Achieving Economic Development in the Era of Globalization

Shalendra D. Sharma

Routledge Studies in Development Economics

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Despite some significant gains in promoting economic growth and improving living conditions globally over the past five decades, many regions of the world still remain plagued by economic underdevelopment, with large numbers of people trapped in grinding poverty and hopelessness. At the turn of the new millennium, in an unprecedented display of international commitment to improve the lives of an estimated 2.7 to three billion people who live on under $2 per day, the 189 members of the United Nations issued the ambitious Millennium Declaration at the Millennium Summit in September 2000. The world leaders directed the UN to produce a "roadmap" for achieving the Declaration's goal by 2015. The result was the formulation of eight Millennium Development Goals (MDGs) and its 18 specific and quantitative targets for progress in areas such as halving by 2015 the proportion of people living in absolute poverty in 1990, including an improvement in education, health and the environment. While the MDGs are admirable, it has been suggested that the Declaration's architects do not provide sufficient guidelines or a coherent roadmap as to how these goals are to be achieved.

This book fills this gap by drawing on the lessons of some six decades of development experiences. It illuminates that the theoretical insights and accumulated empirical knowledge of development have much to offer the various stakeholders as they embark once again to promote economic development. Sharma highlights the fact that we now have a better understanding of what works and why, and concludes that, with less than a decade left to achieve the goals, it is time to utilize this knowledge to help translate the bold vision of the MDGs into action.

The book is relevant to subject areas such as economic development, globalization, international political economy and development studies, among many others.

Shalendra D. Sharma is Professor in the Department of Politics at the University of San Francisco. He is the author of *The Asian Financial Crisis: Crisis, Reform and Recovery* and *Democracy and Development in India*, which won the Choice Outstanding Academic Title for 1999.

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1 Introduction

The distinguished British historian E.H. Carr (1961) once observed that history is not a single, well-defined narrative but a terrain of contestation between competing and evolving interpretations whose influence is as much shaped by time and place as by any given set of facts. Thus, it is not surprising that the past and its legacies are constantly being reassessed or, to use the more familiar term, “revised” by successive generations of scholars. Perhaps nowhere has this been more the case than in the broad interdisciplinary field of “economic development.” This quintessentially American project embarked with unabashed optimism in the immediate post-war period has preoccupied some of the most gifted minds in economics, political science, sociology, and other disciplines for the better part of six decades.

Reflecting the hubris of the decolonization era, these first-generation scholars (often condescendingly lumped as “modernization theorists”) believed that a bright new dawn awaited the newly emancipated nations. Trusting modernity exigencies and consumed by the enthusiasm and buoyancy of the times, they boldly predicted it would be simply a matter of time before the “newly emerging nations” overcame the legacies of colonialism and laid the foundations of a just political and economic order (Gilman 2003; Packenham 1973; Rosen 1985). Many of the era’s luminaries, including Paul Rosenstein-Rodan, Arthur Lewis, Nicholas Kaldor, Walt Rostow, Simon Kuznets, Joan Robinson, Jan Tinbergen, Gunnar Myrdal, Karl Deutsch, Gabriel Almond, David Apter, and Edward Shils among others, were convinced that their particular ideas, growth models, theories and policies, if judiciously applied, would propel the new nations towards self-generating economic abundance and stable representative government (Tignor 2005). With missionary zeal some members of this legendary “epistemic community” of development professionals dutifully offered their services and advice to presidents, prime ministers, dictators, and anyone else who cared to listen on how to rapidly transform traditional and economically poor societies into modern prosperous ones.

However, by the mid-1960s, optimism gave way to disillusionment as the failure of the new nations to generate sustained economic growth and the inability of the fragile political systems to mediate dissent and conflict became evident. Rather, this combustible mix not only produced economic stagnation, but also pushed once promising experiments in nation-building towards authoritarianism and other forms of tyranny and despotism. The "modernization paradigm" quickly fell out of vogue as it came under sustained attacks from all quarters, in particular from the proponents of "dependency theory." The *dependistas* accused modernization for its ahistoricity and willful eurocentrism, and how their blinkered and anachronistic worldview led them astray and prevented them from seeing the continuing exploitative effects of neo-colonial domination on the newly emerging nations.[1] However, dependency, in particular the radical variant (which was heavy on critique and light on viable alternatives), peaked remarkably quickly, to be superseded by an austere neoliberalism in the early 1980s.[2] Pointing to the robust linkage between free markets and East Asia's economic success, neoliberalism, with its emphasis on international openness, free markets and limits on the role of the state, in one broad sweep summarily dismissed earlier paradigms. In particular, neoliberals went to great lengths to discredit the intellectual foundations of "development economics," especially the post-war "Keynesian consensus" which had long preached the virtues of state-led development.[3]

However, even as shifting intellectual fads came and went, the reality on the ground remained as intractable as ever. Indeed, the record of the past several decades of development experience ruefully described by William Easterly (2001) as the era of "the elusive quest for growth" is littered with the skeletons of a veritable array of extravagant models and grandiose plans and programs once seductively proffered as the panacea to the problems of poverty, inequality, and economic backwardness. Despite the dedicated efforts of many, not to mention the incalculable cost in treasure, the results have been conspicuously disappointing – a few successes in a landscape full of many heart-wrenching failures.

Clearly humbled by the failure to achieve the long-predicted economic "take-off," the current (and more chastened) generation of scholars are more circumspect and cautious. Unlike their predecessors, few now dare to propose a single, universal set of models and prescriptions, offering instead more tentative, if not more tempered, analysis. As never before, each theory, method, practice, presupposition, outcome and policy lesson of development comes under the microscope – every minute detail doggedly (and sometimes acrimoniously) scrutinized, exhaustively analyzed, and constantly revised. Although caution has produced a deep ambivalence, a sort of timid intellectual relativism regarding development, it has also made us better appreciate the "paradox of development" with all its nuances, ambiguities, contingencies and multidimensional complexities. The irony is that we now know far more about the political economy of development (at least, with much greater certainty) than we care to admit.

No doubt, what constitutes development and how best to achieve it will remain as passionately contested as ever. This is inevitable as economic development, like all human endeavors, is clearly an immutable process of trials, tests and experimentations across time and space. Nevertheless, certain tangible "truths" can be gleaned from the lessons of over six decades of varied and contrasting development experiences, including the ideas, insights, and intuitions of an entire generation of experts buried in a vast body of research and scholarship. Cumulatively, they offer invaluable clues regarding how development works, why some things work better than others and how it can be made to work even better. This rich and precocious repository of knowledge and practical information can serve as a "best practices" manual and potentially help the various stakeholders in development avoid not only the more egregious failures, but also the less obvious but no less wrenching ones. It is coincidental, yet propitious, as the international community embarks again on yet another ambitious development agenda under the guise of the Millennium Development Goals (MDG); it is imperative to revisit the lessons of the past to draw some tangible lessons that may help in translating the MDGs' bold vision into action, and thereby help alleviate some of the world's most inexorable problems.

The following pages discusses some of the more exigent lessons the development ledger has bequeathed us, in particular how the international community can work together to effectively translate and implement the MDGs. This is a rare opportunity, for seldom we have seen such an unprecedented display of international commitment to improve the lives of an estimated 2.7 to three billion people who live on under $2 per day.[4] Ever since the 189 members of the United Nations issued the Millennium Declaration at the Millennium Summit in September 2000, the race has been on to meet head-on some of the most intractable problems facing the world. At that Summit, the world leaders directed the UN to produce a "roadmap" for achieving the Declaration's goal by 2015. The result was the formulation of eight Millennium Development Goals and 18 specific and quantitative targets for progress in areas such as halving by 2015 the proportion of people living in absolute poverty in 1990, including improving education, health, social services, and the environment.

Despite "developments"-checkered history, the international community's subtle confidence in the MDGs reaffirms hope and the promise of a better future for the world's teeming masses. After all, there is nothing natural or inevitable in existing patterns of development and inequality. They are products of human actions, and therefore can be mitigated through determined and more prescient policy choices. Although there are no guarantees that the fruits of development will mature quickly enough, or the rewards be commensurate with the laborious toil and sacrifice that is undeniably required, and while future efforts will continue to suffer the vicissitudes and transgressions to which all human endeavors are subject – despite all this, development that enhances the dignity and well-being of all is not only a moral imperative, it is also possible. The negative externalities associated with poverty, disease and hopelessness such as conflict, violence and terrorism, among other ills, are simply too costly to ignore. Arguably, we are at a historic juncture where the moral imperatives to promote sound economic and political development and the security imperatives converge as never before. Indeed, what is at stake with the MDGs is the opportunity for hundreds of millions of people to escape grinding poverty, preventable and treatable diseases, and illiteracy, and in so doing boost prospects for long-term global security and peace. However, with only a decade remaining, progress towards the MDGs has been slower and more uneven across regions than originally envisaged (Bouillon *et al.* 2005). Clearly, the disadvantaged can hardly be expected to patiently wait forever for the charitable benevolence of the privileged, or like "trickle-down" before it, hope that the rising tide will lift all boats. Meeting the MDGs is both an achievable and an urgent task, and even if only a part of the MDGs' targets are met it will improve the lives of the world's poor immeasurably (Wolfensohn 2005). It is with these enormously important concerns in mind, as well as the tantalizing possibilities, that this book is written.

Finally, a few words on pedagogy. Over the past several years numerous technical briefs, analytical reports, policy papers, government-commissioned reports, journal articles and books have been written on almost all aspects of development. The purpose of this book is not so much to present new research, but to systematically elucidate the seemingly incongruent set of ideas and insights from a burgeoning body of scholarship, and to provide an intimately integrative and reflective analytical narrative of important "lessons" regarding what works in development and how these ideas and strategies can be practically utilized to resolve contemporaneous development challenges. Since my intended readership goes beyond the specialized research community in economics, political science, international relations and development studies, to include most social scientists, policymakers, and the informed general public, I have deliberately tried to avoid formal models, mathematical equations, and econometric tables, including the esoteric jargon and dichotomized abstractions of particular disciplines.

The six core chapters in this book are organized around thematic issues. Chapter 2 provides a broad overview and interpretation of some of the fundamental lessons learned from over six decades of development experience, highlighting what has worked and why, as well as the gaps, ambiguities and discrepancies that continue to limit our understanding of economic development. Moreover, it provides a broad assessment of economic globalization – in particular, its evolution and ever-shifting manifestations, the impact and implications of its spreading and far-flung networks of commerce and social intercourse on both the international and domestic economies, its structural and programmatic limitations and possibilities, and how developing countries can better navigate their way through an evermore enmeshed, integrated and interconnected world.

Chapters 3 to 7 bring some of the issues discussed in Chapter 2 into sharper focus. Chapter 3 examines the complex relationship between democracy, good governance and economic development, exploring conditions that can both impede and foster good governance. It illustrates how the institutional deficit that characterizes so many developing and transitional countries – weak and arbitrary governance, poor protection of civil liberties, inadequate regulatory and legal framework to guarantee property rights, enforce contracts and reduce the transaction costs – deprive these countries of needed productive investment and economic growth. Therefore, improving the quality of governance is essential for economic development. Yet, what is good governance? What types of policies and institutions have the most positive and measurable effects on improving governance? What kinds of institutional arrangements are associated with economic growth and poverty reduction? How best to promote and sustain good governance, especially in the world's poorest countries? Drawing on recent research, this chapter will show how democratic governance influences economic growth. Specifically, secure private property rights that give incentives to individuals to be productive, institutionalization of the rule of law, especially constraints against executives, and electoral mechanisms that give citizens the ability to evict the "rascals" are essential to promoting growth. Moreover, democratization and decentralization without simultaneous strengthening of property rights and the rule of law may not always lead to effective democratic governance or sustained economic growth.

Chapter 4 discusses the relationship between rural development and poverty alleviation. Since the vast majority of the people living in extreme poverty depend either directly or indirectly on agriculture for their livelihood, sustained growth in agricultural production and productivity is one of the most important ways to alleviate poverty and hunger and to achieve the MDGs. Because of the inherent "urban bias" embedded in most development strategies, the chapter deliberately begins by belaboring the obvious: since the vast majority of the world's poor depend directly or indirectly on agriculture for their livelihood, the key to reducing global poverty and the proliferation of urban sprawl is rapid acceleration of agricultural and rural development. However, for this to happen the pace of rural and agricultural development must be greatly accelerated. Public investments in rural services and infrastructure, the application of modern science and technology, and the use of new biotechnologies – the so-called "second-generation green revolution" – will be critical to boost and sustain agricultural growth, meet the food demands of a growing human population and reduce global poverty.

While the wealthy OECD countries provide about $50 billion per year in official development assistance to poor countries, there is a more effective way the rich nations can provide long-term assistance to poor countries: trade liberalization. Chapter 5 focuses on global trade, highlighting the importance of reviving and successfully completing the Doha Round of trade negotiations. The chapter begins with a discussion of the reasons behind the stalled trade talks – including the series of events that led to the failure of the Cancun Ministerial Meetings in September 2003 and to the eventual "collapse" at Geneva in June 2006, where the Doha Round was suspended. It also highlights the economic implications of the failure, as well as the necessary trade-offs member governments of the WTO need to make to revive the Doha Round. The chapter underscores that the Doha Round's commitment to multilateral, reciprocal and non-discriminatory trade liberalization offers the best single chance for the international community to achieve the development promise of trade and progress towards the MDGs. Specifically, to realize the potential of Doha, the OECD countries must take the lead by further opening their markets to the developing countries in agriculture, textiles and apparel. However, since agriculture could account for some two-thirds of the potential gains from trade liberalization, meaningful reduction in agricultural protection may be the single greatest contribution that OECD countries can make to the Doha Round. Similarly, the middle-income countries must also do their part and reduce barriers in their protected agricultural markets, besides bringing down their relatively high tariffs in manufactures. Since trade restrictions are much higher in developing countries, further liberalization, especially by the middle-income developing countries, is essential. Finally, the international community through multilateral institutions can help developing countries, particularly the least-developed countries (LDCs), to adjust to trade liberalization and enhance their capacity to take advantage of the more open global markets.

Chapter 6 reviews the conflicting "truths," "half-truths" and myths about foreign aid – a topic long an arena of partisan debates, and one that gained notoriety when in the midst of the tsunami disaster in 2005, the UN Undersecretary-General for Humanitarian Affairs, Jan Egeland, suggested that the world's richest nations are "stingy" when it comes to giving development assistance. This chapter cuts through the furor and acrimony that often characterizes discussions about foreign aid by dispassionately examining the various claims for and against aid. In particular, it critically reviews the recent Sachs–Easterly debate on foreign aid, as well as challenging the commonly held perception that OECD countries already give too much aid or that "aid does not work." Rather, drawing on a broad range of comparative cases, including recent cross-country evidence, this chapter shows that the impact of aid is far more intricate and subtle, and that well-targeted aid can have a positive impact on economic development.

Since aid and debt are intrinsically linked, for aid to be effective it needs to be better aligned with debt relief. Chapter 7 illustrates how the high levels of external debt pose a serious constraint on the ability of many poor countries to pursue sustainable economic development and reduce poverty. It reviews the efficacy of various debt-relief strategies, most notably the World Bank and the IMF's Heavily Indebted Poor Countries (HIPC) Initiative, in reducing the debt burden of some of the world's poorest nations, as well as the recent G-8 agreement to an unprecedented 100 percent debt cancellation for some of the world's most heavily indebted poor countries. The chapter argues that while both initiatives are a positive step towards debt relief and sustainability, the 100 percent debt cancellation should be extended, especially to the heavily indebted poor countries in sub-Saharan Africa. To realize the full potential of debt relief, donor countries will have to be more generous and the recipient countries need to undertake deeper structural reforms. The conclusion – or more appropriately "the postscript," as development is a continuing and salient process – reflects on the continuing challenges the international community faces in achieving the MDGs.

2 Promoting development

What works?

In September 2000, at the historic Millennium Summit, the 189 member-states of the United Nations (including the heads of state of 147 countries present at the Summit) unanimously adopted a document known as the “UN Millennium Declaration.” Under this document they pledged to work towards a world in which sustainable economic development, the eradication of chronic poverty, and the promotion of peace and social justice would receive the highest priority. After consultations with a number of international organizations within the UN system, as well as the International Monetary Fund (IMF), the World Bank, and the Organization for Economic Cooperation and Development (OECD), the UN General Assembly recognized seven “Millennium Development Goals” (MDGs) as an integral component of Millennium Declaration (see Table 2.1).

In December 2000, UN Secretary-General Kofi Annan was authorized by the General Assembly to prepare a “roadmap” of how to achieve the goals laid out in the Millennium Declaration. After extensive deliberations, Annan’s office issued a “consensual roadmap” in September 2001. Drawing on the broadly agreed-to seven goals, the roadmap also proposed an additional “eighth goal.” Felicitously termed “a global partnership for development,” the eighth goal, while it does not have time-bound and quantitative targets, comprehensively outlined the “mutual responsibilities and obligations” of the UN member-states. In December 2001, the UN General Assembly formally adopted resolution 5695 approving the eighth goal. At the UN’s inaugural International Conference on Financing for Development in Monterrey, Mexico, in March 2002, some 50 heads of state and over 200 ministers (including leaders from the private sector and NGOs), from both the developed and developing countries, agreed on a new compact that stressed mutual responsibilities in the quest for the MDGs.[1] The “Monterrey Compact” called on the developing countries to deepen their economic reform programs and improve governance, and for the wealthy countries to step up their support by providing more financial assistance and access to their markets.

In accepting the eight MDGs, each country made commitments to an ambitious time-bound and measurable program of development “goals” and “targets” by the year 2015. Specifically, as Table 2.1 illustrates, the eight goals (each corresponding to a key development aim in one dimension of human welfare), are