

## GLOBALIZATION

*“The greatest challenge we face today is to ensure that globalization becomes a positive force for all the world's people, instead of leaving billions of them behind in squalor. Inclusive globalization must be built on the great enabling force of the market, but market forces alone will not achieve it. It requires a broader effort to create a shared future, based upon our common humanity in all its diversity.”*

*From the Millennium Report*

### Vital Statistics

- Of the world's six billion people, 1.2 billion live in extreme poverty, or on an income of roughly US \$1 a day or less. Just under 3 billion people live on \$2 a day or less.
- Industrialized countries, with 19 per cent of the world's population, account for 71% of global trade in goods and services, 58 per cent of foreign direct investment, and 91% of all Internet users.
- More than US\$1.5 billion is now exchanged on the world's currency markets each day.
- Foreign investment topped US\$400 billion in 1997, seven times the level, in real terms, of the 1970s.
- Between 1983 and 1993, cross-border sales of US Treasury bonds increased from \$30 billion to \$500 billion per year.
- International bank lending grew from \$265 billion in 1975 to \$4.2 trillion in 1994.
- The world's 200 richest people more than doubled their net worth in the four years before 1998, to more than \$1 trillion. The assets of the top three billionaires total more than the combined GNP of all the least developed countries with their 600 million people.

### Globalization—An unstoppable force?

There was a time when Coca-Cola was the hallmark of a global company, selling its soft drink in virtually every country, in virtually every language. But now the world is used to MacDonald's selling hamburgers in Moscow, Beijing and Karachi, while Toyota pick-up trucks roam the African Sahel, and Sony televisions occupy a central location in homes worldwide.

This is the golden age for business, commerce and trade. Never before in the history of the world has there been such an opportunity to sell as many goods to as many people as there is right now.

It's not just big companies that are in on the explosion—although they may dominate. Instant information and communications have allowed indigenous people in Guyana to market handmade hammocks through the Internet, and even the fifty or so people living on remote Pitcairn Island can sell their handicrafts anywhere.

With instant information and communication, virtually everything is available to anyone, anywhere. Markets are now global and many corporations are often richer and more powerful than many countries.

There has always been trade between countries and societies, but never on a scale close to today's levels. A combination of reduced trade barriers, financial liberalisation and a

technological revolution have completely changed the nature of business in virtually all of the industrialized countries.

- The countries of the world are exporting ten times the amount they did in 1950, and more money—more than \$1.5 trillion a day—now moves across borders. In 1973, that figure was only \$15 billion.
- More people are travelling than ever before, with 590 million going abroad in 1996, compared to about 260 million in 1980.
- More people are making international telephone calls than ever before, and are paying less. A three minute phone call from New York to London cost \$245 in 1930—in 1990 it cost just \$3.

Globalization does not stop there. With the Internet and state-of-the-art telecommunications, sales and technical representatives based in India can answer customer questions in the United States. Back-office insurance jobs can be located thousands of miles from company headquarters, in different parts of the country, in different countries, and on different continents.

More trade, more markets, more business, more information, more jobs, more opportunities. This is the promise of a globalized world. The tide of globalization has already brought considerable wealth to areas of the world long accustomed to only poverty, and even more wealth to areas that were doing quite well already. In East and South-East Asia, countries have turned to export-based economies to propel themselves up the development ladder. In the coastal regions of China, global market-oriented businesses have helped raise living standards for millions of people.

This whirlwind of economic activity has brought many benefits, and wealth, to many people. There has been faster economic growth, higher living standards, accelerated innovation, and new opportunities for both individuals and countries. Accompanied by a revolution in information and technology, the world is very much a smaller and more integrated planet than ever before.

But if globalization can generate wealth, it can also take it away:

- The billions of investment dollars that washed up on Asian shores in the mid-1990's abruptly reversed direction in 1997, sending millions of people back into poverty in what has become known as the Asian financial crises, although its impact was so widespread it affected countries on virtually every continent. Hardly a fluke economic condition, the Asian crisis marked the fifth serious international monetary and financial crisis in the last two decades, all which have left a trail of financial devastation and ruin from Russia to Latin America.
- The benefits of globalization have largely bypassed over half of the world's population, or close to 3 billion people who make do on less than US\$2 a day. These are people who have not shared in the new wealth, are not connected to the Internet, and for the most part, lack the necessary skills that are needed to participate in this brave new economic world.
- In Central Asia and Eastern Europe, where many countries have not adapted to the global economy, more people today are living in poverty than ten years ago.

- Despite all the talk of globalization, the bulk of the world remains largely untouched by it. It is estimated that half the world's population has never even made, or received, a telephone call, according to United Nations Secretary-General Kofi Annan.

The Secretary-General contends that with all its problems, globalization can be a positive force for all the world's people. "I remain convinced that globalization can benefit humankind as a whole. But clearly, at the moment, millions of people -- perhaps even the majority of the human race -- are being denied those benefits. They are poor not because they have too much globalization, but too little or none at all."

But the Secretary-General recognizes that globalization comes with many dangers. On the balance, he found that globalization "draws peoples closer together, and offers many of us choices that our grandparents could not even dream of. It enables us to produce more efficiently, and allows some of us, at least, to improve our quality of life. But alas, these benefits are far from being felt equally by all. The long term of positive change is, for millions of our fellow human beings, simply too far off to be meaningful. Millions still live on the margins of the world economy. Millions more are experiencing globalization not as an opportunity, but as a force of disruption or destruction: as an assault on their material standards of living, or on their traditional way of life. And those who feel marginalised in this way are growing more and more numerous." -- Address to the General Assembly, New York, 21 September 1998 (SG/SM/6707)

### **The Backlash to Globalization**

Clearly, not everyone is happy about globalization. Many people don't like globalization because it allows rich and powerful outside business interests to intrude into a local culture, overrides local traditions, and threatens a way of life. There were many who cheered for a French farmer who vandalized a McDonald's. Starbucks coffee shops have been favorite targets for people protesting globalization.

In more traditional societies, globalization threatens the cultural and religious underpinnings of society. In both industrialized and developing countries, many people feel threatened—and are threatened—by the globalization process. A globalized economy presents a myriad of challenges, from protecting local cultures to protecting the environment to protecting local jobs.

The backlash is very real. During the failed World Trade Organization talks in Seattle that were intended to further expand trading opportunities last December, thousands of demonstrators who agree on little else aside from a common dislike for globalization, caused major disruptions. Labor Unions protested, fearing that a new trade agreement would provide an incentive for companies to move their jobs abroad. Environmentalists protested, fearing that global trade agreements would undercut domestic environmental safeguards. And there were nationalists, who feared that further globalization would diminish national sovereignty, and possibly lead to a loss of freedom, liberty or rights.

Whether it is viewed as an ominous juggernaut that crushes everything in its path, or whether it holds the promise of a better future, globalization is a phenomenon that is with us. Like the

weather, it is, and will be, a source for endless discussion, but little can be done about it. But also like the weather, it is a force to which people can adapt.

### **Balancing the Concerns**

At the international level, developing and developed countries have widely differing concerns. In developing countries, where poverty is acute, the emphasis is on development, at almost any cost. Pointing out that the developed countries industrialized at a time when there was no regard for environmental concerns and when labor standards were abominable, developing countries maintain that unless they receive some assistance, they have little choice but to develop any way they can.

Developing countries have also asked the international community for help to postpone or cancel their staggering debt. These countries are obligated to repay loans that were taken out by previous corrupt or dictatorial regimes, or that were suggested by donors to finance development schemes that did not work out. Often, these debt payments amount to far more money than the countries are able to spend on other necessities, such as health or education.

Assistance—both financial and technical—has been sorely lacking, developing countries say. Statistics support that contention and show that the financial assistance that the richer countries have provided the poorer ones has dropped sharply over the last decade. There have been initiatives by the international financial institutions and by some donor governments to forgive debt, but so far, very few countries have qualified for these programmes, and debt relief has been long in coming.

Developed countries, on the other hand, say that the debate over foreign assistance misses the point. What is important, they say, is the skyrocketing amounts of foreign direct investment by the private sector, and maintain that if developing countries want to attract investment, they must adapt themselves to the needs of the global economy in terms of governance and infrastructure.

In fact, foreign investment, coupled with an export-oriented economy, has already proven itself as a potent force for development, and has fueled the extraordinary growth of the so-called “Asian Tigers” over the last several decades—both before and after the Asian financial crisis. Countries such as the Republic of Korea, Thailand, the Philippines and China have all benefited from a large influx of foreign investment and have experienced rapid growth, allowing millions to move out of poverty. Yet while the amounts of foreign investments to developing countries have grown, most of it goes to one country—China, and most other countries receive very little.

The argument given, then, is that most developing countries have to work to make themselves attractive to foreign investment. This means, these countries have been told, that they must establish governments that are stable, democratic, accountable and transparent to provide a place where business can operate.

- Though about one-quarter of foreign direct investment (FDI) now goes to developing countries, not everybody benefits from it. Asia receives almost 20 times more foreign investment than Sub-Saharan Africa, where the need is the greatest. One of the reasons why some developing countries fail to attract foreign investment is lack of information about investment opportunities

in those countries. Doing precisely that is the goal of a new joint initiative undertaken by the United Nations Conference on Trade and Development (UNCTAD) and the International Chamber of Commerce. This initiative includes publication of investment guides, describing investment opportunities and conditions in the least developed countries, and promoting dialogue between Governments and potential investment. Twenty-eight companies, some of them very big, are supporting the partnership and contributing to the project, as are China, Finland, France, India and Norway.

### **The Role and Responsibility of Corporations**

With their world-wide operations succeeding in maximizing profits, corporations have assumed extraordinary power, often far surpassing that of governments. With virtually no global rules or regulations, corporations have been able to operate with a free hand in the international marketplace, moving factories where labor costs are low and where resources are cheap.

But corporations themselves are finding out that there are limitations, even in this wild-west theatre of operations. With either a spark of conscience or a heads-up look at the bottom line, many corporations have learned that there are indeed limitations to what they can, and that there are responsibilities they must assume.

- Some corporations have learned this the hard way. Union Carbide learned this when its chemical plant in Bhopal, India, spewed poisonous gases that killed 6,000 people. And Exxon learned this when its tanker, the Exxon Valdez, spilled 11 barrels of oil over the Gulf of Alaska, which caused the company's sales to fall from U.S. \$9.9 billion a year to US \$4.8 billion eight years later, plus an additional billion in clean-up costs.

Catastrophic incidents such as these are well-known and relatively rare. Yet there are growing networks of non-governmental organizations who have made it their business to publicize other corporate transgressions, such as poor environmental, labor, or human rights violations. To limit exposure to bad publicity which can severely limit profits, or in some cases, just to do the right thing, many companies themselves have adopted various codes of conduct in their global dealings.

To engage business and corporations in a dialogue on corporate social responsibility, the UN Secretary-General has proposed a nine-principle code of conduct for business—the Global Compact -- which is drawn from existing international agreements on the environment, human rights and worker rights. A wide range of corporations have pledged that they will adhere to these principles, some that have been extensively criticized for their past practices. One of those companies is the sneaker company Nike, which has been singled out for criticism on its labor practices in developing countries.

- Philip Knight, the founder of Nike and its Chief Executive Officer said at a recent meeting at the UN on the Global Compact, “When we started the company that would eventually become Nike, I never dreamed that a small Oregon business selling sneakers from the trunk of an old Valiant would become a symbol of globalization. But it has.”

He added, “In many ways Nike has become a fitting symbol for what is right - and what needs fixing - in an increasingly interdependent economy. We are small by multinational standards but manufacture in 50 countries. In each there are distinctly different legal, social, financial and economic systems. That means Nike, and thousands of other companies, have a monumental task: defining what our global responsibility is, and how to act on it, in many host countries.”

### **Developing Countries Wary**

Developing countries, however, are nervous about the imposition of conditions. They already must meet a plethora of conditions to receive loans from the International Monetary Fund or the World Bank—and some of these conditions have been more damaging than helpful. Consequently, they are leery of the push for greater corporate responsibility. While they support labor standards, environmental protection, and human rights, many of these countries are wary that they are just a smokescreen for greater protectionism in the richer countries. They fear that without resources, they will be hopelessly unable to enforce these principles, and will then be the target of sanctions. Their fears are not unfounded, as United States President Bill Clinton raised the specter of sanctions in Seattle during the WTO talks.

Developing countries have also been slow to support the Global Compact initiative, as many believe that the principles selected contain a northern bias. Of greater concern to developing countries are the behavior of monopolies, the need for foreign corporations to contribute to the tax base, and a sharing of technology.

### **New Challenges**

There is no world government to regulate all the facets of globalization, and very few people want one. Yet to manage globalization to ensure that all enjoy its benefits, there is a need for more comprehensive global governance—a system of international law based on the principle of multilateralism that will spell out the ground rules for all participants in the global economy.

Many areas of interdependence need global attention. The benefits of a globalized economy must be accompanied by greater global cooperation to prevent and contain the spread of “global bads,” such as the spread of economic crises, epidemics, environmental degradation, crime and drugs. Cooperation is to address macroeconomic policies, and on trade, aid and the need for a fair and equitable system to protect intellectual property.

At present, there are organizations to address many of these issues, but by and large, their work is uncoordinated, and poorly supported by the international community. To achieve a more integrated degree of policy coherence, gaps must be filled and existing structures improved. Not to dominate national governments and overpower cultures and societies, the essential role for global governance is to define objectives, set standards, and to monitor compliance.

The United Nations, a treaty organization made up of 189 countries, is part of the answer. But to address the needs of people, it needs the support not only of governments, but also of civil society, the private sector, parliamentarians, local authorities, the scientific community, and many others.

The Secretary-General thinks, as a result of globalization, the world's commitment to the poor is being recognized not only as a moral imperative but also as a common interest. Each country must still take primary responsibility for its own programmes of economic growth and poverty reduction. "By ridding the world of the scourge of extreme poverty is a challenge to everyone of us. It is one that we must not fail to meet," he urges in the Millennium Report.

To this end, the Secretary-General proposes concrete actions, urging the developed countries in particular to:

- Grant free access to their markets for goods produced in poor countries.
- Implement debt relief programme, including cancellation of all official debts of the heavily indebted poor countries, in return for those countries making demonstrable commitments to poverty reduction.
- Grant more generous development assistance.
- Work with pharmaceutical countries and other partners to develop an effective and affordable vaccine against HIV.
- Make special provision for the needs of Africa.

### **Suggested Activities for Students**

- Make an informal survey of objects in your home to determine where they were made. See what items are made where. OR select a meal and list all the components of that meal. Where does each component come from? OR take a walk down the food aisle of a local supermarket. Look at the labels and find out the geographic origin of each product on the shelves. Share your findings with the class. What conclusions can you draw?
- Select a group you are a part of. Ask each member to share their roots: the ethnic origins of their family members. Identify the routes followed by the movements of these family members/ancestors on a world map, using push pins or other markers to show the composite roots. Share your findings with the class. What observations can be made? What kind of economic goods tend to follow the movement of a group of people to a new area? Why? Cite local examples.
- Research the events of the World Trade Organization meeting in Seattle. What is the World Trade Organization? Which countries are members? What is its function? How have decisions been made? What and why were there protestors at the meeting in Seattle? What were some of the reasons and issues behind the protests? Select several of the countries which sent representatives. Research to find out the positions the countries took on the various issues
- Choose a company which has been the target of protest. Research to find out more about the company, the nature and location of its operations, its stock performance, the nature of the arguments used by protestors, the response offered by the company, the effects of the protest on the operations of the company and on the value of the stock. Check the web page of the Global Compact to see if the company has signed the compact.
- Using such resources as *Forbes Magazine* or *The Economist* or their websites, compile a list of the world's largest corporations and a list of their total sales. Using the resources of the World Bank, find a list of the gross product of the countries of the world in rank order. Compare the two lists and compile a list of the 100 wealthiest entities in the world. Of these top 100, how many are countries and how many are corporations? Share your observations with the class. From the list of 100 you compile, which names are most familiar to you and members of the class. Research more about recent mergers among large corporations. What effect have these mergers had on the wealth of these new corporate entities.

- Choose a company that makes a product that you have at home. Find out more about the company, the location of its headquarters and other important locations, the product/s it makes, its history and growth. Check their website to see if they have a corporate code of conduct. Does it explicitly protect the environment, workers' right and human rights? Write to the company expressing your views about its operations, or your opinion about the product you have.
- Check out the website of a non-governmental organization, such as Corporate Watch or the Institute for Policy Studies. What kind of issues do they study? Which corporations do they watch? Why? Is their criticism fair?
- Plan a globalization forum for your school. Invite members of the business, trade, human rights, environmental and labor organizations to participate and share their insights into the topic. Speakers could be asked to offer suggestions for activities students might undertake. Listen to all views and decide on the ones which make the most sense to you. Interested students may wish to plan follow up activities based on suggestions the speakers might propose.
- Track the stock market reports on the financial pages of a major newspaper over several weeks. See how the progress on one world stock market affects others. Share the results with the class. What conclusions can you draw?

### **Selected Resources**

#### **On the World wide web**

UNDP: <http://www.undp.org/>

UN Department of Economic and Social Affairs (DESA): <http://www.un.org/>; see also the website for the World Summit for Social Development and its five-year review: <http://www.un.org/socialsummit>

UN Secretary-General Kofi Annan's Global Compact: <http://www.unglobalcompact.org/>

The World Trade Organization: <http://www.wto.org>

The World Bank: <http://www.worldbank.org/>

Corporate Watch: <http://www.go.com/>

Business for Social Responsibility: <http://www.bsr.org/>

International Council of Free Trade Unions:

Institute for Policy Studies:

Inter-Press Service: <http://www.ips.org/>

Inter-Parliamentary Union (IPU): <http://www.ipu.org/>

Transparency International: <http://www.transparency.de/index.html>

Friedrich Ebert Stiftung: <http://www.fes.de/>

The Ford Foundation: <http://www.fordfound.org/>

#### **Publications**

An agenda for development, United Nations, 1997

Change: Threat or Opportunity for Human progress?, UNDP, 1991

Overcoming human poverty 2000, UNDP, 2000

Human development Report 1997, UNDP

#### Graphs/charts

Population living on less than \$1 per day  
(1990-1998)

From the Millennium Report, page 20