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The Emerging Economies and Challenging of Market-Oriented Development Policies and Changing the Nature of Aid Relationships

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Abstract

The stunning economic development of the emerging economies is taking place by deliberate state involvement. Though the successful economic transformation of these newly industrialized countries co-exists with high economic inequality and social disparity, their successive rapid growth and impressive economic advancement has made them idol for the developing world. The developing countries are looking with fascination at this model of state-oriented policy, blended with slow movement towards trade liberalization, to boost up their economic growth. This model, therefore, is challenging the Western model of market-oriented policy of neo-liberal development approach which is based on "minimal state" notion. This cluster of the countries which are in the transitional phase between developing and developed, are still receiving aid from industrialized countries. Amazingly, having a continuous record of high growth in GDP, these emerging economies have become emerging donors. As these new development partners are not members of donor's club, i.e., OECD-DAC, and do not feel obligated to conform to traditional donors' hard-owned *aid-norms, they have traumatized the existing aid standards. Their aid–relationship aims to benefit their economic, political and strategic interests. Their own-style of aid-practice, being popular to the recipients, is making a silent revolution in the aid-regime and thereby changing the nature of existing aid relationships. The main anxiety in donors' club is that they are losing their bargaining position because the recipients now have alternative options. Their hard-driven good-governance, environmental and human rights agenda are now posing challenge by 'no-strings-attached' aid flow from Non-DAC emerging donors. However, this article, extracting examples from China and India, finds that the rapidly growing volatile economies with a blend philosophy of state and market are challenging the market-led*

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development approach originated from 'Washington Consensus'. Cautious protectionist approach taken by the emerging economies to ensure the long term independent economic growth has been proven sustainable even in the world economic crisis and economic downturn. These emerging economies, twisted as emerging donors, are neither explicitly knocking over the codes and standards of development assistance nor replacing them; rather they are bypassing the hard-owned norms of aid-regime and thereby making an apparent change in existing aid-relationships.

Introduction

The emerging economies, i.e., the leading developing countries with massive industrialization and rapid growth, are exercising an increased role in the world economy and on development assistance regime. The successful economic transformation of these countries is taking place by deliberate state involvement and they, therefore, are challenging the certainties of market-oriented policy of neo-liberal development approach which is based on "minimal state" notion. These countries, which are still receiving aid from industrialized countries, having a continuous record of high growth in GDP, have emerged as big donors. As these new development partners are not members of OECD and do not feel compelled to conform to traditional donors' norms, they have shaken up the existing aid standards. This essay is aiming to examine the emerging economies to see how they are challenging the certainties of market-oriented development policy and changing the nature of aid relationships. To construct the argument a conceptual idea takes place first. Then the discussion moves to see how emerging economies are challenging the market-oriented development approach and changing the nature of aid relationships, with examples mainly from China and India. The findings of the essay are scanned in conclusion remarking that the rapidly growing volatile economies with a vibrant role of the state and a blend philosophy of state and market are challenging the market-led development approach and they, bypassing the hard-owned norms of aid regime, are making an apparent change in existing aid-relationships.

Defining Emerging Economies

Emerging economies refers to the cluster of the countries which are in the transitional phase between developing and developed. The common feature that brings them under one terminology is that they all are newly industrialized countries and are undergoing rapid growth co-existing with high economic inequality. As the term itself is so fuzzy, it is very difficult to identify a concrete list of these aspiring nations. Though a good number of countries from South-East Asia, Latin America, Middle-East, Eastern Europe and Africa have seemed to be emerging economies, China, India, South Korea, South Africa, Brazil, Mexico, Russia, Turkey, Indonesia and Thailand have become the focal points of concentration of policy-makers and development thinkers.

Though some exceptions exist, in general, the common characteristics of the emerging economies are:

a. Vibrant role of the state in economic activities,
b. Slow movement towards trade liberalization,
c. High tariffs on imports to flourish indigenous industries,
d. Undervalued currencies to discourage import,
e. Trade surplus with developed countries,
f. Sustained rate of high growth for decades.

Emerging Economies Model vs. Market-Oriented Development Model

The market-oriented development approach, originated from neo-liberal theory, was predominant from the late 1970s; whereas countries of emerging economy drew attention to the central role of the state in stimulating development from 1990s. The market-led approach saw the state as the cause of inefficiency and lower growth and an obstacle of development. Haynes (2005:7) describes, “The concept of neo-liberalism emphasized that, developmentally, the state’s role should be downgraded and diminished – while that of private capitalists and entrepreneurs should be upgraded and augmented.” On the contrary, the emerging economies showed that the very fact is that the state has undoubted ability to make the policy and structural arrangements in favour of development. It is the state who can overcome the indigenous and alien obstacles of development.

Castells (1992:55) finds that the emerging economies are following ‘developmental state model’ as to Calvert (2005:55), these states generally influence the direction and pace of economic development by directly intervening in the development process, rather than relying on the uncoordinated influence of market forces to allocate economic resources. Xia (2000:2) finds, these countries by now moved away from ‘Stalinist model of command economy’ and recently embraced liberalization and democracy. Analyzing the industrialization of Asian and Latin American emerging economies, Evans (1995) describes the regulated market as ‘embedded autonomy’ where business class works in a coordinated relationship with the state.

The industrial countries who are now championing market-led approach once used significant role of the state in their initial stage of industrialization. USA and UK in nineteenth century and Japan in twentieth century enjoyed state-led model for indigenous industrialization but now they are trying to outlaw this model through campaigning market-led agenda of neo-liberal approach by the IFIs that seems to ‘kicking away the ladder’ to development (Chang,2002). Showing the success of state-led development approach the emerging economies, are setting the ladder again. They are not following the advice of the rich countries: “do as we say... but not as we did”.

In global successive economic crisis the investors, large or small, look for the best balance of risk and return. Increasingly they are choosing the emerging economies of long-term and higher growth (see chart-1&2), but the emerging economies allow Foreign Direct Investment (FDI) very carefully and in a controlled way to avoid shock of economic crisis. Financial institutions are set up there in the way of state-oriented policy. India, for example, has a more stable banking system unaffected by recessionary trends outside India (Higgot and Nesadurai, 2002). Though some Indian state-owned enterprises (e.g., Indian Railways) are not doing well, they play a big role in employment generation, and therefore, India is not giving them out to market (Ahrens, 1997).

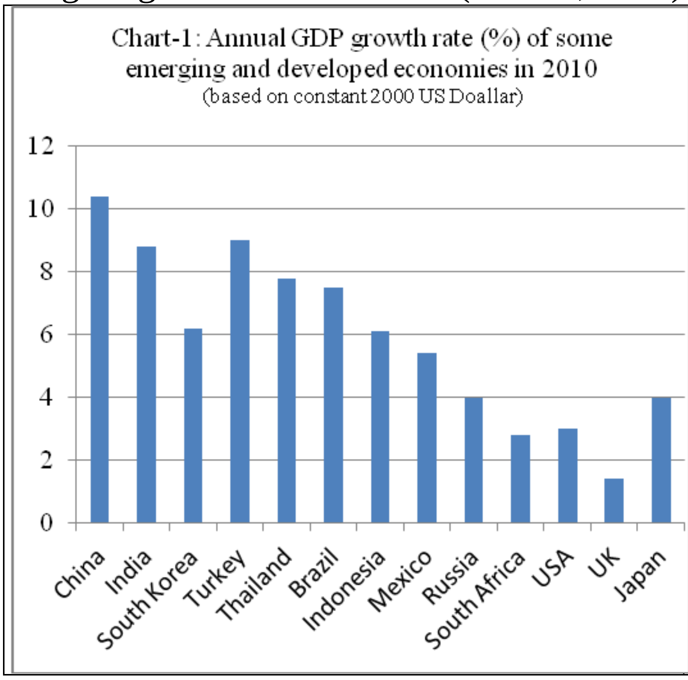


Chart-1: Annual GDP growth rate (%) of some emerging and developed economies in 2010 (based on constant 2000 US Doallar)

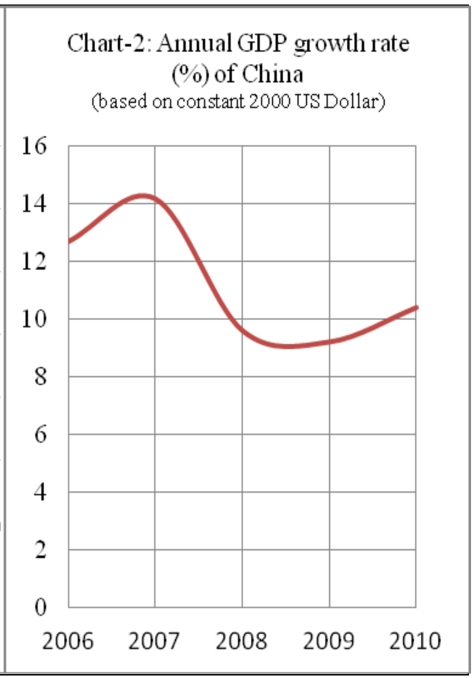


Chart-2: Annual GDP growth rate (%) of China (based on constant 2000 US Dollar)

Data source: *World Bank*

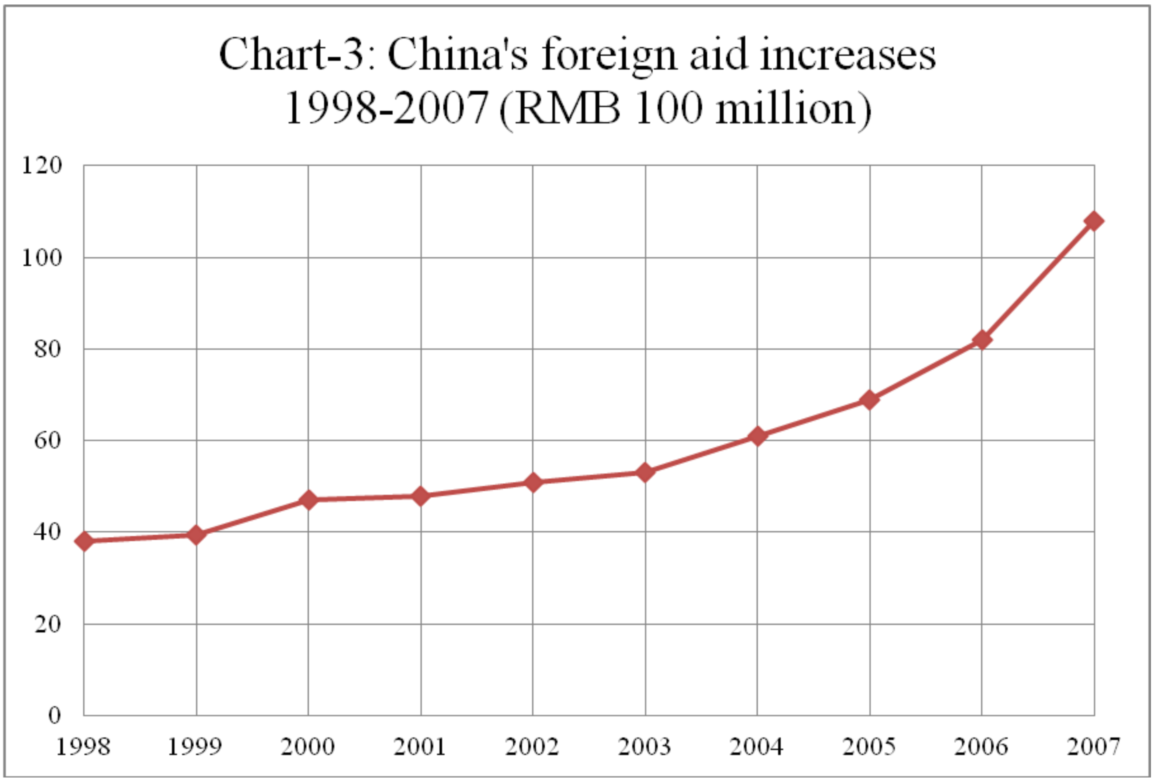
Building massive industries, sustaining growth at a higher curve (see chart-2) and alleviating poverty by the endeavor of more than 100 ministries, statutory guidance, commanding banking control and stunning state-owned enterprises (SOEs) with controlled market forces, China has made the West doubt about the continued validity of its market-oriented development approach. Instead, China’s state-led, semi-market economy or ‘state capitalism’ is becoming popular to the developing world. Indian success through regulated-market under world largest democracy has become pinnacle of concentration. Therefore, the 'Washington Consensus', focusing on open markets and free enterprises, is being replaced by the 'Beijing-model' focusing on state-oriented policy or by the 'Mumbai-model' based on the idea of a democratic developmental state (Woods,2008).

There is another side of the mirror; development is not a buzz of economic growth. When rapid growth of China becomes over-cited it should be a big question that is it wise to sacrifice human rights for the sake of an extra percentage of GDP growth? Though more than half of its children are malnourished, India exports cereals. So lack of balanced development does not make the emerging economies role model. Though they are challenging the certainties of market-oriented approach of development, they need to achieve fair development within their countries.

Emerging Economies and Changing Pattern of Aid Relationships

The emerging economies, for ever more shifting global economic power to them, are now enjoying increased clout to (re)shape the nature of global development assistance. They are emerging as new donors with new form of aid–relationship aiming to benefit their economic, political and strategic interests that do not conform to the traditional one that the developed countries exercise. As except South Korea, none of them are members of donor's club, i.e., OECD-DAC, they enjoy an extra advantage of designing their own technique of aid-trade and aid-politics. To Woods (2008:1) "Emerging economies are quietly beginning to change the rules of the game."

Recent pace of increasing aid flow of emerging donors has seriously affected the aid structure of the established donors. These non-DAC emerging economies are exercising the vantage of giving aid to the poorer countries on the term of their own choice, especially to enlarge their trading opportunities and secure their energy sources. Chinese aid in Africa, for example, is in quest of continent's energy resources to sustain its rapid growth (Hanson, 2008). The main anxiety in donors' club is that China's increasing aid flow (see chart-3) is lowering the aid-standard. To minimize the deviation Lancaster (2007) suggests, "...the aid-giving governments of Europe, North America and Japan should expand lines of communication and, to the extent possible, collaboration with Beijing." Though China's everywhere-presence in Africa is seen as new imperialism by Marks (2006), he finds positive results as well. For intensified trade links with China, states in Africa have enjoyed higher growth rates, better terms of trade, increased export volumes and higher public revenues.



Source: *Woods (2008) collects from Guoqian (2007)*

The emerging donors are re-indebting the highly indebted poor countries (HIPC). The HIPC-initiative and the multi-lateral debt relief initiative (MDRI) have lessened the debt burden of the poor countries, but unfortunately, they are being trapped with new indebtedness of the emerging donors. Manning (2006), the ex-Head of OECD-DAC, warns about the possible risk that loans from emerging donors to low-income countries may prejudice their debt situation because the terms are inappropriate. Free-riding on the established donors' debt relief program is creating new problem for recipients. Despite apparent initiatives, China is yet not involved in IMF/World Bank Joint Debt Sustainability Framework. However, China has its own debt relief program. Melville and Owen (2005) finds, China has been well in advance of the G8 in debt write-offs, cancelling some $10 billion of the debt it is owed by African states. Woods (2008:16) evaluates, "The development assistance offered by established donors has become less generous and less attractive (on its own terms), while emerging donors' aid has become more generous and more attractive."

The traditional donors are losing their bargaining position because the recipients now have alternative options. Their hard-driven good-governance, environmental and human rights agenda are now posing challenge by 'no-strings-attached' aid of emerging donors. Recently, for example, due to some allegation of corruption the World Bank along with Japan and some Western donors denied immediate release of the committed funds for Padma Bridge, the biggest proposed bridge in Bangladesh to connect South-West Bengal with capital. While the negotiation of the government with donors was running on, some emerging donors from East Asia and Middle-East proposed Bangladesh for funding instead for the same. This is, perhaps, a great threat to recipient's accountability and existing codes and standards of aid regime. Chinese coal-based highly polluted technology in aid projects in some developing countries is challenging environmental protection deal of the established donors and international organizations.

Very often conditionality imposed by the established donors is seen as interference in domestic affairs and thus disrespect to the recipients' sovereignty. On the contrary, the recipients find the emerging donors ardent to offer aid without insensitive conditions. They provide their aid with a strong expression of respect for the sovereignty of the recipient governments. China, for example, highlights sovereignty, equality and mutual respect with its aid package. Similarly, Price (2005) finds India's aid program to focus on respect for territorial integrity, mutual non-aggression, mutual non-interference in domestic affairs, equality and mutual benefit, and peaceful coexistence.

The multi-lateral and bilateral aids are mostly dedicated to establish a safer world, but unfortunately emerging donors are destabilizing the aid-settings by pushing 'toxic ideas' and redirecting economic goals in the 'rogue' states which is sometimes threatening the global security. Manning (2006) censures the flow of such aid as waste of resources on unproductive investments. Aid from China to Zimbabwe and Sudan, for example, is sometimes alleged to be used for promoting ethnic clash. Chinese aid and trade has undermined the pressure on Sudanese government to terminate the Darfur crisis. Though international community is aggrieved with Zimbabwean tricky policy, Alden (2007) illustrates, China has long delivered both aid and military equipments to this 'rogue' country. To Lancaster (2007), Chinese aid discourages needed economic and political reforms in African countries.

However, sidestepping most of the codes and standards of OECD-DAC donors' aid practice, the new emerging donors are becoming popular development partner of the recipient world. While leading donors are slow in translating their commitments in aid flow for humanitarian and developmental needs, instead they are giving more attention to political and strategic grounds, and their aid flow is seriously affected by recent economic downturn, the emerging donors are quietly making revolution in development assistance regime by offering competitive package of alternatives. The Group for Better Aid (2010) finds, emerging donors from the South, distort traditional donor aid-relationships and mirror the highly unequal relations of dependency that characterize traditional North- South aid.

Conclusion

Seeing as all the emerging economies have embraced some form of free market practices, it cannot be settled on that either market or state is responsible for their stunning economic advances; rather it is the outcome of acceptance of a blended philosophy. This essay finds that the state-capitalism adopted by China or liberalization with protectionist measure adopted by India serves as examples of alternative model of development policy of emerging economies. Cautious protectionist approach taken by the emerging economies to ensure the long term independent economic growth has been proven sustainable even in the world economic crisis and economic downturn. Though not for development as it exactly mean, developing world is looking with fascination at this model to boost up and contain economic growth and thereby this model is challenging the Western model of market-oriented approach. Emerging economies, twisted as emerging donors, are neither explicitly knocking over the codes and standards of development assistance nor replacing them; rather they are bypassing the hard-owned norms of established donors. Their own-style of aid-practice, being popular to recipients, is making a silent revolution in the aid regime and thereby changing the nature of existing aid relationships.

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