OPTIONS FOR DEVELOPING COUNTRIES IN A GLOBALISED ECONOMY

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PART A: INTRODUCTION AND ASPECTS OF ECONOMIC GLOBALISATION

I: INTRODUCTION

As the 20th century draws to a close, it is economic globalisation that is the driving force that has great influence over almost all nations.

Its effects are most severely felt in the developing countries, for most of them are too small or weak to be active proponents, and they are therefore passive recipients of globalisation.

Much of the gains in economic sovereignty that these countries made after their political Independence have been lost again as they are pressurised to "integrate" with the world market. As boundaries melt and barriers fall, the local economies (including the small local firms and farms) are made to compete with a deluge of imported products and with large foreign corporations that want to invest in their countries.

For the few developing countries that have successfully found a niche in the pattern of globalisation, the 21st century may appear challenging. However, even some stalwart Asian developing countries in this category have recently fallen foul of the global financial markets and are now in deep crisis.

For the majority of developing countries, the waves of economic globalisation have left them in a condition of marginalisation, with few benefits and many costs. The prospects in the new century appear uncertain, frightening, even bleak, especially to many of the least developed countries.

What then are the options of the developing countries in the coming century, in which the trend of economic globalisation will continue to be dominant, at least in the early part of the century?

This essay contains two parts. Part A will consider the main aspects and trends of economic globalisation. Part B will give an outline of the measures and reforms needed to enable developing countries to have viable policy options for survival and appropriate development in the future.

II: THE GLOBALISATION AND LIBERALISATION OF FINANCE, TRADE AND INVESTMENT

Economic globalisation is not a new process, for in the past five centuries firms in the central 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 globalisation has accelerated as a result of various factors, especially the policies of liberalisation that have swept across the world. The present globalisation process is thus inextricably linked to liberalisation policies and practices; and in turn it also intensifies liberalisation.

The most important aspects of economic globalisation are the breaking down of national economic barriers; the international spread of production, especially in the manufacturing sector; and the growing power of transnational corporations. As economic globalisation is a very uneven process, the main activities are focused on a few countries, whilst a majority of countries, especially the least developed countries, are marginalised.

Whilst most countries and the majority of the world's people lose out as a result of this globalisation process, the profits and benefits accrue to the owners and managers of the main institutions involved -- the transnational companies, the international banks, the other financial institutions such as hedge funds and mutual funds. Even as the fierce competition arising from globalisation results in the laying off of many millions of employees, the incomes of top corporate executives have been jumping to astronomical levels.

The external liberalisation 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 liberalisation (finance, trade and investment), the process of financial liberalisation has been the most pronounced. There has been progressive and extensive liberalistion of controls on financial flows and markets. This has been a relatively recent phenomenon. After World War Two, the Bretton Woods system was set up in which exchange rates were fixed, and thus there was no scope for speculation in currencies. Under this system, the United States dollar was the international standard, and the US administration agreed with other governments to exchange the dollar with gold (from its gold reserves). However as the US built up trade deficits and lost significant gold reserves, it was no longer willing to continue this system. With the demise of the Bretton Woods system in 1972-3, the international system of fixed exchange rates also ended and was replaced with a system of floating exchange rates. As a result, an international trade in foreign exchange 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 exceeds $1,000 billion. Much of this transaction is speculative in nature, as it is estimated that only a small portion (less than 2 percent) of the foreign exchange traded is used for facilitating trade.

Due to the interconnectedness of financial markets and systems and the vast amounts of financial flows, there is a general and increasing concern about the fragility and vulnerability of the system, and the risk of breakdown in some critical parts or in the general system itself. Due to the extent of globalisation, a fault developing in one part of the world or in the system can have widespread repercussions.

The concerns about a possible global financial crisis have been heightened by the East Asian financial crisis that began in the second half of 1997. (The Asian crisis is discussed in Section VI below).

Trade liberalisation has also gradually increased, but not at such a spectacular pace as in finance. World exports rose from $61 billion in 1950 to $315 billion in 1970 and $3,447 billion in 1990. The share of world exports in world GDP rose from about 6% in 1950 to 12% in 1973 and 16% in 1992 (Nayyar 1995). The increased role of trade has been accompanied by the reduction in tariff barriers in both developed and developing countries, due partly to autonomous policies and partly to the series of multilateral trade Rounds under GATT. Trade liberalisation is expected to accelerate under the World Trade Organisation.

There has also been a steady growth in liberalisation of foreign direct investment (FDI), although again on a smaller scale than in international financial flows. Much of FDI and its increase are due to flows among the advanced countries. However, since the early 1990s, FDI flows to developing countries have risen relatively, averaging 32% in 1991-95 compared with 17% in 1981-90. This coincides with the recent liberalisation of foreign investment policies in most developing countries. However, much of this FDI is centered in only a few developing countries. LDCs in particular are receiving only very small FDI flows, despite having liberalised their policies. Thus, FDI is insignificant as a source of external finance to most developing countries, and is likely to remain so in the next several years.

A major feature of globalisation is the growing concentration and monopolisation of economic resources and power by transnational corporations. This process has been termed "transnationalisation", in which fewer and fewer transnational corporations are gaining a large and rapidly increasing proportion of world economic resources, production and market shares.

In the half century since the end of the Second World War, the process of global economic domination by transnational corporations has accelerated. Where a multinational company used to dominate the market of a single product, a big transnational company now typically produces or trades in an increasing multitude of products, services and sectors. Through mergers and acquisitions, fewer and fewer of these TNCs now control a larger and larger share of the global market, whether in commodities, manufactures or services.

The top 200 global corporations accounted for $3,046 billion of sales in 1982, equivalent to 24% of world GDP ($12,600 billion) that year. By 1992, their sales had reached $5,862 billion, and their equivalent value to world GDP ($21,900 billion) had risen to 26.8%. (Clairmont 1996, p39).

In the past few years, the transnational corporations are becoming even more gigantic and oligopolistic as a result of a wave of record-sized mergers. Recent examples include the merger between Travellers and Citicorp (in a deal costing $72.6 billion), creating a global financial supermarket; the merger between SBC Communications and Ameritech (costing $72.4 billion), creating America's biggest local phone company; the merger between AT&T and TCI for $48 billion; the merger between Daimler Benz and Chrysler for $39.5 billion (being the biggest ever cross-border auto deal and creating an auto giant); and the merger between Worldcom and MCI Comm. for $37 billion (creating a giant communications company). This trend of mega-mergers has led to the even greater control of market shares by fewer and fewer corporations.

III: THE GLOBALISATION OF NATIONAL POLICY MAKING

Perhaps the most important and unique feature of the current globalisation process is the "globalisation" of national policies and policy-making mechanism. National policies (including in economic, social, cultural and technological areas) that until recently were under the control of states and people within a country have increasingly come under the influence of international agencies and processes or by big private corporations and economic/financial players. This has led to the erosion of "national sovereignty" and narrowed the ability of governments and people to make choices from options in economic, social and cultural policies.

Most developing countries have seen their independent policy- making capacity eroded, and have to adopt policies made by other entities, which may on balance be detrimental to the countries concerned. The developed countries, where the major economic players reside, and which also control the processes and policies of international economic agencies, are better able to maintain control over their own national policies as well as determine the policies and practices of international institutions and the global system. However, it is also true that the large corporations have taken over a large part of decision-making even in the developed countries, at the expense of the power of the state or political and social leaders.

Part of the erosion of national policy-making capacity is due to the liberalisation of markets and developments in technology. For example, the free flow of capital, the large sums involved, and the unchecked power of big players and speculators, have made it difficult for countries to control the level of their currency and the flows of money in and out of the country. Transnational companies and financial institutions control such huge resources, more than what many (or most) governments are able to marshall, and thus are able to have great policy influence in many countries. Certain technological developments make it difficult or virtually impossible to formulate policy. For example, the establishment of satellite TV and the availability of small receivers, and the spread of electronic mail (especially the Internet) make it difficult for governments to determine cultural or communications policy, or to control the spread of information and cultural products.

However, an even more important aspect is the recent process by which global institutions have become major makers of an increasingly wide range of policies that are traditionally under the jurisdiction of national governments. These governments now have to implement policies that are in line with decisions and rules of these international institutions. The key institutions concerned are the Bretton Woods institutions (the World Bank and the IMF) and the World Trade Organisation.

There are also other influential international organisations, in particular the United Nations, its agencies and its Conventions and World Conferences. However, in recent years, the UN has lost a lot of its policy and operational influence in economic and social matters, and correspondingly the powers and authority of the World Bank, IMF and GATT/WTO have expanded.

The Bretton Woods institutions wield tremendous authority in a majority of developing countries (and countries in transition) that depend on their loans. In particular, countries requiring debt rescheduling have to adopt structural adjustment policies (SAPS) that are mainly drawn up in the Washington institutions. SAPS cover macroeconomic policies and recently they also cover social policies such as health services. They have been responsible for the move towards liberalisation, privatisation, deregulation and a withdrawal of the state from economic and social activities. Structural adjustment has thus been the major mechanism for the global dissemination of the neo-liberal macroeconomic policy packages that are being pushed by influential parties in many Northern countries.

Meanwhile the system of "free trade" has also been expanding, with the General Agreement on Tariffs and Trade (GATT) promoting trade liberalisation, at least in sectors that were beneficial to the North. In 1986 to 1993, the Uruguay Round negotiations took place under the auspices of GATT, with very significant results in greatly expanding the powers of the GATT system. Whilst GATT had dealt mainly with the trade in manufactured goods, the Uruguay Round extended the GATT liberalisation principles to the services and agriculture sectors. Moreover, the Uruguay Round also introduced international rules in new areas such as investment measures and intellectual property rights. And finally, the Uruguay Round also established a new World Trade Organisation (WTO) to replace GATT. The WTO is responsible for administering and enforcing the many Agreements resulting from the Uruguay Round. The WTO Agreements and rules are legally-binding on all member states. Non-compliance of rules by a member state can result in its being brought before a panel, and a negative decision will have to be met with compliance. Failure of a country to comply to a panel decision can lead to trade penalties and sanctions by other WTO members. It is the legally-binding nature of rules in the WTO and the strong enforcement capability (through its dispute settlement system) that makes the WTO so powerful.

According to several recent analyses, the Uruguay Round has been an unequal treaty, and the WTO Agreements and system (including the decision-making system) are weighted against the interests of the South. The developing countries will have to open up their markets more and more, and in a wider range of sectors. This will facilitate the entry of the products and services of the big transnational corporations, which will take over a greater share of the markets of developing countries, since their local enterprises are generally too weak to be able to compete with the multinational companies.

The existing agreements now require domestic legislation and policies of member states to be altered and brought into line with them. Thus, national governments have to comply with the disciplines and obligations in the already wide range of issues under WTO purview. Many domestic economic policies of developing countries are thus being made in the WTO negotiations, rather than in Parliament, bureaucracy or Cabinet at national level.

There are now attempts by Northern governments to further expand the jurisdiction of the WTO to yet more areas, including rights to be granted to foreign investors, competition policy, government procurement practices, labour standards and environmental issues. The greater the range of issues to be taken up by the WTO, the more will the space for national policy-making (and development options) in developing countries be whittled away.

Another major development is the negotiations for a multilateral agreement on investments (MAI) taking place at the OECD. The MAI would require signatory states to remove barriers to the entry and operations of foreign companies in almost all sectors, allow them to own 100 percent equity, and to treat foreign investors at least as well as local investors and companies. There would also be no controls over the inflow and outflow of funds, and requirements for technology transfer or other social goals would be prohibited. Once the OECD member states have established the MAI, developing countries will also be invited to join. The MAI, if it is finally concluded, would be another major instrument in getting developing countries to open up their economies, and in moving towards a globalised economy where the powers of states are drastically reduced and in which transnational corporations can invest and operate without barriers, obligations or responsibilities.

However, whilst the World Bank, IMF, WTO and the OECD are the most powerful, the United Nations and its agencies also form an alternative set of global institutions. The past five years have seen several UN World Conferences on environment (1992), population, social development (1995), women (1995), habitat (1996), genetic resources (1996) and food (1996). The UN also has legally-binding Conventions. The UN agencies, Conferences and Conventions, which are much more transparent and democratic, also influence the content of globalisation and as well as national policies, at least potentially.

The UN approach in economic and social issues is different from that of the WTO and Bretton Woods institutions. The latter promote the empowerment of the market, a minimal role for the state, and rapid liberalisation. Most UN agencies on the other hand operate under the belief that public intervention (internationally and nationally) is necessary to enable basic needs and human rights to be fulfilled and that the market alone cannot do the job and in many cases hinders the job being done.

A major problem is that the Bretton Woods-WTO institutions have become much more powerful than the UN, whose authority and influence in the social and economic areas have been depleted in recent years. As a result, the type of globalisation promoted by the Bretton Woods and WTO, which is based on privatisation, liberalisation, "free market forces" and non-intervention by states, is becoming triumphant. The type of globalisation promoted by the UN, which is premised on basic and human needs and the responsibility of the state and the international community to intervene on behalf of poorer nations and people, is being sidelined.

The pre-eminence of the Bretton Woods institutions and the WTO and the sidelining of the UN is a reflection of the nature of the globalisation process. The former institutions promote the principles of liberalisation, the laissez-faire market model and give high priority to commercial interests, and thus they are given the role to lead the globalisation of policy-making. The UN and its agencies represent the principles of partnership, where the richer countries are expected to contribute to the development of the poorer countries and where the rights of people to development and fulfillment of social needs are highlighted. The kind of globalisation represented by the UN is not favoured by the powerful nations today, and thus the UN's influence has been curtailed.

IV: THE UNEVEN AND UNEQUAL NATURE OF GLOBALISATION

"Globalisation" is a very uneven process, with unequal distribution of benefits and losses. This imbalance leads to polarisation between the few countries and groups that gain, and the many countries and groups in society that lose out or are marginalised. Globalisation, polarisation, wealth concentration and marginalisation are therefore linked in a single process.

In this process, investment resources, growth and modern technology are focused on a few countries (mainly in North America, Europe, Japan and East Asian NICs). A majority of developing countries are excluded from the process, or are participating in it in marginal ways that are often detrimental to their interests.

The globalisation process is thus affecting different categories of countries differently. This process can broadly be categorised as follows: growth and expansion in the few leading or fully participating countries; moderate and fluctuating growth in some countries attempting to fit into the globalisation/liberalisation framework; marginalisation and exclusion experienced by many countries unable to get out of acute problems such as low commodity prices and debt, and unable to cope with problems of liberalisation;

The uneven and unequal nature of the present globalisation is manifested in the fast growing gap between the world's rich and poor people and between developed and developing countries; and by the large differences among nations in the distribution of gains and losses in economic growth.

The UNDP Human Development Report 1992 highlighted the high and growing income inequality in the world. It estimated that the 20% of the world's population in the developed countries receive 82.7% of total world income, whilst the 20% of people in the poorest countries receive only 1.4%. In 1989, the average income of the 20% of people living in the richest countries was 60 times higher than that of the 20% living in the poorest countries. This ratio had doubled from 30 times in 1950.

The UNDP's Human Development Report 1996 showed that over the past three decades, only 15 countries have enjoyed high growth whilst 89 countries are worse off economically than they were ten or more years ago. In 70 developing countries, the present income levels were less than in the 1960s and 1970s. "Economic gains have benefitted greatly a few countries, at the expense of many," said the Report.

Since 1980, 15 countries (mainly Asian) have had growth rates much higher than any seen during industrialisation in the West. However, economic decline for most parts of the developing world has lasted far longer and gone deeper than during the Great Depression of the 1930s. Whilst the rich countries mostly rebounded from the depression within four to five years, the lost decade of the 1980s is still continuing for hundreds of millions of people in many countries of Asia, Africa and Latin America. In some cases people are poorer than 30 years ago, with little hope of rapid improvement.

Nayyar (1995) examines the same phenomenon of "uneven development", showing how globalisation mainly benefits the developed world, whilst in the developing world, the benefits of accrue only to a few developing countries. There are only eleven developing countries which are an integral part of globalisation in the late 20th century. They accounted for 66% of total exports from developing countries in 1992 (up from 30% in the period 1970-80); 66% of annual FDI inflows to developing countries in 1981-91; and most of portfolio investment flows to the developing world.

V: SOME SOCIAL AND ECOLOGICAL COSTS OF GLOBALISATION

The globalisation process has increased the marginalisation of many local communities in developing countries. The communities and groups that are likely to be adversely affected by globalisation and regionalisation are the following:

** Local communities in rural and urban areas that are asked to make way for development projects as economic growth and modernisation continue their sweep across the region. These include farmers and indigenous people making way for large dams, mining projects, logging of forests conversion of land to plantations; and urban settlers and "squatters" who have to make way for urban projects such as highways, golf courses and hotels, office buildings and housing estates.

** Small farmers who may find that as a result of agricultural liberalisation they would have to reduce the prices of their products (thus having their net incomes reduced), and for some of them they may have to close their farms, being uncompetitive.

** Government and public employees (including of public enterprises) that face retrenchment from their jobs as a result of privatisation.

** Larger numbers of unemployed people as the process of liberalisation and contraction of the public sector may not be offset by an increase in private sector jobs, at least in some countries.

** Lower-income and poor consumers who no longer may be able to receive the same level of subsidised health care, water supply, housing or welfare services as governments reduce or eliminate social spending, or change their financing system towards the cost- recovery and the-user-must-pay approach.

** Because of the poverty and unemployment situation, many children are forced to work, often in conditions of misery; whilst many women are pressurised into prostitution. They are the victims of lack of economic and social opportunities resulting from the inequities of the system.

Due to the processes of development as well as under- development, the environment has rapidly deteriorated. The effects are on resource degradation and depletion and increased pollution and release of toxic substances, with adverse effects on both environment and human safety and health.

According to the UNEP publication, "Global Environment Outlook", published in April 1997, the following major problems exist in the Asian region alone:

** Land: 850 million hectares of soil is degraded is in Asia and the Pacific, accounting for 24% of the region's land.

** Forests: Due to industrialisation, agricultural expansion and forestry product trade, deforestation remains one of the major environmental issues in Asia. Deforestation in the Asia-Pacific region increased from 2 million hectares per year during 1976-81 to 3.9 million hectares per year in 1981-90. During 1981-90, tropical forest area decreased by 6.7% and natural tropical forest area decreased by 11.1%, the highest rate observed for this type of forest as compared with other regions.

** Water: Increasing water scarcity is likely to be the scenario for many countries in Asia. Fresh-water availability of below 1,000 cubic meters per capita per year indicates water scarcity. Singapore is already water-scarce, while Iran and India are heading in that direction. India is among the countries projected to fall into the water-stress category before 2025, whilst China is expected to only narrowly miss the water-stress benchmark by 2025. The demands for domestic and industrial uses are increasing due to high rates of urbanisation and industrialisation and also parallel to population growth.

** Atmosphere: An important implication of economic growth in Asia is the rapid 3.6% per annum growth of energy demand for the whole region in 1990-92. Urban air pollution is serious in many major cities in the region, whilst health threats also arise from indoor pollution. Acid rain has also emerged as a significant problem.

** Biodiversity: The flora and fauna of the region are threatened now more than ever before. The drive for increased agricultural production has resulted in the loss of genetic diversity. By 2005, India is expected to produce 75% of its rice with just 10 varieties compared with the 30,000 varieties traditionally cultivated. In Indonesia, 1,500 varieties of rice disappeared during 1975-90. Marine biodiversity is also being lost due to coastal habitat loss and degradation.

** Urban and Industrial Environments: The environmental stress generated by urbanisation in the region is related to poverty as well as economic growth and affluence. The rise of cities has been accompanied by a proliferation of slums and squatter settlements without access to basic infrastructure, clean water and sanitation, with associated health risks. The lack of basic infrastructure also results in local environmental degradation. Meanwhile, urban environmental problems resulting from growth and affluence include congestion, increasing air and water pollution, loss of productive agricultural land, loss of coastal habitats to conversion and land reclamation, overextraction of ground-water resources resulting in land subsidence, and deforestation as a consequence of increased demand for construction timber.

PART B: DANGERS AND OPTIONS IN A GLOBALISED ECONOMY

VI: OPPORTUNITIES AND PROBLEMS RESULTING FROM LIBERALISATION AND GLOBALISATION

Among the biggest dilemmas for developing countries is whether they should open themselves up to the globalisation process (in the hope of obtaining some of the benefits), or to take a more cautious approach to avoid risks (which would attract criticisms from the mainstream institutions that are sure to lecture the countries concerned that they would be left behind).

The challenge is whether developing countries can take advantage of the liberalisation process, which to a large extent is being pushed on them externally, whilst at the same time avoiding or minimising the disruptive consequences on their societies and economies. The ability to manage liberalisation and globalisation will be a crucial aspect of national policy making in the years ahead. At this point the danger is that most developing countries, under great pressure from agencies such as the WTO, the IMF and the World Bank, will go along with the trend and institute more as well as rapid liberalisation policies, without a clear idea of the conditions needed to successfully take the associated risks.

Instead of rapid liberalisation, a selective approach to liberalisation is more appropriate. The aim of this would be to strike a careful balance between opening the domestic market (to benefit consumers) and protecting it to take into account especially the interests of small producers.

A few developing countries, mainly in East Asia, have taken advantage of the opportunities of an expanding global market to increase their maunfacturing exports and through that route to expand their GDP growth. A policy of integrating in the world market by exploiting (or rather, by creating) advantages can give a boost to economic growth. However, these "successfully integrating" countries have enjoyed a combination of factors and conditions which many other developing countries are unable (or have been unable) to attain. Chief among these conditions is the absence of an external debt crisis and the "freedom" from having to follow externally-designed structural adjustment policies. This enabled the countries to follow their own macroeconomic policies and development strategy, which involved strong state intervention and role in the economy, and policies that combined protection and positive promotion of the domestic sector with a phasing in of liberalisation in a strategic sequencing. In the absence of appropriate conditions, many or most developing countries have been unable to reap the benefits of globalisation, and instead may experience negative consequences from it.

However, from the second half of 1997, many of the high-growth East Asian countries fell into a serious financial crisis, which now has also affected their "real economy." The main reason for this crisis is the rapid liberalisation of their financial system before the countries had made the necessary preparations. Large inflows of short-term funds in the form of loans and portfolio investment entered the countries. As a large proportion of these foreign funds were channelled into non-export earning activities such as construction, property development and share speculation, the East Asian countries suddenly faced a shortage of foreign exchange caused by speculative currency attacks and a rapid withdrawal of foreign funds from the stock exchanges. South Korea, Thailand and Indonesia are now faced with mountains of external debt and have come under the IMF's structural adjustment policies. Even as some of the East Asian economies had shown that they could benefit from trade liberalisation, they also showed that rapid and inappropriate financial liberalisation can greatly increase risks of financial volatility and crisis, and can damage or destroy future economic prospects.

A useful summary of the opportunities and challenges of globalisation has been given by UNCTAD (1996) in its Secretary General's report to the Ninth UNCTAD Conference. The main opportunities it lists are:

* Trading opportunities arising from the Uruguay Round. Developing countries can take advantage of: tariff cuts in both industrial and developing countries; the phasing out of the Multifibre Agreement; and increased opportunities in agriculture and services.

* Opportunities related to international capital flows and financing of development. Since the beginning of the 1990s, private external financing has increased to developing countries, but mainly restricted to countries that avoided a debt crisis (mainly in Asia) and to some Latin American countries. The financing is in the form of loans, external bond issues, international equity issues and portfolio investment. UNCTAD warned of risks involved as well, and noted that the majority of developing countries did not enjoy these facilities.

* Opportunities provided by international production through foreign direct investment. It was argued that the TNCs bring a package of capital, technology and management skills that can spur development and expand markets.

* There are increased opportunities for economic cooperation among developing countries (ECDC) to boost South-South cooperation.

The UNCTAD report also warns of the risks, stating that "the processes of globalisation and liberalisation can also give rise to a number of potential negative consequences and challenges to development." It gives details of the following three problems:

* Loss of policy autonomy. Policy instruments available to developing countries have narrowed as a result of economic liberalisation policies and stringent multilateral disciplines. Specifically, the Uruguay Round Agreements limit the range of policy options: for example, developing countries may not be able to emulate industrial policies previously followed by successful East Asian countries. Loss of policy autonomy also arises from increased financial openness and dismantling of barriers to capital flows, which reduces the ability of national governments to use macroeconomic policy instruments to influence output, employment and inflation. It is no longer possible to delink national interest rates from those abroad without

suffering large capital outflows. It is difficult also to pursue expansionary macroeconomic policies regardless of the pace of demand abroad as this would cause deterioration in the payments position.

* Financial openness and the risk of instability and disruption to development. As many Asian and Latin American countries are integrated into the global financial markets, they have experienced volatility of capital flows due to abrupt shifts in sentiments of external investors. Large surges in inflows of portfolio capital also pose problems for macroeconomic management (such as loss of influence over interest rates and exchange rates). Also, when external deficits can no longer be sustained, a sharp currency depreciation is often inevitable, causing inflation and necessitating deflation to reduce imports. Thus the reversal of a surge in capital inflows can damage the real economy and financial standing of the country.

* The phenomenon of marginalisation. Some developing countries, especially LDCs, are unable to benefit from or meaningfully participate in globalisation. This marginalisation arises from: structural weaknesses at the supply side that are a barrier to growth of traditional primary products and non-traditional products and to efficient import-substitute production; heavy dependence on commodities and the in production and exports; decline in commodity prices over the past several decades adversely affecting growth, economic stability and creditworthines; difficulties of LDCs and weak economies in attracting FDI; decline in official development assistance; and Continued difficulties with external debt. The debt crisis persists in many countries and meeting their debt obligations incurs heavy economic and social costs.

Although the UNCTAD report provides a useful summary of some important implications of globalisation, they are by no means exhaustive. The summary does however point to the immense difficulties that face many (and perhaps most) developing countries in trying to survive or thrive in a globalised economy. The least developed countries have too many problems such as debt and low commodity prices, and too weak an infrastructure and capacity to develop industrial exports. At the same time they face the threats of local firms and farms being overrun by foreign products and companies as their countries liberalise. Even the stronger developing countries find great difficulties in being able to manage and balance the costs and benefits of globalisation, as the recent financial crisis in East Asian countries show.

Moreover, the grave risks of financial deregulation and liberalisation not only to developing countries but to the global economy and to the whole market system can be seen in the development of the global economic crisis. It started with the devaluation of the Thai baht in mid-1997, spread to other Southeast Asian countries, then to South Korea, Hongkong and Japan, and then onwards to other countries including Russia, South Africa and the Latin American region. The rich countries of Europe and North America are also affected by the instability and volatility. The crisis shows the dangers of states giving up their regulatory powers to the financial markets, and the harm that big financial players such as hedge funds can cause as their actions are aimed at making the most profits, making use of instruments and methods they have fashioned, after they have been given the freedom to do so.

VII: NEED FOR APPROPRIATE AND DEMOCRATIC GLOBAL GOVERNANCE

In order for developing countries to avoid bleak prospects in the 21st century, they must be given the space and opportunity to strengthen their economies and to develop their social infrastructure, whilst having environmentally sound practices.

For this to happen, there has to be a much more favourable international environment, starting with the democratisation of international relations and institutions, so that the South can have an active role in decision-making. The role of the United Nations should be strengthened whilst the IMF, World Bank and WTO should be made more accountable to the public and to the poor. There should also be international economic and financial reforms (including better commodity prices, and more debt relief) to reduce the widening gap between rich and poor countries. Most importantly, reforms have to be made to structural adjustment policies and to the WTO rules so that adequate space and possibilities are given to developing countries to have macroeconomic and development options between alternative national policies.

The first and most important element in providing meaningful options for developing countries is greater democratisation of the international order, to give the South greater participation in decision-making and benefits in world development.

Southern NGOs have spent a lot of energy in broadening the democratic spaces in our own national societies, in removing the barriers to people's participation, in helping social movements regain their right to land and other resources, to promote their right to good health and adequate nutrition, to safety, housing and a sustainable environment. All these things are needed for both social justice and a sound environment and development policy.

At the same time the fight for democracy also has to be extended to the international arena, where the lack of democracy is so obvious. International democracy is needed just as much as national democracy.

There must thus be a review of the behaviour or performance of the major economic actors, including the transnational corporations, the international banks, the World Bank, IMF and the WTO. These institutions, which make decisions that so much affect the developing countries, should be made much more accountable to the public. The decision-making processes in these institutions must be opened up for public participation and scrutiny.

Not only Southern governments but also local communities must have the opportunity to participate in the design of programmes, the monitoring of effects and so on. The public has the right because the public suffers the consequences if something goes wrong. The regulation and control of these institutions from the environmental, safety, social and economic aspects must be a pre-requisite for reforms in the global economic order.

VIII: REBUILDING THE ROLE OF THE UN

As it is the most universal and democratic international forum, the United Nations and its agencies should be given the opportunity and resources to maintain their identity, have their approach and development focus reaffirmed, and strengthen their programmes and activities. The strong trend of removing the resources and authority of the UN in global economic and social issues, in favour of the Bretton Woods institutions and the WTO, should be reversed.

In particular, those Northern countries that have downgraded their commitment to the UN should reverse this attitude and instead affirm its indispensable and valuable role in advocating the social and developmental dimension in the process of rapid global change. The world, and especially the developing countries, require that this dimension be kept alive and indeed strengthened greatly, otherwise there is a danger that a monolithic laissez-faire approach will rule in monopolistic fashion.

Only a great strengthening of the UN will allow it to play its compensatory role more significantly and effectively. But of course a complementary "safety net" function is the minimum that should be set for the UN. For the South and indeed the international community to make progress towards redressing the basic inequities in the international system, the UN must be able to make the leap: from merely offsetting the social fallout of unequal structures and liberalisation, to fighting against the basic causes of poverty, inequities, social tensions and unsustainable development. The more this is done, the more options and chances are there for developing countries in future.

It is vital that the UN continues to promote developing countries' rights and interests, an equitable world order and the realisation of human and development rights as its central economic and social goals. There is a danger that some UN agencies (and the Secretariat itself) may be influenced by conservative political forces to join in the laissez-faire approach or merely be content to play a second-fiddle role of taking care of the adverse social effects of laissez-faire policies promoted by other agencies. The UN should therefore keep true to its mission of promoting appropriate development and justice for the world's people, and to always advocate for policies and programmes that promote this mission, otherwise it would lose its credibility and its reason for existence.

IX: GREATER POLICY COORDINATION AMONG DEVELOPING COUNTRIES

In order to widen its policy options in the future and to strengthen their bargaining power, developing countries should organise themselves to fight for a more democratic global system.

Countries of the South, at many different fora, have collectively reaffirmed their view that the social and economic role of the UN and its agencies is even more necessary in view of globalisation. At a meeting of the Trade and Development Board in September 1995, Colombia's ambassador Guillermo Alberto Gonzalez, speaking on behalf of the Group of 77 and China, said that UNCTAD should remain a counter-balancing force to ensure bold and innovative plurality of thinking, when such thinking is in danger of being increasingly dominated by the Bretton Woods institutions.

Whilst countries of South have spoken up, they have to do even more to assert their belief in the UN's role and to intensify the fight to reverse its decline. They should also strengthen South-South cooperation, with the support of UN agencies such as the UNDP and UNCTAD, as well as through their own mechanisms and organisations. This cooperation should include an increase in trade, investment and communications links at bilateral level and between regions, as well as joint projects involving several South countries.

Equally or even more urgently required is South-South cooperation in the area of policy coordination in reaching common positions. This is especially because policies that used to be taken at the national level as the prerogative of national governments are increasingly being made at fora, institutions and negotiations at the international and regional level. Without a more effective collective voice at such international fora, Southern countries will find even more that their national policies on economic, social and cultural matters being made and dominated over by the more powerful Northern governments and the institutions they control.

X: THE NEED FOR INTERNATIONAL ECONOMIC REFORMS

In order to widen the options for developing countries in the future, there has to be a drastic improvement in the international economic factors that have such great influence over their national economic outlook. The substance of the demands for a new international economic order should be seriously addressed instead of being ignored or treated as extremist. The present world economic system is very unbalanced, with a concentration of control in investment, production and trade by TNCs and other Northern institutions. The outflow of real and financial resources from South to North (up to US$300-400 billion a year) far exceeds the flow of aid from North to South ($50 billion annually). The transfer of resources from the South makes it extremely difficult, if not impossible, for Third World countries to adequately implement sustainable development policies, even if they wanted to. Thus, of major importance is the reversal of these South-to-North flows of resources.

A major area of reform is in the terms of trade between Northern and Southern exported products. The poor and deteriorating terms of trade for Third World commodity exports vis-a-vis Northern manufactured exports has been a major source of the lack of foreign exchange and income in the South. The continuous fall in their terms of trade has led to immense losses of real resources for developing countries. For example, according to United Nations data, in Sub-Saharan Africa, the terms of trade fell from l00 in l980 to 72 in l989. This 28% fall in terms of trade led to a loss of income of US$l6 billion in l989 alone, equivalent to 9.1% of the Sub-Sahara Africa's combined GDP. In the four years l986-89, Sub Sahara Africa suffered a total $55.9 billion of income losses due to terms-of-trade decline, equivalent to l5-l6 per cent of GDP in l987-89. For l5 middle-income highly indebted countries in the study (Argentina, Bolivia, Brazil, Chile, Colombia, Cote d'Ivoire, Ecuador, Mexico, Morocco, Nigeria, Peru, Philippines, Uruguay, Venezuela and Yugoslavia), the losses were also very high. Their combined terms of trade also fell by 28% from l00 in l980 to 72 in l989. This caused an income loss of $45 billion in l989 alone, amounting to 5.6% of their combined GDP. In l98l-89, the total income losses due to terms of trade decline were $247.3 billion.

The low prices of raw materials have also contributed to the high volume of extraction and production (to maintain export earnings); and thus become a big factor in natural resource depletion. To rectify the unfair economic trade terms as well as reduce resource depletion, the prices of raw materials could be significantly raised to reflect their real and ecological costs. Improving the terms of trade for the South is thus an important part of the movement to a fair and ecological world order.

There is thus a need to establish a new or more comprehensive international trading institution under UN and democratic principles whose objective would be the promotion of a more balanced North-South trade relationship, where the need for trade is tempered by the need of the South for stronger domestic economies simultaneously with a stronger position in world trade and economy. The role of UNCTAD in giving a more favourable balance to the South should be promoted in this regard, but also to undergo prior assessment in the light of sustainable development imperatives. For instance it is already outdated to promote the expansion of supply (or even demand for) of Third World raw materials, for this depletes natural resources.

The key issue in commodities (that combines environment and economic concerns) is how to reduce the volume of production and exports (to conserve resources) whilst raising prices to reflect their social and ecological values and thus enable the Third World exporting countries to retain their export earnings. The shortfall in volume can be made up by price increase: thus there would be North-South (or producer-consumer) cooperation in the sharing of the economic burden of adjusting to ecological principles. A reformed UNCTAD with more environmental expertise and more political teeth could play a role in combining economics and ecology in new trading arrangements.

Another essential economic issue is the huge external debt of the Third World. Servicing this debt is draining away substantial resources and has contributed to the economic crisis now plaguing many countries. The recent World Bank-led initiative for debt relief for highly-indebted developing countries is a move forward, but should be much improved. The recent financial crisis involving high external debts in East Asian countries again highlights the need for countries of the South to guard against falling into a debt trap. A fair resolution to the existing debt problem, that would not continue to squeeze Third World economies, is important to widening the options of developing countries for the future.

In the area of investment and technology, the South and the UN had in earlier decades tried to establish codes of conduct for TNCs and for the transfer of technology, but eventually these efforts were abandoned in the early 1990s. Instead the Northern countries are attempting to establish the Multilateral Agreement on Investment, explained above. The MAI would largely prevent the developing countries from having meaningful options for policy-making over strategic investment and development issues. Thus, developing countries should not join the MAI and the OECD countries should not pressurise them to join. Instead, the right of Third World countries to determine their own economic policies, and to have control over their natural resources, should be recognised in practice as well as in principle. This would include the right to determine the terms under which foreign companies can invest in a country, a right that is being challenged by the MAI.

XI: CHANGING ECONOMIC AND DEVELOPMENT MODELS TO BE ECOLOGICALLY SUSTAINABLE

In the ecological sphere, the series of negotiations initiated by UNCED is an opportunity for all countries to cooperate by creating a global framework conducive to the reduction of environment problems and the promotion of sustainable economic models. However, international discussions on the environment can only reach a satisfactory conclusion if they are conducted within an agreed equitable framework. The North, with its indisputable power, should not make the environmental issue a new instrument of domination over the South. It should be accepted by all that the North should carry the bulk of the burden and responsibility for adjustment towards more ecological forms of production. This is because most of the present global environmental problems are due mainly to the North, which also possesses the financial resources and the economic capacity to reduce their output and consumption levels.

In the 21st century, leaders and people alike must focus much more on changing economic policies and behaviour in order that the patterns of consumption and production can be changed to become environmentally sound. What needs to be discussed is not only the development model of the South but even much more the economic model of the North, and of course the international economic order. Key issues to resolve include:

** How to structurally change the Northern model of production, and consumption or lifestyles;

** How to promote ecologically sound and socially just development models in the South;

** How to structurally adjust the world economic institutions so as to promote fairer terms of trade and reverse the South-North flow of financial resources;

** How to come towards a fair distribution of the sharing of the burden of adjustment necessitated by ecological imperatives, as between countries and as within countries.

Whilst the international elements of a fair and sustainable global order are obviously crucial, there must also be substantial changes to the national order as a complement. In both North and South, the wide disparities in wealth and income within countries have to be narrowed. In a situation of improved equity, it would be more possible to plan and implement strategies of economic adjustment to ecological and social goals.

In the South, the policy option can be taken to adopt more equitable and ecological models of development. With more equitable distribution of resources such as land, and greater access to utilities and housing, the highest priorities of the economy should be shifted to the production of basic goods and services to meet the needs of the people. Investments (including government projects) should be channelled towards basic infrastructure and production, in contrast to the current bias for luxury projects and status symbols of progress. Social investment in primary health care, education, housing for people, public transport and popular cultural activities should also be emphasised, rather than the high-level luxury services that now absorb a large portion of national expenditure. In this social context, changes also have to be made to make the economy follow the principles of ecology. There should generally be a reduction in the extraction and production of primary commodities: this would reduce the problem of depletion of natural resources such as forests, energy and minerals.

The decline in output and export volume could be offset if commodity prices were to rise, thereby providing a fair value of export earnings. In agriculture, the ecological methods of soil conservation, seed and crop diversity, water harnessing and pest control, should replace the modern unecological methods. With a reduction in production of agricultural raw materials, more land can also be allocated for food crops. There should be as much conservation of primary forests as possible; and the destructive methods of trawler fishing should be rapidly phased out whilst fishery resources are rehabilitated and the environmentally-sound fishing methods of small fisherfolk are promoted. In industry and construction, ecologically-appropriate forms of production should be given priority. There should be strict limits on the use of toxic substances or hazardous technologies, a ban on toxic products and the minimisation of the volume of toxic waste and of pollution. Of course, to make this move towards a better global order possible, there must be people's participation, because the radical changes being called for can be realised only when there is popular will. It is crucial that information be provided to the people through the media and popular education methods, and that the people be given the freedom to make their views known to the policy makers and to others.

It should be stressed that the elements proposed here for a fair and sustainable global order have to be taken together, as a package. Social justice, equity, ecological sustainability and people's participation are all necessary conditions for this order, and the change must apply at both national and international level. Policies that promote equity alone would not necessarily result in a more environmentally-sound world. On the other hand, measures to solve the ecological crisis without being accompanied by a more equitable distribution of resources could lead to even greater inequity and injustice.

XII: REVIEWING STRUCTURAL ADJUSTMENT POLICIES

As pointed out earlier, the "globalisation" of a particular set of macroeconomic policies was achieved through the structural adjustment programmes (SAPS) which the World Bank and IMF designed and exported to more than 80 developing countries.

The SAPs led to widespread public discontent, including street riots and demonstrations, in many countries undergoing adjustment, and opposition by several people's organisations and NGOs in both the South and the North. Problems associated with SAPS were brought up at the World Summit for Social Development (Copenhagen, March 1995) and its preparatory meetings. During this process, the most important set of issues voiced by developing country governments and especially by a wide range of Southern and Northern NGOs was the negative economic and social effect of structural adjustment policies, the non-accountability of the Bretton Woods institutions and the need to resolve the South's debt crisis. They argued that debt and structural adjustment were the most important impediments to social development in developing countries.

The Social Summit was attended by 117 heads of state and government. They signed the Copenhagen Declaration, which in several parts recognised the weaknesses of structural adjustment programmes in neglecting social development concerns.

The Social Summit was the first high-level international Conference to explicitly acknowledge that SAPS had deficiencies in terms of their effect on social development, that needed correction. It was also highly significant that the political leaders of so many countries committed themselves to rectify some of the priorities of structural adjustment. There was a recognition that the "safety net" approach (in which SAPS would be designed according to free- market principles and the aid mechanism would be used to compensate for the social costs) alone would not work. Instead, social objectives would have to be built into the design of structural adjustment policies itself.

Especially in light of the new round of debt and structural adjustment problems arising from the Asian crisis, it is urgent that a process of reform or revamp be initiated on the IMF and World Bank, including on their processes of decision-making and on their inappropriate economic policies. Unless this is done, many developing countries that are still under structural adjustment programmes would find it very difficult (and more difficult as well) to maintain the right to make policy choices.

XIII: REFORMING THE WTO

Given the central role of the WTO and the manner in which developing countries' policy options are increasingly constrained by the WTO's rules, it is imperative that the developing countries strengthen their negotiating strength in this organisation and redress the existing imbalances. At the same time, they should resist the attempts by some major countries to introduce yet more new issues in the WTO that would probably have a negative effect on national policy options.

The WTO should be made more transparent and accountable to the larger international framework of cooperation and development. This is critical because the rapid developments in the WTO have such major ramifications for sustainable development and yet there is a lack of information and participation from the public, from many sections of national governments and Parliaments, and from other international institutions.

There is a need to assess the implications of existing WTO agreements and to address the assymetries and deficiencies that lead to unequal outcomes at the expense of developing countries. The WTO agreements have on the whole benefitted the stronger trading countries much more, and many weaker countries are likely to suffer net losses in many areas. The inequities should be redressed during the review of the agreements that is mandated to take place in the WTO in the next few years.

In particular, the WTO agriculture agreement has not taken into account the needs and interests of small farmers, especially the non-commercialised farmers in developing countries that form a large section of the population. The Agriculture Agreement should thus be reviewed and reformed to take into account its impact on situation of small farmers and in the context of food security and sustainable agriculture.

The TRIPS (trade-related intellectual property rights) Agreement, which was part of the Uruguay Round negotiations outcome, should also be reviewed. This agreement had been pushed by the industrial countries on behalf of the transnational companies. These companies wanted to ensure that they have a monopoly over their technologies so as to prevent competition from potential rivals in developing countries, and to earn monopoly profits through selling their products at higher prices. The TRIPS agreement is forcing developing countries to change their domestic laws on IPRs by "upgrading" of intellectual property rights regimes to standards similar to the US. This will prevent local firms in developing countries from making use of modern technology that has been patented by transnational companies (which own most of the world's patents), unless they are able to pay the heavy cost of royalties. The TRIPS agreement is thus hindering the transfer of technology, making it much more difficult for developing countries to upgrade their technology or to fulfil their environmental obligations.

The TRIPS agreement also opens the door to the eventual patenting of life. The patenting of "life forms" (including crops, medicinal plants, animals, microorganisms and even human beings and human parts) is opposed by many NGOs of the North and South on grounds of environment, development, equity and ethics. It is a major sustainable development issue, and has become an issue of public controversy and unease due to recent developments in genetic engineering, such as the cloning of animals, the sale of genetically-engineered foods and the safety and ecological effects of genetic engineering. Developing countries should be given clear options to exclude patentability of life forms. They should be supported to find alternatives to commercial patenting of crops, such as helping farmers and indigenous communities to develop a sui generis system of protecting their community intellectual rights and protect them (and the public) from corporate patenting (or "biopiracy") of indigenous knowledge in the use of biological materials.

On trade and the environment, there is on one hand the reality that trade liberalisation is expanding and spreading the existing unsustainable patterns of production and consumption, with adverse environmental effects. We must recognise the need to reform trade patterns as we do the need to change production and consumption patterns since "business as usual" is not working. On the other hand in the adjustment process, the principle of "common but differentiated responsibilities" must be adhered to, so that the burden is carried by the strong and rich and not shifted to the weak and poor. The equity principle must be central to all trade reform processes.

XIV: OPTIONS IN THE MULTILATERAL AGREEMENT ON INVESTMENTS (MAI)

The critical rapid developments in the formulation of a multilateral agreement on investment (MAI) in the OECD will also have a very major impact and could to a large degree offset or undermine sustainable development endeavours. The MAI would grant unprecedented rights of entry, freedom of operations and "national treatment" to foreign investors, whilst depriving governments (and people) of the right to regulate the entry and operations of foreign companies and investors. Foreign investors would have the right to invest in member countries of the MAI, and to bring in or take out funds as they like. Foreign firms would have to be treated as well or better than local firms. In the proposed MAI system, companies can take governments that do not follow the rules to an international court and if found guilty the government concerned would have to pay compensation to the company.

When and if the MAI is established by the OECD member states, developing countries will be invited to join in. Needless to say, joining such a pact would very much reduce the policy options for developing countries in terms of their investment and equity policies and would have serious adverse implications for their development prospects on a whole. The main danger is that the large foreign firms and financial institutions would have unprecedented freedom and rights to enter developing countries, and since any policies favouring domestic firms would be banned, the transnationals are likely to displace the local enterprises. As a result, the local economy of Third World countries face the risk of being taken over by foreign companies and investors.

Moreover, with governments no longer able to place conditions on the foreign companies, they would be able to increase the share of profits that they earn and to transfer these profits to their home countries. As a result, the host countries could face balance of payments difficulties.

Therefore developing countries should be very cautious when approached or pressured by the OECD countries to join the MAI, and they can exercise their discretion not to agree.

At present, the fate of the MAI in the OECD is uncertain. This is partly due to the increasingly effective campaigns being waged by many NGOs and social movements against the MAI in both the developed and developing countries. Many environmental groups and labour unions in the North have also joined the campaign. For example, in Canada, a campaign led by the Council of Canadians and other groups has raised public awareness about the threat of loss of economic sovereignty should the country sign on to the MAI. As a result the Canadian government has asked that it be allowed to exempt or limit the scope of applicability of several sectors or activities, should it join the MAI. Public campaigns against the MAI are growing stronger in many other OECD countries, including France, the United States, United Kingdom, Denmark, Norway, Holland and Germany.

Due to the public protests as well as disagreements among themselves, the OECD countries in April 1998 decided to suspend the negotiations for six months. Meanwhile, these governments are also strongly pushing for the start of negotiations on an investment treaty (similar to the OECD's MAI) in the WTO. Again, developing countries should exercise their right to reject such a move.

The anti-MAI campaigns have shown that civil society organisations can be effective in influencing global events. There is thus much scope as well as hope that NGOs and social movements can change the nature or even the direction of globalisation, provided they are well organised enough and that they can strengthen their own global networking.

XV: REVIEWING LIBERALISATION AND THE ROLES OF THE STATE AND MARKET

In considering their options in the globalised economy, developing countries have to seriously review the liberalisation experience and record and make important conclusions on the respective roles and mix of the state and the market.

There is a consensus that for development to succeed, there must be a "sound macroeconomic framework." There is by no means a consensus on what constitutes such a sound framework, how to attain it, and through which stages and sequencing.

The orthodox approach, favoured in structural adjustment, assumes that the state is a major hindrance to a sound economy and should relinquish as much of its economic and social roles as possible. The market should be made as freely operating as possible, and resources and economic space should be transferred to the commercial private sector and developing countries should liberalise externally through tariff cuts and elimination of import controls. The competition from imports is expected to increase the efficiency of local firms.

In reality, many countries undergoing the immediate, simultaneous, shock therapy of comprehensive liberalisation, have suffered from recession instead of growth. The vacuum created by the sudden and sharp withdrawal of the state leads to increased unemployment and reduction of domestic demand and thus deflation. Withdrawal of subsidies often leads to higher food prices and public discontent. Social expenditure cutbacks adversely affect health, education, welfare and rural services. The liberalisation of imports causes dislocation to local firms or farmers that were unable to compete. Liberalisation and globalisation are thus shown to be not the panacea but more like extra impediments.

The above scenario is admittedly stylised but many of these features have appeared in many of the countries. Several studies of the experience of poor countries undergoing liberalisation and globalisation have reported on various aspects of this experience.

A crucial choice for developing countries in a globalised economy is the appropriate balance to strike in the roles of the state and the market. A recent study, by two eminent Indian economists, Amit Bhaduri and Deepak Nayyar (1996), based on the experience of India, argue that, contrary to the laissez-faire structural adjustment model, both the market and the state have key roles. According to them: "It is now indisputable that an unbridled economic role for the government in the name of distributive justice is often a recipe for disaster in the long run...On the other hand, market solutions are often ruthless to the poor. Even more importantly, government failure does not imply that a reliance only on markets will succeed." The study concludes that there is no historical case of successful late industrialisation, whether in the 19th or 20th century, which did not depend on State support in the form of promotion or protection of domestic industry. "It is idle to pretend that the market on its own, with the help from multinational corporations seeking profit, can promote industrialisation of relatively backward countries such as India."

The study also warns that rapid trade liberalisation can cause de-industrialisation: if the local industrial sector fails to cope with the pace of import liberlisation, or the practice of dumping, trade liberalisation may enforce closures of domestic firms and reduce output and employment at the macro-level.

The study warns against fundamentalism in belief in either state or market. Whilst there are failures in state policies, there can also be serious market failures. What is important is to recognise both government and market failures and introduce correcting devices against both. The proper functioning of a market needs the support and guidance of the state, whilst conversely the State cannot do without the markets. Looking at the experience of the late industralisers, the authors note: "The belief that markets know best, or that State intervention is counterproductive in the process of industralisation, is not borne out by their history. Experience from the second half of the 20th century suggests that the guiding and supportive role of the State has been the very foundation of successful development in countries which are latecomers to industralisation."

The authors show that State intervention created initial conditions for industrialisation through state investment in infrastructure, development of human resources, and agrarian reform. In the early stages of industrialisation, a key role of the state was protection of infant industries through tariffs and other means. In the later stages of industralisation, the nature of State intervention in the market must change and become functional, institutional or strategic:

(a) Functional intervention seeks to correct market failures in so far as prices give the wrong signals. Situations requiring intervention include overnight speculative booms in the foreign exchange market, in real estate or the stock exchange that has no basis in the real economy.

(b) Institutional intervention seeks to govern the market. It sets the rules of the game for players in the market by creating regulatory frameworks and institutions to monitor the functioning of markets. For example: trade policy reform must ensure that import liberalisation is matched by anti-dumping rules; privatisation of public transport requires safety rules; industrial deregulation requires anti-trust laws.

(c) Strategic intervention seeks to guide the market, to attain broader long-term development objectives. Examples include:

* a strategic exchange rate policy with deliberately undervalued exchange rate to provide an entry into the world market for manufactured goods (Japanese cars and cameras and Korean cars illustrate this strategy);

* the structure of interest rates may be a strategic instrument for guiding the allocation of scarce investible resources and credit in accordance with longterm perspective of comparative advantage or national priorities.

* Restrictions on use of foreign brand names as a strategic means to buy time to develop brand names.

In this manner, State intervention may be an integral part of any industrialisation strategy that strengthens capabilities and develops institutions rather than rely on incentives and markets alone. Strategic intervention complements rather than thwarts the initiative of local industralists.

XVI: THE SEARCH FOR ALTERNATIVE DEVELOPMENT STRATEGIES

The review of structural adjustment policies, and of the liberal "free-market" model in general, shows that a reconceptualisation of development strategies is required, and that alternative approaches are needed. For example, the recent Asian financial crisis makes it crucial to reflect on the dangers of to a country of excessive openness to foreign funds and investors.

An important issue is whether developing countries will be allowed to learn lessons from and adopt key aspects of these alternative approaches. For this to happen, the policy conditions imposed through structural adjustment have to be loosened, and some of the multilateral disciplines on developing countries through the WTO Agreements may have to be reexamined.

In the search for alternative options for developing countries, work also has to be increased on developing economic and development approaches that are based on the principles of sustainable development. The integration of environment with economics, and in a socially equitable manner, is perhaps the most important challenge for developing countries and for the world as a whole in the next few decades. So far there has been a recognition that something should be done but the real work has only now to begin.

It is crucial that the research in this area is increased. It would be very useful if economic arguments could be put forward to show policy makers that it makes better economic and financial sense to take care of the environment now, even as the country progresses, rather than later. More work needs to be done, including at regional and national levels in developing countries to produce evidence that environmental damage is economically harmful, and that environmental protection and eco-friendly technology and practices are themselves economically efficient ways of conducting development. It would also be very useful to highlight examples of components of successful implementation of sustainable and human development policies and approaches and to draw lessons from these. The emerging "sustainable and human development" paradigm could then contribute to the debate on appropriate macroeconomic policies; the appropriate relations between state, markets and people; and appropriate development styles and models.

XVII: A VISION AND CHALLENGE FOR THE FUTURE: TO MAKE POWER ACCOUNTABLE TO PEOPLE; TO CREATE A GLOBALISM WITH TRUE PARTNERSHIP AMONG PEOPLE

As the above analysis has shown, the world at the end of the 20th century is far from peaceful or just, despite the end of the Cold War. Instead, the past few years has witnessed increasing economic turbulence, widening social inequalities and widespread feelings of insecurity and helplessness.

The latest sign of the times is the outbreak of the East Asian financial crisis. Nations that had only a short while ago been hailed as economic miracles have had their currencies depreciated, millions thrown out of jobs and their poverty rates exploding together with social and political upheaval.

Countries in the developing world are no longer able to have control over their currencies and financial systems. The destabilisation this causes is undermining their trade, investment and development prospects. These latest events are only part of a series of developments that have combined to make the developing countries poor, dependent and helpless.

The world is getting more and more into an apartheid-like situation, with the rich grabbing more wealth and the majority getting increasingly marginalised. The reality of globalisation-cum-liberalisation is the financial turbulence, great divisions of wealth and income between and within nations, and persistent poverty that we witness today.

If we were to honestly examine what has led to this state of affairs, we would have to conclude that it can be summed up in two words -- power and greed.

Particularly after the Cold War ended, a great triumphalism pervaded the Western world. Those who wielded financial and corporate power worked through their governments and the international agencies to push even harder for policies and treaties that would remove remaining barriers to their ability to capture markets and natural resources to expand their empires and profits.

The greed of those controlling the large corporations, the intense competition between them, and their obsession for profits, are driving the Northern governments and the international organisations to place the opening of Third World markets (for goods, services, investments and financial operations) at the top of the global agenda.

The people's right to development, to self-determination, to fulfil their basic human needs, to a sustainable environment, are relegated to secondary or even irrelevant status.

However, the situation is not all grim. There is a growing backlash against the globalisation-liberalisation process, not only in the South but also among citizens of the North, many of who are themselves victims rather than beneficiaries.

There are strong national groups of citizens either existing or emerging that are combatting the social effects of the market (which today is a monopoly-controlled rather than a genuinely free market of many small producers and traders), or that are fighting to protect the rights of communities to control their own land and resources, that campaign against the patenting of life, and are rallying against the MAI and the undemocratic processes and negative effects of the WTO.

Some of these groups have formed networks at national, regional and international levels to increase their outreach and influence.

One key objective is to make the corporations, the banks, funds and financial operators, the G7 and the OECD, the IMF, World Bank and the WTO, more accountable to people, communities and the vast majority of states that now have little say in their policies and processes.

Dozens of groups in the North have worked with groups in the South to pressure the World Bank and IMF to be more transparent and more socially responsible in their policies and projects. The Jubilee Campaign is making big waves in its campaign to cancel the debts of poor countries. Many citizen groups have joined the campaigns against patenting of life forms and against genetic engineering of crops. A global network of groups opposing the MAI have made a visible impact in making their views heard, even though they may not be able to stop the process. Thousands of groups across the Earth are promoting environmentally sound and socially just ways of production, consumption and living.

These efforts by ordinary people, their communities and organisations are the building blocks of a different world where markets and technology are to be used to serve humanity, and not the other way round. And where the interests of community and the satisfaction of human needs (instead of materialistic greed and the drive for individual or corporate power) are the driving forces and the sources of fulfillment.

In this context the civil society and social movements have a vital role to play, in contributing to the struggle of the next century for a more peaceful, just and sustainable world.

In such a world, we can envision that markets, economic institutions and technology will be designed in such a way that they serve humanity, especially the weaker and poorer sections of global society.

Developing countries will be seen as nations to be assisted along the route to sustainable development, not as sources of raw materials and targets for marketing transnational corporation products. National governments of the South would be able to have real options of choosing development paths, in which self-reliance, food security, the build-up of capacity of local farms and local firms and the meeting of basic needs, will be crucial components.

They will be free from the pressures and imposition of OECD governments or the international agencies, to be able to choose the appropriate time, degree and ways in which to integrate their economies with those of other countries. They will do so in ways that are mutually beneficial, to themselves and to other countries, thereby giving real meaning to the term "partnership."

In such a world, ordinary people, local communities and the presently underprivileged classes in all countries would have organised themselves so well that they will be able to have determining influence over the state. They would then be able to use the state to properly balance the role of the market with the rights of people, to place the highest priority to fulfilling basic and human needs of everyone, and to create conditions where the great majority of people can fully and democratically participate in decision-making processes that shape the future of their countries and the world.

We would then have a new kind of "globalism of people" where countries can live in peace based on the just principle of mutual benefits from economic and cultural contacts, that is opposite to the present trend of "globalisation of markets" based on the principle of Social Darwinism where the strong have the right to swallow up the weak.

Whether such a vision will ever come to fruition depends ultimately on the efforts of citizens everywhere as we enter the new Millenium.

(Paper written in February 1998.)