The Pakistan Development Review
37 : 4 Part I (Winter 1998) pp. 37:4, 51–83

The Iqbal Memorial Lecture

Globalisation: Threat or Opportunity?

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Globalisation is transforming trade, finance, employment, migration, technology, communications, the environment, social systems, ways of living, cultures, and patterns of governance. The growth of technology and globalisation mutually reinforce each other. Much of the process of globalisation is historically not unprecedented, but the technology, the setting, the absence of a single dominant centre, and certain features such as the replacement of trade of raw materials for manufactured products by largely intra-sectoral trade, are new. International interdependence is growing, and to some extent and partially, so is international integration. But it is accompanied by disintegration and fragmentation of other parts. Partial international integration (mainly of the elites), without global policies, leads to national social disintegration.

Is globalisation a threat to humanity or an opportunity? A tentative balance sheet is drawn up. Markets, to be efficient, have to be embedded in a framework that enables their productive potential to flourish and to be used for socially and ecologically sustainable development. The reduced power of national governments combined with the spread of world-wide free markets and technological innovation without a corresponding authority to regulate them and hold them accountable has contributed to the marginalisation of large regions and groups of people. The state has become to some extent ungovernable, while the global society is ungoverned. Unemployment, poverty, inequality and alienation are increasing, partly (though not solely) as a result of this process. Crimes, drugs, terrorism, violence, civil wars, diseases, and environmental destruction are also becoming globalised. In the struggle of international competition capital, technology and high skills dominate the more readily dispensable factors unskilled labour and the environment. Cost reductions are carried out and labour and nature suffer.

"If present trends continue, economic disparities between industrial and developing nations will move from inequitable to inhuman". James Gustave Speth, Foreword to *Human Development Report 1996.*

"Modern industry has established the world market...[Capitalism] has through its exploitation of the world market given a cosmopolitan character to production and consumption in every country...In place of the old wants, satisfied by the productions of the country, we find new wants, requiring for their satisfaction the products of distant countries...In place of the old local and national seclusion and self-sufficiency, we have...universal interdependence of nations. And as in material,

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Author's Note: I am grateful to Ajit Bhalla, Albert Berry, Louis Emmerij, Real Lavergne, and especially to Ronald Dore for helpful comments on earlier drafts.

so also in intellectual production". Karl Marx and Friedrich Engels, *The Communist Manifesto, 1848.*

We read everywhere that international *integration* is proceeding rapidly as the result of the increased flow of trade, capital, money, direct investment, technology, people, information and ideas across national boundaries. International integration implies the adoption of policies by separate countries as if they were a single political unit. The degree of integration is often tested by whether interest rates or share prices or the prices of goods are the same in different national markets. Integration, however, can be a term loaded with positive value connotations. Although there may be some objections to the unwanted imposition of uniformity, and although the disintegration of a pernicious system may be desirable, it would generally be regarded as improper to advocate "disintegration". But it is possible for integration to be defined either with or without such value premises. The value premise can be that all members of the integrated area should be treated as equals, either with respect to certain opportunities, such as access to the law, jobs, trade, credit, capital and migration, or with respect to certain achievements, such as a minimum standard of life, education and health services. In this sense of integration equalising common taxation and social services are implied. If we omit this particular value premise and confine integration to mean equal economic opportunities, however unequal the initial endowments of members of the integrated area, the world was more integrated at the end of the nineteenth century than it is today.[1] Although tariff barriers in countries other than the United Kingdom were higher then (20 to 40 percent compared with 5 percent in 1990), non-tariff barriers were much lower; capital and money movements were freer under the gold standard (i.e., without the deterrent to trade of variable exchange rates); and movement of people was much freer; passports were rarely needed and citizenship was granted easily. Today, international migration is strictly controlled. Between 1881 and 1890 the average annual rate of immigration into the USA was 9.2 per 1000, reaching over 10 in the first decade of this century. Between 1981 and 1990 the average annual rate of immigration was 3.1 per 1000 of US population.[2]

The four functions that are coordinated in an integrated international system that aims at development are today fragmented.[3] These are (1) the generation of current account surpluses by the centre; (2) the financial institutions that convert these surpluses into loans or investments; (3) the production and sale of producer goods and up-to-date technology; and (4) the military power to keep peace and enforce contracts. Before 1914 they were exercised by the dominant power, Great Britain; between the wars there was no international order, Britain no longer being

[1]It is the non-historical touting of the current trend to globalisation that has led critics to call it globaloney.

[2]*Statistical Abstract of the United States* (1991), pp. 9, 54.

[3]See Streeten (1989).

able and the USA not yet willing to accept the function; for quarter of a century after the last War they were exercised and coordinated by the USA. But today we live in a schizophrenic fragmented world, without coordination. The surpluses were generated in the 70s by a few oil-rich Gulf sheikhdoms, later by Germany and Japan, and today mainly by Japan. The financial institutions have mushroomed all over the world; not only London and New York, but also Tokyo, Hong Kong, Singapore, Frankfurt, Amsterdam, the Cayman Islands, The Isle of Jersey, the British Virgin Islands, Cyprus, Antigua, Liechtenstein, Panama, the Netherlands Antilles, the Bahamas, Luxembourg, Switzerland, etc. And the economically strong countries such as Germany and Japan were partly strong because they did not spend much money on the military.

Non-tariff barriers for trade imposed by the OECD countries and restrictions on international migration have prevented fuller global integration. The result is deflation, unemployment, and slow or negative growth in many countries of the South. But the present fragmentation provides us for the first time with the opportunity to coordinate these four functions and to build a world order on equality, not dominance and dependence. It is challenge to our institutional imagination to design ways of implementing this new order.

Between 1870 and 1914 the world was integrated unwittingly. By imposing fewer objectives on government policy (such as those mentioned in the next paragraph), and by accepting what later, in retrospect, appeared to be irrational constraints, such as the gold standard, and consequentially fixed exchange rates, and lack of freedom to pursue expansionist monetary policies, and the constraint of balanced budgets, different countries were integrated into a single world economy. It was dominated by one power, Great Britain. Domestic policies were severely constrained by the need to adhere to the gold standard. Today the constraints on national policies consist in the activities of multinational companies and banks. Before 1914 the world had been more integrated than it is today. Integration, however, was no guarantee of peace. It did not prevent the First World War.

Later, many objectives of government policy were added to the nightwatchman state's duty to maintain law and order: among them full employment, economic growth, price stability, wage maintenance, reduced inequality in income distribution, regional balance, protection of the natural environment, greater opportunities for women and minorities, etc. The rejection of constraints on policy such as fixed exchange rates, and limits on the discretion of monetary and fiscal policies, led to greater integration of national economies by permitting policies for full employment and the welfare state; but at the same time they led to international disintegration. Such disintegration is, however, entirely consistent with a high degree of international *interdependence*. For interdependence exists when one country by unilateral action can inflict harm on other countries. Competitive protectionism, devaluation, deflation, or pollution of the air and sea beyond national boundaries are instances. A nuclear war would be the ultimate form of interdependence resulting from international disintegration. Today global market forces can lead to conflict between states, which contributes to international disintegration and weakened governance.

Interdependence is measured by the costs of severing the relationship. The higher the costs to one country, the greater is the degree of *dependence* of that country. If a small country benefits more from the international division of labour than a large country, its dependence is greater. If high costs from severing economic links were to be incurred by both partners to a transaction, there would be *interdependence*.

It is quite possible to have intensive and rapidly growing international *relations*, without a high degree of interdependence. This would be so if the relations could be abandoned at low costs. There could, for example, be a large and rapidly growing trade in slightly different models of motor cars, produced at similar costs, but there would be not much deprivation or loss if buyers had to substitute home-produced models for imported ones, say a Ford Explorer for a Volvo. The index of interdependence would be the consumers' and producers' surpluses, not the volume, value or rate of growth of international trade.

There is a different sense of "interdependence", according to which "dependence" means only "influenced by", without great benefits from maintaining, or costs from severing, the relationship. In this attenuated sense there can be interdependence even though the costs of cutting off relations are low or even negative. But this is not a useful sense for our purposes.

International interdependence is often said to be strong and to have increased. International trade is taken to be an indicator of interdependence, and its high and, with some interruptions, rapidly growing values are accepted as evidence. Between 1820 and 1992 world population increased five-fold, income per head eight-fold, world income 40-fold, and world trade 540-fold.[4] But five important qualifications to the notion that globalisation is unprecedentedly high are necessary.[5]

First, if we consider the ratio of international trade to national income, the rapid growth of the postwar decades can be taken to be a return to pre-1914 values after the interruptions of two world wars, the Great Depression, and high levels of protection. The share of world exports in world GDP rose from 6 percent in 1950 to 16 percent in 1992. For the industrial countries, the proportion increased from 12 percent in 1973 to 17 percent in 1992. For 16 major industrial countries the share of exports in GDP rose from 18.2 percent in 1900 to 21.2 percent in 1913.[6] This was largely the result of dramatic reductions in transport costs, as well as of the decline I

[4]Maddison (1995).

[5]See Streeten (1988). For a more recent sceptical treatment of the claim of globalisation, see Wade (1996).

[6]Nayyar (1995), pp. 3-4; Maizels (1963); Maddison (1989); Bairoch (1993).

trade barriers such as tariffs and import quotas and of the opening of new markets such as China and Mexico. The comparisons in the ratios are very similar for particular countries.[7]

The total ratios of trade to GDP are, however, misleading. Over the post-war decades the share of services, including government services, in GDP increased enormously. Many of these are, or were until recently, not tradable. If we were to take the ratio of international trade to the production of goods only, it would show a substantial increase not only compared with the inter-war period, but also compared with the time before 1913.

The second qualification to the notion that unprecedented globalisation is now taking place is that the developing countries, and the groups within these countries that have participated in the benefits from the growing trade (and also from foreign investment, which is highly concentrated on East Asia, Brazil, Mexico and now China) have been few, not more than a dozen, though their number has grown. A large share of foreign investment is made by firms from a handful of countries, in a narrow range of industries.[8] The large, poor masses of the Indian subcontinent and of Sub-Saharan Africa have (at least so far) not participated substantially in the benefits from the growth of international trade and investment. In fact, the bulk of the international flow of goods, services, direct investment and finance is between North America, Europe and Japan. The group of least developed countries accounted for only 0.1 percent of total global investment inflows and for 0.7 percent of inflows to all developing countries. Africa in particular has been almost completely bypassed.[9] 80 percent of world population living in developing countries account for only 20 percent of world income.[10]

The third qualification is that direct foreign investment constitutes a smaller portion of total investment in most countries than before 1914. Domestic savings and domestic investment are more closely correlated than they were then, implying that even finance capital is not very mobile. This is explained partly by the fact that government savings play a greater role today than they did in the past, and partly by floating exchange rates that raise uncertainties and are a barrier to long-term commitments. The same point is made by noting that, though gross capital flows are very large, net flows are not. Current account deficits and surpluses are now a much smaller proportion of countries' GDP than they were between 1870 and 1913. Britain ran a current account surplus that averaged 8 percent of GNP and invested this overseas, compared with 2–4 percent for the West German and Japanese surpluses (and the American deficit) in the 1980s. But the fact remains that this is surprising in

[7]This increase in the trade/GDP ratios occurred in spite of a general increase in tariff protection between 1870 and 1913. It was therefore not the result of trade liberalisation. In the pre- 1913 period of globalisation the role of the stare increased, not declined. See Bairoch and Kozul-Wright (n.d.).

[8]World Investment Report (1996).

[9]TEP (1992), p. 233.

[10]See UNDP (1997).

view of the talk of the globalisation of capital markets. The bulk of foreign investment has been the capital import of the USA and the outflow from Japan.

The fourth qualification is, as we have seen, that there is much less international migration than in the earlier period. Barriers to immigration are higher now than they were then.

The fifth qualification is the already mentioned fact that it is not the volume or value or rate of growth of trade that should be accepted as an indicator of economic interdependence, but the damage that would be done by its elimination, i.e. consumers' and producers' surpluses. These are difficult to measure. But we know that much trade is conducted in only slightly differentiated goods, which could readily be replaced by similar domestic products without great loss to buyers or great increases in costs.

On the other hand, a small and slowly growing volume of trade could be of great importance and lead to substantial losses if it were cut off. Like a link in a bicycle chain, it could, though small, make a big difference to the working of the whole system. The United States, for example, depends strongly on quite small imports of manganese, tin and chromium. Before World War I trade was largely conducted in the form of an exchange between raw materials and manufactured products, for which consumers' and producers' surpluses are large. Today the bulk of trade is intra-industry and even intra-firm trade of manufactured products for which these surpluses are much smaller.

The process of globalisation, according to some definitions, means opening-up to trade or liberalisation. In the last decade such liberalisation was followed mainly by the ex-socialist countries, which turned away from central planning in order to link up with the world economy, and by the developing countries, which changed from import-substituting industrialisation to export-orientation accompanied by a partial dismantling of the state. This move was not the result of entirely free choices, but was itself a response partly to global forces, partly to pressures by the World Bank, the International Monetary Fund in their stabilisation and structural adjustment programmes, and the words and doctrines of state minimalism of the rich countries, and partly to the hopes of benefiting from global gains.

Some OECD countries, on the other hand, have put up additional non-tariff barriers such as so-called voluntary export restraints, procedural protection most notably in the form of anti-dumping actions, and specific subsidies to exports of goods and services competing with imports. The Multifibre Arrangement and the Common Agricultural Policy of the European Union are blatantly protectionist devices. Other barriers have been raised against steel, electronics and footwear.

Trade is, of course, only one, and not the most important, among many manifestations of economic interdependence. Others comprise the flow of factors of production, capital, technology, enterprise and various types of labour, across frontiers; there is also the exchange of assets, the acquisition of legal rights, of information and knowledge. The global flow of foreign exchange has reached the incredible figure of over $1 trillion per day. The multinational corporation has become an important agent of technological innovation and technology transfer. In 1995 the sales of multinationals amounted to $7 trillion. Their sales outside their home countries are growing 20–30 percent faster than exports.

As Jeffrey Williamson has shown, another aspect of globalisation is the convergence of real wages in different countries.[11] Since the 1950s the gap between American and European wages has shrunk markedly. Similarly, in the second half of the 19th century European wages caught up with American ones. In Europe, some countries closed the gap with Britain, then the Continent's leader. In a later paper Jeffrey Williamson argues that economic integration (rather than, say, better education in the low-wage countries) was the main cause of this narrowing.[12] As a result of the growth of international trade the prices of traded goods became more alike in different countries, and the relative prices of the abundant factors of production in each country rose (land in America, labour in Europe), while those of the relatively scarce factors fell (labour in America, land in Europe). A recent study confirms this.[13] Emigration from Europe to America also helps to explain the rise in wages in Europe and their containment in America.

After about 1895 the losers from international integration began to revolt and the claims for protection and restrictions on immigration became louder. Between the two wars the international order broke down. Today's low-skilled workers in America and other advanced countries may similarly claim that the economic rise in the South is a threat to them. The voices of Ross Perot and Patrick Buchanan in America and Sir James Goldsmith and Jean-Marie Le Pen in Europe give shape to these alarms. In the developing countries corresponding visions are calling for a reversal of the trend towards globalisation. But, in spite of rising unemployment, the political forces of nationalism are losing out against the economic forces of globalisation.

In addition to economic interdependence (trade, finance, direct investment) there are educational, technological, ideological, cultural, as well as ecological, environmental, legal, military, strategic and political impulses that are rapidly propagated throughout the world. Money and goods, images and people, sports and religions, guns and drugs, diseases and pollution can now be moved quickly across national frontiers. When the global satellite communications system was established instantaneous communication from any part of the world to any other became possible. It is not only the creation of a 24-hour money market that had become

[11]Williamson (1995) The comparisons of real wages are in terms of purchasing power equivalents.

[12]Williamson (1996).

[13]O'Rourke, Taylor and Williamson (1996).

possible, but the flashing of pictures of statesmen and film stars across the globe, making these faces more familiar than those of our next-door neighbours.[14]

We hear much of the creation of a borderless world and the end of the nation state. It is true that satellites and the Internet have greatly increased the speed at which the communication of cultural and informational impulses is propagated throughout the globe. Americans fly British airways, drive Japanese cars and drink Russian vodka. A German firm, Diamler-Benz, buys a quintessentially American company, Chrysler Corporation and Michael Gorbachev does Pizza Hut commercials.

But here again, as in trade and investment, vast areas in the poor South are either left out (subsistence farmers are not affected by global forces), or suffer the backwash effects of globalisation, and the rise of particularism and religious fundamentalism is a sign that many people protest against it. In Russia, support for Gennady Zyuganov, head of Russia's resurgent Communist Party, shows the backlash against globalisation.

It has become a cliché to say that international interdependence is great, has increased, and will continue to grow. Normally this is intended to refer to trade, foreign investment, the flow of money and capital, and the migration of people. Advances in technology such as the jet, telex, satellite TV, container ships, super tankers, super ore carriers and technical progress in transport, travel and, above all, in communication and information have shrunk the world. By reducing the cost of communication, technology has helped to globalise production and finance. Globalisation, in turn, has stimulated technological progress by intensifying competition, and competition has forced the introduction of new technology. Globalisation has spread its results widely through foreign direct investment. History may not have ended, but geography, if not coming to an end, certainly matters less. And the interaction of technology and globalisation has presented new problems.

The international spread of ideological and cultural impulses is at least as important as that of economic impulses. Observe the young in the capitals of the world: from Ladakh to Lisbon, from Maine to Mozambique, from West Virginia to East Jerusalem, from China to Peru, in the East, West, North, and South, styles in dress, jeans, hair-dos, T-shorts, jogging, eating habits, musical tunes, attitudes to homosexuality, divorce, abortion, have become global. Even crimes such as those relating to drugs, the abuse and rape of women, embezzlement and corruption have become similar everywhere. But although American cultural influences are important, there are many other influences and no single dominant power.

"The super-rich are seceding from their nations. So what you have is not a Western or East Asian or Southeast Asian or Chinese model. We are building

[14]Giddens (1995). As Mark Blaug has pointed out, there has been no similar globalisation in economic theory. "Almost all Italian economists know everything there is to know about Sraffa and yet one can travel far and wide in the United States without ever meeting an economist that has even heard of Sraffa. Such is the u the insularity of academia!" Blaug (1998), p. 1926.

enclaves of super-privilege, What you are having is not a global village but a series of global ghettoes. The Western elite is not the sole villain", said Palagummi Sainath, the author of *Everybody Loves a Good Drought*, a critique of government and the establishment in India, based on his reporting from some of the poorest villages in country.[15] Partial international integration, once again, leads to national disintegration.

"There is a new catchword in the developing world...to cover cultural wounds not believed to be strictly Western, Eastern or self-inflicted; the word is globalisation. It wraps up all the fears of somehow losing control to foreigners, felt as much by Americans who hate the United Nations and immigrants as it is by Indians or Filipinos who feel threatened by the International Monetary Fund, Kentucky Fried Chicken, Joe Camel or Time Warner. That shrinking world everyone was so proud of a decade or so ago has become a cultural strangler".[16]

But the impression of global uniformity can be deceptive. Just as trade, foreign investment and the flow of money have affected only a few regions of the world and left the rest comparatively untouched (except for some negative effects), so this globalisation of culture is only partial. It is evident in the towns and suburbs, and the more advanced countryside. The poor in the rural hinterlands, in spite of the spread of transistors and television, have been largely bypassed. And in many lands there has been a reaction to tradition and tribalism. Global integration has provoked national disintegration. Globalisation has posed a threat to the rootedness on which community life depends. Ethnic or cultural passions are fracturing societies and regions. We witness Islamic fundamentalism in the Muslim world. Evangelical fundamentalism is spreading not only in the USA, but also in East Asia, Africa, and Latin America, often linked to a Calvinistic, entrepreneurial ethics of saving and hard work. Hindu fundamentalism is evident in India and has led to the most horrific bloodletting (though Hinduism cannot be fundamentalist because it is a religion without dogma) and Judaic one in Israel. A recent decision of the Knesset, yielding to he pressure of a minority of fundamentalist rabbis, denies the right of Conservative and Reform rabbis to perform valid conversions for those wishing to become Jewish.

Nations have broken up into smaller, ethnic groups. All this is partly a reaction against westernisation, the alienating effects of large-scale, modern technology and the unequal distribution of the benefits from industrialisation. In the ex-Soviet countries the assertion of ethnic identities is the result of the weakening powers of the state in the face of globalisation. The complaint is that development has meant the loss of identity, sense of community and personal meaning. The Taliban in Afghanistan deny women jobs, force them to dress in a subservient manner and prohibit girls going to school. Algeria's Islamic Army of Salvation, the

[15]Quoted by Crossette in *New York Times* (May 11, 1997).

[16]Crossette (May 11, 1997, p. 5).

military arm of the banned Islamic Salvation Front, according to Amnesty International "executed" 80,000 people since early 1992 when the authorities cancelled a general election in which the radical Islamic party had taken a lead. (Other estimates range between 60,000 and 75,000.) People in many countries assert their indigenous cultural values. This assertion of indigenous values is often the only thing that poor people can assert. Traditional values bring identity, continuity and meaning to their lives. Between the two opposite forces, globalisation on the one hand, and the assertion of peoples' identities on the other, between what Benjamin Barber calls Jihad and McWorld,[17] states have found their base undermined.

But the same trend, the proliferation of states, can also be explained by an opposite tendency. The increase in the number of countries in the last ten years can be explained, paradoxically, as a result of globalisation. In a world united by air travel, the Internet, multinational enterprises and international organisations, ethnic minorities wish to participate directly in the benefits promised by globalisation. These people of the new states feel that their old countries had denied them the opportunities to participate in the affairs of the world. But the rise in the violent expression of ethnic tensions cannot be so easily explained. Rwanda, Brundi, Bosnia, Armenia, Azerbaijan, Chechnya, Kosovo, the Kurrds, the Palestinians, the Chiapians have manifested degrees of violence after having lived with their neighbours sometimes for generations in peace. Violence has often been the result of the breakdown of a previous order. Democratic elections in countries without the tradition and institutions of democracy such as courts, police, a free press, often led people to have recourse to ethnic violence.

Technology, communications and market forces are unifying the world, while at the same time ethnic, religious and racial tensions are breaking up the world into small tribal fragments. According to Benjamin Barber, Jihad and McWorld are diametrically opposed yet intertwined forces. "Jihad not only revolts against but abets McWorld, while McWorld not only imperils but recreates and reinforces Jihad".

What Barber calls "retribalisation" is a violent process where "culture is pitted against culture, people against people, tribe against tribe, a Jihad in the name of hundred narrowly conceived faiths against every kind of interdependence, every kind of artificial social cooperation and mutuality: against technology, pop culture and integrated markets".

Globalisation makes national government more difficult. Monetary and fiscal policies run up against the impact of global tides as people, international banks and multinational corporations avoid the intended results by sending or spending their money abroad or attracting money from abroad. The obligations of extended families, government and religion disappear as people leave their rural communities to live in large cities. Recently enriched members of the middle class with links to

[17]Barber (1995).

politicians and officials often use their newly acquired powers in corrupt ways that counteract traditional values.

The difficult task is to build modernity on tradition. Japan has succeeded in this. Traditional consumption habits and community loyalties have contributed to the fantastic economic growth of the country. Neither all traditional nor all modernity is to be welcomed. The repressive nature of both some traditional values and structures and some modern ones is evident. Tradition can spell stagnation, oppression, inertia, privilege; modernisation can amount to alienation and a loss of identity and sense of community. Traditional cultural practices such female genital mutilation, sexual subjugation, attacks on and killing of women with too small dowries, widow burning (sati), child marriage, female infanticide, domestic battering, wife beating, prevention of women being educated, female ritual slavery, cannibalism, slavery, exploitative and hazardous child labour, debt bondage, witchcraft, demon worship, ritual sacrifice, punishment of criminals by amputation, and other barbaric habits are objectionable and should not be tolerated. There is no moral case for abstaining from stopping these native customs.

All this suggests that the perception is of a greater degree of globalisation and integration than has in fact occurred. Foreign investment is a smaller proportion of GNP than it was before 1914. Transnational corporations are more domesticated than some of the literature suggests. Most of them hold most of their assets and have most of their employees in their home country and conduct the bulk of their R&D there. This is confirmed by the fact that in the second half of the 1980s 89 percent of US patents taken out by 600 of the world's largest firms listed the inventor as a resident of the home base.[18] Hence strategic decisions and innovations come from the home country. This may, however, be replaced by a wider global spread of R&D as a result of telematics, the convergence of computer, communication and control technology.

The movement of people is severely restricted, much more than it was in the nineteenth century. Although it is true that states are more constrained than they used to be, from above by global economic forces and from below by peoples (minorities, tribes, ethnic groups) asking for rights, participation or independence, reports on "Sovereignty at Bay" (Raymond Vernon) "The Twilight of Sovereignty" (Walter Wriston), "the End of the Nation State" and "Borderless World" (Kenichi Ohmae and others) are therefore somewhat premature. The illusion of rapidly increasing globalisation arises from a short time perspective that looks only at the last 30 or 40 years, at the beginning of which countries were exceptionally closed as a result of the Great Depression and World War II.

Views on the benefits and costs of the global mobility of the different items, such as trade, finance, technology and ideas, differ. In a much-quoted passage Keynes wrote "Ideas, knowledge, art, hospitality, travel—these are things which should of their nature be international. But let goods be homespun whenever it is

[18]Wade (1996).

reasonably and conveniently possible; and, above all, let finance by primarily national".[19] Today it is more fashionable to deplore the "cultural imperialism" or the "homogenisation" of television and the mass media and the global spread of mass culture, and to attempt to confine culture to local knowledge, activities and products, while advocating free trade in goods and services.

Neoliberals advocates free trade and a good deal of laissez-faire but not the free movement of people. François Quesnay had added to laissez-faire laissez-passer, but this is forgotten today, perhaps because contemporary liberals fear that it would accelerate population growth (or reduce the pressures to reduce it) in the low-income countries of emigration and therefore not contribute to raising their welfare, or that it would interfere with economic objectives (especially the level and distribution of income), or cultural values, or social stability and cohesion, or security, in the country receiving the migrants. But all these objections also apply to the free movement of goods and services. In any case, there is an inconsistency.

Globalisation can be considered according to its impact on various objectives. We shall analyse its impact on: (1) growth and productivity; (2) employment and skills; (3) wages and inequality (both within and between countries) of income and wealth; (4) technological and institutional innovations; (5) cultural autonomy and diversity; (6) human security; (7) military security and peace.

Uneven Benefits and Costs of Globalisation

Globalisation has helped to create undreamed of opportunities for some people, groups and countries. Human indicators such as literacy, school enrolment, infant mortality, and life expectancy have enormously improved in the last few decades. In low- and middle-income countries life expectancy has increased from 46 years in 1960 to 63 years in 1990; infant mortality per 1,000 live births has fallen in the same period from 149 to 71; adult literacy rates have risen from 46 to 65 percent; and real GDP per head from $ 950 to $ 2,170.[20] The Cold War has ended and the prospects of peaceful settlements of old disputes have improved from West Asia to South Africa and Northern Ireland. Democracy has spread throughout the world and replaced autocratic regimes. Between 1986 and 1996 the portion of the world's states with democratically elected governments jumped from 42 percent to 61 percent. Globalisation has been particularly good for Asia, for the global growth of production, for profits and for the owners of capital and sophisticated skills. (See Table.)

At the same time, the economic restructuring, liberalisation, technological changes and fierce competition, both in the markets for goods and for labour, that

[19]Keynes (1933). As Dani Rodrik points out, the rest of the paragraph is not quoted as often: "Yet, at the same time, those who seek to disembarrass a country from its entanglements should be slow and wary. It should not be a matter of tearing up roots but of slowly training a plant to grow a different direction". Rodrik (1997).

[20]UNDP (1993), p. 143.

went with globalisation have contributed to increased impoverishment, inequalities, work insecurity, weakening of institutions and social support systems, and erosion of established identities and values. Liberalisation and reduced protection of agriculture, by reducing agricultural supplies, have raised the price of food (compared with what it would otherwise have been), and food importing countries have suffered as a result. Globalisation has been bad for Africa, and in many parts of the world for employment (see below the section on unemployment), for those without assets or with rigidly fixed and unadaptable skills. International competition for markets and jobs has forced governments to reduce taxation and with it social services that had protected the poor,[21] and cut public services and regulations that had protected the environment, has forced governments and firms to "downsize," "restructure" and "re-engineer" and has made necessary all kinds of steps to ensure that the cost of labour is low.[22]

Between 1972 and 1986, for developing countries as a whole, social expenditure as a proportion of total government expenditure declined from 35 percent to 27 percent and for industrial market economies from 58 percent to 56 percent [World Bank (1988)]. Between 1980 and 1993, in the Philippines health expenditure declined from 4.5 percent to 3.0 percent, and in Kenya from 7.8 percent to 5.4 percent. [World Bank (1995)]. In Latin America, despite recovery of social expenditure in 1991, expenditure per head on health and education was lower than in 1980-81. [IDB (1996), p. 47].

At the height of the welfare state, in the quarter century after World War II, when it was thought that a government can steer the economy to full employment and keep it there, national integration had been accompanied by international disintegration. Though people had expected full employment to remove the case for trade restrictions, there were at least four (not equally good) reasons for trade restrictions and for limiting access of imports of labour-intensive products in conditions of full employment. The first and most obvious reason is the fact that full employment policies (and even more so over-full employment policies) make for stronger inflationary pressures and therefore tend to aggravate balance of payments problems if the country's inflation is greater than the average rate in its trading partners. Balance of payments difficulties resulting from inflation are perhaps not good reasons, but they are often used as excuses for trade and foreign exchange restrictions.

The second reason is that full employment policies were often interpreted (or perhaps misinterpreted) as policies that guarantee particular workers their present jobs. Transitional unemployment was not easily distinguished by its victims and their

[21]But elsewhere a positive relation between the size of government and public expenditure ratios is suggested. This could be the result of pressures to compensate those adversely affected by globalisation.

[22]It should, however, be remembered that downsizing in companies such as AT&T, Nynex, Sears, Philip Morris and Delta Airlines cannot be attributed to international competition. Businessmen like to blame global forces for actions for which they should bear responsibility.

representatives from lapses from full employment. While it would be clearly a mistake to identify full employment in a growing and changing society with a prescriptive right to existing jobs in particular occupation and regions, it should be remembered that change and transition have social costs. The better off a society is, the more it can afford to forgo extra increases in income and production for the sake of less disruption, particularly if such disruption continues to be called for repeatedly or if its benefits are mainly enjoyed by others than its victims. (See the section on "the case for a quieter life.") If full employment policies were interpreted in this way, they presented a new motive against admitting more imports.

The third reason is that according to the Stolper-Samuelson theorem labour-intensive imports tend to reduce the absolute incomes of unskilled and semi-skilled workers. This is so because the relative price of the product intensive in this type of labour will fall after trade liberalisation. Unless there is a perfect system of compensation, it is understandable that these groups resist the removal of trade restrictions.

The fourth reason is that in conditions of full employment the terms of trade argument for protection, also called the optimum tariff argument, comes into its own. If resources are unemployed, the nation can export more and simultaneously raise everybody's income. But in conditions of full employment national gains may be at the expense of other nations. In particular, it becomes important to keep the prices of imported necessities as low as possible. It is not to be expected that many governments have imposed tariffs in order to improve their terms of trade. In any case, trade restrictions imposed for other reasons must often have led to higher barriers than those indicated by the optimum tariff argument. Nevertheless, there may be conditions in which the restrictions are not above the optimum and then governments are for good reasons reluctant to remove them because this would lead to a deterioration in the terms of trade below the optimum. To wish to avoid a loss is rather different from trying to snatch a gain at the expense of others.

It is for these and similar reasons that in the quarter century after World War II national integration led to international disintegration, in spite of what is regarded in retrospect as a golden age. Now the situation is reversed. After the early 1970s (partial) international integration has led to national disintegration. (See also below, the impact on income distribution.) Beveridge and Keynes had to be dismissed in the face of the pressures of globalisation, which weakened the pursuit of national monetary, fiscal and social policies, while at the same time weakening organised labour.

The Zapatista guerrillas held a convention in 1996 in the jungles of Southern Mexico entitled "The Intercontinental Forum in Favour of Humanity and Against Neo-Liberalism". The closing session met in a steamy, mudhole amphitheatre and ended with the Zapatistas doing a kind of drum roll and denouncing the most evil, dangerous institution in the world today. To a standing ovation, the Zapatistas declared the biggest enemy of humanity to be the World Trade Organisation in Geneva, which promotes global free trade.[23]

But it is not primarily critics from the Left who have pointed to the excesses and threats of globalisation, but the capitalists themselves. The 1997 meeting of the World Economic Forum in Davos—the assembly of the world's free-market elite—was devoted to ways of ameliorating the worst consequences of global competitiveness. George Soros, the multibillionaire financier, wrote an article for *The Atlantic Monthly* entitled "The Capitalist Threat". In Europe, the chief executives of some of the largest companies are voicing doubts about the European Monetary Union.

Balance Sheet of Globalisation
(Rough Approximations)

Good for	Bad for
Japan, Europe, North America East and South East Asia (until 1997)	Many developing countries Africa (exceptions: Mauritius and Botswana) and Latin America (exceptions: Chile and Costa Rica)
Output	Employment
People with assets	People without assets
Profit	Wages
People with high skills	People with few skills
The educated	The uneducated
Professional, managerial and Technical people	Workers
Flexible adjusters	Rigid adjusters
Creditors	Debtors
Those independent of public services	Those dependent on public services
Large firms	Small firms
Men	Women, children
The strong	The weak
Risk takers	Human security
Global markets	Local communities
Sellers of tech. sophisticated products	Sellers of primary and standard manufactured products
Global culture	Local cultures
Global peace	Local troubles (Russia, Mexico, Turkey)
Advocates:	
Businessmen, economists, politicians	environmentalists, working people, majority of consumer rights groups, family farmers, religious organisations, advocates of democracy, the Zapatistas

[23]Friedman (1997), February 2.

As Table 1 and 2 show, the share of the developing countries in the global distribution of wealth has shrunk between 1960 and 1994. Even in the rich countries unemployment, homelessness, crime, and drug abuse have grown. New conflicts have replaced old ones, terrorism is widespread, and people's lives have become more insecure. New technologies, new types of organisation, low-cost competing imports, and immigrants have made redundant large numbers of semi-skilled workers.

Table 1

Global Distribution of Wealth: 1960–1994

	Industrial Countries %	Developing Countries %	Former USSR and East. Eur. %
1960	67.3	19.8	12.9
1970	72.2	17.1	10.7
1980	70.7	20.6	8.7
1989	76.3	20.6	3.1
1994	78.7	18.0	3.3

Source: UNDP data base.

Table 2

Global Distribution of Wealth: 1960–1994:
(Excluding the Former USSR and Eastern Europe)

	Industrial Countries %	Developing Countries %
1960	77.3	22.7
1970	80.9	19.1
1980	77.4	22.6
1989	78.8	21.2
1990	81.4	18.6

Source: UNDP data base.

In the poor countries poverty, malnutrition, and disease have grown side by side with improvements in living conditions. Nearly one third of the population in developing countries and more than a half of Africa's live in absolute poverty. In 1992 six million children under five years died of pneumonia or diarrhoea. 23 million people are classified as refugees. The dissolution of the old system of the extended family, together with the increasing reliance on market forces and the dismantling of state institutions, has left many victims of the competitive struggle stranded and helpless.

Globalisation and the economic progress that goes with it have proceeded unevenly in time and in space. The rise in income per head has differed widely between countries and regions, so that income gaps have widened. Income disparities between the rich and the poor nations have doubled over the last thirty years.

Whereas at the end of the nineteenth century the main agents on the international scene were states, dominated by Britain until 1913, and by the United States for a quarter of a century after World War II, today transnational corporations and international banks have joined states and to some extent replaced them. The world's 37,000 parent transnational corporations their 200,000 affiliates control 75 percent of world trade. One third of this trade is intra-firm.[24] The principle guiding their action is profit. At the same time, very few of these firms are genuinely transnational or even international (Shell and Unilever are the exceptions in being at least genuinely duo-national, British and Dutch). Most other companies that operate in many countries are stamped by the country of their headquarters. As we have seen, the prediction that sovereignty would be at bay and that the nation state, confronted with ever larger and more powerful transnationals, would wither away, was, like reports of Mark Twain's death, somewhat exaggerated. Many countries have successfully dealt with, regulated and taxed these firms.

The new technology, combined with deregulation and privatisation, has contributed to the uneven impact of globalisation. The new and rapidly growing information technology depends on institutions, infrastructure, skills and policies, which generate oases of activity and growth in the midst of desert zones.

In addition to states and private companies and banks, there has been a growth of international non-governmental, non-profit organisations and voluntary agencies that form the international civil society. There are also the multilateral institutions such as the United Nations and its agencies, the World Bank, the International Monetary Fund, the regional development banks. The beneficiaries from the activities of the non-governmental organisations and the multilateral institutions have often been not the poorest but the better off among the small entrepreneurs. There has been polarisation even within the informal sector. Some enterprises have done very well and graduated into the formal sector, while others have barely survived. Finally, there are the international labour unions, which are weak compared with national unions. Globalisation that relies solely on market forces further weakens the power of both national and international labour unions.

It does not follow that developing countries would have been better off had they closed themselves off from the process of globalisation and tried to become autarkic. Joan Robinson said that there is only one thing that is worse than being exploited by capitalists, and that is not being exploited by them. The same goes for participation in globalisation. Those with skills and assets take advantage of the opening up to globalisation, those without them get left behind. But there are better options than to allow these people to become the victims of the blind forces of

[24]UNRISD (1995), p. 27.

globalisation. Measures such as social safety nets, guaranteed employment schemes and training provisions to cushion poor people in low-income countries against being battered by these forces, should be built into the system of international relations. This is necessary not only for political stability, but for reasons of our common humanity.

Globalisation and Income Distribution

Globalisation goes with opening up countries, expanding international trade and finance, and outward-looking policies generally. How does globalisation affect income distribution within rich and poor countries and between them? Theoretical arguments suggest that expanding trade in manufactured goods and services between the South and the North reduces inequality between skilled workers and semiskilled workers (with primary and some secondary education) who can find jobs, in the South, while increasing it in the North.[25] This is so because exporting more from the South raises the demand for, and the wages of, workers with basic education relative to those with higher skills in the South. (The exception to this is where the abandonment of minimum wage legislation and the weakening of trade unions and colonially inherited wage levels as a result of international competition lowers the wages of factory workers and public employees.) The reverse is true in the North where skill differentials in wages can be expected to widen and semiskilled workers to suffer a reduction in wages, or with sticky wages unemployment among the semiskilled to grow. The relatively abundant factor gains from opening up trade, the relatively scarce one loss. These losses inevitably accompany the gains from trade. Those who hail the great gains from trade liberalisation ought to accept that there are also these losses. The gains depend on a reallocation of resources which increases the demand for some kinds of labour, while reducing it for others.

Dani Rodrik has shown that in addition to the lowering of demand for low-skilled labour, there is a flattening of the demand curve, an increase in the elasticity of demand, as a result of outsourcing, trade and foreign investment. This in turn has the effects of (1) putting a larger share of the cost of improvements in work conditions and benefits on workers; (2) increasing the volatility of wages and hours worked for the low-skilled in response to shocks in labour demand or productivity; and (3) weakening their bargaining power. These effects may well be more important than the lowering of demand. "[W]orkers now find themselves in an environment in which they can more easily be 'exchanged' for workers in other countries. For those who lack the skills to make themselves hard to replace, the result is greater insecurity and a more precarious existence". Lower wages would also account for the absence of a large increase in trade.[26]

[25]Wood (1994). A Research project at the Centre for Economic Policy Analysis at the New School for Social Research suggests that unemployment or growing inequality are also a function of the lower growth rates compared with the 1950s and 1960s and that institutional characteristics of the labour market are as important as skill levels in determining the pattern of job loss. See *CEPA* News (1997, p. 2).

[26]Rodrik (1997), pp. 26-27.

Partly as a result of the greater international mobility of capital tax rates on capital have tended to decrease in the rich countries since the early 1980s, while tax rates on labour have generally tended to increase. And while the need for social spending (unemployment insurance, pensions, family benefits, adjustment assistance) has increased, the amount has shrunk as a ratio of national income.

Empirical evidence confirms growing wage inequality or unemployment in the North. Trade liberalisation raises the wages of skilled workers in rich countries, where they are relatively abundant, and lowers those of unskilled workers. This will provide some incentives to reduce the supply of unskilled labour and to acquire the required skills. The government can assist in this process by improving training and education. Subsidies to the unskilled (tax cuts, wage supplementation, improved public services) or their employers help in the interim. Though it has been argued that this would delay the acquisition of skills, low wages and unemployment are an obstacle to skill acquisition. Though they provide an incentive to acquire skills, they deprive people of the means to do so. The net effect of subsidised wages for the unskilled, particularly if combined with their and their children's education, is likely to be positive.[27] The widening inequality in the rich countries has been aggravated by immigration of low-skilled workers. Both forces were also at work in the globalisation process before 1914.[28]

The prediction of the theory that wage differentials in the developing countries are narrowed does not hold for all countries in the South. Changes similar to those observed in the North appear to have occurred in some developing countries. In Mexico, for example, the difference between a typical university-educated worker's pay and that of an unskilled worker rose by a third between 1987 and 1993. Similar differentials are observed in Brazil, Argentina, Chile, Uruguay, Colombia, Costa Rica, Thailand, and the Philippines.[29]

There are several possible explanations for this. First, other factors than trade liberalisation have influenced wage differentials, among them economic growth, capital accumulation, new technologies, inflation, recession, inflows of foreign capital, etc. Second, the theory assumes the same technological production functions in all countries and absence of capital mobility. In fact, reduced trade barriers may bring in more new capital equipment and new technology, which tends to raise the demand for skilled workers. Third, some developing countries, particularly the more advanced among them, have much larger skilled workforces than others. The impact of trade liberalisation on them will therefore be similar to that on the rich countries of the North. With China and other large low-income countries entering world markets for labour-intensive products, the comparative advantage of the middle-

[27]Wood (1997), p. 78.

[28]Williamson (1997), pp. 117–135.

[29]See "Trade and Wages", *The Economist* December 7th 1996, p. 74, and the reference there to Donald Robbins, "Evidence on Trade and Wages in the Developing World", OECD Development Centre Technical Paper No. 119. December 1996.

income countries has shifted to goods requiring medium skills. Unfortunately, only a few countries collect figures on wage differentials and the figures are not available to make these comparisons over a wide range.

The rise in demand for skilled labour in the North is only partly due to increased manufactured imports or their threat from foreign countries. Another important reason is technical progress and organisational change that save semiskilled labour. There has been considerable controversy as to how much is due to each of these forces.[30] Those who attribute little of the growing inequality to trade have argued that the developing countries account only for a small proportion of national income, and that the prices of labour-intensive goods (garments, textiles, footwear, etc.) have not fallen relative to those of skill-intensive ones. But technology and trade are, to some extent, interdependent. In order to meet foreign competition, firms have to introduce new technology, and new technology makes them more competitive. On the other hand, a large part of technical progress is independent of trade. Cheap energy and the first wave of automation eliminated most of the manual jobs. Electronics is now eliminating routine white-collar jobs. But technical progress also saves some types of skilled, even highly skilled, labour, as "Deep Blue", IBM's chess-playing super-computer demonstrates. It proved itself a fair match to Garry Kasparov. Activities that can be reduced to simple rules, even if these may give rise to apparently infinite possibilities, are targets for automation.[31]

In more recent work, Adrian Wood, the main proponent of the view that it is trade, not technology, that has increased the differentials in the rich countries, has written that we should distinguish between the rise in demand for skilled labour in the last two decades and the acceleration in the growth rate of demand between pre-1980 and post-1980. His answer to the first question, like that of most other economists, is "mainly technology". But his answer to the second question is "mainly trade".[32] He writes: "My belief is that most (between two-thirds and three-quarters) of the *rise* in the relative demand for skilled labour during the past two decades was caused by the same force that had propelled it upward over the previous century, namely skill-based technical change, loosely defined to include factoral and sectoral biases in production methods, product innovation and shifts in the composition of final demand. At the same time, however, I believe that most of the *acceleration* in the growth rate of the relative demand for skilled labour in the past two decades above its trends of the previous few decades, and hence the rise in labour market inequalities, was caused by globalisation".[33]

[30] In spite of the differences over what caused rising wage inequalities, both sides in the debate reject protectionism as the correct policy response. Education and income redistribution are favoured by both sides instead.

[31] It was reported in *The New York Times* 10 December 1996 that a computer has been able to solve a mathematical theorem that involved creative thinking, going beyond the application of rules. "With Major Math Proof, Brute Computers Show Flash of Reasoning Power", by Gina Kolata, Section C1.

[32] Wood (1998), September pp. 1463–1482.

[33] Wood (1998), p. 1465.

Another cause of the decline in the demand for, and the wages of, semi-skilled labour in the advanced countries is out-sourcing of activities that require relatively unskilled labour.[34] "In fact, the whole distinction between 'trade' versus 'technology' becomes suspect when we think of corporations shifting activities overseas. The increase in outsourcing activity during the 1980s was in part related to improvements in communication technology and the speed with which product quality and design can be monitored, which was in turn related to the use of computers".[35]

The income differentials between semiskilled and unskilled workers are expected to widen in the South, but unskilled workers are to be found mainly in agriculture, not in manufacturing, which requires a minimum of skills. Where unskilled workers are plentiful, the country does not export many manufactures. The situation in countries that export primary goods, often among the poorest, is different.[36] Mineral exports tend to increase inequality, because they require little unskilled labour and the ownership of minerals is usually highly concentrated. Reductions in inequality there depend on the government capturing a large share of the rent of the mining companies and spending it on the poor. The effect of agricultural exports on distribution depends on the pattern of land ownership. Where exports are produced on plantations or privately owned large farms, their expansion will tend to increase inequality, unless the workers are organised in powerful trade unions. If the increased exports are produced on small farms, worked by the owners and their families, inequality will tend to be reduced.

This analysis has several limitations. The Stolper-Samuelson theorem predicts that the absolute reward of the scarce factor will fall under free trade. In the present context, absolute real wages of unskilled and semi-skilled workers in the North would fall. The mechanism by which this result is brought about is the reduction in the relative price of the unskilled- and semi-skilled-intensive product in international trade. But the assumptions on which the theorem is true are very restrictive. It may be more realistic to assume that relative wages of low-skilled workers fall. We are then concerned with inequality, which many would regard as an evil, rather than with absolute poverty, which the same people and many more would regard as a greater evil. In an expanding economy, it would not be surprising to find that some groups move ahead of others; and this would not matter, indeed should be welcomed, as long as there is not an increase absolute poverty, and as long as those left behind at first would eventually catch up with or overtake those ahead. Development means a shift in the structure of production. Employment in industry and services increases, while that in agriculture relatively and, beyond a certain point absolutely, drops.

[34]Feenstra, (1998), Fall, pp. 31–50.

[35]*Ibid.* p. 41.

[36]See Wood (1994: 244) and François Bourgignon and Christian Morrison *External Trade and Income Distribution* (Paris OECD 1989: 273–81) quoted in Wood (1994).

Wages in industry and services are higher than incomes in agriculture. The result is an increase in inequality, but most workers are better off and none is worse off.

Another limitation of the analysis is that it is concerned only with different kinds of wages (and often only urban wages) and not with other incomes, such as profits and rents (except for the brief discussion of exporters of primary goods). There is much evidence that globalisation has led to growing inequalities between incomes from labour and those from capital. For example, in the USA between 1974 and 1994 families in the upper 5 percent of income distribution enjoyed an average annual gain in income of 1.2 percent; those in the bottom fifth saw their incomes shrinks.

So far we have considered the impact of globalisation and trade on domestic income distribution. The analysis of international income distribution has undergone a shift. In the 70s, during the debate on the New International Economic Order, it was said that rich countries benefit at the expense of poor countries. Today, the complaint is that poor countries attract industry and services by their low-cost labour and that the North suffers from unemployment and low wages as a result.

One can approach international income distribution between countries by examining the impact of multinational corporations, whose role in the globalisation process has enormously increased. Foreign capital, know-how, enterprise, management and marketing are highly mobile internationally and are combined with the plentiful but internationally much less mobile domestic semi-skilled labour. One set of factors (enterprise, management, knowledge and capital) are in relatively *inelastic* supply in *total*, but if not dependent on local natural capital such as mines or plantations, easily moved around the world in response to small differential rewards. They are, therefore, in highly *elastic* supply to *any particular country.* The other factor, labour, is in *highly elastic supply* domestically in labour-surplus economies, but relatively *immobile* across frontiers. The situation is aggravated by the fact that if the workers produce manufactured goods that can be produced anywhere in the world, their labour is also in elastic demand, so that combining to raise their wages would lead only to unemployment. The situation is equivalent to one in which plentiful semi-skilled labour itself, rather than the product of labour, is exported. The surplus of the product of labour over the wage, resulting from the cooperation of other factors, in less elastic supply, accrues to foreigners. The differential international and internal elasticities of supply in response to differential rewards, and the monopoly rents entering the reward of these factors, have important implications for the international distribution of gains from investment.

Since the firms operate in oligopolistic and oligopsonistic markets, cost advantages are not necessarily passed on to consumers in lower prices or to workers in higher wages, and the profits then accrue to the parent firms. The operation of this type of international specialisation depends upon the continuation of substantial wage differentials (hence trade unions must be weak in the host country so that low wage costs are maintained), continuing access to the markets of the parent companies (hence stronger political pressure from importing interests than from domestic producers displaced by the low-cost components and processes, including trade unions in the rich importing countries) and continuing permission by host countries to operate with minimum taxes, tariffs and bureaucratic regulation.

The packaged or complete nature of the contribution of the transnational enterprise, usually claimed as its characteristic blessing, is then the cause of the unequal international division of gains. If the package broke, or leaked, some of the rents and monopoly rewards would spill over into the host country. But if it is secured tightly, only the least scarce and weakest factor in the host country derives a limited income from the operations of the transnational firm.

These tendencies can be and have been offset in some cases by several factors. The developing country can use its bargaining power to extract a share of these rents (though a country's attempt to tax footloose MNCs suffers from the Prisoner's Dilemma situation) and apply them to social services or public works for the poor; or investment in human capital can create domestically some of the scarce factors and skim off some of the rents. This has occurred in the more successful developing countries. This is, indeed, what development is about. As the developing country increases the domestic value-added in its exports, its growth rate rises. This is one of the forces making for globalisation. It also shows the limits of the conventional distinction between import substitution and export orientation. For the increased domestic value-added is a form of import substitution, while the increase in exports represents at the same time export orientation.

Now assume that the package can be unbundled and that some of its components, such as high skills, can be transferred to the developing country. Consider a model in which two types of service have to be combined, one highly skilled, the other less skilled, such as air transport. The providers of the skilled service, say pilots, are in relatively scarce total supply,[37] but highly mobile between countries in response to financial incentives. Only because people are tied by language, culture, family and friends can there be permanent differences in the salaries of there pilots. On a clear day, an airline pilot can see the world, while the scruffy people who clear the ashtrays and remove the trash of the aeroplanes on the ground are wholly earth-bound. The semiskilled factor, ground personnel, is in highly elastic local supply, but immobile between countries. Other examples are transnational advertising, hotel chains, tourist enclaves, etc. The result will be that pilots will earn large rents, while ground personnel will get the bare minimum wage. Any country, even a very poor one, wishing to have an airline, will have to pay its pilots not very much less than the high international salaries or it will lose them. An

[37]According to an article in the *Wall Street Journal* of June 4, (1998), the American demand for pilots is "soaring" and "going sky high".

egalitarian domestic incomes policy will be impossible, not so much because of the brain drain, the loss to foreign countries of trained professional manpower, but in order to counteract the brain drain and to prevent that loss. Both international and domestic inequalities will have to be large. Once again, partial international integration (that of the skilled and professional people) leads to national disintegration. Increasingly, there are First Worlds to be found within Third World countries, Belgiums within Indias, or Belindias as this situation has been called.

Members of the élites in the low-income countries have their medical and surgical treatment in the advanced capital cities of the North. Their children are sent to the schools in the North. They take their vacations there, do their shopping there, and visit relatives who have settled there. They invest their capital on the stock exchanges of the rich countries. As a result, they have no interest in improving the medical, educational and economic facilities in their own countries. Local "capacity building" is not part of their agenda. Partial international integration leads to national disintegration.

To sum up, the frequently adopted notion that globalisation is the same as international integration is not tenable. There are five reasons for why partial international integration leads to national disintegration.

(1) Downsizing, restructuring, "delayering", and reengineering have reduced the demand for low-skilled workers in the rich and middle-income countries and kept the wages of those who succeeded in keeping their job low.
(2) Preventing the brain drain in developing countries makes egalitarian incomes policies impossible. To prevent the professional and skilled people from leaving they have to be paid something not too far out of line with their pay in the rich countries.
(3) Tax revenues to pay for social services have been reduced, though the need for them has increased.
(4) The élites in the low-income countries are opting out of national commitments and take as their reference group the élites in the advanced countries. This leads to the neglect of essential social services like education and health.
(5) The culture of the élites is global and estranged from the culture of the local people.
(6) The tendency for minorities to break away from their country and form independent nations can be explained by their desire to participate directly in the benefits of globalisation.

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Comments

1.

This is an interesting and thought-provoking paper that covers a whole host of issues related to globalisation. What I plan to do in my comments is be highly selective and provide my own views on some specific aspects of globalisation. Of course, these views will differ somewhat from the author's in some important respects, but as will be shown, there are areas of agreement as well. In general, this is an opportune time to assess how our understanding of the benefits and risks of globalisation has been affected by the events in Asia, Russia, and more recently, Brazil. It would be no exaggeration to say that the world has been through one of the worst financial crisis in the post-World War II period, making the question the author raises—"threat or opportunity?"—highly relevant to address.

1. HISTORY

The paper makes the important point, often overlooked by current writings on globalisation, that economic integration among nations is not a new phenomenon. The increasing integration of the world economy—defined as the growing interdependence of countries through the increasing volume and variety of cross-border transactions in goods, services, and capital—in recent decades can be seen as a resumption of the intensive integration that began in the mid-19th century and ended with World War I. As Jeffrey Williamson has documented, during that period artificial barriers to economic exchange among countries were few. As a result, the flows of goods and capital across borders (as well as the movements of peoples) were large. That earlier period was also characterised by dramatic economic convergence in per capita incomes among today's industrial countries.

2. NEW GLOBALISATION

While the basics are the same, the recent process of globalisation is, however, also different. First of all, it is not exclusive—a large part of the world and a larger number of countries are participating in it. And second, new technological advances have sharply reduced transportation, telecommunication, and computer costs, greatly easing the integration of national markets at the global level. In the new globalisation era, economic distances have shrunk, the structure of foreign trade has become increasingly intra-industry and intra-firm, and R & D spillovers have increased enormously across countries.

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In the past decade, we have observed increasing trade linkages, with developing countries increasing their share in world trade from 23 percent (1985) to 29 percent (1995). Also, the share of manufacturing in exports rose from 47 percent (1985) to 83 percent (1995). Furthermore, capital flows to developing countries have risen five-fold in a decade. The world is now quite different for all countries, including the developing ones.

3. BENEFITS OF GLOBALISATION

At the theoretical level, the welfare benefits of globalisation are similar to those of specialisation and widening of markets through trade, as emphasised by classical economists. By enabling a greater international division of labour and more efficient allocation of savings, globalisation raises productivity and average living standards, while broader access to foreign products allows consumers to enjoy a wider range of goods and services at lower cost.

Economic theory tells us that the free movement of capital directs resources towards their more productive use. This movement raises the level of welfare in both the sending country and in the receiving country by creating opportunities for portfolio diversification, risk sharing, and inter-temporal trade. In practice, the free flow of capital has been helpful in enhancing growth and raising the standards of living in those countries that have been successful in attracting capital and maximising its use.

We must remember that a number of Asian and Latin American countries have been able to build vibrant economies and modern industrial bases by access to external savings. This remains valid today, despite the increased focus on risks. For example, over the period 1965-95, Asian NIE's real per capita incomes rose sevenfold, for China real per capita income rose three times, while for industrial countries, real per capita incomes doubled.

4. RISKS OF GLOBALISATION

In discussing the "threats" or risks of globalisation, the paper highlights the important work done on the subject by Dani Rodrik. Rodrik questions the value to developing countries of increasing economic integration and of ever-expanding trade and capital flows. He argues that openness is not essential to growth, it widens inequality within countries, and leaves developing countries vulnerable to financial shocks.

This is a seductive argument, but wrong in some respects. Even with the disruption of the past 18 months, countries such as South Korea, Taiwan, Malaysia, Thailand, and even Indonesia are far more prosperous than they would have been if they had not emphasised trade and integration 2 and 3 decades ago. Also, compare China and India over the past 20 years—with China pursuing a trade-based development process and India moving haltingly in opening up.

Certainly growth needs investment and institutions, but also integration with the rest of the world. To grow you need science and technology, 99 percent of which comes from the US, Europe, and Japan. Getting an INTEL factory is a far more productive investment than another textile or cement factory. But to get the INTEL factory, you have to be integrated.

5. WAGES AND EMPLOYMENT

The relative changes in wages and employment of skilled and unskilled labour that have been observed in advanced economics are not necessarily related to increased trade and capital flows. This is a view of journalists and editorial writers. Instead, many serious studies generally consider the bulk of the decline in employment and relative wages of unskilled workers in advanced economies to a natural development as economies mature. Economic development has typically involved relative shifts of resources and output from agriculture to unskilled labour-intensive manufacturing—reflecting technological progress and capital deepening, rather than international trade pressures.

Similar forces are at work in developing countries. Those developing countries that have integrated themselves into the world economy have seen highly-skilled workers shift to the tradable sectors, while unskilled workers move to the non-tradable sectors (e.g., construction and transportation). This can mean temporary unemployment, but incomes do rise substantially, increasing the demand for labour in the long run. Also, employment can rise as people shift out of the informal sector to the formal sector. In general, there is no strong empirical evidence supporting the Stolper-Samuelson theorem that states that import competition will lower the earnings of unskilled labour (by lowering factor prices).

6. CONCLUDING REMARKS

Let me conclude by saying that globalisation will not automatically boost growth in the participating countries. Here I agree with the paper. You need much more than simply opening up the economy to trade in goods and capital. My list of what you need would include in addition to openness:

— macroeconomic stability
— financial sector liberalisation
— reduced role of state enterprises (small government)
— supporting institutions
— good governance
— human resource policies—education and population growth
— economic and personal security

In the end, globalisation is like the genie in the bottle—it is out of the bottle and it cannot be put back. The world will continue to integrate. Countries can, of course, opt out, but will they be better or worse off? I believe that countries that do not participate in the globalisation process are likely to face declining shares of world trade and private capital flows, and will find themselves falling behind their peer group in relative terms. Some feel that the Asian crisis implies halting or reversing economic liberalisation and avoiding reliance on foreign savings. This is a recipe for low growth, high unemployment, and lower welfare.

Globalisation and economic integration have, and will have, some adverse effects, but on balance, the alternative of "closing up" the economy is far worse.

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I would like to begin by thanking the PSDE for inviting me to this conference. The topics dealt with are exciting, and I also had more private agenda for a visit to Pakistan. I am pleased to be here. On the other hand, I am not pleased to be standing where I am standing at the moment. Because, more than the other commentators. I believe, I have reneged on my obligations, I have not been able to do justice to Paul's paper at all. It is not just long, it is so tersely argued that, I think each sentence needs to be deconstructed to get the full meaning of what Paul is saying. I basically throw myself on the mercy of the court.

I will try to say a few words on what I have understood and what I have not understood of Paul's exposition. He started off his presentation with a description of desirable properties of a world order: they were that there should be a centre which generates a surplus, and a financial system that recycles the surplus effectively and equitably. The centre in his model would also be responsible for producing capital goods for the whole world and also it would be a sort of policeman of the world. For some reason which is not very clear to me, Paul thinks it desirable that all these different functions and powers should be combined in the same group of countries. To me that seems a bit ominous. I prefer to see the functions divided up among different countries. He goes on to question the concept of globalisation itself, at least the extent of globalisation, and he argues that on such indices as export GDP ratios globalisation has not really increased all that much in the present century. Here on the whole I am tempted to agree with him, in particular, I recall another scholar, Emmanuel Wallerstein, according to whom the whole world was effectively one economy already in the 19th century. So, perhaps those of us who tend to be carried away by globalisation, one world, the global village and all that are guilty of exaggerating. Though I must say that there are personal experiences that bring home the reality of globalisation in a very dramatic way, for example, I did not see a television set till I was about 20 years old. Now, I can watch BBC world service from my home. We used to buy pens which have detachable nibs and which used ink made at home from tablets which were bought for three anna's a dozen or something like that. Now I watch the children of my friends doing their homework on a computer. So, all these are very dramatic changes. But then, when Marconi sent his first telegraphic message across the Atlantic, that was equally dramatic and represented an equally large step for mankind.

Paul points out certain limitations of the globalisation process as we know it; in particular, that migration is much less easy now than it used to be, that the number of countries affected by this globalisation, according to him, are rather few, and that the consumers', and producers' surpluses involved in expanding trade may not be very large. But his main critique of globalisation as it is happening today is that there is a presumption that it worsens income distribution both between nations and within nations. Now, Paul has many qualifiers. In fact, his obsessive honesty makes him balance every statement with what looks like almost a counter-statement, so that it becomes hard to pin him down and criticise him on a particular point. But he does seem to have committed himself to the position that it is the highly skilled labourers/workers including intellectual workers of a variety of sorts who benefit much more than unskilled labour or land-less peasants working in the fields and that as he puts it. International integration now is causing national dis-integration by basically creating an elite class who are uprooted from their own background and consider themselves to be part of the international community, who go for their medical treatment to England or Europe or U.S.A., who plan to send their children to schools and colleges in the west and preferably want to groom them for careers in the west. All this is very true, how bad it is, I do not really know. I can see that an elite who are not really committed to the country of their birth, who are constantly seeking for ways to get out, may not be perhaps the best kind of leadership, intellectual or political, for a country to have. On the other hand countries do develop unevenly, you do have small groups of people, small classes who advance and the process of advancement, if I can call it that, of modernisation if you like to use jargon from an earlier generation, of course has its discontents, its alienation. Learning to become critical of our own culture is a painful experience to go through. At the same time if I believe at all in any of the elements of the process of modernisation, this might be seen as growing pains that every country inevitably has to go through.

There were a wide variety of issues brought up by Paul in his paper and I mention a couple of them that took my fancy. Paul argues the case for being utopian. If I have understood him correctly, he argues that utopians should be ready with their reciopies, their blue print worked out in as much detail as possible, so that if reality surprises us and presents us with an opportunity to implement a reality that has seemed utopians up to them, then the utopian should not be caught napping; and miss an opportunity just because they have not prepared themselves for it, and Paul does point to certain events that would have been considered completely incredible, even ten or twenty years ago, like the breakdown of the Soviet Union, the breakdown of the Communist system in its totality. Here, I think, his point is well taken and I think he has converted me from a pedant to a utopian. Another point he makes which tickled my fancy, was the case for a quieter life. Having myself devoted my whole life to the pursuit of a quieter life, I appreciate what he wants to say on this. At the same time I wonder if that choice will be made by somebody already fairly affluent living in Gulshan, Gulberg or wherever the elite neighbourhood may be in Islamabad. But would that choice also be made by a garment worker or a land-less agricultural labour? For them, the marginal return from a quieter life might be considered less than the marginal return from the extra income that can be earned by leading an unquiet, disruptive, highly mobile and footloose life. Indeed if you look at the labourers from Bangladesh migrating in huge number to the Middle East and points west (these days also east), one may wish to respect their life choice and want to wish them good luck for their unquiet life.

Now that I have two minutes left I did want to point out that Paul is not at all against globalisation, very far from it. I quote him, "It does not follow that developing countries would have been better off had they closed themselves off from the process of globalisation and tried to become autarkic. Joan Robinson said that there is only one thing that is worse than being exploited by capitalists, and that is not being exploited by them. The same goes for participation in globalisation. Those with skills and assets take advantage of the opening up to globalisation, those without them get left behind. But there are better options than to allow these people to become the victims of the blind forces of globalisation. Measures such as social safety nets, guaranteed employment schemes and training provisions to cushion poor people in low-income countries against being battered by these forces, should be built into the system of international relations. This is necessary not only for political stability, but for reasons of our common humanity. This statement, I think, could have come out of any standard recent World Bank document. So, Paul stands indicted.

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