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Executive summary

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Globalization is about worldwide economic activity – about open markets, competition and the free flow of goods, services, capital and knowledge. Consumers are its principal beneficiary. Its benefits in terms of faster growth, quicker access to new technology, cheaper imports and greater competition are available for all. Globalization has made the world economy more efficient and has created hundreds of millions of jobs, mainly, but not only, in developing countries. It generates an upward spiral of jobs and prosperity for countries that embrace the process, although the advantages will not reach everybody at the same time.

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Globalization has stimulated entrepreneurship and empowered people and countries in a position to participate in the process. This is not the case for the poorest nations. They need technical and financial assistance to acquire the tools to join the process of globalization. This requires a major joint effort on their part and on the part of the international community. They must adopt policies aimed a providing better government, reinforcing macroeconomic stability, liberalizing their economies while creating fair tax structures. The international community needs to act to reduce the debt burden of the poorest countries and to improve market access for their exports. Crucial to enabling the benefits of globalization to spread to all mankind is the maintenance of peaceful conditions between and within sovereign states.

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At world level, globalization creates jobs - hundreds of millions of them - not unemployment. These are mainly in the developing countries, but they are only marginally at the expense of jobs in advanced countries. In fact, fewer than five percent of the EU workforce are in direct competition with workers in low-wage countries. Europe’s unemployment is largely structural and predates globalization. Sharing the gains from globalization means that workers and firms in advanced countries need to be more adaptable to improve competitiveness, skills, and productivity.

1. Introduction

Globalization is about worldwide economic activity – about open markets, competition and the free flow of goods, services, capital and knowledge. Consumers are its principal beneficiary. Its benefits in terms of faster growth, quicker access to new technology, cheaper imports and greater competition are available for all. Globalization has made the world economy more efficient and has created hundreds of millions of jobs, mainly, but not only, in developing countries. It generates an upward spiral of jobs and prosperity for countries that embrace the process, although the advantages will not reach everybody at the same time.

Globalization is the name given to the accelerated pace at which markets and economies around the world have been integrating during the past 20 years. It is driven essentially – but not solely – by free trade, capital mobility and rapid technological progress. The benefits of this greater openness – faster growth, quick access to new technologies, cheaper imports, greater competition – are too easily taken for granted. It has brought considerable benefits to countries that have embraced the process and has the potential to add further to growth and prosperity in all countries.

As with all great movements of change, even one as positive as globalization, transitional problems of adaptation arise. It is the responsibility of governments and business firms to ensure that such change is accompanied by socially-oriented measures to help those who lose out from the initial phases of the process. This is vital to maintain acceptance of the culture of change which globalization requires. Moreover, there can be no “one-size-fits-all approach” to globalization. Differing national and regional conditions will affect both the shape that globalization takes and the pace at which it spreads.

The expansion of trade was for many years the main driver for the integration of world markets, enabling manufacturers to compete in terms of price and quality in order to sell their products to consumers at home and abroad. The value of international trade in goods and services is expected to top $7.4 trillion in 2000, representing 23 percent of world GDP[1]. This is up from $6.23 trillion and 21 percent of world output five years earlier.

Trade flows have been supported by inflows of foreign direct investment (FDI) as companies have sought to transfer production to sites closer to their overseas markets. The total flow of FDI is set to test the $1 trillion mark in 2000. The global stock of FDI seems set to rise above $5 trillion in 2000.

This gradual process of trade and investment liberalization began to speed up dramatically in the 1980s and 1990s as a result of a number of factors.

1. The first of these was the decision by industrialized countries to liberalize and deregulate their economies, making them much more open. In so doing, they placed more reliance on market forces and market mechanisms and transferred some aspects of economic governance from the public to the private sector. The soundness of this decision to reduce government intervention in economic management was confirmed with the collapse of communism in 1989 together with its centrally planned economic system. Analyzing the reasons, the IMF says[2] central planning failed on economic grounds because it could not (or would not) respond to market signals in order to guide resource allocation or permit the competition which would have put pressure on producers to raise efficiency and to innovate.

[1] *World Economic Outlook, May 2000*, IMF, Washington (page 232)
[2] *ibid.* (page 174)

2. A second factor pushing the speed of market integration is the information and communications revolution which started in the late 1980s and which resulted in the death of distance – the ability to transfer ideas, technologies and knowledge instantly across the globe. The revolution is based on the internet, e-commerce, the convergence of computing and telecoms technologies, the availability of large capacity broadband networks, and mobile communications. In addition, governments deregulated former monopolies and communications costs fell sharply in highly competitive markets. This has an impact on the way enterprises structure their management and production facilities as well as on customer habits. Production flexibility is one direct consequence of the information revolution.

3. A third force has been the opening up of international capital flows. Liberalizing financial markets means that savings can be better allocated among productive investments. Where countries have opened their national markets to outside investors, the privatization of former state-owned companies has allowed foreigners to invest in previously protected sectors. As financial markets have opened, so have the possibilities of cross-border mergers and acquisitions. This adds new options for firms seeking to expand through the more traditional channels of FDI. The market value of cross-border corporate mergers and acquisitions rose more than sixfold between 1991 and 1998.

4. Technology is another element in speeding globalization. Computing capacities are multiplying rapidly. Product cycles are getting shorter. To survive in this context, firms seek bigger markets for their products in order to secure an adequate return on investment during the products' reduced life-cycle. The high cost of product development, especially in high-tech areas, is another factor driving firms to merge or to collaborate in other, less formal, ways.

5. Production flexibility and ease of technology transfer enable firms to manufacture products where the comparative advantages - proximity to markets, availability of inputs, wage costs, etc - are greatest. In the increasingly competitive global economy, this enables them to find new ways to cut costs, use synergies and increase productivity. The communications revolution allows for new forms of outsourcing, subcontracting, and just-in-time delivery, as well as the electronic procurement of supplies and other options offered by business-to-business e-commerce.

6. The allocative effect of globalization thus enhances the international division of labour and the specialization of production, making the world economy more efficient. The consumer benefits through lower prices which in turn increases his or her purchasing power to acquire other new products.

Globalization represents progress, capable of creating an upward spiral of wealth and jobs. But, like most advances, it moves forward in an uneven manner. Not everyone will be able to reap its benefits at the same time.

2. Globalization and national sovereignty

Governments which seek to opt out of the globalization process are at liberty to do so, though there will be a cost. They may choose the extent to which they wish to participate or to stay out. Globalization is a process, not a programme driven by any country or group of countries. The sovereignty of nations is shared, not abandoned. But the degree of sovereignty-sharing involved is far less than that required, say, of members of the European single currency or of the NATO alliance.

Governments across the world are committed to creating a market-based liberal economy, contributing to the creation of a more open world trading and investment environment. They do so on a voluntary basis. Most of them are democratically elected, acting on a direct mandate from their voters.

Despite their integration into the global economy, governments are still free to set their own rules in wide areas of economic policy – fiscal, budget and exchange rate policies, just to mention these. And, of course, governments have the ultimate choice of deciding on their degree of involvement (or not) in the globalization process.

The more a country is integrated into the world economy, the more it is affected by economic and political events abroad. Globalization shifts the debate about market mechanisms and competition from the national to the international level.

Globalization is a process not a programme. No one country or group of countries drives the agenda. But we need to adapt and adjust to this far-reaching process. This means close cooperation between like-minded governments. National sovereignty as such is not threatened since there is no coercion in this process. There may be some pooling or sharing of sovereignty as governments conclude deals which may give each much of what it wants, but not everything. The degree of sovereignty-sharing involved is limited when compared to, say, the real pooling of sovereignty required of the 11 governments whose currencies now form part of the euro single currency zone. Membership of NATO involves a considerable curtailment of sovereignty, albeit in a well-defined and limited sector.

In the context of the global economy, governments are best served by a rules-based system where the rights and obligations of all parties are clearly defined and where all have a fair chance of influencing the outcome of negotiation and decision-taking.

Governments can help retain local control over certain aspects of economic decision-taking by empowering companies or regional authorities to run their affairs with more freedom and flexibility by applying the principle of subsidiarity. This allows decisions to be taken at the level where they will be most effective. Governments can then limit their action more to taking framework decisions, like ensuring a level playing field for companies and acting against anti-competitive behaviour. Moreover, when governments are restricted because of international commitments, companies may be able to act more freely to develop their business and pursue their international goals.

As the scope for individual action becomes narrower, the need for leaner, stronger and more efficient governments focusing on essential tasks will become greater. In such a case, sovereignty may lose in quantity but gain overall through the increased quality of the actions governments take.

3. Globalization and global rules

Globalization requires a framework of rules as the foundation of a sound global economic order. Examples are rules to secure market access for foreign goods and services and to protect intellectual property rights and foreign investment. While more reliance on free enterprise, open markets and more competition reduces the need for detailed government regulation, governments must still provide the political and economic stability domestic entrepreneurs and foreign investors look for. An international rules-based structure is required to provide the stability, transparency and predictability which business needs to operate at global level. Some rules may be set by international organizations like the WTO or the IMF. Others may be based on voluntary agreements or business self-regulation.

Increased reliance on free enterprise, open markets and more competition implies less government regulation. Yet an orderly, stable society, able to prosper on the basis of private entrepreneurship, needs a framework of global as well as national rules. It is no accident that the countries which have benefited most from globalization are those whose economies are most deregulated and open, but which also have democratic forms of government based on the rule of law, thus providing the stability, transparency and predictability needed by domestic entrepreneurs and foreign investors alike.

Hence the need for a multilateral rules-based system at global level. Governments and business must work closely together to design the rules for the global marketplace. They must tackle such priorities as how to ensure better standards of governance, including greater accountability and transparency and less corruption.

Globalization needs to be better reflected in rule-making in areas like property rights, competition and capital flows. Such a framework needs to be put in place as a complement to the unwinding of rules and regulation at national level as governments liberalize and free up national economies. Some of the rules may be based on voluntary agreements and business self-regulation.

Globalization requires the redefinition of the role of global institutions. World-wide cooperation needs to be adapted to the new structures and to the new dimension of markets. Do new organizations for dealing with global issues need to be created? There is much active discussion of the possible creation of a World Environment Organization to fill a perceived institutional gap for dealing with environmental problems at the same level as the WTO handles trade and trade-related issues.

From its creation, the WTO has assumed responsibilities for trade in services and for intellectual property rights. Should its role be expanded any further? Its agenda risks being overloaded with pressure to deal with the environment and labour standards. Any role concerning the impact of trade and environment needs to be carefully defined, while issues like labour standards are, and should remain, the principal responsibility of the International Labour Organization (ILO). Similar ideas are aired about the United Nations and whether it has a role to play in strengthening the application of good governance principles around the world.

From a business point of view, the balance between freedom and regulation is an important, if delicate, factor. But it is clear that, in trade and in other areas, multilateral rule-making will have to adapt to the accelerated pace of change in the global marketplace in order to keep the rules aligned with fast-moving business realities and requirements.

4. Globalization and the gap between rich and poor

Globalization has helped raise the living standards of the world's poorest people. The proportion of the world population living in absolute poverty is lower than 10 years ago. Moreover, new research suggests that, when income data are adjusted to reflect purchasing power, income inequality between rich and poor countries is diminishing. Globalization cannot be seen as a one-size-fits-all cure for poverty. But it is part of a broader mix of solutions for poverty eradication involving the international community and the self-help potential of the poor countries themselves.

Globalization makes everyone who participates in the process richer. Poorer countries which embrace globalization have grown faster and enlarged prosperity more than countries which have stayed on the sidelines. Some, particularly in Asia, have reduced the gap between themselves and western industrialized countries. Following the financial crisis that hit the region in 1997 and 1998, Asia recovered sharply to show an average real growth in GDP of six percent in 1999 with expected growth this year of 6.2 percent. This compares with 3.1 percent and 3.6 percent respectively for western industrialized countries[3].

Globalization has also helped raise the living standards of the world's poorest. There has been a significant drop in the proportion of the world population living on less than a dollar a day - from 28.3 percent in 1987 to 24 percent in 1998. But, because of rapid population growth, the absolute number of people below this poverty line has remained at 1.2 billion[4].

Calculated in terms of the human development index, a broader definition (devised by the UNDP) which covers education, income and life expectancy, and thanks to factors like access to clean water, health care, and hygiene, the improvement in living standards of the world's poor is more significant[5].

The received wisdom that trade liberalization and globalization have been accompanied by growing income inequality between industrialized and developing countries is also far from proven. Indeed a recent study for the Norwegian Ministry of Foreign Affairs, covering 115 countries from 1965 to 1998, concludes that international income inequality diminished continuously during that period[6]. Criticizing UNDP for frequently arguing the contrary based on income data that are not adjusted for price differences, the study shows that, in order to compare welfare or living standards, income data must be adjusted to reflect purchasing power.

The Norwegian study also cites research which indicates that within-country inequality between rich and poor has not risen overall since the 1970s. For the 80 countries examined, within-country inequality increased in half of them and fell in the other half. This conclusion that economic growth is not biased against the poor confirms the finding of a recent World Bank study of 80 countries that the incomes of the poor rise one-for-one with overall growth[7].

3 *ibid*. (pages 208-209)
4 *World Bank (2000) – World Development Indicators*, the World Bank, Washington 2000
5 For details, see UNDP, *World Development Report 1999*
6 *Globalization and Inequality*, Norwegian Institute of International Affairs, Melchior et al., October 2000
7 *Growth is Good for the Poor*, Dollar and Kray, March 2000

The Norwegian study reminds us that there are no simple or final answers as to how globalization affects the extent of inequality. The reduction in inequality between countries over time is partly caused by income growth at intermediate income levels; the gaps between the few richest and the few poorest countries has in fact increased; and there is considerable variation among regions. “Globalization is a complex process where some mechanisms may provoke equality and others not. Furthermore, the process occurs simultaneously with changes in technology and political conditions that affect inequality”.

Globalization cannot be seen as a one-size-fits-all wonder cure for the eradication of poverty. This requires a much more complex policy mix, of which globalization is an essential part, and which will include multilateral technical and financial assistance from global institutions, meaningful debt reduction and targeted bilateral aid. It will also need to take account of the capacity for self-help of individual countries.

But these international efforts should go hand-in-hand with action by the countries concerned to create the social institutions and the stable and secure environment that permit citizens, and investors from outside, to pursue gainful activities and plan for the future. This domestic agenda should aim for macroeconomic stability, trade liberalization, removal of domestic market distortions, better government, and measures to improve income distribution.

Some developing countries have over the past decade or so recognized this fact and have unilaterally liberalized their economies, especially their trade regimes, moving away from inward-looking and inefficient policies based on import substitution. According to the IMF, countries in East Asia and Latin America have now cut import tariffs to an average of about 10 percent, while those of south Asia and Africa remain above 20 percent. The average tariff of western industrialized countries is about 3.8 percent[8]. The result has been that, in general, those developing countries which have adopted outward-oriented trade policies are those that have benefited most from globalization.

A recent WTO study shows that poor people *within* a country usually gain from trade liberalization[9]. It concludes that “trade liberalization is generally a strongly positive contributor to poverty alleviation – it allows people to exploit their productive potential, assists economic growth, curtails arbitrary policy interventions, and helps to insulate against shocks”.

8 *Trading into the Future*, WTO, Geneva (available on http://www.wto.org)

9 *Trade, Income Disparity and Poverty*, Ben-David and Winters, WTO Special Study N°5

5. Globalization and information technologies

Information technologies are a key driver of globalization, opening up huge potential for greater efficiency through e-commerce, the internet and the instantaneous delivery of information anywhere in the world, at any time. They also provide greater access to information and knowledge, the raw materials of innovation, and spread the free flow of information from all sources which authoritarian regimes cannot stop even if they wanted to. Technology and innovation cut costs to the direct benefit of consumers.

Information technologies have been one of the key drivers of globalization. They have opened up a huge potential for improving economic efficiency through e-commerce, the internet and the instantaneous delivery of information anywhere in the world, at any time. They have also created a wider basis for a global knowledge-based economy. This is why information technologies and telecoms are revolutionizing business practices, both within corporations and in their relations with suppliers and customers.

Computers have become a potent production tool; they are also vital information and communications terminals. Information technologies are key to the ever - faster flow of innovation which will determine the future of regions like Europe - characterized by high labour costs and with high social and environmental standards – in the global economy. It provides greater access to education and knowledge, which are the raw materials of innovation.

Consumers are better off too. Technological advances over the past 10 years, together with the policy of governments in all parts of the world to de-regulate the telecoms sector, have reduced costs to previously undreamed of levels. The cost of some transatlantic telephone calls has now fallen by 90 percent compared with what it was 20 years ago.

Major advances in communications and information technologies are creating valuable tools for enhancing the capacity of developing countries and countries in transition to integrate into the global economy and share in the benefits of globalization. By a hazard of history, communism collapsed in time for the countries of central and eastern Europe to participate in the creation of the global information society from the ground up.

Information technologies are also purveyors of news around the world via satellite, radio, TV and the internet. The flow is such that it can no longer be stopped by authoritarian regimes. Information empowers individuals to be critical, to make comparisons and choices also concerning their preferences for different political or economic systems. People in free societies benefit most from free markets.

6. Globalization, multinationals, smaller firms, and consumers

Globalization rewards firms that are innovative and competitive, whether multinational or smaller enterprises. As global companies enter local markets, local companies enter global ones. The resulting competition increases product quality, widens the range of available goods and keeps prices low. Consumers everywhere are the big winners from the globalization process.

Even before globalization, a goodly number of multinational firms had worldwide reach, most of them American, European and Japanese in origin. They had gone global the hard way, before governments adopted the raft of measures which facilitated globalization as it is today. It is only logical that such corporations are well placed to benefit from the additional advantages of globalization.

But this is not a zero-sum game. Multinationals – defined as companies which engage in international production - will not flourish at the expense of small firms and consumers; all will flourish together. For one thing, as global companies enter local markets, local companies will move into global ones. Some of them may in turn become global players themselves. According to UNCTAD [10], the top 50 multinational corporations from developing countries held $105 billion of foreign assets in 1997, the last year for which figures are available. There are now 60,000 multinationals of all sizes around the globe.

Technology is size-neutral. It favours small, aggressive and flexible high-tech start-ups just as much as it can add new dynamism to well-established corporations. Technology can also be transferred more easily than before, giving firms everywhere - of all sizes - a chance to take part in the global economy.

Globalization and openness make market access easier. Small firms which have been previously unable to export because their access to foreign markets was restricted, or because the cost of overcoming administrative or technical barriers was too high, can now sell their products and services abroad. The enlargement of their markets will enable them to produce more and benefit from scale economies, making them even more competitive. They will also benefit from the new market structures that are being created, entering profitable niche markets where discerning consumers are willing to pay a premium for speciality products.

In fact, consumers everywhere are unquestionably the big winners from globalization. As competition intensifies among companies of all sizes, the consumer is confronted with a wider choice of product at prices which are kept low.

Price increases for global products (cars, computers, home electronics) are systematically lower than those for local products and services (the cost of a haircut or of building a house). While consumer prices in the OECD countries increased overall by 175 percent between 1980 and 1995, prices for internationally-traded goods rose by only 40 percent. While an individual in Europe has cut the number of hours he needs to work to buy a TV set by 80 percent over the past 35 years, the cost of sending a letter, measured on the same scale, has not come down at all[11].

[10] *1999 World Investment Report*, UNCTAD, Geneva, 1999
[11] Figures quoted in *Globalisation of Markets – a business view*, ICC corporate economists advisory group, Paris 1997

7. Globalization and financial stability

Via the integration of currency, bond and stock markets, globalization brings about a more productive allocation of savings and investment resources. Capital mobility and the communications revolution mean that technology and production can be readily transferred to locations where the comparative advantages are greatest. But increased capital mobility brings risks, especially in regions without a long-standing tradition of banking supervision. When governments get into financial difficulties, the problems are generally of their own making. But international monitoring and action is also needed to help prevent crises or limit their impact. What open markets do is to make sure that when mistakes are made, they are punished sooner rather than later.

The integration of currency, bond and stock markets brings about a better allocation of savings and investment capital. This means that resources can go to the most productive investments wherever they are located. At the same time, market opening provides new sources of capital for governments and companies in developing countries. Economic efficiency is also increased by a reduction in the cost of capital through what is called disintermediation. Easier access to financial markets means companies can go there directly to raise money rather than through their traditional banking intermediaries.

In turn, more foreign direct investment drives faster growth and job creation in the host countries – industrialized or developed. Capital mobility and the communications revolution mean that technology and production can be readily transferred to locations where the comparative advantages – in terms of access to input and labour costs – are greatest.

But increased capital mobility also brings risks. This is particularly true in regions where there is no long-standing tradition of banking supervision and control. But as the 1997-1998 Asian crisis has shown, western commercial banks and their supervisory authorities were also caught out.

The Asian financial crisis is a casestudy in the way financial crises can arise. The cause was not globalization. It was triggered by weaknesses in national policies, national structures and national legislation in the countries concerned. This left many of them ill-equipped for handling the impact of short-term capital flows in and out of their economy. Western banks were also involved in the process, unaware - because of the lack of reliable data - of the degree of risk they were exposed to.

In fact, globalization helped limit the extent of the crisis, as other countries and regions kept their markets open to Asian products, and as western firms stuck by their previously-taken decisions to invest in production facilities in Asian countries. As a result, the Asian economic recovery is well underway. Their forecast rates of growth for the next two years are back to their pre-crisis levels of five percent or more.

The lessons of the crisis are still being learned. Asian countries need to strengthen the prudential regulation and supervision of their banking sectors. Better monitoring and surveillance is also needed at the international level, so that remedial action can be taken when the early signs of impending problems appear. In this way, the international community can contribute to avoiding crisis, and limiting damage when one occurs. The full disclosure of accurate, relevant and up-to-date information is central to this effort. To this end, the G7 countries have set up a Financial Stability Forum which includes finance ministers, central bankers, the IMF, World Bank and the Bank for International Settlements (BIS).
But the key role in reducing financial instability lies with the countries involved, be they in Asia or any other part of the world. Focus must be on restructuring their financial and corporate sectors, as well as

on broader institutional, regulatory and legal reforms which can strengthen the environment for market-based activities.

8. Globalization and the environment

Environmental protection can be pursued at global, regional, national and local levels, and efforts should be targeted at the level most appropriate to the problem. Where there are international impacts, international cooperation, information sharing, and technology innovation - each of which is enhanced by the process of globalization - can significantly accelerate efforts to find solutions. More fundamentally, globalization fosters economic growth, which in turn generates and distributes additional resources for environmental protection. Increased trade and investment also promote opportunities to exchange more environmentally-efficient technologies, share good practices, and contribute to environmental capacity-building, particularly in developing countries.

Regardless of the increased trade and investment flows associated with globalization, each country retains the right to set levels of environmental protection at the level it deems appropriate. In pursuit of better environmental quality, national governments should work to provide the necessary regulatory frameworks to protect the local environment, where the vast majority of environmental issues reside. In order to provide the best protection while avoiding international disputes, national rules should be based on sound science, and an understanding of risk assessment and economics. These rules must be enforced in a non-discriminatory fashion, without erecting obstacles to trade and market access. Indeed, most international disputes involving environmental laws are the result of unilateral actions or the imposition of environmental measures that have not been based on sound science.

At the global level, the 1992 United Nations Conference on Environment and Development developed an integrated framework to address targeted international environmental concerns, stimulating substantial progress over the past decade. The key theme from that meeting - sustainable development - states that environmental protection, economic development, and social advancement are mutually supportive. The process of globalization, increased international communication and cooperation can only assist the push toward sustainable development.

As important as they are, such international initiatives must be underpinned by national, regional, and local action. International efforts such as the UN Framework Convention on Climate Change, the Montreal Protocol and the activities of the United Nations Environment Programme (UNEP) are but a few examples of the preferability of internationally-coordinated environmental measures to unilateral action, and of the environmental opportunities inherent in a globalizing world. The UN should continue to provide a strong focal point on environmental issues, given its important linkages to the work of other intergovernmental organizations.

However, such global efforts can still benefit from better coordination of various environmental initiatives, and of environmental initiatives and initiatives taken in the trade and economic fields. Many countries are concerned by the misuse of environmental rules as a pretext to restrict imports or favour local industries. To avoid potential conflicts, national and international environmental implementation should be undertaken within the framework of existing trade and investment disciplines and rules.

Poverty continues to be a major cause of environmental degradation at the local level and an impediment to environmental improvement. Many developing countries simply will not have the resources to tackle environmental problems until they grow richer, a process that will benefit from greater trade and investment. Countries that have embraced and promoted globalization are better able to avail themselves of financial, technical and political resources to move in the right direction to protect their environment.

9. Globalization and cultural diversity

Globalization actually creates more diversity, not less. While it integrates markets, making products and services universally available, it also increases consumer choice. Technology enables global products to be customized to meet local, or even individual, consumer tastes. The information revolution has ended the monopoly on the flow of ideas and information. The result is that many people now have more cultural freedom than before.

Globalization is a process with many facets, offering a wide range of options as it unfolds. While it integrates markets, making more and more products and services universally available, it also increases consumer choice. In addition, technology enables global products to be increasingly customized to meet the tastes and preferences of local or even individual consumers. Car buyers can now use information technology to order their own individual automobile by selecting the colour, engine specifications, upholstery, fittings and accessories they desire, transmitting the information electronically to the manufacturer.

For their part, small- and medium-sized enterprises are keen to respond to demand for speciality products for individuals or small groups of buyers in premium niche markets.

The net result is that globalization, far from creating uniformity, creates more diversity. Globalization has not created a "global" consumer. We can no longer today even talk about an average consumer. Niche markets are multiplying and consumers becoming more individualized.

The communications revolution and individual access to the internet which are part of globalization mean that governments, even less democratic ones, have abandoned their monopoly on the flow of information, thus providing many people with more cultural freedom than they previously enjoyed. If, as seems to be happening, the main messages they listen to reflect open democratic and liberal economic values, there is little risk to their cultural identity.

A rules-based system for world trade, environmental protection or other issues offers the best safeguards for national cultural identities. Such a framework ensures that all countries have a voice in deciding the rules and the way they are to be applied. It is evident that nearly half a century of membership of the European Union has not diminished the national cultural identity of its member states. After 50 years of economic integration, the French feel no less French, the British no less British, and the Dutch no less Dutch. In particular, the institutional structure of the EU has ensured that the smaller countries are not dominated by their larger partners.

It is true that globalization has introduced Asian-made electronic entertainment systems and American fast foods to consumers around the world. But individual consumers will still be able to select the content of the electronic systems they use in line with their own cultural or religious preferences. Similarly, American fast-food chains are already modifying their local practices to take account of cultural or religious traditions in individual countries.

The fact that different cultural models may be available does not imply that any of them will necessarily dominate. Asian countries are perfectly capable, as they have made clear, of promoting – and defending – Asian values. What globalization does is to allow all countries to check their values against those of others and to make adjustments or not as they think fit.

10. Globalization and the WTO

The WTO has become the most prominent symbol of globalization and the complex changes that are driving the world economy. As such it has become the target for all opponents of globalization as events in Seattle in December 1999 showed clearly. Despite the criticism, the WTO is a powerful example of a rules-based international system to promote more open trade and investment worldwide.

On the one hand, the WTO is a magnet for countries seeking to participate in the benefits of the globalization process. More that 40 emerging and developing countries have joined in the past five years and a further 30 are currently waiting to get in. On the other hand, the WTO is regarded by the opponents of globalization as the focal point for their concerns.

It may be that the WTO has become a victim of its own success. Along with its predecessor, the General Agreement on Tariffs and Trade (GATT), it has been a key instrument in opening markets and boosting prosperity through successive rounds of multilateral trade liberalization. It is also a powerful example of a rules-based international system, run by its member governments via a consensus-based system of decision-taking involving all its members. Their decisions and agreements underpin the stability, predictability and credibility which are needed to encourage trade and investment.

The WTO has become the scapegoat for everyone with a grievance about the modern world. Incessant and irrational attacks on the WTO are becoming dangerous because they are a threat to the rule of law in world trade. If we go back to the law of the jungle, and the WTO's effective dispute settlement machinery is lost, the principal nations to suffer will be the poor and the weak. The WTO is the best guarantee there is of a level playing field for all countries, at whatever stage of development. The WTO is composed of sovereign governments who have together devised the rules upon which it is based and who negotiate with each other freely under its auspices. Quite simply, the WTO is an agreement among states, as strong and effective as they want it to be.

Far from favouring the rich and powerful countries, international trade rules and WTO disciplines give the poorer countries the chance to defend themselves against pressures from powerful trading partners. The WTO is based on non-discrimination. Rich and poor countries alike can be challenged if they violate an agreement, and they have an equal right to challenge others through the WTO's dispute settlement procedures.

The second half of the 20th century saw an unprecedented expansion of world trade, which has also brought unprecedented economic growth. Since 1948, annual economic statistics have invariably shown growth in world trade outstripping economic growth. In other words, trade has been the engine of economic growth. This means that economic activity is more and more dependent upon trade as the years go by. The World Bank has estimated that a 40 percent cut in trade protection by 2005, through the reduction of tariffs in manufacturing and of other trade barriers in agriculture and services, would boost global output by about 500 billion dollars[12].

[12] *Agriculture and Non-Agricultural Liberalization in the Millennium Round*, October 2000

In 1998, world merchandise exports were worth over five trillion dollars, and in volume terms that represents an 18-fold increase over 1948. Although the world's population has more than doubled, to reach six billion this year, exports per capita are eight times as high in real terms as in 1948. The figures are so huge that it is difficult to take them in. Behind them is the reality that trade has contributed enormously to world growth and prosperity over the half century, bringing better jobs and more resources for education, health and other social spendin g. Despite the poverty that still exists in too many countries, the fact is that the world is far more prosperous now than it has ever been.

On balance, the WTO applies non-discriminatory trade rules and enforces them in an even-handed way. It takes decisions by consensus, allowing all member countries, big and small, to have their say. Its dispute settlements procedures are available for all. Many of its rulings have condemned big countries or regions for their unfair trade practices. The pity is that, in those cases, the US and the European Union have often proved reluctant to comply with some of the negative rulings against them. In so doing, they damage the WTO's credibility just as much as did the protesters at the WTO ministerial meeting in Seattle end-1999.

11. Globalization and labour standards

Globalization is creating jobs and bringing more prosperity to developing countries which have joined the process. While labour standards in these countries are still lower than in industrialized nations, they are rising. There is considerable evidence that multinationals investing outside their home country or region pay higher wages than local firms, create new jobs at a faster rate, and spend much more on R&D. While wage differentials will continue between rich and poor countries, they will reflect factors like the level of qualification of workers and their relative productivity. This is hardly the "race to the bottom" the critics of globalization claim to observe.

Greater prosperity generated by economic growth is the best way to improve working conditions. When international companies invest in developing or emerging economies they create jobs, transfer technology and skills, and promote economic growth. Multinationals spread good corporate practice by example in the countries and territories where they operate. As WTO Director General Mike Moore put it, "countries that have been more open have better human rights, better living standards and more commerce".[13]

Local conditions vary around the world so that foreign corporations sometimes cannot apply their home-country standards. But there is growing evidence that they pay more and offer better conditions than local firms. Their R&D efforts and technology transfer strengthen the innovative capacity, raise the skills level and the competitiveness of the economy of host countries.

According to a recent study by the OECD,[14] foreign corporations pay more than the average wages in all member states, rich and less advanced alike. In Turkey, for instance, their wages were 24 percent higher than the national average. At the same time, the workforce of foreign firms in Turkey has been increasing at an annual rate of 11.5 percent against 0.6 percent for local companies, while their R&D spending is double that of domestic Turkish companies.

The OECD analysis hardly supports the criticism that globalization has created a "race to the bottom" whereby multinationals switch production to countries or regions with the lowest wages and the least social protection. Corporations are not necessarily attracted to countries with low wages and low environmental standards. A good context for doing business is one where democracy and the rule of law provide economic and social stability.

Market opening has enabled low-wage countries to benefit from their comparative advantage over high-wage regions, bringing higher growth and productivity, and more prosperity, while increasing opportunities for more education and training of the workforce. Wage differentials will continue between rich and poor countries. They will reflect a complex relationship based on factors like local labour costs, the level of qualification of workers and of their relative productivity. But this is a far cry from any race to the bottom.

Greater competition for jobs from developing countries raises issues for advanced economies who need to respond through creating more flexible labour markets and upgrading the level of education and training, particularly of their least skilled workers[15].

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[13] In an interview with the *Financial Times*, London, of 3 September 1999

[14] *Measuring globalisation: the role of multinationals in OECD economies (1999 edition)* OECD, Paris, November 1999

[15] This aspect is looked at in more detail in section 14 below.

Globalization has brought consumers worldwide into contact with goods made in developing countries using child labour. It has become one of the most emotive issues in the globalization debate. The issue of child labour, in the broader context of labour standards, is being dealt with by the International Labour Organization (ILO). In addition, many multinational corporations have adopted their own ethical codes of good practice, refusing to deal with commercial partners who resort to child labour.

For their part, developing countries are against the inclusion of labour standards clauses in trade agreements with industrialized partners, considering the prime motivation for such clauses to be back-door protectionism.

12. Globalization and human rights

Advanced industrialized economies like the United States and the European Union have been inserting human rights clauses into their trade and cooperation agreements with partner countries in recent years. Trade concessions are suspended for countries breaching these clauses. Democracy and respect for human rights are part of the political stability and confidence-building that form a necessary precondition for local entrepreneurship and for attracting foreign direct investment. The communications revolution that is going hand in hand with globalization is also facilitating efforts to better protect human rights.

As they expanded their networks of trade and cooperation agreements around the world in recent years, commercial powers like the European Union and the United States have insisted more and more on the inclusion of human rights clauses in such deals. This means that the advantages offered to their partners in terms of trade preferences or financial and technical assistance can be suspended in the case of non-respect of human rights. This has already happened in a number of cases. In this way, globalization actually helps to underpin human rights.

Moreover, there is a clear positive link between the globalization of the economy and the communications revolution, on the one hand, and democratic rights and freedoms, on the other. According to a recent study from a private sector think tank,[16] the following countries have the least free economies of the world: Myanmar, Sierra Leone, Democratic Republic of Congo, Rwanda, Madagascar, Guinea-Bissau, Algeria, Congo-Brazzaville, Burundi and Albania. Few of these countries, rent as they are by internal dissent or repression, would come very high on any ranking of countries respectful of human rights either.

Democracy and respect for human rights make up part of the environment of political stability and confidence-building that form a necessary precondition for local entrepreneurship and attracting foreign direct investment and its benefits in terms of contribution to growth and prosperity. In its latest *World Economic Outlook*, the IMF "identified political instability, war, and the absence of the rule of law as critical impediments to providing such a setting, and to development more generally".[17]

Finally, the internet and the information revolution which reach right down to the individual level also make it more difficult for governments to repress free access to information, freedom of expression and other basic human rights. Open frontiers for human rights and democracy are part of the same process as open frontiers for goods, services and capital.

[16] *Economic freedom of the world: 2000 annual report*, Economic Freedom Network at http://www.freetheworld.com
[17] *op. cit.* IMF (p 185)

13. Globalization and the poorest regions

Globalization has stimulated entrepreneurship and empowered people and countries in a position to participate in the process. This is not the case for the poorest nations. They need technical and financial assistance to acquire the tools to join the process of globalization. This requires a major joint effort on their part and on the part of the international community. They must adopt policies aimed a providing better government, reinforcing macroeconomic stability, liberalizing their economies while creating fair tax structures. The international community needs to act to reduce the debt burden of the poorest countries and to improve market access for their exports. Crucial to enabling the benefits of globalization to spread to all mankind is the maintenance of peaceful conditions between and within sovereign states.

All countries can and must participate in the gains from globalization. There are many examples, particularly from Asia, of countries freeing themselves from poverty by export-oriented production and by opening their home markets to foreign goods, investments and technology. Globalization has stimulated entrepreneurship and empowered those people and countries who were in a position to participate in the process. But this is not the case everywhere.

The poorest nations need technical and financial assistance to acquire the tools to enter the process of globalization and to benefit from its advantages. Multilateral development agencies and bilateral assistance from governments should give special attention to capacity-building in least developed countries, particularly in areas like human resources and skills acquisition, physical infrastructure and institutional reform, to assist them raise and attract investment and to link themselves into the global information society.

The challenge is to make the prosperity that flows from globalization available to the fifth of the world's population still living in deep misery. As noted earlier, globalization has helped raise incomes of rich and poor alike, but it has not prevented the gaps between rich and poor from getting wider. Globalization is not, in itself, the cure to poverty; but it is an indispensable part of the solution.

This solution will need to be a combined effort on the part of the poorest countries themselves and the international community. The policies adopted by the least developed countries need to be a combination of:

- Promoting peace, security and the rule of law as essential preconditions for local entrepreneurship to flourish and for foreign business to invest;
- Reinforcing macroeconomic stability through prudent fiscal and monetary policies;
- Harnessing market forces and competition for development by liberalizing external trade and payments and progressively freeing their domestic economies from price controls, subsidies and other constraints which distort their national market;
- Strengthening the financial and legal systems and combating corruption;
- Improving the quality of government by making it more accountable and transparent as well as by raising spending on education, healthcare and essential infrastructure;
- Putting in place tax and income distribution systems which are efficient and equitable.

Implementing such an agenda is easier said than done. This is where the international community has a role to play. While it is true that a few unreceptive governments may reject a programme of this kind, many other poor countries wish to participate but lack the resources and skills.

The priority tasks of the international community are threefold:

- To reduce the debt burden of the poorest countries. This is not going to solve all their problems. But significant debt reduction, undertaken in a strong policy framework, will help underpin the reform process;
- To focus the technical and financial assistance of the UN and its agencies on helping those countries with particular difficulty in attracting foreign investment;
- To get advanced countries to reform their trade policies where they discriminate against developing countries. This is particularly the case in agriculture and textiles.

The European Union has recognized the need for special help for the least developed countries in the revised version of the Lomé Convention, which links the EU with 71 developing nations in the Africa-Caribbean-Pacific (ACP) regions. The thrust of the convention is to support the ACP countries in their bid to participate in the global economy through the creation of regional free trade areas, and the withdrawal of their preferential access to EU markets for their exports. But the poorest of the ACP countries, for whom such participation is a more distant prospect, will continue to benefit from a preferential trade and aid relationship with the EU[18].

[18] The new agreement, which runs until 2008, was signed by the EU and the 71 ACP countries in Luxembourg in June 2000

14. Globalization and employment

At world level, globalization creates jobs hundreds of millions of them not unemployment. These are mainly in the developing countries, but they are only marginally at the expense of jobs in advanced countries. In fact, fewer than five percent of the EU workforce are in direct competition with workers in low-wage countries. Europe's unemployment is largely structural and predates globalization. Sharing the gains from globalization means that workers and firms in advanced countries need to be more adaptable to improve competitiveness, skills and productivity.

At world level, globalization has created hundreds of millions of new jobs – most of them in developing countries. But the claims that it has caused the massive migration of jobs from advanced countries, particularly in Europe, to the developing world are greatly exaggerated.

For one thing, fewer than five percent of workers in the European Union[19] are in direct competition with low-wage countries. This is a very small proportion, although many of these workers are in sensitive sectors like agriculture and textiles. For another thing, pressure on jobs in the EU countries also comes from increased competition as new players, mainly from other industrialized economies, enter their domestic markets. Much of Europe's unemployment is structural and also predates globalization by many years.

Sharing the gains from globalization means that workers and firms in advanced countries need to improve competitiveness, skills, and productivity. It also means more flexible labour markets and no more jobs-for-life. Globalization offers more opportunities, but fewer guarantees.

Adjustment processes are far from smooth. But there is no future for advanced countries in continuing to produce goods and services that can be more cheaply produced by low-wage, low-productivity economies than there would be in continuing to produce goods using outdated technologies. If the industrialized world is to go on improving living standards over time, it must continue to adapt by strengthening the capabilities of its workforce, particularly by helping those who lose their jobs to re-skill in new technologies and new working methods.

Knowledge, innovation and R&D need to be urgently developed in advanced countries to produce the high-tech, high value-added goods and services on which their jobs and prosperity depend. This is the continuation of a trend that has been apparent for the past 40 years as new industries have replaced old ones, and as dynamic new firms have replaced those unable or unwilling to respond to market pressures.

To secure future jobs and prosperity, industrialized countries need to adapt to new and evolving challenges. Change is a natural condition, not a negative force. Managing change is a primary function of good governance.

[19] This figure was quoted by EU Employment and Social Affairs Commissioner Anna Diamantopoulou at a conference organised by the Portuguese EU presidency in Lisbon on May 5th, 2000