Globalisation and Human Development.

Recent years have witnessed an unprecedented debate on globalisation. Attention has focused on the origin and main features of globalisation and its potential impact on world economic, political and social order. This research and policy debate is understandable, as the pace and consequences of globalisation have implications for every individual, community or nation. Globalisation touches all of us. It is changing the lives of people in developed and developing countries, of persons living in a busy cities in America, Hong Kong or Buenos Aires and even of indigenous people living in the remote areas of Africa, Latin America or Asia. Recent financial and economic regional crises ranging from Mexico to Russia and East Asia, the failure of the New Millennium 'Development' Trade Round in Seattle, hot debates at the UNCTAD-10 Conference in Bangkok, and the recent South-South meeting in April 2000, have brought the discussion on globalisation to a new peak of rhetoric and passion. A selection of prominent statements and judgements on the nature of globalisation are presented in Box 2, but the debate is still far from over.

Yet what is globalisation? Is it good or bad for human development? How does it affect the developing countries? Is it something new, or part of a longer historical process? What can developing countries do to maximise the benefits from globalisation and minimise its risks ? How to protect vulnerable groups from the volatility of the globalisation wave?

What is Globalisation?

Globalisation is a process of change. It is a process which increases economic and other interactions between countries due to the persistent decline in international transaction costs. It is typically defined by its consequences: "Globalisation is a multifaceted phenomenon, which includes the acceleration of international trade, of the flows of labour, capital and technology as well as of the transfer of ideas and patterns of living" (Amin:1999). But to understand the process we must first look at the causes.

Two main forces are behind the rapid pace of globalisation. The first is rapid technological change that provides new means of transport and communication. Such advances have significantly reduced the costs and increased the speed of transporting goods and people, and of communication between people, thus effectively 'shrinking' time and space. Greater sophistication in the international financial system has also reduced risks and hence transaction costs. The second driving force is the latest wave of liberalisation, which is gradually but steadily lowering all kinds of cross-border barriers, thereby facilitating the flow of goods, services, and ideas between nations.

Box 1. And globalisation is:

Globalisation is a multifaceted phenomenon, which includes the acceleration of international trade, of the flows of labour, capital and technology as well as of the transfer of ideas and patterns of living.

The impacts of globalisation on human development must vary greatly with the nature of government policies with, or accompanying the process of globalisation.

Gala Amin, Professor of Economics

Globalization implies both increasing autonomy of actors in terms of their expanding range of choice as well as increasing dependency on society as a whole. The autonomy of actors increases as their independence decreases. In other words, the process of globalization implies the transition from autonomy with exclusion (autarchy) to autonomy with inclusion [capability].

Mlinar, Montreal 1999

Globalization is an ongoing process that presents opportunities as well as risks and challenges... [It] can be a powerful and dynamic force for growth and development. If it is properly managed, the foundations for enduring and equitable growth at the international level can be laid.

UNCTAD *Bangkok Declaration, 2000*

But the main losers in today's very unequal world are not those who are too much exposed to globalization. They are those who have been left out.
Kofi Anan, UN Secretary General.

Globalization is here to stay. …We can't turn back the clock on globalization…..Thus, the challenge to us all is to harness the positive aspects of globalization in the cause of development and poverty reduction, and to offset its less positive aspects for those adversely affected. Our watchword must be "globalization with a human face". Globalization that is inclusive. Globalization that promotes social equity and works for the poor.
James Wolfensohn, World Bank President, Bangkok, February 2000

"We should work together to find out measures to maximize active aspects and minimize negative aspects of the globalization process, particularly prevent the spread of hunger and poverty in developing countries as the participation of those countries in the globalization process is to achieve stable and sustainable development."
Vietnam Prime Minister, Phan Van Khai at UNCTAD-10 Conference, 2000

Globalisation is not new

Table 2 shows that in terms of international trade volumes, the world was already highly integrated more than 100 years ago. Compared to 1870, trade as a percentage of GDP has increased for almost all countries, but not dramatically. World trade volume increased from US$11 billion to US$39 billion, at an average annual rate of 3.5 percent during 1870-1913, while world output was rising 2.7 percent per year (Michie and Smith:1995 p.7).

Moreover, during 1870-1913, short-term and long-term capital movements were unsupervised, the transfer of profits was unhampered, and there were vast movements of unskilled workers around the globe (Kozul-Wright 1995). World FDI flows totaled about US$45 billion in 1914, with US$20 billion coming from the United Kingdom, and France a long second with US$9.3 billion (The Times: 1995). This FDI was going to the USA and Canada ($9.5bn), South

America ($4.5bn), India ($1.9bn), Australia (1.7bn), and even Indochina ($200 million). More dramatically, the total population of North and South America, South Africa, Australia, New Zealand, and Siberia, which was 5.7 million people in 1810, exceeded 200 million in 1910. Between 1821-1920, 33.6 million Europeans migrated to the USA, and another 10 million to other "New World" destinations.

Table 2: Trade to GDP ratios in selected countries 1870 to 1995 (percentages)

	c.1870	*c.1910*	*c.1950*	*1995*
United Kingdom	41	44	30	57
France	33	35	23	43
Germany	37	38	27	46
Italy	21	28	21	49
USA	14	11	9	24
Canada	30	30	37	71
Australia	40	39	37	40
Japan	10	30	19	17

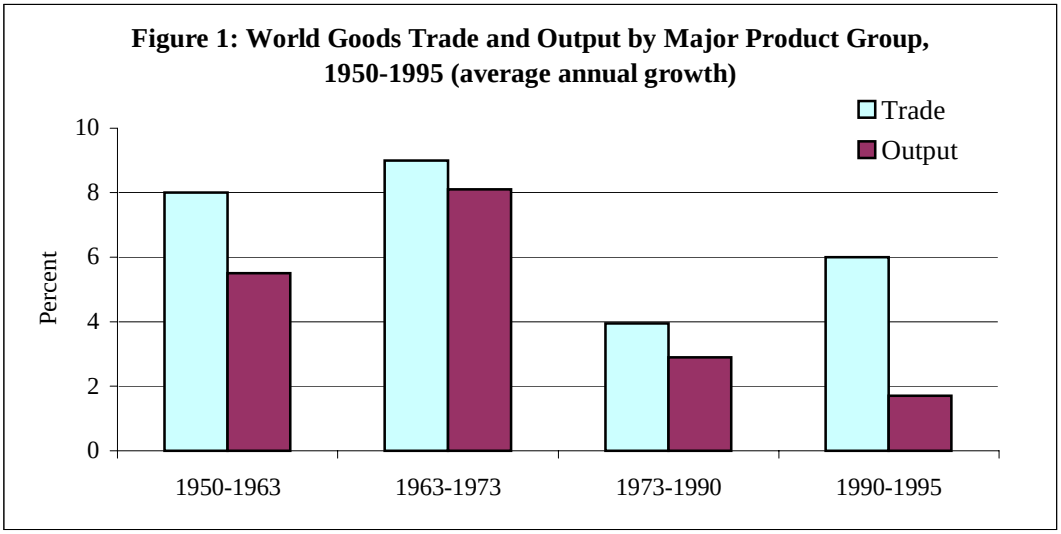
Source : Baldwin and Martin, 1999

The two World Wars saw a reversal of the global integration process. World trade generally slumped during the two World Wars, averaging 1.3 percent annual growth compared to 1.8 percent annual output growth (Table 2).

But the speed is increasing and the determinants are changing

After about 1950, the economic forces compelling international integration became resurgent again. Between 1950 and 1990, world trade increased an average of 5.8 percent per year, compared to world output growth averaging 3.9 percent. In the 1990s, however, the divergence became more marked (Figure 1). The *faster* increase in the share of international transactions relative to national transactions during the 1990s, not only of goods, but of services, skilled labour and information, is what most people now characterise as globalisation.

Figure 1: World Goods Trade and Output by Major Product Group, 1950-1995 (average annual growth)



Source: Asian Development Bank, 1999.

This historical background is important as it shows that transport and communication inventions and innovations have been causing dramatic economic upheaval and development throughout the past 200 years. Globalisation refers to this process between countries, but it also happens within one country, as the economic history of America shows (Box 2).

Box 2: The "Internal Globalisation" of America, 1815-1914

In 1815, sailing ships, down-river flatboats and horse-drawn transport travelling down rutted dirt paths were the main means of transporting goods within America. It took three weeks to travel from New York to Cincinnati (Ohio). The cost of transporting a ton of goods thirty miles inland from an American port equaled the cost of carrying the same goods across the Atlantic.

After 1815, private and state financing of all-weather roads, the introduction of steamboats, and the construction by 1850 of 3,700 miles of canals and 9,000 miles of rail, began a "transport revolution". By 1860 an additional 21,000 miles of rail were laid, giving the United States a larger rail network than the rest of the world combined. In 1861 the telegraph spanned the country, giving instant price quotations. Land transport costs quickly halved to 15 cents a ton-mile, but by 1860 rail charges were down to 3 cents. The shipment time of freight between New York and Cincinnati fell from fifty days to five. Regions and towns began specialising in their comparative advantages.

The 19th Century transport and communications revolution precipitated a process of integrating Americans into a national and, eventually, global economy. The transformation of this process on American households and the economy was profound, and in many ways is similar to what has been happening in Vietnam:

"The transportation revolution refashioned the economy. As late as 1815, Americans produced on their farms or in their homes most of the things they consumed, used, or wore [only 20 percent of Americans were living in urban areas by 1860]. Most clothing was sewn by mothers and daughters, made from cloth that in many cases had been spun and woven by themselves by the light of candles they had dipped, or by natural light coming through windows of houses built of local materials from a nearby sawmill by local carpenters or by the male members of the household. Shoes were made by members of the family or in the village from leather cured at a local tannery. Blacksmiths forged the tools and farm implements used in the community. In larger towns and cities, master tailors or shoemakers or cabinetmakers ran small shops

producing customised goods for wealthier purchasers. In an age of slow and expensive overland transport, few of these items were sold more than twenty miles from where they were made.

The pre-industrial world could not survive the transportation revolution, which made possible a division of labour and specialisation of production for more distant markets. Farmers increasingly specialised in crops for which their soil and climate were most suitable. With the cash from sale of these crops they bought food and clothing and hardware previously made locally or by themselves, but now grown, processed, or manufactured elsewhere and shipped in by canal or rail. To sow and reap these specialised crops, farmers bought newly invented seed drills, cultivators, mowers, and reapers that a burgeoning farm machinery industry turned out in ever-increasing number. By 1860 the nascent outline of the modern American economy of mass consumption, mass production, and capital-intensive agriculture was visible."

Sources: McPherson, 1990 (edited quote), The Times (1995).

The traditional forces behind the steady rise in international transactions have been falling transport costs and increased speed of moving goods and people. The age of sail saw continual improvements in the speed, safety and capacity of ships, which eventually gave way to the age of steam. Up until about 1840, the average speed of sailing ships was about 10 miles per hour (mph), which increased to 36 mph with steam ships (Dicken: 1999 p.152). The Suez Canal opened in 1869 and passing through over 20 million tons by 1913, cut the distance from London to Bombay by 41 percent and to Hong Kong by 26 percent. Similarly, the Panama Canal (1914) cut the distance from New York to San Francisco by 60 percent and to Hong Kong by 30 percent. "Not until the advent of the commercial aeroplane was the world again so significantly shrunk as the opening of these two great canals" (The Times 1995, p.252).

Continued innovations, such as refrigeration and containers, increased shipping choices and reduced costs. Shipping one ton of goods in 1920 cost on average about US$95, but this had fallen to $27 by 1960. Similarly, average air transport revenues per passenger mile fell from US$0.68 in 1930 to $0.16 in 1970 (IMF 1997 [all in 1990 prices]), while jet aircraft with speeds of 500-700 mph replaced propeller aircraft with speeds of 300-400 mph in the 1960s.

Consequently, world passenger movements by air increased rapidly from 7 million persons in 1958 (passenger jets introduced) to over 30 million in 1978 (Cherry: 1978). In both cases, however, the cost declines have been less dramatic in recent decades. The "new globalisation" is being driven by other forces.

A world-wide wave of trade and investment liberalisation (but, notably, not of general labour market liberalisation) is an important factor behind globalisation in recent decades, spurred in part by the rejection of central planning and similar protectionist development models in many countries. The average tariff rate across all countries has fallen steadily from 40 percent in 1940 to about 5 percent in 1995 (Dicken, p.93). Globalisation is now also being driven by the dramatic rise in the quality, and declining cost, of communications. Mobile phones, facsimile machines, and the Internet have introduced new communication choices. The worldwide number of Internet hosts increased from about 3 million in 1994 to over 50 million in 1999 (World Bank: 1999 p.4). The movement of financial and capital flows across borders is both a cause and effect of this "information revolution" and the liberalisation trend:

- The daily turnover of foreign exchange markets increased from $US1.1 billion in 1992 to $US1.6 billion in 1995.
- International liquid capital flows grew at an average 25% per annum during 1980-1995.
- Global foreign direct investment increased from US$193 billion in 1990 to US$400 billion in 1997.

Thus, while globalisation may not be new, it is different: faster, and driven by new information-based technologies and liberalising reforms to exploit the comparative advantages of nations. It is also, arguably, becoming more inclusive. Integration and rapid growth are now features of China and India, where 32 percent of the world's people live.

And Globalisation still has far to go

Despite rapid change and integration in the world economy, globalisation is still evolving and there is a long way to go before we have anything like a "borderless world" or a "global village". A borderless world implies almost perfect factor mobility within commodity, product, labour and capital markets. However, various tests of international factor mobility showed far-from perfect mobility, even for financial flows (Badvin and Martin, 1999). In other words, we are still living in only a partially globalised world.

Furthermore, based on the ratio of cross-border transactions to GDP, the degree of globalisation is not much more than in 1910 (Table 2 above), as it appears to have been delayed by the two World Wars. There is much scope for more liberalisation, particularly of labour markets, but also of international trade, services, investment and financial markets. Some important developed country markets remain highly protected. Agriculture, textiles and garments, and services typically exhibit many non-tariff barriers to trade, and liberalisation in these areas would continue to stimulate world trade over the coming decades. Protection remains highest, however, in developing countries, where non-tariff barriers are rampant and average tariff rates on industrial products are 13 percent (compared to 3 percent in OECD countries [Whalley 1999; p.13]). If some or many developing countries have been "left behind", their choice of high levels of protection must be considered as a cause.

But can so many developing countries, including China and India, become successful exporters simultaneously? Yes, they can. Firstly, because the developing country shares of industrial country markets remain small. Secondly, because there remains great potential for intra-industry specialisation. And thirdly, and most importantly, because trade is not a zero-sum game: exporting creates demand for imports[1].

[1] These are the main three of the seven reasons Bhagwati and Srinivasan (1999; pp. 20-22) give for rejecting such export pessimism (also known as the "fallacy of composition").

Developing countries have not been "left behind"

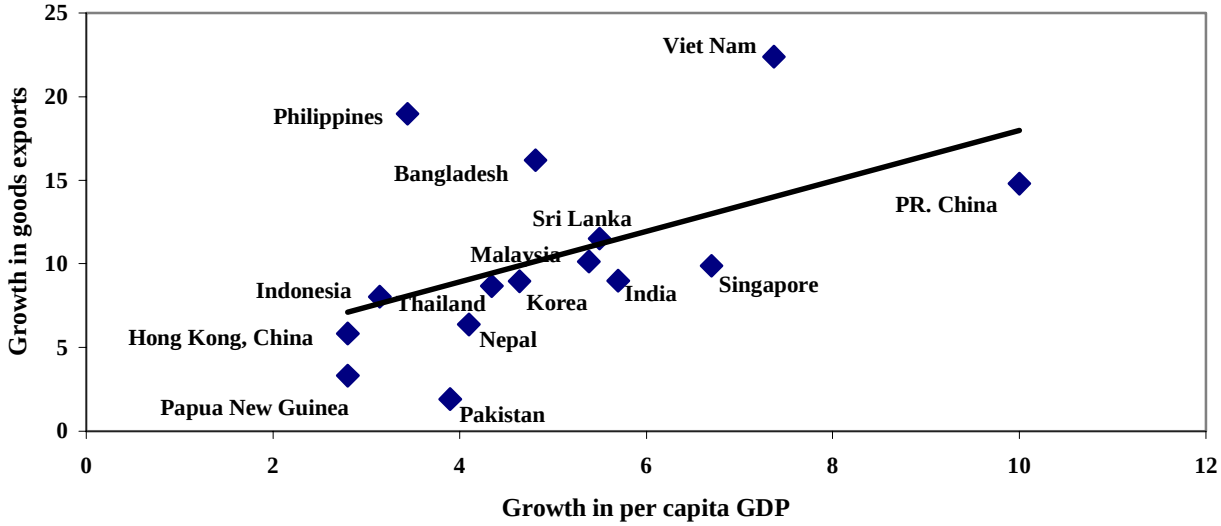
As a group, developing countries have benefited from international trade and investment liberalisation and globalisation. The world trade share of low-income countries, where 60 percent of the world's 5.9 billion people lived in 1998, increased marginally from 7.1 percent in 1983 to 7.7 percent in 1998 (World Bank: 1999 p.269). Of greater note, is that the share of manufactures in total low-income country exports increased from 42 percent to 75 percent during 1983-1998, suggesting a process of export-led industrialisation (value-added in the agriculture sector as a percentage of low-income country GDP fell from 31 percent of GDP in 1980 to 21 percent in 1998). Globalisation has helped to finance the expansion in many developing countries. Total external resource flows to developing countries increased from less than 1 percent of GDP in the late 1980s to between 4.0 - 4.8 percent during 1993-96 (Weitz & Lijane 1998), spurred by dramatic increases in private capital flows to developing countries,:

- Net private capital flows into low-income countries increased from US$14.8 billion to US$88.7 billion during 1990-1997 (from US$4.8 billion to US$19.6 billion if we exclude China and India).

- Foreign direct investment (FDI) to low-income countries increased even more rapidly from trivial levels in the 1970s and 1980s. FDI to low-income countries increased from US$5.7 billion to US$59.5 billion during 1990-1997 (from US$2.1 billion to US$11.9 billion if we exclude China and India).

While there is no automatic link between trade, investment and economic growth, and the nature and direction of causation remains debatable (Rodrik 1995), the correlation remains strongly positive. The Asian Development Bank (1999: p.83) surveyed twenty academic studies measuring the impact of "openess" on economic growth for samples of between 4 to 108 countries during 1950-1988. Five of the studies gave weak or ambiguous results, while fifteen found a strongly positive relationship. Certainly, as Figure 2 shows, those Asian countries with strong export growth also generally had strong growth in GDP per capita.

Figure 2: Annual Growth of Goods Exports and Per Capita GDP
Selected Asian Countries, 1985-1995



Source: Asian Development Bank, 1999.

More liberal and "open door" policies in many Asian countries have seen them surge ahead of most developing countries in recent decades in terms of both economic growth and human development indicators. The "miracle" economies of Asia, while few in numbers and small in population, have shown that "catching up" within 40-50 years is possible, and all have done so through rapid integration into the world economy.

But many countries are "left behind": why?

The poorest developing countries are, however, struggling. A look at those with low human development (636 million persons in 1997) gives a mixed picture. GDP per capita in low human development countries (at 1995 US$) has reportedly risen from US$420 in 1975 to US$980 in 1998 (UNDP: 2000 p.181). Further, during 1970-1998, life expectancy increased from 43 to 51 years of age, and the infant mortality rate dropped from 147 per 1,000 live births to 105, but meanwhile the average daily supply of calories in these countries fell from 2,181 to

2,166 per capita[2]. Whether the absolute conditions of life in low human development countries have improved or not may be debated, what is certain, however, is that they are far from "catching up".

Do the poorest countries fall behind because of globalisation or because they avoid globalisation? Integration is a policy choice. UN Secretary General Kofi Anan argues that "the main losers are not those who are too much exposed to globalization, but those who have been left out", but the extent to which being "left out" is a domestic policy choice is a central question. World Bank research argues that the "rapid integrators" among the developing countries have been mainly those that are already better-off. Only one low-income country among the group of 48 Least Developed Countries (LDCs) was classified a "rapid integrator", seven were "moderate" and the rest were "slow" or "weak integrators" (Wolfensohn, 2000).

The argument that most of the blame for poor performance lies with domestic policies and particular problems (such as ethnic conflicts) is strong. The World Bank (1998) have found that aid is only effective in "reforming" economies which, unfortunately, is not a classification applicable to many low human development countries. Not only are low human development (LHD) countries reluctant integrators and offer poor returns on investment, but they generally exhibit weaker macroeconomic management and under-invest in people even more than other countries. Table 3 shows that LHDs have lower savings rates, and what little there is to invest is not concentrated on people: public health and education expenditures as percentages of GDP are below the rest of the world, despite the efforts of aid donors in these areas[3]. Stronger

[2] The fall is due to Bangladesh, where per capita daily calories fell by 112 (5%) during 1970-1998 (excluding Bangladesh, per capita daily calories in low human development countries rose marginally from 2,177 to 2,185).

[3] ODA disbursements were 10.7 percent of LHD country GDP in 1992, and 6.7 percent in 1998.

gender biases in LHDs and the growing number of persons employed in the armed forces suggest further economic costs.

Table 3: Indicators of internal causes of low human development levels.

	Populat-ion. (mills. 1998)	Daily per capita calories (1970)	Daily per capita calories (1997)	Armed forces employ-ment, 1998 (1985 = 100)	Percent-age of group with >10% inflation*, 1990-1998	Gross savings as % GDP (1998)	Public health exp. as % GDP (1990)	Public health exp. as % GDP (1996-1998)	Public education exp. as % GDP (ave. 1995-97)	Female/ male primary school enrolment rate (%, 1997)
High HD	1,031	3,055	3,371	77	20	22	5.2	6.2	5.0	100
Med. HD	4,137	2,125	2,743	71	56	25	2.1	2.3	4.1	95
Low HD	651	2,181	2,166	116	54	12	1.4	1.3	2.5	80

* The percentage of countries in each of the three HD groups that had average annual inflation rates over 10% during 1990-1998.

Source: UNDP (2000)

All but eight of the 35 LHD countries are in Africa. These eight included Bangladesh (125 million persons in 1998) and seven smaller countries (58 million persons), with most of the remaining 458 million LHD country persons living in sub-Saharan Africa. Between 1980 and 1995, sub-Saharan Africa's share of world GNP fell from 2.4 percent to 1.0 percent, while its share of world exports fell even faster from 3.4 percent to 1.0 percent. This poor performance prompted Lipumba (1999) to address the question: "Is sub-Saharan Africa being marginalised in the global economy because of bad domestic policies, or because of unequal or exploitative terms of integration into the global economy?" (p.157). The answer is domestic policies: neglect of basic infrastructure, health and education investments, combined with "crude protectionism and overvalued exchange rates that killed export sectors and favoured inefficient import-substituting industries" (p.162). In short, "the binding constraint on Africa's participation in global trade is domestic supply problems rather than inadequate market access" (p.215).

Part of the problem is that neo-Marxist and dependency thinking, which views trade and investment deals with foreigners as essentially exploitative, is still common in Africa. Consequently, reform is difficult because "liberalisation of trade and investment and dependency on the private sector to promote growth and development was and still is seen [in sub-Saharan African countries] as entrenching the control of the modern sector by transnational companies and foreign minorities" (p.159).

Africa and Bangladesh excepted, most developing countries have been able to significantly lift their standards of living in recent decades, but only a few have been able to achieve the consistently high rates of growth required to "catch up" to developed countries. The per capita daily calories data in Table 3 shows this general rise, which suggests that most of what are now classified as medium human development countries would have been LHDs in 1970. Indeed, the UNDP have calculated human development indexes back to 1975 for 79 countries (not including Vietnam), and for all but two countries (Zambia and Rwanda) the HDI number increases during 1975-1997[4].

[4] The same result holds for just comparing 1975 to 1990 HDIs. However, for the 98 countries with HDIs between 1990 and 1997, 17 show a decline in their HDIs. Of these 17, eight are transitional economies, and eight are in Africa. Changes in HDI data sets and measurement methodology, which produces lower HDI numbers, have also influenced these results.

But “catching up” requires GDP growth rates averaging over 6 percent per annum. Table 4 shows most of the few countries that have been able to achieve such rates (and a few who came close) during 1990-98. Important contributing factors to their success have been policies that encouraged higher-than-global rates of domestic saving and investment, and an “opening up” to world trade and investment. There are exceptions on all points, but generally, developing countries have only achieved high and sustained human development by combining enabling and capacity building domestic policies with “opening up”. That is, intensive investment in people (“human capital”) while expanding their choices and opportunities)”enabling environment”).

Table 4: The high growth economies of the 1990s

	Ave. GDP growth rate, 1990-1998 (%)	HDI 1997 minus HDI 1990	Gross domestic investment as % GDP (1998)	Exports as % of GDP (1980)	Exports as % of GDP (1998)	Foreign direct investment as % GDP, (1997)
Ireland*	6.7	0.050	18	59	80	3.6
Singapore*	8.1	0.058	37	202	153	10.8
South Korea**	5.1	0.047	35	29	49	1.0
Argentina	6.3	0.034	20	10	10	1.9
Chile**	8.3	0.046	27	35	28	7.4
Malaysia**	6.4	0.047	32	76	114	7.7
Thailand***	4.6	0.036	35	34	59	2.6
China	11.1	0.077	39	6	22	5.1
Vietnam	**8.0**	**0.069**	**29**	**26**	**44**	**7.8**
India	5.6	0.054	23	7	11	0.9
World average	2.4	n/a	21.5	19	23	1.4

Sources: World Bank (2000), UNDP (2000).

* High income economy, ** Upper-middle income economy, *** Lower-middle income economy, and the remainder are low income economies (World Bank classifications).

Table 4 also shows some characteristics of "new globalisation". Firstly, the "winners" are spread throughout the world and not confined to one region. Secondly, the "winners" include both rich and poor countries, and most notably China and India. During 1990-1998, China's HDI rose by 0.087, more than for any other medium-human-development country (for which there is data on 69 countries). India's HDI rose by 0.054, behind only seven other medium-human-development countries (including Vietnam), and ahead of 61. Moving from "self reliant" protectionism towards integration into the global economy, as indicated by the rising share of exports to GDP, explains much of their success in the 1990s.

The costs and benefits of integration

Integration may be regarded as a necessary but not sufficient condition for "catching up" to the human development levels of wealthier countries. But it also has its costs (Box 3). In particular, while the country as a whole will gain, certain interest groups (but rarely the poor) will suffer from lower tariff rates, reduced non-tariff barriers, investment liberalisation, and overall increased competition. Moreover, integration and faster development imply faster rates of social and economic change. It is a process of enhanced "creative destruction".

Box 3: The Good and the Bad of Global Integration

Benefits from trade liberalisation:	**Costs and risks of trade and financial liberalisation:**
• Short-term benefits due to better resource allocation based on comparative advantages. • Economics of scale and product diversification. • Long-term (dynamic) gains through transfer of technology, tacit knowledge and ideas. • Cost reductions due to learning-by doing, imitation, better access to	• Adjustment costs associated with restructuring the economy during the process of integration ("destruction amid creation"). • Income distribution may worsen if particular groups do not share in liberalisation benefits. • Temporary adverse impact on fiscal position due to tariff reduction.

markets, marketing channels, cheap inputs. • Efficiency gains through enhancing competition and removing rent-seeking. **<u>Benefits from financial liberalisation:</u>** • Short-term gains due to division of labour in providing new financial products. • Gains due to appropriate diversification of investments and new international investment opportunities; risk diversification. • Long-term gains due to competition in the financial markets. • New opportunities for external financing for development. • Enforcing discipline for national policies: reducing inefficient investments, reinforce fiscal and monetary policy discipline.	• Price and income instability from export markets. • Possible deteriorating terms of trade impact. • Volatility of financial flows, especially short-term flows, increasing impact of international contagion and regional crises. • Debt-dependency and aid-dependency risks. • Reduced autonomy in achieving macroeconomic targets. • Increased external pressure to implement particular policy reforms (e.g. property rights, labour laws, and environmental regulations). • Need to conform to international standards and practices to maximise efficiency gains (e.g. accounting, valuation, Customs service, ISO ratings, etc.). • Foreign social and cultural influences reshape local habits and traditions. • Quicker environmental degradation (if no appropriate safeguards).

While the costs of integration for a country are far outweighed by the benefits, that is not true for every group of people within that country, particularly in the short-term. This is the main reason that steps towards "opening up" are often hesitant and slow. When it does happen, however, liberalisation can bring dramatic gains across the whole society with few exceptions, as happened in Vietnam under *doi moi* [renovation]. The transitional costs, in terms of restructuring industries or coping with falling tariff revenues, are only important in the short-run. The longer-run costs and consequences are related to the new type of economy that has been created: it is now linked to the world. Becoming linked to the global economy is the

integration choice. It brings great benefits, including the chance to "catch up", but the main cost is in having to cope with an economy that is changing faster, and one that is more susceptible to foreign influences: economic, cultural, even ideological.

The Asian financial crisis, which began in 1997, is probably the most obvious recent example of the instability costs of globalisation. Those countries that had been steady "catching up" over the previous 30-40 years were the worst hit by the crisis. Those Asian economies that escaped relatively unscathed were either particularly flexible and well-integrated (Taiwan, Singapore), or were only weakly financially integrated (Vietnam, Myanmar). Nevertheless, the crisis-hit countries are bouncing back to pre-crisis rates of development, and with stronger financial systems and improved corporate governance[5]. Such crises may indeed be viewed as an important to make tough policy reforms happen.

Concerns about the impact of global integration on national culture and society are generally misplaced. In many senses, *doi moi* has allowed a cultural revival in Vietnam. A wealthier economy and large numbers of foreign tourists have seen a revival in support for Vietnamese architecture, music, traditions and religion. A well-entrenched sense of culture and nationalism is not going to be "blown away" by globalisation.

Global integration does, however, bring with it a loss of political and economic policy autonomy. When you join a team, you cannot play by your own rules. Abiding by the many international rules and conventions, such as Customs valuation or financial transaction regulations, allows all countries to do business with each other cheaper and more efficiently.

More problematic is when market access becomes linked to particular policy reforms. Bilateral and multilateral agreements may entail opening markets or making policy choices that would not otherwise have happened. Typical instances involve tariff reductions, service sector competition, labour and environmental regulations, and intellectual property rights. These choices are often in the best interest of the country anyway, but resistance by "losing" interest

[5] "Asia's turnaround has been spectacular. The region's emerging economies that were hit by the 1997-98 crisis grew three times as fast in 1999 as most analysts were forecasting only one year ago." *Economist*, April 15th 2000. p.78

groups had precluded earlier reform. Vietnam's tariff reduction obligations under the ASEAN Free Trade Area are an example where regional cooperation is promoting "good policies". Nevertheless, whether "good" or otherwise, the signing of such agreements is a sovereign choice by independent nations who assess that the benefits outweigh any costs.

Global Integration and Human Development

Global integration brings economic growth from increased efficiency, specialisation, and most importantly, a faster rate of technology transfer. Such growth, however, is not necessarily equitable, and improvements in health and education may lag. More significantly, human development is itself a determinant of growth. For global integration is a process of expanding the enabling environment for people – more choices, more opportunities, more ideas. Human development, or the "capacities" of people, determines how quickly the expanded environment is filled with productive activity. In other words, global integration can open the path to long-run sustainable development – to "catch up" – but the speed of the journey is determined by the strength of those doing the walking.

Vietnam's integration process

Vietnam in the year 2000 is in many ways already well integrated into the world economy. Exports grew at an average of 28 per year during 1990-98, so that trade equaled 76 percent of GDP in 1998. But integration is also bringing new tools, actors and rules as well as goods and services to Vietnam.

New and bigger markets

The collapse of CMEA trade in the late 1980s seemed a disaster for Vietnam. In fact, however, it helped to push reforms, such as exchange rate liberalisation, and thereby opened up Vietnam to trade with the whole world. Exploiting gains from trade then became a driving force for development in the 1990s, as Vietnam progressively increased the quality, range and quantity of exports.

New tools

The reason for exporting is to pay for imports. Joining the world, and increasing exports and imports, helped Vietnam to acquire new tools for development much faster. Communication and information technologies are examples where new tools have been made available and useful for Vietnam. Imports, of both goods and services, facilitate technology transfer to achieve "catch up" rates of development.

New actors

Opening up the economy provides new opportunities to attract new actors and partners. Foreign investors, multilateral and bilateral donors, and NGOs have come to Vietnam to do business and to help Vietnam. Since the 1987 Foreign Investment Law, Vietnam has been able to attract over US$9 billion in implemented foreign direct investment (World Bank 1999). Foreign investors are now operating throughout the economy, building bridges, roads, power stations, producing goods and commodities for domestic use and export, providing services, and – most importantly - bringing technology, know-how, ideas and new ways of doing business to the country.

The donor community has also become more numerous and visible since *doi moi*. ODA flows increased significantly, and during 1993-1999 US$12.5 billion in ODA was committed to Vietnam (UNDP, 1999). The donor community, which now includes 82 NGOs, have been active in assisting the Government and people of Vietnam in fighting hunger and poverty, building social and physical infrastructure.

New rules

Vietnam's involvement in many regional and global fora has led to cooperation on trade, investment, the role women, the rights of children, environmental problems, HIV/AIDs prevention, fighting international crime and more. Vietnam has committed itself to many international rules, norms and standards. This has profound implications on the ways of doing business and governance in Vietnam. For example, joining AFTA, APEC and preparing for accession to the WTO will change trade policy and how it is implemented in Vietnam, including how trade data are collected and disclosed, and how import duties are defined and charged. Opening up to the world therefore provides new opportunities, but it also imposes

requirements in terms of quality and standards, and the need to follow the “international rules of the game”.

Cooperation on global environment protection is another example. International agreement on carbon emission limits, lead-free petrol usage, environmental impact assessments, and cleaner production standards are some of the new rules and norms which are gradually being introduced in Vietnam. Compliance to such agreements increases the efficiency and reduces the costs of international trade and investment, and ensures that Vietnam contributes to the management of global public goods (such as environmental protection).

New challenges

Transition is not merely from central planning to markets. It is also a process of moving from a relatively closed economy focused on “self reliance” ideas of import substitution to become a market-based economy confident in trading goods and services as an equal with the whole world. This new “outward looking” economy grows faster by focusing production and exports based on the comparative advantages of Vietnam, and then importing foreign goods and people to speed up the process of technology transfer. The remarkable achievements of this transition from trade-shy to trade-confident is the subject of the next chapter.

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