

UNCTAD Public Symposium

The Global Economic Crisis and Development – the Way Forward

18–19 May 2009, Geneva, Palais des Nations, Room XIX

Inputs received

Economic Globalisation with Uncoordinated Regulation: Cruel Contradictions

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Ref: ps/17/2009/E

REGU LETTER

A Quarterly Newsletter



Volume 9, No. 4/2008

Economic Globalisation with Uncoordinated Regulation: Cruel Contradictions

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The economic unification of the world has reached its zenith with international trade assuming unprecedented magnitudes. National boundaries have become largely irrelevant for economic activity, superseded in importance by trans-national ties mediated through multinational corporations. But sadly, systems of economic governance sputter away in their distinctive manner – a cacophony instead of an orchestra. This lack of coordination lies at the root of many recent economic disasters including the present economic recession.

There are several advantages though: specialisation, technology transfer, assimilation of superior foreign work ethos etc. But it is not an unmixed blessing – adverse economic phenomena in one corner of the world are now prone to acquiring a contagious nature which often endangers the entire global economy.

The financial meltdown exemplifies this trend. Sub-prime home mortgages were marketed by creditors to acquire debts elsewhere. Default in the home loan market led to a chain of defaults and rocked the US economy.

Many companies with foreign subsidiaries went bankrupt, denting other economics as they terminated operations. Depletion of dollar reserves and destabilising devaluation of currencies resulted.

Thus, while globalisation can foster joint surges to prosperity by nations a false step by one actor

can spell disaster for all. This was not true of the world in the early 20th century.

The Satyam fiasco offers another example. The founder of this Indian multinational seemingly created fake salary accounts to siphon off the company's profits and then cooked accounts to show non-existent cash balances. As the scandal made news, share values collapsed, wiping out Indian as well as foreign investors.

The Satyam fiasco bears an uncanny resemblance to the Enron scandal in which loss of reputation followed a series of revelations about irregular accounting procedures. Enron filed for bankruptcy and scores of employees the world over lost their means of sustenance. The argument being made, therefore, is that in today's globalised world incorrect actions by a major economic agent often results in misery for the whole world.

We need a global guardian of national regulators. A national regulator applies certain rules of the game to the functioning of economic agents residing within the nation's boundaries. The task of the global guardian will be to ascertain that these rules meet certain standards. Different global guardians might be needed for corporate governance, financial transactions and the environment over and above the World Trade Organisation.

However, history will probably record it as another step in the evolution of man – the bridging of national differences to cement the emergence of a stronger, more productive and less risky world.



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