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Globalization - Challenges and Opportunities for Transition Economies

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Summary

Globalization is a vague concept, used for some time, whose various stages can be traced to the XV century. From the economic perspective it is the historical process of gradual liberalization followed by progressive integration of fragmented capital and commodity markets, the markets of services, and, to a lesser extent and somewhat belatedly, also labor markets, into a single world market. It has number of dimensions such as cultural, technological and, as mentioned above, economic ones.

Globalization has tremendous effects on the countries in systemic transition, populated by 1,7 billion people. The process of globalization brings opportunities but also threats and risks, benefits, but also costs. It serves as a catalyst of post-socialist transformation, but at the same time can lead to marginalization, as the fruits of globalization are not given automatically and very much depend on the geo-political position and states' policies.

Globalization is a vague concept, which came into use some time ago, although globalization itself has had a much longer history. Various classifications of globalization exist. In my opinion, it is best viewed as a permanent process, which has its ebb and flow, and these days, within the lifetime of our generation, we're seeing it at high tide. However, generally speaking, globalization already took place as an outcome of the Age of Discovery, when a new, worldwide economic order emerged. Its institutional setup was entirely different from what we know today: it was based on the principle of subordination of the conquered lands to the metropolis under the colonial system.

The next great phase of globalization, triggered by the subsequent scientific and technological revolutions of the last quarter of the 18th century and the entire 19th century, lasted, in fact, until the beginning of World War I. That war undid much of globalization's progress, which was not really resumed until the last quarter of the previous century. Other chronologies have been proposed, too, including ones which I oppose on methodological and substantive grounds. For instance, it has been claimed that the world underwent a very important phase of globalization between the end of World War II and 1980. That period, it is argued, saw a far-reaching integration of the most highly developed capitalist markets. However, this is an error in definition which contradicts the meaning of the word 'globalization' itself. Its semantics is transparent: the name refers to the globe, that is, the world, and hence the world economy. Thus if only one section of the world economy undergoes integration (and these sections were perceived at that time as *divisions* rather than *component parts* of the world), however far-reaching, it is difficult to talk about globalization. Paradoxically, we are prone to thinking in the following way: it is Thursday and we should be better off than on Wednesday; better off in February than in January; better off in 2003 than in 2002; better off in this century than in the previous one; and this phase of globalization should be more advanced in every respect than the preceding one. Yet this is not the case, as the world 85 years ago was in many ways more advanced than at present, as far as the creation of a world economic order is concerned, for instance, because of the gold standard, which amounted in practice to a single world currency, which is absent today. And the phenomenon of uncontrollable currency crises, which disrupts at present the world economy, was practically unknown at that time.

We could quote today the greatest economist of the 20th century – John Maynard Keynes, who thus reminisced about 1914, soon after the end of World War I, 85 years ago: 'What an extraordinary episode in the progress of man that age was which came to an end in August 1914!…The inhabitant of London, sipping his morning tea in bed, … could adventure his wealth [using telephone] in … any quarter of the world….'. He wrote this in his book *The Economic Consequences of the Peace* already after the war. But the times that he was alluding to had come to an end with the outbreak of World War I. It seemed to him at that time that globalization, although this very word was not yet in use, was already so far advanced that without even getting out of bed in London one could move capital in the most remote parts of the world while drinking one's morning tea. To be sure, capital itself was then different than today, not only quantitatively but also qualitatively, and so were the methods of moving it, as the current, third phase of permanent globalization is marked by a number of concurrent processes which give it a distinct character, as well as two processes that differentiate the present phase of globalization from everything that was before, and, presumably, everything that will come in the future (although the latter is truly unpredictable). What I mean here is the present phase of scientific and technological revolution related to the computerization and 'internetization' of the economy.

It is internetization that changes the modes of capital transfer to the greatest extent, as it does the transfer of knowledge and communication between people or economic entities. If instead of saying that capital runs, walks, or goes, we have always said that capital *flows*, it is because in the past it used to be loaded onboard ship in Plymouth and, winds permitting, it reached Boston, where it was unloaded, and thus transferred. At present it flows practically at the speed of light at a click of the mouse, and this is taking place 24 hours per day. Modern economy is a round-the-clock business. If some of us are asleep, they dream about others doing business at that time, possibly also in these economies, or these segments of the world market, where we are asleep. While we are working here now, America is still asleep, in the Far East the capital markets and stock exchanges are just being closed, and European analysts are getting down to work in front of their computers, staring at their bar graphs.

And when we are talking about the challenges and prospects for Poland, we should remember that Poland is also one of these bars on the computer screens in the dealing rooms of JP Morgan, Morgan Stanley and many other global financial institutions and investment banks, from Philippines on the left to Portugal on the right (going by the alphabet). Today capital is more easily moved in practice between continents than it was moved several dozen years ago even between cities – at least capital in its most liquid form.

What, then, is globalization, what is its definition? We are entitled to have various definitions of globalization, because globalization is a multidimensional process. It has a strictly economic dimension as well as financial, technological and cultural or civilizational aspects. Therefore, some may associate globalization with the unification of consumption models or modes – the notorious 'mcdonaldization' – while for others it signifies the supremacy of the strongest segments of the world economy, dominating over the weaker parts in a way typical of the modern phase of financial capitalism, liberalized at the current phase of systemic changes, including post-socialist ones. However, as an economist, I define globalization as the historical process of gradual liberalization followed by progressive integration of the hitherto fragmented capital and commodity markets, the markets of services, and, to a lesser extent and somewhat belatedly, also labor markets, into a single world market.

Global economy means world economy, and this boils down to the creation of a world market, governed by basically the same regulations as national or regional markets.

But are they entirely the same? Not quite, as globalization is asymptotic in nature or, in other words, it looks like an asymptotic function, which means this process will never be complete, because, considering the hypothetical extreme case, globalization would be complete if we had a single demand curve and a single supply curve intersecting at a single point where these two streams are balanced and the world market reaches an equilibrium. But the market does not and will not work like this – neither the capital market, nor the markets of commodities, goods and services, nor the labor market. Like on local markets, there will always be price differentials on tomatoes between Poland's Suwałki region and Lower Silesia. Only for some products does a single world market exist; these include, for example, currencies and certain highly specific commodities, like jumbo jets. But in most cases we still have local markets, local curves of demand and supply. Globalization influences this process only to the extent that, if the prices remain constant for too long, the flow of goods is now much freer than it ever was before (this might call for some qualification, as things looked different at different times). Goods may and do flow to places where their sale is more profitable, and if this situation continues long enough, the same applies to capitals. They flow freely and are invested wherever the sale of particular products is easier. Thus capital roams the world.

Within just a half of my brief life history the flow of capital to the so-called emerging markets increased from a mere 1bn zlotys in 1970, to almost 300bn in 1997, before some disturbance set in, as indeed a disturbance it was, resulting from a series of crises started with the financial downturn in South-East Asia. Later on, other crises erupted: Russian, Argentinean, Turkish, Brazilian, and several minor ones, and this process is by no means finished yet, because the world financial system is unable to control it. Therefore, crises will keep occurring for a long time, causing various frictions, and it is in this context that we should ask whether globalization is an irreversible process and whether we are destined for infinite progress.

The answer to the first question is that globalization *is* an irreversible process. Such is the logic of this process, which is not to say that it may not suffer setbacks. In fact, globalization is less advanced in 2003 than it was in 2001, two years ago, due to the fact that not only capital and goods movements are globalizing, but so are also the flows of insane ideas and international terrorism. The idea of privatization and liberalization has gone so far that even wars become privatized and liberalized, not without consequences for us. The crises I have mentioned alone hamper further progress of liberalization and integration and foster xenophobic or protectionist attitudes. The latter have even been adopted by the leader of the free world – the United States of America – which imposed unilaterally a protective import duty on steel products, thus taking away jobs, as independent experts estimate, from around 200,000 people in other parts of the world economy. This proves that this process has its setbacks and does not proceed smoothly, but it still *is* irreversible.

How does this all affect Poland, Central and Eastern Europe, the countries of post-socialist transformation? In multiple ways. Globalization would not deserve its name – for what kind of global economy would that be? – if the part of the world comprising Central and Eastern Europe, the former Soviet Union, China and Indochina, inhabited by more than a quarter of the world population - 1.7 billion people, were not integrated into the system. Only then can this system be called global. However, in order to be part of this system, the economy of this segment of the world has to function according to the same rules which govern the dominating part of the world, that is, the rules of market economy. So, in order to make globalization complete and deserving its name at the current, modern phase, the former socialist, centrally-planned economies had to liberalize, transform into market economies, open up and – to a greater or lesser extent, more or less radically, faster or slower (this may involve various institutional arrangements) – integrate with the remaining parts of the world economy into one system, that is, into a liberalized and integrated global economy, although its individual markets are liberalized and integrated to varying degrees, as are the transfers of various groups of commodities, types of capital, and labor.

On the other hand, globalization is a catalyst of the process of post-socialist transformation and surely the process of liberalization and systemic transformation would not have been so far advanced, comprehensive and deep, had it not been for the expansion of world capitalism. From this point of view, it is a fortunate historical coincidence that the huge surplus of capital – the surplus of internal savings in the richest economies of the world –

were matched by a huge demand for capital in countries at a medium advancement level, which nevertheless had good-quality human capital, some measure of technological sophistication, and an appetite for a technological leap. They had to finance it without adequate internal savings. This need was met by the huge supply pressure created by surplus capital, which waited for something to be discover, something to emerge. And then all of a sudden something did emerge: we came to be called 'emerging markets', emerging places to do business.

From this perspective, post-socialist countries, including Poland, are often treated in a clearly instrumental and opportunistic way. Statesmen do not mention this and neither do neoliberal economists, as this is not the done thing, but financiers and investors do know about it. This is a place to do business, and in order to do business you must have private property, free access to investment, free flow of capital, convertible currency, commercial banking, investment banks, appropriate institutions, a sensible macro-economic policy – that is, the entire institutional apparatus of market economy. The external pressure results in further strengthening of the desire for change and the endogenous mechanism of systemic transformation from socialist, centrally-planned economy, based on the domination of state ownership and bureaucratic control, towards free, open market economy based on regulation and the domination of private property.

The Polish Round Table was without any doubt a breakthrough from the political point of view, and an even greater breakthrough was Gorbatchev's decision to pull down the Berlin wall. However, the process of transformation had started earlier. Sometimes this leads to considerable confusion which obfuscates the conclusions, as was the case with the last but one issue of the world economic review published by the International Monetary Fund, which broke at long last with the practice of dividing countries into centrally-planned and transforming. Now we are all among transforming ones, together with Vietnam and China, Laos and Mongolia, and of course Poland, Hungary and about 30 other states in all. The question now is: if we are all in the transformation stage, if we are all adults, then when did we enter the transformation path, when did we reach adulthood? If an adult enters the room, it is plain to see, but it is difficult to define who is an adult, as much as it is difficult to define when the transformation started. Yet according to what the International Monetary Fund is saying, it started in the Soviet Union in 1987 with Perestroika, in Vietnam in 1986, and in China with Deng's reforms in 1978, so it would seem that we joined the transformation process almost at the end, and did not initiate it. This may be an academic question, but it is of some importance to historians, semanticists, and, I imagine, also politicians and, in some measure, economists.

In this context there is a clear mutual interaction between two big processes: the post-socialist market transformation and the globalization process, of which it is a part, regardless of its own logic and endogenous mechanisms which eroded the former system to a point when we moved from the phase of reforms to that of dismantling that system, replacing its whole institutional structure and creating a new system. This relationship is of interactive character as it fosters the emergence of market economy in another part of the world and, along with other processes, like the opening and liberalization of one-time post-colonial countries, contributes to a global system which is becoming ever more strongly integrated.

Is Poland, however, really globalizing? Is it entering the world mainstream? Poland is a provincial country for a number of reasons. First, Poland is a European country and it Europeanizes, rather than globalizes. Its total trade turnover with Africa and Latin America does not exceed the aggregate economic exchange with three small economies, likewise in the midst of the opening up, integration, liberalization and transformation processes: Latvia, Estonia and Lithuania. We are entering the global mainstream mainly through the process of our integration with the EU, which has furnished the model of our institutional arrangements, absorbs the huge majority of more than two thirds of our exports, provides over 2/3 of our imports, and there is nothing wrong in this fact. What is a bit wrong, however, is our lack of sufficient expansiveness to make use of the emergence of other segments of the world economy, a little further away from our borders, bearing in mind that today, in view of the technical and technological progress, distance has ceased to play any significant role – which is yet another aspect of globalization.

In the past, the compass of the economy was defined by what one could see. Going beyond the seven mountains and seven rivers was too far. Today no place is too far. Paradoxically, and to the surprise of all of us, our economic space has expanded, because we have recently, during our lifetime, discovered a new America. This is not about the expansion of economic activity into outer space, as some science-fiction writers would predict (and which is a likely outcome one day, but probably not in our lifetime, although once again you never know), but about the discovery of virtual space. Therefore this third, modern phase of permanent globalization may be dubbed the globalization of the Age of Great Virtual Discovery. Completely new fields of economic activity are being created, which are practically boundless; the infinite virtual space comprises everything that follows the prefix e- – e-commerce, e-banking, e-finance; add to this digital education, entertainment, administration, management etc. And although you cannot build a ship through the Internet, you can transfer in a splinter of a second an entire technology, or design, sell and arrange for everything else apart from the very construction process.

But if Poland and many other countries are integrating within the European Union, we also need to keep in mind other parts of the world. Is the world really one? Is there a single world economy being created, or maybe a dozen regional groupings which are more inside- than outside-oriented. We have Mercosur in the southern part of South America, we have the Andean Pact, we have CARICOM in the Caribbean, between the two Americas and Central America, we have NAFTA, which is expected to evolve into an organization of 35 countries, because it is obvious that Cuba will join it too, except it has to do it on the institutional terms applicable to this part of the world economy, and not to an enclave like Cuba itself or North Korea. In this way a free trade zone of the two Americas is taking shape, which is an American answer to the deepening and broadening European integration, which in turn is the European answer to the great American challenges. Under the circumstances, small or medium-size countries, like Slovenia or Poland, would not stand any chance of dynamic growth in the world economy, if they did not find their place in some integrating organization, which may compete with other such groupings; our geo-political position situates us unambiguously in the European Union. There is SADC with 13 states integrated around South Africa as a local power; there is GC in the Persian Gulf; there is SAARC where India meets its political arch-rival Pakistan, along with Bangladesh, Bhutan, Nepal, Sri Lanka and the Maldives; there is ASEAN, which is an integrating organization of a different kind, but keeps expanding, and transcending its boundaries by entering into long-term strategic co-operation with China; there is APEC, and many more names could be added. Certainly one of these must be mentioned: CIS – the Commonwealth of Independent States, where re-integration takes place within the post-Soviet framework, but along the lines of market economy. Russia, of course, occupies a dominant position within this Commonwealth, but this too is part of the regional integration processes.

The question, therefore, is whether the world is in fact moving towards a single global economy or, for instance, some 15 or so large organizations in place of 200 states and territories (although someone will always tend to stay out of these organizations; this may be the case with some countries in Africa or Asia, although rather not Europe or the Americas, and perhaps also certain small states of Oceania, although these too are entering various regional groupings)? This is a good question. I personally believe, on the basis of my observations and comparative studies, that regional integration is a secure vehicle of globalization progress, and not an obstacle to it. Higher-level globalization will soon take place. Instead of integrating thirty-odd European states with thirty-odd states in the Americas (time will come for this process too, but it will not start until the next decade and will only gain momentum in the 3rd and 4th decades of this century), an advanced process of broadened and deepened European integration will take place, in parallel with a process of broadened and deepened American integration, although the latter will always be dominated by the United States of America (which is, incidentally the greatest success story of economic integration in the world history, the second greatest being the European Union).

The United States of America might have consisted today of 50 states using 5 languages and 50 currencies, and then South America could have been be more efficient than North America. But once the process of Americanization took place in that continent, as now the process of globalization is taking place, a superpower could emerge there. In this context we should ask: are we to be for or against globalization? This is a good question, because globalization is bringing about various outcomes, both good and bad, and if somebody is against globalization today, we have to understand what precisely it is that he or she is against. Accordingly, those who protest against globalization, protest against global capitalism, because, as a system, it has its bright and dark sides, pros and cons. Hence, if a world capitalist system emerges, it is obvious that it will be accompanied by unemployment, poverty in marginalized areas, exclusion, huge imbalances in income distribution. There is, however, a question of whether liberalization and integration will produce more poverty, deprivation, exclusion, and growing discrepancies and whether this is acceptable, or, perhaps, it will help reduce the scale of these phenomena? And I don’t think those who protest are protesting against globalization as such, but, rather, they are protesting against some pathologies of globalization, or – possibly this is the right way to put it – against some immanent, inalienable features of capitalism (in this case, world capitalism) which we have to take as they come, once we have accepted this system (or once it has been made dominant in the world today and in the foreseeable future, without anybody asking our opinion in this matter).

The process of globalization brings additional opportunities but also additional threats and risks, additional benefits, but also additional costs. Many bad things happen which are not to our liking, related to exclusion, injustice, unacceptable inequality, and also including such pathologies as crime, money laundering, fraud and other phenomena covered by the umbrella term ‘racket’. These all accompany the processes of transformation, liberalization and entering the mainstream world economy, but the fundamental question is: to what extent can we eliminate or limit such disadvantages? What is the balance of the outcomes of globalization, and developments that would have occurred anyway? In particular, what is attributable in Poland to globalization, and what would have happened regardless of our decision to join the game and integrate with the European Union? Many people, including economists and politicians, fail to see the difference. I believe that, generally speaking, the additional threats are outweighed by the additional opportunities, such as: lower transaction costs, the economies of scale, technology transfer through direct investment (the main vehicle of know-how dissemination), or the improved quality of human capital. However, it must be borne in mind that this is all *one* process.

Sometimes we refuse to understand this. One opinion poll taken in Poland yielded astonishing results from the point of view of rationality. On reflection, however, the answers could be most rationally explained. The question was: “Do you believe in heaven/hell?”. It turns out that 72% of the Poles believe that heaven exists but only 40% believe in the existence of hell. At first it poses an intellectual dilemma, as if there is good there is also evil, if there is white there is also black, if there is heaven there is hell, if there is an angel there is also a devil etc. But we prefer to believe in things which are good and nice, pleasant and light, and not in things which are difficult and oppressive. But the trouble is we face here a methodological and logical error, because there is no heaven or hell. This is one and the same place. So if somebody is asking whether it is a good thing or bad that capital is flowing in, it depends on what kind of capital it is. If it takes the form of direct investments, which are a vehicle of technological progress, improve in the long run the qualifications of management and workers (and hence increase their wages), enhance managerial and marketing skills, are typically export-oriented (as can be easily seen in the countries from our part of the world which are joining the mainstream world economy) and constitute long-term investments that we can “hold prisoner” (that is, they will not flee from our country) – then we are in heaven.
On the other hand, if the European Central Bank is reducing the interest rate today to a point when, at the inflation rate of 2.3%, the real interest rate is works out at nil, if American banks offer an interest rate of 1.75% while inflation stands at 2.3%, which means negative real interest, if Japan is considering a historic innovation in the form of a new institution – negative interest rate, if the interest rate in the neighboring Czech Republic (for those who wish to avoid comparisons with the European Union) is lower than in the EU, even though inflation is higher there than in the EU, and if at the same time there is no inflation in Poland (0.4% January-to-January), but the interest rates are kept by the independent central bank at an irrationally high 6.5+%, then we are in hell.

But is globalization to be blamed for this? No! We should put the blame on the lack of economic common sense, on the obvious economic mistakes, which were by no means imposed on the decision-makers. It could be that they take heed of false economic doctrines, listen to wrong advisors, read wrong books on finances and monetary policy, but we should not point the finger at capitalism or globalization or liberalization or vested interests. The real culprits are the lack of common sense and overabundance of irrationalism. Ilia Erenburg argued that stupidity is a cross-system phenomenon, and he meant for sure Soviet communism as compared with 'rotten capitalism' in the West, but even today we may quote Ilia Erenburg's words about stupidity transcending system borders. Capitalism does not make one immune from stupidity, be it in the United States of America, where economic policy blunders also happen, in Australia, Malaysia, Chile, or in Poland. Therefore, we should try to take advantage of the opportunities created by globalization, while minimizing those threats which we cannot avoid, because they are part of the system that we are entering.

As far as Poland is concerned in this context we are lucky: we have good brains, and on top of that, we are lucky. What makes us lucky? Our luck at this moment is our most favorable geopolitical situation in the world. Poland lies in a dream place, although for a thousand years it was an accursed place, where someone always troubled us – Germanic tribes, Teutonic Knights, Germans, Prussians, Ruthenian tribes, Russians, the Soviet Union, etc. During a brief moment when all those left us alone, the Swedes came over and we had to be bailed out by Kmicic, the literary superhero, with the help of some others. But now we have a position on which we can build a superb strategy of long-term socio-economic development, finding our place in the world order, mainly by way of finding our place in the European order. For we are the heart of Europe, unbeatably so. And to be situated these days between the European Union, of which we are in practice already a member, and the Commonwealth of Independent States, which is a huge emerging market of over two hundred million producers and consumers, is a winning lottery ticket. It is something to be envied and something to be taken note of and utilized in our strategy. And what can the others do? They have to try even harder. Anyway, this is the first thing on which we can build our optimism. It has been given to us and is not the achievement any government.

The second factor on which our realistic optimism can rest is the very nature of transformation as such, that is transition from a centrally planned economy to a market economy, from the system of a lower quality to the system of higher quality. The market economy *per se* should guarantee higher economic effectiveness subject to a fulfillment of a number of institutional, political and social conditions. The current unsatisfactory state of affairs is not a result of a transformation as such, but stems from a foolish idea of "cooling down" the Polish economy, in fact freezing the boom of 1994-7 in the past few years, because this boom should have been sustained, and not cooled down, all the more so since the importance of some external factors was overestimated. Five years ago Poland had a quarter-to-quarter growth of 7.4% over the previous year; last year at the same time it was a paltry 0.5%; now it is probably 2.5%. So we are gradually beginning to regain dynamics, but there is still a long way to go to return to the rapid growth path, on which Poland proceeded so impressively just a couple of years ago, and will be proceeding again in a few more years. Back in 1994–7, we managed to make better use than anyone else in this part of the world – before or after – of those additional opportunities, while minimizing at the same time the added threats originating from integration and globalization. Now we may be able to repeat this in 2003, and not for 4 years, but for 14 or 40, as this is the object of the game, along with catching-up. Nobody is bound to succeed, but likewise, nobody is doomed to fail from the very start. Success will belong to those who manage to create a long-term strategy ensuring economic growth which is faster by a factor of at least 2–2.5 than the average growth in the rich European Union and the world economy at large. Our accession will somewhat reduce European Union's average wealth; moreover, the world economy is going through a slowdown phase at the moment, but it will regain momentum in the future, among other things due to globalization. And the fact is that the stifling of growth rate almost to zero and the needless relapse into mass-scale unemployment bordering on a social disaster, which left huge segments of society marginalized, did not result from the transformation as such. The success of China in comparison with other countries in recent times can be attributed to the fact that China has always managed to stick to two policies with a capital 'P'. These are the policy of systemic changes, which today amount in fact to a systemic transformation, rather than a mere reform of the former system, and the policy of socio-economic development. The failure of Russia, from which it gradually began to recover in the 1990s, should be attributed to the adoption of a destructive, neo-liberal hypothesis, based on the Washington consensus (harmful from my point of view), that all you have to do is the first part of the exercise, that is, to introduce market economy, guided by the motto: 'Liberalize, privatize, be tough fiscal- and monetary-policy-wise and growth will come of itself'.

But it did not and will not come. Because no matter how strongly involved in the mainstream of globalization we are, there is always an opportunity and an obligation to pursue a national policy of socio-economic development. Globalization does not prohibit this, and Poland's membership in the European Union will not prevent it, either. We just need new policy instruments, because the rules of the game, the partners in the game and the stake are different. The game is about sharing the results of globalization. The trouble is that, on a global scale, the losers risk marginalization and this will result in a revolt. For if the global economy evolves for the next 20 years along similar ways it has over the last two decades, then we might face very serious disturbances, going on in the streets of the world. The reason is that the level of arrogance of the rich of this world towards the poor has become unbearable and it is easier to muster hard force to strike at the state run in an unacceptable fashion than to provide soft force to help the world come out of poverty. It turns out to be impossible to make the rich countries of this world allot a mere 0.7% of their gross national product to assistance to the poorest nations. The United States of America provides to this end less than 0.2% of its GDP. How to allocate these resources, how to fight corruption, how to efficiently move the funds from one part of the world economy to another – all this can be debated at many conferences. Therefore, the greatest challenge worldwide in the 21st century is an institutional one. The world economy – for it *is* a true world economy already, an outcome and a symptom of globalization, incomplete though it is – sees ever more chaos and less and less order. In short: a global economy creates global problems, such as, for instance, the problem of world poverty.

Global problems require global solutions. An appropriate agent is needed to this end, but no such agent exists, because we do have a world economy but do not have a world government or a world economic policy. We do not have a world financial policy, either, because what the International Monetary Fund is doing is hardly a world financial policy; what the World Bank and all other organizations like the UNDP etc. are doing is hardly a world development policy, either. I am not saying that they do not do many good things: they do, but policy is about co-ordination and now, in the 21st century, we need to find an appropriate policy co-ordination mechanism on the global scale in order to solve global problems. We are already solving many of them: the fight against terrorism is being coordinated; measures against money laundering are being coordinated. The International Labor Organization is doing a lot in its field, as is the World Trade Organization. But this whole system is totally inadequate in the face of the challenges posed to mankind by the world economy. The question, therefore, is how to solve this problem, which totally exceeds the capacity of the G-7 Group. It even exceeds the capacity of the UN in its present structure, and this is the main challenge: it is here that the biggest changes are needed, if we are to look forward to a better world.

Coming back to Poland, apart from the two comparative strengths resulting from the superb geopolitical situation and the advantages of the transformation, which significantly improves in the long run the micro-economic effectiveness and development potential of the economy, given that a proper economic policy is being pursued (which can only be based on sound theory and sound economic doctrine), there exists a third factor on which our optimism can be based – the quality of human capital. The countries of Central and Eastern Europe, the post-Soviet countries – and certainly also Poland, which might indeed be a frontrunner among the countries at a similar level of development, as measured by per capita gross national product, adjusted for purchasing-power parity – have a fairly decent human capital. This is one of the factors that increase the attractiveness of the Polish economy to other parts of the world economy. We should avoid viewing this 'rest of the world' in terms of 'foreign countries' or 'foreign investors'. Instead, our thinking, outlook and socio-economic policies should increasingly by couched in terms of the world economy, of which we obviously are – from our point of view – the most important part, although we generate only 0.6% of the world output. Everything else belongs to the other part of the world economy. Seen from this perspective, the world becomes increasingly *composed of* former national economies and strong integration organizations evolving in various directions, and less and less *divided into* them. And for all the threats that face the world economy and Poland, which is struggling to find its proper place in this economy, I remain a rational optimist.