

# Contemporary Issues in Development Economics

*Edited by*  
B. N. Ghosh

Routledge Studies in Development Economics



# **Contemporary Issues in Development Economics**

**Edited by  
B.N. Ghosh**



London and New York

First published 2001  
by Routledge  
11 New Fetter Lane, London EC4P 4EE

Simultaneously published in the USA and Canada  
by Routledge  
29 West 35th Street, New York, NY 10001

*Routledge is an imprint of the Taylor & Francis Group*

© 2001 Selection and editorial matter B.N. Ghosh; individual chapters  
© 2001 the contributors

Typeset in Times New Roman by Exe Valley Dataset Ltd, Exeter  
Printed and bound in Great Britain by  
Biddles Ltd, Guildford and King's Lynn

All rights reserved. No part of this book may be reprinted or  
reproduced or utilised in any form or by any electronic, mechanical,  
or other means, now known or hereafter invented, including  
photocopying and recording, or in any information storage or retrieval  
system, without permission in writing from the publishers.

*British Library Cataloguing in Publication Data*

A catalogue record for this book is available from the British Library

*Library of Congress Cataloging-in-Publication Data*

Contemporary issues in development economics / edited by B.N. Ghosh.

p. cm. -- (Routledge studies in development economics ; 20)

Includes bibliographical references and index.

1. Economic development. I. Ghosh, B.N. II. Series

HD82 .C574825 2001  
338.9--dc21

00-045950

ISBN 0-415-25136-2

# Contemporary Issues in Development Economics

This new collection of articles puts the very latest issues in economic development under the microscope, exploring them from a variety of perspectives.

Beginning with an assessment of the current state of play in development, the authors move forward to examine neglected issues such as human development, gender, brain drain, military expenditure and post-colonial theory. While analysing the problems of external debts, technology transfer and new theories of international trade, the relationship between developing and developed economies is fully explored. The book also examines the important topics of financial reform, structural adjustments and the role of the IMF in the new financial architecture.

The highly respected contributors subject these critical issues to thorough analysis with suggestions towards resolving some of these problems, making this an indispensable book that researchers and students of development economics cannot afford to miss.

**B.N. Ghosh** is Professor of Economics at the University of Science, Malaysia. He is also Director (Hon.) of the Centre for the Study of Human Development, Leeds, England and Editor of the *International Journal of Human Development*. B.N. Ghosh is the editor and author of several books, including *Global Financial Crises and Reforms: Cases and Caveats*, also published by Routledge.

## **Routledge studies in development economics**

- 1 Economic Development in the Middle East**  
*Rodney Wilson*
- 2 Monetary and Financial Policies in Developing Countries**  
Growth and stabilization  
*Akhtar Hossain and Anis Chowdhury*
- 3 New Directions in Development Economics**  
Growth, environmental concerns and government in the 1990s  
*Edited by Mats Lundahl and Benno J. Ndulu*
- 4 Financial Liberalization and Investment**  
*Kanhaya L. Gupta and Robert Lensink*
- 5 Liberalization in the Developing World**  
Institutional and economic changes in Latin America, Africa and Asia  
*Edited by Alex E. Fernández Jilberto and André Mommen*
- 6 Financial Development and Economic Growth**  
Theory and experiences from developing countries  
*Edited by Niels Hermes and Robert Lensink*
- 7 The South African Economy**  
Macroeconomic prospects for the medium term  
*Finn Tarp and Peter Brixen*
- 8 Public Sector Pay and Adjustment**  
Lessons from five countries  
*Edited by Christopher Colclough*
- 9 Europe and Economic Reform in Africa**  
Structural adjustment and economic diplomacy  
*Obed O. Mailafia*

- 10 Post-Apartheid Southern Africa**  
Economic challenges and policies for the future  
*Edited by Lennart Petersson*
- 11 Financial Integration and Development**  
Liberalization and reform in Sub-Saharan Africa  
*Ernest Aryeetey and Machiko Nissanke*
- 12 Regionalization and Globalization in the Modern World Economy**  
Perspectives on the Third World and transitional economies  
*Edited by Alex F. Fernández Jilberto and André Mommen*
- 13 The African Economy**  
Policy, institutions and the future  
*Steve Kayizzi-Mugerwa*
- 14 Recovery from Armed Conflict in Developing Countries**  
*Edited by Geoff Harris*
- 15 Small Enterprises and Economic Development**  
The dynamics of micro and small enterprises  
*Carl Liedholm and Donald C. Mead*
- 16 The World Bank**  
New agendas in a changing world  
*Michelle Miller-Adams*
- 17 Development Policy in the Twenty-First Century**  
Beyond the post-Washington consensus  
*Ben Fine, Costas Lapavistas and Jonathan Pincus*
- 18 State-Owned Enterprises in the Middle East and North Africa**  
Privatization, performance and reform  
*Edited by Merih Celasun*
- 19 Finance and Trade in Developing Countries**  
*Edited by Rohinton Medhora*
- 20 Contemporary Issues in Development Economics**  
*Edited by B.N. Ghosh*
- 21 Mexico Beyond NAFTA**  
*Edited by Martín Puchet Anyul and Lionello F. Punzo*

# Contributors

**M.R. Aggarwal** is Professor of Economics, Department of Economics, Panjab University, Chandigarh, India. He was also the former Director of the Indian Council of Social Science Research (Northern Region).

**John Asafu-Adjaye** is Lecturer in the Department of Economics, University of Queensland, Brisbane, Australia. He has extensive working and consulting experience in Papua New Guinea, Brunei, Indonesia, Philippines and China.

**Masudul Alam Choudhury** is Professor of Finance and Economics jointly with the Department of Finance and Economics, King Fahd University of Petroleum and Minerals and the School of Business, the University College of Cape Breton, Sydney, Nova Scotia, Canada. He is also the Director of the Centre of Humanomics and the Editor of *Humanomics*.

**B.N. Ghosh** is Professor of Economics, School of Social Sciences, University of Science, Malaysia, 11800 Penang, Malaysia and former member of the Senate. He has provided short-term consultancies to various organisations including the University Grants Commission and the United Nations Development Programmes. Prof. Ghosh is the Director (Hon.) of the Institute for the Study of Human Development at Leeds, England and the Editor of *International Journal of Human Development*.

**Rama Ghosh** is Lecturer in the Department of Economics, DAV College for Men, Sector 10-A, Chandigarh, India.

**G.S. Gupta** is Professor of Economics and Finance, Indian Institute of Management, Ahmedabad, India. He is a consultant to several organisations including Government of India, Reserve Bank of India, National Academy of Administration, Resource Management Corporation (US) and International Cooperative Alliance, British Council.

**George Kadmos** is a Doctoral Researcher in the Department of Economics, Curtin University, Australia.

**Ozay Mehmet** is Professor and Development Economist in the Norman Peterson School of International Affairs, Carleton University, Ottawa, Canada.

**Shankaran Nambiar** is Lecturer in Economics, International College at Penang, Malaysia where he teaches on the University of Sydney programme. His areas of specialisation are: institutional economics and economic development.

**Phillip Anthony O'Hara** is Associate Professor of Political Economy and Director of the Global Political Economy Research Unit in the Department of Economics, Curtin University, Australia. He is the Associate Editor of the *Review of Social Economy* and the Editor of *Encyclopedia of Political Economy* (Routledge, 1999). He is also on the Editorial Board of Ashgate Publishers' series on *Alternative Voices in Economics*.

**Randy Stringer** is the Deputy Director, Center for International Economic Studies, School of Economics, University of Adelaide, Australia. He was also an economist with the FAO (United Nations) during 1990–6.

**Gale Summerfield** is the Director of the Office of Women in International Development and Associate Professor in Human and Community Development at the University of Illinois at Urbana Champaign, USA. Her areas of specialisation are: gender aspect of economic reforms, economic developments and the regional development of China and Vietnam.



# Prefatory note

Some of the pressing contemporary issues in development economics have been in existence for many years. In fact, some of the issues like human development are indeed as old as human civilisation. But these issues were recognised formally very late, and only since the inception of development economics as a special branch of mainstream economics in the 1950s. Unfortunately many of these basic issues could not be resolved during the last century, while some other issues have indeed become problematic in the current century.

The basic purpose of the present volume is to examine some of the central issues in the economic development of Third World countries. The issues presented here are fundamental to human development, resource allocation, technological progress and international interactions between developing and developed countries. The development implications of such interactions have not yet been sufficiently understood by all. Hence, the need for such a volume.

There are myriad contemporary issues that currently confront development economics. This book, however, focuses mainly on those issues which are very basic and those which are related to the political economy of international development and underdevelopment. I am sure that the volume presents most of the more important issues in these areas of development economics.

In the preparation of the volume I have incurred intellectual indebtedness to many. I am thankful to the contributors who in spite of their busy working schedule have written valuable pieces for this volume. My thanks are also due to Abdul Hamid Abdul Wahab, Executive Officer, for his impeccable secretarial assistance and to Ms Marina Cheah for typing out a portion of the manuscript. However, none of them is responsible for the errors that might have crept in.

B.N. GHOSH

# Introduction

There are indeed many ways of considering contemporary issues in development economics. These issues can be looked at from the perspective of economic backwardness of domestic economies in terms of policy failures and/or implementation failures or resources inadequacy and/or sub-optimality in the allocation of resources. The problems that arise out of domestic market failure and/or government failure are generally manifested in increased degrees of unemployment, inflation and poverty.

In the open and exposed economies of the Third World, economic backwardness or the slow rate of economic development in many of these less developed countries (LDCs) is a result of international forces which are generally working against these countries. In the context of the new international economic disorder, the developed countries (DCs) are able to manipulate things in their favour and against the LDCs which have less bargaining power in the international political market.

A close look at the development of development economics will make it abundantly clear that many of the important issues relating to the development of LDCs have either been willy-nilly neglected or have not been satisfactorily resolved. These issues have both domestic and international ramifications. For instance *food security* is predominantly a domestic issue, and the issue of *debt trap* for LDCs is basically an international one. However, some issues which originated primarily as domestic issues do also have international manifestations and ramifications. These issues, among others, are *technology transfer*, *brain drain*, *human development* and so on.

The contemporary issues in development economics pertain more to the international issues, though these might have been basically experienced as micro-issues for domestic economies of LDCs. Prominent among these issues are human development, brain drain, gender and development, food securities, external debt, technology transfer and the role of the IMF in the context of the *new financial architecture* that the present world monetary system is attempting to build up. However, the issues that are adumbrated here are not the only issues, but these are of course the major ones. It should be clear that the contemporary issues are not the very recent issues. Some of

the issues have arisen since the inception of development economics in the 1950s and some issues have cropped up subsequently with the temper of time. As Ghosh's chapter on the 'Development in development economics' reveals, there have been occasional paradigm shifts in development economics. In the initial stages, it was responsible for many theoretical innovations in devising theories and models of development for the poor countries. However, in later years, more particularly in the 1970s, it was realised that the blind application of western growth models was not only inappropriate but also harmful because these caused enormous maldevelopment in LDCs. It was also the decade when one could discern the growing economic domination of DCs over LDCs through trade and aid, and the increasing debt burden of these countries. It was realised that, in reality, trade was not an engine of growth but was a mechanism for immiserising growth (Bhagwati 1958).

After the 1980s, many contradictions were found in simple economic paradigms of development, and there was an apparent failure of the conventional theories of development. The new international economic order lost its momentum, and was regarded by many scholars as a system of new international economic disorder. Contrary to expectation and earlier promise, less capital and less technology flew to LDCs. In the words of W.A. Lewis (1984), development economics was completely in the doldrums. As a matter of fact, economic underpinnings of the development paradigms came under serious scrutiny once again in the 1990s with the feminist movement taking the lead (O'Connell 1997: 119–20). The earlier notion of *women and development* was subsequently replaced by the more comprehensive notion of *gender and development*.

Be that as it may, the issue of *globalisation* was the most publicised and confused slogan of the last decade and it is feared that MNC-led globalisation may unleash a regime of unequal competition between DCs and LDCs.

However, in spite of various rhetoric and slogans, the primary focus in the last decade shifted from the question of underdevelopment to the problem caused by maldevelopment. The issue of human development attracted the attention of social scientists and policy-makers. It was realised that development does not necessarily mean that one should have more, but that one should be more. As A.K. Sen asserts, the scope of development economics in the past was very narrow, concentrating too much on growth and too little on development (Sen 1983 and 1989). Development economics has been less successful in characterising development involving human capabilities, qualities, freedom, justice and equalities.

However, the construction of human development indices to measure human development has been a significant innovation in recent years. Masudul Choudhury's chapter on 'Human development, military expenditure and social wellbeing' makes a conceptual and empirical treatment of human development in terms of the prevailing human development indices

and a new interactive index called the social well-being function. The chapter concludes that there exists a dire need for developing an interactive index of human development explaining the political economy of complex relations of development at the grass-roots level. The human development indices (HDI) are found to be linear composite measures which cannot explain the socio-econo-political and institutional forces that predominate the process of globalisation. The chapter also questions the supposed inverse relation between military expenditure and social well-being which has been the basis of the IMF's generalised inference. In fact, the flow of official development assistance has not increased to LDCs in spite of a decline in military expenditure; rather, presumably, there has been a decrease in social well-being in the crisis-ridden developing countries.

Related to human development, more particularly to the development of high-quality manpower (HQM), is the problem of brain drain from LDCs. It is a phenomenon of one-way migration of HQM from LDCs to DCs. This crucial manpower is employed in strategic industries and positions, and the migration of this strategic manpower causes enormous dislocation and loss to LDCs. The chapter by B.N. Ghosh and Rama Ghosh on 'The problem of brain drain' analyses the causes, extent and the consequence of brain drain from the developing economies. According to them, the problem of brain drain is a part of the explanation of economic backwardness and reverse transfer of technology. The loss, as a result of the migration of HQM, is more overwhelming than the gain from foreign assistance from the DCs. The reverse transfer of technology, in this sense, can be looked upon as a more detrimental dimension of brain drain.

The problem of brain drain is generated and intensified by the deliberate neo-imperialist policy of DCs which are still exploiting the LDCs under the new garb of aid and assistance. The exploitation continues unabated in the sense that while in the pre-industrial revolution period the imperialist countries drew physical capital from the colonies, in the post-industrial revolution period they are drawing away HQM without paying any compensation. The surplus extraction still continues and is intensified from LDCs by the DCs. Brain drain is responsible for the intensification of international inequality in the matter of distribution of HQM.

Another dimension of human inequality is manifested in the social reconstruction based on sex differences and is commonly known as gender inequality. Since the 1970s, the issue of gender and development has become a lively issue in development economics. It is generally argued that differences in material endowments and earnings are often due to the existence of a gender gap. The ownership and control of property is a crucial determinant of economic differentials between men and women (Aggarwal 1994).

Gale Summerfield's chapter, 'Gender and development: transforming the process', examines gender issues in the process of development. She concentrates on the shifting focus on gender and development since 1970. Whereas in the 1970s the main focus was the status of women in the developing

countries and the study of impacts of policy changes on women, it gradually shifted to the study of the active role of women in development and the relative disparities between men and women. The chapter then explains the more recent key themes in the realm of women and development, including culture and identity, migration, property rights, socio-economic securities and so on.

In a very meaningful way, the issues of gender inequality and human development can be said to be interrelated with the issue of food security. In Southeast Asia, Latin America and sub-Saharan Africa, women farmers produce more than half the basic food. However, their contributions are often downplayed by male chauvinists. Be that as it may, the importance of food security can hardly be overestimated as the most important basic necessity for human existence and development.

Randy Stringer's chapter on 'Food security in developing countries' examines in this context the issues relating to entitlements for food, progress in food security, food security and poverty, food security and sustainable development and related issues. The concern for food security is growing in every type of country in the modern world, for food is not only a basic necessity but also a strategic item. And as such, in many countries, the incorporation of the issue of food security has become part and parcel of general development planning. Growth strategies are focusing more and more on the promotion of diversified farming and agrarian activities, and new technologies are being developed not only to increase food production but also to lower the cost of food production. All this is important because, in spite of economic growth, in many countries calorie consumption per capita went down during 1995-97 as compared to 1979-81, and the percentage of undernourished population increased in many countries of Asia, Latin America and sub-Saharan Africa. The present picture is indeed gloomy, but there is still hope in the sense that there are enormous possibilities both for increasing production through increased intensive cultivation of old land and extension of cultivation of new land and also through better systems of distributive management. For poor countries there is of course a limit to the buying of food from foreign countries using borrowed money on a long-term basis because these countries are already in the *debt trap*, and debt for consumption is generally regarded as unproductive in nature.

G.S. Gupta's chapter, 'External debt, government expenditure, investment and growth', reveals that external debt and debt servicing of many developing countries have overtaken the rate of growth of the economy during the last two decades. While Latin America and Caribbean regions are heavily indebted, the sub-Saharan Africa region tops the list in terms of debt to GNP ratio. The middle-income developing economies are highly indebted and their debt to GNP ratio is the highest.

The debt crisis has been coupled with serious internal social dislocation in many of the Third World countries, and this was partly caused by the policy

of loan-pushing by the developed rentier nations in the 1970s (Basu 1991). The regime of *finance capital* which pushed up the so-called aid and assistance to developing countries was found to be unjust in many ways. This was one of the reasons why the poor countries demanded a higher share of trade than aid. However, a better access to trade is not the panacea, for trade is often based on unequal exchange.

As is well known, the pure theory of international trade established the superiority of free trade over restrictive trade practices. M.R. Aggarwal's chapter on 'The pure theory of international trade, globalization, growth and sustainable development: agenda for the future' asserts that in the context of market imperfection in trade, the state has to play an important role, but its role in the desired direction has remained rather insignificant. The growth of regionalism is an important development in recent years which gives larger opportunities for the member countries to expand their trade. The unrestricted growth of MNC-led trade may be dangerous for ecological balance and sustainable development in LDCs. Trade liberalisation indeed has to be done with care and circumspection; the new capitalist slogan of globalisation is bound to unleash the forces of unequal competition between DCs and LDCs. Here comes the positive role of the domestic state and international economic order to develop and diffuse environment-friendly technology to maintain sustainable development. Trade and technology are closely interrelated. Trade is not merely a channel for physical goods and resources, it is also a channel for knowledge and technology.

Shankaran Nambiar's chapter, 'Knowledge, technology transfer and multinational corporations' examines the phenomenon of technology transfer from the viewpoint of the economics of knowledge. The chapter analyses the knowledge that is useful for the formation and transfer of technology. In this context, the role of MNCs is explained in the generation and transfer of technological knowledge. Nambiar also considers issues relating to the channels of technology transfer, the loss of information that technology involves and the impact of globalisation.

Along with global transfer and exchange of technology, there takes place global financial transfer and exchange. The IMF is the central regulator and coordinator of the world financial system and obviously its role is very crucial for the smooth functioning of the world financial system. In their chapter, 'The International Monetary Fund: functions, financial crises and future relevance', George Kadmos and Phillip Anthony O'Hara have critically evaluated the role and functioning of the IMF in the light of its changing organisational dynamics and the real-world operation of global financial crises. While the IMF has been successful in many respects, it has also failed in many areas. In the future, the IMF's efforts should be directed at ensuring that the financial system is progressing in the right direction and that the fault line, if any, is detected and rectified as early as possible. The future relevance of the IMF will depend on its ability to act as a global central bank and to perform the roles of monitoring and supervision, cooperation

with and assistance to nations, policy formulation and implementation and to effectively create a new financial architecture that serves all types of countries, developed and developing, equally well.

The issue of economic development is also closely related to the problem of environment. John Asafu-Adjaye's chapter, 'Economic development and environmental problems', reviews the debate on the trade-offs between economic development and environmental problems. He concludes that economic growth is necessary to achieve both economic development and a cleaner environment. However, this process does not occur automatically. The chapter argues that in countries that have obtained low levels of environmental pollution, institutions have played a significant role. The chapter also presents policy responses to reduce national and global level environmental degradation.

Environmental pollution is a global problem, and whether globalisation will increase it or not is anybody's surmise. Ozay Mehmet in his chapter, 'Globalization as Westernization: a post-colonial theory of global exploitation', observes that western capitalism is too pro-capital and too exploitative to fit in the Global Village. Therefore, globalisation of capitalism has worked as a tool of global inequality. The author has made a number of sane suggestions to reform the system of globalism to suit the countries of the Third World. These reforms include regulation of trade and capital movement, introduction of the system of empowerment and entitlement, universalisation of basic worker rights, introduction of international social policy and democratisation of world institutions like the IMF, WTO and the World Bank. In fact, global development must evolve from multi-cultural global consent.

## References

- Agarwal, Bina (1994) 'Gender and command over property: a critical gap in economic analysis and policy in South Asia', *World Development*, vol. 22, no. 10.
- Basu, Kaushik (1991) *The International Debt Problem, Credit Rationing and Loan Pushing: Theory and Experience*, Princeton Studies in International Finance, no. 70, Princeton.
- Bhagwati, Jagdish (1958) 'Immiserising growth: a geometrical note', *Review of Economic Studies*, June.
- Lewis, W.A. (1984) 'The state of development theory', *American Economic Review*, vol. 74, March.
- O'Connell, Helen (1997) 'The 1990s: new alliances, new directions', *Development*, March.
- Sen, A.K. (1983) 'Development: which way now?', *Economic Journal* vol. 93, pp. 745-62.
- (1989) 'Development as capability expansion', *Journal of Development Planning*, vol. 19, pp. 41-58.

# Contents

<i>List of tables</i>	ix
<i>List of figures</i>	xi
<i>Notes on contributors</i>	xii
<i>Prefatory note</i>	xiv
<i>Introduction</i>	xv
1 Development in development economics	1
B.N. GHOSH	
2 Human development, military expenditure and social wellbeing	16
MASUDUL ALAM CHOUDHURY	
3 The problem of brain drain	40
B.N. GHOSH AND RAMA GHOSH	
4 Gender and development: transforming the process	57
GALE SUMMERFIELD	
5 Food security in developing countries	70
RANDY STRINGER	
6 External debt, government expenditure, investment and growth	105
G.S. GUPTA	
7 The pure theory of international trade, globalization, growth and sustainable development: agenda for the future	119
M.R. AGGARWAL	



8	Knowledge, technology transfer and multinational corporations	136
	SHANKARAN NAMBIAR	
9	The International Monetary Fund: functions, financial crises and future relevance	154
	GEORGE KADMOS AND PHILLIP ANTHONY O'HARA	
10	Economic development and environmental problems	187
	JOHN ASAFU-ADJAYE	
11	Globalization as Westernization: a post-colonial theory of global exploitation	211
	OZAY MEHMET	
	<i>Index</i>	224