Globalization, development and poverty reduction: their social and gender dimensions

Note by the UNCTAD secretariat*

I. Introduction

1. Market-driven globalization is a fact of life that has left no economy, rich or poor, untouched. The current wave of globalization has continued unabated over the past few years. Global trade and financial integration have reached an unprecedented depth, involving a continuously growing number of economies, goods, services and financial instruments. As a result, international competition has intensified and the interdependence of national economies has increased to a point where all economies are exposed to the influence of events and policies originating in other parts of the globe.

2. The issue of climate change has added an additional element to global interdependence, providing a formidable challenge for policymakers around the globe to reconcile poverty reduction and economic growth with environmental sustainability. With greater interdependence and coherence between the international trading and financial systems, policies in support of output growth and environmental preservation – and national, regional and international policymaking – become ever more important. This requires a strengthening of global economic governance with an adequate social and development dimension, taking account of poverty and gender issues. In many cases, a review of the most effective use of national policy instruments for economic and social objectives will also be needed.

3. The consensus that has prevailed over much of the past 25 years – putting liberalized markets and flexible prices at centre stage – has proven to be insufficient in the light of the complex challenges that globalization poses in a world with wide gaps.

* This document was submitted on the above-mentioned date as a result of processing delays.
in incomes and productive capacities among countries and regions. A concrete vision of the global partnership for development has to emerge based on the new realities which call for a more equitable and effective balance between open global markets, the sovereignty of the nation-State, the rule of law and related international regulations and codes of conduct. UNCTAD stands ready to contribute to the building of such a new consensus through its research and technical assistance.

4. This note is one step in that direction. It reviews the positive economic developments associated with economic globalization (chapter II) and examines some perceived challenges to these developments (chapter III). On this basis, the note finally examines policy options that countries may pursue in order to reduce the risk of global financial crises, promote a better integration in global trade and production systems, and encourage higher and more sustained rates of economic growth through the promotion of real-sector investments. It also discusses the link of such policies with poverty reduction and their gender dimension (chapter IV).

II. Globalization and economic development

5. The overall performance of developing countries and their ability to catch up with the richest countries have improved considerably since the last UNCTAD conference on the Africa continent, in Midrand, South Africa, in 1996.

A. High rates of economic growth

6. The recovery of the world economy since the end of the dotcom bubble has stimulated growth in nearly all regions and countries. Despite enormous persisting differences in absolute income, developing countries increased their real gross domestic product (GDP) by 62 per cent from 1996 to 2006, compared to 27 per cent in the Group of Seven (G7) countries. Real income in Latin America, despite serious setbacks due to financial crises in Brazil, Argentina and some smaller countries, grew by 33 per cent, compared to 50 per cent in Africa and 60 per cent in the economies in transition. In 2006, five years after the beginning of the global recovery, 6 of 132 developing countries recorded falling real incomes, compared to 8 countries from 2000 to 2005, and 18 in the half decade before. At the same time, volatility of growth came down considerably.

B. Record level of exports

7. High growth in most developing countries has been supported not only by fast growth of exports to developed countries, mainly the United States, but also by high and increasing import demand from some large and rapidly growing economies in the developing world itself, especially China and India. Real exports of developing economies more than doubled from 1996 and 2006, compared to an increase of two thirds in the real exports from the G7.

8. The main beneficiaries of sustained import growth in China and India have been exporters of more advanced manufacturing products (i.e. more advanced developing countries and developed countries), and exporters of oil and mining products (mostly developing countries, including many least developed countries). Rising demand for these products had positive effects on both export prices and volumes. One feature of the growing world trade has been a rapid increase of South–South trade in both primary commodities and manufactures. However, it should be acknowledged that the increase in South–South trade in manufactures is concentrated in a few countries, mainly in East Asia, and that a substantial part of the statistical increase in South–South trade in manufactures is due to double-counting associated with intraregional
production sharing and trans-shipment in East Asia for products eventually destined for export to developed countries.

9. The rise of South–South trade in primary commodities appears more modest in trade statistics. However, it has involved a larger number of countries than the strong rise of South–South trade in manufactures. It has allowed Africa, as well as Latin America and the Caribbean, to recoup some of the market shares in total South–South trade they had lost in the 1980s. Indeed, the rise in South–South exports of primary commodities to the rapidly growing Asian developing countries is likely to evolve into the most resilient feature.

10. The promotion of South–South trade can contribute to progress in development and poverty reduction for a variety of reasons. Firstly, persistent trade barriers in developed countries against products of export interest to developing countries imply that developing countries could all gain from paying greater attention to each other’s markets. Secondly, the vast size of the rapidly growing Asian economies, as well as regional integration elsewhere, reduces the need for developing countries to seek developed-country markets in order to benefit from economies of scale. Thirdly, continued dependence on developed-country markets exposes developing countries to possible pressure that links better access to those markets with binding commitments to rapid trade and financial liberalization, protection of intellectual property and an open-door policy for foreign direct investment (FDI). More generally, this dependence also entails the risk of increasingly narrowing the policy space for developing countries, making it more difficult to achieve global systemic coherence.

11. There can be little doubt that FDI and the creation of international production networks have played an important role in the expansion of manufactured exports from developing countries. Asia continues to receive a much higher share of FDI than other regions, but Africa has also experienced a considerable rise in recent years. The latter is largely attributable to an increasing demand for, and rising prices of, many primary commodities, especially oil and mining products. However, for the world as a whole, the quantitative importance of FDI is small compared to that of domestic investment. Even including acquisition of existing assets, which do not contribute to fixed capital formation, inward FDI flows in 2005 reached a level of 3 per cent of GDP, one percentage point more than in 1995 and one point less than in 2000.

12. In comparison, the steady increase of the ratio of fixed investment to GDP – from 23.6 per cent in 2000 to 26.6 per cent in 2006 – shows that, in the aggregate, developing countries are less dependent on this form of capital inflow from the North than often assumed. Domestic fixed investment increased strongly even in regions that did not benefit from an increase of FDI.

C. Improvement of current accounts

13. As a consequence of this benign trade performance, the overall current account of developing countries has swung into surplus for the first time since the end of the Bretton Woods monetary system at the beginning of the 1970s, with the large external deficit of the United States as the main counterpart. The swing can be observed in the three big regional groups and, even more surprising, for most of the bigger regional subgroups. From 2004 to 2006, sub-Saharan Africa (excluding South Africa with a deficit in the order of 6 per cent) recorded a current account surplus of nearly 4 per cent of GDP. In South America, a deficit of 2.5 per cent in 1995 turned into a surplus of 3 per cent in 2005 and 2 per cent in 2006; excluding Brazil, the surplus in the latter year amounted to 5.2 per cent of GDP. The only exception was the group of transition economies in Eastern Europe, if the oil producers of the region are not included.
14. It is worth noting, however, that these trends are largely driven by exports of the more advanced developing countries. While many of the least developed countries have also benefited from an improved export performance, most of them have not been able to significantly reduce their high and sustained deficits in their trade balances.

15. For a number of years, global capital flows have reversed as current accounts swung around and developing countries became net exporters of capital. This has been the result largely of the improved export performance of most developing countries, including commodity-dependent economies, but in many countries, changes in monetary and exchange-rate policies, which led to improved international competitiveness of their producers, have also contributed to this outcome. The swing in current account balances has been reflected in a reversal of net capital flows from developing to developed countries. Distinct from what orthodox theory would predict, such a net export of capital from poorer countries does not appear to have constrained domestic investment. This points to the need to revisit the key assumptions about the functional relation between savings, investment and capital flows.

III. Threats to economic development

16. The potential benefits of a stronger integration of developing countries into the world economy and progress towards achieving the Millennium Development Goals are threatened by an increased risk of financial crisis, stemming from large and increasing global imbalances, as well as an unsustainable race to the bottom in terms of social and fiscal impact.

A. Risk of financial crisis

17. For countries to increase or sustain their benefits from global economic integration, their producers have to become and remain competitive in global markets. However, while all countries can simultaneously raise productivity, wages and the level of trade to improve their overall economic welfare, they cannot altogether increase their market share or their current account balance. Current account deficits often indicate a lack of international competitiveness. However, in recent years, efforts to increase competitiveness have been deployed not only in countries with current account deficits, but also in countries with current account surpluses, with the result of exacerbating global economic imbalances and increasing the likelihood of global financial crisis.

18. The extraordinary deficit in the current account of the United States ($800 billion in 2006) and the surpluses in China, Japan and Germany (each amounting to more than $150 billion) testify to the unsettled state of the global integration process. At the same time, the exchange-rate mechanism is not functioning in a way that would facilitate adjustments in current account flows, due largely to the speculative elements that influence international financial and currency markets.

19. In this regard, the development of the real exchange rates (based on unit labour costs) of some major surplus countries between 1996 and 2006 is telling: only China (a nominal exchange rate fixed to the dollar) saw a modest real appreciation against the United States, while surplus countries with large surpluses, such as Japan, Germany and Switzerland (which adhere to a “free floating” currency), saw a further depreciation of their currencies against the dollar and, thus, an improvement in their competitiveness.

20. UNCTAD’s Trade and Development Report 2004 showed that speculative capital movements, in the form of “carry trade”, can hardly be avoided once countries have liberalized their capital accounts, thus preventing an orderly adjustment of global
imbalances. This increases uncertainty about the adjustment process and financial instability. Unhedged borrowing by hedge funds and other speculators more than anything calls into question the widespread acceptance of floating as the only feasible solution to the problem of the external balance.

**B. Race to the bottom**

21. The focus of Governments to gain competitiveness for their producers through policies at the national level under the perceived threat of globalization has brought into focus the problematique of polices that could be named “new mercantilism”. They include measures to reduce labour costs (and thus the incomes and social security of workers) and the tax burden of corporations (and thus financial resources available for public investment and social spending). If all countries attempt to increase competitiveness by such means, the latter are not only ineffective, but also detrimental to income distribution and poverty reduction.

22. To halt the race to the bottom, some developed countries have called for the inclusion of social standards in enforceable trade agreements. But for such an approach to be effective, the standards would need to be applied everywhere and with equity considerations at centre stage. It may be at least equally important to ensure that increasing productivity in developing countries translates into a higher standard of living of the local population instead of lower prices benefiting consumers in other countries or being used to “beggar their neighbours”.

**Box 1. Employment, poverty and demographic pressures**

Intensified global competition and the race to improve international competitiveness have generated the fear of job losses in many countries, both rich and poor. But the fear of job losses due to global competition appears to be as exaggerated as the optimism that market forces alone will guarantee an equitable sharing of the potential benefits of globalization.

Increasing competitiveness of producers from low-wage countries in certain markets for consumer goods will certainly require structural changes elsewhere, but the overall impact of low-wage labour in the emerging South on employment in the developed countries is likely to be limited, because international mobility of labour and fixed capital is lower than often assumed – distinct from the mobility of short-term, speculative capital. Moreover, the productivity gains associated with the increase in the capital endowment of low-wage countries translate mainly into higher standard of living for workers in developing countries, and because higher domestic incomes and consumption in the emerging economies also mean increased demand for products from the rest of the world. The Asian growth dynamics have been accompanied by a demand boom and rising prices for many primary commodities, providing opportunities for faster growth and higher investment in new productive capacity in commodity-dependent economies, including in Africa and among least developed countries.

In this favourable external economic climate, most developing economies have seen a strong growth in employment or succeeded in stabilizing or slightly reducing unemployment rates. It is obvious, however, that measured unemployment in developing countries is much less responsive to high growth rates than it is in developed economies. Since the mid-1990s, employment has been most responsive to income changes in the Middle East and sub-Saharan Africa, where employment rose by 0.9 and 0.7 per cent, respectively, for each percentage point of output growth, compared to 0.6 per cent in Latin America and 0.5 per cent in North Africa. In East and South Asia, the corresponding figures were below 0.5 per cent. The regional averages hide important differences amongst the countries within regions. More advanced developing countries of Asia, for instance, have seen a rapidly expanding labour force and associated with this a large decrease of extreme poverty.
The absorption of unemployed or underemployed workers in productive jobs is the only way to bring about a sustainable reduction of poverty. Yet the process of absorption is very slow. The slow response of unemployment to growth in developing regions may be found in the huge and fast-rowing reserves of labour, combined with considerable productivity growth. In countries where recent growth is based on increased earnings in the oil and mining sectors, employment effects are also circumscribed by the enclave character of those activities. But even in some countries that are in a process of rapid industrialization, including China, it takes many years of high and sustained growth to create the necessary employment opportunities.

High rates of population growth are an underestimated and often insurmountable challenge for countries, as many do not achieve or sustain necessary rates of economic growth to ensure the creation of sufficient employment opportunities. For example, while real GDP per capita for the least developed countries as a group grew by 3.5 per cent per year from 2000 to 2006, it fell in 12 of the 50 countries of this group. As a result, countries are confronted with rising dependency ratios, and they will find it impossible to bring about sustainable poverty reduction. In addition, these demographic developments often accelerate the degradation of scarce natural resources, including agricultural land and drinking water. The vicious interactions between demographic pressure, unemployment, poverty and environmental degradation can only be broken through a coherent mix of economic, social and environmental policies.

IV. Policy responses

23. A salient feature of recent globalization has been the uniformity in policy reforms, market deregulation and liberalization undertaken by many developing countries since the 1980s and by transitional economies in the 1990s. “Getting the prices right” was the catch word for this agenda. The market-oriented reform agenda was based on the expectation that reduced market interventions by Governments and an unleashing of market forces would lead to a more efficient allocation of resources, which in turn would accelerate growth, and raise wages and higher returns to capital.

24. However, the orthodox reform agenda, which came to be known as the “Washington consensus”, stood in stark contrast to the successful experience of catch-up growth in a number of East Asian economies, and did not lead to the results hoped for. Rather than relying on unchecked market forces to bring about economic development, the Asian economies pursued proactive policies to foster productive investment, technological upgrading and structural change (box 2), as discussed in several UNCTAD Trade and Development Reports (for example, 1996, 1998 and 2003). A World Bank study, published in 2005,1 acknowledged a number of mistakes and shortcomings of the bank’s previous approach to structural adjustment. It recognized “that reforms need to go beyond the generation of efficiency gains to promote growth” and that “growth-oriented action, for example, on technological catch-up, or encouragement of risk taking for faster accumulation may be needed” (p.10). Moreover, “government discretion cannot be dispensed with altogether, so it is important to find ways in which it can be exerted effectively” (p.14). But these ways can differ considerably across countries. In its 2005 study, the bank recognized that there was no one-size-fits-all set of successful policies: “There are many ways of achieving macroeconomic stability, openness and domestic liberalization… Different policies can have the same effect, and the same policy can have different effects, depending on the context” (pp. 12–13).

Indeed, what is needed at the level of policy is a shift from a focus on getting prices right to a focus on getting the development process right. The latter includes a rethinking of policies aimed at managing global economic interactions in the areas of finance, as well as a rethinking of country-specific economic policies aimed at promoting capital accumulation, technological progress, structural change and more sustained economic growth.

Box 2. Divergence between developing countries

Globalization and the associated global economic changes have benefited many countries, but the benefits have been distributed unevenly amongst them. Since the 1970s, few developing countries have managed to narrow, let alone close, the income and technology gap with the world’s most advanced countries, while many developing countries fell further behind in either relative or absolute terms.

The experiences of different country groups are closely associated with different approaches to global economic integration. While the newly industrialized countries in East and South-East Asia pursued active industrial policies, combined with gradual and strategic integration into the world economy, many countries in Latin America and Africa were encouraged to pursue deep and fast economic liberalization. Today’s most developed economies achieved industrialization by returning to heavily protectionist measures and other unorthodox policies; many of the rapidly developing countries have followed a similar path. It appears therefore necessary to question the uniform recommendation of economic liberalization and examine instead alternative models of global economic integration.

Developing countries such as China and India are on a similar path to that pursued by countries such as Japan and the Republic of Korea when they were at comparable levels of economic development, using industrial and trade policies strategically, as well as fiscal and monetary policies, to encourage investment in nascent industries and promote the development of new technologies. For a limited time, countries were able to increase productivity levels while maintaining low wage rates. As a consequence, companies benefited from improved competitiveness and higher profit rates, which served as incentives and sources of finance for further investment. This model has come into full swing in more regions and countries since the crisis-driven devaluations corrected the exchange rate misalignments of the 1990s.

A. The case for a multilateral financial governance

The race to the bottom – characterized by competitive devaluations of exchange rates, and reliance on low wage rates, low taxes and high subsidies – has harmful consequences. To prevent these, the application of an internationally-agreed code of conduct – which carefully balances advantages of one country against the disadvantages of other countries and is monitored by an international body – appears to be an appropriate solution.

Indeed, the idea of a cooperative global monetary system is as compelling as the idea of a multilateral trading system, but the international community is still far away from achieving this. Cooperation in the field of finance needs to start with the trivial recognition that the exchange rate of any country is, by definition, a multilateral phenomenon, and any rate change in open economies produces externalities and multilateral repercussions.

As long as such an arrangement is not in place, developing countries need flexibility and a sufficient number of instruments to prevent excessive volatility in the
external sector, as this would heighten the risks for long-term investment and successful catching up. Following the unsatisfactory experience with both rigidly fixed and freely floating exchange rates, “intermediate” regimes have become the preferred option in most developing countries with open capital markets. They provide more room for manoeuvre when there is instability in international financial markets, and enable adjustment of the real exchange rate to a level more in line with a country’s development strategy.

B. Redressing asymmetries in the multilateral trading system

29. Trade policy can be an effective instrument for industrialization and the creation of value added. Industrialization and growth are fostered by efficiency gains, the enlargement of market size and through the alleviation of the balance of payments constraint – a lack of foreign exchange required to finance imports of capital equipment and intermediate production inputs, as well as wage goods that cannot be efficiently produced domestically.

30. The “level playing field” metaphor is often used to describe the rules and commitments in the multilateral trade system. However, an open trading regime does not have the same effects on all countries, and the rules and commitments that in legal terms are equally binding for all member States of the World Trade Organization (WTO), might well imply constraints that are more binding on developing countries than on more advanced countries. In particular, they may deny developing countries the use of policies that were instrumental for the industrialization of today’s developed countries, as well as of the more recently industrialized economies in Asia, thereby reducing the scope for employment creation and poverty reduction.

31. Parallel to the ongoing multilateral trade negotiations, the past decade saw a proliferation of regional and bilateral trade agreements, which often included areas of negotiations that went well beyond the areas negotiated in WTO, and led to agreements that were considerably more stringent than WTO agreements, especially with respect to investment, intellectual property and procurement (i.e. many of the Singapore issues). In trade negotiations at all levels, developing country policymakers will need to decide on the extent to which they are willing to accept further reductions in the national development policy space in exchange for better access to developed country markets. To achieve a development-oriented outcome of the Doha Round, the negotiations need to (a) strengthen the provision of special and differential treatment; (b) commit developed countries to making real reductions in domestic support and tariffs; and (c) maintain full use of existing flexibilities for developing countries, especially with respect to the General Agreement on Trade in Services (GATS) and non-agricultural market access.

C. Redressing asymmetries in the production structure

32. The development of a strong manufacturing sector has been at the core of all successful experiences of economic development. This suggests that achieving a lasting productivity-based increase in manufacturing is indispensable for a sustained rise in income levels and, ultimately, the eradication of poverty.

33. Establishing broad-based manufacturing activities opens the opportunity for strong productivity and income growth. That growth potential derives, on the supply side, from a predisposition to scale economies, specialization and learning and, on the demand side, from favourable global market and price conditions. Manufactures also present a better platform for jumping to new economic activities with unexploited productivity potential. This is because productive capabilities needed for already existing manufacturing activities require less additional adaptation to start new
activities with substantial unexploited productivity potential than do productive capabilities for activities in the primary sector.

34. While the shares of developing economies in both world manufactured exports and world manufacturing value added have sharply increased over the past 15 years, the increase has been much stronger in exports than in value added. The wide variation in industrial performance across developing regions has accentuated the concentration of industrial activities, but the rapid rate of economic growth and expansion of manufacturing activities in some developing countries, notably in South and East Asia, has also led to a rapidly increasing demand for and prices of many primary commodities. As a result, many developing economies whose wealth creation relies on their primary commodity sectors have experienced robust – and above historical average – rates of economic growth over the past few years.

35. The continuing growth in South and East Asia and recovery in other regions of the developing world are likely to sustain the demand for primary commodities. But these developments do not solve the fundamental problem associated with commodity dependence. The volatility of commodity prices, as well as the long-term tendency of commodity prices to decline vis-à-vis the prices of manufactures – especially manufactures exported by developed countries – continues to have negative implications for export earnings and economic growth in commodity-dependent economies. Moreover, the exploitation of mineral and oil resources is often of an enclave nature with little forward and backward linkages, and thus provides little growth stimulus to other economic sectors.

36. For these reasons, it is imperative for developing countries not to get complacent about further industrialization and diversification. The recent windfall gains from higher primary commodity earnings provide an opportunity to step up investment in infrastructure and productive capacity – both essential for boosting development.

37. Resource-intensive exporting economies must be vigilant not to experience an appreciation of their real exchange rate. It is also crucially important to refrain from pro-cyclical fiscal behaviour. Countries should avoid expansionary fiscal policies when earnings from primary commodity exports are high and the economy is also booming as a consequence, so as to avoid needing to adopt fiscal austerity when resource revenues fall and the economy enters a recession.

38. Finding solutions to the commodity problem is important for many of the poorest countries, but also for global prosperity in general. Consequently, in the spirit of a global partnership for development, the international community might consider reviewing mechanisms at the global or regional level that could serve to reduce the instability of prices of a wider range of commodities, not just oil.

D. Rethinking economic policies at the national level

39. Historical evidence shows that countries raise the standard of living of their population by raising labour productivity. This is associated with a substantial change in the sectoral pattern of production and employment, from agricultural to industrial products, and a shift from labour-intensive activities to a growing range of capital- and technology-intensive activities. Inventions and innovations, which lead to upgrading and diversification, are typically based on a painstaking and cumulative learning process of trial and error. Essential for this purpose is investment – not only in basic research and development, but also in more basic engineering issues, including product and process designs.

40. Entrepreneurs are prepared to finance such investments, if they can expect corresponding profits. Also instrumental for the promotion of technological progress is investment in human capital formation, including advanced secondary and tertiary
education, as well as technical and vocational training, which helps to prevent a
decline of the marginal product of capital, even as an increasing accumulation of
capital leads to an increase of the capital–labour ratio.

41. Contrary to orthodox economic policies which trust that the markets will bring
about necessary investment and structural change, growth-oriented policies are
characterized by a more active and direct promotion of such investment and structural
transformation. Growth-oriented economic policies include industrial and trade
policies as well as fiscal and monetary policies aimed at promoting emerging
industries.

42. The use of industrial and trade policies, even if associated with temporary
restrictions on imports, must not be viewed as an anti-trade strategy; rather, it should
be understood as a strategy to promote more favourable trade integration. Such
strategies are supposed to encourage private investment in production and the
development of technological capabilities. Both are preconditions for countries to
increase their productive capacities and productivity levels, and to help them diversify
their production structures and export baskets in order to export more products and
more lucrative products, increase export revenues and import capacities, and
ultimately achieve higher and more sustained rates of economic growth, which, in
turn, improve the chances to attain social objectives (box 3).

Box 3. Gender dimensions of economic policies

While it is widely acknowledged that social policies (e.g. promotion of health and
investment in education) affect women, it is less well understood that economic
policies (e.g. promotion of trade and investment in infrastructure) can have
important gender dimensions as well. Growth-oriented economic policies at the
macro, meso and micro levels which successfully encourage the development of
nascent industries and an expansion of international trade – especially low-tech
manufactures such as textiles – tend to create a larger number of jobs for women
than for men. Economic growth in Africa, Asia and Latin America has led to
disproportionate job creation for women, although the specific elasticities differ
considerably across regions.

Similarly, investment in infrastructure can fundamentally alter the lives of
women. Connecting houses to electricity grids, ensuring easy access to water
wells, and constructing better roads to local markets will significantly decrease
the time women spend on unproductive and unpaid activities, including the
collection of firewood and the fetching of water. These time savings enable
women to seek paid employment outside the subsistence economy. Productive
and paid employment for women will help to increases their independence,
improve the welfare of households, decreases levels of poverty, and may, as a
side effect, also decrease demographic pressures.

In addition, microcredit institutions mostly benefit women. They help women to
smooth household consumption and develop and sustain various types of
subsistence activities. Microcredit institutions, however, are less well equipped to
help women grow their businesses and ultimately develop their businesses into
formal, small and medium-size enterprises. This is because most such institutions
are able to provide credit only in relatively small volumes, for relatively short
periods and at relatively high interest rates, whereas real-sector investment
depends on credit in larger volumes, for longer periods and at lower interest rates.
In order to enable women to develop their businesses, it is essential that they gain
better access to formal credit, including credit provided by commercial banks
and/or development banks.
Promoting gender equality in all spheres of life is a moral imperative, but preventing women from full participation in the economy is also an economic folly. It means not utilizing a large and creative part of the labour force, which negatively affects potential output, and it means decreasing the potential level of consumption, which negatively impacts aggregate demand. The relationship between growth-promoting policies, the evolution of macroeconomic variables and better integration of women in the economy are quite complex and require further research to identify appropriate policy measures that enhance gender equality, for both ethical and economic reasons.

43. In addition, countries have used fiscal policies to pragmatically stimulate demand whenever that was required, and monetary policies to promote low interest rates and undervalued exchange rates. In Asia, interrupted only by the shock of the Asian financial crisis, the policy interest rate (in real or nominal terms) has been consistently lower than the growth rate (in real or nominal terms) over the last 20 years. For a monetary economy, low interest rates in this sense are the most important single policy factor to explain dynamics of investment in fixed capital, growth and catching up.

44. One of the most important conditions for innovative investment to govern the evolution of the economic system is that firms have access to reliable, adequate and cost-effective sources for financing their investments. This condition is best met when profits themselves are the main source of investment financing. Indeed, if an investment-profit nexus can be ignited, profits from innovative investments simultaneously increase the incentive for firms to invest and their capacity to finance new investments. But while profits are the ideal source for investment, in the short term, investment may need to be covered by other sources. These may include savings, but they also include liquidity created through bank credit based on expansionary central bank policy. Creating the institutional conditions for the latter source of financing to become viable is a major task for many developing countries in the years ahead.

V. Conclusions

45. In order to deliver positive results for development and poverty reduction, globalization can be shaped and nations must decide how to integrate into the global economic system. Leaving the integration entirely to market forces is one possibility, but not necessarily the one that generates the best results in economic and social terms. Like any national market, the proper functioning of global markets depends on appropriate rules, regulations, and public policies that help achieve targets that lie beyond simple economic efficiency considerations.

46. In many areas, space for successful national policies can be identified and the international system can be shaped in a development-friendly and coherent way. The more the economy becomes globalized, the more urgent becomes the need to find international agreement on an adequate institutional and governance framework to influence the play of market forces. It is at the multilateral level – in the interrelated areas of monetary, financial and trade systems – that re-fashioning the global governance architecture has to begin. Efforts need to tackle the asymmetries in both systems, in order make them respond more adequately to the needs of developing countries.

47. Furthermore, regional cooperation may offer another avenue to protect the weakest against unfettered market forces and unpredictable shocks. Regional liberalization cannot be expected to deliver substantial development gains by itself, but it can be the basis on which innovative policy approaches can be designed, by
extending cooperation to common or well-coordinated policies in the monetary and financial area, industrial development, infrastructure and employment. Effective cooperation at these fronts could not only enhance developing countries’ output growth and trading capacity, but also strengthen their influence on global economic governance.

48. Finally, at the national level, some important lessons can be drawn from past achievements and past failures. While every country has to identify its own strategies and combination of polices, some patterns of successful adjustment to the challenges of globalization have emerged that deserve closer examination by those countries that have been falling behind despite the opportunities offered by the global expansion. In this regard, pragmatism and respect for diversity over the whole range of development policies are certainly more appropriate than adherence to ideological beliefs in how economies and societies function. This is true for macroeconomic policy, and for industrial and trade policy, as well as for the recently much-emphasized institutional conditions for growth and development, including the poverty and gender dimensions.

49. No country has ever chosen an approach where the “unfettered market forces” were allowed to rule the day without Governments engaging in many kinds of regulations and direct interventions. In accordance with this fact, efforts to promote development should shift from a focus on “getting prices right” to “getting the preconditions for the process of development right”.

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