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Measurement of Development & causes of underdevelopment in Africa

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A Case of South Sudan

Measuring development is very complicated. This is due to the fact that development itself is multidimensional phenomena, which encompass all the social, economic, political and cultural dimensions. Different units of measurements measure each of this. This makes it impossible to get an overall indicator for the development situation or state of a particular country, unless we resort to some statistical techniques e.g. standardization and normalization whereby we can get an overall indicator.

Usually when measuring development, we need to distinguish between Economic indicators and Non economic indicators.

The Economic indicators are usually measured in terms of the national income estimates or per capita income. The national income refers to the total value of goods and services produced or generated by an economy during a certain period of time usually one year. However, it has its own drawbacks:

- Not all countries use the same method in the calculation or estimation of the national income. E.g. firstly some countries use the output method. In this they estimate what is produced by each sector and translate into monetary value and then obtain the national income; secondly other countries use the income method where we add the factors' return e.g. labour, land, capital and entrepreneurship. We can get the national income from these factors; thirdly we may use the expenditure method. In this we simply add the total expenditure of economy or investment expenditure from imports and exports and determine the balance of payments.

These three methods are used differently in different countries, but their estimates are different. This complicates the international comparison of development levels. Usually a country chooses one of these methods depending on the nature of the economy and also the database.

- The exchange rates can also be used for determining monetary value. This however, differs from one country to another.
- Some activities under certain social set ups are not included as economic activities e.g. women's housework and other related informal activities.
- There are some statistical errors in the calculation of national income.

Considering the non-economic indicators we have social, political, cultural aspects of life.

The UN institute for Social Development specified certain non-economic indicators of development. These have different units of measurement where we weigh and add them up to show the indicator.

Features for measuring development

The features for development can be classified as economic, social, political, cultural and international relations.

a) Economic features

The economic factors are mainly concerned with high income, higher per capita income, high productivity, increased saving, strong purchasing power, and availability of capital and increased investment.

b) Social features

These are related to Education, Health, Housing, Customs, Attitudes and Traditions.

c) Political features

They are concerned with public awareness in participating in public life. The dependency nature of most populace in developing countries can explain the underdeveloped state of these countries. This include in areas as economy, commercial, political dependency, domination etc.

d) **The dualistic nature of the economy**, which is created by colonialism where we have the traditional and modern sectors, rural and urban sectors etc.

Measurement of underdevelopment

In the measurement of underdevelopment we have many criterions to be used:

- Land versus population (Land population ration) = L/P

In this high ration reflect availability of means of production. But these tools of measurement could bring some confusion because we have some underdeveloped countries with high ration but yet they are underdeveloped. E.g. in Africa there is vast land with no people, while in Asia there is surplus population.

- Another criteria is based on capital per population = C/P

This can be whether in kind or money form. High ratio reflects a development move while low means underdevelopment.

- The extend poverty

A common measurement of underdevelopment is the level of poverty among populace. In fact poverty is the best criteria for measuring underdevelopment.

Robert McNamara and Robert Chambers defined poverty as a condition of life characterized by malnutrition, squalid surrounding, illiteracy, disease, infant mortality, a sense of hopelessness and low life expectancy as to be below any reasonable definition of human decency.

Economists describe poverty as a situation under which the per capita income is not sufficient to meet basic human needs.

Using this definition we can distinguish absolute poverty from relative poverty.

Absolute poverty is concerned with the amount of income, which is short of the needs of an individual or family. But relative poverty is taken in relation to a group or world around you in the perspective of what is socially acceptable and needed for a reasonable person or family to have.

We measure poverty using three different criteria:

A) The subsistence criteria

As subsistence, poverty means the level of income needed to meet the necessary living items or basic needs falls low than required. These needs could be material or non-material needs. When a person is able to meet the material needs but not able to meet the non-material needs, the person is said to be in secondary poverty. On the other hand if the person is not able to meet the material needs, he is said to be in primary poverty. Commonly such a person is said to be living from hand to mouth, where the next meal is a matter of struggle between life and death, choice of what to eat is seen a luxury and a commodity itself. People are in fact barely surviving.

The UN identified the following subsistence elements:

a) Nutrition (Food)

Food for the individual should not be less than 1365 calories per day. If the food cannot provide these calories we call this person to be in poverty or poor.

b) Accommodation

The accommodation for the individual should be of the type, which can protect him from natural disaster, e.g. flood, earthquake etc.

c) Water

In urban areas the reach for water should not be at a distance of more than 200 metres. If more than this we say the individual is in urban poverty.

In rural areas water should not take excessive time to collect e.g. travelling for long hours or days to collect water. Taking more than an hour the individual is said to be affected by rural poverty.

For the non-material needs the UN took education and Health.

For Education it should be available to all – children, youth and adults and it should be of vocational nature and oriented to the economic life of the state.

For Health, it should eradicate the widespread of diseases especially the six killer diseases, Provision of mother/child care services.

B) The income criteria

The income criteria differ from the subsistence criteria because it does not deal with value judgement

C) Poverty profiles

These are descriptions of the characteristics of the poor e.g. health, illiteracy, sanitation etc. Poverty profiles are grouped in poverty indicators, which describe the economic, social, cultural features etc.

Approaches towards Poverty Reduction

There are different approaches towards poverty reduction. The three main ones that are connected with attitudes towards the poor are:

• Moralistic Approach

In this approach, the poor are to blame. Poverty is viewed in this approach as a condition brought about by laziness, corruption, superstition, godlessness and sin. It is assumed under this approach that only moral reform and the slow introduction of modern ideas, we can bring about change. The advance nations can provide charity, but the backward nations need hundreds of years to catch up.

• Technical approach

This approach views poverty as a vicious circle, perpetuated by overpopulation, traditional attitudes, lack of capital and technology. Only by rigorous population control and by adopting sophisticated economic planning and other techniques can the GDP of poor countries be increased, so that at least some thing will trickle down to the poorest. The advance countries can provide expertise and invest capital and technology.

• Radical Approach

In this approach, poverty is viewed as a process of deprivation whereby the rich drains off the wealth of the poor with pay-offs to small elite. The education system, mass media and most of the advance technology contribute to this process and even speed it up. To change the situation, the rich nations need to encourage or at least permit a redistribution of power and resources to the poorest countries and classes.

What does it mean to be in poverty?

Poverty means poor, and to be a poor man or woman means to be:

Economically deprived
 To have no choices
 To be treated unjustly and condescendingly
 To be politically marginalized
 Lacking social capital
 Powerless
 Isolated etc

Eliminating poverty means introducing development, which means the development of the people themselves. This means providing all their needs – materially, socially, spiritually etc.

Development Underdevelopment

Liberation

Self-Reliance Missing Dependence

Cultural Identity

Socio-Economic

Development Missing Deprivation

Development is a continuing process of people liberating themselves, which needs self-reliance and organization. It is clearly connected with peace and justice.

Development

Justice

Peace

Common Features of the third World Countries

The poor countries of the third world tend to have some similarities through which an appropriate boundary can be drawn along the north/south divide line. Of course, it may be a risk to generalize such diverse nations as those in Africa, Asia, the Middle East and Latin America. Nevertheless there are some common characteristics in the third world, which permit us to view them in broadly similar context. These common similarities can be classified into six categories:

1. Low Levels of Living

The general levels of living in the developing nations are very low for the vast majority of people. These low levels of living are reflected qualitatively and quantitatively in the form of low income, poverty, poor health, inadequate housing and education services, high death rates, and low life expectancy and sometimes a sense of hopelessness. The gross Domestic product (GDP) is very low compared to the advanced countries. All these are compounded to the unequal distribution of the national wealth, which perpetuates the persistent political and economic conflicts that is apparent in the third world.

2. Low Levels of Productivity

In the third world, the productivity levels are very low. This is mainly because of inefficient technology and other inputs such as social and economic institutions and structures. Other problems relate to inadequate management, lack of motivation, rigid customs, values and attitudes. There is lack of domestic savings and foreign capital to generate new investments to improve productivity levels. Major changes are required in the form of land reform, taxes, and credit facilities, banking facilities, education and training, to suit the needs of the developing countries.

3. High population growth rates and dependency burden

The world's population was estimated at around 5.5 billion in the 1990s. More the ¾ lived in the third world. Both birth and death rates are very high in the poor countries. Though there is decline in the deaths rates due to improved health services and the control of infectious diseases including the six killer diseases. The population growth rates are estimated at 2.4% as compared to only 0.7% in the developed countries. The population of children under 15 is half the total population in these countries. Thus the active labour force has to support almost twice as many as it does in many countries. This reflects the dependency burden. There is a hidden momentum, which may take time to bring down population growth rates in spite of the intensive planning programmes in the third world.

4. High and Rising Levels of Unemployment and Underemployment

Both factors contribute to low levels of living. They are a result of inefficient mobilization and utilization of labour in the third world. Underemployment refers to a situation where people in both the rural and urban areas work less than they could whether daily weekly or seasonally. Also it refers to people who may work full time but their productivity is very low such that any reduction in hours work could have adverse impact. On the other hand unemployment refers to a situation in which people who are able and willing to work are not employed nor do not get suitable jobs.

About 30% of the rural and urban labour force is UN utilized in the poor countries. The high population growth rates will continue to exacerbate the problem of unemployment and underemployment. This may lead to more rural and urban migration and international emigration.

5. Dependency in Agriculture

In the third world more than 80% of the population depends on agriculture as compared to only 10% in the developed countries that are engaged in commercial agriculture. The greatest labour force is engaged agriculture where the agricultural share is about 20 % of the Gross national Product (GNP). Agriculture earns about 75% of the foreign exports as compared to 8% in the rich countries. Primary products account to about 95% of all exports as compared to secondary products with about 5%. Most countries in the third world depend on export and the production of cash crops at the expense of food crops, which make them vulnerable to famines.

6. Dominance, Dependency and Vulnerability to International Relations

In the third world, the present poverty for many can be attributed to the low levels of living, rising unemployment and growing income inequalities. This on the other hand has been attributed to the high unequal distribution of economic and political powers between the rich and the poor countries. E.g. the control of the world trade and business, technology, private capital, the transfer of values, attitudes, political, educational and administrative institutions into the third world based on the modernization concept. These and many others have made many third world countries unable to act independently and vulnerable to international economic, social and political relations.

Although the poor countries of the third world share common features, in some cases they tend to show some degree of differences from one another. They should not in any case be regarded as a homogenous block. Mabogunje (1980) has noted three variations or differences within third world countries – Population, natural resources, Levels of Development.

Common Problems/Features of Rural Backwardness in the LDCs

• Dependence on Exports of Primary Goods

The primary and agricultural products are the main exports of these countries. In the international trade for example developing countries exports raw materials/products such as rice, cotton yarn, fish and garments etc. which forms the basis of their foreign exchange.

• Capital Deficiency

The deficiency of capital is an important feature of developing countries like South Sudan where there are delays in payment of salaries and other dues to state officials leave alone implementing planned development projects. Therefore, they are often called capital poor economies. The shortage of capital is reflected in the very low capital labour ratio in these countries.

• Over Dependence on Agriculture

More than 85% of the population in in the LDCs including South Sudan is living in villages depending entirely on agriculture. Subsistence or back-ward agriculture is the major occupation of the population. Agriculture sector is back ward due to old and traditional methods of cultivation. In-efficient farmers, lack of credit facilities, unorganized agriculture market etc.

• Natural Resources

Mostly there is shortage of processed natural resources in developing nations and this is also a cause of their economic backwardness. In various poor countries natural resources are available but they remain un- utilized under-utilized and miss- utilized due to capital shortage, less efficiency of labour, lack of skills and knowledge and limited home market.

• Out Flow of Best Brain

The brilliant and brightest students of developing countries go to developed countries for higher education. After completing their education, they do not want to come back in their own country due to un-satisfaction with low salaries and material comforts. Therefore, they remain in search of better jobs in foreign countries.

• Market Imperfections

The market imperfections are found in developing countries. It is due to imperfection of markets, the productive efficiency in these countries is low and resources are misallocated.

• Inflation

High rate of inflation in poor nations causes economic backwardness. Due to high level of price, purchasing power and saving of the consumers tend to decrease. It is estimated that the rate of inflation is 200% in 2016 in most African countries including South Sudan.

• Control of Government

In poor countries, wealthy persons, landlords and elite class not only control the government but also they have full control over all the major sectors of the economy. This rich class is not interested to solve the problems of the poor for their welfare but make government policies for their own improvement.

• Capital Formation

In developing countries the per capita income is very low as compared to the developed countries. So their savings and investments are also low. Due to low savings and investments capital formation rate is also low. Per capital income of South Sudan can be estimated at \$300 but it is more than \$24000 in developed countries.

• High Degree of Illiteracy

The illiteracy rate is high in developing countries as compared to developed countries. The illiterate persons do not know the importance of economic development. South Sudan literacy rate for example is estimated at 27% while in advanced countries it is near to 100%.

• **Agricultural & Industrial Backwardness**

Agricultural & Industrial sectors of developing countries are backward. A country like South Sudan depends mostly on Agricultural sector. The agricultural sector is contributing 20% of GDP in 2009-10. Due to low investment and improper utilization capital and the industrial sector is also backward.

• **Rapid Population Growth**

A rapidly increasing population growth rate is a one common feature of the developing countries (2.4 in South Sudan), despite of the diversity that exist in size, density and age structure. An increasing population growth rate adds to low per capita income and low rate of capital formation and there is no marked improvement in the living standards of masses. The death rate has slightly fallen due to advance in medical sciences but birth rate does not yet show any significant decline.

• **Agriculture, the Main Occupation**

Most under developed countries are predominantly agricultural. A great majority of the population is engaged in agriculture and allied occupations. This excessive dependence is due to the fact that non-agricultural occupations have not grown at a rate compared with the increase in population.

Hence, the growing labour force has to be absorbed in agriculture sector.

• **Consumption Pattern**

The low level of earnings of the people is reflected in their low level of living in developing countries. The major portion of their income is spent on basic necessities of life i.e. food, fruits, meat, eggs, milk etc. The proportion of expenditure on housing and clothing is very small and general poverty is reflected in their lives.

• **Technical Backwardness**

Under developed countries are also in the backward state of technology which is reflected in highcost of production, high labour output and capital output rates, general low productivity, unskilled and untrained workers, thus, it may be pointed out that technological backwardness is not only the cause of economic backwardness but it is also the result of it.

• **External Resources Dependence**

The international trade, political activities and other economic activities are under the influence of other advanced countries in less developed countries. Their development plans are financed by the loans giving countries: these plans are made to serve the interests of foreign countries. So, poor nations are loans and grants receiving nations.

• **Rate Collection**

The developing countries do not have such a huge capital or investment that they can produce large numbers of basic needs of life. Rate of production is also low in developing countries. It is due to this poor rate collection in the country cannot generate capital for investment and development.

• **Inadequate Infrastructure**

To enhance the process of economic development, proper infrastructure is needed which is not available in poor economies. In these nations: roads, transport, telecommunication, sanitation, health and education facilities are not at their best level. Government reserves huge amount of money to develop the infrastructure but all goes to unscrupulous corrupt officials in the state bureaucracy and financing the military to curb the persistent resurgences of civil wars.

• **Social Aspects**

Under developed countries have also some factors such as joint family system, cast system, cultural and religious views, beliefs and values that badly affect their economic development. 22% population is working population and remaining 78% population is depending on them in South Sudan.

• **Trade Deficit**

Undeveloped countries usually exports raw material but import finished goods. The price of raw material is low but the price of finished goods is high. So, balance of payment is unfavorable. In South Sudan for example, deficit balance of trade is in millions of pounds.

• **Influence of Feudal Lords**

In lower developed nations, the poor class is under the influence of feudal lords and tribal heads. The feudal lords want to keep the people backward and do not appreciate the development of the poor. About 50.8% poor borrow from land lords and 57.4% poor are working for feudal lords without wages in most developing countries.

• **Circle of poverty**

The main cause of under developed countries remaining poor and under developed is that they are caught up in the vicious circle of poverty. It is because their per capita income is low, low saving and investment, lack of capital, low purchasing power, and low productivity, thus the vicious circle is completed and a country remain poor because it is poor.

Barriers/Obstacles to Economic Growth and Economic Development

There are a range of barriers to Economic Development. We shall briefly shed light on some of crucial ones that impede economic development in the developing countries. They are the Millennium Development Goals:

- Insufficient provision of education
- Insufficient health care systems

- Lack or weak infrastructure
- Weak institutional framework
- Ineffective tax structure and formal and informal markets
- Political instability and corruption
- Unequal distribution of income

1. INSUFFICIENT PROVISION OF EDUCATION

One of the Millennium Development Goals is to ensure that by 2015, children everywhere will be able to complete a full course of primary schooling.

- While progress has been made in the provision of education, particularly primary education, there are still about 115 million children of primary school age who do not attend primary school, based on reports from 2005.
- 80% of these children are in Africa or southern Asia.
- At the most basic level, the provision of education requires vast funding and this simply may not be available in sufficient quantities
- Within a country there may be large disparities between the provisions of education, with urban areas receiving more of the education funds than rural areas.
- There are also family economic conditions that prevent children from attending school: they may be needed to work within the home or farm, or they may be involved in external work as “*Child labourers*”
- For most part it is children from poor households and from families where the mothers received no formal education, who do not attend school.
- Enrolment in secondary schools tends to be far lower than primary schools, with the necessity of earning an income, the greatest obstacle to attending school.

2. Insufficient Health Care Systems

- There has been much progress made by many developing countries in terms of the training of doctors and nurses and the building of hospitals and clinics, and the provision of public health services such as access to safe water in most countries.
- Throughout the world, infant mortality rates have fallen and more children are immunized than ever before
- However, there are still significant shortcomings, especially among low income countries.

3. Lack of Infrastructure

- One of the greatest drawbacks for developing countries is their lack of infrastructure, which is essential for growth.
- The lack of any of these facilities will harm the ability to achieve economic growth.
- If goods cannot be transported from one area of the country to another because of poor roads, or from one area of the country to a Seaport, then trade and growth is restricted.
- If power supplies are intermittent and unreliable then production is harmed.
- If communication channels are poor or non-existent the ability to coordinate economic activity is severely limited.
- Lack of infrastructure also hinders development prospects
- Poor roads or public transport means that it might be difficult to get to school to obtain an education
- An underdeveloped radio and television network can make it difficult for people to find and participate in wider communities.
- The availability of gas and electricity is important to households for activities such as cooking and food preservation, while sanitation and safe water are vital for health to improve.

4. A) Weak Institutional Framework (The Legal System)

- In many developing countries, the legal system does not function well.
- Where this is the case, then there is no way to uphold property rights.
- Social scientists consider property rights to be essentially a “*basket*” of legal rights.

Essential Legal rights include:

- The right to own assets, such as land or buildings
- The right to establish the use of our assets, such as adding to the building
- The right to benefit from our assets, such as renting out our assets
- The right to sell our assets
- The right to exclude others from using or taking over our assets.
- The property rights allow people to own and benefit from private property, so long as the law supports them.
- If a person cannot guarantee his her ownership of a property, then there is no incentive to improve that property, since it is possible that the property could be lost and the investment will have been wasted
- If there is no enforcement property rights, as is the case in many developing countries, then investment and growth will be very much reduced.

4. B) Weak Institutional Framework (The Financial System)

- Developed and independent financial institutions are essential if economic growth is to be achieved, and these are often underprovided in developing countries.
- Most developing countries have dual financial markets

- The official markets are small and tend to be dominated by foreign commercial banks who often have an outward looking emphasis to their operations and restrict their lending to foreign businesses and the already established large manufacturing local business.
- The unofficial markets are not legally controlled
- Their main operation is to lend money, usually at very high interest rates, to those who are desperate and poor enough to have to borrow it.
- Savings are necessary to make funds available for investment and investment is necessary for economic growth
- Savings is difficult enough in countries where there are high levels of poverty, but it is even harder if there is nowhere to save money that is safe and will give a good return.
- Where there are weak or untrustworthy financial institutions, people with investment income tend to buy assets, such as livestock or invest their money outside the country (*Capital Flight*).
- Financial services are necessary if low income people are to be able to manage their assets and to allow them to increase in value
- The difficulties associated with saving and borrowing money are a significant barrier to economic growth and development.
- It makes it exceedingly difficult for low income people to raise themselves out of poverty

5. Ineffective Tax Structures

- Tax revenues provide governments with the means to finance necessary public services, such as education and health care, and to generally improve the infrastructure of the country.
- However, this is very difficult to do if governments do not receive a great deal of tax revenue.
- It is very difficult for governments to collect tax revenue in developing countries
- As a result of *tax exemptions* and inefficient or *corrupt administration*, it is estimated that less than 3% of the population in developing countries pay income tax, as opposed to the 60-80% in developed countries.
- Corporate tax revenues tend to be low, since there is relatively little corporate activity in developing countries (although it is growing) and developing countries often offer large tax incentives in order to attract FDI
- The main source of tax revenue in developing countries is export, import and excise (customs) duties. These taxes are relatively easy to collect as they are paid when the goods pass through the country's border points. However, it is only possible to gain significant tax revenue if the country is heavily involved in foreign trade.
- **Tax Systems:** Developing countries have problems with the administration of their tax systems in terms of inefficiency, lack of information and corruption.
- These elements when combined often mean that people are able to evade paying taxes that they owe.

6. Formal and Informal Markets

- The size of informal markets as a percentage of GDP in developing countries is far greater than in developed countries.
- It would also appear that informal markets are growing in almost all countries in the world
- Large informal markets once again lead to much lower tax revenues for governments in developing countries.
- If the incomes of people are not recorded because they are earned on informal markets, then there will be no tax paid on such income.
- Lower tax revenues make it difficult for governments to promote growth and achieve development objectives.
- Furthermore workers tend to be unprotected in the informal markets and very poorly paid with little job security, poor working conditions and no social care.
- Productivity in the informal markets also tends to be very low, workers are often low-skilled migrants from rural areas, with little education and low human capital

7. Political Instability

- Political instability causes uncertainty and, at its most extreme, complete economic breakdown.
- *Sudan in Africa is a relevant case.* Civil wars from 1955 to 1972 and from 1983 to 2005, together with ongoing conflict in the western region of Darfur, the Blue Nile and South Kordofan have caused significant loss of life and displacement of the population.
- Such extreme political instability is likely to lead to very poor economic performance, high levels of poverty and low standards of living.
- The likelihood of attracting foreign investment or even aid becomes much smaller.
- A number of developing countries are experiencing civil wars as a result of ethnic and or religious conflict or border conflict.
- The loss of life, damage to infrastructure, loss of investment and sometimes aid, has undoubtedly affected economic growth and development in these countries.

8. Corruption

- Corruption is defined here as the dishonest exploitation of power for personal gain.

It tends to be most prevalent where:

- Governments are not accountable to the people, especially military governments
- Governments spend large amounts on large scale capital investment projects.

- Official accounting practices are not well formulated or controlled
- Government officials are not well paid
- Political elections are not well controlled or are non-existent – there is no democracy
- The legal structure is weak
- Freedom of speech is lacking.

Different Types of Corruption

- There are many different forms of corruption including bribery, extortion, fraud, patronage and nepotism
- The effects of corruption are likely to hinder growth and development with a number of causative factors.

Effects of Corruption

- ***Electoral corruption (Rigging of elections)*** means that the wishes of the people are not heeded to. This will put a government in place that has not been voted for by the majority. It is likely that such a government will not adopt policies to benefit the electorate.
- Corruption of any sort ***reduces the effectiveness of the legal system***. If people can buy their way out of prisons or punishment these may be an incentive to act illegally.
- Corruption leads to an ***unfair allocation of resources***. If contracts go to the highest bidder, as opposed to the most efficient producer, then there is market failure and resources are being misallocated. It often sustains inefficient producers by shielding them from competition.
- ***Bribes increase the costs for businesses***, in cash terms and in terms of management negotiation terms. This invariably leads to higher prices.
- ***Corruption reduces trust*** in an economy. As a result countries may find it harder to attract foreign investment, which is often diverted to less corrupt countries.
- Corruption ***increases the risks of contracts not being honoured*** and this, in turn, acts as a serious deterrent to investment, both internal and external.
- Corruption means that ***officials will often divert public investment into capital projects where bribes are more likely***. This reduces the quality of government services for the population.
- Corruption often means that ***officials turn a blind eye to regulations***, such as those regarding construction or the environment. They can have a damaging effect on individuals and the country as a whole.
- The ***monetary gains from corruption are often moved out of the country***. This is a form of capital flight and it reduces the capital available for internal benefits.
- The costs ***paying of small bribes reduce the economic well-being of the ordinary citizen***.

9. Unequal Distribution of Income

- Although every country in the world has income inequality, it is fair to say that the gap between rich and poor in developing countries is generally greater than in developed countries.

High income inequality can be a barrier to growth for a number of reasons.

- First, there tend to be low levels of saving, because the poor save a very small proportion of their income.
- Low saving means low investment and so low growth.
- The rich tend to dominate both politics and the economy.
- This tends to mean that policies are followed which are more in their favour and so we do not have pro-poor growth.

Pro-Poor Growth

- Pro-poor growth occurs when economic growth leads to a fall in some agreed measure of poverty.
- High income inequality in developing countries tends to be marked by the rich moving large amounts of funds out of the economy (Capital Flight).
- Also a large proportion of the goods purchased by the rich are foreign-produced and so their consumption does not help the domestic economy.

10. International Trade Barriers (Overdependence on Primary Products)

- While the share of manufactured goods produced by developing countries as a percentage of total world trade is growing, a number of developing countries are dependent on primary commodities for a significant share of their export revenues.

Rising Commodity Prices

- When commodity prices are rising, this may be beneficial to these countries.
- It will increase their rate of economic growth and if the revenues are used to finance spending on education, health care and infrastructure this can set off a positive cycle in terms of development and future growth.

Falling Commodity Prices

- If prices fall then the economies experience deteriorating terms of trade.
- Current accounts deficits will increase and it will be very difficult for countries to finance current expenditure and the necessary imports.
- Unless they can change the pattern of their export trade, those countries that are dependent on a narrow range of primary products will find it difficult to gain much growth through international trade.

A Narrow Range of Exports (A Danger for Developing Countries)

- Regardless of the types of goods exported – commodities, manufactured goods or services like tourism, if a country is dependent on a narrow range of exports, then it faces great vulnerability and uncertainty.
- For example Economic Growth in a tropical country that is reliant on tourism revenues will be limited if the global tourist trade is damaged as a result of terrorism. It is also vulnerable to other factors outside of its control such as tsunamis and other environmental factors.
- Countries that were dependent on the export of a small range of low-skilled manufactured goods including textiles were damaged when china joined WTO and sharply increased the supply on textiles on world markets, driving down their prices.

Protectionism in International Trade

- Protectionism is any economic policy that is aimed at supporting domestic producers at the expense of foreign producers.
- Protectionist measures by developed countries against the exports of developing countries may be harmful.
- If measures prevent developing countries from utilizing their comparative advantages and exporting to developed countries, then developing countries will be limited in their ability to earn foreign exchange.
- Protectionism in any market is damaging for developing countries, but it is especially the case in primary product markets. A case study in the US cotton farmers: 25,000 cotton farmers in the US share almost \$4 billion in government subsidies every year. This encourages the farmers to produce more, forcing down the world price and exporting their surplus to developing countries that do not have the benefits of subsidies. This is immensely damaging for the developing countries producers. The US does the same with maize, rice and dairy products.
- Another case example is EU farmers who overproduce and export sugar, cereals and dairy products, lowering world prices and damaging markets and local suppliers in developing countries. As these products are sold at lower prices than would be the case without subsidies, it is argued that they are “*dumped*” in foreign markets. As a result small-scale farmers in developing countries are effectively deprived of their ability to earn a living, which is clearly a significant barrier to development. According to Oxfam, the rich worlds spend \$1billion a day subsidizing its agricultural industries.

Tariff Escalation

- Many developed countries engage in a policy of tariff escalation – the more a good is processed (from a developing country) the greater the increase in the tariff rate.
- An importing country therefore protects its processing and manufacturing industries by putting lower tariffs on imports of raw materials and components and higher tariffs on processed and finished products.
- Tariff escalation creates a significant problem for developing countries in terms of their access to markets
- There is little incentive to diversify away from producing raw materials, as higher tariffs will make their processed goods uncompetitive.
- Effectively it can trap them as suppliers of raw materials.
- Tariff escalation is widely observed in the agricultural markets of meat, sugar, fruit, coffee, cocoa and tobacco.

International Financial Barriers (Indebtedness)

- Indebtedness is a major barrier to growth and development for many developing countries.
- Third world debt as it has been known and the huge annual repayments are a massive problem for many developing countries.

International Financial Barriers (Capital Flight)

- Capital Flight occurs when money and other assets flow out of a country to seek a “*safe haven*” in another country.
- Developing countries have suffered greatly from this process ever since the 1970s.
- There are three main causes of Capital Flight – a) Questions about the *Safety of domestic financial institutions*, b) *Corruption*, c) *Currency instability*
- ***Questions about the Safety of Domestic Financial Institutions:*** If citizens within a country do not feel that their capital would be safe in the financial institutions within that country, then they will move it out of the country to somewhere that is more reliable.
- ***Questions about Corruption:*** Corruption in government leads to siphoning off of funds. This includes both domestic funds and investment from abroad and then the removal of those funds out of the country numbered accounts in other countries.
- ***Questions about Currency Instability:*** Currency instability encourages citizens to move money out of a country and into a more stable economy with a more stable currency.

International Financial Barriers- Capital Flight (Multi-National Corporations MNCs)

- Some argue that repatriation of profits by MNCs constitutes another form of capital flight.
- The money sent out by the companies is money that cannot be used internally.

International Financial Barriers – Capital Flight (The impact on developing countries)

- If money is outside the country, then it cannot be used internally to develop the country
- If money is outside the country, it cannot be taxed and so the government *loses potential tax revenues*.
- Capital flight *reduces the ability of governments to pay decent wages to employees*, which in turn forces employees to turn to corruption and bribe-taking.

- Increase in Capital Flight lead to *greater levels of poverty*, which may lead to more social unrest and political instability.
- It can be argued that developing countries lose more resources through capital flight than they do through debt repayment.
- Capital flight research of Sub-Saharan African countries between 1970 and 1996, concluded that Africa was a net creditor with the rest of the world because the value of the accumulated assets held outside Africa through capital flight was greater than the total value of external debt.

International Financial Barriers (Human Capital Flight – Brain Drain)

- Another form of capital flight is human capital flight, often known as “brain drain”. This is the emigration of educated and talented individuals from one country to another
- The individuals usually leave in order to seek better employment opportunities and higher standards of living.
- This is typically found in professions where a University education is required.
- Emigration is sometimes forced by domestic unrest, lack of domestic opportunities or health and safety hazards.
- E.g. Iraq and Iran have suffered from human capital flight because of their political instability.
- Human capital flight represents an investment in higher education that will bring no return to the country where the education was funded.
- It also means valuable personnel are not available within a country to promote its growth or development and this result in less tax revenue to the home government.
- In terms of remittances, while human capital flight has a number of disadvantages for LDCs, people who leave developing countries to work abroad often send money back in the form of remittances. Such remittances can greatly help/benefit the families who receive the money.

International Financial Barriers (Non-Convertible Currencies)

- Many developing countries have non-convertible currencies.
- These can only be used domestically and not accepted for exchange on the foreign exchange markets.
- Many developing countries operate a fixed exchange rate system, where the domestic currency is pegged to the US dollar.
- Non-Convertibility means that trade is less likely to occur.
- Traders would be taking more of a risk dealing in non-convertible currency and are likely to go elsewhere to conduct their business. The same is true of foreign investment.

International Financial Barriers – Non-convertible Currencies (Over valued Currencies)

- Non-convertible currencies are often overvalues at their official, pegged, exchange rate.
- This will usually mean that a black market for the convertible currency will rise and this may be very damaging for the economy.

12. Social and Cultural Barriers (Sex Issues)

- Certain cultures disapprove of discussing matters relating to sex especially with the young.
- This may lead to a lack of appropriate advice in countries where HIV/AIDS is reaching epidemic proportions.
- There is no doubt that in many developing countries, especially in Africa HIV/AIDS is a very significant barrier to growth and development.

Social and Cultural Barriers (Role of Women in Society)

- In the LDCs that rank from 100 to 177 on the HDI women generally have lower literacy rates than men, spend less time in school and their annual income is lower than men, often substantially lower.
- In many societies, religious, social and cultural traditions have combined to make the role of women very difficult to that of men.
- Typically they are to marry, raise children, work in the home and cultivate family plots of land.

Social and Cultural Barriers (Women and Education)

- The deprivation of education is a barrier to development for women and the loss of the freedom to seek employment outside of the family is another.
- It has been argued that the greatest untapped resource in the world is women.
- For this reason, many non-governmental organizations (NGOs) focus on women as a priority for development.
- Increasing the number of illiterate, educated women will also expand the labor force in a country, allowing its potential output to increase.

13. Poverty Trap and Poverty Cycle (Relative Poverty)

- Relative poverty is comparative.
- A person is said to be in relative poverty, if they do not reach some specified level of income. E.g.: A poverty level of 50% of average earnings may be set in a country and anyone who earns less than this figure would be deemed to be in relatively poor.
- The level of relative poverty in a country will depend upon where the specified level of income is set and this in turn will depend upon who is setting it.

Poverty Trap and Poverty Cycle (Relative Poverty)

- The government in a country would not like to see high levels of relative poverty in the media and so it may set the level at 40% of average earnings.
- The opposition party may wish to embarrass the government and may set the level at 60% of average earnings.
- The whole concept is relative.

Poverty Trap and Poverty Cycle (Absolute Poverty)

- The level of absolute poverty is measured in terms of the basic necessities for survival and is the amount a person needs to have in order to be able to live.
- It is the level of income that is sufficient to buy items such as basic clothing, food and shelter.
- This enables us to make comparison across the world, but for this to be possible, it is necessary to use the PPP exchange rate.

Poverty Trap and Poverty Cycle (World Bank Poverty Line)

- The World Bank uses an absolute poverty line of US\$ 1 per day, calculated using PPP exchange rates.
- If a person is below this level, they are considered to be in absolute poverty.
- The World Bank has also issued figures for US\$ 2 per day.

Poverty Trap and Poverty Cycle (Poverty Trap)

- Many barriers to growth and development are often connected in a cyclical fashion, which means that countries may be caught in a poverty trap.
- A poverty trap is any linked combination of barriers to growth and development that forms a circle, thus self-perpetuating unless the cycle can be broken.
- These traps can be illustrated by the use of a poverty cycle, also sometimes known as a development trap