

ジョセフ・E・スティグリッツ教授講演会
Special Seminar by Professor Joseph E. Stiglitz

グローバル化の中の途上国開発と日本への期待
**Making Globalization Work
for Developing Countries**



JICA/JCER 共催セミナー報告書

グローバル化の中の途上国開発と日本への期待 Making Globalization Work for Developing Countries

2007年7月 国際協力機構



2007年7月
July 2007

独立行政法人 国際協力機構 国際協力総合研修所
Institute for International Cooperation
Japan International Cooperation Agency

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国際協力機構（JICA）・日本経済研究センター（JCER）共催セミナー報告書
JICA/JCER Joint Seminar

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ジョセフ・E・スティグリッツ教授講演会
「グローバル化の中の途上国開発と日本への期待」
Special Seminar by Professor Joseph E. Stiglitz
"Making Globalization Work for Developing Countries"

日時：平成 19 年 7 月 31 日 16:00～18:00

会場：国際協力機構（JICA）国際協力総合研修所 2 階国際会議場

Date and Time: July 31, 2007, 16:00～18:00

Venue: International Conference Hall at the Institute for International Cooperation, JICA

<プログラム>

16:00-16:05 主催者挨拶：緒方貞子 国際協力機構（JICA）理事長

16:05-16:45 基調講演：ジョセフ・E・スティグリッツ コロンビア大学教授

16:45-17:30 ディスカッション：

コメンテーター

小林陽太郎 富士ゼロックス（株）相談役最高顧問／経済同友会終身幹事

白石隆 アジア経済研究所所長／政策研究大学院大学副学長・教授

モデレーター

小島明 日本経済研究センター会長

17:30-18:00 フロアとの意見交換

<Program>

16:00-16:05 Welcome Address: Dr. Sadako OGATA, President, JICA

16:05-16:45 Keynote Speech: Dr. Joseph E. STIGLITZ, Professor, Columbia University

16:45-17:30 Discussion:

Commentators

Mr. Yotaro KOBAYASHI, Chief Corporate Advisor of Fuji Xerox Co., Ltd.,

Life-time Trustee, Japan Association of Corporate Executives

Dr. Takashi SHIRAISHI, President, Institute for Developing Economies-JETRO,

Vice President and Professor, National Graduate Research Institute for Policy Studies

Moderator

Mr. Akira KOJIMA, Chairman of the Japan Center for Economic Research(JCER)

17:30-18:00 Discussion with the participants

<講師略歴／Brief Biography of the Keynote Speaker>

ジョゼフ・E・スティグリッツ

1943年2月9日米国インディアナ州ギャリー生まれ。アムハースト大学卒業後、1967年にマサチューセッツ工科大学で経済学博士号取得。1970年からイエール大学教授。プリンストン大学、スタンフォード大学、マサチューセッツ工科大学、オックスフォード大学オールソウルズ・カレッジで教鞭を取る。世界の37大学から名誉博士号を授与されている（日本では早稲田大学、同志社大学）。

2001年に情報の非対称性を伴った市場の分析への貢献からノーベル経済学賞受賞。

クリントン政権下では米国大統領経済諮問委員会委員（1993～97年。95～97年は委員長）を務めた後、世界銀行上級副総裁兼首席経済学者（1997～2000年）。

現在は、コロンビア大学教授、コロンビア大学グローバル思考委員会委員長、コロンビア大学政策対話イニシアティブ代表。また、マンチェスター大学役員会代表、ブルックス世界貧困研究所サマー・プログラム代表を兼任。

著書『世界を不幸にしたグローバリズムの正体（*Globalization and Its Discontents*）』は35言語に翻訳され、100万部以上の売り上げを記録。近著には『人間が幸福になる経済とは何か（*The Roaring Nineties*）』『フェアトレード格差を生まない経済システム（*Fair Trade for All*）』（共著）、『世界に格差をバラ撒いたグローバリズムを正す（*Making Globalization Work*）』等。

Joseph E. Stiglitz

Joseph E. Stiglitz was born in Gary, Indiana in 1943. A graduate of Amherst College, he received his PhD from MIT in 1967, became a full professor at Yale in 1970. He has taught at Princeton, Stanford, MIT and was the Drummond Professor and a fellow of All Souls College, Oxford. He is now University Professor at Columbia University in New York and Chair of Columbia University's Committee on Global Thought. He is also the co-founder and Executive Director of the Initiative for Policy Dialogue at Columbia. In 2001, he was awarded the Nobel Prize in economics for his analyses of markets with asymmetric information.

Stiglitz was a member of the Council of Economic Advisers (CEA) from 1993-95, during the Clinton administration, and served as CEA chairman from 1995-97. He then became Chief Economist and Senior Vice-President of the World Bank from 1997-2000.

Recognized around the world as a leading economic educator, he has written textbooks that have been translated into more than a dozen languages. He founded one of the leading economics journals, The Journal of Economic Perspectives. His book *“Globalization and Its Discontents”* (W.W. Norton June 2001) has been translated into 35 languages and has sold more than one million copies worldwide. Other recent books include *“The Roaring Nineties”* (W.W. Norton) and *“Fair Trade for All”* (Oxford University Press), with Andrew Charlton. His newest book, *“Making Globalization Work”*, was published by WW Norton and Penguin/ Allen Lane in September 2006.

英語版 講演録

Seminar Report: English Version

Opening Address

Chairman: Thank you very much for joining us in this special seminar by Professor Joseph E. Stiglitz, organized by the Japan International Cooperation Agency and the Japan Center for Economic Research. First, on behalf of the organizers, Dr. Sadako Ogata, President of JICA, Japan International Cooperation Agency, will say a few words.

Dr. Ogata: First, I would like to express my appreciation to you for joining us in this seminar by Professor Joseph Stiglitz, organized by the Japan International Cooperation Agency and Japan Center for Economic Research.

Now, I would like to thank Professor Stiglitz for accepting this invitation, and also I would like to thank the panelists and the moderator, the three gentlemen, for accepting the invitation to come here.

First, I would like to briefly introduce Professor Stiglitz to you. He graduated from Amherst University, and at Massachusetts Institute of Technology, he acquired a Ph.D., and after that, he studied at Oxford University, Yale, and others. He taught at these institutions, and in 2001 he received the Nobel Economic prize for research about information asymmetry. And in the Clinton administration, he was a member of the CEA, the Council for Economic Advisors, and he also became a World Bank senior vice president and chief economist. At this moment, he is a professor at Columbia University, and also he is the chairman of Columbia University's Committee on Global Thought. His book, Making Globalization Work, I think, is a very famous one. And also, Globalization and Its Discontents should be a renowned book.

The reason why we invited Professor Stiglitz is that in October of next year, JICA will in fact integrate with the yen loan area of the Japan Bank for International Cooperation, and this new JICA is expected to be the largest bilateral aid organization. I hope that the integration of JBIC and JICA will not be just a simple sum, and I would like to make sure that we are going to bring about synergistic effects.

With respect to the research organization, it is expected that the research organization will be strengthened. The research institute of JICA and JBIC's Development Institute will be integrated to establish a new institute. The new

institute will embark upon research that is based on the ground, and this will become a think tank for development assistance.

The new JICA, I hope, will be able to make a great contribution towards development aid. At this moment, focusing on several themes with international researchers, we have been cooperating in moving ahead with research projects. We have been strengthening the functions of the research institutes. And as an attempt, as part of this, we have been holding this seminar in cooperation with the organization, and we have been trying to do our best.

2008 will be the year of the birth of a new JICA, and prior to that, there is going to be the fourth TICAD, the Tokyo International Conference for African Development that will be held in May next year. Also, there is going to be G-8 Summit that will be organized in Japan next year. So in this respect, 2008 will be a great occasion for us to exert Japan's leadership. For Japan, I believe this is going to be an enormous opportunity for us.

Globalization is the trend of the times at this moment, and we hope we'll be able to have a good discussion about globalization and the development of developing countries, and I hope to hear the views of the participants. I would like to thank you again for your participation today.

Chairman: Thank you. Now at this time, I would like to pass the baton to the moderator, Mr. Akira Kojima, who is the chairman of the Japan Center for Economic Research. Mr. Kojima, please.

Mr. Kojima: Now, I would like to ask Professor Stiglitz to give us the keynote speech. Dr. Ogata introduced him very much in detail. Since 1997, he has been at the World Bank. At the initial stage of the Asian financial crisis, he criticized that the IMF's way was incorrect. Professor Rogoff is back at Harvard University but at that time he was a chief economist, and Professor Stiglitz and Professor Rogoff had a big debate on a web site, and I enjoyed the debate tremendously.

Who was the winner? I think it's obvious. And after that, in 2001 he won a Nobel prize in economics. So, for the global winner, I think it was obvious that Professor Stiglitz was the winner. So with respect to Asia, he has made the observation, and

also he gave policy advice. Given today's theme, he is the ideal speaker. So, he is going to speak for 40 minutes. Professor Stiglitz.

Keynote Speech : Professor Joseph E. Stiglitz "Making Globalization Work for Developing Countries"

Prof. Stiglitz: It's a real pleasure to be here to talk on this subject of making globalization work for developing countries. In a way, the title summarizes a great deal of what I'm going to say. Making globalization work suggests that it's not working, and in fact, that's one of the themes -- that it's not working both for developed and developing countries -- but the title, making globalization work, also suggests a note of optimism, that there are reforms in the way globalization is managed that could make it work. So what I want to do this afternoon is to describe both some of the successes of globalization for developing countries, some of the failures, and some of the reforms in the way globalization is managed that could enhance the likelihood of success.

When one talks about the successes of globalization, one has to begin with the story of India and China, two countries with 2.4 billion people, which have been growing at historically unprecedented rates, continuing the successes of the East Asian miracle that Japan had led beginning in the early 1960s. The pace of this growth is really phenomenal. China has been growing at close to 10% for three decades. Little noticed is that India has been growing at five to six percent for a quarter century, and in the last few years, has been growing at actually 8% or more. And in fact, these countries have become the engines of global economic growth. The world economy has been growing at close to 5% for the last two or three years, a rate not seen for several decades or a quarter century. And it's not on the basis of growth in Japan, in the United States, or Europe. The basis of this has been growth in these emerging markets.

I just want to spend a moment putting all this in historical perspective because sometimes we forget how fast the world can change. In 1820, China had a third of global GDP, and India had more than 15%, and this is the picture of what global GDP looked like over the centuries. These numbers are not very, very reliable, but they are not too bad. And what they show is, as I see it, that China had close to a third of the global GDP, and India 15% in 1820, and what you see is the rapid decline in India and China beginning in 1820. And now, they're getting back, but only partially back. It wasn't an accident that they declined. It was actually a result of changes in

technology and economic policies. The industrial revolution occurred, and also there were deliberate attempts on the part of the U.K. government and other governments to kill India, to kill India's exports, and it worked. Indian textile exports to Britain fell by two-thirds in the span of a decade. India had been a major global producer of textiles. It became a major importer of textiles from the U.K. So this shows that policy can make a difference.

But it wasn't just soft-power policy, it was also military policy. The European powers attacked China because they wanted to make sure that China was open, open to opium, and China was exporting china, you know, ceramics, and other goods that Europe wanted, but Europe had nothing that China wanted. So Europe figured if they could get China addicted to opium, they would have something to sell. It's a sad moment in global history.

Globalization has played a major role in the successes of China and India, largely by both the export-led growth and access to technology. As I said, globalization, and here I'm just focusing on economic globalization, the closer integration of the countries of world as a result of lower communication and transportation costs, and the reduction of man-made barriers to movements of good, services, capital, people, ideas, and knowledge. And the pace of the lowering of telecommunication costs in the 90s is really phenomenal; there was a 50% annually compounded annual decline. These are some of the successes of globalization, and as I turn to talk about some of the problems, one shouldn't forget the importance of these successes.

But elsewhere, there is a great deal of discontent with globalization, both as a result of the outcomes of globalization and the processes, and I want to talk about both.

There is a marked contrast between the success in East Asia and the disappointments elsewhere. For instance, Latin America, which was the best student of the Washington Consensus --- the set of policies that the World Bank and the IMF pushed on the world --- in the 90s where this advice was most assiduously followed, their growth was half of what it was in earlier decades. Brazil grew at 5.7% for 75 years before 1980. Then they started listening to the World Bank and the IMF, and now they are happy if they grow at two or three percent. That's viewed as a success. They forgot the fact that for 75 years, they grew at close to 6%. The region as a whole

has been marked by growing poverty, unemployment, crime, a growing fraction of the population in the informal sector without job protections, and what growth has occurred has gone mainly to the upper income groups.

Looking at it over a 25-year period, Africa has had a decline in per capita income. The good news is, in the last two or three years, this has been arrested, and one shouldn't again forget that, and hopefully maybe we'll have time later to talk about what is the reason for this change, this growth in Africa in the last two or three years, and how can it be sustained.

An American, Tom Friedman, has written a very popular book called The World is Flat, and I wanted to emphasize that the world is not flat. He has argued that as a result of the new technologies, the world is on a level playing field. The developing countries can compete on an even keel with the advanced industrial countries. And obviously what he is focusing on is the fact that the global geography has changed. China and India are more competitive, but Africa is in some ways less competitive. It has neither the resources nor the education to take advantage of the new technologies. Not only is the world not flat, but in many ways it's becoming less flat. There is growing inequality between the countries, and there is a growing inequality in most countries around the world, and globalization has played an important role in these failures.

In fact, the growing inequality in the advanced industrial countries is something that was predicted by economic theory more than 50 years ago. And the way to illustrate this is to use of a thought experiment. This is something that's not advertised by the advocates of globalization and it's not talked about, but just think about the following thought experiment. What would happen if there were perfect integration of the countries of the world, if the markets were perfect -- we're nowhere near that point so don't worry -- but if that happened perfectly, what would the world look like? Well, it would mean that unskilled wages, unskilled workers, would get the same pay everywhere in the world. That's what we mean by full global integration. And that would mean that unskilled wages in Japan, the United States, and the U.K. would be the same as unskilled wages in China and India. That means that they would be much lower than they are today. And while we are nowhere near that, one of the results that my teacher, Paul Samuelson, showed was that even without perfect

globalization, just trade liberalization moves you in this direction and is a force for the lowering of wages of unskilled labor and increasing inequality.

Unfair trade treaties have compounded the problems in developing countries, and I'll talk a little bit about that later, but these problems are compounded by asymmetric liberalization. We've worked more for liberalizing capital, the flows of capital, than we have for labor, liberalizing more the flows of the capital intensive goods than of labor intensive goods. What does that mean? Well, what that means is that the bargaining power of capital is increased relative to labor because if taxes are increased or if wages are too high, capital will say, we'll go somewhere else where we're treated better. But workers can't do that. Particularly, unskilled workers can't move. So you've changed the bargaining power, and the result of that change in the bargaining power is a lowering of unskilled wages to the advantage of capital, and you see this pattern around the world.

As I mentioned before, one of the ways that globalization has played a role in the failures is that it has given advice that has not been good for development. Latin America followed the advice of the IMF and the World Bank. Argentina, for instance was the A+ student, and after the crisis in Argentina, other countries in Latin America would say, if this is what happens to the A+ student, we don't want to go to that school. The remarkable thing is that Argentina, after it got rid of the IMF, after it went into default, has been growing at 8% for more than four years. So now, not only did it catch up to where it was before, but it has actually exceeded its income in the pre-crisis level. The contrast between the transition countries following the Washington Consensus policies, and China and Vietnam which did not, is marked.

And finally, one has to note that Africa has continued to be exploited, even in the post-colonial world. Advanced industrial countries have been willing to take out the resources from these countries, from Africa, but have not really contributed to strengthening education, technology and the other things that lead to long-term economic growth.

Well, let me now try to describe some of the more particular problems in the global architecture and economic architecture. One of the sets of problems is in finance. One would have thought that globalization, with more advanced markets and more sophisticated market economies, would lead to more stability, but in fact, it's led to

more instability. There have been a hundred crises in the last 30 years. It's more unusual for a country not to have a crisis than to have a crisis. East Asia, of course is the most famous crisis, but as I say, it was only one of many crises that have marked the last three decades.

But equally disturbing is the fact that money is flowing from poor countries to rich countries. Last year, about half-a-trillion dollars went from developing countries to the advanced industrial countries. That's not the way money is supposed to go. It's supposed to go from rich to poor. It's going the wrong way. Money is going from the poor to the rich. Again, economic theory says the rich countries ought to be better able to absorb risk. But in spite of the advances and ability to slice and dice risk, the poor countries still bear the brunt of risk. They tend to borrow in short-term, hard currencies, and that means when exchange rate changes or interest rates sore, they are left bearing the burden, and that is one of the reasons why there have been so many crises around the world.

The advanced industrial countries have done a great deal to protect their own interests. There's been a rash of what are called bilateral investment agreements or investment agreements that are part of bilateral trade agreements, and they've tried to protect the investor interests, but little has been done to protect the interests of the developing countries, for instance, to protect the environment. And unfortunately, all too often, multinationals use the limited liability to protect themselves after taking out the natural resources.

In the area of trade, I mentioned before that the international trade regime is unfair to the developing countries, but the magnitude of this is sometimes unappreciated. If you look at the agenda of the Uruguay Round, which is the last round of trade agreements that was signed in 1994, it focused completely on the agenda of the advanced industrial countries. One of the major advances of the Uruguay Round is that it went into services. Well, normally we think services are labor intensive. Developing countries are labor rich. Shouldn't that be pro-development? But when they said services, they didn't mean services. What they meant is the services that the advanced industrial countries export, services like IT services and financial services. They didn't mean maritime services or construction services, the services that are unskilled labor intensive and are the

comparative advantage of the developing countries. So if you look at the agenda, it was framed around the interests of the developed countries.

There were actually four issues that were talked about at the beginning of the Uruguay Round. The developing countries wanted something done about agricultural subsidies and about textiles, and the developed countries wanted intellectual property rights, which should never have been in the agreement, and financial services. The developed countries got what they wanted, but the developing countries did not get any reduction in agricultural subsidies, and in the case of textiles, they were told to wait for 10 years. And then after waiting for 10 years, they were told to wait a little bit longer. Well, the result of this is that most of the gains went to developed countries. That wasn't so surprising. But what was so disturbing is that the poorest countries of the world, including sub-Saharan Africa as a whole, were actually made worse off.

The magnitude of the imbalance, the way the system is stacked against the poor countries, is highlighted by the fact that the OECD, the advanced industrial country tariffs on goods from poor countries, are four times higher than they are on the goods from other OECD countries. So in fact, if you look at the exports from a small country like Mongolia, it may actually be larger; the tariffs they have to pay are larger than the tariffs paid by a country like France. The whole tariff structure is designed to discriminate against developing countries, and actually to inhibit developing countries. The rich countries cost poor countries three times more in trade restrictions than their total development assistance. So, this just gives you an idea of the magnitude of the unfairness of the trade issues.

The agricultural subsidies are roughly equal to what the farmers produce themselves. So I sometimes jokingly say that American corn farmers are more accurately described as farming Washington than farming the soil because they get as much money from Washington as they do from the land.

It was because the Uruguay Round was so unfair that there was a need for the Development Round to address these problems. But what happened was not a development round. It was really an attempt by the advanced industrial countries to put old wine in new bottles, and some of the elements of what was called the Development Round were even anti-development. The problem is not only did they

just put old wine in new bottles, but the U.S. and the EU actually reneged on their promises, and the result of this is, I would argue, that the Development Round does not even deserve to be called a development round.

It is not surprising as a result that the developing countries are rejecting the Development Round. India and Brazil have basically said, we won't go along with the agreement. The fact is there is a lot of to-ing and fro-ing now; who's to blame for the breakdown. In my mind, it's clearly the advanced industrial countries, the U.S. and the EU. Some people have said, and to put that in perspective, to highlight what that means, the U.S. has offered to cut its agricultural subsidies by raising them by 50%. It says, okay, our offer to you is that we won't raise them by more than 50%. But you have to understand that raising them 50%, before that they raised them by 100% from what they were at the Uruguay Round when they were supposed to have reduced them. So first they doubled them, and then, we say, okay, we're going to make you an offer; the offer is that we won't raise them by another 50%, more than another 50%. And it's not surprising that the developing countries find this a little bit dishonest or disingenuous. Who is going to be hurt? Well, the fact is that if you look at where the Development Round has evolved, the benefits to developing countries currently are so small that they have very little benefit out of it, even if it's completed.

Another problem with globalization as it's managed today has to do with knowledge. Knowledge is an important aspect of globalization. I mentioned before that one of the bases of success of East Asia was that it was able to take knowledge from around the world and grow on the basis of it. One of the lessons of modern development is that what separates developing countries from developed ones is not just the gap in resources, but a gap in knowledge, so closing the knowledge gap is a central part of a development strategy. But an unbalanced intellectual property regime makes it more difficult to close that, and TRIPS, the trade related intellectual property provisions of the Uruguay Round, were unbalanced. They have reduced access to knowledge. But even worse, they make it more difficult to get access to life-saving medicines, and as a result of the last round, thousands of people will be dying. Not surprisingly, the developing countries have called for a development oriented intellectual property regime.

Another set of problems has to do with global warming and global climate change.

This is again, a global problem because global warming is the quintessential global problem. We all share one atmosphere. But it's another arena in which global social injustices are being played out. The major sources of pollution have been the advanced industrial countries. The major reason that the levels of carbon dioxide and greenhouse gases today in the atmosphere are much higher than they were in the pre-industrial age are the burning of the fossil fuels in the advanced industrial countries. But some of the major consequences lie in the South.

Finally, one of the reasons that there is such discontent with globalization is that other values have been dominated by economics. The environment is sacrificed for short-term commercial interests. There is reduced access to life-saving medicines; while no compensation is provided to developing countries for their environmental services either in biodiversity or carbon sequestration; no protection of traditional knowledge from developing countries -- a concept called biopiracy; worry about the fact that traditional cultures are weakened; restrictions on the ability to subsidize culture. And finally, democratic processes are undermined, for instance, by IMF conditionality.

What I've tried to describe so far is the many ways in which the reasons for the discontent with globalization are seen in terms of the outcomes. But there is also concern about the processes, the processes by which decisions get made. The concern is that global governance has been undemocratic, in particular, the voice of developing countries has not been heard, and even when it's heard it is not listened to. It's often dominated by the North, or more accurately by special interests in the North where the rules are made by the advanced nations for the advanced nations, or more accurately for the special interests within them.

We recently have seen the nature of the problems highlighted by what's happened in the World Bank. Here we have an institution committed to, supposedly, a multi-lateral institution committed to promoting development, but the head of it is appointed by the United States, and they appointed somebody whose major credential was that he was the architect of the war in Iraq; what you would not have thought was a strong credential for being the head of the world's major poverty fighting institution. And after he became the head, the agenda that he set for the World Bank was not an agenda that was focused on reducing poverty. It was corruption. He talked about corruption. Corruption is important. But the way he did it was actually corrupt.

He picked out the countries that were pro-United States and said, we'll ignore corruption there until they annoy the United States. The most famous case is that of Uzbekistan. Uzbekistan got a lot of aid until Uzbekistan told the United States, we want you to leave your air force bases, and then the next day, they discovered there was corruption in Uzbekistan. There are other cases where they talked about zero tolerance of corruption, and yet they wanted to expand assistance to some of the most corrupt countries in the world because they were allies of the United States. So the situation was really undermining the multilateral system and not focusing on what the World Bank is supposed to be focusing on, which is reducing poverty in the poorest countries of the world.

Well, you would have thought that an institution that keeps talking about good governance would itself have good governance. But it doesn't when choosing the head means not looking for the most qualified person in the world. It's whoever the president of the United State wants. And in the case of the IMF, it's whoever the EU wants. I think -- and one can show this, I think, very forcefully -- that governance problems have contributed to these bad outcomes.

I also think one has to recognize that the failures of global governance reflect weaknesses in our own democracies within the advanced industrial countries; the fact that so often special interests have dominated national interests. We talk about the cotton subsidies. It's not in America's interest to have these cotton subsidies that do so much harm. They go to only 25,000 farmers. We have to ask, how can 25,000 farmers do so much harm to so many? Ten million people in sub-Saharan Africa have their income decreased to benefit 25,000 rich American farmers. And most of the money goes to 10,000 of these. Well, it's an example of the fact of the role of special interests.

Moreover, globalization as it has been managed has actually undermined democracy because of the excessive conditionalities and the way these conditionalities have reduced the scope for democratic decision making within these countries. In many of these countries, they are told that it's so important to have democracy, and then the next thing we say, but by the way, on the things that are really important, you can't have any voice. The international community has dictated you have to do this and this and this.

To summarize, globalization has made us more interdependent, greater interdependence means greater need for collective action to act cooperatively. But just as the world has a greater need for global economic institutions, confidence in these institutions has waned.

The fundamental problem can be put simply that economic globalization has outpaced political globalization. Too often, views about democracy, social justice, social solidarity, even the rule of law, change at the border. I saw that so clearly when I was in the Clinton Administration. When we talked about issues of domestic economic policy, we would always talk about what was efficient, but we would also talk about what was fair. When it came to international economic policy, the word fairness never entered into the vocabulary. When we sent our trade minister, the U.S. trade representative to Geneva to negotiate a trade agreement, we didn't say, come back with a fair trade agreement. If he did that, he would be fired. We say, come back with the best agreement for America, and what we meant by that was not the best agreement for America, we meant the best agreement for our major campaign contributors. And that's what they did. So in intellectual property, another example, the Clinton Administration was committed to getting more access to health care and more access to medicine. That was one of the big issues in the 1992 campaign. But when it went to Geneva for trade negotiations, it focused on getting less access by making generic medicines unavailable to the poor countries. So it was doing exactly the opposite. Why? Because the pharmaceutical companies were contributing, and domestically, American citizens said, we want access to medicines. Internationally, people who don't have access don't vote, but the pharmaceutical companies make campaign contributions.

Democracies have learned how to temper the market economy to make sure that most individuals benefit, but we have not yet learned how to temper the excesses of globalization. And while globalization has put new demands on the nation state, for instance, those associated with growing inequality, it has reduced their ability to respond. And part of the reason that globalization is not working is that we have not yet really democratized globalization.

In some ways, matters have become worse in recent years because of the end of the Cold War. In the Cold War, we had to pay attention to the developing countries

because we had to win their allegiance in the Cold War. When we gave assistance to Mobutu in the Congo, we knew that the money was going in a Swiss bank account, but we were not trying to promote development, we were trying to get their allegiance in the Cold War. And it worked for that purpose, but it didn't work for development. At the end of the Cold War, we had a choice. We had a choice either to change international economic policy based on principles of democracy and helping the poor, or we had the opportunity to use power to make sure that the multinational corporations in the advanced industrial countries could get what they wanted because we didn't have to contend with winning allegiances in the Cold War. Well, unfortunately, we made the wrong choice. We let it be determined not on the basis of principles, but on the basis of special interests. We missed the opportunity for global leadership, and we used our position to advance parochial commercial interests, often in a unilateralist manner. But in the last six years, things have become even worse.

I want to emphasize though that the opposition to globalization is not to globalization itself, but to the way it has been managed, to both the way it's been managed to advance the advanced industrial countries' special interests, the fact that economic values have dominated other values in undemocratic processes, and to the particular set of ideologies that have underlain these policies, the market fundamentalism, and what's referred to as the Washington Consensus policies.

Well, as I said it's not globalization itself, it's the way it's been managed, and the reason I emphasize this is because I want to emphasize that change is possible. In fact I would argue that change is inevitable. The world is changing. There is new global geopolitics. Today, China is giving more aid for infrastructure than the World Bank and the African Development Bank combined. It's part of the new geopolitics. There are new technologies, the new economies, new scarcities associated with oil, and climate change, and globalization has set in motion its own changes. For instance, while the negotiators have been negotiating about cotton subsidies, the WTO panel has ruled that those cotton subsidies are illegal. So the U.S. is trying to continue something that WTO has already declared to be illegal. And the U.S. Congress right now is in the process of passing a bill continuing these illegal subsidies. So, the question is whether we make the changes before a crisis occurs in a way that is likely to be a patchwork, setting in motion another crisis at a later day, or whether we work

together to make globalization work, or at least to make it work better. One of the main points in my book, Making Globalization Work, was to lay out an agenda of the kinds of reforms that would make it work better, and I'll go through these just very quickly. In trade, have a true development round. And the point of this is that there is a much wider agenda than just agriculture. There has been too much focus on agriculture. There are lots of other things that would make a big difference. And as I put it here in this slide, if the developed world is willing to commit 0.7% of GDP to help poor countries, shouldn't they help them also by opening up their markets to give them an opportunity to earn income for themselves. I've argued that there should be generalized market access, expanding and extending the initiative that Europe has of opening up markets to the poorest countries of the world.

And here, I will just list a large number of items of what a true development agenda would look like. In the area of finance, there needs to be more extended debt relief, but more reforms are needed because unless we think about the reasons why so many countries have debt burdens beyond their ability to pay, it's going to happen again. And part of the reason for it has to do with the fact that we force developing countries to bear the risk of interest rate and exchange rate volatility, so we have to figure out better ways of shifting the burden of risk from those less able to those more able to bear that burden, which are the developed countries, and I describe how that can be done.

The most important reform in the global financial system is the reform of the international reserve system. Right now, the developing countries hold literally trillions of dollars, in dollars, in reserves. What does that mean? It means that they are lending money to the United States at very low interest rates. At one point they were lending the United States money at 1% interest and borrowing money from the United States at 20% interest. It's a bad deal. Now, they are at least getting 5%. But what we calculate is the total amount of foreign aid from the poor countries to the United States is larger than American foreign aid to the developing world. That is to say, the amount of implicit foreign aid from low cost loans from the developing world as they hold this money in reserves, you can think of that as a foreign aid package, and it's huge. There is the beginning of a move in the right direction in the Chang Mai initiative, and I describe in my book how that can be extended and how it actually can

create a more stable global financial system.

We need to have global legal reform, for instance, to make sure that those who destroy the environment are held accountable, that those areas where there is a lack of competition internationally, something is done about it; global monopolies are dangerous, and it's impossible in a globalized world to attack global monopolies piece by piece. And, we need an international competition authority.

One of the problems in Africa is that these countries face what is called the resource curse; the fact that on average, countries with rich endowments of resources grow more slowly than countries without resources, and a lot of research has gone into what is the reason for it and what can be done to escape it. But one of the important aspects of this that I will talk about here, of the three important points, one is greater transparency by expanding the Extractive Industries Initiative so that people know what the governments are getting. One way to enforce it overnight is to make only transparent payments tax deductible. A few years ago, bribes were tax deductible. In other words, governments in many advanced industrial countries were paying 50% of the cost to the bribe. They were subsidizing corruption. I was the representative of America in the ministerial meeting at the OECD where I tried to push this anti-bribery agenda, and there was a lot of resistance because it was the way of doing business. Well, a lack of transparency is a way of doing business, but I think it's one that's very bad for the developing countries.

The OECD had an initiative to reduce bank secrecy. Bank secrecy is important because the corrupt money goes out of the country. A lot of money is flowing out of Africa into these secret bank accounts where they are protected. The OECD had an agreement to reduce bank secrecy, and in August of 2001, the Bush Administration vetoed that initiative. In September of 2001, we all know what happened, and they discovered that some of these secret bank accounts were being used to finance terrorists. Since then, we've on the one hand shown that you can shut down bank accounts, secret bank accounts, and we've done it in the case of terrorism. But in the other areas, in the area of corruption, when the Bush Administration came out, when they vetoed that bill in August of 2001, champagne corks were popping all over the corrupt world. They were celebrating, and they have continued to celebrate. There is actually a book coming out in about six months detailing the expansion of secret

bank accounts since the Bush Administration veto, how it opened up global crime, and how it became a vehicle for corruption around the world.

We also need to develop model contracts that ensure that developing countries get their fair share of the resources.

In regard to global warming, I detail a whole broad agenda beyond Kyoto of what to do. One of them I just want to mention here, because it has begun to get resonance, and that is, it makes so much more sense to tax bad things than good things, to tax pollution rather than working savings. This is an idea that I've been pushing, and I'm pleased to say that about two weeks ago both Gordon Brown and Sarkozy in France endorsed this basic principle.

Finally, we need more foreign assistance. We need more of it, and more effective use of it. The advanced industrial countries have committed to give 0.7% of GDP. It's actually a commitment that they made a long time ago. They renewed that commitment at Monterrey, but except for a few of the Scandinavian countries, most of the countries are nowhere near to living up to that commitment. Global poverty is one of the most important problems facing in the world today. Assistance has played an important role in the past in reducing global poverty, and it can play an even bigger role in the future, especially when the programs are based on the successes of the past, successes such as those that have marked East Asia.

We now know much more about how to make aid effective. Japan, as the second largest economy in the world, has an especial responsibility for making globalization work, including working for developing countries, and I would also argue an especial opportunity because Japan understands development, because it went through the development process itself so recently. It understands the need for global, peaceful cooperation. The whole world has learned that military power doesn't get you very much. It's soft power that works. It's the civilian society that's important. Poverty in the developing countries is one of the major global problems facing the world. Japan has long been committed to promoting growth and fighting poverty in the developing world. The new organization which Madame Ogata mentioned that JICA will be evolving into puts it in a position to do so even more effectively in the coming years. Thank you very much.

Panel Discussion and Question & Answer

Mr. Kojima: Thank you very much, Professor Stiglitz. Globalization and its various issues were pointed out, and the ways of resolving these issues, the areas that need to be addressed, have also been pinpointed.

Now we will proceed with Dr. Takashi Shiraishi. He is President of the Institute for Developing Economies and Vice-President and professor of the National Graduate Research Institute for Policy Studies. Dr. Shiraishi and the chief corporate advisor of Fuji Xerox Company, Mr. Yotaro Kobayashi, will be commenting on what Dr. Stiglitz said, including perhaps rebuttals, and questions will be asked by these two commentators as well. And we'll also be discussing the panelists' comments. And since this conference goes to 18:00, we'd like to give the floor, the audience, a chance to speak as well, and involve them in the dialog. So without further ado, Dr. Shiraishi, please.

Dr. Shiraishi: Thank you very much. Dealing with this much content, I was wondering if this could be discussed within 40 to 45 minutes, and he was able to do it. I was very surprised.

Now, we just heard Professor Stiglitz's presentation, and I was thinking that he is an economist and I am a political scientist, and the language that we use is different. What was interesting was, in his presentation, the state, the word state, was mentioned only once. The region, the word region, was never mentioned. I thought that was very interesting. On these two points I would like to make comments, and also I would like to raise some questions.

First, about the state, about the issues concerning the state. In the 1990s the Cold War ended, and in the post Cold War years, when we addressed the questions concerning developing countries, two liberalizations were emphasized; number one, economic liberalization, number two, political liberalization, meaning democratization. These were the points that were emphasized. However, in the 1990s, I think one lesson we've learned is that with these two liberalizations alone, developing countries politically cannot become stable and cannot grow economically. State institutions need to be established. That's a lesson I think that was drawn from this.

Now, this is evident from a “World Development Report” which featured state-building that was issued in 1997 while Professor Stiglitz was working at the World Bank. Thus, about 10 years ago it was pointed out that state-building is very important.

Now, with respect to state-building, what is really important? When you say state-building, it encompasses a variety of things; the establishment of a central bank, that may be part of it, or the creation of a primary education system could be a part of state-building, establishing a military would be one, or establishing the police would be state-building. So it's a very complex issue that is encompassed by this single word, state-building.

Now, against this background, regarding development, what is the most important aspect of state-building? That's one question I would like to ask Professor Stiglitz. Now, as far as I'm concerned, what I consider to be most important in state-building is that life and private property need to be safe, so there has to be enhanced predictability for life. But on this point, over the last decade, there is no consensus as to what is the most important aspect to do in state-building, so I'd like to invite Professor Stiglitz's comments.

Another point is region, the word region. As you are aware, in Asia, or in Africa, or in Latin America, when we talk about the region, we not only talk about the geographical region, but in different regions, there are different political and economic structures. Consciously or unconsciously, I think that's what we base ourselves on. Why do I mention this? Because when it comes to East Asia, I think you can say that it's a very interesting region. Why do I say this? Now, in the East Asian region, we have Japan, South Korea, Taiwan, and Singapore. These are economically developed countries or territories, and also on the other hand, we have Cambodia, which up until a decade ago was a failed state as the people called it. But then, gradually, security got better and of late, direct investment from abroad is going into the country, which is starting economic growth. Still, this is a developing country. So in this kind of region, in effect economic integration with direct investment is progressing, and based on that economic partnership or by way of FTA, effective economic integration institutionally is being supported. At least an effort is being made to do that.

Now, with the FTAs in East Asia, the economists who study those say it's a

spaghetti bowl effect or noodle effect, but to me, the countries that have already developed economically, and the developing countries, in one way or another, are institutionalizing the integration, while economic liberalization and economic cooperation or economic assistance are exchanged through deals. I think East Asia is the first region where that is occurring. In this connection, as was mentioned before, Cambodia, ten years ago was a failed state, but gradually economic growth is occurring. If that is the case, then when it comes to regional issues, perhaps not only do we have to consider that globally but there is a point in considering these issues regionally, and I would like to again invite Professor Stiglitz's comments on this point.

Mr. Kojima: As a footnote, the World Bank came out with an Asian miracle report in 1993, and this year, two months ago, the World Bank published a new report. The title is East Asian Renaissance. At the time of the Asian crisis, according to Washington Consensus perspective, countries in East Asia were crony capitalists and bad students, but now they are in renaissance. So I think regional issues may be very important.

Now, Professor Stiglitz, perhaps before getting comments from you, I would like to invite comments from Mr. Kobayashi. In globalization, actually the market-led globalization, companies play a central role. Business globalization is the most important factor. So as a business leader, Mr. Kobayashi, maybe you can give us some comments or raise some questions.

Mr. Kobayashi: Thank you very much. I greatly appreciate this opportunity to participate in these discussions. I have asked Mrs. Ogata to do a speech in an affiliated organization of mine, and I agreed to participate in this discussion. To tell you the truth, I'm a little bit worried because I'm a layman, but I'd like to do my best to address the very thought provoking presentation that was given by Dr. Stiglitz.

I'd like to summarize my talk into three or four points, one of which is what Professor Kojima referred to, that is with regard to what Japan can do, and Dr. Stiglitz mentioned this towards the end -- and what can businesses do, what they can conceivably do. These are the points that I would like to state my impressions on.

Firstly, the content of globalization is changing. In 1820, China and India

accounted for 45% of the world's GNP. The globalization was such that a leading role was played before by India and China. Now, it's the United States. But a leading role is played by different actors now, and we tend to forget who played the leading role in the past. The other day in Kobe, there was a commemorative ceremony on Sun Yat-Sen, and in 1924 Sun Yat-Sen, was invited to Kobe, and he did a presentation. That was 1924. But now we are in an era in which the United States and Europe wield by far the strongest power. But until several hundred years ago, Asia was by far the most central power in the world. The Japan-Russo War had just ended, and Japan was in a position to conclude a lot of bilateral agreements. Professor Stiglitz talked about very meaningful bilateral agreements, but Japan was forced into enter into unfair agreements. But this was rectified, and this played a central role in Asia's independence according to Sun Yat-Sen.

Recently, globalization issues are becoming worse, and that has been clearly pointed out by Dr. Stiglitz. Dr. Stiglitz, an American and a former senior economist of the World Bank, is a central figure at the time in the creation of the present day system. But he is doing a self-renouncement, a self-recrimination. So in that sense, I am very impressed. And I'd like to rebut and say, maybe it's not as bad as he makes it out to be. But in any case, it seems like there are lots of problems and perhaps that is a fact.

As the advanced countries, especially partial interest groups amongst them, are pursuing a profit, and the Development Round does not even deserve to be called a Development Round. To put it bluntly, American cronies are in one camp, and they are the only ones that are benefiting, and all others are totally left out of the picture. We have to acknowledge this fact.

So, if we look at the world in terms of the advanced industrialized countries and the developing countries, in Japan we talk about globalization. But if we replace that word with reform, by reform preceding the differences, the gaps are widening. There are different views. Especially in Japan, the local prefectures are suffering, and that issue is becoming a large issue, and that's a part of the results of the upper house elections. Reform widening regional differences in Japan on one hand and globalization widening the gap between advanced countries and developing countries ; the two issues have similarities.

The other point among the developing countries, there is a bipolarization that has been seen. The 48 least developed countries are seeing a worsening of their situation, and China and India are becoming almost a threat to the advanced industrialized countries, including Japan. How are we to address this situation? Of course, that's the next challenge for the advanced industrialized countries. Dr. Stiglitz has said that a more mature democracy is the key. But I think that is idealism. When you look at the reality, we have to address the subject of how to make globalization work better in terms of, for the time being at least, addressing the tug of war between countries. It's a pretty hard ball game we're playing, and that's the reality.

The direction, however, is such that the countries that are called developing countries, with China and India at the lead, will increase their presence, and that is without a doubt. And if we assume that, at the present point in time as the advanced industrialized countries, we have to look at China and India and also at Africa, which are behind, and which are trying to catch up quickly, we have to think about what we can do for these countries, and we need to exercise ingenuity. And I am one hundred percent in concurrence with what Dr. Stiglitz had to say.

In the case of Japan, as part of the industrialized countries, as a very realistic issue, we tend to look at China and the more developed developing countries, there is always a threat that we might be crushed by their threat. But in the short-term, how we address this is something that each country needs to address. But in the medium- to long-term, I think that we need to have a proper awareness of the issues.

In relation to this, I'd like to talk about Japan and the role of business. Japan, until most recently, was trying hard to catch up to the industrialized countries. We were a developing country. Do the Japanese really remember the past? When we talk to China, or when we talk to countries in Asia, we act as if we have been for a long time a member of the developed countries. But until quite recently, we were in pretty much the same position as China or the other countries of Asia. Economically and politically, we were in a similar situation, and we seem to have forgotten that, or maybe we want to forget; we don't want to think about the state we were in before, and that seems to be the situation. And Dr. Stiglitz said that we have to leverage our experience and play a very important role, and I think that was a very important message.

In the case of business, I might be chided by the business representatives here, but let me say the following. In the business world, patents -- this is related to the IT issue. In licensing, whether to go along with an open policy or closed policy is being debated, whether we impose a zero license fee and not charge a license fee at all. It's not that we are doing this for welfare purposes, but we're doing this because our markets will be expanded. If we monopolize things, rather than generate a lot of profit, to expand the profit is better, some would say. And that is related to the discussion between developing countries and developed countries. When talking about the WTO rounds, the issue of services, or technology, or knowledge has been mentioned in this regard. Basically, that kind of thinking is very important.

On the other hand, the developing countries must create a proper structure for ensuring governance. We may intend to expand the market, or we may transfer technology to expand the market, but maybe the benefits will only go to the few higher income bracket people, so that will not do. So there needs to be proper governance.

We have to remember what state we were in twenty and thirty years ago. We must help and cooperate with a sense of humility, and I very keenly felt this. These were just my impressions, Dr. Stiglitz. Thank you.

Mr. Kojima: Thank you very much again. A footnote. Toward the end, Mr. Kobayashi mentioned the state that we were in over thirty years ago. Well, actually the Olympics are going to be held in Beijing next year, and in 1964 we had the Tokyo Olympics. *Shinkansen*, the bullet train was built then. Money came from the World Bank. Without that, we wouldn't have been able to build the *Shinkansen* lines.

Now, we have heard some comments from the two gentlemen, so Professor Stiglitz, could you give us your comments?

Prof. Stiglitz: Thank you very much for those comments. Let me just make a few comments and then have a chance to open it up for discussion from the floor. I want to very much emphasize and agree with the point that was made about the importance of strengthening the state, and the question is, what role do I think the state should play. Well, I think actually, in the process of development, there are at least two distinctive roles that one ought to focus on. One of them is what is called the

developmental state, the role of the state in catalyzing development, and it's that role which I think has been insufficiently emphasized by the World Bank and by the IMF and by other people in the Washington Consensus, that actually was the key to success in East Asia, that each of those countries used the state in an active way to promote development.

Now, one of the interesting things is actually, the U.S. government was also a developmental state at an earlier stage of its development. In the 19th century, the main industry was agriculture, and the U.S. government established the land grant colleges, and not only established the land grant colleges to do research and teach in agriculture, mining, and applied subjects, but also developed extension services to bring the knowledge to the individual farmers. So it was based on the notion that the government had a responsibility to bring advanced technology to the individual farmer. It's a very different view than a passive state. It was a very activist state.

The U.S. government laid the first telegraph line in the world between Baltimore and Washington. It began the telecommunications revolution of the 19th century, and then, in the 20th century, paid for the creation of the Internet. It then in both of the cases turned it over to the private sector. But in both of these cases it played a catalytic role. It played a catalytic role in creating mortgage markets and financing small businesses, Federal Express, the whole private postal business was supported by a loan from the Small Business Administration.

So, particularly in developing countries where the entrepreneurial class has not been as developed, there is a special role, I think, for the state to encourage development.

Another role, though for the state is protection. One of the themes, one of the areas that the U.N. Commission that Madame Ogata was on with Professor Sen was highlighting the importance of human security, and the state plays an important role, again, particularly when markets aren't there. In advanced industrial countries, you can buy insurance. But even in the United States, 50 million Americans do not have health insurance. They have no protection against the ravages of illness. Unemployment insurance. The private sector has never provided unemployment insurance. Retirement, pensions. The transaction costs in the government Social Security System are a fraction of the private sector, and the private sector still does not

provide insurance for retirement that protects you against inflation. So there are a whole set of risks that the private market isn't able to provide and for which the state has an important role. That role will differ depending on whether it's a developing or a developed country, and from time to time, change from country to country and time to time. That was why in the 1997 report of the World Development Report we emphasized the importance of strengthening the states.

And I think this fits in very well also with the remarks that Mr. Kobayashi made, which is that development is complex and requires all the players. It needs business, it needs the private sector, it needs civil society, and it can't be one to the exclusion of the other.

When one describes what happened in India to its growth, that led to its growth, one of the things was that the government had had an anti-business attitude before the early 80s, and then in the early 80s it changed its attitude and became more pro-business, and it was that single change from being anti- to pro-business, that did more than anything else, that led to the change in India from growing at two to three percent to growing at five to six percent. So, I think we need to realize that one needs a strong state but also a strong private sector.

I want to comment, also spend a minute on another item. In terms of strengthening the state, there is no easy formula to strengthening the state, but one of my concerns is that actually in many ways globalization has led to a weakening of the state. It has restricted what the state can do, it has put more demands on the state but lowered the capability of the state to respond, and that one of the problems of the strategies that were pursued by the World Bank and the IMF in the 70s and 80s in the structural adjustment in which they focused on the minimal state, was that they actually weakened the state. One of the examples that was cited was of Cambodia as a failed state, and we now realize that when we have too weak of a state, the society can't grow, government, you can't grow. So, some of the strategies of the past actually led to a weakening of the state. We really need to help strengthen the state.

One of the most interesting initiatives that I was involved in when I was in the White House was called "reinventing government," where what we did is we went through each and every department, every agency, and we asked the following questions: 1) what is the reason for the government, 2) what are the functions that it is

supposed to do, and 3) could we do that more efficiently; were we doing it in the best way; were there other ways of doing it? So, we didn't begin by asking, how do we strip down the government? That wasn't the issue. The question was, there were certain functions that need to be performed, the question was how to do them more effectively. That's part of building up the state and strengthening the state. That's an example, as I say, of the kind of process that can help make a stronger state and a more effective state.

Now, I want to make a comment about regional cooperation and regional development. I think there's absolutely no doubt that success is contagious. The success of Japan had a lot of influence on the neighboring countries, on Korea, on Taiwan, on Hong Kong, and those successes had a lot of influence on Thailand, on Malaysia, on Indonesia. So, if you look at what has happened in the region, it's an example of the contagion in the positive sense, that each learned from the other, each asked the question of what were they doing, what they can't do and what they can do. And so there was a real spread.

The business community played a very important role, but actually so did development assistance. If you look at that history of the movement from Japan's success to the success of all of East Asia, it was Japanese firms working together with development assistance. Where there was infrastructure being constructed, it was actually a very close cooperation where Japanese businesses worked with the Japanese government and said, well, what infrastructure was needed for the success of the business, and what policy advice would be needed for the success of the business. It was a real case in which the same kinds of cooperation that had helped lead to success in Japan were part of the success, the basis of the success, for other countries of East Asia. And I think that kind of cooperation is needed once again.

Your remarks about the "East Asia Renaissance" --- actually what is remarkable was how short-lived the economic downturn of 1997 was. It was actually a blip in historical terms. Now, of course when you're going through a crisis, you don't feel that. It was an exciting time because you don't know, you see things going down, and you don't know when it's going to stop and how fast it's going to turn around. But the fact that it was what is sometimes called a V-shaped turnaround, for most of the countries a very quick turn around, I think is evidence that it wasn't a fundamental

problem with the model of development. In fact my diagnosis was the major problem of excessively rapid capital market liberalization in countries that weren't ready for it, that led them, exposed them to certain kinds of market failures like a real estate bubble or a stock market bubble, that the economies were not really well-equipped to deal with. It was really that the state didn't have the regulatory capacity and the macroeconomic capacity to deal with the liberalization that got ahead of those other aspects. So in a sense, the word “renaissance” may be incorrect because one should really see this as a continual growth path with a little blip in 1997, and that there was, I think, a misdiagnosis on the part of the IMF suggesting that there was something more fundamentally wrong than there was.

Let me just stop there and open it up for questions, and then come back and talk about some of the other issues that were raised.

Mr. Kojima: Are you satisfied with his response?

Dr. Shiraishi: One point if I may ask some further questions on the following point, that is the issue of the developmental state. Indeed, Chalmers Johnson talked about postwar Japan's development, and he explained that, and when he explained it, he used the words “developmental state,” and he introduced this concept. Since then, in Korea, and in Taiwan, to explain the economic development, this developmental state concept has been emphasized. And Chalmers Johnson's way of using the word, I don't know whether I'll be using it the same way, but I would like to use this word, this expression more loosely. These would be different from the regulatory story. These states exist, and they are different from the regulatory state, and I agree with Chalmers Johnson on this point. But the issue is, within globalization, when globalization evolves, what can the developmental state do? It becomes harder and harder to find what to do. And the state that acts as a gatekeeper no longer can protect the domestic economy when globalization proceeds. So, when globalization proceeds, what is a role of the developmental state? Is there any role left for that kind of state to play? I'd like to ask this point as a further question to my previous one.

Prof. Stiglitz: I think you raised a very important question that many developing countries are feeling very strongly about. They worry that globalization, the way it's managed, has reduced their policy space as it's called, their scope for action, and one of the real challenges for those of us who are advising developing countries is, given the rules that the WTO has, how can developing countries continue to play the role of the developmental state with those restrictions? I think the answer is they still can. It's more difficult. Japan had an easier time before the WTO than countries do today.

But it's still clear, for instance, that to give you an example, Brazil has succeeded in developing the Embraer airplane, which is a very major success as a regional airplane. Brazil has developed bio-fuels to the point that all the cars in the country work on a flexible bio-fuels, and Brazil is one of the first countries to get energy independence by using bio-fuels. And in a way, it's way ahead of the United States. To give you this comparison: to keep sugar-based ethanol made in Brazil competitive with corn-based ethanol made in the United States, the United States has to subsidize corn-based ethanol by 50 cents, and tax sugar-based ethanol by 50 cents. So it has to introduce a dollar-a-gallon wedge because Brazil has been so successful in developing its sugar-based ethanol. Now, that's a real success case, and it's a real important case because of global warming. It really makes a very big difference. So, those are examples for which I still think there is scope for the developmental state, but it is a challenge because the hands are tied to some extent.

Mr. Kojima: Then, from the floor, I'd like to entertain questions from the floor at this point then. Please raise your hand and wait for the microphone to be brought over to you. The person in the middle.

A participant(1): First, about the development aid and globalization, could you elaborate on the relationship between development aid assistance and globalization?

And within in the United States, needless to say, the government, but regarding globalization, within the public maybe there are people who are opposing globalization. But do you think globalization is the trend of the times?

Prof. Stiglitz: Okay. Actually the subject of globalization has become very

controversial, not only in the United State, but in Europe, and in many of the advanced industrial countries, as well as developing countries. It's ironical because globalization was supposed to make everybody better off. If it made everybody better off, everybody would be supporting it. And yet what's remarkable is it has united people in opposing it. And the question is why. One of the arguments that I've put forward is that even when it leads to more growth, it also has led to more inequality, and so the benefits have not been equally shared. This has become a major issue in the United States because in the United States particularly, there is growing inequality in a very serious way. Globalization is only one of the factors contributing to the growing inequality, but it's one of the factors that people feel they can do something about. So, there are other factors like changes in technology and the weakening of unions. They feel like they can't do anything about technology.

The magnitude of what has happened in the United States is just beginning to be grasped. There was a study done just a few weeks ago that pointed out that the median American worker in their thirties today is actually poorer than the median American worker in the thirties 30 years ago. So we've had a generation of decline at the middle. It's been worse in the last six years. So, while America has grown every year -- two, three, four, five percent -- today, most Americans are worse off than they were six years ago. So, all of the growth has gone to a few people at the top, and that's now becoming a major economic, political, and social problem.

Now, at least the Democratic candidates for president are struggling with how can they, how to deal with globalization. A particular slogan that I've been talking about is, how do we protect the average American without adopting protectionism? Can we keep an open economy, a liberalized economy, but have the average American protected? I think the answer is yes, but it will require things like more progressive income taxes, better safety nets, more education, more training programs, and more job retraining programs. It requires, to go back to what we were talking about in terms of the role of the state, it requires a more active state.

And it's interesting. If you look around the world, the countries that have been more successful with globalization in the sense that the average person has done the best are the Scandinavian countries, and the Scandinavian countries are the countries with the highest tax rates. One of the myths about globalization is that some people

say, to succeed in globalization we have to lower the tax rates. That's totally wrong. What you need with globalization, because it's putting more stress on society, you need a stronger state. A stronger state means that you have to do what you do more efficiently and more effectively, but it also takes resources, and that means taxes no matter whether you like it or not. So, I think it highlights some of the forces going on at a global level in regard to globalization.

I want to comment on the nature of knowledge as a public good, and the importance of knowledge in development. This is also something that is quintessentially or essentially an area where government is needed. There's a technical term that economists use that they say, knowledge as a public good, by which they mean, the marginal cost of another person using knowledge is zero. If I know something and I tell you, you also know it, but I also still know it. It's different from a private good like a chair. If I'm sitting in the chair, you can't sit on, or you can't sit on comfortably. If I eat something, you can't eat it. But knowledge is different. Actually this idea of knowledge as a public good was talked about by one of America's early presidents, Thomas Jefferson, who said knowledge was like a candle. When one candle lights another, it doesn't diminish from the light the first candle. He was a very strong supporter of government in a developmental state role, government in promoting education. He helped found one of the earliest universities in America; the University of Virginia. So very early on, it was recognized that it was important to have a state to promote education because knowledge is something that has a public collective nature about it.

So one of the things that has been, that I think where the Washington Consensus went wrong, was that it didn't understand; it talked about the minimal role of the state rather than a balanced role of the state. What did the state need to do and what did the private sector need to do? Where do they need to be a partnership? Where do they need to be complementary? And how do they act in a complementary way? It is a fundamental issue that I think every society faces, but I think unfortunately, Thatcher, Reagan, and Bush have all oversimplified the nature of that debate. It's a more complex debate, and by oversimplifying it, they've actually set the agenda back in a very important way.

Mr. Kobayashi: Very briefly, on what Dr. Stiglitz and Dr. Shiraishi mentioned in terms of the developmental state -- that's *kaihatsugata keizai* in Japanese, I think we should re-examine this issue. There were a lot of bashing regarding Japanese industrial policy. At the Japan-U.S. business council, we argued about the industrial policy in Japan, and some Americans criticized the so-called iron triangle made by politics, bureaucrats and business, but some said that America had exercised industrial policy in relation to the Department of Defense, and there also was the agricultural policy in the U.S. But in relation to education, in the case of Japan, since the pre-war days, we had a rather high level of homogenous education level, and in administration and in politics and in the economy, we had high-quality people and so we could create a rather advanced system. So, I believe that so far as transparency had been ensured, it would have worked. But it was a rather inward-looking, and it was not transparent to the external world, and that was the problem with our Japanese system in the past.

Moving ahead, going forward in the developing countries, a certain variation of the industrial policy is perhaps worth considering, especially in terms of the government's role, or different sectors' roles. If these are taken into consideration, I think there would be some merit in that.

Prof. Stiglitz: I agree very strongly, and one of the things that I've been involved in over the last few years is discussions with some African countries. I have a little NGO called the Initiative for Policy Dialogue, and we have an Africa task force, and one of the main ideas in this Africa task force is the applicability of the concepts of industrial policy to Africa. Prime Minister Meles of Ethiopia, South Africa, and a number of countries are discussing this idea, and actually not only discussing it, implementing these ideas, and implementing them successfully. So, the question is, I mentioned there are different rules today, the world is different today, so you can't quite do it exactly in the way that it was done in the past, but the basic idea is one that is very important.

As I say, I think the United States has an industrial policy. It's a very inefficient industrial policy because it's all embedded inside the Defense Department. So we promote lots of innovations, but we spend a hundred dollars to get one dollar of

innovation. But the Defense Department has been one of the major sources of innovation in our economy, and so we should recognize that almost every successful country has had these policies. So the question is not whether you should have them, but how you design them to be most effective.

Mr. Kojima: Last question, please. The person in the second row, please.

A participant(2): Thank you very much. I am working in Japanese financial institution, so in connection with the previous discussion on the role of the state, I would like to get your opinion on the role of the financial system, or financial infrastructure inside the developing countries because you wrote so many papers and books on the so-called information asymmetry. So, how do you evaluate the efficient, transparent, financial market's role, including the so-called microfinance in the developing countries? Thank you.

Prof. Stiglitz: I think that good financial markets are essential for successful development. Access to credit makes it at least a lot easier to develop. But markets by themselves don't develop. In the case of Japan, in the early stages, the government played a very important role in long-term capital in creating investment banks, and this is true in other countries as well. Traditional banking focused on short-term working capital, which is important, but not adequate for financing long-term investment. So there is an important catalytic role that government may need to play in helping financial markets to develop. Even when they are developed, when banking institutions, for instance, exist, there is a real problem in recent years, and this is related to the WTO, where foreign banks have come in and taken over domestic banks, and in some instances become more interested in lending to multinational corporations and large companies within the country or to governments, rather than lending to small and medium sized enterprises. A recent study that we did at Columbia showed that the opening of foreign banks systematically leads to less availability of finance for small and medium sized enterprises and to lower growth. Some people have said, financial market liberalization will lead to more growth. The evidence is not there. And even a recent study in the IMF confirmed this kind of

result. And it's what theories of information asymmetry predict. That is to say, foreigners know less about domestic markets, especially small and medium sized businesses, and so they are more likely lend to those where they can find out information like the multinationals and have security abroad. So, we have a task force at the Initiative for Policy Dialogue that is focusing on precisely this this issue -- how can developing countries make sure that there is wider access to capital?

One of the unfortunate things about the East Asia financial crisis was everybody started focusing on strong, sound banks. Well, we know how to create strong and sound banks. If they just invest in U.S. T-bills or T-bills from Japan, you have a strong bank. But the bank doesn't help the economy. So, the point is that the function of banks is not just put money into T-bills. It's to help make credit available for economic growth. So, how do you combine the issue of stability with the issue of access to finance? And that's one of the issues that we're trying to address.

There are some policies that a few developing countries have pursued, or are talking about pursuing. For instance, India passed a law that required foreign banks that wanted to open up many branches, to open up branches not just in Delhi and Mumbai, but to also open up branches in other parts of the country that were underserved. In the United States, we have an important law that we call the CRA, Community Reinvestment Act, where we require all banks to reinvest a fraction of their deposits in underserved markets, and I've been urging governments to adopt similar kinds of legislation. So, there are strategies that one can adopt that can lead to more access to credit. But the idea is that finance is important, and you have to have finance across the whole spectrum.

Now, microcredit is very important, and there's been a major expansion of the availability of microcredit, especially since Yunus got all the attention with the Nobel Prize. But microcredit is important in raising living standards of those who are very poor, but isn't really adequate as a basis for sustained growth because the credits are too small. They are not at the size of what we call small and medium sized enterprises where you are hiring employees. Therefore, there are examples of a woman raising chicken in her spare time, which will increase her income from maybe \$200 to \$300, or \$300 to \$400, which is very important. You know, it's 25%, 30% increase of her income -- a very big difference. But that's still not the basis of

sustained economic growth that you want to see in successful development. And so, one of the real worries is that we are covering only the very small. The big businesses are getting loans, but it's the stuff in between that is being left out, where there is a real need right now for money.

Mr. Kojima: Thank you very much. We've exceeded the scheduled time. Let me express my impressions of the discussion. And then, we would like to wrap up. This has been a major theme. I think this is a theme that needs to be continually discussed over the 21st century. This is comprised of the lighted areas and shadow areas. Of course, if there is no light, there are no shadows. But if you deny globalization, the light, then there can be no development. The development itself would be denied. So the light aspect of globalization should be emphasized, and we should try to reduce the shadow aspect to the extent possible. When you say 9.11, well, you always think of the terrorism in 2001 in the United States, and I think that's the shadow aspect of globalization. That signifies the shadow aspect.

Again, as was alluded to in the question, what about in the United States? In 1999, December, there was Seattle meeting of WTO, at the ministerial level. I think that was symbolic. In the United States, there were people that represented anti-globalism, and that spread throughout the world, as did the demonstration of anti-globalization. Well, in all major conferences there are always anti-globalization demonstrations. But when it comes to the 11/9, not 9.11, that was the collapse of the Berlin Wall in 1989, a new version of globalization started with that, and perhaps for the time being, that will be with us in the 21st century.

And also after that, investment was also discussed. Now, in terms of economics, in the process of globalization, the most important engine is direct investment that goes across borders. In the Cold War era, the cumulative sum of direct investment up until 1988 was a little over \$1 trillion. But after the Cold War was over, the direct investment, the FDI, skyrocketed, and just in 2001 alone, the cumulative sum was exceeded. There was more than \$1 trillion of direct investment in 2001 alone, and so the major division of labor globally, and the countries that accepted that investment grew. He mentioned India and China. They are typical examples. That's what happened.

But with respect to shadows, another important point as was reported by Professor Stiglitz in his presentation in connection with the role played by the state and the private sector, I think the public policy is becoming increasingly important because as globalization progresses, and market driven changes occur, and in the private sector capital including FDI, unless there is profit, capital is not used. If there is too much risk, they don't go to the markets. So, in the market process to begin with, well, if there is a confusion, political confusion, economic confusion, and social confusion in some countries, well, there are some countries that find themselves in a vicious spiral. With economic improvement there can be improvement politically and socially. But because of those countries that are in those circumstances, the market driven capital would not go to these countries.

And also after the Cold War is over. During the Cold War, the East bloc and West bloc, they wanted to increase the countries in their camp so they provided assistance. But now, the Cold War is over. To get alliances, you don't need to provide any assistance to get more partners. And ODA and other kinds of assistance, well, there is some sort of ODA fatigue occurring after the Cold War. There is an increasing global capital or private sector capital, but I think there has been a decrease in the state capital or investment. As a result, countries that are left out of the marketplace are not getting enough light. In the G-7 and G-8, these are the issues that have been increasingly discussed. In this process, on the part of the state, the states should cooperate globally and address these issues, and I think this is something that we actually need to do.

Now, today, we had active participation from the people on the floor. I saw a lot of hands that were raised, but due to time constraints we were not able to entertain all the questions. But today, we have had Professor Stiglitz, Mr. Kobayashi, Mr. Shiraishi; thank you very much for the contributions.

Dr. Ogata, Mr. Kojima, Dr. Shiraishi, Mr. Kobayashi and a participants (1) originally spoke in Japanese.

The English transcript is based on the simultaneous interpretation in English.