Chapter 13: The Political Economy of Development

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Ways of Thinking about Development

① Modernization Theory

❖ emerged in the end of World War II.
❖ the ideological rivalry of the Cold War in the U.S.
❖ Two conditions:
  ➢ a process with a clear end-point (being “developed”) → the U.S. or Western Europe
  ➢ a process of “catching up” to be “developed” → the rest of the world
❖ Three key concepts:
  ➢ ethnocentrism
  ➢ the equation of modernization with Westernization
  ➢ its clear ideological project
Ways of Thinking about Development

② Underdevelopment Theory

- emerged during the 1960s and 1970s
- originated in Latin America, UN Commission for Latin America (ECLA)
- Two divisions:
  - a powerful “center”
  - a weak “periphery”
- “Terms of Trade”
  - periphery cannot compete with others due to the industry and manufacture
  - the wider gap in incomes between “center” and “periphery”
Ways of Thinking about Development

③ Dependency Theory

❖ developed from imperialism in the world economy
❖ the essentiality of understanding of the location of economies and relations with the other part of this system in the capitalism world
❖ “the two faces of the historical evolution of capitalism” in the structural world system

④ World Systems Theory

❖ economic inequality made by many different status: core, semi-periphery, and periphery

→ Both Dependency Theory and World Systems Theory lost power by the 1980s.
Ways of Thinking About Development

5 Neoliberalism
- maximising individual entrepreneurial freedom within free markets advances individual well-being: liberalisation
- state intervention in markets is inimical to development
- however, the state is the key actor and development is a national project; growth is economic

6 Neostatism
- the presence of an institutionally minimal but elite ‘developmental state’, which selects the industries to be developed for overall growth
- state intervention in markets, if properly applied, is responsible for development
- development is a state-led economic project
Ways of Thinking About Development

Human Development

- ‘basic needs’
- Amartya Sen’s ‘development as freedom’:
  - development is fundamentally about individuals’ capabilities to lead the lives they choose
  - equitable, not identical treatment
  - inequality should be addressed
Ways of Thinking About Development

Gendered Approaches

- ‘Women in Development’: women should be integrated into existing modernisation frameworks
- ‘gendered needs’: the practical and strategic - or political/structural - interests of women need to be fulfilled
- ‘Gender and Development’: women are subordinated in development because of the gendered division of labour in society, especially of informal labour
Ways of Thinking About Development

⑨ Environmental Approaches
- 1980s: growing consciousness of the finiteness of natural resources - challenging modernisation’s assumptions to infinite growth
- ‘sustainable development’: reorientation towards human development and reduction of inequality
Development theory in Practice
- 1940s to the early 1980s -

Four main developments after WWII

1. Decolonization
2. A reassessment of the laissez-faire economic policies
3. A growth of employment
4. Heightened protectionism for developing countries.

↓

“Catching up” imperatives and “Breaking out” imperatives

❖ “Catching up”: designing policies that would lead to development of countries
❖ “Breaking out”: to find ways of less dependence on the “North” and effective participation in the new international system.
Development theory in Practice
- 1940s to the early 1980s -

Modernization theory vs. Underdevelopment theory

- Modernization theory: Export-led growth
- Underdevelopment theory: Inward-looking development strategies
  ➢ Import-substituting industrialization (ISI)
    ➢ Three central goals
      1. stimulating and consolidating industrialization
      2. Integrating the new and expanding working class
      3. achieving an autonomy
  ➢ Succeeded in East Asia but failed in sub-Saharan Africa
Development theory in Practice
- 1980s onwards -

**Neo-liberal agenda**

- **Washington Consensus (WC)**: The purpose is to constitute a list of what governments of countries had to do in order to develop
- “Structural hegemony”: Governments to adopt neo-liberal policies
  - International Financial Institutions (IFIs)
  - Structural Adjustment Programmes (SAPs)
The Crisis of the WC in the 1990s

- peso crisis (1995)
- low growth rates in Latin America, eastern Europe and Sub-Saharan Africa
  - neo-liberalism and neo-statism onto back foot
Growth

- China........9.5% (~03’) → 10.7% (03’~06’)
  - globalization not extended to financial markets
- India.........6% (~03’) → 8.6% (03’~07’)
- Latin America........1.5% (80’s~03’)
  = lower than ~80’s
- African countries........under depression
  - export growth rate lower than any countries

both took autarkic trade and investment policy ~80’s
Trade ①
two types between developing economies

- exporters of **manufactured goods** ........East Asian NICs

- exporters of **primary commodity** ........Latin America and Sub-saharan Africa
  ➢ lack of access to key markets
Trade ②

- government subsidies of agriculture
  - developed countries higher than average of OECD
    - EU: 40%
    - Japan & Korea: 60%
    - Northern EU: 70%

- International Trade Negotiation of agriculture
  - liberalization of trade is the requirement
    - many developing countries remain off the table
Finance and investment

*private investment* to developing world increased...
(95% of them to ‘developing nations’)

- *portfolio investment* (bond and stock) was a third of them
- they avoided Sub-saharan Africa
- *portfolio led to rash of crises* in 90’s~00’s
  ..........peso crisis (‘95), Asian financial crisis (‘98), Argentine collapse (‘01), etc.
Debt

- the ratio of debt service payments increased
  - repayments or interests
  ........doubled during ‘90s (to US$2.2 billion)
  103% of GDP debt levels

- Heavily Indebted Poor Countries (HIPC) Initiative (1996)
  ........for reducing debts to ‘sustainable’ levels
  ➢ some progress was made but reached limit
  ➢ G7 accepted multilateral debt should be cancelled in 2005

- Multilateral Debt Relief Initiative (MDRI, 2006)
  ........for cancelling debt
Poverty and Inequality

- Trends in poverty and inequality
  - neo-liberal project did not yield the expected result
  - recurrence of crisis increased vulnerability

- neo-liberal vs neo-statist about the explanations of failure
  - internal problems vs globalization

- conclusion by Rodrick (2006)
  - insufficient attention to forces behind the growth
  - economic reform achieved in a number of ways
  - solutions must be context-specific and emulation was unhelpful
  - reform efforts needed to focus on ‘binding constraints’

- post-Washington Consensus as a new paradigm for development
Poverty and Inequality ②

- PRSP (Poverty Reduction Strategy Papers) framework
  .......... emphasize the question of local ownership in global poverty reduction strategies
  = promoting good governance, enhancing human security, income distribution

- MDG (Millenium Development Goals) 2000
  = universal primary education, reducing child mortality, combat HIV/AIDS, etc
  .......... core goal is to halve under the absolute poverty by 2015

- SDG (Sustainable Development Goals) in 2014
  = ending of poverty and hunger, urgent taking actions, etc.
  ➢ agenda to acheive by 2030

- Beijing Consensus
  .......... centering governments intervention
  ➢ China challenges one-size-fits all development as Western
Development and Financial Crisis

What are the consequences of the Global Financial Crisis (GFC) and its aftermath for development?

❖ GFC rooted in the US and Europe but had global repercussions.
❖ Large developing economies like China and India saw significant slowdowns, others such as Brazil experienced recessions.
❖ BRIC nations, in particular China, hit by falling demand and investment from developed countries.
  ➢ Chinese growth in turn fuels many developing economies in East Asia and across the globe.
Development and Financial Crisis

Framing the crisis: different explanations can serve global political economic purposes

❖ A consequence of Anglo-American financial system and policy making with subsequent impacts on the rest of the world
  ➢ Solution: tighter regulation of financial markets, move away from neoliberal development policies.

❖ A result of interaction between import-dependent and export-dependent capitalism creating global imbalances.
  ➢ Solution: “global rebalancing” - broad reforms to growth and development strategies, e.g. China’s currency manipulation.
Development and Financial Crisis

Challenges to large emerging economies:

- Inflation, currency pressures, pressures on asset prices.
- China’s financial controls allow it to avoid overvaluation however this causes issues for its trading partners.
- Other countries (e.g. Brazil - 2010) have followed suit, imposing capital controls to tackle inflation and overheating currencies.
- Normalisation of capital controls most important impact of crisis in terms of expanding development policy making.
Development and Financial Crisis

Doubts over China?

- Sustainability of high-growth model questioned
- China has seen increased volatility since the crisis
  - 2015 Yuan devaluation led to $5tn wiped off global stock markets
- This has contributed to weaker general emerging market growth.
- However analysis of the crisis shows that global development is conditioned as much by China as by US and Europe.
Development and Financial Crisis

Human development impacts transmitted through 3 mechanisms:

- **Manufacturing sector**
  - Saw the largest fall in employment globally
  - Vulnerable and lower income workers worst affected

- **Migration**
  - Sectors worst affected (manufacturing, construction) have highest numbers of migrant workers
  - Many countries imposed harsh laws on immigration/migrants
  - Slower growth in remittances - key development finance

- **Food and fuel markets**
  - Increased food and fuel prices increased rates of poverty - particularly in food importing countries
Development and Financial Crisis

Crisis has demonstrated the global nature of development issues

- Development impacts have not been limited to emerging economies.
  - Lower income population in developed countries have seen increased poverty, migrant hardship and deteriorating welfare provision.
- Increased global interdependence means that all economies are engaged in processes that affect development.
Globalization and development (1)

In the contemporary era of globalization

- A very large proportion of the world’s population continues to live in poverty and deprivation
- Inequalities between countries, societies, and people continue to increase
- Conditions for development to flourish have not been put in place

How do we explain this?
Globalization and development (2)

Advocates of globalization argue that:

❖ Governments have failed to introduce the right kinds of policies, in the right kinds of ways, and to the right extent
❖ More, not less, neo-liberal reforms are required
❖ There has been insufficient engagement with globalization
❖ Financial crisis is not explained by excessive levels of “openness” or “vulnerability”
❖ Many of the developing economies that were affected by financial crisis were not the most open
Globalization and development (3)

Critics of globalization argue that:

❖ Neo-liberal policies work against the goals of growth and human development, often with devastating consequences
❖ Neo-liberal policies take little or no account of the nature of the global political economy that impose obstacles to development
❖ The recurrent financial crises are crises of globalization
Conclusion: A new era of global development (1)

Note of speculation:

❖ What will be the long term developmental consequences of the global economic crisis of the late 2000s?
❖ What does the growth and the instability of China, east Asia and the rising powers imply for the future of global development?
Conclusion: A new era of global development (2)

- The twin economic crisis likely to weaken the neo-liberal orthodoxy to the extent that the credibility of the global development agenda attached to it was undermined.
- China offer other countries and societies an alternative to the institutions and precepts of Western development policies.
- this assessment is premature.
- Since the crisis, things seems to have gone back to normal
- Rising powers have economic instability and in some cases recession verging that leaves plenty of space for a reassertion of the MDG and the Global development agenda.
Conclusion: A new era of global development (3)

- However the world as unquestionably change
- More space for alternative kinds of development thinking are evident in the post crisis period
- China’s rise for the global economy and global development cannot be understated
- Especially after China has overtaken the United States as the World largest economy