Economic Growth and Development Journal

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Abstract

This paper analyzes the journal comprising of four articles that have been compiled discussing matters relating to Economic Growth in Developing Countries, it analyzes four articles that have the same aspect of information pertaining to economic growth and

development tailored to the third world. It would comprehensively analyze the overview in summary in as well as presenting discussion in form of conclusion on the relevancy of the article to Economic Growth in Developing Countries.

Introduction

Economic development is a process whereby an economy's real national income as well as per capita income increases over a long duration. In this context, the course involves the outcome of a number of forces that operate over a long period and embody changes in dynamic of elements. It contains changes in institutional and organizational set-up, skills, and efficiency, in technology, in demographic composition, in the rate of capital formation and resource supplies. In short, economic development is a process consisting of a long chain of interrelated changes in fundamental factors of supply and in the structure of demand, leading to a rise in the net national product of a country in the end.

Economic development, as it is now generally understood, includes the development of power resources, means of irrigation, transport, trade, industry, and agriculture among others. It, therefore, indicates a process of growth. The sectorial improvement is the part of the process of development, which refers to the economic development. Economic growth has been defined through different means and therefore, it is difficult to establish one definition that may be regarded entirely satisfactory.

Economic Growth in Developing Countries: Role of Human Capital

The focus on human capital as a driver of economic growth in developing countries has led to undue attention on school achievements. Countries in developing world attempts to make substantial progress in closing the gap with developed countries in terms of school attainments, however latest research accentuated the importance of cognition capabilities for economic growth and development (Harvey, Myers and Novicevic, 2002). This outcome shifts attention to issues of quality among schools, and here developing countries are less successful in closing the gaps with developed nations. Failure to improve quality in schools, developing nations will find it difficult to improve their long run economic performance.

The role of improved schooling has been a central part of the development strategy of most nations and of international organizations. In recent decades, developing countries have attained improvements in school with respect to employing efficient policies. The policy emphasis on schooling has mirrored the emphasis of research on the role of human capital in growth and development (Harvey, Myers, and Novicevic, 2002). Yet, this emphasis has also become controversial because expansion of school attainment has not guaranteed improved economic conditions. Recent evidence on the role of cognitive skills in promoting economic growth provides an explanation for the uncertain influence of human capital on growth. The impact of human capital becomes stronger when the focus turns to the role of school quality (Harvey, Myers, and Novicevic, 2002). The cognitive skills of the population are more important rather than mere school attainment is held to be powerfully related to the individual's earnings, to the distribution of earnings, and most notably to economic growth.

The contributions of Harvey, Myers, and Novicevic (2002) were especially in the critique of early human capital ideas was that human capital was inherently an elusive concept that lacked any satisfactory measurement. Arguing that difference in earnings, for instance, was caused by skill or human capital differences, perceived to be an entirely tautological report. Mincer argues that the primary motivation for schooling was developing the general skills of persons. Thus, it was logic to quantify human capital by the amount of schooling completed by individuals (Harvey Myers, and Novicevic, 2002). Notably, schooling attainment was something that was frequently measured and reported.

Conclusion

The improvements in long run growth are closely related to the level of cognitive skills of the population as well as development policy inappropriately emphasized school attainment as opposed to educational achievement, or cognitive skills. Developing nations, whilst improving in school realizations, have not improved in quality terms while school policy in developing countries should consider enhancing both advanced and basic skills.

Economic development and foreign aid in developing countries

The main role of foreign aid in stimulating economic growth is to supplement domestic sources of finance such as savings, therefore increasing the amount of capital stock and investment. As Ram (2004) points out, there are a number of mechanisms through which aid can contribute to economic growth, such as first, aid increases investment, in physical as well as human capital, secondly aid increases the capacity to import technology or capital goods. In addition, aid does not have indirect effects that reduce savings rates or investment as well as aid is associated with technology transfer that increases the productivity of capital and promotes endogenous technical change (Ram, 2004). According to Ram, et al. (2006), four main alternative views on the effectiveness of aid have been suggested, namely, first, aid has decreasing returns, secondly, aid effectiveness is influenced by external and climatic conditions, thirdly, aid effectiveness is influenced by political conditions, and fourthly, aid effectiveness depends on institutional quality.

It is interesting to note that in recent years there has been a significant increase in aid flows to developing countries although other types of flows such as foreign direct investment and other private flows are declining. For instance, according to the Organization for Economic Corporation and Development (OECD, 2010b), foreign direct investment and other private flows are on the decline and remittances are expected to drop significantly (Ram, 2004). Budgets of many developing countries were hit hard by the rise in oil and food prices in the last couple of years. Many nations are not in a strong fiscal position to address the current financial crisis.

In his research, Ram (2004) looks at the issue of poverty and economic growth from the view of recipient country's policies as being the key role in the effectiveness of foreign aid. Nonetheless, in his paper, the author disagrees with the widely acknowledged view that redirecting aid toward countries with better policies leads to higher economic growth and poverty reduction rates. As a result, based on his research the author concludes that evidence is lacking to support the leading belief that directing foreign assistance to countries with good 'policy' will increase the impact on growth or poverty reduction in developing countries (Ram, 2004).

Conclusion

The major point emerging from the article is that foreign aid has a mixed impact on economic growth of developing countries. First, when the research was conducted in numerous regions, the results were both negative and positive, with the negative sign indicating that foreign aid appears to have an adverse effect on economic growth in developing countries. When the same was done, for instance in Africa region, it indicated that foreign aid had a positive effect on economic growth in African countries. This was because of Africa being the largest recipient of foreign aid that any other region.

Expenditure on defense and economic growth in developing nations

Studies of the effect that defense spending has had on economic growth in less-developed countries have produced rather mixed results. There is a connotation to contend that this is because these studies have failed to take into account the relative financial constraints faced by individual countries. In an extension of the seminal work by Frederiksen and Looney on defense spending and its effect on economic growth, it is hypothesized that relatively poor countries tend to cut back high-growth development expenditures in favor of maintaining defense programs, while relatively rich countries are much less likely to abandon development expenditures given a constant level of defense preparedness. Therefore, we should expect a negative relationship between defense and growth in the poorer countries, but a positive relationship with the richer countries (Frederiksen, and Looney, 2003).

The results of the research indicated that the defense burden tends to have been a significant determinant of growth in the early 1960s but not for the longer period of late 1950s. In addition, Frederiksen and Looney questioned the direction of causality between defense and growth. While hypothesizing those countries that have enjoyed a rapid growth might "indulge themselves in the luxury of elaborate defense initiatives," they resolved unanimously that rates of socio-economic development were a weak determinant of defense burdens to grow rather than the other way round. Changing of the government's main concerns away from high-growth development projects and to defense in the face of budget cuts is likely for two reasons (Frederiksen, and Looney, 2003). First, governments usually find it more politically expedient to curtail capital investments (on infrastructure for example) instead of expenditures in the current account. Secondly, having an establishment of defense, special interest groups might find it economically advantageous to maintain the status quo.

Conclusion

In the article, there were no statistical significant relationships (either negative or positive) between growth and defense for a sample of countries involved. It can be hypothesized that the relationship between growth and defense would be positive and statistically significant for countries that are relatively resource unconstrained whilst the opposite would be true for resource-constrained countries.

Economic development versus tourism in Developing countries

Tourism has become one of the most significant export sectors in many developing nations. A common accord has surfaced that it not only increases foreign exchange income and generates job opportunities, kindles the growth of tourism sector and hence, triggers a general economic growth (Hernández-Martín, 2008). As such, tourism development has become an important target for most governments, especially for developing countries. The World tourism Organization (WTO) statistics indicate that the annual average growth rate of international tourism arrivals in developing countries for the last five years was 6.5 percent, compared to 4.1 percent growth worldwide over the same period. Tourism's contribution to economic growth and development could be seen from its exports and this according WTO represents over 40 percent of all exports in services that puts it as the uppermost group of global trade (Hernández-Martín, 2008). WTO estimate puts tourism to have accounted between 3-10 percent of the GDP in the developing world.

In general, there is an increasing and a widely accepted belief that tourism can play a fundamental role for developing countries to achieve economic and development. The belief that the tourism industry can advance and cause long-run socio-economic growth is known in literature as the tourism-led growth hypothesis (Hernández-Martín, 2008). However, there arises a question whether tourism growth actually caused the economic development or on the other hand, did economic increase strongly contributed to tourism growth instead? A number of studies indicate unidirectional causality from tourism to growth as documented in Turkey, Taiwan, Greece, and Spain. By contrary, others studies revealed strong bidirectional casualty between tourism growth and economic growth as documented in Mauritius and China (Hernández-Martín, 2008).

In the analysis of tourism, economists emphasize the economic effects of tourism development on economic growth. This is because tourism industry is a multidisciplinary engagement that involves several sectors and draws upon a variety of skills, its benefits are spread over a wider section of society compared to other sectors of the economy (Hernández-Martín, 2008). Pioneering studies from the WTO have highlighted the potential effect of the tourism industry in enhancing development, generating jobs and creating revenue for the government. The economic relationship is known as Tourism Led-Growth hypothesis. According to this hypothesis, the international tourism is considered as a potential strategic factor for economic growth; so that, tourism spending, as an alternative form of exports, provides the foreign exchange earnings (Hernández-Martín, 2008).

Conclusion

The article investigates the casualty and long-run relationships between economic growth and Tourism development in developing countries. The findings reveal that there is a bilateral causality and positive long-run relationship between economic growth and Tourism development. The significant impact of tourism expanding on developing country's economy justifies the necessity of government intervention aimed, at promoting and increasing tourism demand by providing the tourism facilities. As well, the economic expansion in developing countries affects growth of tourism sector that is reflected by the development in infrastructure and tourism resorts.

References

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