

## **IBON International Responses to the Consultation on Development Led Globalization**

IBON International is happy to submit the following response to the consultation on development led globalization:

### **1. What are the employment implications of current trade patterns? Which groups and sectors are the most affected in different countries, and how is this affecting political and social responses?**

Current trade patterns emanate from neoliberal principles of free trade and economic liberalization imposed on developing countries by developed countries and the Bretton Woods and multilateral institutions. Developed countries have used the reforms to protect their markets and facilitate their entry into developing countries markets.

Clearly, while developing countries are coopted into liberalizing markets under a neoliberal ideology promoted as in their best interest, in the key developing country sector of agriculture protectionism reaps massive benefits for developed countries, at the expense of developing countries, pushing inequality between countries and risking immense political, economic and social fall-out. As the World Bank research group's chief economist has outlined: "Global inequality reflects two types of increasing inequalities: rising gaps between nations (which cause migration) and rising inequalities within nations (which cause protests, disenchantment and revolts). So, in that double sense, what happens to global inequality is very important."<sup>1</sup>

Unable to protect nascent industries and sectors, developing countries have had to compete with each other for foreign direct investment and have thus competed to lower minimum wages, labour standards and regulations and reduce tax rates. This has resulted in a "race to the bottom". Most countries also crack down on trade unions to maintain conditions favorable for foreign investors.<sup>2</sup> Such policies operate to the benefit of incoming, largely northern-domiciled countries, and to the detriment of local staff. Often, due to a lack of capacity, it is also difficult for developing countries to reap the benefit of the theoretical "spillover" effect touted as a benefit of FDI, especially through export-processing zones. Export-oriented production has led to workers who produce basic commodities becoming poorer since the price of low-cost imports has crashed since the WTO launch and countries are actively encouraged to prevent them from demanding better labour standards. It can also be indirectly be associated with a raft of human rights abuses committed by corporations in developing countries where domestic governments lack either the will – due to dependence on FDI streams or a two-way corruption - capacity, or both, to hold corporations to account.

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<sup>1</sup> CNBC, January 17, 2013: "Is Income Inequality Biggest Global Risk?"  
[http://www.cnbc.com/id/100384824/Is\\_Income\\_Inequality\\_Biggest\\_Global\\_Risk](http://www.cnbc.com/id/100384824/Is_Income_Inequality_Biggest_Global_Risk)

<sup>2</sup> UNGLS Multilateralism

A consistent trend across the Global South is that since the neoliberal economic model began to be introduced in the 1980s, wage and income inequalities have increased.<sup>3</sup> There has been increasing unemployment, and precarious employment and lower working conditions of the poorest workers. This has led to greater social tensions and in some cases has erupted to full-scale protests as seen in North Africa during the Arab Spring.

Over the last twenty years, world exports have multiplied almost five times but progress to improving health and education and nutrition has become slower over the same period.<sup>4</sup> The benefits from trade and investment has accrued to elites and extracted out of the countries by foreign corporations. Little investment or wealth remains with the people.

## **2. Given the current state of the Doha Round, is there an alternative trade agenda that can be pursued at the regional and international levels in support of inclusive and sustainable development?**

The neoliberal model for trade is not working. It has generated instability and inequality and is not an effective framework to generate inclusive and sustainable development or equitable and mutually beneficial trade. The financial crisis of 2008 illustrated how unstable and unfit for purpose the current trade regime is. Furthermore, consistent evidence over the last twenty years has shown that there has been a decline in the living standards in Africa following widespread reforms prescribed by the IMF and World Bank.

Trade liberalization has hurt developing countries as they have lost more than they gained. From the 1980s to 1990s, it is estimated that low-income countries lost approximately US\$896 billion due to trade liberalization policies.<sup>5</sup> This is mainly due to the impact on agricultural production and industrial production which have been unable to compete due to trade liberalization policies.

All of today's developed countries developed through policies which contradict neoliberalism. This includes protectionism and subsidies to develop local markets. Many developed countries continue to implement protectionist policies while advocating for developing countries to open their doors. For example, the US is a strong backer of trade liberalization in agriculture in developing countries and push and yet it is estimated that the total value of direct and indirect US federal **agricultural subsidies** amounted to \$180 billion in 2009.<sup>6</sup> The US law also stipulates that 75% of food aid should be bought and distributed from US sources (while prices remain 11% above the market average)

Another well-known example of developing country protectionism is the European Union's (EU) Common Agricultural Policy (CAP). The CAP budget for 2010 was €43.8bn, which equates to 31% of the

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<sup>3</sup> UN NGLS Multilateralism

<sup>4</sup> <http://www.stwr.org/imf-world-bank-trade/10-protect-import-tariffs.html>

<sup>5</sup> <http://www.stwr.org/imf-world-bank-trade/10-protect-import-tariffs.html>

<sup>6</sup> <http://www.aljazeera.com/indepth/opinion/2012/02/2012256531421206.html>

EU budget and 6.4% more than in 2009.<sup>7</sup> The CAP is a distinct form of protectionism that is explicitly designed to protect the European agriculture sector from cheaper, non-EU products. Its combination of subsidies – estimated at €22 billion in 2011, more than 40 percent of the CAP budget<sup>8</sup> – and setting import tariffs is combined with surplus production being exported at below cost price, being stored, destroyed or dumped on poor countries.

At the same time that the US and EU implement protectionism and subsidizes its local producers, they are pushing for developing countries to open their markets. Developing countries need a trade regime which allows them to benefit from similar policies which allowed the countries that are now-rich to industrialize.

There needs to be reform of the trade agenda which would shift the perspective from trade and investment as an end goal in itself but rather as instruments to reach a just and sustainable development. This means conceiving of a trade regime which allows countries to pursue mutually beneficial trade that are not necessarily on market terms.

A new trade agenda must be built on key principles of justice, equality and solidarity and aim to improve the well-being of marginalized and poor. It must recognize the role of the state as a regulator and coordinator of economic activity (and not merely the facilitator). Multilateral trade rules and disciplines should be applied flexibly to developing countries – WTO rules are equally binding on all participants but in economic terms are biased to the requirements of richer countries. And it should recognize the need for special and differential treatment (SDT) for developing countries as a means to redress structural imbalances rather than giving concessions.

Trade regimes should be based on building coordination and support within regions to pull up regions of developing countries. Regional and bilateral trade agreements between developed and developing countries can lead to significant trade losses for non-members; can weaken efforts to improve the multilateral trading system; and can in many cases lead to a much broader and deeper liberalization of trade than under the WTO. Thus any regional and bilateral trade agreements must prioritise building mutually reinforcing relationships between countries within regions and must prioritise collaborative development.

An alternative trade system is realistic and realizable. The Bolivian Alliance for the Peoples of America (ALBA) has demonstrated that it is possible to develop a new trade system which is based on mutual respect and support and which is built on the principles outlined above.

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<sup>7</sup> Civitas. See: <http://www.civitas.org.uk/eufacts/FSPOL/AG3.htm>

<sup>8</sup> See: <http://farmssubsidy.org/news/features/2012-data-harvest/>

### **3. What reforms to the international financial system are needed in support of an inclusive and sustainable development agenda? Are such reforms possible given the power and influence of financial markets?**

Neoliberal policies which have emphasized deregulation and faith in open markets have opened the international monetary system to instability and high risks. The financial crisis in 2008 has been linked to growing inequality and lack of regulation and control of the international financial system.<sup>9</sup>

Financial speculation wherein commodities are treated as an asset class has increased volatility, disconnected prices from fundamentals, created problems for those with a real economic interest in commodity futures markets, and has made signals from commodity exchanges less reliable as a basis for investment decisions and for supply and demand management by producers and consumers.

Despite widespread recognition of the structural flaws of the prevailing international financial system, there has yet to be any strong reforms to address the causes which led to the 2008 crises.

Critically, there needs to be deep reforms of the governance structures in international financial institutions (IFIs). At the moment, voting powers and control is weighted in favor of the wealthy developed countries. However, the IFIs exert disproportionate influence over developing countries who are pressed to accept conditionalities with any loans or financial assistance. to the greatest investors. This has led to developing countries accepting deep structural reforms which have set back development at the behest of the IFIs. For developing countries interests to be protected and respected there needs to be reform of the governance structures to ensure that there is equal control and guidance of the international financial architecture. Governance of the IFIs must be based on equal participation, transparency and accountability.

Unregulated, unsustainable and excessive financial speculation can only be controlled through greater and improved regulation of banks and international financial activities. This would include greater regulation and supervision of finance and international capital flows and the creation of international mechanisms to prevent and manage financial crises, including debt reduction.

A viable international monetary and financial system needs to reaffirm the emphasis on employment and growth and also establish mechanisms that ensure adequate growth opportunities for all members of the system – the establishment of “a development consensus”

Crucially there is a need to create an international financial system which is not be based on a global reserve and payments system in one country’s currency. The global reserve and payments system must adopt a neutral financial standard.

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<sup>9</sup> <http://www.imf.org/external/pubs/ft/fandd/2010/12/pdf/kumhof.pdf> ;  
[http://hdr.undp.org/en/reports/global/hdr2011/papers/HDRP\\_2011\\_06.pdf](http://hdr.undp.org/en/reports/global/hdr2011/papers/HDRP_2011_06.pdf)

**4. Is there really a crisis in economic multilateralism? If so, where does responsibility lie? Can the UN play a more positive and dynamic role in revitalizing the multilateral economic architecture?**

There is a crisis in economic multilateralism. The current multilateral regime favors certain powerful states to the detriment of the rest and it is losing legitimacy as it fails to keep up with the changing global sphere. The current multilateral order has been co-opted by the wealthiest and most developed countries to advance their economic and political interests. Thus developing countries interests have been pushed aside in the current economic multilateral order. Northern wealthy states remain responsible for the imbalance of power and for failing to act in solidarity with developing countries to build a new economic order which benefits all equitably.

Economic multilateralism must be re-oriented towards a sustainable development led agenda. This means that the three pillars of sustainable development – economic, social and environmental – must be given equal priority in the multilateral system. This can only be achieved through cooperation and collaboration between all states. The most inclusive international decision making body remains the United Nations, which has greater legitimacy in the eyes of most because of its universal membership. The United Nations and human rights bodies are central to developing an inclusive and participatory multilateral order which will achieve sustainable development.

However, most significant economic agreements are made outside the UN in non-participatory and opaque forums such as the G-7 and the G-20. Decisions which have global repercussions on the economic order must be made in a transparent and participatory process in which all affected stakeholders can have a say. The UN can play a key role in re-orientating the current informal and formal processes. But this requires decisive and coordinated action. Developing countries must have greater collective influence over multilateral practices.

Multilateral systems must also acknowledge that there are more actors in the global development debate who have influence and insight into the development process and are essential in the aims to achieve development agenda. Multilateral organizations must open themselves to civil society participation to ensure that under-represented voices are included in development processes. Thus civil society must be given full and effective participation in the UN and HR bodies relevant to sustainable development.