

Responding to Systemic Issues to Achieve Industrialization and Development

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Development Alternatives with Women for a New Era

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Industrialization is more elusive than ever. Developing countries have seen their policy space shrink due to liberalization commitments in various trade and investment agreements. The environmental space is also limited as we continue to push at planetary boundaries. Though the words “industrial” or “industrialization” are not found in any of the outcome documents from Monterrey, Doha, or the New York crisis conference, the policies needed to deliver sustained growth and produce structural transformation are necessarily industrial policies. Unresolved systemic issues arising from uncoordinated and incoherent actions on macroeconomic imbalances, disagreements over a global reserve currency, and poor regulation of finance and weak management of capital accounts place further limits at pursuing policies that increase productivity and enhance capabilities because these create unstable environments.

First, we need to respond to volatile flows of finance that become external sources of instability for open economies. Colleagues have already spoken about unpredictable aid flows. We need to take a critical look at investment capital that search for gains from interest rate or currency arbitrage brought on by very loose monetary policies of developed countries. These flows affect the value of developing country currencies as well as prices in their assets markets. Developing country governments, in turn, have to spend their policy energies on defending export prospects and ensuring that asset bubbles do not threaten their economies. The more globally integrated developing countries are, the more vulnerable their economies are to business cycles generated by policy changes of systemically significant countries. The zero draft’s promise of a “global financial safety net” (para. 92) appears hinged on the IMF whose record at resolving financial crisis is poor. Meanwhile, the commitment to support capacity building for capital flow¹ management (para. 96) is inadequate. The United Nations agencies and programmes need to be tasked to devise new regulations and policy options for developing countries to effectively manage their capital account and reduce vulnerability to external sources of macroeconomic instability.

Second, there are multiple references to development banking--national, regional, multilateral (paras. 13, 35, 43, 46, 52, 54, 63, 79, 122, and 123). In several of these

¹ Does this refer to capital **account** management and not just capital **flow** management?

references, infrastructure receives attention, almost as if this is the only public good that requires financing. One, there are many public goods. Two, if there is a need to focus on infrastructure, then social infrastructure needs to be given as much, if not more, attention so that socially reproductive activities and the provision of care can be fully supported. Lastly, development banking is not only about concessional lending. It is also about credit allocation towards productivity-enhancing industrial activities as opposed to say, real estate development, including providing investment guarantees to SMEs (Monterrey Consensus, para. 17). In a similar vein, central banking needs to be more developmental by promoting policies and strengthening regulation that enable industrial activities as well as promote financial inclusion rather than be distracted by the uncertainties of global financial markets.

Third, I look at the role of technology in financing for development. In the Monterrey and Doha outcome documents, technology was referred to in the context of technology transfer through “inter-enterprise partnership” (Monterrey Consensus, para. 22; Doha Outcome Document, para. 26) and as the development impact of FDI (Doha Outcome Document, paras. 26 and 27). The zero draft has “technology, innovation, and capacity building” as practically meeting all the requirements of sustainable development. The irony is that technological production can be intensive in the use of minerals and it can appropriate indigenous knowledge. The zero draft ignores the reality behind technological advancement. One, that technological capabilities are learnings accumulated over time so that there is first-mover advantage. Two, there are agglomeration economies in building technological capabilities. Three, technological production and research and development are highly concentrated in certain regions or in small groups of firms. Four, intellectual property rights regimes create monopolies that heighten this concentration. All of these are barriers to entry for those who still need to develop their technological capabilities. Thus, the zero draft’s focus on innovation and research and development will only benefit those who are already at the frontiers of knowledge. Finally, even if firms in developing countries are able to move up the value chain through technological upgrading, there is no guarantee that there will be a parallel social upgrading for the workers in the value chain. Generally, increases in productivity do not automatically translate into wage and earnings increases. You need organized workers to demand for that to happen.

The systemic issues we face today are symptomatic of the financialization of economies, where the financial sector has become increasingly important in the generation of profits and more powerful in economic governance. Fellow capitalists in production and trade become victims of the financial sector’s excesses. Worse for the workers whose wage share of income has declined over the recent decade. Para. 100 of the zero draft makes a mockery of migrant workers by labeling them as a systemic issue. At the bottom, the women who must bear the burdens of care amidst market failures and state failures. The 3rd Conference on Financing for Development’s contribution to the reduction of global inequality must be the resolution of all systemic issues.