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GLOBALIZATION, SOCIAL CONFLICT AND ECONOMIC GROWTH

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The Raúl Prebisch Lectures were instituted in 1982 by Mr. Gamani Corea, the then Secretary-General of UNCTAD, to honour Dr. Raúl Prebisch, UNCTAD's founding father and first Secretary-General.

1st lecture, 1982:	Dr. Raúl Prebisch
2nd lecture, 1983:	Mrs. Indira Gandhi, Prime Minister of India, during UNCTAD VI in Belgrade
3rd lecture, 1987:	Dr. Saburo Okita, Japan, during UNCTAD VII in Geneva
4th lecture, 1989:	Academician Abel G. Aganbegyan, a principal economic adviser of the former USSR, on the occasion of the 25th anniversary of UNCTAD in Geneva
5th lecture, 1992:	Delivered jointly by Dr. Bernard T. Chidzero, Senior Minister of Finance, Economic Planning and Development of Zimbabwe; Mr. Mischel Rocard, former Prime Minister of France; And Mr. Enrique Ilesias, President of the Inter-American Development bank, during UNCTAD VIII in Cartagena de Indias
6th lecture, 1994:	Professor John H. Dunning, Professor of International Business at the State University of New Jersey, on the occasion of UNCTAD's thirthieth anniversary, in Geneva
7th lecture, 1996:	Professor Jagdish Bhagwati, Arthur Lehman Professor of economics at Columbia University, New York, during UNCTAD IX in Midrand, South Africa

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Welcoming address by Mr. Rubens Ricupero
Secretary-General of UNCTAD

It is a great pleasure for me today to introduce Professor Dani Rodrik. I have been familiar with the thought and work of Professor Rodrik without knowing him personally, for some time, having read with great admiration and great profit his last book *Has Globalization Gone Too Far?* So it is a personal pleasure for me to welcome him back to UNCTAD. As you know, for some time in the past, I think for two years, he worked here, and he still keeps strong ties with our organisation.

This morning, Professor Rodrik is here to deliver the eighth Raúl Prebisch Lecture. Raúl Prebisch was the founding father of UNCTAD, a distinguished Argentinian economist who was more influential than anyone else in terms of shaping the thinking about economic development, not only in Latin America but also elsewhere in the world. He is also someone who, like UNCTAD, suffers from the defect of very frequently being misjudged, or judged only on the basis of a partial and superficial knowledge of his work. So, in trying to pay the homage that his memory deserves, we plan to make the Prebisch Lecture a regular feature of UNCTAD's activities. As part of this plan, we intend to publish all the texts of the Prebisch lectures, starting with today's text, to ensure wide circulation.

I would like to introduce to you the members of this podium. They are the President of UNCTAD IX, Mr. Alec Erwin, Minister of Trade and Industry of South Africa, M. Georges Queloz, Vice-President of the Conseil municipal de la Ville de Genève, Mr. Carlos Fortin, Deputy Secretary-General of UNCTAD, Professor Rodrik, and our very good friend, Mr. Yves Berthelot, who was for many years the Deputy Secretary-General at UNCTAD, and is now Executive Secretary of the United Nations' regional Economic Commission for Europe. He is also representing the Director-General of the Geneva Office of the United Nations, Mr. Vladimir Petrovsky, who is presently in New York.

Professor Dani Rodrik is Professor of International Political Economy at the John F. Kennedy School of Government, Harvard University. He is also a research associate of the National Bureau of Economic Research, research fellow of the Centre for Economic Policy Research in London, advisory committee member of the Institute for International Economics in Washington, programme associate of the Overseas Development Council, and advisory committee member of the Economic Research Forum for the Arab Countries, Iran and Turkey. He was previously professor of economics and international affairs at Columbia University, New York. He is joint editor of the *Journal of Policy Reform*, and an associate editor of *Journal of Economic Perspectives, Journal of Development Economics, European Economic Review, Review of Economics and Statistics*, and *Economics and Politics*. He has been the recipient of an NBER Olin Fellowship, a Hoover Institution National Fellowship, and a World Bank McNamara Fellowship. He has consulted for several international organizations and governments. He holds a Ph.D. in economics and an MBA from Princeton University, and an A.B.(summa cum laude) from Harvard University.

Professor Rodrik's research interests cover international economics, economic development and political economy. He has published widely on issues related to trade policy and economic reform in developing and transitional economies. His papers have appeared in many important journals on economics. His 1997 book *Has Globalization Gone Too Far?* was called "one of the most important economics books of the decade" in Business Week. He is also the co-author of Eastern Europe and the Soviet Union in the World Economy and co-editor of The Economics of Middle East Peace (1993). His most recent research is concerned with the consequences of international economic integration, the role of conflict-management institutions in determining economic performance, and the political economy of policy reform. He gave the Alfred Marshall Lecture of the European Economic Association in August 1996.

Professor Rodrik was born in Istanbul, Turkey, in 1957, and is a national of Turkey. He lives in Newton, Massachusetts.

The title of his lecture this morning is *"Globalization, Social Conflict and Economic Growth".* I welcome Professor Dani Rodrik and invite him to take the floor.

GLOBALIZATION, SOCIAL CONFLICT AND ECONOMIC GROWTH

INTRODUCTION

Let me begin with a confession: until about a month ago, when I began to prepare for this lecture, I had not read any of Raul Prebisch's writings. I was, of course, familiar with many of Prebisch's ideas-his intellectual leadership at ECLA and UNCTAD, the so-called Prebisch-Singer thesis on the deterioration of the terms of trade for primary products, and his advocacy of import protection as a way of speeding up industrialization. But like most development economists of my generation, I knew Prebisch second-hand and mostly as a label associated with a particular type of development strategy.

It is no secret that this development strategy--import substituting industrialization (ISI)--has now been out of favour for a while. By the late 1970s, neoclassical economists were pretty unanimous in their condemnation of the ISI strategy. And, about a decade later, policy makers all over the developing world had converged on the same verdict. Prebisch's name has become tainted by association with an apparently failed development strategy. Today's conventional wisdom reverses the logic of Prebisch's argument: those developing countries that took Prebisch's advice and withdrew from the world economy, the new consensus goes, eventually floundered, while those that embraced trade prospered beyond expectations.

Anyone who has read Prebisch more closely-and I am now happy to include myself in this company-would object that the usual characterization of Prebisch as an advocate of protection ignores a lot of subtleties. Prebisch did not favour indiscriminate protection. He anticipated his later critics by recognizing that trade protection on its own would not lead to increased productivity in manufactures, and that it might even resuit in the opposite[1])

But my difficulty with the conventional wisdom, as I just stated it, goes beyond the details. I believe the development community has internalized the wrong lessons from the experience of countries that adopted the ISI strategy in Latin America and elsewhere. The correct interpretation, I think, goes something like this.

- First, ISI worked rather well for a period of about two decades. It brought unprecedented economic growth to scores of countries in Latin America, the Middle East, and North Africa, and even to some in sub-Saharan Africa.

- Second, when the economies of these same countries began to fail apart in the second half of the 1970s, the reasons had very little to do with ISI policies *per se* or the extent of government interventions. Countries that weathered the storm were those in which governments undertook the appropriate <u>macro</u>economic adjustments (in the areas of fiscal, monetary and exchange-rate policy) rapidly and decisively.

- Third, and more fundamentally, success in adopting these macroeconomic adjustments was linked to deeper social determinants. It was the ability to manage the domestic social conflicts triggered by the turbulance of the world economy during the 1970s that made the difference between continued growth and economic collapse. Countries with deeper social divisions and weaker institutions of conflict management experienced greater economic deterioration in response to the external shocks of the 1970s.

[1] He wrote***: "But protection by itself does not increase productivity. On the contrary, if excessive, it tends to weaken the incentive to produce"*** (Prebisch 1959, 259).

Each of these points has considerable empirical support, as we shall see. Taken together, they provide an interpretation of recent economic history that is at odds with much current thinking. By emphasizing the importance of social conflicts and institutions-at the expense of trade strategy and industrial policies-they also suggest quite a different perspective on development policy.

One of the implications is worth mentioning at the outset. If I am right, the main difference between Latin America, say, and East Asia was not that the former remained closed and isolated while the latter integrated itself with the world economy. The main difference was that the former did a much worse job of dealing with the turbulence emanating from the world economy. It is not openness '***per se'*** that matters; it is how well you handle it.

Some numbers

We have reliable and comparable data on per capita GDP for most developing countries only since 1960. So I take the period 1960-1975 as the golden era of post-war growth. As Table 1 shows, more than 50 countries experienced growth of 3 per cent or more in GDP per capita during this period. The list includes the East Asian tigers, of course, but also ten countries in Central or South America (Barbados, Brazil, Panama, Ecuador, Dominican Republic, Mexico, Jamaica, Bolivia, Nicaragua, Costa Rica), seven in the Middle East and North Africa (Syria, Israel, Iran, Morocco, Tunisia, Turkey, Egypt), and even nine in sub-Saharan Africa (Gabon, Botswana, Lesotho, Swaziland, Nigeria, Togo, South Africa, United Republic of Tanzania, Côte d'Ivoire). The fastest growing country prior to 1975 is not Singapore or Republic of Korea, but Gabon! Botswana's growth rate in 1960-75 exceeds that of Hong Kong and Taiwan, Province of China.

Table 1: Per capita GDP Growth

Country/ Territory	1960-1975	1975-1989	Country/ Territory	1960-1975	1975-1989
Gabon	7.87%	-3.40%	Ireland	4.02%	2.70%
Singapore	7.40%	5.10%	Finland	3.99%	2.73%
Japan	7.05%	3.53%	**Thailand**	3.94%	4.72%
Rep. of Korea	6.47%	7.00%	Italy	3.89%	2.80%
Botswana	6.16%	6.17%	Turkey	3.85%	1.23%
Greece	6.15%	1.73%	Iceland	3.80%	2.54%
Hong Kong	6.12%	6.61%	Belgium	3.78%	2.08%
Lesotho	6.00%	2.15%	Norway	3.76%	2.77%
Taiwan, Prov. of China	5.86%	6.57%	France	3.73%	1.90%
Portugal	5.68%	2.59%	Austria	3.71 %	2.29%
Spain	5.66%	1.64%	Domncan Rep.	3.56%	1.14%
Spian Arab Rep.	5.61 %	0.30%	Canada	3.52%	2.57%
Malta	5.46%	5.39%	Togo	3.49%	0.22%
Yugoslavia	5.42%	1.04%	Netherlands	3.48%	1.35%
Israel	4.98%	1.25%	South Africa	3.39%	-0.39%
Swaziland	4.76%	-0.86%	Mexico	3.37%	0.76%
Barbados	4.60%	2.57%	Tanzania	3.37%	n.a.
Iran, Islamic Rep .	4.59%	-3.60%	Côte d'Ivoire	3.30%	-1.56%
Brazil	4.57%	1.27%	Jamaica	3.23%	-1.35%
Morocco	4.27%	2.20%	Bolivia	3.19%	, -0.77%