Reducing Disparities

**1 - Through industrialisation**

**Import substitution** - Tried in India but eventually abandoned. Product - The Ambassador car

Problems - Requires agriculture to be developed so that labour is freed to work in factories.

Requires a domestic market for the manufactured goods.

So, develop trade via **Export-led economic growth** (because home markets are either small, poor or both) - But, requires capital investment via FDI or Loans. Asian tigers / NICs

Successful countries have based their growth on manufacturing rather than producing primary products. Primary = commodities = little control over prices.

FDI can be attracted via EPZ’s eg Shenzen in 1980s China (Note Chinese call them Special Economic Zones SEZs). Pudong is another example.

Difficulty to be overcome - **Reducing trade barriers** - WTO seeks to do this, but countries face growing number of regional trading groups eg EU & NAFTA which makes it harder for non-members to access markets.

**2 - Through Aid**

Provides much needed capital for investment purposes. Governments in poorer countries lack the wealth and income required to invest in better infrastructure, healthcare, education etc.

Aid can come directly from governments, or NGOs. Can be short term eg disaster relief, or long term eg for development purposes.

Problems - a) Corruption reduces the amount of aid that reaches its intended recipients.

b) Some aid is tied (there are conditions attached). Eg the recipient country must buy products or services from the donor country.

c) Focus on large-scale projects eg Dams that often have little impact on the majority of the population.

d) Aid can interfere with market forces eg suppression of local industries - Ugandas clothing manufacturing industry collapsed following donations of old clothes from the EU.

e) May delay much needed structural changes eg land reform.

f) Creates a culture of dependency.

The general view is that small scale bottom-up policies are often the most effective, though there is still a huge need for money to be donated directly to the governments of LEDCs to fund key areas. Most LEDCs aim to donate 0.75% of annual GNP in aid.

**3 - Through Debt Relief**

One of the biggest problems facing many developing countries is the amount of money they owe lenders. This has been increasing but incomes from primary products have changed little or decreased (the terms of trade have been against the LEDCs). As a result any income they receive is often passed straight to creditors as interest payments. Often countries pay off their debts by borrowing more.

Also, many governments borrowed large sums to ‘kick-start’ their development (in order to follow a Rostow inspired ‘take-off’). They now have huge debts.

More recently creditors like the World Bank have granted debt reductions to some countries in return for adopting new development programs.

**4 - Through remittances**

Money sent home from migrant workers. Initially this is used to support family members, then conspicuous consumption, and finally it is invested in local business opportunities.

**5 - Micro-finance**

Providing small loans to the poorest members of society at commercial rates. Has proved very successful in several countries. Pioneered by the Grameen bank