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**Preparations for the special session of the General Assembly entitled "World Summit for Social Development and beyond: achieving social development for all in a globalizing world"**

# Impact of globalization on social development

## Report of the Secretary-General

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# I. Introduction

1. The Preparatory Committee for the special session of the General Assembly entitled “World Summit for Social Development and beyond: achieving social development for all in a globalizing world”, at its first session, requested the Secretary-General to report to it at its second session on the impact of globalization on social development.[1] The present report has been prepared in response to that request. It traces the main features and the experiences of globalization for broad categories of countries and society, highlights salient features of its impact on social development as a result of developments in trade, technology and finance, and concludes with some observations aimed at a closer integration of economic and social objectives in a global market economy.

# II. Main features and experiences of globalization

2. Globalization has closely intertwined economic, political, cultural and institutional dimensions whose social impact is often not easy to disentangle. Notwithstanding the breadth and complexity of the process, its principal elements are well known. Technological advancements, especially in the field of information and communication technologies, have had the effect of connecting and bringing the world closer together in time and space, making possible new ways of doing business and profoundly altering social interactions. The proportion of trade in goods and services relative to national income and consumption has expanded, and now includes trade in such services as banking, telecommunications and even education and culture. Domestic deregulation and liberalization of external capital controls have propelled a vast increase in the volume and speed of capital flows of all types, ranging from foreign direct investment (FDI) to short-term banking flows, worldwide. Competition has catalysed a reorganization of production networks, and a wave of mergers and acquisitions have fostered the restructuring of corporations on a global scale, giving them unprecedented size and power. At the same time, venture capital-financed “start ups” are burgeoning in “high tech” sectors in several developed as well as some developing countries. New mass media, such as satellite television and the Internet, have contributed to globalization and the spread of a culture of consumerism.

3. Some of these processes are driven by the logic of new technologies or market forces which are difficult to control, while others may be more amenable to management. Policy decisions oriented towards liberalization, deregulation and privatization have been at least as important as market forces and technology in the spread of globalization in both its positive and negative aspects.

4. As a result of greater access to markets, new technologies and new ways of doing business, many aspects of globalization have stimulated growth and prosperity and expanded possibilities for millions of people all over the world. At the same time, it has been accompanied by anxiety about its disruptive effects and a sense that the opportunities provided by the process of globalization have not been accessible to many. It has enhanced choices for some people but diminished prospects for others and reinforced inequalities within and across nations. Perceptions of globalization depend a great deal on the ability of people to take advantage of the opportunities offered by it. Typically, it is most positive for people with adequate education and access to financial resources.

5. For various reasons, the liberalization of trade and capital flows has been a dominating theme in the economic policies pursued by developing countries and countries with economies in transition during the last 10 to 20 years. As a result, nearly all countries at all levels of development have taken steps to remove or weaken policy instruments that direct and control cross-border transactions. They have also given market mechanisms greater scope internally and reshaped or restructured institutional frameworks, including labour and financial markets and taxation systems, to enable the freer play of market forces.

6. The actual experience of globalization has, to a great degree, varied with the level of development at which a country has engaged with it. Some developing countries and countries with economies in transition have been well positioned to take advantage of the new opportunities for trade and investment, and building on domestic savings, foreign investment and capital inflows, technology transfers, human resource development and export orientation, have achieved rapid economic growth.

7. Others, particularly the least developed countries, have not been able to achieve the same levels of foreign investment or access to world markets, primarily due to an inadequate economic and social infrastructure. Not only have they been unable to grasp the opportunities offered by globalization but they have also had to cope with its impacts, particularly the volatility of international commodity prices, the reduction of effective preferential treatment for their exports owing to falling overall tariffs and the decline of official development assistance (ODA).

8. The degree and nature of participation of different categories of countries in global markets varies substantially. For most developing countries, trade in a limited number of goods and services constitute the major form of international economic activity. For others, private capital inflows supplement their foreign exchange earnings, either through FDI or through portfolio investment. In only a few developing countries, mostly in Asia and Latin America, have domestic companies joined the integrated networks of transnational corporations and, in some cases, forged strategic alliances to exploit dynamic trade and investment inter-linkages. Most developing countries, particularly the least developed countries and most of Africa, remain outsiders to that process.

9. A study conducted on behalf of the Department of Economic and Social Affairs on the experience of nine countries (Argentina, Colombia, Cuba, India, the Republic of Korea, Mexico, the Russian Federation, Turkey and Zimbabwe) as a result of liberalization of trade and capital raises several concerns about its social impact.[2] In general, liberalization has led to greater inequality of primary incomes. In all but one case, household per capita income growth was negative or just above zero. While the participation rate or share of the economically active population increased, the employment situation in most countries was characterized by reduced wages, underemployment, informalization of labour and adverse impact on unskilled labour, particularly in the manufacturing sector. Virtually without exception, wage differentials between skilled and unskilled workers rose with liberalization. Most countries experienced an erosion of the tax base and a fiscal squeeze, which was reflected in static or reduced social spending. In some cases, social services were privatized or there was increased recourse to user fees. Fiscal and administrative limitations made it difficult to put in place countervailing social policies. In terms of the enabling economic environment, though most countries achieved moderate growth rates, at least three fared poorly. Capital flows increased substantially, in some cases prior to crises. While exports did tend to rise with liberalization, the export stimulus for growth was weaker than expected partly because of an increase in imports.

10. Although globalization raises particular concern for developing countries, apprehensions regarding it abound and have been vocally expressed even in developed countries. Concerns in the industrial world revolve around employment insecurity as firms respond to competitive pressures and technological advancements, which are to some extent also reflected in the frequent restructuring of firms and corporations. The growing power and global reach of mega-corporations has also raised questions regarding economic governance in a global economy.

11. The experience of countries with economies in transition has been mixed. In general, when these countries began their transition, they faced an abrupt deterioration of their previously elaborate social support systems, as well as the handicap of competing in a more open global economy with incomplete and underdeveloped market institutions. Some countries in Central and Eastern Europe have traversed the transition more rapidly spurred by prospects of integration to the European Union. In others, social disruption, sudden poverty and vulnerability to economic change along with the dissolution of barriers to trade and capital mobility have led the development of a parallel shadow economy and a criminal underworld of transnational proportions.

# III. Trade and production

12. The changes in level, structure and geographical pattern of world trade are among the central elements in globalization. From the perspective of the World Summit for Social Development, three aspects of the relationship between liberalized trade and social development are particularly notable. The first is how trade liberalization has applied to products of export potential of developed and developing countries. The second is its impact on poorer countries in terms of growth, poverty and income inequality. The third is its relationship with other aspects of globalization and its effect on society.

13. Though there has been a steady dismantling of tariffs and trade barriers over the past 50 years, crucial sectors of the markets of developed countries remain highly protected against products of export potential of the developing countries.[3] Trade liberalization has been limited or partial, not only with respect to low technology products with export potential to developing countries, such as agricultural products, textiles, clothing, leather and footwear, but also with respect to some capital-intensive and higher technology products. There has also been a surge in anti-dumping duties on imports, typically industrial or manufactured goods. Such duties are rarely lifted. Developed country subsidies in the farm sector, but also in industry, work against developing countries.

14. Such limitations in trade access, as in agriculture, make the economic environment for social development less enabling by restricting export opportunities and earnings, hampering diversification and industrialization in developing countries, and aggravating structural imbalances in trade capabilities between developed and developing countries as a whole. Fewer countries have been experiencing an annual growth rate or 3 per cent or more since 1996, while many more experienced a decline in gross domestic product (GDP).[4]

15. As a result of multinational production networks, mobility of capital, freer trade and new technologies, labour has become more susceptible to global forces than ever. Competition for foreign investment and the greater ability of employers to shift production to other locations has weakened labour's bargaining ability. The spread of manufacturing for export to more and more countries provides important employment opportunities for low-income workers, but it has also resulted in rising internal inequality due to unequal distribution of the skills and infrastructure needed to participate in the economy, the high demand for skilled labour coupled with excess supply of low-skilled labour, and substantial profit income. Many of the new job opportunities have been low paying and characterized by poor social protection.

16. These developments pose a peculiar dilemma for developing countries. On the one hand, they need foreign investments for employment growth, productivity enhancement, export networks and higher rate of economic growth. On the other, participation in the global economy under conditions of liberalized trade and capital flows and global competition often leads to downward pressures on wages, working conditions, collective bargaining ability and taxation, as investors and companies seek the best economic terms to maximize their advantages in the market. The net impact depends on the balance between the expansion of opportunities for employment that trade expansion can offer and the effects of competitive pressures.

17. The large and potentially mobile supply of unskilled labour in developing countries and the demand for such labour in many industrial countries would seem to point to a convergence of supply and demand that could benefit both if international movement of labour were as free as capital movements. But concerns about the social and political implications of large immigrant populations remain a source of concern and thus of strict limits on migration. Demands of labour mobility accompanying the growth of the market economy in some developing countries have created a transient internal population, with low and insecure wages and poor access to housing, medical care and schooling for their children.

18. New technologies and greater pressure from international competition have also had implications for the nature and organization of work in the modern economy. The greater mobility of capital as a factor of production have undermined job security and collective bargaining. Together with other changes in labour relations, trade union activity is now concentrated in a few relatively entrenched industries. The growth of service and knowledge-based industries has contributed to a premium on mobility, flexibility and multi-functionality. Considerations of flexibility and competition have also resulted in greater resort to subcontracting, outsourcing and informalization of work. But it also shifts many of the costs of market volatility to workers, making them more vulnerable to recessions and threatening their job and income security.

19. Many of these trends impact on women in specific ways. The 1999 *World Survey on the Role of Women in Development*[5] presents a complex picture of the gender impact of globalization. On the one hand, it is associated with an increase in the female share of employment, mainly in export-oriented manufacturing industries, reflecting a movement of female labour from the unpaid household and subsistence (agriculture) sector, to the paid economy. On the other hand, the impact of the greater "flexibilization" of

labour, primarily as a business response to changing market conditions, has varied in different countries, depending on their levels of development, socio-economic structure and particular form of integration within the world economy. While it has helped in the entry of women into the paid labour market in some regions, at the lower end, it has also often been accompanied by insecurity of employment, lower wages and poorer labour protection. Poorer women in both developed and developing countries are particularly vulnerable to economic downturns and economic and financial crises. In most regions of the world, women's primary responsibility for household labour and child care has shown little sign of diminishing with their increased participation in paid work. Besides being among the first to be affected, much of the burden of informal social support provided by the family as the welfare provider of last resort falls on women. Social policy constraints stemming from globalization also seem to place women at a disadvantage.

20. In industrialized countries there has been a growth in employee ownership of stocks along with a "democratization" of stock markets, which has had a significant impact on earnings of workers and labour-management relations. More and more workers in the developed countries are acquiring shares in the companies in which they work and participating in financial markets through pension and other funds. In the United States today, more private-sector employees own stocks than are union members. Stock ownership has also given employees a role in corporate decision-making. Participation in decision-making and stock ownership has led to a blurring of lines between employees and employers, workers and investors, wage earners and owners and managers of capital. It has established a greater commonality of interest between employees, corporations and investors as employees see their interests in the profits of the corporations whose shares they own and the funds in which they have invested.

## A. Agriculture

21. Current trends and patterns in agricultural production and trade in agricultural products impact on economic and social development in various ways. First, excessively high tariff peaks continue to apply to products that constitute exports of or offer a potential for export diversification in developing countries. In addition to tariff and non-tariff barriers that hinder access to markets of developed countries, agricultural subsidies by developed countries, whether in the form of direct export subsidies, processing subsidies or direct payments to farmers, also deter entry into their own or third country markets. Total annual levels of support for agriculture in the Organisation of Economic Cooperation and Development (OECD) countries averaged $350 billion in 1996-1998, double the value of agricultural exports from developing countries during those three years.[6] Ironically, despite it being the primary source of income and employment, particularly for low-income groups, agriculture in Africa is currently one of the most liberal and subsidy free in the world.

22. Efforts to dismantle subsidies in OECD have led to deep cuts in farm subsidies in some countries, while resistance to such cuts in others have created tensions in trade negotiations involving agricultural products. But cuts in subsidies for agriculture in developed countries have been accompanied by a phenomenal growth of corporate-driven, industrial agriculture that is having a profound effect on land ownership, agricultural production and employment, family farms and rural life and society as a whole. In parts of the world where women account for much of the food production, such as Africa, it also has an impact on women's livelihoods. Concern regarding the social and environmental impact of industrial agriculture has been compounded by the domination, as a result of mergers, of certain industries, such as the seeds, meat and grain handling industries, by large global corporations along with their marketing apparatus. Genetically modified foods being developed, patented and promoted by some corporations have raised fears of food safety.

23. Liberalized trade in agriculture should therefore distinguish and strike a fair balance between the need to promote trade access to developing countries in the agricultural sector, provide some measure of protection to farming communities worldwide, and tap the scientific and marketing potential of corporate agriculture. A single, uniform and universal regime is likely to benefit corporate industrial agriculture based in the developed world at the expense of rural employment and development, poverty eradication and growth in developing countries and rural farming communities everywhere. These concerns need to be

considered together with issues of food security and productivity, culture and environment.

## B. Patents and intellectual property rights in the social sector

24. The relationship between trade and the existing patents regime has also resulted in the benefits of advances in such spheres as health and agriculture, being skewed in favour of the corporate sector at the expense of the public, with especially adverse consequences for people in developing countries. The basic rationale for an intellectual property rights regime in the sphere of health and agriculture is to provide an incentive for and protection of investments in research and development.

25. But there is a strong case that the current system overemphasizes incentives and protection for the entrepreneur at the expense of the public. In the sphere of health products, the logic of the market leads to investments in those medical conditions for which there is a market among the more affluent, primarily in developed countries. As a result, an overwhelming proportion of investments and patents in the health industry ignore life-threatening diseases that afflict the majority of people in the developing world. According to a recent World Health Organization (WHO) report, less than 10 per cent of the current estimated expenditure on medical research has gone into diseases that affected 90 per cent of the world's population. A recent study concluded that of the 1,223 new drugs patented between 1975 and 1997, only 13 were for tropical diseases and only four of those could be regarded as new drugs suitable for humans.[7] And where treatments are available, such as for human immunodeficiency virus/acquired immunodeficiency syndrome (HIV/AIDS), they are too expensive to be afforded by those, increasingly women in Africa and parts of Asia, most affected by it.

26. In the case of improvements on existing products, especially traditional products, goods that were once in the public domain and easily accessible, ranging from seeds and traditional medicine to knowledge and culture, are being appropriated privately as a result of the patents regime. The rules that prevail protect the corporate innovator at the expense of traditional producers and users. There is also a case to establish a more balanced property rights regime that would protect and reward traditional knowledge by requiring companies that make use of such knowledge to pay royalties on their profits.

# IV. Information technology

27. The imbalance between the promise and reality of globalization is perhaps nowhere more striking than in the unequal distribution, among nations and classes, of digital resources — hardware, software, communications bandwith. For example, South Asia, which accounts for 23 per cent of the world's population, has less than 1 per cent of the world's Internet users.[8] Africa has seven Internet connections for every 1 million people. While Internet access requires a working telephone line, 40 per cent of people living in developing countries do not have access to a telephone line. In Bangladesh, there are fewer than three telephone lines for every 1,000 people. In Afghanistan, the ratio is less than one in 1,000.

28. In contrast, nearly half the global on-line population resides in the United States. Forty per cent of Americans have Internet access at home or at work. The level of Internet usage in Germany and the United Kingdom is still about 20 per cent but is increasing rapidly. United States companies have been quickest to exploit the potential of the Internet for business. Many of the largest are United States-based. By one estimate, United States corporations collect 85 per cent of the revenues from the Internet business and represent 95 per cent of the stock market value of Internet companies.[9]

29. The imbalance in the infrastructure and access to the Internet is significant for several reasons. First, there is a close interrelationship between information technology and the skilled labour that is the primary beneficiary of trends towards a modern, global, knowledge-based economy. Second, the new information and communications technologies form an integral part of the "new" economy. Third, and perhaps most importantly, there are strong productivity gains attached to the use of information technologies and the progressive networking that has accompanied it. Spin-offs from investments in the sector have been a key factor in the recent high employment, low inflation growth of the United States economy. It has dramatically increased the speed and changed the nature of doing business, including through the emergence of electronic commerce. But as a result of

better monitoring of production and distribution cycles and more efficient inventory and cost-control techniques, among other things, productivity returns are also evident in traditional industries, such as transportation and construction. Finally, the applications of information technology in the sphere of education, health and information are perhaps the best expression of its positive potential for social development.

30. New technologies that have been such a factor in globalization have opened up opportunities for men and women across the world, including in developing countries, with skills in the new economy (for example software technicians and transcription services), which were previously limited by physical factors. But while information technologies do offer developing countries prospects of leap-frogging some developmental steps, its potential to stimulate the domestic economy and to act as a catalyst for integrating developing countries into the international trading system on a fair and equitable basis is still largely dependent on education and economic development. Even if telecommunications systems are installed and accessible, without literacy and basic computer skills people will have little access to the network society. Unless basic education, computer literacy and basic developmental issues are telescoped and tackled simultaneously, the knowledge gap between and within countries will widen. Moreover, if information technology is to play its full productive role, developing countries need to go beyond providing information services for export and apply it widely in their own economies also so that the spin-offs in terms of efficiencies, productivity and electronic commerce can be felt domestically as well.

31. There is also a danger that as those in developing countries with the skills for the new economy get increasingly networked, the gap between the skilled and the unskilled is likely to get wider. The information-rich will get richer and information-poor will get even poorer. Given the productivity benefits of the new technologies, failure to bridge the gap is likely to open up a chasm between those countries and sections that are able to plug into this process and those that are not. The challenge is not only to exploit the opportunities offered by information technology to improve the capacity of developing countries in the world economy but also to integrate the sector that is relatively better integrated with the sector that is not. This is true for every society but especially for developing countries.

32. The economic benefits of the new technologies are undeniable. But apart from aggravating the gap between the skilled and the unskilled and reinforcing inequality in the short run, the new information society poses some challenges for social development. The Internet offers the possibility of greater democratization of information and business by bringing users in direct contact across Internet space. A number of recent campaigns also reveal its utility in mobilizing public opinion around topical public issues. But if its potential for social development is to be fully realized, it is essential that its character as a public space be preserved. Like most technologies, information technology can also be used to privatize public space, making it accessible to some but not to others. Alternatively, it can be used to widen access across social and organizational barriers.

33. A second concern, together with other developments, is the impact on social cohesion. The evolution of a consumer society in which almost anything can be acquired in the market, a labour market characterized by insecurity and the scope that the Internet offers to alter the nature of human contact in the conduct of social and economic relations may well impact on the cohesion of societies.

# V. Financial markets, capital flows and mergers

34. Two parallel developments in the financial sector have defined present-day globalization as much as technological developments and the growth of international trade. The first is the development of the financial markets, institutions, instruments and mechanisms in developed countries. The second is the growth in capital flows across borders in several ways, including foreign direct or short-term portfolio investments or transactions in foreign exchange markets as a result of the deregulation and liberalization of the financial sector in the industrialized and many developing countries.

35. There has been an exponential growth in the size, operation and sophistication of financial markets in the advanced industrial countries, illustrated, among other things, by the growth and complexity of financial services, especially the expansion of stock markets.

This has been accompanied by their “democratization” to cover more and more ordinary, small investors. For example, the number of stock-owning workers and farmers in the United States is estimated to have risen 106 per cent between 1989 and 1995. Though the extent of stock ownership in Europe and elsewhere is not nearly as high as in the United States, it is growing, along with a similar trend towards more middle-income and even low-income investors beginning to share in the growth of the economy by purchasing stock. Privatization of publicly owned corporations in some countries, accompanied by promotion of the idea of employee shareholding, has played a key role. As a result, in France, roughly three fourths of all employees in privatized companies are shareholders in their companies.

36. It is against the backdrop of the increasing size, depth and complexity of financial markets in developed countries that the quantum increase in capital flows across borders has taken place in recent years. According to recent United Nations Conference on Trade and Development (UNCTAD) estimates,[10] worldwide flows of foreign investment rose by 41 per cent from $468 billion in 1997 to $660 billion in 1998, and to a record $827 billion in 1999, an increase of 25 per cent. Nearly three quarters of that increase, or an estimated $609 billion, took place among industrialized nations, with the largest share in the United Kingdom and the United States.

37. The composition of capital flows has changed, with private capital and short-term investments dwarfing governmental flows and longer-term investments. Short-term capital flows have grown spectacularly and, partly reflecting the integration of financial markets, transactions in foreign exchange markets are nearly 80 times larger than world trade. The share of official financing in total capital flows fell from over 50 per cent in the 1980s to 20 per cent in the 1990s. While official flows declined from $56.9 billion in 1990 to $47.9 billion in 1998, net long-term inflows to developing countries increased from $101 billion to $338 billion in 1997 before declining somewhat in 1998 with the Asian crisis.[11]

38. Capital flows from industrialized countries to developing countries accelerated in the 1980s and tripled between 1990 and 1996. FDI has been growing faster than international trade. Portfolio capital mobility accelerated even more rapidly in the 1990s. Cross-border share dealing has grown 10 times as fast as national incomes. FDI flows have been shifting from the primary to the manufacturing to the service sector, and there have been increasing flows to agri-business. However, such capital flows remain highly concentrated, going from a small number of developed countries to a small number of emerging markets. In 1998, the top 10 recipients accounted for 70 per cent of FDI flows to developing countries, while least developed countries accounted for less than 7 per cent. FDI flows to developing countries as a whole rose by 15 per cent to $198 billion in 1999, after stagnating in 1998. Latin America attracted $97 billion, one third of which went to Brazil, while $91 billion went to Asia, $40 billion of which went to China, the largest developing country recipient of FDI. Central and East European countries retained a stable flow of about $20 billion. Africa received between $10 and 11 billion, with Nigeria accounting for $2 billion and South Africa 1.3 billion.[12]

39. Cross-border mergers and acquisitions, whose announced value exceeded $1,100 billion in 1999, were the primary mode of entry into foreign markets in industrialized countries and are playing a growing role in developing countries. They have helped enterprises achieve better economies of scale, stay abreast of technological developments, maintain competitive advantage and mark their presence in as many nations as possible. Deregulation and privatization in Europe, Japan, the Republic of Korea and some developing countries and economies in transition have opened new opportunities for acquisitions by large multinational corporations. Such acquisitions have benefited consumers in the form of more efficient industries and utilities, access to imported goods and better services in some areas. But they have also, in many cases and certain periods, led to restructuring and closures of production facilities and social costs in terms of losses of jobs and incomes. In some cases, they have also been accompanied by doubts about the sensitivity of foreign ownership to national concerns.

40. The opportunities and challenges posed by globalization can be illustrated by the experience of East and South-East Asian countries. There, competitive, export-led growth and openness to foreign investment, both direct and portfolio, facilitated by an external policy environment that strongly advocated such policies and a leadership that was prepared to force the pace of development, generated rapid and strong economic growth, greater integration into the

global economy and healthy advances in social development. Inflation rates were modest and monetary and fiscal policies considered prudent. Poverty was significantly reduced all over the region, employment levels were enviable, and while inequality and regional economic imbalances may have been aggravated in some areas, problems of social integration in general were diluted by the general progress.

41. The financial crisis of 1997-1998 characterized by a sudden loss of confidence on the part of investors and swift withdrawal of investments, and its rapid spread to other developing countries and countries with economies in transition, at one stage threatening even industrialized countries, also exposed the risks inherent in such close integration with the global financial markets. The five countries most affected by the crisis (Indonesia, Malaysia, the Philippines, the Republic of Korea and Thailand) experienced a turnaround of $105 billion in a single year from an inflow of $93 billion to an outflow of $12 billion, representing 10 per cent of their combined GDP.[13] Most of the swing occurred in commercial bank lending and short-term portfolio flows. GDP declined sharply and the impressive strides in poverty eradication were abruptly reversed and compounded by problems of heightened inequality, unemployment and social tensions, with particularly adverse impacts on the poor and on women. The crisis showed that even more advanced developing countries that enjoyed strong macroeconomic fundamentals and were regarded as successful examples of liberalization and economic integration were vulnerable to shocks that could set back decades of economic and social progress.

42. The policies and actions of international financial institutions that advocated such liberalization and stressed structural adjustment and fiscal prudence when the crisis struck were viewed by many as exacerbating the negative social impact of the crisis. It has provoked a rethinking within these organizations in favour of the need to factor the social dimension in their handling of crises as well as in long-term development and a recognition of the risks inherent in capital account convertibility.

43. The liberalization of financial flows, floating exchange rates, financial innovations and new communications techniques have increased financial transactions enormously, as well as the opportunity for developing countries to attract foreign investment and capital for purposes of business and development, albeit on commercial terms. But they have also compounded a volatility inherent in these markets as a result of radical shifts of perception or in the interpretation of information, and sharp revisions of expectations not always based on sound considerations, that have resulted in panic reactions, contagion and periodic crises. Moreover, short-term capital flows, far from being a mere reflection of economic fundamentals, can actually push key macroeconomic variables, such as exchange and interest rates and the prices of such assets as property and shares, away from their long-term equilibrium and consequently affect output and employment.

44. Regardless of who or what triggers such inherently destabilizing movements of capital, their occurrence is a matter of concern to investors and receiving partners alike. Economic interdependence cuts both ways. Under favourable conditions, it helps everyone; under unfavourable conditions, it hurts everyone. For investors, financial shocks necessitate costly bail-outs that are controversial in themselves. For the recipient country, they usually mean austerity, unemployment and painful adjustment processes. The absence of principles to guide debtor-creditor relations in periods of distress has tended to magnify the severity of these crises, with costs frequently being borne by the poor and more vulnerable. Typically, the weaker partner, usually a developing country, is forced to bear a heavier burden of the “costs” of volatility. The interests of investors are taken care of before the interests of workers and others more directly affected in terms of employment and livelihood. This is possible because the investors are located mainly in wealthy countries and are able to negotiate more favourable terms and cushion the shock.

45. A number of measures for reducing such volatility have been proposed. These include taxes on short-term capital inflows, preferably coordinated internationally; improved regulations and supervision of financial institutions; policy stability; diversification of sources of capital; Chilean-type “cooling” mechanisms or reserve requirements; regulation of mutual and hedge funds; special facilities to deal with capital accounts-related currency crises; and greater disclosure and transparency of financial information, among other proposals. They have also prompted calls for a reform of the international financial architecture.

# VI. Macroeconomic policy management

46. Part of the uneasiness about globalization stems from the fact that national policies are increasingly strongly influenced by policies elsewhere. Liberalization and integration have affected the autonomy of national policy-making in a variety of ways. First, trade liberalization and the demands of global capital markets and financial institutions have to varying extents constrained the deployment of monetary and fiscal policy options for social purposes, including employment and equity objectives. The interdependence of interest and exchange rates has led to a strong pressure towards a convergence of monetary policy in the direction of controlling inflation and of fiscal policy towards fiscal restraint from which it becomes difficult for any country to deviate without risking adverse investor confidence. Conversely, macroeconomic imbalances tend to get amplified in a liberalized environment.

47. Second, the liberalization of trade and finance is steadily changing the traditional idea of countries as distinct economic entities connected mainly by trade towards an environment in which companies and financial markets can increasingly make production, marketing and investment decisions relatively free of national constraints. The promise of direct foreign investment and the threat of its withdrawal have significant leverage on the policy options of Governments.

48. Third, economic developments in one part of the world effect, in greater or lesser degree, other parts of the world. Decisions in bigger economies clearly impact more on smaller economies. But crises in emerging markets or economies in transition or other developing countries can also affect and force economic decisions in the bigger economies. As international responses to the Asian crisis show, much of the art of economic policy-making today depends on how national policies are dovetailed to global or international developments.[14] In such situations, the danger that countries may attempt to protect themselves from contagion by adopting measures that are harmful to the global economy underlines the need for cooperation and coordination in economic policy-making at the global level.

49. Fourth, the progressive reduction of tariffs as a result of trade liberalization has removed a major source of revenue that developing countries depended on for social expenditures.

50. Finally, globalization is also associated with changes in the level, pattern and targets of taxation. The increased mobility of capital and high-income groups has presaged a shift of taxation from relatively mobile factors to relatively immobile ones. In effect, this has meant a relative shift in taxation away from corporations to personal income, from higher incomes to lower and middle incomes, from profits to wages and from direct taxes to consumption (e.g., value added tax), in short from capital to labour. There is a near-universal trend towards lower taxation on higher incomes that implies a distancing from the redistributive function of taxation. Between 1986 and 1998, 67 of 69 countries for which information on tax systems was available witnessed a decline in the maximum tax rate on higher incomes.[15] Tax breaks and other hidden subsidies intended to retain or attract new investments have also worked in favour of the corporate sector.

# VII. Concluding observations

51. The processes associated with globalization have unleashed energies that are catapulting the world economy to a qualitatively new trajectory of development. New technologies are already yielding productivity gains, as also greater availability and flow of information worldwide with potential benefits for education, health and social development in general. Greater access to markets has provided new opportunities to countries and individuals to participate in the global division of labour and creation of wealth. Increased competition and new forms of business have also benefited consumers in many ways.

52. While providing opportunities for many, globalization has also been disruptive to large categories of society — poorer countries with weak and underdeveloped economies, unskilled labour, subsistence farmers and other vulnerable groups, i.e., those who lack the capacity to exploit such opportunities for reasons that have as much to do with levels of development as capacity to compete. The benefits of globalization have been unevenly spread. In the process, it has tended to split those plugged into the world economy from those who are not, thus opening a breach that has contributed to poverty, inequality and marginalization.

53. Despite the trends towards insecurity, marginalization, concentration of economic power and erosion of social capital outlined above, the international community has a strong stake in the technological advances and market-led growth and economic integration that propel globalization and that has opened opportunities for those equipped to exploit its potential. The unprecedented opportunities opened by globalization also need to be harnessed in aid of the eradication of poverty, full employment, inclusion, equity and long-term social progress espoused by the World Summit for Social Development. There is therefore, an urgent need to “manage” the process of globalization better so as to minimize its negative effects, make the opportunities provided by globalization available to all and spread its benefits wider, oversee the operations of the market in order to attenuate its extremes and reduce market failure, combat unemployment and poverty, and ensure a stake for the poor and the marginalized in the process. Developments since the recent World Trade Organization (WTO) meeting at Seattle and the outcome of the tenth session of UNCTAD in February 2000 suggest a greater recognition of these problems. Some active intervention will be necessary to tilt the global market from its current form of corporate globalization to a more democratic globalization.

54. To this end, it is imperative to reconcile the competitive economic philosophy of the market and the social philosophy of inclusion, however difficult this may seem. It may be necessary to reframe, wherever necessary, the rules of the market economy so that they incorporate and integrate better the concerns of both those on the forefront of the technological and entrepreneurial revolutions and the goals of the Summit to eradicate poverty; provide gainful employment to all; facilitate access to basic social services; promote equity, inclusion and social integration; and reduce inequalities between and within nations. It is also necessary to improve the mechanisms for the concerns of poorer countries and the poor, the vulnerable and the marginalized to be adequately reflected in the decision-making processes that affect them.

55. Economic globalization has revealed a mismatch between current systems and institutions of regulation and accountability that are national and the global nature of economic and financial transactions that pose a major challenge for economic governance in the twenty-first century. The issue of accountability has typically been cast in terms of the responsibility of business or corporations to the public. But in fact it goes well beyond that to the accountability of Governments for the operations of the market. The greater autonomy given to the economy under pressure of free market policies since the mid-1980s has led to a virtual separation of economic and political life, resulting in reduced accountability for economic decisions that are attributed to the market. One of the foundations of democratic governance is its expression of the public interest and the protection of the vulnerable. This requires some degree of public oversight in the interests of attenuating the often harsh features of the market. Representative and regulatory bodies together perform this function. Yet one corollary of freer markets is that the exercise of such a democratic and regulatory function is frequently called into question as an unnecessary interference in markets.

56. This is happening as government involvement in the economy, intended to fulfil this function, has been shrinking and that of the private sector in the provision of social services has been rising. There are good civic and economic arguments for the private provision of social services, including health, education and public television, primarily on grounds of efficiency. But with loss of public funding comes loss of public control over social priorities and the ability to pre-empt to prevent exclusion by the market.

57. These and other developments illustrate the challenge posed to the goals and commitments adopted at the Summit by free market-oriented economic policies and a reduced role for government in the economy through policies of liberalization, deregulation and privatization.

58. The need to reconstitute the social parameters of the market economy underlies thinking in certain quarters, including the World Bank, to devise a set of principles of social policy that ought to be kept in the foreground in the handling of crises as well as longer-term development strategies supported by the International Monetary Fund (IMF) and the World Bank. The pros and cons of developing such a set of principles was discussed in some detail at a two-day workshop convened in December 1999 by the Carnegie Council on Ethics and International Affairs in the immediate aftermath of the ministerial-level WTO trade talks at Seattle.[16]

59. A variety of concerns and views were expressed, including the feasibility and relevance of a common set of principles across societies at different levels of development, whether and how they would apply to different categories of actors, and their possible translation into conditionalities. The seminar nevertheless served to focus attention on the need to establish certain social fundamentals that could act as a countervailing force to the inequalities, imbalances and social disruption attendant to free-market-driven globalization. They could also form the basis for broader social development.

60. These principles were seen as operating at different levels and in different ways: through an internalization of a set of values that could limit the extremes of the market from the inside; through greater democratization of economic governance, especially at the international level, where there is a greater deficit, to act as a counter-foil to technocratic and corporate decision-making; through improved regulatory mechanisms that may require a more effective role for the state and greater international cooperation; and through the anchoring of policies advocated by international financial and economic institutions around such principles. In doing so, it could serve as a basis for economic policies that integrate social concerns a priori rather than a posteriori.

61. If the goals of the World Summit for Social Development — poverty eradication, equity, full employment and inclusion — are to shape the market, they must be integrated into the full range of core economic and other public policies. These include those relating to trade, structural adjustment, fiscal policy, taxation, macroeconomic management, environmental management, employment, competition, patents and intellectual property rights, foreign investment, capital flows and debt relief. They should animate all public negotiating, decision-making and regulatory bodies, national and international, and exert influence on the corporate, financial, business and trade organizations that play a dominant role in shaping markets. Policies should be judged not only by their efficacy in promoting the dynamism of markets but also by the extent to which they promote social development or at least do not undermine it. Where some conflict is inevitable, remedial measures should be integrated as far as possible at the outset in the design of the policy itself. The Preparatory Committee may wish to initiate a process at the level of the United Nations to develop guidelines integrating the goals of the Summit into all economic and social policy.

62. Second, the impact of policies on the exacerbation or alleviation of poverty should be an area of special concern. Though the rules governing the modern market have generally been guided by the needs of enterprise, to some extent, social concerns, such as the impact of policies on employment or worker's rights, have under the pressure of workers always played a role in their elaboration. There is a need to go further and place the objective of poverty eradication into the mainstream of economic policies at both the national and international levels. To take an example, trade policies that are sensitive to the goal of poverty eradication would favour access to precisely the types of lower-technology, labour intensive, pro-poor activities, such as agriculture and textiles, that tend to face restrictions in international markets at present. A pro-poor trade policy would provide greater space for the comparative advantages of the poor and poorer countries.

63. Third, partly in order to address the problem of poverty per se and the marginalizing effects of globalization, it would be desirable to develop and strengthen a pro-poor, market-based growth strategy that builds on the capacity of the poor to exploit the potential of the market to escape from poverty. Most approaches to poverty eradication have focused on redistributive strategies, while most market-based economic growth strategies have tended to rely on those who already have the capital necessary for investment. While redistributive policies are important and will continue to be required, successful strategies for poverty eradication that enable those who do not have assets and capital to use the market profitably have attracted lesser attention. Such strategies focus on enabling the poor to act as active agents capable of utilizing the market to their advantage. They include easier access to productive resources and assets, development of rural infrastructure and public goods, development of entrepreneurial and other skills, and microfinance and support for cooperatives, small-scale business and industry and other forms of economic organization of the rural and urban poor. Investment in rural non-farm growth is a particularly promising approach to poverty reduction. The thrust of such an approach would be to expand the opportunities and scope for private initiative "downward" to the grass-roots level.

64. However, none of this will happen automatically or without public pressure. It will require institutions that can channel such concerns at the level of public policy-making and the market, which may be a multi-layered process. It is crucial to meet the challenge of exclusion posed by globalization by improving existing structures of democratic governance so that the views of those excluded and marginalized by the market are effectively heard and accommodated in the process of decision-making. However, in an era of globalization in which the consequences of actions are felt well beyond the borders of any one country, greater democratization of international economic relations is also required so that the views of countries affected by economic decisions of global market players are taken into account. Only within such inclusive forums can the views of all those concerned and affected by the decisions of the few be heard. More inclusive membership is also essential if international cooperation is to be matched with implementation.

*Notes*

[1] See *Official Records of the General Assembly, Fifty-fourth Session, Supplement No. 45* (A/54/45), chap. VI.B, decision 1, annex, para. 1 (a).

[2] See Janine Berg and Lance Taylor, "External liberalization, economic performance and social policy", New School for Social Research, Working Paper Series: Globalization, Labour Markets and Social Policy, February 2000.

[3] See UNCTAD, *Trade and Development Report, 1999* (United Nations publication, Sales No. E.99.II.D.1).

[4] See *World Economic and Social Survey, 1999* (United Nations publication, Sales No. E.99.II.C.1).

[5] United Nations publication, Sales No. E.99.IV.8.

[6] See UNCTAD, op. cit.

[7] Quoted by Jan Vandemoortele of UNICEF in a working paper presented at a workshop on social policy principles and the social development agenda, Pocantico, United States of America, December 1999.

[8] See UNDP, *Human Development Report, 1999* (New York, Oxford University Press, 1999).

[9] See *New York Times*, 9 January 2000.

[10] See UNCTAD press release, 8 February 2000.

[11] See World Bank, *Global Development Finance, 1999*.

[12] See UNCTAD press release, 8 February 2000.

[13] See UNDP, *Background Papers: Human Development Report 1999*, vol. I (New York, Oxford University Press, 1999), paper by S. Griffith Jones and J. Kimmis.

[14] This is illustrated by reaction to the Asian financial crisis. Major industrial countries lowered interest rates because of widespread fears that the crisis might push the rest of the world into severe recession. Despite an expanding economy at that time, the United States Federal Reserve's proactive response in lowering interest rates three times in the fall of 1998 played an important role in preventing that outcome. China's decision, at the height of the financial turbulence in 1997, to maintain the exchange rate of the yuan renminbi (in part possible because of a favourable balance of payment status) helped prevent the further spread of the crisis, and indirectly, a worsening environment for social development.

[15] See ILO, "Country studies on the social impact of globalization: final report" (GB.276/WB/SDL/1).

[16] See "Report of the Workshop on Social Policy Principles and the Social Development Agenda" (Carnegie Council on Ethics and International Affairs).

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