Some Random Thoughts on Globalization

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I. Is globalization more an opportunity than a threat?

In the wake of the East Asian crisis, it is important to reassure policy makers in the developing world that globalization is still a great opportunity for them, not a major threat. I was shocked when some South Asian policy makers (including my good friend, the Finance Minister of Pakistan) started congratulating themselves that they had escaped financial turbulence of East Asia as they had wisely refused to embrace the same degree of economic liberalization. I had to remind them that East Asia started behind South Asia in 1960 but its average per capita income was now 27 times ahead. South Asia was like a bicycle economy to East Asia's car economy and absence of a puncture in the bicycle was no cause for jubilation. The real challenge was to become a car economy and it could only be done through wide-spread education and technology, high saving and investment rates, and open economies -- a road that East Asia had already traveled. True, the East Asian car had hit a bump in the road and developed a flat tire -- but the liquidity crisis will be overcome, the flat tire will be fixed, the car will be retooled and redesigned to fit better the new international environment, and will again speed away into the fast globalizing world economy -- while we in South Asia may still be stuck with our bicycle economy.

It is only through globalization that poor developing countries can leapfrog several decades of development. It is only through globalization that poverty of a country can be turned from a liability into an asset, combining its cheap labour with education and technology to take over the supply of low tech consumer goods to the expanding middle class of the world. It is only through globalization that around 100 relatively small population countries can get access to global markets and global technology.

In any case, globalization is no longer an option, it is a fact. Developing countries have either to learn to manage it far more skillfully or simply drown in the global cross currents.

The 1999 HDR will do a great service if it does not fall into the usual trap of dishing out only a lot of data on how globalization has hurt some poor countries and poor people, how some small boats have capsized while big ocean liners have glided through. It will certainly be necessary to make these points, but that is not the central point to make.

The HDR should focus instead on how the forces of globalization can be better-managed in the interests of all the people, both at national and international levels -- a story that has not been covered so well so far and which needs to be analyzed even more forcefully now in the light of the East Asian unfortunate crisis. It will also be a great opportunity to put the East Asian crisis in its proper perspective since the Bretton Woods institutions are showing great intellectual integrity (!) in re-labeling East Asian experience as "crony capitalism" within a year after brandishing it as "East Asian Miracle" for the last two decades.

II. Can globalization be better-managed nationally?

Yes, globalization can be better managed nationally, and it must be, since globalization is inevitable. There are several selected themes we can pick up.

First, developing countries must prepare themselves to face fiercely competitive global markets. Basic to this preparation is the spread of universal primary education and relevant technical skills. Much more is required, of course, but this is basic. Take again the case of South Asia (particularly, India and Pakistan). Their average literacy rate of 48% has now fallen behind Sub-Saharan Africa, one-third of their children are out of primary schools, about half drop out from among those who do enroll. South Asia has become by now the illiteracy capital of the world -- containing over one half of the world's total illiterates. Less than 2% of the secondary school children opt for technical education, again half drop out before completing it, and the technologies they are likely to learn in World Bank-ILO sponsored vocational schools are more likely to be bee-keeping and home economics rather then computers and electronics. Superimpose economic liberalization on this rickety education structure and what do you get? It often means that imports come in more speedily than high-value exports can get out, so that subsequent balance of payment difficulties oblige the countries to slow down liberalization and blame globalization for their troubles. They may as well blame their lack of adequate preparation for the global markets.

This can also happen when you do have reasonable human capital but international cross-currents shift strongly against you. We were in Thailand last week and I was surprised that their secondary school enrollment is still only 38% (compared to 60% in China) and their skill-base is still quite narrow. Now that China has started producing most low tech consumer goods at much lower cost than East Asia, and it has started flooding the global markets and displacing East Asian exports, Thailand has perhaps no other option but to upgrade its knowledge and technical skills, retrain its labour, and adopt higher technology production and make the kind of adjustments Japan did when confronted with similar competition from the emerging East Asian industrializing Tigers three decades ago. The price of staying competitive in the global markets is eternal vigilance.

Second, it is inevitable that some (or even many) poor people will fall by the wayside in competitive national and international markets. Why blame the markets for it rather than government policy actions? Political and social action is needed to build human capabilities of the poor (particularly through education and health), to empower them (particularly by sharing land and micro-credits with them), to make them equal participants in the growth process (by generating pro-poor growth), and extending social safety nets to them in periods of acute distress. Markets are often like wild untamed horses, inspired by the smell of profits: it is for the riders to improve their riding skills than keep blaming the markets for all of their policy deficiencies. The role of national and international global governance, much eroded in recent decades by the mindless debate on the supremacy of the markets, will be crucial in this analysis.

The 1999 HDR will do well to focus on the improvement of those riding skills of national governments and present successful country examples of how it has been done. We need to spell out many core components of a skillful national management strategy for globalization, instead of berating the markets. Criticizing markets is only an intellectual luxury -- even when I am personally convinced that most markets are often nasty, brutal and anti-poor. Globalization can and does enlarge opportunities: how these opportunities are actually distributed are challenges for national and global governance. As with economic growth, consumption, and many other matters, the critical issue for the 1999 HDR is more people-friendly patterns of globalization, not the level or degree of globalization itself.

III. Can globalization be better-managed internationally?

This is an issue that deserves the kind of intellectual ferment that Keynes generated about global governance in the 1940s when globalization process was not even a fraction as strong as today. It continues to amaze me how little thought powerful nations are giving today to the new institutions of global governance for the 21st century. Paradoxically, in the last 50 years, globalization has got much stronger while global governance has become much weaker. As the 1999 HDR will be released on the eve of the 21st century, what a unique opportunity to suggest a new and more relevant structure of global governance in the interest of "we, the people."

I am personally convinced that global governance will need to be reinvented, and soon. Some (more) random thoughts:

We have no credible lender of last resort today at the global level which can bail out countries from short-term liquidity squeezes so that they do not inflict long-term economic damage. Central banks perform this role at the national level. But we have no World Central Bank. The IMF now is a pale shadow of what it was supposed to be. At its creation in 1944, Lord Keyens wanted IMF to have resources equal to 50% of world imports while the powerful US delegate, Harry White, held out for a more conservative target of 15%. In actual fact, IMF's resources now equal around 1% of world imports. Private speculators can normally mobilize over ten times as many financial flows in a day as the IMF commands in total. It is a fair question, therefore, whether the world monetary policy is run by the IMF or by private speculators. A genuine lender of the last resort is absolutely a must for the 21st century.

What is more, financial hurricanes now speed across international borders at the speed of over $1,200 billion every 24 hours at the touch of computer keys. Their speed is breathtaking, their direction unpredictable, and their impact sometimes very destabilizing. These financial flows are inspired both by rational expectations and by irrational panic. That is why James Tobin, Nobel Laureate in Economics, suggested about two decades ago that a small tax (1%)) be imposed on international currency transactions ("Tobin tax") to throw some sand in the wheels of these panicky financial flows, to make the cost of short-term currency movement quite high without affecting long-term investments, and to ensure much greater national control over global currency movements. The beauty of this proposal is that it is self-regulating. It does not discourage long-term private investments, but makes the cost of quick short-term trips in and out of various countries' stock exchange markets increasingly prohibitive. Fairly careful professional analysis in the book The Tobin Tax (Oxford, 1995) has established both the desirability and the feasibility of the proposal. I can understand opposition to it by Jesse Helms of this world. I have frankly never understood why the intellectual community has not taken it up more seriously.

We may also need a new facility to set rules of the game for private flows, say a World Financial Authority, to complement the role of the World Bank which channels only public funds. When private flows, hedge funds, and all sorts of private instruments are exploding all around, it is dangerous to argue that they need no supervision or regulation whatsoever.

There is also the issue of globalization of many threats to human security -- drugs, pollution, terrorism, diseases (HIV/AIDS) -- which are beginning to roam the globe without a passport. This is where the UN role has to be reinvented, including the establishment of an Economic Security Council. Rich nations have been able to govern the world in many ways, without consultation with poor nations (e.g., through G-7, Bretton Woods institutions, UN Security Council etc.). But they are stuck when it comes to serious threats to global human security. My feeling is that they themselves are going to look around for a Human Security Council soon -- because hey cannot meet these emerging threats without the willing cooperation of all nations.

There is so little said today about globalization of corruption. Yet it can no longer be handled only nationally, since there are now global coalitions to encourage corruption. Some powerful industrial nations (with the major exception of the US) still treat commissions and bribes as "legitimate expenses of business" and hence, tax-deductible. Even the new OECD convention, recently negotiated, bars corruption of individuals but not gifts to political parties, or corruption downstream for speeding the implementation of a project <u>after</u> it has been negotiated! There are no international laws against laundering of corrupt money, in stark contrast to many laws against laundering of drug money. Our 1999 Report on Human Development in South Asia will document that the South Asia region is sending out about 20 times as much in corrupt money each year as the <u>net</u> external assistance it gets. The poor are aiding the rich in a globalizing world where codes of conduct and laws are being formulated for the travel of many global "bads" (drugs, pollution, terrorism) but not for the travel of corruption money. The same countries which deny visas to the hard-working labour of the poor nations are quite content to give generous visas to corrupt money in their banks (offshore or home-based) and then give even more generous lectures to the poor nations on protection of human rights. Surely, it is time to explore this new and dangerous phenomenon of globalization of corruption. The 1999 HDR should at least make a start.

A similar start may be made on a new code of conduct for arms sales -- which Oscar Arias and 15 other Nobel Peace Laureates have designed but which is still wandering in search of a single UN member to sponsor it in the UN.

IV. What should be the focus of the 1999 HDR?

Globalization is such a vast subject that we can easily drown in it. What should be our vantage point? My suggestion is to focus on how globalization can be better-managed, nationally and internationally, in the interests of the poor people. We should get away from acceleration of production processes, upgradation of technologies, unleashing of information superhighways -- though these issues will be discussed in any case as means -- and focus relentlessly on which countries, and which groups within countries, have gained so far from the globalization forces -- and then turn quickly to the central point: how can the vast majority of the people in the world gain more if we manage globalization processes much better.