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Globalization for development: Opportunities and challenges

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Preface: From Midrand to Accra

1. When the Conference was last convened in the African continent, in Midrand, South Africa, in 1996, it was a time of hope and promise for both South Africa and the developing world. Developing countries were hoping to take full advantage of the fast-accelerating globalization of trade and capital flows, and many had already made efforts to integrate into the international trading system, accompanied by an opening up of their financial sector and capital account, a pillar of their economic reform agenda. Rapid liberalization and increasing exposure to international market forces and competition were expected to boost efficiency and competitiveness, which in turn would underpin a more rapid rate of economic growth and a narrowing of the income gap with developed countries.

2. This widespread optimism was further boosted by the recent completion of the Uruguay Round, which covered key sectors of interest to developing countries, and the establishment of the World Trade Organization (WTO), with its binding dispute settlement system to oversee the rules-based trading system.

3. By the end of the 1990s, however, this faith in the openness agenda had begun to fade after the East Asian financial crisis, which demonstrated the dangers of capital-account opening. The initial euphoria about the potential of the trading system also gave way to a more sober assessment, as it became clearer that the actual outcomes fell short of expectations. It also became apparent that the implementation of the Uruguay Round agreements was imposing often significant costs on developing countries, while many of the promised benefits remained elusive, and some would only accrue after long transition periods.

4. More broadly, there was a growing public recognition that increasing economic integration alone was not addressing development concerns. Despite extensive trade liberalization, many least developed countries had not achieved significant poverty reduction, and some had experienced negative growth. The widespread concern that the benefits of globalization were being reaped at the cost of the poor, environmental degradation and workers' rights found expression in broad protest movements in civil society.

5. The reaction to the disappointing developmental results led to a number of important initiatives. The most prominent among them was the Millennium Summit in 2000, where the leaders of all States Members of the United Nations adopted the Millennium Development Goals, to be achieved by 2015. The subsequent International Conference on Financing for Development, held in Monterrey, Mexico, in March 2002, addressed the question of how to mobilize both national and international finance to achieve development and attain the goals.

6. The shift in priorities was also reflected in the multilateral trading system, when WTO members agreed on another round of trade negotiations in 2001 that included an explicit development agenda. Disenchantment with the development record of trade liberalization also led to calls for greater attention to be paid to the supply constraints and productive capacities of developing countries through the "Aid for Trade" initiative.

7. It is interesting to note that this renewed emphasis on development paradoxically emerged not at a time of economic crisis, but at a time when the world economy was delivering growth to a large number of developing countries. Ever

since the end of the mild recession of the early 2000s, which was due to the bursting of the "dot-com" bubble and the terrorist attacks of 11 September 2001, the world economic environment has been extraordinarily propitious. Indeed, developing economies as a group have performed significantly well in the last five years, achieving on average 5–6 per cent growth. More countries than ever before have been able to benefit from the favourable environment. Even the least developed countries and other African countries, which experienced erratic growth patterns in the past, have been growing at an average annual growth rate of more than 5 per cent, representing significant progress over the late 1990s. However, not all countries or all segments of the population are beneficiaries of this growth, which partly explains the paradox of prosperity and protest. Thus, the old question of growth with equity has resurfaced in a new context, adding urgency to the need to find new ways of sharing the gains from globalization in a more democratic way.

8. Another aspect of this growth experience is that it has been associated with a fundamental change in the pattern of the world economy. Whereas in 1996 the bulk of trade and investment flows were between the developed economies, while the countries of the South were mainly providers of raw materials in exchange for manufactured products, today's picture is strikingly different. A number of large developing countries such as China and India have experienced spectacular growth over the past decade, making them engines of growth for the world economy. Their demand for imports has generated export opportunities for developed and developing countries alike. As a result, the share of South–South trade is increasing in the world economy, making inter-South trade a veritable locomotive of growth. Besides merchandise trade, many developing countries are increasingly exporters of manufactures, skill-intensive services and capital.

9. A "second generation" of globalization is thus emerging. A distinctive characteristic of this phase of globalization is economic multipolarity, in which the South plays a significant role. Today, no negotiation of an international economic agreement is conceivable without the presence of China, India, Brazil and South Africa at the table. The new economic weight of some developing countries creates significant opportunities for the rest of the developing world. It also highlights the need for policy diversity rather than uniformity.

10. However, there is no room for complacency. Despite the economic success of the last five years, vigilance is required for a number of reasons. The current broad-based economic expansion is subject to risks, which should be avoided through careful economic management. One of these risks is related to the continuing build-up of global current-account imbalances. If the unwinding of these imbalances is not orderly, much of the current growth momentum may be lost. Another risk relates to the potential impact of higher energy prices. Furthermore, past experience suggests that much of the improvement in commodity prices could be reversed. It is therefore essential that the current windfall gains be used in the service of continued and sustained growth. There are also emerging signs that the rise of the South is prompting protectionist reactions in developed economies. This goes against the liberalization paradigm that fuelled the current wave of globalization and threatens to harm the propitious environment.

11. A second, and even more compelling, reason for caution is that despite the unprecedented expansion of trade, not everyone is benefiting from globalization. As noted above, certain countries, and certain segments of the population within

countries, are being left out of the current growth bonanza and are often adversely affected by its consequences. The performance of non–oil-exporting developing countries, for example, is significantly worse than that of developing countries as a whole. In addition, many countries, especially the least developed countries and lower- and middle-income developing and transition countries, have not been able to translate growth effectively into poverty reduction and broader human development. Progress towards the Millennium Development Goals in sub-Saharan Africa continues to lag far behind, despite accelerated growth.

12. Moreover, not all promises of globalization have been fulfilled. While the implementation of the Uruguay Round agreements has improved developing countries' access to the markets of developed countries, the reduction in tariff barriers has in recent years been accompanied by an increase in the use of non-tariff measures. The launching of the Heavily Indebted Poor Countries Debt Initiative in 1996 has not yet succeeded in solving external debt problems, and commitments to step up official development assistance have yet to be translated into scaled-up flows.