

Globalisation

Ways towards Justice and Solidarity

Lecture by

Dr. Bernhard Vogel, Minister President (rtd.)
Chairman, Konrad Adenauer Foundation

New Delhi, January 31st 2005



One of the primary concerns of the Konrad Adenauer Foundation is to analyse the effects of globalisation and to develop concepts how to deal with them. This is especially true in the field of international co-operation as the impact of globalisation processes cuts across border lines. It affects international relations as well as problems of world economy, social justice, ecological sustainability, transfer of knowledge and options for global co-operation.

In a conceptualising speech in New Delhi on January 31st 2005, Bernhard Vogel, the chairperson of the Adenauer Foundation, focused on the effects of globalisation and the related aims of the Foundation. Addressing representatives of the Indian economy, science and politics, he concentrated on the impact of globalisation in particular in developing and emerging countries. Professor Vogel discussed the different preconditions and circumstances that influence a country's economical situation, i.e. if people of a

certain country can be added to the 'losers' of globalisation processes or whether they have a chance to profit from them.

Within this context, the case of India is of special importance. As a strong regional power, with a mainly liberalised market economy as well as a stable and functioning democracy, it has increasingly been gaining international attention. It takes a share in conceptualising future political order in Asia and in defining new international norms. Therefore, it is one of the key countries in the Foundation's international co-operation. We have high hopes with regard to its stability, creative articulation of new policies as well as its contribution to the formation of a global political order.

About the Author:

Professor Dr. Bernhard Vogel, former Prime Minister of the State of Thuringia, is Chairperson of the Konrad Adenauer Foundation

Copyright © 2002 by the Konrad Adenauer Foundation
All rights reserved.

Printed by Druckerei Paffenholz, Bornheim
Translated by TransForm GmbH, Cologne

Globalisation

Ways towards Justice and Solidarity

Lecture by

Dr. Bernhard Vogel, Minister President (rtd.)
Chairman, Konrad Adenauer Foundation

New Delhi, January 31st 2005

In the last 15 years, the term 'globalisation' has been turning up with increasing frequency in the political and economic debate all over the world. Today, it has become a buzzword that largely dominates the scene. Exactly how globalisation and its consequences should be assessed is a divisive question. To some, it is an immutable fact. Others regard it as a great historical opportunity to overcome want and distress. Others again believe that it stands for everything that is unjust in today's global order. But what does the term actually mean, and what is at the core of the so-called globalisation process?

Globalisation is a phenomenon as old as trade itself: Essentially, it means that the transboundary mobility of the two production factors of labour and capital is growing, and that the world is drawing together in economic terms in a process of increasing international integration.

It is correct to say that the impact of the process of globalisation has been growing enormously in the last decades of the past century. The driving power be-

hind this development was provided by those national economies in which commodity and financial markets were deregulated, liberalised, and thrown open to international competitors while tariff and non-tariff trade barriers were gradually dismantled. Another contribution was made by the former COMECON countries when they opened to the global economy after 1998, thereby considerably increasing the number of countries with a share in the international exchange of goods and services, capital and labour. The same holds true, by the way, for many developing and emerging countries, which have meanwhile opened their national economies as a result of their (sometimes painful) experience with economic policies of isolation and import substitution.

However, there are other important reasons why public interest today focuses so much on the process of globalisation, including first and foremost:

- The enormous technical progress made in the last few decades in the

field of transporting goods and passengers;

- The much more dramatic development of communication technologies, thanks to which a wide range of services can be offered on a global scale today;
- The extreme differences that currently exist between the developed industrialised nations and some of the so-called developing countries with regard to the development standard of their respective economic, production, and cost structures;
- The advanced level of labour achieved meanwhile.

The effect of all this has been an enormous increase in pressure to transform existing structures – in industrialised nations as well as in so-called emerging and developing countries. Governments feel this pressure as much as enterprises, farmers, or workers. This is why the debate on globalisation and the controversy over its assessment revolves not so much around the globalisation process proper but rather around the consequences which the process of globalisation entails for the people and the national economy of each country.

As a general rule, any structural change offers an opportunity to create added value. This is particularly true whenever such changes take the form of an increase in the number of suppliers on the market, which is one of the natural consequences of intensifying international economic relations. The supply of goods

and services grows, quality increases, and prices decrease – or so the theory says.

Consequences of Globalisation

There is no dispute in principle that the general level of welfare in the world can be enhanced if both enterprises and people in each country focus on producing and offering those goods and services for which their own cost structures are comparatively favourable and, in a system of free exchange, procure from suppliers abroad other goods and services which their own cost structures do not favour. It is just as undisputed, however, that any structural change produces winners as well as losers. Generally, losers are the inflexible and immobile factors like little qualified labour; winners are in particular the mobile factors like capital and qualified labour which adapt to changing circumstances more easily.

There is also no dispute that the enormous pressure exerted by the process of globalisation, given its current speed and scope, on all countries involved to change their economic structures entails consequences of a societal and political nature which we must address. Most importantly, we must cushion the shock of the losers of structural change and give them an outlook on the future that is worthy of a human being. This is advisable not only because of the imperative demands of justice; those who make decisions and profit from globalisation in their respective countries have another reason that is quite selfish: The point is that the economic and political stability

of a country must not be endangered because the utilisation of globalisation gains depends on it.

Who, then, are the real beneficiaries of globalisation? I cannot agree with the widespread view that it is mainly the industrialised nations which benefit from the process of globalisation, while most developing countries belong to the losers. The figures of the World Bank paint quite another picture. The developing countries' share in global trade grew markedly between 1971 and 1999, increasing from 19% to 29%. What is more, exports of finished goods from developing countries expanded significantly during the same period, while exports of primary goods declined in proportion. In the '90s, real per-capita income increased by 1.4% in those developing countries that did not participate in globalisation, by 2.2% in the industrialised nations, and by 5% in the developing countries that did participate in the process of globalisation.

Initially, the process of globalisation operated almost exclusively to the advantage of the industrialised countries. As developing and emerging countries opened their markets and their purchasing power grew gradually, prosperity increased enormously as advanced goods and services were exported and opportunities for importing low-priced primary products expanded. Pools of qualified workers, functional administrative and legal systems, and mature infrastructures provided these countries with advantages

that outweighed the drawbacks of high costs in most industries.

However, when trade cooperation intensified and the flow of investment capital to the emerging and developing countries increased, competitors began to emerge to places where they were able to operate more cost-efficiently than the manufacturers and suppliers in the industrialised nations. While their output at first was almost exclusively confined to cheap products at the lower end of the quality scale, which appeared in niches on the markets of the industrialised countries, products and services of average quality from emerging and developing countries have meanwhile been conquering large market segments in the industrialised nations. As a consequence, we have been suffering massive losses of jobs as companies closed down or shifted their production and service facilities to low-cost locations. We are undergoing a painful process of adjustment that extends to enterprises as well as public budgets and social-security systems. And there is no end in sight. Not only working hours and levels of income are at stake but also social and environmental standards which are cost factors for all companies.

Consequences for developing and emerging countries

When the developing and emerging countries opened their markets to products and services from the industrialised nations, some traditional production methods and services disappeared, lead-

ing to job losses. In parallel, however, the flow of private capital to the developing countries increased markedly, particularly in the '90s. Direct investment now forms the most important category, out-ranking even public development assistance. Related technology transfers have led to millions of jobs being created in numerous countries. To be sure, private investments may be withdrawn at short notice, and if many investors should opt to do so simultaneously, financial crises may result in the developing countries, and they tend to spread, as we have seen many times.

Isolated countries do not run the risk of being effected by such crises as no capital flows from abroad reach them in the first place. By the same token, however, they cannot enjoy the positive effect of foreign investments on development. In those emerging and developing countries that are strongly involved in the process of globalisation, on the other hand, any domestic policy mistake will have particularly devastating consequences. Mistakes in economic policy cause flows of capital that may – in case of an escalating crisis – lead first to macro-economic and then to social and political instability.

There are three other risks associated with progressing globalisation that can be observed in many emerging and developing countries: In many instances, families and societies cannot cope with the need to adapt to the speed of modernisation and structural change. As traditional op-

tions to generate income deteriorate, survival increasingly depends on mobility, i.e. the ability to migrate where new jobs are available. In the process, traditional lifestyles and values are lost as well as the safety mechanisms offered by family and neighbourhood structures. The consequences include profound insecurity and lack of orientation among those caught up in the process. No common language exists between them and the generation of their parents, who still live in a network of traditional ties, while the children of this migrant generation show signs of moral dereliction. Many of these children receive no proper care from their parents, nor assistance in understanding the world in which they grow up. The seeds of crime and violence sown in this fashion make it easy for preachers of political salvation dogmas or fundamentalist interpretations of religion to recruit followers among the young people.

The second risk of globalisation is that entire local industries that are potentially quite capable of standing up to competition might be overwhelmed and subsequently obliterated by the suddenness of the globalisation process, having failed to prepare properly for it. Thus, people and enterprises in the countries concerned are deprived of any chance to make use of the opportunities of globalisation from which they might otherwise have benefitted. A positive example is that of the kingdom of Cambodia. Its government was the first among the least developed countries which successfully negotiated a membership of the

WTO and has now systematically been trying to liberalise foreign trade for several years now.

The third risk of globalisation which can be witnessed world-wide is that of a country's social peace and political stability being threatened by the dissatisfaction or the occasionally violent resistance of the losers of the globalisation process. Even in those countries which present themselves as macro-economic winners of globalisation there are no political mechanisms that provide a perspective of a human future for losers. Although I cannot claim to be familiar with India's societal and political situation in any detail, it does appear to me that the role played by this factor in India's recent national elections should not be underestimated. It is crucial for the stability of a country that people should have a vent for their feelings in the form of democratic elections, so that they do not feel constrained to take violent action to enforce greater attention for their interests.

Positions of power in the process of globalisation

Allow me to comment briefly on the much-debated question about the different positions of power held by industrialised nations and developing countries in the process of globalisation. Indeed, many of the charges levelled against global free trade and the process of globalisation by their opponents relate to these power positions. Developing

countries are told by the international community as well as by their partners in negotiations with the World Trade Organisation, the World Bank, and the International Monetary Fund that the loans which they urgently need for their development as well as the quotas for selling their products on the American or European market, which are often even more urgently needed, will be granted only on the condition that they abolish tariff and non-tariff trade barriers in other sectors. Let us take the example of the Indian dairy industry which, having been set up very successfully – with European support, I may say – over the last few decades, now provides a living for tens of thousands of families. India protects this industry by restricting imports of milk from Europe, which is cheaper on the world market. As India's integration into the world trade advances, an important political and economic concern because of the country's growing industrial output, the demand has been raised that these restrictions on imports of milk and dairy products should be lifted. Anyone who counters this demand by pointing at the complex system of direct and indirect subsidies for European farmers and, by the same token, for the dairy industry in the EU will be told that these subsidies served to compensate important segments of the European population that were hit particularly hard by the swift structural adjustments of the last few decades, and besides, that it was imperative to maintain the EU's agriculture for overriding political reasons.

In addition to this example, there are many others which demonstrate that the United States of America, the European Union, Japan, and other western industrialised nations do wield their economic and political power to ensure that double standards apply in the process of globalisation. While the big emerging and developing countries, such as China, India, or Brazil, may be able to defend themselves because of their growing political and – meanwhile – economic clout, developing countries that are smaller and poorer cannot do so. The effect of the negative consequences resulting from this is often greater than that of the assistance they receive from the industrialised nations through development cooperation. All that, however, is not due to the globalisation process itself but to the course that process has taken, unjust, imperfect, and distorted by the superior might of certain states.

One of the consequences of globalisation which I have addressed only indirectly so far is that the influence of national governments on the design of the legal and political framework within which the economies of their respective countries are managed is weakening. As enterprises and business activities are increasingly integrated in regional and global markets, nation states gradually lose their sovereignty as their options of influencing their own national economy dwindle, competitive pressure on national taxation systems increases, the social state and its social and environmental standards come under pressure, and –

most importantly – as national governments are increasingly constrained to submit to international regulations and agreements on which their influence is limited. But whereas the bodies that govern a nation state – in Europe as well as here, in India – have their own democratic legitimisation and remain accountable to their citizens through democratic elections, accountable democratic legitimacy has not been institutionalised on the international plane so far. This provocative situation naturally leads to demands for a global order policy and the development of fundamental values to underpin that global order policy. If we fail to meet this demand, we would abandon those rules which decide about the economic success of people and enterprises worldwide to the vagaries of open or covert power struggles and in-transparent technical mechanisms.

Background of German experience

After the total political and economic collapse of the Nazi regime in 1945, Germany was forced to make highly conscious decisions about the fundamental rules that would govern the reconstruction of our economic and social system. At the time, we opted for a system that we call 'social market economy'. The same values that underpin this system are to be found more or less recognisably in most other European economic and social systems. As our diverse national economies grew together within the European Union, these inherent values set the course of the process, and they

are to be found in important passages of the new European draft constitution.

Social market economy was developed by Prof. Ludwig Erhard, Germany's first economic minister after the foundation of the Federal Republic, based on the investigations of the so-called 'ordo-liberal school' around Prof. Walter Eucken. The idea that no big modern society can afford to ignore market mechanisms as principles of order formed the core element of his concept. As Prof. Müller-Armack, Erhard's one-time under-secretary, wrote in a review in 1972, 'Social market economy is based on the insight that the mass societies in which we live cannot do without the power of competition and without the controlling influence of the market.' Only in a market system may individuals manage their economic affairs without external constraints so that they fit in with the orderly economic activities of their entire society to the benefit of both. Only in such a system may the productivity of an entire national economy be enhanced by encouraging and rewarding the creative, output-oriented activities of an individual so that it ultimately reaches a level that provides enough funds to ensure a humane life for all. Thus, while the market is not an end in itself, it is an indispensable instrument. The ultimate goal is to enable everyone to live a humane life. This is the goal which the market serves. Yet it will not function by itself alone but only in conjunction with a powerful state which protects the mechanisms of the market and the fairness and productivity

of competition from the distortions of powerful influences. Nor will the market automatically move towards the goal of a humane life for all members of society. Next to protecting the mechanisms of the market, it is one of the duties of governmental authority to redistribute the revenues generated by market mechanisms according to social criteria.

I am firmly convinced that the essential insights that underlie the order policy of 'social market economy' may guide us in our efforts to establish a global policy to order the process of globalisation. What we need is an international social market economy which aims to create external conditions that permit everyone to develop their own productive opportunities and lead a humane life. The core elements of such an order framework for a global economy would include enforcing and protecting the freedom of international markets more comprehensively, protecting certain minimum standards in the economic process including social minimum standards as well as standards to protect our natural environment, and providing a minimum level of social security for the less capable members of society as well as for the temporary losers in the process of structural change that is driven by globalisation.

Demanding a concept for globalisation

As I see it, there are a number of concrete demands regarding the future shape of the globalisation process that evolve

from this fundamental position, six of which appear to me particularly important.

1) As the record shows, uninterrupted 'globalisation' does not come naturally by any means. Should we fail to meet the effects of globalisation responsibly and creatively, it is quite realistic to assume that it may be abandoned altogether. In view of the splendid opportunities offered by the process of globalisation particularly to the less developed countries of the world, however, we should do everything in our power not to obstruct but to promote it by intelligently and responsibly controlling it to the benefit of humankind.

2) In the industrialised countries, we must attempt to help people see that this process and the adjustments it calls for are meaningful. To halt the process of globalisation either by returning to protectionist practices or reinforcing whatever protectionist rules still exist in the industrialised nations would probably stabilise the level of prosperity attained in these countries in the short and medium term. In the long run, however, it would inevitably lead to catastrophic disputes with the growing power of the emerging and developing countries. At all events, it would effectively scupper any effort to get all nations to agree on ethical minimum standards. Undisguised egotism would not only destroy the credibility of our values (human rights, democracy, social justice) but also fly in the face of our own long-term interests.

To be sure, the adjustments which the people in the industrialised countries have to undergo because of the globalisation of competition may lead to certain reductions in the general level of prosperity. These will primarily be confined to longer working hours, more flexible working times, the assumption of greater responsibilities and risks with regard to the success of their economic activity, and meeting the requirements of lifelong learning and greater mobility.

3) Decision-makers in the so-called developing countries should not squander the opportunities offered by the process of globalisation through corruption, defects in good government, failing to develop the rule of law, or denying the people their chance to participate. At the same time, the wealthier industrialised nations as well as international organisations are responsible for assisting these countries in developing strategies which, reflecting their respective level of development, enable them to find a way of integrating their national economies gently into the economy of the world. Development cooperation, in turn, must meet the challenge of supporting the establishment of good governance and the rule of law, and guiding the development of each country's framework conditions and structures during a phase of transition so that potential cost advantages may materialise in the form of internationally competitive structures.

4) Neither industrialised nations nor developing countries should respond to the negative consequences which globa-

lisation entails for certain industries and segments of the population by defensive measures or compensation alone. Everything must be done to offer the people and enterprises concerned productive alternatives in the form of qualification programmes, and to promote greater flexibility and diversification. Once again, the poorer developing countries will be those most urgently in need of assistance from industrialised nations and international organisations. Despite these endeavours, however, considerable segments of the population will, for some time to come, remain among the losers in the processes of structural change triggered or boosted by globalisation. They must not be allowed to tumble into a void. Through development cooperation, the developing countries must be given advice and support in setting up their own social security systems as quickly as possible. In these countries, one of the central components of governmental development strategy as well as of development cooperation must be to ensure that those segments of the population that live in poverty, which are very large in some instances, do actually enjoy the benefits of assistance and support, and that, whenever this should prove impossible, they receive enough support at least to keep their condition from deteriorating further.

5) In a globalisation process designed to promote the welfare of the people, it would be absurd to put all those social and environmental standards on the line that have been evolving in the more pros-

perous industrialised nations ever since the middle of the nineteenth century. On the other hand, it will not be feasible to introduce these standards in developing and emerging countries within the shortest possible time on a one-to-one basis. Therefore, it will remain important for some time to come to ensure, with some common sense, that at least massive violations of and hazards to human integrity as well as any destruction or pollution of our natural environment are either avoided or abolished as the developing countries are gradually integrated into global trade. A process must be set in motion by which the developing countries increasingly approach the industrialised nations' standards. This will lead to tensions in the industrialised nations, where jobs are lost because social and environmental standards figure as cost factors in international competition, as well as in the developing countries, where the people's justifiable demands for better working conditions, improved environmental protection, and higher social standards slow down the development of employment and income. Decision-makers must bear up under these tensions and endeavour to mitigate them cautiously, with the involvement of the people concerned.

6) Double standards in the integration of countries and national markets into the world market must be dropped as quickly as possible. Unless they wish to disavow or even endanger the process of globalisation, the western industrialised countries will have to present detailed



schedules showing how and at what time they intend to reconfigure their support of the enterprises and people hit by the negative consequences of globalisation so that products and services from developing countries are no longer disadvantaged, or their access to markets in the industrialised nations obstructed.

Very probably, there is no country in the world that is capable of enforcing a global order policy on its own to ensure that the ongoing process of globalisation is implemented responsibly. All the big countries and alliances of this world need to cooperate towards this end. It is no coincidence that I chose this audience and this country to present my thoughts and proposals on this key issue of the future. India is the world's most populous democracy, a country with an incredible wealth of religious tradition, a winner of globalisation, and yet there are parts of its population that have been hard hit by the negative consequences of globalisation. I believe that India should play a pioneering role in the effort to promote and develop a global order policy. To this end, we Germans, we Europeans, would like to propose entering into a strategic partnership with you. This is the stated intention of the German Federal Government as well as the European Union. In my opinion, such a partnership would rest on a broad foundation of common consent.

To bring this European-Indian partnership to life, the Konrad Adenauer Foundation would like to offer its good of-

fices. Last month, we launched a new project entitled 'Global Order Policy'. After its initial phase, we intend to enter into a partnership on this project with one of the world's major emerging countries where most of the concept development and the events associated with the project will take place afterwards. I propose to implement most of this project here, in India, in close cooperation with Indian institutions, organisations, and personages. In the past few years, India's successes in the field of economic development have been impressive. The country is now regarded as one of the winners of globalisation worldwide. At the same time, however, the debate about the social and political consequences of globalisation has been growing more intense, particularly after the recent parliamentary elections, a debate which similarly exercises the German public on an increasing scale. Under these circumstances, we would like to enter into a dialogue on globalisation and its consequences.

The German edition of an important book written by Amartya Sen, the Indian-born winner of the Nobel Prize for Economics, is entitled 'Economics for Humans. Ways towards Justice and Solidarity in a Free-market Economy'. This is precisely what we would like to see at the core of a global order policy.

A few weeks ago, the American president, Mr. Bush, avowed his allegiance to the vision of freedom in his inaugural address at the beginning of his second

term in office, stating that it would be the guiding principle of his policy. We Europeans agree with that entirely. Without freedom, there can be neither human dignity nor peace. We do know that there are occasions when it is necessary to take up arms to defend or fight for freedom. But at the heart of human freedom lies the ability to work productively and creatively within a community. By way of conclusion, allow me to quote Antoine de Saint-Exupéry, a French writer who fell in 1944 fighting for Europe's freedom against Hitler's tyranny. In his posthumous work 'Citadelle', he writes: 'They were ruined by the illusion that happiness might derive from their possessions. Whereas, in truth, happiness feeds only on the glow of deeds done and the satisfaction afforded by creativity. Those who have nothing of their own to offer in exchange and receive their food from others, may it be ever so refined and select ... are all firmly tied to their stable cribs and ripe for slavery by their own volition, being content with existing as part of the common herd.'

To adjust global conditions so that more and more people of all countries and population segments enjoy the freedom and facilities that are necessary for productive work, work that imbues them with dignity and benefits the community: This is our vision of a global order policy which we would wish to see promoted by Europe and India in partnership.

