Overview

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Globalization means different things to different people. The discussion in this conference primarily reflects the views of economists. To us, globalization means the process described in Michael Mussa's paper[1]—the ongoing trend to greater economic integration among nations. This is evident in the growth of trade relative to GDP, and even more in the startling growth of cross-border trade in financial assets. It is evident too in the shrinking of the globe produced by the declining costs of international travel and phenomenal improvements in international communications.

But this is all at an abstract level. In terms of people's daily lives, globalization means that the residents of one country are more likely now: to consume the products of another country; to invest in another country; to earn income from other countries; to talk on the telephone to people in other countries; to visit other countries; and quite likely to know more about other countries than they were fifty years ago.

But globalization is much more than an economic phenomenon. To many people it means the growth of an international culture—and by that they mean an American culture—at the expense of national and local cultures. I do not know to what extent that is what is happening now. And if it is true, to what extent it is new, rather than part of an ongoing intergenerational clash of cultures. But I am sure that it is an important source of opposition to globalization.

Advances in communications technology have played an extraordinarily powerful role in the broader phenomenon of globalization. We *are* in the process of becoming one world. Or at least that is how it felt to me recently as I sat on the banks of the Zambezi, eating breakfast, and watching the Republican Convention on CNN. If you visit even the remotest communities, you are astonished by how much the people there know about what is going on in the world. To be sure, this process does not reach everyone. The majority of the world's population does not have televisions and, of those that do have them, many do not have access to international programs. But I am sure that the average knowledge of foreign countries in a poor village in Africa, Asia, or Latin America today is far greater than it was fifty years ago.

We should not doubt the political impact this can have. The opening up of communications was critical to the collapse of the Iron Curtain. People learned what was happening in other countries, and understood that they did not have to live the way they were living. And the Iron Curtain fell.

That was before the Internet. Most of us here already understand the power of the Internet through the changes it has made in our lives. I had thought, though, that the Internet would remain irrelevant to the billions of people without electricity or telephones. However that too may be changing: I understand from Jim Wolfensohn that there is an Australian invention that for $13,000 will put a solar- or wind-powered generator attached to a computer with a wireless device that will beam signals up to a satellite. This can be done anywhere, meaning that it will soon be possible for many more people to access the Internet.

The critics

The natural reaction of the economist is to think that all this must be for the good. After all, it expands the opportunity set, and what more can one ask than that? But the process has its critics, many of them passionate. In advanced countries, many demonstrators express concerns about the effects of trade on jobs and the environment. They support protectionism, and they criticize the international financial institutions—though I hasten to add that not every critic of the IFIs is anti-globalization.

There are many critics in the developing countries too. Let me describe briefly what three of them—Prime Minister Mahathir Mohamad of Malaysia, President Robert Mugabe of Zimbabwe, and President Yoweri Musaveni of Uganda—had to say recently at the Southern Africa International Dialogue conference, which met in Maputo in mid-August.

The three leaders argued that developing countries risk being further marginalized by the economic trend toward globalization. They said that globalization amounted to nothing but securing access to the developing world for products from the developed nations.

President Musaveni said globalization was "the same old order with new means of control, new means of oppression, new means of marginalization." (Quotes are from an AFP report on the conference.) To put this comment into perspective, you should know that President Museveni has led Uganda successfully through more than ten years of very high growth and integration into the world economy. His country is one of the best performing in Africa, and it has achieved growth by following a market-oriented course of reform. So, his concerns about globalization are particularly interesting.

Prime Minister Mahathir warned that it was dangerous for developing countries to embrace globalization. He noted that its negative consequences were seldom mentioned or instead blamed on bad governance, corruption, and cronyism. "A blind acceptance of an ideology that, to date, stands as just that—an ideology—is unacceptable, naïve, and downright dangerous," he said. Pointing to the glaring income gaps between industrialized and developing nations as proof, he added that the benefits of trade liberalization were still far from reaching developing countries.

President Mugabe said that Africa did not yet have the capacity to enter the global village, as the continent was still grappling to set up basic necessities such as good roads, railways, and transport.

What should we make of all this? Let me ask three questions:

—First, what are the concerns of the critics of globalization?

—Second, what should we do about those concerns?

—Third, what does the future hold?—which is the question posed by the title of this session.

The concerns of the critics

We have to be very careful to distinguish among what different groups are saying. Some critics are isolationists who are opposed to the process of globalization. But others are not isolationists; rather they want a *better globalization.* For instance, some who argue for stronger labor standards and better environmental standards undoubtedly use those issues as a cover for protectionism. But there is a genuine problem in both of those areas, and some who raise those issues want a better globalization, not necessarily its reversal.

Similarly, not all the critics of the international financial institutions want to end globalization. Many simply want us to do a better job—whether it is by being more transparent, moving more rapidly on debt relief, or by allowing a larger say for developing countries in the decisions of the IFIs. In short, they too want what they see as a better globalization.

Nor should we too quickly dismiss all the concerns of the developing country leaders—whether it is about the distribution of power and wealth in the world economy, or about industrial country markets that remain closed to their agricultural and textile exports. While some of what is being said is purely self-serving, some of what they are asking for is part of a better globalization. In that context, it is interesting that President Musaveni argued that Africa has to fight globalization “either by negotiations between those who are marginalized and those favored by this unfair arrangement, or by resistance and contradiction." He wants in, not out.

What should we do about the valid concerns?

It is important to recognize that trade does change relative prices and that trade integration can create losers as well as winners in the short run. The economist's response is that everyone can be made better off by opening to trade, and that in the long-run everyone *will* be better off. Almost every major innovation renders an earlier technology obsolete, and at such times there are typically pressures to protect the workers, firms, and industries that would be hurt by the innovation. But, the economist says, if we heeded these concerns, there would be no progress. That is a good and valid argument. But, of course, we still have to worry about what happens to people in the short run, as technologies and industries rise and fall. Here is room for the social safety net, for education, and for retraining.

Turning to labor, the ILO labor standards are reasonable. In themselves, they are not necessarily protectionist. By contrast, arguments that real wages should be equalized around the world, which sometimes accompany pleas for the observance of labor standards, are protectionist and would stop much of trade. Still, one can try to improve labor standards without going all the way to seeking to outlaw trade. Similarly, there are real concerns about differences in environmental standards as factors influencing trade, even though some people use these concerns as an excuse for protectionism.

Another set of valid concerns arises from the volatility of international capital flows, brought to the fore by the financial crises of the 1990s. The current debate on the international financial architecture addresses that problem. This is not the place to describe in detail what has been done to strengthen the international financial system, but much is being done.

Among these measures, the change in the exchange rate systems of many emerging market countries—the abandonment of fixed-but-adjustable pegs in favor of floats or very hard pegs (like currency boards)—is probably the single most important factor reducing vulnerability to capital account crises, even if, as I believe, in the long run we will end up with fewer currencies, and in that sense with greater fixity of exchange rates. Similarly, the efforts now under way to develop a framework for private sector involvement in the resolution of crises should both make crises less likely to happen and less damaging when they do happen, as crises inevitably will.

Turning to the concerns of the developing country critics of globalization, advanced country obstacles to trade—in particular, barriers to trade in agricultural products and textiles—are difficult, indeed, to explain to those being asked to open up their own economies. Of all the criticisms that I encounter visiting developing countries, this is the most difficult to deal with. Countries being encouraged to join the world economy say, “We are not allowed to export what we produce.” It is that straightforward, and it should change.

The unequal distribution of power in the world is another of the major concerns of developing country critics of globalization. The unequal distribution of power is a fact of life that has to be lived with. But consideration has and is being given to increasing the influence of developing countries in several international fora. For example, there has been some discussion of revisiting voting shares in the IMF, or possibly changing the number of seats that developing countries have in the IMF Board. There has also been the creation of new international fora, which give more representation to the developing countries—for instance, the G-20. I doubt that the proliferation of institutions is useful in the long run, but it is a response to a felt need. How this develops will depend very much on how Europe resolves issues of its representation in the IMF, in other organizations and in the G-7.

Regarding respect for local and national cultures, that is not something very easy for economists to deal with. But there must be enormous sympathy for the need to maintain and nurture the international public good that is the diversity of cultures.

So, there are many valid concerns about globalization, or more generally, about the way the world is changing. We need to listen to these concerns and respond to them constructively when they are valid and when changes need to be made.

But—and this is critical—*we should also speak up in defense of globalization and in defense of the institutions that are trying to make it work better.* We should not hesitate to say what is true—that the past half-century has been one of unprecedented progress. It has seen more people and a greater proportion of the world's population prosper than ever before in history, and it has seen more people enjoy high-income growth than ever before. Those are among the benefits of globalization.

So, we should not hesitate to describe the benefits of globalization, to say that this is a process that should be defended, sustained, and improved, and to defend it.

The future

Finally, what about the future? Two cheering observations to begin with: First, most developing countries continue to liberalize trade despite their complaints about the global trading system. We calculate an index of trade barriers for individual IMF member countries. Almost uniformly, it shows that barriers to trade have been declining in the developing countries. They understand that unilateral trade liberalization is in their own interest; they are arguing for the advanced countries to open up—not for themselves to close down—and that is good news.

Second, despite the recent crises, capital accounts in almost all emerging-market countries have remained open. And the two largest economies with relatively closed capital accounts—India and China—are preparing to further liberalize their capital accounts. They understand that is the best way to go. They are doing it cautiously and gradually. And they are right to do it that way. But the direction in which they are moving is clear. Policymakers in almost all developing countries have no intention of reversing the process of capital account opening, despite their complaints over much of what is going on in the world and despite their concerns over the recent crises.

I have two forecasts. The first is conditional: If we, and this means the policymakers of the advanced countries and the international institutions, manage the process well and bring the developing countries into the process of globalization, it will continue, to the potential benefit of all and to the likely benefit of almost all. And, second, there will be surprises along the way.

Endnotes

[1] Mussa, Michael, Factors Driving Global Economic Integration, IMF (Washington: 2000), http://www.imf.org/external/np/speeches/2000/082500.htm.