

*Discussion*¹

1. Maria Ramos

In my brief comments on how the benefits of globalisation can be spread to non-globalisers, I will touch on three areas which I believe are worth highlighting. First, the challenges for non-globalisers – what needs to be done, and what are some of the difficulties facing these countries. Second, the New Partnership for Africa's Development (NEPAD) as a home-grown model to try and deal with some of these challenges. Third, what is required from developed countries? We had very good discussions in earlier sessions about what needs to be done by developing countries, but to my mind, there is a set of structural reforms that need to take place in developed countries that we should not lose sight of.

Challenges for non-globalisers

Let me begin by highlighting some of the issues and challenges that face the non-globalisers or countries that have been slow to globalise.

The first problem is essentially that of weak states. Sometimes they are not just weak politically but they are weak in their ability to deliver key services to their citizens. If you look at a lot of the budgets for countries that are in programs, for example, if you just look at the absolute numbers, they are spending a large portion of their budgets already on health or education. When you try to understand the efficiency of those delivery mechanisms, they are just not there. That speaks to a weak state and a weak public service and so that's an important constraint. The second relates to the ability to implement and deepen the reform process. One of the things that worries me about a very good instrument like the Poverty Reduction Strategy Papers (PRSPs) is how you translate that from just an exercise of completing a document for the purpose of a World Bank program, to an exercise of deepening the reform process in building up the institutional capacity within these countries.

Third are issues of capacity. These relate to both institutional capacity such as in the areas of the legal framework and the functioning of parliament. But there are also issues around governance, accountability and transparency in reporting. Fourth, and very importantly, is an issue that I think needs a lot more emphasis in discussions on globalisation and development and that is the issue of human capital. Fifth, there is something that we didn't mention yesterday and I thought it would be important to mention, because it consumes so much of the resources in developing countries – particularly in the non-globalising countries and particularly in my own continent – and that is the issue of health. The impact of HIV/AIDS and other communicable diseases, such as malaria and tuberculosis, is enormous, particularly when we

1. This discussion, opened by Maria Ramos and Melih Nemli, summarises the conference session 'Spreading the Benefits of Globalisation to Non-globalisers', rather than focusing specifically on the paper by Ken Henry.

consider the effects on the economically active part of the population. It also raises many questions regarding resource allocation to health and education for example. You cannot consider issues of development and globalisation without dealing with these questions of health. Sixth, it is important to recognise that initial conditions are important. One thing that struck me about the presentations on China and India yesterday was just the fact that there were such big divergences within those economies, and some of those divergences, and performance, can be accounted for by what was happening at the beginning of these processes:

- Was there infrastructure?
- How close are these provinces to transport links?
- How efficient are those links?
- Are the mechanisms there?

So initial conditions are important. Indeed, for a lot of the non-globalisers they are vital. There isn't the infrastructure. A lot of the countries in our continent cannot ignore the significant legacies of colonialisation and exploitation. Lastly on this front I want to make two points about market access. Not just market access for the non-globalisers – of course we need improved market access – but for that market access to be meaningful it needs to be supported by the other reforms that I have been speaking about. In addition, I think that aid is important.

NEPAD

Let me talk very briefly about NEPAD, just for a minute. NEPAD is a home-grown response to many of these challenges. For the first time, African countries and African leaders recognise that the future is in their own hands and that what we need to do for the African continent and all its many countries is to recognise that there are challenges, there are things we need to do as Africans. NEPAD recognises this and its responses range from the very fundamental need for peace and stability, to issues of economic governance, of access and what Africa needs to do in order to get market access, to the strengthening of parliamentary processes and the development of regional bodies.

Changes in developed countries

I want to conclude on the issue of what developed countries ought to do. What NEPAD seeks, for example, is a partnership. A partnership is quite a different mechanism from what has been the case until quite recently. Much of the responses to date start from the premise that developed countries know what developing countries need – i.e., a supply-driven approach rather than a demand-driven approach. Partnership is about building a two-way relationship based on mutual respect and credibility. We, as Africans, recognise that we need to do a lot more work in this area. It also requires reciprocity in a number of key areas, and here issues such as market access become important. I am not sure for how much longer developed countries, and in particular the European Union and the US, are going to be able to defend policies such as farm subsidies and the Common Agricultural Policy (CAP).

These issues are relevant to developing countries generally, not just to the non-globalisers. If these reforms do not take place at the global level, it is going to become more and more difficult for us to pursue programs of economic reform that make sense. In my own country our citizens ask why we are not subsidising agriculture, when there are such significant subsidies in the US and Europe and there is no visible move to open up these sectors to significant competition. The need for a fair and well-targeted reform program by the developed economies has never been more urgent.

The very last point I want to make is about the reform of the multi-laterals. I know no-one likes to talk about this but it's an issue we need to keep on the agenda. The borrowers need to have a voice which is quite different from the voice that they have at the moment. The reform is not just about voice and representation, it's also about reducing the costs of compliance. Luckily South Africa has no program with the World Bank or the IMF, but I have often wondered what would happen in a country like Australia or Canada or another developed European Union country if they had to meet as many of the compliance requirements as very poor developing countries have to meet in order to qualify for resources.

Chair, I wanted to focus the discussion on some challenges on the reform agenda. In doing this it is also important to recognise that reform is hard and its pay-offs often take five to ten years before they have positive or measurable impacts on the quality of life of the poor. It is for this reason that reform requires a large measure of political commitment and political leadership. It is also important to recognise that globalisation, and reform as part of that globalisation process, is an ongoing multi-faceted complex story. It is not about picking one or two things to focus on.

Thank you very much.

2. Melih Nemli

I will take this opportunity first to express our views on some general issues and then to share with you some aspects of the Turkish experience with globalisation that might have direct implications for low-income countries.

We agree with the view that globalisation has contributed to the increase in global prosperity and the reduction in global inequality. It is no secret that the data on which we base our arguments are far from being perfect and should be interpreted with caution. It is also true that one's reply to the question 'What is happening to world poverty and income inequality?' depends on choices among competing methodologies. The most important choices are those between using market exchange rates or purchasing power parity, and treating countries equally or weighting by population. However, we do not believe that all choices are equally reasonable and that we can choose whichever methodology we wish. There are compelling reasons why we should use purchasing power parity and we should give 'each citizen one data point', not 'each country one data point'. Moreover, we cannot regard China and

India as two outlying data points that distort the picture and should therefore be eliminated from the database, because a very large share of the poor people are living in these two countries.

As long as we agree that we should use purchasing power parity, weight countries by population and that it is legitimate to include China and India in the analysis, the empirical evidence, despite all data problems, is overwhelming that poverty rates and the poverty headcount have declined, despite the world population increase, and that world inequality has fallen over the last two decades. Xavier Sala-i-Martin² convincingly shows that the seven most popular measures of income inequality support this conclusion.

Professor Wade's concerns about data quality, and his calls to improve the data are legitimate. However, his approach to data and methodological issues are simply paralysing, preventing us from engaging in any sort of meaningful discussion of the issues relevant to globalisation. It is interesting to note that Professor Wade seems less paralysed and less disturbed by the data problems when he refers to the studies that find an increase in world inequality.

Despite these improvements, it is clear that the picture of global poverty and inequality is not free of some serious and disturbing problems. Many poor countries, with a combined population of about 2 billion people, have been left out of the process of globalisation. They often have declining incomes and rising poverty, and are in danger of becoming marginal to the world economy. A particularly disturbing fact is that more than 95 per cent of the people with an income less than US\$1 dollar per day live in Africa.

A crucial question then is whether this disturbing picture is a product of too much, or too little globalisation. We are convinced that it is caused by too little globalisation. We believe that, with the exception of a few countries who deliberately refused to integrate into the world economy on ideological grounds, the lack of integration of most low-income countries is not the result of a deliberate policy choice.

Some of these countries were prevented from participating in the process of globalisation by their unfavourable geographic location, some others by poor governance, corruption, weak institutions or civil war.

Most income inequalities in the world are explained by differences across countries, rather than differences within countries. We found it particularly interesting that Dr Wei's very interesting study on China showed that most of the income inequalities in China, similarly, are explained by differences across urban and rural areas, rather than differences within regions.

A direct implication of these facts is that the best strategy to reduce world income inequalities is to induce aggregate economic growth in poor countries and poor regions.

2. Sala-i-Martin (2002), 'The Disturbing "Rise" of Global Income Inequality', NBER Working Paper No 8904.

I do not want to bore you with a detailed discussion of what is needed to induce economic growth in the poor countries, as the issue was discussed extensively yesterday. We broadly share the views expressed in the *Globalization, Growth, and Poverty* report by Dr Dollar³ and the speech by Dr Henry during yesterday's dinner. The industrialised countries should reduce trade barriers, provide more aid and debt relief, adopt more neutral migration policies and provide more financing to prevent environmental degradation. The low-income countries should adopt prudent macroeconomic policies, address governance issues, ensure that due importance is attached to education, health and social protection, and develop institutional capacity and human capacity. International organisations should coordinate the aid and debt relief, provide more financing and help in designing and implementing prudent policies, and developing institutional capacity and human capital.

Finally, I would like to share with you some aspects of the Turkish experience with globalisation.

Absolute poverty in Turkey is low by international standards. When we use the internationally comparable 'one-dollar-a-day' line, we find an extremely low incidence of poverty. Only 2.5 per cent of the population have consumption below this level.

Yet, this picture is marred by large income inequalities. Income differentials across regions and social groups are wide and persistent.

The main factor driving the worsening of the distribution of incomes appears to be the labour market, and specifically the emergence of growing wage differentials by educational attainment.

One of the most striking facts of the 1980s and 1990s in high and middle-income countries alike is the rise in the wage premium for education, usually interpreted as evidence of rising demand for skilled labour, and linked in different degrees to trade, organisational change and technology.

Much of the inequality in Turkey is linked to differences between education groups. The average income for a person with higher education is almost 6 times that of an illiterate adult. These differences alone explain as much as 22 per cent of total income inequality between households, and reveal the existence of entrenched inequalities in access to education in Turkey. In this sense, education is the great equaliser in market economies. And in this regard, Turkey can reflect positively on the experiences of its southern Mediterranean neighbours, Spain and Portugal, where increases in education were clearly associated with a sharp decline in income and wage differentials during the 1960s and 1970s. Turkey and other middle-income countries face a worldwide shift in demand toward skilled labour. Failure to increase the educational attainment of its population will obviously reduce Turkey's competitive advantage.

3. World Bank (2002), *Globalization, Growth, and Poverty: Building an Inclusive World Economy*, The World Bank Group and Oxford University Press, New York.

3. General Discussion

The session on how the benefits of globalisation could be spread to those countries not currently participating actively in the global economy encouraged a wide-ranging discussion. Most comments and questions centred on the steps developed countries could take to facilitate the sort of policy reforms in developing countries that would increase their integration into the global economy. Other issues discussed included the extent to which commodity dependence was a constraint on developing countries' growth, and whether conditions should be attached to developing countries' receipt of aid and loans.

Several participants agreed that it was crucial for developing countries to build solid educational, health, and legal institutions if they wanted to set a platform for strong growth. For example, FDI often required complementary investment in domestic public goods. However, the cost of providing such goods was viewed by many participants as difficult for many developing countries to finance domestically, and consequently their provision had the potential to generate destabilising budget deficits that would themselves act as a disincentive to FDI. In response to this dilemma, some participants suggested that developed countries could play a role assisting developing countries to meet the costs of public investment, and ensuring that the investment occurred in an economical way.

Participants also raised a number of other ways in which developed countries could assist developing countries to share the benefits of globalisation. Some returned to the point, stressed several times during the conference, that increasing developing countries' access to agricultural markets in the developed countries would have large benefits. Others thought that it would be easier for developing countries to become more integrated with the global economy if they had more of a say within multilateral organisations such as the IMF, World Bank, and WTO.

There was also further discussion on the extent to which commodity dependence constrained growth in developing countries. One participant reinforced the view that commodity dependence was less likely to constrain growth if a country had a diversified commodity base. Furthermore, and contrary to the view taken by other participants, commodity dependence might be expected to *increase* the importance of financial liberalisation for developing countries, on the grounds that liberalised access to international capital markets could enable international sharing of some of the risk faced by countries exposed to volatile commodity markets.

Finally, the issue of whether the receipt of loans from the IMF and the World Bank should be conditional on developing countries initiating policy reforms was discussed. One participant thought that conditionality was important because loans would be ineffective in the presence of poor policy settings and inadequate governance. Another agreed that conditionality was important, but also stressed that developed countries also have a responsibility in ensuring that aid and loans are used effectively. Yet another participant remarked that conditionality was appropriate, but it should be offered as a stake in the development process for developing countries, rather than a stick.