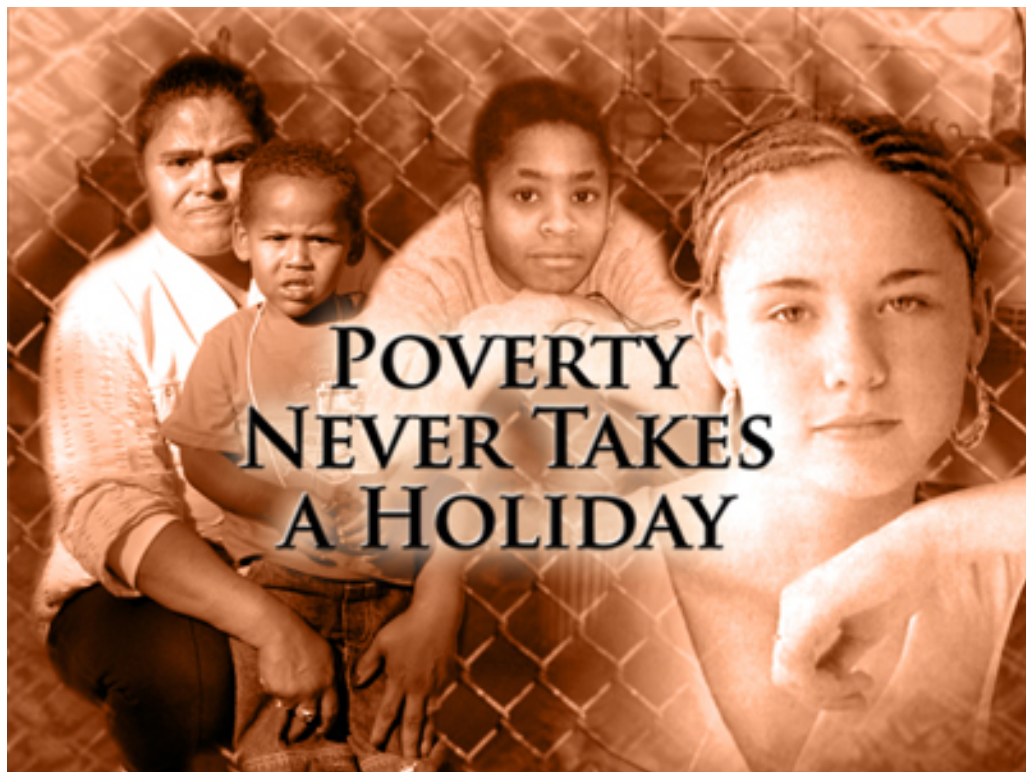


**This paper represents my original work. All sources used to prepare this paper are properly cited, and I have not submitted this paper or significant elements thereof at an earlier occasion.**



**Name of the course: Development & International Relation - studies**

**Student number: 2003-1362**

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Now at the end I wish you a pleasant reading

Warmest

Study No. 2003-1362 & Cpr. No. 150377-3879

Number of characters in the answers (including spaces and footnotes): 23 930 (excluding the acknowledgements, summary and the list of literature)

**Q. 1** The intention here is to give a critical assessment of the international political economy of the global aid system and its impact on development after the end of the Cold War?

International Political Economy (IPE) deals with the connection between politics and economics. Furthermore the IPE studies international trade and finance, and state policies in close connection with other related disciplines, such as international organization and international relations. Thus, the IPE framework is connected with the inseparability of economics from politics as well as with the salience of the international as a sphere of activity over and above the national. The nation is not seen in isolation but that they are interdependent and development can be designed and implemented by external partners. Free trade, intergovernmentalism, regionalism and transnationalism are noted as a means of achieving prosperity<sup>1</sup>.

IPE, in connection with the global aid system, contains at least three contending ideological perspectives, namely: *Realist*-, *Liberal*-, and *Radical* international political economy<sup>2</sup>. All these various IPE approaches obviously affect our understanding of development.

A liberal IPE is the one that seems to be dominant force immediately after the end of the Cold War. The breakdown of the socialist system seemingly confirmed a universal truth, according to this liberal development perspective, that ‘the unnatural sooner or later gives in to the natural’. In other words; any attempts to seclude one from the world market forces are thus a sentence to stagnation. As mentioned just earlier, development since the end of the Cold War seems to underline the fact that this perspective has prevailed. This liberal paradigm is closely related to the modernization perspective in development theory, as well as orthodox economic theory<sup>3</sup>.

On the other hand we also have the concept of the so called ‘Neo-liberal globalisation’. The concept of ‘globalization’ resembles phrases such as ‘Clash of Civilizations’ & ‘The End of History<sup>4</sup>’ and the like. It is based on a reinterpretation of imperialism and denotes new forms

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<sup>1</sup> Lecture notes from Li Xing, 11.2.2008

<sup>2</sup> Stubbs & Underhill, 2000; pp. 9 - 16

<sup>3</sup> Ibid; pp. 9

<sup>4</sup> Both written by American political economist/philosopher Francis Fukuyama.

of capital export/accumulation and neo-liberal hegemony/the Washington consensus<sup>5</sup> which is embedded in the Bretton Woods Institutions<sup>6</sup> and linked with the compression of time and space and the positivist claim that increases in information technology, transportation and new military interventions ultimately will lead to peace, harmony and improved living conditions on a global scale<sup>7</sup>. In other words it is an economically driven process that addresses the needs and aspirations of the individual and given him/her the freedom and policy space to realise his dreams and live a meaningful live through the acquisition of private property in a free and competitive market situation. They further propose the minimal role of the state, but given more room to the individual. In effect political institutions or interferences that undermine the efficiency of free markets should be reduced or entirely eliminated, according to this view. It is believed that a combination of privatisation, liberalisation and deregulation, globalisation should produce maximum prosperity, liberty and democracy and thereby increased welfare for the global citizenry.<sup>8</sup> In the nutshell, neo-liberal globalization prioritises market forces as the bases for wealth creation and this thought has continuously influenced development policy formulation<sup>9</sup>. This is very much in-line with the mainstream development theories such as the modernization, dependency and the world system theories as they all identify economic growth as a yardstick for measure for development. The neo-liberal hegemony seems to be placed midway between the alternative thought on the left of the developmental trajectory and the mainstream development on the right. However, as showed above the results are not quite satisfying if one wants to see improvement in sustainable development and a world with less poverty.

As noted above the neo-liberal development paradigm had the objectives such as economic growth, full employment and that these would insure stable world order and subsequently move away from the tradition “primitive” society to the path of modernity. Strategies used were; mono-concentration and donor initiatives, high technological development and eventually top-down in nature. Development was measured by the growth of the GDP. It is

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<sup>5</sup> A phrase initially coined in 1989 by John Williamson

<sup>6</sup> Privatization, Deregulation and Free Trade

<sup>7</sup> Lecture notes from Johannes Schmidt, 28.2.2008

<sup>8</sup> Scholte, Jan Aarte 2005, pp 1

<sup>9</sup> Lecture notes from Li Xing, 13.2.2008

important to mention that the emergence of NGOs was promoted by neo-liberal ideals of minimising the role of the state and giving much power to individuals.<sup>10</sup>

The neglect for the gender, environmental issues, local participation and empowerment of local people to manage development programmes led to the failure of many development projects and therefore theoretical ‘fallacy’ in relation to the third world development. This called for rethinking development and thereby also the alternative theories who now (again) deal with many of these normative issues<sup>11</sup>.

Meanwhile the question that rises now is as following: Is there any alternative to this approach and are the results of aid-giving any better now then before the end of the Cold War?

Some would argue that, the expected gains of international financial liberalization have not materialized. The last two decades associated with globalization and liberalization has experienced significantly lower growth than the quarter century after World War Two<sup>12</sup>.

The Cold War's end appeared to give the US unchallenged hegemony. More significantly, by the late 1990s serious challenges from below began to emerge with global protests against neo-liberalism. This sole market-oriented and the liberty of the individual position of the neo-liberals met attack from so many angles of the development thinkers and civil society groups. Notably from the alternative development theories whose ideals are built on the market failures, inequality, production of negative externalities, gender inequality etc. That is created as a result of the hegemonic position of the neo-liberal thinking based on capitalism and which failed woefully to address the needs of the poor and the destitute. The traditional development thoughts claimed that development is a universal ideal and in accordance with Western values. This is valued by Marxist thinkers as embodying some elements of confidence tricks, or an illusion, because the metropolitan centres of the global economy

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<sup>10</sup> Lecture notes from Johannes Schmidt, 28.2.2008

<sup>11</sup> Lecture notes from Johannes Schmidt, 28.2.2008

<sup>12</sup> Ibid

have persistently depended on, and exploited the peripheral satellites. This view is particularly hammered on by scholars such as A.G. Frank and Samir Amin among others.<sup>13</sup>

Paradoxically, these moves are sometimes noted as measures to counterweight globalisation, which also characterize the development since the end of the Cold War. Globalisation posed massive challenge for mainstream or orthodox theories as most of these theories became irrelevant or even useless and needed re-thinking. The state and the market experienced great limitations in the neo-liberalist view of these as the panacea of global problems.

Modernization theories attempt to legitimate the US aid and intervention policies in the areas as political system, democracy and human rights. What is needed in the developing world is more exposure to modern values and more productive investment, others would say. The US can help by sending advisers, by encouraging American business to invest abroad, by making loans and other kinds of aid.<sup>14</sup> Further down in this essay I'll try to criticize this standpoint, as I'm not supposed to do it in this exercise.

**Q. 2** A discussion of the pros and cons of giving by the donors and receiving by the recipients is the main concern under the first part of my answer. Secondly, my attention is to give a proposal/suggestion what must change in the future to stimulate sustainable development, if the aid-giving has to continue.

The effectiveness and benefits of aid-giving and development assistance has always been a controversial issue. On the plus side claims have been made that it has contributed to growth, resource transfers, public services, capacity building, conflict management and influenced on societal change. On the other side it is argued that aid and development assistance does not always lead to increased economic growth. It has also been argued that aid works only when government policies are good (good governance)<sup>15</sup>. But what has to be done to achieve sustainable aid-effectiveness and development is even more an issue of dispute among intellectuals and people dealing with this subject. A more selective allocation of aid to those

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<sup>13</sup> Lecture notes from Li Xing, 13.2.2008

<sup>14</sup> Lecture notes from Li Xing, 11.2.2008

<sup>15</sup> Essentially free of abuse and corruption, and with due regard for the rule of law.

with good policy in high poverty situation is maybe recommended in order to achieving aid-effectiveness<sup>16</sup>. But let's see in the following on a few more concrete examples.

When it comes to the aid-industry there're few recognizable factors that need a closer look at. In connection with this I'll mention a few so called 'pros and cons' for both giving-agencies (donors) but also on the part of those who receive (recipients). First claim according to the critics is the fact that the agencies of development become somehow self-perpetuating. In other words; the process can continue on. At least it should be an ideal, which is difficult to achieve in its totality. The main idea behind their (donors) job should be, that their work is only temporary rather than permanent and as soon as the poor become well off, those aid-agencies should not exist anymore. What we currently see in many cases is the opposite scenario, where one feels that poor must exist in order for the agencies to live. Between the citizens and private actors in industrial and development countries, a great many organizations work with aid as their main activity, particularly on the donor side<sup>17</sup>. That's why the political economy of perpetuating aid cannot be ignored if we are to stimulate sustainable development.<sup>18</sup>

The flow of aid is a one way process, that from donors to the recipients. This means, that the basic pattern remains despite coining terms like partnership, "people-led as opposed expert led" development, participatory development, pro-poor development etc. In other words, according to Martinussen, "... *they do not change the form and process of aid in any decisive way*".<sup>19</sup>

In the following I want to exemplify possible pros and cons by putting up some possible outlines. Imagine on the side of the receiver there's a corrupt government that is gaining from the development assistance and aid. It does not benefit the poor people in the receiving country, but it benefits the top of government officials and people in the administration. For those people in charge it is pros. From the donor side it is definitely a con, at least if their genuine purpose is to help the poor. If we now on contrary take an example of the

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<sup>16</sup> Lecture notes from Mammo Muchie, 11.3.2008

<sup>17</sup> Martinussen, 1997; pp. 174

<sup>18</sup> Lecture notes from Mammo Muchie, 11.3.2008

<sup>19</sup> Martinussen, 1997; pp. 175

contingency where one donor agent, ex. US government, makes a list of conditions in order to maintain its neo-liberal hegemony, by giving aid. It can be by pressuring the recipient governments to respect human right, democracy, ‘war against terror’ and so on. It’s definitely the pro for the US donor agent, but it may not be considered as the pro by the recipient government which may have other interests, culture, religion, political and military ambitions etc.

To give an exact and accurate proposal to a question what must be changed in order to stimulate sustainable development is almost impossible. Nevertheless, according to alternative development theory and one of the main advocates of ‘empowerment’ John Friedman, development must also take on board issues of gender, democracy and sustainability, and link local action to structural change<sup>20</sup>.

Philanthropy may also help, but it cannot be enough. Services provided out of goodwill have to become a right. In the end poverty reduction and sustainable development requires accountability, or what Thomas & Allen call ‘institutionalization of altruism’.<sup>21</sup> It is both on the part of the donors and the recipients. Structures of power, which are currently embedded in the existing system,<sup>22</sup> have to be demolished and reshaped. States, groups and individuals must have expectations and make demands in order for structures to be challenged<sup>23</sup>.

On their part, receivers have to understand that there’s no ‘free giving’, which means that powerful countries in the West are providing aid and development assistance in accordance to their objectives and goals. Strings are thus always attached with giving, whether visible or covert. So for both donors and receivers, it should be acknowledged and there should be dealt with them. The whole concept of aid has to be a subject of re-thinking where change means more or less, that the poor themselves change their conditions by self-organizing with a mandate of changing things on not getting ‘lazy’ relying on help. What has characterized current trends in aid- and development giving is the wish of others (namely those in West) to do the job<sup>24</sup>.

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<sup>20</sup> Lecture notes from Li Xing, 11.2.2008

<sup>21</sup> Thomas & Allen, 2000; pp. 215

<sup>22</sup> See more on this in the answer bellow

<sup>23</sup> Lecture notes from Mammo Muchie, 11.3.2008

<sup>24</sup> Ibid

In order to stimulate sustainable development certain other things have to be changed simultaneously. First and foremost the problem of ‘the structure- and agency problem’ has to be dealt with. The same has to be done in respect of the globalisation and localisation where as it is now developing countries are only supplying with raw materials while the markets of developed countries in the West are not open for other good coming from developing countries. Also the question of how long the state of impoverishment can be tolerated has to be addressed, as we know it is the result of the patterns of existing relations<sup>25</sup>.

Additionally a co-operation between public and private sectors under the overall guidance of a pilot planning agency has to be implemented. Heavy and continuing investment in education for everyone, combined with policies to ensure the equitable distribution of national income have also to be put in place as leading strategy for sustainable development. And maybe most important, there’s a need for a government/state that understands the need to use and respect methods of intervention based on the price mechanism.<sup>26</sup>

To summer things up a bit it can be said following remarks: major point of criticism has been that western countries often project their own needs and solutions onto other societies and cultures. As a result of this criticism, western help in some cases has become more ‘endogenous’, which means that needs as well as solutions are being devised in accordance with local cultures.

It has also been argued, mostly by dependency theorists, that help based on direct donation creates dependency and corruption, and has an adverse effect on local production. As a result, a shift has taken place towards aid based on activation of local assets and stimulation measures such as micro-credit<sup>27</sup>. These are very small steps, yet the ones in the right direction. Much more has to be done in order to stimulate sustainable development.

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<sup>25</sup> Lecture notes from Mammo Muchie, 11.3.2008

<sup>26</sup> Lecture notes from Johannes Schmidt, 28.2.2008

<sup>27</sup> A financial innovation which originated in Bangladesh

**Q. 3** A critical discussion of the actors involved in the aid-giving industry is the main concern under this section.

There are two main categories of the actors in the aid-giving industry that are worth mentioning here. First category is the ‘official development agencies’.<sup>28</sup> One of the most important actors in this category which is involved in the aid-giving industry is definitely the *state*. The state itself can be a primary agent for the development and aid-giving initiatives in society, but the state can also provide an enabling structure for development by other agencies. More so important is the fact that the state can also be a structural obstacle to development and aid-giving. States are usually represented by some ‘bilateral’ organizations which provide resources for development and aid in other, poorer countries.

Moreover there’s also an involvement of intergovernmental or multilateral organizations promoting or implementing development programmes. Of those many are under the UN-umbrella; UNITAD, UNCTAD, UNICEF, WFP, UNDP, WFC, UNRWA just to mention a few of them<sup>29</sup>. Of other important actors, who are officially included in the UN system, but in reality form a separate system, are the World Bank and International Monetary Fund (IMF). Esp. in the case of later two very powerful organizations it is important to stress the dominance of the North (rich Western Countries) where voting power fluctuates and is weighted according to financial contribution. This is also the main critique of these actors and their role. Arrangement of this kind had placed the World Bank and the IMF under the direct control of the rich industrial countries of the North, esp. the United States, says critics.<sup>30</sup> It is underlined by the fact that the president of the Bank is always a citizen of US while the managing director of the IMF is always one western European. One can in connection to this cynically ask ‘what is the problem in this’? To this question there’re a number of answers, of whom I’ll only approach a few very important ones. First major problem is the lack of accountability to the rest of the UN-system by the IMF and the World Bank. This means, that the governments of the rich countries paying for the aid and development programmes/projects can more easily ensure that their contributions were used

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<sup>28</sup> Thomas & Allen, 2000; pp. 199

<sup>29</sup> Ibid; pp. 203

<sup>30</sup> Ibid; pp. 204

for policies which they supported<sup>31</sup>. The examples of this policy are numerous and we have seen it throughout the period of the Cold War where on the one side USA and on the other side USSR both giving aid and development support to the countries or regions who're willing to stay, or shift over, to the 'right side' in the conflict. To simplify it even further I'll mention the case of the so called 'Marshall Plan', aid given from 1948 to 1953 to reconstruct Western European economies in order to contain communism. Similar actions were taken in the South-East and East Asia in the 50s and 60s by the US government as well, some would argue, as the case in China's further involvement and support to the regimes in Africa, mainly to this in Sudan. It is furthermore a question of conditionality – where loans/grants/aid is given subject to specific conditions. It can be World Bank's frequent insistence on neo-liberal economic policies<sup>32</sup>, towards multi-party liberal democracy or 'good governance'. These factors or I should call them 'conditions' have prompted many analysts and politicians to become very critical of aid. It has, rightly so in my opinion, been argued that no amount of conditionality can disguise the fact that these actions have subsidized oppressive and inefficient regimes (such in the case of Sudan) and even failed to provide development assistance and aid to the people who are desperately in need, as the result of their government not living up to those conditions. Another important criticism is that these conditions, enforced by some strong industrial countries, produces even more inequality and poverty and consequently are just placed there in order to maintain the power relationships that are still much present in the connection with developed and developing countries.

On the other contrary it is much more important to stress other actors that are almost as equally, if not even more, significant than the state. Some of these other actors are submitted under the second category called 'non-governmental organizations' and private sector. When it comes to NGOs then we can see that the number of NGOs has increased more rapidly during the 1990s. Thus the role of development and aid-providing NGOs has broadened to include advocacy as well as the provision of relief and welfare services. Many organizations calling themselves NGOs are in fact largely funded by governments even though in general the term NGO is restricted to non-profit-making organizations.<sup>33</sup> As showed in the previous

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<sup>31</sup> Thomas & Allen, 2000; pp. 205

<sup>32</sup> Issue of neo-liberalism has been addressed more extensively in the first question.

<sup>33</sup> Thomas & Allen, 2000; pp. 210

cases, this too can be an ambiguous concept. Governments who provide the funds can at any time choose to make some preconditions, such as to decide what kind and amount of aid and furthermore to decide the goals and/or political objectives they want to achieve with aid-giving<sup>34</sup>. In most cases it restricts the possibilities of NGOs to provide the necessary help that is needed.

But there are also local NGOs in developing countries and one of the strengths of this type of organizations is that they are generally viewed as apolitical, socially accountable and integrated into local communities which they serve. Yet, critics say, NGOs of this sort are never going to change the world as they are just not big enough and because of the fact that there just is not enough money involved. The distance and goals of those supplying and those using aid as a policy field is just too big and inequality is additionally built during the process of aid giving, where some countries are able to make conditions and some countries are alone obliged to fulfil. In many cases, development therefore comes with a price of inequalities and even poverty and this has to be changed if we are to stimulate sustainable development<sup>35</sup>.

Relations between two sets of states are dynamic because ongoing interactions tend to reinforce and intensify unequal relations and patterns. Underdevelopment is maintained through patterns of interaction or relationships, and inequality and exploitation are thus the intrinsic parts of those interactions (organically)<sup>36</sup>.

One way of solving the dilemma, according to Samir Amin and dependency theorists, is the way in which the poor countries should embark on programs of import substitution so that they need not purchase the manufactured products from the richer countries. The poorer countries would still sell their primary products on the world market, but their foreign exchange reserves should not be used to purchase their manufactures from abroad.

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<sup>34</sup> Lecture notes from Mammo Muchie, 11.3.2008

<sup>35</sup> Ibid

<sup>36</sup> Lecture notes from Li Xing, 13.2.2008

The only possibility of avoiding dependency is thus in creating an alternative system of production, a non-capitalist system of production. Here, the majority of ‘dependentist’ intellectuals were in one way or another proposing "socialism" as an alternative<sup>37</sup>.

This dilemma is rooted from the way colonial era conceptions are interwoven with the conceptions in the era of development. For instance, official development assistance (ODA) used to be in the major colonial powers the previous colonial offices. Put another way; many of the same people, or at least same patterns, still continue from the times of colonialism. They are thus mere adjustments to the needs of the proclamation of development by the freed countries from colonial time<sup>38</sup>.

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<sup>37</sup> Ibid

<sup>38</sup> Lecture notes from Mammo Muchie, 11.3.2008

**Summary:**

I hope that, with these answers, I have succeeded in showing you that I have read and understood both the lectures as well as the texts covered by the courses. In connection with that I want to underline that all formal requirements have been met and indicated. Most of my answers are the result of the use of the compendia - texts, books and lecture notes and I have not used texts from the internet as a replacement for the curriculum. The only thing I have found on the internet is the image of the 'poverty' used on the front page of this paper and some notes from our own homepage. In my answers for all the three questions asked I have not just retold a theory, but have discussed it and afterwards used in my assessments, as suggested in the 'guidelines for the examination'. I hope that I have succeeded in showing you my analytical abilities and skills and that my essay is not purely descriptive. Finally I want to underline once again that this paper represents my original work. All sources used to prepare this paper are properly cited, and I have not submitted this paper or significant elements thereof at an earlier occasion, as I have never taken similar courses regarding *Development & International Relations*, nor have I ever done evaluation in English language before, even though I use this language on everyday basis for other purposes.

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