

## II. GLOBALIZATION AND ITS IMPACT

### II.1 Views and perceptions

Common ground

Africa

Arab world

Asia

Latin America and the Caribbean

Transition countries of Europe and Central Asia

Western Europe and North America

Business, labour and civil society

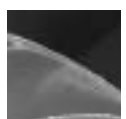
### II.2 Globalization: Its nature and impact

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## II.1 Views and perceptions

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Globalization  
from a wide range  
of perspectives

62. A key priority for the Commission was to see globalization from a wide range of perspectives, in regions throughout the world: how it had affected people's lives; what hopes, fears and concerns it had aroused; and what action people believe should be taken to expand its opportunities and reduce its insecurities.

63. To achieve this, we launched a wide-ranging programme of dialogues and consultations at national, regional and global levels. Participants included over 2000 decision-makers and social actors involved in globalization issues, among them government ministers and administrators, local politicians and parliamentarians, national leaders of workers' and employers' associations, representatives of civil society and religious leaders, organizations of women and indigenous peoples, academics and journalists.<sup>2</sup> The dialogues were designed to be interactive and participants exchanged ideas both among themselves and with Commissioners.

64. Although the participants were not intended to be representative of public opinion as a whole, these dialogues have helped us to see globalization through the eyes of people.<sup>3</sup> There was broad recognition of the benefits of globalization, but a clearly critical strand of opinion ran through the dialogues. We present this brief summary, not because we agree with everything that was said – indeed there were divergent or contradictory views among different participants – but because they help us understand the questions that are being posed, the concerns that are being expressed, the interests at stake, and the values and goals to which people sub-

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<sup>2</sup> Altogether some 26 national and regional dialogues were held. In addition to regional consultations for Africa, the Arab States, Asia, Europe, Latin America and the Caribbean, national dialogues and consultations were held in the following countries: Argentina, Brazil, Chile, China, Costa Rica, Egypt, Finland, Germany, India, Mexico, Philippines, Poland, Russia, Senegal, South Africa, Tanzania, Thailand, Uganda, the United States, and Uruguay. Nine special consultations were organized to hear the views of international business, labour, and civil society groups. More details are given in an annex to the Report. To supplement this information, we have also considered the results of some opinion polls carried out by other organizations.

<sup>3</sup> Full reports of the dialogues are available at: [www.ilo.org/wcsdg/consulta/index.htm](http://www.ilo.org/wcsdg/consulta/index.htm)

scribe. Above all they have underlined the importance of a better process of dialogue among different social actors if a fairer globalization is to be constructed.

#### Common ground

65. The views and perceptions of people depend on who they are, where they live and what they possess. But in the kaleidoscope of opinions that emerged from the dialogues there was also much common ground.

Kaleidoscope of opinions – but much common ground

66. From almost everywhere came a sense of the power of globalization, whether driven by technology, economics or politics. *“We were sleeping on the shore when a big wave came”*, said a participant in the dialogue in Egypt. Globalization could be frightening, stimulating, overwhelming, destructive or creative, depending on one’s point of view.

67. There was a widespread sense of instability and insecurity. In the Costa Rica dialogue a participant said, *“There is a growing feeling that we live in a world highly vulnerable to changes we cannot control; a growing sense of fragility among ordinary people, countries and entire regions”*. Unstable global financial systems had devastating effects. In all parts of the world there were voices calling for stronger systems of social protection and income security.

68. Another common concern was the impact of globalization on culture and identity. Some saw it as *“threatening traditional institutions such as the family and the school”*, or threatening the way of life of whole communities. Others saw benefits in overturning traditional ways and developing modern attitudes. There was frequent reference to the implications for gender equality, both positive and negative.

Impact of globalization on culture and identity

69. The one issue which came to the fore time and time again was employment and livelihoods. While people largely favour more openness and interconnection between societies, they are much less positive when asked about the impact on their jobs and incomes.<sup>4</sup> A participant in the Philippines dialogue said, *“There is no point to a globalization that reduces the price of a child’s shoes, but costs the father his job”*. There was frequent reference to the difficulties faced by small enterprises in taking advantage of globalization – and yet that is where most employment is created. The rural and informal economies remain on the margins, and the result is persistent poverty. Others were concerned with the loss of jobs as a result of industrial restructuring in the face of competitive global markets, and the downward pressures on conditions of work and workers’ rights – in Europe and North America as well as in middle-income and transition countries.

Employment and livelihoods

70. Since globalization is only one of many factors affecting people’s lives, the dialogues sparked broader debate on the role of the market in society and how the needs and aspirations of people can be expressed and met in their own communities. It was widely argued that progress was impeded by the unfair rules of the

Markets and global rules

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<sup>4</sup> Multi-country opinion polls reach similar conclusions. For example, an average 48% of people polled by Environics International in seven countries thought that globalization was good for quality of life and economic development, but only 38% thought the same about jobs and workers’ rights (full survey report in *Global Issues Monitor 2002*, Toronto, Environics International, May 2002). Another multi-country survey found that “people generally view the growth in foreign trade, global communication and international popular culture as good for them and their families” while at the same time finding that “many aspects of their lives – including some affected by globalization – are getting worse”, including “the availability of good-paying jobs”. (See *Views of a changing world*, Washington DC, the Pew Research Center for the People and the Press, June 2003, p.10.)

global economy. These were biased in favour of the rich and powerful and neglected the social impact of economic policies. The adverse effects were sometimes strikingly similar in different parts of the world. For instance, the damage done by agricultural subsidies was illustrated by identical complaints in the Brazil and Tanzania dialogues: that the import of European powdered milk was crowding out demand for their domestic milk, while at the same time introducing an inferior product.

71. However, fair rules do not automatically lead to a fair result. Efforts were needed to help those in a weaker position to *“jump on the bandwagon of development”*. The current agenda was considered to be too focused on trade and investment, and not enough on human rights and the environment, partly due to a “democratic deficit” at the international level.

72. There was widespread agreement on the need for a renewed role for the State, built on the rule of law and democratic institutions, and working in partnership with other social actors. While the concept of an all-embracing State has been discredited, globalization had weakened the State too much. In order to respond effectively to globalization the State needed to be able to develop national capacities, regulate economic activity, promote equity and fairness, provide essential public services and participate effectively in international negotiations.

Need for investment in education and skills

73. A recurring theme was that to take advantage of the opportunities of globalization, people and countries had to invest in education, skills and technological capabilities across the board. Education systems needed reform and illiteracy had to be tackled.

Migration and regional integration

74. Migration was another widespread concern, for countries of in-migration and out-migration alike. In many low-income countries there was criticism of the barriers to broad-based migration to industrialized countries, and concern about the “brain drain”, which undermined efforts to build national capabilities. Migrants from all regions, particularly women, were often driven into an illegal economy in countries of destination, leaving them vulnerable to exploitation. A fairer framework for the movement of people was essential, and in the European regional dialogue it was argued that *“any policy of restriction should be linked to a policy of trade liberalization and development cooperation”*.

75. In all parts of the world regional integration was seen as a route towards a fairer, more inclusive globalization. Countries are better able to manage the social and economic challenges of globalization by working together. That calls for better integration of social and economic policies in the process of regional integration, as has been the aim in the European Union (EU), the Southern African Development Community (SADC) and the Southern Cone Common Market (Mercosur), among others.

76. There were repeated expressions of support for the United Nations and the multilateral system as the best means of responding to the challenges of globalization.

“If globalization is a river, we must build dams to generate power”

77. One final area of common ground: most participants in the dialogues believed that solutions were possible, and many were already actively seeking or promoting them. Whatever the negatives of the present model of globalization, it was recognized that globalization is a reality, that it is necessary to adjust policy priorities to deal with it (*“the outside world can do without us; but we can’t do without it”*), and above all that answers can and must be found. A participant in the dialogue in Poland gave an analogy of a force which could be harnessed: *“If globalization is a river, we must build dams to generate power”*.

78. Beyond the common concerns and beliefs, there was much diversity as well. Without pretending to capture the richness of the discussions, we highlight below a range of perspectives from different regions of the world.

#### Africa

79. No one doubted that over the past 20 years of globalization, Africa has fared far worse than other regions. However, the extent to which globalization was to blame for Africa's problems remained a matter of debate. At best Africa felt bypassed, at worst abused and humiliated.

Africa fared worst

80. At one extreme, a contributor to the Senegal dialogue likened it to *"the re-colonization of our countries"*. Globalization was unwanted, foreign and forced on Africa.

81. Another contributor to the Senegal dialogue said the impact on African business was an *"unequal combat which would lead to certain death"*. According to a leader from civil society, Africa needed to *"develop a culture of resistance"* to globalization in order to avoid being reduced to the status of a *"beggar economy"*.

82. Elsewhere, participants in the dialogue in Uganda recognized that globalization could lead to greater democracy, education and employment. As the regional dialogue made clear, whatever the impact of globalization on the continent, people did not believe that Africa could advance by isolating itself from the process.

83. The strong critical sentiment prevailing at the dialogues was explained by the long list of negatives which participants attributed to the current pattern of globalization. High on the list was rich nations' farm and tariff policies. Mali had no reason to respect the trade rules when one of its few competitive exports, cotton, was being undercut by subsidies. Western tariffs continued to discriminate against local processing of commodities, making producers hostage to the declining price of raw materials. The price of unprocessed coffee was the lowest in history, said a participant in the dialogue in Tanzania, but there had been no drop in the price of a cup of coffee in New York, Tokyo or Geneva.

Unfair rules, foreign debt, HIV/AIDS, poverty and migration major concerns

84. Frustration with the policies of the leading international organizations proved a common theme. African negotiators lacked the resources and information needed to promote their interests at the WTO. The International Monetary Fund (IMF) and the World Bank were described as arrogant, ignorant of local conditions, and applying "one-size-fits-all" policies. They imposed tight fiscal policies which cut down funds for education and social spending. Little of the foreign investment which was promised to follow liberalization had materialized. Above all, the foreign debt overhang was crippling despite the efforts of even the best-run governments.

85. HIV/AIDS, poverty and migration were high on the African agenda. Of special concern were the high costs of patented drugs for HIV/AIDS and other diseases. At the same time, migration and HIV/AIDS were draining Africa's already meagre supply of skilled workers.

86. But Africans did not just blame others for their problems. They too felt responsible for failures to build trade, integrate with other economies and benefit from the positive aspects of globalization. They recognized that economic regression was often caused by poor governance as much as outside influences. Meanwhile, scarce fiscal resources were wasted on armaments and devastating

conflicts. Although many trade and other regional cooperation agreements existed on paper, there was a lack of political will, or of physical infrastructure, to make them work. Nevertheless, regional integration could be an effective vehicle for integrating Africa into the global economy. Much had to be done to create the conditions for reducing poverty. Local initiatives and “*African solutions for African problems*” were best. However, outside help was very important to ensure that Africa was included in global progress.

#### Arab world

Oil exports and migration colour perceptions

87. In the Arab world, perceptions of globalization were overshadowed by war and the continuing Arab-Israeli conflict. Perceptions were conditioned by two factors: the current pattern of integration with the rest of the world, dominated by oil exports and migration, and the fears for the impact of globalization on cultural identity and local traditions.

88. Oil was seen as a mixed blessing. While it funded infrastructure projects and had permitted a large increase in both public and private consumption, it had also undermined the growth of local industry and agriculture and had increased inequality within and across the countries of the region. The rich states had come to rely on imported workers from both within and beyond the Arab world. The global importance of oil had encouraged political interference from outside forces.

89. Many people in the region associated globalization with the intrusion by foreign powers into their economic and political affairs, which undermined sovereignty and encouraged wasteful military expenditure. Some also felt that Western interests failed to adequately support democratization in the region for fear of the popularity of political Islam or in order to maintain the existing regime in the oil sector. Such feelings were exacerbated by the plight of the Palestinians and by the many worries about the impact of Western media and Western values. There was also widespread concern about the possible loss of jobs that could result from the liberalization of trade and investment and competition from developing countries with lower labour costs.

90. Others argued that economic modernization through globalization was the path to greater strength and the ending of dependence on foreign powers. Opinion surveys show growing support for regional integration, both among Arab countries and with Europe. This could be a conduit for reaping some of globalization’s benefits and resisting competition from low-cost producers from Asia.

#### Asia

Benefits for some but not for all

91. The Asian dialogues underscored the diversity of the continent. Most participants saw globalization working selectively: beneficial for some countries and people, but not for others. The most impressive gain had been in the poverty reduction associated with the opening up of China and India. Yet some 1 billion people in the region had hardly seen any reward. The process had to be managed to make it more inclusive.

92. The dialogue in China emphasized that the opportunities and benefits of globalization outweighed the risks. Globalization had spurred economic growth and industrial productivity, and had helped China come to grips with the country’s major challenge: employment. But it had also undermined traditional livelihoods in agriculture, changed the traditional social security system and increased rural-

urban and intra-regional inequalities. Some multinational investment was exacerbating environmental degradation and generated pressures for cheaper and more flexible labour in order to retain competitiveness. As consumers, people in China appreciated low prices and quality goods and services, but as workers they wished for better and more secure job opportunities.

93. In India, the message was more mixed. There had been winners and losers. The lives of the educated and the rich had been enriched by globalization. The information technology (IT) sector was a particular beneficiary. But the benefits had not yet reached the majority, and new risks had cropped up for the losers – the socially deprived and the rural poor. Significant numbers of “non-perennial” poor, who had worked hard to escape poverty, were finding their gains reversed. Participants at the dialogue feared that globalization could erode values such as democracy and social justice. Power was shifting from elected local institutions to unaccountable transnational bodies. Western perceptions, which dominated global media, were not aligned with local perspectives; they encouraged consumerism in the midst of extreme poverty and posed a threat to cultural and linguistic diversity.

94. Elsewhere, as the Philippines dialogue emphasized, the experience of globalization was often of *“much talk of markets, but in reality very little access, much talk of jobs, but they were somewhere else, and much talk of a better life, but for others”*. One major reason was the lack of a level playing field, as industrialized country protectionism denied to others the very route that they themselves had used to grow. China’s perceived success in attracting foreign direct investment (FDI) was also perceived as a threat, although participants in the Chinese dialogue rejected the notion that China was leading a “race to the bottom”. In the Philippines dialogue, indigenous peoples highlighted the increasing conflict between their communities and mining corporations because of the liberalization of mining investments.

95. The economic volatility of globalizing countries was a key issue at the regional dialogue. A Thai participant described the violent reversal of capital flows during the Asian crisis as a *“punishment out of proportion to the sins committed”*. Capital market reforms were needed but there had to be prudent sequencing of liberalization and adequate social protection. Japanese participants emphasized that regional cooperation in trade and finance could increase stability.

Economic  
volatility

96. A more liberal regime was also necessary to cope with the growing movement of people across national borders. Trafficking of women and children constituted one of the grossest abuses of human rights and required concerted action.

#### Latin America and the Caribbean

97. The Latin American dialogues occurred at a time of crisis in the region as the economic problems of Argentina spilled over to its neighbours. Consequently, many were quite sceptical of the benefits of increased global trade and interaction.

98. On the whole, however, the dialogues showed a more nuanced attitude. While globalization needed reform to take account of people’s needs, the region also needed reform to take advantage of globalization. The people and societies of the region should be at the centre of efforts to create a more *“humane”* globalization. The dialogue in Brazil highlighted the elimination of hunger, universal education and decent work as the key items in the new agenda, to counterbalance the aspects of trade, finance and technology which had been in the ascendant so far.

Globalization  
linked to spread  
of democracy

99. The challenge of globalization had to be seized. On a positive note, it was associated with the spread of democracy in the region and with growing public awareness of issues such as gender inequality, human rights and sustainable development. The “smaller” global world of today was making the cross-fertilization and circulation of ideas much easier. As noted by the participants in the dialogue in Chile, it was helping to shape a new global ethic based on universal values and principles shared by people all over the world. The challenge now was how to put the emerging rights agenda into practice.

100. For many, globalization was not delivering on its promises, and particularly not delivering decent work.<sup>5</sup> *“Workers can hardly trust the current model of globalization when they see every day a growth of the informal economy, a decline in social protection and the imposition of an authoritarian workplace culture”*, said a trade union leader. But even in a country as successful as Costa Rica the participants in the dialogue felt that the majority of citizens, regardless of their income level or social status, perceived more threats than opportunities in globalization. Unstable global financial markets, in particular, had had disastrous social consequences in many countries, due both to inadequate government policies and to poor understanding of local conditions by the IMF and foreign banks. The middle classes in Argentina and Uruguay had been hit particularly hard.

Calls for renewed  
role for the State

101. From many quarters came a call for a renewed role for the State. As the Prime Minister of Barbados said at the dialogue of Caribbean States, *“we cannot leave people-focused development to the serendipity of market forces. Rather than retreat, the State must forge new smart partnerships with the private sector and the institutions of civil society”*. This was echoed at the regional dialogue in Lima. It included more efficient public services but also a harmonious relationship between the private sector as generator of wealth and employment and the public sector as promoter of a competitive environment. Competitiveness needed to be enhanced by investment and human capital development, not by lowering wages or raising protective tariffs. Throughout this region, there was a particular need for policies to favour small and medium-sized enterprises and to oppose the informalization of the economy.

102. Migration had become an important issue throughout the whole region, from Mexico – where one worker in five was living abroad – to Argentina, where many young people with skills were moving to countries from which their grandparents had migrated in search of prosperity.

103. Much hope was placed on regional integration as a route to social and political goals. Integration within Mercosur in particular could be deepened. Wide-ranging regional institutions were already in place in the Caribbean, which needed to be strengthened. Regional solidarity could also be a means for the region as a whole to actively engage in the construction of globalization.

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<sup>5</sup> According to a survey by Latinobarómetro (Santiago, Chile) in 2002, over 40 per cent of people in Latin America rated unemployment, labour market instability or low wages as their most important problem. The same survey indicated that a majority of respondents considered that government economic policies are responsible for the problems, while 22 per cent blamed globalization and 23 per cent the IMF (special tabulations from the regular Latinobarómetro survey. See [www.latinobarometro.org](http://www.latinobarometro.org)).



## Transition countries of Europe and Central Asia

104. The painful social upheavals of the transition from communism in the former Soviet Union and Eastern Europe were generally not blamed on globalization *per se*. Participants at the dialogues were wary of the pitfalls of globalization, but reluctant to return to the old, closed systems. They were acutely aware of the costs of change, particularly when there were no new social safety nets to replace the ones which had been discarded.

High costs of change ... but engagement with globalization inevitable

105. Few countries have taken better advantage of the new possibilities of engaging with the globalized world than Poland. Its experience in moving gradually towards the EU was a good illustration of how regional cooperation was a path towards beneficial integration in the global economy. But *“no matter how strongly involved in the mainstream of globalization we are”*, said the Polish Finance Minister, *“there is always an opportunity and an obligation to pursue a national policy of socio-economic development”*. Poland’s communist past left it with a strong sense of State obligations to society. And despite the many benefits of change, people were frustrated by continuing high levels of unemployment and the problems involved in restructuring old industries and the large farm sector. In Lodz, the country’s largest textile manufacturing centre, nearly 100,000 workers – mainly women – had lost their jobs because of competition from Asia.

106. The dialogue in Russia underscored the opportunities and challenges of globalization: increased investment flows, expanded export markets, and new possibilities to achieve higher growth and better standards of living. However, many adjustments were still needed, and a just distribution of both the costs and benefits of reform was important. The social costs of Russia’s accession to the WTO had to be minimized, and there was need for improvement and enforcement of labour legislation, greater employment generation and reform of the educational system.

107. National culture and diversity had to be protected from globalization. Of particular concern was the failure of multinational enterprises to respect the law and labour standards. Migration was another serious problem – both the exodus of skilled workers due to poor local conditions, and illegal movements. Despite these concerns, the participants saw engagement with globalization as an inevitable process, while emphasizing the need to direct it in a more socially responsible manner.

## Western Europe and North America

108. The greater international competition induced by trade and capital liberalization was blamed for increased income disparities within industrialized countries, placing particular strain on low-skilled work in older industries, the first to be transferred to lower-cost countries. However, the export of jobs due to globalization was only one of several causes of unemployment. Of greater concern to the participants in the dialogue in Germany was the effect of capital mobility on fiscal policy. International tax competition, it was claimed, was imposing severe limits on the financing of the welfare state.<sup>6</sup>

109. Throughout Europe, migration was a critical issue. People reacted strongly, often with unpredictable political consequences. However, this issue had to be

<sup>6</sup> Similar concerns were echoed in the report of the Flemish Commission on the Social Dimension of Globalization; see [www.ilo.org/wcsdg/consulta/flemish/index.htm](http://www.ilo.org/wcsdg/consulta/flemish/index.htm)

addressed in the context of Europe's ageing population and of the social cohesion which is at the heart of the European social system.

Response to the pressures of globalization on social policy

110. Europe was constructing a social model which some believed could to a certain extent be replicated elsewhere. The dialogue in Finland gave one example of how integrated economic and social policies and a partnership approach had been instrumental in building a modern and competitive information society. The construction of the EU itself was an expression of that same model and, at the same time, a response to the pressures of globalization. Though a unique historical process, it contained elements that could inspire better, more inclusive management of the global economy.

111. The dialogues suggested that Europeans were in principle sympathetic to many developing country complaints about the pattern of globalization. It was acknowledged that the rules of globalization were set by the industrialized world and that if globalization was to become more inclusive the developing world should have a much bigger say. The importance of granting more development assistance to the poorest countries was generally recognized. The negative impact of the Common Agricultural Policy on the developing world was also recognized by some, but it was clear that there were political obstacles to reform.

112. There is an enormous amount of information on the perceived impact of globalization in the United States, with sometimes contradictory findings. Some recent major surveys report generally strongly positive attitudes to globalization accompanied by concern about jobs. Recent academic research found objections among a significant group of American voters to further exposure to globalization.<sup>7</sup> This study showed that perceptions of globalization were more positive the higher the level of education and skills.

113. Some limited focus group consultations were also held in the United States in the course of the Commission's work. Those consulted had little doubt that the world economy had changed radically over the past 20 years. Globalization was putting new pressures on companies to be more competitive, squeezing wages and leading to corporate mergers. Some domestic jobs had moved to other countries, but in general the process was leading to greater wealth and well-being. The United States itself was seen as the main driver of globalization, and this was regarded positively. However, it was recognized that there were also adverse effects. These included impact on the environment and the marginalization of those countries in Africa and the Middle East that were unable or unwilling to participate.

Need for better governance at all levels

114. Views were divided on whether globalization would continue or be impeded by rising nationalism. There was a need for international organizations, official and otherwise, to help guide the process. These included the IMF, the United Nations, the World Bank, the WTO, the ILO and other specialized agencies as well as business, trade unions, churches and NGOs. There was also a need for better governance at all levels.

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<sup>7</sup> Kenneth F. Scheve, and Matthew J. Slaughter: *Globalization and the Perceptions of American Workers* (Washington DC, Institute for International Economics, March 2001).

## Business, labour and civil society

115. In the Commission's dialogues with business, chief executive officers did not see themselves as the main drivers of globalization. Business did not create globalization, but reacted to it, they said. For some enterprises the task was especially difficult. Businesses from poor countries and small enterprises everywhere found it hard to manage global competition without public support. For bigger firms, in the global environment *"the key to effectiveness is in the management of diversity"* – of markets, suppliers and workforce.

116. Business leaders also rejected the notion that they were imposing single models across their operations worldwide: *"The more we become global, the more we operate locally"*, said one participant. Business might even act as a two-way channel, transferring new technology to the South while at the same time bringing home awareness of the problems and concerns of developing countries.

117. A key issue for the social dimension of globalization was to achieve a better spread of FDI. This meant creating stable and corruption-free environments that would encourage long-term business commitment.

118. Predictable rules and an agreed framework of values were essential for markets to operate well. Governments had the overall responsibility to ensure that agreed rules were respected. But excessive regulatory zeal was undesirable when markets could correct many disturbances automatically. *"We need more dialogue and change in behaviour; not more rules and regulations."* The importance of respect for values was underlined. Progressive business is strongly committed to voluntary social responsibility. Good corporate citizenship was increasingly important for business development.

Predictable rules and agreed framework of values

119. Yet the dialogue the Commission had with the World Economic Forum at Davos revealed that business confidence had been undermined by corporate scandals. There was concern about a possible backlash to globalization and its harmful effects. It was also felt that a dialogue with the World Social Forum could bring benefits to both sides.

120. Participants in the Commission's dialogue with trade unions considered that the economic base of developing countries was being progressively eroded by the policies of industrialized countries, the International Financial Institutions (IFIs) and the WTO. They were concerned by a continued emphasis on privatization of utilities such as water, electricity and health services that was exacerbating poverty. They were also concerned that the exploitation of women workers in Export Processing Zones (EPZs) had expanded dramatically. This included low wages, intimidation of workers trying to organize themselves, violence and sexual harassment.

121. It was especially important to ensure respect for workers' rights and labour standards in the global economy. Trade union leaders thought the ILO could play a leading role, working in greater cooperation with other international organizations, including the IFIs and the WTO, national governments and employers' and workers' organizations.

Workers' rights and labour standards must be protected

122. Union leaders in industrialized countries maintained that dissatisfaction with corporate governance had reached a crisis point. It was *"time to save corporations from themselves"*. Deregulation and the emphasis on shareholder value had gone too far. Increased global competition encouraged employers to play *"fast and loose with labour practices"*, including the replacement of decent employment with insecure informal, casual and contract work. For many corporations,

voluntary corporate social responsibility was simply “*an attempt at a public relations repair job*”, without any real effect on mainstream business operations.

123. What was required was a global system of industrial relations including global works councils, social audits of companies, and mechanisms to monitor and verify the implementation of codes of conduct adopted by multinational companies.

124. Civil society groups were likewise concerned that corporate and financial interests dominated the pattern of globalization, and that there was insufficient accountability. The negative effect of extractive industries on indigenous peoples, local communities and environments was a common theme. Another was the adverse impact of international rules for intellectual property rights, which open the door to the privatization of indigenous knowledge. Many denounced a rise in the political influence of corporations, including through a marked concentration of private ownership of the media.

Critique of the economic model

125. This was part of a broader critique of an economic model which was imposed on countries, notably through the conditionality of the IFIs. It was evident in the WTO, which promoted a paradigm of competition in which the weak have to compete with the strong. “*A conversation between a cat and a mouse is not a conversation.*” It led to the neglect of social and environmental goals, and so to an unsustainable pattern of growth which imposed high costs on people and communities. “*It is*”, said one participant, “*a deeply undemocratic and disempowering system.*”

126. Civil Society Organizations (CSOs) are diverse in their interests, their action and in the level and focus of their anger, but few reject the idea of a more interconnected world. For many the goal is rather to change the principles on which the global economy works. The slogan of the World Social Forum is “another world is possible”.

Emphasis on human rights and respect for values

127. Many CSOs put great emphasis on human rights and respect for values such as fairness, solidarity and gender equality. They see pervasive double standards in the gap between the rhetoric and the behaviour of many global actors. Policy proposals include making all actions of international organizations subject to a prior review of their consistency with universal human rights. Another widespread demand is a comprehensive solution to the debt crisis, preferably through simple debt cancellation.

128. There was frustration at the failure to deliver on the commitments made by the Member States at UN fora over recent decades. Some believed there had been a systematic effort to sideline the United Nations on issues of economic justice, peace and development, and called for it to be given greater authority over international economic and other policies. They stressed their concern at the apparent weakening of multilateral solutions and multilateral approaches to the problems of globalization, a concern that was echoed in many other dialogues.

129. A critical part of the solution, it was widely argued, lies in giving voice to the voiceless. A wider, more participative and democratic framework was needed at all levels: local, national and global. Women are still under-represented in most policy-making bodies. Many CSOs argued that public policies and economic systems must reflect local needs and local decisions. At the same time, there must be greater democracy in the functioning of the multilateral system, and particularly the Bretton Woods organizations and the WTO.

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130. Overall, we found much encouragement for our work from the programme of dialogues and consultations in different regions. While there are many differences of view, there is also a shared belief that globalization can and must serve the needs and aspirations of people and communities everywhere. To achieve that, correctives are urgently needed at the local, national and international levels. As one participant said, *“We stand at a dramatic equilibrium between the best and the worst that could happen in the next decades”*. The dialogues underlined how we, as a global community, share a common fate, and reminded us that this fate lies in our hands.

## II.2 Globalization: Its nature and impact

Introduction

Key characteristics of globalization

The institutional context

The impact of globalization

Key  
characteristics  
and enabling  
conditions

Introduction

131. Globalization is a complex phenomenon that has had far-reaching effects. Not surprisingly, therefore, the term “globalization” has acquired many emotive connotations and become a hotly contested issue in current political discourse. At one extreme, globalization is seen as an irresistible and benign force for delivering economic prosperity to people throughout the world. At the other, it is blamed as a source of all contemporary ills.<sup>8</sup>

132. Nevertheless, it is widely accepted that the key characteristics of globalization have been the liberalization of international trade, the expansion of FDI, and the emergence of massive cross-border financial flows. This resulted in increased competition in global markets. It is also widely acknowledged that this has come about through the combined effect of two underlying factors: policy decisions to reduce national barriers to international economic transactions and the impact of new technology, especially in the sphere of information and communications. These developments created the enabling conditions for the onset of globalization.

133. The effects of the new technology have also given a distinctive character to the current process of globalization, as compared to similar episodes in the past. The natural barriers of time and space have been vastly reduced. The cost of moving information, people, goods and capital across the globe has fallen dramatically, while global communication is cheap and instantaneous and becoming ever more so. This has vastly expanded the feasibility of economic transactions across the world. Markets can now be global in scope and encompass an expanding range of goods and services.

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<sup>8</sup> The term globalization did not become popular until the 1990s. The final report of the Study Commission of the German Bundestag, *Globalization of the World Economy: Challenges and Answers* (14th legislative period, June 2002) notes that the number of times the word globalization was used in a major German newspaper, the *Frankfurter Allgemeine Zeitung*, increased from 34 in 1993 to 1,136 in 2001.

134. Another distinctive feature of the current process of globalization relates to what is conspicuously absent. Unlike earlier episodes of globalization that were characterized by massive cross-border movements of people, the current process largely excludes this. While goods, firms and money are largely free to criss-cross borders, people are not.

Goods, firms and money are largely free to criss-cross borders – but people are not

135. In this section, we highlight the salient features of the evolution of globalization, outline the emerging institutional framework governing it, and finally assess the impact this process has had on countries and people.

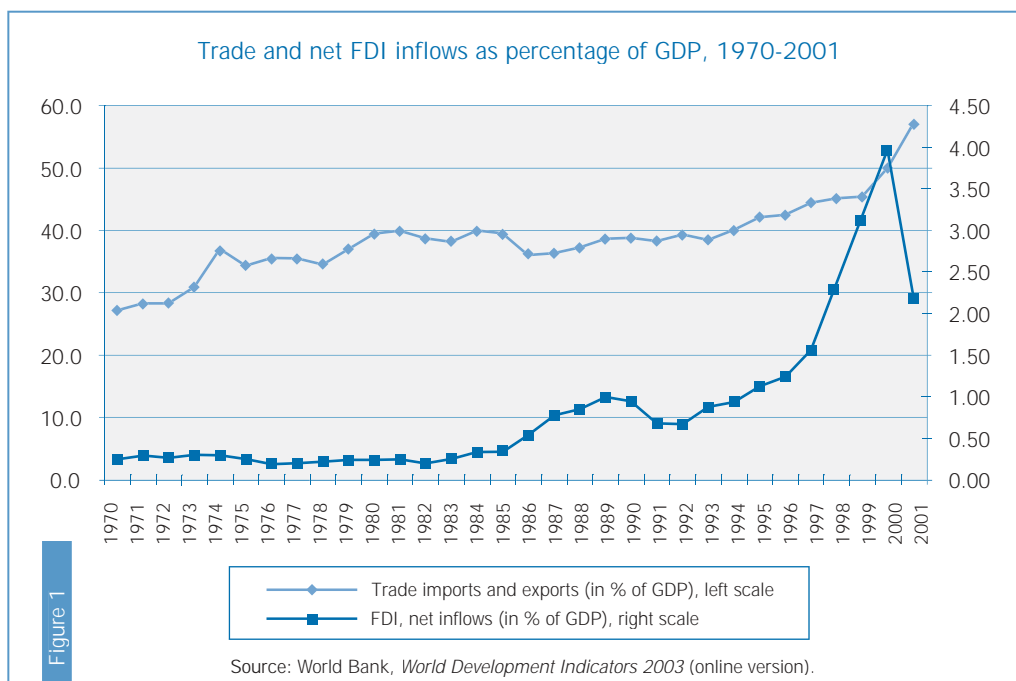
### Key characteristics of globalization

136. The basic trends with respect to world trade, FDI, financial flows and technology are shown in figures 1 to 9.

#### Trade

137. World trade has expanded rapidly over the past two decades. Since 1986, it has consistently grown significantly faster than world gross domestic product (GDP) (figure 1). Throughout the 1970s, trade liberalization within the framework of the General Agreement on Tariffs and Trade (GATT) was modest and gradual, and involved the industrialized countries much more than it did the developing ones. However, from the early 1980s onwards, the extent of trade liberalization, especially in the developing countries, began to accelerate (figure 2).

138. This trade expansion did not occur uniformly across all countries, with the industrialized countries and a group of 12 developing countries accounting for the lion's share. In contrast, the majority of developing countries did not experience significant trade expansion (figure 3). Indeed, most of the Least-Developed Countries (LDCs), a group that includes most of the countries in sub-Saharan Africa, experienced a proportional decline in their share of world markets – despite the fact that many of these countries had implemented trade liberalization measures.



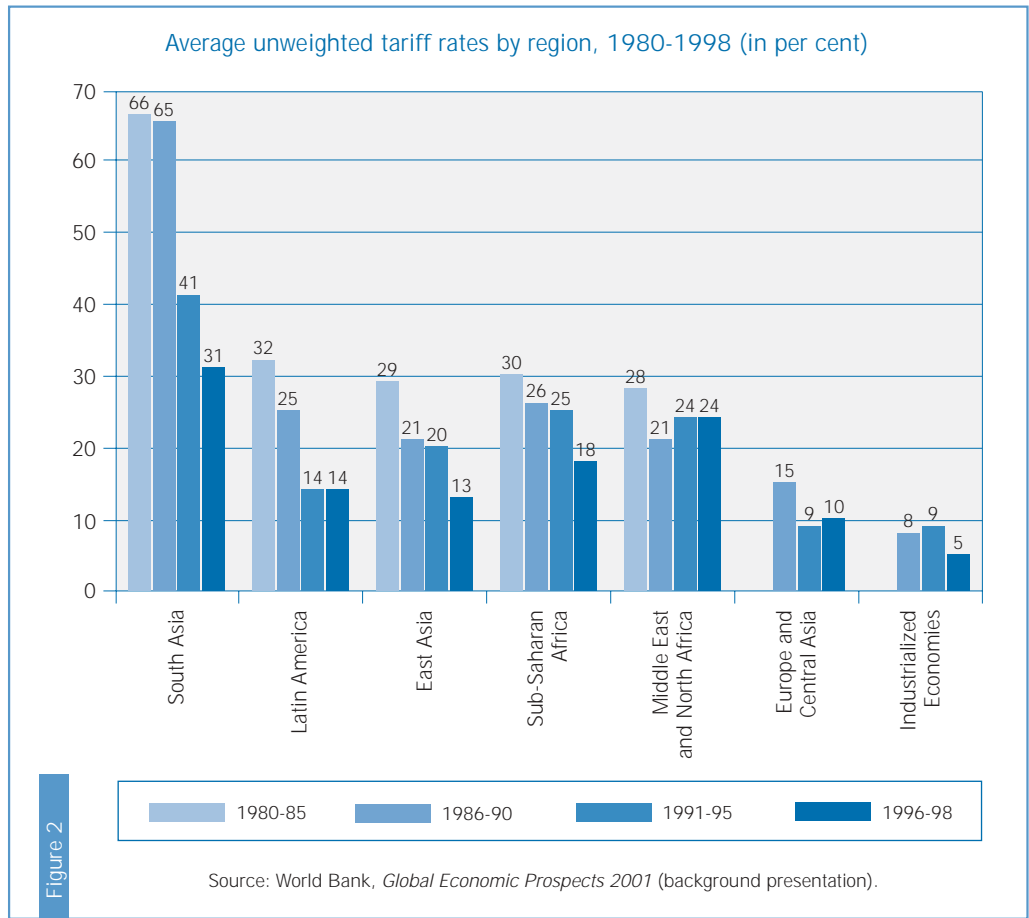


Figure 2

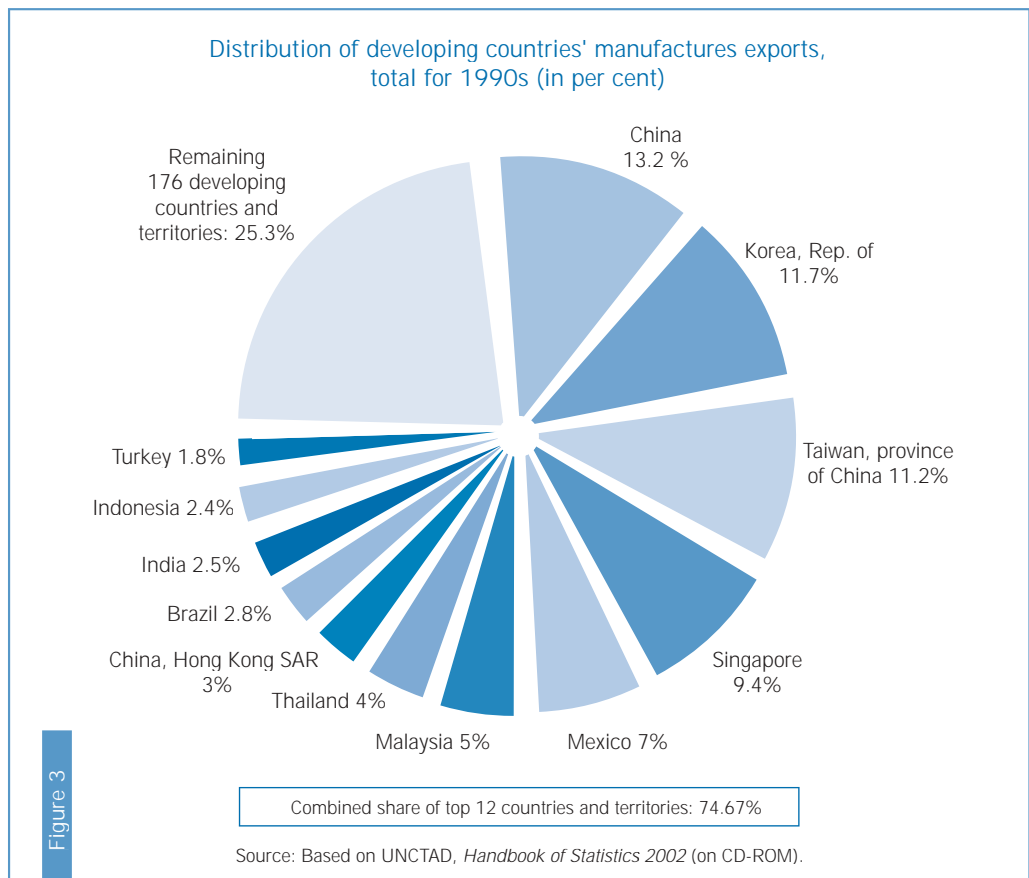


Figure 3



## *Foreign Direct Investment*

139. During the early 1980s, FDI accelerated, both absolutely and as a percentage of GDP (figures 1 and 4). Since 1980, the policy environment worldwide has been far more conducive to the growth of FDI. Over the 1990s, the number of countries adopting significant liberalization measures towards FDI increased steadily (figure 5). Indeed, there are only a few countries that do not actively seek to attract FDI. However, many of these hopes have not been fulfilled. Despite the rapid growth of FDI flows to developing countries, investment remains highly concentrated in about ten of these countries (figure 6).

140. Apart from their increased volume, the nature of these investments has also changed. The information and communications technology (ICT) revolution, coupled with declining transport costs, made the growth of far-flung, multi-country based production of goods and services both technically and economically feasible. Production processes could be unbundled and located across the globe to exploit economic advantages arising from differences in costs, factor availabilities and the congeniality of the investment climate. Components and parts can easily be trans-shipped across the world and assembled at will. The communications revolution has made feasible the coordination and control of these dispersed production systems.

## *Financial flows*

141. The most dramatic element of globalization over the past two decades has been the rapid integration of financial markets. The Bretton Woods system, created after the Second World War, rested on the foundation of closed capital accounts and fixed exchange rates. Thus, in contrast to trade and FDI where gradual liberalization had been initiated, financial globalization was not even on the policy agenda at the time. The world lived with a system of separate national financial markets.

Rapid integration of financial markets

142. This began to change in 1973 with the breakdown of the Bretton Woods system. But there was no immediate rush to capital account liberalization. This began in the industrialized countries only in the early 1980s, with a subsequent increase in capital flows among them.

143. As has been pointed out, “the world monetary system underwent three revolutions all at once: deregulation, internationalization, and innovation.”<sup>9</sup> Financial liberalization created the policy environment for expanded capital mobility. But the increase in capital flows was greatly boosted by the revolution in ICT. This made possible the improved and speedier knowledge of foreign markets, the development of “round the world and round the clock” financial transactions, and the emergence of new financial instruments, especially derivatives.

144. Since the late 1980s there has been a global trend towards financial liberalization. This ranged from relatively simple steps such as the unification of exchange rates and the removal of controls over the allocation of credit in the domestic market to full-blown liberalization of the financial sector that included the opening up of capital accounts. Within the developing world, the latter type of reform was initially confined to a group of middle-income countries with a

Emerging markets gained most from growth in North-South investments

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<sup>9</sup> Philip Turner: “Capital Flows in the 1980s: A Survey of Major Trends”, *BIS Economic Papers No.30* (Basle, Bank for International Settlements, April 1991).

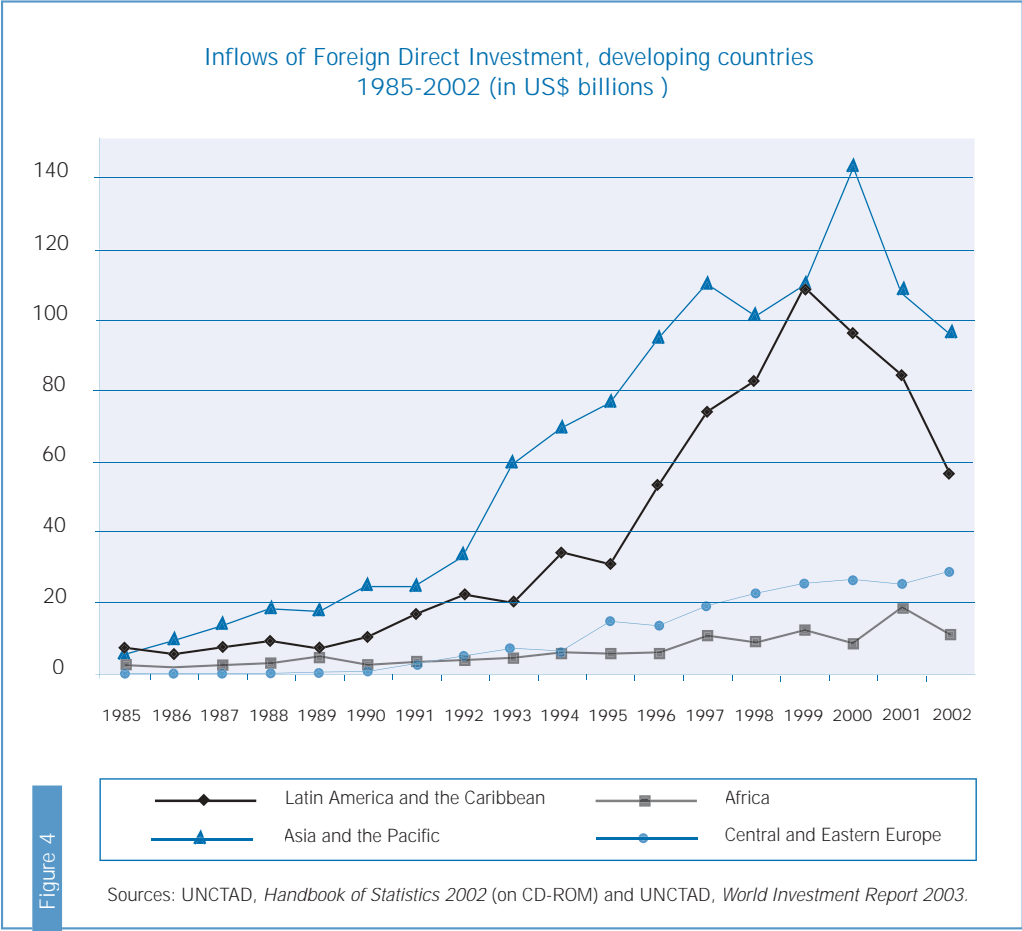


Figure 4

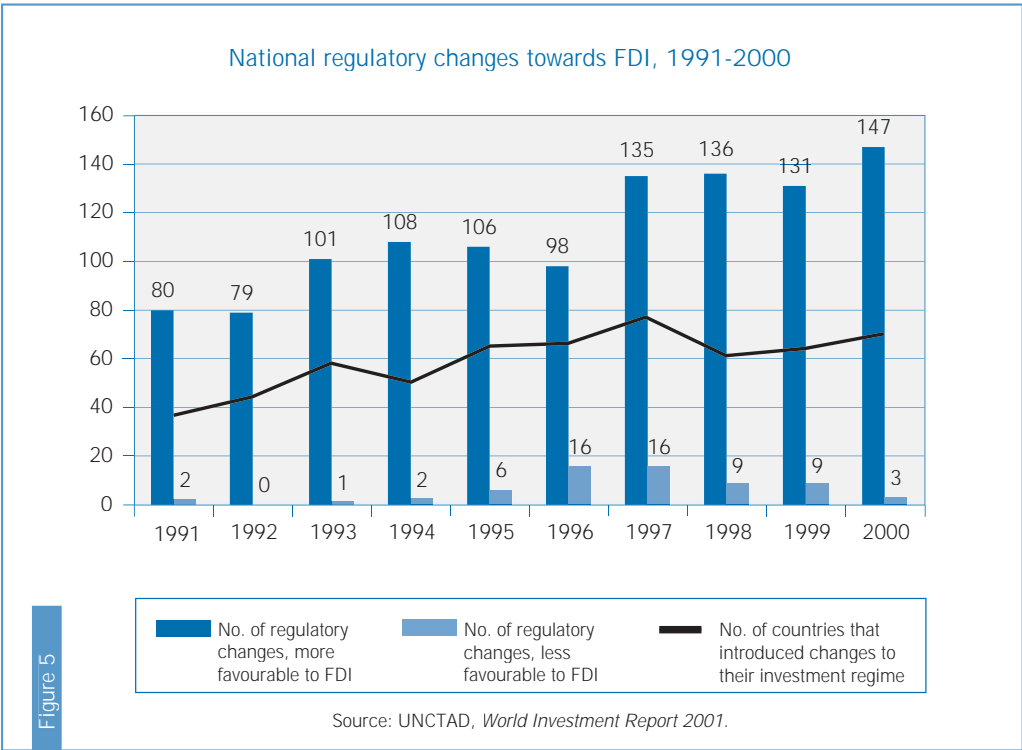


Figure 5

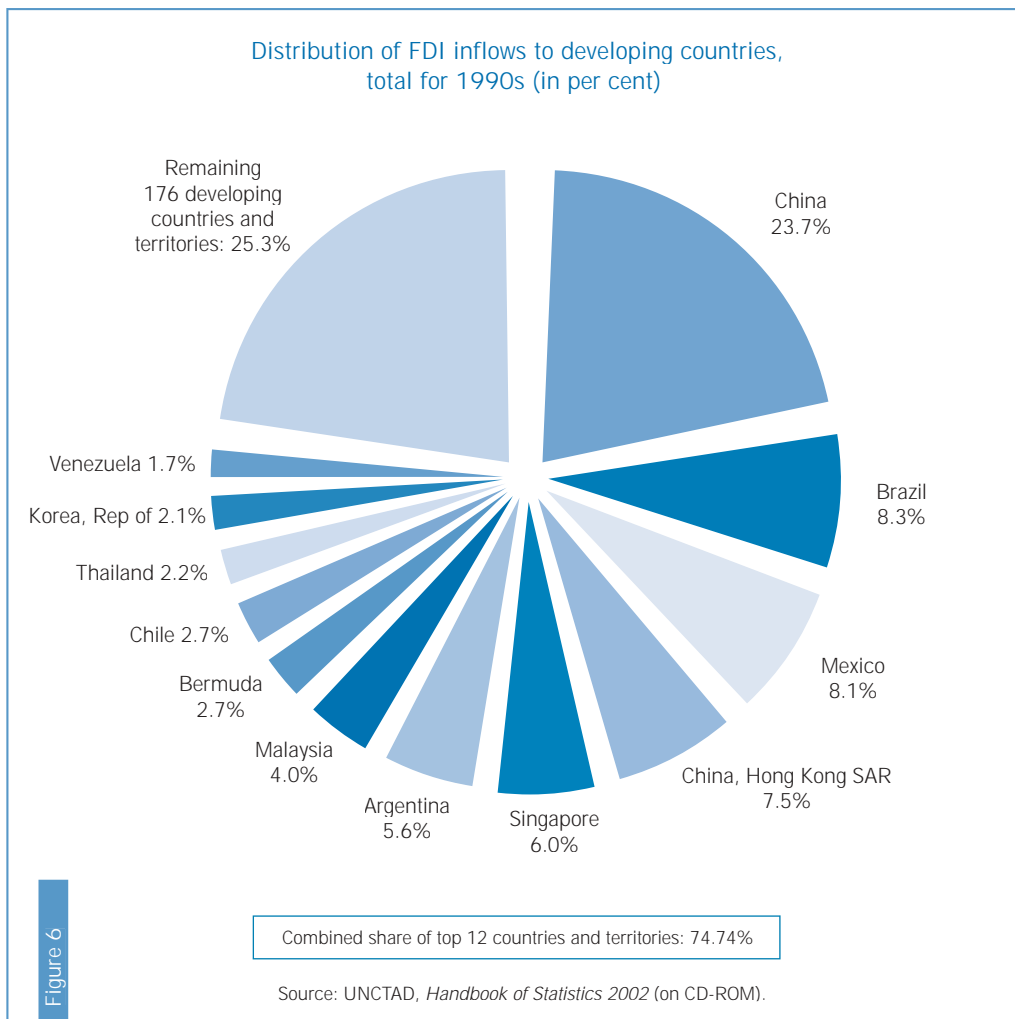


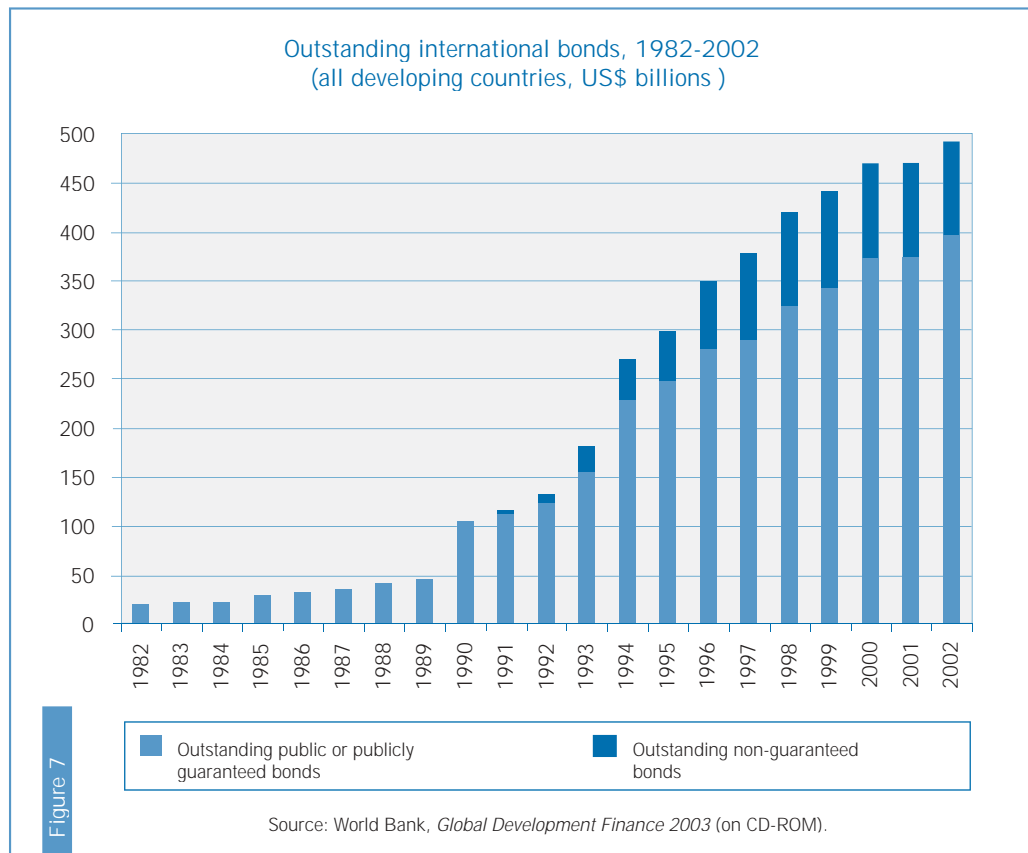
Figure 6

relatively greater range of institutions of financial intermediation that included bond and equity markets. The action in terms of the explosive growth in private financial flows from North to South was concentrated in these “emerging markets”.

145. These flows consisted of elements such as investments in the equity markets of these countries by investment funds (a major part of which was on behalf of pension funds), bank lending to the corporate sector, and short-term speculative flows, especially into currency markets. Lending through the international bond market also increased in the 1990s in the wake of financial globalization (figure 7).

### Technology

146. The industrialized countries were the source of the technological revolution that facilitated globalization but that revolution has also had ripple effects on the rest of the global economy. At one level, the new technology changed international comparative advantage by making knowledge an important factor of production. The knowledge-intensive and high-tech industries are the fastest-growing sectors in the global economy and successful economic development will eventually require that countries become able to enter and compete in these sectors. This implies that they will have to emphasize investments in education, training and the diffusion of knowledge.



Serious North-South imbalances in access to knowledge and technology

147. There have also been more direct impacts through the diffusion of these new technologies to developing countries. This has occurred principally, though not exclusively, through the activities of multinational enterprises (MNEs). However, as in the case of trade and FDI, there are serious North-South imbalances in access to knowledge and technology. Almost all the new technology originates in the North, where most research and development occurs. This is an important source of the dominance of MNEs in the global markets, and of their bargaining strength vis-à-vis developing country governments.

148. The effects of this new technology have also spread well beyond the realm of the economic, expanded though this now is. The same technology that enabled rapid economic globalization has also been exploited for general use by governments, civil society and individuals. With the spread of the Internet, e-mail, low-cost international phone services, mobile phones and electronic conferencing, the world has become more interconnected (figures 8 and 9). A vast and rapidly growing stock of information, ranging from science to trivia, can now be accessed from any location in the world connected to the Internet. This can be transmitted and discussed just as easily. At the same time, satellite television and the electronic press have created a veritable global fourth estate.

#### *Inter-relationships*

149. These changes in trade, FDI, financial flows and technological diffusion are increasingly part of a new systemic whole. An underlying common factor is that all these elements necessarily evolved in the context of increasing economic openness and the growing influence of global market forces. This is a profound change, affecting the role of the State and the behaviour of economic agents.

Estimates of Internet access, 1997-2002 (millions of Internet users)

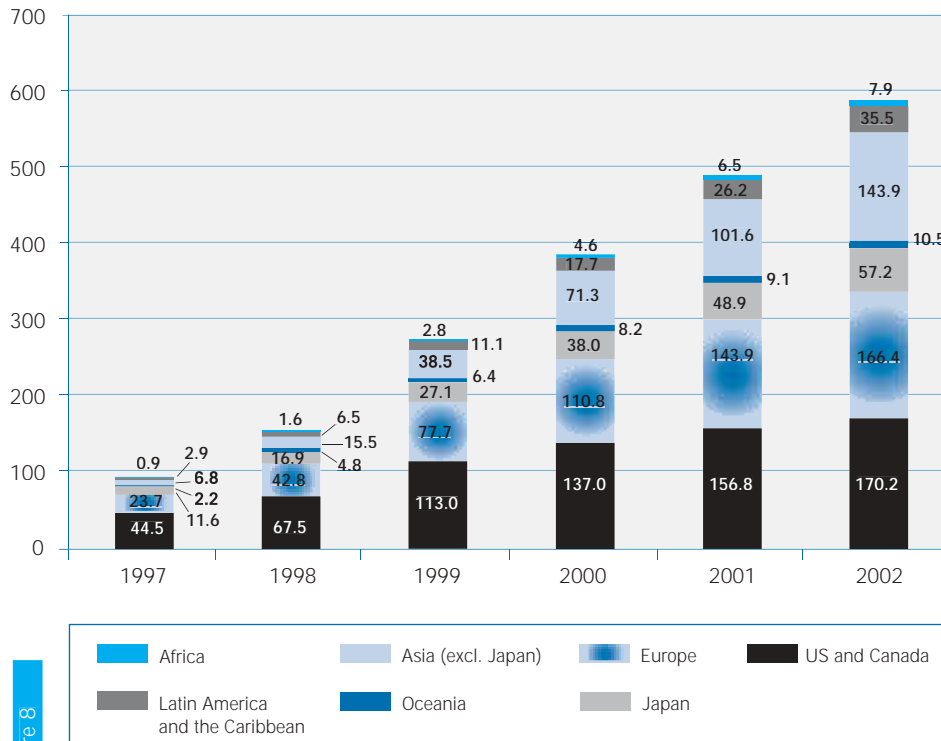


Figure 8

Source: International Telecommunications Union (ITU).

Cost and volume of international telephone calls from the US, 1960-2000 (cost in constant 1995 US\$ per 3 minutes, peak rate)

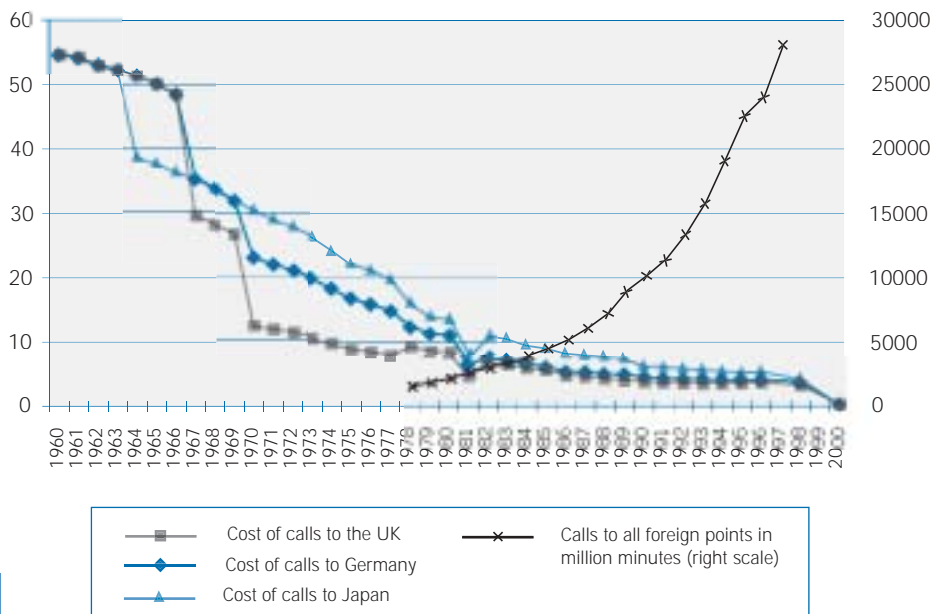


Figure 9

Sources: Based on Federal Communications Commission, *Trends in the U.S. International Telecommunications Industry 1997*; OECD, *Communications Outlook* (various years) and World Bank, *World Development Indicators 2003* (online version).

150. Trade and FDI have become more closely intertwined as the global production system increasingly shapes patterns of trade, especially through the rapid growth of intra-firm trade in components. The MNEs are now estimated to account for two-thirds of world trade while intra-firm trade between MNEs and affiliates accounts for about one-third of world exports. At the same time, trade in components and intermediate goods has increased. The qualitative changes in the structure of world trade – specifically an increase in the trade in components and intermediate inputs – are perhaps as significant as the quantitative increase in trade. At the same time, portfolio investments and other financial flows have become an increasingly important determinant of the macroeconomic environment that shapes patterns of trade and investment in the real economy. Similarly, the diffusion of new technology has also had a profound effect on comparative advantage, the competitiveness of enterprises, the demand for labour, work organization and the nature of the employment contract.

#### *The policy environment*

151. One of the underlying factors behind increasing globalization was a shift in economic thinking that became pronounced in the 1980s. While the industrialized countries were experiencing stagflation, a significant number of developing countries had fallen into a debt crisis and experienced economic retrogression. This prompted a rethink on prevailing economic models in both industrialized and developing countries. One element of this revised thinking in developing countries related to import-substitution policies which had by then begun to run out of steam. This contrasted with the evident success of the export-oriented industrialization policies of the East Asian newly industrializing economies (NIEs).

Impact of structural adjustment loans

152. The widespread recourse of indebted developing countries to structural adjustment loans from the Bretton Woods institutions in the aftermath of the debt crisis of the early 1980s played a pivotal role in the redefinition of trade and industrialization strategies. Prominent among the conditions attached to these loans was the liberalization of policies towards trade and FDI. This was in line with the rising influence of pro-market economic doctrines during this period. Under these structural adjustment programmes, there was a significant increase in the number of cases of trade and investment liberalization in many developing countries.

153. As discussed in the previous section on views about globalization, many trade unions and CSOs, as well as some policy analysts and developing country governments, maintain that the IFIs have imposed excessive conditionality on developing countries. In their view, this policy has been harmful both in confining them within an inappropriate neo-liberal policy straitjacket and in inflicting heavy social costs.

154. The rise of pro-market economic doctrines over the last 20 years played a key role in laying the foundations for the emergence of globalization. The collapse of communism in Europe in 1989-90 was a turning point. At a stroke it added to the global free market economy an additional 30 former communist countries with a combined population of 400 million people.

Free-market globalization boosted by explosive growth of Internet

155. To some analysts, the end of the bipolar world also meant the disappearance of any systemic alternative to the market economy. As a result, according to this view, free-market globalization took off in 1990. Coincidentally, this was also the period when the explosive growth of the Internet occurred, giving a fortuitous technological boost to this process.

The institutional context

*The multilateral trading system*

156. In the meantime, the institutional context for international economic relations also began to change. A new round of multilateral trade negotiations launched in 1986 set the stage for the transformation of GATT into the WTO in 1995. A key change was the broadening of the agenda of trade negotiations well beyond the GATT remit of reducing tariffs and other direct barriers to trade. Subjects that were hitherto not considered to be trade issues such as services, intellectual property rights (IPRs), investment measures and competition policy (the “behind-the-border” issues) were now argued to be within the scope of trade negotiations.

157. The rationale for this was that these measures were also impediments to the free flow of goods and services across borders. The harmonization of national policies in these areas was deemed to be essential for the deeper liberalization of world trade. This same logic could also be applied to a number of other aspects of national policy and regulation, especially when the objective of free trade is extended to encompass concerns over fair and sustainable trade. Hence there have been lingering tensions over the desirability of extending this list of “behind-the-border” issues.

158. With hindsight, many developing country governments perceived the outcome of the Uruguay Round to have been unbalanced. For most developing countries (some did gain), the crux of the unfavourable deal was the limited market-access concessions they obtained from developed countries in exchange for the high costs they now realize they incurred in binding themselves to the new multilateral trade rules.

*Global production systems*

159. The emergence of global production systems that drove the increasing flows of FDI has created new opportunities for growth and industrialization in developing countries. Some 65,000 MNEs, with around 850,000 foreign affiliates, are the key actors behind these global production systems. They coordinate global supply chains which link firms across countries, including even local sub-contractors who work outside the formal factory system and outsource to home workers.<sup>10</sup>

Global production systems emerged, with MNEs the key actors

160. The growth of these global production systems has been most pronounced in the high-tech industries (electronics, semi-conductors, etc.) and in labour-intensive consumer goods (textiles, garments and footwear). It is also becoming significant in the service sector where technological advances have made it possible for services such as software development, financial services and call centres to be supplied from different countries around the globe. The high-tech industries have experienced the fastest growth and now constitute the largest single component of the manufactured exports of developing countries.<sup>11</sup> In these industries, the production of parts and components is carried out by subsidiaries of MNEs located in developing countries. Most of the research and development (R&D) and

<sup>10</sup> See Marilyn Carr and Martha Chen: “Globalization, social exclusion and work: with special reference to informal employment and gender”, background paper prepared for the World Commission, Geneva, 2003.

<sup>11</sup> S. Lall: *The employment impact of globalization in developing countries*, ILO mimeo (Geneva, October 2002).

other technologically sophisticated functions are carried out in the industrialized countries.

Global "just-in-time" production system

161. In the labour-intensive consumer industries the picture is quite different. The MNEs design the product, specify the product quality, and so on, and then out-source its production to local firms in developing countries. They also exercise control over the quality and timing of production, which is often subjected to changes in design and volume. The driving force is the flexible and timely adjustment to changes in consumer demand with minimal inventory costs. It is a global "just-in-time" production system. The MNEs also control the marketing of the product; branding and logos are an important source of market power and, incidentally, of large fortunes.

162. A notable feature of the growth of these global production systems is that it has occurred without the parallel development of multilateral rules to govern its key element, FDI. This has given rise to a number of concerns, which will be addressed in Part III.

#### *The global financial system*

Role and influence of private financial agencies greatly increased

163. The governance structure of the global financial system has also been transformed. As private financial flows have come to dwarf official flows, the role and influence of private actors such as banks, hedge funds, equity funds and rating agencies has increased substantially. As a result, these private financial agencies now exert tremendous power over the economic policies of developing countries, especially the emerging market economies. Rating agencies determine whether countries can have access to sovereign borrowing and, if so, the cost of this. The assessments of stock analysts have a profound influence on the flow of funds into stock markets, while the decisions of hedge fund managers often impact on national currencies.

164. Within the logic of perfect markets, there would be nothing wrong with these developments. The increased influence of private actors in the global financial system should lead to greater efficiency in worldwide allocation of financial resources, as well as to the associated benefit of exerting greater, and much needed, market discipline on developing country governments. However, financial markets, even at the national level, are typically one of the most imperfect of markets. There are severe problems of information failure, especially information asymmetries.

165. These problems are magnified at the level of global financial markets, where international lenders may have limited and poor information about local borrowers. For example, concerns have been raised over the operations of hedge funds and rating agencies, and the probity of some large international investors in the light of recent corporate scandals. This leads to an over-extension of credit, including to unsound local banks and firms. Perceptions that there are implicit guarantees about the fixedness of exchange rates and bailouts compound this process.

166. A further important source of failure in this global financial market is the absence, at that level, of effective institutions for supervising it, such as exist at the national level.

Global financial system plagued by financial crises

167. Invariably, therefore, the global financial system has been plagued by a series of financial crises of increasing frequency and severity. The negative impact of these crises has been devastating, wiping out the gains of years of prior economic progress and inflicting heavy social costs through increased unemployment and poverty.



168. However, only a small minority of developing countries have become part of this new global financial system. As in the case of FDI, these private financial flows have remained highly concentrated in emerging markets. Thus the vast majority of developing countries, including almost all the LDCs, receive hardly any private financial flows.

169. For aid-dependent low-income countries, mostly in sub-Saharan Africa, their marginalization from financial markets means that they are deprived of any means to mitigate the effects of the significant decline in ODA. As a result, many of these countries are still, some two decades later, caught in the debt trap they fell into in the early 1980s.

Many LDCs remain caught in the debt trap

The impact of globalization

170. The combined and interactive effect of these developments in trade, FDI, finance and technology, has had a profound and varying impact on different economic sectors, types of enterprises, categories of workers and social groups. This section highlights some of the far-reaching changes that have occurred.

*Primary concerns*

171. We begin by setting out the perspective from which we will be evaluating the impact of globalization. Our primary concerns are that globalization should benefit all countries and should raise the welfare of all people throughout the world. This implies that it should raise the rate of economic growth in poor countries and reduce world poverty, and that it should not increase inequalities or undermine socio-economic security within countries.

172. It is thus widely accepted that the litmus test for the current process of globalization is whether it will significantly enhance the speeding up of development and the reduction of absolute poverty in the world, and whether it will ensure economic, social and environmental sustainability.

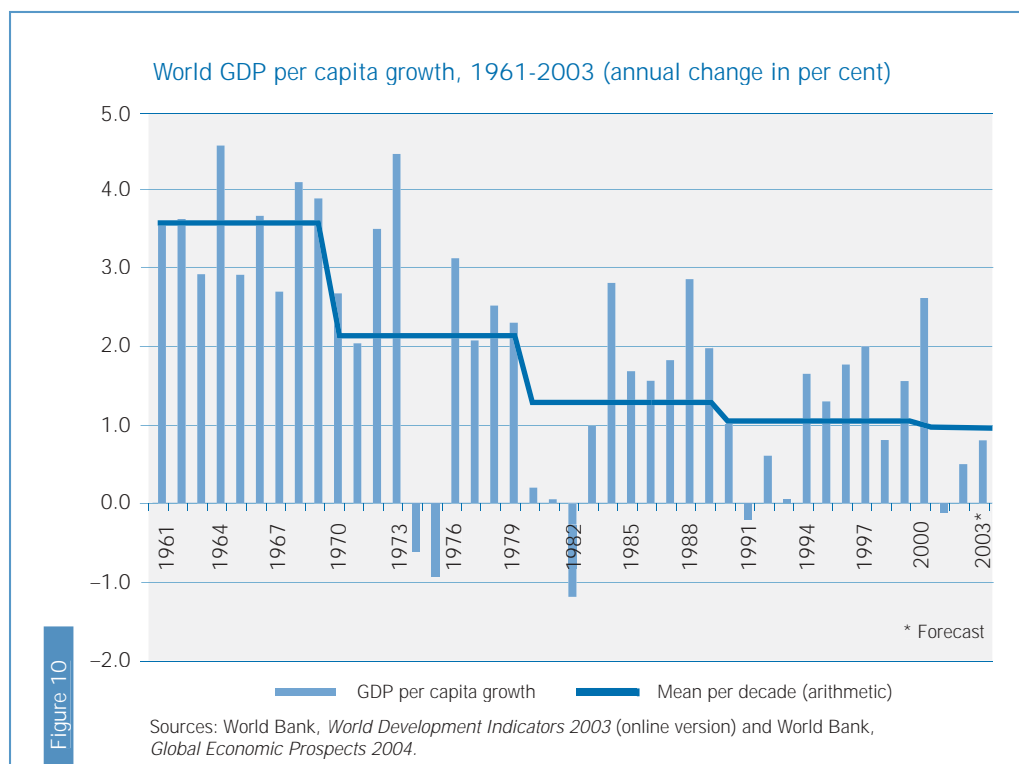
173. The social impact of globalization is not only confined to countries that have been marginalized from the process or less successful in their attempts to integrate into the global economy. Even in the relatively successful countries significant social costs are involved in the form of transitional adjustment costs, in some cases quite large. China, for example, despite sustained high growth, has faced problems of transitional unemployment that are likely to intensify with the stepping up of the reform of State-owned enterprises. Similarly, as evidenced by the Asian financial crisis, even countries with exemplary past records of economic performance can suffer heavy social costs.

Globalization can involve heavy social costs

*The impact on economic growth*

174. A basic step in evaluating the impact of globalization is to look at what has happened to rates of economic growth both globally and across countries. Here it is striking that since 1990 global GDP growth has been slower than in previous decades (figure 10), the period in which globalization has been most pronounced. At the very least this outcome is at variance with the more optimistic predictions on the growth-enhancing impact of globalization.

175. Growth has also been unevenly distributed across countries, among both industrialized and developing countries. In terms of per capita income growth, only 16 developing countries grew at more than 3 per cent per annum between



1985 and 2000 (table 1). In contrast, 55 developing countries grew at less than 2 per cent per annum, and of these 23 suffered negative growth.

176. At the same time, the income gap between the richest and poorest countries increased significantly (figure 11).

177. This uneven pattern of growth is shaping a new global economic geography. The most striking change is the rapid economic growth in China over the last two decades, together with a more gradual but significant improvement in the economic growth performance of India, two countries which together account for more than one-third of the world's population.

**Table 1. The economic performance of developing countries (grouped by growth performance) compared to industrial and transition countries**

	Industrial countries	Developing countries with growth rate per capita GDP of						Transition <sup>1</sup> countries
		← >3% <sup>2</sup>	→ 2%-3%	1%-2%	0%-1%	<0%		
Number of countries	22	16 (14)	12	20	14	23	17	
% share of world population (2001) <sup>3</sup>	13.8	44.7 (7.1)	5.6	10.3	7.5	4.8	5.3	
GDP growth (in %), 1985-2001	2.5	7.3 (6.2)	4.2	3.4	2.3	1.8	-1.1	
Population growth (in %), 1985-2001	0.65	1.5 (1.6)	2.0	2.2	2.1	2.6	-0.3	
% share in global trade (including transition countries)	1991	53.9	18.5 (10.3)	3.2	6.6	3.1	4.7	10.0
	2001	48.4	26.6 (11.3)	2.9	6.7	3.0	3.6	8.9
% share in global FDI (including transition countries)	1991	54.4	24.6 (13.7)	2.2	10.2	3.0	2.9	2.7
	2001	52.9	22.2 (2.7)	2.0	5.8	6.9	4.3	5.8

<sup>1</sup> Growth rates for transition countries are calculated for the period 1991-2002. <sup>2</sup> The second column excludes China and India. <sup>3</sup> The 124 countries included in the sample accounted for 92 per cent of the estimated world population of 6,129 million in 2001.

Source: The basic data are taken from the World Bank, *World Development Indicators* (CD-ROM, 2003).

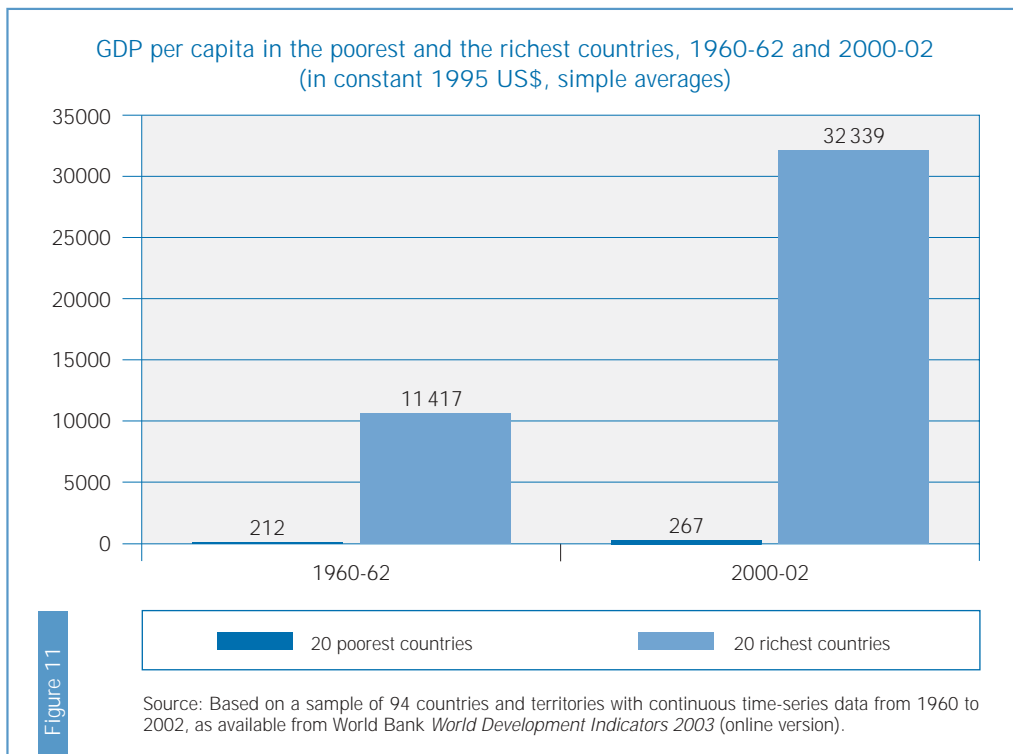


Figure 11

### *Uneven impact across countries*

**178.** Significant though it is, the rise of China and India is only part of a larger picture which reveals highly uneven distribution of the benefits of globalization among countries. The industrial countries, with their strong initial economic base, abundance of capital and skill, and technological leadership, were well placed to gain substantial benefits from increasing globalization of the world economy.

**179.** Expanding global markets for goods and services provided new outlets for their exports while the emergence of global production systems and liberalized investment rules generated new opportunities for their MNEs, increasing their global reach and market power. Similarly, the growth of global financial markets provided expanded opportunities for investments with higher returns in emerging markets. In addition, their technological leadership, together with the strengthening of international rules on IPRs through the WTO, increased their earnings from royalties and licensing fees. However, these benefits were partly offset by internal problems of adjustment that generated losses for some workers.

**180.** The other clear group that reaped significant benefits was the minority of developing countries that have been highly successful in increasing their exports and in attracting large inflows of FDI. Foremost among this group have been the original NIEs of East Asia that have now converged on industrialized country income levels and economic structures. Some other middle-income countries in Asia, the EU accession countries, and Latin American countries such as Mexico and Chile also appear to be on track to achieve this.

A minority of developing countries reaped significant benefits

**181.** For the most part, these countries had relatively favourable initial conditions in terms of prior industrialization, the level of human resource development, transport and communications infrastructure, and the quality of economic and social institutions. But they have not all pursued the same development strategies. Notably, China, India and Vietnam, countries with large domestic markets, have

not followed orthodox liberalization strategies, while the Republic of Korea, for example, relied on strong government intervention to kick-start its industrial development.

The LDCs remain excluded from the benefits of globalization

182. At the other extreme, the exclusion of the LDCs, including most of sub-Saharan Africa, from the benefits of globalization remains a stubborn reality. The LDCs are trapped in a vicious circle of interlocking handicaps including poverty and illiteracy, civil strife, geographical disadvantages, poor governance and inflexible economies largely dependent on a single commodity. In addition, many are also burdened by high external debt and hard hit by the continuing decline in the price of primary commodities. These problems have been compounded by continuing agricultural protectionism in the industrialized countries. This restricts market access while subsidized imports undermine local agricultural producers.

*The impact of trade, investment and financial liberalization*

183. More insight into how the key elements of globalization have affected countries can be gleaned from the growing body of country studies on these issues. A broad generalization that appears to emerge from these is that the impact has been mixed.

184. For example, a set of recent ILO studies on the impact of trade on employment and wages in the manufacturing sector showed sharply contrasting impacts among countries.<sup>12</sup> In the three Asian emerging economies studied, trade growth had a generally favourable effect on employment and wages in manufacturing. In contrast, in Latin American countries such as Brazil and Mexico, employment in manufacturing has either not risen appreciably or has fallen. Real wages of unskilled workers have tended to decline and the wage differential between skilled and unskilled workers has increased relatively sharply.

No universal prescription for the best approach to trade liberalization

185. These and similar studies suggest that the relationship between trade liberalization and growth and employment is likely to be “a contingent one, dependent on a host of countries and external characteristics”.<sup>13</sup> Differences in country circumstances (such as the level of income or whether a country has comparative advantage in primary commodities or manufacturing) are likely to warrant different strategies of trade liberalization. There is thus no simple universally valid prescription on the best approach to trade liberalization.

186. With respect to FDI, the evidence suggests that, on the whole, foreign investment does increase growth. Although this should also have a positive effect on employment this may be negated by strong crowding-out effects on local firms unable to compete and by the introduction of capital-intensive technology by foreign firms. However, empirical evidence on the employment impact of FDI is sparse and does not permit simple generalization.

187. Cross-border investments can potentially also raise the rate of growth if there are spillover benefits from the transfer of technology and skills to the local economy. In this case, the investment raises labour productivity and incomes and hence exerts a positive effect on growth and employment. Once again, the empirical evidence reveals mixed outcomes. While countries such as Singapore and Ireland

<sup>12</sup> Ajit Ghose: *Jobs and Incomes in a Globalizing World* (Geneva, ILO, 2003).

<sup>13</sup> Francisco Rodriguez, and Dani Rodrik: “Trade Policy and Economic Growth: A Sceptic’s Guide to the Cross-National Evidence”, in B. Bernanke and K. Rogoff: *NBER Macroeconomics Annual 2000* (Cambridge, MA, MIT Press, 2000).

have experienced strong spillover effects, this has not been true of all countries. The main lesson learnt from the success stories is that a critical precondition is the presence of local firms able to absorb the new technologies and respond to new demands. Also vital are policies to develop local education, training and technology systems and to build supplier networks and support institutions.

188. However, the empirical evidence cited above on the impact of FDI on growth and employment provides only partial answers to the complex issue of what the net benefits from FDI have been to a host country. A full evaluation will have to give due weight to factors such as: the impact of FDI on small and medium-sized enterprises and on poor producers; the potential conflicts of interest between foreign firms and host countries; and the impact of FDI on the pattern of trade and the balance of payments. How the balance of costs and benefits works out largely depends on country characteristics and policies but international trends also matter. These include the increasing locational flexibility of FDI and the growing influence of MNEs in areas such as intellectual property and trade and financial flows in the global economy.

189. On capital account liberalization, there is emerging agreement that the growth benefits to be derived from it are small. Even setting aside the economic and social havoc caused by crises, the gains to developing countries from participating in the current global financial system have been increasingly questioned. The potential benefits in terms of increased access to international financial markets have often been reduced or negated by instability. This problem is particularly acute for countries with poorly regulated financial systems.

Growth benefits from capital account liberalization are small

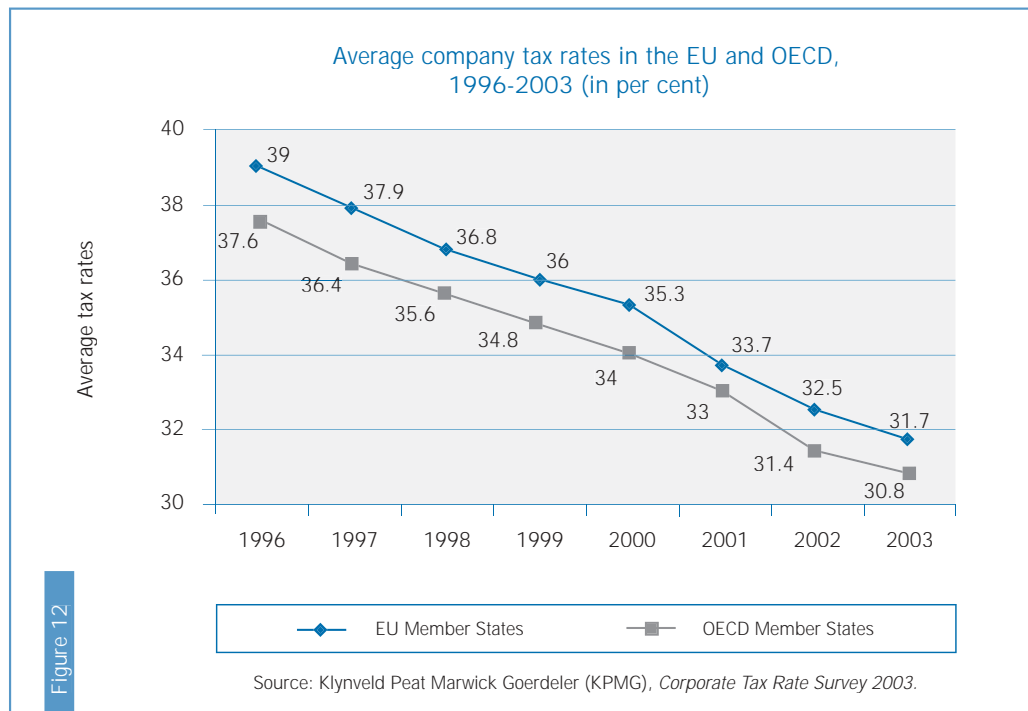
190. A basic structural flaw has been the prominence of short-term speculative flows within the system. This has led to surges of capital inflows when the capital accounts are opened, which have then been swiftly reversed. This has been largely driven by a quest for short-term speculative gains that has not only failed to contribute to an increase in productive investment but has also created new constraints to development policy.

Short-term speculative flows have been damaging

191. Financial openness has also, in some cases, led to a misallocation of resources and an increase in the real cost of capital. The misallocation arises when information failures lead foreign lenders to finance unsound investments. The real cost of capital is also increased when governments raise interest rates in order to maintain exchange rate stability. Other side effects of financial openness have been the need to maintain a significantly higher level of foreign exchange reserves and greater vulnerability to the flight of domestic capital.

192. More fundamentally, financial openness has limited the scope for deploying countercyclical macroeconomic policy. The reason for this lies in the fact that with financial openness countries have to surrender autonomy over either exchange rate or monetary policy. Given open capital accounts, maintaining a fixed exchange rate implies forgoing the freedom to fix domestic interest rates, while control over the latter can only be regained by allowing the exchange rate to float. In addition, the scope for expansionary fiscal policies is often severely restricted by the demands of foreign financiers.

193. Globalization also affects public finances. In particular, tax rates have declined on relatively more mobile factors of production. In the world's 30 richest countries the average level of corporate tax fell from 37.6 per cent in 1996 to 30.8 per cent in 2003 (figure 12). Tax incentives to attract FDI contributed to their lowering of average tax rates. A similar phenomenon can be seen in the taxation of high-income earners, who are also relatively more mobile. Between 1986 and



1998, the top marginal tax rate on personal income declined in the vast majority of countries, both high- and low-income, often substantially.<sup>14</sup> These changes in tax rates do not necessarily reduce tax revenues overall, since lower tax rates can also reduce tax evasion and increase production incentives. Nevertheless, there is concern about the distributional impact of these reductions in tax rates for mobile factors of production. A greater reliance on indirect taxes and on taxes on relatively immobile factors such as labour makes tax systems less progressive at a time when income inequality has been increasing in several high- and middle-income countries.

#### *Employment, inequality and poverty*

194. In order to assess the social impact of globalization it is essential to go beyond economic performance and examine what happened to employment, income inequality and poverty over the past two decades of globalization.

Open unemployment rates have increased

195. For the world as a whole latest ILO estimates show that open unemployment has increased over the last decade to about 188 million in 2003. However, employment performance over the past two decades has varied across regions (figure 13). It is also noticeable that within the developing world unemployment rates have increased since 1990 in Latin America and the Caribbean and South-East Asia, and since 1995 in East Asia. One factor behind the rise in unemployment in these regions was the financial crisis at the end of the 1990s. For example, in some major countries affected by crises, unemployment rates did decline after the crisis, but in many cases not to the pre-crisis level (figure 14).

196. The share of self-employment, which for most developing regions is a proxy indicator for the size of the informal economy, increased in all developing regions, except for East and South-East Asia (figure 15). Direct data on employment in the

<sup>14</sup> See Raymond Torres: *Towards a socially sustainable world economy* (Geneva, ILO, 2001).

Open unemployment rates for various regions of the world, 1990-2002 (in per cent)

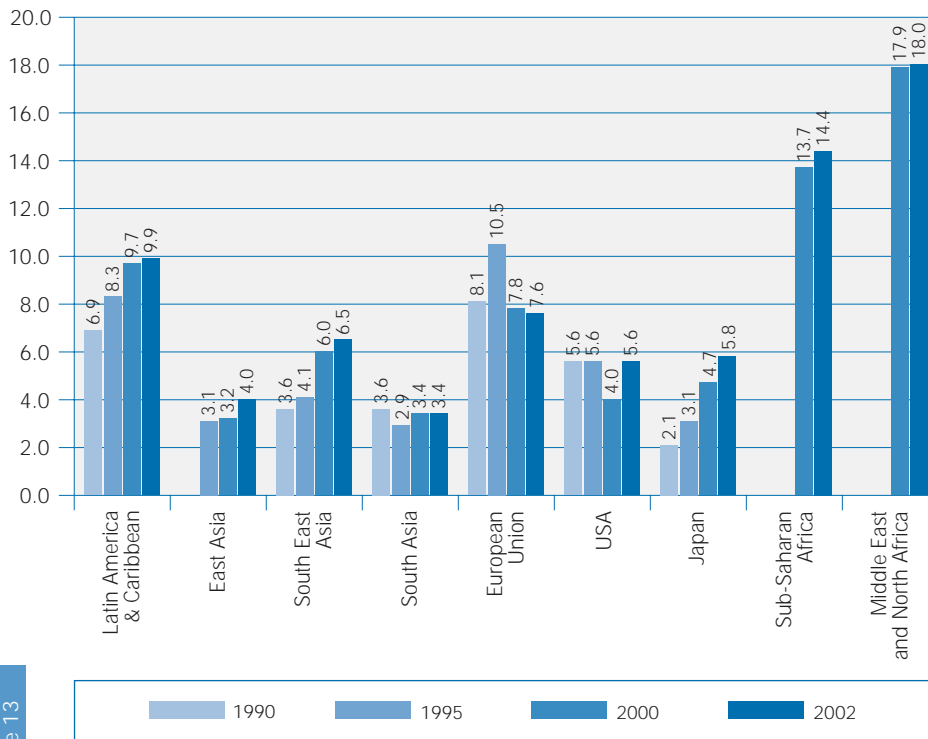


Figure 13

Source: ILO, *Global Employment Trends 2002*.

Pre- and post-crisis unemployment in selected Latin American and Asian countries (in per cent)

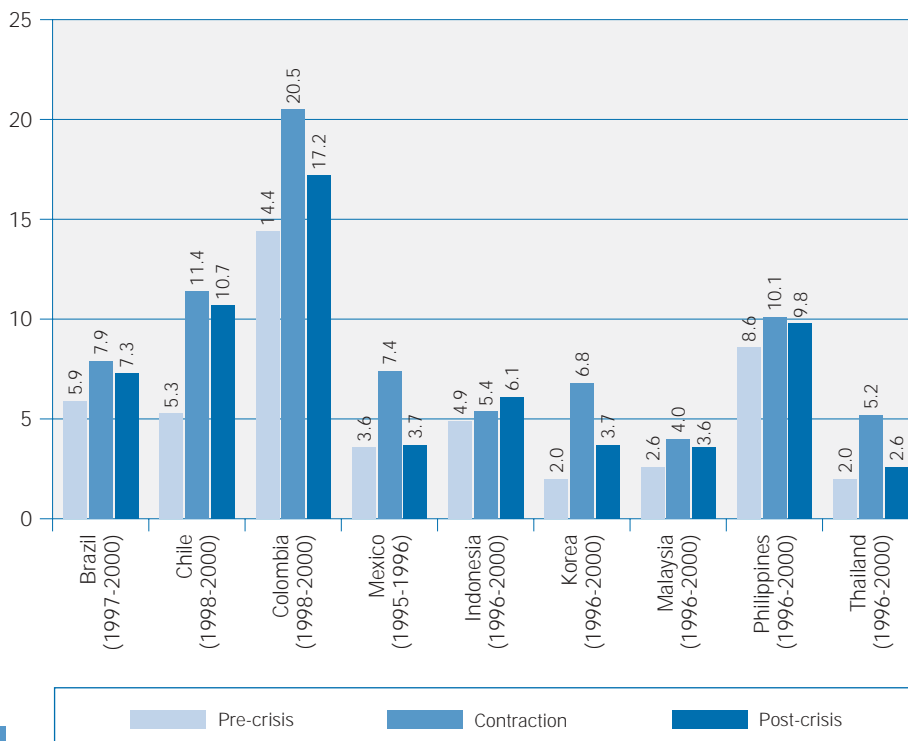
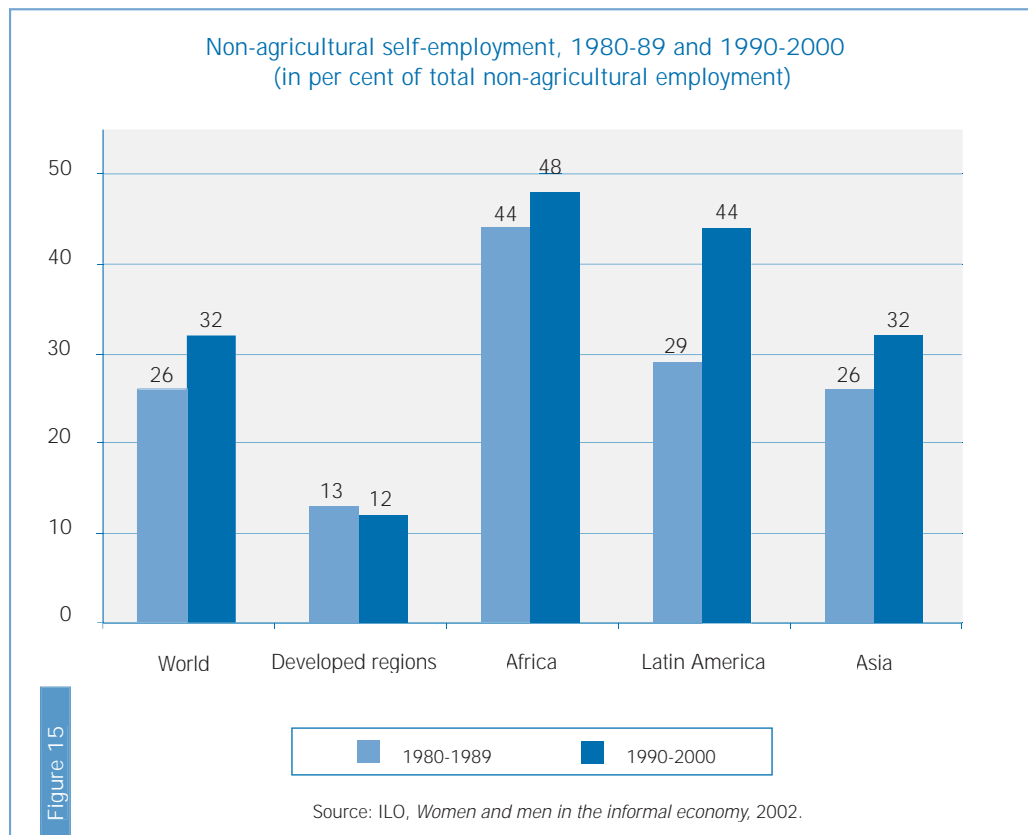


Figure 14

Sources: ILO: *Latin America and Caribbean 2000*, Labour Overview, Lima, 2001; E. Lee: *The Asian Financial Crisis*, Geneva, 1998; G. Bechterman and R. Islam: *East Asian Labour Markets and the Economic Crisis*, World Bank, ILO, 2001; ILO: *Global Employment Trends 2002*.



informal economy are not readily available. Such an increase is typically linked to stagnation or slow growth in modern sector employment and the consequent increase in labour absorption in the informal economy.

197. In industrialized countries employment performance has also been mixed. Over the last decade there was a steady increase in unemployment in Japan, but a sharp decline in unemployment in some small open European economies, as well as in the United Kingdom. The United States also experienced declining unemployment, despite substantial job losses in some manufacturing industries, until the recent economic downturn.

198. Income inequality has increased in some industrialized countries, reflected in an increase in the share of capital in national income as well as an increase in wage inequality between the mid-1980s and the mid-1990s (figure 16). Even more striking has been the sharp increase in the share of the top 1 per cent of income earners in the United States, United Kingdom and Canada (figure 17). In the United States the share of this group reached 17 per cent of gross income in 2000, a level last seen in the 1920s. This increased concentration in wealth has been the prime factor in the rise in income inequality in the United States; the declining share of the bottom decile of wage earners has been in reverse since 1995.

199. This emergence of wealth is important for the analysis of globalization since exceptionally high earnings have typically been linked to compensation paid by MNEs, the development of new businesses with a global reach and global “superstardom”. The increased concentration in wealth is likely to imply increased market and political power, both nationally and globally, for those who have benefited from this. It is also an important influence on people’s perceptions of globalization.



Ratio of the 10 per cent highest paid over the 10 per cent lowest paid workers, mid-1980s and mid-1990s

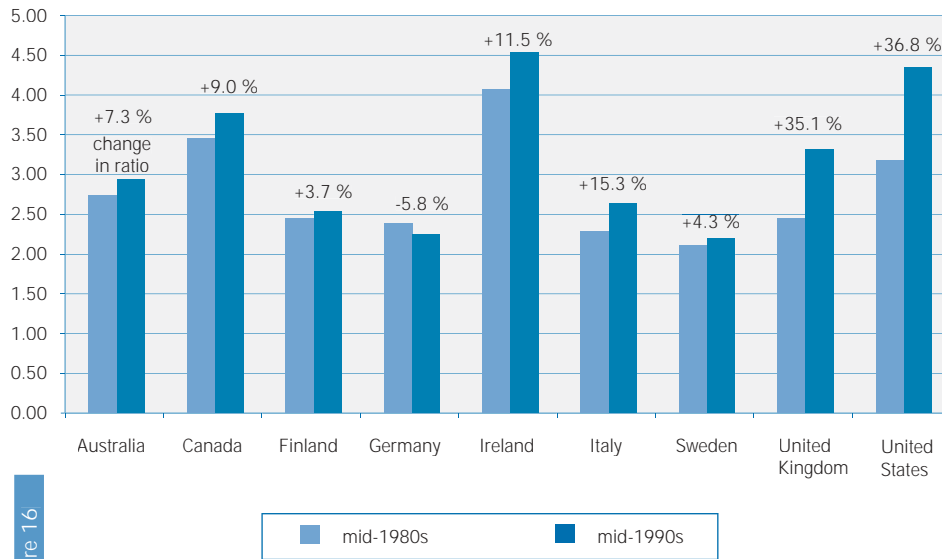


Figure 16

Source: OECD, *Employment Outlook* (various issues).

Share of the top 1 per cent in gross income in selected industrialized countries, 1975-2000 (in per cent)

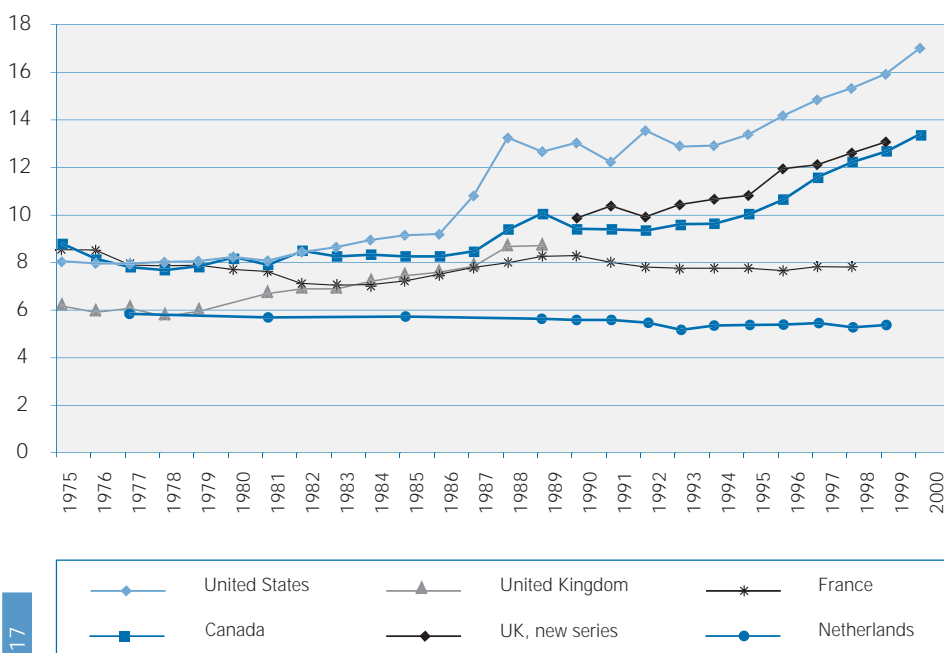


Figure 17

Source: A. B. Atkinson, *Income inequality in OECD countries: Notes and explanations*, Mimeo, Oxford, 2003.

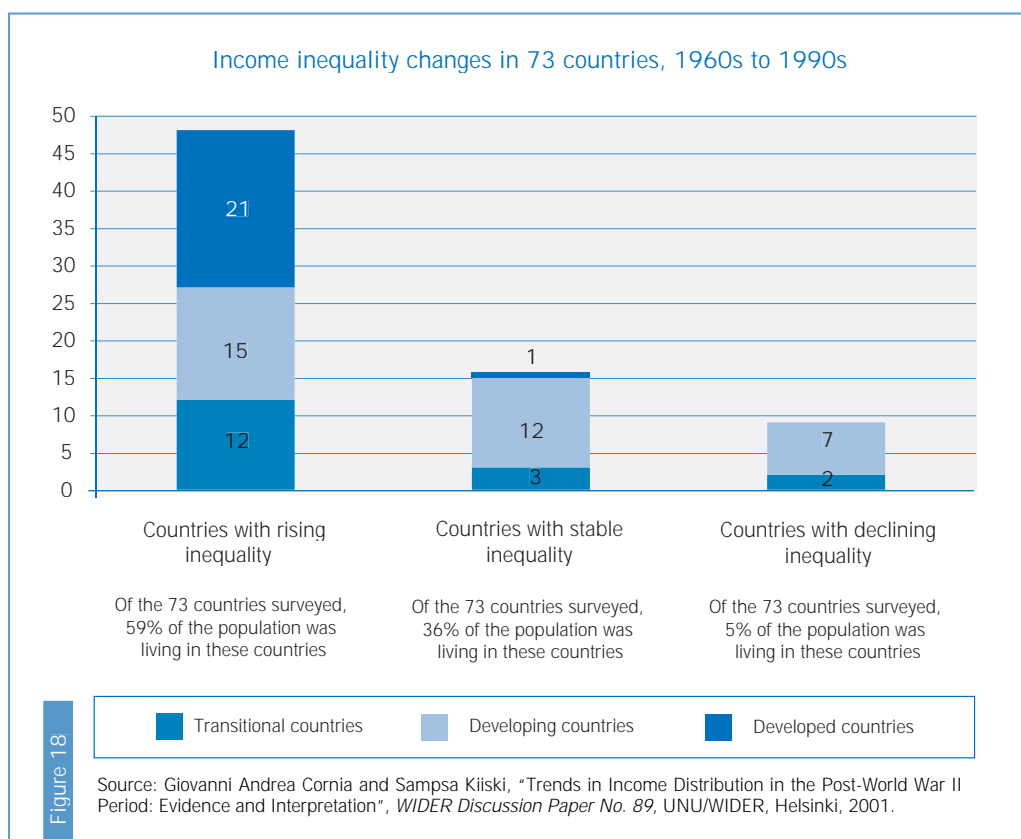
Impact of globalization on poverty

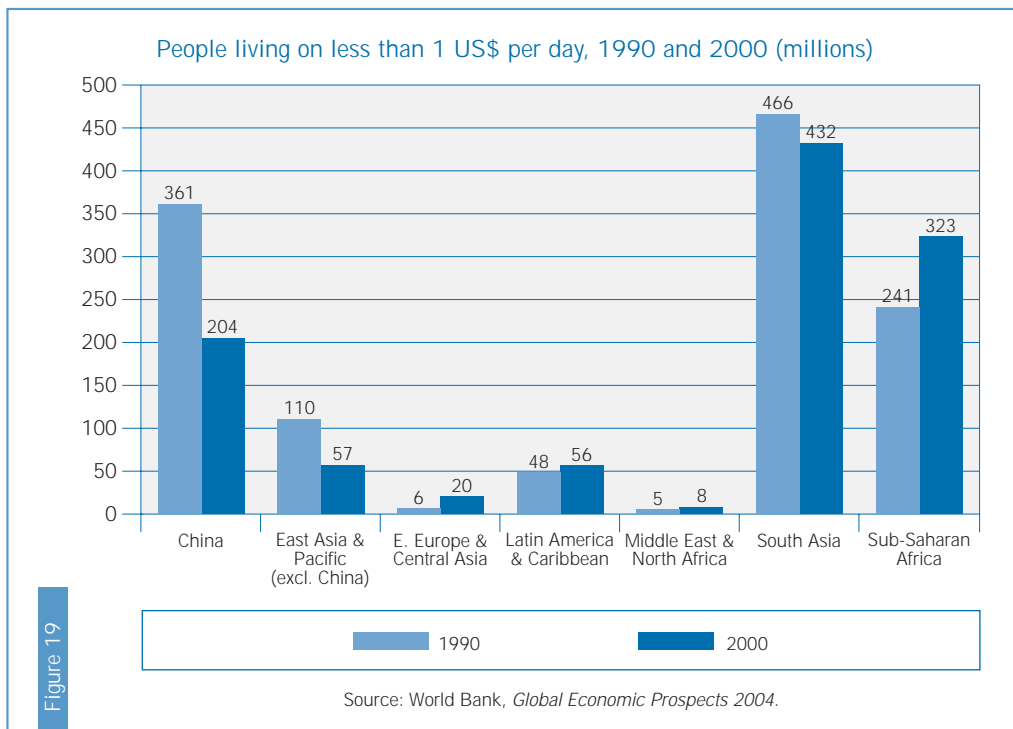
200. Outside the industrialized countries, there has been a similarly mixed picture on changes in income inequality (figure 18). While the large majority of countries have experienced a rise in income inequality, it remains an open question as to what extent globalization is to blame.

201. The impact of globalization on poverty is also difficult to assess. The number of people living in absolute poverty worldwide has declined significantly from 1,237 million in 1990 to 1,100 million in 2000. However, most of this improvement is accounted for by the changes in just two very large countries, China and India, where 38 per cent of the world's population live. In China alone the number of people living in poverty declined from 361 million to 204 million. Elsewhere, in sub-Saharan Africa, Europe and Central Asia, and Latin America and the Caribbean, poverty has increased by 82, 14, and 8 million, respectively (figure 19). However, regional and country-specific factors unrelated to globalization were also key factors in these differences in poverty reduction.

202. All this leaves a basic ambiguity in the interpretation of the data on trends in global poverty. While it is clearly a cause for celebration that world poverty in the aggregate has been reduced, this is little consolation to those outside the few countries where these gains have been concentrated.

203. An additional ambiguity is that there can be real social costs involved even if aggregate indicators such as the unemployment rate or the level of poverty do not show any deterioration. The reason for this is that the stability of these rates could mask considerable "churning" in labour markets and movements in and out of poverty. There is some evidence that these phenomena have become more marked with increasing globalization. Again, it is cold comfort to those who have lost jobs or fallen into poverty that others experiencing opposite fortunes have prevented a fall in the unemployment or poverty rate.





204. This type of mobility is one of the main reasons why people have different perceptions of the social impact of globalization. Personal experience (or direct observations) of job or income loss by particular social groups or localities largely colours perceptions, regardless of what the overall picture may be. As a result, at least part of the heated debate over the social impact rests on such differences in perceptions and in the way aggregate social indicators are interpreted.

205. The mixed picture that emerges on economic performance and on changes in employment, inequality and poverty makes it extremely difficult to generalize on what the impact of globalization has been. In part this is because globalization is a complex phenomenon. Observed outcomes such as changes in the level of unemployment and of poverty reflect the combined results of a complex of factors of which globalization, however broadly defined, is but one. Domestic structural factors such as the degree of inequality in the distribution of income and wealth and the quality of governance are often important fundamental influences on these outcomes. It is important to avoid the common error of attributing all observed outcomes, positive or negative, entirely to globalization.

#### *The impact on people*

206. This section looks beyond economic variables to focus on how globalization has affected peoples' lives. Globalization involves changes in economic structure, relative prices, and consumption possibilities and patterns, which in turn affects peoples' jobs, livelihoods and incomes. Invariably some have been adversely affected while others have gained from this often intense process of change.

207. The economic benefits and social costs of globalization are not evenly distributed among social groups. In many countries some groups of workers have been adversely affected by trade liberalization and the relocation of production to lower-wage economies. While this has so far primarily affected unskilled workers, some skilled and professional workers have also been affected by developments

In many countries some workers have been adversely affected

such as the outsourcing of software development, the increasing trade in professional services and increased immigration of skilled professionals from developing countries. At the same time, organized labour in the industrialized countries has argued that globalization has disproportionately benefited multinational corporations and financial interests.

People with capital, entrepreneurial ability, and education and skills have benefited

208. As in the case of countries, the people who benefited most from globalization include those associated (as shareholders, managers, workers or sub-contractors) with successful MNEs and with internationally competitive national enterprises. More generally, those endowed with capital and other assets, entrepreneurial ability and education and skills that are in increasing demand have all benefited.

209. Conversely, the adversely affected include those associated with uncompetitive enterprises that have been unable to survive in the face of trade liberalization or the entry of foreign firms. These enterprises include those previously highly protected by trade barriers, subsidized State enterprises, and small and medium-sized enterprises that had a limited capacity to adjust to a rapid liberalization of the economy. Impoverished producers of importables, whether in the urban informal economy or in agriculture, have been particularly vulnerable to the influx of cheap imports and sharp changes in the relative prices and availability of inputs. Such producers are also unable to seize the new economic opportunities that have been generated because they lack capital and access to credit, information and extension services.

The poor, illiterate and unskilled workers, and indigenous peoples have lost out

210. Others who have lost out, except in countries that have experienced rapid growth, have been the poor, the assetless, illiterate and unskilled workers and indigenous peoples. This has occurred not only as a result of the primary economic impact of globalization but also because of its indirect effects. For example, the increased mobility of capital combined with high levels of unemployment has weakened the bargaining position of workers vis-à-vis employers. At the same time, increasing international competition for markets and for FDI have generated pressures to increase labour market flexibility and erode labour protection. Hence, in spite of the positive effects of FDI described earlier and the fact that workers in foreign firms often earn more than in local firms, there have been growing concerns over the inadequate quality of the employment that has been generated in some parts of the global production system. This is particularly true of employment in firms acting as sub-contractors to MNEs in labour-intensive industries such as garments and footwear. This has highlighted the importance of international action to protect fundamental worker rights in all countries.

211. A particularly vulnerable group is indigenous peoples. Where their integration into the global economy has occurred without their free and prior informed consent and without adequate protection of their rights, livelihoods, and culture, they have suffered severely. In such cases investments in extractive industries, mega-hydroelectric dams, and plantations have led to massive dislocations, disruption of livelihoods, ecological degradation, and violation of their basic human rights.

212. Increasing tax competition, together with the new doctrine in favour of a reduced role for the State, is widely believed to have reduced the fiscal capacity of governments. In many cases, this has led to a reduction in government expenditures vital to the poor such as those on health, education, social safety nets, agricultural extension services and poverty reduction. For example, figure 20 shows declines in expenditure on education in several regions of the world in the latter part of the 1990s.

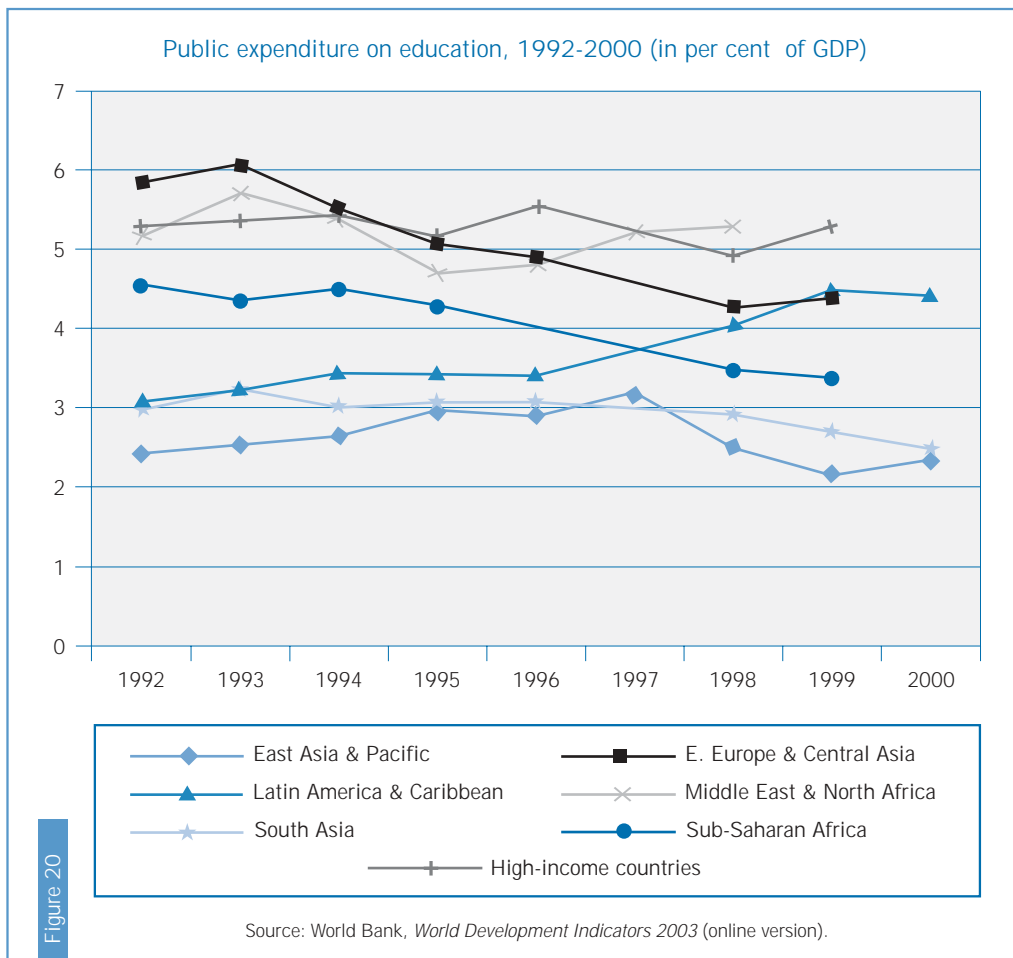


Figure 20

213. Such expenditures, used efficiently, are vital for poverty reduction and for enhancing the capabilities of people to benefit from globalization. Education, for example, is a key element in a global economy where education, skills and knowledge are increasingly important for economic survival, let alone success. Yet the level of investment in education is grossly inadequate. Of the 680 million children of primary school age in developing countries, 115 million are not in school, 65 million of them girls. And of the children who start primary school only one in two complete it.

Investment in education is grossly inadequate

214. In some countries, globalization has resulted in serious gender imbalances. The extent of this imbalance depends largely on the level of gender equality prevailing in the norms, institutions and policies of a country at the time when integration into the global economy takes place. In addition, women from different social groups in a particular country are affected differently. Nevertheless, in many developing countries deep-rooted and long-standing gender inequalities have meant that the social cost of globalization has fallen disproportionately on women.

215. There is a growing body of evidence illustrating the ways in which substantial numbers of women have been adversely affected by globalization, both absolutely as well as in relation to men. For instance, trade liberalization has often allowed the import of subsidized agricultural products and consumer goods that have wiped out the livelihoods of women producers. The increased entry of foreign firms has often had a similar effect through, for example, displacing farming women from their land or out-competing them for raw materials essential to their productive activities. At the same time, women producers face formidable barriers to entry

Many women adversely affected

into new economic activities generated by globalization. This is often because of biases, either against women directly or against the micro- and small enterprise sector in which they predominate, in the policy and regulatory environment. The extent of the handicaps faced by women producers is seen in the fact that women own less than 2 per cent of land worldwide and receive less than 10 per cent of credit.<sup>15</sup>

216. Women have also been more adversely affected than men during the increasing number of financial crises generated by globalization and more disadvantaged by cuts in social protection.

217. At the same time, for many other women, globalization has resulted in an improvement in their economic and social status. They include the millions of women workers absorbed into the global production system. This wage employment gave them higher incomes than in their previous situations – either intra-family servitude or a penurious and precarious existence in the informal economy. Wage employment also gave these women greater potential economic independence and often raised their social status even within the most oppressively patriarchal societies.

#### *Wider effects*

218. There are other far-reaching ways in which globalization has touched the lives of people. We focus on two key aspects of these: increased global interconnectivity and the growth of illicit cross-border activities.

Global interconnectivity has increased awareness of global disparities

219. The massive increase in global interconnectivity is affecting people's lives in different ways, some of them predictable and others unforeseen. One important change is an increase in global awareness. People anywhere are now much more aware of events and issues everywhere. This has vastly expanded awareness of global disparities in living standards and life chances, and political and social rights and liberties.

... improved the quality of democracy

220. For people living in the relatively deprived parts of the world, this both raises their expectations and lowers their tolerance of the situation they are in. This has probably been a significant factor in the spread of democracy and growing demands for political freedoms where these are still denied. The increased availability of information has also created better-informed and more critical pressure groups and electorates, a boon for the quality of democracy.

... and forged a greater sense of global community

221. For people in the richer countries, the information revolution is helping forge a greater sense of global community and transnational solidarity, as seen in the explosive growth of global coalitions of non-State actors around issues of universal concern such as globalization itself, the environment, human rights, humanitarian aid and labour exploitation.

222. This global information revolution has also clearly affected cultures and social values. However, these kinds of changes are difficult to pin down and document. One contentious issue is the impact of the information revolution on local cultures and values across the world. There is widespread concern at the overwhelming dominance of the culture and values of the United States, and other Western countries, in the global media and entertainment industry. The fear is that

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<sup>15</sup> FAO: *Women and sustainable food security* (SD Dimensions, SDWW, 2003) (<http://www.fao.org/sd/fsdirect/fbdirect/FSP001.htm>).

constant exposure to the images of Western lifestyles and role models could lead to tensions which would be both culturally and socially divisive.

223. Another side-effect of globalization has been a sharp increase in the level of illicit cross-border activities. This has included increased tax evasion and the rise of multinational crime syndicates engaged in money laundering, trafficking in people, and the sex and drug trades. The same factors that facilitated the growth of legitimate cross-border economic transactions have also provided the means for illicit cross-border transactions. The ICT revolution has made the cross-border coordination of illicit activities easier, while global financial liberalization has facilitated tax evasion and money laundering. Similarly, the sharp fall in transportation costs and the growth of mass tourism has made the smuggling of people and drugs less costly and more difficult to detect.

Illicit cross-  
border activities

224. This inadvertent facilitation of cross-border crime has also been reinforced by two other factors. The first is the increase in the economic returns to cross-border crime through the expansion of lucrative opportunities for arbitraging across markets (e.g. the emergence of off-shore financial centres and tax havens, and the growing income disparity between poor and rich countries alongside tight immigration controls). The second factor is the slow development of multi-lateral arrangements for the detection and suppression of these illicit cross-border activities, which reduces the risks involved. Under such favourable conditions, these activities have flourished.