5.7 Barriers to and strategies for growth and development

Name: _____ Class: _____ Date: _____ **Total: 21 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

exercises.lol exercises.com.cn

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.

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

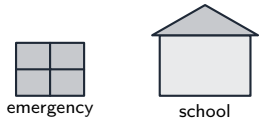
exercises.lol exercises.com.cn

2 Practice

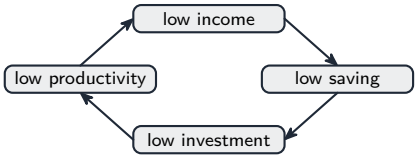
2.1 Define **microcredit**. [2]



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]



exercises.lol exercises.com.cn

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]



exercises.lol exercises.com.cn