Globalization: Challenges and Opportunities

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I. Introduction:

In the wake of the demonstrations that accompanied the Third Ministerial Meeting of the World Trade Organization in Seattle, the World Economic Forum Meeting at Davos, and the 10th UN Conference on Trade and Development in this city, more and more questions are being asked about the path that globalization is taking, doubts are being raised about the wisdom of that path, and calls are being made – both in developed and developing countries -- for reform by some, and for abolition by others, of the WTO, which has become the main symbol of a globalizing world .

As parliamentarians, you are in a unique position to participate in the debate and contribute to its clarification and to its resolution, both in your own countries and in official international forums. Three possible outcomes are possible, depending on how issues are resolved: a world where unhampered market forces overwhelm state institutions and indigenous social cultures, a managed globalization where equity is at least as strong a driving force as efficiency, or a protectionist world where flows of trade, investment and information are obstructed in the name of nationalism. Obviously, the stakes are high.

This paper hopes to provide the participants of this conference an overview of globalization and the issues surrounding it. We start, in the next section, by attempting to define globalization, providing illustrations of what it is all about. The third section reviews the positive and negative impact of globalisation, looking at some gainers and losers both between and within countries, with particular emphasis on women. The succeeding section highlights three reasons why the benefits of globalisation are very unequally distributed. Section 5 discusses the options that are available to reduce those inequalities – minimizing the damage and maximizing the opportunities of globalization. The last section makes some specific suggestions and recommendations regarding the courses of action that parliamentarians can take to ensure such an outcome.

There is no use reinventing the wheel. Most of the materials presented in this overview are drawn from the 1997 and 1999 Human Development Reports (HDR) of the UNDP, which in turn draw from several commissioned background papers and special contributions as well as a very rich lode of research done on different aspects of globalization. The 1999 HDR deals entirely with globalization, while the 1997 HDR devotes one chapter to it. They are highly recommended as reading material, as are the other HDR's, which have been published yearly since 1990. Needless to say, I take responsibility for any errors made in my attempts to summarize and reformat the information for this conference.

II. Definitions, Illustrations

Globalization may be defined in several ways, and from different perspectives. One can talk about globalization as the widening and deepening of international flows of trade, finance and information in a single, integrated global market. An alternative would be to describe it as the increasing linkages between the world's people (including the international spread of cultures…as well as diseases and crime) as natural and artificial barriers fall. Or, one can refer to it as the transformation (shrinking) of the world into a global village, as borders disappear, distances shrink, and time shortens.

The fall of natural barriers, the shrinking of space and time, can be illustrated by the trend in sea and air transport costs as well as the costs of communication.. Average ocean freight and port charges per ton fell by more than two-thirds between 1920 and 1990, from US$95 (in 1990 US$) to $29.

Air transport costs have decreased even more, and travel times have also been shortened. Average revenue per passenger mile fell by more than 80% between 1930 and 1990, from US$0.68 to US$0.11. In 1950, it took four days to fly from Manila to New York. It now takes under a day.

The largest cost and time reductions have occurred in communications. The cost of a 3-minute international call between New York and London fell from US$245 (in 1930) to US$32 in 1970 to US$3 in 1990. At present, it costs less than US$0.10. Documents can now be transmitted by fax in a matter of minutes, and by e-mail instantaneously, compared to days, weeks, and even months half a century ago. The cost of computers in 1960 were 125 times what they were in 1990, which in turn were more than double what they cost now.

Artificial or man-made barriers to trade such as tariffs and quotas have also been brought down. Other artificial barriers of a more political and social nature, such as the cold war and apartheid have likewise been toppled. In 1947, average tariffs on manufactured imports were 47%, but by 1980 they were down to 6%, and by the time the Uruguay Round is fully implemented, they will go down to 3%.

At the same time, controls over the flows of capital have been lifted, particularly after the Bretton Woods system of fixed exchange rates broke down in 1971, with developed countries leading the way, and developing countries following, encouraged in no small degree by the Bretton Woods institutions and the OECD. The same trend is observable with regard to foreign exchange flows.

It must be pointed out, however, that globalization is not a new phenomenon. It has happened before, probably even on a larger scale, as was the case over a century ago. Towards the end of the nineteenth century, trade flows were roughly the same proportion of national income as they are today, while capital transfers were relatively even larger, and movements of people far greater than they are today, when immigration is much more restricted.

What is different about the current globalization is not so much the scale of flows, but their character. While it has become a dominant force in the last decade of the twentieth century as it was in the last decade of the nineteenth, it has new features: new markets (e.g., globally linked financial markets working around the clock with new instruments, global consumer markets with global brands, e-commerce), new actors (e.g., multinational corporations, the World Trade Organization, proliferation of international NGO's, regional blocs, policy coordination groups), new rules (multilateral agreements in trade, conventions on human rights, on global environment), and new tools of communication (e.g., cell phones, faxes, e-mail).

III. Impact of Globalization: The Good and the Disturbing

A. THE GOOD NEWS: Globalization has many positive, innovative and dynamic aspects, all related to the increased market access, increased access to capital, and increased access to technology and information which have led to greater income and employment opportunities. There is no dearth of examples: The world as a whole is definitely more prosperous and more healthy, with average per capita incomes tripling in the last fifty years, child mortality rates halving and life expectancy increasing by ten years since 1965.

Trade flows also increased 12-fold in the past fifty years as a result of the removal of natural and artificial barriers. Exports are now US$7 trillion a year, with more than a fifth of the world's goods and services being traded.

Capital flows expanded even faster, with Foreign Direct Investment amounting to US$400 billion in 1997, seven times its real level in the 1970's and portfolio and other short-term capital flows amounted to US$2 trillion in gross terms, three times what they were in the '80's. These in turn pale in comparison with what has happened in the foreign exchange markets, where volumes increased over a hundred times between the mid-70's and the mid-90's, with a US$1.5 trillion daily turnover in 1998. At the same time, international bank lending grew more than sixteen times, from US$265 million in 1973 to US$4.2 trillion in 1994.

The Uruguay Round of the General Agreement on Tariffs and Trade (GATT), which has given globalization greater impetus in the last decade, is expected to increase global income by an estimated US$212-US$510 billion (from trade and efficiency gains and higher rates of return on capital) by 2001.

Movements of people have also increased. Tourism more than doubled between 1980 and 1996, from 260 million to 590 million travellers a year. Despite tight restrictions, international migration continues to grow, and workers' remittances amounted to US$58 billion in 1996.
In the information and communications area, time spent on international telephone calls more than doubled between the first and second half of the last decade – from 33 billion minutes in 1990 to 70 billion minutes in 1996. At the same time, travel, the internet and the media have stimulated an exponential growth in the exchange of ideas and information: 28,000 international NGO's in 1993 where there were less than 600 in 1964, As of mid-1998, there were an estimated 139 million internet users, with the number of new subscribers doubling every year. The revolution in information and communication technology, for example, have allowed people in the remotest villages access to the most modern medical advice, while the potential for education is tremendous.

B. THE DISTURBING NEWS: While the world as a whole has benefited from globalization, there are negative and marginalizing aspects of globalization. These are what have led to a backlash, as reflected to a certain extent in the demonstrations by civil society accompanying recent international conferences, and by increasing expressions of dissatisfaction at the governmental level.

1. ***Unbalanced Distribution of Benefits:*** Between Countries. The first negative aspect of globalization is that its gains are not equally distributed, both between and within countries. Examples of the badly skewed distribution among countries of the benefits of globalization can be gleaned from the following data from the period1980 to 1997: While world per capita income increased, per capita

income contracted in fifty nine countries, widening income disparities. Exports of goods and services grew at less than 5% annually in 46 countries, and at less than 1% a year in 9 countries.

Insofar as financial flows are concerned, the majority (58%) of flows of foreign direct investment in the '90's went to developed countries. 85% of the FDI that went to developing and transition economies went to only 20 countries, with the bottom sixteen of these receiving less than what the top two got. And for nine countries, the flows have been negative.

The distribution of portfolio and other short-term flows is even worse: 94% of these went to only 20 countries in 1997, with the bottom 13 of these countries receiving less in total than the top two. Finally, only twenty-five developing countries have access to private markets for bonds, commercial bank loans and portfolio equity.

The benefits from the Uruguay Round are also expected to be unbalanced, with 70% accruing to the developed countries and 30% to the developing countries. Among developing countries, China is expected to get the lion's share (27% of the 30%). The most excluded from the benefits of globalization are the Least Developed Countries (LDCs) and Sub-Saharan Africa. They are actually expected to lose as things stand – US$600 million and US$1.2 billion a year respectively.
What all these mean is that while the world has shrunk into a global village, the gap between the rich and the poor in that village is widening. Hundreds of millions of people are being excluded from the benefits of globalisation.

The information and communication technology revolution, which is regarded as the newest sinew of globalization, has created a gap of its own – the so-called digital divide. The exponential growth of internet users adverted to earlier masks tremendous disparities: In 1998, industrial countries accounting for 15% of the world's population had 88 per cent of internet users. In contrast, SouthAsia, home to 20% of that population, had less than one per cent of the internet users, while Sub-Saharan Africa, with 9.7% of the world's people, had only 0.1 per cent connected to the internet.

2. ***Unbalanced distribution of benefits:*** Within Countries. The benefits of globalization are also badly skewed within countries, both developing and developed. Income inequality is rising in many countries, particularly in the OECD countries. Worse, job and income insecurity is increasing, particularly for unskilled labor, although corporate restructuring has also meant job insecurity for professionals.

   Within developing countries, the increased world agricultural prices expected to result from the Uruguay Round should benefit those in agriculture. The urban poor will suffer when food prices rise, but will gain from employment in new export industries. Young women hired by multinationals are likely to benefit most – their incomes increase, with a concomitant increase in their household status. Consumers also gain from the reduction in local prices due to increased competition from abroad.

3. ***Financial Volatility:*** Unbalanced benefit flows are not the only negative aspects of globalization. Globally integrated markets have financial volatility as a permanent feature, the frequency of financial crises increasing with the growth in international capital flows. The human costs of such financial volatility can be very high, as shown by the effects of the Asian crisis – bankruptcies, poverty increase, rising unemployment, reduced schooling, reduced public services, and increased social stress and fragmentation – in short, a reversal in human development.

4. ***Contagion:*** The closer linkages that characterize globalization also allow for contagion and worldwide recession, or at least slowdown. The Asian crisis had repercussions everywhere -- in South America, Russia, Africa, the Middle East – which were affected either directly or indirectly..

5. ***More human insecurity:*** crime, disease, and loss of cultural identity. Unfortunately, the many opportunities opened up by the widening and deepening of information flows and contacts among the world's people also include increasing opportunities for crime (trafficking in drugs, weapons, women, international syndicates), for the spread of HIV/AIDS as well as ideas, and for the flow of culture and cultural products which may lead to cultural homogeneization, which, while considered enriching by some, is considered as a loss of cultural identity by others.

C. IMPACT ON WOMEN. The impact of globalization on women is also mixed. As adverted to earlier, greater trade openness increases women's share of paid employment, as firms producing for export (including multinationals) employ more female workers. This is a worldwide pattern, and is particularly evident in Asia.

However, women are also among the first to lose their employment when economic crunches occur, such as those resulting from financial volatility discussed above. Women also predominate in informal subcontracting, which is on the rise under globalization – but this is associated with low wages and poor conditions.

Globalization is also associated with homework, part-time work, and tele-work, where women again predominate. The upside here, is that this accommodates women's family care obligations, but the downside is that the jobs are precarious and poorly paid.

IV. Factors Contributing to the Unbalanced Impact of Globalization

While there are several reasons to which the skewed flows of globalization's benefits can be attributed, they can be grouped under three main headings: Bad Policy, Bad Terms, and Bad Rules. The first has to do with national policy failures, and the other two are the result of international forces.

A. BAD POLICY. Trade and investment flows to countries are impeded by poor macroeconomic policy that leads to chronically large fiscal deficits, which creates instability. Investors, as well as exporters, are also discouraged by policies that lead to an overvalued currency, and by policies that overprotect local producers for long periods, with their concomitant bureaucratic procedures (leading to delays and corruption) and lack of incentive to gear up for international competition. Additionally, policies that lack transparency or consistency make for unpredictability and uncertainty, which lead foreign investors and local businesspersons to adopt a wait-and-see attitude, a state of suspended animation.

Neglecting investments in human capital as reflected in the low priorities given to basic health and education (low human priority expenditure ratio) in the government budget is a sin of omission which has large negative implications: without basic skills, people cannot take advantage of changing market conditions, apply, much less create new technology, or shift to more sophisticated exports.

Likewise, neglect of investment in infrastructure – transport and communication – again makes it difficult to access global opportunities. Lack of farm to market roads constrains exports; lack of communication facilities isolates a country and its people from the benefits of the revolution in information and communication technology.

It is well to note that these bad policies, which really indicate poor governance, would hamper a country's development in any case, with or without globalization. Globalization merely exacerbates the effects of bad policy, just as it would tend to increase the rewards of good policy.

B. BAD TERMS. The responsibility for the limited or negative benefits of globalization cannot all be laid on the shoulders of the developing country governments. The terms under which trade and finance take place often are very unfavorable. Between 1980 and 1990, for example, real commodity prices fell by 45%, as a result of which developing countries as a whole suffered cumulative terms-of-trade losses amounting to US$291 billion. The terms of trade for developing countries' manufactured goods also fell by 35% between 1970 and 1991 Terms of finance are also unfavorable for poor countries. They generally have to pay higher interest rates than the rich countries do, if they can access credit at all. This makes debt servicing much more difficult, and limit the resources available for trade and investment. Seventeen years after the onset of the international debt crisis, the problem of highly indebted poor countries has not yet been resolved. Recently, because of the disastrous floods that have wiped out the development gains of a poor country like Mozambique, its official creditors (Paris Club) decided to postpone its payments – until June of this year. Which doesn't really help Mozambique's situation.

To make matters worse, even flows of people from developing countries can be on unfavorable terms. Developed countries prefer those who are highly skilled, contributing to the brain drain problems of the developing world. Refugees are admitted rather grudgingly, but facto if those with capital to invest are welcome with open arms.

C. BAD RULES. *De facto* if not *de jure*, the rules of the game are stacked against developing countries, and the Uruguay Round (UR), which created the rules-based World Trade Organization, has not changed the situation very much. Most of the protection for industry and agriculture in industrial countries was left intact. Part of the dissatisfaction with the WTO is the perception that the issues it addresses are those which concern the developed countries, brushing aside those of interest to the developing world. Moreover, there remains a very large scope for evading the spirit, if not the letter of the UR agreements. Some examples:

Tariff reductions for goods from industrial countries were greater (45%) than those coming from developing countries (20-25%). Tariff escalation – setting higher tariffs on processed goods than on raw materials – which discourages developing countries from adding value to their exports, is still very much in practice. Non-tariff barriers, particularly anti-dumping measures have been used as an excuse for protection by developed countries, who have take advantage of the vague rules about what constitutes dumping, and have applied them to a wide range of developing country exports.

The enforcement of Intellectual Property Rights (IPR) have increased the cost of technology transfers to developing countries, which, in an increasingly knowledge-intensive global economy, reduces their ability to take advantage of opportunities that globalization offers.

At the same time, the provisions on special and differential treatment in favor of developing countries have not yet been fully implemented and operationalized, and labor markets have not been opened to the same extent as capital markets. Moreover, tariffs remain high on goods with the greatest potential for the poorest countries, as in textiles and agricultural commodities.

VI. Making the Most Out of Globalization

A. THE CHOICES: Given this picture of globalization, warts and all, is it worth keeping? What is to be done? As mentioned at the outset, there are three alternatives: one is to maintain the status quo – that is to say, the present situation is to continue, a globalization that is exclusive and marginalizing, that increases human insecurity and vulnerability, even as it opens tremendous opportunities. Judging from the increasing volume of protests heard around the world, this alternative is becoming more and more unacceptable.

A second alternative would be to move the clock back, as it were, at least to pre-WTO, and even pre-Uruguay Round era –that is to say, to abolish the WTO, which has become the symbol of globalization. Those who favor this alternative argue that WTO is too powerful and has encroached upon the sovereignty of different countries by forcing them, for example, to accept free-trade rules over other legitimate concerns such as food safety; Or they argue that WTO was completely dominated by industrialized countries and therefore beyond repair.

Those who are attracted to this alternative, however, will probably be brought up short when they realize that flawed as it is, the WTO still represents a rule-based system with a system of dispute settlements that has been successfully used, albeit infrequently, by small countries against larger, more powerful ones. They will be giving this up for one which is based on old-style power politics in trade negotiations, with very little means of redress for the poorer players -- where the golden rule is that "he who has the gold, rules".

Clearly, if the present situation is beginning to result in a backlash, but the alternative of switching back the clock may put the world in a worse situation than before, the only truly acceptable alternative is to manage globalization better, so that its downside – inequality, instability, insecurity, can be minimized, and its benefits maximized. Fortunately, the negative trends are not inevitable. They can be reversed.

B. GOVERNANCE IS THE KEY. A closer look at the downside of globalization strongly suggests that underlying all these negative results is a failure of governance – either at the national level, or at the global level, or both. By governance is meant not mere government, but the framework of rules, institutions and established practices that set limits and give incentives for the behavior of individuals, organizations, and firms.

It is the lack of good governance at the national level that contributes to bad policy. It is the lack of good governance at the international level that has contributed to bad terms and bad rules. And finally, it is the lack of good governance at both levels that has contributed to financial volatility which has led to contagion, and in some cases, civil conflict, the international spread of crime and disease, and the rise of other forms of human insecurity.

This is not a surprising conclusion. Basic economics teaches us that the magic of the market -- the most efficient allocation of resources -- works only under very stringent conditions: pure competition, no externalities, mobility, and information. Absent any of these, market failures occur. Government's role is to correct those market failures.

But even without market failures (which is not the case in global markets) , even with the most efficient outcomes – the magic of the market gives no assurance of equity, stability, and growth, which are at least equally important goals. Government must use its visible hand to ensure that these objectives are met. Good government, that is, because there is danger of government failure as well.

At present, while there are no formal institutional arrangements, the current de facto situation is that a few developed country governments (G-7 and even G-1) directly and through multilateral institutions controlled by them (e.g., the World Bank, the IMF, the Bank of International Settlements), have the reins of international economic governance firmly in their hands. It is this governance that has failed to get the most from the opportunities and avoiding the pitfalls of globalization, because of the paucity and inadequacy of institutions, norms of conduct, and regulatory frameworks to address issues of inequity, instability, and responsibility in the international economy.

The challenge lies in reforming global governance so that global competition and free market approaches can be harmonized with human development and human rights in all countries. Always acknowledging, of course, that even with good global governance, lack of good local governance a developing country will still find itself excluded and marginalized from the benefits of globalization.

In brief, good global and national governance go hand in hand, with both placing people, not just profits, squarely in the center of policy and action.

C. AGENDA FOR ACTION: There is no dearth of "solutions" to the problems of globalization, requiring either national or international action or a combination of both. While they may differ from country to country depending on the cultural and historical contexts in which they take place, certain key elements common to all can be highlighted:

At the national level, appropriate economic and social policies are needed to capture global opportunities trade, capital flows and migration, and to protect people against the vulnerabilities that globalization creates. For example, national governments can manage trade and capital flows more carefully; invest in human capital and in more flexible sets of workers skills, which are of prime importance; foster small enterprises – these will contribute to job-creating growth; manage new technology; and provide safety nets.

It must be noted that this already tall order is made more difficult because governments are faced with a resource squeeze: they collect less revenues because of lower tariffs and import duties, tax competition with other countries, the globalization of the tax base (increasing transnational operations) and the growth of the informal economy. At the same time, they are faced with greater demands on public resources.

At both the national and global level, the governance challenge is to reduce the threats of financial volatility, which have become increasingly common, and all their human costs. The costs of governance failures in this arena are very much larger than generally perceived. The East Asian crisis and its global repercussions resulted in output losses (over a three-year period) estimated at nearly US$2 trillion, while the human costs include civil conflict, rising unemployment and declining school attendance, erosion of the social fabric, more crime, more violence in the home. At the national level, emphasis should be given to liberalizing the capital account more carefully, subjecting financial institutions to greater transparency and accountability, integrating macroeconomic management and social policies. At the international level, the focus should be on strengthening international action to regulate and supervise banking systems, developing better systems of early warning and crisis management, and establishing an international lender of last resort.

At the global level, stronger action must be taken to tackle global threats to human security (crime, disease, environmental degradation), reverse the marginalization of poor, small countries, remedy the imbalances in the structure of global governance with new efforts to create a more inclusive system, and build a more coherent and democratic architecture for global governance in the 21st century.

Again, it must be noted that the difficulties of reinventing or reforming global governance is extremely difficult, because it involves changing the status quo, which tends to meet with stiff opposition from those (in this case, the wealthy countries) who benefit from the status quo.

VII. Role of Parliamentarians

As mentioned in the beginning of this paper, parliamentarians are in a unique position to contribute to the successful management of globalization, particularly in reinventing national and global governance.

Their role can be divided into three different, but inter-related areas of information, identification and alliance building.

Their role in the information area involves participation in activities that would raise the capacity of civil society groups as well as government groups (including themselves – this conference is a first step) to analyze and participate in the process of globalization and to transform their economies to minimize risk and maximize benefits. These could include parliamentary inquiries on the kind of national machinery in place to deal with globalization, and seeing to it that they have the flexibility, technical expertise, institutional memory and political clout to handle the complexities of globalization. These could also include seminars and forums on different aspects of globalization (e.g., agriculture, textiles, intellectual property rights, biotechnology, labor), where the views of the stakeholders are heard, and their fears (or hopes) dealt with. In short, any activity that would help the nation as well as local communities understand the developments and be ahead instead of behind them, and help them be active and informed participants in whatever decisions need to be made. This is, after all, part of empowering the people.

There are areas of key interest that have to be identified, and hard choices that have to made. The question of the trade-off between protecting culture and a traditional valued way of life, and global integration, must be debated and resolved. Several slices of this major topic immediately suggest themselves: how fast should trade and capital flows be liberalized? Should multinationals be welcomed with open arms, or viewed with hostility and suspicion? Are they threat or opportunity? What is the tradeoff between the foreign exchange generated by overseas workers and the possible brain drain and erosion of the social fabric? Between efficiency and equity, between profits and people, what should be the priority? What are the next steps? Parliamentarians must encourage, and be part of this debate. Decisions about development strategy must be an open, participatory and transparent process, if they are to be “owned” by the people. Without social consensus, as multilateral institutions have learned, no change can be sustainable.

Whether at the national or at the international level, the creation and reform of institutions, norms of conduct, and regulatory frameworks – in other words, the strengthening or reinvention of governance--will require strong alliances both within and between countries to help overcome the forces that are content with the status quo. For peaceful, sustained reform to take place- alliances, partnerships and negotiated compromises are the key – and parliamentarians, to my mind, have a comparative advantage, or at least better experience than most in winning broad and diverse support.

A clear, shared vision of the future that hopefully is the result of the information and identification processes described above, is the first step in mobilizing alliances and partnerships. A second step would be to find or create common interests among the stakeholders: between employers and employees, between beneficiaries and providers, between urban and rural poor. This is a particular challenge to the parliamentarians, and again, the information and identification processes will help in the search.

At the same time, there is a need to exploit differences among the powerful countries, who may have different interests at different times. Here, parliamentarians can touch base with organizations such as UNCTAD and UNDP for help in creating negotiating strategies.

But in intellectually and politically empowering the people, identifying priorities, and pushing the right buttons to achieve the common goals, parliamentarians must not forget their basic responsibility – they must keep their eye on the ball, so to speak: and that is to ensure that at all times, the state machinery, which they in part run, is an enabling one, acting in the common interest or in the interest of poor people, rather than a disabling one, which runs counter to those interests.

I suggest you ask yourselves the following questions: Do politicians in your country use government resources to strengthen their hold on power? Do public officials demand bribes before they allow access to government benefits? Do well-connected citizens use political influence to gain preferential access to public resources?

If the answer is yes, then you have a more immediate task before you: to transform your state from disabling to enabling. We have to transform ourselves before we can transform others.

One final question, that parliamentarians must answer: Do you think you are part of the solution, or are you part of the problem?