<u>Modernization Theory</u>: explains global inequality in terms of differing levels of technological development among societies. It is a Liberal perspective rooted in Enlightenment thinking.

<u>Historical perspective</u>: development of industrial technology has raised standard of living of even poor people in high-income societies. In terms of culture, this approach sees traditionalism as barrier to economic development

David Ricardo: English economist who argued that if each nation specializes in the production of goods in which it has a comparative cost advantage and then trades with other nations for the goods in which they specialize, there will be an overall gain in trade and overall incomes should rise in all countries.

- *Comparative advantage*: a company/country is more efficient, has better technology, or easier access to resources than its competitors

- *Competitive advantage*: a country/company outperforms competitors in terms of productivity, quality, price, service

<u>Rich nations help solve problem of global inequality by</u>:
1. Assisting in population control
2. Increasing food production
3. Introducing industrial technology
4. Instituting programs of foreign aid

<u>Critical Evaluation</u>
a) Modernization theory: widely supported among social scientists
b) Heavily influenced foreign policies of richer nations
c) Is it a thinly veiled defence of capitalism?
d) Ignores global forces that thwart the development of the poorer nations
e) Largely ignores the way in which all nations are linked together in global economy
f) Holds up the developed world as a model that all nations should emulate (ethnocentric)
g) It blames victims for their own economic problems

<u>Dependency theory:</u> explains global inequality in terms of historical exploitation of poor societies by rich societies. Embraced in Latin America (during the period from the Great Depression through to the early 1970's) in response to the underdeveloped state of many nations on the continent.

- <u>Historical perspective</u>: economic success of wealthier nations was achieved at the expense of poorer countries
- <u>Neo-colonialism</u> perpetuates economic relationships shaped under <u>colonialism</u>

Andre Gunder Frank: argued that export-oriented solutions to development do not help the underdeveloped world. Instead he urged the developing world to embrace ISI – ***Import Substitution Industrialization*** *-substitute imported goods with locally produced items*

<u>Prebisch/Wallerstein's capitalist world economy:</u>

- Rich nations are the core of world economy
- Low-income nations are at periphery
- Rich nations have contributed to global inequality by their single-minded pursuit of profit
- Need to de-link from the world economy in order to develop – ISI (Import Substitution Industrialization)
- Dependency of peripheral nations results from:
    - a) Narrow, export-oriented economies
    - b) Lack of industrial capacity
    - c) Foreign debt

<u>Critical evaluation:</u> Dependency theory correctly emphasizes interdependency of world's societies

- ✓ Treats wealth as a zero-sum commodity
- ✓ Predicts that countries with strongest ties to rich nations should be the poorest (supported?)
- ✓ Ignores role of traditional culture in maintaining poverty
- ✓ Ignores economic dependency promoted by former Soviet Union