from poor health and low education levels. And economic conditions in sub-Saharan Africa have deteriorated in recent years: the average African consumes less today than a quarter-century ago.

Some of the region’s economic problems are a legacy of the colonial era. Mining companies and other businesses were established to supply European industries with needed raw materials rather than to promote overall economic development in sub-Saharan Africa. Africa’s many landlocked states have difficulties shipping out raw materials through neighboring countries (see Figure 8–6). In recent years, African countries have suffered because world prices for their resources have fallen.

Political problems have also plagued sub-Saharan Africa. European colonies were converted to states without regard for the distribution of ethnicities (see Figure 7–23). After independence, leaders of many countries in the region pursued personal economic gain and local wars rather than policies to promote development of the national economy. Frequent wars within and between countries in sub-Saharan Africa have retarded development.

The fundamental problem in many countries of sub-Saharan Africa is a dramatic imbalance between the number of inhabitants and the capacity of the land to feed the population. Nearly the entire region consists of either tropical or dry climate. Both climate regions can support some people but not large concentrations. Yet, because sub-Saharan Africa has by far the world’s highest rate of natural increase, the region’s land is more and more overworked, and agricultural output has declined.

KEY ISSUE 3

Where Does Level of Development Vary by Gender?

- Gender-related development index
- Gender empowerment

A country’s overall level of development masks inequalities in the status of men and women. Gender inequality exists in every country of the world, according to the United Nations. In some countries women have achieved near-equality with men, whereas in other countries the level of development of women lags far behind the level for men. The United Nations has not found a single country in the world where its women are treated as well as its men.

To measure the extent of each country’s gender inequality, the United Nations has created two indexes. The Gender-Related Development Index (GDI) compares the level of development of women with that of both sexes. The Gender Empowerment Measure (GEM) compares the ability of women and men to participate in economic and political decision making.

Gender-Related Development Index

The GDI is constructed in a manner similar to the HDI, discussed in the first two sections of this chapter. The GDI combines the same indicators of development used in the HDI—income, literacy, education, and life expectancy—adjusted to reflect differences in the accomplishments and conditions of men and women.

The GDI penalizes a country for having a large disparity between the well-being of men and women. For example, in both Iran and Mexico approximately two-thirds of youth are enrolled in school. However, Mexico has a higher GDI rating for education, because boys and girls are equally likely to attend school there, whereas in Iran girls are much less likely than boys to attend school.

A country with complete gender equality would have a GDI of 1.0. No country has achieved that level. A high GDI means that both men and women have achieved a high level of development, though women have a slightly lower level than men. A low GDI means that women have a low level of development, and the level is substantially below that of men.

The highest ranking country on the basis of 2005 data was Norway, with a GDI of 0.960 (Figure 9–13). Other countries with relatively high GDIs are in Western Europe and North America. As with the HDI, the United States ranks among the leaders in GDI but is not at the very top. The lowest GDIs are in sub-Saharan Africa.

Economic Indicator of Gender Differences

To construct the income portion of the GDI, the United Nations estimates the average incomes of males and females in each country. The average income of women is lower than that of men in every country of the world, both MDCs and LDCs. In the United States, for example, per capita annual income in 2003 was approximately $46,456 for males and $29,017 for females.

Women on average have two-thirds of the income of men in MDCs (Figure 9–14). This translates into an income gap of $12,000. In Switzerland, the average annual income for women was “only” $3,000 less than that for men. On the other hand, men earned at least $20,000 per year more than women in Austria, Ireland, Italy, Japan, and Luxembourg.

In LDCs the disparity between male and female income is relatively low in dollar terms but high on a percentage basis. Earnings for women lag far behind those of men in LDCs, although both figures are much lower than those found in MDCs.

Social Indicators of Gender Differences

The two key social indicators of development are education and literacy. Women are less likely to attend school in LDCs than in MDCs (Figure 9–15). The gap is especially high at the secondary school (high school) level. The ratio of women to men in high school is 99/100 in MDCs, but only 60/100 in LDCs. Stated another way, females—roughly half of the total high
school age population in all countries—comprise approximately 50 percent of the actual enrollment in MDCs (as expected) but only 40 percent in LDCs.

The percentage of females attending school is a key measure of gender disparity in sub-Saharan Africa and the Middle East. In most countries of these regions, fewer than one-third of girls attend school. In contrast, school attendance is nearly universal for both boys and girls in MDCs. In Latin America and much of Asia, boys and girls are equally likely to attend school, but attendance is lower than in MDCs.
Similarly, countries can be divided into three groups according to the other key social indicator of development—literacy (Figure 9–16). In MDCs, literacy is nearly universal among both men and women. In Latin America and Asia, literacy is not universal, but rates are similar for men and women. In sub-Saharan Africa and the Middle East, female literacy is low, and substantially lower than for males. Low female literacy is an especially important obstacle to development in these regions. It is both a cause and a consequence of the relatively low contribution females are allowed to make to the economy and culture of these regions.

**Demographic Indicator of Gender Differences**

The demographic development measure in the GDI—life expectancy—displays a different pattern: the gender gap is greater in MDCs than in LDCs. In MDCs, a female baby born today is expected to live several years longer than a male baby—6 years in the United States, for example—whereas in most LDCs, the gap in life expectancy between females and males is only a year or two (Figure 9–17).

The inability of women to outlive men in LDCs derives primarily from the hazards of childbearing. Women in LDCs bear more children than in MDCs, often under poor medical conditions (see Chapter 2).

Although the status of women is lower than that of men in every country of the world, the United Nations has found that it is improving. Since 1970, the gap has been reduced by two-thirds in LDCs and by one-fourth in MDCs.

**Gender Empowerment**

The GDI reflects improvements in the standard of living and well-being of women, whereas the GEM measures the ability of women to participate in the process of achieving those improvements. In every country of the world, both MDCs and LDCs, fewer women than men hold positions of economic and political power, according to the United Nations’s GEM scoring system.

The GEM is calculated by combining two indicators of economic power (income and professional jobs) and two indicators of political power (managerial jobs and elected jobs). A country with complete equality of power between men and women would have a score of 1.0. As with GDI, countries with the highest GEMs are MDCs, especially in North America, Northern Europe, and the South Pacific (Figure 9–18). The lowest scores are in Africa and Asia, though lack of data prevents calculating scores in most LDCs.

**Economic Indicators of Empowerment**

The percentage of women occupying professional and technical jobs is considered an important measure of the economic power held by women in a country. Professional and technical jobs are regarded by the United Nations as those offering women the greatest opportunities for advancement to positions of influence in a country’s economy. Cultural barriers may restrict the ability of women to obtain these jobs in the first place or to secure promotions to top-level decision-making positions.
The highest percentages of women in professional and technical jobs are in Northern Europe. More than one-half of professional and technical workers there, as well as in North America, are women (Figure 9–19). In comparison, fewer than one-half of professional and technical jobs are held by women in most LDCs where data are available.

The United Nations's other key indicator of women's power over economic resources is the share of national income held by women. This is the same indicator included in the GDI (see Figure 9–15). As already discussed, average earnings are less for women than for men in every country.

**Political Indicators of Empowerment**

One indicator of the political power of women is the percentage of the country's administrative and managerial jobs they hold. The United Nations considers professional jobs already discussed to be a key measure of economic power, whereas
managerial jobs represent the ability to influence the process of decision making.

As with other indicators, the percentage of managerial jobs held by women is higher in MDCs than in LDCs. The highest percentages are in North America, Northern Europe, and the South Pacific, where more than one-third of the managerial jobs are held by women. Women hold less than one-fourth of managerial jobs in most LDCs where data are available (Figure 9-20).

The other key political indicator of empowerment is the percentage of women who are elected to public office. No particular gender-specific skills are required to be elected as a representative and to serve effectively. Although more women than men vote in most places, no country has a national parliament or congress with a majority of women. The highest percentages are in Northern Europe, where women comprise approximately one-third of members of national parliaments. Around one in
KEY ISSUE 4

Why Do Less Developed Countries Face Obstacles to Development?

- Development through self-sufficiency
- Development through international trade
- Financing development
- Fair trade

The indicators presented in the previous key issues reflect sharp differences in the levels of development of more developed and less developed countries. To promote development, LDCs seek improvements in these indicators. Progress has been mixed.

On the one hand, key indicators look better for LDCs now than a generation ago. The infant mortality rate has declined from 85 to 60, the natural increase rate has declined from 2.1 to 1.5, and GDP per capita has increased from $500 to $4,500. However, MDCs have also made progress during the past quarter-century.

On the other hand, the gap in key development indicators between LDCs and MDCs remains wide (Figure 9–22). LDCs have somewhat reduced the gap with MDCs in infant mortality, in part because the rate was already so low in MDCs a quarter-century ago that further substantial decline became statistically impossible. But the gap in natural increase rate between LDCs and MDCs remained about the same, as the rate declined nearly as rapidly in MDCs as in LDCs during the past

five national legislators are women in other MDCs, compared to less than one in ten in LDCs (Figure 9–21). In the United States, 15 percent of the U.S. Senate and House of Representatives are women.

Every country has a lower GEM than GDI. A higher GDI compared to GEM means that women possess a greater share of a country’s resources than power over allocation of those resources.

FIGURE 9–20 Women holding jobs as administrators and managers, 2005. More than one-third of top administrators are women in North America, Northern Europe, and the South Pacific, compared to less than one-fifth in less developed countries.

FIGURE 9–21 Women elected to national legislatures, 2005. One in three members of parliament in Northern Europe are women, compared to fewer than one in ten in less developed countries.
quarter-century. And the gap in GDP per capita between LDCs and MDCs actually widened during the past quarter-century; income in LDCs increased by $4,000 compared to $20,000 in MDCs.

The one-fifth of the world's people living in MDCs consume five-sixths of the world's goods, whereas the 14 percent of the world's people who live in Africa consume about 1 percent. The United Nations recently placed the contrast in spending between MDCs and LDCs in picturesque terms: Americans spend more per year on cosmetics ($8 billion) than the cost of providing schools for the 2 billion in the world in need of them ($6 billion), and Europeans spend more on ice cream ($11 billion) than the cost of providing a working toilet to the 2 billion people currently without one at home ($9 billion).

To reduce disparities between rich and poor countries, LDCs must develop more rapidly. This means increasing per capita GDP more rapidly and using the additional funds to make more rapid improvements in people's social and economic conditions. LDCs face two fundamental obstacles in trying to encourage more rapid development:

- Adopting policies that successfully promote development
- Finding funds to pay for development

Less developed countries chose one of two models to promote development. One approach emphasizes international trade; the other advocates self-sufficiency. Each has important advantages and serious problems. We will examine examples of countries that have tried each alternative, successfully and unsuccessfully.

Development Through Self-Sufficiency

For most of the twentieth century, self-sufficiency, or balanced growth, was the more popular of the development alternatives. The world's two most populous countries, China and India, once adopted this strategy, as did most African and Eastern European countries.

Elements of Self-Sufficiency Approach

According to the balanced growth approach, a country should spread investment as equally as possible across all sectors of its economy and in all regions. The pace of development may be modest, but the system is fair because residents throughout the country share the benefits of development. Under self-sufficiency, incomes in the countryside keep pace with those in the city, and reducing poverty takes precedence over encouraging a few people to become wealthy consumers.

The approach nurses fledgling businesses in an LDC by isolating them from competition from large international corporations. A country's fragile businesses can be independent and insulated from potentially adverse impacts of decisions made by businesses and governments in the MDCs.

Countries promote self-sufficiency by setting barriers that limit the import of goods from other places. Three widely used barriers include setting high taxes (tariffs) on imported goods to make them more expensive than domestic goods, fixing quotas to limit the quantity of imported goods, and requiring licenses to restrict the number of legal importers. The approach also restricts local businesses from exporting to other countries.

For many years India made effective use of many barriers to trade. To import goods into India, most foreign companies had to secure a license. The process was long and cumbersome, because several dozen government agencies had to approve the request. Once a company received an import license, the government severely restricted the quantity it could sell in India. The government also imposed heavy taxes on imported goods, which doubled or even tripled the price to consumers.

At the same time, Indian businesses were discouraged from producing goods for export to more developed or other less developed countries. Indian money could not be converted to other currencies.

Businesses were supposed to produce goods for consumption inside India. Effectively cut off from the world economy, businesses required government permission to sell a new product, modernize a factory, expand production, set prices, hire or fire workers, and change the job classification of existing workers.

If private companies were unable to make a profit selling goods only inside India, the government provided subsidies, such as cheap electricity, or wiped out debts. The government owned not just communications, transportation, and power companies, a common feature around the world, but also businesses such as insurance companies and automakers, left to the private sector in most countries.

FIGURE 9-22 Progress toward development. Since 1980, the natural increase rate has declined at about the same rate in MDCs and LDCs. The infant mortality rate has declined more rapidly in LDCs than in MDCs. Gross domestic product per capita has increased more rapidly in MDCs than in LDCs.
Problems with the Self-Sufficiency Alternative

The experience of India and other LDCs revealed two major problems with self-sufficiency.

**INEFFICIENCY.** Self-sufficiency protects inefficient industries. Businesses can sell all they make, at high government-controlled prices, to customers culled from long waiting lists, so they have little incentive to improve quality, lower production costs, reduce prices, or increase production. Companies protected from international competition do not feel pressure to keep abreast of rapid technological changes.

India's auto industry, for example, has been dominated by Maruti-Udyog Ltd., which was controlled by the Indian government. Nursed by import duties that rose from 15 percent in 1984 to 66 percent in 1991, Maruti captured more than 80 percent of the Indian market selling cars that would be considered out of date in other countries.

**LARGE BUREAUCRACY.** The second problem with the self-sufficiency approach was the large bureaucracy needed to administer the controls. A complex administrative system encouraged abuse and corruption. Potential entrepreneurs found that struggling to produce goods or offer services was less rewarding financially than advising others how to get around the complex government regulations. Other potential entrepreneurs earned more money by illegally importing goods and selling them at inflated prices on the black market.

Development Through International Trade

The international trade model of development calls for a country to identify its distinctive or unique economic assets. What animal, vegetable, or mineral resources does the country have in abundance that other countries are willing to buy? What product can the country manufacture and distribute at a higher quality and a lower cost than other countries?

According to the international trade approach, a country can develop economically by concentrating scarce resources on expansion of its distinctive local industries. The sale of these products in the world market brings funds into the country that can be used to finance other development.

Rostow's Development Model

A pioneering advocate of this approach was W. W. Rostow, who in the 1950s proposed a five-stage model of development. Several countries adopted this approach during the 1960s, although most continued to follow the self-sufficiency approach. The five stages were as follows:

1. **The traditional society.** This term defines a country that has not yet started a process of development. A traditional society contains a very high percentage of people engaged in agriculture and a high percentage of national wealth allocated to what Rostow called "nonproductive" activities, such as the military and religion.

2. **The preconditions for takeoff.** Under the international trade model, the process of development begins when an elite group initiates innovative economic activities. Under the influence of these well-educated leaders, the country starts to invest in new technology and infrastructure, such as water supplies and transportation systems. These projects will ultimately stimulate an increase in productivity.

3. **The takeoff.** Rapid growth is generated in a limited number of economic activities, such as textiles or food products. These few takeoff industries achieve technical advances and become productive, whereas other sectors of the economy remain dominated by traditional practices.

4. **The drive to maturity.** Modern technology, previously confined to a few takeoff industries, diffuses to a wide variety of industries, which then experience rapid growth comparable to the takeoff industries. Workers become more skilled and specialized.

5. **The age of mass consumption.** The economy shifts from production of heavy industry, such as steel and energy, to consumer goods, such as motor vehicles and refrigerators.

According to the international trade model, each country is in one of these five stages of development. More developed countries are in stage 4 or 5, whereas LDCs are in one of the three earlier stages. The model also asserts that today's MDCs passed through the early stages in the past. The United States, for example, was in stage 1 prior to independence, stage 2 during the first half of the nineteenth century, stage 3 during the middle of the nineteenth century, and stage 4 during the late nineteenth century, before entering stage 5 during the early twentieth century. The model assumes that LDCs will achieve development by moving along from an earlier to a later stage.

A country that concentrates on international trade benefits from exposure to consumers in other countries. To remain competitive, the takeoff industries must constantly evaluate changes in international consumer preferences, marketing strategies, production engineering, and design technologies. This concern for international competitiveness in the exporting takeoff industries will filter through less advanced economic sectors.

Rostow's optimistic development model was based on two factors. First, the developed countries of Western Europe and Anglo-America had been joined by others in Southern and Eastern Europe and Japan. If they could become more developed by following this model, why couldn't other countries?

Second, many LDCs contain an abundant supply of raw materials sought by manufacturers and producers in MDCs. In the past, European colonial powers extracted many of these resources without paying compensation to the colonies. In a global economy, the sale of these raw materials could generate funds for LDCs to promote development.
Examples of International Trade Approach

When most LDCs were following the self-sufficiency approach, two groups of countries chose the international trade approach during the mid-twentieth century. One of the groups was located in East and Southeast Asia, the other along the eastern portion of the Arabian Peninsula.

**THE FOUR ASIAN DRAGONS.** Among the first countries to adopt the international trade alternative were South Korea, Singapore, Taiwan, and the then-British colony of Hong Kong. These four areas were given several nicknames, including the “four dragons,” the “four little tigers,” and “the gang of four.”

Singapore and Hong Kong, British colonies until 1965 and 1997, respectively, have virtually no natural resources. Both comprise large cities surrounded by very small amounts of rural land. South Korea and Taiwan have traditionally taken their lead from Japan, which occupied both countries until after World War II. Their adoption of the international trade approach was strongly influenced by Japan’s success.

Lacking natural resources, the four dragons promoted development by concentrating on producing a handful of manufactured goods, especially clothing and electronics. Low labor costs enabled these countries to sell products inexpensively in MDCs.

**PETROLEUM-RICH ARABIAN PENINSULA STATES.** The Arabian Peninsula includes Saudi Arabia, the region’s largest and most populous country, plus Kuwait, Bahrain, Oman, and the United Arab Emirates. Once among the world’s least developed countries, they were transformed overnight into some of the wealthiest thanks to escalating petroleum prices during the 1970s.

Arabian Peninsula countries have used petroleum revenues to finance large-scale projects, such as housing, highways, airports, universities, and telecommunications networks. Recently built steel, aluminum, and petrochemical factories compete on world markets with the help of government subsidies.

The landscape has been further changed by the diffusion of consumer goods. Large motor vehicles, color TVs, audio equipment, and motorcycles are readily available and affordable. Supermarkets are stocked with food imported from Europe and Anglo-America.

Some Islamic religious principles, which dominate the culture of the Middle East, conflict with business practices in MDCs. Women are excluded from holding most jobs and visiting public places, such as restaurants and swimming pools. In some places they are expected to wear traditional black clothes, a shroud, and a veil. All business halts several times a day when Muslims are called to prayers. Shops close their checkout lines and permit people to unwrap their prayer rugs and prostrate themselves on the floor.

1. **Uneven resource distribution.** Arabian Peninsula countries successfully developed through rising petroleum prices. Other countries found that the prices of their commodities did not increase and in some cases actually decreased. LDCs that depended on the sale of one product suffered because the price of their leading commodity did not rise as rapidly as the cost of the products they needed to buy. For example, Zambia has extensive copper reserves, but it has been unable to use this asset to promote development because of declining world prices for copper.

2. **Market stagnation.** Countries such as the four dragons that depend on selling low-cost manufactured goods find that the world market for many products is expanding slower than in the past. MDCs have limited growth in population, consumer purchasing power, and market size. To increase sales, LDCs may need to capture sales from established competitors rather than share in an expanding market.

3. **Increased dependence on MDCs.** Building up a handful of takeoff industries that sell to people in MDCs may force LDCs to cut back on production of food, clothing, and other necessities for their own people. Rather than finance new development, funds generated from the sale of products to other countries may have to be used to buy these necessities from MDCs for the employees of the takeoff industries.

Problems with the International Trade Alternative

Three problems have hindered countries outside the four Asian dragons and the Arabian Peninsula from developing through the international trade approach:

Recent Triumph of the International Trade Approach

Despite problems with the international trade approach, it has been embraced by most countries as the preferred alternative for stimulating development. Longtime advocates of
the self-sufficiency approach quickly converted to international trade during the 1990s. World wealth (as measured by GDP) has doubled during the past quarter-century, whereas world trade has tripled, a measure of the growing importance of the international trade approach.

India, for example, dismantled its formidable collection of barriers to international trade during the 1990s. Foreign companies are allowed to set up factories and sell in India; tariffs and restrictions on the import and export of goods have been reduced or eliminated. Monopolies in communications, insurance, and other industries have been eliminated. With increased competition, Indian companies have improved the quality of their products. Maruti now holds less than half of India’s car market, and the government sold control to the Japanese company Suzuki.

Countries converted from self-sufficiency to international trade during the 1990s for one simple reason—overwhelming evidence that international trade better promoted development. The World Bank found that since 1990 per capita GDP has increased more than 4 percent annually in countries strongly oriented toward international trade, compared with less than 1 percent for countries strongly oriented toward self-sufficiency.

In the case of India, under self-sufficiency between 1960 and 1990, GDP grew by 4 percent per year, much lower than in Asian countries that had embraced international trade. In comparison, during the same period, GDP increased 7 percent per year in Thailand, 8 percent in Taiwan, and 9 percent in South Korea. After adopting the international trade alternative, India’s GDP grew 7 percent per year during the 1990s.

What is being traded has changed. Three-fourths of exports from LDCs were agriculture or minerals in 1980, whereas manufactured goods accounted for four-fifths of exports from LDCs in 2000.

WORLD TRADE ORGANIZATION. To promote the international trade development model, countries representing 97 percent of world trade established the World Trade Organization (WTO) in 1995. The WTO works to reduce barriers to international trade in two principal ways.

First, through the WTO, countries negotiate reduction or elimination of international trade restrictions on manufactured goods, such as government subsidies on exports, quotas on imports, and tariffs on both imports and exports. Also reduced or eliminated are restrictions on the international movement of money by banks, corporations, and wealthy individuals.

The WTO also promotes international trade by enforcing agreements. One country can bring to the WTO an accusation that another country has violated a WTO agreement. The WTO is authorized to rule on the validity of the charge and offer remedies. The WTO also protects intellectual property in the age of the Internet. An individual or corporation can also bring charges to the WTO that someone in another country has violated their copyright or patent, and the WTO can order illegal actions to stop.

The WTO has been sharply attacked by liberal and conservative critics. Liberal critics charge that the WTO is undemocratic, because decisions made behind closed doors promote the interest of large corporations rather than the poor. Conservatives charge that the WTO compromises the power and sovereignty of individual countries because it can order changes in taxes and laws that it considers unfair trading practices.

Protesters routinely gather in the streets outside high-level meetings of the WTO. Most notably, the 1999 WTO meeting in Seattle drew more than 50,000 protesters. Seattle police and National Guard troops used tear gas and rubber pellets to control the crowd over a 3-day period. The city imposed a curfew after downtown stores were damaged.

TRANSNATIONAL CORPORATIONS. International trade requires corporations based in a particular country to invest in other countries. Investment made by a foreign company in the economy of another country is known as foreign direct investment (FDI).

Foreign direct investment grew rapidly in the late twentieth century, from $13 billion in 1970 and $55 billion in 1980 to $1.4 trillion in 2000. The level declined to $651 billion in 2002, in the wake of the 9/11 al-Qaeda attacks on the United States, but the figure has increased steadily since then.

Foreign direct investment does not flow equally around the world (Figure 9–23). Only one-third of foreign investment went from a MDC to a LDC in 2004, whereas the other two-thirds went from one MDC to another MDC. And FDI is not evenly distributed among LDCs. Nearly one-half of all FDI destined for LDCs went to China in 2004, nearly one-fourth to all other Asian countries, one-fourth to all Latin American countries, and less than 10 percent to all African countries.

The major sources of FDI are transnational corporations (TNCs). A transnational corporation invests and operates in countries other than the one in which its headquarters are located.
One-fourth of the largest TNCs had headquarters in the United States in 2005, and two-thirds in Western Europe, led by France, Germany, and the United Kingdom. Refer back to Figure 1–17, which showed the scope of international operations of a major Japanese transnational corporation, auto-parts maker Denso.

**Financing Development**

Regardless of whether self-sufficiency or international trade is preferred, LDCs lack the money needed to finance development. The LDCs generally must obtain funds from MDCs. These funds come from two primary sources—loans from banks and international organizations, and direct investment by transnational corporations.

**Loans**

LDCs borrow money to build new infrastructure, such as hydroelectric dams, electric transmission lines, flood-protection systems, water supplies, roads, and hotels. The two major lenders are the International Monetary Fund (IMF) and the World Bank. They were conceived at a 1944 United Nations Monetary and Financial Conference in Bretton Woods, New Hampshire, to promote economic development and stability after the devastation of World War II and to avoid a repetition of the disastrous economic policies contributing to the Great Depression of the 1930s. The IMF and World Bank became specialized agencies of the United Nations when it was established in 1945.

The World Bank includes the International Bank for Reconstruction and Development (IBRD) and the International Development Association (IDA). The IBRD provides loans to countries to reform public administration and legal institutions, develop and strengthen financial institutions, and implement transportation and social service projects. The IDA provides support to poor countries considered too risky to qualify for IBRD loans. The IBRD has loaned about $400 billion since 1945 primarily in Europe and Latin America, and the IDA about $150 billion since 1960 primarily in Asia and Africa. The IBRD lends money raised from sales of bonds to private investors, the IDA from government contributions.

The IMF provides loans to countries experiencing balance-of-payments problems that threaten expansion of international trade. IMF assistance is designed to help a country rebuild international reserves, stabilize currency exchange rates, and pay for imports without having to impose harsh trade restrictions or capital controls that could hamper the growth of world trade. Unlike the development banks, the IMF does not lend for specific projects. Funding of the IMF is based on each member country’s relative size in the world economy.

The Grameen Bank provides loans for women in Bangladesh. In the village of Sharifun Begeum, women are paying back their loans.
The theory behind borrowing money to build infrastructure is that new roads and dams will make conditions more favorable for domestic and foreign businesses to open or expand. After all, no business wants to be located in a place that lacks paved roads, running water, and electricity. In principle, new or expanded businesses are attracted to an area because improved infrastructure will contribute additional taxes that the LDC uses in part to repay the loans and in part to improve its citizens’ living conditions.

The problem is that many of the new infrastructure projects are expensive failures. Billions in aid have been squandered, stolen, or spent on armaments by recipient nations. In Mali, for example, a French-sponsored project to pump water from the Niger River using solar energy functioned for only a month. Even when it worked, the project, which cost more than $1 million, produced no more water than could two diesel pumps that together cost $6,000. The World Bank has judged half of the projects it has funded in Africa to be failures. In other cases, roads are opened and equipment operates correctly, but new businesses are still not attracted to the area.

Many LDCs have been unable to repay the interest on their loans, let alone the principal. Brazil, Mexico, Argentina, and several other Latin American countries have accumulated the largest debts, although several African countries have very high ratios of debt to income (Figure 9–24). Debt actually exceeds annual income in 18 countries. When these countries cannot repay their debts, financial institutions in MDCs refuse to make further loans, so construction of needed infrastructure stops. The inability of many LDCs to repay loans also damages the financial stability of banks in the MDCs.

**Structural Adjustment Programs**

The IMF, World Bank, and MDCs fear that granting, canceling, or refinancing debts without strings attached will perpetuate bad habits in LDCs. Therefore before granting debt relief, an LDC is required to prepare a Policy Framework Paper (PFP) outlining a **structural adjustment program**, which includes economic goals, strategies for achieving the objectives, and external financing requirements.

A structural adjustment program typically includes economic “reforms” or “adjustments.” LDCs must spend only what they can afford, they must direct benefits to the poor not just the elite, they must divert investment from military to health and education spending, they must invest scarce resources where they would have the most impact, and they must encourage a more productive private sector. Structural adjustment programs also require government reforms—more efficient civil service, more accountable fiscal management, more predictable rules and regulations, and more dissemination of information to the public.

Critics charge that poverty worsens under structural adjustment programs. By placing priority on reducing government spending and inflation, structural adjustment programs require cuts in health, education, and social services that benefit the poor. Unemployment may rise, workers in state enterprises and the civil service may lose their jobs, and support may be cut for
those in need, such as poor pregnant women, nursing mothers, young children, and elderly people. Structural reforms punish Earth’s poorest people for actions they did not commit—waste, corruption, misappropriation, military build-ups.

International organizations respond that the poor suffer more when a country does not undertake reforms. Economic growth is what benefits the poor the most in the long run. Nevertheless, in response to criticisms, the IMF and World Bank now encourage innovative programs to reduce poverty and corruption, and consult more with average citizens. A safety net must be included to ease short-term pain experienced by poor people.

**Fair Trade**

Fair trade has been proposed as a variation of the international trade model of development. *Fair trade* means that products are made and traded according to standards that protect workers and small businesses in LDCs. Standards for fair trade are set internationally by Fairtrade Labeling Organisations International (FLO). A nonprofit organization Transfair USA certifies the products sold in the United States that are fair trade.

In North America, fair trade products have been primarily craft products such as decorative home accessories, jewelry, textiles, and ceramics. Ten Thousand Villages is the largest fair trade organization in North America specializing in handicrafts. In Europe, most fair trade sales are in food, including coffee, tea, banana, chocolate, cocoa, juice, sugar, and honey products.

Two sets of standards distinguish fair trade: one set applies to workers on farms and in factories and the other to producers.

**Fair Trade Producer Standards**

Fair trade advocates work with small businesses, especially worker owned and democratically run cooperatives. Small-scale farmers and artisans in LDCs are unable to borrow from banks the money they need to invest in their businesses. By banding together, they can get credit, reduce their raw material costs, and maintain higher and fairer prices for their products. Cooperatives thus benefit the local farmers and artisans who are members, rather than absentee corporate owners interested only in maximizing profits.

Because cooperatives are managed democratically, farmers and artisans learn leadership and organizational skills. The people who grew or made the products thereby have a say in how local resources are utilized and sold. Safe and healthy working conditions can be protected.

Consumers pay higher prices for fair trade coffee than for grocery store brands, but prices are comparable to those charged by gourmet brands. However, fair trade coffee producers receive a significantly higher price per pound than traditional coffee producers. North American consumers pay $4 to $11 a pound for coffee bought from growers for about 80 cents a pound. Growers who sell to fair trade organizations earn

$1.12 to $1.26 a pound. Because fair trade organizations bypass exploitative middlemen and work directly with producers, they are able to cut costs and return a greater percentage of the retail price to the producers.

In some cases the quality is higher because fair traders factor in the environmental cost of production. For instance, in the case of coffee, fairly traded coffee is usually organic and shade grown, which results in a higher quality coffee.

**Fair Trade Worker Standards**

Critics of international trade charge that only a tiny percentage of the price a consumer pays for a good reaches the individual in the LDC responsible for making or growing it. A Haitian sewing clothing for the U.S. market, for example, earns less than 1 percent of the retail price, according to the National Labor Committee. In contrast, fair trade returns on average one-third of the price back to the producer in the LDC. The rest goes to the wholesaler who imports the item and for the retailer’s rent, wages, and other expenses.

Protection of workers’ rights is not a high priority in the international trade model, according to its critics. With minimal oversight by governments and international lending agencies, workers in LDCs allegedly work long hours in poor conditions for low pay. The workforce may include children or forced labor. Health problems may result from poor sanitation and injuries from inadequate safety precautions. Injured, ill, or laid-off workers are not compensated.

In contrast, fair trade requires employers to pay workers fair wages, permit union organizing, and comply with minimum environmental and safety standards. Under fair trade, workers are paid at least the country’s minimum wage. Sixty to seventy percent of the artisans providing fair trade hand-crafted products are women. Often these women are mothers and the sole wage earners in the home.
Because the minimum wage is often not enough for basic survival, whenever feasible, workers are paid enough to cover food, shelter, education, health care, and other basic needs. Cooperatives are encouraged to reinvest profits back into the community, such as by providing health clinics, child care, and training.

Paying fair wages does not necessarily mean that products cost the consumer more. Because fair trade organizations bypass exploitative middle people and work directly with producers, they are able to cut costs and return a greater percentage of the retail price to the producers. The cost remains the same as traditionally traded goods, but the distribution of the cost of the product is different, because the large percentage taken by middle people is removed from the equation.

**SUMMARY**

The relationship between the more and less developed regions—described at the beginning of the chapter as a north-south split—appears somewhat different on a north polar projection. MDCs form a triangular-shaped inner-core area, whereas LDCs occupy peripheral locations (Figure 9–25). This unorthodox world map projection emphasizes the central role played by MDCs in the world economy and the secondary role of LDCs.

In an increasingly unified world economy, the MDCs clustered in the core play dominant roles in forming the economies of the LDCs on the periphery. Anglo-America, Western Europe, and Japan account for a high percentage of the world’s economic activity and wealth. The LDCs in the periphery have less access to the world centers of consumption, communications, wealth, and power, which are clustered in the core. Development prospects of Latin America are tied to governments and businesses in Anglo-America, those of Africa, the Middle East, and Eastern Europe to Western Europe, and those of Asia to Japan and to a lesser extent Western Europe and Anglo-America.

Yet many people in MDCs oppose increased trade with LDCs, because of alleged unfair labor practices, inadequate environmental safeguards, and unfair pricing of products. Many people in LDCs also oppose increased trade, believing that more developed core regions are exploiting the people and resources of less developed peripheral regions. But from the perspective of others in less developed regions, integration into a world economy through trade with MDCs may be a small price to pay to receive material benefits of development, such as a steady job and a television.

On the other hand, rapid development has come to many LDCs, led by China and India. China will have the world’s largest economy by the year 2020, ahead of the United States, and India will closely follow. As LDCs are transformed economically, political and cultural changes will follow.

Here again are the key issues concerning development:

1. **Why does development vary among countries?** Development is the process by which the material conditions of a country’s people are improved. An MDC has a higher level of per capita GDP,
achieved through a transformation in the structure of the economy from a predominantly agricultural to an industrial and service-providing society. MDCs use their wealth in part to provide better health, education, and welfare services. Conversely, LDCs must use their additional wealth primarily to meet the needs of a rapidly growing population.

2. Where are more and less developed countries distributed? We can identify three more developed regions—Anglo-America, Western Europe, and Eastern Europe—plus two other developed areas—Japan and the South Pacific. Six less developed regions include Latin America, East Asia, the Middle East, Southeast Asia, South Asia, and sub-Saharan Africa. These less developed regions face different prospects for promoting development.

3. Where does level of development vary by gender? The United Nations has found evidence of gender inequality in every country of the world. Women have lower levels of income, literacy, and education than men. Even in countries where women have achieved near-equality with men in living conditions, they still have much less economic and political power.

4. Why do less developed countries face obstacles to development? Less developed countries choose between the international trade and the self-sufficiency paths toward development. In either alternative, LDCs may need to borrow considerable sums of money to promote development. The inability of many LDCs to pay back these loans is a source of considerable tension between them and MDCs.

CASE STUDY REVISITED
Future Prospects for Development

The most fundamental obstacle to development in many LDCs is gender inequality. A precondition for effective nurturing of takeoff industries and effective use of loans is ensuring an effective role for women in the development process. Excluding women is not merely unfair, it wastes a major economic asset.

The United Nations's GDI measures the condition of women and the extent of gender inequality in various countries. As was the case with the HDI, sub-Saharan Africa and South Asia have the lowest GDI. In these regions, women have relatively low literacy rates, low levels of education, and low life expectancy, but so do men. South Asia has the same HDI as Southeast Asia but a lower GDI. This indicates that the status of women is lower in South Asia than in Southeast Asia.

One organization trying to do something about the legacy of gender inequality South Asia is the Grameen Bank. Based in Bangladesh, Grameen specializes in making loans to women, three-fourths of the borrowers since the bank was established in 1977. For founding the bank, Muhammad Yunus was awarded the Nobel peace prize in 2006.

The Grameen Bank has made several hundred thousand loans to women in Bangladesh and neighboring South Asian countries, and only 1 percent of the borrowers have failed to make their weekly loan repayments, an extraordinarily low percentage for a bank. Several million loans have also been provided to women by the Bangladesh Rural Advancement Committee.

Rabia Rahman borrowed $90 from the Grameen Bank to buy a cow. Earnings from selling the cow's milk enabled her to buy her son an $85 rickshaw bicycle so that he could make a living. The smallest loan the bank has made was $1, to a woman who wanted to sell plastic bangles door to door. Other women have borrowed money to make perfume, bind books, and sell matches, mirrors, and bananas. The average loan is about $60.

KEY TERMS

Developed country (p. 292)
Developing country (p. 292)
Development (p. 292)
Fair trade (p. 321)
Foreign direct investment (p. 318)
Gender Empowerment Measure (GEM) (p. 309)
Gender-Related Development Index (GDI) (p. 309)
Gross domestic product (GDP) (p. 294)
Human Development Index (HDI) (p. 293)
Less developed country (LDC) (p. 292)
Literacy rate (p. 298)
More developed country (MDC) (p. 292)
Primary sector (p. 294)
Productivity (p. 295)
Relatively developed country (p. 292)
Secondary sector (p. 294)
Structural adjustment program (p. 320)
Tertiary sector (p. 294)
Transnational corporation (p. 318)
Value added (p. 295)
THINKING GEOGRAPHICALLY

1. Review the major economic, social, and demographic characteristics that contribute to a country's level of development. Which indicators can vary significantly by gender within countries and between countries at various levels of development? Why?

2. Some geographers have been attracted to the concepts of Immanuel Wallerstein, who argued that the modern world consists of a single entity, the capitalist world economy that is divided into three regions: the core, semi-periphery, and periphery. How have the boundaries among these three regions changed?

3. China historically relied on self-sufficiency to promote development, whereas Hong Kong was a prominent practitioner of international trade. Explain how these two approaches have been reconciled since Hong Kong became part of China in 1997.

4. Some LDCs claim that the requirements placed on them by lending organizations such as the World Bank impede rather than promote development. Should LDCs be given a greater role in deciding how much the international organizations should spend and how such funds should be spent? Why or why not?

5. What obstacles did Eastern European countries face when they dismantled 40 years of communism and converted to market economies?

FURTHER READINGS


Also consult these journals: *Economic Development and Cultural Change; Economic Geography; International Development Review; International Economic Review; International Journal of Political Economy; Journal of Developing Areas; Netherlands Journal of Economic and Social Geography; Regional Studies.*