

Introduction

I Fondad's Three-Year Research Projects

When the Forum on Debt and Development (Fondad) started its three-year project on regional economic integration and multilateral cooperation in October 1994, its main objective was to explore how the ideals of regional integration and multilateral cooperation could be promoted, in a mutually reinforcing manner. Specific questions included: What roles can regional markets and institutions play? Is regional integration a stumbling block or a stepping stone to an improvement in the functioning of the global, multilateral finance and trading system?

Over the past three years regional seminars were held in Latin America, Africa and Eastern Europe, at which experienced researchers and high-level policymakers jointly addressed these and other questions. In addition, workshops were organised to discuss the issue of how the system of multilateral economic cooperation could be improved from a more global perspective. One such workshop, for example, discussed ways in which future Mexico-style currency crises could be prevented or better managed. The research was further complemented by two studies on the financial policies and practices of the multilateral development banks, and on the issue of how the multilateral debt problem of low-income countries could be resolved. Both studies were authored by Indian economist and investment banker Percy S. Mistry who also wrote the background study of the project. For the publications resulting from the project see the list of Fondad publications at the end of this book.

Fondad's project was concluded by a two-day conference held in November 1997 in The Hague. Conference papers included the prospects and priorities for integration in Latin America, Africa, Eastern Europe, Asia and the Middle East. In addition, papers were prepared on the topics of economic globalisation and regionalism versus multilateralism.

After the conference we realised that the papers and the ensuing discussions were so rich and encompassing that it would be better to publish them in two separate volumes. The first volume focuses on the main question raised in the project – does regionalism contribute to national development as well as to multilateral cooperation? – whereas this second volume focuses on the policy challenges of the globalising economy.

This book serves as a kind of “bridge” between the Fondad project

which has come to a close and the new three-year research project on which it has now embarked. Fondad's new project examines the implications of rapid global financial integration for national and international policymaking. It focuses in particular on the dynamics of private capital flows to non-OECD countries and its consequences for bilateral and multilateral development cooperation. The first book resulting from the new project is included in the list of Fondad publications (see the first title).

II The Political and Historical Context of Globalisation

Fondad's project on regionalism and multilateralism has focused mainly on the *economic* aspects of regional integration, multilateral cooperation and globalisation because we believe that the economic aspects of these processes are crucially important, particularly since the general public is often ill-informed about the economic forces behind these processes which shape the lives of peoples all over the world. However, I also believe that regional integration, multilateral cooperation and globalisation are basically *political* projects.

In my introduction to the first volume I illustrate this point by referring to the region which has become the success story of regional integration *par excellence*: Europe. In a brief account of Europe's integration attempts, I stress that while the post-war success in the deepening and widening of the European integration process was substantially facilitated by *economic* institutions and forces, the success was ultimately due to the *political* push for a united Europe. Without such a push the impressive shift from a European Coal and Steel Community with only six member states in the 1950s to a European (Monetary) Union with fifteen member states in the 1990s (and ten more candidate countries in Eastern Europe anxiously waiting to join the EU), would never have been possible.

I also allude to the fact that Europe has not only gone on record as a successful 'regional' integrator but as a successful 'global' integrator as well. I refer to the British Empire as a primary example of the dominant role that European countries have played (and still are playing) in the globalisation process.

In this introduction, I would like to dwell for a moment on the *politics* of globalisation (rather than the economics of it) by looking at the political forces and ideas behind the globalisation process of the last two centuries, which are predominantly West European and American – although the emerging economies are now playing their part in the global economy.

From a broad point of view, one could argue that the process of global-

isation of the last two centuries has gone hand in hand with the development of capitalism. It is no coincidence that the three waves of globalisation we have seen over the last two-hundred years – the globalisation of trade, the globalisation of companies, and the globalisation of finance – run parallel to the three stages of capitalism: commercial capitalism, industrial capitalism and financial capitalism. Thus, globalisation seems to be rooted firmly in capitalism, and vice versa. What are the political implications of this state of affairs?

First, since capitalism has become the dominant ideology in most parts of the world, there are no powerful forces which are opposing continued globalisation. But while globalisation is generally seen as a necessary, inevitable or even highly desirable process which cannot or should not be stopped, we still need critique and alternative policy proposals. In fact, as the intertwined processes of globalisation and capitalism proceed and their deficiencies are revealed, the need for ideas and policies that can remedy their flaws becomes more urgent. Second, since the driving forces behind the two processes cannot only be located in powerful economic groups such as companies and countries but also in powerful desires and beliefs of human individuals, both forces deserve the attention of those who are committed to the search for remedies. And third, since human desires and beliefs are substantially influenced by the dominant ideology, today's opinion leaders (politicians, journalists, entrepreneurs, union leaders, academics, clerical authorities and others) should have a particularly critical view on capitalism and globalisation, especially when they are presenting ideas and policies which aim to address the challenges of both processes.

III The Policy Challenges of Globalisation

Each of the four authors whose papers are included in this volume deal with a different aspect of the process of economic globalisation. In a broad and in-depth paper, former IMF Managing Director H. Johannes Witteveen argues that even though globalisation seems to be developing in a positive and successful way from a macroeconomic point of view, it also raises "some serious concerns". One of the concerns he dwells on is the volatility of private capital flows which, particularly in emerging economies, "creates a serious risk of cyclical disturbances to the development process". Distinguishing between the various forms of capital flows – 'low-risk' foreign direct investment (FDI), 'higher-risk' portfolio investment, and 'highest-risk' short-term bank loans – Witteveen proposes a number of specific measures "to act more forcefully against speculative capital outflows".

A second concern that Witteveen deals with rather extensively in his paper is the effect of globalisation on the environment. In his view, we are “painfully confronted” with a deterioration of the environment brought about by the globalisation process. In light of the “extremely strong” capitalist forces that cause “increasing damage to the environment” and the unlikelihood that internationally agreed targets to reduce pollution levels will be met, Witteveen suggests the adoption of alternative measures such as the inclusion of “certain minimum levels of taxes” and “other restrictive measures on energy and trans-border pollutants” in trade liberalisation agreements.

A third concern Witteveen discusses in his paper is a spiritual one. While he recognises that the capitalist market economy has proved to be a powerful engine for economic growth and wealth, he advocates the need (and urgency) for a shift from materialistic concerns to the preservation of the environment and an improvement of the quality of life. In his view, any measures taken by governments and international institutions will have limited success in introducing such a turnaround. Reviewing Buddhist, Islamic and Christian thinking about market capitalism, Witteveen stresses that “the turnaround has to come from the depths of man’s being”.

Stephany Griffith-Jones, an economist from Chile who has gained reputation as a policy-oriented academic specialised in international finance, analyses in a rather technical but highly interesting paper the recent growth and volatility of portfolio flows to developing countries. Given the “insufficiency” of current regulatory strategies to deal effectively with the market volatility and systemic risk of these flows, she suggests a number of specific measures that regulators in both *source* and *recipient* countries could take to diminish the volatility of portfolio investments.

Zdeněk Drábek, a Czech economist working with the World Trade Organization in Geneva, deals with the other form of capital flows mentioned by Witteveen, i.e. foreign direct investment. At this moment, the need for and the details of a multilateral agreement on investment (MAI) are being hotly debated. In his paper Drábek discusses the arguments against and in favour of an MAI. Even though he is convinced that the benefits from an MAI could greatly exceed the costs, “several difficult problems would (still) have to be resolved before the negotiators (can) sit down to negotiate the actual agreement”. These include the intellectual debate, ‘green light’ measures, regional cooperation, transition periods, exemptions and technical assistance.

In the fourth and last paper, Percy Mistry gives a detailed and lucid analysis of the future challenges of financial globalisation. In his view, these challenges are becoming more urgent by the day and need to be addressed more effectively – nationally, regionally and internationally.

“The Asian currency and capital market crisis which is still unfolding suggests that many of the lessons of the Mexican crisis of 1994-95 have been left unlearnt,” says Mistry.

The major section of Mistry’s paper consists of a discussion of “pragmatic solutions” to what the author sees as seven key ‘market’ issues. These include: The need to develop regional financial markets for *small* countries; The need to rationalise fragmented markets and players in *large* countries; The need to address information imperfections and asymmetries in financial markets; The need to improve financial market regulation; The need for enhancing the capacity of central banks to intervene in financial markets (including a reappraisal of the role of international reserves); The need to improve ‘market mechanics and market architecture’ in emerging economies; The need for interaction across the three principal tiers of financial system governance – national, regional and global.

One of Mistry’s provocative observations is that curative measures are mostly taken *after* financial market disruption occurs and a chain reaction ensues. In his view, national as well as international institutions still “seem ill-equipped in dealing with the challenges which a rapidly globalising financial world poses in the 1990s and beyond.”

Let me conclude with a political thought. In my view, global financial integration ought to be a matter of concern not only to public policy-makers and private entrepreneurs, but also to the public at large. Because ultimately, it is not the economic arguments of the experts alone that count but the political arguments of everyone concerned (including the ‘minority’ group of experts). No economic project (be it capitalism, socialism or globalisation), should become an end in itself – a dogma. On the contrary, each and every economic project should be evaluated in light of the broader and ‘higher’ human goals of justice, social equality, cultural identity and respect for nature.

I think the four papers included in this book make an important contribution toward increasing our understanding of the issues that are at stake in this globalising world.

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