The Political Economy of Investment & Sustainable Development

Third World Poverty & Capital Formation

Economic Structuralist Critiques & Perspectives
Third World Poverty & Capital Formation

- The world’s poorest regions are called:
  - Third world countries, less developed countries (LDCs), underdeveloped countries (UDCs), or developing countries

- About a billion people live in abject poverty – no access to basic nutrition and health care
  - Concentrated in Africa
  - Two decades ago, similar situation in South Asia, but average income per person there has increased
  - Every 6 seconds, somewhere in the world, a child dies as a result of malnutrition.
  - 5 million children die a year due to malnutrition.
State of the South

- Millennium Development Goals
  - Sets targets for basic needs measures to be achieved by 2015
- The 5 regions of the global South differ on poverty reduction, income level, and growth.

Note: For the global North overall, GDP per capita is $28,000.
Basic Human Needs

- Food, shelter, and other necessities
  - Help people feel secure
  - Extreme poverty fuels revolution, terrorism, and anti-Western sentiments.

- Of all the basic needs of people in the global South, the most central is food.
  - Malnutrition: refers to the lack of needed foods, including protein and vitamins.
  - Hunger: refers broadly to malnutrition or outright undernourishment – a lack of calories.
  - 820 million people (1 in 8 worldwide) are chronically undernourished.
Basic Human Needs

- Contributing factor to World Hunger: Rural communities and farming
  - Colonialism disrupted pattern of subsistence farming.
  - Shift to commercial farming; displacement of subsistence farmers from the land.
  - Cash crops
  - Impact of international food aid on farmers

- Children suffer from hunger in the global South.
  - One in 6 children suffered severe hunger, one in seven lacked access to health care, and one in 5 had no safe drinking water.
## Chronically Undernourished People by Region, 2003

<table>
<thead>
<tr>
<th>Region</th>
<th>Number (millions)</th>
<th>Percentage of Population</th>
<th>10 Years Earlier</th>
</tr>
</thead>
<tbody>
<tr>
<td>S. Asia</td>
<td>360</td>
<td>17%</td>
<td>22%</td>
</tr>
<tr>
<td>China</td>
<td>150</td>
<td>12%</td>
<td>16%</td>
</tr>
<tr>
<td>Africa</td>
<td>210</td>
<td>32%</td>
<td>35%</td>
</tr>
<tr>
<td>Latin America</td>
<td>50</td>
<td>10%</td>
<td>13%</td>
</tr>
<tr>
<td>Middle East</td>
<td>40</td>
<td>9%</td>
<td>8%</td>
</tr>
<tr>
<td>Russia/E. Europe</td>
<td>25</td>
<td>6%</td>
<td>6%</td>
</tr>
<tr>
<td>Developing World</td>
<td>835</td>
<td>17%</td>
<td>20%</td>
</tr>
</tbody>
</table>

Notes: Data are from 2001–2003 and 1990–1992. Chronic undernourishment means failing to consume enough food on average over a year to maintain body weight and support light activity.

Basic Human Needs

- Education allows a new generation to meet over basic needs and more through the demographic transition.
  - Literacy – reading and writing a simple sentence – is key.
  - Great variation exists in schooling.

- Health care
  - Disparities in access to health care are striking.
  - Medicines that are critical in the global South are often not available because they are not profitable for that market.
Basic Human Needs Indicators by Region, 2005

Data Source: World Bank

Rates of Access to Water and Food
Basic Human Needs

- Safe water
  - One in 6 people worldwide, the great majority of them in rural areas, lacked access to safe drinking water.

- Shelter
  - One in 6 people in the world lives in substandard housing or is homeless altogether.

- War is a leading obstacle to the provision of basic needs.

- Disasters
Scholars do not agree on the causes or implications of poverty in the global South (or solutions).

This course and textbook considers Factors of production as causes.

Factors of production are land, labor, and capital combined to produce the goods and services that constitute economic output.

Unfortunately, much of the Third World is uneducated or the land is unproductive. Thus, capital becomes the most important factor of production in development.
There are numerous sources of capital:
- Grants or Foreign Aid (ODA),
- Direct foreign investment,
- Technology Transfers,
- Debt forgiveness,
- Positive trade balances facilitated by trade preferences mainly from First World importing countries, and
- Loans by other states and the World Bank which provides aid to developing countries, often at concessionary (or lower than market) rates.
- Regional lending also occurs through regional banks.
Multinational corporations (MNCs), investment firms, and international banks are another source of capital for developing countries.

MNCs oftentimes make more in a year than the GDP of certain states. They also allow for the transfer of technology to developing states.

Export trade provides yet another source of capital for states.

Capital earned from trade is often available for reinvestment into the economy or for the purchase of more capital.

At times, trade preferences are offered to developing states, which are special arrangements that allow easy access on a cost-competitive basis by a foreign producer to a country's domestic market.
Trade and Development

- These trade preferences have been an issue for quite a while in international relations.
- The New International Economic Order (NIEO) is a policy resolution of developing countries calling for an international economic system more favorable to their interests.
- Efforts began in the 1960s to look for a way to bridge the North-South gap.
- One way of securing more favorable terms of trade is through the formation of a cartel.
- Efforts to form cartels of tin producers, coffee growers, and so on have been unsuccessful.
- However, OPEC provides an example of a cartel that has accomplished many of its goals, successfully manipulating the price of their commodity – oil.
A great frustration for Third World countries is their dependency on rich First World countries.

Dependency theory and the world systems theory provide explanations for poverty and underdevelopment in the Third World.

Dependency as a situation in which accumulation of capital cannot sustain itself internally.
A dependent country must borrow capital to produce goods; its debt payments then reduce the accumulation of surplus.

- **Types of non-colonial dependency**
  - Enclave economy
    - Foreign capital is invested in a third world country to extract a particular raw material in a particular place.
  - Nationally controlled production by local capitalist class
  - Penetration of national economies by MNCs

- Some newly industrializing countries (NICs) have been able to break free from this problem, but they are the exception.
Population Growth and the Environment

- Population growth can cause problems for developing states, since more people consume more resources and capital.
- Slower-growing populations that are educated and trained, coupled with substantial capital investment, is the key to economic development.
- Thomas Malthus wrote about the problems of population growth, arguing that the human population would eventually exceed the Earth's capacity to support them.
Population Growth and the Environment

- Several issues arise in relation to the environment and international relations.
- Resource wars may become more likely in the future. Renewable resources spark conflict far less often than nonrenewable resources.
- All in all, environmental scarcity will only worsen in the years to come as population growth only compounds these problems.
- International and transnational organizations have made efforts to help deal with these concerns over the environment.
- Transnational organizations have shown through this process that instruments of power are not only found in the hands of states.
This chapter looks at the concept of a global political economy and the importance of development and poverty in the Third World. A key concept is the idea of sustainable development, economic growth that continues over time and also improves social conditions but does not deplete natural resources or cause environmental damage that undermines or precludes continuing economic growth.
Review – How much do you understand?

1. Economic growth that continues over time and also improves social conditions without depleting natural resources is called

A. sustainable development.
B. First World development.
C. environmental development.
D. capital development.
Review– How much do you understand?

2. Which of the following is not a factor of production as defined in the book?

A. capital
B. factories
C. labor
D. land
Review– How much do you understand?

3. Which of the following is not a source of capital for developing states?
   A. multinational corporations
   B. export trade
   C. The World Bank
   D. all of these answers
Review– How much do you understand?

4. What does NIEO stand for?
   A. Non-profit International Environmental Organization
   B. Non-partisan International Economic Office
   C. Newly Industrializing Economic Office
   D. New International Economic Order
Review– How much do you understand?

5. Which of the following is the best example of an NIC?
   A. Taiwan
   B. Nigeria
   C. United States
   D. all of these answers
Review– How much do you understand?

6. Which of the following combinations are the correct blend for economic development and continued growth?
   A. slow-growing population and a small amount of capital investment
   B. slow-growing population and a great deal of capital investment
   C. fast-growing population and a great deal of capital investment
   D. fast-growing population and a small amount of capital investment
7. This is NOT a source of capital for developing countries

A. loans from banks
B. grants or foreign aid from abroad
C. imports of consumer goods
D. direct investment by multinational corporations
Review— How much do you understand?

8. The two most populous countries in the world are

A. China and Indonesia.
B. China and Japan.
C. India and Pakistan.
D. India and China.
9. Official Development Assistance (ODA) refers to

A. grant writing assistance.
B. refinanced loans.
C. foreign aid.
D. trade preferences.
Review—How much do you understand?

10. Which perspective tends to focus on relations of class dominance in the global economy?

A. neo-realists  
B. functionalists  
C. social constructivists  
D. capitalist world-system theorists