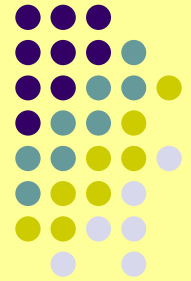


International Development Policy
Lecture #1, February 4, 2013



Orientation and Overview:

Evolution of International Development Policy

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Objectives

- Provide an in-depth understanding of international development policy, through reading and discussing recent papers and reports
- Special attention to:
 - Contemporary policy debates
 - Global transformation and emerging issues
 - East Asian perspectives of aid and development
- Course format:
 - Lectures, plus
 - Workshops by student presentations, based on assigned readings.



Requirement in the Class

- Read assigned literature before class
(download from Professor's homepage)
[http://www.grips.ac.jp/forum-e/
IzumiOhno_E/lectures/2013IDP_syllabus.htm](http://www.grips.ac.jp/forum-e/IzumiOhno_E/lectures/2013IDP_syllabus.htm)
- Workshops: presentations and comments by students
(power point slides or resume)
- Class discussions



Evaluation

- Class attendance + participation (40%)
- Presentation of the assigned readings (30%)
- Short paper on international development (30%)
 - Choose one of the topics introduced at the class
 - Write a short paper (3-5 pages), based on your country perspectives and/or professional expertise

Structure of the Class

Int'l Development Policy and Development Cooperation (Overview)

- Evolution of int'l development policy
- Development cooperation policy of major donors
- Japanese approach to development cooperation

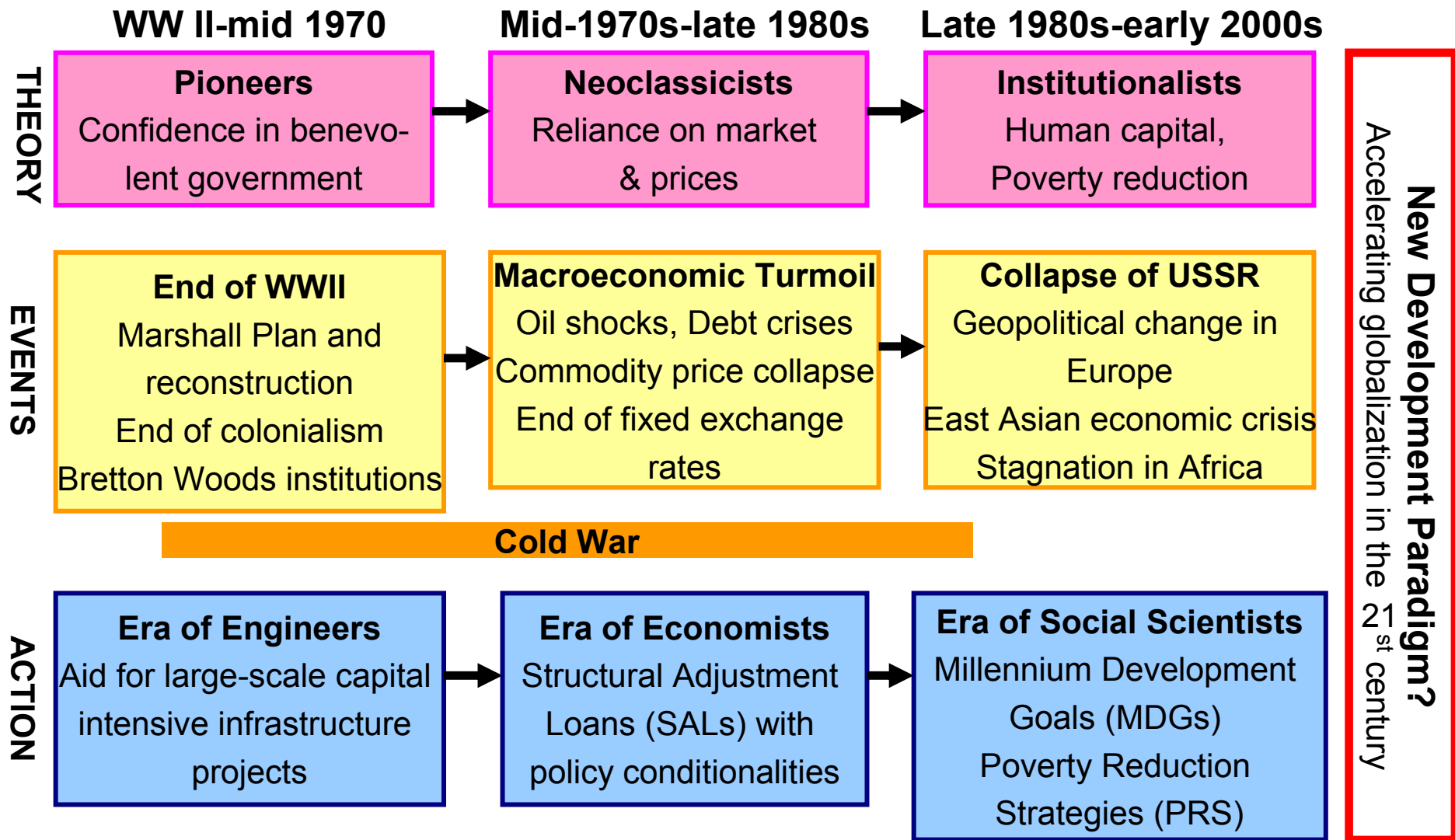
Contemporary Policy Debates

- Governance and development revisited
- Aid and development: critique of aid
- Democratic developmental states
- Proactive industrial policy
- Jobs and industrial development

Global Transformation and Emerging Issues

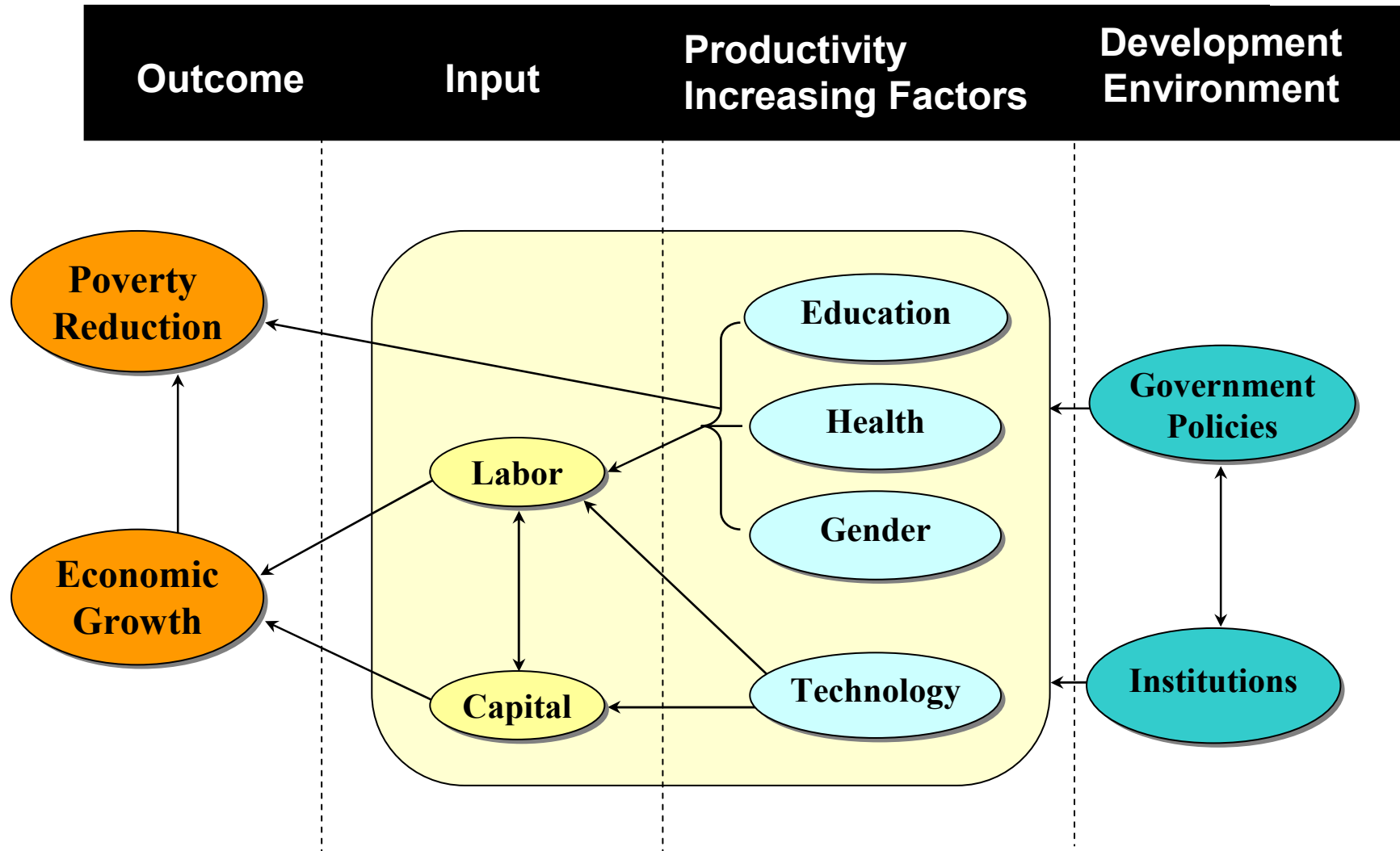
- Fragile states, conflicts and development
- Emerging donors and their impacts on int'l development
- Business and development
- Beyond 2015: Post - MDGs (Millennium Development Goals)

Evolution of Development Thinking and Development Assistance



(Source) Adapted from Figure 2 (p.21), Takamasa Akiyama, *International Development Assistance: Evolution and Current Issues*, FASID 2006.

Mechanism of Development



(Source) Takamasa Akiyama, International Development Assistance: Evolution and Current Issues, 2006.

Evolution of Development Thinking



- Pioneers (WW II to mid-1970s)
- Neoclassicists / Washington Consensus (mid-1970s to late 1980s)
- Institutionalists (late 1980s to early 2000s)
 - Post-Washington Consensus
 - Poverty Reduction Strategy, Millennium Development Goals (MDGs)



- New development paradigm? (with accelerating globalization in the 21th century...)
 - Emerging powers, role of business for development, fragile states, diverse development agenda, etc.

“Pioneers” (WW II – mid-70s)



- First generation of development economists
- Focus on capital accumulation and growth
- “**Big push**” development strategy involving government planning and major public investment
 - Belief in government-led coordination of large scale industrialization projects and import-substitution (ISI)
 - Distrust of markets, especially in terms of generating sufficient funds for investments (-- vivid memories of the Great Depression). Export pessimism. FDI was considered to cause sovereignty problems.
- Limited attention to poverty and income-distribution
The poor were expected to benefit through “***trickle down***”.

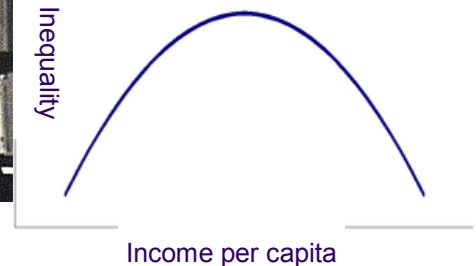
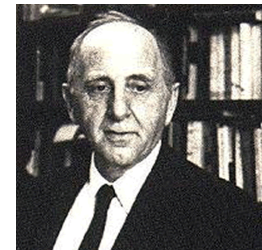


Paul Rosenstein-Rodan: Big-push development strategy (1943)
-Underdeveloped countries require large amounts of investments to embark on the path of economic development from their present state of backwardness.



W. W. Rostow: The Stages of Economic Growth theory (1960)
-Historical model of economic growth, economic take-off must be initially led by a few individual sectors.

Simon Kuznets: Inverted U shape curve
-Economic growth and Income Inequality (1955)



A. O. Hirschman: Unbalanced growth
-Industrialization as the primary engine of growth, forward and backward linkages
-The Strategy of Economic Development (1958)



Raul Prebisch : Dependency theory (center and periphery), structuralists
-Founding SG of UNCTAD (1964-69)
-Export pessimism, advocate preferential access to the markets of developed countries and regional integration.

Neoclassicists (mid-70s-late 80s)



- Second generation of development economists, “neoclassical resurgence”.
- Favored reduced government involvement in economic development activities
- Market-oriented, non-interventionist, and open-trade policies (as opposed to ISI).
 - “Getting prices right” – price is the effective tool for resource allocation
 - View government intervention as causing distortions in prices and exchange rates.
 - Perception that government failures is more serious than market failure in many developing countries.
- **The Washington Consensus** prevailed



Anne O. Krueger: WB Chief Economist (1982-86), First Deputy Managing Director (interim) of IMF (2001-06).
- Macroeconomics and trade, political economy of trade policy, rent-seeking



Bela Balassa: professor and consultant to WB
- Trade liberalization and regional integration



Stanley Fisher: WB Chief Economist (1988-90), First Deputy Managing Director of IMF (94-2001)
-Macroeconomics
-Advocate “big bang” reform (e.g., transitional economies, Asian financial crises)



Jagdish Bhagwati: External Advisor to WTO (2001), special policy advisor on globalization to UN (2000)
-International trade and advocacy for free trade.
-*In Defense of Globalization* 2004: Properly regulated, globalization, is the most powerful force for social good in the world.

The Washington Consensus

Vigorously pushed by IMF and WB



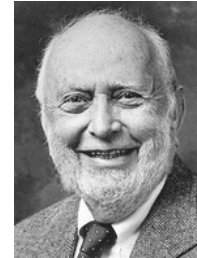
- Fiscal discipline
- Redirection of public expenditure toward education, health and infrastructure investment
- Competitive exchange rates (to correct overvaluation)
- Tax reform (broadening the tax base and cutting marginal tax rates)
- Interest rates that are market-determined and positive (but moderate) in real terms
- Trade liberalization (replacement of quantitative restriction with low and uniform tariffs)
- Openness to foreign direct investment
- Privatization of state-owned enterprises (SOEs)
- Deregulation (abolition of regulations that impede entry or restrict competition)
- Legal security for property rights

(Source) John Williamson, "Democracy and the 'Washington Consensus,'" *World Development*, vol.21, 1329-1336.

Institutionalists (late 80s to early 2000s)



- Efforts to integrate broader social and institutional factors into the development concept (institutional economics).
- Institutions: “rules of the game” including written laws and unwritten conventions sanctioned by members of society (Douglas North 1990)
 - Role of institutions in overcoming new market failures (e.g., imperfect competition, transaction costs of acquiring information, increasing returns to scale)
- Social capital: coherence of a society’s values and the capacity they afford for mutually beneficial interactions (Paul Collier 1998)
 - Civil social capital: trust, cooperation, coordination and reciprocity, norms, informational networks and social sanctions
 - Government social capital: good governance, civil rights



Human Development

- Quantity of growth → Quality of growth
- Human development
 - The ultimate goal of economic development, as well as
 - The best means available for promoting development.
- Human Development Index (HDI), first published in 1990 by UNDP, Mahbub ul Haq in collaboration with Amartya Sen and Meghnad Desai.
 - Life expectancy at birth; adult literacy rate; combined enrolment rate in primary, secondary and higher education; and real income measured in purchasing power parity.
- Adjustment with a Human Face, by UNICEF (Giovanni Andrea Cornia, Richard Jolly, Frances Stewart 1987)



HDI/UNDP 1990

Capability approach, freedom and human rights



The World Bank



- WB's policies and lending practices have essentially shadowed mainstream development theory.
- “Pioneers” era: supported government-led development and large-scale infrastructure projects
- “Neoclassics” era: Structural Adjustment Loans (SALs)
 - Quick-disbursing non-project loan, in exchange for a recipient country's acceptance of conditionalities (policy changes)
- “Institutionalists” era: post-Washington Consensus, focus on social factors and institutional design, good governance
 - Recognition that development is a complex “highly nonlinear and highly multifaceted” process (Adelman and Morris, 1997)
 - Emphasis on poverty reduction, less on growth

Changes in WB Development Thinking



- World Bank's ex-President Wolfensohn's proposal for Comprehensive Development Framework (CDF) — more balanced approach to development (January 1999)

Macroeconomic Aspects Fiscal Finance (Traditional approach)	Structural Aspects (Government, Institutions, System) Society Human Development
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- Emphasis on “ownership” of developing countries and “partnership” of various stakeholders in development policy-making process (based on the lessons learned from SAL experiences)
- Encourage developing countries to formulate Poverty Reduction Strategies (PRS), based on CDF principles

Good Governance



- First appeared in the World Bank's report, *Sub-Saharan Africa: From Crisis to Sustainable Growth* (1989) :

“A root cause of weak economic performance in the past has been the failure of public institutions. Private sector initiative and market mechanisms are important, but they must go hand-in-hand with good governance—a public service that is efficient, a judicial system that is reliable, and an administration that is accountable to its public.”

“A better balance is needed between the government and the governed.”

- Broadening the definition of “Good Governance”
 - Worldwide Governance Indicators (Kaufman Index, 1996-):
 - (i) Voice & accountability, (ii) political stability & lack of violence; (iii) government effectiveness, (iv) regulatory quality, (v) rule of law, (vi) control of corruption

Good Governance: Broadening of the Definition, and Critiques



- Public financial mgt., tax system
- Civil service reform, public administration
- Local governance, citizen participation
- Investment climate & regulatory quality
- Transparency, accountability
- Anti-corruption
- Judiciary
- Legislature
- Democratic system, election
- Human rights
- Police and security

World Bank

UN, US &
European donors

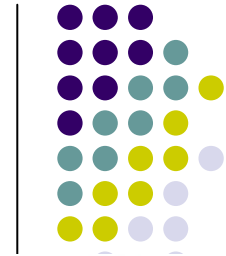
Critiques: Feasibility of a long list of desirable qualities?;

Causality (Growth \leftrightarrow Good governance)

- Merilee Grindle: “good enough” governance
- Mushtaq Khan: “growth-enhancing” governance capability
- Yasutami Shimomura: a limited number of “strategic” good governance elements, and “indigenous” elements



MDGs and PRS: UN and World Bank Getting Closer



- UN Millennium Development Goals (MDGs)
 - Adopted at the UN Summit in September 2000 by the world's leaders. Internationally agreed framework of 8 goals and 18 targets.
 - Time-bound and quantified targets for addressing extreme poverty, with a deadline of 2015.

- WB Poverty Reduction Strategies (PRS)
 - Introduced by the World Bank and the IMF in 1999, as a concrete action plan for poverty reduction, formulated by developing countries themselves.
 - Poor countries applying for the Enhanced HIPC Initiative, and WB (IDA) and IMF (PRGF) financial support are required to formulate PRS.
 - Country ownership and stakeholder partnership are guiding principles of PRS formulation.



Millennium Development Goals (MDGs) :

Eight Goals for 2015 using 1990 as benchmark
(21 targets and 60 indicators)



1 Eradicate extreme poverty and hunger



2 Achieve universal primary education



3 Promote gender equality and empower women



4 Reduce child mortality



5 Improve maternal health



6 Combat HIV/AIDS, malaria and other diseases

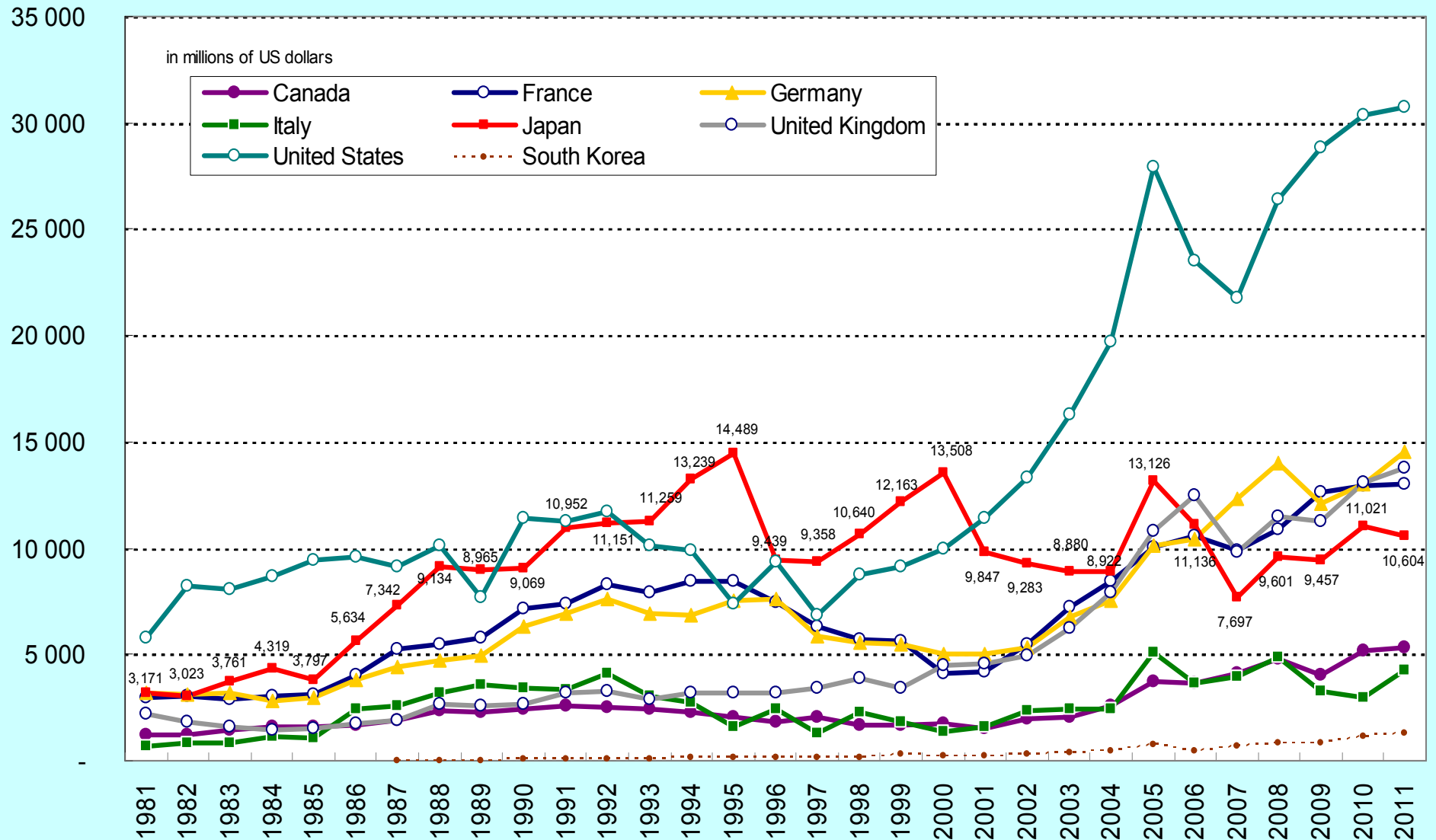


7 Ensure environmental sustainability



8 Develop a global partnership for development

Trends of Net ODA from G7 Countries + Korea: 1981-2011 (net disbursement basis)

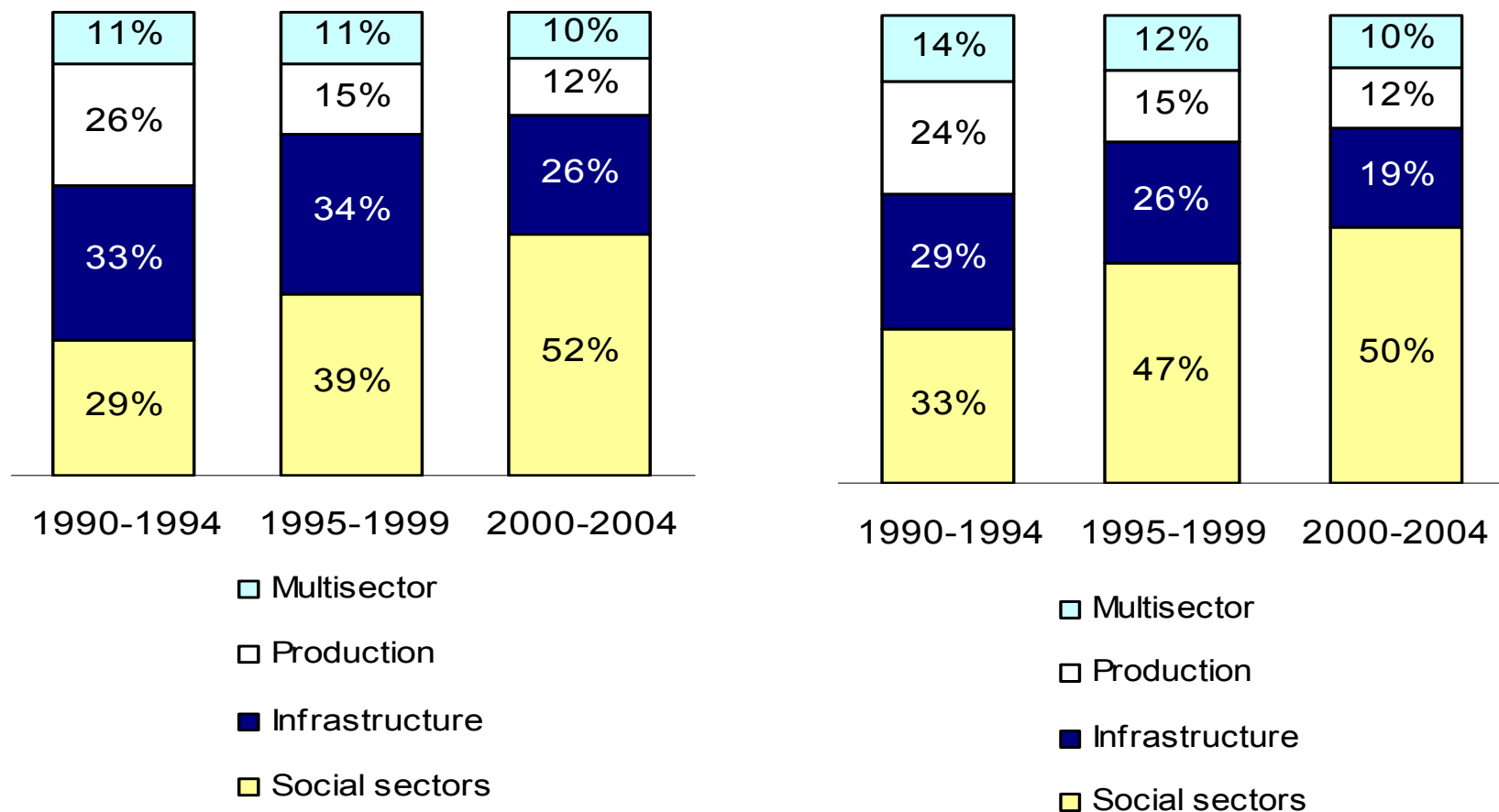


Source: OECD Development Assistance Committee (DAC), Statistical Annex of the 2011 Development Co-operation Report, CRS online database (2012.05.08)

Distribution of Sector Allocable ODA to Low Income Countries and Sub-Saharan Africa (commitments, period averages, %, 1990-2004)

Low Income Countries

Sub-Saharan Africa



Source: IDA (2007) *Aid Architecture: An overview of the main trends in official development assistance flows*. p.11, Chart 7.

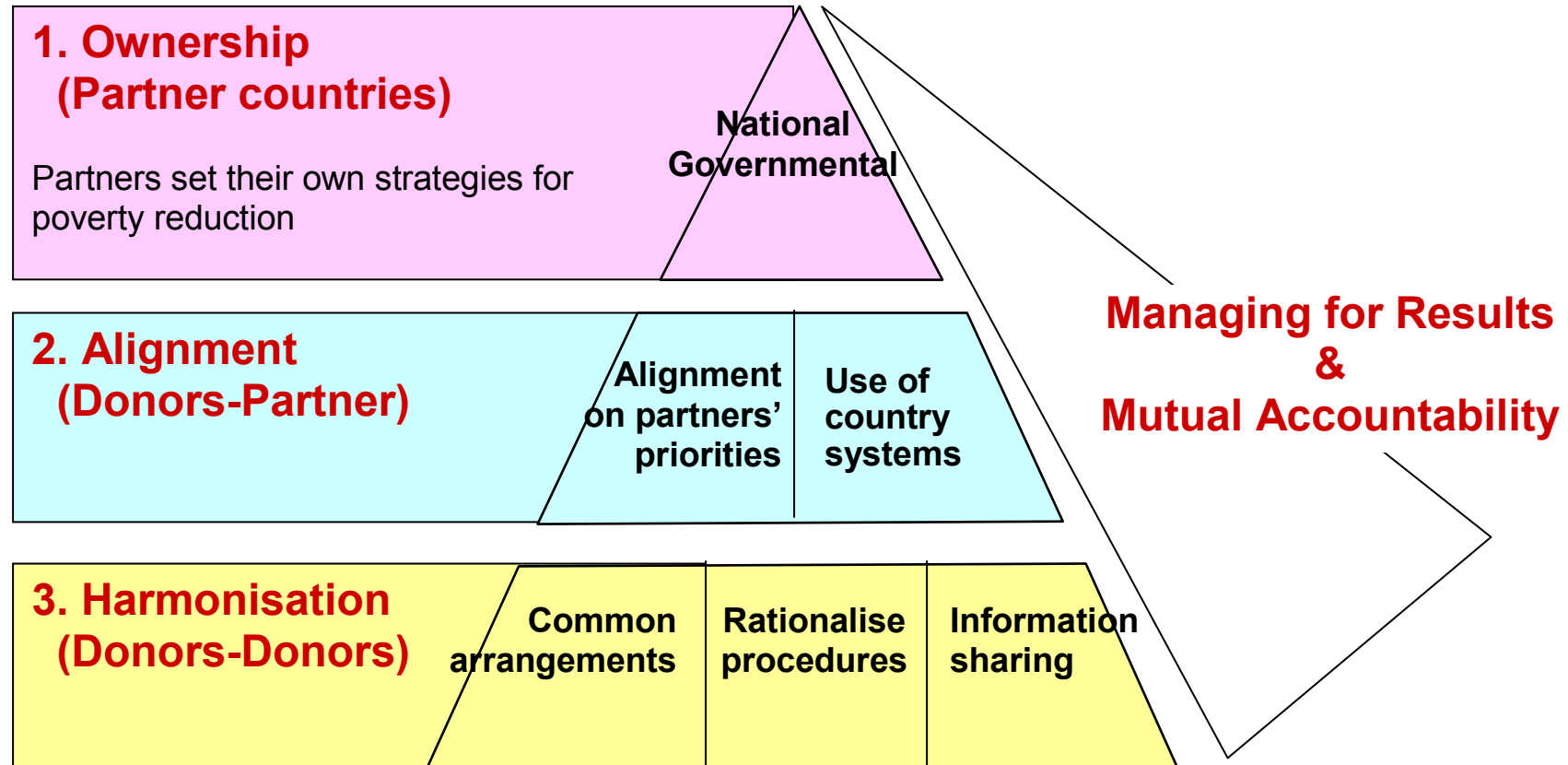
Post-Washington Consensus and Poverty Reduction Drive



- “Aid fatigue” after ending ideological war btw. superpowers (Western vs. Eastern camps)
- Revisiting the rationale for aid
 - ➔ International solidarity for fight against poverty: MDGs & PRS
 - ➔ Focus on poorest countries, fragile states, debt relief, grant aid
- Urge for effective aid
- Accelerating globalization, questions of speed and sequence of liberalization
 - ➔ Financial crises (East Asia 1997, Lehman shock 2008)
 - ➔ Role of the state in managing globalization

The Aid Effectiveness Pyramid

(Paris Declaration on Aid Effectiveness)



Source: *Harmonisation, Alignment, Results: Report on Progress, Challenges and Opportunities*, Joint Progress Toward Enhanced Aid Effectiveness for the Paris H/L Forum, February 28-March 2, 2005 and other related documents

Effective Aid

Prof. Bill Easterly



- William Easterly (*The Elusive Quest for Growth*, 2001; *The White Man's Burden*, 2006)

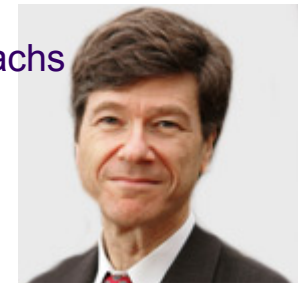
- Dambisa Moyo (*Dead Aid*, 2009)
Critique of aid. Aid is largely ineffective, lacks long-term sustainability of poverty reduction

Dambisa Moyo



- Jeffrey Sachs (*The End of Poverty*, 2005)
Aid is largely a beneficial factor in development. Advocate a large boost in aid.

Prof. Jeffrey Sachs

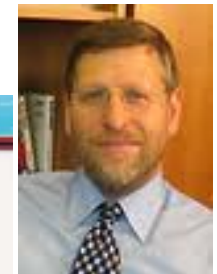


- David Dollar (*Assessing Aid*, 1998)
Aid works only if countries have good economic institutions and policies

- Toshio Watanabe (*Designing Asia for the Next Century*, 1995)
In East Asia, aid played a catalytic role in inviting trade and investment. Asian dynamism



Prof. Toshio Watanabe



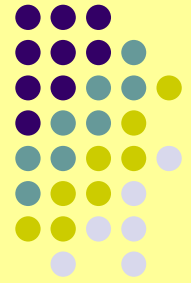
David Dollar

Managing Globalization, Role of the State and Industrial Policy



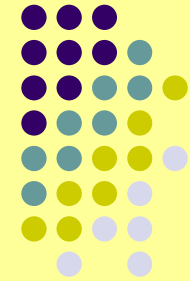
- Joseph E. Stiglitz: WB Chief Economist (97-2000), critique of IMF
Globalization and Its Discontent, 2002
Making Globalization Work, 2006
- Argue that misplaced faith in free-market ideology led to the global economic issues of today. Whenever information is imperfect and markets incomplete (especially in developing countries), the invisible hand works most imperfectly. Governments can improve the outcome by well-chosen interventions.
- Meles Zenawi
African Development: Dead Ends and New Beginnings
- Anti-neoliberal policy
- Democratic developmental state
- Robert Wade
Governing the Market, 1990, 2003
- Proponent of developmental state, esp. East Asian experiences
- Ha-Joon Chang
Kicking Away the Ladder, 2003
- Proponent of industrial policy
- Justin Lin
“Growth Identification and Facilitation,” 2011
- Proponent of industrial policy, “New Structural Economics”





Point of Debates

- Puzzle of “*East Asian Miracle*”?
(cannot be explained solely by the theories of pioneers, or neoclassical growth theory)
 - ➔ (Democratic) developmental state
 - ➔ Industrial development, role of industrial policy?
 - ➔ Good governance
 - ➔ Aid effectiveness (under which conditions?)



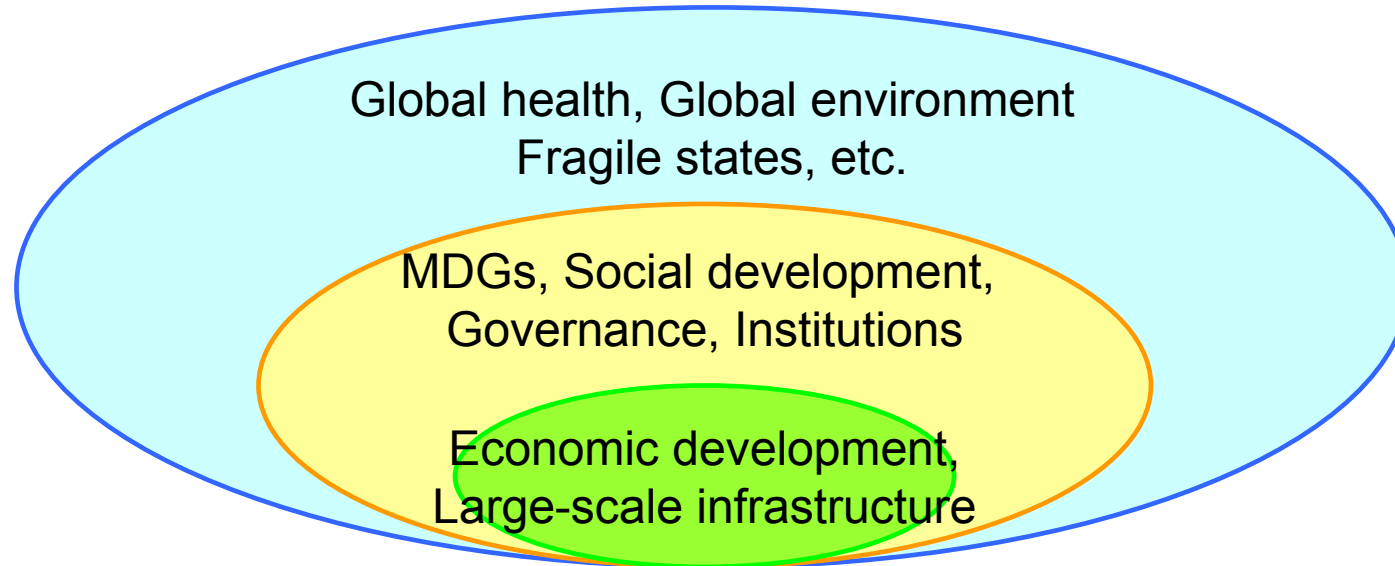
Global Transformation

- New tensions after the end of Cold War
 - Recurring regional wars and ethnic conflicts (despite easing of superpower tensions)
- Accelerating globalization
 - Economic integration, increasing connectivity and global interdependence
 - Increase of private flows into developing countries
 - Rising roles of civil society, NGOs
 - Transnational threats (infectious diseases, climate change, financial crises, terrorism, etc.)
 - Polarization of developing countries -- emerging powers vs. fragile states
 - IT diffusion, contributing to democracy uprising and social instability (cf. Arab Spring)
- Awareness of vulnerability (various risks and shocks incl. natural disaster)

Changing Global Development Environment (esp. Post-Cold War Era)



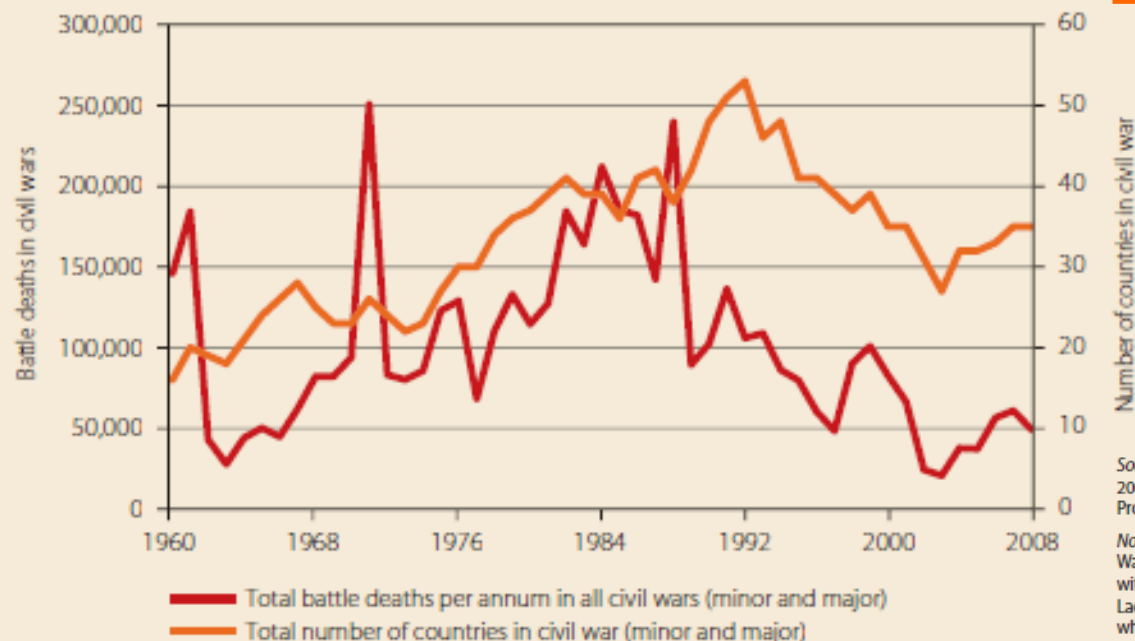
- More diverse development agenda



- New actors charged in development
 - Emerging donors (Korea, China, India, Brazil, etc.)
 - Civil society, NGOs, business and private foundations
- Multi-polar system, global power shift
 - G7/G8 → G20

Deaths from civil wars are declining

As the number of civil wars declined, the total annual deaths from these conflicts (battle deaths) fell from more than 200,000 in 1988 to fewer than 50,000 in 2008.



Recurring Civil Wars and Regional Conflicts

Sources: Uppsala/PRIO Armed Conflict dataset (Harbom and Wallensteen 2010; Lacina and Gleditsch 2005); Gleditsch and others 2002; Sundberg 2008; Gleditsch and Ward 1999; Human Security Report Project, forthcoming.

Note: Civil wars are classified by scale and type in the Uppsala/PRIO Armed Conflict dataset (Harbom and Wallensteen 2010; Lacina and Gleditsch 2005). The minimum threshold for monitoring is a minor civil war with 25 or more battle deaths a year. Low, high, and best estimates of annual battle deaths per conflict are in Lacina and Gleditsch (2005, updated in 2009). Throughout this Report, best estimates are used, except when they are not available, in which case averages of the low and high estimates are used.

Violence often recurs

Few countries are truly "post-conflict." The rate of violence onset in countries with a previous conflict has been increasing since the 1960s, and every civil war that began since 2003 was in a country that had a previous civil war.

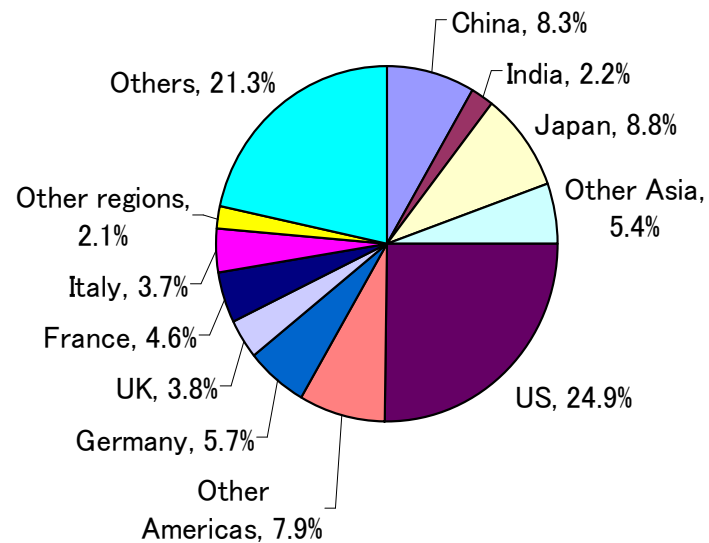
Decade	Violence onsets in countries with no previous conflict (%)	Violence onsets in countries with a previous conflict (%)	Number of onsets
1960s	57	43	35
1970s	43	57	44
1980s	38	62	39
1990s	33	67	81
2000s	10	90	39

Sources: Walter 2010; WDR team calculations.

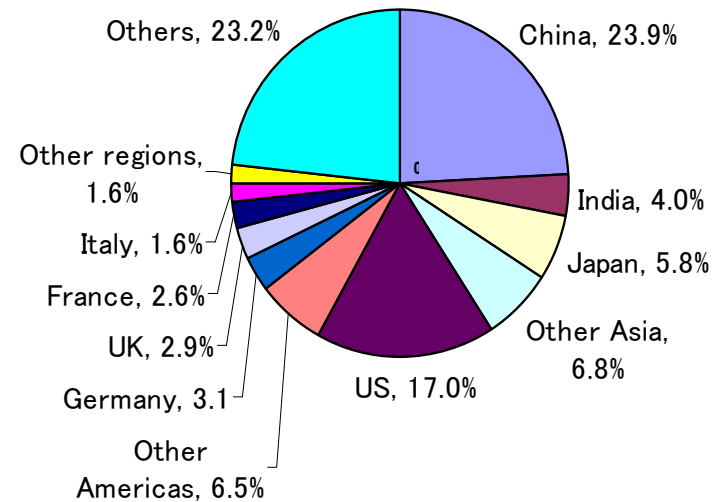
Note: Previous conflict includes any major conflict since 1945.

Rising Share of Asian GDP (esp. China, India)

2009 (IMF)



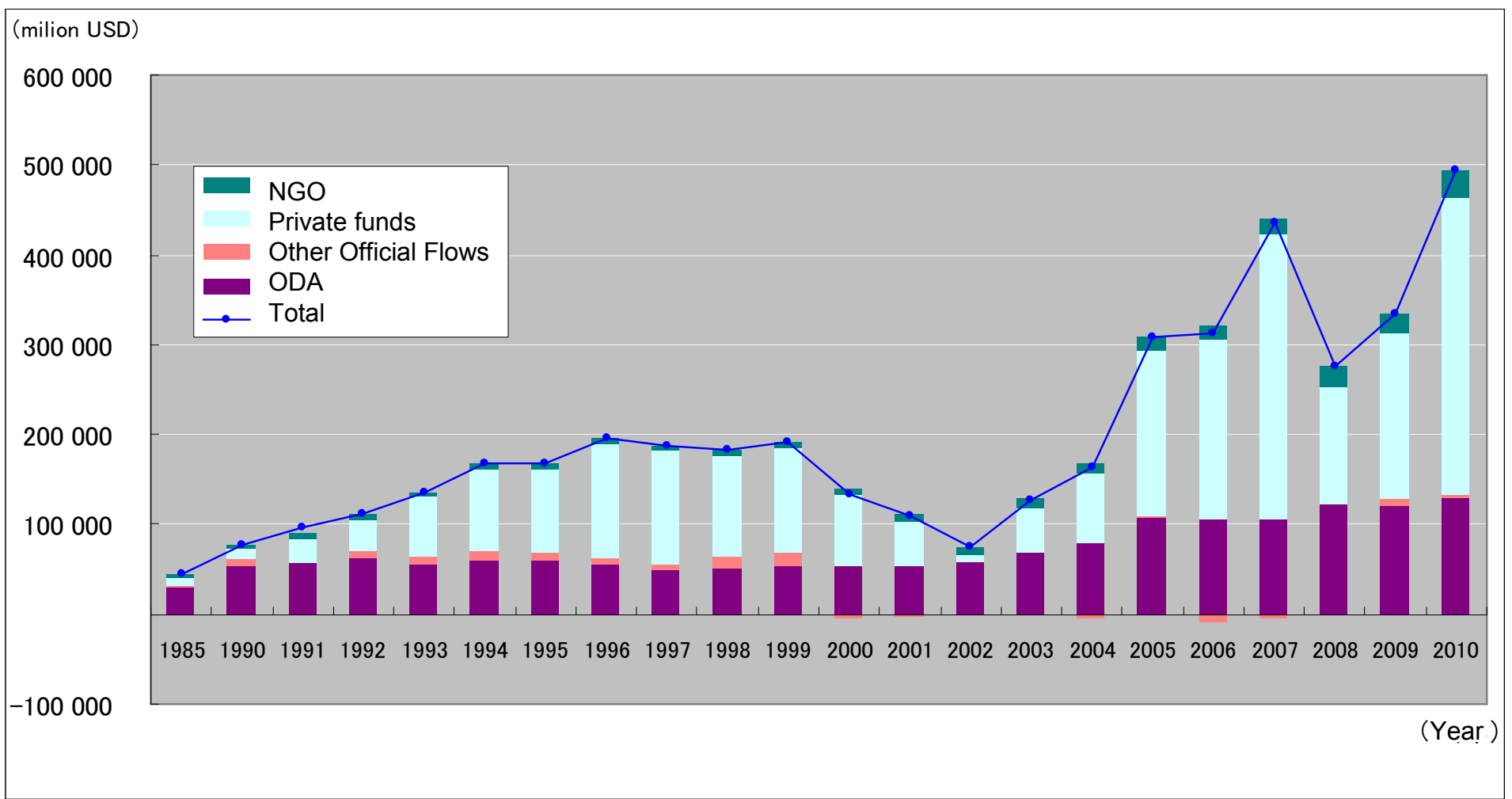
2030 (Estimate)



Source: Cabinet Office *Trends of the Global Economy 2010 - I*, May 2010

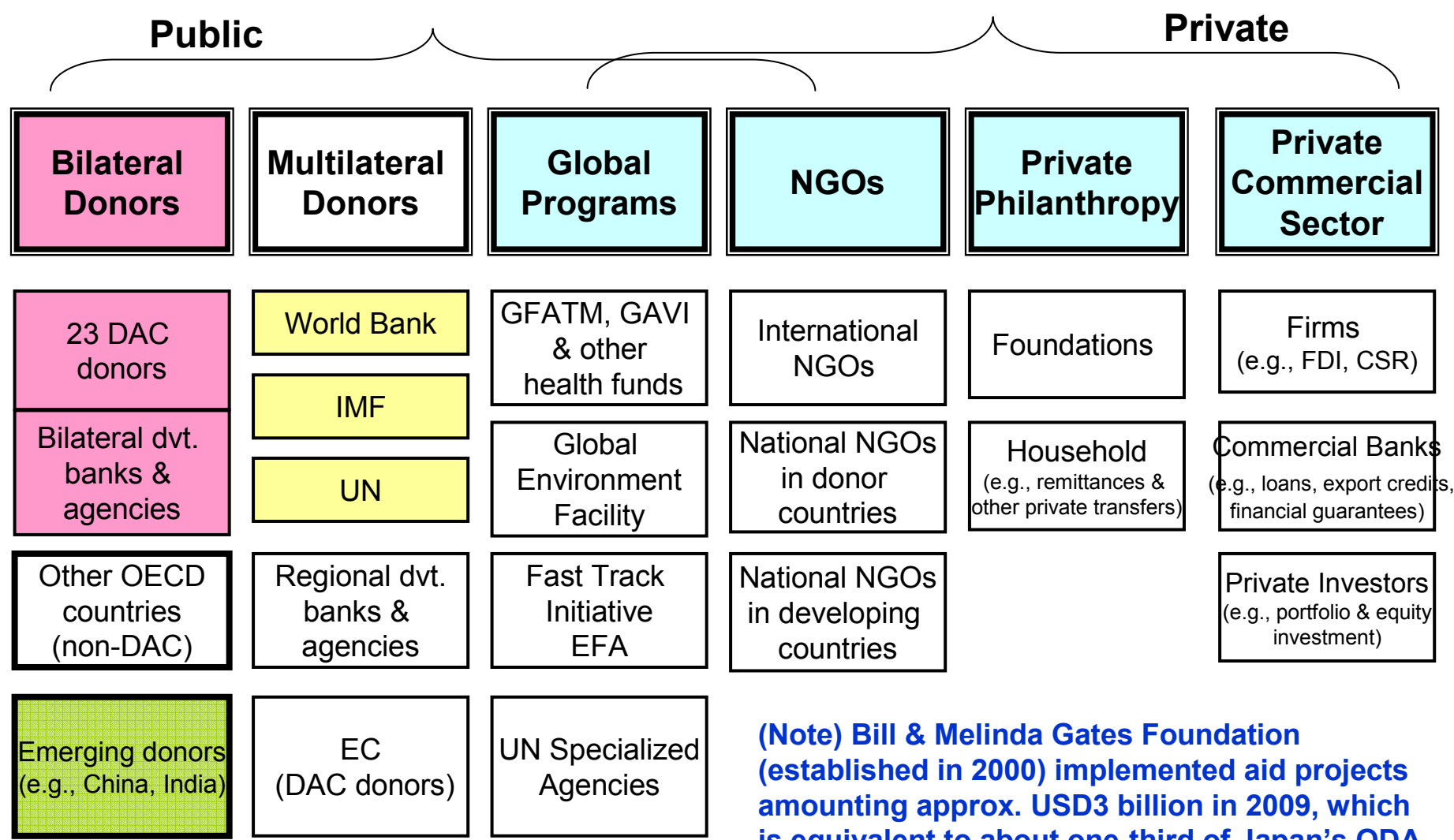
ASIA 2050 (ADB Report) envisages that by 2050, Asia could account for half of global output, trade, and investment—if Asian countries could avoid middle-income trap scenario.


Financial Flows from OECD (DAC) Countries to Developing Countries



(Source) Elaborated by the author, based on the OECD DAC database (StatExtracts)

More Diverse and Fragmented Aid System

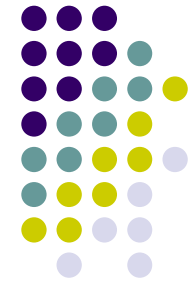


 Indicates observer status in DAC

(Note) Bill & Melinda Gates Foundation (established in 2000) implemented aid projects amounting approx. USD3 billion in 2009, which is equivalent to about one-third of Japan's ODA (net disbursement base)

Source: OECD DAC/DCD and OECD Development Centre (2006)

Role of the Private Sector in Development



● Trickle Down Theory
(Emphasis on large-scale infrastructure, economic growth)

● Structural Adjustment Program
(Small government, liberalization & privatization)



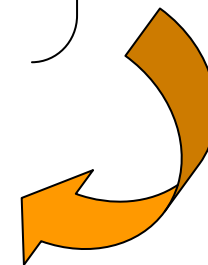
● Human Development (Adjustment with Human Face)
● Sustainable Development, Environment & Social Consideration

● Poverty Reduction
(Global partnership around MDGs)



● Inclusive Business, BoP Business
(Addressing development challenges via. core business)

- Economic vs. Social Development
- Wealth Creation, as Primary Role of Private Sector



CSV: Creating Shared Value

- **MNCs:** Increased responsibility for giving attention to the local conditions and socio-environmental aspects in developing countries, as corporate behavior expands to the developing region (e.g., ethical trade, fair trade / "social license to operate" for mega-projects / intellectual property rights over HIV/AIDS drugs, etc.)
- **LDCs:** Desire to industrial catch-up, development of local business and small farmers, technology transfer, etc.