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The Globalization Syndrome in the New Millennium

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Introduction

The "short 20th century" has ended unexpectedly[1]. The economic shocks of the late 1960s and early 1970s, not only brought to an abrupt halt, three decades of unprecedented economic growth and stability; they also weakened many of the institutional structures, which had come to define the century's evolution. Open markets, TNCs and New information technology have become new forces for economic growth and development in a truly global economy. As Chang and Rowthorn observed, 'through various channels, the same forces had a profound influence on the policies pursued by many developing countries[2].'

Bairoch and Wright tell us, "globalization entered the political and economic vocabulary, in part, to describe the speed and intensity of these changes. But it was also intended to suggest that the late 20th century was entering a distinct and unchartered era of economic development"[3].

Globalization ideas can claim an impressive intellectual ancestry, including Adam Smith, Marx, John Stuart Mill, Heckscher and Ohlin, John Maynard Keynes and Lenin, to name only the most distinguished. Perhaps, not surprisingly, given this diverse list of thinkers, beyond a broad argument that economic activity has a tendency to expand beyond its initial national setting, connecting a growing number of more widely dispersed locations. Most contemporary observers have differed in their description of the globalization process and failed to construct a consistent theoretical explanation of what is driving it and where it might be growing. As Mica Panic put it, "this struggle to construct a coherent framework reflects terminological confusion over the closely related, but nevertheless distinct concepts of openness, integration and interdependence[4]. Partly it reflects several theoretical problems in linking trade, capital flows and foreign direct investment[5].

Bairoch and Richard Kozul-Wright put so nicely that "inadequate consideration has been given in much of the literature to the fact that globalization identifies both a process in which production and financial structures of countries are becoming interlinked by an increasing number of cross-border transactions to create an international division of labour in which national wealth creation comes increasingly to depend on economic agents in other countries and the ultimate stage of economic integration, where such dependence has reached its spatial limits"[6].

However, what this global economy actually looks like has not received the attention, that it merits, observed David Gordon[7]. Strictly speaking, a true economy is one dominated by TNCs and financial institutions, operating in world markets, independently of national boundaries, national political objectives and domestic economic constraints[8]. Defined in this way, the spread of market relations describes only one part of the globalization process and not the most important one. Rather capital mobility, because of its potential to connect markets and products in a more direct, more complex and much deeper manner, than other cross-border flows, emerges as a more significant influence on global economic integration.

In his brilliant lecture – 'Winners and Losers over Two Centuries of Globalization', Jeffrey Williamson identifies two booms and one bust in globalization in the 19th and 20th centuries. To him, the first global century ended with World War I and the second started at the end of the World War II, while the years in between were ones of anti-global backlash[9]. J.M. Keynes waxed eloquent about the glories of the first globalization boom, one that occurred in a world, in which there were few barriers to movement of people such as passports and visa requirements, no barriers to movement of capital and adherence to gold standard eliminated exchange risks. Further, he observed, "what an extra-ordinary episode in the economic progress of man that age was,\which came to an end in August 1914! The inhabitant of London could order, by telephone, sipping tea in bed the various products of the whole earth, in such quantity, as he might see fit and reasonable, expect their delivery upon his doorstep, he could at the same moment and by the same means, advertise his wealth in the natural resources and new enterprises of any quarter of the world and share, without exertion or even trouble, in their prospective fruits and advantages, or he could decide to couple the security of his fortunes with the good

1 Hobsbawm, Eric (1994), The Age of Extremes, The Short 20th Century, 1914-1991, London, Michael Joseph

2 Chang, Ha-Joon (1995), TNCs and Strategic Industrial Policy, paper at WIDER Conference for TNCs, Kings College, Cambridge, U.K., Sept. 1995, Also Chang and B. Rowthorn (eds.), The Role of State in Economic Change, Oxford, Clarendon Press, 1995.

3 Paul Bairoch and Richard Kozul-Wright, Globalization Myths: Some Historical Reflections on Integration, Industrialization and Growth in the World Economy, UNCTAD Discussion paper, No.113, March 1996.

4 Paul Bairoch and Richard Kozul-Wright, Globalization Myths: Some Historical Reflections on Integration, Industrialization and Growth in the World Economy, UNCTAD Discussion paper, No.113, March 1996.

5 Paul Bairoch and Richard Kozul-Wright, Globalization Myths: Some Historical Reflections on Integration, Industrialization and Growth in the World Economy, UNCTAD Discussion paper, No.113, March 1996.

6 Bairoch, Paul and Richard Kozul-Wright, op. cit.

7 Gordon, David (1988), The Global Economy; New Edifice or Crumbling Foundation, New Left Review.

8 Bryant, Ralph (1980), Money and Monetary Policy in Interdependent Nations, Washington, D.C., Brookings Institutions.

9 Williamson, Jeffrey (2002). Winners and Losers Over Two Centuries of Globalization, WIDER Annual Lecture, Helsinki, UNU, WIDER.

faith of the terms people of any municipality in any continent that fancy or information might recommended[10].

But Keynes [1] changed his mind during the Depression and sang an entirely different tune, as quoted by Sachs and Warner, op. cit., he said -"I appreciate therefore with those who would minimize, rather than with those, who would maximize economic entanglements between nations. Ideas, knowledge, art, hospitability, travel - these are things which should of their nature, be international. But let goods be homespun, whenever it is feasible and conveniently possible and above all, let finance be primarily 'national ". Keynes changed his mind again after the Second World War, when he was instrumental in the establishment of the World Bank and the IMF.

The Global Age

The dominant feature of the world economy is its increasing globalization and the growing fear of its consequences. It also reveals a marked reversal of attitudes within the developed and developing countries from the time of Raul Prebisch. While it is widely acknowledged that global integration is not a 'new' feature of the world economy and that the half century leading upto First World War might hold some useful lessons for understanding the current wave of globalization[11].

However, the historical parallel has given rise to a distinct perspective which has gained increasing acceptance among policy makers; seeing in the current period, a return to the earlier period of globalization. Then as now, capital transactions were relatively free and capital flows were dominated by securities markets. Hence, the current regime can be seen as a return to the liberal international economic order that existed before 1914, after a long diversion brought about by the disruption of two world wars[12].

Of course, over the years, the pace of globalization has accelerated continuously. Both world trade and investment have seen greater transactions and flows. Even after adjusting for growing national incomes, economic activities are increasingly conducted within the global arena. Even this idea misleads in conveying the implications of globalization. These averages tell us little about the "margin" and about what global competition differs in terms of both vulnerability and opportunity to producers.

The increased integration of world's financial markets and increased transnationalization of production by the MNCs, have combined with the convergence in technological ability and know-how among the OECD countries, making competition among firms across countries, extremely fierce. Firms in different countries can access similar technologies, borrow at similar interest rates and produce where it pays a little more to do so in a manner that was difficult a decade ago.

While the 'margins' of comparative advantage have become thinner, in the old days, we used to call such industries "footloose". Jagdish Bhagwati calls this phenomenon, "Kaleidoscopic" comparative advantage[13]. This gives meaning to the notion that the globalization of the world economy has led to fierce competition among firms. Do globalization and development reinforce one another? Are they mutually compatible? What opportunities are opened and what constraints are imposed by globalization on the ability to undertake such autonomous national development? What are the main institutional challenges of globalization?

Hence the current regime can be seen as a return to liberal international order that existed before 1914 after a long diversion brought about by disruptions of two world wars. Really one tension of globalization is due to the fact that in a more interdependent world economy, any global or regional shock e.g., the Asian or the Russian crisis of 1997-98, is rapidly propagated to other countries. The events of the last several years indicate the up-coming challenges and the LDCs must somehow come to seize the opportunities opened by globalization.

Trade is only one, but not necessarily the most important among several manifestations of interdependence. Others include the flow of factors of production –capital, technology, enterprise and various types of labor across frontiers. There is also the exchange of assets, the acquisition of legal rights and greater flow of information and knowledge, observed Paul Streeten[14].

While the global flow foreign exchange has crossed the incredible figure of over $ one trillion per day, the MNC has become an important agent of technological innovations. Now globalization is seen as a disciplinary force for governments that undertake various unsustainable policies. The current account deficits or high real interest rates tend to be penalized by global capital markets and institutional investors. The room for populism or unsustainable policies is much narrow in a globalized world.

The fact is that the international financial markets are very sensitive to the specifics of a country's fiscal policy. These investors use it as indicating the degree of micro-economic responsibility of a government. This tends to encourage governments to follow austere fiscal policies in order to satisfy the financial markets. It also induces governments to undertake procyclical fiscal policies by cutting fiscal spending or raising taxes in the down turns.

The institutional challenges

The strategic question is how to manage the negative side effects of globalization, including the exacerbation of volatility, at both the national and international level. Hence the need to recognize that free trade and financial integration are different in terms of their contribution to stability, growth and social welfare. It is an unfortunate non-historical touting of current globalization trends that has led critics like Robert Wade to call it 'globalony'[15] [2].

10 Keynes, J.M. (1919), The Economic Consequences of Peace, as quoted by J. Sachs and A. Warner (1995), "Economic Reforms and Process of Global Integration", Brookings Papers in Economic Activity," 1-1-118.

11 See Henderson, David (1992) International Economic Integration; Progress, Prospects and Implications, International Affairs, pp. 633-653. Also Cable Vincent. (1995) What Future for the State, Daedalus Spring, pp. 23-53. - Krugman, Paul (1995). Growing World Trade, Causes and Consequences, Brookings Papers on Economic Activity, 1, pp. 327-377.

12 IMF, World Economic Outlook, 1994, IMF, Washington

13 Bhagwati, Jagdish (1996). The Global Age; From a Sceptical South to a Fearful North, Raul Prebisch Lecture, Geneve, 29th April.

14 Streeten, Paul (1989) 'International Cooperation' in Hollis Chenery and T.N. Srinivasan (eds.), Handbook of Development Economics, Vol. II, North Holland, Amsterdam.

Nobel Laureate Joseph Stiglitz is very angry that "in many countries, globalization has brought huge benefits to a few, with few benefits to the many. He attributes these alleged differences to globalization, having meant 'different' things in 'different' places. While he does not provide any evidence for his comments, but he goes on to argue that 'countries that have managed globalization on their own (e.g., East Asian countries) have ensured that they reaped huge benefits that were equitably shared and these countries were able substantially to control the terms, on which they engaged with the global economy, but countries that have had globalization managed for them by the IMF etc., have not done so well. The problem is thus, not with globalization, but with how it has been managed." Each of the most successful globalizing countries determined its own pace of change - each made sure as it grew, that the benefits were shared equitably; each rejected the basic tenets of the "Washington Consensus", which argued for a minimized role for government and rapid privatization and liberalization[16].

Outward orientation, globalization or trade liberalization have one thing in common; they are all 'enabling processes', as they expand or open up new opportunities for house holds, enterprises and nations. Of course, questions have been asked whether such processes exist and function effectively. As for regional disparities and tests of convergence among states, several studies are ambiguous in their findings e.g., Cashin et al., Rao et al., Abler et al., [3], Dayal-Gulati et al. and Demurger et al., [17] [3].

Inspite of rising unemployment and regional disparities in countries like India and China, we find in new century, the forces of 'nationalism' are still losing out to the economic forces of globalization. Besides the interdependence of trade, finance and direct foreign investment, there are educational, technological, ideological, as well as ecological and other strategic 'impulses' that are rapidly being propagated throughout the world. Now money and goods, images and people, sports and religions, guns and drugs can be moved so easily across national frontiers.

Joseph Stiglitz is certainly right to hold that East Asian countries were not 'laisezz faire' economies and their governments intervened heavily. He also points to alleged success of Korea in creating an efficient steel industry. Doubts were raised whether the policy of heavy and chemical industries promotion in Korea during the 1970s, as well as 1980s, was worthwhile.

Stiglitz case seems to be that globalization can yield immense benefits, but it has not only failed to live up its potential but frequently has had very adverse effects.; the most adverse effects arose from the liberalization of financial and capital markets that posed wide risks in the third world without commensurate rewards.

With global satellite communication systems, instantaneous communication from any part of the world to any other becomes possible, but there has been no corresponding globalization of economic theory. We hear a lot about the creation of "borderless" world and the end of the 'nation state'. It is true that the satellites and the internet have greatly increased the speed at which communication of cultural and other informational impulses are propagated all over the globe. It has become almost a cliché to say that international 'interdependence' has increased and will continue to grow. This is meant to refer to trade, DFI, flows of money and capital and migration of people. The world has actually been shrunk by advances in technology and by reducing the cost of communication, technology has helped to 'globalize' production and finance. It turn, globalization has stimulated technical progress by identifying competition. History may not have ended, but 'geography', if not coming to an end, certainly matters less. Unfortunately the interaction of globalization and technology has brought 'new' problems all over the world.

But globalization makes national governance more difficult; monetary and fiscal policies run up against the impact of global tides as people, international banks and the MNCs manage to avoid the intended results by sending or spending their money abroad or attracting money. The difficult task that lies ahead is to build modernity on tradition. However, neither all tradition nor all modern movements should be welcomed uncritically; this suggests that currently there is a perception that welcomes a greater degree of globalization and integration that has in fact occurred.

As Paul Streeten observed, "foreign direct investment is a smaller proportion of GDP than it was before 1914. TNCs are more domesticated than several recent studies suggest and most of them hold most of their assets and have most of their employees in their home country. This is also where most of these corporations conduct the bulk of their R and D[18]. This is confirmed by the fact that in the second half of the 1980s, 90 p.c. of US patents, taken out by 600 of the World's largest firms, listed the inventor as a resident of their home base[19].

While strategic decisions and innovations came from the home country, this may be replaced by a wider spread of R and D, due to the convergence of computer and 'control' technology. The movement of people continues to be severely restricted, much more than it was in the 19th century. But the reports, claiming "sovereignty, at bay" or the "twilight of sovereignty" for seeing a 'borderless' world are somewhat premature.

Of course, the illusion of increasing globalization arises from a short-run perspective that looks only at the last 50 years (at the beginning of which several nations were closed as a result of Great Depression) and the Second World War. Hence views on the benefits and costs of global mobility of such diverse items as trade, finance, technology and ideas really differ among veterans. In a much quoted passage, J.M. Keynes wrote, "ideas, knowledge, art, hospitality, travel - there are things which should be there, nature, be international. But let

15 Wade, Robert (1996) Globalization and its limits; reports of the death of national economy are greatly exaggerated, in S. Berger and Ronald Dore (eds.), National Diversity and Global Capitalism, New York, Cornel University Press.

16 Stiglitz, Joseph (2002) Globalization and Its Discontents, p. 2, New York, W.W. Norton and Company.

17 Also, Cashin, P. and R. Sahai (1996), Internal migration, centre-state grants and economic growth in the states of India, IMF Staff Papers, 43, 123-71.-Dayal-Gulati and Hussain (2000), Centripetal forces in China's Economic Take Off, W.P. 86, Washington IMF.-Demurger, S., J. Sachs, Woo, S., Bau et al. (2001). 'Economic Geography and Regional Growth in China, Paper at Asian Economic Panel, Cambridge, 26 April, 2001.

18 Streeten, Paul (2000), 'Globalization: Threat or Opportunity', in Hans Singer, Neelamber Hatti and Rameshwar Tandon (eds.), Globalization, Technology and Trade in the 2lst Century, New World Order Series, Vol. 19, BRPC, Delhi.

19 See Vernon, Raymond (1971) Sovereignty at bay, The Multinational Spread of US Enterprises, New York, Basic books.

goods be 'homespun' whenever it is reasonably possible and above all, let finance be primarily national [1].

Today it is more fashionable to explore cultural imperialism or the homogenization of T.V. and mass media, and the global spread of mass culture. Also there are attempts to try and confine culture to local knowledge, activities and products, while at the same time, suggesting 'free trade' in goods and services. While neo-liberals advocate free trade and a good deal of 'Laissez faire', they do not support 'free' movement of people. The 18th century economist Francois Quesnay added, "Laissez Passer" to 'Laissez faire'. Unfortunately, this is forgotten today due to the fear that it will raise population growth in poor countries or would interfere with cultural values or social mobility. As Dani Rodrik points out, "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 in a different direction[20].

Age of Alliance Capitalism: Towards Flexible Production

Today's world is a very different place to the one into which most of us were born. The production of goods is no longer the major focus of economic activities. Now services account for more than 75 p.c. of GDP of developed countries and about one half for less developed countries[21]. Of course, the very success of any organizational structure sows seeds of its own demise. The emergence of "new" economic organizations is captured in the concept of "flexible" and innovation - led production and 'alliance' capitalism[22].

We have plethora of books on globalization (see for instance - Global Trap, False Dawn, Turbo Capitalism, Global Paradox, Naisbitt). Among several definitions of globalization, our preference is for the one given by Anthony McGrew (in Globalization and the nation state, 1992)-Globalization refers to the multiplicity of linkages and interconnections between the states and societies which make up the present world system. It describes the 'process' by which events, decisions, activities in one part of the world come to have significance consequence for individuals and communities in different parts of the globe. "Globalization has two distinct phenomenon - scope and intensity. On the one hand, it defines a set of processes, which embrace most of the globe or which operate worldwide; the concept thus has a spatial dimension. On the other, it also implies intensification on levels of interaction, interconnectedness or interdependence between states and societies which constitute the world. Alongside stretching goes a deepening of global processes[23]."

Globalization is leading to structural transformation of firms and nations and also creating new relationships. As Richard O'. Brien put it, "The global financial integration is the end of geography[24]." Main causes of globalization are well known. One is the pressure on firms by the consumers and competitors to continually innovate with new products, while upgrading quality or reducing the price of existing goods and services. The rising costs of R and D also force firms to curtail the scope of their value-added activities and also to search for wider markets. As a result, there has been an emergence of strategic alliances and networks. Another cause of globalization is the renaissance of market-supporting policies, by national governments and the growth of market-led regional integration. The privatization, liberalization and deregulation of services, all worked to stimulate cross-border corporate integration within the TNCs. Moreover, there have been several underlying changes in the organization of economic activity. At the micro-level, changes are best demonstrated by a more 'flexible' systematic approach to production and also a growing need to form close relationships among firms to fully capture the benefits of globalization.

Several forces are really at work, forcing the firms to replace the Fordist or Mass Production systems. Price competition has become less critical. Quality and other forms of 'non-price' competition have become most vital characteristic. Moreover, we observe an increasing trend towards fault-free products, continuous product improvement and innovative 'new' goods. New technologies developed during the 1990s - computer-aided designs and miniaturization are forcing firms to engage in more quality control and employ additional multipurpose machinery. As Kenney et al. [1] quipped, "the factory is becoming a research lab - a setting for both process and product innovations[25].

In this new era, knowledge and intellectual labor has become mobilized on a collective basis. This more flexible approach to value added activity has several spin-off effects on fabricating sectors. To improve quality performance or reliability of finished goods requires a simultaneous improvement in the quality of components. The growing integration between the innovation and production functions of firms, the desegregation of the value added chain and miniaturization of key components and the importance of network and licenses to knowledge sharing, has several implications for eco-system and organization of firms.

The Post-Fordist production system is upgrading the quality and status of some selected segments of labor force. Labor is now regarded more as a multifunctional asset, rather than as a cost and as a participant in wealth-creating process. Hence, the 'quid pro quo' of industrial relations has also changed. These new features of flexible or innovation-led economic systems are likely to have far reaching implications for future globalization. Flexible systems are challenging the dominant mode of organizing production. Its deepest roots can be seen in the Japanese auto industry. Today the label 'Toyotism' is synonymous with concepts of demand-driven production, pull-through work flow and total quality management. This globalization of activity, along with network-related flexible production systems is changing the face of capitalism for the good. In the Triad countries, governance of production relies as much on the discipline of mutual trust, consensus and the readiness to exchange ideas and share tasks. 'Reliance' capitalism is also reconfiguring the location of production. How much it decentralizes the key wealth-creating activities of firms,

20 Rodrik, Dani, Has Globalization gone too far? Institute of International Economics, Washington, March 1997.

21 World Bank (1999) World Development Indicators, Washington

22 See Piore, Michael J. and Charles Sabel (1984). The Second Industrial Divide, New York, Basic Books.- Ruigrok, W. and Rob Tulder (1995). The Logic of International Restructuring, London, Basic Books.

23 McGrew, Anthony and Paul Lewis (eds.) (1992). Global Politics: Globalization and the Nation State, John Wiley and Sons

24 O'. Brien, Richard (1992). Global Financial Integration; The End of Geography,' London, Royal Institute of International Affairs.

25 Kenney, Martin and Richard Florida (1993). Beyond Mass Production : The Japanese System and Its Transfer to the US, New York, Oxford University Press, p. 303

depends on the nature of the alliances formed. Two primary implications of globalization are - (1) the cross-border mobility of created assets (knowledge and information is widening the location options faced by the firms and the TNCs, (2) the kind of complementary assets, required by firms to create or sustain their own core competence and exploit them, are influenced by actions of governments; hence the ensuing more cooperative partnership between the public and private sectors.

Combining both global and local dimensions of multinational business strategy is now increasingly important. Akito Morita, former chairman of Sony, coined the term 'glowcalization' to show a situation, where firms worked in two dimension at once - global and local. There are several spatial implications for a globalizing economy. At one extreme, we have examples of world financial markets integrating vigorously. At the other end, even the most globalized firms must respond to a range of government laws. As Walter Wriston told[26], the new world financial market is not a 'geographical location' to be found on a map; rather more than 2,00,000 electronic monitors in trading rooms all over the world that are linked together[27]. While heated discussions are going around among veterans as to whether structural integration of regions is a building block or a stumbling block to globalization, we feel that in its historical evolution, it has been a little of each. All available evidence suggests that the firms initially choose to extend their territorial boundaries by trading or investing in neighbouring countries. Rather unfortunate that there also exist critical areas of tension between regions that could lead to regional fortresses. Most of these problems are a reflection of institutional or structural impediments that cannot be removed easily within the existing regimes, observed John Dunning so well[28].

The New Global Age

The dominant feature of the world economy in new country is increased globalization and also a growing fear of its consequences for developed countries. This attitude shows a marked reversal of attitudes in the North as well as the South, since the times of Paul Prebisch in the early 50s. But then the third world was skeptical and also afraid of potential globalization, shying away from such integration with the world economy. But recently these attitudes have yielded to a view that looks at such policies as having a more benign impact on the poor countries. As a result, one after another, these countries have changed policies to seek fuller integration with the global economy. That globalization has accelerated is hard to dispute. In both world trade and investment, there are greater transactions, as also flows suggesting that economic activities of different countries are increasingly in the global arena.

But observers like Jagdish Bhagwati [29] told that even this index is misleading for the implications of globalization of trade and FDI. Really these averages tell us little about the 'margin' and about what global competition offers in terms of both opportunity and vulnerability to producers. Looking at the changing realities of trade flows, we find that trade in goods and services has continued to grow faster relative to national income throughout the post-war days. Hence in some respects, the rise in the share of trade to GNP has mostly restored world trade to its pro-war situations. As Jagdish Bhagwati recently suggested (2004)[30], this share hides the reality that the share of trade within the immensely tradable merchandise and primary goods sectors has grown perceptibly, compared to both pre-war and the immediate post-war levels. In fact, by 1980, there was a vast increase in the exposure of the tradable industries to international competition. This situation was true of primary goods industries in the pre-war days, but now characterizes most of the manufactures; but these shares do not continue to increase explosively; since recent research suggests, they may have stabilized in the past decade.

Consequences of Globalization

Just as globalization is qualitatively different from previous stages of internationalization, its effects on development are also distinctive. As John Dunning suggested, the international economic order of the 1970s was no longer appropriate for the 1990s and certainly not for the new century. But it is also the case that several political changes and technological advances of the last decade have provided a stronger basis for growth than has occurred at any other time since the mid-1940s. Now the world has the necessary knowledge, resources and experience. It has the technical means through which these assets can be transmitted between countries.

Moreover, the growing organ-centric production systems, with its focus on smaller production runs, economies of scope and relational networking, its renewed reliance on the putting out of selected value-added activities and its greater respect for the individual in the work place, seems to be well suited to the needs and capabilities of poor countries.

Further, we can see the fruits of "Alliance Capitalism" in South- East Asian countries, where much of the expansion of cross-border activities has taken the form of networking by small firms. There is also greater willingness by new MNCs based in China, Korea, Mexico and Thailand to collaborate with local firms, than was the case of American and European firms during the 1990s. But there are downsides to globalization also. As John Naisbitt observed, "there is a global paradox. The most visible downside is the increase in structural unemployment brought about by competitive pressures and implementation of new technologies[31]."

We find across the globe in both the advanced and the poor countries, the change is also bringing various economic hardships. These changes have altered the life styles of people and their expectations of future as recently observed in the central and east European countries recently. If global economic interdependence offers prospects of higher productivity and living standards, it also links more closely national economics to various exogenous disturbances. The world economy in the new century is intrinsically more fragile and

[26] Walter Wriston

[27] Also Kobrin, Stephen, J. (1993). "Beyond Geography, inter-firm networks and structural integration of the global economy". Philadelphia Wharton Centre for International Management Studies, School Paper, 1993-10.

[28] Dunning, John (1994), Globalization, Economic Restructuring and Development, Paul Prebisch Lecture, Geneve, 29 April 1994.

[29] Bhagwati, Jagdish (1996). The Global Age: From a Skeptical South to a Fearful North, Paul Prebisch Lecture, Geneve, 29 April

[30] Bhagwati Jagdish (2004). In Defence of Globalization. New York, Oxford University Press.

[31] Naisbitt, John (1994), Global Paradox. The Bigger the World Economy, the More Powerful Its Smallest Players, New York, William Monroe and Company.

vulnerable than that of 30, 40 or 50 years ago. It is no longer the case that only if the US sneezes, the world economy catches cold. Economic shocks originating in any of the leading countries are now instantaneously transmitted across the globe with several devastating effects. Even being apart of a micro-network of value- added activities can bring external cost as well as external benefits to participating firms[32].

If globalizing the economy leads to greater uncertainty, it may also have unacceptable implications for national security or environmental erosion etc. Bad news travels just as fast as good news. We draw attention here to the Commission on Global Governance, set up in 1992 in Geneve, with a view to look into the implications of the kind of global integration being considered to govern the global economy. Its central concern was with the issues of peace, security, environment, poverty, democratic values and also the adequacy and the transparency of existing institutions to cope up with these issues. In this commission, 29 members were drawn from every walk of life within 25 different countries.

While the forces of globalization have been leading to a convergence of the spending habits of consumers all over, they are also effective exposing the differences in the way people think and behave. Not all countries welcome the effects of globalization due to their fears that it may erode their traditional life styles. This leads to a global dilemma. On the one hand, a universality of such goods as Cars, TVs, Sony Play-station, Coca Cola, Hamburgers, Jeans and services etc. (Tourism, Sport, Pop-music) are leading to cultural convergence all over the world. On the other, most people want to remain loyal to their unique customs and institutions. Hence the task of resolving the dilemma is likely to tax the mind of scholars and politicians.

It is true, the end of the cold war and the concomitant growing pressures to achieve an economic 'oneness' are refocusing attention on cultural, ideological and religious issues, over which most of the wars have been fought. Now the battle lines being drawn are not merely between the haves and the haves not, but between the groups of nations with different ways of looking at the world in the new millennium. While observers like Samuel Huntington are not so optimistic on future relations between cultures, but others like John Dunning are equally assured that there is more in 'common' among major ideologies and religions of the world[33].

Dominant Organization Systems and Internationalization

The dominant organization system now evolving is that of 'Alliance Capitalism'. The unit of economic activity (the firm), with its view of fully promoting its own objectives, needs to be part of a network or web of related activities. This concept can be extended to the global level as well. From the time of the Roman empire and beyond, history is littered with the debris of once all powerful nations. For most of the 19th century, Britain did rule the economic waves and sterling was the business currency for the globe. Around 1970, the leadership then passed on to the USA and mass production systems became a symbol of its hegemony. Today there is no single 'dominant' nation. It is most likely that leadership will be shared in the new century by the European Union, the Japan, the US and China. Today internationalization reaches into most areas of human endeavor. The focus is on achieving challenges for international agreement on trade, finance and related issues. This ongoing integration is not driven, simply by the supply-side factors or the business strategies of multinational firms. It is also motivated by the demand-side-the consumers who want to travel widely to have wider choice to shop via the internet.

One controversial aspect of integration underlined in this context is that it constrains the actions of national governments. While it is true, fiscal restraint is imposed by the discipline of international financial markets or the 'labor standards' are whittled away in a "race to the bottom" by competing national jurisdictions. John Helliwell has summarized recent research, looking into the extent to which national borders do or do not matter. He also examines the extent to which national policies are prescribed by the global environment[34]. Recent evidence for Canada suggests that even when trade barriers are removed and distance and size are allowed, firm's trade between regions within countries is much larger that between countries. This suggests that borders are important. Economic agents are more likely to deal with their compatriots than with foreigners. Is this a bad thing, resisting globalization or a good thing? John Helliwell asks further, why it might occur and looks at a number of possible explanations - social capital, democratic institutions or education. He concludes that it is not a bad thing, but rather that it is evidence of the limits of global integration.

Moreover, Allen Mendelowitz suggested that even recent ongoing changes in communication technology and the spread of internet will change, rather irreversibly, many aspects of economic and social life. This change could be as fundamental as was the Industrial Revolution. It also renders 'economic geography' much less significant, than it has been in the past. Producers need not be near their consumers, as every point in the Cyber Space is as close as every other point. Hence the face of change and its breadth is a source of fear for all of us. Even the most technologically adept now feel the pressure to keep up with these ongoing changes. The globalization we are experiencing in the new century is impacting on individuals in a way that is qualitatively 'different' to that felt about hundred years ago.

While in the last 50 years, since 1950, world merchandise output multiplied over five times, world trade expanded by a multiple of 14. A similar trend is visible for capital flows. The analysis here must also include various services, physical capital investments, technology flows and human capital. At the heart of the global economy, lies the reality of 'interdependence'. Firms still want to remove barriers between states (border restrictions). But they are more interested in achieving liberalization 'behind' the border, with a focus on issues like competition policy, investment policy, labor standards, intellectual property rights and environmental regulations.

As President John F. Kennedy once observed, "Our most basic common link is that we all inhabit this planet; we all breathe the same air; we all cherish our children's future and we are all mortal." As the

[32] For more details, see John Dunning, op. cit., 1994.

[33] Huntington, Samuel, P. (1993). The Clash of Civilizations, Foreign Affairs, 72, No. 3.

Also Dunning, John (1994), op. cit.

[34] Helliwell, John (2000). Balanced Growth: The Scope for National Policies in a Global Economy, in Martin Richardson (ed.), Globalization and International Trade; Liberalization, Continuity and Change, Cheltenham, Edward Elgar, 46-62.

African proverb relates, "rain does not fall on one roof alone". But free movement of capital has several risks as shown by the Asian crisis and the Russian crisis afterwards. Moreover, Jeffrey Sachs and Andrew Warner argued that reemergence of a global capitalist market economy since 1950s, in an important sense, established the 'global' economy that had existed one hundred years earlier[35]. But Dani Rodrik claims that in many ways, today's world falls far short of the level of economic integration reached at the height of the gold standard[36].

Why Financial Integration is So Pervasive

While in the late 19th century, international capital markets and the information asymmetries were not the only factor contributing to disproportionate importance of railway securities. American trans-continental railways were built only once in this period. However, manufacturing, financial and commercial sectors of the economy were growing ever bit as fast as transport. While a century ago, FDI in these sectors was much less, it was more pronounced in later period, as Bordo, Eichengreen and Irwin have observed in their research[37]. Several obstacles to the flow of information can also explain the disproportionate importance of debt, as opposed to equity in Foreign Institutional Portfolios. Debt reduces the risk to investors, when imperfect information creates agency problems. Moreover, this pattern persists vigorously in the new century as well.

This globalization of commodity and financial markets is really unprecedented. The integration of capital and commodity markets goes further and runs deeper than ever before. It is true, the advent of higher integrated commodity and financial markets has been accompanied by various trade tensions. As a result, financial instability in global markets should not come as a surprise, as the more serious problems relating to securitization were recently observed.

Various fears were also evident in the relations between globalization and world trade. The rich country fears follow from the changing realities of trade flows in the new millennium. Trade both in goods and services during the post-war period has grown faster relative to national income. Moreover, successive rounds of tariff reductions have been a major factor, as it brings free markets to new sectors, while opening them wider in older ones. This rise in the share of trade in GDP has mostly restored trade to its power position. But the share of trade within the tradable merchandise and primary goods sectors has grown perceptibly, compared to the pre-war and the post-war levels[38].

In fact by the mid-1980s, there was a significant increase in the exposure of tradable industries to international competition. This is a situation that was true for primary goods in the previous days and this is now true for manufacturing sector, but it is not true that these shares continued to increase explosively. While recent research suggests that these shares may have stabilized during the 1990s. But several new realities of global economy cannot be ignored since there has been significant exposure to international competition. The fact remains that few industries can pretend that they are safe from international competition and this new awareness has helped to define several new issues and demands for government actions. Of course, several national boundaries have disappeared with their former powers and functions being usurped on the one side by the global economy and on the other, by cities and regions.

Recent Evidence on Trade flow

Recently it has been possible to measure the relative strength of domestic and international linkages. Even now, most countries don't have systematic measures of internal trade flows and hence they have no empirical basis for comparing domestic and international trading intensities. Kenichi Ohmae treats regional economics and multinationals as chief building blocks of the modern world economy[39].

For Canada, John McCallum used a full set of inter-provincial trade data that could be compared with trade flows between Canadian provinces and the US states [4]. He compared the strengths of domestic and international trading intensities and came to a surprising conclusion that based on the gravity model of trade flows in 1988, Canadian provinces traded 20 times as intensively with each other as with the US states of comparable size and distance. The gravity model assumes that the trade flows increase proportionately with the economic size of trading partners and decrease proportionately with the distance separating them. These adjustments are essential if domestic and international trade intensities are being compared, since the effects of distance on trade would lead us to expect greater trade flows within a country, because of greater distances involved in foreign trade.

In recent research on trade flows, the gravity model became the favored child of several approaches to trade policy. The gravity model could be derived from expenditure share equations assuming commodities to be distinguished by its place of production. Elhanan Helpman further showed that the gravity models could also be derived from models of trade in differentiated goods. Such trade must lie at the core of most of the manufacturing trade, given very large two-way flows of trade in industry data[40].

Moreover, Deardorf showed that the suitable modeling of transport cost produces gravity equations in an estimation form[41]. John Helliwell tells us that the border and distance effects are a very long way from disappearing[42]. The end of geography is not yet in sight. The concept Helliwell brings to explain this phenomenon is called 'social capital'. It

35 J. Sachs and A. Warner (1995), op. cit.

36 Dani Rodrick, (1998), op. cit.

37 Bordo, Michael, Barry Eichengreen and Douglas Irwin (2000), Is Globalization Today Really Different from Globalization a Hundred Years Ago, in Martin Richardson (ed.), Globalization and International Trade; Liberalization, Continuity and Change, Elgar.

38 For more details, see Jagdish Bhagwati (1996), op. cit.

39 Ohmae, Kenichi (1990). The borderless World, New York. Harper.

40 Helpman, Elhanan (1984). Increasing returns in perfect markets and trade theory, in R.W. Jones and P.B. Kenen (eds.), Handbook of International Economics, Vol. 1, North Holland, 325-65.

41 Deardorf, Alan V. (1998). Determinants of bilateral trade; does gravity work in a neo-classical world? In J. Frankel (ed.), Regionalization of the World Economy, Chicago University Press.

42 Helliwell, John (2000), op. cit.

is all about the transaction costs of economic life -a neglected topic in theory of trade.

Of course, our capacity to build trusting relationships is really limited like everything else in life. And it seems plausible that both the shared values and culture and physical proximity are important determinant. So we have an explanation for the 'border' and 'distance' effects that dominate data on trade flows. This could be very important, since social capital may be, not just a useful supplement to explanatory power of neo-classical theory, but it may be subversive of it. We can say that homogenizing the international institutional landscape will make the world a safer and simpler place for the multinational firms to roam in, but we still require some demonstration of gains from such outcomes.

Nature of the Globalization Process

We are still far away from full economic integration, but we have gone a long way down that path. Important question is whether the impact of liberalization and changes in IT have caused major qualitative or quantitative changes in our economic lives. As Paul Krugman and Dani Rodrik recently underlined, today's trade and financial flows no more than match the degree of integration found in the world economy hundred years ago[43].

Still if the domestic sectoral composition of output has shifted away from tradable merchandise production in non-tradable service industries (of which actual trade share is small, but rising fast), why should we say that the overall economy has more globally integrated? The actual nature of modern merchandise trade has features that, in our view, are not consistent with long-run integration. The cost and time for transporting goods internationally has fallen a lot. This is, of course, one consequence. Moreover, about 65 p.c. of trade is intra-firm and most of these transactions and trade between firms is of semi-finished components. Such trade is facilitated by cheap transport and communication and motivation by cheap labour. Several transactions are, in fact, part of the arbitrage process.

There is more to free trade and globalization than some of us considered previously. As a matter of fact, increased integration of world's financial markets and increased internationalization of production by multinational firms have combined with convergence in technological ability and know-how among the OECD countries, with a view to make competition among firms more fierce. The 'margins' of comparative advantage are now thinner. A slight shift in costs can now lead to shifting comparative advantage, that is increasingly volatile. Several implications follow here:

Firms are more tempted to look over their rival's shoulders and decry the extra edge in competition that amounts to unfair trade.

A sense of economic insecurity is now overtaking the rich countries due to the labor turnover and a reduction in the permanence of jobs.

These trends have led to a decline in the real wages of unskilled labour. The increased labor turnover means that workers spend less time in one job and so get less on the job training. This flattens their life time earnings curse.

The Need for Institutional Innovations

We find that international coordination has worked well in areas where advantages are great and visible. Obvious examples are wide scale adoption of the metric system or the adoption in 1884 of Greenwich Meantime, on which the world's time system is based. Other institutions like UNCTAD and UNESCO worked less well due to very broad mandates, overlap with other organizations, differing perceptions about the future and differing overall objectives.

International coordination and cooperation can take different forms. There can be full harmonization of policies and the adoption of common standards such as the metric system. Or it can mean joint expenditures for common purpose in case of international air traffic control. It may involve submitting to agreed rules or exchange of information on illegal capital flight, or public health. Several innovations at the global or transnational level could avoid the prisoners' dilemma outcomes, as suggested by Paul Streeten[44]. These changes would align modern technology and political institutions, would coordinate the functions of a global system and also avoid 'negative-sum' games to which prisoner's dilemma situations give rise. Our concern here is for several procedures, processes, rules, norms and incentives which imply changes in behaviour, associated with various negotiations or explorations. A market is an important institution. Many of these functions can be adopted by the existing organizations and this would not entail any more coordination of the functions involved.

Conclusion

It has been objected that these creative institutions were not designed on a drawing board, but they are a 'spontaneous' response to various challenges. Of course, several designed institutions have failed due to various reasons e.g., League of Nations, World Economic Conference of 1933, International Trade Charter, Special Drawing Rights, Bankers, etc. But the multinationals, the Euro currency market, the globalization of 24 hour capital market, swap arrangements between the central banks have been a success and none of them sprang from any great design.

An appropriate reply now would be that these 'spontaneous' institutions themselves need designed institutions to regulate them. The debt crisis was a direct result of unregulated recycling of OPEC surpluses by the greedy lenders to profligate borrowers. If something like an International Investment Trust to recycle oil-surplus on acceptable terms had been there in the 1970s, this would have yielded a much better result. Of course, utopian thinking can be useful for analysis, but like a physicist, who assumes an atmospheric vacuum to start a fresh, policy-makers can assume a policy vacuum. For long-term problems, utopianism may be useful, since it gives a sense of direction.

[43] Krugman, Paul (1998). The Rise and Fall of Development Economics, in P. Krugman (ed.), Development, Geography and Economic Theory, Cambridge MIT Press; also Rodrik, Dani (1998). The Debate Over Globalization; How to Move Forward by Looking Backward, in J.J. Schott (ed.), Launching New Global Trade Talks; An Action Agenda, Institute for International Economics, Special Report 12, Washington.

[44] For details see, Paul Steeten (1989). International competition, in Hollis Chenery and T.N. Srinivasan (eds.), Handbook of Development Economics, Vol. II, Amsterdam, North Holland.

In a world that is regarded as the second best of all feasible worlds, everything becomes a necessary constraint and all vision is lost. Excessive concern with the feasible tends to reinforce the status-quo. It is also the case that a set of circumstances changes suddenly and that forces turn out to be favourable even to a radical innovation. No one really anticipated the end of Communism, the disappearance of the Soviet Union, Reunifiction of Germany, the break up of Yugoslavia, the marketization of China or the end of Apartheid in South Africa. Looking back we can say that the ideas thought to be utopian have become realistic at a moment in history, when large numbers of people support them. For all these reasons, utopians should not be discouraged from making proposals. Utopianism and idealism could turn out to be the most realistic vision indeed.

We conclude with those comments of Paul Bairoch and Richard Kozul-Wright, "the issues surrounding globalization involve much more than measuring the extent of cross-border economic exchanges and their inter-linkages. The real questions concern whether such exchanging have already eroded the ability of status to manage their economics and whether the removal of state responsibility over the direction of economic activity is a outcome development. An increasingly prominent version of the globalization thesis answers both questions positively[45].

They further observe, "however, in the light of profound social, political and economic changes that have characterized the short 20th century, the idea that we are simply recovering a trend of global economic integration, broken by two world wars and a perverse era of state management is not convincing. To take two of the most prominent elements in the contemporary globalization debate, the liberalization of trade and the diminishing role of state, from our survey of trends in the half century before 1913, these can be described as historical myths. Perhaps even more significantly, we do not find evidence to support the idea that this earlier period was a golden age of economic growth and rapid convergence. Moreover, industry, which was the dynamics of economic growth in this period, appears, as much less influenced by international factors, than other sectors and was also an important source of divergence across the world economy[46].

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45 Bairoch, Paul and Richard Kozul-Wright (1996), op. cit., pp. 25-26.

46 Bairoch, Paul and Richard Kozul-Wright, March 1996, op.cit.