WORKING PAPER SERIES

THE MULTILATERAL DEVELOPMENT BANKS AND THE GLOBAL FINANCIAL CRISIS

WORKING PAPER 3

THE ASIAN DEVELOPMENT BANK AND THE GLOBAL FINANCIAL CRISIS: ASIAN GLOBAL LEADERSHIP, 2008-2012

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Abstract

This is the third of three linked working papers which analyse the discourse produced by the Asian Development Bank, principally in successive *Asian Development Outlooks*, from 1996-7 onwards. Very extensive use is made of direct quotation, in order to provide substantial illustration of the analysis offered. The papers will serve as a point of reference for more synthetic analysis to be developed elsewhere. It may be, too, that they will serve a purpose to other researchers interested in the arguments developed by the Bank over the period. An identical common introduction, setting out briefly the analytical framework adopted, appears in each of the three papers. It situates the analysis in a classical Marxist framework which interprets the production of discourse and ideas in their material context, presenting the ADB as a representative of 'Asian capital in general', committed to the development of capitalism on a global scale, and adapting its discourse from moment to moment in accordance with the changing material context – in the global economy, and in Asia. This third paper covers the period from 2008 to 2012. At its centre is the 'global financial crisis' and the Bank's reaction to it. It is argued that, as with the earlier Asian financial crisis, while the Bank did not predict the crisis, it responded to it quickly by adapting in its discourse in order to orient Asian governments towards a new phase of the long-term objective of successful integration into the global capitalist economy. Retaining its fundamental commitment to further the development of the world market, and to transform state-society relations and social relations of production across Asia, it now switched its focus from external to internal drivers of change, and advocated an Asian-centred leadership of global capitalist development centred on regional integration and South-South cooperation.

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THE ASIAN DEVELOPMENT BANK AND THE GLOBAL FINANCIAL CRISIS: ASIAN GLOBAL LEADERSHIP, 2008-2012

ANALYTICAL FRAMEWORK

The analytical framework employed here applies the historical materialist method outlined by Marx and Engels between 1845 and 1859 to the contemporary world, and in particular to the relationship between the state of development of global capitalism and the discourse produced by the Asian Development Bank. As detailed elsewhere (Cammack, 2012a), it principally draws and builds upon the *Critique of the German Ideology*, the *Manifesto of the Communist Party*, and the *Preface* to the *Contribution to the Critique of Political Economy*. Here the framework is presented in summary form, without direct reference to the sources, as a context for the analysis that follows.

The starting point is the 'economic structure of society,' or the totality of the relations of production that individuals enter into in the social production of their existence, and the insistence not only that the history of humanity must be studied in relation to the history of industry and exchange, but also that the development of the capitalist world market on a genuinely global scale is an essential step towards the realization of human freedom through the abolition of private property. Production and foreign trade are the sources of ever-intensifying competition through which the intercourse of individuals with one another beyond national boundaries is shaped. The advent of large scale industrial production plays a particularly crucial role, launching a constant revolution in labour productivity, transforming relations between capital and labour and setting in motion the processes that will eventually create the global proletariat. I place particular weight upon Marx's assertion, in the *Preface* to the *Contribution to the Critique of Political Economy*, that successive social orders, the modern bourgeois order (or capitalism) included, do not collapse under the weight of internal contradictions until their potential to develop the forces of production further is exhausted, and I suggest on this basis that the late 1980s and early 1990s mark the *beginning* of the transition to global capitalism as Marx and Engels imagined it. Only in the last twenty-five years or so have we begun to see the development on a global scale of the productive forces and social relations proper to capitalism, and only in the last five years has Asia become the 'centre' of the global capitalist economy.

This has clear implications for 'products of consciousness' - conceptions, thoughts, narratives, ideas - in general, but particularly for those associated with international organizations concerned with the governance of the global economy. Marx and Engels rejected the idea that such phenomena could exist independently of the material circumstances in which people found themselves, arguing that the mode of production of material life *conditions* the general process of social, political and intellectual life. At the same time, the question of what kinds of ideas are produced, when, how and by whom, especially in direct relation to the mode of production of material life and the processes describe above that attend it, is of crucial significance. Here, the essential methodological requirement is that conflicts and transformations at the level of ideas or discourse must be understood not in terms of a dynamic internal to ideas and discourse themselves and in detachment from material circumstances, but on the contrary in terms of the material circumstances from which they spring and from which the impetus for change derives. In particular, Marx follows the suggestion that successive social orders do not disappear until their potential to develop the forces of production further is exhausted with the thought that 'Mankind thus inevitably sets itself only such tasks as it is able to solve, since closer examination will always show that the problem itself arises only when the material conditions for its solution are already present or at least in the course of formation'. I take this as a cue to suggest that in the governance of the global economy, relevant organizations should be expected to address the problems which present themselves, but not necessarily to identify them in advance of their appearance. This bears on my treatment of crises.

Finally, following the model of the 1864 International Working Men's Association with which Marx was directly involved, I see international organizations whose objectives are addressed to the global political economy as seeking to advance projects that transcend the immediate perspectives of determinate material interests in particular national locations, and enable them to pursue jointly a programme, consistent with the current state of development of forces and relations of production, that advances their shared class interests. In the case of the contemporary international organizations concerned with the global economy, and the Asian Development Bank in particular, this project can be expressed as seeking the completion of the world market, and the real subsumption of labour to capital on a global scale. In short, the emergence and development of an ADB narrative relating to global capitalism should *follow* and *reflect* material developments in the regional and global political economy itself.

THE DISCOURSE OF THE ADB: ASIAN GLOBAL LEADERSHIP, 2008-2012

In each of the three working papers that cover ADB discourse from 1997 to 2012, my principle focus is on the thematic chapters published as part of successive annual *Asian Development Outlooks*. These chapters supplement the review of the current situation and the brief commentaries on each individual member country that are the other standard elements of each *Outlook*, generally addressing a theme of strategic significance, often reporting on research carried out by the Bank itself, and providing both analysis and comparative data aimed directly at policy makers across the region. They are strongly didactic in character, often spelling out basic principles in textbook style. They can be said, therefore, to reflect the Bank's sense of itself as a 'knowledge' bank - a source of authoritative guidance on development policy, backed by the provision and analysis of comparative data. These annual essays - some more and some less significant in terms of their scope and orientation - are supplemented by other analytical and programmatic work - such as the current strategy document, *Strategy 2020*, and reference is made to these as appropriate.

THE THIRD PHASE: ASSUMING GLOBAL LEADERSHIP, 2008-2012

In the wake of the global financial crisis, the Bank shifted up a gear, inaugurating a new phase of its global project. The focus shifted from trade and foreign investment to the domestic economy, and by 2012 to a new regional and global strategy premised on the prospect that Asia would become the hub of the new global economy that was taking shape, concerned particularly with the need to reform social relations and individual behaviour across the region itself. The underlying material change was the 'rebalancing' of the global economy set in motion by the crisis - as growth in the developing world outpaced that in Europe and the United States by an average of 4 per cent per year over five consecutive years. In these circumstances, the successive *Outlooks* from 2008 on charted a comprehensive reform of social relations and institutions across Asia, aimed not only at integrating the region into the global capitalist economy, but at making it the primary global source of growth and competitiveness. This latter development was marked by a shift of focus from inward investment and expanded trade to coordinated investment in regional integration, and an Asian-centred strategy of South-South cooperation; and in the 2012 *Outlook*, the Bank turned directly, under the apparent theme of confronting rising inequality, to the task of perfecting the machinery that would integrate all Asian citizens fully into the global capitalist economy.

Asian Development Outlook 2008: Workers in Asia

The global financial crisis was under way by the time the 2008 *Outlook* was written, though the Bank like many others still underestimated its likely extent and impact. In any case, though, the main lines of analysis had been laid down before, as noted in Working Paper 2 in this series. In comparison with the volumes produced in the years leading up to the crisis, those came after it showed a marked shift of emphasis. They continued to insist that Asia's fate was tied to that of the global economy as a whole, but whereas the issues of trade and FDI had been prominent in earlier years, the focus now was much more on domestic and regional political economy, and the behaviour of citizens. At the outset, the Bank set out its position for the short term and the longer term, asserting first that Asia could ride out the crisis:

<table>
<tr><th colspan="2">Box 1. Asian Development Outlook Thematic Essays, 2008-2012</th></tr>
<tr><td>2008</td><td>Workers in Asia</td></tr>
<tr><td colspan="2">Solutions will differ from place to place, and priorities will also differ. But some of the ingredients that are likely to be necessary if Asia is to use the talents of its workers wisely, and not squander them, include better schooling and curricula; targeted support for youth job training; more liberal immigration policies for unskilled as well as skilled workers; removal of occupational restrictive practices that protect “insiders”; the overhaul of tertiary education systems; and a larger role for the private sector in the delivery of training and educational services at all levels.</td></tr>
<tr><td>2009</td><td>Rebalancing Asia's Growth</td></tr>
<tr><td colspan="2">Policies that can shift household saving toward consumption and channel corporate saving into productive investment will help reduce the existing saving–investment gap in Asia, and thereby lead to a reduction in global imbalances.</td></tr>
<tr><td>2010</td><td>Macroeconomic Management Beyond the Crisis</td></tr>
<tr><td colspan="2">As the global crisis recedes and normalcy returns, developing Asia should revert to the sound and responsible fiscal and monetary policies that fostered macroeconomic stability and sustained growth. There is, however, plenty of scope to improve and strengthen monetary, exchange rate, and fiscal policies to better prepare the region for the post-crisis world.</td></tr>
<tr><td>2011</td><td>South-South Economic Links</td></tr>
<tr><td colspan="2">At a time of modest growth in industrial countries, improved South–South relations can be a potential new driver for global growth. Fortunately, there is considerable scope to deepen economic links within the South, but these will not come automatically. To fully tap the potential of these markets as new sources of growth, policy makers must remove impediments to South–South trade and investment, which are still higher than those with the North; and much work needs to be done to reduce barriers within the South to promote global integration.</td></tr>
<tr><td>2012</td><td>Confronting Rising Inequality in Asia</td></tr>
<tr><td colspan="2">The basic driving forces of inequality cannot—and should not—be reversed. They generate productivity growth, which underpins Asia’s poverty reduction, betterment of quality of life, and prosperity. However, high inequality could undermine social cohesion, political stability, and sustainability of growth, and a divided and highly unequal nation cannot be prosperous, as shown by international experience. Rising inequality could also lead to demands for populist measures that would be detrimental to efficiency and growth.</td></tr>
<tr><td colspan="2">Source: Asian Development Outlook, various years</td></tr>
</table>

> although problems will spread from the global economy to developing Asia—a process that is already visible in high-frequency trade and financial data—the region’s growth in 2008 is much more likely to moderate than to lurch down. Developing Asia is not immune to global developments, but neither is it hostage to them. In the near term, Asia’s structural transformation, robust productivity growth, and favourable policy climate will continue to support healthy growth. The outlook for credit may well tighten, but the regional financial system—which is still mainly built around bank credit—should be largely insulated from the huge deleveraging now under way in the US (ADB 2008: 4)

Immediately following, though, it spelled out the approach it would take for the longer term, picking up on a familiar theme: 'There should be no room for complacency. Asia’s growth is neither preordained nor guaranteed, and if economic vigour is to last, countries must address a raft of challenges' (ibid), and went on to announce that this issue 'looks beyond Asia's immediate issues and investigates the different challenges related to the creation of productive work and jobs in Asia' (ibid: 5), following on directly from the 2007 *Outlook*. The theme of the jobs section, going to the heart of the issue of creating the largest possible efficiently exploitable proletariat, could have come straight from the OECD at any point since the early 1990s (and was supported here from OECD sources) - the skills crisis must be addressed, and the huge number of young people on the margins of the labour market must be brought into it as productive workers through 'more flexible regulatory frameworks, suitable education, skills training, counselling, and the utilization of public-private partnerships (ibid: 41). A study of youth and employment in India, Indonesia, Philippines and Thailand led to recommendations for easing obstacles for entrepreneurs (following the World Bank's *Doing Business* series), providing sound economic management, an enabling business climate and a flexible labour market (with reduced job protection, and active labour market policies, and avoiding a minimum wage), and improving education and training, especially for girls and the poorly educated (ibid: 51-56, Box 2.1.2, p. 52).

A separate chapter documented the skills gap, with reference to China, India, Malaysia and Thailand, drawing on data from the Economist Intelligence Unit and the World Bank Enterprise Surveys, and a third, 'Asian workers on the move,' made the case for liberal migration policies (again, a core issue for the OECD). The latter in particular made an uncompromisingly global liberal case, along with the claim that developing Asia 'has the potential to reap big gains from easier migration' and the pragmatic suggestion that failing international agreement on this contentious issue, 'Asian countries could reap important gains by working together' (ibid: 77-8). Its spirit was summed up by the title of the final section, *Migration: a win-win proposition* (ibid: 87-93). This highlighted the emergence of labour-surplus (largely South Asian) and labour-shortage (largely East Asian) economies in the region, and argued that with greater regional cooperation over managing labour flows, economic migration could 'alleviate excess demand for labour, create decent and productive jobs for millions, and facilitate further economic growth, 'while providing welfare gains for sending and recipient countries alike (ibid: 88).

Asian Economic Outlook 2009: Rebalancing Asia's Growth

By 2009 it was no longer possible to imagine that Asia could largely escape the consequences of the global financial crisis, and the annual *Outlook* duly recognized that the downturn would have a significant impact on growth, particularly in the Newly Industrialized Economies. In response, it continued to focus on intra-regional and domestic policy, and argued that rebalancing towards domestic demand was in developing Asia's self-interest, but also that 'a wide range of government policies, ranging from boosting domestic consumption to promoting more competitive domestic markets, will be required to facilitate the transition of the region to a more balanced growth path' (ADB 2009: 49). The strategy advocated, principally though not exclusively addressed to China, was one that explicitly moved Asia in the direction of 'modern capitalist institutions' oriented towards global competitiveness. It showed the Bank taking advantage of the circumstances created by the crisis to push for a step change in the institutional structure of Asian capitalism, consistent with each of its key principles - the further building of the world market, the transformation of social relations, and the intensification of domestic and global competitiveness.

Global imbalances, in the Bank's view, played a significant part in the global financial crisis, in that excess savings in the emerging economies generated low-interest financing that facilitated the massive extension of credit to high-risk borrowers in the United States - a development, of course, that owed as much to unsound macro-economic policies and inadequate prudential regulation as to the availability of low-interest funds (ibid: 53). To the Bank, this was perverse. Ideally, surplus funds in emerging economies should be distributed between productive investment and consumption in order to achieve the optimal outcome for global growth.

On this logic, the source of Asian surpluses came under scrutiny. Generated by 'the exceptional success of developing Asia's outward-looking export-oriented growth strategy,' they might appear to suggest to developing Asia's policy-makers that 'there is no need for adjustment - that the region can return to the pre-crisis dependence on exports as the primary growth engine' (ibid: 56). This was not desirable, however, because of the heavy price that would be paid in terms of growth and welfare; and it was probably not sustainable in the foreseeable future anyway:

> The global crisis, as profound as its impact will be on developing Asia, did not create the need for rebalancing. Rather, it introduces an added urgency to rebalance growth. Increasing the importance of the region's domestic demand precludes a return to unsustainable current account surpluses (with the risk of future crises, as new imbalances are unwound). Moreover, a more balanced growth strategy can enhance social welfare (ibid)

Faithful to its analytical approach rooted in classical political economy, the Bank looked for the structural causes of the global imbalance, identifying a conjuncture after 1997 in which current account surpluses began to develop. There was no single cause (some was due to perhaps excessive prudential accumulation of reserves in the wake of the Asian financial crisis, for example), and after reviewing various of the explanations that had been put forward, including a number from the IMF, it declared that 'the region's high and rising savings rates remain largely unexplained' (ibid: 62). In search of a cogent explanation, it first recognized the reality of both over-saving, and under-investment (a formal identity, but potentially arising from various mixes of causes), and noted that the costs of over-saving related to *welfare*, and were 'especially high in a poor country with low consumption levels and living standards,' while the costs of under-investment related to foregone *accumulation*: 'The main tangible costs of a slower-than-optimal rate of capital accumulation are a reduction in future productive capacity and future rates of economic growth' (ibid: 64). The question then became: why did Asian economies (and China in particular) favour the sub-optimal piling up of reserves, as opposed to the building of further productive capacity?

The answer given was that economies in Asia are not characterized by, and governments are not fully committed to, a regime of accumulation based upon risk-taking by private capital in a competitive market. States with too predominant a voice in investment and allocation decisions preferred to rely upon rents that may be suboptimal in terms of their return, but had the virtue of making the return to the state, not to private capital. Now, the crisis represented 'a wake-up call for policy makers to take concrete actions to rebalance their economies on a sustained basis;' however, '*rebalancing does not imply turning back from the economic openness and integration into the world economy* that has delivered enormous benefits for developing Asia in the past and will continue to do so in the future' (ibid: 66, emphasis in the original). From this point it becomes clear that the Bank's perspective, initially couched in terms of the need to expand consumption, actually revolved around the need to effect a step change in the production regime. This meant 'creating an enabling environment for the private sector'- so that in the longer term the region could progress from being dependent on 'external' demand to being an integrated regional economy:

> While intra-Asian trade has superficially experienced impressive growth in recent years, much of it is trade in intermediate goods geared toward exporting final goods to countries outside the region. More robust domestic demand for final goods within regional countries will allow for more substantive intra-regional trade along the lines of the European Union. As the region's incomes rise, consumers will demand more product variety and this demand will create a greater potential for intra-industry trade (that is, trade in which a country simultaneously imports and exports similar products) in differentiated products among regional countries (ibid: 68).

In its ensuing investigation of the 'low-investment' phenomenon, the Bank addressed the puzzle that despite the apparent scope for expanding productive investment to raise incomes and reduce poverty, there was a preference to retain surpluses instead, noting that if the explanation lay in policy distortions, 'the key to restoring investment and growth is to remove the various policy distortions that shackle entrepreneurship and risk-taking' (ibid: 69). What followed constituted a master-class in the construction of a narrative, in which the Bank first neutralized unhelpful econometric evidence, then delivered an analysis that revealed its character as a representative of global capital.

Towards a new growth strategy for Asia: the ADB on rebalancing

For the Bank to make its case, it needed to dismiss the hypothesis that levels of investment and savings were 'too high' before the Asian financial crisis, and therefore arguably in line with fundamentals in its wake. Unfortunately, from its point of view, the model of saving and investment used (ibid: Box 2.3.1, p. 75) suggested that the investment rates of most Asian countries were 'appropriate to their income levels,' while China (along with Singapore) showed 'some signs of persistent over-investment' relative to its income level, and the five Asian crisis-affected countries 'also display evidence of investing too much in the period immediately preceding the 1997-98 contraction' (ibid: 76). On the latter,

> The results provide stronger support for the hypothesis of over-investment prior to the Asian crisis rather than underinvestment in the wake of this disruption. The evidence of pre–Asian crisis over-investment is stronger for Malaysia and Thailand than for Indonesia, Korea, and Philippines (ibid).

The Bank's first step was to cast doubt on the result:

> For example, Malaysia and Thailand are middle-income countries that are seeking to move up the global value chain by shifting their output structure away from labour-intensive goods to skills-, capital-, and technology-intensive goods. Therefore, investment in those two economies is complicated by ongoing structural changes, and depends on an adequate supply of complementary factors such as skilled labour. Korea, as a more mature high-income economy, differs from the other four crisis-affected countries as diminishing returns to capital may have already set in. In such conditions, the decline in the investment rate in Korea is least likely to reflect under-investment. Finally, Indonesia and the Philippines are at income levels at which one can expect high marginal returns to capital. However, deep-seated structural weaknesses in the investment climate, such as inflexible labour markets, poor infrastructure, and weak governance, may be holding back investment and keeping growth below its potential (ibid: 77).

Unfortunately, this made matters worse - if investment had in fact been *held back* in the Southeast Asian cases, the results were even harder to explain. The Bank responded by throwing doubt on the quality of the data: 'While the empirical results do not find evidence of underinvestment in developing Asia, this finding should be interpreted with caution due to data limitations': disaggregated data would help (different types of investment, firm-level and industry-level data); political stability and the rule of law might be factored in, as might the quality of public investment in infrastructure; the ratio of broad money to GDP as a proxy may not accurately capture differences in the quality of financial intermediation across countries. So, the Bank concluded, 'the lack of empirical evidence on underinvestment does not imply policy inaction' (ibid). Four further considerations followed:

> The optimal level of investment will depend on the business environment. Firms may be making the appropriate amounts of investments given the constraints they face, but mitigating those constraints will unleash the full investment potential of the private sector. For example, financial underdevelopment deprives firms of instruments to adequately cope with the risk and uncertainty, which are intrinsic components of any investment. Investment may be more or less optimal given the low level of financial development, but in this case the more fundamental policy challenge is to speed up financial development, which, in turn, will help improve the investment environment.
>
> If labour market rigidities or poor infrastructure lower the returns to investment, the private sector may be investing at optimal levels (given such investment-climate impediments), but the relevant policy challenge is to alleviate such impediments so as to unleash potential investment
>
> Changes in corporate structures were made in the Asian crisis–affected countries as part of their recovery from the 1997–98 contraction. Implicit government guarantees for investments and poor corporate governance (such as cross-subsidies between component firms of a conglomerate) may have encouraged firms to take risks and hence to make investments in the pre-crisis period. While such distortions might have led to over-investment, they were nevertheless a mechanism for companies to cope with risk and uncertainty. After the Asian crisis, improved public and corporate governance may have created a vacuum in risk-coping mechanisms.
>
> While an efficient financial system would provide tools for firms to cope with uncertainty, developing Asia's financial systems continue to lag development of the real economy. Developing broader, deeper, more liquid financial markets—in other words, financial development—would help revive investment momentum (ibid: 77-8).

So firms were acting rationally, given a defective business environment, and it was that that should be corrected. Improvements in the business environment, infrastructure, financial sector development and the regulation of the labour market, would lead to enhanced investment as entrepreneurs responded to improved market conditions. In the absence of such conditions, 'over-investment' did take place, in the sense that implicit government guarantees and the capacity of large corporations to cross-subsidize enabled investment that was not justifiable or desirable in an undistorted market. In other words, the econometric analysis did not capture the fact that the *wrong kind of investment* was taking place, so although the *sum* of investment was apparently 'right', its *composition* was not.

The same econometric exercise also suggested that China and the crisis-affected Southeast Asian countries were saving 'too much' before the crisis, but the latter were shown to be saving more *after* the crisis, and again the Bank advised that 'the results should be interpreted with caution':

> A plausible interpretation is that precautionary saving may have increased since the crisis. Given the wrenching socio-economic havoc wrought by the crisis, both households and firms have had a strong incentive to save more for contingencies. The heightened post-Asian crisis caution is a perfectly rational response to the experience suffered, and this weakens the case for equating unexplained saving as over-saving. By the same token, it would be inappropriate to interpret the fact that fundamentals cannot explain much of the PRC's saving behaviour as prima facie evidence of over-saving. In the PRC and elsewhere, firms and households may be saving optimally given the constraints they face, such as financial underdevelopment (ibid: 79).

In the case of China, then,

> Robust economic growth, low interest rates, falling labour costs, and growing output prices significantly increased the profitability of state-owned and private enterprises (IMF 2005). High firm-level uncertainty—an incentive to reduce debt—and underfunding of company pensions encouraged larger cash holdings, which in turn added to saving. Government policies helped further induce high corporate saving in the PRC. Massive state subsidies for land and energy to state-owned firms reduced their input costs substantially. Combining these subsidies with administrative monopolies in some cases led to high levels of profitability in the corporate sector, with the boom years generating rising profits until mid-2008. These profits produced large retained earnings (gross saving) owing to low dividend payout ratios (Tyers 2008). Until very recently, state-owned enterprises were not required to pay dividends to their shareholders or to the state, thereby creating an incentive for these firms to retain their profits rather than distribute them. When they are made, Lin (2009) argues that payouts from large and profitable firms go disproportionately to the rich, who have higher saving propensities than the poor, adding to the saving spiral (ibid: 83).[1]

Not only the wrong kind of investment, then, but also the wrong kind of saving was taking place, as a consequence of perverse incentives arising from incomplete reform.

[1] Sources cited are IMF, 'Global Imbalances: A Saving and Investment Perspective', *World Economic Outlook 2005*, Washington DC, 2005, 91-124; Justin Lin, 'Paradigm Shift on Both Sides of the Global Imbalance', Paper presented at the Brookings-Caijing Conference, Washington DC, 2009; Rodney Tyers, 'Competition Policy, Corporate Saving and China's Current Account Surplus', CAMA Working Paper 21, 2008, Australian National University.

Firms in China did not face the disciplines of the market, or enjoy the opportunity of access to the financial market. Either way, market forces were not able to work to maximize productive investment. Similar distortions affected household saving, where precautionary motives tempted families to save, in the absence of social protection, the limited development of the financial sector, and the high cost of education and health care outside the public sector. In China, then, conditions reflected a moment of incomplete transition between a socialist and a market economy:

> In the process of restructuring the economy toward a market-oriented system, traditionally high social transfers were reversed. Education and health lost government support and became private and expensive. The total budget allocation for health and education combined stood at around 18% of total government expenditure in 2007, well behind peer countries' standards. Health expenditure-related risks can largely explain the dramatic increase in saving rates among elderly households. The uncertainty related to those expenditures can also increase aggregate saving rates, despite the higher consumption expenditures of households suffering an adverse health shock (ibid: 91).

The Bank, then, explicitly viewed China as in *transition* to an economy shaped by market forces, and expected current patterns of behaviour too to prove transitional, and to fade eventually 'as households adjust their consumption plans and build up a level of assets appropriate to this post-transition environment' (ibid: 92). This logic was reflected precisely in the case made for a comprehensive regime of health care, education and social protection, appropriately attuned to the need for 'efficiency':

> the provision of comprehensive social health care can play an important role in influencing household saving behaviour. Improvements in social safety nets in general would pool the risks associated with idiosyncratic income shocks and health expenditures, reducing the need for households to save in order to self-insure against these risks. Increasing public provision of education could also lower household saving by reducing the need to accumulate assets to finance future education expenditures. Hence policies that rationalize public spending to increase social transfers, reform pension systems, and provide universal health care insurance and education are top priorities. These policies will not only generate short-term demand for education and health services, but also ensure long-term human capital investment, promote lifetime earnings, and create greater economic potential. Higher spending on social safety nets would boost domestic demand by freeing household resources. The effect would be stronger if spenders, including the poorest people, are influenced more than savers. Policies to shore up domestic demand should therefore include the poor through targeted transfers. When directed to the poor, such funds will not be saved, but used to buy goods and services, supporting the broader economy through a multiplier effect. An expansion of social services will increase government consumption as well, but attention also needs to be paid to improving the

> efficiency of public spending (ibid: 93).

The significance of this passage is not only that it showed the Bank advocating an internally consistent set of policies that would achieve a harmonious rebalancing of Chinese society, but also that it reflected the presumption (contrasting with the situation in Europe and the United States) that there is room for wages to rise, and welfare (social protection) to be extended, so long as the resulting system is ruled by the law of value and exposed to the disciplines of competitive capitalism. As the Bank summed up the analysis before turning to the issue of rebalancing trade:

> policies that can shift household saving toward consumption and channel corporate saving into productive investment will help reduce the existing saving–investment gap in Asia, and thereby lead to a reduction in global imbalances (ibid: 94).

On trade, the Bank highlighted the large and growing share of vertically integrated production, the sophisticated character of manufacturing sectors, and the increasing integration of the Asian economy, with 48 per cent of manufacturing trade now within developing Asia, compared to 18 per cent with North America (NAFTA), 16 per cent with the EU15, and 13 per cent with Japan - in Southeast Asia, the share had reached 52 per cent (ibid: 99). A structural shift was taking place to trade in machinery and transport equipment, and particularly parts and components, driven by rapid advances in production technology, innovations in transport and communications, and the lowering of barriers to trade and investment as a consequence of liberalizing policy reforms (while real exchange rate movements in comparison had little effect). As the developed world remained the final destination of the majority of export production, though, the global financial crisis was bound to have a significant effect on demand - estimated here as translating into a total of 6-10 per cent of GDP by the end of 2010 (ibid: 107). It was all the more important, therefore, that protectionist impulses should be resisted. Hence, 'greater cooperation among developing Asian countries can also promote a more balanced trade structure' (ibid; 108). As remarked in previous editions,

> Intra-Asian trade has grown rapidly in recent years, but it is still largely based on intermediate rather than final goods. The trade structure remains heavily dependent on demand for final goods from the US and Europe. Essentially, if the entire region is viewed as a single economy, it suffers from an excessive dependence on external demand. Removing trade barriers among countries within developing Asia—most ideally in the form of unilateral policy reforms implemented according to a region-wide action plan and done on a most favoured nation basis—would help stimulate intra-regional trade and hence the “domestic” economy of the region (ibid).

Box 2: A New Growth Strategy for Asia

Policies to strengthen domestic demand

Policies that transfer more corporate saving to households and that dilute the precautionary motive for saving among households will strengthen domestic consumption

Transferring corporate saving

The region's governments should consider encouraging firms to pay dividends to stockholders. They should likewise promote corporate governance and use the tax system to distribute profits to households. Such policies will strengthen the link between corporate profits, household income, and consumption.

Diluting the precautionary motive

Policies that mitigate the risk and uncertainty that households face will encourage them to save less and spend more. To some extent, greater state provision of health care, education, and pension benefits will substitute for private consumption (though reducing risk and uncertainty surrounding health care spending will likely result in higher levels of spending overall). More generally, more extensive social safety nets will boost consumer confidence and consumption.

Enhancing the investment climate is a greater priority than expanding investment

Expansionary fiscal policy to mitigate weak short-run demand can lay the foundation for more robust domestic demand

In a quantitative sense, .. investment may be more or less at the "right" level, which weakens the case for policies that directly promote accumulation of capital. Instead, policy makers should concentrate on enhancing the investment climate which, throughout the region, still lags far behind the world's most competitive economies

Policies to alter the production structure

Supply-side policies that promote smaller companies and service industries will increase the relative importance of production for domestic demand

Increasing the internal dynamism of the domestic economy

Key structural measures are increasing the internal dynamism of regional economies by further deregulating tradable and non-tradable sectors, reducing barriers to entry and exit, and promoting greater competition in areas such as telecommunications, public utilities, and service industries. To promote competition, policy makers should pay greater attention to reducing the costs of new-firm entry, easing cumbersome licensing systems, and removing features of tax systems that raise the costs of setting up new businesses. These measures are particularly beneficial for the small- and medium-size enterprises that usually dominate service industries. More flexible and efficient labor markets will also promote the internal dynamism of regional economies. From a broader perspective, internal dynamism will require a larger role for knowledge-based industries and innovative economic activities. Successful development of such industries and activities depends on technological progress and accumulation of human capital.

Changing the structure of output

A legacy of the region-wide trend toward export-oriented industrialization is a set of policy distortions that favoring manufacturing over services and hence production of tradables over non-tradables. In particular, interest rate controls kept the cost of capital artificially low for the select few firms with access to capital—primarily large manufacturers that dominated the export sector. This has led to a capital-intensive pattern of growth and development throughout developing Asia. It has also constrained the access of small and medium-sized enterprises to bank loans and has thus stunted their growth. Regional governments have also deliberately given preferential tax treatment and other fiscal incentives to export-oriented manufacturers as a means of fostering their growth. In some countries, policy distortions included underpricing of key manufacturing inputs such as land, energy, electricity, water, and the environment. Removing pro-manufacturing and pro-export policy distortions will be critical to aligning Asia's supply structure more closely with its demand structure.

Box 2 (cont): A New Growth Strategy for Asia
Policies to alter the production structure (cont)
Promoting competition Competition increases the efficiency of industry in both static and dynamic terms, and thus contributes to the internal dynamism of Asian economies. Such efficiency gains are likely to be especially large in the region's service industries, which cater largely to domestic demand. In those industries, policy distortions have stifled competition in many countries. Given the central role of financial underdevelopment in the region's unbalanced growth, promoting competition in the financial sector will be vital. Greater competition can also boost demand, in particular consumption, by bringing about lower prices and thus increasing the purchasing power of households.
Policies to facilitate the supply-demand balance
Accelerating financial development will channel more of Asia's savings into investment within Asia, and contribute to an output structure more closely aligned with domestic demand Financial development will channel domestic savings into productive investment rather than low-yielding foreign government bonds. At the same time, it lessens the need for precautionary household saving and thus encourages greater consumption. On the supply side, a paucity of new financing keeps down the number of business start-ups, which are essential to a dynamic domestic economy. Policy makers should therefore strive to facilitate firms' access to new financing, in particular from commercial banks, which still form the backbone of Asian financial systems. They should also speed up the development, and improve the efficiency, of domestic capital markets so as to provide alternative channels of financing for such start-ups. New firms are especially important in knowledge-based industries—again, vital for internal dynamism. More generally, small- and medium-sized firms tend to predominate in the services sector, which caters largely to domestic demand. So, ensuring that such firms have adequate access to credit will help align the output structure toward domestic demand. **More flexible exchange rates will promote consumption and induce a sector reallocation of production** On the demand side, the immediate impact of stronger regional currencies is that of lowering the price of imports, which would stimulate consumption. More generally, currency appreciation raises the purchasing power of households and thus raises their consumption potential. On the supply side, stronger regional currencies will raise the relative price of the region's exports and thus damp external demand for them.
Global efforts and regional cooperation
Resolving global imbalance requires global efforts The current crisis .. calls for a reform of the global financial architecture. The world .. needs to fortify the current reserve system, including a hefty increase in IMF resources. However, it is critical to reform IMF governance to help restore the region's confidence in that body, which eroded during the Asian crisis. More specifically, IMF's internal governance structure must change to give developing countries, particularly in Asia, a voice more appropriate to the region's share of world output and trade. **Intensifying regional cooperation will strengthen buffers against large external shocks** Domestic demand expansion and intraregional trade liberalization can form a mutually reinforcing virtuous circle. A strong case for foreign exchange policy dialogue or coordination can likewise be made. Maintaining the stability of currency movements between regional trading partners can facilitate intraregional trade and investment flows.
Source: Asian Development Outlook, 2009, pp. 110-116.

The Bank advocated, therefore, the construction of a 'larger pan-regional market' that would facilitate economies of scale and specialization, increase regional demand for final goods, and promote an agreement to halt any new protectionist measures.

The 2009 *Outlook* was a significant document, because in the guise of a programme for rebalancing Asia's growth it set out a plan not only to internalise the sources of growth but also to reshape relations between governments, capital and labour in order to unleash competitive forces - principally by changing the institutional context faced by businesses and workers alike. In each of the proposals it made for change, it sought to reform basic institutions in order to change the pattern of incentives and thereby the risks and opportunities that individuals and businesses faced. This was apparent in the summary set of recommendations that came at the end of the thematic chapter on rebalancing - advocating 'a new growth strategy for developing Asia'. Key extracts are reproduced in Box 2 above.

In the view of the Bank, then, the global financial crisis did not cause imbalances, but simultaneously revealed them and created an opportunity to address them. Even before the 'current financial meltdown,' the Bank argued, the region was paying a heavy price for its unbalanced growth model - a price that included 'not only welfare costs associated with consuming too little, but also opportunity costs arising from the failure to use savings productively' (ibid: 110). It therefore made proposals not only to strengthen domestic demand, facilitate supply-demand balance and contribute to global and regional cooperation, but also to *alter the production structure*, and in all four cases the underlying logic was the logic of global competitiveness. As suggested in that logic, the Bank positioned itself as a partner of countries engaged in the political economy of reform - and it oriented its proposals towards the simultaneous development of competitiveness within individual countries, at a regional level, and across the global economy as a whole. As outlined at the outset of this paper, it addressed both dimensions of the project of building a global capitalist economy - the completion of the world market, and the transformation of relations of production, with the latter now taking pride of place.

Asian Development Outlook 2010: Macroeconomic Management Beyond the Crisis

The 2010 *Outlook* was largely concerned with adding analysis and detail to the long-term programme for transformation of the region set out in the previous year, in the context of continuing crisis in the West, and established recovery in Asia. As such, it can be dealt with briefly. Its first theme was that sound fiscal, monetary and exchange rate policy frameworks had to be put in place as a foundation for sustainable growth in a global environment still beset by risks. A significant second line of argument was that as the global crisis would reduce demand in the industrialized West for the foreseeable future, rebalancing was an urgent necessity. Overall, though, the tone was set for the thematic chapter in the concluding statement of the preceding analysis of performance over the previous year:

> Developing Asia quickly and strongly bounced back from the recent crisis. In fact, it led the world out of recession. This marks a complete reversal from the Asian crisis of 1997–98 when the region exported its way out of trouble. What is all the more remarkable is that the region's turnaround has taken place against the backdrop of sluggish recovery in industrial countries. How did developing Asia manage to bounce back so quickly while its main export markets have yet to fully recover? First, due to limited exposure to sub-prime assets, the region's banks and financial systems continued to function normally even during the depth of the crisis. The region is largely free from the structural problems, such as the high household debt plaguing the US. Second, and far more important, was the large fiscal and monetary stimulus. Still, Asian policy makers should be extremely cautious about reading too much into the apparent effectiveness of the fiscal stimulus during the global crisis, in particular, drawing lessons for normal non-crisis periods. For one, Asia's unprecedented fiscal expansion represented an extraordinary response to an extraordinary shock. As noted earlier, fiscal stimulus can have an enormous confidence-boosting effect during a severe shock. This benefit is much less important during a regular business cycle downturn. Furthermore, it was precisely because Asia had ample fiscal space, the consequence of years of sustained fiscal prudence, that it was able to quickly unleash huge fiscal stimulus packages. More fundamentally, fiscal discipline laid the foundation for macroeconomic discipline and sustained growth in the past. Part 2 explores this issue further—should Asia pursue fiscal and monetary activism after the crisis, or is it better served by a return to its basic macro-economic framework of monetary and fiscal prudence? (ADB, 2010: 40).

This was a nuanced message. On the one hand, Asia had 'bounced back,' and 'led the world out of recession' on the strength of domestic demand rather than 'exporting its way out of trouble'. On the other, this had been due to a mix of strong fundamentals *and* a large fiscal and monetary stimulus. care had to be taken in drawing conclusions for the longer term, and it was to this issue that the thematic chapter was devoted.

The Bank began by insisting that 'Asia's decisive monetary and fiscal response was entirely appropriate and necessary'; and it recognized that the global crisis had been a 'game changer', in that it highlighted the 'potentially valuable role' of counter-cyclical macro-economic policy (ibid: 44). In these circumstances, the message from the Bank was simple: 'Asia's decisive monetary and fiscal policy stimulus represented an exceptional response to an exceptional shock, and therefore drawing policy lessons from the global crisis and applying them to the normal non-crisis period, to which the world economy is gradually returning, would be dangerous' (ibid: 45). A number of clear conclusions followed: the risk of asset price bubbles must be averted at all costs, exchange rates should be flexible, capital flows should be selectively restricted, and fiscal 'activism' should be restricted to automatic stabilizers (rules-based tax and transfer programmes). In general, the crisis could be a source of valuable lessons for improving and strengthening macroeconomic policy, but 'nothing in the global crisis calls for altering the region's monetary and fiscal prudence' (ibid: 46).

In this context, the positive argument made by the Bank was that as there could be no return to the export-led growth of the past, for lack of external demand, and as 'the overriding policy objective remains the achievement of high but sustainable output growth,' there was scope to promote the necessary rebalancing by adapting existing policies while respecting 'long-term policy discipline' (ibid: 47). If anything monetary policy had been too lax during the crisis period (ibid: 56), and one lesson learned (if belatedly) was that strong and effective regulation of the financial sector worked best, and a range of micro-measures were available for an independent financial authority charged with restraining undue increases in asset prices (ibid: 60-61). On exchange rate policy, there was no one single best answer, but the goals were clear - to avoid excessive build-up of precautionary reserves, to facilitate effective 'global production sharing', and to keep any volatility in line with macro-economic fundamentals. For all these reasons, 'central banks in the region should allow the exchange rate to adjust and fall into line with its so-called equilibrium or fundamental level, ' and loose policy coordination should be initiated, (ibid: 68, 70). Finally, as regarded fiscal policy, the Bank documented a substantial region-wide programme of fiscal stimulus, primarily focused on infrastructural investment, and concluded tentatively that government spending had a positive effect in developing Asia, but warned against 'unwarranted conclusions about the desirability of countercyclical fiscal policy in the post-crisis period' (ibid: 80). It came down strongly in favour of further development of currently limited pro-poor automatic stabilizers in the form of social insurance and assistance programmes (ibid: Box 2.4.1, pp. 82-3), and concluded that maintaining fiscal prudence would be 'pivotal to securing the fiscal space the region will need to tackle future shocks' (ibid: 86). This is all the more the case because continued fiscal stimulus would risk a deterioration in fiscal sustainability, and make only a short-term and counter-productive contribution to rebalancing:

> Beyond the crisis, sustainable rebalancing that weans the region from its excessive dependence on exports requires robust private consumption and investment. The key to strengthening Asia’s private consumption and investment in the medium and long term is to remove the structural impediments and distortions that has constrained domestic demand and favoured the production of exportable goods (ibid: 88-9).

Throughout, then, the Bank stuck to the principles espoused in previous *Outlooks*, regarding the need to combine macroeconomic stability with appropriate structural reforms.

Asian Development Outlook 2011: South-South Economic Links

The 2011 *Asian Development Outlook* identified two challenges - the first to tackle rising inflation, on which it largely advanced the same analysis and advice it offered in 2010, and the second to foster new sources to sustain the region's growth into the future. It identified improved South-South relations as a potential new driver for global growth, and set out a policy framework for deepening economic links, centred as always on structural reform. The strategy proposed was fully in line with previous commitments to switching precautionary savings into productive investment, rebalancing, and removing barriers to trade and investment, and promoting both regional and global integration, but was now supported by empirical analysis of growing South-South trade, and a direct focus on the potential sources of new growth in a world in which industrial countries were 'unlikely to drive global growth any time soon' (ADB, 2011: x).

The starting point for the analysis was the observation that recovery from the global financial crisis was marked by 'an interesting bifurcation': 'the developing world has made a rapid return to its pre-crisis growth path while major industrial countries continue to struggle' (ibid: 3). In this new context, the Bank noted the need to intensify efforts towards greater regional integration, but added that there was 'huge potential beyond the region's boundaries' - in Africa, Latin America and the Middle East. 'At a time of modest growth in industrial countries,' it suggested, 'improved South-South relations may well become an important new driver for global growth' (ibid). This was a consequence of structural changes in the global economy. A 'notable shift' (ibid: 11) had been under way before the crisis and was now accelerating, with developing Asia now 'a major player in the global landscape':

> *In fact, when developing Asia and Japan are considered together, they are one of three main hubs of the global economy*, along with the US and EU. And the region is now the world's largest net exporter of capital. The crisis in fact marks a significant milestone, proving that the region has evolved and can now withstand even a colossal external shock. When the financial crisis that originated in the US intensified and led to a collapse in output and trade, the region's surprising resilience had global benefits (ibid: 12, emphasis mine).

It was of course significant that the Bank now saw Japan as part of an Asian hub in the global economy. Like South Korea, Japan's trade was increasingly oriented towards China and Southeast Asia, particularly as a consequence of the increasing importance of 'fragment production' or 'regional production sharing'. In addition to charting the recovery of Asia, across all regions, the Bank drew attention in its annual overview to the 'solid rebound' of the non-Asian developing world - with Africa, Latin America and the

Middle East recording growth of 4.7, 5.7 and 4.1 per cent respectively in 2010. As it summarized the situation, 'the South as a whole has outperformed the North since the start of the crisis and is projected to do so in the near future' (ibid: 34). This was a consequence of the 'asymmetric' character of the crisis - a passing external trade shock for the South, but an internal financial crisis with lingering effects for the North (US and EU). The 'financial underdevelopment' that had in part protected the South would need to be addressed in order to facilitate the efficient allocation of capital that long term growth would require, but at the same time 'long-term structural factors such as the law of diminishing marginal returns to capital and technological catch-up also strongly favour the South, which still remains far poorer than the North" (ibid: 35). For this reason, the annual overview finished with a clear focus on its new perspective and its link to 'strong fundamentals':

> Still, there is nothing automatic about the process: developing Asia must continue pursuing closer trade, investment, and other economic links with other parts of the South, an issue examined in Part 2. The fact that the non-Asian developing world's improved performance in recent years is partly due to stronger fundamentals and policies further reinforces the case for seeking closer ties. While those links are underdeveloped at present, the global crisis highlighted the large potential for mutual benefit. For example, developing Asia (including the PRC) is likely to have been a major source of growth in global demand for commodities, a key export for the non-Asian developing world. Broader and deeper South–South links will not only benefit the South, but also the North and the world economy by strengthening the South (ibid).

The second part of the *Outlook* then addressed South-South economic links, arguing that developing Asia (which contributed 51 per cent of world growth in 2010) should 'look South' in order to make welfare gains, share knowledge, and address global imbalances. This was a shift of geographic orientation in what remained a classical approach to political economy - in terms of open markets, efficiency, and the pursuit of increased productivity, not a call for unorthodox policy measures, and it was premised on the prospect of slow growth in Europe and America, and the potential reflected by the 'yawning gap' in living standards (a ratio of more than five to one) between the North and the South. With South-South trade at 17 per cent of the world total (up from 7 per cent throughout the period from 1955 to 1990), there was evidence of rapid growth and of significant scope for expansion, especially as the bulk of it remained within developing Asia (ibid: 39-41); the model of 'factory Asia' could be exported to Africa and Latin America and re-oriented towards producing price-sensitive final goods for customers in the South; and Asia's own rapidly growing middle class could absorb the high-quality products previously exported to the North; South-South knowledge exchange could boost efficient development solutions based on easily adaptable

Southern expertise; and new drivers of aggregate demand could rebalance global growth. This reflected the grossly uneven development of the global economy over two centuries, the orientation of the economies of the South predominantly to those of the North, and the lack of priority attached either to regional integration, or to South-South links. As with other issues, it was the accelerating evidence of material changes that made a focus on South-South integration timely and realistic.

All this depended, however, on policy action to address 'persistent trade barriers and uncompetitive domestic industries that are likely to be dislocated and crowded out as economies adopt more open policies' (ibid: 42-3). So the chapter went on to rehearse the agenda for structural reform already spelled out in previous *Outlooks*, but to link it to a detailed analysis of the growing reality of deeper South-South integration, and the structural obstacles to its rapid consolidation. As trade would continue to be an engine of growth, trade and non-trade barriers should be addressed (higher than those relating to North-South trade, with average applied tariffs alone nearly three times higher at 9.3 per cent as against 3.2 per cent, and customs clearance for imports and exports taking two to three times as long even within Asia as the OECD average); financial markets and regulatory structures should be reviewed, with a view to putting surplus savings to work in productive investment across the region, for which in turn it would be necessary to 'create a regional and domestic enabling environment that will attract finance to flow into local investments in the region; and care would need to be taken in the non-Asian South to 'exploit gains from trade while avoiding the downside of specializing in natural resources' (ibid: 45, 47).

At the core of the chapter was a 'simulation of South-South trade' suggesting that its share of global trade could double over two decades, with significant welfare gains. If achieved, this would build on changes taking place since 1990:

> Starting around 1990, a rapid upward trend set in, which has since seen the growth of South–South trade outpacing that of total world trade in both exports and imports. During 2000–2009, the average growth of South–South trade accelerated to 16% a year, from 14% in 1990–1997. By comparison, the expansion of world trade was much slower during both periods, at 5.5% and 6%, respectively. Consequently, the share of South–South trade in world trade rose from 7.4% in 1990 to 10.3% in 2000 and 15.3% in 2007. Due to emerging markets' higher resilience to the downturn of global trade during the recent crisis, world exports plunged more steeply than did South–South trade, as a result of which the share of South–South exports in world trade increased further, to 17.3% in 2009 (ibid: 48).

As this passage clearly reflects, the Bank now identified 1990 as a fundamental turning point, and the post-2007 crisis as effecting a further significant shift. With three quarters of South-South trade within developing Asia, the potential for change was squarely in the incorporation of other regions of the South - Africa, Latin America and the Middle East - into Asian trading and production networks - as highlighted by the fact that as of 2006-7, only 16 per cent of exports from Middle East and 9 per cent from Africa and Latin America went to developing Asia, while 'these regions took small shares of Asian exports, with the Middle East highest at only 4%' (ibid: 53). As the Bank noted, this was already changing rapidly, due to the surge of trade with China - dominated by imports of commodities from Argentina, Brazil, Chile and Peru in Latin America, and oil in particular from Angola, Equatorial Guinea, Nigeria, Republic of Congo and Sudan in Africa. Again, the policy message was clear:

> further tariff reductions and easier access to Southern markets through improved road and ports infrastructure, efficient logistics, and better customs procedures, among other factors, which in turn facilitate closer integration and more trade among countries in the South, are likely to generate benefits beyond those that accrue from the South's closer integration with the global economy in general (ibid: 56).

This was one dimension, then, of the narrative developed by the Bank to encourage its members to prioritize South-South trade and investment - backed by considerable investment by the Bank itself in support for regional integration and physical and institutional infrastructure for trade in particular. The second dimension consisted of further analytical work to highlight the potential for initiatives in the area. Here the significant feature was again the focus on the difference that structural reforms could make. The core projection suggested that the South's share of global GDP could rise from 20 per cent in 2004 to 35 per cent in 2030, with China's share going from 6.9 per cent to 11.4 per cent, and the rest of developing Asia from 4.1 to 10.6 per cent, while the share of global exports going from 33 per cent to 55 per cent for the South as a whole, and from 18 to 29 per cent for developing Asia (and 7 to 20 per cent for China). As a consequence, along with related changes in patterns of imports, South-South trade could more than double as a proportion of world trade, from 12.8 to 26.5 per cent (ibid: 58-9).

The interest of the simulation comes not from the absolute values reported, however, but from the way in which the estimation of potential gains from reforms, in relation to the baseline scenario, was set up and presented. Four reform scenarios were assessed, with the fourth, South-South partial liberalization (intra-South tariffs reduced to the average levels imposed on exports from the South to the North), described as possibly the most realistic. This was said to raise the South-South share of global trade by 6.1 percentage points over the base scenario (ibid: 61). In other words, the narrative was organized in such a way as to highlight the opportunity for the South in the absence of any further liberalization at global level - placing the opportunity and the responsibility squarely in the hands and within the reach of policy-makers across the South. The emphasis was on self-reliance, and after some stress tests that confirmed the potential for Southern gains in more adverse contexts, three conclusions were drawn: 'lowering barriers to South-South trade, even to the levels prevailing in South-North trade, could bring three-quarters of the gains to Southern countries as would flow from a freeing of all countries' goods trade'; inclusive regional initiatives such as free trade on an MFN basis within the ASEAN+6 could deliver almost half the maximum potential gain; but growth in and demand from the North would continue to play an important part for the foreseeable future, even in the context of a gradual reorientation of trade (ibid: 63). Hence the Bank returned, at the end of the discussion on trade, to the need to pursue South-South liberalization within the framework of continuing broader global integration, rather than at its expense.

The Bank then addressed foreign direct investment in a similar spirit. In this area, as opposed to trade, developments were recent, and reflected a significant relative shift as a consequence of he global financial crisis. Briefly noting the positive role of inward investment in developing Asia in the past, the Bank quickly turned its attention to the recent emergence of the South 'as an exporter of capital both within and outside its own area, which has resulted in a surge of South-South FDI in particular' (ibid: 66). Again, developing Asia was the most important source, with Taiwan, Malaysia and Korea taking the lead relative to GDP and capital stock. Intra-regional investment was significant, and particularly tied up with expanded production networks and plant relocations, while increasing outward flows from China since 2002-3 were rapidly changing the picture. But with developments recent across the region and across the South, the Bank offered only a preliminary analysis, with little specific in terms of new policy initiatives. The same applied to the brief comments on labour migration, remittances, knowledge sharing and macro-economic cooperation that round off the chapter.

> South–South cooperation initiatives can be a powerful force for development and change. Closer ties will facilitate better sharing of goods and services, knowledge and technology, and even labor resources. This sharing, in turn, will afford more opportunities for countries in the South to grow economically. Integration of regional markets through the core areas of trade and investment will allow a better distribution of benefits from the growth process as well. Expansion of economic relations within developing Asia and across Southern countries will not only strengthen Asia's role as a driver of global growth, but also give its lagging states a chance to catch up with the leading ones. To fully realize these benefits, however, the South needs to address numerous bottlenecks—including outdated laws, regulations, and standards; barriers to trade; poor investment climates; low-quality infrastructure; and shortages of

> capital and skilled labor—all of which hamper the deepening and expansion of links among its economies. Still, the fact alone that the South recognizes the challenge is a good start to bring back its growth to a sustainable path (ibid: 81-2).

Three things stand out in this final summary. First, the focus is on strengthening Asia's role as a driver of global growth, reflecting a clear shift of perspective from the pre-crisis period. Second, though, it remains universal in scope, in that it aims to allow 'lagging states' to catch up with leading ones. Third, it drives home the same policy message as always - Asian countries need to eliminate the obstacles to deepening and expanding the links among its economies, in the markets for goods, capital, and labour. As always, the focus is on the regional and global deepening and expansion of capitalist disciplines and relations - with the novelty that Asia itself can lead the process. This new turn in the narrative, as always, followed an unexpected turn in underlying material circumstances.

Asian Development Outlook 2012: Confronting Rising Inequality in Asia

The broad stance of the 2011 *Outlook* was maintained in the 2012 edition, which opened with the statement that developing Asia would have to 'adjust to lower export demand from the advanced economies for some time to come'. With growth in developing Asia recorded at 7.2 per cent in 2011 and forecast at 6.9 and 7.3 per cent for 2012 and 2013 respectively, as against 1.2, 1.1 and 1.7 per cent for the advanced economies, this was not surprising. For the Bank, the continuing eurozone crisis highlighted 'the need for developing Asia to rebalance its economies towards domestic and regional demand and from dependence on exports destined for advanced countries,' and provided 'added urgency to efforts to broaden and deepen regional cooperation, reduce trade barriers, and promote interregional trade' (ADB 2012: v).

The annual review chapter similarly diagnosed the eurozone's problems as having changed 'from immediate crisis and financial instability to protracted, feeble growth,' dismissed the measures taken so far as 'palliatives,' and concluded that 'no one is arguing the problems have been solved: a fundamental long-term solution will require yet stronger political commitment from all member countries' (ibid: 14, and Box 1.2.1, 16-17). As always, then, the Bank was responding to structural changes that were taking place as an inevitable consequence of the collapse of demand in Europe and the United States:

> Yes, the region is shifting its exports from the major industrial economies: since 2005, developing Asia's exports to the eurozone and US have declined from about 30% of the total to about 24% in 2011 (up to September). And it is strengthening trade ties with Latin America and Africa—but even combined they still only account for 7.1% of total exports. The contribution of regional demand to export growth, too, has increased, with intra-regional trade rising from 39.5%

> to 42.1% between 2005 and 2011, but a good portion of this is still a reflection of the cross-border production networks rather than final goods. So while there has been a shift toward greater diversification in export destinations, the eurozone is still large enough to do damage to developing Asia (ibid: 18)

However, Asia did not find itself in the same position as Europe and the United States. While there was no current case for aggressive countercyclical policy, there was scope for it should it become necessary (ibid: 28). In the same way, and again in clear contrast, there was no immediate conflict between the goals of fiscal balance and long-term investment in pursuit of competitiveness:

> Fiscal policy should thus strike a balance between the pursuit of long-term fiscal stability and support to growth. Fiscal authorities can do this with budget-neutral measures through expenditure-switching policies that support domestic economic rebalancing, such as increasing the share of spending on education, health, and social safety nets, within given deficit levels. They may though at some stage need to raise tax revenue as a share of GDP to finance the needed social spending, by broadening tax bases and improving tax administration (ibid: 29)

Against this background, the focus turned to the widening income disparities in the region, and their implications for inclusive and sustainable growth, with Ravi Kanbur recruited as external advisor for the theme chapter on confronting rising inequality (ibid: vii). The approach taken was explicit, and entirely in line with previous policy stances at the Bank. Evidence of growing inequality was serious, and had to be addressed, but it had to be addressed in a way that reinforced rather than hindered the capitalist path to productivity and growth. As this reflects, the Bank retained its classical political economy perspective - supportive of the development of markets, and the transformation of social relations through the incorporation of *all* the population of the region into the regional and global capitalist economy.

The Bank's discussion of inequality is of interest precisely because it reveals the explicit logic behind the institution's entire approach to development in Asia - its commitment to technological change, globalization and market-oriented reform, which it identifies as the basic forces behind increased productivity, growth *and* rising inequality, and its advocacy of equality of *access to opportunity* as a means of securing the maximum inclusion and therefore mitigating as far as possible the adverse consequences of changes that are in themselves necessary and desirable. The Bank derives the logic of inclusion exclusively from the logic of capitalist development, and thereby produces an *ideology of inclusion* in which exposure to the market and integration into a social structure dominated by the social relations of capitalist production (or, for most, proletarianization) can be represented in moral or ethical terms.

Once, again, then, the didactic character of the Bank's approach was to the fore. The chapter began with an outline narrative in which all the above elements were present, and addressed directly to policy makers: technological change, globalization, and market-oriented reform are the basic forces behind rising inequality *and* rapid growth in the region; these forces tend to favour owners of capital over labour, high-skilled over low-skilled workers, and urban and coastal areas over rural and inland regions; their impact has been compounded by various forms of unequal access to opportunity caused by institutional weaknesses, market distortions, and social exclusion; this has resulted in a falling share of labour income in total national income, rising premiums on human capital, and growing spatial inequality; but technological change, globalization, and market-oriented reform should not be obstructed, because they are the engines of productivity and income growth; rather, policy makers should 'confront rising inequality through interventions that equalize opportunity and reduce inequality, in three areas: efficient fiscal measures that reduce inequality in human capital, policies that work toward more and high-quality jobs, and interventions that narrow spatial inequality;' and to this end the chapter presents a broad road map for policy makers to chart their own, country-specific, path to addressing inequality' (ibid: 38). The whole focus of the Bank, then, was on the greatest possible development of the productive forces and social relations of capitalism, and its normative stance was entirely derived from it. And with its focus on inclusiveness, it had the particular virtue of legitimizing the material imperative at the heart of capitalist development, this being the incorporation of *all* peoples into the 'net of the world market'.

The figures regarding increased inequality in Asia presented a clear picture. According to the Bank, GDP per capita (2005 PPP) rose from $1,633 to $5,133 between 1990 and 2010, with the proportion of the population living on less that $1.25 per day fell from 53.9 per cent to 21.5 per cent (2008); and 11 of 28 countries (accounting for 82 per cent of the region's population) experienced worsening inequality - including India, but with Indonesia and China leading the way (ibid: 38). The Bank presented these figures in an extremely summary fashion, then moved immediately to an extended discussion of equality of outcome (bad) versus equality of opportunity (good), with the emphasis upon public opinion and its connection to policy. Data on perceptions (from the 2005 World Values Survey) that showed Asian respondents as more likely than OECD respondents to favour income differentials as incentives were complemented by the result of the ADB's own survey of Asian policy makers, the latter reporting that

> About 60% of the respondents agree or strongly agree with the statement that it is more important to reduce inequality of opportunity (such as access to education, health, and employment services) than to reduce inequality of income; and 84% of the respondents agree or strongly agree with the statement

> that income inequality is acceptable if it is due to differences in individual efforts and an outcome of fair competition (ibid: Box 2.1.1, p. 40).

There followed a lengthy discussion on 'Why inequality matters' (ibid; 41-4), *after which* the data themselves were addressed. It is the appropriate attitude towards inequality that was the issue here, and of the types of inequality that were good and bad, rather than the extent of inequality itself.

Had levels of inequality not changed since the 1990s, the Bank reported, a further 6.5 per cent of the population would have been lifted out of poverty in the 11 countries where they increased. What is more, growth was negatively affected - inequality of wealth and income could lead to misallocation of human capital, the destabilizing hollowing out of the middle class, a deterioration in the quality of institutions, increased crime and violence (with negative implications for the investment climate), and 'a political backlash, in which pressure grows for governments to enact populist policy measures':

> In response to the rising demands, the political process may favour policies which, in the short term, would benefit the lower end of the income distribution, but which in the long run could hold back efficiency and growth. Under such conditions, the interests of the political system diverge from the interests of the economy as a whole. This is a widespread concern in developing and developed countries alike (ibid: 42).

Following Rodrik,[2] the Bank argued that the distinction between short-term and long-term growth was important, and that it was the ability to manage the inevitable shocks that accompany globalization, and particularly the 'distributional consequences of efficient reforms' (ibid: Box 2.1.2, p. 43) that determined successful long-term growth. It then reported its own survey data from January and February 2012 (504 officials of ministries of finance, planning authorities and other government agencies from 25 ADB-member developing countries), showing high levels of concern with rising inequality (Example: how important do you think it is to have policies in place to prevent rises in inequality in order to maintain stability and sustain growth? - very important: 57 per cent; and important, 38.1 per cent; important or very important, 95.1 per cent). Giving the phrasing of the question, of course, such responses were to be expected. But if one looks at what is happening here as the *construction of a narrative*, the purpose of the Bank is clear. It had already reported that '84% of the respondents agree or strongly agree with the statement that income inequality is acceptable if it is due to differences in individual efforts and an outcome of fair competition' (above, p. 29). It could now move to reconcile these apparently conflicting views by proposing measures to combat inequality which at

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[2] Dani Rodrik, 'Where Did All the Growth Go? External Shocks, Social Conflict, and Growth Collapses', *Journal of Economic Growth*, 4, 4, 385-412, 1999.

the same time preserve stability and maintain growth by encouraging individual efforts and preserving fair competition, which was precisely the objective of the chapter.

In order to do so, it *now* presented a detailed and empirically rich survey of inequality across the region, beginning with the statement that there 'appears to be a positive and statistically significant relationship between the increase in the Gini (rising inequality) and GDP growth (ibid; 46 and figure 2.2.1, same page), and exploring both Gini coefficients, quintile ratios and growth incidence curves from World Bank and ADB data. Here, the bank points out both that in eight of the countries with rising inequality: 'All income groups of households (apart from Georgia's) experienced per capita expenditure growth during the periods reviewed,' and that rising inequality is 'closely associated with very rapid increases in the very top income groups'(ibid: 48, 50). In comparative terms, Gini coefficients in developing Asia are still on average lower than elsewhere in the developing world, but declining coefficients in Africa and Latin America are reducing the difference (ibid: 50-51).

The presentation of comparative data was the prelude to an extended discussion of inequality of opportunity and the drivers behind it, (ibid: 53-73). Here the Bank drew on Roemer to set out its moral economy in straightforwardly didactic terms.[3] This short section (reproduced in Box 3 below) was the pivot on which the whole of the chapter turned, and what it presented was the orthodox moral economy of neoliberalism: the obligation of the government is to ensure equality of opportunity (which might entail very considerable investment and structural reform). But from then on the individual is responsible for her or his own effort and enterprise, and the rewards it brings. A simple conclusion follows. First, it is wrong to say that the Bank does not have a normative or ethical stance. It does. Second, though, its normative or ethical stance - its moral economy - is patently derived directly from the disciplinary imperative of capitalist competitiveness, and the need to ensure the maximum exposure of workers and potential workers to its logic. An approach that focuses on one of these attributes and not the other gives a false impression of the extent to which the ideas and values propagated by the Bank are detached from an underlying logic of class politics and capitalist accumulation and reproduction. In other words, they are, in this case, *entirely determined* by an underlying political economy that seeks to expose all individuals fully to efficiently working markets. Third, to underline the obvious, the content of the passage leaves no doubt that this is not an implicit logic, or a peripheral one, but a logic that is central, explicit, and declared.

With this simple and robust framework in place, and inter-generational issues noted, then, the Bank turned to document the extent of inequality of opportunity in health and

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[3] Paul Roemer, *Equality of Opportunity*, Harvard University Press, 1998.

Box 3: The Moral Economy of the ADB (emphasis mine throughout)

First, consider two low-income individuals. One, despite having been provided with a good education and health care, wastes this opportunity by not exerting enough effort and enterprise, and ends up with a low income. The other had poor education so that, despite being willing to work hard, ends up with low income. The first individual suffers due to lack of effort, while the second one is limited by his or her circumstances. The distinction here is that the first person could have applied more effort, while the second was constrained by a lack of opportunity. But how do differences in opportunities arise in the first place? Consider two individuals with different levels of education and health because one did not have access to schools or health services. This could be because of discrimination in access for social reasons, or because of services not provided in certain geographic areas. Preventing individuals from enhancing their human capital to augment their earning potential—through discrimination or incomplete service coverage—creates inequality of opportunity.

Unfortunately, that is not the only way that unequal opportunities arise. Consider now two individuals with the same level of education and health, and the same level of effort and enterprise, but one of whom is simply not allowed to exercise that effort and enterprise to earn income. This exclusion could stem from discrimination in the labour or credit market, or from gender or racial bias. Such social exclusion creates inequality of opportunity as well. Differences in opportunity can therefore arise because of differences in access to public services that lead to differences in human capital formation (education and health), or because of differences in access to income earning opportunities. However, the final outcome, in this case income actually earned, depends also on the effort and enterprise applied by the individual. Inequality of opportunity is thus a determinant of inequality of outcome, but not the sole factor.

Inequalities due to circumstances are ethically unacceptable because it is attributable to factors over which the individual has no control. In contrast, inequalities due to effort may be ethically acceptable, and may even be desirable to reward enterprise and thereby spur productivity and growth. Thus inequality of opportunity is the more important for policy action.

Source: *Asian Development Outlook*, 2012, p. 53.

education, showing that it was widespread, and related in particular to income levels, location and gender (ibid: 54-7). It then calculated a broader measure of inequality for six countries (Bhutan, Indonesia, Pakistan, the Philippines, Sri Lanka and Vietnam), adapting and simplifying an index developed by the World Bank for Latin America, reaching the conclusion that much needed to be done, and could be done, to improve basic equality of opportunity.[4]

The following section reviewed the three 'positive' sources of inequality in developing Asia introduced at the outset - technological progress, globalization, and market-

[4] Ricardo Paes de Barros et al, *Measuring Inequality of Opportunities in Latin America and the Caribbean*, Conference edition, World Bank, 2009.

oriented reform - in terms of their impact upon shifts in income distribution between (1) skilled and unskilled labour (returns to human capital and the skill premium); (2) labour and capital (income shares); and (3) different locations (spatial inequality). Women are then examined as a group excluded as a result of individual circumstances beyond their control. On the first issue, the Bank argues that the trend towards skill biased technological change should not be resisted, 'since technological progress is delivering higher levels of productivity and growth in the economy' (ibid: 66). On the second, it remarks that the declining share of labour relative to capital reflects the lag of wages behind rising labour productivity, for which three explanations can be offered:

> The first is that technological change, especially connected with improvements in information and communications technologies, has raised the productivity of and return to capital relative to labour. The second is the decrease in the bargaining power of labour, due to changing labour market policies and declining union membership in these countries. The third is increased globalization and trade openness, that led to migration of relatively more labour-intensive sectors from advanced economies to emerging economies—with the sectors remaining in the advanced economies relatively less labour intensive and having a lower average share of labour income. .. it has also been noted that globalization and trade openness increase the elasticity of labour demand, which also weakens labour's bargaining position (ibid: 66)

This formulation speaks *directly* to the analytical framework set out in the introduction above - the increasing prevalence of the real subsumption of labour to capital and the shift to a regime of extraction of relative surplus value has both created large global reserves of exploitable labour and made possible a reallocation of production on a global scale. As the Bank clarified for its readers, in relation to 'jobless growth': 'A declining employment elasticity of growth implies increases in labour productivity'. Real wage growth lags behind productivity growth, 'partly because of the presence of a large pool of rural surplus labour in many countries associated with their dual-economy structure,' as the pool of surplus labour weakens the bargaining power of labour. Data from China, India, Indonesia, Malaysia, the Philippines, Thailand and Vietnam are offered as empirical support for this argument. The Bank concluded without further comment that there was a case for 'policies that promote employment', a recommendation to which I return below. It then turned to the third issue - of spatial (in this case rural-urban and inter-regional) inequality, expanding on the argument above to provide evidence of rising inequality due to urbanization and the shift of activity to coastal regions as a result of the 'interplay between market-oriented reforms and economies of agglomeration' (ibid: 70). The Bank estimated that these two forms of inequality, taken together, might explain as much as half the overall increase in inequality. But

> The rise in spatial inequality is not a reason to reverse openness and

> technological progress, or stop the reform process, but rather to reorient infrastructure investment to lagging regions, and to remove barriers to migration to the fast-growing regions. Similarly, the process of urbanization cannot be reversed—nor should it be—because it brings with it higher national productivity and growth (ibid).

Finally, the Bank turned to gender inequality, on which its argument was straightforward, entirely focused on the labour market, and reflective of World Bank orthodoxy (that gender equity is 'smart economics'): the potential benefits to women and to society from greater female participation in the labour force were often blocked by 'unpaid work burdens, biased laws, differential access to resources, and social norms,' along with relegation to precarious informal-sector jobs and low wages (ibid: 71). The conclusion offered was that steps should be taken to encourage women to enter and stay in the labour force: 'policy actions that support women's roles as caregivers of young children at the same time that they are employed in market-based activities' are important (ibid: 73). On this point as one every other, then, the Bank entirely favoured the continued expansion of the regional (and global) workforce. its overall conclusion is that inequality of opportunity magnifies the distributional consequences of the drivers of change.

The conclusions reached by the Bank with regard to policy options for confronting rising inequality are as set out in Box 4 below, which reproduces the Bank's own summary in the 'highlights' section that precedes the full text of *Outlook 2012*. In every case, they proposed the intensification of the processes promoting greater expansion of the global labour force and its increased productivity, summarized by the Bank as seen above in terms of 'technological change, globalization and market-oriented reform'. Increasing skill premiums and returns to human capital, falling labour income shares, and increasing spatial inequality, the main drivers of increasing inequality, were not to be resisted or reversed, as they 'generate productivity growth, which underpins Asia's poverty reduction, betterment of quality of life, and prosperity'. This is the core message highlighted in Box 1 above - hence the recommendations of the Bank with regard to efficient fiscal policy, interventions to address lagging regions, and more employment-friendly growth. Taken together, they would incorporate relatively poorly integrated regions and populations into the space dominated by the markets and social relations constitutive of capitalism proper ('the modern bourgeois mode of production'), fine-tune the micro-level incentives that maximize the availability of individuals as productive workers, and push ahead the process of perfecting the efficient operation of the disciplines of global capitalism.

Accordingly, while it was not efficient or desirable to try to alter returns to human capital as driven by the market, 'it *is* efficient and desirable for governments to reduce

Box 4: Policy priorities for confronting rising inequality (ADB, 2012: xx-xxi)

Because the forces behind rising inequality are also the engines of productivity and income growth, policy makers should not hinder their progress. A distinction needs to be made between the income differences that arise as economies take advantage of the new opportunities of technology, trade, and efficiency-enhancing reforms; and those that are generated by unequal access to market opportunities and public services. This latter source of inequality requires a policy response since it gets magnified by the forces, leads to inefficiency, and undermines the sustainability of growth.

Governments can address rising inequalities through several policy channels, three of which are highlighted in the theme chapter:

Efficient fiscal policies. These include:

spending more on education and health, especially for poorer households;

developing and spending more on better targeted social protection schemes, including conditional cash transfers that target income to the poorest but also incentivize the buildup of human capital;

reducing or eliminating general price subsidies (such as on fuel) and compensating the impact on the poor by targeted transfers; and

broadening the tax base and strengthening tax administration for greater and more equitable revenue mobilization.

Interventions to improve regional balance. These include:

improving transport and communications networks between developed and poor regions;

creating growth poles in lagging areas;

using fiscal transfers to poorer areas in order to accelerate investment in human capital and improve access to public services there; and

removing barriers to within-country migration.

Policies to make growth more employment friendly. These include:

encouraging structural transformation to create a greater number of productive jobs, and maintaining a balanced sectoral composition of growth between manufacturing, services, and agriculture;

supporting development of small and medium-sized enterprises;

removing factor market distortions that favor capital over labor;

establishing or strengthening labor market institutions; and

introducing public employment schemes as a temporary bridge to address pockets of unemployment and underemployment.

Developing Asia must turn back the tide of rising inequality. The region has enjoyed a remarkable period of growth and poverty reduction, but the new global realities of technological progress, more globally integrated markets, and greater market orientation are magnifying the effects of inequalities in physical and human capital. Asian policy makers need to redouble their efforts to equalize opportunities in employment, education, and health to make growth more inclusive. Without such policies of job creation and efficient redistribution to enhance growth, Asia may be pulled into inefficient populist policies, which would help neither growth nor equity.

inequality in the distribution of human capital in the population, by making public investments in education and health and by ensuring that all members of society have equal access to these basic services, regardless of their individual circumstances' (ibid: 76). There are three striking features to this analysis, all consistent with the framework proposed in the introduction above. First, the policies proposed are based upon an analysis of the material and structural characteristics of the region. Second, there is a clear and explicit commitment to the development of capitalist markets and relations of production on an expanded and self-reproducing basis. Third, the normative or ethical framework is not independent of the ideological commitment and the analysis of material and structural circumstances, but is derived directly from its logic.

Thus a consistent theme in the discussion of policy options was that Asian governments generally had the scope in terms of material resources and structural circumstances for promoting the changes advocated. Government spending on health and education was generally below 10 per cent of GDP, compared to a combined total of nearly 15 per cent across the OECD; the share of government revenue in GDP was in many cases around half the world average or less, leaving ample scope for raising more; and on the same point, there were numerous easily identifiable measures through which physical communications could be rapidly improved (with the proportion of roads that were paved, for example, ranging from 6.3 per cent to 13.5 per cent in Cambodia, the Philippines, Myanmar and Laos), and social protection extended (with only a little over half of the poor in the region integrated into social protection systems), bearing in mind that 'social protection' here is understood as the 'efficient' targeting of resources to induce/oblige the poor to build up their 'human capital' and make themselves available for work (Cammack, 2102c).

In this context, and as repeated throughout, rising inequality is to be confronted above all by creating productive and well-paid jobs for a much wider section of the population:

> A key challenge for most developing Asian countries is therefore to facilitate the process of structural transformation to transfer large amounts of rural, agriculture surplus labour to urban, manufacturing and services sectors, where most of the future's productive jobs will be generated. These include making the business environment more conducive to investment, improving infrastructure, reducing regulatory burdens on enterprises, promoting innovation, and upgrading industry (ibid: 84).

At the same time, and crucially in relation to the analytical framework deployed here, the Bank was not uncritically supportive of existing wealth and privilege where it stood in the way of the creation of new capitalist enterprises. Just as it favoured increased flows of in-country labour migration and more flexible labour regulations in order to make labour markets more competitive, it favoured the creation of new enterprises in the countryside, as part of a programme of increasing agricultural productivity:

> Structural transformation also involves maintaining a high pace of agricultural productivity growth. This requires governments to implement agricultural policies to produce more output per hectare. Improving the access of the rural poor to irrigation, electricity, transport services, new technology and improved seeds, agricultural extension services, and financial services are all vital for raising farm productivity. If ownership or access to land is highly skewed, implementing mechanisms that improve the access of the poor to land is also essential. In the PRC, rural non-agricultural village and township enterprises have played an important role in lifting income levels of the rural population and reducing rural poverty. Such enterprises could be promoted by other Asian countries (ibid).

Here, as in its advocacy of support for small- and medium-sized enterprises, and more inclusive financial services, the Bank revealed its commitment to 'capital in general', or 'future capital', rather than to existing capitalist interests or holders of economic power. It was the fullest development of the forces and relations of capitalist production, then, that would bring 'inclusive growth'. As the chapter concluded:

> The policy options outlined constitute key elements of a strategy for inclusive growth. Broadly, inclusive growth can be defined as 'growth coupled with equality of opportunity,' and it needs three policy pillars: sustained growth to create productive jobs for a wide section of the population; social inclusion to equalize access to opportunity; and social safety nets to mitigate vulnerability and risks and prevent extreme poverty. Such a strategy would ensure that all members of society can participate in the development process *productively* and benefit *equitably* from the opportunities generated by economic growth (ibid: 86-7).

In other words, the content of 'inclusive growth' is entirely faithful to the logic of efficient capitalist development on the widest possible scale, and equity is defined entirely in the same terms.

CONCLUSION

In the period from 2008 to 2012 the Asian Development Bank put together a comprehensive programme for the further building of the world market, and the transformation of social relations, and the intensification of domestic and global competitiveness across Asia. Its analysis of the structural impediments to sustained growth in the 2008 *Outlook* reflected its view that a regime of accumulation based upon risk-taking by private capital in a competitive market did not yet exist in the region, but needed to be created by government action. In China as elsewhere, it saw a process of transition to a market economy under way, rather than one that was fully in place. The 2009 *Outlook* then set out, in the guise of a programme for rebalancing Asia's growth, a plan not only to internalize the sources of growth but also to reshape relations between governments, capital and labour in order to unleash competitive forces - principally by changing the institutional context faced by businesses and workers alike. The 2010 volume reiterated that these changes should be pursued within a framework of respect for long-term policy discipline, after which the 2011 edition, with its focus on South-South economic links, argued for a shift of geographic orientation in what remained a classical approach to political economy - in terms of open markets, efficiency, and the pursuit of increased productivity. by this point, the Bank had espoused a new vision of the global economy, in which Japan was re-assimilated to Asia (from the 'West'), and the new drivers of global growth were located in Asia itself. In sum, the Bank continued to support the policies advocated by the IMF, the World Bank and the OECD, but it made its own recommendations for Asia on the basis of an explicit judgement that reflected an implicit contrast. It argued that in Asia, there was no immediate contradiction between the requirement for orthodoxy, and the promotion of growth. The Asian economies, as a consequence of low public debt, good fiscal balances, and low but positive interest rates, had the policy space to take expansionary measures, should they prove necessary if the world economy entered again into recession. Equally, they had considerable as yet untapped potential to expand their trade and investment in cooperation with Southern partners. All of this reflected an implicit contrast with the case of Europe and the United States. The 2012 *Outlook* built on this platform to offer a comprehensive defence and justification of a continuing commitment to the transformation of social relations and institutions across the region in order to promote and enforce the disciplines of capitalist competitiveness, again spelling out the material potential to transform the infrastructure through productive investment, to develop the labour force in terms of numbers and skills, and to reform policies of social protection to make them also levers to propel the population into productive work. Finally, its normative or ethical stance - its moral economy - was patently derived directly from the disciplinary imperative of capitalist competitiveness, and the need to ensure the maximum exposure of workers and potential workers to its logic.

As in the case of the earlier Asian financial crisis, the Bank did not anticipate the global financial crisis, but it did undertake a comprehensive analysis of its material and structural legacy, and it did so from the vantage point of global or future capital. In the new circumstances created by the 'global financial crisis' it identified and promoted the idea of Asian global leadership - reflecting again that in the context of the global political economy issues identified as relevant and ideas as to how they should be addressed emerge from and reflect the material context, and the existence in principle of the means to address them. In all respects, therefore, the analysis provided by the Bank in this period confirms the merits of the classical Marxist analysis set out in the introduction.

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