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A second look at the World Bank, the global economic disorder, and a possible deal

Professor Robert Wade critiques Professor Francisco Ferreira's recent article The World Bank and the new global economic disorder, arguing that while globalisation has not collapsed, development outcomes remain poor and the World Bank's policy prescriptions are flawed.

Here are a few qualifications to Francisco Ferreira's useful commentary, which he posted just before the annual Spring Meetings of the IMF and World Bank in late April. The bottom line is that, compared to Professor Ferreira's argument, the global economic order is less disordered than he says; but the development outcomes are worse; the World Bank's central development policy prescriptions require more revision than he implies; and the Europeans are unlikely to be drivers of World Bank governance reform. But significant reforms are feasible.

First, he says, "this much-maligned post-war global economic order is finally on the verge of collapse. Globalisation is in full retreat". Hold on, this is too apocalyptic. There is no evident trend to trade "de-globalization", as in a significant medium-term *fall* in global exports of goods and services as a percentage of world GDP. Ever since 2004 the ratio has bounced around between 25% and 30%, as compared to 19% in 1990 at the end of the Cold War. And trade has become more geographically dispersed over the past decade, with a dollar of trade now traveling an average of 5,200km.

Second, he says, "The enemies of globalisation that are in the process of destroying the established economic order are led by a profoundly authoritarian US administration marked by a deep disregard for human rights, for democracy, for the rule of law, and for the very idea of objective truth." Yes, but here too qualification is in order. Most of the "enemies of globalisation" are in the Trump base or political tribe. The base constitutes a bit more than a third of the US electorate – a large minority, but still a minority. The base remains loyal, to the point where only 6% of those who supported him last November now regret doing so (only 3% of Harriss voters say the same). Their loyalty to one man (who for many was sent by God to save them and the country) overrides their loyalty to the constitution or any institution of state. What happens when that one man leaves the scene? We should not apocalyptically assume that the Trump damage is here to stay, that his successors will attract the same tribal devotion and try to continue on the same constitution-defying path. Remember that almost all of Trump's changes have been through executive orders, with a radical assertion of executive power. He thinks he is issuing decrees like a king or national CEO, but in fact his directives are not law; they are provisional and subject to judgement of courts, the legislature, and future administrations.

Third, Professor Ferreira says, "Between 1990 and 2024, global extreme poverty fell from 38% to less than 9% of the world's population." If we take the figures at face value this is, as Ferreira says, a "remarkable achievement". But note, first, that the figures refer to the global "extreme poverty line", which is so low that those on incomes below it are just one illness or death of one bullock away from destitution. Second, what about trends in average income? Have major regions of the global South substantially raised their average income relative to that of the US over the past four decades (when the "development industry" was in full gear)? The short answer is no, with China and other northeast Asian countries as the major exceptions.

Here is a summary of regional trends in average income (at purchasing power parity) relative to the US, over the period 1980 to 2023 (UNCTAD, 2024, figure III.2):

1. Latin America *fell* steadily from around 35% in 1980 to around 25% in 2023.
2. Middle East-Central Asia, *fell* from around 40% to 20%.
3. Emerging and developing Asia without China *rose slightly* to reach 15%.
4. Sub-Saharan Africa *fell* from about 10% to 5%.
5. China *rose* from 5% to 30%
6. Republic of Korea *rose* from 15% to around 70%

Notice both the lack of "catch up" and also today's very low percentages of average incomes in the global South relative to the US's, after decades of national and international efforts at "development". (The trends relative to the global North are much the same but less extreme.) The global two-tier core-periphery political-economic structure of the world remains strong, with some important exceptions mostly in northeast Asia.

Fourth, Professor Ferreira says, "it is inconceivable that global poverty – or even inequality, for that matter — would have declined by as much as it did since the 1980s without the export-driven economic growth that took place in much of Asia over that period." Here he echoes standard World Bank advice to developing countries over the past four decades: go for export-led growth. The advice carries the corollaries: don't undertake (sectoral or vertical) industrial policy and above all don't employ trade protectionism. The Bank has resolutely refused to learn from northeast Asia, where Japan, South Korea, Taiwan and China have all managed trade so as to build on the complementarity between protection and export promotion, where protection was granted against performance conditions, often including export performance (so protection did not remove international competitive pressure, as mainstream economics assumes, it buffered producers from that pressure for a period and these states were strong enough to remove the protection if the producers did not look to be able to compete internationally without protection). Their managed trade was one main part of a larger (vertical as well as horizontal) industrial policy. But instead of asking "how can protection be organized well as distinct from badly?" and "how can industrial policy be designed well as distinct from badly?", the Bank has said – with all the authority of the Vatican – "don't use protection, don't do industrial policy" (following Gary Becker, "the best industrial policy is none at all"). The lack of catch up shown above reflects the Bank's mistaken development strategy, which has left many developing countries locked into undiversified commodity production and low value-added manufacturing, which might be called a "Luddite trap".

Last qualification. Professor Ferreira urges the Europeans to give up the unwritten agreement whereby they get a monopoly on the appointment of the Managing Director of the IMF as long as they support whoever the Americans nominate to be President of the World Bank. And he urges Europeans and others to substantially raise China's (and to lesser extent India's) capital subscriptions and votes at the World Bank. The trouble is, the Europeans are very keen to maintain the over-representation of most (not all) European states in the World Bank, in terms of capital subscriptions, votes, and influence more generally; and even keener to maintain their de facto monopoly of appointing the Managing Director of the IMF. The US is the only state with a big enough share of votes to exercise a veto; but the Europeans acting together can also exercise a veto, and they would probably use it to protect their collective interest.

All that said, I agree with Professor Ferreira that – in the face of Project 2025's call for the US to leave the World Bank — "At this pivotal moment, it is worth saving". The same for the Fund, only more so.

How might the World Bank be saved? It is possible that the transactionally-oriented Trump government would favor a deal that reduces American financial contributions to the Bank while substantially raising those of China, provided the US at the same time retains its veto and also retains the gentlemen's agreement that the US gets to appoint the Bank's president. Calling on China to raise its financial contributions to the Bank, and other emerging market economies too, would rhyme well with Trump's pressure on European countries to raise their contributions to NATO.

It is likely that China would be happy to contribute more financially — provided its shareholding and votes are raised substantially to match its much-increased relative weight in the global economy. It can signal that otherwise it will lose interest in the Bank and redouble its efforts to build up institutional competitors.

But if the US and China struck this kind of deal the deadlock would be broken. President Xi Jinping could portray it as a victory for himself and China. In turn, Trump might play a World Bank deal to his advantage in other dealings with Xi. And he would probably delight in the outrage such a deal would provoke amongst pundits and commentators — that a US government allowed China to take a larger shareholding stake in the Bank. He might reply that he is in the business of getting better deals for America, and making China pay up and take more responsibility for the World Bank is a good deal for America. Other states could applaud both Trump and Xi for striking a deal in these times of faltering global cooperation which strengthens multilateralism.

The views expressed in this post are those of the author and in no way reflect those of the International Development LSE blog or the London School of Economics and Political Science.

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