Globalisation:
a New Challenge for Multilateralism

Remarks by Angel Gurría,
Secretary-General
OECD

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Ladies and gentlemen,

It is a great pleasure to be here with you at the Woodrow Wilson Center for Scholars, a forum with some of the best acoustics for new ideas and constructive debate. I want to thank Lee H. Hamilton for this friendly invitation.

Most of our policy challenges now have a global dimension. Multilateral co-operation is becoming instrumental; international organisations are becoming strategic.

Today's global challenges like the current financial crisis, global warming, ageing, international migration or poverty reduction, demand not only a common understanding of their causes and implications; they also demand an inclusive international dialogue that can produce effective solutions.

Globalisation has delivered significant progress. Under the current wave of globalisation, the world economy has experienced one of its most dynamic expansions ever-growing 20% in the last five years[i]. During this period, international trade and investment flows have boosted interdependence and allowed developing countries to connect better to the global economy, lifting millions out of poverty.

Globalisation has also raised the importance of international development co-operation and created a growing global awareness, that has spawned projects like the Millennium Development Goals or the One Laptop per Child. Globalisation has also increased awareness of international global threats like climate change and neglected infectious diseases.

The Internet, one of the main tools of globalisation, has opened an ocean of opportunities for billions of people, generating an unprecedented global exchange of information, knowledge and ideas. The levels of interaction between the world's youth in networks like Facebook or MySpace suggest that we are approaching what Alvin Toffler would call "a fully connected society". With nearly 1.3 billion users[ii], the web is building "the most important highway for human progress" we have ever had.

However, globalisation also poses challenges of increasing complexity

Globalisation is a double edged sword. It is a source of progress, but it has also produced a much more complex world by linking local and global, by blurring the borders between national and international. The future of humankind is being shaped by issues that are beyond any one nation's ability to address.

The current credit crisis is a prime example of this new global complexity. Globalisation allows sharing of opportunities across borders but it also implies sharing problems. Today, domestic shocks cross those same borders faster and more potently than in the past. Securitisation, for instance, cuts both ways. By dispersing risk, it increases portfolio diversification. This is a good thing. But securitisation also tends to obscure the location of risk and cause the mispricing of risks.

The global "credit crunch" caused by the subprime crisis raises issues of moral hazard, transparency, market integrity, regulation, supervision and financial education. We are witnessing a culture shift as the search for yield leads market participants to move into alternative, less regulated instruments and products. Regulators need to be faster and pre-empt the next move in order to prevent crises. But caution is in order: the risk of regulatory over-reaction is real. The OECD is intensifying consultations to address these policy issues, both in our own committees and via the Financial Stability Forum. Like never before we need to increase communication and transparency among authorities within the sector. The response, like the problem, must involve all actors. As Tim

Geithner said recently : Firms need to “show greater respect for the unknowable” in risk management.

Sustainable development and climate change are also testing our capacity for cooperation and our creativity as policymakers. With oil prices over $80 a barrel, energy supply is a prominent issue. According to IEA projections, the world’s use of primary energy will more than double by 2050. Fossil fuels will continue to dominate the global energy mix while nuclear power and renewable energies will remain limited. OECD importers will increasingly depend on supplies from politically unstable parts of the world. The earth’s energy resources are sufficient to meet demand beyond 2030, but it is less clear for how long or at what cost. This prompts questions on the investment in energy infrastructure and in less energy-intensive technologies, the need for predictable regulatory frameworks and energy pricing.

Growth in energy and transport use is causing more global pollution, resource depletion and greenhouse gas emissions. Countries have a range of financial and economic instruments at hand to limit emissions. Carbon taxes and emissions trading provide clear market-based incentives for the development and implementation of technological breakthroughs. Ambitious policies to tackle climate change will also demand a shift in the structure of the economy, away from carbon-intensive activities. A major challenge will be to design co-operative global solutions that all countries are ready to implement. The OECD has been working actively in this area to come up with new analyses and proposals to provide a solid economic and financial footing to the Post-Kyoto architecture.

Population aging and international migration are two major interwoven global challenges. Old-age dependency ratios are reaching new heights, reflecting rising longevity and low or declining fertility. This demographic transition is likely to have sizeable macroeconomic effects, notably on labour supply, growth, public budgets, financial markets and international capital flows. By 2030, the number of people of working age in the EU-25 is expected to decline from 303 million now to 280 million.[iii] At the same time the number of pensioners will grow along with life expectancy. This is opening a worrying gap.

Migration can be part of the answer to population ageing. The number of immigrants entering OECD countries has more than tripled over the past two decades. Migration helps fill labour shortages; it boosts economic activity in the host countries and generates remittances for the sending ones. But in order to fully compensate for population ageing, inflows of migrants would have to be very high over a long period of time, thus raising huge challenges about economic and social integration.

Migration can help slow the erosion of population levels and alleviate some of the fiscal pressures caused by the demographic transition in OECD countries. However, in no case should it give way to complacency and distract from the fact that ageing will require major structural reforms. We must not forget that migration is the expression of economic stress and unemployment in developing countries. Through migration, poor countries lose their most hard-working, entrepreneurial and courageous people, many of whom have already been educated with the scarce public resources of those countries.

The so-called brain drain is contributing to a vicious cycle of underdevelopment. In some African and Caribbean countries up to 50% of all health professionals emigrate, while being desperately needed at home. How can we promote greater mobility of brainpower without jeopardising the development of the origin country? The increasing role of migration, and the crucial importance of international cooperation to address it, make the OECD a natural forum for the analysis of the many facets of this phenomenon.

Poverty is the ultimate systemic risk. The proportion of people living in extreme poverty has been halved since 1980.[iv] Yet, poverty is still widespread and deep-rooted: more than 2.7 billion people still subsist with less than $2 a day; 1 billion people don't have access to clean water; and 2.6 billion have no sanitation services.[v] Every year, 14 million people are killed by neglected infectious diseases; while the ILO reports that in 2007 there will be more slaves in the world than ever before — nearly 12.3 million people.[vi] These are not only figures; these are shattered families, broken dreams, global shame.

Globalisation has facilitated the creation of unprecedented wealth, but inequality has increased at the same time. Recent studies report that the richest 2% of the world's adults own more than half of the global wealth.[vii] Within OECD countries, disparities have also grown: between 1994 and 2003, earnings inequalities increased in 17 OECD countries (out of the 20 countries for which we have this information).[viii] We estimate that relative poverty[ix] affects nearly 11% of the population in OECD countries.[x]

The stubborn persistence of poverty and inequality creates the conditions for the expansion of terrorism, armed conflict, environmental degradation, cross-border diseases and organised crime. The solution to this global challenge depends on a compound of multilateral tools, like the Millennium Development Goals and the Doha Development Agenda, and the synchronised application of national policies that promote a mix of macro economic stability, rapid and sustainable pro-poor growth, high quality accessible education and health services, open innovation and regional cohesion. Poverty is a multidimensional phenomenon.

The OECD is working hard to develop a global Partnership for Poverty Reduction with developing countries and other multilateral economic organisations. To support this effort we have developed a set of Guidelines on Poverty Reduction, laying out the essential building blocks of coherent and more effective policies and action.

The OECD is adapting to these transformations of the world economy. It is becoming more global, more inclusive, more relevant. In a world where emerging economies already account for more than half of global GDP (in PPP terms), 43% of global exports and 70% of international reserves[xi], we need to rethink our strategies; we need to adapt our structures.

In June 2007, after a long period of debate and preparation, the OECD initiated a two-tier process of enlargement and enhanced engagement with 10 new countries that account for nearly half the world's population, 15% of global exports and a combined GDP of 5.8 trillion dollars.[xii] In the coming months we will start accession talks with Chile, Estonia, Israel, the Russian Federation and Slovenia. In parallel, we will strengthen our co-operation with Brazil, China, India, Indonesia and South Africa through enhanced engagement programs with a view to possible membership.

At the same time, the OECD's relations with nearly 60 other non-member countries are broadening and deepening. The increasingly active participation of developing countries in the work of our Committees and Working Groups has become a two-way avenue of communication and learning. Our capacity-building activities in these countries have also expanded significantly. The OECD is gradually turning into a genuine vector of convergence between developed and developing economies.

This new OECD was endorsed by the G8 leaders during the past Summit of Heiligendamm, when the OECD was asked to act as a platform for a dialogue between G8 countries and the major emerging economies on selected topics. Other initiatives like the recently launched Partnership for Democratic Governance, aimed to help the international community assist developing countries to improve their governance, reflect the new role of the OECD as an international interlocutor. Our work on the political economy of reform is one more dimension of this role, and it reflects a new conception of what the OECD can do for a more balanced and inclusive world economy.

Ladies and gentlemen,

"The world is a very different place than it was…ten minutes ago".[xiii] This promotional banner from a bank in New York is no longer an exaggeration. In the era of globalisation, one of the few certainties we have is change itself. The global economy is evolving rapidly and our multilateral economic organisations should change and adapt as well. Trying to produce a better world economy without recognising the new importance of countries like Brazil, China, India or Russia, is not only unrealistic, it is a mistake. We have to work with them to successfully address any global issue.

Multilateral organisations are the best tool we have to transform globalisation into prosperity. Global challenges demand global responses. And time is pressing. By 2050 the global population will reach 9 billion people who will be probably looking for a different planet to meet their food and energy needs. Should we fail to find it, we need a Plan B, where "B" stands for better, and only international dialogue and shared policy knowledge will provide it.

In the words of Thomas Woodrow Wilson: "We are not here merely to make a living. We are here in order to enable the world to live more amply, with greater vision, with a finer spirit of hope and achievement. We are here to enrich the world, and we impoverish ourselves if we forget this errand."

Thank you very much.

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[i] During the period 2001-2006.
[ii] WORLD INTERNET USAGE AND POPULATION STATISTICS by Internet World Stats.com. See: http://www.internetworldstats.com/stats.htm
[iii] Antonio Vitorino, Joanne J. Myers , "The Challenges of Global Migration: An EU View", May 14, 2004. See: http://www.cceia.org/resources/transcripts/4985.html
[iv] Binay Bhargava, "Introduction to Global Issues", The World Bank, 06/28/2006
[v] According to World Bank data. See: http://web.worldbank.org/WBSITE/EXTERNAL/EXTABOUTUS/0,,contentMDK:20104132~menuPK:250991~pagePK:43912~piPK:44037~theSitePK:29708,00.html
[vi] Steve King, "Of Inhuman Bondage", The World in 2007, The Economist.
[vii] According to a recent study by WIDER of the UN University, on The World Distribution of Household Wealth.
[viii] OECD Database.
[ix] A measure of relative poverty defines "poverty" as being below some relative poverty threshold. An example is when poverty is defined as households who earn less than 50% of the median income is a measure of relative poverty.
[x] 2000 data from the Directorate from Employment, Labour and Social Affairs.
[xi] The Economist, "Surprise", The World Economy, September 14th 2006.
[xii] CIA World Facts Book.

[xiii] Publicity banner of The Bank of New York Mellon.