6.7 Barriers to and strategies for growth and development

Name: _____ Class: _____ Date: _____ **Total: 30 marks**

KEY WORDS poverty cycle • foreign direct investment • microcredit • debt relief • import substitution • export promotion

Objective

Build the skills to answer exam questions on **barriers to growth and development** and the **strategies** used to overcome them: trade, investment, aid, debt relief, microcredit and good institutions.

You must be able to:

- explain the main barriers to growth and development
- explain the poverty cycle (poverty trap)
- evaluate trade strategies: import substitution, export promotion and diversification
- evaluate foreign direct investment, aid, debt relief and microcredit
- evaluate market-led and interventionist approaches to development

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1 Key knowledge and worked examples

■ Barriers and strategies

Barriers to growth and development

barrier	why it holds a country back
poverty cycle	low income → low saving → low investment → low productivity → low income
weak institutions, corruption	weak property rights and rule of law discourage investment
poor infrastructure	high costs of transport, power and communication
low human capital	poor health and education lower productivity
dependence on primary products	volatile prices; falling terms of trade
foreign debt	interest payments take money from schools and health
gender inequality	women's skills and work are under-used
lack of credit	the poor cannot borrow to start businesses
geography, conflict, climate	landlocked, disaster-prone or unstable countries struggle to trade and invest

Trade strategies: import substitution (protect domestic industries to replace imports: may build industry but often inefficient); **export promotion** (open up and sell to world markets: can bring fast growth, as in East Asia, but depends on world demand); **diversification** (spread exports over more products, reducing risk).

Foreign direct investment (multinational firms build factories and mines): brings capital, jobs, technology and tax revenue; but profits may be sent abroad, firms may get large tax breaks, and environmental and labour standards may be weak.

Aid: humanitarian aid (food, medical help in emergencies) and **development** aid (projects, loans and grants for schools, health, infrastructure). The UN target is for rich countries to give 0.7% of GNI as official development assistance. Risks: dependence, corruption, tied aid that must be spent on the donor's goods.

Debt relief: cancelling debt frees money for public services, but may encourage new borrowing (moral hazard).

Microcredit: small loans to poor people (often women) without collateral to start small businesses; helps some, but interest rates can be high and it rarely builds large firms.

Other strategies: education and health investment, women's empowerment, good governance, fair trade.

AHL – market-led vs interventionist: market-led strategies (free trade, privatization, deregulation) aim to improve efficiency and attract investment, but may

increase inequality; interventionist strategies (state investment, infrastructure, education, industrial policy) correct market failures, but risk government failure. Most successful countries used a **mix**.

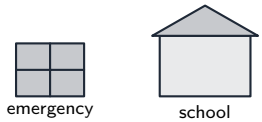
Answer shapes: name the barrier → explain the mechanism → choose a strategy → evaluate with an example and a judgement.

2 Practice

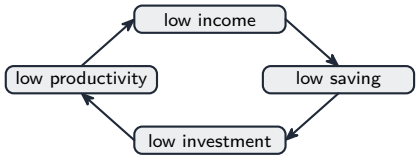
2.1 Define **microcredit**. [2]



2.2 Distinguish between humanitarian aid and development aid. [2]



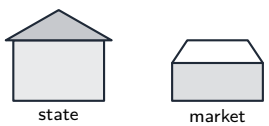
2.3 Explain how the poverty cycle can stop a country from developing. [4]



2.4 Explain **one** benefit and **one** cost for a low-income country of a foreign-owned factory. [3]



2.5 Explain **one** argument for and **one** argument against an interventionist approach to development. [3]

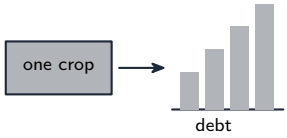


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3 Exam-style questions

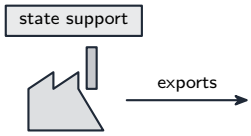
3.1 A low-income country depends on exports of one crop and owes large foreign debts.

Evaluate **two** strategies the country could use to promote growth and development. [10]



3.2 Some economists argue that the East Asian economies grew fast through a mix of export promotion and strong state support for industry.

Discuss whether developing countries should follow a market-led or an interventionist strategy. [6]



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Solutions

Marking: **M1** a correct method, **A1** the correct answer, **B1** an independent mark.

Each answer shows the steps, then the **result**.

2.1

small loans; given to poor people, often without collateral, to start or grow a small business

2.2

humanitarian aid: short-term help in emergencies, such as food, shelter and medical care; development aid: long-term help, such as grants and loans for schools, health and infrastructure, to raise living standards

2.3

low incomes mean households can save little; low saving means little money for investment in capital and skills; low investment keeps productivity low; so incomes stay low and the cycle repeats

2.4

benefit: jobs, wages, tax revenue, new technology or skills; cost: profits sent abroad / poor working conditions / pollution / tax breaks reduce government revenue; each explained in context

2.5

for: markets under-provide merit and public goods, so the state can invest in education, health and infrastructure; against: government failure: corruption, poor information and inefficiency waste resources; clear development of both points

3.1

award up to [10]: any two strategies, explained and evaluated, e.g.: diversification: new exports reduce dependence on one volatile price; but needs skills, infrastructure and investment; debt relief: frees revenue for health and education; but may need conditions and good governance to work; FDI: capital, jobs, technology; but profits leave the country; aid, microcredit or education also credited; judgement on which works best for this country

3.2

market-led: openness to trade and FDI brings competition, technology and access to large markets; but can widen inequality and leave infant industries unprotected; interventionist: the state can build infrastructure, education and target key industries; but risks corruption and inefficient protected firms; evidence: successful economies combined export promotion with state investment in skills and infrastructure; judgement: the right mix depends on the quality of the country's institutions