

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.<sup>97</sup>

## 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.

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.

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

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.<sup>98</sup>

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.<sup>99</sup>

**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"<sup>100</sup> 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."<sup>101</sup>

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."<sup>102</sup>

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.<sup>103</sup>

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 as China and Russia, and state-run oil companies brought high profits to oil exporting countries in recent years.<sup>104</sup>

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.<sup>105</sup> 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.<sup>106</sup>

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.<sup>107</sup> 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.'"<sup>108</sup> 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."<sup>109</sup> 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."<sup>110</sup> 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."<sup>111</sup> 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.<sup>112</sup>

## 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.”<sup>113</sup> 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.”<sup>114</sup> 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.”<sup>115</sup>

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.<sup>116</sup> 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.’”<sup>117</sup> 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,

### **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.

in effect, entrepreneurs. Today, the Grameen Bank grants loans to more than 7 million people and has branches in more than 84,000 Bangladeshi villages. More than 97 percent of its loans are repaid.<sup>118</sup>

Originally, loans from the Grameen Bank were divided about equally between men and women. But Yunus soon discovered that “in the families in which the women received the loans, the children were better cared for, the houses were better maintained.” He also found that while women spent the money on their families, men often squandered it on luxuries or drugs. Women also repaid the loans more dependably.<sup>119</sup> The result is that today, nearly all the borrowers are women. “When a bank focuses on women, according to Yunus, the impact on society is greater. Men are more likely to use additional income to make their own lives more comfortable. . . . Poor women who have a little extra income use it to bring back their children who have been living with and working with other families. When the children come back, their mothers see that they receive an education.”<sup>120</sup> One study found that women who receive Grameen loans have better-nourished and better-educated children, particularly their daughters. These women are also more likely to



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

(© Philippe Lissac/Godong/Corbis)

use contraception more consistently, as are other women in their village, even if they did not receive any loans themselves.<sup>121</sup> And approximately 65 percent of those who get loans averaging about \$100 have achieved significant economic improvements in their lives. About half have risen above the poverty line.<sup>122</sup>

What is most important about the Grameen Bank is the generally applicable nature of its lessons and successes. Indeed, the Grameen model has been replicated in more than forty countries, with significant results.<sup>123</sup> In 2006, Muhammad Yunus received the Nobel Peace Prize, recognizing him as a pioneer in microfinancing for the advancement of development and human rights.<sup>124</sup> The importance of focusing development efforts on women, as done in the Grameen Bank, has also become commonly accepted wisdom. "Several studies suggest that income is more likely to be spent on human development when women control the cash."<sup>125</sup>

In particular, these studies find that increases in women's income improve the nutritional status of families seven times as much as do equivalent increases in the incomes of men. "In Cote d'Ivoire, it has been calculated that if women had as much control over cash income as men, the share of food in the household would go up by 9%, while that of cigarettes would fall by 55% and that of alcohol by 99%."<sup>126</sup> Reducing gender equality can greatly influence the lives of children in terms of child mortality and malnutrition.<sup>127</sup> In short, evidence is rapidly accumulating in support of the proposition that political efforts to allow women to benefit from market forces are key to alleviating poverty in the developing world.

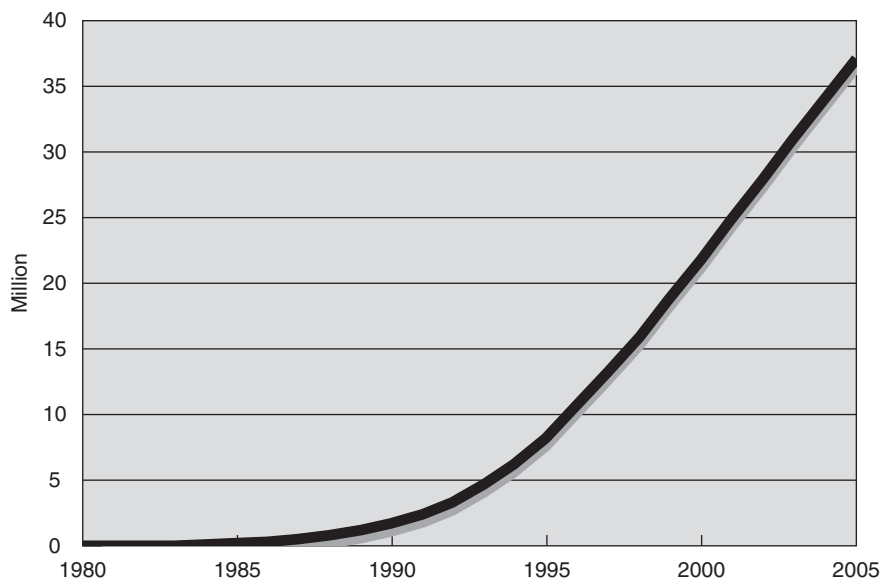
A second aspect of life in the developing world concerns the economic impact of diseases such as HIV/AIDS and malaria. Malaria, a disease transmitted by a specific type of mosquito, is treatable, yet still kills approximately 1 million people annually, mostly children in sub-Saharan Africa.<sup>128</sup>

As mentioned previously, Africa is also suffering from the majority of AIDS-related deaths, although the problem is not isolated there, as India, Ukraine, and Russia are experiencing significant infection rates as well.<sup>129</sup> The number of AIDS deaths has accumulated to over 35 million (see Figure 11.3).

The relationship between economic conditions and disease is not one-way. Poverty creates conditions for disease, and disease, in turn, contributes to poverty. In the case of malaria, for example, the poor cannot afford insecticides, screens for windows and doors, and bed nets, which are highly effective for reducing transmission of the disease. Once a region is infected, malaria impedes economic growth. "It is worth remembering how malaria and yellow fever delayed the construction of the Panama Canal for more than thirty years. . . . Only after the United States invested heavily in a mosquito-control effort . . . was the canal constructed. Malaria to this day can stop a good investment project in its tracks, whether

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

Source: From *Vital Signs 2006/2007: The Trends That Are Shaping Our Future* from Worldwatch Institute, p. 77. © 2006 Worldwatch Institute. [www.worldwatch.org](http://www.worldwatch.org).



a new mine, farm region, or tourist site.”<sup>130</sup> At the household level, the AIDS disease can be economically debilitating, because individuals are too sick to work, and medicine and treatment can use more than one-third of household income.

Beyond the household, HIV/AIDS is eroding the social and economic infrastructure. Health systems are suffering from a lethal interaction of two effects: attrition among workers and rising demand. . . . HIV/AIDS is eroding human capacity on a broad front. Zambia now loses two-thirds of its trained teachers to HIV/AIDS, and in 2000 two in three agricultural extension workers in the country reported having lost a co-worker in the past year.<sup>131</sup>

The World Health Organization Commission on Macroeconomics and Health, determined that the main causes for the gap in life expectancy between Africa and the rest of the world included AIDS, malaria, tuberculosis, vaccine-preventable disease, acute respiratory infection, and nutritional deficiencies.<sup>132</sup>

Most believe that the international community’s response to these diseases has been too little and too late. The World Bank sponsored one project on AIDS before 1993 and only spent \$15 million a year on AIDS in Africa from 1988 to 1999.<sup>133</sup>

In 2004 the world spent an estimated \$6 billion combating the [HIV/AIDS] virus through the Global Fund to Fight AIDS, Tuberculosis, and Malaria. Had resources been on this scale



20 years ago, the epidemic could have been reversed. Today, that amount is insufficient to contain the crisis. . . . The international community's response to a global public health threat has been plainly inadequate.<sup>134</sup>

The Global Fund to Fight AIDS, Tuberculosis, and Malaria was announced at a UN summit on AIDS in 2001. This fund and the \$15 billion pledged in 2003 by the United States are indicators that these diseases have finally arrived on the agenda of the international community. However, like other forms of foreign assistance, financial packages for the HIV/AIDS problem have their critics. According to economist William Easterly, "If money spent on treatment went instead to effective prevention, between three and seventy-five new HIV infections could be averted for every extra year of life given to an AIDS patient. Spending AIDS money on treatment rather than on prevention makes the AIDS crisis *worse*, not better."<sup>135</sup>

## The Role of the International Organizations in Economic Development

Although the United Nations began primarily as an international organization concerned with security issues (as discussed in Chapter 9), it is a major player in economic development as well. Indeed, more than 80 percent of UN personnel work on topics of human welfare.<sup>136</sup>

The United Nations has devoted much effort to the elaboration of operation programs for economic development. Loans apart, the UN system mounts more than 10,000 development projects per year . . . To this emphasis more recently was added the control and treatment of AIDS, malaria and tuberculosis. Together, they involve commitments of money, people's work, and hope on a scale never before reached by international agencies.<sup>137</sup>

The United Nations plays a role in economic development through its agencies, such as the UN Development Program (UNDP), the UN Children's Fund (UNICEF), the World Health Organization (WHO), and the UN Population Fund (UNFPA). These agencies collect information, administer development assistance, make recommendations regarding development issues to member-states, and organize conferences to publicize economic-related problems.

Recently, the United Nations has attempted to coordinate development efforts by focusing on specific development goals for this millennium, spelled out in the United Nations Millennium Declaration, which was signed by all UN member states in 2002. The **Millennium Development Goals (MDGs)**, listed in Table 11.1, attempt to cut poverty in half by 2015. Supporters argue that these goals are "bold but achievable, even if dozens of countries are not yet on track to achieve them."<sup>138</sup> According to critics, however,

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