Journal of Economic Cooperation Among Islamic Countries **19**, 1-2 (1998) 65-69

UNCTAD'S CRITIQUE OF GLOBALISATION

Prof. Dr. Korkut Boratav[1]

This is a summary of UNCTAD's critique of globalisation and its impact on income distribution, North-South relations, and development as provided in *UNCTAD's Trade and Development Report, 1997*. It advocates a return to faster growth and policies of full employment as a precondition for resolving the problems of poverty, unemployment and inequality everywhere in the world.

1. GLOBALISATION AND ITS IMPACT

UNCTAD's Trade and Development Report, 1997 (TDR/1997), is a frontal critique of globalisation in the form it has dominated the world economy since the early 1980s. It is well known that the globalisation and integration process based on an unfettered operation of market forces have actively been advocated by most international organisations, e.g., IMF, World Bank, OECD and many UN-based agencies. It is also true that critical assessments of particular aspects of globalisation and market-based structural adjustment, as an essential component of the overall globalisation process, have been made by some international organisations (e.g., ILO, UNICEF and UNCTAD itself). However, these were partial and sectional criticisms. TDR/1997 is unique in the sense that it is the first attempt by an international and UN-based organisation to formulate a systematic and all-encompassing critique of globalisation.

In what follows, a summary of UNCTAD's overall assessment of the impact of globalisation on income distribution, on North-South relations, on development as well as their policy implications will be presented. The points which are emphasised are rigorously analysed and fully documented in TDR/1997.

TDR/1997 depicts a globalised economy as "one where firms and financial institutions operate transnationally; ... goods, factors of production and financial assets are perfect substitutes everywhere and it would no longer be possible to consider nation states as distinct economic identities with

[1] Consultant, UNCTAD, Faculty of Political Sciences, Ankara University, Ankara.

autonomous decision-making power in the pursuit of national objectives". (TDR/1997, p. 70). UNCTAD admits that the present world economy has not yet reached that ultimate level of globalisation; but the world-wide unleashing of market forces, leading to liberalisation of trade and capital movements have moved national economies definitely in that direction. And it is some of the adverse consequences of this process which is analysed in TDR/1997.

UNCTAD's analysis starts with the observation that since the early 1980s the liberalisation of domestic markets and their opening up to international competition has been accompanied by lower growth rates, rising inequalities within nations and growing gaps between the South and North. TDR/1997 does three things: First it analyses the phenomenon with overwhelming quantitative evidence. Secondly, provides an analysis of the causality between specific aspects of globalisation and the above-mentioned outcomes. And, thirdly, by drawing upon recent national experience, it emphasises policy alternatives which can be used to minimise the adverse impact of globalisation on distribution and growth and which can, even, transform global forces into dynamic development factors. This last point is important in the sense that recently there has been a growing feeling of helplessness in developing countries vis-à-vis globalisation: Many policy-makers and academics in the South have correctly perceived the adverse consequences of globalisation, but they have also considered the process as leading to a total demobilisation of conventional policy tools within their national economies. The outcome has been a full, but reluctant, subservience to external forces and to fashionable market-friendly orientations. UNCTAD takes issue with this position-taking.

What are the troublesome features of the contemporary global economy? UNCTAD points at the following stylised facts:

1. Although there are significant national exceptions, overall the world economy is growing too slowly to generate adequate employment or to alleviate poverty. The average performance of the monetarist/market-friendly post-1980 years is strikingly inferior to the Keynesian/interventionist Bretton Woods era.

2. Gaps between the North and the South, as well as within the South are widening steadily. The expectation that global competition and the unleashing of market forces would produce faster growth and convergence of incomes between nations has not been realised.

3. Personal income distribution has deteriorated against the poor and the income share of the richest 20 per cent has risen almost everywhere. In

many countries, these developments have also been associated with falling income shares of the middle income brackets. This phenomenon, characterised by UNCTAD as "the hollowing out of the middle classes" has serious social and political implications.

4. In terms of functional income distribution, capital has gained almost everywhere against labour. Profit shares have risen in developed ant developing countries alike. Lower wage shares have, in many countries, signified declining real wages for large segments of workers.

5. Finance has been gaining an upper hand over industry and rentiers over investors. Financial liberalisation has given rise to a rapid expansion of public and private debt and a new "rentier class" has emerged world-wide with the expansion of short-term/speculative international capital flows. This "class" is specialised in the buying and selling of second-hand assets where prospects of quick gains are high. The "animal spirits" of entrepreneurial investors have been seriously undermined. Finance has, thus, been delinked from investment and international trade.

6. Rising profits and higher income shares of the rich have not led to rising investments. In the North, profit rates are converging upwards with significantly lower rates of investment. In the South, higher profits and, in may cases, extremely high rentier revenues have not led to overcome the chronic stagnation in rates of accumulation which have plagued most countries since the early 1980s. Consequently, increased job and income insecurity is spreading for «ordinary people» everywhere in the world

7. The growing wage gap between skilled and unskilled labour is becoming a global problem. The expectation that rising participation of developing countries in international trade by specialising in unskilled labour-intensive products would reduce wage dispersion has not been realised.

8. Liberalisation of the world economy has developed in a non-symmetrical fashion. Trade liberalisation has been much slower in those sectors, e.g., agriculture and textiles, where the South has comparative advantage. Full liberalisation of capital movements has almost been completed whereas international mobility of labour is more restricted than ever. International rules on intellectual property rights and on trade in services have been designed in such ways as to create handicaps for technology importers and latecomers, i.e., for developing economies.

The legitimacy of a system which generates exorbitant consumption levels and living standards for a small minority, but is unable to create sufficient employment and adequate revenues for the majority of the people is to be questioned. Serious political ant social consequences at the national and, even, global levels are likely.

2. POLICY IMPLICATIONS

However, despite this bleak picture depicted by UNCTAD, TDR/1997 does not take a "defeatist" position. The basic policy challenge, according to UNCTAD, is how to transform rising profits into capital accumulation at a pace which can generate rising incomes, sufficient employment, higher living standards to the mass of population. Income inequalities can be considered legitimate only under such a dynamic process.

The experience of late industrialisers in the North and of East Asian NICs in the recent decades suggests that an active state conducive to growth and a business class with a strong propensity to save and to invest are the two strategic components of a successful development process.

What is required in the first instance, is the emergence of a strong profit-investment nexus. This does not happen spontaneously. Policies in the area of public finance, trade, finance and competition should be pursued with a view to encouraging private firms to retain profits and invest them for capacity and employment generation and for the enhancement of productivity. Closing unproductive channels of wealth accumulation and discouraging luxury consumption are essential ingredients of such a strategy.

When integration with the world economy takes place under conditions of a "big bang" liberalisation, domestic economic development becomes subservient to uncontrolled external forces. Integration can, and should, be a managed and phased process. The level of development of the economy and its existing industrial profile should be taken into consideration. The destabilising impact of certain categories of capital flows can, and should be arrested. External linkages must be complementary to, not a substitute for, the domestic forces.

In the final analysis, rapid absorption of surplus labour in the South through a dynamic and fast growth process will strengthen the relative force of labour within relations of distribution. However, until countries in the South start a process of substantial reduction of surplus labour, a number of active policies to control deterioration of income distribution is also feasible: Land reform, agricultural policies in favour of the rural poor, public investments in the social infrastructure and an active policy of education with a view to preventing emergence of skill shortages are recommendable.

Finally, no permanent solution to the problems of the South can be found as long as the North continues to be stuck with low growth. According to UNCTAD, a return to faster growth and policies of full employment in the North is the precondition for resolving the evils of poverty, unemployment and inequality everywhere in the world. Otherwise, the adverse social and economic impacts of globalisation are likely to generate a popular backlash the consequences of which are unpredictable.