05

BROOKINGS

11 GLOBAL DEBATES

Can globalization be rescued from itself?

The Global Goals as a path to sustainability

by Homi Kharas
and John W. McArthur

Design and layout:
it's B. Blossoming.it

05

Can globalization be rescued from itself?

The Global Goals as a path to sustainability

By Homi Kharas and John W. McArthur

1.1 What's the Issue?

Globalization—the integration among national economies of markets for goods, services, technology, capital flows, and, to some degree, labor—has played an enormous role in advancing global prosperity. Yet a backlash has emerged, manifested in the recent U.K. Brexit vote, strident "local first" demands, and calls to block trade agreements. The issues are not entirely new. In 1997 Dani Rodrik's book famously asked *Has Globalization Gone Too Far*? Joseph Stiglitz published *Globalization and Its Discontents in 2002*. In between, the 1999 "Battle in Seattle" protests forced the World Trade Organization's ministerial to shut down. Paradoxically, 2015 was a banner year for forging global consensus among United Nations' member states in three areas:

- In July, the Addis Ababa Action Agenda reaffirmed commitments to aid and proposed programs to tackle illicit financial flows and tax avoidance, while encouraging business investments and domestic resource mobilization.
- In September, a Sustainable Development Summit produced agreement among 193 countries to pursue 17 global goals for 2030. A total of 169 underlying targets were established, at national and global levels, to end poverty, build prosperity, and protect the planet.
- In December, agreement was reached in Paris on climate change, with all countries coming together to set clear aggregate commitments for mitigation and adaptation, alongside an agreement to revisit and strengthen national pledges as new technologies and policies emerge.

Do these agreements herald a new era of international cooperation? Will they actually make a difference on the ground? Or will national politics and the seemingly endless array of crises distract leaders from the farsighted perspectives and changes needed to promote each society's long-term interests?

1.2

What's the Debate?

The major arguments about globalization have revolved around four questions.

Question one is about what drives change in global economic structures, often to the detriment of workers. Many blame trade, including "unfair" trade based on perceptions of lax labor standards, exchange rate manipulation, or other forms of government dictates. Others blame technological change, including digital companies that dislodge workers, replace them with robots or use artificial intelligence. Experts like economist Robert Gordon and tech pioneer Peter Thiel think a long-term slowdown in technological advancement and job creation is underway.

17

the number of global development goals the world has agreed to

A second question is who benefits and who loses from globalization. For much of the 20th century, trade helped create a large middle class in developed countries. Good jobs in manufacturing, government, and professional services contributed growth with equity. This pattern has shifted in recent years, with elites' incomes soaring while the middle classes face growing stress and stagnation in numbers, according to Branko Milanovic and others (Milanovic, 2016).

In developing countries, by contrast, just over 2 billion people are members of a thriving middle class and their numbers are expected to grow by an additional billion every six or seven years. Social indicators for this group—such as child mortality and life expectancy—are approaching advanced economy levels, while their spending habits are fast-expanding. They appear to be benefiting primarily from opportunities afforded by urbanization, better education, smaller family size, and greater access to financial services, electricity, and the internet (Kharas, 2016).

In a less positive vein, a growing element of globalization is mass movements of people; migrants numbered 244 million in 2015, a 41 percent increase over 2000 (United Nations, 2015). Traditionally, many have viewed migration as an economic win-win, notwithstanding challenges of social integration and "brain drain." Migrants tend to do better economically when they move to new host countries. Those left behind can benefit from remittances to boost livelihoods and fund their own investments in education. Recipient nations, meanwhile, benefit from entrepreneurship, trade, taxes, and other gains brought by these industrious migrants. Today, migration is a leading source of dissension. In the United States, millions of undocumented migrants and forced deportations have sparked heated debates, while in the European Union the ongoing refugee crisis has amplified tensions between humanitarian, security, and stability imperatives.

The third question relates to who sets the world's standards. Striking a balance between a fair global playing field and responsive local institutions is not easy. Advances in social media mean that ordinary citizens are both creators and recipients of public messages. Some advocate for absolute standards of human rights or non-intervention in markets, while others argue

150 million

is how much the global middle class is expanding by each year.

244 million

the number of migrants in 2015

for governments' need to preserve policy space, particularly for the cultivation of infant industries and culturally sensitive sectors, or to defend local social norms. Politically, many prefer decisions to be made locally, rather than by distant bureaucrats. This partly explains the rising power of mayors.

The tensions are evident in conversations around the Sustainable Development Goals (SDGs). On one hand, the goals epitomize universal economic, social and environmental challenges. Hence the shorthand term "Global Goals" conveys shared ambitions. On the other hand, to community leaders grappling with local problems, "global" language can seem disconnected. Thus the ultimate SDG challenge is to motivate global and local aspirations.

Question four centers on achieving global growth while preserving a healthy environment. Some consider livelihood imperatives paramount, claiming that pursuing them will enable an economic and technological path to tackling long-run environmental constraints. Others argue that valuing and preserving natural assets is essential to viable, consistent economic progress.

Climate change and carbon emissions already present major risks in the form of losses of life and property due to disasters, as well as potential claims for loss and damage. Losses are felt by global financial institutions as well as individuals. Our overheating planet is also ushering in economic transition risks in the form of rapid asset price adjustments, as regulations are introduced to encourage more sustainable production and consumption. In addition, planetary boundaries are being transgressed in phosphorus and nitrogen flows, and in genetic biodiversity loss. Overfishing has jeopardized over 40 percent of global fisheries; 13 million hectares of forests are lost each year; 20 percent of mangroves are gone; 75 percent of coral reefs are threatened.

1.3 What to Watch out for?

Globalization's success depends not only on government, but also on business, making it essential to gauge the extent to which companies are willing to lead in solving pressing problems. How many will call for carbon pricing? Will a critical mass argue strongly, for example, for mandatory sustainability metrics in annual reports? Will industry coalitions commit to sustainable supply chains and international tax cooperation as core elements of brand management?

Governments are often promoting or protecting globalization's progress through multilateral bodies. For example, G-20 trade ministers are now calling on their governments to roll back restrictions imposed in the wake of the global financial crisis and to adopt new principles to boost world trade. Concurrently, many major economies are devising plans for translating the Global Goals into national commitments. China has prioritized implementation of the SDGs for discussion at the G-20 leaders' summit this year. Germany, the next G-20 chair, has itself been an early leader in developing a domestic plan for reaching the goals. Canada may take up the cause when it chairs the G-7 in 2018. If these are seen as credible programs for inclusive growth and climate change, they will help set new norms for globalization.

1.4 What's next?

2017 will mark many transitions, including a new U.N. secretary-general, a new U.S. president, and likely many other new political leaders around the world who will have to "own" and implement the international agreements made by their predecessors. A major benchmark of this will come when they report back on SDG progress at a U.N. summit in September 2019. For climate, a major review will take place in 2020. Prior to that, the litmus test of progress will be how a promised $100 billion in climate finance for developing countries is mobilized and allocated. If these funds are forthcoming, we can expect to see a greater commitment by developing countries to the global climate agenda.

A more immediate signal will emerge from current negotiations on financing flows channeled through multilateral financial institutions. For the most part, sustainable development depends on the actions of national governments themselves. But the amounts mobilized to replenish various multilateral organizations —starting with the World Bank's International Development Association, the African Development Fund, and the Global Fund to Fight AIDS, Tubercolosis and Malaria—will reveal a lot about the willingness of developed and large developing countries to support more successful globalization. If these and other institutions get shareholder endorsement and capital infusions to significantly expand their operations, the chances of a new wave of shared global gains will rise correspondingly higher.

REFERENCES

Kharas, H. (2016). How a Growing Global Middle Class Could Save the World's Economy. Pew Charitable Trust, *Trend magazine*, summer 2016, July 5.

Milanovic, B. (2016) Why the Global 1% and the Asian Middle Class Have Gained the Most from Globalization. *Harvard Business Review*, May 13.

United Nations International Migrant Stock (2015). http://www.un.org/en/development/desa/population/migration/data/estimates2/estimates15.shtml

Homi Kharas

is a senior fellow and deputy director of the Global program at Brookings. Formerly a chief economist in the East Asia and Pacific region of the World Bank, Kharas currently studies policies and trends influencing developing countries, including aid to poor countries, the emergence of a middle class, the food crisis, and global governance and the G-20.

John W. McArthur

is a senior follow in the Global program, a senior advisor to the U.N. Foundation, and a member of the Board of Governors for the International Development Research Centre.

BROOKINGS

1775 Massachusetts Avenue, NW
Washington, D.C. 20036
brookings.edu