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# Factors that can be attributed to the perpetuation of poverty in the third world

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# **FACTORS THAT CAN BE ATTRIBUTED TO THE PERPETUATION OF POVERTY IN THE THIRD WORLD**

**by  
Stephen Bhagwandin ©**

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Submitted to the Committee on Undergraduate Honors of Baruch College of The City University of New York in partial fulfillment of the requirements for the degree of Bachelor of Arts in Political Science with Honors

## ACKNOWLEDGEMENTS

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My interest in the Third World is a very personal one. I grew up in a poverty dominated environment. As a result, I tried to look at the problem of poverty from the perspective of

the Third World.

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## Introduction

Poverty is usually defined as the lack of subsistence. Third World countries find themselves in the doldrums of self-perpetuating poverty. When I refer to the Third World, I am referring to the nations of Asia, Africa, Latin America, and the Caribbean which are generally characterized by a history of colonization, agricultural based economies, low per capita income, high rates of unemployment, mass illiteracy, destruction of scarce natural resources, short life expectancies, huge foreign debt, and large scale poverty. On the other hand, the First World is made up of Western industrialized democracies and Japan. The Second World includes the former Communist bloc of European nations. A major paradox has always characterized poverty in the Third World region: the potential richness of the land and the poverty of the majority of the people who work it. So the obvious question is: Why are Third World countries so poverty stricken?

To those people who have never ventured into regions of the Third World, answers to this question can come very easily. They point to the backwardness (lack of technology) of Third World nations. In Africa, they point to tribal conflicts, or to the drastic changes in the climatic conditions. Somalia and the Sudan are examples of countries these persons have in mind. In Asia, they point to ethnic and religious conflicts. India is their primary example. In Latin America, they point to the many armed struggles carried out by revolutionaries. I agree that these factors do contribute to poverty in the Third World. However, in the scheme of things, there are other important factors that must also be taken into consideration.

In the first place, there are international organizations such as the International Monetary Fund (I.M.F.) whose austerity measures have had and continue to have a devastating impact on the economies of Third World countries. Secondly, there is massive population growth and economic stagnation. The population of many Third World countries has been growing at a very fast rate while on the other hand, food production and economic growth has stagnated. This is a formula for economic disaster. Thirdly, large scale urbanization, and international migration have also contributed to poverty in the Third World. Fourthly, there are the remnants of the colonialism that has devastated the traditional way of life in many underdeveloped countries. It has left a legacy of impoverishment in the Third World. International trade is another factor that has contributed to poverty in developing countries. Unfair trade practices have led to an environment that is conducive to exploitation during trading. This is reflected by the ever increasing gap between the First World and the Third World. We also have to focus on the ineffectiveness of foreign aid given to alleviate Third World poverty. Finally, the

process of industrialization must also be focused on when considering the problem of poverty in the Third World. This is the paradigm within which I would be discussing poverty in the Third World.

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## **INTERNATIONAL MONETARY FUND (I.M.F.)**

International organizations such as the International Monetary fund (I.M.F.) must share some responsibility for the growth of poverty in the Third World. The I.M.F. came into being in the United States at Bretton Woods in 1944 (Mass. , pp.10).(1) It was an organization that was formed as a direct result of the Second World War. It was responsible for financing the development of war-torn Europe. To a very large extent, it was a success in Europe. The question applied to the Third World was would it work there too? Since most nation states of the Third World did not exist at the time the I.M.F. was conceived, the interest of the Third World were scarcely represented. As a result, it was argued that the fund would become a neocolonial instrument by which developed countries would eventually dominate developing countries. Due to this and other related factors, the I.M.F. underwent a metamorphosis so as to be effective in the Third World. Today, with less finance to intervene, due to the huge trade deficits that the United States and other large subscribers are experiencing, the I.M.F.'s main function is to provide developing countries with financial aid to cover short term gaps in their balance of payments.

There are several reasons that can be attributed to the balance of payments deficits in the Third World. The colonial legacy bequeathed to developing countries certain economic, social, and political structures which already contained the germs of 'indebted' development within them. The debt-ridden economic, financial and development policies of governments and ruling classes in developing countries have also contributed to the balance of payments deficits (D.E.C.D. , 1974, pp. 32).(2) In addition, global factors such as the price of oil, interest-rates, protectionism or recession in industrial countries are seen as reasons why Third World countries experience balance of payments deficits. (I.M.F., 1981; World Development Report).(3) The I.M.F. alleges that the debt crisis in the Third World is primarily homemade instead of arising from world market related, and/or colonial-historical causes. This means that the I.M.F. focused on internal factors as opposed to external ones. "The diagnosis of the crisis, and the therapy derived from it are based on a monetarist economic philosophy whose implementation has had dubious results even in industrial countries" (Korner, Peter.,pp.5).(4) It's ironic that the United States is experiencing a huge trade deficit, while at the same time advising other countries on how to reduce their deficits. It must be noted that the United States has a strong hold on the International Monetary Fund.

It's the intervention of the I.M.F. to correct adverse balance of payments situations that has resulted in the perpetuation of poverty in the Third World. There are several austerity measures that would have to be implemented before I.M.F. loans are approved. "The I.M.F. stabilization policies often lead to a marked deterioration in the supply of basic

material needs of the poor" (Korner, Perter., pp.138).(5) According to the International Monetary Fund, inflation is a decisive factor in balance of payments deficits,. High inflation rates in many developing countries are considered to be a result of 'excessive demand', a term which in the view of the poverty in many developing countries is contrary to rationality (Mass, Gero., pp.55).(6) In economic terms, demand is not only the desire for a good, but also the ability and willingness to pay for it. Third World people have more of a desire rather than a demand for a good. Other austerity measures, such as devaluation of wage freezes, have resulted in extensive dismissals in the public sector, restricting the volume of domestic credit, increases interest - rates, and drastically reducing the amount of subsidies for basic foodstuffs, transport, and social services. These have had devastating effects on the local economy.

Devaluation in theory is supposed to make exports cheaper and increase its demand. However, agricultural and mineral raw-materials-- the major exports of developing countries--rarely respond to the export boom hypothesized by this theory primarily because the demand is constant. A change in the national currency's rate of exchange has no impact on market prospects because it does not affect the world market prices. Market prices are always quoted in dollars or pounds sterling on the international commodity market. "At best, devaluation increases the profit margin for domestic procedures, thus giving them an incentive to increases supplies" (Seibold.,pp.131).(7)

In addition, devaluation and other foreign trade liberalization measures place developing countries on the road to a more traditional form of exports ie. raw materials. Therefore, the integration of Third World economies into the world market hinders diversification, which is the most viable option to economic development. Third World countries competing with each other on world market make it easier for developed countries to buy raw-materials at very cheap prices and reexport manufactured good: to the Third World at more profitable prices.

The I.M.F. looks at devaluation not only as a means for stimulating exports but also as a way of raising the price of imported consumer goods. This results in the reduction of domestic demand as well as the balance of payments deficits (Siebold.pp.132).(8) This assumption is based on the premise that the importation of luxury and other nonessential goods are responsible for the huge trade deficits when in reality, many Third World countries are only importing the necessities of life. Higher import prices translate into the reduction of the availability of essential goods such as wheat. Third World countries do not have the necessary financial resources to satisfy the demand for basic goods by their respective populations.

Other austerity measures such as extensive dismissals in the public sector and wage freezes have had severe repercussions in developing countries. These measures are implemented to curb inflation. By making it more difficult for people to get access to money, the I.M.F. hopes to cut back on 'excessive demand'. However, rising unemployment, in combination with wage freezes, can have serious ramifications on economies that are already at the fringes of economic catastrophe.

Many people in most of the Third World have suffered greatly from the austerity measures advocated by the International Monetary Fund (I.M.F.). There have been many riots against the policies of this renowned international institution. For example, in Peru, the austerity measures affected the living conditions of the slum dwellers so badly that more people died from malnutrition than from diseases (Giorgio. pp.12).(9) However, amidst all the turmoil, the I.M.F. is still recommending this disastrous therapy. It's time that the United States and its allies realized that the I.M.F. is an impediment to progress in the Third World.

The United States in the mid 80's finally became aware of the debt crisis in the Third World. It suddenly became clear that developed countries (lenders) and developing countries (borrowers) were caught in a debt trap. The financial collapse of a number of Third World countries sent shock waves through the international and local U.S. banking and other monetary institutions. Therefore, it is of vital importance for the United States and its allies to try to come up with a solution for the debt crisis in the Third World. By doing so, they would have a positive impact on poverty.

This brings me to my second point -- population growth and economic stagnation. What are the dynamics behind population growth and underdevelopment? How does population growth affect the level of poverty? These are a few of the questions that need to be answered before the relationship between population growth and poverty can be drawn.

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## **POPULATION GROWTH AND ECONOMIC STAGNATION**

A process that has had and continues to have an impact on the level of poverty in Third World countries is population growth. Thomas Malthus, writing at the dawn of the industrial era, saw the unemployed and poor as obstacles to development. Industrialization proved Thomas Malthus wrong. However, there are many today who hold the same views on population growth. There is no doubt in my mind that western development theorists perceive population growth as a major obstacle to economic progress in the Third World. To understand why this is so, we must first be able to understand the relationships between population growth, capitalism, economic development, and poverty.

Capitalism is a profit oriented system. In order for profits to be extracted, there must be a cheap and abundant supply of labor. The pressure exerted by a growing population against wages lowers wages so that profit increases. If population growth is smaller than the demand for labor, wages will rise. Thus labor, according to Marx, produces not just the accumulation of capital but the very means by which it is made superfluous. "The process of accumulation now solves the problem of a cheap and abundant labor supply" (Coontz.,pp.113).(10) Therefore, wages are held in check by the pressure of this surplus population.

In addition, according to Marx, to increase their income, the poor must increase their numbers. Thus while the rich can reinvest capital and get richer, the poor can only increase their wealth by reproduction. High birth rates are therefore not the cause of continued poverty; they are a consequence of it. This is why western development theorists view the uncontrolled growth of the population as a hinderance to economic prosperity in the Third World.

You might be prompted to ask why the West is not experiencing the same problems with regards to population growth. The answer is very simple. Industrialization in the West has created a demand for fewer and higher quality workers. Thus children have a negative economic impact on their parents because of the time and the expense of raising them. Education and the time spent outside of the work force can be very costly to parents. In addition, the capital produced in underdeveloped nations was invested in developed countries to mechanize industries and thus reduce the demand for labor. As a result, developed countries have moved on to computerization of the work place while Third World industries have become more labor intensive. This has led to the mobility of industries in developed countries. The movement of industries from developed countries to developing countries, to achieve more advantages from the economies of scale, is on the increase.

Lacoste, a geographer in the 60's who was trying to find a satisfactory explanation for underdevelopment in the Third World, came up with the idea of 'permanently disrupted equilibrium'. The rapid increase in population numbers, on the one hand, and a slow rate of development, on the other hand, disrupted the equilibrium between population growth and economic development to maintain such growth. As a result, this imbalance caused an increase in poverty and other symptoms associated with underdevelopment. For example, India's Gross National Product (G.N.P.) has steadily increased (1%-3%) in recent years. However, the per capita income has been on the decline. This is due to the fact that population growth and per capita income are inversely related.

In addition, Lacoste also had a thesis that the egotistical and parasitic behavior of privileged groups in the Third World must be seen as a major cause of underdevelopment in that region. It would appear that the story of poverty and underdevelopment in the Third World is essentially the story of one group exploiting another group, resulting in extreme differences in the amount of wealth accumulated. This disparity in wealth points to the fact that the ruling class in the Third World is getting rich at the expense of the poor. Therefore, the perpetuation of poverty and other social dilemmas is seen as a direct result of a privileged class exploiting the underprivileged classes.

Underdevelopment in the Third World can be attributed to the division of the world into a bipolar one. Since the end of World War Two, the world has increasingly been divided into a capitalist bloc, and a communist bloc. Each bloc has confronted each other on ideological, economic, social, political, and even on military grounds with the battle fields being found primarily in Third World countries (Hauser.,pp.27).(11) In many countries because of these conflicts, people find it very difficult to control their own

destinies and pursue their own ideologies instead of the super powers trying to impose their ideologies on weaker countries.

To do this, they resorted to covert operations (Iran-Contra) and the supply of economic aid and military hardware to support regimes that are in favor of one ideology over another. This usually results in civil wars as seen in Somalia, revolutions as seen in Cuba and Iran, and coup d'etats as seen in Haiti. Many aspects of the local economy are destroyed and people are forced to take extreme measures to survive during any one of the above mentioned situations. Now that the world is no longer a bipolar one, it is left to the United States and its allies to reverse this mistake.

The rapid growth of large families not only means more poverty, but also more malnourishment, overcrowding, an increase in health and sanitation problems, a reduction in educational opportunities, and a reduction in savings. Commercial activities are curtailed because of this reduction in savings. There is also a large demand for more employment opportunities. Natural resources have also been stretched to their limits. For example, in Ethiopia, as well as India, increased demand for farmland has led to declining soil fertility, soil erosion, and shorter fallow periods. Even the implementation of new farming techniques and the use of fertilizers could not increase yield. This means that less agricultural products are made available to a growing population that demands more.

Other natural resources are also depleted at a faster rate. This phenomenon has severe repercussions in many parts of the world, including the United States. One such example is the depletion of the Brazilian rainforest. The rapid depletion of this rainforest has been predicted to have a global impact on temperature and other environmental elements. In developed countries, where we are more environmentally conscious, we view the destruction of the rainforest as a deplorable act. However, the people who are involved in the carnage see themselves as fighting to survive in a poverty stricken part of the world that is environmentally blessed. It's hard to be environmentally conscious when one's survival is at stake.

Population growth, therefore, has to be taken into consideration when we focus on underdevelopment and poverty in Third World countries. "The prospect is that population growth will obstruct the efforts of developing nations to achieve higher standards of living. In consequence, the world is likely to experience increased social unrest, political instability and threats to peace during the remainder of this century" (Hauser.,pp.3).<sup>(12)</sup> Thus, it becomes necessary for the developed world, not only to focus on population growth but also on economic, social, and political stability in the Third World. Population growth and standard of living are inversely related. Population growth in developed countries can attest to this.

People in a growing population are forced to make certain decisions regarding migration. They usually migrate from rural areas to urban ones. In addition, those who can afford it migrate to other countries.



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## **URBANIZATION AND INTERNATIONAL MIGRATION**

The processes of urbanization and international migration have also contributed to poverty in the Third World. These processes do not occur within the confines of a vacuum. When people move, they affect both the places that they leave and the places they intend to reside in. The majority of the Third World's population live in small rural villages. However, the proportion that are living in urban areas has grown at a very rapid rate. Urban expansion in the Third World is growing at such a fast pace that it currently exceeds that of industrialized countries. It's predicted that twelve of the fifteen largest cities in the world will be located in the Third World. Only Tokyo, New York, and Los Angeles can compete with the rapid rate of urbanization in the Third World in the future. By the year 2000, Bombay is expected to have 19 million inhabitants, while Mexico City will have a population of approximately 30 million, making it the largest metropolis in the world (World Bank: World Development Report, 1984).(13)

There are several reasons that can be attributed to urbanization in both developed and developing countries. In the first place, there is the commercialization of agrarian land. Secondly, there are push factors, that is unfavorable conditions in rural areas, which encourages or even force people to leave the countryside and settle in an urban area. They include low wages, unemployment, and insufficient opportunities. Thirdly, there are pull factors such as more employment opportunities, better health educational, and recreational facilities. Fourthly, there is a certain degree of personal freedom because of population density that cannot be experienced in rural areas.

The commercialization of agrarian land by the privileged class and multinational corporations has placed an added burden on the inhabitants of rural areas. Instead of subsistence farming, farmers are forced off of their land. As a result, they journey to urban areas to fend for their livelihood. This is why the revolutionary idea of land reform was always at the forefront of the democratic struggles in Latin America. For example, in 1952, the Guatemalan government, under Arbenz, came up with an Agrarian Reform Law which declared that uncultivated land on estates over 220 acres where less than two-thirds of the estate was under cultivation was subjected to expropriation and redistribution. The law provided compensation for expropriated land, and it only affected uncultivated land.

Under this law, the Guatemalan government seized 233,973 acres of unused land owned by the United Fruit Company, a large U.S. company. The land owning class and the United Fruit Company cried out that the reform was communistic. As a result of this land reform, and a shipment of arms from Poland, on June 18, 1954, Colonel Carlos Castillo Armas, with the aid of the C.I.A. over-threw the Arbenz government (Burns.,pp.279).(14) Land reform was, and still is, a vital means whereby we can combat poverty if only we don't view it from an ideological perspective but from a human one.

Rural areas are characterized by high unemployment, low wages, and few opportunities. People are motivated to migrate by the images that are portrayed on television, and by family and friends who live in urban areas. However, expectations are crushed when they finally arrive at urban centers. They realize that they cannot afford to rent a home. Only low-paying jobs are available for migrants, so they all congregate in areas that are at the fringes of urban centers. This activity gives birth to shantytowns or slums or what we in the West call ghettos. Almost half of the Third World's urban population live in shantytowns called barradas, favelas, bidonvilles and similar squatting like residential neighborhoods in and around cities. Shantytowns are primarily set in areas not suited for urban development such as steep slopes, or near highly polluted lagoons, garbage dumps, and dirty industries. The conditions in these shantytowns are so deplorable that they are not fit for animal habitation. It's in these shantytowns that the face of poverty can be clearly seen.

Who are the faces behind this mask of human misery? They are people who are trying to make a better life for themselves and their families. Most of them have low paying jobs and are thus integrated into the urban economy. Others work in construction and service industries. However, a small proportion of adults and a very large proportion of children are found begging on street corners. Many of these children are orphans and they cope by living in gangs. They resort to begging, prostitution and child labor to survive. Many of them are addicted to cheap drugs such as glue, which is sniffed daily to drum out the pains associated with hunger.

These children represent the future generation of the Third World. What a sad state of affairs the Third World is going to be in when these children are about to accept their responsibility in society. This very disgruntled group will be asked to be a part of society when previously they were considered to be outcasts of that same society. Imagine a group of young people who is impoverished, illiterate, drug addicted and rebellious against society being asked to provide the labor and leadership for future Third World development. Third World leadership must take the plight of these children seriously.

On the international level, the trend of migration is usually from developing to developed countries. The people who migrate from the Third World are usually the ones who have a vision and a desire to change the conditions there. However, in many countries in the Third World, dictators have a firm grip on the reins of power. They use migration as a valve to regulate the pressure for social, economic, and political changes. "In general, population movements are seen as having a beneficial effect on places receiving migrants and a negative effect on places from which migrants come" (Clark.,pp.25).(15)

International migration has also given birth to a phenomenon called the "brain-drain". Most intellectuals and skilled workers find the environment of developed countries more conducive to their needs. As a result, their migration leaves a void in the Third World. Therefore, development is stagnated because there is a lack of human resources to initiate it. In addition, there is a decline in educational standards because of a lack of qualified personnel in educational institutions. There is also a decline in health and other social services.

Migration can be a very costly process. As a result, the poor and poverty stricken represent the lowest percentage of persons migrating to developed countries. Those who migrate, therefore, shrink the production possibility frontier primarily because of the assets that they take out of their respective countries. I am not saying that all migrants are well-off. I am just pointing to the fact that their wealth might be insignificant in developed countries but in developing countries it can make the difference between life and death.

Urbanization and international migration, therefore, contribute to the growth of poverty in Third World countries. Urbanization enhances the growth of poverty by perpetuating the development of shantytowns, and by encouraging the exploitation of the poor. On the other hand, international migration depletes the country of the vital economic and human resources that are needed for change and development. A combination of these two elements can be a very potent fertilizer for the roots of poverty.

Most countries in the Third World have experienced colonialism. This is one of the common traits that can be found in the history of Third World countries.

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## **COLONIALISM IN THE THIRD WORLD**

Colonialism has been increasingly identified as one of the causes of disintegration and decline in the Third World. During colonialism, the indigenous population has been exploited, while their traditional way of life, culture and self-sufficient mode of production have been destroyed. Slavery of the Indians, black slavery and indenturedship were all experienced by people in the various colonies. Marx regarded colonialism as the historical process of capitalist expansion. On the other hand, there are those who believe that colonial governments did much more for the Third World than they were given credit for. They point to the fact that railways, roads, ports, schools and hospitals were constructed by colonial governments. However, they fail to realize that these facilities were necessary to facilitate the exploitation of these regions. Poverty and underdevelopment is a direct result of colonial exploitation in the Third World regions.

Before the European powers came into existence people in different parts of the globe were existing within rigid structured societies, where their basic needs were satisfied. Many ancient civilizations in Latin America, Africa, Asia, and the Caribbean had the ability to satisfy the demands of their people, and enough to store for times of drought and famine. Today, in these same regions, people find it very difficult to provide for themselves, even with the implementation of modern agricultural techniques. This is so primarily because colonization encouraged the development of export-oriented colonies. As a result, production for local consumption was given very little thought. This situation has given rise to an increase in poverty.

Colonialism has resulted in the development of reflex economies in the Third World. Colonial economies have been called reflex economies because they react to changes in

demand by the mother country for commodities to be supplied. In addition, these colonial economies were primarily producing raw materials that were transformed into manufactured goods in imperial countries. This relationship in the reflex economy system has changed very little after independence. "This system operated crudely in the era of colonial domination and continues to operate today, though more subtle, through systems of trade, education, political relations, military alliances, and industrial corporation" (Townsend.,pp.41-42).(16)

Modern industrialization in the colonies was purposely discouraged by the mother country for the fear of competition. As a result, industries within the colonies were unable to compete with cheap imports from imperial countries. This led to the destruction of many traditional industries in the different colonies. Colonial governments encouraged the development of industries that were producing products that were needed in Europe. Industries producing products for local consumption were exposed to unfair international competition. The needs of the indigenous population were never taken into consideration. As a result, the economic organization of colonial economies perpetuated the growth of poverty in colonies primarily because of an export-oriented system rather than production for local consumption.

Colonialism often meant that there was a tendency towards direct distribution by Europeans of power in social, economic, and political institutions within their colonies. This meant that most of the power structure was controlled by Europeans. Power is the basis for all activities within human society. The relationship that we have with each other or between groups is determined by the amount of power that we have. It also implies the ability to defend one's interest and to impose one's will by any means necessary. "When one society find itself forced to relinquish power entirely to another society, then that act by itself is one of the most vicious forms of exploitation" (Rodney.,pp.224).(17) Poverty and underdevelopment also evolve when people cannot control their own destiny. Colonialism has left a legacy whose remnants can still be found in the institutions of former colonies.

The viciousness of the colonial system can be most dramatically seen in the case of economic activities which made huge profits, notably in the mining industries of Africa. Many African workers died from brutal treatment and unsafe working conditions in the mines. The profits that were made from these mines were invested in Europe, while the majority of the African people never benefited from this economic transaction. There are those who would argue that social institutions were constructed, and the country's infrastructure was developed. The question is, who benefitted from these investments? Who would benefit from a better educated and healthier work force? Who benefited from the infrastructures that were developed? If one was to look at the pattern of economic infrastructure (railways, roads, etc), one would realize that all ended down at the sea. This is so primarily because of the export--oriented trading that the colonial governments were involved in. The needs of the African people and the development of Africa were never considered when these projects were conceived.

Colonialism also destroyed the culture and way of life of the people who were living in the various colonies. The foundation of every society can be found in its culture. By destroying a culture, you inadvertently destroy a whole society. Religion is the corner stone of one's culture. When the Europeans imposed their religion on the indigenous people, they were destroying generations of religious beliefs. By breaking the spirit of the man they were able to conquer his body, which they needed for labor. Traditional societies in many colonies were based on subsistence existence. With the arrival of the Europeans, the subsistence way of life was shattered. Emphasis was now placed on production for export. This meant that a majority of the people had to work instead of doing subsistence agriculture because their lands were confiscated by colonizers. A huge amount of land was needed for large scale agriculture. Take a man away from his land and exploit his labor and eventually that man will not be able to satisfy his most basic needs.

Dramatic demographic changes also occurred as a result of colonialism. Africans were brought as slaves to the different colonies. Indians and other Asians were brought as indentured laborers. This huge influx of new people to supply the labor in the various industries in the different colonies changed the demographics of those colonies drastically. Many of the indigenous people died because of exposure to new diseases. One group prospered at the expense of other groups. Those who were able to survive the exploitation became the dominant demographic group.

There are many African Americans who would draw the analogy between colonialism and slavery and its impact on African Americans. Slavery like colonialism made a people less capable to compete in society. The economic, financial and educational resources available to white America are not available to black America. Similarly, resources available to developed countries are not available to developing countries. The common element in both situations is exploitation. On the other hand, there are those who argue that African Americans place too much of an emphasis on the experience of slavery. This is similar to the extent that Third World countries emphasize colonialism. To say that colonialism had very little effect on Third World underdevelopment is to acknowledge that Third World countries find themselves in their present predicament because of their failure to compete in the global economy. I cannot acknowledge such an argument because I recognize that colonialism had a devastating impact in Third World countries. It resulted in underdevelopment and poverty on a grand scale.

The structure of international trade has changed very little after colonies got their independence. This colonial structure of international trade is the foundation upon which modern international trade was built.

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## **INTERNATIONAL TRADE**

International trade is a hindrance to economic development in the Third World. Exchanges of goods and services between developed and developing countries will

eventually favor the former. This means that international trade can be used as an economic as well as a political weapon by developed countries against developing countries. For example, the imposition of a trade embargo against Cuba by the United States eventually resulted in the strangulation of the Cuban economy. This is the kind of leverage that international trade gives to developed countries. However, others are of the opinion that international trade is necessary for Third World development. If this is true, how do we account for the huge trade deficits of Third World countries? We know for a fact that developed countries are getting richer while developing countries are sinking deeper into an abyss of poverty. By analyzing the discriminatory practices of international trade, answers regarding the question of trade deficits will emerge.

A common view of international trade is based on principles of absolute advantage, comparative advantage, and factor abundance. In 1776, Adam Smith came up with the idea of absolute advantage. He stated that a country will export those commodities in which it has an absolute advantage. This means that countries will specialize in producing those commodities that they can manufacture at a lower cost of production when compared with other countries making those same products. When one country has absolute advantage in all of the commodities produced, then Smith's theory would rule against trading. Torrens (1815) and Ricardo (1817) took Smith's doctrine a step further by focusing on what happens when one country has absolute advantage in all lines of production. They came up with the doctrine of comparative advantage. They decided that international trade is determined more by comparative rather than absolute advantage. Heckscher (1919), Ohlin (1933), and Samuelson (1948) eventually came up with the H.O.S. model of international trade. The essence of this model states that a country will export or import those commodities which are intensive in the use of its abundant or scarce factor.

The principles behind the theory of international trade become fuzzy when other variables are added. These variables include: (a) several countries having a comparative advantage in similar products (b) the imposition of tariffs and subsidies (c) when trading blocs are set up (d) most favored nation status (e) when trading is controlled by pacts such as the General Agreement on Tariffs and Trade (G.A.T.T.). When these variables are added to the equation, they negate many of the assumptions behind the principles of international trade.

Even after colonialism, many Third World countries still have a comparative advantage in the production of raw-materials. They are not only raw-material producing countries, many also specialize in producing similar products. This makes the international market for primary products very competitive, leaving Third World countries with very low prices for their products. For example, Jamaica, Guyana and a large number of African countries compete for a share of the world's bauxite market. On the other hand, the consumers of primary products, primarily developed countries, become beneficiaries of this process. Since competition results in a lower price for bauxite, aluminum producers in the United States and other developed countries are able to produce aluminum products at a cheaper cost thus maximizing their profits.

Many of the countries involved in international trade consider the implementation of tariffs and subsidies vitally important to their local economies. In many of the Third World countries, the protection of infant industries, and the revenues derived from tariffs are the driving force behind this policy. However, subsidies can be detrimental to economic stability. Many of the subsidized infant industries can become heavily dependent on government subsidies. It might also be cheaper to import certain products rather than to produce them with the help of subsidies. Let the market forces determine the products that are to be manufactured. Subsidies can also put a strain on scarce government resources.

A new phenomenon in international trade has been the rapid development of trading blocs. The North American Free Trade Agreement, European Union, Andean Pact, Latin America Free Trade Area, Central American Common Market, and the Caribbean Free Trade Association are all trading blocs that have been developed to circumvent the problems of international trade associated with the General Agreement on Tariffs and Trade. There are also many economic benefits to be derived from an economic union. For example, members of the European Union are able to buy and sell products on a larger scale when compared with the buying and selling by an individual country in the Union. This is so because greater economies of scale can be achieved in a union. Many of the economic unions in the Third World are encountering the same hurdles that economic unions in developed countries have encountered, such as the development of a monetary policy, the problem of internal migration, and the problem of nationality. Developing countries have been unable to come up with a compromise primarily because of the question regarding sovereignty. As a result, economic unions in the Third World have been a total failure.

The Most-Favored Nation Principle (M.F.N.P.) originated in 1929. It has two aspects -- conditional and unconditional statuses. Unconditional status obligated a treaty signatory to extend to its cosignatory trade concessions granted to third countries, now, or in the future. Conditional status granted to the cosignatory opportunity to enjoy the same treatment as a third country provided that it offered the same compensation as the other country had given to obtain favored treatment. The conditional M.F.N.P. can be very discriminatory towards Third World countries primarily because they are not in a position to offer the same compensation that another country had given to obtain favored treatment. In many cases, it's only applicable to developed countries. M.F.N.P. is also used as an economic weapon to reward or punish countries that are for or against the policies of developed countries. The cornerstone of the General Agreement on Tariffs and Trade in 1947 is the extension of unconditional M.F.N.P. status to all fellow signatories.

In addition to these variables, certain changes in the international economy have also affected development in the Third World. Drucker (1986)([18](#)) points to some of these fundamental changes in the world economy. First, the primary products economy has moved away from the industrial economy. This collapse of the raw-material economy had little impact on the world's industrial economy, but it has had tremendous effects on many Third World economies which depend heavily on the exports of primary products.

Second, production has increased in the primary economy without an increase in employment, meaning that labor and wages have diminished while production has increased. This is due to increased technology and production efficiency. Finally, capital movement rather than trade has become the driving force of the world economy according to Drucker. This movement of capital reduces the international role of developing countries primarily because they do not have capital or their economies are not attractive to foreign capital. This means that international trade offers little advantage to the Third World. They are primarily producers of primary products and they have a large, cheap labor force at their disposal.

Third World countries in 1947 demanded the creation of a New International Economic Order (N.I.E.O.), based on the principles of equity, equality of all sovereign states, interdependence, common interest, and world wide cooperation (McGreevey.,pp.26).(19) It was not so much a redistribution of wealth they wanted, but a redistribution of future growth opportunities. For economic development to occur, Third World, countries must change their trading strategy. Third World countries do not need handouts from developed countries. Fair trade, not foreign aid, is what they want.

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## **FOREIGN AID**

Foreign aid is another contributor to the perpetuation of poverty in the Third World. Foreign aid can be described as the annual transfer of billions of dollars from developed countries to the Third World either directly or through international organizations. Why give foreign aid to the Third World? Well, Western leaders believe that it's their moral responsibility to reduce human misery in the Third World. They view foreign aid good for economic development, as a means of relieving poverty, and it seems as the only measure that they can take to redistribute wealth on a global basis. However, when we focus on many recipient countries after decades of aid, we find poverty to be on the increase, standards of living declining, reduction in health and other social services, and stagnated economies. This points to the fact that foreign aid is not performing the task it was conceived to do. "Aid is not manna from heaven: its receipt sets up major adverse effects which can be expected to exceed by far the necessarily very small beneficial effects" (Bauer.,pp.103).(20) It's a very paradoxical conclusion to draw since foreign aid was conceived to help and not hurt and already ailing Third World. Some of the unintended consequences of foreign aid will be discussed below.

If one was to focus on the pattern of foreign aid, one can't help but notice that a large portion of the aid has gone to and is still going to repressive dictatorships. The Pol Pot government of Kampuchea, the Shah of Iran, Nyerere of Tanzania, Ethiopia, Indonesia, Iraq, Nigeria, Pakistan, Uganda, Vietnam and Zaire are among the regimes that have received substantial amounts of foreign aid. These countries are frequent abusers of human rights. They are noted for committing numerous atrocities against their own people. Many of the dictatorships in the Third World survive because of foreign aid. A political dimension to foreign aid has evolved. Politically determined aid has been used



as an instrument to protect the interest of developed countries. Regimes opposed to Western ideals are not given aid that they need. Vietnam is a good example of this policy.

The bulk of foreign aid is in the form of grants, the rest are in loans at nominal interest rates, equipment and machineries, and free supplies of food. Most of these resources are given to the various governments who are responsible for their distribution to those who are in need. Since their usage is not supervised by donor countries, there is no accountability. Western tax dollars are given to foreign governments without any accountability. In the United States, for example, grants in aid require recipient states to follow strict accounting guidelines. States that do not give proper accountability lose out on grants., Why not hold Third World governments to these same standards, despite the tired claim of compromised sovereignty? Most Americans would probably oppose the use of their tax dollars to prop-up dictators. A prerequisite to foreign aid should be accountability. Without it, the expoused goals of foreign aid will never be realized.

Without accountability, a government can strengthen its grip on the population by rewarding supporters and punishing opponents with resources gained from foreign aid. Third World regimes have become more powerful arbiters of economic power within their countries. Visions of their version of development are initiated. Political survival has become the driving force behind most development policies implemented. They are often held hostage for political gains. Many risky projects are initiated with foreign aid. One only has to travel around any third World country for a glimpse of many pet projects that have been abandoned. The aid in most cases does not serve the purpose that it was intended to serve.

Many of the Third World countries have become more dependent on foreign aid. Direct aid in the form of grants, nominal interest rates loans, equipment and technology to the public sector is understandable. However, free food for long periods of time is counter productive. Nations can become too dependent on foreign food for their survival. As a result, their capacity to provide for themselves diminishes. Noteworthy exceptions are crises arising from war, natural disasters, etc. But when a nation can no longer feed its people, then its economic policies are not working. There is no economic reason why many of the countries in the Third World, with abundant natural resources, cannot provide basic food for their respective populations. Political instability is often attributed to the increase in demand for food in many of the developing countries. Nations will always face political instability until economic stability can be restored. More emphasis on economic independence rather than dependence on foreign aid should be pursued. Foreign aid was of little importance in the development of Western Nations.

What is the relationship between aid and development? The declared objective of foreign aid is the redistribution of wealth, in conjunction with the relief of poverty and all other social dilemmas. As a result, aid is not intended to yield a profit as capital is intended to do. This difference between capital and foreign aid is vital for our understanding of how aid influences development. Only capital and not foreign aid can result in development. Foreign aid can be more of a hinderance to development than a contributor to development as was previously thought. "Even though foreign aid can alleviate

immediate shortages, it cannot appreciably promote the growth of national income. It is more likely to retard this growth" (Bauer.,pp.100).(21) This is so because of the difference between capital and aid.

Western aid brings more calamities. It brings western ideas and cultural traditions to the Third World. Western societies emphasize the individual will over that of the collective will. Societies in the Third World emphasize the will of families and communities. The pooling of resources is of vital importance to survival in the Third World. By shifting resources from families and communities to the individual, the sick, the elderly, the children, and the poor find it more difficult to survive. Resources that were suppose to be placed in the community or distributed within the family is retained by the individual.

Fair and free trade, not foreign aid should be the goal of Third World nations. Even though foreign aid can alleviate immediate shortages, it's not the solution to poverty in the Third World. Many countries that have been recipients of foreign aid are still destitute; some are even worse off today.

If foreign aid cannot lead to development, then is the same true for industrialization?

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## **INDUSTRIALIZATION**

Industrialization is another process that has contributed to growth in the Third World. Industrialization implies changing emphasis within an economy. In many cases in the Third World, it implies the transition from an agricultural dominated economy to a manufacturing one. Such a transition is required before development can occur. In addition, the global economy has exerted pressure on developing countries to move away from primary products in order to develop. A decline in prices due to excess supply, combined with the development of substitute materials and a greater efficiency in the industries of developed countries, have forced Third World countries to seek alternative exports. Western industrialized countries along with many leaders in the Third World, view industrialization as the means where by they would be able to provide employment for a growing population, raise the standard of living, reduce current levels of balance of payments deficits, and deflate the bulging poverty problem. However, the process of industrialization in the Third World has many inherent problems.

In the first place, it can be argued that the process of industrialization cannot be Just transplanted in developing countries. Industrial development does not occur in a vacuum. The process evolved from an environment that was conducive to its evolution. History has shown us that a series of factors in conjunction with colonial expansion were instrumental in Britain's industrial development. Technological development, a more efficient banking system, large colonial markets, cheap raw materials from the colonies, and most importantly, the availability of disposable--income these are some of the factors that have converged to make industrial development possible in Great Britain. Trying to stimulate these conditions in the Third World can be very difficult.

Secondly, many of the strategies that are used to implement industrial development in the Third World are detrimental to economic stability and development over the long run. A strategy is a coherent set of policy measures to achieve a future objective, in this case industrialization. Meine van Dijk classified industrial strategies of the Third World into four main categories: An export-oriented system of industrial development as seen in South East Asia; an import substitution system as seen in Latin America; a project-import strategy as seen in oil rich countries in the Middle East, and a strategy under scarce resources initiated by the state as seen in Africa's industrial development model.

An export-oriented industrialization strategy is based on the premise that large capital influx, in conjunction with cheap and abundant labor, would result in a Third World manufacturing sector that is competitive on the global market. However, the capital necessary for industrialization in the Third World can be very difficult to attract. Political and economic stability are prerequisites for capital investments in the Third World. Since these two components are usually difficult to find in many Third World countries; therefore, an export-oriented strategy cannot be utilized.

On the other hand, the so-called newly industrialized countries in Asia have been able to utilize this strategy primarily because the governments of these countries have a firm grip on the reigns of power. South Korea and Taiwan are good examples of this strategy. With government intervention and foreign investments, industrialization seems possible. By exploiting labor, investors who are primarily from developed countries get rich, while their workers in the Third World live on the fringes of poverty. Like colonization, industrialization can be a very exploitative process. In addition, the emphasis is placed on foreign markets rather than regional and domestic ones. This means that domestic markets may eventually shrink and the people may experience shortages of many consumer goods so high priced imports are sought to reduce these shortages, further compounding the problem.

Import-substitution strategy, as the term suggests, is an attempt to reduce imports by producing the imported products locally. This means that newly developed industries have to be protected from foreign competition. Tariffs and quotas are methods used to protect infant industries. In addition, many infant industries are heavily subsidized by local governments. This can lead to inefficiencies and higher prices for consumer goods. This strategy is complementary to the export-oriented one. Industries need to be protected before they can be competitive on the global market. Similar to the export-oriented strategy, import-substitution can be very detrimental to the local economy. Higher prices which result from inefficiencies attributed to subsidies can have a devastating effect on the poorer segments of society in the Third World. These problems can be clearly seen in Latin American countries such as Brazil and Venezuela, where an import-substitution strategy was utilized.

In the Middle East and other countries that have high priced natural resources such as oil, the trend is towards an industrial strategy that utilizes the huge foreign revenue earned from exports, to import industries and incorporate them into the local economy. This practice can be very costly, and as a result, many of these countries can find themselves

in economic disaster when the price of their prized resource (oil) drops. Mexico, Brazil, Trinidad, and Venezuela are a few of the victims of this industrial strategy. This is one of the reasons why the economic conditions in these countries have deteriorated to such an extent that poverty has become more prevalent. In addition, industries that are set up manufacture for a global market and not a local one so these countries become overly dependent on international trade for their survival. How can one develop when one's destiny is being controlled by other nations?

Most of the countries in the Third World have an industrial strategy that is initiated and funded by the state primarily because the state is the only one that has the surplus capital that is needed for industrialization. In many countries, capital is usually developed from savings. This means that a large proportion of the population has a certain amount of disposable income. Few people in the Third World have access to disposable income. These same countries also experience social and political instability. As a result, the attraction of capital for investments can be very difficult. This means that Third World countries are adopting industrial strategies without the necessary capital to implement these strategies. An example is the industrial development in India. All of the strategies that I have mentioned focused on international markets rather than local ones. Why continue to place emphasis on international markets, when the terms of trade and competition are adverse to one's development?

Thirdly, industrialization is a very interdependent process. Industries depend on other industries for supplies of materials involved in the productive process. This is what economists refer to as backward linkages. Backward linkages refer to the links between suppliers and producers during economic transactions. In developed countries, backward linkages are found primarily within the domestic economy. However, in the Third World, these linkages are absent. As a result, products are imported from developed countries to fill this void. This means that the balance of payments is adversely affected. Here is where the exploitative aspects of industrial development can be clearly seen. Developed countries stimulate industrial development in the Third World by encouraging the growth of industries whose backward linkages are found in their countries. Thus, their market gets bigger while the cost of production for Third World products increases, and then their market shrinks because their high priced products cannot compete with lower priced products from developed countries on the global market. The production of cars in Brazil is an example. Industrial development in the Third World is not possible without the cooperation of developed countries.

Finally, Third World countries have failed to achieve their own industrial infrastructure. They have an import-oriented perspective on the development of industrial infrastructure. They believe that a transplanted industry with a greater degree of industrial sophistication can be more successful than an indigenous industry. It's this kind of thinking -- whatever is imported is better than whatever is produced locally -- that has adversely affected the development of local industrial infrastructure. History has shown that countries that eventually industrialized had experienced development through their own industrial infrastructure. A very good example is Japan, where Industrialization was facilitated by its own industrial infrastructure.

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## Conclusion

These are some of the reasons why the current industrial policies in the Third World are detrimental to economic development and people move, they affect both the places that they leave and the places they intend to reside in. The majority of the Third World's population live in small rural villages. However, the proportion that are living in urban areas has grown at a very rapid rate. Urban expansion in the Third World is growing at such a fast pace that it currently exceeds that of industrialized countries. It's predicted that twelve of the fifteen largest cities in the world will be located in the Third World. Only Tokyo, New York, and Los Angeles can compete with the rapid rate of urbanization in the Third World in the future. By the year 2000, Bombay is expected to have 19 million inhabitants, while Mexico City will have a population of approximately 30 million, making it the largest metropolis in the world (World Bank: World Development Report, 1984).

There are several reasons that can be attributed to urbanization in both developed and developing countries. In the first place, there is the commercialization that has befallen so many billions of individuals. Further, let me say that the only way to start to curb poverty in the stricken nations is for developed countries and organizations affiliated with aid and trade to accept their faults and revamp their policies regarding the issues responsible for poverty. It's very easy to come up with causes of poverty in the Third World. However, solutions to this problem can be very difficult to develop because the diagnosis may be wrong from the inception. As a result, strategies implemented to combat poverty in the Third World have been mostly unsuccessful.

Policies of the I.M.F. with regard to balance of payment deficits in the Third World should be revamped. The impact of austerity measures on the local population should be reduced. Third World countries should focus on population growth and urbanization in their respective countries. Incentives should be given to curb population growth in the Third World. People should be given incentives to move back to rural areas. The focus should be more on local and regional trade rather than on international trade. Free and fair trade should be the goal of Third World nations. Bi and multilateral bartering among Third World countries must also be given serious consideration. These are a few of my recommendations to curb poverty in the Third World.

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