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Thank you everybody for coming back from your break so quickly. I've been told that the time allocated for this talk is just 30 minutes, so I will get right to it.

I have changed my presentation quite a bit because of the discussions yesterday and this morning. I'm referring to the points that Danny and Bob made today, as well as the many things that Mohamed El-Arian and Masood Ahmed spoke about yesterday. We'll continue to build on these ideas when Keyu and Arvind talk about their books. I hope you all will attend those discussions as well—you will find them worth your while.

In the short time that I have, I'm going to tell you what I think about three things: populism, globalism, and multilateralism. The main aim of the exercise is not to assess the actions of others: the Chinese government's actions or the US government's policies or those of somebody else. Instead, I will take Bob Zoellick's advice seriously and do some self-reflection. In particular, I will talk a bit about ourselves: the World Bank Group, the International Monetary Fund, and the World Trade Organization. So, I'll be spending more of the time on what the Bretton Woods institutions have been doing over the last three decades, and less on than what governments around the world have done.

My summary of these three phenomena is in this slide.

My first observation is that if you consider populism carefully, it's not always a bad thing. This is especially when it serves as an antidote to an elitism that hasn't worked or that is no longer moderate. If you consider globalism, it is a very useful thing, but it must be moderated. And while I'm biased, I'd say that multilateralism done well is good too. I'm not going to talk philosophically about this. I will just say that my general assessment is that multilateralism is not doing very well, and we are responsible for this state of affairs.

For that reason, I'll focus on the three Bretton Woods institutions, broadly defined: the IMF and the World Bank and their cousin the WTO. These are the organizations that the framers at Bretton Woods contemplated. At the time, they contemplated a International Monetary Fund, the International Trade Organization, and the International Bank for Reconstruction and Development. That essentially is what we have today, and the state of things is not good.

Let's discuss why.

I started with this exercise in Word Hippo, which I shared with you yesterday in the opening session. The question I asked: what is the opposite of 'populism'. If you look at this list of things, you don't want to be any of these things. So, at least from this, populism does not seem to be a bad thing at all. It generally means support for the concerns of ordinary people.

I did the same thing for globalism. What's the opposite of globalism? And if you look at that, it's the opposite of a policy of treating the whole world as a proper sphere of political influence. I think this is a bit more neutral. But if you look at the antonyms of globalism, they're not particularly good. Isolationism, sequestration, aloneness, retiring (nobody wants retirement)—these are not good things.

When I looked for antonyms for multilateralism, it said that it didn't know of any word. There is no alternative to this wonderful thing—Word Hippo must be run by a former World Banker. It did cough up 'unbiased trade between nations'. *Unbiased*, I think, was the part that it emphasized.

All this I showed you yesterday. I will show you more charts today. Most of these slides have been made by my colleague Kenan Karakulah, who is also the main organizer of ABCDE. But their interpretation—that is, all the bad ideas that I'm going to share with you now—are entirely mine. Don't put any blame on him.

We can see from these slides that the share of populist governments has been going up. The share—the vote share of populist parties—is also up noticeably to about a quarter. This next slide shows numbers from Dani Rodrik which are slightly older. You might think that perhaps the world is just going through a phase. But this next slide shows that populism can easily become serial. And you will see all these countries have had some kind of populism or the other. The real difference this time is that the US has joined the list.

You might ask, so what? The answer lies in the economic policies associated with populists. In particular, the policy positions of populists about international integration are especially notable. If you believe the findings of a recent paper in the American Economic Review, international economic integration takes a beating under populists—in terms of tariffs, the share of trade in GDP, and for financial openness.

The question is why seemingly prosperous countries elect candidates with populist tendencies. The next few slides suggest why.

Here is a chart that shows which countries have run persistent trade deficits and which surpluses. The world is divided into reds and greens. And there are some dark greens and dark reds. Of the dark greens, China is one of them, and there are some dark reds, the US is one of them. And I haven't stared at this chart enough, but I suspect that there is some correlation between the rise of populism and being in the red for long periods. And speaking about being in the red, the lower line in this next chart is the US, that upper line there is China.

One of the more significant periods in recent economic history, is the time between 2001 to 2012 or so, when there were large current account surpluses in China ran, and the mirror of these were

these large current account deficits in the US. Is there some evidence that this is what has resulted in the rise of the populist argument. The argument is not that free trade has failed; the argument is that free trade doesn't exist. So if you want to fix this, then you fix trade. Trade is supposed to be broadly balanced over long enough periods, but distortionary policies have made them much more persistent and stubborn.

That's where you can see the relationship to the Bretton Woods institutions, arrangements put in place to keep such imbalances within manageable bands, both in magnitude and their duration. And as a result, this argument goes, now you should use tariffs, now you can use non-tariff measures, now you might manipulate currency values, et cetera, et cetera.

Right now, it's worth keeping this in mind too, that trade growth has slowed, it has not gone into reverse. The reason is that trade is a great force for economic good, and it's difficult to reverse it for that reason. Trade as share of global GDP is still high. It's above 50 percent and it's kind of stayed that way over the last five years. And it's gone up from about a third of global GDP in the 1950s to a half today.

But global imbalances have not gone away. If anything, they are more pernicious because they are less obvious. Take a look, for example, at what Brad Setser of the Peterson Institute has been writing, and you can see some evidence that these imbalances are back or have persisted. Globalization has not gone into reverse yet but, if you look at the growing policy uncertainty, you'd worry about the future of trade and global growth. Trade policy uncertainty is driving a large chunk of this increase in policy uncertainty overall. So, it is the deterioration of international economic relations over the last five years—not the last five months—broadly proxied by trade, that may be causing these stresses.

So, what do populists think about the WTO, of us in this building, and about those across 19th Street? They promote this “my country first” idea and oppose open borders and global trade. This often includes criticism of the WTO and the IMF and us. I think we get less criticism than the IMF and the WTO, but I believe that we should get a lot more. The response that I hear from my colleagues about populists is that they make promises they don't keep. They promise the moon and then they can't deliver. But non-populist politicians do that too. And if you think about presidents of the US in recent memory, it's worth asking which ones have kept their word more than others. I'd say that President Trump has kept his word more than the previous presidents.

But I don't want to have that argument today.

Instead, here's a chart that Kenan dug up, and it's from a paper called “The Twilight of Bretton Woods”. We start with Bretton Woods Mark One, which is in the middle there. And then see a circular movement over the years until we get to Bretton Woods Mark Two—more trade liberalization and somewhat more capital flow liberalization. And then there is state that Corsetti calls Washington Consensus, which coincides with the 1990s and 2000s, the golden age of development. The golden age, in many ways, is when we had both trade liberalization as well as capital account liberalization.

Since 2008 we started moving backwards. Since 2016, we have been moving horizontally back. This brings us to the next question: what's the future? If it goes up the red arrow, it's twilight. If we go along the green arrow, the future resembles a new dawn. With some changes in the way that Bretton Woods are administered, are rethought, etc., we might get a move towards that way. What are these changes? This is what Bob Zoellick encouraged us to think about.

So let's try to do that. I'll break this thinking down into three parts, essentially the WTO, the IMF and the World Bank Group.

The first one is the WTO, and the General Agreement on Tariffs and Trade that preceded it. During the GATT period from 1947 through the early 1990s, we saw tariff rates fall a lot. In the WTO period, tariff reduction continues. After 1996 you can see the simple average falling. If you look at trade weighted tariff rates, we actually get to very low rates of less than 5 percent.

Was it the WTO that drove it? Or was it something else? I don't have time to go into this today. Fast forward to 2023, and you can see that we had a serious problem. Here is a chart from 2023—much before the Trump Two administration. This chart tells you how high the tariff rates are for US exports to the rest of the world, versus the tariff rates that the US imposes on exports from other parts of the world to the US. To keep things simple, take a look just at the top four bands. And if you are if you see more red than green, it means that particular country group has higher tariffs on US exports than the US imposes on imports from those countries. So red means the US is getting a raw deal. Green means that the US is getting a better deal. You see a lot of red and very little green.

Start with the bar for high income countries, just above Western and Central Africa. And you sort of see high income countries generally tend to have more restrictions. These are just tariff restrictions. They tend to also have more non-tariff barriers too. High income countries are like Canada, Japan, UK and—especially—the European Union. The next bar up is for upper middle income countries like China. And you sort of see that same problem for China, Brazil, Mexico, Turkey and others. And then lower middle-income countries are countries like India, and then low-income countries are mainly African economies like Ethiopia.

This is a problem if it persists for so long. It leads to the complaint by Trump and others that America is being taken advantage of. This is clearly not without justification.

Part of the problem are the rules at the WTO. The WTO is supposed to be a multilateral organization, so how countries are classified should be according to multilaterally decided criteria. I just showed you a chart that uses low-income, lower-middle, upper-middle and high income as a classification. This this decided by our Data Group, not unilaterally by the country. This is not something that India decides. We have technocrats who decide what the multilateral definition of a lower middle-income country, of upper-middle-income countries, etc. Seems sensible, right?

Not at the WTO. The WTO does use a multilateral definition of something called 'least developed' which it takes from the UN. But this is not many countries. The others self-designate themselves

as developing or developed. About two thirds of countries in the WTO consider themselves developing. This means that they get different rules, in the sense that they can take longer to phase down tariffs and other restrictions. So that means even if they don't choose to exercise the privilege, they start out with a much stronger bargaining position.

For example, China, that comprises a third to half of world exports of manufactures—depending on whether we look at gross output or value added—considers itself a developing economy. But if you think China is the most egregious case, it is not. South Korea and Singapore are much more egregious cases. These are very high-income countries with per capita incomes of more than \$35,000, and they still call themselves developing countries. These are the sort of rules that the US has said are unfair and outdated. And, indeed, they are both unjustified and defunct.

I don't think that this is fair in today's world. You might have thought of them as having some justification in a world where the US, UK, Japan and Europe had a big share of world GDP. But that's not the case anymore. Global GDP is roughly split 50-50 between advanced and developing economies now. As poorer economies have prospered—not just China, others like India too—one needs to revisit these rules and update them. Developing economies have been reluctant to do this, and this and some other factors have led to the US withdrawing some of its support for the WTO. That is a problem. I call it a Peter Pan complex, where developing countries don't want to grow up. And the patience of US policy makers appears to have run out.

Let's now take a look the role of the IMF. There's a whole lot of mumbo jumbo in this slide, but the important part is Article IV of the agreement that specifies the responsibility of the IMF to carry out economic surveillance of all its member economies. And, roughly speaking, what the surveillance function involves assessing whether a country is running big imbalances, and identifying the reasons for these imbalances? It can decide, for example, that the country is running a big imbalance because it is keeping its currency undervalued, which was the case for many East Asian countries at some point in time or the other. In that case, it should tell the country that it must move to market exchange rates—quickly, not over decades.

Now, if you look at one period during which this was a problem, it was the decade and a half after China joined the WTO in 2001. China had worked to conform to WTO rules regarding protections for its industries, subsidies etc. But China's global trade surplus went up a lot and stayed high. You might have figured that, well, this was simply because China's economic liberalizing was making it much more efficient, and folks in other countries had to adjust to this. But people have looked at this issue carefully, and they've tried to break it down and say how much of this is because of China keeping its currency artificially undervalued. And it was considerable.

We now know what happened as a result of this manipulation, but we can also estimate what would have happened without it. This slide looks at this counterfactually and the title says it all. Currency manipulation was the leading cause of record trade imbalances in the 2000s.

This is what people in Washington were saying, but the IMF appeared to have been asleep at the wheel. One of the people who pointed this out this was Michael Mussa, the former chief economist of the IMF. I have read the Article IV documents of the time and found that IMF Staff

flagged this problem, for example, in 2006. They make it clear to China that it needs to move quickly to market determined exchange rates. But nothing happens.

Again, you cannot fault the staff of the IMF, who were calling out the problem in real time. But IMF management had to take this up seriously, and it appears it never did. I think that it's important to ask people like Ann Krueger, one of my predecessors as the Bank Chief Economist during the 1980s, who was the IMF number two at this time, about this. This period coincides with a loss of about 2.5 million jobs in the United States, roughly concentrated in the Great Lakes Region. This includes many of the swing states that you hear a lot of during US elections: Pennsylvania, Michigan, and Wisconsin. You can easily imagine the political import of what happened in the 2000s because it reverberates till this day.

Bob was saying this morning that there was a problem on both sides. How I would put this is that there is addiction on two sides. On the one side you have China, which gets hooked on exports, or someone else's spending. On the other side you have the United States, which gets addicted to someone else's saving, which is reflected in a stubborn fiscal deficit.

This problem is still with us. China's current account surplus is going up again; by one accounting it is close to 6 percent of GDP. And the US fiscal deficit is stubbornly stuck at about 6 percent of GDP. The IMF should be calling out both problems, instead of getting into structural problems—real or imagined—just because they are the debates of today or the priorities of advanced economies. I'm talking about things like climate action.

So, both the WTO and the IMF need to do a lot better. But what about us at the World Bank Group? What have we been doing?

What is it that we do in places like China? We do analytical work, we carry out advisory activities, and we do advocacy—a lot of advocacy. During the last two decades, we did these three major reports for China. I went through these reports again. For some of this time, I was working in the East Asia and Pacific, though I was not around when these three reports were written.

The first is *Healthy China*, which was done in 2019 just before the pandemic. When I went through this report after the pandemic broke, I found no mention of SARS, no mention of the Avian Flu, no mention of any such outbreak of disease. We had done this report jointly with the World Health Organization, and it appears that we could not persuade the Chinese Government to let us assess the success or failure of China's efforts before, during, and after these calamities. You might ask: how can you write a 300+ page report about the health sector in China and not make a single mention of epidemics?

Another report is *China 2030*, written in 2013. I read it again carefully to see if it talked about the kind of imbalances and upheavals that China's integration into the global economy was causing. Barely a word about imbalances it was causing in the US. Remember, we were sitting in the US while writing these reports! We were telling China that "to minimize stability risks, the reform agenda must be carefully timed and sequenced. China can limit the instability often experienced during financial sector liberalization and capital account opening through a gradual approach that

involves careful attention to the appropriate sequencing of policy changes.” Nary a word about whether potential investors in the US might want China to keep its side of the bargain by liberalizing financial services.

Instead, we were cheerleading for China. We wanted to tell others about four decades of poverty reduction at a pace that other countries should study and try to emulate. Lightning-quick urban development that was visually and physically impressive. Export-led growth combined with stratospheric rates of saving and investment. And so on. Okay, four decades of poverty reduction were fantastic. But this created problems. One was a problem that I raised with the country team and regional leadership in 2014 or 2015, when I was delegated by the Bank’s Chief Economist to review *Urban China* on his behalf. Like the other two reports I just mentioned, this was a report that the Bank had been asked to do by the Chinese Government.

Notably, all of these reports were done jointly with the Development Research Center of the State Council of the People’s Republic of China. And our country director and regional vice president were proud of that, because we wanted to keep the government happy. But of course, they would always be called World Bank reports. There was a some screaming and shouting by people like me, who said that at a minimum we should call these reports what they were: a negotiated document—negotiated with an unelected government.

I think the government knew what it wanted from the World Bank. But was not clear what role we wanted the government to play in our assessments. As a result, the reports often ended up being wishy washy, or worse.

In fact, they were not World Bank reports. World Bank reports are not supposed to be negotiated documents. Why did we change that for China? Because at the World Bank Group, we have a desire to please our client governments, and the bigger the country the more we want to please it. But pleasing countries is now a habit. We just don’t want to please the Italians just because they contribute money to our funds or because we’d like them to borrow money from us. We want to please them as a matter of habit. We want to please Indians who borrow from us, because we want them to borrow more from us. We have become addicted to this intermediation, or it’s always been in our DNA as a Bank.

The problem is that we have become so addicted to this that we are willing to do bad things to feed the habit. And I’m going to end this talk by discussing the bad things that we do, encourage or tolerate. I’ll give you three examples: one each for the IMF, the WTO and the World Bank.

For the IMF, the lesson should be that you cannot strengthen multilateralism through mission multiplication. While I was sitting over there, I searched for what the IMF was doing on climate change and found this website. If I hadn’t told you that this is from IMF, you’d have reckoned it’s a World Bank website. Why is the IMF still doing this stuff? Why aren’t they focused instead on exchange rate, monetary and fiscal issues. The Fund is hooked on climate and gender and such nice things because they want to be liked. This is a problem.

In the case of the WTO, it should now be clear that multilateralism cannot be made stronger through manipulation. It is manipulation to claim that a country is still a developing economy when for all practical purposes it is developed. How can you be, how can you be exporting more than a third of the world's manufacturers and still call yourself a developing economy. When will you be developed? When you get to 100 percent of world trade? When you get to 50? This sort of thing needs to change at the WTO. Otherwise, the world will come up with alternate arrangements.

The last thing is about us at the World Bank group. You cannot build multilateralism on mistruths. If you care for such things, take a look at the results of the investigation of data irregularities in Doing Business in 2018 and 2020. The scandal was because of a desire to please a few countries. This was not just China, by the way. Actually, it really doesn't matter which country it was. You have to remember that Doing Business was a ranking: if you please one country by lying about its performance, you are hurting a lot of other countries. But we were willing to do that. And why was it done? Nobody pressured us from outside. It was purely self-imposed, because we wanted to be liked. Read about it. You can't make this stuff up.

I recommend that if someone in a place like the World Bank wants to be liked, you should go see a psychologist or get a dog. Because if you work for an organization that is responsible for the rules of multilateralism, you shouldn't be liked. You should matter. You should be honest. You should take a while to get to a position about a fact or a policy, but then you should not abandon it under a little internal or external pressure.

I have taken too long. Thank you for listening.