

**GLOBALISATION AND INDUSTRIAL DEVELOPMENT:
IMPLICATIONS FOR DEVELOPING COUNTRIES
AND INTERNATIONAL CO-OPERATION**

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Globalisation is the most talked about concept of the 1990s. Commentators in developed and developing countries alike from all walks of life--whether they be politicians, trade union and religious leaders, journalists, economists or business gurus--have something to say about it. Everyone agrees that globalisation is a process that has tremendous significance for industrial development. There is less agreement, however, on whether globalisation is of benefit to everyone, especially in the short term for developing countries. In this paper, some of the major issues associated with globalisation and industrial development are addressed, particularly how the United Nations (UN) system and international agencies such as the United Nations Industrial Development Organisation (UNIDO) can contribute to ensuring that the developing countries can fully participate in the process to best advantage.²

The paper is structured as follows: Section 1 sketches the current performance of the world economy as essential background to understanding the globalisation process. Section 2 identifies the core characteristics of globalisation and asks the important question: what is different or new about globalisation? Section 3 highlights the major phenomena of soaring private flows and declining Official Development Assistance (ODA) in recent years and the rise in inequalities within and between countries. Section 4 confronts the thorny issue of whether trade with developing countries is harmful to developed countries. Finally, Section 5 highlights the major challenges globalisation presents for industrial development and particularly for the UN system and specialised agencies such as UNIDO.

The central message of the paper is that globalisation is the major challenge of the 1990s. If it is managed properly, it has the potential to benefit all, especially in the medium to long term, whether developing countries, countries with economies in transition or industrialised countries. It is not an uncontrollable force or a headless monster as some would lead us to believe. But neither is it benign: with any dynamic process of change, there are winners and losers. However, it is not a zero sum game. The real challenge is to harness the potential of private entrepreneurship and market

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² It is important to emphasise that the discussion in this paper is limited to the industrial development issues of globalisation. It does not, therefore, touch upon the vitally important cultural, religious, linguistic, sociological and political challenges that globalisation poses.

forces without destroying social cohesion; and at the same time, to identify the losers from the process and design policies and other measures to help them overcome their constraints and thereby reap the benefits of full participation in global markets. It is in this broad context that the United Nations system and UNIDO in particular have a vital role to play.

1. INTRODUCTION

Globalisation is undoubtedly a controversial issue. A good idea of the controversial nature of globalisation is captured in President Jacques Chirac's remarks at the G-7 Summit in Lyon earlier last year when he said: "Globalisation links everything from the efforts to alleviate the debt burden of the poorest--mainly sub-Saharan African countries--to the fears for jobs and security in the advanced industrial countries. Its central paradox is that, since the Second World War, industrial countries have tried to assist developing nations, but now that some are developing quite well, the industrial countries are scared of their own shadows."

It is fair to say that views on globalisation are often coloured by the perception of the ability to participate in globalisation. What really troubles the industrialised countries--and the G-7 in particular--is the impact of globalisation on themselves, especially the consequences of relocation of demand and production to low wage/low cost developing countries. In this context, globalisation has been put forward as the major reason for the unemployment problems of unskilled or low-skilled men in industrialised countries.

We have all heard some politicians--such as Ross Perot and Patrick Buchanan during the US Presidential Elections and Sir James Goldsmith in Europe--and trade unionists maintain that: "The Third World is snatching away our jobs." The developing countries themselves are fearful of increased protectionism in the wake of soaring unemployment levels of unskilled workers--particularly in Europe. There are also fears of more sophisticated protectionism to guard against a 'race to the bottom' in social or labour standards--that is, the incentive of transnational corporations (TNCs) to move to areas with less stringent social and labour standards in the developing countries resulting in lower standards in general. This phenomenon has often been called "social dumping".

On the other hand, there have also been significant fears expressed by developing countries that TNCs have increased control of their corporate assets and threaten to control and determine the pace of their development and participation in the globalisation process. In particular, the fear is that the

emerging dominance of TNCs may greatly reduce their autonomy and sovereignty as smaller countries in particular are forced to rely on large firms as sources of supply. The basis for such fears are recent figures which show that the value added of all foreign affiliates of TNCs accounted for 6 per cent of world GDP in 1991 compared with 2 per cent in 1982. Or, figures such as those reported in *The Economist* not so long ago that there are roughly 35,000 TNCs with the largest 300 of these accounting for one-quarter of the corporate assets in developing countries. In 1995, for example, TNCs invested over US\$2.7 trillion in their foreign affiliates. These are enormous amounts of investments.

2. THE CURRENT PERFORMANCE OF THE WORLD ECONOMY

The major trends and performance of the world economy are a reflection of the globalisation process. An examination of recent performance will highlight the major challenges that globalisation poses for various developing regions.

World industrial activity continued its upward trend in 1996--when the most recent data are available--with manufacturing value added (MVA) growing at 2.6% and GDP at 2.8%. As a group, the developing countries have posted better MVA growth rates than the industrialised countries. During 1990-1996, MVA in the developing countries grew at an annual rate of 6.9% compared to 1.3% for the industrialised countries. But to put this growth in perspective, the share of industrialised countries in world MVA in 1996 was 75.6% compared to about 21% for the developing countries.³

If income growth rates in terms of GNP are considered, industrialised countries, on average, cannot expect growth rates of more than 2% during the next decade. Growth rates in the developing countries, on the other hand, are expected to be greater than 4.5%, with some Asian countries exceeding a 6% growth. So most of the future growth of world income will come from developing countries. On current trends, they will also be the major sources of import and export growth. At present, the developing countries have more than a 25% share of world trade with export growth, on average, double that of industrialised countries. Although, this growth mainly stems from a small group of East Asian countries--particularly China--and a few Latin American ones, new countries such as Uganda, which grew by nearly 9% last year, are joining the group. Also, in terms of purchasing power, the combined GNPs of developing countries is nearly half of total world GNP. In the next decade, this figure is set to increase significantly.⁴ However, although the developing

³ UNIDO database.

⁴ Rubens Ricupero, Secretary General of UNCTAD, Extended Remarks, Round Table

countries as a group showed impressive performance, this aggregate performance masks wide regional differences:

- South Asia did extremely well (9.5% MVA growth)
- South-East Asia and China did well (9%)
- North Africa and West Asia (6.4%)
- Latin America and the Caribbean (4.5%)
- Sub-Saharan Africa (3.7%)

Africa, however, continues to face serious economic difficulties. The share of sub-Saharan Africa (SSA) in total world exports has decreased steadily in recent years. SSA's share of total world exports decreased from 1.25% in 1990 to 0.85% in 1995; North Africa's share from 1.05% to 0.73% during the same period. But more optimistically, MVA growth in SSA improved in 1996 to 3.7% from 3.4% in 1995.

What about the countries in transition? MVA growth improved from -8.8% in 1994 to -2.5% in 1996. But again the performance in this region was uneven. Those early reformers with sound macroeconomic policies have made impressive strides (the Czech Republic, Poland, Hungary, Slovakia and Slovenia). But for those countries less far along in the transition to competitive market economies (the Russian Federation and the CIS) growth has hardly started. Indeed, MVA continued to decline, albeit at nowhere near the same rate as when they began the transformation process. One should, however, recognise the important advances made especially in the Russian Federation with respect to the macro-economy and the control of inflation. Nonetheless, the resumption of growth in the Russian Federation and CIS depends on more widespread and accelerated economic reforms and political stability.

Let us now summarise the current performance of the global economy:

- The developing countries are growing faster than the industrialised countries.
- But industrialised countries still hold by far the greatest share of world MVA.
- Within developing regions, performance has been mixed with South Asia growing well, followed by South-East Asia and China, North Africa, West Asia and Latin America and the Caribbean. Africa continues to run the

strong risk of marginalisation and a serious risk of being delinked from the global trading system.

3. THE MAJOR CHARACTERISTICS OF GLOBALISATION

What is globalisation? What makes it so special or new? Globalisation generally refers to the greatly increased integration of markets for capital, labour, technology and services. Globalisation, essentially means the growing together of product markets across national borders. And, in particular, the increasingly strong international integration of production in the form of foreign direct investment (FDI), strategic alliances and global sourcing. It is basically a private sector-led and a technologically-driven phenomenon, spurring the world-wide search by transnational corporations for profits and reduction in costs, particularly the increasingly high costs of R&D. For example, more than US\$3 billion is needed to design and develop a new generation of mega carriers such as Boeing 777s; the development of a new conversion system of digital telephones will cost nearly US\$3 billion; and inventing and developing a simple new industrial enzyme costs nearly US\$100 million.⁵

Globalisation has been sustained by widespread price and trade liberalisation, privatisation and deregulation, the growing role of the private sector, and improvements in the extent and reliability of transport and communications which have reduced costs tremendously and also the economic distance between countries. It is of course true that we have had world-wide networks of transport and communications before.

By the First World War, we had world-wide networks of railways and steamships that criss-crossed the world and even before that we had telegraphic communication across the Atlantic. Remember the first submarine telegraph was laid under the Atlantic in 1858 and by 1900 all the major regions of the world could communicate with each other. So what is different now? Today, people can communicate almost instantaneously by electronic means. The telegraph took minutes to convey a short message. Nowadays, the telephone or E-mail communicates at a fraction of the cost in milliseconds. Many more people now have cars and telephones. In this connection, just compare Eastern Europe in 1980 and now! We had steamships in 1900 but we now have super-tankers which can carry more than 50 times the load faster and at a fraction of the cost. And, since 1958 with the first jetliner--the Comet--and

⁵ Paul Krugman, *Growing World Trade: Causes and Consequences*, *Brooking Papers on Economic Activity*, vol. 1, 1995, pp. 327-362; and comments by Richard N. Cooper, *op cit*, pp. 363-368.

the emergence of the wide bodies jet in 1967, we can now carry enormous loads world-wide at rapidly falling unit costs. These are significant differences to what our grandparents could do earlier this century.⁶

But it is the widespread adoption and influence of new technologies--particularly micro-electronics--that has allowed the accelerated globalisation of recent years.

It should be stated that the internationalisation of economic activities *per se* is not a new phenomenon. What is new is the fact we now have super-exporters such as Singapore and Hong Kong who exported 174 per cent and 144 per cent of their GDP in 1990; and, that the value added chain can be broken up as never before with goods produced in one country from components designed and manufactured in another. There is also a tremendous increase in world trade and especially FDI relative to trade and output. The world trade/GDP ratio has increased three times faster in this decade than in the previous decade (and twice as fast as in the 1960s) and the FDI/GDP ratio has increased even faster. But it is the tremendous increase in FDI flows that is the major characteristic of globalisation in recent years.⁷

Another difference today is the multilateral nature of much of direct investment, which is mainly divided between the three largest economic blocs in the world centred around the European Union (EU), the United States and Japan. Another new phenomenon, emanating from the 1970s, is the emergence of significant competition from Latin America and the newly industrialised countries of Asia. Unlike during other comparable periods of rapid growth in trade, such as the late 19th century, this emerging competition from advanced developing countries is in similar manufactured products rather than non-competing primary products.⁸ Also, the state now performs large-scale social welfare functions to ensure employment, pension and health levels and adequate social safety nets.⁹

Thus, the global economy of the 1990s is vastly different from that of earlier decades. Globalisation is the centrepiece of the 1990s and is changing the world economy in fundamental ways. It has tended to reduce the economic distance between firms, institutions, Governments, countries and regions. It has led to much greater interdependence in the world economy, more stringent

⁶ Cooper (1995), *op cit.*

⁷ Krugman (1995); Cooper (1995); *op cit.*

⁸ Dani Rodrik, *Has Globalisation Gone Too Far*, Institute for International Economics, March 1997.

⁹ Dani Rodrik (1997), *op cit.*

environmental requirements, fears of loss of policy sovereignty, increased uncertainty and a new rationale for co-operation at all levels.

Globalisation has also become the driving force of economic growth in many regions of the world. It is a dynamic process of change unprecedented in its intensity. In Europe and North America, it has rejuvenated industrial development and brought heightened competitive pressures to bear across a wide range of industries. In Asia, it has heralded an unprecedented period of high economic growth and export competitiveness. In Latin America, it has signalled an abrupt change in economic approach from inward to outward orientation.

In Africa, where liberalisation has not progressed as far as in other regions, globalisation has at least established a benchmark from which further progress can be made. In the economies in transition, it has provided a dramatic confirmation of a major doctrinal shift from the past command economic system to a competitive market economy.

At the same time, globalisation has implied tremendous opportunities for trade, much larger inflows of FDI with associated new technologies, skills and market access for developing and transition countries. There are also enormous benefits to the industrialised countries--particularly the private sector--from trade with these countries. The private sector has a critical role to play in this process. However, because of various policy and structural weaknesses, African countries and least developed countries (LDCs) in particular have been unable to integrate fully--if at all, in many cases--into the global economy and enjoy its benefits. Indeed, there is a threat that African countries and LDCs could be increasingly marginalised in the globalisation process and de-linked from the prosperous industrialised countries.

The figures on Africa's development performance are nothing short of alarming. Forty per cent of Africans live on less than US\$1 a day. From 1989 to 1992, nearly half of all sub-Saharan African countries experienced negative growth rates. Per capita income has only increased by US\$70 in 20 years, whereas it has gone up by US\$900 in South-East Asia. In addition, the ratio of trade to GDP has been falling--unlike in other regions--and is still well below what it was twenty years ago. Also, as mentioned earlier, the share of sub-Saharan Africa (SAA) and North Africa in total world exports has decreased steadily in recent years.

However, economic statistics alone cannot adequately convey the extent of the human tragedy that hides behind these figures. By any reasonable yardstick, Africa still merits special attention from the international

community, if its people are to have a realistic chance of competing in the global market place.

Globalisation, especially trade liberalisation in the context of the Uruguay Round and the Marrakech Agreement, will also present a special challenge to African, Caribbean and Pacific (ACP) States--many of whom are LDCs--as their trade preferences will be progressively eroded. To compete on international markets, they will need to raise the efficiency and competitiveness of their manufacturing sector, particularly their small and medium scales industries (SMIs). They will also need to adopt a more export-led strategy and promote effective regional and subregional co-operation. This is required to enlarge the size of their markets as well as structured access to inputs, technology, human resource development and on-the-job training at the firm level. This will often require close interaction between the private sector and the Government and, in many cases, support from international organisations.

4. PRIVATE CAPITAL FLOWS, DECLINING ODA AND GROWING INEQUALITY

Total FDI inflows into developed and developing countries increased by 40 per cent in 1995, to reach US\$315 billion. FDI into developed countries rose by 53 per cent last year. Total FDI into developing countries rose by 15 per cent to US\$100 billion. So most of the increase in FDI went to developed countries. Also, although FDI to the 48 least developed countries rose by 29 per cent in 1995, this amount was only US\$1.1 billion (roughly 0.35 per cent of the world total). In addition, even though FDI to Central and Eastern Europe nearly doubled in 1995, its total was only around US\$13 billion (includes US\$2 billion figure for the Russian Federation). This is a minuscule figure compared to the total flows going to developing countries and to individual developing countries such as China (US\$38 billion in 1995).¹⁰

FDI inflows are also highly concentrated. The smallest 100 recipient countries received only one per cent of total investment in 1995. Ten South-East Asian and Latin American countries accounted for almost 88 per cent of FDI inflows into developing countries in 1994.¹¹

Given the current concentration of FDI, it is not surprising that many developing countries--particularly African countries and LDCs--need help in attracting FDI and support in promoting private sector development.

¹⁰ UNCTAD, World Investment Report 1996, United Nations, Geneva, 1996.

¹¹ UNIDO database.

Total private capital flows (FDI plus portfolio investment) to developing countries have soared in recent years—for example, from US\$44.4 billion in 1990 to US\$184.2 billion in 1995. By comparison, total ODA during the same period dropped from US\$56.3 billion to US\$53 billion. So the facts are plain: private capital flows are quickly becoming the dominant source of finance for developing countries and with present trends in ODA will be even more so in the near future.

It is also important to note growing world inequality in terms of incomes between regions, countries and within countries associated with the globalisation process. For example, if we look at the countries within the European Union. The per capita incomes of the 10 least developed regions of the EU are less than half those of the core countries of the EU, including Denmark, Germany, the Netherlands and Northern Italy. And, if we look at the distribution of world GDP per capita, the gap between the richest 20 per cent and the poorest 20 per cent of the world's population increased from 11 to 1 in 1960 to 17 to 1 in 1989. Recent figures are likely to show an even greater degree of inequality. In this connection, the latest figures from UNDP suggest that this inequality has now more than doubled.¹²

These figures confirm the unbalanced growth of the world economy, and especially that the benefits of global growth have not spread evenly to the poorest countries of the world. The important question to ask now is why should we care about growing inequality or the rapid rise and concentration of private sector financial flows? After all, these developments could be the natural consequence of market forces and the natural dynamics of growing competition.

On the contrary, there is convincing evidence that these developments are exactly the opposite. They are the negative manifestations of market impediments and uncertainties. In particular, they are due to lack of human resource development, technological capacities and innovation and awareness of the requirements of environmentally sustainable development. Because of these impediments, globalisation has inevitably led to a concentration of FDI in certain countries and growing inequality. It is therefore simply not true that the current surge in private sector development flows has obviated the need for development aid. For one thing, it has not always been the case that the private sector has paid sufficient attention to the risks associated with growing inequality of incomes and wealth.

¹² UNDP, *Human Development Report 1996*, Oxford University Press, Oxford, 1996.

There is now a strong argument that growing inequality of incomes and wealth is a serious threat to future global economic growth, prosperity and, of course, peace. Recent economic research argues that there are good theoretical and empirical grounds to believe that inequality is harmful to growth. Also, sharply rising inequality of incomes and wealth endangers the private sector's ability to maintain and/or improve the quality and capacity of the labour force.

Failure to reduce disparities will severely affect the social fabric of our societies, fuel economic or civil disturbances, changes of Government, migration, and even violent revolutions--or at the very least--force the adoption of harmful or costly quick-fix remedies to ward off such disruptions.

In short, accelerated globalisation, if not properly harnessed, can seriously threaten social cohesion and relationships between major interest groups, such as workers and employers, and as I shall argue later, between skilled and unskilled workers. Since much of the inequalities--especially in industrialised countries--is in terms of incomes, particularly wage inequality, it follows that employment in paid occupations is an important means in combating growing inequality and poverty. The private sector has an important role to play in providing employment as a gateway to opportunity and the reduction of poverty in the long term. But some means have to be found to make workers more employable and not so expensive to employ in terms of burdening employers with excessive pension, health and other social obligations.

As a driving force of the globalisation process, the important role of markets and the private sector has become accepted throughout the developing world as an efficient mechanism to generate wealth and raise standards of living, while at the same time providing incentives for efficiency. However, while competitive markets are efficient mechanisms for allocating resources to highest valued productive uses, they often fail to account for overall social, distributional and environmental concerns. Thus, market forces and competition are certainly necessary but not sufficient for equitable and sustainable industrial development. As Robert Kultner has said very forcefully in his important new book entitled *Everything for Sale: The Virtues and Limits of Markets*, "the market does not care that one man feeds filet mignon to his dog, while another man is starving on the sidewalk. The market's distribution of income is presumed efficient, and hence just."

It could be argued strongly that the United Nations system and UNIDO have an important role to play in reducing inequality within and between

countries and especially in devising policies to respond to the worst impacts of globalisation.

5. DEVELOPED COUNTRY TRADE WITH DEVELOPING COUNTRIES: IS IT HARMFUL?

Many industrialised countries--and specific groups within these countries--view the rapid growth of developing countries, particularly in Asia with some apprehension. Indeed, political tensions have been caused by the rapid growth of South-East Asian countries compared to the slow growth and increasing unemployment levels in industrialised countries, especially those in Europe. This had led to a real possibility of a protectionist backlash in industrialised countries and calls only too recently to link trade and market access for developing countries to labour and social standards, human rights and even the pace of the development of democratic institutions or other perceived political imperatives. I believe these arguments to be false or at best misleading. I would like now to confront these arguments with some recent data particularly with respect to South-East Asia which has been perceived to pose the greatest competitive threat.

Exports from rapidly developing countries in Asia (mainly South-East Asia) comprise less than four per cent of the total consumption of manufactured goods in the United States and the European Union. They add up to less than three per cent of the combined GDP of the United States and the European Union. The competitive threat to US and EU markets is therefore greatly exaggerated. If we look at data for the developing countries as a whole, this tells a similar story.

Trade with developing countries is only a very small proportion of the total trade of industrialised countries. In 1990, for example, industrialised countries spent only 1.2 per cent of their combined GDP on imports of manufactured goods from developing countries. The figure now is probably only 2 per cent. Most industrialised countries--particularly those countries in the EU--trade mainly with each other and not developing countries. For example, 80 per cent of the United Kingdom's trade is with other EU countries.¹³

¹³ However, it should be said that although the absolute value of EU trade with developing countries is small compared with trade with other industrialized countries, this trade--particularly with Asian countries--is growing quickly and will continue to do so in the foreseeable future. For example, imports from Asian countries only accounted for 1.3% of total EU GDP in 1995 but Asian countries accounted for 18% of total EU imports from the rest of the world. Asian exports are not restricted to traditional, low-skilled products such as clothing and textiles. High-skilled, capital intensive goods such as machinery and transport

One often hears that a special threat is posed because of low wage costs in Asian countries compared to industrialised countries. But to pose the argument in these terms is also misleading. Why? Simply because to concentrate on wage differentials between industrialised and Asian countries ignores the fundamental productivity differences between them. It is generally the case that low wages in developing countries--and Asian countries are no exception--simply reflect lower productivity. To give one example, average wages in manufacturing in Malaysia and Thailand are only about 15 per cent the level of manufacturing wages in the United States. But the value added per worker in manufacturing in Malaysia and Thailand is only about 15 per cent of value added per worker in the United States. One should not also forget that low wage cost imports are often cheaper than domestically produced goods. This is clearly to the benefit of consumers in industrialised countries.¹⁴

Still, it has to be admitted that there has been a significant fall in the demand for unskilled workers relative to skilled workers in recent years. But even the most pessimistic studies find that trade can only explain 10-20 per cent of the inequality in the wages and unemployment of less skilled men.¹⁵ Most studies find that the trade effect is small or insignificant or that technological change is a better explanatory factor. That is, a key factor behind the decreasing demand for unskilled workers in industrialised countries is technological change. Technological advances have reduced the need for many types of unskilled workers in these countries. Many recent studies show that the gap between employment levels and wage differentials between skilled and unskilled workers has more to do with productivity, technological change--particularly the introduction of micro-technologies and new flexible production techniques such as Just-in-Time inventory control and Total

equipment and other high-tech products represent a fast growing share of Asian exports to the EU. This may have been due to EU access restrictions to sensitive products' markets (textiles, clothing, steel and iron). As a result, EU countries could face increasing competition from Asian exports. See *European Economy* 1997, no. 63, p. 47, European Communities, Brussels, 1997.

¹⁴ Paul Krugman (1995) *op cit.* and statement by H.E. Mr. Belahari Hausikan, Permanent Representative of Singapore to the United Nations, to the G-77 South-South Conference on Trade, Finance and Investment, San José, Costa Rica, 15 January 1997.

¹⁵ Rodrik (1997) *op. cit.*, and Robert Z. Lawrence, *Single World, Divided Nations? International Trade and OECD Labour Markets*, Organisation for Economic Cooperation and Development, Paris, 1996. Rodrik has recently argued that the effect of trade on inequality of wages may be significantly underestimated, if the main impact of globalization is an increase in the actual or perceived elasticity of demand for unskilled workers and not a reduction in demand per se. However, although interesting and plausible, there is as yet little substantive evidence for this "increased elasticity" hypothesis. This is not to say it might not be forthcoming, only that the evidence to date is mainly "impressionistic and anecdotal" (see Rodrik (1997), p. 27).

Quality Management techniques--than increased trade with developing countries.¹⁶

This is why the fall in demand for less skilled workers in industrialised countries has been in a wide range of industries not just in labour-intensive industries which compete with developing country exports. This drop in the demand for less skilled workers has also occurred in industries which do not produce goods or services that can be traded on international markets and which therefore do not compete with exports from developing countries.

But isn't the real policy issue what can be done to improve the unemployment situation of low-skilled workers? After all, there is no necessary direct connection between a problem and its cure.¹⁷ It may therefore be better to concentrate on what can be done to aid the restructuring process, smooth its adverse effects by training low-skilled workers and provide appropriate social nets, rather than worry whether their plight is caused by low-cost competition from abroad, technological changes, the demise of trade unions, etc. But whatever the reasons for the plight of unskilled workers, there are good reasons to believe that they are more likely to be solved by appropriate domestic policies than blaming globalisation.

To complete our discussion of the alleged threat that trade with developing countries poses to industrialised countries we should now ask a related question: Is it true that industrialised country firms are rushing to relocate in developing countries to take advantage of low wage costs? Clearly, it is true that some TNCs from industrialised countries are doing this, but the extent of this movement is far less than the popular media would lead us to believe.

First, the extent of globalisation is probably a little exaggerated. There are few truly global companies producing in all regions of the world. Even with the new micro-electronic technologies, it is difficult to control global operations in all dimensions of production. Most TNCs branch out at the regional level--thus US firms generally first spread into North America and into the rest of the world, if at all.¹⁸

Second, the new flexible technologies associated with globalisation and emphasis on quality and customised production imply that low labour costs are

¹⁶ Lawrence (1996) op. cit.

¹⁷ See the interesting discussion in Richard B. Freeman "Toward an Apartheid Economy", Harvard Business Review, September-October 1996, pp. 114-121.

¹⁸ Paul Hirst and Grahame Thompson, *Globalization in Question: the international economy and the possibilities of governance*, Polity Press, Cambridge, 1996.

less important than quality considerations in determining competitiveness. They also imply that there are strong incentives for producers and suppliers to cluster together to ensure quality and low inventory levels. This is the case with Benetton and its suppliers in the textile industry in Italy. This tendency towards clustering of producers and suppliers would reduce the incentive to relocate in developing countries.¹⁹

6. THE CHALLENGE OF GLOBALISATION AND INTERNATIONAL CO-OPERATION

It is the basic contention of UNIDO that the globalisation process is not a zero-sum game. It holds the potential to accelerate the industrialisation process in the developing and transition countries as well as bring considerable benefit to the industrialised countries. But the realisation of these potential gains will require effective management of the process at both the national and international levels to identify and alleviate the adjustment and social costs engendered by policies that lead to closer integration into the world economy. This will also require active co-operation between Governments and the private sector. In this context, UNIDO and its sister UN agencies can play a major facilitating role.

UNIDO's work, therefore, highlights the opportunities and challenges which globalisation presents to the developing and transition countries as well the industrialised world. In particular, it seeks to identify the key issues confronting policy makers as they strive to achieve gainful participation and integration into the global economy. In this regard, UNIDO believes that the main focus of technical and investment co-operation should be on the major constraints that disadvantaged countries face particularly in terms of human resource development, technological capabilities and innovation, and, sustainable environmental development. In this context, it is especially important to identify appropriate policies and other measures that policy makers may wish to consider to overcome constraints to full participation in the global economy. It should be underlined that even for the most disadvantaged countries--mostly African countries and LDCs--progress is within reach. Much progress has already been made. However, greater efforts are required to improve policies and structural measures to achieve an environment conducive to private-sector development and accelerated, but sustainable economic growth and competitiveness. Still, more equitable development among and within countries is an increasing challenge. This is to

¹⁹ Charles Osman, *Globalization and Regionalisation: The Challenge for Developing Countries*, OECD Development Centre, Paris, 1994.

a great extent a function of Governments, but a socially responsible private sector has an important role to play to ensure world peace and stability.

UNIDO has responded to the challenge of globalisation in its recent reform process by refocusing its activities and services on the basis of clear objectives and priority themes. We have given special emphasis to our role as a Global Forum for Industry and priority support for private-sector development. In particular, in the context of the recent United Nations system-wide Special Initiative on Africa, UNIDO has developed a special programme--an Alliance for Africa's Industrialisation--to respond to the urgent need to support Africa's industrialisation efforts. In this way, UNIDO hopes to respond directly to the major issues of globalisation and support those countries most in need of assistance in their efforts to integrate more fully into the global economy.

I want to conclude this paper by stating what I believe to be the major challenge of globalisation. In my view with any process of dynamic change, there are winners and losers. The winners are those countries, cities and workers with the developmental capabilities and skills to reap the full benefits of the globalisation process. The losers in the short run are generally those who do not have the developmental capabilities or skills--African countries, LDCs, primary producers, rural areas and unskilled workers.²⁰

Today's global economy provides the framework for mutually beneficial trade, great opportunities and a coincidence of interests for developing countries, economies in transition as well as the industrialised countries. Some would argue that it may be the first time this coincidence of interests and opportunities has happened. There are enormous opportunities for industrialised countries in trading with the developing world and transition countries. The Russian Federation, China, India, and Brazil represent huge markets. And, if present estimates of future growth are to be believed, the dynamism of the world economy will increasingly be provided by the fast developing countries of Asia and Latin America.

At the same time, for developing and transition countries, trade represents great opportunities for much needed private capital flows particularly in the form of FDI and associated access to new markets, know-how, managerial skills and technology. The increased integration of these countries into the global economy will help improve living standards, reduce poverty and

²⁰ In terms of labour, the winners are those skilled workers whose skills are internationally mobile. And the losers are those unskilled workers, whose skills cannot be transferred easily to other countries.

disease, risks of population explosion and attendant risks of large-scale migration and significant damage to the global environment.

Developing countries, therefore, urgently need to facilitate transfer and absorption of new technologies and relevant know-how; build-up significantly modern physical infrastructure and their human capital base; and create a strong entrepreneurial climate for private sector development. It is imperative that developed countries resist protectionist tendencies, improve the flexibility of their labour markets and realise especially that ODA has an important role to play in helping developing countries participate in the global economy. Clearly aid needs to be better targeted--especially towards poverty alleviation--but this does not undermine the still crucial need for aid for poor countries.

There is no doubt that in this period of dramatic change there are justifiable fears to be addressed. We should not ignore these fears; rather, we should identify them and urgently develop measures to combat them and in that way ensure that globalisation is a force for good and for the benefit of all of us. In this connection a renewed commitment from the donor community--particularly to the poorer African countries and LDCs many of whom are suffering from donor fatigue--is required. There is also a need for a comprehensive development framework and a common understanding of global development to address the risks of globalisation. This framework, understanding and commitment to a more sustainable and equitable pattern of development is essential to the stability and the viability of the new world order established in the 1990s. The United Nations System in general and UNIDO in particular are important elements of this framework and understanding.

The major challenge of globalisation in the 1990s, therefore, is to ensure that globalisation is made compatible with social and political stability and, in particular, that social cohesion is not seriously compromised, as the winners in the process distance themselves from the losers. It is a challenge, first and foremost, of how to maintain and expand the global economy and at the same time integrate new actors--such as the countries in transition, African countries and LDCs--while also increasing or at least maintaining living standards and employment levels in the industrialised countries to prevent a backlash and a return to protectionist policies. It is a challenge in the developed countries of ensuring that the pressing problems of unskilled and low-wage workers are addressed by adequate training, broader human resource development, incentives for flexibility in working time arrangements and mobility; temporary entry-wages, particularly for youth and the long-term unemployed; and, most importantly, the provision of a safety net for those left unemployed

and retraining opportunities; part-time work and local employment initiatives to foster new jobs and greater labour market participation. The central task of the developed countries, rather than to guard themselves against low wage competition by protectionist measures, should be to raise productivity ahead of wage levels to retain their competitiveness.

The challenge for an international organisation such as UNIDO is to identify obstacles to gainful participation in the global economy and in co-operation with other international development partners and the private sector to assist in the development of appropriate policies and other supporting measures. In this way UNIDO can help spread the geographical and sector focus of FDI flows, reduce income inequalities and promote more sustainable global development.