CHAPTER 11

The Developing States in the International Political Economy

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Summary

Key Terms

less developed countries The poorer states of the South.

This chapter discusses the economic state of countries in the South and the economic and political relations between the wealthier industrialized, or developed, states of the North and the poorer states of the South—the **less developed countries (LDCs).** On many measures, the gap between the economic prosperity in the North and the poverty in the South is growing, although there are positive trends on some dimensions and in some countries.

Various explanations have been offered as to why this gap exists and why it has been growing, at least on some criteria and in some countries. Dependency theory and world economic system analysis, both theories about relationships between developed states and underdeveloped states, posit that those relationships tend to have a deleterious impact on the poor states. They have proved to be popular explanations of problems that developing countries have faced in their quest for economic well-being and political independence. However, in recent years, the *prescriptions* or solutions offered by at least some versions of dependency theory or world economic system analysis have become less influential, even if some of their *descriptions* of the problems that poor countries face retain much of their credibility. Explanations based on economic liberalism focus on the internal policies of states as the cause of underdevelopment, and prescriptions for liberalizing the economies of developing states were accepted and followed by many in the immediate post–Cold War years. Liberalization policies, however, have experienced a backlash as many developed states, even those thought to be most successful, are facing continued economic problems.

After reviewing the alternative explanations of the North-South gap and the various development strategies associated with them, this chapter concludes with a consideration of the apparently emerging consensus about the important role of women in the process of economic and political development in the poorer countries of the world and of the role of diseases such as HIV/AIDS in underdevelopment. Whatever strategies for development are chosen, the implications for addressing the North-South gap are broad because the economic relations between the rich and the poor in the world have ethical, security, and economic consequences.

The Economic Gap Between the North and the South

Poverty, starvation, and glaring inequality in the distribution of the world's wealth constitute a serious problem in many respects. Millions suffer grievously from poverty, and they probably will continue to do so for a long time to come. According to a recent UN report on human development, "In the midst of an increasingly prosperous global economy, 10.7 million children every year do not live to see their fifth birthday, and more than 1 billion people survive in abject poverty on less than $1 a day."[1] Seventeen percent of the population in the developing world in the late 1990s did not have enough to eat.[2] According to economist Jeffrey

Sachs, "the greatest tragedy of our time is that one sixth of humanity is . . . caught in a poverty trap. . . . They are trapped by disease, physical isolation, climate stress, environmental degradation and by extreme poverty itself."[3] Such statistics would be marginally more tolerable, though still distressing, if the situation were improving rapidly. But what makes poverty in the developing world, and the gap between rich and poor countries, politically explosive and ethically even more pressing are the indications that the inequalities are growing.

Map: GDP, Atlas page 26

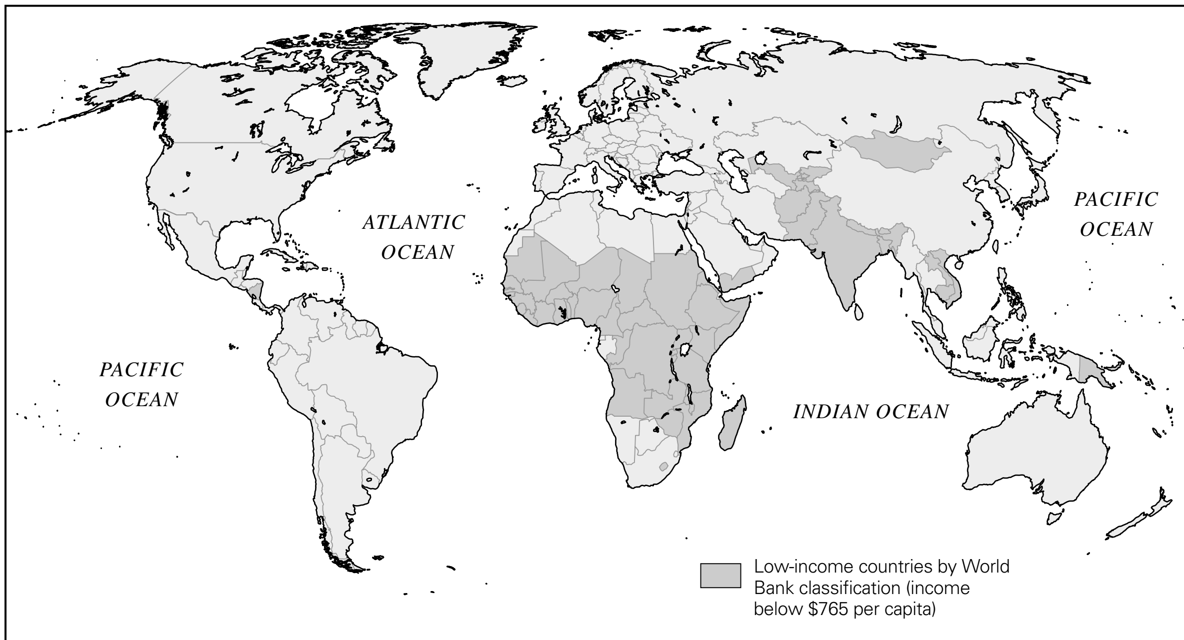
In 1960, the average per capita gross national product (GNP) of countries in the developed world (that is, the United States, Canada, most of Europe, Oceania, Israel, and Japan) was $6,520 (U.S. dollars); in the developing world, the figure was $361, or $6,159 less. By 1988, the average per capita GNP had increased to $13,995 in the world's rich countries and $717 in the poor countries, resulting in a gap of $13,278, an increase of $7,119 over that twenty-eight-year period (as measured in constant 1987 U.S. dollars).[4] Another source reveals that "the gap in per capita income between the industrial and developing worlds tripled, from $5,700 in 1960 to $15,400 in 1993."[5] In addition, "Thirty years ago, the income of the richest fifth of the world's population combined was 30 times greater than that of the poorest fifth. Today, the income gap is more than 60 times greater."[6] This gap can be reduced to an even more human, and perhaps more comprehensible, level by focusing on the estimated 500 people who "have a combined income greater than that of the poorest 416 million. Beyond these extremes, the 2.5 billion people living on less than $2 a day—40% of the world's population—account for 5% of global income. The richest 10%, almost all of whom live in high-income countries, account for 54%."[7]

Some economists object to economic comparisons that simply convert income figures from various countries into dollar equivalents. Until recently, for example, the International Monetary Fund (IMF) used currency exchange rates to do this. Now its economists base their calculations on **purchasing power parities** that take into account what money actually buys in the various countries around the world. Using this measure, the picture of the North-South gap does not look much better. In 2003, the gap between the developing countries (with $4,359 per capita) and the developed countries (with $25,915) was over $21,000.[8]

purchasing power parity A measure of the relative purchasing power of currencies to buy the same goods in different countries.

There is little prospect that this disparity will decrease in the foreseeable future. Assume that per capita GNP grows at 2 percent per year in the developed world and at 5 percent per year in the developing world over a ten-year period. This assumption is rather optimistic, implying that growth rates in the developing world will be two and a half times greater than those in industrialized countries. Even if that rather utopian dream were to come true, the gap between per capita GNPs would still increase by $2,613. Furthermore, "to halve the share of people living on $1 a day, optimistic estimates suggest that 3.7% annual growth in per capita incomes is needed in developing countries. But over the past 10 years

Map 11.1 Low-Income Countries



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only 24 countries have grown this fast. . . . Indeed, many have suffered negative growth in recent years, and the share of their people in poverty has almost certainly increased."[9]

About the best one can realistically hope for are innovations that would produce 5 percent per capita growth rates in the poor countries and 2 percent growth rates in the rich countries for ten years. Slowing growth rates in the rich countries to much less than 2 percent would probably retard the growth rates in poor countries and impose hardships on the less advantaged groups in the rich countries as well. Growth rates of significantly more than 5 percent in the poor countries are probably not sustainable. Yet even if we focus on the differences in the absolute levels of per capita GNPs in a thinking experiment where growth rates in rich and poor countries are arguably ideal, the result seems to be deterioration.

Per capita income data, however, capture only one aspect of reality, and these data can be misleading. They are averages that do not take into account the distribution of wealth being produced. The economy of a developing country may grow very rapidly in terms of per capita GNP as a result of wealth increasingly concentrated in the hands of a select few, while most people remain worse off. In contrast, decreases in the GNP can mask improvement in living conditions for many people in poor countries. Young people make up the majority of the population of most

developing countries. Before recent improvements in health care, many of them died of disease or malnutrition. "An increase in the survival rate of the poorest groups usually promotes . . . a fall in per capita income. . . . The average income in the country can fall even if everybody is materially better off."[10] In short, the survival of the young, who typically have no income at all, can depress a country's per capita income, but the decrease does not necessarily indicate a worsening of living conditions as a whole.

Even in terms of income or GNP data, though, the economic picture in the developing world is not uniformly bleak. From 1970 to 1981, if "we look at annual average growth rates of per capita GNP . . . the top fifteen countries in the world were all developing [countries], far outpacing the figures for industrial countries."[11] From 1990 to 2003, the economies of the rich countries grew at about 1.8 percent a year, while those of the developing countries grew at an average rate of about 2.9 percent a year.[12] Furthermore, a calculation of the distribution of wealth between rich and poor countries using purchasing power parities reveals that by the early 1990s "the share of the world output produced by the rich industrial economies [dropped] to 54% from 73%."[13] Overall, much of humanity is experiencing significant economic progress.[14] Figure 11.1 shows the rise or fall of GDP per capita (as measured by purchasing power parity) in major regions and economic categories of the world.

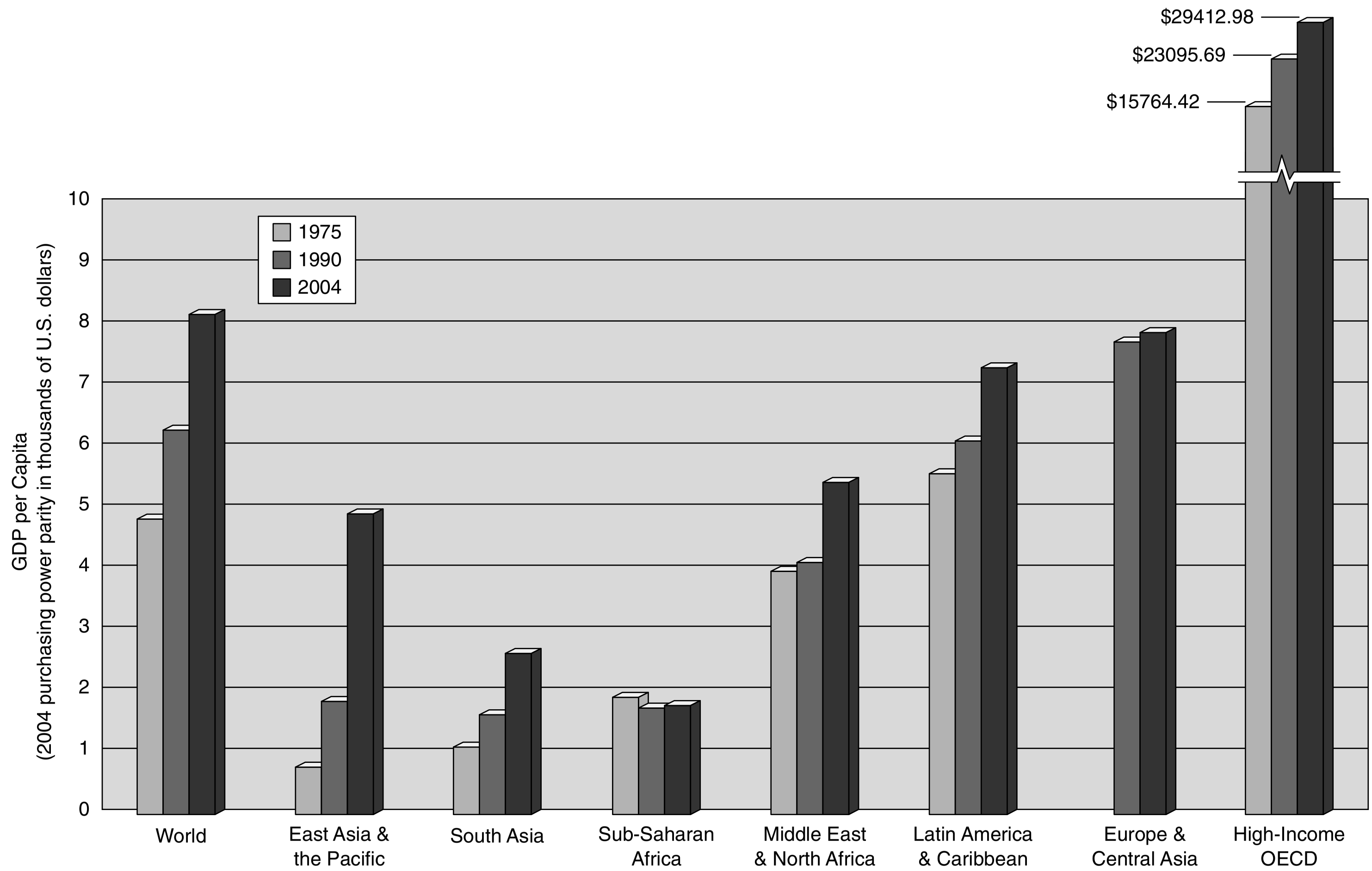
Map: Life Expectancy, Atlas page 13

And if we analyze quality-of-life indicators, such as life expectancy (arguably the most comprehensive statistic available), it is no longer so clear that the developing world is falling further behind the industrialized countries with each passing year. Data on life expectancy are particularly important in this context, "since life expectancy statistics are calculated by looking at how long *all* the people in a given country live. . . . Although a small number of rich people can have enough money to raise the average income in a country far above what the average person has, nobody can live long enough to raise the average length of life very much."[15] In 1950, "citizens of low-income countries had a life expectancy of only 35.2 years,"[16] at a time when the average life expectancy in rich countries was about 65. By the early 1970s, life expectancy in the developing world was about 55, while it had reached 71 in rich countries.[17] Currently, the gap between life expectancy in poor countries and rich countries has diminished to about twelve years, and just since 1990, there has been a two-year increase in the life expectancy in developing countries.[18] The improvements in life expectancy data indicate at a minimum that more people are receiving better medical care. Those data, along with data on calorie consumption,[19] also indicate that more people are getting better access to food.

Human Development Index Composite index of achievements in basic human capabilities, including life expectancy, education, and income.

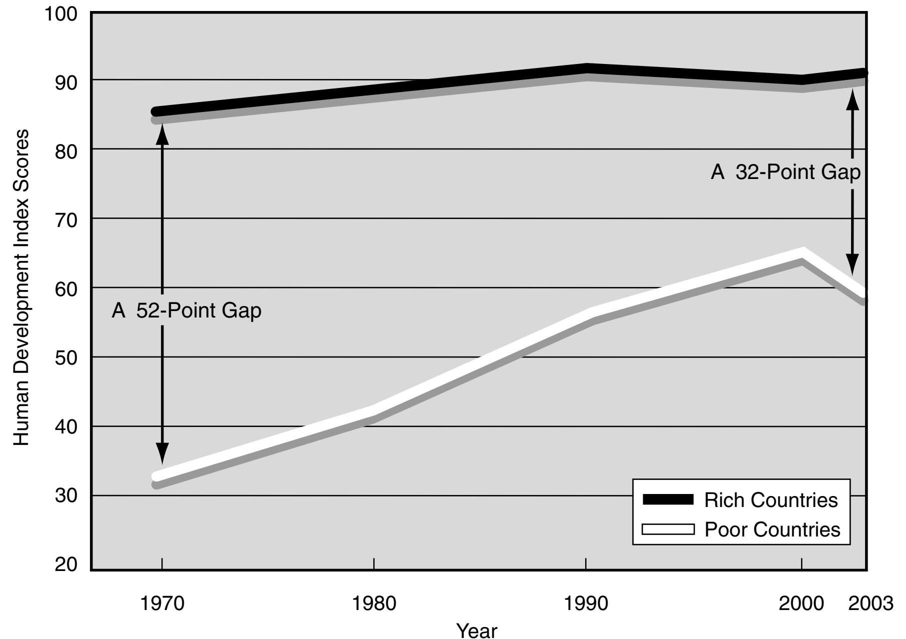
The United Nations Development Programme has created the **Human Development Index,** which "is a composite index of achievements in basic human capabilities, a long and healthy life, knowledge, and a decent standard of living. Three variables have been chosen to represent those three dimensions: life expectancy, educational attainment

Figure 11.1 Global Disparities in Income: Are Regions Closing the Gap?



Source: United Nations Development Programme, *World Development Indicators Database,* 2006. Reprinted by permission of Oxford University Press.

Figure 11.2 The Human Development Gap, Rich Versus Poor Countries, 1970–2003
Source: Based on United Nations Development Programme, *Human Development Report* (New York: Oxford University Press, 1996 and 2005).



and income."[20] Figure 11.2 compares the performance of the industrialized world with that of the developing world in terms of this index over the past several decades. It shows a definite trend toward closing the gap between rich countries and poor countries on the composite, reasonably comprehensive indicator of the quality of life. In short, although it is possible that people in general, and those in poor countries in particular, are more miserable than their counterparts two, three, and four decades ago, despite being healthier, better fed, better educated, and better off, it is not likely. Why are some quality-of-life indicators showing a decline in the gap, while economic indicators are showing an increase in the gap between the North and South? There are several possible explanations, but probably the most important is that many measures in the human development index have a ceiling value. People in the North can become only so literate; there is no improving on 100 percent literacy. Thus, any advance in literacy in the poorer states will close the gap. Economic measures, on the other hand, such as GNP and GNP per capita, have no upper level. Improvements on these measures in the South can occur at the same time improvement occurs in the North, allowing for the gap to increase. Also important is the role of international organizations and nongovernmental organizations that have focused on increasingly available health care and education over the past several decades. These groups have made progress in reducing infant mortality and increasing literacy rates in the South. In contrast, there have not been comparable global efforts to increase economic well-being, partly because of the debates over the proper and effective way to do this.

Map: Literacy, Atlas page 26

Comprehensive data on standards of living in the world as a whole, or regarding comparisons between rich countries and poor countries over time, provide an important basis for the evaluation of pessimistic assertions about catastrophic trends in the distribution of wealth in the world. But most of the data showing recent improvement in living standards in poor countries focus on averages, which can mask large discrepancies between countries in various regions. Much of the improvement in life expectancy in developing countries, for example, is the result of rather dramatic increases in the index of living standards in China and other Asian countries.[21] "The general picture of the developing world in the latter half of the twentieth century painted by international institutions is one of tremendous progress in improving health and raising incomes; child mortality has been cut in half and incomes have more than doubled. . . . These statistics, however, have been skewed by the tremendous health gains and economic growth of China"[22] and other newly industrialized states in Asia. (The liberalization of the Chinese economy is discussed in Chapter 10; other, newly industrialized Asian states are discussed later in this chapter).

While the dramatic improvements in China in particular and many other Asian countries in general should not be overlooked (those countries do contain a significant proportion of the developing world's population), it is also true that "in 2003, 18 countries with a combined population of 460 million people registered lower scores on the human development index (HDI) than in 1990—an unprecedented reversal."[23] Many of these countries and people are concentrated in sub-Saharan Africa. GDP per capita increased at an average annual rate of 5.8 percent in China from 1965 to 1990, but it decreased over the same period in Tanzania, Ethiopia, Somalia, Chad, Zaire, Uganda, Madagascar, Niger, Ghana, Togo, and Zambia. Furthermore, African states make up the vast majority of the states that rank at the bottom of the UN Human Development Index ranking.[24] Available calorie supplies increased by over 700 calories a day in China from 1965 to 1989, but in Ethiopia, Somalia, Chad, Malawi, Burundi, Zaire, Uganda, Madagascar, Sierra Leone, Kenya, and Togo, calorie supplies were lower in 1989 than they were in 1965.[25] Food production in sub-Saharan Africa was 20 percent lower in the 1990s than it was in 1970, when the population was half its current size. The average life expectancy for males in sub-Saharan Africa is forty-six years, nineteen years lower than the average for the developing world and not much better than people living in England in the 1840s.[26] The gap between life expectancy for sub-Saharan Africa and the rest of the world has widened and "HIV/AIDS is at the heart of the reversal. In 2004 an estimated 3 million people died from the virus, and another 5 million became infected. Almost all of these deaths were in the developing world, with 70% of them in Africa."[27]

Map: Nutrition, Atlas page 16

In general, living standards have probably improved in developing countries since the Second World War, perhaps even more rapidly in some

respects than they have in rich countries. But there are tragic exceptions to that generalization involving millions of desperate people.

The International Debt Problem

One of the reasons that the gap between the North and the South has been growing (at least according to many economic indicators) concerns the large amounts of debt many of these countries owe. Any economic progress that is made by a country with large debts is quickly eaten up by debt payments. Many countries spend huge amounts servicing their debt—paying only interest—without diminishing the principal of the original loans. Debt in the developing world takes away resources that could be spent on economic restructuring, research and development, and addressing poverty.

One of the roots of the international debt problem involved the action of the Organization of Petroleum Producing Countries (OPEC) in 1973 of quadrupling the price of oil. The importance of oil to each domestic economy in the world and to international economic intercourse is difficult to overstate. The dramatic change in oil prices set in motion flows of capital and economic changes whose ramifications (almost all negative, including those felt by most of the oil exporters that initiated the price increase) are still felt today. First, naturally enough, the price increase brought billions of dollars to OPEC countries and other oil exporters. They deposited much of that money in large banks in the United States and Europe. Despite the entirely understandable joy created in much of the Third World by OPEC's success, the change in the price of oil put many of those countries in dire economic straits. That problem was dealt with in large measure by transforming a large portion of OPEC profits into Third World debt. "London and New York bankers voluntarily [and for a profit] became risk-bearing intermediaries for transferring the oil money from one group of developing countries—the oil exporters—to another—the non oil-producing, capital starved, less developed countries . . . of the Third World."[28]

In order to understand the tragic nature of what was to follow, it is important to realize first how wise all this seemed in the 1970s. The OPEC price increase had brought the member countries billions of dollars, which they deposited in several of the largest banking institutions in the world. That increase created a crisis for developing countries that needed to pay for their oil imports. What could have been more logical for those countries than to obtain loans from the banks that had recently received huge deposits from the oil exporters? "This recycling of oil wealth was welcomed wholeheartedly by the LDCs that wanted credit for their . . . import needs. It also served the needs of other interested parties. Industrial governments and aid donors also welcomed an easy way to finance poorer countries' import bills. Moreover, the recycling process compensated Western economies for the deflating effect of higher oil payments."[29]

In other words, the fact that banks in industrialized countries could use the deposits from oil-exporting countries to provide loans for which they could charge interest to some extent offset the pain inflicted on Western economies by the higher oil prices.

The recycling process worked rather well in the 1970s. The prices of exports from developing countries rose at an average annual rate of 14.7 percent from 1973 to 1980, and the volume of their exports rose 4 percent a year during that time.[30] Real per capita gross domestic product (GDP) in developing countries grew at an annual rate of 3.2 percent from 1973 to 1980. This rate was not terrific, but considering that the growth rate in industrialized countries was only 2.1 percent in those years, it did not indicate a terrible crisis.[31]

That terrible crisis was soon to come, though, triggered by the second OPEC price increase in 1979. "With the second oil price increase, the [industrialized countries] by and large adopted anti-inflationary macroeconomic policy stances. The result was a severe worldwide recession, sharply falling commodity prices, and the highest real interest rates in the postwar era."[32] In other words, when the price of oil increased dramatically for the second time in a decade, the governments of industrialized countries took several painful steps to protect themselves, mostly to avoid uncontrollable inflation. They raised interest rates; their economic growth slowed. By 1982, the U.S. economy had gone into the deepest recession since the Second World War. Recessions in most other developed countries followed.

The economic slowdown in the rich countries soon led to depression-type conditions in many LDCs. First, world trade slowed to a crawl, and developing countries found it impossible to export their commodities to the industrialized countries. The year 1981 "had the dubious distinction of being the first . . . since 1958 to experience an actual decrease in world trade in current dollar terms, a shrinkage of 1 percent."[33] The value of world trade continued to fall for the next two years. Along with the volume of exports from LDCs, the value of those exports fell as well. Food commodity prices dropped 15 percent from 1981 to 1985. The prices of minerals and metals fell 6 percent during that time. The terms of trade for developing countries, that is, the relationship between the prices of the goods they export and the goods they import, turned against them violently in 1986. They had to export 30 percent more that year to receive the same volume of imports as the previous year; the result was a loss of $94 billion to the developing world. Somewhat ironically, one of the commodities whose prices dropped most precipitously was oil. This meant that developing countries such as Mexico and Nigeria, which had benefited spectacularly from oil price increases in the 1970s, found themselves in the 1980s suffering in a way that was virtually indistinguishable from their oil-starved peers.

Many of the states in the developing world have yet to escape the debt problem of the 1980s. Developing countries had debt service payments,

on average, of 4.7 percent of their GDP in 2003, up from 3.5 percent in 1990. In 1999, debt service ate up over 20 percent of the value of revenue in countries such as Senegal, Zambia, and Bolivia.[34] Overall, the developing world faced severe economic problems in the late 1990s, and many of these problems continue today.

Explanations of the North-South Gap

Why does the economic gap between the North and the South exist and, at least on some measures, continue to grow? So far, theories purporting to answer these questions have been much more numerous than examples of success in attaining these goals. The experience of LDCs in the five decades since the Second World War has discredited one theory after another concerning the most effective ways to speed development.

The Historical Explanation: Imperialism

Most would agree that the roots of the North-South gap lie in the historical relationship between the colonial powers and the areas that they conquered from the sixteenth to early twentieth centuries. As discussed in Chapter 1, world economic system analysis takes a historical view of global politics and how the development of capitalism and imperialism divided the world economy into a core, in which the most advanced economic activities and wealth were located, and a periphery, in which less advanced economic activities occurred and wealth was scarce. Colonialism was in many ways economically detrimental to the colonies. Minerals were exported, with profit going to the colonial powers, economic expertise was often limited to the colonists, and economies were developed in narrow ways to serve the interests of the colonial power. Luxury crops like coffee were planted to serve the needs of the home populations of the colonial powers. The economic gap between the North and the South was thus established during this historical period. The North industrialized, with the help of the resources it extracted from the South, established modern infrastructure, and accumulated capital to continue its economic growth. The South, on the other hand, was forced to remain agrarian, its economic and political structures were dominated and molded to serve the interests of the colonial states, and it lagged more and more behind the development in the North. While most agree that the colonial relationship primarily benefited the North at the expense of the South, some argue that this is not the complete picture. The gap between the areas was in some ways already in place before imperialism began, and it is not clear that the growth in the North was directly due to the imperial relationship. According to one analyst, "commerce between core and periphery for three centuries after 1350 proceeded on a small scale, was not a uniquely profitable field of enterprise, and . . . could in

no way be classified as decisive for economic growth in Western Europe. . . . The commerce between Western Europe and regions at the periphery of the international economy forms an insignificant part of the explanation for the accelerated rate of economic growth experienced by the core after 1750. . . . For economic growth of the core, the periphery was peripheral."[35] Furthermore, it is not clear that the North became rich at the expense of the poor since all regions grew economically during and immediately after the colonial period. "The key fact of modern times is not the *transfer* of income from one region to another, by force or otherwise, but rather the overall *increase* in world income, but at a different rate in different regions."[36]

Also, in this view, far from harming most countries in Latin America, Africa, and Asia, contact with colonial imperialists actually brought some degree of economic progress to those areas. Those few places that were not taken over by Europeans do not seem, on average, to have benefited greatly by that "good luck." For example, "the African states not subject to Western imperialism—Liberia and Ethiopia—are today more backward than those neighbors which [were] colonized."[37] Japan is often cited as a shining example of the good things that might have happened to areas had they not been colonized, because Japan was never formally subjected to colonial status. It is certainly a success story in economic terms. But "Britain and other Western powers imposed treaties upon the Japanese that required something approaching free trade with the rest of the world. In particular, a treaty of 1866 restricted the Japanese to a revenue tariff of not more than 5 percent, which lasted until 1899. . . . Trade immediately expanded, and economic growth apparently picked up speed, particularly in the 1880s and 1890s."[38] It would seem difficult to trace Japan's economic success to lack of contact with the Western industrialized world.

Despite these criticisms of the historical explanation, many after World War II believed that overall, imperialism had been economically devastating to the South. It was widely believed that when the colonial relationship was severed, the states in the South would catch up economically to the North. According to **modernization theory,** the South was simply in an earlier economic stage than the North.[39] From this perspective, Britain, the United States, and the other Western industrialized countries would serve as a historical model that the new countries would try to emulate in their efforts to develop politically and economically. This meant that the new countries should adopt free enterprise systems based on individual initiative and democratic political systems. In general, modernization and development theories, popular in the 1950s, stressed that internal changes in the new states were crucial to their economic development. The people would have to be educated and socialized to give up their "old-fashioned ideas." Urbanization was considered desirable for its impact on the education and socialization processes, and industrialization, with its attendant concentration of

modernization theory Perspective that emphasizes stages of development and expects poor countries to develop as they move from traditional to modern societies and economies.

people in cities and capital-intensive activities, was presumed to be the primary goal of developing countries. All of these processes would be accelerated by a maximum amount of contact between rich countries and poor countries in the form of international trade, foreign investment, and foreign aid.

Based on these assumptions in modernization theory, there was great optimism that the South would quickly escape poverty conditions. After all, many of these states possessed vast natural resources that were now under their control, free from colonial oppression. These optimistic hopes were largely dashed. Overall, the South did not catch up to the North, and, as we have seen, the gap between the rich and the poor in the world accelerated, particularly after the 1960s.

The Neo-Marxist Explanation: Dependency and Neo-Imperialism

Many leaders in the South, as well as many analysts in the North, have proposed one explanation to the continued and growing gap between the North and the South: The exploitative structure of the colonial period was extended with neocolonial structures, even after states gained their independence, and this neo-imperial relationship continued to disadvantage the South in the international political economy. According to dependency theory (introduced in Chapter 1), the states in the South will not catch up with the states in the North until the international structure of the global economy changes.

Dependency theorists argue that after gaining independence, developing states moved into a kind of economic power vacuum when they began the development process. LDCs must now compete in a system dominated economically, politically, and militarily by states that are already relatively rich and powerful. This situation, according to dependency theorists, calls for strategies quite different from those used in earlier days by states such as Great Britain and the United States. Dependency theorists believe that adopting a strategy similar to that relied on by the currently rich countries would perpetuate a process that many economists and historians in the North tend to overlook when they analyze the historical experience of wealthy industrialized states. That process transfers wealth from poorer regions and countries to wealthier countries. Such a redistribution of wealth, in the view of most dependency theorists, is a more or less natural consequence of capitalism. Dependency theorists argue that while economists and historians in the developed states acknowledge that colonialism and imperialism existed, they understate the extent to which economic progress in the rich northern countries was based on exploitation of the currently underdeveloped regions. In short, rich countries got rich, to an important extent, by making poor countries poor. And here again, of course, is a factor pointing in the direction of development strategies quite different

from those used in earlier epochs. Current LDCs have no relatively defenseless, untouched areas available for exploitation—the key to success for capitalist states.

Dependency theorists view the structure of the international system as the reason that they cannot escape the poverty originating in the colonial period. In particular, the structure of international trade, aid, and investment by multinational corporations works against the interests of the South. These economic structures are backed by powerful military and political structures, primarily through the foreign policies of the United States, to maintain the neo-imperialist economic domination over the South.

Why, according to dependency theorists, does international trade tend to have a deleterious impact on poor countries? The main argument is that many poor countries depend heavily on the export of one or two raw materials or commodities; that is, they suffer from commodity concentration. They developed this reliance in the historical process of becoming integrated into the capitalist world system. As long as they depend on international trade (as most LDCs do for a very large proportion of their GNP), and especially if they are also heavily dependent on one key trading partner (often their former colonial power), they will never break out of this role to which they have been relegated in the world's division of labor. The problem is exacerbated by the rich countries' refusal to abide by the free trade doctrine when it does not suit their purposes. They erect high tariff barriers or adopt quotas to protect their own domestic economic interests against competition from cheap labor or cheap commodities in the poor countries. Indeed, the GATT trading regime seems to have worked against the South as the North has negotiated free trade for what it exports (manufactured goods) and kept protectionist barriers for goods for which the South has a comparative advantage (primary products).

Map: Exports, Atlas page 24

Map: Imports, Atlas page 25

terms of trade Prices of exported goods relative to imported goods.

Dependency theorists also argue that the **terms of trade** involving the primary products on which developing countries depend have deteriorated steadily. That is, the amount of a given raw material they must export to get a manufactured product in return keeps growing. For example, the amount of rice that Myanmar must export to obtain a refrigerator from some industrialized country keeps getting larger as the years go by. Also, the prices of raw materials and commodities fluctuate in a notorious fashion. Occasionally, the prices of exports from developing countries, such as copper, coffee, or sugar, have been very high, and the producers have experienced temporary windfalls. But in the next year, the prices of those same products have dropped precipitously, and the developing countries that export them have suffered grievous balance-of-trade deficits and other painful dislocations in their highly vulnerable economies. Thus, because the South primarily earns its living by exporting primary products and because the prices of primary products are unstable, these countries are disadvantaged compared to the North and its exports of manufactured goods with stable prices.

overseas development assistance Foreign aid, aimed at economic development.

From the viewpoint of dependency theorists, foreign aid (or **overseas development assistance**) also serves the interests of the North because aid often supports elites in dependent countries whose interests are tied more closely to the elites of the richer capitalist countries than to their own countries. The elites often use that aid to suppress people who would like to achieve a degree of national autonomy. Furthermore, aid builds up debts that poor countries have a great deal of difficulty repaying. They must structure their economies in such a way as to earn foreign exchange rather than to feed the people in their own country. Foreign aid, dependency theorists also complain, is usually "tied." That is, it can be spent only on products or services provided by the donor country. In this way, it serves primarily as a crudely disguised subsidy to the corporations and firms that provide these products and services to the countries receiving foreign aid.

In recent years, when foreign aid levels have dropped, private banks have to some extent stepped in where governments have backed out. Now many developing countries (Mexico and Brazil, for example) have crushing debts to private banks, and those debts have the same deleterious effects as debts to governments for foreign aid. Also, particularly now that poor countries have built up international debts, to qualify for more aid or loans they must follow recommendations for restructuring their economies laid down by international organizations such as the International Monetary Fund (IMF) or the International Bank for Reconstruction and Development (IBRD). The reform efforts advocated by the IMF in particular (and based on economic liberalism) call for the governments of developing countries to abolish import controls, devalue their exchange rates, curb government expenditures (often on social services or food subsidies for the poor), control wage increases, and welcome foreign investment:[40]

> The IMF and IBRD impose stringent conditions on their borrowers; conditions . . . [according to dependency theorists] that open the door for their penetration by the trade and investment of rich states. . . . Less developed countries not willing to conform to IMF and IBRD suggestions find themselves denied not only loans from these institutions but also credit through private channels or bilateral aid programs.[41]

Thus, from the point of view of dependency theorists, foreign aid is a form of neocolonial political control only slightly more subtle than old-fashioned colonialism. Foreign aid is, in short, a form of imperialism.[42]

Furthermore, dependency theorists point out that the international power structure supports the dominance of the North over the South in the international economic structures. Specifically, foreign policies of the United States are argued to work to the advantage of U.S. business interests. Especially during the Cold War, the United States consistently and energetically supported the status quo in many developing countries. In Iran, Guatemala, and Chile, to name only a few of the better-known cases,

the U.S. Central Intelligence Agency (CIA) helped subvert governments that were not deemed sufficiently friendly to the U.S. government or American economic interests. Elsewhere, reactionary governments have been sustained by foreign aid, military aid, and private sources of financial support. According to some critics of U.S. foreign policy, the pattern of support for the status quo throughout the developing world is motivated primarily by a desire to make the world safe for capitalism.

The Role of MNCs in Economic Dependency

The economic powers in the world also work to support MNC activities in the developing world, according to dependency theorists.

MNCs attract criticism, in part, because they are so large. In fact, many of them, by some measures, are larger economic units than are developing countries themselves. As noted in Chapter 4 in the discussion of these corporations as important examples of transnational actors, if the GNPs of countries are compared with the gross annual sales of MNCs, several of the largest economic units in the world are not states but corporations.

According to dependency theorists, foreign investment in developing countries by MNCs does much more harm than good. For example, MNCs take more money out of countries in the form of **repatriated profits** than they put into them. During the 1960s, for example, when approximately $1 billion of capital was transferred to U.S.-controlled subsidiaries in developing countries, about $2.5 billion was being withdrawn annually from those same subsidiaries.[43] A U.S. Department of Commerce study estimated that in 1989, foreign investment in general generated income of $53.6 billion, while the flow of capital out of the United States in that year was only $31.7 billion, thus confirming the suspicions of those in developing countries who believe that MNCs generate a net flow of money out of, instead of into, their countries.[44]

repatriated profits Money from investment that leaves a country and is returned to the investor's home country.

And when MNCs engage in outsourcing—producing goods overseas primarily for export back home—there may be little investment in the local economy:

> The U.S.-Mexican border, with its two thousand or so maquiladoras ["assembly plants"], is perhaps the best-known example of such a zone. This zone provides U.S. MNCs with comparatively cheap, nonunion labor, in sites close to the large U.S. market. Taxes and tariffs are virtually eliminated, and environmental and labor laws are weakly enforced. U.S. MNCs in the garment, electronic, and auto industries have flocked to the zone, importing parts from the United States for assembly in Mexico and then shipping the finished products back to the United States. . . . The problem for some host countries [such as Mexico] is that such MNCs sink few deep roots into the economy, transferring little research and development and developing few linkages with local firms.[45]

Multinational corporations are now present in almost every developing country around the globe. These workers are some of Nike's 50,000 employees in Vietnam. Nike is one of Vietnam's largest private employers.
(© Steve Raymer/Corbis)

In addition, critics of MNCs point out that these companies do not bring much money into developing countries. They borrow from local sources or reinvest profits that they have earned in other foreign countries. "Over the 1966 to 1976 period, 49 percent of all net new investment funds of U.S. transnational corporations in the less developed countries were reinvested earnings, 50 percent were funds acquired locally, *and only 1 percent were funds newly transferred from the United States.*"[46] In short, "the financing of foreign investment is done largely with host-country, not foreign, capital."[47]

If MNCs have such bad effects, one might reasonably wonder why so many developing countries welcome them with open arms. (In fact, there are few, if any, countries in the world today that do not actively seek foreign investment.) The answer, according to dependency theory, is that MNCs co-opt the leadership and elites of poor countries, bribing them, in effect, to accept foreign investment that benefits those leaders and a small elite but is detrimental to the country as a whole. Others contend that MNCs are not as bad as dependency theorists claim. Some defenders of MNCs argue that they do supply much-needed capital to developing economies and that in addition to the investment money they bring in, they also serve to improve the balance of payments of those poor countries by adding to their exports and by manufacturing products locally that would otherwise have to be imported.

Defenders of MNCs claim that most of the criticisms of MNCs are based on misunderstandings or misinformation, or both. Consider the comparison of inflow of investments by MNCs and outflows of repatriated profits for

a given period of time. It is true, MNC defenders concede, that these comparisons typically show that the global companies take more money out of a country than they put into it. But such comparisons are irrelevant or misleading. The fact that corporations took more money out of a country in a given year—for example, 2007—than they put into that country in the same year does not prove that the country is being decapitalized, or otherwise impoverished, by the activities of the MNCs, because what comes out of a country in the form of repatriated profits in a particular year is not a function of the direct investments that went into that country during that time. Rather, the profits of 2007 are the result of corporate investments over several previous years. Such comparisons also ignore the fact that once capital is invested in a country, it forms the basis of a capital stock that can grow and produce more with each passing year.

In addition, the comparison of inflows and outflows of capital ignores the multiplier effect of the original investments. Each dollar invested expands the economy by some factor greater than one. A dollar paid in wages is used by the worker who earns it to buy groceries, the grocery store owner buys a pair of shoes, the shoe-store owner invests the dollar in some new furniture, and so on.

This is certainly not the end of the controversy surrounding MNCs. Corporate spokespersons argue that their companies transfer technology and management techniques necessary for economic development to developing countries. Critics respond that, on the contrary, the technology introduced by MNCs is capital intensive and thus inappropriate for the economies of developing countries for two basic reasons. First, although these states have an abundance of labor, the technologically sophisticated equipment MNCs use limits the need for a large labor force.[48] Second, "in countries where the overall key legal institution governing economic relations is the private ownership of productive resources . . . it follows that the larger the proportion of total output due to capital-technology resources, the greater the amount of income going to the owners of those resources."[49] So, in addition to creating unemployment, this capital-intensive technology can exacerbate the already unequal distribution of wealth in developing countries.

Supporters of MNCs argue that they provide products to consumers in poor countries that would not otherwise be available for purchase there. But, skeptics ask, is it not true that the Coca-Cola that MNCs supply to the poor, and the large cars they provide for the few rich people there, are products that a developing country would be better off without? Surely it would be better if the poor invested their meager economic resources in milk for their children, and if the rich diverted their wealth from the wasteful conspicuous consumption encouraged by MNCs to create domestically owned productive capacities vital to long-term economic development.

Many researchers have tried to determine the overall impact of MNCs on developing economies by statistically analyzing the relationship between foreign investment and economic performance.[50] Some have found

that foreign investment in less developed countries (LDCs) retards economic growth; additional analyses reveal correlations between foreign investment and inequalities in the distribution of wealth.[51] But the weight of contrary evidence is such that conclusions regarding these controversies must be even more than normally tentative. However, an increasingly common opinion about the impact of MNC investment in developing countries is that the nature of the impact depends on how the government of a given country deals with it (and how it is dealt with is not inevitably determined by the presence of the investment). In other words, MNC investments can have negative effects, but if they are handled properly, they can bring substantial benefits. As one noted scholar of international political economy concludes, MNCs are "neither as positive nor as negative in their impact on development as liberals or their critics suggest. Foreign direct investment can help or hinder, but the major determinants of economic development lie within LDCs themselves."[52] More recently, analysts have concluded that "FDI flows have a more strongly positive effect on economic growth in countries that have made significant investments in education and worker training than in countries that have not done this."[53]

The largest recipient of FDI in recent years has been China, which has seen phenomenal economic growth (see Chapter 10). Of course, that does not necessarily prove that such investment is generally beneficial. It could mean that national leaders in poor or developing countries have reached a unanimous consensus about FDI that is mistaken, or perhaps that the investments help them and a small group of favored constituents rather than the country as a whole. Some of the issues involved in this debate about MNCs are outlined in the Policy Choices box.

Critics of MNCs argue that any developing country that attempts meaningful political reforms may find such efforts stifled by the formidable opposition of MNCs. The spectacular example supporting this argument involves the activities of International Telephone and Telegraph (ITT) in Chile when Salvador Allende was in power in the early 1970s. It has been established that ITT offered the CIA funds to carry out subversive activities in Chile and that the CIA later did engage in such activities (although it has never been definitively established that the CIA accepted ITT financial support for those ventures). Allende's overthrow by the Chilean military on September 1, 1973, is just an extreme example, MNC opponents contend, of the preference of MNCs for right-wing regimes that can ensure "stability" through political oppression and their willingness to take active measures to install or maintain such regimes in power.

One study of cash flows from MNCs to developing countries from 1975 to 1986 set out to determine whether MNCs prefer to invest in countries with high degrees of repression and violations of human rights, or in countries with less repressive governments and relatively vigorous programs devoted to strengthening human rights. The analysis reveals that "MNCs in general [forgo] locating larger amounts of [foreign investments] in those [developing countries] that consistently implement fewer human

POLICY CHOICES

Dealing with MNC Investments

ISSUE: MNC investments in developing countries can provide potential benefits but at the cost of depending on corporations whose home bases are elsewhere and whose long-term interests are more congruent with those of rich, industrialized countries.

Option #1: Discourage foreign direct investment and provide political and economic protection for corporations owned and operated by local interests.

Arguments: (a) Local talent may take a while to develop a viable corporation, but in the long run, local firms will serve the economy of the country better than subsidiaries of foreign corporations will. (b) Foreign subsidiaries are more difficult to control than are local firms because they can always threaten to shut down the local subsidiary and move production to countries with more pliant governments. (c) Reliance on foreign investment makes a poor country more vulnerable to the negative impact of economic setbacks in rich countries.

Counterarguments: (a) Local firms will produce more expensive goods for local consumers, who will have to pay higher prices for many years until the domestic firms become as efficient as giant MNCs. (b) Local firms face severe disadvantages in their attempts to export their products. MNCs already have vast international networks of contacts and familiarity with numerous markets in different regions of the world. (c) Few countries have achieved economic success using the politics of autonomy or self-reliance. Many countries that have tried such policies so far, such as North Korea, have instead brought on economic disaster.

Option #2: Foreign direct investment can be actively encouraged; for example, by providing tax breaks to MNCs that establish subsidiaries.

Arguments: (a) Competition between foreign and domestic firms, as well as the typical higher levels of efficiency achieved by MNCs, will result in lower prices for consumer goods in countries that encourage foreign investment. (b) Subsidiaries of foreign firms will achieve greater success than local firms would by exploiting export markets around the world. (c) Foreign firms will bring with them technological and administrative know-how that will yield benefits in the countries where they establish subsidiaries.

Counterarguments: (a) Reliance on foreign subsidiaries will make the country vulnerable to decisions made by corporations with foreign headquarters. (b) Increased integration with recent globalizing forces in the worldwide economy often seems to exacerbate economic inequality. (c) Foreign subsidiaries may engage in practices harmful to the environment of the country in which they are established; any attempt to curb those practices will be met with threats to close down that subsidiary.

rights reforms."[54] The general conclusion of this study, based on patterns found in MNC investments, is that "it does not appear that MNCs view a lack of human rights reforms and the high use of repression in [developing countries] as acceptable."[55]

But it is also apparent that at least some MNCs in some places may currently be taking unfair advantage of their power and influential

position in the global economy in undesirable ways. Nike, for example, has been accused of a wide variety of abuses, especially in such countries as China, Vietnam, and Indonesia, including "wretchedly low wages, enforced overtime, harsh and sometimes brutal discipline, and corporal punishment."[56] Another similar report points out that "a worker making Nike running shoes in Jakarta, Indonesia, for example, makes $2.28 a day. . . . The wage paid in Indonesia is not sufficient to live on. The Indonesian government admits that an individual needs no less than $4 a day to pay for basic human needs in an urban area such as Jakarta."[57] At first, the company responded by denying knowledge of poor working conditions, but later, in response to boycotts and protests, it announced several changes in policies, including raising its minimum working age in its factories.[58]

Nike is, of course, only one example. It has been reported that "in the world of Asian laborers, which makes goods that line the shelves of American, European, and Japanese stores, workers get fired for leaving their machines to go to the bathroom. Bosses punish tardy workers by making them stand in the sun for hours."[59] The use of child labor by MNCs in Asia and elsewhere has been widely documented.[60] Because of consumer awareness and pressure by nongovernmental advocacy groups, however, there is a growing acceptance by MNCs that they must abide by a certain **corporate social responsibility** in their business practices. Fairly recently, for example, Oxfam International has led a push for the jewelry industry to limit itself to selling responsibly mined gold. "These changes are partly coming about . . . because gold mining's environmental and social impacts have become impossible to ignore, especially in developing countries where [violent conflicts], political protests, corruption, and displacement of indigenous peoples have often accompanied mining."[61] MNCs may, for example, adopt internal policies designed to show that they are treating their workers and the environment according to international norms. They also may agree to sectorwide standards, such as the Apparel Industry Partnership, designed to improve working conditions in garment factories. Finally, they may abide by the UN Global Compact, which draws on nine principles from UN human rights, labor, and environmental treaties.[62] All of these mechanisms for corporate responsibility are voluntary and

corporate social responsibility Idea that corporations are accountable for the social, economic, and environmental impact of their decisions and operations.

> there are vigorous debates over which codes, standards, and reporting techniques are more effective in raising corporate behavior and improving labor, human rights, and environmental practices. Many are too new to be able to fully assess; MNCs are still in the adoption and implementation phase. . . . [But] the explosion of CSR [Corporate Social Responsibility] codes and implementation techniques shows a rising acknowledgement of the power of private governance and the power of corporations to implement social and economic change.[63]

Despite the continued controversies over the economic, political, social, and environmental consequences of MNCs to developing countries, it is quite clear that "most governments seem reconciled to the prospect that, even if the costs seem high, they cannot cut themselves off from their access to global technologies and global markets, and from institutions such as multinational enterprises that contribute to that access."[64]

The Economic Liberal Explanation of Underdevelopment

Proponents of economic liberalism (see Chapter 10) disagree with dependency theorists. They argue that the international economic structure, if based on economic liberal ideas, will benefit all, both rich and poor. International trade based on the principle of comparative advantage and investment by multinational corporations is the key to all economic growth. Economic interdependence is good for the South: It allows these countries to acquire markets, capital, and technology for development.

The fundamental source of disagreement between economic liberals, on the one hand, and dependency theorists and world economic system analysts, on the other hand, is the starkly different estimates of the relative impact of external and internal factors on the process of development. Economic liberals believe that the changes necessary to bring economic progress to LDCs are largely *internal* to those countries. In short, internal domestic political and economic changes that involve liberalizing the country to remove political and social obstacles to the function of the free market are the key to economic progress. Dependency theorists do not deny that internal changes are necessary (indeed they see the elites within poor countries as a critical problem), but from their point of view, economic liberals seriously underestimate the extent to which the problems of LDCs are caused by factors *external* to those countries, such as the structure of the international economic and political environment. World economic system analysts also point out the historical structure of the relationship between imperial powers and the colonized areas as the primary cause for the North-South gap. For these reasons, dependency theory and world economic system analysis are structural theories, whereas economic liberalism is not.

The liberal criticism of the structural theories often points to the successful economic development story of several countries in East Asia. The argument is that these states prove that poor states can experience economic growth despite, or because of, the current international economic structure.

The "Economic Miracle" of East Asia

The development success stories in East Asia came to be referred to as the "Asian Tigers." Singapore, South Korea, Taiwan, and Hong Kong (the

so-called Tigers) were seen as remarkable achievements in economic development (see Map 11.2). And these states, part of a group known as the **newly industrialized countries (NICs)**, have not just achieved a rapid rate of growth in the aggregate size of their respective economies. Even large increases in the GNP can leave much of the population no better off, or even relatively worse off than before, compared with only a few beneficiaries of such increases. But the Asian Tigers "have apparently been able to overcome strong cross-national patterns suggesting that 'good things do not tend to happen together.' . . . The East Asians' record of 'growth with equity' sharply distinguishes them from other developing countries that have also undergone rapid growth."[65]

newly industrialized countries Countries that have experienced fairly recent economic development, such as the "Asian Tigers": Singapore, South Korea, Taiwan, and Hong Kong.

Map 11.2 The Asian Tigers

This economic success was troublesome for dependency theorists because the Asian Tigers followed development policies that were quite different from those advocated by dependency theory. All four became closely integrated into the world's economic system and achieved success by stressing a high volume of exports to the industrialized states. "Dependency analysis . . . had not predicted and could not explain this record of economic growth and industrial diversification."[66] For these reasons, "by the end of the 1970s the World Bank had singled out the four Asian NICs as models to be studied by the second rung of developing countries."[67]

The Asian Tigers took the lead in transforming the relationship between LDCs and the industrialized countries in the area of international trade, something that dependency theory suggests LDCs cannot do because they are trapped in a role in the international trading system in which they export mostly primary products and commodities. But in fact, "while manufactures amounted to merely 5 percent of all Southern exports to the North in 1955 and only 15.2 percent in 1980, they had jumped to 53.5 percent by 1989."[68] And this trend was not wholly due to the Asian Tigers. In fact, nations accounting for about two-thirds of the population of the developing world have successfully severed dependence on their single largest traditional primary export. Diversification of exports for developing countries has progressed to the point at which "manufactures are rapidly claiming an ever larger share of exports in most developing countries, and already have a share in exports almost equal to primary products in countries representing the majority of population in the developing world."[69] Manufactured goods now account for 80 percent of the value of the exports from developing countries and one-fourth of all manufactured exports in the world.[70] In short, the four Asian Tigers have demonstrated convincingly that it is not true that the international economic and political structures permanently relegate developing countries to the role of exporting only primary products. Their success in escaping that kind of role has been

duplicated elsewhere well enough to argue that it is quite relevant to the rest of the developing world.

In fact, several additional East and Southeast Asian nations went a long way toward duplicating the success of the original Tigers in the 1980s. Most East Asian countries following an outward-looking, export-oriented development strategy during the 1980s enjoyed "per capita income growth of more than 7% . . . a record exceeding anything experienced."[71] In Malaysia, high economic "growth has been associated with full employment, low inflation and Malaysia's economic transformation from a producer of primary commodities to a manufacturer of sophisticated industrial goods. . . . The income of the poorest 40% of the population increased by 9% a year in 1973–93."[72] Indonesia also rapidly expanded its exports and reduced its incidence of poverty from 29 percent to 17 percent from 1980 to 1990. Life expectancy in Thailand was 63 in 1984[73] and increased to 69.2 by 1993.[74] As discussed in Chapter 10, China became very export oriented and open to foreign investment. By 1991, it was the second-largest recipient of foreign investment in the world.[75] During this era of increased openness and export orientation, "some 150–200 million people, equivalent to half the population of Western Europe, have worked their way out of poverty . . . a revolution in wealth-creation on a scale unparalleled in modern history."[76] More recently, "during the 1990s, India liberalized foreign trade and investment with good results; its annual per capital income growth now tops four percent. It too has pursued a broad agenda of reform and has moved away from a highly regulated, planned system."[77]

Generally speaking, if you divide developing countries into two categories—those who have opened up their economies and those who have not—the former group has experienced more economic growth. Moreover, inequality within those countries has not necessarily followed.[78] Yet many states have not been able to duplicate this type of export-led success. While developing states as a whole now account for a significant portion of manufactured goods, "much of the developing world has little more than a toehold in manufacturing export markets" and "after more than two decades of rapid trade growth, high-income countries representing 15% of the world's population still account for two-thirds of world exports."[79]Although the early success of these states is used by economic liberals to support their arguments about the causes and solutions for development, several dimensions of the experiences of many rapidly developing East Asian states do not discredit dependency theory but rather validate at least some of its points. One study of Taiwan's experience points to several aspects of its evolution that support dependency theory. Taiwan has demonstrated, for example, the importance of "the eradication of colonial institutions, effective land reform, government-directed structural transformation, national management, and regulation of foreign multinationals."[80] Furthermore, "the socio-economic structure and the patterns of income distribution in South Korea and Taiwan were

relatively egalitarian even before the transition to export-led growth, in large part because of the extensive business/commercial re-structuring and comprehensive agrarian reforms that had been undertaken in these countries in the 1940s and 1950s."[81] Dependency theory tends to advocate protective tariffs as a means of isolating developing countries from some of the harmful effects of the international economic environment. "All of the East Asian [countries], with the exception of Hong Kong, used protection to develop infant industries, even after the shift to an export-oriented strategy."[82]

And quite contrary to the principles of economic liberalism, "the authoritarian regime of South Korea . . . achieved spectacular growth rates by practicing command economics. . . . Government incentives, subsidies, and coercion fueled the drive for heavy industry in such areas as iron and steel that market forces would have rendered uncompetitive in the early stages."[83] In general, scholars analyzing the success of the East Asian states have often "emphasized the pattern of extensive state intervention in the market,"[84] and one prominent analyst of the success of East Asian economies concludes that "*most* Anglo-American development economists have a mistaken understanding of Korea and Taiwan as 'low-intervention' countries, especially with reference to trade, and they rely on this mistaken understanding to validate a low-intervention prescription elsewhere."[85] The rapidly developing states of East Asia (and the United States and Western Europe, for that matter), then, have neither adhered zealously to principles of free trade and the free market nor entirely avoided some of the policies that dependency theorists might suggest. But they do call into question fundamental tenets of dependency theory regarding self-reliance and breaking away from the world capitalist system. The use of the rapid progress of East Asia as a model for economic development elsewhere is, however, even more questionable since the economic crises hit these countries in the late 1990s, as discussed in Chapter 10.

Development Strategies for the South

Various strategies have been offered as ways for the poorer states to develop and close the North-South gap. Development strategies are related to the explanations of underdevelopment just reviewed. In other words, dependency theorists who believe that the cause of economic underdevelopment is the international structure will support very different development strategies than will economic liberals, who believe that the cause of economic underdevelopment lies in internal political and economic conditions. Although various theories have been more or less popular at different times, there has yet to be a complete consensus on which strategy represents the best chance for economic development.

Strategies Associated with Dependency Theory

import substitution strategy Policy to develop and protect industries to produce goods that a country has been importing.

If, as many dependency theorists believe, the international political and economic structures continue to work to the advantage of the North and simply exploit the South in a neo-imperialist fashion, then the solution to this condition of dependence is more independence. This is the goal of a developmental policy known as the **import substitution strategy,** which was particularly popular in the 1960s in Latin America and was advocated by some of the original dependency theorists, who were from that region. "The import substitution path taken by countries like Brazil and Mexico can best be described as a series of stages during which these countries moved from being exporters of primary commodities to developing an indigenous industrial base."[86] States following this strategy protected infant industries with tariff and nontariff barriers, curtailed imports, and tried to create a niche in manufacturing goods that could benefit from better terms of trade. Thus, rather than being dependent on the North for these higher-priced goods, they would become more self-sufficient. For some countries, like Brazil and Mexico, this worked for a while. "Through this strategy . . . Brazil, Mexico, and others were able to generate sustained economic growth. Brazil had a 9 percent annual average growth in GDP between 1965 and 1980. Mexico and Venezuela lagged behind but still averaged a growth rate of 6.5 and 3.7 respectively."[87] These growth rates did not compare to the Asian Tigers, did not distribute growth equally within the countries, and did not last into the 1980s. The debt crisis that afflicted Latin American countries in the 1980s and the slowdown in growth rates severely discredited the import substitution strategy.

New International Economic Order (NIEO) Name used to describe the developing states' goal of a reformed, more equitable international economy.

Group of 77 A coalition of developing states, now numbering over 100, that seeks to address the economic gap between the North and the South.

In addition to advocating import substitution strategy as economic development policy for individual countries, there have been collective efforts on the part of the South to address the global gap between rich and poor. Regardless of policies that LDCs might adopt, many economic and political analysts are convinced that the gap cannot be closed unless the globe's entire economic system is transformed. In the 1970s, this basic idea culminated in the call for a **New International Economic Order (NIEO).** Dependency theory was influential in developing ideas that served as the basis for the NIEO and inspiring unity among the disparate group of countries referred to as the Third World. The origins of this quest can be traced to the early 1960s, when LDCs united behind the idea of a worldwide conference on this problem, resulting in the first UN Conference on Trade and Development (UNCTAD) in 1962. At about the same time, a coalition of developing Southern states became known as the **Group of 77,** a name it retains even though it is now much larger. "The G-77 sought to make UNCTAD a mechanism for dialogue and negotiation between the LDCs and the developed countries on trade, finance, and other issues."[88]

Map: Food Aid, Atlas page 18

With its call for a NIEO, the Group of 77 wanted more foreign aid, especially multilateral aid through both the World Bank and the IMF, rather than bilateral country-to-country aid. This aid, they argued, should not be given on the condition that they use it to buy goods from particular countries or support particular countries' policies. Foreign aid, or overseas development assistance, is a controversial tool for economic development. As mentioned, some dependency theorists have blamed aid for underdevelopment, arguing that it often serves as a bribe to elites to gain support for further dependence on the North. Furthermore, dependency theorists argue, aid is rarely given without conditions attached and is usually in the form of loans with which states fall further into debt. Yet the NIEO included calls for more foreign aid, without strings attached, as a kind of reparation for the imperialist policies of the North and as the only hope that many countries have for investment in future development.

A Dutch doctor, working for Médecins Sans Frontières (Doctors Without Borders), attends to a baby boy with measles in West Timor. Many children in developing countries lack basic immunization programs for potentially deadly diseases such as measles.
(AFP/Getty Images)

The criticisms of foreign aid are many (see the Policy Choices box). For economic liberals, aid is a political intrusion into the market. Many, including developing countries that are recipients of aid, recognize that other than aid for the relief of disasters, development assistance programs rarely meet their goals. There are a few success stories, but in general the impact of foreign aid in poor countries has been disappointing. Poverty remains there partly because wealth is not easily transferable on an aggregate basis. If John Doe, an individual, inherits $10 million from his rich uncle, chances are that unless John is incredibly foolish, he will be set for life in economic terms. But wealth for millions of people in a poor country must be based at least in part on economic growth and productivity, not gifts. In short, since foreign aid cannot be sustained in sufficiently large amounts to improve the lives of people in poor countries, it can produce lasting benefits only if it is used to create self-sustaining economic growth and to increase the productivity of poor people in developing countries.

The effects of foreign aid, however, are not always and everywhere bad. Although billions of dollars of aid have been dispensed in recent decades and poverty still prevails in the developing world, some data (such as the life expectancy statistics discussed previously) show improvements in

POLICY CHOICES

Aiding the South

aid burden
Percentage of a country's GNI that goes to foreign assistance.

ISSUE: The question of whether states in the North should provide more foreign assistance to the South is a controversial one in debates on economic development. Most states in the North do provide some foreign assistance to the South. In absolute terms, the United States is the number one supplier of foreign aid to the South (giving over $16 billion in 2003), followed by Japan (with almost $9 billion in 2003). The amount of aid relative to a country's gross national income (GNI), referred to as its **aid burden,** varies across countries in the North, with the United States coming in at or near the bottom (giving 0.15 percent of its GNI) and Scandinavian countries coming in at the top (Norway's aid burden, for example, was 0.92 percent in 2003). Overall, government foreign aid to the South first diminished immediately after the end of the Cold War, but has recently increased and in 2005, the Group of 8 industrial states agreed to double their foreign aid to Africa and provide $40 billion in debt relief. Governments are not the only suppliers of development assistance to the South. International organizations, such as the United Nations, and nongovernmental humanitarian agencies, such as Save the Children and Oxfam, also provide some aid and assistance to the developing world.

Option #1: The developed countries should offer more foreign aid to the poorer countries.

Arguments: (a) The economies are in such dire shape that only aid will jump-start any growth, as did the Marshall Plan for Western Europe following World War II. (b) The North, like all other actors with excess resources, is morally obligated to help the starving. Aid is the most direct form of humanitarian assistance that states can provide. (c) Since the North's imperialism is partly responsible for the economic conditions of the South, the North has a special obligation to make amends, much as was demanded of Germany after World War I for its imperialist ambitions.

Counterarguments: (a) Aid prolongs dependencies and inefficiencies and retards rather than stimulates growth. (b) States' first obligation is to provide for their own citizens. Poverty in the South is due to corrupt leaders, and further aid would simply stay in their pockets and not alleviate any suffering. (c) The South suffers from far more than a simple history of being dominated, and demanding reparations in the form of foreign aid diverts attention from more fundamental and immediate development problems.

Option #2: The developed countries should limit or curtail foreign aid to the South.

Arguments: (a) The countries of the developing world should focus on exporting their way out of their economic situation instead of requesting aid. (b) It is the problem of the developing world and is not for the North to solve. (c) Aid is simply a way to impose cultural values by demanding certain actions from the recipient.

Counterarguments: (a) Because of historical inequities as well as the structure of trade between the North and the South and biases against goods from their countries, developing economies cannot compete and simply export their way to growth. (b) Addressing the North-South gap is in the long-term economic and political interests of the North. (c) The mission of foreign aid became distorted by the Cold War competition for client states, and could instead be refocused on alleviating human suffering without expectations from donors.

living conditions among the world's poor, at least some of which might be traced to the impact of foreign assistance. According to economist Jeffrey Sachs, aid is a necessary tool to alleviate extreme poverty and the costs are within reason: "The truth is that the cost now is likely to be small compared to any relevant measure—income, taxes, the costs of further delay, and the benefits from acting. . . . All of the incessant debate about development assistance, and whether the rich are doing enough to help the poor, actually concerns less than 1 percent of rich-world income."[89] Sachs argues that this aid should be based on country-specific assessments of needs and carefully implemented and monitored for successful results.[90] Others argue that there is no historical basis for assuming that foreign aid will do anything to improve economic conditions.

With the NIEO, the South also argued for a new international currency to replace the U.S. dollar, freer access to markets in rich countries, and commodity agreements to stabilize the prices of raw materials and primary products on which they depend. A change in the decision-making process of key international economic organizations, like the IMF and the World Bank, was also proposed to give more control to the South (something the IMF did only recently, in 2006, when it gave more voting power to states such as China and Mexico).[91] Finally, the South pushed for international controls over foreign investment and international management of projects to develop the wealth on the world's seabeds.

Nevertheless, "by the close of the 1970s the South's strategy based on unity, commodity power, and the NIEO had reached a dead end."[92] The North, experiencing severe economic crises of its own, was not inclined to address the demands of the South. The South could not maintain a unified voice, and the oil crisis served to create a new gap within the South between the oil-producing rich states and the oil-importing poor ones. Finally, the success of some developing countries, such as the Asian Tigers, within the old system and the new willingness of the most populous Communist country in the world, the People's Republic of China, to open up and become more closely integrated with the world's economic system as currently constituted all combined to take some of the steam out of the Third World campaign on behalf of the NIEO.

Part of the optimism that the South could succeed in a collective effort like the NIEO came from the success of OPEC in redistributing wealth from the North to at least some of the countries in the South. Throughout the 1970s, OPEC countries cooperated to control the price of oil by agreeing on production limits and succeeded in changing the structure of the international economy that had previously served the North's interests. Before OPEC,

> Western oil companies dominated the petroleum industry from exploration to marketing and had historically provided cheap and abundant access to the energy needs of the industrialized world. The cartel's pricing actions helped dampen economic growth and spurred an inflationary trend in the developed

> countries. From the standpoint of relations between the developed and less developed nations, the latter were to gain considerable leverage for the time being. The developed countries—being highly dependent on oil-exporting countries for their energy—could no longer ignore the considerable impact oil-producing countries from the South had on the economic well-being of the industrialized world.[93]

economic cartel Association of states aiming to control production and pricing of a commodity.

Thus, an **economic cartel** that seeks to control production over an important commodity such as oil was seen as another potential strategy for economic development.

Efforts to duplicate OPEC's strategy have largely been unsuccessful. And just as OPEC's success in the 1970s helped garner the NIEO a lot of attention, OPEC's disarray and then demise in the 1980s contributed to the virtual disappearance of the NIEO from that decade's agenda. By the 1980s, attempts by producers of other raw materials to duplicate OPEC's success were thoroughly frustrated, as recession depressed prices for most commodities.

Liberalization Strategies

Economic liberalism proposes that the key to greater wealth for all, both developed and developing countries alike, is liberalization or little political interference in economic markets. This means that economic liberals advocate free trade practices so that states avoid protecting domestic industries. Liberals also urge privatization of internal economic practices so that states allow the hidden hand of the market to determine which sectors of the economy will be competitive and serve as the country's comparative advantage in trade with others.

export-oriented strategy Economically liberal strategy involving exports that fill and profit from a niche in the international political economy.

The policy known as **export-oriented strategy** is associated with the liberal economic philosophy. Made popular by the success of the Asian Tigers, this strategy involves finding a niche in the international economy and exporting goods to fill, and profit from, that niche. "A second major component of this export-led growth strategy—one that is also seen by advocates of the liberal model as a crucial ingredient for development—involved promoting a high level of savings and investment (including intense efforts in research and development). The liberal perspective suggests that without the necessary capital, basic investments in infrastructure, resource development, and equipment growth would be quite impossible. Hence, capital formation is central to development."[94]

The practice of the export-led strategy by the Asian Tigers did not completely match the economic liberal model. Instead of the market's determining comparative advantage and the economic niche, for example, the governments were heavily involved in *creating* economic sectors that would be good for export. Economic liberals believe that a better strategy would include less interference by the government. In general, then,

the development strategies associated with economic liberalism differ from those associated with dependency by focusing on how much poor countries could benefit from engaging, rather than abandoning or changing, the international economic structures. The obstacles to economic growth, according to economic liberals, are to be found in corrupt and inefficient governments.

While the import-substitution policies were popular in the 1960s, the liberalization policies became the favored path to development in the 1990s. The *New York Times* reported in 1993 that

> almost 40 years after the emergence of the so-called Dependency School in Latin America, the theorists who argued that developing countries need to protect their resources from being ravaged by multinational corporations, the argument has been turned around. . . . Now . . . hopes are being pinned on the prospect of interdependence with the United States and other advanced industrial nations, through diversified and efficient economies that can compete in free trade.[95]

structural adjustment programs Conditions attached to IMF and World Bank loans requiring countries to liberalize and privatize based on the principles of economic liberalism.

Washington Consensus The idea, as advocated by the United States and largely accepted in the developing world in the 1990s, that economically liberal strategies were the best path for development.

Indeed, the conditions attached to IMF and World Bank loans, known as **structural adjustment programs,** were requirements that countries liberalize and privatize based on the principles of economic liberalism in order to receive aid from the organizations. In short, by the mid-1990s, market-oriented and export-oriented strategies seemed to have evoked something of a consensus among academics and policymakers in the richer industrialized countries as well as politicians in power in the poorer countries of the world. "The so-called **Washington Consensus** was the prescription for . . . ills in the developing countries. . . . The consensus in 'the political Washington' of Congress and the executive branch and the 'technocratic Washington' of the international financial institutions, the Federal Reserve Board, and think-tanks" was for developing states to allow market-determined interest and exchange rates, liberalize trade and foreign direct investment, and privatize state-owned businesses, among other measures.[96]

But the consensus was far from perfect, and many criticized the IMF for its strategies and the consequences of its programs. "The IMF prescription has been budgetary belt tightening for . . . [countries] much too poor to own belts. IMF-led austerity has frequently led to riots, coups, and the collapse of public services. In the past, when an IMF program has collapsed in the midst of social chaos and economic distress, the IMF has simply chalked it up to the weak fortitude and ineptitude of the government."[97]

In Latin America in particular, there has been growing impatience with the market-oriented reforms that swept through the region in the 1990s "Latin America is swerving left, and distinct backlashes are under way against the predominant trends of the last 15 years:

free-market reforms, agreement with the United States on a number of issues, and the consolidation of representative democracy. . . . [T]he economic, social, and political reforms implemented in Latin America starting in the mid-1980s had not delivered on their promises. With the exception of Chile . . . the region has had singularly unimpressive economic growth rates. They remain well below those of the glory days of the region's development (1940–1980) and also well below those of other developing nations."[98] Unemployment is high across Latin America and the gap between rich and poor is larger than in any other region in the world.[99]

Map: South America, Atlas page 43

This disillusionment with liberal economic policies has resulted in a political makeover of Latin America, with leftist and populist leaders coming to power in, for example, Venezuela, Brazil, Bolivia, Argentina, and Uruguay. "Venezuela, led by fiery president Hugo Chavez, is at the forefront of this political swing to the left . . . Chavez, who became president in 1999, is seen as the first [Venezuelan] leader to ever make the welfare of the nation's poor a top priority."[100] The Venezuelan leader has transformed the hostility over Washington-supported economic programs in the developing world to a more general anti-U.S. orientation, making alliances with Iran, Cuba, and others opposed to U.S. policies.[101] In Brazil, President Lula da Silva also came to power in 2002 on this leftist tide but has been criticized from being too economically centrist, paying off IMF loans rather than increasing social spending. Although income inequality in Brazil has narrowed slightly under his leadership, the gap between rich and poor is still quite large.[102] President da Silva was reelected in a difficult election in October 2006. In Mexico, the more conservative candidate Felipe Calderón narrowly defeated his leftist opponent in 2006, and the election created deep divisions in Mexican politics and society.[103]

In addition to the largely unfulfilled promises of economic liberalization policies in Latin America, critics of market and export-oriented strategies can point to such places as Kerala, a state in India with 30 million people (making it about as populous as Canada), for potentially valuable lessons about the development process. In 1957, voters in Kerala elected the first Communist majority to the state legislature. Since then, Kerala's voters have elected three solidly leftist governments, including a leftist democratic front that came to power in the early 1990s, which contained as two of its main parties the Communist Party of India-Marxist and the Communist Party of India.[104] Kerala is one of India's poorest states, and yet its population has achieved the highest life expectancy and literacy rate in India, as well as the lowest infant mortality rate and birthrate.[105]

It might also be relevant to point out in this context that life expectancy in the People's Republic of China, although one of the poorest countries in the world, is 70 years. In some respects, health care in China is better than in the United States. For example, life expectancy at birth in Shanghai, China's largest city, reached 75.5 years, just as life expectancy

in New York City, the largest city in the United States, was 73 years for whites and 70 years for nonwhites. And while China has adopted many market-oriented policies in recent years, its health care system is a government-based system established in the Maoist era.[106]

In short, problems in many Latin American states, as well as successes in places such as Kerala in India and the People's Republic of China, seem to point to the conclusion that socialist policies might have been prematurely buried under a kind of public relations onslaught by the forces in favor of market-oriented capitalism and export-led development in the late 1980s and on into the 1990s. But the point of this discussion is that the terms *socialism* and *capitalism* are not free of ambiguities. In their purest forms, those terms denote extreme ends of a continuum, and most countries fall somewhere in the middle of that continuum. It is important to recognize that "the concept of 'market' is . . . broader than that of 'capitalism.'"[107] The essence of a market is the central role of prices arrived at in bargaining between buyers and sellers, while the essence of capitalism is the private ownership of the means of production and the existence of free labor. Theoretically, at least, socialist states could establish market systems. The most populous country in the world, China, seems to be trying to put this theory into practice.

Since virtually all the countries of the world have mixed economies, with the government playing an active role in the economy even if market forces also play an important role, some students of political economy have concluded that "capitalism is too ambiguous a label to be used as an analytical category."[108] But while it is important to acknowledge that it is difficult to establish precisely the point at which capitalism ends and socialism begins (or vice-versa), the distinction between capitalism and socialism is not necessarily meaningless. The problems leading to the demise of the former Soviet Union may well suggest with some force that it is a mistake for governments to expropriate virtually all the means of production; that is, it is possible to go too far in the socialist direction. And as we have seen, the experiences of the past economic successes of countries in East Asia do not indicate that governments in developing countries should give private entrepreneurs or market forces an entirely free rein. Rather, they seem to demonstrate that governments might be well advised to take an active role in the economy, but in a manner that is compatible with and supportive of at least some market forces. In short, it seems fairly safe to conclude from an analysis of developing countries over the past few decades that neither a socialist revolution nor pure laissez-faire capitalism is likely to solve all of their problems.

Today, most developing countries neither shun participation in the international political economy, as some dependency theorists suggest, nor do they accept economic liberal prescriptions without question. Rather, developing countries seek to change economic relationships to further development. In international trade, for example, developing

Doha Round WTO negotiations, begun in 2001, involving a number of issues related to free trade, many of which are significant to economic development in the South.

countries continue to stress the disadvantages to them in current trading practices. "The world's highest trade barriers are erected against some of its poorest countries: on average the trade barriers faced by developing countries exporting to rich countries are three to four times higher than those faced by rich countries when they trade with each other."[109] In the WTO's **Doha Round** of trade negotiations (begun in 2001), the developing countries have tried to lower tariffs on goods and services originating in the South and to address the agricultural subsidies that developing states provide. These subsidies, including U.S. subsidies to cotton producers and the European Union's subsidies for sugar, make it difficult for developing states to compete. But the Doha talks have yet to make progress on these issues. "The Doha Round of . . . negotiations provides an opportunity to change the rules of the game. That opportunity has so far been wasted. . . . Four years later, nothing of substance has been achieved. Trade barriers remain intact, agricultural subsidies have been increased, and rich countries have aggressively pursued rules on investment, services and intellectual property that threaten to reinforce global inequalities."[110] In July 2006, the U.S. and Europe failed again to agree to reduce farm subsidies, and Doha Round negotiations were suspended indefinitely.[111]

Addressing Gender Inequality and Disease

Analyses of the challenges confronting developing countries highlight the role that women can play in economic development and the role that diseases play in underdevelopment.

It appears that economic conditions in most developing countries can benefit from efforts to address gender inequalities and improve economic conditions for women. Recall from Chapter 1 that part of the feminist perspective on global politics stresses the need to consider the impact of international relations on women and the role that women play in the world. As discussed in more detail in Chapter 9, women are subjected to various forms of economic and political discrimination by the men who dominate the economic and political systems of virtually every country of the world. In the poorer countries, gender bias is arguably a more serious problem. In other words, "gender bias is a worldwide phenomenon, but it is especially pernicious in the Third World, where most of women's activity takes place in the non-wage economy for the purpose of household consumption."[112] Citing these patterns of work, some feminists criticize liberal development policies if they involve cutbacks in government spending on health care, child care, or education, which "can dramatically increase the burden on the unpaid female-dominated sector of the economy. Because neoliberal economic analysis measures only the paid sector of the economy, it does not recognize this impact and thus suffers from a key gender bias."[113] Because women make up about half the population of every country in the world, this problem has come to be seen by many specialists in economic development as a major obstacle to

economic progress in poor countries. "Gender bias is . . . a primary cause of poverty, because in its various forms it prevents hundreds of millions of women from obtaining the education, training, health services, child care, and legal status needed to *escape* from poverty."[114]

Grameen Bank
Founded by Muhammad Yunus to provide very small loans to poor individuals, particularly women.

microfinancing
Financial services, such as small loans, that are often provided to individuals or groups with low economic status.

One dramatic example of the importance of bringing women into the economic mainstream of a country pertains to one of the poorest countries of the world, Bangladesh.[115] In 1983, the **Grameen Bank** ("village" bank) was founded by Muhammad Yunus, a professor of economics. Yunus's original idea was to provide very small loans (**microfinancing**) to people in general, but his ideas were not originally received with enthusiasm by economists or bankers. "Where is the collateral?" the bankers asked. "These people can't even read.'"[116] Yunus ultimately had to take out the first loans himself. Those loans were put to good use and repaid, but still local bankers would not provide the capital to fund more such loans on a continuing basis. Yunus had to get the support of the government to enable poor people to obtain these loans so that they could become, in effect, entrepreneurs. Today, the Grameen Bank grants loans to over 6 million Bangladeshis in 70,000 villages. . . . Over 99 percent of its loans are repaid.[117]

Originally, loans from the Grameen Bank were divided about equally between men and women. But Yunus soon discovered that "in the families

Women receive small loans to start businesses from the Grameen Bank. Muhammad Yunus, founder of the Grameen Bank in Bangladesh, was awarded the Noble Peace Prize in 2006 for his efforts to address poverty, seen by the Nobel Committee as key to achieving lasting peace.
(© Philippe Lissac/Godong/Corbis)

in which the women received the loans, the children were better cared for, the houses were better maintained." He also found that while women spent the money on their families, men often squandered it on luxuries or drugs. Women also repaid the loans more dependably.[118] The result is that today, nearly all the borrowers are women. "When a bank focuses on women, according to Yunus, the impact on society is greater. Men are more likely to use additional income to make their own lives more comfortable. . . . Poor women who have a little extra income use it to bring back their children who have been living with and working with other families. When the children come back, their mothers see that they receive an education."[119] One study found that women who receive Grameen loans have better-nourished and -educated children, particularly their daughters. These women are also more likely to use contraception more consistently, as are other women in their village, even if they did not receive any loans themselves.[120] And approximately 65 percent of those who get loans averaging about $100 have achieved significant economic improvements in their lives. About half have risen above the poverty line.[121]

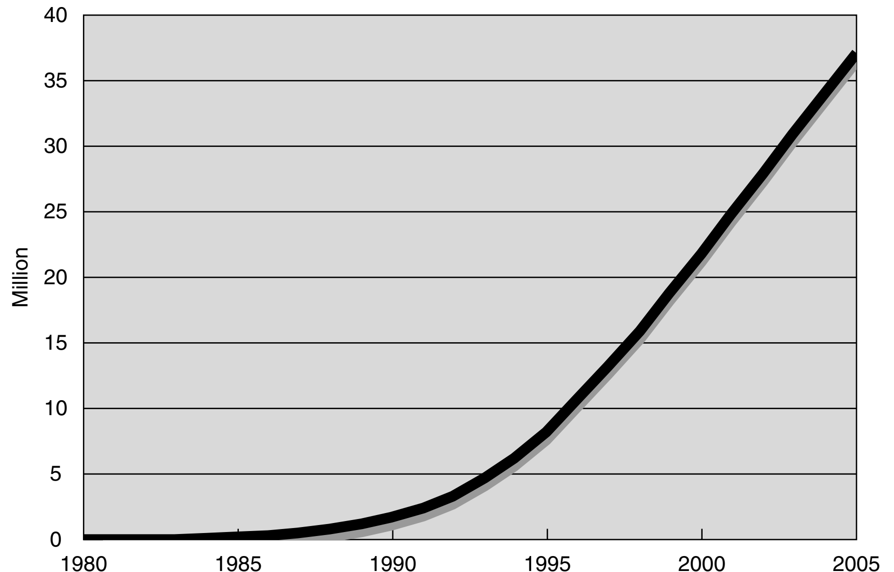
What is most important about the Grameen Bank is the generally applicable nature of its lessons and successes. Indeed, the Grameen model has been replicated in over forty countries, with significant results.[122] In 2006, Muhammad Yunus received the Nobel Peace Prize, recognizing him as a pioneer in microfinancing for the advancement of development and human rights.[123] The importance of focusing development efforts on women, as done in the Grameen Bank, has also become commonly accepted wisdom. "Several studies suggest that income is more likely to be spent on human development when women control the cash."[124] In particular, these studies find that increases in women's income improve the nutritional status of families seven times as much as do equivalent increases in the incomes of men. "In Cote d'Ivoire, it has been calculated that if women had as much control over cash income as men, the share of food in the household would go up by 9%, while that of cigarettes would fall by 55% and that of alcohol by 99%."[125] Reducing gender equality can greatly influence the lives of children in terms of child mortality and malnutrition.[126] In short, evidence is rapidly accumulating in support of the proposition that political efforts to allow women to benefit from market forces are key to alleviating poverty in the developing world.

A second aspect of life in the developing world concerns the economic impact of diseases such as HIV/AIDS and malaria. Malaria, a disease transmitted by a specific type of mosquito, is treatable, yet still kills approximately 3 million people annually, mostly children in Africa.[127] As mentioned previously, Africa is also suffering from the majority of AIDS-related deaths, although the problem is not isolated there, as India, Ukraine, and Russia are experiencing significant infection rates as well.[128] The number of AIDS deaths has accumulated to over 35 million (see Figure 11.3).

Map: HIV Infection, Atlas page 17

Figure 11.3 Estimates of Cumulative AIDS Deaths Worldwide, 1980–2005

Source: As seen in *Vital Signs 2006/2007: The Trends That Are Shaping Our Future* 2000–2005 data from UNAIDS, *Aids Epidemic Update;* 1980–1999 data from electronic communication with Neff Walker, UNAIDS.



The relationship between economic conditions and disease is not one-way. Poverty creates conditions for disease, and disease, in turn, contributes to poverty. In the case of malaria, for example, the poor cannot afford insecticides, screens for windows and doors, and bed nets, which are highly effective for reducing transmission of the disease. Once a region is infected, malaria impedes economic growth. "It is worth remembering how malaria and yellow fever delayed the construction of the Panama Canal for more than thirty years. . . . Only after the United States invested heavily in a mosquito-control effort . . . was the canal constructed. Malaria to this day can stop a good investment project in its tracks, whether a new mine, farm region, or tourist site."[129] At the household level, the AIDS disease can be economically debilitating as individuals are too sick to work, and medicine and treatment can take up more than one-third of household income. "Beyond the household, HIV/AIDS is eroding the social and economic infrastructure. Health systems are suffering from a lethal interaction of two effects: attrition among workers and rising demand. . . . HIV/AIDS is eroding human capacity on a broad front. Zambia now loses two-thirds of its trained teachers to HIV/AIDS, and in 2000 two in three agricultural extension workers in the country reported having lost a co-worker in the past year."[130] The World Health Organization Commission on Macroeconomics and Health, established in 2000, determined that the main causes for the gap in life expectancy between Africa and the rest of the world included AIDS, malaria, tuberculosis, vaccine-preventable disease, acute respiratory infection, and nutritional deficiencies.[131]

Most believe that the international community's response to these diseases has been too little and too late. The World Bank sponsored one

project on AIDS before 1993 and only spent $15 million a year on AIDS in Africa from 1988 to 1999.[132] "In 2004 the world spent an estimated $6 billion combating the [HIV/AIDS] virus through the Global Fund to Fight AIDS, Tuberculosis, and Malaria. Had resources been mobilized on this scale 20 years ago, the epidemic could have been reversed. Today, that amount is insufficient to contain the crisis. . . . The international community's response to a global public health threat has been plainly inadequate."[133] The Global Fund to Fight AIDS, Tuberculosis, and Malaria was announced at a UN summit on AIDS in 2001. This fund and the $15 billion pledged in 2003 by the United States are indicators that these diseases have finally arrived on the agenda of the international community. However, like other forms of foreign assistance, financial packages for the HIV/AIDS problem have their critics. According to economist William Easterly, "If money spent on treatment went instead to effective prevention, between three and seventy-five new HIV infections could be averted for every extra year of life given to an AIDS patient. Spending AIDS money on treatment rather than on prevention makes the AIDS crisis *worse*, not better."[134]

The Role of the International Organizations in Economic Development

Although the United Nations began primarily as an international organization concerned with security issues (as discussed in Chapter 9), it is a major player in economic development as well. Indeed, over 80 percent of UN personnel work on topics of human welfare.[135] "The United Nations has devoted much effort to the elaboration of operation programs for economic development. Loans apart, the UN system mounts more than 10,000 development projects per year . . . To this emphasis more recently was added the control and treatment of AIDS, malaria and tuberculosis. Together, they involve commitments of money, people's work, and hope on a scale never before reached by international agencies."[136] The United Nations plays a role in economic development through its agencies, such as the UN Development Program (UNDP), the UN Children's Fund (UNICEF), the World Health Organization (WHO) and the UN Population Fund (UNFPA), which collect information, administer development assistance, make recommendations regarding development issues to member-states, and organize conferences to publicize economic-related problems.

Millennium Development Goals (MDGs) UN targets for achieving significant progress on issues such as poverty, education, gender equality, health, and the environment in developing countries.

Recently, the United Nations has attempted to coordinate development efforts by focusing on specific development goals for this millennium, spelled out in the United Nations Millennium Declaration, which was signed by all UN member states in 2002. The **Millennium Development Goals (MDGs),** listed in Table 11.1, attempt to cut poverty in half by 2015. Supporters argue that these goals are "bold but achievable, even if

TABLE 11.1

UN Millennium Development Goals for 2015
Eradicate extreme poverty and hunger
Achieve universal primary education
Promote gender equality and empower women
Reduce child mortality
Combat HIV/AIDS, malaria, and other diseases
Ensure environmental sustainability
Develop a global partnership for development

dozens of countries are not yet on track to achieve them."[137] According to critics, however, "the MDGs are already losing traction because governments have limited power to directly affect these outcomes. Most of the world is closer to meeting the MDGs now than it was a decade ago, but that is largely because human welfare has generally been improving. . . . The MDGs . . . do not constitute a strategy that informs the actions of governments, companies, and NGOs. Most of what the MDGs envision is beyond the power of any enterprise to deliver."[138]

Moral, Economic, and Security Implications of the North-South Gap

The moral implications of trends in poverty and economic inequality in the world are clear enough, even though they are not often spelled out explicitly. If poverty is being alleviated as fast as can reasonably be expected, then there is not such a pressing need logically, politically, or morally for greater sacrifices on the part of the peoples and countries in the industrialized world. Yet if millions are suffering (a fact not much in dispute) and the situation is rapidly getting worse in at least some regions, drastic steps, including even painful sacrifices by the rich, might seem clearly called for on pressing moral grounds. Although, as indicated by the statistics quoted at the beginning of the chapter, there is some good news about the prospects for growth in the developing world, it is wrong to conclude that the lot of people in developing countries is improving so fast that no actions or sacrifices by people in richer countries are necessary.

If the current desperate economic conditions in many developing countries were caused by the policies and actions of industrialized countries in the past, then the case for drastic action is that much stronger. Although it is difficult to conclude with confidence that current economic problems in developing countries are primarily the fault of imperialism and colonialism in previous centuries, there arguably remains a strong moral obligation on the part of people in rich countries to assist those

starving in poor countries, even if the poverty creating that suffering is not entirely their fault. One can argue that mere coexistence on the same planet creates a moral obligation among human beings to aid each other in times of stress and that coexistence obliges rich countries to help poor countries regardless of the origins of their economic problems.

Beyond morality, there are economic consequences for the rest of the world if the South remains poor. From a purely economic standpoint, poverty is not good for business. The North cannot make money from an impoverished state that cannot buy its exports. Furthermore, interdependence in the global economy means that poverty may be localized, but it cannot be isolated. When instability and economic crises occur in the South, the result is financial losses for Northern businesses. In general, poverty and lack of adequate resources present tremendous obstacles for individual economic productivity, not to mention creative expression, such as in the arts and sciences.

In the view of many, the North-South gap is not simply a problem of the lack of wealth in the South but of the excess of wealth in the North. Indeed, from this vantage point, the luxurious lifestyles of the wealthy result in unnecessary waste and environmental destruction (as will be discussed in Chapter 13). Making the distribution of wealth around the world more equitable might reduce the excesses of the North as much as alleviate the suffering of the South.

There are also consequences for world security. Recall from Chapter 6 that poor economic conditions can prompt leaders to blame (justly or unjustly) these conditions on external foes and even initiate war in an attempt to divert the public's attention to an outside enemy. Poor economic conditions can also breed ethnic conflict as groups compete for scarce resources. Economically devastating conditions can foster terrorist groups to form and facilitate their continued recruitment from populations that find their situation hopeless. From the North's perspective, economic development may help prevent conflicts to which the North will often have to respond in order to prevent the spread of war and other forms of violence.

Economic development may also be important for democratic values. The relationship between economics and democracy is controversial. Which must come first: democratization or economic development? The fact that the countries with the highest per capita GNPs and life expectancies are democratic convinces a lot of people that democracy is a necessary condition for economic success.[139] And there is an impressive theoretical as well as empirical case to be made for the argument that political democracy provides a promising basis for economic development. Some argue, for example, that "the conditions that are needed to have individual rights needed for maximum economic development are the same conditions that are needed to have a *lasting* democracy."[140] That is why only stable democracies have reached the highest levels of economic development and have maintained those levels across generations.

In contrast, "though experience shows that relatively poor countries can grow extraordinarily rapidly when they have a strong dictator who happens to have unusually good economic policies, such growth lasts only for the ruling span of one or two dictators."[141]

One recent analysis of the relationship between democracy and economic growth, as well as broader indexes of the physical quality of life in developing countries in the 1980s, concludes that democracy and economic performance mutually reinforce each other. "Improvements in economic well-being will facilitate the transition to democracy and full provision of political rights will enable nations to promote economic prosperity."[142] Other analysts report that the correlation between democracy and economic growth is more a result of the impact of growth on democracy than of democracy on growth.[143] Still another research report argues that "the level of economic development does not affect the probability of transitions to democracy but . . . affluence does make democratic regimes more stable."[144] In addition, it is clear that "the growing number of affluent authoritarian states suggests that greater wealth alone does not automatically lead to greater political freedom. Authoritarian regimes around the world are showing that they can reap the benefits of economic development while evading any pressure to relax their political control."[145] The connections between economic development and democratization and the implications of the North-South gap in general illustrate the complex relationships between politics and economics that are at the heart of the global economy.

SUMMARY

- On many economic measures, there exists a considerable chasm between the rich countries in the developed world and the poor developing countries. The gap in the average GNP per capita between the North and the South is increasing. In terms of such indicators as life expectancy and the UN Human Development Index, the difference is almost certainly decreasing, at least for most parts of the developing world. Still, millions of people in poor countries are suffering, and in many countries their plight worsens each year. The economic conditions in some developing countries are more difficult to address because of debt obligations.

- Poverty in developing countries and the North-South gap have been explained by a variety of theoretical perspectives. Most agree that the roots of the gap can be traced back to the colonization of the South by the North and the economic consequences of imperialism for the colonized areas. Many, however, expected the countries in the South to develop just as those in the North did once they were independent. When they did not, dependency theory pointed to the domination of the global economic system by rich, powerful capitalist states,

which, it claims, makes it necessary for LDCs to adhere to policies of economic development radically different from those based on democracy and capitalism historically followed by most of the currently rich countries. The terms of trade, aid, and investment by multinational corporations, according to dependency theory, put the South at a structural disadvantage.

- Economic liberals point to the benefits of economic interdependence that the South can receive if it reforms internally. Liberals note the early success of East Asian states, which adopted strategies emphasizing exports and market forces, but dependency theorists point to the heavy hand that governments played in these economies.
- In Latin America in the 1960s, dependency theory was popular and associated with the strategy of protecting industries to produce substitutes for imported goods. Although this worked for a while for some states, such as Mexico and Brazil, it is largely discredited as a development strategy today. In the 1970s, states in the South attempted to band together in the NIEO, which called for reform of many of the international economic structures and practices and more unconditional aid. With economic crises in many countries in the North and with the diminished effectiveness of OPEC as a cartel, the NIEO lost its significance as a rallying cry from the developing world.
- Liberalization strategies, such as export-oriented growth, became more accepted by developing states in the 1990s, and liberal reform packages are usually the requirements for IMF aid. However, worsening conditions in many states that followed liberal policies and examples of successful human development programs in some nonliberal states have prompted many recent criticisms of this approach to economic development.
- Government policies to modify market forces in favor of women show signs of producing important economic benefits. Development strategies, including microfinancing, focused specifically on giving women more control of economic resources have produced quite a bit of evidence to support their effectiveness. Recently, the role of diseases such as malaria and HIV/AIDs in underdevelopment has received more attention because poverty contributes to high infection rates and diseased populations can further impede economic development.
- The question of economic development is of concern for both the North and the South, as well as for the international community as a whole. For the North, the moral implications of the poverty in parts of the developing world compared to the excessive wealth in the developed states are important to consider, regardless of the cause of the North-South gap. Economically and politically, one can argue that economic development in the South is in the interests of the North.

KEY TERMS

less developed countries (LDCs) 376
purchasing power parity 377
Human Development Index 379
modernization theory 386
terms of trade 388
overseas development assistance 389
repatriated profits 390
corporate social responsibility 395
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