GLOBALIZATION AT THE CROSSROADS: NEW EMERGING TRADE PATTERNS AND THE MILLENNIUM DEVELOPMENT GOALS

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Abstract

Globalization, widely cited as the dominant international economic trend of the post-World War II era, stimulates the opening of the world economy. The relationship between trade and growth has been intensively debated in the economic literature, within the fields of economics, sociology, political sciences, and others. However, there is no clear argument linked to empirical and statistical findings leading us to conclude that increased globalization of the world economy has fulfilled worldwide expectations in terms of development. This paper attempts to address the issue of accelerating globalization and its development impact from an economic and social perspective. The global strategy of market-led trade patterns has given rise to new trends at the multilateral, regional and bilateral levels. New emerging countries are redefining trade and power relations, within our economic development paradigm. But, despite the growth in international trade relative to GDP in the majority of countries, 2 billion people still leave in poverty in countries that are left behind. The following analysis of globalization and its resulting trade patterns over the last decades illustrates the issues at stake, particularly with regard to the UN’s millennium development goals. We stress that globalization has broad ramifications for the future path of the global economy and its governance. We point out that despite the complexity of the issues, the interface between globalization, trade, and social development cannot be put aside any longer.

INTRODUCTION

The main feature of globalization, and especially of its intensification in the 1980s, is increasingly fierce competition among countries and multinational corporations (MNCs) worldwide. At the same time, globalization is seen as having been accompanied by wide disparities in development among and within countries. Questions have been raised about its role in creating or accelerating the financial crises of the 1990s and the early 2000s (Mexico, 1994; Asia, 1997; Russia, 1998; and Argentina 2001, and 2003). At the same time, the failure of centrally planned economies has given way to a belief in the extension of global capitalism, although our belief in the probity of that system has been shaken by a rush of corporate scandals such as Enron, WorldCom, Arthur Anderson and others, and the inadequacy of that system to address development goals. Nevertheless, globalization is a fact of the contemporary world, and new players are emerging on the global scene.

In this paper, we first emphasize that the trading system is highly competitive, given globalization patterns. Nations from North America, Europe and Asia seek to sustain economic growth through greater reliance on export trade and foreign direct investment (FDI). We point out that to better assess the effects of the global economic changes that have taken place over the past two decades, understanding the pursuit of economic integration by countries in Asia, Europe, in the Americas and elsewhere is a key factor. We note that globalization and regionalization must be analyzed in terms of geopolitics and socio-economic development strategies, given the ongoing debate about the benefits and costs of free trade. We illustrate a trend toward signing more bilateral free trade agreements over the past few years, due in part to difficulties in bringing to an end the Doha round of trade talks at the World Trade Organization (WTO). Delays in implementing further regional economic integration in the Americas (i.e. the Free Trade Area of the Americas [FTAA], not ratified yet by the US Congress and which was supposed to take effect on January 1st, 2005), are also influencing the US to conclude an increasing number of bilateral agreements worldwide. Major changes are also taking place in world markets. Lately, China and India have been integrating into the international economy at a rapid pace, although in different ways, and are changing the landscape of competition and development. Last, we stress that trade liberalization has broad ramifications for the future path of the global economy and its governance, and that empirical research is required to address both new and recurrent issues emerging in international trade and economic theory. This is due to the fact that the frontiers of development thinking are expanding, and our analytical framework is being increasingly challenged.
GLOBALIZATION AND THE ECONOMICS AND POLITICS OF TRADE: AN ASSESSMENT

Over the last two decades, the rules of the game in international economic relations have been changing dramatically. The rapid diffusion of information and communication technology at the global level has changed the nature of the world economy and accelerated globalization processes. In many sectors, economic interdependence is producing a global marketplace. Today, technical progress affects the geography of FDI in many ways. Globalization and the growth of new technology appear to be correlated; exporting leads to greater use of more advanced technologies and increased process innovation through the acquisition of foreign technologies (Baldwin and Gu; 2004).

We are presently engaged in the third wave of globalization,1 fuelled since the 1980s by greater openness to trade and by a great expansion in FDI, itself driven by the global expansion of MNCs. What is notable about this phase of globalization is the expansion of operations of MNCs within host countries across the globe, both to serve local markets and to establish supply chains for home and third country markets. Reviewing the literature, Baldwin (2003) notes that trade openness is generally perceived as having a positive impact on growth. It is interesting to point out that while cross-country trade linkages have been rising steadily during the last four decades, cross-border capital flows began to surge only in the mid 1980s. Kose, Prasad and Terrones (2005) remind us that the spread of trade linkages has been broad-based, but only a relatively small group of developing economics (often referred to as “emerging markets”), have undergone significant financial integration, as measured by gross capital flows across their borders. Despite achieving rapid growth, these economies have been subjected to high volatility (i.e. financial crises). Globalization may increase systemic risk in the global economy. Openness to trade flows stimulates domestic growth, but at the same time increases vulnerability to external shock. The emerging trends are showing global disparities, as nations compete for investment. Globalization makes national economies more competitive but renders currencies and financial markets unstable. This is one important feature of globalization.

Since the WTO Seattle Ministerial Meeting of 1999, multilateral institutions, states and civil society around the world have focused increasing attention on critical issues in the global trade system, whether there are financial, economic or environmentally oriented. Sustainable development, equity, human

1 The first wave of globalization covers the 1870-1914 period, followed by a retreat to nationalism from 1914 to 1945. The second wave encompasses the 1945-1980 period with the relatively stable functioning of the Bretton Woods Institutions (the World Bank, the International Monetary Fund [FMI] and the General Agreement on Tariffs and Trade [GATT], in the early 1970s).
rights, cultural influence, and governance issues are at the center of development thinking. Proponents of free trade strongly believe that it is the key to economic growth. Opponents argue that economic development is not only about economic growth through competitiveness on export markets: it is about sharing the wealth in an equitable way among and within countries. Therefore, globalization raises significant challenges in terms of development strategies, to the extent that it fails to contribute to such national goals. Evidence of rising poverty and inequality among the poorest nations, which accompanied accelerating globalization led the World Bank, in its 1990 *World Development Report*, to launch an international campaign to reduce poverty. That agenda is clearly emphasized in the following World Bank reports for the year 2000 and beyond. This follows the consensus forged in the United Nations (UN) with the Millennium Development Goals, which aim to reduce poverty levels by 50% by 2015 (General Assembly Resolution 55/2 of September 2000).

According to the 2003 *World Development Report* (World Bank, 2003), three billion people will be added to the world’s population over the next 50 years and 2.8 billion people today already live on less than $2 a day – almost all of them in developing countries. The report emphasizes that ensuring economic growth and improved management of the planet’s ecosystem requires a reduction in poverty and inequality at all levels – local, national and international. Adaptation, restructuring, political action and multilateral policies are required to facilitate the transition to a more balanced way of development, given that globalization might be unstoppable but is also at a crossroads. Worldwide disparities are not sustainable in the long-run. Communications and dissemination of information are also increasing in speed, driven by globalization, and raising a broader and renewed awareness of global problems, particularly poverty. The worldwide response to the Asian tsunami tragedy is a recent example of this trend.

Recent globalization has been a force for poverty reduction, and has helped some large poor countries (such as China and India) to narrow the gap with rich countries. However, as pointed out by the World Bank (2002: 18): "Some of the widespread anxieties are founded: globalization could be more effective for people, and its adverse effects could be substantially reduced." The growth process is complex, and trade is not sufficient for growth. Mattoo and Subramanian (2004: 1) point out: “The WTO faces a challenge relating to a group of countries that are small and poor, which account for a large share of the WTO’s membership.” The authors emphasize two major points related to our following discussions: (1) because of being small these countries do not have much to offer trading partners by way of market access concessions; and (2) further multilateral liberalization would in certain areas erode rather than enhance their access to the markets of the industrial countries with whom they benefit from preferential
access. Therefore, the relationship between trade gains – through increased liberalization and economic efficiency – and distribution effects continues to raise conceptual and empirical challenges for such disadvantaged countries.

Do countries participating in the trade system share the same interests, whether they be large or small? Given the difficulties in concluding the Doha Round of multilateral talks, the answer is clearly not. The 5th ministerial meeting of the WTO in Cancun, in September 2003, could not reach an agreement among the 146 member countries. The new round of global trade negotiations, covering everything from goods and services to investment rules, government procurement and competition policies, is under stress, particularly over continuing disagreements on agricultural subsidies. Issues of concern to developing countries such as access to generic drugs to combat AIDS and malaria are also raising challenging questions in terms of intellectual property and human needs. According to Wolfensohn and Bourguignon (2004: 23): “The Doha Round reached a landmark at the WTO General Council Meetings in July 2004. While aiming for an agreed “framework” rather than the more specific modalities for negotiations was a modest objective, delegations exceeded expectations by beginning to address key issues … Observers hope that substantive negotiations can then resume in 2005, but the new optimisms should not cloud the fact that no firm commitments have been made yet.”

The UNCTAD Trade and Development Report (2002) argues that although integration into world trade is essential, it is not sufficient for ensuring a country’s development. The Report questions the conventional wisdom that export growth and FDI automatically generate commensurate income gains. Why is it that some developing countries are trading more but earning less? According to the Report, developing countries are competing among themselves to export similar labour-intensive manufacturing products to the same markets. They need to move into higher-value exports by upgrading technology and improving productivity (such as China and India are doing in the service sector). As these countries follow the developed world in expanding the share of services in GDP, the service sector is becoming increasingly globalized (UNCTAD 2005 Report).

Dollar and Kraay (2002), among others, demonstrate that empirical evidence suggests a positive link between the level of openness and economic growth. However, factors such as domestic conditions, investment, market size and sector specialization are also important to economic growth. Rodrik (1999) argues that the openness required by globalization is no guarantee of better growth performance or poverty reduction. Today, policy questions should drive the way we operationalize a theoretically informed approach to global trade issues, as well as to FDI, as political, economic and infrastructure policies have a big influence on the behavior of MNCs. When society and politics are stable and
there is good governance, the investment climate improves and FDI flows increase.

Patterns of FDI are changing, reflecting responses from MNCs to policy development in the direction of more liberalization and deregulation in developing countries, and growing business opportunities in those countries. Also, although the developed world still accounts for nine tenths of global outward FDI, changes in the geographical patterns of FDI show the growing importance of developing countries as both host and home countries for FDI. In 2004, developing countries attracted an estimated $255 billion of FDI inflows, corresponding to 42 percent of world FDI flows, and increasing the FDI stock of developing countries to more than $2.5 trillion. However, the FDI flows are concentrated in a few major countries, such as China. Meanwhile, the value of outward FDI stock from developing countries rose from $129 billion in 1990 to $859 billion in 2003. The expansion of FDI from the South is mainly accounted for by a number of economies, notably in Asia, and some in Latin America and the Caribbean (the latter mainly due to tax factors) (UNCTAD, 2005).

However, larger markets will always tend to attract more FDI and are also the major source. About 90 percent of the world's 100 largest non-financial MNCs in terms of foreign assets are based in the Triad. According to data compiled by Targowski and Korth (2003), the world’s largest market at the moment is the North American Free Trade Agreement (NAFTA), which comprises 26 percent of world’s GDP, followed by the European Union (EU), with 22 percent; China (11 percent), and Japan (8 percent). The remaining 187 countries, including the Asian Tigers, India and Brazil, have only a 33 percent share of the world market. What remains to be seen is how increased exports from China and a possible acceleration in the growth of India and Brazil are going to affect these data.

Dunning (2004) emphasizes that the contemporary phase of globalization causes us to reappraise the nature and purposes of development. For the author, the contemporary phase of globalization that he defines as “20/21 globalization” (as opposed to previous globalization of the 19th and early 20th century: “19/20 globalization”), calls for a new paradigm of development (NPD). This is due to the fact that the goals and challenges of development requires us to give institutions a centre-stage treatment, and to better integrate micro and macro incentive systems into the mainstream theories of international business activity. In particular, we must consider how MNCs, governments and multilateral institutions are affected by the interface of 20/21 globalization and the NDP.

We totally agree with that vision, given that those are the main players in international business. However, we would suggest putting more emphasis on the role of civil society, which will reinforce the point made by Dunning that one of the key features of 20/21 globalization is the “New importance attached to institutions and social capital”. Within the context of the changing global...
political economy, civil society acts as a catalyst for inducing policy reforms both at the national and multilateral levels, and is beginning to influence firm behavior. Civil Society has initiated a process of global discourse, creating a potential for global collective action. Today, MNCs pay more attention to Corporate Social Responsibility (CSR), partly because of the work of many non-governmental organizations (NGOs) and the push by multilateral institutions to implement codes of conduct.

Other features of globalization 20/21 underlined by Dunning are:

- Market liberalization
- Technological advances
- Ideological changes
- Relative growth of alliance capitalism and network relationships
- Learning experiences of past
- Emergence and growth of new players on world economic stage (especially China and India)

FDI is the main factor driving the expansion of the international production system, and the location of MNCs increasingly reflects three developments: policy liberalization, technical progress and evolving corporate strategies (UNCTAD, 2001b). The data also reflect that FDI is still unevenly distributed, with the world’s top host 30 host countries accounting for 95% of total FDI inflows and 90% of total stocks. The top 30 home countries account for 99% of outward FDI flows and stocks, and are mainly industrialized economies. It is worth noting the increasing role played by China as a host for FDI. In 2003, China received $53 billion in FDI, or 8.2 percent of the world’s total – more than any other country. In 2004, that country had become the sixth-largest economy and the leading recipient of FDI.

Last, the interplay of globalization and regionalization in the form of trade blocs has to be considered when attempting to define a NDP within the discipline of international business. The formation of trade blocs reflects an emphasis on trade liberalization – the main economic aspect of globalization – but at the regional level (see Section III below). These agreements affect the multilateral trading system and raise questions about their political, sociological and strategic importance. NAFTA, the EU and hopes of further regional integration in the Americas and Asia are the focus of trade policy and development strategy debates.
in many countries. Open regionalism – a tool perceived in the 1990s to achieve high-quality insertion into the global economy – is expected to bring growth. However, it is also affected by the dynamics of global trade and protectionist policies. With the increasing mobility of capital, differences in domestic policies create policy-arbitrage opportunities, with firms seeking to locate in the countries with the most favorable policy environment. Also, geopolitical considerations are important tools, along with market liberalization, in defining the global rules of the game. Regionalism can create competition between regions.

TRADE INTEGRATION, EMERGING GLOBAL PLAYERS AND MNC STRATEGY

The last wave of globalization of economic activities has given rise to new patterns of trade and investment. The popularity of regional economic integration through preferential trading agreements among countries was revived in the mid-1980s when the prospects of concluding the Uruguay Round of the GATT were eroded. The current debate surrounding globalization has many socio-political facets and has coincided with a revival of the Hecksher-Ohlin trade theory – a mixture of static and dynamic advantages linked to greater openings through channels such as increased competitiveness and economic efficiency. As an agent of change, globalization tends to provoke structural reforms and give birth to new varieties of regional and country-specific integration models. At the same time, regionalism is an alternative to comprehensive multilateralism, and the result of countries seeking to get the benefits of globalization without waiting for multilateral negotiation, in the face of the breakdown of the Doha and Seattle meetings.

Today, some 40 percent of world trade takes place within the regional trade agreements that are in force, and this share is projected to grow (UNCTAD, 2005). *Global Economic Prospect 2005* (World Bank, 2005) illustrates how the dramatic proliferation of regional and bilateral trade agreements (RTAs) is reshaping the architecture of the world trading system: The number of agreements in force surpasses 200 (230 by late 2004), and has risen six fold in just two decades.

Integration becomes an attempt to increase an economy’s competitiveness so that it can join the ranks of major financial, technological and trading powers such as the United States, the EU and Japan. As clearly emphasized by the move toward the European Constitution, the main objective of economic integration is the transformation of national economies with geographical boundaries into one big united economic (and perhaps political) space. Many experts today tend to view multilateral and regional processes as complementary rather than conflicting. In the economic literature, there is less emphasis on the importance of trade diversion and more emphasis on reform and stabilization as conditions for
participating in the economic space defined by strategic regionalism. The NAFTA, the Enterprise for the Americas Initiatives, the yet to come FTAA and the Association of Southeast Asian Nations (ASEAN), along with the EU, are all regional components of the worldwide globalization process. According to this benign view, the pursuit of regionalism is not antagonistic to multilateralism, but complementary to it.

The interplay of globalization and regionalization is a complex phenomenon. Recent new generations of regional trade agreements cover not only trade in goods, but also behind-the-border regulatory areas. Some regional agreements cover more of these areas than the WTO and extend more deeply into them. Often referred to as “WTO-plus” agreements, they extend beyond multilateral disciplines and liberalization commitments in areas such as services, investment, competition policy, intellectual property rights and environment. Furthermore, RTAs can reduce regional political tensions, take advantage of scale economies in infrastructure provision, and lead to joint programs to improve border crossings. However, RTAs, even with a focus on open regionalism, are not a substitute for multilateralism.

Boyer and Drache (1996: 19) perceive the shift in decision-making to regional organizations as an attempt to evade national political processes. This would be the case for NAFTA and the European Monetary Union (EMU), with such arrangements preventing checks from being exerted on globalization processes. Rather than applying a brake on globalization trends, regional economic agreements may be accelerating them. For Blank and Coiteux (2003), the US-Canada FTA and NAFTA were responses to the emerging continental business system, designed to reassure investors that governments would not interfere with market-forces. NAFTA is a particularly interesting trading bloc because it inherently combines the issues of trade and development that are crucial to Mexico and the rest of Latin America within a potential FTAA framework. It is also important for Canada and the United States given that the industrial regions in those two countries have undergone a process of restructuring as a result of the relocation of their industrial base to lower wage countries.

In Asia, Liu and Luo (2004) note a growing interdependence between ASEAN and China, and particularly between ASEAN-5 and China2. The majority of ASEAN and China’s exports are largely focused on the major markets of the US, Europe and Japan. But, there is an overlap in the composition of their major export products, particularly in textiles and clothing and other labor-

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2 ASEAN-5 consists of Indonesia, Malaysia, Philippines, Singapore and Thailand. These countries are the main trading partners of China and significant trading nations among the 10 ASEAN members. The other 5 only account for less than 3 percent of the ASEAN’s total exports in 2002.
intensive industries. The authors point out that as China’s manufacturers climb the technology ladder, the overlap is spilling over into electrical and electronic products, where a number of ASEAN countries had initially established a lead. In the EU, with the last enlargement of May 2004 to 25 countries, the nature of competition is also changing. China has also become the EU’s second trading partner (after the US), in 2005. Today, off-shore production and outsourcing both in the manufacturing and service sectors add a new dimension to competitiveness dynamics worldwide. The highly-connected international system is continuously forging high levels of transnational activity. Both at the global and regional levels, MNCs and even smaller firms adjust to competitive pressures by adapting their entry mode in host countries.

When searching for a better approach to economic development, a good start is to consider industry performance in given sectors. In emerging countries like China and India, the effects of government policies and regulation can alter performance or stimulate it. China’s economic reforms since the 1980s, and particularly since its accession to the WTO in 2001 have changed the picture of global competition. China has been a major recipient of FDI since the 1990s, due to its market potential, economic growth and low cost base as a source of manufactures. Also, the rapid rise of Chinese outward FDI, particularly in resource extraction, is noteworthy, given the country’s growing need for raw materials. Chinese MNCs invest not only in neighboring countries, but also in Africa (Zambia, South Africa) and Latin America (Peru, Brazil and, more recently, Chile), primarily seeking resources. China has also become one of the major players on the export markets. However, given the importance of its export trade with the United States and Europe, and of its import trade with Japan, along with the competition it exhibits on major markets (in the textile and apparel sectors, for instance), tensions lies ahead for China and the world trade system.

A thorough analysis of new trade patterns should consider trade and FDI linkages with countries as offshore sources, particularly in the case of trading blocs. The UNCTAD Report (2004) emphasizes that the shift in international trade and FDI from manufacturing to services reflects patterns where manufacturing MNCs are setting up foreign affiliates to provide support functions, and the fact that service multinationals in airline, banking, accounting and consulting are becoming internationalized. Innovative technology has enabled back office and support functions (payroll and order fulfillment) and front office functions (customer care) to be relocated, hence the growth in outsourcing and offshoring of business service process operations (in telecommunications, transportation and health care) and business process operations in human resource management, call centers and check processing. As Salvatore (2004: 3) puts it: “Foreign sourcing can be regarded as manufacturing’s new international economies of scale in today’s global economy”. Outsourcing and offshore
production are reinforcing that concept both in the manufacturing and service sectors, where China and India are making inroads.

China is changing trade patterns in many ways. Since the 1980s, its economy has grown by more than 9 percent a year. In the 1990s, China’s trade-to-GDP ratio increased by over 70%. In 1990, its share of world exports was only 1.9% and of imports 1.6%. By 2003, its share of exports has increased to 5.8% and of imports to 5.3%. In 2004, two-way trade grew by 36% and China overtook Japan to become the world’s third-largest trader behind the United States and Germany. The McKinsey Quarterly 2004 Special Edition reflects on the numbers. China manufactures 75 percent of the world’s toys, 58 percent of the clothes, and 29 percent of the mobile phones. The country attracts more than $1 billion in FDI each week. China offers to foreign investors a potentially vast domestic market and an environment from which it is easy to export. By 2008, China will be the world’s third-largest exporter, and by some counts its economy is already larger than that of either France or the United Kingdom. There are challenges to China’s approach to economic development, such as cyclical overcapacity, state-influenced resource allocation, persistent bureaucracy, and growing social inequalities to name a few, but one has to balance these reservations concerning the Chinese approach to economic development with what it has achieved overall, in a remarkably short period of time.

India began its economic transformation almost a decade after China. In the 1980s, the Indian economy was closed to most consumer goods imports, and only intermediates and capital goods were allowed to be imported under high tariffs and qualitative restrictions. India started opening its economy and liberalizing its trade regime at the beginning of the 1990s. With regard to FDI, India is more cautious than China, and its infrastructure is less developed than that of China. However, the country is creating world-class businesses in knowledge-based industries such as software, IT services, and pharmaceuticals. Today, India stands out as a source of talent and as a destination for R&D investment.

While looking at globalization and trade patterns, the emergence of China and India as main global players in the world economy is new phenomenon that cannot be ignored. What this means for the economies of other trading partners, and particularly those of other developing countries, remains to be seen, but it will be profound. Mexico, for example, has lost more than 270,000 jobs since 2000 in the maquiladora assembly factories that emerged along the US border before and after the passage of NAFTA (The McKinsey Quarterly, 2005). This puts a pressure on Mexico and other middle-income countries to create jobs in higher-value-added activities to continue moving up the development path. But the question remains: do countries share the same opportunities while climbing the development ladder? We consider this question in the following section.
We pointed out that one way for allowing countries to benefit from trade and FDI, (particularly when multilateral negotiations are not moving ahead) is regionalism. Development regionalism involves the traditional arguments for regional co-operation (territorial size, economies of scale, etc.) but adds some that reflect new concerns and uncertainties in the current transformation of the global world economy. Environmental policy outcomes in connection to trade reform programs can be better implemented in a context of political stability and regional arrangements. But along with multilateralism, regionalization is under stress. Difficulties in liberalizing trade and investment flows at the global level are having an impact at the regional level as well. At the present time, the United States would like the FTAA to open up services and government-procurement and to tighten rules to protect investment and intellectual property. Brazil, the co-chair of the FTAA talks, along with the United States, would rather have these issues dealt with at the WTO. The questions of agricultural subsidies and anti-dumping measures (mainly used by the United States) are adding more pressure to the pursuit of further hemispheric integration.

This has led the United States to establish free trade areas (FTAs) with many countries around the world, including Latin America. For the US, forging new bilateral trade ties is linked to geo-political and security considerations, in the same way that it is with regional agreements. The United States has negotiated bilateral agreements with Israel (1985); Jordan (2001); Singapore, Chile and Morocco (2003); and Australia, Colombia, Panama, Peru, Thailand, Bahrain, Egypt (2004). Other negotiations are on the way in Central America and Southern African countries. Canada, still its main trading partner bilaterally and within NAFTA (although China’s share is on the rise), has also negotiated FTAs with a number of countries: El Salvador, Guatemala, Honduras, Nicaragua and Costa Rica. As well, Mexico has signed, FTAs with Bolivia and Costa Rica, among others. The EU has also signed various agreements. Hilaire and Yang (2004) underline six important concerns due to what they call the New Regionalism: (1) possibilities of trade diversion; (2) a slackening of the drive toward multilateral liberalization; (3) the higher cost of nonparticipation as FTAs proliferate; (4) high administrative costs due to a problem of sometimes overlapping trade agreements; (5) vulnerabilities associated with reliance on regional preferences; and (6) integrating new components into FTAs, such as capital flows, labour and the environment.

With respect to developing countries' integration into the world trading system, according to World Bank simulations (World Bank, 2005: 128-131) they could gain an (unweighted) average of 1.7 percent in real income from a global agreement. But if all developing countries sign bilateral agreements with the “Quad” (Canada, European Union, Japan and the United States), creating a complex hub-and-spoke system, developing countries suffer losses averaging 0.4
percent (1.0 percent for the low income countries alone). Strengthening the multilateral process therefore remains a priority, despite many obstacles.

In particular, trade-related investment measures (TRIMs) are a key issue in WTO negotiations and regional negotiations (such as FTAA) as well. TRIMs refer to a wide range of investment incentives and disincentives. Among them are local content rules, trade-balancing requirements, foreign exchange-balancing requirements, and export limitations as measured by trade restrictive and distorting effects. They influence the investment decisions of MNCs and affect production-related trade flows. Multinationals tend to develop offshore procurement networks in open economies and export processing zones when TRIMs are not present and other barriers to trade are low. Therefore, host country trading conditions shape multinational corporate strategies with regard to their global FDI (Chase, 2004). In this way, TRIMs and offshoring activities have an impact on export growth in emerging markets.

GLOBALIZATION AT THE CROSSROADS: MAKING GLOBAL TRADING MORE SUPPORTIVE OF DEVELOPMENT

The debate about the impact of globalization and the evaluation of its effects vary with the ideological base of the authors (see Lévy, 2000). Today, “making globalization good” has become the focus of research for many scholars (see Dunning, 2003). Also, in response to the need to address poverty issues, neoliberal policy, at the basis of the current paradigm of globalization, is increasingly shifting its emphasis toward social policy, through institutional reforms.

The previous sections dealt mainly with globalization and its resulting trade and FDI patterns. We considered the characteristics of the new global trading environment, putting aside the discussion about the increasingly important issues of equity, sustainability, and poverty alleviation. With just 16 percent of the world population enjoying 80 percent of its wealth and one-fifth of humanity surviving on less than a dollar a day, maintaining the status quo by assuming that globalization automatically equals growth and development is neither a realistic nor a moral option. Widening gaps and better flows of communication worldwide may have serious implications for peace and security. Growing disparities in standard of living may feed radicalism of all types, some leading to disrupt governments in place as well as the global market. In Figure 1, we propose a framework outlining the search for an inclusive global system, in response to the needs to tackle problems of social justice that transcend borders.

Today, globalization is at a crossroads. Recognition that it is socially unacceptable to have poverty and inequalities in the midst of prosperity has become widely accepted among the main stakeholders (governments, multilateral institutions, civil society). Within the development framework, NGOs are elemental to the reform process. Multilateral institutions have forged connections
with them. Civil society also influences MNCs’ behavior. As The Economist (2005: 3) points out: “Most multinationals now have a senior executive, often with a staff at his disposal, explicitly charged with developing and coordinating the CSR function. In some cases, the executives have been recruited from NGOs…”

However, civil society has no power in establishing the rule of the games in international business. As Fukuyama (2005: xi) points out: Free markets are not self-sustaining: they presume the existence of governments that are capable of enforcing the rule of law, adjudicating disputes, and establishing property rights as the basis of long-term investment and growth.” Governments must also ensure that the benefits of economic growth are spread as widely as possible. They must intervene to correct market failure or to achieve social justice. From a conceptual viewpoint, the world trading system must find a balance between

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3 The Survey on Corporate Social Responsibility in the January 22nd issue covers a full range of views about the motivations for MNCs to pursue it. It has given rise to further debate, such a response to Economist CRS survey by Ethical Corporation (weekly e-newsletter, Feb. 22-23, 2005, London).
economic efficiency and fair wealth distribution. Public spending, taxes and regulation are means of intervention at the disposal of national governments. Small developing country governments can have little influence on their own.

Since the 1980s, the number of developing countries joining the GATT/WTO has increased dramatically. Since the conclusion of the Uruguay round in 1994, and since the beginning of the WTO, developing countries have expressed concerns about the implementation of the agreements. The current round of trade negotiations aims at better integrating developing countries – especially the small and poor ones – into the global trading system. The round was named the Doha Development Agenda when it was launched in 2001, but so far little progress has been made. At the Cancun ministerial meeting in September 2003, many developing countries were not willing to accept the
agenda being urged upon them by industrialized countries. One main reason is that while many developing countries have chosen to become more open economically, they continue to confront protectionism in industrialized countries. Average tariffs rates in those countries are low, but they maintain barriers in the areas where developing countries have a comparative advantage: agriculture and labor-intensive manufactures. Developing countries demanded more concessions on the part of industrialized countries particularly in their highly protected and subsidized agricultural sector (industrialized countries’ farm subsidies are greater than Africa’s GDP). Protection in industrialized countries costs developing countries more than $100 billion per year, twice the total volume of aid from North to South (World Bank, 2002). Also developing countries were not keen on the introduction of an agreement to liberalize FDI and to replace the “spaghetti” pattern of bilateral investment treaties with a coherent global policy framework. The generalized opposition on the part of small countries to the Singapore issues clearly illustrates how these countries are beginning to express their collective interests. The July 2004 accord outlined negotiating frameworks in agriculture and industrial products, to keep the talks going. Nevertheless, the development round of trade liberalization is threatened by protectionist interests in the North, and the Doha Work Programme could not be concluded by its original January 2005 deadline. The negotiations might conclude in 2006 or even later. There is a need to focus on improving market access of developing countries to industrialized countries and other developing countries and to each other's markets.

Within the context of an inclusive globalization framework, trade should be viewed as a means to development. The Millennium Declaration and the Development Goals present a comprehensive set of objectives that are outlined below.

- Goal 1: Eradicate extreme poverty and hunger
- Goal 2: Achieve universal primary education
- Goal 3: Promote gender equality and empower women
- Goal 4: Reduce child mortality
- Goal 5: Improve maternal health
- Goal 6: Combat HIV/AIDS, malaria and other diseases
- Goal 7: Ensure environmental sustainability
Goal 8: Develop a global partnership for development

The Millennium Development Goals (MDGs) come with targets and indicators for monitoring progress. Seven targets are inter-related to Goal 8 (targets 12 to 18).

- Target 12: developing an open, rule-based, predictable non-discriminatory trading and financial system (with a commitment to good governance)
- Target 13: addressing the special needs of the least developed countries (tariff and quota free access, enhanced program of debt relief)
- Target 14: addressing the special needs of landlocked countries and small island developing states
- Target 15: dealing comprehensively with the debt problems of developing countries
- Target 16: developing and implementing strategies for decent and productive work for youth
- Target 17: providing access to affordable, essential drugs in developing countries (in co-operation with pharmaceutical companies)
- Target 18: making available the benefits of new technologies, especially information and communications (in co-operation with the private sector).

As pointed out by the North-South Institute (2005), it will be very challenging to achieve the MDGs over the next decade, particularly in the poorest countries. Endorsement of the Declaration has not gone far beyond the organizations whose mandates are primarily focused on developing countries. (The UN, the World Bank, the IMF, and the regional development banks, have endorsed both the Declaration and MDGs and have incorporated them into their strategic priorities and operational plans, with ongoing monitoring). National governments must commit themselves to focus on the MDGs. Those goals might not be the panacea to fully remedy the negative outcomes of globalization, nevertheless they have been launched by world leaders themselves and deserve their attention.

Although economic theory tends to demonstrate that small and poor countries gain on balance from multilateral liberalization in the WTO, they must also gain significantly in market access terms. These countries must emerge from the Doha Round with the sense that they have attained a fair balance of benefits.
and costs. The MDGs, in order to be reached, require the international community to focus more attention on commodity production and trade and trade-related problems. Many small developing countries still rely on commodities for the bulk of their exports. They have been marginalized, with their share of world markets declining, while some developing countries have begun to successfully integrate into the world economy and significantly improve their share of world markets (the prime examples being China and India).

Iradian (2005), looking at inequality, poverty and growth – through a panel dataset of 82 countries for the period 1965-2003 – illustrates that poverty has declined significantly on a global level over the past two decades. However, he stresses that most of this improvement was due to the sharp reduction in poverty in China and India, where the largest share of the world’s poor people live (the poverty rate in East Asia and the Pacific dropped from about 58 percent of the population in 1981 to 15 percent in 2001, mainly because of the dramatic reduction in China). In contrast, poverty rates in sub-Saharan Africa have increased, moving from 42 percent of the population in 1981 to 47 percent in 2001. The author attributes this increase to the stagnant annual per capita growth in sub-Saharan Africa over the past two decades, whereas the decline in poverty in recent years in several Asian economies was due to both improved income distribution and sustained rapid growth. Other countries left behind by the integration process are located in Latin America and the Caribbean, the Middle East, and the former Soviet Union. They will miss the MDG poverty target, but from a much lower incidence of poverty than sub-Saharan Africa.

Arora and Vamvakidis (2004) consider how a country’s long term economic growth depends on economic conditions in the rest of the world. Their results are based on a fixed-effects panel estimation using data for 101 countries for the period 1960-99. It has become common practice in the empirical analysis of economics and political economy to use panel data for drawing inferences on a wide range of research topics. In this case, the authors' research suggests that a country’s growth is positively associated with both the growth rate and relative income of its trading partners. In terms of growth, opening up integrates an economy into a larger market, and from Adam Smith onward economists have suggested that the size of the market matters. With regard to relative income, the new globalizers have started to catch up with the rich countries, while the weak globalizers are falling further behind (World Bank, 2002: 50). As previously pointed out, some 2 billion people live in countries that have been left out of globalization. The key indicator of development progress is the share and number of people in extreme poverty (often defined as subsisting on less than $1 in consumption per day).

Studying poverty trends since the early 1980s, Chen and Ravallion (2004) predict that if the present trends continue, the 1990 aggregate rate of $1 a day
poverty will be halved by 2015, meeting the MDGs, but only East and south Asia will reach this goal (which is consistent with Iradian’s study). Also, the authors used a poverty line of about $1 a day, but also considered a line set at twice this value, as well as a relative poverty line that rises with average consumption when it exceeds about $3 a day. They conclude that progress against extreme poverty has been uneven over time. The most dramatic reduction in poverty was in the early 1980s (with coincided with the sharp drop in extreme poverty in China in the aftermath of the reforms). There was more progress in the 1990s, once growth had been restored in China and India (the most populous countries). But Chen and Ravallion estimates also indicate that the number of people living on less than $2 a day has risen. For the authors (p. 162): "Although the overall picture is good, it is no cause for complacency."

For many countries that are not integrated in the global economy, marginalization will not be taken care of by simply opening their economies and liberalizing their trade regimes. They have missed the boat of the third wave of globalization and are caught up in a world lacking an adequate regulatory authority to address global problems. As the World Bank (2002: 155) puts it: "In important respects global policies are not keeping pace with global opportunities and global rights." In that spirit, a seven-point plan of action calls for:

- A "Development round" of trade talks
- Improving the investment climate in developing countries
- Improving delivery of education and health services
- Providing social protection to a changing labor market
- An increase of foreign aid
- Debt relief for reformers (countries that improve their investment climate)
- Tackling greenhouse gases

As previously mentioned, this type of plan presented by a multilateral institution reflects a desire to incorporate the essence of the MDGs in strategic planning. The focus is on good governance. There is also a shared view that, along with trade liberalization, institutions and policies matter, and so does bringing justice to global development (increased aid, accelerated cancellation of debt). Despite those new attempts by multilateral institutions to global problem-solving, they still face questions of accountability. There has been a debate on whether a reform of the institutional architecture should take place (re. Fifty years
of Bretton Woods is enough). Another approach proposed by the Institutions themselves relies on making them more transparent, open and accountable to people and governments.

Regarding governments, there is a deficit in the role they play to promote global governance. Although many groups have emerged, such as the G-7/G 8, the G-20 (finance ministers) and even another group of 20+ countries representing the interests of developing countries in the WTO negotiation process, there is no cohesion in what they aim to accomplish. On a country level, governments must fulfill their goals with regard to economic development and social welfare, no matter how difficult global rules are to put into practice. Protecting the environment and human rights requires concerted efforts. The authors of the Report of the Helsinki Process on Globalization and Democracy (2005) underline among other things that (p. 11): "Above all, global governance suffers today from a democracy deficit. In view of the rise in economic importance of Asia and other regions, international economic decision-making and agenda setting remains disproportionately concentrated in the G-7 countries. Equally, the countries which remain weak in economic terms are very far from international decision-making.”

With regard to Figure 1, achieving global good governance remains a challenge for governments and institutions, although a process of change is under way.

Let us now have a look at the role of business globally. The globalization challenge is to reconcile the firm’s responsibility to make profit for its shareholders with the goal of creating a long-term sustainable business for its stakeholders. This is where the concept of CSR comes into play. The "race-to-bottom" model of FDI – in which global companies pursue the lowest possible wages as they move from country to country – has been damaging. In response to pressures from civil society, MNCs have become socially responsible. Firms such as Nike, Aventis, BP, Bayer, Shell and others, comply with codes of conduct dealing with human rights, environmental and social issues, standards and other matters, all features of the globalization backlash. Companies such as Unilever develop symbiotic objectives with the countries where they invest and incorporate them in their mission and objectives. MNCs have a role to play by promoting policies that strengthen the stability and the economic development of host countries. They must contribute to social progress and incorporate into their strategic planning the OECD codes of conduct or the ones developed by the Global Compact.

Being a good citizen of the world might have the positive benefit to MNCs of creating a competitive advantage based on a better image built on trust and legitimacy. CSR is not a soft issue in today's very different society. Few subjects polarize public opinion as much as the role of globalization in the development gap. FDI and related trade activities of MNCs have a major impact on the global
system. Can MNCs respond to the globalization challenge by supporting sustainable development? Do they have the will, or the impetus to do so?

Last, civil society has been an agent of change and can keep influencing the decision-making process by consultation with the major global stakeholders. In Figure 2, we propose a framework for action, which will require policy implementation.

It is our belief that only a process of inclusive globalization will lead to social justice, which has been the "Achilles heel" of the capitalist development system, lately propelled by unleashed globalization.

Figure 2
Toward the Millennium Development Goals

CONCLUSION

In this paper, we have tackled many of the challenges raised by the globalization of the world economy with regard to sustainable development. In the 21st century, the transnational economic space that globalization has created needs organizational responses from multilateral institutions and governments. It also requires a major shift in the way MNCs conduct their business operations
worldwide. The concept of global governance – a prerequisite of inclusive globalization – has been debated since the beginning of the 1990s, and must be put into practice.

A new dimension to that process was introduced in the new Millennium with Corporate Social Responsibility being the key to achieving global good governance. But no matter what actions MNCs are willing to undertake to become good citizens of the world, they still need rules of law from the other main players of the global system, first of all their home and host governments. Multilateral institutions must focus on elaborating and implementing global rules by forging a consensus with regard to the interests of industrialized, emerging and developing countries. As for civil society, it will remain the social conscience of the world and maybe, in time, will expand its sphere of influence to the decision making process.

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