Development Economics and Re-construction of Developing Countries: Reflections and Insights

Simant Shankar Bharti A

Received: August 7, 2020 | Revised: August 22, 2020 | Accepted: August 31, 2020

JEL Classification: O10, O23, O29, O30, O40

DOI: 10.33445/sds.2020.10.4.6

Abstract

Development economics emerged as a new theoretical approach that focuses on the re-construction of developing countries as the study focus on improving fiscal, economic and social conditioning. Development economics also do an analysis of developing countries from critical assessment, which contributes to the making of development policy. This paper tries to explore the understanding of theoretical approaches to development economics and a helping strategy or re-construction instrument for developing countries. Through the reflections, the article critically argued the contribution of development economics in making development policy for developing countries. It is also focused on those development policies by international institutions and governments, how this is opportunities and state-building instrument. But recent global pandemic such COVID-19 raises a critical question for both donor and recipient of aid. Moreover, there is required a reality check to the re-construction of developing countries.

Key words: Development Economics, Developing countries, Development Policy, FDI, Aid.

Introduction

The importance of development economics and as the study has been increased in the last 50 years because it raises a better understanding of developing countries. Especially countries those fall in the category of Least-Developed Countries (LDCs) also called low-income countries. According to the United Nations (UN), “Least developed countries (LDCs) are low-income countries confronting severe structural impediments to sustainable development. They are highly vulnerable to economic and environmental shocks and have low levels of human assets.” It is an assessment of LDCs is based on three identification 1) Gross National Income (GNI) per capita, 2) Human Assets Index (HAI), and Economic Vulnerability Index (EVI) (for example: UN’s LDCs classification for graduation thresholds (2018) 1) GNI — GNI per capita should be $1,230 or above; Income- only $2,460 or above, 2) HAI should be 66 or above, and 3) EVI should be 32 or above. (Committee for Development (CDP) review the LDCs every three years). Currently, there are 47 LDCs, and this categorisation helps these countries through support of development policies such as aid and trade (development aid and duty-free trade access to Eu and US markets). World Trade Organization (WTO) defines, “Developing countries comprise a majority of the WTO membership. They are grouped as “developing countries” and “least developed countries”. So, developing countries defines based on the special rights for them, and it’s called “special and differential treatment” provisions. The 4th WTO Ministerial Conference Doha established the Committee on Trade and Development that examine these provisions. The Bali Ministerial Conference has established
to review and analysis the implementation of this.

Generally, developing countries is facing several challenges related to ‘underdevelopment and economic backwardness’. Hence, Amartya Sen (1983) argued there is the discipline of development economics that does have a key role to play in developing countries in the field of economic growth. But Sen doesn’t prefer the traditional approach of development, which is based on limited edition. He believes in the diagnosis of the common problems which is affiliated with “origin of development economics”. He told, there are fast growth and slow social change in some developing countries if we see the human development index as per the new assessment of the development process. He is in favor of ‘entitlement’ of people, which can generate the ‘capabilities’. However, he is telling “process of economic development” should be concreted with people’s capabilities (Sen, A., 1983). Nevertheless, Sen continuously emphasises in his work on the “capability approach” in the discipline of development economics for the people-centric approach of well-being. His contemporary work is more based on human-centric we can say development economics exists in reality as human economics. Sen’s development thinking has been taken shape as the freedom in the 1990s after the introduction of Human Development Reports (HDR). He is in favor of human rights, especially in the context of women’s right, where generally they do face gender violence such as domestic violence. So, women need to be out from “intra-household inequalities” in order to cope with it. The household is one of the essential domains of development economics that brought the notion of freedom, education and nutrition.

The Global Peace Index, HDR, Global Poverty Index, Global Hunger Index, Gender Gap Index, Global Democracy Index and 2020 Multi-dimensional Poverty Index all these indicate the worse performance of developing countries in the process of re-construction of the state. There are more than 700 million people who are living extremely under low incomes. Recently, the experimental approach has been transformed development economics in order to combat the causes of global poverty. Development economics suggest a people-centric development policy for the re-construction of developing countries. Later on, COVID-19 has turned into a slayer for the development economics of developing countries. It’s not only hit developing countries it has also severely affected the economy of developed or aid donor countries. In the area of economics and international relations, re-construction of developing countries has become a challenge for national governments, aid donors and international development assistance providers.

Results and discussion

Theoretical Approaches to Development Economics

Development economics as a branch of economics that emphasis the study related to improving the fiscal, economic, and social conditioning of developing countries. That includes several impacts of development such as health, education, working conditions as well as domestic and international policies. Development economics also focuses on market conditions in developing or poor countries with a focus on improvement in conditions as per the world economic system. According to Dani Rodrik (Rodrik, D., 2008), “Development economics has long been split between macro-development economists – who focus on economic growth, international trade, and fiscal/macro policies – and micro-development economists – who study microfinance, education, health, and other social programs”. The central theoretical point focuses on substantial convergence in the policy that exhibits by micro evaluation of developing countries to randomise the methodological divergence in these two sides of the approaches of development economics. Where macro-development economists need to focus on the ‘distinct advantages of the excremental approach which adopt the policy evaluation, and micro-development economists need to
recognise that ‘utility of randomised evaluation’. Which is prohibited by ‘the narrow and limited scope of their application’. But Rodrik describes that both sets of economists focus their central mind-sets “how to achieve sustainable improvements in living standards in poor countries”. The above discussion of Dani Rodrik examines that development economics both macro and micro factors connecting to the structure of developing economies through the domestic and international economic growth.

The above discussion of development economics in the light of the development of developing countries, Rodrik has called that policy mindset as “New Development Economics.” He argued, “Washington Consensus” failed to resolve a specific list of development policies, but there is “new development economics” ‘around how one does development policy.’ Forsooth, practitioners of these “new” development economics are suspicious about the claim of what works and what does not work. The Washington Consensus and other specific sets of initiatives in health or education have never been answered. There is required that’s a critical question of whether ‘recognition of the contextual nature of policy solutions’. However, Rodrik recommends an approach that can fix that ignorance, which is the ‘experimental’ approach. This is carried out using the application of “new development economics” that includes tools of ‘diagnostics’ and ‘evaluation’ (Rodrik, D., 2008).

Rodrik defines the new development economics from excremental perspectives “randomisers tend to think real progress is possible,” and she mentioned two economists Abhijit Banarjee and Esther Duflo both recently won the Nobel Prize for his excremental work for global poverty in the context of development policy. Duflo believed that randomisation use to provide us to the way out; all too often, development policy is based on fads, and randomized evaluations could allow it to be based on evidence. Banarjee also has argued that development assistance should be found on the hard evidence which can randomised experiments provide (Rodrik, D., 2008).

According to Dani Rodrik, the mixed economy never let the developing countries as the crowning economic achievement in the twentieth century. However, she argued that globalisation is a comprehensive way to enhanced trade and financial integration, and this is a significant opportunity, particularly for developing countries (Rodrik, D., 2008). Globalisation represents the rapid movement of capital around the world for development through social, political, economic, and technological change. It is an emphasis on the creation of wealth alongside a boost to the eradication of poverty from around the globe and to minimise the inequality within nations for rapid growth. The process of globalization ensures that the prosperity and well-being of the people through equitable distribution of national income (Short, C., 1998). Globalisation provides vital opportunities that could help the developing countries to accelerate their growth rate through eradication of poverty and access to international markets, better management of financial resources, for the advancement of technologies, and it’s up-gradation as better management approaches.

The theory of justice defines as redistribution of goods, resources, and opportunities to emphasise on the value of equality, and globalisation focuses on distributive justice to the eradication of poverty and improvement in the standard of living. But distributive justice also criticized because of the decision-making process and how it will be distributed amongst people as well as the target group. Where the international trading system, bilateral and multilateral trade agreement has been a matter of criticism, it has been solely understood as the monopoly of the western market in developing countries (Hilbrich, S., 2018).

Globalisation is a broader used phenomenon the Nayyar (1997) pointed out the term in the positive argument towards enhancement of the international integration of trade, investment, and finance. It was not solely the first time the term used before the First World War as a high degree of international trade, FDI, and financial flows (Nayyar, D., 1997). The period of the 1960s was again exciting from trade, aid, and
investment perspective, however, globalisation and development policy back came into the light in more widely and in the dynamic term, we can say more mature. The reason was behind the politics of great powers, and the world again became more open through competition between a capitalist bloc and the communist bloc. Because of this, “the international trade was the first to be liberalised in the 1960s; FDI followed suit during the 1970s; finally, it was the turn of financial flows in the 1980s” (Hirst, P., Thompson, G., & Bromley, S., 1996).

Globalisation is cantered on the promotion of openness in the international market. With the nature of trade, we can say more adequately. It is a process of making the ecosystem in international financial flows and the sustainability of the trade. The FDI is a more useful stock of investment in developing countries and which is a large amount of international financial flows for the development of the local market with the integration of trade.

The many pieces of literature emphasised on greater stress on implementation of globalisation from the geographical position, where much of the multilayer factor is affecting those policies to improvisation in poor growth regions such as Sub-Saharan Africa through governing long-term policy and economic development. The growth rate has seen a lower less productivity agriculture region, it has seen lower less development, but it was a higher growth rate than of it in coastal regions. It was not same in ever the post-colonial countries and industrial development were absent in several tropical countries, especially in the 1970s and 1980s, they had faced oil shocks and debt crisis. Furthermore, the role of economic geography is vital for the policy implications which needed for the development of infrastructure and institutional research for an active role in the implementation of those policy to avoid the locational disadvantage (Murshad, S.M., 2002).

The growth theory is focused on growth-promoting, which is important factors such as investment in education, infrastructure development, and human resource development to the formation of human capital in such poor economic and developing countries. According to Freeman and Lindauer, education is important for the high growth and for accelerating of the fast growth rate. However, investment in education could impact on the growth rate, and that would be possible for a sustainable high growth rate (Freeman, R. B., & Lindauer, D. L., 1999). Lall S. demonstrates his argument for developing countries that investment has been successfully attracted for technology transfer, and that could be an impactful investment in infrastructure building through education to the enforcement of research and development (Lall, S., 1999). Nevertheless, the implementation and regulation of FDI and International Trade are crucial things that needed transparent governmental institutions to prevent corruption. Hall and Jones seek attention on effective regulation, and they seek attention towards institutions of good governance, which could able to avoid the diversion to the minimisation of corruption. Efficient regulation could be helpful to analysis of corruption (Hall, R. E., & Jones, C. I., 1999). But Campos and Nugent were more concerned for operationalisation of developing countries under the notions of good governance that could be possible through quality, effectiveness, and transparent bureaucracy as well as accountable executive bodies and the rule of law (Campos, N. F., & Nugent, J. B., 1999).

For the developing countries, the openness of the market was essential for stress on getting a quality growth rate to implies that could boost economic development, and countries needed a clear law for trade and investment flows for industrialisations. WTO’s favour was the extended transfer of technology in developing countries through rules Trade-Related Investment Measures (TRIMs) and Trade-Related Intellectual Property Rights (TRIPs) as well as subsidies which were not favourable rule and welcoming for International Globalisation of the trade and investment. WTO is concern about its agenda regarding the environment, investment, and competition, as well as the role of government procurement policies (Murshad, S.M., 2002).
The Globalisation indicated to the old models and policy of development need to be rethinking towards making of a fundamental global economic policy. The implication of global policy with a domestic policy that could help to build the capacity of developing countries and formulate their effective participation in the global economic system. But the implication of International Development Assistance (IDA) needed an International Development Cooperation (IDC) for the financial intervention to promote development for achieving the goals of effective participation in the global economic system and fair enjoyment of globalisation by the developing and poor countries such as LDCs. For that, financial and technical assistance needed to address the crucial problems of development in developing countries to fight poverty.

However, dependency theorists linked with the underdevelopment and capitalist economy needed an external trade and international markets for their products. They wanted a free-trade relationship with the cooperation of developing countries.

Re-construction of Developing Countries

The rigorous study of development economics leads to address experimental approaches to combat poverty and other development issues in order to re-construction of developing countries. The World Bank established the Development Economics Vice Presidency (DEC), which provides a better understanding of development policies and programme. It is conferring “intellectual leadership” and “analytical services” to the bank and other development community. DEC has been set to advise the Bank in order to solve a broad range of issues related to development policy. It is also counsel policymakers on development challenges and support to make way development issues among the development community. There is four main domain of DEC: 1) Development Data (international statistics, statistical capacity building and results in monitoring, 2) Development Research (research and knowledge creation) 3)Global indicators (comparable cross-country measures on a range of policy issues), and 4) Impact Evaluation (generates high-quality and operationally relevant data and research to transform development policy, help reduce extreme poverty, and secure, shared prosperity)’ (The World Bank, “Development Economics”, 2020).

The excremental Approach school of development economics suggests the reconstruction of developing countries is possible only after focusing on the well-being of the poor. Microeconomic analysis of development economics emphasis on “the idea of the measurement of well-being” and this is a tightly integrated way of the combat poverty worldwide. The capability approach of Sen’s is interconnected with the idea of well-being where people’s freedom is a central concern of development policy. So, the new experimental research methods are addressing key challenges and issues of development in developing countries. It is established a more comprehensive and transformed approach to development economics. It puts greater emphasis and factual knowledge about economic, social and political events in developing countries (The Royal Swedish Academy of Sciences, 2019).

The central argument of this paper addresses “re-construction” of developing countries and analysis of available instrument of foreign policy for both donor and recipient countries in the context of development economics. National development policy and international development policy should include more concerned about basic needs which are connected to the well-being of people. Education is tools of human capital, so education attainment helps to re-construction of developing countries and its boost growth. But school student of class 1-5 is not able to read even textbooks, and it has found mostly in rural areas of developing countries. Health is other essential assets of well-being and pathetic health service practice, as well as unavailability of even necessary health facilities, is lacking mostly in the rural area. The malnutrition is key challenges in those areas where it affects life kids 1-5 years that is also affects learning abilities. There is a need for essential emphasis on quality of primary education and health
facilities in developing countries. There are several variables that are leads each-other such as problems related access of safe drinking water, housing, remote access of hospital, school infrastructure, and open defecation as well as other lack of other basic amenities. However, poor remain involved in taking cares of basic needs, which are an essential requirement of well-being. Because, it affects public goods and they do less contribute to national growth.

The well-being of the people, it is a fundamental step of re-construction of developing countries, which are suggested by a wide range of literature available in the discipline of development economics. The model of development policy inculcates with essential common property rights. The results show it is delivered higher welfare and investment in well-being can bring more transformation of lives in developing countries. In development economics, the study founds several issues and challenges related to the development process in developing countries. Its highly dysfunctional of health system, poor quality and infrastructure in the education system, poor service delivery system and poor delivering of governance these are leading to inadequate welfare service provision. Why states do fails in developing countries? The poor administration management creates the mismanagement system and core problems causes due to corruption which are common symptoms in developing countries. Olken and Pande (2012) mentioned in their paper, “corruption is often high in low-income countries and is costly”. Even several international aid agencies found corruption record highly in developing countries. So, corruption impacts can see individual level to a high level of state mechanism in developing countries. Both scholars also suggest, how can tackle corruption to help in re-construction of developing countries. “The growing policy activism that conditions international assistance on corruption outcome, in turn, reflects a belief that given the right incentives, politicians, bureaucrats and civil society in these countries can reduce corruption” (Olken, B. A., & Pande, R., 2012).

The World Bank considers to address the major challenges of corruption, and it has “twin goals of ending extreme poverty by 2030”. These two challenges are the central theme of the Sustainable Development Goals to address shared prosperity in developing countries, where 40 per cent poor people are living. Corruption leads to disproportionate effect to the poorest and most vulnerable in developing countries. The World Bank reports, “corruption is increasing costs and reducing access to services, including health, education and justice. Think, for example, of the effect of counterfeit drugs or vaccinations on the health outcomes of children and the life-long impacts that may have on them”. The empirical studied of the World Bank report shows “Corruption erodes trust in government and undermines the social contract. This is cause for concern across the globe, but particularly in contexts of fragility and violence, as corruption fuels and perpetuates the inequalities and discontent that lead to fragility, violent extremism, and conflict. Corruption impedes investment, with consequent effects on growth and jobs. Countries capable of confronting corruption use their human and financial resources more efficiently, attract more investment and grow more rapidly” (The World Bank, “Combating Corruption”, 2020).

The World Bank supports developing countries through regional and global initiatives to fight corruption. There some available instruments such as to ensure transparency and accountability like monitoring of aid-based projects, mobile surveys and scientific technique, biometric identification system and the Participatory Anti-Corruption Initiative which are used respectively in Afghanistan, Brazil, Guinea and the Dominican Republic. There several other initiatives such as the Global Initiative on Financial Transparency to create international transparency standards, Extractive Industries Transparency Initiative, and Fisheries Transparency for accountability and transparency, the International Corruption Hunters Alliance and LAC Regional Parliamentary Network. There are also other several anti-
corruption international forums like the G20 Anti-Corruption Working Group, the Financial Accountability Task Force, and the OECD Anti-Corruption Task Team as well as National Risk assessments initiative in more than 50 countries. The OCED Convention and the Transparency International’s the 9th International Anti-Corruption Conference expressed commitment to resolve and combat to corruption. The study by OCED Development Centre and the UN Development Programme is saying (Hors, I., 2000) “institutional analysis is not enough to understand corruption so the political and economic analysis is important too and corruption is closely linked to the type of government involved”. This study is examined the case of Benin, Bolivia, Morocco, Pakistan and the Philippines.

Despite the several prevention and combat efforts by the international institution, corruption is continuing in practice. It is a worse affecting in re-construction of developing countries. The environment of developing countries is toxic by the political and economic power that is operated by public and private actors. This is a complex relationship with bureaucratic administration and political leaders. Development Aid and Foreign Direct Investment (FDI) is playing a pivotal role in the re-construction of developing countries. Notably, it is helping in building of roads, transportation, infrastructure, electrification, digitalisation and so on. But there are lacking social development that is greater emphasised by the academicians of development economics. There is a common phenomenon of rising insurgencies, unsatisfactory aggression of local and ethnic communities, which led the instability and insecurity in developing countries. Due to these reasons, the re-construction of developing countries is stepping back and making the state as fragile due to the constant rising complexity of challenges. The aggression of the public towards democratic government is raising a serious of fragility in developing countries.

COVID-19 Crisis as the Challenges in Re-construction of Developing Countries

The discipline of development economics has been dedicated to its focus on the re-construction of developing countries. Till now, development economics discourse achieved s caval development policy paradigm, which is helping national and international development institutions for the process of economic transformation in developing countries. The term re-construction as the economic transformation argued critical analysis of development policies and before it has implemented as the MDGs. Now, Sustainable Development Goals (SDGs) is a central key to a development policy that is focusing the re-construction of developing countries.

The Agenda 2030 of SDGs is already there for intervention incorporated with the World Bank, IMF, UNDP (other UN agencies and institutions), OCED, the European Union, the US and others. They all are contributing re-construction of developing countries. But new Coronavirus is also known as COVID-19 affected severely to developing countries. Even big rising economic giant, e.g. India and Brazil failed to tackle with COVID-19 crisis till now. The vaccine for treatment is still on the way, and it must take some more while. In the recent article in The Economist under the title “The World After Covid-19: Abhijit Banerjee and Easter Duflo on how economies can rebound” called it “permanently hobbled”. Developing countries that already remain in conflicts they were no rebound even after the end of conflicts in some countries such as the Congo, Somalia and Afghanistan. Banerjee and Duflo argued (Banerjee, A. V., & Duflo, E., 2009) “The biggest danger, therefore, is that the combination of a public-health crisis where many people die and an economic crisis that results from the lockdowns will undermine the legitimacy of the state and exacerbate pre-existing problems. This may make it very hard to return to a more-or-less, stable social equilibrium”.

So, there is already a fragile social equilibrium in conflict centred developing countries and response to the COVID-19 challenges are political and economic management challenges. It is the ultimate challenges for the fastest growing economy such as Bangladesh, Brazil, Indian and others, and it could affect the re-
construction process. Matthew E Levison stated, “Economic lockdowns that involve non-essential business closures” (Matthew E Levison). Besides, it has affected mostly disadvantage and vulnerable communities in developing due to the lockdown of the local economy. They have even question of survival where people were dependent on daily-wages income. However, there is hope for the fast vaccine availability that is only hoping for post-coronavirus recovery.

Conclusions

The subject of development economics emerged as the comprehensive tools that are contributing to the development policy for the re-construction of developing countries. However, developing countries are facing several challenges related to social development and economic backwardness. More than 700 million people are living in developing countries, so the excremental approach transformed development economics. It is helping to fight with poverty in order to re-construction of developing countries. The people-centric approach could be an effective instrument for economic transformation and development in developing countries. Now, it’s the time for sustainable transformation of the lives in developing countries. The MDGs was significantly contributed in the re-construction, and the current SDGs would also bring some comprehensive picture. But lack of good governance and corruption remains common symptoms in the government of developing countries. There are still need effective policy and intervention. Besides, COVID-19 is affecting the lives of poor people severely in developing countries, and the government failed to manage lockdown and service delivery. However, the post-coronavirus would a significant challenge for developing countries, and it could affect the re-construction of them.

References


The WTO (2020). Who are the developing countries in the WTO?. Retrieved From https://www.wto.org/english/tratop_e/devl_e/d1who_e.htm

United Nations (2020) Least Developed Countries (LDCs). Retrieved From https://www.un.org/development/desa/dpad/least-developed-country-category.html#:~:text=Least%20developed%20countries%20(LDCs)%20are,low%20levels%20of%20human%20assets.