**Summary of the Leverhulme Globalisation Lecture presented in November 2002 by Lord Peston**

## Globalisation: Threat or Opportunity?

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1. I start by giving a typical economist's answer to the question, namely that globalisation is both a threat and an opportunity. It is an opportunity because it opens up markets, provides access to ideas, and more broadly extends the range of human experience. It is a threat because it exposes existing practices to competition, this competition being not simply one of economics, but also of culture, and, indeed, of ways of life. Moreover, even for those countries that wish to open themselves more to the outside world, so to speak, the ability to cope with change, especially in the short term may be limited.
2. In discussing all this I do not offer a straightforward definition of globalisation. I content myself with noting some of its salient characteristics. One of these is the enormous increase in the speed and, perhaps more importantly, the reliability of communication. It is of interest to note, however, that the rise of electronic communication, a process which is nowhere near its end, while it has adversely affected older means, has not led to their obliteration. Conventional methods, not least face to face communication, remain important. I for one would argue that what is surprising is the extent to which "old fashioned meetings and talk and the like" still have such a large part to play. (A comment I make en passant is whether we are moving increasingly to the use of a single language for global communication. This relates to the dominance of a few forms of computer software. On the latter, I take the view that we should not be over impressed by the status quo. Somewhere out there someone is already devising the processes which will lead to the downfall of Microsoft. Similarly, while one notes the large decline in real transport costs, location still seems to loom large in a company's decision making, and for activities such as finance, concentration in certain centres remains a dominant consideration. Next I refer to the great significance of brands. While branded goods comprise only a fraction of world expenditure, their growth in economic and cultural terms is remarkable and is one of the distinctive characteristics of the world in which we live. Economic theorising which ignores both the competitive and monopolistic aspects of brands will make serious errors.
3. Having referred to location, another thing economists must recognise is the limitation of the traditional Ricardian trade model. At the least we must bear in mind that if "country X has a comparative advantage in good A", this may cause country Y's firms to locate there or buy into country X's firms, rather than simply import from X. Furthermore, the market response to competitive comparative advantage does not tell the whole story. There is also a political response based on a desire for protection from so-called unfair competition. The political response is as old as the hills. My point is that those who fail to see a downside to globalisation for poor countries,

fail to appreciate that in practice vested interests in rich countries may act to prevent them from achieving its benefits.

4. What emerges most clearly from the evidence that my committee has gathered is that globalisation ought to be interpreted as a continuing process which is far from equilibrium. I am not even sure how one would define an equilibrium in this case. Remarkable things are happening in China and India too is moving forward and has great potential to accelerate. One may also be fairly optimistic about the economic prospects of some of the Eastern European countries that may be joining the EU. But one should not exaggerate the prospects for success in all cases. There are serious grounds for worry in Russia, where it is a question whether the many forces for good will overcome those for harm. Equally, while there are again some grounds for optimism in parts of Africa, there are also strong grounds for pessimism.
5. Much of the pessimism does not derive from the purely economic side. It is connected with political instability and corruption, and lack of administrative and managerial skills. I lack the expertise to pronounce on this but there are a few useful points which an economist can make. One is that there is a two way relationship between institutional structure and economic performance. As a matter of history, it is not true that a first class set of institutions is a prerequisite of economic success. Corruption, for example, was rife in the US while it was making rapid economic progress. This was also true of some countries that participated in the so-called Asia miracle. Many countries of Western Europe were far from democracies while their economies made great improvements. This does not mean that institutional reform is irrelevant. It does mean that it is only part of what is required. Economists would also emphasise that, if administrative skills are scarce, we have to ask how best they can be employed. The same applies to law enforcement. To take a practical example, it may not be a top priority for a country to concentrate on protecting intellectual property when other aspects of law enforcement may be more productive.
6. Central to the recommendations of our report is that while there are economic realities that countries cannot ignore, how they adapt to global markets must be sensitive to their own circumstances. This is true of both the speed and scale of adaptation. There is not one model of economic success but several. In the past the global institutions did not seem to recognise this. In my judgement their approach was more ideological than scientific. They are, however, now in the process of change and the IMF, for example, is showing some signs of recognising that its role should be more of a guide and a facilitator, and not an external dictator, or a Moses bringing down the tablets of economic wisdom.
7. Finally, I come to some questions which deserve an answer, but on which we cannot pronounce with great confidence. One is whether world markets are more competitive. All the TNCs will tell you how much they are subject to competitive pressures. It is easy, however, to point to a high degree of market dominance in many cases and to the continuation of many restrictive practices. Resale price maintenance, for example, although supposedly outlawed in most countries, exists in practice to a very large degree. Indeed, almost all world brands try to control the retail distribution

of their products, including their prices. More important than that, of course, is the continuing high degree of market protection and the difficulties that are placed in the way of poor countries endeavouring to enter rich countries' markets. (The word 'hypocrisy' leaps to mind.) A second question is whether there has been a rise in financial instability. My own answer is in the negative but I think I am in a minority. Thirdly, if free trade and free movement of capital are desirable, what about free movement of labour? Here too I argue that the economic analysis that shows the net benefits of freedom in all other markets must apply to the labour market. Once again, I am afraid to say I am in a minority.