Searching for Development4.0

As we go through the fog of modernity, confused by threats of war, toxic politics, terrorism, tech-led job disruption, natural and human disasters, what is the right development model going forward?

In the post-Second World War period, development was defined by the US led Bretton Wood multilateral institutions framework, comprising the IMF, World Bank and the World Trade Organization (WTO). As long as developing countries play by global rules, opening their markets to free trade and follow orthodox fiscal and monetary discipline, they would be able to join the global market place and enjoy growth. Development was achieved through opening up to trade, investment, innovation and talent.

This creed outlined by the Washington Consensus was severely tested by the Asian Financial Crisis of 1997. Asian economies which appeared to be doing very well through opening up to trade and investments suddenly went into crisis due to sharp capital withdrawals, accompanied by speculative attacks which caused sharp devaluations, bank failures and deep recession. It was not helped by initially wrong policy prescriptions by the IMF, whose orthodox call for tighter fiscal discipline and higher interest rates exacerbated the downturn.

Looking through the long lens of history, if the period of mercantilism before the Industrial Revolution in the 18th century (before Adam Smith) can be called Capitalism1.0, and the Industrial Revolution Capitalism2.0, the phase of globalization from the late 19th to 2007 can be called Capitalism3.0. This was the period when the West pushed globalization under the creed of free markets, first led by the British empire (Version 3.1) and then by the US, the dominant military, economic and financial power since World War Two (Version 3.2).

Under Capitalism version 3.3, globalization was truly achieved through the rapid spread of markets, made obvious by China joining the WTO in 2001 and creating new heights in global trade and investments. The Global Supply Chain, of which there are two obvious wings, one transatlantic between Europe and US and another between East Asia and US/Europe, but with raw materials and components sourced from everywhere, was essentially created through technological improvements in shipping, air and land transport, telecommunications and since 1991, the Internet.

The arrival of the Internet accelerated the networking of trade and investment, but more importantly, finance and digital data. Since friction costs (another term for transaction costs) are higher for physical goods than virtual goods, finance and knowledge spread faster, helped by technological improvements in social media and smartphones.

By 2007, Capitalism3.3 appeared unassailable. The accepted development model for all emerging markets was to plug into the global supply chain, comply with WTO rules and Bretton Woods advice and everyone was capable to take-off. Any failures to do so could be attributed to policy mistakes or bad policy execution, through either incompetence, bad governance or outright corruption.

The global financial crisis of 2007 shattered everybody's confidence in Capitalism3.0, because it revealed massive social inequities (documented by Piketty) and inability to deal with rising climate change, fundamentalism in the guise of populism, and most of all, the clear inadequacies of mainstream economic theory to explain and deal with such crises.

It was not simply political capture of finance and development, but worse, the intellectual capture of everyone that Capitalism3.0 was natural and ordained.

Those deeply involved in the tech revolution are already mapping out Industry4.0 or the Fourth Industrial Revolution. The Davos World Economic Forum associated Industry1.0 to the steam age, the second to the electrical age, the third to the Digital Revolution and the Fourth to new Internet of Industry. Today, technological breakthroughs in robotics, nano-technology, biotechnology and artificial intelligence create new goods and services, requiring new forms of governance.

The problem with Industry4.0 (really Capitalism4.0) is whether emerging markets will be able to cope with the speed, scale and scope of technological change, on top of rising climate change natural disasters, urban congestion and pollution and other problems. Industry4.0 seems to be creating in new age of even more dominance by the giants.

Capitalism3.0 became capital friendly and disaster for labour because instead of bringing prosperity for all, it brought life better for the 1%. Populism arose because even the middle class in advanced countries realised that Capitalism did not benefit all. If rich countries who have the resources to deal with both technological disruption and natural disasters have trouble coping with Capitalism4.0, what is the new model for emerging markets (Development4.0)?

Last weekend, I was at the Institute for New Economic Thinking (INET) Annual Conference in Edinburgh, the hometown of Adam Smith, the Scottish economist and philosopher. The Commission on Global Economic Transformation (CGET) was launched under the co-chairmanship of Nobel laureates Joseph Stiglitz and Michael Spence. The mandate of the Commission is to tackle global economic challenges from stagnating growth and inequality to migration and climate change.

Both co-chairs are eminently qualified to lead this search for Development4.0, because Joe Stiglitz led a UN-commissioned report on Reforms of the International Monetary and Financial System in 2009 to explore why the global financial system failed in 2007 (mistakes of private sector and misguided and failed policies of the public sector) and how to fix the system.

Mike Spence on the other hand chaired the Growth Commission, sponsored by the World Bank, to examine various aspects of economic growth and development that produced its report in 2008.

In the light of profound changes in technology, climate change and our understanding of inequality and global imbalances, the time has come to take stock and help emerging markets understand what options there are for development in the New Economy.

In Edinburgh, I wondered whether Adam Smith would have turned in his grave if he realised that free market ideologues used his ideas in “Wealth of Nations” to allow a small elite to get rich at the expense of others. In omitting the word “political” out of “economics”, the neo-classical free market ideologues promoted positive economics that pushed “rational man”, assuming away all the important parts of human behaviour, politics, psychology, sociology and anthropology. In other words, in the search for the physics of economic behaviour, mainstream economics missed the whole point of political economy - that man is not a machine.

In short, Development4.0 is not about more money, but how to live happily, peacefully and prosperously in harmony with each other, nature and continually to evolve with technology and each other. Development4.0 is not going to be a one-size-fit-all model, but diverse ways to think about the future of man. Mapping these pathways would be an achievement in itself.

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