Chapter 9
Development

Key Issues

1. Why does development vary among countries?
2. Where are more and less developed countries distributed?
3. Where does level of development vary by gender?
4. Why do less developed countries face obstacles to development?

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The second half of the book concentrates on economic rather than cultural elements of human geography. This chapter examines the most fundamental global economic pattern — the division of the world into relatively wealthy regions and relatively poor ones. Earth's nearly 200 countries can be classified according to their level of **development**, which is the process of improving the material conditions of people through diffusion of knowledge and technology. Every ***place*** lies at some point along a continuum of development. A **more developed country** (**MDC**), also known as a **relatively developed country** or simply as a **developed country,** has progressed further along the development continuum. A country in an earlier stage is a **less developed country (LDC)**, although many analysts prefer the term *developing country*. More developed countries cluster in some ***spaces***, and less developed countries cluster in others. A number of economic, social, and demographic indicators distinguish more and less developed regions. The *scale* of the severe economic downturn that began in 2008 has illustrated the *globalization* of the economy in the twenty-first century. Individual countries have seen their economies severely buffeted by close *connections* to the global economy. A return to economic growth has necessitated taking advantage of *local diversity* in skills and resources.

Key Issue 1. Why Does Development Vary Among Countries?

- **Economic indicators of development**
- **Social indicators of development**
- **Demographic indicators of development**

The **Human Development Index (HDI)**, created by the United Nations, recognizes that a country's level of development is a function of *economic, social, and demographic* factors.

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Economic Indicators of Development
To create the HDI, the UN selects one economic factor, two social factors, and one demographic factor that are thought to best reveal the level of development: the economic factor is gross domestic product per capita, the social factors are literacy rate and amount of education, and the demographic factor is life expectancy. The highest HDI possible is 1.0, or 100 percent. The highest-ranking countries are typically in Europe and include Canada. The highest HDI in recent years has been Norway, at 0.971 in 2009. The lowest ranked country in 2009 was Niger, with an HDI of 0.340. Thirty of the 32 lowest-ranking countries were located in sub-Saharan Africa.

Per capita income is a difficult figure to obtain. Geographers substitute per capita gross domestic product, a more readily available indicator. The **gross domestic product** (GDP) is the value of the total output of goods and services produced in a country, normally during a year.

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In 2008, per capita GDP exceeded $30,000 in all MDCs, compared with less than $3,000 in LDCs. The gap has widened: Since 1980 per capita GDP increased from around $15,000 to $30,000 in MDCs, and from around $1,000 to $4,000 in LDCs.

Per capita GDP — or, for that matter, any other single indicator — cannot measure perfectly the level of a country's development. Few people are starving in less developed countries with per capita GDPs of a few thousand dollars. And not everyone is wealthy in a developed country such as the United States. Per capita GDP measures average (mean) wealth, not its distribution.

Types of Jobs
In addition to GDP per capita, three other economic indicators are especially useful in distinguishing between MDCs and LDCs: types of jobs, worker productivity, and availability of consumer goods. Average per capita income is higher in MDCs because people typically earn their living by different means than in LDCs. Jobs fall into three categories: primary (including agriculture), secondary (including manufacturing), and tertiary (including services). (276) Workers in the **primary sector** directly extract materials from Earth. The **secondary sector** includes manufacturers. The **tertiary** sector involves the provision of goods and services, retailing, banking, law, education, and government.

The contribution to GDP among primary, secondary, and tertiary sectors varies between MDCs and LDCs. The shares of GDP accounted for by the primary and secondary sectors are higher in LDCs than in MDCs, but that of the tertiary sector is higher in MDCs.

Productivity
Productivity is the value of a particular product compared to the amount of labor needed to make it. Productivity can be measured by the **value added** per worker, the gross value of the product minus the costs of raw materials and energy. Workers in more developed countries produce more with less effort because they have access to more machines, tools, and equipment to perform much of the work.

Consumer Goods
Part of the wealth generated in more developed countries is used to purchase goods and services. Especially important are goods and services related to transportation and communications, including motor vehicles, telephones, and computers. Products that promote better transportation and communications are accessible to virtually all residents in MDCs and are vital to the economy's functioning and growth. In contrast, in less developed countries, these products do not play a central role in daily life.

Most people in LDCs are familiar with these consumer goods, even though they cannot afford them. In many LDCs the "haves" are concentrated in urban areas; the "have-nots" live in the countryside. The minority who have these goods may include government officials, business owners, and other elites, whereas their lack among the majority who are denied access to these goods may provoke political unrest.

Technological change may help to reduce the gap in access to communications between MDCs and LDCs. Cell phone ownership is expanding rapidly in LDCs because these phones do not require costly investment of connecting wires to each individual building.

Social Indicators of Development
MDCs use part of their greater wealth to provide schools, hospitals, and welfare services. In turn, this well-educated, healthy, and secure population can be more economically productive.

Education and Literacy
In general, the higher the level of development, the greater are both the quantity and the quality of a country's educational services. Two measures of education are student/teacher ratio and literacy rate. In elementary or primary school, the number of students per teacher exceeds 30 in most LDCs, whereas it is

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less than 20 in most MDCs. (278) The **literacy rate** is the percentage of a country's people who can read and write. It exceeds 98 percent in developed countries, compared to less than 60 percent in many LDCs.

Health and Welfare

The health of a population is influenced by diet. On average, people in MDCs receive more calories and proteins daily than they need, but in LDCs, most people receive less than the daily minimum allowance recommended by the United Nations. When people get sick, MDCs possess the resources to care for them. In most MDCs, health care is a public service that is available at little or no cost. In LDCs, private individuals must pay more than half of the cost of health care. The United States more closely resembles the pattern in LDCs. The MDCs use part of their wealth to protect people who, for various reasons, are unable to work. Economic growth has slowed, while the percentage of people needing public assistance has increased. Governments have faced a choice between reducing benefits or increasing taxes to pay for them.

Demographic Indicators of Development

The UN HDI utilizes life expectancy as a measure of development. Other demographic characteristics that distinguish more and less developed countries include infant mortality, natural increase, and crude birth rates.

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Life Expectancy

Babies born today can expect to live into their sixties in LDCs compared to their seventies in MDCs. The gap in life expectancy is greater for females than for males. With longer life expectancies, MDCs have a higher percentage of elderly people who have retired and receive public support. The number of young people is six times higher than the number of older people in LDCs, whereas the two are nearly the same in MDCs.

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Infant Mortality Rate

About 94 percent of infants survive in LDCs compared to more than 99.5 percent in MDCs. The infant mortality rate is greater in the LDCs for several reasons: malnutrition, lack of medicine, or poor medical practices.

Natural Increase Rate

The natural increase rate averages 1.5 percent annually in LDCs compared to only 0.2 percent in MDCs. Greater natural increase strains a country's ability to provide services that can make its people healthier and more productive.

Crude Birth Rate

LDCs have higher natural increase rates because they have higher crude birth rates. The annual crude birth rate is 23 per 1,000 in LDCs, compared to less than 12 per 1,000 in MDCs.

The crude death rate (CDR) does not indicate a society's level of development. The CDR is lower in LDCs than in MDCs, 8 per 1,000 compared to 10 per 1,000, for two reasons: diffusion of medical technology from MDCs, and second, the fact that MDCs have higher percentages of older people.

Key Issue 2. Where Are More and Less Developed Countries Distributed?

- **More developed regions**
- **Less developed regions**

The countries of the world can be categorized into nine major regions and three other distinctive regions according to their level of development. These regions have distinctive demographic and cultural

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characteristics that have been discussed in earlier chapters. Subsequent chapters will show that the nine major regions also differ in economic characteristics. In a global economy, geographers are increasingly concerned with both the similarities and the differences in the economic patterns of the various regions.

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More Developed Regions

Two of the nine major cultural regions — North America and Europe — are considered more developed. The distribution of more and less developed countries reflects a clear global pattern. If we draw a circle around the world at about 30° north latitude, nearly all of the LDCs lie south of the circle. The *north-south split* between MDCs and LDCs shows up clearly in world maps of measures of development, such as the HDI.

North America: HDI 0.95

The United States ranked only 13th in HDI in 2009. It ranked high in GDP per capita and literacy rate but lower than some other countries in education and life expectancy due to high dropout rates and inadequate healthcare coverage.

North America was once the world's major manufacturer of steel, automobiles and other goods, but in the past three decades, Japan, and Europe as well as LDCs, led by China, have eroded the region's dominance. Americans remain the leading consumers. The region has adapted to the loss of manufacturing jobs by holding the world's highest percentage of tertiary-sector employment, especially health care, leisure, and financial services. North America's financial institutions played a leading role in precipitating the recent deep recession. North America is the world's most important food exporter.

Europe: HDI 0.93

During the Cold War era, Europe was regarded as two regions — a democratic West closely linked economically and militarily with the United States and a Communist East linked to the Soviet Union. With the fall of communism, Europe is treated as a single world region. The elimination of most economic barriers within the European Union makes Western Europe the world's largest and richest market. Within Europe, development is the world's highest in a core area, however development lags in southern and eastern Europe, resulting in an overall HDI lower than North America. Europe is especially dependent on international trade, both among countries within Europe and with other regions. Europe provides high value goods and services, such as insurance, banking, and luxury motor vehicles. Government officials representing the region's wealthiest core area have been accused of protecting jobs in their countries rather than in the European Union as a whole. Most European governments have limited government spending because they fear high inflation once the economy recovers.

Most governments have been willing to sacrifice some economic growth in exchange for protection of existing jobs and social services.

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Russia: HDI 0.73

Under communism, the Soviet Union had a centrally planned economy. Five-year plans prescribed production goals for the entire country, from quantities of minerals, manufactured goods and agricultural commodities to be produced to railways, roads, canals and houses to be built in each part of the country. After the Soviet Union dissolved in 1991, Russia rapidly and painfully converted to a market economy. Unemployment soared, and while a handful of Russians became very rich, most Russians saw their standard of living decline sharply. In the first years of the twenty-first century, Russia experienced economic growth, fueled in large measure by escalating production of oil. The severe worldwide recession caused a drop in demand, and with it the possibility of renewed decline in the HDI.

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Japan: HDI 0.96
North America and Europe share many cultural characteristics. North America was colonized by European immigrants, so the regions share language, religion, and other political, economic, and cultural traditions. Japan, the third major center of development, has a different cultural tradition.

Japan's development is especially remarkable because it has an extremely unfavorable ratio of population to resources. Japan gained a foothold in the global economy by selling low-cost products and by taking advantage of an abundant supply of people willing to work hard for low wages. Japan then began to specialize in high-quality, high-value products. Japan's dominance was achieved in part by concentrating resources in rigorous educational systems and training programs to create a skilled labor force.

Oceania: HDI 0.90
Oceania is relatively marginal in the global economy because of its small number of inhabitants and peripheral location. Although the HDIs of Australia and New Zealand are comparable to those of other MDCs, the area's remaining people are scattered among sparsely inhabited islands that generally are less developed. Australia and New Zealand share many cultural characteristics with the United Kingdom. Australia and New Zealand are net exporters of food and other resources, especially to the United Kingdom. Increasingly, their economies are tied to Japan and other Asian countries.

Less Developed Regions
Six regions are classified as less developed. The level of development varies widely among the six regions. Latin America has the highest HDI, whereas South Asia and Sub-Saharan Africa lag behind the others.

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Latin America
Latin American's population is highly concentrated along the Atlantic Coast. Overall, Latin Americans are more likely to live in urban areas than people in other LDCs. The level of development varies sharply within Latin America. Neighborhoods within the large cities enjoy a high level of development, and the coastal area as a whole has a relatively high GDP. Outside the coastal area, development is lower in Central America, several Caribbean Islands, and the interior of South America. Large areas of interior rain forest are being destroyed to sell the timber or to clear the land for settled agriculture.

The level of development is relatively high along the South Atlantic Coast between Curitiba, Brazil, and Buenos Aires, Argentina. Overall development in Latin America is hindered by inequitable income distribution. Latin American governments encourage redistribution of land to peasants but do not wish to alienate the large property owners, who generate much of the national wealth. Latin America's economy is closely linked to that of the United States, and the severe global recession has hit Latin America especially hard.

East Asia: HDI 0.77
The economy of East Asia — and the entire world, for that matter — is being driven in the twenty-first century increasingly by China. Now the world's second largest economy, behind the United States, China was the world's wealthiest country from ancient times until passed by Europe in the sixteenth century. As recently as the early nineteenth century, China still accounted for one-third of world GDP, but after a century of civil wars and foreign invasions, China had fallen far behind Europe and North America. China's watershed year was 1949, when the Communist party won a civil war and created the People's Republic of China.

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The Communist government took control of most agricultural land. The system assured the production and distribution of enough food to support China's one-billion-plus population. In recent years, farmers have been permitted to hold long-term leases on land and control their own production.

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In the twenty-first century, manufacturing has been increasing dramatically in China. With rising wealth, the world's largest population has been transformed into the world's largest market for consumer products. In partnership with Wal-Mart, China's manufacturing might is pushing down prices for consumer goods throughout the world. At the same time, the low wages being paid to China's factory workers are driving down factory pay around the world. Weaknesses remain in China's economic performance. Middle management is weak, quality control is minimal, banking is primitive, and legal protection is inadequate. Rapid development is straining resources. China is also responsible for an increasing share of the world's pollution.

Southwest Asia and North Africa: HDI 0.74
Much of Southwest Asia and North Africa is desert that can sustain only sparse concentrations of plant and animal life. This region — once more commonly called the Middle East — must import most products. However, it possesses one major economic asset: a large percentage of the world's petroleum reserves.

Governments in oil-rich states have used the billions of dollars generated from petroleum sales to finance economic development. However, not every country in the region has abundant petroleum reserves. Development possibilities are limited in countries that lack significant petroleum. The large gap in per capita income between the petroleum-rich countries and those that lack resources causes great tension in the region. The challenge for many Middle Eastern states is to promote development without abandoning the traditional cultural values of Islam.

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The region also suffers from serious internal cultural disputes, as discussed in Chapters 6 through 8. Lack of resolution of the long-standing conflict between Israel and its neighbors has diverted resources from development to military conflict. Southwest Asia has also struggled with terrorism. Very few people endorse acts of violence. On the other hand, few supported the U.S.-led invasion of Iraq, and alternatives are sought to U.S.-influenced culture and development.

Southeast Asia: HDI 0.73
Southeast Asia's most populous country, Indonesia, includes 13,667 islands. Southeast Asia's other most populous countries are Vietnam, Thailand, and the Philippines.

The region's tropical climate limits intensive cultivation of most grains. Economic development is also limited in Southeast Asia by several mountain ranges, active volcanoes, frequent typhoons, and occasional tsunamis. This inhospitable environment traditionally kept population growth low. But Western medicine and technology has resulted in a rapid rate of increase.

Because of distinctive vegetation and climate, farmers in Southeast Asia concentrate on harvesting products that are used in manufacturing, such as palm oil and rubber. Southeast Asia also contains a large percentage of the world's tin as well as some petroleum reserves. Rice, the region's most important food, is now exported in large quantities from India, Malaysia, and Thailand. The region has suffered from a half century of nearly continuous warfare. Japan, the Netherlands, France, and the United Kingdom were all forced to withdraw from colonies.

Development has been rapid in Thailand, Singapore, Malaysia, and the Philippines. The region is a major manufacturer of textiles. Thailand is the region's center for automobiles and consumer goods. Economic growth in the region has slowed — funds for development were sometimes invested unwisely or stolen by corrupt officials. To restore economic confidence among international investors, Southeast Asian countries have been forced to undertake painful reforms that reduce the people's standard of living.

Central Asia: HDI 0.70
Most of the countries in Central Asia were once part of the Soviet Union. Within Central Asia, development is relatively high in Kazakhstan and Iran, as they are producers of petroleum. The level of

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development is lower in the other "stan" republics, which rely upon mineral and agricultural products as their principal economic resources. Afghanistan probably has one of the world's lowest HDIs, but it hasn't been calculated for many years because of the extended war.

South Asia: HDI 0.61
South Asia includes India, Pakistan, Bangladesh, Sri Lanka, and the small Himalayan states of Nepal and Bhutan. The region has the world's second-highest population and second-lowest per capita income. The overall ratio of population to resources is unfavorable.

South Asia was a principal beneficiary of the Green Revolution: miracle rice and wheat seeds were widely dispersed, but agricultural productivity in South Asia also depends on climate. Agricultural output declines sharply if the monsoon rains fail to arrive.

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India has become the world's fourth largest economy, behind the U.S., China, and Japan, and the rate of growth of its economy is second only to China's. India is the world's leading producer of jute, peanuts, sugarcane, and tea. It has multiple mineral reserves and is a leading producer of rice and wheat. The country has become a major manufacturer, although not as rapidly as China. India has become a major service provider as well; when you phone an airline, help desk, or a credit card company, chances are your call will be answered by someone located in India.

Sub-Saharan Africa: HDI 0.51
Africa has been divided into two regions. Countries north of the Sahara Desert share economic and cultural characteristics with Southwest Asia. South of the desert is sub-Saharan Africa. Sub-Saharan Africa has a number of assets. Despite these assets, sub-Saharan Africa has the least favorable prospect for development. And economic conditions in sub-Saharan Africa have deteriorated in recent years. Some of the region's economic problems are a legacy of the colonial era. Mining companies and other businesses were established to supply European industries with needed raw materials rather than to promote overall economic development.

Political problems have also plagued sub-Saharan Africa. European colonies were converted to states without regard for the distribution of ethnicities. The fundamental problem in many countries of sub-Saharan Africa is a dramatic imbalance between the number of inhabitants and the capacity of the land to feed the population.

Key Issue 3. Where Does Level of Development Vary by Gender?

- **Gender-related Development Index**
- **Gender Empowerment**

A country's overall level of development masks inequalities in the status of men and women.
(289) The United Nations has not found a single country in the world where its women are treated as well as its men. To measure the extent of each country's gender inequality, the United Nations has created two indexes. The **Gender-related Development Index (GDI)** compares the level of development of women with that of both sexes. The **Gender Empowerment Measure (GEM)** compares the ability of women and men to participate in economic and political decision making.

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Gender-related Development Index
The GDI is constructed in a manner similar to the HDI. The GDI combines the same indicators of development used in the HDI, adjusted to reflect the differences in the accomplishments and conditions of men and women.

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- **Economic Indicator of Gender Differences:** Per capita female income as a percentage of per capita male income.
- **Social Indicators of Gender Differences:** Number of females enrolled in school compared to number of males and percent of literate females compared to percent of literate males.
- **Demographic Indicator of Gender Differences:** Life expectancy of females compared to males.

Gender Empowerment

The GEM measures the ability of women to participate in the process of achieving improvements in their status, that is, to achieve political power. In every country of the world, both MDCs and LDCs, fewer women than men hold positions of economic and political power, according to the United Nations' GEM scoring system. The GEM is calculated by combining two indicators of economic power and two indicators of political power.

Economic Indicators of Empowerment: Per capita female income as a percentage of per capita male income and percentage of professional and technical jobs held by women.

Political Indicators of Empowerment: Percentage of administrative jobs held by women and percentage of members of the national parliament who are women.

A country with complete equality of power between men and women would have a GEM score of 1.0. As with GDI, countries with the highest GEMs are MDCs, especially in North America, Northern Europe, and Oceania. The lowest scores are in Africa and Asia, though lack of data prevents calculating scores in many LDCs. Every country has a lower GEM than GDI. A higher GDI compared to GEM means that women possess a greater share of a country's resources than power over allocation of those resources.

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Key Issue 4. Why Do Less Developed Countries Face Obstacles to Development?

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

To reduce disparities between rich and poor countries, LDCs must develop more rapidly. LDCs face two fundamental obstacles in trying to encourage more rapid development:

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

To promote development, LDCs choose one of two models to promote development. One approach emphasizes international trade; the other advocates self-sufficiency. Each has important advantages and serious problems.

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

Elements of Self-Sufficiency Approach. According to the self-sufficiency approach, a country should spread investment as equally as possible across all sectors of its economy, and in all regions. Reducing poverty takes precedence over encouraging a few people to become wealthy consumers. The approach nurses fledgling businesses by isolating them from competition of large international corporations. Countries promote self-sufficiency by setting barriers that limit the import of goods from other places. The approach also restricts local businesses from exporting to other countries. For many years India made effective use of many barriers to trade. Businesses were supposed to produce goods for consumption inside

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

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Problems with the Self-Sufficiency Alternative. The experience of India and other LDCs revealed two major problems:

1. **Protection of inefficient businesses.** Businesses had little incentive to improve quality, lower production costs, reduce prices, or increase production. Companies protected from international competition do not feel pressure to keep abreast of rapid technological changes.

2. **Need for a large bureaucracy.** A complex administrative system encouraged abuse and corruption. Struggling to produce goods and services was less rewarding financially for many entrepreneurs than advising others on how to get around the complex government regulations. Other potential entrepreneurs earned more money by illegally importing goods and selling them on the black market.

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Development Through International Trade
The international trade model of development calls for a country to identify its distinctive or unique economic assets. According to the international trade approach, a country can develop economically by concentrating scarce resources on expansion of its distinctive local industries.

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

1. **The traditional society**
2. **The preconditions for takeoff**
3. **The takeoff**
4. **The drive to maturity**
5. **The age of mass consumption**

According to the international trade model, each country is in one of these five stages of development. The model assumes that less developed countries will achieve development by moving along from an earlier to a later stage. A country that concentrates on international trade benefits from exposure to consumers in other countries. Concern for international competitiveness in the exporting takeoff industries will filter through less advanced economic sectors. Rostow's optimistic development model was based on two factors. First, the developed countries of Western Europe and North America had been joined by others in Southern and Eastern Europe and Japan.

Second, many LDCs contain an abundant supply of raw materials. In the past, European colonial powers extracted many of these resources without paying compensation to the colonies. In a global economy, the sale of these raw materials could generate funds for LDCs to promote development.

Examples of International Trade Approach
When most LDCs were following the self-sufficiency approach, two groups of countries chose the international trade approach during the mid-twentieth century.

The Four Asian Dragons. Among the first countries to adopt the international trade alternative were South Korea, Singapore, Taiwan, and the then-British colony of Hong Kong. Singapore and Hong Kong, British colonies until 1965 and 1997, respectively, have virtually no natural resources. Both comprise large

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Short Essay

1) Identify the three different types of indicators used to measure development, and give specific examples of each explaining how they differ between LDCs and MDCs.

2) Identify two regions that are characterized as being more developed, and two that are characterized as being less developed. Explain the factors that have either contributed to their development (in the case of the more developed regions), or hindered it (in the case of the less developed regions).

3) Explain the relationship between gender and development and the two methods we use to measure it.

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cities surrounded by very small amounts of rural land. South Korea and Taiwan have traditionally taken their lead from Japan, and their adoption of the international trade approach was strongly influenced by Japan's success. Lacking natural resources, the four dragons promoted development by concentrating on producing a handful of manufactured goods. Low labor costs enabled these countries to sell products inexpensively in MDCs.

Petroleum-Rich Arabian Peninsula States. The Arabian Peninsula, once among the world's least developed regions, includes countries that were transformed overnight into some of the wealthiest, thanks to escalating petroleum prices during the 1970s.

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Arabian Peninsula countries have used petroleum revenues to finance large-scale projects. The landscape has been further changed by the diffusion of consumer goods.

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

1. Uneven resource distribution
2. Increased dependence on MDCs
3. Market decline

International Trade Approach Triumphs
In the late twentieth century, most countries embraced the international trade approach as the preferred alternative for stimulating development. Trade has increased more rapidly than wealth, a measure of the growing importance of the international trade approach. India, for example, dismantled its formidable collection of barriers to international trade during the 1990s.

Countries converted from self-sufficiency to international trade during the 1990s for one simple reason: overwhelming evidence that international trade better promoted development. The World Bank found that between 1990 and 2005 per capita GDP increased more than 4 percent annually in countries strongly oriented toward international trade, compared with less than 1 percent for countries strongly oriented toward self-sufficiency.

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World Trade Organization. To promote the international trade development model, countries representing 97 percent of world trade established the World Trade Organization (WTO) in 1995. The WTO works to reduce barriers to international trade in two principal ways. First, through the WTO, countries negotiate reduction or elimination of international trade restrictions on manufactured goods and restrictions on the international movement of money by banks, corporations, and wealthy individuals. The WTO also promotes international trade by enforcing agreements.

The WTO has been sharply attacked by critics. Protesters routinely gather in the streets outside high-level meetings of the WTO. Progressive critics charge that the WTO is antidemocratic, because decisions made behind closed doors promote the interest of large corporations rather than the poor. Conservatives charge that the WTO compromises the power and sovereignty of individual countries because it can order changes in taxes and laws that it considers unfair trading practices.

Foreign Direct Investment
International trade requires corporations based in a particular country to invest in other countries. Investment made by a foreign company in the economy of another country is known as **foreign direct investment (FDI)**. FDI grew rapidly during the 1990s, from $130 billion in 1990 to $1.5 trillion in 2000.

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The level declined to $647 billion in 2003, in the wake of the 9/11 al-Qaeda attacks on the United States, before returning to $1.5 trillion later in the decade.

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Only one-fourth of FDI in 2007 went from an MDC to an LDC, and FDI is not evenly distributed among LDCs. Nearly one-third of all FDI went to China in 2007, while one-tenth went to African countries. The major sources of FDI are transnational corporations (TNCs). A **transnational corporation** invests and operates in countries other than the one in which its headquarters are located.

Financing Development
LDCs lack the money needed to finance development, so they obtain financial support from MDCs from two primary sources: loans from banks and international organizations, and direct investment by transnational corporations.

Loans. The two major lenders are the World Bank and the International Monetary Fund (IMF).

- The World Bank: includes the International Bank for Reconstruction and Development (IBRD) and the International Development Association (IDA). The IBRD loans to countries to reform institutions and implement transportation and social service projects. The IDA supports countries considered too risky for IBRD loans.

- The IMF: provides loans to countries experiencing balance-of-payments problems that threaten expansion of international trade; assistance is designed to help rebuild international reserves, intended to stabilize currency exchange rates, and pay for imports without having to impose harsh trade restrictions that would hamper the growth of world trade. Unlike the development banks, the IMF does not lend for specific projects.

The IMF and World Bank became specialized agencies of the United Nations when it was established in 1945. The theory behind borrowing money to build infrastructure is that new or expanded businesses attracted to an area will contribute additional taxes that the LDC uses in part to repay the loans and in part to improve its citizens' living conditions. The problem is that many of the new infrastructure projects are expensive failures. Also, billions in aid have been squandered, or spent on armaments by recipient nations.

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Many LDCs have been unable to repay the interest on their loans, let alone the principal. Debt actually exceeds annual income in 18 countries. Financial institutions in more developed countries refuse to make further loans, so construction of needed infrastructure stops. The inability of many LDCs to repay loans also damages the financial stability of banks in the more developed countries.

Structural Adjustment Programs
The IMF, World Bank, and MDCs fear that canceling debts without strings attached will perpetuate bad habits in LDCs, therefore to obtain debt relief an LDC is required to prepare an outline for a **structural adjustment program**, identifying economic goals and strategies, including economic and government reforms. LDCs must direct benefits to the poor, not just the elite. Critics charge that poverty worsens under structural adjustment programs. Placing priority on reducing government spending and inflation may reduce education, health, and social services that benefit the poor.

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In response to criticisms, the IMF and World Bank encourage innovative programs to reduce poverty and corruption, and consult more with average citizens.

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Fair Trade

Fair Trade has been proposed as a variation of the international trade model of development. **Fair Trade** means that products are made and traded according to standards that protect workers and small businesses in LDCs. Standards for fair trade are set internationally by Fairtrade Labeling Organizations International. In North America, fair trade products have been primarily craft products. In Europe, most fair trade sales are in food. Two sets of standards distinguish fair trade: One set applies to workers on farms and in factories and the other set to producers.

Fair Trade Producer Standards

Fair trade advocates work with small businesses, especially worker-owned and democratically run cooperatives. Cooperatives benefit the local farmers and artisans who are members, rather than the absentee corporate owners interested only in maximizing profits. Because fair trade organizations bypass exploitative middlemen and work directly with producers, they are able to cut costs and return a greater percentage of the retail price to the producers. In some cases, the quality is higher because fair traders factor in the environmental cost of production.

Fair Trade Worker Standards

Critics of international trade charge that only a tiny percentage of the price a consumer pays for a good reaches the individual in the LDC responsible for making or growing it. Protection of workers' rights is not a high priority in the international trade model, according to its critics. In contrast, fair trade requires employers to pay workers fair wages, permit union organizing, and comply with minimum environmental and safety standards. Cooperatives are encouraged to reinvest profits back into the community, such as by providing health clinics, child care, and training.

Key Terms

Development (p. 274)
Fair trade (p. 301)
Foreign direct investment (p. 298)
Gender Empowerment Measure (GEM) (p. 289)
Gender-Related Development Index (GDI) (p. 289)
Gross domestic product (GDP) (p. 275)
Human Development Index (HDI) (p. 274)
Less developed country (LDC) (p. 274)
Literacy rate (p. 278)
More developed country (MDC) (p. 274)
Primary sector (p. 276)
Productivity (p. 276)
Secondary sector (p. 276)
Structural adjustment program (p. 300)
Tertiary sector (p. 276)
Transnational corporation (p. 299)
Value added (p. 276)

Test Prep Questions

1) Which of the following is NOT a factor used to calculate the HDI of a country?
A) literacy rate
B) GDP per capita
C) crude death rate
D) average life expectancy

2) What kind of factors are NOT generally considered when calculating the level of development of a country?
A) historical
B) economic
C) demographic
D) social

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3) Which of the following jobs would be considered part of the <u>secondary</u> sector?
A) coal miner
B) bank teller
C) farmer
D) factory worker

4) Why do workers in LDCs show less productivity than workers in MDCs?
A) they use less-efficient technology
B) they don't work as hard
C) they aren't as smart
D) they aren't as educated

5) What demographic measurement does not strongly indicate a society's level of development?
A) natural increase rate
B) infant mortality rate
C) crude death rate
D) life expectancy

6) What more developed region is notable for having a core area with the world's highest level of development, but also an area that lags in development?
A) North America
B) Europe
C) Russia
D) Japan

7) Which of the following is NOT considered when calculating the Gender Empowerment Measure?
A) female literacy rate
B) per capita female income relative to men
C) percentage of members of the national parliament who are women
D) percentage of professional and technical jobs held by women

8) Which of the following is NOT one of Rostow's stages of development in the international trade approach?
A) the age of mass consumption
B) the point of diminishing returns
C) the preconditions for takeoff
D) the traditional society

9) Which of the following is NOT a problem with the international trade approach to development?
A) market decline
B) increased dependence on MDCs
C) uneven resource distribution
D) need for a large bureaucracy

10) Which of the following is NOT one of the four Asian Dragons?
A) Thailand
B) Taiwan
C) South Korea
D) Hong Kong

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