

Discussion

- Plenary Session Four, Nov.6
The first Globelics Conference in Rio
- By Shulin Gu

Metcalfe, Remlogan and Uyarra: Economic Development and the Competitive Process

- The paper discusses on *innovation, competition* (chiefly mediated through market), and *development*.
- It explores the role of market from an evolutionary view in relation to incentivising and facilitating creative change.
- This work is critical for an amendment of prevailing Washington Consensus; which is instead based on the generalization of market to mean an emphasis on the efficiency “**in the allocation of given resources to given ends**”.
- The importance of re-explanation of the role of market can not be exacerbated. It gives us robust guidance especially now when we are confronted with daunting problems and difficulties from the past two decades in market reforms or in free market-oriented development strategies.
- To inquiries regarding such problems and difficulties, should we simply return to import-substitution strategies or even to centrally planned economies? Metcalf and his collaborators remind us that current problems are essentially not caused by market *per se*, but by inappropriate abstraction of market.

More insights are crucial while missing in the arena of development policies

- Except the role of market for innovation and change, this work also enlightens important insights crucial while missing for development, among many such insights we pick up two:
- **The nature of development**

“Development is about finding new uses for resources, it is a creative process in which qualitative and quantitative change are intertwined. Innovation redefines the basis for generating profits and this reshapes the evolution of the market structure.”
- **The specifics (plurality) of development paths and processes**

“There is no point approaching the study of development other than in terms of the properties of a particular economic system.”
- All of these are very fundamental for a “paradigm shift” of development policies; all can be forcefully redressed from an evolutionary and systemic perspective, as has done in the paper.

**Increasingly knowledgeable and concerned people
criticize Washington Consensus.....**

“An Agenda for the New Development Economics”

Joseph E. STIGLITZ, at the UNRISD meeting on **The Need to Rethink
Development Economics**, 7-8 September 2001, Cape Town, South Africa.

The seeming disappearance of development economics as a separate discipline some quarter century ago could not have come at a more inopportune time. Some of the criticisms...are valid ...But their argument that developing countries are just like more developed countries, only lacking as much physical (and later,....human) capital and **their assumption that competitive equilibrium theorem can be applied in a straightforward way is, if anything, even more misguided.**

Joseph E. STIGLITZ 2001

In the last two decades, there has been a growing awareness of the limitations of the competitive paradigm... Yet, in this same period, the reigning paradigm in development economics was the Washington consensus, which ignored these considerations, despite the fact that they are even more important to developing countries.

A new development agenda thus must center around (i) identifying and explaining key characteristics of developing countries,...and exploring the macro-economic implications...; (ii) describing the process of change, how institutions and economic structures are altered in the process of development... It must do so in light of changes in the global economy...

.....with an evolutionary foundation and accumulated knowledge and methodology, the IS approach will contribute substantially to the issues centered in the new development agenda.

The Reining Paradigm Washington Consensus: Why does SAP Programme fail?

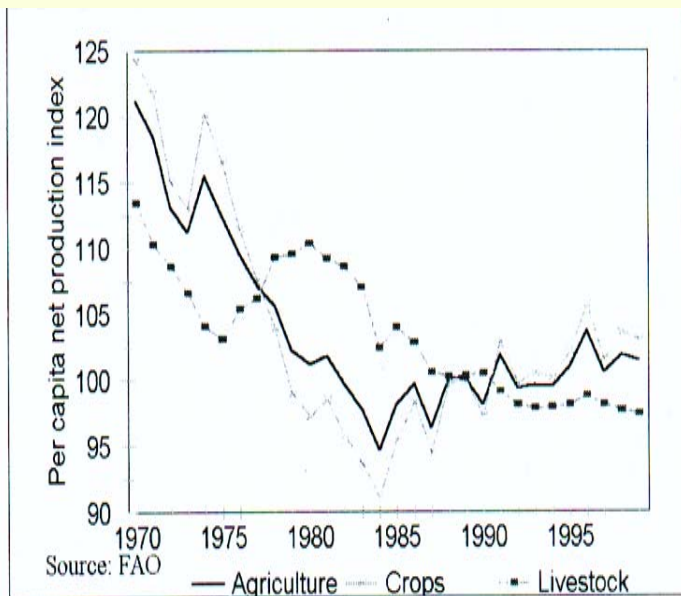
(Rodrik 1995; Friis-Hansen (ed.) 2000; Barrett, Aboud, and Brown 2000; McMillan, Rodrik, and Welch 2002)

- Theoretical rationale: ‘getting the prices right’ --namely, let the current international prices bring developing economies towards the status of general equilibrium
- Policy Measures:
 - Feeing prices via tax and subsidy reduction
 - Privatization of land, factories and trade
 - Cuts in public expenditure including infrastructure services
- Programme Operation/implementation
 - One set of policies put into a great variety of situation
 - External experts dominate SAP implementation
 - Conditional: Acceptance of SAP to be necessary condition for international loans

The Reining Paradigm Washington Consensus: Why does SAP Programme fail?

(Rodrik 1995; Friis-Hansen (ed.) 2000; Barrett, Aboud, and Brown 2000; McMillan, Rodrik, and Welch 2002)

- ** A large part of technical persons for agricultural-tech diffusion were dropped out
- ** Road and irrigation infrastructure in disrepair or disappear
- ** Supply of agricultural inputs turned to the hands of multinational companies; while the coverage of the supply remains for 2%--4% peasants
- ** Upstream and downstream industries of agriculture largely secede to operate because of “comparative disadvantages”



Effects on Development

in Long-term:

degradation of production system and innovation system, except for a tiny part that integrated into international production

In Short-term:

also minimal, from low responsiveness of the supply side

Figure 2: Nonlinear Agroecology Dynamics With A Concave Production Technology

The Reining Paradigm Washington Consensus: Why does SAP Programme fail?

(Rodrik 1995; Friis-Hansen (ed.) 2000; Barrett, Aboud, and Brown 2000; McMillan, Rodrik, and Welch 2002)

- **Effects in policy learning**

- ** Telling-Failures with no progress in policy capacity**

“In face of wide dissatisfaction with the SAP, most of the debates go merely around as ‘Some feel that privatization and liberalizations have not been pushed far enough; and others believe that it has been pushed too far too fast’ (Friis-Hansen (ed.) 2000).

- ** Policy consideration fetched outside endogenous learning and ignored local conditions**

The viability of a version of agricultural modernization based on high levels of external inputs, as the current reform programmes ...imply to achieve, is questionable. ‘Low external input sustainable agriculture’ (LEISA) strategies are indispensably needed to integrated pest management, participatory conservation and use of plant genetic resources, and integrated soil fertility management’, this is absent in the SAP discussion.

Heitor, Nunes and Conceição
Technological change and the challenges for regional development: Building social capital in less favored regions

- **What are challenges to regional development?—**weak social capital development to enable regional value-added and competence building activities;
- **What is social capital?** –(a) Social capital facilitates collective learning; (b) social capital consists of institutions and incentives (market structure embodies the orientation and strength of incentives), particularly technological infrastructure;

Heitor, Nunes and Conceição
**Technological change and the challenges for
regional development: Building social capital in
less favored regions**

- **How to improve social capital?**—policy oriented recommendations
 - ** local government to take action for a remedy of market failure in offering incentives to competence building
 - ** Meanwhile such policy must balance potential distortion on competition (possibly caused by the “remedy measures”)

Market institutions and market capabilities are to be part of “social capital”

- A market functions in a particular set of producer-user structure and under certain enforcement mechanisms. “[M]arkets are not given naturally, they are social constructed and they are not costless to establish and operate.” “[M]atters are...not that (much) of market power but of market capabilities.”
- In the context of developing countries, problems with market failure and market underdevelopment are to be dealt with simultaneously; to construct market institutions might be even more crucial for a start of positive interactions between production, distribution and innovation/learning
- Learning/capability building and learning opportunities are to be mediated into interactions through market and non-market institutions