

**OSCE CONFERENCE ON GLOBALIZATION**

ENGLISH only

Vienna, 3 – 4 July 2003

**Working Session 1**  
**Keynote address by**  
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Thank you, Chairman, thank you very much. I should like to extend the appreciation of ICC - not the International Cricket Council and not the International Criminal Court but the International Chamber of Commerce, one of the oldest business institutions around - to all of you for inviting us to be here.

We are in 130 countries, so we do have a fairly broad view, and I think practically everyone here has a member in the ICC, with the possible exception - excuse me, Monsignor, for pointing you out - of the Holy See. We are unfortunately not there, but in practically every other country of the world we are present.

I would like to mention today some of the challenges that are raised by our global economy and challenges that I see to the globalized world. I have been asked to be a little provocative, so I will be. First of all, I would like to say that I am indebted to many thinkers on these issues, people that I often talk to in an attempt to find common approaches, like Bob Hormats of Goldman Sachs, Martin Wolf of the Financial Times and Jean-Pierre Lehmann of the Evian Group, for instance. I very much recommend their thinking and work to your consideration.

So what challenges do we see? Just before I get onto the challenges, I should like to dispel one or two myths that are around. The first myth is the assertion of many protesters that "globalization has dramatically increased inequality between and within nations." I think this is totally erroneous. Again and again, some of the world's most credible sources and most serious economic work and studies, such as those from the World Bank, show a completely different reality.

Over the past two decades, in fact, the number of people in absolute poverty has fallen, not risen. Global inequality, for instance among households, has probably fallen also, as has inequality among countries, when they are weighted by population. Inequality has, unfortunately, risen inside some countries. Above all, economic integration, when it has been successful, has been the prime reason for the reduction of poverty and global inequality - it has *not* increased it.

The tragedy here, in my opinion, is that there is far too little successful integration, not too much. Perhaps not one of the least important features in the last two decades has been that a large number of the very biggest developing countries, in terms of population, have started to participate very positively and successfully in the global industrial economy. There have been big achievements in manufactures because, having accounted, for instance, for less than a quarter of developing country exports two decades ago, manufactures now account for about 80 per cent. This is quite a dramatic increase. These same countries have increased their participation in the world economy, doubling such participation in terms of ratio of trade

to income. But unfortunately there is also some less good news, and perhaps the really bad news is that there are still two billion people living in countries that are participating neither in globalization nor in development. Growth in these countries was in fact negative in the 1990s. Tragically, they are being progressively marginalized within the world economy.

So I would like to tell you that, from my point of view at least, the proposition that the globalization of the past two decades has caused increased poverty and increased global inequality is false.

In fact, we have seen accelerating economic growth in a group of successfully globalizing countries - and those, as I said, with the largest aggregate populations. Now what about the rest?

A large number of countries that compose about one-third of the world's population have not exploited these opportunities. We must not forget this, and I think that we have to look very carefully at the situation and consider the reasons for it and how we can overcome it. May I mention here that some of them suffer from problems that are intractable. These include poor climate and disadvantageous geography, among others. Some of them are problems that they can overcome, like poor education, rampant disease, the collapse of corrupt and what Martin Wolf has called predatory States and a failure to diversify, unfortunately, beyond the primary commodities that already face a rather stagnant world market.

But the myths about globalization as such, in my opinion, must be dispelled now. All successful developing countries have exploited international opportunities in their development. What is needed now is an agreement on how we can start to reverse the marginalization of the rest.

Now, let me get onto some of the challenges, which means the management of this process. For those wishing to integrate more into the world economy, wishing to enhance their competitiveness and their competitive position in the world, wishing to be a part of an integrated global economy but trying at the same time to avoid some of the threats that this presents to their economies, here are some of the challenges.

**The first challenge** is: how to adapt to institutional differences among countries, ensuring that the processes of globalization will improve domestic institutions, particularly. Those are the ones that I know a little about - the institutions of economic governance. When one makes an effort to press countries to open their economies or to reduce barriers to trade, to investment and to capital flows, one must recognize that many countries have not been ready to adjust rapidly to these changes. The processes, for many of them, have been difficult. I think that one of the growing sources of tension is the perception by some of the developing countries that Western nations are attempting to force economic changes on them at a pace that is more rapid than they are ready to accept, perhaps because there is insufficient political or social support. I always say that the difficulty in all of our economies is getting the balance right between freedom and rules. There is no market economy without strong rules. And any modern State has to strike a balance between some economic turmoil and some economic stability. There is no formula for this, and the tragedy is getting it wrong. Because getting it wrong today is punished very quickly. Each society is going to have to find that right balance - a formula for balancing the role of the government and the role of the marketplace. Probably the speed of technological change and technological advance has been

even more disruptive - has added more competition and had an even greater impact - than the purely economic flows. I think that it is also true that a market economy can only survive - and I think others will bring this up and have indeed brought it up - if political, economic and social institutions are in place, or are being put into place, and we all know that this is not done overnight. I shall give an example: we all preach liberalization and privatization, but the replacement of a public monopoly by a private monopoly does not necessarily create a vibrant market economy. And introducing the necessary competition regimes and ideas of competition is very difficult, so difficult that today we even see continual differences between the most sophisticated economies, such as the European Union and the United States, just on this one issue of what makes effective competition regimes. So in the first instance, getting those basics in place, I say, is one of the greatest challenges that is faced by countries wishing to be a part of the international economy.

**The second great challenge** is getting the key criteria for economic success in place. And I think that this is perhaps the second biggest problem for many countries moving in this area.

A first element is credible market regulation, which I have mentioned. The second element is a sound financial system - and I leave it to my co-speaker, perhaps, to bring up some of those issues - and the third is something very important, namely a social safety net. Countries and societies are far less willing to open up to imports and to open up to the rest of the world in the context of a rapid - sometimes rather frenzied - pace of economic change if there is no social safety net. This can be a great drawback.

One other criterion for success is a fair and effective judicial system. We all speak of the "rule of law", but I think it goes well beyond the mantra "rule of law". It concerns training and the preparation of a judicial system. We at ICC run the International Court of Arbitration and the Institute of World Business Law. I have every year about 100 young jurists, and also magistrates, who come and spend time with us throughout the year to try and get a better understanding of commercial law and of the application of such matters as arbitration. I can assure you that while a fair and effective judiciary is a great asset, it is also a major difficulty requiring continuous training - to understand where commercial law is going. This is not an easy thing, but I can frankly understand the frustration when we say "rule of law" and just leave it there. There's much more to it - it's a much deeper, much more complex problem. We would be very pleased for ICC to be helpful in any way we can.

The next basic criterion is one which everyone calls transparency. It really means openness and discussion. It means disclosure, and an important part of that is the freedom of communication, of speech and of thought - and the corollary of that is that legislation, rules and regulations should not be a secret. In far too many countries today, they are still a secret as far as their application is concerned. Information is considered power, but it is not a power today if it is secret. Knowledge is only a power when it is shared. And that is something that we have to understand when we talk about openness and disclosure. These are not words coming out of empty air; they are not some kind of mantra that somebody has thought up. It is that people in business cannot manage successfully to create jobs, to create wealth for their countries, unless they know the rules of the game, unless these have been discussed in advance and are openly disclosed, in a proper manner.

Now the **third challenge** I want to talk about is that of education and training. I think that a credible test everywhere is whether more people in each country, particularly those in

lower income groups, are going to be equipped with those skills that are necessary to contribute to the country's prosperity. I say this because many of our educational systems are bringing out great scholars and great intellectuals, but many of these people are ill-equipped and ill-prepared, unfortunately, to handle the challenges of globalization.

**My fourth point** is: I think we need to see technology as a source of growth - as a source of assistance, of cohesion - and we should not let it become a source of division. Now many, many developing countries are worried that new technologies, or even "older" technologies like information technologies or the Internet, are going to favour the wealthiest people - the richest nations - and to push the poor into an even worse state. This has been contradicted again and again. It does not have to happen. It does not happen where there is a willingness to embrace technologies as a cornerstone of economic integration and development. In fact, the history of the diffusion of technology has shown exactly the opposite. One observer has pointed out that "the future is already here but it is unevenly distributed". It is in our power, in each country, to make sure that it is not unevenly distributed. I maintain that the distribution of technology is an increasingly important challenge, but it is not preordained that the distribution of technology will not happen or that it will be negative for poor people. Bob Hormats points out that when many countries are faced with the introduction of new technologies, they tend to be used by a relatively small number of people. So they disrupt old practices, sometimes even in the workplace; they can be very disruptive because they cause jobs in old areas to disappear or be eliminated, they force major shifts in business models and they require new jobs to be created which need new skills, and many people are not yet prepared for that. So I understand the concern that relatively few skilled people can use these technologies at the start, but if you have ever seen a ten-year-old with a computer you know that it does not take long to overcome that skills gap if we put our minds to it. Those who do can command a greater salary immediately. I give as an example some countries like Estonia and Ireland, for instance, that have put their money into education in these skills and have reaped the benefits. But we are not only talking about technology. Technology means new business models, policies that will let an entrepreneur live and thrive. You will need to have regulations that are minimal and clear, talked about, clearly defined, not overlapping. Regulations that are messy endanger everyone and, in my opinion, are perhaps the leading cause of corruption. We need to make sure that intellectual property rights are protected, that capital markets know how to support new ventures and that education manages to make sure that people have the power and the skills that they need.

Now I would like to go on to the **fifth of my challenges**. The greatest challenge is to make globalization work for a larger and larger number of people. The state of development of many countries renders their economies weak and uncompetitive, and less able to deal with complex problems. The more insular the economy is, the less exposed it is to global change and to information and knowledge on how to handle complex issues. The environmental policies and the environmental realities of countries that are the most insular and the most isolated are the worst, not the other way around. Regarding labour practice, exactly the same is true, and also regarding human rights abuses. They affect the most marginalized, isolated and insular. Environmental degradation, bad labour practices and human rights abuses are the results of insularity - that is their primary cause. The problem of promoting globalization, or trade or investment or information flows or technology flows, with respect to countries that do not have sound domestic institutions and economic governance is one that we will discuss in the next session; it is in those countries that globalization is seen as a threat. Whenever I hear business people from a country that has

poor domestic institutions and poor economic governance, they are the ones that are worried about globalization. They see it as a threat. Sound globalization and sound domestic institutions have to go together.

My **sixth challenge** is the fact that some global policy processes are being paralysed and unfortunately this is leading to a festering of global problems. What are these problems? The first you have mentioned already: poverty. That is still a gigantic problem. Cross-border conflicts, internal warfare, insecurity, crime, terrorism, drugs, disease, inequality in things like education, digital training, health and life expectancy; new non-tariff barriers, new customs regulations, messy processes, discrimination versus developing countries, market access, agriculture, textiles, garments, services, labour and so on - the challenge is to “de-paralyse” these international processes.

And that brings me to my last point, my **seventh point** which I want to conclude with - an immediate and most troubling challenge that we have in the coming months - and that concerns the global multilateral trade negotiations.

As my friend Professor Lehmann has said, “the Doha development round has rapidly generated into mercantilist brinkmanship”, and I hope that, despite the way things currently stand, with lots of deadlines having been missed, the prospect for the Cancun Ministerial Conference is that it will achieve something positive and concrete and that it will not be a sad example again of what Lehmann calls “the indecision-making process”. I appeal to governments, and it is in the hands of governments to do something. There are many reasons and I am afraid that one of the primary ones is that nobody cares very much. And the answer to the question “should we in fact care?” is *yes*, and we should care very, very much, because trade has been shown to be the indispensable means for poverty reduction and growth and because there seems to be a quite close correlation between a country engaging in trade and ultimately embracing democracy.

Let me finish, Ladies and Gentlemen, with one appeal, and that is: concentrated collective thinking is needed here; there is an enormous need for a broad alliance bringing in academics, civil society, business, media and of course governments to undertake collective action on behalf of the world’s citizens. Such collective action has to be aimed at reducing ignorance and increasing knowledge. Efforts must be directed at showing how building a stronger global market, with stronger foundations, with greater openness and tolerance, will ultimately bring the greatest benefit to the greatest number.