

UNIT FIVE

CHALLENGES OF ECONOMIC DEVELOPMENT

Introduction to Sustainable Development and Poverty

Sustainable Development

Sustainable development focuses on balancing economic growth, social well-being, and environmental protection. Unlike traditional economic growth models, which prioritize financial and manufactured capital, sustainable development considers natural resources as vital capital. These natural resources, such as forests, water, and minerals, are crucial because they provide essential goods and services. Investing in human capital, through education and health, is also key to sustainable development.

Unequal Resource Utilization

Resource utilization is uneven globally. While some populations consume excessively, others, especially in less developed countries, suffer from extreme poverty. In 2015, about 10% of the world's population lived on less than \$1.90 per day. Malnutrition affects millions, and rising inequality exacerbates social polarization. This inequality, alongside issues like poverty and corruption, challenges the sustainability of resource utilization and affects citizen welfare.

Multiple Faces of Poverty

Concepts of Poverty

Poverty can be categorized into two main types:

1. **Absolute Poverty:** This occurs when individuals or families lack the income needed to meet basic needs like food, shelter, and healthcare. Absolute poverty is measured against a fixed poverty threshold, which varies by country.
2. **Relative Poverty:** This refers to individuals or families earning significantly less than the average income, affecting their ability to enjoy a standard of living comparable to others in their society. Relative poverty can change with economic conditions and may persist across generations.

Persistent Poverty: This is when households experience income significantly below average for extended periods (e.g., 50-60% less than average income over two out of three years).

Causes of Poverty

Poverty arises from various factors:

1. **Structural Causes:** These include systemic issues like racial and gender discrimination, low wages, inadequate investment in education and healthcare, and economic inequality.
2. **Behavioral or Cultural Causes:** Some argue that cultural attitudes and behaviors, such as fatalism and rejection of societal norms, perpetuate poverty. This perspective suggests that personal choices and attitudes contribute to poverty.

Determinants of Poverty

Poverty is influenced by:

- **Human Assets:** Skills, health, and labor capacity.
- **Natural Assets:** Land and resources.
- **Physical Assets:** Infrastructure and facilities.
- **Financial Assets:** Savings and credit access.
- **Social Assets:** Networks and political influence.

Relationship Between Conflict and Poverty

Conflict Causes Poverty

Violent conflict often leads to poverty through direct impacts like deaths, displacement, and economic disruption. It can collapse entitlement systems and cause long-term economic damage, increasing chronic poverty and intergenerational exclusion.

Poverty Causes Conflict

Poverty can be a factor in conflict, though this is complex. Factors like economic downturns, rising expectations, and state crises contribute to conflicts, with poverty sometimes acting as a trigger or accelerator. The link between poverty and conflict is not deterministic but multifaceted.

Resource Wealth and Conflict

Research suggests that conflicts can also arise from resource wealth. Rebel groups may be motivated by economic gains rather than grievances, leading to conflict when they can benefit from war.

Advantages and Limitations of Globalization

Concept of Globalization

Globalization is the process of increasing interconnectedness through trade, politics, and culture. It has accelerated over recent decades, linking economies and cultures worldwide.

Impact on Developing Countries

1. **Economic and Trade:** Globalization has facilitated market access and investment in developing countries, aiding economic growth. However, it can also lead to economic disruptions and exploitation of low-wage labor.
2. **Education and Health:** Globalization has improved education and health systems by increasing access to resources and opportunities. However, it can lead to brain drain as skilled professionals migrate to developed countries.
3. **Cultural Effects:** Globalization can erode local cultures and traditions as people adopt foreign customs and languages. It can also lead to the loss of cultural identity and practices.

Advantages of Globalization

- **Increased Free Trade:** Boosts international trade and investment.
- **Global Mass Media:** Enhances communication and information sharing.
- **Reduced Cultural Barriers:** Promotes cultural exchange and understanding.
- **Reduced Likelihood of War:** Encourages peaceful relations between nations.

Disadvantages of Globalization

- **Environmental Impact:** Can lead to environmental degradation in developing countries with weak regulations.
- **Economic Disruption:** May cause economic instability and increased inequality.

- **Cultural Limitations:** Can limit cultural diversity and heritage.

Globalization offers both opportunities and challenges. Understanding its impact helps countries leverage its benefits while addressing its drawbacks.

Economic Inequality and Trade Imbalance

1. Understanding Economic Inequality

Economic inequality refers to the uneven distribution of wealth and resources among individuals or regions. This concept can be straightforward but also complex, as it involves various factors and theories:

- **Convergence Hypothesis:** This theory suggests that less developed countries (LDCs) should grow faster than developed countries (DCs) due to their ability to adopt existing technologies and lower production costs. This could lead to reduced inequality over time.
 - **Technological Advantage:** LDCs can use technologies already developed by DCs.
 - **Lower Production Costs:** LDCs often have lower wages and cheaper inputs.
 - **Productivity Gains:** Shifting labor from agriculture to industry can boost productivity.
- **Divergence Hypothesis:** Despite growth, inequality can widen due to various factors:
 - **Technological Changes:** Advanced economies experience skill-based income increases, while LDCs face rising inequality due to financial development.
 - **Skill Premiums:** Increased demand for skilled labor can exacerbate income disparities.

2. Trade Imbalance

A trade imbalance occurs when a country imports more than it exports, resulting in a trade deficit. This can reflect regional and national inequalities.

- **Causes:**
 - **Import Reliance:** Countries may not produce enough of what they need, leading to borrowing to pay for imports.
 - **Outsourcing:** Manufacturing abroad can result in a deficit when finished goods are imported back.
- **Effects:**
 - **Standard of Living:** Trade can improve living standards by offering a variety of goods at lower prices.

- **Job Outsourcing:** Excessive imports can lead to job losses domestically as production moves abroad.

3. Measuring Inequality

Inequality is often measured by comparing income distribution and resource allocation among populations. Key metrics include:

- **Per Capita GDP:** Indicates average income per person.
- **Gini Coefficient:** Ranges from 0 (perfect equality) to 1 (maximum inequality). This measure helps assess income distribution.
- **Sub-Saharan Africa Example:**
 - **High Inequality:** Despite low income levels, income and welfare disparities are significant, especially between genders and regions.

4. Global Inequality Trends

- **Developed Countries:** Gini coefficients have risen since 1990, indicating increased inequality.
- **Developing Countries:** Inequality varies, with some regions like Latin America showing improvements and others like Asia experiencing higher inequality.

Global Health Crises:

1. Global Health Crises and Their Economic Impact

- **Access to Health Services:** Globally, around 2 billion people lack access to basic health services. This leads to preventable diseases and high mortality rates. For example, malaria affects over 500 million people annually and results in about 1 million deaths, mainly in Africa. Malaria costs Africa about \$12 billion in lost productivity each year.
- **Healthcare Costs:** In poorer nations, individuals often pay the majority of their healthcare costs out of pocket. This financial burden affects around 150 million people and 25 million households globally. In 2002, only 12% of the \$3.2 trillion spent on healthcare worldwide was allocated to low- and middle-income countries, which bear 90% of the global disease burden.
- **Funding for Global Health:** Although health aid increased significantly between 2002 and 2005 due to efforts from donor countries and initiatives like the Global Fund and the Global Alliance for Vaccines and Immunization, the funding still falls short of meeting global health needs.

2. Historical Global Health Problems

- **Pandemics:** A pandemic occurs when an epidemic spreads across multiple countries. Historical pandemics include:
 - **The Great Plague of Athens (430 BC):** A significant early pandemic that decimated Athens during the Peloponnesian War.
 - **Spanish Flu (1918):** An influenza pandemic that caused 50 million deaths worldwide. It started in Europe and spread rapidly, with no effective treatments at the time.
- **Communicable Diseases:** Pandemics have been more common since the shift from hunter-gatherer societies to agrarian communities. Diseases like malaria, tuberculosis, and smallpox emerged and spread due to increased human contact and trade.

3. Current Global Health Crises

- **HIV/AIDS:** Identified in 1981, AIDS weakens the immune system, making individuals susceptible to other illnesses. Despite treatments that slow the disease, HIV/AIDS has claimed 35 million lives worldwide, with no cure yet.
- **Ebola:** First reported in 2013, Ebola outbreak highlighted the importance of having robust healthcare systems. The outbreak, starting in Guinea, affected West Africa severely, causing over 11,000 deaths and spreading to other countries.
- **COVID-19:** Declared a pandemic on March 11, 2020, by the WHO, COVID-19 has led to over 1.6 million deaths by December 2020. The virus, which spreads through respiratory droplets, first appeared in China and quickly spread globally, causing severe disruptions and highlighting the need for effective global health responses.

Summary

Global health crises such as malaria, HIV/AIDS, Ebola, and COVID-19 reveal the severe impact of inadequate healthcare access, historical pandemics, and current health emergencies on global health and economic development. Addressing these issues requires a combination of increased funding, robust healthcare systems, and global cooperation.