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Infrastructure and economic development: An interview with John Rice

The need for speed in delivering progress.

Bill Wiseman

Since joining GE in 1978, John Rice has worked all over the world in departments as diverse as auditing, power, finance, and transport. Based in Hong Kong, he leads the company's global growth organization, which accounts for more than half of total revenues. In this interview with McKinsey's Bill Wiseman, he talks candidly about the slowness of bureaucracy and the role of the private sector in encouraging sustainable growth.

McKinsey: *What role does infrastructure play in supporting growth in developing markets?*

John Rice: Everybody is looking for "sustainable" or "inclusive" growth—growth that improves quality of life for all. Growth in and of itself is no longer good enough. If you're not creating jobs, you are never going to have sustainable and inclusive growth.

But before you can create jobs, you've got to do a few things. You've got to have electricity. You've got to have healthcare—you can't have sustainable growth if people die when they're 45 or 50. You've got to have the basic building blocks of a society, and then you have to have a combination of financial and human-capital development. Only then do you have a shot at sustainable and inclusive growth.

McKinsey: *Do you find that countries value that way of thinking?*

John Rice: In many democratic countries (and not just developing ones), there is often a short-term focus on the next election cycle. In countries that don't have elections, there might also be a short-term focus on keeping the population happy. Also, when budgets are constrained, you tend to punt the long-term stuff. Infrastructure is long-term stuff.

I think there has been what you might call a "cycle compression" when it comes to how fast governments want investments to pay back. When I meet with senior government officials, they want to know what can be done quickly—temporary power, quick investments in clinics and healthcare—so that they can show visible progress. But those kinds of actions do not necessarily address the broader challenges.

There's no question that social media, and the ability of people to communicate and transfer information and assess their own circumstances, is increasing the pressure on governments. Even people who have very little disposable income are still connected. Expectations are being built up that problems are going to be solved quickly, and governments pick up on that and feel pressure to respond.

McKinsey: *The McKinsey Global Institute has estimated that up to three billion people could join the global middle class by 2030. How will this affect the demand for infrastructure?*

John Rice: The growth of the global middle class is creating another, higher set of expectations. For example, the growth in China's aviation industry over the past several years is evidence that the middle class will want to travel; the roads can't handle the increase in demand, and as a result, you are seeing the government invest in both aviation and rail infrastructure. Across emerging markets, there is broad recognition that problems need to be tackled, that people aren't going to wait forever for the ability to travel, to read at night, to treat their sick child, and so on.

At the same time, I think you also have to remember that something like 1.3 billion people still don't have electricity, most of them in Africa and South Asia. You're not going to get to the middle class if you don't have the basics.

McKinsey: *What is the role of the private sector in developing the human and financial capital needed to help deliver infrastructure?*

John Rice: The private sector is right in the middle of it. In 50 countries where GE is bidding for big projects, we're expected to train and develop people. It's moved beyond just creating jobs, any jobs; we're talking about higher-scale, more sophisticated manufacturing value creation. If GE is not prepared to invest in capacity building, we are going to have fewer opportunities.

Whether we are building manufacturing facilities in Pune, India, or planning them in places like Calabar, Nigeria, we have to think about and fund capacity building for our own employees and suppliers. This investment can be a multiple of the plant-and-equipment cost and usually involves partnering with local universities.

McKinsey: *How do you scale up that kind of program?*

John Rice: You base it on markets and regions. Our expectation is that the work we do in places like India and Nigeria will support the local and regional market. The fact is, sometimes the volume won't support the investment; programs have to work from a financial perspective.

McKinsey: *The need for infrastructure is huge, but progress has been slow in many places to create public–private partnerships. Why is that?*

John Rice: Part of what slows things down is that bureaucracies don't get paid to move fast or take risks—and this is true in Europe and the US, as well as in developing countries. How do you give governments the confidence that they can make these decisions and not be attacked? And how can you get private capital to invest in a power project in difficult political environments? For that to happen, third-party investors need to have an assurance on the fuel supply and cost; they also need a bankable off-take agreement.

Public opinion is another factor. Many countries subsidize power, which in effect means that the investor return must be subsidized too. The "private" part of the partnership is looking for a risk-adjusted market return, while the "public" side wants local energy prices. The difference becomes a political issue, sometimes leading to accusations of mismanagement and corruption.

McKinsey: *What, if anything, can the private sector do to improve these circumstances?*

John Rice: It would be interesting to combine the efforts of institutions like the World Bank, a couple of export-credit agencies, and a half a dozen companies and say, "OK, we're going to build a model for how to get this stuff done quickly and honestly."

Something's got to give, because governments alone are not going to fix the electricity problem. And they won't attract a lot of third-party capital without certainty around fuel, costs, and off-take arrangements.

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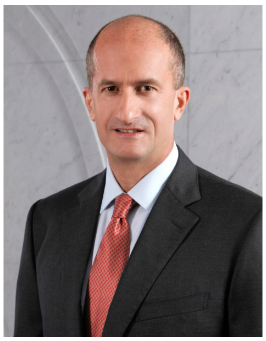

Vital statistics
Born in 1956

Married

Education
BA, economics,
Hamilton College

Career highlights
GE
(2010–present)
Vice chairman;
president and CEO,
GE Global Growth

(2007–10)
Vice chairman; president and CEO, GE Technology Infrastructure

(2005–07)
Vice chairman of GE's industrial and infrastructure businesses

(2000–05)
President and CEO,
GE Energy

McKinsey: *Is there any particular type of infrastructure program or product that is working well?*

John Rice: Distributed power comes to mind, meaning small-scale, often on-site sources of electricity. These are technologies that have been around for a while, but there has only recently been a general recognition that this is an important way to get electricity to those who don't have it. It will take decades to create transmission and distribution networks to carry electrons from big centralized plants to everyone who needs power. You need smaller power sizes that run on a variety of fuels. It could be liquefied natural gas or biofuels or solar or a lot of different things. This idea is really beginning to capture people's attention, not least because these projects can be done fast.

Distributed power is also a good option for places that today rely on power from generators that run off trucked-in diesel, which is expensive and environmentally awful. Smaller gas turbines that can produce cleaner power at about half the price are a huge step forward; we're seeing a lot more demand for this type of technology. o

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