Problems of Developing Countries in the World Economy

In Europe or in the United States a drought is bad for the garden: in poor countries, it kills people. In this course, we pay special attention to the poorer countries in the world economy.

We begin by showing how unequally the world's income is divided between the rich industrial countries and the poor, less developed countries (LDCs). We then briefly review the major problems that low-income countries face in trying to develop their countries. Therefore, two major issues that we discuss are the best way for LDCs to take advantage of the world economy as it currently exists, and the extent to which LDCs actually benefit from participating in the world economy.

In May 1974, the General Assembly of the United Nations passed a resolution calling for a **N**ew **I**nternational **E**conomic **O**rder (***NIEO***) in order to reduce the widening gap between the widening gap between the developed and the developing countries. Since 1974, there has been a lot of talk about restricting the world economy – but not much action. Economics cannot give all the answers, but it can be used to analyse the proposed solutions.

The suggested outline for this course is:

1. World Income Distribution and the NIEO
2. Economic Development in Low-income countries
3. Development Through trade in Primary Products
4. Development Through Industrialization
5. Development Through Borrowing
6. Aid

1. **World Income Distribution and the NIEO**

In 1979, there were 2.3 billion people in low-income countries, with an average income about £110 per person. In the rest of the world, 2 billion people enjoyed an average income of about £2150 per person. Although it is hard to make exact comparisons between incomes data produced in different countries, the basic fact is clear.

The table below shows data on per capita income, literacy, education, life expectancy at birth, and the availability of medical care. The low-income countries are very badly off on every measure.

TABLE 1 WORLD WELFARE INDICATORS

	COUNTRIES WITH:		
	Low Income	Middle Income	High Income
Per capita GNP (1979 pounds)	110	670	4450
Adult literacy rate, 1976 (%)	51%	72%	99%
Percentage of age group in secondary school, 1978	36%	41%	89%
Life expectancy at birth, 1976	57	61	74
Population per doctor or nurse, 1977	3100	1300	160

Source: World Bank Development report, 1981.

Progress 1960-79 Nevertheless, the situation of low-income countries has improved since 1960. Table 2 shows a marketed increase in life expectancy in low-income countries, a clear indication that the quality of life has improved since 1960. Table 2 also shows that per capita income increased in all groups of countries, but most slowly in the low-income countries. In relative terms, they fell even further behind the rest of the world. However, since 1974 the relative position of the low-income countries has been improving. Their growth in the 1970s was generally higher than in the 1960s, whereas the high-income countries' growth rates have fallen.

Thus, there has been some progress in the past two decades, but the gap between low-income and other countries is wide and in some cases widening. It is this combination of enormous differences in incomes and slow or no progress in reducing the gap that is the driving force behind the NIEO.

TABLE 2 WORLD DEVELOPMENT, 1960-79

	Annual Growth Rate Of per Capita Real GNP, 1960-79	Adult Literacy		Life Expectancy At Birth	
		1965	1976	1960	1979
Low-income countries	1.6	28	51	42	57
Middle-income countries	3.8	53	72	53	61
High-income countries	4.0	-	99	70	74

Source: World Bank Development report, 1981.

***Home Work**: UPDATE TABES 1 AND 2 USING THE SAME SOURCE*

For an extensive discussion of the NIEO and what might be done about existing inequalities, see North-South: A Programme for Survival, Report of the Brandt Commission, 1980.

For the rest of the outline suggested, i.e. 2, 3, 4, 5 and 6 work on it yourself.

SUMMARY

1. The call for a New International Economic Order (NIEO) is an attempt by LDCs to get a larger share of the world's income and wealth. It reflects the extreme inequality between the rich north and the poor south. Half the world's population had an annual income of scarcely more than £100 per person in 1980 (**Update this data**).
2. The South's complaints are that (a) the markets for their primary products are controlled by the north, (b) northern protectionism is hampering their prospects for industrial development; (c) borrowing is too expensive; and (d) simple justice dictates that the north should take practical steps to close the north-south gap.
3. In the world's poorest countries, population growth is faster than the rate at which supplies of other factors can be increased. Hence, labour productivity is low and, often provision for consumption, there are few spare resources to increase human and physical capital. It is hard to break out of this vicious circle.
4. The downward trend in real prices, price volatility, and danger of extreme concentration in a single commodity have made LDCs reluctant to pursue development by exploiting **a comparative advantage in primary products**. Buffer stocks and cartel supply restrictions have proved difficult to organize, with the conspicuous exception of OPEC.
5. LDCs are increasing their exports of labour-intensive manufactures. In the last decade, their growth performance has been better than that of industrial countries. Although the LDCs are beginning from a small base, their market share could quickly become much more significant. The NICs have already made considerable progress along this route to development.
6. Industrial countries are responding with new moves towards protection from imports of manufactures. Yet they would probably do better by encouraging adjustment towards the industries in which their comparative advantage now lies.
7. LDCs have run large deficits in the last decades, financed chiefly by external borrowing. Large debts and high interest rates have led to threats of default and an international debt crisis.
8. Trade may help the LDCs more effectively than aid. Migration would help equalize world incomes but there is little prospect of rich countries allowing significant immigration.

KEY TERMS

New International Economic Order (*NIEO*)	Export-led growth
Less developed countries (LDCs)	New protectionism
Price volatility	International debt crisis
Primary commodities	Debt rescheduling
Buffer stocks	Migration
Import substitution	Newly industrializing countries (NICs)

PROBLEMS

1. Discuss two forces tending to reduce the real price of agricultural produce in the long run.
2. How would a world boom affect a country specializing in producing copper?
3. Why have LDCs been particularly successful in exporting textiles, clothing, and leather footwear?
4. (a) Describe how a buffer stock scheme works. (b) What could go wrong? (c) Why do not private speculators smooth out prices of primary products in any case? (d) Does your answer to (c) help you answer (b)?
5. Can a small LDC gain by a policy of import substitution?
6. How could rich countries best help the poor countries?
7. What are the complaints of the LDCs that have led to their call for an NIEO? Do you think this call will be heeded?
8. **Common Fallacies** Show why the following statements are incorrect. (a) Aid is all the help LDCs need. (b) Europe's problem in competition from cheap labour in LDCs. (c) LDCs do best by sticking to production of raw materials for the world economy.

FURTHER READING

D. Begg, S. Fischer, @ R. Dornbusch, "Economics", British Edition, Chapter 33.

R.G. Lipsey, "Positive economics", Part 7.

E.V. Morgan, "Economics", Part VIII.

G.F. Stanlake, "Introductory Economics", fourth Edition, Part 6.