Forum
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The New Global Politique

Romancing the Globe

This isn't the first time the world has fallen in love with globalization. Despite what scores of academics, politicians, and journalists would have you believe, globalization is not new at all. In fact, globalization happened before and ended in failure. The first age of globalization was an affair as gilded, glamorous, and torrid as our own time. In the period between World Wars I and II, however, the romance with economic integration came to an abrupt end as governments bent to domestic pressure for protection from increasingly impoverished and disenfranchised domestic groups. It remains to be seen, however, whether the second coming of globalization will transform human relations and development on the worldwide scale it has always promised to do or end as ignominiously as the first.

In some circles, the infatuation with globalization has moved from an intellectual flirtation to an enthusiastic embrace of all that the rapturously freewheeling movement of goods, services, people, and money promises to accomplish for mankind. In the developed world, the potential gains from globalization have been recognized by a wide variety of interest groups and industries. Yet, Aaron Lukas's article argues that the opportunities are even greater for developing countries. By opening their economies and integrating with global markets, many developing countries have gained access to the investment and technology they need to catch up with the rich economies of the world. On the other hand, countries with less open economic systems and weaker institutional structures are being bypassed by globalisation's tide. The great danger and fear in the developing world today is not of being swept away by globalisation, but rather of being left behind by it.

At the same time, globalisation's enthusiasts have called for increased commitment to its institutions to ensure that the affair develops into something truly significant and enduring. As Horst Köhler points out, developed countries need to do their part to make economic integration work by opening their markets to some of the goods that developing countries produce most efficiently. For their part, developing countries need to deal with "homemade problems, including poor governance, corruption, and armed conflicts" to ensure that they are ready for a relationship that is healthy and sustainable for everyone.

Not everyone, however, is convinced that globalisation will not burn us again. As John Sweeney's contribution shows, in developed and developing countries alike there are growing misgivings about the distributional impacts of globalisation. Indeed, critics of globalisation in developed countries blame the process for the rising unemployment rates and declining wages among unskilled workers, while many in the developing world point to declining human development indicators as the result of globalisation. Concerns have also been raised about whether globalisation's institutions detract from the effectiveness and enforceability of existing environmental treaties. As Hilary French's article indicates, a "greening" of international financial institutions must be complemented by an improvement in the enforcement of existing international environmental treaties, an upgrade of the UN's Environment Programme into a World Environment Organization, and reform of the World Trade Organisation.

An understanding that the contemporary age of globalisation could be rolled back in the same manner as the first underscores the magnitude of the debate unfolding between globalisation's detractors and supporters. The fundamental issue of our age may be whether globalisation succeeds or fails in extending sustainable and equitable economic development to a critical mass of humanity. Undoubtedly, increased exchanges of opinion and vigorous debate about globalisation and its consequences will be the first step to enlightened civic action and policymaking. Bridging the divide over globalisation, however, will require a sustained commitment from myriad parties at the national and international levels to constructive debate about how to ensure that economic integration truly gives rise to a more perfect world.

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The Struggle for a New Internationalism

John J. Sweeney

From the unruly streets of Seattle and Prague to the hushed suites of the World Bank, a conspicuous roar is becoming more audible by the day. Its message is clear. The consensus on corporate globalisation is unraveling. Its claims are questioned, its assumptions debunked, and its record exposed for what it is. Across the world, a reaction is building. We are challenged to construct a new internationalism that allows for democratic development, public accountability, and the empowerment of working people across the world. For if we fail in our efforts to reverse the dismal trends of our age, we will witness a reaction that could harvest the furies.

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There Is No Alternative. Today's global world is too often painted as an inevitable product of progress and technology—the Internet, computers, jet planes, satellites—which have made our world a much smaller place. There is, however, another side to the tale. Globalisation has been shaped less by the forces of nature or technology than by powerful corporations, conservative ideologies, and complicit or cowed governments. Contemporary globalisation took its modern form from the corporate offensive and conservative movement that swept the West some twenty-five years ago, culminating with the accession to power of Margaret Thatcher in Britain, Helmut

Kohl in Germany, and Ronald Reagan in the United States. Corporations enlisted conservative governments in Britain and the United States in an open war on labor unions. Corporations and banks lobbied to dismantle controls on capital, deregulate industries and currencies, and open doors to investment and trade. Mergers and acquisitions surged as corporations went global. Conservatives argued that government regulation and subsidies hindered markets and growth. Free markets, they said, would unleash faster growth, greater productivity, less poverty, and more democracy.

From this consensus, the institutional framework for the global economy was established. The International Monetary Fund (IMF) and the World Bank were transformed, enforcing laissez-faire notions of what became the "Washington Consensus," particularly in dealing with the plight of indebted developing countries. Successive trade rounds led to the creation of the World Trade Organisation (WTO), with its closed panels of "experts" claiming the power to challenge national regulation. Financial deregulation unleashed huge flows of short-term capital that vagabonded around the globe, overwhelming existing foreign exchange regimes. Developing countries were told to adhere to the new imperatives—embrace free trade, deregulation, privatisation, and liberalisation—or be condemned to poverty. Developed nations were asked to open their markets, liberalise their banking systems, cut back on social spending to curb inflation, and get out of the way. "There is no alternative," Mrs. Thatcher proclaimed.

The Record Revealed. Now, after a quarter-century, we can see the results. New technologies transform our lives; new possibilities beckon. Some countries have fared well. Fantastic new fortunes have been created. Nonetheless, the promise of the globalizers—greater growth, less poverty, more democracy—is being called into question by the record of the last quarter-century.

In reality, development has flagged. In both industrial and developing nations, economic development has been slower over the past twenty five years than in the quarter-century before. China is a notable exception—but China and the East Asian "success stories" did not follow the Washington Consensus. China's currency is not convertible; its banking sector is nationalised; foreign investments and access to markets are carefully controlled. In fact, there is no region in the world that has succeeded by adopting the policies promoted or imposed by the World Bank or the IMF.

With slower development has come rising poverty. The 1999 UN Human Development Report states that the number of persons subsisting below the international poverty line—the wage level below which a "minimum nutritionally adequate diet plus non-food requirements are not affordable"—has risen from 1.2 billion in 1987 to 1.5 billion today, and is projected to rise to 1.9 billion by 2015.

This poverty is accompanied by rising inequality. "The assets of the top three billionaires are more than the combined GNP of all least developed countries and their 600 million people," notes the Human Development Report.

Worldwide, 34,000 children under the age of five die daily from hunger and preventable diseases. Two of five children in the developing world are "stunted, one in three is underweight, and one in ten is wasted," reports the Food and Agriculture Organisation. Two hundred fifty million children between five and fourteen—one quarter of all children in that age group—are compelled to work. When children work, the International Labor Organization reports, there is an over-crowding effect, and 850 million people earn less than a living wage or work less than they want.

Corporate concentration has reached unimaginable levels. Of the 100 largest economies in the world, forty-nine are corporations. General Electric's annual gross sales are higher than Poland's GNP. Wal-Mart sells more than Malaysia produces. The sweatshops of an earlier age have returned—to China and Mexico, but also to sections of Los Angeles and New York City.

With slower development and rising inequality comes growing instability. Former World Bank Chief Economist Joseph Stiglitz calls it a "boom in busts": Since the late 1970s we have witnessed sixty-nine banking as well as eighty-seven currency crises, culminating in the 1998 Asian financial meltdown. While the economies hit hardest sometimes recover remarkably fast, the people often do not. The Mexican crisis was short-lived for investors, since the United States arranged an emergency $50 billion rescue package. But Mexican workers found their real wages slashed by 25 percent. The share of the population living in poverty increased and small businesses collapsed by the thousands.

Increasingly, even the industrial countries are not immune to deep and prolonged crises. Japan remains mired in a decade-long stagnation. Russia, an industrial nation reduced to barter, is in constant turmoil. Europe remains plagued by mass unemployment. And in the United States, wages have yet to recapture ground lost over previous decades. Real wages have decreased for nearly three decades and the poorest workers have lost ground. Parents find themselves working harder and longer in a good economy just to make ends meet.

Not surprisingly, protest is building. Across the world, workers are demanding basic rights. Protests against the WTO and the IMF attract not only the young and the idealistic. The best minds—Nobel laureate Amartya Sen, Joseph Stiglitz, George Soros—challenge the laissez-faire platitudes of our time. Fast track trade authority gets blocked in Congress. International mobilization torpedoes the Multilateral Agreement on Investment. Internal and external opposition dooms a new round of trade negotiations under the World Trade Organisation. Students rally on U.S. campuses against global corporations that exploit workers abroad. Church groups lead the fight for global debt relief. Even companies like Nike have scrambled for cover, cobbling together codes of conduct to protect their reputations.

While laissez-faire economists continue to defend their theories, people across the world are coming to their own conclusions. Leaders of developing countries refuse to go along with deals cut in back rooms to which they are denied access. Citizens demand that basic values be protected—the rights to safe food, clean air and water, and accountable institutions. Workers demand international agreements on labor standards and a fair share in the wealth they produce.

Alternatives from the Bottom Up. Contrary to the beliefs of Mrs. Thatcher and her acolytes, there are alternatives. Popular movements—so often besmirched as protectionist or ignorant—are proposing reforms that offer a coherent alternative. At the AFL-CIO, we launched the Campaign for Global Fairness, working with our 13 million members here at home and reaching out to workers across the globe. We asked ourselves: What is essential to reshaping the global economy? What is needed to ensure that working families across the world benefit from it? How can we protect values beyond that of profit? These are large and difficult questions. We know that answering them will require innovative ideas and new initiatives. Yet some of the essential principles are already clear.

We need a commitment to global growth and development from the bottom up. We need enforceable rules to regulate global competition in a way that values people and not simply profit. We need to redesign the international financial architecture to support real investment, not speculation, and to foster sustainable growth, not austerity.

We do not claim to have all the answers or to know the complete agenda for reform. But we are joining with workers and citizens worldwide from a broad array of institutions to call for basic first steps. We call for forgiving the debt of the world's least developed nations, stepping up aid for basic needs in Africa, Asia, and Latin America, increasing the accountability and transparency of multinational corporations, and enhancing labor rights in developing countries.

Debt Relief. Developing nations must not be forced into a race to the bottom by a trade and investment system in which they have no voice. At the WTO meeting in Seattle, the angry cries of the poor countries were just as stunning as the protests in the streets.

In the current system, indebted nations must compete to attract foreign investment, increase exports, and decrease domestic demand. Often, under conditions imposed by the IMF, countries are forced to cutback on social support for healthcare, education, housing, and welfare. They are obliged to lower wages through devaluation, to turn to export-oriented agriculture or resource extraction, and to compete to offer multinationals the cheapest labor, the most disciplined workers, and the least regulation. All this to meet payments on debts that can never be repaid.

Contrary to pundit talk, globalisation is not a win-win game. Nor is it a heads-win, tails-lose game. In its current form, it's a no-win game. Only a handful of developing nations actually attracts significant investment. Presently, China sets the bottom—workers have no rights, the environment is afforded little protection, and wages are barely at subsistence levels. To compete, country after country lowers its own standards. Around the much-lauded free trade zones we witness the emergence of cardboard cities, populated by underpaid laborers.

Debt relief for countries committed to democratic reforms and basic worker rights is at the heart of the new internationalism. Crippling debts have only one function—to force countries into export-led growth. Servicing them leads to cuts in education and healthcare, and ends in the shameful spectacle of the poorest countries transferring net resources to the richest. Developing nations must gain space to create their own paths to sustainable development and must not be forced into an ideological straightjacket.

Basic Needs. At the AFL-CIO, we are working to educate our own members and to press the U.S. government to increase assistance around the world. We are encouraging the U.S. government to help in the vital areas of health, education, and basic needs. We must move beyond the demagogic and dishonest debate about how much of our budget goes to aid. Net official development assistance provided by the United States has fallen to about one-tenth of one percent of our GNP. Even under Ronald Reagan, it was double that percentage. Making matters worse, other industrial nations have followed our lead by reducing their assistance as well.[8]

Not only is aid minimal, but its distribution is highly unequal. Only one-fifth of the aid from the industrial countries goes to the forty-three least developed countries, and less than 10 percent goes to meeting basic needs. According to the Human Development Report, the additional cost of achieving and maintaining universal access to basic education, healthcare, reproductive care for all women, adequate food, and safe water and sanitation is "less than four percent of the combined wealth of the 225 richest people in the world."[9] Surely we must invest more in basic needs.

One sensible way to increase the pool of public funds while decreasing the instability of the global economy is to tax destabilizing financial speculation. The AFL-CIO joins the growing movement calling for a tax on short-term speculation (the so-called Tobin Tax, named after Nobel laureate James Tobin) that might create a pool of public funding for basic needs. Yet this is only a first step in what must be a renewed effort to regulate currency and capital speculation and foster more sustainable growth.

Transparency and Accountability. Investing in workers and the poor, however, is not enough. Rather, their interests must be firmly entrenched in the new global economic and regulatory architecture. Global institutions should not merely be transparent, but also accountable. Developing nations cannot be left in the hall when critical deals are cut in the back rooms. Workers, environmentalists, and consumers should have a seat at the negotiating tables, too. With the growing reaction against the WTO, we need a full-scale review of the current global rules and their effects on working families. This requires that the process be expanded to include those who have been locked out.

Global rules—whether voluntary or binding—should set floors on behavior, not ceilings on national regulation. We will push to hold global corporations accountable—by law, in negotiations, through pension fund investments—to sensible rules. Such regulations must not only adhere to internationally-recognised standards of behavior, but must also make organisations apply national standards and laws to their global activities. We can no longer allow multinationals to parade as agents of progress and democracy in the newspapers, even as they subvert this at the workplace. Arguments

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now rage about whether regulation should be global, national, or local. Our sense is that reshaping the global economy must enlist energy and efforts at every level, with the ensuing contradictions sorted out over time. We will push for enforceable global rules, as well as a reassertion of national regulation and a resurgence of state and local initiatives.

We are working with a U.S. coalition of labor, environmental, social justice, and human rights organizations to ensure that basic U.S. right-to-know laws are applied to overseas operations of American-owned companies. This would empower workers and citizens across the world to know about the practices of U.S. subsidiaries, including toxic releases, pollution emissions, hazardous chemicals in the workplace, and adherence to core labor standards. It would also require U.S. businesses to disclose the names and locations of all subsidiaries or contractors abroad. We will work with our fellow trade unions in Europe and Japan to seek similar legislation for their multinationals. Right-to-know legislation does not impose any regulatory system on any country. It simply informs workers and citizens about practices that affect their very lives. It will be a test of the good faith of those who object to global rules on the environment or labor rights to see if they join in the effort to share information and empower citizens abroad.[8]

Fair Labor Standards. Nowadays, there is much talk of the need for a new global consensus. One area where governments, businesses, and labor unions have already expressed a detailed global consensus is on fundamental worker rights—the prohibition of child labor and forced labor, the freedom from workplace discrimination, and the right to organize and bargain collectively. We do not need a new consensus, but rather an enactment of the consensus we already have.

Worker rights are basic moral imperatives. Forced labor is an abomination. Child labor is a challenge to modern ethical standards. When ten-year-old children work twelve-hour days, it robs them not only of their youth but also of their future. Discrimination denies our common humanity—and stokes the cauldron of hatred that too often leads to violence. Empowering working people to have a voice in their workplace is the only way to ensure that their concerns are heard. Only the right to organize and bargain collectively allows workers to gain a fair share of the wealth they produce. Only collective action can ensure that their workplaces are safe.

Worker rights are not simply moral imperatives. Enforcing core worker rights is vital to sustainable economic growth. A half-century ago, the experience of the Great Depression and the brilliance of John Maynard Keynes helped people understand this reality. If workers were without a voice, corporations would vie to exploit them. The production of goods and services would outstrip the ability of underpaid workers to buy them. Henry Ford understood he had to pay his workers enough to buy the cars that they made.

Critics argue that poor countries cannot afford the adoption of global labor rights. They are deemed a luxury of the rich or denounced as a backhanded form of protection. Former President Ernesto Zedillo of Mexico said that those who claim to be concerned about workers in developing countries often want to protect them from development. Zedillo and others simply place blind faith in the conservative catechism that holds global corporations to be the champions of freedom and markets the engine of development. This has been patently false. Markets must be embedded in broad frameworks of social values and shared objectives.

Markets are constantly engaged in "creative destruction," destroying old institutions, bankrupting old companies, and transforming old ways of living while producing the new, the different, the next wave. For disruption to lead to development, society must withstand some changes and find ways to widely share the blessings of others. In particular, society needs to support those who are displaced by modernisation and increase the education and training of successive generations.

Without laws and social support, markets can wreak a terrible human toll. Russia shows the horrors that can accompany markets in a lawless society. In this regard, worker organisation and worker rights are vital. Empowered workers are essential to limit corruption and to strengthen democracy. And if workers are empowered, they are better able to share the blessings that they produce and invest them in the next generation.

As Dani Rodrik, Professor of International Political Economy at Harvard University, has shown, countries that empower their workers enjoy faster growth, experience fewer setbacks, and better withstand external shocks. In Asia, Korea and Thailand, countries in which worker rights are relatively well-protected, recovered the fastest from the financial crisis. Indonesia showed how brittle even the most entrenched dictatorship can be.[11] A study of over seventy countries by Tom Palley, an economist at the AFL-CIO, revealed that freedom of association is linked to higher wages, improvements in political governance, reduced levels of corruption, and improved income distribution. Countries that strengthened their freedom of association laws experienced stronger GDP growth and increased manufacturing output. Export growth slowed, however, probably as a result of increased domestic demand.[12]

As Nobel laureate and development economist Amartya Sen says, freedom is not simply the end, but also the means of development. At the core of building democracy is defending core worker rights. The right of workers to organise independently is the most crucial among these.[13] In the words of Stiglitz, "Labor unions and other genuine forms of popular self-organisation are key to democratic economic development"—to building the kind of world in which we want to live.[14]

While developing countries' governments may have opposed worker rights, more than 100 union confederations across the globe endorsed the call to build worker rights into the World Trade Organisation. This includes the most independent voices of the developing world—workers from Thailand, Chile, South Korea, and South Africa. "We are not asking for the moon," said G. Rajasekaran, General Secretary of the Malaysian Trades Union Congress, "but very basic things. Worker rights that are already universally endorsed, but simply not enforced." Zwelinsima Vavi, General Secretary of the South African trade union confederation COSATU, says, "What we want [is to] link worker rights to trade rules to change the balance of forces for workers in the developing countries." Labor leaders like Vavi and Rajasekaran understand that the current order is not neutral to, but is actively working to undermine, worker rights, and that it attempts to weaken workers' collective voice.[8]

Finally, a word to critics who claim that worker rights are a Western concept. To impose them through the World Trade Organization, the IMF, and the World Bank, they say, is rank imperialism. Ironically, the WTO forces countries to rewrite their patent and copyright laws to fit U.S. specifications. It forces them to uproot traditional systems of farming. The IMF conditions loans on agreements to cutback on social protections, dismantle worker protections, and weaken environmental regulations. Only when the issue is core worker rights do apologists reveal a sudden concern for developing nations' sovereignty.

Begrudging Progress. When the AFL-CIO registered its support for a new internationalism five years ago, the U.S. debate was still enthralled by globalization, free trade, and the conservative mantra. Since then, the argument has shifted dramatically. Now the World Bank admits that poverty and inequality are growing worse and that its strategies need dramatic revision. The IMF has admitted that its austerity packages were counterproductive in the Asian crisis and that it must find ways to "bail speculators in," not bail them out. The world's bankers were shaken when the international financial system came to the brink of collapse in the Asian crisis. Leaders of developing nations openly question the legitimacy and viability of the World Trade Organization. Workers here and abroad have rallied for core worker rights.

Progress on reforms has been sluggish at best. At the meeting of the G-8 in Cologne in 1999, the leading industrial nations endorsed more generous debt relief. To date, however, few countries other than Uganda, which has received a substantial amount of aid, have actually benefited. Debt burdens are becoming worse, not better. At the G-8 summit in Okinawa in 2000, new targets were established for health and education—but there is no indication that the resources will be forthcoming to make them a reality. The dangers of the growing digital divide gain international recognition, but few measures to meet the challenge are suggested. The WTO has announced that it must reform its procedures to increase "transparency" and accountability. But again, there is no sign of reforms actually being implemented. Former Treasury Secretary Robert Rubin announced that a "new architecture" was needed to reduce destabilizing financial flows, but at best a little patching of the plumbing has occurred.

The IMF and World Bank have offered extensive self-critiques and promised reforms, but to date, little has been done. President Clinton argued that core worker rights and environmental protection had to be built into trade accords, but then pushed through permanent most-favored nation trading status for China in an accord that mentioned neither.

Even the simplest steps meet resistance. When the Clinton administration negotiated a trade agreement with Jordan that incorporated worker rights and environmental protection, the two governments, Jordanian and U.S. labor federations, and the Jordanian business community all supported the initiative—but the U.S. business community immediately announced it would try to block it.

Yet, despite the resistance, the movement for a new internationalism is growing in strength and in confidence. Its voice is heard both on the streets and increasingly in the elite's conference halls. The Washington Consensus is not even the consensus in Washington anymore.

Minerva's Mirror. The effort to create a new internationalism is best viewed through history's mirror. On March 25, 1911, a fire started in a rag bin at the Triangle Shirtwaist Company in New York City. Hundreds of women sewed garments there. They worked ten to twelve hours a day, seven days a week. "If you don't come in on Sunday," read the sign posted in the factory, "you need not come back on Monday." The fire swept through the eighth, ninth, and tenth floors, too high for fire ladders to reach. The doors to each floor were locked. The workers were trapped. Hundreds of young girls, their clothing and hair ablaze, threw themselves off window ledges onto the streets below. Their deaths, together with those of an additional 146 workers who remained in the blaze, ignited an outcry that gave birth to the modern labor movement. Yet it took decades—scarred by many more fires and many more tragedies—before sensible labor standards were enacted and enforced.[8]

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Almost a century later, globalisation has magnified on a global scale the conditions that once sparked outrage in the United States. In 1993, the worst industrial fire in history broke out at the mammoth Kadar Industrial Toy Company outside of Bangkok, Thailand. Three thousand workers, mostly women, some as young as thirteen, worked in huge rooms at the factory. They put together toys largely for American children: Sesame Street, Bart Simpson, and Muppet dolls, products bearing brand names like Fischer-Price, Hasbro, and Tyco and selling in stores like Wal-Mart and Toys-R-Us. In the fire, 180 workers perished and 469 were seriously injured. In a similar accident in Zhuhai, China, a year later, ninety-three people—mostly young women—were killed and 160 injured when a textile factory collapsed in a fire. These tragedies—almost a century apart, but hauntingly alike—help us to locate where we are.

The Triangle Shirtwaist fire took place in the last great era of globalisation. The U.S. economy was in profound transition—shifting from agricultural to industrial, from local to national, from household enterprises to giant corporations. New technologies—the light bulb, the internal combustion engine, and the assembly line—transformed how people lived and worked. Then, as now, technologies opened new possibilities. The laying of the transatlantic cables in 1866 reduced the time it took to communicate between London and New York from a week to a matter of minutes. The opening of the Suez Canal, the Panama Canal, and the first Alpine tunnels transformed global transport. Britain, the leading power of the day, had nearly 40 percent of its GNP wrapped up in foreign trade. Corporations and financial houses sought global investments and markets.

The new economy was marked by great fortunes—and massive inequality and growing instability. Booms and busts, depressions, political turmoil, strikes, and protests wracked the industrial economies. In the United States, Social Darwinism, an extreme version of laissez-faire doctrine, was the dominant ideology. Property rights were protected. Worker rights were literally against the law. When workers tried to organize, they were met with court orders and billy clubs. The courts struck down fair labor standards, workmen's compensation, and workplace regulation as illegal restraints on trade or a taking of property.

But the Gilded Age ended disastrously, disintegrating into war, depression, revolution, and militarism. That global order failed because it featured a race for colonies that exploited much of the world while fueling bitter national rivalries. It failed because it was based upon undemocratic systems of governance that locked out the views of the poor. It failed because its Social Darwinist economics generated harsh inequality and severe booms and busts. Not surprisingly, the disorder generated a backlash internally and externally, from the Right and from the Left.

Now we face a similar challenge. Once again, a global system has been built by the powerful. Once again, it is generating protests from poorer nations whose voices go unheard, as well as from farmers and workers across the world whose plight goes unheeded. And once again, a harsh laissez-faire ideology is generating inequality and instability. We are faced with a global challenge: Can we close the gap between global markets and human communities? Can we build global rules that make this economy work for common people? Or are we condemned to repeat history for not having learned from it? We will either build a new internationalism that works for everyone, or we are likely to reap a poisonous new reaction. The choice is ours.

NOTES

1 An overview can be found in Daniel Yergin and Joseph Stanislaw, *The Commanding Heights* (New York: Touchstone, 1999).

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3 United Nations Development Programme, *Human Development Report 1999* (New York: Oxford, 1999) 3.

4 *Human Development Report 1999* 3.

5 Food and Agriculture Organization, *The State of Food Insecurity in the World 1999* (New York: United Nations, 1999) 11.

6 International Labor Organization, *World Labor Report 2000* (Geneva: ILO, 2000).

7 For a summary, see John Cavanagh and Sara Anderson, *Field Guide to the Global Economy* (New York New Press, 1999).

8 Joseph E. Stiglitz, "Fairness and the Washington Consensus," Council on Foreign Relations presentation, 6 March 2000.

9 For detailed analysis see Lawrence Mishel, Jared Bernstein, and John Schmitt, *The State of Working America 1998-1999* (Ithaca: Cornell University Press, 1999).

10 Michael Dobbs, "Foreign Aid Shrinks, But Not for All," *Washington Post* 24 January 2001: A1.

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12 For a brief overview, see William Greider, "Global Agenda," *Nation Magazine* 31 January 2000.

13 Dani Rodrik, *The New Global Economy and Developing Countries: Making Openness Work* (Washington DC: Overseas Development Council, 1999).

14 Thomas Palley, "The Economic Case for International Labor Standards: Theory and Some Evidence," AFL-CIO paper (Washington DC: AFL-CIO, 1999).

15 See Amartya Sen, *Development as Freedom* (New York: Knopf, 1999).

16 Joseph Stiglitz, "Democratic Development as the Fruits of Labor," address, (Washington: World Bank, 20 January 2000): 23.

17 Mark Levinson, "The Cracking Washington Consensus," *Dissent* Fall 2000: 14.

18 See Howard Zinn, *The Twentieth Century* (New York: Harper Perennial, 1998) 36-39.

Saving the Poor—from Development

Aaron Lukas

The WTO has undermined health, safety and environmental standards, human rights advocacy efforts and democratic accountability in policy-making in the U.S. and worldwide. At the same time, the vaunted economic benefits promised to derive from the Uruguay Round have failed to materialize.[1]

Lori Wallach, Public Citizen's Global Trade Watch

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The institutional faces of globalisation, most notably the World Trade Organization (WTO), have been the subject of bitter protests by opponents of increasing international economic integration. Recent high-profile actions by individuals and organisations opposed to globalisation—especially the protests that disrupted the WTO meetings in Seattle—have turned popular attention to a long-running debate about development. On one side, economic liberals argue that the relatively free flow of goods and capital among nations is essential for economic growth and poverty reduction. On the other side, critics of globalisation claim that for poor countries, trade with and investment from Western countries lead only to exploitation and continued misery. Given that negative view of globalisation, it is not surprising that anti-trade activists are calling to "shrink or sink" the WTO.

In many ways, these are dark days for the protectionist union members and eclectic "globaphobes" who famously paraded through the streets of Seattle and stormed police barricades in Washington, DC and Prague. After losing a string of major Congressional votes—from permanent normal trade relations for China to freer trade with Africa to quotas on imported steel—and after failing to disrupt the World Bank/IMF meetings this summer, it is obvious that the anti-trade "movement" isn't as formidable as its cheerleaders claim. In the big picture, globalisation is alive and well. In the past half-century since the founding of the General Agreement on Tariffs and Trade (GATT), world trade has expanded sixteen-fold, more than twice the rate of output growth.

Perhaps most telling is that the anti-globalisation message is falling on deaf ears in developing countries, which are resisting attempts by their so-called defenders to link labor and environmental agendas to trade. As one Gabonese diplomat who was blocked from attending the Seattle WTO meetings noted with disgust, "[The protesters] understand nothing, and are as remote from our problems as you'd expect from middle-class whites in Washington state." Mexico's outgoing president, Ernesto Zedillo, was even more damning: "Forces from the extreme left, the extreme right, environmentalist groups, trade unions of developed countries, and some self-appointed representatives of civil society are gathering around a common endeavor: to save the people of developing countries—from development."[3]

The anti-trade forces claim to speak for the residents of poor countries, but workers there aren't so sure that they need saving.

Globalization and Growth. The anti-trade forces claim to speak for the residents of poor countries, but workers there aren't so sure that they need saving. Many realise that the removal of trade barriers immediately expands the range of choices for consumers and places downward pressure on prices, thus raising the real value of workers' earnings. Some note that foreign investment provides more jobs, new production technologies, infrastructure improvements, and a source of capital for local entrepreneurs. Businesspeople want access both to cheaper inputs and to vastly larger markets for their products. For most people, however, the many and varied benefits of a liberal trade and investment regime can be boiled down to one very attractive proposition: Globalisation spurs economic growth, and growth raises living standards.

That common-sense notion is supported by numerous studies that have found a link between the freedom to conduct international transactions and economic growth. A well-known paper by Jeffrey Sachs and Andrew Warner of Harvard University, for example, found that developing countries with open economies grew by an average of 4.5 percent per year in the 1970s and 1980s, while those with closed economies grew by only 0.7 percent.

The same pattern held for developed countries: Those with open economies grew by 2.3 percent per year while those with closed economies grew by 0.7 percent. Other studies, such as a 1998 analysis by the Organisation for Economic Cooperation and Development, have found a growth gap of roughly two-to-one in favor of open economies.

One of the broadest measures of economic openness is in *Economic Freedom of the World: 2000 Annual Report*, by James Gwartney, Chief Economist of the Joint Economic Committee of the U.S. Congress, and Robert Lawson of Capital University. *Economic Freedom* ranks countries and regions by their relative openness to international exchange. The report ranks countries on a scale from zero to ten on the basis of such factors as mean tariff rate, taxes on international trade as a percentage of exports plus imports, non-tariff barriers, and total size of the trade sector. There is a clear relationship between per capita GDP and openness to international trade and investment as measured by Gwartney and Lawson.

Developing countries that have grown at the open-economy average have been converging with the industrial economies, while their closed-economy counterparts have tended to fall farther behind. No wonder "globalisation" isn't such a dirty word in places that are suffering from a lack of it.

Critics of cross-country comparisons correctly point out that isolating the effects of trade liberalisation from other variables is methodologically daunting since reductions in trade barriers are frequently made in conjunction with a host of other reforms. Two points, however, are crystal clear. First, there is an undeniable relationship between growth rates and economic freedom generally, including the freedom to conduct international transactions. Second, contrary to the claims of the anti-trade forces, there is no evidence whatsoever of countries that have shut themselves off from global markets and prospered over the long term.

Perhaps more clearly than anywhere in the world, East Asia has demonstrated that rapid gains in human welfare are possible when developing nations adopt an outward-oriented development strategy. Real per capita income in the region has grown at an average rate of 4 to 6 percent per year since the 1960s. That compares extremely favorably with experiences of development elsewhere. From 1960 to 1990, the top eight Asian economies grew about three times as fast as Latin America and South Asia and five times faster than sub-Saharan Africa. Moreover, the recent Asian financial crisis—a product of foolish monetary policy, not globalisation per se—appears to have presented only a temporary obstacle to these burgeoning economies. Even if the crisis had stopped all economic progress for five years, these economies would have performed well above the world average for the past three decades.

Such robust economic growth has translated into dramatically improved standards of living that are readily observable to anyone visiting the region. South Korea in the 1960s, for example, was comparable to many West African countries in terms of economic development. Today its citizens enjoy incomes on par with those in European countries. Tiny Singapore, which has few natural resources, has transformed itself into a trade and technology powerhouse. In China, per capita GDP has nearly quadrupled in just twenty years. As a result, an estimated 160 million people in China have emerged from absolute poverty, defined as per capita income below one dollar per day. Since 1970, per capita food intake in Indonesia has risen from fewer than 2,100 to more than 2,800 calories per day. In 1972, nearly 68 million Indonesians were living in what their government deemed poverty; by 1982, that number had fallen to 30 million—a decline of 56 percent. Up and down the Pacific Rim, active engagement in world markets and an openness to foreign investment have wrought breathtaking improvements in the lives of hundreds of millions of people—tangible progress that neither foreign aid nor protectionism have ever been able to match.

Faced with such success stories, critics of globalization are often forced to concede the pro-growth effects of economic liberalism. But economic growth, they respond, does not necessarily benefit everyone. Instead, rosy GDP figures mask a darker reality. The rich are getting richer while the poor are getting poorer. As trade flows have increased, warns a Public Citizen press release, "wealth inequality has grown within the developing countries."

The facts, however, tell a very different story. David Dollar and Aart Kraay of the World Bank recently analyzed income data from eighty countries spanning four decades. They determined that incomes of the poor rise approximately one-for-one with overall growth. In other words, the incomes of the bottom fifth of wage earners in developing countries increased proportionally with the incomes of society in general as economies grew. Thus, claims to the contrary notwithstanding, globalization has not led to increasing inequality within poor countries. Dollar and Kraay conclude that openness to foreign trade and investment is as good for the poor as it is for the overall economy, and that trade's effect on the distribution of income within a country is "tiny and not significantly different from zero."

The link between economic openness and growth has become so obvious that developing countries over the past couple of decades have been opening their markets voluntarily, independent of any *quid pro quo* negotiations. Countries as diverse as Argentina, the Philippines, Chile, and Thailand have taken aggressive unilateral steps toward integration into the global economy. Even the most traditionally closed economies are finally abandoning the failed autarkic model of protectionism in favor of freer trade. Over just the past few years, India has reduced its average industrial tariffs from 71 to 32 percent, Brazil from 41 to 27 percent, and Venezuela from 50 to 31 percent. The World Trade Organization's own history illustrates the "bottom-up" popularity of trade liberalization. Established in 1948, the GATT—the precursor to the WTO—had only twenty-three contracting parties, most of which were industrialized nations. Today, more than three-quarters of the WTO's 136 members are developing nations, and twenty more are eagerly waiting to join.

Jobs, Wages, and Labor Standards. It is an article of faith among globaphobes that the low-skilled jobs in the export industries of the developing world amount to exploitation of local workers. Globaphobes evoke images of third-world "sweatshops" and labor-intensive factories with hellish working conditions and slave wages to justify U.S. trade barriers against developing-country imports. Shutting down those factories by any means necessary is now a top priority of anti-free traders. In one recent high-profile example, students at the University of Pennsylvania, the University of Michigan, and Indiana University staged sit-in protests against the licensing of school logos to companies producing clothing in developing countries. Despite the good intentions of those students, such trade-reducing actions do nothing to help improve conditions in poor countries.

It is certainly true that workers in the export sector of developing countries earn far less than their Western counterparts and often work in much harsher conditions. The proper comparison, however, is not between U.S. wages and developing country wages but between export-sector wages in developing countries and other locally available opportunities. After all, it is not as though low wages and poor working conditions are a creation of multinational companies—that combination has been the rule throughout history. It is lamentable that nearly 3 billion people currently live on less than two dollars a day, but the critical question to ask is, why are the other 3 billion people doing better? Globalization is an important part of that answer.

Wherever new export industries have taken hold, there has been a measurable improvement in local incomes and working conditions. In 1998, Edward M. Graham of the Institute for International Economics estimated the wages and salaries (not including fringe benefits, which generally average about 25 percent of wages and salaries) paid to local employees of U.S. affiliate companies. His results suggest that although developing country employees of U.S. affiliates are indeed paid less than their developed-country counterparts, they are paid significantly more than the average wage for the country where they live. In low-income countries, for example, workers fortunate enough to gain employment with a U.S.-based company earn more than eight times the average per capita salary. For middle-income countries, such workers earn about three times the average local yearly wages.

Anecdotal evidence supports Graham's statistical analysis. For example, a recent survey of forty-eight U.S.-based companies in China, conducted by the U.S. Chamber of Commerce in Beijing, found that respondents paid an average hourly wage of $5.25, excluding benefits, or about $10,900 per year. Similarly, workers at a Shanghai factory owned jointly by General Motors and the Shanghai Automotive Industry Corporation earn about $4.59 per hour, including benefits but not counting generous performance bonuses that can almost double take-home pay. While such wages are far below the average for a unionized autoworker in the United States, they are about three times higher than wages for comparable work at a non-U.S. factory in Shanghai and nearly eight times higher than the United Auto Workers' estimate that a "'good paying' factory job with a company like General Motors pays about 59 cents an hour" in China.

Other research, such as that by Jeffrey A. Frankel and David Romer of the University of California at Berkeley, has shown that trade, as distinct from foreign investment, also has a positive impact on developing-country wages. In a 1999 paper, the authors concluded that trade exerts "a qualitatively large and robust... positive effect on income." After analysing data from 150 countries, they estimated that an increase in the ratio of trade to GDP by one percentage point can be expected to raise income per person by between 0.5 and 2 percent.

Both trade and investment affect the long-term production trend in developing economies, which also reinforces the gains to workers. Specifically, poor countries tend to move away from labor-intensive production as they scale the ladder of economic development. The share of textiles and apparel in South Korea's exports, for example, grew from 8 percent in 1960 to 40 percent in 1980, but then shrank to 19 percent by 1993. Today South Korea is known more for its exports of automobiles and electronics than its clothing, and average wages have increased dramatically. The benefits of creating a dynamic, export-oriented manufacturing sector are even more apparent when wages are compared with those in Western countries. In 1960, the average manufacturing job in a developing country paid just over 10 percent of manufacturing wages received by workers in the United States. By 1992, wages in those countries had risen to nearly 30 percent of U.S. manufacturing wages. In other words, as manufactured exports of developing countries have grown, so have wages in those countries—even in relation to U.S. wages, which have also risen.

Foreign-owned businesses not only pay their workers more, they also provide a positive example of quality of life in the workplace. In fact, in the few high-profile cases in which Western companies were tied to labor abuses, those abuses were overwhelmingly committed by indigenous firms that were selling on contract. As awareness of worker mistreatment has grown, foreign-owned firms—and in particular, American-owned firms—have actively taken measures to ensure that workers are treated humanely. Companies have established codes of conduct for their suppliers. Consider the Nike Corporation, which for years has been the company that globaphobes have loved to hate. After taking voluntary steps to improve its procurement process, Nike hired former U.S. ambassador to the United Nations Andrew Young to conduct an independent investigation of the company's labor practices. Focused consumer pressure, not blunt government sanctions, was responsible for Nike's internal reforms.

Zhou Latai, one of China's foremost labor attorneys who represents injured workers in the southern city of Shenshen, puts it this way: "American consumers are a main catalyst for better worker rights in China. They are the ones who pressure Nike and Reebok to improve working conditions at Hong Kong- and Taiwan-run factories here. If Nike and Reebok go... this pressure evaporates. This is obvious."

Consider the case of Hortensia Hernandes, who works for the Bull-D jeans company in Gomes Palacio, Mexico. She earns $20 a day sewing jeans for export—not much by U.S. standards, but a top-notch salary in Mexico and triple what she was earning only three years ago. Overall, average wages in Mexico's booming export sector are 30 percent higher than those for jobs linked to the domestic market. Companies also compete to provide a comfortable working environment, offering such previously unknown perks as air-conditioning, music, and free lunches. Since the North American Free Trade Agreement (NAFTA) was signed in 1992, Mexico has climbed from twentysixth place to eighth place among the world's largest exporters, and in recent years, its exports have fueled growth rates of 4 percent.[illegible] The resulting positive changes in Mexico's economy have been astounding. "NAFTA," says Jesus Reyes-Heroles, Mexico's ambassador to the United States, "is the most important thing to happen to Mexico in the past 100 years....Those who oppose it should come to Mexico."[illegible]

Again, it is important to remember that low wages, poverty, and difficult working conditions are not new to the developing world; they have always been the norm. No doubt there will always be horror stories about unscrupulous employers, just as such stories persist in this country. Globalisation is not a panacea, but curtailing trade and foreign investment will only ensure that workers are forced into the non-export sector. For most people that means eking a miserable living from small plots of land, or sometimes worse. More than any government program or aid package, the spread of free trade, free markets, and investment across international borders by private companies and investors is proving to be the most effective anti-poverty measure the world has ever seen.

The Seattle and Washington protesters called for better working conditions in the developing world while denouncing the policy that would most help bring such improvements about—free trade. Instead of closing our markets, we should be opening them further. No amount of aid money or insistence on living-wage standards could match the benefits for poor workers that tariff-free access to Western markets could offer. That access would create jobs, reduce unemployment, put upward pressure on wages, and even create a hospitable climate for labor-organizing efforts. Those are precisely the goals the anti-trade movement is seeking.

Ironically, the WTO's failure in Seattle was due not to fear of free trade on the part of developing countries, but rather to the reluctance of developed countries to fully embrace it. As Sri Lankan Commerce Minister Kingsley Wickramaraine noted, a large number of developing countries have "yet to find any meaningful market access opportunities for products of export interest to them."[illegible] Unfortunately, Wickramaraine is correct. The United States and other industrialized countries continue to block imports from developing countries, especially through abnormally high tariffs on textiles and clothing, an unfair antidumping regime, and quotas on various agricultural products.[illegible] Such discriminatory protectionism persists despite promises made during the Uruguay Round of trade talks. In the WTO Agreement on Textiles and Clothing, for instance, the United States pledged to phase out all textile and apparel quotas over a ten-year

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period, but as of 1999 only 1 percent of U.S. quotas had been eliminated.[2] On average, developing countries face tariffs on their manufactured exports that are nearly four times the tariffs facing exports of developed countries.[3] Because of that inequitable pattern of protectionism, Thomas W. Hertel and Will Martin of the World Bank have concluded that developing countries would capture around 75 percent of the world economic benefits from further trade liberalisation in the manufacturing sector.[4]

Wrong Side of History. There will never be a magic formula for development or democratisation. Yet the East Asian experience is a powerful testament to the rapid progress that can be achieved when developing countries embrace the basic tenets of globalisation. The stakes are high. With the exception of countries that have embraced export-oriented development, the gap between the developed and the developing world has been either stable or growing throughout most of modern history. The free trade countries are succeeding because they have created outward-oriented economies that provide faster growth through exports and access to foreign technology, capital, and productivity-enhancing imports. Those who wish to improve the lives—both politically and economically—of the citizens of developing countries should be thinking of ways to facilitate globalization, not attempting to stop it.

The globaphobes are on the wrong side of history. However, their claims often sound plausible and have a certain superficial appeal. It is comforting to believe that governments can simply legislate poverty out of existence. Protectionism has always been an integral part of that siren song, promising an easy path to development. But protectionism has never made good on its promises. In the real world, it has been a willingness to liberalise economies and allow individuals to freely pursue their own financial interests—even across borders—that has actually lead to wealthier societies. That is a lesson that poor countries are finally beginning to learn.

In the past half-century since the founding of the GATT, the world economy has grown six-fold, in part because trade has expanded sixteen-fold. As experience has shown, growth need not lead to the wholesale exploitation of workers in poor countries. Instead, globalization makes it possible for more people to lift themselves out of conditions of grinding poverty more quickly than was ever possible in the past. It has and will continue to measurably improve the lives of millions around the world, but only if we choose to embrace it.

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Greening Globalization

Hilary French

In December 1999, tens of thousands of people turned out on the streets of Seattle to protest plans for a new round of global trade talks under the aegis of the World Trade Organization (WTO). Some four months later, many of the same people reassembled in Washington, DC at the annual spring meetings of the World Bank and the International Monetary Fund (IMF). In September, the protesters resurfaced in Prague at the fall meetings of these institutions. As these events demonstrate, the terms of public debate over globalization are rapidly shifting, with the powerful institutions governing today's global economy increasingly on the environmental and social defensive.

Globalization has become both one of the most contentious as well as one of the most defining issues of our time. Part of the controversy stems from the different meanings that the term "globalization" has for different people. To some, globalization is synonymous with the growth of global corporations, whose far-flung operations transcend national borders and allegiances. To others, it signals a broader cultural and social integration, spurred by mass communications and the Internet. The term can also refer to the growing permeability of international borders to pollution, microbes, refugees, and other forces. Globalization is used here to refer to a broad process of societal transformation that encompasses all of the above, including growth in trade, investment,

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travel, computer networking, and transboundary pollution.

Collectively, these diverse processes have a large and growing impact on the health of the earth's natural systems, all of which are coming under strain. Carbon dioxide levels in the atmosphere have reached record highs, scientists are warning that we are in the midst of a period of mass extinction of species, the world's major fisheries are being depleted, and water shortages loom worldwide.

An upsurge of trade and investment in natural resource sectors such as forestry, mining, and petroleum development is threatening the health of the world's forests, mountains, waters, and other sensitive ecosystems. Forests are shrinking as the value of global trade in forest products climbs, from $29 billion in 1961 to $139 billion in 1998. Fisheries are collapsing as fish exports rise, growing nearly five-fold in value since 1970 to reach $52 billion in 1997.

Globalization is a powerful driving force behind today's unprecedented biological implosion.

Turning around these disturbing transnational environmental trends will require a multi-pronged strategy, including integrating environmental principles and values into the programs of international economic institutions; building a stronger international environmental infrastructure; and harnessing the power of new information and communications technologies to forge powerful cross-border political alliances between non-governmental organizations (NGOs) and other actors.

Globalization's Environmental Fallout. While economists tout record-breaking increases in global commerce in recent decades, the world's leading biologists are reporting more sobering statistics. The loss of living species in recent decades represents the largest mass extinction since the dinosaurs were wiped out 65 million years ago. Globalization is a powerful driving force behind today's unprecedented biological implosion.

The rapid growth in the movement of human beings and their goods and services has provided convenient transportation for thousands of other species of plants and animals that are now taking root on foreign shores. On any given day, some 2 million people cross international borders, while 3,000 to 10,000 aquatic species are moving around the world in ship ballasts. Once "exotic species" establish a beachhead in a foreign ecosystem, they often proliferate, suppressing native species and imposing high economic costs.

Chemical hazards are also being spread by globalisation. Exports of pesticides have increased nearly nine-fold since 1961, reaching $11.4 billion in 1998. The developing world is becoming home to a growing share of the hazard-laden petrochemical industry. In 1980, 11 percent of all chemicals were produced in developing countries; by 1996, this figure had grown to 18 percent. Much of this expansion involves joint ventures with multinational firms.

Approximately 41 percent of U.S. foreign direct investment in the Philippines in 1998 was in chemicals, as was 22 percent of such investment in Colombia.

Yet, just as globalisation can spread environmental risks, the forces of globalisation can also produce environmental gains, such as helping developing countries leapfrog to the cleaner technologies of tomorrow. China has become the world's largest manufacturer of energy-efficient compact fluorescent light bulbs in recent years, in part through joint ventures with lighting firms based in Hong Kong, Japan, the Netherlands, and Taiwan. India has become a major manufacturer of advanced wind turbines with the help of technology obtained through joint ventures and licensing agreements with Danish, Dutch, and German firms.

Several countries are working to harness the global economy to protect rather than decimate natural wealth. Costa Rica is now a major destination for ecotourists, capitalising on its moist cloud forests, sandy beaches, and dry deciduous forests. Many other countries have moved to tap into the booming international market for organic produce. Mexico now has some 10,000 organic farms on 15,000 hectares of land, most of them run by small farmers. While coffee is their mainstay, Mexico's organic farmers also cultivate apples, avocados, coconuts, cardamom, honey, and potatoes.

Unfortunately, the promising examples cited above continue to be exceptions rather than the rule in a global economy that continues to destroy natural wealth at an unprecedented rate. Tipping the balance away from environmentally harmful activities and into more sustainable ones will require far-reaching governance reforms that channel globalisation to protect, rather than to undermine, the ecological health of the planet.

Reforming the WTO. An important place to start is with the WTO, which has earned the antipathy of environmentalists in recent years by suggesting in rulings from secretive dispute resolution panels that a range of national environmental laws and even the provisions of some international environmental treaties could constitute illegal trade barriers.

In a case that particularly seized the attention of U.S. environmentalists, a WTO dispute resolution panel ruled in 1998 against a U.S. measure aimed at reducing unintended sea turtle mortality as a byproduct of shrimp trawling. Sea turtles are both extremely endangered and highly mobile, making international action to protect them a high priority. The provisions of the U.S. law in question closed the lucrative U.S. shrimp market to countries that do not require their shrimpers to use turtle excluder devices—simple but highly effective pieces of equipment that prevent turtles from getting ensnared in shrimp nets—or that do not have comparable policies in place.

Although the environmental effectiveness of the U.S. law was clear, both the initial WTO dispute resolution panel and a subsequent appeals panel concluded in 1998 that the measure violated WTO rules. The legal reasoning of the appeals panel was an improvement over earlier rulings, as it acknowledged that countries may in some circumstances be justified in using trade measures to protect global resources. Nonetheless, the panel took issue with the way in which the U.S. law was implemented, arguing that it was applied in an arbitrary manner that failed to treat countries evenhandedly. The bottom line was that implementation of the U.S. law would have to be changed in order to comply with WTO rules.

At the same time the United States was defending its turtle protection law at the WTO, it was taking aim at a European Union law that forbids the sale of meat produced using growth hormones. Since the law went into effect in the late 1980s, it has always applied equally to domestically-raised and imported livestock, and has thus passed the WTO's bedrock test of non-discrimination. The EU insists the ban is not an intentional trade barrier, but rather a prudent response to public concern that eating hormone-treated beef might cause cancer and reproductive health problems. However, the hormone-hooked U.S. livestock industry was threatened by the law, which blocks hundreds of millions of dollars worth of U.S. beef exports, and it prevailed upon the U.S. government to take up its cause at the WTO.

In February 1998, a WTO appeals panel ruling upheld an earlier dispute panel ruling that the EU law violated WTO rules.[illegible] The panelists explicitly rejected the EU's defense that the import restriction was justified by the precautionary principle, a basic tenet of international environmental law that holds that lack of scientific certainty should not be used as a reason for postponing action in cases where there are threats of serious or irreversible damage. In July 1999, the U.S. government imposed WTO-approved retaliatory sanctions on the EU for its refusal to adhere to the WTO ruling by changing its law, slapping 100 percent tariffs on $116.8 million worth of European imports, including fruit juices, mustard, pork, truffles, and Roquefort cheese.[illegible] These sanctions are still in place and may soon be expanded, as the EU has so far refused to back down.

These controversies demonstrate the need to amend WTO rules to buffer environmental laws from trade challenges. Among the priorities are clearly incorporating the precautionary principle into WTO rules; protecting consumers' right to know about the health and environmental impact of products they purchase through safeguarding labeling programs; recognizing the legitimacy of distinguishing among products based on how they were produced; providing deference to multinational environmental agreements in cases where they conflict with WTO rules; and opening the WTO to meaningful public participation.

Greening International Finance. After bringing the WTO to its knees, the protesters set their sights on the IMF and the World Bank. The prominent role of both of these institutions in responding to the global financial crisis of the late 1990s clearly demonstrated their formidable powers, but also underscored the failure of both organizations to pay sufficient heed to the profound effects of their policies on the ecological health of recipient countries.

Both institutions make controversial "structural adjustment" loans, in which countries receiving funds are required to implement a long and specific list of policy changes such as cutting government budgets, opening up to trade and foreign investment, and privatizing government-owned enterprises. While these policies may help balance a country's books, they also often cause environmental strains, such as drastic cuts in the budgets of already overburdened environment and natural resource management ministries or stepped up exports of natural assets such as fisheries and forests. For instance, environmentalists criticize the promotion of palm oil production for contributing to the decimation of Indonesia's biologically-rich tropical forests. They also attack the bailout plan for Indonesia in the wake of the 1997 financial crisis as environmentally unfriendly.

On the other hand, structural adjustment programs can also be used to promote environmentally beneficial policy changes. The negative impacts of the Indonesian package were somewhat counterbalanced by provisions requiring better forest management practices and policies in the country, including reducing land conversion targets to environmentally sustainable levels, instituting an auctioning system for handing out concessions, and imposing new taxes on timber sales. Although it rarely occurs in practice, adjustment loans can also be used to promote environmentally beneficial fiscal reforms, such as cuts in environmentally harmful subsidies or the imposition of pollution taxes.

Despite the clear links between economic and environmental health, however, the IMF has long resisted the idea that environmental issues have much to do with its traditional mission of helping countries weather short-term financial crises. On paper, the development-oriented World Bank has been far more open than the IMF to the idea that environmental concerns should be integrated into its lending, including structural adjustment. An internal review of more than fifty recent adjustment loans found that few loan agreements paid much heed to environmental and social matters. Whereas a 1993 Bank report found that some 60 percent of adjustment loans included environmental goals, a more recent study concluded that this share had plummeted to less than 20 percent.

Private lenders and investors also need to take steps to better integrate environmental considerations into their operations. Under a UN Environment Programme (UNEP) initiative aimed at encouraging such considerations, 162 private banks from 43 countries signed the Statement by Banks on the Environment and Sustainable Development. The signatories underscore their expectation that borrowers must comply with "all applicable local, national, and international environmental regulations." They also pledge to update their accounting procedures to reflect environmental risks, such as the potential for chemical accidents or hidden hazardous waste dumps, and to develop banking products and services that promote environmental protection.

If financial markets are to reflect environmental risks adequately, transparent information about corporate environmental performance is essential. The last several years have seen an explosion of interest in environmental reporting, including the launching of a Global Reporting Initiative spearheaded by the Boston-based Coalition for Environmentally Responsible Economies. Under this initiative, corporations, NGOs, professional accounting firms, and the UNEP are working to produce a global set of guidelines for corporate sustainability reporting that will hopefully elevate environmental reporting to the same plane as financial reporting, making it standard business practice worldwide.

Strengthening Governance. So far, the new rules of the global economy are mainly being set by institutions such as the WTO and the IMF, where the mindset of traditional economists prevails and where the "rules" are for the most part aimed at unshackling global commerce rather than harnessing it for the common good. However, forging an environmentally sustainable society is about more than economics, and farsighted economics is about more than reducing restrictions on the movement of goods and money. Creating a global society fit for the twenty-first century will thus require not only reform of economic institutions, but also a strengthening of international environmental institutions so that they can act as an ecological counterweight to today's growing corporations.

Judging from the number of treaties, environmental diplomacy over the past few decades appears to have been a spectacular success. Environmental treaties alone number more than 230; agreement on more than two-thirds of them has been reached since the first UN conference on the environment was held in Stockholm in 1972. These accords cover atmospheric pollution, ocean despoliation, endangered species protection, hazardous waste trade, and the preservation of Antarctica, among other issues.

Many of these accords have led to important results, such as the 87 percent drop in chlorofluorocarbon emissions from their peak in 1988 that resulted from the 1987 Montreal Protocol on ozone depletion. The volume of oil spilled into the ocean has declined by 60 percent since 1981, even with a near doubling in oil shipments in response to agreements forged by the International Maritime Organisation. Yet, even as the number of treaties climbs, the condition of the biosphere continues to deteriorate. The notoriously slow pace of international diplomacy needs to be reconciled with the growing urgency of protecting the planet's life support systems.

Environmental treaties have mostly failed to turn around today's alarming environmental trends because the governments that created them have generally permitted only vague commitments and lax enforcement. For the most part, governments have failed to provide sufficient funds to implement treaties, particularly in the developing world. Ironically, environmentalists need to take a page from the WTO and push for international environmental commitments that are as specific and as enforceable as trade accords have become.

One idea now gaining political currency is to upgrade the UNEP into a World Environment Organisation (WEO) on par with the WTO. Although the UNEP has had some important successes since it was founded in 1972, it has suffered from meager resources and a limited mandate. Upgrading the status of environmental issues within the UN system is long overdue. Still, it is important that debates over form do not distract from the ultimately far more important question of function. A world environmental organization could serve as an umbrella organisation for the current scattered collection of treaty bodies, just as domestic environment agencies oversee the implementation of national environmental laws. In order to do so effectively, however, the treaties themselves would need to stipulate strong enforcement capacities, and the WEO would need to be endowed with sufficient financial resources to catalyse innovative programs.

Networking for the Environment. Tomorrow's international environmental institutions may turn out to be vastly different in character than the bureaucratic bodies that predominate today. A nascent system of international environmental governance is now emerging from diverse quarters, proving that governance is no longer just for governments.

A particularly encouraging development in recent years has been the steady growth of the international non-governmental movement. The number of NGOs working across international borders soared over the past century, climbing from just 176 in 1909 to more than 20,000 in 1996. Empowered by e-mail and the Internet, environmental activists have gradually organised themselves into a range of powerful international networks. For example, the Climate Action Network links more than 250 international groups and national organisations active on climate change, and the Pesticide Action Network includes at least 500 consumer, environmental, health, labor, agricultural, and public interest groups worldwide devoted to reducing use of hazardous pesticides.

NGOs are also forging innovative partnerships with businesses and other stakeholders. One example is the numerous eco-labeling initiatives now beginning to take hold. The organic agriculture community was an early pioneer. As far back as the early 1970s, it came together through the International Federation of Organic Agriculture Movements to stipulate conditions that farmers must meet in order to claim organic credentials. More recently, in 1993 the Forest Stewardship Council was founded to set standards for sustainable forest production through a cooperative process involving timber traders and retailers as well as environmental organisations and forest dwellers. And a Marine Stewardship Council has now been formed to devise criteria for sustainable fish harvesting.

Despite these promising developments, environmental destruction continues to outpace society's collective response. Over the course of the twentieth century, the global economy stretched the planet to its limits. The time is now ripe to build the international governance structures needed to ensure that the world economy of the twenty-first century meets people's aspirations for a better future, but without destroying the natural fabric that underpins life itself.

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An IMF for the Future

Horst Köhler

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Much maligned and often misunderstood, the International Monetary Fund (IMF) has been described as everything from global capitalism's savior to the institutionalisation of original sin. In recent years, the IMF—like the World Bank—has emerged as a lightning rod for grassroots and student movements protesting the environmental, social, and cultural implications of globalisation. Indeed, a colorful group of protestors at last year's annual IMF/World Bank meetings depicted the IMF as a giant Trojan horse harboring the nefarious multinational forces of Coca-Cola, Nike, and Microsoft.

Since coming into office, Horst Köhler, Managing Director of the IMF, has attempted to address some of the more substantive concerns raised about the institution and present a coherent vision of how it can become the pillar of sustainable and equitable global development. Actively engaging its critics, Köhler describes the IMF not as the cold, anonymous, black hand of capitalism, but rather as the best hope for reducing poverty and encouraging discourse and dialogue on globalisation.

– GJIA

At the turn of the millennium, I see two major challenges to which the membership of the IMF must respond. First, international private capital flows have become a major source of growth, productivity, and job creation. However, they can also be a source of volatility and crisis. The crises of 1997–98 have heightened the awareness that the stability of the international financial system is an important international public good. Second, ten years after the end of the Cold War, there are more opportunities than ever to promote a better world. Ideological divides have faded, and new technologies and the expansion of the marketplace have opened new horizons for shared prosperity. Yet, at the beginning of the new millennium, we are also aware of huge unsolved problems. The most pressing of these is poverty, which is becoming a major threat for political stability in the world.

In search of answers to these challenges, I would like to begin with a reflection by the philosopher Karl Popper, who wrote in 1991, "The open future contains unforeseeable and morally quite different possibilities. So our basic attitude should not be 'What will happen?' but 'What should we do to make the world a little better?'" Popper also said, "All life is problem solving." This is also my approach and how I see my role as Managing Director of the IMF.

In my vision, the IMF needs to achieve several objectives. First, the Fund should strive to promote sustained non-inflationary economic growth that benefits all people of the world. Likewise, the IMF should play a central role in ensuring the stability of the international financial system. We need to work in a complementary fashion with other institutions established to safeguard global public goods. We must be an open institution, learning from experience and dialogue and adapting continuously to changing circumstances. In this vision, I see the IMF as integral to making globalisation work for the benefit of all. This vision builds on an enhanced partnership with the World Bank, based on a clear sense of the complementary missions of our two institutions.

In Search of a Global Ethic. It is with humility that I welcome Czech President Vaclav Havel's reminder to us to reflect upon the broader task to make globalisation work for the benefit of all and to search for new sources of a sense of responsibility for the world. I fully agree that we need universally shared moral standards. Indeed, a global economy needs a global ethic.

I am aware of the critical debate about globalisation, and many of the questions raised are of concern to all of us. Yet I also want to be clear. If the IMF did not exist already, this would be the time to invent it. More than ever, globalisation requires cooperation, and it requires institutions to organise this cooperation. With 183 members, the IMF is a truly global institution, and its cooperative nature is an invaluable asset. We should all seek to preserve and strengthen this asset. Strengthening it requires trust in cooperation. This trust requires that the interests of all members are taken into account equally and that each member lives up to its responsibilities. Members need to listen to each other, and the Fund should see itself as a partner to its members and as a provider of help for self-help. Overall, the Fund's mandate is directed to promoting the international common good.

With this in mind, I felt it very important to use a good part of my first months in office to visit a wide range of member countries, especially in Latin America, Asia, and Africa. These visits left me with three main impressions. First, private initiative and democracy are spreading throughout the world. A fair judgment of the IMF should acknowledge that the

Fund has contributed to this positive fundamental trend in the world. Second, there is broad recognition within developing and emerging market countries that there are often serious home-grown problems, including poor governance, corruption, and armed conflicts. The main responsibility for tackling these problems lies with the countries themselves. Lastly, I heard a lot of critical comments about the IMF. There is obviously a need for further change. Nonetheless, I was left with no doubt that developing countries value the Fund and that they strongly wish to continue working with it.

Economic growth is not everything, but without growth, we get nowhere. Growth requires innovation, adaptation, and reform to be a permanent feature of societies. To a remarkable extent—and notwithstanding severe strains and hardships—developing countries and transition countries have embraced this challenge. This process cannot be understood as a one-way street. Many industrial countries have not developed enough of a sense of urgency to deliver their part of structural change to make globalisation work for all. Industrial countries must recognise that it is both in their own interest and in the interest of the global economy to take a strong lead in opening their markets. They also must acknowledge the importance of balanced exchange rate relations between the major currencies. In this vein, I welcome the action taken by the European Central Bank (ECB), together with other major central banks, to bring the euro better in line with the fundamentals of the European economy.

Economic growth is not everything, but without growth, we get nowhere.

The Need to Speak Up. I do think that the mandate of the IMF demands that the Fund speak up on both exchange rate and trade issues, which are relevant for stability and growth in the global economy. Estimates of the potential welfare gains for developing countries from a 50 percent worldwide reduction in barriers to trade generally exceed $100 billion per year. Greater access to industrialised country markets is key in the fight against poverty. A few months ago, the United States expanded duty-free access to its markets for more than seventy countries in Africa, Central America, and the Caribbean Basin. Just recently, the European Commission made a proposal to fully open Europe's markets to the forty-eight poorest countries for "all but arms." I welcome these initiatives and urge further bold steps, particularly in the area of agriculture.

I am convinced that if the willingness of the developing and emerging market countries to tackle energetically their homemade problems is combined with more determination in the industrial countries to reform and open their markets, we will create a win-win situation for all. The United Nations's objective of halving the share of people living in poverty by 2015 is achievable.

To strengthen its efficiency and legitimacy, the Fund needs to re-focus. The Fund must clearly promote macroeconomic stability as a necessary condition for sustained growth. To pursue this objective, the Fund has to concentrate on fostering sound monetary, fiscal, and exchange rate policies, along with their institutional underpinnings and closely related structural reforms. More important than ever in the modern economy is the IMF's mandate to oversee the international monetary system and to ensure its effective operation. This virtually obliges the Fund to give particular attention to systemic issues of financial markets, both domestic and international.

To fulfill this task effectively, the Fund needs a better understanding and judgment of the dynamics of international capital markets and the operations of private financial intermediaries. In this context, I have established a Capital Markets Consultative Group in the IMF to foster a regular dialogue with the private sector. The dialogue in this group will also be an important element of our efforts to avoid crises. With the buildup of further expertise, the Fund should quite naturally assume a coordinating role among the various agencies and fora dealing with financial markets issues.

A New Crisis Management Culture. My ambition is not to have more and more lending programs, but to place crisis prevention and surveillance at the center of the Fund's activities. For this, we must develop a culture in the Fund where member countries are eager to seek the Fund's advice early and voluntarily. In our bilateral surveillance, we need to place particular emphasis on identifying sources of external and financial sector vulnerability and on helping our member countries cope with volatility in international capital flows. The Fund should further develop its multilateral surveillance with a focus on the early identification of systemic issues and risks, particularly in global financial markets. We should also pay increased attention in our policy advice to issues of regional integration, particularly through regional surveillance. In its advice, the Fund should show respect for the cultural and historical traditions of its member countries. Yet, at the same time, it must be candid in conveying its professional analysis and judgment to member countries.

The International Monetary and Financial Committee (IMFC) has launched a wide range of measures to strengthen the global financial architecture, particularly through improved data transparency, standards and codes, vulnerability assessments, and the Financial Sector Assessment Program (FSAP), a joint initiative of the IMF and the World Bank. Taking stock today, we can see that the international financial system is stronger now than before the outbreak of the Asian crisis. We should, however, beware of complacency. Financial sectors in many countries are not yet as robust as they need to be, and there is a risk that high growth rates may weaken the momentum of reform. All members have to ask themselves how they can accelerate the implementation of these reforms. I think it is in the interest of all that the entire membership be fully involved and take full ownership of the initiatives in this area.

I am very much aware of objective difficulties emerging market and developing countries can face in their capacity to implement the various standards and codes developed by the international community. We need to prioritise our work, taking better account of the stage of development of domestic financial sectors. We should concentrate in particular on expanding the FSAP, a systematic and comprehensive approach to fostering a sound and integrated international financial system. We also need to establish clearer priorities for our technical assistance and to ensure that it is better coordinated among the various providers.

A Fund focused on promoting the stability of the international financial system has to be pointed and rigorous in its assessment of the appropriateness of exchange rate arrangements in member countries. We also need to be able to reach clear conclusions about the right balance and sequencing between capital account liberalization and financial sector development. I do think that the Fund has to be more involved in the discussion about the issue of the appropriate regulation and supervision of international financial markets. I also see a particular need for further research and analysis in the Fund in this area.

My discussions with private sector participants, including those with the Capital Markets Consultative Group, have confirmed that the crisis-prevention work of the IMF and the efforts to strengthen the global financial architecture will bear fruit. However, we have to be aware that crises can occur again in an open and dynamic global economy. Our work should make crises less frequent and less severe. We should also promote financial sectors that are able to absorb shocks by fostering competition in the financial sector and diversity among financial intermediaries. In addition, we need to encourage private financial institutions acting in the global marketplace to continuously strengthen their capacity to assess and manage risk.

For crisis resolution, the Fund needs to have efficient lending instruments and adequate resources to mount a credible response to crises. As its resources are limited, the Fund cannot be seen as a lender of last resort. Therefore, it was important to conduct a comprehensive review of IMF facilities. The outcome of this review clearly strengthens the catalytic role of the Fund and the revolving character of its resources. It demonstrates that the cooperative nature of the Fund is solidly rooted in its membership. With the set of differentiated, but streamlined and sharpened, facilities, the IMF is now better equipped to deal with crises and prevent contagion.

There has been considerable progress in developing a framework for involving the private sector in the resolution of crises. The rapid return of private capital to a number of crisis countries underscores the sensibility of engaging the private sector constructively in both the prevention and resolution of crises. Private investors know that they must assume full responsibility for the risks they take. There is broad agreement that the operational framework for private sector involvement should rely as much as possible on market-oriented solutions and on voluntary approaches. It is also undisputed that there may be exceptionally difficult cases that call for more concerted approaches to involve the private sector. Discretion will always be a crucial element. Thus, a rules-based approach needs flexibility, although an overemphasis on judgment calls in case-by-case approaches certainly needs to be constrained. We need to explore further the middle ground between these approaches to make the framework operational. This requires further research and analysis to enable us better to assess the risks of possible spillover effects on other countries and more clearly understand the factors that determine how fast a country regains market access.

We need to stick to conditionality in our lending operations, yet at the same time, work to enhance real ownership of programs. We have learned that the effectiveness of members in confronting their economic difficulties depends critically on the vigorous implementation of appropriate stabilisation and reform measures. This comes only when the country's authorities are seeking to implement measures that they see as responsive to their needs and capable of securing domestic support. Therefore, I trust that ownership is promoted when the Fund's conditionality focuses in content and timing predominantly on what is crucial for the achievement of macroeconomic stability and growth. Less can be more if it helps to break the ground for a sustained process of adjustment and reform. Moreover, program design must take into account the social dimensions of adjustment programs and the unique characteristics of each country. To foster ownership, the Fund should also explore alternative policy options in program discussions with member countries. This approach to strengthen ownership and streamline IMF conditionality will have to be well coordinated with the World Bank. In this context, I welcome and support the Poverty Reduction and Support Credit that the Bank is planning to introduce, and see it as a promising means of increasing the effectiveness of our joint work in the poorer member countries.

Reaching out to the Poor. I consider the Poverty Reduction and Growth Facility (PRGF) to be an innovative instrument in the Fund's efforts to make globalisation work for the benefit of all. First, it aims at tackling poverty from its root causes, and second, its concessional character demonstrates practical solidarity with the poor. Disengagement from the poor countries is not only inconsistent with the mandate of the Fund, but will deepen the division of the world. It would run counter to the ambitions of the people in the poor countries and neglect their talents and potential. The contrary is necessary: namely, encouragement and empowerment.

The PRGF is also a key vehicle to help make the Highly Indebted Poor Countries (HIPC) initiative a success. In no area is cooperation between the Bank and the Fund in the coming months more critical than here. World Bank Chairman Jim Wolfensohn and I are determined to bring the benefits of debt relief under the HIPC initiative to as many countries as possible as rapidly as possible. The ultimate test of the success of this initiative is how effectively debt relief contributes toward poverty reduction. I trust that the leaders of the poor countries themselves fully recognise the importance of sound policies and good governance.

During my visit to Africa, I sensed a lot of bitterness about unfulfilled promises regarding official development assistance (ODA). Indeed, the promise by OECD member countries was to provide ODA equivalent to 0.7 percent of their GDP. Today the average ratio is 0.24 percent. The difference between promise and delivery in U.S. dollar terms is $100 billion a year. I do think that governments in the rich countries must more actively galvanise public opinion in support of ODA. Clear evidence from the aid-receiving countries that aid is used effectively to reduce poverty will no doubt help in this regard.

A real breakthrough in poverty reduction will be possible only if private saving and investment take firm root in these countries and if a much larger part of the savings generated in the world becomes available to them. In this context, credit is and will remain an important financing instrument for investment and is thus also crucial in any longer-term strategy to fight poverty. Therefore, we must not lose sight of the need to preserve and build a sound credit culture. Credit is derived from the Latin word *credere*. *Credere* means trust. And trust in creditor-debtor relations is indispensable for a sustained flow of investment capital to the developing countries and—in a wider context—for the long-term stability of an integrated international financial system. This highlights even more the need for steady work on the ground to strengthen the institutional underpinnings for a productive private sector in the developing countries. Every day that passes unused for this work is a lost day in the fight against poverty.

An IMF for the Future. The IMF for the future should be a strong advocate of improved governance in all member countries. It is only logical that the Fund is receptive to calls for increased transparency and accountability. There has already been a sea change in opening up to the public. However, we also have to recognise that there are areas where a frank and candid discussion will be hampered if it is to take place in public. The Fund has to strike a balance between openness and the members' desire for candid and confidential advice. Additionally, the Fund must explain itself better—what it is and what it does—particularly in program countries. Thus, the IMF has to expand its dialogue with the public and reach out, not least to civil society at the regional and local level. However, this must not lead to a blurring of responsibilities. Ultimately, the Fund is accountable to the governments of its member countries.

The Fund has to strike a balance between openness and the members' desire for candid and confidential advice.

Herein lies the main logic in the joint work of the IMF and the World Bank: to formulate poverty reduction and growth strategies through a broad-based participatory process. For me globalization requires, not least, building problem-solving capacity at the local and regional level and giving the people help for self-help. A very practical measure could be to bring together private investors, officials, and international financial institutions (IFIs) more systematically to discuss practical issues of the local investment climate. By fostering regional integration and business cooperation in developing countries, it is possible to further enhance help for self-help.

I sincerely hope that I will gain support for the future work of the IMF based on the vision I outlined. I see the discussion on changes in the IMF as a permanent process and consider it very important that these further discussions have their center within the Fund itself. The IMF can make a difference in long-term growth to benefit all people of the world. For this we have to be focused and concentrate, above all, on the stability of the international financial system.

Editor's note: This article is adapted from an address to the Board of Governors at the Annual Meetings of the IMF in Prague, September 26, 2000.