Towards inclusive development in Africa - in a comparative perspective with Asia

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Presentation at JICA Research Institute

21 September 2011

Outline

- Q: How globalisation has affected the process of economic development and its impact on inequality and poverty in the South
    - Transmission mechanisms in the globalisation-inequality-poverty-nexus
- Q: Empirical regularities:
    - Divergence in performances within the South
    - African experiences in a comparative perspectives with Asia
    - Synthesis
- International and Institutional Traps in SSA
    - International Trap –
        - The Debt-Aid-Development Trilogy in Africa;
        - Structural Changes in Governance of Commodity Markets;
    - Institutional Trap
        - Difficulties in nation-state building in the absence of mutual beneficial engagements between private agents and public sectors
- Policy Implications and Research Agenda- towards shared growth and inclusive development

Globalisation : Its Impacts on the World’s Poor

Transmission Mechanisms: an analytical framework tracing the effects of globalisation

Background Debate

Globalisation-Inequality-Poverty Nexus:

- Questions:
  - How does globalisation affect the poor in the developing world ?
  - How potential benefits of globalisation are shared?
  - The downside of globalisation – Who bears most the risks and costs?
  - Whether the observed changes in inequality (both 'between-countries' and 'within-countries') and the observed poverty dynamics are related to globalization?
  - How to explain the discrepancy in the integration experiences in relation to the link between growth and poverty reduction among the developing regions: (East) Asia vs SSA &ECLAC

Introduction : Debate

- Controversy in the Debate
  - Globalisation is a policy -induced condition, heavily relying on market mechanisms
  - Two forces for globalisation:

    as a Technology-Driven Phenomenon

    vs

    Globalisation associated with *Policy Choices for Liberalisation, Deregulation and Privatisation (pursuing Neo-Liberal Agenda)*
- The polarlised debate
  - Growth with globalisation is the only way to eliminate poverty – "win-win process"

    vs
  - A conspiracy by large corporations and financial institutions – "winner takes all processes- anti-globalisation movements"

Transmission Mechanisms

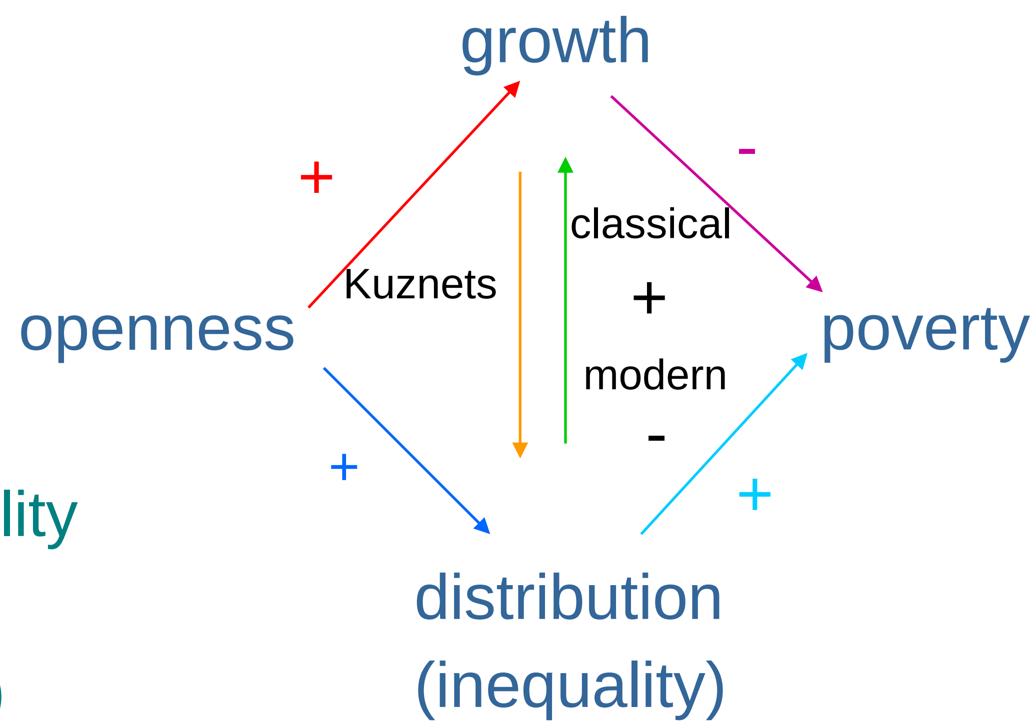
- The Globalisation-Inequality-Poverty Nexus
  - The globalisation-poverty relationship is complex and heterogeneous, involving multifaceted channels.
  - It involves several thresholds effects.
  - Each link within the chain globalisation-growth-income distribution- poverty nexus is contentious and controversial.
  - Multifaceted channels interact dynamically over time and space, so the net effects of globalisation on the poor are context-specific and cannot be captured in cross-country regressions which require precise measurements, definition of globalisation and poverty.
- Two main channels of globalisation on poverty: through Growth Effects and Distribution Effects

Channels and Transmission Mechanisms (Cont'd)

- The Growth channel (the effects of globalisation on income inequality and poverty filter through economic growth)
- The Distribution channels through which globalisation can produce winners and losers affecting both *vertical* and *horizontal* inequality and poverty dynamics
  - changes in relative factor and good prices;
  - Differential cross-border factor mobility and associated changes in global market and power structures;
  - the nature of technical progress and the technological diffusion process;
  - the impact on volatility and vulnerability;
  - the impact on the flow of information;
  - Global disinflation and erosion of the re-distributional capacity of the nation-states
  - Institutions acting as a filter intensifying or hindering impacts

The Globalization-Openness-Growth-Distribution (Inequality)-Poverty Nexus

globalisation →



Trade & investment

Capital &labour mobility

Technology (nature, access and diffusion)

Knowledge transfer

Information flows

Institutional environments

Globalisation-Inequality-Poverty : the Growth Channel

- *The Openness-Growth Link*
  - Through trade and FDI, technology transfer: the direction of causality and how they may be inter-linked into a virtuous circle;
  - the positive openness-growth link is neither spontaneously achieved nor universally observable.
  - The effect of financial flows (short term portfolio flows/hot money): The effects of financial globalisation on growth and the increased vulnerability to external shocks.
  - the growth-enhancing effects of openness depend critically on the nature and processes of integration;
  - Greater integration does entail accepting large downside risks of contagion effects (e.g the current global financial and economic crisis)
  - *The Openness-Inequality Link*

– There is much empirical evidence that openness contributes to more 'within-country' and 'between-country' Inequality.

Globalisation-Inequality-Poverty : the Growth-Inequality-Poverty Relationships

- *The Inequality-Growth Link*
  - The Traditional economic literature (the Growth-enhancing effects of inequality through the savings channel and the incentive effects) vs.

    The 'New' literature linking greater inequality to reduced growth through high rent seeking activities, less secure property rights or social tension and political instability, underinvestment in human capital.
- *The Growth- Inequality Link*
  - Relying on market systems alone, economic growth tends to be accompanied by higher inequality ;
- *The Inequality-Future Growth-Poverty Link*
- Growth patterns yielding more inequality would, in turn, engender lower future growth paths.
- Lower growth accompanied by high inequality in the long run, would result in less of a growth-induced poverty reduction

Globalisation-Inequality-Poverty : the Growth-Inequality-Poverty Relationships (cont'd)

The Inequality-Future Growth-Poverty Link (continued)

- A critical question: whether or not inequality is an impediment to poverty-reducing growth, i.e. whether high inequality attenuate the growth elasticity of poverty;
- The elasticity of poverty with respect to growth declines with the extent of inequality.
- Inequality is the filter between growth and poverty reduction;
- the *pattern* of economic growth and development, rather than the rate of growth per se, has significant effects on a country's income distribution and poverty dynamics.
- Various concepts of Pro-Poor growth concerning the complex triangular relationships among poverty, growth and inequality (the poor to benefit more than proportionately than the non-poor):
- What is relevant for poverty reduction is a 'distribution-corrected' rate of growth: Growth is pro-poor only if growth is accompanied by a decline in inequality

Direct Distribution Effects of globalisation

- Culprit: Several specific features associated with the current phase of Globalisation – producing strong effects of accentuating inequality
- The nature of new technology and asymmetric access to technlogy
  - Technical change emanates from R&D activities in the developed countries tend to be labour-saving and skill-biased- heavily biased in favour of skilled and educated labour, as it is complementary to capital and skilled labour, while it is a substitute for unskilled labour;
  - Technological diffusion and access to new technology is not universal and spontaneous;
  - Intensified privatisation of research in bio-technology and pharmacology may have adverse effects (e.g. TRIPS issues);
  - Widened productivity differences due to the asymmetric access to technology
- Perverse factor movements :
  - Capital and skilled labour do not migrate to poor countries- more reverse flows from poor countries to rich countries;

Direct Distribution Effects of globalisation(cont'd)

- Perverse factor movements (Labour and capital)
  - Tendency for skilled labour to migrate from developing countries to developed countries (brain drain issues);
  - Cross-border movement of unskilled labour has been highly regulated and restricted (anti-immigration political sentiments in the West);
  - Propensity for capital flight to developed countries: capital flight issues and capital flow puzzles (Lucas and conditions associated with the global macro imbalances),
  - Portfolio capital flows are diversification finance than development finance (asset swapping for risk hedging and shedding);
- Patterns and Effects of FDI
  - intra-industry FDI (vertical integration), leading to a formation of a dense production network – region-specific conditions
  - A rapid increase of South-South FDIs
  - FDI flows into LICs, often foot-loose; little knowledge transfer; inducing a 'race to the bottom' policy

Distributional Effects of Factor Mobility

- The differentiated degree of cross-border factor mobility (skilled labour and capital vs unskilled labour and land) affecting functional income distribution between labour and capital:
  - `Wage equalisation' does not take place through labour migration (as was the case in the previous globalisation)
  - *De facto* labour mobility through the increasingly free cross-border capital mobility and TNCs' ability to re-locate production sites in response to changes in relative labour costs.
  - In fear of driving away TNCs, governments of developing countries are less likely to enact regulations to protect and enhance labour rights;
  - In fear of tax competition and asset migration, the capacity of governments to raise revenues for redistributional purposes has been eroded;
  - The poor is disadvantaged in relations to TNCs in commodity chain.

Other Channels

- Asymmetries in market power and access to information, technology, marketing and TNCs activities and the dominance of TNCs in commodity and value chain;
- The increased volatility in market prices and capital flows with recurrence of global financial and economic crises and the increased vulnerability of rural and urban poor in weak institutional environments (few safety nets) ;

- Increased global inflow of information and shifting reference norms for relative inequality

- Global disinflation at the possible cost of slower growth and fiscal retrenchment
- Institutions constitute a critical factor of creating threshold effects in the transmission of the impact of globalisation on poverty

Empirical regularities

divergence in performances within the South under Globalisation

Empirical Evidences: Income Divergence in the South

- The mere adoption of open trade and investment regimes per se would not guarantee developing countries' entry into the income "convergence club" ;
- Development and underdevelopment co-exist as steady states under globalisation (the presence of multi-equilibria in a human development trap model) – globalisation is a necessary, but not a sufficient condition for growth;
- Countries need to have reached the take-off point before benefiting from globalisation;
- Integration into the global economy has had deleterious consequences for low income countries, experiencing increased inequality and lower growth- the thresholds effects:
- The conundrum of the persistent 'non-convergence of world per capita income should be addressed in terms of structural features of the global economic relationships as well as institutional and socio-economic conditions in participating countries

Income Divergence in the South (cont'd)

- The effects of international trade on growth are critically dependent on the pattern of specialisation and integration;
- The sectors are not symmetrical due to the TOT effects (the fallacy of composition effects for primary commodity dependent economies) and the extent of dynamic economic scales and externalities through technological spill-overs and accumulation of knowledge capital;
- The effect of FDI also depends on which sectors FDIs are attracted into: disadvantages for those attracting FDIs into natural resource extraction and the lower end of TNC's vertically integrated global operations;
- The divergence in the South is explained in the difference in the internal pattern of economic growth and the forms of integration: some are able to benefit from *virtuous* circles of globalisation-induced growth, while others are left behind in *vicious* circles of globalisation-induced decline.
- Not only did the growth rates diverge widely but there emerged a marked difference in the extent to which and ways benefits of growth trickled down to the poor in the integration process.

Comparative Statistics (Openness)

Table 1: Trade Intensity Ratios of Major Developing Regions, 1980-2006

	1980-84	1985-89	1990-94	1995-99	2000-4	2005-06
Trade openness[1]: (X+M)/GDP						
East Asia	40.4	43.0	60.1	60.7	69.6	82.7
South Asia	18.5	17.3	22.7	27.5	32.8	45.5
Sub-Saharan Africa	**52.5**	**49.7**	**52.3**	**59.4**	**66.3**	**73.5**
Latin America and Caribbean	28.2	28.1	30.3	35.1	45.7	49.0
E Europe and Central Asia	..	..	57.9	62.7	76.3	77.0
Middle East and North Africa	68.3	48.2	67.7	59.0	67.8	84.6[2]
World total	*40.57*	*37.7*	*40.3*	*45.1*	*51.0*	*57.5*[2]

(.. not available)

Sources: World Development Indicators 2008

Comparative Statistics (Growth)

Table 2: Growth of GDP per Capita of Major Developing Regions, 1980-2006

	1980-84	1985-89	1990-94	1995-99	2000-4	2005-06
Growth of GDP per capita (average annual)[1]						
East Asia	5.8	6.3	7.9	5.7	7.1	8.4
South Asia	3.1	3.4	2.6	4.0	3.9	7.0
Sub-Saharan Africa	**-1.3**	**-0.3**	**-2.0**	**0.7**	**1.5**	**3.2**
Latin America and Caribbean	-0.9	0.3	1.6	0.9	1.0	3.7
E Europe and Central Asia	..	..	-6.0	1.8	5.4	6.4
Middle East and North Africa	0.3	-1.6	1.6	2.3	1.9	3.0
World total	*0.5*	*2.0*	*0.7*	*1.7*	*1.6*	*2.4*

(….) not available

Source: World Bank *World Development Indicators*, 2008 (average annual %)

Comparative Statistics (Poverty-1)

Table 3a: Global Comparisons of Income Poverty Trends for US $1 a day: Major Developing Regions, 1981-2004

	1981	1987	1993	1996	1999	2002	2004
Income poverty[1] (headcount ratios)							
Sub-Saharan Africa	**42.3**	**47.2**	**45.5**	**47.7**	**45.8**	**42.6**	**41.1**
Latin America and Caribbean	10.8	12.1	8.4	8.9	9.7	9.1	8.6
South Asia	49.6	45.1	36.9	36.1	34.9	33.6	30.8
East Asia and Pacific	57.7	28.2	25.2	16.1	15.5	12.3	9.1
0f which China	63.8	28.6	28.4	17.4	17.8	13.8	9.9
E Europe and Central Asia	0.7	0.4	3.6	4.4	3.8	1.3	0.9
Middle East and North Africa	5.1	3.1	1.9	1.7	2.1	1.7	1.5
World total	40.1	28.7	25.6	22.7	22.1	20.1	18.1
Ratio: SSA/World	1.05	1.64	1.78	2.11	2.07	2.12	2.27

Comparatove Statistics (Poverty 2)

Table 3b: Global Comparisons of Income Poverty Trends for US $2 a day: Major Developing Regions, 1981-2004

	1981	1987	1993	1996	1999	2002	2004
Income poverty[1] *(headcount ratios)*							
Sub-Saharan Africa	**74.5**	**77.4**	**76.1**	**76.4**	**75.9**	**73.8**	**72.0**
Latin America and Caribbean	28.5	29.6	24.1.4	25.2	25.3	24.8	22.2
South Asia	88.5	86.6	82.2	82.1	80.4	79.7	77.1
East Asia and Pacific	84.8	68.5	65.0	52.5	49.3	41.7	36.6
0f which China	88.1	68.6	68.1	53.3	50.1	40.9	34.9
E Europe and Central Asia	4.6	3.1	16.5	18.0	18.6	12.9	9.8
Middle East and North Africa	29.2	24.2	21.4	21.4	23.6	21.1	19.7
World total	67.0	60.7	59.4	55.5	54.2	50.7	47.6
Ratio: SSA/World	1.11	1.28	1.28	1.38	1.40	1.46	1.51

Integration Experiences of SSA

- Not behind other region in terms of their trade intensity ratios (Table 1). However, the SSA's share in world trade has fallen.
- FDI flows to the region- so far largely limited to extraction of natural resources; FDIs in low-skill manufacturing sectors due to preferential trade agreements (e.g. AGOA) – foot-loose activities;
- Rapid FDI growth from Asian and other EMs- mainly in resource-based sectors but also in some manufacturing &services- a surge in South-South Flows – an emerging phenomenon
- The recent rapid growth is associated with the commodity boom since 2002, with little evidence of structural transformation;
- The commodity market linkages – exposing the high vulnerability to shocks
- Remain fragile economically and politically, as 'resource curse' with commodity dependent structures exacerbates civil strife and conflicts (could ending in failed states in extreme cases)
- Sharply increasing "within-country inequality -Little progress in poverty reduction - the combined effects of low growth prone to shocks and rising inequality.
- The nature and pattern of integration of African economies into the global economy, the slow rate of structural transformation and the neglect of the agricultural sector all combined have not been conducive to generating *virtuous* cycles of globalization- induced growth and poverty reduction

Growth Dynamics in (East) Asia

- Many countries have benefited from powerful growth-enhancing effects of trade and pro-trade FDI – high "job-creation" effect of growth
- Registered 'admirable' growth rate with a substantial poverty reduction (High growth- allowed poverty reduction despite increasing inequality);
- The 'shared' growth pattern in the early years through
  - institutional reforms of asset redistribution and public goods provision in the early decades;
  - the region-wide *comparative advantage recycling*, involving strong demand for unskilled and semi-skilled labour, driven by exporting labour intensive goods and pro-trade FDI;
- Structural transformation of their production and trade structure with continuous upgrading of their human skill and technology/knowledge base, and their comparative advantages.
- In turn, the integration into the global economy has facilitated the process of structural transformation
- Sharply rising inequality can tear off social cohesion required for growth and development.

Integration Experiences in Latin America

- LAC countries – natural-resource based economies, susceptible to the 'global development cycle', dominated by external shocks;
- Coming out from the debt crisis and the lost 'development' decade in the 1980s, reintegrated into the global economy as EMs by embracing deregulation and privatisation, but hit by waves of regional and global financial crises in the 1990s
- The globalisation-induced economic growth – more precarious than in Asia, with 'job-less' economic growth
- TNCs in the manufacturing sector created a very low rate of formal job creation;
- Specialising in assembly operation with low technology and skill transfers and high import intensive activities with smaller value-added;
- Sharp disparities between large (TNC operated) enterprises with high productivity growth but a shrinking labour force and fragile SME operations with informalisation of jobs – an increasing casualisation of jobs
- Rising income and asset inequality – most pronounced at the extreme ends of income distribution- a greater income 'polarisation' with the functional income sharply against labour

Synthesis of the Globalisation –Poverty Nexus from the Regional Experiences

- Globalisation forces per se are not inherently beneficial or deleterious for development –context specific;
- Globalisation accentuates the growth and distribution effects;
- The effects of globalization on the poor depend on the nature and pattern of economic integration;
- Globalisation works best for the poor when it generates secure employment opportunities;
- The process of poverty reduction in the APR followed the waves of employment creations for the poor with the shifts of comparative advantages in the integration process

  vs

  " job less" growth or casualisation of employment and informalisation of economies in LACs and SSA
- Growth with a high employment elasticity cannot be guaranteed when globalisation/integration is embraced on its own as a development strategy

Policies of Strategic Integration

- The need for policies of *strategic integration*, not policy of *passive integration nor de-linking* from the global economy; Q; how to integrate so as to have a stable foundation for sustainable and equitable growth;
- Strategic integration, using the integration process for structural transformation of economies
- Whether global market forces establish a virtuous circle or vicious circle depends not only on the initial conditions/endowments, but the effective policy and institutions to manage the integration process;
- A long term vision for upgrading their comparative advantages towards high value added activities by climbing the technology through ‘learning-by-doing’ and adaptation
- Globalisation offer potential benefits for those countries with a strategic position (benefits are neither automatic nor guaranteedPassive liberalisation would lead to marginalisation.
- Strategic integration requires building institutional capacities for integration, including a capable nation state, not weakened states

Policies of Strategic Integration

- National policies should be strategically designed in the light of the skewed nature of the on-going process of globalisation;
  - dynamic externalities and rent-rich activities are increasingly concentrated in high-skill, knowledge-intensive sectors;
  - the skill and technology related divide has become wider over recent decades.
  - The "China" and "India" effects on wages for low-skilled labour : depressing in the presence of large reserves of surplus labour in Asian EMs;
  - Asia's thirst for natural resources: (A story of commodity super price cycle, but the high vulnerability to price shocks- the need for transformation/diversification with use of resource rents
  - trade is largely mediated through international production with an increasing share of intra-firm trade undertaken by TNCs
  - a hugely skewed distribution of gains from trade in favour of TNCs and global marketing networks along commodity value chains

Pro-Active Policies for Structural Transformation

- the path towards *structural transformation* of the agrarian and resource-based economies, as a necessary condition for successful integration;
- critical *thresholds* for positive effects of globalisation on poverty reduction or a non-linear Laffer-type relationship between globalisation and poverty
  - Openness helps those with education, but reduces the income share of those with no education and it is only when basic education becomes the norm even for the poor that openness can exert an income equalising effect;
- The human development trap model underscores the critical importance of policies to enhance human capital endowments and develop technological capabilities
- sizable public investment in human capital endowments with skill upgrading and technological capabilities as a specific pro-poor
- the need to invest in rural physical and social infrastructures for the poor;
- The need for a continuing *gross* flow of resources to agriculture to increase productivity and allow the accumulation process to take place.

Policy of Protecting the Poor from Downside Risk

- Instituting safety nets and regulations to protect the poor from large downside risks associated with globalization;
- The Increased vulnerability of the poor through channels such as:
  - the increased scale and frequency of macroeconomic shocks (e.g. the ongoing Global Financial and Economic Crisis) ;
  - larger exposure to changes in the ecosystem and others resulting from new technologies with often uncertain pay-offs and costs;
  - deteriorating working conditions and weakening bargaining powers for the unskilled and the poor in global value chains.
- Call for a pro-active and pro-poor stance in instituting schemes of public transfers and safety nets to shelter the poor from adverse conditions.
- as a strong case for pro-active public programmes to protect the poor, stemming from strong distributional effects of globalisation – again the need to strengthen the capacity of the nation states and institutional environments.

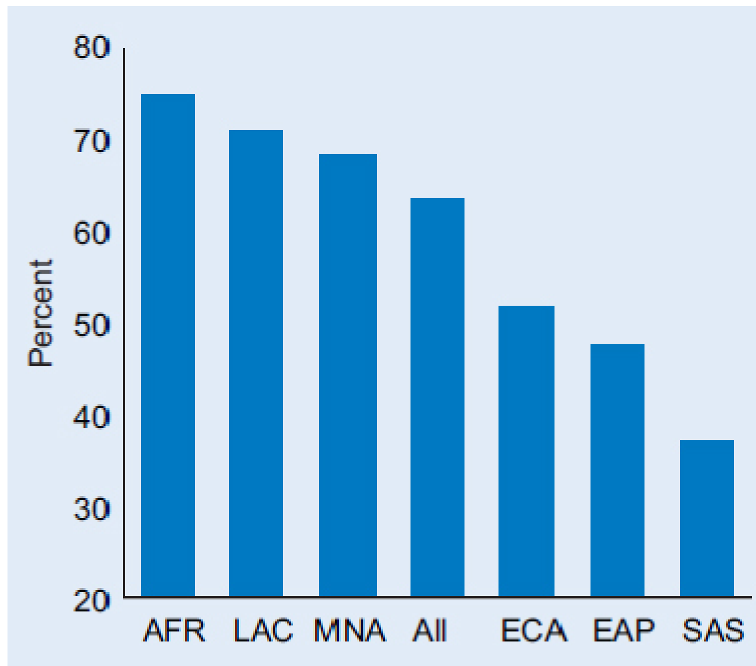
Specific Features of Economic Development of Low-income Countries in SSA

International Trap

1. International Trap through Commodity Dependence: Regional Dimension and Definition
2. International Trap through the Debt Crisis Management
3. International Trap through Structural Changes in Commodity Markets
4. International Trap through Aid Relationships Evolved

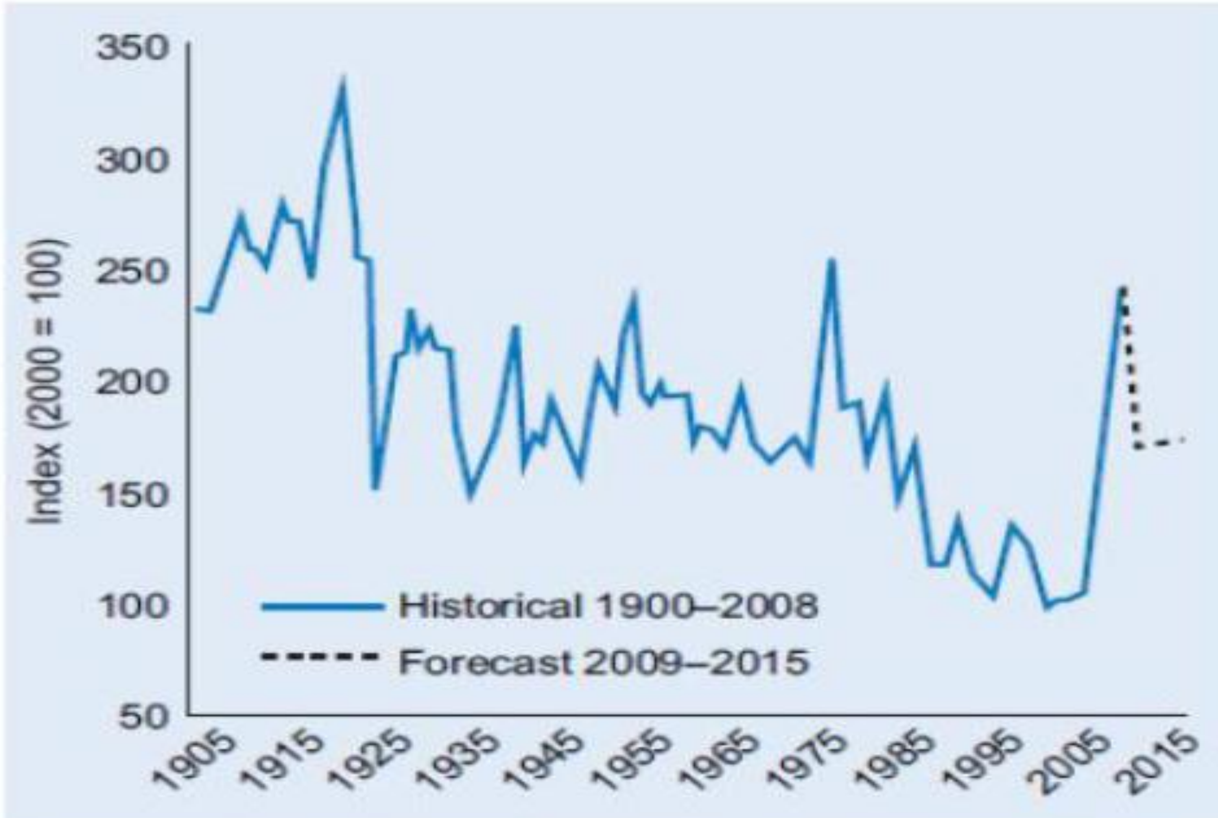
Commodity Export Dependence- Regional Dimension

- High commodity export dependence remains a major trade linkage for LDCs in SSA and smaller countries in the ECLAC region
- A distinct regional dimension, explaining the regional differences in economic growth/development performances– i.e. why many SSA countries could not benefit from the globalisation/integration process, compared with Asian countries or “commodity Developers” in LA and Asia.



Source: World Development Indicators, World Bank.
*As % of merchandise exports. Simple averages for country groups.

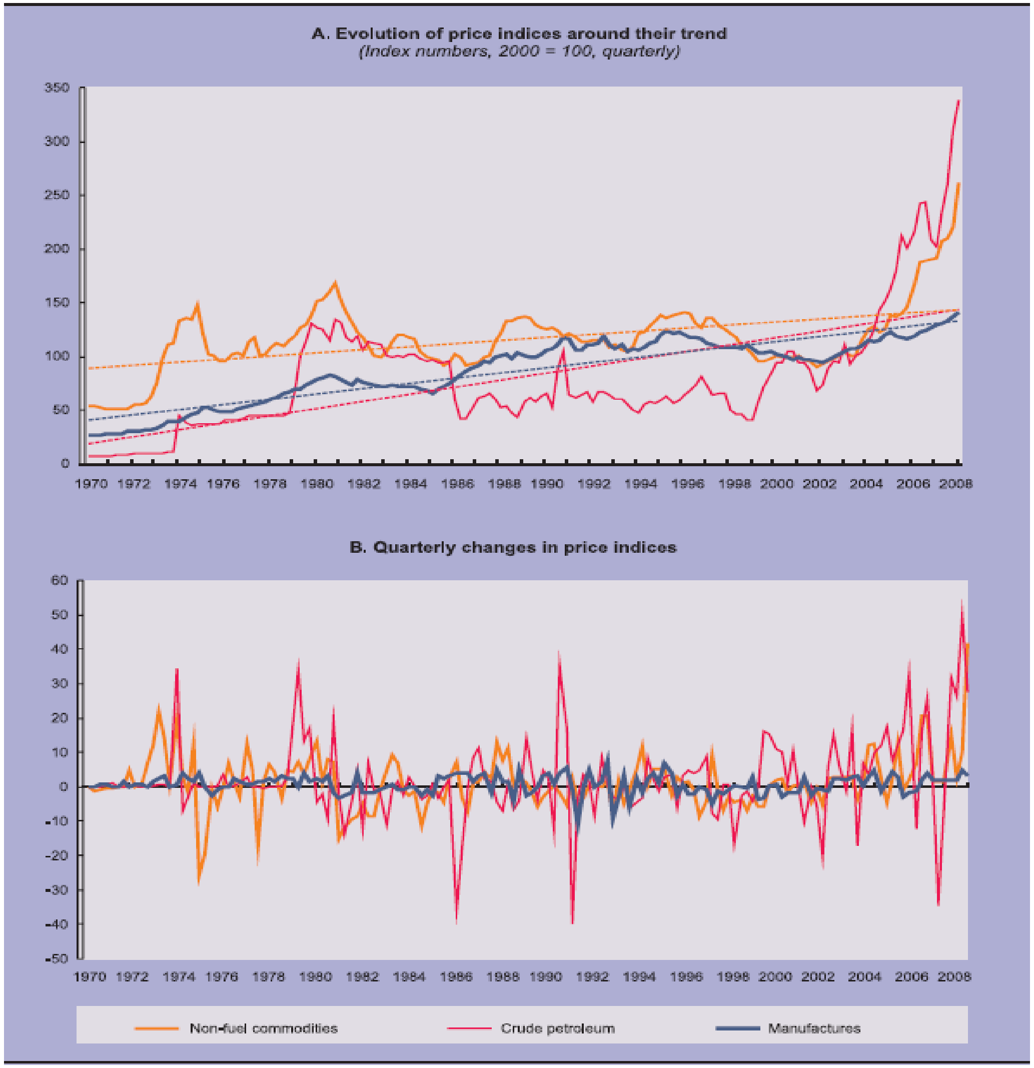
Real Non-Fuel Commodity Prices: 1900-2015



Sources: Grilli and Yang (1988); Pfaffenzeller et al. (2007). World Bank estimates 2004–08, forecasts 2009–15.
* Indexes, 2000 = 100. Deflated by unit value of manufactured exports.

Source: Brahmbhatt and Canuto (2010)

Price trends and volatility of non-fuel commodities and crude petroleum in relation to manufacture



Source: UNCTAD secretariat calculations, based on UNCTAD, *Commodity Price Statistics* online; and UNSD, *Monthly Bulletin of Statistics*, various issues.
Note: The dotted lines represent the trend of the relevant price indices.

International Trap through Commodity Dependence and the Debt Crisis Management

- The underperformance of CDDCs is popularly discussed in terms of domestic conditions:
  - i) the natural resource curse-domestic political economy (rent-seeking, corruption or outright resource looting);
  - ii) weak macroeconomic management over commodity price cycles (e,g, the Dutch Disease Syndrome)
- The *International Poverty Trap* thesis: the underperformance of these economies – attributable also to the failure of the international economic system to resolve the outstanding commodity-related problems.
- International environments and domestic conditions feed into each other to reinforce mechanisms of underdevelopment
- Macroeconomic adjustments necessitated from, and the institutional effects of, the massive "commodity" shocks exacerbate the distributional conflicts inherent to the economies with high commodity dependence.

International Traps through the Debt Crisis Management (1)

- The debt crisis of LICs in the 1980s was closely associated with the commodity crisis in the 1980s (Maizels 1992)
- The loss of real purchasing power of 40-60 % in the 1980s leading to a dwindling capacity to service debt
- The unwillingness and failure of the IFIs to deal with commodity-related issues of CDDCs in the debt restructuring process;
- The effective and flexible facility of *state-contingency financing* (with automacy) to deal with external shocks on an *ex-ante* basis has been absent
- State-contingent contracts are incentive-compatible by indexing repayment to the state of nature rather than the ability to pay (Krugman 1988);, making a distinction between the consequence of a debtor's own efforts and events outside its control.
- Instead, applied *ex-post* debt relief mechanisms with policy conditionality attached in response to recurrent liquidity crises and the ensued 'debt overhang' condition – the final resolution only through the MDRI in 2005
- The debt crisis management by the IFIs, ignoring the commodity issues, has resulted in further aggravation of the *commodity-dependence trap* inherited historically from the colonial era

International Traps through the Debt Crisis Management (2)

- At the macroeconomic stabilization front, the demand management of commodity-dependent economies governed by external shocks should be *counter-cyclical* to the commodity price movements
- In the absence of a global contingent facility - quick, unconditional disbursement upon large shocks,CDDCs dealt with commodity shocks by pro-cyclical demand management imposed by the IFIs at the national level;
- the low-equilibrium trap of high debt and low growth in the 1980s and 1990s
- Fiscal retrenchment/reduced spending on public goods provision consistently pursued - Little undertaking of public investment in economic and social infrastructures on a sustained basis
- This has often resulted in a fragile state with a seriously depleted and impaired institutional capability to deliver social services and to build physical and social infrastructure
- The debt-cum- commodity crisis has stalled the development process- little structural transformation in the absence of rigorous public and private investment;
- in the process distributional conflicts intensified: a sharp configuration of winners and losers was produced with economic reforms

International Trap through Structural Changes in Commodity Markets

- The financialisation of commodity markets, leading to higher price volatility
- TNCs dictate the terms of international trade through intra-firm trade under globally integrated production and marketing strategy- .
- The governance structures of GVCs have become buyer-driven with a shift in the distribution of value skewed in favour of consuming countries ;
- In agricultural commodity production and marketing, there are asymmetries in market power and access to information, technology and marketing know-how between TNCs, on the one hand, and local entrepreneurs, farmers and traders in developing countries, on the other.
- Producers- marginalized and isolated with withdrawal of institutional support and the loss of the bargaining power, as vertically integrated TNCs had consolidated their positions over GVCs (production, processing and marketing);
- In mineral producing countries- privatisation negotiated between TNCs and governments, based on the asymmetric power relationships – mineral rents not accruing much to producing countries
- The parallel process of fragmentation and integration has often resulted in a hugely skewed distribution of gains from commodity trade

International Traps through Aid Relationships Evolved

- Aid effectiveness rests critically on the nature of the recipient-donor relationships
- The non-compliance of both ex-ante and ex-post policy conditionality can be explained by the unfortunate aid relationships developed.
- The CIPA-based aid allocation mechanisms and DSF (ex-post conditionality on the basis of selectivity) are not an ideal base to conduct a meaningful policy dialogue;
- A critical gap between the rhetoric and the practice of ownership and partnership.
- Under the WB/IMF new aid architecture, recipient governments and donors can still lock into an 'aid power' game, resulting in an inferior non-cooperative equilibrium.
- Donors continue to police over whether recipient governments adopt, and adhere to, economic policies and institutional governance structures agreed upon.
- The lack of sense of ownership and partnership could propagate and promote a 'cheating' behaviour on the part of the agents-recipients
- High pressures from donors on important policy matters could place recipient governments in conflict with the responsibility towards their own citizens, undermining domestic accountability.
- The priority of the development agenda set by the donor community on a shifting ground: from the capital shortage diagnosis in the 60s and 70s, to the policy failures diagnosis in the 80s, the institutional failures diagnosis in the 90s: Now, finally, the infrastructure failure (or deficit) in the 2000s- the delay in recognition of some critical constraints (e.g. infrastructure gap)
- The imposition of the development model with policy conditionality framework does not work – the unhealthy aid relationships evolved

Domestic Institutional Trap

1. Cumulative Institutional Trap in the early Post-independence Years
2. Institutional Trap under the IFI-sponsored Reform Process
3. Emerging conditions in the New Millennium

Cumulative Institutional Trap in the early years: Difficulties in Nation-State Building

- Institutional configuration at independence- traditional values/structures at the societal level, distorted by the repression of autonomous political and social structures as a civil society under the colonial regime
- Autocratic governance structures –justified on the basis of the ethino-linguistically complexity within an artificially created 'nation-state'
- State-centred development vision but little institutional structures to deliver with accountability/transparency in governance
- State often engaging in fiscal profligacy, while politically-connected private agents forged a covenant with the state: pervasive client-patron relationships and corruption –
- used more the rationing of *divisible benefits* (e.g. subsidies and preferential credits) to buy political support or to appease interest groups
- The failure to undertake pro-poor public investment in economic and social infrastructures in rural areas – the majority disenfranchised
- East Asian Experiences in the early years: the pro-poor pattern of public expenditure in favour of rural poor through building productive assets of the poor and wealth-sharing mechanisms for providing legitimacy to pursue pro-growth and pro-business policies

Institutional Trap under the IFI Sponsored Reform

- IFIs' diagnose of the developmental trap in SSA as resulting from large-scale g*overnment failure*- the solution in an adoption of economic liberalisation and deregulation and keeping the size of governments to minimum in exchange for aid and debt restructuring
- With fiscal retrenchment, governments left with little capacity and resources to undertake public investment on a sustained basis
- The resulting under-provision of public goods (both economic and social infrastructures) with little crown-in private investment - very high transaction costs to engage in productive activities
- disenfranchised private agents and rural farmers deterred from making forward-looking productive investments - a powerful deterrent effect both on the rate and *composition* of investment- away from the "official" economy
- the rural poor left behind, while a largely informal economy with a weak and narrow tax base reinforces the fiscal fragility
- Incidences of fragile states – detrimental to nation-state building
- Poor public goods provision and the fragile fiscal condition developed its own loop of a vicious circle for condemning to low development trap- a serious impediment to structural transformation

Emerging conditions in the New Millennium

- the Commission for Africa (2005) – call for a surge in infrastructure investment
- The revival of growth of in the 2000s -associated with the commodity boom, driven by EMs' rapid demand for resources
- China, along many other EMs, has increased aid and investment on the basis of a "coalition" engagement, i.e. a collaborative state-business approach through aid-trade-investment as a package – does South-South cooperation would make a difference?
- Focus on infrastructure development and agriculture- critical bottlenecks in Africa- the "resources for infrastructure" model
- Depends on whether new investment would deliver real development-growth dividend with higher investment productivity and social returns
- other tangible spillovers to private investment flows – Africa as one of key destinations of their direct and portfolio investment
- With new technology with less sunk costs (e.g. mobile technology)
- Yet, not much skill transfers and other linkages to local producers yet and new issues emerging such as problematic "land grab" by many EMs and others, and environmental degradation

Institutional conditions facing commodity sectors

- Institutional changes affecting agricultural producers in input provisions, access to technology, extension services and marketing ; dismantling market boards, extension services and domestic stabilisation mechanisms
- Institutional vacuum, leading to fragmentation of marketing activities, and placed small-holders in a weaker position viz private traders in both inputs provisions and marketing
- Producers and local traders exposed to high price volatility
- Hedging instruments - imperfect hedging -the greater divergence between spot prices and future prices; requiring high liquid resources;
- Hedging instruments: high brokerage & transaction and high financial costs upfront, skewed access to information, technical barriers
- In mineral based economies, the policy space for autonomous macro management reduced;
- Stabilisation fund with a counter-cyclical fiscal management in Chile and Norway -not easily replicated in CDDCs
- Macroeconomic hedging- imperfect and not available beyond short term

Policy Implications and Research Agenda: Towards Inclusive Development

A Quest for Inclusive Development under Globalisation (1)

- Economic globalization so far have proceeded, relying on the self-regulating markets without adequate structures and systems in place to govern the process
- Globalisation is at cross road – environmental challenges posed by the climate changes and the appearance of large cracks in the international financial system threaten the stability of the world economy
- Economic globalization has outpaced political globalization, i.e. putting adequate governance structures to manage globalisation
- The current system of global governance suffers from a democratic deficit at many levels.
- Market-driven globalisation and growth has sharply increased inequality worldwide –threatening social cohesion at many levels
- *A quest for inclusive* development both at the global and national levels, wherein sharing opportunities for growth takes place *ex-ante*, inclusive of poorer segments of population in a global scale
- restructure governance mechanisms over economic policies at both national and global levels

A Quest for Inclusive Development under Globalisation (2)

- Inclusive development and pro-poor globalisation should be a part of the global reform agenda (new "global social contracts" for making globalisation work for the poor with reduction in inequality and poverty)
- effective distributional mechanisms at both national and global levels
- relationships between equity/inequality and growth/efficiency
  - The traditional view: emphasis on the trade-off between productive efficiency/growth and social justice represented by equity/equality considerations, on grounds of the incentive effects.
  - The alternative view: these two considerations should be viewed as complementary in the long-run:
    - If there are no clear trade-offs on *economic* grounds, equitable and shared growth should be good for efficiency and growth;
    - wealth distribution in favour of the less endowed is growth-enhancing, as fair and more equal distribution is key to creating a virtuous circle in the growth-poverty nexus.
    - a practical choice over the weight given to the 'equity' consideration against the 'efficiency' drive- depends on a societal social norm

A Quest for Inclusive Development under Globalisation (3)

- At the global level, calls for a new system of global governance
  - In addressing global negative externalities (triple crises) as well as in provision of global public goods;
  - requiring an effective system of international coordination and cooperation, as well as cross-border regulations and enforcement mechanisms
- At the national level, there is no universally applicable 'one-size fit all' development model.
  - The need for open discussions and debate on the merits of different development models-policy learning/ experimentation and institutional experimentation/innovation are necessary
  - The need for strong nation states for strategic integration and protecting the poor
- design of institutions and institutional configuration for development has to be context-specific
- appropriate economic policies should be assessed in light of prevailing country-specific institutional conditions

Research Agenda

- Institutional environments exert significant influence on economic growth across countries
- Comparative institutional analysis from a historical perspective (Greif, 2006, and Aoki 2001) for explaining differences in development paths
- the comparative institutional analysis can be applied to examine how economies in Africa and Asia are exposed to globalisation forces which have induced endogenous changes in institutions and their configurations
- Research agenda, using the comparative institutional analysis as an overarching analytical framework:
  - To understand how institutions address efficiency considerations and distributional concerns, and influence trajectories of subsequent development in a historical context.
  - To examine the private-public interface by understanding institutional foundation for markets, non-market institutions and governance structures of nation-states
  - To examine conditions under which institutions and their configuration could become conducive or harmful to inclusive development
  - To contribute to the policy debate how to make growth/development inclusive with marked reduction in poverty and inequality