

Challenges of Development

Globalization and Economic Development

Globalization accentuates the need for economic development. Because human beings share a desire to improve their standard of living and acquire more material possessions, governments are pressured to embrace economic changes.

People in poor countries become more aware of the benefits of economic development enjoyed by people in the developed world. Globalization directly affects economic development because it spreads technology, managerial skills, and investment essential for economic prosperity. It also requires governments to play a diminished role in the economy and to reward private entrepreneurial activities. Privatization of public enterprises becomes commonplace. Fewer subsidies, including those that benefit the poor, are provided by governments that embrace free markets as the path to economic development. The growing ties across global markets increase the likelihood that economic difficulties will spread from one country to another. Globalization makes it more difficult for individual governments to determine economic development. However, non-state actors have considerable influence on the process of economic change.

Throughout history, human beings have attempted to have better lives. They have advocated change, and they have resisted change. The idea of progress, which is generally accepted in the United States and Western Europe, is not always viewed positively by everyone in Western societies or in other parts of the world. Even when most citizens agree on the need for improvements, they may disagree about the pace of change, about the degree of change, on how to accomplish change, and on how to deal with the positive and negative results of change. Who should benefit from change? Who should pay the cost of change? Because new ways of doing things and new ideas and values usually threaten those who benefit from the status quo, change is not only an economic issue but also a political one. Both proponents of change and those who resist it often utilize politics to achieve their economic and social objectives. Consequently, the study of development, which is essentially about change to improve economic and social conditions, focuses on politics, economics, psychology, sociology, and other academic disciplines. Values, ideologies, institutions, resources, and technology play a crucial role in efforts to achieve and manage change. Development is an uneven process. There are different levels of development not only among countries but also within countries. As we have seen in Chapter 5, the economic and social gaps between citizens within many developing societies are often wider than those between rich and poor countries. However, development is generally beneficial to most citizens. This is demonstrated in part by the Millennium Development Goals set by the global community. This chapter discusses the nature of economic development; the role of governments, non-state actors, and intergovernmental organizations in the process; and the factors that facilitate and impede development, such as cultural values, government policies, access to natural resources, and political instability. It concentrates primarily on the positive aspects of development.



WHAT IS DEVELOPMENT?

Development is usually defined as significant and measurable economic growth, and the emergence of social, economic, and political institutions. The emphasis on economic growth leads some political scientists, economists, and others to equate development with industrialization. In response to the narrow focus on economic growth, others argue that a distinction should be made between growth and development. For them, development is about the quality of life, environmental sustainability, and human development. Growth is seen as quantitative increases in economic activities, a larger economy, and more money. Development, on the other hand, is viewed as more equitable distribution of economic resources. But it is difficult to separate growth from development. A growing economy is more likely to produce greater benefits for more people than a stagnant or declining one. A more useful definition of economic development encompasses growth, sustainability, equity, and human development.

Growth is usually associated with the development of natural resources and the construction of an infrastructure to effectively utilize those resources. As countries mine copper, produce petroleum, manufacture steel, grow and process agricultural products, and make automobiles, they also build roads, bridges, ports, airports, railways, and lighthouses; develop communication networks; generate electricity; and provide reliable mail service, water, and medical services. The infrastructure—roads, bridges, etc.—is essential to development. Countries lacking a developed infrastructure attract little investment in manufacturing or services and generally suffer from low levels of economic growth and productivity. Computers are not very useful if countries do not have a reliable supply of electricity; factories cannot function efficiently without electricity and water; and products cannot be shipped on time without good roads, bridges, railways, reliable telecommunications systems, and ports.

Growth is also seen in terms of a country's gross national product (GNP) or its gross domestic product (GDP). Most measures of economic development focus on either the total market value of all goods and services produced within a country (GDP) or the total market value of all goods and services produced by resources supplied by residents and businesses of a particular country, regardless of where the residents and businesses are located (GNP). Most countries prefer to use their GDP to measure economic performance. In an industrialized society, such as the United States, it is relatively easy to measure the market value of goods and services because of the availability of relevant information and resources to analyze the information. It is much more difficult to determine the GDP of most developing countries because of the poor quality of information and self-sufficiency. Many people in poor countries produce much of what they consume, and many economic transactions occur informally and are not recorded. Another problem with determining a country's GDP is deciding what to include. For example, the government of Colombia began to include money earned from the growth of illegal drugs within the country as part of the GDP. Although Colombian officials do not have precise measurements of drug production, they estimate that the illegal trade is worth \$4 billion a year, or about one-third of the country's legal exports. Government economists argue that by including revenues from growing cocaine and other

narcotics in the GDP, they are able to more accurately measure the total value of all economic activities in the country. However, they do not include money earned from the processing and trafficking of cocaine, marijuana, and heroin.¹ Such calculations ignore the equity and human development components of development.

The equity and human development aspects of development recognize that economic growth is essential to achieve greater equality in society. Instead of measuring development in terms of GDP or GNP, the equity and human development components of development measure improvements in the quality of life for all citizens.² This means that basic needs should be satisfied. People should have access to adequate health care, housing, education, proper nutrition, a safe environment, an overall improved quality of life, and the enjoyment of freedoms associated with democratic governments. The United Nations Development Programme (UNDP) developed a human development index (HDI) to measure the quality of life people experience in different countries. The HDI is based on a formula that takes into account life expectancy at birth, income, literacy, and access to education, measured by the average years of schooling. The gender-related development index (GDI) includes the same measures of the HDI, but concentrates on inequalities between women and men.

THE ROLE OF GOVERNMENT IN DEVELOPMENT

As the discussion of theories and strategies for development indicates, governments may promote or impede development by implementing particular policies. There is a close relationship between economic development and political development. Government institutions—legislatures, judicial organizations, executive bodies, and bureaucracies—provide the essential framework within which development occurs. Institutions help structure social, economic, legal, and political behavior. They provide a great degree of certainty and stability. Institutions determine the rules of the game, protect property rights, and inspire investor confidence. Banks and other financial institutions can make investment capital available to entrepreneurs without fearing that they will be unable to secure repayment of the loans. Entrepreneurs can take financial risks without fearing the imposition of arbitrary government decisions that would deprive them of their property. For example, Ghana's growth rate of 6.5 percent in 2010 during the global recession was attributed to discoveries of large oil reserves as well as its political stability and good governance.

Many developing societies fail to make significant economic progress because they are unable to maintain order, collect revenues, enforce laws, and provide essential public services such as education and health care. Governments are primarily responsible for building the infrastructure to facilitate development. Many Asian countries, as will be discussed, developed the infrastructure and adopted policies to promote industrialization. The Mexican government initiated the maquiladora program, which encouraged U.S. manufacturing companies to locate their factories along the 2,000-mile border between the United States and Mexico to take advantage of the lower wages in Mexico.³ The Mexican government provided subsidies to encourage American companies to move to the border,

human development index ■ Measures the quality of life people experience.

gender-related development index ■ Index including the same measures as the human development index, but concentrating on inequality between women and men.

government institutions ■ Provide the essential framework within which development occurs.

maquiladora program ■ A program initiated by Mexico that encouraged U.S. companies to locate on the Mexican-American border.

development
■ Significant and measurable economic growth and the emergence of social, economic, and political institutions.

growth
■ Quantitative increases in economic activities, including a larger economy and more money.

economic development
■ Encompasses growth and equity or human development.

infrastructure
■ Items such as roads and bridges that aid in the effective use of resources.

gross national product (GNP) ■ Total market value of all goods and services produced by citizens of a state regardless of where they are located.

gross domestic product (GDP)
■ Total market value of all goods and services produced within a country.

North American Free Trade Agreement (NAFTA)

■ Designed to lower trade barriers among Mexico, Canada, and the United States.

law of supply and demand
■ Determines the price of goods and services.

trade barriers
■ Prevents the free exchange of goods and services.

privatization ■ The reduction of government involvement in economic activities, and the increase in private influences on the economy.

passed laws to allow them to import machinery and raw materials without paying duties, and negotiated the North American Free Trade Agreement (NAFTA) to lower trade barriers among Mexico, the United States, and Canada. However, escalating drug-related violence and the global financial and economic crisis have significantly reduced economic growth.

The Classical Economic Model and Free-Market Capitalism

As discussed in Chapter 5, some scholars argue that individuals are primarily concerned with maximizing their economic interests. The prices of goods and services are believed to be determined by the law of supply and demand. The classical economic model emphasizes competition among producers, the growth of production, the efficient allocation of resources, and relatively little governmental involvement in the market. Instead of government regulations and excessive taxation, the invisible hand of economic forces would regulate the market. The economic rationality of human beings would ultimately produce greater economic growth and enhanced living standards. Free-market capitalism or neoclassical economic theory is essentially an updated version of the classical economic theory. The neoclassical economists and free-market advocates favor low taxes, strong national currencies, the prohibition of monopolies in order to maximize economic competition, and minimum government regulations. The main economic role of government is to facilitate free-market competition.⁴ Both domestic and international barriers to trade should be removed to build a global economic system. In essence, they advocate economic liberalization. Trade barriers prevent the free exchange of goods and services and are therefore seen by some as an impediment to economic development.

Privatization increased rapidly in the developing world in the 1980s, especially after the fall of communism in the Soviet Union and Eastern Europe. The inefficiency and corruption often associated with government-controlled companies helped to strengthen the argument for privatization. On the other side of the issue of privatization are those who benefit from government monopolies and subsidized services and products, especially food. In Nigeria, for example, trade union members view privatization as a direct threat to their job security. Who controls the new privatized economic activities also becomes a significant political issue in an ethnically divided country such as Nigeria. From the free-market perspective, the gains achieved by removing trade barriers and restricting government involvement in economic affairs clearly outweigh the costs for countries that want to develop. However, the rapid rise of China as a global economic power and the severe economic problems that the United States, Britain, Greece, Spain, and other European countries are facing due to the global financial and economic crisis are challenging the dominance of free-market capitalism.⁵

Non-State Actors, Intergovernmental Organizations, and Development

Economic liberalization, which is an integral component of economic globalization, has reinforced and significantly expanded the role of non-state actors in economic development. Privatization of numerous activities that were traditionally

conducted by governments has created an increasing need for non-state actors to assume greater responsibilities for many aspects of development. In both developing and developed countries, governments embrace non-state actors as partners in development. Globalization, as we saw in Chapter 2, has profoundly altered the traditional roles and power of states. Revolutions in technology, communication, and transportation have combined to weaken states and strengthen non-state actors. Multinational corporations (MNCs) have been historically powerful non-state actors. Today we see a proliferation of nongovernmental organizations (NGOs), ranging from large foundations to grassroots groups, participating in development. It is obvious that few governments have the capability to effectively deal with the challenges of development. Non-state actors provide infrastructure, education, health care, employment, clean water, and other essential services. For example, the Bill and Melinda Gates Foundation, working with the World Cocoa Foundation, provides 60,000 Ghanaian cocoa farmers with money for training in new farming techniques, business skills, and crop diversification. In many cases, the survival of governments is intertwined with the activities of non-state actors.

Intergovernmental organizations such as the International Monetary Fund (IMF) and the World Bank (also known as The International Bank for Reconstruction and Development) play a crucial and often controversial role in development and economic globalization. Both the IMF and the World Bank stress promoting trade liberalization, privatization of state-owned enterprises, opening up developing countries to foreign investment, and deregulating labor markets. The IMF and the World Bank try to influence governments to adopt policies that enhance good governance and provide a political and legal environment that is conducive to economic development. The UNDP takes a broader and more comprehensive approach to development. Leading the effort to achieve the Millennium Development Goals, UNDP coordinates the development activities of various agencies of the United Nations, such as the Food and Agriculture Organization, the United Nations Children's Fund (UNICEF), and the World Food Program. It also promotes partnerships between intergovernmental organizations and private corporations such as Cisco, Coca-Cola, Google, Microsoft, Pfizer, and Visa.⁶

State Capitalism

State capitalism stresses the importance of economic competition to secure growth. Private entrepreneurs, as in the case in free-market capitalism, are primarily responsible for promoting economic activities. Unlike free-market capitalism, state capitalism rejects the idea of the invisible hand as the regulator of the marketplace and gives the government a central role in economic development. Countries such as Japan, Singapore, Taiwan, South Korea, Vietnam, and China, which have enjoyed rapid growth and equity, are leading proponents of state capitalism. State capitalists believe that individuals, driven by self-interest, cannot be relied on to do what is best for the society as a whole or to support national interests. Consequently, governments must decide national priorities, and must assist industries that will help secure those national objectives. Furthermore, in addition to emphasizing the need for economic growth, state capitalists view equity as an

International Monetary Fund

■ An organization created to encourage world trade and international cooperation.

state capitalism

■ Gives the government a central role in economic development.

equally important goal. In other words, they believe that both growth and equity are essential elements for development, and that industrialization and urbanization should not result in the neglect of agriculture and rural communities.

Under state capitalism, the government makes resources and financial assistance available to selected industries and invests in education, especially technical education, health care, housing, and infrastructure; it also invests, initially, in labor-intensive, low-skill manufacturing industries to produce shoes, apparel, and other consumer products for export. The abundance of cheap labor in these countries has enabled these exports to effectively compete with goods produced in the United States and Western Europe prior to the implementation of global trade rules. As the Asian economies developed, the governments supported the building of larger and more technologically advanced industries. These included ship building, steel, automobile manufacturing, home appliances, and electronics. The global financial and economic crisis made the model more attractive, especially to the developing world. China's steady economic growth and America's economic decline are changing perceptions of state capitalism.

THEORIES OF DEVELOPMENT

Human beings develop theories as they deal with ordinary as well as not so ordinary problems and challenges in life. Parents and psychologists develop theories on how to raise children, and financial analysts develop theories about the stock market. The general purpose of a theory is to describe, explain, and predict how humans behave or how things work in the real world under specific circumstances. A theory is an orderly, logical, integrated set of ideas or statements regarding the natural environment, human behavior, and so on. All theories tend to simplify more complex realities. Development theory tries to explain how countries achieve specific economic and political improvements.

Even though we try to find the one best theory, the complexity of reality demands the applications of several theories. Consequently, theories tend not only to compete but also overlap. Most scholars reject the view that there is a single theory of development. A theory often contains a strategy, or strategies, of how to make things work, and how to achieve the desired results. The theory and practice of economic development vary from one period of history to another and from place to place. Medieval thinkers in Europe examined economic issues through the lens of Catholicism. Later, Protestants, especially the Calvinists and Puritans, equated discipline, hard work, and high-quality work with honoring God. Economic theories such as mercantilism focused on economic development as an essential ingredient of national power. Theories change to take into account new developments, changing values and assumptions, and new social, economic, technological, and political realities. Some scholars distinguish between individualist and structural theories. Individualism focuses on individuals as determinants of a country's economic performance, whereas structuralism views the structures of society and the global system as governing individual responses.⁷

theory ■ Predicts how humans behave, or how things work in the world under certain circumstances.

development theory ■ Explains how countries achieve economic improvements.

Modernization Theory, or Developmentalism

As many developing countries gained their independence after World War II, many advocates of economic development believed that the former colonies should emulate the capitalist, industrialized countries to achieve economic growth and build modern political institutions. A central belief was that all societies go through similar stages of development. Britain and France, for example, were once agrarian societies in which most of the inhabitants produced enough food for themselves. As technology improved, industrialization increased and more people found jobs making things for the rest of society. Improvements in agricultural methods resulted in greater agricultural productivity, which led to an increase in migration of people previously employed in farming from rural areas to the newly emerging urban centers where most manufacturing jobs were located. Ultimately, these societies became highly industrialized, technologically sophisticated, and predominately urban and service oriented. Subsistence agriculture gave way to mass production and consumerism.

Modernization theory, or developmentalism, embraces the classical economic model and free-market capitalism. It was strongly influenced by the naturalistic theories in sociology and geography, which stressed the role of environmental factors in development, by Max Weber's emphasis on cultural aspects of development, and by structural functionalism, which combined naturalism with rationalism, stressed by Weber. It argues that all countries go through stages of development, from traditional through transitional to modern. These stages are also identified as (1) underdevelopment, (2) take-off, and (3) modernity. The leading proponent of the stages of development was Walt W. Rostow.⁸ Traditional societies are characterized by ascription, fatalism, self-sufficiency, an emphasis on the present, loyalty to the family, strong kinship and ethnic groups, weak institutions, low levels of literacy and technology, and widespread superstition. These characteristics are believed to be barriers to development. Transitional societies contain both traditional and modern characteristics. They are far less focused on subsistence agriculture, and literacy increases. Village values are not as pervasive, and new social, economic, and political institutions emerge to challenge traditional norms and behavior. Modern societies are essentially Westernized. They are achievement oriented, increasingly urban, and literate, and they have a high quality of life and a great degree of personal and political freedom. The modernization theory holds that developing societies would have to change their values; adopt Western technology, economics, and political institutions; and create a climate that would attract foreign investment for industrialization.⁹ Industrialization and modernization are largely perceived as synonymous. Modernization was the dominant theory for much of the 1950s and 1960s. Its emphasis on Western Europe and the United States as models of development for the rest of the world and on free-market capitalism was viewed as ethnocentric. It often ignored specific problems and conditions in developing countries and tended to treat African, Asian, and Latin American societies as a monolithic group, despite these areas' historical, cultural, economic, and political differences. Very little effort was made to understand or respect the values and cultures of the developing world.

naturalistic theories ■ Stress cultural and environmental influences on development.

Walt W. Rostow ■ The leading proponent of stages of development.

Marxist Theory

Karl Marx (1818–1883), a German economist, philosopher, and revolutionary, and Friedrich Engels (1820–1895), a German socialist and a successful industrialist in Manchester, England, articulated a philosophy of scientific socialism, which became known as Marxism. Marx and Engels developed their theory in numerous books, most notably *The Communist Manifesto* and *Das Kapital*. Marxism is based on the philosophical method known as dialectical materialism, which emphasizes the dominance or primacy of economic determinants of history. The essence of dialectical materialism is that change occurs through the struggle of opposites. From the Marxist perspective, the history of society is essentially the history of class struggle, with those who control the means of production or wealth occupying the dominant political and social positions. A specific class would rule as long as it represented the economically productive forces in society, but it would be challenged by another class and eventually replaced. Marx and Engels believed that dialectical materialism explained the movement of society away from agrarianism and feudalism to capitalism and ultimately to socialism and communism.

Marxism holds that when human beings lived in agrarian societies, they were dominated by large landowners, or feudalists. A class of artisans and merchants evolved to satisfy the demand of the feudalists for goods and services. When the artisans and merchants acquired wealth, they challenged the feudalists, resulting in a class struggle that gave rise to capitalism. Capitalism led to the expansion of the Industrial Revolution, which drew people from the countryside into the growing urban industrial centers. These industrial workers, or proletarians, were exploited by the owners of capital, or the bourgeoisie. Capitalism, by its competitive nature, demanded more sacrifices from the workers to increase profits. From the Marxist view, capitalism led to unprecedented economic development on a global scale. However, it produced high levels of unemployment, subsistence wages, successively more serious economic crises, and other conditions that eventually influenced the workers to unite and overthrow the capitalist system. The workers would create a socialist society, in which the state would own and operate the economy. According to Marxist theory, economic development is determined and controlled by the government. Ultimately, after the economy is developed to the point where it can provide for everyone, the state will wither away because there will be no need for government.

Dependency Theory

Dependency theory, developed by Latin American intellectuals, students, and some religious leaders, is influenced by the Marxist emphasis on class conflict. It is closely related to world systems theory, articulated by Immanuel Wallerstein, which views the division of the world into economic groups as originating in the world capitalist economy developed in Western Europe in the sixteenth century. Dependency theory sees three classes of countries in the international system: (1) countries at the industrial core, (2) countries of the semiperiphery, and (3) countries at the periphery. The first group is composed of the industrial countries in Western Europe and North America and their MNCs. The second

group consists of developing countries that have achieved significant levels of economic growth. The third class, the periphery, is the poorest developing countries. The relationship between the core and the periphery was established by colonialism for the benefit of industrial powers. Developing countries, formerly colonies, continue to be largely suppliers of raw materials to, and importers of manufactured products from, rich industrial countries. Instead of working to the benefit of all, capitalism reinforces dependency and economic inequalities among countries. Dependency theorists believe that economic development can occur primarily by restructuring the global economic and political system in a way that gives the poor a greater share of the world's resources. This view was at the heart of efforts in the United Nations and elsewhere by the Group of 77 developing countries to create a New International Economic Order (NIEO). Dependency theory also advocates cooperation among poor countries in order to diminish their reliance on rich countries. One strategy suggested to accomplish this is the development of domestic industries for domestic consumption. This is also known as import substitution. Instead of importing finished products from industrialized countries, poor countries would make their own manufactured goods. From the dependency theory viewpoint, development is accomplished by a mixture of free-market capitalism and state capitalism.

Third World and African Socialism

Many developing countries adopted variations of what is generally called Third World socialism to distinguish themselves from communist societies. Unlike state capitalism, in which private entrepreneurs are the main economic actors, Third World socialism called for less private enterprise and a greater role for government in determining economic priorities and in running industries. The most important features of Third World socialism include (1) industrialization through import substitution, (2) protectionism, (3) fixed exchange rates, (4) the development of state-owned companies, and (5) government control of agricultural prices.¹⁰

Import substitution was widely perceived as a strategy for stimulating economic growth through industrialization. Starting with the manufacture of textiles, shoes, and other basic consumer goods, governments later supported the manufacturing of construction materials, farm machinery, and the assembly of automobiles for the domestic market. Import substitution gave rise to protectionism because many of the new industries were inefficient, produced poor-quality products, and could not effectively compete with foreign companies. Governments, to protect their industries, violated almost all the rules of free-market capitalism. They imposed high tariffs, restricted how much of a particular product could be imported, and prevented the importation of other goods. Lacking competition, domestic firms had no incentive to become more efficient. Furthermore, even though they made imported goods, including raw materials and machinery needed for industry, cheaper, fixed exchange rates and overvalued currencies also made it more difficult for local producers of agricultural products to compete. In an effort to restrain imports, governments required importers to obtain special licenses, and imposed high duties on imports.

A more specific variation of Third World socialism was African socialism. In 1967 the leader of Tanzania, Julius K. Nyerere, issued the Arusha Declaration,

Group of 77 ■ A group created by the developing nations that demanded that global wealth be redistributed.

New International Economic Order (NIEO) ■ An international platform for nations of the South to challenge the comparative strength of Northern countries to exploit weaker countries.

Import substitution ■ The development of domestic industries for domestic consumption.

Third World socialism ■ Calls for less private enterprise and a greater role for government in the economy.

African socialism ■ A theory that opposes Marxism and capitalism and draws upon African traditions of communalism and humanism.

Marxism ■ Stresses the dominance of economic determinants of history and the inevitability of class conflicts.

World systems theory ■ Stresses the role of European capitalism in creating economic groups of countries.

Dependency theory ■ Stresses the relationships among three classes of countries.

Ujamaa
■ Traditional
African concept of
familyhood.

which called for greater self-reliance and egalitarianism. African socialism, based on the concept of Ujamaa, or familyhood, opposed both Marxism and capitalism. Instead, it drew upon African traditions of communalism and humanism. The government controlled many major economic activities.

Community and Grassroots Development

Community development and grassroots development are essentially interchangeable. Other theories stress the role of government and multinational companies in development, whereas community development and grassroots development assume that the people most affected by poverty are able to improve their standard of living by using their own resources and adopting strategies that are consistent with their values and local conditions. This is a bottom-up approach to development. Traditional values, rather than being impediments to development, are utilized to promote economic growth and equity. Community development is based on the concept that people with common concerns can work together to deal with those concerns. It attempts to bring responsibility for development back to those who want to escape poverty.¹¹ An example of this strategy is the Grameen Bank in Bangladesh. The Grameen Bank is a small-scale credit program designed to help the poor, especially women, become microentrepreneurs. Grameen's founder, Muhammad Yunus, won the Nobel Peace Prize in 2006. This is discussed in greater detail in Chapter 8.

Grameen Bank ■
A small-scale credit
program designed to
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microentrepreneurs.

Feminist Theory

Feminist theory emanates from the long struggle to achieve equal rights for women in Western Europe, the United States, New Zealand, Australia, and many parts of the developing world. Feminist theory, the essence of which is change, concentrates on inequality, poverty, and gender relations. It challenges traditional approaches to development, perceptions of women, and accepted views of women's roles in relation to economic development. Influenced by globalization, feminist theories broadened to include more of the concerns of women in the developing world. By the early 1980s, women were advocating the formulation and recognition of new theories of development that embraced feminism. Feminist theories focus on women's empowerment, active participation in economic development, and improved social, economic, and political conditions.

Sustainable Development

Believing that earth's resources were inexhaustible, and viewing development as almost synonymous with the destruction of the natural environment, advocates of development, whether they applied the capitalist or socialist theory, were largely unconcerned with protecting the environment and preserving natural resources for future generations. In the 1960s and 1970s, students, environmental activists, and others challenged the idea of the inevitability of pollution and the destruction of the natural environment. The energy crisis of 1973–1974, which resulted from the

oil embargo imposed on the Western industrial economies by the Organization of Arab Petroleum Exporting Countries (OAPEC), underscored the need to rethink the idea of inexhaustible and readily available energy supplies. The disappearance of some animals and plants drew attention to the need to preserve endangered species and to safeguard biodiversity. The destruction of the rain forests of the Amazon and the onset of global warming motivated individuals, groups, governments, and international organizations to treat environmental problems seriously. Out of this new awareness and shifting values came the theory of sustainable development. Sustainable development holds that growth can be consistent with using resources in such a way that future generations will have access to them and continue to experience both an adequate standard of living and equity. Sustainable development is, essentially, about recognizing the limits of natural resources and redefining development to reflect this reality.

sustainable
development
■ Favors both
growth and conserving
natural resources.

FACTORS FACILITATING AND IMPEDING DEVELOPMENT

Major factors influencing development include (1) the values of the leaders and citizens, (2) natural resources and natural disasters, (3) the international and regional economic environment, (4) population, (5) education and health care, (6) political instability, (7) corruption and economic development, and (8) debt and foreign aid.

Values of the Leaders and Citizens

At the heart of the various theories of development is culture. Culture is composed of beliefs, attitudes, values, moral codes, and institutions. Because culture is socially constructed, it is essentially subjective. Both positive and negative factors, which impinge on development, are found within any given culture. Values, which are widely shared assumptions about what is right and wrong, desirable or undesirable, good and bad, or just and unjust, influence how countries develop. The values of leaders are usually viewed as the main determinants of development. If leaders are committed to change, development is much more likely than when they want to perpetuate traditions that reject change.

In Iran, for example, prior to the revolution of 1979, which created an Islamic Republic, the leaders embraced modernization, and Iran experienced significant economic growth. When Ayatollah Khomeini and other religious leaders seized power, Westernization was rejected and tradition was strictly enforced. The values of the new rulers, coupled with a war with Iraq, reversed the economic gains made prior to 1979. Asian values have been seen as the major reason for the economic success of Japan, Taiwan, South Korea, Singapore, and now China. These countries, it is argued, follow Confucianism. Confucian values spread from China to other parts of Asia. They include social harmony, adherence to a social hierarchy, obedience, loyalty, respect, strict morals, thrift, hard work, collective discipline, trust, and honesty. Japan, for example, stressed ethnic homogeneity and a powerful bureaucracy as important elements of Confucianism. However, these values are found in all societies to greater or lesser degrees. The United States is ethnically diverse and remains the world's leading economic power.

culture ■ A social
construct composed of
beliefs, attitudes,
values, moral codes,
and institutions.

Confucianism
■ Belief in values
that include social
harmony, adherence to
a social hierarchy,
obedience, loyalty,
respect, strict morals,
trust, and honesty.

Natural Resources and Natural Disasters

Natural resources play a crucial role in the initial stages of development. The United States, with an abundance of natural resources, developed rapidly. Many countries in the developing world have also achieved rapid growth because of their ownership of gold, petroleum, copper, and other raw materials. South Africa's economy was built on gold, diamonds, and other valuable minerals. Saudi Arabia and many other countries in the Middle East used oil revenues to modernize their economies. Places such as Dubai in the United Arab Emirates are using their vast wealth, derived from petroleum and natural gas, to construct some of the world's tallest buildings and to become leading global financial centers. Botswana also benefited from its diamonds and other resources. In 2010, when the United States discovered nearly \$1 trillion in untapped mineral deposits in Afghanistan, officials predicted those new resources would fundamentally change the country's economy for the better.

Access to resources alone does not determine development. Without effective leadership, entrepreneurship, adequate infrastructure, access to international and regional markets, values that are conducive to development, and government policies that are designed to encourage economic growth, development is unlikely to occur even in countries with abundant resources. As will be discussed, poor management, corruption, political violence and instability, and weak institutions have combined to prevent resource-rich countries such as Nigeria, Zambia, and Zaire from achieving significant growth and greater equality. Abundant oil resources are often seen as a curse rather than a blessing. Discovery in Zimbabwe in 2010 of one of the largest diamond deposits in the world brought cautious predictions that the new wealth could be used to subvert attempts to bring democracy to the country that has long been under authoritarian rule.

Natural disasters can also impede or reverse development. Drought, desertification, and floods, caused in part by disregard for sustainable development, overpopulation, and urbanization, often have devastating consequences in the poorest parts of the world and the most economically vulnerable countries. In 1999, Indonesia experienced its worst drought in 50 years. This natural disaster, together

with the forest fires caused by farmers and others, resulted in a sharp decline in agricultural productivity and an increase in food imports. This also contributed to wider political and social problems, which escalated into food riots and political violence, and instability in Indonesia. In 2010, Thailand lost more than half its rice crop due to a severe drought and a rising demand for water.¹² In 1998, Hurricane Mitch caused extensive damage, an estimated \$20 billion, to the

fragile economies of Central America, a high-risk zone for earthquakes, hurricanes, floods, landslides, and volcanoes. In addition to destroying homes, businesses, and infrastructure, the hurricane destroyed much of the region's agriculture. Honduras lost much of its banana industry. Chiquita and Dole, two major producers of bananas, were forced to reduce their workforce by more than 70 percent, which further weakened the economy that depended heavily on banana exports. Just before the beginning of the tourist season in 1999, Hurricane Lenny destroyed many crops, businesses, hotels, and the infrastructure in much of the Caribbean. In 2008, Hurricanes Gustav and Ike caused extensive damage in the Caribbean. Flooding in Haiti caused many deaths. On January 12, 2010, an earthquake in Haiti killed roughly 250,000 people and left an estimated 1.5 million homeless. Another devastating natural disaster was the earthquake and tsunami that occurred in Asia on December 26, 2004. More than 165,000 lives were lost, and property damage was unprecedented.

The International and Regional Economic Environment

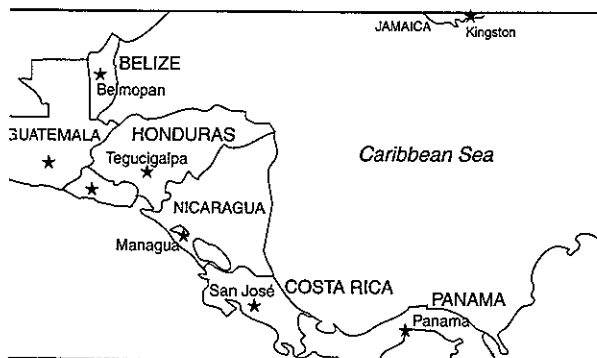
An important component of the international and regional economic environment is ideology, or a system of values, beliefs, and ideas. These values, beliefs, and ideas influence economic, social, and political activities.¹³ During the period of colonialism, the prevailing ideology justified the economic arrangement between the colonies and the colonial powers. When the Cold War, an ideological struggle between the Soviet Union and the West—the United States in particular—began after World War II, the international environment was instrumental in both facilitating and stifling development. The United States and the Soviet Union assisted development efforts to demonstrate the superiority of their ideology. Countries such as Taiwan and South Korea benefited from this competition. However, many African countries suffered economically and politically as leaders focused on their own interests and used the East–West rivalry to advance their own interests.

The economic development of a major country or a group of countries usually benefits other countries in the region. A strong American economy contributes to the growth of Mexico's economy, and a prosperous South Africa benefits Botswana, Lesotho, and other countries in southern Africa. People from poorer neighboring states migrate to richer countries to find employment. The money sent home by migrant workers can help stimulate development. Regional economic development banks, which provide loans for various economic projects and regional economic integration, often increase the development prospects of the member-states. Regional groupings, as well as individual countries, achieve greater economic growth and equity when the global economy is strong. Rich countries are more likely to grant poor countries greater access to their markets. On the other hand, a strong global economy may depend on the availability of inexpensive natural resources, thereby making exporters of these resources more vulnerable. Declining oil prices, for example, are widely viewed as a positive development for oil-importing countries but are usually a disaster for members of the Organization of Petroleum Exporting Countries.¹⁴

ideology ■ A system of values, beliefs, and ideas.

regional economic development banks ■ Banks that provide loans for various projects and regional economic integration.

FIGURE 6.1
Central America



Although a strong international economy stimulates demand for some raw materials, it also reduces demand for others. For example, the strength of the U.S. currency and the American economy diminished the need of investors to protect their assets by buying and keeping gold. As the demand for gold decreased, prices also declined. The decision of Britain to sell gold further reduced prices. The implications of this international economic development were serious for South Africa, the world's largest producer of gold, and poor countries such as Mali, Tanzania, Uganda, and Ghana. Many of them had planned to expand gold production as an important component of their effort to further their development. Between 1997 and 1999, the price of gold fell from \$325 an ounce to \$255 an ounce. Approximately 103,000 gold-mining jobs were lost in South Africa. Mozambique and other neighboring countries that depend on gold mining in South Africa for employment were seriously affected by low gold prices.¹⁵ However, the price of gold climbed to more than \$1,360 an ounce in 2010 due to concerns about the global recession.

Globalization profoundly affects development. Globalization has changed the way countries, as well as non-state actors, interact. It has also diminished the ability of governments to exercise control over economic, political, and social developments within countries. Economic globalization also means that a crisis in one region usually affects other regions. For example, the Asian economic crisis of the late 1990s negatively affected Africa, Latin America, and other parts of the world.

However, between 2002 and 2010, developing economies grew two and a half times as fast as developed economies. Globalization makes it easier for countries to develop if they have the essential technology and skills. Industries, or divisions of industries, can be located virtually anywhere and, contrary to the view of dependency theorists, the hierarchy of core and periphery is becoming less meaningful. Companies from rich countries transfer assembly plants and information technology to developing countries that have the necessary infrastructure and skills. India, for example, is fast becoming an important center in the computer-dominated world. Location is largely irrelevant in the new global society. Companies reduce data-processing and other computer-related costs by moving their operations to India.¹⁶

Population

The size and growth rate of a country's population directly affect its development. A small population can impede development. Fewer consumers generally influence businesses to increase prices so as to cover their basic operating costs. A small population is also likely to discourage most investments, partly because of the inability of a country with fewer people to provide the infrastructure essential for industries to operate. Educational, health, recreational, and shopping facilities require a sufficient number of users to make them economical. In other words, small populations may prevent the realization of economies of scale. Economies of scale deal with the relationship between output and costs. Industries and organizations that are larger generally have a greater output and lower production costs. Most countries solve problems associated with small populations by pooling their resources and cooperating to achieve economies of scale. Inexpensive transportation and the revolution in communications technology have enabled places with small populations to diminish their disadvantages.

Overpopulated countries are generally poor. Most of the societies with the largest populations and the highest growth rates are in the developing world. Roughly 97 percent of the growth of the world's population is occurring in Africa, Asia, and Latin America. Industrialized countries, such as Japan and countries in Western Europe, are experiencing declining growth rates and an aging population, which also have implications for development. An older population generally requires more expensive care than a younger population, but the strength of industrial economies and controlled immigration from the developing countries reduce the likelihood of serious economic problems arising in rich societies. The demographic differences between rich and poor countries are shown in Table 6.1.

Table 6.1

Demographic Trends

	Total Population (Million)			Annual Population Growth Rate (%)		Population Aged 65 and Above (as % of Total)	
	1975	2009	2015	1975–2005	2009	2005	2009
United States	220.2	307	329.7	1.0	0.98	12.2	12.8
Japan	111.5	127.1	126.6	0.5	−0.19	19.7	22.2
Sweden	8.2	9.1	9.4	0.3	0.2	17.2	18.8
United Kingdom	56.2	61.1	62.8	0.2	0.3	16.1	16.2
France	52.7	62.1	63.7	0.5	0.5	16.3	16.4
Germany	78.7	82.3	81.8	0.2	−0.1	18.8	20.3
Italy	55.4	58.1	59.0	0.2	−0.05	19.7	20.2
Venezuela	12.7	26.8	31.3	2.5	1.5	5.0	5.2
Mexico	60.7	111.2	115.8	1.8	1.1	5.8	6.2
Thailand	42.2	65.9	66.8	1.3	0.6	7.8	8.7
Philippines	42.0	97.9	101.1	2.3	1.9	3.8	4.1
Saudi Arabia	7.3	28.6	29.3	3.9	1.8	2.8	2.5
Brazil	108.1	198.7	210.0	1.8	1.2	6.1	6.4
China	927.8	1338.6	1388.6	1.2	0.7	7.7	8.1
Indonesia	135.4	240.3	251.6	1.7	1.1	5.5	6.0
Egypt	39.2	83.1	86.2	2.1	1.6	4.8	4.8
India	613.8	1166.1	1302.5	2.0	1.5	5.0	5.3
Ghana	10.3	23.8	27.3	2.6	1.9	3.6	3.6
Pakistan	68.3	176.2	190.7	2.8	1.9	3.9	4.2
Nigeria	61.2	149.2	175.7	2.8	2.0	2.9	3.1
Bangladesh	79.0	156.1	180.1	2.2	1.3	3.5	4.0
Zambia	5.0	11.9	13.8	2.7	1.6	2.9	2.3
Ethiopia	34.2	85.2	101.0	2.9	3.2	2.8	2.7

Source: United Nations Development Programme, *Human Development Report 2009* (New York: Palgrave Macmillan, 2009); and Central Intelligence Agency, *The CIA World Factbook 2010* (New York: Skyhorse Publishing, 2009).

In India, where roughly 360 million people live in dire poverty and 400 million people are illiterate, the population grows by about 33 persons a minute, 2,000 an hour, or 48,000 per day. By 2025, India will surpass China as the world's most populous country, with about 1.5 billion people, compared with China's 1.4 billion people. Asia alone, with the world's highest poverty rates, will account for more than half of the increase in the world's population in the next 50 years. China and India alone account for one out of every three children added to the global population. Africa is also growing rapidly, despite the devastating effects of AIDS. Comparing Europe and Africa illustrates the problem. Europe's population was three times larger than Africa's in 1900. By 2050, Africa will have more than three times the population of Europe.¹⁷

The rate of population change threatens the earth's carrying capacity. Carrying capacity refers to the maximum number of humans or animals a given area can support without creating irreversible destruction of the environment and, ultimately, of humans and animals themselves. Carrying capacity depends not just on the amount of available resources but also on the values of the population. This means that overpopulation is a problem for rich countries as well as poor countries, depending on how they utilize their resources. Because rich countries consume more than poor countries, rich countries overtax the world's resources despite their smaller populations. Education, especially for women, plays a crucial role in reducing fertility rates. It helps to determine other factors affecting population growth rates such as contraceptive usage, the age of marriage and childbearing, social status, employment opportunities outside the home, and residence. Educated women usually postpone childbearing, acquire information about their societies and cultures, become more aware of both employment opportunities and social options, are less constrained by traditional values, are more likely to use effective contraceptives, and exercise greater control over their economic and reproductive lives. Educated women have fewer children because they realize that in order to provide their offspring with a standard of living similar to or higher than their own they will have to budget their resources carefully and concentrate them on a small family. Urban residents have fewer children, whereas women who work in agriculture in rural areas have larger families. Apart from the constraints of tradition, women in rural areas are likely to be less educated than women who live in cities.¹⁸

Government policies also promote population control in order to accelerate economic development. Although most countries rely on education to convince women in particular to have fewer children, India and China have adopted more aggressive approaches to control population growth. During the 1970s, Prime Minister Indira Gandhi of India implemented policies that allowed forced mass sterilization, an approach that Indians violently rejected. When Deng Xiao Ping decided to reform China's economy in 1979, he implemented the one child policy. China established a State Family Planning Bureau to formulate policies and procedures for enforcing the one child policy. Family planning committees at the local level are responsible for rewarding those who comply and punishing those who violate the One Child Pledge. However, although the one child policy is still officially in place, it has in practice been virtually abandoned because it is largely unenforceable in the cities and about 100 million Chinese are constantly migrating. Under the one child policy, a couple can have only one child, except in the

following cases: (1) The first child has a defect. (2) In the case of remarriage, one partner does not have a child. (3) The couple is involved in a job such as mining. (4) Both partners come from families with one child. Women are encouraged, and sometimes forced, to be sterilized, especially after the birth of a second child. Women are often pressured to have abortions. Failure to comply with the one child policy may result in loss of benefits for the first child, fines, loss of state employment, and seizure of property. Those who comply receive a monthly stipend until the child is 14 years old; get preferential treatment when applying for housing, education, and health benefits for the child; and are granted a pension when they are old. In rural areas, where the one child policy is less rigidly enforced and often ignored, those who comply may receive a larger allocation of land, which is owned and controlled by the government.¹⁹ China is concerned about a shortage of girls and a rapidly aging population.

Education and Health Care

As discussed in Chapter 5, rich societies are distinguished from poor not only by measures such as per capita income and GDP but also by the number of physicians and nurses, access to clean water, sanitation, and literacy rates. Education is an essential foundation of development. Advances in agricultural productivity, the invention of industrial technologies and labor-saving devices, the growth of entrepreneurship, and the development of a productive labor force depend on access to information and training. Education challenges traditional values and social arrangements, empowers both women and men, and helps individuals actively participate in shaping their societies. Basic education allows farmers to read instructions for using modern agricultural techniques, enables them to develop effective marketing strategies, and improves their ability to obtain more resources from the government. American farmers are extremely successful partly because of their educational achievements, whereas African farmers are the least productive.²⁰

Many developing countries are caught in a vicious cycle of poor health and widespread poverty. Poor health reduces productivity, impedes access to education, limits mobility, diminishes employment opportunities, and places a severe economic and social burden on families and on the society as a whole. Countries in Asia that have experienced rapid industrialization have heavily subsidized health care. They realized that an unhealthy population is detrimental to achieving economic development. Africa, the least developed continent, is plagued by diseases that have impeded both agricultural growth and industrialization. Africa's poverty reinforces its health problems. Few Africans can afford to buy drugs to treat diseases. Throughout the developing world, AIDS is severely undermining economic development efforts. India, Cambodia, China, Thailand, Brazil, Haiti, and most countries in Africa are seriously affected by the AIDS epidemic. Cultural values, inadequate medical resources, and low levels of education contribute to the rapid spread of AIDS in poor countries in general and in Africa in particular. Of the 34 million people with AIDS worldwide, 25 million are in Africa. More than 5,000 people with AIDS die each day in Africa. It is estimated that by 2007 more people in Africa had died from AIDS than from the bubonic plague that killed 20 million people in Europe in the fourteenth century.²¹

carrying capacity
■ The maximum number of humans and animals a given area can support without creating irreversible destruction.

one child policy
■ Deng Xiao Ping's policy that limited couples to having one child.

AIDS is undoubtedly one of the most serious threats to Africa's development. It reduces valuable human resources, increases health and welfare costs, diverts resources away from productive investments, destroys communities, and further contributes to the economic and social marginalization of Africa. Asia, where AIDS is growing the fastest, will soon face many of the economic problems now confronting Africa. At Zambia's largest cement company, absenteeism has increased dramatically since 1992. Uganda's railroad company loses 15 percent of its workforce each year. Barclay's Bank of Zambia has lost about 25 percent of its senior managers to AIDS. Forty percent of Uganda's military forces are infected with AIDS. Classrooms in Malawi are deserted because a third of the teachers have AIDS. Rural areas are also suffering. Many farmers are too sick to grow crops to feed their families, and many family members are too busy caring for those infected with AIDS to cultivate the land. Malnutrition is increasing, making more people vulnerable to contracting a variety of diseases. In 1998, for example, the production of corn by Zimbabwe's small farmers dropped by 61 percent because of illness and death from AIDS. Anti-AIDS campaigns have been launched throughout the developing world. Roughly 55 million people are expected to need anti-AIDS drugs by the year 2030.²²

Political Instability

Political instability and violence stifle development and have forced countries into economic decline. However, the process of development itself sometimes creates instability and violence, largely by destroying old institutions and values before new ones can be built to replace them and by bringing different groups into closer physical proximity. The challenge of development is to manage the forces of change that cause instability and violence while strengthening political, social, and economic institutions to achieve economic growth and social equity.

Political instability reinforces other impediments to development. Violence and instability have forced the best-educated and most talented citizens to leave, taking with them financial resources and skills essential for development. Civil wars increase risks for investors, destroy personal and state-owned property, seriously disrupt agricultural productivity and industrial activities, make normal trading arrangements difficult, disrupt communications by destroying the infrastructure, and consume valuable scarce natural resources. Nigeria, a country with abundant natural resources, has experienced long periods of instability since its independence. In the late 1960s, it fought a civil war in which roughly 1.5 million people died. The Ibo, one of three main ethnic groups in the country, attempted to form a separate country, called Biafra. This part of the country, the eastern region, has large supplies of petroleum. Control over petroleum would have enabled Biafra to prosper as an independent country but would have harmed the rest of Nigeria. The government has deliberately kept the Niger Delta underdeveloped. The Delta produces about 2 million barrels of oil daily. Environmental degradation is widespread. Residents of the Niger Delta resorted to violence to change their situation. They routinely kidnapped oil workers, damaged oil pipelines, and took over oil stations. In 2009, violence ended when fighters agreed to surrender their weapons and to participate in the government's amnesty program. They were promised stipends, training, and jobs.²³ To safeguard the oil industry, Western oil companies that operate in the

Delta provide electricity and water, and build roads, bridges, schools, and hospitals—services for which governments are usually responsible.

Political incompetency in India is blamed for thwarting development of the country's transportation network, particularly rail lines, at a time when India is poised in other ways to become a major source of new global economic growth.

Corruption and Economic Development

A formidable obstacle to economic growth and social equity is widespread corruption. Many societies fail to achieve high levels of development precisely because corruption drains scarce resources away from vital public services and infrastructure projects. Much of the illegally obtained money is invested abroad to protect it—money that could be invested at home. Prime ministers, presidents, civil servants, politicians, and average citizens participate in bureaucratic corruption. Bureaucratic corruption is the illegal use of an official position or title for private gain.²⁴ This may include using your office to obtain bribes, stealing state property, embezzling public money, hiring your relatives for government jobs, and selectively enforcing the law or the delivery of public services.

Corruption makes everything in a society more expensive for most citizens. The average person has to pay public officials just to receive basic services. Citizens also have to pay higher prices for food, construction materials, automobiles, and other consumer goods because government officials cooperate with local businesspeople to overcharge the public or demand illegal payments from merchants. Customs officials usually must be bribed for individuals and companies to conduct legal and illegal trade. Bureaucratic corruption robs the state of money directly and indirectly. In some cases, corrupt officials simply take money from various government enterprises or they pocket money that was allocated to build schools or bridges. In other cases, kickbacks and other illegal payments to officials drive up the cost of government contracts, equipment, and supplies. Roads may be poorly constructed, inferior materials may be used for building, and the state may be routinely overcharged for services. Official corruption spills over into the general population and becomes a way of life. Ultimately, costs escalate for almost everyone, cynicism grows, and political and social discourse that is essential for development is stifled because of repressive tactics that accompany corruption. A culture of secrecy, fear, dishonesty, and distrust is deeply embedded in the society from top to bottom. Social, economic, and political institutions are weakened.

There are several reasons for corruption in Africa, Asia, and Latin America: (1) Public officials are not held accountable for their actions by the people. Low levels of political participation, high levels of illiteracy, and other social and economic problems prevent the emergence of responsible governance, or good governance. (2) Public servants believe that employment in government is more about private gain than public service. (3) Growing economic hardship is another reason for corruption. In many developing countries, public servants have to wait several months before they are paid because the government does not have any money or paying public servants is not a priority. Many public servants engage in corrupt activities to maintain their economic status or to survive. (4) Because politicians also engage in corruption, average persons find it easy to justify their own illegal behavior. (5) Values also contribute

bureaucratic corruption ■ The illegal use of an official position or title for personal gain.

good governance ■ Responsible, responsive, and accountable government.

Biafra ■ The eastern region of Nigeria that has large supplies of petroleum.

to corruption. What is usually seen as corruption in industrialized countries may be regarded as a legitimate social transaction. Loyalty to family, friends, and ethnic groups is still strong in most developing societies. (6) Finally, corruption is widespread because governments control much of the economy.²⁵

Nigeria has been consistently rated as one of the most corrupt countries in the world by Transparency International, a Belgian-based organization that monitors corruption. Nigerians generally regard corruption as a way of life, despite repeated promises by government officials and politicians to eliminate it. Despite its abundant natural resources, Nigeria has been declining economically. South Africa also suffers from widespread corruption, especially in government. Police openly solicit bribes, criminal files often disappear from court, many public contracts are obtained through kickbacks, welfare benefits are stolen by officials, and public funds often disappear.²⁶ Corruption has caused gasoline shortages in a country that is a major oil producer and exporter. Because corrupt officials diverted more than \$2 billion from state-owned refineries, refineries were unable to function and gas pipelines were never completed. As a result, Nigeria was forced to import refined fuels at higher costs and Nigerians waited in mile-long lines for gas.

In India, billions of dollars are stolen from the government's power stations. Customers bribe electrical company workers to slow down the meters, and bureaucrats and politicians sell jobs to supervising engineers. In Uttar Pradesh, India's most populous state and one of its poorest, more than 40 percent of the power generated is stolen. Power failures are common, leaving factories idle and retarding economic growth. The World Bank estimates that roughly \$40 billion a year is plundered from developing countries.²⁷

Debt, Foreign Aid, and Development

Weak economies often find themselves burdened with large external debt. Many countries borrowed heavily from commercial banks to finance development projects during the 1980s when interest rates were high. At the same time, prices for raw materials exported from the developing world declined, thereby preventing many developing countries from repaying their debts. Interest payments on their external debts deprived these countries of money that could have been used for development. The inability or unwillingness of the governments of these countries to repay their debts further eroded their access to additional credit from commercial banks. To prevent countries from defaulting on their loans, the IMF makes financing available. The IMF was created in 1944 to encourage world trade and international cooperation and to help countries with balance of payments problems.²⁸ A country's balance of payments is its record of economic transactions with other countries. If a country buys more from abroad than it sells, it has a balance of payments problem and has to find ways to finance the difference. Poor countries often rely on the IMF to help them when they face balance of payments difficulties. However, the IMF's loans are given on the condition that governments adopt economic policies determined by the IMF. These include severely reducing government spending to balance the budget, eliminating trade barriers, cutting social subsidies, encouraging exports, devaluing currencies, and removing artificial barriers to foreign investment. These policies have often resulted in increased income inequality, social strife, and poverty. Ironically,

it is partly due to these strict measures imposed by the IMF that developing economies continue to grow in the global recession.

Overseas development assistance, or foreign aid, is usually designed to promote economic development. Organizations such as the United Nations and the U.S. Agency for International Development (AID) are actively supporting projects in agriculture, public health, housing, public administration, industry, trade, and many other areas. Foreign aid is transfer of resources such as money, food, and technical assistance. These transfers are often gifts. Others, such as loans, are given on very favorable terms. Despite receiving substantial amounts of foreign aid, many countries have failed to achieve significant economic development. In many cases, governments abuse foreign aid. Governments have used food aid as a weapon against their adversaries. Much of the foreign aid has also been taken by corrupt officials for private gain. Aid is also seen as encouraging economic dependence and detrimental to economic growth. For example, food aid may actually contribute to the decline of agriculture in a poor country by pushing local farmers off the market. In response to these problems, many donors have made aid conditional. To receive assistance, countries must eradicate corruption, implement economic reforms, and practice good government. Governments are also relying more on NGOs, groups that are not part of a government, to distribute aid in countries where corruption is a serious problem or where human rights and democratic practices are violated.²⁹ In light of the financial problems of rich countries, aid to the developing world will continue to decline.

Case Study: Venezuela

When Alonso de Ojeda landed in South America in 1499, a year after Christopher Columbus had sailed to the peninsula of Paria, he observed that the indigenous population had constructed their homes on poles to raise them above the water. Their buildings reminded Ojeda of Venice, so he called the area "little Venice," or Venezuela. It remained a Spanish colony until Simon Bolivar successfully challenged Spanish rule in 1821. Similar to many Latin American countries, Venezuela experienced oppression under military strongmen and the economic elites. By 1959 the country had transitioned toward democratically elected governments.

Bordering Brazil, Colombia, and Guyana, Venezuela has abundant natural resources that provide a strong foundation for economic development. With recent oil and gas discoveries, Venezuela's oil reserves are estimated to be 500 billion barrels, the largest in the world. Oil accounts for roughly 90 percent of the country's export earnings. Almost half the oil is imported by the United States, and Venezuela's CITGO gas stations are part of the American economy. In addition to huge reserves of oil and natural gas, Venezuela has large amounts of iron ore, gold, bauxite, and diamonds. It grows corn, sorghum, sugarcane, bananas, rice, coffee, and other crops. Its strong industrial base includes food processing, mining, textiles, and motor vehicle assembly. Its per capita gross domestic product (GDP) is around \$13,500. Venezuela has 27 million people, 93 percent of whom live in urban areas. Life expectancy for females is around 77 years and for males 71 years.

Almost 40 percent of the population lives below the poverty line, and income inequality remains a major challenge. Increasing global demand for petroleum, especially

Transparency International ■ A Belgian-based organization that monitors corruption.

ance of payments
A country's
ord of economic
nsactions with
er countries.

in emerging countries such as China and India, intertwines Venezuela with the global economy. Venezuela's heavy reliance on oil exports makes it extremely vulnerable to the forces of economic globalization.

Venezuela's economic development is strongly influenced by the values of its leaders, especially President Hugo Chavez. After leading an attempted coup against President Carlos Andrés Pérez in February 1992, Lieutenant Colonel Chavez ran for the presidency six years later on a platform of social, economic, and political changes. His Fifth Republic Movement would transform Venezuela and implement 21st Century Socialism at a time when globalization emphasizes privatization and economic liberalization. Chavez, elected president on December 6, 1998, focused on improving the lives of impoverished Venezuelans through policies that redistributed land from wealthy landowners to peasants and small farmers, expanded educational opportunities for the poor, and enhanced health care. Embracing state capitalism, Chavez increased government's control of the economy by nationalizing cement, petroleum, steel, electricity, and communications companies. While his populist programs engendered strong support among the poor, Chavez alienated many in the middle and upper classes. He is widely viewed as taking actions that undermine democracy, discourage opposition groups, diminish judicial independence, and concentrate executive power. He also uses grassroots organizations to stifle civil society. His leftist policies and harsh rhetoric against the United States, especially when George Bush was president, and his close relations with Cuba, Iran, and Russia have created friction between Venezuela and the United States. An attempted coup against Chavez in 2002 ultimately provided him with an opportunity to consolidate power by removing his opponents from government and taking measures to silence dissent.

High oil prices, which peaked at \$145 a barrel in July 2008 before dropping sharply to \$41 a barrel by the end of the year, enabled Chavez to achieve many of his economic development goals and social policies. Increased government spending, a rise in the minimum wage, and easier access to credit fueled economic growth.

The number of families in poverty declined by more than half, infant and child mortality dropped by more than one-third, and malnutrition-related deaths fell by roughly 50 percent. Two new programs were particularly instrumental in improving nutrition: (1) The Programa Alimenticio Escolar gives approximately 4 million students a free breakfast, lunch, and snack. (2) The Mercal network of government food stores sell food at deeply discounted prices.³⁰ Significant improvements also were made in providing greater access to potable water, improving sanitation, expanding access to medical care and education, and strengthening social security for the old, widowed, orphaned, and disabled.

Ongoing political instability and deepening social divisions and conflict have contributed to weakening Venezuela's economic development. The precipitous drop in petroleum prices, together with the global financial crisis and economic recession in 2008–2009, pushed the country into recession. Economic growth fell to –5.8 percent. In sharp contrast to the United States and other countries, Venezuela did not implement a spending program to keep the economy stable and growing, despite its sizeable international reserves. Another significant impediment to economic growth is Venezuela's overvalued currency (fixed at 4.3 bolívars per dollar in 2010). An

overvalued exchange rate drives up the cost of exports while reducing the price of imports. This diminishes the country's ability to diversify its economy away from its heavy dependence on oil exports.³¹

Another major challenge to Venezuela's economic development is its reliance on hydropower dams for 70 percent of its electricity. Faced with the worst drought in a hundred years, the government declared an electricity emergency and rationed electricity in the first half of 2010. Cuts of up to six hours a day were imposed and there were severe water shortages. People had to purchase water at highly inflated prices. These problems also were due to the lack of economic planning and low levels of investment in energy development.

Regional problems play a significant role in Venezuela's development. Sharing a border with Colombia is an impediment to Venezuela's growth. One of the most violent countries in the world, Colombia produces 90 percent of the cocaine consumed in the United States. Its ongoing conflict with guerrillas from the Revolutionary Armed Forces of Colombia (FARC) has contributed to the internal displacement of between 2.6 and 4 million Colombians. Only war-torn Sudan, with 5 million refugees, has more displaced persons. There are an estimated 140,000 displaced Colombians living along the border in Venezuela. Organized drug groups penetrate the porous border spreading violence and instability.

An agreement between the United States and Colombia in 2009 granted America access to seven military bases for joint operations against drug traffickers and guerrillas. Chavez, perceiving this development to be a direct threat to his leftist regime, imposed economic sanctions against Colombia and increased his acquisition of weapons from Russia, thereby diverting attention away from economic development.³²

SUMMARY AND REVIEW

Although change is a necessary part of life, some people often receive it negatively. Thus, development, which encompasses change, is perceived differently by different people and countries. However, with globalization and increasing interdependence, countries throughout the world are concerned with issues of development. The success or failure of development efforts depends to a large extent on changes in the broader global economic system. Numerous factors contribute to change, including a country's values, ideologies, institutions, resources, and technology. Many scholars believe that development is synonymous with industrialization and modernization. Developing an infrastructure is key to development. Even though development includes social and political aspects, the ultimate measure of the development and growth of a country is through economic changes seen in the GDP. Economic

changes also are essential for social and equity changes that affect the quality of life. Governments are the major actors in development. Developing countries need social order, revenue, law enforcement, education, and health care to develop. These areas are largely in the hands of the government, although the global community has an increasing responsibility to help those countries struggling to develop.

Numerous theories have been created in order to advance development. These include (1) modernization theory, or developmentalism, (2) Marxist theory, (3) dependency theory, (4) Third World and African socialism, (5) grassroots development, and (6) sustainable development. Development theories must also take into account factors that may impede or facilitate development when forming a plan of action. Some common factors impeding development are a lack of natural resources, hostile regional

international economic environment, high or low populations, poor health care, ethnic conflict, political instability, corruption, and a lack of foreign aid. The opposite of all the aforementioned can be facilitators of development as well. Natural disasters are major impediments to development. A lack of natural resources makes self-sufficiency extremely difficult. The AIDS epidemic in the developing

world also is incapacitating their populations. Foreign aid, even when provided, also can cause problems for the developing world because of stipulations the developing world must follow in order to get aid. However, the financial problems of rich countries, combined with economic growth in poor countries, are likely to reduce the flow of aid to the developing world.

KEY TERMS

development 100
growth 100
economic development 100
infrastructure 100
gross national product 100
gross domestic product 100
human development index 101
under-related development index 101
government institutions 101
maquiladora program 101
North American Free Trade Agreement 102
law of supply and demand 102
trade barriers 102
privatization 102

International Monetary Fund 103
state capitalism 103
theory 104
development theory 104
naturalistic theories 105
Walt W. Rostow 105
Marxism 106
world systems theory 106
dependency theory 106
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New International Economic Order (NIEO) 107
import substitution 107
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DISCUSSION QUESTIONS

- How are economic and political developments linked?
- Discuss the stages of modernization theory.
- What is state capitalism and how is it different from free-market capitalism?

- What are the features of Third World socialism? Is Third World socialism different from communism? Why or why not?
- What do you think are the most important factors impeding development?

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