



FULBRIGHT  
UNIVERSITY  
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FULBRIGHT SCHOOL OF  
PUBLIC POLICY AND MANAGEMENT

# DEVELOPMENT POLICY

SESSION 2

**“Defining and Measuring Development”**



## Session 2

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- Concepts and Measurement of 'Development'
- Economic Development – Traditional Measure of Development
- Discussion: Benefits and Limits of 'GDP'
- Human Development Index – Promise and Challenge
- Vietnam in Comparative Context



# Defining & Measuring Development

- In order to review the various ways of measuring 'development,' it is necessary to define 'development.'
- Definition – is directly linked to measurement issue.  
***“The process of change operating over time.”***
- Traditionally: [Development = \_\_\_\_\_] – It has been seen as the process by which countries advance and become richer.
- Traditional focused on 'economic data' such as GDP growth rate, GDP per capita, etc.
- Under this conceptualization, traditional emphasis was on economic growth of poorer countries to enable them to catch up the gap with richer countries.



# Traditional Measures

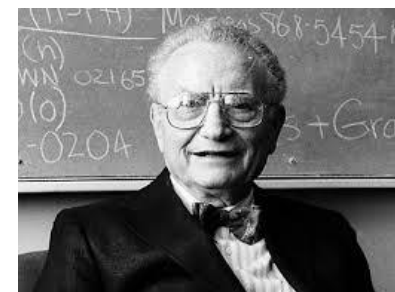
- The most widely used measure for international comparison is the Gross National Product per capita.
- GNP – total value of a countries' economic production in a particular year
- GNP includes
  - Production of food/goods
  - Provision of services
  - Profits from overseas investments
  - Money earned in the country by foreign people and foreign business.
- GDP is preferred: the money value of all goods/services produced 'within' a country's geographic border over a specific period of time.



# Limits of GDP?

- Provides an overall picture of the state of the economy (easier comparison)
- Enable policymakers and central banks to judge whether the economy is contracting or expanding, whether it needs a boost or restraint, whether recession or inflation is coming.

But, almost universal agreement that GDP alone is an imperfect metric for growth and prosperity. Why?



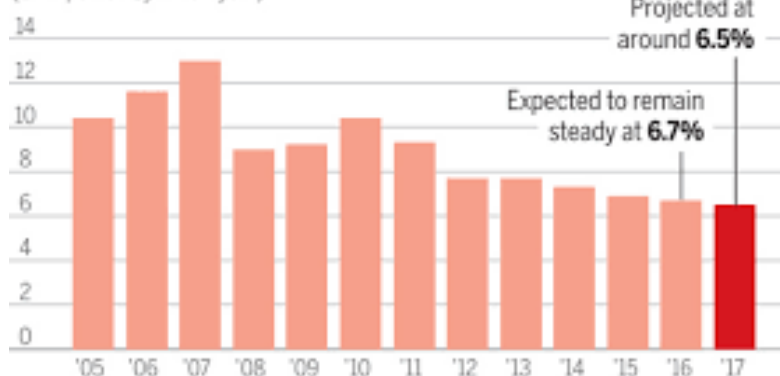


# What GDP Can't Capture

- May fail to capture the complex trade-offs between present and future, work and leisure, 'good' growth and 'bad' growth.
- Has not kept pace with the changing nature of economic activity – e.g. not well suited to account for private/public sector with no physical output / quality & diversity of goods and services / depletion of resources / degradation of the environment, etc. Transformative change in technology.
- Not meant to be an anchor metric for targeting national economic performance or a measure of national well-being.
- Mostly importantly – no indication of distribution of wealth (e.g. China)

## China's annual GDP growth

(Unit: percent, year-on-year)

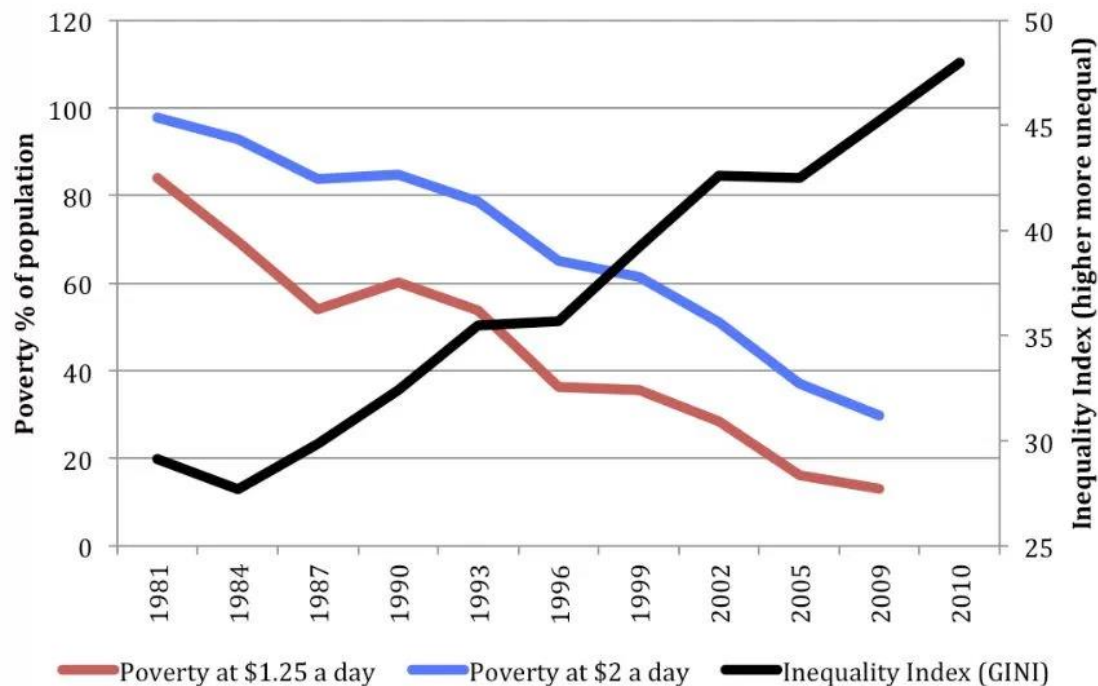


Sources: National Bureau of Statistics, Chinese Academy of Social Sciences

CHINA DAILY

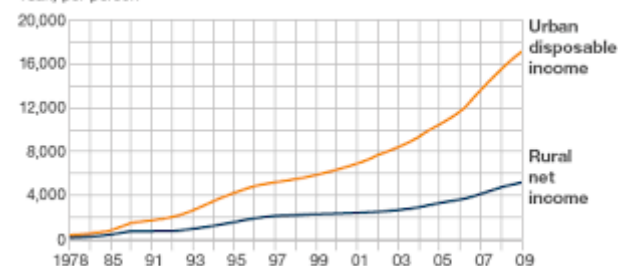
Chart Area

## China: Inequality and Poverty



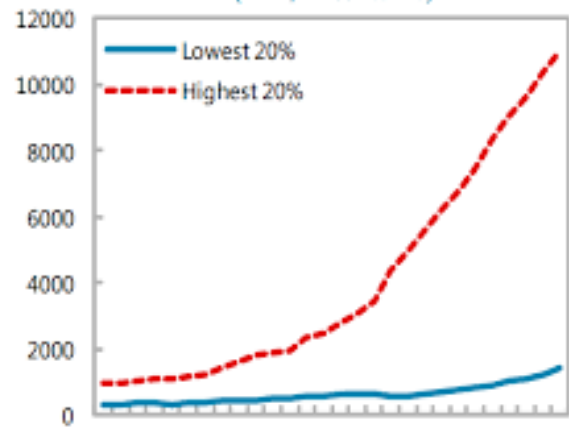
## Income in China: urban vs rural

Yuan, per person



Source: National Bureau of Statistics of China

## Disposable income growth (RMB, in real terms)



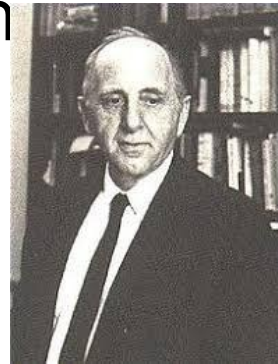
Sources: CEIC China database

# Kuznets



- Simon Kuznets said (1934) puts:

“The welfare of a nation can scarcely inferred from a measure of national income. If the GDP is up why America is down? Distinctions must be kept in mind between quantity and quality of growth, between costs and return and between the short and long run. Goals for more growth should specify more growth of what and for what.”

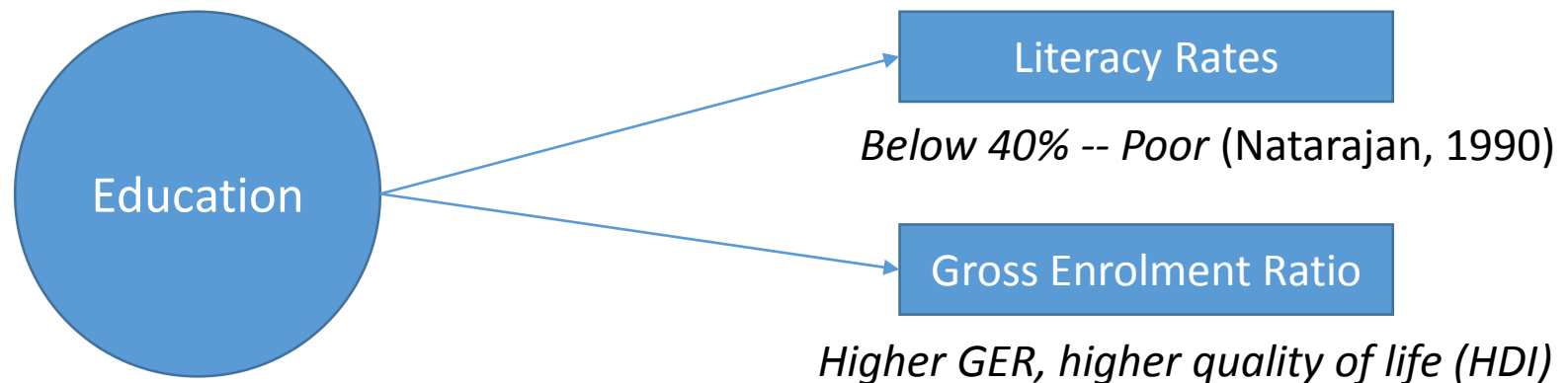




# Alternative, Complementary Measures

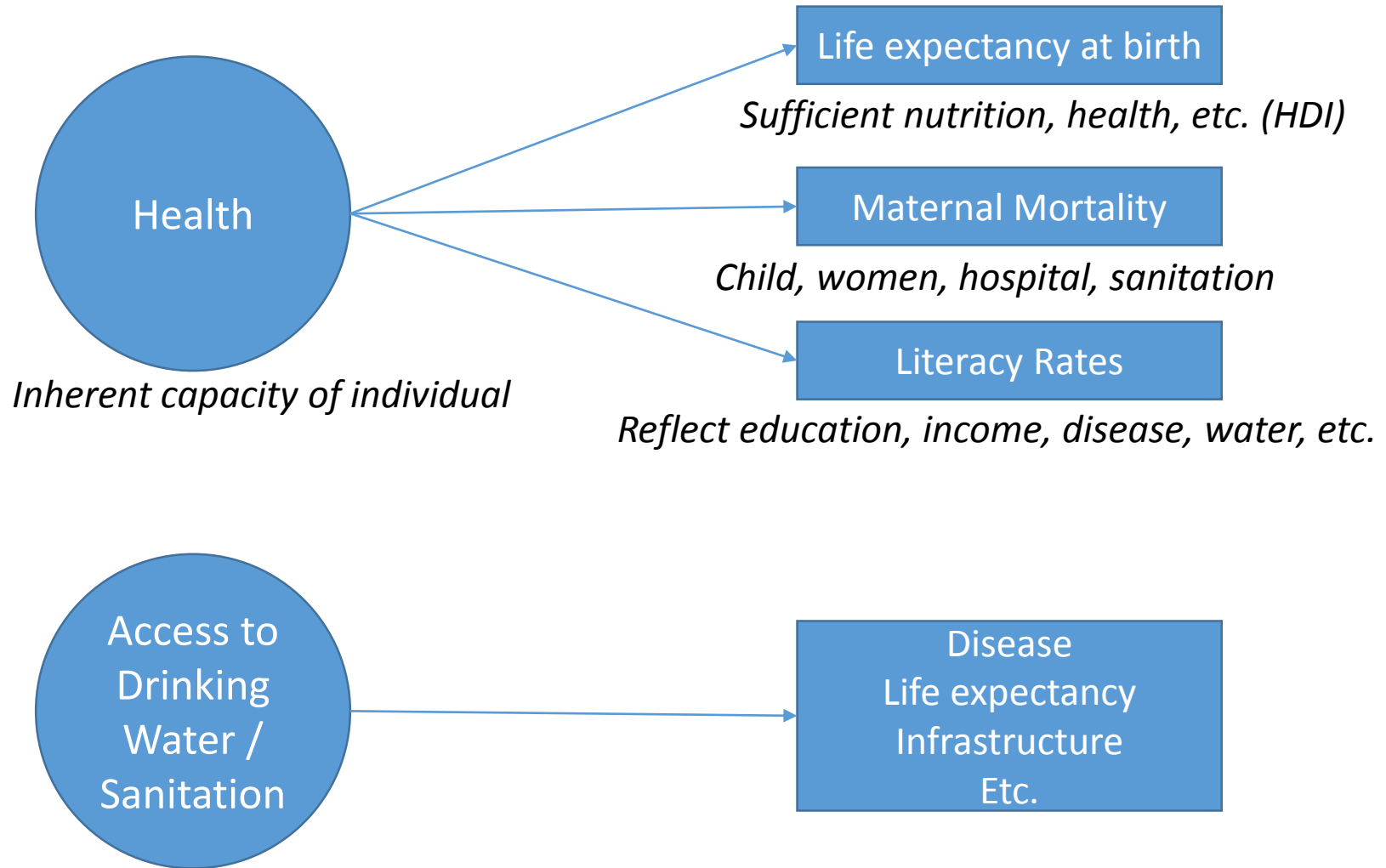


- The aggregate and per capita real incomes are not sufficient indicators of economic development – a multivariate concept having many dimensions.
- Rise of social indicators – e.g. life expectancy, state of prevalent health, housing status, nutritional condition, educational achievement, etc.
- Welfare of the people – difficult to measure.



Primary, Secondary, Tertiary & Higher

# Continued...





# Composite Index of Development

- Trend: Development is measured in terms of composite indices of development that account for different aspect of development. For example,

Physical Quality of Life  
Index

Morris D. Morris  
(1979)

Literacy, life  
expectancy, and  
infant mortality to  
measure quality of life

Human Development  
Index

Mahbubul Haq (1990)

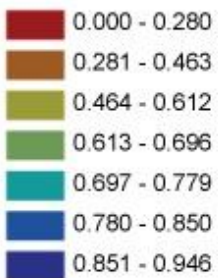
Life Expectancy  
Education  
Per Capita Income

Global  
Multidimensional  
Poverty Index

Oxford & UN (2010)

Severe Deprivations  
Education  
Health and Living  
Standard

# HDI



Quantile classification

## Human Development Index, Demic Framework

## HDI (II)

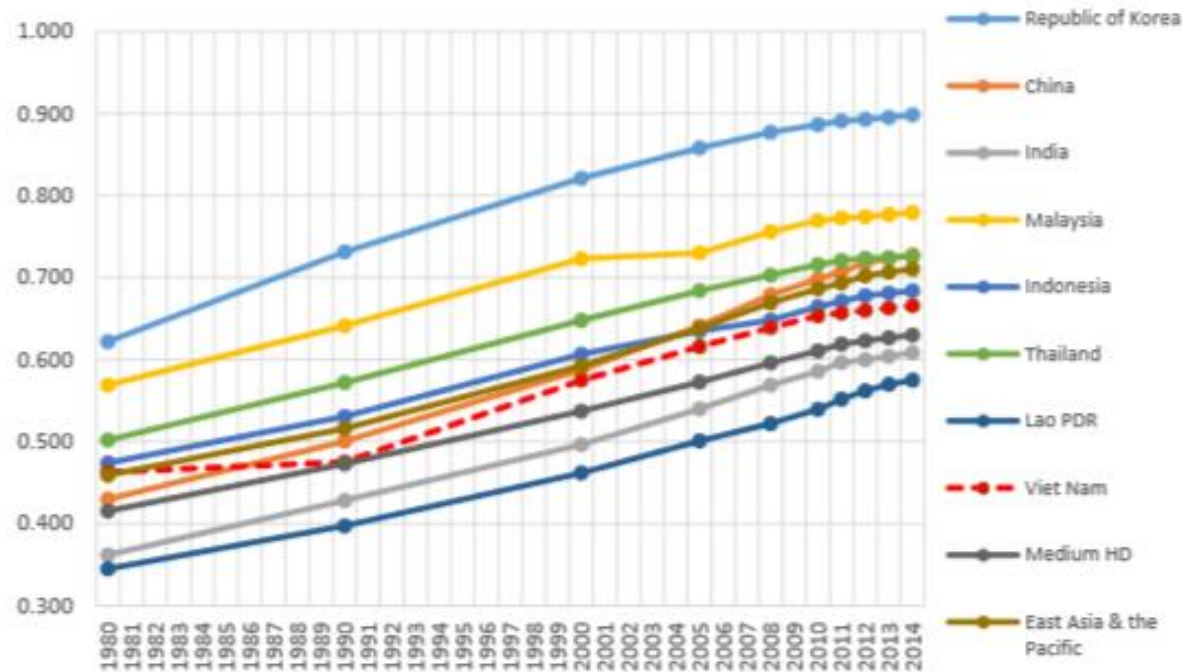


- “To shift the focus of development economics from national income accounting to *people-centered* policies” (Mahbubul-Haq, 1990).
- Whether people are able to ‘be’ and ‘do’ desirable things in life (*‘capability approach’*)
- Calculated by taking three indicators: a. Longevity, b. Educational attainment, c. decent standard of living.
- Sensational – widely viewed, and some governments used HDI to allocate resources (e.g. Argentina, Brazil, Mexico, Egypt, etc.)
- Some critics – a. Simplified (some dimensions of development cannot be measured precisely, b. *overreacted to monetary indicators* (growth))

# Vietnam and HDI (2016)



Vietnam's HDI compared to selected comparator countries



- Vietnam HDI ranking = El Salvador and South Africa (115 / 188 countries) – 0.477 (1990) to 0.683 (2015), by 43.2%
- Belonged to medium development group (38 countries)



# Q&A



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