Name ______________________ Date ________________ Class ______________________

STUDY GUIDE Chapter 20, Section 1

For use with textbook pages 517–521

CHARACTERISTICS OF DEVELOPING NATIONS

KEY TERMS

developed nations Nations with relatively high standards of living and economies based more on industry than agriculture *(page 518)*

developing nations Nations with little industrial development and low standards of living *(page 518)*

subsistence agriculture Growing just enough food by a family to take care of its own needs. No crops are available for export or to feed an industrial workforce *(page 519)*

infant mortality rate Death rate of infants who die during the first year of life *(page 520)*

DRAWING FROM EXPERIENCE

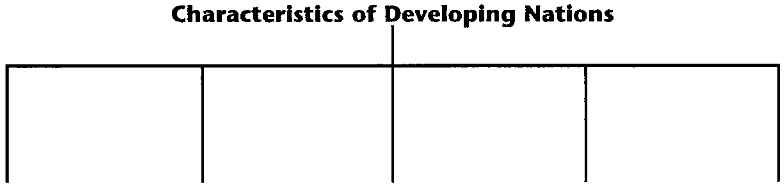
When someone asks you to think about a developing country, what images come to mind? How do you think people live in developing countries? Do all people within a developing country have the same standard of living? Are there any similarities between the way that people live in a developing country and the U.S.?

In this section you will learn how developing nations use foreign investment and aid to move through the three stages of economic development.

ORGANIZING YOUR THOUGHTS

Use the diagram below to help you take notes as you read the summaries that follow. Think about the economic characteristics of developing nations.

Characteristics of Developing Nations



READ TO LEARN

■ Developed vs. Developing Nations *(page 518)*

Of the more than 192 nations in the world, only about 35 are considered developed nations. Most of the world's population lives in developing nations. These nations have relatively low standards of living and are less developed industrially. Developing nations differ in many ways. Income levels between countries vary greatly. Great differences in standards of living also exist within developing nations. India's urban population lives much like people in developed nations, but some of its rural population may not have enough to eat.

Name ____________________ Date ______________ Class ____________________

STUDY GUIDE (continued) Chapter 20, Section 1

1. Are all developing nations alike? Why or why not?

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▣ Economic Characteristics *(page 519)*

Developing nations generally share five characteristics.

1. *Low GDP* Developing nations may have many natural and human resources, but they lack the equipment, financing, and knowledge necessary to put those resources to use.
2. *An Agricultural Economy* Agriculture is central to the economies of developing nations. Most of the population exists through subsistence agriculture. Each family grows just enough food to take care of its own needs. Consequently, no crops are available for export or to feed an industrial workforce.
3. *Poor Health Conditions* Developing nations suffer from a shortage of modern doctors, hospitals, and medicines. Many people die from malnutrition or illness due to lack of food. Low life expectancy for adults and high infant mortality rates are common. Infant mortality rates measure the number of infants that die during their first year of life.
4. *Low Literacy Rate* Relatively few people in developing nations can read or write. Governments lack resources to build and maintain schools. Children miss school to help their families farm. A poorly educated workforce is difficult to train for needed technical and engineering jobs.
5. *Rapid Population Growth* Overpopulation is the source of serious problems, such as a shortage of food and housing. Populations in developing nations sometimes grow as much as four times the rate of developed nations.

2. Which of these five characteristics do you think is the most threatening to a developing nation's standard of living? Why?

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▣ Weak Property Rights *(page 521)*

Weak property rights hinder development. Without defined private property rights, individuals cannot exchange land. Consequently, large-scale farming does not develop. Peasant families have little incentive to improve the value of the property on which they farm.

3. Why do weak property rights hinder development?

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Name ______________________ Date ________________ Class ______________________

STUDY GUIDE Chapter 20, Section 2

For use with textbook pages 523–528

THE PROCESS OF ECONOMIC DEVELOPMENT

KEY TERMS

nationalization A process where government takes over ownership of railroads, businesses, or other industries *(page 525)*

foreign aid Money, goods, and services given by governments and private organizations to help other nations and their citizens *(page 525)*

economic assistance Loans and outright grants of money to other nations to add to their capital resources *(page 525)*

technical assistance Aid supplied by nations to teach skills to individuals in other nations. Professionals, such as engineers, teachers, and technicians, usually provide this assistance *(page 525)*

military assistance Economic or technical aid given to a nation's armed forces *(page 525)*

DRAWING FROM EXPERIENCE

What can you do if you need more money? In what ways can you obtain money?

In this section, you will learn how developing nations use foreign investment and aid to move through the three stages of economic development.

ORGANIZING YOUR THOUGHTS

Use the diagram below to help you take notes as you read the summaries that follow. Think about why nations give foreign aid.

The Process of Obtaining Aid for Development

Sources of Capital	→	Who Supplies Foreign Aid	→	Reasons for Giving Foreign Aid	→
1. ______________ ______________		1. ______________ ______________		1. ______________	
2. ______________ ______________		2. ______________ ______________		2. ______________	
				3. ______________	
				4. ______________	

READ TO LEARN

■ Financing Economic Development *(page 524)*

Economic development passes through the three stages of agricultural, industrial, and service sector development. Usually, developing nations cannot finance economic growth from domestic savings. People living in traditional economies do not engage in the type of savings that provide a pool of financial capital from which businesses can borrow for investment. Developing nations seek outside sources of capital from two general sources.

A. *Foreign Investment* Investors are attracted to developing countries because of their low wages, few regulations, and abundant raw materials. Political instability and the threat of nationalization are serious risks. ***Nationalization*** is a practice among developing nations of taking control of private firms.

B. *Foreign Aid* Foreign aid is the money goods and services given by governments and private organizations to help other nations. ***Economic assistance*** in the form of loans and outright grants has played an increasingly important role in economic development. ***Technical assistance*** strengthens a nation's human resources by providing professions, such as engineers, teachers, and consultants to teach skills. ***Military assistance*** involves giving either economic or technical assistance to a nation's armed forces. Emergency aid is not directed at development. It provides food, clothing, and medical supplies to victims of disasters.

1. What are the two general sources of outside capital that developing nations seek?

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▣ Who Supplies Foreign Aid *(page 526)*

Several developed nations and international organizations offer foreign aid. After World War II, the U.S. devoted most of its foreign aid to rebuilding Europe's war-torn economies. Today, most U.S. foreign aid is sent to developing nations in the Middle East and Southeast Asia. When foreign aid is viewed as a percentage of GDP, the U.S. provides a fraction of what many other nations give. Organizations like the U.S. Agency for International Development and the International Bank for Reconstruction and Development, also called the World Bank, help to distribute foreign aid. Developing nations sometimes find themselves unable to repay their foreign debt. Forty nations owe nearly $127 billion to the IMF and World Bank.

2. Why are some international aid organizations concerned about foreign debt?

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▣ Reasons for Giving Foreign Aid *(page 527)*

Governments and private agencies provide aid for four basic reasons.

1. *Humanitarianism* The relief of human suffering is a major goal of many private organizations.
2. *Economics* It is usually in the best interest of developed counties to encourage international trade. Foreign aid provides markets for exports and investment opportunities.
3. *Politics* Foreign aid builds political friends and broadens the appeal of some government forms.
4. *Protect a nation's security* Economic aid is often a down payment on a military alliance.

3. Why do nations give foreign aid?

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Name ______________________ Date ________________ Class ______________________

STUDY GUIDE Chapter 20, Section 3

For use with textbook pages 529–532

OBSTACLES TO GROWTH IN DEVELOPING NATIONS

KEY TERMS

bureaucracies Offices and agencies of the government that each deal with a specific area *(page 530)*

capital flight The legal or illegal export of currency or money capital from a nation by that nation's leaders *(page 530)*

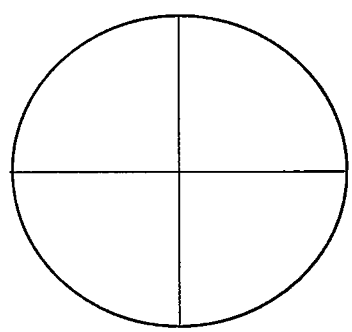
DRAWING FROM EXPERIENCE

Have you ever tried to take care of a plant or a pet? What tasks did you have to perform? Do all plants or pets require the same care? Why do some plants or pets need different care?

In this section you will learn why developing nations have not followed the same path of recovery as Europe did in the 1940s.

ORGANIZING YOUR THOUGHTS

Use the diagram below to help you take notes as you read the summaries that follow. Think about the four obstacles to growth faced by developing nations.



Four Obstacles to Growth

READ TO LEARN

▣ Four Obstacles to Growth *(page 529)*

The successful rebuilding of Europe's economy following World War II convinced many economists that injections of money capital into a nation could achieve rapid economic growth. Europe already had a skilled labor force, advanced organizations, such as corporations, and experienced government ***bureaucracies.*** These are specialized offices and agencies. Developing nations do not possess these characteristics. They suffer from four obstacles to growth.

1. *Attitudes and Beliefs* People in developing nations often live and work much as their ancestors did. Innovation is often viewed with suspicion, and attitudes are slow to change.
2. *Continued Rapid Population Growth* If the population grows faster than GDP, standards of living will fall along with per capita GDP.
3. *Misuse of Resources* Developing nations sometimes choose to spend money for defense rather than agricultural development. ***Capital flight*** is another misuse of resources. Its leaders may legally or illegally export local currency from a nation. If new leaders take over they often inherit crushing debt from such corruption.
4. *Trade Restrictions* Tariffs and quotas are used to limit imports that compete with domestic industries

1. What are the four obstacles to growth in developing countries?

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Case Study: Indonesia *(page 531)*

Following independence in 1949, Indonesia seemed well equipped for economic growth. It possessed an abundant population, rich mineral resources, vast oil reserves, valuable farmland, and $2 billion worth of foreign aid. The economy was a disaster, however, for several reasons. Problems with divided nationalities, religion, and politics sometimes resulted in violent clashes. In 1965, General Suharto produced strong economic growth by relying on oil and agricultural exports. The 1980s world "oil glut" and falling prices for farm products slowed economic growth. In 1997-1998 Southeast Asia's economic crisis caused Indonesia's economy to collapse. Suharto later resigned under suspicion of misuse of funds.

2. What problems interfered with Indonesian industrialization?

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Name ______________________ Date __________________ Class ______________________

STUDY GUIDE Chapter 20, Section 4

For use with textbook pages 534–537

INDUSTRIALIZATION AND THE FUTURE

KEY TERMS

vicious cycle of poverty A situation that keeps developing countries trapped in poverty. A less-developed country with low per capita incomes cannot save and invest enough to achieve acceptable rates of economic growth *(page 536)*

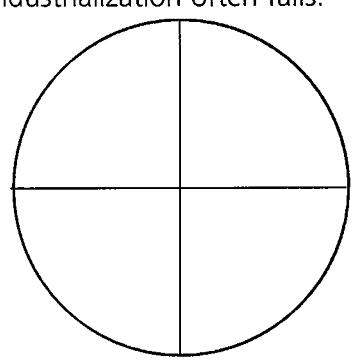
DRAWING FROM EXPERIENCE

Have you ever tried to put something together without following the instructions? Did you make any mistakes? Did you have the right equipment to perform the task? Did anyone try to tell you about a better way to do it? How did you feel when the other person gave you advice?

In this section, you will learn that attempts at rapid industrialization can prove a wasteful use of scarce resources.

ORGANIZING YOUR THOUGHTS

Use the diagram below to help you take notes as you read the summaries that follow. Think about the four reasons why rapid industrialization often fails.



Problems of Rapid Industrialization

READ TO LEARN

■ Problems of Rapid Industrialization *(page 535)*

There are four problems of rapid industrialization.

1. *Unwise Investment* Developing nations invest in areas where they do not have a comparative advantage. Citizens receive less economic value from their resources than they would have received from other investments.

2. *Not Adapting to Change* If a population does not have time to adapt to new patterns of living and working, large numbers of people may be displaced from their homes. Many will migrate to already overcrowded cities.
3. *Using Inappropriate Technology* Balanced growth requires the use of technology that is suitable for a culture. The benefits of industrialization can be more widely distributed by undertaking smaller, rather than larger, technological changes.
4. *Rushing Through the Stages of Development* Many economists believe that time allows nations to adapt successfully to different stages of development. Gradual change permits nations to increase incomes, savings and the number of skilled workers necessary to support the next stage of development.

1. What are the four problems with rapid industrialization?

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■ **Economic Development** *(page 536)*

Foreign trade, an appropriate incentive structure, a supportive political structure, availability of natural resources, and a reduced population growth influence economic development. If a nation lacks one of these factors, they are not necessarily trapped in the ***vicious cycle of poverty.*** The vicious cycle of poverty presumes that developing nations are poor because they cannot save and invest, but they cannot save and invest because they are poor. Development normally depends on entrepreneurs who are able to perceive opportunities and then take advantage of them. However, risk taking will not occur if the political system does not permit risk takers to be rewarded. This requires well established property rights and no fear that government will nationalize businesses. The more certain property rights are, the more investment there will be.

2. How can the vicious cycle of poverty be overcome?

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■ **Information Leads to Cooperation** *(page 537)*

Information about the higher standards of living in developed countries has convinced people in developing nations of the benefits of working together. These nations realize that they have little control over the world market unless they work together in the international economic community. Increased information has produced more cooperation between developed and developing nations. Global negotiations have promoted a more equal distribution of the world's wealth and resources, low tariffs for developing nations, and an "income tax" on developed nations to pay for international assistance programs.

3. What role has information played in encouraging economic development?

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