

## Open Economies, Responsible Global Governance, Corporate Leadership

### Open Economies, Responsible Global Governance, Corporate Leadership

#### ***Promises and challenges in the 21<sup>st</sup> century***

Never has the world economy held out so much promise. Incredible technological progress in the 20<sup>th</sup> century has led to a great increase of communication channels, and to a diminution of their costs. Information is now widely available and access to it is improving. Progress in medical science has been greater in the last 10 years than in the previous 250. Economic development in some countries – such as China and India - successfully lifted millions out of poverty.

At the same time, never have the global challenges been more complex and frightening: World population is increasing and will be around 8 billions by 2025; poverty levels remain high, as 40% of the world's population still live in abject poverty; access to health care is insufficient; the environment is deteriorating; and some natural resources will become ever scarcer, with the prospect of two out of three people facing water shortages in the coming decade. These threats are not restricted to poor countries, but affect everyone and will impact on future generations in developing as well as in industrialized countries. It depends on all of us to realize the promises and diminish the threats.

These issues involve a lot of different players, often having divergent interests. National governments and regional and international institutions are traditional players in the international arena. Recently, new actors have appeared, such as corporations and civil society organisations, whose voices have to be heard. Greater interaction and cohesion is needed among these players in order to tackle global threats and to build the foundations of the future international system. Taking up global challenges is an achievable goal, but it requires global solutions and leadership, and will have to go hand in hand with local initiatives.

#### ***Openness leads to growth, growth leads to development***

One of the many steps to undertake to deal with global challenges is to recognize the importance of growth. Growth is a prerequisite to raise living standards, alleviate poverty, build a strong domestic private sector and improve education and health services. Moreover, growth can create awareness that there is no long-term development unless it is sustainable, which implies environmental policies and appropriate natural resources management.

##### **Open economies**

Open economies have a non-discriminatory regulatory and institutional framework conducive to trade and investment.

In open economies, trade barriers are kept minimal or progressively eliminated, and the business environment is sound.

Open economies tend to have open labour markets and more open borders to foreign workers.

Numerous examples illustrate that closed economies generate negative growth. Since the end of World War II, countries that developed successfully were those that have been more open – to trade, to investments, to technology transfer, to immigrants and to foreign sources of learning. In contrast, inward-looking economies have been much less successful. Just

compare West Germany with East Germany, Thailand with Burma, South Korea with North Korea, and the Far East with the Middle East.

***The benefits of liberalisation are not merely economic***

Benefits of liberalisation are not only economic, but also social. The liberalisation of trade and investment regimes improves resource allocation and access to new technologies, and has thus a positive effect on growth rates. Uganda, Vietnam and Mexico are examples of countries that successfully launched reform programs and benefited from high growth. Export growth usually leads to lower prices for consumers, to a rise of income and lower unemployment rates. Liberalisation can thus contribute to reduce poverty. Poverty alleviation and adequate domestic reform, especially to improve access to education and healthcare, can contribute to the shift towards democratization: since the advent of globalisation in the past decade, there have never been so many democracies in the world. South Korea and Taiwan are examples of economic openness leading to political transition towards democracy.

As economies rapidly evolve, liberalisation must be a constant and ongoing process. In particular, protectionist policies in industrialized countries are retarding global economic growth. Too often protectionism, subsidies and other distortions benefit narrow vested interests, but cause considerable harm. According to the [World Bank](#), full trade liberalisation could bring between \$200 billion and \$500 billion in additional income to developing countries.

***Protectionism burdens the poor in developing and industrialized countries***

Protectionism hurts the poor as producers in developing countries. In OECD countries, trade barriers concentrate on sectors for which developing countries have a comparative advantage, namely textile and agriculture. But protectionism hurts the poor in industrialized countries as well, where these basic necessity goods are consumed disproportionately by low-income households. Meanwhile, luxury goods, mostly produced in industrialized countries, face low tariffs. Liberalisation would thus benefit not only to countries facing market access barriers, but also countries imposing them.

Protection at the borders does not only concern goods or certain services, but also people. Migration policies should be liberalised, and temporary immigration should be allowed in industrialized countries. Worker remittances benefit people – and economic development – in home countries, and migration can enhance trade and investment between host and home countries; in addition, migrants, when they return to their home country, bring new skills and can thus contribute to developing local entrepreneurship.

***Liberalisation must be global***

In the opening process, South-South liberalisation must not be left behind. Trade barriers facing other developing countries are harmful as well. Reducing those obstacles is likely to create more market opportunities, having thus a positive impact on foreign investments and creating a sound climate for technical cooperation on the road to development.

Efforts towards greater liberalisation must be sustained and widespread. Moreover, these efforts have to be supported on a global scale. Global trade and investment liberalisation will maximize the benefits of bilateral or regional liberalisation by granting them to all.

The principle of non-discrimination, proclaimed in the Atlantic Charter in August 1941, was central to the General Agreement on Tariffs and Trade (GATT) and still is a core principle of the World Trade Organisation (WTO). As Cordell Hull, prominent player in the creation of the United Nations and the Bretton Woods institutions, wrote in 1937: “I have never faltered, and I will never falter, in my belief that enduring peace and the welfare of nations are indissolubly

connected with friendliness, fairness, equality and the maximum practicable degree of freedom in international trade”<sup>1</sup>.

***The legitimacy of the multilateral trading system must be restored***

At a time where the WTO’s role and raison d’être is questioned from all sides, it should be recollected that, while it is no panacea for global governance, it nevertheless has a critical importance both in substance and symbol. It was created, along with the other Bretton Woods institutions, to provide an economic policy framework for world peace and prosperity. Since Seattle in 1999, the system has been subject to virulent “globophobic” attacks, hence exposing its vulnerability to the point of jeopardizing its future.

As Martin Wolf wrote in the Financial Times in April 2001, “liberalism is not a lost cause. But it is one that has to be won in every generation”. In the 21<sup>st</sup> century, vision, leadership and commitment are most needed to restore trust in the multilateral system.

***Global governance must achieve greater coherence and dynamism***

As the world economy is – and will continue to be - increasingly integrated, better global governance is required. International trade, financial, health and environmental institutions must achieve greater coherence. And it must be clear that efforts at the international level will fall short unless they are complemented by corresponding domestic reforms.

**Responsible global governance**  
 Global governance refers to the rules and standards elaborated to regulate issues and relations that are likely to have an impact on an international scale. For global governance to be responsible, rules must seek long-term benefits for the majority of people, and ensure adequate protection for minorities that might suffer from adverse effects.  
 Responsible global governance supposes that besides traditional actors, such as national states and international organisations, other entities namely corporations and NGOs, should participate in the global policy- and rule- making process.  
 Responsible global governance recognizes the importance not only of economic growth, but also matters related to security, health, environment and general human welfare.

The multilateral system has to be dynamic and to adapt continuously to the political, economic and social evolution. The pace of technological, social, demographic and business change has never been so rapid. New rules are now required for new driving forces.

***Substitute or support? Bilateral and regional cooperation can potentially threaten multilateralism***

New rules are required as well to hold back potential threats to the global system. Regional cooperation initiatives, in particular free trade agreements, are often praised for facilitating negotiations in a multilateral context (as a rehearsal of the real game) and for dealing with new themes. However, bilateral and regional cooperation imply by definition discrimination against multilateralism. Free trade agreements, while going much beyond economic concerns, often exclude certain sectors, e.g. agriculture, from liberalisation and thus cannot be regarded as substitutes for multilateral negotiations. In the face of such complexity, rules are needed to deal adequately with the relations between these various kinds of international cooperation.

***International structures must be created to foster South-South cooperation***

Another crucial problem that might arise is that the WTO system is not designed for South-South negotiations and initiatives. So far, structures for South-South liberalisation have been lacking. Therefore, initiatives launched by developing countries, such as the New Economic Partnership for African Development (NEPAD) should be actively supported by the

---

<sup>1</sup> Cordell Hull, Memoirs, 1937

international community. The South-South dimension of international cooperation- as well as a better integration of developing countries in the international policy making process – should be key items on the agenda in order to design adequate global governance mechanisms.

***Non-state actors must be integrated in the international policy-making process***

Today, governance is no longer “private hunting grounds” for national states. NGOs and multinational corporations have a role - and an important one – to play. These players must be considered in international policy making processes, and processes themselves need to be adapted. New kinds of rules, such as best practice or standards set by private organisations, are likely to coexist in the future with traditional instruments of international cooperation. Similarly, the importance of global networks – promoting intercultural as well as cross-constituencies exchanges – is likely to increase dramatically in the future.

***Good business fosters good governance, good governance fosters good business***

Multinational corporations (MNCs) can be very effective agents of change and development. Economies that welcome foreign direct investments benefit from technology transfer and development of management skills. And by creating forward and backward linkages, MNCs can foster local businesses and entrepreneurship. However, to maximize the potential benefits of FDI, two things are required. First, the regulatory and institutional framework in host countries should be

**Corporate leadership**

If they have a responsible business behaviour, if they are concerned about technology and knowledge transfer and if they promote best practice, corporations can prove to be the most effective agents of change, growth, poverty eradication and sustainable development.

conducive to both local and foreign investment and create a sound business environment. Second, MNCs should act responsively and not only comply with, but also promote best practice in all their business activities. In particular, innovation *processes* and not only innovation *results* must be transmitted by MNCs by host economies, in order to provide effective help to national economies in their development process. And because awareness is a factor of competitiveness, gains can be reciprocal. To create awareness, it is important to give business a clear view of progress achieved within multilateral discussions and to take business’ expectations into account.

***Shaping the future global system***

Open economies, responsible global governance and corporate leadership are three essential components of a sustainable global system. Its objectives must be growth, adequate management of natural resources, access to and transfer of technology, participative policy-making process on a global scale, greater coherence between institutions and policies, dynamism, and regulation and policies adapted to real needs. Open economies, responsible global governance and corporate leadership are necessary and need to be closely correlated for these goals to be reached.

***The global market is at the centre of the global village***

Global economic integration will remain wishful thinking without the support and commitment of those ultimately concerned, including not only corporations, but also the people in developing and industrialized countries. The global market will not work properly unless it becomes what it is meant to be: the centerpiece of the global village. Globalisation does by no means imply that cultural identities will disappear. The global village must be a place where diversity does not impede exchanges, but fertilize dialogue.