Introduction

INTRODUCTION

Ippei Yamazawa

Globalization is very much the "megatrend" of the current world economy, and this process is irreversible. Owing to rapid technological progress in information, communication, and transportation, private enterprises have intensified their efforts to do business across national borders and constructed production and distribution networks on a global scale. The trend toward globalization involves both large enterprises as well as their small- and medium-sized counterparts in industrialized countries. For developing economies as well, this process has become inescapable.

Since economic development is transmitted from advanced to latecomer economies through movements of capital and technology, globalization has shown a tendency to accelerate this transmission, and thus to benefit developing economies. The rate of growth of developing economies and the speed of the process of catching up were far higher in the last few decades of the 20th century than they were before World War II.

However, not all developing economies have gained from globalization. While some have enjoyed sustained high growth for more than one decade, there are others which have failed to seize the opportunity to develop their economies. Some have yet to develop sufficient market mechanisms to reap the full gains of globalization. Some suffer from friction between global standards and local values as they expose their economies and social systems to global competition. Furthermore, globalization is inevitably accompanied by global constraints and amplified disturbances in the supply and movement of production factors. Developing economies are vulnerable to such externalities.

Yet, developing economies can no longer reverse this trend and carry out their development behind walls, isolated from the world's technological development. This is demonstrated by the landslide-like movements toward market economies by the socialist economies, such as China, in the last fifteen years. A balanced approach to globalization is needed in order to enable developing economies to take advantage of its benefits and avoid its evils. This is what this book, subtitled "The Challenges of Globalization" is all about, and is also the issue that we have grappled with in the International Symposium on *Developing Economies in the 21st Century.*

The two keynote speeches complemented one another well, and laid the basis of the discussion which followed. Professor Dani Rodrik of Harvard University is a leading thinker on problems related to globalization known for his book, *Has Globalization Gone Too Far?* (Rodrik [1997]). According to Professor Rodrik, ideas on development policy are currently in a state of flux. The Washington Consensus, which dominated during the 1980s and 90s, is now widely regarded as inadequate, though it has yet to be totally abandoned. The failure of price liberalization in Russia is attributable to the absence of the necessary regulatory and political apparatus to allow price mechanisms to function. The Asian economic crisis occurred due to financial liberalization taken without adequate financial supervision and regulation.

We face a choice between two alternative strategies. One is to strengthen the Washington Consensus, supplementing its inadequacies rather than abandoning it. In particular, the international financial market requires developing economies to introduce appropriate regulatory frameworks consistent with global standards.

Another choice is to place much less emphasis on international codes and standards and more on domestic institution building which is sensitive to local needs and realities. The second approach is a more flexible one, which reflects what works and what does not work in each country's context. Professor Rodrik showed an affinity toward the second approach.

This last point raised by Professor Rodrik is consistent with the approach toward reform taken by the Thai government, which was praised by our second keynote speaker, Professor Akira Suehiro of the University of Tokyo. Professor Suehiro, who is an outstanding scholar in Thai studies, introduced to us the fact that in Thailand there are currently three ongoing processes of economic reform, with distinct conceptual origins. The first is financial institutional reform, consistent with the Washington Consensus. The second is an industrial structural reform, being carried out with the support of the Japanese government, aimed at strengthening competitiveness. The third represents social reform based on Thailand's own Buddhist morality. Thailand's King Bhumibol Adulyadej endorsed "prudent economy" rather than a rush into modernization. His pronouncement prompted increased public expenditures on employment generation, educational reform, and environmental protection. This third approach is perfectly compatible with the idea raised by Professor Rodrik, of respecting local needs.

Following the two keynote speeches, a panel discussion was held, with six specialists on the economies of China, Southeast Asia, Latin America, India, Africa, and the Middle East. Each panelist discussed how that particular country or region is confronting the trend toward globalization. We found that policy attitudes can be loosely classified into the following three groups.

First, Southeast Asia and China constitute one group, which has enjoyed the benefits of globalization, under the recognition that economic development requires compatibility with the trend toward globalization. The second group, consisting of Latin America and India, have been relatively skeptical about the merits of globalization. Latin Americans recognize that they have been unable to take advantage of globalization, from an experience that is almost as long as that of Southeast Asians. India, for its part, has only liberalized its economy during the past ten years. The third group, consisting of Africa and the Middle East, find themselves marginalized in the global environment, although they have already been exposed to global competition. They are calling for support from developed countries and international institutions to enable them to successfully join the world system, without being left behind. Republic of South Africa is an exception, as it is already actively involved in the globalization process, receiving investments by European and US enterprises and at the same time making its own investments in neighboring African countries.

The first and second groups agree with Professor Rodrik's emphasis on the need to harmonize globalization with the strengthening of domestic institutions. Yet, the extent of domestic institutional reform which needs to be done depends on the development path of each country. Hence, the question of what measures need to be taken and what related difficulties will be faced also depends on the circumstances of each country. As an economy in transition, China faces serious problems in reforming state-owned enterprises. For India, the challenge of globalization involves the reform of a huge legacy of regulations and protections from the past. As we can see, domestic institutional reforms for adaptation to globalization, in the sense of Professor Rodrik's proposition, cannot be distinguished uniformly from domestic institutional reforms aimed at getting rid of internal constraints for development in developing economies.

All developing countries are eager to implement liberalization and deregulation in order to attract multinational enterprises, hoping to utilize them as a response to globalization. However, since multinational enterprises behave based on their own global strategies, and since their investment tends to be done through mergers and acquisitions, they are often criticized for not bringing new investment and for marginalizing local companies and excluding them from global technological development. It may be true, as Professor Rodrik commented, that the better the performance of local companies, the greater the amount of foreign direct investment attracted. But in the real world this is not necessarily so.

Globalization is an irreversible trend and developing economies are also inevitably involved in the process. We should therefore carefully consider how to restructure the world trading system to accommodate developing economies, by enabling them to benefit from globalization while minimizing external shocks. Although this question was raised by the panelists specializing in Africa and the Middle East, we could not discuss it extensively at the symposium. The debate was limited to the short comments by Professor Rodrik suggesting that the WTO should work more effectively, through an enlargement of waiver clauses which recognize the weaker position of developing countries. Let us discuss this problem in the following section.

In truth, this is a burning question for the current world trade system. Readers will recall that the WTO Ministerial Conference in Seattle failed to launch the New Millennium Round in the midst of fierce anti-WTO protests carried out by NGO groups. While the viewpoints of these NGOs ranged widely, from environmental preservation to human rights, labor standards, and agricultural protection, I remember seeing in TV one placard proclaiming, "The WTO acts against the interests of developing countries!" In fact, developing countries were already complaining during the preliminary meetings that they were not given sufficient motivation to participate, because the preparation of the new round of negotiation had been guided mainly by the interests of developed economies. Of course, this was not the principal reason for the failure of the meeting. The fact is that time ran out because of various reasons, and the scheduled agreement on the launching of a new round was not reached. There were conflicting views from the beginning, which failed to converge during the high-level officials' meeting, and final political decisions remained to be taken on some major issues, such as agricultural market liberalization, antidumping procedures, and the application of labor standard to developing countries. The opening of the meeting was also delayed by the intense protests on the streets of Seattle. In addition, there were some organizational problems on the part of the host country. But in the end, there is no doubt that developing economies were not involved in the negotiations as enthusiastically as the developed countries.

It is widely believed that start of the new round will be delayed by at least two years, in view of the presidential election which will be held in the United States in November. An important issue therefore involves much progress can be made in involving developing countries. UNCTAD X, which took place in Bangkok in February 2000, was attended by the heads of the WTO, IMF, World Bank, and several other international organizations, who emphasized the indispensability of the participation of developing countries. Since the holding of the first general conference in 1964, UNCTAD has provided an opportunity, every four years, for developing countries to express their complaints against the developed countries. Readers may recall that the 1979 UNCTAD meeting in Cancun, Mexico, adopted the "Global Negotiation" which called for establishing a New International Economic Order (NIEO) favorable to developing countries. At the Bangkok meeting, many representatives from Latin America and Africa expressed their expectations and worries related to globalization.

The WTO held a seminar entitled "special and differential treatment for developing countries" to discuss what conditions need to be met to allow developing countries to participate in the new round negotiations. It seems that the UNCTAD secretariat was also actively involved in this. Under the WTO's non-discriminatory principle, every member country must be treated equally. Yet, since developing countries are in reality in a disadvantageous position, they should be granted some "special and differential treatment." This corresponds to Professor Rodrik's comment regarding "the waiver clause which recognizes the weaker position of developing countries." In fact, "special and differential treatment" is not a new concept at all. UNCTAD pushed for the establishment of the general system of preferences (GSP) as well as several international primary commodity cartels to protect the interests of developing economies. The evaluation of the effectiveness of these measures is still a topic of ongoing debate. The Global Negotiation of 1979 ended in failure, and prompted developed countries to maintain a distance from UNCTAD. Since Mr. Ruben Ricupero from Brazil assumed the post of Secretary General in 1995, UNCTAD has become more flexible and pragmatic. It is currently seeking to cooperate with the WTO to design effective ways to assure the participation of developing countries in the New Millennium Round.

The aim of "special and differential treatment" is not just to differentiate the trade liberalization process, but also to provide developing countries with the necessary technical assistance to modernize their customs procedures and standardization–related legal systems, so that they can build the necessary capacity to be able to take part in the global trading system. Of course, a new special preference scheme is under consideration for 48 least developed countries in Africa and South Asia. UNCTAD once insisted on the slogan of "homogeneity" among developing countries, and refused to accept differential treatment for only a portion of them. In this sense, efforts to give particular attention to the least developed countries are symbolic of UNCTAD's new pragmatic approach.

Developing countries are struggling to cope with the trend of globalization as a means toward economic development. We at the Institute of Developing Economies-JETRO, who have as our mission to contribute to research on development, are firmly committed to confronting the challenges of globalization in developing countries, and to joining in efforts for a better future for them.

Rodrik, D. [1997] *Has Globalization Gone Too Far?* Washington, D.C., Institute of International Economics.