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Globalization and Its Impact on Economic Development

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Globalization is one of the buzzwords, continuously used and often abused; most often without making an intellectual effort to define this notion. When I am asked whether I am for or against globalization, I always try to find out what the inquirer means. It is difficult to answer this question, because no universal definition of globalization exists. Authors define this notion in various ways. A historian, an anthropologist, a sociologist or an economist, each defines globalization differently.

I perceive globalization mainly in economic terms, which I consider as basic, although I am aware of its civilizational, anthropological or political ramifications.

Dispute about Definition

For some, globalization means the 'McDonaldization' of culture: we all dress almost identically; we eat almost the same things – hamburgers or Chinese food; we listen to similar music; we read the same books; we watch the same movies, sometimes better, sometimes worse. It is possible to look on globalization as a complicated **mechanism of co-dependence**. It has not only an economic dimension, but also a political one, contributing to the advancement of some states and their elites in modern world, while pushing aside and marginalizing others.

From an economic point of view, I suggest to **define globalization as the historical process of first liberalization and then progressive integration of the formerly somewhat isolated markets of capital, commodities and (with some delay and on a limited scale) labor into a single world market**.[3] There are three keywords here:

- it is a **historic**, and hence long-lasting, process;
- initially, it manifests itself through **liberalization**;
- and then, through **integration**.

Thus a new quality arises, as the scope of economic activity has been incredibly widened, due to the modern phase of the scientific and technological revolution. This is not a result of what some philosophers dreamt about – space exploration – nor a result of the discovering of the Americas, because they have long been discovered, but a consequence of

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[2] This paper is based upon Distinguished Lecture presented to the Asian Education Forum, Beijing, October 14th, 2005.

[3] Grzegorz W. Kolodko, *Globalization and Catching-up in Transition Economies*, Rochester University Press, Rochester, New York, 2001.

the creation of a virtual area. The computer revolution, the dissemination of the Internet causes the emergence of a virtual area into which a great part of economic activity has moved, mostly related with information flow, but also with capital flow, financial operations and banking, education and entertainment, which is a multibillion dollar business, and many other areas. It is not possible to send material goods through the Internet, but it is possible to disseminate in this way methods, know-how about ways to produce things, sell them or bring them to the market. Everything that happens in the virtual area happens globally.

Given such a definition of globalization, it is possible to ask: is this process advantageous or harmful? And for whom? Are we to like it or not, be afraid of it or happy about it, support it or fight with it? **There is not and will never be any clear-cut answer** to these questions. It depends on our position in this global game and on how we manage to cope with the risks and costs inherent in this game, but also on how we can maximize the benefits it brings and take advantage the new, additional opportunities.

It is not possible to have access to the potential benefits from this game without being open to its potential costs. If we want to have access to other parts of the world economy, to the flowing capital which we would like to be invested at our place and to the technologies which can be transferred, we need also to be open to international competition, to the risk of confrontation with companies from other corners of the world, to the penetration of speculation capital, whose only motive is profit maximization exploiting some structural weakness – institutional or political – occurring in a place where it is invested. **It is not possible to globalize the world, because it *is* global in essence**. Therefore, we should not speak or write about 'globalization of the world economy', but simply – 'globalization of the economy'.

Because of the complexity of this process, it is necessary to approach the dilemmas of globalization in a methodologically correct and rational way, assessing this dynamic and complicated process in its entirety. It is necessary to know what is related with globalization and what is not: there are many phenomena and processes around us which do not result from globalization, but simply from the fact that we live and act in the present epoch. Therefore, there is often no cause-and-effect connection. If somebody has lost his job, he might (and sometimes does) say: 'It's all because of globalization'. But, is it? To demonstrate this, it is necessary to prove the existence of a specific cause-and-effect link. For example, in the context of the free flow of labor, a repairman has come over from another part of the world, pushing out a local one from his job.

Arguments of this type were often heard, for example, in France during the campaign preceding the referendum on the European Constitution, referring to the 'Polish plumber' depriving his French colleague of his job. These arguments are reused in Poland, where bricklayers from Ukraine allegedly squeeze out Polish building workers from the labor market. In these cases we could say that it is a result of globalization, because these movements are a result of one of its mechanisms – the free flow of labor on a worldwide scale.

A similar case involves, instead of competitive labor arriving at our place, the relocation of work from our part of the world to another region of the world economy. It often happens because of the disparity of costs, especially wages, among various countries. In this sense, for instance, the British or the Americans are right to claim that workers from India, China, Brazil or Central-Eastern Europe (including Poland) take over some production processes or provide specific types of services. It is interesting to note that this concerns not only the old, traditional industries, like the textiles, but also the most modern services related to the functioning of the so-called new economy – the information and telecommunication technologies.

But if somebody was fired, because he would not or could not perform his duties, did not improve his skills or just was a loafer, then it had nothing to do with globalization. Nor does it have much to do with it, when somebody loses his job as a result of the operation of the implacable mechanics of the capitalistic market economy: its inherent and inalienable structural feature – the occurrence of a surplus of workforce, that is, unemployment.

Therefore, we should not hold the new system which emerges as a result of the globalization processes responsible for all the accumulating difficulties. In fact, for some individuals, social or labor groups, trades or sectors, countries or regions, globalization opens up more opportunities, while to others it brings more dangers. Certainly, in the present phase of global competition, rich countries which have reached a high level of development, both large economies like the USA or France, and small but highly developed and open economies like Finland and Norway, are better positioned than such countries as Chad, Moldavia, Paraguay or Mongolia. Many factors contribute to it, including not only the level of development, which is a function of various historic processes, but also geographic location. The latter can facilitate taking advantage of the benefits of globalization, but it can also interfere with this process, as it does in the case of the second of the above-mentioned groups of countries.

Globalization and the Polish Case

What is Poland's situation? Actually, it is quite favorable, mainly in view of our geopolitical position. Over a thousand years, our geopolitics were rather unfortunate: when we were not invaded from the east, then we were from the west, or when we were left alone on both flanks, the Swedes would flood our country from the north. Nowadays we have an excellent geopolitical position, which we can and should use wisely in the global game. We occupy a central position in Europe, between the widening European Union, of which we are already a member, and the Commonwealth of Independent States, which is embracing the mechanisms of the market and a post-Soviet democracy. This offers us some opportunities, which are not given, for instance, to the post-Soviet countries of Central Asia, like Kyrgyzstan or Turkmenistan. Our favorable geographic location translates into better chances in global competition.

But if this chance is not used properly – which may unfortunately be indicated by our eastern policy, especially towards Russia – this will only be attributable to the deficiencies of this policy and the lack of judgment. No matter what progress we make in the globalization process in general and the integration within the framework of the European Union in particular, geographic location will never cease to be of importance. As soon as it is possible to develop favorable economic (trade, financial) relations with our neighbors, we should do it. Even if Russia's Gross Domestic Product (according to purchasing power parity) of about 1.4 trillion dollar is only about three times bigger than Poland's and accounts for merely about 2.7% of world production, the potential of this country is huge. We should take advantage of this chance for further expansion of the Polish economy and entrepreneurship under the circumstances of globalization – that is, liberalization, opening and integration. Unfortunately, Poland's wrong foreign policy makes that difficult, so we are wasting time and losing the potential possibilities of penetrating this important (not only for us) part of the world economy. We should harbor no illusions that others will fail to make skillful use of this opportunity.

Therefore, **it is possible to interpret globalization also as an economic game, in which there appear additional opportunities and additional dangers**. It follows that we are opening up ever more widely to business, financial, investment, cooperative, political and cultural relations with foreign countries – or, better still, 'with other parts of the more and more integrated world economy', part of which we have become. Taking advantage of this situation, we remove successive psychological and political obstacles, but first of all, we eliminate the tariff and non-tariff barriers to trade and capital flow. We make direct capital investments in new economic capacity, implement new technologies and management and marketing abilities, and attract portfolio capital, invested in short-term money markets and long-term financial and capital markets. Foreign capital, that is, savings made in other parts of the world economy, invested in our government securities or on capital or commodity exchanges, influences the prices of goods and services (and hence also, indirectly, supply and demand), wages and currency exchange rates. All of that has **ongoing, direct and indirect consequences for the functioning of the economy and society, whose complexity sometimes eludes many participants in the economic life and actors in public discourses**.

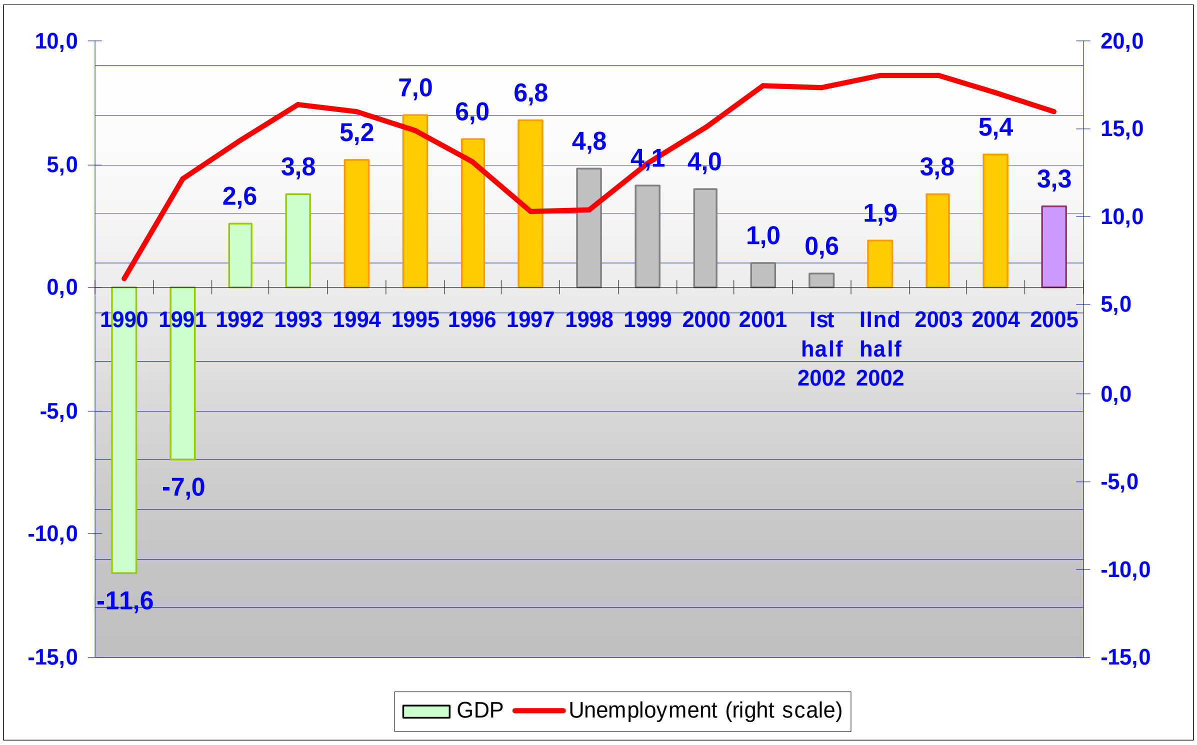
With regard to exchange rates – the peculiar point of contact between our national economy and the world – the question remains as valid as ever: what is a result of what? A strong Polish zloty – in a still relatively weak economy, which produces merely 0.84% of the world production – is a consequence of foreign capital supply, which by increasing the demand for the Polish currency, is also raising its price, that is, the exchange rate. These capital flows into Poland are, to a large degree, speculative in nature. They are encouraged by the National Bank of Poland (NBP) with interest rates which are inflated beyond an economically justified level and higher – that is, more profitable for the short-term speculation capital – than in other parts of the world. This is destructive for a substantial part of the Polish economy, first of all for expansion-minded export enterprises, because the **revalued rate of the Polish zloty causes export to be unprofitable**. By the same token, import becomes cheap and the flood of foreign goods sweeps out many native producers and distributors (from shipyards, to food processing factories, to tailors and shoemakers) from the domestic market. In consequence, enterprises obtain smaller and smaller earnings from sales in other parts of the world economy; the falling earnings mean that the state also loses, as do the beneficiaries of the budget, because of smaller tax revenues. Subcontractors are losing, too, because the demand for the goods and services they deliver is falling. There follows a chain reaction which further affects the general economic situation, which we saw clearly (for other reasons as well) in 1998–2001, after the departure from the 'Strategy for Poland', and then again in the middle of 2004.[4]

From Shock to Therapy

The phenomena in question are illustrated by the changes in the rate of growth (or, indeed, a recession as a result of the 'shock without therapy' at the beginning of the 1990s[5]) over several years (Chart 1), or, with reference to the past few years, by a drastic drop in the rate of growth, almost to a stagnation at the turn of the 2001, followed by an acceleration connected with Poland's 'Public Finance Recovery Program' and, unfortunately, another loss of dynamics since mid-2004 (Chart 2).

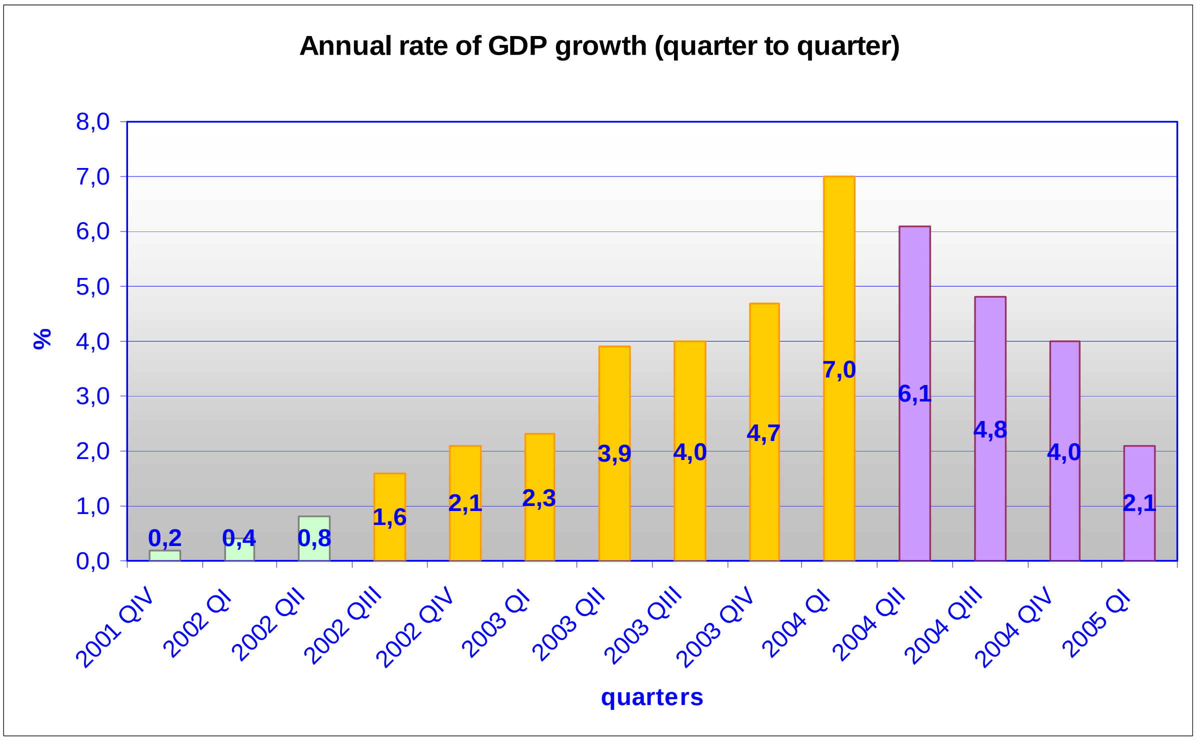
[4] For more information on the conditions and ramifications of long-term economic growth, see Grzegorz W. Kołodko (ed.), *The Polish Miracle. Lessons for Emerging Markets*, Ashgate, Aldershot, England – Burlington, VT, USA 2005.
[5] On the political conomy of postsocialist transformtion see Grzegorz W. Kolodko, *From Shock to Therapy. The Political Economy of postsocialist transformation*, Oxford University Press, Oxford – New York, 2000.

Chart 1: From shock to therapy.
Unemployment rate and the rate of GDP growth in Poland in 1990–2005



Source: Central Statistical Office (GUS). Data for 2005 – author's estimate

Chart 2: Rate of growth fluctuations in Poland in 2001-2005



Source: Central Statistical Office (GUS).

What is very important – and, unfortunately, socially painful – is the fact that the people are affected by the insufficient number of jobs and, consequently, persistently high unemployment. Despite the fundamental acceleration of growth among 60,000 small and medium-size enterprises (almost all of them private) in 2002–3, owing to the debt-relief anti-crisis package and the launching of the Public Finance Recovery Program,[6] which caused economic growth rate to jump from 0.2% in the fourth quarter of 2001 up to 7.0% in the first quarter of 2004, the economic dynamics plunged afterwards again. Bringing down GDP dynamics to merely 2.1% in the first quarter of 2005 was – apart from the inefficient government politics – caused by the revalued exchange rate of the zloty.

Does it all relate to globalization? It does, in that we, as a country, have an influence on the exchange rate of our national currency to other currencies. The government cannot influence this rate, but the central bank can, which results from its constitutionally guaranteed independence of the government. The influence of the monetary authorities on exchange rates depends on the actual currency system and on politics. Therefore, **if exchange rates evolve adversely from the point of view of Polish enterprises and the entire economy, it is not globalization that is to blame for it, but the errors of our own policy, especially the monetary policy of the central bank.** Other countries manage – in one way or another – to deal with this problem, as is the case, for example, with the large economies of China or India, as well as smaller ones, like Chile or Malaysia.

As a country, we do not have any influence on the exchange rate of the dollar to the euro, although its level – closely connected with the functioning of the global economy – is of great importance to the entire Polish economy. By a fluke of fortune – which is like good weather for a farmer – we have been successful lately because of the appreciation of the euro to the dollar, being highly profitable for Poland in view of the geographic and currency structure of our exports, an increasing part of which is invoiced and booked in euros. In other words, the growing importance of exchange rates for our economy, which is becoming open and integrating with global economy, is an unavoidable consequence of globalization, and the profitability of zloty's rate to other currencies is an effect of a better or worse financial policy: the budget policy of the government and, especially, the monetary policy of the central bank.

Anyone who checks the current exchange rate of the zloty can draw his own conclusions about it. For **the same rate means different things for different economic actors**, depending on whether one is an exporter or importer, producer or customer, a person who is about to leave the country or has just arrived. So what we describe as a great chance for one group of people may be an extra risk for some other group, for which it is likely to increase costs. The volatility of exchange rates, freedom and ease of traveling, open borders – all this has its consequences. For instance, if someone bought a foreign tour a week ago, he might have paid for it less than he would have paid today, because at the time of writing (mid-March 2005) the exchange rate of the zloty was 3.7 to the dollar and 4.12 to the euro. At the time someone reads these words, the exchange rates will be different again. So a person about to travel abroad can derive maximum profits from this opportunity when he/she pays before the rates go down; on the other hand, an exporter in this situation risks some extra costs which he may or may not be able to handle. In many cases exporters are unable to face this risk and have to close down their business or go bankrupt, further increasing the level of poverty and unemployment. In this context we can ask again: is globalization responsible for that?

It is, but not entirely, because – as we already know – we have no influence on the rate of the dollar to the euro, but we do have – or, rather, could have – an influence on the zloty's exchange rate to other currencies.

[6] For more extensive discussion, see: Grzegorz W. Kołodko, *O Naprawie Naszych Finansów* [*On the Reform of Public Finance*], Towarzystwo Naukowe Organizacji i Kierowania, Toruń 2004.

But at this moment the question arises: who is ‘we’? ‘We, Poland’ do have such influence, but ‘we, the government’ do not and neither do ‘we, producers’. There exist some ways of shaping exchange rates and basically all of them are in the hands of the central bank, which is independent of the government. This is not to say that the central bank is immune to all kinds of influence, because it may be susceptible to lobbying from some groups of businesses, to certain types of views or to pressure from other global economic entities, not necessarily domestic ones, which foster their interests and follow their own goals. It is always good to look at the complex mechanism of income redistribution – this time worldwide – and reflect on who is likely to gain and who to lose when the rates of interest and the interconnected exchange rates evolve as they do.

Apologists and Critics

There are many ideologists of globalization, uncritical supporters of it and, obviously, it also has many opponents and disparagers. Books recently in print not only extol globalization[7] but also condemn it[8] and are critical of free market and uncontrolled capital flows which result in greater inequalities in contemporary world and a growing margin of social exclusion. Like in any debate, what some people praise, others criticize. When there is a need to have more qualified nurses from Poland or other Slavic countries in rich EU countries or programmers from India or China in the USA, this kind of human flow is welcome by rich countries. When there is a need to have more unskilled workers from Haiti or Guatemala to work on the fields of Florida or California, this kind of human flow is seasonally accepted as well. But when a person wants to immigrate to a country just because living standards are higher there, double standards very quickly come into play. ‘We’ want to travel to rich countries, but do not like to have ‘them’ coming to our country from poor ones. We are expecting the EU to abolish any limits concerning the transfer of Polish workforce but when it comes to a situation when a person from, say, Ukraine or Kazakhstan, wants to immigrate to our country, we willingly apply many restrictions. And problems of this kind – opportunities and threats, depending on the point of view taken – are widespread when it comes to opening, liberalization and integration, that is globalization.

Where do the great supporters and mad opponents come from? From places where one can look at globalization in a different way, seeing it as nothing else than a great triumph of worldwide capitalism. **Globalization is worldwide capitalism.**

Globalization is capitalism. Its not socialism or communism, it is not a planned economy and neither is it a social market economy. It is quite a brutal, liberal, avaricious, aggressive capitalism, this time of a worldwide scope. It appears now in national or regional contexts, such as EU or NAFTA[9], MERCOSUR[10] or ASEAN,[11] and now on the global arena.

Obviously, it is not always like that, because if globalization is a process, it is logical that it evolves and develops, expands and ripens. From a strictly economic point of view, does

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[7] See, *inter alia*, Martin Wolf, *Why Globalization Works*, Yale University Press, New Haven and London 2004; Jagdish Bhagwati, *In Defense of Globalizaton*, Oxford University Press, New York 2004; Johan Norberg, *In Defense of Global Capitalism*, CATO Institute, Washington, D.C. 2003; Grzegorz W. Kolodko (ed.), *Emerging Market Economies. Globalization and Development*, Ashgate, Aldershot, England-Burlington, VT, USA 2005.

[8] See, *inter alia*, Joseph E. Stiglitz, *Globalization and Its Discontents*, W.W. Norton & Company, New York – London 2002; Grzegorz W. Kolodko (ed.), *Globalization and Social Stress*, Nova Science Publishers, New York 2005.

[9] The North American Free Trade Agreement is a loosely integrated group comprising USA, Canada and Mexico.

[10] Integration group comprising Argentina, Brazil, Paraguay and Uruguay.

[11] ASEAN its a acronym of the Association of Southeast Asian Nations, comprising: Brunei, Burma, Philippines, Indonesia, Cambodia, Laos, Malaysia, Thailand, Vietnam and Singapore.

it mean that we already deal with one integrated worldwide economy? This would imply that *de facto* we have one market in the world, with one curve of supply and one curve of demand, crossing at the point of world-economy balance, in which way one worldwide price is set and the market is cleared. However this is not the case. If we take an example of the coffee thermos: in real world, there are many local and regional markets for this product, and hence also many curves of supply and demand, and many balance prices that can clear these markets.

In an ideal – unfortunately unreal – 'world economy', there should be one market-clearing price and thus all coffee thermos flasks should cost the same, because the perfect market's mechanism would ensure that. Do such integrated markets at all exist? Indeed, there are some, but very few, because in general we still have to do with normal local markets where local customers declare their own demand, which determines the price of locally-sold goods or locally-provided services. Among the few existing worldwide markets are those of petroleum, which (simplifying things a bit) has one price (when it has the same quality, excluding transportation costs) all over the world,[12] as well as some very specific high-technology goods, such as aircraft – there is one market for Boeings and Airbuses.

Globalization does not imply that everything has the same prices everywhere or that everything can be produced and sold everywhere – it only concerns the operation of some mechanisms of production and distribution. If it can be shown, by way of an example, that thermoses are more expensive in Warsaw than in Shanghai, than for sure for some time they will be produced in the latter city and sold in the former. Free market, information flow and convertible currencies allow us to do that. However, in the long run this procedure will affect the costs and prices of the goods, as well as the profit and income relations, resulting also in financial flows side by side with the flows of goods. And these are very often accompanied by the flows of people with their abilities, cultures and – always – technologies. Instead of sending over the goods (thermoses, cars or even aircraft), the whole factory is being removed, which means that a new one (producing thermoses, cars, aircraft) is built. Thus not all BMWs on the American roads have been produced in Germany (Bavaria), despite the fact that they carry the name Bayerische Motoren Werke, as the manufacturers has built factories in America. Nowadays almost no Toyotas arrive in America by crossing the ocean like 25 years ago, because, instead of transporting the cars, the capital, technology, know-how and marketing have been transferred to the USA.

People who are caught it these processes and in the global labor division – the owners of capital, producers, distributors and consumers – are maximizing their objective functions; capital returns grow, and so does the satisfaction of customers. Thus everyone concerned can be satisfied with the effects of globalization. But when someone else, facing the same opportunity, is losing capital, unable to deal with worldwide competition or establish his products or services in a market – he has a real reason to complain.

Therefore, people who praise globalization, but do not penetrate the complexity of this process – which in itself is neither good, nor bad, depending as it does on many different factors, and it is hardly possible to decide once and for all which is the most important (without becoming entangled in contradictory social interests) – tend, in general, to be apologists or ideologues. In Polish economics and politics, we do not lack people of this kind, who think that capitalism is the best and the most efficient system of all and if any deviations or pathologies do occur, they do not result from its very nature, but from inept policies

[12] Certainly, this is a simplification too, because for various reasons, most often of political nature, petroleum can be cheaper for some buyers than on the so called free global market. Thus some Arab states buy petroleum from other Arab states below the 'world price'; Venezuela sells petroleum considerably cheaper to Cuba than to the USA; likewise, Russia supplies it for lower prices to Belarus than to Poland.

(especially those leaning to the left or emphasizing social issues), external shocks or incompetent leadership.

As Churchill once noticed, democracy has disadvantages and is nasty because it is not easy to govern, but no one has invented a better system, so now we can say the same about capitalism: it is a system with many disadvantages but no one has invented anything better so far. It is not by accident that expressions of this kind very often come from philosophers, economists, politics and businessmen from countries which use the opportunities of global capitalism to the best advantage. Obviously, the greatest winners are the economically and politically strongest countries, whose capital resources and quality of human capital give them a huge competitive advantage in the global structure. The force of the market economy institutions further enhances this effect for them.

These countries are in a position to utilize more easily the extra opportunities that come from their openness, liberalization, privatization, access to new markets and new supplies of labor. But in these countries, too, many views, opinions and books can be encountered which are extremely opposed to world capitalism and globalization. Some time ago the word ‘capitalism’ was almost unused; today, too, we prefer to speak about a ‘global market’, contrasted to ‘communism’ or, sometimes, ‘socialism’. Methodologically, we should be speaking about the opposition of ‘global market’ vs. ‘planned economy’ or ‘capitalism’ vs. ‘socialism’. We should already be aware of the fact that capitalism – which now becomes world capitalism – has different faces, which are going to change further and are already changing. However, among justified criticism, there is also a lot of irrational disapproval, voiced, among others, by anti- and alter-globalists. **The capital market economy is a system which so far has proved its high efficiency comparing to a social economy, but in many aspects it is still a flawed system**. This is why the struggle for the human face of (world) capitalism will continue.

Globalization with a Human Face?

Would globalization be able to survive, taking care not only of itself but also of efficiency and expansion, as well as showing justice and human nature? The research institute I run at the Leon Koźmiński Academy of Entrepreneurship and Management (WSPiZ, www.kozminski.edu.pl) is called Transformation, Integration and Globalization Economic Research (TIGER) and our slogan is “Globalization with a Human Face”. Does it exist? Searching for human nature in the post-socialist system transformation and integration with the world economy does make sense. It is necessary to keep searching for these very important social aspects in development processes through discussions and an adequate policy, because, for sure, this is not the end of history. The most interesting part of history has just began. Although Fukuyama declared the end of history, he was wrong. Just like Lenin was wrong saying that imperialism was the final phase of capitalism. If he lived nowadays, his work might be titled definitely: ‘Globalization as the supreme stage of capitalism’. But it would be mistaken again, because it is not the ‘final’ stage. Other stages will follow, as **development goes on and contradictions are never in short supply, because the world is changing**.

Thus globalization emerges as a historical result of development and a triumph of the world capitalist system, with all the consequences of this fact. What will this phenomenon bring? Is this system equitable or is it not? How do its performance and expansion affect the dynamics of production and the distribution of the growth of production capacity at the working place? It appears that the mechanisms started up as a result of the process of transformation, integration and globalization contribute to a higher growth dynamics than would otherwise be the case. Output, on average, grows faster than it would without globalization. It follows that all of us, as human beings and not only as the inhabitants of some region or country, on average, live a better life. However, the question immediately arises about whom this improvement includes: how many of us, where and in what ways live better? Does this concern half of us or more? Who is in majority and who in minority? The answer we find is that in the last quarter of a century, so profoundly affected by globalization, the economic stratification of humanity has been increasing – for many different reasons.

A good example is provided by an African country, Botswana, where growth rate in the last 40 years amounted on average to 10% per year, whereas in the neighboring Congo, where over 50 million people live in great poverty, a negative ratio of growth was observed. In other words, the level of production and consumption is lower there today than it was in 1965 and in the last years of brutal Belgian colonialism. Is this bad situation caused by globalization? Far from it, it results – just as the progress in Botswana – from regional, local and national factors, but mainly from the policy followed for years. In Congo, the situation has severely deteriorated through corruption in government and numerous military and ethnic conflicts, which unfortunately persist to this day and have little in common with globalization.

There are many examples like this. Let me make a digression here: it is always necessary in the economy to be able to distinguish results from reasons, aspects from mechanisms and in politics one must not confuse means and ends. Failure to understand this on the part of politicians hampers development – and on the part of scientists, it creates confusion. If somebody does not grasp it, as is the case in Poland again, it is not for the first time or for the last time. Such problems result from an inept economic policy as regards counteracting joblessness, increasing the competitiveness of companies, gaining footholds in knowledge-based economies, improving hard infrastructures or constructing a development budget which at the same time restricts marginalization and social exclusion. All this is necessary and possible to achieve, but has to be done under the circumstances of globalization. Thus a correct economic theory is essential for good economic practice, taking into account the global dimension of economic processes. For in the last decades, when income disparities have been growing again, the question arises of whether it is really globalization that accounts for the fact that the rich are becoming richer and the poor are getting poorer? It is not like that – I think this assumption is false. It is a claim put forward by some opponents of globalization who either do not know all the facts well enough and are not really qualified to take a stand here, or do believe this claim to be false and yet utter it for the sake of expediency. And what is the truth? Globalization favors a situation where the allocation mechanisms of capital transfers, trade, liberalization and asset privatization in many countries cause the profits of the richest groups to grow faster than the gains of the poorest people and countries. There are certain exceptions, but they are not connected with globalization.

In reality, the way things are, if one agent has at its disposal capital in the amount of 100 units and somebody else has only 10 units, after a few production cycles, the first one will have a achieved a profit of, for example, 80% and now has 180 units, while the other – whatever it is, a country, a sector, an enterprise, a social group, a family – will have accrued an increase of about 20% only. Thus the initial proportion of 10:1 will have grown to 15:1. This result has been used to make a case against globalization. But in both cases there is growth.

Such an answer immediately suggests another question which should be dealt with in a concrete context. We have to check whether the highest growth is not achieved at the expense of decreasing growth at the lowest end of the spectrum, which would signify an inequitable distribution. Or maybe the improvement of the material standing of the latter was made possible by such a substantial increase of income in the first group, thanks, for instance, to boosting the overall income through greater efficiency, entrepreneurship of innovation. If this is the case, such developments should be welcome – not because of the increasing disparities, but because of the accompanying increase of the income and improvement in the living standards of many people. Unfortunately, this is not always the case. Worse still, entire large areas exist in the world where no such improvement takes place, although – once again – globalization is not the sole culprit here, or, in many cases, has nothing to do with such a state of affairs.

The situation of Africa calls for special attention in this context and we must not just leave it as it is with that continent's poverty and marginalization. Gradual and successive drawing Africa into the orbit of world economic exchange along with care about its development is a task of paramount importance in modern world. The proposals of the British Prime Minister Tony Blair and Chancellor of the Exchequer Gordon Brown, introduced under the heading Commission for Africa, are highly meaningful, especially in view of the British presidency of the G-7 group of the world's richest countries in 2005. The United Kingdom also holds the Presidency of the European Union in the second half of 2005. So if the British are saying that things cannot be like that any more, it appears to open up a chance to overcome a stalemate over structural assistance for Africa – a continent of over 800 million inhabitants, many of whom live in extreme poverty.

Things Cannot Be Like That Any Longer…

But although many people have been saying for a long time that things cannot be like that any longer, there are still over a billion people around the world subsisting on less than a dollar a day, millions of children in Africa go to sleep hungry and several million people die of hunger every year. This is not fiction. It happens for real – this is the way it is. Global economy emerges, but it still lacks political arrangements which would take care about the creation of an essential autonomous development mechanism. Until such a mechanism is in place, we have to redistribute proper funding from the richest parts of the world to the poorest areas and lands. And the claim that the equivalent of half a bubble gum in London is enough to save a child's life in Africa has nothing in common with populism.

If, therefore, Great Britain has unilaterally suggested the cancellation of debt and done so for the benefit of the poorest countries, all others should follow suit. Then, increased investment spending must be directed in the coming years to infrastructure, without which no progress can be achieved in many backward parts of the world economy. Part of the spending from external sources should also be invested in human capital, particularly, education and public health. At the same time it is necessary to ensure such assistance, because arguments of humanitarian nature only make short-time impression, but do not produce practical results. Likewise, the African partners must perform their part of the task and launch a vigorous fight against corruption, as well as put an end to the military and ethnic conflicts, from Darfur to Liberia to Congo to Uganda.

The stake is our ability to deal with such massive problems as unpaid debts, excessive disparities in wealth, mass joblessness or poverty similar to that of the colonial times, which stems from bad governance. Success will depend on whether the world will decide to follow the path of 'human nature'; otherwise we should already brace ourselves for a revolution triggered by excessive social stress.

I do not see any simple way of continuing growth processes and sharing the results of the growth on a worldwide scale over the next generation or two. It not only cannot, but even should not succeed, because the present development model is socially unfair! Such a situation turns against efficiency and economic growth. Therefore, it must cause an explosion – it is only a matter of time. What will such an explosion look like? Would it take the form of uncontrolled waves of migration which neither the poor, nor the rich countries will be able to handle? Maybe there will be mass social riots in the world's streets, and probably a little bit of everything.

But there exist positive answers to these threats and challenges, too. In particular, better coordination of policy is essential on a worldwide scale, because although a world economy is emerging, no 'world government' has emerged as yet. Does this mean that such a government is likely to evolve? Far from it. Expectations of this kind are unreal and there would be no point in calling for the establishment of a world minister of economy, world minister of finance, world minister of welfare, or a central bank of the world. The world is too differentiated and disturbed. Nobody is able to rule the world, but it is possible to understand it better and try one's best to change it for the better. The world needs better policy coordination on a global scale. Do we have the proper organizations, institutions and instruments to handle this task yet?

We can somehow coordinate common approaches to such different issues as the war on terrorism, money laundering, migrations, greenhouse effect or defusing financial crises, should the need arise. However, it turns out that these political mechanisms often fail. Therefore, we are faced with new challenges of the globalization era. If we do not handle them aptly, the world will be headed for a great disaster.

We should bear in mind that when we talk about globalization, we talk at the same time about interests. This concerns not only the world at large, but also our immediate surroundings. Here, too, it can be heard, that 'things cannot be like that any longer', but we do know that they will stay as they are for a long time to come. Curiously, this all takes place in the conditions of functioning parliamentary democracies. But democracy has not established a firm foothold in the world. Capitalism carries the day, the market is more and more liberalized, but in the end democracy does not appear to be prevailing. And even if it does function in an ever increasing part of the planet, the world as a whole is not democratic. This would not be a cause for concern, but only if the existing undemocratic institutional system of the world economy offered an opportunity to solve the above-mentioned major problems that afflict us. But it is not so.

We do not vote in the world; we just do businesses – and wars are one of the ways to do businesses – although we say that we introduce democracy. A truly great policy should not rely on global control or on who sides with whom and for what reason, but only on solving great social problems on economic grounds. Therefore, in the years and decades to come, we must successively create mechanisms and instruments, and increase our own abilities to solve such problems on a world-wide scale – and not only on a regional level. Therefore, we now face the great challenge of the 21st century, completely different than before, that stems from the great technological revolution related with the Internet, telecommunications, genetics or biotechnology, which puts the world in a completely different position than ever before.

And so globalization will be the subject of discussions and disputes for a long time, maybe forever. Political battle and intellectual wrestling should go on to find the best ways to understand the economic and political mechanisms which govern the whole business that we call 'our world'. Then we should define correctly the values and find a way of putting into practice the adopted goal of development through dialog. This is all very hard, but certainly not impossible.