

## Chapter 3

# Opportunities and Challenges for Development

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### ABSTRACT

*This chapter aims to provide an analysis of compelling conditions which are faced by developing economies in the current phase of the globalization. Globalization provides opportunities for developing economies yet it also causes difficulties at the same time. Effects of globalization on developing economies depend largely on deliberate policies that must be followed by the governments and support of the people alongside public authorities in designing such public policies. For market operations cannot secure optimal results for developing economies, the fate of a developing economy cannot be fully left to private markets' mercy so that public intervention often becomes a necessity.*

### INTRODUCTION

A new era has emerged in the capitalist world towards the last decades of the twentieth century. The new era, which is referred to as “neoliberalism”, reflects the expansion of market mechanism throughout all economies with its pure form without any governmental intervention. Such a pure market mechanism establishes itself in a Nozick-type “minimalist state”, which is responsible only for providing pure public goods and services. In a minimalist state, it is assumed that each person is a separate being who has the sole right to live as s/he wishes, provided s/he is respected and

s/he respects the right of others (Tanzi, 2011, pp. 22-23). The Nozick-type minimal state inherits its philosophy from Locke tradition that highlights right and liberty and admits Smith-type economic organization at the first sight. Though Smith and Nozick resemble each other in their philosophies in perceiving the state responsible solely for allocative function, they are located historically at the opposite ends. Smith is located at the very beginning of capitalism whereas Nozick locates himself at the latest stage of the system in which the structure has been changed because of enormous alterations in terms of allocation and distribution.

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Throughout the entire period, both the theory and the subject matter of public finance has changed together with its implementation tools according to the changes that have occurred in capital structure and have given rise to both social and economic problems. Thus, at the present stage the functions of the state have been organized in a very complicated shape according to the needs of modern economies. Therefore, currently the Smith-type state and Nozick-type state cannot be taken as substitutes of each other. The difference between these two types of states is not structural, but due to the changing economic conditions and alterations in power relations in societies it is deeply essential. Having this in mind, I will try and demonstrate that defending neoliberal policies as they are established by the Washington Consensus implies complying with the dominance of ruling powers of the system both at international and intra-national levels.

For the purpose of lifting the shadow of the ruling power on the system, it becomes obvious that at the present stage of capitalism, public guidance and public policies should gain importance in the face of deterioration of income distribution and imbalanced power relations. Therefore, it is of crucial importance to take the economic position of developing countries into account and apply policies according to their needs rather than adapting prescribed policies without inspecting their probable effects on such economies carefully.

Neoliberalism as an economic philosophy has pervaded and is still pervading almost all economies by means of globalization as a tool of enlarging its area of coverage extensively on the one hand, and by means of financialization as a tool of extending markets on the other. Thus, the pervasiveness of neoliberalism by globalization caused separate markets of each economy to undergo a deep modification in their original natures and take a uniform shape. This alteration led to the elimination of separate markets in different economies and forced them to adapt the implied market type by neoliberalism.

Thus, a strong belief in market as the sole mechanism of allocation and distribution dissipated all around capitalist economies without questioning cons and pros in terms of probable outcome (Panitch & Gindin, 2012, Ch. 7). Such a change assumes that all economies are of the same nature and are at the same level of economic development, thus establishing common rules will enhance economic welfare in each of them. It is interesting to note that a similar issue did arise during the formation of European Economic Cooperation (originally called the Common Market). The dominant view then was to harmonize economic and tax policies in the union member states with the aim of achieving a united Europe at the ultimate stage.

However, an opponent approach defended the view that not similar policies but, just the opposite, different policies should be pursued in different economies according to their necessities in order to synchronize the basic structures in the long-run (Dossier, 1967, pp. 9-10). However, in both the European Economic Community previously and in the European Union at the final stage economic and fiscal tools have been harmonized. To evaluate the result of harmonization, it is sufficient to trace the developmental trajectories of different economies and see the result of 2008 crisis on different economies of the European Union (EU).

Therefore, it is obvious that discussing the opportunities and challenges faced by a developing economy in the era of neoliberalism, during which tremendous changes are frequently taking place, requires an in-depth analysis of changes that occur in the economy. In the neoliberal era, developing countries are put in a keen competition among themselves while they get massive invasion and influence from developed economies simultaneously. Thus, the analysis should follow two paths. First, the changing world conditions will be explained very shortly by demonstrating the tools and the inner philosophy of neoliberal policies. Second, a condensed definition of the nature of a typical developing economy will be presented

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