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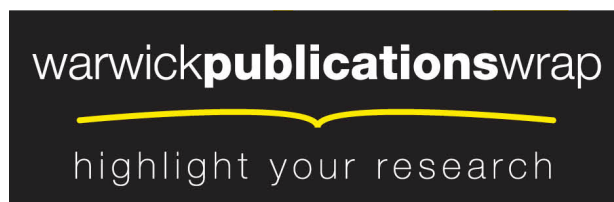
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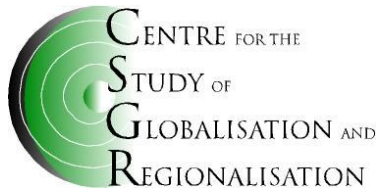
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Conceptual Globalism and Globalisation: An Initiation

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**CONCEPTUAL GLOBALISM AND GLOBALIZATION:
AN INITIATION**

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8th May 2011

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CONCEPTUAL GLOBALISM AND GLOBALIZATION: AN INITIATION

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Keywords

globalization, definition, various phases, emerging-market economies, multidisciplinary

CONCEPTUAL GLOBALISM AND GLOBALIZATION: AN INITIATION

This new technology-driven globalization is the new reality to which we are trying to adapt. There truly is no escape from it.

~G.K. Helleiner (2000)

What you cannot avoid, must be welcomed.

~A Chinese proverb

1. Prelude to Globalism and Globalization

Although the use of these two terms began in the latter half of the twentieth century, they have a longer lineage. Concept economic globalism of contemporary kind can be traced back to the liberal thinking of classical economists like Adam Smith and Herbert Spencer. Terms like globalize were first seen in Reiser and Davies (1944). Webster International Dictionary included them in 1961, while they appeared in Oxford Dictionary in 1986. The term globalization was coined in 1962¹. Most major languages were quick to develop equivalent taxonomy. In business and economics, marketing legend Theodore Levitt of Harvard Business School used it first in 1983 in an article entitled “The Globalization of Markets”.² His article is regarded as an enduring classic and its insightful language is still relevant today.

Although contemporary era of economic globalism is barely three decades old, neither the essential concept of globalism is novel nor is globalization a new phenomenon. In its conceptual, corporeal and functional forms globalism is more than two thousand years of age. Was spread of Buddhism in the 5th century BC from northern India to China, Japan and the other East Asian countries not cultural and informational globalism, which we now put under the rubric of social or socio-cultural globalism? Globalism is a defining issue of the contemporary era and has come to acquire considerable emotive meaning and force. It has tended to spark the most highly-charged debates, was the subject of countless articles and books and the cause of major public demonstrations, occasionally violent, in Europe and North America. Last three decades were a period of unprecedented integration of the global economy. Little wonder that the concept of

¹ It was first seen in an article in the *Spectator* magazine.

² This article appeared in the *Harvard Business Review*, in which he had boldly said, “The world’s needs and desires have been irrevocably homogenized. This makes the multinational corporation obsolete and the global corporation absolute” Levitt (1983, p. 92). Levitt argued that due to advances in communication technology the consumer demand pattern was progressively homogenizing all over the world. Therefore, large international companies should cease to be “multinationals” that customize their products to match the local market tastes everywhere, but become global by standardizing production, distribution and marketing of their products. This uniformity of products, according to Levitt, would be the source of production efficiency and result in higher profit than having different products in each market. Scale economies would be a rich source of competitive advantage.

globalism and phenomenon of globalization acquired a good deal of currency as well as involvement from various stakeholders. It became and will continue to be the dominant force shaping the world economy. Its relevance and significance extends well beyond academic economists, to business and public policy makers and general public at large. The concepts and nomenclature of globalism and globalization came to be used by different social sciences in the early 1980s, but since the early 1990s they permeated popular consciousness. Journalists and politicians of varying allegiances used them recurrently. Therefore, they lack a clean, crisp and consensus definition (Section 3.2). These concepts have also become central to thinking and analysis of economists and actions of business leaders.

The three terms simply characterize gradually evolving interaction and integration of economies and societies around the world. As the three terms are embraced by different social sciences, they have been variously defined. Consequently there are myriad of competing definitions. While widely in use, these expressions take on imprecise meanings and are often poorly understood and conceptualized (Section 3.2). Comprehension of the issues is compromised by an unclear grasp of the core concepts. These terms are regarded as confusing and confused in the academic literature and a debate has been on on what is their precise meaning and definition. Used in an all encompassing manner, they are frequently turned into a portmanteau. They have become cliché, trite and stereotypical expressions, which have lost their ingenuity by long overuse—and frequent misuse. There has been a strong penchant to put any new idea, or a change of fundamental nature under the all-encircling terminology of globalization.

As the concepts of globalism and globalization cover a wide subject area, they are shared by several social sciences. They are deployed across disciplines and across theoretical approaches. Their academic and intellectual significance has been on the rise, particularly since 2000. Business schools, universities and other academic institutions run popular courses and degree programs in this subject matter. Some have recently come into prominent and are well-attended. Scholarly journals, books, research papers, academic literature, websites on these and related themes have grown rapidly. Since the turn of the century, numerous dedicated research and study centers and professional associations have sprung up on this theme around the world. Mittelman (2002, p. 1) regarded this concept as “an ascendant paradigm in international studies”, a novel paradigm of social enquiry.

A good deal of the literature surrounding globalization is multidisciplinary. The multidisciplinary and multifaceted nature of this subject matter is obvious from its compelling economic, financial, business, social, political, technological, informational, environmental, cultural, educational, international relations and security related dimensions (Section 4). Emphasis on economic and financial dimensions of globalism was always high, while other dimensions were subordinated to it. Of late, significance of environmental and military dimensions has markedly escalated. While these multiple dimensions are interrelated and often mutually reinforcing, they are exclusive and diverse in their origins. The multi-disciplinary nature of globalization has made it an

intellectually challenging issue. This is one of the reasons why there is intense academic interest in this area of intellectual curiosity. Numerous bright minds of our period have been drawn to this issue. In tandem, interest in the lay circles is not less. Books like *The Lexus and the Olive Tree*, which *inter alia* tell the story of the contemporary global economy in reader-friendly prose and put together conventional wisdom on globalization, hit the bestseller lists.³ About every issue of *Business Week* discusses one globalization related issue or the other. Business and policy making conclaves have interminable debates over it, so do parliaments and labor meetings. Extreme of disagreement in views coexists on globalism. If one group fervently believes in its capability of enhancing prosperity and economic welfare, the other firmly regards it as a pernicious force that impoverishes the poor of the world and enriches the rich and is the principal villain in causing environmental degradation, among other injurious influences.

The objective of this working paper is to succinctly provide an induction to knowledgeable readers to the concepts of economic globalism and globalization in their contemporary form, their historical antecedents and how economic globalism essentially operates. Although the essential focus is on economic globalism, other kinds have not been totally passed over. There is no pretence that economic globalism is the only, or a domineering, kind. As the definition of globalism and globalization has been a contentious issue which has generated analytical deliberations and an enduring animated debate, this working paper also dwells on the definition related issues, particularly focusing on economic globalization.

2. A Historical Perspective of the *Longue Durée*

The concepts and phenomena of globality, globalism and globalization have their antecedents. In their ancient forms they can be traced back to ancient civilizations and empires like Maurya (322–185 BCE), Roman, Parthian and the Han Dynasty (206 BCE to AD 220). These were the first eras of cross-cultural, economic and social encounters in the pre-modern period. Roman Empire, which stretched between Great Britain, the Middle East and Northern Africa, is a striking manifestation of early globalization. Markets for goods, capital and labor were integrated during this period (Temin, 2006). Although some (like Wade, 2006) believe that globalization, in one form or the other, has been present since the dawn of modern humans, some 50,000 years ago.

Two millennia ago, Romans unified their widespread empire by building an extensive transport network, common language, legal system and currency. Commonality of institutions successfully promoted trade and economic development (Hitchner, 2003). Maddison (2007) provides a detailed account of the Roman empire and its economy.⁴ Another equally striking example of energetic and thriving globalism in the pre-modern era is the Chinese Silk Road that promoted and strengthened commercial networks between China, the Parthian empire and parts of southern Europe. The silk route which began during the Han dynasty had expanded into a full-scale

³ The author is well known Thomas L. Friedman (1999).

⁴ See chapter 1 in Maddison (2007).

international trade route between China, India, Persia and the Arabian Peninsula (Chow, 2006).

The Arab conquests of seventh and early eight centuries united the Mediterranean world of Rome and its ancient empire with Mesopotamia and Iran. The Arabs united the Byzantine possessions of Egypt, Syria, Palestine and North Africa. This was the Islamic golden age and another example of ancient globalism, when traders successfully established a rudimentary form of global economy. Trade in goods and migration of people took place freely. Both exchange of ideas and technique was also common. Two-way flows of ideas and knowledge took place between east and west “in one vast integrated space united by Islam and Arabic language” (Findlay and O’Rourke, 2007, p. 48). The Islamic golden age matured and became fairly complex during the Mongol Empire of Genghis Khan and Kublai Khan. This epoch witnessed globalization of crops, commerce, knowledge and technology. The Mongol Empire, one of the largest continuous empires in history, was responsible for a strong wave of globalization.⁵ Marco Polo (1254-1324), the most famous traveler of the Silk Road, was a veritable trading entrepreneur of his period. He found new products and developed markets for them. He became a confidant of Kublai Khan. He provided detailed accounts of the economy of the Mongol Empire, which by his account was prosperous.

The Ming Dynasty (1368 to 1644 AD) of China, the last dynasty ruled by ethnic Hans, played an important role in economic globalization. Not only neighboring countries had trade and tribute-paying relations with China during this period but also distant European countries like Portugal, Spain and Holland had active commercial ties. Abu-Lughod (1989) provided comprehensive accounts of the voyages of the Ming Dynasty admiral Cheng Ho (or Zheng He) until the early decades of the fifteenth century. The Ming Dynasty navy had over 3,800 ships, many of them were several times larger than their Portuguese counterparts.⁶ China not only led the world during this era in ship-building but was also ahead of Europe in clock-making, hydraulics and iron-smelting.⁷

The famous voyages of discovery by Christopher Columbus, Vasco da Gama and other explorer expanded trade and economic ties over large distances. These voyages were made possible by advances in European ship-building technology and the science of navigation. Noteworthy improvements in the quality of compass, rudder and sail design also contributed to advancement in nautical technology. The sea lanes opened by these voyages assisted in promoting thriving intercontinental commerce. Before the 16th and 17th centuries, the Portuguese and Spanish Empires had expanded to the Americas and to many other parts of the globe, promoting and expanding economic and political globalization. As these voyages had high cost and risk, trade was logically limited to

⁵ After Kublai Khan’s conquest of southern China in 1279, the Mongol empire extended from the coasts of southern Siberia, Manchuria, Korea and China down to Amman in the east, to Hungary and Belarus in the west. It covered India, Indochina, the Persian gulf and Turkey.

⁶ In 1492, Christopher Columbus sailed in three ships to discover sea route to India. The largest ship, Santa Maria was a sixty-footer. Admiral Zheng He commanded over 300 ships on each one of his voyages. His flagship was 400 feet long.

⁷ See Frank (1998), Bairoch (1999), Findlay and O’Rourke (2007), Das (2008) and Hamashita, *et al* (2008).

goods of high value relative to their weight and bulk. Some of the important items of trade included sugar, tobacco, spices, tea, silk, porcelain and gems and precious metals. While trade and migration had their positive income effect, inequality was rampant. Estimates show that during the pre-industrial period, income inequality was lower in the East Asian economies than in Europe and the Middle Eastern countries (Milanovic, *et al*, 2007).

Naissance of large state-sanctioned trading companies was the next noteworthy development; they began to have increasing control over trade. In the 17th century the Dutch East India Company, the first transnational corporation, was established. It was also the first business firm to share risk by enabling joint ownership by issuing shares. Subsequently, the British East India Company and the Hudson Bay Company were created. All of them enjoyed monopolistic powers, aggressively protected their high markups and profits and were instrumental in playing a meaningful role in both economic and political globalization. Believing in mercantilist philosophy, they regarded international trade as a zero-sum game. As markets were a rich and rewarding source of profits, during this period, European nation-states competed for market dominance. This intense competition frequently crossed the economic arena and turned into military conflict (Bernanke, 2006).

As large parts of the world did not participate in the above-noted periods of pre-modern globalization, some analysts do not think that this could be termed *bona fide* globalization. However, non-participation of several countries is also a characteristic of the current period of globalization. Other arguments for not regarding the past as periods of globalization are: First, in comparison to the present, the means of transport and communication during these periods were far from swift. They did not allow firms and markets to be organized and function efficiently at the global level. Second, the present global financial markets are characterized by far larger volume of operations in terms of gross flows and variety of instruments being traded. However, these are inaccurate and non-tenable arguments for rejecting the globalism of the pre-modern periods. If they are accepted, then all history, economic or otherwise, is worthy of rejection.

2.1 Modern Phase: Vintage 19th and 20th Centuries

The period before the Napoleonic Wars (1815) went down in history as anti-globalism mercantilist period (Williamson, 2002). The first modern period began after the end of the Napoleonic Wars and continued up to the World War I. International trade and financial flows as well as cross-border migration of labor expanded significantly during this phase of globalism. The growth rate of world trade was more rapid than that world output. It grew at an average rate of 3.5 percent a year, compared to 2.7 percent in case of world output. Steady reduction in tariffs and transport costs, particularly during the latter half of this period, advanced global economic integration. Due to the advent of railroads and steamships transport costs declined sharply and communications costs fell as the telegraph technology and services expanded. The trans-Atlantic telegraph cable, laid in 1866, was extolled for “annihilating both space and time in the transmission of intelligence” (Standage, 1998, p. 90). Ambitious public works projects,

like opening of the Suez Canal in 1869, truncated travel time between Asia and Europe, which promoted both travel and commerce. These technological advancements were consistently pro-globalization. During this era, forces of capitalism were unleashed in their full form.

Policy measures that buttressed globalization during the first modern period, included abolition of the Corn Law in Britain in 1846. As Britain unilaterally moved to free trade, it set in motion a trade liberalization trend in Europe. The Cobden Chevalier Treaty of 1860 between Britain and France reinforced this trend. The most-favored-nation (MFN) clause was the most significant element of this treaty. Accordingly the two contracting parties agreed to extend any reduction of tariff agreed between them to their other trading partners as well. This set the ball rolling and many European economies signed such treaties. Growing appreciation of the classical principle of comparative advantage made policy makers abandon the mercantilist approach of the past. In 1913, the share of exports in world output peaked. World trade did not reach this level again until 1970 (Bairoch and Kozul-Wright, 1996; Irwin, 1996). Expanding trade had increased the variety of goods available, in the process enriching the quality of life. The trade monopolies of the past were supplanted by intensely competing firms. Consequently, global prices converged on a wide range of traded commodities, including spices, wheat, cotton, pig iron and jute (Findlay and O'Rourke, 2002). The pre-World War I period also enjoyed almost entirely free movement of capital and a remarkably free movement of labor force. Between 1871 and 1915, approximately 36 million people left Europe in search for new life and opportunities. An unexpected spin-off of this migration was a sharp rise in productivity in those industries that had been facing labor surplus. This was the period when globalization reached its crescendo. The latter half of the nineteenth century, until the World War I, was the period of intense economic integration.

Globalization has ebbed and flowed during different periods. The favorable trading environment changed with the outbreak of the World War I. The liberal global economic order collapsed and quantitative restrictions (QRs) and tariffs became rampant among the belligerents. This was the initiation of de-globalization. The Great Depression stifled the liberalization that began after the War under the Gold Exchange Standard (1925-31) and tariffs began to rise again. The US enacted its ill-conceived Smoot-Hawley Act, raising tariffs to 23 percent, triggering immediate retaliation from its trading partners. QRs also returned. Both world output and trade plummeted rapidly, with world trade declining more sharply than output.

After the end of the World War II, the international community joined hands and the Bretton Woods system was conceived by some of the brainiest economists of that period, which included John Maynard Keynes. The General Agreement on Tariffs and Trade (GATT) began operation in 1948; the multilateral trade regime evolved almost ceaselessly. Among the international fora, the GATT system was exclusive in that it brought its entire membership together to negotiate a common set of rules to govern international trade, and in the process promote free trade. These negotiations are conducted during "rounds" of multilateral trade negotiations (MTNs). Eight rounds of

MTNs were held under the sponsorship of the GATT, which succeeded in liberalizing multilateral trade by lowering the tariff barriers. It is noteworthy that multilateral trade liberalization did not take place at a uniform pace, but in fits and start. The following seven rounds of MTNs, under the sponsorship of the GATT, were overwhelmingly dominated by industrial economies: Geneva Tariff Conference (1947), Annecy Tariff Conference (1949), Torquay Tariff Conference (1951), Geneva Tariff Conference (1956), the Dillon Round (1960-61), the Kennedy Round (1964-67), and the Tokyo Round (1973-79). In the eighth, the Uruguay Round (1986-94), the developing economies participated energetically. The GATT was amended and supplemented progressively, with the passage of time. In 1994, the edifice of the World Trade Organization (WTO) was created on the foundation of the GATT, relatively a smaller organization in terms of coverage of trade rules and membership. The WTO qualitatively evolved from the GATT and is a much larger organization. These rounds of MTNs succeeded in bringing about a dramatic stepwise reduction in trade barriers of different kinds. Multilateral trade exploded after the early 1960s. In constant 2000 dollars, it expanded from \$1 trillion per annum in 1970 to \$10 trillion in 2004 (GEP, 2007). It picked up momentum since the mid-1990s and increased from \$5.17 trillion to \$11.98 trillion between 1995 and 2006, that is, more than doubled.

During the post-Uruguay Round period, between 1995 and 2007, multilateral trade in goods and services expanded at almost double the growth rate of the developing economies. Historically, the rate of trade expansion and move to diversify exports has been uneven. The WTO is engaged in reducing the tariff and non-tariff barriers (NTBs) and other kinds of protection; its wider reach extends to areas not covered by the GATT in the days of yore. The first round of MTNs under the aegis of the WTO, the Doha Round, was launched in 2001 (Das, 2007a). Although the Doha Round was officially "suspended" in mid-2006, the concerted endeavors of the GATT/WTO framework fundamentally transformed the global trade institutional structure (Das, 2008). The WTO, in alliance with the Bretton Woods twins, supported the on going phase of trade liberalization and globalization in a significant manner. Together these three supranational institutions formed a strong institutional framework underpinning and advancing globalization.

Like trade flows, capital flows were buoyant in the first modern period that spanned between early nineteenth century and the World War I. Large volumes of investible capital gushed from the industrialized countries of Western Europe to the rapidly developing economies in Australia, Canada, Latin America and some developing countries, that were colonies of the European economies. Bairoch and Kozul-Wright (1996) quantified the capital outflows; at their peak they were 9 percent of GNP for Britain. For France, Germany and the Netherlands, this proportion was not much lower than that in Britain. During the first modern period, private global capital movements did not suffer restrictions. Much of these financial flows took the form of bond financing. They were essentially utilized, first, for the purpose of infrastructure construction, particularly railroads and ports, and secondly, as foreign direct investment (FDI) in the infant industrial sector in the capital importing countries. Britain was the largest capital exporter, Canada the largest importer, while the US was a relatively smaller one. The

free flow of capital before 1914 was aided by the fact that much of the world followed gold standard, that is, national currencies maintained convertibility into gold. According to the principles of international macroeconomic, this meant that countries could not use monetary policy instruments for stabilizing the domestic economies.

The outbreak of World War I caused global capital movements to come to a near standstill. They did not pick up until 1970. Liberal pre-War policy stance that propped up free capital mobility was abandoned. Gold standard was suspended by the belligerents and capital controls and exchange controls were put in place. As the Great Depression began, capital controls became increasingly stringent and extensive in their application. The reason was that each economy wanted to use monetary policy and fiscal measures to shield itself from deflation. This international monetary and currency regime proved to be ideal for de-globalization.

The contemporary phase of economic globalization is similar to, yet different from, the past episodes (Bernanke, 2006). One lesson of history is that not all forms of global integration can be regarded as beneficial and supportive of economic and social progress. Globalism took violent, unwholesome and harrowing turns in the past when the instruments of spreading it were the sword, the gun, the gunboat and the slave ships. This vicious aberration must not be allowed to supplant the voluntary spread of globalism even for a short period. Regrettably numerous periods of history recorded such deviations from the healthy voluntary variety.

The creators of the Bretton Woods regime drew lessons from the excessive volatility of the inter-War period and destabilizing speculation. The architects of the new international monetary system had committed to maintaining capital controls and opted for a currency regime of fixed but adjustable peg. This left macroeconomic managers free to use monetary policy to stabilize domestic economies and pursue the domestic objective of full employment. Reconstruction of the major European economies was completed by the mid-1950s, their current account convertibility was achieved by 1956 and they formally accepted the obligations of Article VIII of the International Monetary Fund (IMF) by 1961. Due to policies inconsistent with maintenance of their exchange rate parities, some European currencies came under speculative attack. The Bretton Woods system came under strain. The US gold reserves began depleting and the Bretton Woods system grew increasingly fragile. In 1965, the US Treasury imposed restrictions on capital outflows. Currency speculation began to get out of control and attempts to quell it failed. The Bretton Woods system collapsed in mid-1971 and global economy moved on to a floating exchange rate regime for the major currencies in 1973. Japan, Germany, the UK and the US, dismantled their capital controls by 1979 and the rest of the European economies by the end of the 1980s. Capital mobility was not incompatible with independent monetary policy, therefore it picked up momentum. Some developing economies also liberalized their capital accounts. Capital market integration began and geographically extended beyond those economies that participate in financial globalization during the first modern period, which had ended in 1914.

The 20th century was a period of remarkable transformation in the structure of production, growth in per capita output and developments in domestic and international financial systems. The pace of economic growth was ratcheted up by many notches. Technological advancements during this century drove an enormous increase in the production of goods and services, generating a great deal of material wealth. The 20th century “tamed capitalism” and boosted its productivity by providing the institutional underpinnings of market-based economies (Rodrik, 2007, p. 195). Declining transport and communications costs boosted international trade and investment. Also, the makeup of the international monetary system changed significantly and repeatedly during this period. Notwithstanding two devastating wars and the so-called Great Depression, economic growth in the 20th century did benefit from brief periods of partial and limited globalization, which spread division of labor to wider territories after the World War II. In addition, the improvements in financial intermediation and market practices alluded to above promoted the mutually beneficial exchanges between the net-saver and high-investing economies and economic agents, which in turn enabled them to productively use capital.

Economic impact of this limited period of globalization was clearly discernable in the average global per capita income, which increased five-fold. Conventional long-term GDP estimates show that the value of goods and services produced during the 20th century exceeded the “cumulative total of output over the preceding recorded human history” (IMF, 2002, p. 151)). DeLong (1998) computed that between 1900 and 2000, global GDP at constant prices increased 19-fold. This increase was far from evenly distributed; the latter half of the 20th century was far superior to the former. Maddison (2001; p. 125) went as far as saying that the global economy “performed better in the last half century than at any time in the past. World GDP increased six-fold from 1950 to 1998, with an average growth rate of 3.9 percent a year, compared to 1.6 percent from 1820 to 1950, and 0.3 percent from 1500 to 1820”. Real per capita income in the global economy rose by 2.1 percent a year during the latter half of the twentieth century compared to 0.9 percent from 1820 to 1950, and 0.05 percent over the 1500-1820 period.

In effect, global economic growth in the latter half of the 20th century was so much better and qualitatively different from any earlier periods in history that a “new perspective of the world economy was needed to comprehend it” (Lucas, 2000, p. 159). This rapid growth led to average global per capita income to more than triple in the second half of the last century (Kohler, 2002)⁸. Maddison (2003) firmly corroborated this fact.⁹ For North America, Western Europe, Japan this period was one of unmatched prosperity. Subsequently, East Asian economies followed this group. In particular, real income growth in the advanced industrial economies of North America, Western Europe, and Japan during this period was unprecedented compared with all other economies during

⁸ Horst Kohler, Managing Director, International Monetary Fund, “Strengthening the Framework for the Global Economy”, a speech given on the occasion of the Award Ceremony of the Konrad Adenauer Foundation, Berlin, November 15, 2002. Available on the Internet at <http://www.imf.org/external/np/speeches/2002/111502.htm>.

⁹ See Table 8-B, Maddison (2003).

all the previous periods. In the post-1950 period, resurgence of Japan and the other East Asian economies demonstrated that a significant degree of convergence with the mature industrial economies was feasible. The post-1978 China also credibly demonstrated the same (Das, 2007b).

This remarkable economic performance was no coincidence. The forces of globalization, in the subset of economies named in the preceding paragraph, were supported by institutional innovation that took place in them, which enhanced both legitimacy and efficiency of markets. Globalization not only powered ascent of the Chinese economy but subsequently also that of India. The two populous giants are presently being regarded as the new locomotives of global growth (Das, 2006). Brisk growth in these two economies and their progressive global integration was bolstered by the “material advancement unleashed by market forces” (Rodrik, 2007, p. 195). However, the flip side of the coin is that many countries did not benefit from globalization during the 20th century. Global income growth was also unevenly dispersed. The income gap between developing and industrial countries and the haves and have-nots within countries deteriorated.¹⁰ While the richest quarter of the world population saw its income grow six-fold during the 20th century, for the poorest quarter this increase was barely three-fold. Thus, despite its commendable economic achievements, the 20th century was also a period of markedly worsening income inequality in the global economy (IMF, 2001). Income discrepancies were larger at the end of the 20th century than those at the beginning. Between 1900 and 2000, the Gini coefficient¹¹ rose from 0.40 to 0.48 (IMF, 2002). Therefore the supranational institutions that played a supportive role and promoted globalism began to appear increasingly uncomfortable in this role.

2.2 Contemporary Phase: Vintage 21st Century

The second, or contemporary, era of market-driven globalization is deemed to have begun around 1980. Paul Krugman (2008) called it “the second great age of globalization”, comparable to the much quoted John Maynard Keynes’ familiar description of globalization on the eve of World War I. This time point is significant because for the first time in the contemporary period governments in the mature industrial economies, and increasingly in the emerging economies of the developing world, began to foster liberal economic policy regimes that were broadly supportive of globalization. Slashing trade barriers and liberalizing capital flows reflected this mindset of policy makers. This is not to imply that liberalization was adopted across the board and by all the countries, pockets of protectionism persisted.

The policy ambiance that began to develop since the early 1980s was that of lowering of artificial and policy-driven barriers to international transactions, which nurtured

¹⁰ The term industrial country has become a misnomer, because some of the emerging-market economies, like China, have become extensively industrialized. Contribution of industrial sector to their GDP is larger than that in the wealthy countries of the developed world, whose economies are overwhelmingly dominated by the services sector. These countries have become large exporters of manufactured products as well.

¹¹ The Gini coefficient is a standard measure of income inequality. It ranges between 0 and 1, with 0 being perfect equality and 1 complete inequality.

generally permissive policy background for global economic integration. The pace of global economic integration accelerated during the decade of the 1990s, as many governments reduced policy-induced barriers that impeded international trade and investment flows. These two decades witnessed an unprecedented revival of global economic integration. Consequently, volume and value of global trade and financial transactions rose dramatically. The revival was underpinned by technological advancements and given an impetus by international economic policies, born of multilateral cooperation. This process of global integration affected (and is affecting) the evolution of national, regional and global economies. Few economies, developing or industrial, have remained untouched by the influences of contemporary globalization. It has also had profound microeconomic impact as well as bearing on how the residents of different nation-states interact with each other.

A general policy shift towards greater reliance on market forces is one of the idiosyncrasies of contemporary globalization. While private enterprise was embraced, statist policies were rejected. Gradually, the post-1980 period saw momentous transformation in the global economy. Its characteristic features were rapid growth in multilateral trade and global financial flows, including FDI. The long-term average growth rate of FDI is approximately twice that of multilateral trade, which in turn grew almost twice the rate of global GDP growth. Furthermore, during the current phase of globalization multilateral trade and financial services are far more developed and deeply integrated globally than ever in the past. Transport costs continued to decline further with advances in containerization and far greater utilization of airfreight in international trade. According to Frankel (2000), average ocean freight and port charges, in 1990 dollars, declined from \$90 to \$29 between 1920 and 1990. A much larger proportion of cargo is now transported by air than in the past. Between 1930 and 1990, air transport revenue per passenger mile declined from \$0.68 to \$0.11. Modern transport revolution not only saves time but also dramatically reduces transport costs as a percentage of the value of the goods shipped, in the process strengthening the performance and profits of the trading firms. With rapid growth in FDI, operations of transnational corporations (TNCs) have expanded briskly. TNCs are widely regarded as agents of economic globalization. Behavior and production organization of companies of all sizes has changed dramatically in response to globalization; production of many goods and some services is increasingly organized globally. In addition, completely new methods of trade, like outsourcing and production networks, have come into being. With the passage of time they are growing increasingly matured, complex and popular.

Advances in the information and communications technology (ICT), the newest sinew of globalization, are responsible for a sea change in the global economy. ICT is a general purpose technology, or meta-technology, having a pervasive impact on economy. This industrial sector was dynamic, that is, rapidly changing, and depended relatively heavily on highly-educated workforce. Brisk progress in ICT influenced the economic and social parameters to an unmatched degree by increasing our ability to communicate and access information. Access to internet had grown rapidly and transport and communications costs continued to drop. In constant (1998) dollars, cost of a three minute New York-London telephone call in 1931 was \$293; in 1950 it came down to \$50

and in 2001 it fell to \$1 (Krueger, 2006). By 2007, it was down to a paltry \$0.23 (OECD, 2007).

Advances in ICT favorably influenced both the speed and scale of globalization during the contemporary phase. Advances in computing power as well as emergence and widespread utilization of the internet enabled sharp cost cuts in processing and transmitting information. They also facilitated international transactions in goods and services. Furthermore, the ICT-enabled services were instrumental in creation of regional production networks which exploited vertical specialization as well as geographical fragmentation of production processes to an unprecedented degree. The matured industrial economies have taken to large scale outsourcing of production of goods and services. As set out in section 5, due to creation of a globalized labor force, many of the production processes and services can be performed remotely. While vestiges of the model of international production chain existed in early twentieth century, this process is far more advanced and pervasive now than ever before. Dramatic improvement in value chain, or supply-chain, management have not only altered manufacturing processes but also reduced costs of production. Production processes have been broken down among globally distributed suppliers; techniques like just-in-time (JIT) enable efficient production (Section 5). Advent of a group of emerging-market economies (EMEs)¹² on the global economic stage, with China gearing up to take a conspicuous place, affected the global economy in an unmatched manner (Section 2.3). Ultimate outcome is close integration of a large number of, albeit not all, economies. While exclusive and distinctive in their own right, these remarkable attributes are being driven by the same fundamental forces, and are having similar effects, as they did in the preceding era of globalization. Technological advancement and advances in the mode of transport and communication are still major enabling factors.

¹² The term emerging-market economy (EME) was coined in 1981 by Antoine W. van Agtmael of the International Finance Corporation, the private sector arm of the World Bank. The developing countries in this category vary from small to large, even very large. They are regarded as emerging because they have adopted market-friendly economic reform programs, resulting in sounder macroeconomic policy structures. China is the largest and most important EME, along with several smaller economies like Tunisia. The common strand between these two economies is that both of them embarked on reform programs and consequently recorded rapid GDP growth. Both of them have liberalized their markets and are in the process of emerging onto the global economic stage. Sustained rapid clip GDP growth is the first indispensable characteristics of an EME. Many of them are in the process of making a transition from a command economy framework to an open market economy, building accountability within the system. The Russian Federation and the East European economies that were part of the Soviet bloc in the past fall under this category. Secondly, other than adoption of an economic reform program, an EME builds a transparent and efficient domestic capital market. Third, it reforms its exchange rate regime because a stable currency creates confidence in the economy and investors in the global capital markets regard it as fit for investment. Fourth, a crucial feature of an EME is its ability to integrate with the global capital markets and attract significant amount of foreign investment, both portfolio and direct. Growing investment—foreign and domestic—implies rising confidence level in the domestic economy. Global capital flows into an EME add volume to its stock market and long-term investment into its infrastructure. For the global investing community the EMEs present an opportunity to diversify their investment portfolios. Investing in the EME gradually became a standard practice among the global investors who wished to diversify, although they added some risk to their portfolios.

One characteristic of contemporary globalization is increased intra-firm cross-border collaborations in the form of joint ventures, non-equity agreements and minority participations enable firms to engage in producing products or services that are beyond the individual technical and financial resources and capabilities of firms. Such collaborations steadily increased since the early 1980s. Large and resourceful firms in mature industrial economies that are technology leaders frequently take initiatives in putting together such collaborations. An increasing number of small- and medium-sized firms have also begun taking such initiatives and devising ways to form cross-border inter-firm collaborative ventures. The commonest sectors for such collaborations include electronics, aerospace, telecommunications, computers and automobiles. R&D-intensive industrial sectors are regarded as particularly appropriate for cross-border collaborations. Therefore, these sectors have become relatively more globalized. Concentration of collaborative activities is presently found between firms in the OECD economies, East Asia and China, Latin America and Eastern Europe. In these parts of the global economy, inter-firm collaborative ventures are made both intra-regionally and inter-regionally. Indeed, firm, industry and country differences play a role in this kind of global industrial collaborations.

In terms of scale, the contemporary era of globalization is unmatched. Never in history had global integration involved so many people, both in absolute numbers and as a percentage of the global population. For instance, in the latter half of the nineteenth century when economically advanced economies of Europe were integrating with North America, Australia and Latin American economies, their total population was half the size of the advanced economies. In contrast, only China and India represent 2.5 times the current population of the mature industrial economies. Similarly, the scale of goods, services and capital traded at present is unprecedented. The contemporary globalization is also marked by a large broadening of range of products and services that have become tradable. Trade in services has become the fastest growing component of multilateral trade. This is the consequence of having a far more open global economy than ever before. Trade consistently grew faster than the global GDP. Merchandise exports are 20 percent of the global GDP during the current phase of globalization, compared to 9 percent a century ago, during the earlier phase of globalization (Alexander and Warwick, 2007). Advances in the ICT has not only reduced the cost of communication but also made it possible to actively trade a range of services, such as accounting, which were regarded as non-tradables until the recent past, such as, financial, legal, medical, engineering and R&D. Although trade theory never took into consideration the precipitous decline in the communication costs of voice, text and data, they have considerable implications for trade. Lower costs facilitate communications between buyers and sellers, brokers and middlemen. They particularly affected trade in various kinds of services. In 1994, the WTO created a GATT-like institution, called the General Agreement on Trade in Services (GATS). Its mandate was to facilitate and monitor trade in services, which heralded a new era in the globalization of trade in services (Das, 2007). Volume of multilateral trade in services in 2007 was \$3.3 trillion (WTO, 2008). Restrictions of cross-border financial flows were markedly reduced by governments during the contemporary period and the so-called

soft infrastructure, which includes legal and accounting frameworks, has steadily improved.

An amber signal will not be out of place here. The contemporary era of globalization, like the previous ones, is not global. It has not benefited all the economies. There exists a country group that failed to benefit from globalization. Majority of the members of this group are located in sub-Saharan Africa. Not only poverty did not decline in these countries, but also in many cases it increased. The causes include their inability to liberalize their domestic economic structures and integrate with the global economy. Additionally, these countries suffered from deeper problems of political strife, social tensions, ethnic conflicts, and most of all poor governance.

2.3 Progressive Integration of the Emerging-Market Economies

In its scale and pace, the contemporary era of globalization is without equal and surpasses all the previous eras by a large margin. The volume of merchandise trade, which was 20 percent of global GDP in 2006, is one of the proofs of this fact. The corresponding proportion was barely 8 percent in 1913 and 15 percent in 1990. Global financial flows expanded more rapidly than multilateral trade during the contemporary phase of globalization. Financial markets are far more mature and investors use a large array of instruments, equities and derivatives (Bernanke, 2006). These examples and statistics do not state the full magnitude of current globalization.

At the end of the World War II several economies in Asia (China, India, Indonesia, Republic of Korea (hereinafter Korea), Malaysia, Taiwan and Thailand), Latin America (Argentina, Brazil, Chile, and Mexico) and Turkey in the Middle East had some experience of running their own low-technology manufacturing industries in areas like silk, cotton textiles, foodstuff and light consumer goods. This exposure to indigenous manufacturing activity provided them some industrial expertise and experience and they prepared to move into mid-technology manufacturing. If economic development is “a process of moving from a set of assets based on primary products, exploited by unskilled labor, to a set of assets based on knowledge, exploited by skilled labor”, these countries were ready to move from the first set of assets to the second (Amsden, 2001; p.7). Around the early 1980s, many of them began adopting proactive macroeconomic policies to liberalize their economies, structurally reform them and integrate with the global economy. They gradually emerged as the EMEs (Section 2.2), although Amsden (2001) preferred the term “late-industrializing economies”, which did not catch on and was rejected for a cliché. Integration of these EMEs with the global economy implies that the greater part of the world population is potentially integrating and participating with the global economy. The progressive and proactive integration of the larger EMEs, like the four Asian newly-industrializing economies (ANIEs), namely, Korea, Hong Kong SAR, Singapore and Taiwan, Brazil, China, India, the Russian Federation and South Africa, has been of especial significance in this respect. There are no historical parallels to this watershed development. It cannot be ignored that until a short time ago China and the Russian Federation were autarkic economies, while India was an inward-oriented economy, almost isolated from the rest of the global economy.

A traditional distinction was made by development economists and geographers. According to this taxonomy, the industrial economies were identified as the core and the developing economies as the periphery. With the progressively growing importance of the EMEs in the global economy, this distinction has become irrelevant. The old pattern of the core countries exporting manufactures, while the periphery economies exporting minerals, raw materials and commodities, no longer holds. An increasing proportion of manufacturing capacity has moved from the mature economies to the EMEs. Their integration with the global economy and contribution to global growth has been rising in the 2000s. According to the *World Economic Outlook 2007*, China, India and Russia alone accounted for one-half of the global economic growth in 2006. Led by China and India, EMEs expanded strongly in 2007 also. According to the projections of the IMF, the EMEs would continue to serve as the main engine of global economic growth in 2008 (IMF, 2007a).

Another aspect of the break down of the core-periphery paradigm is the reversal of capital flows. In the past, the core countries, in particular Britain, ran large current account surpluses and were large capital exporter to the periphery economies. In a reversal of this paradigm, presently US, the largest global economy, has been running massive current account deficits and is also the largest debtor economy in the world. To a substantial extent, its deficits are financed by EMEs that have enjoyed long periods of current account surplus.

3. Functionally Defining Globalism

Although it will not be unreasonable to assume that most knowledgeable readers have some familiarity with the concept, beginning with a functional definition would not be unbecoming. A definition is not a mere lexicographical pursuit. It has an intellectual objective, that to initiate and pave the way to understanding the issue at hand and provide an insight into it. Broadly defined, globalism implies networks of connections spanning multi-continental distances, drawing them close together economically, socially, culturally and informationally. Globalization in turn is generally conceived as the processes promoting and intensifying multi-continental interconnectedness, and thereby increasing the degree of globalism. The phenomenon of globalization assumes progressively increasing globalism, which in turn stands for an intensification of network of connections or multiplicity of relationships among economies and countries.

In its quintessential form globalization grinds down national boundaries and integrates societies and economies. Although the three terms, globality, globalism and globalization, are often narrowly defined in their economic meaning, they are broad in their meaning and implications.¹³ Driven by innovation and technological progress and with an objective to advance the material wellbeing, economic globalization has occurred over a long period of history. From an economic point of view, globalization represents a process of increasing international division of labor on the one hand and growing integration of national economies through trade in goods and services, cross-

¹³ See for a detailed exposition on this issue Clark (2001), Das (2004a and 2004b), Norris (2001) and Keohane and Nye (2001).

border corporate investment, and capital flows on the other. In the contemporary phase of globalization, technological innovations, particularly in digital technology, combined with swift world-wide reach of communications and falling transportation costs, have noticeably increased the possibilities for global production and exchange. That said, mere technological advancement cannot usher in the phenomenon of global economic integration. Economic globalization is a policy-induced process. It cannot take place without adoption of a liberalized policy stance at the national level. Trade and financial sector reforms and liberalization, followed by market-based institutional reforms are the *sine qua non* of global integration. Innovations in the ICT and popularity of the internet enabled the modern business community to access information and resources across the world and coordinate production activities in real time.

3.1 Multitude of Definitions

Several other narrow and broad types of definitional concepts have also evolved around globality, globalism and globalization. Given the depth of interest among the academic researchers in different social sciences, public policy mandarins and business leaders in globalism and globalization, it is not surprising there are several categories of definitions. Each set of scholar came up with his or her own definitions from his or her own perspective. The first to emerge were facile, flawed and cul-de-sac definitions. In this category of definitions globalization was presented as internationalization, liberalization, universalization and westernization. Conceptual globalism on these lines did not provide analytical value-added and was not insightful by any measure (Scholte, 2002). Other than being sharp, clear cut and revealing, a definition needs to raise insightful understanding of the issues at hand and provide empowering knowledge. Such an understanding would support our endeavors to transform our lives in a constructive, innovative, positive and creative direction. Bhagwati (2004) provided a definition based on the economic dimension of globalization, which included integration of the global economy by way of trade, FDI, movements of portfolio capital and bank capital of varying maturity, technological diffusion and cross border migration.

Potentially trans-planetary, and more specifically supra-territorial, linkages between people and countries are also regarded and conceptually accepted as globalism. Through the action of economic, socio-cultural, political and technological forces, the process of globalization can potentially unite the world into a single society. It is within the realm of possibilities. Although elements emphasized in different definitions differ, they are related to one another as well as they often overlap. The notions of globality and spatiality resonate strikingly well together; they portend to the essential arena of human and social activity. Some scholars see globalization as a reconfiguration of social space. To them, globality identifies the planet as a solitary site for various human and social exploits. Globality implies that while people and societies may live together in local, provincial and national realms, they also subsist in trans-border spaces where the world is a single unit or space (Scholte, 2005). Based on the types of networks, flows and "perceptual connections that occur in spatially extensive networks", Keohane and Nye (2001, p.14) identified four principal dimensions of globalism. These spatially extensive networks distinctly and discreetly fall in the following areas: (i) economic, including financial, (ii) military or strategic, (iii) environmental, and (iv) socio-cultural.

This typological distinction is indeed incomplete because several other dimensions of globalism can be easily conceived and have been noted above (Section 1). Economic geography has changed at all spatial levels, that is both within nations and globally. For instance, strengthening urbanization trend is an illustration of sub-regional spatial transformation.

Spatiality, mentioned in the preceding paragraph, is crucial to the modern concept of globalism. There are definitions that transcend the economic, financial and technological know-how variables and extend to other spheres of human activity and cover spatially extensive networks of interconnections. Being spatially extensive is a necessary condition of the contemporary globalization, albeit universality is not. Interaction among the spatially connected networks can take place as usual through the flow of goods and services, finance, information, ideas and people. They can be environmentally linked. These networks can also be extended to include national, regional and international security issues. Distance, a continuous variable, matters most in the spatial context. In addition, spatially to qualify as global, the network of relationships should be multi-country and multi-continental. Mere national and regional linkages and interdependencies cannot be considered a part of the globalization process.

3.2 Imprecision in the Definition of Globalization

Some economists and serious analysts spurn the use of term globalization and regard it as vague and imprecise. After innovation, globality, globalism and globalization are arguably the most ambiguous expressions. Helleiner (2000; p.1) regarded it as “slippery”, “ambiguous”, “subject to misunderstanding” and recommended “that it should be banned from further use”. In its vague form, the concept of economic globalization refers to the growing dimension of economic interdependence among neighboring countries, which in turn has been brought about by the increasing volume and variety of cross-border transactions in goods and services as well as cross-border factor flows. Those who lament the vagueness of the term globalization prefer global integration on the ground of it being more precise.¹⁴ This process implies the connectivity and interdependence of the world’s markets and businesses. As alluded to above (Section 2.1), global economic and financial integration occurs when countries lower barriers to trade and financial flows and open their economies up to trade and investment with the rest of the world.

Supra-territorial links between countries and people was another common implication of globalism. During the 1970s and 1980s, the phenomenon of growing inter-economy interdependence was referred to as “economic and financial interdependence”, “global interdependence” or simply “interdependence” by academic researches.¹⁵ A closely related concept and term during this period was “internationalization”, which can not be equated with globalization because it merely implies growth in interaction and

¹⁴ This is not without a flaw. Although the term “global” implies worldwide, in the strict sense of the term contemporary globalization is not worldwide. Many low-income countries have not been integrating with the global economy.

¹⁵ Some of the noteworthy writings are Keohane and Nye (1977) and Rosenau (1980).

interdependence between populations in different countries. This is an ancient process and has been going on for times immemorial. In comparison to globalism or globalization “interdependence” and “internationalization” were partial and limited concepts. Interdependence stands for single linkage between two economies or countries. The post-War Japan-US economic and strategic bond was inter-dependence, not globalism. The Closer Economic Relationship (CER) agreement between Australia and New Zealand is another example of economic and trade co-operation and, therefore, interdependence, not globalism. It does not imply a solitary linkage or a one-point bond like the CER. To be sure, such interdependencies are a part of, and contribute to, contemporary globalism.

3.3 Economic Globalism

Economic globalism is a constructive and creative dimension of globalism and visualizes global economy as an integrated marketplace. In its most fundamental form it implies that cross-border flows of goods and services, factors of production, in particular financial assets, as well as diffusion of technology takes place in a frictionless manner. Making political boundaries less significant, this process creates a single market in inputs and outputs and unifies global commodity and factor markets. It crafts complex economic relations of mutual support and interdependence between global economies. A network of micro- and macro-economic linkages evolves and enlarges and in the process national economies integrate in a global one. This is how economists perceive and comprehend globalism. From this perspective, globalization is a process of increasing division of labor on the one hand and progressive integration of national economies on the other. It critically affects the evolution of national economies and offers opportunities for growth and development. Some use globalization to refer to the endeavors of the supranational institutions to create global markets in goods and services and global economic governance; the principal institutions of the global economic governance being the two Bretton Woods twins and the WTO.

Ann Krueger (2000) defined economic globalization in the simplest possible manner as “a phenomenon by which economic agents in any given part of the world are much more affected by events elsewhere in the world than before”. Another down-to-earth definition of economic globalism or globalization can be integration and harmonization of economies and countries. This imagery of global markets developing and integrating into a seamless web was conceived by two well known globalization authorities, namely, Greider (1997) and Friedman (1999), whose views on globalization are absolutely divergent. No doubt, this vision of global economic integration is far from the present reality. While it has made a good deal of headway over the preceding three decades and economic life in many countries is linked to the global economy in numerous ways, integration of the global economy is still partial and limited. This is the conclusion of a wide range of empirical studies, too numerous to be cited here.¹⁶ Even without tariffs and non-tariff barriers, there are numerous barriers that create obstacles in achieving the objectives of frictionless cross-border flows of goods and services. For instance, markets for financial assets suffer from the famous “home bias” and diffusion

¹⁶ See for instance Helliwell (1998) and Frankel (2000).

of technology has many intellectual property rights related (IPR) bottlenecks. This vision of a globalized economy is expected to materialize only in a perfectly globalized world.

The phenomenon of economic globalism has arguably developed into one of the most important economic policy challenges of the twenty first century. It draws academic researchers, business leaders and public policy makers, who assume that globalization will continue to shape the global economy in the short- even medium-term. It has become a ubiquitous force that is affecting, if not shaping, the contours of major global economic and financial trends. Important economic and political events of the past three decades, like Chinese economic liberalization and ascent to the status of an imminent economic superpower, the collapse of the former Soviet Union and the advances in technology, are some of the important events that helped advance globalization. Onward march of the ICT revolution made an enormous impact over and catalyzed the contemporary globalization process. The ICT like electricity and steam is a general purpose technology (GPT) having a large potential for underpinning total factor productivity (TFP) growth. TFP is the measure of improvement in technology used as well as improvements in quantity of labor and technology. The GPT intensified both the penetration and reach of globalization as well as quickened its pace. It was also instrumental in accelerating the productivity growth in the economies that integrated globally. ICT is widely regarded as one of the focal components of what became known as the so-called “new economy”, which in turn helped advance globalization. Advances in the ICT also gave rise to a new generation of information products and technologies and are responsible for the birth to the “information economy”. It is a knowledge-based economy where innovative ideas and technology constantly improve and change manufactured products and services.

That being said, the contemporary phase of globalization is still in its initial phase, if not infancy. What future forms will globalization adopt and how will it shape the global economy is open to speculation. A lesson of history, which can not be overlooked, is that globalization tends to be fragile. It can slow down, come to a standstill, or even go into reverse. Its advance was stopped in the recent past by two catastrophic world wars and a deep and crippling economic recession. The 1913-45 period witnessed its reversal or de-globalization. However, barring a similar inopportune turn of events, globalization is likely to progress in the foreseeable future. However, whether this progress will be smooth and unabated or tentative and halting is an arguable point. Notwithstanding impress and unprecedented progress over the past three decades, policy ambivalence towards globalization at the end of the first decade of the twenty-first century was not without negative strands, antipathy and antagonism.

Economic globalism has synergized the economic forces, provided them a new territorial dimension and accelerated the expansion of market capitalism. In the nineteenth century, following the industrial revolution, the same economic synergy was experienced by the global economy, albeit on a smaller scale compared to the contemporary period. Aided by the modern technology, particularly the ICT, today it is enabling individuals and business corporations to influence actions and events around the world faster and deeper than ever in the past. Contemporary globalism is

restructuring the global capitalism and making concepts like north-south, core-periphery or the First and Third Worlds irrelevant, if not outdated.

In this book we would be essentially dealing with the economic and financial globalism. Intra-industry trade and accelerating exports of manufactures and services from the mature industrial economies and a set of high-performing developing economies has helped in the progress of economic globalization during its contemporary phase. Transfer of information and technology is also a subset of this category of globalism. Furthermore, creating global production networks by slicing the value chain, or vertical specialization, is the latest development and an idiosyncratic feature of this category of globalism (Section 5). Additionally, TNCs and large financial institutions in the mature industrial economies played a proactive role in devising and creating global networks in economic and financial areas. These economic agents and activities appreciably promoted and advanced the contemporary globalism.

3.4 Primacy of *Laissez-faire* Concept and Neoliberalism

The meaning of the term neo-liberal has been under dispute. It is used more by the opponents of neo-liberalism than by its supporters. I use it to imply that globalization necessitates the adoption of free-market policies. A common theme that runs through contemporary phase of economic globalism is that of integration of markets and economies in keeping with the *laissez-faire* theoretical concept in which state leaves economic activity to private sector business enterprises and individual households alone and limits its role watching over fulfillment of contractual obligation and building the required economic infrastructure.

According to the neo-liberal theory, the state's role is to underpin globalism by dismantling the protective barriers to trade and financial flows which it created in the past. The neo-liberal theory requires shrinking of government bureaucracy, maintenance of a balanced budget, lowering or eliminating of trade barriers, facilitation of exports, privatization, deregulation of capital markets and the domestic economy and opening banking and telecommunication sectors for private ownership and competition. The next logical step for the state is to create policy environment that stimulates global integration, as policy neutrality cannot possibly promote global integration. Technological innovation, declining transport costs and ICT advancements, while necessary are not enough for a successful integration into a globalizing world economy. Economic policy paradigm that emphasizes the positive features of a liberal policy regime is the *sine qua non* of a successful integration into a globalizing world economy. Economic liberalization of both trade and financial sectors is the basic premise of modern percept of globalization.

In accordance with the neoclassical economic principles, globalism calls for the creation of free and open markets, where "production, exchange and consumption of resources should unfold through forces of demand and supply, as they emerge from the uninhibited interactions of the multitude of firms and households in the private sector" (Scholte, 2005). From the *laissez-faire* viewpoint, a broad definition of politico-economic globalization can be a cluster of economic, technological and political innovations that

drastically reduce the barriers to economic, financial, political and technological exchanges between economies, in the process creating liberal economic regimes and internationalizing the domestic policy network. However, it was observed during the current phase of globalization that such peeling away of traditional barriers to exchange created policy challenges at the national level. It was not easy to resolve them and they frequently led to social friction.

Supra-national institutions and the multilateral financial institutions narrowly emphasize, as they should, economic integration brought about by trade and factor mobility. Global economic governance is a public good. The Bretton Woods twins, the WTO and the Organization for Economic Co-operation and Development (OECD) secretariat provide as well as dominate global economic governance. They are the promoters of neo-liberalism and contemporary globalization. Other supra-national institutions like the International Labor Organization (ILO) and the various United Nations bodies¹⁷ are eclipsed by them. The regional bodies that came into being during the post-War period as well as in the recent past predominantly have an economic focus. The only exception in this regard is the Council of Europe, which has a social and cultural focus. Accordingly, the definitions put forth by these supranational institutions have strong economic and financial penchant. The official World Bank definition of globalization limited itself to “freedom and ability of individuals and firms to initiate voluntary economic transactions with residents of other countries”.¹⁸ For the World Bank, this growth in cross-border economic activities is limited to international trade, foreign direct investment and capital market flows.¹⁹ Empirically it would translate into integration of world economies with greater mobility of factors of production and enhanced trade in goods and services. The former variable includes both direct and portfolio investment. The definition adopted by the International Monetary Fund (IMF) is not much different. It stated, “Economic “globalization” is a historical process, the result of human innovation and technological progress. It refers to the increasing integration of economies around the world, particularly through trade and financial flows” (IMF, 2001). The OECD defined economic globalization as “a process in which the structures of economic markets, technologies, and communication patterns become progressively more international over time”.²⁰

4. Multi-dimensionality of Globalism

Distinction between economic and non-economic dimensions of globalism or globalization has attracted a great deal of popular and scholarly attention. While they are equally significant, the non-economic forms of globalization are older than economic dimensions. Before delving into different dimensions of globalism, it must be stated that their demarcation often tends to be somewhat arbitrary. Also, different dimensions of

¹⁷ In particular the Economic and Social Council of the United Nations (ECOSOC) and United Nations Educational, Scientific and Cultural Organization (UNESCO).

¹⁸ Cited by Milanovic (2002).

¹⁹ See “What is Globalization” on the World Bank website at <http://www1.worldbank.org/economic/policy/globalization/ag01.html>.

²⁰ See OECD (1997), Chapter 1. A corollary of this definition is that competition becomes increasingly global market-based rather than national market-based.

globalism do not co-vary, ascend nor descend in unison and are in general independent of each other. They neither have temporal links nor commence during the same period.

Environmental globalization is widely considered the oldest facet of globalization. For thousands, if not millions, of years environmental and climatic changes were the decisive determinants of ebb and flow of human populations. There were some favorable consequences of environmental globalism. The New World²¹ crops enriched cuisine and nutritional standards in the Old World. Principal among them were maize, potato and tomato. Biological globalization turned out to be equally significant in the remote past and has had a great deal of impact over various facets of global life. History has long records of the spread of fatal and non-fatal epidemics from country to country and continent to continent. One of the earliest records is that of spread of smallpox from Egypt to China, Europe, and the Americas and eventually to Australia between 1350 B.C. and 1789 A.D. (Barquet and Domingo, 1997). Spread of plague from Asia to Europe in the fourteenth century and of pathogens from Europe to the New World in the fifteenth and sixteenth centuries are all well recorded in the medical annals. Several of these diseases and epidemics had highly fatal consequences in the recipient parts of the globe.

Conquering armies of Alexander the Great, three centuries before Christ, are a prominent example of military or strategic globalism. His empire stretched across three continents, from Macedonia to Egypt and way up to the Indus River basin in modern India, where he won a pyrrhic victory over the local king Porus and was forced to abandon his expedition and to retreat. This was probably the first, but by no means the last, example of military or strategic globalism. It continued during the following two millennia, until Pax Britannica in the nineteenth century and Pax Americana of the mid-Twentieth century. Alexander's victories were not limited to military supremacy. He was responsible for introducing cultural and informational globalism. He was instrumental in spreading the Western thought, philosophy and scientific knowledge to the East. His victories resulted in the spread of Hellenism to the parts of globe he had conquered. Thus, he became one of the first global purveyor of ideas and information. Ebb and flow of ideas and information is the most pervasive, if not the most meaningful, form of globalism. Over the past two millennia four great religions of the world, namely, Buddhism, Judaism, Christianity, and Islam, have managed to diffuse well over several countries and continents. Hinduism, an older religion, was geographically circumscribed to India and parts of Southeast Asia²² in the past but is adherent can be found in Europe and North America in the present era.

The concept of national and international security underwent a radical change during the post Second World War era. The potential scale and speed of new military conflicts grew rapidly and took enormous dimensions. Long-distance networks of

²¹ The expression New World is an old expression. When in use, it stood for Australia, Argentina, Brazil, Canada, and the United States.

²² The renowned ancient temples of Angkor Wat in Cambodia are dedicated to the Hindu god, Lord Vishnu, the preserver of the universe.

interdependence in the areas of national and international security led to the development of another dimension of globalization, namely, strategic globalization. Treaties or promises regarding the use of military force between alliances and threat between adversaries created global strategic networks. The cold war era spawned globe-straddling military and strategic alliances of power as well as parallel alliances among the neutrals and the non-aligned countries. Few countries were able to eschew being a part of one kind strategic alliance or the other.

Environmental globalism entails long distance movements of materials, biological substances, and other generic materials that threaten human health through the environment or oceans. Two of the most problematic examples of environmental globalism are ozone layer depletion and rising level of carbon dioxide and carbon monoxide in the earth atmosphere causing global warming, which adversely and directly affect the entire global population, flora and fauna. During 2005, the level of carbon dioxide in the earth atmosphere was measured at its highest ever level. Besides, spread of the HIV virus from central Africa to the entire globe in a short span of three decades also falls under environmental globalism. By 2000, China and India suffered from high incidence of HIV and potentially high mortality rate. Many of these adverse environmental changes were caused by reckless human activity. This is not to deny that some of them occur naturally also, without any human intervention.

Mobility of knowledge, scientific know-how and economic and financial concepts and techniques comprises socio-economic globalism as does the spread of other branches of knowledge. Movement of scientific ideas and technology transfer are also an important part of economic globalism. Long distance movement of ideas, images, and information comprises socio-cultural globalism. Diffusion of religion also falls under this category of globalism. Since the era of Pax Britannica, one socio-culture came to lead the others. The socio-cultures that follow the leader, try to replicate its institutions and social practices and mores. This phenomenon is described by the sociological expression "isomorphism". Socio-cultural globalism reacts with other kinds of globalism. Generally, there is a relationship between socio-cultural globalism on the one hand and economic and military globalism on the other. A rule of thumb in this regard is that the former follows the latter two.

Although ideas are a veritable force in themselves, in the past they followed the economic and military force. Together they transformed societies. Not only that, socio-cultural globalism also affected, and continues to do so, individuals, their personal identities, their attitude towards culture, politics, work, and leisure. It determined, and continues to determine, their definition of individual and social achievements. With the advancement of the ICT and advent of the Internet, the cost of global flow of communications has plummeted precipitously. The ICT compressed space and time and helped in creating a global civil society. Flow of ideas and cultural globalism and globalization increasing became independent of other forms of globalism and globalization. There are other types of globalism, some of which would necessarily be sub-sets of the principal types of globalism named above. For instance, political globalism is a sub-set of socio-cultural globalism.

Educational globalism represents the global spread of modern knowledge. It is aptly represented by the popularity of MBA degree that started in the United States (US) over half a century ago. Near global spread of business schools epitomizes globalization of educational trends. The most important dimension of educational globalism is diffusion of technology, which as stated above also has enormous economic ramifications and, therefore is also a part of economic globalism. Legal globalism is represented by the similar spread of legal practices and institutions. Other relatively more visible dimensions of globalism are those in the areas of entertainment, fashion, and language. The last named ones are comparatively overt in terms of their influence over individuals and societies.

Being multifaceted, globalization resulted in myriad of non-economic benefits. For instance, development of the Internet and the World Wide Web revolutionized the flow of economic, financial, political, educational and cultural information. Global awareness of serious long-standing environmental issues has led to enlightened public policies; two of the recent dramatic policies are the timely reaction of policy makers to ozone layer depletion and destruction of national forests. The world of academics and researchers has been transformed for ever. As in the previous era of globalization, rapid and easy communication and transportation around the world further underpinned globalization. In addition, development and wide use of life-extending medical technologies and drugs have contributed to health and physical welfare in many part of the globe.

5. Essence of Economic Globalization?

Like economic growth, economic globalization is a complex meta-process. As regards what is economic and financial globalization, what precisely it does and how it functions, history testifies to the fact that during various periods human ingenuity, innovation, endeavors and technological progress coalesced to formulate the phenomenon of economic globalization (Section 3.3). It caused progressive integration of national economies, which in earlier periods was regional while in the contemporary period wider and global. Even in the earlier periods, cross-border trade in goods and services and financial flows were the principal drivers of economic and financial globalization (Section 2). In the contemporary period, cross-border foreign direct investment (FDI) flows, including corporate investment and capital flows from TNCs, as well as bank and stock-market investments are also a part of the same process that buttresses globalization. Private capital flows from the advanced industrial economies to the developing economies surged to an all time high of \$1 trillion in 2007 (WB, 2008). This was the fifth consecutive year of strong global financial flows. Be it noted that bulk of these flows conventionally went to the high-performers in the developing world, the EMEs. Financial globalization affects the evolution of national and regional economies and provides them opportunities to accelerate economic growth, which is not to say that it does not entail challenges.

Like the latter half of the nineteenth century, the contemporary period of globalization was also technology driven. The ICT revolution has favorably affected productivity and improved cost structures in every aspect of economic life in firms, households and

governments. Even in an unlikely situation of no technological innovations taking place in other scientific areas, the accumulation of ICT technology would be enough to keep productivity rising for several years to come. Recent advances in the ICT have made an immense contribution to globalism in general. A particular contribution of the ICT to contemporary globalism is integration of global labor force. Technological innovations are creating a single global market for labor in jobs that can be undertaken remotely. Any product of service that can be digitized can now be globally shipped at almost zero cost. Labor force in some countries, that were inward-oriented or near-autarkic economies in the past, has now become part of a globally active labor force. In the process, the effective global labor force has increased fourfold over the past two decades (IMF, 2007b). Collapse of the Soviet bloc brought some 760 million workers to the global labor market, while opening of the Chinese and Indian economies added further 760 million and 440 million, respectively, to the global labor pool (Venables, 2006). Some suspect that all services sector jobs will eventually move from industrial economies to low-wage EMEs where labor forces are globally active. Therefore, this kind of globalization of labor force has generated tension in the labor markets in mature industrial economies (Section 5.3). However, they ignore the rising salaries in Bangalore and Prague. Supplies of low-wage off-shore talent in many EMEs were running low in 2007 (MGI, 2007).

Transfer of knowledge, particularly technological and managerial know-how, across international borders is an imperative part of economic of globalization. Shared production networks, or networked production (Section 2.2), both by manufacturers and services providers, first developed regionally and then became global. Heightened trans-border FDI flows facilitated the creation of these networks. They are another distinctive feature of the contemporary phase of globalization. Production networks were made possible by slicing up of value chain, which made it feasible to exploit the comparative advantage of different economies at lower levels of production by locating different parts of the production process in different countries. Production networks manage and distribute their products globally. They can work as a unit in real time on a global scale. A manufacturer can now have sub-assemblies and components of her product manufactured in different economies, while producing the final product in yet another cost-effective locale. Many parts of the production processes, which required face-to-face interaction in the past, and were essentially local activities, have been de-localized and are now conducted across great distances. Geographical dispersion of production processes, with assembly operations migrating to lower-wage economies, resulted in increase in vertical intra-industry trade in many EMEs, particularly those in East Asia. Creation of geographically diversified and sophisticated production networks was fostered by FDI. This strategy led to a steady increase in the share of EMEs' trade in multilateral trade. Importance of exports in their economies and exports-to-GDP ratio in these EMEs has risen to unprecedented levels. During the contemporary phase of globalization, millions of factories in spread over different EMEs have joined the global supply chains. Dramatic improvements in supply chain management took place and transformed the manufacturing processes out of recognition. This enumeration of driving forces of globalization is far from exhaustive because international trade in goods and services relative to world output could not have expanded so rapidly without

the adoption of liberalization of domestic macroeconomic policies and growth of an enabling network at the supranational, or the WTO, level (Section 5.2).

5.1 How the Globalization Process Operates?

In essence, there is little arcane about how the economic globalization process works. It implies progressively quickening international transactions among an increasingly number of economies, aided by technological advances. Quintessentially what globalization does is that it extends operation of free market forces beyond national borders. In the remote past these forces operated within a village market, then within an urban industrial sector or individual financial centers. By promoting division of labor, specialization and competition over a wider area, free markets allow scale economies to work in a much larger area and raise productive efficiency. As the forces of free market encourage specialization, the process of globalization allows individuals, firms and economies to concentrate their endeavors on their areas of comparative advantage, on what they do best, that is produce at lowest opportunity cost. The final result is enhanced economic productivity, increased productive efficiency and superior utilization of scarce resources.

Successful outcomes of globalism strengthen our belief in market as an economic institution. Globalization proves that market economy and operation of market forces are superior to any available alternatives. Therefore, globalism entails adoption of market-oriented policies in both domestic and international spheres. Liberalization of policy framework is one of the preconditions of globalization. That said, there is no gainsaying the fact that in most cases globalization can and does involve short run economic and social costs, which for some firms or economies can be high. Individual firms or economies need to seek problem-specific solutions for these problematic issues.

Thus viewed, globalization offers an opportunity for firms to exploit larger markets spread all over the globe. It strengthens the process of international division of labor. National economies grow and integrate with the global economy. Integrated markets expand economic freedom and spur competition among firms, leading first to higher microeconomic productivity and second macroeconomic productivity. Another consequence of market expansion is that they provide firms with greater access to capital, technology and cheaper imported resources, which in turn have a favorable impact over productivity. The final outcome is that economies that liberalize domestically and establish links with the global marketplace discernibly benefit by improving their TFP and enhancing economic welfare domestically. The EMEs of East and Southeast Asia as well as China exemplify such welfare gains—including TFP improvements—which resulted from domestic liberalization and globalization. Outward-orientation and global integration rendered dynamism to the East Asian economies and China. As a result this region was economically transformed in a short span of two generations.

Contrary to the popular views, there is copious of evidence that demonstrates the welfare-enhancing impact of globalization. However, the negative opinions are prevalent

among some quarters. They largely emanate from the fact that rapid cross-border flows of goods, services and factors of production can result in adverse economic effects over the domestic economy when domestic market failures and regulatory weaknesses exist. Both of these are needed to be dealt with directly by public policy makers, with the help of appropriate domestic policy measures. Managed appropriately, they will indeed reduce the costs of globalization. If the appropriate domestic policy measures are not adopted and implemented without vacillation, a danger of globalization backlash looms, which could stall, defer or reverse some forms of global economic integration. The ultimate effect would be undermining or loss of economic progress that has so far been achieved with the help of on-going global integration.

The process of globalization does need to be guided and needs the helping hand of domestic policy. Judicious and well-targeted domestic policy measures can successfully moderate the negative consequences of global economic integration. Policy makers should consciously try and strike a balance between risks and benefits of globalization. Additionally, the guidance of the globalization process should be such that benefits are maximized and costs remain controlled. For one thing, economic globalization should be guided to ensure that it is more inclusive than it has so far been. For global economic integration to perform at its best, appropriate national and regional institutions are needed as much as efficacious supranational institutions ensuring global cooperation.

Incontestably globalization can be a pro-developmental force, but for globalization to achieve domestic policy objectives, like poverty alleviation, domestic political decision, policy support and action are essential. Without them, the pro-development impact of globalization process cannot be taken as a given. The productive and innovative forces of the on-going globalization need to be harnessed. The method of doing so is adopting development policies and strategies that aim at addressing both the challenges and opportunities offered by the on-going globalization. These strategies are *sui generis* and need to be tailored to the specific needs of each country. There can be few generalizations in this regard. However, some generalizations can be made regarding the creation of a conducive development environment in an economy that is seeking to benefit from the on-going global integration. Having good governance at all levels, transparency and rule of law, a sound economic strategy, and most of all adoption of market-oriented economic policies would indeed go a long way in achieving this objective. They should be supported by an adequate domestic institutional infrastructure. Thus, for globalization to yield desired propitious economic results, both the role of the government and the role of the market need to collaboratively intertwine. Briefly put, this is how globalization can work towards providing welfare-enhancing results.

5.2 Neoliberal Policies Promoting the Contemporary Globalism

Over the last three decades, in the economic policy and governing circles in a large number of countries, free market and neoliberal economic philosophy took hold. It supplanted interventionism. This was a major shift in the conventional wisdom and a return to the nineteenth century thinking of liberalism and deregulation. It was along the lines of what Adam Smith had advocated in terms of elimination of government intervention in economic life, encouragement to free private enterprise, no barriers to

commerce and promoting competition. In its essential form, this economic philosophy promotes uninterrupted operation of market forces and the laws of demand and supply governing producers and consumers. Institutions that interrupt the market forces tend to create systemic and market inefficiencies, therefore, they should keep the lowest profile in the markets. Privatization, liberalization and deregulation were the principal pillars of the current neoliberal economic strategy that supported the current wave of globalization. Popularity of maxims like the so-called Washington consensus²³, which since 1990 became something of an economic ideology, had a great deal of impact over national economic strategies. It held that good economic performance required liberalized trade, macroeconomic stability and getting prices right. The supranational institutions considered it as nirvana for the developing economies and that it accelerated globalization, albeit not at a uniform pace. This strategy was posited by John Williamson and christened after the Washington-based supranational financial institutions.²⁴ While the Washington consensus has had its halcyon period and was regarded as indispensable for the repertoire of policy mandarins, it has presently lost its sheen and has been criticized by some noted economists (Serra and Stiglitz, 2008). In accordance with this strategy, many policy mandarins set out to adopt neoliberal economic strategy to create and underpin world-scale liberal markets, resulting in the on-ward march of globalization.

With the adoption of the neoliberalism, the contemporary phase of globalization promoted government bureaucracies becoming increasingly staffed by apolitical technocracies. In particular, running of the central banks and formulating monetary policies became distanced from the elected public officials. Independent subject matter experts or technically trained professionals began to have greater role in running the economic, financial, monetary and commercial affairs in the national government

²³ John Williamson reasonably argued that the set of policy reforms that would serve the developing economies, particularly those of Latin America, well should encompass the following ten propositions: emphasis on fiscal discipline, a redirection of public expenditure priorities toward fields offering both high economic returns and the potential to improve income distribution, such as primary health care, primary education, and infrastructure, tax reform (to lower marginal rates and broaden the tax base), Interest rate liberalization, a competitive exchange rate, trade liberalization, liberalization of FDI inflows, privatization, deregulation (in the sense of abolishing barriers to entry and exit) and secure property rights. Its essential emphasis was on deregulated markets.

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systems. However, elected public officials kept the reins of fiscal policy. In many a macro-economy, a consciousness of designing national economic policy in such a manner that the economy is able to improve its TFP as well as competitiveness in the global market place dawned for the first time. The role of technology in underpinning the contemporary globalization has been alluded to above.

5.3 Unforeseen Side Effects

Much to the chagrin of these policy makers, they discovered that globalization did not benefit everybody. While it did benefit some, it passed others by. The neo-liberal policies adopted during the process of globalization had serious down sides, economically and socially injurious effects that were not anticipated. Globalization has impinged on global prices of goods, services and those of factors of production. Several large industrial sectors in the mature industrial economies, particularly their lower-technology ends, began to suffer from serious unemployment. In many cases these job losses were permanent, which in turn caused social disruptions. Globalization was squarely and entirely blamed for these job losses.

Cross-border movement of trade in goods and services was much swifter in the contemporary phase of globalization than in the earlier phases. However, what operation of free market forces and opening to global marketplace do not and cannot ensure is that the benefits of division of labor, specialization, efficient operations and higher TFP are uniformly shared by the population. Consequently, increasing economic inequality and worsening Gini coefficient in many EMEs became strong denigrating points against the contemporary globalization.²⁵ One of the causes of which is that in some economies global integration caused job losses. The globalizing economies must devise and provide domestic policy support to achieve income equality and address unemployment.

Growing income inequality argument has also been made at the economy level, that is, globalization is said to have spurred income inequality among countries. Many of the poorest economies, like the countries falling under the rubric of the least developed countries (LDCs)²⁶, were adversely affected by the onward march of globalization. From

²⁵ See Milanovic (2006) for an explanation of how globalization affects income inequality in the developing economies.

²⁶ In its latest triennial review of the list of Least Developed Countries (LDCs) in July 2006, the Economic and Social Council of the United Nations used the following three criteria for the identification of the LDCs, as proposed by the Committee for Development Policy (CDP): (1) a low-income criterion, based on a three-year average estimate of the gross national income (GNI) per capita (under \$745 for inclusion, above \$900 for graduation); (2) a human resource weakness criterion, involving a composite Human Assets Index (HAI) based on indicators of: (a) nutrition; (b) health; (c) education; and (d) adult literacy; and (3) an economic vulnerability criterion, involving a composite Economic Vulnerability Index (EVI) based on indicators of: (a) the instability of agricultural production; (b) the instability of exports of goods and services; (c) the economic importance of non-traditional activities (share of manufacturing and modern services in GDP); (d) merchandise export concentration; and (e) the handicap of economic smallness (as measured through the population in logarithm); and the percentage of population displaced by natural disasters. A total of 49 countries fall under the category of LDCs.

time to time, international community has extended a helping hand to them. Further help can be extended in the form of policy advice as well as transfer of tangible resources.

While growing integration of financial markets progressed at a brisk pace and resulted in several welfare-enhancing effects, there was an unforeseen downside.²⁷ Financial globalization is seen as a disturbing source of financial market volatility by some, who regard it as a serious byproduct of globalization. Since the “tequila” crisis in Mexico in 1994, several EMEs suffered from financial crisis. The Asian financial crisis of 1997-98 mauled not only several dynamic Asian economies but also the regional economy. Spread of the US sub-prime mortgage crisis globally in early 2008 was the latest example. Growing financial globalization does predispose the global economy to crises. The reason is that it makes regulatory authorities relax or repeal financial restrictions and regulations that had made this kind of crises impossible three decades ago. Accumulation of large short-term external debt during that period was difficult, if not impossible.

A characteristic of the contemporary phase of globalization is that cross-border movement of labor force was far from swift.²⁸ This is a weak link in the contemporary globalization. Large-scale movements of labor were instrumental in the integration of the global economy during the first modern period of globalization during the nineteenth and early twentieth centuries but not in the contemporary phase.

These downbeat developments gave rise to skepticism and disaffection regarding neoliberal economic strategy and spread of globalization. Other than media and political leaders, some noted economists drew attention to both the conceptual and implementation related flaws that the contemporary globalization suffers from (Stiglitz, 2003)²⁹. Individual economies need to devise tailored solutions to their specific globalization-driven predicaments. Strident call for de-globalization became frequent. Reforms and re-globalization on a Keynesian direction were also proposed.

6. How the Contemporary Phase of Globalization Differs

In the contemporary period of globalization, the EMEs have become active economic players, unlike the previous era of globalization which was overwhelmingly dominated by the industrial economies of the erstwhile period. Several of them have grown into not only sizeable producers of goods and services but also leading markets. Going by sales statistics for the first half of 2008, Russia became the largest car market of Europe,

²⁷ One logical outcome of this kind of integration of the global economy should be convergence of interest rates, which has not come about.

²⁸ In spite of technological advances and resulting improvements in modes of transport of labor in the contemporary period of globalization, cross-border movements of labor force are far less than that during the Pax Britannica. The world grew far less liberal in the area of labor migration than it was during the previous era of globalization. Due to cultural and political reasons, movements of labor have tended to become restricted. Some industrialized economies have also experienced potent backlash against inward flows of immigrants, which has been sharply worsened by illegal immigration. An identical observation can be made regarding the advancement in financial globalization.

²⁹ The earnest tone and thorough analysis of this scholarly book instantly made it into one of the most widely read books on globalization during the recent period.

outstripping Germany (O'Neill, 2008). US exports in mid-2008 were growing at the rate close to 20 percent. The same phenomenon was discernible in Japan, Germany and the United Kingdom. Rapid market expansion in the EMEs was one of the principal factors responsible for the acceleration in export expansion in the advanced industrial economies.

Since the early 2000s, a sharp increase has been noted in the firms from the large EMEs acquiring prestigious established corporations in the mature industrial economies. Acquisition of the renowned US beer manufacturer, Budweiser, by a Belgian-Brazilian conglomerate, of GE Plastics of the US by a Saudi Arabian firm, of Corus Group of Britain by the Tata Group of India and Aluminum Corporation of China taking a large stake in Rio Tinto, are some of the prominent examples of acquisitions of the last two years (2006-08). During the post-August 2007 credit crunch period in the US, sovereign-wealth funds (SWFs), cash-rich state-owned investment funds from the EMEs and Gulf Cooperation Council (GCC)³⁰ countries, invested massive financial resources to several prominent US financial institutions, like the Citigroup. Many of these financial institutions were in dire strait during the sub-prime financial crisis and sorely needed capital infusion for strengthening their capital bases. The role of the SWFs in global finance increased significantly.

Rapid growth in the EMEs has worked to the benefits of the large and established firms in the advanced industrial countries. During the current phase of globalization, as the EMEs grew in economic importance, some of the large established TNCs from the advanced industrial countries increased their stake in them. For instance, IBM employed 2,000 information technology (IT) engineers and technicians in India in 2000, this number shot up to 73,000 in 2008. Between 2008 and 2013, IBM expected to increase its revenues from these economies from 18 percent to 30 percent (*The Economist*, 2008a).

The conventional meaning of economic globalization thus far was the flow of economic ideas, capital, technology, business knowledge and acumen and resources from the high-income industrial economies to the emerging-market and developing economies. Since the advent of the contemporary phase of globalization the latter country groups integrated with the advanced industrial economies and in turn benefited. In that the business firms and TNCs from the advanced industrial economies expanded into the EMEs and the developing world through their subsidiaries and other means, in the process enabled them to integrate with the global economy and improve their TFP, which had enormous welfare implications.

The unidirectionality has been progressively eroding. The contemporary globalization is multidirectional and polycentric. In the contemporary shifting backdrop, economic globalization flows both ways, that is, from the EMEs to the high-income industrial economies and back. It also flows among the various EMEs, and they influence each other's economies. For instance, a little known Indian company overwhelmingly

³⁰ The Gulf Cooperation Council (GCC) was established in 1981. Its members are Bahrain, Kuwait, Oman, Qatar, Saudi Arabia and the United Arab Emirates (UAE).

dominates small-motorcycle market in several high-growth markets, like Colombia, Egypt and Mexico. A Brazilian company owns the largest Canadian nickel mining company. A Chinese baby-stroller maker not only has a strong grip on the domestic market, with 80 percent market share, but also caters for almost a third of the US market. Thus viewed, unidirectionality of economic globalization is rapidly becoming an attribute of the past. The past imagery of economic globalization, which was conceived in terms of “coca-colaization” or “Americanization”, is not applicable for the contemporary period.

Business firms from the EMEs have increasingly been adopting significant postures and making their presence felt in the world market place. In 2008, the so-called *Fortune*-500 list included 62 firms from the large EMEs, up from 31 in 2003 and 23 in 2000. EMEs have their own TNCs, some of which have become a force to reckon with. Embraer, Lenovo and Arcelor Mittal, owned by Brazil, China and India, respectively, are three such examples. Haier, a white-good firm from China, Cemex, a Mexican cement producer, Infosys, an Indian software giant, have earned respect for their global operations and finely honed competitiveness. Samsung of Korea and Acer of Taiwan are well-recognized brands. Such corporations from the EMEs are changing the world of business. They followed innovative practices not only in their product designs but also operational techniques and business models. This category of multinationals has been assuming leadership positions in their respective markets, posing a serious challenge to established leaders from the advanced industrial economies.

History repeats itself. This challenge by the multinationals from the EME is reminiscent of the vigorous and fast expanding firms from the US challenging those from Europe in early twentieth century, and more recently, Japanese firms challenging those from the US during the post World War II period. The new market leaders from the EMEs are providing established players valuable lessons in competing in an era of globality. Many of them have devised creative and ingenious approaches in cost control, local customization, building multinational executives teams, which enabled them to acquire their global leadership positions. The reasons behind the intensified competitiveness of the EME firms include the fact that they grew up in cost-challenged and hypercompetitive markets in the period before they began to globalize, which honed their business acumen and prepared them for the challenges of the contemporary global markets. Also, in a globally integrated economy they could readily access the modern technology, expertise and business practices and adapt them to their objectives. In many of the EMEs, senior executives are trained in the top-echelon business schools in the West. Their aspirations for success drive them hard.

In the contemporary world of business, every firm competes with every other firm for markets and resources. Sirkin *et al* (2008) termed the multidirectional flows of business and financial operations the new “globality”, which is fast supplanting the old globalization model. Large business corporations and TNCs have been distancing themselves from the the concept of a center. In this regards, some like Lenovo, the Chinese computer giant, went as far as working without a corporate headquarters. In this newly evolving corporate ethos, no market is regarded as too small or too remote

from the perspective of cost advantage, obtaining resources and exploitation of business opportunities. The concept of foreignness has grown outmoded and irrelevant. The incumbent corporate leaders from the advanced industrial economies have been adapting to the transforming global business scenario by adapting the principles of globality, in the process decentralizing decision-making and redeploying assets to build commerce within the emerging regions. By breaking down the old silos, the established corporate leaders of the past can regain, or continue to maintain, their positions. Their new frame of thinking will need to include drawing on the uniqueness of the assets, capabilities and perspectives of the EMEs (Sirkin *et al*, 2008).

In the past, when the TNCs from the high-income economies expanded their operations, their objective was to cater to the local demand in the economies they were entering. No more. The long established business model which was centralized, top-down and process-driven, with trends and influences running from West to East, is a receding breed. During the current phase of globalization, the basic intent of the TNCs is to expand and integrate their enterprises and operations globally. They now endeavor to create a single corporate entity in which work is sourced wherever it is performed most efficiently, in a cost effective manner. Their new focus is to build a global corporation that is seamlessly integrated across time zones and cultures (*The Economist*, 2008b; p.20)

7. Summary and Conclusions

While the terms like globality, globalism and globalization came to be used in economics and other social sciences in the latter half of the twentieth century, the concepts have a long pedigree. Although contemporary era of economic globalism is barely three decades old, neither the essential concept of globalism is novel nor is globalization a new phenomenon. As the three terms are embraced by different social sciences, they have been variously defined. Consequently there are myriad of competing definitions. While widely in use, these expressions take on imprecise meanings and are often poorly understood and conceptualized. As the concepts of globality, globalism and globalization cover a wide subject area, they are shared by several social sciences. They are deployed across disciplines and across theoretical approaches. Since the turn of the century, their academic and intellectual significance has been on the rise. Economic globalism is only one strong and constructive dimension of globalism. A good deal of the literature surrounding this concept is multidisciplinary.

Briefly this working paper provides a historical perspective of two millennia of economic globalism, touching upon various arresting periods and time points. Several recently revealed facets of history have been mentioned. Globalism tends to be multi-dimensional, therefore a distinction between economic and non-economic dimensions of globalism or globalization has attracted a great deal of popular and scholarly attention. The definition of globalism has been an issue of animated debates among scholars. Therefore, after providing and discussing a functional definition of globalism, other broad definitional concepts have been focused. The phenomenon of economic globalism has arguably developed into one of the most important economic policy

challenges of the twenty first century. It draws academic researchers, business leaders and public policy makers, who assume that globalization will continue to shape the global economy in the short- even medium-term.

Like economic growth, economic globalization is a complex meta-process. This working paper analyses the essential elements of economic globalization. What is economic and financial globalization, what precisely it does, how it functions and how the globalization process operates are the subsequent themes of examination. Globalism is neither good nor bad *per se*; it can have both positive and negative consequences. Policy makers need to exploit its opportunities and concurrently limit its risks. While there are short-run costs, in the long run it provides productive and economic efficiency and superior utilization of scarce resources. The basic factors promoting the contemporary globalism have been discussed. Saliency of the role of ICT in the contemporary globalization cannot be overlooked. Over the last three decades, in the economic policy and governing circles in a large number of countries, free market and neo-liberal economic philosophy took hold. Popularity of neo-liberalism among the policymakers provided a strong impetus to the contemporary globalization. Spread of production networks and outsourcing as well as the emergence of a new sub-group of developing economies as EMEs are some of the important idiosyncratic features of globalization. Globalization also has unforeseen downside, which has resulted in economic cost and social distress.

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