

# Making Globalization Work for Developing Countries

JOSEPH E. STIGLITZ

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Central Bank of Barbados

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# Discontent with Globalization: Outcomes

- Failures in development: contrast between success in East Asia and disappointments elsewhere
  - Latin America: growth even in the 1990s was half of what it was in earlier decades
    - Benefits of growth going to upper income groups
    - Growing poverty, unemployment, crime
    - Growing fraction of population in informal sector, without job protections
  - Africa: decline in per-capita income
  - Economies transitioning from Communism to market
    - Given inefficiencies of communism, success should have been easy
    - But in fact, there were massive decreases in income, huge increases in poverty

# The World is not flat...

## And in many ways it is getting less flat

- Growing inequality between countries
  - Standard economic theory predicted convergence, instead, there was divergence
- Growing inequality within most countries

# Globalization has played an important role in these failures

- Predictable effect on inequality within advanced industrial economies
  - Effects on developing countries harder to explain
  - Unfair trade treaties have exacerbated problems in developing countries
  - Problems compounded by asymmetric liberalization
  - Africa has neither resources nor education to take advantage of new opportunities

# Globalization has played an important role in these failures

- Latin America followed advice of IMF/WB
  - best “student” of Washington Consensus policies
  - Capital market liberalization exposed them to huge volatility; privatizations were often corrupt
- Contrast between Transition countries following Washington consensus policies and China and Vietnam (which did not) is marked
- Africa exploited even in post-colonial world
  - Exacerbating general problem of inequality
  - But had been left without the education, technology, and resources to take advantage of new opportunities

# Further problems: Finance

- Growing instability — 100 crises in last 30 years
- Money is flowing from poor countries to rich
- But, in spite of advances in ability to slice and dice risk, poor countries still bear brunt of risk
  - Meaning that many are burdened by huge debt payments
  - One source of crises
- Much done to protect investor interests
- But little done to protect the environment in developing countries from investors
  - Who use limited liability to protect themselves after taking out natural resources
  - Bilateral investment treaties are one-sided

# Further Problems: Trade

- International trade regime is unfair to developing countries
- The Uruguay Round Agenda focused on the interests of rich countries; it included
  - Services - but not unskilled labor intensive services;
  - Subsidies - but not agricultural subsidies;
  - Intellectual property rights
- Most of projected benefits accrued to rich countries
  - 70% of gains to developed countries
  - The 48 Least Developed Countries were actually left worse off

- System is unbalanced, stacked against poor countries
  - Average OECD tariff on goods from poor countries is 4x higher than on goods from other OECD countries
  - Rich countries cost poor countries 3x more in trade restrictions than their total development assistance
- Little progress on agricultural issues
  - OECD countries continue to subsidize agriculture by 48% of total farm production, just 3% lower than 1986; maintain high tariffs

- There was a need for a Development Round to address these problems
- But the Development Round agenda was mostly putting old wine in new bottles
  - Some elements were even anti-development
- And US and EU reneged on their promises
- As it is, the round does not deserve to be called a development round

- Even if successfully completed, would do little to benefit developing countries
  - Problem not just in agriculture
  - Also in manufacturing — escalating tariffs
  - US refusal to go along with opening up to poorest countries
    - EBP (Everything but what you produce)
  - Non-tariff barriers
- Risk if completed — belief that it was a development round, return to earlier regime
- Risk if fails — continuation of bilateral trade agreements
  - Even more unfair to developing countries
  - Undermining multilateral trading system

# Further Problems: Knowledge

- One of main problems facing developing countries is reducing gap in knowledge
- But unbalanced intellectual property regime makes this even more difficult
- And makes access to life saving medicines more difficult
- Developing countries have called for a Development Oriented Intellectual Property Regime

# Further Problems: Global Warming

Another arena in which global social injustices are being played out

- Major source of pollution in the North
- Major consequences in the South

# Discontent with Globalization: Other Values Dominated by Economics

- Environment sacrificed for short-run commercial interests
- Reduced access to life-saving medicines
- While no compensation provided to developing countries for environmental services
  - Biodiversity
  - Carbon sequestration
- And no protection for traditional knowledge
- Traditional cultures weakened, and WTO rules make support difficult
- Democratic processes undermined, e.g. by IMF conditionality

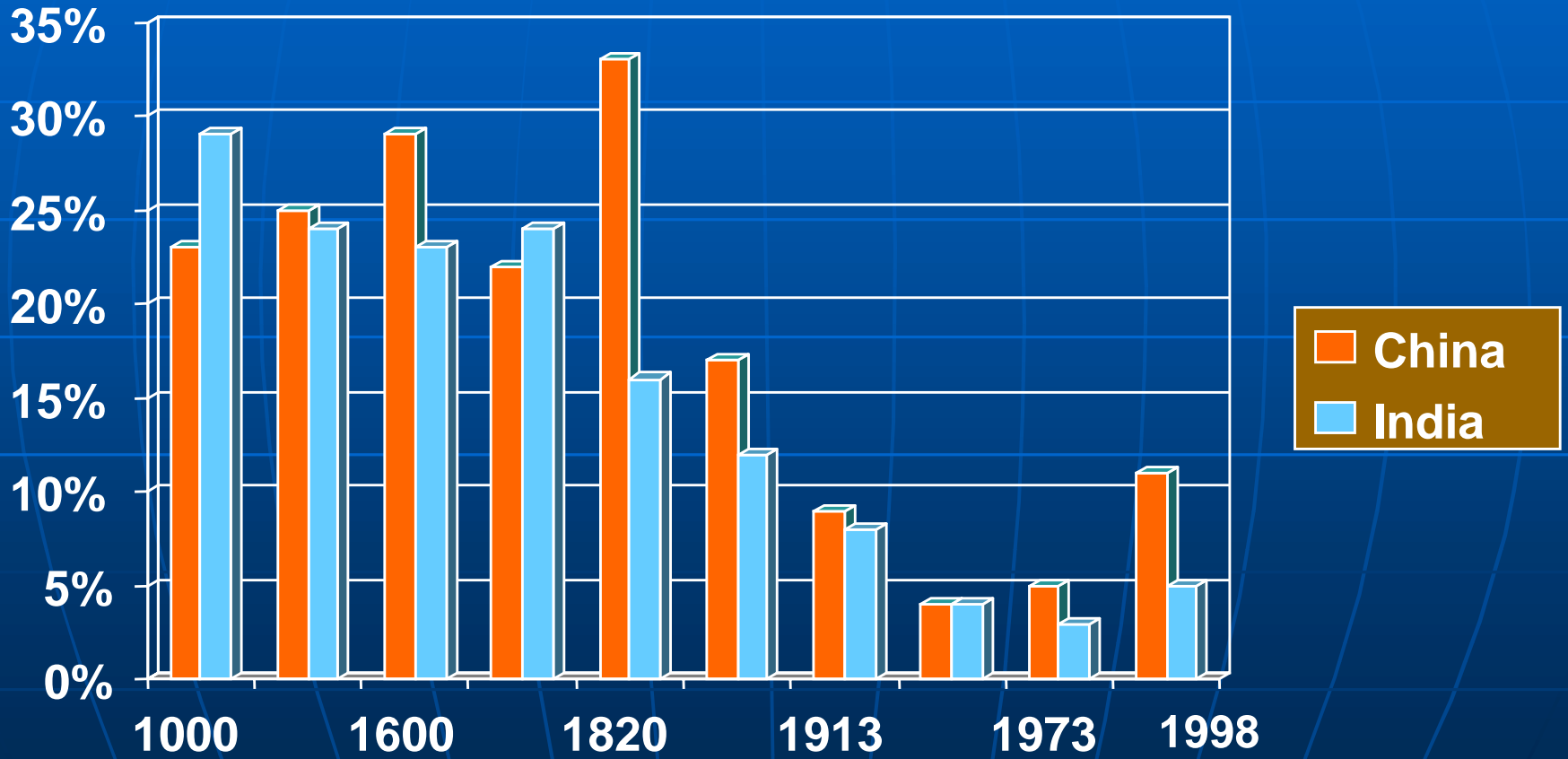
# The Successes of Globalization

- China and India, with 2.4 billion people, growing at historically unprecedented rates
  - Continuing the successes of the East Asia Miracle, which Japan had led beginning in the early 1960s
  - Countries that were marginalized, excluded from the global economy are closing the gap between themselves and advanced industrial countries
    - China at close to 10% for 30 years
    - India recently at more than 8%
  - Engine of global economic growth
    - Global growth at 5% for past couple years has been almost historically unprecedented
    - Increased demand for commodities has helped developing countries

# Historical Perspective

- 1820: China had 1/3 of global GDP, India more than 15%
- 1814-1828: Industrial Revolution and tariff barriers knocked out Indian exports
  - Indian textiles exports to Britain fell by two-thirds
  - British exports of textiles to India rose five times
- Opium wars and other external and internal problems had contributed to China's declining share

# Share of Global GDP



# Globalization has played major role in their success

- *Globalization: the closer integration of the countries of the world as a result of lower communication and transportation costs and reduction of man-made barriers to movements of goods, services, people, capital, ideas, knowledge*
- 50 percent compounded annual decline in telecommunication cost in the 1990s
  - Fiber optic glut during the Internet Bubble slashed telecom cost
  - Scanners convert data to image file - 160 pages per minute.
- Developing countries have benefited through
  - Access to markets
  - Access to technology

# Discontent with Globalization: Processes

- Global governance is undemocratic
  - Voice of developing countries is not heard
  - But even when it is heard, it is not listened to
  - Dominated by North and by special interests
    - Rules made by advanced nations for advanced nations
    - For their interests, or for special interests within them
  - Problems of global governance highlighted by problems at the World Bank and IMF
  - Governance problems contribute to bad outcomes

- Failures of global governance also reflect failures in “democracy” within advanced industrial countries
  - Special interests dominating national interests
- Problems aggravated by “smokestack structure”
  - Trade ministers meet with other trade ministers to decide on trade issues, with little attention to environmental, health consequences
  - Markedly different from way decisions are made *within* countries

- And globalization, as it has been managed, has undermined democracy
  - Conditionalities
  - Reducing the scope for democratic decision-making

- *Globalization has made us more interdependent...*

*...Greater interdependence means greater need for collective action, to act cooperatively*

- *Just when the world has greatest need for global economic institutions, confidence in these institutions has waned*

# FUNDAMENTAL PROBLEM

- Economic globalization has outpaced “political globalization”
  - Views about democracy, social justice, “social solidarity,” even the “rule of law” change at the border
- Democracies have learned how to temper the market economy, to make sure that most individuals benefit
- But we have not yet learned how to temper the excesses of globalization
  - It has put new demands on the nation state (growing inequality)
  - But reduced their ability to respond
  - Part of the reason is that we have not yet democratized globalization

# Matters Have Become Worse in Recent Years...

- Cold War made Emerging Markets battle fields
  - Little care about virtues of government (Pinochet)
  - But considerable concern about limiting alienation of people
- With end of Cold War there was a choice
  - To pay more attention to human rights, democratic values, global social justice, fundamental values, OR
  - More willingness to engage in economic exploitation and impose doctrinal policies
- U.S. missed opportunity for global leadership, used new position to advance parochial commercial interests, often in “unilateralist” manner
- Unilateralism especially severe in last six years
  - Further weakens ability to have global democratic cooperation

# NATURE OF OPPOSITION TO ECONOMIC GLOBALIZATION

- Not so much to globalization itself but to the way it has been managed
  - Economic values dominating other values
  - Undemocratic processes
- And to the particular set of ideologies that underlie the policies
  - Market fundamentalism
  - In developing countries, "Washington Consensus" policies

# Change is possible...

- Indeed, change is inevitable with changing the world
  - New global geopolitics
  - New technologies, New Economy
  - New scarcities
  - Climate change
  - And globalization has set in motion its own changes
    - Rulings that US cotton subsidies are illegal

- Question is only whether we make the changes before or after a crisis occurs
  - Changes after crises tend to be patchwork
  - Setting in motion another crisis at a later date
- Or we work together today to *Make Globalization Work*, or at least work better

# Reforms that would make globalization work better for Developing Countries

- Trade: A true development round
  - *If developed world is willing to commit 0.7% of GDP to help poor countries, shouldn't they also help them by opening up their markets, to give them an opportunity to earn income for themselves?*
  - Generalized Market Access: expanding and extending the EBA
    - Opening up markets to poorer and smaller countries
  - More policy scope: allowing developing countries to do what the developed countries did to advance their own development
    - Asymmetric consequences of subsidies

# A true development Round

- Labor market liberalization as well as capital market liberalization
- Agriculture
- Escalating tariffs
- Non-tariff barriers

# Intellectual Property

- A development-oriented intellectual property regime
- What separates developed from less developed countries is not just disparity in resources, but disparity in knowledge
- Also matter of life—access to life saving drugs
  - TRIPs reduced access to drugs
  - But did not lead to R & D in diseases affecting poor countries

# Global Financial Reforms

## ■ Debt relief

- But unless there are more fundamental reforms, debt problems will arise again
- Shift burden of risk away from developing countries

## ■ Reform of the international reserve system

- Expansion of Chiang Mai initiative
- Implicit foreign aid from developing countries, through cheap loans to hard-currency governments, is greater than the foreign aid packages they receive
- Contributes to global instability

# The environment

- Global warming
  - Matter of global social justice
  - Matter of survival
- Environmental responsibility
  - And other legal obligations enforced through International Commercial Court
  - Redoing bilateral investment treaties
    - Limiting scope
    - No longer enforced through commercial courts

# Regulating global commerce

- Other legal reforms, such as ensuring Global competition
  - Enforced through International Competition Authority

- Escaping the Resource Curse
  - Expanding the Extractive Industries Initiative
    - Only transparent payments tax deductible
  - Ending abusive banking secrecy
  - Model contracts, that ensure developing countries get fair share of value of resources

# Global Warming

- Beyond Kyoto
  - Major achievement
  - But didn't go far enough
- Developing countries need to be compensated for providing environmental services
  - Rainforest coalition: avoided deforestation
- All countries need to be induced to cooperate
  - Global public good
  - Trade sanctions: worked in the case of ozone-destroying gases
- Ecological taxes: better to tax bad things than good
  - And more likely to reach agreement than on setting common targets
- Standards

# Foreign Assistance

- More of it
- And more effective
- Assistance has played an important role in the past
- And can play an even bigger role in the future
  - Especially with programs based on the successes of the past: East Asia Miracle
  - And providing more country ownership

# Reforming Globalization

- We can make globalization work
  - Or at least make it work better
  - Both for the rich and the poor
  - In the developing world as well as in the developed

# Challenge for Developing Countries

- Is figuring out how to manage globalization in their own terms
- So they can enjoy benefits
  - Without facing downside consequences
- Successful countries have recognized dynamic comparative advantage
  - Recognizing advantages and disadvantages
    - Location
    - Size
  - Key role of education
  - Taking advantage of changing global landscape
    - Technology
    - Changing global prices
    - Changing geo-politics

# Challenge of developing countries in managing globalization

- If they fail, the problems of poverty, unemployment, and the environment may get worse
- If they succeed, they will be able to make inroads in the major problems that they face