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DEVELOPMENT MANAGEMENT OF TRANSFORMING ECONOMIES

Theories, Approaches and Models for Overall Development

Development Management of Transforming Economies

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To my father,
who taught me the difference between wrong and right, between greed and sharing and between a simple professor and a true Master.

Fabiana Sciarelli

To my daughters

Azzurra Rinaldi

Preface

Gandhi said: *'The world has enough for everyone's need, but not enough for everyone's greed.'*

These words ultimately inspired our work.

In 2015, according to the objectives of the United Nations, the world would have to be free from poverty, universally educated and healthy. Instead, towards the end of 2016, the world is seeing not only the persistence of pockets of poverty that are actually increasing in some countries but also an unchanged life expectancy, due partly to infectious diseases that have not been eradicated. We are also seeing gender differences that are not yet filled, and also civil wars, hydrogen bombs, and the spread of international terrorism that has become increasingly aggressive.

How is it then, that after more than sixty years in which the world has been engaged in development, a system that allows the growth of human dignity is yet to be identified?

We are aware that there are transparent powers and opaque powers, transparent actors and obscure actors, clear and dark resources that fuel development, or so it seems, and we know that we cannot ignore it. But in this volume we want to present a common methodology useful for an enlightened government, which, perhaps tired of opaque powers, decides to work alongside transparent power, bringing its country into a real stage of Overall Development.

By Overall Development we mean a complex development composed in a balanced way in economic, health and educational terms, a development that lasts over time that does not sell off or destroy the country's resources but uses them and preserves them; an independent development where public debt is not the key.

The economic theories on the subject of development have multiplied, as have the application of the social sciences, while the concept of its management has never really been pronounced.

To start a system of managed development of weak countries we cannot assume that in the path of such development its superiority to a systemic use of opaque powers will seem clear and possible, or obviously natural and right, so we will have to assess what it is that these dark systems offer, and offer more.

Even the system of opaque powers, in fact, can be seen from a market perspective. No one would be able to buy the development of another were there not those willing to sell.

From a market perspective, we propose an alternative to welfare, an alternative to the new international colonialist system which is difficult to build and contains goals which are difficult to achieve. We propose instead the application of the use of easy tools, thereby rendering the proposed process possible.

Seeing developing cities suffocated by smog, or enmeshed in power lines, or hearing people call their country 'the land of smiles', when its smiles have been sold for a handful of money, or even knowing there are whole populations of children suffering at the hands of adults, that rights are not equal in all places, that equality of birth often has to be protected even more than that of gender, we honestly cannot accept that this can believed by anyone to be part of anything called development. Development, according to the etymology of the word, is the dissolution of a confused tangle of intricate, thread-like projections, not the creation of a new web of skeins, like the electrical cables that are to be seen rushing to the cities of the so-called developing countries.

Visiting these countries one has a sensation of estrangement, and feels not the euphoria of growth, but instead the concern not to be left behind.

Interviews that took place with some of the inhabitants of some of the countries we visited with reference to the people both national and

international that deal with development led us on the same path to the same overwhelming concerns: all those that involve the management of development.

With this book, bearing in mind always the outcome of the errors of the past, we intend not to give some unique solution that can be used indiscriminately for the development of all countries, but rather to create a system of tools and models that will allow an individual country to move towards a more autonomous, strategic and operative method of planning founded on its unique characteristics: the Overall Development Model.

Our work is divided into four parts: the first deals with providing an articulated definition of development, emphasizing both its particularities and also the differences from mere growth. To this end, it proposes a synthesized reading of the most important theories, be they of growth or of development, to emphasize how development includes growth and also how the converse is not true.

In the same part, after offering an overview of the main developmental indicators used and indices internationally developed, we deal more specifically with the question of the less-favoured areas, areas that are representative of how inbuilt factors that can prevent a development process within a particular country are likely to take over if they are not properly circumscribed and the obstacles they present not resolved with actions that need to be tailored to that specific country, and which cannot be of any standardized type.

The second part analyses primarily, instead, actors that are engaged in development, distinguishing between public, private and mixed. In this part we talk about private actors that are non-governmental ones, including in this group a series of private figures that can become strategic in the field.

In the third part, we study the strategic and operational plans of six countries, divided between Africa and Asia, namely: South Africa, Ethiopia and Benin; India, the Philippines and Myanmar.

We analyse, therefore, the main plans, and, studying the results of these, we make a comparison with other countries, then finally portray the country's development.

With this portrayal begins the fourth part, dedicated to defining the Overall Development Model, which is the object of this book. What

emerges from the analysis of government policies and of the structure of economic data is, in fact, the basis for the elaboration of a development model in which, for the first time, priority is defined internally and directly from within the country, from which, therefore, is derived the external methodology (of the same model), making possible an overview of the basic needs of the country.

One of the crucial points of the new model lies precisely in the promotion of autonomy (in assessment and decision) of the transforming areas, i.e., their progressive empowerment.

The first chapter of this fourth part (ch. 10) is related, in fact, to the contemporary structure of development.

From the eleventh chapter on, however, we give space instead to the definition of strategic planning in three phases, according to the lifecycle of the development, the instruments used, the model of strategic planning and the management. The management model of development in transforming areas is then explained in detail in the final chapter.

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Finally, bearing complete responsibility for what is written in this book, we thank all those who now have the desire and the patience to read our work.

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Part I

Development

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Defining Development

When approaching issues surrounding the development of economic systems it is necessary to focus first on the object of our study. Defining development is not an easy task. We could start by clarifying an ambiguity that often hides behind the concepts of growth and development. These two terms are often wrongly used as though they were interchangeable with one another. However, while development includes growth, growth does not include development.

By growth we refer to an increase in the Gross Domestic Product (GDP) of a country or rather of its ability to produce goods and services. Since the classical approach, many theories now involve growth and are based mainly on the principle of capital accumulation. Though initially pertaining only to physical capital (for example, machinery), this process was later extended to include many other variables such as intellectual capital and especially human capital. This will be discussed later.

We have stated that growth corresponds to the increase of the GDP of a country and that development goes beyond this definition. Schumpeter was the first to distinguish between growth and development, proposing to measure in development a more complex and detailed phenomenon than just the increase in domestic production.

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When we talk about development, we refer to an economic growth process that occurs alongside a transformation of the society that could ultimately increase the welfare of the population. Countries that are at a developing stage face a transition that leads them from a condition of social and economic underdevelopment to a higher level of welfare and a better employment of productive capacities.

In giving a more thorough definition, we can say that development represents an overall variation of economic, social and cultural influences that coincide with the income growth per capita. Obviously, this poses an issue about the definition. While it may be easy to identify an indicator for economic growth, which can be easily synthesized through the GDP, what is far more demanding is the study of an all-embracing indicator for a more structured outlook, including the wealth of the national population for instance.

For this reason, the concept of development needs to be defined by its multidimensional capacity and by covering the different aspects that compose it.

1 Economic Development

By identifying the factors the growth theories are based on, we can also isolate the principal development factors, for example physical capital, technical progress, the demographic factor, human capital and institutions.

In economic theory, the physical capital represents the machinery used in the different phases of the production process. Several theories examine thoroughly the relationship that unequivocally connects the accumulation of physical capital with the economic growth of a country. An increase of physical capital on a national level reflects an increment of investments in new productive activities by domestic enterprises. If investments increase then the productive capacity of the country will also improve. In order to use the new machinery appropriately enterprises need to employ new workers, thereby providing an income to people who until then had none to speak of. The influx of new income creates a higher level of consumption among workers (prior to this, consumption was inevitably lower). Therefore, if the families increase their

consumption then the companies will have to increase their production levels. Because of this, the same companies will then have to employ new workers to cope with the increased level of production demanded by the new consumers. This process is also known as the income multiplier and it is bonded to the employment multiplier which works in a similar manner; an increase in investments raises both national income and employment in a more proportional way.

The second development factor that we will analyse is technical progress, which includes three important points that must be considered as follows:

1. The type of technology used.
2. The way a new technology is diffused.
3. The costs of transferring a certain technology from one country to another.

We will begin by analysing the type of technology used. Pertaining to this point, we can also observe a wide gap between developed countries and transforming countries. The most advanced technologies, perhaps, are those chosen by the richest countries, while undeveloped countries make use of more traditional technologies, which are less productive and less sustainable. The observation of this kind of division of work method at an international level suggests the necessity for the emerging countries, like the developed ones, to undergo stages of development. From a technological aspect, this means passing from lower- to higher-efficiency equipment. However, developing countries are facing their own path of development in a time where new technologies are already available. This, though, is different from developed countries where economic development is connected to the discovery of new and more advanced technologies. In theory, there are no reasons why emerging countries cannot use new technologies; indeed, the fact that they have started a development process in a period where several new technologies are available could even be a competitive factor for emerging countries, allowing national operators to choose the most appropriate technology for their country.

As mentioned previously, there are no objective obstacles to emerging countries adopting complex technological equipment. Often, however, there

are economic obstacles that make some advanced and efficient technologies inaccessible for local companies, especially those of the poorest countries.

Some international cooperation programs were addressed to fill this gap, transferring some of the machinery of advanced countries to the developing countries. However, this process requires special attention, because the advanced country must obtain all the necessary information to manage the technology transfer to the developing country in the best way possible. One of the most important aspects of this process concerns what type of technology to transfer to a country where infrastructures are deficient. This leads us directly to the third point: the cost of transferring certain types of technology from one country to another.

We have already stated that one of the main concerns in technology transfer is the type of technology that should be transferred. Directly speaking, advanced countries shouldn't hesitate to transfer machinery with high-technology equipment to developing countries. But, since all countries compete with each other on the international market, it is conceivable that they may make strategic evaluations in the technology transfer that allow them to maintain their position of strength. Consequently, what often happens is that advanced countries transfer to developing countries systems that are equipped with out-of-date technology, thereby often creating high levels of pollution. A further risk in these technology transfer processes is that of transferring technologies into contexts that are, in effect, still immature. Let's think about the technical know-how required to maintain a production plant. When, owing to a lack of training, an emerging country is not able to manage high-technology machinery then the transfer of a plant to it from an advanced country is likely to fail. The many risks in transferring technology from one country to another may include adaptation costs that are too elevated for the developing country. Technological capital alone is thus insufficient to guarantee a balanced development process. Technological progress has to occur within the context of an infrastructure that is capable in giving the necessary support. To make technology work in an upline applicative field it is necessary that electricity, water, technical education and other factors are made available and guaranteed by institutions.

In fact, institutions present an additional development factor; their role and their inception have very strong economic implications regarding

one aspect of economic theory, namely the scarcity of resources. As is well known, one of the basic assumptions of economic theory is that resources are by definition scarce. The shortage of resources determines the necessary application of appropriate tools to understand how to manage distribution efficiently according to economic theory. It also stimulates the creation of mechanisms that guarantee the final, unequivocal assignation of property in these resources in accordance with the role of institutions. The fact that within the economic system property rights are universally recognized makes them a contributory cause in the reduction of so-called 'transition costs', that is, all the costs related to data capture. The presence of the state establishes a set of codified rules that reduce transition costs, something that is taken into account by international investors in selecting a country in which to make investments; the one where property rights are guaranteed by institutions is the safest. The presence of an institutional interlocutor to assist in navigating the bureaucratic procedures further reduces transition costs. The presence of the state therefore reduces uncertainty in the economic system—a benefit for countries where institutions play a strong role, while uncertainty, on the other hand, has a negative impact on the economic performance of countries. Finally, as already mentioned, efficient institutions ensure the establishment of a substrate made of infrastructures, education and guarantees of rights, all of which nurture the development processes of the country.

The fourth factor of development is directly connected with education, in the form of human capital. Human capital is the stock of knowledge, skills and abilities possessed by an individual. Individuals can gain human capital through schooling and practical work experience. Many of the factors we have analysed so far, human capital included, are indissolubly connected to a capitalist approach based on accumulation. In order for a development process to start, it is necessary to accumulate physical capital, technical progress and human capital. To successfully accumulate human capital, the scope of education needs to be broadened and strong, reliable mechanisms created to ensure continuous training in the workplace. The accumulation of human capital in the education area can be achieved by expanding formal education. Again, institutions play a central role; it is their duty to make formal education a focal point for

the development of the country. One such (and successful) example is India. Over the past 15 years, the Indian government has placed formal college education in technology at the core of the development process of the country. This human capital accumulation policy has activated a growth process with amazing effects. Many technological companies, mainly from the USA, have relocated part of their production processes in India, knowing that there they could find a well-trained workforce at a lower cost than back home, Because Indians are native English-speakers, many call centres have been moved to India. The Indian government has pursued a similar training strategy directed at commerce and banking, resulting in many Indians being hired by branches of foreign banks, or by American and English banks whose call centres have been relocated to India. Apart from in schools and colleges, human capital can also be increased in the working environment through participation in production processes within the virtuous cycle of learning by doing.

The last factor in development is demography. Even though a large population may represent a positive factor in the economic system (because it means a wider national workforce), the past decade's data show higher birth rates only in the densely populated poorest countries. While it is true hat demographic trends are often linked to specific stages of the economic cycle of a country, in countries where the production system is largely based on high-labour-intensity agricultural production, a higher birth rate helps create a population appropriate for that job. In the advanced countries, however, where the production system is no longer labour-intensive, but has become capital-intensive, partly owing to the increase in literacy among the population (especially females), birth rates are much lower. This applies also of course in many advanced countries like Italy, where the older generation was the product of a considerably higher birth rate than that of today. Also, from a productivity point of view, a lowered birth rate means more time is needed for one generation to be replaced by the next. In 1798, by virtue of the work of Malthus, economic theory was faced for the first time with the relationship between demography and economics. According to that author, while the population grows according to a geometrical ratio, production grows only arithmetically. The system, therefore, is intrinsically condemned to implode, because it is unable to satisfy the needs of