent, including creation of a national anti-corruption agency, overhaul of the banking sector, establishment of a transparent VAT refund system, and increased transparency in government procurement. But more improvements are needed, including fighting corruption, developing capital markets, improving the business environment to attract foreign investment, privatizing state-owned enterprises, and land reform (Cia.gov, 2018).

Ukraine country profile

• Ukraine gained independence after the collapse of the Soviet Union in 1991 and has since veered between seeking closer integration with Western Europe and being drawn into the orbit of Russia, which sees its interests as threatened by a Western-leaning Ukraine.

• Europe's second largest country, Ukraine is a land of wide, fertile agricultural plains, with large pockets of heavy industry in the east.

• While Ukraine and Russia share common historical origins, the west of the country has closer ties with its European neighbours, particularly Poland, and nationalist sentiment is strongest there.

• A significant minority of the population uses Russian as its first language, particularly in the cities and the industrialised east. In Crimea, an autonomous republic on the Black Sea that was part of Russia until 1954, ethnic Russians make up about 60% of the population.

• Russia once again seized and annexed Crimea in March 2014, amid the chaos following the fall of President Viktor Yanukovych (BBC News, 2018).

PRC at a glance

Area	9,6 million sq km (3rd/4th)
Population	1,4 bln
Currency	Renminbi (Chinese yuan (¥) (CNY)
Government	Unitary one-party socialist republic
Capital	Beijing
GDP (PPP) total	$ 25,2 trln (1st)
PDP per capita	$ 18,066 (79th)

Ukraine: People and society

Population:

- 44,033,874 (July 2017 est.)
- **country comparison to the world:** 32
- -0.41% (2017 est.)

Ethnic groups:

- Ukrainian 77.8%, Russian 17.3%, Belarusian 0.6%, Moldovan 0.5%, Crimean Tatar 0.5%, Bulgarian 0.4%, Hungarian 0.3%, Romanian 0.3%, Polish 0.3%, Jewish 0.2%, other 1.8% (2001 est.)

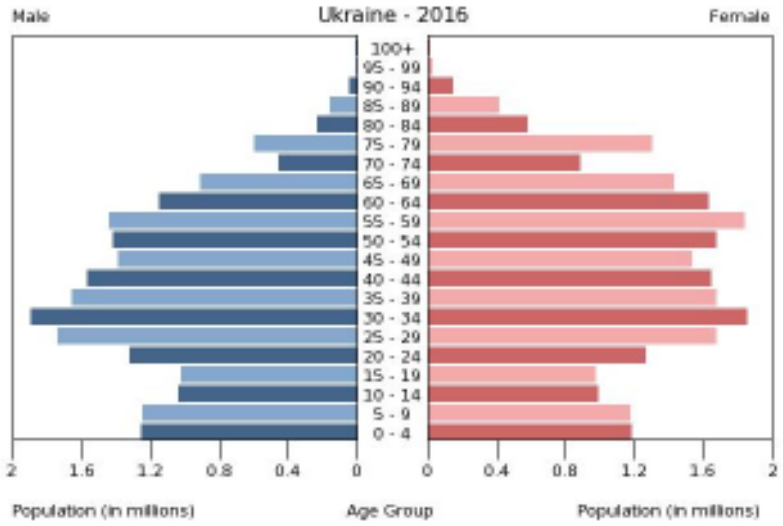
Languages:

- Ukrainian (official) 67.5%, Russian (regional language) 29.6%, other (includes small Crimean Tatar-, Moldovan/Romanian-, and Hungarian-speaking minorities) 2.9% (2001 est.)

Religions:

- Orthodox (includes Ukrainian Autocephalous Orthodox (UAOC), Ukrainian Orthodox - Kyiv Patriarchate (UOC-KP), Ukrainian Orthodox - Moscow Patriarchate (UOC-MP)), Ukrainian Greek Catholic, Roman Catholic, Protestant, Muslim, Jewish (Cia.gov, 2018)

Age structure



0-14 years: 15.76% (male 3,571,358/female 3,366,380)
15-24 years: 9.86% (male 2,226,142/female 2,114,853)
25-54 years: 44.29% (male 9,579,149/female 9,921,387) (Cia.gov, 2018)
55-64 years: 13.8% (male 2,605,849/female 3,469,246)
65 years and over: 16.3% (male 2,409,049/female 4,770,461) (2017 est.)

Life expectancy at birth:

- **total population:** 72.1 years
- **male:** 67.4 years
- **female:** 77.1 years (2017 est.)
- **country comparison to the world:** 150

Health expenditures:

- 7.1% of GDP (2014)

Unemployment, youth ages 15-24:

- **total:** 23% (2016 est.)

Age dependency ratio:

- 44.8% of working-age population (2015 est.)

Urbanization:

- **urban population:** 69.4% of total population (2018)
- **rate of urbanization:** -0.33% annual rate of change (2015-20 est.)

Total fertility rate:

- 1.54 children born/woman (2017 est.) (Cia.gov, 2018)

Ukraine: Economy

GDP - composition, by end use:

- **Household consumption:** 65%
- **Government consumption:** 18.7%
- **Investment in capital:** 16%
- **Exports of goods and services:** 47.9%
- **Imports of goods and services:** -47.4% (2017 est.)

GDP - composition, by sector of origin:

- **agriculture:** 14%
- **industry:** 27.8%
- **services:** 58.2% (2017 est.)

Labor force - by occupation:

- **agriculture:** 5.8%
- **industry:** 26.5%
- **services:** 67.8% (2014 est.)

Unemployment rate:

- 9.5% (2017 est.)

Population below poverty line:

- 3.8% (2016 est.)

Household income or consumption by percentage share:

- **lowest 10%:** 4.2% **highest 10%:** 21.6% (2015)

Distribution of family income - Gini index:

- 25.5 (2015) 28.2 (2009)
- **country comparison to the world:** 150

Inflation rate (consumer prices):

- 14.4% (2017 est.)

Reserves of foreign exchange and gold:

- $21.8 billion (31 December 2017 est.)
- **country comparison to the world:** 57

Debt - external:

- $125.3 billion (31 December 2017 est.)

- **country comparison to the world:** 46

Stock of direct foreign investment - at home:

- $71.15 billion (31 December 2017 est.)
- **country comparison to the world:** 54

Stock of direct foreign investment - abroad:

- $8.983 billion (31 December 2017 est.)
- **country comparison to the world:** 65

Agriculture - products:

- grain; sugar beets; sunflower seeds; vegetables; beef; milk

Industries:

- coal; electric power; ferrous and nonferrous metals; machinery and transport equipment; chemicals; food processing

Ukraine: key characteristics of the economy

Source: Insights, G. and States, U. (2018). *Ukraine: Economy*. [online] Globaledge.msu.edu. Available at: https://globaledge.msu.edu/countries/ukraine/economy [Accessed 15 Sep. 2018].

Ukraine: key indices

Ease of Doing Business Rank

Score
76

The Ease of Doing Business Rankings measures the vibrancy of a country's business environment based on business regulations in place. **Source:** Doing Business (2017)

VIEW HEAT MAP

Global Competitiveness Index

Score
4.1

The Global Competitiveness Report provides a description of the economic competitiveness of a country based on enabling high productivity levels. **Source:** World Economic Forum (2017)

VIEW HEAT MAP

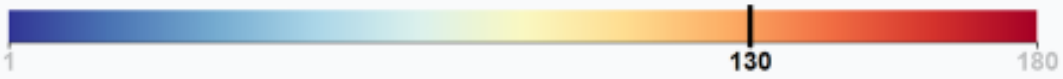
Ukraine: key indices (cont'd)

Corruption Perceptions Index

Score
30

The Corruption Perceptions Index (CPI) ranks countries in terms of the degree to which corruption is perceived to exist in the misuse of public power for private benefit. **Source:** Transparency International (2017)

VIEW HEAT MAP

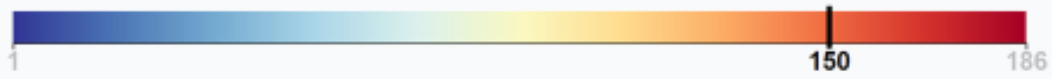


Index of Economic Freedom

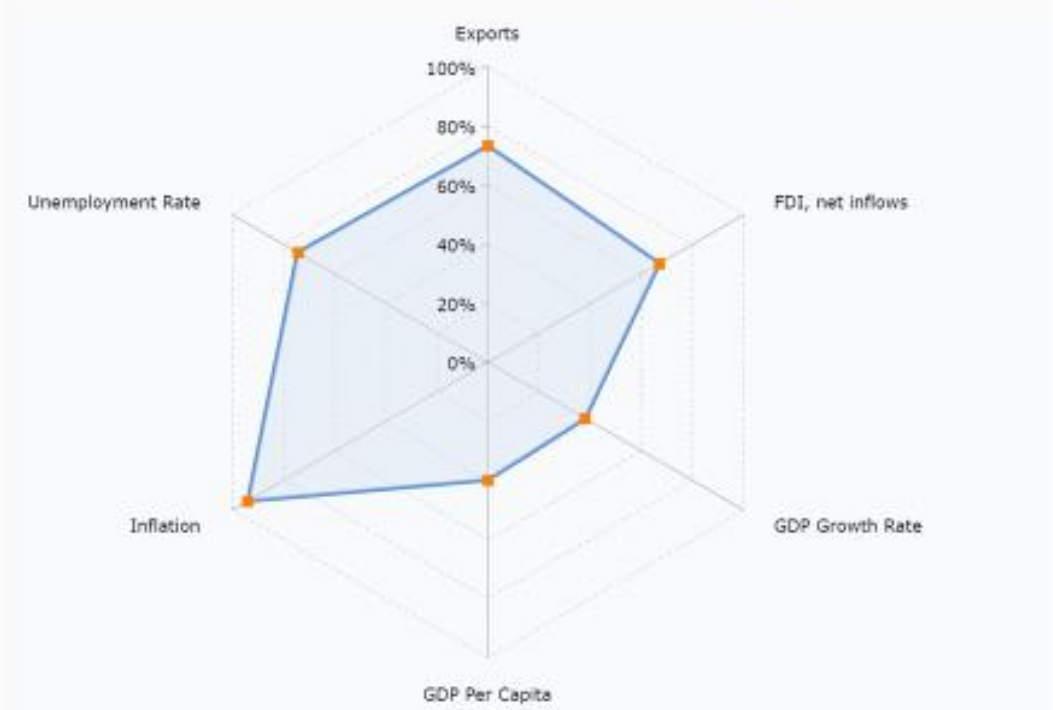
Score
51.9

Grades each country on a scale of 0 to 100, based on ten freedoms, with 100 representing the greatest amount of economic autonomy from government intervention. **Source:** Heritage Foundation (2018)

VIEW HEAT MAP



Ukraine: Economic Snapshot



Source: Insights, G. and States, U. (2018). *Ukraine: Economy*. [online] Globaledge.msu.edu. Available at: https://globaledge.msu.edu/countries/ukraine/economy [Accessed 15 Sep. 2018].

Ukraine: Economic History

9th century	Founding of Kievan Rus, the first major Eastern Slavonic state.
10th century	Rurik dynasty established, and the rule of Prince Vladimir the Great (Prince Volodymyr in Ukrainian) heralds start of a golden age. In 988 he accepts Orthodox Christianity and begins conversion of Kievan Rus, thus setting the course for Christianity in the east.
11th century	Kievan Rus reaches its peak under Yaroslav the Wise (grand prince 1019-1054), with Kiev becoming eastern Europe's chief political and cultural centre.
1237-40	Mongols invade the Rus principalities, destroying many cities and ending Kiev's power.

1349-1430 -	Poland and later the Polish-Lithuanian Commonwealth gradually annex most of what is now western and northern Ukraine.
1441	Crimean Khanate breaks free of the Golden Horde and conquers most of modern southern Ukraine.
1596	Poland establishes Greek-Catholic or Uniate Church, in union with Rome, which comes to predominate in western Ukraine. The rest of Ukraine remains overwhelmingly Orthodox.
1648-1657	Cossack uprising against Polish rule establishes Hetmanate, regarded in Ukraine as the forerunner of the modern independent state.
1654	Treaty of Pereyaslavl begins process of transforming Hetmanate into a vassal of Russia.
1708-09	Mazepa uprising attempts to free the eastern Hetmanate from Russian rule, during the prolonged Great Northern War that ranged Russia against Poland and Sweden at the time.
1764	Russia abolishes the eastern Hetmanate and establishes the Little Russia governorate as a transitional entity until the full annexation of the territory in 1781.
1772-1795 -	Most of western Ukraine is absorbed into the Russian Empire through the partitions of Poland.
1783	Russia takes over southern Ukraine through the annexation of the Crimean Khanate.
19th century	National cultural reawakening sees the development of Ukrainian literature, education, and historical research. Habsburg-run Galicia, acquired during the partitions of Poland, becomes a centre for Ukrainian political and cultural activity, as Russia bans the use of the Ukrainian language on its own territory
1917	Central Rada Council set up in Kiev following collapse of Russian Empire.
1918	Ukraine declares independence: Ukrainian People's Republic set up. Numerous rival governments vie for control for some or all of Ukraine during ensuing civil war.
1921	Ukrainian Soviet Socialist Republic established as Russian Red Army conquers two-thirds of Ukraine.

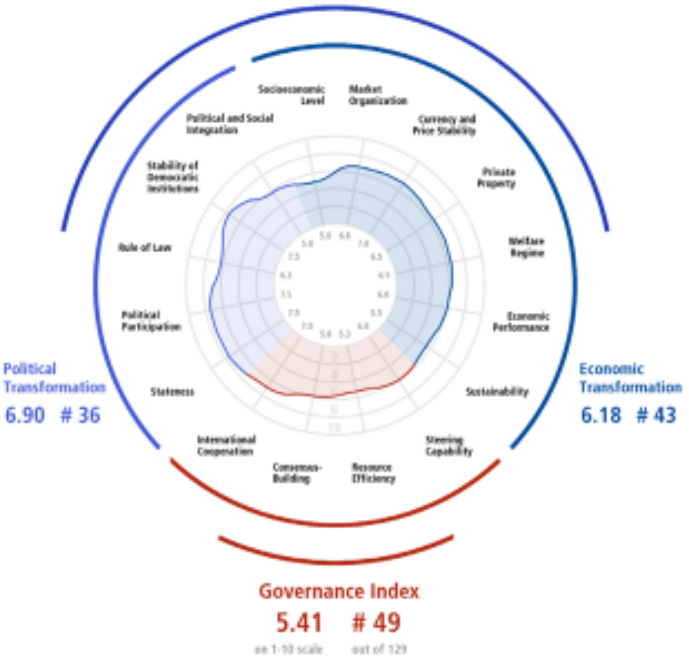
1928	Joseph Stalin introduces his first five-year plan for the Soviet Union. This plan leads to rapid industrialization in Ukraine with industrial output increasing fourfold by the onset of World War II.
1932	At least seven million peasants perish in man-made famine during Stalin's collectivization campaign
1941-1944	Nazi occupation of Ukraine from 1941 to 1944 devastates Ukraine, as much of its industrial infrastructure is destroyed.
1945	Allied victory in Second World War leads to conclusive Soviet annexation of western Ukrainian lands.
1986	A reactor at the Chernobyl nuclear power station explodes, sending a radioactive plume across Europe.
1991	As the Soviet Union heads towards dissolution, Ukraine declares independence.
1996	The hryvna is introduced as the new national currency.
2004	Orange Revolution: Mass protests force pro-European change of government.
2008	The global financial crisis causes the price of steel, one of Ukraine's main exports, to crash. Many foreign investors pull out as the value of the hryvna plummets. The International Monetary Fund (IMF) offers Ukraine a $16.5 billion loan to help deal with the economic crisis.
2013	Tens of thousands of protesters take to the streets across the nation to protest the government's sudden decision to abandon plans to sign an association agreement with the European Union.
2014	Russian forces seize and annex Crimea. The European Union and United States begin to impose increasingly harsh sanctions on Russia in response.

9.2. Factors of economic development of Ukraine

Factors of economic growth in Ukraine

- A relatively cheap local labor force and favorable climate conditions, make the country attractive for the foreign investors
- Remittances due to increased labor migration to neighboring EU countries.
- Extensive and consistent support from international financial institutions and bilateral partners (the IMF, the World Bank, the EU and individual EU countries, United States)
- Unprecedented set of reforms adopted across the economic and political systems (energy market liberalization, banking sector clean-up, tax reform, creation of anti-corruption agencies, pension and healthcare reforms, etc.)
- Successful return to international capital markets with US$3.0bn Eurobond issue and c.US$ 1.7bn concurrent LMO2 in September 2017

Bertelsmann Stiftung's Transformation Index (BTI) 2018



It covers the period from February 1, 2015 to January 31, 2017. The BTI assesses the transformation toward democracy and a market economy as well as the quality of political management in 129 countries.

Natural-resource potential of Ukraine

- Ukraine belongs to the leading mineral-raw countries of the world with a wide range of minerals. Ukraine − 0.4% of the Earth's surface and 0.8% of the world's population − has about 5% of the world's mineral resources.

- More than 20,000 deposits and manifestations of 200 different minerals have been discovered in Ukraine. Of these, 7,807 deposits of 94 types of minerals are of industrial importance. Ukraine holds one of the leading places in the reserves and extraction of iron, manganese, titanium-zirconium ores, non-metallic raw materials.

- Coal, oil and natural gas, iron and manganese ores, native sulfur, rock and potassium salts, non-metallic building materials, mineral waters have the greatest economic importance. The deposits are located in different geological regions of Ukraine.

- Coal is the only hydrocarbon fossil raw material, which reserves can meet the needs of industry and energy in Ukraine in the next 200-500 years. In the structure of hydrocarbon fossil resources of Ukraine, coal is about 95%, oil and gas − 2.5% each

- **Iron ore**. Ukraine along with Russia and Australia has the largest iron ore reserves in the world, more than 10% of the world's reserves in each country. The total reserves of iron ore in Ukraine are estimated at 27.4 billion tons.

- **Manganese**. Ukraine has the largest reserves of manganese ores in Europe and the second largest in the world (after South Africa).

- The total **copper** reserves are about 25 million tons.

- **Titanium**. Ukraine has the largest reserves of titanium in Europe.

- **Uranium**. The total confirmed uranium reserves are also the largest in Europe. The deposits of Russia exceed the Ukrainian ones, but there are located not in the European part of the Eurasian continent.

- **Mercury**. The total mercury reserves (1.9% of the world, 29,000 tons), Ukraine ranks 5th (after Spain, Algeria, China, and Kyrgyzstan).

- In Ukraine, the total **gold** reserves are 3,200 tons.

- **Graphite**. Ukraine holds the second place in the world in terms of graphite reserves (about 300 deposits with more than 1 billion tons, 20% of the world reserves, China − 26%).

- Large reserves of **potash salts** are concentrated in the Ivano-Frankivsk and Lviv regions. The Ukrainian reserves of native sulfur are the largest among the countries of the former USSR.

- The reserves of such **building materials** as limestones, chalk, marl, gypsum, clays are large and diverse. They are distributed throughout the country. Kaolin deposits are widely used in the porcelain and faience industry.

- Ukraine has very large reserves of **building stone**, including the most high-quality facing stone (granites of the Zhytomyr, Vinnitsa, and other regions, marbles and tuffs of the Crimea and Transcarpathia).

9.3. The place and role of Ukraine in the global economy

Ukraine's Competitive Advantage

Agri-business

Ukraine has more arable land (over 31 million hectares) than any other European country, an abundance of rich, black soil and favourable climatic conditions. Other sources of competitiveness include a long tradition in agriculture and low labour costs.

- **Sector strengths**

Ukraine is well-positioned to consolidate its leading role as a grain producer and exporter and to increase the share of processed goods in overall output. Its production costs are estimated to be about 50% lower than those of European producers. Its geographic position guarantees low freight costs for exports to neighbouring Western Europe and to growing importers such as Middle-Eastern and African countries. Finally, considerable potential to increase productivity and the availability of unused arable land could contribute to the significant growth of Ukrainian grain commodities output and processed goods production.

- The largest arable land bank in Europe
- One of the global leaders in production of several crops
- Leading positions in metallurgy, electricity generation, IT
- Highly educated population
- Highest wage competitiveness in CEE
- Lower utility tariffs compared to CEE

- New industrial projects commissioned since 2015 which account for a considerable share of the overall capital investments into Ukraine's economy, thus enhancing further economic growth potential

- **Sector challenges**
- Difficulty in accessing finance is a main concern for small and medium-sized farmers, limiting their ability to invest in operational activities and fixed assets.
- Low productivity is the result of a limited use of high quality inputs (e.g. fertilisers, seeds), especially by small and medium-sized farms, and a lack of investment in fixed assets, such as machinery and storage facilities.
- A state-imposed moratorium on land sales has prevented free competition and hindered investment and productivity gains. It has also had an adverse impact on access to finance – since land is rarely owned and as a result cannot be used as collateral – and on foreign investments, as land cannot be purchased by foreign individuals or foreign companies.
- Unpredictable trade policies sometimes run counter to market conditions, penalising farmers. For example, restrictions on exports were temporarily implemented during the global grain price rise in 2010.
- Low quality of grain also adversely affects the ability to process it and, ultimately, overall sector competitiveness.

Energy-efficiency and alternative sources of energies

- **Sector strengths**

Ukraine's abundant agricultural and forestry waste could provide the basis for the future development of energy production based on biomass. The expected convergence of natural gas import prices in Ukraine to Western European levels should further increase the attractiveness of renewable energy sources.

- **Sector challenges**

– Administrative barriers substantially limit investment opportunities in the sector, and a credible national plan defining the role and objectives of biomass in the energy landscape is still needed.

– Limited communication about and low awareness of the possible uses of biomass among farmers, industrial companies and utilities brake the sector's development.

– A lack of access to capital, indebtedness of local utilities and arrears in payments by consumers also hinder sector growth.

Civilian aircraft manufacturing

- **Sector strengths**

The Ukrainian civilian aircraft industry is renowned, thanks to the country's long-standing presence in the sector, its engineering skills and capabilities, and its cost competitiveness. Ukraine inherited a significant part of the former USSR's capabilities in the aerospace sector, starting with Antonov, its national aircraft manufacturer.

- **Sector challenges**

– Overly-rigid governance of state-owned companies and restrictive investment policies prevent the implementation of business strategies based on global best practice and limit integration into the global supply-chain.

– Ukrainian manufacturers face a financing challenge, due to the size of their market, the restricted government budget and a lack of advanced financing schemes for manufacturers and customers.

– Demand remains mostly regional. As a result of all these challenges, the majority of demand for Ukrainian products is currently concentrated in Ukraine and other CIS countries, while most of the demand for civilian aircraft in future years is expected to come from non-CIS countries.

Challenges to the Ukrainian economy:

- Though the market system is being formed, the transformation process is not complete yet. Being in the transition stage of its development, Ukraine experiences problems connected with **institutional framework** development which cause political and economic instability.
- One of the consequences of weak institutional governance is a **significant informal sector** widely used by Ukrainian citizens to earn additional income. The failure to build strong democratic institutions has also impacted the country's economic performance. And, in spite of its large rich agricultural resources, and favorable location at the intersection of Western Europe and Asia, Ukraine has not yet reached the desired and expected economic progress due in part to its **dependence on Russian natural gas and oil, ongoing political instability, and the world economic crisis.**

1) **Issues related to economic development:** Insufficient GDP growth rates and high inflation due to the lack of comprehensive government measures to address these developmental issues

2) **Issues related to the repayment of debts:** The first external debt payments amounted up to $ 7 billion in 2018. In the absence of the state's strategy of

managing external and internal debt, additional challenges are encountered for the development of the country.

3) **Issues related to the energy sector:**

– the construction and development of the North and South Stream, the reduce of the pressure in the Ukrainian gas pipeline system increases Ukraine`s risk of losing the status of a transit state and reducing revenues to the budget.

– the problem of stability of Ukraine's energy supply, especially in the context of economic blockade of the non-government controlled areas, is acutely facing the Ukrainian government. In addition, the issues of efficiency and green energy, the issues of attracting investment in alternative energy and monitoring energy consumption, the issues of further synchronization of Ukrainian and foreign energy networks also require development.

4) **Issues related to reforms:** The proper implementation of pension and medical reform, reforms regarding fight against corruption, decreasing the shadow economy, maintaining key development indicators, land reform. The problem in this issue is the balance between the needs of society and the needs of the government to save.

Ukraine: Trade Statistics

Exporter rank: 49/146
Trade Balance Rank: 100/145

Importer rank: 51/145

Top 10 Export Countries	
Country	Export USD$
Russia ≈9.2%	$3,592,865,624
Egypt ≈6.4%	$2,266,493,220
Poland ≈6.5%	$2,200,008,829
Turkey ≈5.6%	$2,049,064,943
Italy ≈5.5%	$1,929,575,596
India ≈5.2%	$1,903,066,603
China ≈4.6%	$1,832,518,940
Germany ≈4.3%	$1,423,733,242
Hungary	$1,053,084,211
Spain	$1,004,546,878

Top 10 Import Countries	
Country	Import USD$
Russia ≈14.5%	$5,149,313,482
China ≈11.3%	$4,687,652,601
Germany ≈11.2%	$4,318,414,598
Belarus ≈7%	$2,777,793,281
Poland ≈6.9%	$2,693,324,788
United States ≈5.1%	$1,692,039,836
France	$1,530,591,614
Italy	$1,358,213,006
Turkey	$1,098,550,580
Switzerland	$984,321,747

Top 10 Export Goods	
72) Iron & Steel	$7,247,249,187
(10) Cereals	$6,073,915,229
(15) Fats & Oils	$3,962,968,967
(85) Electrical Machinery	$2,076,689,751
(26) Ores	$1,954,649,424
(84) Industrial Machinery	$1,561,255,478
(12) Oil Seeds	$1,534,995,138
(44) Wood	$1,130,633,878
(23) Animal Feeds	$982,983,745
(73) Iron & Steel Articles	$689,793,623
Total Exports (2016)	$36,361,032,464
Exports of goods and services (% of GDP) (2017)	47.95%

Top 10 Import Goods	
27) Oil & Mineral Fuels	$7,851,500,040
(84) Industrial Machinery	$4,686,129,233
(85) Electrical Machinery	$3,203,224,585
(87) Motor Vehicles & Parts	$2,814,019,584
(39) Plastics	$2,201,117,606
(30) Pharmaceuticals	$1,606,956,308
(38) Chemical Products	$1,091,830,134
(31) Fertilizers	$822,785,327
(48) Paper	$798,754,264
(72) Iron & Steel	$798,499,761
Total imports (2016)	$39,249,626,345
Imports of goods and services (% of GDP) (2017)	54.27%

Source: https://globaledge.msu.edu/countries/ukraine/tradestats

Exports and imports my major commodity groups

Exports - commodities:

- ferrous and nonferrous metals
- fuel and petroleum products
- chemicals
- machinery and transport equipment
- foodstuffs (Cia.gov, 2018)

Imports - commodities:

- energy
- machinery and equipment
- chemicals (Cia.gov, 2018)

Tasks for control and self-control of knowledge and skills

Questions for Review

1) Reflect on the place of Ukraine in the global economy.

2) Specify factors affecting economic development of Ukraine.

3) Name the main stages of historical and economic development of Ukraine.

4) Discuss the economic potential of Ukraine.

5) What are the peculiarities of the sectoral structure of Ukraine's economy? Which industries contribute to GDP of Ukraine most of all?

6) Analyze the dynamics of economic development of Ukraine.

7) What are factors limiting Ukraine's economic progress?

8) Financial aid from the IMF, the EU and the World Bank has helped the country address economic difficulties. In exchange, Ukraine has agreed to pass numerous reforms. What these reforms are targeted towards?

9) Analyze the structure and dynamics of Ukraine's external debt.

10) What economic problems and challenges are faced by faced by Ukraine today?

Determine whether these statements are true or false

1) Remittances flowing from Ukrainian migrants working in high-income countries to Ukraine are an increasingly important source of GDP growth.

2) Among the former republics of the USSR, Ukraine inherited one of the best sets of initial resources.

3) Ukraine belongs to the countries with developed industrial potential.

4) After Russia and Belorussia, the Ukrainian Republic was the most important economic component of the former Soviet Union, producing about two times the output of the next-ranking republic.

5) Ukraine's oligarch-dominated economy grew slowly from 2010 to 2013, but remained behind peers in the region and among Europe's poorest.

6) Because of its extensive fertile farmlands, Ukraine is one of the world's largest grain exporters.

7) With the dissolution of the Soviet system, Ukraine moved from a planned economy to a transition economy.

8) Ukraine produces nearly all types of transportation vehicles and spacecraft.

9) Ukraine does not have to import energy supplies, since has deposits of oil and natural gas.

10) The World Bank classifies Ukraine as a middle-income state.

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