A New Global Age

Donald J. Johnston, Secretary-General of the OECD

The economic environment is changing rapidly. Globalisation is being driven by international trade and investment which, in turn, are spurred on by the borderless world produced by swift advances in communications and transport technologies. The necessary companions are market liberalisation – without which the current expansion of trade and investment would slow dramatically – and new forms of governance to referee the changing rules of the game and ensure effective implementation of public policy.

At the heart of the OECD mission is charting how countries – OECD and non-OECD alike – can reap the economic benefits of these changes. We stand on the threshold of a new global age, where all countries have the potential of participating actively in the world economy. It is being increasingly shaped by dynamic and emerging non-OECD economies, especially from Asia and Latin America. The ‘Big Five’ – Brazil, China, India, Indonesia and Russia – are already playing important roles in many global issues, not only trade and investment, but agriculture, energy (including nuclear) and the environment.

Looking ahead to 2020, the world may see a massive shift in global economic weight, with the share of non-OECD countries rising from less than 40% of world output to over 60%. The ‘Big Five’ output would equal that of OECD countries and carry a similar importance in discussions of issues affecting the world economy.

As these patterns emerge, innovative responses will be required to reduce the risk that some groups within countries, or even whole societies, are left behind; and to ensure sustainability from the perspective of the environment. Keeping the balance among economic growth, social stability and good governance – the building blocks of social progress – will require care and attention.

Global interdependence means that the OECD must be more outward-looking. Indeed, in recent years, the OECD has increased its membership by five and has launched dialogue and co-operation with a wide range of non-OECD economies. This is a two-way learning process whereby countries share and evaluate their policy experiences, permitting all to benefit from success stories in the most dynamic or innovative.

For the poorest countries, especially in Africa, the challenge of integration into the world economy is profound. Only by developing the capacity within the population of each nation to take advantage of emerging opportunities will the challenge be met. The OECD is working with other international organisations to increase the effectiveness of efforts in this area.

The pace of forging linkages of all kinds between OECD and non-OECD economies is likely to accelerate in the coming decades. Furthermore, as non-OECD countries become increasingly important drivers in the global economy, OECD economic performance itself will depend more and more on their policies and results. In view of these trends, in 1995 OECD ministers asked the Organisation to examine specific aspects and impacts of linkages between OECD and non-OECD economies, and to explore their implications for policy options in member countries.

The OECD study, Towards a New Global Age, which emerged from that ministerial request presents two visions of the world economy in the year 2020. The first assumes no significant policy changes – a ‘business-as-usual’ case – while the second is more optimistic and calls for governments and societies to seize the challenge of realising a new age of global prosperity. This second view promises worldwide increases in welfare and is accompanied by deeper integration of developing and transition countries into the global economy. In this projection, international security is expected to be enhanced as a result of substantially increased interdependence and reduction in world poverty.

A major problem associated with any projection of growth, whether modest or optimistic, is that of achieving economic growth while ensuring environmental sustainability. New approaches are urgently required. For example, the link between economic growth, energy consumption and carbon emission must be broken. Agendas for technological innovation and international co-operation must be woven together and intensified in the decades ahead to reverse current trends and ensure sustainability.

A new global age will not materialise automatically. It will require bold action from governments to complete the borderless world through full liberalisation of trade and investment, to ensure stable and sustainable macro-economic policy, and to continue wide-ranging structural reforms. At their meeting in May this year, OECD ministers stated their determination to implement this ambitious agenda.

Creating popular support for reform is fundamental to enabling governments to pursue this policy agenda. With adjustment costs tending to fall heavily on specific sectors, regions or social groups, and benefits generally being spread thinly across the economy, governments have to be active in explaining the advantages to their societies of the globalisation process. Resisting change will lead only to countries being left behind – and missing out on the higher living standards that trade and technological progress can bring.

Towards a New Global Age suggests both what the world might look like if it moves slowly with a ‘business-as-usual’ approach and what it might look like with a higher performance approach. But it cannot tell us how far beyond that OECD members and non-members will be able to reach. It does, however, contain many elements which could serve as a foundation upon which a more ambitious view could be created.

Although economists do not usually look beyond the extrapolation of known factors, leaders and policy-makers are mandated to do just that. They must set their sights on a global vision for the year 2020 which puts building blocks in place to permit a quantum leap forward. That is how we put a man on the moon. And that is how we will solve a number of the seemingly intractable problems of the developing and developed world alike. The ‘optimistic’ view is not good enough. In the words of Robert Browning, ‘a man’s reach should exceed his grasp’; so must the ambitions of the world leadership.