

LAW AND STATE

A BIENNIAL COLLECTION
OF RECENT GERMAN CONTRIBUTIONS TO
THESE FIELDS

VOLUME 37

EDITED BY THE
INSTITUTE FOR SCIENTIFIC CO-OPERATION
TÜBINGEN

CONTENTS

The Organization of Multinational States <i>by Otto Kimminich</i>	7
Development through Administration? Some Approaches and their Significance to Development Aid <i>by Jürgen H. Wolff</i>	29
Unity and Heterogeneity – Explanatory Models of Non-Alignment in World Politics <i>by Peter Meyns</i>	42
The Law of International Mining Agreements <i>by Christian Kirchner and Erich Schanze</i>	72
Agricultural Development and Changes in Harvesting Rights in South East Asia: Rice Cultivation in Java and Luzon <i>by Jochen Röpke</i>	91
Policy Dialogue: The Unknowing Talk to the Unwilling <i>by Michael Dauberstädt</i>	107

POLICY DIALOGUE: THE UNKNOWING TALK TO THE UNWILLING

by

MICHAEL DAUDERSTÄDT

Instituto de Estudos para o Desenvolvimento, Lisbon

1. "Policy Dialogue" – the New Name

The crisis which has been evolving in the world economy since approximately 1973, has also caused a crisis in the ways of thinking which had until then guided economic policies. Two ideological developments can be identified which fostered the new approach to "policy dialogue", and as is generally the case with two parents, these two approaches are closely related: on the one hand, the conservative idea of a free market which condemns state intervention in the (market) economy is on the upswing; and, on the other hand, within the confines of the debate on development policy there is a trend away from the idea that the causes of underdevelopment are to be sought primarily in the context of the developing country's international ties, and therefore, that the remedies are to be found in the restructuring of these relations, in particular the restructuring of the world economic order.

The second aspect concerns us here. If we look at the past¹, there is a long tradition of blaming the world economic order for underdevelopment in the Third World (Marxist theory of imperialism, the dependencia school). North-South policy has not taken this very much into account except, perhaps, for the system of tariff preferences. The idea of a new world economic order gained political importance only after the success of the OPEC. With OPEC a policy discussion began which also focused on the policies of the industrial countries which basically make up the economic world order, especially the monetary and trade policies and the transfer of resources. Its greatest achievement was probably the Lomé Conventions. The chances for a new economic world order declined with the failure of OPEC.

Author's address: Dr. M. Dauderstädt, Instituto de Estudos para o Desenvolvimento, Rua de S. Domingos à Lapa, 111, 3., 1200 Lisbon, Portugal.

The ideological counter-offensive also began in the mid-seventies. The degree to which the basic needs strategies was a part of it is still open to debate – some developing countries were of this opinion. Most certainly the human rights campaign by Moynihan and Carter can be included here. In any case, both initiatives directed attention to the distribution policies and structures within the developing countries, but still with the impetus to social reform. Significantly, the policies of the industrial countries are no longer at issue in the new concept of the “policy dialogue”.

At the end of the seventies, the second aspect of the fostering ideas, the resurgence of conservatism, made its influence felt: it was not so much human rights and basic needs that were a matter of concern, but rather the free market, free trade and restricting state control. Economic policy and, in particular, the economic system and policies within the developing countries were held responsible for the success or failure of development. Research appeared to substantiate the analytical facts: the more market economy domestically and free trade externally, the more successful the development². – “Reaganizing the Third World” appeared to be the universal remedy for underdevelopment.

The only thing which remained to be done was to find a suitable instrument for administering this remedy to the developing countries. The instrument which appeared was the “policy dialogue”. But what exactly is this? Several versions emerged.

Multilaterally, the EEC developed this principle the furthest in a memorandum by Commissioner Pisani concluding a period of reflection on the EEC’s development policy³. EEC missions formulating strategies for self-sufficiency in food production in African countries operated in at least four countries (Mali, Kenya, Rwanda, Zambia). Efforts to include the policy dialogue in the Lomé III Convention failed, however, as a result of the opposition of the African, Caribbean and Pacific (ACP) countries which were party to the treaty. The World Bank developed a related approach within the framework of its structural adjustment loans which, above and beyond the project level, are supposed to support macro-economic policies of adjustment to the higher oil prices with their loans. Thus the gap between the short term IMF measures (the “policy dialogue” in the classical sense) and the long term development projects was bridged. The Development Assistance Committee (DAC) of the OECD also welcomed the policy dialogue as an instrument for increasing aid effectiveness. In its 1983 Review and its 1985 Report, the committee stressed the necessity of co-ordination among the donor countries. Both reports presented a long list of existing co-ordinating bodies and activities⁴.

Only a few bilateral efforts can be observed. The Federal Republic of Germany’s Ministry for Economic Co-operation (BMZ) has tried this in

several cases without particular success. This is not surprising, however, because the concept (at least in its more intelligent versions) does not assume that any single donor will be effective alone. As a result, the dependence on larger multi-lateral programmes from the IMF and the World Bank remains centrally important. However, the discussion on the systemic parameters in the sense of an increased orientation toward the market economy is found in the German government’s new guidelines for development policy and in relevant documents of the academic advisory council to the BMZ⁵.

The recapitulation of the course of development of the “policy dialogue” and the most recent attempts to put it into practice quickly show traces of older development policy efforts in the same (or similar) direction. It can be assumed that what is being attempted here is perhaps not as new as it is supposed to be. Let us take a closer look at this.

2. Policy Dialogue – the Old Game

Policy dialogue is, in fact, almost as old as development co-operation itself. It was merely called something else. From the very beginning, donors have been concerned about the efficient and meaningful use of their resources. A classical instrument to assure both of these aspects was development planning. This had its beginnings in some cases already during colonial times, and the U.S.A. also required this of her recipient countries at the beginning of the sixties, e. g. in co-operation with Latin America (The Alliance for Progress). Development plans were medium to long term, economic-policy obligations which the developing countries pledged themselves to and into which the aid, i.e. specifically the projects, were to be incorporated. They were thus supposed to guarantee that the macro-policies of the developing countries were compatible with the projects. In reality, however, this often meant that a “shopping list” of projects was garnished with planning jargon and statistics.

Even when development plans lost their importance at the beginning of the seventies when the planning euphoria died down, the need remained for the donors to avoid contradictions and conflicts of goals among their respective projects and with the development policies of the developing countries. The classical instruments to achieve this were negotiations on aid programmes held with the governments and among the donors⁷.

A further traditional level of policy dialogue is the negotiations between the IMF and debtor countries. The motive behind this dialogue is basically the same as for development co-operation: the need to control the meaningful application of the loans and to guarantee their compatibility with the domestic policies of the developing country. There are three important differences: a) The goal is not to promote general development but to reduce a balance of

payments deficit to a degree which can be financed – something which often limits development. b) The time perspective, which is usually one to two years with the IMF (precisely this restriction was overcome in the above-mentioned World Bank programmes). c) The predicament in which the debtor country finds itself when there is no possibility for external financing other than the IMF.

Finally, as a matter of course: a “policy dialogue” has always taken place between political, administrative and academic elites in the industrial and developing countries. The training of technical personnel and managers from developing countries in the industrialized countries, and the bi- and multi-lateral conference machinery, have contributed to an active exchange of ideas. It is not a mere matter of chance that intellectual trends and fashions in the industrial countries have spread so rapidly to the developing countries. Cambridge, the French Ecole Nationale d'Administration, the Economic Development Institute of the World Bank, Harvard, Fabianism, the planning euphoria and disillusionment with it, Keynesianism and monetarism, balanced and unbalanced growth, the trickle-down effect and basic needs, the list of institutions and influential trends of thought which have formed the thinking and actions of the elites has no end, not to mention Marxism, which is less relevant here, the Soviet model and the universities of the COMECON countries, which all have their adherents.

In summary, policy dialogue is a traditional aspect of development co-operation. The essence of the most recent variant, its development policy goal, is marked by a one-sided emphasis on the “free market economy” and its procedure is characterized by an increased demand to exercise co-ordinated pressures by the donors. Within the cycle of development policy trends, this has to be seen as one reaction among many to the pessimism about aid.

In order to assess the chances of success, we want to try to analyze these aspects separately. The following two questions should be answered:

a) To what degree could an increased free market economy orientation guarantee the success of development? b) To what degree is the policy dialogue a suitable instrument for implementing this kind of an economic policy orientation in developing countries?

3. *More Development through Freer Markets?*

Firstly, the thesis which conservative development researchers have supported for some time is certainly of importance, that is, that the success or failure of development depends more upon the structures and policies within the developing country than upon the external factors from the world economy. Otherwise, the great variation in development among individual

developing countries, which exist essentially within the same global environment, could not be explained. This is especially applicable with respect to the influence of development aid and other development policy instruments. The success of development is neither significantly correlated with the amount of aid received, nor are all developing countries able to utilize the trade preference concessions with the same efficiency. However, it would be incorrect to conclude from this that the price of raw materials is irrelevant for the development of the exporting country – which is evident in the case of oil. There are also successful examples of development aid: South Korea and Taiwan can attribute their success partially to the massive American aid, but also to the fact that the traditional elites were deprived of their political power after the Second World War⁸.

If the internal structures and policies are decisive for the success of development, then the question is raised in our context which system promotes development better and more quickly, the free market system, or government interventionism or, respectively, a planned economic system? Statistical analysis offers no precise answer; in particular a reductionist type of comparison between the free market economy and socialism does not hold up under more detailed scrutiny⁹. A development policy maker cannot avoid the laborious task of analyzing individual case studies. By examining the existing structures for each country in each phase of its development, he has to decide what mixture of measures from market economy to government intervention is optimally conducive to development¹⁰.

Because of this, a further generalization has to be refuted: the general demand for a reduction of the role of the state and unilateral advocacy of the role of the state and unilateral advocacy of the private sector¹¹. Neither the one nor the other can meet the task which must be central for development policy: the development of “private” initiative on the part of those billions of poor producers who lack the knowhow, capital and political power needed to create wealth and to protect it from expropriation not by the government, but by the market and/or local “entrepreneurs/politicians”, the notorious elites in the Third World. Not (only) reducing state control over the private sector, but (also) reducing the private sector's control over the state (through corruption, clientelism, etc.) is one of the most important conditions for successful and social development in the Third World. As long as the state there primarily serves the self-interest of the “state classes”¹², there can be no progress in this direction. More market may be helpful here because the imperfections in the market in the broadest sense are what the elites profit from. To remedy this, however, a strong state is required which acts in the interest of the majority.

The goal of the policy dialogue, strengthening the market economy, has certainly turned out to be a goal which cannot unquestionably be accepted;

however, in spite of this, we will examine to what degree the instrument of policy dialogue is suited to achieving this goal.

4. *Poor Prospects for Models of Development Co-operation*

The interest of one nation in the "development" of another nation is, first of all, something new in the history of international relations. Before 1945, this was almost entirely unknown, and after 1945, it took place only under the influence of the systemic competition between the East and the West and the replacement of the colonial relations by the (neo-colonial) relations between formally independent countries. "Aid", that is, public capital transfers at reduced costs as an instrument to promote the development of another country, was still something exceptional¹³. At the beginning of the Bretton Woods era, there was a certain interest in (reconstruction and) development, but this was supposed to be attained by free trade, private investments and solid economic policies in the underdeveloped countries. The readiness to grant "aid" increased as pressures on foreign policy increased. The communist victory in China, and the Korean War lead to the first increase in military aid to the front-line countries, which was already accompanied by economic aid. The second phase of expansion was brought about by the Cuban Revolution and the Soviet (aid) offensive in the Third World (e.g. the Aswan Dam).

This is not the place to recapitulate the history of development aid¹⁴. However, this history does show that foreign policy interests were primarily the basis for development aid. The primary goal of co-operation was to ensure stability and establish pro-western orientation rather than "development" as such. Along with the foreign policy interests, international economic policy interests used co-operation for opening up and securing export markets, access to raw materials and foreign investments. These goals also appeared to be in unison with the goal of development. And finally, the organisation of development co-operation has developed an administrative and institutional self-interest which today, along with the above-mentioned interests, is essential in determining the specific form of development aid. Only optimists believe that development goals can prevail against the triumvirate of foreign policy, foreign economic policy, and aid administration¹⁵.

The goal of development as such is, however, far more complex especially from the perspective of the developing countries themselves. It is quite questionable to what degree it is compatible with the uppermost goals of political stability and the mutual economic benefits of the North and South. Economic development changes the income opportunities of large groups and hence the social structure in the developing countries – a process which can hardly take place without political conflicts. The growing economic and

political power of the developing countries can – at least temporarily – endanger the interests of the industrialized countries (e.g. export of finished goods, raw material cartels).

Each model for development policy co-operation thus has to assert itself within a political environment which is dominated by other policies and interests. It can only be carried out to the degree with which it does not conflict with these interests, either because other interests have left a vacuum to be filled (e.g. in countries without great strategic and economic importance or because they coincide (by chance) with the development policy. Policy dialogue will probably be on a collision course, however, both with respect to its contents and its means of implementation.

5. *Policy Dialogue on a Collision Course with Foreign Policy*

Policy dialogue can count on having uncooperative partners on two fronts: a) on the side of the developing countries with their respective governments, b) on the side of the other donors.

With respect to a): The experiences of the IMF's stabilization programmes have shown what conflicts can develop between a (multilateral) donor who is demanding political changes, and the governments of the developing countries. And it would be incorrect to assume that this is only because the IMF conditionalities as a rule are painful. Practically all of the political changes envisioned in the policy dialogue are not impartial with respect to the question of distribution, but on the contrary are concerned with the income of large groups and/or the privileges of important elites. Apart from the topics at issue, no country, and especially no usually nationalistic developing country, is particularly willing to let its policies be externally dictated. Moreover, in most cases the donor is not in a position to assume full responsibility for the policies which he has prescribed. No-one can accurately predict what effects economic policy measures will have, and in the case of changing the character of the economic system, the resulting costs would probably far exceed the capacities of development aid.

Because as a rule a developing country is not dependent on a single donor for the financing of a project, it does not have to put up with being told what to do by a donor (the exception being the IMF). Often the situation is reversed: numerous donors are in competition with one another for the few good projects. Only a co-ordinated procedure can promise success – this, however, leads us to point b).

With respect to b): For every donor country, development policy is an important foreign policy instrument with respect to the Third World and – to a lesser extent – a foreign economic policy instrument. This applies particularly

to the important donor countries the U.S.A., France and Great Britain. Although the basic foreign, economic and development policy preferences of these countries (and the other OECD countries) are probably fairly similar, there are in addition to these countries the member nations of COMECON and OPEC, multilateral donors without majority control from the OECD within the UN (19 UN organisations!)¹⁶, several hundred non-governmental organisations and private "donors" such as banks, export credit institutions, and investors. Even public aid is often administered by several organisations within the donor country, which probably have different priorities and institutional rivalries. For all of these donors the development goal is subordinate to their own national, institutional interests although they surely often may be compatible – particularly if "development" is the formal goal of the respective institution.

Co-ordination hardly works in a process which is aimed at the long term goal of development and which, furthermore, suffers from a variety of competing goals. Past experience confirms this, too. Only in cases of an explicit crisis in which a specific goal gains absolute priority, e.g. re-establishing the solvency of a country, is co-operation successful¹⁷. This may also be the case for instances of severe natural catastrophes or in cases of acute famine.

6. *From Policy Dialogue towards Strategies of Alliance with Agents of Development*

The policy changes aimed at by the policy dialogue represent massive intervention in the internal politics of the developing countries. A system of alliances and enmities among groups within the developing countries and the donor countries inevitably develops on the issues of the policy dialogue. On the part of the donor country, it may be primarily the government as such which supports by its foreign policy a specific group in the developing countries which, in turn, may or may not be the government of the developing country itself. The IMF is aware of this fact, as different conditionalities for different governments with different political problems have shown¹⁸.

For one government to assist another might be relatively easy and correspond with the traditional concept of stabilization of an allied regime. In this case the respective government of an industrial country already exposes itself to internal criticism if it supports a friendly government in a developing country but one which is repressive and opposed to development. However, it is well-known that there are cases where the donor governments support the opposition – including quasi-military aid, e.g. the U.S.A.'s support of the "Contras" and UNITA. Evidently no consensus exists among the donors – neither among Western ones, and most certainly not when the COMECON

and OPEC donors are included – with respect to which countries and which groups within the countries deserve support. Highly differentiated, democratic systems of development co-operation as, for example, in the Federal Republic of Germany even simultaneously help – partially through non-governmental organisations – competing or enemy parties and groups within developing countries. The development goal usually has to subordinate itself to the strategies of alliance. It is practically impossible to threaten withdrawal of aid to force reforms from governments whose stabilization is actually intended¹⁹.

A development policy which is aware of this state of affairs also has to conceptualize a strategy of alliances which

- is politically viable within the industrialized countries,
- supports those groups in the developing countries which can carry through a real development process, and
- can be implemented with the existing (or new) foreign policy instruments.

Such a model could be, for example, the "leftist – Keynesian" model by Elsenhans²⁰ which suggests an alliance between the poor in the developing countries and the labour movements in the industrial countries within the framework of a global model of growth and development based on increasing the purchasing power of the masses. Development co-operation should – definitely in the meaning of the policy dialogue – be linked with a corresponding economic policy in the developing countries. A viable internal political coalition supporting this policy does not (yet) exist in the industrialized countries, not to mention within the developing countries.

The "predominant" model of policy dialogue of world-wide freeing of market forces will probably fail in particular because of its lack of strategies of alliance. Its market euphoria assumes a functioning diversity of "free", small producers who only have to be freed from the yoke of the state. They do not exist in this form, and where they do exist, they are politically and socially on the "wrong" side of the global conservative structure of alliances. To change sides is probably not very easy – desirable as it may be. The individual cases of success (which still have to be proved) such as in the Philippines should not mislead one about this.

NOTES

¹ With respect to the recent history of ideas on development policy approaches, cf. Dauderstädt/Pfaffer, "Bestandsaufnahme und Bewertung neuer entwicklungspolitischer Ansätze", Munich/Cologne/London 1984.

² To mention a few of the supporters of this idea: P. T. Bauer, *Dissent on Development: Studies and Debates on Development Economies*, Cambridge, Mass. 1972, B. Balassa "Policy Reform in Developing Countries", London 1977, and *idem*, "Development Strategies in Semi-industrial Economies", Baltimore 1982, A. O. Krueger, "Liberalization Attempts in Developing Countries", Washington 1978, the study by the Institute for Economic Research (Ifo-Studie) commissioned by the Federal Republic of Germany's Ministry for Economic Affairs (BMWi), ("Wirtschaftsordnung, sozioökonomische Entwicklung und weltwirtschaftliche Integration in den Entwicklungsländern", Bonn 1982), The World Development Report 1983, esp. Chap. 6, etc.

³ Cf. EEC Commission, "Memorandum on the Community's Development Policy" ("Pisani-Memorandum") Brussels 1982.

⁴ Cf. OECD-DAC, "Development Co-operation. Efforts and Policies of the Members of the Development Assistance Committee" (1983 Review), Paris 1983, p. 119 ff. (List on p. 126 f.) and OECD-DAC, "Twenty-Five Years of Development Co-operation. A review" Paris 1985, pp. 195–209.

⁵ Cf. the guidelines, especially points 42. increasing efficiency, 43. parameters, 44. Policy dialogue and 45. co-ordination and the evaluation of the advisory council ("Wirtschaftsordnung und Entwicklungserfolg", Cologne 1985) the article by O. Matzke in the NZZ from 13. 3. 86.

⁶ From 1946 on, the British required plans (c.f. Conyers/Hills, "An Introduction to Development Planning in the Third World", Chichester etc. 1984, p. 43).

⁷ Cf. the above mentioned World Bank, UNDP and other co-ordinating groups which the OECD describes in her review (see note 3).

⁸ Cf. B. Cumings, "The Origins and Development of the North East Asian Political Economy: Industrial Sectors, Product Cycles and Political Consequences", in: *International Organization* 38/1 Winter 1984.

⁸ With respect to a critique of the Ifo report mentioned in note 2, which belongs among the one-sided advocates of the thesis of market superiority in the economy, cf. e.g. Dauderstädt/Pfaffer 1984, *ibid.*, p. 85 f., M. Dauderstädt, "New Games for Old Games. The Anatomy of Aid", Bonn 1984, p. 13 and – the most detailed – Wilkens et. al., "Wirtschaftliche, soziale und politische Bedingungen der Entwicklung. Ein Beitrag zur Erklärung von Entwicklungserfolgen in Ländern der Dritten Welt", Munich/Cologne/London 1985, p. 69 ff., especially p. 82 ff., which is once again summarized in D. Schumacher, "Marktwirtschaft: Kein Patentrezept für Entwicklungsländer" *DIW-Wochenbericht* 48/1985, p. 547 ff.

¹⁰ Cf. the synoptic evaluation by Fertig/Kebschull "Auswirkungen von Eigenanstrengungen auf den Entwicklungsprozess", Munich/Cologne/London 1985, p. 361 ff., which also support the following theses about a reduced role of state intervention and the role of the private economy.

¹¹ With respect to the dialectics of these three aspects in more detail: M. Dauderstädt 1985, *ibid.*, p. 15–16.

¹² C. F. H. Elsenhans "Abhängiger Kapitalismus oder bürokratische Entwicklungsgesellschaft. Versuch über den Staat in der Dritten Welt", Frankfurt/New York 1981 and *idem.*, Nord-Süd-Beziehungen. Geschichte – Politik – Wirtschaft" Stuttgart etc. 1984.

¹³ Although international loans have always been an instrument of international politics (c.f. A. Vagt, "Bilanzen und Balancen. Aufsätze zur internationalen Finanz- und zur internationalen Politik", ed. by H.-U. Wehler, Frankfurt/M. 1979).

¹⁴ A short survey is given by J. Edelman Spero "The Politics of International Economic Relations", New York 1985, p. 179 ff. or from a more official perspective OECD-DAC, "Twenty-Five Years of Development Co-operation. A Review" Paris 1985, p. 39 ff.

¹⁵ The OECD (cf. OECD-DAC, *ibid.*, p. 14) advocates, in line with its nature, such an optimistic position; with respect to criticism of this, cf. M. Dauderstädt 1985, *ibid.*, p. 21 ff.

¹⁶ Cf. OECD-DAC 1985, *ibid.*, p. 195.

¹⁷ Cf. C. Prout: "Finance for Developing Countries: An Essay", in: A. Shonfield (ed.): "International Economic Relations of the Western World", London 1976, pp. 306–404. Prout writes: "Whereas co-operative ventures proved extremely difficult to mount, let alone to operate successfully, in normal times, they made remarkable headway in the white heat of crisis – a conclusion which adds some weight to the contention that whereas nation states are weak at contingency planning, they are rather effective at crisis management" (p. 360).

¹⁸ Cf. in general about the political and societal aspects of the IMF measures: D. Radke, "Außenpolitik und Politik-Dialog in der entwicklungspolitischen Zusammenarbeit" Berlin (DIE) 1985, and as a case study, B. Stallings, "Portugal and the IMF: The Political Economy of Stabilization" in J. B. de Macedo/S. Serfaty (eds.) "Portugal Since the Revolution: Economic and Political Perspectives" Boulder 1981, p. 118 ff., where they compare the conditionalities for Portugal with those for England and Italy.

¹⁹ As ascertained by J. D. Montgomery in 1962, in "The Politics of Foreign Aid. American Experiences in South-east Asia", New York, p. 148.

²⁰ Cf. H. Elsenhans, *ibid.*