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Globalization and interdependence: role of the United Nations in promoting development in the context of globalization and interdependence

Globalization and interdependence: sustained, inclusive and equitable economic growth for a fair and more equitable globalization for all, including job creation

Report of the Secretary-General

Summary

The present report was prepared pursuant to General Assembly resolution 65/168. It reviews globalization in the wake of the global financial and economic crisis. It addresses economic growth and policies to make growth more sustained, inclusive and equitable in the broader context of globalization. The report links these matters with the goals of full employment and decent work, examining the issues of sustained, inclusive and equitable economic growth and job creation in the broader context of globalization, particularly with respect to achieving a fairer and more equitable globalization for all.

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I. Introduction

1. Globalization has been defined in various ways over the years. Generally, it involves economic integration — the transfer of policies across borders and the transmission of knowledge. The Organization for Economic Cooperation and Development (OECD) defines globalization as a phenomenon of “increasing interdependence of markets and production in different countries through trade in goods and services, cross-border flows of capital, and exchanges of technology”.[1] The International Monetary Fund (IMF) uses a similar definition: “Globalization refers to the growing economic interdependence of countries worldwide through the increasing volume and variety of cross-border transactions in goods and services and of international capital flows, and also through the more rapid and widespread diffusion of technology”.[2]

2. Globalization, measured in terms of movements of goods and services, including finance, has deepened over recent decades. Increased communications, driven by new information and communications technology (ICT), and technological progress in general have paralleled and further deepened these economic trends. While this has brought a large array of new opportunities and benefits, the increased interdependence that has accompanied these movements has left countries and their populations more vulnerable to external shocks and economic insecurity. Globalization has also been accompanied by rising inequality both within and among countries.

3. Of particular importance is the globalization of finance, or financial globalization, with the progressive dismantling of controls over cross-border flows of capital usually complementing domestic financial sector deregulation. This has integrated domestic financial systems with international financial markets and institutions. Financial globalization was supposed to move capital from developed countries to developing countries (from the “capital rich” to the “capital poor”), lower the costs of capital — together increasing the availability of cheaper credit — and reduce the instability and volatility of their financial systems.

4. However, the experience of the past two decades has raised significant doubts about the alleged benefits of financial globalization, as the world has witnessed net capital flows from developing countries to developed countries and more frequent financial crises with increased intensity, while the lower costs of capital cannot be clearly attributed to financial globalization. The crises in Scandinavia in the early 1990s, Asia and the Russian Federation in 1997-1998, Brazil in 1999, Ecuador in 2000, Argentina and Turkey in 2001 and Uruguay in 2002 are associated with financial globalization. More extreme boom-bust cycles have greatly reduced earlier income gains as financial crises have increased poverty.[3]

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[1] Marcos Bonturi and Kiichiro Fukasaku, “Globalisation and intra-firm trade: an empirical note”, OECD Economic Studies No. 20 (Paris, Organization for Economic Cooperation and Development, Spring 1993), p. 146.

[2] International Monetary Fund, *World Economic Outlook* (Washington, D.C., May 1997), chap. III, p. 45.

[3] Ekkehard Ernst and Verónica Escudero, “The effects of financial globalization on global imbalances, employment and inequality”, Discussion paper DP/191/2008 (Geneva, International Labour Organization, International Institute for Labour Studies, 2008).

5. The substantial drop in global economic growth, triggered by the recent global financial and economic crisis and recession, is also attributable to financial globalization. The rapid spread of the economic downturn from the epicentre to the periphery, through reduced trade and reversed financial flows and reflected in consequent increases in unemployment and poverty, is a dramatic reminder of increased vulnerability due to greater economic integration due to globalization.

6. Thus, while achieving high, sustained rates of economic growth itself is difficult, globalization can make it even more challenging. The policy underpinnings of sustained, high growth should create an environment for high levels of investment and job creation, as well as social protection, inclusiveness and equity. Equally important is an enabling international environment conducive to growth in developing countries.

7. Pursuant to General Assembly resolution 65/168, the present report addresses the global financial and economic crisis from a recent historical perspective; developments in globalization, particularly since the economic crisis of 2008-2009, the themes of sustained, inclusive and equitable growth, job creation and decent work in the context of globalization, and actions and policies to move towards a fairer and more equitable globalization for all. The report concludes with recommendations.

II. The global financial and economic crisis in recent historical perspective

8. During 2008-2009, the world suffered the worst financial and economic crisis since the Great Depression of the 1930s. This occurred when the world, particularly developing countries, was still reeling under the impacts of sharp rises in food and energy prices. Although a deeper and prolonged global recession was averted by unprecedented, large coordinated stimulus measures by major countries, several countries are still coping with its after-effects.

9. While it is too soon to quantify with much accuracy the full impact of the crisis on the achievement of the Millennium Development Goals and on many social outcomes, the crisis has almost certainly contributed to rising unemployment in developed countries and more vulnerable employment in developing countries. At least 30 million jobs were lost worldwide between 2007 and the end of 2009 as a result of the global crisis, resulting in an estimated 212 million jobless people in 2009, up from the 178 million people unemployed in 2007. Vulnerable employment may have increased by up to 110 million people between 2008 and 2009, raising the total number from 1.5 billion to 1.6 billion. There has also been a sharp rise in the working poor — people earning less than the $1.25 a day international poverty line. Youth unemployment has also increased substantially in most countries, while job insecurity is definitely on the rise in most of the world.[4]

10. Over the past three decades, the frequency and severity of financial crises seem to have worsened, usually preceded by large capital movements, rising

[4] *Report on the World Social Situation 2011: The Global Social Crisis* (United Nations publication, Sales No. E.10.IV.12).

commodity prices and interest rate hikes.[5] On average, it takes two years for output and 4.8 years for employment to recover to pre-crisis levels. The “jobless” recovery currently faced by the developed countries is also not uncommon in the recent history of business cycles. Since the 1950s, however, the time needed for employment levels to recover to pre-recession levels in developed countries has become successively longer.

11. Much of this instability appears to be associated with the movement of private capital flows. History since the Second World War has witnessed three generalized economic boom-bust cycles in private capital flows to developing and emerging economies with severe setbacks to development, where periods of growth have alternated with prolonged periods of volatility and stagnation. The first boom-bust cycle started in the late 1970s and ended with the debt crisis, mainly in Latin America, in the early 1980s. The second boom started in the early 1990s and was followed by a series of balance-of-payments and debt crises in East Asia, Latin America and elsewhere. The third cycle started in the early years of the new millennium and ended in the second half of 2008 with the financial crisis.

12. Since the debt crisis of the early 1980s, a combination of tight macroeconomic policies, privatization, rapid liberalization and deregulation — the so-called “Washington Consensus” — was presented to developing countries as a one size fits all policy basis on which to build a healthy economy and investment climate. Government-sponsored social programmes were diminished in favour of privatization and fiscal discipline. The macroeconomic improvements, however, did not result in sustained high economic growth. Rather, the spread of economic liberalization and fiscal consolidation programmes resulted in a significant shrinkage of policy space in developing countries. This lessened their ability to control rapid private capital flow reversals, with substantial amounts of capital withdrawn from the country in a very short period of time, or to counter the resulting financial turmoil and economic contraction, and to implement counter-cyclical financial and macroeconomic policies. The accompanying advance of deregulated financial globalization and the pro-cyclical nature of private capital flows also enhanced the risk of financial crises, experienced by many emerging market economies during the 1990s and 2000s.[6]

13. Although there has been increased emphasis on effective social policies and well-functioning institutions to combat widespread poverty, ensure adequate provision of health care and education and address social exclusion since the United Nations Millennium Declaration in 2000, further measures since the late 1990s continued to liberalize financial sectors worldwide. While there are advantages to be derived from financial liberalization, developing countries have witnessed significant risks associated with macroeconomic instability and financial volatility stemming from asset bubbles, excessive risk-taking, financial imbalances and rapid withdrawal of private capital. The increasingly globalized world has yet to solve problems of financial volatility, economic instability and boom-bust cycles associated with unrestricted private capital flows, as well as the negative impacts of recurring financial crises.

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[5] Carmen Reinhart and Kenneth Rogoff, “The aftermath of financial crises”, Working paper No. 146546 (Cambridge, Massachusetts, National Bureau of Economic Research, January 2009).

[6] *Report on the World Social Situation 2010: Rethinking Poverty* (United Nations publication, Sales No. E.09.IV.10).

III. New and emerging developments in globalization[7]

14. In the current aftermath of the global financial and economic crisis, one key question is whether the globalization trends will be the same or different compared with pre-crisis trends, and if they will be transient, permanent or an accentuation of pre-crisis levels. While it is still too early to come to any definitive conclusions about the nature of the trends since the crisis, it is useful to present a preliminary examination of some new and emerging developments.

Economic growth

15. The rapid global economic downturn of 2008-2009 severely disrupted economic growth worldwide and caused significant setbacks in the progress made towards achieving the Millennium Development Goals. The annual growth rate in global output fell from about 4 per cent during the period 2006-2007, to 1.6 per cent in 2008; the rate of growth in output dropped even further in 2009 to minus 2 per cent, with 95 countries experiencing declines in average per capita income.

16. The world economy has been recovering unevenly, driven mainly by developing and emerging economies, but the rebound has been slow as most developed countries are still struggling. This slow recovery is likely to continue, with risks of a double-dip recession as countries shift to fiscal austerity before private demand recovers. An impending debt crisis in a number of European countries is also causing uncertainty. Output growth is feeble in many developed economies and, thus far, they have experienced a "jobless recovery": at the current rates of growth, it could take another four or five years before employment is back to pre-crisis levels.

17. The fast rise of emerging economies over the past few decades has resulted in a shift, where centres of global economic growth are now distributed across both developed and developing economies. The current post-crisis recovery and expansion continues to be led by the large emerging economies in Asia and Latin America, particularly Brazil, China and India. However, for these economies, the growth outlook is challenged by the spectre of rising inflation, due mainly to rising food and energy prices, emerging domestic asset price bubbles attributable to rapid capital inflows and related upward pressure on exchange rates.

18. Economic activity has recovered across the least developed countries and other structurally weak economies, including landlocked developing countries and small island developing States, bolstered by a recovery in international trade and a rebound in commodity prices. Part of their ongoing recovery has been driven by increasing trade and economic links with the emerging economies. Yet, the current growth rates recorded by the least developed countries fall short of those sustained before the crisis and, in many countries, are below the level needed to have a significant impact on unemployment and poverty reduction.

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[7] This section draws on *World Economic Situation and Prospects* published in 2009, 2010 and 2011 (United Nations publications, Sales Nos. E.09.II.C.2, E.10.II.C.2 and E.11.II.C.2) and *Report on the World Social Situation* published in 2010 and 2011 (United Nations publications, Sales Nos. E.09.IV.10 and E.10.IV.12).

Income poverty

19. In the past few decades, large strides were made in reducing poverty. Prior to the recent crises, the incidence of poverty worldwide had fallen 40 per cent since 1990. The economic crisis changed this perspective dramatically: according to United Nations estimates, between 47 and 84 million more people fell into, or remained trapped in, extreme poverty because of the crisis. The joint IMF-World Bank *Global Monitoring Report 2010* estimates that an additional 64 million people had fallen into extreme poverty due to the economic crisis alone by 2010. The report also estimates that by 2015, 53 million fewer people will have escaped poverty due to the 2008-2009 recession, although the global Millennium Development Goal poverty target (halving the poverty rate) will be achieved.

20. Although poverty reduction is improving globally, mainly due to rapid progress in China, there are divergent trends at the regional level. Sub-Saharan Africa, Western Asia and countries in the Caucasus and Central Asia region are not expected to reach the Millennium Development Goal poverty target. Poverty rates are highest in sub-Saharan Africa.

Employment

21. The number of unemployed stood at 205 million in 2010, essentially unchanged from a year earlier and 27.6 million higher than in 2007, with little hope for this figure to revert to pre-crisis levels in the near future. The global unemployment rate stood at 6.2 per cent in 2010, versus 6.3 per cent in 2009, but still well above the rate of 5.6 per cent in 2007. Rates of unemployment and underemployment (in the form of shorter working hours or involuntary part-time employment) are very high among young people (aged 15 to 24 years), in both developed and developing regions. At the end of 2009, there were an estimated 81 million unemployed young people and the global youth unemployment rate stood at 13.0 per cent. In some countries, youth unemployment has reached alarming heights.

22. The estimate of the number of workers in vulnerable employment, defined as the sum of own-account workers and unpaid family workers, in 2009 is 1.53 billion people, an increase of more than 146 million since 1999. The highest shares of vulnerable employment are in South Asia (78.5 per cent of total employment in 2009), sub-Saharan Africa (75.8 per cent) and South-East Asia and the Pacific (61.8 per cent). In all regions, the vulnerable employment rate among women exceeds that of men.

23. The proportion of the long-term unemployed has increased significantly in most developed countries since 2007. Economies experiencing persistent high unemployment and a subdued output recovery could become trapped in a protracted period of below-potential growth. The longer the period in which low growth and long-term employment continues, the higher the risk of cyclical unemployment becoming structural, further impairing potential growth in the longer term.

Inequality

24. World inequality, by many measures, is high and rising. While post-crisis data are not available, per capita income inequality across countries rose steadily before the crisis. The gap between the richest and poorest groups of countries has increased

significantly. Although some developing countries and emerging economies have been growing much more rapidly than the richest countries, in general cross-country inequalities in terms of mean income continue to widen. On a global level, as at 2007, 80 per cent of the world's population earned only 30 per cent of the world's income, while 70 per cent accrued to the remaining 20 per cent. The world's wealthiest 61 million people (1 per cent of the world's population) have the same amount of total income as the poorest 3.5 billion (56 per cent of the world's population).[8]

25. The gap between rich and poor citizens within both developed and developing nations has also been growing. According to a recent study by OECD, income inequality increased in nearly all OECD countries. Household incomes of the top 10 per cent grew faster than those of the poorest 10 per cent in most of the countries, leading to widening income inequality, and the Gini coefficient increased by 10 per cent from the mid-1980s to the late 2000s.[9] The average income of the richest 10 per cent of the population is about nine times that of the poorest 10 per cent.

26. Large levels of inequality persist in most countries based on gender, ethnicity and geography. In developing countries, children in the poorest households and those in rural areas have a greater chance of being underweight than children in the richest households or those in cities and towns. In some of the least developed countries, children in the poorest households are three times less likely to attend primary school than those in the richest households. Globally, girls account for a much higher percentage of school drop outs than boys.

International trade

27. World trade in goods and services expanded by almost 12 per cent in 2010, more than previously estimated, representing a strong rebound after the steep decline by 11 per cent in 2009. By the end of 2010, the volume of world merchandise exports had fully recovered to the pre-crisis peak, although it remained markedly below its long-term trend. Growth of world trade is expected to moderate to around 7 per cent in 2011 and 2012. The major change that was feared in the aftermath of the crisis was a rise in protectionism, which did not materialize. A major change in trade patterns was the emergence of developing countries, such as India and China, as major engines of trade growth worldwide, as well as increasing trade and economic links between developing countries. Emerging economies are also generating new sources of financial flows and technological exchanges.

28. Despite these positive trends, many developing countries are unable to properly integrate into the global trading system or to reap the benefits of trade expansion. Their reliance on a narrow range of primary exports, weak access to financing, technology and know-how and an uneven global policy framework represent significant hurdles. International experience suggests that developing countries, dependent upon exports of primary commodities, face far greater trade shocks than countries with more diversified export structures or manufactured

[8] International Labour Organization, "A new era of social justice" (ILC.100/DG/1A), report of the Director-General to the International Labour Conference, 100th Session, 2011.

[9] Organization for Economic Cooperation and Development, "Growing income inequality in OECD countries: what drives it and how can policy tackle it?" OECD Forum on Tackling Inequality, Paris, 2 May 2011.

exports, which typically suffer much less from terms of trade shocks and hence are less vulnerable to economic fluctuations.

Financial flows: foreign direct investment, official development assistance and remittances

29. After peaking at about $1.2 trillion in 2007, net private inflows halved in 2008 and plunged further to about $350 billion in 2009. The sharpest drop was in international bank lending to emerging economies, with a total net inflow of $400 billion in 2007 becoming a net outflow of more than $80 billion in 2009. Net private capital inflows to emerging economies began to recover in 2010. In the outlook for the rest of 2011 and 2012, higher output growth and rates of return will continue to attract more capital flows to emerging economies. Policymakers in emerging markets have become increasingly concerned with the impact of large capital inflows in the form of appreciating currencies and inflation of asset bubbles. In response, Governments of many emerging economies are intervening in their currency markets and are attempting to dampen capital flow volatility through a variety of control measures.

30. Official development assistance (ODA) increased by 37 per cent in real terms between 2004 and 2010. A total of $128.7 billion (in current prices), representing 0.32 per cent of the combined gross national income of members of the OECD Development Assistance Committee, was disbursed in 2010, up from $64 billion in 1998. Despite these encouraging long-term trends, in the short term the global financial and economic crisis has been taking its toll on country finances and consequently the share allocated to development assistance. The aid budget has come under pressure as many donor Governments turned to fiscal austerity measures. According to the United Nations *World Economic Situation and Prospects 2011*, the fragile recovery in developed countries and the threat of a possible double-dip recession create considerable uncertainty about the future volume of ODA flows, while aid delivery is falling short of commitments by the donor community. Preliminary data from the Development Assistance Committee show that ODA flows in 2010 fell about $18 billion (in 2004 dollars and growth adjusted) short of the commitments made by donors at the Gleneagles Group of Eight Summit in 2005. Africa received only an additional $11 billion (in 2004 prices) as opposed to the $25 billion increase in net ODA promised in 2005.

31. The global number of international migrants increased from 156 million in 1990 to 214 million in 2010. Remittances contribute to poverty reduction by improving the health and education of family members who stay behind. Overall, remittances declined by 6.1 per cent, from $336 billion in 2008 to $315 billion in 2009. However, in the current crisis remittances have proven more resilient than private capital flows, although some countries in Latin America and Central Asia were more severely affected than others. In 2010, the inflow of remittances to developing countries was estimated at $325 billion.

Debt relief

32. Assisted by the global recovery, the external debt burden of developing countries as a group fell to 22 per cent of gross domestic product (GDP) in 2010, down from 24 per cent the previous year. Debt relief provided to low-income countries under the heavily indebted poor countries (HIPC) initiative and

multilateral debt relief initiatives has helped to reduce their debt burdens substantially.

33. Middle-income countries, however, particularly small island developing States, have experienced little relief. Reducing the outflow of resources from these countries is essential to counteract the negative impact of the crisis on their economies. In 2008, there was an outflow of $6 billion from low-income countries to multilateral lenders and bilateral creditors (for principal and interest payments).[10] United Nations Development Programme estimates suggest that in 26 low- and middle-income countries, cancellation of debt service repayments to official creditors on long-term debt contracted until December 2008 would release about $2.8 billion each year on average to 2014.[11]

Debt distress in developed economies

34. Major concerns remain over the still-rising trend in public indebtedness in developed economies. The average public debt ratio for developed economies has already surpassed 100 per cent of GDP in 2011, triggering a further downgrading of several countries' sovereign debt ratings. In response, many have committed to fiscal consolidation, but it is not clear that this will be enough to stave off debt crises. If the commitment to fiscal consolidation is not credible enough to bring down public debt, interest rates in financial markets may increase anyway, heightening the risk of default. If, however, the austerity measures are too drastic and come too soon during the economic recovery, economic growth and employment could suffer and the still fragile banking sector could weaken further, and thus also increase the risk of default.

Food security

35. Food security is closely linked to food prices and food price volatility. Poor consumers are severely affected by high prices, as food accounts for a very high share of the total budget of the poorest households. The period since 2006 has been one of extreme volatility in food prices. Prices rose sharply in 2006 and 2007, peaking in the second half of 2007 for some food products and in the first half of 2008 for others. For some products, the increase between the 2005 average and the peak was several hundred per cent. Prices then fell sharply in the second half of 2008, although in virtually all cases they remained at or above the levels in the period just before the price hikes began. Sharp rises in some food prices emerged again during 2010, and by early 2011 the food price index of the Food and Agriculture Organization of the United Nations was again at the level reached at the peak of the crisis in 2008.

36. One effect of the price volatility of 2007-2008 was that it caused grave hardship among the poor and was a major factor in the increase in the estimated number of hungry people in the world from 820 million in 2007 to more than a billion in 2009, falling to about 900 million at present. This modest improvement is now being threatened by renewed surges in food prices. Neither national nor international responses to the crisis were able to fully cope with the food security problem.

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[10] United Nations Development Programme, *What Will It Take to Achieve the Millennium Development Goals? An International Assessment* (New York, June, 2010).

[11] Ibid.

Environment and climate change

37. Changes in the global environment do not respect national boundaries and represent one of the most critical challenges of globalization. In a globalizing world of nearly 7 billion people, rising to over 9 billion by 2050, it is imperative to establish a global sustainable development path that includes broad-based economic growth for poverty eradication while recognizing the need to become far less energy- and resource-intensive.

38. One of the two major themes of the United Nations Conference on Sustainable Development to be held in 2012 in Rio de Janeiro, Brazil, will be a green economy in the context of sustainable development and poverty eradication. Collective efforts are required to achieve the technological transformation to a greener global economy with green jobs, including a comprehensive global energy transition that reduces non-renewable energy usage. Presently, 90 per cent of energy is generated through technologies that utilize fossil fuels, responsible for about 60 per cent of carbon dioxide emissions.

39. Climate-related disaster risk has intensified dramatically over the past decades. The frequency of droughts, floods and storms has increased by a factor of five in the past 40 years, from an average of 69 natural disasters a year in the 1970s to an average of 350 in the 2000s. Disasters result in large economic and social costs, particularly to developing countries, affecting their ability to achieve the Millennium Development Goals, including Goal 7, as more people move from disaster-prone areas to urban areas Thus, the number of slum dwellers will continue to grow. An estimated 828 million people currently live in urban slums, compared with 657 million in 1990 and 767 million in 2000.

Information and communications technology

40. Information and communications technology (ICT) is a strong facilitator of globalization. Despite the economic downturn, the global ICT sector has continued to grow, in large part owing to continued growth in emerging markets. The wide disparity between developed and developing countries in rates of Internet access and broadband penetration levels illustrates the need to ensure developing countries are not excluded from the digital information society. The average penetration level of mobile broadband services is 10 times higher in developed than in developing countries, where the limited number of fixed telephone lines also constrains the deployment of fixed (wired) broadband access. A penetration rate of less than 1 per cent in Africa, for example, illustrates the challenges that persist in increasing high-speed Internet access in the region. In terms of affordability, people in developed countries still spend relatively much less of their income (1.5 per cent) on ICT services compared with people in developing countries (17.5 per cent).[12]

IV. Sustained, inclusive and equitable economic growth and job creation

41. Economic growth is necessary for development, including the achievement of the Millennium Development Goals. Consistently achieving positive economic

[12] International Telecommunication Union, *Trends in Telecommunication Reform 2010/11: Enabling Tomorrow's Digital World*, 11th ed. (Geneva, 2011).

growth is a challenge, but it can be particularly difficult for developing countries in a rapidly globalizing world, where the benefits and costs of globalization are unevenly distributed and the international economy is filled with financial volatility and economic instability.

A. Sustained economic growth

42. Sustained economic growth can be understood as strong economic growth over prolonged periods. When the benefits are shared fairly and equitably throughout society, sustained economic growth has been shown to be the most effective means for reducing poverty. More diversified economies tend to be less vulnerable to external shocks, sustain faster growth over time and spread income more broadly among the population.

43. Countries in East Asia — China, Japan, the Republic of Korea and Singapore — have been particularly successful in achieving sustained growth resulting in rapid poverty reduction. Indonesia, Malaysia, Thailand, Viet Nam and other economies of South-East Asia have also seen a similar dramatic reduction of poverty since the 1980s. Sustained growth has also made it possible to carry out investments for achieving other Millennium Development Goals.

44. Among East Asian countries, growth has been supported by policies promoting structural change, such as reducing inequality and improving agricultural productivity through agrarian reforms; supporting industrial development; investing in human capital and infrastructure; conducting an active trade policy, including export promotion and selective trade protection; and supporting the development of technological capacity while exposing firms gradually to global competition.

45. Of the countries that have been successful in achieving sustained growth, most have adopted heterodox policies that reflected their national conditions. They have also had in common an ability to achieve a fair degree of coherence across different domains of economic and social policies, and have generally been able to shape economic growth to be broadly based across sectors through structural transformation.

46. Yet, there is no one size fits all solution. Country contexts and initial conditions differ, and past experiences have shown that there exist many pathways to overcoming obstacles to sustained growth and development. What is appropriate for one country might not work for another. Understanding a country's particular constraints to growth is important.

47. While cross-country experience gives some general shared features of countries with strong growth, the particular country context determines unique ways in which those features could also be hindered. Knowing the barriers to growth in a country and the prioritization and sequencing of reforms that could work depends uniquely on the country context. National development strategies have to be tailored to country-specific conditions, and the sequencing and prioritization of reforms for growth is a significant challenge. Developing countries may consider identifying other countries with similar endowment structures but higher incomes in order to determine what industries or sectors triggered growth. Lessons may be applied or adapted to the unique circumstances of a country and by replicating appropriate development strategies.

B. Inclusive and equitable economic growth

48. Sustained economic growth by itself is not sufficient to ensure that the benefits of growth are adequately shared among all citizens: for this, growth also needs to be inclusive and equitable. The findings of the Commission on Growth and Development suggest that inclusiveness — defined to encompass equity, equality of opportunity and protection in market and employment transitions — is an essential ingredient of any successful growth strategy.[13]

49. Inclusive economic growth implies that its benefits reach low income groups, particularly those earning the lowest incomes; poor economic sectors; deprived social groups and peoples, including ethnic or religious minorities; and marginalized geographical regions. Therefore, growth that is inclusive should enhance fairness and equality, including greater income equality.

50. Economic growth that is more inclusive and equitable is particularly important for reducing poverty and achieving the Millennium Development Goals. It facilitates faster progress towards achievement of the Goals, as increased incomes among poor families translate into affording education expenses, better food and nutrition, access to clean water and improved housing. It also mitigates social tensions that can be a source of political instability and a barrier to investment. Inequality has been found to be an important determinant of civil and armed conflicts in many countries, and such conflicts have subsequently caused growth collapses and major reversals of development gains.

51. In many countries, growth has often been concentrated among sectors that benefit those who already have higher incomes, while the poor who lack resources or are excluded from market opportunities are caught in a self-perpetuating process that makes reducing poverty and inequality a difficult challenge. In general, countries with higher levels of inequality need to grow much more rapidly, or take much longer, to achieve the same degree of poverty reduction as those with lower levels of inequality. Trends before the financial and economic crisis show that, for a typical lower middle-income developing country, much more rapid economic growth is needed to achieve the same rate of poverty reduction than two decades ago. To accelerate poverty reduction, growth must be accompanied by a more equal distribution of income, assets and opportunities.

52. An equitable distribution of physical and human resources provides the basis for more broadly shared economic growth. Land and agrarian reforms are central to a more equitable distribution of land and agricultural production opportunities at the start of the economic take-off of many countries. Social policies that promote inclusiveness, such as universal access to education and health care, also spread improvements in human development.

53. A recent example of countries decreasing income inequality comes from Latin America. The period 2003-2008 was characterized not only by sustained economic growth but also by a slight but clear trend towards a lesser concentration of income. Several countries of this region recorded declines exceeding 10 per cent in the Gini

[13] Commission on Growth and Development, *The Growth Report: Strategies for Sustained Growth and Inclusive Development* (Washington, D.C., International Bank for Reconstruction and Development/World Bank, on behalf of the Commission, 2008).

coefficient.[14] While income inequality in Latin America is still among the highest in the world, the favourable trend in recent years shows that income distribution can be improved.

54. The positive trend in income distribution was linked primarily to labour market dynamics and transfers to households and, to a lesser extent, to demographic variables resulting in lower dependency rates. Employment grew faster than the labour supply and, in particular, the increase in formal, high-quality and full-time jobs and rising hourly wages were of proportionately greater benefit to lower-income households, resulting in a narrowing of the gap in average incomes per worker. Another positive factor was household transfers, where changes in this income source accounted for roughly one fifth of the reduction in the per capita income gap across the region. Factors that could constrain future progress towards equality include the current inequality in access to education and the continued intergenerational transmission of inequality.

C. Job creation and decent work in the context of globalization

55. Productive job creation and decent work are an integral part of sustained, inclusive and equitable growth. It is primarily through increases in employment levels and job opportunities, higher wages and better working conditions that the benefits of sustained economic growth become inclusive and equitable, and are translated into higher incomes and better living standards for greater numbers of people.

56. Globalization has presented both opportunities and challenges to labour market policy and job creation. While job opportunities can be improved through increased international trade, foreign direct investment and international migration, employment prospects and standards are also challenged by increased rural-urban migration, rapidly changing technology and lower labour standards to attract foreign investment and enhance international competitiveness.

57. Currently, the greatest challenge is coping with the employment situation in the aftermath of the global financial and economic crisis. As previously mentioned, the economic crisis has morphed into a global jobs crisis involving widespread job losses, increased unemployment and wage repression in developed countries, and underemployment, a growing informal economy, increased vulnerable employment and working poverty in developing countries.

58. Labour markets were sluggish in most countries even before the current crisis. Although the global economy is recovering, employment lags behind other indicators, and opportunities for full, productive and decent work remain limited. High unemployment continues to affect many workers in developed countries experiencing jobless growth. Although aggregate employment levels are back to pre-crisis levels in many developing countries, there has been a rise in the employment levels of the working poor and of more vulnerable types of jobs, such as informal and vulnerable employment.

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[14] Economic Commission for Latin America and the Caribbean, *Time for equality: closing gaps, opening trails* (Santiago, May 2010).

59. A prolonged period of high unemployment and underemployment poses significant risks to labour standards, including wage repression, particularly under labour laws that encourage labour market flexibility. These risks have increased with the liberalization of labour markets, where protections, such as minimum wages or labour unions, have been diminished or eliminated. Since workers are more vulnerable in bad times, when firms are allowed to cut wages or lay off employees to reduce costs, labour market flexibility translates into insecurity for workers, especially in the absence of adequate social protection. In particular, groups who suffer from discrimination and have fewer job choices, such as women, minorities, immigrants, persons with disabilities and older workers, are at increased risk of becoming entrapped in what the International Labour Organization has termed “dirty, dangerous and demeaning jobs”. This underlines the importance of labour market institutions that protect jobs and improve the working conditions of discriminated groups, as well as of measuring employment quality when assessing employment trends.

60. Promoting job creation and decent work is more important than ever, in both the short term, during the recovery period, and in the long term, in order to make economic growth more inclusive and equitable. In this regard, the Global Jobs Pact recognizes the urgent need to reduce the risk of long-term unemployment and increased informal work, which are difficult to reverse. The Pact puts full and productive employment and decent work at the heart of the crisis response, suggesting a wide range of potential policy responses, including recommendations for counter-cyclical macroeconomic policy measures, limiting and avoiding job losses, assisting job seekers, investing in development of workers’ skills to improve employability, ensuring a favourable environment for micro, small and medium-sized enterprises, and a regulatory environment conducive to job creation.

61. Linking job creation and decent work to a transformational sustained economic growth that is inclusive and equitable will also require private sector capital investment and rising worker productivity. This requires making job creation and decent work a policy priority, accompanied by an enabling environment for private sector investment and development. This involves multiple elements, including investment in education, health and skills to increase the employability of workers; political stability; macroeconomic stability (meaning moderating business cycles by counter-cyclical policies); a sound and efficient financial system; infrastructure development; and pragmatic development-friendly governance, including a sound legal and regulatory system and measures to control corruption.

V. Towards a fair and more equitable globalization for all

62. A fair and more equitable globalization for all implies realizing its potential benefits and making them more inclusive and equitable for all individuals and countries, while minimizing the considerable costs, risks and vulnerabilities that globalization has created. This has implications at both the national and international levels.

A. National level

63. At the national level, a fair and more equitable globalization means improving living conditions and standards, particularly of the poor, and fostering increased opportunity and equality. Through their national development strategies, Governments should implement policies that prioritize sustained, inclusive and equitable growth, job creation and decent work. They should be actively supported in this endeavour by the international community through the establishment of a supportive international enabling environment.

64. The countries that are more successful in achieving sustained, equitable and inclusive growth have had in common increased coherence across economic and social policies. National development strategies must pursue this objective, tailoring it to country-specific conditions, considering the constraints of the global economy and building safeguards against economic shocks. However, global rules-setting, especially in the areas of trade and finance, have limited the policy space for conducting national development policies. Greater coherence will be needed therefore between policymaking in the national arena and global economic governance.

65. Another key element is a macroeconomic framework that supports growth with job creation and economic diversification, and the strengthening of national capacities for policy implementation. While a stable macroeconomic environment is necessary for robust growth, it has been difficult for many countries to achieve and maintain owing, in part, to capital account liberalization and instability in capital markets. Macroeconomic policies also need to support growth and productive employment creation, which would require such policies to be counter-cyclical, pro-investment and sensitive to employment objectives, and move away from a narrow focus on keeping inflation at a very low level and maintaining fiscal balance at any cost. That is, macroeconomic policies should be aligned with broader development objectives, including investment in education, health and infrastructure.

66. For growth and development to be truly inclusive and equitable, it is necessary to implement policies that support dynamic growth in sectors that are relevant to the poor, such as sustainable agriculture and rural development; implement comprehensive and coherent social policies and social protection programmes; and protect human rights.

B. International level

67. At the international level, a fair and more equitable globalization for all includes the forging of a comprehensive international enabling environment to facilitate growth and development of developing countries and their capacity to benefit from and take advantage of the opportunities associated with globalization while shielding them from globalization’s risks and instabilities.

68. Developing countries have benefited from improvements in some areas of the current international environment, notably increased ODA and debt relief, but progress in others is stagnating, for example trade, access to medicines and technology, migration and climate change. Enhanced international policy coherence

across the broad spectrum of development is critical for creating an international enabling environment and a fair and more equitable globalization.

69. Achieving broad-based, rapid and sustained growth in incomes and employment involves policy challenges that are increasingly complex. The international community must therefore also assist developing countries to increase their national capacity to manage their development processes.

Development cooperation

70. The Millennium Development Goals Gap Task Force has suggested ways to deliver ODS more effectively, including through multi-year commitments for programmable assistance and full alignment with national development and inclusive growth strategies. These efforts should be reinforced with South-South cooperation and philanthropy. There is also much scope for improving the distribution and allocation of ODA. Aid to least developed countries has not been increasing at a favourable rate compared with countries that are not among the least developed. Given its responsiveness to the underlying socio-economic conditions of least developed countries, multilateral aid has the potential to increase equity by improving its distribution. Faster progress should also be made under the agendas on aid effectiveness adopted at the high-level forums held in Rome, Paris and Accra.

71. Development cooperation is undergoing a radical transformation, and there is great potential in facilitating South-South and triangular cooperation, reflecting the growing economic and political influence of developing economies. As well, innovative financing has the potential to increase resources for development, but should not fragment the aid architecture further or distract attention from traditional ODA.

International trade and finance

72. Additional trade reform is needed if developing countries are to benefit adequately from globalization. The failure to complete a development-oriented Doha Round of trade negotiations remains the largest gap in delivery on commitments for a fairer trading system. Moving the negotiations out of the present impasse is critical and countries should undertake, without sacrificing the ambition to deliver benefits explicitly to developing countries, to complete the Doha Round as soon as possible. Market access for developing countries is little improved and further progress needs to be made in providing duty- and quota-free access, particularly to least developed countries.

73. The Aid for Trade Initiative needs to be strengthened further in order to support the development of the trading and production capacities of developing countries in ways that are consistent with strategies aimed at economic diversification and sustained growth. The reduction of export and agricultural production subsidies in developed countries needs to be accelerated in order to enhance income opportunities for farmers in developing countries. In addition, South-South regional integration offers a promising complement, allowing countries to pool resources, agricultural and industrial capacities, and skills. The reform process should also assist developing countries to secure access to the markets and technologies available in developed countries on a non-reciprocal and preferential basis.

74. International financial regulation and reform of the existing international financial architecture is also a pressing challenge. Attempts at strengthening financial regulation and creating more national policy space through capital controls are in tension with rules of the World Trade Organization regarding liberal trade of financial services under the General Agreement on Trade in Services. This needs to be addressed, particularly with respect to the objectives of global financial stability and financial regulatory reforms. Since expanding global financial services need to be accompanied by robust regulatory arrangements, there is need for an independent international process overseeing international financial regulatory mechanisms that would take precedence in rule-setting.

Debt relief

75. Enhanced debt restructuring and relief modalities are critical for supporting development efforts in debt-distressed countries. The HIPC framework for poor countries has formally come to an end, but 18 low and lower-middle-income countries remain at high risk or are in debt distress, while many more have high public debt ratios.[15] Volatile global markets could also quickly change the outlook for debt sustainability. Given continued debt distress, extension of the HIPC initiative should be urgently considered, making it accessible to all low-income countries with debt problems, while a more comprehensive framework is developed for orderly sovereign debt workouts which takes into account the interests of both debtors and creditors. This decision of the 2010 High-level Plenary Meeting of the General Assembly on the Millennium Development Goals still remains unaddressed.

Tax and investment competition

76. Often Governments have been motivated to provide tax and other incentives to multinational companies in order to attract foreign investment, resulting in a tendency to engage in a “beggar thy neighbour” tax competition, or a “race to the bottom” where Governments tend to lose out on significant tax revenue. Heightened capital mobility has also stimulated regulatory and tax competition, where the widespread dismantling of capital controls has facilitated the financial industry to engage in the international relocation of assets for tax purposes. This has resulted in a diminished ability of tax and financial authorities to carry out financial supervision and tax collection. Strengthened international tax cooperation, harmonization and financial regulatory coordination among countries could prevent such tax competition. Effective international tax cooperation may also yield significant additional resources for development, possibly exceeding the present level of annual flows of development assistance.

Food insecurity and the financialization of commodities

77. Commodity markets have seen a tendency towards greater “financialization”, including the growing presence of financial investors on commodity futures exchanges and investment bankers developing commodity-led financial products. This has added considerable volatility to commodity prices, affecting consumers and producers, and has increased overall food insecurity. Actions are needed to improve transparency of financial markets and to curb speculation on commodities.

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[15] See United Nations Development Programme, *What will it take* (see footnote 10).

Migration

78. All countries have much to gain from reconsidering international cooperation on migration, given demographic changes and imbalances. If properly managed, including protecting the rights of migrants, migration can bring benefits to origin countries, host communities and migrants themselves. Policies should be established by remittance-sending countries to improve the flow and reduce the cost of remittances.

Technology

79. International cooperation should be strengthened in the areas of access to technologies and know-how to increase access by developing countries to appropriate technologies, including those for health, communications and combating climate change. This involves strengthening incentives that support innovation and financing research on intellectual property and context-specific technologies. It also involves facilitating investment in ICT infrastructure, cheaper access to technologies and human resources development.

C. Recommendations

80. **A comprehensive international enabling environment for sustained, inclusive and equitable economic growth, job creation, decent work and the achievement of the Millennium Development Goals is essential to eliminate the inequities of globalization. Such an enabling environment would also include increased policy coherence and coordination in terms of managing globalization and enhancing the policy space for developing countries.**

81. **In this regard, and as a first step towards enhancing the ability to manage globalization in a coherent and comprehensive manner, the international community may wish to address the issue of the measurement of globalization, identifying and agreeing upon a set of tools and standardized measurements and indicators.**

82. **The international community can also provide further support to a fair and more equitable globalization for all through:**

(a) **Promoting greater policy coherence and coordination at the international level to prevent and mitigate the effects of future financial crises and to contain possible spill-over effects from the current debt crisis in developed countries;**

(b) **Assisting developing countries to increase their capacity to manage their respective development processes;**

(c) **Assisting developing countries to engage in building human capital and capacity through education, health and job training, not only in their export-oriented sectors but also, so as to enhance inclusiveness and equity, in their non-tradable sectors;**

(d) **Promoting job creation and productive employment, decent work, international labour standards, gender equality and social inclusion and cohesion, through the redoubling of efforts towards implementing the Global Jobs Pact and establishing social protection floors;**

(e) **Undertaking collective efforts, including with national Governments, civil society and the private sector, to address the challenges of unemployment and underemployment;**

(f) **Assisting developing countries to establish and strengthen universal social protection in order to reduce economic insecurity and vulnerability, and enhance household capacity to acquire food, improve child nutrition, access health services and keep children in school;**

(g) **Adhering to ODA commitments and aligning overall support, including debt relief commitments, to recipient countries' national development strategies, institutions and procedures, with donors harmonizing their actions by implementing common arrangements and simplification procedures to reduce duplication and enhance the transparency of aid;**

(h) **Providing debt relief by extending the HIPC initiative to all low income countries with debt problems, while a more comprehensive framework is developed for orderly sovereign debt workouts that takes into account the interests of both debtors and creditors;**

(i) **Completing a successful and balanced conclusion to the Doha Round of multilateral trade negotiations that places the needs of developing countries at its centre and provides for complementary ongoing aid-for-trade measures;**

(j) **Establishing an independent international process overseeing international financial regulatory mechanisms so as to put in place robust regulatory arrangements to accompany expanding global financial services;**

(k) **Strengthening international tax cooperation, harmonization and financial regulatory coordination in order to counteract the pressures towards tax competition and the "race to the bottom" in the global competition for investments and markets;**

(l) **Promoting policies and measures to support and provide more favourable terms for technology transfer, including green technology, to developing countries under multilateral trade agreements, including more efforts at the international level to bridge technology gaps by funding research and development and facilitating investment in ICT infrastructure;**

(m) **Enhancing international cooperation on migration, including the proper management and enabling of migration flows, protecting the rights of migrants and finding ways to improve the flow and reduce the cost of remittances.**