



International Chamber of Commerce

The world business organization

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The ICC Brief on Globalization is not an official policy statement. It has been written as a contribution to public debate on globalization and will be occasionally updated in light of developments.

Executive summary

1. Introduction

Globalization is about worldwide economic activity - about open markets, competition and the free flow of goods, services, capital and knowledge. Consumers are its principal beneficiary. Its benefits in terms of faster growth, quicker access to new technology, cheaper imports and greater competition are available for all. Globalization has made the world economy more efficient and has created hundreds of millions of jobs, mainly, but not only, in developing countries. It generates an upward spiral of jobs and prosperity for countries that embrace the process, although the advantages will not reach everybody at the same time.

2. Globalization and national sovereignty

Governments which seek to opt out of the globalization process are at liberty to do so, though there will be a cost. They may choose the extent to which they wish to participate or to stay out. Globalization is a process, not a programme driven by any country or group of countries. The sovereignty of nations is shared, not abandoned. But the degree of sovereignty-sharing involved is far less than that required, say, of members of the European single currency or of the NATO alliance.

3. Globalization and global rules

Globalization requires a framework of rules as the foundation of a sound global economic order. Examples are rules to secure market access for foreign goods and services and to protect intellectual property rights and foreign investment. While more reliance on free enterprise, open markets and more competition reduces the need for detailed government regulation, governments must still provide the political and economic stability domestic entrepreneurs and foreign investors look for. An international rules-based structure is required to provide the stability, transparency and predictability which business needs to operate at global level. Some rules may be set by international organizations like the WTO or the IMF. Others may be based on voluntary agreements or business self-regulation.

4. Globalization and the gap between rich and poor

Globalization has helped raise the living standards of the world's poorest people. The proportion of the world population living in absolute poverty is lower than 10 years ago. Moreover, new research suggests that, when income data are adjusted to reflect purchasing power, income inequality between rich and poor countries is diminishing. Globalization cannot be seen as a one-size-fits-all cure for poverty. But it is part of a broader mix of solutions for poverty eradication involving the international community and the self-help potential of the poor countries themselves.

5. Globalization and information technologies

Information technologies are a key driver of globalization, opening up huge potential for greater efficiency through e-commerce, the internet and the instantaneous delivery of information anywhere in

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the world, at any time. They also provide greater access to information and knowledge, the raw materials of innovation, and spread the free flow of information from all sources which authoritarian regimes cannot stop even if they wanted to. Technology and innovation cut costs to the direct benefit of consumers.

6. Globalization, multinationals, smaller firms, and consumers

Globalization rewards firms that are innovative and competitive, whether multinational or smaller enterprises. As global companies enter local markets, local companies enter global ones. The resulting competition increases product quality, widens the range of available goods and keeps prices low. Consumers everywhere are the big winners from the globalization process.

7. Globalization and financial stability

Via the integration of currency, bond and stock markets, globalization brings about a more productive allocation of savings and investment resources. Capital mobility and the communications revolution mean that technology and production can be readily transferred to locations where the comparative advantages are greatest. But increased capital mobility brings risks, especially in regions without a long-standing tradition of banking supervision. When governments get into financial difficulties, the problems are generally of their own making. But international monitoring and action is also needed to help prevent crises or limit their impact. What open markets do is to make sure that when mistakes are made, they are punished sooner rather than later.

8. Globalization and the environment

Environmental protection can be pursued at global, regional, national and local levels, and efforts should be targeted at the level the most appropriate to the problem. Where there are international impacts, international cooperation, information sharing, and technology innovation - each of which is enhanced by the process of globalization - can significantly accelerate efforts to find solutions. More fundamentally, globalization fosters economic growth, which in turn generates and distributes additional resources for environmental protection. Increased trade and investment also promote opportunities to exchange more environmentally-efficient technologies, share good practices, and contribute to environmental capacity-building, particularly in developing countries.

9. Globalization and cultural diversity

Globalization actually creates more diversity, not less. While it integrates markets, making products and services universally available, it also increases consumer choice. Technology enables global products to be customized to meet local, or even individual, consumer tastes. The information revolution has ended the monopoly on the flow of ideas and information. The result is that many people now have more cultural freedom than before.

10. Globalization and the WTO

The WTO has become the most prominent symbol of globalization and the complex changes that are driving the world economy. As such it has become the target for all opponents of globalization, as events in Seattle in December 1999 showed clearly. Despite the criticism, the WTO is a powerful example of a rules-based international system to promote more open trade and investment worldwide.

11. Globalization and labour standards

Globalization is creating jobs and bringing more prosperity to developing countries which have joined the process. While labour standards in these countries are still lower than in industrialized nations, they are rising. There is considerable evidence that multinationals investing outside their home country or region pay higher wages than local firms, create new jobs at a faster rate, and spend much more on R&D. While wage differentials will continue between rich and poor countries, they will reflect factors like the level of qualification of workers and their relative productivity. This is hardly the "race to the bottom" the critics of globalization claim to observe.

12. Globalization and human rights

Advanced industrialized economies like the United States and the European Union have been inserting human rights clauses into their trade and cooperation agreements with partner countries in recent years. Trade concessions are suspended for countries breaching these clauses. Democracy and respect for human rights are part of the political stability and confidence-building that form a necessary precondition for local entrepreneurship and for attracting foreign direct investment. The communications revolution that is going hand in hand with globalization is also facilitating efforts to better protect human rights.

13. Globalization and the poorest nations

Globalization has stimulated entrepreneurship and empowered people and countries in a position to participate in the process. This is not the case for the poorest nations. They need technical and financial assistance to acquire the tools to join the process of globalization. This requires a major joint effort on their part and on the part of the international community. They must adopt policies aimed at providing better government, reinforcing macroeconomic stability, liberalizing their economies while creating fair tax structures. The international community needs to act to reduce the debt burden of the poorest countries and to improve market access for their exports. Crucial to enabling the benefits of globalization to spread to all mankind is the maintenance of peaceful conditions between and within sovereign states.

14. Globalization and employment

At world level, globalization creates jobs - hundreds of millions of them - not unemployment. These are mainly in the developing countries, but they are only marginally at the expense of jobs in advanced countries. In fact, fewer than five percent of the EU workforce are in direct competition with workers in low-wage countries. Europe's unemployment is largely structural and predates globalization. Sharing the gains from globalization means that workers and firms in advanced countries need to be more adaptable to improve competitiveness, skills, and productivity.