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**GLOBALIZATION AND THE SOUTH:
SOME CRITICAL ISSUES**

Martin Khor

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DISCUSSION PAPERS

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GLOBALIZATION AND THE SOUTH: SOME CRITICAL ISSUES

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This paper examines the implications of some of the main features of the globalization process for developing countries. It also makes several proposals for developing countries in considering national-level policies to face the globalization challenge, as well as coordination among developing countries in facing negotiations or making proposals at the international level.

While there are many aspects to globalization, among the most important is the recent globalization of national policy-making not only through the normal spread of orthodox theories but more importantly through international agencies, such as the Bretton Woods institutions and the World Trade Organization, through which the North has leverage over the South.

The paper examines the liberalization of trade, finance and investment as well as policy implications and choices in each of these categories. It is argued that, while there are some advantages to an open regime for developing countries, the impact of openness depends on a country's level of development and preparedness to take on the challenges of subjecting local production units to foreign competition, of being able to break into world markets, and of weathering the volatility and fickleness of private capital flows and their propensity for lending recipient countries into a debt trap.

It is therefore imperative that developing countries be given the possibility to have an adequate range of options, of when, how and to what extent to open their economies. For them to maintain the choice of flexibility in policy options, developing countries have to collectively press their case in international forums and institutions where decisions on the global economy are made. Failure in doing so would mean that developing countries will continue to be subjected to international and national policies that are unsuitable to their development, and that more than ever close off their development prospects and options.

Introduction

Globalization has become the defining process of the present age. While the opportunities and benefits of this process have been stressed by its proponents and supporters, recently there has been increasing disillusionment among many policy makers in the South, analysts and academics, as well as the community of non-governmental organizations (NGOs) in both the South and the North. The failure of the Seattle Ministerial Conference of the World Trade Organization in December 1999 is a signal of this disillusionment.

The reasons for the changing perception of and attitude towards globalization are many. Among the important factors are the lack of tangible benefits to most developing countries from

opening their economies, despite the well-publicized claims of export and income gains; the economic losses and social dislocation that are being caused to many developing countries by rapid financial and trade liberalization; the growing inequalities of wealth and opportunities arising from globalization; and the perception that environmental, social and cultural problems have been made worse by the workings of the global free market economy.

This paper examines the nature of economic globalization, some of its key aspects (financial, trade and investment liberalization), and recent developments and the implications for the South. It also provides proposals and suggestions on what could be done to reduce the negative aspects of globalization, and in particular what the countries of the South can do at the national and international levels to reduce the risks involved in (and better manage) the interface between the national economy and the global economy.

While globalization is facilitated and influenced by technological developments such as modern information and communications technology, the paper argues that the process is mainly driven and enabled by policy choices at the global and national levels that in recent years have led to the rapid liberalization of finance, trade and investment. Although developing countries have been very much a part of this process of rapid integration, the decision-making processes in the making of these policy choices have in the main been dominated by governments of the developed countries and by international institutions that are mainly under their control or influence.

The latest round of financial crises, starting with what happened in East Asia in 1997, the widespread doubts over the appropriateness of the standard policy responses to the crisis by international financial institutions, and the failure of the WTO's Seattle meeting, have catalysed a serious rethinking of the orthodox policies and approach to globalization and liberalization.

The rethinking exercise, which was most recently given a platform at UNCTAD's Tenth Conference in Bangkok in February 2000, provides an opportunity for the South to take a more active role in reviewing recent developments in the global economy, their impact on developing countries, and the role these countries can play in reversing the negative aspects, while taking positive measures individually and collectively in pursuing more appropriate policy options and negotiating strategies (UNCTAD, 2000).

This paper is organized into five chapters, following a brief introduction. Chapter I summarizes the main features of globalization, including economic liberalization, the globalization of policy-making, and the unbalanced nature and effects of the process. The next three chapters then examine the major aspects of economic globalization. Chapter II discusses trade liberalization, some recent findings on its effects, and recent developments in the WTO. Chapter III discusses financial liberalization, including the recent round of financial crises, the risks of volatile short-term capital flows, and deficiencies in the present financial system. Chapter IV discusses investment liberalization, the nature of foreign direct investment (FDI) and the implications of the proposals and moves for international agreements on investment. In Chapters I, II and III, lessons to be learnt from the experiences of liberalization and proposals for improving the situation are provided. Finally, chapter V draws some general conclusions and provides some general proposals.

I. THE GLOBALIZATION PROCESS

A. The liberalization of trade, finance and investment

Economic globalization is not a new process, for in the past five centuries firms in the economically advanced countries have increasingly extended their outreach through trade and production activities (intensified in the colonial period) to territories all over the world. However, in the past two to three decades, economic globalization has accelerated as a result of various factors, such as technological developments but especially the policies of liberalization that have swept across the world.

The most important aspects of economic globalization are the breaking down of national economic barriers; the international spread of trade, financial and production activities and the growing power of transnational corporations and international financial institutions in these processes. While economic globalization is a very uneven process, with increased trade and investment being focused in a few countries, almost all countries are greatly affected by this process. For example, a low-income country may account for only a minuscule part of world trade, but changes in demand or prices of its export commodities or a policy of rapidly reducing its import duties can have a major economic and social effect on that country. That country may have a marginal role in world trade, but world trade has a major effect on it, perhaps a far larger effect than it has on some of the developed economies.

The external liberalization of national economies involves breaking down of national barriers to economic activities, resulting in greater openness and integration of countries in the world markets. In most countries, national barriers are being removed in the area of finance and financial markets, trade and direct foreign investment.

Of the three aspects of liberalization (finance, trade and investment), the process of financial liberalization has been the most pronounced. There has been progressive and extensive liberalization of controls on financial flows and markets. The demise of the Bretton Woods system in 1972–1973 opened up an international trade in foreign exchange that has expanded at spectacular rates. The volume traded in the world foreign exchange market has grown from a daily average of \$15 billion in 1973 to over \$900 billion in 1992 and now far exceeds \$1,000 billion.

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