

**Discussion of the World Bank's Report on "*Global Economic Prospects: Managing the Next Wave of Globalisation*" 7<sup>th</sup> February 2007, Dar es Salaam.**

**1. Introduction**

Globalisation (however defined) has increasingly continued to integrate countries and societies to the extent that effects (good or bad) of policies of a particular country are quickly rippled through to other countries regardless of our geographical boundaries. Furthermore, the dynamics of economic growth and development have converged in terms of policies, drawing a line between policies which work and which cannot work. This has prompted importation and exportation of policies to/from some countries.

Overall the impact of good policies and that of global growth dynamics on developing countries have not been as uniformed – often countries differ in the extent they are affected positively or negatively, although a few conclusions can be stylised. These include:

- (a) growth is not only important but necessary for poverty reduction and development
- (b) trade is a key source of growth, and therefore openness to the rest of the world is a foundation for growth
- (c) economic reforms much as they are necessary, requires consistent initiative to improve investment climate and business operating environment for private sector
- (d) good governance is sufficient condition for economic policies or institutions to work effectively.

Nevertheless, the current pace of globalisation requires countries and multilateral institutions to design policies that will influence the dynamics of globalisation so as to manage its effects by maximising benefits and minimising risks associated with them. To do so, we need information on the current and possible future course of global economy – and that is what the GEP report is all about. We are grateful for the World Bank for taking such initiatives, and it's a great privilege for me to discuss some aspects of it. I will do my discussion in three sections – the main purpose being to kick-start the rich

discussion from the very eminent participants in the room. First, I will briefly summarise what I call the main features of the report and the key messages involved. Second, I will draw implications for a Developing, especially the Sub-Saharan African countries such as Tanzania; and finally I will conclude by identifying key policy questions from the report.

## **2. Key features and Messages from the Report**

### *(i) We need to know what the GEP report is adding to some of the common literature*

The GEP report 2007 is an incomparable think piece whose niche is consistently putting together our **global** economic fears and hopes about the global economy. It has avoided policy diagnosis and prescription by focusing on selected key issues facing the global economy now and in the future; leaving its audience ample room to interpret implications of these issues on their own development policy or strategic interventions. I think understanding this “niche” is important so that we do not fall victim of misjudging the report to that of World Development Report, or Many books on globalisation debates or Global reports such as those on ILO’s WCSDG or Blair’s Africa Commission. The GEP is about identifying key global economic issues and their implications for future global economy.

### *(ii) Three main themes and messages arise from report*

The first one is projection about the future global economic growth. This is the most positive part of the report in that the world economy is on average less likely to enter recession, instead sustain the current growth rate. For SSA, it is evident that the amount and payoff of reforms experienced in the last decade has set a lot of optimism for the future. Two messages are key here:

On one hand, while there is no reason to be hopeless about the future economic growth, the next wave of globalisation requires persistent efforts and strategies to increase our share of the global cake, as this is least likely to happen automatically. Many countries are scrambling of the same word export markets, and same pool of foreign investment; so what you offer is what you get, depending on your innovation of your strategies.

However, technology and increased productivity as sources of competitiveness are there for grab depending on ones ability to access it. The former is so much responsibility of the State, the later although is primary responsibility of markets, the State in SSA/LDC need to intervene actively in production capacity building.

On the other hand, the relative position of Africa in the global poverty remains to be an undeniable fact, and one that may not change for decades!

The second theme is the implications and debate about the rise of China and India as global economic heavyweights; and its economic ramifications to both on developed and developing world. Overall the key message from the report is that the up surge of China and India has global economic implications – not only in Africa or rest of Developing world; and that these dynamics have with them, lots of **unique** opportunities but also some **new** threats for both types of worlds. However, I would like to believe, also having read the "Africa's silky road" that on average, the implications of China and India will bring net effects to the global economy most importantly because they have become new sources of growth and competitiveness with significant spill over benefits to SSA. **But it is not enough to celebrate!** The fears of economic displacement and ramifications on the labour market dynamics leaves a lot to be desired. In my opinion, countries across the globe and especially in SSA, need to **draw urgent and effective strategies that will balance trade and production impact** of China and India's boom to avoid discontentment. In industrial country, the welfare implications are not straightforward; but in Africa they can be, and they already are, largely positive.

Finally, the third one is the environmental threats posed by the increasing expansion of economic activities which are projected by GEP to expand even further. This is part of the report is very clear – and its focus on innovating global institutions to manage ensuing environmental threat cannot be overemphasised. I believe this time, all players giant and minor will pay heed to the need to guard environment since environment cannot be substitutable. The problem I see is how the UN can enforce nations to converge in environmental alerts and action.

*(iii) Main conclusions and recommendations for the next wave of globalisation*

The report poses three consequences on the next wave of globalisation:

- (1) growing inequality
- (2) Pressures in Labour Markets
- (3) Threats to global common good

It also recommends three strategies for solution:

- (1) increasing amount and effectiveness of Development Aid
- (2) Liberalising Trade in the framework of WTO; and
- (3) Deepening institutional mechanisms to deal with threats to global common good

### **3. Implications for a Developing SSA country such as Tanzania**

As we all cheer up the content and importance of the report, the following issues are of direct relevance for low income economies such as Tanzania, and which I hope will continue to influence discourse on globalisation. First, is the role of reforms and social institutions in realising the projected growth prospects. As I said earlier the GEP is not about giving prescriptions but knowing how the future may look like is a great opportunity to design strategies to influence your course of action.

Second, the GEP centres on global average – which may be too aggregate a picture to bring into focus the challenges of specific regions of the world who are much more prone to global shifts. This is important since, the overview of the report did not highlight on the key assumptions underlying the growth prospects. For instance, according to the recent World Banks CEM and DTIS reports, countries such as Tanzania whose growth bedrock is made of natural resources are more prone to economic cyclones, and environmental effects! It is important for Tanzanian debate to have more realistic assumptions, and which may result to less optimistic picture.

Third, the relative poverty position “poverty lead tables” have less use for policy both at national and international level. The fact that SSA will double its relative share in global poverty in 2030 is rather static argument for two reasons. First, there will always be the last person on the race as much as there is the first one. Given the initial conditions argument, it is least likely that SSA will make significant leap frog to acquire a better position in the rank. To do so, you need to make the US, EU, China and India to stop for a few decade to accommodate SSA’s progression. Second, I think it is important to direct debate on the extent to which welfare have improved in these economies as a result of increased growth, so that we can see these economies climbing higher along the same indifference curve even when they may not shift it in the medium term.

Fourth, how do we deal with China and India? Should the strategies be different between say EU and SSA, or between UK and Tanzania on how to exploit the new opportunities and curb the threats associated with the boom? I think we have different stakes here divided into two: for Tanzania, this is about diversification of economic opportunities; and for EU, US, it is about diversification of market competition. Both of these processes can bring about positive net effects on welfare depending on the quality of domestic policies pursued on trade, production and labour markets.

Finally, SSA has a unique set of development challenges whose solutions are beyond the report – but we should talk about them if the discourse on the next wave of globalisation is to be complete for Tanzania. These have, and will continue to be key priorities in the next wave of globalisation, and unless we score high in those it will be difficult to graduate out of poverty however accurate and positive are the projections of GEP report. These are first, infrastructure development to increase supply capacity and distribution through improved road access to rural resources. Second, is human resource development which is key for improving income distribution by increasing earnings and lessening skill shortage/gaps and by exploiting knowledge economy; and finally the third area is good governance by improving social and political institutions to ensure effective justice, civil liberty, democracy and rule of law. In fact, this is an area where the poor are the greatest

victims, but the country image is also important for functioning of other economic variables such as trade, foreign direct investment and development aid.

#### **4. Key Policy questions for Developing Countries**

In conclusion, I have identified four policy questions that may enrich our continued debate on globalisation of all waves.

First, what should be the balance between policies to embrace globalisation and those to address domestic issues?

Second, what should be the balance between interventions for Trade and those on Production? What leverage is there for “States” to correct the obvious market failures?

Third, what should be the role of foreign aid? To address infrastructure? Productive capacity or proper functioning of the Government? What is the efficacy of aid for trade?

And finally, how can multilateral development institutions be more effective in achieving pro-poor trade integration (e.g. Doha Development Agenda – DDA)?

Mr Chairperson, it was great pleasure and opportunity reading the overview of the report, which has given me even higher appetite to read the entire report, and once again I commend the Bank, Prof Newfarmer and other contributors for a resourceful report. Globalization is there for us all, old and new, poor and rich, fair or unfair, but I believe we have a role to play to influence its dynamics to better and fairer outcomes. Addressing these question can contribute to such endeavour.

Thank you all for your audience.

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