NYU-UN-PDL-A4

ECONOMIC AND SOCIAL DEVELOPMENT TRENDS IN A GLOBALIZED WORLD

By Patricia de la Garza

Expanded Index of Contents

Presented in preparation for the final paper at the course
"International Organizations and their Management: The UN System"

Prof. Ahmad Kamal, former Ambassador of Pakistan

New York, NY
November 6th, 2002

Introduction

This paper examines the undergoing efforts in different fronts by different actors to redress the economic and social imbalances of globalization. The message of this study is that to achieve a successful economic and social development in a globalized world three key strategies have to be pursued: sustainability, national and international governance, and human development. Fortunately, institutions like World Bank, UNDP and other civil actors are mapping the rout towards this promised pathway, which is the concern of this paper.

PART ONE: EXAMINATION OF THE EFFECTS OF GLOBALIZATION ON THE SOCIAL AND ECONOMIC DEVELOPMENT

This section reviews the three waves of modern globalization that have taken place since 1870 until today as well as the main international institutions that today supports it. Concentrating on the third wave of globalization, which has been taken place since around 1980, we will characterize its main aspects (economic integration, power, culture, and environment) and effects on the social and economic development. We will conclude exploring some of the main reasons why globalization gas became so controversial, especially because its effects on poverty, equity, and rights.

1. How we became a globalized world?

It is important to recognize that economic globalization is not a wholly new trend. Indeed, at a basic level, it has been an aspect of the human story from earliest times, as widely scattered populations gradually became involved in more extensive and complicated economic relations. In the modern era, globalization saw an earlier flowering towards the end of the 19th century. That earlier peak of globalization was reversed in the first half of the 20th century, a time of growing protectionism, in a context of bitter national and great-power strife, world wars, revolutions, and economic and political instability. In the last 50 years the tide has flown towards greater globalization once more. The 1994 Uruguay Round of the GATT saw developing countries become engaged on a wide range of multilateral international trade issues for the first time.

a) The tree waves of globalization

Studies on globalization indicate that the first wave of globalization goes from 1870 to 1914, which was driven basically by falling transport costs. The main characteristic of this phase is that cheaper transport caused by technology advances opened the opportunities for land-intensive commodity exports and this production of primary commodities for export required large amounts of labor and capital. Even though the unprecedented increase in growth reduced poverty, the world income inequality started to rise. The impact of globalization on inequality within countries depended in part on the ownership of land. For instance, within developing countries as in Latin America, exports of commodities benefited primarily the colonialists who had ownership of the land; where land was more equally owned, as in West Africa, the benefits of tread were spread more widely; but in region importing land-intensive goods, globalization ruined landowners.[1]

Between the first and the second waves of globalization, there is a gap of 30 years during which international trade went into reverse by a retreat into nationalism and protectionism. The years from 1914 to 1945 saw World Wards I and II. The inter-war period brought on the great depression and in turn, governments responded by protectionism. Despite of this retreat from globalization, the trend to greater world inequality was not reversed[2].

The immediate years following World War II are important not only because marked the start of the second wave of globalization but also because is here where we find the roots of today's global architecture of economic and social imbalances, which rest on unequal collaboration and distribution of power at the international level to promote not only peace and security but also social and economic development. Thus, we see that after the Second War, in 1945, countries started collective action in the fronts of peace and development through the foundation of the UN System, the creation of multilateral institutions that govern international trade and investment, the reduction of trade barriers that they have previously erected.

During this second wave of globalization that went from 1945 to 198, trade liberalization was selective in both in terms of which countries participated and which products were included. Basically, whereas trade between developed countries in manufactures good was freed of barriers, they formed "economies of agglomeration" and promoted social protection; developing countries faced severe barriers for agriculture and manufactures, they did not participate in the growth of global manufacturing and services trade, and were confined to dependence on primary commodities. According to a WB report, the net effect of this trend was: greater equity within developed countries; more inequality between developed and developing countries, a little change within developing countries.

The third wave of globalization started in 1980 and continues today. Overall, the main features of this recent wave are: a) whereas trade has grown massively and more developing countries are participating in the world markets for manufactured goods and services, many other developing nations have became increasingly marginalized and suffered declining incomes and rising poverty; b) international capital flows have increased substantially (especially in the form of FDI), but most of these capital flows are between developed countries and just a small proportion goes to developing countries, especially to Africa; c) finally, and because of the inequalities in wages and income distribution between poor and rich countries, migration has escalated more than ever before.

b) Global institutions for a post-World Ward II global economy

After the World War II, the leaders of the allied powers were of the view that one of the main causes of the war was the failure of the open trade system during the Great Depression. They agreed that the enduring peace and welfare of nations were connected with freedom in international trade. Whereas the United Nations System was created as a means of peacefully resolving political differences between states, multilateral institutions were created to provide a framework of rules for countries to manage trade and investment. One of the most important pillars of this new order, embodied in the Bretton Woods Institutions, was the establishment of the International Trade Organization (ITO), along with the International Monetary Fund (IMF), and the International Bank for the reconstruction and Development (The World Bank). [3]

The IMF had the responsibility for maintaining currency exchange stability and for helping member nations to deal with short-term disequilibriums in their balances of payments; the IBRD for aiding in the reconstruction of war-devastated areas and in the modernization of the underdeveloped countries; and the ITO for reducing or eliminating tariffs and other barriers to trade.

Here I will elaborate more on how ITO was the background of the GATT and the WTO…..So far, the WTO limits those who would use national trade policies to pursue other goals, including environment, labor standards, and human rights, forcing them to seek other means of attaining their objectives without imposing costs on other countries[4].

As a result of the discontent of the developing countries "over the failure of the developed nations to lower their restrictions on commodity trade, in 1964 the UN General Assembly approved the celebration of the first UN Conference on Trade and Development (UNCTD). Today the UNCTAD supplements the work of GATT by providing a forum that was focused on the needs of the developing countries; nonetheless, it continues to function within the framework of the WTO[5].

Despite this institution building, the challenge to promote economic well-being through international action persists. I will elaborate more on the conclusion of this section.

c) Aspects of today's globalization

Economic integration occurs through trade, migration, and capital flows. World trade is measured relative to world income. Capital flows are proxied by the stock of foreign capital in developing countries relative to their GDP. Migration is proxied by the number of immigrants to the United States. As we mentioned before, since 1870 none of these flows was significantly large to warrant the term globalization[6]. This growth in cross-border economic activities takes various forms:

International Trade: A growing share of spending on goods and services is devoted to imports from other countries. And a growing share of what countries produce is sold to foreigners as exports. Among rich or developed countries the share of international trade in total output (exports plus imports of goods relative to GDP) rose from 27 to 39 percent between 1987 and 1997. For developing countries it rose from 10 to 17 percent. (The source for many of these data is the World Bank's *World Development Indicators 2000*.)

Foreign Direct Investment (FDI). Firms based in one country increasingly make investments to establish and run business operations in other countries. Direct investments are the principal channel of international private capital flows, especially to developing countries. Overall world FDI flows more than tripled between 1988 and 1998, from US$192 billion to US$610 billion, and the share of FDI to GDP is generally rising in both developed and developing countries. Developing countries received about a quarter of world FDI inflows in 1988-98 on average, though the share fluctuated quite a bit from year to year. UNCTAD estimates just before the terrorist attacks showed that world FDI flows were likely to decline a 40% decrease in 2001, which would represents the first drop in FDI since 1991 and the largest in the last three decades. The main reason is a world economy slowdown seen with Mergers and Acquisitions decrease. The effects of the terrorist attacks of September 11 on FDI flows are difficult to gauge. Company surveys suggested that they would be limited but the decline is not likely to be recouped in 2002, at least until the following combination of factors be in place: consumer confidence be restored; liberalization of FDI regimes; development in information and communication technologies; and competition between firms. (source: pink book. P. 15)

Capital Market Flows. In many countries (especially in the developed world) savers increasingly diversify their portfolios to include foreign financial assets (foreign bonds, equities, loans), while borrowers increasingly turn to foreign sources of funds, along with domestic ones. While flows of this kind to developing countries also rose sharply in the 1990s, they have been much more volatile than either trade or FDI flows, and have also been restricted to a narrower range of 'emerging market' countries.

But the aspects of globalization not only refer to economic integration, but also to…here I will write more about other aspects of globalization..

2. Effects of globalization in social and economic development

a) Spread of Democracy

b) Economic integration and instability

International economies linkages increased on the 1990s and were one of the driving forces for economic growth during the decade. In 2001, their role was reversed as they transmitted economic weaknesses across nations, resulting in a synchronized global slowdown. Amidst the global slowdown, the international economic environment deteriorated in 2001, particularly for many developing countries end economies in transition:

- International trade stagnated at the global level and declined significantly for many countries;
- The international prices of many commodities on which the exports of a large number of developing countries are still concentrated fell substantially;
- Net capital flows to developing countries remained at a low level; and
- The external financing conditions for these economies became more stringent.

While some improvement is expected, many developing countries and transition economies continue to face a challenging external situation.

d) Unemployment and poverty

f) Power, culture, environment

3. Why globalization has become so controversial?

Following the World War II, the ideas of economic and social development, along with peace and security, reshaped the direction of the already undergoing globalization. The then emerged UN System placed a bet on globalization of the economy as a mean to secure the pledge of prosperity of the rich and integration of the poor. After more than fifty years of such bet, many are discontent with its effects and globalization has become controversial. Nonetheless the many benefits of globalization for certain countries, the current balance still shows instability, a wide poverty gap, and little freedom for developing countries in shaping their own ways to join globalization.

To many globalization has not brought the promised economic benefits. A growing divide between the haves and the have-nots has left increasing number in the Third World in dire poverty, living in less than a dollar a day. Globalization has not succeed in reducing poverty (Africa), neither in succeeding in ensuring stability (Latin America, Asia, financial contagious).

a) The failures of the international economic system: The Washington Consensus

b) Trading free(dom)? Trade, labor, and development

c) Shit of power to corporations

It has been a transferred decision-making power from government to special interest groups.

d) Trade over environment and rights

Trade vs. sustainable development and labor and migration rights.

PART TWO: CRITICAL EXAMINATION OF CURRENT TRENDS TO REDRESS ECONOMIC AND SOCIAL DEVELOPMENT IMBALANCES IN THE CONTEXT OF GLOBALIZATION

4. Current trends

We identify two central, but not necessarily compatibly efforts: toward the economic recovery of developed countries after the terrorist attacks of September 11 and toward the integration of developing countries in the world economy. In both cases nevertheless, international trade and finance remain as the main vehicle for economic and social development, which unfortunately does not grasp the opportunities for a more sustainable, equitable, and democratic growth. The Millennium Declaration sets the new parameters of social and economic development pledging a more human face of development.

a) The Millennium declaration and September 11

The slowdown in the world economy has been aggravated by the terrorist attacks in the USA. According to the latest joint report of the UN Department of Economic and Social Affairs and the UNCTAD for the year as a whole, these are some of the effects:

- Growth in the developed countries was the lowest in a decade;
- The economies in transition exhibited greater resilience but their average growth also declined;

- With the exception of the year following the Asian crisis, annual average growth in the developing countries as a group was also the lowest since the beginning of the 1990s.

A continuation of this pattern of growth threatens the attainment of the Millennium Development Goals, especially the one of reducing the number of poor by half by 2015. (insert goals)

These developments suggest that the current challenges are not only to ensure a prompt and widespread economy recovery from the current slowdown, but also to seek more balanced and stable growth in the longer run. The attainment of the Millennium Development Goals will require additional resources, new approaches and new partnership among all development stakeholders. Ahead some of the recent trends and efforts to sustain a longer-term agenda to ensure that developing countries and economies in transition can participate more effectively in the globalized world economy.

b) Reforming the financial and trade architecture

The efforts of reforming the trade architecture are carried out by the WTO through its decision-making body, the Ministerial Conference, which has to meet at least every two years. The Ministerial Conference can take decisions on all maters under any of the multilateral trade agreements. So far there have been four Conferences: Singapore (1996), Geneva (1998), Seattle (1999), and Doha (2001). On November 2001, WTO Members agreed in Doha to launch "a broad and balanced work programme which includes an expanded negotiating agenda and other important decisions and activities necessary to address the challenges facing the multilateral trading system". The agenda contains three types of future actions and according to the Doha Ministerial Declaration, such negotiations are to be concluded by 1 January 2005[7]:

- Topics for immediate negotiations: agriculture, services, industrial goods, environment, anti-dumping, subsidies, dispute settlement, regional agreements, and fisheries subsidies; (january 2002)

- Topics for future negotiations that are subject to "explicit" consensus among WTO Members (scheduled for 2003): investment, competition, government procurement and trade facilitation.
- Issues for further examination in relevant WTO bodies: these are of special interest to developing countries and include the relationship between trade, debt and finance; transfer of technology; and problems faced by small and vulnerable economies.

Among the efforts of reforming the finance infrastructure, we find the International Conference on Financing for Development, held in Monterrey, Mexico, in March 2002, which had the overall objective of agree on a number of national policies and institutional changes that will improve the movilization of domestic resources for development within the developing countries.

At Doha, Qatar and at Monterey, Mexico, issues that developing countries want to pursue were included and, at least, in theory, sustainable development is a principal objective of these efforts. But the debate lies on…..(I will elaborate more about the appropriateness of these actions).

d) Regional Alliances and the "Everything But Arms" Initiative

The European Union's Everything Bu Arms initiative, whereby Members States agreed to provide duty and quota-free access to most goods from the least developed countries (LDC), where important steps forward but need to be followed by similar actions by all developed countries.

Along with that initiative, there is the Heavily Indebted Poor Countries (HIPC) initiative, which even though has shown progress to date, additional efforts are required to mobilize resources necessary to implement the Initiative fully.

c) The ICT and the Digital Divide

e) Corporate responsibility

Companies worldwide have signed on to voluntary codes of conduct in a bid to mitigate globalization's harmful aspects. The International Chamber of Commerce counts more than forty codes of conduct designed to govern activities of global corporations. These include the Global Sullivan Principles, the UN Global Compact, the Global Reporting Initiative, and the Organization for Economic Cooperation and Development (EECD) guidelines on Multinational Enterprises. [8]Nevertheless, none of these efforts include mechanisms to hold companies accountable when they fail to comply.

The OECD guidelines introduce the concept of good practice for multinational as well as domestic enterprises. They cover several key areas: transparency; promoting competition; prudent financial controls; labor rights; environmental protection; and patent rights. While the guidelines are comprehensive, their implementation procedures need updating and enforcing.

The mot recent initiative, launched in January 1999 by the UN Secretary-general Kofi Annan challenged business leaders to enact nine core principles, which fall within three main categories: human rights, labor rights, and environment protection. The initiative was drawn from the Universal declaration of Human Rights, the ILO's Fundamental Principles on Rights at Work and the Rio Principles on Environment and Development. It is a list of precepts that the UN does not characterize as a regulatory instrument. It has explicitly adopted a learning approach to inducing corporate change, as opposed to a regulatory approach; it comprises a network from of organization, as opposed to the traditional bureaucratic form; and finally, there is no government role, and the corporation is responsible for regulating itself[9].

Perhaps the main strength of the initiative rests on its network approach, but its weaknesses on its learning focus[10]. A network action brings together all the relevant social actors to produce a new collective action but the learning approach lacks enforceability or negative consequences for non-compliance. Therefore, these voluntary initiatives can induce corporate change by identifying and promoting good practices in corporate social responsibility, but they are no substitute for effective action by governments. Furthermore, perhaps another advantage of this initiative is that could be a business forum where some of the social and environmental issues that have not been resolved through the WTO could be advanced.

f) The new actors of globalization: NGOS, trade unionist, civil society.

I will write about the role of NGOs and civil society. For instance, I will make reference to the protest at the Seattle ministerial meeting in December 1999, which heightened public awareness of globalization and the WTO.

5. The "missing links" to successful social and economic development in a globalize world

A successful economic and social development in a globalized world three key strategies have to be pursued: sustainability, national and international governance, and human development. Fortunately, institutions like World Bank, UNDP and other civil actors are mapping the rout towards this promised pathway.

a) Sustainable development

I will make reference to the new era of the World Bank and its new Director. Among other things, I will make reference to the latest findings in their 2002 report on sustainable development.

b) Human Development

Here I will make reference to the valuable report of the UNDP about Human Development Indicators.

c) Good governance (at the national and international level) and development

I will examine the decision-making process within the international and national structures, fundamental to understand social and economic inequalities. For instance, even though the WTO tries to operate by consensus, its large membership makes that process, thought democratic in principle, unwieldy and exclusionary in practice, leaving many developing countries without a voice. I will also talk about the dispute settlement mechanism at the WTO, which has been quite effective, but its operation has been less transparent than it could be.[11]

Conclusion

Notes

[1] The World Bank.. Globalization, Growth, and Poverty: Building Inclusive World Economy, Oxford University Press, 2002. p. 26

[2] Mundell, R. 2000. A Reconsideration of the Twentieth Century. *American Economic Review* 90 (3): 327-40.

[3] Khalid, Rasheed *et. all*, The World Trade Organization and the Developing Countries. The OPEC Fund for International Development, Austria, February, 1999.

[4] World Trade Organization. 10 Common Misunderstandings about the WTO. The World Trade Organization (WTO) Website: http://www.wto.org

[5] Ziring, Lawrence at. All. The United Nations: International Organization and World Politics. 3rd. Ed. 2000

[6] The World Bank., Globalization, Growth, and Poverty: Building Inclusive World Economy. Oxford University Press, 2002. p. 23.

[7] The World Trade Organization (WTO) Website: http://www.wto.org

[8] Knight, Daniel. Environment-Finance: Corporate Codes of Conduct Deemed Insufficient. June 13, 2001. Source: http://www.globalpolicy.org/reform/2001/corpcode0613.htm

[9] The United Nations. The Global Compact: Corporate Leadership in the World Economy. 2001
______________. The Global Compact: Report on Progress and Activities, July 2002.

[10] Ruggie, John G. The Theory and Practice of Learning Networks *JCC5,* Spring 2002, Greenleaf Publishing pp27-35.

[11] Deardoff, Alan V. et. all. What the Public Should Know about Globalization and the World Trade Organization. Research Seminar in International Economics. School of Public Policy, The University of Michigan, Discussion Paper No, 460. July, 2000.