

GERMAN BUNDESTAG

Study Commission on
Globalization of the World Economy –
Challenges and Responses

- 14th legislative term -

Summary of the final report

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Foreword

The German Bundestag is the first parliament in the world to have established a Commission to undertake a systematic examination of the issues arising from globalization. The mandate of this Study Commission, entitled 'Globalization of the World Economy – Challenges and Responses', is defined in the relevant decision of 14 December 1999 (Bundestag printed paper 14/2350) and comprises the following tasks:

- to examine the reasons for the globalization of the world economy,
- to describe the economic, social and political effects of globalization, and
- to propose ways in which the national and international community can influence future developments responsibly and creatively.

The Commission did not focus its work solely on global developments. The consequences of the globalization process on Germany itself were also at the heart of its deliberations. As the world's second-largest exporting nation, Germany stands to benefit tangibly from the progressive elimination of trade barriers on the one hand and from the increasing simplicity with which goods, services and money can change hands on the other. Accordingly, reverting to nationally focused policies is not a desirable option for the Federal Republic of Germany or any other country. Such policies would ultimately lead to diminished prosperity. At the same time, the Commission was not blind to the dangers posed by increasingly fierce international competition to the cohesion of societies. Unregulated competition threatens to divide the world into rich and poor. This applies not only to relations between nations and between economic blocs but also, of course, to the relationship between groups within each individual society. For this reason, the Commission also presents proposals designed "to eliminate significant adverse effects of globalization".

In order to ensure that globalization was examined in depth in all its complexity, the Study Commission set up six working groups:

- WG 1: Financial markets (established on 6 July 2000)
- WG 2: Markets in goods and services (established on 23 October 2000)
- WG 3: Natural resources (established on 13 November 2000)
- WG 4: Global governance (established on 8 December 2000)
- WG 5: Labour markets (established on 5 March 2001)
- WG 6: The global knowledge society (established on 28 May 2001)
- In addition, three cross-group subjects were examined: world population trends, sustainable development and gender equity.

The highly topical character of the subjects discussed was reflected in the attention given to them by the media as well as by educational establishments following the publication of the interim report (Bundestag printed paper 14/6910). In presenting the final report to the German Bundestag and the general public, we likewise cherish the ambition that it will be widely read. After all, shaping globalization is one of the main challenges of the 21st century facing society.

The ten chapters of this report contain a total of 200 recommendations for action. Most of these were supported by all the parliamentary groups and Commission members. Some proposals, such as those for tighter regulation of financial markets or the introduction of a tax on currency transactions, remain controversial. Some recommendations also go deliberately and considerably beyond the scope of government action as defined in Germany and other countries today. The majority of the Commission hopes that these recommendations by politicians and academic experts, some of which break new ground, will be taken up at home and abroad and that support for them will grow. The working groups of the CDU/CSU and FDP exercised their right to produce a separate minority report and requested its inclusion in the present summary.

In this summary of its final report, which runs to some 600 pages, the Study Commission on Globalization of the World Economy, appointed by the German Bundestag in its 14th legislative term, seeks to provide information on its views and plans relating to globalization. It presents the main findings and key recommendations of the Study Commission on Globalization, and we hope that it will encourage people to read the full report.

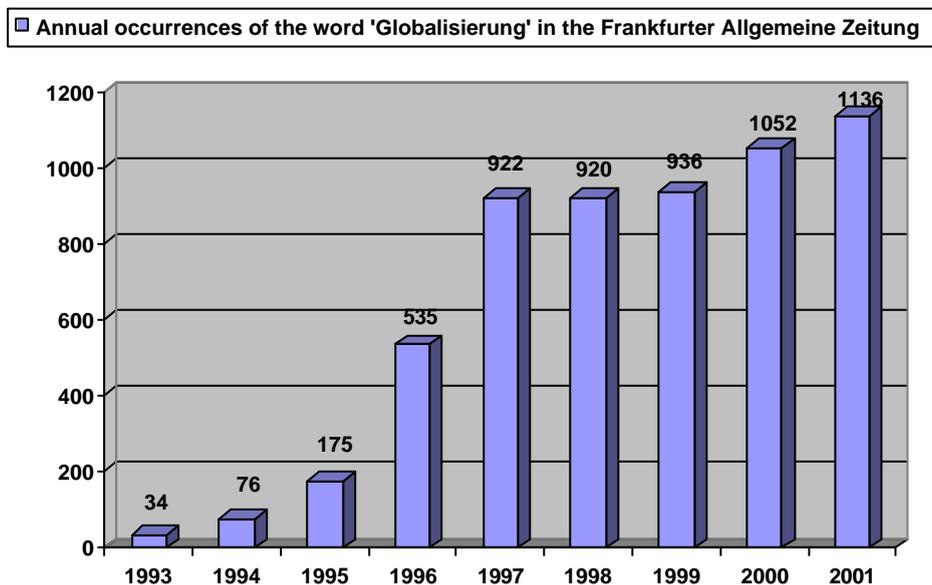
Dr Ernst Ulrich von Weizsäcker
Member of the German Bundestag
Chairman of the Study Commission on Globalization of the World Economy
– Challenges and Responses

1. Introduction

Many of the controversial political issues of our day are directly or indirectly related to globalization. Whether the point at issue is the best strategy for achieving sustainable economic growth and overcoming unemployment, the indebtedness of developing countries, the best possible fiscal policy, measures to protect the climate or the abandonment of nuclear energy, almost everything today must be seen and discussed in the context of globalization. Even the dispute about importing embryonic stem cells, which is ostensibly a purely ethical issue, has focused to a considerable extent on the significance of such imports in terms of Germany's status as an attractive location for research in a competitive world. It is no wonder that globalization has become a catchword with an extremely high media impact. Even though worldwide trade has been the basis of the prosperity of various societies for centuries, the term 'globalization' has only been around in Germany for ten years, as may be seen from Figure 1 below.

Figure 1

The rise of the word 'Globalisierung'



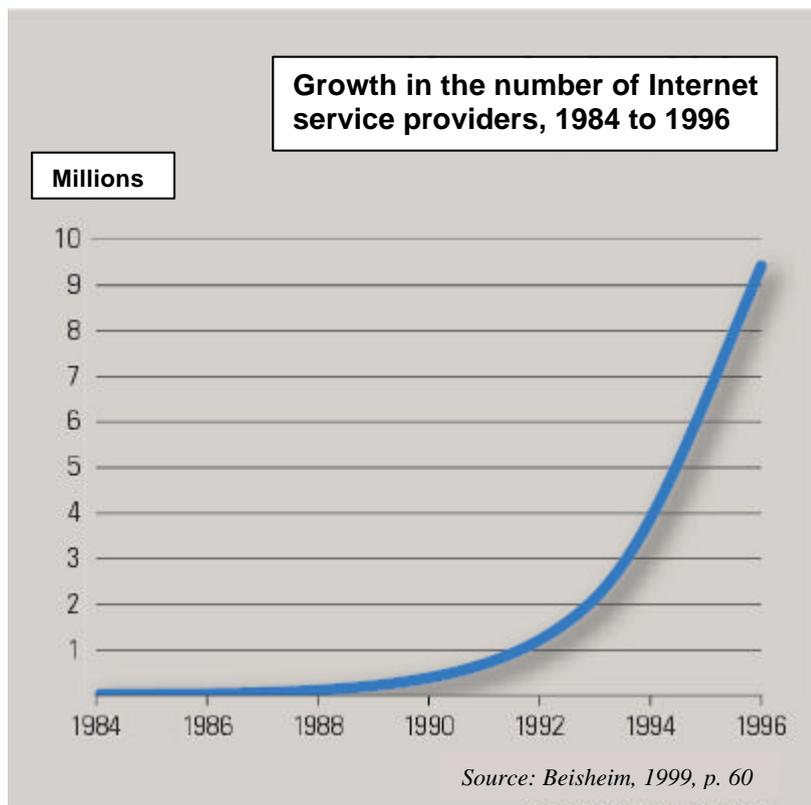
Globalization first became a familiar concept in Germany in the course of the nineties. The chart shows the total number of times in which the word 'Globalisierung' appeared in the pages of the *Frankfurter Allgemeine Zeitung* in the years from 1993 to 2001.

Statistics by courtesy of the *Frankfurter Allgemeine Zeitung*.

The political watershed was the collapse of the political system in Eastern Europe, which was followed by a switch from a largely politically defined competition between economic systems to market competition, defined in purely economic terms. In the latter situation, the negotiating position of governments in relation to international owners of capital has been considerably weakened. This has resulted in States vying with each other for the lowest tax rates and the fewest rules, sometimes with detrimental effects.

The technological watershed was the explosive development of information and communication technology. These technological innovations opened the door to new types of globally interconnected production methods and logistics; in the service sector, division of labour could henceforth be practised on a global scale; worldwide financial transactions could be effected in a matter of seconds, and instant price comparisons became possible, which has dramatically intensified the competition to minimize costs.

Figure 2¹

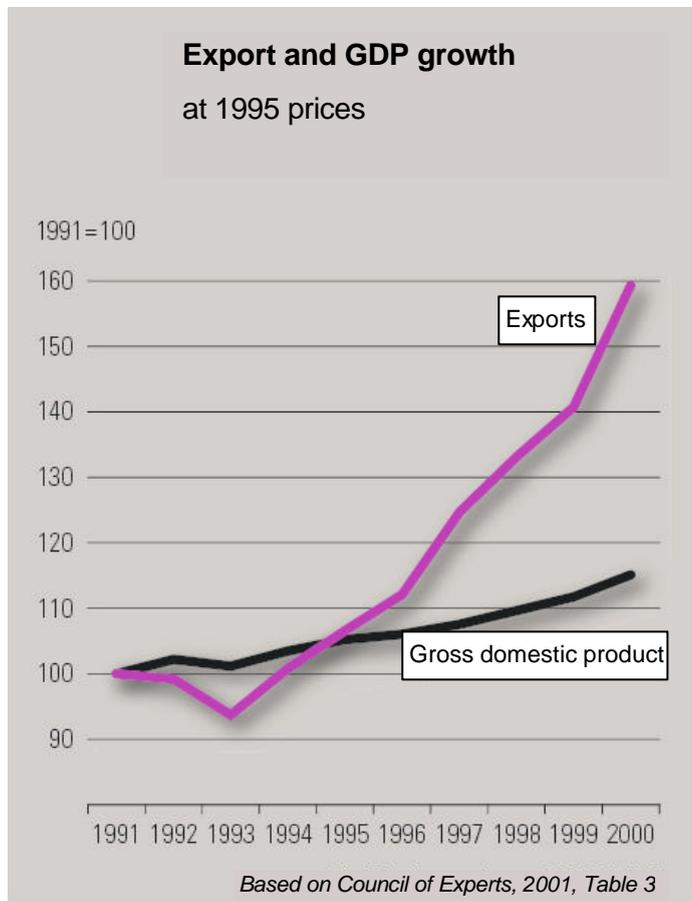


¹ Full details of the sources of the diagrams reproduced in this summary may be obtained from the bibliography (Chapter 12) of the Study Commission's final report (Bundestag printed paper 14/9200).

At the same time, globalization is not a process that just happened. The spread, and hence the intensification, of global competition was politically contrived. The main driving forces were – and still are – the controllers of the capital markets and the Governments of the United States, Japan and the EU Member States. Both informally and at international summits, they have laid the foundations for liberalizing markets and reducing the role played by the public sector. The influence of parliaments as the bodies elected to represent the people - let alone that of the people themselves - on these decisions has hitherto been very limited. Whether in the framework of the World Trade Organization (WTO), at the summits of the Heads of State and Government of the world's seven wealthiest countries (the G7) or at the meetings of the International Monetary Fund and the World Bank, parliaments and the representatives of civil society are all too often treated as cumbersome baggage if they are not excluded altogether. But people do not want to have this feeling of powerlessness any longer. The methods adopted to date conflict with one of the key elements of democratic thought, namely the principle that politics must be conducted in the public domain.

Political decisions affect people in all parts of the world. The economies of many countries have grown more rapidly because their markets have been opened to international trade. World trade will promote a country's economic development if that country's economic growth is export-driven, as the success of the Asian 'tiger economies' has demonstrated.

Figure 3

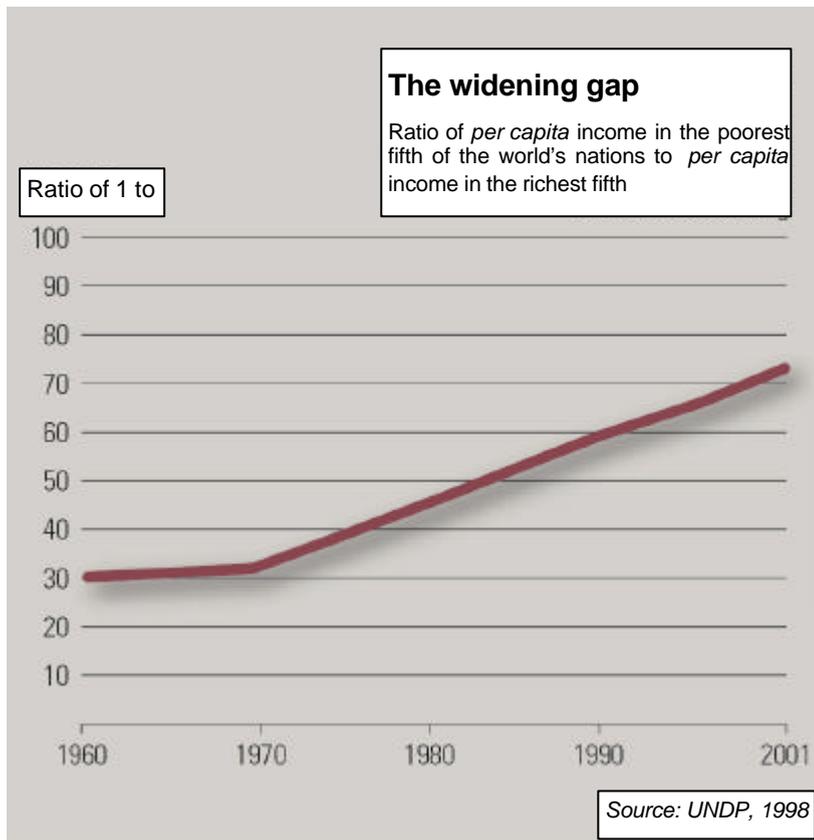


Many people live longer today than previous generations and enjoy vastly improved living standards. Globalization has diminished people's sense of exclusion and has given many of them access to knowledge and information far beyond that which was available even to the wealthy in every country of the world a hundred years ago. On the other side of the coin, protests about the adverse effects of globalization could not have been so widespread or created so much public pressure without the close-woven network that binds together organizations from various countries in the world. This communicative interaction has been and will remain an effective means of creating transparency and fostering public debate.

But the considerable rise in prosperity generated by the globalization process has not benefited everyone in equal measure. For example, the gap between the richest fifth and the poorest fifth of all nations in terms of *per capita* income has widened from a ratio of 1:30 in 1960 to 1:74 in 1998. Today almost half of man-

kind lives on less than two euros per day. A quarter of the world's population has no access to clean drinking water. Hundreds of millions of children have no prospect of ever being able to attend school. And every day more than 20 000 people still die of starvation. Most of them are children.

Figure 4



Women, however, have also been hard hit by the economic and social upheavals of the globalization process, for two thirds of the world's poor are women. In the so-called developing countries, they constitute two thirds of the informal labour force, in other words those who work with no welfare cover of any description. Of the people who work in special economic zones, where welfare standards have been lowered and employees' rights curtailed, almost 70 per cent are women.

The globalization process in its present form has evidently gone wrong in one particular respect, for there are not enough jobs for everyone who is looking for work or at the locations where they are most needed. More than a billion men and women are unemployed or underemployed or are working without benefiting from social security in any way. For this reason, 120 million migrant workers and

their families leave their native countries each year in search of work. In developing regions in particular, 500 million new jobs will be needed over the next ten years, especially for young people and for women.

But the adverse effects of globalization do not stop at the borders of prosperous countries. On the contrary, employees in the developed world and their families also feel the pressure of the world market as jobs are cut and production facilities relocated. In many areas of economic activity, such as the construction industry, the presence of large numbers of migrant workers is an increasingly influential factor, leading inevitably to the undercutting of locally agreed wage rates. Although employees and consumers do benefit from globalization in terms of a wider range of goods, cheaper holiday travel and low inflation, as fierce competition compels providers of goods and services to keep their prices down, the rapid mobility of capital, which can now be switched to new investment targets at any time, leaves employees and their families trailing helplessly in its wake. They experience globalization as the destruction of their security, guarantees and rights, as a threat to their jobs and incomes.

Political pressure is rising within the population – not only out of grave concern about poverty in the Third World but also out of fear for their own livelihoods. The people do not oppose globalization, but they demand a say in the process.

The work of the Bundestag Commission is therefore a process of catching up with a highly dynamic development. It is a process in which Parliament, the sovereign body elected by the people, has turned its attention to the opportunities and risks inherent in globalization. All too often the German Bundestag has not properly discussed far-reaching international resolutions in this domain, either limiting itself to deliberations by the Members who are directly concerned with development policy or merely noting and then ratifying the resolutions in question. Another significant point about the Study Commission's report is therefore the fact that it represents a positive signal by the Members of the German Bundestag of their desire for a greater say in shaping the definition of globalization and indeed for an active part in determining its substance.

The decisions taken by international bodies, many of which have far-reaching implications, must be made transparent for the general public. No one with an interest in receiving information and contributing seriously to the formation of public opinion, and ultimately to the decision-making process, should be margi-

nalized. Whether globalization can be based on social justice, care for the environment and fairness will depend on people from the various continents, cultures and walks of life being politically involved in determining the conditions in which globalization develops.

In the globalization process, considerations of culture, the environment and social justice are liable to be pushed into the background by the pressure of the competition to minimize costs. Government expenditure on public assets such as infrastructure, health care, education, research and public security is also more difficult to fund in a climate of potentially ruinous competition for the lowest taxation levels.

By contrast, the last decade has seen a strengthening of the position of capital owners and their managers, who are able to respond with the utmost flexibility to developments in the international capital and commodity markets, reaping the benefits that derive from locating business operations in particular regions of the world and playing off one location against another without considering the social repercussions. This strengthened negotiating position of the representatives of capital is reflected in their relationship to governments and parliaments as well as to trade unions, the organizations of civil society and the media.

The new type of situation, characterized by the neologism 'globalization', creates the need for political action. This need is greatest in those areas where the disadvantages of globalization are making themselves felt alongside the advantages.

The foremost target of political action must be the 'protection of public assets'. These assets include peace, food safety, preventive health care, social justice and the integrity of the environment as well as education and research, the stability of the financial markets and a minimum level of economic prosperity. Closely related to these public assets is the concept of 'human security' framed by the United Nations. This concept may be regarded as a response to increasingly serious problems in the domains of individual welfare and supply that have arisen in connection with economic globalization and the privatization of public assets. The strategy of the United Nations is to urge the international community to eradicate the factors that create insecurity for the most vulnerable people.

Globalization can certainly be conducive to the provision of public assets. Global economic interdependence seems, for example, to make human-rights violations

more visible, to make modern environmental technology more readily available and to strengthen basic democratic structures through economic interdependence. Globalization can also enhance the value of public assets through the cost-effective discharge of public responsibilities by private operators.

This privatization of public responsibilities, however, also demonstrates all too clearly that strong public regulatory authorities are needed in order to ensure that private operators are given targets which focus clearly on the public good and not mere profitability and that these targets are actually achieved. Left to its own devices, the market economy has never pursued the good of all people. It has always been the task of government – and still is – to guarantee fairness and to ensure that the benefits of increased prosperity are widely spread.

Despite differences between the various political groups in the Bundestag – including disagreement about the net beneficial or adverse impact of globalization – it is still striking that most of the Study Commission's recommendations were adopted unanimously, in other words by cross-party consensus.

To sum up, it may be said that the Study Commission is calling for greater efforts to ensure that the opportunities of the present globalization process are fully exploited for the benefit of everyone and that its risks are substantially reduced. The consensus view is that global politics must be based on care for the environment, fairness and social justice. If globalization is to have a human face, it is absolutely essential to guarantee that all people are involved in major decisions affecting their lives and that they share in increasing prosperity. Despite the Study Commission's thorough examination of key globalization issues, however, some of the questions contained in its mandate or raised in the course of its discussions remain unanswered. The Commission therefore recommends that the German Bundestag consider the findings of the Study Commission during the new legislative term and renew its mandate.

2. Stabilization of the global financial markets

If they function effectively, financial markets can make an important contribution to economic and social development. They help to fund private and public investments on the one hand and long-term capital formation by individuals, households and companies on the other. Moreover, the financial markets are playing an increasingly important role in the funding of development projects. For financial markets to be able to perform these functions, they – like all other markets - require an institutional framework, because financial affairs are not inherently stable. The constant assessment of risks and opportunities and the ceaseless quest for more profitable investment targets can go wrong. The financial crises of recent decades, such as the Asian and Mexican crises as well as the latest crisis in Argentina, have shown how costly such instability can be for the societies concerned and how seriously the stability of the global financial system can be endangered if local instability is allowed to escalate into a financial crisis. Transparency and efficient supervision designed to avoid or reduce risks are just as indispensable as checks on short-term capital flows, highly geared speculative funds (hedge funds) and tax havens.

Since the deregulation of the financial markets began in the early seventies, their growth has been nothing short of spectacular. The total value of direct investments increased fourfold in the course of the eighties and fivefold during the nineties. The total market value of all the ordinary shares of listed companies, known as market capitalization, trebled in the course of the nineties, and indeed by the end of the decade the value of share transactions was more than seven times higher than it had been at the beginning.

In terms of quality too, the development of the financial markets has been extremely dynamic. Innovative financial solutions mean that capital can be invested very quickly in a wide range of instruments on the world's money markets. Derivatives, which are spin-offs from the basic financial instruments, serve to safeguard commercial and credit transactions and are offered to wealthy clients as 'customized' investments, which are sometimes highly speculative. They can run to amounts that have become far removed from the real world of production and investment. An amount of some 1.2 billion U.S. dollars changes hands daily on the foreign-exchange markets, but no more than five per cent of that amount

The global financial markets are dynamic and innovative ...

... but they have largely become detached from reality and are therefore unstable

serves to fund commercial transactions and direct investments; the huge remainder comprises arbitrage and speculative transactions between the internationally active financial institutions, transactions which bear little relation to real production processes.

Institutional investors play a crucial role in all of this. Since, at the latest, the near collapse in September 1998 of the Long-Term Capital Management (LTCM) Fund, a so-called 'high-leverage institution' or 'hedge fund', and the subsequent threat of a global financial crisis, market-watchers have become clearly aware of the dangers that can emanate from players who operate almost unsupervised in what is to all intents and purposes a legal vacuum. Proposals for their regulation have been formulated across the globe, along with proposed measures to control tax havens (offshore financial centres (OFCs)), through which not only the managers of high-risk funds but also organized criminal rings prefer to conduct their business. Pressure must be applied in order to ensure that those responsible for tax havens cooperate with the international supervisory organizations in the realm of finance, thereby reducing the risks posed by tax havens to the stability of the global financial system. The Study Commission therefore recommends improved international supervision by the Bank for International Settlements (BIS), the Organization for Economic Cooperation and Development (OECD) and the International Monetary Fund (IMF); this supervision would extend to tax havens and discriminate against those funds which conduct their business from uncooperative offshore centres. The Study Commission also recommends that the hedge funds should underpin their operations with far higher equity levels than are required today. This would make high-risk speculative transactions more expensive and hence less attractive.

Victims of financial crises sustain huge losses

One reason for the dynamism and innovations in the global financial markets was the rise in real interest rates at the start of the 1980s. In such conditions, the appeal of financial investments increases in relation to the acquisition of tangible assets. If real rates of interest exceed GNP growth rates over a lengthy period, however, it may become difficult for debtors to service their debts. When this happens, an escalation from financial instability to overt financial crisis can no longer be ruled out. This was the case back in the eighties, when almost all the

High real interest rates generate dynamism and encourage innovation ...

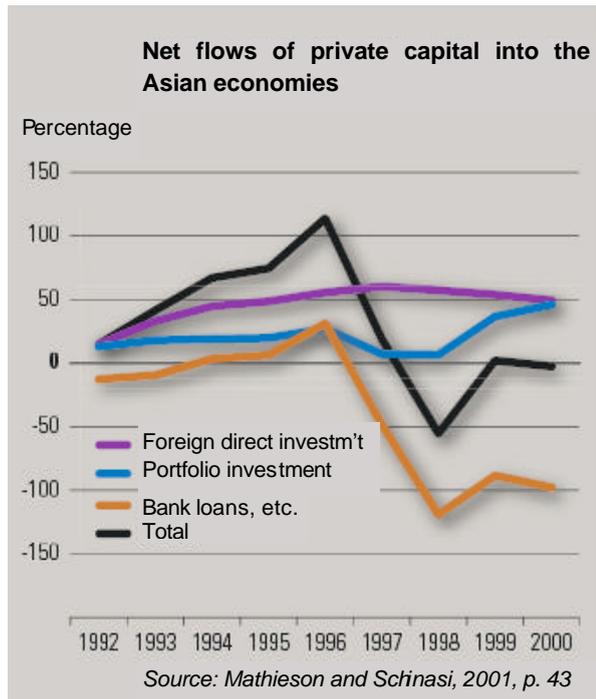
countries of Latin America, Africa and Asia, as well as some of the countries of Central and Eastern Europe, became embroiled in a serious and sustained debt crisis which has yet to be finally overcome.

Financial crises have many causes, some of which come from within the country in question. The debt crisis of the eighties was not solely due to the increase in real interest rates or to the deterioration of many developing countries' terms of trade. Loans raised abroad were not always used to strengthen national economies but sometimes to finance the purchase of arms or luxury goods. The financial crises of the nineties were also due in part to the absence or weakness of supervisory and regulatory authorities.

Flawed assessments of the economic situation by policy-makers and various players and consequent mismanagement of the economy by national governments also play a frequently decisive role. But another crisis factor, which is surely no less decisive, is the fact that some financial transactions are of an extremely short-term nature, which can result in the flight of capital from a country at the first signs or suspicions of a crisis. When a large percentage of market operators base their financial commitment on the same information (from rating agencies, for example), the 'herd instinct' can come into play. After 1997, for example, a torrent of capital in the form of bank loans poured out of five Asian countries, escalating into a major Asian financial crisis (see Figure 5 below). Over the last ten years, hundreds of millions of people have been thrust into material poverty through no fault of their own as a result of financial crises in Mexico, Asia, Russia, Brazil, Turkey and Argentina.

***... but also exert
unbearable
pressure on
debtors***

Figure 5



Rating agencies and financial analysts clearly bear a great deal of responsibility, because they induce investors to channel their funds in the same direction with the 'irrational exuberance' referred to by Alan Greenspan, Chairman of the U.S. Federal Reserve Board, and this is not necessarily the best way of promoting the development of countries or the stability of global financial markets. Financial crises come at a terrible cost to everyone. The societies affected by a financial and banking crisis have a very high price to pay, since part of each country's GDP has to be devoted to the rehabilitation of the financial-services industry.

Table 1

The cost of banking crises in selected countries

Country	Deregulation or privatization and liberalization of financial services	Banking crisis	Cost of banking crisis to the national budget as a % of GDP
Mexico	1989-1992	1995-2000	20
Ecuador	1992-1996	1998 -	25
Argentina	1990-1993	1994-1997	30
Venezuela	1989-1992	1994-2000	35
South Korea	1992-1996	1998-2000	25
Thailand	1992-1996	1998-2000	22
Indonesia	1992-1996	1998-2000	50
Russia	1990-1994	1994-2000	40

Source: World Bank data

Financial stability is indirectly recognized as a public asset to the extent that the public authorities will always eventually provide standby credits to ensure that crises can be overcome and that at least a fragile form of stability can be established. In the nineties, a total of some 250 billion U.S. dollars was paid from various publicly funded sources to restore financial stability for a certain period of time. These resources served to ensure that private assets did not have to be written off.

If crises are to be avoided or resolved, national and international supervision and intervention agencies are essential. Especially when it comes to the liberalization of financial markets in developing and newly industrialized countries (NICs), markets to which access has hitherto been closed or restricted, care must be taken to ensure that an efficient central bank and the corresponding integrated supervisory bodies are formed and that the laws governing liability and competition are adapted to the conditions in deregulated open markets.

The need to regulate global financial markets

In the industrialized countries too, there is a need for regulation to protect financial stability. Firstly, it can be seen that financial innovations in global markets and concentration processes among financial institutions are liable to make borrowing more difficult for small and medium-sized enterprises (SMEs) and to re-

The cost of financial crises

Financial stability as a public asset

The importance of competent institutions increases as access to financial markets is opened up

duce the number of banking-service providers in any given area. Moreover, the international standardization of rules and procedures for risk assessment in the credit business (the 'Basel II process') may mean that a considerable percentage of SMEs will find it more expensive, and in some cases impossible, to borrow money.

Combating money-laundering effectively

Secondly, importance attaches not only to financial stability but also to the integrity of the financial institutions that operate in global financial markets. This integrity is sometimes undermined on a huge scale, especially by the laundering of illegal earnings. The International Monetary Fund (IMF) estimates the value of laundered money at up to five per cent of global GDP. This factor cannot be ignored, especially in view of the crimes from which these laundered funds are obtained: drug-trafficking, investment fraud, human-trafficking, corruption, tax evasion, etc. As long as money-laundering is not effectively combated, the fight against organized crime cannot be properly waged either. Tax havens play a key role in the laundering process. The recommendations of the Financial Action Task Force (FATF), the provisions of the EU Directive on prevention of the use of the financial system for the purpose of money laundering and the proposals adopted on 8 February 2002 by the Conference of the European Parliaments Against Money Laundering on a coordinated EU approach towards uncooperative countries and territories must serve as guidelines in the fight against money-laundering. The Study Commission recommends greater transparency with regard to movements of capital, scope for sanctions against uncooperative tax havens and improved international financial supervision as well as the use of fiscal legislation to uncover profits from illegal transactions, from drug-dealing to traffic in human beings.

Stabilization of the financial markets

Thirdly, it is very important to stabilize financial markets by regulating capital movements, which are mainly of a short-term nature, as well as the players who effect these movements and the marketplaces where capital changes hands, particularly the offshore financial centres; our reference to the cost of financial crises has shown why it would ultimately cost societies less to reverse deregula-

Guaranteeing the provision of credit for small and medium-sized businesses

Money-laundering threatens the integrity of financial institutions ...

...and must therefore be curbed by means of appropriate criminal and fiscal legislation

tory measures at the present juncture. There have been many proposals for curbing the volatility of capital flows; some have been formulated within the international institutions, while others stem from national parliaments or international organizations forming part of civil society. On the one hand, we would emphasize the importance of improving the coordination of monetary policy within and between the main currency blocs. On the other hand, a tax on foreign-exchange transactions, as proposed by James Tobin, has already been under discussion for years as a means of reducing volatility. A low rate of tax – less than 0.5 per cent of the transaction value – would be levied on each international foreign-exchange transaction. In the case of long-term investments in which the capital is tied up for several years, such a levy would be an almost insignificant factor; in the case of short-term transactions (the so-called round trips, in which amounts of money are often moved several times in a single day so as to benefit from the minimal margins on currency deals), however, the tax would be levied on every currency exchange. Unless the value of a currency rose or fell sharply, the tax would make such transactions unprofitable, and so they would not take place. This could help to stabilize the financial markets. The Study Commission therefore recommends that the Federal Government press, initially at European level and then internationally, for the introduction of a tax on foreign-exchange transactions.

In addition to the use of a tax on foreign-exchange transactions to ‘segment’ the foreign-exchange markets, the fourth measure that could help to stabilize financial and monetary relations would be the fusion of smaller currency areas. James Tobin also proposed this as an alternative to the ‘Tobin tax’ on foreign-exchange transactions. By introducing the euro, for example, the countries participating in European monetary union put an end to any speculation between the principal European currencies. This was a major success on the way towards a democratic and socially responsible Europe. This progress must now be safeguarded through the creation of an integrated European capital market.

One form of monetary integration that has not been successful in this respect, however, is the one-sided pegging of one currency to another (full dollarization, as in Ecuador, full pegging to the euro, as in Kosovo, or dollarization with a Currency Board, as was the case for a long time in Argentina). As the Argentine crisis demonstrates, dollarization is only a temporary solution to financial problems, serving to reduce domestic inflation and to check the decline in the external value

Reducing the volatility of exchange rates by means of a tax on foreign-exchange transactions

The integration of currency areas: the importance of European monetary union ...

... and the pitfalls of ‘dollarization’

of the national currency. At the same time, however, it poses many risks to the countries concerned. Foremost among these is the loss of economic and monetary sovereignty without any guarantee that the monetary authorities of the country issuing the hard reserve currency will consider the interests of a 'dollarized' country. The most recent developments in Argentina in 2001 and 2002 confirm these fundamental misgivings. The peso eventually had to be unpegged from the dollar in 2001. Out of the monetary crisis came forth a financial crisis, a banking crisis, a social crisis and finally an acute political crisis.

Besides endangering the stability and integrity of the economy, liberalized financial markets also present the problem of major players in the financial markets exerting pressure on businesses and governments. Institutional investors pressurize managers of major joint-stock companies to let company policy be guided entirely by the shareholders' interest in quick profits and increased share values (shareholder-value orientation) and therefore to neglect the interests of other groups of stakeholders, such as employees and consumers. By threatening to withdraw their capital, major investors can even induce democratically elected governments to base their economic, fiscal and social policies on the principle of maximizing returns on investment rather than those of full employment, prosperity and the fair distribution of income and property as well as environmental sustainability. It is also risky to subjugate social-welfare schemes to trends in the capital markets through privatization or, as in the case of major U.S. pension funds, to let them be driven by the shareholder mentality.

Money-laundering is an activity which occurs in global financial markets and which flouts laws and ethical standards. Sustainable investment is a completely different matter. Sustainable investment enables small investors in particular to base their financial stake in companies and funds on more than a mere desire for high returns. To enhance the transparency of investments, we would recommend regular compulsory reports on all forms of investment; this would mean that social and environmental considerations could be taken into account in investment decisions. The Study Commission also recommends that the criterion of sustainability be applied to government investment support, old-age provision and other publicly funded support schemes.

***Sustainable
investment
based on en-
vironmental
and social
criteria***

Reform of the Bretton Woods institutions

Reform of the global financial markets is overdue, but such reform would be absolutely impossible unless the Bretton Woods institutions, i.e. the IMF and the World Bank, were reformed. The core function of the IMF is to stabilize international monetary relations and to resolve acute balance-of-payments crises. In the period up to the early seventies, when the system of fixed exchange rates prevailed, its main task was to redress short-term imbalances between currencies. Since the eighties, it has also been required to overcome debt crises by prescribing 'structural-adjustment programmes' to enable debt-ridden countries to fulfil their obligations to their creditors (usually the large commercial multinational banks). The price to be paid by the debtor countries, which were inherently weak anyway, was usually deep cuts in welfare provision, which even led to political unrest in many cases, and a restructuring of the economic system in the direction of open liberalized markets. This policy was not always successful. On the contrary, the financial crises of the nineties have shown that the long-standing policy of structural adjustment has no future in a globalized economy.

After the Asian crisis, people spoke of a 'post-Washington consensus', and since the UN Conference on Financing for Development in March 2002, the talk has been of a 'Monterrey consensus' and of the creation of a 'new financial architecture', in other words of radical reform. The following facts are being more and more widely recognized:

- The terms on which official credit providers base their decisions to grant loans (conditionality) must include social and environmental criteria.
- Decision-making must become more transparent, the involvement of developing countries must be increased, and there must be greater receptiveness to the inputs of civil society.
- All points of view must be represented in the IMF, not only those of the supply-side economists and supporters of comprehensive deregulation who predominate at the present time.
- Borrower countries should be able to specify the terms by which they wish to be bound ('ownership') rather than having conditions dictated to them. An important factor in the discussion on reform of the Bretton Woods institutions

From the policy of structural adjustment in accordance with the 'Washington consensus' ...

... and then the 'post-Washington consensus' to the development of the 'Monterrey consensus'

is a balanced redistribution of voting rights to ensure that a 15% minority could no longer block major structural decisions.

When a crisis looms, investors may regard the anticipated financial aid from the IMF, which is ultimately provided by taxpayers, as something akin to 'loan insurance'; in order to counteract this tendency, which results in foolhardiness or 'moral hazard' as investors enter into risky transactions in the knowledge that the taxpayer will bail them out, it must be made clear that the cost of resolving crises will not only be borne by debtors and by the international community but that creditors will have to pay their share too (the concept of 'bail-in' or private-sector involvement in crisis resolution). Investment risks must be taken into account when economic decisions are made. Private investors should no longer be able to rely on the taxpayer to foot the bill for their obviously high-risk ventures.

***Involvement
of creditors
in the resolu-
tion of finan-
cial crises***

The main function of the World Bank is to finance long-term regional and sectoral development programmes. In recent years, the alleviation - and ultimate elimination - of poverty has risen to the top of the World Bank agenda, the most emphatic reaffirmation of this aim having been made at the G8 Millennium Summit on Okinawa in the year 2000. The World Bank currently expects a slight reduction in the percentage of the world's population who live below the poverty line over the next decade. In absolute terms, however, the number of poor people is likely to go on increasing as in the past, at least in Africa and Latin America (World Bank, *World Development Report 2000/2001*).

***The key task
of the World
Bank is to al-
leviate poverty***

The number of poor people has decreased in relative terms only, in other words as a percentage of the global population. In fact, during the aforementioned reference period the absolute number of people living in poverty actually rose by 100 million. The reason for both of these trends is that there are extremely wide disparities between development processes in different parts of the world; in general terms, progress on the development front has been unsatisfactory. For this reason, combating poverty remains one of the foremost aims of World Bank policy as well as an overarching mission of all development policies. In accordance with the Monterrey consensus and with the aims of German development policy, as a contribution to a global structural policy, the comprehensive reform of international financial institutions, and particularly their focus on the fight against poverty, must be actively encouraged.

Funding development cooperation

This also means providing stronger support for the developing countries in their efforts to establish stable and efficient national financial systems. It is demonstrable that the financial crises of past years have had especially disastrous effects on the poorer sections of the population in many countries. Key importance attaches to small-loan schemes to provide credit facilities for both small businesses and the poverty-stricken population in developing countries, who often have no access to loans from the commercial banks. Microcredit schemes are an indispensable part of any strategy designed to promote the informal economy, which is expanding in almost all of the developing countries (see also chapter 4 on global labour markets). For women in particular, the commercial financial institutions do not provide adequate credit facilities. It is therefore an important aspect of development policy that women should be adequately involved in programmes and projects funded by the World Bank and the multilateral regional development banks. Figures from the last few years have shown that small and even minimal loans made to women have had a disproportionately high impact in terms of improving living standards for families and social communities. The Study Commission was able to witness this on its visit to the Self-Employed Women's Association (SEWA) in India.

When the importance of financial markets to women in both developing and industrialized countries is discussed, macroeconomic aspects must not be ignored. The Study Commission welcomes the fact that budgets are already being analyzed in some countries for their compatibility with the principle of equality between the sexes ('gender budget analysis'); in these analyses, the structure of the national budget and the impact of budgetary amendments on various groups and social classes of women and men are examined and evaluated. The special economic and social needs of women, particularly with regard to employment opportunities and access to health care, education, training and advisory services, as well as to social assistance and welfare benefits, must be considered in public budgets.

The main source of public funding for development cooperation remains the international system of official development assistance (ODA). In the seventies, the industrialized countries agreed to devote 0.7% of their GNP to development assistance, but so far they have only managed to reach 0.22%. Germany currently

***Microfunding
for the informal economy...***

... and for women's projects as a means of promoting equal opportunities

'Gender budget analysis' – a contribution to transparency and stability

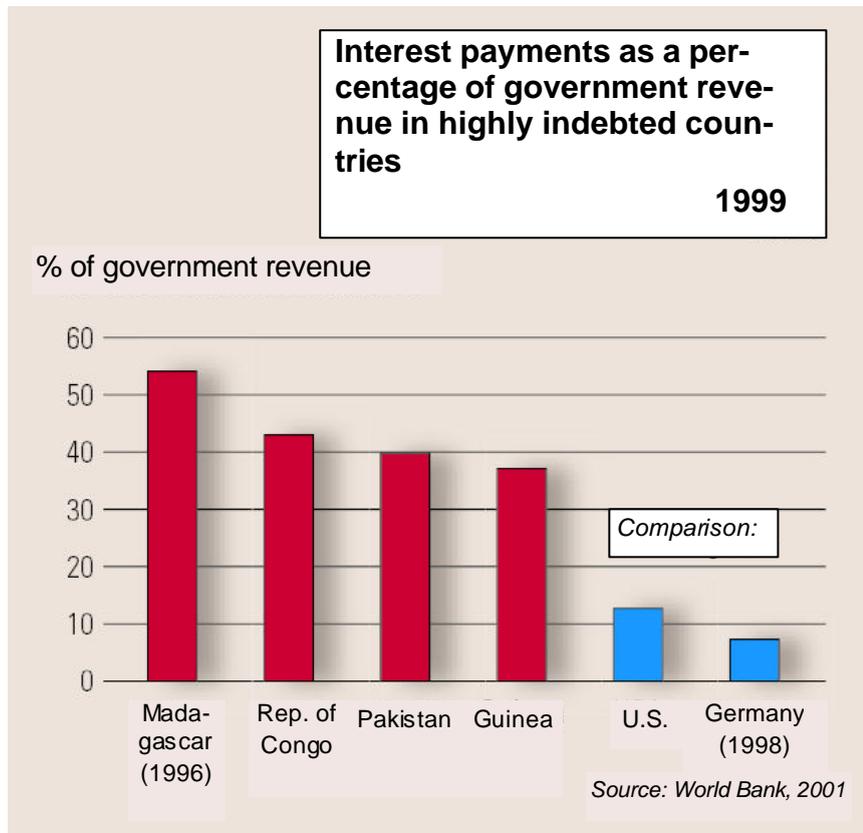
Official development assistance: centralized but underfunded

allocates about 0.27% of its GNP to development cooperation. The Study Commission recommends that the resources allocated to official development assistance be increased to the target level of 0.7% on the basis of mandatory timetables. Private-sector investments and capital transfers cannot make up the shortfall in public funding, because they are primarily focused on a small number of newly industrialized countries and on the extraction of natural resources.

Another contribution to development cooperation is the reduction of the high debt ratios of many developing countries. An excessive percentage of these countries' GDP has to be spent on servicing debts (see Figure 6 below). The debt-remission initiative for the highly indebted poor countries (HIPCs), which was adopted at the G7 summit in Cologne, must be continued. The fact is that an unsustainable level of external debt leaves too little scope for education and health projects, for the improvement of the material infrastructure or for the creation of a system of government based on the rule of law and greater gender equality, in other words for the essential foundations of sustainable development.

***Debt remission
and an interna-
tional insol-
vency procedure***

Figure 6



In addition to the debt-remission initiatives, the Study Commission recommends that agreement be reached on an international insolvency procedure which will give debtor countries a fair opportunity to make a fresh economic start without deterring companies and banks from investing in the insolvent countries. It recommends the intensification of national and international efforts to overcome the complex legal problems involved in the establishment of such a procedure.

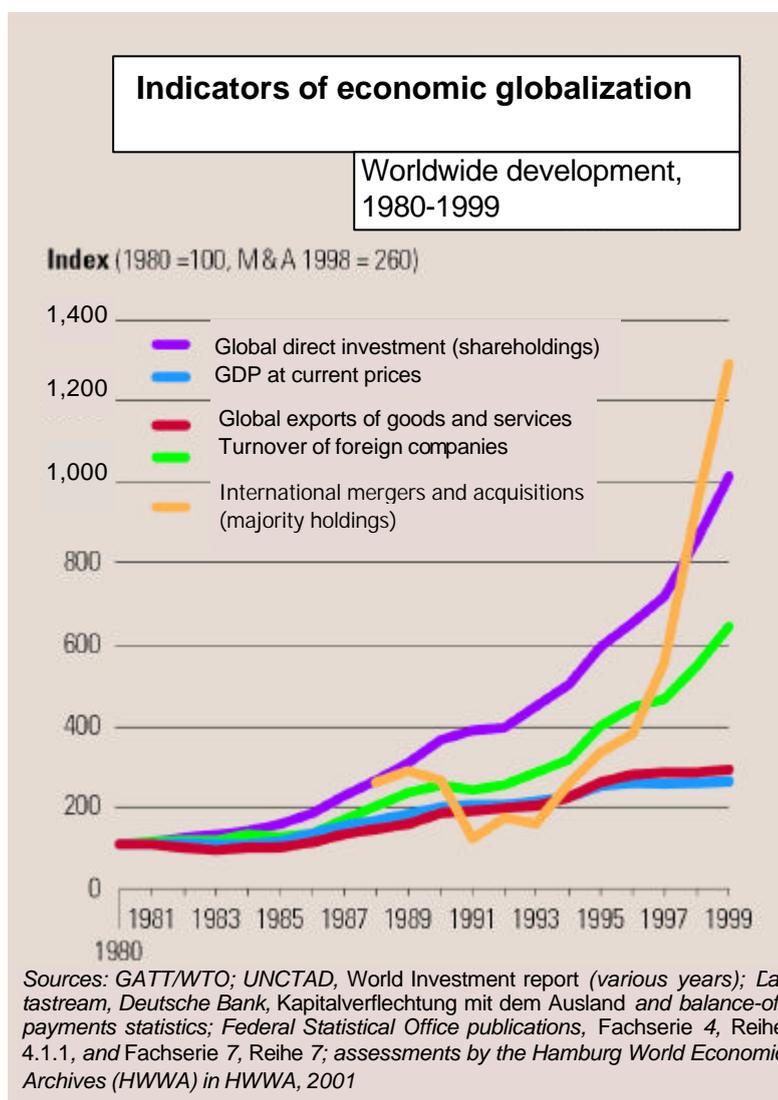
The PDS working group (Party of Democratic Socialism), moreover, takes the view that the destabilizing influence of deregulated financial markets, which jeopardize democracy and the welfare state, cannot be definitively eliminated unless the major financial houses are bound by a democratically adopted development strategy geared to full employment as well as social and environmental sustainability and are made to focus once again on their main functions, namely investment funding and capital formation. The PDS minority report (see subsection 11.3.2 of the Study Commission's final report) also makes supplementary

recommendations on the reform of the EU financial market. The report contains proposals on competition policy, on financial supervision, on policy relating to the structure of banks, on trade in securities, on the division of financial markets and on social safeguards, on the taxation of capital gains and company profits, on more extensive regulation of institutional investors and on a stability-centred macroeconomic policy. The PDS working group also supports the introduction of exchange-rate target bands for the three major currencies and the creation of regional systems of monetary cooperation with a view to stabilizing monetary relations and preventing financial crises.

3. Global markets in goods and services

In the goods and services markets, the clearest indicator of globalization has been the meteoric increase in external trade and foreign direct investment. In the period between 1980 and the year 2000, world trade rose twice as fast, and foreign direct investment ten times as fast, as production.

Figure 7



The globalization of trade in goods and services, however, is not evenly distributed among all countries, regions or industries. The bulk of international trade is

conducted within formal regional economic groupings, such as the European Union (EU) or the North American Free Trade Agreement (NAFTA) concluded by Canada, the United States and Mexico. A considerable share of world trade is now carried on by trading blocs such as the EU, whose internal and external exports accounted for 36% of global trade in 1998, followed by NAFTA, with 18.4%, ASEAN, with 6.1%, and Mercosur, with 1.5%. About two thirds of the volume of EU trade, in fact, comprises transactions within the European internal market. The value of these internal transactions exceeds the value of trade between the three major trading blocs, namely the EU, NAFTA and Japan. The most vibrant interregional trading partnership is that between Asia and North America, trans-pacific trade accounting for six per cent of the global total. Euro-Asian trade accounts for 4.6% and transatlantic trade between Western Europe and North America for 4.2% (HWWA, 2001). In addition to regional economic cooperation, an increasing number of interregional cooperation agreements are now being concluded or are in the pipeline. Examples are the EU-Mexico agreement and the EU-Mercosur agreement that has been planned for some time. Another plan that has been on the agenda for a long time, the Free Trade Area of the Americas (FTAA), has been given more tangible shape by recent political decisions.

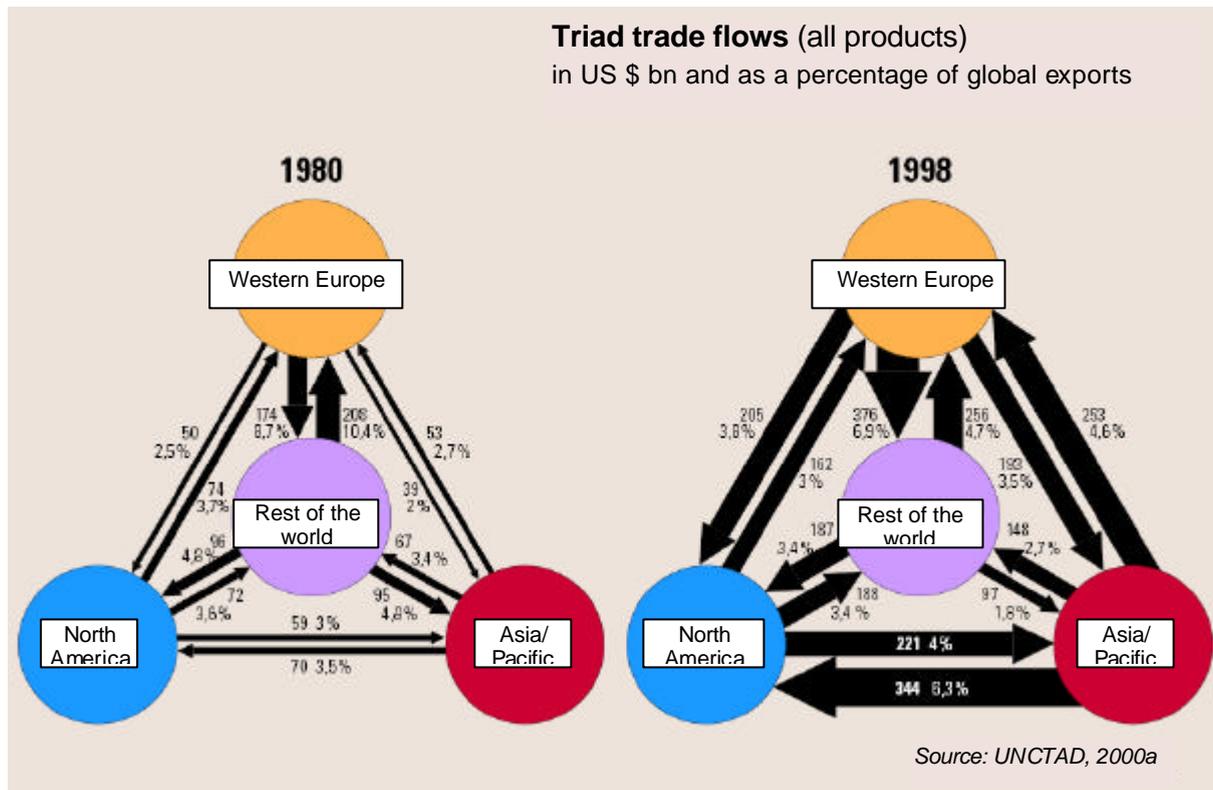
Agreements of the new generation more frequently contain provisions that go beyond the mere reduction of conventional trade barriers to create closer links in other areas of economic relations ('deep integration'). The European Union is a major driving force in this respect.

Regional integration agreements can introduce higher standards (as in the case of EU environmental and competition policies) on which wider multilateral consensus is not yet achievable. But because these factors become significant trading advantages in the long term, they can have a beneficial knock-on effect.

This effect is easily observable in the history of the European Union. The economic, social and political unification of Europe has been taking place over the past half-century. As the Union extended southwards and as it has prepared for eastward enlargement, it has amassed experience in the integration of countries with widely diverse structures. The close coordination that takes place among the Member States of this 'trading bloc' and its contractual foundations enable the European Union to perform well, even in terms of trade policy alone, in relation to mere free-trade areas or other trade groupings. The European integration process, for example, which has established higher common standards and harmo-

nized the policymaking of the Member States, can also serve as a model for regional integration efforts in the developing world. It has shown that regional trade pacts should go hand in hand with the development of democratic mechanisms for shaping the political process.

Figure 8



The product structure of world trade has also undergone a profound transformation over the last few decades. The dynamic growth in sales of manufactured goods has been accompanied by a corresponding decline in the relative importance of trade in agricultural produce, from 47% of the volume of world trade in 1950 to only nine per cent in the year 2000. Nevertheless, there are still countries, particularly some of the developing countries, which are highly dependent on agricultural exports.

In conducting its analysis of the development of world trade, the Study Commission noted that important data relating to the facts and trends of globalization were not available in the required form, either because such data simply did not exist or because the figures that did exist were not comparable with other collected data. The Commission's unanimous recommendation is therefore that the

Federal Government launch a national and international initiative with the aim of improving the data situation.

Small and medium-sized enterprises (SMEs)

Since small and medium-sized enterprises (SMEs) are often regarded as victims of the globalization process, and since they also have enormous employment potential, the Study Commission gave them special attention. One of the Commission's three visits to businesses was paid to a globalized SME. The visit provided a practical demonstration of the vital contribution made by SMEs in both industrialized and developing countries to economic and social stability and prosperity. Although SMEs are more likely to operate nationally or regionally, globalization influences their business opportunities and risks, particularly in view of their increasingly significant role as suppliers to major multinational companies.

SMEs can respond very flexibly and dynamically to competition, but they also have to overcome a wide range of problems: besides the insufficient availability of funding (see chapter 2 above), the shortage of suitably skilled labour is a growing problem, along with a lack of experience and resources in the domains of external-trade promotion and cooperation and insufficient access to research and development. In response to these problems, the Study Commission recommends more vigorous development of internationally orientated advisory services and the promotion of networks which will ensure that SMEs can continue to benefit from the transfer of research findings.

***Wide range of
advisory services
for SMEs***

Combating corruption

Bribery and corruption are cancerous growths that are increasingly endangering the global economy and nation states. Not only do they undermine confidence in the integrity of business managers; in the long run, they also destroy confidence in democratic institutions and erode their efficiency.

Studies conducted by the World Bank have shown that businesses in countries where corruption is rife spend up to a third of their profits on bribes to corrupt officials and politicians. In connection with international trade alone, the Transparency International organization estimates that bribes totalling at least 100 billion U.S. dollars find their way into the pockets of public employees.

But corruption is not a specifically Third World or non-European problem. In Europe too, including Germany, it is a growing and pressing problem, especially as regards the awarding of public contracts. The burden this places on the general public, and particularly on taxpayers, assumes macroeconomically significant dimensions. In Milan, for example, when the public prosecutor took firm action against corrupt officials and company bosses, the cost of constructing a kilometre of underground railway fell by 52%, and the cost of building an airport terminal was reduced by 59%.

The Study Commission on Globalization calls for stiffer penalties and more effective action to combat bribery and corruption at every level. To this end, it recommends vigorous support for the OECD Anti-Bribery Convention, an improved flow of information to the public prosecuting authorities from government departments, especially from the tax and customs authorities, and the creation of more specialized anti-corruption units within the public prosecutors' offices. Corruption should be subject to tougher sanctions, at least in the EU, and the names of guilty companies should be entered in an anti-corruption register, which would disqualify them from tendering for public contracts for a fixed period. On leaving the public service, senior officials and office-bearers should be barred for a period of three to five years from entering the employment of companies, associations and other government-related organizations with which they have dealt in the performance of their official duties or which could make use of their inside knowledge to the benefit or detriment of third parties. At the same time, it is recommended that informants who assist the public prosecuting authorities be afforded effective legal protection against dismissal, demotion or economic penalties, as is the case in Britain and the United States. Besides tougher sanctions, the Study Commission proposes that public authorities and private companies should be required by both national and international law to conduct their business in a more transparent manner.

Transport trends and costs

Global trade in goods and an increasingly international division of labour have led to a dramatic increase in the volume of transport operations with a correspondingly adverse impact on the environment. If competing carriers are not required to pay the full economic cost of providing their transport services, or are treated

differently, two problems arise: firstly, cheap transport services induce manufacturers to locate parts of their production processes at distances which do not make macroeconomic sense; secondly, the fact that operators of some modes of transport have to pay a greater share of what their operations cost the national economy than operators of other modes imposes a particularly significant handicap on inland navigation and the railways at the present time.

The Study Commission recommends further efforts to internalize the social and environmental cost of transport operations, the creation of incentives to encourage a gradual shift away from road to rail and waterway transport and the complete cessation of subsidies for carriers whose operations damage the environment. Revenue from ring-fenced environmental levies on transport operations should be used to reverse the environmental and social damage they cause, to implement traffic-avoidance measures and to promote the use of environment-friendly technology in the realms of transport and logistics.

In general, the transaction costs arising from international trade, which include communication and transport costs, have fallen sharply in recent years and have encouraged the developments described above. For example, improved transport and communication facilities have led to a generalized increase in the international division of labour. Technical progress has enabled businesses to relocate large parts of their production systems from their core facilities in the industrialized countries to peripheral plants in the developing world. The improvement of transport services in particular, however, presupposes investments in the transport infrastructure – sometimes on a massive scale – and gives rise to a number of problems: on the one hand, an increase in the volume of transport services is accompanied by higher levels of energy consumption and an increase in the surface area devoted to transport operations; on the other hand, exhaust emissions also affect the climate. The fact that relocation is nevertheless an economically attractive option for companies has to do with the fact that the social and environmental costs arising from transport operations, like the cost of the transport infrastructure, are met by society. The environmental costs, such as the loss of soil to development ('soil sealing') and the effects of atmospheric pollution, are a form of hidden indebtedness, in the sense that future generations will have to pay in many different ways for this wasteful use of natural resources. In its unanimous recommendations, the Study Commission proceeds from the understanding that a sustainable transport policy requires complete internalization of

the social and environmental costs arising from the provision of transport services. It is ultimately a matter of reducing the increase in the volume of traffic, gradually shifting some of today's freight tonnage from the roads to the railways and waterways and supporting local public transport. Transport subsidies with an adverse environmental impact must be entirely abolished.

The World Trade Organization

The Study Commission believes that action is still needed urgently in the areas of activity of the World Trade Organization (WTO). The considerable growth in the number of WTO members alone bears adequate testimony to the importance that now attaches to the WTO in the realm of international trade relations. The rush to join the organization is not surprising, given that the Geneva-based WTO is the power centre of globalization. The rules adopted at its conferences are effectively the constitutional law of world trade. Countries that do not belong to the WTO must expect less favourable conditions of access to global markets. The aim of the institution is to ensure that international trade is conducted peaceably, but it would be wrong to turn a blind eye to the obvious need to reform the WTO. In the forthcoming rounds of trade negotiations, it will be necessary to strengthen the position of the developing countries in the system of world trade. The primary aim is to provide them with far easier market access, especially for their semi-manufactures and processed primary products. On the other hand, countries trying to reduce their development deficit must be able to restrict access to their market for some import categories for a limited time. So that they can participate in world trade with at least reasonable prospects of success, many countries in what used to be called the Third World must be able to pursue a successful national investment and growth strategy before being fully integrated into the global market.

International trade in services is a subject which is still fairly new on the WTO agenda. This is regarded as the most dynamic growth area in world trade, having attained a value of 1.34 billion dollars in the year 1999 alone; this represents one fifth of the total volume of global trade. Nevertheless, if we consider the growing significance of the service sector in terms of national income and employment, its share of world trade is relatively small. In the major industrialized nations of the OECD, the service sector accounts for 60 to 70% of GDP and employs 64% of

the entire labour force. Under the General Agreement on Trade in Services (GATS), on which another round of negotiations is due to take place in the WTO, service markets are to be divided into twelve sectors and four provision types and are to be opened to all providers. The services in question are not only business-related services such as freelance professional services, computer services, advertising, communication services (postal, courier and telecommunication services), construction and assembly services (building, civil engineering, etc.) or wholesale and retail sales services. The new provisions will also cover education services (nursery, primary, secondary, further and higher education), environmental services (sewage and waste disposal), financial services, medical and social services (including hospitals), travel and tourism, recreation, culture and sport and all transport services by sea, air, road and rail as well in outer space. The only exceptions will be services provided 'in the exercise of sovereign power' and the use of national air space.

Precisely because the liberalization of the service market affects the future economic and social order governing the global labour market, it is imperative that the universally recognized core provisions of the ILO Conventions should be enshrined in the WTO Agreements. Child, slave and forced labour should naturally be internationally outlawed and eliminated. Not even in the industrialized countries, however, can this be taken for granted – witness the forced labour carried out by inmates of U.S. prisons. Migrant workers in particular must be free to engage in trade-union activity and collective bargaining. Failure to recognize these rights would open the floodgates to wage and welfare dumping. Nor is it tolerable that freedom to provide services in other countries should give service providers the right to undercut minimum local standards of pay and working conditions to secure an advantage in global competition. To this end, provisions such as quality standards and a global directive on the posting of workers should be formulated for inclusion in the WTO Agreement on Government Procurement. There have hitherto been very few impact assessments. As a result, several of the Study Commission's recommendations on the General Agreement on Trade in Services (GATS) were controversial and provoked lively discussion. The Commission recommends that the domain of 'services supplied in the exercise of governmental authority', such as education and the so-called 'services of general interest' be excluded from the GATS negotiations. Furthermore, in the international harmonization of service standards and the gradual elimination of trade-

distorting service regulations, no international obligations should be incurred which circumvent EU law or restrict the right of nation states to impose more stringent national rules and standards. Especially in connection with the awarding of public contracts and with the rules governing access to the European market, higher standards adopted at the European or national level regarding compliance with collective agreements, equal opportunities, non-discrimination and social, environmental or growth targets must be maintained or – better still – be enforced in practice.

The Commission unanimously agrees that environmental and social standards are an indispensable part of economic activity. It regards their integration into the WTO rules as a suitable means of achieving environmental, developmental and social aims. It also recommends that all agreements which are binding in international law should be given equal consideration in the formulation of trade rules. If this is not done, experience has shown that GATT/WTO decisions are liable to give the principle of trade liberalization precedence over all other considerations, be they political, social or environmental. The Study Commission deems it essential that the relationship between multilateral conventions and the WTO agreements be clarified in such a way that, in the event of conflict between international commercial law on the one hand and respect for human rights, peace settlements and conventions relating to environmental or social policy on the other, the latter will always prevail over the former. This should be the guiding principle whenever the WTO has recourse to its very effective dispute-settlement procedures and to any sanction mechanisms.

As long as social and environmental standards are not satisfactorily safeguarded in international conventions, there is a danger that ‘special economic zones’, in which producers can flout social and environmental standards, will become more prevalent throughout the world. Over the past few years, codes of conduct have been developed in the private sector, and these codes enable companies to pledge themselves to social and environmental progress without jeopardizing their legitimate business interests.

Even though codes of conduct are by no means a substitute for a legal framework, they can still be highly effective; in some industries, the absence of a code of conduct can virtually bar a company from the market. Credibility and effectiveness can be substantially enhanced by the introduction of appropriate certification, auditing, monitoring and verification procedures involving trade unions and

Integration of environmental and social standards into the WTO rules

Opening production conditions to general scrutiny

non-governmental organizations. In this context it is worth assessing the value to be gained from translating codes of conduct prescribing minimum standards into legal provisions. The Federal Government should also support the efforts of groups within civil society to enforce and monitor adherence to codes of conduct.

As an inter-governmental organization, the WTO, which possesses only indirect democratic legitimacy, depends on all its Members having the same rights to participate in the formulation and adoption of decisions and being able to exercise those rights. In this respect, however, there are shortcomings: the numerical weight of the developing countries, which constitute about 80% of the WTO membership, is not reflected in the limited influence they wield. It is also disturbing that, as with many other international institutions, such as the IMF, the World Bank, the G7 or the OECD, the decisive influence in the WTO negotiations lies with national governments. So as to overcome this evident democratic deficit, the parliaments of the member countries should be given more extensive participatory rights and greater influence.

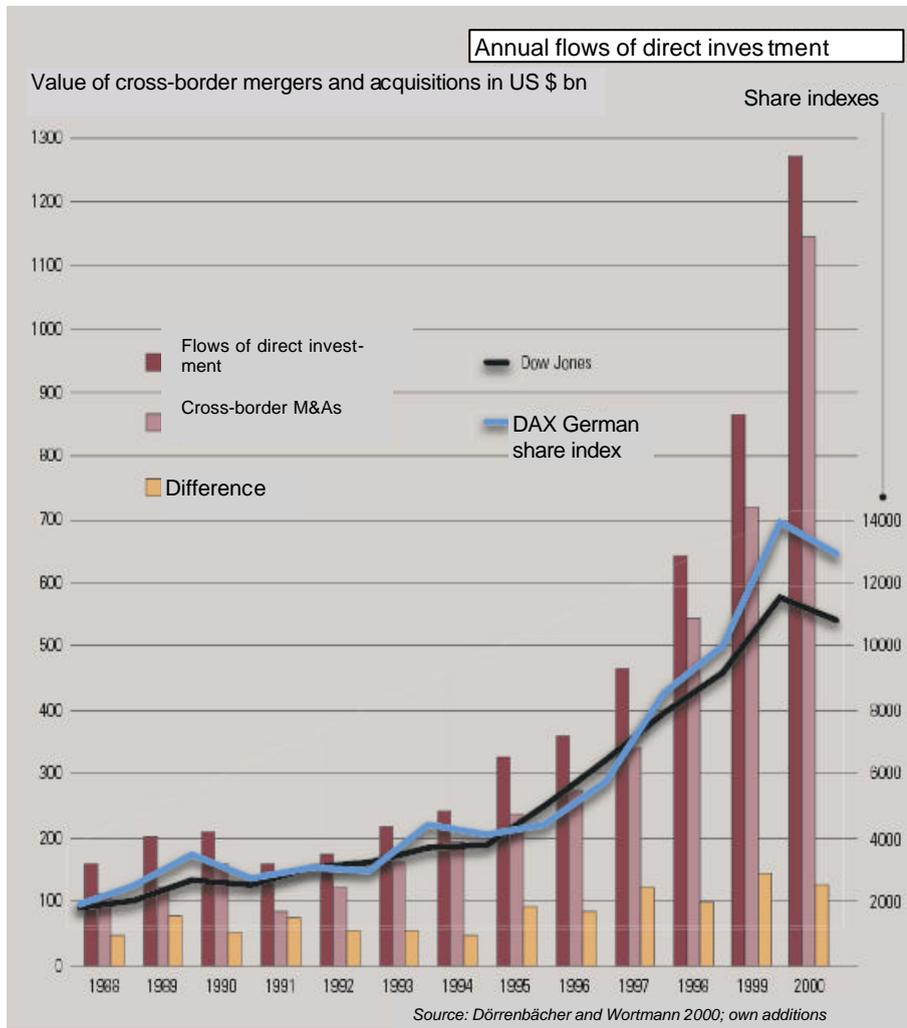
A lack of transparency, especially in the court-like proceedings before the WTO Dispute Settlement Body, has also given cause for dissatisfaction from the outset. Another objective of the Study Commission's proposals is to ensure that the bodies of the WTO are required to open their decision-making processes to public scrutiny. In accordance with the accreditation procedures that are customary within international organizations, observers from such organizations as well as representatives of non-governmental organizations, trade unions and associations should be granted observer status and have access to meetings of WTO bodies. The ILO and UNDP in particular should be given the right to speak at these meetings, and dissenting votes by these bodies should at least compel the bodies of the WTO dispute-settlement system to issue a justification of the decisions in question. In order to integrate the common EU trade policy more fully into the democratic process, the European Parliament should be granted the right of codecision on matters of European trade policy, and the aim of shaping the globalization process should feature more prominently in debates and decisions of the national parliaments. The scope for developing countries to play their part in the process should be improved by means of appropriate financial and institutional support.

Companies are increasingly expanding their business activities from the area of application of one legal system into other countries. The many cross-border

***Strengthening
democratic
legitimacy***

mergers to which this has given rise over the past few years is a source of concern.

Figure 9



The wave of mergers sweeping across national borders

The fear is that major components of the economic processes will grow increasingly powerful, with particularly adverse effects on consumers and on small and medium-sized businesses. Since competition has the potential to limit power, the Study Commission expressly supports all initiatives designed to develop common competition rules and to work for their acceptance beyond our own national borders, whether through bilateral, plurilateral or multilateral agreements. The Com-

mission was also in agreement about the ultimate aim of this process, namely the creation of a sort of “global monopolies commission”.

The PDS working group on the Study Commission referred to international trade as only one of the building blocks that could support growth and development. It emphasized that fair market access depended on more than liberalization, deregulation and competition, since the existing regime had led to an extremely inequitable distribution of ‘profits and losses’ among the nations of the world. Accordingly, it called for a systematic change of course in the field of economic policy, a change that was impossible to effect under the current international trade regime and with the WTO in its present form and with its present aims. It also takes a rather sceptical view of the WTO negotiations in Doha, Qatar, on a new round of trade talks. Discussions on the relevant issues of international direct investments, competition and the place of multinational groups in the globalization process must focus on requirements in terms of human rights, social justice, environmental protection and development. For this reason, subsection 11.3.3 of the Study Commission’s final report presents additional recommendations for tighter democratic control of multinational groups and the regulation of investment flows in the interest of sustainability. The trade negotiations should therefore be conducted in the United Nations framework. The PDS working group also presents additional recommendations for the reinforcement of minimum social standards. Not only must these be enshrined in the WTO rules; they must also be promoted by the World Bank and the IMF. In this context, the PDS working group believes there is a need for an international convention on the recognition of social and trade-union standards and rights in special economic zones and for the promotion of moves towards the establishment of single markets and regional economic cooperation, not only in the industrialized world but among developing and newly industrialized countries too.

The PDS working group also recommends increased powers of codetermination in the specific context of the latest wave of mergers and takeovers. It believes that the measures proposed by the Study Commission to combat corruption should also apply to privatizations and the acquisition of shareholdings. At the same time, it wants the democratization process to be fostered by means of steps towards more active popular involvement in the budgetary process on the lines of the participative budget of the city of Porto Alegre in Brazil.

According to an expert member of the Study Commission, the recommendations on improved market access, on anti-dumping measures and on special and differential treatment are too strongly influenced by Northern interests. They therefore give insufficient consideration to the precept of the sustainable development of global relations in terms of respect for natural boundaries and to the need for more decisive steps towards a just and equitable system of world trade. The industrialized countries still need to make their markets more open, and this improved access must be accompanied by the systematic creation of value-added chains in the South. Special and differential treatment, in other words the provision of scope for developing countries to protect certain industries for a limited period from imports and deregulation, should be incorporated into a WTO framework agreement as the embodiment in commercial law of the principle of solidarity. The expert member also argues for a new 'fair global pact' as the logical consequence of the events of 11 September 2001.

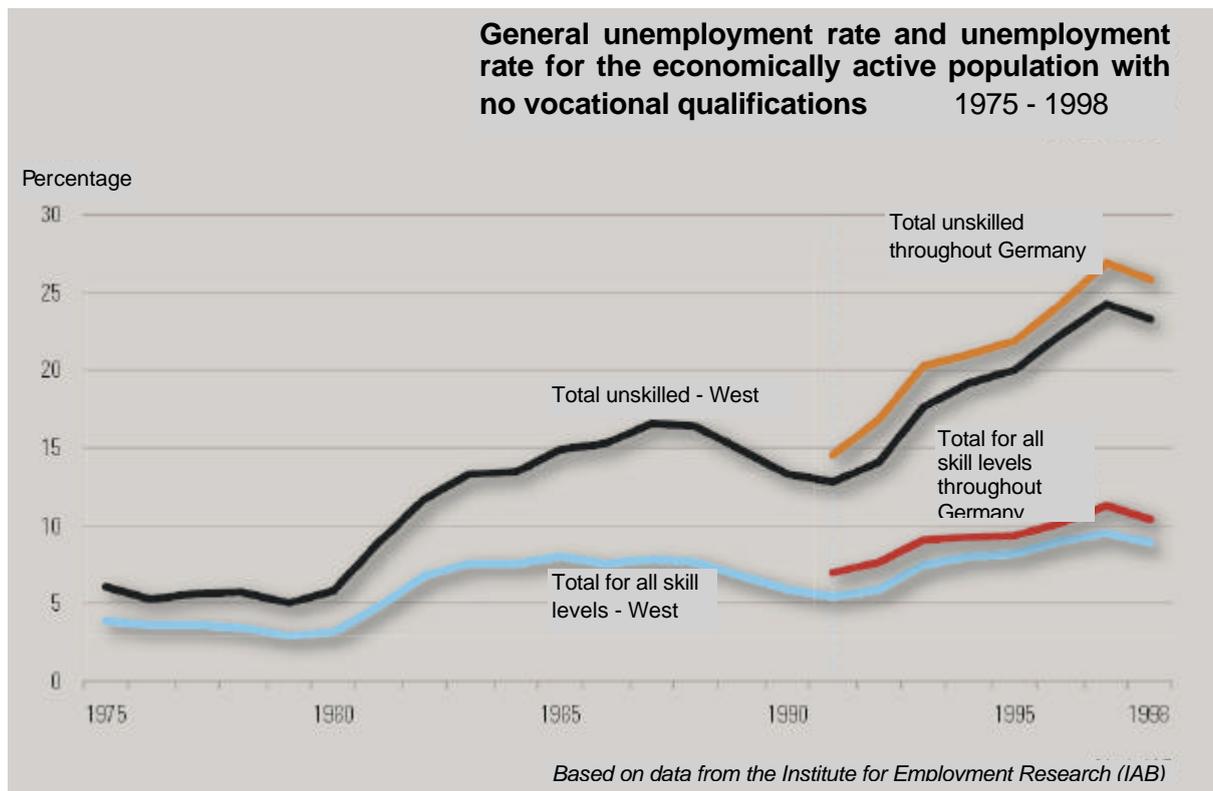
4. Global labour markets

The fact that recent employment trends in Germany compare unfavourably with international trends is due neither to the development of external trade nor to German companies' higher costs and the higher price of German products in the world market; in short, these trends are not the result of globalization in the narrower sense. On the contrary, in recent years Germany has actually consolidated its position as the world's number-two exporter after the United States.

Globalization does, however, influence and accelerate major changes in labour markets. Increased pressure to compete and innovate leads to swifter and more flexible adaptation to rapidly changing conditions in international markets. The essential characteristics of these changes are more stringent qualification requirements, new forms of economic activity, increasingly flexible working hours and structural unemployment.

In countries with high levels of productivity and pay, the main drawback of globalization is that it creates employment problems for low-skilled jobseekers. They are drawn into increasingly tough competition with employees in countries where pay levels are low. Conversely, the job prospects of highly skilled individuals are improving. In 1998, almost a quarter of the economically active population with no occupational qualifications in the west of Germany, and more than half in the east, were unemployed. These ratios apply to men and women in equal measure. Long-term analyses show that the unemployment rate for low-skilled persons constantly exceeds the general unemployment rate. Moreover, unemployment among the low-skilled has risen more strongly throughout the past 25 years.

Figure 10



Globalization accelerates structural change. The high level of unemployment in Germany, however, is essentially caused by other factors.

The Study Commission sees the main reason for high unemployment in the fact that Germany has been experiencing conspicuously sluggish growth and low levels of demand by global standards. This situation is the result of inadequate macroeconomic coordination of fiscal, monetary and wage policies. The enormous problems caused by consequences of the economic transformation in the new federal states are putting extra pressure on the labour market in Germany. The Commission therefore sees a need for action in various priority areas, which relate both to labour policies and to employment policies at the national level and more especially at the European level.

Areas for national action

The main aim at the national level is to step up the efforts that are being made in the field of education and training policy. Investments in human capital are the

Education and training policy

most important response to globalization. Education and training have a very significant influence on the international competitiveness of the national economy and on economic growth. They enable employees to meet the need for innovation and flexibility.

In the view of the Study Commission, the active labour market policy of the Federal Institute for Employment (*Bundesanstalt für Arbeit*) must be more sharply focused than hitherto on the aim of placing jobseekers in mainstream employment. This is one reason why efforts in the domain of further vocational training should be refocused and intensified. It is imperative that these measures be accompanied by public job-creation schemes for a lengthy transitional period, particularly in the new *Länder*.

***An active
labour policy***

The third national priority is the introduction of the widest possible range of mechanisms to shorten working hours. Paramount importance in this context attaches to shortening hours in a way that takes account of individual employees' needs. Greater control over their own working hours enhances the quality of people's lives as well as facilitating a fairer division of unpaid family responsibilities between men and women.

***Shorter
working
hours***

In the longer term – probably in about ten years' time – the size of the potential labour force is likely to substantially decline as a result of demographic factors, with the result that the severe shortage of jobs which still persists in the German economy will be gradually eliminated (on a global scale, however, the trend is likely to move in the opposite direction – see chapter 5). Immigration may temper this trend, but priority attaches to increasing the numbers of women and resident foreigners in the German labour market. Compared with other developed countries, Germany has a low female activity rate. This means that its native labour potential is underdeveloped and is being underused in the measurable economy. Increasing the female activity rate, therefore, is not only a matter of promoting equality between the sexes but is also a significant means of improving the relative strength of the German economy.

***Increasing
the activity
rate for
women***

The PDS working group believes that government economic policy, which is export-centred and hence pays insufficient heed to domestic demand, is one of the main causes of mass unemployment. For this reason, the group has presented an additional recommendation on the stimulation of domestic demand. It wants the position of the trade unions to be strengthened by means of a ban on lock-

outs, recognition of a right of associations to take legal action and a right of co-determination on matters concerning the safeguarding of jobs, training and the economic affairs of the company. As far as shorter working hours are concerned, the group attaches priority to the statutory reduction of weekly working hours with a view to creating scope for the negotiation of provisions to this effect in collective agreements. It believes that resources should be made available for a programme for the development of local infrastructures and for a publicly supported employment sector, which would be a socially acceptable alternative to a low-pay sector offering only poverty in spite of employment. According to the working group, the necessary funds should be raised by means of tax reforms which ensure that people are taxed on the basis of their ability to pay and that greater scope is created for public investments in our common future. This would include abolishing tax exemptions on proceeds from the sale of shareholdings, creating a graduated system of profit-linked corporation tax, introducing a minimum tax on profits and other income and reintroducing wealth taxes again.

Employment policy at the European level

Growth and employment trends are very strongly influenced by whether and to what extent the basic macroeconomic conditions favour business investments and employment-centred wage policies as well as by whether public investment keeps pace with the need for modernization and with the cyclical requirements of the national economy. Since the early nineties, monetary and fiscal policies have not encouraged job growth; in fact, they have often reinforced cyclical trends, stifled growth and impeded employment. The Study Commission therefore recommends that the remit of the European Central Bank (ECB) should be broadened so that, like the U.S. Federal Reserve Board, the Governing Council of the ECB must base its monetary-policy decisions on the aims of growth and employment as well as that of stability.

In addition, the European Stability and Growth Pact should be further developed on the basis of Article 2 of the EC Treaty and along the lines of the German Stability and Growth Act (*Stabilitäts- und Wachstumsgesetz*). By entrusting to the Community the task of promoting sustainable, non-inflationary and environmentally compatible growth as well as a high level of employment, Article 2 of the EC Treaty seeks to foster anticyclical policies in Europe in order to cushion the ef-

fects of shifts in the trade cycle. Cyclically orientated government investment in the public infrastructure improves the conditions for growth and sustainability over longer periods. For this reason, it should not be funded from the current budget. During downturns, stability-centred fiscal policies must not make the situation worse by tending to stifle growth. There must be scope for governments to contract new debts in order to absorb the impact of falling tax revenues and rising welfare expenditure. In periods of economic recovery, on the other hand, the level of borrowing must be reduced again. In addition, for the sake of stabilizing the domestic economic cycle, the Study Commission recommends that the parties to collective agreements should pursue a productivity-based pay policy. Average wages should rise at the same rate as long-term productivity growth plus the ECB target rate of inflation. In this way, pay would rise in line with economic performance and would not exert upward pressure on prices. At the same time, the purchasing power of employees' households, which has been declining for two decades, could be restored.

***Coordinated
macroeconomic
policies at the
European level***

More European cooperation is also needed to deal with predatory competition for inward investment in the form of business locations. In view of the differences that will persist in the medium term among the labour and welfare systems in the European Union, closer European cooperation can at an early stage counteract the ruinous competitive practice of establishing low tax and welfare levels in order to attract inward investment ('fiscal and social dumping').

***International
cooperation
to combat
fiscal and
social
dumping***

The Study Commission recommends the harmonization of European taxes on business profits in order to reverse the trend towards ruinous fiscal dumping. At the same time, it proposes the creation of a Study Commission on social welfare at European level. Such a commission would have to look into the question of whether minimum benefit levels should be introduced throughout the European Union and submit proposals for the development of binding minimum standards for employee rights.

International requirements

In addition to the impact of globalization on the national and European employment situation, the report also deals with a selection of subjects of international relevance.

The Study Commission interprets the migration of labour as one of the main facets of globalization. Migration levels have been rising for years, and the primary reason for these mass movements is people's dissatisfaction with the economic situation in their own countries. Their destinations are normally neighbouring developing countries. To a more limited extent, Europe is also a target for migrant labour. Particular importance attaches to the migration of highly skilled specialists in information and communications technology (ICT). The rapid growth of ICT has been accompanied by a global shortage of experts in this field and keen international competition for the best brains. The Federal Republic of Germany is relying on its own recruitment model. With the aid of a residence and work permit called the Green Card, the German job market is to be opened up to experts from countries such as India. The emigration of specialists (the 'brain drain'), however, is a real obstacle to development, given the economic and social toll it takes on the specialists' countries of origin, particularly if they are developing countries. The key questions are what can be done to compensate for this and, more particularly, how these countries can maintain their education and training systems if their finest brains emigrate. Besides training a sufficient pool of highly skilled labour, these countries therefore need to offer financial and other incentives to dissuade specialists from leaving or to persuade them to return.

This implies that national economies which compensate for a skills shortage in the domain of ICT by recruiting foreign specialists should substantially increase their own training capacities. In Germany, this would include recourse to the existing pool of well-trained and highly skilled residents. This applies especially to qualified women. The Study Commission also recommends that a charge should be levied on companies and institutions which recruit highly qualified specialists in developing countries. The revenue from this levy should then be channelled into the enhancement of training capacities in the specialist's country of origin.

A *second* priority in the international context relates to the link between globalization and informal employment. The percentage of the labour force employed in the informal economy is particularly high in the developing countries.

There are two sides to informal employment. On the one hand, the informal economy is an area where operators can seek relief from increasingly fierce international competition by offloading their social costs onto society and where fundamental human rights, such as minimum employment standards, are sometimes circumvented. On the other hand, the informal economy also serves as a

***Expanding
education
and training
capacities***

kind of 'shock absorber', enabling societies to cushion the impact of crises resulting from globalization processes, such as the Asian crisis, and offering the victims of these crises at least a meagre income.

Better social protection is therefore urgently required for people employed in the informal economy. This may, for example, involve the inclusion of informally employed persons in the statutory health and pension schemes or in alternative schemes organized by themselves as well as the development of educational and childcare facilities. Cooperatives and similar forms of self-administration must be supported because of their special propensity to satisfy the social needs of these people.

The *third* priority discussed by the Study Commission was the link between sexual equality and sustainable economic development in a globalized world. Not only does economic growth affect the 'gender balance' and the level of equality enjoyed by women; conversely, gender equality also nurtures economic growth. One reason why investments in women's education yield particularly tangible benefits lies in the fact that women normally invest a considerably greater percentage of additional earnings in the health and education of their children than men do. Improvements in women's education levels are also accompanied by significant progress in checking the spread of HIV/AIDS. In the realm of development cooperation as well as in the formulation of international anti-poverty programmes, priority should be accorded to the education and training of women and girls wherever they are disadvantaged (see also chapter 6 below on gender equity).

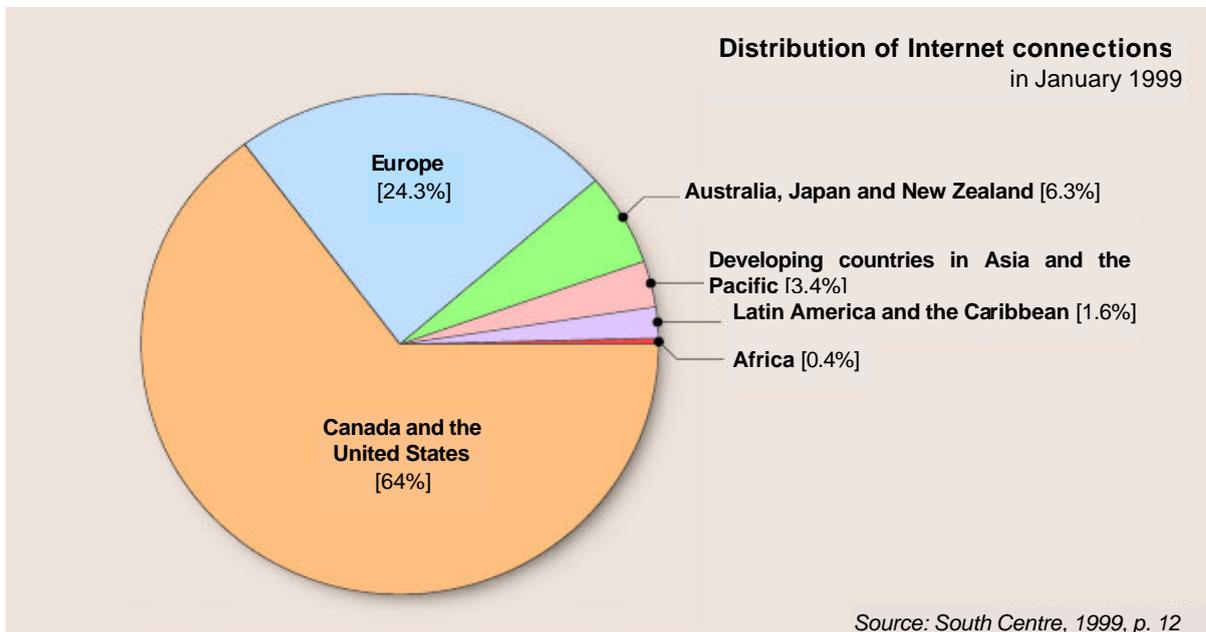
Better social protection for people employed in the informal economy.

5. Access to knowledge and information

The development of information and communications technology (ICT) and the associated digitization of knowledge have accelerated the transformation of the economic and social structures of the industrialized nations. This process is often described as the transition from the industrial to the knowledge society, and its effects are often compared with those of the transition from the agricultural society to the industrial society in the 19th century. One of the chief characteristics of this transformation is the growing importance of information and knowledge and hence also of human resources in relation to other factors of production, such as capital, natural resources and land. ICT has radically changed the ways in which knowledge is created, preserved, disseminated and used. The creation and dissemination of knowledge are set to assume primary importance as instruments of asset formation and as social values. Globalization, as a model in which societies compete with each other, will further accelerate this transformation, since societies are initially responsible for the 'production' of knowledge.

The process of structural change is characterized by the growth of the service sector at the expense of manufacturing (tertiarization), by greater dependence on computer technology (digitization) and by global economic interdependence as well as the increasing importance of knowledge as the basis of economic processes. It has profound implications for the traditional model of paid employment established by the industrial society, overcoming the rigid unity of place and time that has hitherto characterized working life, changing forms of employment and working conditions, prompting rapid rationalization as well as geographical and social fragmentation and creating scope for more flexible working practices. The bottom line in political terms is the need to respond to these trends, chiefly by establishing more educational opportunities, fostering greater involvement and more flexibility. Only some aspects of the impact of the knowledge society were examined in depth by the Study Commission. These aspects included issues related to participation in the knowledge society, the worldwide 'digital divide' between those with access to this technology and those denied such access and the use of patents and privatization to monopolize knowledge. At the present time, access to ICT, particularly telephones and the Internet, is extremely unevenly distributed throughout the world.

Figure 11



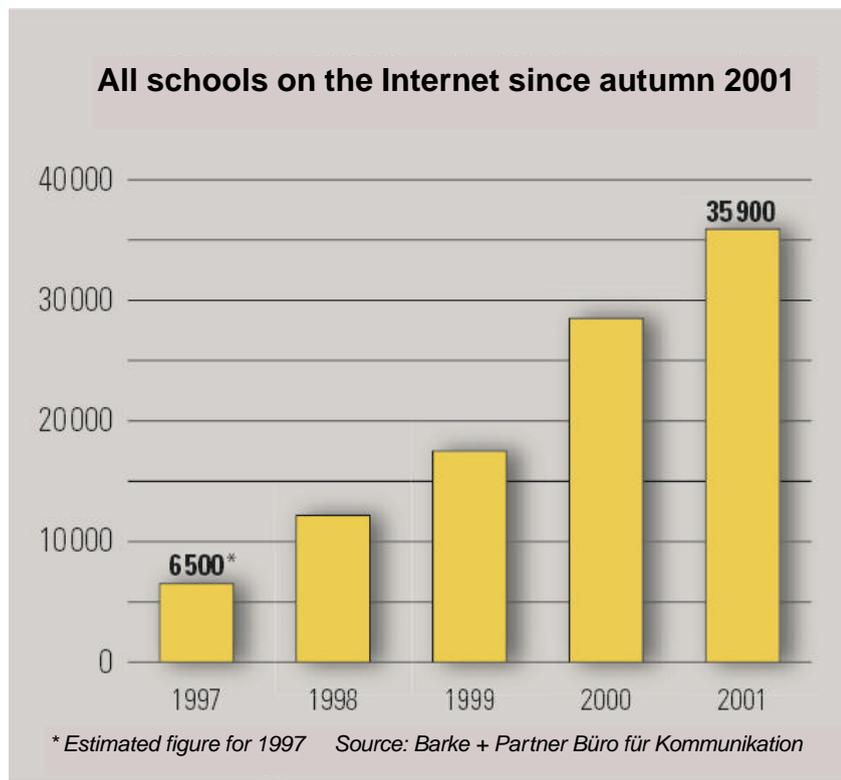
Digital and social divides

The division that splits society into those who have access to information and communications technology, and hence to information and knowledge, and those who have no such access (sometimes called the 'digital divide') is a key problem with serious implications for our future. The greater the volume of socially or economically relevant information which is communicated through electronic networks, the more potent will be the effects of the social division between those who have access to the new information and communication media and those who do not. The digital divide is a major element of the social divide. The political goal of all initiatives and measures must therefore be to ensure that all countries and sections of the population enjoy fair access to the opportunities offered by the new forms of ICT and thus to forestall the emergence of new disparities. The main political tasks that must be undertaken if the digital divide is to be bridged consist firstly in the establishment of universal access and the necessary infrastructural improvements on which the performance of those tasks depends. By establishing public access points, setting up a fund to finance the access of target groups within society to particular services and providing additional incentives

Measures to bridge the digital divide

for the use of ICT, universal access can be improved at an acceptable price. The development of media skills must be encouraged, and Internet content should be improved and expanded. ICT projects in the fields of education and health should feature more prominently as a component of development policy. An example of improved access in Germany is the *Schulen ans Netz* ('Schools on the Net') project, initiated and supported by the Federal Government and the private sector, through which all the schools in Germany have been connected to the Internet.

Figure 12



Secondly, there is also a need to solve legal problems that are raised by the Internet as a medium of communication. The government must create structures that enable its citizens to protect themselves, particularly as regards their privacy, their rights as consumers and the security of their information technology. This includes the creation of a legal framework imposing self-regulatory obligations on Internet service providers; in the case of Germany, such legislation should focus on access to information and the revision of the law on data protection.

**Self-regulation
by Internet
service provid-
ers**

Patent law and the TRIPS Agreement

The increasing economic importance of knowledge has also led to controversy about the way in which patent law can best meet the needs of the 21st century, as demonstrated by the current debates about patents for biotechnical inventions or genetic material and on compulsory licensing of patents for pharmaceutical substances, such as AIDS medicines, or for agricultural seed. Along with developing countries and non-governmental organizations, the UN Commission on Human Rights also sees the need to examine the granting of patents to determine whether they conflict with human rights, particularly the right to enjoy the fruits of scientific progress and the right to health, nutrition and self-determination. The Study Commission's recommendations in this domain concur with the human rights covenants in the assumption that the provision of knowledge is a public asset. Their purpose is to ensure that the Agreement on the trade-related aspects of intellectual property rights (the TRIPs Agreement) and European Parliament and Council Directive 98/44/EC on the legal protection of biological inventions are amended to take account of developments in the aforementioned areas of agriculture, health and biodiversity. As part of this revision process, a blanket ban should be imposed on the granting of patents for live organisms (including micro-organisms), genetic material and plants.

The extension of patent law also means that the status of education and research as public assets, both in industry and in higher education, is being eroded and that knowledge and research findings, more than ever before, are becoming the sole property of those who are in a position to exploit them. Developing countries are the losers, because 97% of all patents belong to companies from the industrialized countries, while some 90% of the patents submitted in developing and newly industrialized countries belong to companies whose headquarters are in an industrialized country.

The implementation of the TRIPs Agreement also makes it more difficult to transfer patented environmental technology to developing countries, and there is a danger of such transfers not occurring at all if the patentee chooses to pursue a restrictive licensing policy. The Study Commission therefore recommends measures to enhance the potential benefits and to reduce the potential disadvantages of the TRIPs Agreement. Starting points for such a policy can be both the provision of support for the transfer of patented technology and the creation of incen-

Knowledge as a public asset within the meaning of the human rights covenants

TRIPs Agreement and Directive 98/44/EC

Environmental technology in developing countries

tives to encourage the invention of new environmental technology which is specially tailored to the needs of developing countries.

There are also other forms of knowledge which are predominantly treated as private property. Political efforts should therefore be made to preserve equal access to knowledge as a public asset and hence as an indicator of democratic transparency, social justice and the removal of social barriers. To this end, the Study Commission recommends investigation of the progressive privatization of knowledge and its impact on scientific research, education and the spread of knowledge within society and between industrial, developing and newly industrialized countries.

The benefits of being able to patent software and the limits on its patentability – so far, it is not possible to patent software under German or European law – are also a matter of controversy. There can be no doubt that much of the competitive and innovative potential of the economy lies in computer-based, and hence software-driven, ICT. At the same time, defining the borderline between the patentable and the non-patentable in the product category known as computer-implemented inventions remains an unresolved problem, with the result that national patenting practice varies, even among the Member States of the EU. This is why the initiative of the European Commission to achieve uniformity here by means of a directive is to be welcomed. Nevertheless, there are still numerous questions to be answered. European business would benefit from a clear distinction between European and U.S. patenting practice. The Study Commission believes that application of the strictest possible patentability criteria (technical contribution, novelty and inventive step) must be guaranteed and that the existing patenting practice of the European Patent Office must be subjected to critical appraisal. On no account may more recent ideas for development and improvement, such as open-source projects, be obstructed. The question of whether copyright law cannot guarantee more effective protection of software inventions should be examined.

***Knowledge
as a public
asset***

***Patentability
criteria for
software
products***

Comparing the German system of higher education with other countries' systems

Lastly, the Study Commission began to undertake a comparison of the German system of higher education with the systems in other countries, focusing on the main problem areas, because institutions of higher education, as centres for the dissemination of knowledge, play a crucial role in the globalization process. Universities and colleges must therefore be better equipped to serve as central establishments for research and teaching aimed at the solution of global economic, social and environmental problems, as forums for intellectual discussion and as seats of learning. Knowledge and the ability to apply knowledge and create new knowledge have to be constantly relearned, if only to keep pace with economic development. The efficiency of educational establishments is becoming a key factor of economic progress, but the quest for competitiveness is not the only reason for reforming them. Education and training are the only things that can prevent society from sinking into division and gross inequality, high unemployment, widespread poverty, marginalization and vulnerability in many areas of life. Education and training are essential prerequisites for an active role in society. What we need is more and better education for everyone, tapping all available reserves of talent. Besides the need to improve the quality of pre-school, primary and secondary education, fundamental changes are also required in the structure of the universities and colleges themselves and in their relationship with the political institutions by which they are supported so that they can live up to their 'global' responsibilities.

The number of German school-leavers who want to and can afford to study abroad, particularly in the United States and Britain, is increasing, because the German institutions of higher education are regarded as less attractive seats of learning than the 20 or 30 top U.S. universities. This perception is also borne out by the declining number of foreign students in Germany. The Study Commission believes that internationalization and globalization of education, universities and colleges drawing their students from all sections of the population and all parts of the world, including the developing and newly industrialized countries, is desirable and must be encouraged as a matter of urgency – not only for economic reasons but also to promote intercultural exchanges and to break down barriers

***More and
better educa-
tion for all***

***Inter-
nationalization
and foreign
languages***

to the transfer of knowledge. Education can also be improved through the development of interdisciplinary courses, the promotion of proficiency in foreign languages as well as educational exchanges and the use of Internet-based learning (e-learning) in developing and newly industrialized countries. International cooperation in the domain of higher education is another key task for the future as a means of breaking down barriers to the transfer of knowledge.

Because of the limited time at its disposal, the Study Commission was unable to deliberate in sufficient depth on the necessary reform of the higher-education system and on the cultural, social and political aspects of the education process, which are at least as important. The current discussion on reform of the higher-education system is primarily focused on the competitiveness of the U.S. system. While the American universities undoubtedly exercise the greatest appeal, it must be recognized that there is more to education than just training for a profession and competitiveness. It is not merely a sort of 'fitness programme', a rapid infusion of marketable knowledge on the basis of a perception that institutions of higher education are accountable to the market alone. More thorough evaluation and discussion of the U.S. higher-education system is required before that system can be used as a basis for the development of any recommendations regarding the reforms for which German higher education is crying out.

6. Gender equity

Equal opportunities and equal treatment of both sexes ('gender equity') is a cross-cutting issue and has a place in every specialized chapter of our report. In the chapter on financial markets, for example, we discuss 'gender budgets', which analyze the impact of the national budget on various groups of women and men; in the chapter on labour markets, we show that positive correlation between growth, equality of opportunity and a high rate of employment is possible but that it cannot be expected to develop without political interventions, equal-opportunities legislation and a certain number of measures to assist women, while in the chapter on global governance we call for greater representation of women in senior international posts. The present chapter is devoted to the overarching issues relating to equality of opportunity and treatment for women and men.

In this chapter we argue that globalization offers new options and opportunities but that it also poses new risks to marginalized groups. We show that this ambivalent assessment still applies if globalization is analyzed in terms of the 'gender balance'. In this balance the scales are by no means uniformly loaded in such a way that women are invariably the losers and men the winners. The interaction between globalization and the gender balance is complex, but essentially revolves around three main mechanisms:

- Firstly, globalization sometimes has a highly inequitable impact on the actual living and working conditions of men and women, with the result that many women, especially poor women in developing countries, are more likely to be disadvantaged by the globalization process in both the short and long term.
- Secondly, globalization processes are sometimes rooted in inequalities between the sexes, which anticipate, as it were, the effects of globalization. This applies especially to women's continuing limited access to the acquisition of skills and qualifications, to jobs, to the ownership of economic resources such as land and capital and to decision-making posts. In many respects women do not even enjoy equality before the law.

- Thirdly, globalization also alters existing patterns of interaction between the sexes. It exacerbates some of the dangers and injustices to which women are specifically exposed. For example, studies have shown that women suffered disproportionately from the Asian financial crisis and from the social crisis that followed in its wake. Another danger specific to women is traffic in human beings, which the United Nations describes as the world's fastest-growing criminal business activity. Women and children constitute a new global category of 'service providers'. Human trafficking is primarily connected with the sex industry, the labour market and illegal immigration.

**Human
trafficking**

Figure 13



Woman working in an Indonesian rice paddy

Source: ILO (bw0085)

It follows that any political efforts in this sphere must be designed to enable women and men to participate on an equal footing in political, economic and social processes and to eliminate dangers that specifically affect women.

**Gender
audits**

“Gender mainstreaming is the (re-)organization, improvement, development and evaluation of policy processes, so that a gender equality perspective is incorporated in all policies at all levels and at all stages”.

**Gender main-
streaming**

This quotation is taken from the definition of 'gender mainstreaming', i.e. the integration of the aim of sexual equality into the mainstream of political activity, contained in the report presented to the Council of Europe in 1998 by its Group of Specialists on Mainstreaming. The concept of gender mainstreaming has become a widely accepted policy principle since 1995, when the fourth UN World Women's Conference took place in Beijing, and has been applied in many international organizations such as the International Labour Organization, the World Bank and the European Union. Because of the success achieved by gender mainstreaming and its widespread acceptance, the Study Commission urges the Federal Government to support this policy approach at the national, European and international levels and to press for its implementation wherever it is not yet being applied.

It is also recommended that the Federal Government prevail upon the relevant ministries and administrative departments to ensure that the national, European and international statistics and indicators are collected and compiled on a gender-specific basis, so as to shed more light on the specific effects of globalization on women and on men. The aim of this greater transparency would be to highlight areas in which discrimination is practised against women, so that these practices can be eliminated. Discriminatory practices can be eliminated through the promotion and protection of the rights of female employees, respect for the human right of equal pay for equal work and the reinforcement of social protection systems. Women from developing countries should be targeted for support in all measures of development cooperation. In this context, the Study Commission recommends that the Federal Government initiate a redefinition of the crime of human trafficking to extend the scope of sections 180 and 181b of the German Penal Code (*Strafgesetzbuch*) in order to bring them into line with the "Protocol to prevent, suppress and punish trafficking in persons, especially women and children". Particular importance also attaches to guaranteeing the coherence of international negotiations from the gender perspective. The negotiation of trade agreements in particular should include assessments of their specific impact on women.

7. Protection of Natural Resources

By using natural resources, mankind has always had an impact on local ecosystems. In the last two centuries, however, as a result of industrialization and more intensive land use, combined with rapid population growth, the consumption of natural resources has increased dramatically in terms of both the quantity and quality of extracted resources, escalating effects on local and regional environments into global environmental problems. The global greenhouse effect, the increase in ultraviolet radiation and the impact of specific pollutants are worldwide phenomena, albeit with differing local effects. Tropical and subtropical areas have been particularly vulnerable to climate change, which has manifested itself in an accumulation of extreme weather conditions. Desertification and the loss of biological diversity are also phenomena that primarily affect tropical and subtropical countries, most of which are developing countries. These countries often lack the financial and technical resources required for compensatory and remedial measures. The poorest sections of the population are hit hardest, since they have no means of cushioning the impact of these phenomena. There is therefore an important link between global environmental policy and the fight against poverty; such a policy must begin by focusing primarily on the industrialized countries, which are the main sources of numerous global environmental problems.

Despite the growing urgency of the problem, the international community has not yet managed to respond properly to these global environmental issues. The Study Commission therefore calls unanimously for the global institutions with responsibility for the environment and sustainability to be strengthened as a matter of priority. In particular, the Commission calls for the current United Nations Environment Programme (UNEP) to be upgraded into an international environmental organization with a strong mandate and an improved and guaranteed staff establishment and budget. In the meantime, the Global Ministerial Environment Forum (GMEF) should be given the role of a driving force and coordinating body for global environmental protection. The Study Commission argues that the UN conferences should be used to initiate the necessary structural reforms and to secure the developing countries' acceptance of the mooted reforms.

For an industrialized country such as Germany, whose current *per capita* consumption of resources could not possibly be extended to a global population of

***International
environmental
organization***

six billion, the challenge consists in substantially enhancing efficiency in the use of resources and creating conditions for sustainable consumer behaviour. In addition, through the transfer of technology in a form in which it can be used in the region concerned, the conditions for sustainable growth in the developing countries should also be created. On the issue of natural resources, the Study Commission confined itself to dealing in its report with water, food and agriculture, biodiversity and climate protection in the context of air traffic. These subjects, along with stratospheric ozone depletion, have also been identified as the most pressing global environmental problems by the German Advisory Council on Global Change set up by the German government.

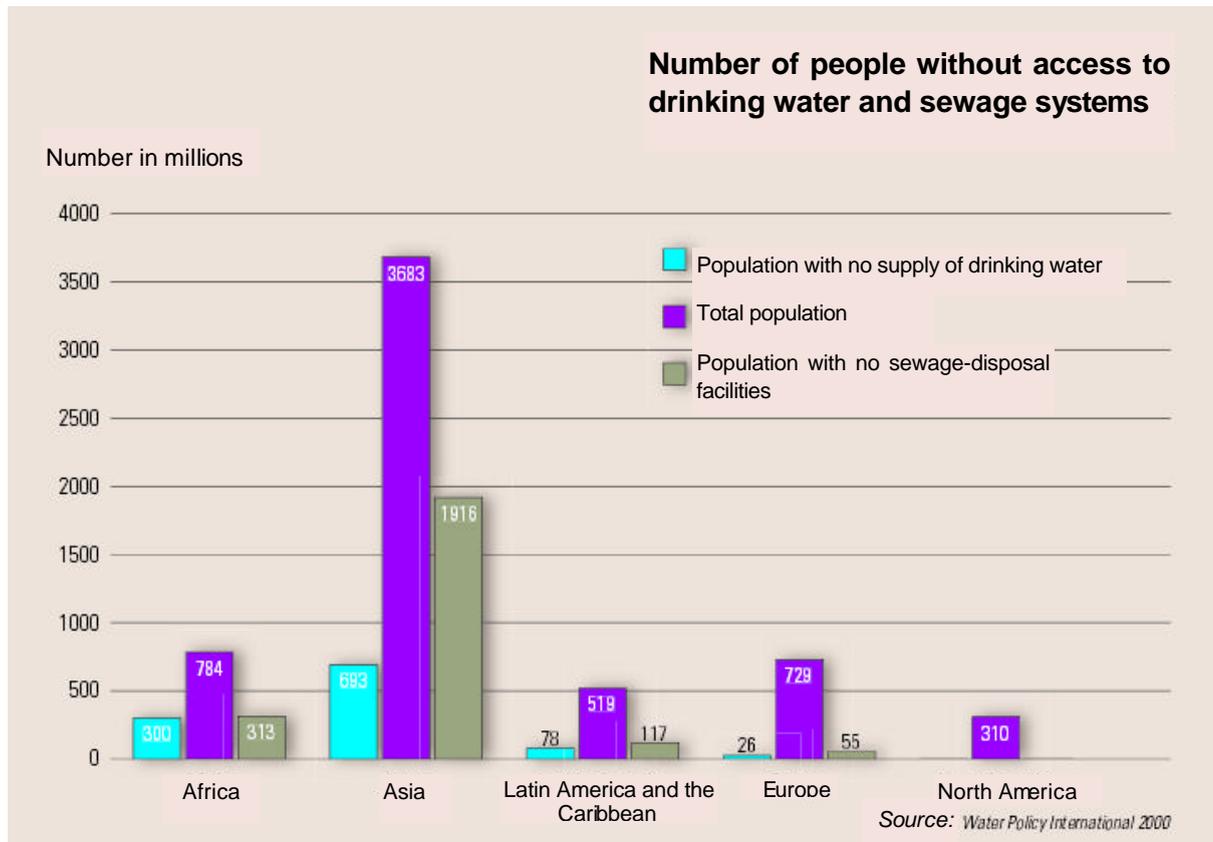
Water: an irreplaceable source of life

1,200 million people currently have no access to clean drinking water, and around 2,500 million live without the minimum standard of organized sewage disposal. The influence of globalization is tending to worsen the situation. As living standards rise, so too does water consumption. The liberalization of agricultural markets puts farmers under increasing competitive pressure, prompting them to produce for export, which generally means the intensification of irrigation farming. The crops that farmers decide to plant or sow are not determined by their suitability for the area in question but by the anticipated export price.

Water is an irreplaceable source of life and hence an elementary public asset. The right to water is a fundamental individual right. Accordingly, the Study Commission believes that guaranteeing or establishing access to sufficient good water and guaranteeing proper sewage disposal are among the foremost responsibilities of the public authorities. The Study Commission recommends that the Federal Government work for the adoption of a supplementary commentary to Article 11 of the International Covenant on Economic, Social and Cultural Rights specifying explicitly that the right of access to clean water is an elementary component of the right to adequate food. Efforts in the field of development policy to improve access to drinking water and to sewage-disposal systems must be intensified. This is the only way to achieve the international development goal, set at the Millennium Summit, of halving the number of people without access to clean drinking water and minimum sewage-disposal standards by the year 2015.

***The right of
access to
clean drinking
water***

Figure 14



Up to the present day, water supply and sewage disposal have generally been the responsibility of public enterprises throughout the world. Liberalization and privatization are on the increase in the water and sewage sector worldwide, but such moves are highly contentious. Advocates and opponents agree on the fact that water-supply systems are in great need of reform and investment, especially in developing countries. The Study Commission believes that reforming the public system of water supply with consumer participation in order to improve the supply situation and increase the efficiency of the system is preferable to privatization. Private bids should be examined in a transparent procedure, and crucial importance attached to the formulation of contracts. The pricing structure must reflect the need for universal access to basic water requirements on the one hand; given the scarcity of water resources, however, it must also create incentives to avoid wastage, for example in the form of a progressive scale of charges. Not all sections of the population should be required to pay prices covering the full cost of supplying water for the foreseeable future. In each case, a compensatory arrangement will have to be made – the free supply of a basic quota, for

example, or a block income transfer. The members of the Study Commission unanimously called for more vigorous efforts to combat corruption in this domain too.

There have been an increasing number of disputes about water, which is becoming an ever scarcer resource in global terms, and there is a growing need for international coordination. The Federal Government should intensify the sharing of cooperative experience in the realm of water management which has been initiated in a series of round-table discussions known as the Petersberg process and should encourage political dialogue and regional cooperation regarding the use of water, particularly for regions with transboundary waterbodies and watercourses. In order to avoid unwanted environmental, social and political consequences of dambuilding projects, as well as adverse economic effects, project-planning processes and the granting of government loan guarantees should be subject to the criteria laid down by the World Commission on Dams (WCD).

Political dialogue and regional cooperation

Biodiversity

The Study Commission observes with concern the loss of genetic diversity, the extinction of individual species and entire symbiotic communities and the pollution and degeneration of ecosystems and landscapes. These developments mean that preservation of the biosphere is a problem which ranks alongside the protection of the earth's atmosphere and demands equally resolute national and international action. In the Convention on Biological Diversity, the 183 contracting parties commit themselves to "the conservation of biological diversity, the sustainable use of its components and the fair and equitable sharing of the benefits arising out of the utilization of genetic resources".

Preserving biodiversity

Since Germany has not yet fulfilled its obligation to establish a national biodiversity strategy, the Commission recommends the immediate rectification of this omission, the production of the sectoral plans required for this purpose and the adoption of measures for the sustainable use of resources, particularly forestry and agricultural resources. In this way, the percentage of land under statutory protection should be increased to between 15 and 20 per cent. The government should create conditions in which all major players have an economic interest in the preservation or restoration of biodiversity. In addition, binding national rules on the adjustment of damages for benefits received (*compensatio lucri cum*

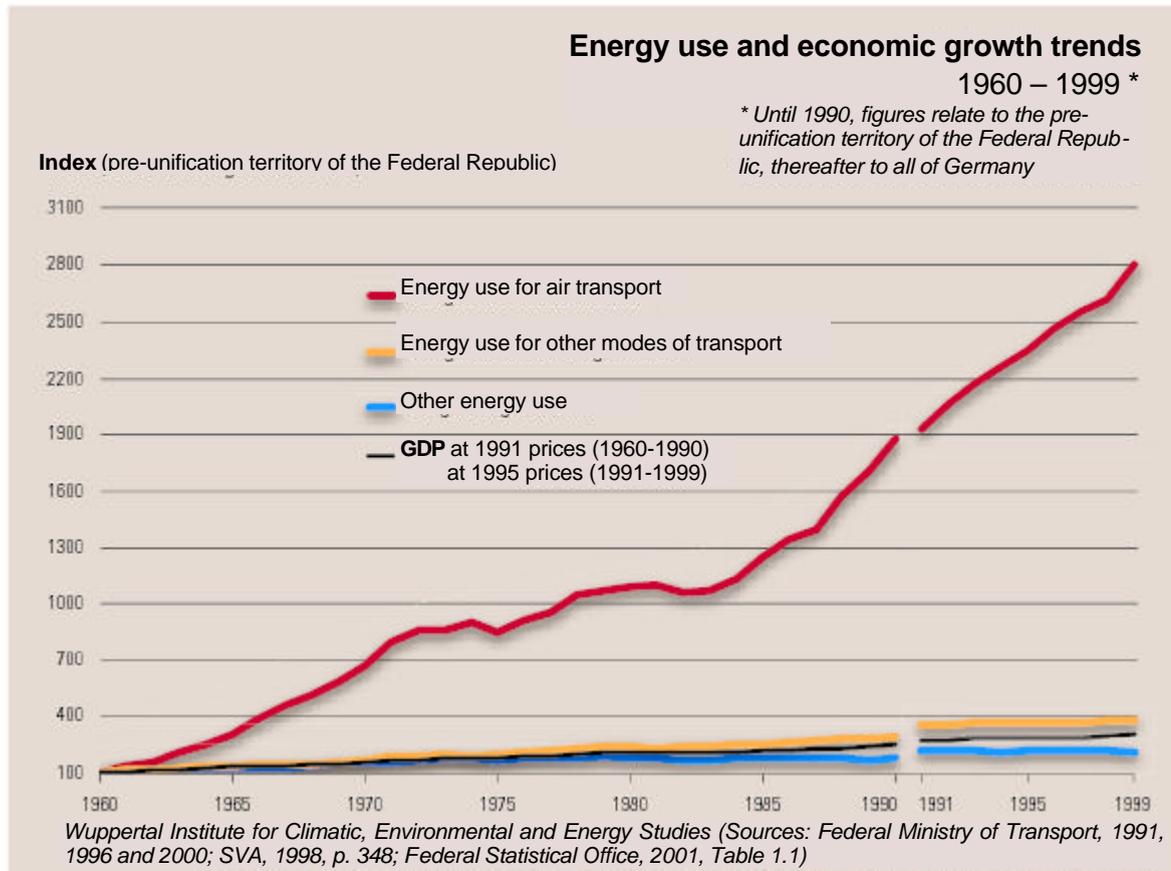
damno) must be formulated, and infringements of the rules must be punished. The Study Commission calls on the Bundestag to ratify the Cartagena Protocol on Biosafety without delay. The Federal Government should work for the adoption of a protocol on forests and the establishment of a worldwide network of effective forest reserves.

Aircraft emissions

Transport and globalization beget and reinforce each other. This applies especially to air transport. The beneficial impact of air transport, which is also described as an engine of globalization, is lessened by other factors, foremost among which are the adverse effects of air traffic on the global environment. It is expected, for example, that aircraft emissions will double in the period from 1995 to 2015. Given that climate protection is one of the greatest challenges facing mankind, the Study Commission addressed the issue of the meteoric growth in international air traffic (see Figure 15 below). Emissions from aircraft on international flights, like those from international shipping, are not covered by the Kyoto Protocol as it now stands. In the view of the Study Commission, the adoption by the international community of maximum greenhouse-gas emission levels for international air traffic and international shipping is essential. These ceilings should limit the rise in greenhouse-gas emissions to 50% of the expected rate of increase by the end of the initial commitment period from 2008 to 2012. The Commission recommends the introduction of an emissions-based aviation charge, which would at least be levied throughout the European Union. Provided that the aggregate emissions from international flights are allocated among the Kyoto signatories, other options could be a decision to introduce an open emissions-trading system or the adoption of the proposals made by the German Advisory Council on Global Change on the introduction of charges for the use of common global assets.

Greenhouse-gas emissions

Figure 15



Agriculture and food production

Against the background of unsustainable energy-intensive forms of farming and food production in conjunction with consumption levels and the grossly uneven distribution of access to, and ownership of, both land and resources in the context of globalization, people continue to die of starvation every day in spite of the fact that it is considered possible to feed the whole world more than adequately on the basis of today's production figures. Unless these production and consumption patterns change, global population growth is likely to lead to a situation in which the production of sufficient food, and certainly of nutritious food, for the world's population will no longer be even technically possible. The Study Commission was unable to deal in the requisite depth with the complex issues of food and agriculture. These issues should therefore be the subject of further analysis and deliberation if the work of the Study Commission is continued. In the present

context, we have only formulated initial recommendations. Their aim is to further develop the right of all people to be free from hunger, i.e. to feed themselves, which is enshrined in the International Covenant on Economic, Social and Cultural Rights; in other words, they are directed towards the creation of a legal framework designed to combat starvation. What is needed is further refinement of the International Code of Conduct on the Human Right to Adequate Food and an international dialogue on the subject. The reduction of export subsidies in the industrialized countries is a necessary prerequisite for the integration of the developing countries into the international system of trade in agricultural products, although care must be taken to ensure that production for the regional market is not destroyed by a narrow focus on exporting. In addition, the promotion of sustainable agriculture in North and South should be stepped up, it should be made easier to import agricultural fair-trade products from developing countries, and stronger support should be given to democratic agricultural and land reforms in developing countries.

8. Sustainable development

For globalization in the wider sense to succeed in guaranteeing sustainable development, it needs to be shaped in a way which ensures that global economic efficiency and the effectiveness of social systems throughout the world are sustainably improved and that public assets, particularly the natural resource base, are not endangered. Many critics of today's resource-intensive and socially unjust world economy blame globalization and its tendency to weaken traditional local and social structures for the crises that have been occurring. Others argue that this phenomenon is no more than the result of an increasingly marked global division of labour and greater specialization and that these developments actually helped some reform-minded countries to escape from poverty.

The goal of sustainable development

The concept of sustainable development describes an accelerated global development process in the domains of environmental and social policy. In the first half of the nineties, the concept left its mark on the environmental and development-policy debate. The ideal of sustainable development became familiar throughout the world in 1987, when the Brundtland Commission on Environment and Development presented its report entitled *Our Common Future*. Sustainable development is defined in the report as "development that meets the needs of the present without compromising the ability of future generations to meet their own needs" and, one might add, to choose their own way of life. This was the first time that the concept of environmentally, socially and economically sustainable development formed the basis of an integrative global political strategy.

The Study Commission on the Protection of Man and the Environment, which was appointed by the German Bundestag during its 13th legislative term, also indicated that sustainability policy should be interpreted as a form of societal policy in which all the dimensions of sustainability are dealt with, in principle and in the long term, as equally legitimate and equally important. Action should be taken to overcome the conceptual weakness of an environmental debate divorced from economic and social issues. Since the UN Conference on Environment and Development in Rio de Janeiro, however, it has become clear that all economic ac-

tivity, and hence welfare in the traditional sense too, depends on the achievement of ecological sustainability.

The ideal of sustainable development is not a descriptive but a prescriptive concept, which conveys the idea of a world as it should be, a world marked by more intergenerational justice and more intragenerational (distributive) justice. All human intervention in ecological, economic and social systems must always be seen primarily in terms of responsibility for the future viability of those systems, and particular attention must be focused on the limited regenerative capacity of many natural resources. The economic activity and lifestyles of the rich countries of the North are widely held to pose enormous problems, not only in respect of injustices between the generations but also as regards distributive justice. According to this view, there is a conspicuous 'fairness gap' between the countries of the North and those of the South. The average income among the richest fifth of the global population was 78 times higher than that of the poorest fifth in the year 1999; in 1990, this ratio was 60:1, whereas in 1960 it was 30:1. This 'fairness gap', however, does not only exist between the rich industrialized countries and the developing world; it also exists between the two sexes. Intragenerational equity hinges on the application of gender equality in all areas of society. Even in the advanced nations of the North, we are still a long way from that goal today.

The effects of globalization on sustainable development

Possible adverse effects of globalization on sustainable development include a 'race to the bottom' - the lowering of social and environmental standards in response to increasingly severe competitive pressure - the spread of cultural uniformity, which is blurring national identities and eroding cultural diversity, the increasing volumes of traffic resulting from global trade and global production processes and the accelerated development of previously remote areas, usually as a result of road-building, with potentially adverse environmental and social consequences.

Globalization, however, can also have beneficial effects on sustainability, for example through a tendency for environmental and social standards to be levelled up, in which the relocation of production facilities by multinational companies plays a significant role, through improvements in the economic and social welfare of countries involved in the globalization process and through exchanges of pro-

ductive and innovative know-how and more efficient use of resources, especially natural resources. Sustainable development depends on consumers being well informed and having an interest in sustainability. The Bundestag, the Federal Government, producers and traders can encourage this in many different ways.

Sustainability in the European Union

In the course of recent years the European Union has become an increasingly important player in the field of the environment and sustainability, and its influence on the policies of its Member States in this field has steadily grown. Although each country is responsible for its own sustainability policy, no country can achieve sustainability by its own efforts alone. Since the adoption of the Maastricht Treaty, the environmental policies of the EU Member States, like their foreign, security and development policies, have largely been based on ground rules laid down by the Community. Germany should start to play a leading role once more in the union of European States, for example in the negotiation of further environmental and resource agreements with the rest of the international community.

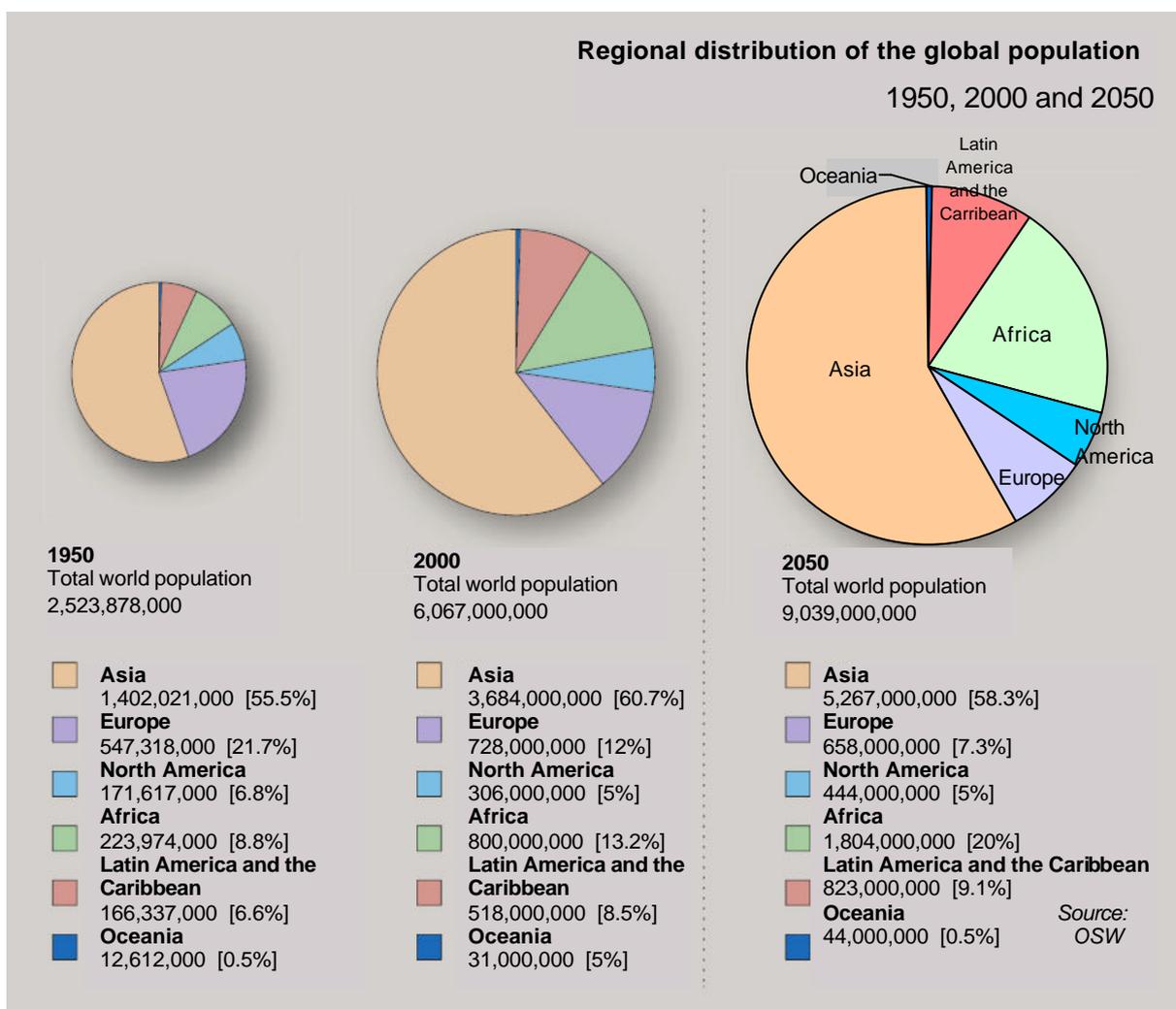
At the meeting of the European Council in Gothenburg in June 2001, a European sustainability strategy was adopted for the domains of energy and climate, natural resources, transport, land use, health, employment and the age structure. In addition, the Council undertook to continue developing the strategy of integrating environmental considerations into sectoral policies. At the beginning of that same year the EU had presented the sixth Community Environment Action Programme for the period from 2001 to 2010, emphasizing the key role of the sustainability strategy in EU policy and in the future social and economic development of the EU itself.

Germany also has a national sustainability strategy now. This strategy identifies eight areas where action is needed to steer a course towards sustainable development in Germany. The implementation of this strategy is to begin in the areas of energy/climate, mobility and health/nutrition. At the heart of the sustainability strategy are 21 key indicators, on the basis of which objectives can be formulated and progress assessed.

9. Global population growth

Closely linked to the subject of sustainability is the issue of global population growth. How many people the planet can ‘take’ is not a question that can be answered with a particular figure. The Study Commission assumes that, between now and 2050, the global population will grow by at least the same number as in the last four decades, i.e. about 80 million a year. The bulk of the population growth will occur in the developing countries.

Figure 16

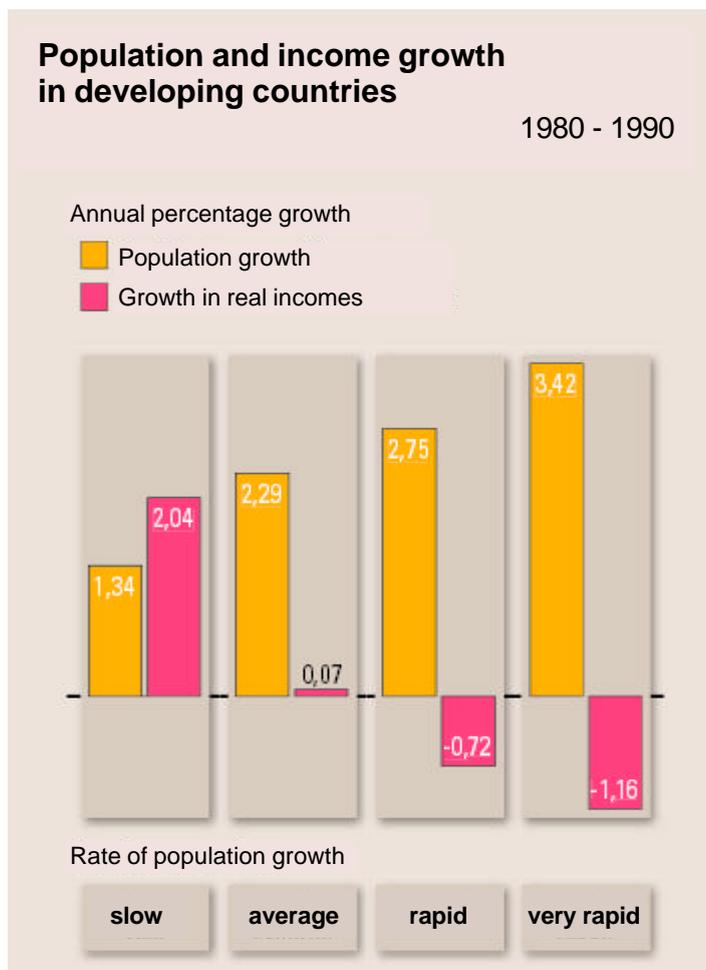


The Study Commission also makes the assumption that the age pyramid will be turned upside down for the first time in the history of mankind. Since the population of working age will be increasing more rapidly than the whole population in

Reversal of the age pyramid

the coming decades because of the present age structure, a huge rise in unemployment can be expected on a global scale, resulting in an even wider income gap. These trends cannot be curbed by economic growth alone. Figure 17 below graphically portrays the link between population growth and real income in developing countries. While real incomes grow when population growth is slower, more rapid demographic growth results in income losses for large sections of the population, even in periods of economic growth.

Figure 17



The future pattern of population growth can, however, be influenced, and this might augur well for the entire economic, political, social and environmental development of the world. Slowing the rate of global population growth directly and indirectly enhances the prospects of success in the efforts to eliminate starvation and poverty. Systematic implementation of the decisions taken by the 1994 UN Conference on Population and Development in Cairo also obliges the German

**UN conference
in Cairo**

Bundestag to implement its own decisions in this domain; foremost among these is a package including measures designed to achieve the following aims: to satisfy the continuing need for family-planning information and services, to overcome the high rates of death in childbirth and infant mortality, to prevent HIV and AIDS, to ensure the provision of basic reproductive-health care and to ensure that funds are invested in demographic research.

10. Shaping globalization through global governance

As the world economy becomes increasingly globalized and as the economic sovereignty of nation states is subject to increasing constraints, there is a growing need for a global political instrument with which economic, social and environmental processes can be shaped. In recent times, a discussion has been taking place on ways of meeting the present global challenges in a democratic framework, an aim that is commonly termed 'global governance' (not to be confused with the idea of a world government). The Study Commission takes up the concept of global governance and argues that an increasingly interdependent world should be given a just, legally reliable political framework which respects the finite character of the world's natural resources. The principle of a democracy based on the rule of law, in which all people are free to determine their way of life, must also be put into practice on a global scale. The Study Commission focused particular attention on the following question: how can globalization be shaped in such a way that its risks are minimized, its opportunities enhanced and its existing flaws corrected? Not only our moral responsibility but also a shared interest in successfully solving certain common problems is the motivation behind these deliberations on the need to create and shape a just and democratic system of global governance.

Creating a just and sustainable regulatory framework for the world market

A regulatory policy for the globalized market economy based on the concept of sustainability should lay down clear economic, social and environmental guidelines. This policy must take account of such diverse aspects of human security as the protection of the global environment, the fight against poverty, the prevention of conflict, respect for human rights, the stability of financial markets and intergenerational and gender equity as well as the preservation and further development of social welfare standards. The pursuit of such a policy will not in any way impede, let alone reverse, the process of globalization. On the contrary, its purpose is to create a regulatory framework in which global markets can continue to evolve dynamically but which ensures that undesirable developments are avoided or - since they have already occurred in numerous areas - corrected. As things stand, globalization, for all its potential to create prosperity, has only bene-

fited a minority of countries and people, while the process was accompanied throughout the 1990s by a widening of the gulf between rich and poor and increasing overexploitation of natural resources. The CDU/CSU working group, on the other hand, emphasized that most of the population now enjoyed greater prosperity and higher living standards as a result of globalization.

Policy in multilevel systems

Global governance requires suitable regulatory institutions, not only at the national level. Cross-border problems must be addressed in the framework of interconnected multilevel systems. While nation states continue to fulfil an important pivotal role, they must also relinquish some of their powers 'upwards' to supranational and international bodies as well as devolving other powers 'downwards' to political authorities at the regional and local levels. In accordance with the subsidiarity principle, problems should be dealt with as efficiently and democratically as possible at the lowest possible level at which they can be addressed with the necessary substantive and procedural competence.

If we are to shape the development of globalization, new cooperative forms of problem-solving must be found between governments and multinational institutions, the globalized economy and the financial world, the media and civil society. Initially, it is a matter of initiating dialogue between the widest possible range of players – representatives of politics, business and the trade unions as well as of non-governmental organizations. This network should stretch from the level at which it is closest to the people, in other words local municipalities, to international institutions. Whoever wishes to have a say should become actively involved on a global scale and should be able to reach agreements with other governmental and non-governmental global players.

The sovereignty of the public players can be respected by vesting them with the sole right to allocate responsibilities. Governments, preferably represented by their country's parliament, should continue to be responsible for determining the criteria and conditions by which international organizations or private-sector players are bound whenever they perform certain public tasks. Likewise, the coherence of all political decisions taken by the various bodies dealing with international issues must be guaranteed by national institutions.

Figure 18: The General Assembly of the United Nations



Source: UN/DPI Photo 203571

Reorganization of the international institutional landscape

Strengthening, reforming and democratizing international institutions, such as those of the UN system or the Bretton Woods institutions, are key elements in the establishment and development of global governance. The aim is to overhaul structures which have never been effective or which are downright undemocratic and to achieve a reorganization of the international institutional landscape that will enable it to cope with the real problems of the day. Action needs to be taken in all those areas where pressing global problems have revealed the existence of a political vacuum. Those are the areas in which effective and democratic international organizations and regimes should be created and existing institutions should be reformed. First of all, this means providing such organizations with adequate funding, which their present-day counterparts generally lack; secondly, it means that their decision-making processes should be made more transparent. Further steps are also required towards the participation of women on an equal basis in these organizations.

The redistribution of voting rights in the IMF and the World Bank with a view to achieving North-South parity, which is supported by the SPD and Alliance 90/The Greens working groups, is a step too far in the view of the CDU/CSU and FDP working groups. The PDS working group, on the other hand, not only came out in favour of a more democratic voting structure but also supported a redefinition of the IMF mandate. The proposal tabled by the majority coalition for the introduction of an optional protocol to the International Covenant on Economic, Social and Cultural Rights which would provide for the investigation of individual complaints by a committee of experts, culminating in a quasi-judicial decision, was likewise rejected by the CDU/CSU working group. In the view of the FDP working group, many of the recommendations display an excessive faith in the creation of new institutions.

The implementation of global governance is far more than a mere organizational or financial matter; it is a political process, and one of its aims must be to redress the imbalances in the power structure which are partly to blame for the present problems. The PDS working group in particular criticized the fact that the discussion was too strongly focused on institutional issues. Global governance, it said, must focus on existing economic and political structures and must involve radical steps to correct the serious mistakes of the past. The FDP working group took the view that the special capacity for substantive action of the IMF and WTO, as compared with other international organizations, should be assessed in a more discerning manner; in the case of the WTO, it was not the international authority which was particularly effective but the underlying agreement of the States Parties. The working parties agree that international organizations are only as strong as their member states make them. Their efficacy depends on both a judicious transfer of powers and adequate resourcing. Germany, in conjunction with the EU, should help to strengthen international organizations with a view to enhancing their ability to manage transboundary problems and to ensure that global public assets are universally accessible. Wherever legally binding international rules have already been established, their implementation and enforcement should be encouraged, and every possible step should be taken to ensure that individual states do not renege on their commitments.

Regional cooperation projects are another important buttress. The European Union, which aspires not only to economic cooperation but also to political integration, parliamentary codecision and social justice, is a sound model that must

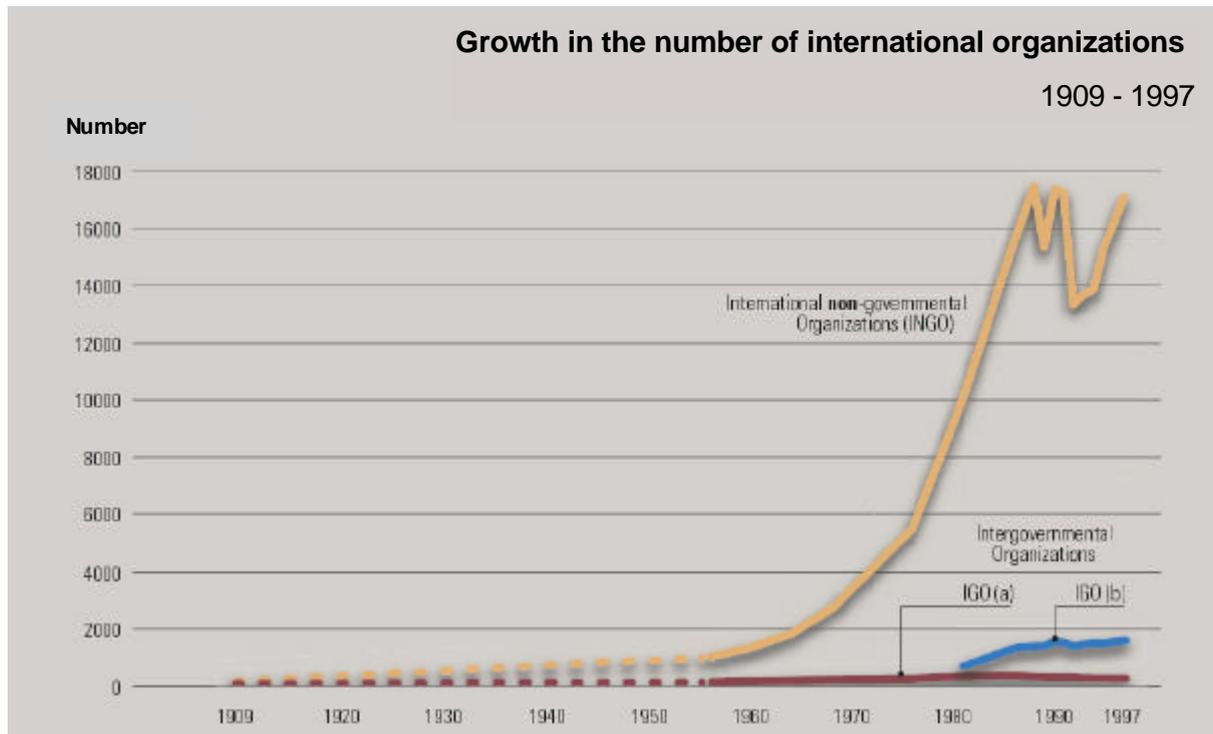
be further developed and more extensively democratized. The regions of the world should improve their cooperation within the framework of democratic institutions as well as strengthening their ability to act in a concerted manner in the field of foreign policy. In this way they could also lend more effective support to the work of the United Nations and help to democratize that organization; at the same time, the regions should have stronger representation in the UN, including the right to sit and vote in the Security Council. The pooling of regional forces and interests could also assist developing countries to secure more of the benefits of globalization than they have hitherto enjoyed. In general terms, development policy should be conceived as an international structural policy with a view to improving the conditions for socially, economically and environmentally sustainable development. In the opinion of the CDU/CSU working group, an informal regional group, along the lines of the G24, could contribute to the worldwide co-ordination of approaches to the various domains of global politics.

The pioneering role of civil society

Global governance must be shaped in such a way that the strength of democracy is reinforced during periods of globalization. In ancient Athens, democracy was conceived for city states as clearly defined entities, and in the 18th and 19th centuries it was developed as a system of government for the nation state. Its forms and institutions must now be adapted to present-day conditions. The aim is constructive cooperation between government and non-governmental players. After all, civil society, with its numerous non-governmental organizations, has long outgrown the confines of nation states (see Figure 19 below) and has developed great potential to contribute on a global scale to the effective protection of public assets. As part of this improved cooperation between governments and non-governmental players, support should be given to political networks and partnerships involving governments, parliaments, the business community, trade unions, churches and non-governmental organizations. This cooperation should also help to ensure not only that international political processes can be better prepared but also that they can be followed up more effectively, all of which will make these processes more amenable to public scrutiny.

***Cooperation
with non-
governmental
players***

Figure 19



Civil society represents greater scope for political involvement and participation in the resolution of global issues and is therefore a means of overcoming the widespread apathy towards representative democracy. Needless to say, non-governmental players too must give constant proof of their credibility and must respect the primacy of parliamentary democracy and the elected government. This applies especially to legislation, the state monopoly on the use of force and negotiating powers at international conferences. Conversely, governments incur a new kind of obligation in their dealings with civil society, an obligation to activate civil society in support of the aims of democracy and the protection of public assets. Particular importance attaches to the transparency of political processes and free access to information, as guaranteed by the Freedom of Information Act in the United States and, in the UNECE framework, by the 1998 Aarhus Convention in the domain of environmental protection. Moreover, both the business world and the trade unions must have the opportunity to deliver their opinions on commercial and financial privatization and deregulation projects of the international political community where these projects relate to economic, employment, social or environmental policy, in order to ensure that the joint responsibility of management and labour for helping to shape the economy and society is not eroded

to the detriment of the globalization process. The European social model would otherwise dwindle in importance and thus ultimately lose credibility.

When supranational networks are formed, it is generally important to involve local players and to strike a balance between the various participants, whether between North and South, strong and weak or those who stand to gain from the globalization process and those who are liable to lose by it. Here too, care should be taken to ensure that women and men are represented on an equal footing and that women's specific interests are taken into account.

In addition, civil society can also exert a considerable influence on the character of the private sector. The business community itself emphasizes the importance of corporate social responsibility. The desire to make this responsibility credible implies the need for close cooperation between business and civil society, in which each side must respect the special nature of the other. In the context of this cooperation, voluntary commitments could supplement existing national and international law and serve as an international model for the setting of adaptable and appropriate standards (see also section 1.2 of the final report).

While the SPD and Alliance 90/The Greens working groups wish to strengthen the roles of multilateral cooperation and civil society, the CDU/CSU working group criticized this approach for underestimating the present role of governments and overemphasizing the role of international cooperation and the participation of civil society. The dividing line between national sovereignty and the powers of international organizations on the one hand and between the exercise of national sovereignty and the activity of civil society on the other, said the CDU/CSU working group, must be determined in a pragmatic manner on a case-by-case basis in accordance with the specific features of the relevant sector of economic activity. If international law was intended to develop into an increasingly close-woven network and ultimately into a system of global governance, the necessary steps in that direction could only be taken by national governments. By their very nature, on the other hand, non-governmental organizations represented only a segment of society and pursued special interests. According to the group, it was unacceptable for these organizations to claim to speak for civil society in general and to aspire to direct participation in political decision-making procedures, because only parliaments and governments had the legitimate right, by virtue of universal suffrage exercised in free elections, to make political decisions. Only those non-governmental organizations whose structure and internal deci-

CDU/CSU: Governments have the legitimate mandate

sion-making processes were transparent, which conducted their affairs with integrity and which renounced every form of violence had any legitimate claim to be heard as representatives of special interests.

By contrast, the view of the PDS working group is that the necessary rectification of previous undesirable global developments demands a radical redressing of the balance of power in world politics and in the realm of social policy, which can only be achieved by persistent mobilization, in the political arena and in society in general, of the democratic resistance of civil society to the dominance of neoliberalism; this, said the group, was the only way to overcome the siege mentality of the international financial and industrial conglomerates.

Tasks for the political parties and for Parliament

The appointment of the Study Commission on Globalization of the World Economy shows that the Bundestag is aware of the challenges and is seeking responses to them. As democratically elected bodies, parliaments should be strengthened in the context of a system of global governance, because they must extend their monitoring and policymaking functions to the international level too. For the Federal Republic of Germany, this means a greater say for the Bundestag in decision-making processes in the domain of foreign policy and more exchanges with other parliaments as well as with representatives of civil society at the European and international levels as first steps towards that goal. A task force should try to identify additional organizational improvements which would guarantee adequate parliamentary consideration of matters relating to globalization; this could perhaps be a body coordinating the activities of the various ministries involved or temporary task forces devoted to specific subjects, or else a committee with consultation rights similar to those of the Bundestag's Committee on European Affairs or a cross-cutting Bundestag committee on globalization (the practical value of which is questioned by the FDP working group).

Global governance is still in its infancy. There are still barriers to global governance – resulting, for example, from power imbalances or from national and international democracy and legitimacy problems; the virtual absence of a consensus on ethical standards (a 'global ethos') still makes it difficult to create a strong system of global governance. But these are precisely the problems that need to be confronted. At the present time, global governance is still more of a projected

aim than a description of the prevailing international system. Initial steps towards global governance are characterized by their emphasis on political practicality, their focus on the future and their regulatory nature. They involve the drafting of new models of political control and cooperation within which existing political institutions and players, new forms of policymaking from the local to the global level and diverse policy areas are combined with each other.

On the basis of the observation that many transboundary problems can no longer be tackled with any real prospect of success by the conventional methods and instruments of national foreign policy, it may be concluded that globalization is more than just an economic process. On the contrary, the major task in the future will be to rid globalization of its apparent subjection to immutable laws. The changes that began to take place in the early nineties were historically possible and politically desired. Both sides of the globalization process – its strengths and its weaknesses – have now become apparent, and both give rise to the need for global governance. A democratic and effective system of global governance should help to ensure that the opportunities offered by globalization are available to everyone so that the process can create the widest possible sustainable prosperity.

***Reinventing
democracy***

11. Minority report by the CDU/CSU and FDP working groups

1. *Shaping the future – taking the opportunities offered by globalization*²

The CDU/CSU and FDP working groups in the Study Commission consider it important to outline the opportunities and benefits of globalization, as well as its risks and drawbacks, on the basis of fact. As long as many people feel a 'sense of powerlessness' in the face of globalization, it must be our aim to emphasize that globalization is not something the individual has any cause to fear. A bold, democratically legitimized policy can influence the globalization process at any time for the benefit of people in general.

Globalization creates prosperity

Economic globalization is nothing other than an increased international division of labour. It is reflected primarily in the increase in cross-border trade, global investment, international capital transactions and the international transfer of knowledge.

In many places, the majority report presents the current situation in the world in an unduly bad light and creates the impression that the world was a better place before globalization. In actual fact, people have moulded the globalization process to suit their needs and in this way have substantially improved their living standards over the last two hundred years:

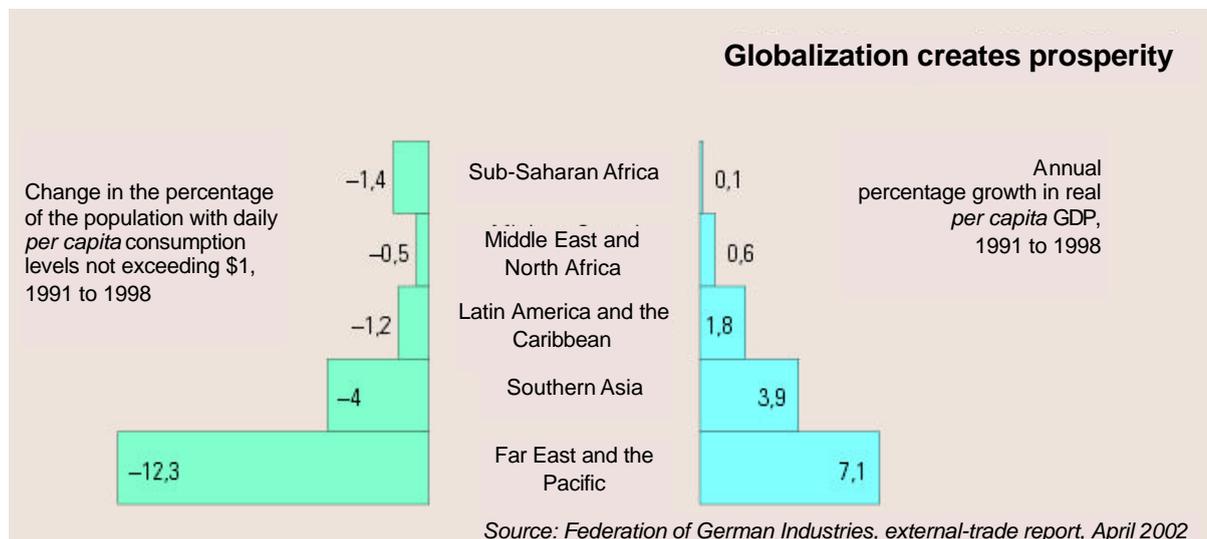
- The global average of *per capita* national income is higher than ever before.
- The percentage of people living in absolute poverty has decreased.
- People today live in greater freedom than ever before.
- More people's fundamental human rights are protected today than ever before.

² According to parliamentary custom, a minority report is only required if assessments and recommendations differ sharply. The summarized minority report presented here concentrates on serious divergences in the assessment of globalization. In spite of strenuous efforts, the Study Commission was unable to agree on a joint summarized report.

- Education levels have risen. Access to education and knowledge has become easier for most people.
- People are living longer, healthier lives.
- The average rate of child mortality has fallen.
- More people in the world are in employment than ever before.

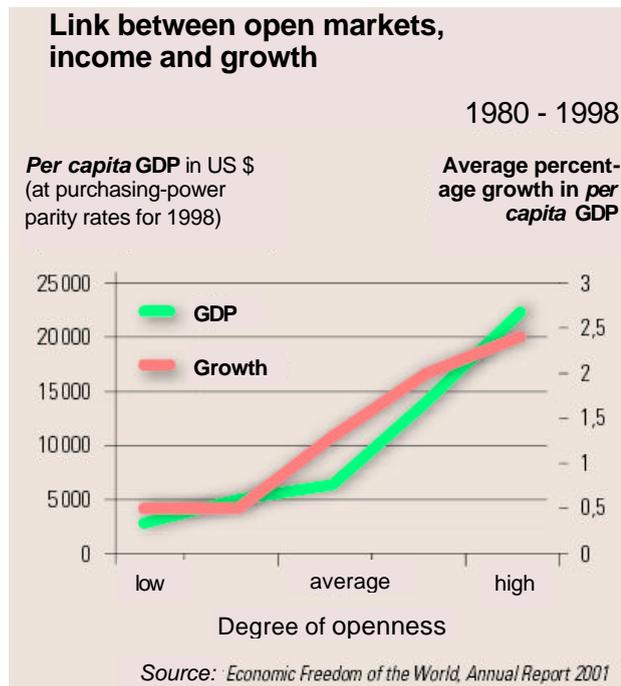
Empirical studies clearly show that these developments are the result of globalization. Growth and prosperity have increased in precisely those countries that have opened their doors to international competition (see Figures 20 and 21 below).

Figure 20



These countries have achieved higher incomes and created more jobs. Moreover, they have less poverty and a less uneven distribution of income and assets and even a cleaner environment than those countries which opt out of involvement in world markets.

Figure 21



This is clearly illustrated by a comparison between Latin America and South-East Asia: while some Latin American countries tried in past years to replace imports with home-produced goods, a number of South-East Asian countries were pursuing an export-based strategy. Within a generation, many of the latter had made the transition from developing to newly industrialized countries. Some of the companies based in those countries are now among the global leaders in their respective markets. What is often overlooked is that Europe, and Germany in particular, owe their 'economic miracle' to the fact that they, too, pursued this type of open-market strategy and framed their regulatory policies accordingly.

The case of Germany graphically illustrates the vital importance of integration into the world economy as an engine of economic development and a source of prosperity. The fact is that success in global markets gives a government more wealth to distribute and therefore permits certain adjustments in the distribution of income, property and opportunities. On the basis of this experience, **we recommend that the principle of a market economy with adequate integrated social safeguards (the 'social market economy') should be applied as the basis of a policy for global prosperity.**

Applying the principle of a social market economy

If national borders are open, companies can make better use of the benefits of particular locations due to natural, economic and political factors and can produce, research and/or sell wherever the advantages seem greatest (competition between potential business locations and between different countries' economic, social and legal systems). Consumers benefit from this through cheaper prices and a wider range of products.

On the basis of this evidence alone, we can say that globalization offers **opportunities for everyone**:

- **Globalization benefits consumers** twice over: on the one hand, global competition and the scope to produce anywhere in the world lead to lower prices; on the other hand, international trade enables consumers to purchase goods that would be in short supply if markets were largely closed. In other words, open markets mean a wider range of products.
- **Globalization creates better jobs.** Industries exposed to competition work more productively than protected industries. Accordingly, they can pay higher wages, which are generally accompanied by better working conditions.
- **Globalization creates knowledge.** Free trade gives people the opportunity to learn from others. Through exchanges of goods and services, but more especially through direct investment by companies, knowledge and technology are transferred in all directions. Know-how and education are the basis for greater well-being, especially in countries whose economies are still less developed.
- **Globalization leads to more individual freedom.** Globalization offers all people greater opportunities to realize their aims and wishes than would be the case if there were no international division of labour. This not only increases material prosperity but also fosters liberty and freedom of choice.

Precisely because globalization enhances people's freedom – and this point is totally disregarded by the majority groups in their report - it constitutes a powerful lubricant for the engine of development and is also apparently an effective weapon against social evils such as corruption (see Figures 22 and 23 below).

Figure 22

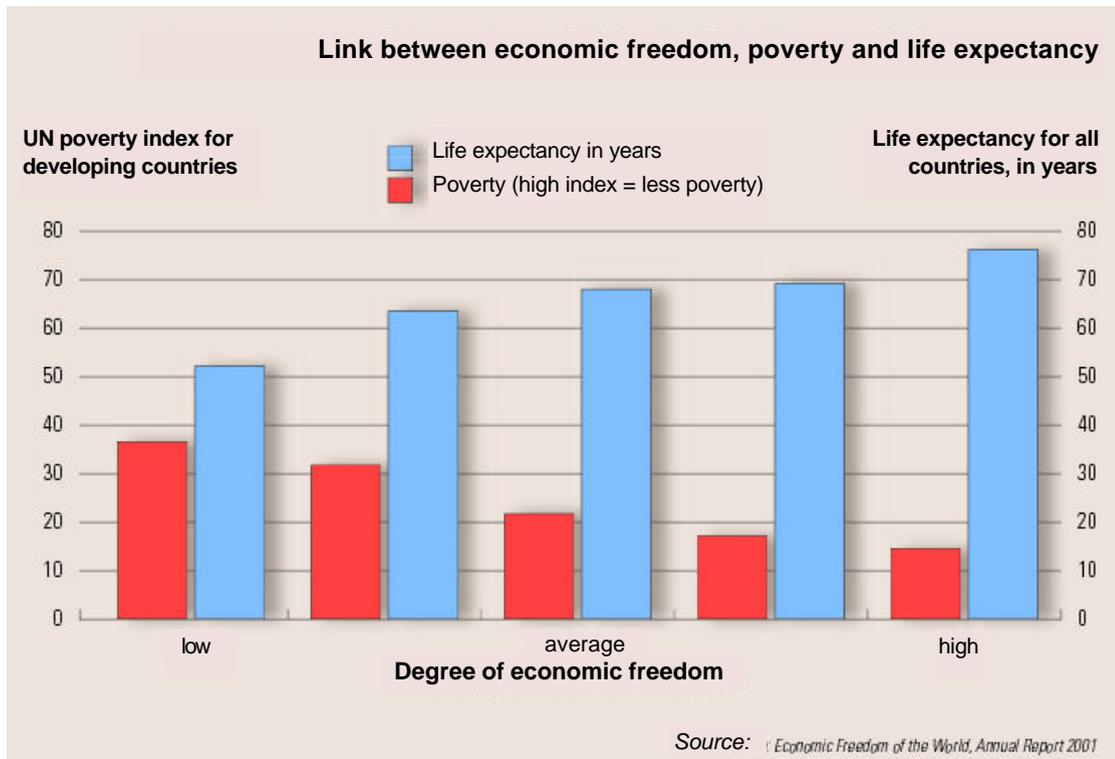
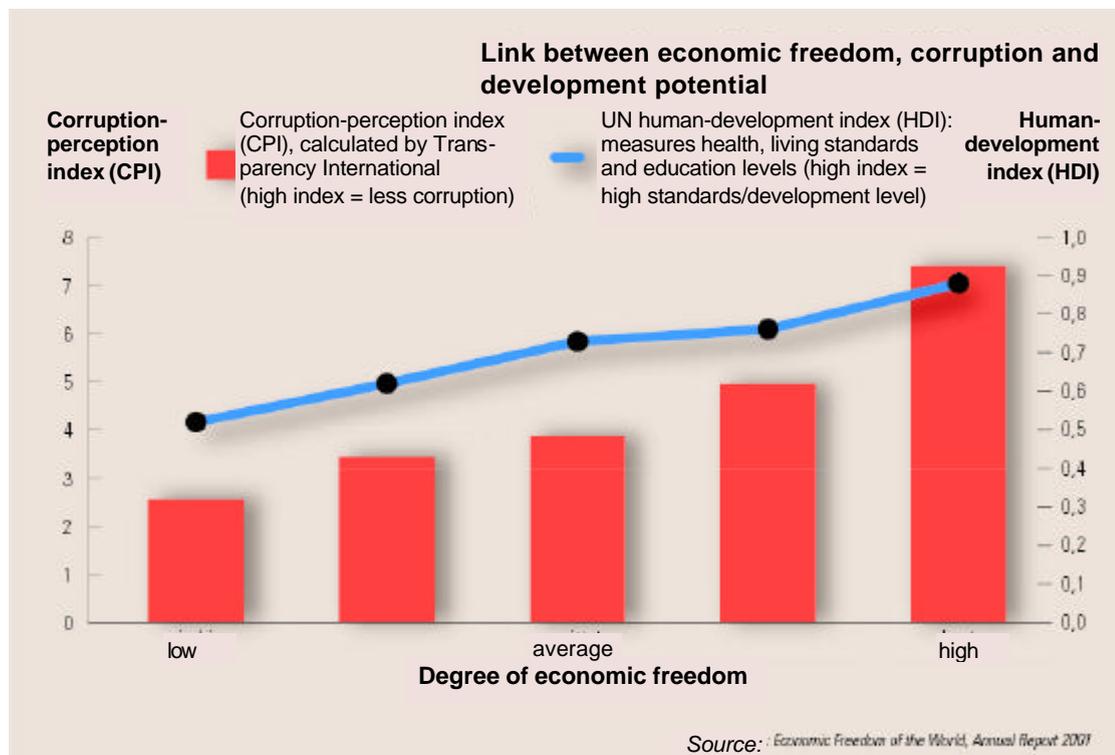


Figure 23



The main factor behind all these developments is competition. It constantly drives people to invent new products and technology and to seize market opportunities - for the good of all those involved in the economic process. It is therefore especially important to ensure that public policy is designed to make competition work.

2. Globalization and competition – creating flexibility and establishing the right framework

When borders are open, more industrialists, scientists and politicians compete with each other for the best ideas and solutions. This increases choice and flexibility for everyone, but also complicates decision-making. This intensified competition creates a need for constant adaptation, which is sometimes a painful process, and the final outcome is never certain. Nevertheless, it is the best way to coordinate economic activities. We therefore take a resolute stand against large parts of the majority report, which reveal a pervasive fear of competition and consequently call for it to be restricted.

In view of the enormous importance of competition, policies must be designed to guarantee effective competition throughout the world. One of our **key demands** is therefore the establishment of an **international competition policy**. Since the basis of any competitive system is the rule of law, social market economics, democracy and the rule of law dovetail together splendidly. Economic activities only develop if forward planning can be conducted with a reasonable degree of certainty. This is especially true of trade and cross-border investment. Even the governments of the less democratic developing countries have recognized this. Many of them are interested in establishing a legal order that will make their respective countries more appealing to prospective investors and trading partners. It follows that a responsible international policy is bound to help other countries to establish systems based on the rule of law.

As the globalization process unfolds, one of its greatest challenges in the medium and longer term lies in the danger that corporate concentrations will lead to multinational giants controlling world markets. Efficient monitoring of compliance with competition law can counter this threat, for properly functioning competition is the 'great power limiter', not only in the business world. For this reason, it must be

Promoting the rule of law and respecting interdependence

protected by an effective cross-border enforcement mechanism that will curb cartels and anti-competitive mergers. Competition between potential business locations and between different countries' economic, social and legal systems will help steer national policies in the right direction.

As markets and national borders become more and more open, new legal systems are increasingly becoming relevant to international corporate activity, and/or companies are 'emancipating' themselves from any jurisdiction at all. This is not a new development; it has only been considerably accelerated over the past ten years. It is one of the reasons for the growing importance of international law, since the aims of international law include the prevention of legal vacuums.

For states and communities of states with market economies, competition is the constitutive element of their economic systems. The competition that results from the freedom of their economic players must be constantly protected, just as democracy is protected, against the abuse of power. To this end, it is essential that there should be a code of competition law and institutions to monitor and enforce compliance with the rules. On an international scale there are three approaches that should be pursued together, namely the multilateral, the plurilateral and the bilateral approaches.

***Creating an
international
competition
policy***

The multilateral approach

The multilateral approach refers to the negotiation of competition rules in the WTO framework. A WTO working group has been engaged in this task since 1996, but no tangible results have emerged to date. In view of the large number of WTO members, many of which have no national competition law, and the principle of unanimity governing the Organization's decision-making process, this is hardly surprising. If the working group could at least agree in the medium term on the prohibition of hard-core cartels, that would be a step in the right direction. Until then, the group can certainly heighten awareness of competition. As for the far more complex issue of merger control, however, it is surely unrealistic to expect the WTO to be able to tackle that in the foreseeable future. And yet the accumulation of economic power through corporate mergers is the real threat, not only to free competition.

The plurilateral approach

The plurilateral approach is pursued by a group of states that have already amassed experience of a fully developed code of competition rules and its implementation and wish to let other countries benefit from their experience. This is the aim of the International Competition Network, which is dedicated to more intensive exchanges of information and closer cooperation. Most of the members of this network have many years' experience of anti-trust legislation and particularly of the instrument of merger control. This is a basis on which an international competition code could be built, beginning with the development of common interpretation principles, which could gradually be consolidated into a set of rules. Even now we hear increasingly frequent calls for international merger rules from companies operating globally.

It is impossible at the present time to gauge the long-term demand for the establishment of an international competition watchdog (a 'global monopolies commission') to be enshrined in international law. Such an option, however, cannot and should not be ruled out.

The bilateral approach

Bilateral cooperation between competition authorities should also be continued and intensified, because it guarantees the propagation of tried and tested competition rules. For example, the substance of the U.S.-German intergovernmental agreement was largely incorporated into the transatlantic agreement between the European Union and the United States. These two agreements served in turn as the model for the latest agreement, which the European Union has concluded with Canada. If such forms of cooperation bear fruit, as they have been doing so far, the transition from bilateral to plurilateral contractual relations seems sure to follow.

3. Politics in the age of globalization – unlocking development potential

The disciplinary effect of competition applies not only to the private sector but also to the world of politics. Liberal international conditions for trade and investment not only help to raise living standards throughout the world but also create a stronger basis for the development of democracy and human rights. Political and economic freedom are closely entwined.

Moreover, free capital, commodity and labour markets punish bad economic policy, for many eyes now watch political processes, and these observers can, if necessary, set many feet and/or large amounts of capital in motion at a moment's notice. In other words, the fiercer competition engendered by globalization highlights the strengths and weaknesses of individual policies. Many politicians, indeed, regard themselves as 'prisoners' of globalization. In fact, however, they remain free to act in pursuit of their countries' economic and social well-being. This is what they should be doing instead of using globalization as a scapegoat.

But apart from pursuing competition policies, how can policy-makers respond to globalization? In the discussions on this question, the majority of the Study Commission 'globalized' not only the familiar national controversies regarding the importance of the governmental function and the role, scope and universal provision of public assets but also issues of freedom versus regulation. It became all too clear that the majority wants to meet the challenges of globalization with national instruments more or less identical to those used in Socialist planned economies.

The CDU/CSU and FDP working groups consider it an important national and international political task to identify the opportunities offered by globalization and to make them exploitable. The risks of globalization must be reduced by means of a well-conceived framework of generally accepted rules. In spite of globalization, there can be no doubt that national governments still have suitable and effective instruments at their disposal for this purpose. Governments, in other words, are far from powerless when it comes to protecting 'public assets'.

The majority groups in the Study Commission attribute the special status of '**public assets**', and hence a claim to special protection, to many things. Their summary report defines assets ranging from drinking water to the stability of financial markets and human rights, asserting that all of them are endangered by globalization.

The core issue in the debate on 'public assets', however, is whether the state (or communities of states) or the private sector should provide these assets. The majority view was reached without any consideration at all of the question whether the public sector can actually provide the relevant assets more efficiently than private operators. Consequently, the majority groups 'declare' many things to be public assets on the grounds that the public sector provides them or should

provide them and that this alone justifies their protection from private-sector competition. At the same time, competition to offer the most attractive tax rates and business locations and, not least, 'fly-by-night' capital are identified as the main culprits for the alleged deterioration in the scope for funding the provision of 'public assets'. It is a fact, however, that many such assets can be supplied more efficiently and more cheaply by private operators. This is all the more likely in a competitive environment with appropriate regulatory mechanisms. Globalization is therefore no threat to assets such as clean water or 'social peace' but ensures that these assets, like other goods and services, can be supplied in the required quantity and quality at reasonable prices.

To spell it out clearly: wherever the consequences of economic activity exceed certain bounds and are liable to harm third parties, as in the case of the public asset of clean air, there will be a need for international coordination and, where appropriate, regulation. It is wrong, on the other hand – particularly in the domain of national public assets - to exclude from the outset the role of competition as an impartial arbiter and regulator and to assign that role to the state, which evidently lacks the necessary vision, as testified by the fate of the Socialist planned economies.

Increasing the potential for prosperity and combating poverty

The other main requirement for globalization is a liberal trade policy. The removal of trade barriers in the framework of the Uruguay Round alone increased global prosperity by up to 680 billion U.S. dollars. Another round of liberalization could substantially boost global economic output once again. The reason for this is that globalization is not a 'zero-sum game' in which players can only become more prosperous by making other players poorer:

- Neither national nor global economic development is finite; there are always opportunities for growth. The theory that one player can only grow at the expense of another and that the only way to alleviate poverty is to redistribute the existing wealth has long been disproved.
- Differences in development levels or external-trade positions are merely snapshots. Competitive edges and shortcomings can change with time. There is no such thing as structural or indeed predestined inferiority.

- Deficits are mostly due to governmental structures and institutions which are not sufficiently reliable. Globalization, however, helps to expose such defects.

Globalization is a 'non-zero-sum game' that leads to greater prosperity worldwide. It offers development opportunities to all who can take part in the process of opening markets to international trade. We want to **release and develop this immense potential for the people of the world.**

*Increasing
the potential
for prosperity*

Globalization is not one of the forces of nature. It is moulded by people. Provided the framework is properly constructed, the odds are stacked in favour of sustainable economic, social and indeed environmental development. Globalization will give the people of developing countries vital opportunities to overcome poverty.

Unfortunately, the majority groups did not subscribe to this central position, although in various passages in their report they undoubtedly recognize that the opening of markets in the course of the globalization process has helped to make the poorer countries more prosperous. The Study Commission was unanimous, on the other hand, in its view that the globalization process can be shaped and that it needs a regulatory framework. Given such a wide divergence in the assessment of the opportunities offered by globalization, however, it is not surprising that the recommendations for action of the majority and minority groups differ so sharply.

Political efforts to shape the globalization process

In the view of the CDU/CSU and FDP working groups, the paramount aim must be to create conditions in which globalization can realize its potential as a generator of prosperity. It is a matter of establishing **global equality of opportunity** among nations and people. The international division of labour and its impact on global well-being require a regulatory framework. It is the responsibility of policy-makers to construct that framework.

*Promoting
trade, guaran-
teeing competi-
tion and estab-
lishing institu-
tions*

We therefore make the following recommendations:

1. The remaining obstacles to trade in goods and services must be largely eliminated, and the removal of these obstacles must be enshrined in international agreements.

2. An effective system of competition control must be created, and parallel efforts must be made to integrate as many countries as possible into the world economy.
3. The poorer countries must be endowed with more institutions that are subject to the rule of law to make them more attractive targets for foreign investment – perhaps by means of an international investments convention. The industrialized countries must offer their assistance to this end.
4. The progress that has been made towards liberalization of the international financial markets must be safeguarded.
5. The creation of international organizations and their transparency should be supported with the active involvement of ‘civil society’.
6. Rules designed to guarantee good governance must be more firmly anchored throughout the world.

Some of these recommendations are dealt with in greater detail below.

4. Encouraging cross-border economic relations

Away from the cut and thrust of day-to-day politics, a large majority of experts and broad sections of society in general take the view that free trade in goods and services brings the world greater prosperity and helps to eradicate poverty in the world on a lasting basis. As we have already shown, the countries that have opened their economies to competition have been able to secure a higher level of prosperity than those which have protected themselves against it. The free-trade approach should therefore be maintained. Measures to protect domestic markets, such as those adopted during a changeover to a different economic and social system or during the transition to participation in international competition, must conform as closely as possible with market principles and must be subject to a time limit.

The same applies to the expanding trade in services, which is another potential source of increased prosperity. The majority groups’ general scepticism towards competition, however, is apparent in this area too. They demand, for example, that the General Agreement on Trade in Services (GATS) be made more ‘flexible’, which, in this particular case, is tantamount to calling for a restriction of

competition. Service providers seeking to invest abroad must be able to rely on stable local conditions. Companies will not invest if they have reason to fear that the rules governing their involvement are liable to be repeatedly changed. Moreover, GATS gives every country the freedom to choose whether to liberalize its service industries. The majority proposals simply create more exemptions from competition so as to preserve or increase the influence of the public sector, for example by calling for the exclusion of 'services of general interest' or educational services from the GATS negotiations.

Eliminating trade barriers

There are essentially two strategies that can be adopted to make up development deficits. The first is designed to establish a competitive industrial base in a rational economy that is protected against imports. Competitiveness, however, can best be acquired by engaging in competition. For this reason, such a strategy usually results in considerable wastage of resources and is often as expensive as it is futile. Many South American countries pursued this strategy in the sixties and seventies, but it did not bring them any sustainable success.

The other strategy, which has been adopted by many South-East Asian countries, is designed to ensure that the transition to a free-trade policy is made as soon as possible. External trade leads to a more efficient use of resources, since there is no need to develop technology at home if it can be imported. The resultant savings can be used for other purposes. Many developing countries are now trying to emulate the success that South-East Asia has achieved with this strategy.

Opening markets creates development opportunities

It is a fact, however, that the very products which many developing countries can produce more cheaply are often excluded from the markets of the industrialized countries by high tariffs or other barriers to trade. Prominent examples are textiles and agricultural products as well as some of the products of heavy industry and of other labour-intensive industries. UNCTAD has estimated that opening markets to the products of poor countries could serve to generate 700 billion U.S. dollars a year in additional income for these countries by 2005. The industrialized countries are therefore called upon to open their borders and to eliminate protec-

***Making trade
generate
development***

tionist practices. This will doubtless require them to make adjustments, some of which will be painful.

Supporting direct investments and multinational companies

The sharp increase in direct cross-border investments is one of the main features of globalization. The global volume of these investments increased about tenfold between 1980 and 1999. They are often made by large companies operating worldwide, the so-called multinationals. Direct investments are made in order to tap into new markets, spread risks or maintain a presence in the foreign market in the form of (production) facilities. They are mostly made within the industrialized countries. The aim of lowering production costs by obtaining cheaper energy, raw materials or labour tends to play a minor part in these investments.

But those developing countries which are administered in accordance with customary international legal standards are also attracting an increasing amount of foreign capital. Such investments will, in principle, result in greater prosperity and more jobs in the target country. But the country of origin benefits too, since the companies with a presence abroad safeguard jobs 'at home' and enhance their competitiveness. Exchanges of knowledge and technology benefit both sides.

For the reasons outlined above, we call for:

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| <ol style="list-style-type: none"> 1. further systematic opening of markets and development of the WTO; in order to flourish, world trade needs a forum to set out the ground rules and monitor compliance with them; 2. a policy to regulate the domestic market economy as a means of safeguarding the successes achieved through free trade. |
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***We call for
market opening
and a regula-
tory policy***

5. Strengthening the financial markets to safeguard international trade

Efficient financial markets play a crucially important role in financing international trade flows as well as production and investment activities. The huge global financial flows, which have increased fivefold since the late eighties, are largely based on trade in goods and services, contrary to the assertion made in the majority report. All major trade deals and all direct investments give rise to numerous financial transactions. International capital flows were initially concentrated in the

established industrialized countries. For the last ten years, however, more and more capital has also been flowing into some of the developing countries in the form of direct and portfolio investments – a sign of increased confidence in those countries' economic policies.

Using global financial markets and countering financial crises

Since the collapse of the anti-market Bretton Woods system of fixed exchange rates, financial and economic crises have occurred in various countries or regions, the Asian crisis of 1997/98 and the current crisis in Argentina being two of the most recent examples. Such crises and the unpredictability of capital flows, which are mostly short-term in nature, undermine confidence in national and international financial markets. They cast doubt on the conduct of the international financial institutions and inflict losses, sometimes heavy losses, on investors.

Globalization is often blamed for such developments. There is, we are told, a sort of 'fly-by-night capital' which has no roots in the production process and which is constantly on the lookout for new 'hosts', i.e. investment targets, only to move on again almost immediately. Financial innovations and the 'shareholder-value' mentality are also held responsible for market instability. As an antidote, the majority of the Study Commission calls for a return to stricter regulation of financial markets and the creation of a new financial architecture.

On closer inspection, however, these allegations prove to be totally unfounded. The fact is that the financial crises have hitherto affected precisely those countries whose financial markets are inadequately regulated. Their markets may have been liberalized, but the liberalized markets were not counterbalanced by the necessary supervisory institutions. In addition, the countries in question often persisted with fixed exchange rates against the will of the markets, thereby encouraging currency speculators. And then, when these speculative bubbles burst in the stock exchanges or when lenders insisted on the redemption of short-term liabilities, crisis was inevitable. The real causes of the crises, however, were the lack of a regulatory framework for the financial markets and individual economic-policy errors. Globalization highlights such shortcomings and could therefore help constrain market operators.

In the long run, the free international movement of capital promotes prosperity, growth and employment. It channels capital to those who need it most urgently. Blanket restrictions on cross-border capital transfers are therefore the wrong sig-

nals to give the market. The target should not be fixed exchange rates for their own sake but realistic exchange rates. If these rates remain stable over the course of time, so much the better. Among other things, stable realistic exchange rates are a reflection of reliable economic policies.

Reform of financial markets instead of a 'Tobin tax'

To protect the financial system from 'speculative' money, the majority groups recommend the imposition of a tax on short-term international financial transactions ('Tobin tax'). Since short-term movements of capital mostly relate to trade in goods and services and are effected for purposes such as the provision of bridging finance or term transformation, such a tax on speculation would ultimately obstruct international trade too. Besides, to be effective – if it can work at all – a Tobin tax must be introduced by all countries. Whatever its other effects, it would probably restrict competition to such an extent that no more thought would be given in many countries to the market reforms that are actually needed. If this were the case, the next crisis would be all the more devastating.

The international 'financial architecture' has essentially stood the test. The efforts that have been initiated to refocus the World Bank and the IMF on their original core tasks are right and proper. The IMF should continue to devote itself to the task of liberalizing capital transactions that was assigned to it in 1997. In addition, a system of crisis management is necessary in order to minimize the risk, in the event of a real crisis, of a 'contagion effect' on countries not directly hit by the crisis. In particular, all measures of crisis prevention are to be welcomed. For example, the IMF should more actively collect and process information on the capital markets of specific countries. The World Bank should be entrusted with responsibilities in the field of development and growth policy.

Accusations that the IMF itself is to blame for financial crises and that it is driving the developing countries into an economic impasse are unwarranted. When granting loans the IMF rightly examines whether, as agreed in the 'Washington consensus', the prospective borrower is pursuing a stability-centred policy. This does not unduly restrict the borrowing state's freedom of action, especially since the stabilization programmes are prepared and adopted jointly by the borrower and the IMF.

Criminal acts are an entirely different matter. The international community must stamp out money-laundering, tax evasion, the funding of terrorism, etc., by im-

**No to a Tobin
tax, yes to
reform of the
financial
markets**

proving the international oversight of financial transactions. Proposals to this effect made by bodies such as the OECD and the International Stability Forum should be supported.

The primary concern of the European Central Bank (ECB) should be monetary stability within the euro area, because monetary stability lays the foundations for a successful economic policy. Employment policy and environmental policy have no place in the package of primary ECB aims, because stability policy is the best employment policy.

6. Intensifying international exchanges and promoting social and environmental standards

Minimum social and environmental standards are essential to the development of people, societies and economies. Sustained overexploitation of natural and human resources would be a barrier to further development. If we examine the ideal of sustainable development, however, we see that economic, social and environmental improvements are mutually dependent. Focusing only on individual aspects jeopardizes the development process as a whole.

In the realm of social standards, the international labour standards laid down by the International Labour Organization (ILO) enjoy a similar status to that of universal human rights. Quantitative social standards, such as minimum pay levels, still play a minor role in the debate on social standards, but they will presumably come to assume greater importance. Environmental standards should focus primarily on preventing the overexploitation of environmental assets to the detriment of future generations.

It is often argued that standards are necessary as a means of ensuring a level playing field in competition. Companies, so the argument runs, would otherwise leave the highly regulated countries in order to plunder natural resources of less strictly regulated countries with impunity, produce more cheaply, and so on. This conduct, which is often polemically termed social and environmental dumping, allegedly results in a 'race to the bottom' as countries systematically lower their standards to attract foreign investment. For this reason, trade-union confederations, NGOs, church groups and other critics of globalization demand inclusion of

the appropriate minimum standards in the WTO trade rules. The WTO's dispute-settlement procedure, they say, is an efficient sanctioning mechanism.

We must ask ourselves, however, whether the amalgamation of trade rules with social and environmental standards will actually achieve the desired result. We believe, firstly, that the way to raise standards is through closer integration into the world market and, secondly, that the adoption of voluntarily agreed standards should be encouraged, because they will best suit the local situation. The fact is that most of the developing countries simply cannot afford to comply with higher standards at the present time. For this reason, many developing countries reject the idea of linking social and environmental standards with the WTO rules.

As we showed above, a more extensive international division of labour through cross-border trade and direct investment is the key to progress and prosperity. The best way to achieve higher standards is therefore through free trade and the accompanying transfer of know-how. It is precisely because of the need for fairness and solidarity that international cost and price differentials arising from different local production conditions must be accepted – at least in the short term – and that goods produced in these conditions must be freely marketable. To this end, many industrialized countries and trading blocs must demolish their protectionist walls.

The ILO and the United Nations Environment Programme (UNEP) offer the proper platform for the application of international labour and environmental standards. These institutions must be strengthened and empowered to impose appropriate sanctions. To this end, more technical and financial assistance is required from the industrialized countries. We should strive to ensure that institutions dedicated to the improvement of living and working conditions are created in newly industrialized and developing countries.

Standards and the role of companies

There is a consensus among experts that multilateral companies make a major contribution to the improvement of economic, social and environmental conditions in the countries in which they invest. According to numerous studies, the multinationals lend powerful impetus to the transfer of knowledge and technology to the developing countries, because they generally take their advanced technology to those countries. In most cases, moreover, they pay employees more than the average local wage. This enables an increasing number of parents to send their

children to school instead of sending them to work and thus to qualify them for better-paid jobs. In this way more women are also able to find regular employment.

Since multinationals are closely watched by shareholders, trade unions and politicians in their home countries, they are anxious to ensure that industrial relations in their foreign subsidiaries surpass customary standards in host countries. Trade unions far more often play an active role in these companies than in other firms. Almost all of the multinationals in the industrialized countries have their own corporate identity and rules, which they apply throughout the world. Nevertheless, individual firms sometimes do not behave as responsibly as they should, which is why international organizations develop codes of conduct, such as the ILO's almost universally acknowledged international labour standards or the OECD Guidelines for Multinational Enterprises.

In the debate on specific rules of behaviour for companies, however, the numerous small and medium-sized businesses which are now investing abroad must also be taken into account. They too must be able to satisfy the requirements without incurring unduly high costs. In addition, politicians cannot offload their responsibility for the achievement of certain political goals onto the business community. After all, the political, legal, economic and cultural conditions obtaining in developing countries must be taken into consideration. For these reasons, voluntary guidelines are the better option. They provide companies with the necessary flexibility in practice and strengthen trust between investors and host countries.

7. Helping the environment – promoting sustainable development and using resources more efficiently

Globalization increases prosperity in industrialized and developing countries. This creates two problems for the environment: firstly, more growth and prosperity generally mean more pollution; secondly, indigenous producers in developing countries often use far more pollutant forms of technology than are customary in the industrialized world.

According to Indira Gandhi, "poverty is the worst form of environmental pollution". People who are fighting for their lives cannot choose between environmentally

friendly and pollutant practices. The environmental impact of globalization is therefore partly dependent on the extent to which national and international measures allow the economic advantages of globalization to benefit the people of the poorest countries as well. With growing prosperity, however, come higher personal expectations, which can result in higher levels of environmental pollution, as demonstrated by the increasing number of motor vehicles in the industrialized and industrializing countries. Nevertheless, the 'North' must not prevail upon the 'South' to place less of a burden on the environment than it does itself.

The only thing that is likely to help at the end of the day is a sharp increase in productivity. In many countries, economic growth has generated resources for considerable advances in environmental protection. A major contribution to these improvements has been made by multinational companies, which generally operate with modern technology, often surpassing the state of the art in the host country, and thus help to protect the environment. These direct investments result in transfers of technology and knowledge which frequently radiate to other areas of activity in the host country.

Taking account of conditions in the Third World in the domain of environmental protection

The situation in the Third World has a particularly important part to play in the future development of the global environment. The poor countries are particularly anxious to shape their own development, including their environmental development. Accordingly, it is they who must eradicate the causes of their environmental problems. This poses a dilemma, because the developing countries profoundly influence the global environmental situation by virtue of their natural resources, their economic situation and the size of their population but have a limited capacity to pursue the necessary environmental policies. This is most clearly apparent in the domains of climate change and biodiversity.

1. In order to resolve this dilemma, we call for **global environmental partnerships** between industrialized and developing countries. We must enable the latter to make their contribution to sustainable development, to which end we must ensure that **environmental aims are more extensively incorporated into development cooperation** and that global public and industrial research is used to promote the creation of the basic conditions for the development and use of new resource-saving technology.
2. Negotiations on a global environmental organization must be intensified. To this end, the United Nations Environment Programme (UNEP) must be put on a new footing so that the needs of the environment can be met at an international level in the future.
3. The sustainability strategy adopted in Rio de Janeiro by the international community ten years ago must be more vigorously pursued. Economic, social and environmental sustainability are the prerequisites for global advancement and only make sense in combination. Although a legal framework is needed for their realization, the driving force is competition for the best form of implementation. Flexible taxes and levies are in principle preferable to a rigid regulatory code.

8. Equipping SMEs for globalization

For small and medium-sized enterprises too, globalization brings opportunities and risks. The risks lie in a global increase in corporate concentration and the resulting threat of market dominance. Open markets increase the competitive pressure on indigenous small and medium-sized businesses. To equip them to face these new challenges, we recommend the following measures:

1. The equity base of small and medium-sized businesses must be significantly improved by means of a judicious fiscal policy so as to protect their freedom of action.
2. The labour market must become more flexible, which would also benefit small and medium-sized businesses.

3. Funding of small and medium-sized businesses must not be impeded by developments such as those which emerged during the Basel II negotiations. The new guidelines must be formulated in such a way that they guarantee the stability of financial markets without jeopardizing the credit access of SMEs.

9. Promoting education and research – foundations for the future

The present transition to a post-industrial knowledge society certainly does not signal the end of industrial production. What it does mean is that the importance of information and knowledge, as special forms of 'human capital', has increased significantly in relation to other factors of production such as capital, raw materials, land or physical labour.

This structural transformation is supported by the increasing international division of labour in the context of globalization. To make the most of the benefits and opportunities it offers, people need to be educated, possess a competitive level of knowledge and be able to convert that knowledge rapidly into innovations. Conversely, globalization also provides more people than ever before with access to education and knowledge. The transfer of know-how, for example, means that cutting-edge technology can be used in developing and newly industrialized countries. This transfer, however, depends on effective protection of patents, such as that afforded by the WTO Agreement on trade-related aspects of intellectual property rights (TRIPs Agreement). Patents create an incentive to extend the frontiers of knowledge and to innovate, because they identify the inventive step, thereby benefiting society as a whole. In providing effective protection of intellectual property rights, developing countries are creating the conditions for economic progress by their own efforts.

We therefore make the following recommendations:

1. Education systems throughout the world must be improved, one means to this end being international development assistance. Schools and universities must be able to compete. Higher levels of investment for a more efficient education system are the order of the day.
2. Willingness to take the initiative, which is the key to the development of education and knowledge, must be encouraged - by incentives for private investment, for example.

3. More use must be made of new communication media such as the Internet to provide worldwide access to educational facilities. A 'digital divide' is unacceptable.
4. Globalization offers the opportunity to tap the enormous innovative potential of international cooperation. For this reason, an appropriate framework for such cooperation between industrialized, industrializing and developing countries must be created.
5. Know-how is most effectively transferred by personal communication. Globalization offers great opportunities to intensify exchanges between the academic and business communities as a means of accelerating the pace of innovation. To this end, national law governing the public service and public-sector pay and the national and international rules governing cross-border cooperation must be simplified and made more flexible.

10. For tomorrow's jobs – embracing structural change and making labour markets more flexible

Competition in the markets for goods, services and finance knows only one constant, namely continuous structural change, to which both employers and employees must adapt. The winds of change, however, do not blow through all areas of economic activity at the same time or with the same force. What is certain is that they constantly bear the seeds of new industries and occupations. The number of new jobs created in Germany and abroad in recent years clearly demonstrates that, despite the globalization process, the end of the employment society is not in sight.

Nonetheless, in the EU, and Germany in particular, job growth is currently below the global average. The fact that there is essentially enough work available is demonstrated by the high number of overtime hours being worked and by the many people who have recourse to the informal economy, which now accounts for about 16% of German GDP; in other words, the German Government is being defrauded of some 330 billion euros in tax revenue and social contributions every year by the underground economy.

Employment problems made in Germany

The problems affecting the labour market in Germany have little to do with globalization, a view that is also reflected in the majority report. The latter deals extensively with the largely national problems affecting the German labour market. Since these are unconnected with globalization, we shall confine ourselves to two points here, although these still require thorough discussion.

These are our two points:

1. The current high level of regulation has a crippling effect on the German labour market. In future, the labour market must be enabled to respond more flexibly to structural change.
2. Insufficient use has been made of opportunities to create employment, especially in the low-pay domain and in the realm of personal services, primarily because of the high levels of tax and social contributions that are payable in respect of such jobs. There is a need to create targeted incentives to enhance jobseekers' employment prospects and to make even low-skilled work a more attractive proposition.

11. A pragmatic approach to global governance – international harmonization of areas of competence

The nation state

Today, as always, nation states form the basis of the world order. In this age of globalization, however, they are beginning to reach the limits of their powers as they seek to solve the tasks they face.

After the experiences of the Second World War, the face of the nation state and its responsibilities underwent significant change. In many policy areas, the increasing number and broadening scope of provisions of international law as well as the proliferation of new international organizations has progressively curtailed the sovereignty of nation states and the freedom of governments to act independently.

Be that as it may, nation states remain indispensable. They retain a monopoly on the use of force and are therefore able to ensure that the law is properly upheld.

The nation states alone are subjects of international law in their own right and they alone, through the exercise of their sovereignty over their national territory, may enact mandatory legal provisions. Only nation states can create new international law and amend or repeal existing international law. If international law is to develop into an increasingly consolidated network and eventually form the basis of a system of 'global governance', all steps in this direction can only be taken by the nation states. In other words, the nation states are destined to continue playing a decisive part in the world of the future.

Civil society

In the view of many critics, the transfer of powers from national to international decision-makers has created democratic deficits. Many people feel that the representation of their interests is particularly inadequate in international decision-making processes and are therefore demanding that the population at large be given a more important role, especially at the international level. Non-governmental organizations (NGOs) are trying to fill what many observers identify as a 'power vacuum', to which end they present themselves as the rightful representatives of 'civil society'. Organizations such as Amnesty International and Greenpeace have established their credibility with the general public, who are willing to place a great deal of trust in them. These organizations enjoy widespread sympathy and present themselves as the advocates of common universal interests.

Non-governmental organizations as a part of civil society

Civil society, however, is not a platform for altruistic operators, nor is it innately conducive to democracy. The range of players who belong to civil society is highly diverse, and some are engaged in competition with others. By their nature, NGOs invariably represent only a section of society, since their expertise is focused on specific subjects and a fairly small constituency. NGOs do not require lengthy internal coordination processes and can therefore act swiftly and flexibly.

Moreover, many NGOs have now formed themselves into worldwide networks and have become veritable 'NGO multinationals'. In conjunction with a high level of emotional commitment, all of this makes them influential and formidable special-interest groups. They are increasingly laying claim to the right to speak on behalf of civil society in general, from which they infer an entitlement to be directly involved in political decision-making processes.

The fact remains, however, that parliaments and governments are the only institutions with a legitimate right, vested in them through the exercise of universal suffrage in free elections, to represent a nation or region and to take decisions on its behalf. Critical questions must therefore be asked about the basis of NGOs' legitimacy and the conditions on which they can speak for the people and for civil society. There is also a need to enquire into their accountability and the sources of their funding.

Transparency of NGOs

The members of civil society can undoubtedly assume responsibilities in the framework of the globalization process. However, only NGOs which renounce violence in every form and which possess transparent organizational structures and decision-making procedures have a legitimate right to be heard as special-interest groups in the political decision-making process. We expressly welcome the commitment and expertise contributed by many NGOs to consultations on a wide range of international issues and to the scrutiny and criticism of political decisions. In this way they considerably heighten society's awareness of numerous problems.

Since NGOs only pursue particular interests, however, they do not necessarily focus on the wider picture. For this reason, they certainly cannot speak for the whole of civil society. A clear line must therefore be drawn here: decisions must always be taken by parliaments and governments, whose legitimacy flows from the exercise of universal suffrage in free elections. Parliaments and governments, moreover, are accountable for their decisions.

Global governance

In the coming years, the issue of rebalancing the powers of governments, the international community and civil society in the direction of more policymaking at the international level will be raised on many occasions and from various quarters.

Global developments create constraints that an individual state can scarcely overcome by its own efforts alone. It was therefore in response to the need for a world trade order to promote global growth and prosperity that the World Trade Organization was created in 1994. The same applies to the environment, where the global ramifications of environmental pollution have led to the establishment

of new standards governing, for example, the ozone layer and protection of the global climate.

- The need to preserve peace in the long term and to reinforce the rule of law throughout the world at both the national and the international level must generate new forms of cooperation.
- In the wake of economic globalization, it is essential to create an international framework within which fair and efficient competition can take place (see below for comments on the proposal for the creation of a G24).
- The homogeneous nature of regional values and interests makes them a suitable basis for the development, at the regional level, of new forms of cooperation and the surrender of sovereign powers. A particularly apt and successful example of this is the European Union.

Taking national, international and supranational powers into account

The attempts to redefine national, international and supranational powers and the participatory rights of civil society do, however, underestimate the role played by nation states today and overestimate those approaches that are based on a greater desire for international cooperation. The fact is that people are more inclined to seek their identity in groups, in nations and in states. Besides, many of the tasks of government simply cannot be replaced by forms of international cooperation.

The line between the sovereignty of nation states and the powers of international organizations should not be determined so much by grand visions of a new world order as by pragmatic considerations relating to the specific area of activity in which such adjustment seems to be required. In particular, the following ideas should play a part in future discussions on global-governance structures:

- International organizations should continue their efforts to improve their efficiency, accountability and transparency. Subject to this proviso, the work of international organizations must be developed so as to satisfy the legitimate interest of all states and people in an open and just international order.
- The rule of law must be seen to a far greater extent than hitherto as one of the common foundations of international politics.

- The work of international organizations must be made more coherent. This applies especially to relations between the World Bank, the IMF, the WTO, UNEP and the UNDP. Time and again in the past, major deficiencies have come to light in the coordination and performance of the tasks of these organizations. The existing loose forms of cooperation therefore need to be tightened, which will ultimately provide a more effective guarantee of mutual support. So that this aim can be achieved, a commission under the chairmanship of an independent and internationally recognized figure should be appointed with a mandate to submit proposals for steps in this direction. The commission should hear the representatives of the major nations and of the organizations in question.
- In order to adopt a more harmonized approach in the diverse areas of global politics, it will be necessary to give more thought to the creation of an informal group which would operate in a similar way to the G7/G8 but would consist of representatives from all the regions of the world. The proven formula that governs the composition of the Board of Executive Directors of the World Bank and the IMF can serve as a model. In the G7/G8 framework, informal decisions are often taken on issues with profound implications for the Third World and the work of international institutions. An extended 'G24' or 'Global Governance Group' could address issues of global importance with far greater legitimacy than the G7/G8. We call on the Federal Government to introduce this proposal into the international debate. The creation of this new group should not jeopardize the existence of the G7/G8, because the benefits arising from the homogeneous composition of the latter must not be relinquished.
- The legitimacy and resourcing requirements of international institutions must be subject to continual scrutiny. Bodies that are found to be superfluous when such checks are carried out should no longer receive support.

Whenever civil society is included in international deliberations, selecting the participants is always a problem, given the differences between the various NGOs. Their extensive participation invariably poses the danger that they might be harnessed for specific purposes. Organizations such as the UN, the World Bank and the EU have started to provide NGOs with funding for the implementation of joint projects. The more NGOs allow themselves to be tied into policy agree-

ments, however, the less room they will have for manoeuvre. The idea that the organizations of civil society could be the key elements of a global order is unrealistic as well as being inconsistent with the basic consensus on policy principles shared by broad sections of the global population. Responsibility for the resolution of global problems must not be delegated to players in civil society but must remain in the hands of politically accountable decision-makers. Where the expertise of organizations from civil society is brought into the decision-making process, the basis of their legitimacy and their representativeness must be examined very carefully. The new balance to be struck between the powers of governments, of the international community and of civil society must not be determined by grand visions of a new world order; rather, it must be based on pragmatic considerations relating to the specific area of activity in which adjustments are required.

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