**Reducing disparities**

* Discuss the different ways in which disparities can be reduced with an emphasis on trade and market access, debt relief, aid and remittances. Evaluate the effectiveness of strategies designed to reduce disparities.

Theories to reduce the Development Gap:

Neo-liberal economic theory:

Approach developed in the late 20th century and supported especially by Ronald Reagan and Margaret Thatcher (UK).

Main points of this theory included:

* Abolishing tariff barriers and thus encouraging international trade
* Privatisation and making markets unrestricted

Supporters argue that the emergence of NIC’s has been the consequence of this free market development.

Countries that can attract enough foreign direct investment can increase economic activities and set off cumulative causation, which spreads to peripheral areas.

Marxist and populist approaches:

Criticism to the free market idea are that only a little number of countries developed into NIC’s and for most developing nations, the development gap has widened. Also, free markets can be destructible to vulnerable economies of poor countries.

Their ideas are to involve NGO’s to maximize development of their funding resources, putting emphasis on sustainability.

Trade and Investment:

Investment in form of FDI is key to increased trade and economic growth. This process of globalization caused the emergence of NIC’s.

NIC’s were the consequence of TNC’s searching for countries with a cheap workforce but development in terms of infrastructure and skill.

As these countries developed, wages increased and companies and first generation NIC’s searched for second-generation NIC’s.

With time, this process included third generation NIC’s, explaining the rapid growth of China and India, and now other previously least developed countries follow.

However, many non-globalising countries, especially in Africa, this process has not occurred and trade has fallen. Many argue that increased trade would benefit these countries far more than any other form of aid. However, these countries will only benefit from such trade if it is made fair for the developing countries.

**Terms of trade:** The price of a nation’s exports relative to the price of its imports and the changes that take place over time.

Many poor nations are primary product dependent, meaning that they rely on a small number of primary products such as raw materials. These primary products generally have a very low price and are instable, making it difficult to escape poverty, as high price imports have to be made.

Due to the disadvantageous terms of trade for poor countries, they often have a high **trade deficit**.

While neo-liberal economists believe that this is simply related to stages in economic development, Marxist and populist critics argue that trade deficits restrain growth in the developing world and produce a high level of dependency through debt.

The **fair trade** system is growing and could help improve the terms of trade by making trade fairer for developing countries. Fair trade includes:

* Small-scale producers that group and form democratic associations with high social and environmental standards
* These companies directly trade with countries in developed nations
* Developed country companies pay more for the product and help producers out of poverty

Regional trade agreements:

Trading blocs consisting of several nations trading together increasingly. Most notable ones are the EU (European Union, NAFTA (North America) and ASEAN (Asia).

Problems with this system include:

* The trade union might channel trade and create barriers against other regions (sole trading in between trading bloc) - Protectionism
* Regional trade rules may complicate the establishment of global regulations

Now, these 3 trade-blocs account for 67% global trade, excluding others.

Aid:

Aid is assistance in the form of grants or loans below market rates.

Most developing countries have been keen on accepting foreign aid because they often lack money to pay for essential investment into their country or resources needed for development.

International aid can be:

Voluntary aid: NGO’s or charities collecting money from individuals. An increasing amount of government money goes to NGO’s due to their expertise in efficiently running aid

Official government aid: Aid flowing to places that nations decide

Official government aid can be divided into:

Bilateral aid: Given directly from one country to another

Multilateral aid: Aid provided by many countries and organized by an international body, such as the UN

Aid supplied to poor countries is either:

Short-term emergency aid to cope with unexpected disasters

Long-term development aid directed towards continuous development

Critics of international aid argue that:

* Aid rarely reaches the people most in need
* A significant proportion of foreign aid is tied to advantages such as purchases of goods and services from the donor country
* Aid can create a culture of dependency

Due to these problems, an increasing amount of governmental aid goes to NGO’s, which direct aid towards sustainable development and involve local people in decision-making and development.

Effectiveness of aid is becoming increasingly important, rather than the amount of aid. Many criticize the traditional top-down approach, which is capital-intensive but can worsen the situation of the poorest. Bottom-up strategies have shown to be increasingly effective, including actions like:

* Strengthening local communities and democracy
* Encouraging local decision-making and local help for projects
* Intervening for gender equality

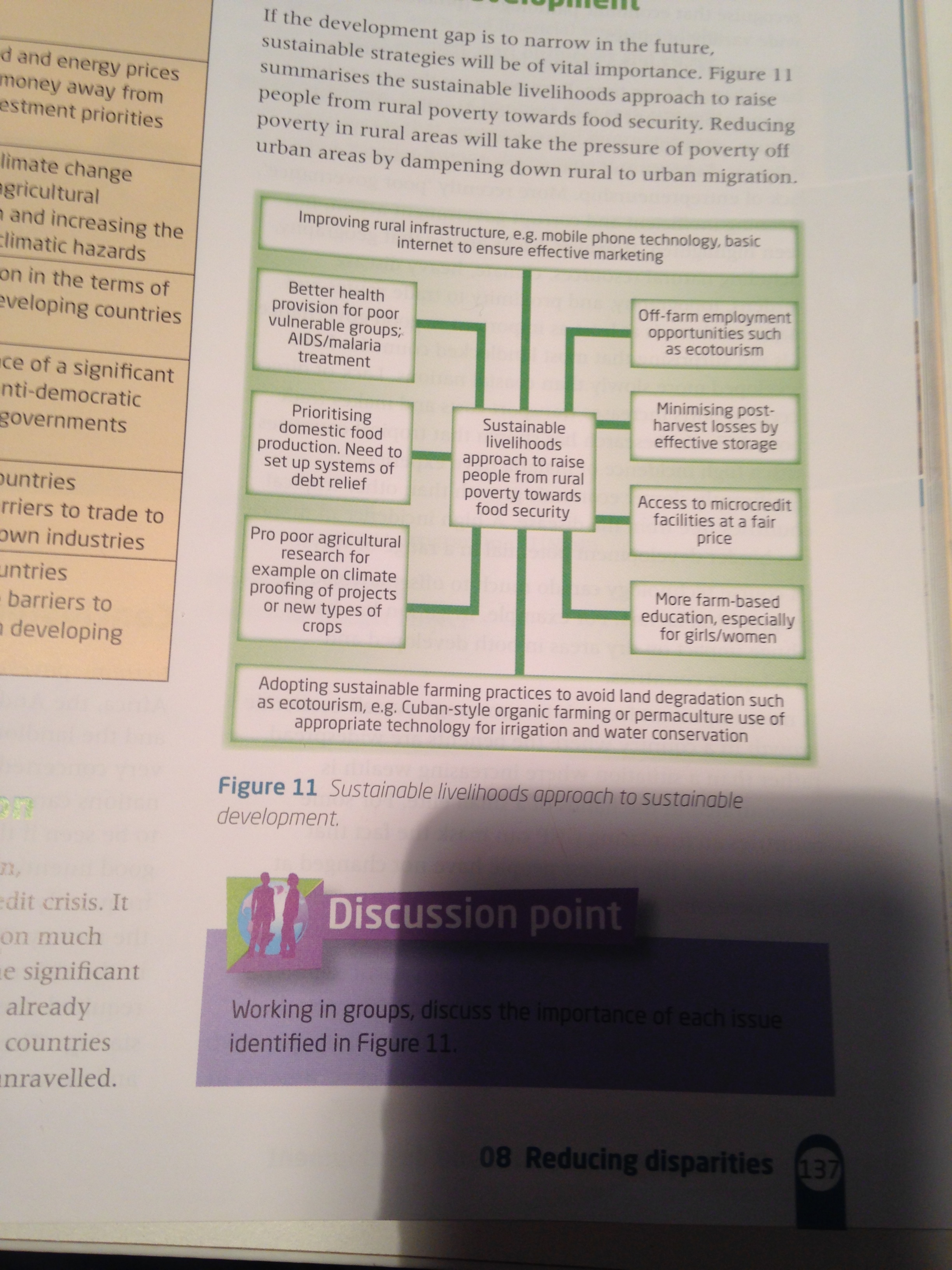
Another problem is that At the UN General Assembly in 1970 rich donor governments promised to spend 0.7% of GDP on international aid. But this term has been failed to meet by many countries.

**Remittances** have also become an important source of income for many developing countries, enabling development in small communities.

Debt relief:

Many developing nations are building up increasing debts, also due to interest payments to other nations. Debt relief is a possibility other than economic growth through trade.

Heavily Indebted Poor Countries (HIPC) Initiative: Established in 1966 by the IMF and the World Bank, aiming to provide debt reduction for LDC’s. To qualify for assistance, countries have to pursue IMF and World Bank supported adjustment and reform programs.



Microcredit and social business:

Tiny loans and financial services are called **microcredits**. They are meant to help the poor, mostly women, escape poverty through a small start capital.

**Social business** is a form of business that seek to profit from investments that generate social improvements and serve a broader human development purpose.

Sustainable Development:

If the development gap in the future will narrow, sustainable strategies will be vital. Reducing poverty in rural areas sustainably will reduce the pressures of rural to urban migration from urban areas.

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| --- | --- |
| **Factors encouraging future development in developing countries** | **Factors hindering future development in developing countries** |
| Developed countries as a whole increasing international aid to the 0.7% of GDP agreed in 1970 | Declining international aid in real terms |
| Reform of the WTO to allow developing countries greater access to the benefits of world trade | High food and energy prices drawing money away from other investment priorities |
| Reform of World Bank/IMF policies to better fit the individual circumstances of developing countries | Adverse climate change reducing agricultural production and increased impact of climate hazards |
| The wider spread of good governance in the developing world | Deterioration in the terms of trade for developing countries |
| Significant technological advances in agriculture to bring food security to more people | The existence of a significant number of anti-democratic and corrupt governments |
| Increased levels of investment in developing countries from TNCs | Developed countries increasing barriers to trade to protect their own industries |
| A reduction in the barriers to migration from developing countries to developed countries | Developed countries increasing the barriers to migration from developing countries |

Conclusion:

Extreme poverty remains concentrated in Sub-Saharan Africa and the landlocked nations of Central Asia. Only concentrated and well-targeted efforts by more affluent nations can significantly change this situation.