

# Globalization and Its Discontents

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**JOSEPH NYE:** It's a pleasure to be back in Hong Kong. This is a place which, as I told my wife when I phoned her, is probably the most beautiful city in the world. There's some strong competition with places like Paris and others but it is a glorious city. At the Kennedy School we've had a long interest in Asia. Tony Saich, who's with me here tonight, is the head of our Asia Programs under Ira Jackson, who heads our Center for Business and Government. We have long hounded an interest in this region.

We've just come from an interesting visit to Vietnam where we have a program where we're teaching Vietnamese officials market economics, which is interesting. We have a number of programs where we train people in Beijing and elsewhere.

But that's not what I was going to talk about tonight. I was asked to talk about globalization and its discontents. Interestingly enough, I was asked to talk about globalization, not its discontents, but rather globalization when I was last in Beijing.

About a year ago, Tony Saich and I were asked by the *People's Daily* to come to the Great Hall of the People in Beijing to speaking on globalization. I couldn't figure out why they wanted a couple Harvard professors to give a speech on globalization. I think it went for three hours in one of those huge rooms in the Great Hall of the People, and there must have been a crowd of 400 or 500 people there.

Afterwards, I asked the *China Daily* people why they invited us, and they said, "Well, you know, globalization is coming and China has to adapt to it but it's a little bit difficult for us to write editorials about that. But if there's a news story that you said this, then we can report that."

Essentially they picked somebody whose views they thought they would like to hear and instead of writing about it in an editorial, I became front page news; but not because of what I said, but rather because of what they wanted to report. In any case, globalization is here and it's important.

What I'd like to do this evening is say a little bit about globalization then a little bit about some of its problems, because as the title of my talk suggests globalization is not just an unalloyed set of benefits.

When we talk about globalization, it is helpful to first define what we mean by it. Everybody uses the term and they often use it in different ways. When I use the term, I simply mean networks of interdependence that are worldwide.

This, of course, is nothing new. Basically, globalization has been going on almost as long as human history. If you think back to the ancient Silk Route which connected China to Europe in the Middle Ages, this was an early form of globalization. But it's what you might call "thin globalization." It didn't affect very many people. It didn't have very much depth to it. Obviously, today we have a much thicker set of networks of interdependence.

Indeed, in the 19th century economic globalization was very high. When Karl Marx wrote the *Communist Manifesto* in 1848, he actually referred to the networks of interdependence that were destroying local industry in all nations. So 150 years ago people were noticing that economic globalization was affecting local economies. The growth of globalization--that is economic globalization--in the 19th century was very strong and by 1914 the world had reached, in some areas, new levels of economic integration which were not repeated again until the 1970s. Thus, globalization is not only not new, but it can be reversed and there have been periods in history when it was actually reversed.

But notice something when you think about the reversal that occurred in globalization during the 19th century. Economic reversal occurred in 1914, but military globalization replaced it. What is a world war if not globalization of military interdependence. When you have people fighting in Asia, Africa, Europe, and the Americas, this is clearly a type of globalization.

Thus, globalization has a very strong economic component to it and the economists usually claim that it's just economic integration. But it's worth noticing that there are other dimensions of globalization. I've already mentioned a military component as well as the obvious economic one. There is also environmental globalization. If carbon dioxide is put into the atmosphere in the United States or in China--it doesn't

matter where it goes up into the atmosphere--the effect on global warming is the same for all people around the whole globe. So there's environmental globalization.

There is also social globalization. Ideas spread around the globe. This is again nothing new. Look at the great religions which have spread around the globe for centuries. But in today's world they spread even more rapidly through popular culture and telecommunications.

Thus, there are many dimensions of globalization. It's not new and it can be reversed. Indeed, one of the things that we have to think about as we talk about globalization is to refer to the different types. For example, if the protesters were to stop economic globalization, it doesn't mean environmental globalization would stop. In other words, we might get the worst of all worlds. We might stop economic globalization with its benefits; at the same time, environmental globalization might increase--increasing global warming--and, thus, we'd get the worst parts of globalization and not the good parts.

When people tell you that globalization is inevitable, no, that is not true. But if they tell you that globalization can be stopped, then you want to ask them which kind of globalization will be stopped. Because it might be that the right kind would be stopped and the wrong kind would keep going on.

Is it possible that we could have a reversal of globalization again? In other words, if the 19th century saw economic globalization increase up to 1914, and then we had a reversal of economic globalization, but strong military globalization from basically World War I through to World War II and then through the Cold War, could we go back to a world like that again? I think it's probably unlikely, but it's not impossible.

The reason I think it's probably unlikely is that one of the things that's different today from the world of 1914 is that you have in most advanced societies a set of social safety nets. What economic globalization does is it tends to create a good deal of inequality. Some people get ahead while others don't get ahead as quickly or at all.

In 1914 and the 1920s what you saw was a great growth of inequality in European societies. Essentially, economic growth outran political growth, and so there were groups in Europe which were benefiting greatly from globalization. There were other

groups that were left totally behind. This led to a resistance and a reaction against economic globalization.

The historian Karl Polanyi, who has written about this, argues that what happened with the outbreak of World War I in 1914, and then the 1920s and 1930s that followed was the backlash, the reaction against the inequalities that came from globalization. This gave rise to what you might call two of the great social or political diseases of the 20th century, communism and fascism, which in turn led to World War II and enormous turmoil. So these reactions against the inequalities that accompanied 19th century globalization created enormous turmoil in the first half of the 20th century.

But the reason I don't think that's likely to occur again is because after 1945 most of the advanced countries created social safety nets. Essentially, the welfare state, social security, unemployment insurance—all these things created a net which meant that the people who were not benefiting as much still got something.

This is interesting because what my colleague, Danny Roderick, an economist at the Kennedy School has pointed out, is that the most open societies to trade and investment in the developed world are also the societies that have the strongest welfare states. If you take countries like the Netherlands, Belgium, or even Sweden, they have very strong welfare states, but they're also very open to trade and investment. He says this is essentially a social bargain in which the price of openness—from which an economy as a whole can benefit—is that you protect those who are not benefiting from it by providing a social safety net.

In other words, the fact that today, in most of the largest and most powerful economies in the world, you have social safety nets means that I don't think you are going to have the same sort of mass reactions that are capable of reversing globalization, as you had at the beginning of the 20th Century.

But notice something. I've spoken about the rich countries, not the poor countries, and one of the great questions is what happens to poorer countries that don't have social safety nets. What about the less developed countries which are affected by globalization in ways that cause some to get very rich while others do not, and there is no safety net to protect them?

In other words, my optimism that globalization or economic globalization will not be reversed may be for part of the world but may not cover the entire world.

If one looks at the current situation, one notices that in the 1990s globalization sped up. Though it's been around for centuries, it's been increasing in pace during the recent period. Indeed, I think you could say that what's happened to globalization is that it's become quicker and thicker.

It is faster in many ways. To give you a non-economic example, smallpox was discovered in North Africa in the Nile River Valley in 1300 BC and it took 3,000 years before it finally reached Australia. So smallpox-three millennia before it reached all the continents. If you take HIV, the virus that causes AIDS, it took three decades between its discovery in Africa and the time it took to reach all the continents.

Or if you switch the metaphor to an electronic one, and think of the Love Bug Virus, which was invented in the Philippines and traveled around the world in what, three days or less, maybe even three hours. In the American economy it did about \$14 billion worth of damage. So quicker is one dimension.

Cheaper and deeper is another piece of this, which is that it's becoming so inexpensive to communicate at long distances that almost everybody can get into the game. What you find is that when communications are sped up, as they are now, and made much cheaper, you can have many more actors that are playing in the game. International non-governmental organizations increased from 6,000 in 1990 to 26,000 by the end of the 1990s, a huge and vast increase because anyone who wanted to set up an international NGO could do it by just having either a fax machine or a computer with a modem. So you no longer need an elaborate infrastructure of a multi-national corporation or the Catholic Church or any other large bureaucracy. Two or three people can establish their own NGO.

You might say, yes, but that's trivial, it doesn't matter much. On the other hand, if you look at the effects of NGOs, they do matter. For example, the campaign to create a treaty to ban land mines was organized on the Internet by a woman who created an NGO and organized other NGOs, and she did that in coordination with other people largely using this new, cheap form of communication. This was a treaty which was opposed by the United States Government and its Defense Department because it needed, I believed, land mines to protect against an advance of North Korean tanks along the 38th Parallel in Korea. You might wonder, who won that battle? The

Pentagon, the strongest bureaucracy in the strongest country in the world or the NGOs? Well, the NGOs won that battle.

Thus, this great increase in new players in the game which has been made possible by very inexpensive communications internationally is not trivial. It is important.

The third thing about this new dimension of globalization in the 90s is it's becoming much more complex, not only in terms of more actors but also in terms of more linkages between different areas. For example, if you look at the issues in trade today in the World Trade Organization, it's not just issues of trade, it's trade and the environment; it's trade and labor standards. In other words, it's the linkages between different issues which make them much more difficult to deal with and to handle.

Indeed, at the time of the Asian financial crisis, Tom Friedman quoted Alan Greenspan as saying: "This set of financial transactions has taught me a great deal. I've never seen anything like it before." Well, it's good that he learned this, but learning on the job about something as complex as this is a little bit daunting.

What we're seeing, essentially, is globalization that is not new but which is quicker and thicker. In other words, it's reaching deeper into society as it's going faster. So it's not too surprising, perhaps, that when something happens which we've seen before but speeds up and reaches deeper that it should have a reaction. I mean, social events, actions create reactions. So there has been a backlash against globalization. Indeed, it's very difficult nowadays for any large international economic organization to meet anywhere in the world without the streets being full of protesters against globalization.

The so-called "Battle of Seattle" that accompanied the World Trade Organization meetings in 1999 was the first of a whole series of demonstrations. You then had Washington DC when the IMF tried to meet; Prague when the IMF and World Bank tried to meet; and you had the same thing just happen in Sweden in the past month when the European Union leaders met.

You're now getting a situation where the protesters are often organizing on the Internet--indeed, the Seattle protest was organized by 1,500 NGOs using the Internet--making it almost impossible to meet. Ronnie and I were both at Davos at the World Economic Forum and it was like an armed camp. There were so many Swiss

police, barbed wire and people with machine guns that you thought, you know, this is a different world all because of these protesters.

Well, now, who are these protesters? It's a very strange coalition. Some of them are old leftists, Marxists who have never reconciled themselves to capitalism. Some of them are trade unionists in the developed countries who don't want jobs to go to poor countries, so they want to keep the wages up in the rich countries by forcing up wages in poor countries. Some of them are young people who are idealistic, who want to do things to help the poor countries. For example, the group HIPC (Highly Indebted Poor Countries), which pressed for debt relief for the most heavily indebted countries, is a part of this group-and a good part at that. Others are environmentalists who are properly pointing to some of the environmental problems that go along with globalization. Others are simply anarchists, young people who like to riot for fun and profit. I mean, if they didn't do this, they'd go to the beach.

So it's a very strange coalition, a very strange mixture and it's not internally consistent. For example, some of the environmental groups want us to force higher standards on other countries while some of the anarchists want no imposition of anything on any countries. So it's a group which doesn't have a lot of internal consistency. But what it does have is an ability to attract the attention of the press and the media in a world in which communications is becoming much more rapid and instantaneous.

Thus, they're having a strong effect on setting the agenda of getting people to focus on the concerns they have.

Now, what are their concerns? They have basically three main arguments they want to make: one is economic, the second is cultural, and a third is political. Let me quickly touch on each of these before I conclude.

On the economic argument, the protesters argue that the globalization we're seeing today is globalization for corporations only. It's liberal or neo-liberal institutional globalization which helps the rich, namely big corporations, but is not helping the people. Their slogan is that "globalization making the rich richer and the poor poorer." For evidence they'll point out that in the 1990s when globalization went through its latest increase, there were 55 countries which lost ground, according to the UN Development Program. In other words, the world was supposed to be getting richer from globalization and 55 countries did not get richer. This is their example of why globalization is wrong.

But one has to ask, even if it's true that 55 countries lost ground in the 1990s, why did this happen? Was it really globalization that was to blame?

You could argue that it was inept policies that were followed by these governments, or corruption in many of these governments. One can look at cases of countries like Korea, or Southeast Asian countries in general, which have tended to open themselves up to globalization forces and then compare these to countries in Africa which have not and notice that the countries which have opened themselves have tended to do better. For example, Ghana in Africa and South Korea had the same per capita income in 1960. Today South Korea has 30 times the per capita income of Ghana.

But it's also worth noticing that it's, I think, a necessary condition for countries to be open to economic forces. But it's not sufficient. There are many countries that have opened themselves up-they've lowered their tariffs and removed barriers to new capital-but they still have not prospered. So the point is, it may be necessary to be open but it's not sufficient. There is also a need for strong institutional frameworks and a strong government.

On this aspect of globalization the Kennedy School has been doing a good deal of research. We have just published a book called "Governance in a Globalizing World" which has an interesting article by one of our professors, Marilee S. Grindle, who points out that the problem is that many less developed countries could benefit from globalization if they had strong and transparent institutions but very few less-developed countries have that. Many of them in fact have weak and corrupt institutions.

So you have global forces which could be beneficial but often aren't because these governments are not capable of taking advantage of this. They can't provide the framework which provides for stable markets.

Thus, on the question of what's happening economically, the protesters often misidentify problems. It's true that many countries are not benefiting from globalization. They think that it's because of globalization as such. Yet, it may be that they don't have the institutional structure which allows them to take advantage of these benefits.

Another example would be China, and Tony Saich who is here tonight has a very interesting article in this book on how globalization is affecting China. China is particularly interesting because by opening itself up to global forces when Deng Xiaoping made this decision two decades ago, it led to enormous benefits. I mean, China tripled its GNP in three decades--an extraordinary feat--and that made hundreds of millions of Chinese better off. But, notice something else. There are also hundreds of millions of Chinese who are not better off.

It doesn't mean that globalization has made them worse off. I mean, some of the people in Sichuan or Xinjiang were terribly poor to begin with. Globalization made people in Guangdong better off. It may not have made the people in the Western provinces better off. What it did is increase the inequality. So with regards to the protesters' slogan that "globalization makes the rich richer and the poor poorer," no, it is often that the rich get richer while leaving the poor exactly where they were. It doesn't make them poorer but what it does is increase the inequality.

Even though the protesters may be wrong in saying that "globalization makes the rich richer and poor poorer," it may actually make for greater inequality. It makes some people who are poor richer but it leaves others untouched and it increases the inequality. And that inequality often has very strong political effects. If we go back to my example about 1914 and what happened with 19th century globalization, it was the inequality and the political results of that inequality that were so difficult.

One of the key questions, I think, is how do you make sure that you don't get into a danger zone in terms of the growing inequality that comes from globalization? Zhu Rongji was quoted by *The Economist* of London a week or two ago as saying that the genie index, which measures inequality inside societies, has become much worse in China and he said, "We may have passed the danger zone of .39." *The Economist* article went on to speculate that they were well beyond the danger zone.

As China enters the WTO, that is, as it proceeds with further globalization (which I think is necessary for it to continue progressing and to consolidate the progress it has already made), the key question is going to be, how does it deal with these political inequalities?

In sum, this issue that the protesters raise is partly right and partly wrong. What they are wrong about is the view that globalization is just for the rich and just makes the rich better. What they are right about is that as it helps people it also creates greater inequality, and unless governments think about that inequality and how to deal it, it can lead to serious problems.

The second issue which they raise is a cultural one. They say, "Well, you know the trouble with globalization is it's homogenizing the world. It's destroying all local cultures. What we're seeing is the Americanization of the world. Globalization is the same as Americanization and the world is becoming one big McDonalds, and this is a bad thing as such."

It is interesting however that the French farmer, Jose Bove, who led the protests against globalization in France by tearing down a McDonalds store has become a hero to the press internationally. Yet it's worth noting that despite growing up in Berkeley, California, he nonetheless has become a folkloric figure in France because of his opposition to this type of cultural globalization.

I think this is a mistake and it's a mistake for a couple of reasons. What happens as countries modernize is that change occurs, and this change is going to occur whether or not there is an America. After all, America itself, the United States, is a product of 17th century globalization, that is, European globalization. Globalization spreads modernization but as countries modernize their social characteristics change and their culture changes, whether the United States is involved or not. So it's a little bit misleading to say that globalization is the same as Americanization.

But I think it's important to note that when countries modernize some things become similar, yet other things remain different. You know, if you think of India and China modernizing, you don't expect them to come out looking like the United States 20 years from now or 50 years from now.

To give you an example, think of Japan. Japan was the first Asian country to adapt to globalization 150 years ago following the Meiji Restoration. The Japanese actually went out and scoured the world to find things around the world that they could use to strengthen Japan. They did it so well that within a half a century they defeated a European power during the Russo-Japanese War. Obviously, they lost World War II, but then they adapted to economic globalization and became the world's second

largest economy. Japan has undergone a century and a half of globalization, but does it look like the United States today? Not on my visits to Japan it doesn't.

I mean, countries can globalize, they can undergo economic globalization without homogenizing. I think this notion of a cultural threat is mistaken in two ways: first, some cultural change is going to occur in any case of modernization; and, second, even as countries modernize they do not turn out looking the same.

I think the protesters have identified McDonalds as a target but even if they tore down all the McDonalds in the world, or even if the United States sunk below the Atlantic and Pacific Oceans, cultural change would still accompany modernization.

The third argument that the protesters make is a political argument in which they argue globalization undercuts democracy. Lori Wallach, who is a former associate of Ralph Nader and one of the key people who helped organize the protests in Seattle, has argued that much of Nader's support in the recent US presidential election came from the belief that globalization was destroying democracy. The argument is usually that these global forces, embodied in corporate decisions to move production here or there, are undercutting local democratic control and that this is supported by organizations like the World Trade Organization which are not responsive or not responsible to anyone. In her view, even though the World Trade Organization is supposedly responsible to governments, there's such a long chain of delegation between the head of the World Trade Organization in Geneva and what happens in national capitals that there is no real accountability. The same charges are leveled against the IMF and the World Bank and so forth.

But I think this kind of argument is once again mis-specified by the protesters. They tend to have an image of global democracy that's possible but the world isn't there yet. To have a democracy you have to be able to identify who are we, the people, of which there will be a majority. The minority acquiesces to majority rule because they feel they're part of a single community. So even though they may lose the vote, they know they'll be there as part of that community for another vote, and another vote, and so forth.

But if you think of the world today, the only places where democracy really works is within a certain number of nation states. The idea of global democracy requires the idea of a definite political community and that is a long way away at the global scale. Those people like Wallach and others who argue that globalization is destroying

democracy have to argue that either it's destroying the prospect of a global democracy, which is not plausible, or it's preventing local democracies from organizing their countries the way they want. They usually make that argument by saying that globalization has destroyed the welfare state.

Tom Friedman, the journalist, has called this the "golden straitjacket", that if you're going to get ahead in the world you have to put on a golden straitjacket. It makes you richer but you can't move.

But, you know, this is also nonsense. If you look at Europe today, and you ask whether the welfare state has been destroyed in Sweden, France or Germany, the answer is clearly no. I mean, it's quite possible to have very different forms of capitalism and very different levels of government support and government structures that are voted on by each society and their own preferences. The idea that globalization is destroying all this is simply not consistent with the facts.

In reply to this third argument that the protesters make about globalization destroying democracy, I would contend that first, there is no global democracy to be destroyed and, second, at the level of the nation states, there is still an enormous amount of freedom for different nation states to set their own preferences.

In sum, I think the protesters have mis-specified the problem. I think the problem is best understood in terms of this analogy with the 19th century, which is that globalization, particularly economic globalization, can spread benefits. It can bring new knowledge, new techniques, and new ways for people to enrich themselves. But it isn't an automatic process. It requires action by governments to essentially create conditions for markets to work properly, and it requires action by governments to provide a safety net so that those who do not benefit do not fall through the cracks and form a basis for destructive protests.

If one is to draw a conclusion from all this, it would have to be that on balance, economic globalization helps the poor people but it doesn't help all the poor people all the time. The lesson of the past is that unless we pay more attention to those who are lagging behind, we may see the rise of social protest movements which will destroy the beneficial aspects of globalization, while failing to remove those aspects of globalization-like global warming-that are detrimental to all of us.

When we think of globalization and its discontents, I fear that both are going to be around for quite some time. Globalization will continue, its discontents will also continue, and unless we find a better way of expressing the benefits of globalization, and at the same time of helping those who are left behind, we may lose those benefits.

So that is my message on globalization and its discontents, and if you want to read a more detailed argument on this, I'd refer you to the book I mentioned that the Kennedy School published earlier this year. But that's a short form that saves you from having to go to amazon.com and get the book.

Let me stop there, and throw the floor open for questions.

**RONNIE CHAN:** Joe, I think what you have just said reminds me of a couple of years ago when you and I were at Davos together, and I was chairing this plenary session that was discussing globalization. As the moderator, I was not supposed to say anything except to act as a traffic cop. Yet, I remember pressing one of the CEOs of a major French corporation into saying that he advocated global democracy. So I said, "You mean, one person, one vote?" And he admitted that, "Eventually we should move in that direction." In reply I said that, "If that is the case, then China will certainly win out."

I believe you also mentioned in your recent article in Foreign Affairs that this problem is a lot more complicated than some of us non-academics believe, and thus we'll leave this heavy stuff to you big-time professors from Harvard and elsewhere.

The floor's open. Who will have the first question?

**QUESTION:** I think you're absolutely right that this is a very disparate coalition that opposes globalization, and they are often at odds with one other. But one of the things that we notice out here is that those people who are supposedly representing the South or the Third World have a very different agenda from Lari Wallach and others in the West. In many cases, they feel that the whole process has been dominated by the US, and that freer trade has not actually paid off-not because it's a bad thing necessarily, but because the US and Europe have kept their agricultural and textile markets, in particular, closed, and thus have essentially rigged the free trade agenda. I think, in many ways, your analysis of how people need to see the

benefits of globalization seem very apt in this case as well. I'm just wondering if you have any thought about this. If there is any possibility in a new trade round or in some other form, that the rich countries of world will cut this fourth group a deal.

**JOSEPH NYE:** It's a good point because if you look at the agricultural protectionism of the European Union, it's been estimated to cost poor countries something like \$300 billion. I mean, it's extraordinary, more than the overseas development assistance that goes to Africa. And the US's agricultural protectionism is also in that league, although not quite as serious as the Europeans.

To the extent that NGOs protest against these inequities, in which the rich countries cut themselves a special deal while preaching free trade, I believe the more power to them. The problem is that some of these NGOs, by forming a disparate coalition, undercut their own clout or the clarity of their argument. I will give you an example.

At the time of the Davos World Economic Forum there was a counter-forum that was held in Porto Alegre, Brazil which was meant to represent the poor people of the world. They invited Jose Bove, who I've mentioned earlier, to come and speak. Jose Bove came and all the press concentrated on him. But guess what? Do you know what Jose Bove argued for? The European Union's common agricultural policy. Why is he is against McDonalds? Because it threatens to undermine French farmers. Well, why is it that French farmers are bad for poor people? That never got raised.

By creating this strange coalition, they're blurring their own message. Indeed, I talked to two of the organizers of this Porto Alegre forum, two Brazilians who came to visit me at the Kennedy School, and they said in retrospect it was a great mistake for them to invite Bove. He got all the press attention and messed up the message which is indeed that the ways in which rich countries protect their agricultural markets is inexcusable. It's understandable in a democracy where farmers have a lot of votes, but in terms of global equity, it's hypocritical for rich countries to preach about free trade while they're protecting their agricultural markets. But the idea that Jose Bove has become a global hero of the poor while protecting European agriculture is ridiculous.

**QUESTION:** I must confess I'm a globalization skeptic because I grew up in a world, I suppose, at the end of the Second World War where the United Nations was supposed to represent globalization. I've grown up as a journalist in the world of free trade where first GATT and then WTO were supposed to represent free trade. But at

dinner the other day I sat next to a guy who works for Cargill, which is one of the largest grain merchants in the world, and he just said to me flatly, "There is no such thing as free trade. Take it from me...." Tariff barriers, whatever that means, are clearly barriers of some kind.

My question is, what are going to be the new demarcations, the new divisions, within this context of globalization? How will we divide up the world in a world that is seemingly one?

**JOSEPH NYE:** First thing to notice is that there is some merit to your skepticism. Sometimes people act as though globalization has already produced a single integrated world economy. It hasn't. If there was a single integrated world economy, real interest rates would be the same all over the world. I mean, you'd find that trade barriers would be meaningless. But even in North America within NAFTA, there was an interesting study done of trade between Toronto in Eastern Canada and Vancouver in Western Canada compared to Toronto and Seattle, which is the same distance but across the border. The study showed that there is 10 times as much trade between Toronto and Vancouver as there is between Toronto and Seattle. Clearly economic globalization, which is a process, still has a long way to go, and your skepticism is justified in the sense that there is a great deal of what economists would call "inefficiencies" in the world market.

On the other hand, what's happened since the 90s is that these barriers have been coming down from two forces: one is technology which I have already mentioned, and the other is policy, that is the agreements to reduce barriers such as the Uruguay Round and so forth.

The question then, as the economic globalization increases is, how are people going to react? They could react by resisting or by changing policy. One way they can change policy is to become more protectionist. But those countries that try to become protectionist by themselves, like North Korea or Myanmar, are cut out of economic globalization to an extent that they pay a terrible price for it.

On the other hand, if countries form regional organizations, that may give them more of a sense of being open to their neighbors while also protecting themselves from larger global forces.

The efforts towards forming a European Union and perfecting it, towards NAFTA, and towards the questions of what may happen in East Asia or Southeast Asian trade region, and so forth, are to some extent reactions against globalization. To the extent that the cliché that this is trade creating rather than trade diverting and that regionalization is consistent with global economic welfare, becomes highly protectionist is inconsistent, and even that can vary from policy to policy. I mean, the European Union is probably trade creating rather than diverting in certain areas, such as manufacturing, but it is clearly trade diverting in other areas like agriculture.

As you all know, the world is not so simple that we'll have either globalization or no globalization. It's going to be a bit of a patchwork quilt with some areas being quite protected, either at the national or regional levels, while other areas remain relatively open. But I think the idea that globalization will be reversed, as it was after 1914 and after the tariffs of the 1920s, is unlikely. What could happen though-following the same idea that there is going to be a patchwork quilt of different things happening in different areas-is that in some countries, that is some poor countries where the inequalities increase, political protests could lead them to close themselves off from the forces of globalization. It may be foolish and it may be costly but it may happen.

If you have deep political reactions that may mean that some aspects of globalization will be shut out of some countries for some time even though it may turn out to be costly for those countries in and of their own. Yet, I don't think we are going to see a single response worldwide to globalization. I think it's going to be much more patchy than that. So it's a little bit hard to describe it with one single category or one single term.

**QUESTION:** I was on a campus in the States recently where my son is working and I was talking to a bunch of people, two or three of them had been to Seattle. What they were talking about was not really the three things you talked about. But rather the reason they were protesting was because they believed that international business is unethical. I mean, they went on and on about Nike doing this and other companies doing that. I myself, who heads up multi-national operations of an insurance company, was a bit insulted by this. When I go to countries in Asia, for example, and look around, I find that in general the ethical behavior of multi-nationals is often significantly better than local companies. But somehow there is this belief on the campus and amongst these protesters that big business is bad, they're horrible, they treat people dreadfully. Really, in most cases it's not true. How can that message be got across or is this impossible, and they're always going to think that?

**JOSEPH NYE:** You're largely correct in the sense that the slogan that they use is that of globalization for corporations. There's a little bit in this. I mean, when they say something like under the rules of the World Trade Organization, which is the intellectual property system, you protect the rights of companies, let's say, their patents on drugs, but you don't protect the rights of laborers to organize and form trade unions.

There is a certain complaint that they have which has something to it. But, by and large, it's more of a slogan than reality. The simple association that big business equals evil is a cliché and it's wrong. But it's too easily accepted. I mean, you're correct that in fact what you find is that in most circumstances the multi-national corporation, because it has a reputation that it has to protect in terms of global markets, is more ethical in its standards than the local producer who may not have to worry about this.

I think you're correct in your diagnosis but when you're trying to create a political organization, getting a simple bumper sticker or slogan, such as "globalization is for corporations not for people," allows for a lot of mileage out of these ideas. I think the best we can do is to try, as I have done tonight, to say "no," it's not so simple.

**QUESTION:** Do you see an opportunity for the corporate world, at least the multi-nationals, to try and do things better, particularly those who are carrying out manufacturing and production in the developing world? Do you think it's possible to develop a new sense of collaboration between the NGOs and the corporations?

**JOSEPH NYE:** Yes, and it's already beginning to happen. Kofi Annan has created what he calls the "global compact" which is a compact between governments, corporations and NGOs to try and raise the standards in various countries where they're working. Or another example would be what you might call the campaigns of "naming and shaming" where NGOs will say, "If Nike doesn't treat its workers well, we will boycott Nike goods." Well, since Nike is essentially a virtual corporation-I mean, it's not in the business of producing shoes-but it depends very much on consumer goodwill in the rich countries. The NGOs who launch a campaign against Nike in the rich markets can have a very strong effect.

One of the results is that Nike has gone to its various suppliers in poorer countries and said, "You're going to have to pay people a little better," and "you're going to have to have air-conditioning in the plants," and "you're going to have to give your

employees Sundays off," and so forth. The pressure of NGOs on multi-nationals who care about their reputation is actually something that can and has improved standards, and it's not just the case with Nike. If you take the toy industry, Hasbro, Mattel and others have gone through the same thing.

The interaction between NGOs and corporations is sometimes conflictual; sometimes it's co-operative; sometimes it involves governments, and sometimes it doesn't. But, in each case, it can actually help to raise standards.

**RONNIE CHAN:** Joe mentioned about the "global compact" and the head of it, I believe, is Dr. John Ruggie formerly from Columbia and he was...

**JOSEPH NYE:** No, he's now at the Kennedy School.

**RONNIE CHAN:** Is that right? I beg your pardon.

**JOSEPH NYE:** We always get the best, Ronnie.

**RONNIE CHAN:** He was here in Hong Kong a couple of months ago and in fact I've invited him to speak at Asia Society next time he's in town.

**QUESTION:** Joe, since you're in Hong Kong tonight I have to ask you a China-specific question. If it is true that inequality in China has in fact reached the point where it's a cause of political unrest, social instability and if it's true that China does enter the WTO in the near term, then what kind of agenda does the government in Beijing have to pursue in the short term to both get the benefits of its accelerated opening and to at least stop the pace at which inequality is growing?

Let me ask a small postscript question here too. I understand that the World Economic Forum will be having its Asia meeting here in Hong Kong at the end of October and our esteemed chairman is also a co-chair of that event. Can we expect the same kind of fun and games that we've seen in Seattle and elsewhere?

**JOSEPH NYE:** I'm going to let Ronnie answer the second question. But on the first question, I think China has no alternative but to go ahead with WTO accession. In other words, China has made tremendous progress by opening itself up. It can't stop now. It has to keep going forward. But it is going to create problems. I mean, there are going to be state-owned enterprises which are bankrupt now but the bankruptcy will then become visible. There'll be people who'll be thrown out of jobs. There'll be iron rice bowls that will be broken. So there will be problems that go with this.

I think one of the questions that the leadership in Beijing is going to have to ask itself is how does it find ways to allow more expression. I've mentioned earlier one of the economists at the Kennedy School named Danny Roderick who's done some very interesting studies on development. What he finds is that over 20 and 30-year periods developing countries which establish strong institutions but also allow a degree of voice and a degree of participation are better able to handle economic adjustment and dramatic change.

Contrary to the popular view that you must first develop before achieving democracy and that democracy interferes with development, he argues that democratization actually helps economic development over the long run. I think one of the things-I don't know whether this is going to happen because it's very difficult to say-but I think one of the things that leaders in Beijing are going to have to ask themselves is: "How do we open up the system a bit more? How do we produce more opportunities for political expression and for voice, without losing control of the system?"

The argument has been made that the Chinese should proceed from village elections to townships or to counties and so forth. I don't know whether that's the right way or whether it's by gradually increasing the power of the NPC or what. But if I were a leader in Beijing and I was trying to say how do I get through the next five to ten years, one possibility is to say we'll clamp down, increase the police pressure, and lock people up. The other is to start thinking about institutions that allow a little bit more flexibility, a little bit more expression. I think there's more future in the second of those than the first, but I think the first is probably more likely.

**RONNIE CHAN:** In answering your second question, Joe, allow me to say a word about the first question. I fully agree with you that China must find ways to create a release valve for society, and hence more expression is probably helpful. Indeed, Zhu Rongji is recognizing that and has encouraged the airing of some TV programs, for example, to allow people to call in and complain about this and that. It may be a feeble effort but nonetheless it's happening. I agree with you that probably a little bit

more has to be done. However, I'm a businessperson, and thus I am pragmatic. I want a bottom line, and I suspect that China probably needs both. That is, sometimes it needs to step on the gas, while at other times it needs to step on the brake. Hence you have to strengthen not just the gas pedal but also at times the brake mechanism. In the process I think that maybe our American friends may not appreciate the need for that aspect as well. I think it's better that I leave it as an analogy rather than stating it in clearer words.

As far as the upcoming October meeting of the World Economic Forum, many of you know that last year when we met in Sydney it was a big problem. So a lot of people are expecting the same thing to happen this time. I'm praying very hard every day that by the time we meet in Hong Kong, the winds have changed a little so that it will not be as bad as last year. But anyway, it will really depend on the atmosphere a month or so beforehand. But we are doing everything we can to plan for it. We have quite a bit of experience, as Joe mentioned.

**JOSEPH NYE:** Pray for rain.

**QUESTION:** Just to follow up on that, one of the points that you made was that in this sort of era of globalization there's a lot more forms of local democracy, and I thought of Britain and Scotland with their Parliaments, and various countries of Europe splitting up, and Canada trying unsuccessfully many times to do the same thing. I mean, what do you think this means for China? Don't you think that there will be more attempts at some sort of local democracy, whether it's splitting up politically or some other form?

**JOSEPH NYE:** I don't think China is going to split up, but I do think that it is more likely over time that China will pluralize and decentralize. I mean, it's interesting that take the cases you mentioned-in Britain there is the Scottish Assembly and the Welsh Assembly. There is more use of the Welsh language than there was before. But it's not splitting up. In other words, it's not secession, and the bet that Tony Blair is making is that by allowing a greater degree of autonomy at the regional level you prevent the nation from splitting apart.

I would think that for China some greater degree of decentralization-maybe federalism with Chinese characters-is the right direction to go in. It's not easy to move in that direction politically. Nobody ever wants to let go, but I think it probably allows a better future for China in terms of being able to maintain the integrity of China. If I

were to guess about the future of China, and obviously nobody knows, I would expect to see more pluralization and more decentralization over the next 10 or 20 years.

**RONNIE CHAN:** I think you'll be correct. Last question or maybe last two.

**QUESTION:** I'd agree with you that the root of the whole issue of discontent with globalization is the issue of inequality. What seems to me the most obvious fact out there when you look at the talk of G-7 heads is that they seem to have a surfeit of ideas of how to create wealth and a huge deficit of ideas of how to address that issue of inequality. Until they can speak to that second issue you're going to continue to get those discontents exercising their view. I'm just wondering, with the retreat of the welfare state in the developed world over the last 20 years, is the new idea to help close that inequality gap?

**JOSEPH NYE:** I think there are two kinds of inequality. One is between countries and the other is within countries. Between countries, I think there are some proposals that are being made, such as debt relief for the poorest countries and so forth, which the G-7 has accepted. It's somewhere in the implementation process but I think that sort of thing makes sense.

I think the harder problem is inequality inside countries. There I think the question is if the IMF and the World Bank and others are providing advice and conditions on their loans, they ought to be paying attention to not only macro-economic stabilization but also to the issue of distribution inside countries. Actually, this is beginning to happen. The World Bank is beginning to provide more loans that are helping with issues related to social infrastructure, social safety nets and so forth.

I think that the view that -- I mean, markets are the secret to -- essentially to use Ronnie's metaphor - markets are the accelerator. Markets are the engine, the gas and so forth. But it's also extremely important that there be guardrails along the side of the road to keep the car on the road. I mean, even the brakes aren't always enough.

I think the rich countries over the last decade or so in the Washington consensus have talked just about the accelerator, just about markets and so forth. It's time for them also to realize that there has to be some other frameworks to make this work.

Openness is good, but openness alone is not the answer. In other words, unless you have these institutional structures you can't benefit from the openness. I think the Washington consensus which has been typical of the US Treasury and the IMF and G-7 meetings is beginning to move away from the rather simplistic view, that I was trying to get at tonight, which is sometimes a country may have to put some limits on short-run capital flows. Sometimes a country may have to create a social infrastructure to be able to keep openness as the engine of the car.

I think it's not just programs like debt relief but also getting the international institutions to pay more attention to inequality inside countries. I think they're beginning to do that. You do see some signs of this in the evolution over the last year or two.

**QUESTION:** I'd like to ask if you could comment on the so-called digital divide, and its impact on globalization and perhaps the disparity of knowledge-based economies.

**JOSEPH NYE:** The digital divide, again there's a divide between countries as well as within countries. When you think of the world today in terms of the digital divide and the role of the Internet, if the Internet continues to grow at a rapid pace there'll be about a billion people connected to Internet by 2003. Well, that's one-sixth of the world. Yet, another way of thinking about it is that three-quarters of the people in the world don't have a telephone.

That's the digital divide as it is now. On the other hand, technology is changing and there's a very interesting Bangladeshi named Iqbal Qandir who is coming to Kennedy School. He says we shouldn't think of it as the "digital divide." Rather we should think of technology as the "digital dividend." This is based on his experience creating something he calls Grameenphone in Bangladesh, where they provide micro-loans to women to buy cell phones and their cell phones then connected the village to the capital and the world markets to find out what the price of rice is and so forth, which has greatly transformed these villages. If you'd waited for the government to string wires to these villages it would take at least 20 more years.

The digital divide exists but it's also true that technology may be speeding up our ability to bridge this divide. Yet, even if it is being sped up, there is a very interesting-to go back to the Far Eastern Economic Review-editorial in the Review

about six months or a year ago that said, among all the things people need in villages in Asia the Internet isn't the first thing. There are a lot more important things.

**RONNIE CHAN:** Joe is always calm and thoughtful, and very much appreciated, and I think our audience tonight greatly appreciated your talk. Joe, allow me to just make a suggestion. You talked about inequality and indicated that the poor may not be getting poorer but rather may be just staying where they are. Allow me to add that if poverty is self-inflicted, as you also alluded to, then I would not call it inequality but rather "un-equality." A lot of what is happening, say, in China today is not necessarily inequality-I'm sure there's inequality too- but a lot of it is just simple un-equality. Of course, I recognize the need to take care of those who cannot fend for themselves or help themselves because of the way they were born.

But I think much of the poverty in the world today is self-inflicted, and hence I think that to encourage people to talk too much about inequality may be a problem. Somehow we have to help these guys to, I don't know, fix the institutions, make them more transparent, make them more firm, or whatever else you have suggested so that they can get themselves out of this hole. Hopefully, they would not simply blame the rich but also try to pull themselves up like in your example of South Korea over the last 30 years vis-à-vis Ghana.

Anyway, ladies and gentlemen, thank you very much for coming tonight. And I think we should also thank Joe for agreeing to spend some time with us tonight. He only had 24 hours in Hong Kong and we greatly appreciate him spending a bit of it with us.

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