I. GLOBALIZATION: OPPORTUNITIES AND CHALLENGES

A. NEW FORCES DRIVING GLOBALIZATION

Many people consider globalization nothing new – societies have been interconnected for years. But globalization took different forms in the past and the contemporary conjuncture is new.[1] The world has never experienced globalization at this level of intensity before or the speed at which it is transforming and integrating societies.

The world has never experienced globalization at this level of intensity before

There is no single, all-encompassing definition of globalization, notes Sen.[2] Instead, it has become a broad heading for a multitude of global interactions, ranging from the expansion of cultural influences across borders to the enlargement of economic and business relations throughout the world. For the economist, globalization is essentially the emergence of a global market. For the historian, it is an epoch dominated by global capitalism. Sociologists see globalization as the celebration of diversity and the convergence of social preferences in matters of lifestyle and social values. To the political scientist, it represents the gradual erosion of State sovereignty. But discipline-specific studies explain only a part of the phenomenon. From a multidisciplinary angle, globalization may be treated as a phenomenon, a philosophy and a process which affect human beings as profoundly as any previous event.[3] Several factors have been responsible for this phenomenon. This study confines its attention to four growth-enhancing facets of globalization that have been among its key drivers, namely, trade, finance, communications and transport.

Trade

The protectionism which emerged in international trade after the Second World War gave way to gradual liberalization, comprising both unilateral liberalization and rules-based multilateral liberalization spearheaded by GATT. The latter effort culminated in the Uruguay

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[1] Globalization web site <*http://www.emory.edu/soc/globalization/debates.html*>, 5 January 2003.

[2] A. Sen, "Globalization: past and present", Ishizaka Lectures, 18 February 2002.

[3] M. Khan, "Teaching globalization", *The Globalist,* 28 August 2003.

Multilateral liberalization processes of trade spearheaded by WTO now have to coexist with a proliferation of RTAs and PTAs

Round of negotiations and the formation of WTO, which took over the process of multilateral negotiations and included agricultural goods and services in the process for the first time. These steps coincided with a proliferation of regional arrangements comprising of RTAs and PTAs intended to lead to increased market access for the contracting countries and to create new trading opportunities. WTO also laid the legal foundation for setting up RTAs so that such arrangements are able to accentuate the multilateral process.

Finance

Through outsourcing and international production networks, multinationals have enhanced global investment flows

Along with the wave of trade liberalization, capital from developed countries provided developing countries with new opportunities to fuel future growth. Most developing countries have been people-rich and capital-poor. Their domestic savings have been inadequate to meet their need for resources. Global capital markets and direct investments by multinational companies helped to fill the gap. There have been two types of FDI. The predominant type has been outsourcing to reduce production costs in terms of labour, infrastructure and natural resources as well as to promote exports. Production in some manufacturing sectors, such as electronics, cars, textiles and garments, tends to be relocated in stages from more advanced to less developed countries in search of lower labour costs, i.e., the so-called flying-geese pattern of FDI.[4] Another important form of FDI has been the creation of new comparative advantages by accessing information technology and marketing channels as well as new technologies, products or services, with conventional international production networks (IPNs), i.e., within multinational enterprises. Later on new IPNs consisting of inter- and intrafirm relationships through which multinationals organize a complete range of business activities, including research and development, product design, supply of inputs, manufacturing, distribution and support services were formed. Examples include automobiles and ICT products. The multinationals also brought with them new technologies which increased productivity in the recipient countries.

Communication

Tremendous improvements in personal computers, the Internet and mobile phones created a communication revolution

The improvement in Internet-based satellite communication has been spectacular. Galloping development in the quality of personal computers has been complemented by the leap in Internet technology from only e-mail in the early 1990s to recent advances in multimedia transmission aided by broad banding and satellite communication. The use of mobile phones, which often rely on satellite technology, has increased dramatically. These developments have greatly increased economy-wide efficiency in production and trading.

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[4] R. Kumar, "Changing role of the public sector in the promotion of foreign direct investment", in ESCAP, *Asia-Pacific Development Journal,* vol. 10, No. 2, December 2003, (United Nations publication, Sales No. E.03.II.F.57).

Transport

Containerization and use of multimodal transport have increased efficiency in the movement of goods

Expansion of international trade created concomitant demand for more transport. The rise in productivity of the maritime sector took place through massive increases in ship sizes and the number of container ships. These have contributed to a considerable reduction in unit transport costs, thereby shrinking the economic distance between raw material sources, producers and consumers. The efficiency of the transport sector further increased with the arrival of multimodal transport, linking maritime and surface transport. As a result, countries became better linked, both internally as well as with neighbours, through highways and roads.

During the 1990s, air traffic in the Asia-Pacific region grew at a much faster rate than in the rest of the world. Demand for air cargo services increased sharply owing to increased movement of high-value products. These included many niche items such as flowers and fresh vegetables as well as parts and components to feed the needs of the international production networks, particularly those of ICT equipment manufacturers. In fact, the growth in commercial air services continues to outstrip the available capacity of more and more airports, forcing Governments, airlines and airports to tackle problems of insufficient airport capacity.

These developments have been the driving forces of globalization in recent years. The interconnection and synergy between the forces are clear: trade expansion creates additional demand for finance, transport and communication, whereas improvement in the latter areas makes trade more efficient. At the same time, the sudden rise of the Internet and mobile phone communications brought an unparalleled increase in productivity. The sectors which use these technologies i.e., trade, finance and transport, experienced equally impressive increases in productivity. For example, a convoy of container trucks on the move can remain in continuous contact with all the relevant parties. The development of e-commerce has been very fast; trade and financial deals can be made within minutes. The result of this synergy is the increased speed of integration between countries. Distance, size, natural endowments and specific skills do not pose a constraint to economic development any more, provided that a country has sufficient human skills, infrastructure and institutions to take advantage of the opportunities that globalization can provide.

B. GLOBALIZATION: THE ASIA-PACIFIC SITUATION

Table I.1 indicates the state of globalization in developing Asia-Pacific countries, grouped into five geographical subregions, namely, East and North-East Asia, South-East Asia, South and South-West Asia, North and Central Asia, and the Pacific. They are also grouped by the

Table I.1. Indicators of globalization

Economies/areas	Trade openness: Trade (% of GNP) 1999-2001	Trade openness: Exports (% of GNP) 1999-2001	Capital openness: Average inward portfolio equity flows ($ billions) 2000-2002	Capital openness: Average inward FDI stock ($ billions) 2000-2002	Information openness: Internet users (per 10,000 population) 2001	Information openness: Telephone mainlines and mobile phone users (per 10,000 population) 2001	Container traffic: Container traffic (TEU)[a] 2001	Container traffic: Container traffic (Growth) 1997-2001
East and North-East Asia								
China	42.2	22.3	9.5	397.14	265	2 778	22 871 000[b]	164.0
Democratic People's Republic of Korea	..	..	..	1.03	..	..	..	..
Hong Kong, China	233.6	113.9	..	435.93	3 883	15 885	17 900 000	22.9
Macao, China	..	37.5	..	2.86	..	..	..	..
Mongolia	83.7	33.3	..	0.24	167	879	..	..
Republic of Korea	68.0	35.8	..	40.52	5 154	10 945	9 277 576	64.6
Taiwan Province of China	83.3[c]	..	..	31.15	..	..	10 647 378	34.5
South-East Asia								
Brunei Darussalam	..	..	..	4.55	1 167	..	..	..
Cambodia	57.1	29.2	..	1.43	8	207	..	..
Indonesia	60.9	39.8	–0.2	57.94	191	657	3 492 153	40.9
Lao People's Democratic Republic	56.1	20.7	..	0.57	19	154	..	..
Malaysia	207.4	114.2	–0.5	54.22	2 731	5 121	6 148 492	116.2
Myanmar	43.4[c]	..	..	3.28	2	64	..	..
Philippines	85.7	45.1	0.2	10.38	255	1 918	5 485 759	120.1
Singapore	264.7	134.7	..	117.98	4 146	12 049	15 590 000	10.3
Thailand	102.5	53.8	0.3	27.95	578	1 744	3 514 601	65.5
Viet Nam	90.0	44.1	..	15.89	127	..	1 086 340	..
South and South-West Asia								
Afghanistan	..	..	..	0.02	..	..	..	..
Bangladesh	30.2	12.9	..	1.05	14	81	539 709	79.6
Bhutan	..	..	..	0.00	24	..	..	..
India	19.5	8.9	1.4	22.33	68	436	3 195 084	83.8
Iran (Islamic Republic of)	38.3	23.9	..	2.52	156	2 013	618 223	95.4
Maldives	..	..	..	0.13	333	1 530	..	..
Nepal	39.6	12.8	..	0.11	25	133	..	..
Pakistan	33.4	15.2	..	5.94	35	273	870 000	43.1
Sri Lanka	69.4	30.4	..	2.52	80	736	1 827 336	8.3
Turkey	39.5	15.3	0.2	18.43	604	5 812	1 554 875	34.4
North and Central Asia								
Armenia	57.4	14.5	..	0.59	184	1 437	..	..
Azerbaijan	63.3	33.3	..	4.35	31	1 863	..	..
Georgia	32.2	10.1	..	0.55	88	2 206	..	..
Kazakhstan	71.5	43.6	..	12.49	101	1 693	..	..
Kyrgyzstan	81.2	38.0	..	0.43	301	838	..	..
Russian Federation	63.0	42.1	..	20.22	297	2 833	360 899	23.5
Tajikistan	136.3	69.8	..	0.15	5	363	..	..
Turkmenistan	89.4	52.0	..	1.05	15	733	..	..
Uzbekistan	63.5	33.4	..	1.10	60	688	..	..
Pacific								
Fiji	71.4[c]	39.5	..	1.10	183	2 110	..	..
French Polynesia	..	8.3	..	..	..	..	60 330	9.7
Kiribati	73.5[c]	9.5	..	0.01	22	44	..	..
Marshall Islands	..	..	..	..	180	1 000	..	..
Micronesia (Federated States of)	..	..	..	..	455	909	..	..
New Caledonia	..	..	..	0.14	..	..	..	..
Papua New Guinea	90.1	56.4	..	2.07	94	138	..	..
Samoa	56.1[c]	..	..	0.05	176	765	..	..
Solomon Islands	58.9[c]	..	..	0.12	44	..	..	..
Tonga	78.5[c]	..	..	0.02	280	1 100	..	..
Tuvalu	..	..	..	0.00	..	..	..	..
Vanuatu	45.7[c]	15.7	..	0.38	275	350	..	..
Developed Economies								
Australia	33.4	15.8	..	114.45	3 711	11 143	3 500 905	31.2
Japan	16.7	9.3	..	53.43	3 850	9 907	12 635 446	16.5
New Zealand	55.0	26.8	..	24.78	4 637	10 818	1 120 747	17.9

Sources: ESCAP, *Review of Developments in Transport and Communications in the ESCAP Region 1996-2001* (ST/ESCAP/2157) and Statistics Division database; IMF, *International Financial Statistics,* September 2003 and World Economic Outlook Database, September 2003, *<http://www.imf.org/external/pubs/ft/weo/2003/02/data/index.htm>*, 5 January 2004; World Bank, "East Asia update: regional overview, October 2003", *<http://www.worldbank.org/research/povmonitor/>*, 17 June 2003, *World Development Indicators 2003* (Washington, World Bank, 2003), and *World Development Indicators 2002 CD-ROM* (Washington, World Bank, 2002); UNCTAD, *World Investment Report 2003* (United Nations publication, Sales No. E.03.II.D.8); UNDP, *Human Development Report 2003* (New York, Oxford University Press, 2003); *Containerisation International Yearbook 2003* (United Kingdom, Informa, 2003); and national sources.

Note: (..) indicates that data are not available

[a] TEU stands for 20-foot-equivalent units, a standard-size container.
[b] Data includes 14 major ports of the People's Republic of China.
[c] Data refer to trade (percentage of GDP).

four driving forces of globalization: trade openness, the extent of capital inflows, penetration of communication infrastructure and capacity to handle bulk transport. The indices used are average trade and exports as percentages of GNP during 1999-2001, average inflows of portfolio capital and the average stock of FDI during 2000-2002, Internet, mainline and mobile telephone users per 10,000 population in 2001, and the volume and growth of container traffic in 1997-2001. The following observations can be made:

Trade openness, the extent of capital inflows, penetration of communication infrastructure and capacity to handle bulk transport are good indicators of a country's readiness to benefit from globalization

1. TRADE

In trade and export openness, both East and North-East Asia and South-East Asia are ahead of the other subregions. The top three positions are occupied by Singapore (with a trade-to-GNP ratio of 264.7), Hong Kong (233.6) and Malaysia (207.4). Countries belonging to South and South-West Asia appear to be the least liberalized, with India recording the lowest trade-to-GNP and export-to-GNP ratios (19.5 and 8.9 per cent respectively during 1999-2001) in the region.

East and North-East Asia and South-East Asia are ahead of other regions in trade openness

But a wide variation in the extent of trade openness is also observed within each subregion. Within South-East Asia, the relatively low trade-to-GNP ratio of the Myanmar (43.4 per cent) contrasts with Singapore's high 264.7 per cent. Within South and South-West Asia, India's trade-to-GNP ratio of 19.5 per cent contrasts with Sri Lanka's much higher ratio (69.4 per cent). In North and Central Asia, Tajikistan's trade openness is four times that of Georgia.

In the Pacific region, however, the variations are relatively small. Among the countries for which data are available, a trade-to-GNP ratio of 90.1 per cent observed for Papua New Guinea is almost twice that of Vanuatu (45.7 per cent).

Clearly the level of trade openness varies between subregions as well as within them. A number of wide-ranging and interconnected policies are responsible for this variation, ranging from the extent and timing of external sector and market-oriented policy reforms to appropriate investment in domestic infrastructure.

2. FINANCE

During the period 2000-2002, only seven countries recorded portfolio equity capital movements. Such inflows are dependent on a country's financial infrastructure, the availability of opportunities for investing profitably in equity and other financial markets and a liberalized capital market regime. The very few entries in the table under this heading point to the fact that only a limited number of countries possess the necessary conditions for attracting portfolio capital. The outflow of portfolio capital observed in two countries also points to the possibility

Only a few countries were able to attract portfolio capital while higher FDI stocks are found in countries of East and North-East Asia which integrated early of a reversal in such capital flows when investors, based on their perception of their investment's profitability, quickly decide to withdraw from a market.

By contrast, FDI has been a more stable and universal instrument for accessing global resources. A large number of developing countries of the region have been able to build FDI stocks. Higher FDI stocks which accrued because of past flows at higher levels can mostly be found in the developing countries of East and North-East Asia and South-East Asia, notably Hong Kong, China, with $435.93 billion, Singapore $117.98 billion, Indonesia $57.94 billion, Malaysia $54.22 billion and the Republic of Korea $40.52 billion. These countries and areas also recorded higher trade openness by integrating their economies with the rest of the world from the early to mid-1980s. However, countries which began to participate in the globalization process relatively late were also able to accumulate significant FDI stock. The best example is China, which amassed the second-highest stock of FDI, amounting to $397.14 billion. Countries in South and South-West Asia and North and Central Asia (especially India, Turkey, Kazakhstan and the Russian Federation) also attracted significant FDI flows. However, direct investment flows to the Pacific subregion have been very modest. Papua New Guinea, with the highest stock, had accumulated only $2.07 billion.

3. COMMUNICATION

Substantial differences are evident in telephone and Internet use; many countries of East and North-East Asia, followed by South-East Asia, have recorded high values

The penetration of information and communication technology (ICT) infrastructure followed a pattern similar to that of trade openness. Countries of East and North-East Asia have recorded much higher use of the Internet, telephones and mobile phones. As with trade openness, use of communications infrastructure is impressive in Hong Kong, China (with 3,883 Internet users and 15,885 telephone and mobile connections per 10,000 population), Singapore and Malaysia. The Republic of Korea has the highest Internet use in the Asia-Pacific region (with 5,154 Internet users per 10,000 people) and high telephone use as well. All these countries and areas belong to subregions which also show high trade openness.

Within all the subregions, the penetration of ICT varies widely between member countries. East and North-East Asia contains Mongolia with 167 Internet users per 10,000, compared with 5,154 in the Republic of Korea. In South-East Asia, Myanmar with very low Internet use (in fact, the lowest recorded in the whole region) with 2 users per 10,000 population contrasts with Singapore with very high Internet use intensity. In South and South-West Asia, Bangladesh (14 users per 10,000 population) contrasts with Turkey (604 users per

10,000 population). Tajikistan (5 users per 10,000 population) also compares very unfavourably with Kyrgyzstan (301 users per 10,000 population). The Pacific subregion, in general, appears to be more equitably connected although use intensity has been only moderate (the Federated States of Micronesia scored highest with 455 Internet users per 10,000 people). To the extent that Internet and telephone connectivity are important elements enabling countries to participate in and benefit from globalization, a large number of countries of the Asia-Pacific region have a great deal of catching up to do.

4. TRANSPORT

Growth of container traffic has been relatively high in China, the Philippines, Malaysia and the Islamic Republic of Iran

Volume and growth in container traffic can serve as good indicators of the state of a country's transport infrastructure for trade. Countries belonging to East and North-East Asia and South-East Asia once again are well ahead. China records the highest growth rate in container traffic (164.0 per cent from 1997 to 2001), which shows the increasing availability of transport infrastructure, including the higher handling capacity of port and link road networks. It is followed by the Philippines (120.1 per cent), Malaysia (116.2 per cent) and the Islamic Republic of Iran (95.4 per cent).

High growth rates signify a conscious attempt by policy makers to draw both public and private investment into this sector, thus enabling the countries to strengthen the process of integration through trade. But in contrast to Asia-Pacific's frontrunners, many developing countries recorded relatively modest growth. To the extent that improved transport infrastructure contributes to increased container traffic, policy makers of the latter group of countries need to take care that their globalization does not become constrained by lack of transport facilities.

5. INCOME AND POVERTY

The level of development of the major countries of the Asia-Pacific region is shown in table I.2 through the use of two indicators: gross national income (GNI) per capita and percentage of the population living under the one dollar a day poverty line. Globalization creates opportunities to improve economic performance and achieve sustained economic growth, which increases per capita income and reduces poverty.

In this context, table I.2 shows that East and North-East Asia and South-East Asia seem to be ahead of the other subregions in realizing the benefits of globalization. The average unweighted per capita

Table I.2. Indicators of development

Selected economies/areas	Indicators of development: GNI per capita (PPP $) 2001	GNI per capita (PPP $) 2002	Percentage of population living below $1 a day 2002
East and North-East Asia			
China	4 260	4 390	12.7
Hong Kong, China	26 050	26 810	..
Macao, China	18 190	18 970	..
Mongolia	1 800	1 650	13.9[a]
Republic of Korea	18 110	16 480	<0.5
South-East Asia			
Cambodia	1 520	1 590	44.2
Indonesia	2 940	2 990	7.2
Lao People's Democratic Republic	1 610	1 610	30.0
Malaysia	8 340	8 280	<0.5
Philippines	4 360	4 280	11.5
Singapore	24 910	23 090	..
Thailand	6 550	6 680	2.4
Viet Nam	2 130	2 240	13.6
South and South-West Asia			
Bangladesh	1 680	1 720	36.0[b]
Bhutan	1 530	..	..
India	2 450	2 570	34.7[c]
Iran (Islamic Republic of)	6 230	6 340	<2.0[d]
Maldives	4 520	..	..
Nepal	1 450	1 350	37.7[a]
Pakistan	1 920	1 940	31.0[e]
Sri Lanka	3 560	3 390	6.6[a]
Turkey	6 640	6 120	<2.0[b]
North and Central Asia			
Armenia	2 880	3 060	12.8[d]
Azerbaijan	3 020	2 920	3.7[f]
Georgia	2 860	2 210	<2.0[d]
Kazakhstan	6 370	5 480	1.5[e]
Kyrgyzstan	2 710	1 520	2.0[b]
Russian Federation	8 660	7 820	6.1[b]
Tajikistan	1 150	900	10.3[d]
Turkmenistan	4 580	4 570	12.1[d]
Uzbekistan	2 470	1 590	19.1[d]
Pacific			
Fiji	5 140	5 310	..
French Polynesia	23 340	24 360	..
New Caledonia	21 820	21 960	..
Papua New Guinea	2 150	2 080	42.8
Samoa	5 450	5 350	..
Solomon Islands	1 680	1 520	..
Tonga	..	6 340	..
Vanuatu	2 710	2 770	..
Developed economies			
Australia	25 780	26 960	..
Japan	27 430	26 070	..
New Zealand	19 130	20 020	..

Sources: IMF, *World Economic Outlook,* September 2003, (Washington, IMF, 2003); World Bank, "East Asia update: regional overview, October 2003", *<http://www.worldbank.org/cn/English/EAP10-03.pdf>*, 20 November 2003, Global Poverty Monitoring web site *<http://www.worldbank.org/research/povmonitor/>*, 17 June 2003, *World Development Indicators 2003* (Washington, World Bank, 2003), and *World Development Report 2003* (New York, Oxford University Press, 2003) and *2004* (New York, Oxford University Press, 2004); and UNDP, *Human Development Report 2003* (New York, Oxford University Press, 2003).

Note: (..) indicates that data are not available.

[a] 1995.
[b] 2000.
[c] 1999.
[d] 1998.
[e] 1996.
[f] 2001.

national income of the countries of East and North-East Asia in 2002 reached a substantial level (PPP $13,660); and, on the development side, poverty has either virtually disappeared or been kept at low levels. The average unweighted per capita income of the countries in the South-East Asian subregion is also recorded at a relatively high level (PPP $6,345).

Countries which recorded higher trade openness, in general, also achieved higher income and reduced poverty. Exceptions exist, however

The economies able to achieve a higher per capita income – Hong Kong, China; Singapore; the Republic of Korea; Malaysia; Thailand; the Philippines; and Indonesia – liberalized their trade regimes and at the same time pursued market-oriented policies, starting from the early to mid-1980s, which helped them to expand exports and consolidate substantial economic gains.

However, many countries were not able to benefit from the process. This is evident from their low per capita income and high incidence of poverty in 2002. They include Cambodia (with a per capita income of PPP $1,590 and poverty incidence of 44.2 per cent), the Lao People's Democratic Republic (PPP $1,610 and 30 per cent), Nepal (PPP $1,350 and 37.7 per cent) and Bangladesh (PPP $1,720 and 36 per cent).

Many countries unable to achieve and sustain high economic growth

Many countries have also been unable to achieve and sustain high economic growth. The reasons are many but include differences in the sequencing of reform policies, lack of proper development in physical and social infrastructure, structural weaknesses including remote location, limited natural endowment and being landlocked. It is imperative that all these countries be able to exploit the opportunities provided by globalization to sustain high economic growth, increase per capita income and achieve the Millennium Development Goals, especially the goals for poverty reduction. There is a strong need to ensure an equitable distribution of gains from globalization.

6. "DIVIDES" IN THE ASIA-PACIFIC REGION

Clearly, the ability of countries to enhance their performance in trade, finance and communication technology – the three pillars of globalization – will determine their ability to participate in the process and benefit from it. Figures I.1, I.2, I.3 and I.4 show the relationship for the countries of the ESCAP region between trade openness, stock of foreign investment, intensity of use of the Internet, mobile phones and telephones and per capita GNI in the year 2001. A positive linear relationship in all cases shows that the countries which were in general, able to achieve higher values of these indicators could also sustain a

Figure I.1. Gross national income per capita to trade share

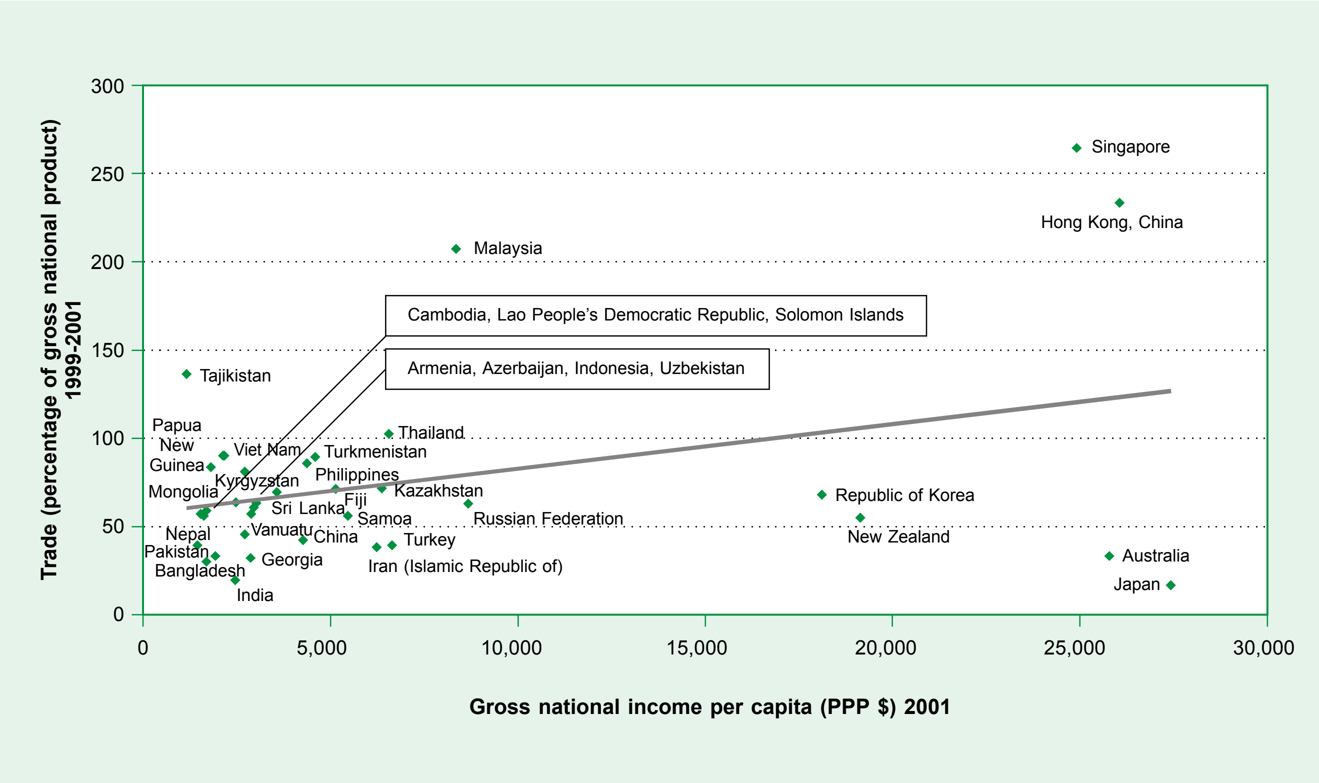


Figure I.2. Gross national income per capita to inward stock of foreign direct investment

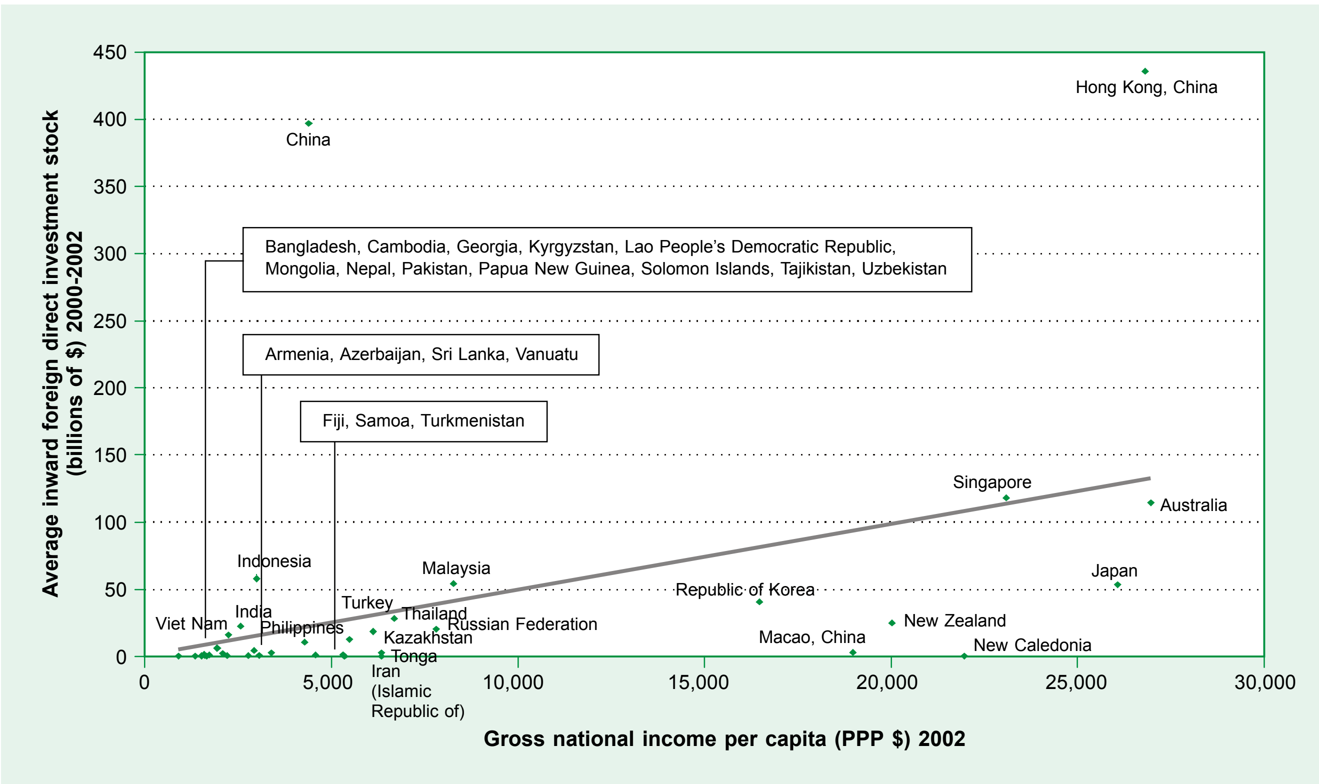


Figure I.3. Gross national income per capita to intensity of Internet users

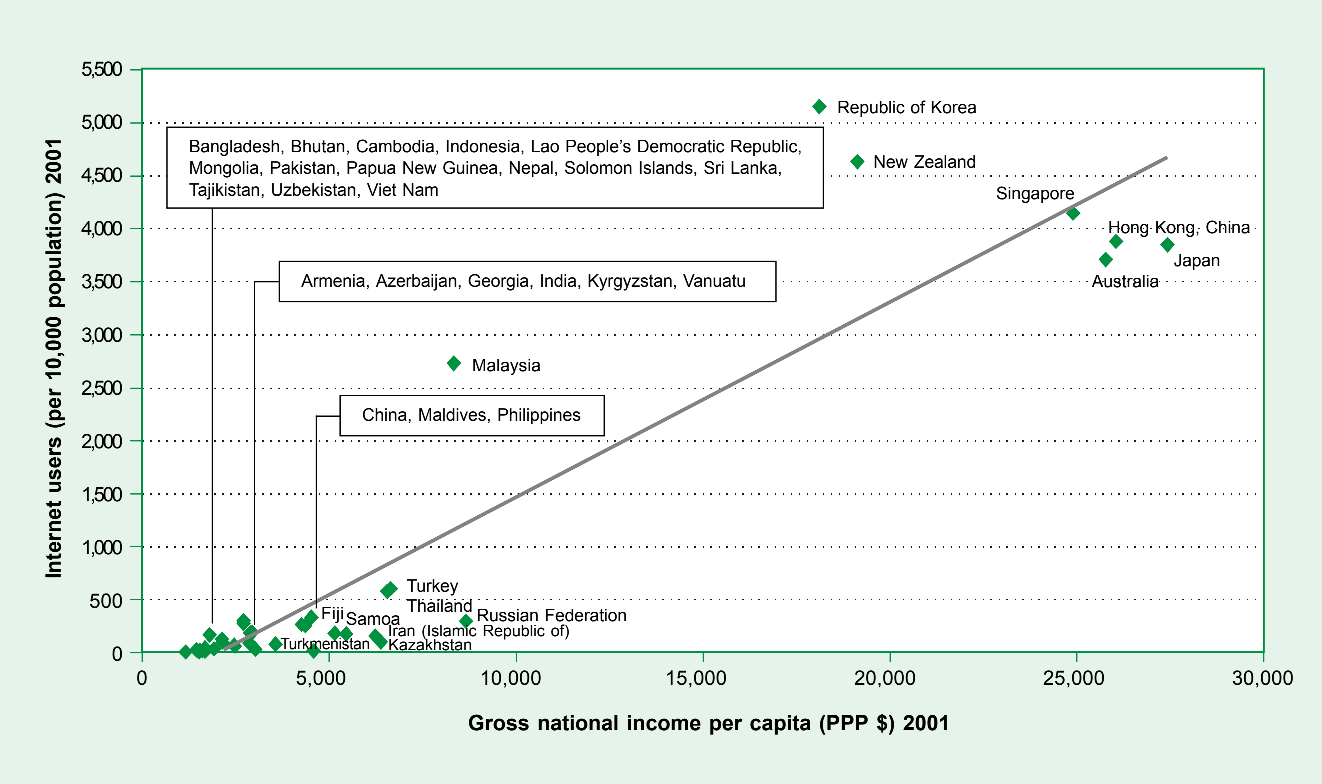
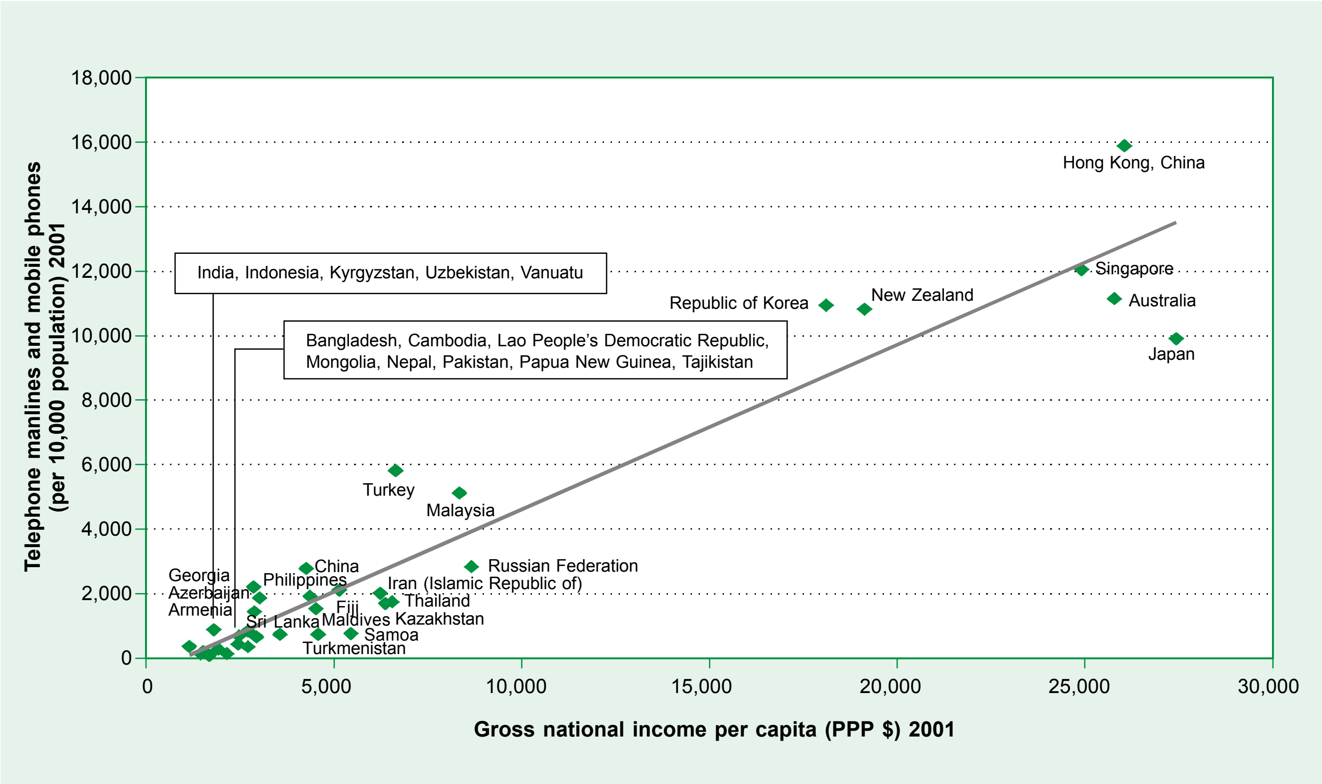


Figure I.4. Gross national income per capita to intensity of telephone and mobile phone users



higher level of per capita income and vice versa. This result does not establish any causality, but the association between the indicators and the benefits of globalization in the form of high per capita income is clear.[5]

A glaring divide yawns between a large cluster of developing countries at the bottom and a few developed and developing countries at the top with respect to trade openness, capital attractiveness and use of ICT

Another interesting feature of the figures is the existence of divides in trade intensity, foreign capital mobilization, the intensity of mobile phone and telephone use and Internet use. The divide between a large cluster of developing countries at the bottom and a few developed and developing countries at the top is very clear in all cases. Closing these gaps by improving the status of the countries at the bottom is essential to improve their per capita income and enable them to share more equitably in the benefits of globalization.

This calls for a concerted effort to expand trade and strengthen the communication infrastructure and transport facilities of the region's developing countries on the one hand and ensure their access to the necessary financial resources on the other. Special attention is needed for least developed, landlocked and island developing countries and countries in transition to offset the structural weaknesses impeding their ability to participate in and benefit from globalization.

C. THE CHALLENGE OF NATIONAL ECONOMIC POLICY IN AN ERA OF GLOBALIZATION

Globalization removes constraints on market size, investment and technology

Each country, based on its individual endowments and circumstances, will have to design and implement national policies in a range of areas that ensure the country takes advantage of the opportunities that globalization provides and at the same time deals with the risks that it introduces. In terms of the national economy, as Stiglitz[6] points out, there are three distinct advantages:

(a) The demand for a country's product is no longer constrained by its own markets;

(b) A country's investment is no longer constrained by what it can save itself;

(c) A country's producers can have access (at a price) to the most advanced technology.

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5 In the case of the relationship between per capita GNI and stock of FDI, China and Hong Kong, China, are outliers.

6 J.E. Stiglitz, "Development policies in a world of globalization", paper presented at the seminar "New International Trends for Economic Development" on the occasion of the fiftieth anniversary of the Brazilian Economic and Social Development Bank, Rio de Janeiro, 12-13 September 2002.

However, there are corresponding challenges

Corresponding to these opportunities, some of the challenges are:

(a) Lack of complete access to product markets caused by both trade barriers and hefty subsidies in developed countries on commodities of interest to agricultural producers;

(b) Limited access to financial resources, and for some countries high conditionality attached to concessional resources;

(c) The constraints on acquiring technology in terms of resources, both human and financial, and inadequate infrastructure.

These issues are considered in the ensuing chapters.

There are tensions between achieving market integration and minimizing market instability

The era of globalization also brings about a closer degree of financial and economic integration between countries in an environment where shocks have become more global in nature and where a crisis in one country can easily affect others. This presents special challenges in the conduct of fiscal and monetary policies, particularly in conditions of heightened uncertainty. It is no longer possible to formulate monetary policy independently of international and regional developments. This requires knowledge of world market conditions and continuous monitoring of financial market developments. The 1997 economic crisis highlighted the tension between achieving the benefits of market integration while minimizing the risks of market instability. Systemic risk management is becoming an integral element of the economic framework and has to reflect the broadest possible coverage of the maximum downside risks a country can face.[7] This not only requires sound financial systems but also improving the understanding of the institutions and social and political dynamics in countries.

"Rules of the game" consisting of codes of good practices are to be followed

A growing innovation in the world economy is the establishment of international standards and codes as "rules of the game" for all economies. Now, there are codes of good practice in monetary policy, fiscal transparency, insurance and payments systems, securities, corporate governance, accounting, statistics and bank supervision, as well as a growing array of standards in other fields. This means that there is greater scrutiny of the policies of individual countries by market participants, and policy makers have the additional burden of "selling" their policies to the world at large through greater transparency. The performance of economies, industries and firms is continuously compared

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[7] R. Kumar, "Debt sustainability issues: new challenges for liberalizing economies," in *External Debt Management: Issues, Lessons and Preventive Measures* (Mumbai, Reserve Bank of India, 1999).

and benchmarked across nations. This requires the harmonization of systems with internationally agreed codes and at the same time creates pressures for speedy reforms.

Within a country, there is the challenge of forging liberalization policies that promote greater integration of the domestic economy into the global economy. There are pressures from trade unions, lobby groups and local businesses over the effect of these policies on jobs and the closure of local industries. These can make it politically and socially difficult to implement reforms that could benefit a country in the medium to long term. The issue of national ownership of an adjustment programme thus presents a challenge in its practical application. The responsibility for achieving the right balance and pace of adjustment lie with individual Governments, but in practice this is not simple as it appears.

Achieving the right balance and pace of adjustment as well as building powerful domestic institutions are challenges to policy makers

Building a powerful set of domestic institutions that can meet the rising demands in the race to be and remain competitive brings its own challenges. What determinants of competitiveness should a country focus on? The standard determinants of competitiveness are not only economic and technological but also include non-economic factors such as the promotion of democratic institutions, good governance and human rights. These require not only robust public systems and a vibrant private sector that can deal with sophisticated transnational companies and others in the global marketplace but also strong political and social frameworks, which take time to evolve. Without these frameworks, some countries may be trapped at the lower end of the international skills market.

Such factors highlight the need for a vision in each country about its position in the dynamic global economy. To achieve this, there has to be, first, political will and good leadership. Secondly, a national consensus needs to be forged among stakeholders concerning the necessary reforms and, thirdly, appropriate institutions and policies must be put in place to meet the challenges. The rules of the game may be perceived to be unfair by some, but there are few alternatives to well-designed country policies and programmes to manage globalization.

Globalization is an unstoppable phenomenon, presenting opportunities to those who are prepared and threats to those who are not. It is not easy for countries to manage globalization for their own benefit. Regional cooperation through which the countries look beyond their borders to tap and leverage other's strengths could be an effective approach in this endeavour.

D. THE CHALLENGES OF GLOBALIZATION: MULTILATERAL RESPONSES

The United Nations and other multilateral agencies initiated a number of international conferences to achieve a global concensus on issues on globalization and development

Globalization has become all-pervasive. It has even “appeared to many to be almost a force of nature”.[8] Recognizing this state of affairs, the United Nations and other multilateral agencies initiated a number of international conferences at the summit or ministerial level to achieve a global consensus on issues of globalization and development and especially to ensure that, as nations and people become increasingly interconnected and interdependent, they recognize that there is a collective responsibility to uphold the principles of human dignity, equality and equity at the global level. In addition to the Johannesburg Declaration on Sustainable Development,[9] trade issues were considered in the Doha Development Agenda,[10] financing for development issues in the Monterrey Consensus,[11] transport transit issues in the Almaty Declaration[12] and ICT issues in the Declaration of Principles of the World Summit on the Information Society.[13] The special concerns of least developed countries were addressed in the Brussels Declaration.[14]

These documents not only spelled out the global development challenges which need to be addressed to help countries to increase the benefits they extract from globalization but also proposed plans of action for meeting the challenges. These plans gave specific roles and responsibilities to the stakeholders, especially through partnership arrangements. Stakeholders consisted of national Governments, the private sector, civil society and international and regional institutions, including international financial institutions. Particular attention was given to addressing the vulnerability of least developed and landlocked developing countries and the special structural difficulties they face in the global economy. The special problems of economies in transition were also addressed.

The United Nations Millennium Declaration of 8 September 2000 sets out the convergence of views reached by 191 nations on the challenges in a range of areas including poverty, hunger, education, health and other developmental goals (for key messages from the global consensuses see box I.1).

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[8] “Address by the Secretary-General to the World Economic Forum, Davos, Switzerland, 23 January 2004, para. 3.

[9] A/CONF.199/L.6/Rev.2.

[10] WT/MIN(01)/DEC/1.

[11] A/CONF.198/3.

[12] A/CONF.202/3.

[13] WSIS-03/GENEVA/DOC/0004.

[14] A/CONF.191/12.

Box I.1. Selected messages from global consensuses on various areas of globalization and development

Millennium Declaration

"We resolve further: to halve, by the year 2015, the proportion of the world's people whose income is less than one dollar a day and the proportion of people who suffer from hunger and, by the same date, to halve the proportion of people who are unable to reach or to afford safe drinking water."[a]

Monterrey Consensus

"Globalization offers opportunities and challenges. The developing countries and countries with economies in transition face special difficulties in responding to those challenges and opportunities."[b]

"Private international capital flows, particularly foreign direct investment, along with international financial stability, are vital complements to national and international development efforts…A central challenge, therefore, is to create the necessary domestic and international conditions to facilitate direct investment flows, conducive to achieving national development priorities..."[c]

"We recognize that a substantial increase in ODA and other resources will be required if developing countries are to achieve the internationally agreed development goals and objectives, including those contained in the Millennium Declaration."[d]

Doha Development Agenda

"International trade can play a major role in the promotion of economic development and the alleviation of poverty. We recognize the need for all our peoples to benefit from the increased opportunities and welfare gains that the multilateral trading system generates."[e]

"We reaffirm that provisions for special and differential treatment are an integral part of the WTO Agreements. We note the concerns expressed regarding their operation in addressing specific constraints faced by developing countries, particularly least developed countries."[f]

World Summit on Sustainable Development

"We recognize that poverty eradication, changing consumption and production patterns, and protecting and managing the natural resource base for economic and social development are overarching objectives of, and essential requirements for, sustainable development."[g]

"Globalization has added a new dimension to these challenges. The rapid integration of markets, mobility of capital and significant increases in investment flows around the world have opened new challenges and opportunities for the pursuit of sustainable development. But the benefits and costs of globalization are unevenly distributed, with developing countries facing special difficulties in meeting this challenge."[h]

The Third United Nations Conference on the Least Developed Countries

"We believe that increased trade is essential for the growth and development of LDCs. A transparent, non-discriminatory and rules-based multilateral trading system is essential for LDCs to reap the potential benefits of globalization. The accession of LDCs to the WTO should be encouraged and facilitated."[i]

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[a] General Assembly resolution 55/2 of 8 September 2000, para. 19.
[b] A/CONF.198/3, p. 3.
[c] Ibid., p. 5.
[d] Ibid., p. 9.
[e] WT/MIN(01)/DEC/1, p. 1.
[f] Ibid., p. 9.
[g] A/CONF.199/L.6/Rev.2, p. 2.
[h] Ibid.
[i] A/CONF.191/13, p. 8.

Almaty Declaration

"We recognize that a major reason for the marginalization of landlocked developing countries from the global trading system is high trade transaction costs. Trade and transport are inextricably linked. Transport costs are a key determinant of international trade competitiveness."[j]

Declaration of Principles of the World Summit on the Information Society

"We are also fully aware that the benefits of the information technology revolution are today unevenly distributed between the developed and developing countries and within societies. We are fully committed to turning this digital divide into a digital opportunity for all, particularly for those who risk being left behind and being further marginalized."[k]

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[j] A/CONF.202/3, p. 24.

[k] WSIS-03/GENEVA/DOC/0004, p. 2.