

A New Framework for the study on International Development Policy – Basic Table

Objective: So far, the studies on international development policy have been positioned as a relatively unimportant part of Development Economics. In the past two decades, however, many new developments and issues have emerged in the international aid community which could be analyzed only with the use of very different theories and hypotheses from those used in Development Economics. Therefore, it is opportune to treat the study on International Development Policy as an independent branch of Development Economics and thereby to make it easier to develop it systematically. This Basic Table presents a new framework I have tentatively formulated for such an independent study of International Development Policy, which consists of three main pillars.

I. Development Models of the Developing Countries Themselves

I-1. Clarification of Different Stages of Development as a set of their Initial Conditions

Political regime: Patrimonial state (Patron-client relations) → Modern semi-democratic → Democratic

Economic regime: Customary economy → semi-marketized → Market economy
(Corresponding stages of productive forces: Agrarian isolated communities → Industrialized)

I-2. Supplementing the classification for the former centralized planning countries

Changes in the pattern of national income flows

Different stages of development: The case of state owned (government undertakings, partial autonomy increased, corporatization and equitization) enterprises

I-3. Clarification of External Environments as another set of initial conditions

Different characteristics of colonialism or semi-colonialism in the past: Degree of international tolerance of protectionism in the period of initial development after political independence. (For the present LLDCs, prevailing environments of free trade and investment)

I-4. Identification of the economic issues confronting these countries and specification of economic and political scenario of their development: Goals and the roadmap toward them

II. Perception of LLDC's Development by Western Donors

II-1. Development Models Perceived by Western Donors

After 1970s, neoclassical approach prevailed, hence disregarded the factors related to political and market economy regimes and considered the emergence of market mechanism once planning or regulatory regime abolished. Since the 90s, the approach of Amartya Sen and Joseph Stiglitz have arisen as intellectual shock to rethink it.

II-2. Policy Implications

After 1980s, Structural Adjustment Lending (SAL) regime. After 2000, PRSP regime. Both regimes, based on the neoclassical paradigm, aim to motivate the recipient developing governments to implement the policy and institutional reform so that, as described in II -1, the market mechanism would revive. But the aim was not achieved. Groping for alternative policies.

Notes: Special study is necessary on an approach by Overseas Development Institute's (ODI's) series of African studies, perhaps as partly, an exception to II -1 and II -2.

II-3. Japanese Perception and Policy Implication

Since Japanese was a late-comer in economic development, common Japanese perception of the developing model is of the type that is enabled by use of protection following "Infant Industry Argument." Also, as the root of the Japanese ODA was the war time reparation, Japanese ODA was mainly directed to aid to investment projects on economic infra-structure initiated and appraised by the recipient countries, the peculiar style called the Request Principle. (Yosei Shugi.)

III. International Aid System

III-1. This is the issue at the strategic center of International Development Policy in which donors cooperate with recipients in the recipient countries' endeavor to achieve the task of development. For this cooperation, donor's aid is a crucial instrument. Difficulties may arise when the development models (II) differ substantially in contents from the development models (I), since both sides consider development in the light of their own models. How to identify and reduce the gap between the two is also the task of this international aid system, and Japan should also try to contribute to the task.

III-2. The case of "policy aid"- Relevantness of 'conditionality and development model.'

International aid system underwent significant changes in the 1980s in the sense that the previously prevailing form of "project aid" was replaced by the form of "policy aid." The policy aid is here represented by the SAL (1980) and its PRSP lending (1999), as these

facilities use aid (concessional BOP or budget support) as incentives to induce recipient government to introduce policy and institutional reform and thereby achieve the policy goal – either growth promotion or poverty reduction. In order to assure that aid is rewarded by the implementation of reforms, the devise of ex ante conditionality is introduced. This is a typical situation which involves asymmetrical information between the two parties and which is analyzed with the Principal-Agent Relations Theory. (In the case of “project aid”, the problem of asymmetry information is not significant.) The results of these modalities of “policy aid” were mostly unsuccessful. As a cause, the deprivation of recipients’ ownership by conditionality is often mentioned. (I personally add another cause from the problem of relevantness of the development model(II -1.)

Succeeding remedial measures: ex post conditionality: selectivity and new measures for poorly-performing countries (or LICUS) with no bright prospects seen yet.

III-3. The issues of international public goods and social justice

In the period prior to the advent of “policy aid,” much more fundamental problems of aid were discussed in the international aid community.

(1) International Public goods: In the 1970s and thereafter the international private capital transfer even toward the developing countries revived. But not to the low income countries. The chances for “gains from growth with borrowed capital” were denied to the low income countries, however, largely because the marginal efficiency of investment there were below the level of the rate of interest prevailing in the world financial market. This was due to the insufficiency of economic infrastructure investment and other activities with the externally externality characteristics. The urgent necessity to help these countries overcoming this difficulty was vigorously taken up internationally in occasion of the protracted balance of payment crises that took place in the 1970s and 80s all over the oil-importing developing world.

- Ernest Stern of World Bank’s warning (in an article in Williamson ed. *IMF Conditionality* in 1983) that a possible adjustment of these afflicted countries by cutting down their growth rate would bring about serious economic crises in the developed world. This warning was utilized, however, for initiating the SAL.
- The Willy Brandt Commission’s two reports: *North-South: A program for Survival* (1980) and *Common Crises, North-South: Cooperation for World Recovery* (1983) stressed the need for understanding “North-South interdependence” and “human solidarity”, appealing the urgent act of cooperation. Essentially, this is an appeal for major donors’ contribution to the necessary expenditure for obtaining “international public goods.”
- Anne Krueger stressed the importance of world-wide efficiency in her analysis of the issue of “aid rationale.” Her remark on the possible case of the

diminishing world economic efficiency:

“A recipient’s potential welfare could always be increased by a grant, whereas the donor’s potential welfare might be reduced.” (A.O. Krueger, “Aid in the Development Process,” *Research Observer* 1-1, Jan. 1986).

Krueger’s Efficiency standard is likely to be in conflict with the Brandt Commission’s “international public goods” view of “interdependence.”

(2) Social justice: In the same period, there were also vigorous discussions on the aid from the “international social justice” or “international equity” view-point, involving the possible income or asset redistribution effect.

- The Brandt Commission’s concept of “humanitarian solidarity.”
- H. Chenery, M. S. Ahluwalia et al. *Redistribution with Growth*, Oxford University Press, 1974.

III-4. Recently revived concern on the “international social justice” issue as shown in

- DFID, *Eliminating World Poverty: A Challenge for the 21st Century—White Paper on International Development*, HMSO, Nov. 1997.
- Tony Blair, *The Third Way: New Politics for the New Century*, The Fabian Society, 1998.
- Amartya Sen, *Development as Freedom*, Alfred A. Knopf, New York, 1999.
- World Bank, *World Development Report 2000/2001 (Attacking Poverty)*, 2000.

DFID considered the goal of British aid policy (Poverty elimination) as identical to the Labor Government commitment of Social Justice (Equal opportunity of all people at the start line) that is applied to all the poor in the developing world. This comes from Blair’s Third Way, which incidentally closely resembles Sen’s concept of Social Justice involved in his “Capability Approach.”

III-5. In order to conclude discussions on various approach to the international aid system, many kinds of intensive research are still necessary.

(1) First, classification be made of these approaches according to the different donor motives, and the reconciliation and evaluation among them should follow.

	Brandt Commission	British 97 White Paper aid	Anne Krueger	Amartya Sen	V. Ruttan's treatise on US aid 1	Japan's ODA charter 2
1. International equity - "Human solidarity"					(Only inside the national border-)	
2. International public goods - "Interdependence"						
3. World-wide efficiency						
4. National interest political or commercial		×				(2003)
5. Egotism						

- (2) It is not necessarily straightforward to relate the "policy aid" approaches (III-2) to the classification in (1), which in fact listed the approaches (III-1) only.
- (3) Political scientists like Elinor Ostrom of Indiana University suggest a unique approach. Like the above, policy aid approach they consider that the recipient countries suffer from many inefficiencies caused by prevailing institutions involving "perverse incentives", which should be corrected by the donor's aid. But the effort at this correction failed, as donors' aid system also suffered from inefficiency which however arose from different causes, the long chains of principal agent relations, characterizing the hierarchy of donor government aid implementing agency, contractors and the recipient government's agency.
- (4) Realism in international relations requires, in addition to recognition of the factors in (3), consideration of the vital importance of trust between donors and recipients. In this connection, not only recipient's "ownership", but also donor's idealism relating to "international equity" matter.

Reference

Ruttan, Vernon W. *United States Development Assistance Policy: The Domestic Politics of Foreign Economic Aid*. Baltimore: Johns Hopkins University Press, 1996.

Ministry of Foreign Affairs. *Seifu Kaihatsu Enjo (ODA) Hakusho (ODA White Paper)*. Tokyo: World Bank, 2004.