

Globalization and Development: A New Paradigm

Dr. David C. McGaffey

We are all familiar with a flood of books coming out with titles like “The World is Flat” or “The World is Curved” or “The New New World Order”. Whatever their specific premises, they start with the same base – the world that we live in has changed, and we must adapt our strategies or worldview or understanding to fit into that new world. Today I am suggesting that it is time to adjust our paradigm of economic development to match this strangely curved world.

The Old Order

Let us consider what these two worlds look like and examine their implications for development. In an oversimplification, the ‘old world’ concept of economic development came into being after WWII built around a Adam Smith concept idea of international trade , which was based on comparative advantage and occurred only between nations. It was bound up in the old idea of the country as ‘nation-state.’ We presumed that each country had naturally specialized in the production of that set of products which constituted their comparative advantage, and we needed only to help promote that production and assist them bringing their products into international trade. Thus Country Development Plans emphasized national infrastructure (things like dams for irrigation and energy production, or modernizing mines and factory complexes and large-scale farms) and trade infrastructure (things like farm-to-market roads, airports and seaports.) The principal tool was money, in large quantities. The measure of success was to be Gross **National** Product, and the client was always assumed to be the national government, or its designee (as a surrogate for the national population.) Because projects were to improve the lives of millions of national citizens, each project was conceived in the largest possible terms – millions of dollars, huge scale projects and long-term projects. For such large projects, centralizing everything under national government control made sense, and the belief was that as each country produced more of its products and traded more of its products, it would begin to accumulate a surplus and a virtuous cycle of development would inevitably bring each country to prosperity in a trade-interconnected world. “Countries” were defined by lines on a map – even if those lines were drawn by foreign bureaucrats in a distant capital and had nothing to do with populations, natural resources or historic trade routes, or even the preferences of the people who lived there. This model had a number of significant success stories – but also a long list of problems of waste, fraud, inefficiency and failures. Because it is based on a model of encouraging what already exists, it is by its nature conservative, and therefore anti-innovation.

But whether or not such a model was appropriate for the post-war era, I suggest that it is inappropriate now. I believe that two elements – the phenomenal growth of telecommunication (computers, cell-phones, the Internet, online banking, etc) and the rise of globalization (here defined as the creation of a single global market for goods, commodities, parts, and services) – have resulted in a seismic shift in how economic

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development comes about, and we must develop a new vision of how to start and assist economic development. With a third, essential factor – innovation – the individual is able to live in a new global world and, through individual efforts to better him/herself, will bring economic growth – development -- to his or her country. The Internet, moreover, has permanently broken down the walls of those discrete national boxes, and exposed individuals to the world. The central focus cannot remain the country and its national government, but must become the individual – the globally connected individual - and development goals need to focus on (1) how to train, educate and empower that individual, and (2) how to teach governments to encourage, or at minimum get out of the way of, the innovator and the entrepreneur. Most governments are basically conservative. They have learned how to do a few things well and do not wish to change – which is why they so eagerly accepted the old model. Innovators are by nature disruptive, and conservatives want to avoid disruption, but I believe real economic development in today's world can only come from new ideas which will shake up established certainties, new approaches which will destroy established patterns and new operations which will require new societies – and we need to learn how to assist this if we want to see real economic development in this new world.

The New Order

Let us examine briefly this new world. It is built around the concept of individual market innovation – the idea that a new and better way of doing something can, in an interconnected global market, find a buyer. The engine of development is the small business and the entrepreneur. Study after study has shown that small businesses increase the volatility of money, create jobs at a faster pace, spin off imitators and suppliers, and create wealth at a pace many times faster than large enterprises – and many factors of multiplication faster than large government enterprises. It largely ignores the nation-state concept, since its focus is the individual entrepreneur, who will do business locally, but who may find suppliers, customers and markets primarily outside his or her own country. It does not look at traditional products or methods, since it tries to encourage innovation. This Development Planning must emphasize assistance to individuals, and multiple projects each of which assists a few, but which has an aggregate positive effect on the whole country. Money is necessary for this process though in much smaller quantity for any one project, but the primary tools will be education and training. Its measure of success is not GNP but income – of the individuals, aggregating to the country. Projects are aggregates of multiple small-scale actions rather than single massive projects. Centralization makes little sense, since traditionally conservative governments are not the natural advocates of innovation. Rather than large-scale corruption, waste, fraud and inefficiency, the danger of the approach is multiple small-scale failures (since small businesses fail often) but the losses are likely to be a small percentage of the total (since small businesses have potentially a very large return.) Rather than focusing on political entities, developers will focus on business plans, proposals, and initiatives presented by individuals. The model will be somewhere between Venture Capitalists looking for the next big idea and Professor Yunus' Grameen Bank and similar micro-finance schemes.

Conditions and Caveats

For this image of a new world of development to be valid, it is necessary to believe that the capacity for innovation is widespread – neither dependent on education nor income nor ethnicity. It is my belief that the capacity for innovation is, on average, equally distributed through every population on earth. We tend to think of innovation in terms of new tech and high tech, but a better way to grow cassava is just as innovative as a new way to search the internet, and possibly more important in terms of the economic development of this planet. Our first task then, is not to move people toward certain fields we tend to label as ‘innovative’, but to encourage innovation wherever it appears. To be successful in that, we need to develop “‘new eyes”, the ability to see innovation in areas which will tend to be unfamiliar to us, and then figure out how to support and encourage it when we don’t fully understand the cultural, legal, economic and social context in which it has appeared. Let me give some examples of innovation I have seen in unexpected corners.

In The Republic of Cabo Verde, West Africa, during an extended drought, a large U.S. NGO was tasked with three simultaneous projects – overseeing a standard PL-480 wheat-for-local-currency project, creating a micro-lending program with the local currency proceeds, and teaching farmers about the benefits of drip irrigation. Countless man-hours were spent on planning and brainstorming, because of the complexity and diversity of the three projects. It was decided that they would introduce the three projects in a carefully staged manner over two years, with months of educational work to precede the implementation of each stage. To their surprise, they were inundated with applications for micro-loans to fund drip irrigation as soon as they announced the three projects. Caboverdian farmers, largely female, correctly foresaw that the price of grains would plummet as soon as the PL-480 distribution began. They therefore wanted to switch their fields (immediately) from grains into vegetables and fruits such as strawberries, and immediately saw the benefits of drip irrigation for these exotic crops. The market price of these exotics was high enough that they could easily repay the micro-loans, and the only bottleneck was the import/manufacture of pumps and hoses for the drip irrigation. Once production stabilized, new entrepreneurs found a market in the Netherlands which was profitable despite the cost of air-shipment. These innovations, completely unforeseen by the NGO planners, resulted in a significant jump in the income of the farmers, in the availability of a broad variety of fresh foods in the markets, and in the Caboverdian economy, which continues to this day. Cabo Verde is also the home of a variety of innovative approaches, based on poverty and scarcity of materials – for example, artists create “‘paintings” of representational scenes in three dimensions using found materials, (since they cannot afford paint) which are now being sold in galleries in Europe and the U.S.

In Afghanistan, I explored with an archeological team a wind-swept mountain pass with a wall of conch-spiral mud-brick towers, with the opening facing the wind, forcing the wind into the center where a pole, studded with 800-year old Chinese porcelain cups,

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spun ceaselessly and pulled up water from a deep aquifer by driving a Persian chain of wooden buckets. From carbon dating of fragments in the walls, the archeologists estimated the structures dated originally from more than 3,000 years ago (although the constant repairs and rebuilding meant these particular towers were much younger) making these perhaps the earliest examples of windmills in the world. Some unknown innovator made a dry valley into a garden at the dawn of cities. Afghanistan is also the home of the earliest air-conditioners, the so-called 'desert coolers', of the incredible engineering feat of the "karez" network, hand-dug underground irrigation canals which together comprise perhaps the largest man-made structure in the world, dwarfing the Great Wall of China.

The list is endless – from African entrepreneurs realizing that cell-phones can eliminate the need for land-line infrastructures and building wireless communication networks throughout Africa, to West African artisans now selling their wares in markets in South Africa, in Kenya, in Europe, and in the U.S. "because there is more money there". Innovation may be something new or a new use for something well-known, or a new way to market something, or even just a new sales approach. The silk-road caravans still run, but they use trucks now instead of camels, and the goods from China are often headed for the Gulf States instead of Venice. None of these things, however, is dependant on a national government, and if we want to encourage development through individual innovation, we must look with new eyes to recognize and support it.

It is also true, however, that innovation is not always welcome in conservative cultures. In Sierra Leone, they talk about something they call the PHD syndrome. The letters stand for 'Pull Him Down', and the syndrome is the tendency of people to react negatively to anyone who rises above the crowd, who succeeds beyond the norm. The crowd reacts from envy and jealousy by 'pulling him down' – acting to destroy the individual success, reducing that individual to no better than themselves. We all recognize the reality of that syndrome, and that it is world-wide, not just restricted to West Africa. In Britain, during the Great War, they had a saying something like, "The first head raised out of the trenches is the likeliest to get shot off." That's pretty much the same as the PHD syndrome. But we must recognize that it IS a syndrome – a sign of sickness - which benefits no-one and injures the society as a whole.

It is even more dangerous when the government structure – the set of laws, taxes, permits, restrictions and authorizations – exhibits some of the same PHD symptoms. When a government, assuming that the rich know ways of evading taxes, set tax rates for incomes above subsistence levels at confiscatory levels, in hopes it can collect at least a scraping from the rich, who does that injure and inhibit? It is the innovator, the individual who comes up with a new idea and raises him or herself up a little bit, and then is stopped by the tax rates. The innovator isn't rich enough or connected enough to learn the ways of evasion known by the established families, and never will become so, because the tax rates take away any motivation to rise above the crowd. Governments which set limits on licenses and permits and authorizations "to protect the jobs" of those already employed are also guaranteeing that the innovator, the newcomer can never demonstrate the new idea which would transform the marketplace. Governments are at

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heart conservative, and that means that they are at heart anti-innovative. We who are working for economic development must realize that, too often, the first hurdle we must overcome is the national government and the tried-and-true ways they know and trust.

A final caveat – this new paradigm does not mean the end of large projects, big money, or government implementation. There will be a need for new major power sources, international airports and the like – which are properly the function of governments. To the extent that this new paradigm dominates, however, such projects will arise from pressure from constituents – who have succeeded to the point that they need more power, better transport hubs, better roads and irrigation schemes. They will not be built in hopes of someday being used, but to respond to pent-up demand. The Kandahar International Airport, in Afghanistan, is a monument to the old order – with the capacity of JFK New York, and a typical use of up to 2 flights a day. The new order, when it builds new airports or harbors, will follow the model of Hong Kong or Singapore, where capacity always lags demand, and funding is as often from local prosperity as from foreign assistance.

IMPLEMENTATION

The major tool of the new order will be education and training, but focused on three distinct targets. The first target must be the entrepreneurs and small business people themselves. What is it they need to know in order to more effectively take advantage of telecommunications and a global market? The second target will be governments in developing countries. What do they need to do to remove barriers to private entrepreneurial development? What laws, regulations, or patterns of thinking must be reformatted to fit the society to take advantage of this new world? The third target will be donors: OECD governments, the UN and multilateral finance agencies, and major NGOs. How can they make effective use of their resources to assist in the birth of this new order? In all three cases, the enemy which must be overcome is entrenched bad habits, entrenched bureaucracies committed to the old order, and the certainty that the old ways are the only ways. A first target must be, of course, the people needed to carry out the education of the other three. We need to create a cadre of people willing to try new approaches, make mistakes, and pass on what they learn, until this new paradigm, in its turn, becomes the established wisdom.

Target 1: Entrepreneurs & Small Business

It is not within the scope of this paper to define the education & training, but some key points may be made. First, for development through the growth of small business, it is not essential to provide a complete education to the small business people. If they are literate and numerate, that is an advantage, but small business people have been making a living in a world of words and numbers for generations without such skills. They rely on scribes, on family members, on specialists for those needs. In the case of computer literacy, they may be able to rely on their children, as I suspect many of us do. How much literacy or numeracy is necessary to learn to use a cell phone? No, the focus of education for this target should be, first, on specific concepts reinforced by training on specific

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applications. The concepts and training will vary from population to population, and must be crafted to meet specific current needs.

Here is an example. In Sierra Leone, West Africa, the government in 1999 wanted to improve the lot of 'small-traders', who were in the business of taking canoes with local cargoes to neighboring capitals, selling wholesale and buying retail in the markets there, and bringing their cargoes back to re-sell in the market in Freetown. The Government had asked the banks to begin a micro-lending scheme, and the banks had been unable to find any borrowers who appeared a safe lending risk. I set up an evening (two hours per session) training program called "How to Apply for a Loan." There, I taught primarily three things: First, how to calculate the actual costs & returns of a trading trip; second, the advantage of calling, on a cell phone, to the various capitals reachable by canoe and determining the relative scarcity/abundance (price) of different commodities before deciding which direction to go; and finally, how to package that information into a mini-'business plan' to present to the banks to ask for a micro-loan. The traders found that the calculation of actual costs became routine and simplified buying and selling decisions, found that anticipated profits were increased by many times the cost of the cell-phone calls, and that the banks began to actually compete for micro-loans as soon as they could show a profitable plan. Despite the disruption of an intervening insurrection and horrifying war, micro-loans continue to be significant profit centers for the banks there, the markets are flourishing, and the 'demonstration effect' has increased the number of people profitable engaged in small-trading.

The model for implementation will always be Professor Yunus and his Grameen bank. What a ridiculous idea! Lend money to people with no assets? – in such small amounts that it cannot have any impact? -- depend on future earnings as the source of repayment? Impossible! And yet micro-finance has become the fastest growing segment of development financing in the past three decades. In more developed areas, we may be dealing with larger, more sophisticated operations, requiring regular business financing rather than micro-loans, but the basic concept will remain. First, find what is needed by entrepreneurs to move from an innovative idea to a profitable business, and then provide the (minimum necessary) education and training to make it possible for entrepreneurs to plan effectively and make a persuasive approach to holders of necessary resources. Sometimes the initial financial resources will have to come from development aid, but if it works, and we can show that the development agency is running a 'profit' from the financing, the 'demonstration' effect should quickly remove the need for external financing.

Target 2: Governments in Target Areas

The largest practitioners of the PHD Syndrome tend to be governments in developing countries. Income Tax rates tend to be confiscatory above minimal levels, because they assume that everyone is hiding income and cheating. Customs duties, incoming and outgoing, plus permits, foreign exchange access, inspections, and authorizations are used primarily as funding sources for the governments and for government employees engaged

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in those areas. The system works fairly effectively for a stable system. The people with resources develop methods for retaining those resources, (they cheat, or smuggle, or bribe, or...) and through these draconian assessments the government manages to scrape off enough to satisfy itself despite the cheating. Unfortunately, this situation is death to entrepreneurs. A new business, a new approach, creation of a new market always requires a period of development and making mistakes, in which it is essential that most of the revenue be plowed back into the business. Again, let me give an example from Sierra Leone. One of the small-traders who had successfully learned to plan his trips and make a consistent profit decided he could multiply his business 10-fold if he bought a motor-launch, which he could now just afford. He then found that motor-launches for private purchase were classified as luxuries, and taxed at 300X import cost. To get a business license, he had to have an established place of business and a capitalization of at least the equivalent of \$10,000.00 (about 5 year's gross income for him.) I worked with the government until the war intervened, but had not yet found a solution for him or the roughly dozen others in the same situation. When I left, I was still working toward a government agreement to grant a business license to a Small-Trader's Association.

Even without any assumption of ill-will, it will be found that a majority of governments in developing societies depend on an established set of laws, regulations, and fee-structures which are inimical to entrepreneurial small business. If this development approach is to succeed, it will require a major effort on the part of development agencies to either educate governments into changing their structures, or working with clever lawyers to find niches within the laws which will accommodate entrepreneurial business. To the extent that the former succeeds, it should have the effect of improving the economy generally – as the elimination or reduction of tariffs usually results in an increase in trade.

This will never be an easy task, as the DOHA rounds suggest, but there is a gradually improving global climate for such improvements. Even when the top-level laws and regulations are reformed, the network of regulations which define the 'way things have always been done' will always constitute a barrier to people who want to do new things, or do them in new ways. The effort of development agencies now devoted to planning major centralized projects under government control, while minimizing chances for waste, fraud, and mismanagement, will now have to be redirected to persuading, educating, and showing governments that they must change their trusted ways, dismantle their treasured bureaucratic satrapies, and create room for entrepreneurs to grow if they wish to develop their economies.

Target 3: Donors

Donor governments, foundations and NGOs have an equally valued stake in the tried-and-true. They have their own treasured bureaucratic kingdoms. Those interested in moving development forward through this new paradigm will have perhaps their major task in re-educating the highly-educated, retraining the well-trained, persuading people who are comfortable with the loss ratios of their known approaches to take the plunge into unknown waters. They will want proof that this will work, and will not want to

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accept evidence as presented. Study the history of micro-finance, or of Women in Development to see how easily new ideas are accepted by entrenched development bureaucracies. However, I see in the US Government and in a number of new private development agencies growing evidence that elements of this approach are becoming increasingly acceptable. Like the best entrepreneurial ideas, adoption of this approach will cause change, turmoil, the destruction of established edifices; it will raise up a storm of opposition and criticism; and it will result, I believe, in a better world for development. I offer this paper as a contribution to the task of educating Target 3.

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