

# The eclipse & return of infrastructure & industrialization

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# Eclipse of infrastructure & industrializn

- **1972:** McNamara made first visit to Somalia by WB president. Pledged loan to build a port. This port remains Somalia's only functioning port.
- **2014** Jim Kim made 2<sup>nd</sup> visit to Somalia by WB president. High point: WB has devised a way to help Somali govt use mobile phone surveys to track the # of poor people in Somalia quarter by quarter.
- No loan for port upgrade, road, water, electricity

# Inside the World Bank

- I joined in 1984, left in 1988
- By 1988 the whole “zeitgeist” of foreign assistance had begun to change: away from industrialization & agriculture, towards “poverty”, “social”, “health”, “environment”, “governance”, AND “market liberalization”
- Staff with expertise in “production” were invited to find employment elsewhere, or rebrand as experts in one of the new subjects

# My trip to Addis Abbaba 2005

- With Joe Stiglitz & Akbar Noman
- We met with representatives of all western aid agencies, asked each to summarize priorities of their agency.
- Not one identified “infrastructure” or “production”. All said “social”, “primary health”, “primary education”, “governance”, “trade facilitation”

# Example: Millennium Devt Goals (MDGs)

- Formulated after 2000, for DCs, mainly by rich country agencies.
- Defined development “down”, set “low-bar” goals
- Goal 1: reduce “extreme poverty & hunger”; another, “completing primary school”; another, “ensuring environmental sustainability”.
- No goals for econ growth, increased productivity, prosperity, secondary education, job skills, university, research.

# Example: USAID

- USAID recent mission statement: “We partner to end **extreme poverty** & to promote resilient, democratic societies while advancing **our security & prosperity**”.
- So: USAID promotes “prosperity” in USA, & “extreme poverty” reduction in countries where prosperity lacking
- “Extreme poverty” = < \$1.25 / day. This excludes 5 bn people in world who are < OECD poverty line

# Example: USAID & HIV/AIDS

- USAID in 2012 spent more on HIV/AIDS than on **total of**:
- Infrastructure; agriculture; private sector competitiveness; education; administration & oversight; environment
- Yet: median Ethiopian consumes 52 kwh of electricity, median American 13, 250 kwh, or 1: 255

## Fate of challengers: Justin Yifu Lin, WB chief economist 2008-12

- Lin the first ever non-G7 chief economist of WB (almost all, US or UK).
- He championed modest form of IP (“within **existing** comparative advantage”), under the name “new structural economics”
- He says: < 10% of WB economists persuaded.
- Senior economist in Lin’s VP: “For every Korea there are 100 failures. Who wld you put your money on??”



# Why the change in western development agenda?

- **From post-war** “national prosperity” & “industry” & “agriculture”, **to post 1980s** “reduction of extreme poverty” + market liberalization
- **Why does the change matter?** Because the change in western aid agenda pulled national development agendas in same direction, in many DCs. They too de-emphasised production & industrialization.
- WB today still important as source of IDEAS, NORMS

# Independent variables:

- (1) end of Cold War & change in geopolitical strategy of West
- (2) ascendancy of idea: “free market works best”, except for “extreme poverty”
- (3) business & NGO pressure on western govts
- (4) continued western control of development-related IOs

# Independent variable 1: from Cold War to post-Cold War

- **Cold War:** aid = key weapon to stop (certain) DCs falling into Soviet/Chinese orbit – by building prosperous capitalist economies. Eg Jpn, S Korea, Taiwan. Lots of “industrial policy”, “governing the market”; little poverty-focused programs.
- USAID, WB et al.: lots of engineers, industrial policy experts, etc.

# Result of end of Cold War

- As Cold War ended, this imperative fell away.
- Replaced by euphoria about “progress”: democracy spreading, dictatorship receding, Asia booming, European Union coming together, Mid East conflict lessening
- World moving towards pluralism, individualism, prosperity, freedom – thanks to globalization, free markets, limited & liberal government → “End of history”

## (2) ascendancy of neoliberal development economics

- Need for a sub-discipline of “development economics” denied; only “monoeconomics”
- Development best achieved by “free market policies & private sector firms”, with state providing the Adam Smith functions. Plus special attention to where “free market” not work well – people in extreme poverty.
- Deepak Lal, **Poverty of ‘Devt Economics’** (1983). “Washington Consensus” (1990)

# (3) business, NGOs, foundations

- WB's move out of infrastructure & industry into "social" encouraged by western private firms wanting "public-private partnerships" with DC govts
- NGOs effectively mobilized "anti-WB campaigns" focused on infrastructure & industrial projects
- More recently, huge rise in alternative sources of finance for infra & industry: China DB, China & India Ex-Im banks, BNDES, etc. Which reduces demand for WB loans for infrastructure & industry
- Also, more recently, rise of GATES, other foundations

## Result of (1) – (3): gap b/w western aid priorities & priorities in DCs

- WB, USAID, DfID etc. give aid for **low** priorities of respondents in dev'ing countries
- **World Values Survey**, Ronald Inglehart, 1995-2014. People asked to prioritize goals for their country: economic growth; more say about how things are done; beautiful cities & countryside.

# What % ranked “higher econ growth” as top priority?

- In median DC, three-quarters named “higher econ growth” as top priority.
- In median AC, many fewer
- In country cross-section, countries with higher GDPPC have lower % of respondents who put economic growth, income, jobs, production, in top 3 priorities “for their nation”



# Afrobarometer surveys

- “In yr opinion, what are the most impnt problems facing this ctry that govt shd address?”
- Top 3 priorities grouped into 8 categories.
- Jobs/income, infrastructure, econ growth listed in top 3 by 2/3 - 3/4 respondents.
- Cf health (7%), education (4%), governance (1%)

Puzzle: WB etc are **inter-state** orgns,

SO ...

- Why is **WB** agenda shaped by **western** (especially US/UK) priorities, given that **large majority of members are DC governments ?**

# Indept variable 4: IO governance

- US & other western states keep the lead in WB & other relevant IO s
- **Note sheer oddity of western states continuing to rule IO s for the world** – even as some EMDCs reach shares of world GDP > many western states (for first time in two centuries)

# EMDC responses to blockages in IOs

- (1) **Voice**: press for bigger share of votes & more senior positions
- (2) **Exit**: create alternative organizations:
- eg Asia Infrastructure Investment Bank, New Devt Bank, Devt Bank of Latin America (CAF – which in 2012 lent more for infrastructure in LA than WB + IDB combined), BNDES; Contingent Reserve Arrgt, Chiang Mai Initiative
- Q: Where NDB & CRA to be headquartered?  
China said: Shanghai. Other BRICS said: “we don’t want another Washington”.

# Conclusion 1: aid partners beware!

- Western aid & development advice – including from World Bank – has long reflected values of western publics, which sanction the “humanitarian impulse” but not use of “our” money to boost “their” prosperity.
- The aid agenda has been allowed to have too much influence on national devt strategy

# Return of (new) industrial policy?

- Current shifts in “tectonic plates” of world economy (eg BRICS, G20) provide opportunities for DCs (eg Pakistan) to undertake more strategic approach to industrialization than in past
- Also, DCs typically have more volatile growth than ACs, & industrial diversification can stabilize
- Also, MICs face “middle capabilities” trap, which state “governing” of markets can help escape from

# The developmental state?

- Developmental state Mark 1 (E Asia, Brazil 1950s-70s, France post-war): capitalist state leads devt of **indigenous** firms across broad range of global industries (eg cars, chemicals, electronics), capable to acting as first-tier suppliers of MNCs & competing head to head.
- Today, with well-established MNCs & GVCs, only few DCs with large internal mkts have this option

# Developmental state Mark 2

- Mark 2 potentially viable: state acts strategically, imparting directional thrust, attracting segments of global industry to its territory
- Industrial policy assistance must be given against performance conditions, withdrawn when conditions not met or when assisted products competitive without assistance



# ISI & EOI are complements

- The evidence used to discredit ISI & boost EOI does not survive scrutiny. It is credible only to people who believe ideologically in “the free market”
- “Import replacement” and “export promotion” are “two wings of same bird”.

# WTO rules?

- Vinod Aggarwal & Simon Evenett (2010): Since 2008 recession many ACs & DCs have increased “policy selectivity” by sector, location & ownership.
- Generally avoid tariffs & QRs. Use “murky protection” (public procurement, targeted subsidies, often called “green”)
- So, **amount** of IP increased after 2008. **Composition** of IP instruments affected by WTO rules.

# High income concentration is constraint on IP

- If IP attempted in context where (a) high income concentration, (b) elite uses its position to consume or “financialize” rather than productively invest, IP will not be effective
- Legitimacy of small elite appropriating large % of national income rests on its capacity to use it productively – to boost national investment
- Share of income accruing to top 10% / private I/ GDP.  
Korea: > 100%; rest of E Asia = 66%; LAC = 33% US  
(1980) = 53%, (2010) = 33%
- Pakistan?

# CONCLUSION

- I noted eclipse of industrialization & infra in aid agenda, & gave several reasons – which relate to priorities of western states, NGOs, publics for themselves & their nation. This leaves gap with priorities of govts & publics in DCs
- I noted new opportunities for DCs to invest more in industrialization (eg new sources of devt finance); & argued scope remains for Mark 2 developmental state (with room to manoeuver around WTO rules)
- But it (& IP) will be ineffective if income concentrated & elite does not emphasise investment in real economy

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# CONCLUSIONS: global regimes fragmenting

- Cycle of world order: hegemonic order → balance of power order → hegemonic order. May take 50-100 years
- Now US hegemony eroding → contestation, balances of power
- Economic rise of some DCs, notably China, driving tensions in global governance, as western states try to protect their power
- Regimes for trade & investment becoming more fragmented (eg WTO)
- Multiple sources of long-term finance becoming available

## Independent variable 2: values of western publics

- Once Cold War imperatives lifted, aid agenda shaped by **priorities of public in ACs** for their nation
- **World Values Survey**, Ronald Inglehart. 1995-2014. People asked to prioritize goals for their country:
  - economic growth
  - more say about how things are done
  - beautiful cities & countryside.

# “Materialist” & “post-materialist” priorities

- What % ranked “higher econ growth” as top priority?
- In median DC, three-quarters named “higher econ growth” as top priority.
- In median AC, many fewer
- Positive correlation b/w GDPPC & post-materialist priorities



# How western states keep lead in IMF?

## 1. Managing Director

- Managing director (MD): always European
- First Deputy MD: always American

# IMF: 2010 governance reform saga

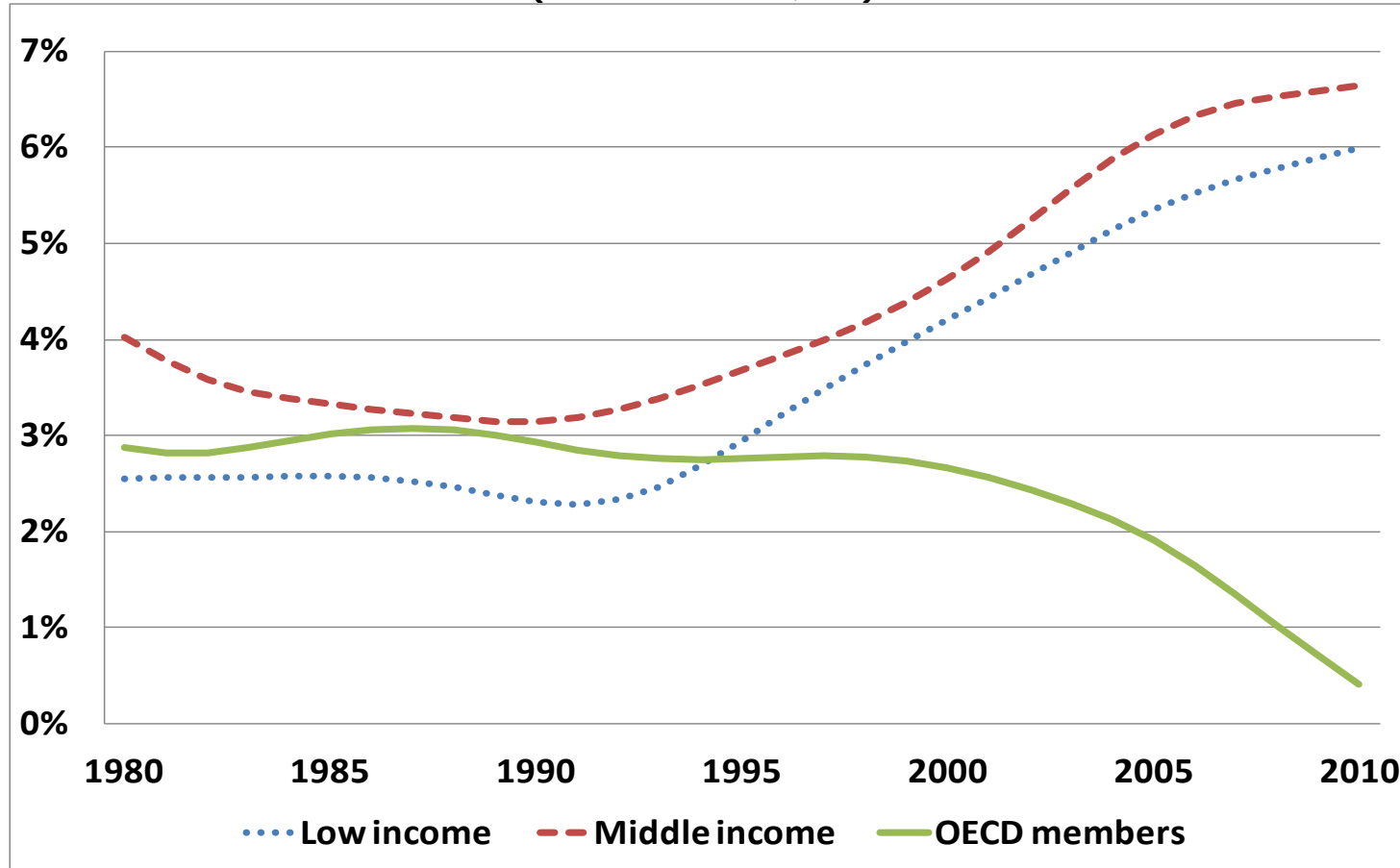
- 2010 governance reform (mandated by G20):
- (1) doubling of “quota” (**secure** lending resources)
- (2) allocation of most of the quota increase to EMs, to raise their share of votes (status quo: Germany + France = 10%, China + Brazil = 5%)
- (3) “advanced Europe” to give up 2 of its 8 (9) chairs on 24 chair board.

# IMF 2010 reform saga (ctd)

- Subject to ratification in capitals.
- All capitals ratified – except US Congress
- USC refuses to ratify. US is only state with veto over supermajority decisions.
- Therefore reform not implemented.
- EMDCs angry.
- Any move to remove US veto can be vetoed by US

# Smoothed annual growth rates, 1980-2010

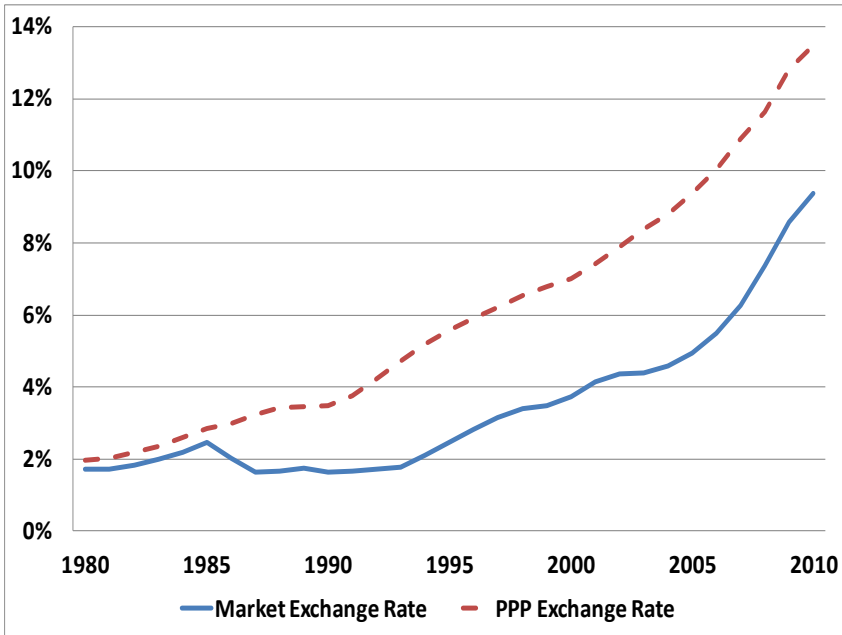
(Hodrick-Prescott filter)



Source: DEV calculation based on WDI data

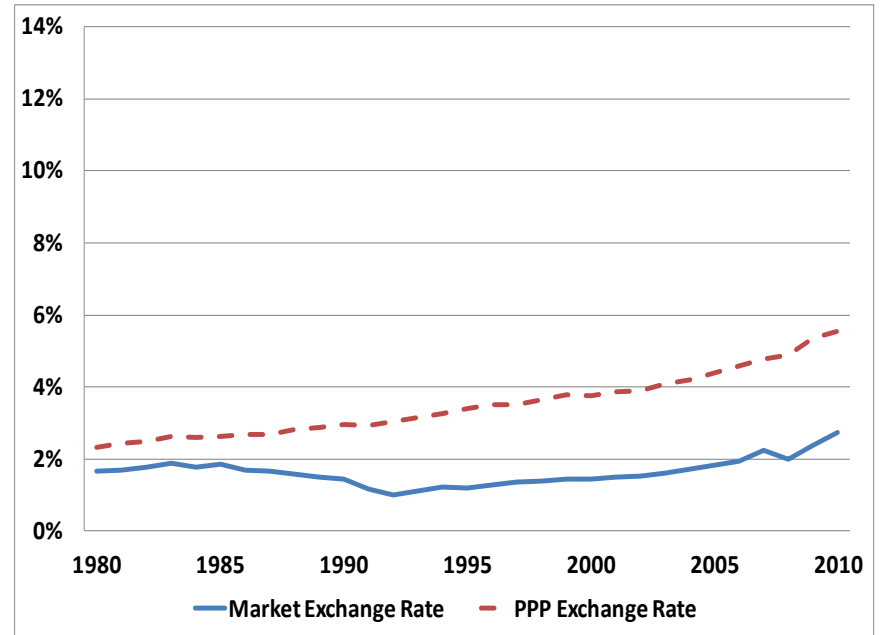
# China

% of world GDP

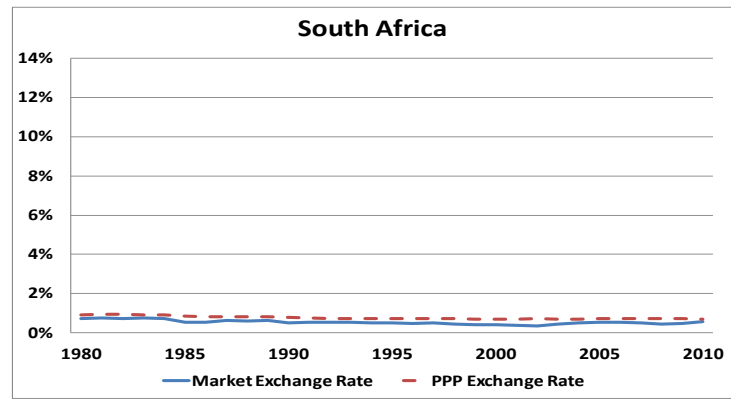
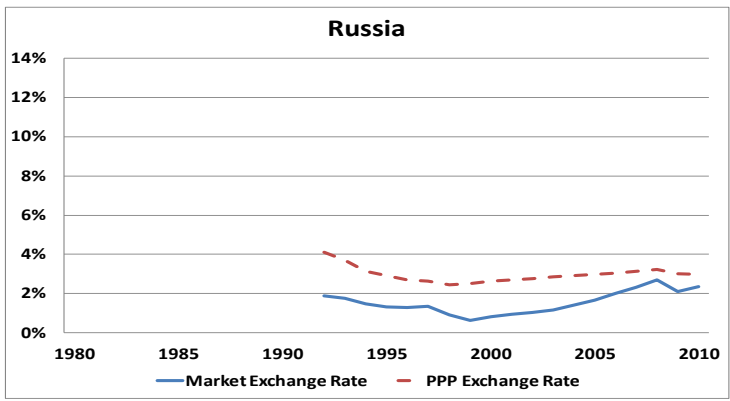
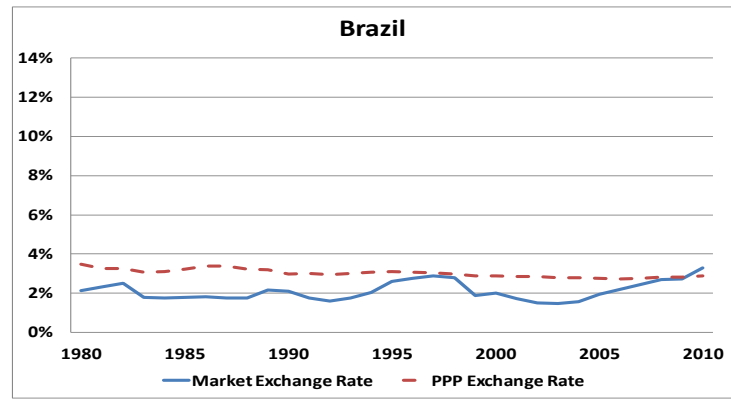
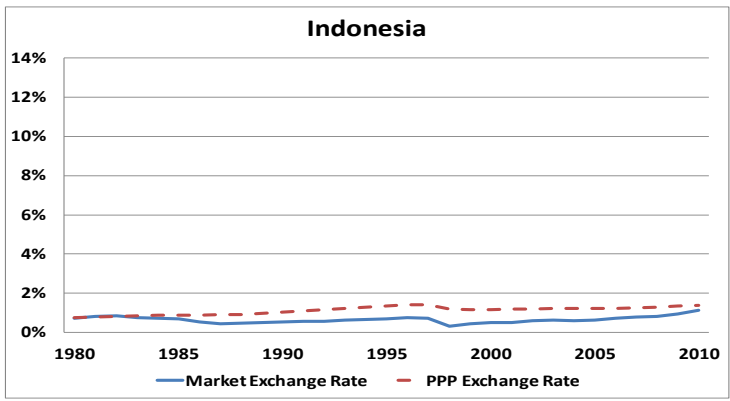


# India

% of world GDP



# Indonesia, Brazil, Russia & South Africa, % of world GDP



# How do western states keep lead in WB? 1. Presidency

- (1) US has monopoly on presidency of WB (CEO + chair of board), thanks to gentlemen's agreement with Europeans re IMF
- Eg the case of current President Jim Kim, appointed 2012, against competition from plausible DC candidates (for first time ever): Ngozi (Nigerian finance minister, ex MD of WB) & Ocampo (ex Colombian minister of economy, ex deputy SG of UN)

# Surprising appointment of Kim

- Why was Kim selected as US nominee?
- Geithner stuck to Larry Summers as US nominee till White House vetoed at last minute. Scramble. Bill Clinton knew Kim from Clinton Fn. Kim expert in HIV/AIDS in poor c'ies. Harvard Medical Schl, WTO, president of Dartmouth. Hillary nominated Kim just in time. Obama telephoned Kim.
- Kim -- no experience in: large organization, most sectors of Bank work, financial markets, or policy-making. White House no feedback on Kim's performance at Dartmouth.
- 2 other plausible DC candidates: Ngozi & Ocampo
- They all travelled to capitals seeking support. Just about everywhere Kim ranked last.
- But US Treasury cut the deals with capitals... All but 3 out of 25 EDs voted for Kim



# Kim's contribution

- “Kim knows how to convert unhealthy people in a poor country & into healthy people in a poor country”
- The ongoing reorganization of WB (for past 2 yrs ) is widely described as “disaster”.

# How do western states keep lead in WB? 2. Votes

- Pre-2010: “dev’ing & transitional c’ies” (DTCs)  
= 42.6% of votes
- 2009: G20 instructed shift of at least 3  
percentage pnts to DTCs
- 2010: WB announced increase in DTC share to  
47.2%. “Epochal change”, “almost parity”

# 2010 not = “epochal change”

- (1) “DTC” include many HICs that do not borrow fr WB. In 2010 agreement, HICs retain 61.6%.
- (2) Voting share/ GDP share varies from Belgium = 3 to China = 0.5
- (3) By 2014 G7 c'ies had regained or exceeded their pre-2010 voting shares
- (4) By 2014 the net gain in voting share of MICs + LICs = 0.46%

# Marginalizing IO s not led by G7

- Eg UN General Assembly (one country one vote): eg fate of “Stiglitz Commission” of 2009 to investigate causes & effects of North Atlantic financial crisis
- Eg UNCTAD
- Eg UNIDO

# CONCLUSIONS: changes in western markets

- Industrial strategy for DCs has to be framed in relation to “third industrial revolution” (ever smarter machines).
- In West, job creation not keeping pace with automation, paid work for human beings becoming scarcer, share of “labor” in national income shrinking, share of “capital” & top 1% (top 0.1%) increasing.
- Consequences for production & export strategies of DCs?