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Globalization and interdependence: (a) Role of the United Nations in promoting development in the context of globalization and interdependence

An overview of the major international economic and policy challenges for equitable and inclusive sustained economic growth and sustainable development, and of the role of the United Nations in addressing these issues in the light of the New International Economic Order

Report of the Secretary-General

Summary

The present report is prepared pursuant to General Assembly resolution 64/209, entitled "Towards a New International Economic Order". It offers an overview of various dimensions of globalization, major international economic and policy changes and challenges for equitable and inclusive sustained economic growth and sustainable development. It then highlights the role of the United Nations, through various world conferences and summits, in addressing those issues and their relevance for the principles contained in the Declaration on the Establishment of a New International Economic Order and the Programme of Action on the Establishment of a New International Economic Order.

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I. Introduction

1. The world has witnessed unprecedented economic globalization over the past few decades in terms of movements of goods, finance and labour. With rapid globalization, the world has become much more interdependent. This has created tremendous opportunities for innovation as well as serious challenges in the uneven distribution of its benefits and costs. This has also heightened the risk of social, economic and environmental shocks spreading from one country to another with adverse effects and increased economic insecurity. The poorest and most vulnerable populations of developing countries, in particular, have borne the brunt of external shocks.

2. The food and fuel crises of 2007-2008 and the current global financial and economic crisis are recent examples of how problems originating in one part of the world have quickly engulfed the entire world economy and adversely affected developing countries. Thus, the transmission of shocks — through channels of reduced trade, remittances, investment and financial flows — has exacerbated inequities associated with globalization, jeopardizing development and human welfare. With aid flows also declining, the impacts have been even more devastating for low-income countries and the poor. While official development assistance (ODA) grew slightly in real terms from 2008 to 2009, it is still projected to fall well short of long agreed aid commitments.[1]

3. The challenge then is to realize the potential benefits of globalization while minimizing the considerable costs, risks and vulnerabilities that globalization has also created. In the current environment, beset by multiple crises (food, energy, climate change and financial), the challenge seems daunting.

4. Nevertheless, the global crises have also provided a rare opportunity for the international community to guide the world economy onto a path of more sustainable economic growth and recovery by simultaneously addressing the problems of food and energy insecurity, climate change and the developmental aspirations of developing countries. This goal can be achieved through inclusive multilateralism and the equitable participation of all countries, both developed and developing, as envisioned in the Declaration and the Programme of Action on the Establishment of a New International Economic Order, adopted by the General Assembly at its sixth special session in 1974 (resolutions 3201 (S-VI) and 3202 (S-VI)).

5. At a time when resources are scarce, innovative approaches to financing are needed to address the challenges of climate change mitigation and adaptation, poverty reduction and the achievement of the other internationally agreed development goals. These new methods need to be developed in a spirit of partnership, cooperation and solidarity, bearing in mind the common interests and national priorities of each country. As the main institution of inclusive multilateralism, the United Nations can play an important role in facilitating such efforts.

[1] Organization for Economic Cooperation and Development, “Development aid rose in 2009 and most donors will meet 2010 aid targets”, 14 April 2010. Available from http://www.oecd.org/document/11/0,3343,en_21571361_44315115_44981579_1_1_1_1,00.html.

II. Dimensions of globalization and challenges for sustained, equitable and inclusive growth

6. Globalization means different things to different people. At least five aspects of economic globalization have had mixed effects in the developing world, including international trade, foreign direct investment, international finance, strengthened intellectual property rights, and the new international economic governance. The root causes of the recent food and energy crises and the Great Recession of 2008-2009 can be traced to aspects of globalization, but these and other challenges can also be addressed through greater inclusive multilateralism.

International trade

7. More than half a century ago, Hans Singer and Raul Prebisch at the United Nations showed how primary commodity prices had declined compared to those for manufactured goods during the first half of the twentieth century. Those trends continued in the second half of the twentieth century, especially during the 1980s, when commodity prices fell with economic growth after some gains in the preceding decade.

8. Two related trends continue to be relevant. First, there has been a greater decline in the terms of trade of tropical agricultural commodities compared to temperate ones. Second, generic manufactures have been experiencing worsening terms of trade as intense competition has resulted in "beggar-thy-neighbour" processes keeping down the prices of products from developing countries. They have good reason to be concerned about such observed long-run trends.

9. Claims of gains from trade liberalization often ignore or underestimate "transitional costs" (including employment and income losses owing to the elimination of existing industries, jobs, etc.), and seem oblivious that better new jobs have only exceptionally more than replaced jobs lost — as most trade impact modelling exercises make unrealistic assumptions of full employment, and so forth. The removal of all of the high-income countries' barriers to the merchandise exports of developing countries — including agriculture, textiles and other manufactured goods — would result in very little additional income for the exporting countries; e.g., the World Bank estimated that full trade liberalization by 2015 would add only 0.6 per cent to the gross domestic product of low- and middle-income countries.[2]

10. Contrary to widespread belief, developing countries will not be the main beneficiaries of agricultural trade liberalization by the developed countries. While most developing economies will gain from easier and greater access to the protected agricultural markets of the developed countries, the main beneficiaries will actually be from the developed agriculture-exporting countries. Although greater access to agricultural markets will benefit all agriculture-exporting economies, including some of the least developed countries, the principal beneficiaries will not be from the developing world.[3] Trade liberalization in recent decades has also made it increasingly difficult to use trade policies as an instrument of industrial policy and

[2] World Bank, *Global Economic Prospects 2002*, table 6.1.
[3] Kym Anderson, "Trade liberalization, agriculture and poverty in low-income countries". Paper presented at the Trade and Industrial Policy Strategies (TIPS) Annual Forum (September 2002). Available from www.tips.org.za.

other developmental strategies. However, almost all industrialized economies today have used trade policy instruments to develop new economic capacities and capabilities, including many in manufacturing.

Foreign direct investment

11. The debate on the pros and cons of foreign direct investment continues without any consensus, although there is little disagreement that gains from "green-field" foreign direct investment are more likely than from other types of capital inflows. However, in recent decades it has become more common to stress, if not exaggerate, the benefits of foreign direct investment in economic development, both historically and more recently.

12. The role of such foreign direct investment in the East Asian miracle was modest, accounting for less than 2 per cent of gross domestic capital formation during the high growth periods in Japan, the Republic of Korea and Taiwan, Province of China, compared to the developing country average of 5 to 6 per cent and higher shares in some south-east Asian newly industrializing countries relying on foreign direct investment. During the 1997-1998 South-East Asian economic crises, the region's industrial capabilities were much weaker because of greater reliance on and domination by foreign direct investment.

13. The *World Investment Report 1999* of the United Nations Conference on Trade and Development showed that more than 80 per cent of foreign direct investment in the world during the 1990s consisted of mergers and acquisitions — mostly acquisitions, rather than mergers — in most developing countries. Hence, most foreign direct investment is not "green-field" investment that actually creates new economic capacity. Mergers and acquisitions have mainly involved foreign acquisitions, particularly during periods of distress, especially after the ever more frequent currency and financial crises of recent times. Such "fire-sale foreign direct investment" reduces the likelihood of superior management emerging following mergers and acquisitions, as suggested by conventional economic theory.

Technology

14. Strengthened intellectual property rights in recent decades have raised the costs of acquiring technology, reducing technology transfers, raising their costs and otherwise strengthening transnational corporations' monopoly powers, with adverse consequences for development and industrialization. The World Trade Organization (WTO) Agreement has reinforced trade-related aspects of intellectual property rights (TRIPs) in ways not provided for by the World Intellectual Property Organization (WIPO), while bilateral, regional and other plurilateral trade and investment agreements have often imposed even more stringent TRIPs requirements. Consequently, incomes from intellectual property rights have greatly increased and now constitute major sources of foreign exchange earnings for technology-based corporations in some advanced industrialized countries. Member countries of WTO later agreed to substantially reduce pharmaceutical drug prices for designated essential medicines with mixed success, suggesting the possibility of a more comprehensive review and revision of the new intellectual property rights regime. However, recent developments do not give much cause for optimism despite the urgent need for such progress to address the climate change, food security and other challenges.

International finance

15. Financial liberalization, deregulation and globalization have been increasingly promoted all over the world with the growing influence of finance. At the national level, financial liberalization was supposed to improve the allocation of scarce resources and thus promote investment and growth. However, there is no unambiguous evidence of faster economic growth in countries that have pursued financial liberalization. Instead, financial liberalization has been associated with greater macroeconomic instability and rising inequalities.

16. With some exceptions, opening up the capital account has facilitated capital flight, rather than inflows, especially of a long-term nature, to develop new economic capacities. Developing countries continue to provide net financial resources to developed economies, peaking with an all-time high of $883 billion in 2008. The lost decade of the 1980s in Latin America, the lost two decades at the end of the twentieth century in Africa, and protracted stagnation in post-“shock” transition economies have accompanied financial liberalization.[4] And when capital has flowed to emerging markets, such episodes have often been temporary, and eventually reversed with devastating consequences, as in the 1997-1998 East Asian, 1998 Russian, 2000 Turkish and 2002 Argentine crises. Not surprisingly, recent International Monetary Fund (IMF) research acknowledges that financial liberalization has not ensured higher growth.[5]

17. Capital account liberalization has also not ensured significantly cheaper finance. Instead, the cost of finance rises sharply during economic downturns (forcing real interest rates to rise) and falls during booms (involving low real interest rates). More rents have accrued to finance in the economies of OECD countries in recent decades.[6] Meanwhile, financial liberalization has led to financial deepening, which has increased the levels of intermediation and corresponding claims to financial rents.

18. Capital account liberalization and financial deregulation were supposed to ensure a more stable financial system. Although financial deepening and some new financial derivatives have reduced some old sources of volatility (e.g., because of exchange or interest rate fluctuations), new sources of volatility have been created by these very same instruments. That has been exacerbated by greater “financialization”, reflected, for example, by the growth of hedge funds. With growing concentration, enhanced by considerable leveraging, such risk is much more concentrated, leading to greater systemic risk, and a more volatile and unstable system. Currency, financial and capital account crises have become more frequent and greater in magnitude.[5] Far-reaching financial deregulation also facilitated an unfettered explosion of new financial instruments, such as top-rated securitized sub-prime mortgage lending, sold onto financial institutions worldwide.

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[4] United Nations Development Programme, *Human Development Report, 2003* (New York, Oxford University Press, 2003).

[5] Eswar Prasad, Kenneth Rogoff, Shang-jin Wei and M. Ayhan Kose, “The Effects of Financial Globalization on Developing Countries: Some Empirical Evidence”. IMF Working Paper, 17 March 2003, International Monetary Fund, Washington, D.C.

[6] Gerald Epstein, Dorothy Power and Mathew Abrena, “Trends in the Rentier Income Share in OECD Countries, 1960-2000”. Working Paper No. 58a, Political Economy Research Institute (Amherst, University of Massachusetts, 2003). Available from www.Umass.edu/peri/.

19. The interconnectedness of excessive risk-taking in financial markets with the global imbalances, vast dollar reserve accumulation (especially in parts of the developing world), volatile commodity prices and declining productive investments explains why the 2008-2009 crisis has been systemic and somewhat synchronized worldwide. For some years, the United Nations system, in various publications,[7] repeatedly warned that mounting household, public sector and financial sector indebtedness in the United States of America and elsewhere, reflected in wide global financial imbalances, would not be sustainable over time. But widespread economic growth during the middle of the past decade diverted attention away from the unsustainable bases of this seemingly strong, if unsustainable, growth. Although strong export growth and higher commodity prices benefited many developing countries, this growth pattern also led to mounting global financial imbalances and overleveraged financial institutions, businesses and households. Warnings about irrational exuberance and about the growing need to correct the global imbalances were largely ignored.

20. With the recent increased influence of finance, there has been greater pressure on governments to pursue much more deflationary and pro-cyclical macroeconomic policies. For example, "inflation targeting" has often become the norm for central banks since the 1990s. Inflation-targeting monetary policy has also constrained fiscal policy, as public borrowing is seen as inflationary. For example, in Europe, the Stability and Growth Pact has tied the hands of governments that might otherwise have used budgetary deficits to reflate their economies and create jobs. Such policies have been partly responsible for slower economic growth and job creation around the world since the 1980s.

21. Historically, the availability of long-term development finance has been crucial for development. Development in many countries like Japan, the Republic of Korea and Brazil (to name just a few) has been heavily dependent on such financial facilities. Financial liberalization has reduced — if not eliminated — such financial policies and institutions. Now, most regional development banks have reduced long-term industrial finance following the World Bank's reduction of industrial financing facilities in the 1980s. Thus, financial liberalization has been accompanied by the undermining of the few remaining institutions and instruments available for developing economies to try to catch up by deploying scarce financial resources to promote and induce desired investments.

International economic governance

22. The Bretton Woods institutions — the International Monetary Fund and the World Bank — were created in 1944 to create the conditions for sustaining peace by ensuring economic security. President Franklin D. Roosevelt believed that promotion of the economic security of all would provide the foundation for post-war political stability, domestically and internationally. Thus, United States policymakers sought to "internationalize" the New Deal and make development in poorer countries an international responsibility. In other words, the emphasis at the United Nations Monetary and Financial Conference at Bretton Woods was clearly on supporting growth, employment creation, post-war reconstruction and post-colonial development, not just monetary and financial stability.

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[7] United Nations, *World Economic Situation and Prospects*; United Nations Conference on Trade and Development, *Trade and Development Report*.

23. After the breakdown of the post-war Bretton Woods system in the early 1970s, the promotion of economic liberalization, especially since the 1980s, failed to deliver the promised developmental gains. The governance structures and operations of the Bretton Woods institutions — one dollar basically gives one vote — also do not reflect the developmental aspirations and strategic priorities of the developing countries and the changing global economic realities.

24. The transition from the General Agreement on Tariffs and Trade (GATT) to the establishment of the World Trade Organization (WTO) in the mid-1990s involved much more than a simple name change. WTO has created and strengthened powerful dispute settlement mechanisms which are capable of furthering the interests of developing countries if they have comparable legal resources. The current mechanism imposes heavy legal and coordination costs on poor countries and does not guarantee attention to disputes involving those economies which cannot afford protracted litigation costs.

25. The WTO trade agenda was broadened from GATT's previous focus on the trade in manufactures to include agriculture and services.[8] Through its Financial Services Agreement, WTO has helped to promote international financial liberalization. Although the Uruguay Round's proposed Trade-Related Investment Measures (TRIMs) were not fully adopted, and the OECD Multilateral Agreement on Investment was aborted, various parties have been preparing a multilateral investment agreement with similar objectives.

III. Globalization and human welfare

26. Globalization is supposed to promote economic growth throughout the world and to bring about global convergence in terms of economic development and incomes. However, there has been a significant slowing of growth since the 1980s (except for the half decade before the Great Recession), i.e., in the period normally associated with contemporary globalization. Economic growth slowed dramatically during 1980-2002 in most developing countries except for China, East Asia and India, as compared with the preceding three decades.

27. GDP per capita differences by region were reversed temporarily during the post-Second World War "Golden Age". During this period, the disparities declined almost as sharply until around 1980, when they begin to rise again, even more sharply than during the eight decades before 1950, ironically after the 1974 call for a New International Economic Order. The increase in world inequality over the last two centuries has been overwhelmingly driven by increases in international inequality rather than by increases in national-level inequality. The temporary reversal during 1950-1980 was largely a result of per capita GDP growth in Asia outpacing such growth in the West.[9]

28. Economic liberalization has generally resulted in less progressive, if not more regressive, fiscal impacts throughout the world. Tax systems have become less

[8] Liberalization of services has mainly involved financial services so far, rather than construction or maritime services, where developing countries are in a better position to compete.

[9] Andrés Solimano, "The Evolution of World Income Inequality: Assessing the Impact of Globalization", Economic Development Division, Economic Commission for Latin America and the Caribbean (Santiago, Chile, 2001).

progressive or even regressive, with the share of direct taxes declining compared to the generally more regressive indirect taxes. All this has been accompanied by various efforts to reduce overall tax rates. Many developing countries are engaged in tax competition to attract foreign investment. Meanwhile, lower tax revenues and increasing insistence on balanced budgets, or even fiscal surpluses, have further constrained government spending, including social expenditure, with deflationary and pro-cyclical consequences.

29. The social expenditure budget of lower-income country governments, with limited fiscal capacity, has become increasingly dependent on foreign aid. But aid volatility and lack of predictability of aid delivery have made many social programmes unsustainable as economic insecurity has risen.

30. Meanwhile, official development assistance as a share of GNP continued to decline from 0.49 per cent in 1992 to 0.29 per cent in 2001, instead of rising to the three-decades-old target of 0.7 per cent. However, the trend has been reversed since the Monterrey International Conference on Financing for Development in 2002, rising to 0.31 in 2009. Much more ODA has gone to social programmes, rather than more directly for economic development. There are also ongoing concerns over aid effectiveness, aid conditionalities, aid fragmentation, aid volatility, tied aid and other related problems.

31. There is still no conclusive evidence of the growth impact of privatization in developing countries. Most privatizations involve loss of direct employment. This is not only because there tends to be substantial overstaffing in public enterprises, but also because the new owners typically prefer to begin with fewer employees than they need to allow for greater managerial flexibility. For example, utility privatization in developing countries has had significant employment-reducing effects, sometimes affecting up to 50 per cent of the workforce.[10] This has had serious adverse implications for poverty and inequality, especially in the absence of adequate social protection and public social spending cuts.

32. Full and productive employment has not been among the targets of most macroeconomic policies of the past three decades. The conventional wisdom argued that low inflation and balanced budgets and the stability of nominal macroeconomic variables would generate rapid growth. But rapid economic growth, not to mention job growth, did not materialize in many developing countries after the achievement of low inflation, low budget deficits or even surpluses, and structural reforms.

33. Structural adjustment policies, including greater labour market flexibility, have been important elements in the current phase of economic liberalization. In the past three decades, labour market deregulation and erosion of labour standards have been advanced as a way of improving the investment environment and efficiency in resource allocation and enhancing international competitiveness. This, in turn, was supposed to spur growth and create jobs.

34. However, even during the economic expansion prior to the current global financial and economic crisis, the pace of job creation was slow. The term “jobless growth” captures the disappointing employment expansion despite reasonably high

[10] International Labour Organization, “Managing the Privatization and Restructuring of Public Utilities (Water, Gas and Electricity)” (1998). Available from http://www.ilo.org/public/english/dialogue/sector/techmeet/tmpu99/tmpure2.htm.

economic growth. Meanwhile, real wages stagnated in most countries, while executive earnings, especially in the financial sector, grew rapidly.

35. Lack of adequate social protection and counter-cyclical macroeconomic policies has exacerbated economic insecurity and adverse social impacts owing to the recent food, energy and financial crises. The fragile, slow and uneven recovery has failed to generate adequate jobs recovery.

IV. Challenges for environmental sustainability

36. The concept of "sustainable development" was first articulated by the World Commission on Environment and Development in 1987. See the "Report of the Brundtland Commission: Our Common Future". Achieving sustainable development requires reshaping trends and facilitating structural changes that will make its three pillars — economic, social and environmental — mutually reinforcing. Thus, the sustainable development challenge now facing the international community involves enhancing convergence in terms of human welfare, while reversing or checking negative tendencies like growing inequality, with a swift downward convergence in adverse environmental impacts such as ecosystem destruction and "ecological footprints". This will require fundamental changes in production and consumption, requiring human ingenuity and technological innovation to accelerate both development and sustainability.

37. This is easier said than done, as there is a fundamental tension at the core of the international economy. The globalization of production (and consumption) has presented unprecedented opportunities to developing countries to participate in global production networks. Yet, the phenomenal growth in world trade and the global economy over recent decades has not been matched by greatly enhanced capacity to manage the adverse consequences of growth for the global environment.

38. As far as it has gone, "dematerialization" and "decarbonization" in some developed countries has been made possible by shifting global patterns of production, in which resource- and energy-intensive production processes are increasingly concentrated in emerging economies and developing countries more generally, with consumption still highly — but progressively less — concentrated in the developed countries. So, on a global scale, there has been very little de-linking of the economy from the environment. Cooperative solutions are urgently needed to address the challenges posed by globalization for the Earth's carrying capacity, solutions which sustain — not reverse — economic and social progress, especially for the poor.

39. Globalization has thus changed the challenges for sustainable development by relocating production. In the high-income OECD countries, there has been a moderate reduction in energy intensity and material use per unit of GDP (relative decoupling) and absolute declines of a few pollutants. While investment in pollution control and more efficient energy conversion technologies has helped, the new international division of production — with energy- and materials-intensive industrial output growing much faster in developing than in developed countries — has resulted in little or no change in the overall dematerialization and decarbonization.

40. Despite this shift in production location, consumption patterns have not changed as dramatically, with still more of the final per capita consumption of energy- and material-intensive goods, made in developing countries, taking place in high-income countries. This change has accelerated the industrialization of developing countries, but also brought them significant new environmental challenges. Hence, for example, the complex patterns of global production specialization complicate addressing climate change issues, as the same greenhouse gas emissions into the atmosphere can be attributed to a developing country because of the location of its production or to developed country consumption.

41. There has been improvement in environmental indicators such as access to clean water and sanitation, though progress is still too slow in rural South Asia and sub-Saharan Africa. Globally, the pressure on ecosystems continues to increase, and the loss of forests and biodiversity has continued, albeit at a decelerating rate. However, safety thresholds may already have been exceeded in ecosystems, climate change and the nitrogen cycle.[11]

42. Although it is widely accepted that a rich mix of species underpins the resilience of ecosystems, little is known quantitatively about how much and what kinds of biodiversity can be lost before this resilience is undermined. The rate of species loss is estimated to be between 100 to 1,000 times what is considered to be natural, which may be between 10 to 100 times above the safety threshold. The International Union for Conservation of Nature and Natural Resources (IUCN) Red List of Threatened Species suggests that 17,291 species out of 47,677 evaluated species are under threat, including 21 per cent of mammals and 70 per cent of plants.[12] Up to 30 per cent of mammal, bird and amphibian species will be threatened with extinction this century. Marine species are under pressure from global warming, ocean acidification, pollution and overexploitation.[13] Targets set by the Convention on Biological Diversity to significantly reduce the rate of biodiversity loss by 2010 and to protect 10 per cent of the world's forests have not been met. Since most of the world's poor live in rural areas and rely on local resources for their lives and livelihoods, the rate of biodiversity loss has a direct impact on these most vulnerable populations.

43. The Rio Declaration, adopted at the United Nations Conference on Environment and Development in 1992, sought to achieve healthy and fulfilling lives for the current generation while ensuring the means to accomplish the same for future generations. No matter how uneven, growth, especially industrialization, has involved a great increase in the demand for energy. Fossil energy sources currently provide some 80 per cent of total energy needs, while energy use is responsible for 60 per cent of total greenhouse gas emissions. Carbon dioxide is the main greenhouse gas contributing to global warming. Since 1950, developed countries have contributed as much as three quarters of the increase in emissions, although they account for less than 15 per cent of the world's population.

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[11] J. Rockstrom and others, "A safe operating space for humanity", *Nature*, vol. 461, 24 September 2009, pp. 472-475.

[12] http://www.iucn.org/about/work/programmes/species/red_list??4143/Extinction-crisis-contiues-apace.

[13] United Nations Environment Programme, *UNEP Year Book 2010*. Available from http://www.unep.org/pdf/year_book_2010.pdf.

44. Emissions reductions have also been disappointing, as most developed countries have not complied with their Kyoto Protocol mitigation targets. Reducing greenhouse gas emissions will require large and interconnected investments across several sectors, with the aim, inter alia, of halting deforestation and land degradation, retrofitting buildings to make them more energy-efficient and redesigning transportation systems. But it is an energy transition that will be at the core of an alternative integrated strategy for meeting climate change and development goals. The ultimate goal of such a transition must be to improve energy efficiency and reduce reliance on fossil fuels, especially oil and coal, and to increase reliance on renewable sources of energy, especially wind, solar and advanced (non-food) biofuels.

45. Over the past three decades, the trade agenda has expanded dramatically to a wide range of issues, well beyond the traditional issues relating to trade in goods. Policy decisions regarding trade, debt, investment, structural adjustment and intellectual property rights have significant environmental dimensions. However, the environmental implications of globalization are different from the economic ones. Environmental consequences are generally longer-term, with dynamic, cumulative characteristics. They are difficult to measure because, in some cases, they relate to qualitative parameters, and many implications are not reflected in market prices, e.g., cross-border pollution, effects on global goods, extinction of species and loss of biodiversity.

46. Globalization has changed lifestyles and consumption patterns. The pressure to produce more to satisfy growing demand has increased direct environmental pressures on the resource base, as the agricultural frontier and the built environment have continued to expand to more fragile areas of greater ecological significance, and the extraction of mineral, forestry and fishery resources continues to rise. The introduction of new biological forms or even exotic ecosystems, chemical fertilizers and pesticides are also likely to lead to overexploitation and degradation of ecosystems in many poor countries where there is little effective environmental regulation.

47. Globalization has involved massive increases in extractive exports, with significant environmental impacts. There has also been rapid growth in exports from polluting industries such as iron and steel, petrochemicals, non-ferrous minerals, pulp and paper, copper and aluminium.[14] This is partly because globalization has often accelerated a “race to the bottom” in terms of tax and environmental regulations. To attract foreign investment, countries compete with one another by offering lower taxes and exemptions from environmental protection laws, with the unintended consequence of encouraging the relocation of “dirty” industries from developed countries with stricter environmental regulations to poorer countries.

48. Environmental concerns have resulted in environmental regulations. International environmental regulations are mainly of two types, seeking to either protect the supply of global public goods or incorporate environmental clauses into other international agreements. The first include multilateral environmental agreements on various issues, such as biological diversity, climate change and protection of the ozone layer, while the second include environmental regulations

[14] Industries that the World Bank categorizes as environmentally sensitive (a group of 40 industries at the three-digit level of the Standard International Trade Classification, SITC Rev.1).

associated with trade agreements. However, in contrast to the multilateral trading system, management of the international environment is weak and lacks coherence.

49. More importantly, there is no mechanism to resolve any potential conflict between the deregulatory pressure for globalization (WTO rules) and the need for appropriate market interventions for the protection of the environment, with the deregulatory pressure dominating in most cases. The pressure to sustain competitiveness, to which countries are subjected by globalization, discourages governments from taking steps to internalize environmental costs and improve environmental performance if that entails higher costs for domestic producers. There is also reluctance, especially on the part of the developing countries, towards including environmental issues in trade and integration agreements for fear that they may be used for protectionist purposes. These conflicts are potentially damaging to the environment.

V. The 1974 call for a New International Economic Order

50. At the sixth special session of the General Assembly in 1974, States Members of the United Nations solemnly proclaimed their "united determination to work urgently for the Establishment of a New International Economic Order based on equity, sovereign equality, interdependence, common interest and cooperation among all States, irrespective of their economic and social systems which shall correct inequalities and redress existing injustices, make it possible to eliminate the widening gap between the developed and the developing countries and ensure steadily accelerating economic and social development and peace and justice for present and future generations" (resolution 3201 (S-VI)). The Declaration on the Establishment of a New International Economic Order was, in effect, a call for shared and differentiated responsibility for equitable development. Unfortunately, many aspects of the Programme of Action on the Establishment of a New International Economic Order (resolution 3202 (S-VI)) were never implemented. Instead, as documented in preceding sections, globalization, liberalization and privatization proceeded, often increasingly disadvantaging developing countries.

51. The Declaration and the Programme of Action included stabilization of commodity prices, improving the export incomes of developing countries by setting up international commodity buffer stocks, just and equitable relations among the prices of primary commodities, and manufactured goods exported and imported by developing countries (including raw materials, food, semi-manufactures and equipment). They also included measures for ensuring food security and improved access to markets in developed countries through the progressive removal of tariff and non-tariff barriers and of restrictive business practices, as well as implementation, improvement and enlargement of the Generalized System of Preferences (GSP) for exports from developing countries.

52. On international economic governance, the Programme of Action called for measures to eliminate the instability of the international monetary system, in particular the uncertainty of exchange rates, especially as it adversely affects commodity trade, for maintenance of the real value of the currency reserves of developing countries. It also called for the full and effective participation of developing countries in all decision-making in all bodies, including IMF and the World Bank, and in formulating an equitable and durable monetary system.

53. The Programme of Action also called for the adequate and orderly creation of additional liquidity for developing countries' needs through the additional allocation of special drawing rights (SDRs) in the light of the new international environment, and emphasized that any creation of international liquidity should be made through inclusive multilateral mechanisms.

54. The Programme of Action called for a review of the methods of operation of IMF, in particular of the terms for credit repayments, "stand-by" arrangements, compensatory financing and the financing of commodity buffer stocks, so as to enable developing countries to make more effective use of them.

55. The Programme of Action emphasized that multilateral development banks should effectively provide untied development financing without discrimination on account of any member country's political system.

56. Many New International Economic Order commitments began to be reversed from the early 1980s. The fall of oil prices from the late 1970s was paralleled, albeit with varying lags, by declines in other raw material prices despite efforts to stem, if not reverse, the collapse in the terms of trade of primary commodities. "Stagflation" in the West from the mid-1970s undoubtedly contributed to this price collapse.

57. Sharp increases in interest rates in developed countries to reverse inflation precipitated fiscal and sovereign debt crises, mainly in developing countries, after a period of low real interest rates with the increased "recycling" of petrodollars. Consequently, the mid- and late-1970s' boom in many developing countries was abruptly followed by a global recession with sharply reduced primary commodity prices and export earnings.

58. Foreign debt crises forced many developing countries to seek emergency financing from the international financial institutions, which, in turn, urged or required short-term price stabilization policies as well as medium-term structural adjustment packages. Many developmental and counter-cyclical Keynesian policies were subsequently replaced by market liberalization, economic globalization and pro-cyclical, often deflationary, macrofinancial policies.

59. Thus, the world economy that emerged was quite different from that envisaged by the 1974 New International Economic Order. It has been dominated by the Group of Seven (G-7) powerful nations, with the emphasis on minimizing the governments' role in wealth generation and redistribution. Government development policy became subject to externally imposed conditionalities as well as market requirements. Essentially, governments were increasingly expected to leave decisions regarding their policies and institutions to the judgments of donors, creditors and market interests.

60. Almost all developing countries still rely on raw material exports, which are subject to price volatility. Extractive export activities do not create much value added or many other productive jobs. Most developing countries have not been able to attract much foreign direct investment other than for such extractive or low-value added sectors. Meanwhile, the external debt burden of many low-income countries has continued to grow. The World Bank and IMF successfully developed the Heavily Indebted Poor Countries' (HIPC) framework for all creditors to provide debt relief to the world's poorest and most heavily indebted countries, although there is still no multilateral mechanism for orderly workouts of other sovereign debt.

61. Meanwhile, widespread financial deregulation and globalization facilitated net capital flows from the South to the North. Developing countries, as a group, continued to provide net financial resources to developed economies, peaking in 2008 at an all-time high of $883 billion. Despite the worsening crisis from late 2008, such outflows amounting to $513 billion continued into 2009.

62. Since the Latin American and Asian financial crises of the 1990s, developing countries have accumulated even more foreign reserves for self-protection against external financial shocks, thus exacerbating global imbalances and reducing resources otherwise available for more productive investments. The disorderly unwinding of global imbalances during the Great Recession highlights the urgent importance of building a global financial safety net in order to address these problems.

63. The Great Recession of 2008-2009 initially triggered rethinking about the international economic order that has emerged since the 1980s. The influence of the Group of Seven (G-7) finance ministers now appears to have been partially displaced by the ascendance of the Group of Twenty (G-20), now also meeting at the leaders' level since late 2008 and credited with mitigating some adverse effects of the Great Recession and bringing about the collective action needed to accelerate economic recovery. However, there are continued doubts about the accountability, effectiveness and legitimacy of such exclusive plurilateral arrangements.

64. Although better economic performance in emerging-market as well as other developing economies entitled a number of emerging middle-income countries to be part of the Group of Twenty (G-20) grouping, developed countries continue to dominate the major international financial institutions and architecture. Especially since the 2008-2009 crisis, they have been demanding a larger role in international economic governance as the price for assisting in the rescue of the international economic order following the Great Recession.

65. However, the very modest 2008 IMF quota and voice reform, also involving some quota redistribution among the emerging market and transition countries, has not yet gone into effect. As of April 2010, only 70 out of the required 112 members, representing 73 per cent of the total voting power (85 per cent is required), had accepted the proposed amendment to the Articles of Agreement to redistribute voice and participation in the Fund.[15]

66. Likewise, the proposed shifts in voting power to developing and transition countries in the World Bank Group fall short of the recommendation of the High-Level Commission on Modernization of the World Bank Group Governance that voting power in the World Bank should be evenly split between developed and developing countries.[16]

67. Thus, despite the rapid growth and greater economic weight of a number of emerging economies, it would be premature to conclude that the voices of developing countries are being adequately heard. In retrospect, it is clear that the

[15] IMF, "Executive Board Progress Report to the International Monetary and Financial Committee: The Reform of Fund Governance", para. 3. Available from www.imf.org.

[16] "Repowering the World Bank for the 21st Century", Report of the High-Level Commission on Modernization of the World Bank Group Governance, October 2009. Available from www.worldbank.org.

world is witnessing the transformation of the international economic order, but hardly along the lines proposed by the 1974 New International Economic Order.

VI. The changing role of the United Nations

68. A series of landmark United Nations global conferences and summits from the 1990s have generated an unprecedented global consensus on a shared vision of development known as the internationally agreed development goals. These historic conferences and summits reaffirmed some of the spirit and objectives of the 1974 Declaration on the Establishment of a New International Economic Order. In the 2005 World Summit Outcome (General Assembly resolution 60/1), Member States reaffirmed the commitments of the major United Nations conferences and summits in mobilizing development efforts at all levels and in guiding the work of the United Nations system. They also strongly reaffirmed their commitment to meet the goals and objectives agreed to at the conferences and summits, as well as the Millennium Development Goals.

69. *The United Nations Development Agenda: Development for All*[17] thus builds on these shared commitments of the international community and facilitates their implementation in line with the current emphasis on systemic coherence and harmonization. The Agenda summarizes the agreed goals and targets to help advance and assess implementation, and articulates shared principles for development policy options. It belongs to everyone and its achievement depends on the efforts of all stakeholders. That is why the Agenda, which recognizes the immense disparities that characterize today's globalized world and covers a wide range of cross-cutting issues, is so critical.

70. The Agenda encompasses interlinked issues ranging from poverty reduction, gender equality, social integration, health, population, employment and education to human rights, the environment, sustainable development, finance and governance. It includes systemic issues, such as the differential impact of globalization, inequalities among and within countries, and greater participation of developing countries in global economic governance. And the Agenda also addresses the interlinkages between development and conflict.

71. These participatory processes and the development goals agreed to laid the groundwork for the Millennium Summit in 2000, at which a series of challenging time-bound goals and targets were adopted. Many were later articulated as the Millennium Development Goals. The conference process has engaged many key stakeholders: governments, organizations of the United Nations system, other intergovernmental and non-governmental organizations, civil society and the private sector. The process has produced a global partnership for development, with a framework for mutual accountability, now recognized as critical for advancing progress towards all the development goals.

72. The concept of "sustainable development", which was given form at the United Nations Conference on Environment and Development — known as the Earth Summit, held in Rio de Janeiro in June 1992 — defined the responsibilities of States to take full account of the environmental impact of their economic policies. The summit meeting recognized that sustainable development had economic, social

[17] United Nations publication, Sales No. E.07.1.17.

and environmental dimensions, which were interdependent and mutually reinforcing. This sustainable development approach also seeks to eradicate poverty in the developing world and ensure that human lifestyles are less environmentally damaging.

73. The Rio Declaration on Environment and Development emphasized that environmental protection must be an integral part of the development process. Principle 7 of the Rio Declaration affirms “common but differentiated responsibilities”, which acknowledges the much greater environmental debt of the developed countries. Besides reflecting differences among countries in their respective historical contributions to contemporary environmental problems, that also acknowledges their respective financial and technological capacities and obligations. This implies that developed countries have to take on greater commitments than developing countries in multilateral environmental agreements.[18]

74. The 2002 Johannesburg World Summit on Sustainable Development re-emphasized that sustainable management of natural resources is an overarching development objective, and called for all governments to begin implementing national sustainable development strategies by 2005. Agenda 21 envisages a transformation of attitudes and behaviours needed for sustainable development. The Plan of Implementation of the World Summit called on all countries to develop programmes to promote sustainable consumption and production. Governments renewed their pledge to protect the world’s natural resource base in support of sustainable development.

75. The 1994 International Conference on Population and Development in Cairo recognized the interdependence of population, development and environmental sustainability, calling for suitable macroeconomic and socio-economic policies to promote sustainable development. The recommendations in the Programme of Action recognized that the formulation and implementation of population-related policies were the responsibility of each country and should take economic, social, religious, ethnic and environmental diversity into account. The Conference also recognized the importance of empowering women at all levels.

76. The Fourth World Conference on Women in Beijing in 1995 established the current global policy agenda on gender equality and the empowerment of women linked to the framework of international policy priorities on development and peace.[19] The Beijing Declaration and Platform for Action adopted by the Conference provides a comprehensive blueprint for action on gender equality and women’s human rights.

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[18] The Montreal Protocol on Substances that Deplete the Ozone Layer is an outstanding example of effective multilateral cooperation to address global environmental challenges by repairing the stratospheric ozone hole. In that case, there was almost universal support for an agreement binding all countries to phase out their use of most ozone-depleting substances according to a strict timetable. Key features of the agreement include: a grace period for developing countries to comply with the phase-out; a multilateral fund financed by developed countries to cover the incremental costs of such a phase-out in developing countries; arrangements for providing information and analysis on technology options and their economic implications for all countries; and a trade provision to discourage free riders. Many of these features have been cited as a possible model for addressing climate change, although the two problems are somewhat different, notably with respect to the scale of the financing required.

[19] The previous three World Conferences on Women were in Mexico City (1975), Copenhagen (1980) and Nairobi (1985).

77. The World Summit for Social Development in Copenhagen, also in 1995, focused on poverty reduction, employment creation and social integration. In the Copenhagen Declaration on Social Development,[20] the Summit adopted 10 commitments to achieve social development, eradicate absolute poverty, promote full employment, promote social integration, ensure universal and equitable access to education and primary health care and increase financial resources for social development. The Programme of Action was adopted by the largest meeting of national leaders ever held up to then, attended by 117 Heads of State and Government.

78. Many ambitions of the 1974 New International Economic Order were reflected in the International Conference on Financing for Development in Monterrey, Mexico, in 2002, notable for the breadth of its agenda and the extent of collaboration in the United Nations system, including the Bretton Woods institutions. In the Monterrey Consensus, Governments committed themselves and the multilateral system to act on domestic resource mobilization, private resource flows, official development assistance, trade, debt and (global economic) systemic issues.

79. The Monterrey Consensus underscored the need to sustain sufficient and stable financial and other resource flows to developing countries, calling for measures to increase the transparency and sustainability of financial flows, and to contain the excessive volatility of short-term capital flows and highly leveraged transactions. These calls were reiterated at the Follow-up International Conference on Financing for Development to Review the Implementation of the Monterrey Consensus, held in Doha in 2008, and the United Nations Conference on the World Financial and Economic Crisis and Its Impact on Development, held in New York in 2009. The need to enhance the coherence and consistency of the international monetary, financial and trading systems, to ensure they support the internationally agreed development goals to "advance to a fully inclusive and equitable global economic system" was emphasized in the Doha Declaration on Financing for Development.

80. The Monterrey Consensus underlined the importance of continuing to improve global economic governance and to strengthen the United Nations leadership role in promoting development. Efforts to reform the international financial architecture should include stronger coordination of macroeconomic policies among leading developed countries and better mechanisms to prevent and manage financial crises. The Monterrey Consensus also recognized the vital importance of strengthening international tax cooperation and called for increasing the effective participation of developing countries and economies in transition in international economic decision-making, including the formulation of financial standards and codes. Thus, Member States made clear their commitment to reform the international financial institutions to strengthen the effective participation of developing countries in multilateral financial and economic decision-making.

81. The 2000 Millennium Summit and the 2005 World Summit were global in both attendance and agenda. Heads of State and Government gathered in New York in September 2000 to reaffirm their "faith in the Organization and its Charter as indispensable foundations of a more peaceful, prosperous and just world". The United Nations Millennium Declaration, adopted by leaders from 189 countries, also states that "Global challenges must be managed in a way that distributes the costs

[20] United Nations publication, Sales No. 96.IV.8, resolution 1, annex I.

and burdens fairly in accordance with basic principles of equity and social justice" (General Assembly resolution 55/2, paras. 1 and 6).

82. At the 2005 World Summit, Member States committed themselves to address the special needs of developing countries in the areas of health, agriculture, conservation, sustainable use of natural resources and environmental management, energy, forestry, and the impact of climate change. The Summit meeting reaffirmed that international trade must promote economic growth, employment and development for all (General Assembly resolution 60/1, para. 27). It was designed as a follow-up summit to the Millennium Summit and the other world conferences. The Summit called for national development strategies as well as full and productive employment and decent work for all.

83. Thus, the United Nations Development Agenda embodies the spirit and aims of the 1974 Declaration on the Establishment of a New International Economic Order, while also addressing the challenges of social progress and environmental sustainability. At the international level, the Agenda includes contemporary challenges of global economic governance such as international finance, debt, aid, trade, technology and migration.

VII. Conclusion

84. In the post-Second World War era of the Bretton Woods-GATT regime until the 1970s, countries were free to have their own trade and industry policies as long as they removed a number of border restrictions on trade and did not discriminate among their trading partners. The rules discouraged quantitative restrictions, but not import tariffs. In the area of international finance, countries were allowed, and indeed encouraged, to maintain restrictions on capital flows. This enabled them to pursue countercyclical and pro-investment macroeconomic policies, resulting in what is now regarded as "Golden Age".

85. Globalization requires governments to remain attractive to international markets for both goods and capital. Domestic regulations and policies are harmonized either with market or other requirements for international economic integration. The new international obligations on trade and foreign investment constrain governmental action, and narrow policy space for national governments, contradicting the spirit of the 1974 New International Economic Order.

86. In such a world, economic policymaking bodies such as central banks and fiscal authorities have been increasingly insulated from political processes, ostensibly to maintain market confidence, thus further undermining policy space and national development strategies. This has failed to deliver prosperity for the poor and most vulnerable.

87. Through the landmark United Nations conferences and summits since the 1990s, Member States have attempted to recapture lost ground for policy space. They have asserted national ownership of development strategies and demanded greater participation in global economic governance. The United Nations Development Agenda, derived from the United Nations conferences and summits, reflects some of the spirit of the 1974 New International Economic Order and also aims to achieve "development for all".