

# A new paradigm

Governing Globalization: Issues and Institutions

Edited by Deepak Nayyar

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The phenomenon of globalization in its multi-faceted dimensions arouses strong responses in different categories of individuals, be they agnostics or sceptics, enthusiasts and critics. Although there are some who still wonder whether there is much that is substantially new about contemporary processes of globalization, it can be strongly argued that international economic integration is today wider and deeper than ever before—measured in terms of trade and investment volumes and values, or perceived through the lens of globalization of manufacturing methods and financial flows.

Those who are wildly enthusiastic about the positive impact of globalization see the impending emergence of some sort of a supranational, borderless world economy that will have its own laws of motion, which, in turn, would encompass and subordinate economies of individual nation-states. In this brave new world, claim the gung-ho supporters of globalization—call them neo-liberals or neo-conservatives, if you like—there would be an overweening supremacy of the market over the government, of economics over politics.

Interestingly, bitter critics of globalization agree with enthusiasts about its significance and spread. They, however, point towards growing concentration of economic and political power in the hands of multinational corporations, inequalities within nations, the marginalisation of the underprivileged and environmental degradation as consequences of globalization. Whereas critics of globalization in developed countries see a global economic shift under way in which private foreign direct investments in search of higher profits are driving industries and jobs away from rich nations to developing countries with low wages, critics of globalization in developing countries see processes that compromise national autonomy and expose economies to external shocks. These, in turn, bring about political instability, ethnic conflict and social disintegration.

The editor and contributors to *Governing Globalization*, all eminent social scientists, clearly do not fall into the category of blind believers in the virtues of globalization. As Deepak Nayyar points out in his Preface written in October 1991, the volume seeks to examine the governance needs of the world economy and polity, situating them in the wider context of a unipolar world.

Though the collapse of the planned economies apparently led to a new consensus in thinking on development issues that came to be known as the "Washington consensus", this belief system was shaken by the financial crisis in Asia in the late-1990s and also lost some of its lustre as the development experience of recent years belied expectations. Even in a world where MNCs and international financial intermediaries have induced a strategic withdrawal of the nation-state in important areas, "market economy" is not the only phrase of significance—the other phrase "political democracy" has become equally important. "Of course, it must be recognised that the very rapid marketisation of economies is combined with a much slower democratisation of politics," he writes.

This volume has emerged out of a research project on "new roles and functions for the United Nations and the Bretton Woods Institutions"—namely, the World Bank and the International Monetary Fund—that was initiated by the World Institute of Development Economics Research for the United Nations University (UNU/WIDER) at Helsinki, Finland. At a time when there is much talk about the need to 'reform' the UN system, the relevance of this publication hardly needs emphasis. The world has indeed changed almost beyond recognition

take care of, let alone prevent, complex humanitarian emergencies are grossly inadequate and the need for stronger governance has been heightened by the emergence of new supranational problems in areas like environment and crime.

Certain new problems, Nayyar points out, are a direct consequence of globalization. "In their endeavour to attract direct foreign investment, developing countries compete with each other in a 'race to the bottom', by offering tax holidays, diluting labour laws, repressing trade unions, or turning

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since the UN system and the Bretton Woods institutions were created more than half-a-century ago.

As global interdependence has grown, the capacity of global institutions to govern has gradually eroded. For instance, the IMF controls only 2 per cent of the world's liquidity, is able to impose monetary discipline only on a few developing countries and its ability to prevent recurrent and highly recurrent financial crises is seriously questioned. So is the ability of the World Bank to manage the problem of African debt. The UN system as well as the World Trade Organisation are beset with problems and uncertainties about their objectives and the efficacy of their institutional arrangements. The response of the international community and the UN in peacekeeping, helping refugees, de-mining and reconstruction has been *ad hoc* or simply not forthcoming.

Old problems like poverty, deprivation and inequality persist even as new problems have come up. Transitional economies, including those that belonged to the erstwhile Soviet bloc, remain economically fragile and politically unstable. Arrangements to

a blind eye to environmental concerns," he writes, adding that the rapid integration of international financial markets together "with the explosive growth in portfolio investment flows and short-term capital movements, has led to a volatility in capital flows and an instability in exchange rates so that the danger of capital flight is ever present".

After outlining the context and the issues in the first two parts, Part Three of the book dwells on the need to modify existing rules and restructure international institutions to meet the current and future governance needs of the world. Part Four deals with governance issues: Amit Bhaduri's paper is on nationalism and economic policy; Lance Taylor writes on global macroeconomic management; Sanjaya Lall analyses the implications of international systems of governance for transnational corporations and technology flows; Yilmaz Akyuz and Andrew Crawford highlight problems associated with financial crises and outline possible solutions which would require new forms of governance, while Nayyar analyses the theme of cross-border movements of people.

The chapter by Richard Falk

considers the record of the UN system and suggests prospects for renewal and reform, and the one by Jong Il-You pinpoints the limitations and failures of the Bretton Woods institutions while suggesting directions for reform and change. S P Shukla, former Finance Secretary of India, critically examines the evolution of the international trading system from its inception as the General Agreement on Tariffs and Trade (GATT) to its current incarnation as the WTO.

In the final section, Jose Antonio Ocampo argues for a thorough overhaul of the international financial architecture, while Gerald Helleiner considers the role and objectives of developing countries in global economic governance with an emphasis on the negotiation processes. Devesh Kapur generalises about causal mechanisms and trajectories of change in international institutions and Nayyar suggests changes in existing institutions while pointing to emerging governance needs for which new institutions may have to be created.

As is pointed out repeatedly, the debate on governing globalization and global governance is far from over with many issues unsettled and many themes yet to be fully explored. In reflecting on the future of the planet we live in, the writers seek to balance concerns between growth and equity, economic growth and social progress—for efficiency and growth are at best means and not ends, such as economic stability, full employment, poverty eradication, reduced inequality, human development and a sustainable environment.

Nayyar believes it is "time to evolve a new consensus on development in which the focus is on people and not on economies" and that "such a consensus must be built on a sense of proportion, which does not reopen old ideological battles in terms of either-or choices and on a depth of understanding which recognizes the complexity and diversity of development". The new thinking should transcend economics and extend to the realm of politics. At the end of the Second World War in 1945, when the UN system, the World Bank and the IMF were created, there was an underlying world-view on the need for peace, full employment in the industrialised countries and economic development in the newly independent countries.

Sixty years later, a new paradigm of world governance is required despite the inevitability of rich and powerful nations creating institutional systems that suit their requirements. Though historical experience suggests that crises are catalysts of change, this book has been written with the fond hope that another world war or international economic depression or a crisis of similar proportion would not spur much-needed changes in systems of global governance.

Though globalisation has reduced the autonomy of nation-states in matters economic as well as political, there remain degrees of freedom that must be exploited by governments of countries in the pursuit of development. Though the "mood of the moment" is not receptive to such ideas and there is disillusionment with the economic role of the State, it is just not possible to have good governance in countries without governments. This is the concluding message of the book.