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It's a pleasure to be here to talk to you on this, what I think is a very important subject of globalisation and the developing countries. I'll try to make some references to the implications for the coffee industry. The subject of globalisation should be familiar to all of you. The International Coffee Organisation is a globalised organisation founded almost 40 years ago. Coffee is a globalised commodity, indeed the story of the spread of coffee from Yemen and Ethiopia more than 400 years ago around the world is itself a story of early globalisation. Today 50 billion dollars is spent by consumers and provides a livelihood for a hundred million people within 60 countries and for many of the producing countries represents a significant fraction, as much as sixty percent of their export earnings.

Today there is a lot of discontent with globalisation and there is a lot of discontent with the way globalisation has been affecting the coffee industry. There has long been a high level of volatility prices for commodities in general and for coffee in particular, and today as all of you know, the price of coffee is down by 50% to producers around the world from what it was just a short while ago.

The problem of the decline of prices has of course been a long one, the kind of commodity prices in general is a problem that economists have worried about for a long time. Prebish who was a great Latin American economist talked about the problem of the long run decline of commodity prices. The problem of volatility of commodity prices too has been one that has long been a concern. I think that there are two things that distinguish the prospectives today from what they were, say 10 or 15 years ago.

First, while one of the consequences of the kinds of new technologies that were described in the talk we just heard, is that while producers see the fall in the prices that they receive, consumer prices have not fallen commensurately. The profit margins have increased and this I think for those in very poor countries is particularly grating. It is particularly apparent that there is a discrepancy between the interests of consumers and the interests of producers.

Secondly the discontent that we see in the area of coffee and globalisation is part of a broader discontent with globalisation, a picture of which was also shown just a few minutes ago. And it's that broader discontent with globalisation that I want to talk about this morning.

There are three themes that I want to present here. First, that globalisation can be a very powerful, positive force for the developing world. In fact the part of the developing world that has grown most significantly over the past three or four decades is East Asia, and East Asia has grown as a result of it's participation in globalisation. It has had export led growth and the magnitude of the benefits have been enormous. Incomes in countries like Korea, even taking into account the global financial crisis of the last few years are up per capita incomes eight fold over what they were 30 years ago, so it has brought enormous benefits to the people in these countries. And these are benefits that have been widely shared – poverty rates in East Asia have plummeted. But while globalisation can be a powerful, positive force for the good, the second proposition I want to put forward is that the way globalisation in fact has occurred around the world has actually for many countries not been so positive. Many countries have suffered and particularly poor countries, and poor people in those countries have been hurt. There was a conference earlier this week sponsored by the UN focusing on the developing countries and it was repeatedly emphasised that the number of poor countries has increased enormously over the last 20

years. The number of people in absolute poverty has increased over the last decade. In the race between increases in incomes and increases in population, population increases haven't been winning and per capita incomes have been falling. In the one region of the world where markets were introduced a decade ago, the former Communist countries, these countries were promised an increase in their income and increase in their living standards yet that has not happened. In Russia, the largest of these countries, incomes today are 40% below what they were 8 years ago. Poverty rates at the end of Communism in Russia were 2%. Today they near 50%. And more than one out of two children lives in poverty. So the way globalisation has proceeded has not benefited everybody . Apart from East Asia, there has not been a convergence of incomes
In Geneva 1994 a study of the world banks shows that the result of that Uruguay Round resulted in the incomes in the poorest region of the world sub-Sahara Africa going down by two per cent because of terms of trade, in fact. So whilst the USA and Europe boasted of how much they had gained from the Uruguay Round it wasn't just a question of disproportionate sharing of the benefits of globalisation it was that part of the world, sub-Saharan Africa was actually worse off. We know today that capital market liberalisation an agenda that was pushed by the IMF for decades was primarily responsible, was the single ingredient most responsible for the global financial prices which caused such havoc in SE Asia and Korea, Indonesia and Thailand and in other countries around the world. Today the IMF recognises that capital market liberalisation in countries that are less developed may actually increase their volatility and cause problems, but too late for the people who have suffered too much over the last half decade as a result of that capital market liberalisation.

So the first proposition is that while globalisation can be a powerful positive force, the second proposition is that too often it has been a force that has hurt developing countries and hurt the poor. And that leads to the third question, or the third proposition, what is the source of the problem? What I want to argue here that the source of the problem is the system of global governance. When 150 years ago the nation stakes were being formed in Europe or the national economy was formed in the USA, we had systems of governance that made sure that people didn't fall through the cracks. We had a national government in the US, a national government that for instance in 1863 provided a framework for financial market regulation. We had a whole system of safety nets that were put into place. Today we don't have a corresponding system of global government. I don't think any one sees that on the cards, but we have a system of global governance without global government that is in many ways badly flawed. And the outcomes that we've seen, the outcomes that I've talked about, the fact that some countries like Europe and USA have gained but other countries have suffered is a direct consequence of the way the system of global governance has been put together. So those are the three ideas that I want to put forward today.

I want to begin by the fact that as I've watched the discussions of globalisation over the last five or ten years, there has been an enormous change in perceptions, particularly in the last couple of years. As I've gone to meetings, for instance, the business leaders in (Darvos) talk to people in all walks of life – what is clear is that there is a growing recognition of some of the propositions that I've put forward. There is a growing recognition that the trade agenda, for instance that has dominated the creating of global trade markets, has been an agenda that has been driven by the North by the developed countries for the developed countries. There is a recognition that something is fundamentally wrong with the way things have been working. To focus a little bit on that trade agenda issue for a moment, we all recognise that while there has been enormous impetus, pressure for the developing countries to lower their trade barriers to industrial goods, Europe and the USA have refused to do much of lowering their barriers to agricultural goods produced by the developing world. It's been very asymmetric. And it is precisely that kind of asymmetry that has resulted in the fact, the reason that sub-Saharan Africa was so disadvantaged by the last round of trade negotiations.

But the problems are actually deeper and they reflect some general principles that I saw repeatedly when I was in the White House. There are two general principles that I've noticed over and over again. Everybody believes in the principle of no subsidies, except in their own industry. The other one is that everybody believes in the principle of competition except in their own industry. Let me illustrate those two propositions with two examples.

The first is in the area of subsidies. The developed countries, the West, the US, lectures repeatedly countries about the fact that they shouldn't be subsidising and yet in the one area that is the comparative advantage of the developing world, agriculture, the developed countries subsidise their agricultural industries. Enormously. In fact the magnitude of the subsidies given by Europe and the US and Japan to agriculture exceeds the incomes of subsidy here in Africa. It is just out of proportion.

Consider the issue of competition. In 1993 I was in the White House when I saw the price of aluminium fall, even more dramatic than I've seen the price of coffee fall in the last couple of years. And when that happened I said, within six weeks, I bet ('Alcoa') and all the other aluminium companies will be here in the White House asking for us to do something. And I was right. I thought it would take about six weeks – two months, they were there within a few weeks. And there was Paul O'Neill, Chief Executive Officer of (Alcoa), who has since gained fame as the now US Secretary of Treasury, a person who just a couple of months ago made a famous speech, 'the problem with capitalism, the problem with the world, is not that there is too much capitalism, but there is too little'. Well, what do you think he suggested that we ought to do about the problem of declining prices of aluminium? I was expecting something like some form of subsidy – every one likes subsidies, but what he asked for was something, that I must say I did not expect. He asked us to try and create a global cartel for aluminium. The problem was – what was the source of the problem? It's a little bit different from the problem you are facing with coffee – the problem was partly that the world economy was going into a slowdown and whenever the global economy goes into a slow down, commodity prices go down and that was part of the problem. A second part of the problem was that Russia, the end of the Cold War, which was a great thing for the world, one of the things about the end of the Cold War was that Russia stopped making airplanes to drop bombs in the US and Europe. Good thing also for the West. But when they stopped making airplanes, airplanes use a lot of aluminium so that increased the supply of aluminium on the market. The third thing was an interesting thing that many might not know about but in the US, there is this custom that when you finish drinking a Coke can or a beer can, you take the can and you crunch it, and around 1993 there was a great increase in the strength of the average American male and they started being much stronger in crunching, and a lot of us think that increase in confidence that had resulted from this, was an important contributor to the growth of the US economy in 1993-94. But the real reason for the ability to crunch the Coke cans more effectively was because there was 10% less aluminium used in Coke cans. They discovered a way of making Coke cans that were strong enough to hold the Coke without breaking. So anyway, the point was that all that decreased the demand for aluminium, and increased the supply of aluminium, the price of aluminium fell and here is Paul O'Neill, this believer in market economy, saying we ought to create a global cartel to keep out Russia, who we were trying to convince to become a market economy, to keep it out of the global marketplace. He succeeded. I won't go through all the details, but I will mention one thing. At the end of that meeting at the White House, where it was decided to create this global cartel in aluminium, it was so terrible, so outrageous, that the Assistant Attorney General for the US who was in charge of anti-trust said to the whole group of the sub-cabinet of the Economics Group that she might have to subpoena all of us for a violation of US anti-trust laws.

The point is that there is this asymmetry of response – a lecturing about competition, but when it affects the industrial goods, a walking away from competition. A lecturing about no subsidies, but when it comes to their own countries, an imposition of subsidies. A lecturing about opening up markets, but when it comes to the goods of the developing world a closing down of their own markets.

There are issues, not only of economics, but issues of values. With everything being put subservient to the special interest, not the national interest, and subservient to economic interest. Nowhere was that seen more clearly than in the issue of intellectual property rights that was included in the Uruguay Round for the first time. Again when I was in the White House, when this was being concluded many of us raised questions about these intellectual property rights. Intellectual property rights are not like natural law. They represent a balancing of the interests of consumers and producers. They ought to and they can represent an interest of a variety of concerns that need to be balanced in the design of intellectual property, something that most of us try to do within our own countries. But there was complete loss of this viewpoint in the negotiations of intellectual property rights that were part of the Uruguay Round. I tried to argue, and I was joined by the other people in the Council of Economic Advisors and the Office of Science Technology Policy with a view that the design of intellectual property rights did not take appropriate account of the users both in developed and developing countries. Among the users of intellectual property are researchers and that is why the Office of Science & Technology Policy was concerned. We were concerned that in fact the intellectual property regime that was being put forward as part of the Uruguay Round might slow down technological progress around the world.

But we were also concerned that there were other values particularly with respect to the intellectual property rights of medicines, of health. I don't think we fully appreciated that the intellectual property regime that was adopted in 1994 had the power to condemn people to death. People signed a piece of paper and they thought it was nothing but a document, a commercial agreement, but that commercial agreement gave the power of the drug companies to raise the prices, to prohibit the ability of poor people in Africa to get the medicines that they needed to survive. And that was condemning those people to death. So the Trade Ministers didn't think of that as a death warrant but that's what they were doing. And it was only through the globalisation process that we've been talking about this morning where global civil society said this is outrageous, your Trade Ministers only looked at your special interest of the drug companies, they didn't look at the broader concerns of society when they did that, that the drug companies were beaten down and that the agreement of 1994 was brought back into perspective. But that was only the tip of the iceberg. There are hundreds of other issues where people not just with Aids, but other drugs that are being affected and their lives being shortened as a result of that 1994 Agreement.

The point I want to make is that the issues go beyond just trade issues, and the issues like intellectual property go beyond just commercial issues, which is how they are generally presented. The issues and the problems are broader than I've just described and I want to talk about two other aspects of these to bring out how complicated and yet how debreaching they are.

In economics we talk about and emphasise the concept we call 'insonence'. Every policy has distribution effects. Stronger intellectual property rights benefit some people and hurt other people. We have seen that very clearly. But that's true of virtually any policy that is undertaken in our globalised world. Some people benefit and some people hurt. How you write down the rules of the game can have effects that are far different than people thought. I want to consider two examples.

One of them would seem to be very outside the range of the issues that you're talking about and outside the issues of globalisation as it's normally presented and that is the issue of the tax system that is used in developing countries and I feel a little guilty about this because some of the people who've used arguments in favour of the changes I'm going to describe have studied that on the basis of text books that I've written. But they haven't read those textbooks correctly.

Throughout the world, the IMF and the World Bank have been pushing countries to adopt a system of taxation called VAT that you have in Europe. It's a very, very good system in Europe and there are even some arguments for their going towards it. It has low collection costs, it provides uniformity, it reduces distortions and there is a good reason that in the textbooks that I wrote for developed countries, I advocate the use of VAT. But developing countries differ from developed countries and if you don't understand that you shouldn't be in the business of advising developing countries.

How do developing countries differ? They differ in lots of ways but one of the ways is the magnitude, the size of the informal sector. Much of coffee is grown in the informal sector. Developing countries don't have a few factories that you can tax and easily identify and make sure you can collect the revenues from. They consist of thousands of people, income scattered over small producers, and the result of this is that the VAT is virtually impossible to collect from those small producers. So the collection rate is relatively low. Who pays the VAT? Who pays the VAT are the people in the formal sector – 20 or 30 percent of the economy. In most developing countries, particularly the least developed countries, it's mainly in the formal sector. The argument has been, lets move away from tariffs and towards VAT to finance, forgetting of course that the countries that have succeeded in the past, countries like the US, industrialisation occurred behind tariff barriers. Now the US has succeeded in developing, the argument has been one of pulling up the ladder to make sure other people can't join the group.

What does this have to do with coffee? Well, what happens when you tax the formal sector? You drive out people from the formal sector into the informal sector. You drive it out from the more advanced and more modern sector into the less advanced agricultural sector. So you increase the supply of people producing commodities like agriculture, like coffee, and what happens when you increase the supply of people producing those commodities? The price goes down. That's good for the North, that's good for the advanced industrialised countries. They have less competition for their goods and lower prices for the goods that they consume and we all know they spend 50 billion USD consuming coffee every year. Lower prices of agricultural goods is good for the advanced, industrialised countries, it's bad for the producers. And so this policy which was not, I don't want to suggest that there was a conspiracy here, but it is the consequence of these policies, the unintended consequence.

Let me give you another example. Consider the development strategies that have been put forward quite often by the World Bank over a long period of time. It has been a development strategy that has focused on and emphasised primary education. It has focused on static comparative advantage going into expanding rubber, coffee, countries like Vietnam have been very successful in expanding those areas. In a certain, static sense it has made enormous sense. But what has been the global consequence as they've done that? If you have your education system focused on unskilled labour, increasing the number and the efficiency of unskilled labour but not putting people towards higher education, towards industrial goods, you have an increase in the production of basic commodities. And what does that mean? The same thing I described before, an increase in the supply of those goods, more goods and lower prices for the goods consumed by the advanced industrialised countries, and less competition for the goods produced by the more advanced industrialised countries.

Consider the countries that have been most successful in development, like Korea. They had a very strong primary education system, but they also pushed for a strong, advanced, secondary and university education system as well. In the period of Brazil's greatest economic growth to date which was the period after World War Two, one of the reasons for it's success was the push that they had for education. The good news in the case of Brazil is that over the last eight years there has been an enormous push of education and enormous expansion of education which bodes well for Brazil's future. But notice what happens the moment Brazil tries to move into other commodities like into airplanes. Canada starts charging without any basis that there might be a problem of foot and mouth disease in Brazil, to try to kill off imports of Brazilian beef into the North. When it's made clear that that is not a real problem, they backed off, but in the meanwhile, damage has been done and it's a real unfair trade tactic.

So the point I want to make is that the problems are broader than have often been talked about, they go into tax strategies, they go into development strategies, and in this globalised world, these policy changes when pushed in country after country have global effects that affect every commodity including coffee.

The question now is where do we go from here? What I want to emphasise is we cannot turn our backs on globalisation – globalisation is a fact of life. It can't go back. And in fact coffee has benefited from globalisation. It exists because of the globalisation that's gone on over four hundred years. It's also the case, that I don't believe that you can repeal the laws of economics, the laws of demand and supply. They are there, and that is what is in part causing the low price of coffee today. So the issue is not whether you can repeal globalisation, not whether you can repeal the law of demand and supply, the issue is how do we change the rules of the game, how do we change the way globalisation has occurred in ways to use market forces, to use globalisation, to redress the imbalance that has characterised the system of globalisation over the last several decades.

Well, what I would urge is a new global compact. As we've realised the inequities of the past, there has to be a new global compact in which the interests of the developing world are taken into account and balanced against the interests of the developed world. It has been fifty years since colonialisation began to come to an end, but the colonial mentalities are still here and the evidences of it are still present. You see that in the governing structures of several of the international organisations.

There are some specific things that can be done and can be done quickly, can be done today. Let me mention a few of these because I think they are important. The EU Trade Commissioner has made a bold proposal and one that I strongly support, which is to eliminate all trade barriers in the US, in Europe, Japan, from the least developed countries. The least developed countries represent only one half of one percent of trade. Eliminating all barriers of trade for these countries, everything except arms, would make an enormous difference to the people in those countries but impose a minuscule cost on the developed world, and yet even this small proposal has received resistance in Europe and has not received any serious discussion within the US. That is the first thing that I would do.

The second one is illuminating the unfair subsidies that I described earlier, particularly to agriculture that makes competition between the developed and the less developed countries a completely unfair battle.

Thirdly, rethinking the World Bank and IMF strategies including the tax strategies, developing strategies, recognising that there are these global consequences in terms of terms of trade effects, price effects, of the policies which they've been pushing.

Fourthly, I think there needs to be a new trade round. But the new trade round should begin and should be premised on redressing the imbalances of the past. US has said before that really can occur, they need to have the full compliance with those agreements that were made in 1994. This seems to me totally unacceptable. One has to recognise that those agreements of the past were imbalanced and that before the first order business, ought to be redressing those imbalances.

In terms of the kinds of specific reforms and actions that might affect coffee, there are a couple of things I think that might be helpful. The first, one has to recognise the huge volatility that has market these commodity prices in general and coffee in particular and I think one ought to consider the creation of buffer funds that would enable countries to better handle those kinds of volatility without the kind of conditionality which represents an intrusion into their democratic sovereignity.

Secondly, I am not sanguine about cartels. Cartels are hard to enforce, they represent an invention in market processes and typically create distortions. They simply don't work. But I am more sanguine, not very sanguine, about the use of tax policies in the North with the revenues used to help the South. We have recognised the principal of taxing consumers to support agriculture within the developed world, in fact every developed country effectively does that. We have recognised the principle of helping poor people within our own countries. I think as globalisation has occurred we should recognise the communities of concern should go beyond our narrow country borders, the communities of concern for the poor are global. And we've seen some evidences of that in the Jubilee Movement, in the Debt Forgiveness Movement of last year. But it ought to go broader than that. And globalisation in my mind requires extending the principle beyond our own borders to recognise that it may be, that we ought to consider the North imposing taxes on itself, with the revenues distributed to help the poor within the South.

Let me conclude by emphasising that I've just been able here in the short time to talk about a few key issues. Tax issues, development strategy issues, trade issues, intellectual property issues, but there are a myriad of issues and those issues will change from year to year. How those issues are addressed will affect how globalisation works, it will affect whether globalisation benefits the developing world, benefits the poor within the developing world or whether as it has been in the past, the developing world is actually hurt and the poor within the developing world are hurt the most. How those issues, the myriad of issues that will be faced are resolved will depend on who has a seat at the table and how those decisions are made. And that brings me back to the issue that I began with in the beginning of this talk. That is the issue of global governance.

We have to have a better system of global governance. Right now there is not, I believe, meaningful participation in many aspects of our system of global governance. We have technologies that were described in the talk this morning, but we don't have the information. If we don't have transparent institutions, if negotiations go on behind closed doors, if the information isn't made available, having the best of technologies isn't going to help. Paying lip service to transparency is not enough. In the last meetings of the IMF and World Bank there was a lot of discussion of transparency, and yet there is a reluctance to release some of the key kinds of information which would allow a broader participation in the decision making process. It's not good enough to make a disclosure after the decision is made and then you say, well it's better to know the decision after it's made than not to know it all, keeping it permanently secret, but you have to have the information before the decisions are made and there is a reluctance to do that. I can go on, on that at great length but let me just assure you that these institutions are far from transparent. They talk about transparency but there is a long way to go.

As a result of the lack of transparency there is an inadequate democratic accountability and the lack of democratic accountability relates not just to the transparency but also to the system of voting rights which is most transparent and most obvious in the case of institutions like the IMF and the World Bank.

In most areas, most of our countries, we believe in one person, one vote. And yet in places like the IMF and World Bank, it's on the basis of one dollar, one vote. It might be OK if they only dealt with technical issues that were of interest to finance ministries. But the decisions that IMF makes affect the lives and livelihoods of people throughout their country. Their enforcement of intellectual property rights, their enforcement of all kinds of issues affects workers, small businesses, the macro policies affects everybody in these countries. In the US, we would not allow the Finance Minister to make those decisions because we know he would make those decisions reflecting certain interests, as good as his heart is. We insist on those decisions being made by a Council representing all the stakeholders. And yet that is not the way things occur today. So the voting rights are done on the basis of one dollar, one vote, but it's not even the basis of one dollar, one vote, it's one dollar, one vote as of the end of World War Two with some adjustment since then. But not representative of where the world is today. There is no legitimacy to the voting structures other than the historical anachronisms. But it's even worse than I've just described because who represents the countries? As they make these decisions which affect the lives and livelihoods of millions, billions of people, it's the – you know the joke is that there is a wide spectrum of opinion, say in the governing structures of the IMF, all the way from Central Bank Governors to Finance Ministers. Noone else is on the governing board. An interesting observation is that the US is represented by the US Treasury. I had a meeting with the President of the US, he said 'Isn't it terrible what the IMF is doing?'. He had just read about it in the New York Times. It wasn't important enough for his Treasury Secretary to tell him about it. What he didn't know was that IMF was doing it because of his US Secretary Treasury who'd told him to do it. It wasn't representing what the US wanted, it was representing what the US Secretary Treasury wanted. Anybody who understands democratic processes, understands that in political complex, political institutions, each agency reflects more the interests of the people that they are connected with. They talk to Wall Street, how much time do they spend talking to the labour union leaders? Or to other interests? Maybe they have some formal meetings once every few months but the fact is what they hear is who they talk to and that is not a representative sample of American population, let alone the population around the global world. In the UN, five countries have a veto power. And that is viewed as not acceptable because countries like India, that were colonies at the time the IMF and the World Bank were set up were not independent countries, and were not major countries. They don't have the veto power. In the IMF, one country has effective veto power – what I call the G1, you can figure out which country that is.

Now, the point is that we live in a world of globalisation, we speak about democracy, but we have a system of global institutions that do not live up to our standards of democratic accountability. I believe that globalisation can be a powerful, positive force but I look at the record and I don't think anyone who objectively looks at the record can disagree with this – it has not always been that positive powerful force. It has been a force that has hurt some countries and the poor in many. There are specific reforms that can make a difference, I have listed some of those specific reforms but in the long run, only more fundamental changes, changes in the system of governance, will ensure that globalisation can be the powerful positive force for the developing countries that I believe it ought to be. Thank you.