PC.DEL/779/03
3 July 2003

ENGLISH only

MJG / 30.6.2003 / OSCEGLOB62003

OSCE Conference on Globalisation; Vienna 3 and 4 July 2003

Session 4: Regional cooperation and integration as a contribution to mastering globalisation

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1. Globalisation ...getting a grip on what it means

Globalisation...what it is, ... its effects on the global economy, ...whether it has all happened before, ...its impact on individual countries, whether good or bad... how to harvest all the benefits from the process; these are issues that have now been discussed and commented upon for a long while and which have generated many articles, books and conferences.

To establish exactly what the term means it is tempting to go back to a UNCTAD report of 1996 *'Globalisation and liberalisation'* [1] which provided a particularly useful clarification of the economic aspects of this issue. Thus;

'Globalisation is the product of liberalisation. But it (in turn) has also set in motion forces working to accelerate liberalisation' (paragraph 20)

and;

'(...) liberalisation policies (...) have progressively enlarged the effective economic space available to producers and investors, fostering the process of globalisation throughout a large part of the global economy; that is they have set in train a process whereby producers and investors increasingly behave as if the world economy consisted of a single market and production area, with regional or national sub-sectors, rather than of a set of national economies linked by trade and investment flows' (paragraph 15)

moreover;

'*The principle driving force in the globalisation process today is the search of both private and publicly owned firms (and more generally producers and asset holders) for profits world-wide'* (paragraph 16).

However to consider this issue in a broader and perhaps more down to earth way it is worth quoting what Anthony Giddens has said in his book 'The Consequences of Modernity' [2];

Globalisation can be defined as the intensification of world wide social relations which link distant realities in such a way that local happenings are shaped by events occurring many miles away and vice versa.

2. Globalisation ....the economics

From such a start it is possible to assemble a range of straightforward economic arguments to show that *globalisation can and indeed should be good for you.*

Thus most economists would agree that, given a number of plausible conditions, the globalisation process should *in the end* lead to more growth, more output, more employment and so higher welfare for all....*than would otherwise be the case*. These arguments are based on the belief that globalisation provides for an open and free global market and that the action of the global competitive forces released will lead to the most efficient allocation of resources, and so the most efficient structure of production for the world economy. In addition more efficient and effective production world-wide, by making prices lower than they would otherwise be, and by increasing consumer choice, can and should increase the welfare of all.

Nonetheless the forces which can, theoretically, lead to the most efficient allocation of resources at the global level, may not produce results that all are able to accept.

Indeed a number of analysts take a very critical view of this process and have issued dire warnings. Thus John Gray in his book *'False Dawn'* [3] highlights a number of aspects of the globalisation process that threaten the benefits that might be gained. Thus the question of instability;

History confirms that free markets are not self regulating. They are inherently volatile institutions, prone to speculative booms and busts....To work well they need not only regulation but active management'. (Chapter 8)

and of the social problems involved;

The argument against unrestricted global freedom in trade and capital movements is not primarily an economic one. It is that the economy should serve the needs of society;, not society the imperatives of the market. In terms that are strictly and narrowly economic it is true that a global free market is incredibly productive. For most economists that ends the matter (However) as some economists have recognised, *the pursuit of economic efficiency without regard to social costs is itself unreasonable.....(Chapter 4)*

and as regards the environment

In a world in which market forces are subject to no overall constraint or regulation, peace is continually at risk. Slash and burn capitalism degrades the environment and kindles conflict over natural resources.....The global market as it is presently organised does not allow the world's people to coexist harmoniously. It impels them to become rivals for resources whilst instituting no methods of conserving. (Chapter 8).

It can be argued that underlying the criticisms set out in *False Dawn* there're a number of notions of which in particular

- that globalisation will turn the world economy into one unrestricted and uncontrolled western style market where competitive forces are all that matters and;
- that the forces of globalisation will lead, in particular, to unmanageable inequalities, unless the world community is capable of creating the global institutions needed to provide a measure of regulation and control.

This view is certainly not shared by all (to say the least). Indeed a contrary point of view has been put very forcibly by Rodrik in his recent paper *Feasible Globalisation* [4]. Thus;

'..there are inherent limitations to how far we can push global economic integration. It is neither feasible nor desirable to maximise what Keynes called 'economic entanglements between nations....(hence) within the array of feasible globalisations, there are many different models to chose from. Each of these models has different implications for whom we empower and whom we do not, and who gains and who loses. We need to recognise these two facts in order to make progress in the globalisation debate. One implication in that we need to scale down our ambitions with respect to global economic integration. Another is that we need to do a better job of writing the rules for a thinner version of globalisation.'

Nonetheless the points made in *False Dawn*, that globalisation risks being an economic social and environmental disaster, can be persuasively argued.

Thus the individual firm or enterprise must address the problem of how best to exploit the opportunities offered by access to global markets in goods, services and factors of production. This involves not only the straightforward choice of location, and where to expand and where to contract production, but the more difficult question of the way in which production should be organised. This in a situation where capital can move freely and where production capacity can shift quickly from country to country, with all the instability and uncertainty that this implies.

But the restructuring of firms and enterprises is only one part of the story. It is also possible for individual countries to exploit the opportunities globalisation offers by capturing comparative advantage through the choice of regulatory frameworks and forms of public expenditure. In such a situation all the countries involved in such an exercise will place their economic, social and legal systems in competition with each other as they all try to capture the benefits of the global market place. To many observers this kind of competition will lead to a race to the bottom a far as social and environmental standards are concerned and for this reason globalisation can be seen as a threat to the economic environmental and social components of sustainable growth and development.

In the absence of global rules and institutions to control this process it *seems unlikely that*, when a number of individual countries are competing to capture comparative advantage, and when there is no overall agreement as to the rules of the game, *an acceptable distribution of efficient production, at the global level, will arise.* Moreover the weaker countries, particularly the least developed, whose infrastructure and bargaining power are inadequate, will be badly placed to be on the winning side. *In this sense therefore the distribution of the benefits of globalisation, to say the least, are likely to be uneven.*

3. Globalisation...how to benefit.

For most observers it is not necessary nor reasonable to maintain such a negative view of the globalisation process. Indeed much time and analytical effort has gone into showing, as convincingly as possible, that the forces of globalisation can be managed to the benefit of all concerned. The way to ensure this focuses on two matters, firstly the need for the necessary domestic policies to be in place and secondly the need for global institutions to undertake some form of global regulation.

Current doctrine as to the best way for individual countries to benefit from globalisation has been set out very clearly by the World Bank particularly in the publications *'Global Economic Prospects 2003'* [5] and Globalisation *'Growth and Poverty'* [6]. Here the importance of the right domestic policies is emphasised again and again. Thus in chapter 3 of *Global Economic Prospects* namely *'Domestic policies to unlock global opportunities '* it is stated that;

A stable macroeconomic environment is essential for a country to realise its investment potential. Good public governance - including transparent rules, low corruption and respected property rights-, encourages investment and promotes economic growth.

As regards the other requirement namely the appropriate global institutions and their responsibilities, matters are perhaps less clear. Thus starting from the observation that globalisation has advanced faster economically and technically than it has socially, politically or environmentally, and that the lifting of national barriers and controls has changed the role of the nation state but not necessarily weakened it, the need is for more effective political scrutiny of this whole process and for sensible regulatory control and enforcement as regards rules and procedures to which all have agreed. The present structures that are available are clearly not adequate in this regard.

4. The problems of global governance

The extent to which they are not adequate is set in a paper by McGrew namely *'Governing without Government: Towards Genuine Global Governance'* [7]. Thus the weaknesses in the present global governance structures may be itemised under the following headings;

A regulatory deficit;

In key areas of global policy, from finance to the environment there exists a significant under provision of international public goods and regulatory deficiencies.

A rationality deficit;

Although poverty reduction and development have been amongst the principal goals of global governance for almost five decades, the widening of both global inequalities and social exclusion articulate a growing gap between rhetoric and performance.

A coherence deficit;

Despite the normative value of a pluralistic and fragmented system of global governance it produces nevertheless significant policy irrationalities, inter-institutional struggles, jurisdictional overlaps and a proliferation of competing policy networks

A compliance deficit

Governance without government is prone to both the free rider problem and non compliance because of both the relative weaknesses of enforcement mechanisms and limited incentives to ensure compliance.

A democratic deficit;

Globalisation.....has compounded the tension between democracy, as a territorially rooted system of rule, and the operation of global markets....

...in seeming to promote or regulate the forces of globalisation, through mechanisms of global governance, states have created new layers of political authority which have weak democratic credentials and stand in an ambiguous relationship to existing systems of national accountability.

5. Regional integration ... a useful intermediate step towards addressing the problems of globalisation ?

Despite the view taken by many, the globalisation process has not brought about the end of the nation state; it has however changed the role of the nation state and has made the task of those who run the nation very much more complicated. Indeed the nation state is now the strategic site (to quote McGrew) or the political workshop, democratically accountable, which manages and resolves the forces generated by the vertical global, regional, national and local or sub regional levels of power and the horizontal requirements of participation in every kind of thematic assembly and organisation; a very difficult task. It is therefore the essential democratic unit where the governance tensions generated at the various levels must be resolved and where thematic issues (agriculture, trade, war and peace) must be handled.

If the nation state is alive and well then according to Rodrik this has important implications for how far globalisation can go..*in the absence of global governance*. Thus again quoting from *Feasible Globalisations*;

The political trilemma of the global economy is that the nation-sate system, democratic politics and full economic integration are mutually incompatible. We can have at most two out of three. It follows that the direction in which we seem to be headed – global markets without global governance – is unsustainable.

It is clear that forms of regional integration and the associated institutions, particularly the more advanced and developed forms such an the European Union, are putting in place structures for addressing problems, at the regional level, similar and equivalent to those tackled by the nation state. Thus to paraphrase what is said above the European Union is the strategic site, with a measure of growing democratic accountability, where differences between Member States are resolved, where policies appropriate for the regional level are developed and where rules are agreed for all to follow and where mechanisms for enforcement are provided, and where certain relations (though not all) with third countries are managed. Thus it is a framework for addressing, to a certain extent, the five deficits set out above, *at the regional level.*

However, as the European Union has so clearly demonstrated, it is possible to understand see the issue of regional integration and globalisation in a different way. Thus whilst, as the preamble to the Treaty of Rome shows, the primary stimulus to the formation of first the European Coal and Steel Community and then the European Economic Community was the wish to bind the economies of Western Europe so closely together that war would become unthinkable, the moves made towards the creation of a common market, then a single market and then monetary union, were also a way of addressing other issues of concern for Europe. In particular it was realised, at an early stage, that the competitive forces being released by Europe's main competitor countries, as the post-war process of gradual trade liberalisation and financial liberalisation got under way, needed to be managed.

Thus one economic rationale for the Common Market was the notion that European industry needed the larger market - of six, nine, ten, twelve or fifteen members with now perhaps 350 million, soon to become 420 million consumers with twenty five members, - to provide a broad enough base for *domestic or local demand* and adequate support to exploit, *on the supply side,* economies of scale. Sufficient strength and scale, *on both the demand and supply side* were seen as being among the necessary conditions for ensuring a bigger and stronger Community industry able, by virtue of these strengths, to compete more satisfactorily in world markets. In this way the Common Market was to provide the basis from which European industry would compete satisfactorily with the other world economic powers - the United States - and also the new economic and trading powers appearing on the world stage in the sixties and seventies Japan, South Korea, Taiwan etc. These economic considerations regarding market size and economies of scale are of course separate from, but complementary to the political considerations underlying the process of greater European integration.

This economic rationale lay behind the creation of the Customs Union in the nineteen sixties and the general moves towards harmonisation and standardisation (economies of scale) in the nineteen sixties and seventies. However it was given particular impetus by the Single European Act of 1986 and the moves to create the European Single Market by the end of 1992, and by the adoption of a common currency.

More precisely,, as those behind the Single European Act initiative realised, the institutional procedures for forming the Common Market, as provided for in the Treaty of Rome, were simply too slow to address in time the forces of global competition which were gaining momentum. Indeed the pace of events was becoming such that a clear change of emphasis and direction was needed. In particular the Act called for an extension of qualified majority voting in the Council. Many would argue that it was this change, more than any other, which has enabled the Community to respond, with greater flexibility, resolve and speed to the economic and other forces which act upon it.

However one thing leads to another and once the process of removing technical, physical and fiscal barriers between Member States had begun other processes were set in motion of which of course more recently the creation of a single currency.

Thus taken together recent moves along the path of European economic integration can also be seen as forming a strategy for managing and benefiting from the forces released by the process of globalisation.

6. Conclusions

These remarks and arguments suggest two conclusions. Firstly regional integration provides a way of addressing the five deficits of global governance but at (of course) the regional level. Secondly it provides a strategy for a substantial group of countries to manage the forces of globalisation.

Is all this helpful ?

Well of course it all depends. The process of regional integration underway in the Union, and elsewhere for other regions, may be considered a bottom-up approach to addressing the issues of global governance. Meanwhile at the global level the gradual development of global governance is attempting to address, inter alia, the five deficits set out above. This is the top down process. The question is….how can the two processes meet and join up in a satisfactory way ?

References

[1] *Globalisation and Liberalisation*; Report of the Secretary General of UNCTAD to UNCTAD IX; March 1966

[2] *The Consequences of Modernity*; Anthony Giddens; Cambridge, Polity Press; 1990

[3] *False Dawn*; John Gray; Granta Books; 1998

[4] *Feasible Globalisations*; Dani Rodrik; Harvard University; 2002

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[6] Globalization, Growth and Poverty; World Bank / Oxford University Press; 2002

[7] *Governing without Government: towards genuine global governance*; Tony McGrew, University of Southampton, U.K.; paper prepared for the conference *Making globalisation work for the poor*, Kramfors, Sweden; 2001