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# Opening Comments by Jungsoo Lee to the Plenary Panel Discussion on "The Globalization of Asian and Pacific Economies and its effects on Poverty Reduction"

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Globalization is, in fact, in not a new phenomenon and it has a long, somewhat interrupted history. However, the pace of globalization has accelerated during the last three decades, as governments have reduced policy barriers that hampered international trade and investment. Globalization is now a dominant force in the world and is one of the most hotly debated issues of today. While supporters of globalization see it as an effective way of improving human welfare and reducing poverty, its opponents accuse it of aggravating the world's inequalities, making the rich richer and devastating the environment. Simply, globalization, as you know, has many dimensions to it. From the economist's perspective, these dimensions involve, first of all, openness to international trade, liberalization of capital movements, international migration of labor, and the transfer of technology and knowledge across national borders. Needless to say, globalization also has political, social, and cultural dimensions.

When we discuss globalization, we need to distinguish between its different forms, as the benefits and challenges of globalization vary depending on which dimension of globalization we are talking about. I think the panelists will touch on the issue directly or indirectly. As you probably know, in a world of globalized knowledge and markets, simple neoclassical growth models predict convergence of levels of income and growth rates among countries. If this is true in the real world, we should not worry too much about globalization. Historical evidence is, however, mixed. During the last three decades, the gap between the rich and poor countries has increased steadily. Over the same period, 75% of developing countries recorded slower per capita income growth than in the industrial countries. Only limited numbers of developing countries have enjoyed sustained and rapid improvement in their relative income positions. So there is a strong perception that globalization benefits are not being shared by all. A drastic sign of imbalance is the fact that the world's 200 richest people control more wealth than the poorest 2 billion poor people. This is what we often hear, particularly from spokespersons from civil society. So, it is not surprising that the focus of discussion by world leaders and the World Economic Forum at Davos was on ways to bridge divisions between the rich and poor countries. But, speaking more about Asia and the Pacific region, it is a well-known fact that much of the

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success of the Asian economies can be attributed to the market-friendly and export-oriented economic policies that take advantage of the increasingly globalized marketplace that were pursued by governments of the region. I would, however, like to stress that globalization is not a panacea to all problems. Globalization brings with it many challenges that must be tackled if it is really to be effective in achieving greater prosperity for all.

Let me take an example of trade. Liberalization works by encouraging shifts of labor and capital from import-competing industries to export industries. This process inevitably causes an increase in unemployment and loss of output in import-competing sectors, which will hopefully be offset by the job creation in other sectors. But as Prof. Mundell mentioned this morning, the problem is that the cost of adjustment comes first, while the benefits of adjustment come only at a later stage. This transitory cost can be a serious issue in many countries because they are often concentrated in a geographic area or in a few industries. So a carefully designed social safety net is essential for reducing the adverse effects of trade liberalization on less fortunate segments of the population.

In the area of international capital flows, the effect of such flows on the volatility of markets is now well-known, particularly after the Asian financial crisis. Of course, it is true that during the last three decades many developing countries have benefited from significant private capital flows and foreign direct investment. However, these flows tend to concentrate on a few geographical areas and on a few countries within them. So increasing the number of countries that benefit from capital flows requires policy responses by both developing and developed countries. Liberalization of capital also increases risks. The recent Asian financial crisis has highlighted the vulnerability of countries to sharp fluctuation in capital flows and its negative impact on the poor. There is a need to strengthen the international financial system so that developing countries can reap the benefits of globalization, while minimizing the associated risks. I think this was the kind of main topic that Prof. Mundell addressed this morning.

Another aspect of globalization is related to information and communication technology. The favorable impact of ICT on economic activities is now well recognized. However, if these current trends are unchecked, the world could witness a new discrimination between information haves and have-nots in the form of the so-called digital divide.

Having said all this, I believe that the greatest challenge in the context of globalization is to include the excluded. There are many individuals who are being left behind by the forces of globalization and the prosperity it can bring. These are the individuals without access to decent education, without access to the chance to be retrained in a world in which skills need to be constantly upgraded, and without access to credit markets and insurance schemes that would protect them from the problems of unemployment. Unless action is taken, we can expect a powerful backlash from the individuals who are being left behind.

I hope this session will provide a useful insight into the major issues related to globalization and poverty reduction in Asia and the Pacific, and come up with useful recommendations for the achievement of ADB's overarching goal of poverty reduction in the Asia and Pacific region.