



# Addressing the growing wealth inequality in developing economies

Economic and Social Council (ECOSOC)



From a separated world to global peace: the need  
for a new look on institutions



**Forum:** Economic and Social Council

**Issue:** Addressing the growing wealth inequality in developing economies.

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## Introduction

Developing countries are defined by their relatively low living standards, underdeveloped industrial bases and moderate to low Human Development Index (HDI). This alone already makes it so that their Gross Domestic Product per capita (GDP per capita) is lower compared to developed countries. Many of the developing countries suffer from I) a high dependence on lower-paid agriculture due to their lesser developed industrialisation and modern sectors, II) a rapid (mostly lower income) population growth caused by a lack of (sexual) education, III) underemployment in the lower-paying traditional sector, IV) unemployment due to the high population growth, V) a lack of technology and infrastructure that is lagging behind and poorly managed, thus causing their costs to outweigh their use, and VI) a dualistic economy consisting of a more advanced sector contrasting the traditional sector.<sup>1</sup> These problems are mostly caused by poor management, lower education, and political instability which are all more common in developing countries. These factors all contribute to the growing wealth inequality.

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<sup>1</sup> <https://enotesworld.com/characteristics-of-developing-countries/>



## Definition of Key Terms

### **Gross Domestic Product (GDP)**

A monetary measure of the market value of all final goods and services produced and sold (not resold) in a specific time period by countries.

### **GDP per capita**

Gross Domestic Product divided by the population size to represent the average value of all the final goods and services sold (not resold) in a specific time period per person.

### **Human Development Index (HDI)**

A summary measure of average achievement in key dimensions of human development: a long and healthy life, being knowledgeable and have a decent standard of living.

### **Unemployment**

A measure of the amount of workers that are unable to find a job.

### **Dual economy**

The existence of two separate economic sectors within one country, divided by different levels of development, technology, and different patterns of demand.

### **Modern sector**

Economic sector with a higher level of development and technology (i.e. Office work, industries, etc.).

### **Traditional sector**

Economic sector with a lower level of development and technology (i.e. agricultural, labour intensive work).

### **Gini-index**

A statistical measure between 0 and 1 of the degree of variation represented in a set of values, used especially in analysing income inequality.



## General Overview

### Developing countries

Inequality is a large problem in developing countries, which is often characterised by increasing during the country's early stages of development, and reduced when development progresses. This pattern can be described by a diagram of the Gini-index against the level of development, as seen in figure 1. The inverted U curve is explained by a combination of education and the share of labour, and influenced by population growth which can affect the income inequality at any stage of development. Aside from this, socio-political issues also play a large role in the development process and with that in the income inequality as well.<sup>2</sup>

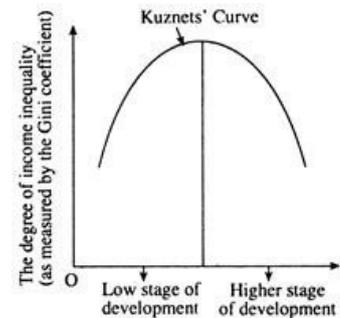


Figure 1. Kuznets' Inverted U

### High population growth

Lesser economically developed countries tend to have rapid population growth. Working class citizens tend to have many children, as their children would grow up to be workers, and having more workers in the family means a richer family. Furthermore, sexual education in these countries is less available, causing the citizens to be less aware of the consequences of unprotected sex and this too contributes to high birth rates. The latter especially happens more frequently in the lower classes. The high population growth sometimes outpaces the development process and due to the increase of population being higher than the increase of jobs, it can result in higher unemployment Which in turn, results in even more income inequality<sup>3</sup>

### Dual economy

Industrialisation marks the start of development. Lesser economically developed countries have a very high ratio of traditional sectors against modern sectors. There is only a certain amount of agricultural jobs available and if the country has few other options it leads to unemployment due to excessive labour force. In the case of surplus labour, it is easy for employers to find new employees and wages will not be very high. Once industrialisation begins, the excessive workforce will move to the modern sector with higher pay. However, the wages are only slightly higher than the agricultural wage, as there is no reason for the capitalistic industries to pay the workforce much more. This, even though a previously unemployed population group is now earning a slightly higher wage, does not lead to a lower income inequality. Due to relatively low labour costs, overall business expenses are low meaning the industry owners and top management earn a much higher income than regular workers, increasing the wage gap.

<sup>2</sup> [https://digitalcommons.iwu.edu/cgi/viewcontent.cgi?article=1072&context=econ\\_honproj](https://digitalcommons.iwu.edu/cgi/viewcontent.cgi?article=1072&context=econ_honproj)

<sup>3</sup> <https://enotesworld.com/characteristics-of-developing-countries/>



## Education

Education is a large factor in income inequality. Lower class citizens have less access to education and have less chance of being employed at a higher paying job than educated, higher class citizens. Furthermore, it is the case that lesser economically developed countries often do not have the proper means to educate their citizens adequately. This can be due to a lack of qualified teachers, not enough schools or schools that are not easily reachable due to lack of infrastructure, or inadequate technology to keep up with development. This problem is magnified as individuals of whom the parents enjoyed no or poor education, are less likely to have access to quality education than children from educated parents. Educational outcomes of individuals from richer backgrounds, are not affected by inequality. The lack of education in developing countries further increases the wage gap.

## Socio-political issues

In certain developing countries, governments have to avoid making decisions that increase inequality further whilst simultaneously keeping developing their country. If a government fails to correctly manage their trading partners, foreign aid, education and in general their economy, it can result in a growing inequality amongst citizens. In addition to this, governments also have to keep an eye out for countries that propose trade deals that are disproportionately favourable for them, such as when a developed country pays a cheaper price and exploits a developing country's natural resources.

## Positive feedback loop

Inequality is often a by-product of an underdeveloped country beginning industrialisation and development due to the new division between industry and agriculture. Inequality however negatively influences economic growth.<sup>4</sup> In particular, what matters most is the gap between low income households and the rest of the population. The impact of inequality on growth comes from the gap between the bottom 40 percent with the rest of society. Increasing access to public services, such as better education, training and healthcare, are an essential social investment to create greater equality of opportunities long-term. No evidence is found that those with high incomes pulling away from the rest of the population harms growth. Inequality decreases economic growth and can keep developing countries in a lower development stage for a longer time, and keep increasing the inequality further.

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<sup>4</sup>[https://www.oecd-ilibrary.org/social-issues-migration-health/trends-in-income-inequality-and-its-impact-on-economic-growth\\_5jxrjncwxv6j-en](https://www.oecd-ilibrary.org/social-issues-migration-health/trends-in-income-inequality-and-its-impact-on-economic-growth_5jxrjncwxv6j-en)



## Major Parties Involved

### Luxembourg

Luxembourg's foreign aid strategy, developed through the Luxembourg Development Cooperation Agency, focuses on improving local development through providing education and employment, digitalising healthcare and funding renewable energy. Its main areas of work are Burkina Faso, Cabo Verde, Mali, Niger, Senegal, El Salvador, Nicaragua, Laos, Mongolia, Myanmar and Vietnam.

### Norway

The Norwegian government has five focus areas for appointing its foreign aid funds – education, health, private-sector development, environmental challenges and humanitarian assistance. It also focuses heavily on development, whether through human rights, gender equality, the environment or the fight against corruption. Its most prioritised areas of work, and the recipients of its biggest donations, are mostly countries in the SWANA (South West Asian/ North African) region.

### Sweden

The main national body acting on foreign aid donations is the Swedish International Development Cooperation Agency (SIDA). SIDA's Aid Policy Framework is based on the United Nations Sustainable Development Goals (SDGs) and focuses on eight main areas: human rights and democracy, gender equality, environment and environmental challenges, peace and security, inclusive economic development, migration, health equity and education. SIDA has 35 partner countries, most in sub-Saharan Africa. Sweden's largest donations go to Tanzania, Afghanistan and Mozambique. However, SIDA also works in Palestine, South Sudan, Somalia and the Democratic Republic of Congo (DRC).

### China

China is a growing influence on other developing economies through trade, investment, and ideas. Many of the complex development challenges that China faces are relevant to other countries, including transitioning to a new growth model, rapid ageing, building a cost-effective health system, and promoting a lower-carbon energy path.

### United Nations Development Program (UNDP)

Founded on the belief that all people should have a chance to live with dignity, opportunity and safety, the UNDP helps countries develop policies that lead to sustainable development, democratic governance, peace building, climate and disaster resilience. The UNDP is a large agency that delegates country-specific activities and programs through its Resident Coordinator System (RCS) that has offices in 130 countries. The organisation's highest goal is to implement the Sustainable Development Goals in all countries of operation.

### The Borgen Project

The Borgen Project is an influential U.S. non-profit fighting poverty in developing countries through civic engagement and education. The organisation believes that developed countries

**Coornhert Model United Nations**  
10, 11 and 12<sup>th</sup> of February 2023, Gouda



have a moral obligation to help the world's poor. The organisation advocates on Capitol Hill for poverty reduction legislation, increasing the international affairs budget and making poverty reduction a primary focus of U.S. foreign policy.



## Timeline of Events

22-11-1965 1969	United Nations Development Program (UNDP) founded Pearson Commission proposed a target of 0.7% of donor GNP to be reached “by 1975 and in no case later than 1980”
24-10-1970	The Pearson Commission’s proposition was taken up in a UN resolution
1978	China began to open up and reform its economy, focusing more on its own economic development
2005	The 15 countries that were members of the European Union by 2004 agreed to reach the target of the Pearson Commission’s proposition by 2015



## Previous attempts to solve the issue

### **UNDP's Social Protection Offer 2.0 (PDF)**

<https://www.undp.org/sites/g/files/zskgke326/files/2022-11/UNDP-Social-Protection-Offer-2.0.pdf>

Aims to increase social protection and to promote economic and social inclusion, social protection is a key lever to reduce inequality and poverty, address vulnerabilities and enable investment in human development.

### **the 2030 Agenda for Sustainable Development : resolution / adopted by the General Assembly (PDF)**

[https://digitallibrary.un.org/record/3923923/files/A\\_RES\\_70\\_1-EN.pdf?ln=en](https://digitallibrary.un.org/record/3923923/files/A_RES_70_1-EN.pdf?ln=en)

Intends to drastically reduce poverty and inequality in the world by 2030



## Possible solutions

### **Education**

Education is one of the most important things for a country's development. By financing or helping with managing a proper educational system with decent quality of education, citizens can study and gain a degree and work in higher paying jobs. Making education more available for lower income social classes could also greatly help stabilise the population growth.

### **Encouraging Private company formation**

It is often the case that a developing country, especially in the early stages of development, does not have many jobs in the higher paying modern sector. By encouraging the formation of private companies and industries, more jobs would be created, solving the problem of unemployment and underemployment alike. This could be done through means such as but not limited to (partially) subsidising the start-up companies or granting tax breaks or other benefits for emerging companies.

### **Helping governmental management**

Foreign aid does not necessarily need to be monetary. By sending advisors or other useful staff to a developing country one could greatly help the structure of a society. These workers could be employed in different managing sectors such as infrastructure, education or economics, and advise on topics that would improve the inequality.



## Useful documents

### **What to do about rising inequality in developing countries? (PDF)**

<https://www.econstor.eu/bitstream/10419/146398/1/866806989.pdf>

### **Tackling inequality on all fronts. (PDF)**

<https://www.imf.org/-/media/Files/Publications/Fandd/Article/2022/March/Amaglobeli.ashx>



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