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 4.6 percent of their GDP in 2005, up from 3.5 percent in 1990.[34] In 1999, debt service ate up over 20 percent of the value of revenue in countries such as Senegal, Zambia, and Bolivia.[35] The developing world faced severe economic problems in the late 1990s, and many of these problems continue today, particularly after the global economic downturn in 2008. "Overall, borrowing needs for developing countries are expected to exceed net capital inflows by between $350 billion and $635 billion."[36]

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 decades since the Second World War discredited one plan 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 lay 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, neo-Marxist perspectives take a historical view of global politics and how the development of capitalism and imperialism divided the world economy into a core of "haves," in which the most advanced economic activities and wealth were located, and a periphery of "have-nots," 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 such as 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.[37]

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."[38]

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."[39] 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 an economic success story. 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."[40] 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.[41] 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 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.

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

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.

Dependency and Neo-Imperialism Explanations

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 neo-Marxist approaches, particularly 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.[42]

Neo-Marxists argue that after gaining independence, developing states were subjected to international power structures when they began the development process. LDCs had to compete in a system dominated economically, politically, and militarily by states that were already relatively rich and powerful. This situation, according to neo-Marxists, calls for strategies quite different from those used in earlier days by states such as Great Britain and the United States. Neo-Marxists 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 neo-Marxists, is a more or less natural consequence of capitalism. While economists and historians in the developed states acknowledge that colonialism and imperialism existed, neo-Marxists believe 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.

Neo-Marxists 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 the neo-Marxist perspective, 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).

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

Neo-Marxists 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.[43]

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 neo-Marxists' viewpoint, 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, neo-Marxists also point out, 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:[44]

> The IMF and IBRD impose stringent conditions on their borrowers; conditions . . . [according to neo-Marxists] 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.[45]

Thus, from the point of view of neo-Marxists, 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.[46]

Furthermore, neo-Marxists 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 neo-Marxist 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

Neo-Marxists also argue that economic powers in the world work to support MNC activities in the developing world, to the detriment of developing economies. 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 (see Table 4.3 in Chapter 4).

According to neo-Marxism, foreign investment in developing countries by MNCs does much more economic 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.[47] In addition, critics of MNCs point out that these companies do not bring much money into developing 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

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

were reinvested earnings, 50 percent were funds acquired locally, *and only 1 percent were funds newly transferred from the United States.*"[48] In short, "the financing of foreign investment is done largely with host-country, not foreign, capital."[49]

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.[50]

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)

If MNCs have such bad economic 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 neo-Marxism, 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 critics 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, 2005 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 2005 were 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.

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.[51] 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."[52] Thus, in addition to creating unemployment, this capital-intensive technology can exacerbate the already unequal distribution of wealth in developing countries.

Many researchers have tried to determine the overall economic impact of MNCs on developing economies by statistically analyzing the relationship between foreign investment and economic performance, but with no clear conclusions.[53] Some have found that foreign investment in less developed countries (LDCs) retards economic growth and human development; additional recent analyses reveal that foreign investment is not associated with increased inequality in the distribution of wealth.[54] 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."[55] 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."[56]

Beyond the economic impact of MNCs on the developing world, critics of MNCs also argue that they have adverse affects on state sovereignty and other political values. According to neo-Marxists, for example, 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.

Others charge MNCs with violation of labor rights and unethical treatment of workers. 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."[57] Another

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.

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."[58] 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.[59] Other MNCs have been accused of a range of human rights abuses. One U.S.-based oil company settled a case that alleged its use of slave labor to build a pipeline in Burma. Oil giants Shell and Chevron have been accused of complicity with the Nigerian government in the deaths of activists protesting environmental abuses of the companies.[60]

These are, of course, only a few examples. 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."[61] The use of child labor by MNCs in Asia and elsewhere has been widely documented.[62] 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.[63]

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

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."[64]

MNCs may 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.[65] All of these mechanisms for corporate responsibility are voluntary and

> 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.[66]

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."[67] Some of the issues involved in the debate about MNCs are outlined in the Policy Choices box.

The Economic Liberal Explanation of Underdevelopment

Proponents of economic liberalism (see Chapter 10) disagree with the neo-Marxist perspective. 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.[68]

The fundamental source of disagreement between economic liberals, on the one hand, and neo-Marxists, 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. Neo-Marxists 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. Some neo-Marxists 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, some neo-Marxists theories are structural, 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

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

Even before China's miraculous economic growth, there were development success stories in East Asia. Singapore, South Korea, Taiwan, and Hong Kong, referred to as the "Asian 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."[69]

This economic success was troublesome for neo-Marxist approaches, because the Asian Tigers followed development policies that were quite different from those advocated by structural theories. 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. Neo-Marxists approaches ". . . had not predicted and could not explain this record of economic growth and industrial diversification."[70] 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."[71]

Map 11.2 The Asian Tigers

(© Cengage Learning)

The Asian Tigers took the lead in transforming the relationship between LDCs and the industrialized countries in the area of international trade, something that neo-Marxism 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."[72] 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."[73] Manufactured goods now account for 71 percent of the value of exports from developing countries. and one-fourth of all manufactured exports in the world.[74] 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."[75]

The economies of Malaysia, Indonesia, and Thailand, for example, experienced poverty reduction, high employment, and increased life expectancy from their growth in exports of manufactured goods.[76]

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.[77] 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."[78] More recently, "during the 1990s, India liberalized foreign trade and investment with good results. . . . It too has pursued a broad agenda of reform and has moved away from a highly regulated, planned system."[79]

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.[80] 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."[81]

Although the early success of the Asian Tigers and some other developing 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 Asian states support neo-Marxists and other critics of economic liberalism. 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."[82] 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 restructuring and comprehensive agrarian reforms that had been undertaken in these countries in the 1940s and 1950s."[83] Some neo-Marxist approaches advocate protective tariffs as a means of isolating developing countries from some of the harmful effects of the international economic environment and "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."[84]

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."[85] In general, scholars analyzing the success of the East Asian states have often "emphasized the pattern of extensive state intervention in the market,"[86] consistent with more with state capitalism (see Chapter 10) then liberal capitalist economies. 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."[87] 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 neo-Marxists might suggest. And the use of the rapid progress of East Asia as a model for economic development elsewhere became even more questionable since the economic crises hit these countries in the late 1990s, as discussed in Chapter 10. But the economic growth that they did experience does call into question fundamental tenets of structural theories regarding self-reliance and breaking away from the world capitalist system.

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, neo-Marxists 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 Neo-Marxism

If, as many neo-Marxists 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 neo-Marxist 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."[88] States following this

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

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."[89] 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.

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).** Neo-Marxism 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."[90]

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.

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 neo-Marxists 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, neo-Marxists 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.

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 in these countries 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, because 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.

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 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 show that "aid contributes powerfully to both economic growth and human development."[91] 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."[92] Sachs argues that this aid should be based on country-specific assessments of needs and carefully implemented and monitored for successful results.[93] 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

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 $27 million in 2005), followed by Japan (with over $13 million in 2005). 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 of rich countries (giving 0.22 percent of its GNI) and Scandinavian countries coming in at the top (Norway's aid burden, for example, was 0.94 percent in 2005). Overall, government foreign aid to the South first diminished immediately after the end of the Cold War but has recently increased, and in 2005, a group of wealthy states agreed to double their foreign aid to Africa and provide $40 billion in debt relief, but not all have delivered on this promise. 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) Because 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.

primary products on which they depend. A change in the decision-making process of key international economic organizations, such as 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).[94] 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."[95] 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 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.[96]

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 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. Today, OPEC members still cooperate to cut or raise oil production to affect the price of oil and their profits, but the organization is much less militant and more pragmatic. OPEC, as an organization, no longer attempts to use oil for political purposes, as it did in the 1970s, although some of its member states, such as Venezuela, have attempted to translate their recent rise in their profits from oil into international political clout.[97]

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.[98]

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.

Although 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.[99]

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"[100] 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.

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."[101]

In Latin America in particular, there was 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 [free-market] trends of the last 15 years. . . . [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."[102]

The disillusionment with liberal economic policies resulted in a recent political makeover of Latin America, with leftist and populist leaders coming to power in, for example, Venezuela, Brazil, Bolivia, Argentina, and Uruguay. In Venezuela, President Hugo Chavez 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.[103]

The backlash against economic liberalism in Latin America can be seen more widely around the world after the global economic downturn of 2008. As discussed in Chapter 10, many blamed unregulated capitalism for the problems in the financial sector in the United States and other Western economies and the spread of recession. In the developing world too, political leaders are rejecting economic liberal strategies and embracing state capitalism. State intervention, and outright ownership, of key economic sectors seem to have worked economically for emerging markets, such China and Russia, and state-run oil companies brought high profits to oil exporting countries in recent years.[104]

In addition to the largely unfulfilled promises of economic liberalization policies, 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 solidly leftist governments, which have included the Communist Party of India-Marxist and the Communist Party of India.[105] 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.[106]

It might also be relevant to point out in this context that life expectancy in the People's Republic of China 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.[107] Cuba is another example of a Communist state that has achieved relatively high human development indicators, including life expectancy (77 years), despite a fairly weak and noncapitalist economy.

In short, problems in many states that adopted economically liberal policies, as well as some successes in places such as Kerala in India, Cuba, 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.'"[108] 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.

Because 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."[109] 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.

Today, most developing countries neither shun participation in the international political economy, as some neo-Marxists 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 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."[110] 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 and talks collapsed in the summer of 2008. "The nominal cause of the collapse was a technical issue relating to agricultural trade. But that was a proxy for deep and longstanding differences between developed and developing countries over the role of trade in development and how to define a fair deal."[111] Some have criticized the

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.

Doha Round for being too narrow and have called on the WTO to negotiate broader changes to address the shift in global economic power toward emerging markets.[112]

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."[113] 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."[114] 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."[115]

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.[116] In 1983, the **Grameen Bank** ("village" bank) was founded by Muhammad Yunus, a professor of economics. Yunus' 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.'"[117] 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,