



**Dialogue on  
Globalization**

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## **Shaping Globalization – Developing a European Social Order**

*WALTER RIESTER / SASCHA RAABE*

## 1 Why 2005 is an important year for global policy-making

The recent flood disaster in Asia reminded us once again: We live in One World. And further: When it really matters, the citizens and nations of this One World are prepared to support one another. This willingness to join forces in the face of challenges of global import should and must not be limited to emergencies and disasters. There is urgent need for action in other global policy fields as well.

This year's global agenda is dominated by two issues: United Nations reform and the ongoing world trade round. Following a short breather in the past year, two major world conferences on these topics top the calendar of world politics. Both conferences should – despite a certain measure of conference fatigue – be seen as an important opportunity. What are the issues involved?

The "Millennium +5 Summit" scheduled for New York in September 2005 will provide an opportunity to guide the UN out of the crisis into which it was plunged by the events leading up to the Iraq war in late 2002. The idea is to take advantage of the favorable moment offered by the world organization's 60<sup>th</sup> birthday. There is far more at stake than a possible enlargement of the Security Council. For the developing and newly industrializing countries the essential question is and remains: What is the most promising approach to effectively combating poverty? The representatives of the international community will be faced with questions over what progress they have made in reducing poverty. The frame of reference is the Millennium Development Goals adopted five years ago in New York. A look at recent statistics indicates that there is reason for concern. Some central goals, like the objective of reducing by half the proportion of people who suffer from hunger, will not be reached by 2015, the target date agreed on five years ago. The struggle to reduce poverty urgently requires additional resources as well as new approaches to utilizing them more effectively. On the other hand, the group of developed countries – led by the US – can be expected to take the opportunity afforded by the September meeting to underscore the importance of security issues. Their frame of reference will be the report recently presented by the High-level Panel on Threats, Challenges and Change appointed by Secretary-General Kofi Annan. In view of the parallels between the two processes, some observers are predicting a deal, perhaps on the following lines: "You give us more resources for development and poverty reduction – we give you cooperation in the fight

against international terrorism and proliferation of weapons of mass destruction."

The second milestone in the year 2005 is the 6<sup>th</sup> World Trade Organization (WTO) ministerial conference set to take place in December in Hong Kong. Following the failure in Cancún, the conference will now decide on the success or failure of the "development round" under negotiation since 2001. The ministerial will also be concerned, though in the background, with poverty issues. In the view of many developing and newly industrializing countries, the objective of the development round is a fair system of world trade. Fairness, however, is not an objective value but a question bound up with striking a balance of interests. The major stumbling block on the road toward achieving a just balance of interests in the WTO is agricultural policy. The longer the negotiations drag on at WTO headquarters in Geneva, the more agricultural reform is turning out to be a very difficult, though not insurmountable, obstacle.

If both milestones are passed and the hoped-for dynamics start to materialize, the year 2005 could also experience progress on other issues that have recently been discussed under the header "Shaping Globalization". This would entail, among other things, efforts to further develop the existing system of international social policy and the instruments of global environmental policy.

In view of the touchy nature of these problems, however, it would be important not to lose sight of the broader goals and values that serve us as beacons in the process of shaping globalization.

## 2 Competing "global models"

Globalization is not only about worldwide product competition, it is also concerned with ideas, goals, and values. Two basic currents can be distinguished in the – in part open, in part hidden – competition for the better "global model".

The first is the Anglo-Saxon model of market-driven globalization that has dominated the debate since the 1990s. This model rests squarely on the progressive internationalization of the market. Its adherents largely reject any international mechanisms designed to correct market outcomes with a view to seeking a global social balance, and generally tend to regard multilateral organizations with a skeptical eye. One exception here are institutions that – like e.g. the WTO – chiefly serve to eliminate market barriers. However, what the market-driven model is interested in is less the free play of market forces than plainly and simply the free play of forces. And wherever this benefits the stronger – as is

does in the world agricultural markets – the mechanisms of fair competition are simply set aside.

While the rival continental European model of the social state is certainly also in favor of internationalization and market dynamics, it at the same time underscores the need for social balance. An effective and active state is needed precisely in the age of globalization, because it is the state alone that is capable of effectively correcting market outcomes. And here the welfare state must – despite the continuing validity of the principle of state sovereignty – gradually expand its activities to embrace the international level, e.g. in the form of international social standards.

### **3 For a European approach**

Our commitment to a global political agenda and international standards should not be allowed to deflect our orientation from our own, rightly understood self-interest. As Europeans, one of our priority concerns must be the development of our national social systems. The reason for this must be seen in the mounting pressure exerted on European societies by growing international competition. The key question for our future is: How, in the age of globalization, can we best transform the European-style social state into a new social order?

The challenge facing the European social state is whether it will prove able to reform its structures from inside out. Germany, like the other EU member countries, is in the midst of a series of difficult, sometimes even painful, reform processes. Their aim is to give a sustainable shape to Europe's economic and social systems alike.

However, there is a risk that the first successes achieved with these reforms may, sooner or later, find themselves undone. This is why it is necessary to embed them in a supranational regulative framework. One step toward a regulative framework based on shared values may be seen in the Social Charter adopted in 1989 by the European Council. The most important provisions of the Social Charter have since been enshrined in the Charter of Fundamental Rights of the European Constitution, which is currently in the process of ratification. But in the long term even this will not be sufficient. The values on which the European social-state model are based can be permanently safeguarded only if they are anchored in a global regulative framework.

Our vision is thus "globalization of the social market economy". This global project, European in inspiration, brings us face to face with two new challenges. First, we will have to develop viable institutional and instrumental solutions suited for such a global framework. Second, we will have to find international partners for the project. For without a world state or a world parliament, the only possible way to design and implement global reforms is to seek sufficiently strong political support for them in the context defined by the global competition between different values.

### **4 Step-by-step approach rather than a big bang**

Staying power is the key factor needed for the political discussion over the best approaches to shaping globalization. While the list of relevant ideas and initiatives is a very long one – here we need think only of the discussions over the past 10 years on the Tobin tax, an international insolvency procedure, or global public goods. The "big breakthrough" may sometimes seem to be as far off as ever. Yet it is easy to forget what has already been achieved. The WTO's dispute settlement mechanism, for instance, is an instrument that provides for more fairness and transparency in international trade policy. Another development at least equally impressive is the creation of the International Criminal Court, which, not so very long ago, would have seemed fully inconceivable. Institutions and bodies of rules serve to subject the strong to binding standards and thus to protect the weak.

Pessimists who criticize what has been achieved as being "too little too late" are lacking in historical experience. Sustainable social reforms – and here we need to look only at the history of the nation-state – have, with few exceptions, invariably been the outcome of lengthy processes of political and social struggle. By contrast, approaches focused on a "big bang" are just about bound to end up in disappointment.

### **5 International social standards – the right approach**

The experience made thus far with international social standards clearly indicates that it is both possible and necessary to shape the course of globalization. And it at the same time confirms that success presupposes long-term efforts. Even in the early phases of industrialization, when the growth of interdependencies in the world eco-

nomy exposed national economies to rising international competition, the struggle for social rights began to shift to the international level. The best witness to this is the labor movement, which was early to embark on a course of international solidarity. A further indication is the International Labour Organization (ILO), which was created as early as 1919 and whose principal task was and is to establish international social standards and norms.

The surge of globalization experienced in the mid-1990s triggered a wave of new initiatives on establishing worldwide social standards. These included the ILO's core labor standards, which were set out in the 1998 "Declaration on Fundamental Principles and Rights at Work" and have since obligated member states to respect and promote principles and rights in four categories, whether or not they have ratified the relevant conventions. These core labor standards are minimum standards. The aim is to secure for workers the freedom of association and an effective recognition of the right to collective bargaining; to ensure equal pay for equal work and to eliminate discrimination in respect of employment and occupation; and to eliminate all forms of forced or compulsory labor and child labor. The OECD's guidelines for multinational corporations operating in OECD countries have a thrust in the same direction. The framework agreements that labor unions have concluded with some individual multinational corporations are, while more limited in their scope, at the same time more specific and binding in nature. The "Global Compact" initiated in 1999 by the UN Secretary-General must also be mentioned in this connection. Under the compact almost 2000 participants, most of them large corporations, have committed themselves to cooperating in the fields of human rights, labor relations, environmental concerns, and in anti-corruption.

As impressive as this list of standards and codes may be, their coherence and legal validity remains a sore spot. This point is demonstrated not least by the list of countries, still far too long, that disregard, or even openly flout, the rights of labor unions. Unlike the agreements concluded by the international financial institutions, i.e. the World Bank and the IMF, on issues concerning economic and financial policy, agreements on social issues are all too often interpreted by governments and corporations as nonbinding appeals or pledges.

We are for this reason still far removed from any binding and watertight framework for an international social policy. All attempts to use trade policy and the WTO as instruments to secure a wider measure of legal validity for social and labor standards have failed in the face of resistance from the governments of developing countries and newly industrializing countries. These governments not only fear interference in their sovereignty as far as issues are concerned that they regard as politically sensitive. They also suspect that here the industrialized countries are using social concerns as a smokescreen to pursue a protectionist agenda of their own. Even though this suspicion is unjustified as far as Europe is concerned, it is not difficult to understand when looked at from the perspective of the countries of the South. The main reason for this almost reflex-like suspicion of protectionism on the part of the developing world is the EU's agricultural policy.

## 6 Reforming agricultural policy

Agricultural policy continues to be Europe's major and oldest offense, and it serves only to weaken the EU's claim to be engaging in a coherent and credible global policy. While the reforms that have been announced and adopted are most welcome – we need to think here only of the termination of the system of export subsidies pledged by the EU in July 2004 in Geneva – these reforms have to be implemented more swiftly and resolutely. Only then will Europe be able to shed, once and for all, its image of a "fortress Europe" and assume the role of a trustworthy broker in the task of giving a social shape to the process of globalization.

The ongoing debate on reform of the EU sugar market regime is an object lesson on how difficult this is in practice. The sugar market regime, consisting of price guarantees, production quotas, import tariffs, and export subsidies, serves to protect European beet sugar, which is unable to compete with cane sugar in international markets. Now that the WTO's Dispute Settlement Body has declared – in September 2004 – parts of the system to be inconsistent with the international trade regime, the European sugar industry is offering vehement resistance to any reform that would merit the name.

It is particularly annoying that we are rashly risking our political credibility with sugar exporters like Brazil. It is, for instance, certainly counterproductive to seek to defend Europe's sugar

regime with the argument that Brazil's sugar industry is shot through with degrading social practices. The best approach to address existing social problems in Brazil would be to promote the country's efforts toward rapid economic development. Growth of Brazil's internationally highly competitive sugar industry would certainly be one way to achieve this goal, provided that the distortions and restrictions in the world sugar market are eliminated.

There is also a more or less tactical argument that can be advanced in favor of reaching out to countries like Brazil, China, India, and South Africa, leading members of the so-called G20 who are calling for an opening of the world agricultural markets. In the global competition of political ideas and concepts, it is precisely these countries, with their marked economic dynamics and the role they play as regional powers, that are increasingly gaining in influence. Seen from the European perspective, these countries are important partners for the task of giving a progressive shape to globalization.

## **7 Getting the poorest countries on board**

But the focus of the process of shaping globalization should not be concentrated on countries that, thanks to their size or strategic importance, are in a position to loudly and clearly articulate their interests and that stand to benefit directly from reforms, e.g. liberalization of agricultural markets. Other countries that have experienced globalization just about exclusively as marginalization and exclusion – like most Sub-Saharan African countries – also deserve our attention.

The supply-side constraints facing the world's poorest countries are so severe that, taken by themselves, market access and liberalization will do little to improve their situation. What these countries need more than the possibility to export their goods is a set of framework conditions favorable to producing them. It must be recognized here that many of the poorest countries have, despite adverse conditions, launched domestic reforms of their own. The concern now is to provide these processes the support and backing they need. In view of the fact that for years the world's poorest countries have not had access to the international capital markets as a resource pool, and that, when all is said and done, they are in fact being drained of resources, it is essential to find new approaches to mobilizing additional funds for them. We can only ho-

pe that the next meeting of the G8 heads of government and state, which is set to address the issue, will finally get beyond declarations of political intent.

## **8 The path to a "Global Deal"**

Shaping the course of globalization is a long-term task. As Europeans, we are for a global regulative framework that focuses on achieving social justice and safeguarding peace and security. If Europe is to play the role of the honest broker, it will have to work for a policy vis-à-vis its international partners that is at once coherent and reliable. While further reform of Europe's agricultural policy is certainly a difficult task, it will, in the end, not prove to be an insurmountable obstacle to a policy of the kind outlined above.

We must, however, remain mindful of the fact that, despite the talk of a "European sickness", the European social model continues to be highly attractive. This is clearly indicated not only by the process of European enlargement but also by the way in which economically successful countries – including e.g. the East Asian "Tigers" – have been observing and in part adapting Europe's experiences in this field. Our concern is of course not simply to impose our social system on other countries. What we are aiming for is an international order that will permit nation-states to provide for social balance, and to do so the way they think right and necessary. This is a goal worth promoting – at home, in Europe, and beyond.

*About the authors:*

*Walter Riester (\*1943) is a Member of the Federal German Parliament ("Bundestag") since 2002 and a member of the parliament's Committee on Economic Cooperation and Development. He further is a member of the Executive Board of the Social Democratic Party (SPD). In the Bundestag's SPD Working Group on Economic Cooperation and Development, he is the rapporteur on the Social Dimension on Globalization. From 1998 until 2002, Walter Riester was Federal Minister of Labour and Social Affairs and before that held senior positions in the German trade union movement, both in the German*

*Metalworkers' Union (IG Metall) and the German Trade Union Federation (DGB).*

*Dr. Sascha Raabe (\*1968) is a Member of the Federal German Parliament ("Bundestag") since 2002 and on the parliament's Committee on Economic Cooperation and Development. He is Executive Board Member of the SPD Parliamentary Caucus as well as its Deputy Speaker on Development Policy. His main fields of interest are world trade and globalization as well as the Latin American subcontinent.*

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Friedrich-Ebert-Stiftung  
Hiroshimastrasse 17  
10785 Berlin  
Germany  
Tel.: ++49-30-26-935-914  
Fax: ++49-30-26-935-959  
Roswitha.Kiewitt@fes.de  
[www.fes.de/globalization](http://www.fes.de/globalization)