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PROCEEDINGS

Economic Development After the Washington Consensus: Globalization, Liberalization, Inequality and the Changing Policy Debate

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JOMO KS (Assistant Secretary-General for Economic Development, Department of Economic and Social Affairs [DESA], United Nations [UN]): I will try to suggest how some of the debates around policies over the last quarter of the century have moved on in very important ways. Unfortunately, policies and operations of international agencies have not moved on, despite these important changes. This is extremely important because the World Bank recently published a very interesting book on economic growth in the 1990s, which is far more critical than any other works of the World Bank that I have seen in a long time. This is most likely due to people like Francois Bourguignon, Senior Vice-President and Chief Economist the World Bank, who was also responsible for the *World Economic Report 2006*, which was also on inequality. We find that some of the World Bank's cutting-edge researches seem to suggest a very radical posture, but the people involved in these researches are the same people who decide on providing credit facilities or give advice on macroeconomic or sectoral policies. Nothing much has changed. These debates are significant, nevertheless, for they have effectively engaged institutions such as the World Bank (WB) to challenge what the late John Kenneth Galbraith called the conventional reserves. Much of what the World Bank has been associated with over the last few years are conventional reserves. The debate on conventional reserves largely grew unchallenged, particularly among conventional economists.

First, I would like to provide a brief history of the current crisis by collecting important issues, which I think have significantly changed the character of the world economy. The Bretton Woods system ended in 1971. It was a time when the administration of United States (US) President Richard Nixon undertook the first major effort to devalue the US dollar, between 1971 and 1973. The second one was in 1985, under the Plaza Agreement. The most recent one can be found in current efforts by the Bush administration to devalue the dollar by pressuring US' trade partners to appreciate the value of their currency. Soon after, there was the major oil shock. For the first time in the post-World War period, there was the beginning of divergence. During the so-called Keynesian "golden age" of the 1950s and 1960s, you have what some people called synchronous growth in the world, when the North and the South were growing rapidly. But in the mid-1970s, there was the speculation in the North, with global equation on one hand, and economic slowdown on another. But in the South, there was far more rapid growth rate, which was facilitated by cheap utility made available by the recycling of the petrodollar.

So you have growth acceleration in many parts of the South, particularly in Asia and Latin America. In Africa though, they cannot afford this for reasons that largely have to do with the impact of the oil shock on new industries that have barely began to emerge with import substitution. Then you have Paul Volcker becoming chair of the Federal Reserve in 1980. Soon after that, Volcker tightened up liquidity and raised interest rates, which had a tremendous effect and very quickly brought to an end to this period where real interest rates often grow very low and sometimes even negative for brief periods. So now we have a contractioning effect on the world economy.

In the South, the development discourse which emerged during the 1970s, came to an end. Then the call for the new international economic order came to an end in 1983. Shortly after the Cancun meeting in 1983, the US had strong dollar resulting in high interest rates. There was significant capital flight into the US, strengthening the US dollar much more and exacerbating tremendous deficits, which the US already had particularly with Japan. During the period of *endaka* (high yen exchange rate), the US managed to curb the growth of its deficit with Japan but actually in effect decreased its huge deficit with the rest of East Asia.

At the same time, something else was happening intellectually. US President Reagan appointed Anne Krueger as Chief Economist and Senior Vice President of the World Bank and she brought in Deepak Lal as the head of the research section. Lal wrote a very influential book called *The Poverty of Development Economics* in 1983, which was published by the Institute of Economic Affairs in London. He recently published an argument in favor of nineteenth-century liberal capitalism and the desire of the polity. In his last book, *In Defense of Empires*, he made a spirited defense of imperialism and argues that imperialism encompasses a desirable range of reasons including transaction cost. This was a very important complement to the work of people like Niall Ferguson, who was identified as the most influential historian and academic of the current period by *Time Magazine*. Niall Ferguson published several major academic books, ranging from the role of capital to the rise of Western Germany, and most recently the book in defense of the empire in Britain, which is an influential coffee-table book published by the BBC. There was a second book called *Colossus*, which appealed to the US to recognize its imperial responsibilities and to take on these responsibilities directly, rather than skirting the issue of imperialism and dropping its qualms about engaging imperialism. All these were entering the development discourse and, in the beginning of the twenty-first century, the revival of imperialism. The so-called failed states were all considered very legitimate grounds for polite discourse in the *New York Times*, the *Washington Post* and even the *Los Angeles Times*. We are not living in the 1970s and the 1980s anymore, when such subjects might have been considered taboo.

The other thing with regard to Miss Krueger and Professor Lal is their strong effort to revamp the WB. There is a very interesting semi-official history of the World Bank by John Lewis, Richard Webb, and Devesh Kapur where they look very carefully at the history of the World Bank over its first fifty years and the Krueger legacy. They showed how Krueger single handedly–or rather with the help of Kapur–undermined the entire legacy of Robert McNamara and other people who importantly raised further the concept of what Oxford university professor John

Toye called the counterrevolution against development economics. In 1990, John Williamson referred to all these as the New Washington Consensus. Six or seven years later, he changed it to “Augmented” Washington Consensus. The original Washington Consensus is about ten points, and the “Augmented” Washington Consensus is about thirty points. These points were what developing countries must aim for to achieve self-sustaining rule.

At around the same time, because of a number of other developments, Japan emerged temporarily in the late 1980s and early 1990s as the single largest donor/contributor of official development assistance. During this brief period, because Japan did not have enhanced rights within the Bank of Japan, it sought other ways to enhance its influence. What it did, for example, was to tell its colleagues in the Bank that there is something seriously wrong in pushing structural programs in Latin America and elsewhere in the world. The result was a rather lost crusade. Soreluctantly, the Bank took on a number of research projects, funded exclusively by the Japanese Ministry of Finance.

The volume called *The East Asian Miracle: Economic Growth and Public Policy* in 1993 was the first product of this research program. It challenged the previous and very influential volume on East Asia in 1970 by Ian Little, Tibor Scitovsky, and Maurice Scott, and Ronald McKinnon which argued that East Asian growth in commerce was principally due to liberalization/trade liberalization and, to a lesser extent, financial liberalization. Little, Scitovsky, Scott, and McKinnon did not support much of what was done in the name of liberalization. They did not support the shock treatment, which people such as Jeffrey Sachs subsequently advocated. Instead, they were for gradualist liberalization. And for McKinnon in particular, the sequence of liberalization was very important. The *East Asian Miracle* argued against the simple-minded kind capital liberalization. The whole discourse was principally framed in terms of what economists called market failure: there are a number of market failures and these interventions are desirable. They made the distinction between what they called functional interventions and strategic interventions. Functional interventions address market failures, while strategic interventions are those that are not seen to be addressing market failures. On functional interventions, the authors talked about proven macroeconomic policy, providing law and order and infrastructure, which the market failed to do on its own. When it came to strategic interventions, they basically took a very negative view, except on one notable case—finance. The book actually said that the kind of directed currency which characterized Japan, Korea, and Taiwan was actually very important to the experience of those countries, whereas the experience of what they called trade policy, as well as what they called industrial policy, were basically failures.

As far as financial policy is concerned, how do we understand this exceptionalism when it comes to financial policy? There are at least three possible explanations. First, let us look at who funded the whole exercise—the Japanese Ministry of Finance. You would not expect a WB economist, no matter how liberally minded, to bite the hand that feeds him or her and say that the Ministry of Finance interventions in Japan were basically a failure. Another possible explanation is that the chapter was written by Joseph Stiglitz, who would push the argument of market failure much further than other welfare economists normally would. The third argument would be the tax people themselves. But I would suggest that unless these people can generate support, then one would have to take a very different view of trade policy, as well as the industrial policy model—which was not the case.

At this point, let me say a little bit about globalization. Globalization may be viewed depending on what particularly fascinates or interests you. The evidence now is quite strong for the Hans Singer-Raul Prebisch thesis, which even the International Monetary Fund (IMF) acknowledges. The Prebisch and Singer thesis refers to the decline of perfect commodities vis-à-vis the prices of many types of goods.

Singer did the work for the first half of the twentieth century when he was working with the United Nations (UN) in the early 1950s. Some of my colleagues did the work for the second half of the twentieth century. The very important summary of that is found in the volume, *The Long Twentieth Century: Globalization under Hegemony; The Changing World Economy* where Jose Antonio Ocampo and Maria Angela Parra basically showed that the trends of the first half of the twentieth century actually extends to the second half of the twentieth century.

What is less studied but much argued is the phenomenon that Arthur Lewis talked about many years ago, which is the greater decline of the terms of trade of tropical primary commodities compared to temperate primary commodities; for instance, the prices of cotton compared to wood. The third phenomenon, which is relatively recent, is a phenomenon over the last twenty to thirty years, in which there seems to be a decline in the prices of manufactured goods coming from developing countries compared to manufactured goods coming from developed countries. The prices of goods from developed countries tend to be characterized by strong intellectual property rights. Monopolistic rent is captured in the prices of these non-generic manufactured goods from developed countries, and it contrasts with non-generic goods from developing countries that do not carry such monopolistic trend.

The second set of issues which I think is important to recognize is that for many developing countries, especially the smaller and poorer ones, tariffs are a very important source of revenues, often accounting for anywhere between 20 to 45 percent of total revenue of many governments. This will be lost with the current agenda for trade liberalization. Secondly, it is increasingly recognized that many sectors and firms will suffer with greater trade liberalization and jobs will be lost. Thirdly, it is now increasingly acknowledged that replacement jobs, capacities, and capabilities will not just spring up. They need to be nurtured, but the resources for nurturing them simply are not there. Hence, the recent discussion on the need for greater trade is deceptive in two ways. First, money is being diverted for many kinds of aid ostensibly to compensate for these kinds of losses that I just referred to. Secondly, the gains we talk about are so modest compared to the losses. I do not think developing countries should even seriously begin to consider intermediate trade liberalization espoused by the World Trade Organization (WTO).

The third important point from the developmental perspective is the debate dealing with import substitution, or more specifically industrialization versus trade liberalization. I would like to suggest another way of looking at it: effective protection through conditional export promotion. As pointed out earlier, Korea had one bad distortion—protection for import substitution. But it also had a good distortion, and that is subsidies for exports. The good distortion negated the bad and came off well. This kind of argument is like putting your left foot in ice-cold water and your right in hot boiling water. What you really need to understand is how Northeast Asian countries like Japan, Korea, and Taiwan and, to a lesser extent, some Southeast Asian countries have actually linked export promotion to import substitution.

Import substitution is important in terms of building new capacities and capabilities. It is also important in order to discipline import-substituting firms by giving them certain incentives and economic rents, on the condition that they engage in export. Export performs a very disciplining role by requiring firms to become efficient quickly because that is the only way they would be able to contribute to making money. And the way to do so is by lowering the cost of production as quickly as possible and raising the quality of products so that they will be acceptable in export markets. If you do not improve the quality of your products, you cannot play in the export markets.

The second aspect that needs to be considered in marketing products is the question of financial liberalization, which is also strongly advocated by the WB.

The last point I am going to make is on trade liberalization. The World Bank, at the end of last year, came out with a number of estimates about gains from trade liberalization. As of the last estimate, the gains from trade liberalization won in the region are from 0.6 percent of 1 percent, which for economists are static gains from trade liberalization. If you have a full trade liberalization scenario, you will increase the output of world trade by 0.6 percent of 1 percent. The latest estimates are now 0.2 percent of 1 percent, which are very modest. Comparing these figures to possible dynamic gains from alternative trade policies, the ostensible gains from trade liberalization are paltry, and the costs are extremely high especially for developing countries.

There have been three major arguments made for financial liberalization. First, if you have financial liberalization, then you have a level playing field so capital will flow from the capital-rich to the capital-poor. Has that happened? No; quite the contrary. Capital flows have actually gone in the opposite direction, from the capital-poor to the capital-rich. Though we have to acknowledge that there have been exceptional moments when the converse was true.

There was a period in the early mid-1990s when countries such as Malaysia, Indonesia, and Thailand introduced significant flows of capital from East Asian economies, particularly in response to incentives. But those were temporary flows; these were quickly reversed. The consequences led to the 1997 financial crisis.

The second argument is the lower cost of finance. This, too, has not been the case. Normal interest rates were very high, for example, in the late 1970s. But the inflation and real interest rates were actually very low then, and in some moments became negative. More recently, for reasons that have more to do with US' efforts to try to sustain growth, there have been very low interest rates in the US. The dominance of the US economy in the world economy has actual consequences throughout the world.

The third argument is that financial liberalization will lead to financial deepening, which will reduce volatility and result to stability. What is actually happening, which has been acknowledged by the International Monetary Fund (IMF) and others, is that there has been an increase in volatility and instability. Although new derivatives have reduced some old sources of volatility, new sources of volatility, new sources of systemic risk, have also been created by greater "financialization" such as the growth of hedge funds.

Financial liberalization has made finance capital more dominant and influential. There is a strong tendency to preserve the value of financial interest, financial liberalizaton exerts inflation-rate influences on macroeconomic policy. Second, developmental financial arrangements and institutions tend to be undermined by financial liberalization because they are not considered to be in line with each other. And third, there is a strong tendency for financial institutions to take market-conforming risks and therefore bet exclusively on good credit risk. As a consequence of financial liberalization, the possibility of developing a financial system to be more inclusive, which will gauge, for example, medium-size as well as small enterprises as opposed to the un-bankable types, becomes even less.

Let me note very briefly that foreign direct investment (FDI) has been largely concentrated in the North. In the South, though, FDI has been dispersed in a few countries, particularly on minerals. The tendency is the race-to-the-bottom because of intense competition. Thirdly, national capacities and capabilities tend not to be developed because of the dominant presence of FDI.

Globalization, often thought of as economic globalization, will crash in the period of internationalization of regulations. The impact and consequences are actually very important. First, you will find the influence of the IMF, the influence of the Bank for International Settlements (BIS), and the Vessel 1 and Vessel 2 requirements have become far more pervasive in the recent situation. These have very important consequences for the developing world. After the Asian crisis, East Asian countries have increasingly been trying to get out of the clutches of the IMF. Almost all countries in East Asia got rid of any form of communication with the IMF because they do not want to be subjected to the conditionalities of the IMF. For Korea and other countries during the 1998 crisis, the IMF was not exactly an honest broker. In Korea's case, during negotiations, the US Treasury as well as the Japanese Ministry of Finance were actively involved in influencing the IMF's negotiating position. This is similar to what the IMF was doing to Indonesia. As consequence, at the end of last year even the big borrowers in Latin America such as Brazil and Argentina also withdrew their commitments to the IMF. So we have a situation wherein middle-income countries are opting out of the IMF. Because of this, Rodrigo de Rato, the IMF managing director, is in a frenzy. Nobody is borrowing except for the biggest borrower, which happens to be Turkey. Nobody is paying interest to the fund and the IMF cannot pay its bills. But, of course, they can pay out of the assets but this is not sustainable in the long-term. IMF is in a fix. Meanwhile, we have the lower-income countries that, as we know, have been periodically excused from paying their debts. Eventually, the few rich countries pay the fund and the IMF is able to bully these poor countries.

Another area is the change from the General Agreement on Tariffs and Trade (GATT) to the WTO. The internationalization of trade regulations, and more importantly, the extension of the trade liberalization agenda, originally began with many kinds of goods. Now it even involves agriculture and services, and the so-called trade-related agendas under the Agreement on Trade-Related Intellectual Property Rights (TRIPs) and the Trade-Related Investment Measures (TRIMs). You also have the development of a new dispute settlement mechanism, which gives WTO far more teeth. Let us say, for example, that the US is upset about Filipinos violating intellectual property rights in buying pirated digital video discs (DVDs). It would retaliate not through the board of the World Intellectual Property Rights Organization, through which they can appeal to the Filipinos to abide by the commitments that its government signed into. It would retaliate through the WTO and claim that the Philippines is violating the TRIPs Agreement. Further, the US would retaliate by not recognizing the Multiple Services Agreement, thereby restricting Filipinos that are temporarily working in the US. Unlike older types of mechanism, the new dispute settlement mechanism is carried on a completely unrelated and a different front, as long as it is covered by the WTO agreement.

We all know that liberalization involves a tendency to encourage certain ties on macroeconomic policies. These policies tend to principally focus on price stabilization to fight inflation. Consequently, these policies tend to ignore other important elements of stabilization, which are important for economists. They tend to exacerbate downturns and contribute to price problems. At the micro level, there are all these markets reforms, which attempt to make labor markets flexible and promote financial liberalization and privatization.

I would argue that the theoretical critique of this period would require us to think very carefully about what economists called rent. To have a more realistic view of the world, we should begin to recognize that imperfect competition is the reality, and to understand that rents are the heart of life. What is called "profit maximization" in one terminology actually means "rent seeking" in another. One can maximize profit in trying to capture producer surplus, or some other types of rent. With this, we begin to look at the world and analyze things differently. The major policy challenge would not be the elimination of rents, but trying to structure access to and the implementation of rents in ways that are developmental. This major challenge is important for a meaningful developmental critique of the liberalization agenda to take place.

I will now discuss the concept of divergence. There are two types of divergences, which came out in the recently concluded 2006 World Economics and Social Survey. Economic historians recognize the first divergence as beginning from the Industrial Revolution up to the present. Meanwhile, there has been a very important divergence in the South among a number of countries—perhaps not more than twenty. These countries have been able to achieve rapid sustained growth for an extended period. As for the rest of the South, the economies of some countries have significantly contracted, while others have modest growth. I would suggest that the first type of divergence is not well recognized; we need to pay more attention to the second type.

There is an ongoing argument about income inequality in the world. Part of the problem is that people are using very different measures of inequality. The first measure is to look at average incomes on a country basis. You would find that some countries have done very well—their positions improved, while other countries have not done well. Another type of measure is to weigh these country-based incomes. There is some value in the first measure because it allows you to see how many countries have done and have not done better. Actually, one would find that only twenty countries have significantly done better. But if you use a different criterion, such population growth, then you would get a very different view. For instance, the population of China, India, and Indonesia, which have achieved very rapid growth for an extended period of time, account for 2.5 billion people. That is a significant share of the 6.5 billion population in the world.

The third type of measure by Branko Milanovic is the use of household incomes in the world to do what he calls a real world institution of income. The problem is how to do this. Do you compute it against the US dollars and convert everything to US dollars? Or do you use the purchasing power parity measure? There are methodological problems and controversies involved. Those that use the Milanovic study seem to suggest that decomposing the data will yield two very interesting findings. One is that there is no clear trend in 1988, 1993, and 1998. Between 1988 and 1993, there was an increase in inequality, and between 1993 and 1998 there was a slight decline in inequality. There is no clear trend of an increase in inequality. There is no data for other periods. Another interesting finding is that more than three quarters of world inequality is explained by inter-national inequality rather than intra-national inequality. Despite the fact that intra-national inequality can be very hard—the Gini coefficients range from around 0.3 in some of the lowest countries in East Asia right up to 0.8 in the case of India—you will find that several colonies have higher inequality.

Interestingly, last year two institutions, which are normally opposed to each other–the World Bank and the UN—actually came up with some findings as far as the question of inequality is concerned. They both argued that inequality is a very serious problem, but came up with very different conclusions. The WB argued for equal opportunity, while the UN argued for more reforms.

To underscore that inequality matters is, in fact, a concern for poverty. David Woodward and Andrew Simms have done a study that shows that out of the total growth, less than 10 percent actually trickles down to the people in the world who earn USD 2.00 a day or less. There are two types of poverty line: USD 1.00/day and USD 2.00/day. If we are using the USD 2.00/day line, which involves about 45 percent of the world's population, less than 10 percent of total growth actually contributes to enhancing their incomes. The implications are very serious. For instance, Mexico has hardly grown in the last decades. Brazil has hardly grown since Luiz Inacio Lula da Silva came to power. But some reported cases of inequality are mainly due to redistributive efforts in the economy.

I think we have, at least at the analytical level, increasing recognition that the agenda of trade liberalization and financial liberalization have not actually been successful in terms of contributing to growth. Judging from two major publications of the WB, the institution recognizes that inequality matters, and that the reforms advocated in the 1980s and 1990s did not contribute to achieving sustained growth. In fact, the records are quite dismal. But the people with the most influence on economic policy still follow conventional wisdom, which unfortunately contributes to inequality. The only way to look at the problem is to ask the question: Why this is so?

There is very interesting book that came out last year called the *Confessions of an Economic Hit Man* by John Perkins. The book was used to advise various governments on policy. It suggests that it is not theory that matters so much as economic interest. And what is eventually adopted as an economic policy prevail among governments of rent-seeking developing countries, and even among the highest levels of these ostensibly impartial international agencies. In the end, economic interests tend to dominate the economic policy agenda.

OPEN FORUM

UNIDENTIFIED PARTICIPANT: The basic problem in the Asian crisis is the very cheap US dollar invested between 1997 and 1998, which later collapsed. Second, you have the phenomenon of the hedge funds and multimillionaires making about 35 percent interest per year. Other funds would have to rescue the hedge funds involved in the Asian crisis. Additionally, there is the problem of new speculators like George Soros who attacked Singapore and Thailand's currency. The fourth is what is happening now in the Middle East—the crisis in Iraq, Iran and the Hezbollah, and oil prices going up. How do we address these in relation to the views you presented?

RAUL FABELLA (Dean, School of Economics, University of the Philippines-Diliman): Based on the lecture, there seems to be the impression that there is a movement in the direction of the critique. My own impression is that there has been *a movement of the critique* in the direction of the critique. What has moved—the market economics orthodox, or the *critique* of the market economic orthodox?

Second, the question of rent has been around for a long time now. I have always considered rent as an important incentive for development. I have never believed in perfect competition, and I do not think the WB and the IMF believes in it either. I think WB and the IMF are, to some certain extent, governed by vested interests. My feeling is that the reason the WB and the IMF had this proportion of power over least-developed countries (LDCs) is because the LDCs failed. And why did they fail? Failure is generally balance of payments failure. The international financial institutions are picking out the winners that they see—the import substitution heroes.

The reason East Asian-miracle countries began to disengage quite early is because they were importing heavily and, therefore, they did not need to borrow. They need not fall into the balance-of-payment trap.

My own feeling is that income inequality is something that market economists have considered. If you go for the market economy, income inequality gets worse. Indeed, income inequality has worsened. I think the real issue with respect to these matters is poverty.

JOMO KS: On the first set of comments, I do not disagree with much of what was said. It is important to point out though that Japanese and European banks did most of the lending. With regard to the comment on the critique or the direction of the critique, I would like to think that everybody has learned and is learning, and that there has been development of thought both by the people who might be associated with the Washington Consensus and by those who are not. When Miss Krueger came into the WB, she replaced the research staff with economists. The move was a cruel replacement of the general legacy. It was basically a political struggle.

What we are talking about is a battle of ideas where there are winners and losers. It is not as if those same people change their minds because they recognize superior ideas. The fact that there are competing ideas is something that we need to recognize.

I am very appreciative of the fact that you do take rents seriously as incentives. There is an explicit way to learn and teach economics—you start with a particular textbook model. Others suggest that it is possible to return to this kind of liberal economy. John Hobson's analysis proves two things: (1) that there has been a concentration of economic power which had taken place in the middle of the 19th century and (2) the people who sat in power were in fact influencing government. Hobson extended that analysis to suggest that this was not only a question of influencing domestic policies but also international policies, leading to what he termed imperialism. Many left-leaning people would think that Vladimir Lenin coined this term and not a liberal economist. I do not think that the divide is between structuralist and liberalist when it comes to this. I think an honest liberal economist would come to very similar conclusions. I think what we need to do is to decide what part of all analysis is most useful. Another liberal economist, Richard Lipsey, said that even if you address market failure, you have to recognize that even if you have a functioning market, all it does is to clear markets, to officially allocate resources in a static fashion. It does not address the question of development.

Lenin disagreed with Hobson. For Lenin, imperialism was the highest stage of capitalism and there was no way to reverse it. Hobson, on the other hand, was still trying to reform capitalism. Many may disagree over that fact but in terms of the basic logic of the economy, I do not think there is a serious disagreement.

We should engage each other academically because I do believe that the terms are often exaggerated by intellectual cultural traditions. SoI do not think one needs to apologize because he is a liberal economist. I do think there should be a neoliberal economist. The current understanding of "neoliberals" does not refer to economists but to politicians who have a particular view of how the world should be changed. For instance, you have people like Surjit Bhalla, a liberal economist, who claims in his book, *Imagine There's No Country: Poverty, Inequality, and Growth in the Era of Globalization*, that the WB is exaggerating poverty to keep the world in business.

With regard to Dr. Fabella's remark about "picking the winner," I do think that there are many mistakes made in doing so. But I do not think that the problem is on picking a winner but in disciplining the firms and industries. What is different about the Northeast Asian experience is the success in creating an institutional environment and disciplining "winners".

When import industries in India, for example, were asked to open up, they were able to compete internationally because they had enough time to prepare for it. Many Indian products were successfully exported. Brazil was one of the fastest growing economies. They had about fifty years to prepare.

So you see, it is not an issue of picking winners. The point is that you have import industries that should become internationally competitive. Unfortunately, many of the people who invoke the name of "import-substitution" forgot all about the second part of developing the domestic market. In Africa, many African industries are still in their infancy. They are thrown in the deep end of the pool, made to industrialize and compete. Now, Africa does not only suffer from the 'industrialization' but agriculture collapse as well for a variety of reasons. What do you expect them to do? It is not as simple as natural competitive advantage; the African economies do not have that.

During a EU meeting in early 2006, Joseph Stiglitz argued that there is something about industrialization that is very different from agriculture. There is something intrinsically desirable about promoting industrialization. I would actually disagree with him because I do not think it is enough to favor one industry in this age where many industries exist. You need to do some kind of selective promotion.

The process of picking winners can severely compromise economies. You can have a kind of situation in which industries and firms continue to protect themselves and become very influential in public policymaking. But they are not internationally competitive. That is very unlikely in this age, but it certainly happened in the past.

Based on the Northeast Asian experience, building incentives will enable disciplining firms and industries. That is the key lesson to be learned.

RAUL FABELLA: What do you think of industrial policies in Asia? Malaysia of course gained rapid industrialization with the formation of Proton. Malaysia used to be one of the biggest exporters of cars, but suddenly the industry suffered serious losses. The country has since lost to Thailand, which is now the biggest car exporter in Southeast Asia.

JOMO KS: I have been an advocate of industrial policies for many years but when Proton came out, I was one of the first critics. I think the problem was not the question of industrial policy, but the way in which the Proton was decided on. It was decided on chiefly by the Prime Minister without any serious consultations with the car industry. The Prime Minister assured industrial policies; in fact he advocated for the support of alternative industries at that time. But there was a WB industrial policy, which gives true industrial policy advantage. The Prime Minister hardly took that into consideration. In the case of Thailand, the government decided on engaging in import-substitution industrialization and provided for the industry infrastructure. Thailand's success has been twenty-five years in the making.

The cases of Malaysia and Thailand refer to successful but different types of industrial policy. There are many examples you can cite to prove that industrial policy can fail, but I think you must also recognize that industrial policy can succeed. The challenge for us is to try to identify under what circumstances industrial policies succeed and under what circumstances they fail, and how to ensure that future industrial policies succeed.

The lecture was sponsored by the **South-South Exchange Programme for Research on the History of Development,** the **Third World Studies Center,** and the **Action for Economic Reforms.** **Filomeno Sta. Ana III,** coordinator of the Action for Economic Reforms, served as the lecture's moderator.