These don't help either

Here we look at some other factors that help to keep the development gap wide.

Keeping the gap wide

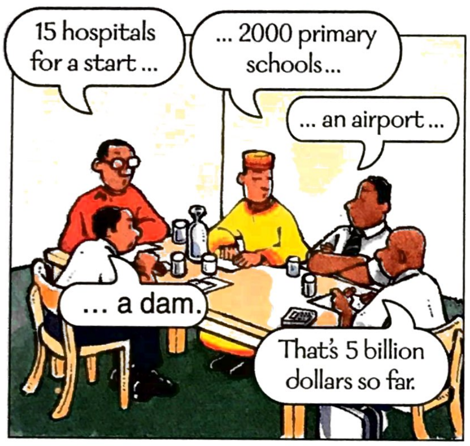
In the last unit, you saw some reasons for the big gap in development around the world. Now we look at some other factors that help to keep a poor country poor – no matter how hard it works.

What

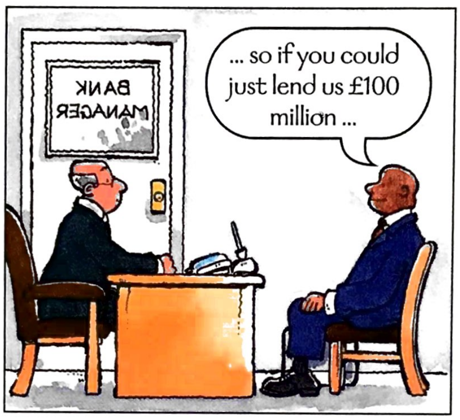
- ... poor countries just refuse to pay the money they owe to richer countries?

Big debts to pay off

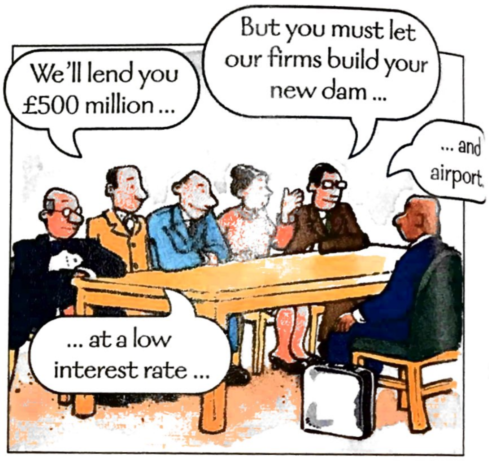
Many poor countries have been paying out millions of dollars a year, as interest on money they borrowed. This is how it happened:



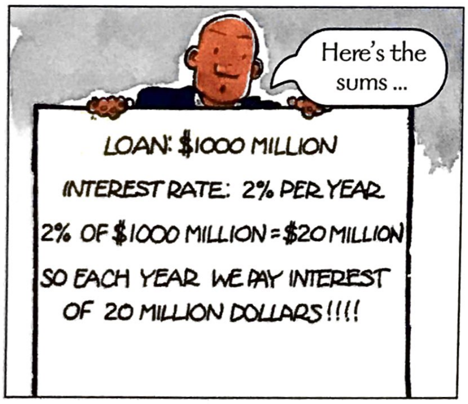
Naturally, poor countries want to develop fast – but that needs money. So they have borrowed lots of money. Some from ...



... ordinary **banks** like we all use, some from the **World Bank** (a special bank that countries set up to help each other) ...



... and some from other **governments**. To get the money, the poor countries often had to make promises in return.



When you borrow money, you pay interest on the loan. Many bank loans were made in the early 1970s when interest rates were low.

Then they shot up. So the poor countries had to use more and more of the money they earned, just for interest payments.

That meant less money for schools, and hospitals, and a water supply, and the other things their people badly needed.

It became clear that this was a bad situation. So the World Bank, and governments of richer countries, agreed to cut interest payments for many **heavily indebted** countries.

Some debts have also been cancelled, for the countries in most debt. For example in 2004, $2.6 billion of Ghana's debts were cancelled. Ghana still owes $2.4 billion. But now it pays out less on interest each year. (It still needs to borrow new money for future development!)

Did you know?

- Over the years, many poor countries have paid out several times more than they borrowed, in interest payments.

Trading troubles

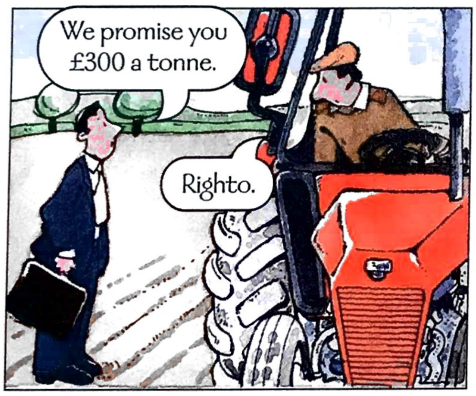
Many poor countries depend on selling crops such as sugar, cocoa, and coffee, to other countries. These are crops we all want. So why are those countries not getting a lot richer? Let's see.

When the poorer countries try to sell their crops to richer countries, they often face big import taxes or **tariffs**. These put buyers off.

At the same time, the world price for many crops has been falling over the years. Partly because too much is being grown …

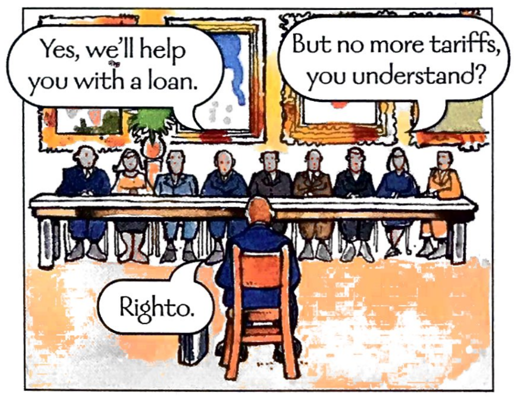
… and partly because the big food companies, who buy up most of the crops, are so powerful that they can force the price down.

The tariffs mean the poor countries can't sell so much. Falling world prices mean they earn less from what they do sell. But their problems don't end there …



… because meanwhile, farmers in rich countries grow many of the same or similar crops – and get grants or **subsidies** for doing so.

These crops are then exported to the poorer countries. At prices so low that the local farmers can't compete, and go out of business.



The poorer countries can't stop these imports, because the World Bank has forced them to reduce or drop tariffs, in exchange for loans.

So poor countries that depend on exporting crops may stay poor, no matter how hard people work.

What can be done to help poor countries catch up, and close the development gap? Unit 1.10 has some ideas.

Your turn

1. Explain what these terms mean. (Glossary?)
   a the World Bank b debt c interest rate
   d tariff e subsidy
2. You live in a poor country. Your government wants to borrow money from a rich country, to build schools – but wants your advice first. What will you say?
3. Many countries depend on exporting crops – and they remain poor, no matter how hard they work. Give reasons.
4. You are a farmer in a poor country. You grow rice, and keep chickens. Your country has been forced to drop tariffs on imported rice and frozen chicken. Explain why this will: a harm you b help farmers in other countries