

# Good example of ir 344: political science essay

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## **Developing Countries in the International System**

In our contemporary world, there still remain many countries that are in the bottom billion. They continue to face extreme poverty and unemployment because of the lack of industries and jobs. The biggest problem most of these countries face is that they have limited financial assistance to enhance their economy and industry and play into the hands of developed nations, who dictate what and how they should run their economy. We all know that in advanced and economically sound countries, the quality of life of the people is much higher than that of those in economically weak and poor countries. Moreover, while the per capita income of the people in developed countries continue to rise, and the developed nations become even wealthier, they use their financial strength to negotiate favorably for themselves. In addition to their financial strength, they are also growing as political and military powers. They are able to dictate how the world economic situation should be and also ensure that only governments that suit their needs run countries elsewhere. “ So, how can we dare to be optimistic, when billions of people in the bottom billion have been stuck living in economies stagnated for 4 years?” (ted. com)

Globalization has changed the business outlook of many organizations the world over. Globalization has affected the United States too. While globalization has enhanced the buying and selling power of more nations in the world, developing worlds included, this has made companies in the U. S push for further reduce in production costs to meet the ever-growing global demand and competition. Cheap labor and raw materials are necessary to meet global demands and countries like China and India have become prime

destinations for many of these companies to outsource their work. For the U. S, Mexico provides cheap labor, affordable land for infrastructure development, and close proximity to the U. S for business travelers. Thus, companies began to move their businesses to other countries where they could profit from cheap labor, raw materials and skilled labor. This is why countries like China and India are among the most favored countries for multinationals which are more than willing to invest heavily in them.

However, this is not the case with the countries in the bottom billion. Burma is a country that can be labeled as one in the bottom billion. Burma is run by the military and all that they seek to do is to keep power to themselves and stop any form of civilian protests and pro-democracy efforts. With the support of the Chinese government which has its own interests in Burma, the country is devoid of foreign aid and faces an uncertain future. The people of Burma, like those in other poor countries, suffer from starvation, diseases, and suppression of human rights. With no jobs to support their livelihood, many of these Burmese starve to death. Because they have a weak financial institution to fall back on, Burma continues to face hardship and political turmoil. It has no voice in the international economic arena and is avoided by the economically powerful countries because of the uncertainty of doing business there. While there is a trickle of some form of foreign financial aid coming from international fund agencies, this is not sufficient to lift the standard of living of the people of that country.

Borrowings are normal for the developing world. The World Bank, the International Monetary Fund (IMF), and The Asian Development Bank are forerunners in financing infrastructural developments in developing

countries. Many developing countries face huge debt levels, leading to sustained poverty. The biggest problem with these countries is that because of debts, they have scarce resources needed for eradication of poverty. This is one area that multinational companies can help plug. With the free flow of foreign direct investment in infrastructure, the governments can avoid loans for developments and enjoy returns on production and sales. This is not the case with Burma. Run by the military junta, the scope for development is near to impossible. Pro-democratic fighters are jailed for life and any person who thinks of overthrowing the junta is executed. Living under the constant fear of being watched, the Burmese are forced to live a life of international isolation.

There has been a protracted plan drawn by developed countries to assist some of these bottom billion countries through economic means. In some cases, the initiatives have backfired because of the political instability of the reigning governments, and in some cases because of the lack of skilled personnel. What would be the best possible solution to help these countries overcome the extreme poverty and joblessness? Why do these problems remain in developing countries? First of all, we should focus on finding a solution to develop these countries, and for that, we need to find a common ground for their problem. Thinking in terms of aiding them through financial institutions is a possible option. Questions like would there be any problems in providing international aid for developing countries would be a good beginning. Since developing countries have a lower GDP compared to developed countries, the possibility exists to help develop their infrastructure through foreign aid. Eradicating poverty can only happen when people get

jobs and for this to happen, there has to be employment opportunities. Such opportunities will arise only if industries are developed.

Most investors look at the internal political and social situation within the country in which they plan to invest as any problems from within that country could destroy their business there. Some countries have a very long history of such internal problems that has caused considerable loss to investing companies. Iraq, Iran and Nigeria are a few countries that have had long historical problems. Politically, most of these bottom billion developing countries are in a state of anarchy, and if they have a government, the people running the government are corrupt, and so, when international organizations help them through financial aid, the money is laundered and goes into the pocket of these corrupt politicians and bureaucrats. Therefore, no development takes place and while politicians and bureaucrats become richer, the country remains under-developed. Then there is the question of religious practices. Many of these countries have a number of religions because of which, there is periodic problems there. The problem could spill over into industries run by foreign companies and this can cripple their production and output. The internal factions in Iraq are an example of such a problem. These religious problems can also result in civil wars like that witnessed in Syria. Syria is a developing nation and they have the resources to grow, but because of the religiously divided sections of society, Syria remains a danger for investors. Since there are issues of multiple complexities, it is for developed nations to support the growth of developing countries through some means.

An example of a country that matched most of the above qualities, yet has

become a success story is China. Foreign trade in China was limited to purchasing goods that were not able to be made or bought in China. The government's pre-reform policies created an economy that was stagnant and inefficient. There were few "profit incentives for firms and farmers", very little competition and the production controls distorted the economy; all these factors led to China's living standards being one of the lowest among developing countries (Morrison, p. 4, 2005).

Paul Collier, an economist and author of 'The Bottom Billion,' states that "a billion people have been stuck, living in economies that have been stagnant for 40 years." He goes on to say that the gap between the rich and poor is growing alarmingly, and because of the hostile environment prevailing in these countries, international agencies find it difficult to offer these people credible hope. According to him, "Europe was also a developing continent in the 1940s, and the United States, which was a rich country at that time, introduced the Marshall Plan for Europe after World War II. The Marshall Plan was in other words, a European Recovery Program; a program mooted by George Catlett Marshall, a former Secretary of State, from which it got its name. According to the 'Marshall Foundation,' the U. S would provide economic assistance to Europe for about twelve billion dollar for 1948 to 1951. Besides, the U. S also attracted Europe to the global market through GATT. In addition to the above, the U. S changed the existing European security policy, and sent troops to Europe after World War II. This ensured that Europe was safer and that economic development could be targeted and achieved as planned under the Marshal Plan. A prosperous and developed Europe would benefit the U. S strategically and this was why the

U. S wanted to invest in Europe. (www. ted. com) After World War II, the U. S established the United Nation, OECD, and International Monetary Foundation. The U. S suggested that Europe establish the European Commission that covered the numerous countries that formed the European continent. Collier believes that a similar plan needs to be drawn for those ‘ Bottom Billion’ nations. If all countries were to develop and poverty was erased, the Earth would be one big family. The plan to develop these countries must be put in place to address this problem of developed-underdeveloped inequality. Paul Collier believes that most of these under-developed and some developing countries get stuck in four common traps; the natural resource trap, conflict, bad governance, and adventurous or bad neighbors. These must be addressed with a firm hand. And this can be done so only by countries that have the power of money and force. The recipe for this would be to understand each situation of a country and involve the people in these countries in dialogues before acting on them. Nigeria is one African nation that has abundant natural resources. Oil is yet to be fully explored and by joining this nation in partnership, the oil recovered from Nigeria can be used to bring the much needed foreign exchange to develop the nation. Most South African nations have abundant natural resources, so for these countries to develop, they could be assisted through import of sophisticated machinery and skilled labor to produce or unearth the natural resources that could be used by other nations to assist their growth. In return, these natural resources will bring in money that can be used to develop infrastructure and industry.

Consider China; it was among the poorest countries in the world in the

1950s, but when the country began to attract foreign investors through very favorable business terms, companies began to invest there, but with suspicion and care. They were not very comfortable with the Communists and didn't know what to expect. However, with time, more and more companies began to invest in China and the country today is among the fastest developing economies in the world. " FDI inflows into China have become one of the most important components in China's economy," says Xinzhong (2005, p. 5). " The three major sources of capital inflow into China are FDI, external loans and other types of foreign investment, such as portfolio investment and international leasing" (OCED, 2000). Today, one can see how FDI inflows have played a dominating role in China's economic success. China's strategic and geographical position and expansive territory offers easy access to investors in China, Asia and other countries across the globe. China's culture also plays an important role in FDI. China has abundant natural resources and offer cheap skilled and un-skilled labor and these were utilized to the maximum by foreign investors who had the bargaining power of the dollar.

Therefore, like what has happened in China, the U. S and other developed countries must come forward to invest in these relatively unknown countries. There is no doubt that if a country has abundant natural resource, its economic prosperity hinders on how well they utilize it. Therefore, it is a must that these countries offer a business-conducive environment to do business. The respective governments must play an important role in showing investors that they are protected and their investment will be properly used to develop the nation. Democratic reforms must be in place,



and there must be transparency in policies targeting business circles. This is vital as the price of raw materials is highly unstable, and if no monitoring systems are put in place, the price escalation can affect production costs. Conflicts, both political and religious hamper growth. This is true in many Bottom Billion countries. Many African countries are reeling under civil war. There is no civility as government forces fight opposition forces for power and control of areas under their command. Hundreds of people have died from the bloody war and the lawlessness has deprived the nation of sustained peace and growth. Looting, arson, killing and sabotaging government machineries are common activities noticed in these countries. It is time that the United Nations intervened and brought about peace to these regions. The action must be swift and powerful so that such activities are removed from these areas for good. Peacekeeping forces must be allowed to control trouble areas and all forms of violence must be dealt with an iron hand. Lose of life and property will only cripple the economy and it's the duty of developed countries to ensure that prosperity is achieved through partnerships. Paul Collier advocates military intervention to deter internal conflicts and bring about peace.

Bad governance is another reason why developmental activities in bottom billion nations fail. Most of these countries are in a state of anarchy, and when there is no democratically elected administration in place, economic growth is sure to suffer as the people in high offices are corrupt and only care for their prosperity. In order to curb such practices, Collier suggests that for good governance, “ there should be proper regulations put in place for companies, a strong leadership that encourages the development of social

capital, and the proper management of macroeconomics.” Unless these issues are addressed, foreign aid will not be encouraging.

And finally, we have the trap of land-lock with bad neighbors. Most of the African countries are under-developed as their region is full of hostile countries. This hampers economic growth. Switzerland is an economically sound nation and it shares its borders with Germany and Italy, two countries which are also economically advanced. With such neighbors, Switzerland can easily access international markets, as its neighbors also enjoy such privileges. However, for a county like Uganda, it shares its borders with countries that too have restricted business opportunities. When this happens, chances of Uganda prospering are limited and suffer from isolation as accessibility to other markets is limited. Therefore, with a limited market share and unpredictable neighborhood, Uganda will not attract investors there. Here, the case of South Korea can be exemplified. South Korea graduated to become a developed country in 1997 according to the International Monetary Fund. South Korea, even though it doesn't have natural resource, it does have a strong transportation system supported by well-developed infrastructure. It also has very good relations with other countries, because of its geographically accessible location, it could import and export to other markets across the globe. Initially, South Korea too was financially supported by developed nations, and the South Korean government used these funds to develop high, value-added businesses like automobiles, ships, and semiconductors. Even though South Korea received international aid in the past, South Korea today helps other developing nations in the region.

There is a strong evidence of the link between foreign direct investment and manufacturing productivity growth in many Chinese provinces. In order to derive at this consensus, samples of 23 manufacturing sectors were regrouped into three big industries in 29 Chinese provinces during 1988-94. This provided an estimate of the Total Factor Productivity (TFP) growth by manufacturing sector in relation to FDI inflows. The results showed significant differences in TFP growth between manufacturing sectors dominated by foreign direct investment and those dominated by domestic investment in the consumer goods industry, confirming the positive impact of FDI on economic growth (Yu Chen, 2002).

Throughout the semester we discussed about Structural Adjustment Programs. SAPs are made by the World Bank and the IMF for financing developing countries. I would like to compare SAPs with Paul Collier's speech. The major purpose of SAPs is to help developing countries overcome poverty, and improve their economic condition. However, some economists are of the opinion that all is not well with Structural Adjustment Programs and that there are some problems. There are others those believe that SAPs will help developing countries to solve many of their problems which include eradication of diseases, poverty, and starvation.

Structural Adjustment Programs has the backing of the developed nations. William Easterly, the author of, 'The White Man's Burden,' criticized the politicians of developed countries for their love for their big plans. Big plans are the SAPs, and these politicians use this as a tool to teach the heads of developing countries a lesson, whom they consider to be poor and stupidity. Calling it the Utopian dream, Easterly criticized these bureaucrats for their ill-

thought ideology and power-mongering. However, I don't think they can control international aid to the developing countries, because, as Paul Collier pointed out, out of a budget allotment of 100%, only a percentage of that will finally reach the destined country and the balance would have disappeared. That percentage of money that does finally reach the beneficiary country, will not reach the people and instead go into the pocket of those run that country.

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