Poverty traps / poverty cycles

There is an interesting debate in development economics about the existence and nature of poverty traps/cycles and to what extent they may or may not be a root cause of persistent poverty.

The debate matters, because if such traps exist, it suggests that there is a role for more government or NGO intervention to break those cycles. If they do not exist, then you could argue that government intervention is not necessary or should be directed elsewhere.

If they exist, it is also important to understand the exact nature of poverty traps. Do they indicate that a 'big push' macro-level intervention could reduce poverty, such as increasing aid or lowering trade barriers? Or should we use micro-level interventions to remove context-specific barriers standing in people's way, such as reducing the amount of paperwork necessary for parents to enrol children in school?

In the IB Economics course, you are responsible for understanding how a poverty trap (also known as a poverty cycle) could develop and what general (typically macro-level) interventions could break such traps. If you are interested in learning more about the complexity of the discussion around poverty traps, some links will be provided at the end of this section for you to explore further

Positive feedback loops

A poverty trap/cycle is any linked combination of barriers to growth and development that forms a cycle that is self-perpetuating unless the circle can be broken. Here again we see the role of positive feedback loops in economics.

A number of examples can help illustrate how poverty traps might work. **Figure 1** shows how, when incomes are low, people do not have income to save after covering their basic needs. Low savings imply low levels of investment in physical, human and natural capital, which therefore results in low productivity of labour and land. Low labour productivity produces low or no income growth, and so incomes are stuck at a low level once again.

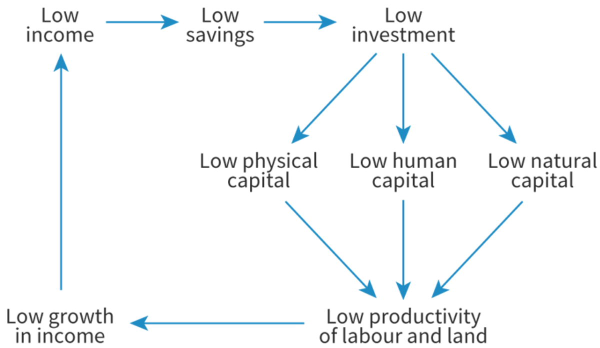

Figure 1. Poverty trap/cycle.

More information for figure 1

Overview
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This diagram illustrates the concept of a poverty trap cycle. It begins with "Low income," which leads to "Low savings." From low savings, we progress to "Low investment." Low investment is broken down further into three arrows pointing to "Low physical capital," "Low human capital," and "Low natural capital." These three factors then converge into "Low productivity of labour and land." Finally, the cycle completes as low productivity results in "Low growth in income," looping back to "Low income," perpetuating the cycle. Arrows indicate the direction and flow of influence between each component, highlighting the feedback loop inherent in the poverty trap.

[Generated by AI]

Figure 2 below shows both growth and development traps that can result from poverty. In the positive feedback loop for economic growth on the left, low incomes lead to low savings, which lead to low investment and therefore low economic growth, which itself perpetuates low incomes.

The positive feedback loop for development on the right shows how low incomes can lead to poor education and health care, lowering human capital levels and productivity, which in turn lead to low incomes.

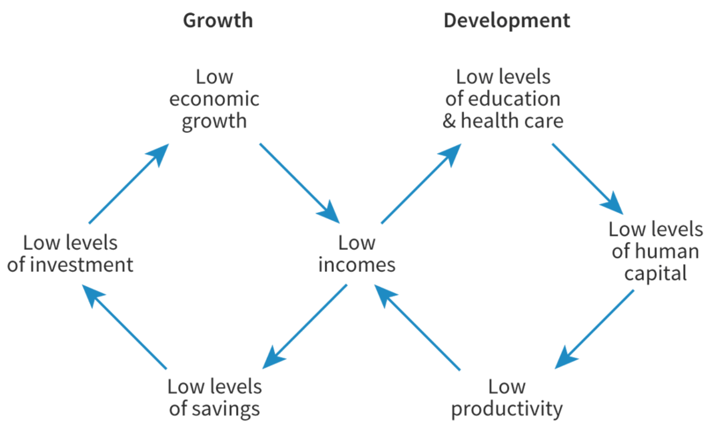

Figure 2. Poverty cycle relating development and growth.

Student view

More information for figure 2

The image is a flowchart illustrating the poverty cycle that links development and growth. At the center is "Low incomes," which branches into two main loops representing growth and development.

On the growth side: - Low incomes lead to "Low levels of savings," connecting to "Low levels of investment." - This leads to "Low economic growth," which loops back to reinforce low incomes.

On the development side: - Low incomes lead to "Low levels of education & health care," connecting to "Low levels of human capital." - This results in "Low productivity," which loops back to reinforce low incomes.

Arrows show the cyclical relationship between these elements, illustrating a feedback loop where low incomes perpetuate poor economic and development conditions.

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Activity

Draw the poverty traps (cycles) with positive feedback loops that include the following conditions:

1. Health care
2. Low levels of technology
3. Poor nutrition

An important characteristic of poverty traps/cycles is that poverty is often transmitted from generation to generation. People who earn very low incomes because of their low education and skills cannot afford to send their children to school, or purchase appropriate medical care or enough food, leading to poor health and education for their children. Their children then grow into adults with poor health and low skills, thus perpetuating intergenerational poverty.

Activity

Extension to learn more about poverty traps

Figure 3. Esther Duflo and Abhijit Banerjee.
Credit: Getty Images Scott Eisen / Stringer

Student
view

Esther Duflo, Abhijit Banerjee and Michael Kremer won the Nobel Prize in Economics in 2019 for their field work with randomised control trials related to poverty. We will learn a little more about this approach in subtopic 4.10 (/study/app/pp/sid-186-cid-754025/book/the-big-picture-id-30433/) . Banerjee and Duflo teach at MIT and co-founded J-PAL, a research center that uses the randomised control trial method.

They also published a book called Poor Economics in 2011 (second link below) that discusses this research method. In it, they discuss the nature of poverty traps, creating a nuanced understanding of how they work.

If you are interested in understanding more about poverty traps, you may wish to watch an MIT course lecture by Duflo on poverty traps (first link). It is not recent, but still very interesting. This is part of a course on Global Poverty offered through EdX and MIT (third link).

MIT Lecture by Esther Duflo - What is a Poverty Trap? (https://www.youtube.com/watch?v=7y67IP6XTPc)

Poor Economics - Abhijit Banerjee and Esther Duflo (https://economics.mit.edu/faculty/eduflo/pooreconomics)

Section Feedback

EdX (MIT) course - The Challenges of Global Poverty (https://www.edx.org/course/the-challenges-of-global-poverty)

Complete section with 3 questions

Start questions

Previous section(/study/app/pp/sid-186-cid-754025/book/the-big-picture-id-30278/)

Next section (/study/app/pp/sid-186-cid-754025/book/ecor

Economic barriers: infrastructure and appropriate technology

Figure 1. Infrastructure is an important factor for economic growth and development

Source: "United Nations Sustainable Development Goals (https://www.un.org/sustainabledevelopment/sustainable-development-goals/)"

Note: "The content of this publication has not been approved by the United Nations and does not reflect the views of the United Nations or its officials or Member States".

Infrastructure refers to the large-scale physical capital needed for economic activity to take place. Infrastructure is often, though not always, provided by governments. This is because infrastructure is usually considered a merit good, associated with large-scale, valuable positive externalities. When infrastructure is poor or lacking entirely, it can become a barrier to development.

Table 1 shows many examples of infrastructure goods and services by category.

Table 1. Examples of infrastucture goods and services.

Category	Examples	Category	Examples
Transport	• Roads • Railways • Ports • Airports • Public transport	**Communication**	• Radio and television • Internet access • Telecommunications
Public services	• Police • Waste collection • Health services • Education services	**Utilities**	• Electricity • Gas • Drinkable water • Sanitation services

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Good infrastructure supports economic activity and is critical for economic growth. Roads and railways that are well-planned and in good condition save time and money when transporting goods, enabling a greater flow of products to all areas of a country and lowering costs of production. This will increase aggregate supply and economic growth.

Where infrastructure is of poor quality or does not exist at all, supply chains are slow or disrupted. This increases the costs of production, and firms may not even be able to get the resources they need to make goods and services. The goods may not reach local, regional, national or international markets. Indirectly, infrastructure plays a critical role in the material dimension of human development, by increasing economic growth, improving incomes, and increasing the ability to purchase goods and services.

Figure 2. Roads facilitate transport of people, goods and materials in a country.

Credit: Getty Images Dong Wenjie

Good infrastructure also *directly* contributes to human development. Adequate water and sanitation infrastructure is critical to human health. For example, according to the World Bank, 21 percent of communicable diseases in India are related to unsafe water. Public transportation enables workers and students to get to jobs and schools. Irrigation improves food production for the population. Communication systems, including those for radio, television, internet and telephone, can make it possible for people to network and participate in their communities. Gas and electricity are important for a family's everyday life, as they are used for cooking, heating and food preservation.

Student view

Infrastructure is also important to gender equality, since the burden of poor infrastructure is felt most by women, who spend a disproportionate amount of time fetching water and preparing food. Infrastructure, in its many forms, is crucial to increasing human freedom and capabilities. Where infrastructure is poor quality or lacking, human health, education, access to jobs and opportunities and nutrition will all be negatively affected.

Important

Poor quality or lacking infrastructure negatively affects the material dimension of development by reducing productivity and economic growth, which limits income growth and negatively impacts people’s ability to purchase goods and services that affect their wellbeing.

Poor infrastructure also negatively affects the relational and subjective dimensions of development by reducing freedoms and negatively affecting people’s perceptions of their quality of life.

Overview (/study/app/pp/sid-186-cid-754025/

The Democratic Republic of Congo ranks low on infrastructure. Even compared to low-income countries in the region, the country is underperforming. Poor infrastructure will have significant impacts on output and human development in the country. The Global Competitiveness Index (https://www.weforum.org/reports/how-to-end-a-decade-of-lost-productivity-growth), published yearly by the World Economic Forum, is a source of information to compare countries on various indicators relevant to economic competitiveness.

Activity

Access the most recent Global Competitive Index (https://www.weforum.org/reports/how-to-end-a-decade-of-lost-productivity-growth)(the link is for 2019) and select two countries to compare on infrastructure. The Index gives more details on the various areas of infrastructure and how the countries stack up, so make sure you move beyond the headline numbers. Create a table to compare the figures provided in the Index.

Which area(s) of infrastructure seem to be the main reason for the difference in overall infrastructure rating between the two countries? Use figures to support your argument.

Exam tip

In addition to the positive feedback loop diagrams for poverty cycles, remember that you can also use the basic AD/AS diagrams you learned about in subtopic 3.2 (/study/app/pp/sid-186-cid-754025/book/the-big-picture-id-30486/) to illustrate how country conditions can affect economic growth (and consequently incomes, and the material dimension of development).

To do that successfully, you need to link the condition to:

- increases/decreases in consumption, government spending, investment, and net exports to shift AD
- increases/decreases in costs of production for firms to shift the short-run aggregate supply curve (SRAS)
- increases/decreases in the quality or quantity of the factors of production to shift the long-run aggregate supply curve (LRAS)

Keep this in mind as you read this subtopic and consider how you might apply economic theory learned in previous subtopics to the development subtopics.

Student view

Worked example 1

1. Explain how infrastructure contributes to economic growth and development.

2. Using a PPC (production possibility curve) and an AD/AS diagram, show the effects of infrastructure on economic growth.

1. Your answer should include (and could be visually chunked as below):

- Definition of infrastructure
- Definition of economic growth
- Explanation of how infrastructure can improve economic growth, including references to productivity and lower costs of production
- Example(s) of how infrastructure can improve economic growth
- Definition of development
- Explanation of how infrastructure could indirectly improve development through higher incomes

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- Explanation of how infrastructure could directly improve development through improvements in quality of life including references to some of the following: water and sanitation, transportation, communication, energy
- Example(s) of how improvements in infrastructure could directly improve development

2. Your answer should include (and could be visually chunked as below):

- Define PPC
- Explanation of PPC
- Explanation of how improved/increased infrastructure increases quality/quantity of physical capital, shifting out the PPC and potential output
- Example of an improvement/increase in infrastructure
- Diagram PPC shifting out, making sure all axes and the two PPC curves are appropriately labelled and that there is a title and that the diagram is in the context of the example used
- Define aggregate demand and aggregate supply
- Explanation of how improved/increased infrastructure increases quality/quantity of physical capital, shifting out the LRAS curve and increasing potential output
- Explanation of how government spending on infrastructure increases AD (G is a component), thus also increasing actual growth
- Example of an improvement/increase in infrastructure
- Diagram LRAS and AD shifting to the right, making sure all axes and the curves are appropriately labelled and that there is a title and that the diagram is in the context of the example used

Appropriate technologies

Appropriate technology refers to the choice and use of technology that is (usually) small-scale, energy efficient and environmentally friendly, locally autonomous, labour-intensive and affordable.

Student
view

Figure 3. A clay pot refrigerator filled with vegetables, an example of an appropriate technology.

Source: "Clay pot cooler (https://commons.wikimedia.org/wiki/File:Tonkrugk%C3%BChler,_Clay_pot_cooler,_Canari_Frigo.JPG)" by Peter Rinker is under CC BY-SA 3.0 (https://creativecommons.org/licenses/by-sa/3.0/deed.en)

Technologies developed for higher-income countries are not always appropriate for low- and middle-income countries and their conditions. In higher-income countries, firms are likely to use more sophisticated capital equipment in their production because labour resources are scarce and expensive. Individual consumers are also likely to purchase more sophisticated technologies as they are affordable and easily replaced.

However, in lower-income countries, the appropriate technologies used by firms should use less capital equipment and more labour. This would encourage the use of local skills and materials and promote local employment with abundant labour resources. Appropriate consumer technologies should be locally sourced, easy to repair, and made from materials that do not damage the environment.

In a development context, the choice and use of technology in the economy is very important. It can mean the difference between capital improvements that enhance the availability of jobs and local agency versus capital improvements that destroy jobs and leave populations dependent. The concept of appropriate technology is closely tied to the idea of sustainable development. Appropriate technologies are environmentally sustainable, promote resilience in communities and regions, and are sensitive to cultural context. To some extent, we are even seeing high-income countries considering lower-tech technologies, such as the bicycle rickshaws mentioned in subtopic 4.7 (/study/app/pp/sid-186-cid-754025/book/the-big-picture-id-30430/), as a part of a more sustainable capital mix.

Exam tip

The IB Economics syllabus requires you to discuss or examine the significance of barriers to development (AO3).

One approach to doing this is to discuss how the barrier hinders development indirectly through its impact on incomes and directly through harming human well-being, freedoms, capabilities, or social networks. In this and the following sections, the text will be organised around the framework of examining the indirect and direct development problems associated with each barrier.

Another approach to discussing the significance of barriers to development would be to connect the barriers to the material, relational, and subjective well-being dimensions of development outlined in section 4.7.1. (/study/app/pp/sid-186-cid-754025/book/what-is-development-id-30431/) The approach would be similar, with the material dimension corresponding to the economic impact on economic growth and incomes, whilst the relational and subjective dimensions correspond to direct impacts on wellbeing, freedoms, capabilities and social networks.

You will see both approaches in this subtopic.

Complete section with 3 questions

Start questions

Previous section(/study/app/pp/sid-186-cid-754025/book/poverty-traps-poverty-cycles-id-30581/)

Next section (/study/app/pp/sid-186-cid-7540

Economic barriers: low human capital and dependence on the primary sector

Human capital

Human capital refers to the skills, knowledge, and experience of people that is valuable to families, communities and organisations. Human capital can be increased over time in many ways. Households contribute to human capital by caring for children. Schools contribute to human capital by supporting learning. Health care institutions contribute to human capital through systems that protect and heal. Firms contribute to human capital through training, and governments contribute through functioning institutions that support all aspects of human development.

Figure 1. Intergenerational poverty trap (cycle).

Credit: Getty Images Khanin Payeng / EyeEm

Education is very important to develop human capital. The role of education in development has been addressed in subtopic 4.8 (/study/app/pp/sid-186-cid-754025/book/the-big-picture-id-30432/). Education *indirectly* promotes development by helping people develop skills and knowledge that they can use to secure better-paying jobs and earn higher incomes that can support wellbeing. Education also *directly* supports development by fostering an understanding of the world around us, helping us to solve problems and to engage with communities. There are significant positive externalities and positive feedback loops associated with education. Where education is lacking, we see lower incomes as well as impoverished capabilities in a larger sense.

Health care is also vital to develop human capital and has been discussed with relevant data in subtopic 4.8 (/study/app/pp/sid-186-cid-754025/book/the-big-picture-id-30432/). Good health *indirectly* contributes to development through higher productivity and increased incomes that can be used to purchase goods and services to improve wellbeing. Good health also *directly* contributes to development by enabling people to live more fulfilled lives. Healthy people are able to better contribute to family and social networks, to make physical and mental efforts to solve problems, and to exercise freedoms and opportunities. Where healthcare is poor, we find lower incomes, as well as early deaths, and lives and communities stunted by illness.

The short video below from Gavi, a vaccine alliance, explains the critical role vaccines play in protecting human health and fostering well being, and the direct and indirect benefits for development. Can you spot the positive externalities and positive feedback loops associated with vaccines?

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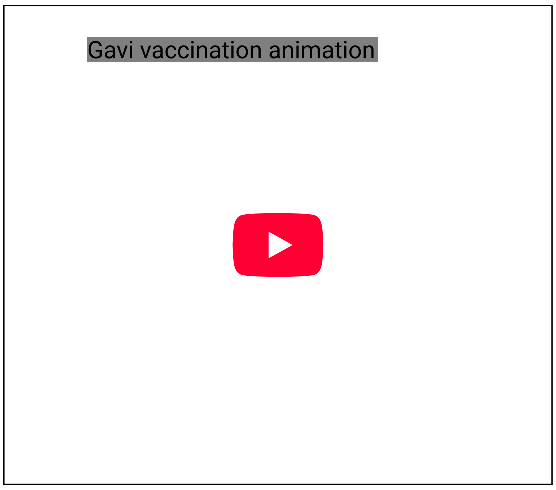

Activity

As you watch the Gavi video above:

1. List the positive externalities you see/hear in the video.
2. Draw a diagram showing a positive feedback loop involving vaccines that illustrates a virtuous cycle.

Be aware

Positive feedback loops can be virtuous cycles, as well as vicious cycles like the poverty trap/cycle. These causal loop diagrams can be useful methods to illustrate the positive effects of interventions to improve economic growth and development.

Dependence on the primary sector

Student
view

Figure 2. Rice field in Nepal.

Credit: Getty Images Sergio Acosta Piñero / EyeEm

Developing countries tend to be over-dependent on producing primary products, particularly in agriculture and mining. As seen in section 2.5.9 (/study/app/pp/sid-186-cid-754025/book/importance-of-income-elasticity-of-demand-yed-id-30280/), as countries evolve from one stage of growth to the next one, the contribution of their primary sector to the country's total output tends to decrease, and the manufacturing and services sectors increase.

Overview (/study/ap 186- cid- 754025/

For example, agriculture accounted for 37.8% of Ethiopia's GDP in 2017, whereas in Germany, agriculture only accounted for 0.7% of GDP. At low levels of income, countries tend to rely on natural resources for income growth. In fact, according to the United Nations Conference on Trade and Development (UNCTAD), approximately two-thirds of low-income countries are reliant on primary products for more than 60% of their countries' incomes.

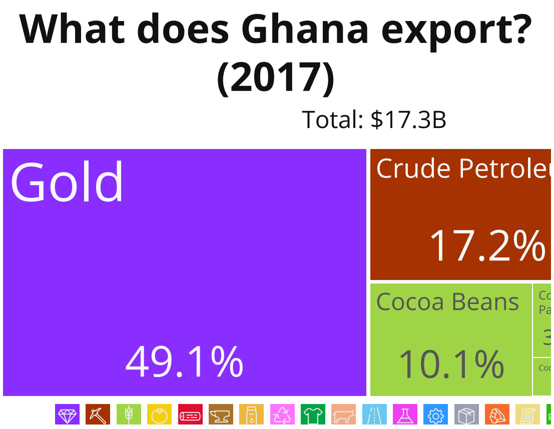

Figure 3. Ghana produces and exports mainly primary commodities

Source: https://oec.world/en/visualize/embed/tree_map/hs92/export/gha/all/show/2017/?controls=false (https://oec.world/en/visualize/embed/tree_map/hs92/export/gha/all/show/2017/?controls=false)

More information for figure 3

This interactive treemap represents Ghana's exports in 2017, with a total export value of $17.3 billion. Each rectangle corresponds to a specific export product, and its size reflects its share of total exports. The colors categorize different product types, making it easier to identify Ghana's key export sectors. Hovering over different sections may reveal additional details about individual exports. A legend at the bottom features icons representing different industry sectors, offering further categorization.

Gold is the largest export, accounting for 49.1% of total exports, followed by crude petroleum at 17.2%. Cocoa products collectively form a significant share, including cocoa beans (10.1%), cocoa paste (3.31%), and cocoa butter (1.67%). Other notable exports include manganese ore (1.73%), refined petroleum (0.78%), aluminum ore (0.44%), sawn wood (0.83%), and rubber (0.56%). Agricultural exports include coconuts, Brazil nuts, cashews (2.26%), palm oil (0.49%), processed fish (0.85%), and tropical fruits (0.37%). Smaller export categories, such as wheat flour, twine and rope, and specialized ships, are also included.

Users can explore how Ghana's economy is driven by natural resources and agricultural commodities, with mining, petroleum, and cocoa industries playing dominant roles.

Student view

Primary product dependency is strongly correlated with poor development outcomes. In a 2017 report (https://unctad.org/en/PublicationsLibrary/suc2017d5_en.pdf), UNCTAD identified four channels through which primary product dependency contributes to development problems. Over time the average index of primary commodity prices has seen a decline. At the same time, manufactured goods, which are imported by low-income countries, have seen average prices increase. The diverging price of exports compared to imports can cause balance of payment issues for low-income countries, which hinder their ability to spend on development measures. The data in **Figure 3** (above) and **Figure 4** (below) for Ghana illustrates the impact of exports of primary commodities versus imports of manufactured goods.

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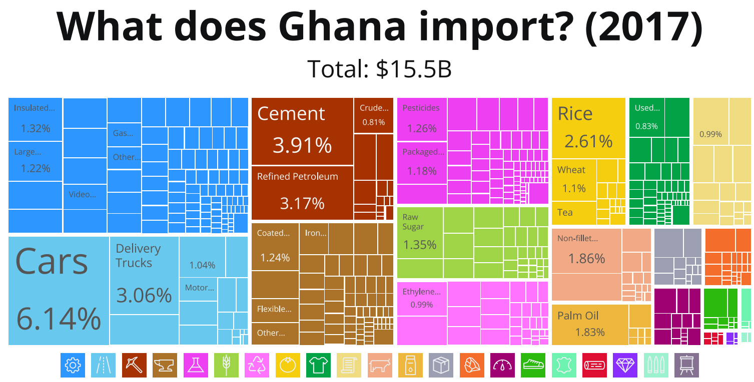

Figure 4. Ghana imports mainly manufactured goods

Source: https://oec.world/en/visualize/embed/tree_map/hs92/export/gha/all/show/2017 (https://oec.world/en/visualize/embed/tree_map/hs92/export/gha/all/show/2017)

More information for figure 4

This interactive treemap visualizes Ghana's imports in 2017, with a total import value of $15.5 billion. Each rectangle represents an imported product, with its size corresponding to its share of total imports. Different colors categorize various product groups, making it easy to identify major import sectors. Cars make up the largest import category at 6.14%, followed by delivery trucks at 3.06%. Cement (3.91%) and refined petroleum (3.17%) are also significant imports. Other notable imports include raw sugar (1.35%), palm oil (1.83%), non-fillet frozen fish (1.86%), and pesticides (1.26%). Industrial materials such as coated flat-rolled iron (1.24%), iron structures (0.75%), and flexible metal tubing (0.63%) highlight Ghana's need for construction and manufacturing inputs. Consumer goods like used clothing (0.83%), ethylene polymers (0.99%), and rubber tires (0.81%) are also important.
Agricultural imports include rice (2.61%), wheat (1.1%), and tea (0.62%). Processed food products such as pasta (0.53%), concentrated milk (0.39%), and poultry meat (1.14%) reflect Ghana's food supply needs. Medical and chemical imports include packaged medications (1.18%), mixed fertilizers (0.59%), and nitrogenous fertilizers (0.55%).
The treemap allows users to visually analyze Ghana's import dependencies, showing how vehicles, industrial materials, and essential food products shape the country's economy. A legend with icons at the bottom represents different industry sectors for further categorization. Hovering over each section may reveal additional details. This visualization offers an intuitive way to understand trade patterns and economic priorities, highlighting Ghana's reliance on imports for transportation, infrastructure, food, and industrial development.

Student
view

A second problem with primary product dependency is economic instability. There are significant income risks for individual farmers and governments. Prices of primary products on world markets tend to be very volatile (Higher level students learned why this is the case in subtopic 2.5 (/study/app/pp/sid-186-cid-754025/book/the-big-picture-id-29882/) on elasticity of demand and subtopic 2.6 (/study/app/pp/sid-186-cid-754025/book/the-big-picture-id-29878/) on elasticity of supply). These unpredictable price changes can radically affect farmers' incomes and governments' tax revenues from year to year. In addition, the risk associated with agricultural production is very high. Climate change, yearly weather variance and pest infestation can devastate farmers' incomes. An example of this is the locust plague that devastated crops in eastern Africa in 2020.

The third problem is known as the Dutch disease. It is named after the problems the Netherlands experienced after the discovery of the Groningen natural gas field in 1959. It refers to a situation where significant increases in exports (often of primary commodities) cause demand for a country's currency to increase, which makes exports of products in other sectors more expensive. This can cause export decline in these other sectors, such as the decline in manufacturing that the Netherlands experienced in 1959. Paradoxically, the success of primary commodity exports from low-income countries may make it difficult for them to diversify into more economically stable secondary production. This can create positive feedback loops that accelerate their dependence on highly volatile primary products. This reduces countries' economic resilience over time.

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Finally, the allocation of windfall incomes can cause conflict and political instability in resource-rich countries. Studies show there is a positive correlation between primary commodity dependence and poor governance and conflict. Civil wars may occur, which damage economic activity and productive resources, not to mention the loss of life. This political conflict diverts attention from urgent development objectives while it undermines the economic activity that might support it. The persistent meddling first from colonial powers, followed by foreign governments and firms wishing to maintain access to vital resources, has made the situation worse. For example, multiple wars in the resource-rich Democratic Republic of Congo have killed and displaced millions of people, with millions more persistently on the edge of starvation. Women and children have been particularly harmed. Sexual violence, slavery, and child labour in mining activities are persistent problems.

As with other barriers to development, we can see how primary sector dependence makes economic growth and incomes unpredictable. This makes it difficult for individuals and governments to support financial wellbeing and it damages the material dimension of development. There are also significant negative impacts on the relational and subjective dimensions of development from political instability, child labour and the disproportionate adverse outcomes for women.

Complete section with 3 questions

Section Start questions Feedback

Previous section(/study/app/pp/sid-186-cid-754025/book/economic-barriers-infrastructure-id-30582/) Next section (/study/app/pp/sid-186-cid-7

Student view

Economic barriers: international market access and the informal economy

Access to international markets

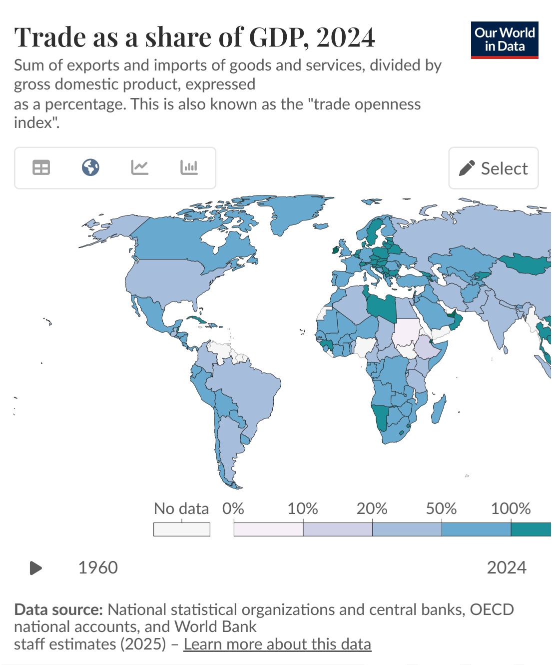
Figure 1. Partnerships for the Goals includes targets and indicators for trade.

Source: "United Nations Sustainable Development Goals (https://www.un.org/sustainabledevelopment/sustainable-development-goals/)"

Note: “The content of this publication has not been approved by the United Nations and does not reflect the views of the United Nations or its officials or Member States”.

SDG 17 is about partnerships for the Sustainable Development Goals. These include trade partnerships. Trade is a very important factor for economic growth and development for all countries, but it is particularly important for low- and middle-income countries. Export revenue is an important source of income that can be used by individuals, firms and governments for development purposes. Imports are also a vital source of knowledge and transferable technologies that can *directly* lead to improvements in wellbeing everywhere.

The following map shows the value of exports and imports relative to total GDP. It highlights the significance of trade flows for low- and middle-income countries, represented by the darker colours. However, access to global markets is uneven, and regional trade faces barriers too.



Interactive 1. Trade as a Share of GDP, 2023.

More information for interactive 1

This interactive color-coded world map presents global trade as a share of GDP in 2023, measured by the sum of exports and imports of goods and services divided by gross domestic product. This metric, also known as the trade openness index, provides insights into how integrated each country is in the global economy. The map uses varying shades of blue, with darker shades representing higher trade-to-GDP ratios and lighter shades indicating lower levels of trade. Countries without available data are shaded with diagonal lines.

Users can toggle between different views using the buttons at the top, switching from the map view to a table or chart. The dropdown menu on the right allows for filtering specific regions or countries. A timeline slider at the bottom enables historical comparisons by adjusting the year, and the play button provides an animated time-lapse to observe trends over time. The color gradient at the bottom represents trade openness percentages, ranging from near-zero levels in some nations to over 500% in highly trade-dependent economies.

Countries with higher trade-to-GDP ratios, represented in darker blue shades, are often small economies heavily reliant on exports or imports. Examples include Singapore, Luxembourg, and Hong Kong, where trade often exceeds 200% of GDP due to their roles as financial and logistical hubs. In contrast, large economies such as the United States, China, and India tend to have lower trade shares, as their large domestic markets reduce reliance on foreign trade.

African and South American nations exhibit diverse trade openness levels. Some resource-rich countries like Botswana and the Democratic Republic of Congo show higher ratios due to commodity exports, while others with less diversified economies rely more on domestic consumption. Similarly, European countries generally have high trade openness, reflecting the strong intra-EU trade relationships.

Additional features include options to download the data, share the visualization, and enter full-screen mode for a more detailed view. Clicking on a country may reveal specific data points, helping users analyze individual nations' trade openness. The map is sourced from World Bank and OECD data, ensuring accuracy and reliability. This tool effectively illustrates global trade patterns, highlighting economic interdependence and regional variations in globalization.

The importance of trade for development is noted in SDG 17, which includes targets and indicators for trade (**Table 1**).

Table 1. SDG 17 targets (left) and indicators (right) for trade.

Overview
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Trade - targets and indicators	
17.10 Promote a universal, rules-based, open, non-discriminatory and equitable multilateral trading system under the World Trade Organization, including through the conclusion of negotiations under its Doha Development Agenda	**17.10.1** Worldwide weighted tariff-average
17.11 Significantly increase the exports of developing countries, in particular with a view to doubling the least developed countries' share of global exports by 2020	**17.11.1** Developing countries' and least developed countries' share of global exports
17.12 Realize timely implementation of duty-free and quota-free market access on a lasting basis for all least developed countries, consistent with World Trade Organization decisions, including by ensuring that preferential rules of origin applicable to imports from least developed countries are transparent and simple, and contribute to facilitating market access	**17.12.1** Average tariffs faced by developing countries, least developed countries and small island developing States

Target 17.10 focuses on a rules-based and equitable multilateral trading system and is measured by average worldwide tariff rates. These average rates have declined from a recent high of 8.57% in 1994 to 2.59% in 2017. This should be good for trade by developing countries.

However, average worldwide tariff rates hide significant differences by country. According to the United Nations and the data in the following map, the highest average tariff rates are found in African regions. Given that geographic proximity is a key determinant of trade relations, regional trade among some of the poorest countries is hindered by higher trade barriers. However, it is important to remember that these higher trade barriers are sometimes defensive, aimed at protecting infant industries, not-yet competitive sectors, from intense global competition and can be an important source of tax revenue for low-income countries.

Tariff rate, applied, weighted mean, all products (%) 2022

Data from World Bank

Student view

Interactive 1. Tariff Rate, Applied, Weighted Mean, All Products (%) 2022.

More information for interactive 1

An interactive world map displays the tariff rate, applied as a weighted mean for all products in 2022. It is color-coded to indicate different tariff levels across countries. Darker shades of blue represent higher tariff rates, while lighter shades signify lower tariffs.

The scale in the bottom right corner categorizes tariff rates into six ranges: below 2.98%, 2.98% to 6.45%, 6.45% to 10.16%, 10.16% to 14.58%, and above 14.58%. Countries with the highest tariff rates, shown in the darkest blue, are mainly concentrated in parts of Africa. Many developed nations, including North America, Europe, and some parts of Asia, have the lightest shades, indicating lower tariff rates.

The data for this visualization is sourced from the World Bank. The interactive nature of the map allows users to explore specific regions and analyze how tariff policies vary globally.

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Lower average tariffs over time are positive developments for global trade; however, we must look at other targets to gain a fuller picture of global trade. SDG target 17.11 measures low-income countries' share of exports. According to UNCTAD, the least developed countries (LDCs) were able to almost double their share of global goods exports from 0.54 percent in 2000 (USD 35 billion) to over 1 percent in 2011–2013. Since then their share of global goods exports has not increased. An explicit goal for LDCs was to double their share of global goods exports again by 2020. This goal will certainly be missed, especially considering the increase in global trade tensions between developed countries in recent years and the impact of the COVID-19 pandemic.

SDG 17.12 focuses on duty- and quota-free access to global markets. The World Trade Organization (WTO) has 'special and differential treatment' provisions in its agreements that give the least developed countries (LDCs) certain rights. Among the provisions for LDCs is a Generalized System of Preferences (GSP). Under the GSP, developed countries can offer zero or very low tariffs on imports of products originating from LDCs. This should be good for LDC exports and often is. However countries are free to choose which LDCs and which products they offer zero or low tariffs to, so the implementation of these preferences is uneven.

Tariff escalation is another issue faced by low-income, primary product-dependent countries. Tariff escalation occurs when importing countries impose higher tariffs on consumer (finished) goods than on intermediate goods or raw materials. Tariff escalation makes it more expensive for countries to process raw materials into products that can be sold for higher prices to capture more of the value added in the supply chain. This is one barrier that prevents low-income countries from moving out of primary product production and into secondary production. Tariff escalation is a practice that can be found in all regions and all income groups of countries. It is more common in countries which depend on manufacturing than in those that depend on agriculture.

As well as the explicit tariff, quota or other trade barriers, low-income countries also face a number of other structural difficulties that hamper their ability to trade. First, the goods they produce may be uncompetitive on global markets because they have low levels of technology and productivity, and lack economies of scale. Another factor is poorly functioning currency markets. Many low-income countries' currencies are not convertible on international markets, making it more difficult for them to engage in foreign trade. They rely on earning hard currencies through exports that can then be used for import purchases. However, if a country has issues with export competitiveness and trade barriers, it will make it difficult to earn enough hard currency to fund import purchases on global markets.

Student
view

International Mindedness

It is important to keep in mind that cooperation on trade among countries is important to ensure that trade does not develop into a zero-sum game. Just because free trade is beneficial to one country does not mean that it will benefit another. There are justifications for protectionism.

Informal economy

The formal sector refers to the part of an economy that is registered and legally regulated. The informal sector refers to the economic activities that are unrecorded and unregulated. These may be legal, but unregistered, economic activities or they may be illegal trading activities. The distinction is important for understanding the extent to which informal economic activities may be a barrier to development.

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Figure 2. An informal market in Indonesia.

Credit: Getty Images by toonman

Lower-income countries tend to have larger informal and unrecorded sectors of the economy. One reason for this is the large number of people who are economically active at subsistence level. They only produce food, clothing and shelter for themselves and their families, not for the open market. Another reason for this is that where there is surplus production for sale, this will often occur in unregulated markets in villages and towns. Finally, trading may go unreported, even if it is well-established, because many countries do not have the institutions, legal and tax framework and staffing to record economic activity.

The informal economy may be a barrier to development for a number of reasons. Incomes tend to be lower in the informal sector than in the formal sector. Entrepreneurs and workers who operate in these sectors are likely to have no economic safety net against unemployment. If the informal economy is large and incomes low, this will *indirectly* affect development by reducing the ability of people to purchase goods and services to improve their wellbeing. Governments do not receive tax revenues from unrecorded economic activity, so there is also less money available for merit goods in health care and education.

Student
view

The informal sector may also *directly* undermine development. Workers may be vulnerable to exploitation, subject to environmental dangers and health hazards. In cases where the informal economic activity is also illegal, we see disturbing human rights abuses, such as in human trafficking.

Still, these problems associated with the informal sector might be better classified as problems with political and economic institutions, rather than the informal sector itself. In fact, there are many economists who see the vibrant and innovative informal sector in low- and middle-income countries as a driver of development. This issue will be explored further in section 4.9.12 (/study/app/pp/sid-186-cid-754025/book/investigation-section-id-30591/).

Theory of Knowledge

If a country becomes indebted, economic theory can illuminate the path to recovery.

Depending upon whether you are a Keynesian or a monetarist, your approach will be completely different.

A Keynesian would argue that the government can grow past the debt. A stimulus to the economy will increase aggregate demand, and thereby increase real GDP. This will increase the capacity of the economy to pay back the debt. The problem is, where does the country obtain the funds to stimulate the economy — should it borrow them from abroad?

A monetarist, on the other hand, would argue that the government must cut back government expenditure. The resulting government surplus can then be used to pay back the debt. The downside to this plan is that decreasing government expenditure could drive the economy into recession.

Knowledge question : How can economists know which perspective is correct?

Complete section with 3 questions

Start questions

Previous section(/study/app/pp/sid-186-cid-754025/book/economic-barriers-international-market-id-30583/)

Next section (/study/app/pp/sid-18

Economic barriers: capital flight and indebtedness

Capital flight and indebtedness tend to be positively correlated. Both may increase as investors and governments react to poor economic conditions in a country. Excessive foreign borrowing may cause capital flight if there is an increase in the likelihood of debt default and economic uncertainty.

Be aware

Capital flight and indebtedness are often positively correlated.

Capital flight

Figure 1. Capital flight is a barrier to development.

Credit: Getty Images Peter Cade

Capital flight is an outflow of funds from a country, often due to negative changes in the economic, political, or social conditions. For some, this definition is too broad, because there are always regular outflows of funds from all countries due to changes in relative risk/reward conditions between economies as investors seek the highest returns on their money. They argue that it is more useful to consider capital flight as flows of funds leaving a country due to crisis, short-term speculative flows known as hot money, and/or funds leaving the country illegally for tax havens abroad, because these forms of capital movement are more likely to damage a country's financial position. A good example is the significant capital flight from emerging markets since the start of the COVID-19 pandemic, estimated at USD 83 billion by the IMF at the start of April 2020.

The difference between capital flight and normal capital outflows is really a matter of degree. If the capital flight is large enough, it will have short-run and long-run negative impacts on the economy. In the short run, countries will often enact very high interest rates to encourage money to stay in the country. The rewards of higher interest may keep money from leaving the economy, but it will also make lending very expensive, which will lower investment and therefore negatively

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impact aggregate demand and GDP. Countries may also impose capital controls to slow the capital flight, but this will make investors wary of putting money into the country. When Argentina experienced capital flight in its recent economic crisis it imposed high interest rates, of over 80% in 2019 (**Figure 2**), as well as capital controls.

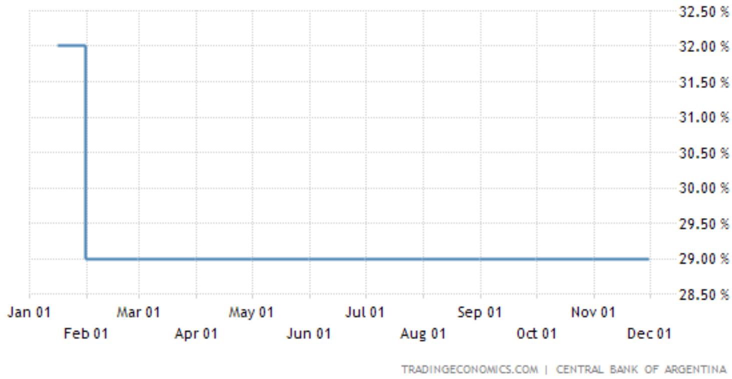

Figure 2. Argentina's benchmark interest rate rose to above 80% in 2019 to reduce capital flight.

Source: tradingeconomics.com (https://tradingeconomics.com/argentina/interest-rate)

More information for figure 2

The graph shows the trend of interest rates set by the Central Bank of Argentina over time, from April 2024 to March 2025. The vertical axis represents the interest rate in percentage terms, ranging from 20% to 100%, while the horizontal axis represents time in months.

The graph depicts a consistent downward trend in interest rates, with multiple stepwise decreases observed between April 2024 and February 2025. The interest rate starts at a high level in April 2024 and experiences several sharp drops in the following months, particularly between April and June 2024. By August 2024, the rate stabilized at a lower level before experiencing a slight decline again in November 2024. The downward trend continues gradually, with additional reductions in early 2025, reaching around 30% by February and dropping further to approximately 20% by March 2025.

The data indicates a significant easing of monetary policy by the Central Bank of Argentina over this period, likely in response to economic conditions such as inflation, growth, or currency stability. The overall trajectory suggests a strategic approach to lowering interest rates in phases rather than a sudden, drastic reduction.

Student view

In the long run, capital flight means there are less domestic savings available for domestic investment purposes. Lower domestic investment can lead to lower long-run economic growth and more risk of capital flight in a positive feedback loop. Capital flight is usually correlated with larger foreign debt levels (see next section). If capital flight is a risk, a country's government and central bank will have less freedom with their fiscal, monetary and exchange rate policies because they will need to consider the impact they will have on capital flight. Finally, capital flight will decrease a country's tax base, leaving less money for governments to spend on merit goods that would promote development.

Thus, capital flight has numerous negative impacts on economic growth and incomes, which *indirectly* affect development by reducing the ability of individuals to spend on goods and services to promote their wellbeing. Capital flight can also negatively impact the ability of the government to provide the institutions and services that are necessary to support development.

Indebtedness

Indebtedness refers to a situation where an individual, firm, or government has borrowed money and now owes money to another party. Individuals, firms and governments borrow money for three main reasons:

1. To service outstanding debt
2. To finance current expenditures
3. To finance long-term infrastructure, industrial and public service projects

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The first two reasons are generally considered to be an inappropriate use of new debt because they usually create even larger debts: the first because using new debt to pay old debt simply compounds the problem, and the second because it is not sustainable for governments to use borrowing to finance normal yearly expenditures. Current expenditures should come from government revenues. The third example is an appropriate use of debt. A country may not have enough income or revenues to finance investments in human and physical capital. When that is the case, borrowing money may enable long-term investments that promote development and economic growth. This investment could increase incomes or revenues to allow a country to pay off its debts.

However, borrowed money is not always put to productive use. Debt levels may become so high that individuals, firms and governments are no longer able to make payments, called debt service, on the debt. When this happens, we say that there has been a debt default. Alternatively, when debts become too high, debt restructuring is possible. This may involve extending payments, changing interest rates or reducing the amount of a loan (called a 'haircut' for lenders, or debt relief/debt forgiveness for debtors) to make it easier for the debtor country to manage the payments.

Some highly indebted countries may be able to continue to make the payments, but only by making sacrifices in their spending on other goods and services, which will undermine development and economic growth. Loan agreements often span many years, so that future generations find themselves paying debts that earlier generations unwisely took on. Therefore sustainable debt levels are important for intergenerational equity.

Table 1. Debt data for four countries with high levels of debt (World Bank).

Country	Total external debt 2018 (million USD)	External debt to GNI ratio	Debt service to exports
Angola	54563.4	54%	21.9%
Tunisia	34661.0	90%	14%
Laos	15587.7	90.2%	14.6%
Sri Lanka	52626.0	60.8%	36%

Student view

Activity

Access the World Bank debt data (http://datatopics.worldbank.org/debt/ids/)and add the data for another 3 countries in a table like the one above in your notes.

Why is it important to consider the ratios of debt to GNI, and debt service to exports, when evaluating levels of debt for a country?

In December 2019, the World Bank published a book called Global Waves of Debt: Causes and Consequences (https://www.worldbank.org/en/research/publication/waves-of-debt). The authors make a number of key points about developing country debt. They point out that the global economy has had four waves of significantly rising debt levels in the past 50 years. The most recent wave began in 2010 and has been the fastest, and broadest, increase in debt we have ever seen. Current total debt levels stood at USD 55 trillion in 2018, which corresponded to 170% of global GDP.

The World Bank has pointed out that the current debt increase is different from past waves. Lending from low- and middle-income countries to each other has increased dramatically. China is the largest bilateral lender, but India, Russia, Brazil and Turkey also have large foreign lending programs. These countries are using lending to promote their own

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development agendas, often to finance and facilitate international trade. Much of the lending takes the form of export credits and loan guarantees connected to imports of goods from the lending country.

China also finances large infrastructure projects in several African countries, providing much-needed money to fill investment gaps. These projects make it easier to extract and export the resources that are important for Chinese manufacturing. Other Western countries have used debt for this same purpose in the past.

Excessive loan amounts are not always in the interest of the borrowing country and the mounting debt levels raise the risk of debt defaults. If the borrower cannot make payments, foreign lenders may use the opportunity to seize national physical and natural capital assets such as ports or mines. This situation has been called debt trap diplomacy. Though much focus on debt trap diplomacy is on China at the moment, it is important to understand that poor lending practices have been widespread in the past from other countries as well.

Like previous waves of debt accumulation, low interest rates have fuelled the current increases. Since the financial crisis of 2008–2009, interest rates around the world have reached historically low levels, making borrowing less expensive. The authors warn that these waves of debt accumulation can trigger widespread financial crises in debt-laden economies when global economic conditions change.

Even before the COVID-19 pandemic, the authors were already sounding the alarm over unsustainable debt levels in emerging markets and developing economies. Since the pandemic, it is clear that these economies need significant assistance to avoid financial crises. At the time of writing this textbook, the G20 has already frozen debt payments from low-income countries to ensure they have more money available to fight the virus. The International Monetary Fund (IMF) has also provided some debt relief to certain countries. You will learn more about the World Bank and the IMF, and their role in lending to countries in need, in subtopic 4.10 (/study/app/pp/sid-186-cid-754025/book/the-big-picture-id-30433/).

Activity

Is Africa facing another debt crisis?

Listen to the podcast below from BBC's The Inquiry. The programme presents expert witnesses who try to answer the question posed in the podcast. The programme does a particularly good job at synthesising the ideas after each expert witness and at the end of the programme.

Student view Section Feedback

Make notes on each of the expert witnesses' answers to the question, and the final conclusion.

Is Africa facing another debt crisis? (https://www.bbc.co.uk/programmes/w3csytgl)— BBC, The Inquiry

Complete section with 3 questions

Start questions

Previous section(/study/app/pp/sid-186-cid-754025/book/economic-barriers-international-market-access-id-30592/)
Next section (/study/app/pp

Geographic barriers: landlocked countries, climate, endemic diseases

Physical geography has an impact on economic growth and development. Access to natural capital, in terms of both resources used in production and resources used to transport goods and services such as rivers and ports, can provide important factors of production for a country's economic activity. The climate can support or hinder agriculture and other economic activities. The prevalence of diseases can also impact human capital. Poor physical geographical conditions are not always an insurmountable barrier to economic growth and development, but they certainly hinder them.

Landlocked countries

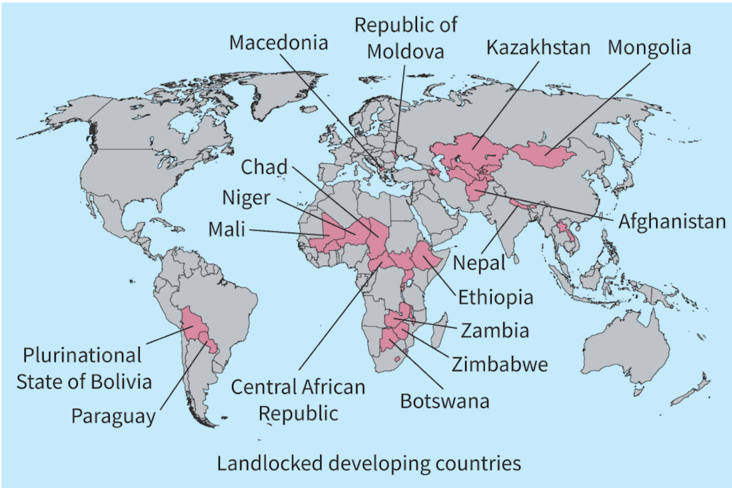

Figure 1. Some of the landlocked developing countries

Source: "UNCTAD (https://unctad.org/en/Pages/ALDC/Landlocked%20Developing%20Countries/LLDCs-Map.aspx)"

More information for figure 1

Landlocked developing countries (LLDCs) have no direct access to the sea, which prevents integration with global trade. Exports and imports of LLDCs must be transported through at least one neighbouring country. This may require extra permits and taxes. Modes of transportation may need to be changed as new countries are crossed. This increases the time, cost and difficulty for LLDC exports to access international markets and for imports to reach their landlocked populations. Being landlocked hinders both economic growth and development.

The challenging physical geography of LLDCs is often worsened by weak transportation infrastructure. The exports of these countries are oriented around markets in far-away countries, whose relationships were developed from colonial times. Thus, when internal infrastructure exists it is usually oriented around getting products to ports rather than to neighbouring countries.

This orientation towards global, rather than regional, export infrastructure is a real challenge to achieving significant impact in the near term. The African Continental Free Trade Area (AfCFTA) aims to lower trade barriers among 28 African countries, some of which are landlocked. It came into force in 2019 and should help these countries trade more freely. However, the full benefits will not be felt until more regional infrastructure patterns develop.

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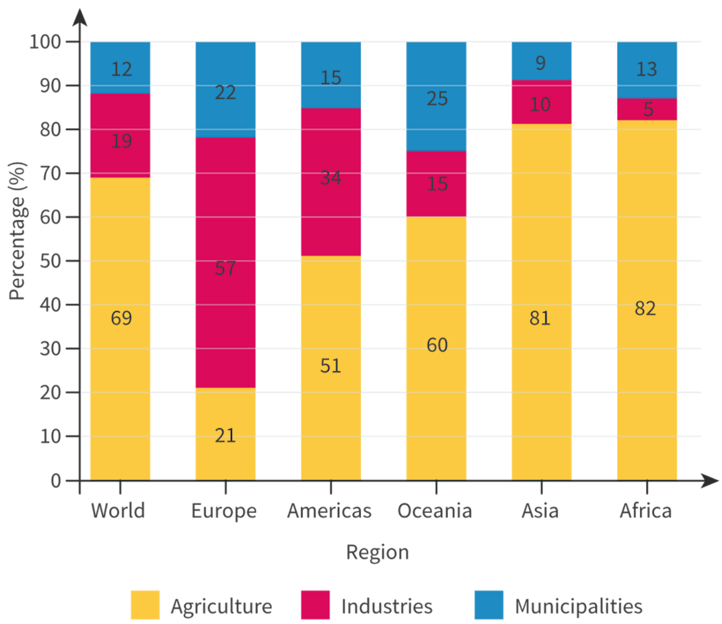
Climate

Every country has different climatic conditions that influence their economic activities. Different climates determine different types and methods of agriculture or animal breeding. Areas of the world with extreme climates may find it more difficult to grow their economies and improve development.

One such problem is drought. According to the United Nations, more than two billion people live in countries with high water stress and about four billion people globally experience at least one month of severe water scarcity per year. Lack of water has a number of economic and development consequences. One is that it makes growing food for the population and manufacturing much more difficult. Agriculture accounts for the majority of freshwater usage, particularly in low-income countries. Industry also uses water in production, accounting for about 19% of global water extraction. Water is also used in making almost every manufactured product. Water is essential for both primary and secondary production and shortages are likely to lead to lower economic growth and incomes.



Student view

Figure 2. Agriculture and industry account for the vast majority of water withdrawal (2015).

Source: Food and Agriculture Organization of the United Nations (http://www.fao.org/aquastat/en/overview/methodology/water-use).

Reproduced with permission

More information for figure 2

As well as affecting output and incomes and thus the material dimension of development, water shortages also affect the relational and subjective dimensions of development. Water is essential to human health and where it is lacking, dehydration and disease follow. Sanitation systems typically rely on water for waste removal and disinfection. Water scarcity impacts women disproportionately. In drought-prone areas, women can spend many hours a day securing water for the family. This perpetuates economic inequality as it prevents them from engaging in income-producing activities.

We expect water shortages to increase in the future as climate change alters rainfall patterns. Many of the world's largest cities are facing likely water shortages in the future that could severely affect economic growth and development. Other disastrous climate impacts such as floods, severe storms and urban heat waves are also expected to increase. As was discussed in section 4.7.6 (/study/app/pp/sid-186-cid-754025/book/relationship-between-sustainability-and-poverty-hl-id-30439/), climate change disproportionately impacts those in poverty.

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Activity

Access the water stress map (https://www.wri.org/applications/aqueduct/water-risk-atlas/#/?advanced=false&basemap=hydro&indicator=bws_cat&lat=13.675344552820276&lng=103.07579040527345&mapMo the World Resources Institute Water Risk Atlas.

Copy and paste the map into a document. Identify the location of the 10 largest cities projected by population for 2050 on the map (populations are estimates).

- Delhi, India — 43 million
- Tokyo, Japan — 36 million
- Shanghai, China — 34 million
- Dhaka, Bangladesh — 31 million
- Cairo, Egypt — 29 million
- Bombay, India — 27 million
- Kinshasa, DR Congo — 27 million
- Mexico City, Mexico — 25 million
- Beijing, China — 25 million
- São Paulo, Brazil — 24 million

How many of those are in high water stress regions?

Endemic diseases

Figure 3. SDG 3 includes an endemic and epidemic disease target.

Source: "United Nations Sustainable Development Goals (https://www.un.org/sustainabledevelopment/sustainable-development-goals/)"

Note: “The content of this publication has not been approved by the United Nations and does not reflect the views of the United Nations or its officials or Member States”.

Student view

An endemic disease occurs when an infection is constantly maintained at a baseline level in a population without external inputs.

Endemic diseases are difficult to eliminate and they cripple development. In terms of the material dimension of development, sick people cannot work, or work as well. Low productivity of human capital results in lower economic growth and low or no incomes for individuals to purchase the goods and services they need for their wellbeing.

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In terms of the relational dimension of development, illness prevents people from realising their capabilities, achieving their goals, and having real choices about their future. Disease, especially where communicable, also affects social interactions and damages relationships.

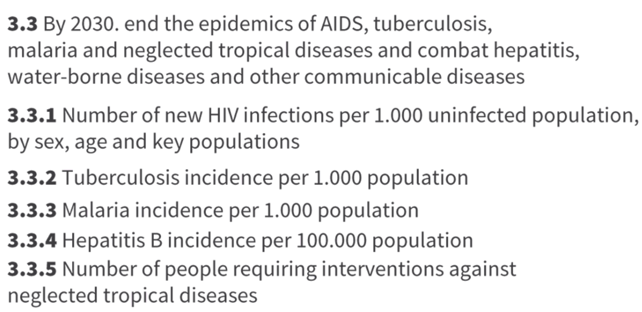
In terms of the subjective dimension of development, health is a very important factor for wellbeing. Sickness significantly reduces subjective wellbeing due to its impact on human capabilities and relationships.

Figure 4. Infectious disease quarantines, such as those in place to stop the spread of Ebola, divide communities and impede development.

Source: "Operation Stop Ebola (https://www.flickr.com/photos/cdcglobal/34559500105/)" by UNMEER is licensed under CC BY-ND 2.0 (https://creativecommons.org/licenses/by-nd/2.0/)

Sustainable Development Goal 3 on Good Health and Wellbeing has an ambitious target 3.3 to end certain epidemics and endemic diseases (**Figure 5**) by 2030. The indicators look at the incidence of disease in the population in the cases of HIV, malaria, tuberculosis and hepatitis, and the number of people needing intervention for neglected tropical diseases (NTDs). According to the World Health Organization, progress is not happening fast enough to meet the target. The COVID-19 pandemic will make progress even more difficult.

Student view



3.3 By 2030. end the epidemics of AIDS, tuberculosis, malaria and neglected tropical diseases and combat hepatitis, water-borne diseases and other communicable diseases

3.3.1 Number of new HIV infections per 1.000 uninfected population, by sex, age and key populations

3.3.2 Tuberculosis incidence per 1.000 population

3.3.3 Malaria incidence per 1.000 population

3.3.4 Hepatitis B incidence per 100.000 population

3.3.5 Number of people requiring interventions against neglected tropical diseases

Figure 5. SDG 3 target and indicators related to disease.

Source: "SDG (https://www.un.org/sustainabledevelopment/sustainable-development-goals/)"

More information for figure 5

The image displays components of Sustainable Development Goal 3 related to health. It outlines target 3.3, which aims to end the epidemics of AIDS, tuberculosis, malaria, and neglected tropical diseases by 2030, while also addressing hepatitis, water-borne diseases, and other communicable diseases. The image lists specific indicators: 3.3.1 covers the number of new HIV infections per 1,000 uninfected people, segmented by sex, age, and key

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populations. Indicator 3.3.2 refers to tuberculosis incidence per 1,000 people, 3.3.3 addresses malaria incidence per 1,000 people, 3.3.4 focuses on Hepatitis B incidence per 100,000 people, and 3.3.5 indicates the number of people needing interventions against neglected tropical diseases.

[Generated by AI]

HIV/AIDS

HIV stands for human immunodeficiency virus. HIV can be transmitted via the exchange of a variety of body fluids from infected people. It affects the immune system, weakening the body's defence against infections and some kinds of cancer. At the most advanced stage, victims experience acquired immunodeficiency syndrome (AIDS), which can take 2 to 15 years to develop.

In the past 50 years, HIV has killed more than 32 million people worldwide. In 2018, almost 38 million people were living with the disease. There is no cure for HIV infection, but there are treatments, called antiretroviral drugs (AVRs), that can control the virus and help prevent its spread. Today, for those who have access to AVRs, HIV has become a chronic and manageable illness. However, access to HIV testing and AVRs is significantly lower in low-income countries, making their populations significantly more at-risk. Women and girls, in particular, are threatened due to lack of power to make reproductive health decisions.

You can explore the global HIV prevalence and how it impacts different key populations using this (https://kpatlas.unaids.org/dashboard) interactive map.

Malaria

Figure 6. The mosquito is the deadliest animal in the world.

Credit: Getty Images Joao Paulo Burini

Student
view

Malaria is a mosquito-borne disease caused by parasites transmitted to people through mosquito bites. Children are especially vulnerable. According to the World Health Organization World Malaria Report (https://www.who.int/news-room/feature-stories/detail/world-malaria-report-2019), in 2018, there were 408 000 deaths due to malaria globally. Almost half of the world's population is at risk of infection from malaria. However, most malaria cases and deaths occur in sub-Saharan Africa. Nigeria alone accounted for 24% of global malaria deaths in 2018.

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According to the United Nations, despite great strides on reducing malaria over the past few decades, progress has now stalled. Funding for malaria eradication has fallen, and is now only about half of the amount that the UN estimates is needed to reach established goals on the illness.

Neglected tropical diseases (NTDs)

Neglected tropical diseases (NTDs) are infectious diseases that affect more than 1.7 billion of the world's poorest and most marginalised people. The diseases exist in 149 countries and are prevalent where access to health care, sanitation and clean water is poor, especially in rural areas, informal settlements and areas of conflict.

Figure 7. A case of elephantiasis.

Historically, little attention has been given to these diseases, but the World Health Organization (WHO) and various partnerships have now increased focus and money on the issue. The WHO currently focuses on 20 NTDs and has published a roadmap for eliminating some of these diseases. In 2012, Uniting to Combat Neglected Tropical Diseases (https://unitingtocombatntds.org/), a group of donor agencies, international development organisations and pharmaceutical companies, endorsed the London Declaration on Neglected Tropical Diseases (https://www.who.int/neglected_diseases/London_Declaration_NTDs.pdf), which identified 10 NTDs for eradication by 2020:

Student view

Bilharzia	Blinding trachoma	Chagas disease
Elephantiasis	Guinea worm disease	Intestinal worms
Leprosy	River blindness	Sleeping sickness
Visceral leishmaniasis		

Though none of these diseases will be eliminated by the deadline, the London Declaration provided an important push for progress on all of the 10 NTDs. In particular, diagnostic tools have been improved (https://www.globalhealthnow.org/2020-01/neglected-tropical-diseases-lesson-elimination#:~:text=On%20January%2030%2C%202012%2C%20donor,of%20Neglected%20Tropical%20Diseases)%20and the time to significantly reduce transmission of these terrible diseases.

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Activity

Access the Uniting to Combat Neglected Tropical Diseases (https://unitingtocombatntds.org/ntds/)website and find out more about one of the NTDs listed above.

- Identify 5 key facts about the disease.
- Explain how infection with the disease could affect productivity, economic growth and incomes.

Explain how infection with the disease could directly affect development in terms of relational and subjective dimensions.

Complete section with 3 questions

Section
Start questions
Feedback

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Next section (/study/app/pp/sid-186-cid-75

Student view

Political barriers

Governance

Governance refers to decision-making and decision-implementing processes within an organisation or institution. Governance occurs any time decisions are taken in and for an organisation or institution of any scale – local, regional, national or international. To understand governance, you need to consider informal actors because they can have an enormous influence on the behaviour of formal actors in organisations and institutions. For example, the power and influence of wealthy elites or other interest groups in a country must be examined because they can affect the policy decisions of government officials.

Making connections

The ideas in this section have a connection to some of the key concepts in the IBDP Global Politics course, especially related to the key concepts of power and legitimacy.

Principles of good governance

Good governance, from both governmental and non-governmental bodies, is extremely important for both economic growth and development. **Figure 1** illustrates the main principles of good governance.

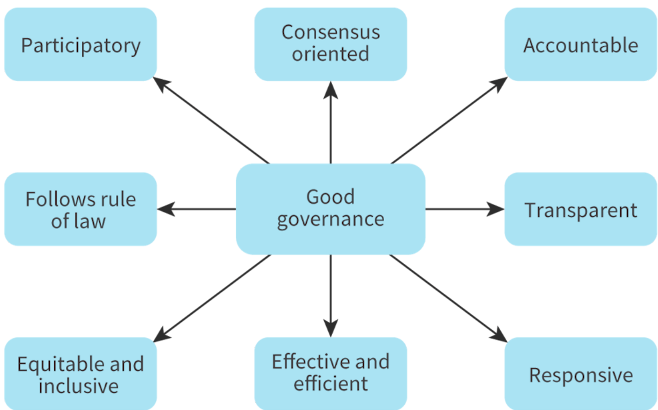

Figure 1. Principles of good governance.

More information for figure 1

The diagram displays principles of good governance. At the center is a box labeled 'Good governance' with eight boxes surrounding it, each connected by an arrow, indicating that these are principles or characteristics of good governance. The surrounding boxes are labeled: 'Participatory,' 'Consensus oriented,' 'Accountable,' 'Transparent,' 'Responsive,' 'Effective and efficient,' 'Equitable and inclusive,' and 'Follows rule of law.' Each label suggests a key aspect necessary for achieving good governance.

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Table 1. Qualities of good governance explained.

Qualities of good governance	Explanation
Participatory	decision-making bodies should consult, and to some degree be composed of, the stakeholders who are affected by decisions
Consensus-orientated	decision-making bodies should aim for agreement among stakeholders on actions
Accountable	decision-making bodies should be held responsible for the consequences, good and bad, of their actions
Transparent	decision-making bodies should be open about how decisions are made and what the consequences of those decisions are
Responsive	decision-making bodies should listen to and meet the needs of the groups that they represent
Effective and efficient	decision-making bodies should take actions that will work, in a timely fashion, and make the best and most sustainable use of resources
Equitable and inclusive	decision-making bodies should aim for fair decisions that also account for those at the margin
Follows rule of law	the power of decision-making bodies is restricted through well-defined and established laws (see section 4.9.8 (/study/app/pp/sid-186-cid-754025/book/legal-systems-and-property-rights-id-30588/))

When decision-making bodies adhere to these principles, it helps to reduce corruption, account for the views of marginalised groups, and enable decision-makers to be responsive to the present and future needs of society. Unfortunately, all countries experience periods of poor governance, where one or more of these principles are not upheld by those making decisions.

Student view

Power asymmetries

Power asymmetry refers to a situation where certain stakeholders have a disproportionate amount of power in a system or organisation. Poor governance results from power asymmetries, and in turn poor governance can worsen power asymmetries. These power asymmetries can result in decision-making that favours particular groups over others, worsening inequality and injustice. Usually these power asymmetries are connected with wealthy elites and their control of resources. This situation represents a positive feedback loop that can be very difficult to break.

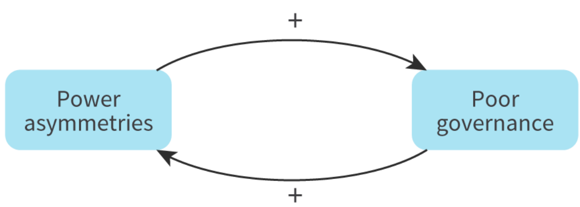

Figure 2. Power asymmetries lead to poor governance, which amplifies power asymmetries further.

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More information for figure 2

The diagram illustrates a feedback loop involving two main components: 'Power asymmetries' and 'Poor governance.' It consists of two blue rectangles, with the first labeled "Power asymmetries" on the left and the second labeled "Poor governance" on the right. An arrow points from "Power asymmetries" to "Poor governance," and another arrow points back from "Poor governance" to "Power asymmetries," suggesting a cyclical pattern. Each arrow is accompanied by a plus sign, indicating that the two components reinforce each other in a positive feedback loop. This implies that an increase in power asymmetries leads to poor governance, which in turn exacerbates power asymmetries. The diagram visually represents the idea of a cycle where each factor perpetuates the other, highlighting a difficult-to-break loop that contributes to continued inequality and injustice.

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One manifestation of this is called state capture or regulatory capture. This is a form of corruption . It occurs when the decisions and policy making of the government is dominated by private, often corporate, power. Specific corporations or industries may have a huge financial interest in government regulations. They experience concentrated gains or losses from regulatory activity, while the vast majority of voters may only experience small gains or losses. Thus, corporate power is often exercised to influence law-making in their favour. Such behaviour is also called rent-seeking.

Countries with weak institutions, such as often exist in low-income countries, can be particularly vulnerable to state capture. An extreme example is the influence of various drug cartels in the Colombian government over the past 40 years. However, high-income countries are not immune, especially when lobbying and campaign financing laws allow large money flows to government officials, such as in the USA.

Student
view

Figure 3. Drugs seized by the Colombian police, 2014.

Source: "Illegal drug trade in Colombia
(https://commons.wikimedia.org/wiki/File:As%C3%AD_evitamos_que_sigan_envenenando_las_juventudes_del_mundo._(13761079
by National Police of Colombia is under CC BY-SA 2.0 (https://creativecommons.org/licenses/by-sa/2.0/deed.en)

Overview (/study/app/pp/sid-186-cid-754025/

According to the US Financial Crisis Inquiry Commission (https://www.govinfo.gov/content/pkg/GPO-FCIC/pdf/GPO-FCIC.pdf), the US Financial industry spent billions of dollars influencing the government to weaken regulations on financial institutions, markets and products. Between 1999 and the financial crisis of 2008, the sector spent approximately USD 2.7 billion to lobby government officials. At the same time individuals and political action committees received more than USD 1 billion in campaign contributions.

As a result of weaker regulation, the activities of the financial industry put the entire global economy at risk. Trillions of dollars were spent rescuing banking institutions, whose failure could have destroyed the global financial system, and on fiscal stimulus packages to prevent economic collapse. The resulting negative impact on economic growth and development, particularly for the most vulnerable around the world, is well-documented.

Political systems

A political system is a set of legal institutions that define how the government is structured and how it functions. Developing countries have a variety of political systems. Democracies govern Brazil and India, while there has been military rule in Sudan, and China and Cuba are single-party states.

Within each of these systems, we also find a variety of legal, constitutional and organisational arrangements. Each country's system is unique and will have a huge impact on its ability to increase human wellbeing over time.

It is difficult to make generalisations about the effectiveness of any one type of political system with regard to economic growth and development. Some democracies have been very successful at improving economic growth and wellbeing; others have failed. Amartya Sen famously argued in *Poverty and Famines: An Essay on Entitlement and Deprivation* that democracies are better at avoiding famines, in part because they are held accountable by the people who elect them. Sometimes, stronger centralised or even authoritarian governance can have limited advantages, as China’s swift and strong response to the COVID-19 pandemic showed.

Democratic political systems are usually in the best position to meet the principles of regular good governance. It is much easier for systems with centralised authority to systematically abuse their power, victimise minority groups, and make decisions that do not consider the needs of a wide range of stakeholders. However, democracies are not perfect political systems, and may also experience poor governance, particularly when state/regulatory capture occurs.

Student view

Figure 4. Prime Minister Narendra Modi of India, the world’s largest democracy.

Credit: Getty Images Stephanie Keith / Stringer

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Activity

Dambisa Moyo is a Zambian international economist and has been a vocal critic of the role of foreign aid in Africa. Her latest book, *Edge of Chaos* , examines the problems facing democracies in developing and developed countries alike. In the article linked below, from Foreign Policy magazine, Moyo discusses why democracies have failed to address important economic issues.

Figure 5. Dambisa Moyo.
Credit: Getty Images Dimitrios Kambouris / Staff

Why Democracy Doesn't Deliver (https://foreignpolicy.com/2018/04/26/why-democracy-doesnt-deliver/)— Dambisa Moyo in Foreign Policy

Student view

1. Summarise Moyo's arguments about why many democracies are failing in governance.
2. To what extent do her claims relate to the concepts of state capture / regulatory capture mentioned in this section?
3. Briefly outline Moyo's recommendations to improve democratic governance.

Corruption

Figure 6. Government officials participate in the anti-corruption walk held in Kampala, Uganda.

Source: "Anti corruption walk - Kampala (https://commons.wikimedia.org/wiki/File:12042019_Photo_by_Athumani_Halima_Government_officials_participate_in_the_Anti_co by Athumani Halima is under Public Domain

Corruption is the abuse of power for private gain, including bribery, embezzlement, graft, extortion and blackmail, and nepotism, among others. Corruption can occur in both governmental and non-governmental organisations of all types. It significantly undermines the principles of good governance outlined in the previous subsection and is therefore a barrier to both economic growth and development. The video below explains the impact.

How does corruption affect you? | Trans...

Activity

Choose one of the following forms of corruption, briefly research what it means, and explain how it can be a barrier to economic growth and development. Make sure to address growth and development separately using frameworks you have learned in previous sections and subtopics.

bribery	**embezzlement**	**graft**
extortion and blackmail	nepotism	

If you are stuck for ideas, this IMF article may help you. It addresses both the economic and development costs of corruption:

The Cost of Corruption (https://www.imf.org/external/pubs/ft/fandd/2019/09/pdf/the-true-cost-of-global-corruption-mauro.pdf)— IMF

Transparency International (https://www.transparency.org/)publishes a Corruption Perceptions Index (CPI) each year, using datasets from 13 data sources including the World Bank, World Economic Forum, and private risk and consulting companies. The CPI compiles the data into a scale from 0 (high levels of corruption) to 100 (low levels of corruption).

The CPI results from 2019 show that the majority of countries are making little or no reduction in corruption. The findings also reveal that corruption is more prevalent in countries where large sums of money can flow into political campaigns, which make politicians accountable to wealthy campaign donors, instead of to the voters.

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Corruption Perceptions Index 2019 | Transparency International

Be aware

The Corruption Perceptions Index uses the same abbreviation (CPI) as the consumer price index. Be sure not to confuse the two indices.

Complete section with 3 questions

Section

Start questions

Feedback

Previous section(/study/app/pp/sid-186-cid-754025/book/geographic-barriers-landlocked-id-30585/)

Next section (/study/app/pp/sid-186-cid-75

Student view

Institutional barriers: legal systems and property rights

Legal systems

Types of legal systems

Most countries in the world use one of, or a combination of, three legal systems: civil law, common law and religious law. Civil and common law systems are the most widespread; however, many legal systems are mixed, combining elements of both. Countries' legal systems are formed by their own histories and each country's system is unique.

- Civil law systems are based on comprehensive legal codes that are regularly updated.
- Common law systems also have statutes as civil systems do, but they also rely heavily on precedents, or case law, from judicial rulings to define the law.
- Religious law systems are based on texts or traditions in a given religion.

Figure 1. Justice and strong institutions are an important factor for development.

Source: "United Nations Sustainable Development Goals (https://www.un.org/sustainabledevelopment/sustainable-development-goals/)"

Note: "The content of this publication has not been approved by the United Nations and does not reflect the views of the United Nations or its officials or Member States".

Rule of law

No matter what legal system is used, the rule of law is important for economic growth and development. Rule of law means that the arbitrary exercise of power is restricted through well-defined and established laws. According to the World Justice Project (https://worldjusticeproject.org/), there are four principles comprising the rule of law (**Figure 2**).

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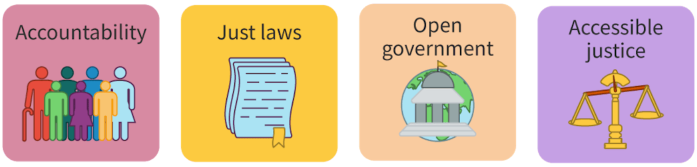

Figure 2. Four principles of the rule of law.

The four principles of the rule of law help prevent government officials from acting arbitrarily, unpredictably or illegally. The principles, when working, ensure that everyone is aware of the 'rules of the game' and how those rules are made, and cannot be accused of breaking laws that do not exist. The competent and just operation of courts ensures that the accused get a fair trial and that disputes are handled objectively and swiftly. The rule of law can reduce the risk for firms to make investments in productive capacity, which will increase economic growth and incomes. It also gives individuals a greater sense of security and trust in political systems, which can help to maximise their freedoms and capabilities and improve their relational and subjective development.

Figure 3 below shows the results of the World Justice Project's Rule of Law Index (https://worldjusticeproject.org/rule-of-law-index/global/2020/). The Index reflects the results of surveys of 120 000 households and 3 800 experts to assess how the rule of law is experienced and perceived around the world. The survey asks questions related to nine factors that are related to the four principles listed in **Figure 2**. As you can see, there is generally a positive correlation between rule of law and national incomes.

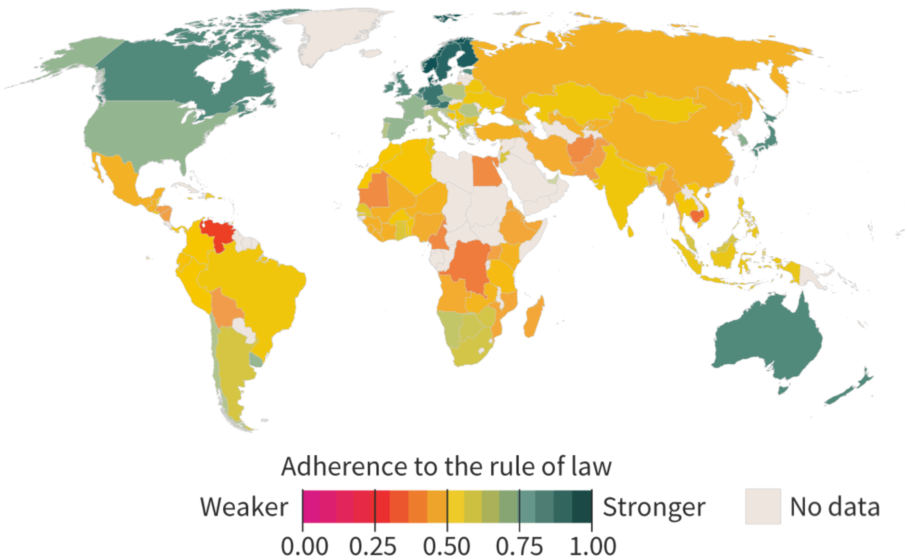

Figure 3. Rule of Law Index 2020.

Source: "World Justice Project (https://worldjusticeproject.org/rule-of-law-index/global)"

More information for figure 3

This image is a colored map representing the "Rule of Law Index 2020" by the World Justice Project. The world map uses a gradient color scheme to indicate the adherence to the rule of law across different countries, ranging from 0.00 to 1.00. Countries are color-coded from weaker adherence in shades of red and orange to stronger adherence in shades of green, as shown in the accompanying legend. The map spans all continents, illustrating varying levels of rule of law adherence globally. Some countries are marked in white to indicate that no data is available for these areas.

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Activity

Access the World Justice Project's Rule of Law Index (https://worldjusticeproject.org/rule-of-law-index/global/2020/). Identify one country with a poor score in the Index and look more closely at the factors leading to that score.

In writing, or with a partner, choose two of those factors and explain how they could affect economic growth and development.

Tip: on development, be sure to frame your comments on indirect and direct impacts on development or frame it in terms of material, relational, and subjective dimensions of development to practise using frameworks for analysis and evaluation.

Costs of injustice

According to Pathfinders for Peace, Justice and Inclusive Societies (https://www.sdg16.plus/)Justice for All Report (https://www.justice.sdg16.plus/report), 5.1 billion people – two-thirds of the world's population – do not have meaningful access to justice. Women, children, poor people, people with disabilities, and people from minority ethnic communities find it the hardest to access justice, making them vulnerable to harm and exploitation.

Injustice can lead to lost income, unemployment and stress, among other physical and mental health impacts. Even if education and health care provision is reasonable, without justice, people will not be able to reach their full potential and development will be threatened. Injustice also fosters political instability by increasing marginalisation and fuelling grievances and violent conflict, as we saw in the period after the Arab Spring (https://www.theguardian.com/world/2018/dec/30/arab-spring-aftermath-syria-tunisia-egypt-yemen-libya). It is also costly. In low-income countries common injustice issues cost over two percent of GDP.

Property/land rights

Student
view

The term property right generally means an owner's rights to:

- use a good or resource for consumption
- use a good or resource to generate income
- transfer (sell, give, or leave behind after death) a good or resource to someone else
- contract with others by renting the good or resource, using it as collateral, or allowing other people to use it
- exclude others from using a good or resource.

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Figure 4. Property rights give owners control over its use, among other rights.

Credit: Getty Images Siegfried Layda

Property rights are generally seen as a very important part of the institutional structure of an economy. The government has a key role in defining and enforcing both formal and informal property rights.

There are four main ways that a lack of defined and enforceable property/land rights affects economic activities, and therefore economic growth and development:

- Expropriation risk – when property/land rights are not secure, the owners may not be able to realise the benefits of their investments, innovations, and efforts. This may reduce incentives to take risks, invest, innovate and work.
- Protection costs – when property/land rights are not secure, it costs owners money and effort to defend their property, which is an inefficient use of financial resources and time, resulting in lower output.
- Resource allocation inefficiency – when property/land rights are not secure, it may not be possible to transfer resources to owners who can use them most productively. This will lead to inefficiency and lower output.
- Collateral for transactions – when property/land rights are not secure, it may not be possible to use assets as collateral to support financial market transactions, such as accessing loans to invest in productive resources. This will reduce output.

In addition to lowering economic growth and incomes, which affects the material dimension of development, a lack of property/land rights can also lead to reduced relational and subjective dimensions of development. When land rights are lacking or insecure, access to housing and food production may be precarious. This increases stress and makes it impossible for people to plan for their future and take risks, because they cannot rely on access to the resources they use. This will lower their happiness and perceived well-being.

Globally, women face discrimination in terms of property rights. According to the World Bank (https://blogs.worldbank.org/developmenttalk/womens-property-rights-are-key-economic-development), two-fifths of countries restrict women's property rights. Women do not have equal ownership to immovable property, such as land, in 19 countries. Men and women do not have equal rights to inherit assets from their spouses in 44 countries. This limits women's incomes, security and development, which increases their dependence on men and extended families.

Student
view

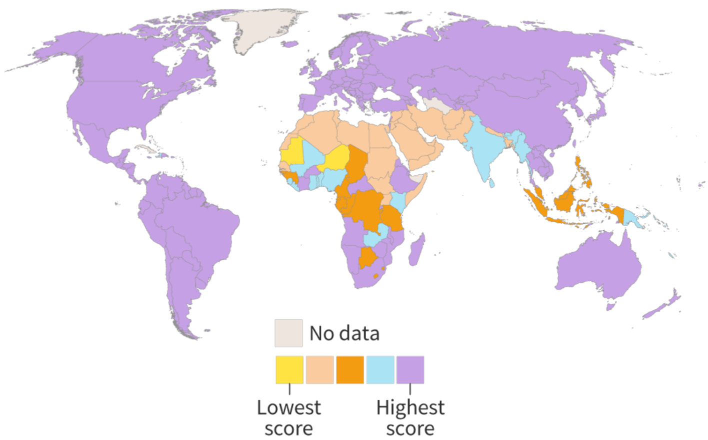

Figure 5. Globally, women have unequal property rights, limiting their and their countries' incomes and development

Source: https://datawrapper.dwcdn.net/drSDp/2/ (https://datawrapper.dwcdn.net/drSDp/2/)

More information for figure 5

Overview (/study/app/pp/sid-186-cid-754025/

This is a world map highlighting countries and regions with different levels of property rights for women. The map uses a color-coding system to indicate the level of property rights, with a key at the bottom indicating the range from "Lowest score" to "Highest score." The colors range from dark purple, representing the highest score, to yellow, representing the lowest score, with intermediate colors representing varying levels of scores. Many countries in Africa and parts of Asia are in the lower range of scores, indicating unequal property rights for women. Most countries in Europe, North America, and South America are represented in shades indicating higher scores or improved property rights. The map also has areas marked as "No data," indicating regions where information is not available.

[Generated by AI]

When women have access to property and land, communities thrive. Women can start and improve businesses by using assets as collateral to secure credit. They can support their families and live with greater agency to determine their future. The World Bank contends that equal property rights for women is essential for development.

It is important to understand that property/land does not have to be completely privately owned to achieve the benefits of secure property rights. Common property rights have been, and continue to be, an important part of many indigenous and modern economic systems. In fact, communal property systems can be very effective at maintaining natural capital and equitable allocation of natural income.

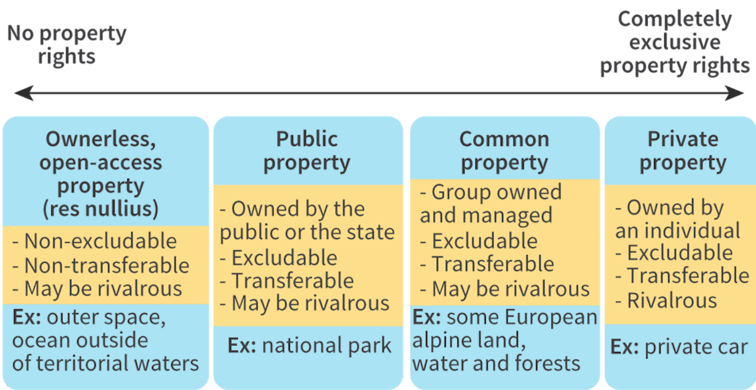

Figure 6. A continuum of property rights.

More information for figure 6

Student view

The diagram illustrates a continuum of property rights, spanning from "No property rights" to "Completely exclusive property rights." It is divided into four main categories, each described with specific attributes:

1. **Ownerless, open-access property (res nullius):**
2. Characteristics: Non-excludable, non-transferable, may be rivalrous.
3. Example: Outer space, ocean outside of territorial waters.

4. **Public property:**

5. Characteristics: Owned by the public or the state, excludable, transferable, may be rivalrous.
6. Example: National park.

7. **Common property:**

8. Characteristics: Group owned and managed, excludable, transferable, may be rivalrous.
9. Example: Some European alpine land, water, and forests.

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10. **Private property:**

11. Characteristics: Owned by an individual, excludable, transferable, rivalrous.
12. Example: Private car.

This diagram visually represents the gradation of property rights from less to more exclusive ownership and control.

[Generated by AI]

Be aware

Common pool or common access resources, terminology used in the IB syllabus, is not the same as common property. Common pool or common access resources are also called open access resources. These are resources that have no owner, on the left-hand side of the continuum in **Figure 6**. Common property refers to group ownership of a good or resource.

The problem of overexploitation associated with common pool resources is not usually a problem with common property rights. In fact, common property rights can be an effective way to manage resources for the greater good.

Complete section with 3 questions

Start questions

Section Feedback

Previous section(/study/app/pp/sid-186-cid-754025/book/political-barriers-id-30586/) Next section (/study/app/pp/sid-186-cid-754025/book/ins

Student
view

Institutional barriers: tax structures and banking systems

Tax structures

The tax structure of a country refers to the mix of taxes it uses to raise revenues, as well as the rates of tax applied, the methods of government enforcement and levels of tax payment compliance.

As you learned in subtopic 3.6 (/study/app/pp/sid-186-cid-754025/book/the-big-picture-id-30469/) on fiscal policy, governments need money for various types of spending, including current expenditures, capital expenditures and for transfer payments. They get this money primarily through different types of taxes:

- direct taxes on income (personal and corporate);
- indirect taxes on goods and services (VAT and excise taxes); and
- trade taxes, such as import tariffs.

Generally, we look at tax revenues as a percentage of GDP in order to understand how much money is being raised by governments relative to the size of their economies.

There are significant differences in the amount of money that governments can raise with taxes relative to the size of their economies. This matters because government spending is an important part of promoting development, including the provision of infrastructure for economic activity and merit goods to support human health and education. **Figure 1** shows that, at the high end of tax revenue collection, most European countries collect more than 30% of GDP. At the low end of the spectrum, countries such as Somalia and Saudi Arabia collect tax revenues amounting to less than 5% of GDP. However, in Saudi Arabia's case, this is largely related to the large oil revenues that the government receives from its 98.5% stake in the oil firm Saudi Aramco (https://www.saudiaramco.com/). It has not needed to raise much revenue from taxes, but this situation is changing, especially with the economic uncertainty, declining oil demand and prices during the COVID-19 pandemic.

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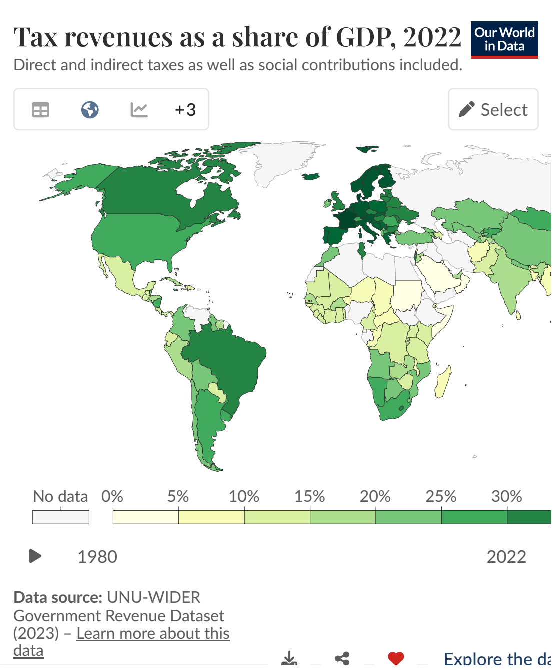

Figure 1. Tax revenues as a share of GDP.

More information for figure 1

This interactive color-coded world map presents tax revenues as a share of GDP for 2022. It represents the proportion of a country's economic output collected through direct and indirect taxes, including social contributions. The map uses a gradient color scheme, with lighter shades representing lower tax revenues and darker shades indicating higher percentages.

Users can explore the data through different views, including a table and chart format. The dropdown menu allows for filtering by region or country, making it easier to compare tax structures across different economies. The time-lapse feature enables users to track changes over time, starting from 1980, providing insights into long-term trends in taxation policies.

Countries in Europe generally display higher tax revenue shares, reflecting comprehensive welfare systems and social security contributions. Scandinavian nations, France, and Germany appear in the darkest shades, signifying tax revenues exceeding 40% of GDP. In contrast, many African and some Asian nations show much lower tax-to-GDP ratios, often below 10%, indicating limited tax collection capacity or reliance on alternative revenue sources like natural resources.

Latin American countries exhibit moderate tax revenue shares, with Brazil and Argentina on the higher end, while many Central American nations fall into the lower range. The United States and Canada show intermediate values, with the USA traditionally having a lower tax burden compared to European nations.

This interactivity is useful for understanding the role of taxation in economic development and governance. High tax revenues often correlate with stronger public services, while lower ratios may suggest limited government resources or informal economies.

Student view

We can see that higher-income countries typically have higher tax revenues as a percentage of GDP. On average, high-income countries generate almost twice as much tax revenue relative to GDP as low-income countries. There are also differences in where they get their tax revenues. High-income countries generate much more income from direct taxes (especially personal income taxes). Lower-income countries depend much more on indirect taxes.

According to the IMF, there are a number of reasons why low-income countries have difficulties raising tax revenues. First, the informal sector is very large. Workers in the informal sector may not be paid a regular wage and are often paid in cash. Business revenues and worker incomes are often not recorded so they cannot be taxed. Second, low-income countries often do not have the educated and trained staff or the technology to collect taxes effectively. Third, low-income

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countries often use tax incentives to try to attract multinational firms. However, the decision to locate operations in a country is based on many factors, including natural resources, infrastructure, and political stability. Typically tax incentives are the least important factor, so many low-income countries may be losing out on revenue by offering them.

Finally, incomes are very unevenly distributed in low-income countries. The political power of wealthy individuals in these countries often blocks fiscal reforms that would result in higher progressive tax payments. Capital flight is also a problem; wealthy individuals can often avoid taxes through the use of tax havens. For example, a recent joint investigative report, the Luanda Leaks (https://www.icij.org/investigations/luanda-leaks/), revealed that Isabel dos Santos, the daughter of Angola's former president and Africa's richest woman, exploited family connections to build her wealth, while hiding it in tax havens abroad with the help of Western bankers, lawyers, accountants and consultants.

Figure 2. Isabel dos Santos, indicted by Angolan prosecutors in 2020.

Credit: Getty Images Mike Coppola / Staff

Exam tip

Tax policy is an important area to remember that context matters when recommending strategies to improve a country's economy or development. We cannot assume that changes to tax rates will have the same positive or negative impacts in low-income countries as in high-income countries because of the revenue collection difficulties mentioned above in low-income countries.

Student
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Banking system

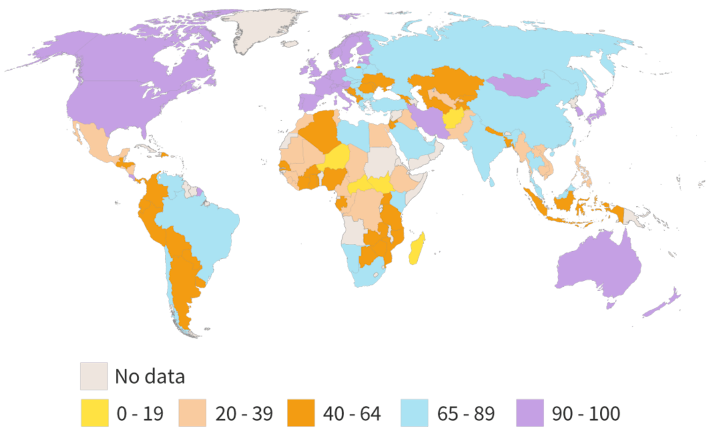

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Figure 3. Bank account ownership rates (%), 2017.

Source: https://ourworldindata.org/grapher/account-at-financial-institution (https://ourworldindata.org/grapher/account-at-financial-institution)

More information for figure 3

The image is a world map displaying bank account ownership rates in different countries for the year 2017. The countries are color-coded according to the percentage of the population with bank accounts, divided into six categories:

1. No data - colored in pale beige.
2. 0-19% ownership - colored in yellow.
3. 20-39% ownership - colored in light orange.
4. 40-64% ownership - colored in dark orange.
5. 65-89% ownership - colored in light blue.
6. 90-100% ownership - colored in purple.

The map shows variations in account ownership across different parts of the world, indicating disparities in access to financial institutions. For example, countries in Northern America and parts of Europe are in the 90-100% range, while many African and some South Asian countries fall within the 0-19% to 40-64% range, reflecting significant global differences in banking access.

[Generated by AI]

Globally, almost 2 billion people do not have access to basic financial services, such as a bank account for saving and receiving income, credit and insurance. This is partly due to the risks involved for financial institutions, as well as the high administrative costs and low profit margins associated with handling the small savings, transaction and credit amounts of the world's poorest. Lack of collateral makes it especially hard for the poor to access credit. **Figure 3** shows that bank account ownership rates vary widely around the world.

Even where financial systems exist in low-income countries, there are a number of societal and institutional barriers that may prevent the world's poorest from accessing financial services:

Student
view

- Lack of financial literacy and capability in the population
- Lack of valid identification documents to open accounts and receive and move money
- Lack of consumer protection and regulation in some countries, which reduces trust in the financial services that do exist
- Sociocultural barriers to equitable access to financial services in some countries, especially for women

When credit is available to the poor, it is often offered at very high interest rates by exploitative moneylenders. In the book *Poor Economics* (section 4.9.1 (/study/app/pp/sid-186-cid-754025/book/poverty-traps-poverty-cycles-id-30581/)), Banerjee and Duflo tell the story of fruit sellers in Chennai who paid 4.69% *per day* to borrow money to buy the fruit and vegetables they sold at market.

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Figure 4. Fruit sellers in Chennai can be exploited by moneylenders charging very high interest rates.

Source: "Banana vendors in Chennai (https://commons.wikimedia.org/wiki/File:India_-_Chennai_-_banana_vendors_(2279204706).jpg)" by McKay Savage is licensed under CC BY 2.0 (https://creativecommons.org/licenses/by/2.0/deed.en)

Financial exclusion hinders economic activity. Small firms and individual entrepreneurs often need credit to purchase the resources they need to grow their businesses and incomes. Without access to credit, economic activity can be difficult to generate for the world's poorest and innovative ideas may never take shape. Thus, financial exclusion is a barrier to economic growth, which limits actual and potential output and prevents the full use of factors of production.

Section Feedback

Financial exclusion also directly affects development. Lower incomes and financial insecurity not only affect the material dimension of development. The relational and subjective dimensions of development are also negatively affected, because money is often needed for a person to realise ambitions, make choices, and enhance their capabilities. Individuals, families and businesses need to be able to earn income, invest in opportunities, make payments for essential services, receive wages, and manage irregular cash flows through savings.

Student view

Financial security is also directly related to subjective well being because people in a precarious financial situation experience stress that significantly impacts other areas of their lives, including basic decision-making capabilities (https://scholar.harvard.edu/files/sendhil/files/976.full_.pdf). Access to financial services can enhance financial security and build economic resilience.

Complete section with 3 questions

Start questions

Previous section(/study/app/pp/sid-186-cid-754025/book/legal-systems-and-property-rights-id-30588/)
Next section (/study/app/pp/sid-186-cid-

4. The global economy / 4.9 Barriers to economic growth and/or economic development

Sociocultural barriers

Sociocultural factors can have a large influence on development. Sociocultural factors influence individual and group mental models, which are their attitudes, values, perceptions, assumptions, beliefs and expectations. These mental models affect system structures and patterns of behaviour.

Globally, every social group has traditional cultural practices and beliefs. In section 4.7.4 (/study/app/pp/sid-186-cid-754025/book/the-importance-of-resilience-and-id-30438/), you learned about a number of beneficial links between culture and sustainable development. However, there are also some cultural practices that are barriers to development, especially when they target a specific group such as women. These harmful traditional practices include child marriage and early pregnancy, female genital mutilation/cutting (FGM/C), limits on control of reproductive health, preference for sons and female infanticide, and dowry price.

Such sociocultural practices and beliefs continue because they are often not questioned by the societies where they exist. Cultural practices may take on moral meanings within their communities. Sociocultural factors and mental models that inhibit development can be extremely difficult to change because they form the basis of valuable human social relationships and, at the same time, most people are unaware of their influence on systems and behaviour.

Case study

Female genital mutilation/cutting in Sierra Leone

Figure 1. Bondo cutting ceremony.
Source: "Bondo Initiation Ceremony in Sierra Leone (https://commons.wikimedia.org/wiki/File:The_Bondo_ceremony_of_the_Mendes_of_Sierra_Leone._01.jpg)" by 1Hamidu2 is licensed under CC BY-SA 4.0 (https://creativecommons.org/licenses/by-sa/4.0/deed.en)

FGM/C (female genital mutilation/cutting) is the practice of deliberately cutting (circumcising), injuring or changing the external female genitalia without medical reason. It is prevalent in a number of countries across Africa, Asia and the Middle East, but the cultural context surrounding it varies.

Overview (/study/app/pp/sid-186-cid-754025/

In some West African countries such as Sierra Leone, the circumcision forms part of an initiation ritual into the all-female secret society known as Bondo or Sande. This society is the main cultural institution for women in Sierra Leone; more than 80% of the adult female population are members. Girls are taken to a private enclosure constructed outside the community by leaders of the Bondo society to be taught how to be a wife and mother, and to be circumcised.

The most common intervention globally against FGM/C is educating women and girls about the health risks associated with the practice. These international interventions have had limited success in Sierra Leone, because they do not account for the cultural context. If a woman does not go through the initiation then they will be excluded from social gatherings and treated as an outsider. This means that women may be willing to go through the ritual, even if they understand the health risks.

The most successful interventions to reduce FGM/C have been led by Sierra Leonean women who value the cultural education and sense of community provided by the Bondo society. They have worked with the Bondo leaders in each community to retrain them and provide them with alternative employment, so that they can earn a living without the fees that they receive for cutting the girls. This has led to the rise of 'Bondo without cutting'.

This is just one example of a more general principle: assumptions matter. Theoretical models in the social sciences make a number of simplifying assumptions about aspects of the real world in order to focus on others. Many of these simplifying assumptions are made implicitly rather than explicitly, so it can be difficult to identify when they no longer hold and the model should be reconsidered.

For example, the standard intervention against FGM/C (education about the health risks) is based on a number of implicit assumptions that may not hold in some locations and situations, such as that women and girls are the decision-makers, that they are currently unaware of the health risks, that health factors are a significant consideration, and so on. In economics, many of these unstated assumptions relate to social and cultural factors.

Considering the implicit assumptions listed above in this case, explain why interventions that focus on health education may not be successful in reducing FGM/C in Sierra Leone and other countries where the practice is common.

Learn more:

World Health Organization (WHO) on female genital mutilation (https://www.who.int/news-room/fact-sheets/detail/female-genital-mutilation)

End FGM European Network (End FGM EU) (https://www.endfgm.eu/female-genital-mutilation/)

United Nations Population Fund - Top 5 things you didn't know about female genital mutilation (https://www.unfpa.org/news/top-5-things-you-didnt-know-about-female-genital-mutilation)

Student view

Gender inequality

Gender inequalities limit women's access to educational attainment, economic opportunity, and political empowerment and representation. Mental models of gender bias are pervasive and are held by both men and women worldwide. According to the United Nations Gender Social Norms Index (http://hdr.undp.org/en/GSNI), nearly 90% of men and women have biases against women. These biases frame systems and institutions and have concrete negative outcomes for women. In some regions of the world, women are making progress in terms of social norms on equality, but the UN reports that in other areas social norms on gender equality are worsening. Progress cannot be assumed.

Exam tip

Again, a reminder that the IB Economics syllabus requires you to discuss or examine the significance of barriers to development (AO3).

Overview (/study/app/pp/sid-186-cid-754025/...)

In this section, we will examine the significance of the barrier for development using both the language of direct/indirect impacts on development, as well as the material, relational and subjective dimensions of development. You may recall that either of these frameworks can help you organise a response to an exam question that asks about significance.

Material economic impact of gender inequality

Gender inequality limits the contribution of half of the global population to the economy. When girls' education is limited, human capital is underdeveloped. When women are discriminated against in employment, we miss opportunities to use their skills and talents. When pay is unequal, we recognise and reward women less for their work. In economic terms, in countries where gender inequality is high,the economy is falling far short of its productive potential, inside the production possibilities frontier, and limiting the power of income to *indirectly* support development.

In fact, the World Economic Forum (WEF) outlines in its Global Gender Gap Report 2020 (http://reports.weforum.org/global-gender-gap-report-2020/) that the economic gender gap has worsened recently for a number of reasons. First, automation is having a greater impact on jobs that are held by women. Secondly, women are less likely to enter the professions that are experiencing high wage growth, such as in technology. And third, parents continue to face problems accessing care for their children and their own parents. The burden of this care falls mainly on women. Women may also face restricted access to capital to start businesses. The WEF points out that, incredibly, there are still 72 countries where women are not allowed to open a bank account or take out a loan.

Relational and subjective impact of gender inequality

Gender inequality not only affects the material dimension of development, but also the relational and subjective dimensions. It contributes *directly* to lower human wellbeing through reduced freedoms and capabilities. According to the WEF, the lowest-performing area for gender equality is low political representation in government. As a result, women's perspectives are often not heard. In addition, countries with low levels of participation in government miss out on women's leadership qualities. Research shows that women's leadership tends to be more relational, women tend to assess risk differently, and women tend to be less susceptible to corruption (https://ideas.repec.org/a/eee/deveco/v122y2016icp28-45.html). Women's leadership often tends to exhibit many of the qualities of good governance listed in section 4.9.7 (/study/app/pp/sid-186-cid-754025/book/political-barriers-id-30586/). Policy making is largely done from a male perspective, with many hidden negative outcomes for women. Girls globally have few role models in government or business domains to aspire to, even though women's participation has been shown to significantly improve outcomes in those domains.

Student view

Persistent physical and sexual violence against women harms their physical well-being and promotes an environment of fear that negatively affects their mental well-being too. According to the United Nations, globally 35 percent of women have experienced physical and/or sexual violence, but as of 2018, 49 countries did not have laws against domestic violence.

Gender inequality also has a clear negative connection to many of the other Sustainable Development Goals (SDGs) (https://www.unwomen.org/-/media/headquarters/attachments/sections/library/publications/2019/progress-on-the-sdgs-the-gender-snapshot-2019-single-pages-en.pdf?la=en&vs=5813). Globally, women are more likely to experience poverty, be denied necessary health care, go hungry, be responsible for obtaining clean water and fuel for families, and be victims of conflict. In all these areas, and more, women bear the brunt of global development failures.

Case study

Women and COVID-19

Credit: Getty Images Sean Gallup / Staff

Credit: Getty Images Dan Kitwood / Staff

Figure 2. Sanna Marin (left), Prime Minister of Finland. Katrín Jakobsdóttir (right), Prime Minister of Iceland.

As the COVID-19 pandemic unfolded in 2020, a number of news outlets highlighted that countries that seemed to handle the pandemic more successfully were led by women. This included Taiwan, Germany, Iceland, Finland, Norway, New Zealand and Denmark.

Some articles emphasised studies showing that women's relational and empathetic qualities contributed to better decision-making during the crisis. Others claimed that women's greater attention to health matters primed those leaders to take the pandemic more seriously. Some articles emphasised that political discrimination means that women need to work harder and have more skills to reach top political leadership positions. It is worth noting that Iceland, Finland, Norway and New Zealand are in the top 6 countries in the WEF Global Gender Gap Index. Could it be that sociocultural factors contributing to gender equality in those countries also make the countries better at handling a pandemic? In the coming months and years, this will be a rich area of research.

On the other hand, we must recognise the disproportionately negative impact that COVID-19 has had on women globally. According to the WEF, women comprise 70% of frontline healthcare workers, meaning that they have been disproportionately

exposed to the virus in those environments. Quarantine measures trapped many women at home with domestic abusers; reports of violence against women increased significantly during the pandemic and services to help them have been rolled back in the emergency. Women's employment, which is already dominated by informal work in low-income countries and with lower pay and less job security, is under greater threat. Reproductive and maternal health has been jeopardised during the crisis as medical resources are reallocated towards handling the virus. Women have also had to take on even more unpaid work, which already falls disproportionately on women, as children and other dependents shelter at home.

How might greater participation of women in government impact decision-making generally, and outcomes for women specifically, in those countries?

More reading:

7 Leadership Lessons Men Can Learn from Women (https://hbr.org/2020/04/7-leadership-lessons-men-can-learn-from-women) — Harvard Business Review

Policy Brief: The Impact of COVID-19 on Women (https://www.un.org/sites/un2.un.org/files/policy_brief_on_covid_impact_on_women_9_apr_2020_updated.pdf) — United Nations

Activity

You might be surprised to learn just how much the lack of women in political, scientific and design fields affects outcomes for women. In her book, Invisible Women: Data Bias in a World Designed for Men, Caroline Criado Perez shares insights on how unconscious research, policy and design decisions negatively impact women simply because their perspectives are not included.

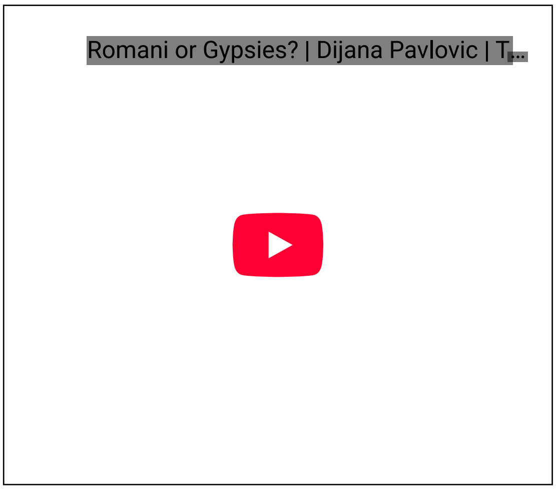
The podcast below from the excellent series 99% Invisible discusses the book and a number of its interesting anecdotes.

Invisible Women (https://99percentinvisible.org/episode/invisible-women/) — 99% Invisible

Why is women's equal participation in all areas of the economy so important for equitable gender outcomes?

Ethnic and caste discrimination

Ethnic discrimination, based on racial, social, or cultural differences, is also a major barrier to development. Ethnic discrimination can be directed at minorities who have been in a population for a long time. For example, the Roma populations in Europe are an ethnic group that is widely discriminated against in all sociocultural, economic and political contexts. In the short video below, Dijana Pavlovic talks about her experience as a member of the Roma community.



Ethnic discrimination can also be directed at minority ethnic groups that have recently joined a population. This usually occurs through migration, such as minority groups that migrated to colonial powers during colonisation or after it ended, within the last 200 years or so. The Bangladeshi minority in the UK is an example. Another example is Turkish minorities who came to Europe after World War II to help rebuild infrastructure and the economy.

Minority groups in even the most developed countries experience much higher rates of unemployment and lower incomes. Ethnic discrimination results in lower incomes, *indirectly* affecting development through inability to purchase goods and services to improve wellbeing. The discrimination also *directly* affects development through preventing equal access to health, education, resources and capital, as well as restricting freedoms and generally reducing human capabilities among marginalised groups.

Caste discrimination is a particular type of ethnic discrimination. It is also called discrimination based on work and descent (DWD) by the United Nations. Approximately 260 million people are affected by caste discrimination, mainly in South Asia. Caste systems divide populations into hierarchical groups, based on birth. The groups lowest in the hierarchy, most often identified as Dalits, are subject to significant discrimination in marriage, education, business and employment, and access to resources and public spaces.

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(/study/app/pp/sid-186-cid-754025/

They also experience stigma associated with ideas of 'untouchability', and are vulnerable to slavery and debt bondage. The practice of Dalit segregation was officially banned by India in 1950, but Dalits are still often forcibly assigned the most dirty, hazardous and poorly-paying jobs, such as cleaning human waste. The discrimination they face cuts across many SDGs, affecting development in many areas.

Figure 3. A large percentage of the Dalit population lives in poverty.
Credit: Getty Images Daniel Berehulak / Staff

Caste systems persist partly because of the economic benefits they bring to privileged groups in those same hierarchies. Unfortunately, caste discrimination has not received as much attention from global development organisations as gender discrimination.

Humanitarian and development agencies may fail to meet the needs of marginalised caste groups because they are not always aware of the power dynamics within the hierarchies. An important step is ensuring inclusion of marginalised caste groups in policy-making and implementation, as well as making sure organisations gather data on development conditions among caste groups. You were exposed to a sample of such data in section 4.8.4 (/study/app/pp/sid-186-cid-754025/book/single-indicators-economicsocial-inequality-id-30575/)on access to basic and enhanced technologies among different caste groupings in India.

Student view
Section
Feedback

Activity

Many Europeans assume that discrimination on the scale of caste in India does not exist in Europe. However, Roma communities experience extreme levels of discrimination in almost all regions where they reside. Their marginalisation is so severe that it can be dehumanising.

The United Nations has a Regional Working Group on the Roma (https://www.ohchr.org/EN/Issues/Minorities/Pages/UnitedNationsRegionalWGonRoma.aspx). Access the website and find out what is being done to improve their situation.

Complete section with 3 questions

Start questions

Previous section(/study/app/pp/sid-186-cid-754025/book/institutional-barriers-tax-id-30594/)
Next section (/study/app/pp/sid-186-cid-754025/b