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CONFERENCE REPORT

GLOBALISATION AND CATCHING-UP IN EMERGING MARKET ECONOMIES

On 16–17 May 2002, the economic institute TIGER (Transformation, Integration and Globalisation Economic Research), under the directorship of Prof. Grzegorz W. Kolodko (in July 2002 nominated to the post of Poland's First Deputy Premier and Minister of Finance), held an international conference on *Globalisation and Catching–up in Emerging Market Economies*. The conference took place at the Leon Kozmiński Academy of Entrepreneurship and Management in Warsaw, sponsored by the Computerland S.A. and the ING Bank Slaski. The conference was the culmination of an international research project, which featured top-rate international scholars from the USA, Chile, Tanzania, the UK/Italy, Hungary, Poland, Romania, Israel, China, and Japan. The conference also welcomed the participation of Prof. Douglass C. North, 1993 Nobel Prize Laureate in economic sciences.

The twelve research papers and conference discussions dealt with a host of issues concerning the channels through which economic, social and political processes observed in the contemporary world and grouped under the common term "globalisation", influence the development of emerging market economies. Can globalisation help developing countries accelerate their development and thus their catching-up with developed countries? Do the integration and liberalisation of the world's capital and labour markets provide an opportunity for developing economies to fight poverty, or is it a threat? What kind of national policies and strategies need to be implemented in order to maximise the benefits being offered by globalisation while minimising its risks? How important are country-level policies vis-à-vis global factors?

Douglass C. North's participation in the conference is not accidental. He is one of the founding fathers of the so-called New Institutional Economics, which underscores the importance of broadly understood institutions in the processes of economic development. The lack of an appropriate institutional structure presents a significant obstacle to development in most developing countries, and it is only by creating efficient market-economy institutions one can expect fast and

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sustainable long-term growth, which is a key factor in fighting poverty and in catching up with developed countries. The level of institutional progress to a great extent determines the development chances of individual countries (regions).

Douglass C. North's lecture on *Understanding Economic Change and Economic Growth* (which will be published in the "WSPiZ and TIGER Distinguished Lectures Series", available on www.tiger.edu.pl) went on to say that economics only describe a certain static reality, while the real world (and also the real economy) is a dynamic category. Hence, one has to be very careful when claiming that we understand the courses taken by economic processes. The fact that we may think we know the mechanisms underpinning the working of an economy does not mean that we understand how economic agents will behave in the future – reality is changing all the time, and so do the rules of economic behaviour. The dynamic nature of economies can breed frustration among economists: does studying economics make any sense if it is impossible to research something that is constantly changing? The obvious conclusion is that economists should keep in mind that the reality described by them, is subject to constant evolution – hence old rules will not always apply.

Douglass C. North also briefly described the role of institutions in the process of economic development. The "institutions" consist of three elements: formal rules, informal rules, and enforcement of both the former and the latter. The very fact of the construction of an appropriate legal system is not enough for economic success. The economic history of Latin America can serve as an example. Upon gaining independence, countries of South America usually came up with constitutions closely resembling that of the United States. Yet a comparison of the present economic situation in the United States and in the countries of South America plainly shows that a legal system based on the same rules does not necessarily lead to the same economic results. The example here proves that market institutions are a category wider than a set of legal regulations and public institutions. It is only the efficient interplay of all three elements of such institutions that can lead to sustained economic development.

Poland's Minister of Foreign Affairs, Wlodzimierz Cimoszewicz, gave the second special lecture. It was entitled *Poland in the Contemporary World* and dealt with challenges and chances faced by Poland in the changing global environment (the full text of the lecture is also available at www.tiger.edu.pl).

A presentation by Grzegorz W. Kolodko, Director of TIGER, opened the first session of the conference. Kolodko's paper on *Globalisation and Catching-up in Emerging Market Economies* analyses how the process of globalisation affects prospects for the development of poor countries. Is the present stage of globalisation a chance for or a threat to developing countries? What policies would make a difference in such regard? Is their catching-up with developed countries likely and feasible? He claims that globalisation can be good or bad: the final outcome will depend on national policies and their ability to tap into benefits of global trade, capital, and labour liberalisation, while mitigating the threats involved. He concludes that only the right combination of external forces and internal policies can result in quick and lasting economic growth.

László Csaba (Central European University, Budapest, Hungary) in his paper on *Transformation and Development* presented an interpretation of changes in Central and Eastern Europe against a background of the post-Washington Consensus. He drew attention to the elements of the Consensus that have proved to be particularly useful in assessing the successes and failures of any transition from a planned to a market economy. He also argues that although many problems faced by transition countries are similar to those in developing countries, the post-socialist transition has had its own specific issues; and this could create an incentive for the creation of the "economics of transition".

Mario Nuti (University di Roma "La Sapienza" and the London Business School) claims that the process of globalisation is by no means complete. The creation of the world's market in goods, capital, and labour has not led so far to institutional changes that would make the world possible to function as a global economy. A lack of global institutions reduces the benefits on offer by globalisation and it affects negatively the fair distribution of costs and benefits across and between countries. The development of global governance is likely to mitigate the strength of opposition to globalisation, however.

The second session on *Economic Growth in More and Less Globalised Economies*, was opened by Nguyuru Lipumba (MultiEnvironmental Society, Dar es Salaam, Tanzania), who presented his paper on *Globalisation and Economic Development. Can Sub-Saharan Africa avoid Marginalisation?* The author argues that for Africa, throughout most of its history, contacts with the world economy mainly meant slavery, economic exploitation and colonialism. He thus makes an analysis of policies that are indispensable to improving upon the historical record and integrating Africa into the global economy while also promoting growth and a reduction in poverty. The paper also looks at the types of international support that Africa requires to be able to productively integrate itself into the world economy so as to increase standards of living.

Keith Crane (The RAND Corporation, USA) and Zbyszko Tabernacki (Dri-Wefa Inc., USA) dealt with the question of the stages of progress of the member countries of the Commonwealth of Independent States (other than Russia) in their integration with the global economy since the start of the transformation period. They quantified changes in the economic integration of the CIS with the world economy as a whole and of CIS countries with each other. The lecturers also compared exchange-rate policies pursued by these countries and their impact on foreign trade. The paper concludes with a pinpointing of policies that might prove themselves able to foster integration into the world economy.

Rodrigo Vergara (Centro de Estudios Publicos, Universidad Catolica de Chile, Santiago de Chile) analysed Chile's experience of reforming its economy over the last two decades. As with the post-socialist countries, Chile went a long way from an economy based on public property and government intervention to a free-market system. The large-scale reforms led to rapid economic growth, one averaging 7% in the mid-1980s. Hence, these reforms might be useful lessons for less developed countries. The paper also seeks to explain the causes of the recent economic slowdown in Chile.

The paper by Gang Fan (National Institute of Economic Research in Beijing, China) opened the third session of the conference, on *One World, Different Paths of Development*. His paper dealt with the causes and implications of the extraordinary performance of the Chinese economy in the last twenty years. The author argues that China has been facing two sets of problems – one of the low-income, rural society, and one of the planned system. The low level of economic and social development puts constraints on the process of institutional transformation from a socialist-planned regime to a modern market economy. Fan further argues that the "optimal path" of transition in China must be different from that of countries dealing with reforms at a higher level of development. Hence, any radical changes, which would not be compatible with the current level of development, could well lead to crises and backlashes. He concluded with underscoring the challenge of combining slow political reform with rapid economic change.

Daniel Daianu (Academy of Economic Studies, Bucharest, Romania) in his paper *Is Catching-up Possible in Europe?* opposes the belief that enlargement of the European Union and fulfilment of the preconditions set by Brussels will result in rapid and sustained economic growth for the newly admitted countries and a fast catching-up with the rest of the EU countries. He believes that, due to the rarity of successful catching-up in a global perspective, taking it for granted that EU enlargement by itself will accelerate such catching-up is overly optimistic.

Tadeusz Kowalik (Leon Kozmiński Academy of Entrepreneurship and Management, Warsaw, Poland) drew attention to the fact that, in spite of the ongoing integration of the world economy, there are still considerable differences between social and economic systems of individual countries. Even in a structure as integrated as the European Union, different attitudes towards such economic problems as the state's share in the economy or social/public services still coexist. He believes that we are far from seeing the emergence of one, integrated, free market and global economy, with a growing income polarisation between North and South further slowing down such a process.

The third and last session of the conference on *Catching-up and External Factors of Development*, featured papers by Masahiro Taguchi, Okayama University, Japan, Gur Ofer and Michael Karen from the Hebrew University, Jerusalem, and George Vojta from the Financial Services Forum, New York, USA.

Masahiro Taguchi's paper took a look at the economic policies of the Japanese government with regard to developing and transitional countries, and their effectiveness. He claims that the way of Japanese support for transition economies differed considerably from solutions proposed by the Washington Consensus. He called for the establishment of an Asian Monetary Fund (AMF) that would support developing countries based on less restrictive policy prescriptions than those imposed by the IMF.

Gur Ofer and Michael Karen underscored the importance of restructuring banking and financial systems for a successful transformation. They argue that foreign capital participation in the restructuring of national banking systems proves vital to the economic performance of transition economies; they argue that foreign ownership of banks has brought capital but, above all, has provided modern technologies, know-how, management systems, and it has reduced incentives for corruption.

In the last conference paper George Vojta argued that financial crises plaguing the world in 1997–1998 showed that national systems of financial sector management are not efficient enough. Vojta believes that it is necessary for the private sector to take part in the process of creating a system, which would prevent "pathologies" in the financial system leading to serious imbalances and oscillations in an economy. He went on to stipulate conditions for the successful Cupertino of private and public sector to improve the efficiency of such a financial system.

The aim of the conference was to obtain an answer to the question of whether globalisation is able to give any chance to developing countries with regard to their catching-up with the richer parts of the world. And, of course, there is no easy answer to this question. Nonetheless, the conference certainly came close to finding the answers by identifying various issues faced by developing and transition countries on the road to successful integration with the global economy. In the papers, lectures, and conference discussions, the participants raised many problems, ones that will provide a fruitful field for further research.

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