# 1. Introduction

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When the tenth session of the UN Conference on Trade and Development (UNCTAD X) took place in Bangkok, Thailand, in February 2000, it was the first major international conference of the twenty-first century. Given its position of honour in the diplomatic chronology of the millennium, it seemed an appropriate occasion to generate some broad reflections on the theme that has animated UNCTAD since its establishment as an organ of the UN in 1964. Its mission was to correct the situation in which problems of international trade policy were dealt with separately from issues of development and of international finance. Stated in the boldest of terms, then, two questions needed to be addressed. First, what can now be said with confidence about the interdependence of trade and development? Second, what national and international policies should flow from that understanding?

It was my great privilege to be invited by Rubens Ricupero, the Secretary General of the Conference, to organize a Round Table of Eminent Economists at the opening session of UNCTAD X. The aim of the round table was to place before the conference a set of papers representing the research and experience of some of the leading economists around the world on the subject of the policy implications of the links between international trade and development. Mr Ricupero wanted the delegates to be given a sense of the way in which academic opinion on the trade and development nexus had developed over the previous half-century, of where it stood at the start of the new millennium and of the implications for the future of international economic policy.

In order to try to fulfil this mandate, I immediately had to confront a painful problem of selection. No dozen authors, however distinguished, could possibly cover what is a vast field, encompassing a multitude of topics, on all of which exist many fine shadings of opinion. Any such team of scholars would necessarily fail to represent the full range of available opinion, exclude important issues and simplify significant nuances. Nevertheless, I did not advise that the enterprise was hopeless and that nothing could be done. It seemed to me better to take the opportunity that I was offered, and to try to use it to maximum advantage, than to throw in my hand because the task could not be carried out to perfection.

Inevitably, personal judgement entered into making the choice of participants. I decided steadfastly to ignore the UN's political and administrative concerns with geographical and gender representation. I allowed myself to be guided by my own understanding of merit in this very competitive field. I was greatly gratified that so many of those who were originally invited were able to agree to make presentations in Bangkok. This volume contains the twelve papers on which the Bangkok presentations were based.

Part of the guidance that I gave to the authors was negative. I suggested that they did not attempt either to produce full reviews of the academic literature on their assigned topic or to write new academic papers that would add substantively to that literature. Instead, I wanted them to state, within what must have seemed to them an extraordinarily tight word limit, the main messages of value that they thought should be the starting point for thinking about trade and development in the twenty-first century. I thought about the task as one of winnowing the academic literature of the last fifty years. The criterion of the authors' success would be the wholesomeness of the intellectual grain, and its capacity to provide nourishment and inspiration to the future policy makers of the international economy.

Since the round table was the initial event of UNCTAD X, it provided a framework for the subsequent official intergovernmental deliberations in Bangkok, or at least a context of ideas that many of the later contributions tried to address. The official deliberations of the conference were inevitably diverse and wide-ranging. Those present heard ideas and opinions coming to them from all points of the compass of international governance – from heads of state and heads of government, from the delegations of the member states of UNCTAD, from the leaders of the international financial institutions, from ministers, from representatives of parliaments and of non-governmental organizations, from entrepreneurs in both small and multinational enterprises, from the directors of the agencies and regional commissions of the United Nations system, as well as from academic experts. It turned out to be a very rich and varied diet of speech making. Because of this richness and variety, it would be misleading to try and summarize the message of either the round table or the later contributions to UNCTAD X under any simple label.

In the policy discourse on economic development, the dominating voices of the last two decades of the twentieth century were those articulating and praising the so-called 'Washington Consensus'. This was nothing less ambitious than a statement of twelve rules of economic policy for development with which all sensible economists were supposed to agree, and which therefore could be safely implemented when they, or their supporters, happened to find their way to political power. However, this digest of policy rules was gradually seen to be too limiting. Even within the World Bank, that pillar of the Washington Consensus, rumblings of dissent were eventually heard. Joseph Stiglitz, then the bank's chief economist, began to adventure 'toward the Post-Washington Consensus'.[1] Stiglitz went on to push outward the boundary of sensible economic thinking, and in the course of doing so quit the bank in 1999.

Politicians, too, have been abandoning the Washington Consensus. The British Chancellor of the Exchequer, Gordon Brown, did so in early 2000. He said:

> we need to move beyond the Washington Consensus of the 1980s, a creature of its time that narrowed our growth and employment objectives. Which assumed by liberalising, deregulating, privatising and getting prices right, private markets would allocate resources efficiently for growth. This has proven inadequate for the insecurities and challenges of globalisation ... We need to find a new 2000 paradigm.[2]

Here then was an open invitation to a lively academic entrepreneur to come up with a 'new consensus'. From the political point of view, it would be very tempting for me to claim that the deliberations at UNCTAD X constituted the arrival of a 'Bangkok Consensus'. This could be neatly packaged into another set of twelve points – rather different points, of course – and touted around as a recipe for development policy on which all sensible economists could henceforth agree.

The fate of previous consensuses on economic policy, however, suggested to me that to accept this implicit invitation would be unwise. Consensuses have a vexing and perplexing habit of self-destructing. This may not matter much to politicians, to whom all consensuses are grist to their mill, and the erosion of one consensus is but the opportunity for fashioning another. For intellectuals, though, it is criticism that is the lifeblood of the evolution of ideas, and to them the declaration of a new consensus seems rather like a polite request to abandon the habit of thinking.

However, even those who, as I do, react badly to consensus mongering, accept that in recent years some convergence of views among economists has taken place on the subject of economic policies for development. This is largely because there has been some attrition at both of the extreme ends of the ideological spectrum. In this introduction, I shall point out some of the important ways in which the spectrum of economic opinion about trade and development has in fact narrowed in recent years. This is most notable among academic experts, but it follows a broader movement of politics in the 1990s, that combined Democratic occupancy of the US White House with a growing social democratic hegemony in Europe. This political phase also saw the softening of postures of those leaders of international organizations who (like Michel Camdessus) were appointed in the 1980s and remained in office through the 1990s.[3] This phase may well have ended with the Presidency of George W. Bush and the events of 11 September 2001.

The papers for the round table each made their own contribution by illuminating how and why the intellectual spectrum on development policy has tended to narrow. I shall indicate very briefly the nature of each author's contribution as I explore the theme of the narrowing intellectual spectrum. Its historical context was the key event of our time, the ending of the Cold War. Those of us who have lived most of our professional lives under that great geopolitical stalemate had our mental horizons imprinted by it, and find it a slow process to think outside the blinkers that it fashioned. The starting point for the exercise of intellectual reorientation is to fathom what those blinkers prevented us from understanding. Was the Cold War simply a power struggle between two large states, both in command of the weaponry of mass destruction, a power struggle which one state lost? Or was it a competition between two fundamentally different social and political systems, which one system (capitalism) won because the other (socialism) proved itself to be, in some sense, not historically viable?

The latter interpretation was certainly eagerly seized on at the end of the last century, when an unusually long boom in the American economy buoyed up a public mood of capitalist triumph. Nevertheless, it is too simple a story, and is in need of refinement. The gulf between capitalism and socialism is easily exaggerated, given that they shared an underlying view of what constitutes the good society. The nature of their opposition can easily be misunderstood, given that – far from being fixed and unchanging – they evolved together, and that each was modified continuously by their mutual engagement. In Chapter 2 of this volume, Bernard Chavance brings out the implications of this process of mutual adaptation with considerable skill. He presents an explanation of the relative failure of socialism, the variety of paths out of socialism and the strengths and weaknesses of the form of capitalism that, simply by surviving, constitutes the modern sociopolitical and ideological context of development.

Early on in the Cold War, a group of important developing countries decided to declare their neutrality. They became known as the 'third world', and, as decolonization proceeded, they formed a collective entity, originally the Group of 77, that raised the issue of the interdependence of trade and development. The issue, simply put, is that the rules that govern the world trading system do not sufficiently take account of the interests of countries that are poor and in the process of development. UNCTAD was established as the international organization that is the forum for the discussion of this issue and its various agendas. The end of the bipolar world of the USA and the Soviet Union as superpowers has undermined the political identity and resources of the old 'third world' that at times succeeded in standing apart from both power blocs and championing a trade policy that supported development.

Remarkably swiftly after the liberal revolution of 1989 in Eastern Europe and the end of the former Soviet Union, the World Trade Organisation was conceived and born. In part, the WTO represented a reversion to the plan for a more substantial regulatory framework for world trade, which had been abandoned when the USA finally failed to ratify the 1948 Havana Charter that would have set up an International Trade Organisation. Although he advocated a universal membership organization for trade, Raul Prebisch regarded the Havana Charter as a backward-looking attempt to set down rules of the game in order to recreate an earlier economic order. He thought that the trade regime should be directed by policies rather than by rules. So the formation of the WTO was a defeat for his idea of a new international economic order. It was also a posthumous and pyrrhic victory for the Soviet Union, which since 1955 had campaigned for the establishment of the International Trade Organisation.

In part, however, the WTO was a move to incorporate into a stronger regulatory framework new issues that had grown in importance to industrial countries during the long interregnum when the General Agreement on Tariffs and Trade (GATT) had held sway, issues such as intellectual property rights and trade in services. The arrival of the WTO presented the former third world countries with a new set of problems. Ever since, they have had to redefine themselves in relation to the challenge of globalization. That is to say, they now face a strategic choice of whether they accept or reject a growing integration into a single system of trading and financial relations, in which the most powerful participant country is the USA and in which their voice, both individually and even collectively, is very weak.

Thus one important effect has been to put the phenomenon of globalization in a new light. By 'globalization' I do not mean the well-known and long-standing facts of the acceleration of the speed of transport and communications. I do not use the term to mean some unstoppable form of technical change spreading inevitably across the face of the world. Neither do I mean by 'globalization' a process of cultural blending that is currently most strongly coloured by American companies, images and artefacts. For me, globalization is the outcome of global institution building, which occurs when national states agree to limit their own power to make law in certain economic fields. The WTO is the major post-Cold War example of this voluntary self-limitation. Much of what is popularly referred to as 'globalization' is rightly called 'regionalization', the making of new agreements to limit national powers in certain economic fields within a region, like the European Union or the North American Free Trade Area.

Globalization has to be seen as the outcome of the choices that governments have to make about their global economic integration. On the one hand, this points to the need to examine the circumstances under which small and poor countries have to make those choices, and on the other it points to the possibility of contradiction between choices made at the regional and at the truly global level.

Chapter 3 by Deepak Nayyar treats globalization as an historical phenomenon of the last twenty years, and points to its mixed harvest. Market opportunities for some and market exclusion for others is a recipe for growing inequalities, and these can easily foment an increase in social and political instability. This would be especially so if crime and identity politics become the refuges of the excluded. (That particular observation has been given an added resonance by the events of 11 September.) The downside risks associated with globalization that many policy makers in developing countries perceive are explained articulately in this chapter. Reluctance to take further steps towards economic integration is justified here with reference to the marginal position of developing countries in setting the rules of the international game, and to the asymmetrical rules that result from the dominance of the industrial countries in the rule-making process. The essentials of specific problems, such as restrictions on the mobility of labour, the outlawing of industrial policy instruments and the encouragement of a race to the bottom for foreign investment are laid out. The responses to these risks and problems by the international community continue to be slow and inadequate, indicating – paradoxically – the need for greater political commitment to new institution building in the international sphere.

Despite the unattractive features of the choice that developing countries now face, it is likely that they will have to continue to integrate somehow or other. The popular belief that the cutting off of trade and financial links with the rest of the world will itself generate 'true development' has, after the end of the Cold War, virtually disappeared, except from the haunts of anarchists and radical environmentalists. The reasons for its intellectual decline are set out in the chapter by Alan Winters. Many of the arguments that have been used to defend regimes of heavy trade protection have been shown to be logically faulty over the years. Empirical studies have also shown that the results of heavy protection are very arbitrary and cannot be easily rationalized in terms of developmental goals. Further, the methods of protection adopted have given rise to problems of governance as a result of regulatory capture. Over fifty years, but particularly in the 1990s, informed opinion has swung in favour of increased openness to trade, and a strategy of treating such equity issues as arise by explicit exercises of redistribution. In recent years, it has become much more generally believed that expanding the opportunities for trade will accelerate the growth and development of a country.[4] At the same time, Alan Winters concedes that the academic proof positive of this central policy proposition remains elusive in terms both of the appropriate concept and measures of openness to trade, and of modelling the relation of trade openness to economic growth. Orthodox trade economists have plenty of work still to do, despite the fact that many policy makers have embraced their policy recommendations.

Nowadays, most debate centres on the terms on which countries should insert themselves into the global trade and finance network, and whether they possess the requisite expertise and bargaining power to achieve terms that are consistent with their future development goals. To some economists, the idea of industrial policy for development seems merely retrogression to the bad old days of import substitution. To many others, the East Asian economic miracle of the years 1965–97 demonstrates the value to economies genuinely seeking rapid development of strategies that include some means of protecting their infant industries. Such protection need not be by tariffs, but can be by means of industrial subsidies. For those of this persuasion, it is essential, however, that such subsidies be selective, temporary and explicitly conditional on export performance. It is therefore a key issue whether industrial policies for development are or are not permissible under the rules of the World Trade Organisation.

In Chapter 5, Alice Amsden's paper argues that such policy devices, or similar ones, are not wholly outlawed by the WTO. She argues that scope for industrial policy is given by rules that allow subsidies for the purposes of research and development, regional development and environmental conservation. The rules also provide for the imposition of safeguards against surges of imports and damage to the balance of payments. The main difficulty that appears to arise is linking the payment of subsidies to specific firm-level export targets, a device that was evidently crucial in the East Asian case in overcoming the political economy problem of regulatory capture. Given that WTO rules are subject to refinement by a process of adjudication of case law, it is still not possible to provide a definitive interpretation on this question. In any case, the uncertainty over this issue will ensure that it remains a central one for countries seriously interested in development in the new round of international trade negotiations agreed at Doha in November 2001.

The demise of the belief in autarchy as a path to development is a clear example of the shortening of the ideological spectrum that the ending of the Cold War has brought about. Another example is the new priority that is given to the maintenance of macroeconomic stability. That economists ever strongly advocated macroeconomic *instability* is something that I seriously doubt. However, it was commonplace for politicians in developing countries to take decisions that resulted in higher inflation and increased balance of payments deficits. They did so in the hope that their Cold War partners would bail them out of the consequent economic crises. Since that option is now much less available, many more politicians are themselves taking responsibility for the maintenance of macroeconomic stability, or creating conditions for other institutions to do so. The debate today centres, not on the desirability of the objective of stability, but on the means to such stability, and whether it is sufficient to ward off financial and economic crises.

Yet another casualty of the end of the Cold War in the realm of economic strategies is the idea that the national state can itself spearhead a modernization of the economy by means of setting up state-owned industries. Although in principle there are no economic reasons why such a strategy could not be made to work, in practice this strategy has lost much of its credibility. Politically, it has proved difficult for governments to maintain a hard budget constraint on state industries, and this has contributed to the swelling of the budget deficit and consequent acceleration of inflation. It has also proved hard to regulate the negative externalities of their operations. As a result, they have often been responsible for creating both macroeconomic instability and excessive environmental costs.

The state industry strategy has also lost support because state enterprise has proved less effective than private in mastering the art of absorbing the new technologies that, at any one time, are the heart of economic development. Carlota Perez explains in Chapter 6 how the displacement of one technology by a new one in the industrial countries alters the conditions under which technological absorption can take place in developing countries. Identifying, in a continuous dynamic of change, the window of opportunity for successful absorption of technology is a task that most governments in the developing world have not performed well. Now they are increasingly willing to create investment policy regimes that are attractive to private enterprise, whether domestic or foreign, so that it can take the lead in the task of technological upgrading, it is hoped with greater success.

The move towards freer trade, recognition of the imperative of macro stability and the promotion of the private sector to drive, through its capacity for technological absorption, the process of economic development – in these three respects, informed public opinion on economic policy has converged during the last ten years. It has increasingly supported liberal views of desirable economic policies in these areas. Opinion is by no means homogenous, but the range of difference has been significantly reduced. This is important because it has provided the basis on which developing countries can move towards meeting the international norms and standards that are preconditions of greater global economic integration.

However, narrowing of the range of economic opinion in the last ten years has not only been a drift in the direction of liberal economic policies, due to the withering away of extreme left viewpoints on policy. In equal measure, it has consisted of the increasing acceptance of propositions that during the Cold War were denied persistently by the celebrants of the marvels of the free market. Let me cite three examples of this contrary movement of ideas.

The notion that capitalism is an economic system that is highly vulnerable to damaging financial crises has long been resisted. Although Keynes produced a *General Theory* that explained how monetary factors could prevent an economy from functioning optimally, the Cold War period was one of increasingly successful attempts to discredit the Keynesian analysis. Free market economists did not care to acknowledge the vulnerability of the real economy, the economy of people's employment, income and saving, to malfunctions in the monetary sector. There have been plenty of such economists who have been willing to argue that complete freedom of financial markets, including capital markets, would produce the best of all economic worlds. From the early 1990s, however, dissenters warned of trouble ahead for developing countries from the importation of what Juan Somavia has called 'casino capitalism'. 'The fact is that capitalism is inherently unstable and it is particularly so in its early, infant stages,' according to John Kenneth Galbraith. As the Prime Minister of Singapore put it at UNCTAD X: 'Today, capitalism is everywhere triumphant … and that may pose a challenge.' For countries that begin to integrate globally, rapid economic progress brings in its wake new insecurities.

The economic collapse of Chile in 1982, following the Chicago-inspired free market experiments of General Pinochet, led Carlos Diaz-Alejandro to coin the slogan: 'Goodbye, financial repression! Hello, financial crisis!' The subsequent twenty years have provided plentiful evidence of how prescient that slogan was.[5] The Asian financial crisis of 1997–9 highlighted the difficulties of successful exchange rate management in a world of liberalized capital accounts. Economists for many years modelled the exchange rate as being determined by macroeconomic fundamentals and their effects on the stock of domestic foreign exchange reserves. On this view, countries that maintained sound fundamentals could not suffer a successful speculative attack on their exchange rate. The Asian crisis showed that this reasoning was inadequate, and that other factors were at work – contagion effects on country reputation, and herding behaviour on the part of foreign investors. In the Asian financial crisis, the disruption resulting from badly executed financial liberalization became systemic in scope, including countries where the macroeconomic fundamentals were pretty sound.

That episode also revealed the sheer size of the financial flows that the industrial world can generate, and then withdraw, relative to the normal size of financial flows in developing countries. This disparity is evident in the figures quoted in Kwesi Botchwey's informative contribution on the performance and problems of financing economic development. The swift entry, and even swifter exit, of such massive flows made clear for all to see the havoc that can be unleashed on small and fragile financial systems that are open to such tidal waves of finance. Despite the commitment of the IMF to the complete liberalization of capital markets right up to (and even beyond) the hour of Asia's crisis, the same agency now says that it can see some virtues in certain types of capital controls. Repentance is always welcome, however late in coming.

At last, then, a more realistic evaluation of the limits of unrestricted capitalism is evident. The leaders of Asia told the Bangkok Conference of their perception of the increased volatility and systemic instability of international finance. At the conference, the leaders of Malaysia and Indonesia gave extremely forceful accounts of the travails of their peoples in the Asian financial crisis. Their message was that volatility of capital flows could not be effectively managed by means of the existing financial architecture. As Yilmaz Akyuz, UNCTAD's chief economist, put it:

> when policies falter in managing integration and regulating capital flows, there is no limit to the damage that international finance can inflict on an economy. It is true that control and regulation over such flows may reduce some of the benefits of participating in global markets. However, until systemic instability and risks are adequately dealt with through globalization … the task of preventing such crises falls on governments in developing countries.

Once again, it is not global solutions that are to be feared, but the inadequacy of those that are currently on offer.

Facilitating positive processes of integration into the world economy must remain the goal of international economic policy. However, issues of sequencing are of the essence in approaching this goal, and the liberalization measures that are necessary to this end must be phased in a prudent and orderly manner. They must take account of specific local circumstances; they must be complemented by appropriate domestic policies and accompanied by institutional development and capacity building. Only then can they hope to succeed.

Free market economists traditionally have scorned the idea that producers of primary commodities, especially of agricultural commodities, labour under any special economic handicap. Yet, after fifty years of development, many of the poorer developing economies remain marginal because of their very narrow export base in primary commodities. Binswanger and Lutz point out in Chapter 8 that these producers cannot increase the demand for their products, and indicate how they are constrained in what they can export by the protective barriers that have surrounded, and to a lesser extent still surround, the agricultural producers of the developed countries. Since this clearly limits the possibilities of agricultural diversification, dependence on primary exports has been a difficult condition for most of them to escape from.

In the short run, the primary producers in the developing world are adversely affected by financial crises (such as affected Asia) only indirectly, as the price levels of primary commodities fall cyclically with the deflation of world demand. However, their longer-run development is jeopardized by the secular fall in the terms of trade of commodities *vis-à-vis* manufactures. Alf Maizels emphasizes in Chapter 9 that primary commodity prices have been historically depressed for the last twenty years, with no signs of improvement on the horizon. The long run downward trend of commodity prices is now increasingly recognized, even though the international community has turned its attention away from most of the special problems of commodity producers (chronic oversupply, price volatility, price cycles and the hedging of risk).

My third example of the belated recognition of inconvenient facts concerns the question of income distribution, and absolute poverty. Throughout the 1980s, the item 'poverty reduction' was entirely off the official international agenda. The excuse was that only once growth was achieved could matters of redistribution be addressed. The neoliberal agenda proposed the following line of causation: openness leads to growth, and growth then leads to poverty reduction. To reverse the sequence and to begin redistribution before growth was achieved was regarded by neoliberals as a naive and impractical suggestion.

In 1990, nevertheless, poverty was chosen as the subject for the World Bank *World Development Report*. When Mr Wolfensohn became president, he declared that the reduction of poverty was the bank's 'overriding objective'. At UNCTAD X, Michel Camdessus, the outgoing Executive Director of the International Monetary Fund, declared, 'there is a mutually reinforcing relationship between ... growth and the reduction of poverty and inequality'. Behind these political shifts, a new line of thinking has emerged in which the achievement of growth is taken to be conditional on efforts to reduce the degree of inequality and of vulnerability to risk. High inequality is seen as a deterrent to macroeconomic adjustment and high level of risk at the household and firm level discourages the economic actions, such as borrowing and investment, which would lead to growth.[6]

This is fully in line with the arguments of Frances Stewart in Chapter 10 of this volume. She cites numerous studies to the effect that a more equal income distribution is associated with faster growth. The reasons for this are both political and economic in nature. Politically, regimes that sustain or actively create inequality tend to rely on policies that will put the brakes on economic growth. Economically, reducing inequality has a variety of positive economic effects, such as reducing the fertility of populations, widening the market, and raising the productivity of labour. Our instincts of solidarity are not arbitrary, we may infer from this contribution, but are well grounded in economic reason.

I have argued that, while we have observed a movement of informed opinion towards the policies of economic liberalism, simultaneously we have witnessed a surprisingly frank acknowledgment in official quarters of the key unsolved problems of the capitalist economic order. These are its proneness to financial crisis, its failure to find remedies for the economic problems of peasant production and its recurring tendency to neglect the problem of poverty. In Hegelian terms, it is as if world society had to wait for the inadequate policies of state socialism to be finally discredited *before* it could permit itself to rediscover the enduring problems of capitalism that state socialism claimed to be capable of solving, but could not. All of these problems especially affect developing countries, and their resolution will not come about naturally, but only with selective and intelligent forms of government action. As experience shows us the limits of independent national action in the economic field, so the problem of constructing an improved global economic order impresses itself more powerfully.

The narrowing of the range of opinion in the last decade has come about by contraction of both ends of the ideological spectrum. What does this imply? To me, it suggests that the period from 1914 to 1990 was indeed, as the historian Eric Hobsbawm has called it, ‘the age of extremes’, and we have now lost the extremes. Should we feel a sense of regret at this diminution of our intellectual diversity? As an economist, I feel no sadness in dispensing with doctrines of economic policy that, as a matter of historical fact, never were economic at all in their origin, but were created in the heat of a geopolitical conflict now mercifully concluded. Rather, the opposite. As a person, I can understand a feeling of nostalgia for the simple world they offered, as a shelter to the mind when it tires of endless complexities and uncertainties. However, that shelter was illusory, and unavoidably scholars must learn to live, as we have increasingly since 1990, without resort to these doctrines of the political extremes. To say this is not to advocate the artificial restriction of academic debate. Issues of economic policy will always remain contested and, unless there is free scope for the exchange of economic ideas, for criticism and counter-criticism, our economic understanding will not make any further progress. I am merely recognizing the fact that, precisely under the influence of free criticism, the intellectually habitable terrain for economic policy making has shrunk.

I venture to suggest that one of the important ways in which critical thinking has caused the retreat of the ideological element in economics is by the renewal of interest in the moral foundations of market operations. As a result of much discussion and experiment, we are now increasingly aware that markets function better when underpinned by a morality that fosters general trust and reciprocity. Markets cannot operate well when they are dominated by the behaviour of opportunists, inside traders or players who freely break their contracts. Markets cannot operate well unless supported by governments that encourage a social, and indeed political, atmosphere of general trust and reciprocity. Governments cannot do that if they are dominated by the behaviour of the corrupt and greedy. And development itself is impossible unless both markets and governments function properly, that is, work together in a constructive partnership. Dani Rodrik put it well: ‘The idea of the mixed economy is possibly the most valuable heritage that the twentieth century bequeaths to the twenty-first in the realm of economic policy.’[7]

Many aspects of the so-called ‘failure of development’ during the last fifty years can be readily explained, once we have these precepts in mind.

Economies do not develop just because they exist. Economic development has been historically exceptional, and not a general rule. It does not happen automatically in response to the fact that a country has fertile land or large deposits of mineral resources. It is more likely to happen where a particular kind of system or systems of human cooperation have evolved. The good functioning of markets and governments rests not only on habits of personal trust, but on habits of general and impersonal reciprocity of behaviour. This is the theme of the important contribution by Jean-Philippe Platteau, which also sounds a note of warning. Even if a process of social learning is spreading the required practices and norms of social cooperation more widely, the world cannot wait while this evolution takes place. Countries have to face the choices of globalization now, whether or not these norms are strongly entrenched in their culture. In consequence, some botched and painful attempts can be expected. In Chapter 12, Ippei Yamazawa discusses the Asian financial crisis as an example of a flawed integration. Then, building on the distinction between globalization and regionalization, he goes on to examine the extent to which regional organizations can facilitate the smoother integration of developing economies into the world economy.

As we look to the future, let us not forget the wise words spoken in Bangkok by the Indian Minister of Commerce and Industry, Murasoli Maran:[8] 'The end of socialism does not silence the cry of the poor, and out of the pain of poverty must be born new dreams of justice – a new world economic order.' The building of an international economic governance community that will respect the aspirations of all its members for sustainable development must rest on the same moral foundation as does sustainable development itself. The fundamental idea is once again that of generalized reciprocity. However, as Raul Prebisch emphasized when UNCTAD was established in 1964, the reciprocity of international economic relations must be real. It cannot be merely conventional. It cannot be formal only. It cannot be based on a nominal equality of countries that is belied in all the practices of negotiation, decision making and dispute settlement. Precisely because, so far, global integration has affected only a dozen developing countries, the economic world is still divided. In such a world, real reciprocity means taking account of the underlying asymmetry of economic structures. International economic governance based on real reciprocity still has to be constructed. That will be the new international order for which so many developing nations at UNCTAD X appealed.

Despite the intellectual convergence I have noted, the setting of international economic standards remains problematic. They will have to be negotiated between all the parties that subscribe to them in a democratic and transparent manner. The developed countries should not expect to be able to set international economic standards exclusively. And, once they are negotiated, the developed countries must be willing to be bound by them, even when they cut across their particular national interests. This is not well-established behaviour at the moment. Although the USA has expressed willingness to change practices that have been found to be in breach of its WTO obligations, it has also been willing to resort to tariffs, in the certain knowledge that the complaint, panel and appeal procedures are lengthy ones. All states on occasion try to put their own interests ahead of international norms, most of all hegemonic states that have long been used to having their own way and that can credibly threaten to change unilaterally the rules that do not suit them.

One of the clearest appeals made at UNCTAD X in Bangkok by the heads of state and government who spoke there was for a more inclusive and participatory decision-making process at the international level. What are the developing countries asking for? Three things that they seek above all are a mixture of substantive and procedural issues:

1. They want the massive barriers to be dismantled in relation to trade in agriculture, textiles and clothing and in the areas where tariff peaks and escalation still prevail, even after the implementation of the Uruguay Round Agreements. Although greater access to industrial countries' markets will not be enough to solve the problems of the least developed countries, it is crucial to securing the benefits of an open global trading system for the more advanced developing countries.
2. They want recognition for their efforts in promoting regional economic solidarity. Provided that these efforts are in the form of 'open regionalism', they can strengthen the move towards positive global economic integration.
3. They want existing international economic institutions to evolve so that they are capable of bridging the interests of both developed and developing countries. As the NGOs have emphasized, such institutions must be more pluralistic and participatory than they are today.

In the aftermath of the WTO Ministerial Meeting in Seattle, the prospects for progress in these three directions looked quite bleak. UNCTAD X provided the opportunity for a wide-ranging exchange of views on the issues surrounding globalization. In my view, it was instrumental in creating an improved atmosphere for negotiation, and in promoting greater mutual understanding on the complexities and policy choices of the globalization process. Some fruit from this was seen at the Doha Ministerial Meeting that launched a new negotiating round. However, a long agenda remains to be worked through in translating these better atmospherics into practical moves for institutional change at the international level, especially in the fields of trade and finance.

As the concluding chapter by Peter Evans stresses, there is a danger lurking in the drive towards a more broad-based system of international governance in the field of trade, finance and development. He regards the political foundations of the existing system, dominated as it is informally by the USA, as quite fragile. A strong push by the developing countries for greater participation in WTO decision making would be most likely, he suggests, to undermine its existing political support. The Bush Administration's retreat from multilateralism in international relations gives some credence to these fears. Yet, although it may be the less likely outcome, the successful adaptation of the institutions of international economic governance to a more multipolar world is still a possibility, and as such should be the star that the world statesmen of the new century steer by.

## NOTES

1. This was the title of the WIDER (World Institute for Development Economics Research) Annual Lecture that he gave in Helsinki in January 1998. See Ha-Joon Chang (ed.), *Joseph Stiglitz and the World Bank. The Rebel Within*, London: Anthem Press, 2001, pp. 17–56.
2. The speech was given to OXFAM as the Gilbert Murray lecture in Oxford on 11 January 2000.
3. Michel Camdessus, 'The IMF at the Beginning of the Twenty-First Century: Can We Establish a Humanized Globalization?', *Global Governance*, 7 (4), pp. 363–70.
4. See Shahid Yusuf and Joseph E. Stiglitz, 'Development Issues: Settled and Open' in Gerald M. Meier and Joseph E. Stiglitz (eds), *Frontiers in Development Economics. The Future in Perspective*, Oxford, Oxford University Press, 2001, pp. 227–68.
5. See the empirical evidence of the association of financial liberalization and banking crises assembled by Asli Demirguc-Kunt and Enrica Detragiache, 'Financial Liberalization and Financial Fragility', in Boris Pleskovic and Joseph E. Stiglitz (eds), *Annual World Bank Conference on Development Economics 1998*, Washington, DC: World Bank, 1999, pp. 303–31.
6. Ravi Kanbur and David Vines, 'The World Bank and Poverty Reduction: Past, present and Future', in Christopher Gilbert and David Vines (eds), *The World Bank: Structure and Policies*, Cambridge: Cambridge University Press, 2000, pp. 87–107.
7. Dani Rodrik, 'Development Strategies for the Next Century', Santiago: ECLAC, 2001, pp. 1.
8. For a tribute to Mr Maran, see M. Naganathan, 'Murasoli Maran: an Intellectual Leader of the Dravidian Stock', in Vinanchi Arachi Jebamalai (ed.), *India's Time. Essays in Honour of Murasoli Maran*, Chennai: Kadiroli Publications, pp. 259–81.