

Globalisation briefing paper

by Heather de Wet

What is globalisation?

Globalisation is first and foremost a set of **economic processes** in which production, marketing and investment are increasingly integrated across borders and between firms. The opening up of markets to the global economy is leading to the emergence of a single market for goods, capital, technology, services, information and, to a limited extent, for labour. This trend towards trade liberalisation has seen the lowering of trade barriers and the elimination of subsidies as protectionist economic policies have been progressively dismantled.

Globalisation is also a **development strategy**. The prevailing Post-Washington consensus¹ favours pursuing economic growth as a means to reduce world poverty, to provide basic needs and to raise living standards. As an **ideology**, globalisation is underpinned by neo-liberalism. The key assumption of neo-liberal economics is that an efficient allocation of resources enhances productivity. It is assumed that increased productivity enhances prosperity and aggregate welfare and that, through the trickle-down effect, standards of living will rise for everyone. In this model, efficiency is stimulated by unfettered competition between economic players. This means removing barriers to trade and opening economies up to world markets by eliminating protectionist measures and minimising state interference in markets.

Globalisation is also a **socio-political process**. Through its impact on culture, governance and domestic policy-making, globalisation as an idea is defining how we see the world and reducing cultural diversity in terms of perceptions as well as products.

Globalisation is a powerful **force for domestic reform**, which brings a particular set of pressures to bear on national and local governance. The dismantling of the welfare state (in the North), reducing social spending levels; deregulating labour markets, dismantling protectionist measures; minimising state regulation and a strong emphasis on export-led development are key aspects of the insertion of national economies into global markets.

The trans-national company (TNC) is the main agent of globalisation. Of the world's top 100 economic players, 49 are countries and 51 are corporations.² The **logic of globalisation** is the expansion of trade and investment in the search for new markets and more competitive production sites. The current tendency of TNCs to relocate geographically and split production units to areas of the world with cheaper labour; more lenient health and safety requirements; lower environmental protection standards and favourable tax laws in order to maximise profits has been characterised as the "race to the bottom".

¹ The term Post-Washington consensus refers to a departure from the Washington Consensus which defined the approach to development economics adopted by the Washington-based Bretton Woods institutions during the late 1970s and 1980s. The main elements of the Washington Consensus were to create macro-economic stability by lowering inflation and cutting public spending levels and to pursue trade liberalisation. This approach to economic management was developed in the context of the inflation crisis of the 1970s in the developed economies and the Latin American debt crisis of the 1980s. During the 1980s, macro-economic austerity measures were widely implemented in the developing world through IMF and World Bank Structural Adjustment Programmes. In the revisionist Post-Washington consensus era, there is less emphasis on using macro-economic instruments to achieve stability and more emphasis on creating favourable environments for emerging markets. While trade liberalisation is still central to the neo-liberal agenda, there is more attention given to strengthening markets and institutions, to the mix of policies and to attracting investment for growth.

² *The Rough Guide to Globalisation*, CAFOD briefing paper, p1

The trend in mergers and acquisitions means that fewer TNCs now control an increasing share of the market. With the liberalisation of capital markets, there has been a corresponding increase in private capital flows. World Bank figures show that, in 1997, private capital accounted for more than 80% of net long-term flows to developing countries. However, of private investment (in 1996), 73% went to only 12 countries.³

In addition, investment is driven by speculators investing on local stock markets. Such capital flows - often not linked to trade or investment, but linked to trading in futures,⁴ derivatives⁵ and currencies - have accelerated since the 1980s. Capital markets are unpredictable, making developing countries vulnerable to capital surges and currency devaluations.

Key trends in a globalising world

Globalisation marks a shift away from the post-war Fordist/Industrial society to a knowledge-based society. Key features of the globalisation process include the rapid advance and diffusion of technologies (particularly IT and biotechnology); hyper-mobile capital and information flows; exponential increases in trade flows and new forms of investment; the trans-national integration and expansion of industries; changing patterns in competition; flexible and spatially dispersed production structures; increasing flexibility and feminisation of the workforce.

The challenges of globalisation

These trends create challenges on a scale and scope, and at a speed, unprecedented in world history. For developing countries, especially late and late industrialisers, the challenges are increasingly complex to negotiate because they impact across sectors and at many levels of society.

The impact of this multi-faceted globalisation process on states and local communities is varied, with uneven distribution of wealth and other benefits. In general, while global wealth has increased, the disparities between rich and poor have increased. Within the context of deflated public spending, strategies to reduce poverty and inequality are increasingly reliant on economic performance.

The heart of the challenge for policy-makers, at the national and local level, is how to articulate with the global economy so as to harness the potential benefits for national development and minimise the negative effects. Domestic institutions and policies can mediate the impact of globalisation. National policy-making is increasingly influenced by debates about the effects of globalisation on local economies. However, there is increasing conflict among ruling elites in developing countries about the extent and pace of insertion into the global economy, particularly in relation to regulating foreign investment.

The major debates

Proponents of globalisation argue that trade liberalisation and foreign investment are the engines of growth and increasing global prosperity. Globalisation brings wealth, jobs and new technology to developing countries. Through the trickle down effect,

³ Quoted in Raghavan, C. 1997, p8.

⁴ Futures are contracts to sell a commodity or financial asset on a specified future date. Many commodities have established futures markets.

⁵ A derivative is a term used for a variety of financial instruments that are derived from physical markets. The most common types of derivatives are futures, options, warrants and convertible bonds. Derivatives are contracts and this distinguishes them from shares (which are financial assets).

living standards are raised, basic needs can be met and human development can be pursued.

Critics argue that globalisation is in fact increasing the disparities between rich and poor, both within and between countries. The trickle down theory is flawed because it doesn't address the issue of distribution. The distributive effects of globalisation are in fact gains for capital and losses for labour (because globalisation favours mobile factors of production). The rising power of TNCs is skewing the distribution of gains towards corporations and their shareholders, undermining the autonomy of national government and civil society, and eroding human rights and environmental protection. Furthermore, TNCs wield enormous (and untransparent) power in influencing the proliferating laws governing trade and investment.

The WTO and the multi-lateral trading system

The evolution of the World Trade Organisation (WTO) and the multi-lateral trading system is the most significant **institutional feature** of globalisation. The transition from the General Agreement on Tariffs and Trade (GATT) to the more powerful WTO at the 1995 Uruguay Round⁶ marked a new era of global policy-making. Multi-lateral trade agreements are key instruments in the process of trade liberalisation. There are around 20 agreements (including GATT) under the purview of the WTO. The WTO's power to enforce these agreements through penalties and trade sanctions is a significant constraint on national policy-making. The linking of non-trade issues to the multi-lateral "trade" system has increased the power of the WTO and the corporations and governments who have the most influence in the rule-making process. The scope of development options and economic policies available to national governments is narrowing as more and more trade-related issues are incorporated into a single jurisdiction.

Key trade agreements

The Uruguay Round (UR) of GATT resulted in a package of agreements affecting trade and trade-related issues. The UR extended the scope of the multilateral trade system (under GATT) from regulating trade in manufactures to dealing with agriculture, services, intellectual property rights and investment.

- **The Agreement on Agriculture (AOA)**
The AOA aims to reduce subsidies and protection measures for agriculture. In effect, agriculture in the North is still heavily subsidised, with the benefits largely accruing to agribusiness and large farms. Increased production has forced global prices down which benefits net importers of food, but not food exporters.
- **The General Agreement on Trade in Services (GATS)**
The GATS covers over 160 service sectors, the leading sectors being transport and tourism. Currently public health and education are not included. Through successive rounds, the GATS aims to remove barriers to foreign suppliers competing with local service suppliers.
- **The Trade-related Intellectual Property Rights (TRIPs) Agreement**
The TRIPs Agreement is a set of rules on regulating aspects of intellectual property rights (IPRs), including patents, copyrights, designs and trade marks. It particularly affects the pharmaceutical, computer technology, agrochemical and

⁶ The Uruguay Round refers to the eighth round of the General Agreement on Tariffs and Trade (GATT) trade negotiations that kicked off in Punta del Este, Uruguay in 1986. This round of GATT culminated in 1994. The Uruguay Round significantly expanded the range of issues regulated by multi-lateral agreements to include agriculture, services and intellectual property rights. It also marked the birth of the World Trade Organisation with the signing of the World Trade Agreement. The WTO came into being on 1 January 1995 as the successor of the GATT.

biotechnology industries. In relation to IPRs, the TRIPs Agreement seeks not to deregulate, but to protect those (predominantly Northern) industries which have a comparative advantage in knowledge and technology. In 2001, for example, industrialised countries held 97% of all patents, 90% of which were held by TNCs. The most contentious issue is the proposed patenting of plant and animal life forms.

- **Trade-related Investment Measures (TRIMs)**

The TRIMs Agreement limits the range of conditions governments can impose on foreign investors. Under the TRIMs, investment measures that oblige foreign firms to use a minimum of local content will be phased out. There is pressure from Northern countries to introduce a new Multi-Lateral Investment Agreement (MIA) which would increase the scope of investment-related issues under WTO control.

The proposed MIA is the most significant initiative to extend trade liberalisation. A liberalised investment policy would give foreign investors greater rights (particularly to free entry and to national treatment) and curtail the power of states to regulate the operations of TNCs and investors.

Recent developments in multi-lateral trade negotiations

In the Post-Uruguay period, there has been pressure to incorporate more trade-related issues into the WTO. The most significant of these are the four "Singapore issues", namely investment policy; trade-related competition policy; government procurement and trade facilitation. At the recent ministerial conference in Doha, Qatar (November 2001), there was intense pressure to start immediate negotiations on the four Singapore issues. However, the Doha Declaration agreed that these issues would be reviewed at the fifth ministerial in 2003 for a decision on whether to enter a negotiating phase.

Critical issues for development planners

As a result of progressive deregulation and privatisation, and intensified competition, globalisation has had a major impact on key sectors of developing country economies, for example agriculture, fisheries, forestry, and manufacturing. The "barriers" to competition that have been removed through deregulation are often domestic laws designed to protect public health, labour standards and the natural resource base. Moreover, as TNCs move to regions with lower monitoring and enforcement capability, existing domestic laws are not necessarily effective protections.

For development planners, the challenge is to address the effects of privatisation and liberalisation at the **micro and household levels**. In general, this means providing support for household-level food and job security and local livelihood systems, particularly where these are threatened by corporate operations. Poverty; equity; labour and gender are cross-cutting themes in considering micro and household level strategies. This basic approach applies across a range of sectors.

In respect of **agriculture**, globalisation has had a negative effect on food security because of the withdrawal of state support, deregulated prices, rising cost of inputs, and competition from large commercial farms. In many regions, small-scale farmers face the destruction of their livelihoods. Policies and measures designed to promote local production and consumption would help protect small-scale producers. The key role that women play in rural agriculture is an important policy consideration.

Local communities that depend on **forest** and **fisheries** resources for their livelihoods are increasingly threatened by the rapid expansion of corporate interests. Measures to protect ecological stability for local communities should be weighed against the benefits of corporate operations.

In general, measures that promote the sustainable use of the **environment** need to be integrated cross-sectorally. This requires a more sensitive understanding, on the part of development planners, of how local livelihood systems depend on the environment.

In urban environments, where livelihoods are more dependent on cash incomes, the effects of globalisation are closely associated with labour-related issues. In general, the regulation of **labour standards** is a priority area. The **feminisation of labour** (the increased demand for low-paid, flexible, female labour) and the associated **crisis in masculinity** are significant factors in addressing labour-related issues.

Local Economic Development (LED) and the management of cities are priority areas for development planners. Globalisation has further polarised the dual economy that exists in many cities, with a small knowledge-based, capital-intensive economy co-existing with a much larger unskilled, marginalised and informal economy. LED is concerned both with making the urban environment more competitive in the global economy and in counteracting the negative effects of openness. Support for small, medium and micro enterprises (**SMMEs**) and for the growing **informal economy** are important strategies to dilute the negative effects of both flexible labour practices and capital intensification.

In both the urban and rural context, public **financing of basic services** and **capacity building** and measures to **strengthen civil society** are critical in addressing vulnerability and marginalisation.

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