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GLOBALIZATION: CHALLENGES AND OPPORTUNITIES

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Abstract:

The word globalization, as commonly used, is largely a descriptive and not an analytical category. This paper attempts to give the term analytic content. It then focuses on both the positive and normative analysis of globalization. Trade, environment, finance and gender issues receive special attention. A global governance structure based on transparent principles of both economic efficiency and social justice is shown to be a desirable state of affairs; however, the present fractured process of globalization is more likely to end up in regionalism or even national protectionism and rivalry. Multilateral cooperation on the basis of the framework advanced here is an urgent necessity.

Introduction

The main purpose of this paper is to address a puzzle: why is there such a tendency towards regionalization and even nationalist protectionism despite the rhetoric of globalization, the structural adjustment policies of the IFIs (International Financial Institutions), and the recognized merits of a rules-based global system? The main argument offered is that there is a contradiction in the heart of the current US and the IFIs-led globalization that stems from their seeming refusal to understand the implications of unevenness in the real world. This also has led to their neglect of some vital principles of global justice. By ignoring issues of equity, the current leaders of globalization now risk losing economic efficiency if the world becomes further fragmented. Thus, my purpose is to try to understand 'globalization and its discontents' (Stiglitz 2002), and offer some guiding principles to move forward.

With frequent use the word globalization has by now acquired the status of an academic cliché. For many, the twin tendencies of the globalization of production and the emergence of a new international division of labor represent deep structural transformation of the world economy. In some sense, this is clearly true. But as some observers have recently pointed out (Harris, 1998, Khan, 1998) the word globalization, as commonly used, is largely a descriptive and not an analytical category. Furthermore, as a descriptive term its proper use requires a historical perspective that is often missing in the vast and growing literature. When viewed historically, it appears that globalization is a contradictory process of international economic integration that was severely interrupted by the first world war, the great depression, and the second world war. The emergence of the Bretton Woods framework can be seen as a way to integrate the world with respect to trade while controlling the flow of private capital. The demise of Bretton Woods has set in motion forces of capital account liberalization that are often the most visible aspects of 'globalization'. However, even this process is fraught with new instabilities as evidenced by the Mexican and — more recently and even more dramatically — by the Asian financial crisis. At the same time integration of trade even within the standard neoclassical Heckscher-Ohlin-Samuelson model would imply a fall in the wages of unskilled workers of the north thus increasing inequality there (Krugman, 1996; Wood, 1994). The south is supposed to experience a more equalizing effect through trade; but empirically, there is very little evidence of this happening. Therefore, it is necessary to treat the rhetoric of globalization with caution. At best, we are experiencing a 'fractured' globalization (Harris, 1998).

Nevertheless, during the past few decades, the structural changes that took place in the world economy have brought about increased cross-border economic relations and, relatively speaking, a global economy. The internationalization of trade and foreign investment, aided by the worldwide deregulation of financial markets, has promoted economic integration and regional unions (Cook and Kirkpatrick, 1997). A new division of labor and a qualitatively different type of resource utilization, production and capital accumulation have emerged. The most significant effect of the recent structural change in world economy has been the creation of global interdependence and an economic global village.

Although integration of the world economy is not exactly new, these structural changes have added up to a qualitative alteration in the organization of global markets, namely, one involving a shift away from international trade towards international production and the domination of international finance and the man-made brainpower industries (Thurow, 1996). As Cook and Kirkpatrick (1997) put it,

The internationalization of economic activity is not a new phenomenon...The recent growth in international integration is qualitatively different, however, from the earlier expansion of international trade, in that it has been characterized by the intensification of economic linkages

that transcend national boundaries, often at the functional level (p. 55).

In the previous years of economic integration, international trade and the reduction of trade barriers played the leading role in integrating the world economy while in today's global economy the main key players are multinational corporations and the growing finance and capital markets as well as information and computer technologies.

Since the early 1980s, multinational corporations have increased not only in number but have also seen their share of foreign investment grow tremendously. In the early 1990s, there were about 37,000 multinational corporations that controlled some 170,000 affiliates and the global stock of FDI constituted about \$2 trillion (Cook and Kirkpatrick, 1997). Today, some multinational corporations' turnover is greater than the GNP of some developing countries.

Globalization has also been enhanced by the rising importance of the financial market and financial institutions that are dominating global economic relations. Deregulation of the financial market and liberalization of foreign exchange policies have increased the flow of finance between countries and brought about the integration of the world economy.

As the effects of globalization and regionalisation are felt in every part of the world, social scientists have begun examining and debating these two concepts, their relationships, and the implication they are likely to have on the growth and welfare of developing countries. Among scholars there are clearly areas of dispute. Some scholars such as Hirst (1995) question whether there is such a thing as a globalized economy while others (Thurow, 1996; Ohmae, 1996) suggest that a qualitatively new form of economic integration has set the stage for the emergence of globalization and regionalization. Also, social scientists debate whether globalization and regionalization are enhancing the welfare of developing countries or marginalizing them, and thereby perpetuating regional and socioeconomic inequality.

In this paper we will examine the essence of globalization and regionalization, their relationship, and the implications they may have for developing countries. We will also point out the contradictions between the global flows of capital and the local needs and sensibilities. At the end, we will see that this contradiction points to a need for understanding both the structural and normative aspects of globalization especially as it relates to development.

Fractured Globalization Within a Normative Framework of Analysis

As mentioned at the beginning, globalization has been the buzz-word of the 1990s. As a process of change, globalization extends beyond the realm of politics and economics to embrace science, culture and lifestyles (Griffin and Khan, 1992). As such, globalization is a "multi-dimensional phenomenon applicable to a variety of forms of social action--economic, political, legal, cultural, military and technological--and sites of social action, such as the environment" (Perraton et al, 1997: 258).

There is no consensus among scholars as to the definition of globalization, or its effect on our lives and behavior. Some scholars have attempted to explain globalization as a political concept (Gills, 1997) while others elucidate the concept within the framework of recent economic, political and environmental developments (McGrew, 1992). Some focus on the positive impact of globalization; still others emphasize its adverse effects on income and social inequality, women and the poor (Sen, 1997, Gills, 1997). Others underscore the impact of globalization on the nation states and argue that "nation states have already lost their role as meaningful units of participation in the global economy of today's borderless world" (Ohmae, 1996:11). Yet others focus on the contradictory forces of integration and fragmentation in a postmodern world (Khan, 1998; chapters 6 and 7).

Since globalization has significant implications for numerous nations, individuals and communities, it is imperative to clearly define and examine its implications. A sine qua non for this is to conceptualize the

term clearly. This is what we intend to do. In simple terms globalization refers to the integration of the world economy in such a way that what is unfolding in one part of the world has clear, sustained and observable repercussions on the socioeconomic environment and lifestyles of individuals and communities elsewhere. As McGrew puts it, globalization is "the forging of a multiplicity of linkages and interconnections between the states and societies which make up the modern world system, as well as the process by which events, decisions and activities in one part of the world can come to have significant consequences for individuals and communities in quite distant parts of the globe" (1992, p.262). However, in order for the term to have genuine analytical significance it must be a part of a theory of globalization. Furthermore, in order for significant policy implications to emerge the theory must have a normative focus as well. Khan (1998) has proposed such a theory in the context of a postmodern world. In brief outline the structural forces in the global economy push towards integrating markets and regions. However, many markets are embedded in national economies; there are also non-market aspects of social and cultural lives of people that are threatened. As a result we find the contradictory phenomena of McWorld and Jihad (Barber, 1995). The creation of a genuine global society, which many see as the ultimate outcome of globalization then necessitates meeting the requirements of global justice. Khan (1998) mentions at least 5 areas, where the norms of global justice must evolve (among others):

1. *International trade and monetary regimes:* The current asymmetric system of payments which penalizes the deficit countries by forcing only them to bear the costs of adjustment needs to be made a global burden sharing institution. The World Trade Organization, similarly, needs to acknowledge the historical imbalances in the world trading system. For example, specialization according to static comparative advantage may lock the developing countries in a relatively backward situation in the emerging global division of labor.
2. *International capital flows:* From the perspective of many people in the developed economies capital flight to LDC's (with or without free trade agreements) may constitute a barrier to well-being, at least in the short-run. At the same time foreign direct investment in LDCs may create only low-wage, marginal jobs (Wood, 1994). A just approach to FDI must consider the effects on both the north and south in terms of self-determination. A controlled capital flow accompanied by improvements of wages and working conditions in the south may be the most desirable solution.
3. *International ecological considerations:* Global interdependence has been increasingly recognized in this area. However, it is not clear what justice demands in terms of the relationship between the north and south. Other things being equal, the enforcement of strict environmental standards would seem to be just. However, such standards may destroy the livelihood of some people in the south, it is sometimes argued. A global tax and transfer scheme would seem to be the precondition for applying a global set of environmental standards. The transfer of ecologically sound technology systems from rich to the poor countries is a precondition for justice in this sphere.
4. *Asset redistribution and human development:* Much of the foregoing discussion pinpoints the need for giving people the economic wherewithal in order for them to develop their social capabilities. Most studies (e.g., Adelman and Robinson, 1978; Khan, 1985; James and Khan, 1993) have discovered that non-redistribution of assets to the poor hampers poverty alleviation strategies. Redistributing assets and developing their human capital so that the poor can have access to markets becomes a major necessity in our normative framework. In most parts of the world this will require structural reforms rather than marginal policy interventions.
5. *Gender justice:* The impact of globalization on women will have to be assessed carefully. The well-documented facts regarding gender inequalities that so far have affected women's capabilities negatively demand unequivocally that policymakers pay careful attention to

enhancing (or at least not decreasing) women's capabilities. Will the globalization help women to overcome social limitations ranging from lack of nutrition to limits on participation in social, economic and political life? Unfortunately, the answer is unclear. In so far as many developing country women do not possess skills for the global market place, globalization is already hurting them.

These five examples are meant to be illustrative only. By no means do they exhaust all the pertinent issues in moving towards a just economy globally. (For example, we could add or highlight the growing rural/urban disparities with globalization and its implications for justice). But they do illustrate both the problems and prospects for justice in the age of globalization. One of the major political problems we have not discussed so far is the weakening of national sovereignty that the call for global economic justice entails. Agreeing to a global mode of production and distribution constrained by the principles of justice does mean surrendering considerable authority to international agreements, conventions, and ultimately, perhaps to new international organizations. It should be observed, however, that even without the constraining role of justice the globalization process weakens national sovereignty, even for advanced industrialized countries (e.g., NAFTA). Thus, the call for a just economy must confront this (as well as other issues such as weakening of traditional cultural modes of living) head on in the light of reasonable principles. The fundamental message is that among these principles that of freedom as rational autonomy of the individual must be the principal one. This is one rational (perhaps the only one) approach if we are to avoid both the Scylla of Jihad and the Charybdis of McWorld.

The McWorld aspect of globalization is a result of a fractured but real economic, financial and technological integration. Following the collapse of the Bretton Woods Agreement in the early 1970s, the financial market (including interest rates and exchange rates) was deregulated, thereby enhancing the flow of capital between nations. Until then the world financial system was governed by the Bretton Woods agreement of 1945 which provided for fixed exchange rate where currency values were expressed in terms of dollars and gold. When the system was abolished in 1971 by the Nixon administration and replaced by a floating exchange rate, the grounds for a global market were laid.

This was reinforced by the resurgence of a neoliberal free-market ideology of liberalisation, privatisation and deregulation that became the "only game in town" following the ascendance of political conservatives -- Reagan in the U.S., and Thatcher in Great Britain. It was further reinforced by the collapse of the former socialist countries and the emergence of the neoliberal thinking as a dominant and unchallenged school of thought (Falk, 1997). All these factors created a conducive environment for the free movement of goods including capital goods, and services as well as finance, thereby seemingly creating an integrated global economy. In the following section we discuss the main causes of this contradictory but nonetheless integrating moment in the world economy.

Causes of a Fractured Globalization

There are several factors that lie behind the emergence of globalization. One of these factors is the growth of the *global financial market*. Recently, international finance has increased more rapidly than world trade and has become an important element and the driving force behind global integration. As Drucker notes, "capital movements rather than trade in goods and services have become the engines and driving force of the world economy" (quoted in Yeung and Lo, 1996: 19). Facilitated by deregulation and the liberalization policy of western countries, international capital has increased both its mobility as well as its turnover. According to *The Economist*, in 1995

...\$1.2 trillion of foreign exchange swapped hands on a typical day. That is roughly 50 times the value of world trade in goods and services. In the early 1970s, prior the liberalization of the world's capital markets, the value of currency trading was only six times greater than

the value of "real" trade (1997:93).

With an emerging Eurocurrency now in place as the 'euro' and the accelerated growth of private capital, the traditional understanding of capital as being related to a particular country has

lost its meaning. In other words, capital has become so internationalized that it has lost its national color, making it very difficult to control and regulate the flow of finance between nations.

The second factor, which enhanced the integration of the world economy, is *the demise of the Soviet System and end of the Cold War*. The collapse of the former Soviet Union and the end of the Cold War, has led to a widening of the global market and deepening of economic linkages. Today, except for North Korea, almost all countries of the world are integrated into and have become part of the global market. Even Cuba, which is ruled by a hard-line communist party, has allowed to a certain extent foreign investment to play a substantial role in the economy of the country.

Consequently, the world is no longer divided into a bipolar political order as it had been during the Cold War era when the United States and the Soviet Union were competing for ideological influence. Today, the competition between nations is no more for ideological supremacy but for market and scarce resources. In today's global economy geo-politics is out and geo-economics is in.

The third factor, which lies behind globalization, is the *growth of corporate activities*. Global integration has been the result of the growing activities of multinational corporations. Today, the number of multinational corporations as well as their sphere of influence has expanded. To reduce the cost of production and maximize profit as well as to have competitive edge over others in conquering market, multinational corporations are transcending their national boundaries and are investing in other nations. Consequently, foreign investment has increased dramatically in recent years (see Table 1). This is partly facilitated by the revolution made in communication and transportation technology.

Table 1: Growth of World-wide Direct Foreign Investment (1981-90)

	Annual Growth (Per Cent)	
	1981-85	1986-90
All Countries		
Direct Foreign Investment Outflows	4	24
Gross Domestic Investment	0.5	10
Developed Countries		
Direct Foreign Investment Outflows	3	24
Gross Domestic Investment	2	11
Developing Countries		
Direct Foreign Investment	-4	17
Gross Domestic Investment	-3	9

Source: United Nations, *World Investment Report*, (New York: United Nations, 1993, p. 15)

As Boisier notes, "the revolution made in technology has made it possible the 'breaking down' of production process into different stages at different localities without losing efficiency and profitability" (1997). The high level of specialization has changed the structure of manufacturing in such a way that the production process allows different parts to be produced in different countries. The final goods are produced or assembled in a completely different country, thereby creating what is called a "global factory".

Global integration has been facilitated by the growth of world trade associated with foreign direct investment (Cook and Kirkpatrick, 1997). As indicated in Table 2, the growth of world trade has outstripped

that of world output by 4.2 times between 1990-95.

**Table 2: Average Annual Growth of World Trade and GDP, 1950-95
(Percentage)**

	1950-60	1960-70	1970-80	1980-90	1990-95
World Trade*	6.5	8.3	5.2	5.0	6.2
World Output	4.2	5.3	3.6	3.1	2.0
Difference	2.3	3.0	1.6	1.9	4.2

Source: World Bank, *World Development Indicators* (Washington, D.C.: The World Bank, 1997, p. 129).

*Exports of goods and services on a national accounts basis.

The fourth, and maybe the most important driving force behind globalization, is the revolution made *in information, communication and transportation technology* which has reduced telecommunication as well as transportation costs, and thereby diminished the importance of distance in economic activity (Boisier, 1997).

Between 1930 and 1996, the cost of a three minute telephone call between New York and London fell from \$300 (in 1996 dollars) to \$1 (*The Economist*, 1997a). The dramatic reduction in telecommunication and transportation costs “have, in turn, permitted closer integration between markets, consumers, producers and suppliers” (Cook and Kirkpatrick, 1997:58).

Business activities, including selling and buying of goods and services, as well as other financial transactions can be conducted at a distance using telecom networks. This is further facilitated by the Internet and the other modern technologies that have not only reduced telecommunication costs but also made it easier to reach almost all parts of the world. Consequently, shopping through telephone and Internet, teleconferencing, distance education through video and television, and even tele-working have become cost-effective and widespread practices.

Table 3: Long-term Trends in Transport and Communications Costs (1990 US\$)

Year	Average Air Transport Revenue Per Passenger Mile	Average 3-Minutes Telephone Call New York-London
1930	0.38	244.65
1940	0.46	188.51
1950	0.30	53.20
1960	0.24	45.86
1970	0.16	31.58
1980	0.10	4.80
1990	0.10	3.32

Source: World Bank, *Global Economic Prospects and Developing Countries* (Washington, D.C.: The World Bank, 1992, p. 34).

The decrease in transportation and communication costs means considerably narrowed "space" and shortened "time" that has made goods and factor markets very close and more interlinked (Straubhaar and Wolter, 1997). It also means greater mobility of people within and between regions. In developing countries, the relative decline in transportation costs combined with

The push of miserable conditions at home and the pull of higher standards of living abroad are leading tens of millions of people to move from poor countries to rich countries just when unskilled labor is not needed in the wealthy industrial world (Thurow, 1996:9).

The fifth factor that has led to globalization is *internationalization of environmental problems* such as global warming and acid rain. These global environmental problems require global solutions, making international co-operation and policy co-ordination not only important but necessary. Here, however, the rhetoric has so far outstripped the actual institution building process on a global basis.

Consequences

According to Bosier, globalization has resulted in the external and the internal opening of national economies (1997). One should add to this regionalization as well. The objectives of the global market are incompatible with a centralized decision-making process. The opening of national markets threatens the economy of individual nations, thereby increasing protectionist sentiments among nationalist groups who call for regionalization or protection of their national markets. Paradoxically, globalization has contradictory effects in that it increases liberalization on the one hand even as the opening of national markets creates a fiercely competitive environment, unleashing narrow nationalist sentiments, on the other hand.

External opening refers to the general liberalization and deregulation trends in the world economy. This has been enhanced by reduction of tariffs and import taxes that has increased the flow of goods and services as well as factors of production between nations. External opening and deregulation policies have not only increased the flow of goods and services as well as the flow of finance between nations, but have also enhanced the importance of cities and regional unions that have become the hubs of global economic activities. Cities such as New York, London, Singapore, and Hong Kong exemplify this orientation.

Internal opening refers to the recent trend of political as well as economic decentralization that has been accompanied by a democratization process and the devolution of power to local and regional authorities. On the economic front this implies reducing the role of the state and central planning in economic activities as well as the privatization of public enterprises in line with the rules of the market and the Bretton Woods institutions. Scholars and policy makers alike debate whether these policies, mainly driven by efficiency and profitability goals, will enhance the growth and welfare of developing countries.

While internationalizing the world market, globalization is also creating an environment of fierce competition where only powerful and efficient economic entities tend to survive. Therefore nation states resort to regionalization to insulate their economies from global problems as well as to have a competitive edge in the global market; to solve trade and economic problems within a regional context; and to promote investment and growth within the region.

According to Perraton and others (1997), regionalization denotes not simply a rise in economic activity between geographically contiguous countries, but a qualitatively different type of division of labor between them which results in economic activity becoming increasingly organized at the regional, and geographically confined level. Several regional unions have recently emerged, including the European Union (EU), the North American Free Trade Agreement (NAFTA), and the growth triangles of Asia.

Implications for Developing Countries

Regarding the intense discussion on the effect of globalization on the welfare and economic growth of developing countries, the dominant view appears to be that closer economic integration will enhance the flow of goods and services as well as factors of production, and hence promote economic growth and the welfare of all people. It is believed that globalization will result in a better division of labor, allowing developing countries (where labor is abundant) to specialize in labor intensive commodities while permitting developed countries to use their workers in more productive ways (*The Economist*, 1997a). It is also argued that globalization will allow capital to move in accordance with the productive investment opportunities and thereby increase the returns to capital.

Others (Falk, 1997; Khan, 1996; Sen, 1997) reject this argument and contend that globalization and regionalization will benefit the powerful economic entities, thereby marginalizing weak regions and nations. It is argued that globalization, while increasing the importance of service industries and skilled labor, also reduces the importance of primary commodities and unskilled labor. The revolution made in biotechnology, microelectronics and the like have eroded the importance of raw materials. Consequently, countries which were once considered wealthy, endowed with natural resources, are no more in the list of rich countries. It is no wonder that, today, the richest man in the world is Bill Gates, the owner of Microsoft. The advancement made in technology has not only changed the structure of inputs but it also changed their significance. Modern industries use fewer natural resources and as a result their importance has fallen out of the competitive equation. In modern economy, technology, knowledge and skills stand as the only source of comparative advantage (Thurow, 1996). Such a scenario puts developing countries, the main exporters of primary goods and unskilled labor, in a very disadvantageous position.

Moreover, globalization will force developing countries to operate in accordance with the discipline of the global market, limiting the effectiveness of their national development policy. Bonvin (1997, p. 41) points out: "The autonomy and effectiveness of national economic policy have decreased as a direct result of globalization of financial market and financial deregulation." The growth in the global financial market and highly mobile private funds are weakening the ability of countries' central banks to manage exchange rates and design effective and sound macroeconomic policies. However, as Harris (1998) argues there is still some scope for national policies, since global integration is far from perfect.

Globalization and Financial Crises: The Asian Debacle

A timely illustration of the instabilities inherent in the forces of financial integration sweeping over the globe is the recent financial crises that began in Southeast Asia and later engulfed Korea. To some extent the Japanese recession and debt overhang also worsened because of the developments in Southeast Asia and Korea. A disintoxicated view of the Asian miracle and globalization is necessary in order to put the on-going crisis in perspective.

A brief recapitulation of the crisis will show that the Thai crisis that began on July 2, 1997 and the subsequent contagion effects were all results of a number of factors present in various degrees in all the affected economies. These factors include but are not limited to a de facto fixed exchange rate with respect to the U.S. dollar, short-term borrowing and loans to dubious ventures in sectors such as real estate. The export slow down of 1996 had already created balance of trade deficits. When speculative attacks against currencies such as Baht, Ringgit and Rupiah began the central banks could no longer defend these currencies. But the crises that erupted were not simple currency crises. Soon the banking sector was affected. First there was illiquidity and finally insolvency for a large number of banks and other financial institutions. Eventually, the real economies were affected, most severely in case of Indonesia. In that country the economic crisis led to a full blown political crisis ending the thirty year rule by Suharto.

There is little agreement on how to characterize the crisis. As Jomo (1998) has pointed out, the debate between the IMF and its critics over the adjustment programs in these countries revealed many disagreements. However, in the policy debates some basic

issues regarding the role of globalization in precipitating the crisis have not been addressed adequately.

The region as a whole grew rapidly beginning in the mid-1980s. Devaluations and relaxation of rules for foreign investment in countries such as Malaysia, Indonesia and Thailand attracted foreign direct investment (FDI). Fortunately, the high value of the Japanese yen (endaka) after the Plaza accord pushed many Japanese companies abroad. Some of the Japanese FDI found its way to Southeast Asia.

It has been observed since the beginning of the crisis that the fundamentals were sound in Southeast Asia. In other words, fiscal balances were in order, monetary policy was not loose and inflation was not high. However, the export-led growth in Southeast Asia was also accompanied by bubbles in real estate and financial markets. The property and construction booms as well as the stock market booms essentially fed on themselves. The expectations of even higher gains tomorrow brought on the high prices and investments today. When this giddy momentum of helplessly escalating absurdity collapsed, the direction reversed suddenly and precipitously. The rhetoric of boom, which was not only banal but also complacent, has now been replaced by an equally banal rhetoric of doom.

In these one sided, linear narratives history progresses unidirectionally. However, the logic of globalization, as we have been at pains to point out, is much more complex. The Asian example shows how unleashing too many market forces at once — in particular, liberalizing capital accounts without prudential and other regulations and the ability to enforce them can lead to disaster and chaos.

There are similarities as well as differences between the Mexican crisis and the Asian crisis. In both cases there were free falling currencies. In both Latin America and in Southeast Asia there were also serious contagion effects. However, one crucial difference between the two cases is that the collapse of the Mexican peso and the ‘Tequila effect’ it produced did not lead to the kind of selling off of assets as in the Asian case. The Latin American crisis did not develop into a full scale debt-deflation.

Therefore, the Asian crisis is not just a balance of payments crisis. It is as noted before a currency crisis that has developed into a full scale and massive debt deflation and depression in the real sectors of the economy. One way to characterize this new type of currency crisis plus debt deflation is to view these as international capital market failures. In the first instance, globalized international capital markets have failed to allocate capital optimally — contrary to the neoclassical Arrow-Debreu general equilibrium model. As Alan Greenspan blandly pointed out: ‘In retrospect, it is clear that more investment money flowed into these economies than could be profitably employed at modest risk’ (Greenspan, 1997: 1-2). In the second place the banking system in the private enterprise sectors failed to absorb and channel the large foreign capital inflows. In Stiglitz’s metaphor the banking system — more generally the financial system — failed to act as the brain of the economic system. In other words, it failed to monitor and evaluate risk effectively.

Interestingly, this reveals in Southeast Asian context the paradoxes of globalization that we have emphasized in this essay. As Sobhan (1989) and others have pointed out capitalism in developing countries has been led by the state to a large extent. However, the same states that had been instrumental in creating a modicum of successful capitalist economies, now seem powerless in the face of globalization. This paradoxical situation requires further elaboration.

In the developing economies of Asia, the state is often called upon to build the infrastructure for capitalist development. In many cases, the domestic capitalists grow as a class with the active support of the state apparatus which they control to a large extent. The paradox of Asian development is that the state was quite successful in doing this up to a point. But the limits reached by this state-led capitalist development are also clear now.

In the 1990s the developing countries in Asia accounted for roughly half of global expansion. However, growing by exports also made these economies open to pressures for liberalizing the capital markets. For South Korea, which was going to join the OECD group such liberalization was seen as a *sine qua non*. For the other Southeast Asian countries the combination of the flow of FDI and finance capital in the emerging markets funds seemed to justify further liberalization. A regime of fixed exchange rates and orthodox fiscal and monetary policies had already given credibility to these markets. Yet, the state — it turns out — can not protect the domestic capitalists in globalized markets as it could before. The so-called ‘crisis of governance’ (Jomo, 1998) is really a crisis of the underdeveloped state apparatus which is virtually powerless to deal with the forces of globalization. Thus asymmetries in global economic and political power once again are revealed sharply. The uneven development of the real and financial sectors are also exposed to the scrutiny of the global investors. As confidence in the financial markets collapse, and investors flee with herdlike tenacity the weak states of Asia can do very little to shore up their domestic capital markets. As Siamwalla (1997) has commented ruefully there are no alternatives for countries like Thailand to submitting to the onerous IMF conditions because of this type of failure of the Thai state and the Thai bourgeoisie. Given the complex relationship between the bureaucrats, politicians and business in Thailand (Krongkaew, 1997) it is unlikely that a coherent response to the crisis will emerge soon.

The Asian crisis, therefore, reveals both failures of the international capital markets and of the underdeveloped state. The first type of failure is directly connected with the paradox of globalization. The second type of failure may appear at first sight to be unconnected to globalization; but this, in fact, is not the case.

The weak states of Asia, did not appear to be weak as long as their domestic financial sectors were not so greatly exposed to the outside world. Countries such as South Korea were able to direct investment through the domestic banking system. However, with sustained high growth the pressures for deregulating the capital markets from both domestic and foreign profit-seeking constituencies became increasingly more difficult to resist. At the same time, the regulatory financial environment that characterizes the advanced countries during the periods when they are less prone to crisis was not something that was studied very much before the crisis. Thus, the states in Asia may be said to have both an intellectual deficit and an institutional deficit in proper regulation. Finally, even with enough regulation, the rapid flow of capital in globalized markets would still pose a danger. After the Asian crisis, countries like Chile which had imposed fairly stringent regulations on capital flows much earlier are now being studied intensely.

In all this, the most important factor is the uneven development of the state apparatus in Asian capitalism. In many Asian countries bureaucrats guiding and supervising experts in various specialized areas became relatively efficient at their jobs and — partly because of this — quite powerful. At the same time, many of these same countries did not have highly proficient experts and powerful bureaucracies for the banking and financial sectors. Even in cases such as Thailand where the central bank had a reputation for technocratic ability, the bureaucrats found themselves paralyzed in the face of liberalized markets with new institutions such as BIBF (Bangkok International Banking Facility) (Lauridsen, 1998).

It seems fairly certain then that the paradox of globalization is also present in the behavior of the Asian states. In a world of free flowing capital the advanced financial sectors of North America and Western Europe were poised to handle the capital outflows as well as inflows. However, with the loss of confidence in the Asian markets the global investors are now taking a flight to quality. Hence the outflow to the Asian countries not only has stopped; a reverse outflow from these countries towards the advanced countries has proceeded with a vengeance. The same advanced country financial institutions are now safe havens. It is superfluous to point out the role that comparatively stable regulatory environment in advanced countries plays in inspiring confidence in the quality of their financial instruments and institutions. Asian governments are finally beginning to realize just how weak they are individually, and even collectively in the face of such uneven global market and governance structures.

Globalization, Income Distribution and Poverty

Although it is difficult to establish exact causality, one could draw some conclusions from the general trends that exist in developing countries, and point to an association between globalization/regionalization and the socio-economic situation in developing countries. In the past two decades the level of poverty has constantly increased (see Table 4). Between 1987-1993, the number of people living on less than one dollar a day has increased in all regions except in East Asian and the Pacific region.

The increase in poverty in Europe and Central Asia is very high mainly because of the collapse of the socialist system in Eastern European countries, where in the past citizens enjoyed government-supported social welfare benefits. As a result, the number of poor living at the margins has increased dramatically.

Table 4: Population living on less than \$1 a Day in Developing Economies, 1987 and 1993

Region	Millions		Share of Population (Percent)	
	1987	1993	1987	1993
East Asian and the Pacific	464.0	445.8	28.8	26.0
Europe and Central Asia	2.2	14.5	0.6	3.5
Latin America and the Caribbean	91.2	109.6	22.0	23.5
Middle East and North Africa	10.3	10.7	4.7	4.1
South Asia	479.9	514.7	45.4	43.1
Sub-Saharan Africa	179.6	218.6	38.5	39.1
Total	1,227.1	1,313.9	30.1	29.4

Source: World Bank, *World Development Indicators*, (Washington, DC: The World Bank, 1997).

There has also been an increase in the global income inequality as indicated in Table 5. The Gini Coefficient increased steadily between 1970 and 1989. The table also indicates that the gap between the rich and the poor widened during the same period as indicated by the ratio of income of the top 20 per cent to the bottom 20 per cent.

Table 5: The Distribution of World Income, 1970-1989

Year	GNP Per Capita	
	Gini Coefficient*	Ratio of top 20 % to bottom 20%
1970	0.71	31.9
1980	0.79	44.7
1988/89	0.85	54.5

Source: UNDP, Human Development Report 1992 (New York: Oxford University Press, 1992).

* The Gini Coefficient, which ranges from zero (meaning that everyone has equal income) to 1 (one person receives all the income), measures income inequality.

The other interesting point is the income of the rural and urban workers. As indicated in Table 6, income disparity between rural and urban areas in developing countries is relatively high. In India the wages of a worker in the iron and steel industry is 8 times higher than those of rural laborers. In Cote d'Ivoire, the wages of a construction worker are 9 times higher than rural wages.

Table 6: Ratios of wages in selected urban industrial occupations to rural wages

Country	Iron and Steel Laborer	Construction Laborer
Cameroon	1.52	1.52
Costa Rica	1.09	1.10
Cote d'Ivoire	3.95	8.80
Fiji	1.46	1.17
India	8.43	1.70
Indonesia	1.50	1.34
Jordan	1.32	1.23
Kenya	1.37	1.87
Peru	1.63	1.43
Philippines	1.96	1.67
Trinidad & Tobago	2.19	1.54
Tunisia	1.79	1.56

Source: World Bank, *World Development Report 1995: Workers in an Integrating World* (Washington, DC: Oxford University Press, 1995: p. 76).

Summary and Conclusions

Globalization has obviously had some positive impacts such as the transfer of technology, raising of productivity in specific sectors, and the improvement of the living standard of some people in developing countries. However, globalization generally, while benefiting certain regions or groups, is marginalizing and distressing the vulnerable and disadvantaged regions and people. Discussing the adverse effects of globalization, Sen (1997) argues that globalization

- makes livelihoods and entitlements insecure for many;
- creates and/or reinforces socioeconomic inequalities (gender, race, caste and class);
- marginalizes the labor and resource needs for human reproduction, thereby 'marginalizing' women and their work;
- despoils the environment;

- forges imbalances among different human needs by privileging the acquisition of material wealth over human and spiritual values, resulting in violence, alienation and despair; and
- generates conflicts and violence.

In today's global economy, the importance of raw materials and low skilled labor is declining while skilled labor and knowledge, particularly in the field of telecommunication and computer technology, are becoming increasingly important. This may put poor nations that are the major exporters of primary commodities and low skilled labor at a disadvantageous position.

Globalization imposes the rules and discipline of the global market on governments and nation states and thus limits the effectiveness of developing countries' national policy, including fiscal and monetary policy. As noted by Gilpin,

If a country restricts its money supply in order to fight inflation, the consequent rise in the domestic interest rate causes an inflow of capital that then defeats the original policy objectives and raises the exchange rate. ...[I]t is impossible to keep the pursuit of domestic objectives separate from the stability of the international economy and monetary values (1987: P. 145).

The other negative impact of globalization is its effect on income inequality. As explained earlier, globalization has a tendency to increase income inequality between nations as well as individuals and regions. Falk (1997), summarizes the opinion of many others when he states

...globalization as historical process is occurring within an international order that exhibits gross inequalities of every variety, thereby concentrating the benefits of growth upon already advantaged sectors with and among societies and worsening the relative and absolute condition of those already most disadvantaged (p. 19).

There is also some justifiable concern, given the concentration of economic activities and wealth in tripolar regions (North America, Europe, East Asia and the Pacific), that the flow of resources to other developing countries may decline, exacerbating the financial and economic problems of vast areas such as sub-Saharan African. While one may see globalization and regionalization as inevitable in today's environment, there is urgent need to address the socio-economic problems that arise as a consequence of a global market economy.

In this paper, we have emphasized that the adverse effects of globalization should be addressed within the conceptual framework of a just global economy. This will require considerable redistribution of global wealth and power. In particular, it will require the currently powerful countries to surrender part of their sovereignty to new international organizations which can promote global welfare by addressing the asymmetries between the developed and developing countries in a timely and equitable manner. The proposed global Tobin tax is one example of how some problems of global finance can be addressed multilaterally. If the proceeds from this tax can be used to finance development that will enhance the capabilities of the people of LDCs so much the better (Ul Haq, *et.al.*, 1996). However, the current state of affairs does not hold out much hope for either the adoption of a Tobin tax or its benevolent use for development to occur in the near future. In the mean time, it is in the interest of the developing countries to exercise whatever relative autonomy they have for independent action at the level of a single country, and concerted effort at the regional level, to mitigate the adverse effects of a fractured globalization. Such limited responses cannot be wholly effective, but are much to be preferred to the policy paralysis that seems to have been induced by an uncritical adoption of the dominant discourse of globalization. Ultimately, a just global order based on a

transparent rule-based trading system and global financial architecture can enhance both efficiency and equity; but moving in that direction will require the willingness of all the parties--- or at least the major developed and developing countries--- to cooperate within the framework presented here.

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