

Anti-globalisation sentiment has always been around, before and after the Cold War, and pre- and post-September 11. Less easy to dismiss is a more mainstream critique, which could be termed globalisation and social democracy, or globalisation and the third way. **Razeen Sally** makes the liberal case for economic globalisation in a world of sovereign nation-states.

History matters:

the liberal international economic order today

There has always been a root-and-branch rejection of capitalism in one guise or another. What could be called globalisation and social democracy, or the third way to globalisation, is different. This world view recognises some of the benefits of international economic integration. Nevertheless, it rejects the comprehensive liberalisation attributed to the so-called Washington Consensus, and advocates more or less radical change in the governance of the world economy, which sometimes travels under the label of 'global governance'. Globalisation and social democracy is not street theatre on the fringe; rather its champions are establishment figures – senior politicians, leading officials (particularly within the UN family), well-organised NGOs, CEOs, journalists and academics, including well-known economists such as Joseph Stiglitz and Dani Rodrik.

This vision was powerfully reiterated by Mark Malloch Brown, the administrator of the United Nations Development Programme, at a public lecture at LSE. His core diagnosis is twofold. First, globalisation is an engine of inequity, creating minority winners and majority losers within and between countries, and particularly marginalising and excluding the poor in the developing world. Second, the nation-state is in retreat. The core prescription follows: global solutions are needed to provide global public goods. Global governance should take the form of partnerships involving governments, international organisations, NGOs, international business and

organised labour, acting in concert across a very wide range of public policies.

A more 'economistic' treatment in this genre comes from Dani Rodrik, the Harvard economist. Professor Rodrik argues that as globalisation bites deeper into national social fabrics, conflicts emerge over domestic norms and institutions. What is needed, therefore, is a trade-off between the gains from globalisation, on the one hand, and domestic social stability (especially in developed countries), on the other. Developing countries should also be able to restrict imports and pursue industrial policies as part of their development strategies. This leads Rodrik to advocate a 'social cum development safeguard clause' in the World Trade Organisation's (WTO) brief, which would sanction considerable trade protection by both developed and developing countries.

So what is the opposing case in favour of a liberal international economic order? It goes back at least as far as David Hume and Adam Smith. The point is to continually update the argument and make it relevant to modern conditions.

In this vision globalisation is essentially a positive sum game, not an engine of marginalisation and exclusion. All round material gain, for rich and poor countries alike, is the outcome of Smith's 'liberal system of free importation and free exportation'. Basically, removing restrictions on trade, capital flows and the movement of people expands the freedom of individuals to choose how to dispose of their property rights and strike

contracts with foreigners. This allocates resources more efficiently and, over time, through economies of scale and dynamic effects such as the transfer of technology and skills, feeds into productivity increases, a rise in real incomes and economic growth.

So much for the standard economic efficiency arguments. Often overlooked, there is also a moral case for a liberal economic order, which is based on individual liberty as a 'good' in itself. In a flourishing, open-ended international commercial society, animated by what Hume calls a 'spirit of industry', people across the planet enjoy more choice; they have the possibility to lead more varied and interesting lives compared with the vegetative and parochial societies of old. Free trade (broadly defined) expands life chances by bringing about widespread and peaceful contact among nations and breeding a worldly cosmopolitanism. Freedom and prosperity, therefore, are intimately related; and it is impossible to think of either freedom or prosperity without the freedom to engage in international transactions.

Economic liberals would argue that the evidence of economic history is on their side. Over at least the past two centuries (and probably stretching back to classical antiquity), polities that have become more open to the world economy have become richer than those that have remained closed. One of Lord Bauer's major insights was that economic advancement in the developing world, over a broad historical sweep, has occurred in countries and regions that have

had the most contact with the outside world, and particularly with the advanced centres of the world economy in the West. Indeed, no country on earth has delivered a sustained rise in the living standards of its people without being open to the world.

The evidence from the post-1945 period points in the same direction. As for the last two decades, a new World Bank study concludes that 24 developing countries, with a total population of three billion, and with progressively more liberal trade policies, are increasingly integrating into the global economy. They have rising shares of manufactures in total exports; their ratios of trade to national income have doubled since 1980; and the growth of income per head in this group has increased from one per cent a year in the 1960s to five per cent in the 1990s. The bad news, however, is that about two billion people live in 75 countries with stagnating or declining aggregate growth. These happen to be countries that have liberalised less, although they suffer too from other intractable problems, such as poor climate and geography, rampant disease, civil war and chronically corrupt governments.

Globalisation contributes indirectly to poverty reduction through growth-promotion. China is the emblematic example, with over 300 million people lifted out of absolute poverty since internal and external liberalisation began in 1978. This reflects the wider East Asian experience of dramatic poverty reduction in tandem with external opening and high growth over the past three and a half decades.

This is not to say that trade and other forms of liberalisation are a panacea. Other policy changes and thorough-going institutional reform are also vital. Only in interaction with domestic institutional change (such as ensuring political and economic stability, improving the protection and enforcement of private property rights and contracts, and rolling out transport and communications infrastructure) does external openness deliver abundant, replenishing long term gains – a point grasped by Hume and Smith over two centuries ago. On the other hand, huge political, financial and technical obstacles block the path of sustainable policy reform, especially in developing countries, and these constraints differ between countries and regions.

Bearing these caveats in mind, openness remains a handmaiden of growth. It contributes to growth directly through trade, and the movement of capital and people. Indirectly, it provides the spontaneous stimulus for domestic institutional improvement – not least through the expansion of political and economic freedoms as governments engage in a competitive race to liberalise. The anti-liberal critique is wrong: marginalisation is in large part caused by not enough rather than too much globalisation. Market freedoms enable the progress out of poverty to prosperity, and are vital to civilised life across the world.

Lastly, global governance advocates are also wrong in saying that the nation-state is in retreat. Quite the reverse: the core functions of public policy continue to be performed primarily at the national level by governments, not by Intergovernmental Organisations, Multinational Enterprises or Nongovernmental Organisations. National governance is as vital as ever. Globalisation, now as in the 19th century, continues to depend on law-governed nation-states and the sensible exercise of national policy choice, 'from below'. ■



Razeen Sally

is senior lecturer in international political economy in the Department of International Relations, LSE, and head of its International Trade Policy Unit. Author of *Classical Liberalism and International Economic Order: studies in theory and intellectual history* (Routledge, 1998), he is based this year at LSE's Centre for the Study of Global Governance, working on WTO-related issues. © Dr Razeen Sally, 2002



Above: Demonstrators protest against the creation of the Americas Free Trade Zone 17 September, 2002, in front of the US Embassy in Brasilia
Right: Farmers carrying their products march to the Government Palace in Lima 22 May, 2001. The farmers were demanding better insurance and better prices for their products to compete against imports

