

## 1. The Challenge of Diversity<sup>1</sup>

Over the past ten years, the world has undergone stunning, fundamental change. Most spectacularly perhaps, the end of the Cold War has forced a radical reinterpretation of the meaning of security, while also removing a major ideological barrier to the further integration of the world trade and payments system. The stark demythologizing of central planning and the so-called workers' state has combined with the at best mediocre gains generated by import substitution policies in many developing countries compared to the relative success of those régimes that wagered heavily on export growth and careful domestic economic management. The balance sheet - while inevitably replete with nuances - indicates more clearly than ever before the substantial merits of the competitive market place.

Persistent economic and social failure in some countries, especially in sub Saharan Africa, and the deterioration of income distribution in several (but not all) developing countries that are adjusting through the market place serve as salutary reminders that success overall can still carry within it challenges of addressing marginalization and the costs of transition.<sup>2</sup> But few analysts believe that command economies can provide lasting solutions to such challenges. Rather, the debate now centres on the detail of government involvement within the context of solid domestic economic fundamentals and in light of the critical importance of competing in regional and world markets. Moreover, the growing acceptance of market forces<sup>3</sup> has strengthened an underlying trend toward deepening cross-border economic integration reflected in flows of goods, services, investment and technology that have increased at rates that have consistently outpaced growth in domestic economies over the past generation. In turn, increasing cross-border competition and integration continue to create further pressure for minimizing substantive differences between jurisdictions in many areas that most policy makers had considered quintessentially domestic and local in the past.

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<sup>2</sup> On recent income distribution trends, see the draft paper by Albert Berry and Frances Stewart, "Market Liberalisation and Income Distribution: The Experience of the 1980s", (Ottawa: The North-South Institute, June 1994); also see Albert Berry "The Social Challenge of the New Economic Era in Latin America", Centre for International Studies (University of Toronto) and the Canadian Foundation for the Americas (FOCAL), Discussion Paper 1995-8 (Toronto, 1995).

<sup>3</sup> With governments debating how best to address "imperfect" markets and market "failures" where these occur and have an anti-competitive impact.