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Rethinking Globalisation in a Global Economy

Over the next few months, several international conferences are to take place that will affect the future of global economies and, by extension, the long-term health of travel and tourism. They include the Asia Pacific Economic Cooperation (APEC) meeting in November in Seattle, the World Trade Organization meetings and the United Nations Conference on Trade and Development in Bangkok from February 12-19, 2000.

Topmost on the agenda of these meetings will be globalisation. Developing countries in Asia, Latin America and Africa are being pushed harder than ever to liberalise their economies, privatise state enterprises, relax rules and regulations for foreign investors, become more "transparent" and undertake a motley assortment of other measures that they are being told will help them live happily ever after.

But two years into the Asian economic crisis, the lessons of such "liberalisation" are being more carefully scrutinised, and a growing school of thought is emerging that haste will make waste, that the world needs to have not just free trade but free and fair trade, and that blindly opening the door to liberalisation and globalisation can have significant long-term impact. Frustration is also setting in about the lopsidedness of the economic crisis, in which developing countries have been brought to their knees while developed countries fly high.

Indeed, there is evidence that countries that adopted a slow and steady approach and took actions against the conventional thinking – like India, China (PRC) and Malaysia – have come out of the crisis in better shape than the pundits of globalisation expected.

The debate is important for travel and tourism both directly and indirectly; directly because multinational companies control the industry's payments systems, transportation, accommodation, distribution mechanisms and technology; and indirectly because the entire global or economic financial and trading system is the foundation on which the travel and tourism industry is based.

> *"UNCTAD strives to help developing countries improve their negotiating positions in global trade talks on issues like agriculture industrial tariffs, anti-dumping, rules of origin and government procurement."*

One of the more significant meetings will be the tenth session of the UN Conference on Trade and Development (UNCTAD). Established in 1964, UNCTAD is the principal organ of the UN General Assembly in the field of trade and development.

UNCTAD strives to help developing countries improve their negotiating positions in global trade talks on issues like agriculture, industrial tariffs, anti-dumping, rules of origin and government procurement. Clearly, the better informed negotiators are on these issues, the better their bargaining positions, the better and more equitable the agreements they can reach, the smoother the flow of global trade, the healthier the economies and the better the propensity for people to travel. On the other hand, the more disagreements and infighting, the greater the chances for conflict and the greater the chances for protectionist policies.

UNCTAD is also focusing on trade in services. While services, which include tourism, telecommunications and transport, are still only a small part of the global trading regime, they will eventually become a major part of it once the negotiations over manufactured products and agriculture are overcome.

Every year UNCTAD issues two important annual publications. The first is the *Trade and Development Report,* which analyses global economic performance and trends in trade investment and financial flows. The second is the *World Investment Report,* which analyses trends in foreign direct investment worldwide and provides a balanced view of the role of multinationals in the global economy.

This year's reports contain a carefully-worded scrutiny of globalisation, accompanied by a serious call to learn from it and take a more careful approach going into the future. While not all will agree with its findings, they clearly provide food for thought.

Says the *Trade and Development Report,* 1999, "As the twentieth century comes to an end, the world economy is deeply divided and unstable.

"The failure to achieve faster growth that could narrow the gap between the rich and the poor must be regarded as a defeat for the entire international community. It also raises important questions about the present approach to development issues.

"Asymmetries and biases in the global system against the poor and underprivileged persist unchecked. Leaving global economic integration to markets has not helped, and that should hardly come as a surprise. Unbridled competition, particularly among unequals, has never by itself delivered faster growth and shared prosperity even in today's developed countries, and it has at times been destructive. There is no reason to expect a different outcome in a globalising world.

"Bold leadership, purposeful cooperation and compassion are essential ingredients if today's fragmented global economy is to give way to a century of peace and prosperity. In their absence, and if history is any guide, all will suffer."

The report says that the development impact of globalisation has been mixed; some developing countries have benefited, others have not. "Economic disparities among countries have not been reduced, with the result that a number of developing countries, particularly the least developed countries, run the risk of further marginalisation."

The report notes that "while the developed world suffered little from the Asian financial crisis that broke out in 1997, and even derived some benefits from it, the impact on the rest of the world has been dramatic.

The World's Top 10 Trans-National Corporations 1997

(Ranked by Foreign Assets – Billions of US Dollars and Number of Employees)

	Corporation	Country	Industry*D48	Foreign Assets Total	Sales Total	Employment Total
1	General Electric	U.S.	Electronics	304.0	90.8	276,000
2	Ford Motor Company	U.S.	Automotive	275.4	153.6	383,892
3	Royal Dutch/Shell Group	Netherlands/U.K.	Petroleum	115.0	128.0	105,000
4	General Motors	U.S.	Automotive	228.9	178.2	608,000
5	Exxon Corporation	U.S.	Petroleum	96.1	120.3	80,000
6	Toyota	Japan	Automotive	105.0	88.5	159,035
7	IBM	U.S.	Computers	81.5	78.5	269,465
8	Volkswagen Group	Germany	Automotive	57.0	65.0	279,892
9	Nestle SA	Switzerland	Food/beverages	37.7	48.3	225,808
10	Daimler-Benz AG	Germany	Automotive	76.2	69.0	300,068

Source: UNCTASD/Erasmus University DATAbase+A16. *Industry classification for companies follows the US Standard Industrial Classification as used by the US Securities and Exchange Commission (SEC).

"Virtually all developing countries and transition economies were affected. It played havoc in East Asia and Russia throughout 1998, set back the progress achieved in Latin America, and in the most seriously affected countries wiped out the fruits of decades of economic growth and poverty reduction. In its wake, growth in the developing world slowed from almost six per cent in 1996 to under two per cent in 1998, and for the first time in 10 years it was less than in industrial countries.

"The two largest developing countries, China (PRC) and India, have been striking exceptions in this otherwise bleak landscape. It is notable that both of these countries had resisted the temptation to pursue premature trade liberalisation and rapid integration into the global financial system.

"Crisis in developing countries has had serious repercussions for international trade. The substantial swing in trade balances in the Asian countries through massive import cuts has played an important role in the re-emergence of major trade imbalances in the world economy not experienced since the 1980s. It has also been a main factor in the slowdown of world trade, which suffered in value terms its strongest decline since 1982. Industrial countries, by contrast, gained from the unprecedented collapse in commodity prices and cheaper manufactured imports from countries that had suffered currency devaluations.

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"Gain from cheaper imports of oil alone amounted to some US$60 billion, exceeding total official development assistance in 1998. The improvement in their terms of trade greatly helped to maintain income levels and reduce inflation.

"Similarly, developed countries suffered little from the sharp declines in asset prices or increases in risk premium in global capital markets that accompanied drastically reduced capital inflows into emerging markets, especially in the months immediately following the Russian crisis in August 1998. Nor were they greatly affected by the Brazilian crisis of January 1999. On the contrary, the flight to safety which followed financial turmoil in developing and transitional economies has helped to boost stock markets in the North and stimulate consumption, notably in the United States, which has enjoyed an unprecedented eighth year of expansion."

It warns, "neither a return to stability in the Asian economies nor the apparent confinement of the impact of the Brazilian crisis to neighbouring countries should hide the immediate downside risks for the world economy. Stabilisation of conditions in many emerging markets, including Brazil and Russia, does not mean that the underlying structural problems, including fiscal fragility, have disappeared. Yield spreads continue to be high and while private capital inflows into developing countries are expected to recover somewhat in the year 2000, they will remain far below pre-crisis levels."

The report notes that "liberalisation of capital flows, often prompted by the need to finance growing external deficits, has actually made matters worse.

"It has led to currency appreciations and instability, thereby undermining trade performance. Despite greater exposure to foreign competition, there have been serious shortcomings in exchange rate management, even compared to the interventionist regimes of the 1970s and 1980s."

The report urges developing countries "to improve the management of their exchange rates if they are to benefit from greater integration into the trading system." It says, "the advice they have received in recent years has been at best confusing and at worst misleading. Under free capital mobility, no exchange-rate regime can guarantee stable and competitive rates. Contrary to some perceptions, countries with floating rates are no less vulnerable to financial crises than those with pegged or fixed ones.

"Differences among pegged, floating and fixed regimes lie not so much in their capacity to prevent damage to the real economy as in the way damage is inflicted in the first place. There now appears to be a growing consensus that developing countries should target real exchange rates in combination with the control and regulation of destabilising capital flows.

"This offers a viable alternative to free floating or to ceding completely monetary authority to a foreign Central Bank. Successful examples of control over inflows and outflows abound, from Chile to China

(PRC), India and Malaysia, and provide a rich arsenal of tools for better management of the capital account and exchange rates."

In his own report on UNCTAD X, UNCTAD Secretary-General, Mr. Rubens Ricupero, a Brazilian, says, "for developing countries, struggling to cope with these wrenching changes, the challenge is straightforward even if it is not easy. Rather than reconcile themselves to the need to ADAPT themselves to a supposedly unmodifiable global system, they must strive to SHAPE it according to their own development needs at their own pace and in line with their own strengths and weaknesses.

"In fact, contrary to what one frequently hears, it is not the amount and pace of international integration that counts but its quality. There is indeed such a thing as too much and too rapid integration of the wrong kind."

Mr. Ricupero adds, "There can be no denying that a new order of sorts is gradually taking shape. Its precise contours cannot yet be determined. But, in some cases, it is plainly going in the wrong direction: aggravating inequality, generating precariousness and insecurity and curtailing the margin of flexibility or the capacity of action of countries and Governments. Instead of resigning ourselves passively to these developments, we have to rectify what has been going wrong, to ensure that change does not evolve in a chaotic or unjust way."

Says Mr. Ricupero, "what is now clear is that the difficulties of harnessing liberalisation and globalisation for the benefit of all have been seriously underestimated. It was assumed that the unfettered operation of markets and the unleashing of finance and industry on a global scale would create conditions in which all countries and all social groups within them would benefit.

"This overlooked a simple but fundamental fact: the twin processes of liberalisation and globalisation have sharply accentuated the extent to which economic success depends on the rapid acquisition of skills and on the creation and effective utilisation of technology and information and their exploitation through markets. In such an environment, these processes have actually widened the gap between the feasible options available to skill-rich developed countries to accelerate growth and those available to most developing countries, just as they have widened the gap between the feasible options available to the educated elites in all countries to expand their incomes and welfare and the options available to most of the rest of the population.

"In many countries the result of these trends is growing public disaffection with current economic strategies, a disaffection that threatens to erode the ability of Governments to maintain the open and liberal regimes which are the basis of current growth. There are signs of this happening already."

He concludes, "there is thus an urgent need to rethink the processes, mechanisms and policies that underpin the functioning of the world economy, and in particular those that link developing countries to the forces of globalisation. Not only would such reflection be timely; it is also feasible, since globalisation is not a closed chapter but rather an evolving process subject to further change.

"Above all, however, it is necessary to make these processes more equitable. A world economic system that fails to offer poorer countries, and the poorer parts of the populations within them, adequate and realistic opportunities to raise their living standards will inevitably lose its legitimacy in much of the developing world. And without this legitimacy, no world economic system can long endure."

The editor and PATA's Strategic Information Centre welcome your comments and feedback. Please contact Mr. Imtiaz Muqbil via e-mail at imtiaz@loxinfo.co.th or Mr. John Koldowski at johnk@pata.th.com.

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