Unit 6: Economics and World Trade
(Lessons 3-4)

Why are some countries "rich" and others "poor"?

What do you think it means for a country to be rich? Many factors may account for different levels of wealth among countries. Geography, history, economics, and civics/government all might influence whether a country is rich or poor.

Geography, more specifically where a country is and its natural resources, can have a tremendous influence on a country's wealth. Some countries have a better proximity to trade routes such as waterways. Others have an abundance of natural resources such as oil, fresh water, fertile land, etc. The diversity of landforms and climate can also contribute to a country's wealth.

The Seine River in France
https://commons.wikimedia.org/wiki/File:Paris,_Seine_River_and_Pont_Neuf,_Ile_de_La_Cité.jpg

History plays an important role in a country's current economic well-being as well. When a country has experienced events such as war, famine, or colonization, it is much more likely to suffer long-lasting economic hardship.

A war-torn Bosnian street, a result of the Bosnian-Croat war (1992-1994)
https://www.flickr.com/photos/rstallard91/galleries/72157623991588127/

Civics/Government is another area that affects a country economically. Wealthy countries are typically stable, with few internal and external threats to people. The way power is distributed can also determine whether wealth is generated for many or only for a few.

Economics is the fourth area that will affect the wealth of a country. This includes the type of economic system, the goods and services produced, the products exported or imported, and the volume of trade.

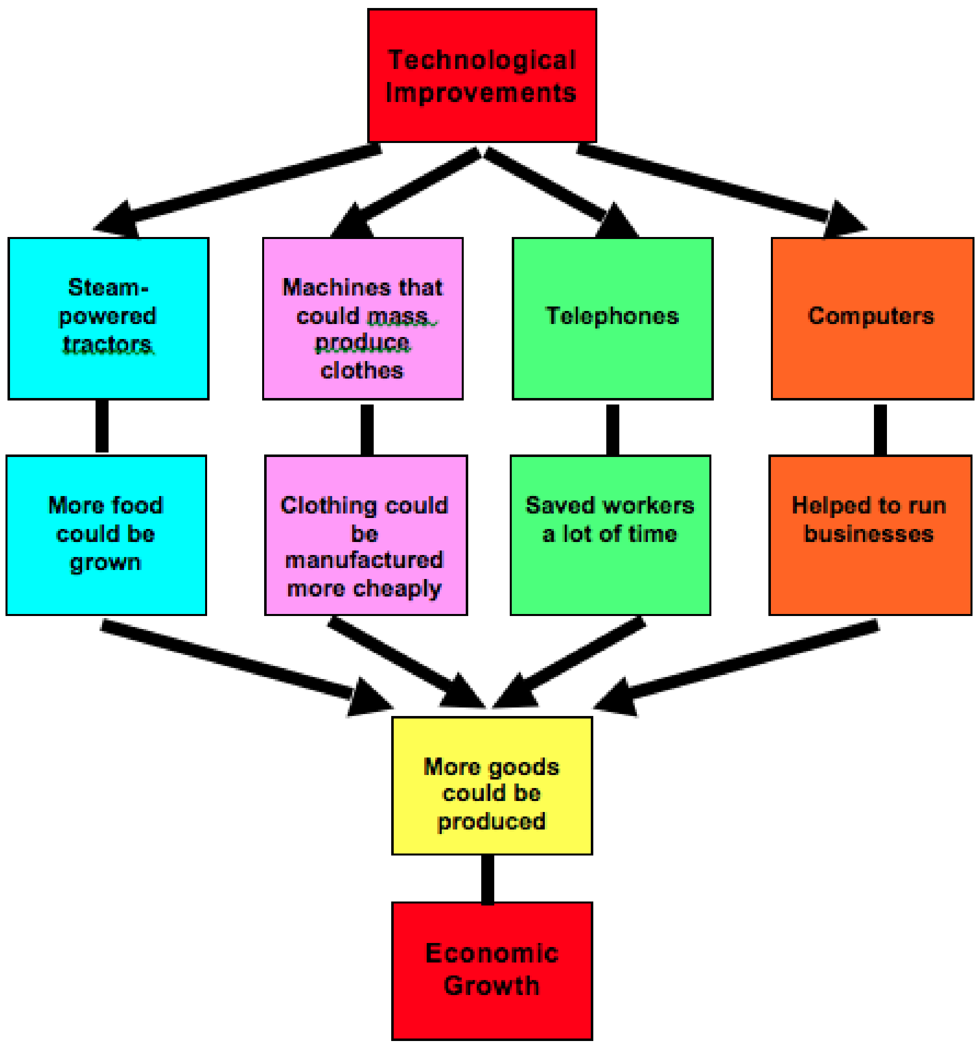
Hyundai Motor Company in South Korea
https://en.wikipedia.org/wiki/Hyundai_Motor_Company#/media/File:Hyundai_car_assembly_line.jpg

<u>Economic Growth</u>

Just like it is hard at times to tell if people are rich or poor, it is often difficult and complicated to determine if a country is rich, poor, or somewhere in the middle. Therefore, economists often use economic growth as a way to compare countries instead of the labels “rich” or “poor”.

What does economic growth mean? The income of the average citizen tends to increase, usually by about 2 or 3% per year. Hundreds of years ago, the average citizen was far poorer than the average person today. Our incomes have increased because we are able to produce more goods and services in less time and with fewer resources.

Economic growth is mostly the result of new technology making it more efficient to produce goods and services. For instance, during the Industrial Revolution, the invention of steam powered machines, such as tractors, made it easier to plow fields, so farmers could grow more food each year than they could before. There are more examples of technological efficiencies in the diagram on the right. All of this technology means that we can increase efficiency by producing more goods and services in a given year, making technology the main cause of economic growth.

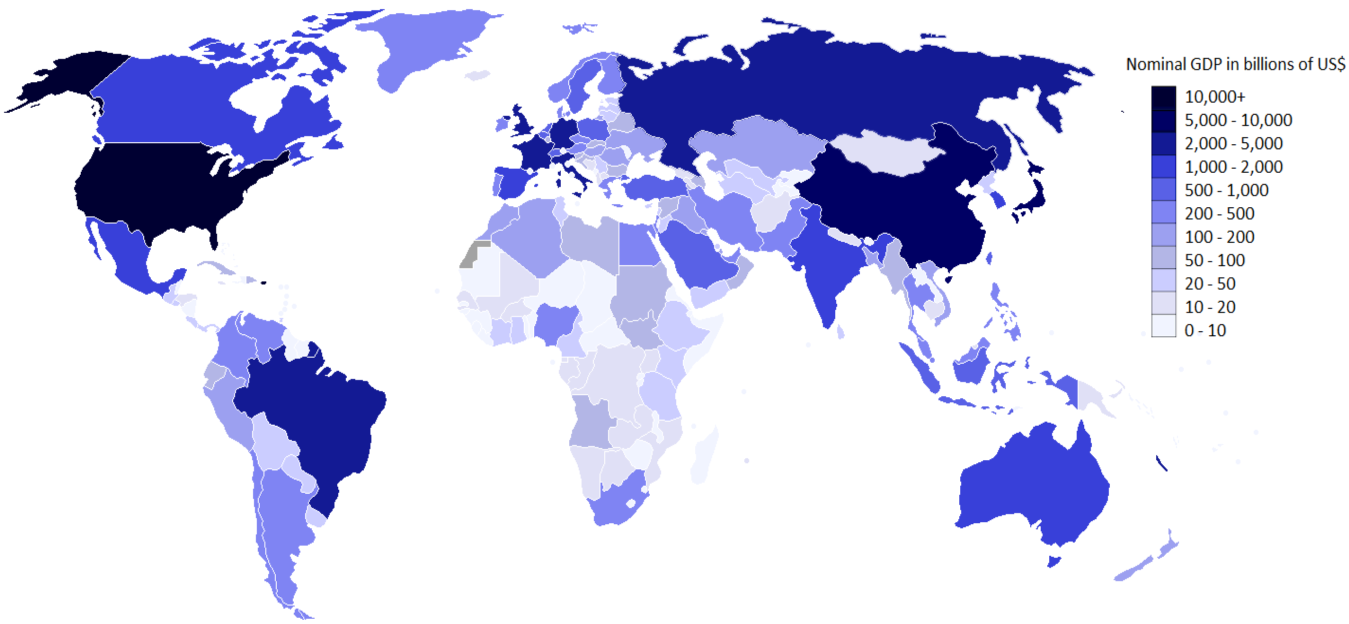


How to Measure a Country's Well-Being

Not all countries are the same in terms of their economic health. Social scientists use several ways to measure if a country is "rich" or "poor".

- *Gross Domestic Product*

  One way that social scientists measure the well-being of a country is by looking at economic outcomes. The Gross Domestic Product (GDP) is an economic indicator. It measures the total value of all goods and services produced in a country. The map below reflects the economic conditions of some of the world's countries through their GDP's.



Looking at the GDP's of countries in a given year alone won't give an accurate picture of a county's economic health. A large GDP does not necessarily mean the country is growing economically. Some very large countries like China, Russia, and the United States will have very large gross domestic products because they have large populations. Conversely, very small countries like Tonga or Kiribati are likely to have correspondingly low GDP's because their populations are smaller.

GDP ***growth*** over time is a better measurement than just looking at a country's GDP in a given year. By looking at changes in a country's GDP over time, social scientists can tell whether a country is producing more goods than it did in the prior year. In the United States, GDP has grown by about 1.75% per year on average for the last 200 years.

The first chart below ranks the highest and the lowest countries in the world in terms of overall gross domestic product in a given year (2012). However, the second chart ranks countries in terms of the ***growth*** in their GDP's. It can easily be seen that the countries in these rankings are quite different. The second chart actually measures change over time (growth in GDP from year to year). For example, Italy ranks in the top 10 in terms of overall GDP, but is the bottom ten countries in terms of GDP growth.

Countries Ranked by Gross Domestic Product– Highest and Lowest (2012 United Nations Data)

Country	GDP (Millions of $US)
United States	16,244,600
China	8,358,400
Japan	5,960,180
Germany	3,425,956
France	2,611,221
United Kingdom	2,417,600
Brazil	2,254,109
Russia	2,029,812
Italy	2,013,392
India	1,875,213
Comoros	616
Dominica	499
Tonga	465
Micronesia	327
São Tomé and Príncipe	261
Palau	213
Marshall Islands	198
Kiribati	176
Nauru	121
Tuvalu	40

Countries Ranked by % of Gross Domestic Product Growth – Highest and Lowest (2012 United Nations Data)

Country	2003-2013 average %
Qatar	13.4
Azerbaijan	12.6
Turkmenistan	11.6
Libya	11.4
Equatorial Guinea	10.8
Angola	10.4
China	10.3
Mongolia	9.4
Myanmar	8.9
Bhutan	8.8
Denmark	0.7
Jamaica	0.7
Tuvalu	0.6
The Bahamas	0.6
Tonga	0.4
Italy	-0.1
Greece	-0.2
Portugal	-0.2
San Marino	-0.7
Zimbabwe	-1.6

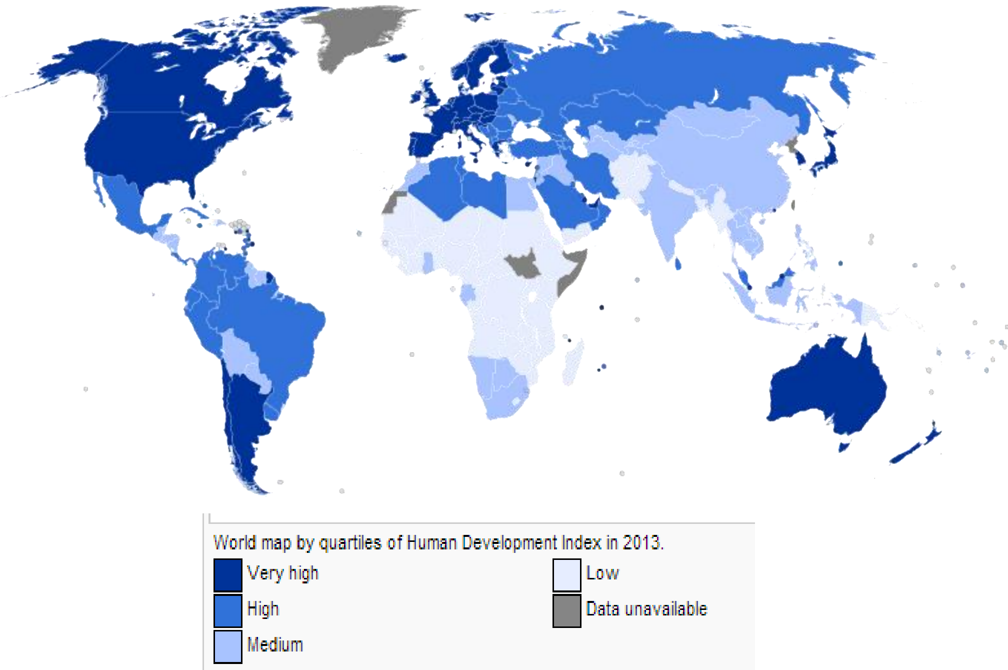
- *Level of Development*

  Another way in which social scientists measure the wealth of a country is by the level of development, or overall quality of life. It includes much more than just economic growth. When social scientists measure the well-being of a country based on its level of development, they are considering both economic and social factors.

  The United Nations has established the “Human Development Index” in an effort to measure levels of development in countries. It is calculated using a variety of development indicators such as income (GDP), schooling, and life expectancy. Using these indicators, social scientists are able to calculate a single number that can serve as a frame of reference when comparing the development of one region or country against another. Below is a world map reflecting overall development using this index, and next to it is a chart showing the highest and lowest ranked countries in the world based on the HDI.

2013 HDI Rank	Country
1	Norway
2	Australia
3	United States
4	Netherlands
5	Germany
6	New Zealand
7	Ireland
7	Sweden
9	Switzerland
10	Japan
177	Burundi
178	Guinea
180	Central African Republic
181	Eritrea
182	Mali
183	Burkina Faso
184	Chad
185	Mozambique
186	Dem. Rep. of the Congo

187	Niger



Notice that there is quite a difference in the rankings of countries using the Human Development Index rather than simply GDP growth. Countries like Norway, Australia, and the Netherlands do not rank in the top ten for GDP or GDP Growth, but rank high on the HDI chart. In fact, none of the top ten or bottom ten countries for GDP Growth occur in the top ten and bottom ten HDI countries. However, when economic growth takes place for an extended time period, most often it leads to development. This makes sense because increased income makes improved health care, education, and much more possible.

<u>Factors That Lead to Economic Growth</u>

Social scientists have identified several factors that are likely to lead to economic growth.

- *Technological innovation* is a main reason for economic growth because it allows people to make goods more efficiently.
- *Investment in the factors of production (land, labor, capital)* leads to increased production of goods, which leads to economic growth.

https://en.wikipedia.org/wiki/Tokyo#/media/File:Tokyo_Montage_2015.jpg

- *A mixed economy* balances economic freedom with government support for the economy. This fosters more economic growth than a pure command or market economy.
- *Political stability* means there is less conflict, and the country can concentrate on economic growth. Investors are more likely to invest in companies that are located in places with stable governments.
- *Steady improvement of infrastructure such as roads, water supply and electrical grids* is needed to produce goods efficiently. Infrastructure is a public good that not only benefits individuals, but businesses as they transport factors of production or finished products.
- *Active involvement in global trade networks* allows a country to get goods it needs in exchange for selling goods it produces. This will lead to economic growth.

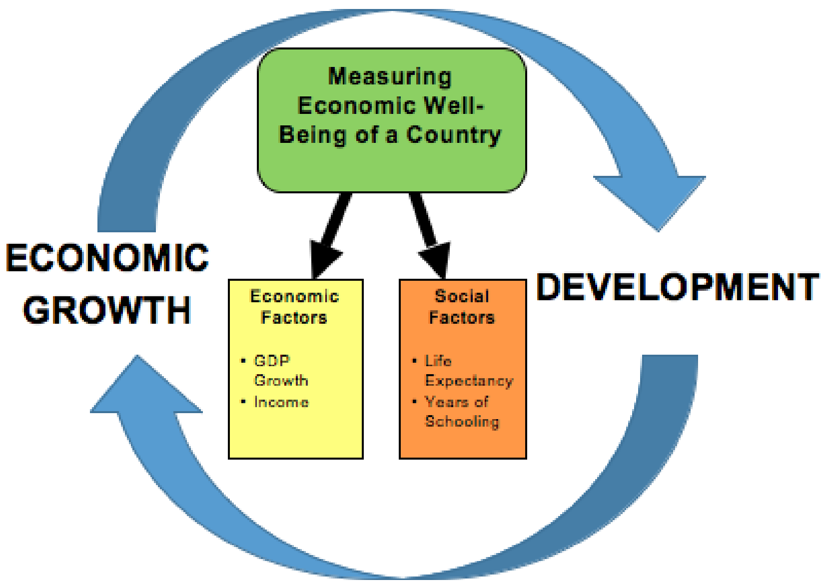
Factors That Negatively Affect Economic Growth

Just as factors can positively affect economic growth, other factors can negatively affect economic growth and development. These factors inhibit economic opportunities for a variety of reasons.

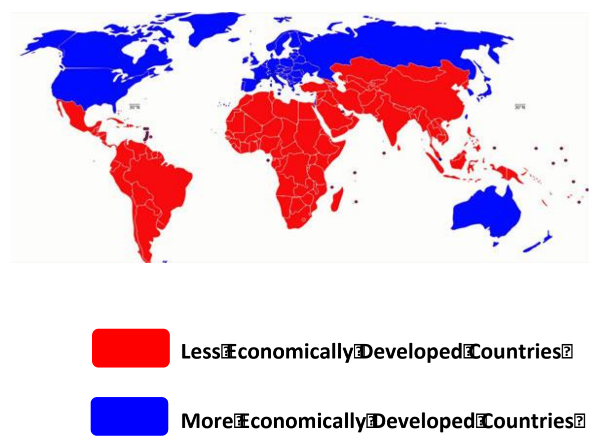
- *A poor climate* often does not provide fertile farmland and water.
- *A lack of natural resources* inhibits production.
- *A poor location* (like being landlocked) can inhibit trade.
- *Natural hazards* divert funds that could be used for production.
- *A corrupt or poorly managed government* often doesn't invest money wisely.
- *Being involved in a war or conflict* also diverts funds that could be used in production.
- *Rapid population growth* leads to too many dependents and not enough workers to support the economy.
- *A lack of educational opportunities* leaves a large number of people in unskilled jobs.
- *Discrimination or inequality* leaves some groups with fewer opportunities than others.

https://en.wikipedia.org/wiki/Niger

It is interesting to note the number of factors listed above that apply to the country of Niger. Eighty percent of the land in this landlocked country in West Africa is in the Sahara Desert. Most people here live in rural areas and have little access to advanced education or health care. Although this country relies on farming, they have suffered from severe droughts in its history, leading to famine. Since its independence in 1958, Nigeriens have lived under five constitutions and three periods of military rule. Niger is also growing very quickly; the 2014 fertility rate was more than 6 children per woman. All in all, it is not surprising that Niger ranks the very lowest in the world in terms of its Human Development Index (HDI).

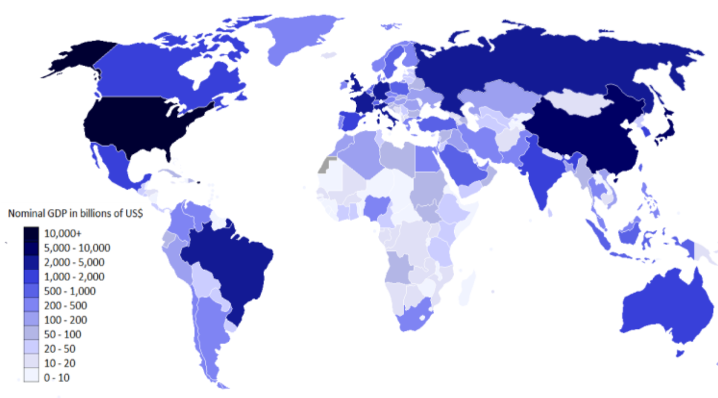


The Economic Effects of Imperialism for Colonized Countries

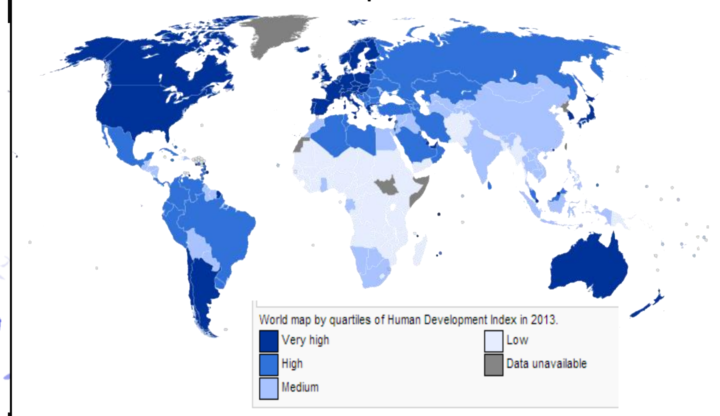


Why are some countries so far behind others in terms of their economic development? Notice in the map on the right that all the countries in Africa are considered "less economically developed." In fact, the additional maps below show how Africa ranks low using many different economic indicators. The slow economic growth in this region is not just a coincidence.

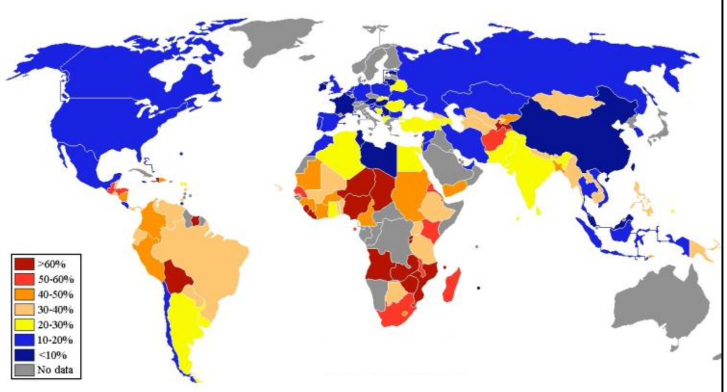
Gross Domestic Product



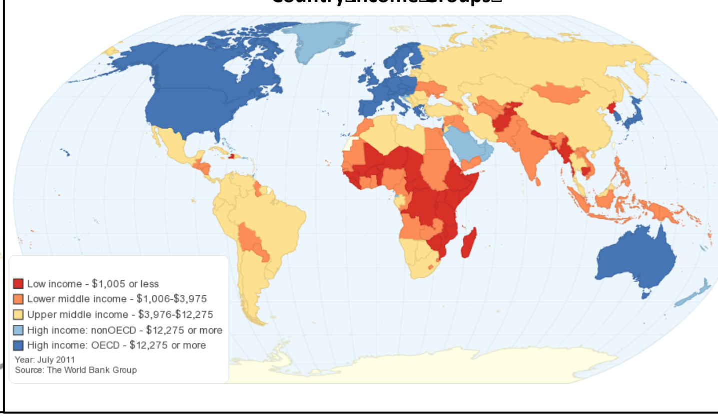
Human Development Index



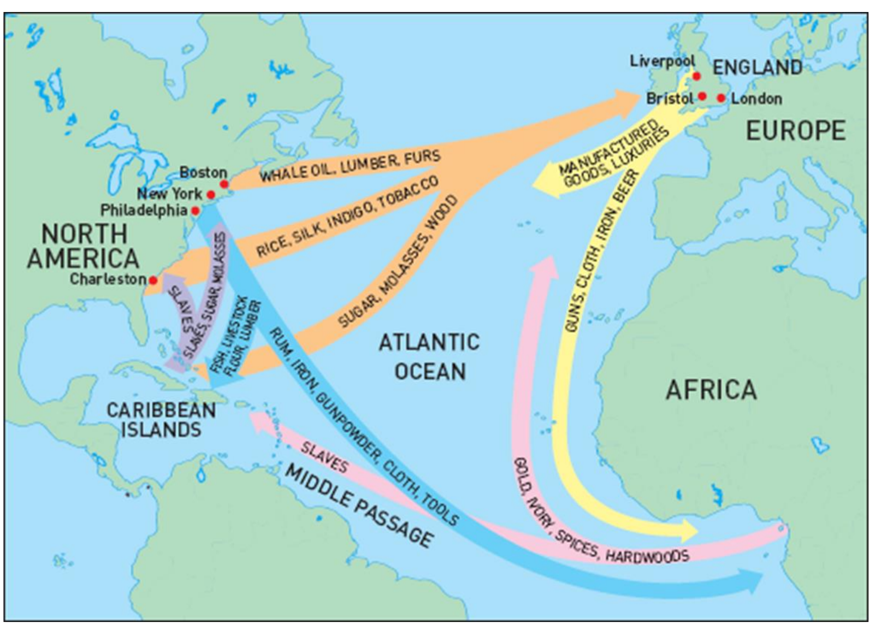
Population Living Below National Poverty Line



Country Income Groups



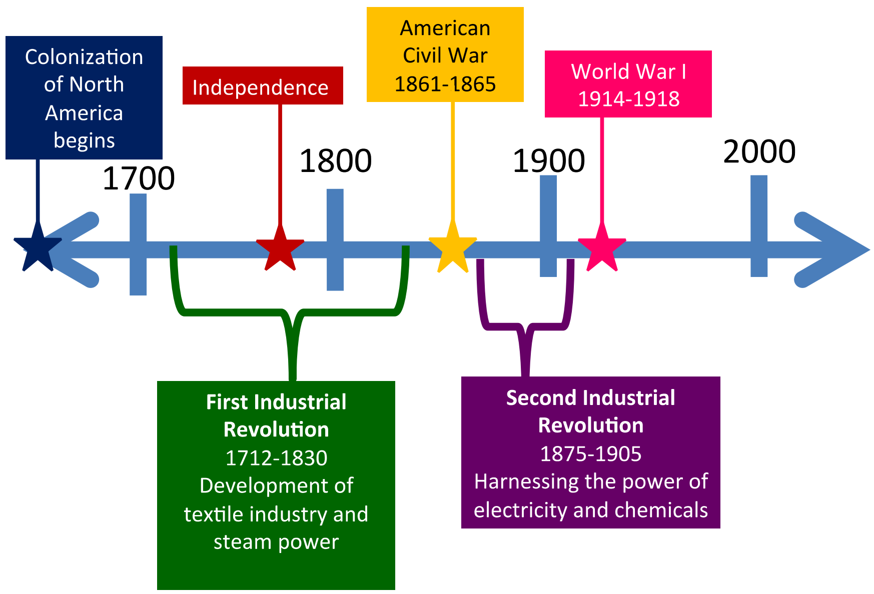
Slow economic growth is connected to many complicated factors including geographic challenges and historical events. Although every country is different in terms of its past, there are some factors that many poor countries in Africa and elsewhere have in common. This shared past experience is imperialism. Imperialism is the practice of a larger country or government increasing its power by taking over poorer or weaker countries that have important resources. Imperialism led to the colonization of many parts of the world, including most of Africa.



You first learned about imperialism and colonization in your studies of American history. Remember the triangle trade route? The special purpose (thematic) map on the left contains historical economic data and tells the story about trade among England, Africa, and North America during colonial times. During an era when England was politically and economically strong, they acquired colonies and dependences in order to get raw materials and other benefits.

Causes of Imperialism

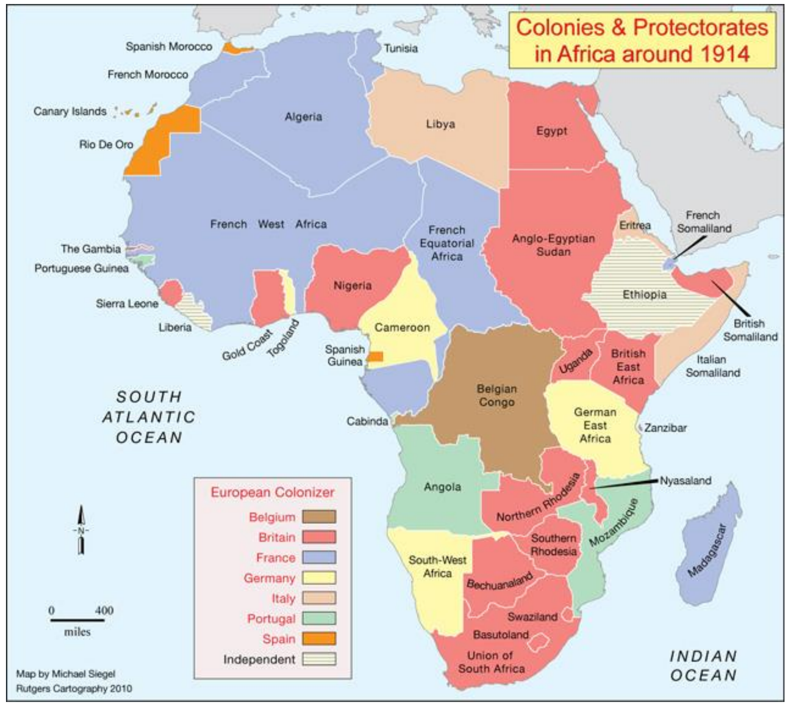
In the 1700's (around the time that the American colonies existed through the American Revolution and the early years of our country), significant changes were taking place in Europe. These changes were technological and led to increased efficiencies in the ways people worked. This period is called the Industrial Revolution because it resulted in a significant change in how people lived and worked – with textiles and steam power. This first industrial revolution led to the need for more and more raw materials, as well as more and more markets for manufactured goods.



In the late 1800's, many European nations were in the middle of another industrial revolution. This "revolution" was a significant change in terms of technological and economic development. The industrial revolution began in England and later spread to the rest of Europe, the U.S., and Japan. Through this revolution, people replaced animal and human power with mechanical, electrical, and chemical power. This increased efficiency resulted in a greater need for raw materials. European nations and businesses sought raw materials as cheaply as possible. At the same time, they wanted new markets where they could sell their industrial goods. The European nations turned to imperialism as a way to address their needs. Imperialism enabled these European countries to begin to claim colonies throughout the world in their quest for more resources. One area they were especially interested in was the continent of Africa.

The Berlin Conference

In 1884, the rulers of several European countries held a meeting called The Berlin Conference. Although these countries did not own any of the land in Africa, the purpose of this meeting was to claim the territories belonging to African people and split up the continent among the nations by creating colonies.



The map on the right shows the reach of European power into Africa through colonies and protectorates by the eve of World War I. The word "protectorate" means a weak territory that is protected and partially controlled by stronger countries. Notice that Britain and France are the countries with the largest territories.

<u>The Effects of Imperialism: A Close Look at Tanzania</u>

Colonization has caused long-lasting social, economic, and political problems for the people of Africa. In fact, many current problems relating to economic growth and development can be traced back to colonial times. Tanzania is just one of many African countries that has suffered the long-lasting effects of imperialism.

- *Life as a Colony*

  The Berlin Conference of 1884 resulted in Germany claiming what is now the country of Tanzania. They called the area 'German East Africa' and ruled there until the end of World War I. Following the war, Great Britain became Tanzania's colonial ruler, and they maintained control for more than 40 years. White settlement was not stressed here as it was in some colonies; both the Germans and the British saw Tanzania mainly as a source of materials and money.

  The European nations involved in the colonization of Tanzania determined boundaries without regard to the people living in there. The boundary between Tanzania and Kenya split the land belong to the 'Masai' ethnic group in half. In addition, the boundaries brought together many separate political groups under the name "Tanganyika." These artificial boundaries have caused tension and other problems throughout Tanzania's history.

At the end of the 19th century, Europe experienced an economic depression. As a result, European colonial powers did not spend money on developing political, social, and economic institutions in their African colonies. The Germans did not provide money for schools, roads, or police in Tanzania.

Once the British took over, there were some improvements made, but these projects were motivated by self-interest, not concern for Tanzanian people. A few schools were built, but the colonial government was mainly interested in educating lower level clerks and office help who would work for the government. The primary purpose of schools was to educate a class of African clerical workers. Railroads and roads were built because Great Britain wanted an efficient way to get raw materials to ports where they would be shipped to Europe. Even today, the vast majority of roads in Tanzania remain unpaved. Investment in the country's infrastructure was only in certain regions where it was beneficial to the British economy. This regional imbalance of programs and building continued throughout Britain's rule and was the cause of some of Tanzania's subsequent development problems.

Unpaved road near Mt. Kilimanjaro, 2007
https://en.wikipedia.org/wiki/Transport_in_Tanzania

Tanzania was also forced to make changes to their agricultural system over time. Before colonization, most people devoted their time to growing crops to feed their families. Both Germany and Britain required Tanzanians to pay a colonial tax. These subsistence farmers were left with few choices to pay this tax: borrow money, sell some crops, or sell some property. The colonial government agreed to buy some of the crops from the farmers, providing they grew the crops they wanted, like cotton. This gave farmers the money needed to pay their taxes, but it also left them with a shortage of food to feed their families.

As the government raised taxes, more and more cash crops, like sisal, coffee, tea, and cotton, were necessary until, eventually, many farmers were exclusively growing cash crops and using their sales to not only pay their taxes, but to buy their food as well. Some farmers were even forced to leave their homes and seek jobs elsewhere in an effort to pay their taxes.

The British discouraged the development of industry in Tanzania because they didn't want to compete with African industry. This forced the Tanzanians to buy manufactured goods solely from them. The country became dependent on agriculture to export (sell) to other countries. It also meant the majority of their imports (goods bought from other countries) were manufactured goods. This shortage of industry has continued to be a development problem for Tanzania.

Tea Farm in Tanzania
https://commons.wikimedia.org/wiki/Fi

Besides discouraging industrial growth in Tanzania, both Germany and Great Britain also exploited its mineral wealth. The British took what they could for their own industries and also made money on the gold, diamonds, and other minerals they extracted. This exhausted some mineral deposits.

Williamson Diamond Mine
https://commons.wikimedia.org/wiki/File:Williamson_Diamond_Mine,_Mwazui,_Tanzania_02.jpg

- *Independence*
  After a long, hard struggle, Tanzania gained independence from Great Britain in 1961. A new constitution was adopted, and Tanzania became a republic. All in all, Tanzania faced many problems and challenges resulting from its colonial past:

  - The country was left with a weak economy because profits earned during colonial times had not been invested in the Tanzanian economy.
  - There was a lack of college graduates and a skilled workforce because the colonial government had only wanted to educate clerks and office helpers.
  - There was little industry because the colonial government had discouraged the growth of industry so that Tanzania would have to buy manufactured goods from them.
  - New mineral deposits had to be searched for and developed because colonial powers had extracted many minerals from Tanzania.

- The country was left with an unfavorable balance of trade because the value of their exports (agriculture) is less than what it pays for its imports (manufactured goods), leaving Tanzania earning less money than it spends.

It is no surprise that Tanzania and so many other countries in Africa are far behind others in terms of their economic development. Colonization had a major role in slowing the economic growth and development of Tanzania, and many of the challenges it faces today are the direct result of imperialism. Unfortunately, Tanzania's story is not unique. Many countries throughout Africa and throughout the world with a history of colonial rule have only slightly different versions of the same story.