GLOBALISATION AND INTERDEPENDENCE

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There are two main aspects of forging coherence in advancing the development goals in a globalizing world economy. First is promoting coherence among the economic, social and environmental dimensions of the goals and second is achieving harmony and consistency between these goals and the policies for integration into the global economy while managing the risks involved. These are formidable challenges and require a well-coordinated response. At the national level, these challenges need to be addressed by building stronger institutions, enhancing coordination among various parts of government, investing in economic and social infrastructure, including education and health, generating employment, providing opportunities for training and skill acquisition, addressing environmental sustainability concerns and promoting broader participation. At the regional level, there is a need to broaden and deepen regional integration and to foster coherence through greater coordination of policies and through peer reviews. While some regions have taken the necessary steps to achieve these ends, others lag behind. At the global level, there is a need to strengthen the multilateral institutions and to enhance coordination and dialogue among them,

[1] Chief Economics Commentator, *Financial Times*. This paper was written as a contribution to a discussion of "globalisation and interdependence" at the United Nations General Assembly on

promote consistency in the aid, trade, external debt and development cooperation policies, launch policy coherence initiatives and provide policy space for developing countries, provide a forum for dialogue among policy makers dealing with the economic, social and environmental aspects of development and facilitate broad-based participation in international decision-making. "Globalization and interdependence", Report of the Secretary-General, 31 August 2004.

The natural effort of every individual to better his own condition, when suffered to exert itself with freedom and security, is so powerful a principle, that it is alone, and without any assistance, not only capable of carrying on the society to wealth and prosperity, but of surmounting a hundred impertinent obstructions with which the folly of human laws too often incumbers its operations; though the effect of these obstructions is always more or less either to encroach upon its freedom, or to diminish its security. In Great Britain industry is perfectly secure; and though it is far from perfectly free, it is free or freer than in any other part of Europe. Adam Smith[i]

It is a great honour to be chosen to address the General Assembly on this topic. It is a still greater honour to follow professor Amartya Sen who is both a great economist and a good man. I have no doubt, moreover, that the subject you addressing is among the most important now confronting the world. But it would do you no good and me no credit if I limited myself to such pious sentiments. As Oscar Wilde once remarked "on an occasion of this kind it becomes more than a moral duty to speak one's mind. It becomes a pleasure."

Where then do I wish to begin? It is with the statement that I find the lengthy paragraph from the UN report largely incomprehensible. It envisions the challenge of globalisation as one to be managed by political processes rather than by economic forces. It is both too ambitious in the political co-ordination and co-operation it demands and too short of ambition in the economic and political reforms it requires.

In what follows, I will address just two questions. First, what do we mean by economic globalisation? Second, what lessons should be drawn from our recent experience if we are to make globalisation work as well as is possible. In these remarks, inevitably, I draw heavily on my recently published book on globalisation.[2]

What do we mean by globalisation?

Globalisation is the integration of economic activities, via markets. The driving forces of integration are technological and policy changes: falling costs of transport and communications and greater reliance on market forces.

[2] *Why Globalization Works* (New Haven and London: Yale University Press, 2004).

This definition tells us a great deal. The first thing it tells us is that we are talking about markets. Globalisation is merely the extension of markets across frontiers. As is true of any market process, what one obtains from the international market depends on the value of what one can offer. It is *not* a question of desert or intrinsic worth. It is a question, rather, of opportunities and incentives. If a country is unsuccessful in obtaining as much as it desires from its integration with the world economy, it is because its people are either unable to offer what those elsewhere desire or are prevented from doing so by barriers, at home or abroad. This is true both of the people of a country, as a whole, and of groups of people, or individuals, within it.

The second and almost equally important thing the definition tells us is that success depends on the interaction between *domestic* resources, policies and institutions. Much attention is, inevitably, paid, not least in the document I quoted at the beginning, to what the global community needs to do. In these halls, that discussion starts from the "millennium goals". But such goals are arbitrary. They may well serve as a stick with which to beat the stinginess, protectionist proclivities and hypocrisy of high-income countries. They may also lead to a focus on the case for more and better targeted aid and more liberal trade policies, particularly in the high-income countries. I support these demands. But, at the risk of upsetting everybody here, I also believe these are relatively secondary matters.

Both economic theory and experience suggest that the determinants of performance are predominantly, if not overwhelmingly domestic. They lie in the ability of the state to supply the conditions of a successful market economy. The requirements now often go under the neutral phrase “the investment climate”. What is meant by that is simply the preconditions of a successful market economy. If we are to help countries exploit the opportunities afforded by globalisation, it is here that we must focus our attention.

Lessons from experience with globalisation

What sort of world should people who understand the power of market forces for human betterment now support? What role should international institutions play? And what are the proper limits of national sovereignty? There is no one set of right answers. My suggestions come – presumptuously, I fear - in ‘ten commandments of globalisation’.

First, the market economy is the only arrangement capable of generating sustained increases in prosperity, providing the underpinnings of stable liberal democracies and giving individual human beings the opportunity to seek what they desire in life. But a market economy, for all its virtues, depends for its existence on a strong, effective, but limited, state, one that underpins property rights, ensures macroeconomic stability, promotes competition, ensures education and basic health and, when it intervenes does so with the grain of market forces. Such a state needs to regulate effectively, but with a light touch. Yet research by the World Bank shows that developing countries often regulate more heavily than developed countries, even though their administrative systems are both more ineffective and vulnerable to corruption.

Second, individual states remain the locus of political debate and legitimacy. Supra-national institutions can, in my view, only gain their legitimacy and authority from the states that belong to them. It is important, for this reason, for states to be allowed to make their own mistakes and learn from them. Heavy-handed conditionality by institutions like the International Monetary Fund and the World Bank can subvert democracy and undermine the bond between governments and the people that is the foundation of all good governance.

Third, it is in the interest of both states and their citizens to participate in international treaty-based regimes and institutions that deliver global public goods, including open markets, environmental protection, health and international security. A regime governing the movement of people would also be useful. Such global institutions would play a useful role.

They need to be protected from their critics. But their legitimacy and effectiveness derive from the states that are their members.

Fourth, such regimes need to be specific, focused and enforceable. We are not in the business of creating global government. But, provided the regimes are specific, focused and enforceable, they should gain legitimacy in all their members.

Fifth, the WTO, though enormously successful, has already strayed too far from its primary function of promoting trade liberalisation. The agreement on trade-related intellectual property was a great mistake, for example. Inevitably, it has encouraged people to try to introduce labour standards and environmental standards within the WTO – a potentially dangerous development. The arguments for a single undertaking that binds all members need to be reconsidered, since that brings into the negotiations a large number of small countries with negligible impact on world trade. Far more important is bringing the proliferation of preferential trading arrangements under control. These distort trade and undermine the global trading system.

Sixth, the case for regimes covering investment and global competition is also strong. But o would be best to create regimes that include fewer countries, but contain higher standards.

Seventh, it is in the long run interest of countries to integrate into global financial markets. But they should do so carefully, in full understanding of the huge risks.

Eighth, in the absence of a global lender of last resort, it is necessary to accept standstills and renegotiation of sovereign debt.

Ninth, official development assistance is far from a guarantee of successful development. But the sums now provided are far too small, just over a fifth of a per cent of the gross domestic product of the donor countries. The case for increasing such assistance and for focusing assistance on the poorest developing countries is very strong. But aid should not be so large that it frees a government from the need to raise money from its own people.

Tenth, countries should learn from their own mistakes. But the global community also needs the capacity and will to intervene where states have failed. A multilateral regime for rescuing failed and failing states is now one of the world’s highest priorities.

All these commandments matter. But the first two are the most important. The view that states and markets are in opposition to one another is the obverse of the truth. The world needs more globalisation, not less. In many ways, it has not gone far enough. But we will only have more and better globalisation, if we have better states everywhere. Above all, we must recognise that inequality and persistent poverty are the consequence not of the still limited integration of the world's economy, but of its political fragmentation. It derives from the fact that humanity is divided among some 200 states with vastly different human and physical resources, institutional quality and policy effectiveness. If we wish to make our world a better place, we must look not so much at the failures of the market economy, but at the hypocrisy, greed and stupidity that so often mar our politics, in both developing and developed countries.

CONCLUSION

What we must do is build upon what has been achieved, not, as so many critics wish, throw it all away. In the era after 11 September 2001, that co-operative task has certainly become far more difficult. For peoples to sustain openness to one another is far harder at a time of fear than at a time of confidence. But the task has also become more urgent. A collapse of economic integration would be a calamity. Open societyies have, as always, their enemies both within and without. Our time is no exception. We owe it to posterity to ensure that they do not triumph.

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[i] Adam Smith, *Wealth of Nations*, Book IV, chapter 5.