

**Summary**

**Chapter 10: Dilemmas of Development**

*EQ: How does participation in the world economy help or hinder the economic development of poorer countries?*

* The world contains both wealthy, developed countries and developing countries, which have lower per capita GDPs and living standards than developed countries.
* Developing countries are currently located primarily in Latin America, Northern and Sub-Saharan Africa, the Middle East, and East, South, and Southeast Asia.
* Economic development is the process by which a poorer country increases its rate of growth in GDP per capita (and likely its living standards).
* Many scholars, including those of the *dependencia* school, believe that the economic hardships of many countries that used to be colonies are the direct result of the colonial legacy left behind by colonial powers.
* Many scholars also believe that a specialization in raw materials and agriculture slows development, in part because technological advances that increase worker productivity tend to occur less in these fields than in fields such as manufacturing. Additionally, over reliance on energy reserves, or the ‘oil curse’, has been associated with autocratic rule, wealthy inequality, and a lack of economic diversity and corresponding development.
* The ability of international trade to enhance economic development is an enduring question of international relations. Developing countries have used several strategies with respect to trade in seeking economic development.
  + Some seek to control the market:
    - Import-substituting industrialization is a protective policy in which a developing country seeks to bolster its domestic industry instead of trading, by providing subsidies to domestic firms and putting high tariffs and other barriers on imported goods.
    - International commodity cartels are groups of countries selling a given natural resource that band together to control the supply of a material to drive up prices and maximize revenues.
    - International commodity agreements are agreements with consumer countries sought by developing countries that seek to establish guidelines for the supply and prices of goods in order to limit fluctuations.
  + Others accept the market and seek to take advantage of it:
    - Export-led growth is a strategy in which a country grants preferential access to credit and foreign currency to firms producing for export markets rather than for domestic markets. This strategy has worked well for many of the now-wealthy states of East Asia.
    - Many states have sought to band together to push for better trade terms with developed countries.
* International financial flows are also an important factor in development.
  + Official financial flows are loans and aid from foreign countries and international institutions to foster economic development in developing countries. While these can be helpful, they are also controversial, as international loans often come in the form of tied aid and require stabilization programs that can lead to poverty traps or moral hazard.
  + Private financial flows are donations and investments from foreign individuals and firms, including foreign direct investment, international bank loans, international portfolio investments, and international bonds. Private flows are also controversial, as multinational enterprises can often have mixed impacts on developing countries, bringing in capital but driving wages and working conditions down.
* Five countries have recently emerged (or reemerged) as major global players. The BRICS, as they are known, are Brazil, Russia, India, China, and South Africa. Each has a large economy and growing global significance.