

Preface

In its resolution of December 14th 1999 (BT-Drs. 14/2350), The German Bundestag appointed a Study Commission (Select Committee) on the 'globalisation of the world economy – challenges and responses'. Since its inaugural session on March 13th 2000, the commission has been looking into the risks and opportunities associated with globalisation

The commission laid out the questions it will focus its work on in its initial resolution – What are the reasons for globalisation of the world economy? Which ongoing effects can be observed? How did it affect economic, social and political life? To what extent could or should national institutions and the international community assume responsibility and influence further developments?

To me, this also means that we must point out limitations to our democratic influence on the process of globalisation and make suggestions how this can be overcome, while at the same time drawing attention to the *new opportunities* to participate and further prosperity.

The commission has thus developed an extensive programme, which took its final shape in a meeting held on March 20th 2000. Its purpose is to provide structured and useable insights from which practical conclusions can be drawn. The idea is to give practical advice and support for parliamentary work and policy-making in general. Six working groups worked on the following main globalisation subjects:

- WG 1 Financial Markets (from July 6th 2000)
- WG 2 Goods and Services Markets (from October 23rd 2000)
- WG 3 Resources (from November 13th 2000)M
- WG 4 Global Governance (from December 8th 2000)
- WG 5 Labour Markets (from March 5th 2001)
- WG 6 Knowledge and Information society (from May 28th 2001).

As the launch of these working groups has been staggered, their progress has also been accordingly variable - hence the varying lengths of the reports. WG 1 'financial markets' can already offer a wide range of practical recommendations, whereas other WGs are expected to come up with similar recommendations in the final report only.

The commission consists of 13 MPs and their deputies as well as 13 experts (academics and other professionals). The Bundestag parties are proportionally represented in the commission – six SPD members, four CDU/CSU members, and one MP each of the Greens, the FDP and the PDS.

The Commission held altogether 24 plenary meetings including 10 public hearings. Commission members and their staff worked hard to prepare this interim report within a relatively short time span available.

Special thanks go to deputy chairman Thomas Rachel MdB (CDU/CSU) and the party spokes persons Dr. Sigrid Skarpelis-Sperk MdB (SPD); Hartmut Schauerte MdB (CDU/CSU); Annelie Buntenbach MdB (BÜNDNIS 90/ DIE GRÜNEN); Gudrun Kopp MdB (FDP) und Ursula Lötzer MdB (PDS).

An equally warm thank you to the moderators of the working groups that have been established so far Prof. Dr. Elmar Altvater (Financial markets), Dr. Wolfgang Brühl (Goods and Services Markets), Prof. Dr. Dr. Rudolf Dolzer (Natural Resources), Prof. Dr. Franz Nuscheler (Global Governance), Mr. Ottmar Schreiner MP (Labour Markets) and Mrs. Ursula Lötzer MP (Knowledge and Information Society).

The work of the commission has been supported by the secretarial services, managed by Dr. Gerd Renken. I want to thank them for their excellent support of the commission and its working group meetings and the talks between party group representatives.

Thanks for the drafting, rewriting and editing of all the texts and the support given to the various working groups must go to the academic co-workers in the office, Marianne Beisheim, Dörte Bernhardt, Hella Hoppe, Jochen Boekhoff, Dr. Otto Singer and Dr. Sabine Vogel.

Karin Adelman, Bonn, must be thanked for the final editing in German of this interim report, Hans Kretschmer, Wuppertal, for providing the illustrations.

Berlin, September 3rd 2001

Dr. Ernst Ulrich von Weizsäcker, MdB

Chairman of the Study Commission

"Globalisation of the World Economy –
Challenges and Responses“

Introduction

From Internationalisation to Globalisation

'Globalisation' is a word associated with the hopes and fears of people in all continents. It is noticeable that those who have an influence on global activities are typically positive, even enthusiastic, while in those who feel powerless and dependent – probably the majority – fears prevail.

Does this come as a surprise? Not really – what else would one expect?

In a democracy, however, we do not want people to feel powerless. Therefore, if globalisation enhances the feeling of powerlessness in more and more people, a democratic state has to react decisively but not rashly. First of all, the facts must be established and realistic opportunities of shaping events must be recognized and highlighted.

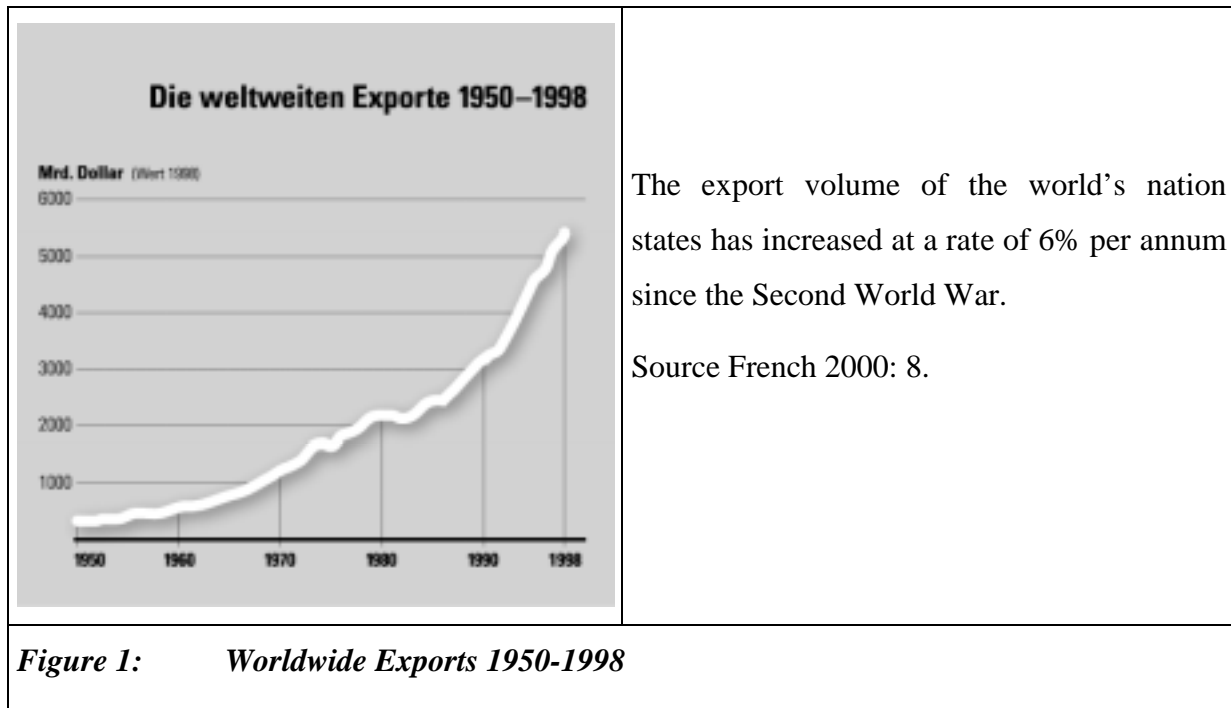
Before we enter into a political discussion of the topic, we should clarify what we mean by globalisation. We also investigate why it has become such a passionately discussed topic.

What we are also trying to do in this interim report is to identify and map out certain areas where globalisation takes place. Thus, we are hoping to provide a basis on which recommendations for action can be given to the Bundestag and other institutions. This introduction, followed by the working group reports, is a first step in this direction.

On a superficial level, globalisation means worldwide economic integration. The term globalisation was hardly ever used before 1990. To be sure, the economy had become international long before, dating back centuries ago to the seafaring European nations, continuing during the age of colonisation with its tragic consequences in the 19th century and reaching a preliminary climax before the First World War.

Due to technical progress in transport and communication, regions, states and continents became ever more closely economically integrated. Later on, the political aims of regional integration and establishing a peaceful order contributed to economic integration.

Fig. 1 shows the development of exports of nation states over the past 50 years. In four of these decades (with exception of the eighties), an exponential growth of six percent per annum could be observed, which is twice as high as economic growth in the same period. Much of this growth in trade, however, happened at a *regional* rather than global level, particularly within the EEC/EC/EU.



The growing worldwide integration of economies came not by any law of nature – *it has been the result of active and deliberate policies.*

The horrors of the Second World War in particular had led to the conclusion that it would be a very sensible idea to politically encourage economic integration as a strategy to *avoid future wars*. From the early fifties, this concept was the driving force behind European integration for Germany and her neighbours.

Economic integration and the expansion of free trade was also the most important goal of US economic policy after the Second World War. At the Bretton Woods conference in 1944, the foundation of the *World Bank* and the *International Monetary Fund (IMF)* gave a signal to the world that initiated economic integration. The foundation of an international trade organisation (ITO) – also on the agenda at the time – was opposed by the American Congress. As a compromise, the General Agreement on Tariffs and Trade GATT was founded in 1947. In altogether eight rounds of GATT negotiations, progress in lowering customs duty and the establishment of a worldwide free trading system has been achieved. After the last GATT round, the Uruguay Round, launched in Punta del Este, Uruguay, in 1986, and ending in 1994, the World Trade Organization WTO, was founded.

Since the nineteen-eighties, the US has been pressing for a worldwide liberalisation of capital movement, which gave a tremendous boost to the globalisation of financial markets. Deregulation also seems to have encouraged the speculative components in the stock, currency and derivatives markets. – Although the US was the driving force, other Western nations followed with few reservations. When finalising the Single Market in Luxemburg 1985, the EC defined its ‘four freedoms’, explicitly including free capital movement.

Transport and communication technology along with the necessary infrastructure have been massively state-subsidised, and the overhead costs of transport and communication (e.g. policing, rules and regulations) are met not by the users but by the general public. The decision to subsidise transport and communication was taken not only on economic grounds, but the wish to move towards further expansion and integration as well as scientific curiosity and military considerations all played a part.

Many more phenomena can be linked to globalisation, not least the internationalisation of terrorism. There is also the internationalisation of the media and Internet communication, of tourism, culture, science as well as the spread of ecological crises and contagious diseases beyond national borders. English has become established as a global means of communication; consumer habits are becoming more uniform, cultural minorities are marginalized, and American legal and accounting methods become dominant in the business world – these are all aspects of globalisation. As they are beyond the reemit of this commission, they will play only a minor part in this report.

What is New About Globalisation?

For several decades, economic, cultural, legal, ecological and political interconnections have brought about ever-new challenges and fundamental changes in the relationships between nations and continents. Recently, however, there has been a different quality to the dynamism of these changes, reflected in the use of the term globalisation, which only appeared in the world’s dictionaries after 1990. Its increasing use is documented in Fig. 2, showing the frequency of use in the Frankfurter Allgemeine Zeitung since 1992.

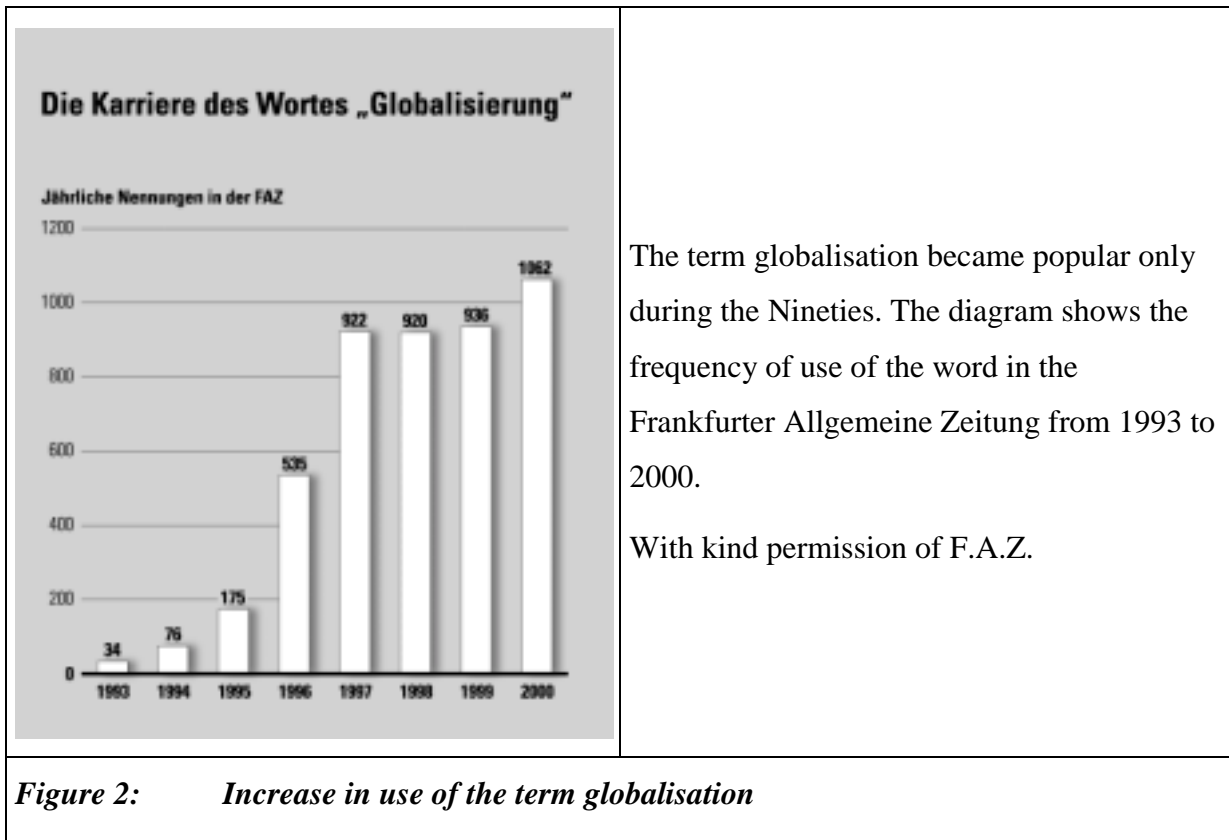


Figure 2: *Increase in use of the term globalisation*

Globalisation is also quite an ambiguous term that not only sums up the above-mentioned developments, but also appears in different guises in different areas. The highest degree of globalisation has been reached in the sciences and in the financial market sector. Concerning technologies, goods and services it is the capital-intensive markets that are leading the way into globalisation. By comparison, labour markets, education, infrastructure and administration have remained still mainly national although here too competitive pressures are increasing, partly via comparative cost-benefit analysis at a global level.

The term globalisation has also become so contentious because it is often used for other purposes, such as

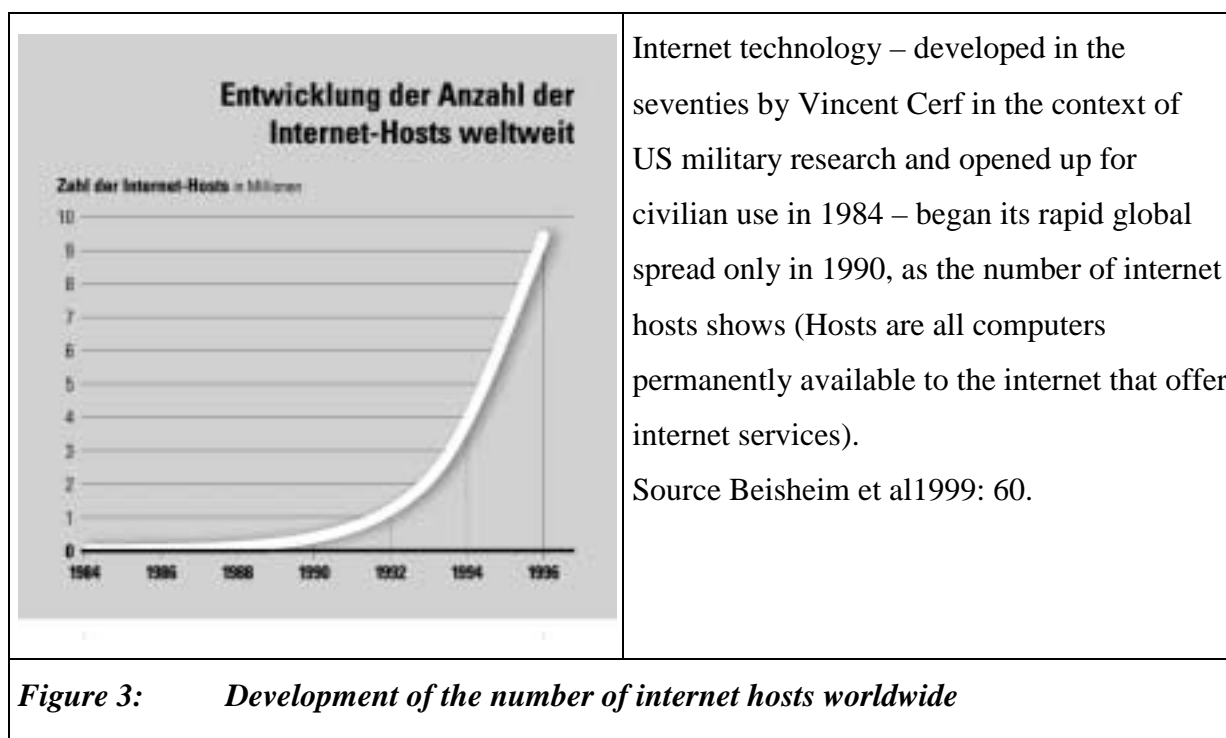
- an excuse for inactivity or failure at a national level
- justification of job-cutting measures
- exerting pressure on national governments or institutions
- a legitimate incentive for higher performance in the face of increasing competition;
- an excuse for resignation or retreat .

All this should be remembered when analysing the political phenomenon of globalisation and discussing rational ways of dealing with it.

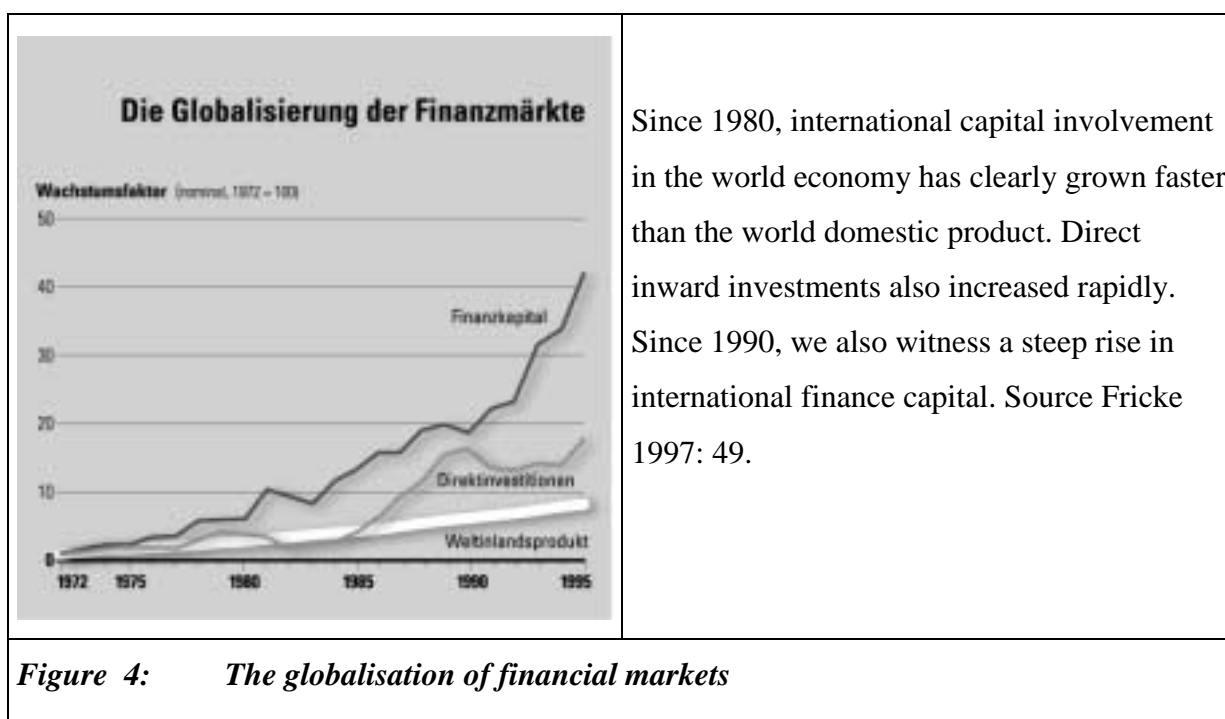
There are historical reasons for the dramatic acceleration of political and economic integration after 1990. Two crucial events characterised the early nineties, leading to a qualitative leap in the process of internationalisation and consequently to the globalisation of economic developments.:

1. With the breakdown of the Eastern European political system, a change set in from a *politically* defined contest of systems to an *economically* defined competition of locations, involving nearly all existing states - even provinces and cities all over the world - that must now intensify their efforts to attract capital, as the market has become so much more volatile after the lifting of restrictions on capital movement during the eighties. As a result, the negotiating position of states in relation to international capital owners was considerably weakened.
2. The rapid advances in computer and IT technology enabled new, globally interlinked production techniques and logistics to develop. With financial transactions and price comparisons feasible within seconds, the pressure to cut costs has dramatically increased.

There are many ways to illustrate the breakthrough of information technology – a simple yet eloquent measure of its spread is the number of internet hosts, shown in Fig. 3.



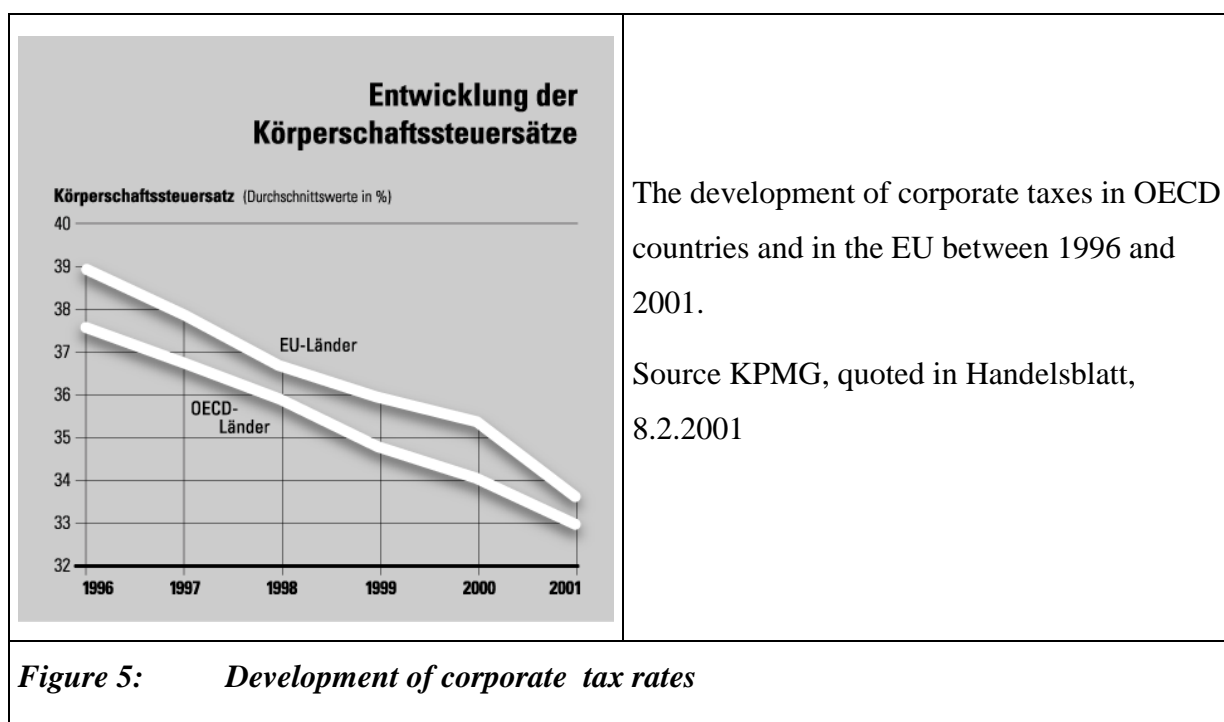
It is less easy to find a single quantitative parameter to illustrate the shift towards location competition. One candidate indicator seems to be the development of capital markets, especially the use of international capital markets for investment. As these markets are usually not tied to any particular location, competition for investment capital shows how strong the position of mobile capital has become in relation to nation states. The shift from the traditional relationships bank credit to more intensive use of international capital markets has intensified competition. Fig. 4 shows how dramatically the use of capital markets has increased since the breakdown of the Eastern block.



The global players in the capital market have a crucial part to play. Rating agencies can determine credit conditions in whole countries. The IMF has had a strong impact on the social and economic policies of many countries. Institutional investors such as US pension funds as well as hedge funds and brokers at the global stock exchanges have shaped the fate of many an industrial concern by raising profit expectations. All this can have positive or negative implications. The evaluation of the facts will depend very much on the perspective of the evaluator, whether he belongs to the winning or the losing side.

Undoubtedly, among the winners of the deregulation of international capital markets were the tax havens and offshore centres. The Cayman Islands have been a particularly striking example, attracting during the nineties an influx of more capital than all fifty African nation states together. OECD countries came under increasing pressure from tax havens and active

participants in the capital markets to reduce the taxation of capital, enterprises and top earners. This international tax competition, already noticeable during the eighties, assumed hazardous dimensions in the nineties, as the OECD secretariat has observed. Fig. 5 illustrates the trend in just one example, the average corporation tax rates.



Whereas the tax burden on business and top earners is decreasing, VAT rates as well as municipal charges paid by all citizens move in the opposite direction. Taxes on wages also tended to increase, while the taxation rate on income from capital gains is going down. It seems as if a fiscal redistribution from the bottom to the top is taking place.

Diagnosis – The Pros and Cons of Globalisation

As can be expected, there are advantages and disadvantages in globalisation. The bright side may not need extensive description – as no political action seems required there. By the same token, the dark side may need more careful analytical attention. If this report therefore dwells more on the negative aspects of globalisation, this should not mean to imply that there is more shade than light to globalisation.

Globalisation is accelerating structural changes and the division of labour, notably in industrialised and nearby industrialised countries. Developing countries seem rather less affected – positively or negatively by the acceleration. Intensified international competition

acts as a stick to stimulate structural change, enhance the division of labour and produce additional technical progress. Those countries, enterprises, cultures and social groups that cannot keep up are in danger of being left behind and losing out. This widely accepted description already gives an indication where the joys and sorrows of globalisation lie.

According to mainstream theory, competition and international free trade increase overall economic prosperity. International trade growing under fair conditions, so the economic theory, should lead to a *quicker and more efficient* creation of economic values –theoretically available for distribution all over the world. Furthermore, competition between locations for the *capricious* flow of capital should have a disciplining and *efficiency-boosting* effect on state institutions. which can also help combat dictatorial regimes, insufficient transparency of finances and unrestrained, inflationary state spending policies. These are the main *advantages* of globalisation.

Now to the other side of the coin – *the drawbacks and question marks*. The so-called economic values created may well be short-lived, whereas long-term *social, developmental and ecological values* as well as *public goods* are in danger of being neglected, no matter how essential they are for the foundations of society and humankind. In *social, political and ecological terms*, there is a *high price* to be paid for ‘disciplining’ state expenditure, as the nation state’s scope for social, development and ecological policy is restricted in favour of economic and financial policy. Globally, exacerbated economic selection and the acceleration of structural changes entail a reduction in diversity, while those humane and social-cultural qualities as well as ecological regeneration processes that only thrive at a slow pace are discriminated against.

If we look for a common denominator for the negative aspects of globalisation, it might well be *public goods at risk*. Broadly speaking, public goods include human rights, the opportunity for democratic codetermination and a minimum of social justice, while in a stricter sense, it means peace and the legal foundations of the state – including the state’s monopoly on the use of force and effective crime prevention. Another public good of increasing importance is an intact environment that fosters a basic supply of food, energy and water. A minimum of economic stability, open access to sufficient infrastructure, to education as well as information and fair competition laws in connection with a non-corrupt administration are also public goods. In this context, we want to emphasize that the globalisation process holds both the potential to put these public goods under pressure as well as to protect them.

Maintaining peace and exposing violations of human rights has become easier through global economic integration and the global presence of the media.

However, the weakened negotiating position of the nation state in relation to international capital markets can pose a threat to public goods. Therefore, in order to fulfil the welfare expectations raised by free trade, appropriate standards could be developed within an international framework.

In this section, we have just scratched the surface of a variety of problems, three of which will be outlined in the following.

International Financial Crises

Since the first world economic crisis, the stock market crash known as Black Friday on October 25th 1929, worry about the disastrous instability of financial markets has been haunting the world. In the last two decades, there were crises caused by debt in the eighties, currency turbulences in the early nineties and financial crises – predominantly in Asia and, more recently, in Turkey or Argentina, resulting in destitution or drastic economic losses for hundreds of millions of people. Moreover, the many forms of financial crime and unfair tax advantages give cause for concern. Whether these hardships and crises would have occurred with or without globalisation still needs to be investigated in detail.

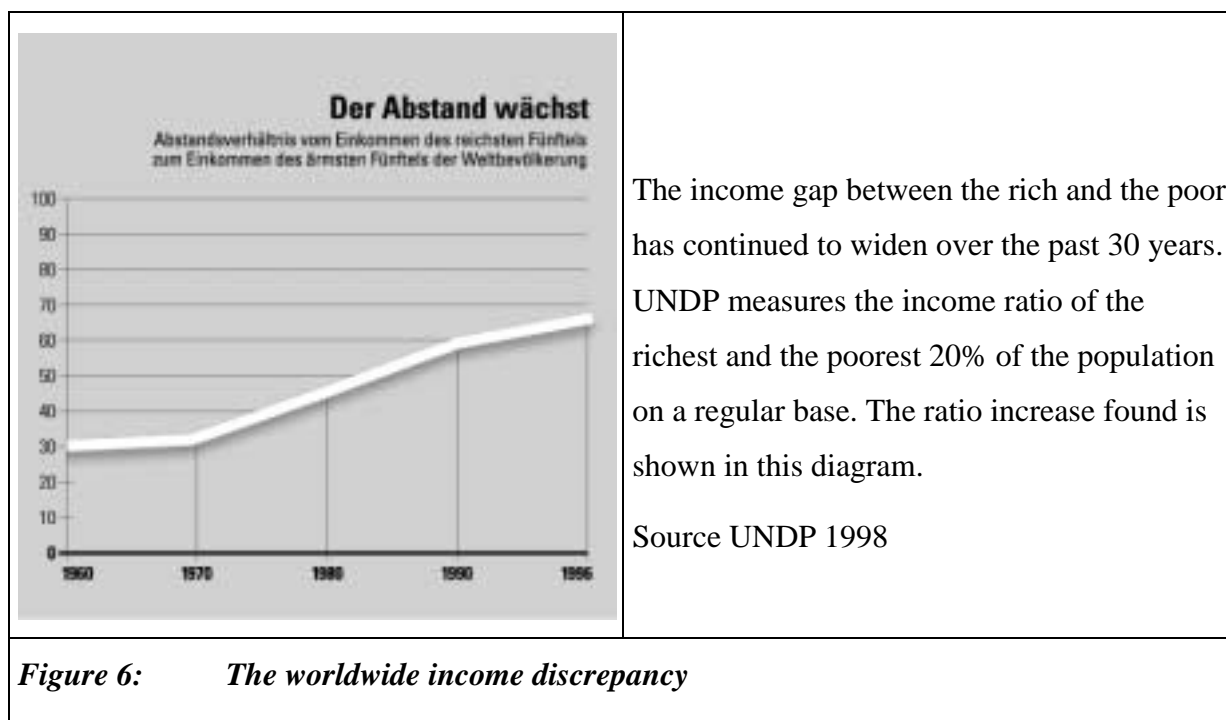
At any rate, there is a case for the development and implementation of ‘stabilisers’ that restrain the abuse of financial power. Ways have to be shown out of the debt trap in which developing countries in particular are caught. Furthermore, steps against money laundering and non-cooperative tax havens as well as measures to stop ruinous tax-cutting competition should be considered. The report of the WG 1 ‘Financial Markets’ gives first hints in this direction.

Increasing Inequality

The acceleration of structural change has had an impact on the structure of labour markets and enterprises and on the distribution of wealth in the world, as WG 5, ‘Labour Markets’, points out. Unskilled jobs, especially in the primary and secondary sector, have been marginalized, so that millions of workplaces were lost at an alarming rate. This has been compensated by higher employment in the service sector. Small and medium firms that rely on supplying international companies have now become completely dependent on them for their survival in the world market. As excellence and speed are at a premium, whole

professions and sections of the population have been left behind, and differences in income worldwide and within countries have increased noticeably.

The United Nations Development programme, UNDP, confirms in its *Human Development Report*, published at regular intervals, that the gap between the rich and the poor is widening. To measure it, the income of the richest and the poorest 20% of the population are compared. Fig. 6 shows that this ratio has more than doubled -going up from 30 to 70 – between 1960 and 2000.



Furthermore, globalisation makes new demands on mobility, education and training of men and women. This especially applies to equal opportunities for women. Well-trained women find new opportunities in a globalised service society. Conversely, women also bear the brunt of economic change, such as redundancy, unequal opportunities and weakening state support (UNIFEM 2000). In addition, their traditional role in the family restrains the mobility and training opportunities of women. These problems will be discussed in depth by WG 6 'Knowledge and Information Society'.

As far as the solution of these problems is concerned, we are just at the beginning, a long way away from a 'global social policy' or a global equal opportunities policy. Both could become – albeit only long-term - objectives of global governance. The WG 4 report also mentions the World Social Summit in Copenhagen in 1995. The commission has developed

its first – controversial – recommendations regarding the social standards of international labour markets.

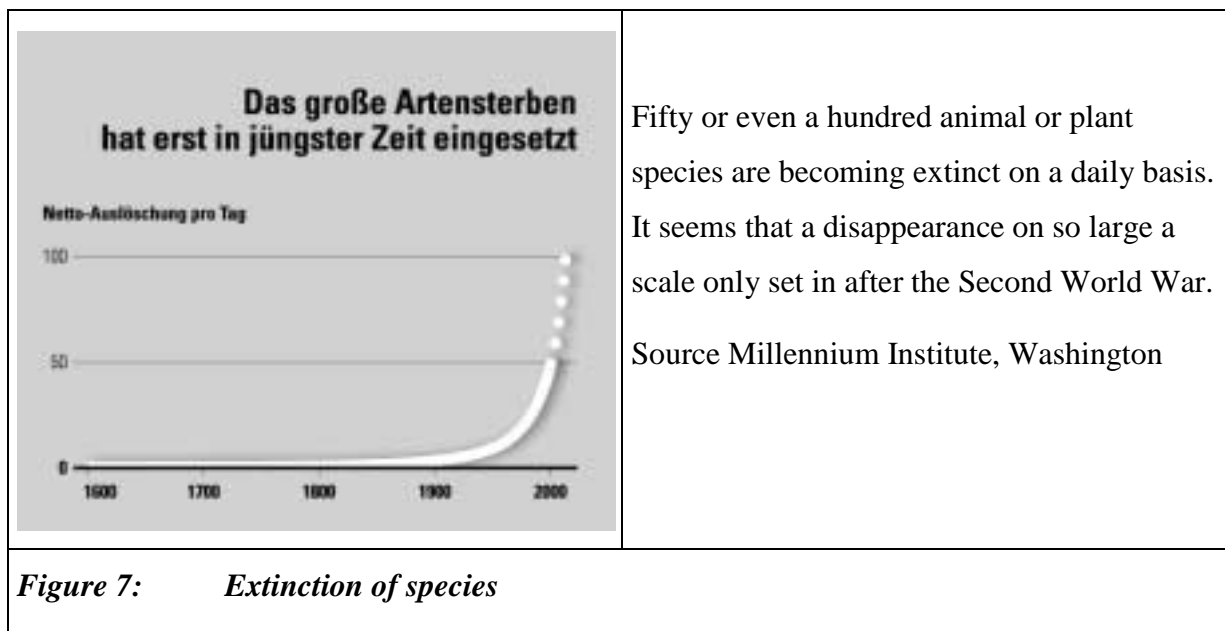
Global governance approaches can only be effective in solving the worldwide inequality problem if they include measures that strengthen the position of developing countries within the international system, while at the same time encouraging them to improve basic conditions at a national level. This is the great challenge of cooperation with developing countries in the future.

Against this background, OECD-wide reductions of state funding for official development aid (ODA) in the face of global economic pressure are hardly acceptable. Funding has reached an all-time low at an average of 0.22% of the GNP of OECD countries, according to the latest OECD figures. This is less than a third of the 0.7% target usually stated at international conferences.

Global Environmental Crisis

Nowhere can the tension between the strife for private prosperity and the public good be better demonstrated than in the environmental field. Growth in population, prosperity and economy entails increased use of land, energy and resources as well as emissions of greenhouse gases. With economic growth and prosperity being the declared purpose of trade liberalisation and ongoing location competition that prevents states from taking decisive steps to reduce waste of natural resources, it seems only logical to conclude that globalisation is exacerbating ecological crisis.

The loss of biodiversity, the greenhouse effect and the dearth of fresh water, fertile soils and many other natural resources are all alarming symptoms indicating that not enough effort has been made to avert ecological crisis. Figure 7 gives a dramatic illustration of the development – the extinction of animal and plant species, a new phenomenon on so large a scale. The convention for the protection of biodiversity is intended to stem this tendency.



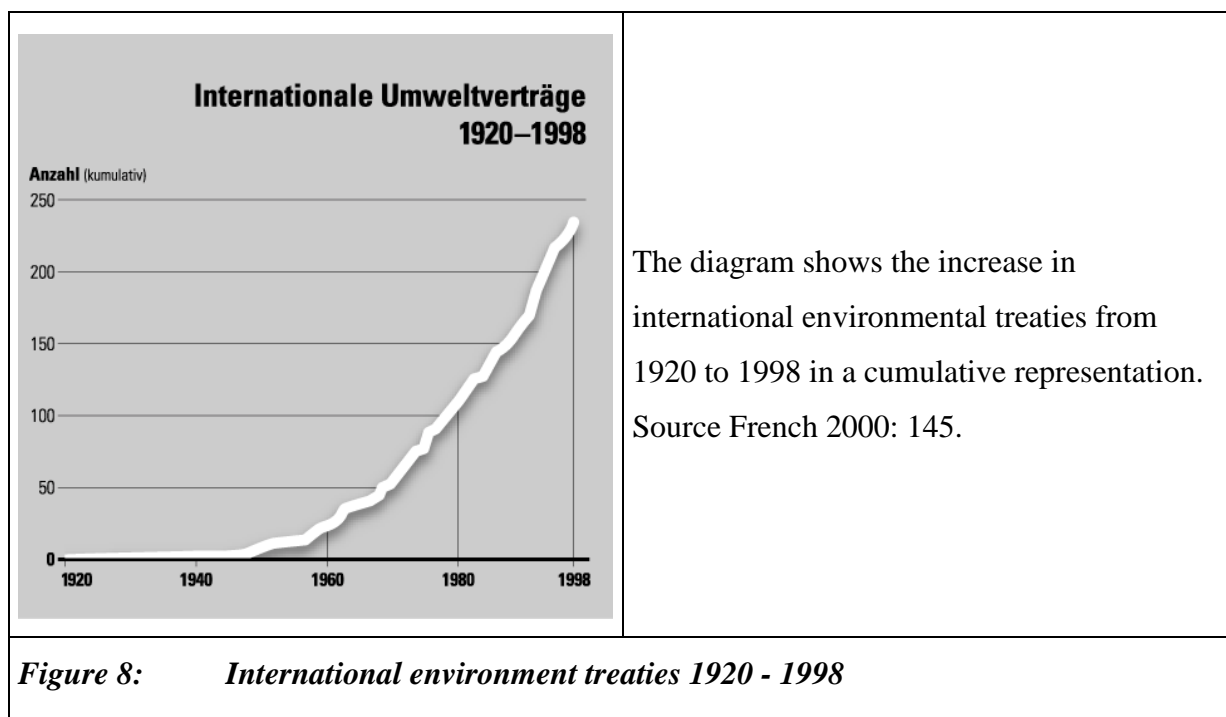
Global Governance – a Possible Solution

These three examples seem to show that public goods such as a stable and fair financial system, a minimum of social justice and an intact environment are under threat from the pressures of globalisation. Yet there are approaches on a global level that may help provide a cure. To develop these approaches systematically and to look for new solutions will be one of the greatest challenges of humankind in the age of globalisation. It is called ‘global governance’.

As a general concept, global governance points to the need for new policies to shape the globalisation process. Such policies lie, first of all, in the responsibility of governments and international organisations – primarily, of course, the UN. It is largely their responsibility to secure public goods, including peace. Therefore, the diplomatic successes of the Earth summit in Rio de Janeiro in 1992 where the *UN Convention on Biodiversity*, the *UN Framework Convention on Climate Change* and *Agenda 21* were agreed are the obvious starting point in order to get to grips with the ecological dimension of globalisation..

Moreover, the number of international organisations and treaties is steadily increasing Fig. 8 illustrates the increase of international treaties in an area particularly relevant to the protection of public goods. A real surge can be observed, setting in about 1960. However, from today’s perspective, it cannot be said that all these treaties have been largely successful. Ironically, it is quite often the national states that don’t want to be reminded of their

obligations once a treaty has been signed, as the tiresome process of ratifying and implementing the Kyoto protocol and the Convention on Biodiversity shows very clearly.



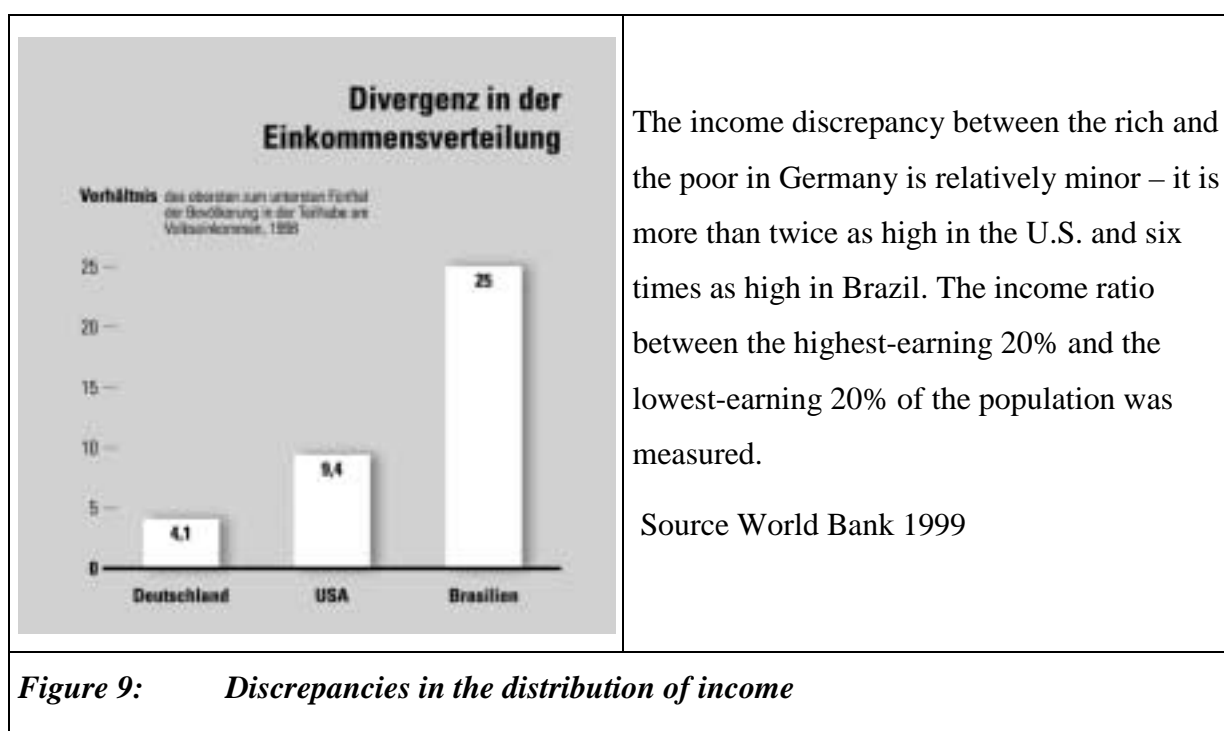
An organisational and administrative framework is needed in order to permanently supervise the fulfilment of treaties and targets publicly agreed upon. This is the purpose behind the United Nations Organisation, which is better known to the public for the weaknesses of its system than for its strengths. A weakness that deserves to be mentioned is the serious underfunding of the UN. It is known that the UN in New York has less money at its disposal than the New York City police and fire departments.

It is necessary, though, to strengthen the institutional framework for effective global environmental protection, as WG 3 points out, e.g. by the creation of a worldwide environmental organisation that would have a weight similar to that of the WTO.

At a regional level, cooperation works slightly better, especially in Europe. The EU has already succeeded to a large extent in transferring competences from a national to an EU level while at the same time accounting for national, provincial and communal idiosyncrasies on the basis of subsidiarity.

Indeed, many observers worldwide - particularly in developing countries – see Europe as a model for taking on global governance tasks. In several areas, the EU has already taken important first steps in order to shape the process of globalisation in the interest of people:

- The problem of unstable currency relations between 12 member states was solved by establishing the European Monetary Union.
- Economic discrepancies between the rich and the poor are balanced by the cohesion fund and the structural funds.
- Binding EU directives have made environmental protection across borders a reality ; and the EU shows a high degree of commitment in negotiations at a global level. Europe - or Germany, to be more precise - is the home of the social market economy, often described as the most important alternative to a capitalism based on a pure shareholder value principle. The value of the social market economy as a model not only for the EU, but for the whole of Europe, has been frequently and convincingly documented. Here lies a major difference between the EU and other free trade zones such as NAFTA, Mercosur or ASEAN. Fig. 9 shows that the different approaches also lead to very different social political results.



While the EU may look good in the international context, the critics rightly point at its weakness regarding democratic structures. Here a major challenge lying in global governance becomes visible: The larger the geographical unit to which political decisions apply, the less sovereignty can be left to national parliaments. As this in itself may lead to the spread of

resignation among democratic nations, global governance must also be an antidote to that resignation. As members of the Bundestag and the study commission, we must be interested in showing how to *strengthen democracy* in the age of globalisation.

Democracy was invented for the small dimensions of the ancient city-state of Athens. In the 18th and 19th century, it was adapted to the national state, but so far, it has not been developed on a global scale. Its forms and institutions need to be adapted to the new conditions of globalisation, as millions of people feel that democratically elected governments no longer represent their interests in negotiations about world trade (e.g. Seattle), the future of the European Union (e.g. Gothenburg) or at the World Economic Summit (e.g. Genoa).

It is up to global governance to ensure that democratic means of shaping the future go beyond conventional government diplomacy. It must overcome the conventional dualism between the state on the one side and the private economy on the other. If the global democratisation process is to succeed, a *third force* needs to be recognised and taken seriously – the *civil society*. Without the cooperation of this civil society that encompasses non-governmental organizations (NGOs) and social pressure groups, national states and the community of states cannot defend endangered public goods effectively and permanently.

NGOs and social pressure groups are in a position to work for the protection of public goods in international negotiations as well as to influence markets and the private economy by shaping public opinion. A realistic opportunity is emerging to take part in the political solution of global questions and to overcome the widespread resignation and paralysis that have affected representative democracies.

Civil society has been playing its part on the international stage for a long time. Fig. 10 shows the rapid growth in the number of international NGOs since the late seventies.



Figure 10: *Number of non-governmental organizations 1956-1998*

In the democratic globalisation process, civil society has an important part to play, making the voices and opinions of the public at large heard. This is the most essential prerequisite for taking part in the political process and the antidote to feelings of powerlessness vis-à-vis global players. By networking globally, NGOs overcome national boundaries.

Clearly, NGOs can maintain their strength only if they systematically and tirelessly work on their own credibility. Above all, for the sake of their own credibility, they must respect the rule of the law and the primacy of parliamentary democracy and its government. This applies in particular to legislation, to the monopoly on the use of force and to state primacy at international conferences. Of course, respecting the rules of democracy also means the rejection of violence. Furthermore, their finances must be as transparent as state budgets.

The state has a new role to play in using and activating the potential of civil society for the benefit of democracy and the protection of public goods. Toleration or tax exemption are not sufficient. Free access to information – a constitutional right in the US – is vital. In the environmental field, so important in the context of globalisation, the Aarhus convention of 1998 has been a major breakthrough, but its ratification process – even throughout Europe – is painfully slow.

Another area where the state can help empower civil society is the creation of new forms of participation at an international level – by introducing various umbrella forums and round

tables. The results of such forums and the mood they reflect cannot be ignored by the global players in the business community who are dependant on acceptance by the public, and indeed they have reacted already.

There is a move in today's private economy towards the protection of the environment and other 'ethical' issues like setting social standards and establishing care labour standards. Codes of conduct have been accepted by the International Chamber of Commerce (ICC), by the World Business Council for Sustainable Development and by other international associations. The tendency to set more or less voluntary standards in the private economy has reached the financial markets and institutional investors as well. The volume of ethical and ecological investment funds has increased tenfold since the early eighties and is still rising.

What remains to be developed is the supervision of the implementation of moral rules. There are first steps towards cooperation between the private economy, the state and the civil society. Through its public relation channels, civil society can exert monitoring functions and underpin the auditing process in firms and associations by their credibility.

The worldwide shaping of political governance is still in its early stages. In its report, WG 4 attempts to draw a map of its current stage. Getting to grips with global governance is a worthy challenge for the German Bundestag, as well as for other parliaments, international organisations, the scientific community, the civil society and the private economy. It is what democracy can expect from citizens and their political representatives.

Dr. Ernst Ulrich von Weizsäcker, MdB

Chairman of the Study Commission

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