SOME PLUSSES AND MINUSES OF GLOBALIZATION

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Globalization means many things to many people, from a simple descriptor of what has happened over the last few years to a politico-economic philosophy. I use the term in the neutral sense merely to refer to the increasing international economic interactions that the world has seen since the end of the Second World War in 1945.

HISTORY

Global trade is as old as the West's "discovery" of the whole world that followed on the invention of the three-masted sailing ship in the 15th century. These ships were the first European vessels that could travel the entire world in relative safety and bring back large cargoes. In them, Europeans sallied forth to "discover" and trade with the entire world and to conquer much of it.

In the 19th century, international trade was greatly increased by the development of the railroad, the iron steam ship, refrigeration and the telegraph. This allowed among other things "a truly world wide agricultural division of labour…. By the 1880s and 1890s,…the rapidly growing populations of western Europe were becoming heavily dependent up a wide range of overseas food …" coming from North America, Australia, New Zealand and the Argentine (Rosenberg, 1982:58). Food and raw materials flowed from around the world to industrialised Europe while manufactured goods and investment funds were exported in return.

Then in the period between the two World Wars, 1918-39, the high tide of 19 century globalized trade receded under the pressure of rising trade restrictions in many key countries. Early in the century, the UK abandoned free trade and created Imperial Preferences. In the 1920s, the US instituted a series of ever more restrictive tariffs. Many other countries followed these examples. In the 1930s, tariffs were seen by many as an important policy tool for combating domestic unemployment (of which until Keynesian economics came along later in the 1930s, the government has precious few). What Joan Robinson called "beggar-thy-neighbour trade policies" became the flavour of the month. But as such, they were singularly ineffective because every time one country increased its employment by cutting out imports of goods that could be made at home, others did the same so that the initial country lost as much employment through declining exports as it gained through substituting domestic production for imports. The end result was little change in overall world employment but a large decline in the volume of world trade and a decline in productive efficiency as countries increasingly made at home things they could have bought more cheaply abroad.

At the end of the Second World War, reformers vowed that what was seen as the self-destructive tariff wars of the interwar period should never happen again. The great vision of progressive reformers was to reintegrate the world trading system bringing, it was believed, prosperity to all participants. The ITO and it successor the GATT was instituted amidst great hope of restoring globalized trade. Its first meetings were tentative with countries bargaining bilaterally then extending any concessions so made to all other trading partners on a most-favoured nation basis. Then, with the Kennedy round in the 1960s, the GATT adopted multinational bargaining to negotiate member-wide reductions in tariff barriers. Through the Tokyo round in the 1970s and Uruguay round in the 1980s,

this continued reducing tariffs on manufactured goods to low levels not seen since the mid 19th century. At the same time, world trade grew in volume and as percentages of the GDPs of most major trading countries. It was also a time of secular boom with GDPs rising in industrialised countries at rates seldom, if ever, seen before or after.

WHAT IS NEW

Three things are new about the globalization of the last half century.

- First, the flow of trade is no longer exclusively manufactured goods going from Europe and the US to the rest of the world and raw materials and foodstuffs going in the reverse direction. Increasingly, the flow of manufactured goods has been two-way, coming as much from the developing nations as from the developed ones.
- Second, there is a vast increase in the volume of internationally traded services.
- Third, the financial systems of countries are increasingly integrated with funds flowing between them in volumes that would have been unthinkable 50 years ago. Sometimes these flows are stabilizing and sometimes, when a crisis is expected, they are deeply destabilizing.

DRIVING FORCES

Modern globalization has been driven by two main sets of forces, related to technology and policy.

Technology

When the Suez canal was Europe's main east-west route, the size of ship was limited by that canal's capacity. Hence the maximum size of tankers was 10,000 tons. After the closing of the Suez canal during the Anglo-French-Israeli invasion of Egypt, ships travelling between Europe and Asia, including the oil fields of the Middle East, had to travel many thousand of miles further around the Cape of Good Hope. In a burst of induced innovation, over the next decade the maximum size of ship increased steadily until it reached the current size of several thousand tons. At the same time, the invention of containerization eliminated the need to handle individual items of cargo at transhipment points. These developments drastically lowered the cost of shipping.

Then came the ICTs revolution with satellite transmissions and computer links, world wide subscriber long-distance dialling, and so on. These developments allowed activities to be coordinated world-wide in ways that were impossible 60 years ago. At that earlier time, to have parts available where and when they were needed in assembly plants, they had to be produced within a few hundred miles. So parts were produced close to the large assembly plants, such as Detroit and Oshawa for automobiles.

With the ICT revolution, production was decentralised. Parts that required only low skills were now produced in countries where wages were low and delivered where and when they were needed in the assembly plants still located in industrialised countries. This was an enormous boon to those poor countries that could begin to participate in the globalized production network. Low skilled workers in advanced industrialized countries lost out

but, on balance, all countries gained as per capita GDPs rose in both the advanced countries in the newly industrialising ones.

Policy

The second driving force for post war globalization was, and still is, public policy, in both the advanced and the developing nations.

Industrialised nations

Under the auspices of the GATT, the member nations, who were initially mainly the industrialised countries, slowly rolled back the high trade barriers on manufactured goods that were put in place in the second quarter of the 20th century. International institutions have overseen this process which allowed for a significant transfer of national sovereignty to super-national bodies.

Developing nations

The developing nations contributed to the globalization process when they abandoned the old development model that dominated their policies for some decades after the end of the Second World War, adopting the new outward-looking, export oriented-policies pioneered by the four original Asian NICs, Singapore, Hong Kong, South Korea and Taiwan.

The development strategy that dominated after the Second World War was inward looking. It focused on import substitution and relied on state monopolies, exchange controls, and heavy subsidization of key industries. The theory that lay behind these policies was due more to Raul Prebish than to any other single economist. There were two key assumptions. First, natural resources and agricultural products had inelastic demands world-wide, so that expansion in these traditional sectors would produce falling not increasing revenues. (Hence there were many attempts to monopolize markets and restrict outputs through marketing boards and other similar arrangements.) Second, manufacturing industries in the advanced nations of the West were well established and these markets could not be broken into because of their large minimum efficient scales (MESs) and the established infrastructures of the incumbents. It followed that the main remaining avenue to create growth was to industrialize behind tariffs with domestic firms producing goods that replaced imports.

During the 1980s, four important events contributed to a reappraisal of this development model. First, developing countries that had followed these policies most faithfully had some of the poorest growth records. Second, the GDP growth rates of the more industrialized countries of Eastern Europe and the Soviet Union that had followed interventionist, non-market approaches to their own growth were visibly falling behind those of the market-based economies. Third, Taiwan, Singapore, South Korea, and Hong Kong, all of which had departed from the accepted model by adopting more market-oriented policies, were prospering and growing rapidly. Fourth, the ICT revolution brought with it new products, new processes and new firms. This created opportunities for new entrants that did not exist under the relatively stable technological conditions of the two post war decades. In the fluid situation that followed, the assumption that newly industrializing countries could not compete in manufactured products with the established industrialized countries was overthrown. The new ICT and transport technologies created

opportunities for newly industrialized countries to become integrated into a globalized production system. Developments in ICTs and falling transportation costs allowed parts to be produced anywhere in the world and delivered where and when they were needed. The resulting decentralization allowed some newly developed countries to base their early industrial expansion on the production of labour intensive parts for use in advanced nations. Also the fluid situation of the rapidly changing set of products allowed new entrants, such as Taiwan's electronic industry, to obtain market shares that seemed unattainable in the stable market conditions that existed 20 years earlier

THE NEW MARKET ORIENTED CONSENSUS

The Washington Consensus

The reappraisal of policies based on the above experiences led to the so-called Washington Consensus. The original consensus was fairly balanced and not a doctrinaire assertion of the miracle of unaided markets to fulfil all economic goals, that it came to take on in the hands of US based ideologues in the 1980s. It called for sound fiscal policies, a broad tax base with moderate marginal rates, markets being allowed to determine prices and the allocation of resources, trade liberalization and the avoidance of import licensing, holding measures to insulate the home market through domestic protection to levels consistent with developing strategic clusters of new industries, substitution of export promotion for import substitution (as long as exports did not rely on permanent subsidies), the promotion of education, health (especially for the disadvantaged), and infrastructure investment, and measures to reduce poverty.[1]

Market Orientation: Necessary or Sufficient?

The demise of the communist block, the discrediting of highly interventionist inward looking policies, and the widespread acceptance of the Washington consensus, was followed not by "the end of history" but, just as one should have expected, by a new battle of opposing views — a battle that is still being waged in both the developed and the developing countries. Both of these views accept the importance of having market-oriented economies. This is a necessary condition for economic growth . However, one of them advocates a basically *laissez faire* approach to economic (but not necessarily social) policy, such as is often espoused, but less often followed, in the US and the UK. To this group "marketization" is sufficient. The second group advocates what Wade (1990) calls "managed market economies" in which the market is the final test of success or failure, but, substantial, coordinated government assistance is to be given to encourage technological change in ways that are oriented towards innovation and growth.

Many economists, particular in the US, argued that if government interventions were ended, the miracle of the market would do the rest. Government cannot pick winners and should keep its hands out of the process of innovation and technological change that lie at the root of the growth process. This case is based on an intuitive interpretation of the static neoclassical model in which there are neither institutions nor anything else that would distinguish one economy from another.

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[1] This list comes from Williamson (1990)

Critics argue that the key problem with this advice is that it follows from the static neoclassical model in which there is no endogenous technical change, change that is the very engine of long term growth in living standards. Indeed, the very things that are seen as market failures in the neoclassical model are the very things that are seen to drive the growth process in models that take account of endogenous technological change—models that I call "evolutionary".[2]

Because they see different market characteristics as desirable, the two theories have radically different implications for economic policy. The main neoclassical advice is to remove all market imperfections and other things that would prevent the attainment of an optimum allocation of resources in such an economy. A key characteristic of such advice is that it is not context specific; it applies to all places and all times. In contrast, according to evolutionary theory, the very market imperfections that are seen as impediments to optimality are often important sources of growth in a dynamic economy ad are to be encouraged not suppressed.

Critics point to the high degree of market management, the assistance given to new industries, and the gradualness with which market forces were introduced in the successful NICs.[3] They also point out that the older industrialised countries used a

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[2] In standard neoclassical economics, desirable market characteristics include: the absence of market power so that price taking is the typical situation; prices are equal to opportunity costs and do not, therefore, allow for any pure profits; rents associated with market power of oligopolies and monopolies or other forms of market power are eliminated; sources of non convexities such as scale effects and high entry costs are minimal or non-existent. In the evolutionary view, although the special case of an entrenched monopoly that does not innovate is regarded as undesirable, most other market "imperfections" are the very forces that drive economic development. Perfectly competitive industries rarely innovate. It is rather oligopolies that do the most. An innovator knows how to do something that his competitors have not yet learned how to do; he has market power and can earn profits until competitors learn what he knows. If information was transferred immediately and costlessly (as in the model of perfect competition), there would be no profits of innovation and hence little or no innovation. Innovation creates asymmetric information that creates market power, that in turn creates the profits that drive the system. Really large profits are the carrot that induces agents to attempt leaps into the unknown and to make many more modest decisions under conditions of uncertainty. Path dependent evolutions brought about by new technologies are preferable to static equilibria. Non convexities are a key part of the desirable growth process. Scale effects, rather than being imperfections to be offset, are some of the most desirable results of new technologies. Entry costs for new products and new firms are the accepted costs of innovation and the source of some of the rents that drive such behaviour.

[3] For example, the Taiwanese government created a successful electronics industry through government agencies, rather than government support of private firms. Government organisations licensed foreign technologies then sub-licensed them to local firms. The local industry was fostered by public assistance until mature enough to be commercially viable. Much of it was then transferred to the private sector. Because the infant industry was initially not able to compete internationally on a wide range of products, the government directed that capacity be built in a specialised product, custom-tailored chips. These provided many spin-offs across the emerging industry. The government also persuaded Phillips to enter a joint venture with several small Taiwanese manufacturing firms that has been pulled together by the government into the Taiwan Semi Conductor Manufacturing Corporation. (Lipsey and Carlaw, 1996.) The government of Singapore, in cooperation with the private sector and hired researchers, has more than once identified emerging technologies 5 to 10 years before anyone else. For example, in 1978 it decided to concentrate on software and computer services "…when computer software was embedded in machines and given away freely. At that time, there was almost no distinct software industry anywhere in the world."

considerable degree of market intervention that denies the rhetoric of perfectly free markets that they urge on newly developing nations. For example, not one single country in the West industrialized under completely free trade.[4] These trade restrictions were eventually reduced, and some were lifted completely, but only *after* the industries had developed for at least several decades and often for more than a century. Furthermore, all these countries still retain some substantial amounts of protection even today.

A prime example of a specific industry that was created by government policies is the Japanese automobile industry. (See Womack, Jones, and Roos.). For a product, a good example is the Airbus. Today, Airbus Industries is a viable firm that has almost equal market share with Boeing and is as dynamic technologically as its US competitor.

The US aircraft industry has long been the beneficiary of significant amounts of public assistance.[5] For example, the airframe for the Boeing 707 and the engines for the 747 were both developed in publicly funded military versions before being transferred to successful civilian aircraft. In the 1950s, the US Bureau of Standards' encouraged the development of an American software industry. An infrastructure of academic experts was created largely with government funding and high industry standards were set by the rigorous demands of the Department of Defence. Military procurement also supported the growth of the U.S. semiconductor industry. The military imposed rigid standards and quality controls that helped to standardize practices and diffuse technical knowledge.

So say the critics of the laissez fair approach, governments clearly can and have picked winners, often in cooperation with the private sector. Since they have also all to often put their support behind conspicuous losers, the important question is: what are the conditions that favour the success of proactive government industrial policy and what are the conditions that tend to produce failure? Kenneth Carlaw and I in a series of articles have tired to advance the debate by getting beyond the rhetoric of what governments are alleged always or never to be able to do into the area of studying the conditions that that tend to produce success rather than failure.[6]

As the Harvard economist Dani Rodrik puts it

(Lipsey and Wills 1996: 579). The ICT industries grew at a phenomenal rate during the 1980s and the World Competitiveness Report consistently identified Singapore as top in the world with respect to the effective use of ITCs in business (Lipsey and Wills: 597).

[4] The closest was probably Britain. But that country gave key protection to its textile industry in the 18th century when it banned the importation of Indian cotton goods. It also placed a series of restrictions on manufacturing activity in its colonies, and forced exports from its colonies bound for Europe to flow through English ports. Virtually all other countries including Germany, France, the United States, and Canada sheltered their emerging manufacturing industries behind trade restrictions.

[5] From the 1920s to the 1950s, the National Advisory Committee on Aeronautics (NACA) supported aviation innovation by providing assistance through its government-operated experimental facilities. It played an important supporting role by freely providing pre-commercial research, thus levelling firms' non-appropriable technical knowledge and leaving them to compete in generating commercially viable innovations. For example, it pioneered the construction and use of large wind tunnels and provided essential test data that led to the development of such innovations as the "NACA cowl," and demonstrated the superiority of airframes designed with a retractable landing gear.

[6] See, Lipsey and Carlaw 1996, 1998a and 1998b.

> "In thinking about policy, academic economists alternate between theoretical models in which governments can design finely-tuned optimal interventions and practical considerations which usually assume the government to be incompetent and hostage to special interests. I argue…that neither of these caricatures is accurate, and that there is much to be learned by undertaking systematic, analytical studies of state capabilities — how they are generated and why they differ across countries and issue areas."

The IMF and the World Bank as Proponents of Sufficiency

The original version of the Washington consensus as outlined above was a relatively moderate document. It called for the ending of what were generally agreed to be destructive, heavy-handed, state market interventions but allowed for assistance to new industries and called for appropriate redistributive policies to spread the new prosperity to groups that would otherwise be left behind. According to Joseph Stiglitz (2002), however, when the new management of the IMF came into power in 1981, this part of the message was ignored in favour of pushing a neoclassical version of the market liberalisation part of the consensus. This held that there was one set of policies for all times and all places: remove "market imperfections" wherever and whenever possible. "The Washington consensus policies paid little attention to issues of distribution or 'fairness'" (Stiglitz: 78).

Stiglitz gives a sweeping condemnation of IMF and World Bank policies, accusing them of causing and then exacerbating the Asian Crisis that began in 1997, of botching Russia's transformation from a command to a market economy, and of pushing many disastrous policies in Africa. He makes a compelling case.

Amsden, Kochanowicz and Taylor (1994: vii-viii) agree with Stiglitz in the case of the USSR, arguing that the botched transition to market economies of the countries of the former USSR was due to

> "…a dogged determination to stick with a fixed set of economic policies that pays little attention to the shape, form, and substance of the region's existing economic institutions and ignores the realities of constructive government intervention in the postwar rebuilding of Germany, Italy, and Japan; the economic transformation of South Korea and Taiwan; and the recent restructuring of China and Vietnam…. They are largely a consequence of the conditions attached to the loans of the Bretton Woods institutions—the World Bank and the International Monetary Fund. In the 1980s these two institutions promoted an extreme form of neoliberalism in the assistance they offered around the globe."

They note that the belief that these policies were appropriate also became a matter of faith among the local groups who had most influence on the transition. Here we see the themes of a rejection of both the context-specific approach to policy and the lessons that non-laissez faire economists argued could be learned from those countries that had managed the transition effectively.

When it came to the poorer countries that did not face the special problems of making a transition from a command economy, the IMF also took a "one-size-fits-all" approach (Stiglitz: 34). As a result, they spent very little time studying the details of any country to which they gave advice that affected their economic, social and political situation. They often drafted reports including policy recommendations before visiting the county in question and used the subsequent visit only "…to fine tune the report and its recommendations and to catch any glaring mistakes” (Stiglitz: 47). This behaviour would have seemed bizarre to an older style development economists, or an evolutionary theorist, but is entirely reasonable to one who takes the canonical neoclassical position that optimal policies can be deduced from a strucureless neoclassical model of a mythical perfectly functioning economy.

On tariff policy, the position of the IMF and the Bank has often been to press clients to liberalise trade as quickly as possible. However, since all of the industrialised countries developed with some significant trade restrictions that were only eliminated slowly over time, there is no evidence that a cold turkey slashing of tariffs in a developing country with a small manufacturing sector is the best growth policy. It takes time to develop and solidify comparative advantages in modern products of any sort. Capital, entrepreneurship, and market know-how are usually in short supply in developing countries and if not carefully nurtured, they may never develop. Technologies must be imported and mastered with the necessary tacit knowledge being acquired through learning by doing and by using. In the right context, subjecting local industries to international competition is important but this requires that the industries have been well enough developed so that they do not just succumb to the first breath of foreign competition. This is particularly important since any local industries are likely to be small with few financial resources relative to the multinationals that they have to compete with when markets are opened.[7] Thus the opening needs to be slow enough to allow time for locals to adapt and improve themselves, getting slowly up to international standards. There is little value in exposing local firms to international competition if they are mainly eliminated and alternative sources of employment are not available. Furthermore, it is destructive to demand changes designed to produce a “level local playing field” when international competitors are tilting theirs in their own favour. All too often, agricultural import tariffs and local agricultural subsidies were removed under IMF pressure in small countries whose agricultural producers were immediately swamped by highly subsidized products imported from the US and Europe.

Because policies come in packages and cannot be judged independently, it is necessary to ask if a country’s existing set of policies and institutions are sufficient to bear the strain of some newly proposed policy. For example, privatization in a small country without suitable competition policy can lead to the replacement of a government monopoly with a private monopoly, which may not behave in a more socially desirable way. Well-ordered markets do not arise spontaneously in the complex modern world. Instead they require many supporting elements in the policy structure such as property laws, effective courts and police, a civil service capable of administering competition and industrial policies.

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[7] "Soft drinks manufacturers around the world have been overwhelmed by the entrance of Coca-Cola and Pepsi into their home markets. Local ice cream manufacturers find that they are unable to compete with Unilever's ice cream products." (Stiglitz 2002: 68)

To go from a largely subsistence economy to a market economy that is to some extent export oriented requires moving slowly but steadily to establish supporting institutions and only then slowly to open markets. Markets will usually grow up but this will not occur overnight in spite of the propensity of the IMF to "…simply assume that markets will arise quickly to replace any government activity that is removed" (Stiglitz: 55).

Peter Griffiths (2003) tells a similar tale of policy advice given in a vacuum with no contextual knowledge of the circumstances that will govern its immediate outcome. In the case experienced by Griffiths, it was the World Bank's desire to push privatization at all times and in all places. According to Griffiths, the government of Sierra Leone accepted an agreement more or less forced on it by the Bank, to stop importing rice and selling it at subsidized prices. They were to let the private sector do the importing, selling at market determined prices. The government was given a "sweetener" of $5 million in exchange and the reforms were to be instituted quickly. No attention was given to the time lags between the reforms and the ability of traders to import rice and for local producers to respond to the price incentive to produce more rice. According to Griffiths, if the agreement had been carried out exactly as the Bank had laid down, millions of locals would have starved to death—but another triumph of privatization would have been recorded. According to his own account, Griffiths managed, at the cost of any further chance of employment in West Africa, to alert the government and subvert the Bank's intensions sufficiently to avert the worst of the potential disaster.

Experiences such as these are why Stiglitz emphasises the requirement for the appropriate "sequencing" of polices: …successful economic programs require extreme care in sequencing—the order in which reforms occur—and pacing." (Stiglitz: 18). Critics of the policies of the Asian tigers and their followers often fail to realize the extent to which their growth was managed by a large set of sequenced policies.

The Asian NICs used public policy to nurture and sometimes to create, their new industries. The IMF and the Bank in their zeal for free markets often pressure governments in the poorer countries to abandon industry nurturing policies that seem to have worked in the more advanced of the newly industrialised nations.

Generic policy advice, which is the same for all times and places, still abounds among many policy advisors. In contrast, an evolutionary approach advises situation-contingent, focussed policies consistent with the capacities of the initiating country's ability to carry them out effectively. Policies that work well at one time and in one place may be dismal failures in the same place but at a different time or at the same time but in different places.

Much of the furor against globalization is due to a correct perception that the IMF had been a harmful force in the development of many poor countries. But the correct indictment is not against globalisation but against the blind application of a simplistic theory of how to integrate an emerging economy into the globalised trading world.

SUCCESSES AND FAILURES OF THE NEW MARKET ORIENTED POLICIES

Globalization has been a significant benefit to the advanced industrialized nations and to some of the developing nations, particularly the original NICs, Hong Kong, Singapore,

South Korea and Taiwan, as well as China and India. Some other countries have not fared so well.

Policy Failures

Here are a few of the mistakes

1. Maintenance of fixed exchange rates that are defended until the last minute by IMF loans that became a subsequent drag on the economy.
2. Too rapid introduction of market forces with no transitional programmes
3. Removal of tariffs and subsidies on products that the US and the EU were subsidizing and exporting in contradiction to any actual comparative advantage.
4. Failure to use proactive industrial policies such as were used by the first of the NICs and the fully industrialised countries at the earlier stages of their development. Many of these are now prohibited by new trade agreements. Trade liberalization among developing nations implies that they have given up the policy tools to foster infant industries that were used, without exception, by all of the now industrialized nations at early stages of their development. Certainly, the trade liberalization of many countries, particularly in South America, has not been met by the same burst of growth that was achieved by the early liberalisers, such as the NICs or by China and many feel that much of the problem lies in not being able to use policy tools proscribed by current international agreements.

Policy Assessment

Serious research is required to sort out how much of the poor performance of some economies that have adopted market oriented polices is due to a failure of the market oriented approach and how much to the doctrinaire manner in which it was often administered. Conventional wisdom on policy seems unable to make a moderate view but instead oscillates between extremes. Early in the post war period, markets were thought to be ineffective and policies that worked against market forces were thought acceptable. Then the pendulum swung the other way and the failure of these non-market policies to produce fully satisfactory results led to the view that the market was all powerful and freeing it up was sufficient to generate growth and all the other good economic things that were desired. But as these unreasonable expectations were dashed, the pendulum seems to be swinging the other way against the use of markets and towards interventionist polices.

These oscillations seem to be the implication of an implicit assumption that there is one simple policy that is right for all times and places. Surely it is time to accept that the world is more complex. The early interventionist polices failed not because markets are perfect or because interventions are always harmful. Instead the correct conclusions were that market forces matter and need to be given some play while the intervention that was practiced was heavy handed misguided. The evidence is that markets do matter but that government intervention when well handled can assist market economies to develop in desired ways. The issue then is how to determine the balance between reliance on the market and reliance on government interventions given the specific circumstances facing each different country.

This makes research into the successes and failures of the market oriented consensus critical. We need to study how much of the failures to grow successfully in such developing economies as Mexico, Brazil and Indonesia is due to (1) excessive reliance on market forces, (2) failures of commission: bad policies used, and (3) failures of omission: good polices not used.

Unequal growth

Capitalist growth is irregular growth, both in time and place. As a result, some countries have been passed by almost totally, while in others the areas involved in trade have prospered while those producing traditional products have suffered. Such performance is socially divisive. Unrest in Chiapas in Mexico and many of the rural parts of India, as evidenced by the recent election results, are cases in point. This is a problem that was anticipated in the early version of the Washington consensus but totally ignored when the ideologues gained decisive influence in the IMF.

One of today's great social problems is how to deal with these growing inequalities. One policy is to cut off growth in the developing parts by retiring from the globalized trading system. But this is destructive in the long run. What is needed is acceptance of growth and the adoption of redistributive policies to ameliorate the lot of those who are left behind—something that is much easier said than done.

It is interesting to note that the Celtic Tiger avoided this inequality issue by a lucky accident. When Ireland entered the EU, it became the largest per capita recipient of CAP subsidies. As a result, the rural sector went from poverty to affluence almost overnight. (Since the UK was the largest per capita *net* provided of these funds, the Irish could be said to be getting some recompense for centuries of English occupation.) So when a decade later, the urban sector boomed as a result of the Irish miracle in attracting largely ICT firms, city dwellers were merely catching up with those in the country side. So the growing inequalities between urban participants in the globalized economy and rural participants in a subsistence economy just did not happen in Ireland.

Culpability of the Advanced Nations

The advanced nations were ready from the outset to push for trade liberalization in the goods and services in which they held a competitive advantage but were much more reluctant to liberalize where they had protected industries, particularly agricultural commodities and textiles. Agreement for reduced trade barriers against manufactured goods and services as well as concessions on patent protection by the poorer countries were met by promises of reductions in agriculture and textiles by the rich ones. But these promises were not met. What many developing countries want, and desperately need, is not an end to globalization but *more* globalization in the goods in which they have competitive advantages, particularly agriculture and textiles.

Recent decisions of the WTO concerning US subsidies on cotton and upcoming decisions on some of the EU's CAP measures give some hope that the developed countries may be forced to deliver on at least some of their promises. Also, this experience illustrates the importance to the developing nations of having an international forum such as the WTO, no matter how imperfect it may be. The alternative is the rule of the jungle. And there is

no doubt that the most powerful animals in that jungle are the US and the EU. Without an international rule of law, these countries are free to continue with their selfish policies that are destructive of the welfare of poorer ones. The rule of law most benefits the weak not the strong. The WTO needs reform but not abandonment. It is the best hope for those who would be most oppressed in a lawless world where the powerful were free to do exactly what they wanted.

WHERE TO FROM HERE?

The demand that we return to a non-globalized world is a romantic myth. Trade has been globalized for centuries. The current globalization based on a decentralisation of the production of manufactured goods and services, is driven by technological changes that are irreversible. Globalization may be influenced at the margins by policy, but it cannot be reversed—although a few small countries, such as Myanmar can opt out. Furthermore, it has brought unparalleled economic gain to those sections in those countries that can take part in the international production system. The original NICs are reaching living standards equal to those enjoyed in the older industrialised countries; the middle class is growing rapidly in India; China enjoys a massive boom in those areas that are part of the globalized economy, but stagnation in those that are still in the old nationalized, inefficient industries.

Care must be taken in writing labour and environmental standards into the main text of trade agreements to be enforced by trade sanctions. Governments in less developed countries fear, with some justice, that these standards will be used as concealed non-tariff barriers (NTBs) by the advanced countries since poorer countries cannot afford the same degree of environmental and labour protection as can rich ones. This is not to argue against efforts to end slave labour and eliminate those forms of pollution that pose worldwide problems. But it is policy imperialism to argue that the poor must accept the standards of environmental and labour protection that the rich ones can now afford (but could not when they were poor). For example, much time was spent behind the scenes before the Seattle meeting of the WTO to persuade the governments of the poorer countries that labour and environmental standards were off the table. Then, when President Clinton extemporaneously reacted to the protesters by promising that these measures would be put on the table, he sounded the death knell of that meeting.

Most importantly the developed nations, especially the US and the EU, must voluntarily, or as a result of WTO pressure, agree to work to progressively reduce their massive intervention into the production of primary products. Given the strength of special interests in the US and the EU, and their lack of concern about the damage they do to others, this is no easy task. If this does not happen, future WTO negations will fail just as the recent ones in Mexico did.

What the world does not need is:

- an end to actual globalization; that is technologically impossible
- an end to the policies that seek to enhance globalization, those who most partake in the international specialization of production stand to gain most.

What the world does need is:

- a reform of the IMF and the World Bank to adopt a more nuanced approach to economic development in which policies are seen as useful or harmful according to a host of country-specific factors, not by reference to a universal list of goods and bads.
- reform of the WTO to make is a more effective institution.
- adoption of a more gradualist approach to the introduction of market forces.
- use of government policies that assist the private sector in the diffusion of existing technological knowledge and in innovation.

In short, the direction that enlightened policy should seek to follow is to encourage balanced globalization that will assist developing as well as developed countries and to operate a set of international institutions that do the jobs for which they were originally intended.

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