

Globalisation

What's new, what's not...

Heather Stewart, Economics Correspondent, *The Observer*

GLOBALISATION IS NOTHING NEW. In 1919, John Maynard Keynes could write nostalgically, of the pre-World War I world: 'The inhabitant of London could order by telephone, sipping his morning tea in bed, the various products of the whole earth, in such quantity as he might see fit, and reasonably expect their early delivery upon his doorstep; he could at the same moment and by the same means adventure his wealth in the natural resources and new enterprises of any quarter of the world.'

Keynes's words presaged the end of the last great wave of globalisation in the 'beggar-my-neighbour' protectionism of the 1930s and the tide of free trade has ebbed and flowed ever since. For the last 30 years, one country after another has been singled out as the latest threat to the economic hegemony of the west – Japan in the 1980s; the Asian

tigers in the 1990s; China and India today.

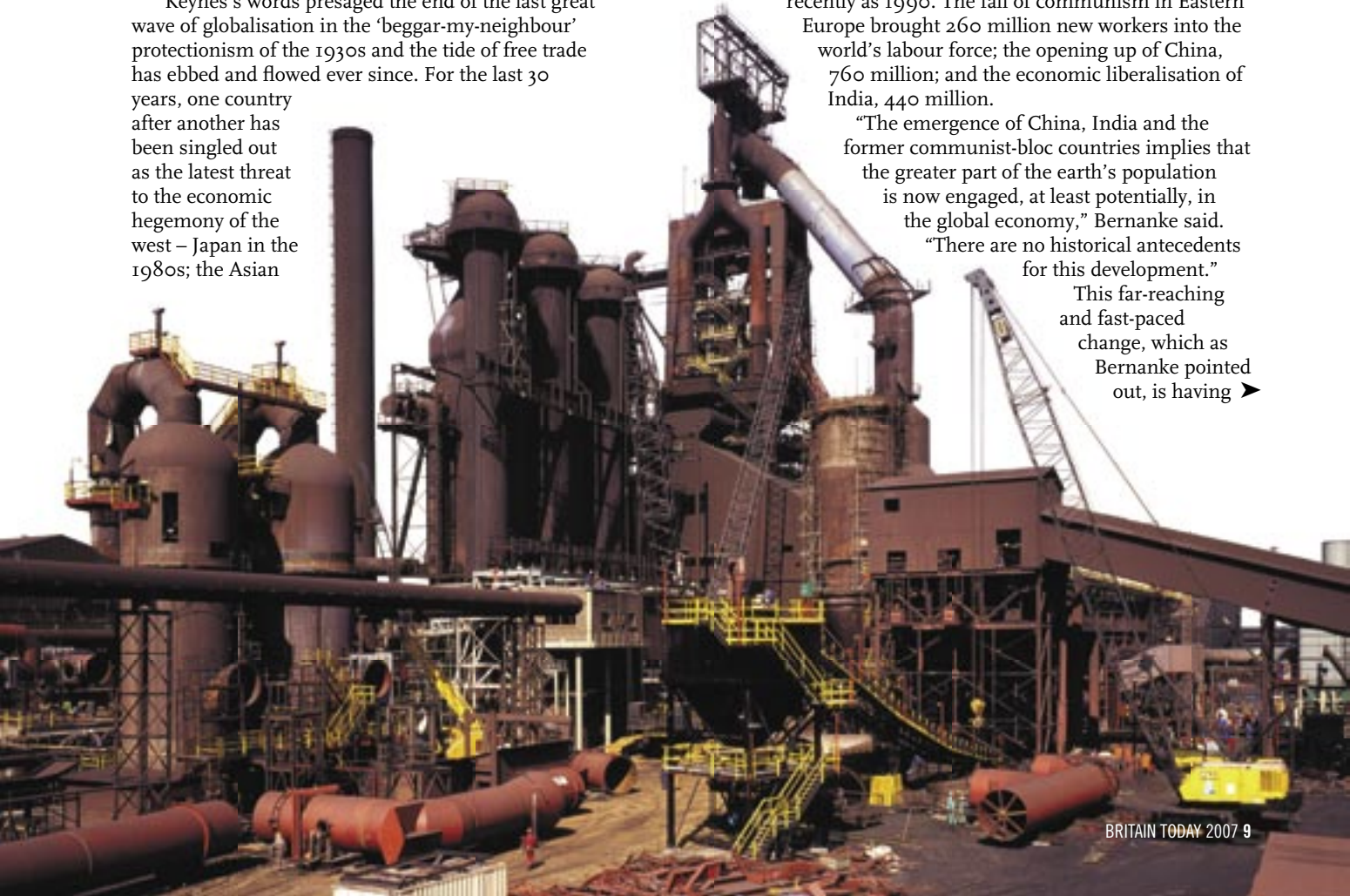
But it would be wrong to dismiss this current wave of integration as just another small step in a long-running and inevitable process. As US Federal Reserve chairman Ben Bernanke noted in a speech at last summer's annual gathering of central bankers in Jackson Hole, Wyoming, the sheer scale of globalisation today is unprecedented.

Trade flows are now worth 20 per cent of world GDP, compared with eight per cent in the pre-World War I period witnessed by Keynes, and 15 per cent as recently as 1990. The fall of communism in Eastern Europe brought 260 million new workers into the world's labour force; the opening up of China, 760 million; and the economic liberalisation of India, 440 million.

"The emergence of China, India and the former communist-bloc countries implies that the greater part of the earth's population is now engaged, at least potentially, in the global economy," Bernanke said.

"There are no historical antecedents for this development."

This far-reaching and fast-paced change, which as Bernanke pointed out, is having ➤





Rapid developments in information technology have transformed previously under-developed countries into economic powerhouses

► dramatic social and political, as well as economic ramifications, creates an imperative to understand the forces driving the process of globalisation – who will benefit, who may lose out, and what will this new, rapidly-integrating world look like? ‘New economic geography’ is a branch of economics seeking to answer these questions and explain some of the characteristics of the current distribution of economic activity that would look puzzling to the pioneers of free trade. At its heart is a simple but powerful insight: proximity matters – it can be good for firms and workers to be clustered close together.

One of the proponents of the new economic geography is Professor Tony Venables at the Centre for Economic Performance. He explains: “The key building block is the recognition that proximity is good for productivity; dense configurations of economic activity work better than sparse or fragmented ones.”

This is hardly a startling idea: it seems intuitively right that companies will sometimes cluster together to take advantage of large consumer markets, a pool of skilled workers or nearby suppliers.

The new economic geographers build on this basic insight, for example by highlighting the importance of face-to-face contact in doing business and the greater likelihood that workers will act to improve their own skills if they are in a competitive labour market, with plenty of employers, where they

Industrial sectors in China are prime examples of the ‘new economic geography’, where companies and workers are clustered together for economic advantage.

could move to another job in the future.

However, the idea of a centralising force, drawing firms together, runs directly counter to the fundamental economic principle of diminishing returns, which suggests that profit-seeking firms will naturally disperse, spreading out from areas where competition is driving down prices and bidding up wages, to less crowded territory. This idea suggests that economic activity should be ‘smeared’ across the map, as Professor Venables puts it, not clustered together.

The new economic geographers do not dispute the existence of these centrifugal forces: one of the characteristics of the recent wave of globalisation has been that falling transportation costs and rapid developments in information technology have suddenly made far-flung, previously under-developed countries – most prominently, China and India – into global economic powerhouses.

But there are also forces pulling in the opposite direction. Once a number of firms are established in a particular area, there can be an ‘agglomeration effect’ – a virtuous circle, in which firms and workers arrive, and increase the advantage of an area, thus attracting yet more.

“Firms and possibly workers will locate in order to take advantage of higher productivity, and this creates a positive feedback. Firms and

workers go where productivity is high, and by so doing tend to further raise productivity, creating an uneven distribution of activity and spatial income disparities,” points out Professor Venables.

Different sectors may be more or less prone to these agglomeration effects, and even within a particular sector, some parts of the business may be more or less likely to exert a centralising pull. Professor Venables gives the example of financial services, in which some activities, such as backroom services, can easily be picked up and plonked thousands of miles away, with the help of computer technology; but old-fashioned deal-making, banking and trading rely a lot more on face-to-face relationships – proximity.

Of course, old-fashioned features such as a country’s natural resources will also be important in explaining patterns of economic activity; and so will political institutions. What economists call the ‘width of the border’ matters, too – the tariff barriers, and the costs of coping with language or cultural differences, which affect flows of trade.

But this new way of looking at the world helps to explain a number of features of the contemporary economy that run counter to the logic of traditional trade theory. Overcrowded mega-cities, crammed sardine-like with hopeful job-hunters, and sucking in economic activity from hundreds of miles around, are examples of agglomeration effects at work.

And the 'lumpiness' created by the lure of proximity explains why global differences in wages can be long-lasting, even when new technology, falling transport costs and trade liberalisation potentially open the door to footloose firms relocating to find the cheapest workers.

Professor Paul Collier, at the Centre for Study of African Economies, uses the insights of the new economic geography to explain why, despite having labour costs as low as those in Asia, African economies have barely benefited from the current wave of globalisation.

He argues that during the 1980s, when the first tentative moves towards economic liberalisation were being made in China and India, African economies were still badly run and had little to offer to multinational firms seeking low-cost locations. And once the first few firms had chosen to shift production to Shanghai or Bangalore, agglomeration effects came into play. Africa was left behind, as one manufacturer after another took advantage of the rising competitiveness that comes when economic activity is clustered together.

Over the next 15 to 20 years, this self-reinforcing process left the African economies far behind. "Currently, Africa has no significant advantage over Asia in terms of labour costs while having large disadvantages in terms of agglomeration economies," Professor Collier explains. Smashing trade barriers by completing a new round of World Trade Organisation talks (itself a very uncertain prospect) will do little to help the poorest countries, once agglomeration economies are taken into account. Professor Collier argues that they will have to be given preferential access to rich-country markets, to balance out the forces drawing economic activity to already successful areas.

Dogmatic defenders of globalisation have often

assumed that it is a force for universal levelling up, and its benefits will eventually become so obvious that critics of free trade will be won over. But in the world of the new economic geography, where development is 'lumpy' and inequalities are inevitable and potentially long-lasting, the pro-free trade argument is much harder to win.

Countries and regions that are home to millions of people may be left behind, and for long periods. Wage gaps won't be magically reduced by a global version of the 'invisible hand'. Bernanke acknowledged some of these issues in his Jackson Hole speech, using the insights of the new economic geographers to argue that in this period of unprecedented globalisation, we shouldn't be surprised if the resulting upheavals begin to erode support for free trade. "The social and political opposition to openness can be strong," he told his fellow central bankers. "Much of it arises because changes in the patterns of production are likely to threaten the livelihoods of some workers and the profits of some firms, even when these changes lead to greater productivity and output overall."

From American voters blaming cheap Chinese workers thousands of miles away for job losses at home, to populist South American politicians equating open markets with neo-imperialism, the lure of protectionism is strong. The challenge for policymakers, as Bernanke sees it, "is to ensure that the benefits of global economic integration are sufficiently widely shared". The lesson of the new economic geography is that it will not be enough to sit back and wait for globalisation to do its work. ■

Shifts in Economic Geography and their Causes by Tony Venables and *Africa: Geography and Growth* by Paul Collier were both presented at the Jackson Hole Symposium, August 2006.

Western multinationals are flocking to take advantage of low-cost locations in China.



The bottom billion

REFOCUSING THE PROBLEM OF GLOBAL POVERTY

PROFESSOR PAUL
COLLIER, Director,
Centre for the Study
of African Economies



FOR OVER A DECADE, the international community has tried to get to grips with global poverty. At the 1995 United Nations summit in Copenhagen, the big idea was to set targets for financial inputs to education and health. By 2000, we had moved from inputs to outcomes: the Millennium Development Goals aimed to halve global poverty. It is now time to make an equivalent conceptual leap and move from outcomes to strategy.

How can this best be achieved? In much of the world, continued global integration will be sufficient. China and India are growing and substantial poverty reduction is well underway: since 1980, the absolute number of people in poverty globally has been falling for the first time in two centuries. The problem is that the process is not global: over the same period, around 60 low-income countries with a combined population of one billion people have stagnated. Around 70 per cent of this 'bottom billion' are African. To make poverty reduction a global phenomenon, we need a more effective strategy for helping them.

Does this take us back to Copenhagen's emphasis on the quantity of aid? The 2005 Gleneagles G8 summit certainly seemed to reduce the issue to this single dimension. But the exclusive focus on aid overestimates its likely potency: there is no mechanistic relationship between additional aid and reduced poverty. Sustained poverty reduction requires a development strategy appropriate for a country's circumstances. Aid alone is not a strategy: indeed, without an appropriate strategy, aid can do little. The bottom billion face one or other of three distinctive problems, each amenable to a distinct strategy.

The first strategic issue is the failure of industrialisation. Many countries of the bottom billion cannot hope to industrialise through exports: they are either landlocked and so face prohibitive transport costs; or resource-rich and uncompetitive because of an overvalued currency. But some are coastal and resource-scarce, and thus have the basic characteristics to emulate the success of Asia's low-income industrial exporters. Unfortunately, now that Asia is established but still has cheap wages, its massive industrial agglomerations easily out-compete new entrants. The bottom billion need to be 'pump-primed' into global markets by being given a temporary advantage over Asia through trade preferences. Both the US (through the Africa Growth and Opportunity Act) and the European Union (through 'Everything but Arms') already do this, but in all trade deals, the devil is in the detail – and for different reasons, both are deeply flawed.

A better-designed preference scheme could create the opportunity for millions of jobs where they are most needed. It would need to be complemented by reforms and aid. Governments would need to commit to export processing zones in which regulations, infrastructure and bureaucracy were benchmarked to Asian standards. Aid donors would need to switch priorities from social spending to finance the costs of such zones, and possibly to insure exporting firms against government failures.

The second strategic issue is natural resource exports like oil and ores. High world prices and new discoveries are now generating larger revenue streams than aid for many governments. Historically, these revenues have not been harnessed for development. The present commodity booms constitute the best opportunity in 30 years for many countries of the bottom billion. Since the effective use of resources depends on wise public spending, there needs to be an intensified accountability of governments to their citizens. While this depends primarily on domestic politics, the international community can assist through standards like the Extractive Industries Transparency Initiative. This initiative was promptly adopted by reformers in Nigeria, illustrating how international standards can reinforce domestic pressure. But it is currently limited to a narrow range of issues and urgently needs to be broadened. There also needs to be better disclosure of corrupt money deposited in international banks. If the average effectiveness of natural resource revenues could be raised to that in Botswana, the impact on poverty among the bottom billion would be massive.

The final strategic issue is security. The societies of the bottom billion have a high incidence of civil wars and coups, which have been very costly. Insecurity is endemic, partly because poverty, stagnation and dependence on resource exports all increase proneness to violence, and partly because the typical country is too small to reap security economies of scale. The most appropriate instrument here is the direct provision of security – through international peacekeeping forces in post-conflict situations and 'over-the-horizon' guarantees in less fraught environments. Peacekeeping forces reduce the risk of renewed conflict. Guarantees are being provided by Britain for Sierra Leone. For years, they were informally provided by France for its former African colonies and the incidence of civil war was only one third what might have been expected. As with trade preferences, international security provision could be complemented by aid. In post-conflict settings, large aid flows facilitate the development that provides an eventual exit strategy for security forces.

As global poverty falls, further reductions may get more difficult as the poor become concentrated in societies that globalisation has passed by. In the longer term, the aid agencies will need to reinvent themselves as true development agencies, using the full range of instruments and not privileging aid over trade, standards and security.

In the meantime, the issue is of sufficient importance that it will need to be addressed by heads of government, the only group currently empowered to span all instruments. Since they will also need to coordinate with each other, the natural forum for this coming refocusing of the problem of global poverty is the G8. ■

This article is based on *The Bottom Billion*, to be published by Oxford University Press, in April and on *War and Peace in Africa*, the 2006 Annual Public Lecture of the Royal Economic Society.

MISCOMMUNICATION IN THE GLOBAL VILLAGE

Forums encourage debate, but do not always provide enlightenment

DOES THE INTERNET BRING people closer? At first glance, this looks like a classic 'no-brainer'. No other instrument of modernity, after all, is so widely credited with shrinking distance and creating the 'global village'. Thanks to the internet, people who have never met each other share opinions, feelings and aspirations. More seriously – at least for some governments – many people also exchange uncensored information.

But can the internet really build communities that transcend political and religious affiliations and cultural identities, building social harmony from the grassroots up? Or does it fuel fragmentation and tribalism, offering an easy platform for bigmouths, fanatics and social misfits?

And how can less advantaged social groups, such as the working class or women in developing countries, gain the internet access they need to improve their life chances? Or again, where do emotionality and religious devotion fit into the 'rational political dialogue' so beloved of political scientists who see in the internet the realisation of their hopes of a genuinely participatory democracy?

Close inspection of online discussion groups reveals a confused picture of soliloquies and monologues, mistaken target audiences and 'imagined communities' that bear little relation to reality. Research by Dr Paula Saukko and Professor

Annabelle Sreberny into the internet's role in the post-9/11 world of global conflict casts serious doubt on the idea of meaningful cross-cultural dialogue, let alone of an embryonic global democracy.

The researchers studied individuals posting messages on the sites of four online groups or 'lists': CULTSTUD, a list devoted to discussion of cultural studies, with many American students and scholars; GULF2000, a Middle Eastern studies list with a transnational membership of opinion-formers and decision-makers; POLITALK, an occasional forum for debating global political developments; and an unmoderated list run by the Muslim Council of

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Despite the internet's role in bringing the global village closer together, researchers have found that people who post on forums make conscious decisions about their identity and how they perceive it to relate to others.

Thanks to the internet, people who have never met each other share opinions, feelings and aspirations, as well as uncensored information

Britain (MCB). The study finds that all message posters were making choices not only about how to present their arguments, but also about how to present themselves in text and about what sort of identity to claim in relation to (imagined) others.

Nowhere was the confusion and elasticity of roles more evident than on the MCB list, where nearly all the posts were from non-Muslim British people imagining the site to be populated by Muslims and sending them hate mail or messages of sympathy after 9/11 – and, by their very presence, reconstructing the site as non-Muslim in the process. ■



Illustration Marc Hudson



WELLBEING AND INTERNATIONAL DEVELOPMENT

The concept of wellbeing could help with the creation of policies to tackle poverty

Female in-migrants in Ethiopia leave rural hardship behind them only to discover different challenges and exploitations in urban life.

WE ARE FREQUENTLY confronted with images of people in developing countries experiencing extreme poverty and hardship. Such media coverage reminds us that these people are not just statistics, and brings an important dimension of humanity to our understanding of poverty – it reminds us of our relationship to them.

This humanised perspective on understanding poverty is central to the work of the Wellbeing in Developing Countries Research Group. The team has carried out detailed studies of how some people succeed, but many others fail, to achieve wellbeing in developing countries. They argue that the concept of wellbeing provides new insights into how we are to understand and then create policy to deal with the challenges of poverty and development.

Last year's UK white paper on development called for the elimination of world poverty to be tackled at a number of levels: from the international political and policy environment; through the governance of the nation state; and the specific

conditions in which men, women and children experience poverty and insecurity in developing countries. There is much of merit in this document and it offers leadership on key development issues. But it fails to enunciate a consistent analytical concept to guide and connect development policy thinking at these different levels.

Recalling the 1986 United Nations declaration on the right to development, which defines development as 'a comprehensive economic, social, cultural and political process, which aims at the constant improvement of the wellbeing of the entire population and of all individuals', the researchers propose that 'the promotion of the conditions within which people can reasonably pursue wellbeing' represents a coherent principle to guide international development policy choices.

We must simply ask: in what ways is this policy intervention going to create the conditions within which people can do better or remove conditions that currently result in them experiencing profound 'illbeing' in the form of extreme poverty?

Wellbeing represents a new focus for development; it situates our understanding of economic resources and the incomes that flow from them in three ways: it considers the wider social and cultural resources that people draw on; it takes account of people's psychological predispositions and states, one part of which is their 'happiness'; and it studies what people can do with their lives. In other words, wellbeing arises from the interaction of what people have, what they can do with what they have, and what they think and feel about what they have and can do.

Applying this perspective in detailed empirical research on the persistence of poverty in four countries – Bangladesh, Ethiopia, Peru and Thailand – the researchers focused attention not only on why some people don't have enough of what they need, but also why some cannot do things to improve their situation – and how they cope with such conditions.

The studies reveal recurring patterns in the struggles of poor people. In seeking to establish employment and livelihood strategies from which they might pursue wellbeing for themselves and their children, they typically face three options.

They can invest their scarce resources of time, labour and loyalty in relationships that provide some security in the pursuit of wellbeing in the short term, but which may entail greater and sometimes exploited dependence on others later.

They can migrate to seek conditions that they believe will better allow them to achieve their desired goals of wellbeing. But they often do so without the resources of money, skills or relationships that would make migration successful.

They can break societies' rules, turning to illegal or socially unacceptable means to pursue wellbeing. But they run the risk of experiencing violence or social and legal sanctions. By highlighting the social relationships that shape these choices and which flow from them, the research offers explanations for the persistence of poverty.

For the first type of response, the study of Bangladesh affirms that for poorer members of communities, borrowing remains a necessity and that 'friends, relatives and neighbours' represent the major category of people from whom loans are taken. Investment in relationships with kin, friends and neighbours is necessary because this group constitutes a major source of security for most households. But while these relationships are important in themselves for people's wellbeing, they can also explain why some households find it difficult to escape poverty. The indebtedness and obligations that arise from such borrowing can result in material burdens on individuals and households, or represent social and political constraints on their choices of what they can and cannot do in their struggles for wellbeing.

For the second type of response, the study of Ethiopia draws attention to a particular group of female in-migrants. These women cited the need to escape the difficult relationships and oppressive attitudes they experienced in rural communities

as among their major reasons for migrating. But it was apparent that migrating to the city was not a miraculous solution and that they often faced equally difficult and exploitative relationships as they struggled to achieve even the basics in urban life.

The third type of response is illustrated by a comparison of Peru and Thailand. These are the two wealthiest of the four countries, but each is notable for the high levels of material inequality and regional imbalance that have accompanied their development. Peru has a history of people being mobilised to violence – through the Sendero Luminoso insurrection – as a challenge to inequality and exclusion. Thailand, in contrast, has experienced the active management of a national ideology that emphasises 'Thai' values of acceptance and moderation. The research suggests that this ideological campaign may have played an important part in assuaging unrest and in helping Thai society cope with its growing levels of material inequality.

But the study also shows that Thailand is experiencing not only widening material inequality but also a growing gulf in aspirational inequality. While some people can pursue highly sophisticated, globalised and materially rich lifestyles, others can no longer realistically aspire to anything like this. Indebtedness is extreme in some communities and is reported as a major source of illbeing. Such aspirational inequality is a challenge to the ideological management that has thus far constrained dissent in Thailand. As it grows, the country's political tensions may well be exacerbated.

So what do the findings from this more humanised, wellbeing-oriented research have to

There are possible adverse consequences and costs of both material and aspirational inequality for the pursuit of wellbeing

say to aid agencies intent on reducing poverty in developing countries? First, they urge the need to analyse and understand the social relationships – locally, nationally and globally – which deny people the possibility of wellbeing and result in patterns of persistent illbeing. Second, they suggest the need for forms of intervention to help develop the institutional and organisational capacity that support social relationships which are important for wellbeing but protect people from their potentially damaging and exploitative aspects. Third, they argue that issues of values and culture cannot be ignored and that these must be addressed where they are clearly implicated in processes of impoverishment.

And finally, they highlight the fact that inequality matters and that there are possible adverse consequences and costs of both material and aspirational inequality for the pursuit of wellbeing in our increasingly global community. ■

Dr Allister McGregor, Director, Wellbeing in Developing Countries Research Group. *Wellbeing in Developing Countries: From Theory to Research* edited by Ian Gough and Allister McGregor will be published by Cambridge University Press in May.

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Wellbeing is an important new focus for development in that it considers the wider social and cultural resources that people draw on in their attempts to improve their living conditions. But the pursuit of wellbeing often comes at a high cost.

Views on Europe's constitution



WITH BULGARIA AND ROMANIA having joined the EU at the beginning of this year, there has been renewed interest in the failure of the 25 (now 27) member states to agree on a constitutional treaty. So what is the latest thinking around Europe on this issue, as reflected in media coverage? Researchers led by Dr John Downey have been analysing newspapers in seven countries, including Britain. In most cases, they find that whether people think a strong constitution is a good or bad idea depends on whether they think it would be best for their country.

Asked whether the treaty is a threat to the welfare state, or the 'European social model' is something to be protected on a pan-Europe level, some argue that the constitution will legitimise establishment of a common market while not providing adequate measures for protecting social rights. Others think it the best way of safeguarding social Europe in the context of globalisation. A third prominent theme is that the EU is suffering from a deficit of democracy and legitimacy.

Countries where there are significant disagreements about the treaty – France, the Czech Republic and, to a lesser extent, Britain – have a much higher intensity of coverage than those where the political elites agree on policy – Germany, Slovakia and Slovenia. ■

GLOBALISING PRIVATE SECURITY

Private security is becoming increasingly pervasive in some societies

THE FIRST TASK of the state is to keep its citizens secure. Without it, as the philosopher Thomas Hobbes famously put it, the life of man would be 'solitary, poor, nasty, brutish and short'.

But what if the writ of the state does not run to all corners of the nation? Here – in the shape of a rapidly expanding private security sector – globalisation offers new approaches that challenge our basic assumptions about the role of the state. It's not just the well-paid heavies who receive 'danger money' to protect the personnel of western companies and international agencies in war-torn Iraq and Afghanistan. It's also non-military services such as manned guarding of premises, alarm installations and response, as well as risk and security analysis.

Research by Dr Rita Abrahamsen and Professor Michael Williams reveals just how pervasive private security has become in Africa, sometimes working in tandem with public agencies, sometimes co-existing more uneasily. In Sierra Leone, economic recovery after years of conflict depends on private security for its key mining sector. In Nigeria, globally sourced private security is now a central pillar of the political and social order, and is vital for stability in the oil-producing region of the Niger

Delta. And in South Africa, the Cape Town police force now seems to play a largely supporting role to the world's largest private security company, Group 4 Securicor.

But elsewhere in Africa, the picture is decidedly mixed. In Kenya, where private security is often informal and poorly co-ordinated with the public authorities, the burgeoning sector is seen as part of the problem of lawlessness, not its solution. ■



SHARING THE FRUITS OF TRADE

A coherent transport infrastructure helps to open up trade

ONE OF THE DEFINING FEATURES of globalisation is increasing openness to trade – the removal of a whole range of barriers to the free flow of people, goods, services and capital. Some of these obstacles take the form of duties and tariffs levied at national borders. Some are caused by standards – regulations covering labour, environmental issues and health and safety – which differ between countries and regions. Still others arise from geography, for example, inaccessibility or a lack of transport infrastructure.

As these barriers are dismantled by economic liberalisation, new transport networks and constant innovation in information and communications technologies, so the impact of trade openness on countries, firms, regions, communities and economic sectors is coming under closer scrutiny.

One study of the effects of new transport infrastructure focuses on the US interstate highway system, spanning 40,000 miles, and mostly constructed between 1956 and 1975. The highways had three goals: to improve the connection between major metropolitan areas in the US; to serve US national defence; and to connect with major routes in Canada and Mexico. As an unintended consequence of meeting these goals, the highways crossed many rural counties, making it possible to examine their impact on the local economy.

The research by Dr Guy Michaels of the Centre for Economic Performance (CEP) finds dramatic effects. A country where distances were long, travel was slow, and most economic activity was highly localised began to integrate across its land mass, as it soon became apparent that the biggest users of the new highways were not passenger vehicles but the large trucks that have become the primary mode of cross-county commerce. The highways increased trucking income and retail sales by 7-10 per cent per capita in the rural counties they crossed, relative to other rural counties. This suggests that highway counties took advantage of the reduction in trade barriers to increase their trade with other counties.

More surprising perhaps are the findings on how the highways affected the demand for skills in rural areas. On average, the highways had no effect on the demand for high-skilled workers relative to low-skilled workers in counties where skills were abundant, and reduced it where skills were scarce. This finding is consistent with the well-established view that trade increases the demand for the abundant factor.

This phenomenon in turn fed through into wage levels and employment, with workers in

high-skill counties seeing increases in their relative wages and workers in counties with skill scarcities seeing a corresponding reduction in their relative wages. At the same time, highways increased the employment share of skilled workers in high-skilled counties. But there is no evidence to support the view that increased trade thanks to highways shifted the industrial composition of employment towards industries that made more use of the locally abundant factor.

Other CEP research on trade liberalisation – by Dr Stephen Redding and colleagues – sheds more light on how the reduction in barriers to trade reallocates economic activity. Here too, the pattern that emerges is one of success reinforcing success.

At the most basic level, the researchers find that a reduction in trade barriers encourages simultaneous job creation and job destruction in all industries, but that gross and net job creation vary with country and industry characteristics.

Significantly, there is a net loss of jobs in industries with a comparative disadvantage (those where relative labour and non-labour costs are high), while industries with comparative advantage enjoy net job creation as job losses, due to exiting firms, are exceeded by jobs created by the entrance and expansion of high-productivity firms.

Likewise with productivity levels and average firm output: the gains from liberalisation are greatest in industries with comparative advantage. Interestingly, it is in these industries that the research finds the highest levels of ‘creative destruction’ of firms, which may explain why workers in these more dynamic sectors report higher levels of job insecurity.

That the overall effect of opening up trade is to increase aggregate welfare is not in doubt, as both studies make clear. As average productivity increases, so the price of goods is driven down, reinforcing the virtuous circle. But welfare gains are not experienced uniformly, and just as some regions or sectors have to grapple with the handicaps of a low skills base or high input costs, so too do developed and less developed economies.

Contrary to the anti-globalisers, success breeds success not just for the few, but for the many – and, often, for the vast majority. But the fruits of commerce are not always enjoyed by all. Addressing those uneven outcomes is as big a challenge for politicians as pursuing liberalisation in the face of entrenched interests. Most agree on the need to ‘manage’ globalisation. That shouldn’t mean reining it back, but helping everyone to jump on board. ■

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Good transport networks encourage the areas through which the major routes run to increase trade with neighbouring areas. This ensures that productivity rises and the price of goods is driven down, which can be of benefit to the majority of people.

THE REAL COST OF THE GLOBAL HIV/AIDS EPIDEMIC

The potential cost to the world's economy of the global AIDS epidemic cannot be ignored

GLOBALISATION INCREASES THE risk of global health threats, according to Professor Tony Barnett. "In the past globalisation was seen as a more or less economic process. Nowadays it is increasingly perceived as a phenomenon shaped by a multitude of factors and events that are rapidly transforming our society. The emergence of HIV/AIDS is a feature of fast changing social, political, economic, technological and ecological conditions. It is quite unlike a cholera epidemic or a tsunami which respond to routine public health measures and emergency relief."

Professor Barnett says that understanding and managing global epidemics requires an innovative approach based on interdisciplinary research – from microbiology to anthropology via clinical medicine and data engineering. "But we also need to see major changes in international architecture with new coalitions of state and non-state actors, new public-private partnerships and global research networks," he insists.

Professor Barnett maintains that infectious disease epidemics are, above all, social events whose costs cannot be calculated in dollars: "Forty million people who are HIV positive, two million children orphaned by the epidemic, each AIDS death adversely affecting five other people, reduction of GNP growth by 2.5 per cent a year for the next 15 years in several African countries – the statistics are shocking but they do not begin to inform us of the global cost of this epidemic."

In many ways, the development of the HIV/AIDS epidemic can be compared to the process of climate change. They are both 'long-wave' events, the effects of which emerge gradually over decades and take a long time to slow down or stop.

An added problem is that their long-term effects are not readily recognised by people in positions of authority because they fall outside the normal time horizons of politicians and business strategists.

The reasons why the HIV/AIDS epidemic has such profound and far-reaching social and economic implications is that it is mainly sexually transmitted and affects young and mature age adults more than it affects other members of society. It therefore disrupts the structure of populations, increasing the number of dependents relative to productive citizens, and unbalances the supply and quality of labour.

In Russia, where the growing HIV/AIDS epidemic is coupled with dramatically declining

fertility rates, the World Bank has forecast that if 5.25 million people become HIV positive by 2010, 'a staggering 4.14 per cent would be shaved off GDP'.

Professor Barnett's research indicates that unless the Russian government confronts some unsavoury truths about the causes of the epidemic, the economy will suffer from a decline in the workforce and enormous health care costs will eat up money that is desperately needed for investment in industry and infrastructure.

The AIDS epidemic in Africa has resulted in the loss of a generation of parents.



In Africa, one dramatic consequence of the epidemic is the loss of a generation of parents, which has resulted in profound cultural as well as economic costs. At present, many of the orphans in Africa – a number expected to reach 18 million in the next five years – are cared for by their grandmothers. But when these carers die, there will be a vacuum, and the loss of traditional safety nets could result in many more child-headed households and street children.

Children who grow up in harsh conditions and surrounded by premature death may soon become convinced of the inevitability of their death at around 20 or 30 years old. This alters the way people think about the future as well as the present. In other words, it makes the potential returns on any investment irrelevant. Why take out an insurance policy, why invest in land, why put money into your children's education, why do anything but live for the present when there is every chance that you are or will become infected? This is hardly a recipe for 'behaviour change'.

Professor Barnett argues that identifying the degree of hope – or hopelessness – felt by individuals or groups could help explain why HIV/AIDS is more prevalent in some locations and among some people, and why some prevention programmes haven't worked.

He explains that high levels of HIV cannot be explained simply in terms of an individual's rational lifestyle choice or structural problems such as poverty and inequality. Where there is hope, individuals might be persuaded by rational argument to change their behaviour.

Where hope and resources are absent, a different approach is needed. Structural interventions such as micro-finance programmes for women are likely to be more effective. This is because they not only provide income but also change circumstances, giving the women something to look forward to.

Epidemiological surveys coupled with ethnographic observation of relative hope levels in and between communities could provide a way forward for identifying high-risk environments. This would enable communities to be pinpointed for further exploration of social and economic conditions leading to hopelessness, exposing leads into effective policy and programme responses, and point the way forward out of hopelessness.

The implications of the HIV/AIDS epidemic for the global political economy and as a potential driver of security have only been recognised for about five years. This is not a long time in which to acquire a robust evidence base on any widespread social phenomenon, and especially one located within a toxic nexus of race, sex and power.

Barnett notes that current data on the effects of the epidemic are often flawed, based on 'factoids' – viruses of opinion that have hardened through repetition into assumed facts. Without reliable information, it is impossible to plan for the future. ■ Tony Barnett is co-author with Alan Whiteside of *AIDS in the 21st Century: Disease and Globalisation* published by Palgrave Macmillan.



PUBLIC ATTITUDES TO OPENNESS

THE LIBERALISATION OF world markets holds no terrors for countries in East Asia and Eastern Europe, according to research by Dr Jane Duckett and Professor William Miller. Their analysis of public opinion surveys in South Korea, Vietnam, the Czech Republic and Ukraine reveals broadly positive attitudes to economic and cultural openness. Clear majorities in each country – reaching 90 per cent in Vietnam – believe that their national economy is benefiting.

Nor is there any readiness to blame 'foreign influences' for the cultural and environmental changes that accompany globalisation and which are often blamed for increasing insecurity, unsettling communities and disrupting traditional forms of life. Instead, most people hold their national governments responsible for economic trends, especially when these are seen as negative.

But support for globalisation is not unconditional: public opinion is firmly behind social protection for those who are seen as losing out, especially farmers (for whom help is supported by 77 per cent of respondents) and small businesses (supported by 72 per cent), with 60 per cent even supporting help for 'out-of-date businesses'.

Who should pick up the bill? Unsurprisingly, clear majorities favour redistribution from the perceived 'winners' from globalisation, but three times as many of those questioned (58 per cent) want the money spent on retraining rather than on unemployment benefits (19 per cent). Adaptability, not fatalism, is the order of the day.

But the forces of international capital shouldn't crack open the bubbly just yet. There is widespread support for protest against global corporations and international bodies – such as the International Monetary Fund, the World Bank and the World Trade Organisation – when these are seen as harming poorer countries. Even more sobering: not insubstantial minorities would endorse violence in the quest for justice. ■

The Open Economy and its Enemies: Public Attitudes in East Asia and Eastern Europe by Jane Duckett and William Miller was published earlier this year by Cambridge University Press.

AT A GLANCE

Public opinion in East Asia and Eastern Europe is firmly in favour of economic and cultural openness, and most believe that their own national economies are benefiting from globalisation. But many people feel that some global corporations harm poorer countries.

Global terrorism

WHAT SHOULD WE REALLY FEAR?

BILL DURODIÉ,
Defence Academy of
the United Kingdom



LAST YEAR, SENIOR SECURITY OFFICIALS, announced that a number of terrorist plots had been uncovered since the July 2005 attacks in London.

They suggested the possibility of dozens more conspiracies in progress, organised by lots of individuals and small groups. Thousands are under surveillance and hundreds of thousands are believed to provide tacit support for terrorism. So how worried should we be?

First, it is worth having a sense of proportion. More people die on Britain's roads every week than were killed in the London bombings two summers ago. Even if the attacks had been on the scale of those in Madrid, Bali or even New York, while undoubtedly a tragedy for all concerned, such incidents would not be able to destroy,

An exaggerated sense of threat has encouraged us to accept increasingly draconian measures introduced against our personal liberties

or even seriously damage, our societies as we know them – unless we allow them to.

Second, we need to understand the nature of the threat. Many presume that terrorism is intimately linked to a particular interpretation of Islam and that we should encourage Muslims to oppose this view. But there is little evidence that such analysis applies to recent incidents. Instead, what we find are angry young men who look to Islam for justification after deciding to perpetrate their acts. In that sense, Islam has been their motif rather than their motive. There is no sign that the individuals concerned were particularly pious, or that they were well-versed in, connected to, or vociferous about the politics of the Middle East, or anywhere else beyond these shores. Rather, they were born here, well-educated and, as the official report into the London bombings makes clear, unexceptional. Their methods and materials required little expertise and were readily available. So why would they destroy themselves and those around them?

Rather than reading some portentous meaning into their actions, it may be healthier for us to see them, much as we see those of other lone killers, as being largely pointless. Far from having anything to do with Iraq, Israel or Islam, these bombers were largely fantasists – 'wannabe' terrorists – searching for an identity and a meaning to their lives. And they found them in causes that were not their own but that appeared to give expression to their nihilistic sense of alienation and grievance.

This explanation is both reassuring and highly problematic. It is reassuring that, unlike the presumption made by many security professionals, we are not facing the organised network of global terror that they imagine. Accordingly, the methods and problems we are likely to encounter will be far more rudimentary than is commonly

assumed. The individuals concerned may talk about acquiring chemical, biological or radiological weapons, but that is what it will remain – idle chatter.

The danger then is largely our own. If we presume to be dealing with a level of threat that we are not, then there will be more incidents like that in East London last year, when armed police were sent to arrest two brothers on the suspicion that they were terrorists. The problem then was not so much the information that the police received, but rather how they interpreted that information through their presumption of a worst-case scenario.

On the other hand, while the acute nature of the problem may not be as bad as has been supposed, what is more problematic is that the scale of support for it may be far wider than even now many seem to imagine. While we have to learn to deal with the nihilistic actions of the few prepared to take such measures, we also have to ask difficult questions about our own society and the seeming extent of support, or sympathy within it, for mindless and destructive criminal acts.

There is a widespread assumption, including among those charged with defeating terrorism, that society today is corrupt and degenerate. Many view our supposedly consumerist culture as selfish and decadent. Increasingly, over recent years, from the top of society down, an image has developed of humanity as little more than a plague on the planet, destroying habitats and destroying each other. Small wonder that Osama bin Laden is so fond of citing western thinkers.

When, last summer, there were numerous disruptions at British airports, after the exposure of a series of alleged plots to blow up airliners with liquid explosives, some expressed surprise that one of those arrested was the son of a Conservative party agent. But there should be no surprise that ideas which, on occasion, have helped to caricature our society as being full of obese hooligans, binge drinkers and slags in nightclubs, should inspire others to take action.

Terrorism is unlikely ever to destroy society – but fear can. An exaggerated sense of threat has encouraged us to accept increasingly draconian measures introduced against our liberties by those charged with protecting us. It has allowed politicians and officials to justify all manner of restrictions on our lives with little debate. In that regard, these have bypassed the need to engage the public in a way akin to the few terrorists who have given up on the possibility of change through political debate.

The immediate problem posed by terrorists remains extremely small. But there remains the far larger problem of defining who we are, what values we uphold and where we intend to go in the 21st century. Without such clarity as to our aims and purpose as a society, there is little hope of defeating terrorism and, more importantly, the misanthropic culture that informs it. That dystopian culture did not emerge in the Middle East but in our own societies. And it is here that we shall have to defeat it. ■