THE BIG PICTURE

Why are income levels in the global South so much lower than in the North? On average, a person living in the South has less than one-quarter the income of one in the North. Within the South, regions' income levels and rates of economic growth vary, but the bottom billion people remain trapped in extreme poverty, without access to basic necessities.

The history of imperialism weighs heavily on today's gap between rich and poor countries. The South was colonized and developed to suit the colonizer's needs. In this clear example of the dominance principle, capital investment was often concentrated in sectors that exported raw materials to the North, such as oil, mines, and tropical agriculture. In Africa, especially, badly drawn colonial borders left independent states with ethnic conflicts that ignited decades of civil wars. After independence, many former colonies also faced problems of corruption and mismanagement that held back development.

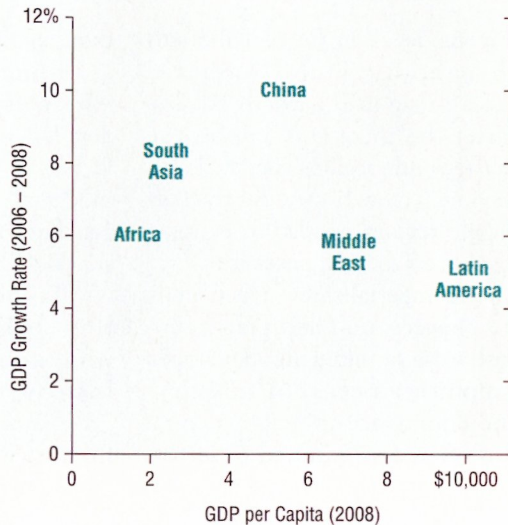
To hear the authors of this book discuss this issue, with an example from recent history, download the "IR Talk" podcast for Chapter 7 from www.IRtext.com.

have lagged for decades. Two decades ago the concentration was as strong in South Asia, but economic growth there has greatly reduced extreme poverty. Still, the average income per person in South Asia—home to 2 billion people—is only $2,600 per year, and in Africa $2,000 (even after adjusting for the lower costs of living in these regions compared to richer ones). Although billions of people are rising out of poverty, because of population growth the number of very poor people nonetheless remains about the same. The bottom line is that every six seconds, somewhere in the world, a child dies as a result of malnutrition. That is 600 every hour, 14,000 every day, 5 million every year. The world produces enough food to nourish these children and enough income to afford to nourish them, but their own families or states do not have enough income. They die, ultimately, from poverty. Meanwhile, in that same six seconds the world spends more than $200,000 on military forces, a thousandth of which could save the child's life. Likewise, people lack water, shelter, health care, and other necessities because they cannot afford them. The widespread, grinding poverty of people who cannot afford necessities is less visible than the dramatic examples of starvation triggered by war or drought, but affects many more people.

The UN in 2000 adopted the **Millennium Development Goals,** which set targets for basic needs measures to be achieved by 2015 and measured against 1990 data. The first of the eight goals is to cut in half the proportion of the world's population living in "extreme poverty," defined as income of less than $1 per day (in 1990 dollars, or about $1.70 in 2009 dollars). For the global South as a whole, that proportion fell from 31 percent to 20 percent between 1997 and 2007. China's rate has already dropped by half (33 to 14 percent), but Africa's is hardly changed, at around 50 percent.

The five regions of the global South differ not only on poverty reduction, but also on income level and growth. As Figure 7.1 shows, the regions experiencing the fastest growth—China and South Asia—are neither the highest- nor the lowest-income regions.

FIGURE 7.1 Income Level and Growth Rate by World Region



Note: For the global North overall, GDP per capita is $35,000.

The Middle East is about as developed as China in terms of GDP per capita, but is growing at only half the rate. Later in this chapter we will explore the reasons for these differences in economic growth, but here we note simply that the world's regions vary on both income and growth, with the two dimensions not correlated.

Addressing Mozambique's Challenges

According to the World Bank, between 1990 and 2005 incomes per person (adjusted for inflation, in today's dollars) in the global South as a whole rose from about $3,000 to about $5,000. In the global North they rose from about $20,000 to about $28,000. Does this indicate a slow closing of the gap because the ratio fell from about 6.6 to 5.6 as the result of a higher rate of growth in the South? Or does it indicate a widening of the gap between a person in the North and one in the South because in absolute terms, it increased from $17,000 to $23,000? Each has some truth.

Basic Human Needs

Some countries in the global South have made rapid progress in raising incomes, but others are caught in a cycle of poverty. In order to put economic growth on a firm foundation, the **basic human needs** of most of the population must be met. People need food, shelter, and other necessities of daily life in order to feel secure. Furthermore, as long as people in the global South blame imperialism for a lack of basic needs, extreme poverty fuels revolution, terrorism, and anti-Western sentiments.

Children are central to meeting a population's basic needs. In particular, education allows a new generation to meet other basic needs and move through the demographic

transition. Literacy—which UNESCO defines as the ability to read and write a simple sentence—is the key component of education. A person who can read and write can obtain a wealth of information about farming, health care, birth control, and so forth. Some poor countries have raised literacy rates substantially; others lag behind.

Great variation also exists in schooling. Primary school attendance in 2003–2004 was more than 90 percent in most world regions, though only 64 percent for Africa. Secondary education—middle and high school—is another matter. In the North, about 90 percent of secondary-age children are enrolled, but in most of the global South, fewer than two-thirds are. College is available to only a small fraction of the population.

STRANDED IN POVERTY

Nearly a billion people in the global South—most of them in Africa and South Asia—live in abject poverty. The majority lack such basic needs as safe water, housing, food, and the ability to read. Natural disasters, droughts, wars, or other events that displace subsistence farmers from their land can quickly put large numbers at risk for their lives. These women in East Timor search for food and clothing in a garbage dump, 2009.

In 2008 in the global South, according to UNICEF, one in four children suffered from malnutrition, one in seven lacked access to health care, and one in five had no safe drinking water. The AIDS epidemic is undoing progress made over decades in reducing child mortality and increasing education.

Figure 7.2 shows the variation across regions in two key indicators of children's well-being at different stages—immunizations and secondary-school enrollments. In both cases, achievement of these basic needs for children roughly correlates with the regions' respective income levels. Effective health care in poor countries is not expensive—less than $5 per person per year for primary care. Since 1990, despite the daunting problems of war and the HIV/AIDS epidemic, public health in the global South has registered some important gains. Infant tetanus deaths were halved, and access to safe water was extended to a billion more people. Polio was nearly eliminated, but resistance to vaccination in parts of Nigeria let the disease begin to spread again, with four countries having indigenous virus populations as of 2006. In eight African countries in 2006, following successful trials in several other countries, authorities combined the distribution of insecticide-treated mosquito nets for malaria with

DO THE MATH

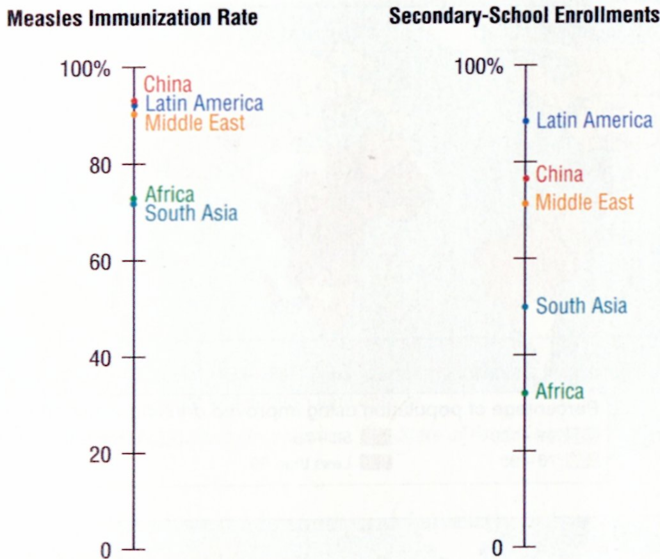
Children are a main focus of efforts to provide basic human needs in the global South. Education is critical to both economic development and the demographic transition. Girls worldwide receive less education than boys, and in Afghanistan under the Taliban, they were banned from schools altogether. This math class in Kandahar, Afghanistan, in 2002, followed the Taliban's fall.

measles and polio vaccines, deworming pills, vitamin A supplements, and educational materials—a combined approach proven to work. In the past 25 years, the number of children immunized in developing countries has risen from 5 percent to more than 50 percent. UNICEF reported in 2007 that deaths of children under five worldwide hit a record low, under 10 million, with the rate having dropped by more than half in the last 50 years. Just since 1999 measles deaths had decreased by 60 percent.

Still, the global disparities in access to health care are striking. The 75 percent of the world's people living in the global South have about 30 percent of the world's doctors and nurses. In medical research, less than 5 percent of world expenditures are directed at problems in developing countries, according to the WHO. The biggest killers are AIDS, acute respiratory infections, diarrhea, TB, malaria, and hepatitis. More than 600 million people are infected with tropical diseases—300 to 500 million with malaria alone. Yet, because the people with such diseases are poor, there is often not a large enough market for drug companies (MNCs) in the industrialized world to invest in medicines for them. And when poor countries need medicines developed for rich markets, the drugs may be prohibitively expensive (see pp. 330–332).

Safe water is another essential element of meeting basic human needs. In many rural locations, people must walk miles every day to fetch water. Access to water does not mean running water in every house, but a clean well or faucet for a village. In 2004 (the last year for which data are available), one in six people worldwide, the great majority of them in rural areas, lacked access to safe drinking water. Even among those with access to safe drinking water, many lack sanitation facilities (such as sewers and sanitary latrines). Forty percent of the world's population does not have access to sanitation, and as a result suffers from recurrent epidemics and widespread diarrhea, which kill millions of children each year. The importance of sanitation was underscored in 2008 in Zimbabwe, when an economic collapse led to a shutdown of the water treatment system, quickly sparking a cholera epidemic that killed hundreds. Access to safe drinking water and sanitation has nonetheless improved since 1990, from 78 to 83 percent globally for drinking water and

FIGURE 7.2 Basic Needs Indicators by Region (2007)



Data Source: World Bank. Regions do not exactly match those used elsewhere in this book.

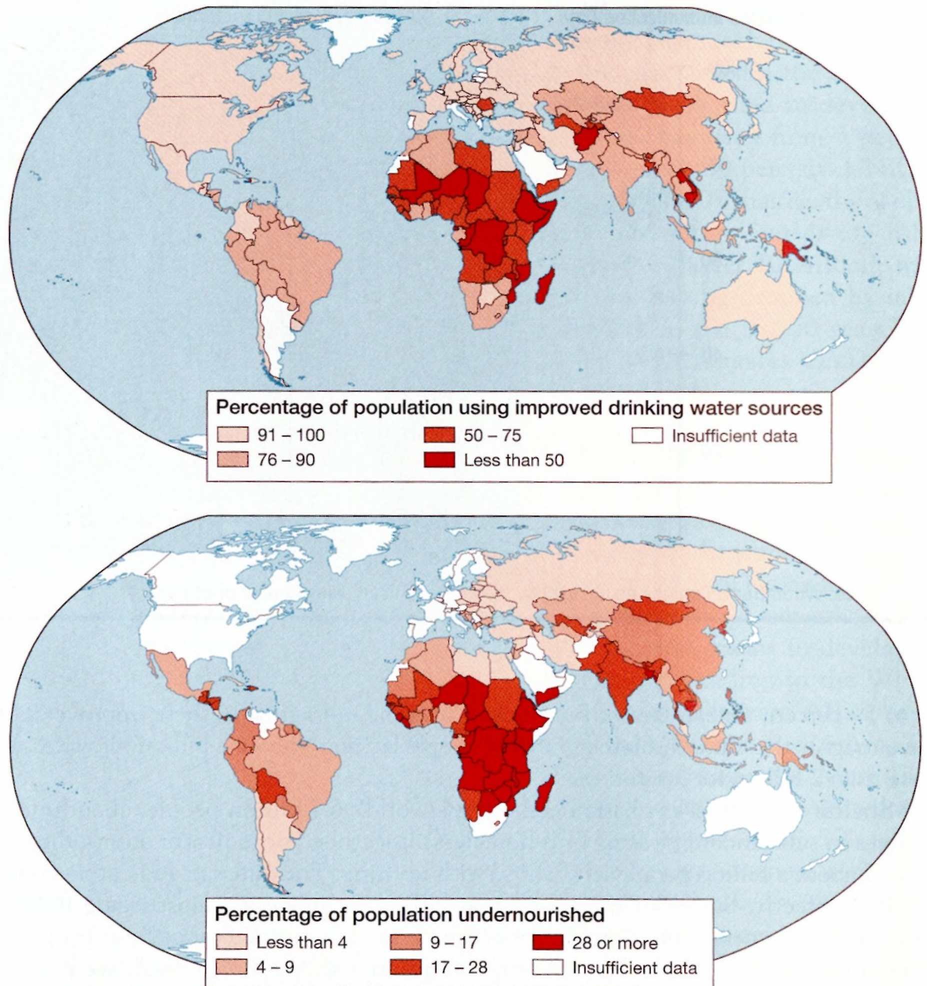
49 to 59 percent for sanitation. But because of population growth, these improvements leave roughly the same absolute number of people lacking—about a billion for water and more than 2 billion for sanitation.

Shelter is another key basic need. Of the world's 6.7 billion people, about one in six lives in substandard housing or is homeless altogether. For indicator after indicator, we find about a billion people left behind with nothing. The different indicators do not overlap perfectly, but basically the bottom billion of humanity, most living in rural areas, are in desperate poverty. The most important factors keeping these people in desperate poverty appear to be civil war, corruption, the "resource curse" (see p. 277), and landlocked locations without ready access to trade.

War in the global South—both international and civil war—is a leading obstacle to the provision of basic needs. War causes much greater damage to society than merely the direct deaths and injuries it inflicts. In war zones, economic infrastructure such as transportation is disrupted, as are government services such as health care and education. Wars drastically reduce the confidence in economic and political stability on which investment and trade depend.

Figure 7.3 maps the rates of access to safe water and food. The worldwide pattern somewhat resembles the map of wars in progress on p. 111. If indeed there is a relationship between recent or present warfare and a lack of basic needs (in turn correlated with income level), what really causes what? Does being at war keep a society poor and prevent it from meeting its population's basic needs? Or does being poor, with unmet

FIGURE 7.3 Rates of Access to Water and Food, 2005



Source: UN data.

basic needs, make a society more war-prone? Probably both are true. War is often part of a vicious circle for states unable to rise out of poverty.

World Hunger

Malnutrition (or malnourishment) refers to the lack of needed foods including protein and vitamins. The term *hunger* refers broadly to malnutrition or outright *undernourishment*—a lack of calories. Hunger does not usually kill people through

TABLE 7.1 Who's Hungry?
Chronically Undernourished People by Region, c. 2007

Region	Number (millions)	Percentage of Population	10 Years Earlier
S. Asia	330	21%	22%
China	140	9%	12%
Africa	210	30%	34%
Latin America	45	8%	11%
Middle East	40	8%	8%
CIS	10	12%	20%
Total	835	13%	14%

Notes: Data are from 2003–2005 and 1995–1997. Chronic undernourishment means failing to consume enough food on average over a year to maintain body weight and support light activity.

Source: Based on Food and Agriculture Organization. *The State of Food Insecurity in the World 2008.* FAO, 2008, pp. 48–50.

outright starvation, but it weakens them and leaves them susceptible to infectious diseases that would not ordinarily be fatal.

Some 920 million people—about one in eight worldwide—are chronically undernourished (see Table 7.1). At the World Food Summit in 1996, world leaders adopted a goal to cut hunger in half by 2015. But 13 years later there were more hungry people, not fewer. As a proportion of a growing population, however, the rate of hunger dropped from 14 to 13 percent from 1995 to 2005. In 2006, UNICEF reported that China had made great progress in reducing child malnutrition, but progress in South Asia had been very slow and Africa was not moving forward. A quarter of the world's children under age 5—and nearly half those in India—were underweight. Of the world's 150 million underweight children, half lived in India, Pakistan, and Bangladesh. Higher food prices in 2007–2008 led to a particularly large increase in hunger.

Traditionally, rural communities have grown their own food—**subsistence farming.** Colonialism disrupted this pattern, and the disruption has continued in postcolonial times. States in the global South shifted from subsistence to commercial agriculture. Small plots were merged into big plantations, often under the control of wealthy landlords. By concentrating capital and orienting the economy toward a niche in world trade, this process is consistent with liberal economics. But it displaces subsistence farmers from the land. Wars displace farmers even more quickly, with similar results.

Commercial agriculture relies on machinery, commercial fuels, and artificial fertilizers and pesticides, which must be bought with cash and often must be imported. To pay for these supplies, big farms grow **cash crops**—agricultural goods produced for export to world markets. Such crops typically provide little nutrition to local peasants; examples include coffee, tea, and sugar cane. Subsistence farmers end up working on the plantation at very low wages or migrating to cities in search of jobs. Often they end up hungry. Ironically, the higher food prices in 2007–2008 provided increased income for farmers in rural areas, yet at the cost of many being unable to afford food.

International food aid itself can sometimes add to these problems. Agricultural assistance may favor mechanized commercial agriculture. And if an international agency floods an area with food, prices on local markets drop, which may force even more local farmers out of business and increase dependence on handouts from the government or international community. Also, people in a drought or famine often have to travel to feeding centers to receive the food, halting their work on their own land.

Rural and Urban Populations

The displacement of peasants from subsistence farming contributes to a massive population shift that typically accompanies the demographic transition. More and more people move to the cities from the countryside—**urbanization.** This is hard to measure exactly; there is no standard definition of when a town is considered a city. But industrialized states report that about 70–90 percent of their populations live in cities. By contrast, China is only 30 percent urbanized—a level typical of Asia and Africa. Most Middle Eastern states are a bit more urban (45–55 percent), and South American ones are 70–85 percent urban.

Urbanization is not caused by higher population growth in cities than in the countryside. In fact, the opposite is true. In cities, the people are generally better educated, with higher incomes. They are further along in the demographic transition and have lower birthrates than people in the countryside. Rather, the growth of urban population is caused by people moving to the cities from the countryside. They do so because of the higher income levels in the cities and the hope of more chances for an exciting life. They also move because population growth in the countryside stretches available food, water, arable land, and other resources.

Many states have considered policies to break up large land holdings and redistribute land to poor peasants for use in subsistence farming—**land reform.** The main opponents of land reform are large landowners, who often wield great political power because of their wealth and their international connections to markets, MNCs, and other sources of hard currency.

Women in Developing Countries

Economic development in poor countries is closely tied to the status of women in those societies. Most attention for decades had focused on men as supposedly the main generators of capital. Governments and international reports concentrated on work performed by male wage earners. Women's work, by contrast, often is not paid for in money and does not show up in financial statistics. But women in much of the world work harder than men and contribute more to the economic well-being of their families and communities. Women are key to efforts to improve the lot of children and reduce birthrates. In nutrition, education, health care, and shelter, women are central to providing the basic needs of people in poor countries.

Yet women hold inferior social status to men in the countries of the South (even more than in the North). For instance, when food is in short supply, men and boys often eat first, and women and girls get what is left. Similarly, discrimination against girls is

widespread in education and literacy. Worldwide, nearly twice as many women as men are illiterate. Throughout Asia, Africa, and the Middle East (though not in Latin America), more boys receive an education, especially at the secondary level, though that gap has closed considerably in recent years. At university level, only 30 percent of students are women in China and the Middle East, a bit more than 20 percent in South Asia and Africa (but 45 percent in Latin America). The Taliban regime in Afghanistan (1996–2001) took extreme measures against women's education, banning all girls from school and all women from paid work.

States and international agencies have begun to pay attention to ending discrimination in schooling, ensuring women's access to health care and birth control, educating mothers about prenatal and child health, and generally raising women's status in society (allowing them a greater voice in decisions). These issues occupied the 1995 UN women's conference in Beijing, China, attended by tens of thousands of state and NGO representatives.

For example, international agencies help women organize small businesses, farms, and other income-producing activities. UNICEF has helped women get bank loans on favorable terms to start up small businesses in Egypt and Pakistan as well as cooperative farms in Indonesia. Women have organized cooperatives throughout the global South, often in rural areas, to produce income through weaving and other textile and clothing production, retail stores, agriculture, and so forth.

WOMEN'S POWER

The status of women in countries of the global South affects prospects for economic development. Women are central to rural economies, to population strategies, and to the provision of basic human needs, including education. Here, a women's cooperative in Mauritania makes small loans to its members, 2006.

Migration and Refugees

The processes just outlined—basic needs deprivation, displacement from land, and urbanization—culminate in one of the biggest political issues affecting North-South relations: **migration** from poorer to richer states. Millions of people from the global South have crossed international borders, often illegally, to reach the North.

Someone who moves to a new country in search of better economic opportunities, a better professional environment, or better access to his or her family, culture, or religion is engaging in migration (emigration from the old state and immigration to the new state). Such migration is considered voluntary. The home state is not under any obligation to let such people leave, and, more important, no state is obligated to receive migrants. As with any trade issue, migration creates complex

Immigration

patterns of winners and losers. Immigrants often provide cheap labor, benefiting the host economy overall, but also compete for jobs with (poor) citizens of the host country. *Remittances*—money sent home by migrants to relatives in their country of origin—are an important source of income for many poor countries with large numbers of emigrant workers, such as Latin Americans working in the United States.

Most industrialized states try to limit immigration from the global South. Despite border guards and fences, many people migrate anyway, illegally. In the United States, such immigrants come from all over the world, but mostly from nearby Mexico, Central America, and the Caribbean. In Western Europe, they come largely from North Africa, Turkey, and (increasingly) Eastern Europe. Some Western European leaders worry that the loosening of border controls under the process of integration (see pp. 228–230) will make it harder to keep out illegal immigrants. Indeed, fear of immigration is one reason why Swiss voters rejected membership in the EU.

International law and custom distinguish migrants from **refugees,** people fleeing to find refuge from war, natural disaster, or political persecution. (Fleeing from chronic discrimination may or may not be grounds for refugee status.) International norms obligate countries to accept refugees who arrive at their borders. Refugees from wars or natural disasters are generally housed in refugee camps temporarily until they can return home (though their stay can drag on for years). Refugees from political persecution may be granted asylum to stay in the new state. Acceptance of refugees—and the question of which states must bear the costs—is a collective goods problem.

The number of international refugees in the world was 10 million in 2008. In addition, 14 million more people are currently displaced within their own countries, and more than 7 million others held some other refugee-related status as a result of either political conflict or natural disaster. An additional 4 million Palestinian refugees fall under the responsibility of the UN Relief and Works Agency (UNRWA). The majority of refugees and internally displaced people have been displaced by wars (see Table 7.2).

TABLE 7.2 Refugee Populations, 2008

Region	Millions	Main Concentrations
Middle East and Asia	14	Afghanistan, Iraq, Pakistan, Nepal, Iran
Palestinians under UNRWA	4	Palestine, Jordan, Lebanon, Syria
Africa	9	Somalia, Uganda, Sudan, D.R. Congo
Latin America	4	Colombia
Europe	4	Former Yugoslavia, Germany[a]
World Total	35	

[a] Various regions of origin.

Note: Includes refugees, asylum seekers, returned refugees, and internally displaced people. Does not include an estimated 30 million refugees not assisted by UNHCR.

Source: UN High Commissioner for Refugees (UNHCR).

The political impact of refugees has been demonstrated repeatedly. The most politicized refugee problem for decades has been that of Palestinians displaced in the 1948 and 1967 Arab-Israeli wars (and their children and grandchildren). They live in "camps" that have become long-term neighborhoods, mainly in Jordan, Lebanon, and the Palestinian territories of Gaza and the West Bank. Economic development is impeded in these camps because the host states and Palestinians insist that the arrangement is only temporary. The poverty of the refugees in turn fuels radical political movements among the inhabitants. The question of Palestinian refugees' right to return to what is now Israel has blocked every attempt at a comprehensive peace settlement for years.

It is not always easy to distinguish a refugee fleeing war or political persecution from a migrant seeking economic opportunity. Illegal immigrants may claim to be refugees in order to be allowed to stay, when really they are seeking better economic opportunities. In recent decades this issue has become a major one throughout the North. In Germany, France, Austria, and elsewhere, resentment of foreign immigrants has fueled upsurges of right-wing nationalism in domestic politics.

Trafficking In addition to migration and refugees, a growing number of people—estimated at about 700,000 annually—are trafficked across international borders against their will. They include both sex slaves and labor slaves, with each category including females and males, adults and children. Perhaps 20,000 of these people are trafficked to the United States annually. In 2008, the U.S. State Department listed 17 countries making insufficient efforts to stop human trafficking, including friends such as Kuwait, Malaysia, and Saudi Arabia.

In general, South-North migration of all types creates problems for the industrialized states that, it seems, can be solved only by addressing the problems of the South itself.

ON THE MOVE

Refugees are both a result of international conflict and a source of conflict. In addition to those fleeing war and repression and those seeking economic opportunity, hundreds of thousands of people each year cross borders as sex and labor slaves. These refugees from war in Chad cross the Cameroon border, 2008.

Theories of Accumulation

How do we explain the enormous gap between income levels in the world's industrialized regions and those in the global South? What are the implications of that gap for international politics? There are several very

different approaches to these questions; we will concentrate on two contrasting theories of wealth accumulation, based on more liberal and more revolutionary world views.

Economic Accumulation

A view of the problem from the perspective of capitalism is based on liberal economics—stressing overall efficiency in maximizing *economic growth*. This view sees the global South as merely lagging behind the industrialized North. More wealth creation in the North is a good thing, as is wealth creation in the South—the two are not in conflict.

A different view of things, from the perspective of socialism, is concerned with the distribution of wealth as much as the absolute creation of wealth. It sees the North-South divide as more of a zero-sum game in which the creation of wealth in the North most often comes at the expense of the South. It also gives politics (the state) more of a role in redistributing wealth and managing the economy than does capitalism. Socialism thus parallels mercantilism in some ways. But socialists see economic classes rather than states as the main actors in the political bargaining over the distribution of the world's wealth. And mercantilism promotes the idea of concentrating wealth (as a power element), whereas socialism promotes the broader distribution of wealth.

Capitalist and socialist approaches are rather incompatible in their language and assumptions about the problem of third world poverty and its international implications. The next few sections somewhat favor socialist approaches, focusing on the past history of imperialism and on revolutionary strategies and massive redistribution of wealth as solutions, whereas the sections concluding the chapter lean toward capitalist approaches. In Latin America in recent years, several states have elected leftist presidents committed to changing course away from free market capitalism and toward a socialist philosophy with more state-owned industries.

The World-System

The global system of regional class divisions has been seen by some IR scholars as a **world-system** or a *capitalist world economy*. This view is Marxist in orientation (focusing on economic classes; see Chapter 3) and relies on a global level of analysis. In the world-system, class divisions are regionalized. Regions in the global South mostly extract raw materials (including agriculture)—work that uses much labor and little capital, and pays low wages. Industrialized regions mostly manufacture goods—work that uses more capital, requires more skilled labor, and pays workers higher wages. The manufacturing regions are called the *core* (or *center*) of the world-system; the extraction regions are called the periphery.

The most important class struggle today, in this view, is that between the core and periphery of the world-system. The core uses its power (derived from its wealth) to concentrate surplus from the periphery, as it has done for about 500 years. Conflicts among great powers, including the two world wars and the Cold War, basically result from competition among core states over the right to exploit the periphery.

In world-system theory, the semiperiphery is an area in which some manufacturing occurs and some capital concentrates, but not to the extent of the most advanced areas in the core. Eastern Europe and Russia are commonly considered semiperipheral, as are some of the newly industrializing countries (see p. 280) such as Taiwan and Singapore. The semiperiphery acts as a kind of political buffer between the core and periphery because poor states can aspire to join the semiperiphery instead of aspiring to rebel against domination by the core. Over time, membership in the core, the semiperiphery, and the periphery changes somewhat, but the overall global system of class relations remains.

Semiperiphery regions, which export manufactured products, are just those—China and South Asia—that have been growing very rapidly in recent years (see Figure 7.1 on p. 262). The three periphery regions that engage with the globalizing world economy primarily as raw-material exporters (Africa, the Middle East, and Latin America) are growing more slowly.

Imperialism

Both the disparities in wealth between the global North and South and the specialization in regions' exports have long histories. In Chapter 3 we discussed Marxist theories of imperialism, which give a particular kind of explanation for how the North-South gap evolved. Here we review how imperialism affected the South over the centuries and how its aftereffects are still felt around the world. Imperialism, especially in the 16th to mid-20th centuries, structured world order starkly around the dominance principle, with masters and slaves, conquerors and conquered peoples with their land, labor, and treasures. At the same time, imperialism depended on the identity principle to unite the global North around a common racial identity that defined nonwhite people as an out-group. (Although identity issues today are more complex, racism still affects North-South relations.)

European imperialism got its start in the 15th century with the development of oceangoing sailing ships in which a small crew could transport a sizable cargo over a long distance. Portugal pioneered the first voyages of exploration beyond Europe. Spain, France, and Britain soon followed. With superior military technology, Europeans gained control of coastal cities and of resupply outposts along major trade routes. Gradually this control extended further inland, first in Latin America, then in North America, and later throughout Asia and Africa (see Figure 7.4).

These empires decimated indigenous populations and cultures, causing immense suffering. Over time, the economies of colonies developed with the creation of basic transportation and communication infrastructure, factories, and so forth. But these economies were often molded to the needs of the colonizers, not the local populations.

In the 20th century, the world regions formerly dominated by Europe gained independence, with their own sovereign states participating in the international system. Independence came earlier in the Americas (around 1800). Decolonization continued through the mid-1970s until almost no European colonies remained. Most of the newly independent states have faced tremendous challenges and difficulties in the postcolonial era because of their colonial histories.

FIGURE 7.4 Conquest of the World

B = British		**G** = German		**N** = Netherlands			
Belg = Belgian		**I** = Italian		**P** = Portuguese			
F = French		**J** = Japanese		**S** = Spanish			

Effects of Colonialism

World's Worst Humanitarian Crises

For most states in the global South, the history of having been colonized by Europeans is central to their national identity, foreign policy, and place in the world. For these states—and especially for those within them who favor socialist perspectives—international relations revolves around their asymmetrical power relationships with industrialized states.

Being colonized has a devastating effect on a people and culture. Foreigners overrun a territory with force and take it over. They install their own government, staffed by their own nationals. The inhabitants are forced to speak the language of the colonizers, to adopt their cultural practices, and to be educated at schools run under their guidance. The inhabitants are told that they are racially inferior to the foreigners.

White Europeans in third world colonies in Africa and Asia were greatly outnumbered by native inhabitants but maintained power by a combination of force and (more important) psychological conditioning. After generations under colonialism, most native inhabitants either saw white domination as normal or believed that nothing could be done about it. The whites often lived in a bubble world separated from the lives of the local inhabitants.

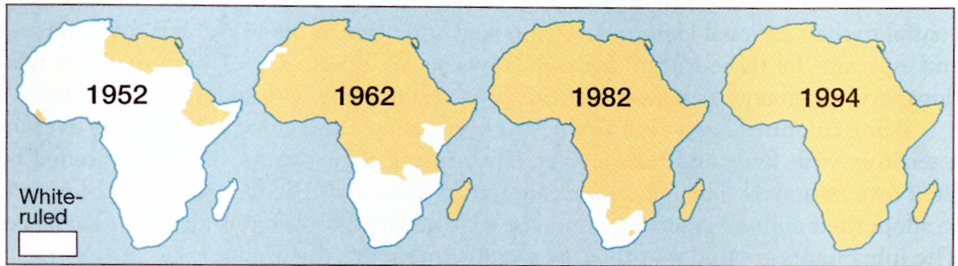
Colonialism also had certain negative *economic* implications. The most easily accessible minerals were dug up and shipped away. The best farmland was planted in export crops rather than subsistence crops. The infrastructure that was built served the purposes of imperialism rather than the local population—for instance, railroads going straight from mining areas to ports. The education and skills needed to run the economy were largely limited to whites.

The economic effects were not all negative, however. Colonialism often fostered local economic accumulation (although controlled by whites). Cities grew. Mines were dug and farms established. Much of the infrastructure that exists today in many developing countries was created by colonizers. In some cases (though not all), colonization combined disparate communities into a cohesive political unit with a common religion, language, and culture, thus creating more opportunities for economic accumulation. In some cases, the local political cultures replaced by colonialism had been oppressive to the majority of the people.

Wherever there were colonizers, there were anticolonial movements. Independence movements throughout Africa and Asia gained momentum during and after World War II, when the European powers were weakened. Through the 1960s, a wave of successful independence movements swept from one country to the next, as people stopped accepting imperialism as normal or inevitable. Within a few decades, nearly all of Africa overthrew white rule (see Figure 7.5).

Although many developing countries gained independence around the same time, the methods by which they did so varied. In India, the most important colony of the largest empire (Britain), Gandhi led a movement based on nonviolent resistance to British rule (see pp. 95–9

FIGURE 7.5 Areas of White Minority Rule in Africa, 1952–1994



Formal colonialism was swept away over 40 years. However, postcolonial dependency lingers on in many former colonies.

Source: Adapted from Andrew Boyd, *An Atlas of World Affairs.* 9th ed. NY: Routledge, 1992, p. 91.

Postcolonial Dependency

If imperialism concentrated the accumulation of wealth in the core and drained economic surplus from the periphery, one might expect that accumulation in the global South would take off once colonialism was overthrown. Generally, however, this was not the case. A few states, such as Singapore, have accumulated capital successfully since becoming independent. But others, including many African states, seem to be going backward, with little new capital accumulating to replace the old colonial infrastructure. Most former colonies are making only slow progress in accumulation. Political independence has not been a cure-all for poor countries.

One reason for these problems is that under colonialism, the training and experience needed to manage the economy were often limited to white Europeans, leaving a huge gap in technical and administrative skills after independence. Another problem faced by many newly independent states was that their economies rested on the export of one or two products. For Zambia, it was copper ore; for El Salvador, coffee; for Botswana, diamonds. Such a narrow export economy would seem well suited to use the state's comparative advantage to specialize in one niche of the world economy. And having exportable natural resources might seem a big plus for an economy. But in fact the problems of basing economic growth on resource exports have been called the **resource curse.** Dependence on exporting resources distorts an economy, facilitates corruption, and leaves a country vulnerable to price swings. The liberal free trade regime based around the WTO corrected only partially for the North's superior bargaining position in North-South trade. And the WTO has allowed agriculture (exported by the periphery) to remain protected in core states, while promoting liberalization of trade in manufactured goods exported by the core (see pp. 272–273).

The newly independent states inherited borders that were drawn in European capitals by foreign officers looking at maps. As a result, especially in Africa, the internal rivalries of ethnic groups and regions made it very difficult for the new states to implement coherent economic plans. In a number of cases, ethnic conflicts within former colonies led to civil wars, which halted or reversed capital accumulation.

Finally, governments of many postcolonial states did not function very effectively, creating another obstacle to accumulation. In some cases, corruption became much worse after independence (see p. 289). In other cases, governments tried to impose central control and planning on their national economy, based on nationalism, mercantilism, or socialism.

In sum, liberation from colonial control did not transform underlying economic realities. The main trading partners of newly independent countries were usually their former colonial masters. The main products were usually those developed under colonialism. The administrative units and territorial borders were those created by Europeans. The state continued to occupy the same peripheral position in the world-system after independence as it had before. And in some cases it continued to rely on its former colonizer for security.

For these reasons, the period after independence is sometimes called **neocolonialism**—the continuation of colonial exploitation without formal political control. This concept also covers the relationship of the global South with the United States, which (with a few exceptions) was not a formal colonizer. And it covers the North-South international relations of Latin American states, independent for almost two centuries.

Dependency Marxist IR scholars have developed **dependency theory** to explain the lack of accumulation in the global South. These scholars define dependency as a situation in which accumulation of capital cannot sustain itself internally. A dependent country must borrow capital to produce goods; the debt payments then reduce the accumulation of surplus.

Dependency theorists focus not on the overall structure of the world-system (center and periphery) but on how a peripheral state's own internal class relationships play out. The development (or lack of development) of a poor country depends on its local conditions and history, though it is affected by the same global conditions as other countries located in the periphery.

One historically important configuration of dependency is the **enclave economy,** in which foreign capital is invested in a third world country to extract a particular raw material in a particular place—usually a mine, oil well, or plantation. A different historical pattern is that of nationally controlled production, in which a local capitalist class controls a cycle of accumulation based on producing export products. The cycle still depends on foreign markets, but the profits accrue to the local capitalists, building up a powerful class of rich owners within the country—the local bourgeoisie. After World War II a third form of dependency became more common—penetration of national economies by MNCs. Here the capital is provided externally (as with enclaves), but production is for local markets. For instance, a GM factory in Brazil would produce cars mostly for sale within Brazil. To create local markets for such manufactured goods, income must be concentrated enough to create a middle class. This sharpens disparities of income within the country (most people remain poor).

According to dependency theory, the particular constellation of forces within a country determines which coalitions form among the state, the military, big landowners, local capitalists, foreign capitalists (MNCs), foreign governments, and middle classes. On

the other side, peasants, workers, and sometimes students and the church form alliances to work for more equal distribution of income, human and political rights, and local control of the economy. These class alliances and the resulting social relationships are not determined by any general rule but by concrete conditions and historical developments in each country. Like other Marxist theories, dependency theory pays special attention to class struggle as a source of social change. Some people think that under conditions of dependency, economic development is almost impossible. Others think that development is possible under dependency, despite certain difficulties. We will return to these possibilities later in the chapter.

Overall, North-South relations show how difficult it has become to separate political economy from international security. The original political relations contained in European imperialism led to economic conditions in the South—such as high population growth, urbanization, and concentrations of wealth—that in turn led to political movements for independence, and later to revolutions. The various aspects of the North-South gap considered in the first half of this chapter—including hunger, refugees, and the structure of commodity exports—all contain both economic and political-military aspects. The remainder of the chapter turns to the question of how economies in the South can develop the accumulation process and what role the North can play in that process.

MY DOLL, MY SELF

European colonialism worldwide promoted values and norms implying that the colonizer's culture was superior to the indigenous culture. Lingering effects remain in postcolonial societies. This girl displaced by violence in Kenya, a former British colony, plays with a light-skinned doll, 2008.

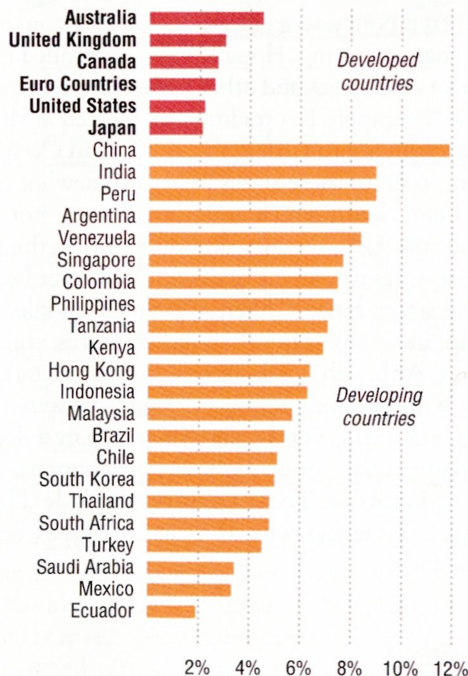
Development Experiences

This chapter so far has discussed the situation in the global South and how it came to be. The remainder takes up the question of what to do about it. **Economic development** refers to the combined processes of capital accumulation, rising per capita incomes (with consequent falling birthrates), increasing skills in the population, adoption of new technological styles, and other related social and economic changes. The most central aspect is the accumulation of capital (with its ongoing wealth-generating potential). The concept of development has a subjective side that cannot be measured statistically—the judgment of whether a certain pattern of wealth creation and distribution is good for a state and its people. But one simple measure of economic development is the per capita GDP—the amount of economic activity per person. This measure was the horizontal axis in Figure 7.1 (p. 262), and change in this measure was on the vertical axis.

By this measure, we can trace the successes and failures of the South as a whole and, more important, its regions and countries. The latter is more important because it contains the seeds of possible lessons and strategies that could build on the South's successes in the future. Most of the global South made progress on economic development in the 1970s, but real per capita GDP decreased in the 1980s in Latin America, Africa, and the Middle East, with only China growing robustly. In the 1990s, real economic growth returned across much of the South—about 5–6 percent annual growth for the South as a whole, compared to 2–3 percent in the global North. China stood out among the regions of the South as making rapid progress toward economic development.

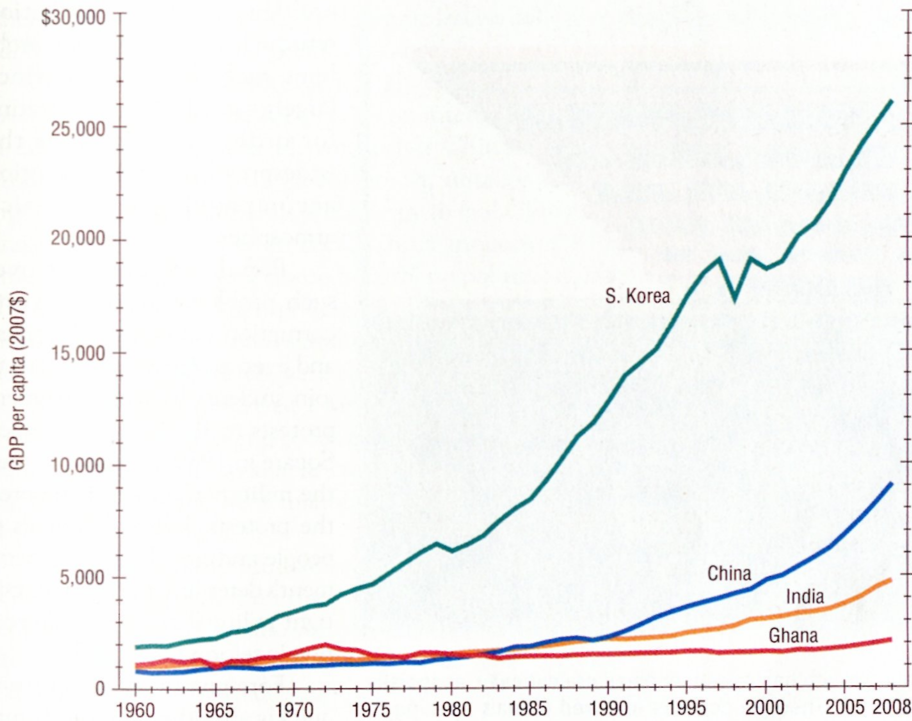
In the new century, growth has accelerated in the South and now outpaces the North in growth rate (see Figure 7.6). This growth was still uneven. South Asia joined China in rapid growth of 8–9 percent annually. Because China and South Asia together contain the majority of the population in the global South, this development is very important. Even in Africa, according to the World Bank, economies grew by more than 5 percent annually from 2005 to 2007 (led by, but not limited to, oil- and mineral-exporting nations). Yet, as we discuss later in this chapter, the current global economic downturn threatens some of the economic progress made by the developing world.

FIGURE 7.6 Real GDP Growth of Selected Countries, 2007



Source: World Bank, *World Development Indicators*.

FIGURE 7.7 Per Capita GDP of South Korea, China, India, and Ghana



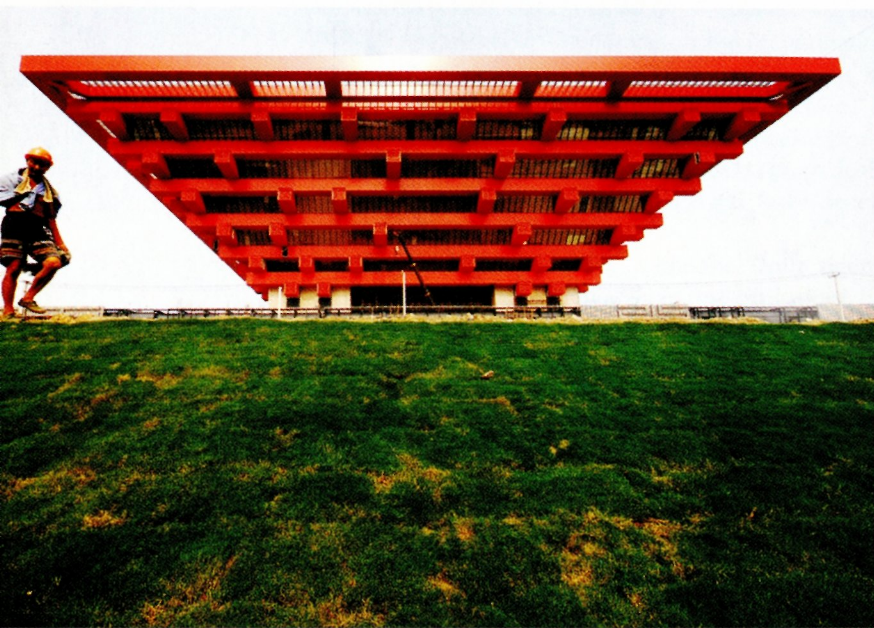
Source: Based on Penn World Tables, World Bank and IMF data.

size alone makes China's efforts to generate self-sustaining accumulation worthy of study. But China has also had the world's fastest-growing economies over the past two decades.

After Mao died in 1976, China under Deng Xiaoping instituted economic reforms and transformed its southern coastal provinces into *free economic zones* open to foreign investment and run on capitalist principles. Peasants worked their own fields, instead of collective farms, and got rich (by Chinese standards) if they did well. Entrepreneurs started companies, hired workers, and generated profits. Foreign investment flooded into southern China, taking advantage of its location, cheap labor, and relative political stability. Other areas of China gradually opened up to capitalist principles as well. The state required more industries to turn a profit and gave more initiative to managers to run their own companies and spend the profits as they saw fit.

However, China has also re-created some of the features of capitalism that Mao's revolutionaries had overturned. New class disparities emerged, with rich entrepreneurs driving fancy imported cars while poor workers found themselves unemployed. Unprofitable state-owned industries laid off 10 million workers in the 1990s, with more coming each year. Indeed, in the countryside, areas bypassed by development still

CHINA BLOSSOMING



China's rapid economic growth has raised incomes dramatically, especially for a growing middle class. These successes followed China's opening to the world economy and adoption of market-oriented reforms. China's rapid economic growth has raised incomes dramatically, especially for a growing middle class. These successes followed China's opening to the world economy and adoption of market-oriented reforms. Now, as exports slow down in a global recession, China must develop its domestic market and consumer spending rather than relying so heavily on exports to fuel growth. Here, in 2009, workers complete the China pavilion at the Shanghai 2010 World Expo.

contain 200 million desperately poor Chinese peasants. Social problems such as prostitution returned, as did economic problems such as inflation (since largely tamed). Most frustrating for ordinary Chinese is the widespread official corruption accompanying the get-rich atmosphere.

Popular resentment over such problems as inflation and corruption led industrial workers and even government officials to join students in antigovernment protests at Beijing's Tiananmen Square in 1989. Authorities used the military to violently suppress the protests, killing hundreds of people and signaling the government's determination to maintain tight political control while economic reform proceeded.

Foreign investors returned quickly after the political disruption of 1989, however, and economic growth roared ahead. Chinese exports grew to over $1 trillion in 2007, aided by China's WTO membership since 2001.

A new generation of Chinese leaders—led by President Hu Jintao—is trying to address the growing inequality between the country's newly rich strata and the hundreds of millions left in poverty in the countryside or laid off from jobs in state-owned industries in the cities (along with migrants from the countryside who cannot find work in the cities). In rural villages, thousands of "mass incidents of unrest" have taken place, ranging from protests to full-scale riots put down by lethal force, as peasants reacted to land seizures, taxes, pollution, and corruption by local officials. The government suppressed news of these protests in mass media and over the Internet.

China Rising: The Boom

China's membership in the WTO raises new questions about how the ongoing Chinese opening of its economy to the world can coexist with continued political authoritarianism under communist rule. China's hundreds of millions of new Internet users and cell phone subscribers will be able to communicate with overseas partners, monitor shipments, and follow economic trends globally. They will also be able to bypass government-controlled

sources of political information. Some observers expect economic integration in an information era to inexorably open up China's political system and lead to democratization, whereas other experts think that as long as Chinese leaders deliver economic growth, the population will have little appetite for political change.

China's economic success has given it both more prestige in the international system and a more global perspective on international relations far from China's borders. In 2004–2006, President Hu and other Chinese leaders made high-profile visits to resource-rich areas of the global South, notably Africa and Latin America, making large-scale deals for minerals and energy to fuel China's growth, while boosting China's foreign aid to these areas. In 2007, China announced $3 billion in preferential loans to Africa, which, China emphasized, "carry no political conditions" (unlike Western loans, which often demand such policies as respect for human rights or fighting corruption). China's rising international standing was also reflected in the selection of Beijing to host the 2008 Olympics, which were enormously successful.

For years it appeared that China's huge population would supply limitless cheap labor to foreign investors making goods in China. In recent years, however, China's growth has begun to squeeze the available labor force and push wages up somewhat. MNCs have begun to move some light manufacturing to other Asian countries with even cheaper labor, such as Vietnam.

China's economic miracle seemed unstoppable in 2008, but the world economic recession has cast doubt on the prospects for continuing rapid growth. China's exports stopped growing as demand for consumer products dried up in the United States and other industrialized countries. At the same time, China's investments in the United States, made with the trade surpluses China had accumulated over the years, lost a substantial fraction of their value in the financial meltdown of late 2008. Chinese leaders announced a major stimulus package aimed at spurring domestic consumption in China, but this faced problems in the short term, including the cultural problem of getting people with a history of poverty to spend instead of saving, and the economic problem of reorienting an export-driven economy to produce for domestic markets. All these challenges underlined the uncertainty facing China in the latest phase of its development process.

It is unclear what lessons China's economic success over the past decade holds for the rest of the global South. The shift away from central planning and toward private ownership was clearly a key factor in its success, yet the state continues to play a central role in overseeing the economy (even more than in the NICs). These topics are being debated vigorously as China navigates its new era of rising prosperity and rising expectations, finds its way in the newly turbulent world economy, and other poor states look to China's experience for lessons.

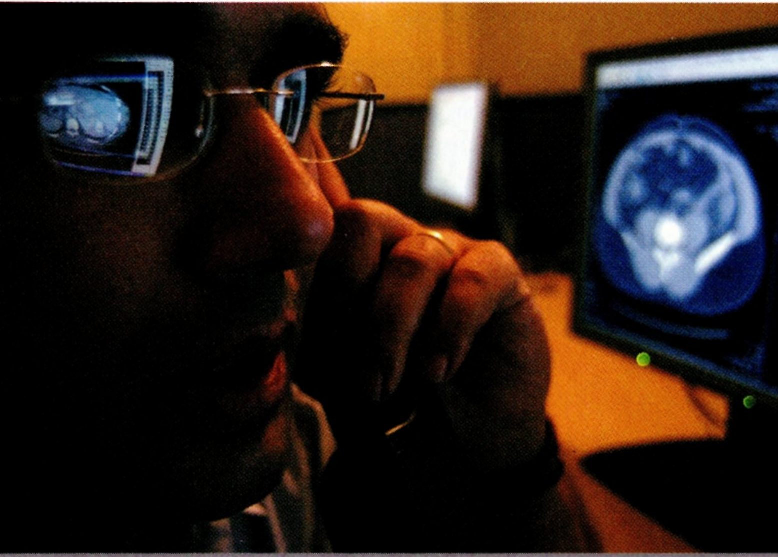
India Takes Off

India, like China, deserves special attention because of its size and recent robust growth. From 1996 to 2008, India's average annual growth rate exceeded 7 percent. India's decade of success still does not compare to China's nearly three decades, and India's GDP per person is still not much more than half of China's. But India's success has started it

toward what could be, in the coming years, a repetition of China's rise out of poverty.

India's economy was for decades based loosely on socialism and state control of large industries but on private capitalism in agriculture and consumer goods. The state subsidizes basic goods and gives special treatment to farmers. Unlike China, India has a democratic government, but a fractious one, with various autonomy movements and ethnic conflicts. India's government has suffered from corruption, although this has improved in recent years.

AT YOUR SERVICE



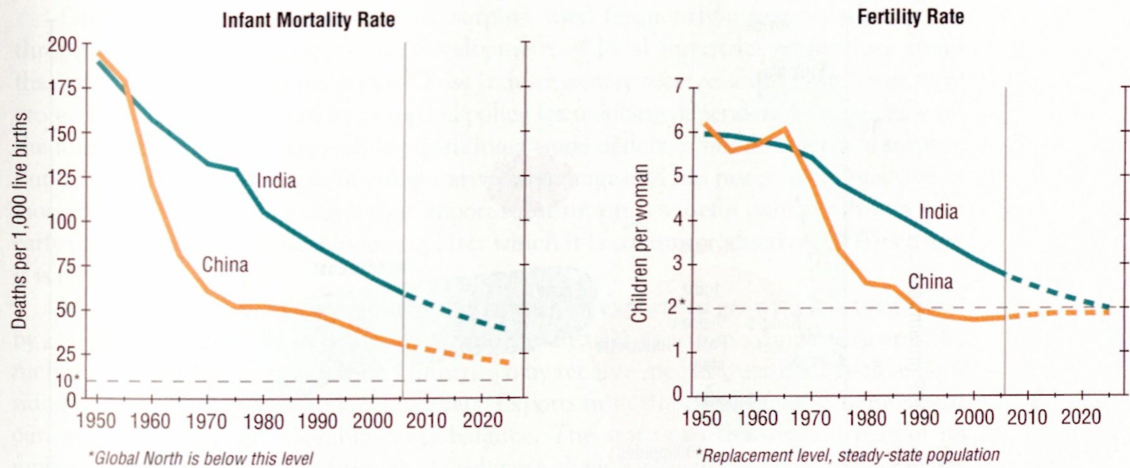
India has grown rapidly in recent years, using its large, well-educated, English-speaking population to generate export revenues in the service sector—software companies, call centers serving American customers, and professional services in such areas as accounting, architecture, engineering, and medicine. This radiologist in Bangalore, India's technology capital, reads body scans from a U.S. hospital sent via the Internet and discusses the results by phone with the patient's doctor in Connecticut, 2004.

In the era of globalization, India's niche in the globalized world economy is in the service and information sectors. Whereas South Korea specialized in exporting heavy manufactured goods and China in light manufactured goods, India specializes in exporting information products such as software and telephone call center services. Each country uses its labor force to add value to products that could be exported worldwide, especially to the large American market. In India's case the labor force is well educated and speaks English. India can also use its location to advantage by working during the nighttime hours in North America. Software companies can hand off projects daily for the India shift to work on overnight, and American hospitals can send medical notes for overnight transcription. MNCs widely use India's labor force to answer phone calls from around the world, such as technical support calls for the company's products.

India's future success or failure will bear strongly on several competing theories about economic development. In particular, China has had success under a harsh, centralized political system whereas India has a free-wheeling democracy. If India cannot sustain growth, then maybe authoritarian government helps development, and democracy should wait until a later stage (an argument we discuss shortly). If India continues to succeed, however, then clearly authoritarian government is not a precondition.

Figure 7.8 compares China's and India's progress on two key indicators—infant mortality (a good overall measure of public health) and the fertility rate (see pp. 326–328). In both cases, China was able to make dramatic improvements very quickly because of its authoritarian government, whose control (in theory) extended to every village and every

FIGURE 7.8 Comparing Chinese and Indian Development



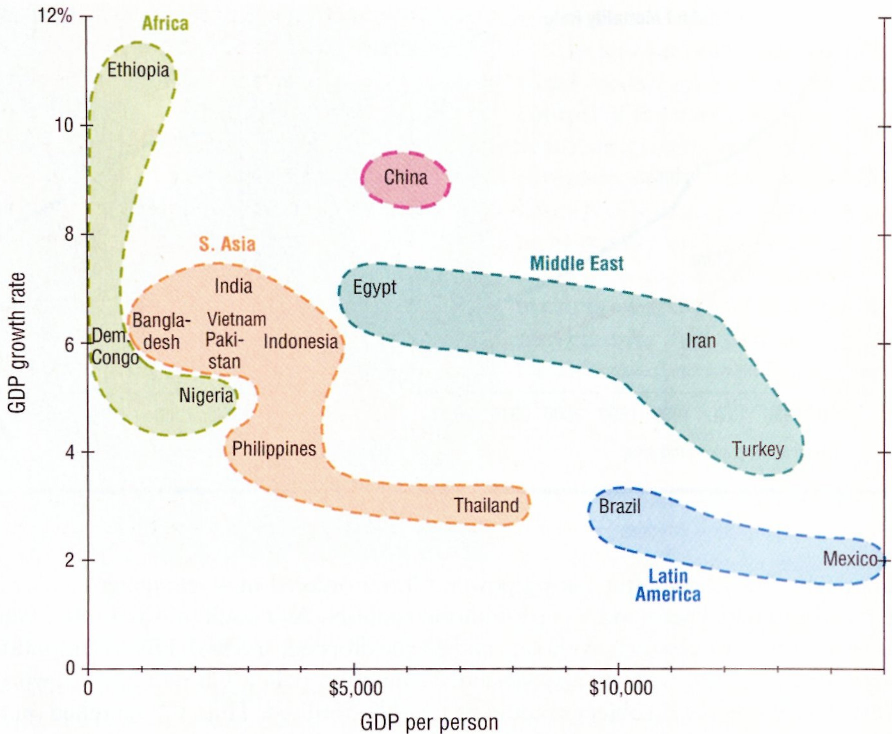
bedroom. In the 1950s, after taking power, China ordered mass campaigns in which citizens exterminated pests and set up sanitation facilities. As a result, in the 1960s China's rates of epidemic diseases such as cholera and plague dropped, and so did the infant mortality rate. In the 1970s, with its heavy-handed one-child policy, China forced down the fertility rate. Women who objected could be forcibly sterilized. Thus, China relied on the dominance principle to force individuals to take actions that were in society's interest. Its successes in improving public health and lowering fertility provided a foundation for China's subsequent economic success, although obviously at a cost to individual freedom.

India, by contrast, has relied more on the identity principle, getting people to change their preferences and *want* to have fewer children and help improve public health. Without a dictatorship to force compliance, India's progress has been slower. However, over time India is moving toward the same results as China, albeit decades later, and doing so without giving up its own national identity as a democracy.

Other Experiments

Other sizable developing countries have pursued various development strategies, with mixed successes and failures. The best results have come from Asia. Figure 7.9 shows the income levels and growth rates of the 16 largest countries by population in the global South. The graph parallels that for world regions in Figure 7.1. Clearly the large countries of the South vary widely in income level. The five highest-income countries (Turkey, Iran, Thailand, Mexico, and Brazil) come from three of the four regions and are growing at 3–6 percent. The fastest-growing countries (India, Vietnam, Ethiopia, and Democratic Congo) at 7–9 percent were at the lower end of the income scale. (These growth rates declined in 2008 and 2009 as the global economic crisis spread to the developing world.) Clearly China is

FIGURE 7.9 Largest Countries' Income Levels and Growth Rates, 2008



Note: Figure shows the 16 most populous developing countries.

Source: World Bank, *World Development Indicators.*

developing faster than the other 15 large countries of the global South, although all posted solid growth, 5–9 percent for most. Clearly, too, regional location makes a difference. The fact that the five regions of the global South can be mapped onto single contiguous zones on this figure shows that whole regions are moving together in distinct patterns.

The largest developing countries are following somewhat different strategies with somewhat different results. But several common themes recur. These themes concern trade, the concentration of capital, authoritarianism, and corruption.

Import Substitution and Export-Led Growth

Throughout the global South, states are trying to use international trade as the basis of accumulation. For the reasons discussed in Chapter 5, a policy of self-reliance or autarky is at best an extremely slow way to build up wealth. But through

the creation of a trade surplus, a state can accumulate hard currency and build industry and infrastructure.

One way to try to create a trade surplus, used frequently a few decades ago, is through **import substitution**—the development of local industries to produce items that a country had been importing. These industries may receive state subsidies or tariff protection. This might seem to be a good policy for reducing dependency—especially on the former colonial master—while shrinking a trade deficit or building a trade surplus. But it is against the principle of comparative advantage and has not proven effective in most cases. Some scholars think that import substitution is a useful policy only at a very early phase of economic development, after which it is counterproductive. Others think it is never useful.

More and more states have shifted to a strategy of **export-led growth,** a strategy used by the NICs. This strategy seeks to develop industries that can compete in specific niches in the world economy. The industries may receive special treatment such as subsidies and protected access to local markets. Exports from these industries generate hard currency and create a favorable trade balance. The state can then spend part of its money on imports of commodities produced more cheaply elsewhere. Such a strategy has risks, however, especially when a state specializes in the export of a few raw materials (see pp. 276–277). It leaves poor countries vulnerable to sudden price fluctuations for their exports.

Concentrating Capital for Manufacturing

Manufacturing emerges as a key factor in both export-led growth and self-sustaining industrialization (home production for home markets). To invest in manufacturing, these countries must *concentrate* what surplus their economies produce. Money spent building factories cannot be spent subsidizing food prices or building better schools. Thus the concentration of capital for manufacturing can sharpen disparities in income. Furthermore, because manufacturing industries in poor countries are not immediately competitive on world markets, one common strategy is to first build up the industry with sales to the home market (protected by tariffs and subsidies). But home markets for manufactured goods do not come from poor peasants in the countryside or the unemployed youth in city slums. Rather, wealth must be concentrated in a *middle class* that has the income to buy manufactured goods. These disparities may result in crowds rioting in the streets or guerrillas taking over the countryside.

Capital for manufacturing can come instead from foreign investment or foreign loans, but this reduces the amount of surplus (profit) available to the state in the long term. Another way to minimize capital needs is to start out in low-capital industries. These industries can begin generating capital, which can then be used to move into somewhat more technologically demanding and capital-intensive kinds of manufacturing. A favorite starter industry is *textiles*. The industry is fairly labor-intensive, giving an advantage to countries with cheap labor, and does not require huge investments of capital to get started. In 2005, textile tariffs were removed worldwide, so textile exporters in developing countries gained access to Western markets but faced intensified competition from China.

A related approach to capitalization in very poor countries, growing in popularity in recent years, is **microcredit** (or *microlending*). Based on a successful model in Bangladesh (the Grameen Bank, which won the 2006 Nobel Peace Prize), microcredit uses small loans to poor people, especially women, to support economic self-sufficiency. The borrowers are organized into small groups and take responsibility for each other's success, including repaying the loans. Repayment rates have been high, and the idea has spread rapidly in several regions. In one popular application, village women used small loans to start businesses renting cell phone time. Rural farmers used the phone time to find out market conditions before making a long trek to sell their products. Thus, bringing the information revolution to isolated villages raised incomes for farmers and the entrepreneurial women alike, and the bank got its loans repaid. Microcredit is now being applied on a macro scale. Tens of millions of families have received loans from thousands of institutions worldwide. Microcredit is the opposite of a trickle-down approach—it injects capital at the bottom of the economic hierarchy. A loan to buy a goat or cell phone may do more good, dollar for dollar, than a loan to build a dam.

The World Bank reviewed evidence on the effect of income inequality on economic growth, and concluded that inequality holds back growth by wasting human potential. The Bank recommends extending access to health care, education, and jobs—as well as to political power—to the poorest people in societies of the global South in order to spur faster economic growth.

Authoritarianism and Democracy

Several decades ago, many scholars expected that states in the global South would follow the European and North American states in economic and political development. The gradual accumulation of capital would be accompanied by the gradual extension of literacy and education, the reduction of class and gender disparities, and the strengthening of democracy and political participation. The United States could be a model, in this view. It had gone from poor colony to industrializing state to rich superpower. Political rights (including the vote) had been steadily extended to more segments of the population.

In reality, democracy did not accompany economic development in a systematic way. The fastest-growing states were generally authoritarian states like China, not democracies. But there is no guarantee that, even in early phases of accumulation, authoritarian control leads to economic development. Some successful accumulators, such as Singapore, have maintained tight political control throughout the process. Others, such as South Korea and Turkey, have started with authoritarian rule and evolved into democracies. Still others, such as Costa Rica, Malaysia, and now India, have achieved good economic results while maintaining much democracy and little repression. Similarly, among the countries that have done poorly in economic accumulation are both authoritarian regimes and democratic ones. Therefore, a state's form of political governance does not seem to determine its success in economic development. Future years will show whether China follows South Korea's example, gradually democratizing after decades of successful economic development.

Innovation and Political Reform in China

Foreign Investment

Developing Chad's Oil

Poor countries have little money available to invest in new factories, farms, mines, or oil wells. Foreign investment—investment in such capital goods by foreigners (most often MNCs)—is one way to get accumulation started (see pp. 201–202). Foreign investment has been crucial to the success of China and other Asian developing countries. Overall, private capital flows to the global South totaled roughly $500 billion in 2007—six times the amount given in official development assistance.

Foreigners who invest in a country then own the facilities; the investor, by virtue of its ownership, can control decisions about how many people to employ, whether to expand or shut down, what products to make, and how to market them. Also, the foreign investor can usually take the profits from the operation out of the country (repatriation of profits). However, the host government can share in the wealth by charging fees and taxes, or by leasing land or drilling rights (see pp. 202–204).

Because of past colonial experiences, many governments in the global South have feared the loss of control that comes with foreign investments by MNCs. Sometimes the presence of MNCs was associated with the painful process of concentrating capital and the sharpening of class disparities in the host state. Although such fears remain, they are counterbalanced by the ability of foreign investors to infuse capital and generate more surplus. By the 1980s and 1990s, as models based on autarky or state ownership were discredited and the NICs gained success, many poor states rushed to embrace foreign investment. China has been the most successful of these by far.

One way in which states have sought to soften the loss of control is through *joint ventures*, companies owned partly by a foreign MNC and partly by a local firm or the host government itself. Sometimes foreign ownership in joint ventures is limited to some percentage (often 49 percent), to ensure that ultimate control rests with the host country. The percentage of ownership is usually proportional to the amount of capital invested; if a host government wants more control, it must put up more money. Joint ventures work well for MNCs because they help ensure the host government's cooperation in reducing bureaucratic hassles and ensuring success (by giving the host government a direct stake in the outcome).

MNCs invest in a country because of some advantage of doing business there. In some cases, it is natural resources. Sometimes it is cheap labor. Some states have better *absorptive capacity* than others—the ability to put investments to productive use—because of developed infrastructure and skilled workers. MNCs also look for a favorable *regulatory environment* in which a host state will facilitate, rather than impede, the MNC's business.

MNC decisions about foreign investment also depend on prospects for *financial stability*, especially prospects for low inflation and stable currency exchange rates. If a currency is not convertible, an MNC will not be able to take profits back to its home state or reinvest them elsewhere. Of equal importance in attracting investment is *political stability* (see pp. 203–204). Banks and MNCs conduct *political risk analyses* to assess the risks of political disturbances in developing countries in which they might invest.

Beyond these financial considerations, a foreign investor producing for local markets wants to know that the host country's *economic growth* will sustain demand for the goods being produced. Similarly, whether producing for local consumption or export, the MNC wants the local labor supply—whether semiskilled or just cheap—to be stable. Foreign

investors often look to international financial institutions, such as the World Bank and the IMF, and to private analyses, to judge a state's economic stability before investing in it.

Technology transfer refers to a poor state's acquisition of technology (knowledge, skills, methods, designs, and specialized equipment) from foreign sources, usually in conjunction with foreign direct investment or similar business operations. A developing country may allow an MNC to produce certain goods in the country under favorable conditions, provided the MNC shares knowledge of the technology and design behind the product. The state may try to get its own citizens into the management and professional workforce of factories or facilities created by foreign investment. Not only can physical capital accumulate in the country, but so can the related technological base for further development. Of course, MNCs may be reluctant to share proprietary technology.

Most poor states seek to build up an educated elite with knowledge and skills to run the national economy. One way to do so is to send students to industrialized states for higher education. This entails some risks, however. Students may enjoy life in the North and fail to return home. The problem of losing skilled workers to richer countries, called the **brain drain,** has impeded economic development in states such as India, Pakistan, and the Philippines (where more nurses emigrated than graduated nursing school in 2000–2004).

North-South Debt

Borrowing money is an alternative to foreign investment as a way of obtaining funds to prime a cycle of economic accumulation. If accumulation succeeds, it produces enough surplus to repay the loan and still make a profit. Borrowing has several advantages. It keeps control in the hands of the state (or other local borrower) and does not impose painful sacrifices on local citizens, at least in the short term.

Debt has disadvantages too. The borrower must service the debt—making regular payments of interest and repaying the principal according to the terms of the loan. *Debt service* is a constant drain on whatever surplus is generated by investment of the money. With foreign direct investment, a money-losing venture is the problem of the foreign MNC; with debt, it is the problem of the borrowing state, which must find the money elsewhere. Often, a debtor must borrow new funds to service old loans, slipping further into debt. Debt service has created a net financial outflow from South to North in recent years, as the South has paid billions more in interest to banks and governments in the North than it has received in foreign investment or development aid.

Failure to make scheduled payments, called a **default,** is considered a drastic action because it destroys lender confidence and results in cutoff of future loans. Rather than defaulting, borrowers usually attempt **debt renegotiation**—reworking the terms on which a loan will be repaid. By renegotiating their debts with lenders, borrowers seek a mutually acceptable payment scheme to keep at least some money flowing to the lender. If interest rates have fallen since a loan was first taken out, the borrower can refinance. Borrowers and lenders can also negotiate to restructure a debt by changing the length of the loan (usually to a longer payback period) or the other terms. Occasionally state-to-state loans are written off altogether—forgiven—for political reasons, as happened with U.S. loans to Egypt after the Gulf War.

North-South debt encompasses several types of lending relationships, all of which are influenced by international politics. The borrower may be a private firm or bank in a developing country, or it may be the government itself. Loans to the government are somewhat more common because lenders consider the government less likely to default than a private borrower. The lender may be a private bank or company, or a state (both are important). Usually banks are more insistent on receiving timely payments and firmer in renegotiating debts than are states. Some state-to-state loans are made on artificially favorable *concessionary* terms, in effect subsidizing economic development in the borrowing state.

Debt renegotiation has become a perennial occupation of developing countries. Such renegotiations are complex international bargaining situations. For lenders, debt renegotiations involve a collective goods problem: all of them have to agree on the conditions of the renegotiation but each really cares only about getting its own money back. To solve this problem, state creditors meet together periodically as the *Paris Club*, and private creditors as the *London Club*, to work out their terms.

Through such renegotiations and the corresponding write-offs of debts by banks, developing countries have largely avoided defaulting on their debts. However, in 2001, Argentina in effect defaulted. By then, financial institutions had adjusted psychologically to the reality that Argentina could not pay its debt, so the default did not cause a wider panic. Indeed, Argentina recovered—its economy growing 9 percent a year since 2001—and in 2005 offered its creditors a take-it-or-leave-it deal for repayment of less than 30 cents on the dollar. Most took it, showing Argentina's strong position despite the default.

Despite stabilization, developing countries have not yet solved the debt problem. As shown in Table 7.3, the South owes more than $2 trillion in foreign debt, and pays more than $300 billion a year to service that debt. The debt service (in hard currency) absorbs more than a third of the entire hard-currency export earnings in Latin America—the region most affected. Africa's debt is equal to 30 percent of the annual GDP of the region. Some states in Asia are vulnerable to debt problems as well.

TABLE 7.3 Debt in the Global South, 2009

	Foreign Debt		Annual Debt Service	
Region	**Billion $**	**% of GDP[a]**	**Billion $**	**% of Exports**
Latin America	880	20%	185	18%
Asia	1,125	16	170	6
Africa	270	21	28	5
Middle East	430	24	48	4
Total "South"	2,705	20	360	8

[a]GDP not calculated at purchasing-power parity.

Notes: Regions do not exactly match those used elsewhere in this book. Africa here includes North Africa. Asia includes China.

Source: IMF. *Statistical Appendix to World Economic Outlook*, April 2009, pp. 36–37, 42.

In recent years, activists and NGOs have called for extensive debt forgiveness for the poorest countries, most of which are in Africa. Critics say such cancellations just put more money in the hands of corrupt, inept governments. But G7 members in early 2005 agreed on a new plan to eliminate all debts owed by 37 very poor countries to the World Bank and IMF—cutting almost in half the poorest countries' estimated $200 billion in debt.

IMF Conditionality

The International Monetary Fund (IMF) and the World Bank have a large supply of capital from their member states (see pp. 196–198). This capital plays an important role in funding early stages of accumulation in developing countries and in helping them get through short periods of great difficulty. And, as a political entity rather than a bank, the IMF can make funds available on favorable terms.

The IMF scrutinizes developing countries' economic plans and policies, withholding loans until it is satisfied that the right policies are in place. Then it makes loans to help states through the transitional process of implementing the IMF-approved policies. The IMF also sends important signals to private lenders and investors. Its approval of a state's economic plans is a "seal of approval" bankers and MNCs use to assess the wisdom of investing in that state. Thus, the IMF wields great power to influence the economic policies of developing countries.

An agreement to loan IMF funds on the condition that certain government policies are adopted is called an **IMF conditionality** agreement; implementation of these conditions is referred to as a *structural adjustment program*. Dozens of developing countries have entered into such agreements with the IMF in the past two decades. The terms insisted on by the IMF are usually painful for the citizens (and hence for national politicians). The IMF demands that inflation be brought under control, which requires reducing state spending and closing budget deficits. This often spurs unemployment and requires that subsidies of food and basic goods be reduced or eliminated. Short-term consumption is curtailed in favor of longer-term investment. Surplus must be concentrated to service debt and invest in new capital accumulation. The IMF wants to ensure that inflation does not eat away all progress and that the economy is stable enough to attract investment. In addition, it demands steps to curtail corruption.

Because of the pain inflicted by a conditionality agreement—and to some extent by any debt renegotiation agreement—such agreements are often politically unpopular in the global South. On quite a few occasions, a conditionality agreement has brought rioters into the streets demanding the restoration of subsidies.

MIRACLE OF LOAVES

IMF conditionality agreements often call for reducing subsidies for food, transportation, and other basic needs. In Egypt, bread prices are heavily subsidized, forcing the government to use hard currency to import wheat. But public resistance to bread price increases is so strong that the government has not brought itself to cut the subsidy. Here, bread is delivered in Cairo during the presidential election, 2005.

POLICY PERSPECTIVES

President of Egypt, Hosni Mubarak

PROBLEM *How do you balance the demands of domestic actors and international institutions?*

BACKGROUND Imagine that you are the president of Egypt. Your economy is not in the healthiest shape. Unemployment is high, running around 10 percent. Economic growth has been steady but slow, hovering between 3 and 5 percent in recent years. Given your large and growing population, many believe this rate is too low. Your country is saddled with a large debt burden—as of 2006, around $30 billion.

Recently, however, your government has begun to undertake new economic reforms. Led by a new group of young leaders (including your son), the government is selling several large state-owned industries, especially banks, to private investors. In addition, rules governing who can own industries have been relaxed to allow international MNCs to invest in Egypt.

International actors have praised these moves toward reform. The International Monetary Fund (IMF) and the World Bank have extolled your economic plans and suggested an accelerated pace for reform.

In the past, you have been far more cautious in your approach to economic reform. State-owned industries are politically important for you because they employ large numbers of Egyptians. When these industries are privatized, many employees will likely be fired.

DOMESTIC CONSIDERATIONS Already, the privatization that has occurred has been unpopular. To make up for the new waves of unemployed, you increased food subsidies. These increases led to more public debt, however, as they cost your government billions of dollars. In 2004, your budget deficit was more than $8 billion, which necessitated new loans from the IMF.

Still, you view these subsidies and state-owned industries as an important political tool for ensuring political stability for your government. You are increasingly challenged with calls for political reform, including holding elections and allowing Islamic parties (which you have outlawed in the past) to participate in politics. In the past, IMF-related programs have led to riots and civil unrest in your country.

SCENARIO Now imagine that after a particularly difficult year economically, you must return to the IMF for more loans. The IMF, however, demands even further economic reform as a condition for the new loans. Although they praise your efforts so far, IMF negotiators push you to go further. They demand more privatization and the slashing of food subsidies.

Rejecting the IMF demands risks a cut in loans that would threaten your economic stability and frighten foreign investors away. The privatization and reform does seem to be improving the investment environment in your country, which is boosting your economy.

Acquiescing to the IMF conditions carries a large political risk, however. Privatization will lead to unemployment, while a cut in food subsidies will increase hunger.

CHOOSE YOUR POLICY Do you adopt further reforms, hoping to blame the IMF for your economic troubles with your public? Do you refuse the IMF loans and search for alternate sources of loans? How do you balance your domestic political needs with the demands of international economic institutions and investors?

Sometimes governments have backed out of the agreements or have broken their promises under such pressure. Occasionally, governments have been toppled.

The South in International Economic Regimes

Because of the need for capital and the wealth created by international trade, most states of the global South see their future economic development as resting on a close interconnection with the world economy, not on national autarky or regional economic communities. Thus poor states must play by the rules embedded in international economic regimes, as discussed in Chapter 5.

The WTO trading regime sometimes works against poor states, however, relative to industrialized ones. A free trade regime makes it harder for poor states to protect infant industries in order to build self-sufficient capital accumulation. It forces competition with more technologically advanced states. A poor state can be competitive only in low-wage, low-capital niches—especially those using natural resources that are scarce in the North, such as tropical agriculture, extractive (mining and drilling) industries, and textiles.

Yet just those economic sectors in which developing countries have comparative advantages in world markets—agriculture and textiles in particular—were largely excluded from the free trade rules for decades (see pp. 174–176). Instead, world trade deals concentrated on free trade in manufactured goods, in which states in the North have comparative advantages. As a result, developing countries had to open their home markets to foreign products, against which home industries were not competitive, yet see their own export products shut out of foreign markets. Current WTO negotiations are attempting to remedy this inequity, but so far without success.

Another criticism leveled at the WTO centers on the trade dispute system, in which states may bring complaints of unfair trading practices. Such legal disputes can cost millions of dollars to litigate, requiring expensive lawyers and a large staff at WTO headquarters in Geneva. Few states in the global South can afford this legal process, and therefore few use it to help their own industries knock down unfair barriers to trade. Recall that even if a state wins a WTO dispute, it gains only the right to place tariffs on the offending country's goods in an equal amount. For small states, this retaliation can inflict as much damage on their own economies as on the economies of the offending states.

To compensate for these inequities and to help developing countries use trade to boost their economic growth, the WTO has a Generalized System of Preferences. These and other measures—such as the Lomé conventions in which EU states relaxed tariffs goods from the global South—are exceptions to the overall rules of trade, intended to ensure that participation in world trade advances development. Nonetheless, critics claim that developing countries are the losers in the overall world trading regime.

Countries in the South continue to pursue proposals to restructure world trade to benefit the South through the *UN Conference on Trade and Development (UNCTAD)*, which meets periodically but lacks power to implement major changes in North-South economic relations. Such efforts have left the South dependent on the North.

Foreign Assistance

Rwanda's Millennium Villages

Foreign assistance (or *overseas development assistance*) is money or other aid made available to help states speed up economic development or simply meet basic humanitarian needs. It covers a variety of programs—from individual volunteers lending a hand to massive government packages.

Different kinds of development assistance have different purposes, which often overlap. Some are humanitarian, some are political, and others are intended to create future economic advantages for the giver. The state or organization that gives assistance is called a *donor;* the state or organization receiving the aid is the *recipient*. Foreign assistance creates, or extends, a relationship between donor and recipient that is simultaneously political and cultural as well as economic. Foreign assistance can be a form of power in which the donor seeks to influence the recipient, or a form of interdependence.

Patterns of Foreign Assistance

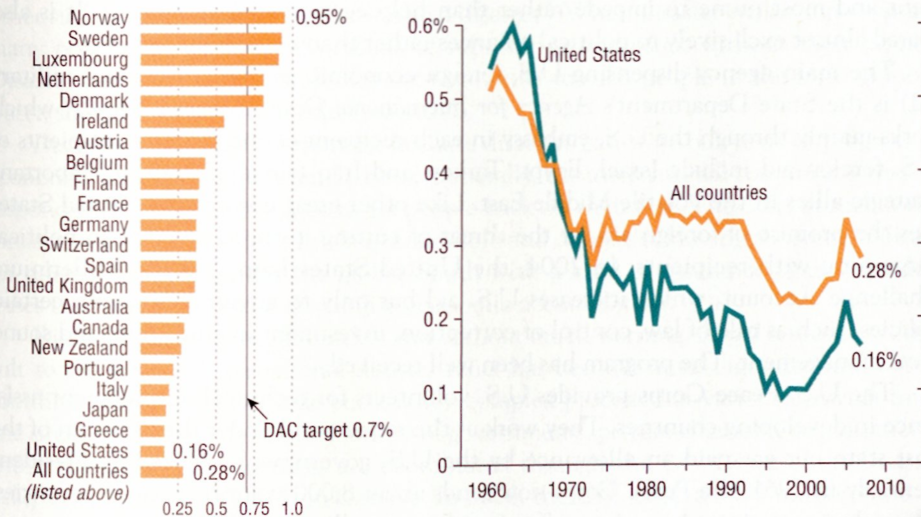
Taking on Global Poverty

The majority of foreign assistance comes from governments in the North. Private donations provide a smaller amount, although sometimes a significant one. For instance, the Bill and Melinda Gates Foundation contributes more than $1 billion annually to world health campaigns.

Of the $100 billion in governmental foreign assistance provided in 2008, more than 90 percent came from members of the **Development Assistance Committee (DAC),** consisting of states from Western Europe, North America, and Japan/Pacific. Several oil-exporting Arab countries provide some foreign development assistance and in 2003, transition economies became a net "exporter" of financial aid. Three-quarters of the DAC countries' assistance goes directly to governments in the global South as state-to-state **bilateral aid;** the rest goes through the UN or other agencies as **multilateral aid.** The DAC countries have set themselves a goal to contribute 0.7 percent of their GNPs in foreign aid. But overall they give less than half this amount. Only Norway, Sweden, Denmark, the Netherlands, and Luxembourg are close to the target. In fact, Oxfam International reported that industrialized countries' aid dropped from 0.48 percent of income in 1960–1965 to 0.34 percent in 1980–1985 and then to 0.24 percent in 2003.

The United States gives the lowest percentage of GNP—about two-tenths of 1 percent—of any of the 30 states of the industrialized West that make up the OECD. In total economic aid given ($22 billion), the United States has recently regained the lead over Japan (which cut foreign aid to $12 billion). Germany, Britain, and France each give about $10 billion. U.S. and other decreases brought the world total in foreign assistance down substantially in the 1990s (see Figure 7.10). But after the 2001 terrorist attacks, Britain proposed a $50 billion increase in foreign aid, nearly doubling current levels, and the United States raised its aid budget sharply. In 2002, rock star Bono took U.S. treasury secretary Paul O'Neill on a two-week tour through Africa to argue for increased U.S. foreign assistance. O'Neill lost his job later that year, but the U.S. foreign aid budget rose by more than 15 percent a year in 2003–2005 (although it has since dropped back somewhat).

FIGURE 7.10 Foreign Assistance as a Percent of Donor's Income, 2007 and 1960–2007



Note: Percent of Gross National Income, which is very close to GDP.

Source: *The New York Times.*

Types of Aid Bilateral aid takes a variety of forms. *Grants* are funds given free to a recipient state, usually for some stated purpose. *Technical cooperation* refers to grants given in the form of expert assistance in some project rather than just money or goods. *Credits* are grants that can be used to buy certain products from the donor state. For instance, the United States regularly gives credits that can be used to purchase U.S. grain.

Loans are funds given to help in economic development, which must be repaid in the future out of the surplus generated by the development process (they too are often tied to the purchase of products from the donor state). Unlike commercial loans, government-to-government development loans are often on concessionary terms, with long repayment times and low interest rates. Although still an obligation for the recipient country, such loans are relatively easy to service.

Loan guarantees, which are used only occasionally, are promises by the donor state to back up commercial loans to the recipient. If the recipient state services such debts and ultimately repays them, there is no cost to the donor. But if the recipient cannot make the payments, the donor has to step in and cover the debts. A loan guarantee allows the recipient state to borrow money at lower interest rates from commercial banks (because the risk to the bank is much lower).

Military aid is not normally included in development assistance, but in a broad sense belongs there. It is money that flows from North to South, from government to government, and it does bring a certain amount of value into the economies of the global South. If a country is going to have a certain size army with certain weapons, getting

them free from a donor state frees up money that can be used elsewhere in the economy. However, of all the forms of development assistance, military aid is one of the least efficient and most prone to impede rather than help economic development. It is also geared almost exclusively to political alliances rather than development needs.

The main agency dispensing U.S. foreign economic assistance (but not military aid) is the State Department's *Agency for International Development (USAID)*, which works mainly through the U.S. embassy in each recipient country. Major recipients of U.S. foreign aid include Israel, Egypt, Turkey, and Iraq (since 2003)—all important strategic allies in the volatile Middle East. Like other great powers, the United States uses the promise of foreign aid, or the threat of cutting it off, as leverage in political bargaining with recipients. In 2004, the United States launched the Millennium Challenge Account, which increases U.S. aid but only to governments with certain policies, such as rule of law, control of corruption, investment in education, and sound fiscal management. The program has been well received.

The U.S. **Peace Corps** provides U.S. volunteers for technical development assistance in developing countries. They work at the request and under the direction of the host state but are paid an allowance by the U.S. government. Started by President Kennedy in 1961, the Peace Corps now sends about 8,000 volunteers to 76 countries, where they participate in projects affecting about a million people.

In foreign aid, the donor must have the permission of the recipient government to operate in the country. This goes back to the principle of national sovereignty and the history of colonialism. National governments have the right to control the distribution of aid and the presence of foreign workers on their soil. Only occasionally is this principle violated, as when the United States and its allies provided assistance to Iraqi Kurds against the wishes of the Iraqi government following the Gulf War. International norms may be starting to change in this regard, with short-term humanitarian assistance starting to be seen as a human right that should not be subject to government veto (see p. 299).

UN Programs Most of the multilateral development aid goes through *UN programs*. The place of these programs in the UN structure is described in Chapter 6. The overall flow of assistance through the UN is coordinated by the **UN Development Program (UNDP),** which manages 5,000 projects at once around the world (focusing especially on technical development assistance). Other UN programs focus on concentrating capital, transferring technology, and developing workforce skills for manufacturing. UNIDO works on industrialization, UNITAR on training and research. But most UN programs—such as UNICEF, UNFPA, UNESCO, and WHO—focus on meeting basic needs. UN development programs are funded largely through voluntary contributions by rich states. Each program has to solicit contributions to carry on its activities, so the contributions can be abruptly cut off if the program displeases a donor government (see pp. 328–329).

Forms of Development Assistance

The remainder of this chapter discusses three models of development assistance, distinguished by the type of assistance rather than by the type of donor (all three models encompass both government and private aid). The three overlap in real life.

The Disaster Relief Model The disaster relief model describes the kind of foreign assistance given when poor people are afflicted by famine, drought, earthquakes, flooding, or other such natural disasters. (War is also a disaster.) When disaster strikes a poor state, many people are left with no means of subsistence and often without their homes. **Disaster relief** is the provision of short-term relief to such people in the form of food, water, shelter, clothing, and other essentials.

Disaster relief is very important because disasters can wipe out years of progress in economic development in a single blow. Generally, the international community tries to respond with enough assistance to get people back on their feet. The costs of such assistance are relatively modest, the benefits visible and dramatic. Having a system of disaster relief in place provides the global South with a kind of insurance against sudden losses that could otherwise destabilize economic accumulation.

Disasters generally occur quickly and without much warning. Rapid response is difficult to coordinate. International disaster relief has become more organized and better coordinated in the past decade but is still a complex process that varies somewhat from one situation to the next. Contributions of governments, private charitable organizations, and other groups and agencies are coordinated through the *UN Office of the Disaster Relief Coordinator (UNDRO)* in Geneva. In 2006, the UN set up a $500 million fund to enable it to respond quickly to disasters without waiting to raise funds first each time disaster strikes. Typically, international contributions make up no more than about one-third of the total relief effort, the remainder coming from local communities and national governments in the affected states. The U.S. government's contributions are coordinated by the *Office of Foreign Disaster Assistance (OFDA)*, which is part of USAID.

Disaster relief is something of a collective good because the states of the North do not benefit individually by contributing, yet they benefit in the long run from greater stability in the South. Despite this problem and the large number of actors, disaster relief is generally a positive example of international cooperation to get a job done—and an example of the use of the identity principle to solve a collective goods problem. Food donated by the World Council of Churches may be carried to the scene in U.S. military aircraft and then distributed by the *International Committee of the Red Cross (ICRC)*. Embarrassing failures in the past—of underresponse or overresponse, of duplication of efforts or agencies working at cross-purposes—have been fewer since the 1990s.

The devastating earthquake in Haiti in 2010 showed the progress and the limitations of international relief efforts. Overnight, millions lost family members, homes, possessions, safe drinking water, and ways of life. With no functioning government or medical care system, initial relief efforts were chaotic and international aid poorly coordinated. Many victims died as planes stacked up over the small airport, unable to deliver supplies. In days, however, U.S. military forces took over the airport and massive international assistance flowed in. Governments and NGOs pledged billions of dollars to help Haiti back to its feet under UN guidance.

Both IOs and NGOs quickly mobilized to carry out what has been termed the largest relief effort in human history. The efforts by these organizations were coordinated through a variety of relief agencies, including the International Committee of the Red Cross, the International Organization for Migration, the UNHCR, and Oxfam. Initially, it appeared as though the United States would coordinate its own relief efforts apart from

the UN, but after reconsideration, the United States ceded the lead role in relief to the UN. This somewhat spontaneous coordination of states, IOs, and NGOs seems contrary to the anarchical international system.

The relationship between disasters and economic development is complex, and appropriate responses vary according to location, type and size of disaster, and phase of recovery. Appropriate disaster relief can promote local economic development, whereas inappropriate responses can distort or impede such development. International norms regarding states' legal obligations to assist others in time of natural disaster and to accept such assistance if needed are changing. Some have even suggested extending the idea of the responsibility to protect to the area of disaster relief. This idea became particularly relevant in the wake of Cyclone Nargis, which struck Burma in 2008. An estimated 130,000 people died in that natural disaster, yet the repressive government of Burma delayed or denied efforts of the international community to provide assistance to those affected by the cyclone. While aid did eventually flow into Burma, weeks were wasted while the government denied the needed assistance for coping with the cyclone.

The Handout Model Beyond disaster relief, many governments and private organizations provide ongoing development assistance in the form of projects in local communities in the South administered by agencies from the North to help meet basic needs. Although such efforts vary, one could call the approach a *handout* model because it relies on simply giving food or money without much thought to the broader consequences. Such charitable programs are a useful means by which people in the North funnel resources to people in the South, but may create unanticipated problems. They do not address the causes of poverty, the position of poor countries in the world economy, or local political conditions such as military rule or corruption.

In recent years, aid advocates in the United States have fought a U.S. law requiring that such food sent to hungry people in Africa be grown in the United States and shipped in U.S. vessels. Instead of this simple handout system, they proposed using U.S. funds to buy food locally in Africa, which would save a lot of money, get aid to the hungry people faster, and help African farmers. But the proposal was opposed by the so-called Iron Triangle of food aid—U.S. agribusiness that profits from selling the food to the government, U.S. shipping companies that profit from shipping it, and U.S. charities (including CARE and Catholic Relief Services) that fund a healthy fraction of their budgets by selling in Africa some of the grain they ship from the United States. The charities, by becoming international grain merchants and flooding local markets with cheap food (both sold and given away), compete with local farmers and drive down local prices, harming long-term recovery. Yet because of the Iron Triangle's lobbying power, Congress killed off the proposal to allow purchase of food locally in Africa.

The Oxfam Model A third model of development assistance can be found in the approach taken by the private charitable group **Oxfam America** (one of seven groups worldwide descended from the Oxford Committee for Famine Relief, founded in 1942 in Britain). Originally devoted to short-term aid to famine victims, and still active in that effort, Oxfam America realized that over the longer term, people need not just handouts of food but the means to feed themselves—land, water, seed, tools, and technical training.

The distinctive aspect of the Oxfam model is that it relies on local communities to determine the needs of their own people and to carry out development projects. Oxfam does not operate projects itself but provides funding to local organizations. Nor does Oxfam call itself a donor and the organizations recipients. Rather, it calls both sides "project partners"—working together to accomplish a task. In this model, a little outside money can go a long way toward building sustained local economic development. Furthermore, projects help participants empower themselves by organizing to meet their own needs.

The Oxfam approach seeks to reconceptualize development assistance to focus on long-term development through a bottom-up, basic needs strategy and the political empowerment of poor people. (The group's philosophy of a "rights-based approach to development" is explored in the special insert section that follows this chapter.) Because of disappointment with the political uses of foreign aid in the past, Oxfam has tried to minimize the role in its projects of governments in both the North and South. For instance, Oxfam does not accept government funds or make grants to governments.

MOUTHWASH FOR MAURITANIA

The handout model of foreign assistance contributes goods to third world economies, but often with little understanding of local needs or long-term strategies. Here, free supplies including cartons of mouthwash are delivered by the U.S. ambassador and the captain of a U.S. Navy ship participating in Project Handclasp, 1989.

The general goals of the Oxfam model of foreign aid are consistent with a broader movement in the global South toward grassroots *empowerment*. Efforts such as those of Oxfam partners are organized by poor people to gain some power over their situation and meet their basic needs—not by seizing control of the state in a revolution but by means that are more direct, more local, and less violent. The key to success is getting organized, finding information, gaining self-confidence, and obtaining needed resources to implement action plans.

The Oxfam model has the advantage of promoting grassroots empowerment, thereby overcoming the dangers of externally run programs under the disaster relief and handout models. However, the Oxfam model to date has been tested on only a small scale. Although the model may be effective in the local communities it reaches, it would have to be adopted widely and replicated on a much larger scale in order to influence the overall prospects for development. It is unclear whether the principles the model embodies, from a reliance on local community organizers to an avoidance of

government involvement, would work on a massive scale.

PARTNER IN DEVELOPMENT

The Oxfam model of foreign assistance emphasizes support for local groups that can stimulate self-sustaining economic development at a local level. A mutually beneficial North-South partnership is the global goal of such projects. These women show off a mill they purchased with microcredit from an Oxfam-affiliated group in Gambia, 2001.

Confronting the North-South Gap

All three models of development assistance have contributions to make. Perhaps the most important point is for people in the North to be aware of the tremendous gap between North and South and try to address the problem. Poverty can seem so overwhelming that citizens in rich countries can easily turn their backs and just try to live their own lives.

But in today's interdependent world this really is not possible. North-South relations have become a part of everyday life. The integrated global economy brings to the North products and people from the South. The information revolution puts images of poverty on TV sets in comfortable living rooms. The growing role of the UN brings North and South together in a worldwide community. This global integration is especially evident in the areas of environmental management and technological change, which occupy Chapter 8.

CHAPTER REVIEW

SUMMARY

- Most of the world's people live in poverty in the global South. About a billion live in extreme poverty, without access to adequate food, water, and other necessities.
- Moving from poverty to well-being requires the accumulation of capital. Capitalism emphasizes overall growth with considerable concentration of wealth, whereas socialism emphasizes a fair distribution of wealth.
- Most states have a mixed economy with some degree of private ownership of capital and some degree of state ownership. However, state ownership has not been very successful in accumulating wealth.

- Since Lenin's time, many Marxists attribute poverty in the South to the concentration of wealth in the North. In this theory, capitalists in the North exploit the South economically and use the resulting wealth to buy off workers in the North.
- IR scholars in the world-system school argue that the North is a core region specializing in producing manufactured goods and the South is a periphery specializing in extracting raw materials through agriculture and mining. Between these are semiperiphery states with light manufacturing.
- Following independence after World War II, countries of the global South were left with legacies of colonialism, including their basic economic infrastructures, that made wealth accumulation difficult in certain ways. These problems still remain in many countries.
- Wealth accumulation depends on meeting basic human needs such as access to food, water, education, shelter, and health care. Developing countries have had mixed success in meeting their populations' basic needs.
- War has been a major impediment to meeting basic needs, and to wealth accumulation generally, in poor countries.
- Hunger and malnutrition are rampant in the global South. The most important cause is the displacement of subsistence farmers from their land because of war, population pressures, and the conversion of agricultural land into plantations growing export crops to earn hard currency.
- Urbanization is increasing throughout the global South as more people move from the countryside to cities. Huge slums have grown in the cities as poor people arrive and cannot find jobs.
- Women's central role in the process of accumulation has begun to be recognized. International agencies based in the North have started taking women's contributions into account in analyzing economic development in the South.
- Poverty in the South has led huge numbers of migrants to seek a better life in the North; this has created international political frictions. War and repression in the South have generated millions of refugees.
- Economic development in the global South has been uneven. In recent years many poor countries, led by China, have grown robustly. But the 2008–2009 global recession creates new obstacles for development.
- Evidence does not support a strong association of economic growth either with internal equality of wealth distribution or with internal inequality.
- The newly industrializing countries (NICs) in Asia—South Korea, Taiwan, Hong Kong, and Singapore—show that it is possible to rise out of poverty into sustained economic accumulation.
- China has registered strong economic growth in the past 25 years of market-oriented economic reforms. Though still quite poor, China is the world's leading success story in economic development.

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CRITICAL THINKING QUESTIONS

1. In North and South America, independence from colonialism was won by descendants of the colonists themselves. In Asia and Africa, it was won mainly by local populations with a long history of their own. How do you think this aspect has affected the postcolonial history of one or more specific countries from each group?
2. Currently, incomes in the global North are five times as high, per person, as in the global South. If you could magically redistribute the world's income so that everyone had equal income ($10,000 per person per year), would you? What effects would such a change make in the North and South?
3. Some scholars criticize the IMF for imposing harsh terms in its conditionality agreements with poor states. Others applaud the IMF for demanding serious reforms before providing financial resources. If you were a leader negotiating with the IMF, what kinds of terms would you be willing to agree to and what terms would you resist? Why?

BACK TO THE BIG PICTURE

To hear a discussion of the "big picture" for this chapter, raised on p. 261, along with an example from recent history, consult the "IR Talk" podcast for Chapter 7 at *www.IRtext.com*