The world today is more integrated than ever. Globalisation -- a process of international integration of the markets for goods, services, and capital -- has made that possible. While movements of goods and services, labour and capital, information and ideas, across national borders are not new; its acceleration in the last decade marks a qualitative break with the past. The world today can no longer be treated as a collection of relatively autonomous neighbourhoods that are only marginally inter-connected and generally immune to events in other neighbourhoods. No region, no corner of this earth, can remain outside the reach of the globalisation wave that is sweeping the world. For countries like Bangladesh, accepting this inevitability, reaping the benefits and preparing to meet the challenges head on, would be opportune; to ignore it could be catastrophic for future generations. Three elements of this phenomenon, more than others, are likely to leave a lasting impact on future generations and change the way people live, work and transact business. They are:

i. the information and communications revolution;

ii. the global integration of production; and
iii. the integration of financial and product markets.

Technological advances in communication have made it possible to access information and ideas from all corners of the world at the push of a button. It is now possible to know instantly what is happening in a household or a factory or on a stock market half a world away. The speed and capacity for transferring voice, video and data over the information highway is growing by multiples. We are witnessing a revolution in information and communications that could dwarf the impact on mankind of the invention of the steam engine or electricity.

At the same time, improvements in transportation networks and technology are reducing the time and cost of moving goods. Multinational companies now rely on production chains that straddle many countries. Raw materials and components may come from two different countries and be assembled in a third, while marketing and distribution take place in still other venues. Foreign Direct Investment is the vehicle through which such globalisation has been taking place.

The international economic order is evolving into a highly integrated and electronically networked system. Financial markets are so closely interwoven that exchange rates, interest rates and stock prices in different countries are intimately linked, and the amount of private capital circulation in the financial markets dwarfs the resources of many countries. The number of players in financial markets has increased dramatically, and funds are often moved almost instantaneously in response to electronically communicated information.
Since 1950, world trade has grown faster than world output. World merchandise exports have roughly doubled as a proportion of world output, from 10 to 20 percent. The share of trade in services has risen from 15 percent to 22 percent. As the operations of multinational corporations have expanded, sales by their affiliates may now well exceed total world exports. Countries are now so much interconnected and interdependent in terms of trade, investment, environment, and in so many other aspects that it is almost impossible to formulate development policies in isolation.

The developing countries, it turns out, are a driving force in globalisation. The share of trade in GDP of developing countries rose from about 33% during the 1980s to 43% now, and could exceed 50% in the next decade. This increasing integration in world trade is being accompanied by their increasing integration in world finance. Private capital flows to developing countries rose from $42 billion in 1990 to roughly $250 billion in 1996, reducing the share of official finance from one-half in the 1980s to merely a quarter.

Globalisation has profound implications for developing countries like Bangladesh. It creates important new opportunities, such as wider markets for trade, an expanding array of tradables, larger private capital inflows, and improved access to technology. The outward-oriented reforms that have been adopted make it both an agent and beneficiary of globalisation -- these reforms both contribute to globalisation and expand opportunities for other developing countries to participate in its benefits, through trade and investment.

The new opportunities are accompanied by tough new economic management challenges. Integration requires
adopting and maintaining a liberal trade and investment regime. In trade, competition is increasingly stiff, and rapidly changing possibilities favour the more agile. In finance, international capital market integration, and the potential volatility of capital flows that comes with it, are making macroeconomic management more complex. Policy-makers are confronted more and more with a new discipline -- the need to maintain the confidence of markets, both domestic and, increasingly, international. In this setting, sound economic policies command a rising premium; the payoffs are larger, but so are the penalties for policy inaction or errors. What is more, globalisation increases competition between policy regimes; with greater capital mobility, investors increasingly are exploring opportunities worldwide and assessing a country's policies not only in the absolute but also relative to those in other countries.

A recent World Bank report on Global Economic Prospects and Developing Countries, 1999, argues that the increasing integration of developing countries into the global economy represents a major -- perhaps the most important -- opportunity for raising the welfare of both developing and industrial countries over the long term. But countries will need to rise to the challenge.

Let me turn now to the key issues for Bangladesh in the era of globalisation. The English writer and scholar, H. G. Wells once wrote, "Human history becomes more and more a race between education and catastrophe." This statement could not have been more apt for Bangladesh in this age of globalisation. Education affects productivity and growth besides contributing to a reduction of poverty. A better-
educated person absorbs new information faster and applies unfamiliar inputs and new processes more effectively. In the dynamic and uncertain environment of technological change, more highly educated workers have a big advantage. An economy over-loaded with unskilled workers is likely to lose out in a highly competitive world economy of the future.

Bangladesh does not have enough schools that meet quality standards, and too many of the schools it does have are failing to provide instruction at a level high enough to keep children in their classrooms. These deficiencies threaten to undercut the nation’s growth prospects in the 21st century by leaving it short-handed when it will need a large, literate, and skilled workforce capable of competing in technical skills with other developing countries. Furthermore, there is a clear need for reorienting vocational training. Most vocational and training institutions are publicly owned and managed without due regard for the current and future needs of the business community. Education needs to be reoriented to teach adaptable technical skills, not specific trades, which may not be in demand. This situation must change drastically if technical and vocational training is to produce the skilled workforce essential for industrial competitiveness. The most productive immediate change to foster is a reorientation of the philosophy and practice of the publicly run technical institutes so as to generate close collaboration between them and private entrepreneurs.

The recent crisis in East Asia has shown what a mess an under-regulated, undisciplined financial sector can cause. By all accounts, there are fundamental weaknesses in Bangladesh’s financial sector with nearly half its loan portfolio
considered to be non-performing and most banks lacking capital adequacy. This undermines capacity of the sector for effective financial intermediation in a globalised world. Although not burdened by short-term foreign debt, like East Asia, the sector's fragile state and general insolvency is a major source of vulnerability for the economy as a whole. Broad-based restructuring and reforms are essential for the economy's future competitiveness.

First, effective telecommunications are the lifeblood of modern societies and economies. To join the global information revolution and exploit its potential for accelerating growth, Bangladesh must, first, concentrate on adopting high-level telecommunications technology and investing in infrastructure; second, undertake institutional reforms enabling competing private operators to meet demand and effectively deliver services; and, finally, develop an appropriate, autonomous regulatory framework to assure consumers and providers alike a predictable environment in which to do business. These changes amount to major departures from current practices.

India currently exports $2 billion of software products and has taken major steps to revamp its information technology policy to reach its goal of exporting $50 billion by 2008. Bangladesh has a long way to go before it can claim to be a player in the world's software export market. There are several steps, which Bangladesh could take to promote its Information Technology and the Software Development sector. It needs to develop an Internet access policy and Internet pricing with a specific emphasis on open entry. Internet is the lifeline of the software industry. International experience has shown that liberalisation of the provision of Internet, appropriate flat rate
pricing and good telecommunications infrastructure have been crucial for the rapid growth of Internet.

The performance of Bangladesh's telecommunications sector is very poor both in terms of quantity and quality. The Government's efforts to promote private sector participation in the telecommunications sector have been largely unsuccessful as BTTB has been an obstacle to rapid take-off of the private sector, and it is disappointing that the draft law recently approved by the Cabinet doesn't provide for an independent regulator. Rapid development of the telecommunications infrastructure is necessary to facilitate the growth of the software export industry.

The global economic environment of the 1990s has been especially conducive to development. World trade growth has been very robust, sharply surpassing growth in world output through 1996, and the international trading environment remained fairly liberal. During this time, Bangladesh made significant strides in opening up its economy thereby achieving greater integration with the world economy. Import liberalisation has occurred with removal of most quantitative restrictions and lowering of tariffs. As a result, the size of trade relative to the economy has risen rapidly in the 1990s -- to 33% of GDP in FY98, after remaining stagnant at around 19% throughout the 1980s. This was largely due to a remarkable boost in export growth. Notably, trade liberalisation was achieved without any balance of payments problems or macroeconomic instability. Experts have cited Bangladesh as a textbook case of successful liberalisation. Indeed, the 5% average annual
GDP growth achieved during the 1990s, compared to 4% during the previous decade, could be attributed to the market-oriented policy changes, including trade liberalisation.

I'd like to conclude with a few key messages. First, the global economic environment is favourable to continued integration of developing countries into the world economy. But lagging countries risk being left farther behind. Countries best placed to benefit from the new opportunities offered by globalisation are those that are rapidly transforming their policies and structures to support outward-oriented growth -- adopting trade, investment, and exchange rate policies conducive to greater openness and competitiveness, and underpinning these reforms with sound macroeconomic foundation. In this respect, compared to the progress made in Latin American and East Asian countries, Bangladesh is a slow reformer.

Second, the road to increased integration will not be smooth. The increasing integration of developing countries in world capital markets brings major benefits but also requires stricter discipline in economic management since it leaves less room for policy errors. The East Asian crisis is a telling example of how financial indiscipline under free capital mobility can lead to catastrophe. The fact that practically all commercial banks in Bangladesh are burdened with huge non-performing loans and lack capital adequacy presents a potential risk for the sector as a whole.

Third, as developing countries become more integrated with the world economy, they benefit not just themselves but also industrial countries. But the process of integration will not
be without friction. Although both industrial and developing countries stand to gain from integration, there could be major adjustment costs in both. With freer global trade, labour-intensive industries and low-skilled workers in industrial countries would be at a disadvantage. This could give rise to protectionist pressures, which would slow or even reverse integration. Successfully managing global integration will be the most important economic challenge of the future.

Fourth, in an era of globalisation, private capital flows will continue to outstrip official finance, which is bound to decline. Bangladesh has relied heavily on official development assistance for its development program. It is only during the 1990s that it begun to take advantage of private capital by opening up its investment regime to foreign investment. The result has been a major upsurge of private capital inflows during this decade. Given the prospects of dwindling ODA in the future, and a competitive "market" for aid, Bangladesh would be well advised to create conditions for attracting private foreign capital to finance its massive investment programs for the next two decades in order to build infrastructure and provide health and education services to its population.

Finally, let me conclude by reiterating Dr. Maas’ point about the importance of good governance. Adequate legal and regulatory frameworks and a business environment free from the scourge of corruption are essential to encourage foreign as well as domestic private investment. Furthermore, donors are increasingly emphasising improvements in governance, which are necessary to insure that aid funds are used effectively and honestly, to enable them to justify requests to taxpayers for
development assistance and as a key criterion in the allocation of assistance to recipient countries. Indeed, better governance has become one of the most important keys to prosperity and poverty reduction in Bangladesh.