

Development

10

Learning Outcomes

After reading, studying, and discussing the chapter, students should be able to:

- Learning Outcome 10.1.1:** Understand the Human Development Index.
- Learning Outcome 10.1.2:** Identify the HDI standard of living factor.
- Learning Outcome 10.1.3:** Identify the HDI education factors.
- Learning Outcome 10.1.4:** Identify the HDI health factors.
- Learning Outcome 10.2.1:** Describe the U.N.'s measures of inequality.
- Learning Outcome 10.2.2:** Describe the U.N.'s measures of gender inequality.
- Learning Outcome 10.2.3:** Describe empowerment-related components of gender inequality.
- Learning Outcome 10.2.4:** Describe reproductive health elements of the GII.
- Learning Outcome 10.2.5:** Compare HDI and GII for selected countries.
- Learning Outcome 10.3.1:** Summarize the two paths to development.
- Learning Outcome 10.3.2:** Analyze reasons for the triumph of the international trade approach to development.
- Learning Outcome 10.3.3:** Identify the main sources of financing development.
- Learning Outcome 10.3.4:** Explain alternate strategies for coping with economic downturns.
- Learning Outcome 10.4.1:** Explain principles of fair trade.
- Learning Outcome 10.4.2:** Describe ways in which differences in development have narrowed or increased.

Chapter Outline

Key Issue 1: Why Does Development Vary among Countries?

Countries can be categorized according to their level of development, which is the process of improving the conditions of people through diffusion of knowledge and technology. The development process is continuous, involving never-ending actions to perpetually improve the health and prosperity of the people.

Introducing Development Countries may be divided into two groups according to their level of development:

- A **developed country**, also known as a more developed country (MDC) and referred to by the U.N. as a very high developed country, has progressed further along the development continuum.
- A **developing country**, also frequently called a less developed country (LDC), has made some progress toward development, though less than the developed countries.

The U.N. classifies developing countries into high, medium, and low developing categories.

Human Development Index The United Nations compares levels of development on an index called the **Human Development Index** (HDI). The U.N. has computed HDIs for countries annually since 1980. The highest HDI possible is 1.0, or 100 percent. The HDI considers development to be a function of three factors: a decent standard of living, a long and healthy life, and access to knowledge. Each country gets a score of these three factors, which are then combined into an overall HDI.

Development Regions The world is divided by geographers into two developed regions and seven developing regions. Each region has an overall HDI score. The two regions with the lowest HDI scores are sub-Saharan Africa and South Asia. Some notable exceptions are present in this division of regions, with three other distinctive areas apparent. Japan and South Korea are classified separately rather than included with the rest of East Asia, as their level of development is much higher than that of their neighbors. In the South Pacific, Australia and New Zealand are developed, while the area's other countries are developing. Due to limited development both under and following communism, the U.N. reclassified Russia from a developed country to a high developing country.

A Decent Standard of Living Accumulating enough wealth for a decent standard of living is essential to development. Geographers have identified ways in which people generate and spend their wealth differently in developed countries compared to those in developing countries.

Income The U.N. measures the standard of living in countries through an index called annual gross national income per capita at purchasing power parity. The **gross national income** (GNI) is the value of the output of goods and services produced in a country in a year, including money that leaves and enters the country. The **purchasing power parity** (PPP) is an adjustment made to the GNI to account for differences among countries in the cost of goods. By dividing the GNI by the total population, it is possible to measure the contribution made by the average individual towards generating a country's wealth in a year. Per capita GNI measures the average (mean) wealth, not the distribution of wealth. Other studies refer to **gross domestic product** (GDP), which is also the value of the output of goods and services produced in a country in a year. The GDP does not account for money that leaves or enters the country. Per capita GNI (or any other single indicator) cannot measure perfectly the level of a country's development.

Economic Structure Jobs fall into three categories. **Primary sector** jobs include activities extracting materials from the Earth through agriculture, mining, fishing, and forestry. **Secondary sector** jobs process, transform, and assemble raw materials into manufactured products. **Tertiary sector** jobs involve

the provision of goods and services to people in exchange for payment. The share of GNI accounted for by the primary and secondary sector has decreased dramatically in the last century in most developed countries. The tertiary sector accounts for the greatest share of the GNI in developed countries.

Productivity Workers in developed countries are more productive than those in developing countries. The term **productivity** means the value of a particular product compared to the amount of labor needed to make it. The **value added** in manufacturing is the gross value of the product minus the raw materials and energy. Productivity can be measured by the value added per capita. Workers in developed countries produce more with less effort because they have access to more machines, tools, and equipment to perform much of the work.

Access to Knowledge The U.N. considers years of schooling to be the most critical measure of the ability of an individual to gain access to knowledge needed for development. The assumption is that no matter how poor the school, the longer the pupils attend, the more likely they are to learn something. The average person aged 25 or older in a developed country has attended school for 11.5 years. The average person that is aged 25 or older in South Asia and sub-Saharan Africa has attended only 4.7 years of schooling. The U.N. also forecasts the number of years an average 5-year-old will spend in school. In developed countries, the U.N. expects that the average 5-year-old will spend an average of 16.3 years in school. The expected average is 9.3 years in sub-Saharan Africa and 10.2 years in South Asia.

The fewer pupils a teacher has, the more likely that each student will receive instruction. The **pupil/teacher ratio** is the number of enrolled students divided by the number of teachers. The **literacy rate** is the percentage of a country's people who can read and write. Students in developing countries are at a disadvantage because most of the textbooks are not published in their native language. Improved education is a major goal of many developing countries, but funds are scarce.

Health and Wealth Good health is as important a measure of development as wealth and knowledge, according to the U.N. A goal of development is to provide the nutrition and medical services needed for people to lead long and healthy lives.

A Long and Healthy Life The health indicator contributing to the HDI is life expectancy. The life expectancy is 80 in developed countries, while life expectancy is 57 in sub-Saharan Africa. People are healthier in developed countries than developing ones. When a person in a developed country gets sick, the country possesses the resources to care for him or her. Longer life spans have led to a higher percentage of older people who have retired and receive public support and a lower percentage of children under age 15 who are too young to work and must also be supported by employed adults. Better health and welfare also allow babies to survive infancy in developed countries.

Consumer Goods Part of the wealth generated in developed countries is used to purchase goods and services. Especially important are goods related to transportation and communication, including motor vehicles, telephones, and computers. These products are accessible to virtually all residents in developed countries and are vital to the economy's functioning and growth. In contrast, in developing countries, these products do not play a central role in daily life for many people. Most people in developing countries are familiar with vehicles and computers but cannot afford them. Cell phone ownership is

actually expanding in developing countries, as these devices do not require the large expenditures associated with connecting wires to each individual building.

Key Issue 2: Where Are Inequalities in Development Found?

Unequal and Uneven Development Income, gender, and region are all dimensions that can define inequality within a country. Inequality is also present between countries in the core and periphery of development.

Inequality-Adjusted HDI The **Inequality-adjusted Human Development Index (IHDI)** was created by the U.N. to measure the extent of inequality in the world. HDI is modified to account for inequality within a country, producing the IHDI. HDI and IHDI are the same when a country achieves perfect equality. If the IHDI is lower than the HDI, the country has some inequality; the greater the difference between the two measures, the greater the inequality. The highest levels of inequality are seen in sub-Saharan Africa and South Asia.

Inequality within Developing Countries Brazil and Turkey are among the world's largest and most populous countries. At the national scale, the two countries fall somewhere near the middle in terms of HDI. Among the 186 countries with HDI scores, Turkey ranks 69th and Brazil ranks 79th. The two countries have similar HDI scores, but Brazil has a lower IHDI, revealing more inequality in Turkey. Inequality is also evident in the differences in GNI per capita among states or provinces within the countries. In Turkey, wealth is concentrated in the western part of the country, closest to Europe. In the east, where Kurdish people are clustered, wealth is low.

Inequality within Developed Countries Regional differences can be seen within developed countries by examining variations in GNI per capita. These differences are less extreme than in developing countries. For instance, in the United States, the GNI per capita is 122 percent of the national average in the wealthiest region (New England), and 90 percent of the national average in the poorest region (Southeast). Since 1980, inequality has grown in developed countries, including the United States and U.K.

Gender Inequality A country's overall level of development can mask inequalities in the status of men and women. The U.N. uses two indices to measure gender inequality: the Gender Inequality Index (GII) and the Gender-related Development Index (GDI). At best, women have achieved near-equality with men in some countries, but in other countries the level of development for women lags far behind the level for men. It is the belief of the U.N. that inequality between men and women is a major factor that prevents a country from achieving a higher level of development.

Gender-Related Development Index The **Gender-related Development Index (GDI)** measures the gender gap in the level of achievement for the three dimensions of the Human Development Index. Countries are ranked based on their deviation from gender parity in the three factors of the HDI. If females and males had exactly the same HDI scores, the GDI would be 1.000. The lowest scores are in South Asia, sub-Saharan Africa, Southwest Asia, and North Africa.

Gender Inequality Index The UN created the **Gender Inequality Index (GII)** to measure the extent of each country's gender inequality. The GII combines multiple measures: reproductive health, empowerment, and the labor market. A score of 0 would indicate that men and women fare equally, and a score of 1.0 would indicate that women fare as poorly as possible in all measures. The higher the GII, the greater the inequality between men and women. The GII is higher in developing countries than developed ones.

GII over Time The U.N. has discovered that gender inequality has declined since the 1990s in all but 4 of 138 countries for which time-series data are available. The greatest improvement has been in Southwest Asia and North Africa. The improvement in gender inequality has been relatively modest in the United States. The United States is ranked 47th in GII, while it also ranks 5th in HDI. This discrepancy may be accounted for by the relatively high birth rate among teenage women and a higher mortality rate among women during childbirth, and a low percentage of women in the national legislature relative to other countries with high HDI.

Gender Empowerment and Employment The GII combines three sets of measures to come up with a composite score for gender inequality: empowerment, employment, and reproductive health.

Empowerment In the context of gender inequality, empowerment refers to the ability of women to achieve economic and political power. The empowerment dimension of GII is measured by two indicators: the percentage of seats held by women in the national legislature and the percentage of women who have completed high school.

National Legislature No specific gender-related skills are required to be elected as a representative and to serve effectively. Despite this, fewer women than men hold positions of political power in both developing and developed countries. Rwanda is the only country with a majority of women in its national parliament or congress. The highest percentages are in Europe, with women constituting roughly one-quarter of the members of national parliaments. The lowest rates are in Southwest Asia and North Africa.

Secondary School Worldwide, 54 percent of women have completed some secondary school, compared to 64 percent of men. In North America, girls are more likely than boys to complete some high school, and (slightly) more boys than girls are expected to complete some high school in Europe. Boys are much more likely than girls to be high school graduates in developing countries, where for every 10 boys who attend high school, only 6 girls attend as well. In South Asia, this gap is particularly high.

Labor Force The **female labor force participation rate** is the percentage of women holding full-time jobs outside the home. Globally, 51 percent of women work outside the home, compared to 77 percent of men. Generally, women in developed countries are more likely than women in developing countries to hold full-time jobs outside the home. South Asia, Southwest Asia, and North Africa have substantial gaps between male and female labor participation, while East Asia and sub-Saharan Africa have smaller gaps.

Reproductive Health Poor reproductive health is a major contributor to gender inequality around the world.

Reproductive Health The reproductive health factor of the GII is based on two indicators:

- The **maternal mortality rate** is the number of women who die giving birth per 100,000 births. The ratio is 16 deaths of mothers per 100,000 live births in developed countries and 171 in developing countries.
- The **adolescent fertility rate** is the number of births per 1,000 women ages 15 to 19. The rate in developed countries is 19 births per 1,000 women ages 15 to 19, while the rate is 53 in developing countries. The lowest teenage pregnancy rate is in Europe where it is below 10 per 1,000. In sub-Saharan Africa the teenage pregnancy rate is 110.

The U.N. includes reproductive health as a contributor to GII because in countries where effective control of reproduction is universal, women have fewer children, and maternal and child health is improved. Women in developing countries are more likely than women in developed countries to die in childbirth and to give birth as teenagers. Countries that provide women a full range of reproductive health options have a very low total fertility rate.

Core and Periphery The relationship between developed and developing countries is often described as a north-south split because most of the developed countries are north of the equator, while many developing countries are south. The U.S. social scientist Immanuel Wallerstein identified the relationship between developed and developing countries as one of “core” and “periphery.” In a progressively unified world economy, developed countries constitute an inner core area, while developing countries occupy peripheral locations. Developing countries in the periphery have less access to the world centers of consumption, communications, wealth, and power, which are concentrated in the core areas. Semi-periphery countries are those countries that are either intermediate in level of economic development or situated close to both core and periphery regions.

HDI and Gender Equality Typically, development analysts anticipate that a more developed country will have less gender inequality than a developing country.

Key Issue 3: Why Do Countries Face Challenges to Development?

Developing countries are confronted with two fundamental obstacles in attempting to stimulate more rapid development:

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

Two Paths to Development Developing countries can choose one of two models to promote development: self-sufficiency or international trade.

Self-Sufficiency Path In the self-sufficiency model, countries encourage domestic production of goods, discourage foreign ownership of business and resources, and protect their businesses from international competition. Key elements of the self-sufficiency path to development include the following:

- Barriers limit the import of goods from other places (using tariffs or quotas).
- Fledgling businesses are nursed to success by being isolated from competition with large international corporations.
- Investment is spread as uniformly as possible across all sectors of a country's economy and in all regions.
- Incomes in the countryside keep pace with those in the city, and reducing poverty takes precedence over encouraging a few people to become wealthy consumers.

Case Study: India For several decades after it gained independence from Britain in 1947, India was a leading example of the self-sufficiency model. Limiting foreign companies from importing into India and exercising strong control over companies operating in India were policies followed in this model by India.

International Trade Path International trade became more popular beginning in the late twentieth century. The sale of raw materials, food, or manufactured products in the world market brings funds into the country that can be used to finance development.

Rostow Model This approach is idealized in W.W. Rostow's five-stage model, where countries fit into one of the five following stages: traditional society; preconditions for takeoff; takeoff; drive to maturity; age of mass consumption.

International Trade Examples Rostow's model appears to have been followed by the four Asian dragons (South Korea, Singapore, Taiwan, and Hong Kong) and petroleum-rich Arabian Peninsula states (Saudi Arabia, Kuwait, Bahrain, Oman, and the United Arab Emirates).

World Trade The international trade approach has been widely adopted over the past decades, with many of the self-sufficiency countries adopting the alternative model by the 1990s.

International Trade Triumphs Trade grew more rapidly than wealth (as measured by GDP) during the late twentieth and early twenty-first centuries, reflecting the prominence of the international trade model in developing countries. Longtime advocates of the self-sufficiency approach converted to international trade during the 1990s. Even India dismantled its formidable collection of barriers to international trade. Countries like India converted from self-sufficiency to international trade because of overwhelming evidence at the time that international trade better promoted development. Worldwide, GNI increased more than 4 percent annually in countries strongly oriented towards international trade compared with less than 1 percent in countries strongly oriented toward self-sufficiency.

World Trade Organization The World Trade Organization (WTO) works to reduce barriers to international trade in two principal ways. First, through the WTO, countries negotiate reduction or the elimination of international trade restrictions on manufactured goods, such as government subsidies for exports, quotas for imports, and tariffs on both imports and exports. The WTO also promotes international trade by enforcing agreements. Critics of the WTO maintain that the decisions made behind closed doors increase the bottom lines of large corporations at the expense of those suffering from

poverty. Conservative critics charge that the WTO undermines the power and sovereignty of individual countries because it can order changes in taxes and law that it deems unfair trading practices.

Financing Development Developing countries do not have access to the funds necessary to fund development, so they obtain financial support from developed countries. Finance comes from two main sources: direct investment by transnational corporations and loans from banks and international organizations.

Foreign Direct Investment An investment made by a foreign company in the economy of another country is known as **foreign direct investment (FDI)**. Foreign direct investment grew rapidly during the 1990s, from \$130 billion in 1990 and \$1.5 trillion in 2000 to \$16.4 trillion in 2013. In 2013, nearly one-third all FDI destined for developing countries went to China and another one-third went to Brazil, Russia, Mexico, and Singapore. The major sources of FDI are transnational corporations that invest and operate in countries other than which the company headquarters are located.

Loans Two U.N. agencies, the International Monetary Fund (IMF) and the World Bank, provide loans developing countries for development. The IMF and World Bank were conceived at a 1944 United Nations Monetary and Financial Conference to promote economic development and stability after the devastation of World War II and to avoid a repetition of the disastrous economic policies contributing to the Great Depression in the 1930s. Developing countries borrow money to build new infrastructure, such as hydroelectric dams, electric transmission lines, flood-protection systems, water supplies, roads, and hotels. The theory is that new infrastructure will make conditions more favorable for domestic and foreign businesses to open or expand. Some countries have been unable to repay the interest on their loans, let alone the principal. Debt actually exceeds annual income in a number of countries.

Development Challenges During Hard Times The effects of the 2008 economic downturn are still felt today, and have made it difficult for many countries to make progress in development. Countries in Southern Europe have been particularly affected.

Stimulus of Austerity? Stimulus and austerity strategies as a solution for fighting economic downturns have deeply divided political leaders and independent analysts. Advocates of stimulus contend that during a downturn, governments should spend more money than they collect in taxes. Governments should stimulate the economy by putting people to work building bridges and other needed infrastructure projects. Advocates of austerity contend that government should sharply reduce taxes so that people and businesses can revive the economy by spending their tax savings. Governments should also sharply reduce spending on public programs in order to keep the debt from growing and hampering the economy in the future.

Structural Adjustment Programs If a country has taken out loans and is unable to pay them off, the IMF, World Bank, and economically healthy developed countries will often compel these countries to adopt austerity programs in exchange for debt forgiveness. Austerity is imposed through a policy framework paper (PFP) that outlines a structural adjustment program. A **structural adjustment program** contains economic “reforms” or “adjustments,” such as economic goals, strategies for achieving the objectives, and external financing requirements. These strategies may include spending only what a

government can afford, or directing benefits to the poor, among others. Detractors of structural adjustment programs claim that poverty worsens under these programs, by placing priority on reducing government spending and inflation. These changes could result in cuts in health, education, and social services that help the poor or higher unemployment rates.

Europe's Sovereign Debt Crisis Economic hardships have caused doubts to emerge regarding Europe's capacity to continue supporting the international trade development path. While many European countries expected a more robust economy upon adoption of the euro as a common currency in 1999, the economic downturn of the early twenty-first century revealed that weaker economies in the union would have to be kept afloat by wealthier member nations. This relationship is most evident between Germany and Greece.

Development for Microfinance An alternative source of loans for would-be business owners in developing countries is **microfinance**. Microfinance is the provision of a small loan to individuals and small businesses that are unable to get a loan from commercial banks. The Grameen Bank, established in Bangladesh in 1977, is a prominent example of microfinance. The Grameen Bank specializes in making loans to women, who make up three-quarters of the borrowers. These women are often mothers and the sole wage earners in the home.

Key Issue 4: Why Are Countries Making Progress in Development?

Fair trade has been proposed as an alternative to the international trade model of development that promotes sustainability. **Fair trade** is international trade that provides greater equity to workers, small businesses, and consumers. Fair trade products are made and traded according to standards that protect workers and small businesses in developing countries.

Fair Trade Standards The fair trade movement concentrates primarily on exports from developing countries to developed countries. Sustainability is promoted by offering better trading and working conditions for producers and workers in developing countries. Fair trade organizations, supported by consumers, raise awareness of deficiencies in conventional international production and trade and the role of fair trader in improving economic, social, and environmental conditions for producers and workers. Three sets of standards distinguish fair trade. One set applies to producers, a second set to workers on farms and in factories, and a third set to consumers.

Fair Trade for Producers Fair trade is a set of business practices designed to promote a number of economic, social, and environmental goals. These include:

- Raising the incomes of small-scale farmers and artisans by eliminating some of the intermediaries.
- Distributing the profits and risks associated with production and sale of goods more fairly among producers, distributors, retailers, and financiers.
- Increasing the entrepreneurial and management skills of the producers.
- Promoting safe and sustainable farming methods as well as working conditions, such as by prohibiting the use of dangerous pesticides and herbicides and by promoting the production of certified organic crops.

Fair Trade for Workers Fair trade regarding workers' rights requires the following:

- Workers must be paid fair wages – at least enough to cover food, shelter, education, health care, and other basic needs.
- Workers must be permitted to organize a union and to have the right to collective bargaining.
- Workers must be protected by high environmental and safety standards.

Fair Trade for Consumers Most fair trader products are food. Fair trade products reach consumers primarily through cooperatively owned groceries. A **cooperative store** is a member-owned, member-governed business that operates for the benefit of its members according to common principles agreed upon by the international cooperative community. The consumer-owned cooperative movement originated in the nineteenth century, as a result of poor working conditions and inequalities during the Industrial Revolution.

Measuring Progress Since the U.N. began measuring HDI in 1980, both developed and developing regions have made progress in the HDI, as well as the variable contributing to the HDI. Progress varies among the three variables contributing to the HDI, though.

Indicators of Progress The gap in HDI between developed and developing countries has narrowed since 1980, although HDI has increased more rapidly in developing regions than in developed ones. GNI per capita has increased much more rapidly in developed countries than in developing countries since 1980. Since 1980, mean years of education has increased by around the same number in developed and developing countries. Life expectancy has increased by around the same number of years in developed and developing countries in the same time period.

Sustainable Development Goals To reduce disparities between developed and developing countries, the 193 members of the U.N. adopted 17 Sustainable Development Goals in 2015. All U.N. members agreed to achieve these goals by 2030. The **Sustainable Development Goals** replaced eight **Millennium Development Goals** adopted in 2002 with the goal of achieving them by 2015.

Introducing the Chapter

Development captures the imagination of many students in a way that some other topics in economic geography do not. The great puzzle of why so many states continue to be poor despite many honest efforts to improve the lives of their people remains to be solved.

The chapter starts with a discussion of where less developed and more developed countries are distributed and the indicators of development. Some students may protest that many of the indicators are more or less connected with wealth, and that people may be poor and uneducated but still happy. Ask whether happiness can be measured between cultures and countries. Someone may volunteer Bhutan, which references the “gross national happiness” of its citizens.