

## **The first chapter: a study of the phenomenon of economic underdevelopment and its theories**

### **Theories explaining the existence of underdevelopment:**

There are several theories that explain the emergence of the phenomenon of underdevelopment, and we will discuss the most important one:

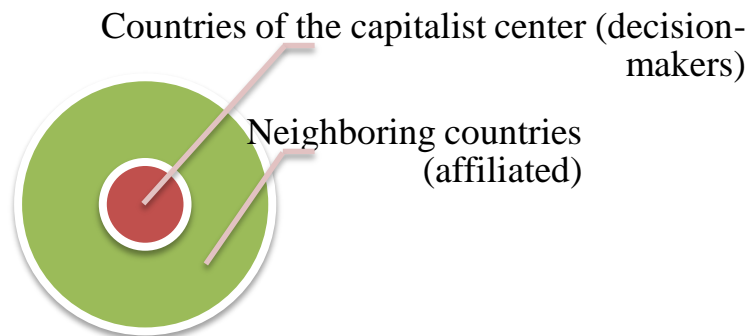
#### **1- The theory of center and periphery.**

This theory was promoted in the 1970s by many economists from the Third World, such as Rosa Luxemburg, Raoul Prebisch, and Samir Amin. Prebisch was the first to formulate the concepts of the "center" and the "periphery," which have become common today.

This theory is based on interpreting the relationship between the concepts of the periphery and the center according to a theory of unequal exchange, specifically monopolistic exchange that ensures the transfer of economic surplus from the dependent regions (the periphery or what is also called the periphery) to the imperialist centers (the center or what is also called the metropolis). This system controls the distribution of political power and the forms of production organization and class structures in different regions. Therefore, the mechanisms that drive development in the metropolis are the same mechanisms that cause underdevelopment in the periphery.

Newly independent states that have gained political independence remain connected to their former colonial centers, and thus they have been unable to build an economic market but have remained in a state of dependency (imperialist colonialism). This has made them more dependent than they were before achieving political independence, as the colonial powers imposed an economic pattern on peripheral countries, particularly in the division of labor and specialization in production. Colonial powers specialized in producing productive and technological goods, while dependent countries specialized in primary materials and

agricultural products, which are in high demand from the center countries. According to Rosa Luxemburg, control is manifested through the system of subordination to the center, which consists of Western capitalism and North America. The rest of the Third World countries are dependent countries revolving within the orbit of the capitalist center, subject to and following the center. Economic subordination and capitalist exploitation (the center) of peripheral or surrounding countries are the origin and cause of underdevelopment.



Supporters of this theory argue that it is a modern illusion to discuss the possibility of achieving radical progress in the "Third World" or what remains of this pain as part of the global capitalist system. This is because uneven development is not a correctable imbalance through the adoption of proper developmental strategies or plans, but rather a necessary condition for the existence of the global capitalist system. Progress and underdevelopment, in other words, are two sides of the same coin. The progress of the center necessitates the underdevelopment of the periphery, and the underdevelopment of the periphery is a necessity for the progress of the center. There is no way to escape the chains of underdevelopment except by breaking free from capitalism. It is impossible for peripheral countries to produce a national bourgeoisie that leads a revolution or a capitalist transformation that eliminates the old structures and puts the country on the path of development. The bourgeoisie of the periphery is comprador, with an interest in the continuation of dependency relations and in maintaining pre-capitalist structures in their countries.

This theory has started to lose its luster with the emergence of developments such as globalization, the global market, and economic openness. However, there are still those who believe in this theory due to the lack of justice and equality, the imposition of specialization, and the unequal distribution of capabilities and potentials...

## -2- The Theory of the Poverty Trap

This theory focuses on the role of internal factors (although internal factors are not isolated from external factors). Advocates of this theory, led by Neerkes, argue that underdevelopment is both a result and a cause of poverty. They describe the poverty trap as a set of circular forces that perpetuate poverty in a country. According to this theory, these forces and circular relationships can be seen as characteristics of underdevelopment that result from poverty and, at the same time, contribute to its continuation.

The explanation of underdevelopment based on this theory can be attributed to poverty and its consequences, such as a lack of inclination to save, limited available investments, and a small capital base. The scarcity of capital leads to minimal increases in productivity, quickly overshadowed by rapid population growth. Consequently, the society remains trapped in a state of subsistence. This can be represented as follows:

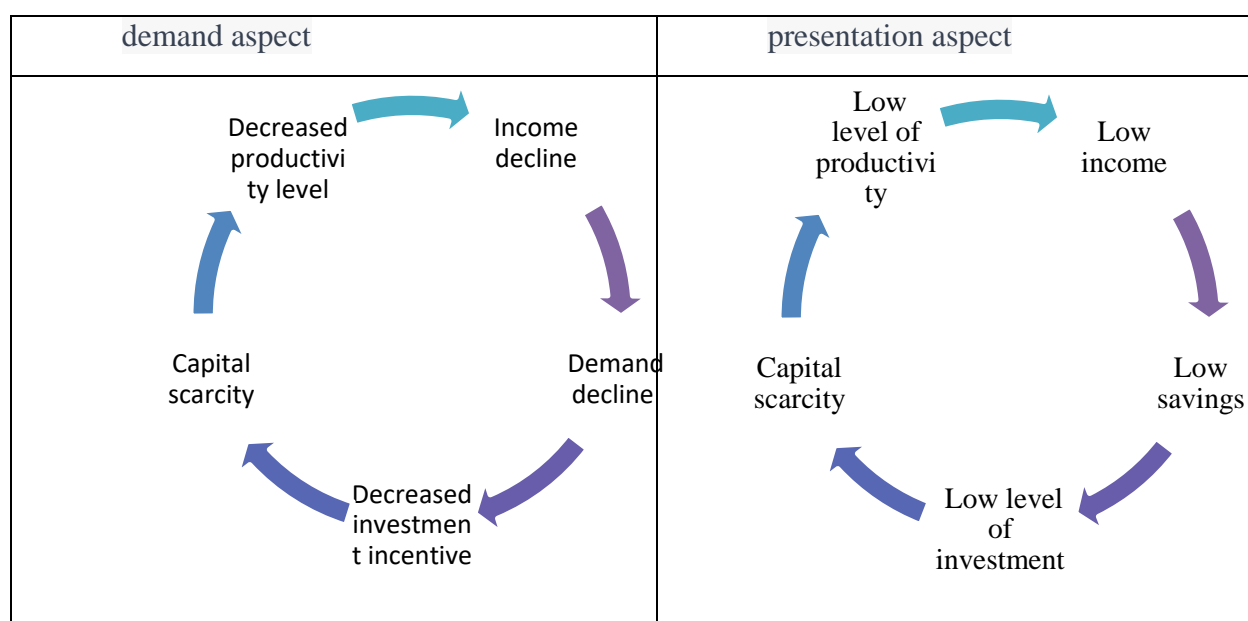


These factors intertwine and interact with each other to ultimately create a vicious cycle of poverty and a state of permanent underdevelopment, where the economies of backward countries remain trapped in these cycles and unable to break free. There are multiple empty cycles that demonstrate the difficulties that hinder development in these societies or highlight the factors that interact with each other reciprocally to perpetuate poverty as a distinctive phenomenon in these societies. One example is the empty cycle of poverty, which stems from the fact that economically backward countries have low levels of productivity due to capital scarcity and incomplete markets, as the level of capital accumulation is one of the important factors in determining the rate of growth.

In this regard, Nurkse refers to two poverty cycles related to the scarcity of capital in developing countries, one from the supply side and the other from the demand side. The level of investment depends on the supply of savings on one hand and the incentive for investment (the demand for it) on the other hand. From the supply side, a decrease in income leads to a

decrease in savings, which in turn leads to a decrease in individual investment levels. This results in a decrease in productivity, which further leads to a decrease in income, thus reinforcing the interconnectedness of both ends of the cycle.

On the demand side, a decrease in the incentive for investment is attributed to the small market size, which, in turn, is caused by the low purchasing power resulting from decreased individual income. This is further linked to a decrease in productivity, which is tied to a decrease in individual investment levels. This, in turn, leads to a decrease in the incentive for investment.



**Source: Researcher Preparation**

The reality is that the theory of the poverty trap fails to provide a convincing and profound explanation for the phenomenon of underdevelopment for the following reasons:

- It considers capital scarcity in developing countries as an independent variable and underdevelopment as a dependent variable. In other words, it explains the existence of underdevelopment through capital scarcity, neglecting the historical aspect of the capital problem and the resulting underdevelopment. The colonial control is considered an independent variable and the cause, while capital scarcity is considered a dependent variable or the result.
- The variables referred to in the theory of the poverty trap are merely general manifestations of underdevelopment and not the phenomenon of underdevelopment itself. The decline in income, savings, and investment are general characteristics accompanying underdevelopment, but it cannot be said that the decline in income and

savings are causes of underdevelopment; they are rather manifestations of it. The problem of underdevelopment is a complex issue with multiple dimensions.

- The causal relationship between different variables is not as simple and direct as presented by the theory of the poverty trap. For example, a decrease in income leads to a decrease in savings, and a decrease in savings leads to a decrease in income. However, the decrease in savings is not solely or entirely attributed to the decrease in income; it is influenced by multiple conditions and variables such as the pattern of national income distribution, the nature of the groups that receive the largest share of income, consumption behavior, values, habits, social classes, and the absence of institutions capable of mobilizing savings, and so on.
- The theory of the poverty trap uses a simplistic causal explanation for underdevelopment by focusing on one element as a cause and consequence of underdevelopment. However, the problem of underdevelopment is a complex issue with multiple dimensions, and it is better explained using what is known as complex causality. Various factors contribute to and interact with each other, and all are necessary to understand a specific situation or achieve a certain phenomenon.
- Some critics argue that this approach suffers from a static nature because it views underdevelopment as an existing and isolated condition. The content of the theory emphasizes the difficulty of overcoming underdevelopment. However, it is not permissible to despair and adopt the idea of a poverty trap. Even Karl Marx himself said, "This trap is breakable, and if it breaks at any point, the effects of circular relationships that interact between the factors contained therein will be generated, allowing for cumulative progress."

In conclusion, the theory of the poverty trap fails to provide a comprehensive and satisfactory explanation for underdevelopment due to its focus on limited variables and simplistic causality. Understanding underdevelopment requires considering its historical, social, and economic dimensions and acknowledging the complex interactions of various factors.

### 3- The Theory of the Absent Entrepreneur:

Supporters of this theory argue that due to the circumstances experienced by these countries, the majority of their societies lack the entrepreneurial spirit. Even the economic agents are traditional agents, so there are no entrepreneurs who take initiative and take risks as they do in the Western world. Therefore, according to proponents of this theory, the reason behind the lack of development in these countries, and even the new capitalist class in developing countries, differs from the psychology of this class in advanced countries. They are an uneducated and non-initiative class that does not work towards creating real investments.

These theories do not address the external factor and the impact of colonization, except for the theory of the surrounding center, while the weak income is attributed to the depletion of colonialism of natural, financial, and human resources, which led to the distortion of the human resource and a weakness in creating proactive human capital and risks. In this regard, it can be said that the explanation of underdevelopment is not a single factor but an interaction between internal and external factors, as weak internal factors lead to an increase in the dynamics of external factors and vice versa.

Furthermore, these theories describe underdevelopment as eternal, meaning that these countries produce and perpetuate underdevelopment. However, in reality, many countries have overcome their underdevelopment. In this regard, it can be said that underdevelopment as a phenomenon represents a situation that arose under certain historical conditions and has continued due to these conditions and causes. Overcoming it is contingent on eliminating the causes that led to its emergence. Therefore, underdevelopment is not a specific historical stage followed by another stage, which is the stage of progress. Instead, it is a backward social situation that arose as a result of the integration of developing countries into the high capitalist market and the consequences that followed this integration. In other words, it is a situation that arose as a result of the connection of these societies with an advanced social formation, which is the capitalist social formation, and the nature and conditions of this connection.