

Emerging Markets – Emerging Powers: Changing Parameters for Global Economic Governance

GARTH LE PERE

The current juncture of international relations is characterized by a noisy pluralism, underpinned by the progressive integration of economies and societies. New technologies, a multiplicity of economic and financial interactions and the policy impulses of a wide range of actors – governments, international organizations, business, labor and civil society – all come together to create an order that is at once integrative yet also profoundly sectarian and exclusive. On the one hand, trade, investment, technology, cross-border production systems, and flows of information and communication bring economies and societies closer together. One significant consequence of this is that many former developing countries have managed to achieve economic growth and aspire to play a more prominent role in international negotiations. On the other hand, the new transnational dynamics marginalize and exclude a great proportion of the world's countries and people. These exclusionary effects intersect with another important dimension of globalization, namely the homogenization of policies and institutions, particularly with regard to trade and capital market liberalization, international standards for labor and the environment, regulatory agreements on international trade, and other standardization measures that de facto establish international rules, norms and practices.

Homogenization has caused multilateral negotiations on these intersecting aspects to assume greater importance. Indeed, international bargaining processes have become »management tools in international politics,«¹ generating outcomes and expectations that contribute to a »diffuse reciprocity«² or the potential for redistributing benefits equally over time. The use of management tools to impose order on a complex and

1. Fen Osler Hampson, *Multilateral Negotiations: Lessons from Arms Control, Trade and the Environment*. Baltimore: John Hopkins University Press, 1995, 6.

2. Robert O. Keohane, *After Hegemony: Cooperation and Discord in the World Political Economy*. Princeton: Princeton University Press, 1984.

multidimensional process constitutes the essence of global governance, reflecting as it does »struggles over wealth, power and knowledge.«³ However, it is in this struggle that many of the pernicious, so to speak »Darwinian« effects of globalization are manifested. Globalization of the world economy and related markets creates new instabilities, insecurities and inequalities. As has been demonstrated in countries and regions as diverse as Mexico in 1994, Asia in 1997, and Russia and Brazil in 1998, global capital forces can turn with a vengeance against emerging markets that were once lavished with foreign loans and investments, unleashing the »horsemen of the apocalypse« with devastating effects on peoples' lives.

As a consequence, what has emerged is a search for long-term systemic economic stability that would guarantee cooperation on the basis of collective interests and shared expectations. In a constructivist sense, such cooperation would be grounded in institutions as the quintessential embodiment of international norms and practices. The interesting issue that springs from this reshaping of the contours of global governance is its plural and democratic character. While the developed countries of Europe, Japan and the United States bring different domestic institutions, political orientations and social values to the management of the world economy, they are committed to maintaining the shibboleth of expanded economic openness which has underpinned global capitalism since the 1940s. However, in the process of embracing this shibboleth, emerging markets are increasingly inserting their voices into the institutional reform agenda for governing the global economy after the recent spate of financial crises and are making strident demands that the custodians of economic governance – the World Trade Organization, the World Bank and the International Monetary Fund (IMF) – be subjected to serious institutional and constitutional review. The debates about a New International Economic Order in the 1970s were a harbinger of developing countries adopting a more aggressive stance in seeking changes in international trade, greater authority over natural resources and foreign investment, better modes of technology transfer, improved terms and conditions for foreign aid, deeper debt relief and restructuring of international financial institutions.

While the norms of economic liberalism have been in the ascendant, globalization has concentrated minds on some of the more glaring and

3. Craig Murphy, »Global Governance: Poorly Done and Poorly Understood.« *International Affairs*, 75:4, 2000, 798.

egregious inequities of our time, especially increasing levels of global poverty. The economic security of the state is now inextricably bound up with the economic security and well-being of individuals. Globalization, as the modernization, expansion and integration of the world economy, has thus become the catalyst for re-ordering international economic relations away from the hegemony of developed countries and in favor of a more consensual style of management. Markets cannot carry out this task: »the shaping of globalization is a task for the political sphere«⁴ and hence the growth successes of emerging markets⁵ have transferred power into the hands of their governments to engage in new international norm setting for economic governance, often in the face of resistance by the developed-country guardians of the status quo.

Axes of Emerging Market Power

How a country exercises its economic influence in the international political economy will define its economic wealth and power and this is determined by the interaction between states and international markets. Developments in international economic relations have increased the operational scope of modern financial markets and associated systemic risk.⁶ There is, therefore, an increasingly interdependent relationship between the roles and functions of states and markets. It must be remembered that economic globalization is very much power-centered as regards who runs and manages world markets. Here politics, control and power matter as much as technical questions of currency regimes, capital movements, prudential standards and the financial underpinnings of systemic stability. The orthodoxy that the benefits of global, market-based integration can offset the costs for developing countries comes up against a core truth: that the global economic and financial system has not served the interests

4. Heribert Dieter, *Reshaping Globalisation: A New Order for International Financial Markets*. IGD Occasional Paper 38, June 2003, 40.

5. Typical examples of emerging market countries include Argentina, Brazil, China, Hungary, India, Indonesia, South Korea, Malaysia, Mexico, Poland, Saudi Arabia, South Africa, Thailand and Turkey. Emerging markets are characterized as transitional in that they are in the process of moving from a closed to an open market economy while building accountability within the international system.

6. See, for example, Dani Rodrik, »Sense and Nonsense in the Globalization Debate.« *Foreign Policy*, 107, 1997, 19–37.

of the poor in developing countries particularly well and hence the call to move beyond the current reform agenda for the international financial architecture to a broader and deeper structural reform of the system of global economic governance.

What are the main axes around which emerging market power has evolved?

International Trade

World trade (in terms of nominal world exports of goods and services) has more than tripled, from US\$2.3 trillion in 1985 to over US\$7.8 trillion in 2002. Much of this increase is a consequence of liberalization and deregulation among developing countries. Until the early 1990s, emerging markets and developing countries for that matter generally adhered to neo-mercantilist trade policies as a means of engendering faster industrial development and avoiding balance of payments crises. In the 1980s, for example, developing country tariffs were on average about four times higher than those of developed countries and non-tariff barriers of developing countries covered more than twice the share of the import categories of developed countries. The last decade, however, has seen a progressive liberalization of their tariff regimes though the simplification of tariff structures, rate reductions and often the elimination of non-tariff barriers. Import growth among emerging markets increased in the early 1990s to more than five times the growth rate of the early 1980s. What is also noteworthy is that in strict dollar terms there have been considerable changes in terms of trade, with emerging markets experiencing dramatic increases at the expense of low-income developing countries.

The implications of greater trade integration is that the costs of protection rise, thus constraining the range of options open to governments in managing domestic economic dislocation. As has been argued elsewhere: »Trade has progressively become more important for economic activity ... If any reversal of global trade growth were to occur, it is believed that it would be more serious for economic performance than in previous decades because trade would fall on a higher base and involve more countries.«⁷ Trade liberalization has created an imperative for stability and improved management of the multilateral trading system.

7. John Whalley and Colleen Hamilton, *The Trading System after the Uruguay Round*. Washington DC: Institute for International Economics, 1996, 13.

Foreign Direct Investment and Capital Markets

From 1985 to 2002, foreign direct investment inflows increased more than tenfold, from US\$58 billion to US\$633 billion. Emerging markets increased their share overall but the main beneficiaries were China and India, whose share rose from 2.9 percent in 1985 to 9.8 percent in 2002. The increasingly footloose character of investment and capital mobility has come to epitomize the logic of globalization. The exponential increase in daily foreign exchange transactions reflects the rapidity of cross-border investment and trade, which is more and more driven by speculative and arbitrage currency trading.

There is a premium on retaining the confidence of investors and hence a structural incentive to pursue Friedmanesque macroeconomic policies which concentrate more on low inflation than growth and employment.

Many observers of financial globalization view it as undermining the autonomy of the modern state and in very subtle ways, transforming inter-state relations and the system of norms and regimes that guide them. Foreign capital and investment do not easily bend to national regulation or control; if anything, they trample borders in their quest for profit.⁸ Indeed, capital markets and foreign direct investment (FDI) constrain the ability of states to adhere to the dictates of sound macroeconomic management, and fiscal and monetary discipline. As with the »Asian contagion«, investors and capital managers can quickly abandon an economy because of currency volatility. There is a premium on retaining the confidence of investors and hence a structural incentive to pursue Friedmansque macroeconomic policies which concentrate more on low inflation than growth and employment. Any inclination to pursue Keynesian growth policies, promote more state activism in the economy or use stabilization instruments are bound to be met with capital flight and/or currency depreciation.

8. Gerald K. Helleiner, »Markets, Politics, and Globalization: Can the Global Economy be Civilized?« *Global Governance*, 7:3, 2001, 243–263.

International Production

The integration of trade and finance has been coupled with international production or what has been called the fragmentation of production and intra-product specialization which has split the production process into discrete parts across countries and national borders. A consequence of this is that production processes for intermediate products have increasingly been set up in emerging markets that are deemed to be most profitable. In other cases, the opening of markets has led to collusive behavior between firms and the forming of strategic cross-border alliances such as joint ventures and product-sharing schemes.⁹ Such alliances, for example, insure that high-tech research and development costs will not result in a product that will wilt under competitive pressure or fail in the market. Alliances also have the salutary effect of guaranteeing global markets as a means of recouping product development costs. Besides concentrating trade in intermediate products in emerging markets, multinationals have also led a wave of mergers and acquisitions. Today they account for over two-thirds of world trade and their share is even higher in the trade of high-tech products.

All this activity severely impedes the ability of governments and the local private sector to put in place their own industrial policies and national planning initiatives. The meshing of foreign with domestic investment, for example, makes national identity less apparent and increasing foreign penetration is bound to eclipse any form of economic nationalism. Moreover, the complex international division of labor that global firms rely on introduces functional differentiation that is costly and difficult to disrupt. This »structural« quality of openness has major implications for vast numbers of people whose livelihoods depend on it and is hostile to any form of protectionism.¹⁰

The 1990s saw an intensification of competitive pressure to reduce labor costs and taxes in emerging markets. As more manufacturing moved from developed countries to emerging markets, it caused large-scale structural unemployment in the former and concurrent pressure to increase social protection. Among emerging markets, it led to competition

9. Barbara Emadi-Coffin, *Rethinking International Organisation: Deregulation and Global Governance*. London: Routledge, 2002, 165.

10. Martin Rama, *Globalization and Workers in Developing Countries*. World Bank: Policy Research Working Paper No. 2958, January 2003.

in attracting production plants. For example, they resorted to setting up export-processing zones and making concessions to multinationals in the form of tax exemptions and public provision of infrastructure. This similarly led to large-scale structural changes in emerging market countries, without preventing structural unemployment. Even changes in trade policies have had a modest impact on the labor markets of emerging countries. Other aspects of globalization such as immigration, capital flows, privatization, production right- and down-sizing and technology transfer have been shown to have negative impacts on standards of living, job creation and labor productivity. Volatile capital flows have put the welfare of workers at risk, often resulting in massive retrenchments and job losses.¹¹

Emerging Markets – Persistent Poverty

It is now widely accepted as an axiom that the benefits of growth crucially depend on the distribution of income that flows from economic advances and development. Nobel prize winning economist Simon Kuznets famously advanced the hypothesis that income inequality initially deteriorates as per capita GNP rises, peaking at intermediate income levels and declining for industrialized countries. While compelling, little empirical evidence was found that confirmed this inverse relationship. If anything, there is an emerging consensus that growth and equity need not be contradictory goals. And when the link between economic growth and human development is pursued with deliberate policies and political determination, it can be mutually reinforcing such that economic growth has the potential to reduce poverty and enhance human development.

However, with regard to the impact of globalization on income inequality, much of the extant literature suggests an increase in income inequality both within and across emerging markets.¹² This has been exacerbated by the series of financial crises that have derailed economic growth, resulting in default, currency collapses and severe banking sector implosions. Domestic political coherence has been the key determining

11. Ajit K. Ghose, *Jobs and Income in a Globalizing World*. Geneva: International Labour Office, 2003.

12. See, for example, Joseph E. Stiglitz, *The Roaring Nineties: A New History of the World's Most Prosperous Decade*. New York: W.W. Norton & Co., 2003.

factor in assessing the severity and persistence of economic collapse associated with each crisis. Where the domestic polity has suffered from extreme weakness, in some cases leading even to the dissolution of the current government, the crisis has tended to spiral into deeper recession and default on external debt, with significant repercussions for depressing levels of income and employment. Consequently, in a sample of eight emerging markets it has been shown that financial crises have increased the incidence of poverty by some 40 to 60 million people (and possibly as many as 100 million) in a total population of 800 million. The poverty impact was much worse (21 percent) in cases where the crises were not successfully resolved than in cases where they were (7 percent).¹³

The poor and disadvantaged have been the first-line casualties of the increase in insecurity in emerging markets, largely due to market failures that prevent them from having access to adequate income and consumption.

Inequality is intertwined with insecurity, causing job losses, lack of social protection and existential angst. While heightened international volatility of trade, capital flows, and production has contributed to the negative impact of globalization in emerging markets, it is also clear that lack of concerted political action to offset the risk and uncertainty has contributed an equal share – if not more – to increased global insecurity. The poor and disadvantaged have been the first-line casualties of the increase in insecurity in emerging markets, largely due to market failures that prevent them from having access to adequate income and consumption.¹⁴

Bringing the State Back In

While there is widespread agreement that globalization has reduced the autonomy of the state in the economy, a growing chorus is calling for increased state intervention in social matters. While openness calls for the

13. William Cline, *Financial Crises and Poverty in Emerging Market Economies*. Center for Global Development, Working Paper No. 8, June 2002, 10.

14. Raphael Kaplinsky, *Globalisation and Economic Insecurity*. Institute of Development Studies Bulletin (Sussex), 32:2, April 2001, 13–24.

state's role in the economy to be restricted to regulatory, taxation and subsidy arrangements, it can play a leading role in providing social welfare. While globalization requires some homogenization of policies and standards, there are many areas in which differences in national standards have to be taken into account.

In deciding who should act, the principle of subsidiarity should apply where many different actors could play a role: individuals, families, businesses, trade unions, civic organizations, governments and their agencies, regional and international development bodies, and so on. In many cases there will be complementarity between various actors that could reinforce global, regional and national institution-building and development. However, besides complementarities between actors, there is also the need for complementarities of policy action at the different levels.¹⁵ Epistemic and policy communities have forged paradigm shifts whose postulates are instructive: achieving growth and reducing poverty implies actions that will make globalization a more equitable and sustainable process. National policy responses and state stewardship in emerging markets and developing countries generally are called for in areas that have dynamic welfare gains and include investment in education and training, the adoption of core labor standards, the provision and improvement of social protection, and tackling rising national inequality.¹⁶

The Need for Global Economic Governance

The challenge for emerging markets and indeed for the 21st century is to declare the moral equivalent of war against poverty that will require the same political commitment as say, the war against global terrorism. The Millennium Development Goals set the agenda for a global social contract to reduce income poverty by half by 2015. As should be evident by now, global economic governance and, by extension, improving the international financial architecture are necessary for checking market failures which have been shown to have devastating effects on the lives of developing-country populations. Two sets of proposals turn on initiating a

15. See, for example, Ha-Joon Chang, *Globalisation, Economic Development and the Role of the State*. London: Zed Books, 2003.

16. Nicola Yeates, »Globalization and Social Policy: From Global Neoliberal Hegemony to Global Political Pluralism.« *Global Social Policy*, 2:1, April 2002, 69–91.

development round of trade negotiations and forging a new financial architecture to ensure the provision of global public goods and to forestall the asymmetric effects of market failure.

These proposals are emblematic of the increasing influence of emerging powers in shaping global agendas in a manner that was perhaps not possible, say, 20 years ago. Their influence resonates throughout the fabric of global governance as it relates to the reform of international rules and regulations, norms, structures and regimes. Since the end of the Cold War, this is in part a consequence of the renewed prominence of the North–South divide in international relations. Through a decade or more of UN summits, the South has promoted a new development discourse steeped in the advocacy of global redistributive justice. Emerging markets, often classified as middle powers, have become critical players in re-fashioning a post-Westphalian order that diffuses power in the international system.¹⁷

The United States, as the sole superpower, cannot manage the global commons on its own. Boggled down as it is with the war against terrorism and the loss of its multilateral credentials under George W. Bush, emerging-market countries have shown a strong commitment to maintaining global norms and institutions which have formed the basis of multilateral cooperation since 1945. However – and more importantly – countries as diverse as China, South Africa, India and Brazil have emerged as evangelists for a more just and equitable global order which is less subject to the whims of developed countries and based more on international compromise and democratic decision-making, with the UN system and international organizations providing the *raison d'être* for a reformed system.

A Development Round of Trade Negotiations

The end of the Uruguay Round of negotiations in 1994 heralded a greater focus on the unfair rules of international trade and led to widespread calls by the developing-country membership of the World Trade Organization (WTO) for a development round of trade negotiations. The main bones of contention were developed countries' protectionist trade restrictions and lack of market access for developing countries' agricultural goods, a more permissive intellectual property rights regime for making medicines

17. Jessica T. Mathews, »Power Shift.« *Foreign Affairs*, 76:1, 1997, 50–66.

more affordable (especially with regard to urgently needed medication to fight HIV/Aids), and allowing developing countries longer transition periods to meet their WTO commitments through its special and differential treatment mechanism.

Irrevocable changes have taken place in trade diplomacy such that developed countries can no longer set the terms and conditions of negotiations.

In particular, developing countries, with several emerging-market countries taking the lead, wanted to see an unambiguous normative shift from promoting liberalization to fostering development in trade negotiations. This was the signal success of the Doha development round in 2001: for the first time in the history of trade negotiations, the round explicitly enshrined a code that emphasized the centrality of developing-country concerns, although the letter and spirit of this understanding was severely undermined at the subsequent desultory ministerial meeting in Cancun two years later. Again at Cancun, the advent of an emerging market-developing country coalition in the form of the G-20+ showed that irrevocable changes have taken place in trade diplomacy such that developed countries can no longer set the terms and conditions of negotiations. Developing countries have managed to curtail the promiscuous extensions of WTO authority by developed countries into issues and areas that go far beyond traditional trade and have forced a review of the WTO's sacrosanct single-undertaking mandate and consensus-building process.

It is significant that – in part through the G20+'s consistent efforts – the July 2004 meeting of the WTO's General Council managed to restore the integrity of the Doha consensus with regard to issues of critical concern to developing countries. This so-called »July package« contains a set of measures that are crucial for stimulating progress toward the 6th WTO ministerial meeting to be held in Hong Kong in December 2005. The package includes advances in improving market access in key areas such as agriculture, textiles and cotton; reform of developed countries' protectionist domestic support and export subsidy regimes; predictable and well-financed technical assistance to improve developing-country participation in WTO negotiations; and important issues relating to transparency and democratic participation. This has been made possible precisely because coalitions and alliances of developing and emerging market

countries have used the negotiating space provided by the Doha consensus to insist on fairness and equity in global trade.

A New Financial Architecture

Developing-country participation and representation has long been a source of tension, if not acrimony, in the IMF and World Bank. Both institutions are based on the liberal notion that economic stability and development are best achieved when trade and financial flows take place with as few restrictions as possible. While the World Bank's original mandate was to facilitate reconstruction in post-war Europe, it has come to concentrate on making loan funds available for development and hence since the 1950s has become deeply embroiled in the lives of developing countries. In the 1950s and 1960s, it emphasized large infrastructure projects and then moved to funding basic needs in health, education and housing in the 1970s. In the 1980s, its mantra was private sector development and in the 1990s it sought to promote sustainable development, good governance and poverty alleviation. As has been said, the World Bank's history has been one of »institutional stretching, incremental change, goal proliferation and wider consultation.«¹⁸

As regards the IMF, its original purpose was to assist countries in meeting short-term fluctuations in currency exchange rates, thus enabling members to establish free convertibility among their currencies and maintain stable exchange rates. Although not designed as an aid agency, its role in development has grown, insofar as stable currency values and currency convertibility are necessary for trade and development. And it has become increasingly involved in helping countries with chronic balance of payments difficulties and heavy debt, as well as with those requiring bailouts and structural adjustment lending.

Critics of the Bank and Fund have inveighed against their style of governance, decision- and policy-making. By convention, the IMF managing director is always a European and the World Bank president an American. In both institutions, a limited-member executive board decides everyday policies. The executive boards operate under weighted voting systems that guarantee the voting power of the major developed countries com-

18. Jonathan Pincus and Jeffrey A. Winters, »Reinventing the World Bank.« In: Jonathan Pincus and Jeffrey A. Winters (eds.), *Reinventing the World Bank*. Ithaca: Cornell University Press, 2002, 1.

mensurate with their contributions. In the IMF, for example, the US, Germany, France, Japan and the UK command more than 40 percent of the votes. Because of this weighted voting system, these institutions have been viewed as tools of the developed countries. Given this dominance, there is a legitimate concern that the IMF may be »too responsive to its principal shareholders, which are high income, international creditor countries and whose interests do not necessarily coincide with those of global society as a whole.«¹⁹

Reform of the international financial institutions is seen as key in building a new architecture for global markets and reform proposals stress the importance of improving their accountability and governance.

Since the 1980s, the most trenchant criticisms have focused on structural adjustment programs, where the two institutions reinforce each other through informal cross-conditionality. The Bank and Fund thus exercise inordinate power in determining the trajectory of a country's adjustment regime through, for example, currency devaluation, fiscal reform, removal of tariff and import quotas, price control liberalization, and civil service retrenchment. Critics charge that this has resulted in disproportionate suffering on the part of the marginalized and already deprived sectors of the population. Draconian adjustment programs have now been replaced with more benign and participatory Poverty Reduction Strategy Programs. The IMF has also come under the spotlight for its conduct in emerging markets, promoting a culture of bailouts in countries that have made imprudent economic decisions and through the »Washington Consensus« pushing countries into injudicious opening of their economies, making them more vulnerable to the risks of volatile international financial flows.²⁰ The recent financial crises underscored the notion that domestic financial institutions should be supervised and adequately regulated, since structural deficiencies such as laxity in risk management, poor governance, inadequate loan classification and loose loan-provisioning could invite crises and serious contagion. A growing num-

19. Jose De Gregorio et al., *An Independent and Accountable IMF*. Geneva: Center for Economic Policy Research, 1999, 78.

20. See, for example, Joseph Stiglitz, *Globalization and its Discontents*. New York: W.W. Norton & Co., 2002.

ber of proponents of a new financial architecture suggest establishing a set of international standards and encouraging countries to adopt them. Harmonization of standards is also expected to achieve domestic financial stability and the adoption of common standards is likely to reduce transaction costs in the process of financial integration and so to foster international trade and investment, increase transparency and reduce moral hazard.

However, because of their different levels of development, not all countries can be expected to meet the same standards. If enforcement of common standards does not permit a degree of variation and flexibility at country level, then standardization efforts could result in enormous adjustment costs for emerging market economies and developing countries.²¹

Reform of the international financial institutions is therefore seen as key in building a new architecture for global markets and reform proposals stress, among other things, the importance of improving their accountability and governance. This would entail better representation of developing countries on the executive boards of the Bank and Fund; enhancing their capacity to contribute; bailing in the private sector; improving approaches to sovereign debt restructuring; putting in place appropriate exchange rate regimes and capital controls; giving the advisory group of developing countries, the G-24, a more prominent role; and harnessing the capacities of NGOs.

At the broader systemic level, these measures are emblematic of a counter-offensive by emerging markets that mark some important paradigmatic shifts in the global economic governance discourse and debate. These are primarily anchored and framed by the following issues:

- ▶ institutional reforms that would make possible greater openness, public accountability and improved participation by developing countries in the decision-making of the IMF and the World Bank;
- ▶ changes in economic policy reform instruments that will support more equitable, sustainable and participatory development and which address the root causes of poverty;
- ▶ scaling back the financing, operations, role and power of the IMF and the World Bank and rechanneling financial resources into a variety of

21. Dani Rodrik, *Governing the Global Economy: Does One Architectural Style Fit All?* Brookings Institute Trade Policy Forum, April 1999.

- development assistance initiatives that will ameliorate debt and increase finance for low-income countries; and
- ▶ a stricter division of labor among global institutions in managing the economic governance architecture as well as their operating procedures and modes of governance.

Conclusion

It is trite but true to say that economic and financial globalization holds out the prospect of enormous benefits, but also poses great challenges and entails serious risks. One of the major benefits of globalization is that emerging markets have become increasingly involved in the exchange of goods and capital and stand to benefit handsomely from the transfer of knowledge, information and technologies. Emerging markets especially have become major global trading partners as well as primary recipients of financial flows. Some, such as those in Asia, have now approached thresholds of industrialized countries with sustained growth rates above those of high-income countries. They themselves have now become sources of international capital flows. Over the last five years, roughly 20 emerging markets have accounted for 30 percent of world exports and have received about 20 percent of gross global investment, a figure which is close to FDI inflows into the United States.

However, greater integration also means greater economic and financial spillover effects from one country or region to the rest of the world. Some of these effects are positive, while others are less so. The most important positive spillover is the benefits to the global economy from the strong growth in many emerging market economies. However, globalization and capital mobility also make the international system more vulnerable to changes in investor sentiment and confidence. On several occasions contagion effects have spread from one country or market to others. Some of the crises originated in the public sector, such as the debt crisis during the 1980s, which started with Poland and Mexico and spread to Latin America, Africa, the Middle East and the Soviet Union. Thereafter crises followed in Mexico in 1994, Asia in 1997/98, Russia in 1998 and more recently in Brazil, Argentina and Turkey. Others stemmed from events in the private sector, such as the stock market collapse in 1987, the bond market crash in 1994, the near failure of the large hedge fund Long Term Capital Management in 1998, and the bursting of the technology

bubble in 2000. All these events conspired to destabilize the international financial system, underscoring the need for deep systemic changes to the policy framework of the international economic and financial system.

Two imperatives have arisen from the reform agenda. First, there is general consensus that the private sector and markets should enjoy a central role while sound public policies and institutions are needed to provide market participants with a secure operating environment. Second, increased international cooperation has been considered key in addressing the lack of congruence between globalized markets and national policy requirements. It is from this interface that debates about reconstituting global economic governance have taken place, particularly as they affect recasting the roles and functions of the Bretton Woods institutions. The thrust of reform measures includes greater transparency, broadened representation of emerging market economies, sharpening the Bank and the Fund's focus and reinforcing their policy advice and financial support instruments.

Emerging powers can use their multiple comparative advantages to make a difference in the living standards of the poorest citizens of the world.

Finally, while the social impact of globalization on poverty, labor markets, the environment and migration remains a contentious subject, it is acknowledged to have exacerbated inequalities within as well as across emerging market countries and has increased economic and political insecurity. Thus globalization transcends the economic realm and is increasingly influenced by global health and environmental challenges such as HIV/Aids and climate change. Even if the causal linkage between income inequality and poverty as a consequence of globalization is dubious, it is a contributing phenomenon to poor performance in reducing poverty.²² Too many of the world's people live in conditions that are unacceptable for the 21st century. It is here that emerging market economies and their rapid development as emerging powers can use their multiple comparative advantages to make a difference to the living standards of the poorest citizens of the world.

22. Richard Kohl (ed.), *Globalisation, Poverty and Inequality*. Paris: Development Centre of the OECD, 2003.