Globalization for Development

Date: 30 March 2006
Time: 6.30pm
Venue: Hong Kong Theatre, LSE
Speaker: Dr Ian Goldin
Chair: Professor Robert Wade

Professor Wade
It's great to see so many people. I was worried that this time of a year there would be just a handful of people down at the front here and the rest would be a resounding emptiness. I'm Robert Wade, I'm a Professor of Political Economy in the Development Studies Institute at LSE. I'm chairing the event and I want to now introduce Dr Ian Goldin who is coming back to familiar territory, familiar because he was a student here in 1979 doing a MSc in economics with sociology courses thrown in. He went on to do a DPhil at Oxford, went on through a number of steps to run the Development Bank of Southern Africa and then in 2001 was recruited by Nick Stern, formerly economist at LSE, to join the World Bank where Nick was Vice President for Economic Research and then in 2003 Ian became Vice President for External Affairs, Communications and United Nations Affairs of the World Bank. The external affairs budget of the World Bank is greater I believe than the research budget of the World Bank, whatever you want to make of that fact.

He's going to talk today about this recently published book *Globalization for Development* and I have to say just by way of introducing the book that it is an excellent introduction to one perspective on globalization, excellent in particular because it doesn't require any background of knowledge about the subject. It's very careful in the way that it sets out concepts and arguments. It's got lots of boxes and charts and very helpful for people who are coming into this subject for the first time. It takes what you could call a prioritarian approach to issues of globalization which is to say it's prioritarian in the sense of priority. It proposes that we judge arrangements, rules, regimes for trade, for aid, for finance, for migration. We judge these according to their impact on the poorest people in the world. The poorest 2 billion or so who live in conditions that anyone would agree are conditions of severe poverty. So that's the kind of standpoint, we look at various arrangements in the world system for aid and finance and trade and we ask what impacts these arrangements are having on poverty and how can the arrangements be changed so as to mitigate those impacts on poverty.

So that's the introduction and over to you.

Dr Ian Goldin
Thank you very much Robert and thank you to so many of you for spending your Thursday evening here. I know there's a lot of exciting things to do in London and I'm not sure this is the most exciting of them but thanks also to those who have gone into the video room. I can't see you but you can see me, and at least you got in and I really feel very bad about the many who could not fit and were turned away. If they are friends of yours, do tell them I am sorry that they couldn't get into either of the rooms and that's a pity.

I last came to the LSE about a year ago. At that time I focused on what the G8 at that time were doing to help overcome poverty and the sorts of things that we were talking about at the Gleneagles Summit and at other Summits and in fact I came from a rally on Trafalgar Square on that occasion which was part of Make Poverty History Campaign.

What I want to talk about today is a more broad perspective on this and it really does draw very heavily on the book that was published about a month ago by Palgrave Macmillan and the Bank and there will be copies of it available and I happy to talk to you about it afterwards as well and the basic point…

Professor Wade
Can I interrupt. There will be copies or there are copies for sale outside for a mere £17 and they can even be signed if you wish ask Ian to sign them.

Dr Ian Goldin
Thank you, Robert for doing the hard sell which I am too embarrassed to do myself. The basic points of the book and the argument is that globalization, and we can go into discussions of how we define, it is an extremely important force which is on the move and that it cannot be determined before one examines these forces and what its impact on poverty will be. There is no inevitability about the impact of globalization on poverty. In general it can be a catalyst for poverty reduction but there are cases where it has exacerbated poverty. There are cases where it has made things worse and the key and this is really what this lecture is about, is to think about those policies that people can make in different spheres of influence to make sure that globalization is a force for good. That's the basic argument. The spheres of influence where globalization can be shaped are very varied, they are from the global level to national, to the very local level, what people can do in their own communities, what they can do in their own villages to try and shape the way that globalization impacts upon them. My desire to understand the flows and the policy implications for poverty motivated the book.

This book is absolutely not about everything about globalization and I imagine that would be an impossible task in itself. It's about the key economic flows, trade, finance, aid, migration, ideas and then the policy dimensions of these and even within these it's only snapshots of those topics. There are whole university departments that work on each of these things. They are vast topics and what I tried to do with my author Ken Reinert was to pull out of those salient features which impact on the poor through the flows across national boundaries. What the book is not about is the many other things that are perhaps even more important in globalization. For me the most important one of course is global peace and security and whatever one thinks about any economic impact on the poor it's nothing compared to the impact of say a nuclear bomb or conflict in general. Conflict is development in reverse. Conflict can lead to the destruction of everything that people have constructed in their own lives over time and so it really is very difficult to think about globalization without thinking about the need for global peace, for global stability and the need to overcome the current conflicts in the world. That is not what the book is about but I do want to put it up as a big caveat because I personally feel strongly about this issue and I think it's important that we join the dots between these different issues.

It is also not about the global environment, climate change and other global forces that cross borders which we do not define as economic flows, they are flows of carbon gases, they're flows of pollutants, they're flows of hazardous waste and so on but they are not necessarily economic flows. Of course how one deals with them and why they're there is related to economics.

The book is also not about culture and how globalization interacts with culture. My personal view on this is that a lot has been said but there's much more heat than light on this subject in

the current debate on culture and what I'm always struck about in the globalization discussions that I engage in and I engage in them very widely around the world is how people are able to retain their own identities, their cultural identities, their national identities, their traditions. And so you find in the most globalized cities like London, like New York, no dilution, in fact sometimes a stronger reflection of cultural identities than you find even in the homelands where they came from. People’s ability to mix cultures, to assert their own identities, absorbing others is an extremely important topic which relates to certain economic flows and particularly the trade flows, the intellectual property flows and so on and are highly associated with the development of brands, multinational companies and so on.

The book only partially deals with the global governance question. Who runs the world? How is it run? Is it run fairly? Should there be a different global governance structures? What is the role of the global institutions in this? This is clearly something which I am part of, the part of the World Bank that I have responsibility for, which includes the Bank’s relations with all the donor countries including the UK and, 24 countries around the world as well as our relations with the UN system. So I am involved in these debates and they are extremely live. They're live also in relation to the governance of the World Bank Group which remains a system created 60 years ago. But that is not what the book is about.

I do point in the book repeatedly to the need to have changes in global governance. Clearly it really is a problem where we have a world in which many solutions require global coming together, global agreement, and we have institutions at the global level that are not able, for whatever reason, to effectively grapple with these global solutions be they on the environment, peace and war or economic flows. We have a very, very heavy but very slow global governance system which reflects politics and powers which don’t necessarily reflect where the world is or should be today. This is a major issue subject in itself. It's about the reform of the United Nations system, reform of the Bretton Woods system. It's about the creation of, I think, a more effective global governance system but that is not the focus of the book or lecture.

So having said what the book is not about let me talk about what it is about and if you wish I'm happy to give my own views on some of these other topics in our subsequent conversation. I should also mention that I am working at the moment on a research which grew organically out of this which is really drilling down on the migration dimension. That's what I hope I'll be talking to you about if I am invited back again next year.

Let me begin with a very simple illustration that there is no one way street here, either on globalization or poverty reduction. It is not the case that globalization is an inevitable force that just gets more and more powerful. It's also not the case that poverty just inevitably gets reduced or increases over time. Both of these things have their trends, but they are not correlated in any systematic way. The debate itself tends to see globalization simply as a recent phenomenon. I believe that globalization has been around as long as we have on the planet. Certainly people migrated out of Africa and got around the world over the last 100,000 years. We are all Africans and in that sense if there's one claim on global humanity it must be from the East Africans where current evidence indicates we came from. All the flows we look at have had this global dimension over a very long time. To the extent that globalization is about the flow of ideas, goods, finance, services, environmental spillovers that are across national borders they are routed in history. By definition if we understand globalization as being defined by movements across national borders, it requires that you have nation states in the globalization equation. Nation states are a relatively recent

phenomenon and the past 150 years has seen states multiply. The creation of 50 countries in Africa, 30 or something in Europe are relatively recent phenomenon, recent by the historical timescale. If one is defining globalization as flows across national borders then when you create new nation states, you automatically create new globalization flows. We need to be a little bit wary of this type of definition because we are really interested in the impact on people and not simply on nation states.

Slide one is an illustration of some of the interaction from about 1870 when there were lots of nation states being defined and created. Just two metrics are being used here, and again anyone that tries to reduce globalization and poverty to two metrics is holding themselves up as a very, very big target because that's a pretty silly thing to do. Globalization cannot be measured only on a metric we use here which is exports over GDP, that's just one metric. It's only one measure of how open the economy is, how much is it trading and this graph shows only the export/GDP metric. Equally, poverty cannot be measured solely in terms of the number of people earning under, in this case, a dollar a day in the world. Those are just two very general measures of openness of economies and of poverty but I do want to stress that there are lots and lots of ways to measure globalization and openness and also of understanding and measuring poverty.

There are lots of ways to think about how one measures globalization but what you see from this graph is exports as a share or the openness of economies to trade. For a period the world was less open than it was in the late 1930s, basically where it was in 1870. Economies were more open in the late 19th century. This was the case if you look at the trade measure but the same is true if you look at capital flows and other measures such as, migration flows. What this is about is reversion due to the Great Depression, World War One which really disrupted globalization through autaki or isolationism. The point I want to make through this is that globalization is reversible. Globalization has been reversed, is reversible. This is not a new phenomenon. In the 15th century the Chinese Emperor Hun Si banned all maritime travel. In the 14th century China was the globalizing force of the world. It was going places that the Europeans were not going and by banning maritime travel Hun basically reversed globalization dramatically for Asia for a very long time.

Globalization can be reversed through policy, through wars, and in different ways. Globalization can also be accelerated as is evident in the leaps of the past. This acceleration can be driven by policy and technology. The invention of the maritime chronometer, the development of steam-ships, the invention of internet and other breakthroughs bring globalization to a new level. Policy changes also can do the same. The reduction in tariffs, the opening up through policy of economies, giving access to the global media can dramatically change the way that societies are globalized. So this is a policy and technology driven story. Other dimensions, such as education and peace and security are also key.

In practice, the immediate danger is not so much that globalization will be reversed, but that the aspects which support development and poverty reduction will be slowed or not given their full potential.

The other thing that jumps out of this simple slide is that there is no simple correlation between poverty and globalization. Globalization can be slowed, it can accelerate, depending on what people do. It's impact on the poor equally is determined to a large extent by the policies that are associated with that globalization and how the globalization happens. From this slide you see basically that until about the 1970's the number of poor in the world was

increasing and in the last 30 years what you've seen, perhaps for the first time in human history, a real decline in the number of people earning under one dollar a day. In this period there has also been great progress. For example, if you look at life expectancy at birth it has increased by about 20 years over the last 40 years. It probably took from the Stone Age until 1960 to increase life expectancy at birth by 20 years and that has increased by about 20 years over the last 40 years. Similarly if you look at illiteracy rates, which have declined by about a half over the last 30 years, you similarly see this step change in the impact of economies, of opportunities for poor people. One of the measures is the number of dollar poor as well and this is an important measure but it's full of its own problems, exchange rate problems, other measurement problems and no single measure of poverty is acceptable.

This decrease in the number of dollar poor—about 300 million people in the world live on less than a dollar a day in the year 2000 than in the year 1960—has happened despite the increase in the world's population of that period by well over 1.5 billion.

Professor Wade
You said 1960 to 2000.

Dr Ian Goldin
More accurately perhaps, 1980 to 2003, as you know the poverty numbers are and also the census numbers on population are fuzzy. But those are the sorts of orders of magnitude. This achievement is phenomenal and for anyone that doesn't believe that poverty can be overcome you just need to look at these numbers. When you start to unpack these numbers and you say where are these poor who are becoming richer, where are they escaping poverty, a large part of the story is of course in China and India. The success of China and India is in no small part related to the way these countries managed the global integration on the realms of finance, trade and ideas. Africa is the great worry because Africa remains the place where the number of dollar poor have not declined over this period.

Let me turn to slide two which compares some of the flows over time. What this does is look at the flows over the period 1970 to about 2003. It doesn't capture some of the most recent flows. I think the number of things that can be said about these numbers. As some of you might not be able to read them, the left hand is in billions of US dollars and the lines are 50, 100, 150. Years are along the bottom axis starting at 1970 and ending in 2002. One point to make is that these numbers are relatively small by global flow standards and other standards and they certainly were very small over the period until about 1990. The flows are foreign direct investment, that's the top dark line, remittances which is the line that moves up to come close to foreign direct investment at the end. ODA, that's aid which is the third line from the top and net portfolio investment which is the bottom line. These flows are relatively small. If you did a similar graph for the rich countries, you would have a scale which is probably a hundred times above this, not for remittances or aid of course, but for the FDI and the portfolio flows.

The scale of these flows is relatively small relative to the needs. However, the growth in these flows has been rapid over the last 15 or so years and you see that in the shape of these graphs and how they've turned up. Between about 1950 and 2000 exports per capita, and again exports are only one metric, went up by about 10 times. Such rapid global increases in trade maybe unprecedented in history. Exports have gone up to about a thousand dollars per capita on average for the whole world compared to about 40 dollars in 1870. A much higher

average share of everyone's income is trade related. I won't go into the definitions of these things now but am happy to discuss those with you.

The other point I wanted to make is about the orders of magnitude. Just to give you some sense of what we are talking about in flows to developing countries the World Bank Group, lends and gives in grants about 20 billion dollars a year, so that's one component. Total aid transferred is now about 60 billion dollars a year, about 3 times that, foreign direct investment about 170 billion, so it's about 3 times aid. The big story which is not shown here is domestic investment, people investing in their own economy. That's over 1.5 trillion. The basic point is that all these global flows are very small compared to what people are doing for themselves in their own countries. That is the big story. What people are doing in their own countries overwhelms in terms of the investment or the capital, the money transferred, anything that comes across the border for a typical country. There are exceptions and we can talk about the exceptions. But, the real question is how do these relatively small flows, which are typically 5% or 10% of the money circulating in the economy, how do these small flows influence the big flows which are the domestically generated flows? That's really the question that we try to grapple with. How do we make sure that these flows that we think we have some handle on, particularly the aid flows, how do we make sure that they have a much bigger impact on the poverty reduction impact, the growth impact on those flows which are being generated within the economy. Understanding the dimensions of what one is talking about is vital. Even for the poorest of the poor countries, these flows tend to be at most, one third of income in countries where there are very high levels of aid or remittance or other dependence.

Let me quickly run through these flows, one by one, and try and pull out some of the most salient features of them. We put trade first because we think it's in a way the most important and the quickest to fix. The story about trade is really a tragedy of missed opportunity in helping poor people. The prime reason for this is because the rich countries are, I suppose the right word is selfish, but they are basically protecting their own farmers, or thinking they are protecting their own farmers because often what they do doesn't protect their own farmers, in ways which are extremely bad for poor people around the world. On average a poor person, here I am defining poor as living under 2 dollars a day, pays double the tariffs to get their goods to market than someone that's richer. This is perverse. If you are trying to help poor people, you don't tax them double the amount you are going to tax a rich person before they can get their goods to market. Perhaps the single most important thing that could be done is in rich countries is changing trade policy countries to help poor people. This is not only because of the 300 billion dollars of subsidies and protection that the OECD countries pay their farmers. Any of you interested in these statistics just go to the OECD website and have a look. The details are all there, by country, by crop. But if you want details on the distribution of farmers, for example how many farmers are getting over a million dollars a year in subsidies, you won't easily get that out of the European Union, but if you got to the US, the Freedom of Information Act allows websites to show data for the states.

The essential point is that rich people in rich countries are being subsidised at the direct expense of the ability of others to compete. The comparative advantage of many poor people is in products like agricultural products, like basic footwear products, like products of that nature. Their opportunities depend on getting these things to market, to get them to market particularly where richer people are. So this is absolutely vital. Current policies are crazy not only because they effect the poor directly in that they cannot export but it has many indirect effects. I have been intimately involved in seeing some of these. I was advisor to President

Mandela for 5 years and involved in setting up a regional bank and also some Africa investment funds. We raised 500 million dollars for Africa infrastructure and 50 million dollars for small businesses in Africa. But in trying to invest it we encountered many obstacles. For example, in trying to get a fish farm going on Lake Kariba, which is between Zambia and Zimbabwe, we found that we thought all was fine until we tried to actually do the exporting of these fish to the European Union and found insurmountable non-tariff barriers. Similarly a fascinating project with the nomads in Mauritania, who are amongst the poorest of the poor in the world, to try and turn their camels into a productive resource by exporting camel cheese, which won all the prizes in high-end cheese markets. But exporting this high value cheese was impossible in the end due to the barriers that the European Union put in the way in terms of regulations and the associated legal and other barriers and costs. One can go on and on and on about these obstacles to trade. Similarly the cotton subsidies in the US cost the West Africans about 200 million dollars a year directly in lost opportunity. I am not trying to point a finger at the US because the European Union and Japan are equally bad. The average cow in the European Union gets about 3 dollars a day in payments or subsidy. In Japan it's about 7 dollars a day and the average person in Africa lives under a dollar a day. These are not unrelated topics.

By forcing the Africans and others in poor countries to only produce certain products which are not restricted like for example, coffee rather than, say, grains these policies are also pushing commodity prices down because there is over production in those commodities, preventing the farmers in those countries from diversifying because you can’t get into alternative crops. Tariff escalation also prevents vertical diversification of for example cocoa into chocolate. The protection on the alternative products is forcing people to produce more of what they have access for. It's one of the reasons why commodity prices have been trending down historically.   Substitutions are also encouraged by high prices in rich protected countries. In the US corn syrup has replaced sugar in coca-cola which uses around 6 teaspoons of sugar per coke. High fructose corn syrup is used because the subsidy structure is built round it and that is again at the cost of those third world people that could be producing sugar for softdrinks. So this is very pernicious and it affects investment and it affects poor people directly.

There are many other dimensions of trade which are important. Clearly trade liberalisation is not a panacea, the World Bank has often been criticized for it. If the Bank does push trade liberalisation as a panacea it's making a big mistake. This is something which has to be sequenced. It's something that has to be done with the knowledge of the impact on people. When you liberalise trade markets some poor people may get hurt. People in certain manufacturing areas can be hurt, so it's something that has to be done after looking at the impact. It's not, I think, good enough to say don’t liberalise trade. It has to be done but has to be done carefully, over time and smartly. It also has to be done hand in hand with capacity building. It's all very well talking about getting your cocoa into chocolate but the question is how do this and how you get it to your market. In my previous job we started a flower farm in Ghana which was a great idea until the one airline which was flying to Amsterdam stopped its service and we couldn't get the flowers to market. The capacity, the cold storage capacity, the knowledge capacity and so on is absolutely vital. What some people call the capacity dimension for trade for aid is vital.

Finally there are certain parts of trade which need more control, not less, and that's particularly trade in arms, trade in illicit goods and so on. There is a fascinating book that's just been brought out by Moises Naim and it's called *Illicit* . It's very difficult to quantify

illicit trade and what this book tries to do is that. It really is staggering to see the extent of things that are traded that shouldn't be traded from sex slaves to illicit arms and so on.

All countries but particularly the countries that manufacture the arms and produce dangerous goods have a responsibility to ensure tighter control over illicit trade which is so destructive. Over half a million people a year die as a result of small arms. These should not be traded without more controls. What have been termed conflict diamonds, and conflict oil also requires attention. Ensuring greater transparency around trade is vital. It is vital that people that try to trade their diamonds for guns, to overthrow their country, cannot do so with impunity. Publish what you Pay and other initiatives such as the Extractive Industry Transparency Initiative, which try and highlight where the money goes from trade and to ensure that it doesn't go to Swiss bank accounts but goes to development, are important initiatives in this regard. Ensuring that the benefits of trade are not captured either illicitly or illegally but that people know where the money goes, making sure it is mobilised for development, is important.

Trade is complicated, but it's essential. It's something that all of you benefit and lose from everyday. You most probably are paying about £700 a year more than you should be paying for your food, for your clothing and for other articles because they are so protected. At the same time you might be benefiting some people in protected industries. But you are also impacting very negatively on people in developing countries. No one can say that they are immune to the implications of trade policy. You are all wearing products, using products from multiple countries. It's a good idea to get to know what's happening in the manufacture of these. Know whether the products you use are made by child labourers and under what conditions. Consumers are getting much more active which is a very good thing. It's putting pressure through the globalization of information and ideas on ensuring that rights are more widely spread around the world.

Finance is another key dimension of the global flows. The financial flows are small relative to some of the other flows and they are erratic, they are volatile flows. Countries cannot rely on external financing, should not rely on external financing but they can be extremely useful and it is particularly important that countries get a much more blended form of these flows of external financing. Most of these financial flows go to the middle income countries, not to the low income countries, and within the low income countries most capital flows go to a very small number of countries, particularly those which are mineral exporters or oil exporters. This is a problem. Many poor countries are virtually excluded from the capital markets. There has been an evolution in these financial flows from commercial debt or bank lending to the issuance of bonds and other forms of debt to equity and this diversification is a healthy thing. Relying only on bank lending is a dangerous proposition and it tends to create short term horizons . One of the key things about investing in infrastructure, say a road or a water line, is that the asset is a very long asset. Typically a road exists for 50 years or 75 years or longer so what you don't want is that everyone that's using it in the next few years has to have to pay for it either directly or through their taxes. It is preferable to depreciate it over the lifetime of that asset. So getting long term capital is important. But the form of this long term capital make sense so that you don't for example pay in dollars and find that your currency has depreciated and that you are paying more and more every year as you pay back your dollar loan. Thinking through how countries finance these assets and what the relationship is with different types of financial flows is extremely important for countries.

The graph highlights net private capital flows. For those who can't see, this is per cent of GDP on the left hand access. You see very small numbers, 1, 2, 3, 4 the horizontal lines and the vertical axis is the years from 1970 to 2004. The top line is middle income countries, the bottom line is low income countries. What this highlights is volatility, some growth trend, and how middle income countries increasingly are capturing most of these incremental capital flows . These are net flows after deducting repayment where there is repayment. These flows have moved, from the period up to the Mexican crisis in 1982 and the Asian crisis of '97. They are now around 4 to 5% of GDP from being around 2 to 3% of GDP but they are still small. This emphasizes a point that I made earlier. Basically you've got to mobilise your own capital to do things, relying on external flows is only going to be a part of the solution.

One cannot look at these flows without also thinking about what people call capital flight. That's an important issue and how to deal with it is very important. What share of Africa's wealth is outside Africa? Maybe 40%. What share of the Middle East's wealth is outside the Middle East? Maybe 40% and so on. These are very big shares if one's worried about finding money for development. It implies almost half of the capital created is outside the region or country. This is a big issue. How you get it back, why it flows, how you control it, whether you should control it, are issues we touch on. It is important to bring this capital back. If your own citizens don't believe in investing in your own country it's very difficult to imagine that foreigners are going to. So how you convince people not to take their capital away is an important issue although most citizens have the ability to move capital how they respond to their options has an impact on investment and perceptions.

The rating agencies also play a very big role in these markets. What the rating agencies do, the question of whether they are contributing to the trends in a positive way or a negative way, whether there is herding around rating agency activity is important. On balance the rating agencies provide much needed information. They go into depth on different projects, on different possibilities, and they provide information which you just can't get anywhere else. The good news is that they also provide it increasingly on countries and projects which never used to be covered. For example there are something like 10 countries in Africa now which are rated by the rating agencies compared to I think 2 five years ago. So there's progress, not enough, but there's progress. Investors often rely on the rating agencies before they invest. So if you don't have a credit rating, basically it's like going to a bank, if you don't have a credit rating they won't lend you money. Getting the rating agencies to widen their horizons to do more but also to try and stand back a bit and take a deeper look at the societies they are involved in is one way to facilitate broader financial flows to developing countries.

Aid is a relatively recent financial flow. It is something which developed, depending how you define it, since World War Two. Previously, there was the colonial transfer of resources from the colonial powers to their colonies, they built things, they did things. I wouldn't really call that aid. Aid as we define it is a post 1960's phenomenon. It's something, which like most globalization flows, one can't make too many prior statements about. A lot of aid has been disastrously wasted, 10 billion dollars went to the Congo and its per capita GDP halved. One has to ask whether aid is used productively and I could you give a hundred different other examples of wasted aid. A lot of this waste was due to the Cold War where basically politics, military allegiances and other considerations, drug eradication and so on, guided the decisions of where aid should go and aid also typically went to friendly powers, often dictators.

The question “is aid affective” has to be looked at in terms of where that aid is going. Is it going to countries where poor people live? That's generally a very important consideration if you want it to have an impact on poverty. And if it is going to countries where poor people live, is it going within those countries to projects, programmes, and activities that will have an impact on the poor? This sort of screen should be a prior before one can talk about the value aid. The good news is that aid effectiveness has increased dramatically since about 1990, since the end of the Cold War. It's partly because that Cold War dynamic around aid has largely ended, although there is still a lot of aid going for political reasons and other reasons but much less so than in the Cold War. Increased aid effectiveness is also because governments have become much more accountable both globally and nationally.

There's been a wave of democratisation around the world in the 1990's. In 1990 something like one-third of the African countries were democratic now something like two-thirds are. Similarly, Eastern Europe, Central Asia, Latin America have seen the advance of democracy and this has made governments more accountable. It's made them more accountable to their people and to a broader range of international actors. Information flows have improved. There's been a major improvement in aid co-ordination. There has been a sea change in the way aid is thought about, is given, and is mobilised. This is the good news.

The really bad news is that despite this, despite the fact that developing countries have never been better governed, despite the fact that we are now convinced that aid is better targeted than it ever was, aid numbers actually declined in the period 1990 to 2000. In 1960 the rich countries were spending about a third of 1% of their income on aid. By 2000 it had gone down to about a fifth of one per cent. This 0.22% of budgets spent on aid is a tiny fraction. People have really strange ideas about how much money is spent on aid. In the US people think that aid is budget item number three when it really is priority number 300 in a list of what the government spends money on. People are spending around 5 Starbucks coffee's a year per capita in the rich countries on aid and they think that is too much. That is less than they were spending in 1960 on aid although now the aid is much more effectively used. What is clear is perceptions need to catch up with reality.

Although Africa is now better governed and better able to manage aid than ever before and although aid does go more to poor people than it ever did, in 1990 the average African was getting $35 per capita and in the year 2000 they were getting half of that, around $17, despite this improvement. In a developing country you may ask yourself what do I get from the international community for all the progress that we're showing. We're certainly not seeing much more aid on average. I think that is a real concern. It draws into question global governance and legitimacy.

The good news is that from about the year 2000 there has been a new energy around aid. The Millennium Development Goals, the UN Compact, the Monterrey Conference, have been a series of global events driven out of the UN which have turned the corner on how aid is mobilized and managed. You will see for the first time in two decades in the coming years a real positive change in volumes of aid. It is projected that aid will double in the period to 2010. We have to see what is delivered, we also have to unpack the numbers. A lot of aid is debt relief, a lot of aid goes to countries that might not need it as much as for example say the poor Africans need it but there is a new commitment and that is very positive . It is a real new trend in aid. It is essential that aid actually goes to poor people. Up to half of aid never even goes to the countries concerned as it goes to technical assistance and other expenses in the

donor countries. It goes to pay for people to go on great Master's courses like those Robert runs on development and so on. These are assistance to countries, but are not flows that ministers can rely on and use to build a health clinic.

The other important thing is that aid needs to be co-ordinated. It shouldn't be a flag waving exercise where a visiting dignitary wants be seen with a baby outside a clinic with their own flag waving in the background. Aid must be coordinated with whoever is going to support the power, electricity, the road to get people to the clinic.. Aid needs to be mobilised behind government budgets in a transparent way. It needs to be predictable. You can't turn the tap on and off for teachers salaries and other development costs. What you see in this diagram of Aid Flows is how the tap gets turned on and off over time. It's really difficult to develop a health or education programme if you don't know what's happening next year in terms of your commitments and it's very important to be predictable, and that the process is transparent, that it is mobilised in a coordinated manner and that there is harmonisation amongst the aid agencies. The good news is that there is huge progress in these areas.

There's a lot of good news but it is important that public awareness is maintained . The Make Poverty History campaign was very much about raising political awareness in the rich countries. Bono's Live Aid, Geldof's work, these are very important things in mobilising politician's opinion and keeping the pressure to do the right thing. One of the concerns about 2005 being the Year of Development, particularly focussing on Africa that year, is what's happening in 2006. Is that energy of 2005 being sustained? Are people moving on and sustaining this momentum behind development? So keep your attention span and if you are committed to these things it is important that the development focus gets maintained.

Migration – as I said when I come back next year, if I'm invited, I would like to talk about, only about migration. The more I look at migration the more I see this as perhaps the most fundamental dimension of all of this globalization. I'm sure many of you, well all of you if you go back far enough aren't from the UK and those of you that think you are should read a book called *Bloody Foreigners* which is really a tremendous book about how the English have invented their identity and reinvented it and reinvented it over time but generally they were French or Scottish, anything but British over time.

Professor Wade
Do you know the author?

Dr Ian Goldin
I think it's Robert Winder. If you Google Bloody Foreigners you will see it! This is just one snapshot. In Britain most people think they are the originals from their country. I don't think there was a British King or Queen that could speak English as their first language until the 10^{th} century. What is highlighted in this as well as other literature is how people have always escaped poverty and found opportunity through migration. That has historically been the globalizing way to escape poverty and that's probably why all of our ancestors moved from where they moved originally out of Africa, around the world. It's the reason people moved, to find opportunity.

Now when you create nation states and you block that opportunity you are changing the dynamics of the globalization in a very fundamental way. What this is often doing is trapping the poor because they are the least mobile. They can't jump on the plane. They can't get a bursary to the LSE to do a MSc or anything else. Nation states are trapping the poor in a

particular geographical space which is unlikely to be able to sustain them in a way that another space could. This massively confines their opportunities. If you look at the history, even the recent history of Europe, between 1820 and 1920 something like 55 million Europeans which were something like 25 to 30% of the European population migrated. It is mind boggling now to think of a third of Britain getting up and moving away to somewhere but that was the sort of thing that was happening over those periods. People were basically finding opportunity elsewhere. This was driven by the development steamships and cheaper, safer and quicker travel as well as many other factors. Many of the migrants went to the Americas, the US and Canada and South America but many of them went elsewhere. Europeans defined all the way east to include today's Russia, migrated for different reasons. Many fled persecution. They went because of pogroms. They also migrated for economic opportunity. Migrants tended to be the younger people. From reading history you see that migration was the globalizing way to escape poverty and to create new opportunities. Now with nation states the dynamics are different. The question is how has this changed the poverty dynamic. The creation of about 50 nation states in Africa is a fundamental part of the story. Africans used to migrate to where opportunity is, they can no longer do that. What are the migration opportunities for those trapped in poverty in Burkina Faso for example? These are very important and complex issues. Whenever you talk about national identity and nation states you are putting your finger on something which is very complex and very psychological and sensitive. But it is vital to anyone interested in poverty reduction and its relationship to globalization.

The question is how in this world of nation states, an increasing number of nations states now, over 200, how do we deal with the migration issues and obviously it's a hot question. It's in the papers every day. I had jet lag and couldn't sleep this morning, at one o'clock it was on the TV. There was very good story on illegal African migrants into the UK on a TV channel this morning at one o'clock. It's a very hot topic. The crucial thing is to think about it in a way that will support development in developing countries. Too much of this debate is a protectionist response from the rich countries. The amount of research and money going into this is growing rapidly, but I estimate that just one institute that has recently been established in the UK has more money going into research on this issue than *all* of the spending in the developing countries put together on migration. There is a great need to focus on research, on policy thinking, on migration from a development perspective, but in terms of the money going into this, the thinking going in, this is largely dominated by the rich countries and what to do about keeping people out.

There are multiple dimensions to migration. People tend to focus on the brain drain, which is crucially important. What happens when half of your teachers leave, half your nurses and doctors leave as has happened in many countries, Malawi, Haiti, many other countries? How do countries sustain themselves? How do they overcome HIV/AIDS in those situations? Should states be paying for education when people leave once they are qualified? Should there be education systems where tax payers pay say half a million dollars to educate someone who will leave as soon as they are educated? What's the policy response to that? Do the countries have the right to control movement of people, educated people, or is it the basic human right to go wherever you want and to have that education? These are very complex and difficult questions. We suggest in the book some responses. Brain drain is important not only because of skills but also because we know from the endogenous growth literature in economics and other disciplines that the people that tend to migrate tend to be the change agents in their own societies. When you have large numbers of people leaving what is the implication for the political process, for the transformation process for the poverty reduction

process, not just because of the skills but because of how they would have been active in politics, in mobilising people, in changing their societies.

When you escape what is the impact on those you leave behind? All of you I guess have been in taxis and met some guy with PhD who is driving the taxi. Often these people are refugees from some country, Eritrea, Afghanistan or somewhere but many times they're not, brain waste is a major issue and there needs to be urgent research on this topic, and also on many other migration dimensions.

I am racing now because Robert is looking at me as I am running out of time. Something else which is very important to recognise, is that migration is also like all other globalization forces, and is not a one way street. It goes up and down. The graph shows migration into the US from 1820 to 2000. What it shows is that there are periods when lots of migrants are let in and periods when the tap is turned off. Migration trends go up and down. One can explain this partly through economics, but not mainly through economics. It's mainly explained through other factors, particularly domestic concerns of people who feel injured and policies in host countries which restrict access by migrants. What is the evidence on people in the destination countries losing their jobs, or their salaries being reduced through migration? The evidence is extremely weak. What the evidence tends to show, is that migrants are the dynamic force for many economies. The question should be what happens if you don't let migrants in? Not only because they are doing unskilled work, but particularly because of their contribution to dynamic growth. If you look around the UK or you look around the United States and just take a look at innovators in science, technology and arts and say where do they come from or where do their grandfathers come from, you get the answer that many, often the majority, were migrants. So the endogenous growth and other growth elements are absolutely vital.

The final chapter is on ideas. I am as excited about ideas as I am about migration. Ideas are even less understood. In the end it is all about ideas. It's all about how one's thinking changes as a result of exposure and interchange. That's really what drives civilisation, it's what drives development, it is what in a way differentiates humans from all others creatures. If you do a thought experiment around the collapse of the Berlin Wall and ask if the West did no investment in East Germany, what would be more important on East Germany, the physical infrastructure, water, roads and so forth, that was going to be put in or the flow of information, my conclusions would be the flow of ideas. One can do a similar experiment say for North Korea now. Let's say that Korea becomes unified, what would have the biggest impact on North Korea? – Money, goods, or ideas? It's going to be mainly through people's exposure to ideas that is going to create the opportunity, the dynamism. It's ideas that drive development in the end.

Not all ideas are good and the flow of ideas is not necessarily good. One can think of many bad ideas. Nazism is one extreme. There are many other bad ideas. So I am not saying that more ideas, more power to ideas. It is not that simple. Ideas need to be contested, ideas they need to be developed through a process, the contestation of ideas. There also needs to be support for ideas that work for development. Ideas are not neutral, they reflect power relations. One of the big debates in globalization is around intellectual property and whether intellectual property rights restrict or increase the flow of ideas. My interest is particularly the question of what is the impact of these restrictions on developing countries? Most of the evidence is suggesting now that, firstly a lot of the developing countries ideas are not covered like indigenous knowledge products and, secondly that the legislative regulation has gone

ahead of our knowledge. If you read the IP literature, the intellectual property literature, what you see is a growing number of analysts saying, even in the US, that the patent system, the legislation system is out of control and has gone beyond the capacity to understand whether this is good or bad for growth and development. This isn't just for patents like those covering HIV/AIDS and drugs and the whole generics debate. This is a more general concern. One of things we suggest in the book is the need to step back and put a bit of a brake on this and look at it in a much deeper way. When Pascal Lamy comes tomorrow you can ask him questions about that. I am not sure he agrees and by the way that isn't official World Bank policy. The World Bank doesn't have policy on this particular issue.

Let me just summarise very briefly what I am saying as reflected in the final slide. On all of these key dimensions there is work to be done. There are policies to be developed. It is vital also that there is coherence between these different dimensions. It doesn't make sense through your aid budget to invest in the building of a school or a health clinic if through your migration policies you are recruiting all the teachers and nurses from that society. That's coherence or incoherence. It doesn't make sense to say to developing countries on their financial flows, don't be corrupt and then to give tax reductions at home to your companies if they bribe officials, as some countries still do. That is incoherence. Coherence between domestic policies and global policies and between these different dimensions of globalization and economic flows is vital.

In trade the key policy changes that are needed are to reduce the subsidies, to give greater market access to developing countries, to support much greater capacity building and help countries controlling illicit trade which is so destabilising to many of their economies. This includes arms, hazardous waste, illicit sex trade and so on.

On finance the basic position we take is that there needs to be a very nuanced approach to finance. We are not for immediate capital liberalisation on the capital accounts in all countries. We believe that what is often called the heterodox approach is the right approach. We believe that they should be a blended approach, that countries should be able to access different sorts of capital. They should have more choice and we should facilitate this greater choice with less reliance on commercial banking or any one source, including the World Bank or any other single source. Broadening and deepening these flows is the objective which we focus on. The other issues are around standards and this includes controlling money laundering and risk management around the Basel Convention and other standards. These are major questions which perhaps we'll have time to come back to in discussion.

On aid, increase aid, increase its effectiveness, untie it so it is not linked to sending your own tractors to a country or sending your own technicians to a country, ensuring that the results are transparent and harmonise with other donors and country systems. So for example all donors need to support similar sorts of systems. The average Tanzanian requirement is something like 12,000 quarterly reports for aid budgets. The ministers take around something like 500 visitors a month. Can you imagine trying to run your economy and keep the donors happy? It's really impossible for many of these governments and so the question is how can the donors be much more helpful in organising themselves in a way that would be helpful to the countries, that ministers and civil servants can actually get on with the job that they should be getting on with.

Debt relief is vital, more debt relief, although I haven't had time to focus on this, it is a vital dimension. There has been great progress through the recent G8 on this but this needs to be

sustained and it also needs to be done in a way that doesn't only give debt relief to those that were in debt but also secure new flows to those that weren't in debt. So how do you reward those that never took on excess debts is a key question in this as is predictability.

On migration, there is a lot of work that needs to be done, regularising opening, dealing with the brain drain, remittances and pushing ahead with the research agenda.

Finally on ideas – Part of encouraging ideas is to enhance participation. This is about voice and diversity in voice. Allowing developing countries and within countries a greater range of people to have their views expressed, to engage in debate. Intellectual property, I mentioned. Technology transfer is absolutely vital as part of this. A lot of this is bundled in investment but it can be unbundled and there are many ways to support it.

KM is knowledge management. I didn't have time to deal with this. It's a very complicated subject and again a subject where there is much more heat than light in the literature. How does one bring the universal knowledge, for example of how to get girls to attend school to an African Education Minister? How does one mobilise the global experience in doing things effectively. The objective is to bring lessons of experience on what's worked, what hasn't worked to benefit development. This is a part of the knowledge management debate I am particularly interested in. It is something we are very bad at. We keep reinventing things, we have very weak institutional memories, we have a very weak capacity to learn from other places, not only on what works but we honestly talk about what hasn't worked and we are as bad at the World Bank as many others in this.

And of course access is vital. To what extent people have access to ideas. That's about education and about freedom of information, it's about the media and open media, it's about internet and broadband. This isn't only a question of policy, do you allow it, it is also a question of technology. The graph on communication links reflects telephone mainlines, mobile phones, internet users differentiation between low, middle and high income countries. There is a huge disparity. If you don't have the basic technology it's very difficult to be connected and to make use of a global world. So this is a very important thing.

Without plugging the book let me stress in closing that this talk has clearly just skimmed the surface of these debates. These ideas are ours, they are not those of the 184 shareholders of the Bank who would never have signed off on all of these views if they were given the opportunity. But, we are allowed to engage in individual research, that's one of the good things in terms of knowledge within the Bank.

Policies get advanced through debate in areas like this. Clearly anyone that ever says they have the answer to something has lost the point of learning. This is all about evolution. The quicker we can evolve our ideas, the smarter we can be, and the quicker we are able to bring those ideas to those that need them, and the more effective we will be in showing that development happens.

Thank you.

[APPLAUSE]

Professor Wade

Well thank you very much, we have about 25 minutes for questions, comments and so on and while you are collecting your thoughts I want to take up your…the emphasis that you gave to ideas and make a couple of comments. You say on Page 15 "ideas are the most powerful influence on development" and I have two comments. One is that if you look at the list of references at the back of your book, a long list of references, I would guess that 90% of the authors live in two countries either the United States or in Britain and on the face of it, it is surprising that you limit your, the ideas on which you draw for the book to such a narrow base of places where ideas are generated. That's comment number one. Comment number two is when you say ideas are the most powerful influence on development the obvious question is most powerful in relation to what else? What other possible influences on development are ideas being contrasted with and one of the striking things about the book is that there is, as I think you have hinted here, virtually no reference to things like power, power structures, possible exploitative power relations, between groups, this just doesn't feature. It might be argued that contrary to what you and also Keynes said because Keynes agrees with you although he did contrast the power of ideas with the power of vested interest and said ideas mattered more than vested interests, it might be argued that at least in some context, very relevant to development, vested interests are more important than ideas. For example the TRIPS Agreement, the agreement on intellectual property, nobody justifies TRIPS Agreement. It came about only because of the power of big pharmacy and Hollywood and software. They were the ones who were able to drive this agreement which is a complete nonsense from any theory of economic justice through the WTO. That's a clear example where vested interests dominated the power of ideas I would have thought. In any case some comments on that. Do you want to reply to either of those two points and then we will open it out?

Dr Ian Goldin
I think on the source of references point that is a very good…both points are good but I think that really reflects the problem. I think 90% of what we drew on is, maybe 80%, but a very high share of it is from those countries mainly because that's where people are writing about it in languages that we understand. I speak and read Spanish, French and Portuguese but it's a lot of work for me to work in those languages and my co-author speaks none of them. So that's one obvious constraint. The other is the monopoly within many of these debates of certain groups. If you go to many of the leading economic journals you will see a similar distribution from this and within some it's worse. It's a problem which I think transcends simply where people are from. For example we have a young professional programme at the World Bank which is meant to recruit around 20 to 30 of the brightest people interested in development to come and work at the Bank. We get lots of applications and diversity is a criteria where people are from and we are diverse. They might come from India, China, Africa but when you look where their degrees are from, that's a different story. Most of them are from the LSE, Oxford, Cambridge, Harvard, Yale and so on. So even if you come from a diverse place you still go into the big mincemeat machine because if you want to study subjects and you speak English that is where you are likely to go. I hope this changes over time. The huge explosion in education in China, in India and in many places creates a potential for more diversity. It would really be a sign of huge failure if there isn't change over time in this respect but it's a good point. We are still very narrow in what we draw on.

On the question on power relations, with the web sources it is difficult to know where they come. Some of those that we use, and this is a whole new dimension of referencing, such as for example Wikpedia, it's difficult to know where people are that are writing. The power relation issue, ideas versus vested is right. The only thing that I suppose I'm enough of an

optimist to believe in is that ideas will overcome vested interests in the end and that's why one fights. I mean that's why one fights in the realm of ideas because you believe through the power of argument and if you convince enough people at enough different levels, locally, nationally, globally, then good ideas will drive out bad ideas. If you believe that bad ideas are going to win, that is a very pessimistic starting point. I think history does demonstrate, evolution, civilization, evolution, that good ideas in the end do drive out bad ideas. But more people need to be focussing on this issue and mobilising ideas, and debating them.

Professor Wade
I don’t think we have to stick to the contours of Ian's talk. If you wish to ask him questions like 'how does he find the transition from the ideas of President Wolfenson to the ideas of President Wolfowitz', that would be a perfectly legitimate question to ask.

Dr Ian Goldin
Can I just say on that particular comment by my esteemed Chair that you can ask any question you want but I also have the right not to answer every question that you ask. I understand that the ground rules is that this discussion is going to be about the ideas in the book so I prefer not to have long conversations about, particularly individuals certainly within the World Bank, but try a few and I may soften up!

Professor Wade
He is the Vice President for External Affairs. I want to call of Geoff Powell, he's the Head of the Bretton Woods Project which is a small NGO based in London which monitors the World Bank and the IMG.

Geoff Powell
Thank you, Robert and thank you Dr Goldin for that very interesting lecture. I want to make a point about trade and a question for you on finance. On the trade front you said if the World Bank pushes trade liberalisation as a panacea it is making a big mistake and here I want to suggest that it really shouldn’t be a question of if. The World Bank *has* pushed trade liberalisation and continues to do so and it *has* made a big mistake. I think interesting in this respect is the very recent valuation that was done by the Bank's Evaluation Unit which there are many highlights, it's very worth reading, but one of the most interesting highlights is it said that bank pressure through structural adjustment to the programmes for what they describe as premature import liberalisation has had negative impacts on domestic industrial development. Now that's veiled language but I would return to an UNCTAD study that was done in 2002 across Africa where they said that structural adjustment, import liberalisation has led to a holing out of the manufacturing sector in Africa so I think we can safely conclude that the Bank has pushed liberalisation. It was a mistake but the question is will it stop?

Professor Wade
Liberalisation in developing countries as distinct from liberalisation of the agricultural sector in developed countries?

Geoff Powell
Yes, there is a whole different point with the advocacy issue which I won't go into. On the finance point a question. You said and I very much agree with that we can’t be seen to be turning the tap on or off, that volatility is key issue when it comes to aid. Now in the last 6 months Mr Wolfwitz must have a sore wrist because he has been turning that tap on and off with a pretty regular basis from Chad, Kenya, India, Bangladesh, Argentina, Yemen, I mean

you can name countries across the world and a lot of people would want to point out they wouldn't necessarily want to condemn him for this but they would also want to point out what has been the Bank's contribution to the issue of corruption and here very quickly through structural adjustment what's been the impact on underpayment of civil servants, has the Bank done enough to discourage northern corporations that are part of the bribery process and most recently and most explicitly there has been a very good US news and world report that's come out finding a Bank staff member who has been implicated with having his hand in the cookie jar in a very major way and so I would like to hear what will the Bank be doing to change its practices and how would you in External Affairs be messaging this because we've got a real battle on our hands if we are going to convince northern donor countries to stay in the game?

Professor Wade
Geoff, what is the website of the Bretton Woods organisation?

Geoff Powell
You're very good at the hard sell! brettonwoodsproject.org

Dr Ian Goldin
I think on the trade as a panacea, the first general point I'd make about the World Bank Group and many of you might have been in touch with it in different ways, is that this is a group of over 10,000 people operating in over 90 countries in a rather decentralized way. A lot of things happen in different ways and it happened over time. I have only been at the Bank for 5 years so it is very easy for me to say we screwed up a lot in the past and I am happy to say that and I think everyone in the Bank would agree that the Bank has made mistakes. The whole point about the ideas discussion is if you ever begin to think that you haven't made mistakes you've really lost the story on ideas because the evolution of ideas is really about learning from the mistakes and so the first thing is to look at the mistakes in the eye. So I think it's very important that the Bank is more open about the mistakes its made and countries have made huge mistakes and the politicians always condemn the past. That is part of what the democratic process is, and you can move that debate along.

On the trade as a panacea the Bank has gone through cycles and one of the things in the book which if you get to it you'll see is that we spend about 10 pages on going through the evolution in development thinking, the thinking around what works and what doesn't work in development. There has been this huge swing from the state being, the key driver, in the 1960's and 70's to the market being the panacea, get your prices right, sort of argument structural adjustment, get the macro right in the 70's, 80's, partly in response to the oil crisis and macro instability in developing countries and in the world but partly also as a result of ideology. It was the time of Thatcher, it was the time of Reagan, time of Kohl and so on. There were lots of different dimensions to this changed ideology. I think of the late 1990's, and the early part of the 21st century as a period in which there is a much more nuanced view of the role of the state and the market. That the state is very imperfect, that markets are also very imperfect. This is not the Washington Consensus which only focuses on certain flows. Institutions matter, governance matters, and other things matter that are not in the core of the Washington consensus. I think there has been this huge pendulum swing and the trade debate has been caught up in that pendulum swing so that in the period of the 80's when it was get your prices right, a lot of people did think that simple liberalisation of trade would solve a lot of problems. I think they were wrong and I think most people in the Bank now think they were wrong. Did we do projects which pushed that or discussed that with governments? Most probably, yes.

Do we still do that and is that still the general message of the Bank? I think if you look at the recent documents from the Bank you will see something. You will hear something that I haven't emphasised. I've emphasised what rich countries should do because you sitting here in a rich country and I think you can impact on rich country policies. I'm trying to change the debate in Britain and the rich countries. But you will also see an emphasis on the need for developing countries to focus on reform. There are a lot of tariffs and other controls on trade in developing countries which are wrong. Trade reform is as important or more important for the developing countries because the people are poorer. Protecting an industry, having a light bulb manufacturer in Zambia with huge state subsidies, is that a good idea? Is it something we should be supporting, import substitution in Zambia? I don't believe we should. I believe there is more productive use of government's money in Zambia than supporting light bulb manufacturing. So if the Bank in its discussions with governments have and we say use your money elsewhere. I don't want to say that it's wrong to be against import substitution. Sometimes its right but what's important if those workers are going to be made unemployed is to know that there is going to be a bigger plan, that there is going to be a way in which their needs are looked after and that the benefits overall in the economy, that money saved from that subsidy will go to education or health or other developments needs and not be wasted on unproductive protection or on corruption.

On corruption, there has been in recent months a greater focus although this has been a cancer for a long time. Jim Wolfenson who recruited me to the World Bank, and who was Wolfowitz's predecessor, I know these names are very confusing because of the four letter overlap, Jim Wolfenson was the person remembered for talking about the cancer of corruption and bringing that into the open and into the development debate. Corruption previously was not talked about publicly. Today in the UK parliament, a group of members of parliament are pushing the British government to talk about this issue although this is still a very difficult issue for donors to deal with. Again, this is part of the benefits of the ending of the Cold War. During that period it seems anything was acceptable from "friendly" states. This sort of attitude seemed to prevail very strongly. There is a much stronger focus on governance now, on where does the money go, is it going to the poor people, is it going to the project and I think this is right.

Now if there are members of the World Bank Group or any organisation that have been corrupt they should be dealt with in a fair and disciplined way. There needs to be an investigation, there needs to be the evidence, the cases need to be proven. The World Bank has been very active in dismissing people that have been found to be corrupt and also in sanctioning companies. I think we have something like on our website 200 companies that we have sanctioned, that cannot work with us because of this. We are also trying to widen this to be more coordinated with others so for example, if we don't give them the money but then neither will the Asian Development Bank and other donors. This is something that we are working on as well. This is a very big issue not only because corruption takes money away from poor people but also because it changes the nature of the debate in the rich countries. If you look at the polls that we conducted on why do people not want to give more aid money in the UK or in the US or anywhere, over 50% of the respondents think aid is corrupt. This is the primary reason that people give, I'm not saying it's right, I don't think aid is that corrupt, I think it is much less corrupt, but I think being hard on governance and corruption is important as part of the mobilization of more aid and it's part of getting the results agenda on the aid agenda. People need to see aid supports development and is not wasted.

So yes there have been a series of cases. I think you are right to point to the needs for action and over time this has to be seen as part of a sustained process. Many of those cases have already been reversed or are being reversed but it is a very important issue. If we think our money is not going to the purpose we think it should be going to, it was agreed to be going to, but going to corrupt officials or corrupt companies then it's something that we have to act upon. I think it is very important.

Professor Wade
I think it is surprising how little corruption there has been amongst World Bank officials over the past 20 years or so. I mean the opportunities for corruption are there all around and what is striking is how little there has been.

Dr Ian Goldin
Just on that, I think we have something like, out of a staff of 10,000 or more, we have something like 40 cases under investigation and one person I think currently with a probability of possible conviction, so it is very small and I think your point is the right point to make.

Question 1
My name is Justina and I'm in the Politics in the World Economy Programme. My question is rather broad and large and it touches on a couple of things that you've said so I'll leave it up to you to pick it apart and answer as you'd like. I would like to hear your thoughts on the impact of globalization on national policy autonomy and policy capacity in developing countries?

Dr Ian Goldin
I think it's Tom Friedman who talks about globalization creating a strait jacket for countries. The idea being that basically these forces are so strong that it has taken away national autonomy. I think that is missing a large part of the picture and part of what the book is about is just demonstrating how countries can exercise control over their things. There are things that are very, very difficult to control but there are still cases and I suppose North Korea is one of the extreme examples where you can basically shut out the world and do your own thing. So it is still at the extreme possible. There are many countries that exercise discretion over all sorts of dimensions, of globalization and very few countries exercise no discretion. Even the most liberal and open economy exercised discretion on many dimensions either through rules, standards, regulations, controls and so on. Migration is the obvious one that all countries exercise huge autonomy through. It's not always effective, but that is a separate matter, but there are a lot of effective controls so I don’t think it has taken away autonomy. It's changed clearly the rules of the game. It’s globalized the game so what people do is known around the world pretty instantaneously and it's made people in that process more accountable. It is very difficult to have secrets in this world and this to me has been a huge liberating force for the world and it’s one of the reasons I am optimistic on ideas. I think ideas are churning now and are being moved around the world exchanged between a greater number of people with greater frequency, with greater interaction, in a way that has been unprecedented thanks to the internet and other dimensions. There are also worries around control and on ownership which aren't just national but if you have a situation where three companies own 900 TV stations and you don’t have much choice well that's an issue around ideas clearly. So how governments regulate this and play this to nurture the positive forces is extremely important.

Question 2
I am Rachel Tye. I work in the area of organising events for the oil and gas sector. We are organising events around sustainable development and local content and I am just interested to hear your take on the relationship between the globalization forces and the trend towards demands for local content in exploration for oil and gas. I just wondered if you had any thoughts on that?

Dr. Ian Goldin
The question is, correct me if I didn't get it right, but I think the question is the relationship between globalization and demands for local content especially in oil and gas. One fascinating, one of the reasons I have jet lag is because I came from San Francisco, which is a few time zones away, yesterday. Now San Francisco Airport is one of the most globalized places. San Francisco local authority insists that 40% of the content in those shops at San Francisco Airport is local, from the San Francisco Bay area. That's just a decision that they have taken as part of the contract on the airport. You can do that sort of thing. They are benefiting from globalization as an airport but they are setting some rules around how they want to promote their local development through that.

Professor Wade
Is that WTO legal?

Dr Ian Goldin
I think you can do things, it's not a trade issue, it's domestic right, but yes there are issues around it and it's interesting that the people who work in those stores are all foreign. The question on oil and gas, do you want to play that out a bit more in terms of the local dimensions?

Speaker (Question 2)
I'm just interested in the point if you are encouraging investment in different countries, where there is operating companies going into countries but they are required to have a certain level of local content as part of their contracts and there is a difference of culture if you like between what they're used to doing and what they are being asked to do and I'm just interested in your perspective on those two elements.

Dr Ian Goldin
I don’t know much about the oil and gas area but I do know about local content in say motor manufacturing. I have rather strange history on this in that I went into exile from South Africa and supported sanctions very strongly on South Africa and the apartheid government insisted on local content. One of the things that the ANC did when they came to power was to open up that local content to much greater extent although there are still local content requirements. I think the important thing about local content is understanding the sustainability and the relationship to the rest of the economy. If you are producing the minerals and the metals and you have the skills necessary to support that and it will keep that plant competitive, not only in terms of exports but for your domestic consumers. I think what is often lost in the trade debate is that your domestic consumers are the ones that end up paying much higher and getting a worse product offered if you really stopped traded goods coming in. It's a very important way of allowing that development. But it has to be done with careful phasing, with all sorts of very careful boundaries because insisting simply on local content of course is a recipe for autaki and that is really very negative I believe.

Professor Wade
Geoff Powell from the Bretton Woods Project has just put some pamphlets about the Bretton Woods Project over here if you want to pick one up. I think there is time for just one other quick question and then we'll wind up.

Question 3
My name is <NAME> and I'm a student in marketing and finance at post-graduate level. My question is about <??> briefly touched upon by you in your lecture and also other colleagues there and I read in the media that Mr Wolfowitz rejected a view launched to the African nations based on their history of corruption and many of the African nations are in dire need of trade or aid so is there a credit rating system in place at the World Bank which takes care of <??> and secondly there has been suggestions in the media that America has been offering free trade agreements to its partners in <??> terrorism and running it as a foreign policy so do you think there is a threat that as Mr Wolfowitz is telling the World Bank that if this <??> launched to African nations it can be done as a foreign policy as well.

Dr Ian Goldin
I think the first part of the question is whether the lending, if I understand right the lending to African countries being stopped from corruption is political and whether we have a credit rating or some other objective criteria but the second part is whether it relates to US foreign policy because Mr Wolfowitz comes out of the administration, if I am right on that.

I think on the credit rating issue, yes we do have an internal system called the CPIA, country performance indicator assessment and it's partly on the Web. It's a combination of lots of different metrics, very different from a Standard and Poor or Moody's credit rating which really only looks at the macro and institutional dimensions. There is a very rich internal debate about its accuracy, how it compares to other benchmarks, whether it should include other dimensions like human rights and so on. There is a system but that is not the system and this drives in part the overall allocation of IDA money. It is not the CPIA triggers that have led to the cutting off of loans to a number of countries. That has resulted from particular allegations or concerns regarding corruption in particular projects which is much more conjunctional issue so they are not directly related. The CPIA also tends to be a lagged indicator, like many indicators which depends on past data, a year or two or three year old data. There is often not an immediacy to the numbers.

Will Mr Wolfowitz bring the US administration into the Bank? That is a difficult question for me to comment on. Part of the global governance arrangement is that the President of the World Bank, which is owned by 184 countries is from the US. There is a deal between basically the Europeans and the US that the Europeans will have the IMF Head and the US will have the World Bank Head. Competitive processes in which the best person from any country gets the job irrespective of nationality is the standard one should apply I think to international leadership as well. Is that real politic? That's a separate question. The Europeans have to give up the IMF if they want to trade on this and that is a very high level G8 leadership question which is well above my pay grade to engage in. This is a given and part of the global governance story and is locked into the distant past and hasn't evolved with the times.

Now does that mean that the presence of a US citizen in the World Bank brings the US administration into the Bank? I think in part, clearly it is an American perspective running the Bank, that's clear. But, I would really stress that the fact that the US is only one of the 24

Board Members, that the checks and balances in the system are reasonably strong, particularly on day to day operational and policy broad issues. So it is a very, very public and contested institution and I think that is very healthy. Partly due to the work of groups like the Bretton Woods Project and others that are there looking at us and know better the institution than we know it ourselves. That's a good thing so I think it is very difficult to make generalisations and if you look at the evolution of the Bank's policies over the last 60 years it is very difficult to say that the US has run the Bank. There are exceptional cases and books have been written about this, that the Bank did this because it was US foreign policy, but there maybe 10 cases of that over a 60 year period. It's a very isolated thing. Now whether it is something because of G8 policy or consensus amongst the G8 that the Bank should do something is a broader question. It's there because the G8 has the money, it's a donor and major contributor. If you go and speak to non G8 European governments for example, they will tell you a lot about what they think on certain decisions that were taken at the G8 that they weren't part of it. It's not just the developing country versus rich country divide, it's a broader question but in the end the Bank decision making process does come down to consensus among broader groups. I think the ability, particularly nowadays for the Bank to be used very instrumentally in that way is extremely limited. I don't want to say impossible, it's extremely limited.

Professor Wade
Thank you very much. That was an interesting account and he'll be back next year to talk about migration.

[APPLAUSE]